The Cleveland State University Foundation, Inc.

Financial Statements
June 30, 2017

Dave Yost · Auditor of State

Board of Directors
The Cleveland State University Foundation
2121 Euclid Avenue
Cleveland, Ohio 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, 2016 through June 30, 2017. 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.

Dave Yost

Dave Yost
Auditor of State

October 16, 2017

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The Cleveland State University Foundation, Inc.

Financial Statements

June 30, 2017

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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 corporation) (the "Foundation"), a component unit of Cleveland State University, which comprise the statement of financial position as of June 30, 2017, 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, 2017, 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 2016 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated September 29, 2016. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2016, 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 28, 2017 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 28, 2017

The Cleveland State University Foundation, Inc.

Statement of Financial Position

June 30, 2017 (with comparative totals for 2016)

Assets

		2017		2016
Cash and cash equivalents	$	3,363,969	$	2,661,308
Receivable from Cleveland State University		167,742		232,846
Contributions receivable, net		17,930,681		13,158,909
Funds held on behalf of others:				
Cleveland State University		3,329,145		13,831,081
Cleveland State University Alumni Association		524,897		465,436
Long-term investments		79,501,736		69,392,123
Total assets	$	104,818,170	$	99,741,703

Liabilities and Net Assets

		2017		2016
Liabilities:				
Accounts payable and accrued expenses	$	16,728	$	50,531
Payable to Cleveland State University		2,902,771		1,750,830
Annuities payable		114,657		124,859
Funds held on behalf of others:				
Cleveland State University		3,329,145		13,831,081
Cleveland State University Alumni Association		524,897		465,436
Total liabilities		6,888,198		16,222,737
Net Assets:				
Unrestricted:				
Undesignated		(867,527)		(1,310,367)
Board-designated – scholarships		186,714		174,380
Total unrestricted		(680,813)		(1,135,987)
Temporarily restricted		37,565,029		28,464,468
Permanently restricted		61,045,756		56,190,485
Total net assets		97,929,972		83,518,966
Total liabilities and net assets	$	104,818,170	$	99,741,703

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, 2017 (with comparative totals for 2016)

	Unrestricted	Temporarily Restricted	Permanently Restricted	2017 Total	2016 Total
Support and revenues:					
Contributions	$ 155,187	$ 14,868,820	$ 4,885,553	$ 19,909,560	$ 11,308,615
Management fees related to funds held on behalf of others	37,059	-	-	37,059	36,307
Management fees related to internal funds	694,611	(694,611)	-	-	-
Net assets released from restrictions	14,225,547	(14,225,547)	-	-	-
Total support and revenues	15,112,404	(51,338)	4,885,553	19,946,619	11,344,922
Expenses:					
Program services:					
Instruction and academic support	5,652,965	-	-	5,652,965	3,720,498
Research	493,272	-	-	493,272	454,436
Public service	1,231,138	-	-	1,231,138	1,263,683
Financial aid	5,183,885	-	-	5,183,885	4,791,829
Institutional support	429,538	-	-	429,538	363,668
Capital and other projects	1,177,651	-	-	1,177,651	941,998
Total program services	14,168,449	-	-	14,168,449	11,536,112
Supporting Services:					
Management and general	765,329	-	-	765,329	611,421
Fundraising	140,683	-	-	140,683	128,866
Total supporting services	906,012	-	-	906,012	740,287
Total expenses	15,074,461	-	-	15,074,461	12,276,399
Gains (losses):					
Investment income (loss), net	422,200	9,214,031	-	9,636,231	(1,924,778)
Provision for uncollectible contributions	(4,969)	(62,132)	(30,282)	(97,383)	134,084
Total gains (losses)	417,231	9,151,899	(30,282)	9,538,848	(1,790,694)
Change in net assets	455,174	9,100,561	4,855,271	14,411,006	(2,722,171)
Net assets – at beginning of the year	(1,135,987)	28,464,468	56,190,485	83,518,966	86,241,137
Net assets – at end of the year	$ (680,813)	$ 37,565,029	$ 61,045,756	$ 97,929,972	$ 83,518,966

