

SINGLE AUDIT REPORT

Cleveland State University
Year Ended June 30, 2006



Mary Taylor, CPA
Auditor of State

Board of Trustees
Cleveland State University
2121 Euclid Avenue
Keith Building, Room 1335
Cleveland, Ohio 44115-2214

We have reviewed the *Report of Independent Auditors* of the Cleveland State University, Cuyahoga County, prepared by Ernst & Young LLP, for the audit period July 1, 2005 through June 30, 2006. 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.

Mary Taylor

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Auditor of State

February 22, 2007

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Cleveland State University

Single Audit Report

Year Ended June 30, 2006

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Report of Independent Auditors

The 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, 2006 and 2005, 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.

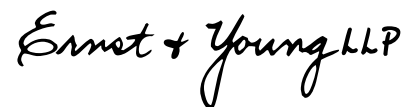
We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and 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 audits 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, 2006 and 2005, 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 accordance with *Government Auditing Standards*, we have also issued our report dated October 6, 2006 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.

Management's discussion and analysis on pages 3 through 9 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.

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, 2006 is presented for purposes of additional analysis as required by the Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations* and is not a required part of the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly stated in all material respects in relation to the financial statements taken as a whole.



October 6, 2006

CLEVELAND STATE UNIVERSITY
MANAGEMENT'S DISCUSSION AND ANALYSIS

Introduction

The following discussion and analysis provides an overview of the financial position and activities of Cleveland State University (the University) as of and for the year ended June 30, 2006. 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. 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; 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.

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, 2006, 2005 and 2004 is as follows:

	<u>2006</u>	<u>2005</u>	<u>2004</u>
Current assets	\$ 43,810,861	\$ 69,675,273	\$ 69,630,758
Noncurrent assets:			
Capital assets, net	294,288,485	260,821,145	253,145,244
Other	<u>141,709,585</u>	<u>141,741,656</u>	<u>76,747,411</u>
Total assets	479,808,931	472,238,074	399,523,413
Current liabilities	38,974,623	31,915,119	26,225,247
Noncurrent liabilities	<u>129,884,147</u>	<u>133,529,399</u>	<u>71,432,127</u>
Total liabilities	<u>168,858,770</u>	<u>165,444,518</u>	<u>97,657,374</u>
Net assets	\$ <u><u>310,950,161</u></u>	\$ <u><u>306,793,556</u></u>	\$ <u><u>301,866,039</u></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 at June 30, 2006 (current assets divided by current liabilities) of 1.1:1 indicates that current assets are adequate to cover current liabilities as they become due.

Current assets decreased in 2006 from 2005 by \$25.9 million, or 37.1%, due primarily to a decrease in short-term investments of \$28.5 million. Long-term investments, which are classified as other noncurrent assets in the above schedule, increased by essentially the same amount (\$28.4 million) as the University implemented a new investment strategy. Total other noncurrent assets remained flat because the increase in long-term investments was offset by a decrease in investments of bond proceeds due to construction activity.

Total current assets did not change significantly from 2004 to 2005. 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.

Net capital assets increased in 2006 from 2005 by \$33.5 million, or 12.8%, and in 2005 from 2004 by \$7.7 million, or 3.0%. Both increases were due to construction in progress. Projects under construction include a new recreation center, a new administration building, a new parking garage, and rehabilitation of Fenn Tower into student housing.

Other assets did not change significantly in 2006 from 2005. In 2005, other assets increased 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.

Current liabilities increased in 2006 from 2005 by \$7.1 million, or 22.1%, and in 2005 from 2004 by \$5.7 million, or 21.7%. The increases in both years were in accounts payable and were attributable mainly to construction activity.

In 2006, noncurrent liabilities decreased from 2005 by \$3.6 million, or 2.7%, due to the scheduled retirement of debt on capital leases and on the Series 1996, 2003A, 2003B and 2004 bonds. Noncurrent liabilities increased in 2005 from 2004 by \$62.1 million, or 86.9%, due to the sale of the Series 2004 bonds in the amount of \$62.0 million.

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 \$48.5 million in 2006, \$22.8 million in 2005, and \$10.5 million in 2004. Capital retirements totaled \$2.5 million in 2006, \$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 \$6.5 million in 2006, \$1.3 million in 2005, and \$4.5 million in 2004.

In 2006, long-term debt, which consists primarily of bonds payable, decreased from 2005 by \$1.8 million, or 1.5%. In 2005, long-term debt increased from 2004 by \$62.1 million. 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, 2006, 2005 and 2004 are summarized as follows:

	<u>2006</u>	<u>2005</u>	<u>2004</u>
Invested in capital assets, net of related debt	\$ 236,602,952	\$ 234,580,570	\$ 242,138,247
Restricted - expendable	14,586,482	15,501,693	15,119,864
Restricted - nonexpendable	1,374,845	1,320,301	1,285,069
Unrestricted	<u>58,385,882</u>	<u>55,390,992</u>	<u>43,322,859</u>
Total net assets	<u>\$ 310,950,161</u>	<u>\$ 306,793,556</u>	<u>\$ 301,866,039</u>

Net assets invested in capital assets, net of related debt represent the University's capital assets net of accumulated depreciation and outstanding principal balances of debt attributable to the acquisition, construction, or improvement of those assets. Changes in this category of net assets are due to the net effect of additions to, disposals of, and depreciation on capital assets and payment of debt. In 2006, additions exceeded disposals and depreciation, resulting in an increase in this category of net assets. In 2005, disposals and depreciation exceeded additions, resulting in a decrease in this category of net assets.

Restricted-expendable net assets are subject to externally imposed restrictions governing their use. Restricted-nonexpendable net assets consist primarily of endowment funds held by the University. Neither of these categories has changed significantly between 2004 and 2006.

Unrestricted net assets are not subject to externally imposed stipulations. This category includes funds functioning as endowment (quasi-endowment) of \$4.8 million at June 30, 2006, \$5.1 million at June 30, 2005, and \$852,000 at June 30, 2004.

For the year ended June 30, 2006, the University had an increase in total net assets of \$4.2 million, or 1.4%. The growth was primarily in unrestricted net assets, which increased by \$3.0 million, or 5.4%, due to increased revenues from student fees (which grew from \$102.0 million in 2005 to \$105.4 million in 2006), and cost containment measures in unrestricted operations (including a freeze on hiring, which was in place for most of 2006).

During 2005, the University settled its lawsuit with PeopleSoft for \$4.25 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 total net assets of \$4.9 million, or 1.6%, for 2005.

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 is dependent on State aid. This dependency contributed toward an operating deficit because the financial reporting model classifies State appropriations as nonoperating revenue. The utilization of capital assets is reflected in the financial statements as depreciation, which amortizes the cost of an asset over its expected useful life. Summarized revenues, expenses, and changes in net assets for the years ended June 30, 2006, June 30, 2005 and June 30, 2004 are as follows:

	<u>2006</u>	<u>2005</u>	<u>2004</u>
Operating revenues:			
Net student tuition and fees	\$ 105,435,745	\$ 101,993,591	\$ 94,218,733
Grants and contracts	25,969,516	27,126,718	25,878,716
Other	<u>16,523,306</u>	<u>15,197,130</u>	<u>14,267,012</u>
Total operating revenue	147,928,567	144,317,439	134,364,461
Operating expenses:			
Educational and general	210,895,877	205,612,143	195,957,025
Auxiliary enterprises	15,581,267	14,819,276	14,939,356
Depreciation and amortization	<u>15,102,608</u>	<u>15,051,884</u>	<u>15,045,070</u>
Total operating expenses	<u>241,579,752</u>	<u>235,483,303</u>	<u>225,941,451</u>
Operating loss	(93,651,185)	(91,165,864)	(91,576,990)
Nonoperating revenues, net:			
State appropriations	69,978,333	70,512,253	71,982,028
Other	<u>21,265,588</u>	<u>23,945,105</u>	<u>19,234,429</u>
(Loss) gain before other changes	(2,407,264)	3,291,494	(360,533)
Other changes	<u>6,563,869</u>	<u>1,636,023</u>	<u>4,593,446</u>
Increase in net assets	4,156,605	4,927,517	4,232,913
Net assets at beginning of year	<u>306,793,556</u>	<u>301,866,039</u>	<u>297,633,126</u>
Net assets at end of year	<u>\$ 310,950,161</u>	<u>\$ 306,793,556</u>	<u>\$ 301,866,039</u>

Total revenue and other changes in fiscal 2006, 2005 and 2004 were \$246.1 million, \$240.8 million, and \$230.6 million, respectively. The most significant sources of 2006 operating revenues for the University were student tuition and fees of \$105.4 million, grants and contracts of \$26.0 million, and auxiliary services of \$11.5 million.

Revenues from tuition and fees (net of scholarship allowances) increased in 2006 from 2005 by \$3.4 million, or 3.4%, due to a drop in enrollment offset by an increase in tuition rates. Headcount enrollment decreased by 1.0% from the prior year, while full-time equivalent enrollment decreased by 2.4% from the prior year. Tuition rates increased by 8.13% effective for the 2005 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 2005 from 2004 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.

Total expenses in fiscal 2006, 2005 and 2004 were \$241.9 million, \$235.9 million, and \$226.4 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 \$6.1 million (2.6%) in 2006 and \$9.5 million (4.2%) in 2005 were due primarily to salary increases granted to University employees, increases in the cost of medical insurance and other fringe benefits, and rising costs for energy.

Sources of nonoperating revenue include State appropriations of \$70.0 million in 2006, \$70.5 million in 2005, and \$72.0 million in 2004; grants and contracts of \$14.4 million in 2006, \$14.1 million in 2005, and \$14.4 million in 2004; gifts of \$3.8 million in 2006, \$3.7 million in 2005, and \$3.9 million in 2004; and investment income of \$3.5 million in 2006, \$2.2 million in 2005, and \$1.3 million in 2004. Fiscal year 2006 was the fifth consecutive year during which the State's funding of the University declined.

Net nonoperating revenue decreased in 2006 by \$3.2 million, or 3.4%, and increased in 2005 by \$3.2 million, or 3.5%, due to the PeopleSoft settlement in 2005.

Other changes consist primarily of State capital appropriations of \$6.5 million in 2006, \$1.3 million in 2005, and \$4.5 million in 2004.

