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

Financial Report

Including Supplemental Information

June 30, 2014

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Independent Auditor's Report

To the Board of Trustees
Cleveland State University

Report on the Financial Statements

We have audited the accompanying financial statements of Cleveland State University (the "University"), and its aggregate discretely presented component units, The Cleveland State Foundation, Inc. and Euclid Avenue Development Corporation, as of and for the years ended June 30, 2014 and 2013 and the related notes to the financial statements, which collectively comprise Cleveland State University's basic financial statements as listed in the table of contents. These financial statements are reported as a component unit of the State of Ohio.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We did not audit the financial statements of The Cleveland State University Foundation, Inc. (the "Foundation") and Euclid Avenue Development Corporation (the "Corporation"), which represent all of the balances and activity reported in the aggregate discretely presented component units. Those financial statements were audited by other auditors, whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for the Foundation and Corporation, is based solely 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 audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

To the Board of Trustees
Cleveland State University

Opinion

In our opinion, based on our audit and the report of other auditors, the financial statements referred to above present fairly, in all material respects, the financial position of Cleveland State University and its aggregate discretely presented component units as of June 30, 2014 and 2013 and the changes in its financial position and, where applicable, its cash flows for the years then ended, in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 1 to the basic financial statements, effective July 1, 2013, the University adopted new accounting guidance under GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*. The statement establishes accounting and financial reporting standards that require expensing of bond issuance costs and reclassify, as deferred outflows and inflows of resources, certain items that were previously reported as assets and liabilities. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplemental Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, as show on pages 4-12, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, which considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Cleveland State University's basic financial statements. The schedule of expenditures of federal awards is presented for the purpose of additional analysis and is not a required part of the basic financial statements.

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

To the Board of Trustees
Cleveland State University

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated October 15, 2014 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. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Cleveland State University's internal control over financial reporting and compliance.

Plante & Moran, PLLC

October 15, 2014

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, 2014. 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 nonfinancial 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 Position, the Statement of Revenue, Expenses and Changes in Net Position, 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. 61, *Determining Whether Certain Organizations are Component Units*, the Cleveland State University Foundation, Inc. (the "Foundation") and the Euclid Avenue Development 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, Union Building Room 513, Cleveland, OH 44115-2214; financial statements for the Corporation can be obtained from the Office of the Vice President for Business Affairs and Finance at 2121 Euclid Avenue, Administration Center Room 210, Cleveland, OH 44115-2214.

Statement of Net Position

The statement of net position 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 position– is one indicator of the current financial condition of the University, while the change in net position 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, 2014, 2013, and 2012 is as follows:

	2014	2013	2012
Current assets	$ 73,380,256	$ 62,295,306	$ 58,779,879
Noncurrent assets:			
Capital assets, net	473,007,276	470,807,959	477,359,925
Other	168,486,591	165,143,422	89,523,254
Total assets	714,874,123	698,246,687	625,663,058
Current liabilities	46,493,301	48,069,690	50,253,020
Noncurrent liabilities	275,713,014	282,499,014	219,093,396
Total liabilities	322,206,315	330,568,704	269,346,416
Net position	$ 392,667,808	$ 367,677,983	$ 356,316,642

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

Current assets increased in 2014 from 2013, primarily due to an increase in accounts receivable caused by the timing of a payment on a grant.

Current assets increased in 2013 from 2012, primarily due to an increase in cash and cash equivalents.

Net capital assets increased in 2014 from 2013 by $2.2 million, or 0.5% and decreased in 2013 from 2012 by $6.6 million, or 1.4%. The increase in 2014 was primarily due to construction of the CIHP building. The decrease in 2013 was primarily due to demolition of buildings on campus.

Other assets increased in 2014 from 2013 by $3.3 million, or 2.0%. The increase was primarily due to investment return.

Other assets increased in 2013 from 2012 by $75.6 million, or 84.5%. The increase was due primarily to the Series 2012 bond issuance increasing restricted investments.

Liabilities decreased in 2014 from 2013 by $8.3 million, or 2.5% primarily due to a timing difference in accounts payable and payments on outstanding bonds. Liabilities increased in 2013 from 2012 by $61.2 million, or 22.7%, primarily due to the Series 2012 bond issuance.

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 $31.2 million in 2014, $22.3 million in 2013, and $22.7 million in 2012. Capital retirements totaled $5.3 million in 2014, $14.5 million in 2013, and $16.9 million in 2012. Capital additions and retirements for 2014, 2013 and 2012 exclude transfers from construction in progress to buildings in the amount of $5.3 million in 2014, there were no transfers from construction in progress to buildings in 2013 and 2012. 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 $0.24 million in 2014, $0.34 million in 2013, and $3.2 million in 2012.

During August 2012, the University issued Series 2012 General Receipts Bonds in the amount of $152 million. Included in this issuance was $45 million of funding for a planned new facility on campus to advance the University's growing role in health sciences and expand its alliance with Northeast Ohio Medical University (NEOMED). The University demolished a vacant dormitory and will replace it with a health and life sciences building. Construction began in November 2013 with a June 2015 estimated completion.

In September 2011, the University issued taxable general receipts bonds in the principal amount of $5.77 million. 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 annual 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, but is not affiliated with Cleveland State University.

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 August 2010, the University entered into a capital lease with the Corporation in the amount of $7.07 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 payments to the Corporation equal to its required debt service payments.

In March 2009, the University entered into a capital lease, financed by PNC Bank, in the amount of $42.8 million. Proceeds were used to fund a variety of energy conservation projects on the University's campus.

Net Position

Net position represents the residual interest in the University's assets after liabilities are deducted. The University's net position at June 30, 2014, 2013, and 2012 are summarized as follows:

	2014	2013	2012
Net investment in capital assets *	$ 254,046,991	$ 252,363,981	$ 249,128,869
Restricted - expendable	26,577,260	18,216,207	19,717,693
Restricted - nonexpendable	1,496,842	1,316,540	1,200,914
Unrestricted	110,546,715	95,781,255	86,269,166
Total net position	$ 392,667,808	$ 367,677,983	$ 356,316,642

Net investment in capital assets represents 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 position are due to the net effect of additions to, disposals of, and depreciation on capital assets.

Restricted expendable net position is 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 position consists primarily of endowment funds held by the University. Changes in this category are driven primarily by investment performance, which was positive in both 2014 and 2013.

Unrestricted net position is not subject to externally imposed stipulations. This category includes funds functioning as endowment (quasi-endowment) of $6.1 million at June 30, 2014, $5.3 million at June 30, 2013 and June 30, 2012.

For the year ended June 30, 2014, the University had an increase in total net position of $25.0 million or 6.8%. Net investment in capital assets increased by $1.7 million, or 0.7%, because capital asset additions exceeded deductions and depreciation expense. Unrestricted net position increased by $14.8 million, or 15.4%, due primarily to an increase in net tuition income (which went from $153.9 million in 2013 to $160.0 million in 2014), an increase in gifts and grants of $4.0 million, an increase in State subsidy of $3.0 million and an increase in investment return of $2.5 million in 2014.

