

SINGLE AUDIT REPORT

Cleveland State University
Year Ended June 30, 2005



**Auditor of State
Betty Montgomery**

Board of Trustees
Cleveland State University
2121 Euclid Ave.
Cleveland, OH 44115

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, 2004 through June 30, 2005. 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 19, 2005

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Cleveland State University

Single Audit Report

Year Ended June 30, 2005

Contents

Independent Auditor's Report.....1

Audited Financial Statements

Management's Discussion and Analysis3

Statements of Net Assets9

Statements of Revenues, Expenses, and Changes in Net Assets12

Statements of Cash Flows.....14

Notes to Financial Statements.....16

Schedule of Expenditures of Federal Awards.....31

Notes to the Schedule of Expenditures of Federal Awards39

Compliance and Internal Controls

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*.....42

Report of Independent Auditors on Compliance and on Internal Control Over
Compliance in Accordance With OMB Circular A-133.....43

Schedule of Findings and Questioned Costs.....45

Report of Independent Auditors

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, 2005 and 2004, 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 or the Euclid Avenue Housing Corporation, discretely presented component units of the University. Those financial statements were audited by other auditors whose reports thereon have been furnished to us, and our opinion, insofar as it relates to the amounts included for the University for the discretely presented component units, is based solely on the reports 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. We were not engaged to perform an audit of the University's internal control over financial reporting. Our audit included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the University's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits and the reports of other auditors provide a reasonable basis for our opinion.

In our opinion, based on our audits and the reports of other auditors, the financial statements referred to above present fairly, in all material respects, the financial position of Cleveland State University and its discretely presented component units, as of June 30, 2005 and 2004, 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.

In 2005, the Euclid Avenue Housing Corporation became a discretely presented component unit of the University, which is discussed in Note 10 to the financial statements.

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, 2005 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. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Our audit was conducted 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, 2005 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.

Ernst + Young LLP

October 12, 2005

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 years ended June 30, 2005, 2004, and 2003. This discussion has been prepared by management and should be read in conjunction with the financial statements and the notes thereto, which follow this section.

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

Using the Annual Financial Report

The University's financial report includes financial statements prepared in accordance with Governmental Accounting Standards Board (GASB) Statement No. 35, *Basic Financial Statements – and Management's Discussion and Analysis – for Public Colleges and Universities*. These principles require that financial statements be presented on a consolidated basis to focus on the financial condition, the changes in financial condition, and the cash flows of the University as a whole. Many other 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.

Under the provisions of GASB Statement No. 39, *Determining Whether Certain Organizations are Component Units*, the Cleveland State University Foundation, Inc. (the Foundation) and the Euclid Avenue Housing Corporation (the Corporation) are treated as component units of the University. Accordingly, the Foundation and the Corporation are discretely presented in the University's financial statements. The Foundation and the Corporation are excluded from 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, 2005, 2004, and 2003 is as follows:

	<u>2005</u>	<u>2004</u>	<u>2003</u>
Current assets	\$ 69,675,273	\$ 69,630,758	\$ 67,019,057
Noncurrent assets:			
Capital assets, net	260,821,145	253,145,244	258,298,611
Other	<u>141,741,656</u>	<u>76,747,411</u>	<u>69,169,768</u>
Total assets	472,238,074	399,523,413	394,487,436
Current liabilities	31,915,119	26,225,247	26,054,189
Noncurrent liabilities	<u>133,529,399</u>	<u>71,432,127</u>	<u>70,800,121</u>
Total liabilities	<u>165,444,518</u>	<u>97,657,374</u>	<u>96,854,310</u>
Net assets	\$ <u>306,793,556</u>	\$ <u>301,866,039</u>	\$ <u>297,633,126</u>

Current assets consist primarily of cash, operating investments, accounts and notes receivable, prepaid expenses, deferred charges and inventories. Current liabilities consist primarily of accounts payable, accrued payroll and other liabilities, deferred revenue and the current portion of long-term debt. The University's current ratio (current assets divided by current liabilities) of 2.2:1 in (2.7:1 in 2004 and 2.6:1 in 2003) indicates that current assets are more than adequate to cover current liabilities as they become due.

Total current assets did not change significantly in 2005. Short-term investments increased by \$4.1 million, or 9.4%, and cash decreased by \$2.1 million, or 30.9%, as the University invested more of its assets in short-term investments. Accounts receivable decreased by \$2.0 million, or 12.8%, due to a reduction in State capital funds owed to the University by the State.

Current assets increased in 2004 by \$2.6 million, or 3.9%, due primarily to an increase in accounts receivable of \$4.1 million. The increase in accounts receivable is attributable to billings on sponsored programs, primarily government grants and contracts.

Capital assets increased in 2005 by \$7.7 million, or 3.0%, due to construction in progress. Projects under construction include a new recreation center, renovation of the Rhodes Tower plaza, and rehabilitation of Fenn Tower into student housing.

Other assets increased in 2005 by \$65.0 million, or 84.7%, due primarily to an increase in investments of bond proceeds. During 2005, the University sold Series 2004 general receipts bonds in the amount of \$62.0 million, which are included in restricted investments.

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.

Current liabilities increased in 2005 by \$5.7 million, or 21.7%, due to an increase in accounts payable, which is attributable mainly to construction activity. Noncurrent liabilities increased in 2005 by \$62.1 million, or 86.9%, due to the sale of the Series 2004 bonds in the amount of \$62.0 million.

Liability balances did not change significantly in 2004. Total liabilities increased in 2004 by \$803,000, or 0.8%.

Capital and Debt Activities

One critical factor affecting the quality of the University's programs is the development and renewal of its capital assets. Capital additions totaled \$22.8 million in 2005 and \$10.5 million in 2004. Capital retirements totaled \$2.5 million in 2005 and \$2.6 million in 2004. 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 \$1.3 million in 2005 and \$4.5 million in 2004.

Long-term debt, which consists primarily of bonds payable, increased from \$52.2 million in 2004 to \$114.3 million in 2005. On August 5, 2004, the University issued Series 2004 general receipts bonds in the amount of \$62.0 million. The proceeds of the Series 2004 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, 2005, 2004 and 2003 are summarized as follows:

	<u>2005</u>	<u>2004</u>	<u>2003</u>
Invested in capital assets, net of related debt	\$ 234,580,570	\$ 242,138,247	\$ 245,317,385
Restricted - expendable	15,501,693	15,119,864	13,170,364
Restricted - nonexpendable	1,320,301	1,285,069	1,106,206
Unrestricted	<u>55,390,992</u>	<u>43,322,859</u>	<u>38,039,171</u>
Total net assets	<u>\$ 306,793,556</u>	<u>\$ 301,866,039</u>	<u>\$ 297,633,126</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. Net assets invested in capital assets, net of related debt, decreased in 2005 due to depreciation and amortization expense and debt maturities for the year.

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 \$5.1 million at June 30, 2005, \$852,000 at June 30, 2004 and \$874,000 at June 30, 2003. During 2005, the University settled its lawsuit with PeopleSoft for \$4.2 million. These funds were added to the quasi-endowment; future earnings on these funds will be used to fund scholarships for students. As a result of the settlement, and increased revenues from student tuition and fees (which grew from \$94.2 million in 2004 to \$102.0 million in 2005), the University had an increase in net assets of \$4.9 million, or 1.6%, for the year ended June 30, 2005.

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 13.9%, 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).

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, 2005, June 30, 2004 and June 30, 2003 are as follows:

	<u>2005</u>	<u>2004</u>	<u>2003</u>
Operating revenues:			
Net student tuition and fees	\$ 101,993,591	\$ 94,218,733	\$ 87,476,820
Grants and contracts	27,126,718	25,878,716	18,208,582
Other	15,197,130	14,267,012	13,702,162
Total operating revenue	<u>144,317,439</u>	<u>134,364,461</u>	<u>119,387,564</u>
Operating expenses:			
Educational and general	205,612,143	195,957,025	180,482,037
Auxiliary enterprises	14,819,276	14,939,356	13,081,920
Depreciation and amortization	15,051,884	15,045,070	15,166,745
Total operating expenses	<u>235,483,303</u>	<u>225,941,451</u>	<u>208,730,702</u>
Operating loss	(91,165,864)	(91,576,990)	(89,343,138)
Nonoperating revenues, net:			
State appropriations	70,512,253	71,982,028	72,246,181
Other	23,945,105	19,234,429	19,540,898
Gain (loss) before other changes	<u>3,291,494</u>	<u>(360,533)</u>	<u>2,443,941</u>
Other changes	<u>1,636,023</u>	<u>4,593,446</u>	<u>8,929,456</u>
Increase in net assets	4,927,517	4,232,913	11,373,397
Net assets at beginning of year	<u>301,866,039</u>	<u>297,633,126</u>	<u>286,259,729</u>
Net assets at end of year	<u>\$ 306,793,556</u>	<u>\$ 301,866,039</u>	<u>\$ 297,633,126</u>

Total revenue and other changes in fiscal 2005, 2004 and 2003 were \$240.8 million, \$230.6 million and \$220.8 million, respectively. The most significant sources of 2005 operating revenues for the University were student tuition and fees of \$102.0 million, grants and contracts of \$27.1 million, and auxiliary services of \$10.4 million.

Revenues from tuition and fees (net of scholarship allowances) increased in 2005 by \$7.8 million, or 8.3%, due to a drop in enrollment offset by an increase in tuition rates. Both headcount enrollment and full-time equivalent enrollment decreased by 3.3% from the prior year. Tuition rates increased by 9.9% effective for the 2004 Fall semester, in part to offset the continued decline in support from the State.