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, 2006, June 30, 2005 and June 30, 2004 is as follows:

	<u>2006</u>	<u>2005</u>	<u>2004</u>
Net cash provided (used) by:			
Operating activities	\$ (75,815,747)	\$ (69,405,262)	\$ (79,163,112)
Noncapital financing activities	88,291,673	91,171,801	91,323,190
Capital financing activities	(50,621,263)	39,156,736	(9,226,927)
Investing activities	<u>36,465,524</u>	<u>(63,006,121)</u>	<u>(10,230,803)</u>
Net decrease in cash	(1,679,813)	(2,082,846)	(7,297,652)
Cash at beginning of year	<u>4,657,995</u>	<u>6,740,841</u>	<u>14,038,493</u>
Cash at end of year	<u>\$ 2,978,182</u>	<u>\$ 4,657,995</u>	<u>\$ 6,740,841</u>

Major sources of cash included student tuition and fees of \$106.0 million in 2006, \$101.1 million in 2005 and \$95.5 million in 2004; State appropriations of \$70.0 million in 2006, \$70.5 million in 2005 and \$72.0 million in 2004; grants and contracts (operating and nonoperating) of \$37.2 million in 2006, \$41.8 million in 2005 and \$37.3 million in 2004; and auxiliary activities of \$11.4 million in 2006, \$11.0 million in 2004 and \$9.2 million in 2004. The largest payments were for employee compensation and benefits totaling \$150.4 million in 2006, \$144.2 million in 2005 and \$141.8 million in 2004; and suppliers of goods and services totaling \$70.4 million in 2006, \$70.5 million in 2005 and \$69.2 million in 2004.

The changes in cash flows from 2005 to 2006 in the capital financing and investing categories are attributable to construction activity funded by bonds issued in prior years. 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).

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 its accreditation by the North Central Association of Colleges and Schools, which in 2000 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.

Cleveland State University
Statement of Net Assets
June 30, 2006 and 2005

	2006	2005
ASSETS		
Current Assets:		
Cash	\$ 2,978,182	\$ 4,657,995
Investments	18,849,479	47,325,328
Accounts Receivable, Net	17,115,396	13,365,329
Notes Receivable, Net	2,480,563	2,137,260
Accrued Interest Receivable	856,591	792,100
Prepaid Expenses, Deferred Charges and Inventories	1,530,650	1,397,261
Total Current Assets	43,810,861	69,675,273
Noncurrent Assets:		
Restricted Investments	61,394,546	90,060,994
Long-Term and Endowment Investments	68,896,306	40,464,569
Notes Receivable, Net	10,118,223	9,868,091
Deferred Bond Premium and Issuance Costs	1,300,510	1,348,002
Capital Assets, Net	294,288,485	260,821,145
Total Noncurrent Assets	435,998,070	402,562,801
Total Assets	479,808,931	472,238,074
LIABILITIES		
Current Liabilities:		
Construction Accounts Payable	3,438,905	2,852,739
Other Accounts Payable	14,202,187	9,446,661
Accrued Liabilities	8,461,726	8,069,171
Accrued Interest Payable	426,030	383,123
Deferred Revenue	7,972,815	8,125,882
Compensated Absences - Current Portion	646,000	479,050
Obligations Under Capital Leases - Current Portion	805,519	792,052
Long-Term Debt - Current Portion	3,021,441	1,766,441
Total Current Liabilities	38,974,623	31,915,119
Noncurrent Liabilities:		
Accrued Liabilities	10,902,018	10,594,171
Compensated Absences	7,313,981	7,526,324
Obligations Under Capital Leases	2,191,707	2,911,023
Long-Term Debt	109,476,441	112,497,881
Total Noncurrent Liabilities	129,884,147	133,529,399
Total Liabilities	168,858,770	165,444,518
NET ASSETS		
Invested in Capital Assets, Net of Related Debt	236,602,952	234,580,570
Restricted:		
Expendable	14,586,482	15,501,693
Nonexpendable	1,374,845	1,320,301
Unrestricted	58,385,882	55,390,992
Total Net Assets	\$ 310,950,161	\$ 306,793,556

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

The Cleveland State University Foundation, Inc.
Statement of Financial Position
June 30, 2006 and 2005

	2006	2005
ASSETS		
Current Assets:		
Cash and Cash Equivalents	\$ 4,847,438	\$ 3,456,571
Accounts Receivable	55,057	52,650
Contributions Receivable, Net of Allowance for Uncollectible Contributions	1,334,265	1,171,577
Total Current Assets	6,236,760	4,680,798
Noncurrent Assets:		
Contributions Receivable, Net of Allowance for Uncollectible Contributions	6,942,800	8,513,488
Long-Term Investments, at Fair Market Value	27,014,464	24,147,639
Funds Held on Behalf of Others:		
Cleveland State University	2,451,224	2,400,748
Cleveland State University Alumni Association	435,420	420,081
Civic Foundation	-	3,244
Total Noncurrent Assets	36,843,908	35,485,200
Total Assets	43,080,668	40,165,998
LIABILITIES		
Current Liabilities:		
Accounts Payable	17,235	11,366
Payable to Cleveland State University	177,383	432,992
Annuities Payable	26,345	27,479
Total Current Liabilities	220,963	471,837
Noncurrent Liabilities:		
Payable to Cleveland State University	108,701	131,686
Annuities Payable	127,526	135,726
Funds Held on Behalf of Others:		
Cleveland State University	2,451,224	2,400,748
Cleveland State University Alumni Association	435,420	420,081
Civic Foundation	-	3,244
Total Noncurrent Liabilities	3,122,871	3,091,485
Total Liabilities	3,343,834	3,563,322
NET ASSETS		
Unrestricted - Allocated for Endowment Purposes	322,328	174,463
Unrestricted - Other	180,612	369,207
Total Unrestricted	502,940	543,670
Temporarily Restricted	14,965,852	13,295,328
Permanently Restricted	24,268,042	22,763,678
Total Net Assets	39,736,834	36,602,676
Total Liabilities and Net Assets	\$ 43,080,668	\$ 40,165,998

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

Euclid Avenue Housing Corporation
Statement of Financial Position
June 30, 2006 and 2005

	2006	2005
ASSETS		
Current Assets:		
Bond Proceeds/Investments	\$ 10,806,240	\$ 28,975,531
Accrued Interest Receivable	42,654	62,849
Total Current Assets	10,848,894	29,038,380
Noncurrent Assets:		
Restricted Investments	23,513,795	4,439,712
Construction in Progress	1,996,713	2,084,966
Total Noncurrent Assets	25,510,508	6,524,678
Total Assets	36,359,402	35,563,058
LIABILITIES		
Current Liabilities:		
Accounts Payable	1,316,954	726,928
Accrued Interest Payable	657,448	451,130
Total Current Liabilities	1,974,402	1,178,058
Noncurrent Liabilities:		
Long-Term Debt - Noncurrent Portion	34,385,000	34,385,000
Total Noncurrent Liabilities	34,385,000	34,385,000
Total Liabilities	36,359,402	35,563,058
NET ASSETS		
Unrestricted	-	-
Total Unrestricted	-	-
Total Net Assets	-	-
Total Liabilities and Net Assets	\$ 36,359,402	\$ 35,563,058

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, 2006 and 2005

	<u>2006</u>	<u>2005</u>
Revenues		
Operating Revenues:		
Student Tuition and Fees	\$ 117,079,083	\$ 111,946,845
Less Scholarship Allowances	<u>11,643,338</u>	<u>9,953,254</u>
Net Student Tuition and Fees	105,435,745	101,993,591
Federal Grants and Contracts	16,166,211	17,523,555
State Grants and Contracts	6,444,889	6,239,897
Local Grants and Contracts	565,416	1,005,353
Private Grants and Contracts	2,793,000	2,357,913
Sales and Services	4,412,667	4,267,629
Auxiliary Enterprises	11,510,285	10,400,368
Other Sources	<u>600,354</u>	<u>529,133</u>
Total Operating Revenues	<u>147,928,567</u>	<u>144,317,439</u>
Expenses		
Operating Expenses:		
Instruction	86,756,552	84,586,586
Research	12,480,204	14,415,812
Public Service	16,974,128	15,772,621
Academic Support	23,082,980	21,497,685
Student Services	18,452,112	17,882,807
Institutional Support	24,588,976	24,366,609
Operation and Maintenance of Plant	16,795,203	15,973,865
Scholarships and Fellowships	11,765,722	11,116,158
Auxiliary Enterprises	15,581,267	14,819,276
Depreciation and Amortization	<u>15,102,608</u>	<u>15,051,884</u>
Total Operating Expenses	<u>241,579,752</u>	<u>235,483,303</u>
Operating Loss	<u>(93,651,185)</u>	<u>(91,165,864)</u>
Nonoperating Revenues (Expenses)		
State Appropriations	69,978,333	70,512,253
Federal Grants and Contracts	10,579,828	10,486,828
State Grants and Contracts	3,796,202	3,625,749
Gifts	3,797,905	3,740,658
Investment Income	3,456,712	2,246,285
Settlement Income	-	4,250,000
Interest on Debt	<u>(365,059)</u>	<u>(404,415)</u>
Net Nonoperating Revenues	<u>91,243,921</u>	<u>94,457,358</u>
(Loss) Gain Before Other Changes	(2,407,264)	3,291,494
Other Changes		
State Capital Appropriations	6,525,659	1,298,863
Capital Gifts	<u>38,210</u>	<u>337,160</u>
Increase in Net Assets	4,156,605	4,927,517
Net Assets		
Net Assets at Beginning of Year	<u>306,793,556</u>	<u>301,866,039</u>
Net Assets at End of Year	<u>\$ 310,950,161</u>	<u>\$ 306,793,556</u>

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

The Cleveland State University Foundation, Inc.
Statement of Activities
Years Ended June 30, 2006 and 2005

