

SINGLE AUDIT REPORT

Cleveland State University

Year ended June 30, 2004



**Auditor of State
Betty Montgomery**

Board of Trustees
Cleveland State University

We have reviewed the Independent Auditor's Report of the Cleveland State University, Cuyahoga County, prepared by Ernst & Young LLP for the audit period July 1, 2003 through June 30, 2004. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

Our review was made in reference to the applicable sections of legislative criteria, as reflected by the Ohio Constitution, and the Revised Code, policies, procedures and guidelines of the Auditor of State, regulations and grant requirements. The Cleveland State University is responsible for compliance with these laws and regulations.

A handwritten signature in cursive script that reads "Betty Montgomery".

BETTY MONTGOMERY
Auditor of State

December 20, 2004

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Cleveland State University

Single Audit Report

Year ended June 30, 2004

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Independent Auditor's Report

Board of Trustees
Cleveland State University

We have audited the accompanying statements of net assets of the Cleveland State University (University), a component unit of the State of Ohio, as of June 30, 2004 and 2003, and the related statements of revenues, expenses, and changes in net assets, and cash flows for the years then ended. These financial statements are the responsibility of the University's management. Our responsibility is to express an opinion on these financial statements based on our audits. We did not audit the financial statements of The Cleveland State University Foundation, a discretely presented component unit of the University. 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 University, is based solely on the report of the other auditors.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the 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 and the report of other auditors provide a reasonable basis for our opinion.

In our opinion, based on our audits and the report of other auditors, the financial statements referred to above present fairly, in all material respects, the financial position of Cleveland State University, as of June 30, 2004 and 2003, and the changes in its net assets and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 1 to the financial statements, in fiscal 2004 the University adopted GASB Statement No. 39, *Determining Whether Certain Organizations Are Component Units*, which required the discrete presentation of The Cleveland State University Foundation's financial statements as a component unit of the University.

Management's discussion and analysis on pages 3 through 8 are not a required part of the financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 12, 2004 on our consideration of the University's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Our audit was performed for the purpose of forming an opinion on the financial statements of the University taken as a whole. The accompanying schedule of expenditures of federal awards for the year ended June 30, 2004 is presented for purposes of additional analysis as required by the U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations* and is not a required part of the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements, and in our opinion, is fairly stated in all material respects in relation to the financial statements taken as a whole.



October 12, 2004

CLEVELAND STATE UNIVERSITY
MANAGEMENT'S DISCUSSION AND ANALYSIS

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, 2004. 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 City and the surrounding six-county region.

Using the Annual Financial Report

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

The financial statements prescribed by GASB Statement No. 35 (the Statement of Net Assets, the Statement of Revenues, 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 revenues 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.

In fiscal year 2004, the University adopted the provisions of GASB Statement No. 39, *Determining Whether Certain Organizations are Component Units*. As a result of implementing this new standard, the Cleveland State University Foundation, Inc. (the Foundation) is now treated as a component unit of the University. Accordingly, the Foundation is discretely presented in the University's financial statements. Additional information on the Foundation is contained in Note 9 to the financial statements. The Foundation is excluded from Management's Discussion and Analysis.

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, 2004, 2003 and 2002 is as follows:

	<u>2004</u>	<u>2003</u>	<u>2002</u>
Current assets	\$ 65,186,610	\$ 62,087,897	\$ 54,664,811
Noncurrent assets:			
Capital assets, net	253,145,244	258,298,611	256,021,806
Other	<u>76,747,411</u>	<u>69,169,768</u>	<u>25,847,569</u>
Total assets	395,079,265	389,556,276	336,534,186
Current liabilities	21,781,099	21,123,029	22,155,683
Noncurrent liabilities	<u>71,432,127</u>	<u>70,800,121</u>	<u>28,118,774</u>
Total liabilities	<u>93,213,226</u>	<u>91,923,150</u>	<u>50,274,457</u>
Net assets	\$ <u>301,866,039</u>	\$ <u>297,633,126</u>	\$ <u>286,259,729</u>

Current assets consist primarily of cash, operating investments, accounts and notes receivable and prepaid expenses. Current liabilities consist primarily of accounts payable, accrued payroll and other liabilities, deferred revenue and the current portion of long-term debt. The University's current ratio (current assets divided by current liabilities) of 2.99:1 indicates that current assets are more than adequate to cover current liabilities as they become due.

Current assets increased in 2004 by \$3.1 million, or 5.0%, due primarily to an increase in accounts and pledges receivable of \$4.1 million. The increase in accounts receivable is attributable to billings on sponsored programs, primarily government grants and contracts.

Current assets increased in 2003 by \$7.4 million, or 13.6%, due primarily to an increase in cash of \$7.5 million. Cash increased by approximately \$9.0 million as long-term fixed income investments were called in June 2003 and reinvested in cash equivalents.

Other assets increased in 2004 by \$7.6 million, or 11.0%. The increase was primarily in investments, and is attributable to the University lengthening the maturities of its investments to earn a higher yield. Investments with maturities greater than one year in the future are considered long-term, and are included in noncurrent assets-other in the above summary.

Other assets increased in 2003 by \$43.3 million, or 167.6%. The increase was primarily in restricted investments, and is attributable to the issuance of bonds in May 2003 (Series 2003) in the amount of \$50.3 million.

Liability balances did not change significantly in 2004 from the prior year. Total liabilities increased in 2004 by \$1.3 million, or 1.4%, and current liabilities increased by \$658,070, or 3.1%.

Noncurrent liabilities increased in 2003 by \$42.7 million, or 151.8%, primarily due to the Series 2003 bond issue.

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 \$10.5 million in 2004 and \$17.9 million in 2003. Capital retirements totaled \$2.6 million in 2004 and \$2.2 million in 2003. Capital additions include construction of new facilities, repair and renovation of existing facilities, and acquisition of equipment and library books. Capital asset additions are funded, in part, by capital appropriations from the State. These appropriations amounted to \$4.5 million in 2004 and \$6.2 million in 2003.

Long-term debt, which consists of bonds payable and obligations under capital leases, decreased from \$56.0 million in 2003 to \$54.5 million in 2004. No bonds were issued during fiscal year 2004. However, subsequent to year end, on August 5, 2004, the University issued general receipts bonds in the amount of \$62 million. The proceeds of the bonds will be 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. These projects are important pieces of the University's Campus Master Plan, which was adopted by the Board of Trustees in 2003.

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, 2004, 2003 and 2002 are summarized as follows:

	<u>2004</u>	<u>2003</u>	<u>2002</u>
Invested in capital assets, net of related debt	\$ 242,138,247	\$ 245,317,385	\$ 245,172,591
Restricted - expendable	15,971,408	14,044,469	12,801,161
Restricted - nonexpendable	1,285,069	1,106,206	1,122,107
Unrestricted	<u>42,471,315</u>	<u>37,165,066</u>	<u>27,163,870</u>
Total net assets	<u>\$ 301,866,039</u>	<u>\$ 297,633,126</u>	<u>\$ 286,259,729</u>

Net assets invested in capital assets, net of related debt represent the University's capital assets net of accumulated depreciation and outstanding principal balances of debt attributable to the acquisition, construction, or improvement of those assets.

Restricted-expendable net assets are subject to externally imposed restrictions governing their use. Restricted-nonexpendable net assets consist primarily of endowment funds held by the University.

Unrestricted net assets are not subject to externally imposed stipulations. This category includes funds functioning as endowment (quasi-endowment) of \$852,000 at June 30, 2004, \$874,000 at June 30, 2003 and \$851,000 at June 30, 2002.

For the year ended June 30, 2004, the University had an increase in net assets of \$4.2 million, or 1.4%. The growth was primarily in unrestricted net assets, which increased by \$5.3 million, or 14.3%, due to increased revenues from student fees (which grew from \$87.5 million in 2003 to \$94.2 million in 2004), and cost containment measures in unrestricted operations (including a freeze on hiring, which was in place for most of the year). Net assets invested in capital assets, net of related debt, decreased in 2004 due to depreciation and amortization expense and debt maturities for the year.

For the year ended June 30, 2003, the University had an increase in net assets of \$11.4 million, or 4.0%. The growth was primarily in unrestricted net assets, which increased by \$10.0 million, or 36.8% due to increased revenues from student fees (which grew from \$75.0 million in 2002 to \$87.5 million in 2003), and cost containment measures in unrestricted operations (including a freeze on hiring, which was in place for most of the year).

