

# **Central State University Foundation and Subsidiaries**

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**Consolidated Financial Report**

**June 30, 2013**





# Dave Yost • Auditor of State

Board of Trustees  
Central State University Foundation and Subsidiaries  
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 and Subsidiaries, Greene County, prepared by Plante & Moran, PLLC, for the audit period July 1, 2012 through June 30, 2013. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

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

A handwritten signature in black ink that reads "Dave Yost".

Dave Yost  
Auditor of State

November 19, 2013

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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

### **Report on the Consolidated Financial Statements**

We have audited the accompanying consolidated financial statements of Central State University Foundation and Subsidiaries (a component unit of Central State University) (the "Foundation"), which comprise the consolidated statement of financial position as of June 30, 2013 and the related consolidated statements of activities and changes in net asset (deficit) and cash flows for the year then ended, and the related notes to the consolidated financial statements.

### ***Management's Responsibility for the Consolidated Financial Statements***

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

### ***Auditor's Responsibility***

Our responsibility is to express an opinion on these consolidated 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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

To the Board of Trustees  
Central State University Foundation  
and Subsidiaries

**Opinion**

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Central State University Foundation and Subsidiaries as of June 30, 2013 and the changes in net assets (deficit) and their cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

**Report on Summarized Comparative Information**

We have previously audited Central State University Foundation and Subsidiaries' 2012 consolidated financial statements, and we expressed an unmodified audit opinion on those consolidated financial statements in our report dated October 12, 2012. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2012 is consistent, in all material respects, with the audited consolidated financial statements from which it has been derived.

**Other Reporting Required by Government Auditing Standards**

In accordance with *Government Auditing Standards*, we have also issued our report dated October 15, 2013 on our consideration of Central State University Foundation and Subsidiaries' internal control over financial reporting and on our tests of its 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 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* in considering Central State University Foundation and Subsidiaries' internal control over financial reporting and compliance.

*Plante & Moran, PLLC*

October 15, 2013

# Central State University Foundation and Subsidiaries

## Consolidated Statement of Financial Position

June 30, 2013

(with comparative totals as of June 30, 2012)

	2013	2012
<b>Assets</b>		
Cash and cash equivalents	\$ 587,885	\$ 1,422,577
Investments (Note 2)	3,788,952	3,086,427
Contributions receivable - Net (Note 4)	26,856	54,365
Other receivables	1,557	43,513
Prepaid expenses	5,672	5,672
Total current assets	4,410,922	4,612,554
Restricted cash and cash equivalents (Note 2)	3,661,620	3,125,812
Fixed assets - Net (Note 5)	12,352,263	12,767,127
Financing costs - Net	1,330,289	1,428,107
Total assets	<u>\$ 21,755,094</u>	<u>\$ 21,933,600</u>
<b>Liabilities and Net Assets (Deficit)</b>		
<b>Liabilities</b>		
Accounts payable	\$ 45,480	\$ 225,070
Payable to Central State University	27,608	56,129
Accrued interest payable	462,934	472,547
Current portion of long-term debt (Note 7)	475,000	455,000
Total current liabilities	1,011,022	1,208,746
Long-term debt - Net of current portion (Note 7)	17,213,556	17,663,222
Total liabilities	18,224,578	18,871,968
<b>Net Assets (Deficit)</b>		
Unrestricted	(635,159)	(747,268)
Temporarily restricted (Notes 3 and 6)	1,661,219	1,799,506
Permanently restricted (Notes 3 and 6)	2,504,456	2,009,394
Total net assets (deficit)	3,530,516	3,061,632
Total liabilities and net assets (deficit)	<u>\$ 21,755,094</u>	<u>\$ 21,933,600</u>

# Central State University Foundation and Subsidiaries

## Consolidated Statement of Activities and Changes in Net Assets (Deficit) Year Ended June 30, 2013 (with comparative totals for year ended June 30, 2012)