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, 2017 (with comparative totals for 2016)

	2017	2016
Cash flows from operating activities:		
Change in net assets	$ 14,411,006	$ (2,722,171)
Adjustments to reconcile change in net assets to net cash used by operating activities:		
Net realized and unrealized (gain) loss on investments	(8,722,429)	4,391,166
Contributions restricted for investment in endowment	(5,044,812)	(3,390,490)
Provision for uncollectible contributions	97,383	(134,084)
Pledge discounts to net present value	933,860	(425,491)
Changes in operating assets and liabilities:		
Accounts receivable	65,104	137,131
Contributions receivable	(3,984,605)	1,295,850
Accounts payable	(33,803)	3,030
Payable to Cleveland State University	1,151,941	(587,911)
Annuities payable	(10,202)	(20,050)
Net cash used by operating activities	(1,136,557)	(1,453,020)
Cash flows from investing activities:		
Purchases of investments	(13,694,901)	(19,897,270)
Proceeds from sales of investments	12,307,717	17,663,819
Net cash used by investing activities	(1,387,184)	(2,233,451)
Cash flows from financing activities:		
Proceeds from collection of contributions restricted for investment in endowment	3,226,402	3,035,338
Net cash provided by financing activities	3,226,402	3,035,338
Increase (decrease) in cash and cash equivalents	702,661	(651,133)
Cash and cash equivalents, beginning of year	2,661,308	3,312,441
Cash and cash equivalents, end of year	$ 3,363,969	$ 2,661,308

The accompanying notes are an integral part of these financial statements

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, 2017.

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.

Reclassifications

Certain accounts in the prior year financial statements have been reclassified to conform with the presentation in the current year financial statements.

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, 2016, 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.

Note 1: Summary of Significant Accounting Policies (continued)

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 $734,602 at June 30, 2017.

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 $32,575 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, 2017, 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.

Note 1: Summary of Significant Accounting Policies (continued)

Concentrations of Credit Risk (continued)

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, 2017, approximately 49% of the Foundation's gross contributions receivable is due from three donors.

At various times during the year ended June 30, 2017, the Foundation's cash in bank balances exceeded federally insured limits.

Federal Income Taxes

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 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, 2017, 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 28, 2017, the date the financial statements were available to be issued.

Recent Accounting Pronouncements

In May 2015, the Financial Accounting Standards Board (FASB) amended ASC Topic 820, Fair Value Measurement, by removing the requirement to include investments in the fair value hierarchy for which fair value is measured using the net asset value per share practical expedient. This amendment is effective for nonpublic entities for fiscal years beginning after December 15, 2016, with early adoption permitted. The Corporation will be evaluating the potential impact of adopting this guidance on its financial statements.

Note 1: Summary of Significant Accounting Policies (continued)

Recent Accounting Pronouncements (continued)

In August 2016, the FASB issued Accounting Standards Update (ASU) No. 2016-14, "Not-For-Profit Entities (Topic 958): Presentation of Financial Statements of Not-For-Profit Entities" ("ASU 2016-14"). The purpose of ASU 2016-14 is to improve the current net asset classification requirements and the information presented in financial statements about a not-for-profit entity's liquidity, financial performance, and cash flows. Organizations may use either a full retrospective or a modified retrospective approach to adopt ASU 2016-14. ASU 2016-14 is effective for annual reporting periods beginning after December 15, 2017, and interim reporting periods within annual reporting periods beginning after December 15, 2018. Earlier application is permitted. The Corporation will be evaluating the potential impact of adopting this guidance on its financial statements.

In May 2014, the FASB issued Accounting Standards Update No. 2014-09, "Revenue from Contracts with Customers (Topic 606)" ("ASU 2014-09"). The core principle of ASU 2014-09 is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Organizations may use either a full retrospective or a modified retrospective approach to adopt ASU 2014-09. In August 2015, the FASB issued Accounting Standards Update No. 2015-14, "Revenue from Contracts with Customers (Topic 606): Deferral of the Effective Date," which delayed the effective date of ASU 2014-09 by one year. ASU 2014-09, as amended, is effective for nonpublic companies for annual reporting periods beginning after December 15, 2018, and interim reporting periods within annual reporting periods beginning after December 15, 2019. Earlier application is permitted only as of annual reporting periods beginning after December 15, 2016, including interim reporting periods within that reporting period. The Corporation will be evaluating the potential impact of adopting this guidance on its financial statements.

