SINGLE AUDIT REPORT

Cleveland State University

Year ended June 30, 2003

0310-0474645

Auditor of State
Betty Montgomery

Board of Trustees
Cleveland State University
1983 East 24th Street
Fenn Tower, Room 905
Cleveland, Ohio 44115

We have reviewed the Independent Auditor's Report of the Cleveland State University, Cuyahoga County, prepared by Ernst & Young, LLP, for the audit period July 1, 2002 through June 30, 2003. 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.

Betty Montgomery

BETTY MONTGOMERY
Auditor of State

December 30, 2003

88 E. Broad St. / P.O. Box 1140 / Columbus, OH 43216-1140
Telephone: (614) 466-4514 (800) 282-0370 Fax: (614) 466-4490
www.auditor.state.oh.us

This Page is Intentionally Left Blank.

Cleveland State University

Single Audit Report

Year ended June 30, 2003

Contents

ERNST & YOUNG

Ernst & Young LLP
1300 Huntington Building
925 Euclid Avenue
Cleveland, Ohio 44115

Phone: (216) 861-5000
www.ey.com

Report of Independent Auditors

Board of Trustees
Cleveland State University

We have audited the accompanying statement of net assets of Cleveland State University, a component unit of the State of Ohio, as of June 30, 2003, and the related statements of revenues, expenses and changes in net assets, and cash flows for the year then ended. These financial statements are the responsibility of Cleveland State University's management. Our responsibility is to express an opinion on these financial statements based on our audit. The financial statements of Cleveland State University for the year ended June 30, 2002, were audited by other auditors whose report dated November 22, 2002, expressed an unqualified opinion on those statements and included an explanatory paragraph that disclosed the University's implementation of a new financial reporting model as discussed in Note 1 to these financial statements.

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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

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

We also audited the adjustments described in Note 2 that were applied to restate the 2002 financial statements. In our opinion, such adjustments are appropriate and have been properly applied.

Management's discussion and analysis on pages 3-9 is not a required part of the financial statements but is supplementary information required by the Government Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management, regarding the methods of measurements and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 3, 2003 on our consideration of Cleveland State University's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Our audit was performed for the purpose of forming an opinion on the financial statements of Cleveland State University taken as a whole. The accompanying schedule of expenditures of federal awards for the year ended June 30, 2003 is presented for purposes of additional analysis as required by the U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations* and is not a required part of the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements, and in our opinion, is fairly stated in all material respects in relation to the financial statements taken as a whole.

Ernst & Young LLP

October 3, 2003

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

The University was established in 1964 by action of the Ohio General Assembly, and is part of the State of Ohio's (State) system of State supported and state assisted institutions of higher education. The University 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 (City), the University is an urban institution. A majority of the University's students commute daily from their homes in the City and the surrounding six-county region.

Using the Annual Financial Report

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

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

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, 2003 and 2002 is as follows:

	2003	2002
Current Assets	**$ 62,087,897**	$ 54,664,811
Noncurrent Assets:		
Capital Assets, Net	**258,298,611**	256,021,806
Other	**69,169,768**	25,847,569
Total Assets	**389,556,276**	336,534,186
Current Liabilities	**21,123,029**	22,155,683
Noncurrent Liabilities	**70,800,121**	28,118,774
Total Liabilities	**91,923,150**	50,274,457
Net Assets:		
Invested In Capital Assets, Net	**245,317,385**	245,172,591
Restricted-Expendable	**14,044,469**	12,801,161
Restricted-Nonexpendable	**1,106,206**	1,122,107
Unrestricted	**37,165,066**	27,163,870
Total Net Assets	**$297,633,126**	$286,259,729

Current assets consist primarily of cash, operating investments, accounts and notes receivable, and prepaid expenses. Current liabilities consist primarily of accounts payable, accrued payroll and other liabilities, deferred revenue and the current portion of long-term debt. The University's current ratio (current assets divided by current liabilities) of 2.9:1 indicates that current assets are more than adequate to cover current liabilities as they become due.

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

Noncurrent assets increased by $45.6 million, or 16.2%. The increase was primarily in restricted investments, and is attributable to the issuance of bonds in May 2003 (Series 2003) in the amount of $50,280,000.

Total liabilities increased by $41.6 million, or 82.8%, and noncurrent liabilities increased by $42.7 million, or 151.8%, due to the Series 2003 bond issue. In addition, in 2002, the State required the University to record an allocation of State unfunded workers' compensation liability, and the University restated its prior year net assets for this estimated liability as part of adopting GASB Statement No. 35. In 2003, The State reversed its decision to have colleges and universities share in a portion of the State's workers' compensation liability and as a result liabilities decreased by $2.2 million.

Current liabilities decreased by $1.0 million, or 4.7%. In 2002, current liabilities included an overdraft in cash that was reported as accounts payable on the financial statements.

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 $17.9 million in 2003 and $13.1 million in 2002. Capital retirements totaled $2.2 million in 2003 and $4.1 million in 2002. Capital additions include construction of new facilities, repair and renovation of existing facilities, which increased their estimated useful lives, and acquisition of equipment and library books. Capital asset additions are funded, in part, by capital appropriations from the State. These appropriations amounted to $6.2 million in 2003 and $6.0 million in 2002.

Bonds payable increased from $10.2 million at June 30, 2002 to $53.2 million at June 30, 2003. The University sold $51.0 million of bonds in 2003, of which $7.3 million was used to refund bonds issued in 1993. In addition to the refunding, proceeds from the 2003 bonds will be used to construct two new buildings on campus (a student recreation center and an administration building), and to renovate one existing building (the Howe Mansion, which will contain conference space and house the University's College of Graduate Studies).

These projects are important pieces of the University's new Campus Master Plan, which was adopted by the Board of Trustees in 2003. The University plans to issue additional bonds in 2004, totaling approximately $43 million, as it continues to implement the Master Plan; the Board of Trustees will be asked to approve an authorizing resolution at its meeting in February 2004. The proceeds from the 2004 bonds are expected to be used to build a new student union, a new bookstore, and a new parking garage.

Obligations under capital leases increased from $629,000 to $2.8 million during 2003. The increase was due to the acquisition of new computer hardware to run the University's administrative computing systems, and new equipment to upgrade the University's campus network.

Net Assets

Net assets represent the residual interest in the University's assets less liabilities. The University's net assets at June 30, 2003 and 2002 are summarized as follows:

	2003	**2002**
Invested in Capital Assets, Net of Related Debt	**$245,317,385**	$245,172,591
Restricted—Expendable	**14,044,469**	12,801,161
Restricted—Nonexpendable	**1,106,206**	1,122,107
Unrestricted	**37,165,066**	27,163,870
Total Net Assets	**$297,633,126**	$286,259,729

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

Restricted-nonexpendable net assets consist primarily of endowment funds held by the University. Not included are endowment funds held by the Cleveland State University Foundation, Inc., a separately incorporated 501(c)(3) organization, which had total investments of $15.1 million at June 30, 2003 and $13.7 million at June 30, 2002. Restricted-expendable net assets are subject to externally-imposed restrictions governing their use.

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

For the year-ended June 30, 2003, the University had an increase in net assets of $11.4 million or 4.0%. The growth was primarily in unrestricted net assets, which increased by $10.0 million, or 36.8%, due to increased revenues from student fees (which grew from $75.0 million in 2002 to $87.5 million in 2003), cost containment measures in unrestricted operations (including a freeze on hiring, which was in place for most of the year), and the elimination in 2003 of a $2.2 million liability to the Ohio Bureau of Workers Compensation (as discussed in Note 8 to the financial statements).