	2013			2012	
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Total
<b>Revenue</b>					
Rental revenue	\$ 2,587,274	\$ -	\$ -	\$ 2,587,274	\$ 2,917,147
Contributions	423,925	393,049	176,865	993,839	993,742
Other	179,986	140,354	-	320,340	251,110
Unrealized gain (loss) on investments	53,567	96,181	-	149,748	(101,547)
Investment income	107,180	82,470	-	189,650	191,700
Net assets released from restrictions	532,144	(850,341)	318,197	-	-
Total revenue	3,884,076	(138,287)	495,062	4,240,851	4,252,152
<b>Expenses</b>					
Programs:					
Scholarship programs	334,039	-	-	334,039	212,614
Athletic programs	299,094	-	-	299,094	362,906
Academic programs	130,433	-	-	130,433	243,516
Institution programs	323,929	-	-	323,929	314,265
Student support programs	21,466	-	-	21,466	2,974
Support activities:					
Management fees	181,109	-	-	181,109	204,200
Operating expenses	824,107	-	-	824,107	827,803
Depreciation and amortization expense	512,682	-	-	512,682	491,514
Interest expense	951,202	-	-	951,202	972,227
Surplus expense (Note 1)	149,365	-	-	149,365	376,200
Other	44,541	-	-	44,541	35,330
Total expenses	3,771,967	-	-	3,771,967	4,043,549
<b>Increase (Decrease) in Net Assets</b>	112,109	(138,287)	495,062	468,884	208,603
<b>Net Assets (Deficit) - Beginning of year</b>	(747,268)	1,799,506	2,009,394	3,061,632	2,853,029
<b>Net Assets (Deficit) - End of year</b>	<u>\$ (635,159)</u>	<u>\$ 1,661,219</u>	<u>\$ 2,504,456</u>	<u>\$ 3,530,516</u>	<u>\$ 3,061,632</u>

# Central State University Foundation and Subsidiaries

## Consolidated Statement of Cash Flows Year Ended June 30, 2013 (with comparative totals for year ended June 30, 2012)

	2013	2012
<b>Cash Flows from Operating Activities</b>		
Increase in net assets	\$ 468,884	\$ 208,603
Adjustments to reconcile increase in net assets to net cash from operating activities:		
Depreciation	414,864	392,610
Amortization of issuance costs	97,818	98,904
Amortization of bond discount	25,334	27,134
Contributions restricted for long-term investment	(176,865)	(204,400)
Unrealized (gain) loss on investments	(149,748)	101,547
Decrease in assets:		
Contributions receivable	27,509	32,848
Prepaid expenses and other assets	41,956	54,348
(Decrease) increase in liabilities:		
Accounts payable	(208,111)	13,739
Surplus payable	-	(988,427)
Accrued interest payable	(9,613)	(9,042)
Net cash provided by (used in) operating activities	<u>532,028</u>	<u>(272,136)</u>
<b>Cash Flows from Investing Activities</b>		
Purchase of investments - Net	(552,777)	(192,844)
Purchase of capital assets	-	(246,850)
Net cash used in investing activities	<u>(552,777)</u>	<u>(439,694)</u>
<b>Cash Flows from Financing Activities</b>		
Principal payment on bonds payable	(455,000)	(440,000)
Contributions restricted for long-term investment	176,865	204,400
Net cash used in financing activities	<u>(278,135)</u>	<u>(235,600)</u>
<b>Net Decrease in Cash and Cash Equivalents</b>	(298,884)	(947,430)
<b>Cash and Cash Equivalents - Beginning of year</b>	<u>4,548,389</u>	<u>5,495,819</u>
<b>Cash and Cash Equivalents - End of year</b>	<u><u>\$ 4,249,505</u></u>	<u><u>\$ 4,548,389</u></u>

# Central State University Foundation and Subsidiaries

## Notes to Consolidated Financial Statements June 30, 2013

### 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 valuation 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, 2013

### 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 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
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, 2013 was \$984,881.

**Surplus Expense** - The agreement with the University requires that for fiscal years ending prior to September 30, 2012, 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, is paid at 90 percent to the University as a land/lease payment, with the remaining 10 percent to the Foundation. For fiscal years ending September 30, 2012 or later, 67 percent of the surplus is transferred to the Redemption Fund to be used to redeem the bonds in accordance with Section 4.07 of the Trust Indenture, with the remaining 33 percent paid at 90 percent to the University and 10 percent to the Foundation. The trustee is required to calculate this surplus from the audited consolidated financial statements beginning with the August 31, 2005 year end.

# Central State University Foundation and Subsidiaries

## Notes to Consolidated Financial Statements June 30, 2013

### Note 1 - Summary of Significant Accounting Policies (Continued)

**Net Assets** - The Foundation classifies its net position into the following categories:

- **Unrestricted Net Position** - 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.

**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.

**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.

- **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.

# Central State University Foundation and Subsidiaries

## Notes to Consolidated Financial Statements June 30, 2013

### Note 1 - Summary of Significant Accounting Policies (Continued)

**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, game guarantees, 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.

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, 2013, 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, 2010.