Statement of Revenues, Expenses and Changes in Net Assets

The Statement of Revenues, Expenses and Changes in Net Assets presents the revenues earned and expenses incurred during the year. Activities are reported as either operating or nonoperating. As a public institution, the University's dependency on State aid 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 revenues, expenses, and changes in net assets for the years ended June 30, 2004 and June 30, 2003 are as follows:

	<u>2004</u>	<u>2003</u>
Operating revenues:		
Student tuition and fees	\$ 94,218,733	\$ 87,476,820
Grants and contracts	25,878,716	18,208,582
Other	14,267,012	13,702,162
Total operating revenue	<u>134,364,461</u>	<u>119,387,564</u>
Operating expenses:		
Educational and general	195,957,025	180,482,037
Auxiliary enterprises	14,939,356	13,081,920
Depreciation and amortization	15,045,070	15,166,745
Total operating expenses	<u>225,941,451</u>	<u>208,730,702</u>
Operating loss	(91,576,990)	(89,343,138)
Nonoperating revenues, net:		
State appropriations	71,982,028	72,246,181
Other	19,234,429	19,540,898
(Loss) Gain before other changes	<u>(360,533)</u>	<u>2,443,941</u>
Other changes	4,593,446	8,929,456
Increase in net assets	<u>4,232,913</u>	<u>11,373,397</u>
Net assets at beginning of year	<u>297,633,126</u>	<u>286,259,729</u>
Net assets at end of year	<u>\$ 301,866,039</u>	<u>\$ 297,633,126</u>

Total revenue and other changes in fiscal 2004 and 2003 was \$230.6 million and \$218.6 million, respectively. The most significant sources of 2004 operating revenues for the University are student tuition and fees of \$94.2 million, grants and contracts of \$25.9 million, and auxiliary services of \$10.1 million. Revenues from tuition and fees (net of scholarship allowances) increased by \$6.7 million, or 7.7%. Two factors contributed to this increase. The first was growth in enrollment, and the second was increased tuition rates. Headcount enrollment increased by 1.6% over the prior year, while full-time equivalent enrollment was essentially flat (the increase was less than 1%). Tuition rates increased by 9.9% effective for the 2003 Summer semester, in part to offset the continued decline in support from the State (see below).

Total expenses in fiscal 2004 and 2003 were \$226.4 million and \$209.4 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. Operating expenses increased by \$17.2 million, or 8.2%, due primarily to salary increases granted to University employees and increases in the cost of medical insurance and other fringe benefits.

Sources of nonoperating revenue include State appropriations of \$72.0 million in 2004 and \$72.2 million in 2003; grants and contracts of \$14.4 million in 2004 and \$14.1 million in 2003; gifts of \$3.9 million in 2004 and \$4.3 million in 2003; and investment income of \$1.3 million in 2004 and \$1.9 million in 2003. Nonoperating revenue decreased by \$571,000, or 0.6%, primarily due to a cut in State subsidy. In March 2004, the State announced a cut of 4% in its support of higher education (basic higher education subsidy was exempt). For Cleveland State University, the March 2004 cut amounted to \$292,000; fiscal year 2004 was the fourth consecutive year during which the State cut its support of higher education.

Other revenues consist primarily of State capital appropriations of \$4.5 million in 2004 and \$6.2 million in 2003.

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, 2004 and June 30, 2003 is as follows:

	<u>2004</u>	<u>2003</u>
Net cash provided (used) by:		
Operating activities	\$ (78,676,100)	\$ (71,360,689)
Noncapital financing activities	91,323,190	91,086,669
Capital financing activities	(9,226,927)	47,669,574
Investing activities	<u>(10,230,803)</u>	<u>(59,905,633)</u>
Net (decrease) increase in cash	(6,810,640)	7,489,921
Cash at beginning of year	<u>9,107,333</u>	<u>1,617,412</u>
Cash at end of year	<u>\$ 2,296,693</u>	<u>\$ 9,107,333</u>

Major sources of cash included student tuition and fees of \$95.5 million in 2004 and \$86.5 million in 2003; State subsidy of \$72.0 million in 2004 and \$72.2 million in 2003; grants and contracts (operating and nonoperating) of \$37.3 million in 2004 and \$32.3 million in 2003; and auxiliary activities of \$9.2 million in 2004 and \$10.6 million in 2003. The largest payments were for employee compensation and benefits totaling \$141.8 million in 2004 and \$125.4 million in 2003, and suppliers of goods and services totaling \$68.7 million in 2004 and \$64.8 million in 2003.

The decrease in cash flows from 2003 to 2004 in the capital financing and investing categories is attributable to the sale of \$50.3 million of bonds in 2003.

Credit Rating

The University's bonds are rated "A" by Standard & Poor's. The highest achievable rating is "AAA." The University's capacity to meet its financial obligations is considered strong considering this rating.

Looking Ahead

The ability of the University to fulfill its mission and execute its strategic plan is directly influenced by enrollment, State support, and the cost of health care, utilities, employee compensation and unfunded State and Federal mandates.

Paramount to the University's continuing success is the recent accreditation by the North Central Association, which awarded Cleveland State University a ten-year renewal with enthusiasm and without condition.

The University faces significant cost pressures in the future. These relate to attracting and retaining high quality faculty and staff, increasing costs of medical care and prescription drugs, volatile energy prices, and others.

A critical element to the University's future is its relationship with the State. There is a direct relationship between the level of State support and the University's ability to control tuition growth, as declines in State appropriations generally result in increased tuition levels. The State's capital appropriations continue to support construction and renovation of the University's facilities. Economic pressures affecting the State may affect the State's future support of the University.

While it is not possible to predict the ultimate results, management believes that the University's financial condition is strong enough to weather these economic uncertainties.

Cleveland State University
Statements of Net Assets
June 30, 2004 and 2003

	University		University Related Foundation	
	2004	2003	2004	2003
ASSETS				
Current Assets:				
Cash	\$ 2,296,693	\$ 9,107,333	\$ 2,311,433	\$ 662,522
Investments	43,254,631	37,752,926	-	-
Accounts and Pledges Receivable, Net	15,321,879	11,262,799	308,438	542,294
Notes Receivable, Net	1,693,613	1,866,774	-	-
Accrued Interest Receivable	821,659	638,685	-	-
Prepaid Expenses, Deferred Charges and Inventories	1,798,135	1,459,380	-	-
Total Current Assets	65,186,610	62,087,897	2,619,871	1,204,816
Noncurrent Assets:				
Restricted Investments	40,604,740	43,110,443	-	-
Long-Term and Endowment Investments	24,853,820	15,323,015	23,941,171	19,296,607
Notes Receivable, Net	10,557,573	9,977,635	-	-
Pledges Receivable, Net	-	-	2,826,635	1,347,323
Deferred Bond Premium and Issuance Costs	731,278	758,675	-	-
Capital Assets, Net	253,145,244	258,298,611	-	-
Total Noncurrent Assets	329,892,655	327,468,379	26,767,806	20,643,930
Total Assets	395,079,265	389,556,276	29,387,677	21,848,746
LIABILITIES				
Current Liabilities:				
Accounts Payable	3,739,377	2,758,836	539,990	576,063
Accrued Liabilities	7,928,080	9,066,527	24,114	10,192
Accrued Interest Payable	137,833	146,088	-	-
Deferred Revenue	7,928,270	6,969,290	-	-
Compensated Absences - Current Portion	450,853	648,106	-	-
Long-Term Debt - Current Portion	1,596,686	1,534,182	-	-
Total Current Liabilities	21,781,099	21,123,029	564,104	586,255
Noncurrent Liabilities:				
Accrued Liabilities	11,701,608	10,162,516	3,035,105	2,828,768
Compensated Absences - Noncurrent Portion	6,840,081	6,194,365	-	-
Long-Term Debt - Noncurrent Portion	52,890,438	54,443,240	-	-
Total Noncurrent Liabilities	71,432,127	70,800,121	3,035,105	2,828,768
Total Liabilities	93,213,226	91,923,150	3,599,209	3,415,023
NET ASSETS				
Invested in Capital Assets, Net of Related Debt	242,138,247	245,317,385	-	-
Restricted:				
Expendable	15,971,408	14,044,469	7,886,645	5,182,480
Nonexpendable	1,285,069	1,106,206	17,279,053	12,759,718
Unrestricted	42,471,315	37,165,066	622,770	491,525
Total Net Assets	\$ 301,866,039	\$ 297,633,126	\$ 25,788,468	\$ 18,433,723

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

Cleveland State University
Statements of Revenues, Expenses, and Changes in Net Assets
Years Ended June 30, 2004 and 2003