Statement of Revenues, Expenses and Changes in Net Assets

The Statement of Revenues, Expenses and Changes in Net Assets presents the revenues earned and expenses incurred during the year. Activities are reported as either operating or nonoperating. As a public institution, the University's dependency on State aid contributed toward an operating deficit because the financial reporting model classifies State appropriations as nonoperating revenue. The utilization of capital assets is reflected in the financial statements as depreciation, which amortizes the cost of an asset over its expected useful life. Summarized revenues, expenses, and changes in net assets for the years ended June 30, 2003 and 2002 are as follows:

	2003	2002
Operating Revenues:		
Student Tuition and Fees, Net	**$ 87,476,820**	$ 75,005,194
Grants and Contracts	**18,208,582**	18,921,129
Other	**13,702,162**	12,987,028
Total Operating Revenue	**119,387,564**	106,913,351
Operating Expenses:		
Educational and General	**180,482,037**	172,398,354
Auxiliary Enterprises	**13,081,920**	11,965,027
Depreciation	**15,166,745**	15,668,985
Total Operating Expenses	**208,730,702**	200,032,366
Operating Loss	**(89,343,138)**	(93,119,015)
Nonoperating Revenues, Net:		
State Appropriations	**72,246,181**	74,131,715
Other	**19,540,898**	19,308,475
Gain Before Other Changes	**2,443,941**	321,175
Other Changes	**8,929,456**	6,028,309
Increase in Net Assets	**11,373,397**	6,349,484
Net Assets at Beginning of Year, As Restated	**286,259,729**	279,910,245
Net Assets at End of Year	**$ 297,633,126**	$ 286,259,729

Total revenue in fiscal 2003 and 2002 was $218.6 million and $206.9 million, respectively. The most significant sources of operating revenues for the University are net student tuition and fees of $87.5 million, grants and contracts of $18.2 million, and auxiliary services of $9.7 million. Revenues from tuition and fees increased by $12.5 million, or 16.6%. Two factors contributed to this increase. The first was growth in enrollment, and the second was increased tuition rates. Headcount enrollment increased by 1.6% over the prior year, and full-time equivalent enrollment increased by 2.6% over the prior year. Tuition rates were increased by 9.9% effective for the 2002 Summer semester, in large part to offset a cut in support from the State (see below).

Total expenses in fiscal 2003 and 2002 were $209.4 million and $200.6 million. Operating expenses include the costs of instruction, research, public service, general administration, utilities, libraries, and auxiliary services. Operating expenses also include depreciation. Operating expenses increased by $8.7 million, or 4.3%, due primarily to salary increases granted to University employees and increases in the cost of medical insurance and other fringe benefits.

Sources of nonoperating revenue include State appropriations of $72.2 million, grants and contracts of $14.1 million, gifts of $3.2 million, and investment income of $3.0 million. Nonoperating revenue decreased by $1.7 million, or 1.8%, primarily due to a cut in State subsidy. In March 2003, the State announced a cut of 2.5% in its support of higher education. (This was in addition to a 6% cut announced in October 2001). For Cleveland State University, the March 2003 cut amounted to a reduction in State subsidy of $1.9 million.

Other changes consist primarily of State capital appropriations of $6.2 million in 2003 and $6.0 million in 2002.

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, 2003 and 2002 is as follows:

	2003	**2002**
Net Cash Provided (Used) By:		
Operating Activities	**$ (71,360,689)**	$ (76,940,701)
Noncapital Financing Activities	**89,960,746**	90,781,172
Capital Financing Activities	**47,669,574**	(6,515,223)
Investing Activities	**(58,779,710)**	(8,322,120)
Net Increase (Decrease) in Cash	**7,489,921**	(996,872)
Cash At Beginning of Year	**1,617,412**	2,614,284
Cash At End of Year	**$ 9,107,333**	$ 1,617,412

Major sources of cash in 2003 included student tuition and fees of $86.5 million, State subsidy of $72.2 million, the sale of bonds in the amount of $51.0 million, grants and contracts (operating and nonoperating) of $32.3 million and auxiliary activities of $10.6 million. The largest payments in 2003 were for employee compensation and benefits totaling $125.4 million, and suppliers of goods and services totaling $64.8 million.

The significant changes in cash flows from 2002 to 2003 in the capital financing and investing categories resulted from the sale of bonds.

Credit Ratings

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 based upon this rating.

Looking Ahead

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

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

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

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

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

Cleveland State University

Statements of Net Assets

	June 30 2003	June 30 2002 (Restated— Note 2)
Assets		
Current assets:		
Cash	**$ 9,107,333**	$ 1,617,412
Investments	**37,752,926**	39,079,069
Accounts Receivable, Net	**11,262,799**	10,657,233
Notes Receivable, Net	**1,866,774**	1,571,881
Accrued Interest Receivable	**638,685**	615,278
Prepaid Expenses, Deferred Charges and Inventories	**1,459,380**	1,123,938
Total Current Assets	**62,087,897**	54,664,811
Noncurrent Assets:		
Restricted Investments	**43,110,443**	-
Long-Term and Endowment Investments	**15,323,015**	16,459,628
Notes Receivable, Net	**9,977,635**	9,387,941
Deferred Bond Premium and Issuance Costs	**758,675**	-
Capital Assets, Net	**258,298,611**	256,021,806
Total Noncurrent Assets	**327,468,379**	281,869,375
Total Assets	**389,556,276**	336,534,186
Liabilities		
Current Liabilities:		
Accounts Payable	**2,758,836**	6,702,671
Accrued Liabilities	**9,066,527**	7,791,201
Accrued Interest Payable	**146,088**	45,516
Deferred Revenue	**6,969,290**	5,944,584
Compensated Absences—Current Portion	**648,106**	431,783
Long-Term Debt—Current Portion	**1,534,182**	1,239,928
Total Current Liabilities	**21,123,029**	22,155,683
Noncurrent Liabilities:		
Accrued Liabilities	**10,162,516**	12,129,992
Compensated Absences—Noncurrent Portion	**6,194,365**	6,379,495
Long-Term Debt—Noncurrent Portion	**54,443,240**	9,609,287
Total Noncurrent Liabilities	**70,800,121**	28,118,774
Total Liabilities	**91,923,150**	50,274,457
Net Assets		
Invested in Capital Assets, Net of Related Debt	**245,317,385**	245,172,591
Restricted:		
Expendable	**14,044,469**	12,801,161
Nonexpendable	**1,106,206**	1,122,107
Unrestricted	**37,165,066**	27,163,870
Total Net Assets	**$ 297,633,126**	$ 286,259,729

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

Cleveland State University

Statements of Revenues, Expenses, and Changes in Net Assets

	Years ended June 30 2003	2002 (Restated— Note 2)
Revenues		
Operating Revenues:		
Student Tuition and Fees	**$ 95,827,209**	$ 82,577,841
Less Scholarship Allowances	**8,350,389**	7,572,647
Net Student Tuition and Fees	**87,476,820**	75,005,194
Federal Grants and Contracts	**9,573,688**	8,715,781
State Grants and Contracts	**4,950,773**	5,795,513
Local Grants and Contracts	**412,511**	666,628
Private Grants and Contracts	**3,271,610**	3,743,207
Sales and Services	**3,524,384**	3,051,843
Auxiliary Enterprises	**9,737,716**	9,373,135
Other Sources	**440,062**	562,050
Total Operating Revenues	**119,387,564**	106,913,351
Expenses		
Operating Expenses:		
Instruction	**77,629,017**	72,191,351
Research	**13,493,627**	13,677,414
Public Service	**7,842,716**	7,780,852
Academic Support	**15,459,491**	17,544,043
Student Services	**16,051,512**	14,604,875
Institutional Support	**22,115,999**	22,225,254
Operation and Maintenance of Plant	**16,886,095**	14,327,574
Scholarships and Fellowships	**11,003,580**	10,046,991
Auxiliary Enterprises	**13,081,920**	11,965,027
Depreciation and Amortization	**15,166,745**	15,668,985
Total Operating Expenses	**208,730,702**	200,032,366
Operating Loss	**(89,343,138)**	(93,119,015)
Nonoperating Revenues (Expenses)		
State Appropriations	**72,246,181**	74,131,715
Federal Grants and Contracts	**10,622,713**	10,283,740
State Grants and Contracts	**3,429,428**	3,376,991
Gifts	**3,155,503**	3,389,263
Investment Income	**3,019,206**	2,839,644
Interest on Debt	**(685,952)**	(581,163)
Net Nonoperating Revenues	**91,787,079**	93,440,190
Gain Before Other Changes	**2,443,941**	321,175
State Capital Appropriations	**6,185,883**	6,007,809
Capital Gifts	**526,463**	20,500
Reallocation of Ohio Workers' Compensation Liability	**2,217,110**	-
Increase in Net Assets	**11,373,397**	6,349,484
Net Assets		
Net Assets at Beginning of Year, as Restated	**286,259,729**	279,910,245
Net Assets at End of Year	**$ 297,633,126**	$ 286,259,729

