

# **Cleveland State University**

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**Financial Report  
Including Supplemental Information  
June 30, 2013**

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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 and its discretely presented component units as of and for the years ended June 30, 2013 and 2012, 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 Cleveland State University Foundation (the "Foundation") and Euclid Avenue Development Corporation (the "Corporation"), which represent all of the balances and activity reported in 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, are 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 audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

To the Board of Trustees  
Cleveland State University

### **Opinion**

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

### **Emphasis of Matter**

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

As disclosed in Note 10 to the financial statements, the discretely presented component unit financial statements for June 30, 2012 have been restated to correct a misstatement.

### **Other Matters**

#### *Required Supplemental Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 4-11 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 the U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the financial statements.

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

To the Board of Trustees  
Cleveland State University

**Other Reporting Required by Government Auditing Standards**

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

*Plante & Morse, PLLC*

October 15, 2013

## 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, 2013. This discussion has been prepared by management and should be read in conjunction with the financial statements and the notes thereto, which follow this section.

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

#### **Using the Annual Financial Report**

The University's financial report includes financial statements prepared in accordance with Governmental Accounting Standards Board (GASB) Statement No. 35, *Basic Financial Statements - and Management's Discussion and Analysis - for Public Colleges and Universities*. These principles require that financial statements be presented on a consolidated basis to focus on the financial condition, the changes in financial condition, and the cash flows of the University as a whole. Many other nonfinancial factors also must be considered in assessing the overall health of the University, such as enrollment trends, student retention, strength of the faculty, condition of the buildings, and the safety of the campus.

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

Under the provisions of GASB Statement No. 61, *Determining Whether Certain Organizations are Component Units*, the Cleveland State University Foundation, Inc. (the "Foundation") and the Euclid Avenue Development Corporation (the "Corporation") are treated as component units of the University. Accordingly, the Foundation and the Corporation are discretely presented in the University's financial statements. The Foundation and the Corporation are excluded from the management's discussion and analysis. Financial statements for the Foundation can be obtained from the Office of the Executive Director at 2121 Euclid Avenue, Union Building Room 513, Cleveland, OH 44115-2214; financial statements for the Corporation can be obtained from the Office of the Vice President for Business Affairs and Finance at 2121 Euclid Avenue, Administration Center Room 210, Cleveland, OH 44115-2214.

## Statement of Net Position

The statement of net position presents the financial position of the University at the end of the fiscal year and includes all assets and liabilities. The difference between assets and liabilities— net position— is one indicator of the current financial condition of the University, while the change in net position is an indicator of whether the overall financial condition has improved or worsened during the year. Assets and liabilities are generally measured using current values. One notable exception is capital assets, which are stated at historical cost less an allowance for depreciation. A summary of the University's assets, liabilities, and net assets at June 30, 2013, 2012, and 2011 is as follows:

	<u>2013</u>	<u>2012</u>	<u>2011</u>
Current assets	\$ 62,295,306	\$ 58,779,879	\$ 49,912,965
Noncurrent assets:			
Capital assets, net	470,807,959	477,359,925	481,088,738
Other	<u>166,526,599</u>	<u>91,511,510</u>	<u>89,488,453</u>
Total assets	699,629,864	627,651,314	620,490,156
Current liabilities	48,069,690	50,253,020	43,914,067
Noncurrent liabilities	<u>282,499,014</u>	<u>219,093,396</u>	<u>229,838,876</u>
Total liabilities	<u>330,568,704</u>	<u>269,346,416</u>	<u>273,752,943</u>
Net position	<u>\$ 369,061,160</u>	<u>\$ 358,304,898</u>	<u>\$ 346,737,213</u>

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

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

Current assets increased in 2012 from 2011, primarily due to an increase in restricted accounts receivable and unbilled grants.

Net capital assets decreased in 2013 from 2012 by \$6.6 million, or 1.4%, and decreased in 2012 from 2011 by \$3.7 million, or .8%. The decrease in 2013 and 2012 was primarily due to demolition of buildings on campus.

Other assets increased in 2013 from 2012 by \$75 million, or 81.9%. The increase was due primarily to the Series 2012 bond issuance increasing restricted investments.

Other assets increased in 2012 from 2011 by \$2.0 million, or 2.3%. The increase was due primarily to the 2011 bond issuance increasing restricted investments.

Liabilities increased in 2013 from 2012 by \$61.2 million, or 22.7%, primarily due to the Series 2012 bond issuance. Liabilities decreased in 2012 from 2011 by \$4.4 million, or 1.6%, primarily due to a decrease in capital lease obligations.

## **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 \$22.3 million in 2013, \$22.7 million in 2012, and \$45.7 million in 2011. Capital retirements totaled \$14.5 million in 2013, \$16.9 million in 2012, and \$5.9 million in 2011. Capital additions and retirements for 2013, 2012 and 2011 exclude transfers from construction in progress to buildings in the amount of \$87.0 million in 2011. Capital additions include construction of new facilities, repair and renovation of existing facilities, and acquisition of equipment and library books. Capital asset additions are funded, in part, by capital appropriations from the State. These appropriations amounted to \$0.34 million in 2013, \$3.2 million in 2012, and \$4.6 million in 2011.

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

In September 2011, the University issued taxable general receipts bonds in the principal amount of \$5.77 million. The General Receipts Series 2011 Bonds were issued as fixed rate bonds with monthly maturities beginning October 1, 2013 through April 1, 2042. Interest is payable monthly at the annual rate of 5.32%. The proceeds of the bonds will be used to finance a portion of the costs of public improvements identified as the North Campus Neighborhood - Project Phase I. This phase is the subject of a "project development agreement" dated July 14, 2011 by and between Cleveland State University and CSU Housing, LLC, an Ohio limited liability company which serves as the project developer, but is not affiliated with Cleveland State University.

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

In August 2010, the University entered into a capital lease with the Corporation in the amount of \$7.07 million. The lease covers a parking garage that was constructed by the Corporation on the University's campus. The lease requires the University to operate and maintain the garage, and to make payments to the Corporation equal to its required debt service payments.

In March 2009, the University entered into a capital lease, financed by PNC Bank, in the amount of \$42.8 million. Proceeds were used to fund a variety of energy conservation projects on the University's campus. The projects are complete and energy savings are expected to be sufficient to fund the lease payments.

## Net Position

Net assets represent the residual interest in the University's assets after liabilities are deducted. The University's net assets at June 30, 2013, 2012, and 2011 are summarized as follows:

	<u>2013</u>	<u>2012</u>	<u>2011</u>
Invested in capital assets, net of related debt	\$ 253,747,158	\$ 251,117,125	\$ 249,745,249
Restricted - expendable	18,216,207	19,717,693	17,002,312
Restricted - nonexpendable	1,316,540	1,200,914	1,256,241
Unrestricted	<u>95,781,255</u>	<u>86,269,166</u>	<u>78,733,411</u>
Total net assets	<u>\$ 369,061,160</u>	<u>\$ 358,304,898</u>	<u>\$ 346,737,213</u>

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

Restricted expendable net assets are subject to externally imposed restrictions governing their use. Changes in this category are due to the timing of revenue and expenses in funds provided by donors and grantors. Restricted nonexpendable net assets consist primarily of endowment funds held by the University. Changes in this category are driven primarily by investment performance, which was positive in both 2013 and 2012.

Unrestricted net assets are not subject to externally imposed stipulations. This category includes funds functioning as endowment (quasi-endowment) of \$5.3 million at June 30, 2013, June 30, 2012 and June 30, 2011.

