Cleveland State University

Financial Report

Including Supplemental Information

June 30, 2012

Contents

Plante & Moran, PLLC
3434 Granite Circle
Toledo, OH 43617
Tel: 419.843.6000
Fax: 419.843.6099
plantemoran.com

Independent Auditor's Report

To the Board of Trustees
Cleveland State University

We have audited the accompanying financial statements of Cleveland State University (the "University") as of and for the years ended June 30, 2012 and 2011. We did not audit the financial statements of Cleveland State University Foundation, Inc. (the "Foundation") and Euclid Avenue Development Corporation (the "Corporation"), which present all of the balances and activity reported in the discretely presented component units. Those financial statements were audited by other auditors, whose report thereon has been furnished to us, and our opinion, insofar as it relates to the amounts included for the Foundation and Corporation, are based on the report of the other auditors. The University and the discretely presented component units collectively comprise the basic financial statements. These financial statements are the responsibility of the University's management. Our responsibility is to express opinions on these financial statements based on our audits.

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

In our opinion, based on our audits and the reports of the other auditors, the basic financial statements referred to above present fairly, in all material respects, the respective financial position of Cleveland State University and its discretely presented component units as of June 30, 2012 and 2011 and the respective changes in financial position and cash flows, if applicable, for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

To the Board of Trustees
Cleveland State University

In accordance with *Government Auditing Standards,* we have also issued our report dated October 15, 2012 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, and grant agreements. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide opinions on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that management's discussion and analysis, as identified on pages 3 through 10, 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.

Plante & Moran, PLLC

Toledo, Ohio
October 15, 2012

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, 2012. 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 Assets, the Statement of Revenue, Expenses and Changes in Net Assets, and the Statement of Cash Flows) present financial information in a form similar to that used by corporations. They are prepared under the accrual basis of accounting, whereby revenue and assets are recognized when the service is provided and expenses and liabilities are recognized when others provide the service, regardless of when cash is exchanged.

Under the provisions of GASB Statement No. 39, *Determining Whether Certain Organizations are Component Units*, the Cleveland State University Foundation, Inc. (the "Foundation") and the Euclid Avenue 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, Keith Building Room 300, 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 Assets

The statement of net assets presents the financial position of the University at the end of the fiscal year and includes all assets and liabilities. The difference between assets and liabilities– net assets– is one indicator of the current financial condition of the University, while the change in net assets is an indicator of whether the overall financial condition has improved or worsened during the year. Assets and liabilities are generally measured using current values. One notable exception is capital assets, which are stated at historical cost less an allowance for depreciation. A summary of the University's assets, liabilities, and net assets at June 30, 2012, 2011, and 2010 is as follows:

	2012	2011	2010
Current assets	$ 58,779,879	$ 49,912,965	$ 51,420,926
Noncurrent assets:			
Capital assets, net	477,359,925	481,088,738	460,153,549
Other	91,511,510	89,488,453	99,693,462
Total assets	627,651,314	620,490,156	611,267,937
Current liabilities	50,253,020	43,914,067	42,131,497
Noncurrent liabilities	219,093,396	229,838,876	232,077,323
Total liabilities	269,346,416	273,752,943	274,208,820
Net assets	$ 358,304,898	$ 346,737,213	$ 337,059,117

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

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

Current assets decreased in 2011 from 2010, primarily due to a decrease in investments, which was partially offset by an increase in cash.

Net capital assets decreased in 2012 from 2011 by $3.7 million, or .8%, and increased in 2011 from 2010 by $20.9 million, or 4.5%. The decrease in 2012 was primarily due to demolition of two buildings on campus. The increase in 2011 was due to construction on the University's campus. Projects under construction in 2011 included a new student center building and a new building to house the College of Education and Human Services.

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.

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

Liabilities decreased in 2012 from 2011 by 4.4 million, or 1.6%, primarily due to a decrease in capital lease obligations. Liabilities decreased in 2011 from 2010 by $.5 million, or .2%.

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 $22.7 million in 2012, $45.7 million in 2011, and $100.4 million in 2010. Capital retirements totaled $16.9 million in 2012, $5.9 million in 2011, and $6.0 million in 2010. Capital additions and retirements for 2012, 2011 and 2010 exclude transfers from construction in progress to buildings in the amounts of $87.0 million in 2011 and $31.3 million in 2010. Capital additions include construction of new facilities, repair and renovation of existing facilities, and acquisition of equipment and library books. Capital asset additions are funded, in part, by capital appropriations from the State. These appropriations amounted to $3.2 million in 2012, $4.6 million in 2011, and $20.0 million in 2010.

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

Net Assets

Net assets represent the residual interest in the University's assets after liabilities are deducted. The University's net assets at June 30, 2012, 2011, and 2010 are summarized as follows:

	2012	2011	2010
Invested in capital assets, net of related debt	$ 251,117,125	$ 249,745,249	$ 254,199,231
Restricted - expendable	19,717,693	17,002,312	15,128,293
Restricted - nonexpendable	1,200,914	1,256,241	1,100,356
Unrestricted	86,269,166	78,733,411	66,631,237
Total net assets	$ 358,304,898	$ 346,737,213	$ 337,059,117

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 2012 and 2011.

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, 2012, $5.3 million at June 30, 2011, and $4.5 million at June 30, 2010.

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.

For the year ended June 30, 2011, the University had an increase in total net assets of $9.6 million, or 2.8% Net assets invested in capital assets, net of related debt, decreased by $4.4 million, or -1.7%, because deductions and depreciation expense exceeded capital asset additions. Unrestricted net assets increased by $12.1 million or 18.2%, due primarily to increases in net tuition income (which went from $126.2 million in 2010 to $140.7 million in 2011) and in investment income (which went from $7.7 million in 2010 to $13.2 million in 2011), and increased operating expenses (which went from $269.7 million in 2010 to $292.2 million in 2011). Expenses for salaries and wages and depreciation were higher in 2011 than 2010.