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

Cleveland State University

Statements of Cash Flows

	Years ended June 30 2003	2002 *(Restated— Note 2)*
Cash Flows from Operating Activities		
Tuition and Fees	**$ 86,514,761**	$ 72,817,387
Grants and Contracts	**18,247,720**	19,013,187
Payments to or On Behalf of Employees	**(125,401,636)**	(121,714,136)
Payments to Vendors	**(64,785,826)**	(59,159,293)
Loans Issued to Students	**(2,829,431)**	(2,665,816)
Collection of Loans to Students	**2,304,040**	2,067,023
Auxiliary Enterprises Charges	**10,625,237**	9,087,054
Other Receipts	**3,964,446**	3,613,893
Net Cash Used by Operating Activities	**(71,360,689)**	(76,940,701)
Cash Flows from Noncapital Financing Activities		
State Appropriations	**72,246,181**	74,131,715
Grants and Contracts	**14,052,141**	13,660,731
Gifts	**3,155,503**	3,389,263
Cash Provided by Stafford and PLUS Loans	**52,701,400**	40,955,148
Cash Used by Stafford and PLUS Loans	**(52,251,287)**	(41,313,483)
Cash Provided by Agency Fund Activities	**1,347,692**	837,900
Cash Used by Agency Fund Activities	**(1,290,884)**	(880,102)
Net Cash Provided by Noncapital Financing Activities	**89,960,746**	90,781,172
Cash Flows from Capital Financing Activities		
Proceeds from Capital Debt and Leases	**53,757,648**	86,607
Capital Appropriations	**6,185,883**	6,007,809
Capital Gifts and Grants	**526,464**	20,500
Purchases of Capital Assets	**(3,567,452)**	(10,414,865)
Principal Paid on Capital Debt and Leases	**(8,647,589)**	(1,630,932)
Interest Paid on Capital Debt and Leases	**(585,380)**	(584,342)
Net Cash Provided (Used) by Capital Financing Activities	**47,669,574**	(6,515,223)
Cash Flows from Investing Activities		
Proceeds from Sales and Maturities of Investments	**179,836,839**	184,185,872
Interest on Investments	**2,652,857**	2,386,993
Purchase of Investments	**(241,269,406)**	(194,894,985)
Net Cash Used by Investing Activities	**(58,779,710)**	(8,322,120)
Net Increase (Decrease) in Cash	**7,489,921**	(996,872)
Cash at Beginning of Year	**1,617,412**	2,614,284
Cash at End of Year	**$ 9,107,333**	$ 1,617,412

Cleveland State University

Statements of Cash Flows (continued)

	Years ended June 30	
	2003	**2002**
		(Restated— Note 2)
Reconciliation of Operating Loss to Cash Used by Operating Activities		
Operating Loss	**$ (89,343,138)**	$ (93,119,015)
Adjustments:		
Depreciation Expense	**15,166,745**	15,668,985
Loss on Disposal of Capital Assets	**-**	1,518,457
Changes in Assets and Liabilities:		
Accounts Receivables, Net	**744,211**	(105,857)
Notes Receivable, Net	**(525,391)**	(624,966)
Inventories	**(70,875)**	27,259
Prepaid Expenses and Deferred Charges	**4,225,050**	3,311,724
Accounts Payable	**(3,968,891)**	(86,610)
Accrued Liabilities	**10,216,508**	2,664,217
Deferred Revenue	**(7,804,908)**	(6,194,895)
Cash Used by Operating Activities	**$ (71,360,689)**	$ (76,940,701)

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

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 in 1964 by statutory act under Chapter 3344 of the Revised Code of the State of Ohio (State). As such, it 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.

The financial statements have been prepared in accordance with accounting principles generally accepted in the United States, as prescribed by the Governmental Accounting Standards Board (GASB). GASB Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments,* as amended by GASB Statement No. 35, *Basic Financial Statements – and Management's Discussion and Analysis – for Public Colleges and Universities.* GASB Statements No. 35 establishes standards for external financial reporting for public colleges and universities and requires that resources be classified for accounting and reporting purposes into the following four net asset categories:

- *Invested in capital assets, net of related deb*t: 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.

1. Summary of Significant Accounting Policies (continued)

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 recognizes as operating revenue grants classified as exchange transactions and auxiliary activities. Certain significant revenue streams relied upon for operations are recorded as nonoperating revenues, including state appropriations and investment income. Operating expenses include educational resources, administrative expenses and depreciation on capital assets. Under the University's decentralized management structure, it is the responsibility of individual departments to determine whether to first apply restricted or unrestricted resources when an expense is incurred for purposes for which both restricted and unrestricted net assets are available. The principal operating revenue includes student tuition. Student tuition and fees revenues are presented net of scholarships and fellowships applied to student accounts.

1. Summary of Significant Accounting Policies (continued)

Summary of Significant Accounting Policies

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

Investments: Investments are recorded at fair value, as established by the major securities markets. Purchases and sales of investments are accounted for on the trade date basis. Investment income is recorded on the accrual basis. Realized and unrealized gains and losses are reported as investment income.

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

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

Capital Assets: Capital assets are stated at cost or at an appraised value at date of donation if acquired by gift. Depreciation of capital assets is provided on a straight-line basis over the estimated useful lives (five to forty years) of the respective assets and is not allocated to the functional expenditure categories. Capital assets detail by year for building improvements is not available prior to July 1, 1996. All building improvements made before this date, which amount to $61.6 million in the aggregate, have been fully depreciated; building improvements purchased subsequent to 1996 have a useful life of 20 years. 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.

1. Summary of Significant Accounting Policies (continued)

Compensated Absences: Classified employees earn vacation at rates specified under State of Ohio law. Full time administrators and twelve-month faculty earn vacation at a rate of 22 days per year. The maximum amount of vacation that an employee can carry over from one fiscal year to the next is 30 days. The University has an accrued liability for all accumulated vacation hours, plus an estimate of the amount of sick leave that will be paid upon retirement. Salary-related fringe benefits have also been accrued.

All University employees are entitled to a sick leave credit equal to 10 hours for each month of service (earned on a pro rata basis for less than full-time employees). This sick leave will either be absorbed by time off due to illness or injury, or within certain limitations, be paid to the employee upon retirement. The amount paid to an employee, with 10 or more years of service upon retirement, is limited to one-quarter of the accumulated sick leave with a maximum of 240 hours.

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

Summer term tuition and fees and corresponding expenses relating to various sessions falling in this fiscal year 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 expenses in the Statements of Net Assets and will be recognized in the following year.