Revenues from tuition and fees (net of scholarship allowances) increased in 2004 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.

Total expenses in fiscal 2005, 2004 and 2003 were \$235.9 million, \$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. Increases in operating expenses of \$9.5 million (4.2%) in 2005 and \$17.2 million (8.2%) in 2004 were 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 \$70.5 million in 2005, \$72.0 million in 2004 and \$72.2 million in 2003; grants and contracts of \$14.1 million in 2005, \$14.4 million in 2004 and \$14.1 million in 2003; gifts of \$3.7 million in 2005, \$3.9 million in 2004 and \$4.3 million in 2003; and investment income of \$2.2 million in 2005, \$1.3 million in 2004 and \$1.9 million in 2003. Fiscal year 2005 was the fourth consecutive year during which the State's funding of the University declined.

Net nonoperating revenue increased in 2005 by \$3.2 million, or 3.5%, due to the PeopleSoft settlement offset by a reduction in State appropriations of \$1.5 million. In 2004, net nonoperating revenue decreased by \$571,000, or 0.6%, due primarily 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.

Other changes consist primarily of State capital appropriations of \$1.3 million in 2005, \$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, 2005, June 30, 2004 and June 30, 2003 is as follows:

	<u>2005</u>	<u>2004</u>	<u>2003</u>
Net cash provided (used) by:			
Operating activities	\$ (69,405,262)	\$ (79,163,112)	\$ (66,429,529)
Noncapital financing activities	91,171,801	91,323,190	91,086,669
Capital financing activities	39,156,736	(9,226,927)	47,669,574
Investing activities	<u>(63,006,121)</u>	<u>(10,230,803)</u>	<u>(59,905,633)</u>
Net (decrease) increase in cash	(2,082,846)	(7,297,652)	12,421,081
Cash at beginning of year	<u>6,740,841</u>	<u>14,038,493</u>	<u>1,617,412</u>
Cash at end of year	<u>\$ 4,657,995</u>	<u>\$ 6,740,841</u>	<u>\$ 14,038,493</u>

Major sources of cash included student tuition and fees of \$101.1 million in 2005, \$95.5 million in 2004 and \$86.5 million in 2003; State appropriations of \$70.5 million in 2005, \$72.0 million in 2004 and \$72.2 million in 2003; grants and contracts (operating and nonoperating) of \$41.8 million in 2005, \$37.3 million in 2004 and \$32.3 million in 2003; and auxiliary activities of \$11.0 million in 2005, \$9.2 million in 2004 and \$10.6 million in 2003. The largest payments were for employee compensation and benefits totaling \$144.2 million in 2005, \$141.8 million in 2004 and \$125.4 million in 2003; and suppliers of goods and services totaling \$70.5 million in 2005, \$69.2 million in 2004 and \$59.9 million in 2003.

The changes in cash flows from 2004 to 2005 in the capital financing and investing categories are attributable to the sale of \$62.0 million of Series 2004 bonds in August 2004 (fiscal year 2005). The changes in cash flows from 2003 to 2004 in the capital financing and investing categories are attributable to the sale of \$50.3 million of Series 2003 bonds in May 2003 (fiscal year 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, 2005 and 2004

	2005	2004
ASSETS		
Current Assets:		
Cash and cash equivalents	\$ 4,657,995	\$ 6,740,841
Investments	47,325,328	43,254,631
Accounts Receivable, Net	13,365,329	15,321,879
Notes Receivable, Net	2,137,260	1,693,613
Accrued Interest Receivable	792,100	821,659
Prepaid Expenses, Deferred Charges and Inventories	1,397,261	1,798,135
Total Current Assets	69,675,273	69,630,758
Noncurrent Assets:		
Restricted Investments	90,060,994	40,604,740
Long-Term and Endowment Investments	40,464,569	24,853,820
Notes Receivable, Net	9,868,091	10,557,573
Deferred Bond Premium and Issuance Costs	1,348,002	731,278
Capital Assets, Net	260,821,145	253,145,244
Total Noncurrent Assets	402,562,801	329,892,655
Total Assets	472,238,074	399,523,413
LIABILITIES		
Current Liabilities:		
Accounts Payable	12,299,400	8,183,525
Accrued Liabilities	8,069,171	7,928,080
Accrued Interest Payable	383,123	137,833
Deferred Revenue	8,125,882	7,928,270
Compensated Absences - Current Portion	479,050	450,853
Obligations Under Capital Leases - Current Portion	792,052	611,348
Long-Term Debt - Current Portion	1,766,441	985,338
Total Current Liabilities	31,915,119	26,225,247
Noncurrent Liabilities:		
Accrued Liabilities	10,594,171	11,701,608
Compensated Absences	7,526,324	6,840,081
Obligations Under Capital Leases	2,911,023	1,663,098
Long-Term Debt	112,497,881	51,227,340
Total Noncurrent Liabilities	133,529,399	71,432,127
Total Liabilities	165,444,518	97,657,374
NET ASSETS		
Invested in Capital Assets, Net of Related Debt	234,580,570	242,138,247
Restricted:		
Expendable	15,501,693	15,119,864
Nonexpendable	1,320,301	1,285,069
Unrestricted	55,390,992	43,322,859
Total Net Assets	\$ 306,793,556	\$ 301,866,039

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

The Cleveland State University Foundation, Inc.
Statements of Financial Position
June 30, 2005 and 2004

	2005	2004
ASSETS		
Current Assets:		
Cash and cash equivalents	\$ 3,456,571	\$ 2,311,433
Accounts receivable	52,650	34,464
Contributions receivable, net of allowance for uncollectible contributions	1,171,577	273,974
Total Current Assets	4,680,798	2,619,871
Noncurrent Assets:		
Contributions receivable, net of allowance for uncollectible contributions	8,513,488	2,826,635
Long-term investments, at fair market value	24,147,639	21,186,125
Funds Held on Behalf of Others:		
Cleveland State University	2,400,748	2,339,224
Cleveland State University Alumni Association	420,081	404,248
Civic Foundation	3,244	11,574
Total Noncurrent Assets	35,485,200	26,767,806
Total Assets	40,165,998	29,387,677
LIABILITIES		
Current Liabilities:		
Accounts payable	11,366	119,529
Payable to Cleveland State University	432,992	420,461
Annuities payable	27,479	24,114
Total Current Liabilities	471,837	564,104
Noncurrent Liabilities:		
Payable to Cleveland State University	131,686	153,953
Annuities payable	135,726	126,106
Funds Held on Behalf of Others:		
Cleveland State University	2,400,748	2,339,224
Cleveland State University Alumni Association	420,081	404,248
Civic Foundation	3,244	11,574
Total Noncurrent Liabilities	3,091,485	3,035,105
Total Liabilities	3,563,322	3,599,209
NET ASSETS		
Unrestricted - allocated for endowment purposes	174,463	171,384
Unrestricted - other	369,207	451,386
Total unrestricted	543,670	622,770
Temporarily restricted	13,295,328	7,886,645
Permanently restricted	22,763,678	17,279,053
Total Net Assets	36,602,676	25,788,468
Total Liabilities and Net Assets	\$ 40,165,998	\$ 29,387,677

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

Euclid Avenue Housing Corporation
Statement of Financial Position
June 30, 2005

	2005
ASSETS	
Current Assets:	
Accrued Interest Receivable	\$ <u>62,849</u>
Total Current Assets	<u>62,849</u>
Noncurrent Assets:	
Restricted Investments	28,975,531
Construction inProgress	<u>6,524,678</u>
Total Noncurrent Assets	<u>35,500,209</u>
Total assets	<u>35,563,058</u>
LIABILITIES	
Current Liabilities:	
Accounts payable	726,928
Accrued Interest Payable	<u>451,130</u>
Total Current Liabilities	<u>1,178,058</u>
Noncurrent Liabilities:	
Long-Term Debt - Noncurrent Portion	<u>34,385,000</u>
Total Noncurrent Liabilities	<u>34,385,000</u>
Total Liabilities	<u>35,563,058</u>
NET ASSETS	
Unrestricted - allocated for endowment purposes	-
Unrestricted - other	<u>-</u>
Total unrestricted	-
Total Net Assets	<u>-</u>
Total Liabilities and Net Assets	<u>\$ <u>35,563,058</u></u>

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

Cleveland State University
Statement of Revenues, Expenses, and Changes in Net Assets
Years Ended June 30, 2005 and 2004

