

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

*Consolidated Financial Statements for the
Year Ended June 30, 2003 and
Independent Auditors' Report*



**Auditor of State
Betty Montgomery**

Board of Trustees
Central State University Foundation
P.O. Box 1004
Wilberforce, Ohio 45384

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

A handwritten signature in cursive script that reads "Betty Montgomery".

BETTY MONTGOMERY
Auditor of State

January 9, 2004

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INDEPENDENT AUDITORS' REPORT

To the Board of Trustees
Central State University Foundation

We have audited the accompanying consolidated statement of financial position of Central State University Foundation and Subsidiary (the "Foundation"), as of June 30, 2003 and the related consolidated 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.

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 H to the financial statements, these financial statements were prepared on the accounting basis of accounting principles generally accepted in the United States of America. The net assets for 2002 have been restated from the cash basis of accounting to accounting principles generally accepted in the United States of America basis of accounting adopted in 2003.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Foundation as of June 30, 2003, 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 issued a report dated December 16, 2003 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

December 16, 2003

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CENTRAL STATE UNIVERSITY FOUNDATION AND SUBSIDIARY

CONSOLIDATED STATEMENT OF FINANCIAL POSITION JUNE 30, 2003

CURRENT ASSETS:

Cash and cash equivalents	\$ 2,621,371
Prepaid expenses	3,333
Investments	1,312,354
Contribution receivables	<u>92,297</u>
Total current assets	<u>4,029,355</u>

NONCURRENT ASSETS:

Restricted cash and cash equivalents	879,431
Fixed assets, net	7,107,178
Financing costs—net of accumulated amortization (\$22,222)	<u>825,164</u>
Total noncurrent assets	<u>8,811,773</u>

TOTAL ASSETS \$ 12,841,128

LIABILITIES AND NET ASSETS

CURRENT LIABILITIES:

Accounts payable	\$ 132,458
Accrued interest payable	<u>229,104</u>
Total current liabilities	361,562

LONG-TERM DEBT 8,577,499

TOTAL LIABILITIES 8,939,061

NET ASSETS:

Unrestricted	439,487
Temporarily restricted	2,041,206
Permanently restricted	<u>1,421,374</u>
	<u>3,902,067</u>

TOTAL LIABILITIES AND NET ASSETS \$ 12,841,128

See notes to consolidated financial statements.

CENTRAL STATE UNIVERSITY FOUNDATION AND SUBSIDIARY

CONSOLIDATED STATEMENT OF ACTIVITIES YEAR ENDED JUNE 30, 2003

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
REVENUES:				
Rental revenues	\$ 816,945	\$	\$	\$ 816,945
Transferred from Central State University	240,920	351,108	472,060	1,064,088
Contributions	38,196	567,720	53,720	659,636
Reimbursements	5,501	48,763		54,264
Other	116	38,444		38,560
Unrealized loss on investments	(8,956)	(14,070)		(23,026)
Investment income	17,819	33,143		50,962
Net assets released from restrictions	<u>556,689</u>	<u>(556,689)</u>		
Total revenues	<u>1,667,230</u>	<u>468,419</u>	<u>525,780</u>	<u>2,661,429</u>
EXPENSES:				
Scholarship programs	188,074			188,074
Athletic programs	84,896			84,896
Academic programs	152,556			152,556
Institution programs	131,701			131,701
Management fees	57,186			57,186
Operating expenses	293,348			293,348
Depreciation expense	244,929			244,929
Interest expense	<u>376,549</u>			<u>376,549</u>
Total expenses	<u>1,529,239</u>			<u>1,529,239</u>
CHANGE IN NET ASSETS	<u>137,991</u>	<u>468,419</u>	<u>525,780</u>	<u>1,132,190</u>
NET ASSETS:				
Beginning of year, as previously reported	301,496	1,429,680	895,594	2,626,770
Cumulative effect of change in basis of accounting		<u>143,107</u>		<u>143,107</u>
Beginning of year, as restated	<u>301,496</u>	<u>1,572,787</u>	<u>895,594</u>	<u>2,769,877</u>
End of year	<u>\$ 439,487</u>	<u>\$2,041,206</u>	<u>\$ 1,421,374</u>	<u>\$3,902,067</u>

See notes to consolidated financial statements.