For the year ended June 30, 2013, the University had an increase in total net assets of \$10.8 million, or 3.0%. Net assets invested in capital assets, net of related debt, increased by \$2.6 million, or 1.0%, because capital asset additions exceeded deductions and depreciation expense. Unrestricted net assets increased by \$9.5 million, or 1.1%, due primarily to an increase in net tuition income (which went from \$148.9 million in 2012 to \$160.5 million in 2013), along with an increase in investment return of \$8.3 million in 2013.

For the year ended June 30, 2012, the University had an increase in total net assets of \$11.6 million, or 3.4%. Net assets invested in capital assets, net of related debt, increased by \$1.4 million, or .5%, because capital asset additions exceeded deductions and depreciation expense. Unrestricted net assets increased by \$7.5 million, or 9.6%, due primarily to an increase in net tuition income (which went from \$140.7 million in 2011 to \$148.9 million in 2012), along with a decrease in operating expenses in 2012 from 2011 of \$12.1 million. The decrease in operating expenses was the result of budget cuts and energy conservation efforts.

## Statement of Revenue, Expenses and Changes in Net Position

The Statement of Revenue, Expenses and Changes in Net Position presents the revenue earned and expenses incurred during the year. Activities are reported as either operating or non-operating. As a public institution, the University is dependent on State assistance. This dependency contributed toward an operating deficit because the financial reporting model classifies State appropriations as 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, 2013, June 30, 2012, and June 30, 2011 are as follows:

	<u>2013</u>	<u>2012</u>	<u>2011</u>
Operating revenue:			
Net student tuition and fees	\$ 153,869,978	\$ 148,869,484	\$ 140,713,140
Grants and contracts	21,451,164	22,516,862	19,208,702
Other	32,203,400	27,360,842	25,643,144
Total operating revenue	<u>207,524,542</u>	<u>198,747,188</u>	<u>185,564,986</u>
Operating expenses:			
Educational and general	237,975,625	226,748,245	236,226,386
Auxiliary enterprises	31,594,198	29,152,533	31,200,532
Depreciation and amortization	27,155,794	24,203,824	24,818,443
Total operating expenses	<u>296,725,617</u>	<u>280,104,602</u>	<u>292,245,361</u>
Operating loss	(89,201,075)	(81,357,414)	(106,680,375)
Nonoperating revenue, net of interest:			
State appropriations	65,061,745	64,434,747	63,544,555
Other	34,560,133	25,310,529	48,198,477
Gain before other changes	<u>10,420,803</u>	<u>8,387,862</u>	<u>5,062,657</u>
Other changes	<u>335,459</u>	<u>3,179,823</u>	<u>4,615,439</u>
Increase in net assets	10,756,262	11,567,685	9,678,096
Net position at beginning of year	<u>358,304,898</u>	<u>346,737,213</u>	<u>337,059,117</u>
Net position at end of year	<u>\$ 369,061,160</u>	<u>\$ 358,304,898</u>	<u>\$ 346,737,213</u>

Total revenue and other changes, net of interest on debt, in fiscal 2013, 2012 and 2011 were \$300 million, \$300.7 million, and \$311.4 million, respectively. The most significant sources of 2013 operating revenue for the University, as reflected in the Statement of Revenues, Expenses and Changes in Net Position, were student tuition and fees of \$153.9 million, grants and contracts of \$21.5 million, and auxiliary services of \$22.2 million.

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

Revenue from tuition and fees (net of scholarship allowances) increased in 2012 from 2011 by \$8.2 million, or 5.8%, due to an increase in enrollment and an increase in tuition rates. Headcount enrollment increased by .35% from the prior year, while full-time equivalent enrollment increased by 1.6% from the prior year. A tuition increase of 3.5% was implemented in the Fall 2011 semester.

Total expenses in 2013, 2012, and 2011 were \$304.6 million, \$289.1 million, and \$301.7 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 \$15.4 million (5.3%) in 2013, due to increases in salaries and benefits, equipment and maintenance costs and depreciation expense. The decrease in total expenses of \$12.6 million (4.2%) in 2012 was due primarily to energy conservation savings and budget cuts.

Sources of nonoperating revenue include State appropriations of \$65.1 million in 2013, \$64.4 million in 2012, and \$63.5 million in 2011; grants and contracts of \$25.7 million in 2013, \$26.1 million in 2012, and \$29.5 million in 2011; gifts of \$7.3 million in 2013, \$7.2 million in 2012, and \$4.4 million in 2011; and investment income of \$9.4 million in 2013, \$1.0 million in 2012, and \$13.2 million in 2011.

Net nonoperating revenue increased in 2013 from 2012 by \$9.9 million, or 11.0%, due primarily to favorable investment returns. Net nonoperating revenue decreased in 2012 from 2011 by \$21.9 million, or 19.7%, due primarily to decreases in federal stimulus funds and investment income.

Other changes consist primarily of State capital appropriations of \$0.34 million in 2013, \$3.2 million in 2012, and \$4.6 million in 2011.

### **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, 2013, June 30, 2012 and June 30, 2011 is as follows:

	<u>2013</u>	<u>2012</u>	<u>2011</u>
Net cash (used in) provided by:			
Operating activities	\$ (55,626,624)	\$ (69,179,077)	\$ (86,218,223)
Noncapital financing activities	97,819,682	97,466,051	108,664,963
Capital financing activities	30,220,541	(31,178,524)	(46,791,000)
Investing activities	<u>(66,570,252)</u>	<u>(2,097,525)</u>	<u>27,460,659</u>
Net increase (decrease) in cash	5,843,347	(4,989,075)	3,116,399
Cash at beginning of year	<u>22,397,834</u>	<u>27,386,909</u>	<u>24,270,510</u>
Cash at end of year	<u>\$ 28,241,181</u>	<u>\$ 22,397,834</u>	<u>\$ 27,386,909</u>

Major sources of cash included student tuition and fees of \$159.4 million in 2013, \$148.1 million in 2012, and \$138.2 million in 2011; State appropriations of \$65.1 million in 2013, \$64.4 million in 2012, and \$74.1 million in 2011; grants and contracts (operating and noncapital) of \$50.6 million in 2013, \$38.2 million in 2012, and \$47.0 million in 2011; and auxiliary activities of \$21.8 million in 2013, \$21.5 million in 2012, and \$20.8 million in 2011.

The largest payments were for employee compensation and benefits totaling \$161.4 million in 2013, \$166.9 million in 2012, and \$165.6 million in 2011; suppliers of goods and services totaling \$110.8 million in 2013, \$88.6 million in 2012, and \$103.0 million in 2011; and purchases of capital assets totaling \$19.7 million in 2013, \$20.2 million in 2012, and \$42.6 million in 2011.

The change in cash flows from 2012 to 2013 is primarily due to the Series 2012 bond issuance and investment of the proceeds. The change from 2011 to 2012 in the investing category is due primarily to the University electing to leave most of its cash in the bank (because the rate of return was higher than other short-term investment vehicles), which resulted in a decrease in investments purchased.

### **Credit Rating**

The University's bonds are rated "A+" by Standard & Poor's, with the most recent rating published on July 25, 2013. An "A" rating indicates a strong capacity to meet financial commitments, but somewhat susceptible to adverse economic conditions and changes in circumstances. This rating is consistent with the years ended June 30, 2012 and 2011. The highest achievable rating is "AAA." The University's capacity to meet its financial obligations is considered strong. The University's bonds are rated "A1" by Moody's Investors Service, with the most recent rating published on July 26, 2012. Obligations rated "A" by Moody's are judged to be upper-medium grade and are subject to low credit risk. The highest achievable rating is "AAA".