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>2006 Totals</u>	<u>2005 Totals</u>
Revenues					
Contributions	\$ 90,575	\$ 3,420,519	\$ 1,447,079	\$ 4,958,173	\$ 12,679,016
Management Fee	26,905			26,905	25,914
Investment Income, Including Realized and Unrealized Gains, Net	235,686	2,034,956		2,270,642	1,878,645
Net Assets Released from Restrictions:					
Change in Donor Restrictions		(57,285)	57,285	-	-
Released from Donor Restrictions	<u>3,727,666</u>	<u>(3,727,666)</u>			-
Total Revenues	<u>4,080,832</u>	<u>1,670,524</u>	<u>1,504,364</u>	<u>7,255,720</u>	<u>14,583,575</u>
Expenses					
Program Services:					
Instruction	645,282			645,282	796,460
Research	194,135			194,135	260,101
Public Service	986,378			986,378	881,990
Academic Support	140,310			140,310	106,580
Financial Aid	861,660			861,660	742,574
Institutional Support	218,521			218,521	312,550
Auxiliary Enterprises	<u>646,010</u>			<u>646,010</u>	<u>262,793</u>
	3,692,296			3,692,296	3,363,048
Management and General	359,472			359,472	364,327
Fund Raising	<u>69,794</u>			<u>69,794</u>	<u>41,992</u>
Total Expenses	<u>4,121,562</u>			<u>4,121,562</u>	<u>3,769,367</u>
Change in Net Assets	(40,730)	1,670,524	1,504,364	3,134,158	10,814,208
Net Assets at Beginning of Year	543,670	13,295,328	22,763,678	36,602,676	25,788,468
Net Assets at End of Year	<u>\$ 502,940</u>	<u>\$ 14,965,852</u>	<u>\$ 24,268,042</u>	<u>\$ 39,736,834</u>	<u>\$ 36,602,676</u>

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

**Cleveland State University
Statement of Cash Flows**

	Years Ended June 30	
	2006	2005
Cash Flows from Operating Activities		
Tuition and Fees	\$ 105,973,949	\$ 101,080,427
Grants and Contracts	22,843,630	27,675,935
Payments to or On Behalf of Employees	(150,391,152)	(144,210,616)
Payments to Vendors	(70,437,604)	(70,508,712)
Loans Issued to Students	(3,755,708)	(2,247,596)
Collection of Loans to Students	3,537,733	2,997,801
Auxiliary Enterprises Charges	11,400,384	11,010,737
Other Receipts	5,013,021	4,796,762
Net Cash Used in Operating Activities	(75,815,747)	(69,405,262)
Cash Flows from Noncapital Financing Activities		
State Appropriations	69,978,333	70,512,253
Grants and Contracts	14,376,030	14,112,577
Gifts	3,797,905	3,740,658
Settlements	-	4,250,000
Cash Provided by Stafford and PLUS Loans	70,895,314	66,718,062
Cash Used by Stafford and PLUS Loans	(70,823,842)	(66,839,091)
Cash Provided by Agency Fund Activities	469,629	1,218,953
Cash Used by Agency Fund Activities	(401,696)	(2,541,611)
Net Cash Provided by Noncapital Financing Activities	88,291,673	91,171,801
Cash Flows from Capital Financing Activities		
Proceeds from Capital Debt and Leases	115,655	65,565,877
Capital Appropriations	6,525,659	1,298,863
Capital Gifts and Grants	38,210	337,160
Purchases of Capital Assets	(49,652,488)	(21,502,973)
Principal Paid on Capital Debt and Leases	(2,587,944)	(2,085,604)
Interest Paid on Capital Debt and Leases	(5,060,355)	(4,456,587)
Net Cash Provided by (Used in) Capital Financing Activities	(50,621,263)	39,156,736
Cash Flows from Investing Activities		
Proceeds from Sales and Maturities of Investments	311,315,216	225,592,225
Purchase of Investments	(282,604,656)	(294,729,925)
Interest on Investments	7,754,964	6,131,579
Net Cash Provided by (Used in) by Investing Activities	36,465,524	(63,006,121)
Net Decrease in Cash	(1,679,813)	(2,082,846)
Cash at Beginning of Year	4,657,995	6,740,841
Cash at End of Year	\$ 2,978,182	\$ 4,657,995

Cleveland State University
Statement of Cash Flows (continued)

	Years Ended June 30	
	2006	2005
Reconciliation of Operating Loss to Cash Used by		
Operating Activities		
Operating Loss	\$ (93,651,185)	\$ (91,165,864)
Adjustments:		
Depreciation and Amortization	15,102,608	15,051,884
Changes in Assets and Liabilities:		
Accounts Receivable, Net	(2,620,035)	52,371
Notes Receivable, Net	(217,975)	750,205
Inventories	45,724	57,191
Prepaid Expenses and Deferred Charges	(179,113)	343,683
Accounts Payable	5,417,211	4,112,314
Accrued Liabilities	440,085	1,195,342
Deferred Revenue	(153,067)	197,612
Cash Used in Operating Activities	\$ (75,815,747)	\$ (69,405,262)

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

CLEVELAND STATE UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
Years Ended June 30, 2006 and 2005

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.

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

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

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

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

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

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

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

Summer term tuition and fees and corresponding expenses relating to the portion of the term that within the current fiscal year are recognized as tuition revenue and operating expense. The portion of sessions falling into the next fiscal year are recorded as deferred revenue and prepaid expense in the statement of net assets and will be recognized in the following 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 expense/expenditures and related liabilities (assets), note disclosures, and, if applicable, required supplementary information (RSI) in the financial reports of state and local governmental employers. The provisions of GASB Statement No. 45 are effective for the fiscal year ending June 30, 2008. Management has not yet determined the impact that GASB Statement No. 45 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.

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, 2006, the cash and cash equivalents balance of \$2,978,182 is after the University recorded an overdraft consisting of items in transit of \$9,221,768 in accounts payable. The bank balance at June 30, 2006 was \$1,221,166, of which \$455,688 was covered by federal depository insurance, and \$765,478 was covered by collateral held by the trust department of a bank other than the pledging bank in the name of the pledging bank.

Investments

In accordance with the Board of Trustees' resolution, the types of investments that may be purchased by the University include United States treasury securities, federal government agency securities, certificates of deposit, bank repurchase agreements, commercial paper, bonds and other obligations of the State of Ohio or any of its political subdivisions, the State Treasurer's Asset Reserve (STAR Ohio), bankers acceptances, money market funds, common stocks, and corporate bonds. The endowments are managed by the Cleveland State University Foundation, Inc., which can also invest in real estate and alternative investments. STAR Ohio is an investment pool managed by the Ohio state treasurer's office that allows governments within the State to pool their funds for investment purposes. STAR Ohio is not registered with the Securities and Exchange Commission as an investment company, but does operate in a manner consistent with Rule 2A7 of the Investment Company Act of 1940. The investment is valued at STAR Ohio's share price, which represents fair market value, on June 30, 2006 and 2005.

As of June 30, 2006 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	\$ 69,879,104	\$ 52,067,025	\$ 17,812,079
U.S. obligation mutual fund	430,090	430,090	-
STAR Ohio	20,551,453	-	-
Bond mutual funds	25,854,412	-	25,854,412
Stock mutual funds	32,425,272	-	-
Total	\$ <u>149,140,331</u>	\$ <u>52,497,115</u>	\$ <u>43,666,491</u>

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

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

Credit Risk. Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. 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 credit quality of the fund's holdings is AA or better, as rated by Standard & Poor's and Moody's.

Custodial Credit Risk. Custodial credit risk is the risk that, in the event of the failure of a counterparty to a transaction, the University will not be able to recover the value of investment securities that are in the possession of an outside party. At June 30, 2006 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 places no limitation on the amount that may be so invested. At June 30, 2006, the University did not have more than 5% of its fixed income investments in any single issuer.

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, 2006 the University had no exposure to foreign currency risk.

NOTE 3 – RECEIVABLES

The composition of accounts receivable at June 30, 2006 and 2005 is summarized as follows:

	<u>2006</u>	<u>2005</u>
Student accounts	\$ 9,030,689	\$ 9,073,299
Grants	9,649,059	6,523,173
State Capital	1,130,032	-
Other	929,753	804,108
Total Accounts Receivable	<u>20,739,533</u>	<u>16,400,580</u>
Less allowance for uncollectable accounts	<u>3,624,137</u>	<u>3,035,251</u>
Accounts Receivable - Net	<u><u>\$17,115,396</u></u>	<u><u>\$13,365,329</u></u>

Notes receivable consist primarily of loans to students under the federal Perkins Loan Program. The composition of notes receivable at June 30, 2006 and 2005 is summarized as follows:

	<u>2006</u>	<u>2005</u>
Perkins Loan Program	\$ 12,540,076	\$ 11,802,221
Foundation Capital Campaign	108,701	131,686
Other	630,833	632,531
Total Notes Receivable	<u>13,279,610</u>	<u>12,566,438</u>
Less allowance for uncollectable accounts	<u>680,824</u>	<u>561,087</u>
Notes Receivable - Net	<u>12,598,786</u>	<u>12,005,351</u>
Less Current Portion	<u>2,480,563</u>	<u>2,137,260</u>
Total Noncurrent Notes Receivable	<u><u>\$10,118,223</u></u>	<u><u>\$ 9,868,091</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, 2006 and 2005 is summarized as follows:

	2006 Beginning Balance	Additions	Retirements	2006 Ending Balance
Capital Assets:				
Non-depreciable:				
Land	\$ 53,617,958	\$ 11,850	\$ -	\$ 53,629,808
Construction in Progress	15,190,004	37,956,644	-	53,146,648
Capitalized Collections	7,102,155	-	-	7,102,155
Depreciable:				
Land Improvements	16,392,841	-	-	16,392,841
Buildings	345,784,562	4,922,426	208,050	350,498,938
Equipment	50,467,687	2,784,478	1,926,425	51,325,740
Library Books	54,931,722	2,823,109	326,584	57,428,247
Total Capital Assets	<u>543,486,929</u>	<u>48,498,507</u>	<u>2,461,059</u>	<u>589,524,377</u>
Less Accumulated Depreciation:				
Land Improvements	7,785,779	786,471	-	8,572,250
Buildings	190,790,276	8,630,177	208,050	199,212,403
Equipment	42,175,237	3,209,936	1,926,425	43,458,748
Library Books	41,914,492	2,404,583	326,584	43,992,491
Total Accumulated Depreciation	<u>282,665,784</u>	<u>15,031,167</u>	<u>2,461,059</u>	<u>295,235,892</u>
Capital Assets, Net	<u>\$ 260,821,145</u>	<u>\$ 33,467,340</u>	<u>\$ -</u>	<u>\$ 294,288,485</u>
	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>

