

The Cleveland State University Foundation, Inc.

**Financial Statements
June 30, 2016**



Dave Yost • Auditor of State

Board of Directors
The Cleveland State University Foundation
2121 Euclid Avenue
Cleveland, OH 44115

We have reviewed the *Independent Auditor's Report* of the Cleveland State University Foundation, Cuyahoga County, prepared by Ciuni & Panichi, Inc., for the audit period July 1, 2015 through June 30, 2016. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

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

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

Dave Yost
Auditor of State

November 29, 2016

This page intentionally left blank.

The Cleveland State University Foundation, Inc.

Financial Statements

June 30, 2016

Table of Contents

	<u>Page</u>
Independent Auditor's Report	1
Statement of Financial Position	3
Statement of Activities	4
Statement of Cash Flows	5
Notes to Financial Statements	6
Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	18

This page intentionally left blank.

Independent Auditor's Report

Board of Directors
The Cleveland State University Foundation, Inc.

Report on the Financial Statements

We have audited the accompanying financial statements of The Cleveland State University Foundation, Inc. (a nonprofit organization) (the "Foundation"), a component unit of Cleveland State University, which comprise the statement of financial position as of June 30, 2016, and the related statements of activities and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these 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 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 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 financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the 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 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 financial statements.

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

Board of Directors
The Cleveland State University Foundation, Inc.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Foundation as of June 30, 2016, and the changes in its net assets and its 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 the Foundation's 2015 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated October 10, 2015. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2015, is consistent, in all material respects, with the audited 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 September 29, 2016, on our consideration of the Foundation's internal control over financial reporting and on 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 of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on 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 the Foundation's internal control over financial reporting and compliance.

Ciuni + Panichi, Inc.

Cleveland, Ohio
September 29, 2016

The Cleveland State University Foundation, Inc.

Statement of Financial Position

June 30, 2016 (with comparative totals for 2015)

	<u>Assets</u>	
	<u>2016</u>	<u>2015</u>
Cash and cash equivalents	\$ 2,661,308	\$ 3,312,441
Accounts receivable	232,846	369,977
Contributions receivable, net	13,158,909	13,540,032
Long-term investments	69,392,123	71,549,838
Funds held on behalf of others:		
Cleveland State University	13,831,081	14,041,595
Cleveland State University Alumni Association	<u>465,436</u>	<u>484,021</u>
Total assets	\$ <u>99,741,703</u>	\$ <u>103,297,904</u>
	<u>Liabilities and Net Assets</u>	
Liabilities:		
Accounts payable & accrued expenses	\$ 50,531	\$ 47,501
Payable to Cleveland State University	1,750,830	2,338,741
Annuities payable	124,859	144,909
Funds held on behalf of others:		
Cleveland State University	13,831,081	14,041,595
Cleveland State University Alumni Association	<u>465,436</u>	<u>484,021</u>
Total liabilities	<u>16,222,737</u>	<u>17,056,767</u>
Net Assets:		
Unrestricted:		
Undesignated	(1,310,367)	(1,284,978)
Board-designated – scholarships	<u>174,380</u>	<u>191,647</u>
Total unrestricted	<u>(1,135,987)</u>	<u>(1,093,331)</u>
Temporarily restricted	28,464,468	35,123,216
Permanently restricted	<u>56,190,485</u>	<u>52,211,252</u>
Total net assets	<u>83,518,966</u>	<u>86,241,137</u>
Total liabilities and net assets	\$ <u>99,741,703</u>	\$ <u>103,297,904</u>

The accompanying notes are an integral part of these financial statements

The Cleveland State University Foundation, Inc.

Statement of Activities

For the year ended June 30, 2016 (with comparative totals for 2015)