Perkins Loan Program: Funds provided by the United States government under the Federal Perkins Loan program are loaned to qualified students and re-loaned after collections. These funds are ultimately refundable to the government and, therefore, are recorded as a noncurrent liability in the accompanying financial statements.

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

1. Summary of Significant Accounting Policies (continued)

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

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.

2. Reclassification and Restatement

Accruals for summer session expense and deferral of summer session revenue, change of depreciation convention from full year to half-year convention, change in depreciation for building improvements (see Note 1), adjustment in the accrual of accumulated sick leave to conform with GASB Statement No. 16, *Accounting for Compensated Absences*, and reclassification of Federal contributions to Perkins Loan program from net assets to noncurrent liabilities resulted in the reclassification and restatement of total net assets as of June 30, 2002 and June 30, 2001. The following table reconciles total net assets, as previously reported, to the restated amounts in these financial statements:

	June 30	
	2002	**2001**
Total Net Assets, as Previously Reported	**$ 297,561,649**	$ 293,367,594
Accrual of Summer Tuition (Net)	**4,896,130**	3,689,527
Change of Depreciation Convention	**8,014,043**	7,872,927
Change in Depreciation for Building Improvements	**(12,852,763)**	(14,439,929)
Compensated Absences	**(1,757,148)**	(1,194,340)
Federal Contributions for Perkins Loans	**(9,602,182)**	(9,385,534)
Total Net Assets, Restated	**$ 286,259,729**	$ 279,910,245

2. Reclassification and Restatement (continued)

The fiscal 2002 increase in net assets on the statement of revenues, expenses and changes in net assets was $2,155,429 from previously reported.

3. Cash and Investments

In accordance with the Board of Trustees' resolution, the types of investments that may be purchased by the University, except through the endowments, are restricted to United States treasury securities, federal government agency securities, certificates of deposit, bank repurchase agreements, commercial paper, bonds and other obligations of the State of Ohio, and the State Treasurer's Asset Reserve (STAR Ohio). The endowments are managed by the Cleveland State University Foundation, which can also invest in registered investment companies and corporate bonds.

At June 30, 2003, the cash and cash equivalents balance is $9,107,333. The bank balance at June 30, 2003 was $13,995,142, of which $638,319 was covered by federal depository insurance, and $13,356,823 was covered by collateral held by the trust department of a bank other than the pledging bank in the name of the pledging bank.

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

3. Cash and Investments (continued)

The University held the following types of investments at June 30, 2003:

	Market	Cost
Category 1:		
Bond Mutual Funds	$ 874,105	$ 893,287
Stock Mutual Funds	1,281,390	1,217,401
	2,155,495	2,110,688
Category 2:		
U.S. Government Securities	43,837,847	43,766,585
Not Categorized:		
STAROhio	50,193,042	50,193,042
Total Investments	96,186,384	$ 96,070,315
Less Current Portion	37,752,926	
Total Noncurrent Investments	$ 58,433,458	

The University's non-endowment investments consist principally of deposits with STAROhio and U.S. government securities.

STAR Ohio is an investment pool created pursuant to Ohio statutes and managed by the Treasurer of the State of Ohio. Amounts invested with STAR Ohio are not classifiable as to risk category because the University does not own identifiable securities of the pool. STAR Ohio is not registered with the Securities and Exchange Commission as an investment company, but does operate in a manner consistent with Rule 2a7 of the Investment Act of 1940.

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

4. Receivables

The composition of accounts receivable at June 30, 2003 and 2002 is summarized as follows:

	2003	2002
Student Accounts	**$ 9,074,452**	$ 8,832,895
Grants	**970,485**	1,046,423
Total Accounts Receivable	**10,044,937**	9,879,318
Less Allowance for Uncollectable Accounts	**1,906,924**	2,310,071
Accounts Receivable—Net	**$ 8,138,013**	$ 7,569,247

Notes receivable consist primarily of loans to students under the federal Perkins Loan Program.

The composition of notes receivable at June 30, 2003 and 2002 is summarized as follows:

	2003	2002
Perkins Loan Program	**$ 11,743,070**	$ 11,405,457
Foundation Capital Campaign	**177,072**	201,665
Other	**595,971**	39,248
Total Notes Receivable	**12,516,113**	11,646,370
Less Allowance for Uncollectable Accounts	**671,704**	686,548
Notes Receivable—Net	**11,844,409**	10,959,822
Less Current Portion	**1,866,774**	1,571,881
Total Noncurrent Notes Receivable	**$ 9,977,635**	$ 9,387,941

5. State Support

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

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

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

6. Capital Assets

Capital assets activity for the year ended June 30, 2003 is summarized as follows:

	Beginning Balance	Additions	Retirements	Ending Balance
Capital Assets:				
Non-Depreciable:				
Land	$ 52,833,123	$ -	$ 473,056	$ 52,360,067
Capitalized Collections	7,102,155	-	-	7,102,155
Depreciable:				
Land Improvements	14,937,578	880,697	-	15,818,275
Buildings	334,633,725	6,317,239	-	340,950,964
Equipment	43,111,033	7,985,404	1,632,416	49,464,021
Library Books	47,115,399	2,733,266	120,685	49,727,980
Total Capital Assets	499,733,013	17,916,606	2,226,157	515,423,462
Less Accumulated Depreciation:				
Land Improvements	5,517,997	743,284	-	6,261,281
Buildings	166,936,732	8,063,441	-	175,000,173
Equipment	35,702,257	3,964,727	1,632,416	38,034,568
Library Books	35,554,221	2,395,293	120,685	37,828,829
Total Accumulated Depreciation	243,711,207	15,166,745	1,753,101	257,124,851
Capital Assets, Net	$ 256,021,806	$ 2,749,861	$ 473,056	$ 258,298,611

7. Noncurrent Liabilities

Noncurrent liabilities consists of the following as of June 30, 2003 and June 30, 2002:

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

In June 2003, the University issued Series 2003A and 2003B (Series 2003) General Receipts Bonds to currently refund outstanding Series 1993 general receipts bonds, rehabilitate the Howe Mansion, construct an Administrative Center and construct a Recreation and Fitness Center. The Series 2003A bonds bear interest rates between 2% and 5% and mature in 2033. The Series 2003B bonds are at a variable interest rate and mature in 2003. The variable interest rate is set weekly at rates based upon yield evaluations at par of comparable securities (1.0% at June 30, 2003).

Of the Series 2003A bonds, $7,443,200 were issued to refund $7,280,000 of outstanding Series 1993 general receipts bonds. The bonds were called on June 17, 2003. As a result, the Series 1993 bonds are considered defeased and the liability for those bonds has been removed from the statement of net assets. The reacquisition price exceeded the net carrying amount of the old debt by $145,600. This amount is amortized over the remaining life of the new debt issued. This advance refunding was undertaken to reduce total debt service payments over the next 10 years by $764,312 and resulted in an economic gain (the difference between the present values of the debt service payments on the old and new debt) of $425,262.

7. Noncurrent Liabilities (continued)

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 rates on the bonds vary from 3.9% to 5.25%.

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 bear interest at 2.95% to 12.2% a year and are collateralized by equipment with an aggregate net book value of $2,589,550 at June 30, 2003 and $264,828 at June 30, 2002.

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
2004	$ 930,000	$ 2,204,472	$ 604,182	$ 93,292
2005	960,000	2,103,754	592,913	70,246
2006	1,330,000	2,078,480	590,096	47,927
2007	1,940,000	2,040,600	565,995	27,135
2008	1,995,000	1,980,330	454,109	7,145
2009-2013	9,675,000	8,790,560	-	-
2014-2018	6,320,000	7,111,866	-	-
2019-2023	7,820,000	5,616,749	-	-
2024-2028	9,620,000	3,815,813	-	-
2029-2033	11,820,000	1,616,254	-	-
	$ 52,410,000	$ 37,358,878	$2,807,295	$ 245,745

7. Noncurrent Liabilities (continued)

The University has entered into various lease agreements for office equipment, which are considered operating leases. Total rental expense under operating leases during the years ended June 30, 2003 and 2002 amounted to $125,300 and $37,500, respectively. During the forth quarter of fiscal 2003, the University entered into two operating lease agreements for office and classroom space.

