

**THE CLEVELAND STATE
UNIVERSITY FOUNDATION, INC.**

FINANCIAL REPORT

JUNE 30, 2004



**Auditor of State
Betty Montgomery**

Board of Directors
Cleveland State University Foundation, Inc.
2121 Euclid Ave
Keith Building, Room 1415
Cleveland, Ohio 44115-2214

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

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

Betty Montgomery

BETTY MONTGOMERY
Auditor of State

November 4, 2004

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THE CLEVELAND STATE UNIVERSITY FOUNDATION, INC.

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Board of Directors
The Cleveland State University
Foundation, Inc.
Cleveland, Ohio

Independent Auditors' Report

We have audited the accompanying statement of financial position of The Cleveland State University Foundation, Inc. (the "Foundation") as of June 30, 2004, and the related statements of activities and cash flows for the year 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. The prior-year summarized comparative information has been derived from the Foundation's 2003 financial statements, and in our report dated October 14, 2003, we expressed an unqualified opinion on those statements.

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. 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 financial statements referred to above present fairly, in all material respects, the financial position of the Foundation at June 30, 2004, and the changes in net assets and cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with Government Auditing Standards, we have also issued our report dated September 1, 2004, 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 grant agreements and other matters. The purpose of that report is to describe the scope of our testing on internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Hausser + Taylor LLC

Cleveland, Ohio
September 1, 2004

THE CLEVELAND STATE UNIVERSITY FOUNDATION, INC.

STATEMENT OF FINANCIAL POSITION

June 30, 2004

(With Comparative Totals at June 30, 2003)

	<u>2004</u>	<u>2003</u>
<u>ASSETS</u>		
Current Assets:		
Cash and cash equivalents	\$ 2,311,433	\$ 662,522
Accounts receivable	34,464	15,270
Contributions receivable, net of allowance for uncollectible contributions	<u>273,974</u>	<u>527,024</u>
Total current assets	2,619,871	1,204,816
Non-Current Assets:		
Contributions receivable, net of allowance for uncollectible contributions	2,826,635	1,347,323
Long-term investments, at fair market value	21,186,125	16,811,692
Funds held on behalf of others:		
Cleveland State University	2,339,224	2,155,495
Cleveland State University Alumni Association	404,248	329,420
Civic Foundation	<u>11,574</u>	<u>-</u>
Total non-current assets	<u>26,767,806</u>	<u>20,643,930</u>
Total assets	<u>\$ 29,387,677</u>	<u>\$ 21,848,746</u>
<u>LIABILITIES AND NET ASSETS</u>		
<u>LIABILITIES</u>		
Current Liabilities:		
Accounts payable	\$ 119,529	\$ 142,362
Payable to Cleveland State University	420,461	433,701
Annuities payable	<u>24,114</u>	<u>10,192</u>
Total current liabilities	564,104	586,255
Non-Current Liabilities:		
Accounts payable	-	111,565
Payable to Cleveland State University	153,953	177,072
Annuities payable	126,106	55,216
Funds held on behalf of others:		
Cleveland State University	2,339,224	2,155,495
Cleveland State University Alumni Association	404,248	329,420
Civic Foundation	<u>11,574</u>	<u>-</u>
Total non-current liabilities	<u>3,035,105</u>	<u>2,828,768</u>
Total liabilities	3,599,209	3,415,023
NET ASSETS		
Unrestricted - allocated for endowment purposes	171,384	150,000
Unrestricted - other	<u>451,386</u>	<u>341,525</u>
Total unrestricted	622,770	491,525
Temporarily restricted	7,886,645	5,182,480
Permanently restricted	<u>17,279,053</u>	<u>12,759,718</u>
Total net assets	<u>25,788,468</u>	<u>18,433,723</u>
Total liabilities and net assets	<u>\$ 29,387,677</u>	<u>\$ 21,848,746</u>