For the year ended June 30, 2013, the University had an increase in total net position of $11.4 million, or 3.2%. Net investment in capital assets increased by $3.2 million, or 1.3%, because capital asset additions exceeded deductions and depreciation expense. Unrestricted net position increased by $9.5 million, or 11%, due primarily to an increase in net tuition income (which went from $148.9 million in 2012 to $153.9 million in 2013), along with an increase in investment return of $8.3 million in 2013.

Statement of Revenue, Expenses and Changes in Net Position

The Statement of Revenue, Expenses and Changes in Net Position presents the revenue earned and expenses incurred during the year. Activities are reported as either operating or non-operating. 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 non-operating 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, 2014, June 30, 2013, and June 30, 2012 are as follows:

	2014	2013*	2012*
Operating revenue:			
Net student tuition and fees	$ 159,789,368	$ 153,869,978	$ 148,869,484
Grants and contracts	25,420,702	21,451,164	22,516,862
Other	31,691,848	32,203,400	27,360,842
Total operating revenue	216,901,918	207,524,542	198,747,188
Operating expenses:			
Educational and general	242,678,174	237,975,625	226,748,245
Auxiliary enterprises	32,448,832	31,594,198	29,152,533
Depreciation and amortization	26,657,857	26,550,715	24,280,541
Total operating expenses	301,784,863	296,120,538	280,181,319
Operating loss	(84,882,945)	(88,595,996)	(81,434,131)
Non-operating revenue, net of interest:			
State appropriations	68,079,520	65,061,745	64,434,747
Other	41,556,237	34,560,133	25,310,529
Gain before other changes	24,752,812	11,025,882	8,311,145
Other changes	237,013	335,459	3,179,823
Increase in net assets	24,989,825	11,361,341	11,490,968
Net position at beginning of year	367,677,983	356,316,642	345,354,036
Net position at end of year	$ 392,667,808	$ 367,677,983	$ 356,316,642

*Restated per implementation of GASB 65

Total revenue and other changes, net of interest on debt, in fiscal 2014, 2013 and 2012 were $334.7 million, $315.3 million, and $300.7 million, respectively. The most significant sources of 2014 operating revenue for the University, as reflected in the Statement of Revenues, Expenses and Changes in Net Position, were student tuition and fees of $159.8 million, grants and contracts of $25.4 million, and auxiliary services of $23.5 million.

Revenue from tuition and fees (net of scholarship allowances) increased in 2014 from 2013 by $5.9 million, or 3.8%, due to an increase in tuition rates. Headcount enrollment increased by 1.2% while full-time equivalent enrollment increased by 5.0% over the prior year. A tuition increase of 3.5% was implemented in the Fall 2013.

Revenue from tuition and fees (net of scholarship allowances) increased in 2013 from 2012 by $5.0 million, or 3.4%, due to an increase in tuition rates. Headcount enrollment and full-time equivalent enrollment were consistent with the prior year. A tuition increase of 3.5% was implemented in the Fall 2012.

Total expenses in 2014, 2013, and 2012 were $309.8 million, $304.0 million, and $289.2 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. Expenses increased by $5.8 million (1.9%) in 2014 and $14.8 million (5.1%) in 2013, due to increases in salaries and benefits, equipment and maintenance costs and in 2013 an increase in depreciation expense.

Sources of non-operating revenue include State appropriations of $68 million in 2014, $65.1 million in 2013, and $64.4 million in 2012; grants and contracts of $23.8 million in 2014, $25.7 million in 2013, and $26.1 million in 2012; gifts of $13.8 million in 2014, $7.3 million in 2013, and $7.2 million in 2012; and investment income of $11.9 million in 2014, $9.4 million in 2013, and $1.0 million in 2012.

Net non-operating revenue increased in 2014 from 2013 by $10 million, or 10.1%, due primarily to fundraising efforts and favorable investment returns. Net non-operating revenue increased in 2013 from 2012 by $9.9 million, or 11.0%, due favorable investment returns.

Other changes consist primarily of State capital appropriations of $0.24 million in 2014, $0.34 million in 2013 and $3.2 million in 2012.

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, 2014, June 30, 2013 and June 30, 2012 is as follows:

	2014	2013	2012
Net cash (used in) provided by:			
Operating activities	$ (69,740,071)	$ (55,626,624)	$ (69,179,077)
Noncapital financing activities	105,931,037	97,819,682	97,466,051
Capital financing activities	(43,310,078)	30,220,541	(31,178,524)
Investing activities	(10,868,327)	(66,570,252)	(2,097,525)
Net increase (decrease) in cash	(17,987,439)	5,843,347	(4,989,075)
Cash at beginning of year	28,241,181	22,397,834	27,386,909
Cash at end of year	$ 10,253,742	$ 28,241,181	$ 22,397,834

Major sources of cash included student tuition and fees of $158.7 million in 2014, $152.7 million in 2013, and $148.1 million in 2012; State appropriations of $68.1 million in 2014, $65.1 million in 2013, and $64.4 million in 2012; grants and contracts (operating and noncapital) of $40.7 million in 2014, $50.6 million in 2013, and $38.2 million in 2012; and auxiliary activities of $24.1 million in 2014, $21.8 million in 2013, and $21.5 million in 2012.

The largest payments were for employee compensation and benefits totaling $169.4 million in 2014, $161.4 million in 2013, and $166.9 million in 2012; suppliers of goods and services totaling $107.8 million in 2014, $104.0 million in 2013, and $88.6 million in 2012; and purchases of capital assets totaling $29.1 million in 2014, $19.7 million in 2013, and $20.2 million in 2012.

The change in cash flows from 2014 to 2013 is primarily due to the University's decision to move more of its cash from the bank to short-term investment vehicles. The rate of return available at other financial institutions was higher than that provided by its operating bank. The change in cash flows from 2012 to 2013 is primarily due to the Series 2012 bond issuance and investment of the proceeds.

Credit Rating

The University's bonds are rated "A+" stable by Standard & Poor's, with the most recent rating published on December 16, 2013. 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, 2012 and 2011. The highest achievable rating is "AAA." The University's capacity to meet its financial obligations is considered strong. The University's bonds are rated "A1" by Moody's Investors Service, with the most recent rating published on July 26, 2012. Obligations rated "A" by Moody's are judged to be upper-medium grade and are subject to low credit risk. The highest achievable rating is "AAA".

