

***Central State University
Foundation and Subsidiary***

*Consolidated Financial Statements Arising from
Cash Transactions for the Years Ended June 30,
2002 and 2001 and Independent Auditors' Report*



STATE OF OHIO
OFFICE OF THE AUDITOR

JIM PETRO, AUDITOR OF STATE

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To the Board of Trustees
Central State University Foundation

We have reviewed the Independent Auditor's Report of the Central State University Foundation and Subsidiary, Greene County, prepared by Deloitte & Touche LLP, for the audit period July 1, 2001 through June 30, 2002. 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 Central State University Foundation and Subsidiary is responsible for compliance with these laws and regulations.

A handwritten signature in black ink, appearing to read "Jim Petro".

JIM PETRO
Auditor of State

October 23, 2002

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**Deloitte
& Touche**

INDEPENDENT AUDITORS' REPORT

To the Board of Trustees
Central State University Foundation:

We have audited the accompanying consolidated statement of assets, liabilities and fund balances arising from cash transactions of Central State University Foundation and Subsidiary (the "Foundation"), as of June 30, 2002 and 2001 and the related consolidated statement of receipts, expenditures and changes in fund balances arising from cash transactions for the years then ended. These financial statements are the responsibility of the Foundation's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States of America. 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.

As described in Note A to the consolidated financial statements, the Foundation prepares its consolidated financial statements on the basis of cash receipts and disbursements, which is permitted by the Auditor of the State of Ohio, and is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, such consolidated financial statements present fairly, in all material respects, the assets and fund balances arising from cash transactions of Central State University Foundation as of June 30, 2002 and 2001, and their receipts, expenditures and changes in fund balances arising from cash transactions for the years then ended, on the basis of accounting described in Note A.

In accordance with *Government Auditing Standards*, we have issued a report dated September 12, 2002, on our consideration of the Foundation'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.

DELOITTE & TOUCHE LLP

September 12, 2002

**Deloitte
Touche
Tohmatsu**

CENTRAL STATE UNIVERSITY FOUNDATION AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF ASSETS, LIABILITIES AND FUND BALANCES ARISING FROM CASH TRANSACTIONS JUNE 30, 2002 AND 2001

	2002	2001
CASH AND CASH EQUIVALENTS (Note C):		
Demand deposits	\$ 226,429	\$ 135,115
Money market funds	1,600,724	1,057,542
Certificates of deposit	<u> </u>	<u>210,167</u>
Total cash and cash equivalents	<u>1,827,153</u>	<u>1,402,824</u>
INVESTMENTS:		
Common stocks	88,600	111,471
Mortgage-backed securities	76,095	94,675
Mutual funds	<u>535,479</u>	<u>656,800</u>
Total investments	<u>700,174</u>	<u>862,946</u>
PROPERTY (Note E):		
Construction in progress	3,692,734	
Land	<u>75,330</u>	<u>75,330</u>
Total property	<u>3,768,064</u>	<u>75,330</u>
TOTAL ASSETS	<u>\$6,295,391</u>	<u>\$2,341,100</u>
LONG TERM DEBT (Note E)	<u>\$3,668,621</u>	<u>\$ -</u>
NET ASSETS (Note D):		
Unrestricted	301,496	327,704
Temporarily restricted	1,429,680	1,143,737
Permanently restricted	<u>895,594</u>	<u>869,659</u>
	<u>2,626,770</u>	<u>2,341,100</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$6,295,391</u>	<u>\$2,341,100</u>

See notes to cash basis consolidated financial statements.