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

THE CLEVELAND STATE UNIVERSITY FOUNDATION, INC

STATEMENT OF ACTIVITIES

Year Ended June 30, 2004
(With Comparative Totals at June 30, 2003)

	Unrestricted	Temporarily Restricted	Permanently Restricted	2004 Totals	2003 Totals
REVENUES					
Contributions	\$ 63,042	\$ 3,629,676	\$ 4,352,658	\$ 8,045,376	\$ 4,234,259
In-kind contributions	126,888			126,888	219,913
Management fee	26,622			26,622	28,439
Investment income, including net realized and unrealized gains	216,941	2,989,066		3,206,007	711,206
Net assets released from restrictions:					
Change in donor restrictions		(166,677)	166,677	-	-
Released from donor restrictions	3,747,900	(3,747,900)		-	-
Total revenues	<u>4,181,393</u>	<u>2,704,165</u>	<u>4,519,335</u>	<u>11,404,893</u>	<u>5,193,817</u>
EXPENSES					
Program services:					
Instruction	999,046			999,046	1,401,031
Research	63,118			63,118	112,902
Public service	1,097,383			1,097,383	1,278,609
Academic support	126,056			126,056	158,430
Financial aid	576,843			576,843	581,090
Institutional support	563,524			563,524	617,468
Auxiliary enterprises	280,875			280,875	176,102
	<u>3,706,845</u>			<u>3,706,845</u>	<u>4,325,632</u>
Management and general	291,893			291,893	721,540
Fundraising	51,410			51,410	45,248
Total expenses	<u>4,050,148</u>			<u>4,050,148</u>	<u>5,092,420</u>
CHANGE IN NET ASSETS	131,245	2,704,165	4,519,335	7,354,745	101,397
NET ASSETS – BEGINNING OF YEAR, AS RESTATED	<u>491,525</u>	<u>5,182,480</u>	<u>12,759,718</u>	<u>18,433,723</u>	<u>18,332,326</u>
NET ASSETS – END OF YEAR	<u>\$ 622,770</u>	<u>\$ 7,886,645</u>	<u>\$ 17,279,053</u>	<u>\$ 25,788,468</u>	<u>\$ 18,433,723</u>

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

THE CLEVELAND STATE UNIVERSITY FOUNDATION, INC.

STATEMENT OF CASH FLOWS

Year Ended June 30, 2004
(With Comparative Totals for June 30, 2003)

	<u>2004</u>	<u>2003</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ 7,354,745	\$ 101,397
Adjustments to reconcile changes in net assets to net cash provided by operating activities:		
(Gain) loss on sale of investments	(584,193)	417,706
Net unrealized appreciation in the fair market value of investments	(2,126,943)	(544,458)
Contributions restricted for investment in endowment	4,519,335	493,978
Contributions receivable written off	20,000	107,450
Changes in operating assets and liabilities:		
Increase in accounts receivable	(19,194)	(12,270)
(Increase) decrease in contributions receivable	(1,246,262)	769,037
(Decrease) increase in accounts payable	(134,398)	212,660
Increase in annuities payable	84,812	65,408
(Decrease) increase in payable to Cleveland State University	(36,359)	100,155
Total adjustments	<u>476,798</u>	<u>1,609,666</u>
Net cash provided by operating activities	7,831,543	1,711,063
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sale of investments	7,228,371	3,932,357
Purchase of investments	(8,891,668)	(4,977,810)
Increase in funds held on behalf of others	<u>(270,131)</u>	<u>(14,614)</u>
Net cash used in investing activities	(1,933,428)	(1,060,067)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from contributions restricted for investment in endowment	(4,519,335)	(493,978)
Increase in funds held on behalf of others	<u>270,131</u>	<u>14,614</u>
Net cash used in financing activities	<u>(4,249,204)</u>	<u>(479,364)</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS	1,648,911	171,632
CASH AND CASH EQUIVALENTS – BEGINNING OF YEAR	<u>662,522</u>	<u>490,890</u>
CASH AND CASH EQUIVALENTS – END OF YEAR	<u>\$ 2,311,433</u>	<u>\$ 662,522</u>

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

THE CLEVELAND STATE UNIVERSITY FOUNDATION, INC.