	University		University Related Foundation	
	2004	2003	2004	2003
Revenues				
Operating Revenues:				
Student Tuition and Fees	\$ 103,842,024	\$ 95,827,209	\$ -	\$ -
Less Scholarship Allowances	9,623,291	8,350,389	-	-
Net Student Tuition and Fees	94,218,733	87,476,820	-	-
Federal Grants and Contracts	16,855,658	9,573,688	-	-
State Grants and Contracts	4,917,905	4,950,773	-	-
Local Grants and Contracts	454,970	412,511	-	-
Private Grants and Contracts	3,650,183	3,271,610	-	-
Sales and Services	3,740,626	3,524,384	-	-
Auxiliary Enterprises	10,086,036	9,737,716	-	-
Other Sources	440,350	440,062	26,622	28,439
Total Operating Revenues	134,364,461	119,387,564	26,622	28,439
Expenses				
Operating Expenses:				
Instruction	80,475,402	77,629,017	999,046	1,401,031
Research	15,036,515	13,493,627	63,118	112,902
Public Service	11,982,936	7,842,716	1,097,383	1,278,609
Academic Support	20,344,432	15,459,491	126,056	158,430
Student Services	18,006,608	16,051,512	-	-
Institutional Support	23,513,279	22,115,999	906,827	1,384,256
Operation and Maintenance of Plant	16,017,335	16,886,095	-	-
Scholarships and Fellowships	10,580,518	11,003,580	576,843	581,090
Auxiliary Enterprises	14,939,356	13,081,920	280,875	176,102
Depreciation and Amortization	15,045,070	15,166,745	-	-
Total Operating Expenses	225,941,451	208,730,702	4,050,148	5,092,420
Operating Loss	(91,576,990)	(89,343,138)	(4,023,526)	(5,063,981)
Nonoperating Revenues (Expenses)				
State Appropriations	71,982,028	72,246,181	-	-
Federal Grants and Contracts	10,837,343	10,622,713	-	-
State Grants and Contracts	3,557,298	3,429,428	-	-
Gifts	3,942,821	4,281,426	8,172,264	4,454,172
Investment Income	1,342,775	1,893,283	3,206,007	711,206
Interest on Debt	(445,808)	(685,952)	-	-
Net Nonoperating Revenues	91,216,457	91,787,079	11,378,271	5,165,378
(Loss) Gain Before Other Changes	(360,533)	2,443,941	7,354,745	101,397
Other Changes				
State Capital Appropriations	4,459,787	6,185,883	-	-
Capital Gifts	133,659	526,463	-	-
Reallocation of Ohio Workers Compensation Liability	-	2,217,110	-	-
Increase in Net Assets	4,232,913	11,373,397	7,354,745	101,397
Net Assets				
Net Assets at Beginning of Year	297,633,126	286,259,729	18,433,723	18,332,326
Net Assets at End of Year	\$ 301,866,039	\$ 297,633,126	\$ 25,788,468	\$ 18,433,723

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

**Cleveland State University
Statements of Cash Flows**

	Years Ended June 30	
	2004	2003
Cash Flows from Operating Activities		
Tuition and Fees	\$ 95,460,019	\$ 86,514,761
Grants and Contracts	22,901,597	18,247,720
Payments to or On Behalf of Employees	(141,778,763)	(125,401,636)
Payments to Vendors	(68,676,155)	(64,785,826)
Loans Issued to Students	(2,821,070)	(2,829,431)
Collection of Loans to Students	2,827,884	2,304,040
Auxiliary Enterprises Charges	9,229,412	10,625,237
Other Receipts	4,180,976	3,964,446
Net Cash Used by Operating Activities	(78,676,100)	(71,360,689)
Cash Flows from Noncapital Financing Activities		
State Appropriations	71,982,028	72,246,181
Grants and Contracts	14,394,641	14,052,141
Gifts	3,942,821	4,281,426
Cash Provided by Stafford and PLUS Loans	65,464,884	52,701,400
Cash Used by Stafford and PLUS Loans	(65,735,763)	(52,251,287)
Cash Provided by Agency Fund Activities	2,708,770	1,347,692
Cash Used by Agency Fund Activities	(1,434,191)	(1,290,884)
Net Cash Provided by Noncapital Financing Activities	91,323,190	91,086,669
Cash Flows from Capital Financing Activities		
Proceeds from Capital Debt and Leases	100,619	53,757,648
Capital Appropriations	4,459,787	6,185,883
Capital Gifts and Grants	133,659	526,464
Purchases of Capital Assets	(10,339,811)	(3,567,452)
Principal Paid on Capital Debt and Leases	(1,590,917)	(8,647,589)
Interest Paid on Capital Debt and Leases	(1,990,264)	(585,380)
Net Cash (Used) Provided by Capital Financing Activities	(9,226,927)	47,669,574
Cash Flows from Investing Activities		
Proceeds from Sales and Maturities of Investments	246,958,415	179,836,839
Purchase of Investments	(259,485,222)	(241,269,406)
Interest on Investments	2,296,004	1,526,934
Net Cash Used by Investing Activities	(10,230,803)	(59,905,633)
Net (Decrease) Increase in Cash	(6,810,640)	7,489,921
Cash at Beginning of Year	9,107,333	1,617,412
Cash at End of Year	\$ 2,296,693	\$ 9,107,333

Cleveland State University
Statements of Cash Flows (continued)

	Years Ended June 30	
	2004	2003
Reconciliation of Operating Loss to Cash Used by Operating Activities		
Operating Loss	\$ (91,576,990)	\$ (89,343,138)
Adjustments:		
Depreciation and Amortization	15,045,070	15,166,745
Changes in Assets and Liabilities:		
Accounts Receivable, Net	(3,597,168)	744,211
Notes Receivable, Net	6,814	(525,391)
Inventories	(61,326)	(70,875)
Prepaid Expenses and Deferred Charges	(277,429)	4,225,050
Accounts Payable	1,026,272	(3,968,891)
Accrued Liabilities	(200,323)	10,216,508
Deferred Revenue	958,980	(7,804,908)
Cash Used by Operating Activities	\$ (78,676,100)	\$ (71,360,689)

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

CLEVELAND STATE UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
Years Ended June 30, 2004 and 2003

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 Revised Code of the State of Ohio. As such, the University is a component unit of the State of Ohio. 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 of Ohio's (State) Comprehensive Annual Financial Report. During fiscal year 2004, the University adopted GASB Statement No. 39, *Determining Whether Certain Organizations are Component Units*. In accordance with those standards, The Cleveland State University Foundation is included, as a discretely presented component unit, in the University's financial report by presentation of the individual financial statements of the unit immediately following the University's respective GASB financial statements. Additional information on the component unit is contained in Note 9.

The financial statements have been prepared in accordance with accounting principles generally accepted in the United States, as prescribed by GASB Statement No. 35, *Basic Financial Statements – and Management's Discussion and Analysis – for Public Colleges and Universities*, as amended by GASB Statements No. 37 and 38. 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 four 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.
 - **Nonexpendable:** Net assets subject to externally-imposed stipulations that they be maintained permanently by the University.
- **Unrestricted:** Net assets that are not subject to externally-imposed stipulations. Unrestricted net assets may be designated for specific purposes by action of management or may otherwise be limited by contractual agreements with outside parties.

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

FASB Pronouncements

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

Operating Activities

The University's policy for defining operating activities as reported on the statement of revenues, 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 revenues, 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 includes student tuition. Student tuition and fees revenues 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.

Endowment investments are subject to the restrictions of gift instruments, requiring in perpetuity that the principal be invested and the income only be utilized. 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.

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. 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 of Ohio 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. 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.

All University employees are entitled to a sick leave credit equal to 10 hours for each month of service (earned on a pro-rata bases 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 with a maximum of 240 hours.

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

Summer term tuition and fees and corresponding expenses relating to various sessions falling in this fiscal year 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 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 collections. These funds are ultimately refundable to the government and, therefore, are recorded as a liability in the accompanying financial statements.

Auxiliary Enterprises. Auxiliary enterprise revenues primarily represent revenues generated by parking, residence hall, Convocation Center, food service, bookstore, and intercollegiate athletics.

Scholarship Allowances and Student Aid. Financial aid to students is reported in the financial statements 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 revenues. 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, on the ratio of aid not considered to be third party aid to total aid.

Component Unit. The Cleveland State University Foundation, Inc. (the Foundation) is a private nonprofit organization that reports under FASB standards, including FASB Statement No. 117, *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 financial information in the University's financial reporting entity for these differences.

Use of Estimates. The preparation of financial statements in conformity with accounting principles generally accepted in the United States 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.

Newly Issued Accounting Pronouncements. In March, 2003, GASB issued Statement No. 40, *Deposit and Investment Risk Disclosures, and amendment to GASB Statement No. 3, Deposits with Financial Institutions, Investments (including repurchase agreements) and Reverse Repurchase Agreements*. The new standard requires that state and local governments, including colleges and universities, disclose essential risk information about deposits and investments. The disclosure requirements cover four main areas: credit risk, interest rate and investment maturity, interest rate sensitivity and foreign exchange exposure. The provisions of GASB Statement No. 40 are effective for financial statements for periods beginning after June 15, 2004.

In November 2003, GASB issues Statement No. 42, *Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries*. The statement establishes accounting and financial reporting standards for impairment of capital assets and clarifies and established accounting requirements for insurance recoveries. The provisions of GASB Statement No. 42 will be effective for fiscal periods beginning after December 15, 2004.

In June 2004, GASB issued Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*. The statement establishes standards for measurement, recognition, and display of OPEB expense/expenditures and related liabilities (assets), note disclosures, and, if applicable, required supplementary information (RSI) in the financial reports of state and local governmental employers. The provisions of GASB Statement No. 45 are effective for the fiscal year ending June 30, 2008.

Budget. The University's annual operating budget is approved by the Board of Trustees and submitted to the Ohio Board of Regents.

Other. Certain reclassifications have been made to the 2003 comparative information to conform with the 2004 presentation.

NOTE 2 – CASH AND INVESTMENTS

In accordance with the Board of Trustees' resolution, the types of investments that may be purchased by the University, except through the endowments, are restricted to 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, and the State Treasurer's Asset Reserve (STAR Ohio). The endowments are managed by the Cleveland State University Foundation, which can also invest in registered investment companies and corporate bonds.