CENTRAL STATE UNIVERSITY FOUNDATION AND SUBSIDIARY

CONSOLIDATED STATEMENT OF RECEIPTS, EXPENDITURES AND CHANGES IN FUND BALANCES ARISING FROM CASH TRANSACTIONS YEAR ENDED JUNE 30, 2002

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
RECEIPTS:				
Contributions	\$ 77,163	\$ 657,086	\$ 90,440	\$ 824,689
Investment income	18,606	40,712		59,318
Reimbursements	1,100	5,656		6,756
Other		34,348		34,348
Unrealized loss on investments		(149,674)		(149,674)
Change in donor restrictions and reclassifications	(13,200)	77,705	(64,505)	
Net assets released from restrictions	<u>379,890</u>	<u>(379,890)</u>	<u> </u>	<u> </u>
Total cash receipts	<u>463,559</u>	<u>285,943</u>	<u>25,935</u>	<u>775,437</u>
EXPENDITURES PAID FOR OR ON BEHALF OF CENTRAL STATE UNIVERSITY:				
Scholarship programs	154,849			154,849
Athletic programs	45,653			45,653
Academic programs	111,473			111,473
Institution programs	67,261			67,261
Alumni activities	653			653
Other	<u>109,878</u>	<u> </u>	<u> </u>	<u>109,878</u>
Total cash disbursements	<u>489,767</u>	<u> </u>	<u> </u>	<u>489,767</u>
EXCESS OF CASH RECEIPTS OVER (UNDER) CASH DISBURSEMENTS	<u>(26,208)</u>	<u>285,943</u>	<u>25,935</u>	<u>285,670</u>
NET ASSETS:				
Beginning of year	<u>327,704</u>	<u>1,143,737</u>	<u>869,659</u>	<u>2,341,100</u>
End of year	<u>\$301,496</u>	<u>\$1,429,680</u>	<u>\$895,594</u>	<u>\$2,626,770</u>

See notes to cash basis consolidated financial statements.

CENTRAL STATE UNIVERSITY FOUNDATION AND SUBSIDIARY

CONSOLIDATED STATEMENT OF RECEIPTS, EXPENDITURES AND CHANGES IN FUND BALANCES ARISING FROM CASH TRANSACTIONS YEAR ENDED JUNE 30, 2001

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
RECEIPTS:				
Contributions	\$ 151,773	\$ 476,304	\$ 55,316	\$ 683,393
Investment income	49,765	88,391		138,156
Reimbursements		16,000		16,000
Other		16,564		16,564
Unrealized loss on investments		(84,584)		(84,584)
Change in donor restrictions and reclassifications	(3,225)	(7,862)	11,087	
Net assets released from restrictions	<u>527,740</u>	<u>(527,740)</u>	<u> </u>	<u> </u>
Total cash receipts	<u>726,053</u>	<u>(22,927)</u>	<u>66,403</u>	<u>769,529</u>
EXPENDITURES PAID FOR OR ON BEHALF OF CENTRAL STATE UNIVERSITY:				
Scholarship programs	145,928			145,928
Athletic programs	31,388			31,388
Academic programs	135,348			135,348
Institution programs	190,502			190,502
Alumni activities	24,574			24,574
Forgiveness of amount due from Central State University	150,000			150,000
Other	<u>70,644</u>	<u> </u>	<u> </u>	<u>70,644</u>
Total cash disbursements	<u>748,384</u>	<u> </u>	<u> </u>	<u>748,384</u>
EXCESS OF CASH RECEIPTS OVER (UNDER) CASH DISBURSEMENTS	(22,331)	(22,927)	66,403	21,145
NET ASSETS:				
Beginning of year	<u>350,035</u>	<u>1,166,644</u>	<u>803,256</u>	<u>2,319,955</u>
End of year	<u>\$327,704</u>	<u>\$ 1,143,737</u>	<u>\$869,659</u>	<u>\$ 2,341,100</u>

See notes to cash basis consolidated financial statements.

CENTRAL STATE UNIVERSITY FOUNDATION AND SUBSIDIARY

NOTES TO CONSOLIDATED CASH BASIS FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2002 AND 2001

A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Principles of Consolidation – Central State University Foundation and its wholly-owned subsidiary, Marauder Development, LLC (“Marauder”) have been consolidated (together referred to as the “Foundation”). All significant intercompany transactions have been eliminated.