## **Looking Ahead**

The primary challenge facing Ohio public institutions of higher learning, including Cleveland State University (CSU), continue to be (1) maintaining the quality of academic instruction, (2) growing revenue, (3) preserving enrollment, and (4) controlling costs in light of changes in the State of Ohio's higher education funding model which place more emphasis on outcome-based metrics such as degree completion and course completion, as opposed to simply the number of students enrolled. In the State of Ohio's fiscal year 14 budget, CSU is expecting an allocation of \$68.8 million in State Share of Instruction (SSI) funding, compared to the \$64.9 million received in fiscal year 13. This increase is partially due to the state legislature appropriating more funding for higher education which is then allocated by way of the funding model. While encouraging, it should be noted that state budget reductions in fiscal year 12 gave rise to CSU losing approximately \$11 million in state funding, which in turn, led to cut-backs in expenditures within the University. The SSI is the major state funding source for state colleges and universities. Revenue from student instructional fee tuition is budgeted at \$149.9 million in fiscal year 14, compared to fiscal year 13's result of \$147.2 million. The University enacted a 2.0% increase in undergraduate and graduate tuition and an increase in law tuition rate of 9.5% in fiscal year 14, effective with the Fall 2013 semester. Along with the tuition increase, the University has implemented a plan for qualifying undergraduate students to recoup the 2% increase in tuition by showing progress toward a degree while remaining in academic good standing. The program, known as the Graduation Incentive Plan, commenced in Fall 2013, but will not require funding by the University until fiscal year 15 (Fall 2014). Anticipated fiscal year 14 tuition revenue should benefit from improved retention of students from fiscal year 13. Preliminary Fall 2013 credit hour enrollment is expected to be 2-3% higher than the budget plan, leading to higher than planned tuition revenue. Although there is likely to be the expected Fall-to-Spring semester attrition in enrollment, Spring 2014 tuition revenue is expected to produce a higher-than-plan result. As in prior years, the ability of the University to fulfill its mission and execute its strategic plan continues to be more dependent upon student enrollment and tuition revenue.

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

The University is also affected by decisions at the state level regarding capital funding through the biennial capital appropriations bill. The funds pay for campus renovation and maintenance of existing facilities. The State did not provide any capital funding for the capital cycle FY12-FY13. The University received \$12.8 million from the FY13-FY14 state capital appropriations budget. The capital funding is being used for the University's Strategic STEMM Facilities Enhancement Project comprised of engineering and inter-disciplinary laboratory upgrades and physical infrastructure improvements to the Fenn College of Engineering building. On September 27, 2013, it was announced that the State intends to fund a capital appropriations bill for the FY15-FY16 cycle, whereby State universities can expect to share in a \$400+ million appropriation.

During the Summer of 2012, the University issued Series 2012 General Receipts Bonds in the amount of \$152 million. Included in this issuance was \$45 million of funding for a planned new facility on campus

to advance the University's growing role in health sciences and expand its alliance with Northeast Ohio Medical University (NEOMED). The University demolished a vacant dormitory and will replace it with a health and life sciences building. Construction is expected to begin in November 2013 with a July 2015 estimated completion.

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 managing expenditures for energy. The University will begin contract negotiations in February 2014 with its largest bargaining unit, the American Association of University Professors (AAUP) with negotiations with two other major bargaining units – Service Employees International Union (SEIU), and the Communications Workers of America (CWA) to follow. It is expected that these contract extensions will be negotiated for three years. The University is in the practice of monitoring its student enrollment, other revenue sources, fee structure, and operating expenditures of its units on a monthly basis. While predictions of a downturn in the number of traditional high school graduates applying to universities are beginning to actualize, CSU's undergraduate enrollment for the near term is stable. The continual monitoring of the University's operations is meant to provide the administration with early signals and trends should changes in our operating and financial plans be necessary.

**Cleveland State University  
Statement of Net Position  
June 30, 2013 and 2012**

	<b>2013</b>	<b>2012</b>
<b>ASSETS</b>		
Current Assets:		
Cash and Cash Equivalents	\$ 28,241,181	\$ 22,397,834
Investments (Note 2)	1,526,916	1,520,971
Accounts Receivable, Net (Note 3)	30,003,582	31,942,637
Notes Receivable, Net (Note 3)	1,375,002	1,093,963
Accrued Interest Receivable	-	3,057
Prepaid Expenses, Deferred Charges and Inventories	1,148,625	1,821,417
Total Current Assets	62,295,306	58,779,879
Noncurrent Assets:		
Restricted Investments (Note 2)	73,907,760	3,701,457
Long-Term and Endowment Investments (Note 2)	80,872,803	75,071,662
Notes Receivable, Net (Note 3)	10,362,859	10,438,000
Deferred Bond Premium and Issuance Costs	1,383,177	2,300,391
Capital Assets, Net (Note 5)	470,807,959	477,359,925
Total Noncurrent Assets	637,334,558	568,871,435
Total Assets	699,629,864	627,651,314
<b>LIABILITIES</b>		
Current Liabilities:		
Accounts Payable	10,036,374	9,132,804
Construction Accounts Payable	1,868,183	1,219,875
Accrued Liabilities	11,447,761	9,365,939
Accrued Interest Payable	1,426,268	3,008,901
Unearned Revenue	9,446,138	9,559,259
Compensated Absences - Current Portion (Note 6)	1,249,872	998,410
Obligations Under Capital Leases - Current Portion (Note 6)	6,278,157	7,216,899
Long-Term Debt - Current Portion (Note 6)	6,316,937	9,750,933
Total Current Liabilities	48,069,690	50,253,020
Noncurrent Liabilities:		
Accrued Liabilities (Note 6)	13,108,405	12,992,504
Compensated Absences (Note 6)	7,371,167	8,011,602
Obligations Under Capital Leases (Note 6)	56,442,924	62,436,081
Long-Term Debt (Note 6)	205,576,518	135,653,209
Total Noncurrent Liabilities	282,499,014	219,093,396
Total Liabilities	330,568,704	269,346,416
<b>NET POSITION</b>		
Net investment in Capital Assets	253,747,158	251,117,125
Restricted, Expendable	18,216,207	19,717,693
Restricted, Nonexpendable	1,316,540	1,200,914
Unrestricted	95,781,255	86,269,166
Total Net Position	\$ 369,061,160	\$ 358,304,898

