

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

Financial Report

June 30, 2017

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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 discretely presented component units, The Cleveland State University Foundation, Inc. and Euclid Avenue Development Corporation, as of and for the years ended June 30, 2017 and 2016 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 of the assets, net assets, and revenue of the 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 opinions.

To the Board of Trustees
Cleveland State University

Opinions

In our opinion, based on our audit and the report of other auditors, the financial statements referred to above present fairly, in all material respects, the financial position of Cleveland State University and its discretely presented component units as of June 30, 2017 and 2016 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.

Other Matters

Required Supplemental Information

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

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 as required by Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (the "Uniform Guidance"), 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 12, 2017 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.

Flante & Moran, PLLC

October 12, 2017

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, 2017. 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 501, Cleveland, OH 44115-2214; financial statements for the Corporation can be obtained from the Office of the Senior Vice President for Business Affairs and Finance at 2300 Euclid Avenue, Administration Center Room 210, Cleveland, OH 44115-2214.

Financial Highlights

The University's financial position remained strong with assets of \$684.6 million, deferred outflows of \$63.3 million, liabilities of \$540.1 million and deferred inflow of \$0.8 million at June 30, 2017. Net position, which represents the residual interest in the University's assets and deferred outflow of resources after liabilities and deferred inflows of resources are deducted, totaled \$207.0 million, after the implementation of GASB Statement No. 68 on July 1, 2014.

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 deferred outflow and liabilities and deferred inflow - 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, deferred outflow, liabilities, and deferred inflow 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, 2017, 2016, and 2015 is as follows:

	<u>2017</u>	<u>2016</u>	<u>2015</u>
Current assets	\$ 160,728,479	\$ 148,012,905	\$ 147,244,434
Noncurrent assets:			
Capital assets, net	487,778,055	493,170,085	500,895,050
Other	36,099,931	53,059,119	59,833,353
Deferred outflows	<u>63,269,112</u>	<u>39,897,403</u>	<u>11,489,861</u>
Total assets and deferred outflows	747,875,577	734,139,512	719,462,698
Current liabilities	46,451,288	52,969,359	47,707,443
Noncurrent liabilities	493,648,140	455,777,004	428,459,130
Deferred inflow	<u>826,155</u>	<u>11,391,130</u>	<u>19,860,358</u>
Total liabilities and deferred inflow	<u>540,925,583</u>	<u>520,137,493</u>	<u>496,026,931</u>
Net position	<u>\$ 206,949,994</u>	<u>\$ 214,002,019</u>	<u>\$ 223,435,767</u>

In accordance with the University's implementation of GASB Statement No. 68, deferred outflow of resources has been recorded. "Deferred outflow of resources" is defined as the consumption of net assets applicable to a future reporting period. The deferred outflows have a positive effect on net position similar to assets. The University's deferred outflows in 2017 increased from 2016 by \$23.4 million, or 58.6%, primarily due to changes in assumptions and differences between expected and actual earnings on plan investments. Deferred outflows in 2016 increased from 2015 by \$28.4 million, or 247.2%, primarily due to the differences between expected and actual experience, projected and actual earnings, and the deferred outflow related to the Series 2016A bond issuance.

Current assets consist primarily of cash, 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 2017 from 2016, primarily due to an increase in short-term investments.

Current assets increased slightly in 2016 from 2015, primarily due to an increase in accounts receivable.

Net capital assets decreased in 2017 from 2016 by \$5.4 million, or 1.1% and decreased in 2016 from 2015 by \$7.7 million, or 1.5%. The decrease in 2017 is attributable to retirement of assets, including demolishing a building, and depreciation. The decrease in 2016 is mainly attributable to depreciation.

Other assets decreased in 2017 from 2016 by \$17.0 million, or 32.0% and decreased 2016 from 2015 by \$6.8 million, or 11.3%, primarily due to the spending of restricted investments (bond proceeds).

In conjunction with the University's implementation of GASB Statement No. 68, deferred inflow of resources has been recorded. "Deferred inflow of resources" is defined as the current acquisition of net assets that is applicable to a future period. The deferred inflows have a negative effect on net position similar to liabilities. The University's deferred inflow in 2017 decreased from 2016 by \$10.6 million, or 92.8% and in 2016 decreased from 2015 by \$8.5 million, or 42.6%, primarily due to the differences between expected and actual experience and projected and actual earnings.

Liabilities increased in 2017 from 2016 by \$31.4 million, or 6.2%, and increased in 2016 from 2015 by \$32.6 million or 6.8% primarily due to the increase in net pension liability in conjunction with GASB Statement No. 68.

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 \$26.1 million in 2017, \$21.2 million in 2016, and \$57.8 million in 2015. Capital additions and retirements for 2017, 2016, and 2015 exclude transfers from construction in progress to buildings in the amount of \$6.4 million in 2017 and \$56.6 million in 2016; there were no transfers from construction in progress to buildings in 2015. Capital retirements totaled \$39.7 million in 2017, \$4.9 million in 2016, and \$9.0 million in 2015. Capital retirements in 2017 include disposal of fully depreciated library periodicals and electronic subscriptions. 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 \$7.37 million in 2017, \$0.58 million in 2016, and \$0.06 million in 2015.

In February 2016, the University issued \$32,475,000 of general receipts bonds, Series 2016A. The bonds bear interest rates ranging from 3.0% to 5.0% and mature beginning June 1, 2016 through June 1, 2036. The proceeds of the issuance were used to defease a portion of the Series 2007A bonds and pay issuance costs. The purpose of this transaction was to refund future callable maturities to achieve debt service savings of approximately \$3,900,000 over the life of the bonds.

In 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 replaced it with a health and life sciences building, The Center for Innovations in Medical Professions. Construction began in November 2013 and was completed in June 2015.

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 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, but is not affiliated with Cleveland State University.

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

In March 2009, the University entered into a capital lease, 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

The University's net position at June 30, 2017, 2016, and 2015, is summarized as follows:

	<u>2017</u>	<u>2016</u>	<u>2015</u>
Net investment in capital assets	\$ 252,071,032	\$ 247,080,168	\$ 251,473,219
Restricted - Expendable	32,092,753	35,711,858	35,778,797
Restricted - Nonexpendable	1,438,658	1,344,591	1,469,961
Unrestricted	<u>(78,652,449)</u>	<u>(70,134,598)</u>	<u>(65,286,210)</u>
Total net position	<u>\$ 206,949,994</u>	<u>\$ 214,002,019</u>	<u>\$ 223,435,767</u>

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 customarily due to the timing of revenue and expenses in funds provided by donors and grantors and in 2017, the change is due to use of restricted donations in capital building projects. Restricted nonexpendable net position consists primarily of endowment funds held by the University. Changes in this category are driven primarily by investment performance.

Unrestricted net position is not subject to externally imposed stipulations. This category includes funds functioning as endowment (quasi-endowment) of \$5.8 million at June 30, 2017, \$5.5 million at June 30, 2016, and \$5.9 million at June 30, 2015.

For the year ended June 30, 2017, the University had a decrease in total net position of \$7.1 million or 3.3%. Net investment in capital assets increased by \$5.0 million or 2.0% because capital additions exceeded depreciation and deductions. Unrestricted net position decreased by \$8.5 million or 12.1% primarily because the positive investment returns were offset by the increase in pension expense related to GASB Statement No. 68.

For the year ended June 30, 2016, the University had a decrease in total net position of \$9.4 million or 4.2%. Net investment in capital assets decreased by \$4.4 million, or 1.7% and unrestricted net position decreased by \$4.8 million or 7.4% primarily due to fund adjustments related to closing capital projects that were complete prior to June 30, 2016.

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 nonoperating. As a public institution, the University is dependent on State assistance. This dependency contributed toward an operating deficit because the financial reporting model classifies State appropriations as nonoperating revenue. The utilization of capital assets is reflected in the financial statements as depreciation, which amortizes the cost of an asset over its expected useful life. Summarized revenue, expenses, and changes in net assets for the years ended June 30, 2017, June 30, 2016, and June 30, 2015 are as follows:

	<u>2017</u>	<u>2016</u>	<u>2015</u>
Operating revenue:			
Net student tuition and fees	\$ 154,187,752	\$ 152,650,587	\$ 155,373,567
Grants and contracts	16,113,107	15,894,376	13,893,006
Other	<u>34,178,337</u>	<u>41,003,916</u>	<u>30,054,306</u>
Total operating revenue	204,479,196	209,548,879	199,320,879
Operating expenses:			
Educational and general	269,515,958	252,176,005	232,882,208
Auxiliary enterprises	40,689,667	36,723,496	32,884,041
Depreciation and amortization	<u>27,587,367</u>	<u>28,832,469</u>	<u>26,666,434</u>
Total operating expenses	<u>337,792,992</u>	<u>317,731,970</u>	<u>292,432,683</u>
Operating loss	(133,313,796)	(108,183,091)	(93,111,804)
Nonoperating revenue, net of interest:			
State appropriations	74,979,638	74,516,410	71,018,135
Other	<u>43,907,936</u>	<u>23,652,389</u>	<u>33,324,400</u>
(Loss) gain before other changes	(14,426,222)	(10,014,292)	11,230,731
Other changes	<u>7,374,197</u>	<u>580,544</u>	<u>59,621</u>
(Decrease) increase in net assets	(7,052,025)	(9,433,748)	11,290,352
Net position at beginning of year	214,002,019	223,435,767	392,667,808
Adjustment for change in accounting principle			(180,522,393)
Net position at beginning of year - As restated*			<u>212,145,415</u>
Net position at end of year	<u>\$ 206,949,994</u>	<u>\$ 214,002,019</u>	<u>\$ 223,435,767</u>

*Restated per implementation of GASB Statement No. 68

Total revenue and other changes, net of interest on debt, in fiscal 2017, 2016, and 2015 were \$339.9, \$317.4, and \$311.6 million, respectively. The most significant sources of 2017 operating revenue for the University, as reflected in the statement of revenues, expenses and changes in net position, were student tuition and fees of \$154.2 million, grants and contracts of \$16.1 million, and auxiliary services of \$27.0 million.

Revenue from tuition and fees (net of scholarship allowances) increased slightly in 2017 from 2016 by \$1.5 million, or 1.0% due to tuition increases in certain graduate programs. Headcount enrollment decreased by 2.5% while full-time equivalent enrollment decreased by 0.5% over the prior year.

Revenue from tuition and fees (net of scholarship allowances) decreased in 2016 from 2015 by \$2.7 million, or 1.8% due to slightly lower enrollment and increased scholarships. Headcount enrollment decreased by 0.5% while full-time equivalent enrollment increased by 2.8% over the prior year.

