

Central State University Foundation and Subsidiaries

Consolidated Financial Report

June 30, 2012



Dave Yost • Auditor of State

Board of Trustees
Central State University Foundation
1400 Brush Row Road
P. O. Box 1004
Wilberforce, Ohio 45384-1004

We have reviewed the *Independent Auditor's Report* of the Central State University Foundation, Greene County, prepared by Plante & Moran, PLLC, for the audit period July 1, 2011 through June 30, 2012. 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 black ink that reads "Dave Yost".

Dave Yost
Auditor of State

December 20, 2012

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Central State University Foundation and Subsidiaries

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Independent Auditor's Report

To the Board of Trustees
Central State University Foundation
and Subsidiaries

We have audited the accompanying consolidated statement of financial position of Central State University Foundation and Subsidiaries (the "Foundation") as of June 30, 2012 and the related consolidated statements of activities and changes in net assets (deficit) and cash flows for the year then ended. These consolidated financial statements are the responsibility of the Foundation's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit. The prior year summarized comparative information has been derived from the Foundation's 2011 consolidated financial statements and, in our report dated October 15, 2011, we expressed an unqualified opinion on those consolidated financial 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 consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Central State University Foundation and Subsidiaries as of June 30, 2012 and the changes in their net assets and their 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 also have issued a report dated October 12, 2012 on our consideration of Central State University Foundation and Subsidiaries' internal control over financial reporting and our tests of their compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of the testing, and not to provide opinions on the effectiveness of 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.

Plante & Moran, PLLC

October 12, 2012

Central State University Foundation and Subsidiaries

Consolidated Statement of Financial Position

June 30, 2012

(with comparative totals as of June 30, 2011)

	<u>2012</u>	<u>2011</u>
Assets		
Cash and cash equivalents	\$ 1,422,577	\$ 2,231,245
Investments (Note 2)	3,086,427	2,995,131
Contributions receivable - Net (Note 4)	54,365	87,213
Receivable from Central State University	-	83,139
Other receivables	43,513	14,727
Prepaid expenses	<u>5,672</u>	<u>5,667</u>
Total current assets	4,612,554	5,417,122
Restricted cash and cash equivalents (Note 2)	3,125,812	3,264,574
Fixed assets - Net (Note 5)	12,767,127	12,912,886
Financing costs - Net	<u>1,428,107</u>	<u>1,527,011</u>
Total assets	<u>\$ 21,933,600</u>	<u>\$ 23,121,593</u>
Liabilities and Net Assets		
Liabilities		
Accounts payable	\$ 225,070	\$ 267,460
Payable to Central State University	56,129	-
Surplus payable (Note 1)	-	988,427
Accrued interest payable	472,547	481,589
Current portion of long-term debt (Note 7)	<u>455,000</u>	<u>440,000</u>
Total current liabilities	1,208,746	2,177,476
Long-term debt - Net of current portion (Note 7)	<u>17,663,222</u>	<u>18,091,088</u>
Total liabilities	18,871,968	20,268,564
Net Assets (Deficit)		
Unrestricted	(747,268)	(1,491,436)
Temporarily restricted (Notes 3 and 6)	1,799,506	2,198,036
Permanently restricted (Notes 3 and 6)	<u>2,009,394</u>	<u>2,146,429</u>
Total net assets	<u>3,061,632</u>	<u>2,853,029</u>
Total liabilities and net assets	<u>\$ 21,933,600</u>	<u>\$ 23,121,593</u>

Central State University Foundation and Subsidiaries

Consolidated Statement of Activities and Changes in Net Assets (Deficit) Year Ended June 30, 2012 (with comparative totals for year ended June 30, 2011)