At June 30, 2004, the cash and cash equivalents balance is \$2,296,693. The bank balance at June 30, 2004 was \$3,809,003, of which \$635,990 was covered by federal depository insurance, and \$3,173,013 was covered by collateral held by the trust department of a bank other than the pledging bank in the name of the pledging bank.

GASB Statement No. 3 requires government entities to categorize investments to give an indication of the level of risk assumed by the entity. Category 1 includes investments that are insured or registered or for which the securities are held by the University or its agent in the name of the University. Category 2 includes uninsured and unregistered investments for which the securities are held by the broker's or dealer's trust department or agent in the name of the University. Category 3 includes uninsured and unregistered investments for which the securities are held by the broker or dealer or by its trust department or agent but not in the University's name.

The University held the following types of investments at June 30, 2004:

	<u>Market</u>	<u>Cost</u>
Category 1:		
Bond Mutual Funds	\$ 851,544	\$ 865,149
Stock Mutual Funds	1,487,680	1,295,916
	<u>2,339,224</u>	<u>2,161,065</u>
Category 2:		
U.S. Government Securities	98,436,840	99,086,168
Not Categorized:		
STAROhio	<u>7,937,127</u>	<u>7,937,127</u>
Total Investments	108,713,191	<u>\$ 109,184,360</u>
Less Current Portion	<u>43,254,631</u>	
Total Non current Investments	<u>\$ 65,458,560</u>	

STAR Ohio is an investment pool created pursuant to Ohio statutes and managed by the Treasurer of the State of Ohio. Amounts invested with STAR Ohio are not classifiable as to risk category because the University does not own identifiable securities of the pool. 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 Act of 1940.

The University classifies all investments that mature in less than one year as current investments.

NOTE 3 – RECEIVABLES

The composition of accounts receivable at June 30, 2004 and 2003 is summarized as follows:

	<u>2004</u>	<u>2003</u>
Student accounts	\$ 7,469,546	\$ 7,572,965
Grants	7,072,390	4,095,271
Other	2,845,098	1,501,487
Total Accounts Receivable	<u>17,387,034</u>	<u>13,169,723</u>
Less allowance for uncollectable accounts	<u>2,065,155</u>	<u>1,906,924</u>
Accounts Receivable - Net	<u><u>\$15,321,879</u></u>	<u><u>\$11,262,799</u></u>

Notes receivable consist primarily of loans to students under the federal Perkins Loan Program. The composition of notes receivable at June 30, 2004 and 2003 is summarized as follows:

	<u>2004</u>	<u>2003</u>
Perkins Loan Program	\$12,139,866	\$11,743,070
Foundation Capital Campaign	153,953	177,072
Other	652,049	595,971
Total Notes Receivable	<u>12,945,868</u>	<u>12,516,113</u>
Less allowance for uncollectable accounts	<u>694,682</u>	<u>671,704</u>
Notes Receivable - Net	<u>12,251,186</u>	<u>11,844,409</u>
Less Current Portion	<u>1,693,613</u>	<u>1,866,774</u>
Total Noncurrent Notes Receivable	<u><u>\$10,557,573</u></u>	<u><u>\$ 9,977,635</u></u>

NOTE 4 – STATE SUPPORT

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

In addition, the State provides the funding and constructs major plant facilities on the University's campus. The funding is obtained from the issuance of revenue bonds by the Ohio Public Facilities Commission (OPFC), which in turn causes the construction and subsequent lease of the facility, by the Ohio Board of Regents. Upon completion, the Board of Regents turns over control of the facility to the University. Neither the obligation for the revenue bonds issued by OPFC nor the annual debt service charges for principal and interest on the bonds are reflected in the University's financial statements. These 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, 2004 and 2003 is summarized as follows:

	2004 Beginning Balance	Additions	Retirements	2004 Ending Balance
Capital Assets:				
Non-depreciable:				
Land	\$ 52,360,067	\$ 45,891	\$ -	\$ 52,405,958
Construction in Progress	-	2,090,991	-	2,090,991
Capitalized Collections	7,102,155	-	-	7,102,155
Depreciable:				
Land Improvements	15,818,275	489,145	-	16,307,420
Buildings	340,950,964	4,226,841	833,720	344,344,085
Equipment	49,464,021	767,209	1,538,759	48,692,471
Library Books	49,727,980	2,831,515	267,120	52,292,375
Total Capital Assets	<u>515,423,462</u>	<u>10,451,592</u>	<u>2,639,599</u>	<u>523,235,455</u>
Less Accumulated Depreciation:				
Land Improvements	6,261,281	762,994	-	7,024,275
Buildings	175,000,173	8,362,451	246,433	183,116,191
Equipment	38,034,568	3,573,565	1,538,759	40,069,374
Library Books	37,828,829	2,318,662	267,120	39,880,371
Total Accumulated Depreciation	<u>257,124,851</u>	<u>15,017,672</u>	<u>2,052,312</u>	<u>270,090,211</u>
Capital Assets, Net	<u>\$ 258,298,611</u>	<u>\$ (4,566,080)</u>	<u>\$ 587,287</u>	<u>\$ 253,145,244</u>
	2003 Beginning Balance	Additions	Retirements	2003 Ending Balance
Capital Assets:				
Non-depreciable:				
Land	\$ 52,833,123	\$ -	\$ 473,056	\$ 52,360,067
Capitalized Collections	7,102,155	-	-	7,102,155
Depreciable:				
Land Improvements	14,937,578	880,697	-	15,818,275
Buildings	334,633,725	6,317,239	-	340,950,964
Equipment	43,111,033	7,985,404	1,632,416	49,464,021
Library Books	47,115,399	2,733,266	120,685	49,727,980
Total Capital Assets	<u>499,733,013</u>	<u>17,916,606</u>	<u>2,226,157</u>	<u>515,423,462</u>
Less Accumulated Depreciation:				
Land Improvements	5,517,997	743,284	-	6,261,281
Buildings	166,936,732	8,063,441	-	175,000,173
Equipment	35,702,257	3,964,727	1,632,416	38,034,568
Library Books	35,554,221	2,395,293	120,685	37,828,829
Total Accumulated Depreciation	<u>243,711,207</u>	<u>15,166,745</u>	<u>1,753,101</u>	<u>257,124,851</u>
Capital Assets, Net	<u>\$ 256,021,806</u>	<u>\$ 2,749,861</u>	<u>\$ 473,056</u>	<u>\$ 258,298,611</u>

NOTE 6 – NONCURRENT LIABILITIES

Noncurrent liabilities consist of the following as of June 30, 2004 and June 30, 2003:

	Due Dates	Interest Rate-%	2004			2004	
			Beginning Balance	Additions	Reductions	Ending Balance	Current
1996 Bonds Payable	2003-11	4.90-5.25	\$ 2,130,000	\$ -	\$ 220,000	\$ 1,910,000	\$ 230,000
2003A Bonds Payable	2007-33	2.00-5.00	35,745,000	-	710,000	35,035,000	730,000
2003B Bonds Payable	2006-33	Variable	14,535,000	-	-	14,535,000	-
2003A Bond Premium			760,127	-	27,449	732,678	25,338
Capital Leases	2003-08	1.68-12.17	2,807,295	100,619	633,468	2,274,446	611,348
Total Debt			55,977,422	100,619	1,590,917	54,487,124	1,596,686
Perkins Student Loans			9,820,064	273,478	54,696	10,038,846	-
Deposits			342,452	3,291,367	1,971,057	1,662,762	-
Compensated Absences			6,842,471	899,316	450,853	7,290,934	450,853
			72,982,409	\$ 4,564,780	\$ 4,067,523	73,479,666	\$ 2,047,539
Less Current Portion long-term liabilities			(2,182,288)			(2,047,539)	
Long-Term Liabilities			\$ 70,800,121			\$ 71,432,127	

	Due Dates	Interest Rate-%	2003			2003	
			Beginning Balance	Additions	Reductions	Ending Balance	Current
1993 Bonds Payable			\$ 7,880,000	\$ -	\$ 7,880,000	\$ -	\$ -
1996 Bonds Payable	2003-11	4.90-5.25	2,340,000	-	210,000	2,130,000	220,000
2003A Bonds Payable	2007-33	2.00-5.00	-	35,745,000	-	35,745,000	710,000
2003B Bonds Payable	2006-33	Variable	-	14,535,000	-	14,535,000	-
2003A Bond Premium			-	760,127	-	760,127	-
Capital Leases	2003-08	2.95-12.2	629,215	2,717,521	539,441	2,807,295	604,182
Total Debt			10,849,215	53,757,648	8,629,441	55,977,422	1,534,182
Workers Compensation			2,217,110	-	2,217,110	-	-
Perkins Student Loans			9,602,182	273,478	55,596	9,820,064	-
Deposits			310,700	1,750,857	1,719,105	342,452	-
Compensated Absences			6,811,278	679,299	648,106	6,842,471	648,106
			29,790,485	\$ 56,461,282	\$ 13,269,358	72,982,409	\$ 2,182,288
Less Current Portion long-term liabilities			(1,671,711)			(2,182,288)	
Long-Term Liabilities			\$ 28,118,774			\$ 70,800,121	

In June 2003, the University issued Series 2003A and 2003B (Series 2003) general receipts bonds to currently refund outstanding Series 1993 general receipts bonds, rehabilitate the Howe Mansion, construct an Administrative Center and construct a Recreation and Fitness Center. The variable interest rate is set weekly at rates based upon yield evaluations at par of comparable securities (1.1% at June 30, 2004).