Looking Ahead

The primary challenges facing Ohio public institutions of higher learning, including Cleveland State University (CSU), continue to be (1) maintaining the quality of academic instruction, (2) preserving enrollment and assisting students in degree completion, (3) growing revenue, and (4) controlling costs. There have been changes in the State of Ohio's higher education funding model which place more emphasis on outcome-based metrics such as degree completion and course completion, as opposed to simply the number of students enrolled. In the State of Ohio's fiscal year 2015 budget, CSU is expecting an allocation of $69.8 million in State Share of Instruction (SSI) funding, compared to the $68.8 million received in fiscal year 2014. This increase is partially due to the state legislature appropriating more funding in the FY 2014-FY 2015 biennial budget for higher education, which is then allocated by way of the Ohio Board of Regent's funding model. The SSI is the major state funding source for state colleges and universities. Revenue from student instructional fee tuition is budgeted at $152.9 million in fiscal year 2015, compared to fiscal year 2014's result of $159.8 million. The University enacted a 2.0% increase in undergraduate and graduate tuition, and an increase in law tuition of 4.5% in fiscal year 2015, effective with the Fall 2014 semester. Along with the tuition increase, the University has implemented a plan for qualifying undergraduate students to recoup the 2% increase in tuition by showing progress toward a degree while remaining in academic good standing. The program, known as the Graduation Incentive Plan, commenced in Fall 2013, but will not require funding by the University until fiscal year 2015 (Fall 2014). Fiscal year 2015 tuition revenue is expected to be approximately 0.4-0.5% below the budget plan due to a decline in enrollment. Preliminary Fall 2014 credit hour enrollment is approximately 3.8% lower than the budget plan, leading to lower than planned tuition revenue. Although there is likely to be the normal Fall-to-Spring semester attrition in enrollment, Spring 2015 tuition revenue is expected to match the reduced budget plan. In the FY 2015 budget, the University planned for a decline in enrollment due to the conversion of undergraduate classes from a dominant 4-credit-hour model to a 3-credit-hour model. The conversion has progressed according to plan, and the lower than planned revenue is primarily due to other student demographic causes. As in prior years, the ability of the University to fulfill its mission and execute its strategic plan continues to be dependent upon student enrollment and tuition revenue.

In order to improve recruitment and retention, the University continues to make progress through its comprehensive student success plan implemented two years ago. Recent tactics to achieve increased enrollment and retention include: new technology systems and staff; reorganization of recruitment territories; re-engineering of campus visitation programs, including a new welcome center; aggressive advising and counseling of students; improvements in course scheduling and curriculum planning; and downtown campus improvements.

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. The State did not provide any capital funding for the capital cycle FY12-FY13. The University received $12.8 million from the FY13-FY14 state capital appropriations budget. On September 27, 2013, it was announced that the State intended to fund a capital appropriations bill for the FY15-FY16 cycle, whereby state universities can expect to share in a $400+ million appropriation. Cleveland State has received an allocation of $14.6 million. The capital funding is being used for the University's renovation of its Main Classroom Building, the creation of engaged learning laboratories in the STEM disciplines, and the development of a Center for Research and Innovation.

During the Summer of 2012, the University issued Series 2012 General Receipts Bonds in the amount of $152 million. Included in this issuance was $45 million of funding for a planned new facility on campus to advance the University's growing role in health sciences and expand its alliance with Northeast Ohio Medical University (NEOMED). The University demolished a vacant dormitory and is replacing it with a health and life sciences building. Construction began in November 2013 with a June 2015 estimated completion. In June 2014, the Cleveland State Board of Trustees authorized an addition $2.75 million in the project's budget which will be funded by University Reserve funds. The total project is expected to cost $47.8 million.

The University continues to face significant cost pressures in the future. The University has taken measures to address ongoing operating cost challenges, such as attracting and retaining high quality faculty and staff; increased costs of employee benefits; and energy costs. The University began contract negotiations in Fall 2014 with its largest bargaining unit, the American Association of University Professors (AAUP). In addition, negotiations with two other major bargaining units – Service Employees International Union (SEIU), and the Communications Workers of America (CWA) began during the Summer of 2014. It is expected that these contract extensions will be negotiated for three years.

The University is in the practice of monitoring its student enrollment, other revenue sources, fee structure, and operating expenditures of its units on a monthly basis. While predictions of a downturn in the number of traditional high school graduates applying to universities are beginning to actualize, CSU's undergraduate enrollment for the near term is stable. The continual monitoring of the University's operations is meant to provide the administration with early signals and trends should changes in our operating and financial plans be necessary.

Cleveland State University
Statement of Net Position
June 30, 2014 and 2013

	2014	2013
ASSETS		
Current Assets:		
Cash and Cash Equivalents	$ 10,253,742	$ 28,241,181
Investments (Note 2)	21,150,882	1,526,916
Accounts Receivable, Net (Note 3)	39,067,355	30,003,582
Notes Receivable, Net (Note 3)	1,594,607	1,375,002
Accrued Interest Receivable	25,712	-
Prepaid Expenses and Inventories	1,287,958	1,148,625
Total Current Assets	73,380,256	62,295,306
Noncurrent Assets:		
Restricted Investments (Note 2)	65,181,283	73,907,760
Long-Term and Endowment Investments (Note 2)	92,261,429	80,872,803
Notes Receivable, Net (Note 3)	11,043,879	10,362,859
Capital Assets, Net (Note 5)	473,007,276	470,807,959
Total Noncurrent Assets	641,493,867	635,951,381
Total Assets	714,874,123	698,246,687
LIABILITIES		
Current Liabilities:		
Accounts Payable	6,209,494	10,036,373
Construction Accounts Payable	2,979,340	1,868,183
Accrued Liabilities	11,476,567	11,447,761
Accrued Interest Payable	1,337,357	1,426,268
Unearned Revenue	9,640,938	9,446,138
Compensated Absences - Current Portion (Note 6)	977,258	1,249,872
Obligations Under Capital Leases - Current Portion (Note 6)	7,395,409	6,278,157
Long-Term Debt - Current Portion (Note 6)	6,476,938	6,316,938
Total Current Liabilities	46,493,301	48,069,690
Noncurrent Liabilities:		
Accrued Liabilities (Note 6)	13,312,182	13,108,405
Compensated Absences (Note 6)	8,051,187	7,371,167
Obligations Under Capital Leases (Note 6)	55,245,066	56,442,924
Long-Term Debt (Note 6)	199,104,579	205,576,518
Total Noncurrent Liabilities	275,713,014	282,499,014
Total Liabilities	322,206,315	330,568,704
NET POSITION		
Net investment in Capital Assets	254,046,991	252,363,981
Restricted, Expendable	26,577,260	18,216,207
Restricted, Nonexpendable	1,496,842	1,316,540
Unrestricted	110,546,715	95,781,255
Total Net Position	$ 392,667,808	$ 367,677,983

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

Cleveland State University
Statement of Revenues, Expenses, and Changes in Net Position
Years Ended June 30, 2014 and 2013