	2012			2011	
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Total
Revenue					
Rental revenue	\$ 2,917,147	\$ -	\$ -	\$ 2,917,147	\$ 2,808,960
Contributions	451,249	338,093	204,400	993,742	692,318
Other	70,795	180,315	-	251,110	624,205
Unrealized (loss) gain on investments	(48,001)	(53,546)	-	(101,547)	237,755
Investment income	120,271	71,429	-	191,700	439,397
Net assets released from restrictions	1,276,256	(934,821)	(341,435)	-	-
Total revenue	4,787,717	(398,530)	(137,035)	4,252,152	4,802,635
Expenses					
Programs:					
Scholarship programs	212,614	-	-	212,614	316,304
Athletic programs	362,906	-	-	362,906	353,546
Academic programs	243,516	-	-	243,516	205,096
Institution programs	314,265	-	-	314,265	331,122
Student support programs	2,974	-	-	2,974	20,941
Support activities:					
Management fees	204,200	-	-	204,200	196,627
Operating expenses	827,803	-	-	827,803	788,843
Depreciation and amortization expense	491,514	-	-	491,514	504,511
Interest expense	972,227	-	-	972,227	991,954
Surplus expense (Note 1)	376,200	-	-	376,200	988,427
Other	35,330	-	-	35,330	35,696
Total expenses	4,043,549	-	-	4,043,549	4,733,067
Increase (Decrease) in Net Assets	744,168	(398,530)	(137,035)	208,603	69,568
Net Assets (Deficit) - Beginning of year	(1,491,436)	2,198,036	2,146,429	2,853,029	2,783,461
Net Assets (Deficit) - End of year	\$ (747,268)	\$ 1,799,506	\$ 2,009,394	\$ 3,061,632	\$ 2,853,029

Central State University Foundation and Subsidiaries

Consolidated Statement of Cash Flows Year Ended June 30, 2012 (with comparative totals for year ended June 30, 2011)

	<u>2012</u>	<u>2011</u>
Cash Flows from Operating Activities		
Increase in net assets	\$ 208,603	\$ 69,568
Adjustments to reconcile increase in net assets to net cash from operating activities:		
Depreciation	392,610	404,704
Amortization of issuance costs	98,904	99,807
Amortization of bond discount	27,134	28,776
Contributions restricted for long-term investment	(204,400)	(17,664)
Unrealized loss (gain) on investments	101,547	(237,755)
Decrease (increase) in assets:		
Contributions receivable	32,848	(79,030)
Prepaid expenses and other assets	54,348	82,785
Increase (decrease) in liabilities:		
Accounts payable	13,739	10,532
Surplus payable	(988,427)	811,526
Accrued interest payable	(9,042)	(8,267)
Net cash (used in) provided by operating activities	<u>(272,136)</u>	<u>1,164,982</u>
Cash Flows from Investing Activities		
Purchase of investments - Net	(192,844)	(159,930)
Purchase of capital assets	(246,850)	(195,435)
Net cash used in investing activities	<u>(439,694)</u>	<u>(355,365)</u>
Cash Flows from Financing Activities		
Principal payment on bonds payable	(440,000)	(425,000)
Contributions restricted for long-term investment	204,400	17,664
Net cash used in financing activities	<u>(235,600)</u>	<u>(407,336)</u>
Net (Decrease) Increase in Cash and Cash Equivalents	(947,430)	402,281
Cash and Cash Equivalents - Beginning of year	<u>5,495,819</u>	<u>5,093,538</u>
Cash and Cash Equivalents - End of year	<u><u>\$ 4,548,389</u></u>	<u><u>\$ 5,495,819</u></u>

Cash paid for interest in 2012 was \$981,269.

Central State University Foundation and Subsidiaries

Notes to Consolidated Financial Statements June 30, 2012

Note 1 - Summary of Significant Accounting Policies

Nature of Activities - Central State University Foundation and its wholly owned subsidiaries, Marauder Development, LLC (Marauder) and Marauder West, LLC (West), have been consolidated (collectively referred to as the "Foundation"). All significant intercompany transactions have been eliminated. On October 19, 2001, Marauder Development, LLC and Marauder West, LLC were incorporated as wholly owned subsidiaries 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 property developed (dormitories) are rented to Central State University students. The financial operations of Marauder Development, LLC, which maintains a fiscal year end of August 31, have been consolidated within these financial statements. Marauder West, LLC, an Ohio limited liability corporation, was formed to develop property for the use of Central State University. The financial operations of Marauder West, LLC, which maintains a fiscal year end of June 30, have been consolidated within these financial statements. All significant intercompany accounts and transactions have been eliminated.

The University provides certain administrative, accounting, accounts payable, and payroll services on behalf of the Foundation. All inter-entity accounts due between Central State University and the Foundation are settled after close of month. The Foundation operates exclusively for the benefit of the University.