# Central State University Foundation and Subsidiaries

## Notes to Consolidated Financial Statements June 30, 2013

### Note 1 - Summary of Significant Accounting Policies (Continued)

**Comparative Financial Information** - The consolidated financial statements include certain summarized comparative information for 2012. 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, 2012, from which the summarized information was derived.

**Upcoming Accounting Pronouncements** - In April 2013, the FASB issued Accounting Standards Update 2013-06, *Not-for-Profit Entities: Services Received from Personnel of an Affiliate*. The standard provides guidance on how to account for contributed personnel services from an affiliate. The standard clarifies that all contributed services received from an affiliate that directly benefit the recipient not-for-profit should be recognized. The standard will be effective for annual periods beginning after June 15, 2014. The Foundation is currently evaluating the impact this standard will have on the consolidated financial statements when adopted, during the June 30, 2015 fiscal year.

**Subsequent Events** - The consolidated financial statements and related disclosures include evaluation of events up through and including October 15, 2013, which is the date the consolidated 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, 2013:

	<u>2013</u>	<u>2012</u>
Restricted:		
Debt interest account	\$ 523,513	\$ 472,547
Repair and Replacement Fund	899,675	767,242
Redemption Fund	336,994	-
Debt principal account	475,039	455,000
Debt Reserve Fund	<u>1,426,399</u>	<u>1,431,023</u>
Total restricted cash	<u>\$ 3,661,620</u>	<u>\$ 3,125,812</u>

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.

# Central State University Foundation and Subsidiaries

## Notes to Consolidated Financial Statements June 30, 2013

### Note 2 - Deposits and Investments (Continued)

The Foundation reports investments at estimated fair value, in accordance with the fair value hierarchy prescribed by ASC 820, *Fair Value Measurements and Disclosures*, 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 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 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. During 2013, the Foundation disposed of their common shares in a privately held company, which was valued at June 30, 2012 based upon Level 3 inputs.

In instances whereby 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, 2013

### Note 2 - Deposits and Investments (Continued)

#### Assets Measured at Fair Value on a Recurring Basis at June 30, 2013

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, 2013
Private equity investments:				
Common and preferred stock	\$ 294,841	\$ -	\$ -	\$ 294,841
Mutual funds:				
U.S. large-cap equity mutual funds	982,874	-	-	982,874
U.S. mid-cap equity mutual funds	179,621	-	-	179,621
U.S. small-cap equity mutual funds	224,450	-	-	224,450
U.S. realty mutual funds	136,314	-	-	136,314
Emerging markets international equity mutual funds	126,542	-	-	126,542
Global equity mutual funds	<u>342,129</u>	<u>-</u>	<u>-</u>	<u>342,129</u>
Total private equity investments	2,286,771	-	-	2,286,771
Fixed-income investments:				
U.S. agency and instrumentality obligations	-	17,767	-	17,767
Bond mutual funds	<u>1,484,414</u>	<u>-</u>	<u>-</u>	<u>1,484,414</u>
Total fixed-income investments	<u>1,484,414</u>	<u>17,767</u>	<u>-</u>	<u>1,502,181</u>
Total investments	<u>\$ 3,771,185</u>	<u>\$ 17,767</u>	<u>\$ -</u>	<u>\$ 3,788,952</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, 2012	\$ 70,451
Sales price	(68,348)
Unrealized loss	<u>(2,103)</u>
Balance as of June 30, 2013	<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, 2013, there were no transfers between levels of the fair value hierarchy.

# Central State University Foundation and Subsidiaries

## Notes to Consolidated Financial Statements June 30, 2013

### 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:

- (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

# Central State University Foundation and Subsidiaries

## Notes to Consolidated Financial Statements June 30, 2013

### Note 3 - Donor Endowments (Continued)

#### Changes in Endowment Net Assets for the Fiscal Year Ended June 30, 2013

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Market value - Beginning of year	\$ (68,269)	\$ 269,094	\$ 2,009,394	\$ 2,210,219
Net realized and unrealized gains	13,466	116,115	-	129,581
Investment income	4,807	41,705	-	46,512
Total investment gain	18,273	157,820	-	176,093
Contributions	-	-	176,865	176,865
Administrative fee	(1,388)	(11,610)	-	(12,998)
Reimbursement to unrestricted fund	(7,267)	7,267	-	-
Other changes	632.00	(100,145)	318,197	218,684
Endowment net assets - End of year	<u>\$ (58,019)</u>	<u>\$ 322,426</u>	<u>\$ 2,504,456</u>	<u>\$ 2,768,863</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 \$58,019 as of June 30, 2013. 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.