	2005	2004
Revenues		
Operating Revenues:		
Student Tuition and Fees	\$ 111,946,845	\$ 103,842,024
Less Scholarship Allowances	9,953,254	9,623,291
Net Student Tuition and Fees	101,993,591	94,218,733
Federal Grants and Contracts	17,523,555	16,855,658
State Grants and Contracts	6,239,897	4,917,905
Local Grants and Contracts	1,005,353	454,970
Private Grants and Contracts	2,357,913	3,650,183
Sales and Services	4,267,629	3,740,626
Auxiliary Enterprises	10,400,368	10,086,036
Other Sources	529,133	440,350
Total Operating Revenues	144,317,439	134,364,461
Expenses		
Operating Expenses:		
Instruction	84,586,586	80,475,402
Research	14,415,812	15,036,515
Public Service	15,772,621	11,982,936
Academic Support	21,497,685	20,344,432
Student Services	17,882,807	18,006,608
Institutional Support	24,366,609	23,513,279
Operation and Maintenance of Plant	15,973,865	16,017,335
Scholarships and Fellowships	11,116,158	10,580,518
Auxiliary Enterprises	14,819,276	14,939,356
Depreciation and Amortization	15,051,884	15,045,070
Total Operating Expenses	235,483,303	225,941,451
Operating Loss	(91,165,864)	(91,576,990)
Nonoperating Revenues (Expenses)		
State Appropriations	70,512,253	71,982,028
Federal Grants and Contracts	10,486,828	10,837,343
State Grants and Contracts	3,625,749	3,557,298
Gifts	3,740,658	3,942,821
Investment Income	2,246,285	1,342,775
Settlement Income	4,250,000	-
Interest on Debt	(404,415)	(445,808)
Net Nonoperating Revenues	94,457,358	91,216,457
Gain (Loss) Before Other Changes	3,291,494	(360,533)
Other Changes		
State Capital Appropriations	1,298,863	4,459,787
Capital Gifts	337,160	133,659
Increase in Net Assets	4,927,517	4,232,913
Net Assets		
Net Assets at Beginning of Year	301,866,039	297,633,126
Net Assets at End of Year	\$ 306,793,556	\$ 301,866,039

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

The Cleveland State University Foundation, Inc.
Statement of Activities
Years Ended June 30, 2005 and 2004

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>2005 Totals</u>	<u>2004 Totals</u>
Revenues					
Contributions	\$ 46,004	\$ 7,502,188	\$ 5,130,824	\$ 12,679,016	\$ 8,045,376
In-kind contributions	-			-	126,888
Management fee	25,914			25,914	26,622
Investment income, including realized and unrealized gains, net	227,144	1,651,501		1,878,645	3,206,007
Net assets released from restrictions:					
Change in donor restrictions		(353,801)	353,801	-	-
Released from donor restrictions	3,391,205	(3,391,205)		-	-
Total Revenues	<u>3,690,267</u>	<u>5,408,683</u>	<u>5,484,625</u>	<u>14,583,575</u>	<u>11,404,893</u>
Expenses					
Program services:					
Instruction	796,460			796,460	999,046
Research	260,101			260,101	63,118
Public service	881,990			881,990	1,097,383
Academic support	106,580			106,580	126,056
Financial aid	742,574			742,574	576,843
Institutional support	312,550			312,550	563,524
Auxiliary enterprises	262,793			262,793	280,875
	<u>3,363,048</u>			<u>3,363,048</u>	<u>3,706,845</u>
Management and general	364,327			364,327	291,893
Fund raising	41,992			41,992	51,410
Total Expenses	<u>3,769,367</u>			<u>3,769,367</u>	<u>4,050,148</u>
Change in Net Assets	(79,100)	5,408,683	5,484,625	10,814,208	7,354,745
Net Assets at Beginning of Year	622,770	7,886,645	17,279,053	25,788,468	18,433,723
Net Assets at End of Year	<u>\$ 543,670</u>	<u>\$ 13,295,328</u>	<u>\$ 22,763,678</u>	<u>\$ 36,602,676</u>	<u>\$ 25,788,468</u>

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

Cleveland State University
Statement of Cash Flows

	Years Ended June 30	
	2005	2004
Cash Flows from Operating Activities		
Tuition and Fees	\$ 101,080,427	\$ 95,460,019
Grants and Contracts	27,675,935	22,901,597
Payments to or on Behalf of Employees	(144,210,616)	(141,778,763)
Payments to Vendors	(70,508,712)	(69,163,167)
Loans Issued to Students	(2,247,596)	(2,821,070)
Collection of Loans to Students	2,997,801	2,827,884
Auxiliary Enterprises Charges	11,010,737	9,229,412
Other Receipts	4,796,762	4,180,976
Net Cash Used by Operating Activities	(69,405,262)	(79,163,112)
Cash Flows from Noncapital Financing Activities		
State Appropriations	70,512,253	71,982,028
Grants and Contracts	14,112,577	14,394,641
Gifts	3,740,658	3,942,821
Settlements	4,250,000	-
Cash Provided by Stafford and PLUS Loans	66,718,062	65,464,884
Cash Used by Stafford and PLUS Loans	(66,839,091)	(65,735,763)
Cash Provided by Agency Fund Activities	1,218,953	2,708,770
Cash Used by Agency Fund Activities	(2,541,611)	(1,434,191)
Net Cash Provided by Noncapital Financing Activities	91,171,801	91,323,190
Cash Flows from Capital Financing Activities		
Proceeds from Capital Debt and Leases	65,565,877	100,619
Capital Appropriations	1,298,863	4,459,787
Capital Gifts and Grants	337,160	133,659
Purchases of Capital Assets	(21,502,973)	(10,339,811)
Principal Paid on Capital Debt and Leases	(2,085,604)	(1,590,917)
Interest Paid on Capital Debt and Leases	(4,456,587)	(1,990,264)
Net Cash Provided (Used) by Capital Financing Activities	39,156,736	(9,226,927)
Cash Flows from Investing Activities		
Proceeds from Sales and Maturities of Investments	225,592,225	246,958,415
Purchase of Investments	(294,729,925)	(259,485,222)
Interest on Investments	6,131,579	2,296,004
Net Cash Used by Investing Activities	(63,006,121)	(10,230,803)
Net Decrease in Cash	(2,082,846)	(7,297,652)
Cash at Beginning of Year	6,740,841	14,038,493
Cash at End of Year	\$ 4,657,995	\$ 6,740,841

Cleveland State University
Statement of Cash Flows (continued)

	Years Ended June 30	
	2005	2004
Reconciliation of Operating Loss to Cash Used by		
Operating Activities		
Operating Loss	\$ (91,165,864)	\$ (91,576,990)
Adjustments:		
Depreciation and Amortization	15,051,884	15,045,070
Changes in Assets and Liabilities:		
Accounts Receivable, Net	52,371	(3,597,168)
Notes Receivable, Net	750,205	6,814
Inventories	57,191	(61,326)
Prepaid Expenses and Deferred Charges	343,683	(277,429)
Accounts Payable	4,112,314	539,260
Accrued Liabilities	1,195,342	(200,323)
Deferred Revenue	197,612	958,980
Cash Used by Operating Activities	\$ (69,405,262)	\$ (79,163,112)

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

CLEVELAND STATE UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
Years Ended June 30, 2005 and 2004

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 2005, the University adopted GASB Statement No. 40, *Deposit and Investment Risk Disclosures*. This standard requires disclosures that address risks of the deposits and investments of the University, including credit risk, interest rate risk and foreign currency risk.

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*. GASB Statement No. 35 establishes standards for external financial reporting for public colleges and universities and requires that resources be classified for accounting and reporting purposes into the following net asset categories:

- **Invested in capital assets, net of related debt:** Capital assets, net of accumulated depreciation and outstanding principal balances of debt attributable to the acquisition, construction or improvement of those assets.
- **Restricted:**
 - Expendable:** Net assets whose use by the University is subject to externally-imposed stipulations that can be fulfilled by actions of the University pursuant to those stipulations or that expire by the passage of time.
 - 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 is student tuition and fees. 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. The University classifies all investments that mature in less than one year as current investments.

Endowment investments are subject to the restrictions of gift instruments, requiring in perpetuity that the principal be invested and only the income 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. It is the University's policy to capitalize all items costing \$2,500 or more that have a useful life of more than one year. Depreciation of capital assets is provided on a straight-line basis over the estimated useful lives (five to forty years) of the respective assets and is not allocated to the functional expenditure categories. Amortization of the capitalized cost of assets held under capital leases is generally computed using the straight-line method over the estimated useful lives of the underlying assets or the term of the lease, whichever is shorter. The University capitalizes but does not depreciate works of art or historical treasures that are held for exhibition, education, research and public service. Deferred bond issuance costs are capitalized and amortized over the life of the bonds using the straight-line method.

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

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

The University has an accrued liability for all accumulated vacation hours, plus an estimate of the amount of sick leave that will be paid upon retirement. Salary-related fringe benefits have also been accrued.

Deferred Revenue. Deferred revenue consists primarily of amounts received in advance of an event, such as student tuition and fees, and advance ticket sales related to 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 collection. These funds are ultimately refundable to the government and, therefore, are recorded as a liability in the accompanying financial statement of net assets.

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

Scholarship Allowances and Student Aid. Financial aid to students is reported in the statement of revenues, expenses, and changes in net assets under the alternative method as prescribed by the National Association of College and University Business Officers (NACUBO). Certain aid such as loans, funds provided to students as awarded by third parties, and Federal Direct Lending is accounted for as a third party payment (credited to the student's account as if the student made the payment). All other aid is reflected in the financial statements as operating expenses, or scholarship allowances, which reduce 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 Units. The Cleveland State University Foundation, Inc. (the Foundation) and the Euclid Avenue Housing Corporation (the Corporation) are private nonprofit organizations that report 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 or the Corporation's financial information included in the University's financial report for these differences.

Use of Estimates. The preparation of financial statements in conformity with accounting principles generally accepted in the United States 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 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 other postemployment benefits expenses/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. Management has not yet determined the impact that GASB Statement No. 45 will have on the University's financial statements and disclosures.

In December 2004, GASB issued Statement No. 46, *Net Assets Restricted by Enabling Legislation*. The statement requires governments to disclose the portion of total net assets that is restricted by enabling legislation. The provisions of GASB Statement No. 46 are effective for financial statements for periods beginning after June 15, 2005. Management has not yet determined the impact that GASB Statement No. 46 will have on the University's financial statements and disclosures.