Other operating revenue decreased in 2017 from 2016 and increased in 2016 from 2015 primarily as a result of payments from the Corporation on land leases.

Total expenses in 2017, 2016, and 2015 were \$347.0 million, \$326.8 million and \$300.3 million, respectively. Operating expenses include the costs of instruction, research, public service, general administration, utilities, libraries, and auxiliary services. Operating expenses also include depreciation and amortization. Expenses increased by \$20.1 million (6.2%) in 2017, increased by \$26.5 million (8.8%) in 2016, and decreased by \$9.5 million (3.0%) in 2015. The increase in 2017 from 2016 is primarily attributable to increase in pension expense related to GASB Statement No. 68 (of the \$20.1 million increase in total operating expenses, \$17.9 million was pension expense). The increase in 2016 from 2015 is due to increase in pension expense related to GASB Statement No. 68, increase in maintenance of facilities, and increases in salaries.

Sources of nonoperating revenue include State appropriations of \$75.0 million in 2017, \$74.5 million in 2016, and \$71.0 million in 2015; grants and contracts of \$26.4 million in 2017, \$26.7 million in 2016, and \$25.6 million in 2015; gifts of \$10.9 million in 2017, \$9.0 million in 2016, and \$15.1 million in 2015; and investment income of \$15.8 million in 2017, investment loss of \$3.0 million in 2016, and investment income of \$0.6 million in 2015.

Net nonoperating revenue increased in 2017 from 2016 by \$20.7 million, or 21.1%, primarily due to favorable investment returns and increase in gifts. Net nonoperating revenue decreased in 2016 from 2015 by \$6.2 million, or 5.9% primarily due to unfavorable investment returns and a decrease in gift.

Other changes consist primarily of State capital appropriations of \$7.37 million in 2017, \$0.58 million in 2016 and \$0.06 million in 2015.

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, 2017, June 30, 2016, and June 30, 2015 is as follows:

	<u>2017</u>	<u>2016</u>	<u>2015</u>
Net cash (used in) provided by:			
Operating activities	\$ (89,323,158)	\$ (71,330,664)	\$ (59,442,954)
Noncapital financing activities	112,144,696	110,243,501	111,584,581
Capital financing activities	(39,288,344)	(45,378,562)	(80,282,289)
Investing activities	<u>14,501,449</u>	<u>(12,928,613)</u>	<u>42,869,879</u>
Net (decrease) increase in cash	(1,965,357)	(19,394,338)	14,729,217
Cash at beginning of year	<u>5,588,621</u>	<u>24,982,959</u>	<u>10,253,742</u>
Cash at end of year	<u>\$ 3,623,264</u>	<u>\$ 5,588,621</u>	<u>\$ 24,982,959</u>

Major sources of cash included student tuition and fees of \$158.1 million in 2017, \$152.9 million in 2016, and \$154.8 million in 2015; State appropriations of \$75.0 million in 2017, \$74.5 million in 2016, and \$71.0 million in 2015; grants and contracts (operating and noncapital) of \$42.7 million in 2017, \$42.0 million in 2016, and \$49.1 million in 2015; and auxiliary activities of \$27.1 million in 2017, \$25.5 million in 2016, and \$23.9 million in 2015.

The largest payments were for employee compensation and benefits totaling \$170.4 million in 2017, \$172.3 million in 2016, and \$182.5 million in 2015; suppliers of goods and services totaling \$128.3 million in 2017, \$107.3 million in 2016, and \$85.9 million in 2015; and purchases of capital assets totaling \$22.2 million in 2017, \$20.7 million in 2016, and \$54.6 million in 2015.

The change in cash flows from 2016 to 2017 is primarily due to collection of accounts receivable and timing of payments to vendors. The change in cash flows from 2015 to 2016 is primarily due to decreases in tuition and fees and increases in payment to vendors.

Credit Rating

The University's bonds are rated "A+" stable by Standard & Poor's, with the most recent rating published on March 14, 2017. 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, 2016 and 2015. 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 January 8, 2016. 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's four-year universities, 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. The State of Ohio has made college affordability a cornerstone of both the Governor's policy initiatives and several pieces of legislation passed by the General Assembly over the previous 18 months. The state will continue to monitor progress on these initiatives through reporting by the state's universities to the Department of Higher Education's Efficiency Advisory Committee. As part of this process, each university was required to commit to a five-year efficiency goal for "re-deployable" savings to assist in lowering the cost of a degree. CSU's five-year goal (fiscal year 2017 - fiscal year 2021) is \$11.5 million. State universities have now completed five fiscal years operating under the state's outcome-based funding formula model. This model places more emphasis on outcome-based metrics such as degree completion and course completion in allocating funding to universities as opposed to awarding funding based only on the number of students enrolled. Under the provisions of the State of Ohio's fiscal year 2018 budget, CSU is expecting an allocation of \$74.4 million in State Share of Instruction (SSI) funding, compared to the \$75.0 million received in fiscal year 2017. This decrease is partially due to the state legislature appropriating less funding in the fiscal year 2018 - fiscal year 2019 biennial budget for higher education, which is then allocated by way of the Ohio Department of Higher Education's outcome-based funding model. The SSI is the major state funding source for state colleges and universities. CSU expects to receive the same level of state funding in fiscal year 2019 as it expects to receive in fiscal year 2018, barring any fiscal challenges impacting the state's revenue sources. Revenue from student instructional fee tuition is budgeted at \$148.9 million in fiscal year 2018, compared to fiscal year 2017's result of \$154.2 million. For fiscal year 2018, the University enacted no increases for in-state undergraduate and graduate tuition. The University has continued its plan for qualifying undergraduate students to receive a rebate of any 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 fiscal year 2014 (Fall 2013), but did not require funding by the University until fiscal year 2015 (Fall 2014). Although no new students were admitted to the program after fiscal year 2015 (Fall 2016), we continue to offer it to students who began in fiscal year 2014 and 2015. Preliminary Fall 2017 (fiscal year 2018) credit hour enrollment is meeting the budget plan, while instructional fee tuition revenue is approximately 0.9% lower than planned. Although there is likely to be the normal Fall-to-Spring semester attrition in enrollment, Spring 2018 tuition revenue is expected to be slightly lower than the Spring 2018 budget plan. 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. This will be more challenging in the near future, as the State of Ohio has frozen in-state undergraduate tuition levels for the upcoming two years of the next state budget biennium (fiscal year 2018 and fiscal year 2019) at fiscal year 17 levels. The University plans to mitigate the effect of the continuing in-state undergraduate tuition freeze by developing tuition-pricing strategies for graduate programs beginning in fiscal year 2018. The University also plans to develop a Tuition Guarantee Plan for undergraduate students, as outlined in the fiscal year 2018 - fiscal year 2019 state budget bill, beginning in Fall 2018. Under this plan, universities have been granted the authority to (1) establish annual "cohorts" of new undergraduate students; (2) establish tuition rates for each cohort under state guidelines; and (3) maintain each cohorts' tuition rate for a period of four academic years.

In the Summer of 2015, the University created a Strategic Enrollment Management (SEM) Task Force that has produced a detailed plan to both increase enrollment through enhanced regional and international recruitment strategies, as well as continue to improve CSU's retention of students. This effort is ongoing. Student retention remains a high priority for the University and some steady progress has been made. The latest Fall to Fall retention rate (Fall 2016 to Fall 2017) is 69.8%, up from 69.7% three years ago. Tactics include an automated early warning system, intrusive advising of freshmen, and better employment of residence life and student affairs data to track students' academic performance.

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. On September 27, 2013, it was announced that the State intended to fund a capital appropriations bill for the fiscal year 2015 - fiscal year 2016 capital biennium, 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. Cleveland State also received a total allocation of \$22.1 million for the fiscal year 2017 - fiscal year 2018 state capital biennium. \$14.6 million of the allocation is dedicated to the Fenn Hall Washkewicz College of Engineering building project and \$7.5 million is targeted for the development of a School of Film located at CSU. The State of Ohio has recently announced plans to seek passage of a fiscal year 2019 - fiscal year 2020 capital appropriations bill by the General Assembly in April 2018. The amount of the total appropriation is expected to be limited compared to previous bills. It is expected that state universities will see a total higher education appropriation of less than \$300 million if a capital bill is enacted. State universities are in the early stages of developing specific requests.

In August 2015, the University created an Office of Performance Management and initiated its "Path to 2020" program. In April 2017, the Office of Performance Management became fully operational and reports to the President. The program is the University's proactive response to the challenging environment being faced by publicly-funded higher education institutions both in Ohio and nationally. It is also an opportunity for leveraging our strengths and improving our processes to thrive in the ensuing years. It will assess the University's operations and practices in the areas of strategic enrollment management and revenue, expense management and budgeting, financial aid deployment, academic programming, and campus master planning strategies. By beginning these efforts in 2015, the University was well-positioned to respond appropriately and proactively in July, 2016 to the recommendations of the Governor's Task Force Report on College Affordability and Efficiency. We also realized approximately \$3.5 million in expense savings through this effort and reflected these savings by lowering the University's fiscal year 2017 operating budget expenditure level. The performance management effort is a continuing initiative that is being integrated into the operations of the University. We expect it to assist all units in yielding opportunities to reduce expenses.

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 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 become necessary.

Effective for the fiscal year ending June 30, 2018, the University will be adopting GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other than Pensions*, which changes the financial reporting requirements for Other Postemployment Benefits (OPEB). CSU will no longer be allowed to amortize the unfunded OPEB obligation over a 30-year period as allowed by GASB Statement No. 45, but will be required to report the full unfunded actuarial liability in its entirety in the financial statements. This OPEB standard will require the University to recognize on the face of the financial statements its proportionate share of the net OPEB liability related to its participation in the STRS postemployment benefits and OPERS postretirement healthcare plans. The statement also enhances accountability and transparency through revised note disclosures and required supplementary information (RSI).