#### 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 trustees, 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.

# Central State University Foundation and Subsidiaries

## Notes to Consolidated Financial Statements June 30, 2013

### Note 3 - Donor Endowments (Continued)

#### 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, 2013

### Note 5 - Fixed Assets

Fixed assets consisted of the following at June 30, 2013 and 2012:

	2013	2012
Land	\$ 140,800	\$ 140,800
Building	16,034,338	16,034,338
Furniture and fixtures	<u>896,603</u>	<u>896,603</u>
Total fixed assets	17,071,741	17,071,741
Less accumulated depreciation	<u>(4,719,478)</u>	<u>(4,304,614)</u>
Net fixed assets	<u>\$ 12,352,263</u>	<u>\$ 12,767,127</u>
Depreciation expense - Marauder	\$ 398,133	\$ 381,616
Depreciation expense - Foundation	<u>16,731</u>	<u>10,994</u>
Total	<u>\$ 414,864</u>	<u>\$ 392,610</u>

### Note 6 - Classification of Net Assets

Details of restricted net assets at June 30, 2013 are as follows:

	Temporarily Restricted	Permanently Restricted
Academic	\$ 427,466	\$ 636,525
Scholarship	531,733	1,163,605
Other general funds	<u>702,020</u>	<u>704,326</u>
Total net assets	<u>\$ 1,661,219</u>	<u>\$ 2,504,456</u>

# Central State University Foundation and Subsidiaries

## Notes to Consolidated Financial Statements June 30, 2013

### 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, 2013:

	Interest Rate	Maturity	Balance August 31, 2012	Additions	Payments	Balance August 31, 2013
Revenue Bonds Series 2004	3.3%-5.1%	2035	\$ 10,672,982	\$ 12,359	(\$ 250,000)	\$ 10,435,341
Revenue Bonds Series 2002	3.0%-5.625%	2032	<u>7,445,240</u>	<u>12,975</u>	<u>( 205,000)</u>	<u>7,253,215</u>
Total			<u>\$ 18,118,222</u>	<u>\$ 25,334</u>	<u>(\$ 455,000)</u>	17,688,556
Less current portion						475,000
Long-term portion						<u>\$ 17,213,556</u>

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	
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	260,000	346,431	310,000	471,498	1,387,929
2019-2023	1,515,000	1,504,409	1,795,000	2,109,094	6,923,503
2024-2028	2,000,000	1,028,500	2,290,000	1,599,265	6,917,765
2029-2033	2,640,000	391,781	2,940,000	936,870	6,908,651
2034-2036	-	-	2,145,000	167,662	2,312,662
Total	<u>\$ 7,335,000</u>	<u>\$ 4,776,072</u>	<u>\$ 10,600,000</u>	<u>\$ 7,303,389</u>	<u>\$ 30,014,461</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 \$81,785 at August 31, 2013, 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 \$215,000 on September 1, 2013 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.

# Central State University Foundation and Subsidiaries

## Notes to Consolidated Financial Statements June 30, 2013

### Note 7 - Long-term Debt (Continued)

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 \$164,659 at August 31, 2013. 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 \$260,000 on September 1, 2013 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.

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:

Change in member's capital	\$	30,286
Add items to convert net income to pledged revenue:		
Interest expense on bonds		951,202
Management fees		181,109
Surplus expense		165,961
Depreciation and amortization expense		495,951
Net pledged revenue as defined (1)	\$	<u>1,824,509</u>
Debt service requirement on bonds (2)	\$	1,390,480
Coverage ratio (1/2)		131%
Required coverage ratio		120%

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*

Independent Auditor's Report

To Management and the Board of Trustees  
Central State University Foundation and Subsidiaries

We have audited, in accordance with the 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, the consolidated financial statements of Central State University Foundation and Subsidiaries (a component unit of Central State University) (the "Foundation"), which comprise the consolidated statement of financial position as of June 30, 2013 and the related consolidated statements of activities and changes in net assets (deficit) and cash flows for the year then ended, and related notes to the consolidated financial statements, and have issued our report thereon dated October 15, 2013.

**Internal Control Over Financial Reporting**

In planning and performing our audit of the consolidated financial statements, we considered Central State University Foundation and Subsidiaries' internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the consolidated financial statements, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we do not express an opinion on the effectiveness of the entity's internal control.

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 entity's financial statements will not be prevented or detected and corrected on a timely basis. 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.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

To Management and 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 from 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*.

### **Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

*Plante & Morse, PLLC*

October 15, 2013

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# 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 3, 2013**