

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

**FINANCIAL REPORT**

**JUNE 30, 2006**





**Auditor of State  
Betty Montgomery**

Board of Directors  
Cleveland State University Foundation, Inc.  
2121 Euclid Avenue  
Cleveland, Ohio 44115-2214

We have reviewed the *Independent Auditors' Report* of the Cleveland State University Foundation, Inc., Cuyahoga County, prepared by Hausser & Taylor LLC, for the audit period July 1, 2005 through June 30, 2006. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

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

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

BETTY MONTGOMERY  
Auditor of State

December 14, 2006

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

**CONTENTS**

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	<u>Page</u>
<b>INDEPENDENT AUDITORS' REPORT ON THE FINANCIAL STATEMENTS</b>	1
<b>FINANCIAL STATEMENTS</b>	
Statement of financial position	2
Statement of activities	3
Statement of cash flows	4
Notes to financial statements	5-10
<b>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</b>	11

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, 2006, 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 2005 financial statements, and in our report dated August 19, 2005, 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, 2006, and the changes in net assets and cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with Government Auditing Standards, we have also issued our report dated September 8, 2006, 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.

Cleveland, Ohio  
September 8, 2006

*Hausser + Taylor LLC*

THE CLEVELAND STATE UNIVERSITY FOUNDATION, INC.

STATEMENT OF FINANCIAL POSITION

June 30, 2006

(With Comparative Totals at June 30, 2005)

	<u>2006</u>	<u>2005</u>
<u>ASSETS</u>		
Current Assets:		
Cash and cash equivalents	\$ 4,847,438	\$ 3,456,571
Accounts receivable	55,057	52,650
Contributions receivable, net of allowance for uncollectible contributions	<u>1,334,265</u>	<u>1,171,576</u>
Total current assets	6,236,760	4,680,797
Non-Current Assets:		
Contributions receivable, net of allowance for uncollectible contributions	6,942,800	8,513,489
Long-term investments, at fair market value	27,014,464	24,147,639
Funds held on behalf of others:		
Cleveland State University	2,451,224	2,400,748
Cleveland State University Alumni Association	435,420	420,081
Civic Foundation	-	3,244
Total non-current assets	<u>36,843,908</u>	<u>35,485,201</u>
Total assets	<u>\$ 43,080,668</u>	<u>\$ 40,165,998</u>
<u>LIABILITIES AND NET ASSETS</u>		
<u>LIABILITIES</u>		
Current Liabilities:		
Accounts payable	\$ 17,235	\$ 11,366
Payable to Cleveland State University	177,383	432,992
Annuities payable	<u>26,345</u>	<u>27,479</u>
Total current liabilities	220,963	471,837
Non-Current Liabilities:		
Payable to Cleveland State University	108,701	131,686
Annuities payable	127,526	135,726
Funds held on behalf of others:		
Cleveland State University	2,451,224	2,400,748
Cleveland State University Alumni Association	435,420	420,081
Civic Foundation	-	3,244
Total non-current liabilities	<u>3,122,871</u>	<u>3,091,485</u>
Total liabilities	3,343,834	3,563,322
<u>NET ASSETS</u>		
Unrestricted	322,328	369,207
Board designated - scholarships	<u>180,612</u>	<u>174,463</u>
Total unrestricted	502,940	543,670
Temporarily restricted	14,965,852	13,295,328
Permanently restricted	<u>24,268,042</u>	<u>22,763,678</u>
Total net assets	<u>39,736,834</u>	<u>36,602,676</u>
Total liabilities and net assets	<u>\$ 43,080,668</u>	<u>\$ 40,165,998</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, 2006  
(With Comparative Totals at June 30, 2005)