Cleveland State University
Statement of Net Position
June 30, 2017 and 2016

	2017	2016
ASSETS		
Current Assets:		
Cash and Cash Equivalents	\$ 3,623,264	\$ 5,588,621
Investments (Note 2)	129,621,930	110,852,738
Accounts Receivable, Net (Note 4)	24,404,474	28,653,098
Notes Receivable, Net (Note 4)	1,326,625	1,477,017
Prepaid Expenses and Inventories	<u>1,752,186</u>	<u>1,441,431</u>
Total Current Assets	<u>160,728,479</u>	<u>148,012,905</u>
Noncurrent Assets:		
Restricted Investments (Note 2)	1,974,145	17,364,604
Long-Term and Endowment Investments (Note 2)	21,188,752	22,550,171
Notes Receivable, Net (Note 4)	12,937,034	13,144,344
Capital Assets, Net (Note 6)	<u>487,778,055</u>	<u>493,170,085</u>
Total Noncurrent Assets	<u>523,877,986</u>	<u>546,229,204</u>
Total Assets	684,606,465	694,242,109
DEFERRED OUTFLOWS		
Deferred Outflow - Pension Plans (Note 8)	61,877,871	38,432,616
Deferred Outflow - Bond Refunding (See Note 7)	<u>1,391,241</u>	<u>1,464,787</u>
Total Deferred Outflows	<u>63,269,112</u>	<u>39,897,403</u>
LIABILITIES		
Current Liabilities:		
Accounts Payable	6,480,888	10,152,865
Construction Accounts Payable	423,296	3,620,863
Accrued Liabilities	13,927,995	14,104,450
Accrued Interest Payable	999,551	1,112,671
Unearned Revenue	9,136,826	9,112,159
Compensated Absences - Current Portion (Note 7)	855,486	707,302
Obligations Under Capital Leases - Current Portion (Note 7)	7,333,646	7,087,804
Long-term Debt - Current Portion (Note 7)	<u>7,293,600</u>	<u>7,071,245</u>
Total Current Liabilities	<u>46,451,288</u>	<u>52,969,359</u>
Noncurrent Liabilities:		
Accrued Liabilities (Note 7)	11,661,732	11,468,161
Compensated Absences (Note 7)	9,995,778	9,582,711
Net Pension Liability	259,576,938	207,619,383
Obligations Under Capital Leases (Note 7)	33,365,751	40,699,397
Long-term Debt (Note 7)	<u>179,047,941</u>	<u>186,407,352</u>
Total Noncurrent Liabilities	<u>493,648,140</u>	<u>455,777,004</u>
Total Liabilities	540,099,428	508,746,363
DEFERRED INFLOW		
Deferred Inflow - Pension Plan Net Amount (Note 8)	<u>826,155</u>	<u>11,391,130</u>
NET POSITION		
Net Investment in Capital Assets	252,071,032	247,080,168
Restricted, Expendable	32,092,753	35,711,858
Restricted, Nonexpendable	1,438,658	1,344,591
Unrestricted (Deficit)	<u>(78,652,449)</u>	<u>(70,134,598)</u>
Total Net Position	<u>\$ 206,949,994</u>	<u>\$ 214,002,019</u>

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, 2017 and 2016

	2017	2016
Revenues		
Operating Revenues:		
Student Tuition and Fees	\$ 180,550,768	\$ 180,064,284
Less Scholarship Allowances	<u>26,363,016</u>	<u>27,413,697</u>
Net Student Tuition and Fees	154,187,752	152,650,587
Federal Grants and Contracts	7,653,153	7,138,884
State Grants and Contracts	2,554,565	4,088,356
Local Grants and Contracts	565,667	458,752
Private Grants and Contracts	5,339,722	4,208,384
Sales and Services	6,651,349	7,303,747
Auxiliary Enterprises	26,983,794	25,804,102
Other	<u>543,194</u>	<u>7,896,067</u>
Total Operating Revenues	204,479,196	209,548,879
Expenses		
Operating Expenses:		
Instruction	115,812,827	105,091,851
Research	10,686,979	9,000,724
Public Service	7,559,040	6,035,636
Academic Support	31,809,392	28,713,179
Student Services	21,320,575	19,961,340
Institutional Support	33,737,433	34,132,336
Operation and Maintenance of Plant	31,379,263	33,680,370
Scholarships and Fellowships	17,210,449	15,560,569
Auxiliary Enterprises	40,689,667	36,723,496
Depreciation and Amortization	<u>27,587,367</u>	<u>28,832,469</u>
Total Operating Expenses	<u>337,792,992</u>	<u>317,731,970</u>
Operating Loss	(133,313,796)	(108,183,091)
Nonoperating Revenues (Expenses)		
State Appropriations	74,979,638	74,516,410
Federal Grants and Contracts	21,206,046	21,675,238
State Grants and Contracts	5,203,873	5,020,411
Gifts	10,859,670	9,017,211
Investment Income	15,805,044	(2,963,770)
Interest on Debt	<u>(9,166,697)</u>	<u>(9,096,701)</u>
Net Nonoperating Revenues	<u>118,887,574</u>	<u>98,168,799</u>
Decrease Before Other Changes	(14,426,222)	(10,014,292)
Other Changes		
State Capital Appropriations	<u>7,374,197</u>	<u>580,544</u>
Decrease in Net Position	<u>(7,052,025)</u>	<u>(9,433,748)</u>
Net Position		
Net Position at Beginning of Year	214,002,019	223,435,767
Net Position at End of Year	<u>\$ 206,949,994</u>	<u>\$ 214,002,019</u>

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

Cleveland State University
Statement of Cash Flows

	Years Ended June 30	
	<u>2017</u>	<u>2016</u>
Cash Flows from Operating Activities		
Tuition and Fees	\$ 158,135,086	\$ 152,874,858
Grants and Contracts	16,323,561	15,298,660
Payments to or on Behalf of Employees	(170,438,227)	(172,255,596)
Payments to Vendors	(128,332,356)	(107,343,058)
Loans Issued to Students	(1,791,069)	(2,443,557)
Collection of Loans to Students	2,444,781	1,853,702
Auxiliary Enterprises Charges	27,140,523	25,484,515
Other Receipts	7,194,543	15,199,814
Net Cash Used In Operating Activities	<u>(89,323,158)</u>	<u>(71,330,663)</u>
Cash Flows from Noncapital Financing Activities		
State Appropriations	74,979,638	74,516,410
Grants and Contracts	26,409,919	26,695,649
Gifts	10,859,670	9,017,211
Cash Provided by Stafford and PLUS Loans	99,902,299	117,057,722
Cash Used by Stafford and PLUS Loans	(100,000,000)	(117,000,000)
Cash Provided by Agency Fund Activities	(185,833)	(322,937)
Cash Used by Agency Fund Activities	179,003	279,445
Net Cash Provided by Noncapital Financing Activities	<u>112,144,696</u>	<u>110,243,500</u>
Cash Flows from Capital Financing Activities		
Proceeds from Capital Debt and Leases	-	35,692,440
Capital Appropriations	7,374,197	580,544
Purchases of Capital Assets	(22,222,055)	(20,742,558)
Principal Paid on Capital Debt and Leases	(14,151,314)	(49,828,468)
Interest Paid on Capital Debt and Leases	(10,289,172)	(11,080,520)
Net Cash Used in Capital Financing Activities	<u>(39,288,344)</u>	<u>(45,378,562)</u>
Cash Flows from Investing Activities		
Proceeds from Sales and Maturities of Investments	188,628,331	313,306,258
Purchase of Investments	(190,645,645)	(324,778,303)
Interest on Investments	16,518,763	(1,456,568)
Net Cash Provided by (Used in) Investing Activities	<u>14,501,449</u>	<u>(12,928,613)</u>
Net Decrease in Cash	(1,965,357)	(19,394,338)
Cash and Cash Equivalents at Beginning of Year	5,588,621	24,982,959
Cash and Cash Equivalents at End of Year	<u>\$ 3,623,264</u>	<u>\$ 5,588,621</u>

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

Cleveland State University
Statement of Cash Flows (continued)

	Years Ended June 30	
	<u>2017</u>	<u>2016</u>
Reconciliation of Operating Loss to Cash Used by Operating Activities		
Operating Loss	\$ (133,313,796)	\$ (108,183,091)
Adjustments:		
Depreciation and Amortization	27,587,367	28,832,469
Changes in Assets and Deferred Outflow and Liabilities and Deferred Inflow:		
Accounts Receivable, Net	4,275,342	(1,389,993)
Notes Receivable, Net	653,712	(589,855)
Inventories	(80,268)	(12,913)
Prepaid Expenses	(230,912)	60,874
Deferred Outflow	(23,445,255)	(26,942,755)
Accounts Payable	(6,855,036)	1,320,429
Accrued Liabilities	668,442	5,361,242
Net Pension Liability	51,957,555	37,918,542
Unearned Revenue	24,666	763,615
Deferred Inflow	(10,564,975)	(8,469,228)
Cash Used by Operating Activities	\$ (89,323,158)	\$ (71,330,663)

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

The Cleveland State University Foundation, Inc.
Statement of Financial Position
June 30, 2017 and 2016

	2017	2016
ASSETS		
Cash and cash equivalents	\$ 3,363,969	\$ 2,661,308
Accounts receivable	167,742	232,846
Contributions receivable, net of allowance for uncollectible contributions	17,930,681	13,158,909
Long-term investments	79,501,736	69,392,123
Funds held on behalf of others:		
Cleveland State University	3,329,145	13,831,081
Cleveland State University Alumni Association	<u>524,897</u>	<u>465,436</u>
Total Assets	<u>\$ 104,818,170</u>	<u>\$ 99,741,703</u>
LIABILITIES		
Accounts payable and accrued expenses	\$ 16,728	\$ 50,531
Payable to Cleveland State University	2,902,771	1,750,830
Annuities payable	114,657	124,859
Funds held on behalf of others:		
Cleveland State University	3,329,145	13,831,081
Cleveland State University Alumni Association	<u>524,897</u>	<u>465,436</u>
Total Liabilities	<u>6,888,198</u>	<u>16,222,737</u>
NET ASSETS:		
Unrestricted	(867,527)	(1,310,367)
Board designated - Scholarships	<u>186,714</u>	<u>174,380</u>
Total unrestricted	<u>(680,813)</u>	<u>(1,135,987)</u>
Temporarily restricted	37,565,029	28,464,468
Permanently restricted	<u>61,045,756</u>	<u>56,190,485</u>
Total Net Assets	<u>97,929,972</u>	<u>83,518,966</u>
Total Liabilities and Net Assets	<u>\$ 104,818,170</u>	<u>\$ 99,741,703</u>

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

Euclid Avenue Development Corporation
Statement of Financial Position
June 30, 2017 and 2016