CENTRAL STATE UNIVERSITY FOUNDATION AND SUBSIDIARY

STATEMENT OF CASH FLOWS YEAR ENDED JUNE 30, 2003

CASH FLOWS FROM OPERATING ACTIVITIES:

Change in net assets	
Adjustments to reconcile change in net assets to net cash provided by operating activities:	\$ 1,132,190
Depreciation	222,707
Amortization of issuance costs	22,222
Amortization of bond discount	19,401
Changes in assets and liabilities:	
Decrease in contribution receivable	50,810
Increase in prepaid expenses	(3,333)
Increase in operating expenses payable	75,272
Increase in management fees payable	57,186
Increase in accrued interest payable	229,104
Unrealized loss on investments	<u>23,026</u>
Net cash provided by operating activities	<u>1,828,585</u>

CASH FLOWS FROM INVESTING ACTIVITIES:

Purchase of investments	(635,206)
Acquisition of fixed assets	(3,561,821)
Increase in restricted cash	(879,431)
Bond issuance costs	<u>(847,386)</u>
Net cash provided by investing activities	<u>(5,923,844)</u>

CASH FLOWS FROM FINANCING ACTIVITIES

Additional borrowings of notes payable	3,126,791
Retirement of notes payable	(6,795,412)
Proceeds from bonds payable	<u>8,558,098</u>
Net cash provided by financing activities	<u>4,889,477</u>

NET INCREASE IN CASH AND CASH EQUIVALENTS 794,218

CASH:

Beginning of year	<u>1,827,153</u>
End of year	<u>\$ 2,621,371</u>

See notes to financial statements.

CENTRAL STATE UNIVERSITY FOUNDATION AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2003

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. Marauder’s fiscal year-end is August 31, 2003. The balances as of that date have been consolidated for purposes of these financial statements.

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 financial operations of Marauder Development, LLC, which maintains a fiscal year end of August 31, 2003, have been consolidated within these financial statements. 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 accrual basis.

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 activities. 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.

Financing Costs—The financing costs include consulting, attorney's and other fees incurred in connection with the bond obligations. These costs are capitalized and are amortized using the interest method over the lives of the bonds and are included as amortization expense. The amount amortized was \$22,222 for the year ended June 30, 2003.

Rent—The agreement between Marauder and the University requires that 90 percent of any of Marauder's surplus (as defined) earned be paid to the University for rent. Marauder's current year operations resulted in a loss of \$68,089; therefore, no amount is due from Marauder to the University for the year ended June 30, 2003.

Estimates—The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statement and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

Income Taxes—The Foundation is exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code.

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

As required by the bond indenture, the Foundation maintains cash balances in the following accounts as of June 30, 2003:

RESTRICTED:

Debt interest account	\$229,451
Debt issuance account	29,216
Construction account	2,001
Debt reserve fund	<u>618,763</u>
Total restricted	<u>\$879,431</u>

Cash accounts at banks are insured by the FDIC for up to \$100,000. Amounts in excess of \$100,000 are uninsured and uncollateralized.

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. Investments consist of money market funds, mutual funds, and equity securities.

D. CONTRIBUTION RECEIVABLE

Unconditional promises to give are included in the financial statements as contributions receivable and contributions of the appropriate net asset category. All contributions receivable are unconditional promises to give that are expected to be collected within one year and are recorded at net realizable value. Conditional promises to give are not included as support until conditions are met.

E. FIXED ASSETS

Fixed assets are defined as assets with an initial, individual cost of more than \$1,000 and an estimated useful life in excess of three years. Depreciation is computed on the straight-line basis over the following estimated useful lives: building - 40 years, and furniture - 7 years.