	Unrestricted	Temporarily Restricted	Permanently Restricted	2006 Totals	2005 Totals
<b>REVENUES</b>					
Contributions	\$ 90,575	\$ 3,420,519	\$ 1,447,079	\$ 4,958,173	\$ 12,679,016
Management fee	26,905			26,905	25,914
Investment income, including realized and unrealized gains, net	235,686	2,034,956		2,270,642	1,878,645
Net assets released from restrictions:					
Change in donor restrictions		(57,285)	57,285	-	-
Released from donor restrictions	3,727,666	(3,727,666)		-	-
Total revenues	4,080,832	1,670,524	1,504,364	7,255,720	14,583,575
<b>EXPENSES</b>					
Program services:					
Instruction	645,282			645,282	796,460
Research	194,135			194,135	260,101
Public service	986,378			986,378	881,990
Academic support	140,310			140,310	106,580
Financial aid	861,660			861,660	742,574
Institutional support	218,521			218,521	312,550
Auxiliary enterprises	646,010			646,010	262,793
	3,692,296			3,692,296	3,363,048
Management and general	359,472			359,472	364,327
Fund raising	69,794			69,794	41,992
Total expenses	4,121,562			4,121,562	3,769,367
CHANGE IN NET ASSETS	(40,730)	1,670,524	1,504,364	3,134,158	10,814,208
NET ASSETS – BEGINNING OF YEAR	543,670	13,295,328	22,763,678	36,602,676	25,788,468
NET ASSETS – END OF YEAR	\$ 502,940	\$ 14,965,852	\$ 24,268,042	\$ 39,736,834	\$ 36,602,676

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, 2006  
(With Comparative Totals for June 30, 2005)

	<u>2006</u>	<u>2005</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Change in net assets	\$ 3,134,158	\$ 10,814,208
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
(Gain) loss on sale of investments	(370,688)	40,622
Net unrealized appreciation in the fair market value of investments	(869,183)	(1,076,879)
Contributions restricted for investment in endowment	1,504,364	5,484,625
Contributions receivable written off	89,695	28,116
Changes in operating assets and liabilities:		
Increase in accounts receivable	(2,407)	(18,186)
Decrease (increase) in contributions receivable	1,318,305	(6,612,573)
Increase (decrease) in accounts payable	5,869	(108,163)
(Decrease) increase in annuities payable	(9,334)	12,985
Decrease in payable to Cleveland State University	<u>(278,594)</u>	<u>(9,735)</u>
Total adjustments	<u>1,388,027</u>	<u>(2,259,188)</u>
Net cash provided by operating activities	4,522,185	8,555,020
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Proceeds from sale of investments	2,300,818	941,857
Purchase of investments	(3,927,772)	(2,867,114)
Increase in funds held on behalf of others	<u>(62,571)</u>	<u>(69,026)</u>
Net cash used in investing activities	(1,689,525)	(1,994,283)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Proceeds from contributions restricted for investment in endowment	(1,504,364)	(5,484,625)
Increase in funds held on behalf of others	<u>62,571</u>	<u>69,026</u>
Net cash used in financing activities	<u>(1,441,793)</u>	<u>(5,415,599)</u>
<b>NET INCREASE IN CASH AND CASH EQUIVALENTS</b>	1,390,867	1,145,138
<b>CASH AND CASH EQUIVALENTS – BEGINNING OF YEAR</b>	<u>3,456,571</u>	<u>2,311,433</u>
<b>CASH AND CASH EQUIVALENTS – END OF YEAR</b>	<u>\$ 4,847,438</u>	<u>\$ 3,456,571</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 are 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 statements 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 Statements of Activities as net assets released from restrictions.

- B. **Cash and Cash Equivalents** – For purposes of the statements 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, 2006 and 2005 were \$26,905 and \$25,914, 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 \$26,345 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, 2006 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, 2005, from which the summarized information was derived.

THE CLEVELAND STATE UNIVERSITY FOUNDATION, INC.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

**Note 2. Cash and Cash Equivalents**

At June 30, 2006 and 2005, cash and cash equivalents consisted of the following:

	<u>2006</u>	<u>2005</u>
Cash	\$ 774,892	\$ 61,127
Money market mutual fund	<u>4,072,546</u>	<u>3,395,444</u>
	<u>\$ 4,847,438</u>	<u>\$ 3,456,571</u>

**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, 2006 and 2005. Amounts due are as follows:

	<u>2006</u>	<u>2005</u>
Gross receivables	\$ 9,505,053	\$11,395,919
Discount	(1,059,068)	(1,513,199)
Allowance for uncollectible contributions	<u>(168,920)</u>	<u>(197,655)</u>
	<u>\$ 8,277,065</u>	<u>\$ 9,685,065</u>

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

	<u>2006</u>	<u>2005</u>
In one year or less	\$ 2,872,786	\$ 2,834,081
One to five years	5,382,624	6,365,035
More than five years	<u>21,655</u>	<u>485,949</u>
	<u>\$ 8,277,065</u>	<u>\$ 9,685,065</u>

Included in the amount to be received in one year or less at June 30, 2006 and 2005 is \$1,538,521 and \$1,662,505, 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.