Future minimum operating lease payments as of June 30, 2003 are as follows:

Year ended June 30	Leases
2004	$ 595,044
2005	617,866
2006	588,666
2007	522,588
2008	192,200

8. State Unfunded Workers' Compensation

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 the 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 the cash needed in subsequent fiscal years to pay the workers' compensation claims of participating State agencies and universities. In 2002, the Bureau actuarially calculated the estimated the amount of workers' liability compensation for the State, and determined the University's pro-rata share of the estimated liability on the basis of the University's share of actual cash payments (premiums and administrative costs) to the Bureau in the preceding fiscal year divided by such payments made by all participating entities.

8. State Unfunded Workers' Compensation (continued)

In 2003, the State reversed its decision to have colleges and universities share in a portion of the State workers' compensation liability. As a result, the reallocation of State unfunded workers' compensation liability is reflected under other changes in net assets on the Statement of Revenue, Expenses and Changes to Net Assets with the elimination of the liability on the Statement of Net Assets.

9. Employment Benefit Plans

Retirement Plans

Substantially all non-student University employees are covered by either the State Teachers Retirement System of Ohio (STRS) or the Public Employees Retirement System of Ohio (PERS). Both systems are cost-sharing, multiple-employer, defined benefit plans.

STRS is a statewide retirement plan for certified teachers. STRS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Benefits are established by State statute. Contribution rates are established by the State Teachers Retirement Board, not to exceed the statutory maximum rates of 10% for employees and 14% for employers. Currently, employees contribute 9.3% of covered payroll and employers contribute 14% of covered payroll. The University's contributions to STRS for the years ending June 30, 2003, 2002, and 2001 were $6,699,794, $5,979,650, and $6,085,049, respectively, equal to the required contributions for each year. STRS issues a stand-alone financial report. The report may be obtained by writing to STRS, 275 East Broad Street, Columbus, OH 43215-3771, or by calling (614) 227-4090.

PERS is a statewide retirement plan, which covers non-teaching University employees. PERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Benefits are established by State statute. Contribution rates are established by the Public Employee Retirement Board, not to exceed the statutory maximum rates of 10% for employees and 14% for employers. Currently, employees contribute 8.5% of covered payroll and employers contribute 13.31% of covered payroll. The University's contributions to PERS for the years ending June 30, 2003, 2002, and 2001 were $5,526,290, $5,005,338, and $3,952,110, respectively, equal to the required contributions for each year. PERS issues a stand-alone financial report. The report may be obtained by writing to PERS, 277 East Town Street, Columbus, OH 43215-4642, or by calling (614) 466-2085.

9. Employment Benefit Plans (continued)

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 contribution for the year ended June 30, 2003 was $182,337, which equals 5.76% of earned compensation.

Post Employment Benefits

STRS provides other post employment benefits (OPEB) to all retirees and their dependents, while PERS provides postretirement health care coverage to age and service retirants (and dependents) with 10 or more years of qualifying Ohio service credit. Health care coverage for disability recipients and primary survivor recipients is also available under PERS. A portion of each employer's contributions is set aside for the funding of postretirement health care. For STRS, this rate was 4.5% of the total 14.00%, while the PERS rate was 5.0% of the total 13.31% for the year ended June 30, 2002.

The Ohio Revised Code provides the statutory authority for public employers to fund postretirement health care through their contributions to STRS and PERS. Postretirement healthcare under STRS is financed on a pay-as-you-go basis. Assets available in the health care reserve fund for STRS amounted to $3.011 billion at June 30, 2002. The number of benefit recipients eligible for OPEB was 105,300 for STRS at June 30, 2002. The amount contributed by the University to STRS to fund these benefits was $2,153,505 for the year ended June 30, 2003 and $1,847,352 for the year ended June 30, 2002.

Postretirement health care under PERS is advance-funded on an actuarially determined basis. The actuarial value of PERS net assets available for OPEB at December 31, 2001 is $11.600 billion. The actuarially accrued liability and the unfounded actuarial accrued liability, based on the actuarial cost method used, were $16.400 billion and $14.800 billion, respectively. The number of PERS active contributing participants was 402,041 for the year ended December 31, 2001. The amount contributed by the University to PERS to fund these benefits was $2,075,992 for the year ended June 30, 2003 and $1,617,051 for the year ended June 30, 2002.

10. 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 the University's 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.

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 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, 2003 and 2002 are summarized below:

	2003	2002
Liability at Beginning of Year	**$ 93,593**	$ 93,926
Claims Incurred	**992,907**	808,653
Claims Paid	**(986,256)**	(808,986)
Increase In Estimated Claims Incurred But Not Reported (IBNR)	**33,483**	-
Unpaid Claims—June 30	**$ 133,727**	$ 93,593

10. Risk Management (continued)

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 is summarized below:

	2003	2002
Liability at Beginning of Year	**$ 857,007**	$ 733,607
Claims Incurred	**5,582,789**	4,335,084
Claims Paid	**(5,574,958)**	(4,320,930)
Increase in Estimated Claims Incurred But Not Reported (IBNR)	**90,174**	109,246
Unpaid Claims—June 30	**$ 955,012**	$ 857,007

11. Related Organizations

The University is the sole beneficiary of the Cleveland State University Foundation, Inc. (the Foundation), and of the Cleveland-Marshall Fund (the Fund). The Foundation is a separate not-for-profit entity organized for the purpose of providing support for the general educational needs of the University. The Fund is an independent trust formed to provide for the general enrichment of the legal education program at the University's Cleveland-Marshall College of Law. The University has determined that neither the Foundation nor the Fund is a component unit of the University as defined by GASB Statement No. 14, *The Financial Reporting Entity,* and therefore financial activity of the Foundation and the Fund are not included in the University's financial statements. Assets of the Foundation and of the Fund at June 30, 2003, were $21,709,970 and $4,441,908, respectively. Amounts received by the University from the Foundation and from the Fund are restricted and are included in private gifts, grants and contracts in the statements of revenues, expenses, and changes in net assets in the amounts of $4,132,968 and $137,458, respectively in 2003 and $3,679,293 and $302,155, respectively in 2002.

During 1992, costs aggregating $720,000 associated with the Foundation's fund raising campaign were paid by the University. The balance of the receivable, which was $177,072 at June 30, 2003 and $201,665 at June 30, 2002 will be repaid by the Foundation in future years.

11. Related Organizations (continued)

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. The amount on deposit totaled $2,155,495 and $2,144,328 at June 30, 2003 and June 30, 2002, respectively.

12. 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 or other applicable funds. However, in the opinion of the University administration, any such disallowed claims will not have a material effect on any of the financial statements of the individual fund types included herein or on the overall financial position of the University at June 30, 2003.