In June 2005, GASB issued Statement No. 47, *Accounting for Termination Benefits*. The statement establishes accounting standards for termination benefits. The provisions of GASB Statement No. 47 are effective for financial statements for periods beginning after June 15, 2005. Management has not yet determined the impact that GASB Statement No. 47 will have on the University's financial statements and disclosures.

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 2004 comparative information to conform with the 2005 presentation.

NOTE 2 – DEPOSITS AND INVESTMENTS

Deposits

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

At June 30, 2005, the cash and cash equivalents balance of \$4,657,995 is after the University recorded an overdraft consisting of items in transit of \$4,769,153 in accounts payable. The bank balance at June 30, 2005 was \$3,460,752, of which \$796,643 was covered by federal depository insurance, and \$2,664,109 was covered by collateral held by the trust department of a bank other than the pledging bank in the name of the pledging bank.

Investments

In accordance with the Board of Trustees' resolution, the types of investments that may be purchased by the University, except for endowment investments which are invested by the Foundation, 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.

As of June 30, 2005 the University had the following types of investments and maturities:

Investment Type	Fair Value	Investment Maturities (in Years)	
		Less Than 1	1-5
U.S. agencies	\$ 139,421,693	\$ 122,598,843	\$ 16,822,850
U.S. obligation mutual fund	3,530,075	3,530,075	-
Commercial paper	9,465,500	9,465,500	-
STAR Ohio	23,032,875	-	-
Bond mutual funds	870,819	-	870,819
Stock mutual funds	1,529,929	-	-
Total	\$ <u>177,850,891</u>	\$ <u>135,594,418</u>	\$ <u>17,693,669</u>

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

Interest Rate Risk. Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. As a means of limiting its exposure to fair value losses arising from rising interest rates, the University's investment policy requires that all investments mature within five years of purchase.

Credit Risk. Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. It is the University's policy that commercial paper be rated in the highest classification by at least two nationally recognized statistical rating organizations. The University's investment in commercial paper is rated A1+ by Standard & Poor's and P1 by Moody's. The University's investment in STAR Ohio is rated AAA by Standard & Poor's and Moody's. While the University's bond mutual fund investment itself is not rated, the average credit quality of the fund's holdings is AAA, as rated by Standard & Poor's and Moody's.

Custodial Credit Risk. Custodial credit risk is the risk that, in the event of the failure of a counterparty to a transaction, the University will not be able to recover the value of investment securities that are in the possession of an outside party. At June 30, 2005 the University had no exposure to custodial credit risk.

Concentration of Credit Risk. Concentration of credit risk is the risk of loss attributed to the magnitude of investment in a single issuer. The University's investment policy provides that concentration in any one issuer should be avoided, but places no specific limit on the amount that may be so invested. More than 5% of the University's investments are in commercial paper; these investments comprise 5.3% of the University's total investments.

Foreign Currency Risk. Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of an investment. At June 30, 2005 the University had no exposure to foreign currency risk.

NOTE 3 – RECEIVABLES

The composition of accounts receivable at June 30, 2005 and 2004 is summarized as follows:

	<u>2005</u>	<u>2004</u>
Student accounts	\$ 9,073,299	\$ 7,469,546
Grants	6,523,173	7,072,390
Other	804,108	2,845,098
Total Accounts Receivable	<u>16,400,580</u>	<u>17,387,034</u>
Less allowance for uncollectable accounts	<u>3,035,251</u>	<u>2,065,155</u>
Accounts Receivable - Net	<u><u>\$13,365,329</u></u>	<u><u>\$15,321,879</u></u>

Notes receivable consist primarily of loans to students under the federal Perkins Loan Program. The composition of notes receivable at June 30, 2005 and 2004 is summarized as follows:

	<u>2005</u>	<u>2004</u>
Perkins Loan Program	\$ 11,802,221	\$ 12,139,866
Foundation Capital Campaign	131,686	153,953
Other	632,531	652,049
Total Notes Receivable	<u>12,566,438</u>	<u>12,945,868</u>
Less allowance for uncollectable accounts	<u>561,087</u>	<u>694,682</u>
Notes Receivable - Net	<u>12,005,351</u>	<u>12,251,186</u>
Less Current Portion	<u>2,137,260</u>	<u>1,693,613</u>
Total Noncurrent Notes Receivable	<u><u>\$ 9,868,091</u></u>	<u><u>\$ 10,557,573</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. The OPFC revenue bonds are currently being funded through appropriations to the Board of Regents by the General Assembly.

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

NOTE 5 – CAPITAL ASSETS

Capital assets activity for the years ended June 30, 2005 and 2004 is summarized as follows:

	2005 Beginning Balance	Additions	Retirements	2005 Ending Balance
Capital Assets:				
Non-depreciable:				
Land	\$ 52,405,958	\$ 1,212,000	\$ -	\$ 53,617,958
Construction in Progress	2,090,991	13,099,013	-	15,190,004
Capitalized Collections	7,102,155	-	-	7,102,155
Depreciable:				
Land Improvements	16,307,420	85,421	-	16,392,841
Buildings	344,344,085	2,242,687	802,210	345,784,562
Equipment	48,692,471	3,151,020	1,375,804	50,467,687
Library Books	52,292,375	2,965,307	325,960	54,931,722
Total Capital Assets	<u>523,235,455</u>	<u>22,755,448</u>	<u>2,503,974</u>	<u>543,486,929</u>
Less Accumulated Depreciation:				
Land Improvements	7,024,275	761,504	-	7,785,779
Buildings	183,116,191	8,381,033	706,948	190,790,276
Equipment	40,069,374	3,481,667	1,375,804	42,175,237
Library Books	39,880,371	2,360,081	325,960	41,914,492
Total Accumulated Depreciation	<u>270,090,211</u>	<u>14,984,285</u>	<u>2,408,712</u>	<u>282,665,784</u>
Capital Assets, Net	<u>\$ 253,145,244</u>	<u>\$ 7,771,163</u>	<u>\$ 95,262</u>	<u>\$ 260,821,145</u>

	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>

NOTE 6 – NONCURRENT LIABILITIES

Noncurrent liabilities consist of the following as of June 30, 2005 and June 30, 2004:

	Due Dates	Interest Rate-%	2005 Beginning Balance	Additions	Reductions	2005 Ending Balance	Current
1996 Bonds Payable	2003-11	4.90-5.25	\$ 1,910,000	\$ -	\$ 230,000	\$ 1,680,000	\$ 245,000
2003A Bonds Payable	2007-33	2.00-5.00	35,035,000	-	730,000	34,305,000	750,000
2003B Bonds Payable	2006-33	Variable	14,535,000	-	-	14,535,000	335,000
2003A Bond Premium			732,678	-	25,338	707,340	25,338
2004 Bonds Payable	2005-34	2.00-5.25	-	62,000,000	300,000	61,700,000	365,000
2004 Bonds Premium			-	1,379,243	42,261	1,336,982	46,103
Capital Leases	2003-08	1.68-12.17	2,274,446	2,186,634	758,005	3,703,075	792,052
Total Debt			<u>54,487,124</u>	<u>65,565,877</u>	<u>2,085,604</u>	<u>117,967,397</u>	<u>2,558,493</u>
Perkins Student Loans			10,038,846	273,478	54,696	10,257,628	-
Deposits			1,662,762	4,397,761	5,723,980	336,543	-
Compensated Absences			7,290,934	1,193,490	479,050	8,005,374	479,050
			<u>73,479,666</u>	<u>\$ 71,430,606</u>	<u>\$ 8,343,330</u>	<u>136,566,942</u>	<u>\$ 3,037,543</u>
Less Current Portion long-term liabilities			<u>(2,047,539)</u>			<u>(3,037,543)</u>	
Long-Term Liabilities			<u>\$ 71,432,127</u>			<u>\$ 133,529,399</u>	

	Due Dates	Interest Rate-%	2004			2004 Ending	Current
			Beginning Balance	Additions	Reductions	Balance	
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	

In August 2004, the University issued general receipts bonds in the amount of \$62,000,000. The General Receipts Series 2004 Bonds were issued as fixed rate bonds with serial maturities through 2008 and term bonds maturing in 2014, 2019, 2024, 2029 and 2034. The proceeds of the bonds 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.

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 (2.3% at June 30, 2005).

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 \$472,014 in fiscal 2005 and \$445,808 in fiscal 2004. On construction-related debt, interest cost of \$4,229,863, net of \$2,121,917 of interest earned on invested proceeds, was capitalized in fiscal 2005 and \$1,508,752, net of \$307,509 of interest earned on invested proceeds, was capitalized in fiscal 2004.

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 \$2,891,043 at June 30, 2005 and \$1,799,386 at June 30, 2004.

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
2006	\$ 1,695,000	\$ 5,048,058	\$ 792,052	\$ 140,972
2007	2,950,000	5,001,965	771,674	111,407
2008	3,495,000	4,916,445	671,893	81,997
2009	3,475,000	4,789,848	216,439	64,750
2010	3,580,000	4,679,587	219,082	54,542
2011-2015	17,055,000	21,324,130	1,031,935	107,220
2016-2020	17,490,000	17,340,601	-	-
2021-2025	18,675,000	13,049,239	-	-
2026-2030	23,445,000	8,269,752	-	-
2031-2034	20,360,000	2,325,017	-	-
	<u>\$ 112,220,000</u>	<u>\$ 86,744,642</u>	<u>\$ 3,703,075</u>	<u>\$ 560,888</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, 2005 and 2004 amounted to \$976,304 and \$639,528, respectively.