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>2016 Total</u>	<u>2015 Total</u>
Support and revenues:					
Contributions	\$ 225,282	\$ 7,267,352	\$ 3,390,490	\$ 10,883,124	\$ 15,765,282
Management fees related to funds held on behalf of others	36,307	-	-	36,307	33,429
Management fees related to internal funds	666,322	(666,322)	-	-	-
Net assets released from restrictions	<u>11,519,078</u>	<u>(11,519,078)</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total support and revenues	12,446,989	(4,918,048)	3,390,490	10,919,431	15,798,711
Expenses:					
Program services:					
Instruction and academic support	3,720,498	-	-	3,720,498	2,240,502
Research	454,436	-	-	454,436	294,503
Public service	1,263,683	-	-	1,263,683	1,269,256
Financial aid	4,791,829	-	-	4,791,829	5,072,487
Institutional support	363,668	-	-	363,668	641,630
Capital and other projects	<u>941,998</u>	<u>-</u>	<u>-</u>	<u>941,998</u>	<u>7,485,660</u>
Total program services	11,536,112	-	-	11,536,112	17,004,038
Supporting Services:					
Management and general	611,421	-	-	611,421	616,020
Fundraising	<u>128,866</u>	<u>-</u>	<u>-</u>	<u>128,866</u>	<u>133,199</u>
Total supporting services	<u>740,287</u>	<u>-</u>	<u>-</u>	<u>740,287</u>	<u>749,219</u>
Total expenses	12,276,399	-	-	12,276,399	17,753,257
Gains (losses):					
Investment (loss) income, net	(210,814)	(1,713,964)	-	(1,924,778)	2,619,773
Provision for uncollectible contributions (Note 2)	<u>(2,432)</u>	<u>37,684</u>	<u>524,323</u>	<u>559,575</u>	<u>197,405</u>
Total gains (losses)	<u>(213,246)</u>	<u>(1,676,280)</u>	<u>524,323</u>	<u>(1,365,203)</u>	<u>2,817,178</u>
Change in net assets before transfers	(42,656)	(6,594,328)	3,914,813	(2,722,171)	862,632
Transfers	<u>-</u>	<u>(64,420)</u>	<u>64,420</u>	<u>-</u>	<u>-</u>
Change in net assets	(42,656)	(6,658,748)	3,979,233	(2,722,171)	862,632
Net assets – at beginning of the year	<u>(1,093,331)</u>	<u>35,123,216</u>	<u>52,211,252</u>	<u>86,241,137</u>	<u>85,378,505</u>
Net assets – at end of the year	\$ <u>(1,135,987)</u>	\$ <u>28,464,468</u>	\$ <u>56,190,485</u>	\$ <u>83,518,966</u>	\$ <u>86,241,137</u>

The accompanying notes are an integral part of these financial statements

The Cleveland State University Foundation, Inc.

Statement of Cash Flows

For the year ended June 30, 2016 (with comparative totals for 2015)

	2016	2015
Cash flows from operating activities:		
Change in net assets	\$ (2,722,171)	\$ 862,632
Adjustments to reconcile change in net assets to net cash used by operating activities:		
Net realized and unrealized loss (gain) on investments	4,391,166	(548,381)
Contributions restricted for investment in endowment	(3,390,490)	(1,283,039)
Provision for uncollectible contributions	(559,575)	(197,405)
Changes in operating assets and liabilities:		
Accounts receivable	137,131	58,519
Contributions receivable	1,295,850	(899,871)
Accounts payable	3,030	(4,707)
Payable to Cleveland State University	(587,911)	(242,208)
Annuities payable	<u>(20,050)</u>	<u>(17,022)</u>
Net cash used by operating activities	(1,453,020)	(2,271,482)
Cash flows from investing activities:		
Purchases of investments	(19,897,270)	(24,078,238)
Proceeds from sales of investments	<u>17,663,819</u>	<u>24,978,291</u>
Net cash (used) provided by investing activities	(2,233,451)	900,053
Cash flows from financing activities:		
Principal payments on note payable	-	(604,751)
Proceeds from collection of contributions restricted for investment in endowment	<u>3,035,338</u>	<u>4,430,716</u>
Net cash provided by financing activities	<u>3,035,338</u>	<u>3,825,965</u>
(Decrease) increase in cash and cash equivalents	(651,133)	2,454,536
Cash and cash equivalents, beginning of year	<u>3,312,441</u>	<u>857,905</u>
Cash and cash equivalents, end of year	\$ <u><u>2,661,308</u></u>	\$ <u><u>3,312,441</u></u>
 Supplemental disclosures of cash flow information:		
Cash paid during the year for interest	\$ -	\$ 8,825

The accompanying notes are an integral part of these financial statements

The Cleveland State University Foundation, Inc.