13. Title IV Certification

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

Cleveland State University

Schedule of Expenditures of Federal Awards

Year ended June 30, 2003

Program Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Federal Expenditures
Student Financial Aid-Cluster			
Department of Education:			
Direct programs:			
Federal Pell Grant Program	84.063		$ 9,534,487
Federal Work-Study Program	84.033		776,848
Federal Supplemental Educational Opportunity Grants	84.007		633,860
Federal Perkins Loan Program *(Note 3)*	84.038		273,478
Federal Family Education Loan Program *(Note 4)*	84.032		-
Total Department of Education			11,218,673
Department of Health and Human Services:			
Direct program:			
Scholarships for Health Professions Students from Disadvantaged Backgrounds	93.925		244,090
Total Student Financial Aid-Cluster			11,462,763
TRIO-Cluster			
Department of Education:			
Direct programs:			
TRIO—Student Support Services	84.042		406,364
TRIO—Upward Bound	84.047		254,070
Total TRIO-Cluster			660,434
Research and Development-Cluster			
Department of Health and Human Services:			
Direct programs:			
Human Genome Research	93.172		97,539
Consolidated Knowledge Development and Application (KD&A) Program	93.230		31,875
Cancer Detection and Diagnosis Research	93.394		107,615
Cancer Biology Research	93.396		130,345
Arthritis, Musculoskeletal and Skin Diseases Research	93.846		17,539
Allergy, Immunology and Transplantation Research	93.855		38,122

Program Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Federal Expenditures
Pass-through programs:			
Positive Education Program—Consolidated Knowledge Development and Application (KD&A) Program	93.230	6 UDI SP09147-02-1&1U79SM54817-01	17,624
Medical College of Ohio—Nursing Research	93.361	1-R01-NR07650-01A1	35,900
Case Western Reserve University—Drug Abuse Research Programs	93.279	5 R01 DA-07358-09 & 5 R01 DA-07957-08	35,020
Case Western Reserve University—Center for Research for Mothers and Children	93.865	5 R01 HD-26554-11 & 5 R01 HD-39756-02	32,841
Case Western Reserve University—Cell Biology and Biophysics Research	93.821	P50GM-66309	182,993
University of Vermont—Blood Diseases and Resources Research	93.839	2 R01 HL34575-15	685
Northeastern University—Genetics and Developmental Biology Research and Research Training	93.862	1-R15A14775	14,026
Total Department of Health and Human Services			742,124
National Aeronautics and Space Administration:			
Direct program:			
Technology Transfer	43.002		2,269,575
Pass-through programs:			
University of Iowa—Technology Transfer	43.002	NCC8-98	77,262
University of Arizona—Technology Transfer	43.002	NCC8-96	34,960
Ohio Aerospace Institute—Technology Transfer	43.002	R-300-100175-40102	60,334
Science Applications International Corp.—Technology Transfer	43.002	NAS3-97152 & NAS-02150	67,279
Total National Aeronautics and Space Administration			2,509,410
National Science Foundation:			
Direct program:			
Biological Sciences	47.074		3,601
Pass-through programs:			
Case Western Reserve University—Engineering Grants	47.071	BES-0201891 & DMI-0140412	23,385
Case Western Reserve University—Biological Sciences	47.074	Sub 00-411	1,463
Johns Hopkins University—Social, Behavioral, and Economic Sciences	47.075	SES-0078752	2,743
Total National Science Foundation			31,192

Schedule of Expendutures of Federal Awards (continued)

Program Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Federal Expenditures
United States Department of Agriculture:			
Direct programs:			
Agricultural and Rural Economic Research	10.250		2,055
Rural Development, Forestry and Communities	10.672		35,616
Total United States Department of Agriculture			37,671
United States Department of Commerce:			
Pass-through programs:			
National Oceanic and Atmospheric Administration through OSU Research Foundation—Sea Grant Support	11.417	RF 864212, 876133, 919155	75,343
National Oceanic and Atmospheric Administration through Great Lakes Fishery Commission—Unallied Science Program	11.472	RR 2	753
Cleveland Housing Network—Technology Opportunities	11.552	CHN-T2K	25,311
Total United States Department of Commerce			101,407
United States Department of Transportation:			
Pass-through program:			
University of Alabama—Birmingham Federal Transit Metropolitan Planning Grants	20.505	AL-26-7021	26,546
Total United States Department of Transportation			26,546
United States Department of Defense:			
Pass-through program:			
Allied Signal Engines—Research and Technology Development	12.910	F33615-98-C-2927	14,805
Total United States Department of Defense			14,805
United States Department of Housing and Urban Development:			
Pass-through programs:			
City of Cleveland—Community Development Block Grants/ Special Purpose Grants/Technical Assistance Program	14.227	59081	57,562
City of Cleveland—Housing Opportunities for Persons with AIDS	14.241	61555	669
National Research Council—HUD Urban Scholars Fellowship Grants	14.518	TJ2041	33,412
Total United States Department of Housing and Urban Development			91,643
National Endowment for the Humanities:			
Pass-through program:			
University Of Denver-Promotion of the Humanities—Division of Preservation and Access	45.149	PA23787-01	26,188
Total National Endowment for the Humanities			26,188

Cleveland State University

Schedule of Expendutures of Federal Awards (continued)

Program Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Federal Expenditures
Environmental Protection Agency:			
Direct program:			
Surveys, Studies, Investigations and Special Purpose Grants	66.606		251,740
Pass-through programs:			
NE Ohio Regional Sewer District—State Public Water System Supervision	66.432	R-82829801-0	43,428
Ohio Environmental Protection Agency through NE Ohio Regional Sewer District—Nonpoint Source Implementation Grants	66.460	3080	5,633
Total Environmental Protection Agency			300,801
Department of Energy:			
Direct program:			
Energy-Related Inventions	81.036		171,547
Pass-through programs:			
Conservation Research and Development—US Department of Energy through Ohio Department of Development	81.086	DE-FC36-021D143471	253,215
Conservation Research and Development—Ohio Department of Development to Cleveland Advanced Manufacturing Program	81.086	DE-FC36-021D143471	31,160
Conservation Research and Development—Ohio Department of Development to PPG Industries, Inc.	81.086	DE-FC36-021D143471	62,005
Total Department of Energy			517,927
US-EGYPT Joint Science and Technology Board:			
Direct program:			
National Technical Information Service	11.650		4,721
Total US-EGYPT Joint Science and Technology Board			4,721
Department of State:			
Direct program:			
Educational Exchange—University Lecturers (Professors) and Research Scholars	19.401		67,800
Total Department of State			67,800

Cleveland State University

Schedule of Expendutures of Federal Awards (continued)

Program Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Federal Expenditures
Department of Education:			
Direct programs:			
Higher Education Institutional Aid	84.031		13,213
Fund for the Improvement of Postsecondary Education	84.116		36,799
National Institute on Disability and Rehabilitation Research	84.133		59,217
Pass-through programs:			
Ohio Department of Education—Special Education—Grants to States	84.027	062950-6B-SX-02P	22,040
Euclid City School District—Fund for the Improvement of Education	84.215	S215X020458	84,015
University of Cincinnati—Special Education—State Program Improvement Grants for Children with Disabilities	84.323	PC03A-02520	298
University of Milwaukee—Teacher Quality Enhancement Grants	84.336	MC03010 & MC04109	532
Total Department of Education			216,114
Total Research and Development-Cluster			4,688,349
Other Financial Assistance Programs			
United States Department of Labor:			
Pass-through programs:			
Cleveland Municipal School District—Employment and Training Administration Pilots, Demonstrations, and Research Projects	17.261	F0003	9,056
Youth Opportunities Unlimited—Youth Opportunity Grants	17.263	U-6367-7-00-88-60	6,847
Total United States Department of Labor			15,903
Department of Energy:			
Direct program:			
Energy Efficiency and Renewable Energy Information Dissemination, Outreach, Training and Technical Analysis/Assistance	81.117		9,309
Total Department of Energy			9,309
United States Department of Commerce:			
Direct programs:			
Grants for Public Works and Economic Development Facilities	11.300		84,306
Economic Development—Technical Assistance	11.303		14,861
Total United States Department of Commerce			99,167
United States Department of Housing and Urban Development:			
Direct programs:			
Community Outreach Partnership Center Program	14.511		91,577
Community Development Work-Study Program	14.512		53,775
Total United States Department of Housing and Urban Development			145,352