Future minimum operating lease payments as of June 30, 2005 are as follows:

Year Ending June 30	Operating Leases
2006	\$ 900,207
2007	561,408
2008	545,401
2009	555,479
2010	560,728
2011-2015	2,104,619
	<u>\$ 5,227,842</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 10% of covered payroll and employers contribute 14% of covered payroll. The University's contributions to STRS for the years ending June 30, 2005, 2004, and 2003 were \$7,193,773, \$6,859,229, and \$6,699,794, 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, 2005, 2004, and 2003 were \$6,113,287, \$6,935,609, and \$5,526,290, 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, 2005, 2004 and 2003 were \$221,946, \$184,537 and \$182,337, 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 retirants (and dependents) with 10 or more years of qualifying Ohio service credit. Health care coverage for disability recipients and primary survivor recipients is also available under PERS. A portion of each employer's contributions is set aside for the funding of postretirement health care. For STRS, this rate was 1.0% of the total 14.00%, while the PERS rate was 4.0% of the total 13.31% for the year ended June 30, 2004.

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 \$3.1 billion at June 30, 2004. The number of benefit recipients eligible for OPEB was 111,853 for STRS at June 30, 2004. The amount contributed by the University to STRS to fund these benefits was \$2,312,284 for the year ended June 30, 2005, and \$2,204,752 for the year ended June 30, 2004.

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, 2003 is \$10.5 billion. The actuarially accrued liability and the unfunded actuarial accrued liability, based on the actuarial cost method used, were \$26.9 billion and \$16.4 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 369,885 for the year ended December 31, 2004. The amount contributed by the University to PERS for OPEB funding was \$2,296,502 for the year ended June 30, 2005 and \$2,605,413 for the year ended June 30, 2004.

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, 2005 and 2004 are summarized below:

	Dental	
	2005	2004
	<hr/>	<hr/>
Liability at beginning of year	\$ 141,627	\$ 133,727
Claims Incurred	939,157	923,427
Claims Paid	(944,341)	(933,556)
IBNR-Increase in estimated claims	-	18,029
Unpaid Claims - June 30	<hr/> <hr/> \$ 136,443	<hr/> <hr/> \$ 141,627

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, 2005 and 2004 are summarized below:

	Medical	
	<u>2005</u>	<u>2004</u>
Liability at beginning of year	\$ 924,879	\$ 955,012
Claims Incurred	6,914,822	6,919,489
Claims Paid	(6,878,232)	(6,854,618)
IBNR-Decrease in estimated claims	(63,684)	(95,004)
Unpaid Claims - June 30	<u>\$ 897,785</u>	<u>\$ 924,879</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.

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

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, 2005.

NOTE 10 – COMPONENT UNITS

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

The Foundation acts primarily as a 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, 2005 and 2004, the Foundation distributed \$3,236,456 and \$3,415,684, respectively, to the University. At June 30, 2005 and 2004, the University had receivables from the Foundation totaling \$564,678 and \$574,414, 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, 2005, the amount on deposit totaled \$2,400,748. As of June 30, 2004, the amount on deposit totaled \$2,339,224.

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

On March 17, 2005 the Corporation issued \$34,385,000 of Cleveland-Cuyahoga County Port Authority bonds (Series 2005 Bonds) to finance the costs of the Fenn Tower project. The Series 2005 Bonds are serial bonds maturing between 2007 and 2036. Interest rates are fixed and vary from 3.0% to 4.5%. Principal and interest payable for the next five years and in subsequent five-year increments are as follows:

	Principal	Interest
2006	\$ -	\$ 587,320
2007	-	1,577,875
2008	455,000	1,577,875
2009	515,000	1,564,225
2010	575,000	1,547,488
2011-2015	3,430,000	7,384,112
2016-2020	4,265,000	6,587,850
2021-2025	5,485,000	5,402,125
2026-2030	6,915,000	3,900,625
2031-2035	8,695,000	2,119,500
2036-2037	4,050,000	275,400
	<u>\$ 34,385,000</u>	<u>\$ 32,524,395</u>

There is no statement of activities for the Corporation for 2005 because there were no operating revenues or expenses for the fiscal year. Complete financial statements for the Corporation can be obtained from the Office of the President at 2121 Euclid Avenue, Rhodes Tower Room 1204, Cleveland, OH 44115-2214.

Cleveland State University

Schedule of Expenditures of Federal Awards

Year Ended June 30, 2005

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		\$ 10,010,341
Federal Work-Study Program	84.033		791,899
Federal Supplemental Educational Opportunity Grants	84.007		489,192
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			<u>11,564,910</u>
Department of Health and Human Services:			
Direct program:			
Scholarships for Health Professions Students from Disadvantaged Backgrounds	93.925		<u>37,931</u>
Total Student Financial Aid-Cluster			<u>11,602,841</u>
TRIO-Cluster			
Department of Education:			
Direct programs:			
TRIO – Student Support Services	84.042		433,269
TRIO – Upward Bound	84.047		<u>269,853</u>
Total TRIO-Cluster			<u>703,122</u>
Research and Development-Cluster			
Department of Health and Human Services:			
Direct programs:			
Allied Health Special Projects	93.191		65,995
Academic Research Enhancement Award	93.390		77,097
Cancer Detection and Diagnosis Research	93.394		175,191
Cancer Biology Research	93.396		166,817
Heart and Vascular Diseases Research	93.837		70,332
Blood Diseases and Resources Research	93.839		231,118
Extramural Research Programs in the Neurosciences and Neurological Disorders	93.853		44,196
Allergy, Immunology, and Transplantation Research	93.855		71,629
Microbiology and Infectious Diseases Research	93.856		1,417
Biomedical Research and Research Training	93.859		52,890
Aging Research	93.866		27,138

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	46,807
Medical College of Ohio – Nursing Research Case Western Reserve University – Cancer Treatment Research	93.361	1-R01-NR07650-01A1	6,864
Case Western Reserve University – Drug Abuse Research Programs	93.395	2-R01-CA-086357-05	51,902
Case Western Reserve University – Biology and Biophysics Research	93.837	1-R01-HLO73081-01	13,367
University of Vermont – Blood Diseases and Resources Research	93.821	P50GM-66309	189,026
Curragh Chemistries, Inc. – Blood Diseases and Resources Research	93.839	2 R01 HL34575-15	(2,298)
	93.839	1R41HL075912-01	36,179
Total Department of Health and Human Services			<u>1,325,667</u>
National Aeronautics and Space Administration:			
Direct program:			
Technology Transfer	43.002		3,827,038
Pass-through programs:			
University of Iowa – Technology Transfer	43.002	NCC8-98	7,932
University of Arizona – Technology Transfer	43.002	NCC8-96	(727)
Sunpower, Inc. – Technology Transfer	43.002	NAS3-03128	21,198
Ohio Aerospace Institute – Technology Transfer	43.002	R-300-100175-40102	35,511
Science Applications International Corp. – Technology Transfer	43.002	NAS3-2150	94,503
Colorado School of Mines – Technology Transfer	43.002	NNM05AA88C	1,173
Total National Aeronautics and Space Administration			<u>3,986,628</u>
National Science Foundation:			
Direct programs:			
Engineering Grants	47.041		6,021
Education and Human Resources	47.076		12,816
Pass-through programs:			
Case Western Reserve University – Engineering Grants	47.041	DMI-0140412	25,906
Loyola University – Social, Behavioral, and Economic Sciences	47.075	502720-1	1,743
Total National Science Foundation			<u>46,486</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 Agriculture:			
Direct program:			
Rural Development, Forestry, and Communities	10.672		1
Pass Through program:			
University of South Carolina – Payments to 1890 Land Grant Colleges and Tuskegee University	10.250	43-3AEM-2-80101	17,959
Total United States Department of Agriculture			<u>17,960</u>
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	15,632
National Oceanic and Atmospheric Administration through Chagrin River Watershed Partners, Inc. – Coastal Zone Management Awards	11.419	ODNR	7,472
National Oceanic and Atmospheric Administration Coastal Zone Management Estuarine Research Reserves	11.420	DG133C-03-SE-1093	488
National Oceanic and Atmospheric Administration through Great Lakes Fishery Commission – Unallied Science Program	11.472	RR 2	3,104
Total United States Department of Commerce			<u>26,696</u>
United States Department of Transportation:			
Direct program:			
Highway Training and Education	20.215		2,318
Pass-through programs:			
Innovative Pavement Research Foundation through Applied Pavement Tech Inc. through Case Western Reserve University – Airport Improvement Program	20.106	2003-036-AR01	15,473
Ohio Department of Transportation – Highway Planning and Construction	20.205	ODOT 20809	13,726
Total United States Department of Transportation			<u>31,517</u>
United States Department of Housing and Urban Development:			
Pass-through program:			
City of Cleveland – Community Development Block Grants/Entitlement Grants	14.218	#62807	50,806
City of Cleveland – Housing Opportunities for Persons with AIDS	14.241	#61555 & #62805	9,313
Total United States Department of Housing and Urban Development			<u>60,119</u>

Cleveland State University

Schedule of Expenditures of Federal Awards (continued)