On October 19, 2001, Marauder was incorporated as a wholly-owned subsidiary of Central State University Foundation.

Description of Entity – Central State University Foundation is an Ohio nonprofit corporation and exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code. Central State University Foundation was formed to receive contributions, which are to be used to support the educational undertakings of Central State University (the “University”). Marauder, an Ohio limited liability corporation, was formed to develop property for the use of Central State University. The Foundation operates exclusively for the benefit of the University. The University provides certain administrative and payroll services for the Foundation.

Basis of Accounting – These financial statements were prepared on the basis of cash receipts and disbursements, which is permitted by the Auditor of the State of Ohio, and is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Under this basis of accounting, receipts are recognized when received in cash rather than when earned, and disbursements are recognized when a payment is made rather than when a liability is incurred.

Accounting Change – In May 2002, the Governmental Accounting Standards Board (“GASB”) issued Statement No. 39, *Determining Whether Certain Organizations Are Component Units*, an amendment of GASB Statement No. 14. The statement amends Statement No. 14, *The Financial Reporting Entity*, to provide additional guidance to determine whether certain organizations for which the primary government is not financially accountable should be reported as component units based on the nature and significance of their relationship with the primary government. Generally, it requires reporting, as discretely presented component units, organizations that raise and hold economic resources for the direct benefit of a governmental unit. The provisions of the Statement are effective for the Foundation for the June 30, 2004 fiscal year end. Management has not completed its analysis of the impact of this standard; however, they believe this Statement will require Central State University to include the Foundation’s financial statements in the University’s financial statements.

Cash and Cash Equivalents – The Foundation considers all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents.

Investments – Investments are stated at fair value and unrealized gains and losses are reflected in the statement of receipts, expenditures, and changes in fund balance. Fair value is determined by market quotes.

Expiration of Donor-Imposed Restrictions – When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

Net Assets – The Foundation classifies its net assets into the following categories:

Unrestricted Net Assets

The Foundation has the following significant unrestricted funds, which have no donor-imposed restrictions:

Unrestricted Fund – This fund is used to account for all financial resources presently available for use by the Foundation.

President's Discretionary Fund – This fund is used to account for contributions, which are expendable at the discretion of the University's President.

Temporarily Restricted Net Assets

These funds are used to account for resources presently available for use, but expendable only for purposes specified by the donor. The Foundation had the following significant temporarily restricted funds:

General Scholarship Fund – This fund receives contributions for general scholarships to students who demonstrate financial need.

Tom Joyner Fund – This fund receives donations from the Tom Joyner Foundation Program for scholarships to students who demonstrate financial need.

College of Education Fund – This fund receives contributions for the purpose of supporting programs and scholarships within the College of Education.

College of Business Fund – This fund receives contributions for the purpose of supporting programs and scholarships within the College of Business.

Golf Classic Fund – This fund collects receipts and issues disbursements relevant to the Cleveland Chapter Golf Classic. The net revenues of this fund are for the issuance of scholarships.

CSU Chorus Gifts Fund – Receives donations and general fund transfers to fund travel expenses, awards, supplies and professional services in relation to the University chorus.

Academic Funds – Receives donations from private companies and foundations with their own restrictions.

Football Fund – This fund receives donations for the purpose of supporting the University football program.

Permanently Restricted Net Assets

These funds are used to account for resources in which the donor has stipulated, as a condition of the gift, that the principle be maintained intact and only the investment income of the fund be expended as the donor specified. The Foundation had the following categories of permanently restricted funds:

Scholarship Endowment Funds – Investment income of the funds may be expended for student scholarships.

Academic Endowment Funds – Investment income of the funds may be expended for academic purposes.

General Endowment Funds – Investment income of the funds may be expended for general operations of the University at the discretion of the Foundation.

Gifts are recorded at their fair market value as of the date received.

Land is carried at historical cost or market value at date of donation.