Method of Accounting and Basis of Presentation - The accompanying consolidated financial statements of the Foundation have been prepared on the accrual basis of accounting. For external financial reporting purposes, in accordance with Accounting Standards Codification (ASC) 958, the Foundation presents its consolidated financial statements by unrestricted, temporarily restricted, and permanently restricted net asset classifications. The Foundation's significant accounting policies are described below.

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

Investments - Investments are generally carried at fair market value, which is determined using valuations techniques as described in Note 2. Realized gains and losses are recorded using specific identifications of the securities sold.

Central State University Foundation and Subsidiaries

Notes to Consolidated Financial Statements June 30, 2012

Note 1 - Summary of Significant Accounting Policies (Continued)

Restricted Cash - Restricted cash represents various trust account balances in bond trust accounts established in accordance with bond legislation for specific purposes.

Concentration of Credit Risk Arising from Deposit Accounts - The Foundation maintains cash balances at a bank. Accounts at the institution are insured by the Federal Deposit Insurance Corporation up to \$250,000. The Foundation evaluates the financial institutions with which it deposits funds; however, it is not practical to insure all cash deposits.

Risks and Uncertainties - The Foundation invests in various investment securities. Investment securities are exposed to various risks such as interest rate, market, and credit risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and that such changes could materially affect the amounts reported in the consolidated statement of financial position.

Fixed Assets - Fixed assets include land, buildings, and furniture, most of which is related to the construction of the student housing project. Fixed assets are defined as assets with an initial individual cost of more than \$1,000 and 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
Furniture	7 years

Financing Costs - The unamortized financing costs include consulting, attorneys' fees, and other fees incurred in connection with the bond obligations of Marauder. These costs are capitalized and are amortized using the interest method over the lives of the bonds and are included as amortization expense. Accumulated amortization at August 31, 2012 was \$887,063.

Surplus Expense - The agreement with the University requires that the year-end balance in the surplus account held by the trustee, less applicable amounts for management fees that have not been funded to the management fee accounts, be paid at 90 percent to the University as a land/lease payment, with the remaining 10 percent to the Foundation. The trustee is required to calculate this surplus from the audited financial statements beginning with the August 31, 2005 year end.

Central State University Foundation and Subsidiaries

Notes to Consolidated Financial Statements June 30, 2012

Note 1 - Summary of Significant Accounting Policies (Continued)

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 that 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 revenue of this fund is for the issuance of scholarships.

CSU Chorus Gift Fund - This fund receives donations and General Fund transfers to fund travel expenses, awards, supplies, and professional services in relation to the University chorus.

Academic Funds - This fund receives donations from private companies and foundations with their own restrictions.

Football Funds - This fund receives donations for the purpose of supporting the University football program.

Central State University Foundation and Subsidiaries

Notes to Consolidated Financial Statements June 30, 2012

Note 1 - Summary of Significant Accounting Policies (Continued)

- **Permanently Restricted Net Assets** - These funds are used to account for resources for which the donor has stipulated, as a condition of the gift, that the principal 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.

Contributions - Contributions of cash and other assets, including unconditional promises to give in the future, are reported as revenue when received, measured at fair value. Contributions without donor-imposed restrictions and contributions with donor-imposed time or purpose restrictions that are met in the same period as the gift are both reported as unrestricted support. Other restricted gifts are reported as restricted support and temporarily or permanently restricted net assets.

Revenue Recognition - Unrestricted contributions of cash and other assets are recognized as revenue when they are received. All other material restricted contributions are recognized when pledged. Other revenue consists of miscellaneous fees, dues, and special events organized by the Foundation.

Recognition of Rental Revenue - Rental revenue is derived from leasing housing facilities (which were constructed and financed by Marauder as noted previously) to students at Central State University. Rental revenue is recognized when rent becomes due over the terms of the lease.

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

Income Taxes - The Foundation operates as a nonprofit corporation and has been determined to be exempt from federal income taxes under Section 501(c)(3) of the United States Internal Revenue Code.

Central State University Foundation and Subsidiaries

Notes to Consolidated Financial Statements June 30, 2012

Note 1 - Summary of Significant Accounting Policies (Continued)

Accounting principles generally accepted in the United States of America require management to evaluate tax positions taken by the Foundation and to recognize a tax liability if the Foundation has taken an uncertain position that more likely than not would not be sustained upon examination by the IRS or other applicable taxing authorities. Management has analyzed the tax positions taken by the Foundation and has concluded that as of June 30, 2012 and 2011, there are no uncertain positions taken or expected to be taken that would require recognition of a liability or disclosure in the financial statements. The Foundation is subject to routine audits by taxing jurisdictions; however, there are currently no audits for any tax periods in progress. Management believes that it is no longer subject to income tax examinations for years prior to June 30, 2009.