Statement of Revenue, Expenses and Changes in Net Assets

The Statement of Revenue, Expenses and Changes in Net Assets presents the revenue earned and expenses incurred during the year. Activities are reported as either operating or nonoperating. As a public institution, the University is dependent on State assistance. This dependency contributed toward an operating deficit because the financial reporting model classifies State appropriations as nonoperating revenue. The utilization of capital assets is reflected in the financial statements as depreciation, which amortizes the cost of an asset over its expected useful life. Summarized revenue, expenses, and changes in net assets for the years ended June 30, 2012, June 30, 2011, and June 30, 2010 are as follows:

	2012	2011	2010
Operating revenue:			
Net student tuition and fees	$ 148,869,484	$ 140,713,140	$ 126,182,341
Grants and contracts	22,516,862	19,208,702	20,480,512
Other	27,360,842	25,643,144	21,103,594
Total operating revenue	198,747,188	185,564,986	167,766,447
Operating expenses:			
Educational and general	226,748,245	236,226,386	226,629,451
Auxiliary enterprises	29,152,533	31,200,532	23,386,092
Depreciation and amortization	24,203,824	24,818,443	19,722,338
Total operating expenses	280,104,602	292,245,361	269,737,881
Operating loss	(81,357,414)	(106,680,375)	(101,971,434)
Nonoperating revenue, net:			
State appropriations	64,434,747	63,544,555	63,692,313
Other	25,310,529	48,198,477	42,102,246
Gain before other changes	8,387,862	5,062,657	3,823,125
Other changes	3,179,823	4,615,439	19,978,296
Increase in net assets	11,567,685	9,678,096	23,801,421
Net assets at beginning of year	346,737,213	337,059,117	313,257,696
Net assets at end of year	$ 358,304,898	$ 346,737,213	$ 337,059,117

Total revenue and other changes in fiscal 2012, 2011 and 2010 were $300.7 million, $311.4 million, and $298.8 million, respectively. The most significant sources of 2012 operating revenue for the University were student tuition and fees of $148.9 million, grants and contracts of $22.5 million, and auxiliary services of $22.5 million.

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.

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

Total expenses in fiscal 2012, 2011, and 2010 were $289.1 million, $301.7 million, and $275.0 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 decreased by $12.6 million (4.2%) in 2012, due primarily to energy conservation savings and budget cuts. The increase in total expenses of $26.7 million (9.7%) in 2011 was due primarily to increased interest on debt and depreciation expense.

Sources of nonoperating revenue include State appropriations of $64.4 million in 2012, $63.5 million in 2011, and $63.7 million in 2010; grants and contracts of $26.1 million in 2012, $29.5 million in 2011, and $24.8 million in 2010; gifts of $7.2 million in 2012, $4.4 million in 2011, and $4.5 million in 2010; and investment income of $1.0 million in 2012, $13.2 million in 2011, and $7.7 million in 2010.

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. Net nonoperating revenue increased in 2011 from 2010 by $5.9 million, or 5.62%, due primarily to increases in funding for the federal Pell Grants program and an increase in investment income.

Other changes consist primarily of State capital appropriations of $3.2 million in 2012, $4.6 million in 2011, and $20.0 million in 2010.

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, 2012, June 30, 2011 and June 30, 2010 is as follows:

	2012	2011	2010
Net cash (used in) provided by:			
Operating activities	$ (69,179,077)	$ (86,218,223)	$ (83,066,244)
Noncapital financing activities	97,466,051	108,664,963	103,454,861
Capital financing activities	(31,178,524)	(46,791,000)	(73,968,302)
Investing activities	(2,097,525)	27,460,659	66,793,739
Net (decrease) increase in cash	(4,989,075)	3,116,399	13,214,054
Cash at beginning of year	27,386,909	24,270,510	11,056,456
Cash at end of year	$ 22,397,834	$ 27,386,909	$ 24,270,510

Major sources of cash included student tuition and fees of $148.1 million in 2012, $138.2 million in 2011, and $125.2 million in 2010; State appropriations of $64.4 million in 2012, $74.1 million in 2011, and $74.1 million in 2010; grants and contracts (operating and noncapital) of $38.2 million in 2012, $47.0 million in 2011, and $46.0 million in 2010; and auxiliary activities of $21.5 million in 2012, $20.8 million in 2011, and $15.9 million in 2010.

The largest payments were for employee compensation and benefits totaling $166.9 million in 2012, $165.6 million in 2011, and $163.9 million in 2010; suppliers of goods and services totaling $88.6 million in 2012, $103.0 million in 2011, and $88.8 million in 2010; and purchases of capital assets totaling $20.2 million in 2012, $42.6 million in 2011, and $99.4 million in 2010.

The change in cash flows from 2012 to 2011 and 2011 to 2010 in the investing category is due primarily to the University electing to leave most of its cash in the bank (because the rate of return was higher than other short-term investment vehicles), which resulted in a decrease in investments purchased.