*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, 2013 and 2012**

	<b>2013</b>	<b>2012</b>
<b>Revenues</b>		
Operating Revenues:		
Student Tuition and Fees	\$ 175,528,591	\$ 167,855,215
Less Scholarship Allowances	21,658,613	18,985,731
Net Student Tuition and Fees	153,869,978	148,869,484
Federal Grants and Contracts	9,527,734	10,584,556
State Grants and Contracts	8,519,937	8,973,341
Local Grants and Contracts	689,022	263,589
Private Grants and Contracts	2,714,471	2,695,376
Sales and Services	9,703,993	4,524,083
Auxiliary Enterprises	22,240,518	22,458,921
Other	258,889	377,838
Total Operating Revenues	207,524,542	198,747,188
<b>Expenses</b>		
Operating Expenses:		
Instruction	96,849,118	91,932,544
Research	13,159,579	14,961,949
Public Service	7,470,471	5,997,307
Academic Support	23,844,470	23,017,435
Student Services	19,921,498	17,787,324
Institutional Support	32,619,875	27,057,901
Operation and Maintenance of Plant	28,223,485	27,975,181
Scholarships and Fellowships	15,887,129	18,018,604
Auxiliary Enterprises	31,594,198	29,152,533
Depreciation and Amortization	27,155,794	24,203,824
Total Operating Expenses	296,725,617	280,104,602
Operating Loss	(89,201,075)	(81,357,414)
<b>Nonoperating Revenues (Expenses)</b>		
State Appropriations	65,061,745	64,434,747
Federal Grants and Contracts	22,186,001	23,453,217
State Grants and Contracts	3,533,938	2,646,337
Gifts	7,306,397	7,196,632
Investment Income	9,395,509	1,048,743
Interest on Debt	(7,861,712)	(9,034,400)
Net Nonoperating Revenues	99,621,878	89,745,276
Gain Before Other Changes	10,420,803	8,387,862
<b>Other Changes</b>		
State Capital Appropriations	335,459	3,179,823
Increase in Net Position	10,756,262	11,567,685
<b>Net Position</b>		
Net Position at Beginning of Year	358,304,898	346,737,213
Net Position at End of Year	\$ 369,061,160	\$ 358,304,898

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

**Cleveland State University  
Statement of Cash Flows**

	<b>Years Ended June 30</b>	
	<u>2013</u>	<u>2012</u>
<b>Cash Flows from Operating Activities</b>		
Tuition and Fees	\$ 152,721,569	\$ 148,052,785
Grants and Contracts	24,861,611	12,061,232
Payments to or On Behalf of Employees	(161,363,523)	(166,992,829)
Payments to Vendors	(103,981,417)	(88,587,197)
Loans Issued to Students	(2,491,744)	(2,281,222)
Collection of Loans to Students	2,816,989	2,123,105
Auxiliary Enterprises Charges	21,847,009	21,543,128
Other Receipts	9,962,882	4,901,921
Net Cash Used by Operating Activities	<u>(55,626,624)</u>	<u>(69,179,077)</u>
<b>Cash Flows from Noncapital Financing Activities</b>		
State Appropriations	65,061,745	64,434,747
Grants and Contracts	25,719,939	26,099,554
Gifts	7,306,397	7,196,632
Cash Provided by Stafford and PLUS Loans	114,464,454	103,166,584
Cash Used by Stafford and PLUS Loans	(114,484,939)	(103,100,000)
Cash Provided by Agency Fund Activities	(262,817)	(317,735)
Cash Used (Provided) by Agency Fund Activities	14,903	(13,731)
Net Cash Provided by Noncapital Financing Activities	<u>97,819,682</u>	<u>97,466,051</u>
<b>Cash Flows from Capital Financing Activities</b>		
Proceeds from Capital Debt and Leases	168,364,266	5,846,522
Capital Appropriations	335,459	3,179,823
Purchases of Capital Assets	(19,652,273)	(20,274,119)
Principal Paid on Capital Debt and Leases	(108,806,852)	(10,908,746)
Interest Paid on Capital Debt and Leases	(10,020,059)	(9,022,004)
Net Cash Provided (Used) by Capital Financing Activities	<u>30,220,541</u>	<u>(31,178,524)</u>
<b>Cash Flows from Investing Activities</b>		
Proceeds from Sales and Maturities of Investments	4,526,103	42,800,112
Purchase of Investments	(73,590,782)	(45,665,012)
Interest on Investments	2,494,427	767,375
Net Cash Used by Investing Activities	<u>(66,570,252)</u>	<u>(2,097,525)</u>
Net Increase (Decrease) in Cash	5,843,347	(4,989,075)
Cash and Cash Equivalents at Beginning of Year	22,397,834	27,386,909
Cash and Cash Equivalents at End of Year	<u>\$ 28,241,181</u>	<u>\$ 22,397,834</u>

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

	<b>Years Ended June 30</b>	
	<b>2013</b>	<b>2012</b>
<b>Reconciliation of Operating Loss to Cash Used by Operating Activities</b>		
Operating Loss	\$ (89,201,075)	\$ (81,357,414)
Adjustments:		
Depreciation and Amortization	27,155,794	24,203,824
Changes in Assets and Liabilities:		
Accounts Receivable, Net	1,904,713	(12,309,542)
Notes Receivable, Net	325,245	(158,117)
Inventories	107,460	32,540
Prepaid Expenses and Deferred Charges	565,333	(395,534)
Accounts Payable	1,628,814	240,988
Accrued Liabilities	2,000,213	563,588
Deferred Revenue	(113,121)	590
Cash Used by Operating Activities	\$ (55,626,624)	\$ (69,179,077)

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

**The Cleveland State University Foundation, Inc.**  
**Statement of Financial Position**  
**June 30, 2013 and 2012**

	<b>2013</b>	<b>2012</b>
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 803,418	\$ 3,346,274
Accounts receivable	729,457	595,790
Contributions receivable, net of allowance for uncollectible contributions	4,728,917	1,660,074
Total Current Assets	6,261,792	5,602,138
Other assets:		
Contributions receivable, net of allowance for uncollectible accounts	6,749,055	8,906,214
Long-term investments	61,865,366	54,700,811
Funds held on behalf of others:		
Cleveland State University (Note 10)	2,884,353	2,530,750
Cleveland State University Alumni Association	402,313	353,081
Total Other assets	71,901,087	66,490,856
Total Assets	\$ 78,162,879	\$ 72,092,994
<b>LIABILITIES</b>		
Current Liabilities:		
Accounts payable	\$ 44,628	\$ 31,666
Payable to Cleveland State University (Note 10)	2,206,072	2,343,930
Notes Payable	39,996	39,996
Annuities payable	33,376	33,376
Total Current Liabilities	2,324,072	2,448,968
Noncurrent Liabilities:		
Notes Payable	604,751	644,747
Annuities payable	90,088	104,169
Funds held on behalf of others:		
Cleveland State University (Note 10)	2,884,353	2,530,750
Cleveland State University Alumni Association	402,313	353,081
Total Liabilities	6,305,577	6,081,715
<b>NET ASSETS:</b>		
Unrestricted	(1,485,045)	(1,178,606)
Board designated - Scholarships	181,180	164,391
Total unrestricted	(1,303,865)	(1,014,215)
Temporarily restricted	30,045,079	24,021,694
Permanently restricted	43,116,088	43,003,800
Total Net Assets	71,857,302	66,011,279
Total Liabilities and Net Assets	\$ 78,162,879	\$ 72,092,994