NOTE 6 – NONCURRENT LIABILITIES

Noncurrent liabilities consist of the following as of June 30, 2006 and June 30, 2005:

	Due Dates	Interest Rate-%	2006 Beginning Balance	Additions	Reductions	2006 Ending Balance	Current
1996 Bonds Payable	2003-11	5.00-5.25	\$ 1,680,000	\$ -	\$ 245,000	\$ 1,435,000	\$ 260,000
2003A Bonds Payable	2007-33	2.00-5.00	34,305,000	-	750,000	33,555,000	1,335,000
2003B Bonds Payable	2006-33	Variable	14,535,000	-	335,000	14,200,000	345,000
2003A Bond Premium			707,340	-	25,338	682,002	25,338
2004 Bonds Payable	2005-34	2.25-5.25	61,700,000	-	365,000	61,335,000	1,010,000
2004 Bonds Premium			1,336,982	-	46,102	1,290,880	46,103
Capital Leases	2006-15	1.68-10.50	3,703,075	115,655	821,504	2,997,226	805,519
Total Debt			117,967,397	115,655	2,587,944	115,495,108	3,826,960
Perkins Student Loans			10,257,628	2,746,982	2,582,587	10,422,023	-
Deposits			336,543	3,793,937	3,650,485	479,995	-
Compensated Absences			8,005,374	600,607	646,000	7,959,981	646,000
			136,566,942	\$ 7,257,181	\$ 9,467,016	134,357,107	\$ 4,472,960
Less Current Portion long-term liabilities			(3,037,543)			(4,472,960)	
Long-Term Liabilities			\$ 133,529,399			\$ 129,884,147	

	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			54,487,124	65,565,877	2,085,604	117,967,397	2,558,493
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
			73,479,666	\$ 71,430,606	\$ 8,343,330	136,566,942	\$ 3,037,543
Less Current Portion long-term liabilities			(2,047,539)			(3,037,543)	
Long-Term Liabilities			\$ 71,432,127			\$ 133,529,399	

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 (3.9% at June 30, 2006).

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 \$365,058 in fiscal 2006 and \$472,014 in fiscal 2005. On construction-related debt, interest cost of \$4,666,763, net of \$3,036,387 of interest earned on invested proceeds, was capitalized in fiscal 2006 and \$4,229,863, net of \$2,121,917 of interest earned on invested proceeds, was capitalized in fiscal 2005.

The University leases various pieces of equipment which have been recorded as capital leases in amounts representing the present value of future minimum lease payments. Capital lease obligations are collateralized by equipment with an aggregate net book value of \$1,984,883 at June 30, 2006 and \$2,891,043 at June 30, 2005.

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
2007	\$ 2,950,000	\$ 5,001,965	\$ 805,519	\$ 114,746
2008	3,495,000	4,916,445	687,394	84,116
2009	3,475,000	4,789,847	232,679	66,132
2010	3,580,000	4,679,587	236,096	55,149
2011	3,705,000	4,554,533	233,054	43,982
2012-2016	16,660,000	20,579,208	802,484	63,275
2017-2021	17,570,000	16,484,097	-	-
2022-2026	19,565,000	12,161,788	-	-
2027-2031	24,535,000	7,180,012	-	-
2032-2034	14,990,000	1,349,102	-	-
	<u>\$ 110,525,000</u>	<u>\$ 81,696,584</u>	<u>\$ 2,997,226</u>	<u>\$ 427,400</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, 2006 and 2005 amounted to \$1,178,042 and \$976,304, respectively.

Future minimum operating lease payments as of June 30, 2006 are as follows:

Year Ending June 30	Operating Leases
2007	\$ 727,714
2008	549,036
2009	555,479
2010	560,728
2011	579,730
2012-2015	1,562,650
	<u>\$ 4,535,337</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 Ohio Public Employees Retirement System (OPERS). 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, 2006, 2005, and 2004 were \$7,199,927, \$7,193,773, and \$6,859,229, 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, by calling (614) 227-4090, or by visiting the STRS Ohio Web site at www.strsoh.org.

OPERS is a statewide retirement plan, which covers non-teaching University employees. OPERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Benefits are established by State statute. Contribution rates are established by the Ohio Public Employee Retirement Board, not to exceed the statutory maximum rates of 10% for employees and 14% for employers. Effective January 1, 2006, employees contribute 9.0% of covered payroll and employers contribute 13.70% of covered payroll. Prior to January 1, 2006, employees contributed 8.5% of covered payroll and employers contributed 13.31% of covered payroll. The University's contributions to OPERS for the years ending June 30, 2006, 2005, and 2004 were \$6,380,259, \$6,113,287, and \$6,935,609, respectively, equal to the required contributions for each year. OPERS issues a stand-alone financial report. The report may be obtained by writing to OPERS, 277 East Town Street, Columbus, OH 43215-4642, or by calling (614) 222-6701 or 800-222-7377.

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, 2006, 2005 and 2004 were \$274,505, \$221,946 and \$184,537, 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 OPERS provides postretirement health care coverage to age and service retirants (and dependents) with 10 or more years of qualifying Ohio service credit. Health care coverage for disability recipients and primary survivor recipients is also available under OPERS. A portion of each employer's contributions is set aside for the funding of postretirement health care. For STRS, this rate was 1.0% of the total 14.00%, while the OPERS rate was 4.0% of the total 13.31% for the year ended June 30, 2005.

The Ohio Revised Code provides the statutory authority for public employers to fund postretirement health care through their contributions to STRS and OPERS. Postretirement healthcare under STRS is financed on a pay-as-you-go basis. Assets available in the health care reserve fund for STRS amounted to \$3.3 billion at June 30, 2005 (the latest information available). The number of benefit recipients eligible for OPEB was 115,395 for STRS at June 30, 2005. The amount contributed by the University to STRS to fund these benefits was \$2,314,262 for the year ended June 30, 2006, and \$2,312,284 for the year ended June 30, 2005.

Postretirement health care under OPERS is advance-funded on an actuarially determined basis. The actuarial value of OPERS net assets available for OPEB at December 31, 2004 (the latest information available) is \$10.8 billion. The actuarially accrued liability and the unfunded actuarial accrued liability, based on the actuarial cost method used, were \$29.5 billion and \$18.7 billion, respectively. Significant actuarial assumptions include an 8% investment return, a 4% individual pay increases, and a 4% increase in health care costs. All investments are carried at market value. For actuarial valuations purposes, a smoothed market approach is used. The number of OPERS active contributing participants was 376,109 for the year ended December 31, 2005. The amount contributed by the University to OPERS for OPEB funding was \$2,376,436 for the year ended June 30, 2006 and \$2,296,502 for the year ended June 30, 2005.

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, 2006 and 2005 are summarized below:

	<u>2006</u>	<u>2005</u>
Liability at beginning of year	\$ 136,443	\$ 141,627
Claims Incurred	948,563	939,157
Claims Paid	(941,656)	(944,341)
Unpaid Claims - June 30	<u>\$ 143,350</u>	<u>\$ 136,443</u>

The University maintains a self-insured medical plan for its employees. The University's risk exposure is limited to claims incurred. The change in the total liability for actual and estimated medical claims for the years ended June 30, 2006 and 2005 are summarized below:

	<u>2006</u>	<u>2005</u>
Liability at beginning of year	\$ 897,785	\$ 924,879
Claims Incurred	8,017,182	6,914,822
Claims Paid	(8,055,503)	(6,878,232)
IBNR-Decrease in estimated claims	14,218	(63,684)
Unpaid Claims - June 30	<u>\$ 873,682</u>	<u>\$ 897,785</u>

Medical claims are based upon estimates of the claims liabilities. Estimates are based upon past experience, medical inflation trends, and current claims outstanding, including year-end lag analysis. Differences between the estimated claims payable and actual claims paid are reported as an operating expense in the Statement of 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 University at June 30, 2006.

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, 2006 and 2005, the Foundation paid \$3,105,964 and \$3,236,456, respectively, to the University. At June 30, 2006 and 2005, the University had receivables from the Foundation totaling \$286,084 and \$564,678, respectively.

As authorized by the Board of Trustees, beginning in Fiscal Year 1998, the University placed Endowment and Quasi-Endowment funds on deposit with the Foundation for investment. At June 30, 2006 and 2005, the amount on deposit with the Foundation totaled \$2,451,224 and \$2,400,748, respectively.

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 2006. 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. Fenn Tower will have capacity to house approximately 430 residents. The project was completed in 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 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:

	<u>Principal</u>	<u>Interest</u>
2007	\$ -	\$ 1,577,875
2008	455,000	1,577,875
2009	515,000	1,564,225
2010	575,000	1,547,488
2011	635,000	1,527,362
2012-2016	3,565,000	7,250,150
2017-2021	4,510,000	6,380,375
2022-2026	5,720,000	5,127,875
2027-2031	7,255,000	3,562,475
2032-2036	9,085,000	1,728,225
2037	2,070,000	93,150
	<u>\$34,385,000</u>	<u>\$31,937,075</u>

There are no statements of activities for the Corporation for 2006 and 2005 because there were no operating revenues or expenses for these years. 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, 2006