Credit Rating

The University's bonds are rated "A+" by Standard & Poor's, with the most recent rating published on July 25, 2012. 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, 2011 and 2010. 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 23, 2012. Obligations rated "A" by Moody's are judged to be upper-medium grand 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), continues to be maintaining the quality of academic instruction and controlling costs in the face of declining public funding from the State. In the State of Ohio's FY12- FY13 budget, CSU lost approximately $11 million, or 15%, of its State Share of Instruction (SSI) allocation, the major state funding source for state colleges and universities. In order to help offset this significant decline in operating revenue, the University implemented plans for certain revenue enhancements and expense reductions as part of its FY12 and FY13 Operating Budget plans. Revenue from student instructional fee tuition increased 5.8% in FY12 over FY11 due to a slight increase in student credit hour enrollment and an increase in undergraduate and graduate tuition rates of 5.5% and an increase in the law tuition rate of 9.1%. Anticipated FY13 tuition revenue should benefit from improved retention of students from FY12, plus an expected increase of approximately 2.1% in student credit hour enrollment in FY13, along with a tuition rate increase of approximately 3.5% for undergraduates and graduate courses and a 9.5% increase in the tuition rate for law courses. The FY13 ratio of state funding as a percentage of total operating revenue remains the same as FY12 at approximately 29%. The percentage continues to solidify the heavy reliance on student tuition as the primary source of revenue. The ability of the University to fulfill its mission and execute its strategic plan continues to be more dependent upon student enrollment and tuition.

In order to improve recruitment and retention, the University has implemented a comprehensive enrollment plan. Tactics to achieve increased enrollment and retention include new technology system, new staff, reorganization of recruitment territories, re-engineering campus visitation programs, including a new welcome center, as well as campus and downtown Cleveland development 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, as well as refunding debt for State-approved projects that the University has assumed on its own. The State did not provide any capital funding for the capital cycle FY11-FY12. As a result of missing an entire capital funding cycle, the University has begun to reserve operating funds for undertaking necessary capital maintenance and renovation projects on campus. The University requested $12.8 million from the State for the State's FY13-FY14 capital appropriations budget. The State accepted the University's capital improvement plan and approved the $12.8 million funding request. The capital funding will be 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.

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 plans to demolish a vacant dormitory and replace it with a health sciences and life sciences building. Construction is expected to begin in November 2012 with a February 2015 estimated completion.

Cleveland State University is accredited by the North Central Association of Colleges and Schools ("NCA"), until 2020, having received unconditional accreditation in 2011.

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, most notably medical care and prescription drug coverage, and the cost of energy. The University recently reached labor contract agreements with its four major bargaining units – AAUP (faculty union), SEIU, CWA (clerical and service employees), and FOP (police). These contracts are for a term of three years.

The University traditionally monitors its revenue sources and the operating budgets of its units very closely. While operating at a lower level of State subsidy in FY13, it appears that, barring unforeseen events, CSU should receive its expected FY13 allocation of subsidy from the State. Instructional fee tuition revenue for the Fall 2012 semester was above the plan level - $741,000 greater than the revenue budget of $65.9 million.

Cleveland State University
Statement of Net Assets
June 30, 2012 and 2011

	2012	2011
ASSETS		
Current Assets:		
Cash and Cash Equivalents	$ 22,397,834	$ 27,386,909
Investments (Note 2)	1,520,971	9,741
Accounts Receivable, Net (Note 3)	31,942,637	19,897,366
Notes Receivable, Net (Note 3)	1,093,963	1,158,498
Accrued Interest Receivable	3,057	2,028
Prepaid Expenses, Deferred Charges and Inventories	1,821,417	1,458,423
Total Current Assets	58,779,879	49,912,965
Noncurrent Assets:		
Restricted Investments (Note 2)	3,701,457	2,116,457
Long-Term and Endowment Investments (Note 2)	75,071,662	75,302,992
Notes Receivable, Net (Note 3)	10,438,000	9,831,992
Deferred Bond Premium and Issuance Costs	2,300,391	2,237,012
Capital Assets, Net (Note 5)	477,359,925	481,088,738
Total Noncurrent Assets	568,871,435	570,577,191
Total Assets	627,651,314	620,490,156
LIABILITIES		
Current Liabilities:		
Accounts Payable	9,132,804	9,202,832
Construction Accounts Payable	1,219,875	1,029,689
Accrued Liabilities	9,365,939	8,932,323
Accrued Interest Payable	3,008,901	2,893,488
Deferred Revenue	9,559,259	9,558,669
Compensated Absences - Current Portion (Note 6)	998,410	902,939
Obligations Under Capital Leases - Current Portion (Note 6)	7,216,899	6,933,194
Long-Term Debt - Current Portion (Note 6)	9,750,933	4,460,933
Total Current Liabilities	50,253,020	43,914,067
Noncurrent Liabilities:		
Accrued Liabilities (Note 6)	12,992,504	12,387,423
Compensated Absences (Note 6)	8,011,602	8,726,234
Obligations Under Capital Leases (Note 6)	62,436,081	69,096,076
Long-Term Debt (Note 6)	135,653,209	139,629,143
Total Noncurrent Liabilities	219,093,396	229,838,876
Total Liabilities	269,346,416	273,752,943
NET ASSETS		
Invested in Capital Assets, Net of Related Debt	251,117,125	249,745,249
Restricted, Expendable	19,717,693	17,002,312
Restricted, Nonexpendable	1,200,914	1,256,241
Unrestricted	86,269,166	78,733,411
Total Net Assets	$ 358,304,898	$ 346,737,213

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

Cleveland State University
Statement of Revenue, Expenses, and Changes in Net Assets
Years Ended June 30, 2012 and 2011