Comparative Financial Information - The consolidated financial statements include certain summarized comparative information for 2011. Such information does not include information by net asset class or other disclosures in sufficient detail to constitute a presentation in conformity with generally accepted accounting principles. Accordingly, such information should be read in conjunction with the Foundation's consolidated financial statements for the year ended June 30, 2011, from which the summarized information was derived.

Reclassification - Certain reclassifications were made to amounts in the 2011 financial statements to conform to the classifications used in 2012.

Subsequent Events - The financial statements and related disclosures include evaluation of events up through and including October 12, 2012, which is the date the financial statements were issued.

Note 2 - Deposits and Investments

As required by the bond indenture, the Foundation, through Marauder, maintains restricted cash balances in the following accounts as of August 31, 2012:

	2012	2011
Debt interest account	\$ 472,547	\$ 481,589
Debt principal account	455,000	445,000
Repair and replacement fund	767,242	906,865
Debt reserve fund	1,431,023	1,431,120
Total restricted cash	<u>\$ 3,125,812</u>	<u>\$ 3,264,574</u>

Central State University Foundation and Subsidiaries

Notes to Consolidated Financial Statements June 30, 2012

Note 2 - Deposits and Investments (Continued)

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.

The Foundation reports investments at estimated fair value, in accordance with the fair value hierarchy prescribed by ASC 820, *Fair Value Measurements and Disclosures* (formerly SFAS 157), which requires certain assets and liabilities to be reported at fair value in the financial statements and provides a framework for establishing that fair value. The framework for determining fair value is based on a hierarchy that prioritizes the inputs and valuation techniques used to measure fair value. This hierarchy was adopted as of July 1, 2008 and involves an analysis of the types of inputs used to derive an asset's reported fair value, as follows:

Level 1 - Inputs that reflect unadjusted quoted prices in active markets for identical assets or liabilities that the Foundation has the ability to access. The Foundation's Level 1 investments consist primarily of fixed-income or equity mutual funds. Prices for these investments are widely available through major financial reporting services.

Level 2 - Inputs other than quoted prices that are observable, either directly or indirectly. These may include quoted prices for similar assets and liabilities in active markets, and other inputs such as interest rates and yield curves that are observable at commonly quoted intervals. The Foundation's Level 2 investments include government and corporate bonds that do not trade on an exchange.

Level 3 - Inputs that are unobservable, including inputs that are available in situations where there is little, if any, market activity for the related asset or liability. Often, these assets trade infrequently, or not at all. These values are generally determined using pricing models for which assumptions utilize management's estimates of market participant assumptions. The Foundation holds common shares in a privately held company, which is valued based upon Level 3 inputs.

In instances where inputs used to measure fair value fall into different levels in the above fair value hierarchy, fair value measurements in their entirety are categorized based on the lowest level input that is significant to the valuation. The Foundation's assessment of the significance of particular inputs to these fair value measurements requires judgment and considers factors specific to each asset or liability.

Central State University Foundation and Subsidiaries

Notes to Consolidated Financial Statements June 30, 2012

Note 2 - Deposits and Investments (Continued)

Assets Measured at Fair Value on a Recurring Basis at June 30, 2012

Assets	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Balance at June 30, 2012
Common and preferred stock:				
Private equity investments	\$ -	\$ -	\$ 70,451	\$ 70,451
Public equity	29,918	-	-	-
Public equity investments:				
Mutual funds:				
U.S. large cap equity mutual funds	835,179	-	-	835,179
U.S. mid cap equity mutual funds	98,298	-	-	98,298
U.S. small cap equity mutual funds	200,950	-	-	200,950
U.S. realty mutual funds	115,083	-	-	115,083
Emerging markets international equity mutual funds	102,830	-	-	102,830
Global equity mutual funds	255,485	-	-	255,485
Subtotal	<u>1,637,743</u>	<u>-</u>	<u>70,451</u>	<u>1,678,276</u>
Fixed-income investments:				
U.S. agency and instrumentality obligations	-	171,191	-	171,191
U.S. government obligations	-	245,950	-	245,950
Corp bonds and notes	-	402,124	-	402,124
Bond mutual funds	558,968	-	-	558,968
Subtotal	<u>558,968</u>	<u>819,265</u>	<u>-</u>	<u>1,378,233</u>
Total investments	<u>\$ 2,196,711</u>	<u>\$ 819,265</u>	<u>\$ 70,451</u>	<u>\$ 3,056,509</u>