NOTES TO FINANCIAL STATEMENTS

Note 1. Summary of Significant Accounting Policies

- A. Purpose and Accounting Method – The Cleveland State University Foundation, Inc. (the "Foundation") is organized primarily to engage in activities and programs to provide support and service to Cleveland State University (the "University"). The Foundation is a not-for-profit corporation as described in Section 501(c)(3) of the Internal Revenue Code and is exempt from federal income taxes.

The financial statements have been prepared on the accrual basis of accounting. The Foundation's resources are classified into three net asset categories according to donor-imposed restrictions. A description of the categories follows:

Unrestricted net assets are free of donor-imposed restriction; includes all revenues, expenses, gains and losses that are not changes in temporarily or permanently restricted net assets.

Temporarily restricted net assets include gifts and pledges receivable for which donor imposed restrictions have not been met and for which the ultimate purpose of the proceeds is not permanently restricted.

Permanently restricted assets represent assets that are subject to restrictions of gift instruments requiring that the principal be invested in perpetuity. The income from these assets is included in the investment income of unrestricted and restricted funds, as appropriate, in the accompanying statement of activities.

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

- B. Cash and Cash Equivalents – For purposes of the statement of cash flows, the Foundation considers all highly liquid debt instruments with a maturity of three months or less to be cash equivalents. At times, cash on hand may exceed federally insured amounts.
- C. Investments – Investments of the unrestricted, temporarily restricted and permanently restricted funds are pooled for making investment transactions and are carried at market value (see Note 4). Interest and dividend income, as well as realized and unrealized gains and losses, are allocated to the funds quarterly using the unitized fair value method of accounting for pooled investment funds.
- D. Contributions Receivable – Contributions received, including unconditional promises to give, are recognized as revenue by net asset class when the donor's commitment is received. Donated items are recorded at fair value when received. Unconditional promises are recognized at the estimated present value of the future cash flows, net of allowances (fair value). Promises made that are designated for future periods or restricted by the donor for specific purposes are reported as temporarily restricted or permanently restricted support. However, if a restriction is fulfilled in the same time period in which the contribution is received, the Foundation reports the support as unrestricted. Conditional promises are recorded when donor stipulations are substantially met.

THE CLEVELAND STATE UNIVERSITY FOUNDATION, INC.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

Note 1. Summary of Significant Accounting Policies (Continued)

D. Contributions Receivable (Continued)

It is the Foundation's policy that an initial minimum balance of \$10,000 be required to establish an endowment fund. The policy allows a period, which is not generally to exceed 48 months, for the accumulation of contributions and interest to meet the minimum principal balance requirements.

E. Fair Value of Financial Instruments – The Foundation's financial instruments consist principally of cash and investments, contribution and grant receivables, accounts payable and other accrued liabilities in which the fair value of these financial instruments approximates the carrying value.

F. Use of Estimates – The preparation of the financial statements in conformity with accounting principles generally accepted in the United States of America requires the Foundation's management to make estimates and assumptions that affect the amounts reported in the financial statements and related notes. Actual results may differ from those estimates.

G. Endowment Management Fees – On October 31, 1997, the Foundation implemented a 1% fee to be levied by the Foundation for managing funds held on behalf of related entities. Total endowment management fees for the years ended June 30, 2004 and 2003 were \$26,622 and \$28,439, respectively.

H. Comparative Information – The financial statements include certain prior-year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the Foundation's financial statements for the year ended June 30, 2003, from which the summarized information was derived.

Net assets at July 1, 2002 and July 1, 2003 were increased by \$144,875 and \$29,311, respectively, to properly reflect contributions receivable.

