

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

FINANCIAL REPORT

JUNE 30, 2005



**Auditor of State
Betty Montgomery**

Board of Directors
Cleveland State University Foundation
Controller's Office-Keith Building, Room 1415
2121 Euclid Avenue
Cleveland, Ohio 44115-2214

We have reviewed the *Independent Auditor's Report* of the Cleveland State University Foundation, Cuyahoga County, prepared by Hausser + Taylor, for the audit period July 1, 2004 through June 30, 2005. 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 is responsible for compliance with these laws and regulations.

A handwritten signature in black ink that reads "Betty Montgomery".

BETTY MONTGOMERY
Auditor of State

October 13, 2005

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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, 2005, 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 2004 financial statements, and in our report dated September 1, 2004, 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, 2005, 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 August 19, 2005, 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
August 19, 2005

THE CLEVELAND STATE UNIVERSITY FOUNDATION, INC.

STATEMENT OF FINANCIAL POSITION

June 30, 2005

(With Comparative Totals at June 30, 2004)

	<u>2005</u>	<u>2004</u>
<u>ASSETS</u>		
Current Assets:		
Cash and cash equivalents	\$ 3,456,571	\$ 2,311,433
Accounts receivable	52,650	34,464
Contributions receivable, net of allowance for uncollectible contributions	<u>1,171,576</u>	<u>273,974</u>
Total current assets	4,680,797	2,619,871
Non-Current Assets:		
Contributions receivable, net of allowance for uncollectible contributions	8,513,489	2,826,635
Long-term investments, at fair market value	24,147,639	21,186,125
Funds held on behalf of others:		
Cleveland State University	2,400,748	2,339,224
Cleveland State University Alumni Association	420,081	404,248
Civic Foundation	<u>3,244</u>	<u>11,574</u>
Total non-current assets	<u>35,485,201</u>	<u>26,767,806</u>
Total assets	<u>\$ 40,165,998</u>	<u>\$ 29,387,677</u>
<u>LIABILITIES AND NET ASSETS</u>		
<u>LIABILITIES</u>		
Current Liabilities:		
Accounts payable	\$ 11,366	\$ 119,529
Payable to Cleveland State University	432,992	420,461
Annuities payable	<u>27,479</u>	<u>24,114</u>
Total current liabilities	471,837	564,104
Non-Current Liabilities:		
Payable to Cleveland State University	131,686	153,953
Annuities payable	135,726	126,106
Funds held on behalf of others:		
Cleveland State University	2,400,748	2,339,224
Cleveland State University Alumni Association	420,081	404,248
Civic Foundation	<u>3,244</u>	<u>11,574</u>
Total non-current liabilities	<u>3,091,485</u>	<u>3,035,105</u>
Total liabilities	3,563,322	3,599,209
NET ASSETS		
Unrestricted	369,207	451,386
Board designated - scholarships	<u>174,463</u>	<u>171,384</u>
Total unrestricted	543,670	622,770
Temporarily restricted	13,295,328	7,886,645
Permanently restricted	<u>22,763,678</u>	<u>17,279,053</u>
Total net assets	<u>36,602,676</u>	<u>25,788,468</u>
Total liabilities and net assets	<u>\$ 40,165,998</u>	<u>\$ 29,387,677</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, 2005
(With Comparative Totals at June 30, 2004)