Federal Grantor/Program Title	Federal	Identifying Number	Expenditures
Student Financial Aid-Cluster			
Department of Education:			
Direct Programs:			
Federal Pell Grant Program	84.063		\$ 10,038,947
Federal Work-Study Program	84.033		807,062
Federal Supplemental Educational Opportunity Grants	84.007		481,333
Federal Perkins Loan Program (Note 3)	84.038		-
Federal Family Education Loan Program (Note 4)	84.032		-
Total Department of Education			<u>11,327,342</u>
Department of Health and Human Services:			
Direct Program			
Scholarships for Health Professions Students from Disadvantaged Backgrounds	93.925		<u>40,944</u>
Total Student Financial Aid-Cluster			<u>11,368,286</u>
TRIO-Cluster			
Department of Education:			
Direct Programs:			
TRIO – Student Support Services	84.042		497,925
TRIO – Upward Bound	84.047		<u>307,401</u>
Total TRIO Cluster			<u>805,326</u>
Research and Development-Cluster			
Department of Health and Human Services:			
Direct Programs:			
Allied Health Special Projects	93.191		104,031
Minority Health and Health Disparities Research	93.307		184,263
Academic Research Enhancement Award	93.390		66,281
Cancer Detection and Diagnosis Research	93.394		55,350
Cancer Biology Research	93.396		76,989
Heart and Vascular Diseases Research	93.837		214,984
Blood Diseases and Resources Research	93.839		206,390
Allergy, Immunology and Transplantation Research	93.855		252,854
Microbiology and Infectious Diseases Research	93.856		109,785
Biomedical Research and Research Training	93.859		95,684
Aging Research	93.866		165,398
Pass Through Programs:			
LifeBanc-Grants to Increase Organ Donations	93.134	1 D71SP04138-01-00	32,004
Positive Education Program – Consolidated Knowledge Development and Application (KD&A) Program	93.230	1U79SM54817-01	(2,045)
Constella Group, Inc. – Occupational Safety and Health Programs	93.262	1R01-OH008241-01	9,163

Cleveland State University

Schedule of Expenditures of Federal Awards (continued)

Federal Grantor/Program Title	Federal	Identifying Number	Expenditures
Research and Development-Cluster (continued)			
Case Western Reserve University – Cancer Treatment Research	93.395	2 R01 CA-086357-05	40,904
Case Western Reserve University – Cell Biology and Biophysics Research	93.821	P50GM-66309	192,319
Curragh Chemistries, Inc. – Blood Diseases and Resources Research	93.839	1R41HL075912-01	(3,179)
Case Western Reserve University – Child Health and Human Development Extramural Research	93.865	1R01HD-044816-01	24,611
Total Department of Health and Human Services			<u>1,825,786</u>
National Aeronautics and Space Administration:			
Direct Programs:			
Aerospace Education Services Program	43.001		36
Technology Transfer	43.002		2,178,064
Pass Through Programs:			
Ohio Aerospace Institute – Technology Transfer	43.002	R-300-100X75-40102 (X=2,3)	25,996
University of Iowa – Technology Transfer	43.002	NCC8-98	54,300
University of Arizona – Technology Transfer	43.002	NCC8-96	386
Sunpower, Inc. – Technology Transfer	43.002	NAS3-03128	18,118
Science Applications International Corp. – Technology Transfer	43.002	NAS3-2150	122,965
Colorado School of Mines – Technology Transfer	43.002	NNM05AA88C	27,270
Total National Aeronautics and Space Administration			<u>2,427,135</u>
National Science Foundation:			
Direct Programs:			
Engineering Grants	47.041		42,114
Biological Sciences	47.074		9,037
Education and Human Resources	47.076		6,742
Pass Through Programs:			
Case Western Reserve University – Engineering Grants	47.041	DMI-0140412	15,483
Ohio State University Research Foundation – Mathematical and Physical Sciences	47.049	CHE-05322560	2,531
Total National Science Foundation			<u>75,907</u>
United States Department of Agriculture:			
Pass Through Programs:			
University of Toledo thru Ohio Aerospace Institute – Grants for Agricultural Research, Special Research Grants	10.200	2009-38898-03269	741
University of South Carolina – Payments to 1890 Land-Grant Colleges and Tuskegee University	10.250	43-3AEM-2-80101	7,086
Total United States Department of Agriculture			<u>7,827</u>

Cleveland State University

Schedule of Expenditures of Federal Awards (continued)

Federal Grantor/Program Title	Federal	Identifying Number	Expenditures
Research and Development-Cluster (continued)			
United States Department of Commerce:			
Pass Through Programs:			
National Oceanic and Atmospheric Administration through OSU Research Foundation – Sea Grant Support	11.417	NA26RG2252	1,982
National Oceanic and Atmospheric Administration through Chagrin River Watershed Partners, Inc. – Coastal Zone Management Administration Awards	11.419	ODNR	<u>12,528</u>
Total United States Department of Commerce			14,510
United States Department of Transportation:			
Direct Program:			
Highway Research and Development Program	20.200		38,040
Pass Through Programs:			
Innovative Pavement Research Foundation through Applied Pavement Tech Inc. thru Case Western Reserve University – Airport Improvement Program	20.106	2003-036-AR01	4,529
Ohio Department of Transportation – Highway Planning and Construction	20.205	ODOT # 20809	<u>43,575</u>
Total United States Department of Transportation			86,144
United States Department of Housing and Urban Development:			
Pass Through Programs:			
City of Cleveland – Community Development Block Grants/Entitlement Grants	14.218	#62807, #64074, #65459	40,749
City of Cleveland – Housing Opportunities for Persons with AIDS	14.241	#62805	(641)
Cuyahoga Metropolitan Housing Authority – Demolition and Revitalization of Severely Distressed Public Housing	14.866	PO# 086511	<u>24,500</u>
Total United States Department of Housing and Urban Development			64,608
Department of the Interior:			
Pass Through Program:			
America View – U.S. Geological Survey – Research and Data Collection	15.808	AV05-OH02	<u>55,576</u>
Total Department of the Interior			55,576
Environmental Protection Agency:			
Direct Program:			
Surveys, Studies, Investigations and Special Purpose Grants within the Office of Research and Development	66.510		3,474
Pass Through Programs:			
Ohio Environmental Protection Agency through NE Ohio Regional Sewer District – Nonpoint Source Implementation Grants	66.460	3080	48,424
National Fish and Wildlife Foundation – Great Lakes Program	66.469	#2004-0005-112	<u>466</u>
Total Environmental Protection Agency			52,364

Cleveland State University

Schedule of Expenditures of Federal Awards (continued)

Federal Grantor/Program Title	Federal	Identifying Number	Expenditures
Research and Development-Cluster (continued)			
Department of Energy:			
Direct Programs:			
Renewable Energy Research and Development	81.087		579,594
Electricity Delivery and Energy Reliability, Research, Development, and Analysis	81.122		14,489
Pass Through Programs:			
Boeing, Inc. – Energy Efficiency and Renewable Energy Information Dissemination, Outreach, Training and Technical Analysis/Assistance	81.117	02-D-8259	21
Ohio Department of Development – Conservation Research and Development	81.086	DE-FC36-021D143471	(13,350)
Clemson University Research Foundation – Fossil Energy Research and Development	81.089	03-01-SR106	<u>145,949</u>
Total Department Of Energy			<u>726,703</u>
US-EGYPT Joint Science and Technology Board:			
Direct Program:			
National Technical Information Service	11.650		<u>7,205</u>
Total US-EGYPT Joint Science and Technology Board			<u>7,205</u>
Department of State:			
Direct Program:			
Educational Exchange – University Lecturers (Professors) and Research Scholars	19.401		<u>45,237</u>
Total Department of State			<u>45,237</u>
Department of Education:			
Direct Program:			
Business and International Education Projects	84.153		59,015
Pass Through Program:			
Euclid City School District – Fund for the Improvement of Education	84.215	S215X020458	<u>404,148</u>
Total Department of Education			<u>463,163</u>
Election Assistance Commission			
Direct Program:			
Help America Vote Act Requirements Payments	90.401		<u>62,253</u>
Total Election Assistance Commission			<u>62,253</u>
US Bureau of Reclamation:			
Pass Through Program:			
Central State University – Water Reclamation and Reuse Program	15.504	P0036342	<u>36,194</u>
Total US Bureau of Reclamation			<u>36,194</u>

Cleveland State University

Schedule of Expenditures of Federal Awards (continued)

Federal Grantor/Program Title	Federal	Identifying Number	Expenditures
Research and Development-Cluster (continued)			
US Agency for International Development:			
Pass Through Program:			
The Urban Institute – USAID Foreign Assistance for Programs Overseas	98.001	520-A-00-98-0013-00	<u>1,288</u>
Total US Agency for International Development			<u>1,288</u>
Total Research and Development-Cluster			5,951,900
Other Financial Assistance Programs			
United States Department of Labor:			
Direct Program:			
Employment and Training Administration Pilots, Demonstrations, and Research Projects	17.261		<u>58,133</u>
Total United States Department of Labor			58,133
United States Department of Commerce:			
Direct Program:			
Grants for Public Works and Economic Development Facilities	11.300		131,682
Pass Through Program:			
Cleveland Housing Network – Measures and Analyses of the U.S. Economy	11.025	TOPS	<u>26,429</u>
Total Economic Development Administration			158,111
United States Department of Housing and Urban Development:			
Direct Program:			
Community Development Work-Study Program	14.512		26,479
Pass Through Program:			
City of Cleveland – Community Development Block Grants/Special Purpose Grants/Technical Assistance Program	14.227	SG62060A	<u>(2,011)</u>
Total United States Department of Housing and Urban Development			24,468
National Aeronautics and Space Administration:			
Direct Programs:			
Aerospace Education Services Program	43.001		26,862
Technology Transfer	43.002		8,020
Pass Through Program:			
Ohio Space Grant Consortium – Aerospace Education Services Program	43.001	SEED	<u>5,000</u>
Total National Aeronautics and Space Administration			39,882

Cleveland State University

Schedule of Expenditures of Federal Awards (continued)

Federal Grantor/Program Title	Federal	Identifying Number	Expenditures
Other Financial Assistance Programs (continued)			
National Science Foundation:			
Direct Programs:			
Engineering Grants	47.041		76,251
Biological Sciences	47.074		276,335
Education and Human Resources	47.076		73,577
Pass Through Programs:			
Cleveland Municipal School District – Mathematical and Physical Sciences	47.049	47-076	219,625
Ohio State University Research Foundation – Education and Human Resources	47.076	745924	6,131
Total National Science Foundation			<u>651,919</u>
Environmental Protection Agency:			
Direct Program:			
Surveys, Studies, Investigations and Special Purpose Grants	66.606		211,951
Pass Through Program:			
City of Cleveland – Brownfields Training, Research, and Technical Assistance Grants and Cooperative Agreements	66.814	#64511	10,256
Total Environmental Protection Agency			<u>222,207</u>
Department of State:			
Direct Programs:			
Educational Exchange – University Lecturers (Professors) and Research Scholars	19.401		43,227
College and University Partnerships Program	19.405		2,795
Pass Through Program:			
Association Liaison Office – International Visitors Program	19.402	HNE-A-00-97-00059-00	27,015
Total Department of State			<u>73,037</u>
Department of Education:			
Direct Programs:			
Undergraduate International Studies and Foreign Language Programs	84.016		47,819
Fund for the Improvement of Postsecondary Education	84.116		461,378
Business and International Education Projects	84.153		4,361
Bilingual Education – Professional Development	84.195		(21)
Teacher Quality Enhancement Grants	84.336		211,550
Early Reading First	84.359		807,287