THE CLEVELAND STATE UNIVERSITY FOUNDATION, INC.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

**Note 3. Contributions Receivable (Continued)**

Contributions receivable at June 30, 2006 and 2005 have the following restrictions:

	<u>2006</u>	<u>2005</u>
Instruction	\$ 187,539	\$ 492,540
Research	34,300	26,433
Public service	138,992	27,783
Financial aid	4,479,859	4,874,626
Institutional support	761,351	812,408
Auxiliary enterprises	<u>2,675,024</u>	<u>3,451,275</u>
	<u>\$ 8,277,065</u>	<u>\$ 9,685,065</u>

**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:

	<u>2006</u>		<u>2005</u>	
	<u>Cost</u>	<u>Market</u>	<u>Cost</u>	<u>Market</u>
Stocks - domestic	\$ 2,175,204	\$ 3,041,849	\$ 2,572,222	\$ 3,440,523
Mutual funds - domestic	10,649,163	13,272,197	8,905,939	10,859,949
Mutual funds - international	1,906,312	3,302,755	1,658,668	2,613,633
Fixed income securities	<u>7,520,739</u>	<u>7,397,663</u>	<u>7,068,988</u>	<u>7,233,534</u>
	<u>\$22,251,418</u>	<u>\$27,014,464</u>	<u>\$20,205,817</u>	<u>\$24,147,639</u>

THE CLEVELAND STATE UNIVERSITY FOUNDATION, INC.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

**Note 4. Long-Term Investments (Continued)**

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

	2006		2005	
	Cost	Market	Cost	Market
Stocks - domestic	\$ 232,433	\$ 325,038	\$ 300,822	\$ 402,371
Mutual funds - domestic	1,137,922	1,418,207	991,597	1,245,218
Mutual funds - international	203,700	352,918	193,981	305,665
Fixed income securities	803,632	790,481	876,675	870,819
	<u>\$ 2,377,687</u>	<u>\$ 2,886,644</u>	<u>\$ 2,363,075</u>	<u>\$ 2,824,073</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.

**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:

	2006	2005
Instruction/research	\$ 4,124,150	\$ 3,549,781
Public service	458,534	432,877
Academic support	1,068,519	1,001,604
Financial aid	4,718,601	3,220,775
Institutional support	575,642	469,513
Auxiliary enterprises	4,020,406	4,620,778
	<u>\$14,965,852</u>	<u>\$13,295,328</u>

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

	2006	2005
Instruction	\$ 5,658,454	\$ 5,558,045
Research	308,283	308,283
Public service	50,567	50,467
Academic support	883,256	836,505
Financial aid	16,364,800	15,083,684
Institutional support	967,361	915,294
Auxiliary enterprises	35,321	11,400
	<u>\$24,268,042</u>	<u>\$22,763,678</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, are paid directly by Cleveland State University and are 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, 2006 and 2005, \$177,383 and \$432,992, respectively, in such other program costs were outstanding and reported as payable to Cleveland State University.

At June 30, 2006 and 2005, there was an additional payable to the University for \$108,701 and \$131,686, respectively.

During 1997, Cleveland State University Foundation began investing funds of the Cleveland State University Alumni Association. At June 30, 2006 and 2005, the Foundation is investing \$435,420 and \$420,081, 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, 2006 and 2005, the Foundation is investing \$2,451,224 and \$2,400,748, respectively, of assets on behalf of the University.

During 2006, the Cleveland State University Foundation had program expenditures of \$3,692,296 supporting the University as follows:

	<u>Transfers</u>	<u>Other Expenditures</u>	<u>Total</u>
Instruction	\$ 554,164	\$ 91,118	\$ 645,282
Research	193,895	240	194,135
Public service	912,572	73,806	986,378
Academic support	138,298	2,012	140,310
Financial aid	848,549	13,111	861,660
Institutional support	150,120	68,401	218,521
Auxiliary enterprises	308,366	337,644	646,010
	<u>\$3,105,964</u>	<u>\$ 586,332</u>	<u>\$3,692,296</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, 2006, and have issued our report thereon dated September 8, 2006. 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.

*Hausser + Taylor LLC*

Cleveland, Ohio  
September 8, 2006





**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  
DECEMBER 26, 2006**