The University issued \$3,430,000 of general receipts bonds on November 1, 1996 (Series 1996). The proceeds were used to refinance existing debt and to renovate existing buildings. The bonds have various call provisions and interest is paid semi-annually.

Interest expense on indebtedness was \$445,808 in fiscal 2004 and \$685,952 in fiscal 2003. On construction-related debt, interest expense of \$1,508,752, net of \$307,509 interest earned on invested proceeds, was capitalized. There was no capitalized interest for the year ended June 30, 2003.

The University leases various pieces of equipment which have been recorded as 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 \$1,799,386 at June 30, 2004 and \$2,589,550 at June 30, 2003.

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
2005	\$ 960,000	\$ 2,103,754	\$ 611,348	\$ 70,717
2006	1,330,000	2,078,480	608,528	48,397
2007	1,940,000	2,040,600	579,294	27,687
2008	1,995,000	1,980,330	470,230	7,560
2009	1,925,000	1,898,732	5,046	54
2010-2014	8,910,000	8,418,583	-	-
2015-2019	6,595,000	6,838,806	-	-
2020-2024	8,160,000	5,276,193	-	-
2025-2029	10,005,000	3,425,451	-	-
2030-2034	9,660,000	1,093,477	-	-
	<u>\$ 51,480,000</u>	<u>\$ 35,154,406</u>	<u>\$ 2,274,446</u>	<u>\$ 154,415</u>

The University has entered into various lease agreements for office equipment, and office and classroom space, which are considered operating leases. Total rental expense under operating leases during the years ended June 30, 2004 and 2003 amounted to \$639,528 and \$125,300, respectively.

Future minimum operating lease payments as of June 30, 2004 are as follows:

Year Ending June 30	Operating Leases
2005	\$ 636,821
2006	543,581
2007	199,345
2008	201,747
2009	204,149
2010-2013	840,613
	<u>\$ 2,626,256</u>

NOTE 7 – EMPLOYMENT BENEFIT PLANS

Retirement Plans

Substantially all non-student University employees are covered by either the State Teachers Retirement System of Ohio (STRS) or the Public Employees Retirement System of Ohio (PERS). Both systems are cost-sharing, multiple-employer, 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 9.3% of covered payroll and employers contribute 14% of covered payroll. The University's contributions to STRS for the years ending June 30, 2004, 2003, and 2002 were \$6,859,229, \$6,699,794, and \$5,979,650, 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, 275 East Broad Street, Columbus, OH 43215-3771, or by calling (614) 227-4090.

PERS is a statewide retirement plan, which covers non-teaching University employees. PERS 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 Public Employee Retirement Board, not to exceed the statutory maximum rates of 10% for employees and 14% for employers. Currently, employees contribute 8.5% of covered payroll and employers contribute 13.31% of covered payroll. The University's contributions to PERS for the years ending June 30, 2004, 2003, and 2002 were \$6,935,609, \$5,526,290, and \$5,005,338, respectively, equal to the required contributions for each year. PERS issues a stand-alone financial report. The report may be obtained by writing to PERS, 277 East Town Street, Columbus, OH 43215-4642, or by calling (614) 222-6705.

Alternative Retirement Plans

The University also offers eligible employees an alternative retirement program. The University is required to contribute to STRS 5.76% of earned compensation for those employees participating in the alternative retirement program. The University's contributions for the years ended June 30, 2004, 2003 and 2002 were \$184,537, \$182,337 and \$232,333, respectively, which equal 5.76% of earned compensation.

Post Employment Benefits

STRS provides other post employment benefits (OPEB) to all retirees and their dependents, while PERS provides postretirement health care coverage to age and service retirees (and dependents) with 10 or more years of qualifying Ohio service credit. Health care coverage for disability recipients and primary survivor recipients is also available under PERS. A portion of each employer's contributions is set aside for the funding of postretirement health care. For STRS, this rate was 4.5% of the total 14.00%, while the PERS rate was 5.0% of the total 13.31% for the year ended June 30, 2003.

The Ohio Revised Code provides the statutory authority for public employers to fund postretirement health care through their contributions to STRS and PERS. Postretirement healthcare under STRS is financed on a pay-as-you-go basis. Assets available in the health care reserve fund for STRS amounted to \$2.8 billion at June 30, 2003. The number of benefit recipients eligible for OPEB was 108,294 for STRS at June 30, 2003. The amount contributed by the University to STRS to fund these benefits was \$2,204,752 for the year ended June 30, 2004, and \$2,153,505 for the year ended June 30, 2003.

Postretirement health care under PERS is advance-funded on an actuarially determined basis. The actuarial value of PERS net assets available for OPEB at December 31, 2002 is \$10.0 billion. The actuarially accrued liability and the unfunded actuarial accrued liability, based on the actuarial cost method used, were \$18.7 billion and \$8.7 billion, respectively. Significant actuarial assumptions include an 8% investment return, a 4% individual pay increases, and a 4% increase in health care costs. All investments are carried at market value. For actuarial valuations purposes, a smoothed market approach is used. The number of PERS active contributing participants was 364,881 for the year ended December 31, 2003. The amount contributed by the University to PERS for OPEB funding was \$2,605,413 for the year ended June 30, 2004 and \$2,075,992 for the year ended June 30, 2003.

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.

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

The University maintains a self-insured dental plan for its employees. The University's risk exposure is limited to claims incurred. The change in the total liability for actual and estimated dental claims for the years ended June 30, 2004 and 2003 are summarized below:

	2004	2003
Liability at beginning of year	\$ 133,727	\$ 93,593
Claims Incurred	923,427	992,907
Claims Paid	(933,556)	(986,256)
IBNR-Increase in estimated claims	18,029	33,483
Unpaid Claims - June 30	<u>\$ 141,627</u>	<u>\$ 133,727</u>

The University maintains a self-insured medical plan for its employees. The University's risk exposure is limited to claims incurred. The change in the total liability for actual and estimated medical claims for the years ended June 30, 2004 and 2003 are summarized below:

	2004	2003
Liability at beginning of year	\$ 955,012	\$ 857,007
Claims Incurred	6,919,489	5,582,789
Claims Paid	(6,854,618)	(5,574,958)
IBNR-(Decrease)Increase in estimated claims	(95,004)	90,174
Unpaid Claims - June 30	<u>\$ 924,879</u>	<u>\$ 955,012</u>

Medical claims are based upon estimates of the claims liabilities. Estimates are based upon past experience, medical inflation trends, and current claims outstanding, including year-end lag analysis. Differences between the estimated claims payable and actual claims paid are reported in the Statement of Revenues, Expenses and Changes in Net Assets. In connection with a change in estimate related to the accrued medical liability, the University recorded a \$300,000 reduction in operating expenses in fiscal 2004.

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 individual fund types included herein or on the overall financial position of the University at June 30, 2004.

NOTE 10 – COMPONENT UNIT

The Cleveland State University Foundation, Inc. (the Foundation) is a legally separate not-for-profit entity organized for the purpose of providing support for the general educational needs of the University. The Foundation is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code.

The Foundation acts primarily as a fund-raising organization to supplement the resources that are available to the University in support of its programs. The board of the Foundation is self-perpetuating and consists of business leaders and friends of the University. Although the University does not control the timing or amount of receipts from the Foundation, the majority of resources, or income thereon, that the Foundation holds and invests are restricted to the activities of the University by donors. Because these restricted resources held by the Foundation can only be used by, or for the benefit of, the University, the Foundation is considered a component unit of the University and is discretely presented in the University's financial statements. Complete financial statements for the Foundation can be obtained from the Office of the Executive Director at 2121 Euclid Avenue, Mather Mansion Room 105, Cleveland, OH 44115-2214.

During the years ended June 30, 2004 and 2003, the Foundation distributed \$3,415,684 and \$4,132,968, respectively, to the University. At June 30, 2004 and 2003, the University had receivables from the Foundation totaling \$574,414 and \$610,773, 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. As of June 30, 2004, the amount on deposit totaled \$2,339,224. As of June 30, 2003, the amount on deposit totaled \$2,155,495.

NOTE 11 – TITLE IV CERTIFICATION

On September 17, 2001, the University was notified by the Department of Education that the University was granted provisional certification, for a period not to exceed three years, to participate in Title IV, HEA programs. The University is under provisional status and must reapply before being taken off of provisional status.

NOTE 12 – SUBSEQUENT EVENT

On August 5, 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 yields on the bonds range from 2.00% to 5.25%. The proceeds of the bonds will be 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.