Cleveland State University

Schedule of Expenditures of Federal Awards (continued)

Federal Grantor/Program Title	Federal	Identifying Number	Expenditures
Other Financial Assistance Programs (continued)			
Pass Through Programs:			
Ohio Department of Education – Special Education – Grants to States	84.027	CI-200-427-ELAA-10-05 & 062950-6B*SR-06	53,191
Bowling Green State University – Transition to Teaching	84.350	S350A02128	94,877
Ohio Department of Education – Reading First State Grants	84.357	PO#s AS4036, AS4111, AS4153, & # 94491P	4,360,067
Ohio Department of Education – Mathematics and Science Partnerships		062950-OSCI-2005, CI667-OSCI-06-06, OSCI 3-6 3D2G-200-667-OSCI-04DR-0, & CI 667-OMAP-14-06	
	84.366		833,783
Ohio Department of Education – Improving Teacher Quality State Grants	84.367	TitleIIA/RFP, HQT Spec Ed	109,193
Ohio Department of Education – Troops-To-Teachers Program	84.815	PO# 93299B & PO 93832B	81,680
Total Department of Education			<u>7,065,165</u>
Department of Health and Human Services:			
Direct Programs:			
Cooperative Agreements for State Treatment Outcomes and Performance Pilot Studies Enhancement	93.238		48,430
Health Careers Opportunity Program	93.822		149,969
Pass Through Programs:			
Case Western Reserve University – National Center for Research Resources	93.389	2S07 RR-018123-02	1,895
Case Western Reserve University – Cancer Treatment Research	93.395	CA86357-04	(2,075)
National Youth Sports Program – Community Services Block Grant Discretionary Awards	93.570	NYSPPF 05-1027	95,987
Ohio Department of Job and Family Services – Child Welfare Services Training Grants	93.648	G-04-06-0727	65,225
Cleveland Clinic Foundation – Diabetes, Endocrinology, and Metabolism Research	93.847	1R25DK064239	47,407
Total Department of Health and Human Services			<u>406,838</u>
Corporation for National and Community Service:			
Pass Through Program:			
Ohio Department of Education – Learn and Serve America – School and Community Based Programs	94.004	200-660, SAC 86S1 & 062950 SV-HS-2006	15,820
Total Corporation for National and Community Service			<u>15,820</u>

Cleveland State University

Schedule of Expenditures of Federal Awards (continued)

Federal Grantor/Program Title	Federal	Identifying Number	Expenditures
Other Financial Assistance Programs (continued)			
Department of Energy:			
Direct Program:			
Energy Efficiency and Renewable Energy Information Dissemination, Outreach, Training and Technical Analysis/Assistance	81.117		<u>(8,767)</u>
Total Department of Energy			<u>(8,767)</u>
National Endowment for the Humanities:			
Pass Through Program:			
Ohio Humanities Council-Promotion of the Humanities – We the People	45.168	OH-2006-Forum	<u>4,417</u>
Total National Endowment for the Humanities			<u>4,417</u>
Department of Justice:			
Pass Through Program:			
Juvenile Justice and Delinquency Prevention – Allocation to States	16.540	2003-JJ-GSI-0519	<u>2,733</u>
Total Department of Justice			<u>2,733</u>
US Agency for International Development:			
Direct Program:			
USAID Foreign Assistance for Programs Overseas	98.001		3,693
Pass Through Program:			
The Urban Institute – USAID Foreign Assistance for Programs Overseas	98.001	#07590-000-00	<u>43,435</u>
Total US Agency for International Development			<u>47,128</u>
Total Other Financial Assistance Programs			<u>8,761,091</u>
Total Expenditures of Federal Awards			<u><u>\$ 26,886,603</u></u>

Cleveland State University

Notes to the Schedule of Expenditures of Federal Awards

Year Ended June 30, 2006

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, 2006, 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, 2006
Federal Perkins Loan Program	84.038	\$ 12,437,856

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	\$ 3,152,244

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, 2006, 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	\$ 70,583,267

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		
Gedeon Associates	43.002	\$ 49,292
International Mezzo Techniques	43.002	98,606
Stirling Technology Company	43.002	26,149
Sunpower, Inc.	43.002	40,932
University of Minnesota	43.002	170,301
Department of Energy		
Carnegie Mellon University	81.087	19,000
Environmental Protection Agency		
Kirsten Toth	66.606	48,518
US Geological Survey		
Ohio Aerospace Institute	15.808	2,595
Department of Health and Human Services		
Elizabeth E. Meacham	93.191	2,577
MetroHealth	93.191	10,784
Benjamin Rose	93.191	5,733
Peter K. Chelli	93.191	4,500
Eliza Bryant Village	93.191	2,500

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 Health and Human Services (continued)		
Corrine Russell	93.191	5,000
Center For Community Solutions	93.307	500
St. Vincent Charity Hospital	93.307	74,520
MetroHealth	93.307	7,442
Election Assistance Commission		
Dora Rose	90.401	22,000
Department of Education		
Montgomery Public Schools	84.116	71,912
Janice M. Gallagher	84.215	19,000
Cuyahoga Valley National Park Association	84.215	29,548
Cleveland Municipal School District	84.336	9,130
University of Akron	84.357	1,367,643
Baldwin Wallace College	84.357	124,472
Bowling Green State University	84.357	45,272
Delaware/Union Educational Service Center	84.357	18,795
Educational Service Center of Cuyahoga County	84.357	43,423
John Carroll University	84.357	1,161,786
Lucas County Educational Service Center	84.357	20,245
Ohio State University-Lima	84.357	19,680
Ohio University	84.357	22,014
Perry-Hocking Educational Service Center	84.357	14,946
Ohio Northern University	84.357	70,533
Wright State University	84.357	129,335
Muskingham College	84.357	26,623
Youngstown State University	84.357	14,650
Dora L. Bechtel	84.359	43,667
Berkey Dixon	84.359	10,000
Kristen Hughes	84.359	32,667
Catherine Rose	84.359	4,000
Sherrae Dorsey	84.359	9,167
Evaluation and Research Associates, Inc.	84.359	2,000
Barbara Dole	84.359	29,167
Barbara Rucker	84.359	5,000
Educational Council	84.366	193,968
Muskingham College	84.366	10,051

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 (continued)		
Hancock County Educational Service Center	84.366	13,736
Lucas County Educational Service Center	84.366	35,510
Montgomery County Educational Service Center	84.366	45,324
Hamilton County Educational Service Center	84.366	26,955
Mid-Ohio Educational Service Center	84.366	29,336
South Central Ohio Educational Service Center	84.366	15,636
Stark County Educational Service Center	84.366	41,020
Perry-Hocking Educational Service Center	84.366	45,308
Salt Fork Regional Professional Development Center	84.366	(23,238)
Mahoning County Educational Service Center	84.366	23,329
Southeast Regional Professional Development Center	84.366	(3,034)
South Regional Professional Development Center	84.366	(11,626)
South-Western City Schools	84.366	47,155
West Regional Professional Development Center	84.366	20,104
Total		<u>\$ 4,445,158</u>

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*

The 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, 2006, and have issued our report thereon dated October 6, 2006. 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 6, 2006.

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



October 6, 2006

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

The 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, 2006. 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, *Audits 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 of the University's compliance with those requirements.

As described in item 06-01 in the accompanying schedule of findings and questioned costs, the University did not comply with requirements regarding Eligibility that are applicable to its TRIO Cluster, and as described in items 06-02 and 06-04, the University did not comply with requirements regarding Reporting that are applicable to its TRIO and Early Reading First programs, respectively. Compliance with such requirements is necessary, in our opinion, for the University to comply with requirements applicable to those programs.

In our opinion, because of the effects of the noncompliance described in the preceding paragraph, the University did not comply in all material respects, with the requirements referred to above that are applicable to TRIO Cluster. Also, in our opinion, except for the noncompliance described in the preceding paragraph, the University complied, in all material respects, with the requirements referred to above that are applicable to each of its other major federal programs for the year ended June 30, 2006. However, the results of our auditing procedures also disclosed other instances of noncompliance with those requirements that are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying schedule of findings and questioned costs as items 06-03, 06-05, and 06-06.

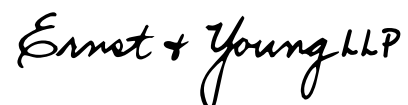
Internal Control Over Compliance

The management of the University is responsible for establishing and maintaining effective internal control over compliance with the 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 the internal control over compliance in accordance with OMB Circular A-133.

We noted certain matters involving the internal control over compliance and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over compliance that, in our judgment, could adversely affect the University's ability to administer a major federal program in accordance with the applicable requirements of laws, regulations, contracts, and grants. Reportable conditions are described in the accompanying schedule of findings and questioned costs as items 06-01, 06-02, 06-04, 06-05, and 06-06.

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 the 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. Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described above, we consider items 06-01, 06-02, and 06-04 to be material weaknesses.

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



October 6, 2006

Cleveland State University

Schedule of Findings and Questioned Costs

Year Ended June 30, 2006

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 none reported

Noncompliance material to financial statements noted? yes X no

Federal Awards Section

Internal control over major programs:

Material weakness(es) identified? X yes no

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

Type of auditor’s report on compliance for major programs: Student Financial Aid – Cluster – Unqualified Opinion
TRIO – Cluster – Adverse opinion
Early Reading First Program – Qualified Opinion

Any audit findings disclosed that are required to be reported in accordance with Section .510(a) OMB Circular A-133 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
84.042, 84.047	TRIO – Cluster
84.359	Early Reading First Program

Dollar threshold used to distinguish between
Type A and Type B programs: \$634,710

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 (a) (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 06-01

Federal program information:	TRIO Cluster, CFDA #84.042, 84.047
Criteria or specific requirement:	In accordance with the Department of Education regulations, participating students must meet several specific eligibility requirements in order to participate in each program of the TRIO Cluster.
Condition:	Management has insufficient internal controls ensuring eligibility of TRIO participants. In addition, supporting documentation for each participant's eligibility was not maintained.
Questioned costs:	None.
Context:	We reviewed a sample of 50 participant files for the SSS and Upward Bound programs to test internal controls. Management was not able to provide supporting documentation for eligibility. No additional sampling to test compliance was performed.
Effect:	Management cannot substantiate that the TRIO participants were eligible to participate in the program.
Cause:	There are insufficient internal controls over participant eligibility. In addition, there are no policies and procedures requiring participant information to be filed by the department supervisor.