Assets measured at fair value on a recurring basis using significant unobservable inputs (Level 3) are as follows:

	Private Equity Investments
Balance as of June 30, 2011	\$ 72,232
Unrealized loss	<u>(1,781)</u>
Balance as of June 30, 2012	<u><u>\$ 70,451</u></u>

The Foundation's policy is to recognize transfers between levels of the fair value hierarchy as of the beginning of the reporting period. For the year ended June 30, 2012, there were no transfers between levels of the fair value hierarchy.

Central State University Foundation and Subsidiaries

Notes to Consolidated Financial Statements June 30, 2012

Note 2 - Deposits and Investments (Continued)

Investments in Entities that Calculate Net Asset Value per Share

The Foundation holds shares in an investment company at year end whereby the fair value of the investment held is estimated based on the net asset value per share of the investment company. At year end, the fair value of this investment is \$70,451. There are no restrictions as to the redemption of investment in the company and there is no unfunded commitment at June 30, 2012.

The Level 3 fund investment is a limited liability company that invests in multiple commodity futures contracts, other commodity interests, options, and forward contracts. The funds are actively managed accounts with speculative trading profits as their objective. The fair values of the investments in this class have been estimated using the net asset value per share of the investments.

Note 3 - Donor Endowments

The Foundation's endowment includes donor-restricted endowment funds. Net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

Interpretation of Relevant Law

The board of trustees of the Foundation has interpreted the Uniform Prudent Management of Institutional Funds Act (UPMIFA) as requiring the preservation of the historical value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Foundation classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Foundation in a manner consistent with the standard of prudence prescribed by UPMIFA. In accordance with UPMIFA, the Foundation considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

Central State University Foundation and Subsidiaries

Notes to Consolidated Financial Statements June 30, 2012

Note 3 - Donor Endowments (Continued)

- (1) The duration and preservation of the fund
- (2) The purposes of the Foundation and the donor-restricted endowment fund
- (3) General economic conditions
- (4) The possible effect of inflation and deflation
- (5) The expected total return from income and the appreciation of investments
- (6) Other resources of the Foundation
- (7) The investment policies of the Foundation

Changes in Endowment Net Assets for the Fiscal Year Ended June 30, 2012

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Market value - Beginning of year	\$ (75,674)	\$ 307,956	\$ 2,146,429	\$ 2,378,711
Net realized and unrealized losses	(12,033)	(14,021)	-	(26,054)
Investment income	22,104	25,757	-	47,861
Total investment gain	10,071	11,736	-	21,807
Contributions			204,400	204,400
Administrative fee	(8,491)	(9,907)		(18,398)
Reimbursement to unrestricted fund	5,825	(5,825)	-	-
Other changes	-	(34,866)	(341,435)	(376,301)
Endowment net assets - End of the year	<u>\$ (68,269)</u>	<u>\$ 269,094</u>	<u>\$ 2,009,394</u>	<u>\$ 2,210,219</u>

Funds with Deficiencies

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor or UPMIFA requires the Foundation to retain as a fund of perpetual duration. In accordance with GAAP, deficiencies of this nature that are reported in unrestricted net assets were \$68,269 as of June 30, 2012. These deficiencies resulted from unfavorable market fluctuations that occurred shortly after the investment of new permanently restricted contributions and continued appropriation for certain programs that was deemed prudent by the board of trustees.

Central State University Foundation and Subsidiaries

Notes to Consolidated Financial Statements June 30, 2012

Note 3 - Donor Endowments (Continued)

Return Objectives and Risk Parameters

The Foundation has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of the endowment assets. Endowment assets include those assets of donor-restricted funds that the Foundation must hold in perpetuity or for donor-specified periods. Under this policy, as approved by the board of directors, the endowment assets are invested in a manner that is intended to produce results that exceed the price and yield results of the S&P 500 index while assuming a moderate level of investment risk. The Foundation expects its endowment funds, over time, to provide an average rate of return of approximately 5 percent annually. Actual returns in any given year may vary from this amount.