	Unrestricted	Temporarily Restricted	Permanently Restricted	2005 Totals	2004 Totals
REVENUES					
Contributions	\$ 46,004	\$ 7,502,188	\$ 5,130,824	\$ 12,679,016	\$ 8,045,376
In-kind contributions				-	126,888
Management fee	25,914			25,914	26,622
Investment income, including realized and unrealized gains, net	227,144	1,651,501		1,878,645	3,206,007
Net assets released from restrictions:					
Change in donor restrictions		(353,801)	353,801	-	-
Released from donor restrictions	3,391,205	(3,391,205)		-	-
Total revenues	<u>3,690,267</u>	<u>5,408,683</u>	<u>5,484,625</u>	<u>14,583,575</u>	<u>11,404,893</u>
EXPENSES					
Program services:					
Instruction	796,460			796,460	999,046
Research	260,101			260,101	63,118
Public service	881,990			881,990	1,097,383
Academic support	106,580			106,580	126,056
Financial aid	742,574			742,574	576,843
Institutional support	312,550			312,550	563,524
Auxiliary enterprises	262,793			262,793	280,875
	<u>3,363,048</u>			<u>3,363,048</u>	<u>3,706,845</u>
Management and general	364,327			364,327	291,893
Fund raising	41,992			41,992	51,410
Total expenses	<u>3,769,367</u>			<u>3,769,367</u>	<u>4,050,148</u>
CHANGE IN NET ASSETS	(79,100)	5,408,683	5,484,625	10,814,208	7,354,745
NET ASSETS – BEGINNING 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>
NET ASSETS – END OF YEAR	<u>\$ 543,670</u>	<u>\$ 13,295,328</u>	<u>\$ 22,763,678</u>	<u>\$ 36,602,676</u>	<u>\$ 25,788,468</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, 2005
(With Comparative Totals for June 30, 2004)

	<u>2005</u>	<u>2004</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ 10,814,208	\$ 7,354,745
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Loss (gain) on sale of investments	40,622	(584,193)
Net unrealized appreciation in the fair market value of investments	(1,076,879)	(2,126,943)
Contributions restricted for investment in endowment	5,484,625	4,519,335
Contributions receivable written off	28,116	20,000
Changes in operating assets and liabilities:		
Increase in accounts receivable	(18,186)	(19,194)
Increase in contributions receivable	(6,612,573)	(1,246,262)
Decrease in accounts payable	(108,163)	(134,398)
Increase in annuities payable	12,985	84,812
Decrease in payable to Cleveland State University	(9,735)	(36,359)
Total adjustments	<u>(2,259,188)</u>	<u>476,798</u>
Net cash provided by operating activities	8,555,020	7,831,543
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sale of investments	941,857	7,228,371
Purchase of investments	(2,867,114)	(8,891,668)
Increase in funds held on behalf of others	<u>(69,026)</u>	<u>(270,131)</u>
Net cash used in investing activities	(1,994,283)	(1,933,428)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from contributions restricted for investment in endowment	(5,484,625)	(4,519,335)
Increase in funds held on behalf of others	<u>69,026</u>	<u>270,131</u>
Net cash used in financing activities	<u>(5,415,599)</u>	<u>(4,249,204)</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS	1,145,138	1,648,911
CASH AND CASH EQUIVALENTS – BEGINNING OF YEAR	<u>2,311,433</u>	<u>662,522</u>
CASH AND CASH EQUIVALENTS – END OF YEAR	<u>\$ 3,456,571</u>	<u>\$ 2,311,433</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.

Board designated - scholarships are unrestricted net assets that have been designated by the Board to be used for scholarship purposes.

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.
- 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 \$25,000 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, 2005 and 2004 were \$25,914 and \$26,622, respectively.

H. Gift Annuities – The Foundation is obligated under various annuity contracts, whereby donors have contributed cash to the Foundation with the agreement that the donor shall be sole recipient of annual annuity payments. These annual payments, currently totaling \$25,156 per year, shall terminate on the last payment date preceding the death of the donor. The discount rates used to estimate the obligations at June 30, 2005 range from 6.5% through 11.4%.

I. 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, 2004, from which the summarized information was derived.

Note 2. Cash and Cash Equivalents

At June 30, 2005 and 2004, cash and cash equivalents consisted of the following:

	<u>2005</u>	<u>2004</u>
Cash	\$ 61,127	\$ 359,949
Money market mutual fund	<u>3,395,444</u>	<u>1,951,484</u>
	<u>\$ 3,456,571</u>	<u>\$ 2,311,433</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, 2005 and 2004. Amounts due are as follows:

	<u>2005</u>	<u>2004</u>
Gross receivables	\$ 11,395,919	\$ 3,617,765
Discount	(1,513,199)	(453,878)
Allowance for uncollectible contributions	<u>(197,655)</u>	<u>(63,278)</u>
	<u>\$ 9,685,065</u>	<u>\$ 3,100,609</u>