	2014	2013
Revenues		
Operating Revenues:		
Student Tuition and Fees	$ 182,056,611	$ 175,528,591
Less Scholarship Allowances	22,267,243	21,658,613
Net Student Tuition and Fees	159,789,368	153,869,978
Federal Grants and Contracts	8,770,261	9,527,734
State Grants and Contracts	11,577,824	8,519,937
Local Grants and Contracts	822,171	689,022
Private Grants and Contracts	4,250,446	2,714,471
Sales and Services	7,069,797	9,703,993
Auxiliary Enterprises	23,450,596	22,240,518
Other	1,171,455	258,889
Total Operating Revenues	216,901,918	207,524,542
Expenses		
Operating Expenses:		
Instruction	99,014,244	96,849,118
Research	16,635,509	13,159,579
Public Service	8,193,344	7,470,471
Academic Support	25,135,935	23,844,470
Student Services	19,692,624	19,921,498
Institutional Support	30,924,222	32,619,875
Operation and Maintenance of Plant	28,700,394	28,223,485
Scholarships and Fellowships	14,381,902	15,887,129
Auxiliary Enterprises	32,448,832	31,594,198
Depreciation and Amortization	26,657,857	26,550,715
Total Operating Expenses	301,784,863	296,120,538
Operating Loss	(84,882,945)	(88,595,996)
Nonoperating Revenues (Expenses)		
State Appropriations	68,079,520	65,061,745
Federal Grants and Contracts	22,422,637	22,186,001
State Grants and Contracts	1,413,312	3,533,938
Gifts	13,841,028	7,306,397
Investment Income	11,850,709	9,395,509
Interest on Debt	(7,971,449)	(7,861,712)
Net Nonoperating Revenues	109,635,757	99,621,878
Gain Before Other Changes	24,752,812	11,025,882
Other Changes		
State Capital Appropriations	237,013	335,459
Increase in Net Position	24,989,825	11,361,341
Net Position		
Net Position at Beginning of Year - as previously stated		358,304,898
Restatement (Note 1)		(1,988,256)
Net Position at Beginning of Year - as restated	367,677,983	356,316,642
Net Position at End of Year	$ 392,667,808	$ 367,677,983

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

Cleveland State University
Statement of Cash Flows

	Years Ended June 30	
	2014	**2013**
Cash Flows from Operating Activities		
Tuition and Fees	$ 158,731,922	$ 152,721,569
Grants and Contracts	16,787,399	24,861,611
Payments to or On Behalf of Employees	(169,436,612)	(161,363,523)
Payments to Vendors	(107,806,381)	(103,981,417)
Loans Issued to Students	(2,936,539)	(2,491,744)
Collection of Loans to Students	2,443,123	2,816,989
Auxiliary Enterprises Charges	24,144,764	21,847,009
Other Receipts	8,241,253	9,962,882
Net Cash Used by Operating Activities	(69,831,071)	(55,626,624)
Cash Flows from Noncapital Financing Activities		
State Appropriations	68,079,520	65,061,745
Grants and Contracts	23,835,949	25,719,939
Gifts	13,841,028	7,306,397
Cash Provided by Stafford and PLUS Loans	119,024,080	114,464,454
Cash Used by Stafford and PLUS Loans	(119,000,000)	(114,484,939)
Cash Used by Agency Fund Activities	(294,865)	(262,817)
Cash Provided by Agency Fund Activities	445,325	14,903
Net Cash Provided by Noncapital Financing Activities	105,931,037	97,819,682
Cash Flows from Capital Financing Activities		
Proceeds from Capital Debt and Leases	6,916,478	168,364,266
Capital Appropriations	237,013	335,459
Purchases of Capital Assets	(29,094,187)	(19,652,273)
Principal Paid on Capital Debt and Leases	(13,309,022)	(108,806,852)
Interest Paid on Capital Debt and Leases	(8,060,360)	(10,020,059)
Net Cash (Used) Provided by Capital Financing Activities	(43,310,078)	30,220,541
Cash Flows from Investing Activities		
Proceeds from Sales and Maturities of Investments	1,526,103	4,526,103
Purchase of Investments	(23,812,218)	(73,590,782)
Interest on Investments	11,417,788	2,494,427
Net Cash Used by Investing Activities	(10,868,327)	(66,570,252)
Net (Decrease) Increase in Cash	(18,078,439)	5,843,347
Cash and Cash Equivalents at Beginning of Year	28,241,181	22,397,834
Cash and Cash Equivalents at End of Year	$ 10,162,742	$ 28,241,181

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

Cleveland State University
Statement of Cash Flows (continued)

	Years Ended June 30	
	2014	**2013**
Reconciliation of Operating Loss to Cash Used by Operating Activities		
Operating Loss	$ (84,882,945)	$ (88,595,996)
Adjustments:		
Depreciation and Amortization	26,657,857	26,550,715
Changes in Assets and Liabilities:		
Accounts Receivable, Net	(8,826,759)	1,904,713
Notes Receivable, Net	(493,416)	325,245
Inventories	(243,215)	107,460
Prepaid Expenses and Deferred Charges	103,881	565,333
Accounts Payable	(2,989,344)	1,628,814
Accrued Liabilities	739,070	2,000,213
Deferred Revenue	194,800	(113,121)
Cash Used by Operating Activities	$ (69,740,071)	$ (55,626,624)

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

The Cleveland State University Foundation, Inc.
Statement of Financial Position
June 30, 2014 and 2013

	2014	2013
ASSETS		
Current assets:		
Cash and cash equivalents	$ 857,905	$ 803,418
Accounts receivable	428,496	729,457
Contributions receivable, net of allowance for uncollectible contributions	6,439,771	4,728,917
Total Current Assets	7,726,172	6,261,792
Other assets:		
Contributions receivable, net of allowance for uncollectible accounts	9,150,662	6,749,055
Long-term investments	71,901,510	61,865,366
Funds held on behalf of others:		
Cleveland State University	8,383,471	2,884,353
Cleveland State University Alumni Association	471,713	402,313
Total Other assets	89,907,356	71,901,087
Total Assets	$ 97,633,528	$ 78,162,879
LIABILITIES		
Current Liabilities:		
Accounts payable	$ 52,208	$ 44,628
Payable to Cleveland State University	2,580,949	2,206,072
Notes Payable	39,996	39,996
Annuities payable	39,146	33,376
Total Current Liabilities	2,712,299	2,324,072
Noncurrent Liabilities:		
Notes Payable	564,755	604,751
Annuities payable	122,785	90,088
Funds held on behalf of others:		
Cleveland State University	8,383,471	2,884,353
Cleveland State University Alumni Association	471,713	402,313
Total Liabilities	12,255,023	6,305,577
NET ASSETS:		
Unrestricted	(1,382,850)	(1,485,045)
Board designated - Scholarships	203,878	181,180
Total unrestricted	(1,178,972)	(1,303,865)
Temporarily restricted	36,080,894	30,045,079
Permanently restricted	50,476,583	43,116,088
Total Net Assets	85,378,505	71,857,302
Total Liabilities and Net Assets	$ 97,633,528	$ 78,162,879

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

Euclid Avenue Development Corporation
Statement of Financial Position
June 30, 2014 and 2013