Cleveland State University

Schedule of Expenditures of Federal Awards

Year ended June 30, 2004

Program Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Federal Expenditures
Student Financial Aid-Cluster			
Department of Education:			
Direct programs:			
Federal Pell Grant Program	84.063		\$ 10,195,131
Federal Work-Study Program	84.033		695,413
Federal Supplemental Educational Opportunity Grants	84.007		578,160
Federal Perkins Loan Program (<i>Note 3</i>)	84.038		273,478
Federal Family Education Loan Program (<i>Note 4</i>)	84.032		-
Total Department of Education			11,742,182
Department of Health and Human Services:			
Direct program:			
Scholarships for Health Professions Students from Disadvantaged Backgrounds	93.925		92,000
Total Student Financial Aid-Cluster			11,834,182
TRIO-Cluster			
Department of Education:			
Direct programs:			
TRIO – Student Support Services	84.042		448,956
TRIO – Upward Bound	84.047		202,247
Total TRIO-Cluster			651,203
Research and Development-Cluster			
Department of Health and Human Services:			
Direct programs:			
Human Genome Research	93.172		(190)
Consolidated Knowledge Development and Application (KD&A) Program	93.230		10,757
Academic Research Enhancement Award	93.390		630
Cancer Detection and Diagnosis Research	93.394		230,198
Cancer Biology Research	93.396		166,915
Blood Diseases and Resources Research	93.839		127,079
Extramural Research Programs in the Neurosciences and Neurological Disorders	93.853		109,595
Allergy, Immunology and Transplantation Research	93.855		69,701
Biomedical Research and Research Training	93.859		29,438
Aging Research	93.866		16,985

Cleveland State University

Schedule of Expenditures of Federal Awards (continued)

Program Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Federal Expenditures
Pass-through programs:			
Positive Education Program – Consolidated Knowledge Development and Application (KD&A) Program	93.230	1U79SM54817-01	26,259
Medical College of Ohio – Nursing Research Case Western Reserve University –	93.361	1-R01-NR07650-01A1	33,849
Drug Abuse Research Programs Case Western Reserve University – Cell	93.837	1-R01-HLO73081-01	12,462
Biology and Biophysics Research University of Vermont – Blood Diseases and Resources Research	93.821	P50GM-66309	242,356
93.839	2 R01 HL34575-15	12,087	
Northeastern University – Genetics and Developmental Biology Research and Research Training	93.862	1-R15A14775	4,459
Total Department of Health and Human Services			<u>1,092,580</u>
National Aeronautics and Space Administration:			
Direct program:			
Technology Transfer	43.002		4,195,792
Pass-through programs:			
University of Iowa – Technology Transfer	43.002	NCC8-98	69,267
University of Arizona – Technology Transfer	43.002	NCC8-96	57,418
Sunpower, Inc. – Technology Transfer	43.002	NAS3-03128	51,981
Ohio Aerospace Institute – Technology Transfer	43.002	R-300-100175-40102	79,684
Science Applications International Corp. – Technology Transfer	43.002	NAS3-2150	51,849
Total National Aeronautics and Space Administration			<u>4,505,991</u>
National Science Foundation:			
Direct program:			
Biological Sciences	47.074		216
Pass-through programs:			
Case Western Reserve University – Engineering Grants	47.071	BES-0201891 & DMI-0140412	37,914
Loyola University – Social, Behavioral, and Economic Sciences	47.075	502720-1	1,503
Total National Science Foundation			<u>39,633</u>
United States Department of Agriculture:			
Direct program:			
Rural Development, Forestry and Communities	10.672		9,759
Total United States Department of Agriculture			<u>9,759</u>

Cleveland State University

Schedule of Expenditures of Federal Awards (continued)

Program Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Federal Expenditures
United States Department of Commerce:			
Pass-through programs:			
National Oceanic and Atmospheric Administration through OSU Research Foundation – Sea Grant Support	11.417	RF#s 864212 & 919155	40,563
National Oceanic and Atmospheric Administration Coastal Zone Management Estuarine Research Reserves	11.420	DG133C-03-SE-1093	42,637
National Oceanic and Atmospheric Administration through Great Lakes Fishery Commission – Unallied Science Program	11.472	RR 2	<u>30,918</u>
Total United States Department of Commerce			114,118
United States Department of Transportation:			
Direct program:			
Highway Training and Education	20.215		3,000
Pass-through program:			
Innovative Pavement Research Fdn through Applied Pavement Tech Inc. through Case Western Reserve University – Airport Improvement Program	20.106	2003-036-AR01	<u>9,997</u>
Total United States Department of Transportation			12,997
United States Department of Housing and Urban Development:			
Pass-through program:			
City of Cleveland – Community Development Block Grants/Entitlement Grants	14.218	#62807	37,333
City of Cleveland – Housing Opportunities for Persons with AIDS	14.241	#61555 & #62805	68,027
Resident Empowerment Organization - Community Outreach Partnership Center Program	14.511	03-001-02	<u>75,156</u>
Total United States Department of Housing and Urban Development			180,516
National Endowment for the Humanities:			
Pass-through program:			
University Of Denver-Promotion of the Humanities – Division of Preservation and Access	45.149	PA23787-01	<u>38,897</u>
Total National Endowment for the Humanities			38,897

Cleveland State University

Schedule of Expenditures of Federal Awards (continued)

Program Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Federal Expenditures
Environmental Protection Agency:			
Direct program:			
Surveys, Studies, Investigations and Special Purpose Grants	66.606		78,034
Pass-through programs:			
NE Ohio Regional Sewer District – State Public Water System Supervision	66.432	R-82829801-0	35,073
Ohio Environmental Protection Agency through NE Ohio Regional Sewer District – Nonpoint Source Implementation Grants	66.460	3080	<u>61,940</u>
Total Environmental Protection Agency			<u>175,047</u>
Department of Energy:			
Direct programs:			
Energy-Related Inventions	81.036		194,439
Renewable Energy Research and Development	81.087		135,878
Pass-through programs:			
Conservation Research and Development – US Department of Energy through Ohio Department of Development	81.086	DE-FC36-021D143471	521,638
Clemson University Research Foundation – Fossil Energy Research and Development	81.089	03-01-SR106	<u>62,217</u>
Total Department of Energy			<u>914,172</u>
US-EGYPT Joint Science and Technology Board:			
Direct program:			
National Technical Information Service	11.650		<u>3,359</u>
Total US-EGYPT Joint Science and Technology Board			3,359
Department of State:			
Direct programs:			
Educational Exchange – University Lecturers (Professors) and Research Scholars	19.401		10,400
Teacher Exchange – New Independent States	19.407		<u>10,400</u>
Total Department of State			<u>20,800</u>

Cleveland State University

Schedule of Expenditures of Federal Awards (continued)

Program Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Federal Expenditures
Department of Education:			
Direct programs:			
Higher Education Institutional Aid	84.031		(2,684)
National Institute on Disability and Rehabilitation Research	84.133		23,538
Pass-through programs:			
Ohio Department of Education – Special Education – Grants to States	84.027	062950-6B-SX-02P	(621)
Euclid City School District – Fund for the Improvement of Education	84.215	S215X020458	244,408
University of Cincinnati – Special Education – State Program Improvement Grants for Children with Disabilities	84.323	PC03A-02520	19,043
University of Milwaukee – Teacher Quality Enhancement Grants	84.336	MC04109	<u>200</u>
Total Department of Education			<u>283,884</u>
Department of Justice:			
Pass-through program:			
University of Massachusetts/Amherst – National Incident Based Reporting System	16.733	UM#04-002558 A00	<u>6,750</u>
Total Department of Justice			<u>6,750</u>
US Agency for International Development:			
Pass-through program:			
The Urban Institute – USAID Foreign Assistance for Program Overseas	98.001	520-A-00-98-0013-00	<u>3,136</u>
Total US Agency for International Development			<u>3,136</u>
Total Research and Development-Cluster			<u>7,401,639</u>

Cleveland State University

Schedule of Expenditures of Federal Awards (continued)

Program Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Federal Expenditures
Other Financial Assistance Programs			
United States Department of Labor:			
Direct program:			
Employment and Training Administration Pilots, and Research Projects	17.261		2,743
Pass-through programs:			
Cleveland Municipal School District – Employment and Training Administration Pilots, Demonstrations and Research Projects	17.261	F0003	19,307
Youth Opportunities Unlimited – Youth Opportunity Grants	17.263	U-6367-7-00-88-60	10,573
Total United States Department of Labor			<u>32,623</u>
Department of Energy:			
Direct program:			
Energy Efficiency and Renewable Energy Information Dissemination, Outreach, Training and Technical Analysis/Assistance	81.117		60,949
Total Department of Energy			<u>60,949</u>
United States Department of Commerce:			
Direct program:			
Grants for Public Works and Economic Development Facilities	11.300		80,829
Pass-through programs:			
Cleveland Housing Network – Measures and Analyses of the U.S. Economy	11.025	TOPS	6,502
Ohio Department of Natural Resources – Coastal Zone Management Estuarine Research Reserves	11.420	Q40038	8,602
Florida Department of Environmental Protection – Coastal Zone Management Estuarine Research Reserves	11.420	RM028	40,077
Total United States Department of Commerce			<u>136,010</u>

Cleveland State University

Schedule of Expenditures of Federal Awards (continued)