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

**Euclid Avenue Development Corporation**  
**Statement of Financial Position**  
**June 30, 2013 and 2012**

	<b>2013</b>	<b>2012</b>
<b>ASSETS</b>		
Current assets:		
Cash and Cash Equivalents	\$ 1,630,468	\$ 1,707,943
Cash held by the University	844,361	397,056
Total Cash	2,474,829	2,104,999
Bond proceeds / Investments	18,147,546	15,587,728
Student accounts receivable	55,402	54,891
Other receivables	226,844	221,408
Leases Receivable (current portion)	505,000	205,000
Prepaid Expenses	22,973	21,927
Total Current Assets	21,432,594	18,195,953
Other assets:		
Deferred bond issuance costs, net of accumulated amortization of \$725,057 in 2013 and \$612,649 in 2012	2,846,526	2,958,934
Leases receivable	20,860,000	21,365,000
Property:		
Land	1,146,460	1,146,460
Building	70,448,479	70,448,479
Building improvements	229,111	169,088
Furniture, fixtures and equipment	3,062,411	2,958,995
	74,886,461	74,723,022
Less: Accumulated depreciation	(9,293,614)	(7,068,247)
	65,592,847	67,654,775
Other assets	39,436	-
Total Other assets	89,338,809	91,978,709
Total Assets	\$ 110,771,403	\$ 110,174,662
<b>LIABILITIES</b>		
Current Liabilities:		
Current portion of bonds payable (Note 10)	1,505,000	790,000
Current portion of notes payable	60,000	60,000
Accounts payable	487,989	484,164
Accrued interest	815,362	1,055,025
Accrued payroll	40,080	28,513
Deferred revenue	142,204	155,707
Security deposits	186,003	182,665
Total Current Liabilities	3,236,638	2,756,074
Noncurrent Liabilities:		
Deferred revenue	1,276,309	1,313,847
Bonds payable, less current portion (Note 10)	102,655,000	104,160,000
Notes payable, less current portion	1,501,180	1,561,180
Total Liabilities	108,669,127	109,791,101
<b>NET ASSETS</b>		
Unrestricted	2,102,276	383,561
Total Liabilities and Net Assets	\$ 110,771,403	\$ 110,174,662

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

**The Cleveland State University Foundation, Inc.**  
**Statement of Activities**  
**Year Ended June 30, 2013 (with comparative totals for the year ended June 30, 2012)**

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total 2013</u>	<u>Total 2012</u>
<b>Revenues</b>					
Contributions	\$ 142,404	\$ 5,497,811	\$ 1,487,717	\$ 7,127,932	\$ 8,123,150
Endowment management fee	27,146	-	-	27,146	23,797
Net assets released from restrictions:	<u>7,041,521</u>	<u>(7,041,521)</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total revenues	<u>7,211,071</u>	<u>(1,543,710)</u>	<u>1,487,717</u>	<u>7,155,078</u>	<u>8,146,947</u>
<b>Expenses</b>					
Program services:					
Instructions	2,334,805	-	-	2,334,805	964,479
Research	331,966	-	-	331,966	342,150
Public service	855,752	-	-	855,752	797,349
Academic support	171,076	-	-	171,076	53,583
Financial aid	1,962,778	-	-	1,962,778	709,690
Institutional support	150,873	-	-	150,873	122,906
Auxiliary enterprises	<u>802,942</u>	<u>-</u>	<u>-</u>	<u>802,942</u>	<u>454,175</u>
Total program services	6,610,192	-	-	6,610,192	3,444,332
Supporting services:					
Management and general	412,294	-	-	412,294	489,459
Fund raising	<u>104,204</u>	<u>-</u>	<u>-</u>	<u>104,204</u>	<u>196,141</u>
Total supporting services	516,498	-	-	516,498	685,600
Gains/(Losses):					
Investment gain (loss), including realized and unrealized losses, net	169,080	7,168,373	-	7,337,453	(809,924)
Provision for uncollectible contributions	<u>2,577</u>	<u>(103,816)</u>	<u>52,841</u>	<u>(48,398)</u>	<u>(140,353)</u>
Total expenses and losses	<u>6,955,033</u>	<u>(7,064,557)</u>	<u>(52,841)</u>	<u>(162,365)</u>	<u>5,080,209</u>
<b>Change in Net Assets</b>	256,038	5,520,847	1,540,558	7,317,443	3,066,738
<b>Reclassification of net assets</b>	(445,146)	1,483,416	(1,038,270)	-	-
<b>Net Assets - Beginning of Year, as restated</b>	<u>(1,114,757)</u>	<u>23,040,816</u>	<u>42,613,800</u>	<u>64,539,859</u>	<u>62,944,541</u>
<b>Net Assets - End of Year</b>	<u>\$ (1,303,865)</u>	<u>\$ 30,045,079</u>	<u>\$ 43,116,088</u>	<u>\$ 71,857,302</u>	<u>\$ 66,011,279</u>

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

**Euclid Avenue Development Corporation**  
**Statement of Activities**  
**Years Ended June 30, 2013 and 2012**

	<b>2013</b>	<b>2012</b>
<b>Revenues</b>		
Rental Income:		
Students	\$ 8,602,628	\$ 7,714,137
University	906,890	929,559
Other	137,537	161,525
Maintenance fee - University	283,001	310,709
Interest income	102,179	105,298
Gain on sale of assets	-	1,492,083
Other	505,791	345,823
Total revenues	10,538,026	11,059,134
<b>Expenses</b>		
Interest	2,567,217	3,053,505
Depreciation and Amortization	2,337,775	2,260,689
Utilities	961,833	1,166,712
Contract personnel	1,422,135	1,333,208
Management fees	322,529	317,293
Maintenance	594,363	414,523
General and administrative	205,430	168,001
Other operating	276,226	96,056
Marketing	48,294	51,005
Accounting	25,799	22,507
Reserve allowance	49,575	50,797
Insurance	8,135	4,535
Total expenses	8,819,311	8,938,831
<b>Change in Net Assets</b>	1,718,715	2,120,303
<b>Net Assets (Deficit) - Beginning of Year</b>	383,561	(1,736,742)
<b>Net Assets - End of Year</b>	\$ 2,102,276	\$ 383,561

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

**CLEVELAND STATE UNIVERSITY**  
**NOTES TO FINANCIAL STATEMENTS**  
**Years Ended June 30, 2013 and 2012**

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**Organization and Basis of Presentation**

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

In accordance with Governmental Accounting Standards Board (GASB) Statement No. 61, the University’s financial statements are included, as a discretely presented component unit, in the State’s Comprehensive Annual Financial Report.

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

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

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

## **Operating Activities**

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

## **Summary of Significant Accounting Policies**

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

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

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

**Accounts Receivable Allowance.** The allowance for bad debt is determined based on historical average and a reasonableness ratio of accounts receivable to bad debt. The objective is to increase the collectibility of current receivables to assist the University's objectives regarding enrollment and retention. As such, the University enforces policies that prohibit registration with an unpaid balance over \$1,000 and limit registration for those students with a current unpaid balance between \$200 - \$1,000. The federal regulations regarding returns of funding under the Federal student aid programs of Title IV of the Higher Education Amendments of 1992 have increased outstanding accounts receivable.

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

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

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

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

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

**Auxiliary Enterprises.** Auxiliary enterprise revenue primarily represents revenue generated by parking, Wolstein Center, food service, bookstore, recreation center, child care center and intercollegiate athletics.

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

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

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

### **Change in Accounting Principle**

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

### **Upcoming Accounting Pronouncements**

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

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

## **NOTE 2 – DEPOSITS AND INVESTMENTS**

### **Deposits**

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

At June 30, 2013, the cash and cash equivalents balance of \$28,241,181 is after the University recorded an overdraft consisting of items in transit of \$4,408,987 in accounts payable. The bank balance at June 30, 2013 was \$27,985,796, of which \$916,499 was covered by federal depository insurance, and \$27,069,297 was covered by collateral held by the trust department of a bank other than the pledging bank in the name of the pledging bank.

At June 30, 2012, the cash and cash equivalents balance of \$22,397,834 is after the University recorded an overdraft consisting of items in transit of \$3,860,475 in accounts payable. The bank balance at June 30, 2012 was \$22,131,686, of which \$690,982 was covered by federal depository insurance, and \$21,440,704 was covered by collateral held by the trust department of a bank other than the pledging bank in the name of the pledging bank.