	2014	2013
ASSETS		
Current assets:		
Cash and Cash Equivalents	$ 1,186,922	$ 1,630,468
Cash held by the University	81,069	844,361
Total Cash	1,267,991	2,474,829
Student accounts receivable, net	31,027	55,402
Other receivables	40,953	226,844
Current portion of leases receivable	520,000	505,000
Investments	830,006	-
Prepaid expenses	96,819	22,973
Total Current Assets	2,786,796	3,285,048
Property and equipment		
Land	1,146,460	1,146,460
Building	70,448,479	70,448,479
Building improvements	334,891	229,111
Furniture, fixtures, and equipment	3,157,020	3,062,411
Construction in progress	7,515	-
	75,094,365	74,886,461
Less: accumulated depreciation	(11,373,706)	(9,293,614)
Property and equipment, net	63,720,659	65,592,847
Other assets:		
Restricted investments	22,046,456	18,147,546
Leases receivable, net of current portion	20,340,000	20,860,000
interest rate cap	2,290	39,436
Deferred bond isssuance costs, net of accumulated amortization of $838,322 and $725,057 at June 30, 2014 and 2013, respectively	2,733,261	2,846,526
Total other assets	45,122,007	41,893,508
Total assets	$ 111,629,462	$ 110,771,403
LIABILITIES		
Current Liabilities:		
Current portion of bonds payable	1,655,000	1,505,000
Current portion of notes payable	60,000	60,000
Accounts payable	537,403	487,989
Accrued interest	725,652	815,362
Accrued other	37,669	40,080
Deferred revenue	161,901	142,204
Security deposits	159,438	186,003
Total Current Liabilities	3,337,063	3,236,638
Noncurrent Liabilities:		
Deferred revenue	1,238,773	1,276,309
Bonds payable, less current portion	101,000,000	102,655,000
Notes payable, less current portion	1,441,180	1,501,180
Total Noncurrent liabilities, net of current portion	103,679,953	105,432,489
Total Liabilities	107,017,016	108,669,127
NET ASSETS		
Unrestricted	4,612,446	2,102,276
Total Liabilities and Net Assets	$ 111,629,462	$ 110,771,403

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

The Cleveland State University Foundation, Inc.
Statement of Activities
Year Ended June 30, 2014 (with comparative totals for the year ended June 30, 2013)

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total 2014	Total 2013
Revenues					
Contributions	$ 151,397	$ 11,630,482	$ 6,775,436	$ 18,557,315	$ 7,225,358
Management fees related to					
funds held on behalf of others	30,412	-	-	30,412	27,146
Endowment management fee	519,267	(519,267)	-	-	-
Net assets released from restrictions	14,330,514	(14,330,514)	-	-	-
Total revenues	15,031,590	(3,219,299)	6,775,436	18,587,727	7,252,504
Expenses					
Program services:					
Instructions	3,107,794	-	-	3,107,794	2,334,805
Research	189,833	-	-	189,833	331,966
Public service	1,014,488	-	-	1,014,488	855,752
Academic support	284,336	-	-	284,336	171,076
Financial aid	3,020,560	-	-	3,020,560	1,962,778
Institutional support	293,616	-	-	293,616	150,873
Auxilary enterprises	6,349,764	-	-	6,349,764	802,942
Total program services	14,260,391	-	-	14,260,391	6,610,192
Supporting services:					
Management and general	696,007	-	-	696,007	412,294
Fund raising	143,198	-	-	143,198	104,204
Total supporting services	839,205	-	-	839,205	516,498
Total expenses	15,099,596	-	-	15,099,596	7,126,690
Gains/(Losses):					
Investment gain, including realized					
and unrealized losses, net	188,710	10,204,219	-	10,392,929	7,337,453
Provision for uncollectible					
contributions	(920)	(178,892)	(180,045)	(359,857)	(145,824)
Total gains (losses)	187,790	10,025,327	(180,045)	10,033,072	7,191,629
Change in Net Assets	119,784	6,806,028	6,595,391	13,521,203	7,317,443
Reclassification of Net Assets	5,109	(770,213)	765,104	-	-
Net Assets - Beginning of Year, as restated	(1,303,865)	30,045,079	43,116,088	71,857,302	64,539,859
Net Assets - End of Year	$ (1,178,972)	$ 36,080,894	$ 50,476,583	$ 85,378,505	$ 71,857,302

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

Euclid Avenue Development Corporation
Statement of Activities
Years Ended June 30, 2014 and 2013

	2014	2013
Revenues		
Rental Income:		
Students	$ 8,493,599	$ 8,602,628
University	944,468	906,890
Other	100,000	137,537
Maintenance fee - University	252,964	283,001
Interest income	139,605	102,179
Other	484,667	466,355
Change in value of interest rate cap	(37,146)	39,436
Total revenues	10,378,157	10,538,026
Expenses		
Interest	2,152,209	2,567,217
Depreciation and Amortization	2,193,356	2,337,775
Utilities	991,093	961,833
Contract personnel	1,429,553	1,422,135
Management fees	328,239	322,529
Maintenance	453,042	594,363
General and administrative	150,323	205,430
Other operating	92,596	276,226
Marketing	35,819	48,294
Accounting	18,221	25,799
Reserve allowance	14,747	49,575
Insurance	8,789	8,135
Total expenses	7,867,987	8,819,311
Change in Net Assets	2,510,170	1,718,715
Net Assets - Beginning of Year	2,102,276	383,561
Net Assets - End of Year	$ 4,612,446	$ 2,102,276

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

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. 61, 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 position categories:

- **Net investment in capital assets:** Capital assets, net of accumulated depreciation and outstanding principal balances of debt attributable to the acquisition, construction or improvement of those assets.

- **Restricted, Expendable:** Net position 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 restricted for student scholarships, loans, instruction, research, and other specific University needs.

- **Restricted, Nonexpendable:** Net position subject to externally imposed stipulations that they be maintained permanently by the University. Income generated from these funds may be restricted for student scholarships, loans, instruction, research, and other specific University needs.

- **Unrestricted:** Net position that is not subject to externally imposed stipulations. Unrestricted net position 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.

Operating Activities

The University's policy for defining operating activities as reported on the statement of revenue, expenses, and changes in net position 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 are presented net of scholarships and fellowships applied to student accounts.

Summary of Significant Accounting Policies

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

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

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

Accounts Receivable Allowance. The allowance for bad debt is determined based on historical average and a reasonableness ratio of accounts receivable 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, the University enforces 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 federal regulations regarding returns of funding under the Federal student aid programs of Title IV of the Higher Education Amendments of 1992 have increased outstanding accounts receivable.

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 $5,000 or more and buildings and improvements costing $100,000 or more. Depreciation of capital assets is provided on a straight-line basis over the estimated useful lives (five to forty years) of the respective assets and is not allocated to the functional expenditure categories. Amortization of the capitalized cost of assets held under capital leases is generally computed using the straight-line method over the estimated useful lives of the underlying assets or the term of the lease, whichever is shorter. The University capitalizes but does not depreciate works of art or historical treasures that are held for exhibition, education, research and public service.

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

All University employees are entitled to a sick leave credit equal to 10 hours for each month of service (earned on a pro rata 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.

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

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

Classification of Revenue. Revenue is classified as either operating or nonoperating.