Cleveland State University

Schedule of Findings and Questioned Costs (continued)

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

Recommendation:	The program director should ensure that all information related to the eligibility is maintained.
Views of Responsible Officials and Planned Corrective Actions:	Management will ensure that all information related to the program will be filed in each TRIO participant’s file to ensure that program eligibility requirements are met and supporting information will be retained in the TRIO offices throughout the period in which the program is funded by the U.S. Department of Education.

Finding 06-02

Federal program information:	TRIO Cluster, CFDA #84.042, 84.047
Criteria or specific requirement:	In accordance with the Department of Education, TRIO Cluster “grantees must submit an annual performance report to the Department of Education each year of the project period.”
Condition:	Management has insufficient controls over the reporting process. In addition, supporting documentation for the Annual Performance Report was not maintained.
Questioned costs:	None.
Context:	We obtained the Annual Performance Report for the SSS and Upward Bound programs. Management was not able to provide supporting documentation to substantiate financial information reported in the Annual Performance Report.
Effect:	Management cannot substantiate the information in the Annual Performance Report.

Cleveland State University

Schedule of Findings and Questioned Costs (continued)

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

Cause: There are insufficient internal controls over reporting.

Recommendation: The program director should ensure that all information relating to the Annual Performance Report to substantiate that the program information being reported is accurate.

Views of Responsible Officials and Planned Corrective Actions: Supporting documentation will be retained for all information reported in the Annual Performance Report.

Finding 06-03

Federal program information: Early Reading First, CFDA #84.359.

Criteria or specific requirement: In accordance with the Circular A-110 Subpart A, Sec. 51, an entity is required to monitor the subrecipient's use of Federal awards through reporting, site visits, or other means to provide reasonable assurance that the subrecipient administers Federal awards in compliance with laws, regulations, and the provisions of contracts or grant agreements and that performance goals are achieved.

Condition: Federal expenditures related to sub recipients were recorded in the main grant general ledger account instead of sub recipient general ledger account.

Questioned costs: None.

Context: We selected a sample of 25 invoices and noted one instance where the expenditure was charged to the main general ledger account versus the general ledger account associated with the individual sub recipient.

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, management could improperly complete financial reports or inaccurately track federal expenditures by sub recipients versus budget.

Cause: There are insufficient internal controls and procedures over the recording and review of sub recipient invoices.

Recommendation: Management should review the detail general ledger on a monthly basis to ensure expenditures have been properly charged to the correct general ledger account. In addition, management should ensure that all transactions relating to sub recipients be recorded appropriately in the sub account rather than in the main grant account.

Views of Responsible Officials and Planned Corrective Actions: All sub recipients' account levels will be monitored and reconciled monthly utilizing internal spreadsheets. A reconciliation report will be given to the Controllers Office monthly to update PeopleSoft.

Finding 06-04

Federal program information: Early Reading First, CFDA #84.359

Criteria or specific requirement: In accordance with the Early Reading First Program, Department of Education award letter grantees will file annual performance reports each year, reporting on the progress they are making towards goals and objectives.

Condition: Management has insufficient controls over the reporting process. In addition, supporting documentation for the Annual Performance Report was not maintained.

Cleveland State University

Schedule of Findings and Questioned Costs (continued)

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

Questioned costs:	None.
Context:	Internal controls over reporting in the Early Reading First Program were not functioning as intended.
Effect:	We obtained the Annual Performance Report filed in fiscal 2006. Management cannot substantiate the information on the report.
Cause:	There are insufficient internal controls and procedures requiring information to be filed by the department supervisor.
Recommendation:	The program director should ensure that all information relating to the program be filed appropriately in each students' file to ensure that the program information being reported is accurate.
Views of Responsible Officials and Planned Corrective Actions:	Management will implement policies and procedures to ensure that the information reported relating to the program is documented.

Finding 06-05

Federal program information:	Early Reading First, CFDA #84.359.
Criteria or specific requirement:	In accordance with the Circular A-110 Subpart A, Sec. 51 an entity is required to monitor the subrecipient's use of Federal awards through reporting, site visits, or other means to provide reasonable assurance that the subrecipient administers Federal awards in compliance with laws, regulations, and the provisions of contracts or grant agreements and that performance goals are achieved.

Cleveland State University

Schedule of Findings and Questioned Costs (continued)

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

Condition: Invoices related to subrecipients were approved. However, each invoice had identical descriptions of the services performed. The invoice description was not representative of the actual service performed.

Questioned costs: None.

Context: We selected a sample of invoices submitted by subrecipients and noted two instances where the invoices were not reflective of the actual scope of services performed.

Effect: The department supervisor could not substantiate the services being performed by the subrecipients.

Cause: There are insufficient internal controls over the review and approval of sub recipient invoices by the department supervisor.

Recommendation: The department supervisor should carefully review the description of services on each invoice as they are submitted to ensure they accurately reflect the services being performed prior to granting approval.

Views of Responsible Officials and Planned Corrective Actions: Management will implement procedures to ensure all invoices reflect the subrecipients' scope of work.

Finding 06-06

Federal program information: TRIO Cluster, CFDA #84.042, 84.047 and Early Reading First, CFDA #84.359

Criteria or specific requirement: In accordance with the Department of Education Notice of Award, the TRIO Cluster, and Early Reading First programs indirect costs charged to a grant are determined by applying the indirect cost rate per the Notice of Award to total direct costs of the grant minus identified unallowable expenses per the Notice of Award.

Cleveland State University

Schedule of Findings and Questioned Costs (continued)

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

Condition:	Management has insufficient controls over the indirect cost calculation and monitoring process. The University improperly calculated indirect costs charged to the programs.
Questioned costs:	None.
Context:	Management did not retain the original indirect cost calculation. Therefore, management recalculated the indirect cost for each program and determined the indirect cost reimbursed was understated for each program.
Effect:	Indirect costs are not in accordance with the program Notice of Award.
Cause:	There are insufficient internal controls over monitoring system-generated indirect costs calculations and reviewing manually-calculated indirect costs.
Recommendation:	The University should periodically monitor system-generated indirect costs calculations and review every manually calculated indirect cost amount for each grant to ensure that they are calculated properly.
Views of Responsible Officials and Planned Corrective Actions:	Management will implement procedures to monitor and review indirect costs calculations.

Cleveland State University

Prior Year Schedule of Financial Statement Findings and Federal Award
Findings and Questioned Costs

Year Ended June 30, 2006

Findings and Questioned Costs 05-01

The corrective action plan outlined by management was implemented as intended.

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Report of Independent Auditors 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, 2006. 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, 2006, 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.
2. We performed a comparison of the revenues, expenditures, and other changes per the Statement for the year ended June 30, 2006 to the year ended June 30, 2005. We obtained management's explanations for variations greater than \$10,000 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 increased by approximately \$39,000, or 19%, due to increased season ticket sales during fiscal year 2006 combined with the fact there were four additional home games played in 2006 compared to the prior year.
 - b. Other sports revenue increased by approximately \$26,000, or 140%, due to the increase in women's basketball revenue primarily attributable to the home game played against the University of Connecticut.

- c. Other sources of revenue decreased by approximately \$87,000, or 15%, which is primarily due to the decrease in tournament revenue of approximately \$220,000 due to the net receipts from hosting the NCAA Men's Basketball Tournament 1st and 2nd round in the prior year that was not hosted by the University in the current year. This was offset primarily by increases in the following sources of revenue: increase in sponsorships of \$101,000 due to additional sponsorships obtained in the current year; the increase in guarantees of \$29,000 due to various guarantees for Men's and Women's basketball; and the increase in private gifts and grants of approximately \$122,000, which was a result of the Krenzler Field and the sponsorship of Intercollegiate Golf Invitational.
- d. Salaries and wages expenditures increased by approximately \$156,000, or 17%, due to the University maintaining two sets of Men's Basketball coaches simultaneously during the current year. This was partially offset by positions which were split between intercollegiate athletics and intramurals and recreation were moved to be recorded as 100% intercollegiate athletics in the prior year in preparation for the new recreation center account. In the current year, all intramural and recreation expenses were part of the recreation center's activities.
- e. Fringe benefits expenditures increased by approximately \$51,000, or 21%, due to the increases related to personnel noted in 2.d. above and overall increases in University fringe benefits.
- f. Public relations expenditures increased by approximately \$24,000, or 65%, due to the expenditures related to television production. The University moved its broadcasts from local cable to a statewide cable network. In addition, there was an increase in the external affair expenses due to game promotion costs associated with the increased number of home basketball games.
- g. Travel expenditures decreased by approximately \$16,500, or 17%, due to decreased moving expenses, individual travel expenses, and team travel expenses associated with the travel of radio and TV talent for basketball.
- h. Supplies expenditures decreased by approximately \$12,600, or 11%, due to the University spending less on medical supplies and computer equipment during the current fiscal year.
- i. Conference and meals expenditures increased by approximately \$13,000, or 134%, due to the University hosting the NCAA regional golf championships, which was not hosted by the University in the prior year.