Note 2. Cash and Cash Equivalents

At June 30, 2004 and 2003, cash and cash equivalents consisted of the following:

	<u>2004</u>	<u>2003</u>
Cash	\$ 359,949	\$ 421,909
Money market mutual fund	<u>1,951,484</u>	<u>240,613</u>
	<u>\$2,311,433</u>	<u>\$ 662,522</u>

THE CLEVELAND STATE UNIVERSITY FOUNDATION, INC.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

Note 3. Contributions Receivable

Contributions receivable are accounted for in accordance with SFAS 116. The recorded fair value of contributions receivable is the present value of estimated future cash receipts using a discount rate of 6% and an allowance for uncollectible contributions of 2% at June 30, 2004 and 2003. Amounts due are as follows:

	<u>2004</u>	<u>2003</u>
Gross receivables	\$3,617,765	\$2,084,318
Discount	(453,878)	(171,719)
Allowance for uncollectible contributions	<u>(63,278)</u>	<u>(38,252)</u>
	<u>\$3,100,609</u>	<u>\$1,874,347</u>

Contributions receivable are expected to be realized in the following periods:

	<u>2004</u>	<u>2003</u>
In one year or less	\$1,076,242	\$1,119,145
One to five years	1,944,227	684,773
More than five year	<u>80,140</u>	<u>70,429</u>
	<u>\$3,100,609</u>	<u>\$1,874,347</u>

Included in amount to be received in one year or less at June 30, 2004 and 2003 is \$802,268 and \$592,121, respectively, which represents amounts due on permanently restricted contributions. As such, these amounts have been classified as non-current assets on the statement of financial position.

Contributions receivable at June 30, 2004 and 2003 have the following restrictions:

	<u>2004</u>	<u>2003</u>
Public service	\$ 98,000	\$ 338,100
Financial aid	2,216,046	1,128,228
Instruction	<u>786,563</u>	<u>408,019</u>
	<u>\$3,100,609</u>	<u>\$1,874,347</u>

THE CLEVELAND STATE UNIVERSITY FOUNDATION, INC.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

Note 4. Long-Term Investments

For investment purposes, assets of the various unrestricted, temporarily restricted and permanently restricted classifications are pooled. Realized and unrealized gains and losses and investment income are allocated to unrestricted assets except when the donor specifies that income is to be temporarily or permanently restricted.

Investments are composed of the following at June 30:

	2004		2003	
	<u>Cost</u>	<u>Market</u>	<u>Cost</u>	<u>Market</u>
Stocks - domestic	\$ 2,458,090	\$ 3,349,375	\$ 2,440,758	\$ 2,682,067
Mutual funds - domestic	7,707,788	9,235,714	6,235,624	6,531,497
Mutual funds - international	1,143,757	1,812,860	1,094,069	1,319,754
Fixed income securities	<u>6,782,307</u>	<u>6,788,176</u>	<u>6,119,445</u>	<u>6,278,374</u>
	<u>\$18,091,942</u>	<u>\$21,186,125</u>	<u>\$15,889,896</u>	<u>\$16,811,692</u>

Funds held on behalf of others are composed of the following at June 30:

	2004		2003	
	<u>Cost</u>	<u>Market</u>	<u>Cost</u>	<u>Market</u>
Stocks - domestic	\$ 360,388	\$ 442,809	\$ 382,302	\$ 410,156
Mutual funds - domestic	1,130,061	1,221,021	976,701	998,830
Mutual funds - international	167,690	239,672	171,367	201,824
Fixed income securities	<u>865,149</u>	<u>851,544</u>	<u>893,287</u>	<u>874,105</u>
	<u>\$ 2,523,288</u>	<u>\$ 2,755,046</u>	<u>\$ 2,423,657</u>	<u>\$ 2,484,915</u>

The various investments in fixed income securities, mutual funds and other investment securities are exposed to various risks, such as interest rate, market and credit risks.