	2017	2016
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 1,651,768	\$ 1,077,848
Cash held by the University	<u>649,772</u>	<u>317,173</u>
Total Cash	2,301,540	1,395,021
Student accounts receivable, net	22,924	18,399
Other receivables	269,717	380,934
Investments	13,578,614	13,739,952
Prepaid expenses	<u>66,568</u>	<u>10,986</u>
Total Current Assets	<u>16,239,363</u>	<u>15,545,292</u>
Property and equipment:		
Land	128,000	128,000
Building	70,632,179	70,632,179
Building improvements	982,494	880,002
Furniture, fixtures, and equipment	<u>3,185,545</u>	<u>3,139,207</u>
	74,928,218	74,779,388
Less accumulated depreciation	<u>(17,649,919)</u>	<u>(15,476,892)</u>
Property and equipment, net	<u>57,278,299</u>	<u>59,302,496</u>
Other assets:		
Restricted investments	4,958,330	4,831,875
Leases receivable, net of current portion	<u>19,605,000</u>	<u>19,605,000</u>
Total other assets	24,563,330	24,436,875
Total assets	<u>\$ 98,080,992</u>	<u>\$ 99,284,663</u>
LIABILITIES		
Current liabilities:		
Current portion of bonds payable	1,575,000	1,500,000
Accounts payable	361,419	274,510
Accrued interest	1,791,461	1,822,710
Accrued other	55,708	52,363
Deferred revenue	269,826	485,884
Rent payable to the University	-	2,225,000
Security deposits	<u>231,967</u>	<u>188,315</u>
Total Current Liabilities	4,285,381	6,548,782
Noncurrent liabilities:		
Deferred revenue	1,126,165	1,163,701
Bonds payable, net:		
Bonds payable	84,415,000	85,990,000
Add bond premium, net	8,083,332	8,459,437
Less bond issuance costs, net	<u>(998,010)</u>	<u>(1,066,650)</u>
Bond payable, net	91,500,322	93,382,787
Total Noncurrent Liabilities, net of current portion	92,626,487	94,546,488
Total Liabilities	96,911,868	101,095,270
NET ASSETS		
Unrestricted	<u>1,169,124</u>	<u>(1,810,607)</u>
Total Net Assets (Deficit)	<u>1,169,124</u>	<u>(1,810,607)</u>
Total Liabilities and Net Assets	<u>\$ 98,080,992</u>	<u>\$ 99,284,663</u>

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

The Cleveland State University Foundation, Inc.
Statement of Activities
Year Ended June 30, 2017 (with comparative totals for the year ended June 30, 2016)

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total 2017</u>	<u>Total 2016</u>
Revenues					
Contributions	\$ 155,187	\$ 14,868,820	\$ 4,885,553	\$ 19,909,560	\$ 11,308,615
Management fees related to funds held on behalf of others	37,059	-	-	37,059	36,307
Endowment management fee	694,611	(694,611)	-	-	-
Net assets released from restrictions:	<u>14,225,547</u>	<u>(14,225,547)</u>	-	-	-
Total revenues	15,112,404	(51,338)	4,885,553	19,946,619	11,344,922
Expenses					
Program services:					
Instructions	5,652,965	-	-	5,652,965	3,720,498
Research	493,272	-	-	493,272	454,436
Public service	1,231,138	-	-	1,231,138	1,263,683
Financial aid	5,183,885	-	-	5,183,885	4,791,829
Institutional support	429,538	-	-	429,538	363,668
Capital and other projects	<u>1,177,651</u>	<u>-</u>	<u>-</u>	<u>1,177,651</u>	<u>941,998</u>
Total program services	14,168,449	-	-	14,168,449	11,536,112
Supporting services:					
Management and general	765,329	-	-	765,329	611,421
Fund raising	<u>140,683</u>	<u>-</u>	<u>-</u>	<u>140,683</u>	<u>128,866</u>
Total supporting services	906,012	-	-	906,012	740,287
Total expenses	15,074,461	-	-	15,074,461	12,276,399
Gains (Losses):					
Investment gain (loss), including realized and unrealized losses, net	422,200	9,214,031	-	9,636,231	(1,924,778)
Provision for uncollectible contributions (Note 2)	<u>(4,969)</u>	<u>(62,132)</u>	<u>(30,282)</u>	<u>(97,383)</u>	<u>134,084</u>
Total gains (losses)	<u>417,231</u>	<u>9,151,899</u>	<u>(30,282)</u>	<u>9,538,848</u>	<u>(1,790,694)</u>
Change in Net Assets	455,174	9,100,561	4,855,271	14,411,006	(2,722,171)
Net Assets - Beginning of Year	<u>(1,135,987)</u>	<u>28,464,468</u>	<u>56,190,485</u>	<u>83,518,966</u>	<u>86,241,137</u>
Net Assets - End of Year	<u>\$ (680,813)</u>	<u>\$ 37,565,029</u>	<u>\$ 61,045,756</u>	<u>\$ 97,929,972</u>	<u>\$ 83,518,966</u>

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

Euclid Avenue Development Corporation
Statement of Activities
Years Ended June 30, 2017 and 2016

	2017	2016
Revenues		
Rental income:		
Students	\$ 8,113,357	\$ 7,830,180
University	1,734,736	1,734,735
Other	98,910	52,469
Maintenance fee - University	241,952	232,580
Investment income, net	1,618,207	(148,849)
Other	963,561	812,831
Total revenues	<u>12,770,723</u>	<u>10,513,946</u>
Expenses		
Interest	4,047,403	4,199,804
Depreciation and amortization	2,173,027	2,138,362
Utilities	695,115	768,323
Contract personnel	1,322,416	1,292,295
Management fees	296,351	293,389
Maintenance	365,117	621,069
General and administrative	252,224	175,011
Other operating	146,662	129,514
Marketing	36,209	27,474
Accounting	27,912	21,740
Reserve allowance	11,348	4,723
Insurance	7,580	7,757
Rent expense	409,628	-
Total expenses and losses	<u>9,790,992</u>	<u>9,679,461</u>
Change in Net Assets	 	
Net Assets (Deficit) - Beginning of Year	 <u>(1,810,607)</u>	 <u>(2,645,092)</u>
Net Assets (Deficit) - End of Year	 <u>\$ 1,169,124</u>	 <u>\$ (1,810,607)</u>

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

CLEVELAND STATE UNIVERSITY

NOTES TO FINANCIAL STATEMENTS Years Ended June 30, 2017 and 2016

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.

The University has invested funds in the State Treasury Asset Reserve of Ohio (STAR Ohio). STAR Ohio is an investment pool managed by the State Treasurer's Office that allows governments within the State to pool their funds for investment purposes. STAR Ohio is not registered with the SEC as an investment company, but has adopted Governmental Accounting Standards Board (GASB) Statement No. 79, *Accounting and Financial Reporting for Certain External Investment Pools and Pool Participants*, which establishes accounting and financial reporting standards for qualifying external investment pools that elect to measure for financial reporting purposes all of their investments at amortized cost. Investments in STAR Ohio are valued at STAR Ohio's share price, which is the price at which the investment could be sold on June 30, 2017.

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 collectability 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 continued to have an impact on 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, 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.

Pensions. For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the (Ohio Public Employees Retirement System/State Teachers Retirement System of Ohio) Pension Plan (STRS/OPERS) and additions to/deductions from STRS'/OPERS' fiduciary net position have been determined on the same basis as they are reported by STRS/OPERS. STRS/OPERS uses the economic resources measurement focus and the full accrual basis of accounting. Contribution revenue is recorded as contributions are due, pursuant to legal requirements. Benefit payments (including refunds of employee contributions) are recognized as expense when due and payable in accordance with the benefit terms. Investments are reported at fair value.

Deferred Outflows of Resources. In addition to assets, the statement of net position reports a separate section for deferred outflows of resources. This separate financial statement element represents a consumption of net position that applies to a future period and so will not be recognized as an outflow of resources (expense/expenditure) until then. The University deferred outflows of resources related to the net pension liability and refunding of bonds (see Notes 7 and 8 for more detail).

Deferred Inflows of Resources. In addition to liabilities, the statement of net position reports a separate section for deferred inflows of resources. This separate financial statement element represents an acquisition of net position that applies to a future period and so will not be recognized as an inflow of resources (revenue) until that time. The University deferred inflows of resources related to the net pension liability (see Note 8 for more detail).

Upcoming Accounting Pronouncements

In June 2015, the GASB issued Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, which addresses reporting by governments that provide postemployment benefits other than pensions (OPEB) to their employees and for governments that finance OPEB for employees of other governments. This OPEB standard will require the University to recognize on the face of the financial statements its proportionate share of the net OPEB liability related to its participation in the STRS postemployment benefits and OPERS postretirement healthcare plans. The statement also enhances accountability and transparency through revised note disclosures and required supplementary information (RSI). The University is currently evaluating the impact this standard will have on the financial statements when adopted. The provisions of this statement are effective for the University's financial statements for the year ending June 30, 2018.

In November 2016, the GASB issued Statement No. 83, *Certain Asset Retirement Obligations*, which establishes criteria for determining the timing and pattern of recognition of a liability and a corresponding deferred outflow of resources for asset retirement obligations. The University is currently evaluating the impact of this standard. The provisions of this statement are effective for the University's financial statements for the year ending June 30, 2019.

In March 2017, the Governmental Accounting Standards Board issued GASB Statement No. 85, *Omnibus 2017*, which addresses practice issues that have been identified during implementation and application of certain GASB statements. The statement addresses a variety of topics including issues related to blending component units, goodwill, fair value measurement and application, and postemployment benefits (pension and other postemployment benefits [OPEB]). The University is currently evaluating the impact of this standard, specifically for the OPEB implications. The provisions of this statement are effective for the University's financial statements for the 2018 fiscal year.

In May 2017, the GASB issued Statement No. 86, *Certain Debt Extinguishment Issues*, which improves consistency in accounting and financial reporting for in-substance defeasance of debt by providing guidance for transactions in which cash and other monetary assets acquired with only existing resources – resources other than the proceeds of refunding debt – are placed in an irrevocable trust for the sole purpose of extinguishing debt. This statement also improves accounting and financial reporting for prepaid insurance on debt that is extinguished and notes to financial statements for debt that is defeased in substance. The University is currently evaluating the impact of this standard as it relates to prior defeasances. The provisions of this statement are effective for the University's financial statements for the year ending June 30, 2018.

In June 2017, the Governmental Accounting Standards Board issued GASB Statement No. 87, *Leases*, which increases the usefulness of governments' financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. This statement establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under this statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources. Based on the operating leases in effect today, the new lease standard is not expected to have a significant effect on the University's financial statements. The provisions of this statement are effective for the University's financial statements for the year ending June 30, 2021.

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, 2017, the cash and cash equivalents balance of \$3,623,264 is after the University recorded an overdraft consisting of items in transit of \$3,755,797 in accounts payable. The bank balance at June 30, 2017 was \$3,294,139, of which \$1,072,735 was covered by federal depository insurance, and \$2,221,404 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, 2016, the cash and cash equivalents balance of \$5,588,621 is after the University recorded an overdraft consisting of items in transit of \$5,549,149 in accounts payable. The bank balance at June 30, 2016 was \$4,959,638, of which \$1,415,209 was covered by federal depository insurance, and \$3,544,429 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 on June 30, 2017 and 2016.

Restricted investments consist of unspent debt proceeds.