Program Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Federal Expenditures
United States Department of Housing and Urban Development:			
Direct programs:			
Community Outreach Partnership Center Program	14.511		22,942
Community Development Work-Study Program	14.512		(4,314)
Pass-through programs:			
City of Cleveland – Community Development Block Grant/ Technical Assistance Program	14.227	SG62060A	27,824
Resident Empowerment Organization – Resident Opportunity and Supportive Services	14.870	03-001-04	<u>16,410</u>
Total United States Department of Housing and Urban Development			62,862
National Aeronautics and Space Administration:			
Direct programs:			
Aerospace Education Services Program	43.001		47,884
Technology Transfer	43.002		83,216
Pass-through program:			
Ohio Space Grant Consortium – Aerospace Education Services Program	43.001	SEED	<u>26,899</u>
Total National Aeronautics and Space Administration			157,999
Federal Mediation and Conciliation Service:			
Direct program:			
Labor Management Cooperation	34.002		<u>6,564</u>
Total Federal Mediation and Conciliation Service			6,564
National Science Foundation:			
Direct programs:			
Engineering Grants	47.041		38,310
Computer and Information Science and Engineering	47.070		61,557
Biological Sciences	47.074		64,599
Education and Human Resources	47.076		208,543
Pass-through programs:			
Cleveland Municipal School District – Mathematical and Physical Sciences	47.049	47-076	350,298
Ohio State University Research Foundation – Education and Human Resources	47.076	745924	<u>5,660</u>
Total National Science Foundation			728,967

Cleveland State University

Schedule of Expenditures of Federal Awards (continued)

Program Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Federal Expenditures
Environmental Protection Agency:			
Direct program:			
Surveys, Studies, Investigations and Special Purpose Grants	66.606		260,703
Total Environmental Protection Agency			<u>260,703</u>
Department of State:			
Direct programs:			
Educational Exchange – University Lecturers (Professors) and Research Scholars	19.401		16,124
College and University Partnerships Program	19.405		79,137
College and University Affiliations Program	19.406		41,047
Pass-through programs:			
NAFSA: Association of International Educators – Professional Development – International Educators/Administrators	19.404	COOP	(137)
Association Liaison Office – College and University Partnerships Program	19.405	HNE-A-97-00059-00	11,521
Council of International Programs – Middle East Partnership Initiative	19.500	03-01	4,999
Total Department of State			<u>152,691</u>
Department of Education:			
Direct programs:			
Fund for the Improvement of Postsecondary Education	84.116		293,576
Business and International Education Projects	84.153		76,063
Bilingual Education – Professional Development	84.195		243,064
Teacher Quality Enhancement Grants	84.336		589,082
Preparing Tomorrow’s Teachers to Use Technology	84.342		139,183
Pass-through programs:			
Ohio Department of Job and Family Services – Adult Education – State Grant Program	84.002	W203W3	112,322
Ohio Department of Education – Women's Educational Equity Act Program	84.083	5004C10014	2,121
Ohio State University – Business and International Education Projects	84.153	CIBER	2,850
Youth Opportunities Unlimited – Safe and Drug-Free Schools and Communities – National Programs	84.184	S184B020955	(3,682)
University of New Orleans Foundation – Fund for the Improvement of Education	84.215	R215K020369	16,626

Cleveland State University

Schedule of Expenditures of Federal Awards (continued)

Program Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Federal Expenditures
Ohio Board of Regents – Eisenhower Professional Development State Grants	84.281	01-21	(54)
Miami University – Eisenhower Regional Mathematics and Science Education Consortia	84.319	CG00309-160222-412-3	(49)
Bowling Green State University – Transition to Teaching	84.350	S350A02128	156,775
Ohio Department of Education – Reading First State Grants	84.357	062950-RSSI-03/AS4036/CSP#0A03034	3,796,775
Total Department of Education			<u>5,424,652</u>
Department of Health and Human Services:			
Direct programs:			
Substance Abuse and Mental Health Services – Projects of Regional and National Significance	93.243		27,587
Comparative Medicine	93.306		18,688
Health Careers Opportunity Program	93.822		269,859
Pass-through programs:			
National Youth Sports Program-President’s Council on Physical Fitness and Sports	93.289	80-8102	87,122
Case Western Reserve University – National Center for Research Resources	93.389	2S07 RR-018123-02	77
Cleveland Clinic Foundation – Diabetes, Endocrinology, and Metabolism Research	93.847	1R25DK064239	41,012
Total Department of Health and Human Services			<u>444,345</u>
Corporation for National and Community Service:			
Pass-through program:			
Wright State University – Learn and Serve America – Higher Education	94.005	00LHEOH02/95-2720-0-1-506	3,514
Total Corporation for National and Community Service			<u>3,514</u>
US Agency for International Development:			
Pass-through program:			
The Urban Institute – USAID Foreign Assistance for Programs Overseas	98.001	#07590-000-00	16,679
Total US Agency for International Development:			<u>16,679</u>
Total Other Financial Assistance Programs			<u>7,488,558</u>
Total Expenditures of Federal Awards			<u><u>\$ 27,375,582</u></u>

Cleveland State University

Notes to the Schedule of Expenditures of Federal Awards

Year ended June 30, 2004

1. Summary of Significant Accounting Policies

Basis of Presentation

The accompanying schedule of expenditures of federal awards includes the federal grant transactions of Cleveland State University (the University) recorded on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*.

2. Indirect Cost Rates

The University recovers indirect costs by means of predetermined fixed indirect cost rates. The predetermined fixed rates are a result of negotiated agreements with the Department of Health and Human Services. The predetermined fixed rates effective for the year ending June 30, 2004 are 59.0% for on-campus research and 24.0% for off-campus research. The base for the predetermined fixed rates is salaries and wages.

3. Federal Perkins Loan Program

	CFDA Number	Outstanding Balance at June 30, 2004
Federal Perkins Loan Program	84.038	\$ 12,144,787

Total loan expenditures and disbursements of the Department of Education student financial assistance program for the fiscal year are identified below:

	CFDA Number	Disbursements
Federal Perkins Loan Program	84.038	\$ 2,400,415

The above expenditures for the Federal Perkins Loan Program include disbursements and expenditures such as loans to students and administrative expenditures. The Schedule of Expenditures of Federal Awards only includes administrative costs of the loan program.

Cleveland State University

Notes to the Schedule of Expenditures of Federal Awards (continued)

4. Federal Family Loan Program

During the fiscal year ending June 30, 2004, The University processed the following amount of new loans under the Federal Family Education Loan Program (which includes Stafford Loans and Parents' Loans for Undergraduate Students):

	<u>CFDA Number</u>	<u>Amount Processed</u>
Federal Family Education Loans Program	84.032	\$ 63,068,520

5. Subrecipients

Of the federal expenditures presented on the previous pages, the University provided federal awards to subrecipients as follows:

<u>Program Title</u>	<u>Federal CFDA Number</u>	<u>Amount Provided to Subrecipient</u>
National Aeronautics and Space Administration:		
Direct programs:		
Case Western Reserve University	43.002	\$ (36)
Core Technology, Inc.	43.002	41,451
International Mezzo Techniques	43.002	10,207
National Composite Center	43.002	687,223
Stirling Technology Company	43.002	2,094
Terry Simon	43.002	6,000
Gedeon Associates	43.002	46,305
University of Minnesota	43.002	94,670
Department of Housing and Urban Development:		
Direct program:		
Vatreisha Nyemba	14.511	35,156
Environmental Protection Agency:		
Direct Programs:		
Case Western Reserve University	66.606	5,692
Kirsten Toth	66.606	39,017

Cleveland State University

Notes to the Schedule of Expenditures of Federal Awards (continued)

5. Subrecipients (continued)

Program Title	Federal CFDA Number	Amount Provided to Subrecipient
National Science Foundation:		
Direct programs:		
Lakeland Community College	47.076	3,143
Lorain County Community College	47.076	3,210
Department of Energy:		
Direct programs:		
University of Minnesota	81.036	100,906
Gedeon Associates	81.036	14,535
National Aeronautics and Space Administration	81.036	13,185
Pass-through programs:		
Cleveland Advanced Manufacturing Program	81.086	44,481
PPG Industries, Inc.	81.086	6,899
Department of Education:		
Direct programs:		
Bowling Green State University	84.357	79,348
Delaware/Union Educational Service Center	84.357	48,189
Educational Service Center of Cuyahoga County	84.357	52,445
John Carroll University	84.357	1,199,412
Ohio University	84.357	72,502
Perry-Hocking Educational Service Center	84.357	28,673
Purcell	84.357	27,225
University of Akron	84.357	1,356,255
Wright State University	84.357	10,442
Xavier University	84.357	80,000
Youngstown State University	84.357	25,848
		\$ 4,134,477

Report of Independent Auditors on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of the Financial Statements Performed in Accordance with *Government Auditing Standards*

Board of Trustees
Cleveland State University

We have audited the financial statements of Cleveland State University (the University) as of and for the year ended June 30, 2004, and have issued our report thereon dated October 12, 2004. We conducted our audit in accordance with auditing standards generally accepted in the United States and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the University's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the University's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we reported to management of the University in a separate letter dated October 12, 2004.