THE CLEVELAND STATE UNIVERSITY FOUNDATION, INC.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

Note 5. Temporarily and Permanently Restricted Net Assets

Temporarily restricted net assets are those whose use by the Foundation has been limited by donors to a specific time period or purpose. Temporarily restricted net assets are available for the following purposes at June 30:

	<u>2004</u>	<u>2003</u>
Instructional/research	\$ 3,272,440	\$ 2,316,081
Public service	374,338	605,965
Academic support	950,753	718,374
Financial aid	2,777,188	1,098,873
Institutional support	471,022	406,390
Auxiliary enterprises	<u>40,904</u>	<u>36,797</u>
	<u>\$ 7,886,645</u>	<u>\$ 5,182,480</u>

Permanently restricted net assets are held in perpetuity for the following purposes at June 30:

	<u>2004</u>	<u>2003</u>
Instructional	\$ 5,421,705	\$ 3,505,242
Research	308,283	308,283
Public service	50,167	50,167
Academic support	820,986	811,686
Financial aid	10,563,727	7,981,455
Institutional support	102,885	102,885
Auxiliary services	<u>11,300</u>	<u>-</u>
	<u>\$17,279,053</u>	<u>\$12,759,718</u>

THE CLEVELAND STATE UNIVERSITY FOUNDATION, INC.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

Note 6. Relationship With Related Entities

A significant portion of the general and administrative expenses of the Foundation, including certain salaries and other operating costs, is paid directly by Cleveland State University and is not reflected as operating expenses of the Foundation. For the year ended June 30, 2004, certain salary costs which the Foundation generally pays for were recorded as an in-kind contribution and expense from the University. Further, certain other program costs are reflected as Foundation expenses but are initially funded by the University with the expectation of repayment by the Foundation. At June 30, 2004 and 2003, respectively, \$420,461 and \$433,701 in such other program costs were outstanding and reported as payable to Cleveland State University.

At June 30, 2004 and 2003, there was an additional payable to the University for \$153,953 and \$177,072, respectively.

During 1997, Cleveland State University Foundation began investing funds of the Cleveland State University Alumni Association. At June 30, 2004 and 2003, the Foundation is investing \$404,248 and \$329,420, respectively, of assets on behalf of the Alumni Association.

During 1998, the Cleveland State University Foundation began investing funds of the University. At June 30, 2004 and 2003, the Foundation is investing \$2,339,224 and \$2,155,495, respectively, of assets on behalf of the University.

During 2004, the Cleveland State University Foundation had program expenditures of \$3,706,845 supporting the University as follows:

	<u>Transfers</u>	<u>Other Expenditures</u>	<u>Total</u>
Instruction	\$ 881,575	\$ 117,471	\$ 999,046
Research	52,915	10,203	63,118
Public service	1,097,150	233	1,097,383
Academic support	126,056	-	126,056
Financial aid	572,612	4,231	576,843
Institutional support	430,232	133,292	563,524
Auxiliary services	255,144	25,731	280,875
	<u>\$3,415,684</u>	<u>\$ 291,161</u>	<u>\$3,706,845</u>

Board of Directors
The Cleveland State University
Foundation, Inc.
Cleveland, Ohio

Report on Internal Control Over Financial Reporting and on
Compliance and Other Matters Based on an Audit of Financial
Statements Performed in Accordance With Government Auditing Standards

We have audited the financial statements of The Cleveland State University Foundation, Inc. as of and for the year ended June 30, 2004, and have issued our report thereon dated September 1, 2004. 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.

Internal Control Over Financial Reporting

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

Compliance and Other Matters

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

This report is intended solely for the information and use of the Board of Directors, management of The Cleveland State University Foundation, Inc. and the State of Ohio and is not intended to be and should not be used by anyone other than these specified parties.

Cleveland, Ohio
September 1, 2004

Hausser + Taylor LLC



**Auditor of State
Betty Montgomery**

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**CLEVELAND STATE UNIVERSITY FOUNDATION
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
NOVEMBER 18, 2004**