During the years ended June 30, 2017 and 2016, the University pledged \$0 and \$800,000, respectively, of its investments as collateral for the purchase of real property by the Corporation.

As of June 30, 2017, the University had the following types of investments and maturities:

Investment Type	Market Value	Investment Maturity (in Years)	
		Less Than 1	1-5
Commercial paper	\$ 11,792,813	\$ 11,792,813	\$ -
U.S. obligation mutual fund	72,357,000	72,357,000	-
Certificates of deposit	536,231	536,231	-
STAR Ohio	29,939,375	-	-
Bond mutual funds	19,550,629	-	19,550,629
Stock mutual funds	18,608,779	-	-
Total	\$ <u>152,784,827</u>	\$ <u>84,686,044</u>	\$ <u>19,550,629</u>

As of June 30, 2016, the University had the following types of investments and maturities:

Investment Type	Market Value	Investment Maturity (in Years)	
		Less Than 1	1-5
Commercial paper	\$ 19,904,418	\$ 19,904,418	\$ -
U.S. obligation mutual fund	59,661,327	59,661,327	-
Certificates of deposit	534,069	534,069	-
STAR Ohio	13,817,962	-	-
Bond mutual funds	21,044,800	-	21,044,800
Stock mutual funds	35,804,937	-	-
Total	\$ <u>150,767,513</u>	\$ <u>80,099,814</u>	\$ <u>21,044,800</u>

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

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

Credit Risk. Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. 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, 2017 and 2016, 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, 2017 and 2016, 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, 2017 and 2016, investments include approximately \$21.3 million and \$17.5 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 – FAIR VALUE MEASUREMENTS

The University categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs. Investments that are measured at fair value using the net asset value per share (or its equivalent) as a practical expedient are not classified in the fair value hierarchy below.

In instances where inputs used to measure fair value fall into different levels in the above fair value hierarchy, fair value measurements in their entirety are categorized based on the lowest level input that is significant to the valuation. The University's assessment of the significance of particular inputs to these fair value measurements requires judgment and considers factors specific to each asset or liability.

The University has the following recurring fair value measurements as of June 30, 2017 and 2016:

	Fair Value Measurements Using			
	Balance at June 30, 2017	Level 1	Level 2	Level 3
Debt securities:				
U.S. Treasuries	\$ 8,057,902	\$ -	\$ 8,057,902	\$ -
Corporate bonds	5,750,012	-	5,750,012	-
Other - Agency bonds	1,360,088	-	1,360,088	-
Total debt securities	15,168,002	-	15,168,002	-
Equity securities:				
Stocks	16,750,006	16,746,388	-	3,618
Exchange traded funds	24,970,896	24,970,896	-	-
Total equity securities	41,720,902	41,717,284	-	3,618
Mutual funds:				
Equities	26,246,518	26,246,518	-	-
Fixed income	10,675,255	10,675,255	-	-
Alternative strategies	9,388,048	9,388,048	-	-
Total mutual funds	46,309,821	46,309,821	-	-
Asset-backed securities	2,247,623	-	2,247,623	-
Pooled investments - CSU Foundation*	3,329,145	2,127,323	660,835	540,986
Others	472,541	-	472,541	-
Total investments by fair value level	\$ 109,248,034	\$ 90,154,428	\$ 18,549,001	\$ 544,604

Fair Value Measurements Using

	Balance at June 30, 2016	Level 1	Level 2	Level 3
Debt securities:				
U.S. Treasuries	\$ 9,413,154	\$ -	\$ 9,413,154	\$ -
Corporate bonds	6,214,138	-	6,214,138	-
Other - Agency bonds	927,157	-	927,157	-
Total debt securities	16,554,449	-	16,554,449	-
Equity securities:				
Stocks	22,972,095	22,972,095	-	-
Exchange traded funds	14,771,726	14,771,726	-	-
Total equity securities	37,743,821	37,743,821	-	-
Mutual funds:				
Equities	23,901,640	23,901,640	-	-
Fixed income	11,666,038	11,666,038	-	-
Alternative strategies	9,469,879	9,469,879	-	-
Total mutual funds	45,037,557	45,037,557	-	-
Asset-backed securities	2,756,518	-	2,756,518	-
Pooled investments - CSU Foundation*	13,097,856	8,068,279	2,789,843	2,239,734
Others	92,658	-	92,658	-
Total investments by fair value level	<u>\$ 115,282,859</u>	<u>\$ 90,849,657</u>	<u>\$ 22,193,468</u>	<u>\$ 2,239,734</u>

*See Note 11 for detail

Debt and equity securities and mutual funds classified in Level 1 are valued using prices quoted in active markets for those securities.

The fair value of corporate bonds, agency bonds and asset-backed securities at June 30, 2017 and 2016 was determined primarily based on Level 2 inputs. The University estimates the fair value of these investments using other inputs such as interest rates and yield curves that are observable at commonly quoted intervals.

Level 3 inputs are unobservable inputs, including inputs that are available in situations where there is little, if any, market activity for the related asset. The University estimates the fair value of Level 3 investments using the University's own estimates using pricing models, discounted cash flow methodologies, or similar techniques taking into account the characteristics of the asset.

Short-term investments and investments on the statement of net position at June 30, 2017 and 2016 include investments in STAR Ohio of \$29,939,375 and \$13,817,962, respectively. The investments in STAR Ohio are measured at amortized cost; therefore, they are not included in the tables above. There are no limitations or restrictions on any STAR Ohio participant withdrawals due to redemption notice periods, liquidity fees, or redemption gates. However, notice must be given to STAR Ohio 24 hours in advance of all deposits and withdrawals exceeding \$25 million. STAR Ohio reserves the right to limit the transaction to \$50 million, requiring the excess amount to be transacted the following business day(s), but only to the \$50 million limit. All accounts of the STAR Ohio investors will be combined for these purposes.

NOTE 4 – RECEIVABLES

The composition of accounts receivable at June 30, 2017 and 2016 is summarized as follows:

	2017	2016
Student accounts	\$ 11,800,516	\$ 13,812,606
Grants	14,377,911	14,588,365
State capital	31,210	4,492
Other	910,154	3,505,743
Total accounts receivable	<u>27,119,791</u>	<u>31,911,206</u>
Less allowance for uncollectible accounts	2,715,317	3,258,108
Accounts receivable - Net	<u><u>\$ 24,404,474</u></u>	<u><u>\$ 28,653,098</u></u>

Notes receivable consist primarily of loans to students under the Federal Perkins Loan Program. The composition of notes receivable at June 30, 2017 and 2016 is summarized as follows:

	2017	2016
Perkins Loan Program	\$ 14,662,323	\$ 14,970,177
Other	600,552	618,869
Total notes receivable	<u>15,262,875</u>	<u>15,589,046</u>
Less allowance for uncollectible accounts	999,216	967,685
Notes receivable - Net	<u>14,263,659</u>	<u>14,621,361</u>
Less current portion	1,326,625	1,477,017
Total noncurrent notes receivable	<u><u>\$ 12,937,034</u></u>	<u><u>\$ 13,144,344</u></u>

The Federal Perkins Loan Program expired on September 30, 2017. As of June 30, 2017, the University has made \$2,588,775 in institutional capital contributions, which are reflected as part of the University's net position. Under current guidance issued by the Department of Education, at the time the University liquidates the loan portfolio and assigns the student loans to the Department of Education, the University will be forgoing its institutional capital contribution not yet received back through loan collections.

NOTE 5 – 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 Department of Higher Education.

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 Department of Higher Education. Upon completion, The Ohio Department of Higher Education 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 Ohio Department of Higher Education by the General Assembly.

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

NOTE 6 – CAPITAL ASSETS

Capital assets activity for the years ended June 30, 2017 and 2016 is summarized as follows:

	<u>2017 Beginning Balance</u>	<u>Additions/ Transfers</u>	<u>Retirements/ Transfers</u>	<u>2017 Ending Balance</u>
Capital Assets:				
Nondepreciable:				
Land	\$ 56,643,948	\$ 1,987,564	\$ -	\$ 58,631,512
Construction in Progress	20,050,412	11,004,484	6,415,045	24,639,851
Capitalized Collections	7,102,155	-	-	7,102,155
Depreciable:				
Land Improvements	24,023,046	-	-	24,023,046
Buildings	697,257,272	16,360,703	2,858,270	710,759,705
Equipment	56,618,172	2,483,787	1,514,929	57,587,030
Library Books	71,538,961	677,982	35,336,728	36,880,215
Intangible Assets	483,059	-	-	483,059
Total Capital Assets	<u>933,717,025</u>	<u>32,514,520</u>	<u>46,124,972</u>	<u>920,106,573</u>
Less Accumulated Depreciation:				
Land Improvements	17,254,006	697,943	-	17,951,949
Buildings	320,814,568	19,830,008	1,065,000	339,579,576
Equipment	36,303,431	5,248,481	1,018,554	40,533,358
Library Books	65,764,335	1,296,698	33,256,304	33,804,729
Intangible Assets	410,600	48,306	-	458,906
Total Accumulated Depreciation	<u>440,546,940</u>	<u>27,121,436</u>	<u>35,339,858</u>	<u>432,328,518</u>
Capital Assets, Net	<u>\$ 493,170,085</u>	<u>\$ 5,393,084</u>	<u>\$ 10,785,114</u>	<u>\$ 487,778,055</u>

	<u>2016 Beginning Balance</u>	<u>Additions/ Transfers</u>	<u>Retirements/ Transfers</u>	<u>2016 Ending Balance</u>
Capital Assets:				
Nondepreciable:				
Land	\$ 56,643,948	\$ -	\$ -	\$ 56,643,948
Construction in Progress	67,530,544	9,056,282	56,536,414	20,050,412
Capitalized Collections	7,102,155	-	-	7,102,155
Depreciable:				
Land Improvements	24,019,616	3,430	-	24,023,046
Buildings	633,357,604	64,488,326	588,658	697,257,272
Equipment	56,848,962	2,581,039	2,811,829	56,618,172
Library Books	71,463,221	1,610,909	1,535,169	71,538,961
Intangible Assets	483,059	-	-	483,059
Total Capital Assets	<u>917,449,109</u>	<u>77,739,986</u>	<u>61,472,070</u>	<u>933,717,025</u>
Less Accumulated Depreciation:				
Land Improvements	16,291,675	962,331	-	17,254,006
Buildings	302,568,083	18,645,621	399,136	320,814,568
Equipment	33,099,782	5,258,045	2,054,396	36,303,431
Library Books	64,232,225	3,067,279	1,535,169	65,764,335
Intangible Assets	362,294	48,306	-	410,600
Total Accumulated Depreciation	<u>416,554,059</u>	<u>27,981,582</u>	<u>3,988,701</u>	<u>440,546,940</u>
Capital Assets, Net	<u>\$ 500,895,050</u>	<u>\$ 49,758,404</u>	<u>\$ 57,483,369</u>	<u>\$ 493,170,085</u>

As of June 30, 2017, the University had commitments related to construction projects totaling \$11,144,565. Of this amount, \$859,585 will be funded from Series 2012 bond proceeds.