Operating revenue includes revenues from activities that have characteristics similar to exchange transactions. These include student tuition and fees (net of scholarship discounts and allowances), sales and services of auxiliary enterprises, and certain federal, state, local and private grants, and contracts. The presumption is that there is a fair exchange of value between all parties to the transaction.

Non-operating revenue includes revenue from activities that have the characteristics of nonexchange transactions, such as state appropriations, and certain federal, state, local and private gifts, and grants. The implication is that such revenues are derived from more passive efforts related to the acquisition of the revenue, rather than the earning of it.

Auxiliary Enterprises. Auxiliary enterprise revenue primarily represents revenue generated by parking, 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 position 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 Development 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.

Bond Issuance Costs. Bond issuance costs are expensed as incurred.

<u>Change in Accounting Principle</u>

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

In March 2012, the GASB issued GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*. Statement No. 65 establishes accounting and financial reporting standards that reclassify, as deferred outflows and inflows of resources, certain items that were previously reported as assets and liabilities. This Statement also provides other financial reporting guidance related to the impact of the financial statement elements deferred outflows of resources and deferred inflows of resources. In accordance with the statement, effective with fiscal year ended June 30, 2014 the University adopted GASB Statement No. 65 and has retroactively expensed unamortized bond issuance costs. The change in accounting principle resulted in a prior period adjustment to Net Position at July 1, 2012 of $1,988,256. In, addition, the June 30, 2013 Statement of Revenue, Expenses and Changes in Net Position reflects a restatement and reduction of $605,079 in amortization expense in relation to the adoption of GASB 65.

<u>Upcoming Accounting Pronouncements</u>

Reporting for Pensions: In June 2012, the GASB issued Statement No. 68, *Accounting and Financial Reporting for Pensions*. Statement No. 68 requires governments providing defined benefit pensions to recognize their unfunded pension benefit obligation as a liability for the first time, and to more comprehensively and comparably measure the annual costs of pension benefits. The statement also enhances accountability and transparency through revised note disclosures and required supplemental information (RSI). The University is currently evaluating the impact this standard will have on the financial statements when adopted. The provisions of this statement are effective for financial statements for the year ending June 30, 2015.

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, 2014, the cash and cash equivalents balance of $10,253,742 is after the University recorded an overdraft consisting of items in transit of $2,216,408 in accounts payable. The bank balance at June 30, 2014 was $9,046,064, of which $2,083,673 was covered by federal depository insurance, and $6,962,391 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, 2013, the cash and cash equivalents balance of $28,241,181 is after the University recorded an overdraft consisting of items in transit of $4,408,987 in accounts payable. The bank balance at June 30, 2013 was $27,985,796, of which $916,499 was covered by federal depository insurance, and $27,069,297 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, 2014 and 2013.

Restricted investments consist of unspent debt proceeds.

As of June 30, 2014, the University had the following types of investments and maturities:

Investment Type	Fair Value	Investment Maturities (in Years) Less Than 1	1-5
US Agencies	$ 17,406,431	$ 15,542,621	$ 1,863,810
Commercial Paper	44,774,580	44,774,580	-
U.S. obligation mutual fund	37,897,530	37,897,530	-
Certificates of Deposit	19,140,000	19,140,000	-
STAR Ohio	10,056	-	-
Bond mutual funds	25,105,344	-	25,105,344
Stock mutual funds	34,259,653	-	-
Total	$ 178,593,594	$ 117,354,731	$ 26,969,154

As of June 30, 2013, the University had the following types of investments and maturities:

Investment Type	Fair Value	Investment Maturities (in Years) Less Than 1	1-5
U.S. Agencies	$ 60,154,151	$ 40,630,960	$ 19,523,191
Commercial Paper	13,753,604	13,753,604	-
U.S. obligation mutual fund	33,700,152	33,700,152	-
Certificates of deposit	1,526,103	1,526,103	-
STAR Ohio	814	-	-
Bond mutual funds	19,423,827	-	19,423,827
Stock mutual funds	27,748,828	-	-
Total	$ 156,307,479	$ 89,610,819	$ 38,947,018

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. 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. The University does not have a policy for custodial credit risk. At June 30, 2014 and 2013, none of the investment securities were uninsured and unregistered, with securities held by the counterparty or by its trust department or agent but not in the University's name.

Concentration of Credit Risk. Concentration of credit risk is the risk of loss attributed to the magnitude of investment in a single issuer. As of June 30, 2014 and 2013, not more than 5% of the University's total investments were invested in any one issuer except those which are obligations of, or fully guaranteed as to both principal and interest by, the U.S. Government or its agencies.

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, 2014 and 2013, investments include approximately $17.1 million and $6.1 million, respectively, managed by international equity managers that are subject to foreign currency risk. Although the University's investment policy does not specifically address foreign currency risk, it does limit foreign investments to no more than 20% of the portfolio.

NOTE 3 – RECEIVABLES

The composition of accounts receivable at June 30, 2014 and 2013 is summarized as follows:

	2014	2013
Student accounts	16,806,123	$ 14,656,435
Grants	23,564,594	15,022,291
State Capital	336,511	99,498
Other	2,922,297	4,481,646
Total Accounts Receivable	43,629,525	34,259,870
Less allowance for uncollectible accounts	4,562,170	4,256,288
Accounts Receivable - Net	$ 39,067,355	$ 30,003,582

Notes receivable consist primarily of loans to students under the federal Perkins Loan Program. The composition of notes receivable at June 30, 2014 and 2013 is summarized as follows:

	2014	2013
Perkins Loan Program	12,900,957	$ 11,923,116
Other	623,452	637,514
Total Notes Receivable	13,524,409	12,560,630
Less allowance for uncollectible accounts	885,923	822,769
Notes Receivable - Net	12,638,486	11,737,861
Less Current Portion	1,594,607	1,375,002
Total Noncurrent Notes Receivable	$ 11,043,879	$ 10,362,859

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, 2014 and 2013 is summarized as follows:

	2014 Beginning Balance	Additions/ Transfers	Retirements/ Transfers	2014 Ending Balance
Capital Assets:				
Non-depreciable:				
Land	$ 55,817,124	$ 617,900	$ -	$ 56,435,024
Construction in Progress	7,998,492	18,777,470	5,335,421	21,440,541
Capitalized Collections	7,102,155	-	-	7,102,155
Depreciable:				
Land Improvements	24,279,616	-	-	24,279,616
Buildings	631,074,801	6,102,803	3,335,000	633,842,604
Equipment	45,172,425	9,355,983	786,009	53,742,399
Library Books	70,805,713	1,673,474	1,185,825	71,293,362
Intangible Assets	483,059	-	-	483,059
Total Capital Assets	842,733,385	36,527,630	10,642,255	868,618,759
Less Accumulated Depreciation:				
Land Improvements	14,231,674	1,051,927	-	15,283,602
Buildings	267,765,929	17,506,046	384,853	284,887,121
Equipment	29,210,475	4,246,707	786,009	32,671,172
Library Books	60,451,665	3,189,761	1,185,826	62,455,600
Intangible Assets	265,683	48,306	-	313,989
Total Accumulated Depreciation	371,925,426	26,042,746	2,356,688	395,611,484
Capital Assets, Net	$ 470,807,959	$ 10,484,884	$ 8,285,567	$ 473,007,276