	2012	2011
Revenue		
Operating Revenue:		
Student Tuition and Fees	$ 167,855,215	$ 159,331,825
Less Scholarship Allowances	18,985,731	18,618,685
Net Student Tuition and Fees	148,869,484	140,713,140
Federal Grants and Contracts	10,584,556	9,944,701
State Grants and Contracts	8,973,341	5,726,269
Local Grants and Contracts	263,589	765,192
Private Grants and Contracts	2,695,376	2,772,540
Sales and Services	4,524,083	4,297,708
Auxiliary Enterprises	22,458,921	20,845,190
Other Sources	377,838	500,246
Total Operating Revenue	198,747,188	185,564,986
Expenses		
Operating Expenses:		
Instruction	91,932,544	94,507,110
Research	14,961,949	12,295,867
Public Service	5,997,307	8,193,701
Academic Support	23,017,435	23,531,908
Student Services	17,787,324	20,953,129
Institutional Support	27,057,901	30,856,817
Operation and Maintenance of Plant	27,975,181	26,045,710
Scholarships and Fellowships	18,018,604	19,842,144
Auxiliary Enterprises	29,152,533	31,200,532
Depreciation and Amortization	24,203,824	24,818,443
Total Operating Expenses	280,104,602	292,245,361
Operating Loss	(81,357,414)	(106,680,375)
Nonoperating Revenue (Expenses)		
State Appropriations	64,434,747	63,544,555
Federal Appropriations	-	10,567,874
Federal Grants and Contracts	23,453,217	26,129,061
State Grants and Contracts	2,646,337	3,392,498
Gifts	7,196,632	4,390,082
Investment Income	1,048,743	13,179,158
Interest on Debt	(9,034,400)	(9,460,196)
Net Nonoperating Revenue	89,745,276	111,743,032
Gain Before Other Changes	8,387,862	5,062,657
Other Changes		
State Capital Appropriations	3,179,823	4,615,439
Increase in Net Assets	11,567,685	9,678,096
Net Assets		
Net Assets at Beginning of Year	346,737,213	337,059,117
Net Assets at End of Year	$ 358,304,898	$ 346,737,213

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

Cleveland State University
Statement of Cash Flows

	Years Ended June 30	
	2012	2011
Cash Flows from Operating Activities		
Tuition and Fees	$ 148,052,785	$ 138,258,310
Grants and Contracts	12,061,232	17,524,694
Payments to or On Behalf of Employees	(166,992,829)	(165,623,922)
Payments to Vendors	(88,587,197)	(103,059,287)
Loans Issued to Students	(2,281,222)	(482,271)
Collection of Loans to Students	2,123,105	1,552,483
Auxiliary Enterprises Charges	21,543,128	20,813,816
Other Receipts	4,901,921	4,797,954
Net Cash Used in Operating Activities	(69,179,077)	(86,218,223)
Cash Flows from Noncapital Financing Activities		
State Appropriations	64,434,747	74,112,429
Grants and Contracts	26,099,554	29,521,559
Gifts	7,196,632	4,390,082
Cash Provided by Stafford and PLUS Loans	103,166,584	111,891,358
Cash Used in Stafford and PLUS Loans	(103,100,000)	(112,000,000)
Cash Provided by Agency Fund Activities	(317,735)	(972,680)
Cash Used in Agency Fund Activities	(13,731)	1,722,215
Net Cash Provided by Noncapital Financing Activities	97,466,051	108,664,963
Cash Flows from Capital Financing Activities		
Proceeds from Capital Debt and Leases	5,846,522	7,459,451
Capital Appropriations	3,179,823	4,615,439
Purchases of Capital Assets	(20,274,119)	(42,642,238)
Principal Paid on Capital Debt and Leases	(10,908,746)	(8,114,143)
Interest Paid on Capital Debt and Leases	(9,022,004)	(8,109,509)
Net Cash Used in Capital Financing Activities	(31,178,524)	(46,791,000)
Cash Flows from Investing Activities		
Proceeds from Sales and Maturities of Investments	42,800,112	16,579,507
Purchase of Investments	(45,665,012)	(1,962,133)
Interest on Investments	767,375	12,843,285
Net Cash (Used in) Provided by Investing Activities	(2,097,525)	27,460,659
Net (Decrease) Increase in Cash	(4,989,075)	3,116,399
Cash and Cash Equivalents at Beginning of Year	27,386,909	24,270,510
Cash and Cash Equivalents at End of Year	$ 22,397,834	$ 27,386,909

Cleveland State University
Statement of Cash Flows (continued)

	Years Ended June 30	
	2012	**2011**
Reconciliation of Operating Loss to Cash Used in Operating Activities		
Operating Loss	$ (81,357,414)	$ (106,680,375)
Adjustments:		
Depreciation and Amortization	24,203,824	24,818,443
Changes in Assets and Liabilities:		
Accounts Receivable, Net	(12,309,542)	(3,497,203)
Notes Receivable, Net	(158,117)	1,070,212
Inventories	32,540	121,900
Prepaid Expenses and Deferred Charges	(395,534)	(155,418)
Accounts Payable	240,988	(2,647,476)
Accrued Liabilities	563,588	1,472,648
Deferred Revenue	590	(720,954)
Cash Used in Operating Activities	$ (69,179,077)	$ (86,218,223)

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

The Cleveland State University Foundation, Inc.
Statement of Financial Position
June 30, 2012 and 2011

	2012	2011
ASSETS		
Current assets:		
Cash and cash equivalents	$ 3,346,274	$ 5,603,609
Accounts receivable	595,790	387,869
Contributions receivable, net of allowance for uncollectible contributions	1,660,074	1,034,821
Total Current Assets	5,602,138	7,026,299
Other assets:		
Contributions receivable, net of allowance for uncollectible accounts	8,906,214	6,880,023
Long-term investments	54,700,811	50,974,702
Funds held on behalf of others:		
Cleveland State University (Note 11)	2,530,750	2,590,934
Cleveland State University Alumni Association	353,081	366,939
Total Other assets	66,490,856	60,812,598
Total Assets	$ 72,092,994	$ 67,838,897
LIABILITIES		
Current Liabilities:		
Accounts payable	$ 31,666	$ 19,243
Payable to Cleveland State University (Note 11)	2,343,930	1,051,798
Notes Payable	39,996	39,996
Annuities payable	33,376	32,517
Total Current Liabilities	2,448,968	1,143,554
Noncurrent Liabilities:		
Notes Payable	644,747	684,743
Annuities payable	104,169	108,186
Funds held on behalf of others:		
Cleveland State University (Note 11)	2,530,750	2,590,934
Cleveland State University Alumni Association	353,081	366,939
Total Liabilities	6,081,715	4,894,356
NET ASSETS:		
Unrestricted	(1,178,606)	(184,387)
Board designated - Scholarships	164,391	164,169
Total unrestricted	(1,014,215)	(20,218)
Temporarily restricted (Note 10)	24,021,694	22,395,040
Permanently restricted (Note 10)	43,003,800	40,569,719
Total Net Assets	66,011,279	62,944,541
Total Liabilities and Net Assets	$ 72,092,994	$ 67,838,897

