

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

FINANCIAL REPORT

JUNE 30, 2003



**Auditor of State
Betty Montgomery**

Board of Directors
Cleveland State University Foundation, Inc.
2121 Euclid Ave, MM-105
Cleveland, Ohio 44115-2214

We have reviewed the Independent Auditor's Report of the Cleveland State University Foundation, Inc., Cuyahoga County, prepared by Hausser & Taylor, LLC, for the audit period July 1, 2002 through June 30, 2003. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

Our review was made in reference to the applicable sections of legislative criteria, as reflected by the Ohio Constitution, and the Revised Code, policies, procedures and guidelines of the Auditor of State, regulations and grant requirements. The 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

January 6, 2004

This Page is Intentionally Left Blank.

THE CLEVELAND STATE UNIVERSITY FOUNDATION, INC.

CONTENTS

	<u>Page</u>
INDEPENDENT AUDITORS' REPORT ON THE FINANCIAL STATEMENTS	1
FINANCIAL STATEMENTS	
Statement of financial position	2
Statement of activities	3
Statement of cash flows	4
Notes to financial statements	5-10
REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING BASED ON AN AUDIT TO FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS	11

This Page is Intentionally Left Blank.



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, 2003, 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 2002 financial statements audited by other auditors and whose report dated October 14, 2002 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, 2003, and the changes in net assets and cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with Government Auditing Standards, we have also issued a report dated October 7, 2003, on our consideration of the Foundation's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Hausser + Taylor LLC

Cleveland, Ohio
October 7, 2003

THE CLEVELAND STATE UNIVERSITY FOUNDATION, INC.

STATEMENT OF FINANCIAL POSITION

June 30, 2003

(With Comparative Totals at June 30, 2002)

<u>ASSETS</u>	<u>2003</u>	<u>2002</u>
Cash and cash equivalents	\$ 662,522	\$ 490,890
Accounts receivable	15,270	3,000
Contributions receivable, net of allowance for uncollectible contributions	1,845,036	2,605,959
Long-term investments, at fair market value	<u>19,296,607</u>	<u>18,109,788</u>
Total assets	<u>\$ 21,819,435</u>	<u>\$ 21,209,637</u>
<u>LIABILITIES AND NET ASSETS</u>		
<u>LIABILITIES</u>		
Accounts payable	\$ 253,927	\$ 41,267
Annuities payable	65,408	-
Payable to Cleveland State University	610,773	510,618
Assets held on behalf of Cleveland State University Alumni Association	329,420	325,973
Assets held on behalf of Cleveland State University	<u>2,155,495</u>	<u>2,144,328</u>
Total liabilities	3,415,023	3,022,186
<u>NET ASSETS</u>		
Unrestricted - allocated for endowment purposes	150,000	635,839
Unrestricted - other	<u>341,525</u>	<u>573,746</u>
Total unrestricted	491,525	1,209,585
Temporarily restricted	5,616,681	4,492,782
Permanently restricted	<u>12,296,206</u>	<u>12,485,084</u>
Total net assets	<u>18,404,412</u>	<u>18,187,451</u>
Total liabilities and net assets	<u>\$ 21,819,435</u>	<u>\$ 21,209,637</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, 2003
(With Comparative Totals at June 30, 2002)

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>2003 Totals</u>	<u>2002 Totals</u>
REVENUES					
Contributions	\$ 143,098	\$ 3,758,466	\$ 493,978	\$ 4,395,542	\$ 3,404,051
In-kind contributions	219,913			219,913	-
Management fee	28,439			28,439	30,461
Investment income/(losses), including realized and unrealized gains, net	(588,134)	1,808,821	(509,481)	711,206	(1,260,135)
Net assets released from restrictions:					
Change in donor restrictions		(184,706)	184,706	-	-
Released from donor restrictions	4,616,763	(4,616,763)		-	-
Total revenues	<u>4,420,079</u>	<u>765,818</u>	<u>169,203</u>	<u>5,355,100</u>	<u>2,174,377</u>
EXPENSES					
Program services:					
Instruction	1,401,031			1,401,031	1,589,136
Research	112,902			112,902	301,819
Public service	1,278,609			1,278,609	515,351
Academic support	158,430			158,430	80,672
Financial aid	581,090			581,090	576,785
Institutional support	617,468			617,468	530,984
Auxiliary enterprises	176,102			176,102	254,983
Management and general	801,539			801,539	450,245
Fund raising	10,968			10,968	28,385
Total expenses	<u>5,138,139</u>			<u>5,138,139</u>	<u>4,328,360</u>
CHANGE IN NET ASSETS	(718,060)	765,818	169,203	216,961	(2,153,983)
NET ASSETS – BEGINNING OF YEAR	1,209,585	4,492,782	12,485,084	18,187,451	20,341,434
RECLASSIFICATION OF NET ASSETS		358,081	(358,081)	-	-
NET ASSETS – END OF YEAR	<u>\$ 491,525</u>	<u>\$ 5,616,681</u>	<u>\$ 12,296,206</u>	<u>\$ 18,404,412</u>	<u>\$ 18,187,451</u>