Land	\$ 75,330
Building	6,903,766
Furniture	<u>350,789</u>
Total fixed assets	7,329,885
Less accumulated depreciation	<u>(222,707)</u>
Net	<u>\$7,107,178</u>

F. CLASSIFICATION OF NET ASSETS

	Unrestricted	Temporarily Restricted	Permanently Restricted
Academic	\$	\$ 285,298	\$ 123,130
Athletic		436,169	
Scholarship		625,540	996,543
President's Discretionary Fund	418,125		
Alumni Fund		25,355	
Other general funds	<u>21,362</u>	<u>668,844</u>	<u>301,701</u>
	<u>\$439,487</u>	<u>\$2,041,206</u>	<u>\$1,421,374</u>

G. DEBT

The Foundation's subsidiary, Marauder Development, LLC has the following debt related to the financing of a student dormitory. Information is for the subsidiary's year ended June 30, 2003:

	Interest Rate	Maturity	Balance June 01, 2002	Additions	Payments	Balance June 30, 2003
National City Bank	Prime + .5%		\$ 975,044	\$ 2,325,827	\$3,300,871	\$
Student Suites of Ohio LLC	Prime + .5%		2,693,577	800,964	3,494,541	
Revenue Bonds	3.0%-5.625%	2032	<u> </u>	<u>8,577,499</u>	<u> </u>	<u>8,577,499</u>
Total			<u>\$3,668,621</u>	<u>\$11,704,290</u>	<u>\$6,795,412</u>	<u>\$8,577,499</u>

Principal and interest payments on long-term debt are as follows:

Year Ended June 30	Principal	Interest	Total
2004	\$	\$ 458,208	\$ 458,208
2005	95,000	455,834	550,834
2006	160,000	451,059	611,059
2007	165,000	445,978	610,978
2008	170,000	440,321	610,321
2009-2013	945,000	2,094,038	3,039,038
2014-2018	1,180,000	1,851,383	3,031,383
2019-2023	1,515,000	1,504,410	3,019,410
2024-2028	2,000,000	1,028,500	3,028,500
2029-2032	<u>2,640,000</u>	<u>391,781</u>	<u>3,031,781</u>
	<u>\$8,870,000</u>	<u>\$9,121,512</u>	<u>\$17,991,512</u>

Marauder Development, LLC issued Student Housing Revenue Bonds, Series 2002, dated December 1, 2002, to retire commercial loans used to finance the construction of the University Housing Project. The bond discount was \$292,501 at June 30, 2003, and is being amortized to interest expense on the interest method over the life of the bonds. The bonds mature on September 1 in various amounts ranging from \$95,000 on September 1, 2004 to \$620,000 on September 1, 2032, subject to prior mandatory sinking fund redemptions. Interest, at rates varying from 3.0 percent to 5.625 percent per annum, is payable semi-annually on March 1 and September 1.

Bond legislation provides that Marauder Development, LLC will charge rates sufficient for the excess of revenues over expenditures to equal not less than 120 percent of the aggregate amount of principal and interest requirements on the bonds payable during the year (coverage ratio).

H. CHANGE IN BASIS OF ACCOUNTING

In prior years, the Foundation prepared its financial statements on the basis of cash receipts and disbursements, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United State of America. In the current year, the Foundation adopted a basis of accounting consistent with accounting principles generally accepted in the United State of America. Beginning net assets as previously reported were restated as of June 30, 2002 in order for the Foundation to present the financial statements on the basis of accounting principles generally accepted in the United State of America.

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

To the Board of Trustees of Central State University Foundation

We have audited the financial statements of Central State University Foundation (the "Foundation") as of and for the year ended June 30, 2003, on which we have issued our report thereon, dated December 16, 2003, which includes an explanatory paragraph relating to a change in accounting basis. 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.

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 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, management of the Foundation, and the Auditor of the State of Ohio, and is not intended to be used and should be not used by anyone other than these specified parties.

Deloitte & Touche LLP

December 16, 2003

Deloitte
Touche
Tohmatsu



**Auditor of State
Betty Montgomery**

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CENTRAL STATE UNIVERSITY FOUNDATION

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
JANUARY 29, 2004**