In February 2016, the FASB issued ASU No. 2016-02, "Leases (Topic 842)" ("ASU 2016-02"). The objective of ASU 2016-02 is to recognize lease assets and lease liabilities by lessees for those leases classified as operating leases under previous generally accepted accounting principles (GAAP). ASU 2016-02 is effective for fiscal years beginning after December 15, 2019, and interim periods within fiscal years beginning after December 15, 2020. Early adoption of ASU 2016-02 is permitted. The Corporation will be evaluating the potential impact of adopting this guidance on its financial statements.

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.

Amounts due as of June 30, 2017, are as follows:

Gross receivables due within:	
One year or less	$ 6,105,160
One to five years	10,011,220
Thereafter	7,594,737
	23,711,117
Discount	(5,414,504)
Allowance for uncollectible contributions	(365,932)
Contributions receivable, net	$ 17,930,681

Contributions receivable, net at June 30, 2017, have the following restrictions:

Instruction	$ 1,070,144
Research	130,830
Public service	239,453
Management and general	133,941
Financial aid	13,124,750
Capital and other projects	3,231,563
	$ 17,930,681

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 $2,750,000 at June 30, 2017. 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.

During the year ended June 30, 2017, the Foundation received a conditional promise to give for $389,993. The balance has not been collected as of June 30, 2017. This promise 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 donor.

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, 2017, are composed of the following:

	Cost	Carrying (fair) Value
Cash and cash equivalents	$ 111,019	$ 111,019
Stocks – domestic	412,689	535,353
Mutual funds – international	11,704,094	14,143,659
Mutual funds – domestic	22,229,934	31,061,566
Balanced fund	4,903,329	4,968,511
Fixed income securities	15,898,368	15,759,688
Alternative investments	10,753,688	12,921,940
Investments carried at fair value	$ 66,013,121	$ 79,501,736

Funds held on behalf of others at June 30, 2017, are composed of the following:

	Cost	Carrying (fair) Value
Cash and cash equivalents	$ 5,381	$ 5,381
Stocks – domestic	20,006	31,035
Mutual funds – international	1,055,101	685,649
Mutual funds – domestic	589,935	1,502,695
Balanced fund	237,701	240,861
Fixed income securities	770,713	763,159
Alternative investments	521,312	625,262
Investments carried at fair value	$ 3,200,149	$ 3,854,042

Investment income, net for the year ended June 30, 2017, as presented in the accompanying statement of activities includes the following:

Interest and dividends	$ 913,802
Realized and unrealized income, net	8,722,429
Total investment income, net	$ 9,636,231

Investment fees for the year ended June 30, 2017 were $66,695.

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.

Financial assets measured at fair value on a recurring basis consisted of the following at June 30, 2017:

	Level 1	Level 2	Level 3	Totals
Long-term investments:				
Common stocks	$ 566,388	$ -	$ -	$ 566,388
Mutual funds – international	14,829,308	-	-	14,829,308
Mutual funds – domestic	32,564,261	-	-	32,564,261
Balanced fund	5,209,372	-	-	5,209,372
Fixed income securities	-	16,522,847	-	16,522,847
Alternative investments	23,947	-	13,523,255	13,547,202
	$ 53,193,276	$ 16,522,847	$ 13,523,255	$ 83,239,378

The Foundation's fixed income securities are categorized as Level 2, 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, 2017:

Balance, June 30, 2016	$ 12,577,388
Additions	-
Unrealized gains, net	945,867
Balance, June 30, 2017	$ 13,523,255

Note 4: Fair Value Measurements (continued)

These unrealized gains are included in investment 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, 2017. 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, 2017.