### **Investments**

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

STAR Ohio is an investment pool managed by the Ohio State Treasurer's office that allows governments within the State to pool their funds for investment purposes. STAR Ohio is not registered with the Securities and Exchange Commission as an investment company, but does operate in a manner consistent with Rule 2A7 of the Investment Company Act of 1940. The investment is valued at STAR Ohio's share price, which represents fair market value, on June 30, 2013 and 2012.

Restricted investments consist of unspent debt proceeds.

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

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

As of June 30, 2012, the University had the following types of investments and maturities:

Investment Type	Fair Value	Investment Maturities (in Years)	
		Less Than 1	1-5
Commercial paper	2,690,099	2,690,099	-
U.S. obligation mutual fund	21,223,363	21,223,363	-
Certificates of deposit	1,520,000	1,520,000	-
STAR Ohio	971	-	-
Bond mutual funds	26,131,177	-	26,131,177
Stock mutual funds	28,728,480	-	-
Total	\$ 80,294,090	\$ 25,433,462	\$ 26,131,177

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, 2013 and 2012, 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, 2013 and 2012, 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, 2013 and 2012, investments include approximately \$6.1 million and \$5.2 million, respectively, managed by international equity managers that are subject to foreign currency risk. Although the University's investment policy does not specifically address foreign currency risk, it does limit foreign investments to no more than 20% of the portfolio.

### **NOTE 3 – RECEIVABLES**

The composition of accounts receivable at June 30, 2013 and 2012 is summarized as follows:

	<b><u>2013</u></b>	<b><u>2012</u></b>
Student accounts	\$ 14,656,435	\$ 14,630,774
Grants	15,022,291	18,432,738
State Capital	99,498	133,839
Other	<u>4,481,646</u>	<u>3,123,844</u>
Total Accounts Receivable	34,259,870	36,321,195
Less allowance for uncollectible accounts	<u>4,256,288</u>	<u>4,378,558</u>
Accounts Receivable - Net	<u>\$ 30,003,582</u>	<u>\$ 31,942,637</u>

Notes receivable consist primarily of loans to students under the federal Perkins Loan Program. The composition of notes receivable at June 30, 2013 and 2012 is summarized as follows:

	<b><u>2013</u></b>	<b><u>2012</u></b>
Perkins Loan Program	\$ 11,923,116	\$ 11,694,307
Other	<u>637,514</u>	<u>646,336</u>
Total Notes Receivable	12,560,630	12,340,643
Less allowance for uncollectible accounts	<u>822,769</u>	<u>808,680</u>
Notes Receivable - Net	11,737,861	11,531,963
Less Current Portion	<u>1,375,002</u>	<u>1,093,963</u>
Total Noncurrent Notes Receivable	<u>\$ 10,362,859</u>	<u>\$ 10,438,000</u>

### **NOTE 4 – STATE SUPPORT**

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

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

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

## NOTE 5 – CAPITAL ASSETS

Capital assets activity for the years ended June 30, 2013 and 2012 is summarized as follows:

	2013 Beginning Balance	Additions/ Transfers	Retirements/ Transfers	2013 Ending Balance
Capital Assets:				
Non-depreciable:				
Land	\$ 55,817,124	\$ -	\$ -	\$ 55,817,124
Construction in Progress	3,214,643	4,783,849	-	7,998,492
Capitalized Collections	7,102,155	-	-	7,102,155
Depreciable:				
Land Improvements	24,075,287	204,329	-	24,279,616
Buildings	627,645,616	10,356,075	6,926,890	631,074,801
Equipment	45,603,192	5,152,238	5,583,005	45,172,425
Library Books	70,913,142	1,840,398	1,947,827	70,805,713
Intangible Assets	483,059	-	-	483,059
Total Capital Assets	<u>834,854,218</u>	<u>22,336,889</u>	<u>14,457,722</u>	<u>842,733,385</u>
Less Accumulated Depreciation:				
Land Improvements	13,177,457	1,054,217	-	14,231,674
Buildings	254,655,215	17,728,830	4,618,116	267,765,929
Equipment	31,236,353	3,557,127	5,583,005	29,210,475
Library Books	58,207,891	4,191,601	1,947,827	60,451,665
Intangible Assets	217,377	48,306	-	265,683
Total Accumulated Depreciation	<u>357,494,293</u>	<u>26,580,081</u>	<u>12,148,948</u>	<u>371,925,426</u>
Capital Assets, Net	<u>\$ 477,359,925</u>	<u>\$ (4,243,192)</u>	<u>\$ 2,308,774</u>	<u>\$ 470,807,959</u>
	2012 Beginning Balance	Additions/ Transfers	Retirements/ Transfers	2012 Ending Balance
Capital Assets:				
Non-depreciable:				
Land	\$ 55,792,373	\$ 24,751	\$ -	\$ 55,817,124
Construction in Progress	-	3,214,643	-	3,214,643
Capitalized Collections	7,102,155	-	-	7,102,155
Depreciable:				
Land Improvements	23,901,567	173,720	-	24,075,287
Buildings	622,913,918	7,515,621	2,783,923	627,645,616
Equipment	49,694,097	9,487,558	13,578,463	45,603,192
Library Books	69,203,472	2,266,748	557,078	70,913,142
Intangible Assets	483,059	-	-	483,059
Total Capital Assets	<u>829,090,641</u>	<u>22,683,041</u>	<u>16,919,464</u>	<u>834,854,218</u>
Less Accumulated Depreciation:				
Land Improvements	12,300,946	876,512	-	13,177,458
Buildings	238,552,583	16,575,507	472,875	254,655,215
Equipment	41,085,303	3,729,512	13,578,463	31,236,352
Library Books	55,894,000	2,870,969	557,078	58,207,891
Intangible Assets	169,071	48,306	-	217,377
Total Accumulated Depreciation	<u>348,001,903</u>	<u>24,100,806</u>	<u>14,608,416</u>	<u>357,494,293</u>
Capital Assets, Net	<u>\$ 481,088,738</u>	<u>\$ (1,417,765)</u>	<u>\$ 2,311,048</u>	<u>\$ 477,359,925</u>

## NOTE 6 – NONCURRENT LIABILITIES

Noncurrent liabilities consist of the following as of June 30, 2013 and June 30, 2012:

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

	<b>Due Dates</b>	<b>Interest Rate-%</b>	<b>2012 Beginning Balance</b>	<b>Additions</b>	<b>Reductions</b>	<b>2012 Ending Balance</b>	<b>Current</b>
2003A Bonds Payable	2007-33	2.5-5.25	\$ 26,910,000	\$ -	\$ 1,415,000	\$ 25,495,000	\$ 1,470,000
2003A Bond Premium			555,315	-	25,338	529,977	25,338
2004 Bonds Payable	2005-34	2.25-5.25	54,040,000	-	1,700,000	52,340,000	1,770,000
2004 Bonds Premium			1,060,365	-	46,103	1,014,262	46,103
2007A Bonds Payable	2010-36	4.00-5.75	40,500,000	-	850,000	39,650,000	890,000
2007A Bond Premium			1,149,396	-	44,493	1,104,903	44,492
2008 Bonds Payable	2008-36	3.00-4.75	19,875,000	-	380,000	19,495,000	5,505,000
2011 Bonds Payable	2013-42	5.32	-	5,775,000	-	5,775,000	-
Capital Leases	2010-41	2.33-5.08	76,029,270	71,522	6,447,812	69,652,980	7,216,899
<b>Total Debt</b>			<b>220,119,346</b>	<b>5,846,522</b>	<b>10,908,746</b>	<b>215,057,122</b>	<b>16,967,832</b>
Perkins Student Loans			10,696,506	815,717	-	11,512,223	-
Deposits			1,690,917	3,036,916	3,247,552	1,480,281	-
Compensated Absences			9,629,173	-	619,161	9,010,012	998,410
			<u>242,135,942</u>	<u>\$ 9,699,155</u>	<u>\$ 14,775,459</u>	<u>237,059,638</u>	<u>\$ 17,966,242</u>
Less Current Portion long-term liabilities			(12,297,066)			(17,966,242)	
<b>Long-Term Liabilities</b>			<b>\$ <u>229,838,876</u></b>			<b>\$ <u>219,093,396</u></b>	