Program Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Federal Expenditures
National Endowment for the Humanities:			
Pass-through program:			
University Of Denver-Promotion of the Humanities – Division of Preservation and Access	45.149	PA23787-01	32,137
Total National Endowment for the Humanities			<u>32,137</u>
Environmental Protection Agency:			
Direct program:			
Surveys, Studies, Investigations, and Special Purpose Grants	66.606		11,805
Pass-through programs:			
NE Ohio Regional Sewer District – State Public Water System Supervision	66.432	R-82829801-0	1,226
Ohio Environmental Protection Agency through NE Ohio Regional Sewer District – Nonpoint Source Implementation Grants	66.460	3080	(6,950)
National Fish and Wildlife Foundation – Great Lakes Program	66.469	2004-0005-112	4,034
Total Environmental Protection Agency			<u>10,115</u>
Department of Energy:			
Direct programs:			
Energy-Related Inventions	81.036		(13,691)
Renewable Energy Research and Development	81.087		801,241
Pass-through programs:			
Boeing, Inc. – Energy Efficiency and Renewable Energy Information Dissemination, Outreach, Training, and Technical Analysis/Assistance	81.117	02-D-8259	9,979
Conservation Research and Development – US Department of Energy through Ohio Department of Development	81.086	DE-FC36-021D143471	107,593
Clemson University Research Foundation – Fossil Energy Research and Development	81.089	03-01-SR106	113,499
Total Department of Energy			<u>1,018,621</u>
US-EGYPT Joint Science and Technology Board:			
Direct program:			
National Technical Information Service	11.650		5,416
Total US-EGYPT Joint Science and Technology Board			<u>5,416</u>
Department of State:			
Direct program:			
Teacher Exchange – New Independent States	19.407		36,400
Total Department of State			<u>36,400</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		(1,337)
Business and International Education Projects	84.153		4,993
Pass-through programs:			
Euclid City School District – Fund for the Improvement of Education	84.215	S215X020458	260,483
University of Cincinnati – Special Education – State Program Improvement Grants for Children with Disabilities	84.323	PC03A-02520	<u>5,054</u>
Total Department of Education			<u>271,877</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			6,750
US Department of Reclamation:			
Pass-through program:			
Central State University – Water Reclamation and Reuse Program	15.504	P0036342	<u>22,012</u>
			22,012
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>5,576</u>
Total US Agency for International Development			<u>5,576</u>
Total Research and Development-Cluster			<u>6,903,977</u>
Other Financial Assistance Programs			
United States Department of Labor:			
Direct program:			
Employment and Training Administration Pilots, and Research Projects	17.261		<u>38,474</u>
Total United States Department of Labor			38,474

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:			
Direct program:			
Grants for Public Works and Economic Development Facilities	11.300		111,092
Pass-through programs:			
Cleveland Housing Network – Measures and Analyses of the U.S. Economy	11.025	TOPS	14,042
Ohio Department of Natural Resources – Coastal Zone Management Estuarine Research Reserves	11.420	Q40038	16,398
Florida Department of Environmental Protection – Coastal Zone Management Estuarine Research Reserves	11.420	RM028	<u>1,124</u>
Total United States Department of Commerce			<u>142,656</u>
United States Department of Housing and Urban Development:			
Pass-through programs:			
City of Cleveland – Community Development Block Grant/ Technical Assistance Program	14.227	SG62060A	2,174
Community Outreach Partnership Center Program	14.511	03-001-02	2,344
Enterprise Foundation – Fair Housing Assistance Program – State and Local	14.401	04SG117	5,000
Resident Empowerment Organization – Resident Opportunity and Supportive Services	14.870	03-001-04	<u>(1,410)</u>
Total United States Department of Housing and Urban Development			8,108
National Aeronautics and Space Administration:			
Direct programs:			
Aerospace Education Services Program	43.001		55,818
Technology Transfer	43.002		(20,140)
Pass-through program:			
Ohio Space Grant Consortium – Aerospace Education Services Program	43.001	SEED	<u>3,000</u>
Total National Aeronautics and Space Administration			38,678
National Science Foundation:			
Direct programs:			
Engineering Grants	47.041		24,739
Biological Sciences	47.074		49,963
Education and Human Resources	47.076		166,523
Pass-through programs:			
Cleveland Municipal School District – Mathematical and Physical Sciences	47.049	47-076	278,474
Ohio State University Research Foundation – Education and Human Resources	47.076	745924	<u>11,030</u>
Total National Science Foundation			<u>530,729</u>

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		198,720
Total Environmental Protection Agency			<u>198,720</u>
Department of State:			
Direct programs:			
Educational Exchange – University Lecturers (Professors) and Research Scholars	19.401		36,101
College and University Partnerships Program	19.405		81,364
College and University Affiliations Program	19.406		43,342
Exchange – English Language Fellow Program	19.421		28,020
Pass-through programs:			
Association Liaison Office – International Visitors Program	19.402	HNE-A-97-00059-00	52,886
Council of International Programs – Middle East Partnership Initiative	19.500	03-01	<u>1</u>
Total Department of State			<u>241,714</u>
Department of Education:			
Direct programs:			
Fund for the Improvement of Postsecondary Education	84.116		451,528
Bilingual Education – Professional Development	84.195		59,448
Teacher Quality Enhancement Grants	84.336		386,490
Preparing Tomorrow's Teachers to Use Technology	84.342		(912)
Early Reading First	84.359		545,126
Pass-through programs:			
University of New Orleans Foundation – Fund for the Improvement of Education	84.215	R215K020369	(254)
Ohio Department of Education – Special Education State Program Improvement Grants for Children with Disabilities	84.323	062950-S7-S1-99	2,595
Bowling Green State University – Transition to Teaching	84.350	S350A02128	259,602
Ohio Department of Education – Reading First State Grants	84.357	062950-RSSI-03/AS4036/CSP#0A03034	4,119,369
Ohio Department of Education – Mathematics and Science Partnerships	84.366	062950-OSCI-2005	1,506,724
Ohio Department of Education – Improving Teacher Quality State Grants	84.367	TitleIIA/RFP, HQT Spec Ed	14,299
Ohio Department of Education – Troops-To-Teachers Program	84.815	PO# 93299B	49,847

Cleveland State University

Schedule of Expenditures of Federal Awards (continued)

Program Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Federal Expenditures
Direct program:			
Business and International Education Projects	84.153		90,250
Pass-through program:			
Ohio State University – Business and International Education Projects	84.153	CIBER	150
			<u>90,400</u>
Total Department of Education			<u>7,484,262</u>
Department of Health and Human Services:			
Direct programs:			
Human Genome Research	93.172		21,905
Substance Abuse and Mental Health Services – Projects of Regional and National Significance	93.243		(19)
Health Careers Opportunity Program	93.822		318,960
Pass-through programs:			
National Youth Sports Program – Community Services Block Grant – Discretionary Awards	93.570	NYSPF 04-05m 1034 & 1027	90,440
Case Western Reserve University – National Center for Research Resources	93.389	2S07 RR-018123-02	9,257
Case Western Reserve University – Cancer Treatment Research	93.395	CA86357-04	6,049
Ohio Department of Job and Family Services – Child Welfare Services Training Grants	93.648	G-04-06-0727	16,011
Cleveland Clinic Foundation – Diabetes, Endocrinology, and Metabolism Research	93.847	1R25DK064239	48,630
Total Department of Health and Human Services			<u>511,233</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	12,813
Total Corporation for National and Community Service			<u>12,813</u>
US Agency for International Development:			
Pass-through program:			
The Urban Institute – USAID Foreign Assistance for Programs Overseas	98.001	#07590-000-00	71,601
Total US Agency for International Development:			<u>71,601</u>
Total Other Financial Assistance Programs			<u>9,278,988</u>
Total Expenditures of Federal Awards			<u><u>\$ 28,488,928</u></u>

Cleveland State University

Notes to the Schedule of Expenditures of Federal Awards

Year Ended June 30, 2005

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) (Employer Identification Number 34-0966056) 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, 2005, are 59% for on-campus research and 24% 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, 2005
Federal Perkins Loan Program	84.038	\$ 11,846,459

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	\$ 2,107,018

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, 2005, 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):

	CFDA Number	Amount Processed
Federal Family Education Loans Program	84.032	\$ 66,540,375

5. Subrecipients

Of the federal expenditures presented on the schedule of federal expenditures, the University provided federal awards to subrecipients as follows:

Program Title	Federal CFDA Number	Amount Provided to Subrecipients
National Aeronautics and Space Administration		
Core Technology, Inc.	43.002	\$ 85,549
Gedeon Associates	43.002	44,025
International Mezzo Techniques	43.002	56,095
Stirling Technology Company	43.002	30,075
Sunpower, Inc.	43.002	102,198
National Composite Center	43.002	306,611
University of Minnesota	43.002	227,713
Department of Housing and Urban Development		
Vatreisha Nyemba	14.511	2,344
Vatreisha Nyemba	14.870	2,000
Environmental Protection Agency		
Kirsten Toth	66.606	33,943
Department of Health and Human Services		
Elizabeth E. Meacham	93.191	5,136
Benjamin Rose	93.191	3,600

Cleveland State University

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

5. Subrecipients (continued)

Program Title	Federal CFDA Number	Amount Provided to Subrecipients
Department of Education		
Cleveland Municipal School District	84.357	137,373
Baldwin Wallace College	84.357	42,044
Bowling Green State University	84.357	15,001
Delaware/Union Educational Service Center	84.357	52,189
Educational Service Center of Cuyahoga County	84.357	191,466
John Carroll University	84.357	1,232,953
Lucas County Educational Service Center	84.357	47,739
Ohio State University-Lima	84.357	31,398
Ohio University	84.357	50,629
Perry-Hocking Educational Service Center	84.357	73,853
Purcell	84.357	41,358
University Of Akron	84.357	1,270,958
Wright State University	84.357	89,825
Xavier University	84.357	125,132
Youngstown State University	84.357	100,633
Dora L. Bechtel	84.359	20,500
Jeanera Lowry	84.359	23,750
Kristen Hughes	84.359	20,150
Samantha Pfeil	84.359	14,213
Sherrae Dorsey	84.359	7,500
Stephen Teisl	84.359	26,917
Educational Council	84.366	388,119
Greater Cleveland Educational Development Center	84.366	1,280
Hancock County Educational Service Center	84.366	35,813
Lucas County Educational Service Center	84.366	77,277
Perry-Hocking Educational Service Center	84.366	7,904
Salt Fork Regional Professional Development Center	84.366	79,583
South Regional Professional Development Center	84.366	23,875
Southeast Regional Professional Development Center	84.366	79,583
Southwest Regional Professional Development Center	84.366	134,297
South-Western City Schools	84.366	7,904
West Regional Professional Development Center	84.366	78,181
		\$ 5,428,686

**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, 2005, and have issued our report thereon dated October 12, 2005. 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 opinion 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, 2005.