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

Euclid Avenue Development Corporation
Statement of Financial Position
June 30, 2012 and 2011

	2012	2011
ASSETS		
Current assets:		
Cash and Cash Equivalents	$ 1,707,943	$ 2,021,827
Cash held by the University	397,056	119,444
Total Cash	2,104,999	2,141,271
Bond proceeds / Investments	15,587,728	19,951,814
Student accounts recievable	54,891	89,027
Other receivable	221,408	118,145
Leases Receivable (current portion)	205,000	-
Prepaid Expenses	21,927	12,935
Total Current Assets	18,195,953	22,313,192
Other assets:		
Deferred bond issuance costs, net of accumulated amortization of $612,649 in 2012 and $498,372 in 2011	2,958,934	3,073,211
Leases receivable	21,365,000	14,500,000
Property:		
Land	1,146,460	1,146,460
Building	70,448,479	54,671,438
Building improvements	169,088	98,836
Furniture, fixtures and equipment	2,958,995	2,217,545
Construction in progress	-	18,071,217
	74,723,022	76,205,496
Less: Accumulated depreciation	(7,068,247)	(5,071,764)
	67,654,775	71,133,732
Other assets	-	-
Total Other assets	91,978,709	88,706,943
Total Assets	$ 110,174,662	$ 111,020,135
LIABILITIES		
Current Liabilities:		
Current portion of bonds payable (Note 11)	790,000	660,000
Current portion of notes payable	60,000	60,000
Accounts payable	484,164	2,694,757
Accrued interest	1,055,025	1,001,229
Accrued payroll	28,513	50,037
Deferred revenue	155,707	120,679
Security deposits	182,665	147,610
Total Current Liabilities	2,756,074	4,734,312
Noncurrent Liabilities:		
Deferred revenue	1,313,847	1,351,385
Bonds payable, less current portion (Note 11)	104,160,000	105,050,000
Notes payable, less current portion	1,561,180	1,621,180
Total Liabilities	109,791,101	112,756,877
NET ASSETS (DEFICIT)		
Unrestricted	383,561	(1,736,742)
Total Liabilities and Net Assets	$ 110,174,662	$ 111,020,135

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

The Cleveland State University Foundation, Inc.
Statement of Activities
Year Ended June 30, 2012 (with comparative totals for the year ended June 30, 2011)

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total 2012	Total 2011
Revenue					
Contributions	$ 179,498	$ 5,477,086	$ 2,466,566	$ 8,123,150	$ 11,695,550
Endowment management fee	23,797	-	-	23,797	22,073
Net assets released from restrictions	3,444,332	(3,444,332)	-	-	-
Total revenue	3,647,627	2,032,754	2,466,566	8,146,947	11,717,623
Expenses					
Program services:					
Instructions	964,479	-	-	964,479	1,205,368
Research	342,150	-	-	342,150	277,630
Public service	797,349	-	-	797,349	604,623
Academic support	53,583	-	-	53,583	72,434
Financial aid	709,690	-	-	709,690	1,374,347
Institutional support	122,906	-	-	122,906	118,664
Auxilary enterprises	454,175	-	-	454,175	786,456
Total program services	3,444,332	-	-	3,444,332	4,439,522
Supporting services:					
Management and general	489,459	-	-	489,459	523,869
Fundraising	196,141	-	-	196,141	100,671
Total supporting services	685,600	-	-	685,600	624,540
Gains/(Losses):					
Investment (loss) gain, including realized and unrealized losses, net	(43,644)	(766,280)	-	(809,924)	8,823,943
Provision for uncollectible contributions	(79)	(86,685)	(53,589)	(140,353)	(202,854)
Total expenses and losses	4,173,655	852,965	53,589	5,080,209	(3,557,027)
Change in Net Assets	(526,028)	1,179,789	2,412,977	3,066,738	15,274,650
Net Assets - Beginning of Year	(20,218)	22,395,040	40,569,719	62,944,541	47,669,891
Reclassification of net assets (Note 11)	(467,969)	446,865	21,104	-	-
Net Assets - End of Year	$ (1,014,215)	$ 24,021,694	$ 43,003,800	$ 66,011,279	$ 62,944,541

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

Euclid Avenue Development Corporation
Statement of Activities
Years Ended June 30, 2012 and 2011

	2012	2011
Revenue		
Rental Income:		
Students	$ 7,714,137	$ 5,703,723
University	929,559	697,988
Other	161,525	176,949
Maintenance fee - University	310,709	234,426
Interest income	105,298	107,827
Gain on sale of assets	1,492,083	-
Other	345,823	210,751
Total revenue	11,059,134	7,131,664
Expenses		
Interest	3,053,505	3,187,371
Depreciation and Amortization	2,260,689	1,697,200
Utilities	1,166,712	633,204
Payroll	1,333,208	1,092,582
Management fees	317,293	238,096
Maintenance	414,523	347,319
General and administrative	168,001	159,900
Other operating	96,056	248,398
Marketing	51,005	41,006
Accounting	22,507	28,820
Reserve allowance	50,797	31,241
Insurance	4,535	1,835
Total expenses	8,938,831	7,706,972
Change in Net Assets	2,120,303	(575,308)
Net Deficit - Beginning of Year	(1,736,742)	(1,161,434)
Net Assets (Deficit) - End of Year	$ 383,561	$ (1,736,742)

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

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization and Basis of Presentation

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

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

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

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

- **Restricted, Expendable:** Net assets whose use by the University is subject to externally-imposed stipulations that can be fulfilled by actions of the University pursuant to those stipulations or that expire by the passage of time. Income generated from these funds may be restricted for student scholarships, loans, instruction, research, and other specific University needs.