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 will be 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 will be used to finance a portion of the costs of public improvements identified as the North Campus Neighborhood – Project Phase I. This phase is the subject of a "project development agreement" dated July 14, 2011 by and between Cleveland State University and CSU Housing, LLC, an Ohio limited liability company which serves as the project developer.

In May 2008, the University issued general receipts bonds in the amount of \$20,910,000. The General Receipts Series 2008 Bonds were issued as fixed rate bonds maturing in 2013, 2033 and 2036. The proceeds of the bonds were used to refinance the 2003B and 2007B Bonds. The bonds have various call provisions. This bond was called and refinanced in August 2012, using the proceeds of the General Receipts Series 2012 Bonds.

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

In August 2004, the University issued general receipts bonds in the amount of \$62,000,000. The General Receipts Series 2004 Bonds were issued as fixed rate bonds with serial maturities through 2008 and term bonds maturing in 2014, 2019, 2024, 2029, and 2034. The proceeds of the bonds were used to pay the cost of a variety of projects, including construction of a student center, parking facilities and a bookstore, renovations to a portion of Fenn Tower, and landscaping and other permanent site improvements to the main plaza. This bond was called and refinanced in August 2012, using the proceeds of the General Receipts Series 2012 Bonds.

In June 2003, the University issued Series 2003A and 2003B (Series 2003) general receipts bonds. The Series 2003A general receipts bonds were issued for \$35,745,000, bear interest rates between 2.5% and 5.25%, and mature in 2033. Proceeds were used to refund outstanding Series 1993 general receipts bonds, rehabilitate the Howe Mansion and construct an Administrative Center. This bond was called and refinanced in August 2012, using the proceeds of the General Receipts Series 2012 Bonds.

Interest expense on indebtedness for the years ended June 30, 2013 and 2012 was \$7,861,712 and \$9,034,400, respectively. On construction-related debt, for the years ended June 30, 2013 and 2012, interest cost was capitalized in the amount of \$2,885,402 (net of \$20,372 interest income) and \$211,647 (net of \$2,360 of interest income), respectively.

The University leases various pieces of equipment which have been recorded under various capital leases in amounts representing the present value of future minimum lease payments. Capital lease obligations are collateralized by equipment with an aggregate net book value at June 30, 2013 and 2012 of \$6,562,878 and \$21,367,511, respectively. The capital leases have varying maturity dates through 2041.

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

	<b>Bonds Payable</b>		<b>Capital Leases</b>	
	<b>Principal</b>	<b>Interest</b>	<b>Principal</b>	<b>Interest</b>
2014	\$ 5,645,000	\$ 9,510,044	\$ 6,278,157	\$ 2,101,249
2015	5,805,000	9,246,764	6,068,259	2,071,949
2016	6,050,000	8,995,655	6,221,545	1,810,898
2017	6,290,000	8,741,621	6,160,554	1,547,449
2018	6,545,000	8,477,487	6,380,686	1,282,290
2019-2023	34,720,000	37,422,028	15,886,880	3,203,561
2024-2028	43,130,000	28,225,705	3,410,000	1,896,806
2029-2033	55,190,000	16,379,042	3,940,000	1,395,416
2034-2038	31,180,000	3,781,266	4,590,000	802,970
2039-2043	1,380,000	143,773	3,785,000	192,451
	<u>\$ 195,935,000</u>	<u>\$ 130,923,382</u>	<u>\$ 62,721,081</u>	<u>\$ 16,305,039</u>

The University has entered into various lease agreements for office equipment, and office and classroom space, which are considered operating leases. The University has leased space in the Fenn Tower building from the Corporation, which it uses for classrooms and meeting rooms. Total rental expense under operating leases during the years ended June 30, 2013 and 2012 amounted to \$3,544,063 and \$2,852,250, respectively. The operating leases have varying maturity dates through 2043.

Future minimum operating lease payments as of June 30, 2013 are as follows:

<b>Year Ending June 30</b>	<b>Operating Leases</b>
2014	\$ 3,943,773
2015	3,943,773
2016	3,407,649
2017	3,407,649
2018	3,234,800
2019-2023	51,096,333
2024-2028	4,310,500
2029-2033	4,307,400
2034-2038	3,443,017
2039-2043	1,720,633
	<u>\$ 82,815,527</u>

## NOTE 7 – EMPLOYMENT BENEFIT PLANS

### **Retirement Plans**

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

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

### **Defined Benefit Plans**

STRS is a statewide retirement plan for certified teachers. STRS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Benefits are established by State statute. Contribution rates are established by the State Teachers Retirement Board, not to exceed the statutory maximum rates of 10% for employees and 14% for employers. Currently, employees contribute 10% of covered payroll and employers contribute 14% of covered payroll. The University's contributions to STRS for the years ending June 30, 2013, 2012 and 2011 were \$7,035,848, \$6,826,392 and \$7,282,885, respectively, equal to the required contributions for each year. STRS issues a stand-alone financial report. The report may be obtained by writing to STRS Ohio, 275 East Broad Street, Columbus, OH 43215-3771, by calling 1-888-227-7877, or by visiting the STRS Ohio Web site at [www.strsoh.org](http://www.strsoh.org).

OPERS is a statewide retirement plan which covers nonteaching University employees. OPERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Benefits are established by State statute. Contribution rates are established by the Ohio Public Employee Retirement Board, not to exceed the statutory maximum rates of 10% for employees and 14% for employers. Currently, employees contribute 10% of covered payroll and employers contribute 14% of covered payroll. The University's contributions to OPERS for the years ended June 30, 2013, 2012 and 2011 were \$7,014,063, \$7,151,384 and \$7,437,768, respectively, equal to the required contributions for each year. OPERS issues a stand-alone financial report. The report may be obtained by visiting [www.opers.org/investments/cafr.shtml](http://www.opers.org/investments/cafr.shtml), writing to OPERS, 277 East Town Street, Columbus, OH 43215-4642, or by calling (614) 222-5601 or 800-222-7377.

### **Defined Contribution Plan**

The University also offers eligible employees an alternative retirement program. The University is required to contribute to STRS 3.50% of earned compensation for those employees participating in the alternative retirement program. The University's contributions for the years ended June 30, 2013 and 2012 were \$389,754 and \$288,450, respectively, which equal 3.50% of earned compensation.

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

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

## **Combined Plans**

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

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

## **Postemployment Benefits**

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

The Ohio Revised Code provides the statutory authority for public employers to fund postretirement health care through their contributions to STRS and OPERS. Postretirement 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, 2013, 2012 and 2011 was \$502,561, \$487,599 and \$520,206, respectively.