Notes to Financial Statements

June 30, 2016

Note 1: Summary of Significant Accounting Policies

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’s primary sources of revenue are endowment income and public support through donations from individuals, corporations, foundations, and trusts located primarily in northeastern Ohio.

The financial statements have been prepared on the accrual basis of accounting. The Foundation’s resources are classified into three net asset categories based upon the presence or absence of donor-imposed restrictions. A description of the categories follows:

Unrestricted:

Undesignated are free of donor-imposed restrictions and Board-designations; includes all revenues, expenses, gains, and losses that are not changes in temporarily or permanently restricted net assets, nor changes in board-designated 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 net assets represent net assets that are subject to restrictions of gift instruments requiring that the principal be invested in perpetuity. The income or loss from investment of these assets is included in the investment income or loss of unrestricted and temporarily restricted funds, as appropriate, in the accompanying statement of activities.

When a donor restriction expires, that is, when a stipulated time restriction expires or purpose restriction is satisfied, restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions. The Foundation considers the transfer of donor-restricted net assets to the University for use as specified by the donor as satisfying the donor-imposed restrictions. As such, there is the potential for liability resulting from a donor seeking reimbursement from the Foundation in the event the University does not comply with a donor’s restrictions. Foundation management meets regularly with University personnel to review the status of donations sent to the University. The Foundation’s management estimates that no liability for return of grant funds exists at June 30, 2016.

The Cleveland State University Foundation, Inc.

Notes to Financial Statements

June 30, 2016

Note 1: Summary of Significant Accounting Policies (continued)

Basis of Presentation

The Foundation follows authoritative guidance issued by the Financial Accounting Standards Board (“FASB”) which established the FASB Accounting Standards Codification (“ASC”) as the single source of authoritative accounting principles generally accepted in the United States of America.

Summarized 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, 2015, from which the summarized information was derived.

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.

Cash and Cash Equivalents

The Foundation considers all highly liquid investments available for current use (excluding cash equivalents held in investment brokerage accounts) with an initial maturity of three months or less to be cash equivalents.

Investments

Investments of debt and equity securities with readily determinable fair values are stated at fair value. Investments of unrestricted, temporarily restricted, and permanently restricted funds are pooled for making investment decisions. Interest and dividend income, realized and unrealized gains and losses, and investment management fees are allocated using a unitized method of accounting for pooled investment funds.

Split-Interest Agreement

During the year ended June 30, 2011, a donor established a trust naming the Foundation as the lead beneficiary of a charitable lead annuity trust. Under terms of the split-interest agreement, the Foundation is to receive \$200,000 annually for ten years. Ten years after the formation of the trust, the trust will terminate and remaining trust assets will be distributed to other parties. Based on the use of a 6% discount rate, the present value of the contribution receivable from the charitable lead trust was \$893,021 at June 30, 2016.

The Cleveland State University Foundation, Inc.

Notes to Financial Statements

June 30, 2016

Note 1: Summary of Significant Accounting Policies (continued)

Split-Interest Agreement (continued)

The Foundation is obligated under various gift annuity contracts, whereby donors have contributed cash to the Foundation with the agreement that the donors shall be the sole recipients of annual annuity payments. These annual payments, currently totaling \$33,345 per year, shall terminate after the last payment date that a donor remains living. The discount rates used to estimate the obligations at June 30, 2016, range from 6.4% to 10%.

Contributions

Contributions received, including unconditional promises to give, are recognized as revenue by net asset class when the donor's unconditional 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. Conditional promises are recorded when donor-imposed conditions are substantially met.

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 generally not to exceed 60 months, for the accumulation of contributions and interest to meet the minimum principal balance requirements. During this time period, the Foundation records the contributions and interest as temporarily restricted net assets. Upon accumulation of minimum balance requirements, the net assets are transferred to permanently restricted net assets.

Endowment Management Fees

The Foundation charges a 1% fee to be levied by the Foundation for managing endowment funds and funds held on behalf of related entities.

Concentrations of Credit Risk

Financial instruments which potentially subject the Foundation to concentrations of credit risk consist of cash and temporary investments, investment securities, and contributions receivable.