This report is intended for the information and use of the Board of Trustees, management and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.



October 12, 2004

Report of Independent Auditors on Compliance with Requirements Applicable to Each Major Program and on Internal Control Over Compliance in Accordance with OMB Circular A-133

Board of Trustees
Cleveland State University

Compliance

We have audited the compliance of Cleveland State University (the University) with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2004. The University's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the University's management. Our responsibility is to express an opinion on the University's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audit of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the University's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the University's compliance with those requirements.

In our opinion, the University complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2004.

Internal Control Over Compliance

The management of the University is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the University's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts, and grants caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of the Board of Trustees, management and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.



October 12, 2004

Cleveland State University

Schedule of Findings and Questioned Costs

Year ended June 30, 2004

Part I – Summary of Auditor’s Results

Financial Statement Section

Type of auditor’s report issued: Unqualified Opinion

Internal control over financial reporting:

Material weakness(es) identified? yes X no

Were reportable condition(s) identified that are not considered to be material weakness(es)? yes X none reported

Noncompliance material to financial statements noted? yes X no

Federal Awards Section

Internal control over compliance:

Material weakness(es) identified? yes X no

Were reportable condition(s) identified that are not considered to be material weakness(es)? yes X none noted

Type of auditor’s report on compliance for major programs: Unqualified Opinion

Any audit findings disclosed that are required to be reported in accordance with Circular A-133 (section .510(a))? yes X no

Cleveland State University

Schedule of Findings and Questioned Costs (continued)

Part I—Summary of Auditor’s Results (continued)

Identification of major program:

<u>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster</u>
84.063, 84.033, 84.007, 84.038, 84.032, 93.925	Student Financial Aid – Cluster
84.357	Reading First State Grants

Dollar threshold used to determine Type A programs: \$ 821,267

Auditee qualified as low-risk auditee? X yes no

Part II – Schedule of Financial Statement Findings

This section identifies the reportable conditions, material weaknesses, fraud, illegal acts, violations of provisions of contracts and grant agreements, and abuse related to the financial statements for which *Government Auditing Standards* require reporting in a Circular A-133 audit.

None.

Part III – Schedule of Federal Award Findings and Questioned Costs

This section identifies the audit findings required to be reported by Circular A-133 section .510 (for example, reportable conditions, material weaknesses, and material instances of noncompliance, including questioned costs), as well as any abuse findings involving federal awards that are material to a major program.

None.

Independent Auditors Report on the Application of Agreed-Upon Procedures

Michael Schwartz
Cleveland State University

We have audited the financial statements of Cleveland State University (the University) as of and for the year ended June 30, 2004, and have issued our report thereon dated October 12, 2004. We have performed the procedures enumerated below, which were agreed to by the University and the National Collegiate Athletic Association (NCAA), solely to assist you with respect to complying with NCAA bylaws. The University's management is responsible for the accompanying Statement of Revenues, Expenditures, and Other Changes for Intercollegiate Athletics (Statement). This agreed-upon procedures engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. The sufficiency of these procedures is solely the responsibility of the parties specified in this report. Consequently, we make no representation regarding the sufficiency of the procedures described below either for the purpose for which this report has been requested or for any other purpose.

The procedures and findings are as follows:

I. Statement of Revenues, Expenditures, and Other Changes for Intercollegiate Athletics – Agreed-Upon Substantive Procedures

- (a) We obtained the Statement for the Intercollegiate Athletics Programs (Programs) for the year ended June 30, 2004, as prepared by management (Appendix I). We clerically tested the amounts on the Statement, traced the amounts on the Statement to management's worksheets, and agreed the amounts on management's worksheets to the University's general ledger. We noted no differences between the amounts on the general ledger and the amounts on the worksheets.
- (b) We performed a comparison of the Statement for the year ended June 30, 2004 to the year ended June 30, 2003 and to the 2004 budgeted amounts. We calculated the fluctuations and obtained from management explanations for the changes exceeding \$9,000 and 10 percent. We found no exceptions as a result of these procedures.
- (c) We compared classifications of revenues and expenditures to NCAA guidelines. We found no exceptions as a result of these procedures.
- (d) We obtained documentation from management of gifts received during fiscal 2004. We reviewed the documentation for any single gift from an "outside organization," with such organization defined by NCAA Bylaws as a booster club or affiliated foundation, which constituted more than 10 percent of all gifts donated to the Programs. We vouched those exceeding the threshold and found those amounts in agreement with the documentation.

- (e) We obtained from management the men's and women's basketball athletic ticket office reports for home games and agreed the ticket sales amounts reported from Ticketmaster to the University's general ledger.

We noted that the total possible attendance, which includes tickets sold and complimentary tickets provided, was 46,499 while the total headcount according to Ticketmaster was 24,285. Management indicated that the difference of 22,214 is unused complimentary and season tickets.

- (f) We agreed revenue received for the Programs by the Cleveland State University Foundation, Inc. to the expenditures made on behalf of the University to ensure such expenditures were properly recorded.
- (g) We reviewed and discussed the organization chart of the Intercollegiate Athletics Department with management.
- (h) We identified and reviewed aspects of the University's internal control unique to the Intercollegiate Athletics Programs. This review included a review of the general control environment and internal control procedures unique to intercollegiate athletics in order to ensure that recorded revenues are complete and expenditures are properly authorized. We obtained an understanding of specific components of the control environment and accounting system that are unique to intercollegiate athletics that were not reviewed in connection with the audit of the financial statements of the University.
- (i) Management has represented that there were no booster groups in fiscal 2004.

We were not engaged to and did not conduct an audit, the objective of which would be the expression of an opinion on the Statement, included in Appendix I. Accordingly, we do not express such an opinion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

This report is intended solely for the information and use of the Board of Trustees and University's management, and is not intended to be and should not be used by anyone other than those specified parties.



November 1, 2004

Cleveland State University

Appendix I

Statement of Revenues, Expenditures, and Other Changes for Intercollegiate Athletics

Year ended June 30, 2004

	Unrestricted	Restricted	Total
Revenues:			
Sports:			
Men's Basketball	\$ 306,607	\$ -	\$ 306,607
Other Sports	18,837	-	18,837
Total Sports	325,444	-	325,444
Federal Grants and Contracts	-	13,356	13,356
Private Gifts, Grants and Contracts	-	469,105	469,105
Other Sources	385,746	-	385,746
Total Revenues	711,190	482,461	1,193,651
Expenditures:			
Administrative and General:			
Salaries and Wages	776,310	45,934	822,244
Fringe Benefits	169,684	10,402	180,086
Public Relations	197,566	-	197,566
Printing	68,745	646	69,391
Travel	85,882	412	86,294
Supplies	96,311	11,214	107,525
Telephone	33,857	300	34,157
Conference & Meals	43,145	5,334	48,479
Other	178,439	730	179,169
Total Administrative and General	1,649,939	74,972	1,724,911
Operation and Maintenance of Plant	743,448	2,002	745,450
Sports:			
Men's Soccer	248,198	5,363	253,561
Men's Basketball	1,015,347	109,276	1,124,623
Men's Wrestling	253,738	14,654	268,392
Men's Swimming	153,621	94,160	247,781
Men's Fencing	15,170	-	15,170
Men's Baseball	282,254	40,877	323,131
Men's Tennis	73,006	-	73,006
Men's Golf	102,234	28,933	131,167
Women's Golf	100,307	-	100,307
Women's Volleyball	297,236	6,674	303,910
Women's Swimming	183,241	52,546	235,787
Women's Basketball	731,641	5,691	737,332
Women's Fencing	15,252	1,090	16,342
Women's Softball	260,653	35,310	295,963
Women's Tennis	97,316	10,962	108,278
Women's Soccer	68,769	-	68,769
Women's Track/Cross Country	39,094	(49)	39,045
Total Sports	3,937,077	405,487	4,342,564
Total Expenditures	6,330,464	482,461	6,812,925

Cleveland State University

Statement of Revenues, Expenditures, and
Other Changes for Intercollegiate Athletics (continued)

Year ended June 30, 2004

	<u>Unrestricted</u>	<u>Restricted</u>	<u>Total</u>
Transfers Among Funds-Additions/(Deductions):			
Nonmandatory Transfers:			
Support From Current Unrestricted Funds	\$ 5,604,163	\$ -	\$ 5,604,163
Transfers From Endowment Funds	2,686		2,686
Other Transfers	12,425		12,425
Excess of Restricted Receipts over Transfers To Revenue	-	5,273	5,273
Total Transfers	<u>5,619,274</u>	<u>5,273</u>	<u>5,624,547</u>
Revenues in Excess of Expenditures and Transfers	<u>\$ -</u>	<u>\$ 5,273</u>	<u>\$ 5,273</u>



**Auditor of State
Betty Montgomery**

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**CLEVELAND STATE UNIVERSITY
CUYAHOGA COUNTY**

CLERK'S CERTIFICATION

This is a true and correct copy of the report which is required to be filed in the Office of the Auditor of State pursuant to Section 117.26, Revised Code, and which is filed in Columbus, Ohio.

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
JANUARY 11, 2005**