Postretirement health care under OPERS is advance-funded on an actuarially determined basis. The amount contributed by the University to OPERS for OPEB funding for the years ended June 30, 2013, 2012 and 2011 was \$3,507,032, \$3,575,692 and \$3,718,884, respectively.

## **NOTE 8 – RISK MANAGEMENT**

The University is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. On July 1, 1993, the University joined with 11 other State-assisted universities in Ohio to form an insurance-purchasing pool for the acquisition of commercial property and casualty insurance. The University pays annual premiums to the pool for its property and casualty insurance coverage based on its percentage of the total insurable value to the pool. Future contributions will be adjusted based upon each university's loss history. Each university has a base deductible of \$100,000. The next \$250,000 of any one claim is the responsibility of the pool, which has a total annual aggregate deductible limit of \$700,000. The commercial property insurer is liable for the amount of any claim in excess of \$350,000, or \$100,000 in the event the pool has reached its annual limit. There were no significant reductions in coverage from the prior year.

The University maintains a self-insured medical plan for its employees. The University's risk exposure is limited to claims incurred. There is a \$150,000 specific stop loss for any given claim. The changes in the total liability for actual and estimated medical claims for the years ended June 30, 2013 and 2012 are summarized below:

	<u>2013</u>	<u>2012</u>
Liability at beginning of year	\$ 1,157,274	\$ 947,393
Claims Incurred	11,327,149	10,771,029
Claims Paid	(9,854,879)	(10,342,541)
IBNR-from MedMut	(981,000)	(218,607)
Liability at end of year	<u>\$ 1,648,544</u>	<u>\$ 1,157,274</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 9 – GRANT CONTINGENCIES**

The University receives significant financial assistance from numerous federal, state and local agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and are subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the University. However, in the opinion of the University administration, any such disallowed claims will not have a significant effect on any of the financial statements of the University at June 30, 2013.

## NOTE 10 – COMPONENT UNITS

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

The Foundation acts primarily as a fundraising organization to supplement the resources that are available to the University in support of its programs. The Board of the Foundation is self-perpetuating and consists of business leaders and friends of the University. Although the University does not control the timing or amount of receipts from the Foundation, the majority of resources, or income thereon, that the Foundation holds and invests are restricted to the activities of the University by donors. Because these restricted resources held by the Foundation can only be used by, or for the benefit of, the University, the Foundation is considered a component unit of the University and is discretely presented in the University's financial statements. Complete financial statements for the Foundation can be obtained from the Office of the Executive Director at 2121 Euclid Avenue, Union Building Room 501, Cleveland, OH 44115-2214.

During the years ended June 30, 2013 and 2012, the Foundation paid \$7,440,132 and \$1,101,358, respectively, to the University. At June 30, 2013 and 2012, the University had receivables from the Foundation totaling \$2,206,072 and \$2,343,930, 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, 2013 and 2012, the amount on deposit with the Foundation totaled \$2,884,353 and \$2,530,750, respectively.

As of June 30, 2013 and 2012, the Foundation had the following types of investments:

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

	Cost	Carrying Value
Cash and cash equivalents	\$ 461,584	\$ 461,584
Stocks - domestic	369,407	454,643
Mutual funds - domestic	27,408,666	27,844,329
Mutual funds - international	12,683,380	12,316,052
Fixed income securities	4,528,458	4,771,633
Alternative investments	6,174,481	6,380,505
Investments carried at fair value	<u>\$ 51,625,976</u>	<u>52,228,746</u>
Note Receivable		1,544,741
Investment in real estate, net of accumulated depreciation		927,324
Investments carried at adjusted cost		<u>2,472,065</u>
Total		<u>\$ 54,700,811</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:

	<b>Temporarily Restricted</b>	<b>Permanently Restricted</b>
Instruction	\$ 7,575,792	\$ 6,402,790
Research	371,351	\$ 810,974
Public service	5,343,811	96,763
Academic support	1,330,717	901,381
Financial aid	12,431,249	33,666,769
Institutional support	2,092,524	1,099,479
Auxiliary enterprises	899,635	137,932
	<u>\$ 30,045,079</u>	<u>\$ 43,116,088</u>

Subsequent to June 30, 2012, the Foundation identified errors in the calculation of reimbursable expenses to the University and in the classification of a donor's gift. As such, the Foundation has restated the net asset balances as previously reported at June 30, 2012.

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, 2013 and 2012, the Corporation had the following types of investments:

	<b>Temporarily Restricted</b>	<b>Permanently Restricted</b>
Money market funds	\$ 14,585,378	\$ 12,025,560
Certificates of deposit	3,562,168	3,562,168
	<u>\$ 18,147,546</u>	<u>\$ 15,587,728</u>

On March 1, 2005, the Corporation leased the Fenn Tower building, located on the University's campus, from the University. Annual rent is equal to the net available cash flows from the Fenn Tower project. No rent was paid during fiscal years 2013 and 2012. On March 1, 2005, the Corporation entered into a Development Agreement with American Campus Communities (ACC) to plan, design and construct housing units in Fenn Tower. In addition, the Corporation entered into a Management Agreement with ACC to manage Fenn Tower. The project was completed in August 2006. The facility has the capacity to house 430 residents.

On March 17, 2005, the Corporation issued \$34,385,000 of Cleveland-Cuyahoga County Port Authority bonds (Series 2005 Bonds) to finance the costs of the Fenn Tower project. The Series 2005 Bonds are serial bonds maturing between 2007 and 2036. Interest rates are fixed and vary from 3.0% to 4.5%.

On June 1, 2008, the Corporation leased land, owned by the University and located on its campus, from the University. On August 22, 2008, the Corporation entered into a design-build agreement to construct a 623-car parking garage on the site. On July 1, 2008, the Corporation entered into a lease agreement with the University to operate the garage once construction is completed. On July 25, 2008, the Corporation issued \$14,500,000 of tax-exempt bonds with the Cleveland-Cuyahoga County Port Authority to finance construction of the garage. The Series 2008 Bonds are serial bonds maturing between 2009 and 2040. They bear variable interest rates that reset weekly. The interest rate is set at rates based upon yield evaluations at par of comparable securities. The interest rate was 0.07% at June 30, 2013. Construction of the garage was completed in August 2009.

On December 18, 2009, the Corporation leased land, owned by the University and located on its campus, from the University. On August 24, 2009, the Corporation entered into a development agreement with ACC to plan, design and construct 600 beds of student housing and a 300-car parking garage on this land. In addition, the Corporation entered into a management agreement with ACC to manage the student housing. On December 18, 2009, the Corporation issued \$59,005,000 of County of Cuyahoga, Ohio bonds (Series 2009 bonds) to finance the project. The 2009 bonds are serial bonds maturing between 2011 and 2042. They bear variable interest rates that are reset weekly. The interest rate is set at rates based upon yield evaluations at par of comparable securities. The interest rate was 0.07% at June 30, 2013. Both phases of the project were complete as of August 2011.

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

	<u>Principal</u>	<u>Interest</u>
2014	\$ 1,505,000	\$ 1,550,933
2015	1,655,000	1,521,925
2016	1,815,000	1,491,553
2017	1,975,000	1,457,868
2018	2,170,000	1,416,720
2019-2023	11,060,000	6,372,388
2024-2028	14,270,000	4,948,750
2029-2033	18,540,000	3,197,165
2034-2038	21,770,000	1,141,073
2038-2043	29,400,000	61,058
	<u>\$ 104,160,000</u>	<u>\$ 23,159,433</u>

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