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.

Ernst + Young LLP

October 12, 2005

Report of Independent Auditors on Compliance
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, 2005. 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, 2005. However, the results of our auditing procedures disclosed an instance of noncompliance with those requirements, which is required to be reported in accordance with OMB Circular A-133 and which is described in the accompanying schedule of findings and questioned costs as item 05-01.

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.

Ernst + Young LLP

November 1, 2005

Cleveland State University

Schedule of Findings and Questioned Costs

Year Ended June 30, 2005

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

Reportable condition(s) identified that are not considered to be material weakness(es)? yes X no

Noncompliance material to financial statements noted? yes X no

Federal Awards Section

Internal control over major programs:

Material weakness(es) identified? yes X no

Reportable condition(s) identified that are not considered to be material weakness(es)? yes X no

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))? X yes 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
Various	Research and Development – Cluster
84.366	Mathematics and Science Partnerships

Dollar threshold used to determine Type A programs: \$854,667

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.

Cleveland State University

Schedule of Findings and Questioned Costs (continued)

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.

Finding 05-01

Federal program information:

Student Financial Aid Cluster.

Criteria or specific requirement:

In accordance with the OMB Circular A-133 Compliance Supplement Part 5, Section 4-Refunds, “any amount disbursed to the student or on his or her behalf in excess of the amount earned by the student must be returned to the appropriate Title IV program no later than 30 days after the date the institution determined that the student withdrew.”

Condition:

Student refunds for unofficial withdrawals in the Fall of 2004 were not returned to the appropriate Federal program within the 30-day requirement.

Questioned costs:

\$875, which represents the interest earned on the excess cash held related to the refunds not timely returned to the Federal programs.

Context:

No findings were noted for refunds for official withdrawals in the Fall of 2004 or for all withdrawals in the Spring and Summer of 2005.

Cleveland State University

Schedule of Findings and Questioned Costs (continued)

Part III – Schedule of Federal Award Findings and Questioned Costs (continued)

Effect:

As a result of not timely refunding monies related to student withdrawals, the University had excess federal monies on hand.

Cause:

There was a breakdown in the internal control procedures requiring refunds to be reviewed by the department supervisor.

Recommendation:

The director of financial aid should monitor the return of federal funds more frequently to ensure that the financial aid staff is following the appropriate procedures in a timely manner.

Views of Responsible Officials and Planned Corrective Actions:

Refund procedures were reviewed, updated and enhanced. The revised procedures have been implemented. The University has assessed the amount of interest due on these funds as a result of noncompliance and will appropriately remit that amount to the guarantor.

Part IV – Prior Year Schedule of Financial Statement Findings and Federal Award

Findings and Questioned Costs

No findings in the prior year.

Independent Auditors Report on the Application of Agreed-Upon Procedures

Michael Schwartz
Cleveland State University

We have performed the procedures enumerated below, which were agreed to by Cleveland State University (the University) and the National Collegiate Athletic Association (NCAA), solely to assist you with respect to complying with NCAA bylaws for the year ended June 30, 2005. The University's management is responsible for the accompanying Statement of Revenues, Expenditures, and Other Changes for Intercollegiate Athletics (the 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 the associated findings are as follows:

I. Statement of Revenues, Expenditures, and Other Changes for Intercollegiate Athletics and Internal Controls

1. We obtained the Statement for the year ended June 30, 2005, as prepared by management (Appendix I). We recomputed the subtotal and total line items on the Statement and agreed all amounts on the Statement to management's detailed worksheets. We also agreed amounts on the Statement to the appropriate general ledger accounts in the University's General Ledger System.
2. We performed a comparison of the revenues, expenditures, and other changes per the Statement for the year ended June 30, 2005 to the year ended June 30, 2004. We obtained management's explanations for variations greater than \$9,600 and 10% of each revenue, expenditure, and other changes line item in the aggregate. We were informed by certain individuals of the Athletic Department (the Department) who have responsibility for financial and accounting matters the following:
 - a. Men's Basketball revenue decreased by approximately \$109,000, or 40%, due to decreased single game revenue and ticket sales during fiscal year 2005. This is mainly attributed to not having a marquee opponent, such as the University of North Carolina in the previous year, on the home schedule.
 - b. Tournament revenue increased by approximately \$272,000, or 3,110%, due to the net receipts from hosting the NCAA Men's Basketball Tournament 1st and 2nd round and an increase in the NCAA revenue distribution.

- c. NCAA distributions revenue increased by approximately \$26,000, or 24%, because sport sponsorship increased from \$52,903 to \$74,721, the amount per share increased slightly and we had one additional sport qualify. Additionally, grant-in-aid distribution increased from \$27,679 to \$37,715 due to an increase per share and an increase in the number of points earned by CSU.
- d. Sponsorship revenue increased by approximately \$111,000, or 64%, due to a decline in the number of sponsor agreements and a one-time cost incurred related to erecting signage as a fulfillment obligation, where one-third of the sign and one-third of the revenue was distributed to the building. The contract for the cost of erecting the sign was included in the sponsorship.
- e. Guarantees revenue increased by \$12,000, or 29%, because men's basketball received one guarantee for \$35,000 for 2003-2004 and one guarantee for \$45,000 for 2004-2005, and women's basketball received guarantees in the amounts of \$7,000 for 2003-2004 and guarantees of \$9,000 for 2004-2005.
- f. Federal grants and contracts increased \$11,000, or 81%, due to an increase in federal work study used.
- g. Salaries and wages increased by approximately \$109,000, or 14%, due to several factors. A new assistant trainer position was created, an assistant athletic director for corporate affairs was hired to replace services provided by an independent contractor, the position of Head Athletic Trainer was filled, and the University ended split contracts between athletics, intramurals, and recreation in preparation for the opening of the new student recreation center, which will not be part of intercollegiate athletics.
- h. Fringe benefits increased by approximately \$73,000, or 43%, due to the increases related to new personnel noted in 2.d. above and overall increases in University fringe benefits.
- i. Supplies expenditures increased by approximately \$23,500, or 24%, due to the University hiring a new head athletic trainer and increasing the staff size during fiscal year 2005. In the previous year, the staff purchased supplies on an as-needed basis. The new staff replenished the standards stock of athletic supplies and added a number of appliances to serve the needs of the student athletes.
- j. Conference and Meals expenditures decreased by approximately \$33,300, or 77%, due to the University beginning to charge each specific sport for break-time housing and meals during 2005 per an audit recommendation in the previous year.
- k. Travel expenditures increased by approximately \$11,300, or 13%, due to increased transportation costs for vans and gasoline, as well as more expenditures related to sending more individuals to several NCAA seminars. The increase was partially offset by the fewer number of new hires requiring moving expenses during fiscal year 2005.

- l. Public relations expenditures decreased by approximately \$160,700, or 81%, due to the expenditures on electronic and print promotion of the athletics program. The University also reduced spending on television production broadcast.
 - m. Other expenditures decreased by approximately \$82,000, or 46%, due to the decrease in the Horizon League assessments, a \$10,000 credit from University relations, and the University beginning to charge individual sports the actual costs of athletic aid relating to books and other fees based on recommendations from the most recent University operational audit performed during fiscal year 2005.
 - n. Men's and Women's Golf expenditures increased by approximately \$15,200, or 15%, and \$12,900, or 13%, respectively, as a result of the charging of athletic aid to each of the individual sports as noted in 2.j. above as well as an additional student athlete receiving aid in each of the sports.
 - o. Women's Swimming expenditures increased by approximately \$42,200, or 23%, as a result of an increase in salary due to a change in the salary split of the head coach to 100% intercollegiate athletics. There was also a part-time employee hired and an increase in recruiting and travel activity due to one more away swim meet than in the previous year.
 - p. Women's basketball expenditures increased by approximately \$82,800, or 11%, due to the University beginning to charge break-time meals and housing, as well as athletic aid to the individual sports as noted in 2.g. above. There was also an increase in travel expenses due to the away game schedule during fiscal year 2005. These increases were partially offset by the fact that the Women's Basketball coaching positions were not all filled for the entire twelve months.
 - q. Women's Soccer expenses increased by approximately \$151,400, or 220%, due to the fact that fiscal year 2005 was the first competitive season for Women's Soccer; therefore, there was no team travel or students receiving financial aid during fiscal year 2004.
 - r. Women's Track and Cross Country decreased by approximately \$10,000, or 26%, as a result of a decrease in team travel pattern which included no in-season flights. There was also a decrease in the number of student athletes receiving aid.
3. We performed a comparison of actual revenues, expenditures, and other changes per the Statement to the budgeted amounts obtained from management. We obtained management's explanation for variations greater than \$9,600 and 10% of each revenue, expense, and other changes, line item in the aggregate. They included the following:
 - a. The budgeted amounts for Men's Basketball revenue exceeded the actual amount by approximately \$110,400, or 35%, due to decreased single game revenue and ticket sales during fiscal year 2005. This is mainly attributed to not having a marquee opponent, such as University of North Carolina in the previous year, on the home schedule.