- j. Other expenditures increased by approximately \$114,200, or 119%, due to a \$45,000 increase in the athletics accident and injury insurance premium and an increase of approximately \$10,000 in the cost of special hospital care. The remainder of the increase can be attributed to the increased costs of grants-in-aid and number of fifth year aid recipients.
 - k. Men's basketball expenditures increased by approximately \$114,300, or 11%, as a result of the University's decision to change basketball coaching staffs during the year. The University was paying two sets of coaching staffs until various contracts ended. In addition, the new staff is being paid a higher salary than the previous staff.
 - l. Men's wrestling expenditures increased by approximately \$33,200, or 12%, as a result of an increase in inflation related to motor coach costs. In addition, grant-in-aid expenditures increased due to University approved increases.
 - m. Men's swimming expenditures increased by approximately \$36,900, or 22%, due to a portion of the head coach's salary, who is also the aquatics director, being assigned to the intramurals and recreation budget in the current year. Whereas in the prior year, the entire salary was assigned to intercollegiate athletics. In addition, there was an increase of approximately \$11,300 in grant-in-aid.
 - n. Men's tennis expenditures increased by approximately \$14,600, or 18%, due to increased spending in grant-in-aid.
 - o. Women's golf expenditures decreased by approximately \$17,000, or 15%, as a result of an increase in academic grant-in-aid during the year. Several student athletes received academic awards, which reduced the costs to athletics.
 - p. Women's softball increased by approximately \$44,800, or 16%, which is attributable to the increase in the athletics grant-in-aid. There were more student athletes receiving aid from athletics during the current year as there were some roster vacancies in the prior year.
 - q. Women's tennis expenditures increased by approximately \$23,300, or 22%, due to an increase in the athletics grant-in-aid as a result of having more student athletes with a higher skill level.
3. We performed a comparison of the restricted revenues, expenditures, and other changes per the Statement for the year ended June 30, 2006 to the year ended June 30, 2005. We obtained management's explanations for variations greater than \$10,000 and 10% of each revenue, expenditure, and other changes line item in the aggregate. We were informed by certain individuals of the Department who have responsibility for financial and accounting matters the following:

- a. Federal grants and contracts revenue decreased by approximately \$12,000, or 48%, due to decreased number of federal work-study student hours in the current year.
 - b. Private gifts and grants increased by approximately \$122,000, or 27%, due to two new initiatives that occurred during fiscal year 2006. The University had expenditures related to the Krenzler Field renovations and also sponsored an intercollegiate golf invitational.
 - c. Salaries and wages expenditures increased by approximately \$11,000, or 12%, due primarily to the decreased number of paid speakers in the CHAMPS Lifeskills Program.
 - d. Supplies expenditures and operation and maintenance of plant expenditures increased by approximately \$28,000, or 96%, and \$48,000, or 1,017%, respectively due to the renovations made on Krenzler Field.
 - e. Men's golf expenditures increased by approximately \$37,000, or 153%, due to the renovations made on the indoor golf facility as well as the costs associated with hosting the intercollegiate golf invitational.
 - f. Women's basketball expenditures decreased by approximately \$10,000, or 92%, due to the decreased number of federal work-study student hours in the current year compared to the prior year.
 - g. Women's fencing expenditures increased by approximately by \$20,000, or 807%, due to the University hosting the regional fencing championship during the current year. There was also one additional student athlete who received grants-in-aid.
4. We performed a comparison of revenues, expenditures, and other changes per the Statement to the budgeted amounts obtained from management. We obtained management's explanation for variations greater than \$10,000 and 10% of each revenue, expense, and other changes, line item in the aggregate. We were informed by certain individuals of the Department who have responsibility for financial and accounting matters the following:
- a. The budgeted amounts for Men's Basketball revenue exceeded the actual amount by approximately \$82,200, or 25%, due to decreased single game revenue and ticket sales during fiscal year 2006. This is mainly attributed to not having a marquee opponent, such as West Virginia University, who backed out of their original agreement, and they were replaced by a much less known opponent.
 - b. The amount of other sports revenue exceeded the budgeted amount by approximately \$34,300, or 327%, due to increased net receipts from hosting a home game against the University of Connecticut, a marquee opponent.

- c. The amount for public relations expenditures exceeded the budgeted amount by approximately \$13,400, or 28%, due to the expenses related to radio advertising, game promotions, and kid's zone activities for basketball.
 - d. The budgeted amount of printing expenditures exceeded the actual amount by approximately \$15,000, or 19%, as a result of establishing trade agreements, favorable bids, and the savings realized by using digital photography.
 - e. The budgeted amount of supplies expenditures exceeded the actual amount by approximately \$26,400, or 20%, due to the University not experiencing as much of a need for medical supplies as they first anticipated. The budgeted amount was based upon hiring a new athletic trainer in the beginning of fiscal year 2005.
 - f. The amount for travel expenditures exceeded the budgeted amount by approximately \$10,900, or 16%. Expenditures were over budget as a result of the University not being able to accurately estimate the number of positions that need to be filled and the expenses associated with the search.
 - g. The amount of conference and meals expenditures exceeded the budgeted amount by approximately \$12,800, or 129%, which is attributed to expenses for meals and on-course beverages and snacks associated with the NCAA golf regional tournament held in May hosted by the University.
 - h. The budgeted amount of other expenses exceeded the actual amount by approximately \$106,800, or 34%, due to a \$76,000 balance in the grant-in-aid contingency line which covers several expenses. The amounts related to these expenditures are being reduced and being distributed to sports budgets in fiscal year 2007. In addition, the University received a credit of \$20,000 from University Marketing for support of radio and television production for basketball. As this transfer was from an internal source, it was shown as a credit to the expense.
 - i. The actual amount of operation and maintenance of plant expenditures exceeded the budgeted amount by approximately \$115,600, or 19%, due to more spending on game day facility costs, on maintenance and repairs that occurred during the year, and on physical plant services.
5. 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.
 6. 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.

7. 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 36,478, while the total headcount, according to Ticketmaster, was 21,687. Management indicated that the difference of 14,791 tickets is unused complimentary and season tickets.

We noted that ticket sales per Ticketmaster were less than the general ledger by \$494.

8. We reviewed game guarantees that were received from Michigan State University, University of Wisconsin, and West Virginia 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.
9. We obtained and reviewed agreements for sponsorships and agreed amounts recorded to the sponsorship agreements and the University's general ledger.

We noted that revenue associated with three sponsorship agreements was not being recorded on the accrual basis, and therefore, revenue was understated in the amount of \$16,800. We also noted instances where signed sponsorship contracts were not maintained.

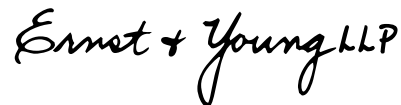
10. We agreed 2006 NCAA distributions received to the NCAA Division I Distribution Report and to the University's general ledger. We found no exceptions as a result of these procedures.
11. We reviewed the reconciliation of the 2006 NCAA tournament proceeds to the NCAA Division I Men's Basketball Proposed Budget and Financial Report. We agreed the tournament revenue to the University's general ledger. We found no exceptions as a result of these procedures.
12. 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.

13. We obtained documentation from management of gifts received during fiscal 2006. 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.
14. We compared contributions, received directly by the Intercollegiate Athletic Department in excess of 10% of total contributions, to the University’s general ledger. We noted no contributions that exceeded 10% of all contributions for the year ended June 30, 2006.
15. 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.
16. 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.
17. 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.
18. We obtained and documented our understanding of the University’s recruiting expense and team travel policies, comparing them to the NCAA bylaws.
19. 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.

20. Management has represented that there were no booster groups in fiscal 2006.
21. We obtained confirmation from the athletic coaches that during the period of July 1, 2005 to June 30, 2006, 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 19, 2006

Cleveland State University

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

Year Ended June 30, 2006

	<u>Unrestricted</u>	<u>Restricted</u>	<u>Total</u>
Revenues:			
Sports:			
Men's Basketball	\$ 181,292	\$ -	\$ 181,292
Other Sports	26,865	-	26,865
Total Sports	<u>208,157</u>	<u>-</u>	<u>208,157</u>
Tournaments	59,913	-	59,913
NCAA Distributions	116,879	-	116,879
Sponsorships	163,690	-	163,690
Guarantees	83,000	-	83,000
Federal Grants and Contracts	-	12,521	12,521
Private Gifts, Grants, and Contracts	-	579,287	579,287
Other Sources	151,805	-	151,805
Total Revenues	<u>783,444</u>	<u>591,808</u>	<u>1,375,252</u>
Expenditures:			
Administrative and General:			
Salaries and Wages	1,041,517	79,427	1,120,944
Fringe Benefits	293,462	14,353	307,815
Public Relations	60,931	140	61,071
Printing	65,803	6,314	72,117
Travel	80,662	472	81,134
Supplies	107,212	57,794	165,006
Telephone	39,312	-	39,312
Conference and Meals	22,850	44,174	67,024
Other	210,646	1,638	212,284
Total Administrative and General	<u>1,922,395</u>	<u>204,312</u>	<u>2,126,707</u>
Operation and Maintenance of Plant	718,239	53,071	771,310
Sports:			
Men's Soccer	252,879	3,500	256,379
Men's Basketball	1,125,723	10,362	1,136,085
Men's Wrestling	310,020	16,732	326,752
Men's Swimming	201,012	94,630	295,642
Men's Fencing	19,346	-	19,346
Men's Baseball	325,307	31,979	357,286
Men's Tennis	97,012	-	97,012
Men's Golf	109,786	61,885	171,671
Women's Golf	96,339	-	96,339
Women's Volleyball	313,285	6,049	319,334
Women's Swimming	244,142	28,410	272,552
Women's Basketball	809,790	801	810,591
Women's Fencing	11,145	22,860	34,005
Women's Softball	321,350	33,169	354,519
Women's Tennis	129,831	23,131	152,962
Women's Soccer	228,455	570	229,025
Women's Track/Cross Country	27,886	347	28,233
Total Sports	<u>4,623,308</u>	<u>334,425</u>	<u>4,957,733</u>
Total Expenditures	<u>7,263,942</u>	<u>591,808</u>	<u>7,855,750</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	\$ 6,083,945	\$ –	\$ 6,083,945
Other Transfers	396,553	–	396,553
Excess of Transfers to Revenue Over Restricted Receipts	–	(153,794)	(153,794)
Refunded to Grantor	–	(225)	(225)
Total Transfers	<u>6,480,498</u>	<u>(154,019)</u>	<u>6,326,479</u>
Revenues in Excess of (less than) Expenditures and Transfers	<u>\$ –</u>	<u>\$ (154,019)</u>	<u>\$ (154,019)</u>



Mary Taylor, CPA
Auditor of State

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
MARCH 8, 2007**