Strategies Employed for Achieving Objectives

To satisfy its long-term rate-of-return objectives, the Foundation relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The Foundation targets a diversified asset allocation that places a greater emphasis on equity-based investments to achieve its long-term return objectives within prudent risk constraints.

Spending Policy and How the Investment Objectives Relate to Spending Policy

The Foundation is authorized only to expend the investment income and/or accumulated income above the principal amount from the invested endowment funds, and the remaining income is to be reinvested. If an investment loss is incurred, the loss is allocated entirely as currently expendable. In establishing this policy, the Foundation considered the long-term expected return on its endowment. Accordingly, over the long term, the Foundation expects the current spending policy to allow its endowment to grow at an average of 5 percent annually. This is consistent with the Foundation's objective to maintain the purchasing power of the endowment assets held in perpetuity or for a specified term as well as to provide additional real growth through new gifts and investment return.

Note 4 - Contributions Receivable

Unconditional promises to give are included in the consolidated 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 revenue until conditions are met.

Central State University Foundation and Subsidiaries

Notes to Consolidated Financial Statements June 30, 2012

Note 5 - Fixed Assets

Fixed assets consisted of the following at June 30, 2012 and 2011:

	2012	2011
Land	\$ 140,800	\$ 140,800
Building	16,034,338	15,787,487
Furniture and fixtures	896,603	896,603
Total fixed assets	17,071,741	16,824,890
Less accumulated depreciation	(4,304,614)	(3,912,004)
Net fixed assets	<u>\$ 12,767,127</u>	<u>\$ 12,912,886</u>

Depreciation expense on property and equipment totaled \$392,610 in 2012.

Note 6 - Classification of Net Assets

Details of restricted net assets at June 30, 2012 are as follows:

	Temporarily Restricted	Permanently Restricted
Academic	\$ 441,579	\$ 366,463
Scholarship	450,358	1,064,876
Other general funds	907,569	578,055
Total net assets	<u>\$ 1,799,506</u>	<u>\$ 2,009,394</u>

Note 7 - Long-term Debt

Marauder Development, LLC has the following debt related to the financing of student dormitories. Information is for the subsidiary's year ended August 31, 2011:

	Interest Rate	Maturity	Balance August 31, 2011	Additions	Payments	August 31, 2012
Revenue Bonds Series 2004	3.3%-5.1%	2035	\$ 10,905,398	\$ 12,584	\$ (245,000)	\$ 10,672,982
Revenue Bonds Series 2002	3.0%-5.625%	2032	7,625,690	14,550	(195,000)	7,445,240
Total			<u>\$ 18,531,088</u>	<u>\$ 27,134</u>	<u>(440,000)</u>	18,118,222
Less current portion						455,000
Long-term portion						<u>\$ 17,663,222</u>

Central State University Foundation and Subsidiaries

Notes to Consolidated Financial Statements June 30, 2012

Note 7 - Long-term Debt (Continued)

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

Years Ending August 31	Series 2002 Bonds		Series 2004 Bonds		Total
	Principal	Interest	Principal	Interest	
2013	\$ 205,000	\$ 402,121	\$ 250,000	\$ 533,359	\$ 1,390,480
2014	215,000	392,564	260,000	522,899	1,390,463
2015	225,000	382,275	275,000	511,423	1,393,698
2016	235,000	371,056	285,000	498,995	1,390,051
2017	245,000	359,056	300,000	485,683	1,389,739
2018-2022	1,440,000	1,583,338	1,710,000	2,195,441	6,928,779
2023-2027	1,895,000	1,135,403	2,180,000	1,712,203	6,922,606
2028-2032	2,460,000	534,943	2,795,000	1,083,112	6,873,055
2033-2036	620,000	17,437	2,795,000	293,633	3,726,070
Total	<u>\$ 7,540,000</u>	<u>\$ 5,178,193</u>	<u>\$ 10,850,000</u>	<u>\$ 7,836,748</u>	<u>\$ 31,404,941</u>

During 2002, Marauder issued \$8,870,000 of Student Housing Revenue Bonds, Series 2002, dated December 1, 2002, to retire commercial loans used to finance the construction of the 2002 University Housing Project. The bond discount was \$94,760 at August 31, 2012 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 \$205,000 on September 1, 2011 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 semiannually on March 1 and September 1. The bonds are collateralized by the building and restricted cash held as required by the bond agreement.