	2013 Beginning Balance	Additions/ Transfers	Retirements/ Transfers	2013 Ending Balance
Capital Assets:				
Non-depreciable:				
Land	$ 55,817,124	$ -	$ -	$ 55,817,124
Construction in Progress	3,214,643	4,783,849	-	7,998,492
Capitalized Collections	7,102,155	-	-	7,102,155
Depreciable:				
Land Improvements	24,075,287	204,329	-	24,279,616
Buildings	627,645,616	10,356,075	6,926,890	631,074,800
Equipment	45,603,192	5,152,238	5,583,005	45,172,425
Library Books	70,913,142	1,840,398	1,947,827	70,805,713
Intangible Assets	483,059	-	-	483,059
Total Capital Assets	834,854,218	22,336,889	14,457,722	842,733,384
Less Accumulated Depreciation:				
Land Improvements	13,177,457	1,054,217	-	14,231,674
Buildings	254,655,215	17,728,830	4,618,116	267,765,929
Equipment	31,236,353	3,557,127	5,583,005	29,210,475
Library Books	58,207,891	4,191,601	1,947,827	60,451,665
Intangible Assets	217,377	48,306	-	265,683
Total Accumulated Depreciation	357,494,293	26,580,081	12,148,948	371,925,426
Capital Assets, Net	$ 477,359,925	$ (4,243,192)	$ 2,308,774	$ 470,807,959

NOTE 6 – NONCURRENT LIABILITIES

Noncurrent liabilities consist of the following as of June 30, 2014 and June 30, 2013:

	Due Dates	Interest Rate-%	2014 Beginning Balance	Additions	Reductions	2014 Ending Balance	Current
2004 Bonds Payable	2014	2.25-5.25	$ 1,860,000	$ -	$ 1,860,000	$ -	$
2007A Bonds Payable	2010-36	4.00-5.75	38,760,000	-	935,000	37,825,000	990,000
2007A Bond Premium			1,060,410	-	44,493	1,015,917	44,493
2011 Bonds Payable	2013-42	5.32	5,775,000	-	85,000	5,690,000	120,000
2012 Bonds Payable	2013-37	5.00	149,540,000	-	2,760,000	146,780,000	4,695,000
2012 Bond Premium			14,898,045	-	627,445	14,270,600	627,445
Capital Leases	2010-41	2.33-5.08	62,721,081	6,916,478	6,997,084	62,640,475	7,395,409
Total Debt			274,614,536	6,916,478	13,309,022	268,221,992	13,872,347
Perkins Student Loans			11,799,101	326,939		12,126,040	-
Deposits			1,309,304	3,754,448	3,877,610	1,186,142	-
Compensated Absences			8,621,039	407,406	-	9,028,445	977,258
			296,343,980	$ 11,405,271	$ 17,186,632	290,562,619	$ 14,849,605
Less Current Portion long-term liabilities			(13,844,966)			(14,849,605)	
Long-Term Liabilities			$ 282,499,014			$ 275,713,014	

	Due Dates	Interest Rate-%	2013 Beginning Balance	Additions	Reductions	2013 Ending Balance	Current
2003A Bonds Payable		2.5-5.25	$ 25,495,000	$ -	$ 25,495,000	$ -	$ -
2003A Bond Premium			529,977	-	529,977	-	-
2004 Bonds Payable	2014	2.25-5.25	52,340,000	-	50,480,000	1,860,000	1,860,000
2004 Bonds Premium			1,014,262	-	1,014,262	-	-
2007A Bonds Payable	2010-36	4.00-5.75	39,650,000	-	890,000	38,760,000	935,000
2007A Bond Premium			1,104,903	-	44,493	1,060,410	44,492
2008 Bonds Payable		3.00-4.75	19,495,000	-	19,495,000	-	-
2011 Bonds Payable	2013-42	5.32	5,775,000	-	-	5,775,000	90,000
2012 Bonds Payable	2013-37	5.00	-	152,835,000	3,295,000	149,540,000	2,760,000
2012 Bond Premium			-	15,529,266	631,221	14,898,045	627,445
Capital Leases	2010-41	2.33-5.08	69,652,980		6,931,899	62,721,081	6,278,157
Total Debt			215,057,122	168,364,266	108,806,852	274,614,536	12,595,094
Perkins Student Loans			11,512,223	286,878	-	11,799,101	-
Deposits			1,480,281	-	170,977	1,309,304	-
Compensated Absences			9,010,012	-	388,973	8,621,039	1,249,872
			237,059,638	$ 168,651,144	$ 109,366,802	296,343,980	$ 13,844,966
Less Current Portion long-term liabilities			(17,966,242)			(13,844,966)	
Long-Term Liabilities			$ 219,093,396			$ 282,499,014	

On August 21, 2012, the University issued general receipts bonds in the principal amount of \$152,835,000. The General Receipts Series 2012 Bonds were issued as fixed rate bonds with monthly maturities beginning June 1, 2013 through June 1, 2037. Interest is payable monthly at the rate of 5.0%. The proceeds of the bonds were used to (1) pay costs of constructing a new building on the University's campus, rehabilitation of existing buildings, campus-wide upgrades of electrical, mechanical and security systems and improvements to campus walkways; (2) refund portions of the Outstanding Series 2003A Bonds, Series 2004 Bonds and Series 2008 Bonds; and (3) pay costs relating to the issuance of the Series 2012 Bonds.

In September 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 were 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.

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. This bond was called and refinanced in August 2012, using the proceeds of the General Receipts Series 2012 Bonds.

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.

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. This bond was called and refinanced in August 2012, using the proceeds of the General Receipts Series 2012 Bonds.

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. This bond was called and refinanced in August 2012, using the proceeds of the General Receipts Series 2012 Bonds.

Interest expense on indebtedness for the years ended June 30, 2014 and 2013 was $7,971,449 and $7,861,712, respectively. On construction-related debt, for the years ended June 30, 2014 and 2013, interest cost was capitalized in the amount of $2,887,227 (net of $191,910 interest income) and $2,885,402 (net of $20,372 of interest income), respectively.

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 at June 30, 2014 and 2013 of $7,745,329 and $6,562,878, respectively. 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:

	Bonds Payable		Capital Leases	
	Principal	**Interest**	**Principal**	**Interest**
2015	$ 5,805,000	$ 9,246,763	$ 7,395,409	$ 2,101,249
2016	6,050,000	8,995,654	7,578,916	2,071,949
2017	6,290,000	8,741,621	7,547,707	1,810,898
2018	6,545,000	8,477,486	7,785,730	1,547,449
2019	6,880,000	8,149,853	6,058,802	1,282,290
2020-2024	35,655,000	35,717,785	11,193,911	3,203,561
2025-2029	45,315,000	26,102,738	3,510,000	1,896,806
2030-2034	55,715,000	13,648,785	4,060,000	1,395,416
2035-2039	21,015,000	2,253,517	4,730,000	802,970
2040-2043	1,025,000	79,135	2,780,000	192,451
	$ 190,295,000	$ 121,413,337	$ 62,640,475	$ 16,305,039

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, 2014 and 2013 amounted to $3,747,760 and $3,544,063, respectively. The operating leases have varying maturity dates through 2042.