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

- **Unrestricted:** Net assets that are not subject to externally-imposed stipulations. Unrestricted net assets may be designated for specific purposes by action of management or may otherwise be limited by contractual agreements with outside parties.

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

FASB Pronouncements

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

Operating Activities

The University's policy for defining operating activities as reported on the statement of revenue, expenses, and changes in net assets are those that result from exchange transactions such as payments received for providing services and payments made for goods or services received. The University also classifies as operating revenue grants classified as exchange transactions and auxiliary activities. Certain significant revenue streams relied upon for operations are recorded as nonoperating revenue, including State appropriations and investment income. Operating expenses include educational resources, administrative expenses and depreciation on capital assets. Under the University's decentralized management structure, it is the responsibility of individual departments to determine whether to first apply restricted or unrestricted resources when an expense is incurred for purposes for which both restricted and unrestricted net assets are available. The principal operating revenue is student tuition and fees. Student tuition and fees revenue 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 new federal regulations regarding Title IV returns has unfortunately increased our outstanding accounts receivable; the ratio between the bad debt allowance and the accounts receivable, however, is still within reasonable parameters.

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.

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

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

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

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

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

Component Units. The Cleveland State University Foundation, Inc. (the Foundation) and the Euclid Avenue 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.

<u>Accounting Pronouncements</u>

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

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

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

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

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

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 supplementary information (RSI). The University is currently evaluating the impact this standard will have on the financial statements when adopted. The provisions of this statement are effective for 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, 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.

At June 30, 2011, the cash and cash equivalents balance of $27,386,909 is after the University recorded an overdraft consisting of items in transit of $4,622,342 in accounts payable. The bank balance at June 30, 2011 was $27,280,702, of which $1,005,778 was covered by federal depository insurance, and $26,274,924 was covered by collateral held by the trust department of a bank other than the pledging bank in the name of the pledging bank.

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, 2012 and 2011.

Restricted investments consist of unspent debt proceeds.

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

As of June 30, 2011, the University had the following types of investments and maturities:

Investment Type	Fair Value	Investment Maturities (in Years) Less Than 1	1-5
U.S. obligation mutual fund	$ 2,116,457	$ 2,116,457	$ -
Certificates of Deposit	800,112	-	800,112
STAR Ohio	9,741	-	-
Bond mutual funds	29,707,623	-	29,707,623
Stock mutual funds	44,795,257	-	-
Total	$ 77,429,190	$ 2,116,457	$ 30,507,735

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, 2012 and 2011 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, 2012 and 2011, 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, 2012 and 2011, investments include approximately $5.2 million and $5.6 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, 2012 and 2011 is summarized as follows:

	2012	2011
Student accounts	$14,630,774	$14,271,525
Grants	18,432,738	7,977,108
State Capital	133,839	398,110
Other	3,123,844	1,890,992
Total Accounts Receivable	36,321,195	24,537,735
Less allowance for uncollectible accounts	4,378,558	4,640,369
Accounts Receivable - Net	$31,942,637	$19,897,366

Notes receivable consist primarily of loans to students under the federal Perkins Loan Program. The composition of notes receivable at June 30, 2012 and 2011 is summarized as follows:

	2012	2011
Perkins Loan Program	$11,694,307	$11,185,610
Other	646,336	647,828
Total Notes Receivable	12,340,643	11,833,438
Less allowance for uncollectible accounts	808,680	842,948
Notes Receivable - Net	11,531,963	10,990,490
Less Current Portion	1,093,963	1,158,498
Total Noncurrent Notes Receivable	$10,438,000	$ 9,831,992

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, 2012 and 2011 is summarized as follows:

	2012 Beginning Balance	Additions/ Transfers	Retirements/ Transfers	2012 Ending Balance
Capital Assets:				
Non-depreciable:				
Land	$ 55,792,373	$ 24,751	$ 0	$ 55,817,124
Construction in Progress	0	3,214,643	0	3,214,643
Capitalized Collections	7,102,155	0	0	7,102,155
Depreciable:				
Land Improvements	23,901,567	173,720	0	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	0	0	483,059
Total Capital Assets	829,090,641	22,683,041	16,919,464	834,854,218
Less Accumulated Depreciation:				
Land Improvements	12,300,946	876,512	0	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	0	217,377
Total Accumulated Depreciation	348,001,903	24,100,806	14,608,416	357,494,293
Capital Assets, Net	$ 481,088,738	$ (1,417,765)	$ 2,311,048	$ 477,359,925

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

NOTE 6 – NONCURRENT LIABILITIES

Noncurrent liabilities consist of the following as of June 30, 2012 and June 30, 2011:

	Due Dates	Interest Rate-%	2012 Beginning Balance	Additions	Reductions	2012 Ending Balance	Current
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
Total Debt			220,119,346	5,846,522	10,908,746	215,057,122	16,967,832
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
			242,135,942	$ 9,699,155	$ 14,775,459	237,059,638	$ 17,966,242
Less Current Portion long-term liabilities			(12,297,066)			(17,966,242)	
Long-Term Liabilities			$ 229,838,876			$ 219,093,396	