NOTE 7 – NONCURRENT LIABILITIES EXCLUDING NET PENSION LIABILITY

Noncurrent liabilities, excluding net pension liability, consist of the following as of June 30, 2017 and June 30, 2016:

	Due Dates	Interest Rate-%	2017 Beginning Balance	Additions	Reductions	2017 Ending Balance	Current
2007A Bonds Payable	2017	4.00-5.75	\$ 1,095,000	\$ -	\$ 1,095,000	\$ -	\$ -
2011 Bonds Payable	2013-42	5.32	5,445,000	-	120,000	5,325,000	120,000
2012 Bonds Payable	2013-37	5.00	137,200,000	-	5,075,000	132,125,000	5,275,000
2012 Bond Premium			13,015,710	-	619,710	12,396,000	619,800
2016A Bonds Payable	2017-2036	3.00-5.00	32,195,000	-	-	32,195,000	1,125,000
2016A Bond Premium			3,063,100	-	153,800	2,909,300	153,800
Capital Leases	2010-41	2.33-5.08	<u>47,787,201</u>	<u>-</u>	<u>7,087,804</u>	<u>40,699,397</u>	<u>7,333,646</u>
Total Debt			239,801,011	-	14,151,314	225,649,697	14,627,246
Perkins Student Loans			10,487,391	185,893		10,673,284	-
Deposits			980,770	2,912,909	2,905,231	988,448	-
Compensated Absences			10,290,013	561,251		10,851,264	855,486
			<u>261,559,185</u>	<u>\$ 3,660,053</u>	<u>\$ 17,056,545</u>	<u>248,162,693</u>	<u>\$ 15,482,732</u>
Less Current Portion Long-term Liabilities			(14,866,351)			(15,482,732)	
Long-term Liabilities			<u>\$ 246,692,834</u>			<u>\$ 232,679,961</u>	

	Due Dates	Interest Rate-%	2016 Beginning Balance	Additions	Reductions	2016 Ending Balance	Current
2007A Bonds Payable	2017	4.00-5.75	\$ 36,835,000	\$ -	\$ 35,740,000	\$ 1,095,000	\$ 1,095,000
2007A Bond Premium			971,425	-	971,425	-	-
2011 Bonds Payable	2013-42	5.32	5,565,000	-	120,000	5,445,000	120,000
2012 Bonds Payable	2013-37	5.00	142,085,000	-	4,885,000	137,200,000	5,075,000
2012 Bond Premium			13,643,153	-	627,443	13,015,710	627,445
2016A Bonds Payable	2017-2036	3.00-5.00	-	32,475,000	280,000	32,195,000	-
2016A Bond Premium			-	3,123,327	60,227	3,063,100	153,800
Capital Leases	2010-41	2.33-5.08	<u>54,837,461</u>	<u>94,113</u>	<u>7,144,373</u>	<u>47,787,201</u>	<u>7,087,804</u>
Total Debt			<u>253,937,039</u>	<u>35,692,440</u>	<u>49,828,468</u>	<u>239,801,011</u>	<u>14,159,049</u>
Perkins Student Loans			9,424,357	1,063,034	-	10,487,391	-
Deposits			1,088,916	3,237,646	3,345,792	980,770	-
Compensated Absences			9,162,213	1,127,800	-	10,290,013	707,302
			<u>273,612,525</u>	<u>\$ 41,120,920</u>	<u>\$ 53,174,260</u>	<u>261,559,185</u>	<u>\$ 14,866,351</u>
Less Current Portion Long-term Liabilities			(14,853,850)			(14,866,351)	
Long-term Liabilities			<u>\$ 258,758,675</u>			<u>\$ 246,692,834</u>	

In February 2016, the University issued \$32,475,000 of general receipts bonds, Series 2016A. The bonds bear interest rates ranging from 3.0% to 5.0% and mature beginning June 1, 2016 through June 1, 2036. The proceeds of the issuance were used to defease a portion of the Series 2007A bonds and pay issuance costs. The purpose of this transaction was to refund future callable maturities to achieve debt service savings of approximately \$3,900,000 over the life of the bonds. As a result of the refunding, \$1,493,588 has been recorded as a loss on refunding within the deferred outflows section on the statement of net position and will be amortized into income from 2016 through 2036. Amortization for 2017 was \$73,546.

Debt defeased by the University for which amounts remained outstanding at June 30, 2016 was \$34,695,000. United States Treasury obligations and/or cash in an amount sufficient to pay principal and interest on the defeased obligations, when due, was deposited with a trustee in accordance with the defeasance of debt. Neither the debt nor the related trust account is reflected in the accompanying financial statements for the fully defeased bonds. At June 30, 2017, the balance in the trust escrow account is \$0. The bonds have been fully redeemed.

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.

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. A portion of these bonds was refinanced in February 2016.

Interest expense on indebtedness for the years ended June 30, 2017 and 2016 was \$9,166,697 and \$9,096,701, respectively. On construction-related debt, for the years ended June 30, 2017 and 2016, interest cost was capitalized in the amount of \$535,106 (net of \$8,339 interest income) and \$1,005,470 (net of \$24,331 interest income), respectively.

The University leases various pieces of equipment and parking garages, which have been recorded under various capital leases in amounts representing the present value of future minimum lease payments. Capital lease principal for two parking garage leases begin in August 2040. Capital lease obligations are collateralized by equipment with a gross cost of \$81,157,503 and \$81,495,756 and gross accumulated depreciation of \$78,137,085 and \$77,117,232 at June 30, 2017 and 2016, respectively. The capital leases have varying maturity dates through 2045.

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
2018	\$ 6,520,000	\$ 8,247,745	\$ 7,333,646	\$ 1,795,296
2019	6,835,000	7,943,861	5,576,107	1,517,304
2020	6,425,000	7,613,377	5,505,783	1,277,582
2021	6,730,000	7,303,843	2,678,861	1,040,390
2022	6,995,000	7,023,509	-	980,250
2023-2027	40,455,000	29,605,237	-	4,901,250
2028-2032	51,800,000	18,511,411	-	4,901,250
2033-2037	42,190,000	5,654,415	-	4,901,250
2038-2042	1,695,000	226,566	7,260,000	4,542,750
2043-2045	-	-	12,345,000	946,625
	\$ 169,645,000	\$ 92,129,964	\$ 40,699,397	\$ 26,803,947

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. Operating lease balloon payments totaling \$46,787,033 are due in fiscal year 2019. Total rental expense under operating leases during the years ended June 30, 2017 and 2016 amounted to \$3,575,262 and \$3,552,119, respectively. The operating leases have varying maturity dates through 2042.

Future minimum operating lease payments as of June 30, 2017 are as follows:

Years Ending June 30	Operating Leases
2018	\$ 3,623,735
2019	48,038,940
2020	1,004,042
2021	935,801
2022	935,801
2023-2027	3,778,420
2028-2032	3,776,520
2033-2037	3,341,678
2038-2042	1,618,711
	<hr/> <u>\$ 67,053,649</u>

NOTE 8 – 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. STRS and OPERS each provide retirement, survivor, and disability benefits to plan members and their beneficiaries. The plans also each provide post-employment healthcare benefits (including Medicare B premiums) to retirees and beneficiaries who elect to receive those benefits.

Defined Benefit Plans

The University participates in the State Teachers Retirement System (STRS) and the Ohio Public Employees Retirement System (OPERS), statewide, cost-sharing, multiple-employer defined benefit public employee retirement systems governed by the Ohio Revised Code (ORC) that covers substantially all employees of the University. Each system has multiple retirement plan options available to its members, ranging from three in STRS and three in OPERS. Each system provides retirement, survivor, and disability benefits to plan members and their beneficiaries. The systems also each provide post-employment healthcare benefits (including Medicare B premiums) to retirees and beneficiaries who elect to receive those benefits.

Each retirement system issues a publicly available financial report that includes financial statements and required supplementary information for the pension and post-employment healthcare plans. The reports may be obtained by contacting:

State Teachers Retirement System of Ohio
275 E. Broad Street
Columbus, Ohio 43215
(888) 227-7877
www.strsoh.org

Ohio Public Employees Retirement System
277 East Town Street
Columbus, OH 43215
(800) 222-7377
www.opers.org

Contributions. State retirement law requires contributions by covered employees and their employers, and Chapter 3307 of the ORC limits the maximum rate of contributions. The retirement boards of the systems individually set contribution rates within the allowable limits. The adequacy of employer contribution rates is determined annually by actuarial valuation using the entry age normal cost method. Under these provisions, each University's contribution is expected to finance the costs of benefits earned by employees during the year, with an additional amount to finance a portion of the unfunded accrued liability.

Member contributions are set at the maximums authorized by the ORC. The plans' 2017 employer and member contribution rates on covered payroll to each system are:

	Employer Contribution Rate				Member Contribution Rate
	Post Retirement Healthcare		Death Benefits	Total	
	Pension				
STRS (beginning 7/1/16)	14.00%	0.00%	0.00%	14.00%	14.00%
OPERS - State/Local (through 12/31/16)	12.00%	2.00%	0.00%	14.00%	10.00%
OPERS - State/Local (beginning 1/1/17)	13.00%	1.00%	0.00%	14.00%	10.00%
OPERS - Law Enforcement (through 12/31/16)	16.10%	2.00%	0.00%	18.10%	13.00%
OPERS - Law Enforcement (beginning 1/1/17)	17.10%	1.00%	0.00%	18.10%	13.00%

The plans' 2016 contribution rates on covered payroll to each system are:

	Employer Contribution Rate				Member Contribution Rate
	Post Retirement Healthcare		Death Benefits	Total	
	Pension				
STRS (beginning 7/1/15)	14.00%	0.00%	0.00%	14.00%	13.00%
STRS (beginning 7/1/14)	14.00%	0.00%	0.00%	14.00%	12.00%
OPERS - State/Local	12.00%	2.00%	0.00%	14.00%	10.00%
OPERS - Law Enforcement	16.10%	2.00%	0.00%	18.10%	13.00%

The University's required and actual contributions to the plan are:

For the years ended 6/30	
2017	2016
\$ 7,653,361	\$ 7,292,554
<u>8,322,520</u>	<u>7,990,496</u>
<u><u>\$ 15,975,881</u></u>	<u><u>\$ 15,283,050</u></u>

Benefits. *STRS* – Plan benefits are established under Chapter 3307 of the Ohio Revised Code, as amended by Substitute Senate Bill 342 in 2012, gives the retirement board the authority to make future adjustments to the member contribution rate, retirement age, and service requirements, and the COLA as the need or opportunity arises, depending on the retirement system's funding progress.