The Foundation has significant investments in equity and debt securities and is, therefore, subject to concentrations of credit risk. Investments are managed by investment advisors who are overseen by a committee. Though the market value of investments is subject to fluctuations on a year-to-year basis, the committee believes that the investment policy is prudent for the long-term welfare of the Foundation.

Credit risk with respect to contributions receivable is limited due to the number and credit worthiness of the foundations, corporations, and individuals who comprise the contributor base. At June 30, 2016, approximately 73% of the Foundation's gross contributions receivable is due from three donors.

At various times during the year ended June 30, 2016, the Foundation's cash in bank balances exceeded federally insured limits.

The Cleveland State University Foundation, Inc.

Notes to Financial Statements

June 30, 2016

Note 1: Summary of Significant Accounting Policies (continued)

Federal Income Taxes

The Foundation is a not-for-profit organization as described in Section 501(c)(3) of the Internal Revenue Code and is exempt from federal income taxes on related income pursuant to Section 501(a) of the Code.

Uncertain income tax positions are evaluated at least annually by management. The Foundation classifies interest and penalties related to income tax matters as income tax expense in the accompanying financial statements. As of June 30, 2016, the Foundation has identified no uncertain income tax positions and has incurred no amounts for income tax penalties and interest for the year then ended.

The Foundation files its Federal Form 990 in the U.S. federal jurisdiction and an online charitable registration in the office of the state's attorney general for the State of Ohio.

Subsequent Events

In preparing these financial statements, the Foundation has evaluated events and transactions for potential recognition or disclosure through September 29, 2016, the date the financial statements were available to be issued.

Note 2: Contributions Receivable

Contributions receivable are accounted for in accordance with FASB ASC topic "Revenue Recognition." 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% of the discounted contributions receivable balance. For the year ended June 30, 2015, the allowance for uncollectible contributions was a rate of 5%. The Foundation reduced its allowance based on its analysis of historical data and collection rates. The reduction in rate resulted in a reduction in provision for uncollectible contributions.

Amounts due as of June 30, 2016, are as follows:

Gross receivables due within:	
One year or less	\$ 6,322,433
One to five years	4,919,159
Thereafter	<u>6,666,511</u>
	17,908,103
Discount	(4,480,645)
Allowance for uncollectible contributions	<u>(268,549)</u>
Contributions receivable, net	\$ <u>13,158,909</u>

The Cleveland State University Foundation, Inc.

Notes to Financial Statements

June 30, 2016

Note 2: Contributions Receivable (continued)

Contributions receivable, net at June 30, 2016, have the following restrictions:

Instruction	\$	414,879
Research		238,775
Public service		27,097
Management and general		181,062
Financial aid		11,221,635
Capital and other projects		<u>1,075,461</u>
	\$	<u>13,158,909</u>

During the year ended June 30, 2015, the Foundation received a conditional promise to give of \$5,000,000 for scholarship support and to purchase technology for use in a new college building. The promise to give is conditional upon the completion of the building and may be cancelled at any time by the donor if the donor is not satisfied with the plans for, or progress toward, construction of the building. As the conditions of this promise have not yet been satisfied, this promise to give was not recognized as of June 30, 2016.

During the year ended June 30, 2016, the Foundation received two conditional promises to give totaling \$6,500,000. The unpaid balance of these promises to give was \$4,750,000 at June 30, 2016. Each of these promises to give is conditional on being spent to promote a particular program and may be cancelled at any time by the donor if the donor is not satisfied with the progress of the program. Accordingly, the Foundation is recognizing these promises as payments are received from the donors.

Note 3: Long-Term Investments

For investment purposes, assets of the various unrestricted, temporarily restricted, and permanently restricted classifications are pooled.

Investments at June 30, 2016, are composed of the following:

	<u>Cost</u>	<u>Carrying Value</u>
Cash and cash equivalents	\$ 111,497	\$ 111,497
Stocks – domestic	351,668	503,686
Mutual funds – international	12,009,844	11,870,589
Mutual funds – domestic	21,121,747	25,375,089
Balanced fund	5,285,891	4,935,741
Fixed income securities	14,812,148	14,743,263
Alternative investments	<u>10,185,183</u>	<u>11,852,258</u>
Investments carried at fair value	\$ <u>63,877,978</u>	\$ <u>69,392,123</u>

The Cleveland State University Foundation, Inc.