	Due Dates	Interest Rate-%	2011 Beginning Balance	Additions	Reductions	2011 Ending Balance	Current
1996 Bonds Payable	1997-11	5.25-5.25	$ 315,000	$ -	315,000	$ -	$ -
2003A Bonds Payable	2007-33	2.5-5.25	28,270,000	-	1,360,000	26,910,000	1,415,000
2003A Bond Premium			580,653	-	25,338	555,315	25,338
2004 Bonds Payable	2005-34	2.25-5.25	55,685,000	-	1,645,000	54,040,000	1,700,000
2004 Bonds Premium			1,106,468	-	46,103	1,060,365	46,103
2007A Bonds Payable	2010-36	4.00-5.75	41,320,000	-	820,000	40,500,000	850,000
2007A Bond Premium			1,193,888	-	44,492	1,149,396	44,492
2008 Bonds Payable	2008-36	3.00-4.75	20,245,000	-	370,000	19,875,000	380,000
Capital Leases	2010-40	2.33-5.08	72,058,028	7,459,451	3,488,209	76,029,270	6,933,194
Total Debt			220,774,037	7,459,451	8,114,142	220,119,346	11,394,127
Perkins Student Loans			10,306,132	413,345	22,971	10,696,506	-
Deposits			893,437	4,314,186	3,516,706	1,690,917	-
Compensated Absences			9,193,018	436,155	-	9,629,173	902,939
			241,166,624	$ 12,623,137	$ 11,653,819	242,135,942	$ 12,297,066
Less Current Portion long-term liabilities			(9,089,301)			(12,297,066)	
Long-Term Liabilities			$ 232,077,323			$ 229,838,876	

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" date 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.

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

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

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

In June 2003, the University issued Series 2003A and 2003B (Series 2003) general receipts bonds. The Series 2003A general receipts bonds were issued for $35,745,000, bear interest rates between 2.5% and 5.25%, and mature in 2033. Proceeds were used to refund outstanding Series 1993 general receipts bonds, rehabilitate the Howe Mansion and construct an Administrative Center.

Interest expense on indebtedness was $9,034,400 in fiscal 2012 and $9,460,196 in fiscal 2011. On construction-related debt, interest cost of $211,647 was capitalized in fiscal 2012, net of $2,360 of interest earned on invested proceeds; interest cost of $0 was capitalized in fiscal 2011.

The University leases various pieces of equipment which have been recorded under various capital leases in amounts representing the present value of future minimum lease payments. Capital lease obligations are collateralized by equipment with an aggregate net book value of $21,367,511 at June 30, 2012 and $37,909,684 at June 30, 2011. The capital leases have varying maturity dates through 2041.

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

	Bonds Payable		**Capital Leases**	
	Principal	**Interest**	**Principal**	**Interest**
2013	$ 9,635,000	$ 6,937,165	$ 7,216,899	$ 2,792,067
2014	4,025,000	6,536,394	6,278,157	2,339,130
2015	4,255,000	6,333,095	6,068,259	2,075,643
2016	4,475,000	6,114,036	6,221,545	1,815,098
2017	4,680,000	5,890,214	6,160,554	1,551,511
2018-2022	24,615,000	25,813,451	21,622,566	4,079,404
2023-2027	29,355,000	19,393,757	3,295,000	2,021,982
2028-2032	37,525,000	11,467,292	3,785,000	1,547,654
2033-2037	22,495,000	2,671,865	4,385,000	990,043
2038-2042	1,695,000	226,566	4,620,000	321,312
	$ 142,755,000	$ 91,383,835	$ 69,652,980	$ 19,533,844

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, 2012 and 2011 amounted to $2,852,250 and $2,581,938, respectively. The operating leases have varying maturity dates through 2042.

Future minimum operating lease payments as of June 30, 2012 are as follows:

Year Ending June 30	Operating Leases
2013	$ 3,341,710
2014	2,996,873
2015	2,990,873
2016	2,454,749
2017	2,454,749
2018-2022	33,895,416
2023-2027	4,304,500
2028-2032	4,304,500
2033-2037	3,873,758
2038-2042	2,150,792
	$ 62,767,920

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, 2012, 2011, and 2010 were $6,826,392, $7,282,885, and $7,185,855, respectively, equal to the required contributions for each year. STRS issues a stand-alone financial report. The report may be obtained by writing to STRS Ohio, 275 East Broad Street, Columbus, OH 43215-3771, by calling 1-888-227-7877, or by visiting the STRS Ohio Web site at www.strsoh.org.

OPERS is a statewide retirement plan, which covers nonteaching University employees. OPERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Benefits are established by State statute. Contribution rates are established by the Ohio Public Employee Retirement Board, not to exceed the statutory maximum rates of 10% for employees and 14% for employers. Currently, employees contribute 10% of covered payroll and employers contribute 14% of covered payroll. The University's contributions to OPERS for the years ending June 30, 2012, 2011, and 2010 were $7,151,384, $7,437,768, and $7,228,118, respectively, equal to the required contributions for each year. OPERS issues a stand-alone financial report. The report may be obtained by visiting www.opers.org/investments/cafr.shtml, writing to OPERS, 277 East Town Street, Columbus, OH 43215-4642, or by calling (614) 222-5601 or 800-222-7377.

Defined Contribution Plan

The University also offers eligible employees an alternative retirement program. The University is required to contribute to STRS 3.50% of earned compensation for those employees participating in the alternative retirement program. The University's contributions for the years ended June 30, 2012, 2011 and 2010 were $288,450, $371,702 and $347,415, 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.

Post-employment Benefits

STRS provides other postemployment benefits (OPEB) to all retirees and their dependents, while OPERS provides postretirement health care coverage to age and service retirants (and dependents) with 10 or more years of qualifying Ohio service credit. Health care coverage for disability recipients and primary survivor recipients is also available under OPERS. A portion of each employer's contributions is set aside for the funding of postretirement health care. For STRS, this rate was 1.0% of the total 14.00%, while the OPERS rate was 4.0% of the total 14.00% for the year ended June 30, 2011.