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

	<u>2005</u>	<u>2004</u>
In one year or less	\$ 2,834,081	\$ 1,076,242
One to five years	6,365,035	1,944,227
More than five years	<u>485,949</u>	<u>80,140</u>
	<u>\$ 9,685,065</u>	<u>\$ 3,100,609</u>

Included in the amount to be received in one year or less at June 30, 2005 and 2004 is \$1,662,504 and \$802,268, 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, 2005 and 2004 have the following restrictions:

	<u>2005</u>	<u>2004</u>
Instruction	\$ 492,540	\$ 786,563
Research	26,433	-
Public service	27,783	98,000
Financial aid	4,874,626	2,216,046
Institutional support	812,408	-
Auxiliary enterprises	<u>3,451,275</u>	<u>-</u>
	<u>\$ 9,685,065</u>	<u>\$ 3,100,609</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:

	2005		2004	
	Cost	Market	Cost	Market
Stocks - domestic	\$ 2,572,222	\$ 3,440,523	\$ 2,458,090	\$ 3,349,375
Mutual funds - domestic	8,905,939	10,859,949	7,707,788	9,235,714
Mutual funds - international	1,658,668	2,613,633	1,143,757	1,812,860
Fixed income securities	<u>7,068,988</u>	<u>7,233,534</u>	<u>6,782,307</u>	<u>6,788,176</u>
	<u>\$20,205,817</u>	<u>\$24,147,639</u>	<u>\$18,091,942</u>	<u>\$21,186,125</u>

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

	2005		2004	
	Cost	Market	Cost	Market
Stocks - domestic	\$ 300,822	\$ 402,371	\$ 360,388	\$ 442,809
Mutual funds - domestic	991,597	1,245,218	1,130,061	1,221,021
Mutual funds - international	193,981	305,665	167,690	239,672
Fixed income securities	<u>876,675</u>	<u>870,819</u>	<u>865,149</u>	<u>851,544</u>
	<u>\$ 2,363,075</u>	<u>\$ 2,824,073</u>	<u>\$ 2,523,288</u>	<u>\$ 2,755,046</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>2005</u>	<u>2004</u>
Instruction/research	\$ 3,549,781	\$ 3,272,440
Public service	432,877	374,338
Academic support	1,001,604	950,753
Financial aid	3,220,775	2,777,188
Institutional support	469,513	471,022
Auxiliary enterprises	<u>4,620,778</u>	<u>40,904</u>
	<u>\$13,295,328</u>	<u>\$ 7,886,645</u>

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

	<u>2005</u>	<u>2004</u>
Instruction	\$ 5,558,045	\$ 5,421,705
Research	308,283	308,283
Public service	50,467	50,167
Academic support	836,505	820,986
Financial aid	15,083,684	10,563,727
Institutional support	915,294	102,885
Auxiliary enterprises	<u>11,400</u>	<u>11,300</u>
	<u>\$22,763,678</u>	<u>\$17,279,053</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. 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, 2005 and 2004, \$432,992 and \$420,461, respectively, in such other program costs were outstanding and reported as payable to Cleveland State University.

At June 30, 2005 and 2004, there was an additional payable to the University for \$131,686 and \$153,953, respectively.

During 1997, Cleveland State University Foundation began investing funds of the Cleveland State University Alumni Association. At June 30, 2005 and 2004, the Foundation is investing \$420,081 and \$404,248, 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, 2005 and 2004, the Foundation is investing \$2,400,748 and \$2,339,224, respectively, of assets on behalf of the University.

During 2005, the Cleveland State University Foundation had program expenditures of \$3,363,048 supporting the University as follows:

	<u>Transfers</u>	<u>Other Expenditures</u>	<u>Total</u>
Instruction	\$ 730,163	\$ 66,297	\$ 796,460
Research	259,614	487	260,101
Public service	881,049	941	881,990
Academic support	105,607	973	106,580
Financial aid	715,404	27,170	742,574
Institutional support	293,892	18,658	312,550
Auxiliary enterprises	<u>250,727</u>	<u>12,066</u>	<u>262,793</u>
	<u>\$3,236,456</u>	<u>\$ 126,592</u>	<u>\$3,363,048</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, 2005, and have issued our report thereon dated August 19, 2005. 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 reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether The 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
August 19, 2005

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 10, 2005**