Cleveland State University

Schedule of Expendutures of Federal Awards (continued)

Program Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Federal Expenditures
National Aeronautics and Space Administration:			
Direct programs:			
Aerospace Education Services Program	43.001		24,549
Technology Transfer	43.002		158,905
Pass-through programs:			
Ohio Space Grant Consortium—Aerospace Education Services Program	43.001	SEED	19,456
University of Alabama—Aerospace Education Services Program	43.001	NAG5-9388	5,385
Total National Aeronautics and Space Administration			208,295
National Endowment for the Arts:			
Direct program:			
Promotion of the Arts—Grants to Organizations and Individuals	45.024		7,500
Total National Endowment for the Arts			7,500
Federal Mediation and Conciliation Service:			
Direct programs:			
Labor Management Cooperation	34.002		45,620
Total Federal Mediation and Conciliation Service			45,620
National Science Foundation:			
Direct programs:			
Engineering Grants	47.041		(1,674)
Computer and Information Science and Engineering	47.070		98,073
Biological Sciences	47.074		15,658
Education and Human Resources	47.076		139,230
Pass-through program:			
Cleveland Municipal School District—Mathematical and Physical Sciences	47.049	47-076	3,012
Total National Science Foundation			254,299
Environmental Protection Agency:			
Direct program:			
Surveys, Studies, Investigations and Special Purpose Grants	66.606		194,583
Total Environmental Protection Agency			194,583

Schedule of Expendutures of Federal Awards (continued)

Program Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Federal Expenditures
Department of State:			
Direct programs:			
College and University Partnerships Program	19.405		40,719
College and University Affiliations Program	19.406		18,285
Pass-through programs:			
United States Agency for International Development—International Visitors Program	19.402	PTP	25,559
NAFSA: Association of International Educators—Professional Development—International Educators/Administrators	19.404	COOP	9,637
United States Information Agency—College and University Partnerships Program	19.405	IA-ASJL-G8190119	9,059
Association Liaison Office—College and University Partnerships Program	19.405	HNE-A-97-00059-00	62,346
Total Department of State			165,605
Department of Education:			
Direct program:			
Fund for the Improvement of Postsecondary Education	84.116		536,108
Pass-through program:			
University of New Orleans Foundation—Fund for the Improvement of Postsecondary Education	84.116	P1162010135	18,652
Total Fund for the Improvement of Postsecondary Education			554,760
Department of Education:			
Direct programs:			
Adult Education—State Grant Program	84.002		2,453
Overseas—Group Projects Abroad	84.021		852
Business and International Education Projects	84.153		325
Bilingual Education—Professional Development	84.195		232,077
Teacher Quality Enhancement Grants	84.336		59,383
Preparing Tomorrow's Teachers to Use Technology	84.342		307,703
Pass-through programs:			
Ohio Department of Job and Family Services—Adult Education-State Grant Program	84.002	W203W3	786,590
Youth Opportunities Unlimited—Safe and Drug-Free Schools and Communities—National Programs	84.184	S184B020955	3,682
East Cleveland City School District—Fund for the Improvement of Education	84.215	599-3210-410-9300	6,944
University of New Orleans Foundation—Fund for the Improvement of Education	84.215	P1162010135	19,842
Ohio Board of Regents—Eisenhower Professional Development State Grants	84.281	01-21 & 01-23	98,716
Ohio Board of Regents—Eisenhower Regional Mathematics and Science Education Consortia	84.319	SMART	1,148

Schedule of Expendutures of Federal Awards (continued)

Program Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Federal Expenditures
Miami University—Eisenhower Regional		CG00309-160222-412-3	
Mathematics and Science Education Consortia	84.319	&CG00180-160222-525-1	2,916
Ohio Board of Regents—Teacher Quality Enhancement Grants	84.336	Title II TQA	366
Cleveland Municipal School District—Reading Excellence	84.338	PO#84606	72,082
University of New Orleans Foundation—			
Preparing Tomorrow's Teachers to Use Technology	84.342	P1162010135	4,999
Ohio Department of Education—Reading First State Grants	84.357	062950-RSSI-03	29,047
Total Department of Education			1,629,125
Department of Health and Human Services:			
Direct programs:			
Substance Abuse and Mental Health Services—Projects			
of Regional and National Significance	93.243		12,810
Comparative Medicine	93.306		5,430
Health Careers Opportunity Program	93.822		256,528
Health Administration Traineeships and Special Projects Program	93.962		47,403
Pass-through program:			
National Youth Sports Program-President's			
Council on Physical Fitness and Sports	93.289	80-8101 & 80-8102	68,009
Total Department of Health and Human Services			390,180
Corporation for National and Community Service:			
Pass-through program:			
Wright State University—Learn			
and Serve America—Higher Education	94.005	00LHEOH02	523
Total Corporation for National and Community Service			523
Total Other Financial Assistance Programs			3,720,221
Total Expenditures of Federal Awards			$ 20,531,767

Cleveland State University

Schedule of Expenditures of Federal Awards

Year ended June 30, 2003

1. Summary of Significant Accounting Policies:

Basis of Presentation

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

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, 2003 are 62.0% for on-campus research and 19.0% for off-campus research. The base for the predetermined fixed rates is salaries and wages.

3. Federal Perkins Loan Program

	CFDA Number	Outstanding Balance at June 30, 2003
Federal Perkins Loan Program	84.038	$ 11,756,501

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

	CFDA Number	Loans Advanced to Students
Federal Perkins Loan Program	84.038	$ 2,449,153

The Schedule of Expenditures of Federal Awards for the Federal Perkins Loan Program represents the Federal Capital Contribution for the year ended June 30, 2003, which includes loans advanced to students as well as the administrative costs of the Federal Perkins Loan Program.

4. Federal Family Education Loan Program

During the fiscal year ending June 30, 2003, 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 Loan Program	84.032	$ 52,251,287

5. Subrecipients

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

Program Title	Federal CFDA Number	Amount Provided to Subrecipients
National Aeronautics and Space Administration:		
Case Western Reserve University	43.002	$ 36,189
Terry Simon	43.002	8,000
Gedeon Associates	43.002	23,372
University of Minnesota	43.002	17,000
National Science Foundation:		
Lakeland Community College	47.070	10,000
Lorain County Community College	47.070	7,000
Department of Energy:		
University of Minnesota	81.036	40,066
Gedeon Associates	81.036	34,330
National Aeronautics and Space Administration	81.036	10,839
Cleveland Advanced Manufacturing Program	81.086	31,160
PPG Industries, Inc.	81.086	62,005
Department of Education:		
Peter Li	84.133	5,000
John Carroll University	84.342	23,334
Notre Dame College	84.342	4,250
Baldwin Wallace	84.342	35,364
Ursuline College	84.342	5,219

5. Subrecipients (continued)

Program Title	Federal CFDA Number	Amount Provided to Subrecipient
Environmental Protection Agency:		
Kirsten Toth	66.606	42,750
CSU College of Urban Affairs	66.606	16,926
Case Western Reserve University	66.606	29,265
Department of Health and Human Services:		
L. Copeland	93.230	3,000
		$ 445,069

ERNST & YOUNG

Ernst & Young LLP
1300 Huntington Building
925 Euclid Avenue
Cleveland, Ohio 44115

Phone: (216) 861-5000
www.ey.com

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

Board of Trustees
Cleveland State University

We have audited the financial statements of Cleveland State University (the University) as of and for the year ended June 30, 2003 and have issued our report thereon dated October 3, 2003. 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.

Compliance

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 grants, 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 that are required to be reported under *Government Auditing Standards*.

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 assurance on internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a 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 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. However, we noted other matters involving the internal control over financial reporting that we have reported to management in a separate letter dated October 3, 2003.