Any member may retire who has (1) five years of service credit and attained age 60; (2) 25 years of service credit and attained age 55; or (3) 30 years of service credit regardless of age. Beginning August 1, 2015, eligibility requirements for an unreduced benefit will change. The maximum annual retirement allowance, payable for life, considers years of credited service, final average salary (3-5 years) and multiplying by a factor ranging from 2.2 percent to 2.6 percent with 0.1 percent incremental increases for years greater than 30-31, depending on retirement age.

A defined benefit plan or combined plan member with five or more years of credited service who is determined to be disabled (illness or injury preventing individual's ability to perform regular job duties for at least 12 months) may receive a disability benefit. Additionally, eligible survivors of members who die before service retirement may qualify for monthly benefits. New members on or after July 1, 2013 must have at least 10 years of qualifying service credit to apply for disability benefits.

A death benefit of \$1,000 is payable to the beneficiary of each deceased retired member who participated in the plan. Death benefit coverage up to \$2,000 can be purchased by participants in all three of the plans. Various other benefits are available to members' beneficiaries.

OPERS – Plan benefits are established under Chapter 145 of the Ohio Revised Code, as amended by Substitute Senate Bill 343 in 2012. The requirements to retire depends on years of service (15 to 30 years) and from attaining the age of 48 to 62, depending on when the employee became a member. Members retiring before age 65 with less than 30 years service credit receive a percentage reduction in benefit. Member retirement benefits are calculated on a formula that considers years of service (15-30 years), age (48-62 years) and final average salary, using a factor ranging from 1.0 percent to 2.5 percent.

A plan member who becomes disabled before age 60 or at any age, depending on when the member entered the plan, and has completed 60 contributing months is eligible for a disability benefit.

A death benefit of \$500 - \$2,500 is determined by the number of years of service credit of the retiree. Benefits may transfer to a beneficiary upon death with 1.5 years of service credits with the plan obtained within the last 2.5 years, except for law enforcement and public safety personnel who are eligible immediately upon employment.

Benefit terms provide for annual cost-of-living adjustments to each employee's retirement allowance subsequent to the employee's retirement date. The annual adjustment, if applicable, is 3 percent.

Net Pension Liability, Deferrals, and Pension Expense. At June 30, 2017, the University reported a liability for its proportionate share of the net pension liability of *STRS* and *OPERS*. The net pension liability was measured as of July 1, 2016 for the *STRS* plan and December 31, 2016 for the *OPERS* plan. The total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of those dates. The University's proportion of the net pension liability was based on a projection of its long-term share of contributions to the pension plan relative to the projected contributions of all participating reporting units, actuarially determined.

Plan	Measurement Date	Net Pension Liability		Proportionate Share	
		2017	2016	2017	2016
STRS	7/1	\$ 166,860,603	\$ 137,916,400	0.4985%	0.4990%
OPERS	12/31	\$ 92,716,335	\$ 69,702,983	0.4095%	0.4038%

For the years ended June 30, 2017 and 2016, the University recognized pension expense of \$33,923,206 and \$17,789,604, respectively. At June 30, 2017 and 2016, the University reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	June 30, 2017	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 6,885,341	\$ (689,542)	
Changes of assumptions	14,822,356	-	
Net difference between projected and actual earnings on pension plan investments	27,774,594	-	
Changes in proportion and differences between University contributions and proportionate share of contributions	575,922	(136,613)	
University contributions subsequent to the measurement date	11,819,658	-	
Total	\$ 61,877,871	\$ (826,155)	
	June 30, 2016	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 6,301,484	\$ (1,464,477)	
Changes of assumptions	-	-	
Net difference between projected and actual earnings on pension plan investments	20,656,543	(9,918,796)	
Changes in proportion and differences between University contributions and proportionate share of contributions	135,875	(7,857)	
University contributions subsequent to the measurement date	11,338,714	-	
Total	\$ 38,432,616	\$ (11,391,130)	

Amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

	Years Ending June 30	Amount
2018	\$ 16,106,296	
2019	16,479,599	
2020	11,358,290	
2021	5,302,478	
2022	(7,288)	
Thereafter	(7,317)	
	\$ 49,232,058	

In addition, the contributions subsequent to the measurement date will be included as a reduction of the net pension liability in the next year (2018).

Actuarial Assumptions. The total pension liability based on the results of an actuarial valuation were determined using the following actuarial assumptions for 2016, applied to all periods included in the measurement on June 30, 2017:

	STRS - as of 6/30/16	OPERS - as of 12/31/16
Valuation date	July 1, 2016	December 31, 2016
Actuarial cost method	Entry age normal	Individual entry age
Cost of living	2.0 percent	3.0 percent
Salary increases, including inflation	2.75 percent - 12.25 percent	3.25 percent - 10.75 percent
Inflation	2.75 percent	3.25 percent
Investment rate of return	7.75 percent, net of pension plan investment expense	7.50 percent, net of pension plan investment expense
Experience study date	Period of 5 years ended July 1, 2012	Period of 5 years ended December 31, 2015
Mortality basis	RP-2000 Combined Mortality Table (Projection 2022-Scale AA)	RP-2014 Healthy Annuitant mortality table

The following are actuarial assumptions for 2015, applied to all periods included in the measurement on June 30, 2016:

	STRS - as of 6/30/15	OPERS - as of 12/31/15
Valuation date	July 1, 2015	December 31, 2015
Actuarial cost method	Entry age normal	Individual entry age
Cost of living	2.0 percent	3.0 percent
Salary increases, including inflation	2.75 percent - 12.25 percent	4.25 percent - 10.05 percent
Inflation	2.75 percent	3.75 percent
Investment rate of return	7.75 percent, net of pension plan investment expense	8.00 percent, net of pension plan investment expense
Experience study date	Period of 5 years ended July 1, 2012	Period of 5 years ended December 31, 2010
Mortality basis	RP-2000 Combined Mortality Table (Projection 2022-Scale AA)	RP-2000 mortality table projected 20 years using Projection Scale AA

Discount Rate. The discount rates used to measure the total pension liabilities at June 30, 2017 were 7.75 percent and 7.50 percent for STRS and OPERS, respectively. The discount rate used to measure the total pension liabilities at June 30, 2016 was 7.75 percent and 8.00 percent, for STRS and OPERS, respectively. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the current contribution rate and that employer contributions will be made at contractually required rates for all plans. Based on those assumptions, each pension plan's fiduciary net position was projected to be available to make all projected future benefit payments for current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table as of the dates listed below:

STRS - as of 7/1/16			OPERS - as of 12/31/16		
Investment Category	Target Allocation	Long-term Expected Real Rate of Return	Investment Category	Target Allocation	Long-term Expected Real Rate of Return
Domestic Equity	31.00%	5.50%	Fixed Income	23.00%	2.75%
International Equity	26.00%	5.35%	Domestic Equities	20.70%	6.34%
Alternatives	14.00%	5.50%	Real Estate	10.00%	4.75%
Fixed Income	18.00%	1.25%	Private Equity	10.00%	8.97%
Real Estate	10.00%	4.25%	International Equity	18.30%	7.95%
Liquidity Reserves	1.00%	0.50%	Other Investments	18.00%	4.92%
Total	100%		Total	100%	

STRS - as of 7/1/15			OPERS - as of 12/31/15		
Investment Category	Target Allocation	Long-term Expected Real Rate of Return	Investment Category	Target Allocation	Long-term Expected Real Rate of Return
Domestic Equity	31.00%	5.50%	Fixed Income	23.00%	2.31%
International Equity	26.00%	5.35%	Domestic Equities	20.70%	5.84%
Alternatives	14.00%	5.50%	Real Estate	10.00%	4.25%
Fixed Income	18.00%	1.25%	Private Equity	10.00%	9.25%
Real Estate	10.00%	4.25%	International Equity	18.30%	7.40%
Liquidity Reserves	1.00%	0.50%	Other Investments	18.00%	4.59%
Total	100%		Total	100%	

Sensitivity of the Net Pension Liability to Changes in the Discount Rate. The following presents the net pension liability of the University at June 30, 2017 and 2016, calculated using the discount rate listed below, as well as what the University's net pension liability would be if it were calculated using a discount rate that is 1.00 percentage point lower or 1.00 percentage point higher than the current rate:

2017					
Plan	1.00 percent decrease		Current discount rate		1.00 percent increase
STRS	6.75%	\$ 221,744,183	7.75%	\$ 166,860,603	8.75% \$ 120,563,068
OPERS	6.50%	142,104,828	7.50%	92,716,335	8.50% \$ 51,580,333
		\$ 363,849,011		\$ 259,576,938	\$ 172,143,401

2016					
Plan	1.00 percent decrease		Current discount rate		1.00 percent increase
STRS	6.75%	\$ 191,576,283	7.75%	\$ 137,916,400	8.75% \$ 92,538,968
OPERS	7.00%	111,427,949	8.00%	69,702,983	9.00% \$ 34,521,299
		\$ 303,004,232		\$ 207,619,383	\$ 127,060,267

Assumption Changes. During the current measurement period, the OPERS board adopted certain assumption changes which impacted their annual actuarial valuations prepared as of December 31, 2016 and June 30, 2016, respectively. The most significant change is a reduction in the discount rate from 8.0 percent to 7.5 percent for OPERS, which increased the University's respective net pension liability.

Changes Between Measurement Date and Report Date. In March 2017, the STRS board adopted certain assumption changes that will impact its annual actuarial valuation prepared as of June 30, 2017. The most significant change is a reduction in the discount rate from 7.75 percent to 7.45 percent. In April 2017, the STRS board voted to suspend cost of living adjustments granted on or after July 1, 2017. Although the exact amount of these changes is not known, the overall decrease to University's net pension liability is expected to be significant.

Pension Plan Fiduciary Net Position. Detailed information about the pension plan's fiduciary net position is available in the separately issued STRS/OPERS financial report.

Payable to the Pension Plan. At June 30, 2017, the University reported a payable of \$1,993,230 for the outstanding amount of contributions to the pension plans required for the year ended June 30, 2017.

Defined Contribution Plan

The University also offers eligible employees an alternative retirement program. The University is required to contribute to STRS 4.50% of earned compensation for those employees participating in the alternative retirement program. The University's contributions for the years ended June 30, 2017 and 2016 were \$736,488 and \$661,998, respectively, which equal 4.5% 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 healthcare benefits.