Notes to Financial Statements

June 30, 2016

Note 3: Long-Term Investments (continued)

Funds held on behalf of others at June 30, 2016, are composed of the following:

	<u>Cost</u>	<u>Carrying Value</u>
Cash and cash equivalents	\$ 10,057,875	\$ 10,057,875
Stocks – domestic	21,515	30,816
Mutual funds – international	734,772	726,252
Mutual funds – domestic	1,292,244	1,552,468
Balanced fund	323,395	301,972
Fixed income securities	906,219	902,004
Alternative investments	<u>623,137</u>	<u>725,130</u>
Investments carried at fair value	\$ <u>13,959,157</u>	\$ <u>14,296,517</u>

Investment (loss) income, net for the year ended June 30, 2016, as presented in the accompanying statement of activities includes the following:

Interest and dividends	\$ 2,466,388
Realized and unrealized loss, net	<u>(4,391,166)</u>
Total investment (loss) income, net	\$ <u>(1,924,778)</u>

Note 4: Fair Value Measurements

In accordance with the “Fair Value Measurements” topic of the FASB ASC, the Foundation uses a three-level fair value hierarchy that categorizes assets and liabilities measured at fair value based on the observability of the inputs utilized in the valuation. This hierarchy prioritizes the inputs into three broad levels as follows: Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities; Level 2 values are based on quoted prices in markets that are not active or model inputs that are observable either directly or indirectly for substantially the full term of the asset or liability; and Level 3 inputs are unobservable inputs in which little or no market data exists, therefore, requiring an entity to develop its own valuation assumptions. These inputs reflect management’s judgment about the assumptions that a market participant would use in pricing the asset or liability and are based on the best available information, which has been internally developed.

The Cleveland State University Foundation, Inc.

Notes to Financial Statements

June 30, 2016

Note 4: Fair Value Measurements (continued)

Financial assets measured at fair value on a recurring basis consisted of the following at June 30, 2016:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Totals</u>
Long-term investments:				
Common stocks	\$ 534,502	\$ -	\$ -	\$ 534,502
Mutual funds – international	12,596,841	-	-	12,596,841
Mutual funds – domestic	26,927,557	-	-	26,927,557
Balanced fund	5,237,713	-	-	5,237,713
Fixed income securities	-	15,645,267	-	15,645,267
Alternative investments	<u>-</u>	<u>-</u>	<u>12,577,388</u>	<u>12,577,388</u>
	<u>\$ 45,296,613</u>	<u>\$ 15,645,267</u>	<u>\$ 12,577,388</u>	<u>\$ 73,519,268</u>

The Foundation's fixed income securities are categorized as level two, as they are reported on the last reported price by a financial institution and are not actively traded and quoted on a daily basis.

The table below sets forth a summary of changes in the fair value of the Foundation's Level 3 assets for the year ended June 30, 2016:

Balance, June 30, 2015	\$ 12,680,691
Additions	750,000
Unrealized losses, net	<u>(853,303)</u>
Balance, June 30, 2016	<u>\$ 12,577,388</u>

These unrealized losses are included in investment (loss) income, net on the accompanying statement of activities. The Foundation's Level 3 investments are valued based upon information obtained from the investment advisor that manages the fund and are measured at fair value based on the net asset value per share or unit as of June 30, 2016. Management performs due diligence on the valuation techniques used by the investment advisor to ensure that they are in accordance with the applicable accounting standards. In addition, these include investments in unregistered securities, for which the Foundation must give 65 days' written notice in advance of the last business day of the calendar quarter that ends at least 12 full calendar months after the issuance of such shares and, thereafter, as of each calendar quarter in order to liquidate its position. There were no unfunded commitments related to these investments as of June 30, 2016.

The Cleveland State University Foundation, Inc.

Notes to Financial Statements

June 30, 2016

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 and/or purpose.