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

Ernst + Young LLP

October 3, 2003

ERNST & YOUNG

Ernst & Young LLP
1300 Huntington Building
925 Euclid Avenue
Cleveland, Ohio 44115

Phone: (216) 861-5000
www.ey.com

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

Board of Trustees
Cleveland State University

Compliance

We have audited the compliance of Cleveland State University (the University) with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2003. 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 its major federal programs are the responsibility of the University's management. Our responsibility is to express an opinion on the University's compliance based on our audit.

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

In our opinion, the University complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2003.

Internal Control Over Compliance

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

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

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

Ernst + Young LLP

October 3, 2003

Cleveland State University

Schedule of Findings and Questioned Costs

Year ended June 30, 2003

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 not considered to be material weaknesses?	____	yes	X	none reported
Noncompliance material to financial statements noted?	____	yes	X	no

Federal Awards Section

Dollar threshold used to determine Type A programs:	$615,953			
Auditee qualified as low-risk auditee?	____	yes	X	no
Type of auditor's report on compliance for major programs:	Unqualified Opinion			
Internal Control over compliance:				
Material weakness(es) identified?	____	yes	X	no

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

Were reportable condition(s) identified not considered to be material weakness(es)?	______	yes	X	none noted
Any audit findings disclosed that are required to be reported in accordance with Circular A-133 (section .510(a))?	______	yes	X	no

Identification of major program:

CFDA Number(s)	Name of Federal Program or Cluster
84.063, 84.033, 84.007, 84.038, 84.032, 93.925	Student Financial Aid—Cluster
84.116	Fund for the Improvement of Postsecondary Education

Part II—Schedule of Financial Statement Findings

This section identifies the reportable conditions, material weaknesses, and instances of noncompliance related to the financial statements that are required to be reported in accordance with Chapter 5.18 of *Government Auditing Standards*.

None.

Part III—Schedule of Federal Award Findings and Questioned Costs

This section identifies the reportable conditions, material weaknesses, and instances of noncompliance, including questioned costs, related to the audit of major federal programs, as required to be reported by Circular A-133 Section.510.

None.

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

None.

Ernst & Young

Ernst & Young LLP
1300 Huntington Building
925 Euclid Avenue
Cleveland, Ohio 44115-1405

Phone: (216) 861-5000
www.ey.com

Independent Auditors Report on the Application of Agreed-Upon Procedures

Mr. Michael Schwartz
Cleveland State University

We have audited the financial statements of Cleveland State University (the University) as of and for the year ended June 30, 2003, and have issued our report thereon dated October 3, 2003. We have performed the procedures enumerated below, which were agreed to by the University and the National Collegiate Athletic Association (NCAA), solely to assist you with respect to complying with NCAA bylaws. The University's management is responsible for the accompanying Statement of Revenues, Expenditures, and Other Changes – 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 findings are as follows:

I. Statement of Revenues, Expenditures, and Other Changes in Fund Balance – Agreed-Upon Substantive Procedures

(a) We obtained the Statement for the Intercollegiate Athletics Programs (Program) for the year ended June 30, 2003, as prepared by management (Appendix I). We clerically tested the amounts on the Statement, traced the amounts on the Statement to management's worksheets, and agreed the amounts on management's worksheets to the University's general ledger. We found no differences between the amounts on the general ledger and the amounts on the worksheets.

(b) We performed a comparison of the Statement for the year ended June 30, 2003 to the year ended June 30, 2002 and budgeted amounts for the current year. We calculated the fluctuations and obtained from management explanations for the changes exceeding $8,000 and 10 percent. We found no exceptions as a result of these procedures.

(c) We compared classifications of revenues and expenditures to NCAA guidelines. We found no exceptions as a result of these procedures.

(d) We obtained documentation from management of gifts received during fiscal 2003. We reviewed the documentation for any single gift from an "outside organization," with such organization defined by NCAA Bylaws as a booster club or affiliated foundation, that constituted more than 10 percent of all gifts donated to the Program. We vouched those exceeding the threshold and found those amounts in agreement with the documentation.

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

We noted that the total possible attendance, which includes tickets sold and complimentary tickets provided, was 41,719 while the total headcount according to Ticketmaster was 16,719. The difference of 25,000 is unused complimentary and season tickets.

(f) We agreed revenue received for the Program by the Cleveland State University Foundation, Inc., to the expenditures made on behalf of the University to ensure such expenditures were properly recorded.

(g) We reviewed and discussed an organization chart of the Intercollegiate Athletics Department with management.

(h) We identified and reviewed aspects of the University's internal control unique to the Intercollegiate Athletics Programs. This review included a review of the general control environment and internal control procedures unique to intercollegiate athletics in order to ensure that recorded revenues are complete and expenditures are properly authorized. We obtained an understanding of specific components of the control environment and accounting system that are unique to intercollegiate athletics that were not reviewed in connection with the audit of the financial statements of the University.

(i) Management has represented that there are no booster groups at this time.

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.

Ernst & Young LLP

November 17, 2003

Appendix I

Cleveland State University

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

Year ended June 30, 2003

	Unrestricted	Restricted	Total
Revenues:			
Sports:			
Men's Basketball	$ 240,963	$ -	$ 240,963
Other Sports	15,462	-	15,462
Total Sports	256,425	-	256,425
Federal Grants and Contracts	-	15,236	15,236
Private Gifts, Grants and Contracts	-	497,434	497,434
Other Sources	289,101	-	289,101
Total Revenues	545,526	512,670	1,058,196
Expenditures:			
Administrative and General:			
Salaries and Wages	743,417	48,667	792,084
Fringe Benefits	160,302	9,361	169,663
Public Relations	171,325	380	171,705
Printing	95,538	91	95,629
Travel	81,363	1,401	82,764
Supplies	80,972	7,097	88,069
Telephone	44,741	-	44,741
Conference & Meals	30,397	8,649	39,046
Other	111,456	500	111,956
Total Administrative and General	1,519,511	76,146	1,595,657
Operation and Maintenance of Plant	322,528	203	322,731
Sports:			
Men's Soccer	231,989	2,828	234,817
Men's Basketball	856,546	169,019	1,025,565
Men's Wrestling	210,661	19,846	230,507
Men's Swimming	157,284	89,138	246,422
Men's Fencing	10,570	-	10,570
Men's Baseball	278,852	40,019	318,871
Men's Tennis	69,732	-	69,732
Men's Golf	89,094	13,655	102,749
Women's Golf	92,082	-	92,082
Women's Volleyball	237,604	6,416	244,020
Women's Swimming	149,222	19,739	168,961
Women's Basketball	554,611	9,287	563,898
Women's Fencing	10,291	7,866	18,157
Women's Softball	254,950	36,335	291,285
Women's Tennis	88,546	13,903	102,449
Women's Soccer	22,695	-	22,695
Women's Track/Cross Country	55,099	8,270	63,369
Total Sports	3,369,828	436,321	3,806,149
Total Expenditures	5,211,867	512,670	5,724,537

Cleveland State University

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

Year ended June 30, 2003

	Unrestricted	Restricted	Total
Transfers Among Funds-Additions/(Deductions):			
Nonmandatory Transfers:			
Support From Current Unrestricted Funds	4,666,341	-	4,666,341
Prior Period Adjustment	-	-	-
Excess of Restricted Receipts over Transfers To Revenue	-	284	284
Total Transfers	4,666,341	284	4,666,625
Net Increase in Fund Balance	$ -	$ 284	$ 284

Auditor of State
Betty Montgomery

88 East Broad Street
P.O. Box 1140
Columbus, Ohio 43216-1140

Telephone 614-466-4514
800-282-0370

Facsimile 614-466-4490

CLEVELAND STATE UNIVERSITY

CUYAHOGA COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

CERTIFIED
JANUARY 20, 2004