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

Combined Plans

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

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

Postemployment Benefits

STRS provides other postemployment benefits (OPEB) to all retirees and their dependents, while OPERS provides postretirement healthcare coverage to age and service retirants (and dependents) with 10 or more years of qualifying Ohio service credit. Healthcare coverage for disability recipients and primary survivor recipients is also available under OPERS. A portion of each employer's contributions is set aside for the funding of postretirement healthcare. For STRS, this rate was 0.0% of the total 14.00%, while the OPERS rate was 2.0% of the total 14.00% for the year ended June 30, 2017.

The Ohio Revised Code provides the statutory authority for public employers to fund postretirement healthcare through their contributions to STRS and OPERS. Postretirement healthcare under STRS is financed on a pay-as-you-go basis. The amount contributed by the University to STRS to fund these benefits for the years ended June 30, 2017, 2016, and 2015 was \$626,734, \$566,361, and \$618,792, respectively.

Postretirement healthcare 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, 2017, 2016, and 2015 was \$4,160,912, \$3,985,713, and \$3,861,613, respectively.

NOTE 9 – 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 \$250,000 specific stop loss for any given individual. The changes in the total liability for actual and estimated medical claims for the years ended June 30, 2017 and 2016 are summarized below:

	2017	2016	2015
Liability at Beginning of Year	\$ 3,208,620	\$ 2,398,878	\$ 2,246,462
Claims Incurred	17,858,558	14,259,729	14,032,503
Claims Paid	(17,420,474)	(13,487,190)	(13,610,189)
IBNR - (Decrease) Increase in Estimated Claims	1,894,471	37,203	(269,898)
Liability at End of Year	<u>\$ 5,541,175</u>	<u>\$ 3,208,620</u>	<u>\$ 2,398,878</u>

Medical claims are based upon estimates of the claims liabilities. Estimates are based upon past experience, medical inflation trends, and current claims outstanding, including year-end lag analysis. Differences between the estimated claims payable and actual claims paid are reported as an operating expense in the statement of revenue, expenses, and changes in net 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 10 – 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, 2017.

NOTE 11 – COMPONENT UNITS

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

The Foundation acts primarily as a 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 1836 Euclid Avenue, Union Building Room 501, Cleveland, OH 44115-2214.

During the years ended June 30, 2017 and 2016, the Foundation paid \$14,168,449 and \$11,536,112, respectively, to the University. At June 30, 2017 and 2016, the University had receivables from the Foundation totaling \$2,902,771 and \$1,750,830, 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, 2017 and 2016, the amount on deposit with the Foundation totaled \$3,329,145 and \$3,046,802, respectively.

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

	2017	
	Cost	Carrying Value
Cash and cash equivalents	\$ 116,400	\$ 116,400
Stocks - Domestic	432,695	566,388
Mutual funds - International	12,759,195	14,829,308
Mutual funds - Domestic	22,819,869	32,564,261
Balance fund	5,141,031	5,209,372
Fixed income securities	16,669,081	16,522,847
Alternative investments	11,275,000	13,547,202
Investments carried at fair value	<u>\$ 69,213,271</u>	<u>\$ 83,355,778</u>

	2016	
	Cost	Carrying Value
Cash and cash equivalents	\$ 10,169,372	\$ 10,169,372
Stocks - Domestic	373,183	534,502
Mutual funds - International	12,744,616	12,596,841
Mutual funds - Domestic	22,413,991	26,927,557
Balance fund	5,609,286	5,237,713
Fixed income securities	15,718,367	15,645,267
Alternative investments	10,808,320	12,577,388
Investments carried at fair value	<u>\$ 77,837,135</u>	<u>\$ 83,688,640</u>

Financial assets measured at fair value on a recurring basis consisted of the following as of June 30:

	2017			
	Level 1	Level 2	Level 3	Total
Common stocks	\$ 566,388	\$ -	\$ -	\$ 566,388
Mutual funds - International	14,829,308	-	-	14,829,308
Mutual funds - Domestic	32,564,261	-	-	32,564,261
Balanced fund	5,209,372	-	-	5,209,372
Fixed income	-	16,522,847	-	16,522,847
Alternative investments	23,947	-	13,523,255	13,547,202
	<u>\$ 53,193,276</u>	<u>\$ 16,522,847</u>	<u>\$ 13,523,255</u>	<u>\$ 83,239,378</u>

	2016			
	Level 1	Level 2	Level 3	Total
Common stocks	\$ 534,502	\$ -	\$ -	\$ 534,502
Mutual funds - International	12,596,841	-	-	12,596,841
Mutual funds - Domestic	26,927,557	-	-	26,927,557
Balanced fund	5,237,713	-	-	5,237,713
Fixed income	-	15,645,267	-	15,645,267
Alternative investments	-	-	12,577,388	12,577,388
	<u>\$ 45,296,613</u>	<u>\$ 15,645,267</u>	<u>\$ 12,577,388</u>	<u>\$ 73,519,268</u>

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 as of June 30:

	2017	
	Temporarily Restricted	Permanently Restricted
Instruction and academic support	\$ 5,804,161	\$ 13,048,404
Research	1,087,245	381,931
Public service	5,114,375	152,834
Financial aid	21,327,985	45,333,326
Institutional support	1,239,972	1,151,100
Capital and other projects	2,991,291	978,161
	\$ 37,565,029	\$ 61,045,756

	2016	
	Temporarily Restricted	Permanently Restricted
Instruction and academic support	\$ 5,186,508	\$ 10,444,816
Research	1,090,609	266,226
Public service	4,548,416	127,759
Financial aid	15,158,410	43,354,576
Institutional support	1,378,473	1,151,050
Capital and other projects	1,102,052	846,058
	\$ 28,464,468	\$ 56,190,485

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, 2017 and 2016, the Corporation had the following types of investments:

	FY17	FY16
Commercial paper	\$ 4,958,330	\$ 4,831,875
Money market funds	684,941	729,705
Exchange traded funds	4,489,905	4,315,175
Mutual funds	8,403,768	8,695,072
	\$ 18,536,944	\$ 18,571,827

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. 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%. At June 30, 2015, these bonds were defeased and were redeemed on August 1, 2015.

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. During the fiscal year ended June 30, 2015, these bonds were redeemed.

On December 18, 2009, the Corporation leased land, owned by the University and located on its campus, from the University. Annual rent is equal to the net available cash flows from the project. 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. During fiscal year ended June 30, 2015, these bonds were redeemed.

On December 9, 2014, the Corporation issued \$88,945,000 of Cleveland-Cuyahoga County Port Authority Development Revenue Bonds (2014 bonds). A portion of the 2014 bonds matured August 1, 2015 with a fixed rate of interest of 1%. The remaining 2014 bonds mature at various dates from August 1, 2016 through August 1, 2044 with a fixed rate of interest of 5%. At the time of refunding, the Corporation chose to utilize funds held by the trustee to pay a portion of the outstanding principal on all existing bonds.

During the years ended June 30, 2017 and 2016, the Corporation paid rent on the land leases in the amount of \$400,000 and \$4,000,000, respectively, to the University. At June 30, 2016, the University had a receivable from the Corporation totaling \$2,225,000. There was no receivable to the University at June 30, 2017.

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

	Principal	Interest
2018	\$ 1,575,000	\$ 4,260,125
2019	1,660,000	4,179,250
2020	1,745,000	4,094,125
2021	1,830,000	4,004,750
2022	1,925,000	3,910,875
2023-2027	11,215,000	17,967,875
2028-2032	14,405,000	14,781,125
2033-2037	18,500,000	10,688,750
2038-2042	20,790,000	5,580,250
2043-2045	12,345,000	946,625
	\$ 85,990,000	\$ 70,413,750

Complete financial statements for the Corporation can be obtained from the Office of the Senior Vice President for Business Affairs and Finance at 2121 Euclid Avenue, Administration Center Room 210, Cleveland, OH 44115-2214.

Cleveland State University
Required Supplemental Information

Schedule of Pension Funding Progress:

	2017		2016		2015	
	OPERS December 31	STRS June 30	OPERS December 31	STRS June 30	OPERS December 31	STRS June 30
Plan year end						
University's proportion of the Universities' collective net pension liability:	0.4095%	0.4985%	0.4038%	0.4990%	0.4026%	0.4989%
As a percentage						
Amount	\$ 92,716,335	\$ 166,860,603	\$ 69,702,983	\$ 137,916,400	\$ 48,402,809	\$ 121,356,821
University's covered-employee payroll	\$ 55,581,291	\$ 47,227,159	\$ 55,463,590	\$ 48,272,044	\$ 53,202,254	\$ 44,789,568
University's proportional share of the collective pension liability (amount), as a percentage of the University's covered-employee payroll	59.95%	28.30%	79.57%	35.00%	109.92%	36.91%
Fiduciary net position as a percentage of the total pension liability	77.39%	66.80%	81.19%	72.10%	86.53%	74.70%

Schedule of Contributions

	2017		2016		2015	
	OPERS	STRS	OPERS	STRS	OPERS	STRS
Statutorily required contribution	\$ 8,322,520	\$ 7,653,361	\$ 7,990,496	\$ 7,292,554	\$ 7,760,107	\$ 7,359,961
Contributions in relation to the actuarially determined contractually required contribution	\$ 8,322,520	\$ 7,653,361	\$ 7,990,496	\$ 7,292,554	\$ 7,760,107	\$ 7,359,961
Contribution deficiency (excess)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Covered employee payroll	\$ 56,151,077	\$ 49,431,335	\$ 56,133,087	\$ 47,227,159	\$ 54,452,664	\$ 48,272,044
Contributions as a percentage of covered employee payroll	14.82%	15.48%	14.23%	15.44%	14.25%	15.25%

Notes to Required Supplementary Information
June 30, 2017 and 2016

Changes in Benefit Terms. There were no changes in benefit terms affecting the STRS Ohio and OPERS plans for the plan years ended June 30, 2016 and December 31, 2016, respectively.

Changes in Assumptions. There were no changes in assumptions or plan amendments affecting the STRS Ohio plan for the plan year ended June 30, 2016. During the plan year ended December 31, 2016, there were changes to several assumptions for OPERS. The wage inflation dropped from 3.75 percent to 3.25 percent. The projected salary increase range changed from 4.25-10.05 percent to 3.25-10.75 percent. The mortality tables used changed from RP-2000 to RP-2014.

Changes Between Measurement Date and Report Date. In March 2017, the STRS Ohio board adopted certain assumption changes which will impact their annual actuarial valuation prepared as of June 30, 2017. The most significant change is a reduction in the discount rate from 7.75 percent to 7.45 percent. In April 2017, the STRS Ohio board voted to suspend cost of living adjustments granted on or after July 1, 2017. Although the exact amount of these changes is not known, the overall impact to the University's net pension liability is expected to be significant.