Temporarily restricted net assets are available for the following purposes at June 30, 2016:

Instruction and academic support	\$	5,186,508
Research		1,090,609
Public service		4,548,416
Financial aid		15,158,410
Institutional support		1,378,473
Capital and other projects		<u>1,102,052</u>
	\$	<u>28,464,468</u>

Permanently restricted net assets are held in perpetuity to support the following purposes at June 30, 2016:

Instruction and academic support	\$	10,444,816
Research		266,226
Public service		127,759
Financial aid		43,354,576
Institutional support		1,151,050
Capital and other projects		<u>846,058</u>
	\$	<u>56,190,485</u>

Net assets released from restriction during the year ended June 30, 2016 were as follows:

Instruction and academic support	\$	3,720,498
Research		454,436
Public service		1,263,683
Financial aid		4,773,565
Institutional support		364,898
Capital and other projects		<u>941,998</u>
	\$	<u>11,519,078</u>

The Cleveland State University Foundation, Inc.

Notes to Financial Statements

June 30, 2016

Note 6: Net Asset Classification of Endowment Funds

The Foundation's endowments consist of approximately 345 individual funds, established for a variety of purposes and consisting of both donor-restricted endowment funds and funds designated by the Board of Directors to function as endowment. As required by accounting principles generally accepted in the United States of America, net assets associated with endowment funds, including board-designated funds, are classified and reported based on the existence or absence of donor-imposed restrictions.

The Board of Directors of the Foundation has interpreted the State Prudent Management of Institutional Funds Act (SPMIFA) as requiring the preservation of the fair 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, (b) the original value of subsequent gifts, 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.

In accordance with SPMIFA, 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 purpose of the Foundation and the donor-restricted endowment fund;
- (3) General economic conditions; and
- (4) The investment policies of the Foundation.

During the year ended June 30, 2016, the Foundation had the following endowment related activities:

	Donor-Restricted Endowment Funds	Board-Designated Endowment Funds	Total
Investment loss:			
Investment income	\$ 2,085,951	\$ 5,779	\$ 2,091,730
Net unrealized loss	<u>(4,119,428)</u>	<u>(11,513)</u>	<u>(4,130,941)</u>
Total investment loss	(2,033,477)	(5,734)	(2,039,211)
Contributions	3,071,538	-	3,071,538
Amounts appropriated for expenditure	(3,021,348)	(9,611)	(3,030,959)
Endowment management fees	<u>(664,400)</u>	<u>(1,922)</u>	<u>(666,322)</u>
Total change in endowment funds	\$ <u><u>(2,647,687)</u></u>	\$ <u><u>(17,267)</u></u>	\$ <u><u>(2,664,954)</u></u>

The Cleveland State University Foundation, Inc.

Notes to Financial Statements

June 30, 2016

Note 6: Net Asset Classification of Endowment Funds (continued)

Endowment Net Asset Composition by Type of Fund as of June 30, 2016:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Donor-restricted endowment funds	\$ (295,225)	\$ 19,867,149	\$ 47,099,099	\$ 66,671,023
Board-designated endowment funds	<u>174,380</u>	<u>-</u>	<u>-</u>	<u>174,380</u>
Total funds	\$ <u>(120,845)</u>	\$ <u>19,867,149</u>	\$ <u>47,099,099</u>	\$ <u>66,845,403</u>

Changes in Endowment Net Assets for the Fiscal Year Ended June 30, 2016:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets, beginning of year	\$ 126,619	\$ 25,384,397	\$ 43,999,341	\$ 69,510,357
Investment return:				
Investment income	241,900	1,849,830	-	2,091,730
Net unrealized loss	<u>(477,831)</u>	<u>(3,653,110)</u>	<u>-</u>	<u>(4,130,941)</u>
Total investment return	(235,931)	(1,803,280)	-	(2,039,211)
Contributions	-	36,200	3,035,338	3,071,538
Transfers	-	(64,420)	64,420*	-
Amounts appropriated for expenditure	(9,611)	(3,021,348)	-	(3,030,959)
Endowment management fees	<u>(1,922)</u>	<u>(664,400)</u>	<u>-</u>	<u>(666,322)</u>
Endowment net assets, end of year	\$ <u>(120,845)</u>	\$ <u>19,867,149</u>	\$ <u>47,099,099</u>	\$ <u>66,845,403</u>

*Transfers relate to potential endowments meeting the Foundation's minimum requirements (Note 1) to establish a full endowment.

The Cleveland State University Foundation, Inc.