The accompanying notes are an integral part of these financial statements.

THE CLEVELAND STATE UNIVERSITY FOUNDATION, INC.

STATEMENT OF CASH FLOWS

Year Ended June 30, 2003
(With Comparative Totals for June 30, 2002)

	<u>2003</u>	<u>2002</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ 216,961	\$ (2,153,983)
Adjustments to reconcile changes in net assets to net cash provided by (used in) operating activities:		
Loss on sale of investments	417,706	2,404,228
Net unrealized appreciation in the fair market value of investments	(544,458)	(386,975)
Contributions restricted for investment in endowment	493,978	(691,918)
Provision for doubtful accounts in contributions receivable	153,169	144,751
Changes in operating assets and liabilities:		
(Increase) decrease in accounts receivable	(12,270)	20,036
Decrease in contributions receivable	607,754	125,258
Increase in accounts payable	212,660	27,742
Increase in annuities payable	65,408	-
Increase (decrease) in payable to Cleveland State University	100,155	(99,285)
Total adjustments	<u>1,494,102</u>	<u>1,543,837</u>
Net cash provided by (used in) operating activities	1,711,063	(610,146)
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sale of investments	3,932,357	5,890,534
Purchase of investments	(4,992,424)	(5,751,284)
Net cash (used in) provided by investing activities	<u>(1,060,067)</u>	<u>139,250</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from contributions restricted for investment in endowment	(493,978)	691,918
Increase (decrease) in funds held on behalf of Alumni Association	3,447	(69,603)
Increase (decrease) in funds held on behalf of Cleveland State University	11,167	(254,766)
Net cash (used in) provided by financing activities	<u>(479,364)</u>	<u>367,549</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	171,632	(103,347)
CASH AND CASH EQUIVALENTS – BEGINNING OF YEAR	<u>490,890</u>	<u>594,237</u>
CASH AND CASH EQUIVALENTS – END OF YEAR	<u>\$ 662,522</u>	<u>\$ 490,890</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.

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 \$10,000 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, 2003 and 2002 were \$28,439 and \$30,461, respectively.

H. 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, 2002, from which the summarized information was derived. Certain reclassifications have been made in the 2002 financial statements to conform to the 2003 presentation.

Note 2. Cash and Cash Equivalents

At June 30, 2003 and 2002, cash and cash equivalents consisted of the following:

	<u>2003</u>	<u>2002</u>
Cash	\$ 421,909	\$ 74,644
Money market mutual fund	<u>240,613</u>	<u>416,246</u>
	\$ 662,522	\$ 490,890

THE CLEVELAND STATE UNIVERSITY FOUNDATION, INC.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

Note 3. Contributions Receivable

Unconditional promises of gifts are included in the financial statements as 1) contributions receivable and 2) contributions and grants of the appropriate net asset category. Contributions due greater than one year from the balance sheet date reflect a discount of \$228,688 and \$224,898, as of June 30, 2003 and 2002, respectively, to establish the net present value. The receivables have been discounted using a rate of 8%.

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

	2003	2002
In one year or less	\$ 1,401,984	\$ 2,398,732
One to five years	704,411	543,978
More than five years	<u>64,236</u>	<u>123,124</u>
	2,170,631	3,065,834
Less: allowance for uncollectible contributions	<u>(325,595)</u>	<u>(459,875)</u>
	<u>\$ 1,845,036</u>	<u>\$ 2,605,959</u>

Contributions receivable at June 30, 2003 and 2002 have the following restrictions:

	<u>2003</u>	<u>2002</u>
Public service	\$ 420,750	\$ 773,501
Financial aid	1,073,478	778,541
Instruction	350,808	1,010,133
Research	-	35,284
Unrestricted	<u>-</u>	<u>8,500</u>
	<u>\$ 1,845,036</u>	<u>\$ 2,605,959</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.