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, 2012, 2011 and 2010 was $487,599, $520,206, and $513,275, 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, 2012, 2011 and 2010 was $3,575,692, $3,718,884 and $3,614,059, respectively.

NOTE 8 – RISK MANAGEMENT

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

The University maintains a self-insured dental plan for its employees. The University's risk exposure is limited to claims incurred. The changes in the total liability for actual and estimated dental claims for the years ended June 30, 2012 and 2011 are summarized below:

	2012	2011
Liability at beginning of year	$ 15,006	$ 9,961
Claims Incurred	1,098,618	1,122,459
Claims Paid	(1,091,338)	(1,117,414)
Liability at end of year	$ 22,286	$ 15,006

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, 2012 and 2011 are summarized below:

	2012	2011
Liability at beginning of year	$ 947,393	$ 1,094,764
Claims Incurred	10,771,029	10,094,073
Claims Paid	(10,342,541)	(9,321,162)
IBNR-Decrease in estimated claims	(218,607)	(920,282)
Liability at end of year	$ 1,157,274	$ 947,393

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

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

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

NOTE 9 – GRANT CONTINGENCIES

The University receives significant financial assistance from numerous federal, state and local agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and are subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the University. However, in the opinion of the University administration, any such disallowed claims will not have a material effect on any of the financial statements of the University at June 30, 2012.

NOTE 10 – NET ASSETS

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

	Temporarily Restricted	Permanently Restricted
Instruction	$ 6,036,572	$ 7,688,242
Research	270,944	$ 805,128
Public service	4,944,336	50,607
Academic support	1,257,491	901,281
Financial aid	8,494,155	32,421,206
Institutional support	1,934,139	1,099,429
Auxiliary enterprises	1,084,057	37,907
	$ 24,021,694	$ 43,003,800

NOTE 11 – COMPONENT UNITS

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

The Foundation acts primarily as a fundraising organization to supplement the resources that are available to the University in support of its programs. The Board of the Foundation is self-perpetuating and consists of business leaders and friends of the University. Although the University does not control the timing or amount of receipts from the Foundation, the majority of resources, or income thereon, that the Foundation holds and invests are restricted to the activities of the University by donors. Because these restricted resources held by the Foundation can only be used by, or for the benefit of, the University, the Foundation is considered a component unit of the University and is discretely presented in the University's financial statements. Complete financial statements for the Foundation can be obtained from the Office of the Executive Director at 2121 Euclid Avenue, Keith Building Room 323, Cleveland, OH 44115-2214.

During the years ended June 30, 2012 and 2011, the Foundation paid $1,101,358 and $3,802,834, respectively, to the University. At June 30, 2012 and 2011, the University had receivables from the Foundation totaling $2,343,930 and $1,051,798, 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, 2012 and 2011, the amount on deposit with the Foundation totaled $2,530,750 and $2,590,934, respectively.

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

	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	$ 51,625,976	52,228,746
Note Receivable		1,544,741
Investment in real estate, net of accumulated depreciation		927,324
Investments carried at adjusted cost		2,472,065
Total		$ 54,700,811

As of June 30, 2011, the Foundation had the following types of investments:

	Cost	Carrying Value
Stocks - domestic	505,677	788,585
Mutual funds - domestic	22,509,954	23,434,775
Mutual funds - international	8,988,690	10,171,568
Fixed income securities	13,357,132	14,047,618
Investments carried at fair value	$ 45,361,453	48,442,546
Note Receivable		1,588,978
Investment in real estate, net of accumulated depreciation		943,178
Investments carried at adjusted cost		2,532,156
Total		$ 50,974,702

The Foundation reclassified net assets as of 2011 to properly reflect the allocation of investment income related to prior years.

The Corporation was organized primarily to further the educational mission of the University by developing, owning and managing housing for the students, faculty and staff of the University. On March 1, 2005, the Corporation leased the Fenn Tower building, located on the University's campus, from the University. Annual rent is equal to the net available cash flows from the Fenn Tower project. No rent was paid during fiscal years 2012 and 2011. On March 1, 2005, the Corporation entered into a Development Agreement with American Campus Communities (ACC) to plan, design and construct housing units in Fenn Tower. In addition, the Corporation entered into a Management Agreement with ACC to manage Fenn Tower. The project was completed in August 2006. The facility has the capacity to house 430 residents.

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

On June 1, 2008, the Corporation leased land, owned by the University and located on its campus, from the University. On August 22, 2008, the Corporation entered into a design-build agreement with the Apostolos Group to construct a 623-car parking garage on the site. On July 1, 2008, the Corporation entered into a lease agreement with the University to operate the garage once construction is completed. On July 25, 2008, the Corporation issued $14,500,000 of tax-exempt bonds with the Cleveland-Cuyahoga County Port Authority to finance construction of the garage. The Series 2008 Bonds are serial bonds maturing between 2009 and 2040. They bear variable interest rates that reset weekly. The interest rate is set at rates based upon yield evaluations at par of comparable securities. The interest rate was .15% at June 30, 2012. 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 .15% at June 30, 2012. Both phases of the project were complete as of August 2011.

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

	Principal	Interest
2013	$ 790,000	$ 1,578,490
2014	1,115,000	1,550,932
2015	1,255,000	1,521,925
2016	1,410,000	1,491,553
2017	1,565,000	1,457,867
2018-2022	10,385,000	6,619,553
2023-2027	13,535,000	5,258,597
2028-2032	17,610,000	3,568,330
2033-2037	22,740,000	1,588,215
2038-2042	30,970,000	97,680
2043	3,575,000	4,778
	$ 104,950,000	$ 24,737,920

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.

NOTE 12 – SUBSEQUENT EVENT

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.