Future minimum operating lease payments as of June 30, 2014 are as follows:

Year Ending June 30	Operating Leases
2015	$ 3,485,405
2016	3,480,405
2017	3,331,095
2018	3,128,384
2019	47,541,517
2020-2024	3,778,420
2025-2029	3,778,420
2030-2034	3,774,120
2035-2039	2,480,194
2040-2042	971,227
	$ 75,749,187

NOTE 7 – EMPLOYMENT BENEFIT PLANS

Retirement Plans

Substantially all nonstudent University employees are covered by one of three retirement plans. The university faculty are covered by the State Teachers Retirement System of Ohio (STRS). Nonfaculty 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, 2014, 2013 and 2012 were $7,812,496, $7,035,848 and $6,826,392, respectively, equal to the required contributions for each year. STRS issues a stand-alone financial report. The report may be obtained by writing to STRS Ohio, 275 East Broad Street, Columbus, OH 43215-3771, by calling 1-888-227-7877, or by visiting the STRS Ohio Web site at www.strsoh.org.

OPERS is a statewide retirement plan which covers nonteaching 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, 2014, 2013 and 2012 were $7,622,811, $7,014,063 and $7,151,384, respectively, equal to the required contributions for each year. OPERS issues a stand-alone financial report. The report may be obtained by visiting www.opers.org/investments/cafr.shtml, 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, 2014 and 2013 were $546,676 and $389,754, respectively, which equal 3.5% 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 health care 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 health care 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 health care 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 health care benefits to qualified members.

Postemployment Benefits

STRS provides other postemployment benefits (OPEB) to all retirees and their dependents, while OPERS provides postretirement health care coverage to age and service retirants (and dependents) with 10 or more years of qualifying Ohio service credit. Health care coverage for disability recipients and primary survivor recipients is also available under OPERS. A portion of each employer's contributions is set aside for the funding of postretirement health care. For STRS, this rate was 1.0% of the total 14.00%, while the OPERS rate was 4.0% of the total 14.00% for the year ended June 30, 2013.

The Ohio Revised Code provides the statutory authority for public employers to fund postretirement health care through their contributions to STRS and OPERS. Postretirement health care 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, 2014, 2013 and 2012 was $558,035, $502,561 and $487,599, 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, 2014, 2013 and 2012 was $3,811,411, $3,507,032 and $3,575,692, 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 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, 2014 and 2013 are summarized below:

	2014	2013
Liability at beginning of year	$ 1,648,544	$ 1,157,274
Claims Incurred	12,513,593	11,327,149
Claims Paid	(12,294,668)	(9,854,879)
IBNR-(Decrease) Increase in estimated claims	378,993	(981,000)
Liability at end of year	$ 2,246,462	$ 1,648,544

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 Position.

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. Settled claims resulting from these risks have not exceeded insurance coverage in any of the past three fiscal years.

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 significant effect on any of the financial statements of the University at June 30, 2014.

NOTE 10 – 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 fundraising 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, Union Building Room 501, Cleveland, OH 44115-2214.

The Foundation has reclassified net assets to reflect changes in donors' restrictions that occurred during the current year. In addition, the Foundation has reclassified net assets generated from net proceeds of special events held prior to fiscal year 2009. The net proceeds generated from the special events were to be used towards student scholarships. Management has determined that these funds should serve as endowments from which the income would be available for scholarships; as such, net assets were reclassified from temporarily restricted to permanently restricted.

During the years ended June 30, 2014 and 2013, the Foundation paid $8,230,552 and $7,440,132, respectively, to the University. At June 30, 2014 and 2013, the University had receivables from the Foundation totaling $2,580,949 and $2,206,072, 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, 2014 and 2013, the amount on deposit with the Foundation totaled $8,383,471 and $2,884,353, respectively.

The Foundation had the following types of investments as of June 30:

	2014	
	Cost	Carrying Value
Cash and cash equivalents	$ 144,622	$ 144,622
Stocks-domestic	419,555	549,010
Mutual Funds - International	14,587,527	17,496,310
Mutual Funds - Domestic	41,228,454	50,007,015
Fixed income securities	1,809,750	1,809,310
Alternative Investments	6,594,825	8,316,422
Investments carried at fair value	$ 64,784,734	78,322,689
Note receivable		1,501,180
Investment in real estate, net of accumulated depreciation		932,825
Investments carried at adjusted cost		2,434,005
		$ 80,756,694

	2013	
	Cost	Carrying Value
Cash and cash equivalents	$ 370,203	$ 370,203
Stocks-domestic	411,131	460,248
Mutual Funds - International	9,080,796	9,754,539
Mutual Funds - Domestic	34,996,397	38,352,356
Fixed income securities	3,555,882	3,499,696
Alternative Investments	6,172,100	7,034,785
Investments carried at fair value	$ 54,586,509	59,471,827
Note receivable		1,487,172
Investment in real estate, net of accumulated depreciation		906,367
Investments carried at adjusted cost		2,393,539
		$ 61,865,366

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:

	Temporarily Restricted	Permanently Restricted
Instruction	$ 7,819,583	$ 5,765,560
Research	1,172,735	148,349
Public service	5,787,157	88,975
Academic support	313,609	2,373,045
Financial aid	18,132,406	39,494,192
Institutional support	1,495,531	1,875,917
Auxiliary enterprises	1,359,873	730,545
	$ 36,080,894	$ 50,476,583

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. The Board of the Corporation is self-perpetuating and the University does not control the Corporation. Because the housing owned by the Corporation can only be used by, or for the benefit of, the University's students, faculty and staff, the Corporation is considered a component unit of the University and is discretely presented in the University's financial statements.

As of June 30, 2014 and 2013, the Corporation had the following types of investments:

	FY14	FY13
Money Market Funds	$18,524,003	$14,585,378
Certificates of Deposit	3,562,168	3,562,168
Exchange Traded Funds	184,770	
Mutual Funds	605,521	
	$22,876,462	$18,147,546

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 2014 and 2013. 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 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 0.06% at June 30, 2014. 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 0.06% at June 30, 2014. Both phases of the project were complete as of August 2011.

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

	Principal	Interest
2015	1,655,000	1,521,925
2016	1,815,000	1,491,553
2017	1,975,000	1,457,868
2018	2,170,000	1,416,720
2019	2,380,000	1,373,348
2020-2024	11,660,000	6,112,570
2025-2029	15,045,000	4,623,250
2030-2034	19,520,000	2,816,063
2035-2039	32,815,000	770,858
2040-2042	13,620,000	24,345
	$ 102,655,000	$ 21,608,500

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