THE CLEVELAND STATE UNIVERSITY FOUNDATION, INC.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

Note 4. Long-Term Investments (Continued)

Investments are composed of the following at June 30:

	2003		2002	
	Cost	Market	Cost	Market
Stocks - domestic	\$ 2,823,060	\$ 3,092,223	\$ 4,260,839	\$ 4,867,222
Mutual funds - domestic	7,212,325	7,530,327	4,557,713	4,449,683
Mutual funds - international	1,265,436	1,521,578	1,449,909	1,151,414
Fixed income securities	<u>7,012,732</u>	<u>7,152,479</u>	<u>7,475,354</u>	<u>7,641,469</u>
	\$18,313,553	\$19,296,607	\$17,743,815	\$18,109,788

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. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in values of investment securities could occur in the near term and that such changes could materially affect the amounts reported in the financial statements.

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:

	2003	2002
Instructional/Research	\$ 2,358,694	\$ 1,692,093
Public service	743,132	1,252,789
Academic support	838,219	62,889
Financial aid	1,081,185	958,378
Institutional support	536,960	515,625
Auxiliary enterprises	<u>58,491</u>	<u>11,008</u>
	\$ 5,616,681	\$ 4,492,782

THE CLEVELAND STATE UNIVERSITY FOUNDATION, INC.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

Note 5. Temporarily and Permanently Restricted Net Assets (Continued)

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

	<u>2003</u>	<u>2002</u>
Instructional	\$ 3,376,017	\$ 4,583,418
Research	296,573	350,913
Public service	47,913	43,379
Academic support	787,376	751,565
Financial aid	7,691,583	6,643,209
Institutional support	<u>96,744</u>	<u>112,600</u>
	\$12,296,206	\$12,485,084

Note 6. Management and General Expenses

Management and general expenses incurred by the unrestricted fund during the year ended June 30, 2003 and 2002, were as follows:

	<u>2003</u>	<u>2002</u>
Wages and fringe benefits (in-kind in 2003)	\$ 219,913	\$ 207,324
Audit	15,025	14,725
Investment consultant fee	20,359	22,734
Other investment fees	27,457	36,918
Legal fees	445	13,009
Severance	351,736	-
Provision for uncollectible contributions receivable	153,169	144,751
Miscellaneous	<u>13,435</u>	<u>10,784</u>
	\$ 801,539	\$ 450,245

Note 7. 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. For the year ended June 30, 2003, certain salary costs which the Foundation generally pays for were recorded as an in-kind contribution and expense from the University. Further, 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, 2003 and 2002, respectively, \$433,701 and \$308,953 in such other program costs were outstanding and reported as payable to Cleveland State University.

THE CLEVELAND STATE UNIVERSITY FOUNDATION, INC.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

Note 7. Relationship With Related Entities (Continued)

During 1992, costs aggregating \$720,000 associated with the Foundation's fund raising campaign were paid by the University. The unpaid portion of such costs are reflected as a non-interest bearing liability in the unrestricted fund. At June 30, 2003 and 2002, the associated payable to the University is \$177,072 and \$201,665, respectively.

During 1997, Cleveland State University Foundation began investing funds of the Cleveland State University Alumni Association. At June 30, 2003 and 2002, the Foundation is investing \$329,420 and \$325,973, 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, 2003 and 2002, the Foundation is investing \$2,155,495 and \$2,144,328, respectively, of assets on behalf of the University.

Note 8. Reclassification of Net Assets

Accumulated realized and unrealized gains on permanently restricted funds totalling \$358,081 at July 1, 2002 were properly reclassified to temporarily restricted net assets.



Board of Directors
The Cleveland State University
Foundation, Inc.
Cleveland, Ohio

Report on Compliance and on Internal Control Over Financial
Reporting 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, 2003, and have issued our report thereon dated October 7, 2003. We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Compliance

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 grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under Government Auditing Standards.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the 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 assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

This report is intended solely for the information 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
October 7, 2003

This Page is Intentionally Left Blank.



**Auditor of State
Betty Montgomery**

88 East Broad Street
P.O. Box 1140
Columbus, Ohio 43216-1140

Telephone 614-466-4514
800-282-0370

Facsimile 614-466-4490

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
JANUARY 22, 2004**