Notes to Financial Statements

June 30, 2016

Note 6: Net Asset Classification of Endowment Funds (continued)

Reconciliation of total permanently restricted net assets to permanently restricted net assets included in the endowment funds:

Permanently restricted net assets within the endowment funds	\$ 47,099,099
Permanently restricted contributions receivable, net	<u>9,091,386</u>
Total permanently restricted net assets	\$ <u>56,190,485</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 SPMIFA requires the Foundation to retain as a fund of perpetual duration. In accordance with accounting principles generally accepted in the United States of America, deficiencies of this nature that are reported in unrestricted net assets were \$295,225 as of June 30, 2016.

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 funds, 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, as well as board-designated funds. In general, it is desired that the Foundation portfolio earn at least competitive nominal returns in comparison with their respective benchmarks. To achieve such target returns will require investments in assets that allow the Foundation to retain principal and purchasing power, i.e., keeping pace with inflation.

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). In recognition of the difficulty in predicting the direction of the markets or future state of the economy, the Foundation's assets are diversified among asset classes, managers/funds, and investment styles. The Board has currently determined that this "strategic asset allocation" in a range from 45% to 75% be allocated to equities, including domestic, international and real estate securities, and 20% to 40% be allocated to fixed-income investments and up to 20% in alternative investments. An allocation of 60%-10%-30% (equities-alternatives-fixed-income) is the "target" allocation. These proportions may vary in the above outlined ranges and are designed to reflect the long-term expectations for the Foundation. The Board will also review the portfolio on a regular basis (at least annually) to consider the portfolio's asset mix relative to its target and the allowable range around the target.

The Cleveland State University Foundation, Inc.

Notes to Financial Statements

June 30, 2016

Note 6: Net Asset Classification of Endowment Funds (continued)

Strategies Employed for Achieving Objectives (continued)

The investment strategy for the Foundation's portfolio may include domestic and international equities, fixed-income investments, and alternatives. Strategies of the Foundation's investment manager(s) may include investing in securities in another asset category and/or in derivatives, futures contract, and currency hedging. Alternatives include, but are not limited to, domestic and international equities, open-end and closed-end funds, real estate and real estate investment trusts, the shorting of securities, hedge funds, private equity, venture capital, and exchange-traded funds. It is expected the alternative investments in the aggregate will not increase the risk of the Foundation's portfolio beyond the level anticipated in the Foundation's investment strategy.

In addition to asset classes, the Foundation may be diversified between managers/funds and investment styles, as well. The purpose of this approach is to incorporate prudent diversification within the Foundation, enhancing expected returns, and/or reducing risk of the total portfolio. This structure will be reviewed by the investment committee on an ongoing basis as part of the overall monitoring process.

Spending Policy

The Foundation has a policy of appropriating for distribution 5% of its endowment funds' average fair value over the prior three fiscal years preceding the fiscal year in which the distribution is planned. In establishing this policy, the Foundation considered the long-term expected return on its endowments. This policy is consistent with the Foundation's objective to maintain the purchasing power of the endowment assets held in perpetuity, or for an otherwise specified term, as well as to provide additional real growth through new gifts and investment returns.

Note 7: Relationship with Related Entities

Certain program and general and administrative costs are reflected as Foundation expenses but are initially funded by the University with the expectation of repayment by the Foundation.

At June 30, 2016, the Foundation had accounts receivable due from the University of \$226,846.

At June 30, 2016, the Foundation had payables to the University of \$1,750,830.

At June 30, 2016, the Foundation is investing \$465,436 and \$13,831,081 of assets on behalf of the Cleveland State University Alumni Association and the University, respectively.

During the year ended June 30, 2016, the Foundation had program expenditures supporting the University of \$11,536,112.

During the year ended June 30, 2016, the Foundation recognized investment management fee income of \$36,307 from the Cleveland State University Alumni Association and the University.

**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***

Board of Directors
The Cleveland State University Foundation, Inc.

We have audited, 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, the financial statements of The Cleveland State University Foundation, Inc. (the “Foundation”), which comprise the statement of financial position as of June 30, 2016, and the related statements of activities and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated September 29, 2016.

Internal Control over Financial Reporting

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

Board of Directors
The Cleveland State University Foundation, Inc.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Foundation's 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.

Ciuni + Panichi, Inc.

Cleveland, Ohio
September 29, 2016

This page intentionally left blank.



Dave Yost • Auditor of State

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 13, 2016**