- b. The actual amount of Other Sources of revenue exceeded the budgeted amount by approximately \$60,000, or 12%, due to increased net receipts from hosting the NCAA Men's Basketball tournament and increased revenue distribution from NCAA. This increased revenue was partially offset by the decrease in sponsorship revenue.
 - c. The actual amount of Supplies expenditures exceeded the budgeted amount by approximately \$14,600, or 14%, due to the University hiring a new head athletic trainer and increasing the staff size during fiscal year 2005. In the previous year, the staff purchased supplies on an as-needed basis. The new staff replenished the standard stock of athletic supplies and added a number of appliances to serve the needs of the student athletes.
 - d. The actual amount of Travel expenditures exceeded the budgeted amount by approximately \$53,400, or 122%, due to the increased number of staff members and the introduction of the first class of interns in the Athletic Department. It was also a result of the increased transportation costs for vans and gasoline, as well as more expenditures related to sending more individuals to several NCAA seminars.
 - e. The budgeted amount for Printing expenditures exceeded the actual amount by approximately \$20,600, or 25%. Expenditures were under budget as a result of a more favorable price on bid items, improved sponsorship and trade support, and the elimination of the use of an off campus designer.
 - f. The budgeted amount for Other expenditures exceeded the actual amount by approximately \$133,400, or 58%, due to the reduction in television production costs from the original estimate. The University produced fewer games than expected and also used a more economical production and distribution method.
 - g. The actual amount of Operation and Maintenance of Plant Other expenditures exceeded the budgeted amount by approximately \$128,900, or 24%, as a result of the utility costs being transferred from auxiliary services to the Athletics Department without a corresponding budget transfer during fiscal year 2005. Therefore, the budgeted amount does not reflect these expenses.
4. We obtained a description of accounts and compared classifications of revenues and expenditures to NCAA guidelines. We found no exceptions as a result of these procedures.
 5. 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 of the University 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.

6. We obtained from management the men's and women's basketball athletic ticket office reports for home games and agreed the number of tickets sold and 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 32,446, while the total headcount, according to Ticketmaster, was 20,823. Management indicated that the difference of 11,623 tickets is unused complimentary and season tickets.

We noted that ticket sales per Ticketmaster were less than the General Ledger System by \$704.

7. We reviewed game guarantees that were received from University of North Carolina, University of Wisconsin, and Texas State University, and agreed the amount recorded to the contract and the University's general ledger. We found no exceptions as a result of these procedures.
8. We obtained and reviewed agreements for sponsorships and agreed amounts recorded to the sponsorship agreements and the University's general ledger.

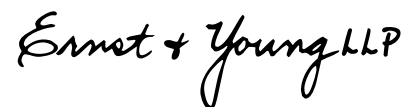
We noted that there were six sponsorships not exceeding \$2,500 that did not have contracts. We also noted that there were two contracts, First Energy and Cleveland Clinic, in which the sponsor paid, but did not return, the signed contract. We recommend that the University ensure that all contracts are signed and returned.

9. We agreed 2005 NCAA distributions received to the NCAA Division I Distribution Report and to the University's general ledger.
10. We reviewed the reconciliation of the 2005 NCAA tournament proceeds to the NCAA Division I Men's Basketball Proposed Budget and Financial Report. We agreed the tournament revenue to the University's general ledger.
11. We agreed student fees reported by the University in the Statement to the amount budgeted for the year. We found no exceptions as a result of these procedures.
12. We obtained documentation from management of gifts received during fiscal 2005. We reviewed the documentation for any single gift from an "outside organization," with such organization defined by NCAA bylaws as an affiliated foundation, which constituted more than 10% of all gifts donated to the Programs. We vouched those exceeding the threshold and found those amounts in agreement with the documentation.
13. We compared contributions, received directly by the Intercollegiate Athletic Department in excess of 10% of total contributions, to the University's general ledger. We identified one contribution, \$100,000 from Alvin Krenzler, which exceeded 10% of all contributions for the year ended June 30, 2005.

14. We selected a sample of five student aid recipients from various men's and women's sports. We agreed the amount per the Financial Aid award letter to the student account detail. We found no exceptions as a result of these procedures.
15. We selected a sample of five coaches from various men's and women's sports. We agreed amounts paid to the financial terms of their contracts and to the Statement. We found no exceptions as a result of these procedures.
16. We reviewed and discussed the organization chart of the Intercollegiate Athletics Department with management. We reviewed the extent of documentation of accounting systems and procedures.
17. We obtained and documented our understanding of the University's recruiting expense and team travel policies, comparing them to the NCAA bylaws.
18. We were informed that the Department follows the University's policies and procedures for acquiring, approving, depreciating, and disposing of assets. Capital assets are recorded at cost at the date of acquisition, or if acquired by gift, at the fair value at the date of donation. The University capitalizes all equipment with a cost of \$2,500 or more and an estimated life of greater than one year. Depreciation is recognized on a straight-line basis over the estimated useful life of the asset. When capital assets are sold or otherwise disposed of, the carrying value of such assets is removed from the asset accounts, along with the related accumulated depreciation.
19. Management has represented that there were no booster groups in fiscal 2005.
20. We obtained confirmation from the athletic coaches that during the period of July 1, 2004 to June 30, 2005, there were no disbursements made by individuals or outside organizations to or on behalf of any organization including booster clubs or any individual athlete without proper processing through the University or Cleveland State University Foundation.

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.



October 28, 2005

Cleveland State University

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

Year Ended June 30, 2005

	<u>Unrestricted</u>	<u>Restricted</u>	<u>Total</u>
Revenues:			
Sports:			
Men's Basketball	\$ 162,580	\$ -	\$ 162,580
Other Sports	9,685	-	9,685
Total Sports	<u>172,265</u>	<u>-</u>	<u>172,265</u>
Tournaments	280,438	-	280,438
NCAA Distributions	135,196	-	135,196
Sponsorships	62,673	-	62,673
Guarantees	54,000	-	54,000
Federal Grants and Contracts	-	24,225	24,225
Private Gifts, Grants, and Contracts	-	457,113	457,113
Other Sources	100,903	-	100,903
Total Revenues	<u>805,475</u>	<u>481,338</u>	<u>1,286,813</u>
Expenditures:			
Administrative and General:			
Salaries and Wages	885,354	90,673	976,027
Fringe Benefits	242,610	21,452	264,062
Public Relations	36,842	80	36,922
Printing	62,080	4,936	67,016
Travel	97,216	4,367	101,583
Supplies	119,814	29,467	149,281
Telephone	36,305	-	36,305
Conference and Meals	9,771	41,083	50,854
Other	96,354	2,054	98,408
Total Administrative and General	<u>1,586,346</u>	<u>194,112</u>	<u>1,780,458</u>
Operation and Maintenance of Plant	659,239	4,748	663,987
Sports:			
Men's Soccer	261,369	7,424	268,793
Men's Basketball	1,011,342	13,258	1,024,600
Men's Wrestling	276,816	13,490	290,306
Men's Swimming	164,129	97,702	261,831
Men's Fencing	19,875	-	19,875
Men's Baseball	301,718	35,231	336,949
Men's Tennis	82,408	-	82,408
Men's Golf	117,510	24,484	141,994
Women's Golf	113,298	-	113,298
Women's Volleyball	299,094	1,941	301,035
Women's Swimming	225,483	27,813	253,296
Women's Basketball	814,448	10,619	825,067
Women's Fencing	12,195	2,520	14,715
Women's Softball	276,532	27,345	303,877
Women's Tennis	106,538	20,293	126,831
Women's Soccer	220,239	358	220,597
Women's Track/Cross Country	28,924	-	28,924
Total Sports	<u>4,331,918</u>	<u>282,478</u>	<u>4,614,396</u>
Total Expenditures	<u>6,577,503</u>	<u>481,338</u>	<u>7,058,841</u>

Cleveland State University

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

	<u>Unrestricted</u>	<u>Restricted</u>	<u>Total</u>
Transfers Among Funds – Additions/(Deductions):			
Nonmandatory Transfers:			
Support From Current Unrestricted Funds	\$ 6,234,575	\$ –	\$ 6,234,575
Other Transfers	(462,547)	–	(462,547)
Excess of Restricted Receipts Over Transfers to Revenue	–	124,500	124,500
Total Transfers	<u>5,772,028</u>	<u>124,500</u>	<u>5,896,528</u>
Revenues in Excess of Expenditures and Transfers	<u>\$ –</u>	<u>\$ 124,500</u>	<u>\$ 124,500</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 19, 2006**