During 2004, Marauder issued \$12,150,000 in University Housing Revenue Bonds, Series 2004, to finance construction of the 2004 University Housing Project. The original bond discount totaled \$287,699, with an amortized balance of \$177,018 at August 31, 2011. The discount is being amortized to interest expense over the life of the bonds on the interest method. The bonds mature on September 1 in various amounts ranging from \$250,000 on September 1, 2011 to \$750,000 on September 1, 2036, subject to prior mandatory sinking fund redemptions. Interest, at rates varying from 3.3 percent to 5.1 percent per annum, is payable semiannually on March 1 and September 1. The bonds are collateralized by the building and restricted cash held as required by the bond agreement.

Central State University Foundation and Subsidiaries

Notes to Consolidated Financial Statements June 30, 2012

Note 7 - Long-term Debt (Continued)

Bond legislation provides that Marauder will charge rates sufficient for the excess of revenue 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).

The following is a calculation of the covenant using Marauder numbers:

	<u>2012</u>
Change in member's capital	\$ 75,474
Add items to convert net income to pledged revenue:	
Interest expense on bonds	972,227
Management fees	204,200
Surplus expense	418,063
Depreciation and amortization expense	<u>480,520</u>
Net pledged revenue as defined (1)	<u>\$ 2,150,484</u>
Debt service requirement on bonds (2)	\$ 1,394,136
Coverage ratio (1/2)	154%
Required coverage ratio	120%

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

Independent Auditor's Report

To the Board of Trustees
Central State University Foundation
and Subsidiaries

We have audited the consolidated financial statements of Central State University Foundation and Subsidiaries (the "Foundation") as of and for the year ended June 30, 2012 and have issued our report thereon dated October 12, 2012. 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

Management of Central State University Foundation and Subsidiaries is responsible for establishing and maintaining an effective internal control over financial reporting. In planning and performing our audits, we considered the Foundation's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Foundation's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Foundation's internal control over financial reporting.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the Foundation's financial statements will not be prevented or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be a material weakness, as defined above. However, we identified a certain deficiency in internal control over financial reporting, described in the accompanying schedule of findings and responses, that we consider to be a significant deficiency in internal control over financial reporting as Finding 2012-01. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

To the Board of Trustees
Central State University Foundation
and Subsidiaries

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Central State University Foundation and Subsidiaries' consolidated 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 trustees, management of Central State University Foundation and Subsidiaries, Central State University, and the Auditor of the State of Ohio and is not intended to be used and should not be used by anyone other than those specified parties.

Plante & Moran, PLLC

October 12, 2012

Central State University Foundation and Subsidiaries

Schedule of Findings and Responses

Reference Number	Findings
2012-01	<p>Name - Net asset classification</p> <p>Finding Type - Significant deficiency</p> <p>Criteria - With respect to net asset classifications, management is responsible for determining the classification for net assets and determining the disclosures that are to be included in the financial statements. As part of fulfilling its responsibility, management is required to establish an accounting and financial reporting process for determining the net asset allocation for activity during the year.</p> <p>Condition - During 2012, the Foundation discovered changes to its net asset classifications that resulted in a reclassification between classes of net assets.</p> <p>Context - The total net assets were not changed, only classification within the net assets. These reclassifications were recorded in the release from restrictions line item on the schedule of activities and changes in net assets (deficit).</p> <p>Cause and Effect - As a result of facts and circumstances discovered during the current fiscal year, the Foundation identified certain net asset contributions that were not properly classified based on the donor restrictions.</p> <p>Recommendation - The Foundation has resolved this issue in fiscal year 2012 and corrected the net asset classifications in the financial statements. Going forward, we recommend all contributions should be investigated and donor restrictions reviewed to ensure net asset classification is properly recorded.</p> <p>Views of Responsible Officials and Planned Corrective Actions - As noted above, the Foundation has resolved the issue in fiscal year 2012. Fiscal management responsibility will be transferred to administration and finance, which will continue to enhance improvements in reporting and internal control.</p>



Dave Yost • Auditor of State

CENTRAL STATE UNIVERSITY FOUNDATION AND SUBSIDIARIES

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
DECEMBER 31, 2012**