B. DISTRIBUTIONS TO CENTRAL STATE UNIVERSITY

Upon request by the authorities of the University, the Foundation distributes funds to the University to be used in accordance with the original donor’s specifications. Management of the Foundation is responsible for determining that the University’s requests are in accordance with donors’ specifications, and that they are recorded to the proper fund accounts of the Foundation.

C. DEPOSITS AND INVESTMENTS

Deposits – At year-end, the bank balances of deposits were \$1,827,153 for the year ended June 30, 2002. Of the bank balance, \$200,000 was covered by federal depository insurance and \$1,627,153 was uninsured and uncollateralized at June 30, 2002.

Investments are managed by a professional investment manager. The investment manager is subject to the Foundation’s investment policies which contain objectives, guidelines, and restrictions designed to provide for preservation of capital with emphasis on providing current income and achieving long-term growth of the funds.

D. CLASSIFICATION OF NET ASSETS

	Unrestricted	Temporarily Restricted	Permanently Restricted
Academic	\$ -	\$ 299,041	\$ 107,778
Athletic		114,787	
Scholarship		699,384	669,473
CSU Chorus		35,159	
Sunken Garden		22,602	
President’s Discretionary Fund	209,948		
Alumni Fund		90,071	
Other general funds	<u>91,548</u>	<u>168,636</u>	<u>118,343</u>
	<u>\$ 301,496</u>	<u>\$ 1,429,680</u>	<u>\$ 895,594</u>

E. STUDENT HOUSING CONSTRUCTION

Marauder entered into an up to 40 year lease agreement with Central State University for land upon which student housing will be constructed for the use of Central State University. On October 10, 2001, Marauder entered into an agreement with Student Suites, Inc. to construct and obtain financing for student housing. Student Suites, Inc has not yet obtained permanent financing for the student housing. In June 2002, Marauder entered into 3 loan agreements in order to finance the construction until permanent financing is obtained by Student Suites, Inc.

A \$2,693,577 loan agreement with Student Suites, Inc. and Student Suites of Ohio, LLC, is due May 1, 2004, or at which time permanent financing is obtained, whichever is earlier. Accrued interest is payable monthly commencing November 1, 2002.

Marauder also entered into a \$3,300,000 loan agreement with National City Bank, of which \$975,044 had been drawn as of June 30, 2002. Accrued interest is payable monthly, and the outstanding principle balance is due January 10, 2004.

Finally, Marauder entered into a \$350,000 loan agreement with Central State University, in order to have funds available to furnish the student housing facility at time of completion. As of June 30, 2002 no funds had been expended or borrowed to furnish the student housing facility. Construction in progress is collateralized under these notes.

Long-term debt consists of the following:

	June 30, 2002
National City Bank, due on January 10, 2004, interest at prime plus 0.5% (5.25% at June 30,2002)	\$ 975,044
Student Suites of Ohio LLC, due on May 1, 2004, interest at prime plus 0.5% (5.25% at June 30,2002)	<u>2,693,577</u>
	<u>\$ 3,668,621</u>

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INDEPENDENT AUDITORS' REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING BASED UPON THE AUDIT PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

Board of Trustees
Central State University Foundation:

We have audited the financial statements arising from cash transactions of Central State University Foundation and Subsidiary (the "Foundation") as of and for the year ended June 30, 2002, and have issued our report thereon dated September 12, 2002. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Governmental Auditing Standards*, issued by the Comptroller General of the United States of America.

Compliance

As part of obtaining reasonable assurance about whether the Foundation'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 Foundation'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 the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control 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 Foundation's internal control over financial reporting and its operation that we consider to be material weaknesses. This report is intended solely for the information and use of the Board of Trustees and management of the Foundation and the Auditor of the State of Ohio and is not intended to be and should not be used by anyone other than these specified parties.

DELOITTE & TOUCHE LLP

September 12, 2002



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CENTRAL STATE UNIVERSITY FOUNDATION AND SUBSIDIARY

GREENE 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
NOVEMBER 7, 2002**