The "Disclosures about Fair Value of Financial Instruments" topic of the FASB ASC requires disclosures of fair value information about financial instruments, whether or not recognized in the statements of financial position for which it is practicable to estimate that value. The assumptions used in the estimation of the fair value of the Foundation's financial instruments are detailed below. Where quoted prices are not available, fair values are based upon estimates using discounted cash flows and other valuation techniques. The use of discounted cash flows can be significantly affected by the assumptions used, including the discount rate and estimates of future cash flows.

The estimated fair values of the Foundation's financial instruments measured at other than fair value on a recurring basis are deemed to be materially equivalent to their carrying values based upon either the short-term nature of the financial instruments and/or the determination that discount rates utilized to initially value the financial instruments are similar to the rates that would be currently utilized to estimate fair value at the statement of financial position date.

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, 2017:

Instruction and academic support	$ 5,804,161
Research	1,087,245
Public service	5,114,375
Financial aid	21,327,985
Institutional support	1,239,972
Capital and other projects	2,991,291
	$ 37,565,029

Note 5: Temporarily and Permanently Restricted Net Assets (continued)

Permanently restricted net assets are held in perpetuity to support the following purposes at June 30, 2017:

Instruction and academic support	$ 13,048,404
Research	381,931
Public service	152,834
Financial aid	45,333,326
Institutional support	1,151,100
Capital and other projects	978,161
	$ 61,045,756

Net assets released from restriction during the year ended June 30, 2017 were as follows:

Instruction and academic support	$ 5,655,121
Research	493,272
Public service	1,231,138
Financial aid	5,235,785
Institutional support	429,538
Capital and other projects	1,180,693
	$ 14,225,547

Note 6: Net Asset Classification of Endowment Funds

The Foundation's endowments consist of approximately 360 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.

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

In accordance with SPMIFA, the Foundation considers the following factors in making a determination to appropriate or accumulated donor-restricted endowment funds:

- The duration and preservation of the funds
- The purposes of the Foundation and the donor-restricted endowment fund
- General economic conditions
- The possible effect of inflation and deflation
- The expected total return from income and the appreciation of investments
- Other resources of the Foundation
- The investment policies of the Foundation

During the year ended June 30, 2017, the Foundation had the following endowment related activities:

	Donor-Restricted Endowment Funds	Board-Designated Endowment Funds	Total
Investment return:			
Investment income	$ 1,178,250	$ 3,209	$ 1,181,459
Net unrealized gain	7,996,729	20,524	8,017,253
Total investment return	9,174,979	23,733	9,198,712
Contributions	4,272,461	-	4,272,461
Amounts appropriated for expenditure	(3,225,150)	(9,499)	(3,234,649)
Endowment management fees	(689,755)	(1,900)	(691,655)
Total change in endowment funds	$ 9,532,535	$ 12,334	$ 9,544,869

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

Endowment Net Asset Composition by Type of Fund as of June 30, 2017:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds	$ (81,268)	$ 25,888,628	$ 50,396,198	$ 76,203,558
Board-designated endowment funds	186,714	-	-	186,714
Total funds	$ 105,446	$ 25,888,628	$ 50,396,198	$ 76,390,272

Changes in Endowment Net Assets for the Fiscal Year Ended June 30, 2017:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year	$ (120,845)	$ 19,867,149	$ 47,099,099	$ 66,845,403
Investment return:				
Investment income	31,022	1,150,437	-	1,181,459
Net unrealized gain	206,668	7,810,585	-	8,017,253
Total investment return	237,690	8,961,022	-	9,198,712
Contributions	-	1,046,059	3,226,402	4,272,461
Transfers	-	(70,697)	70,697*	-
Amounts appropriated for expenditure	(9,499)	(3,225,150)	-	(3,234,649)
Endowment management fees	(1,900)	(689,755)	-	(691,655)
Endowment net assets, end of year	$ 105,446	$ 25,888,628	$ 50,396,198	$ 76,390,272

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

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	$ 50,396,198
Permanently restricted contributions receivable, net	10,649,558
Total permanently restricted net assets	$ 61,045,756

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

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 $81,268 as of June 30, 2017.

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 65% be allocated to equities, including domestic, international and real estate securities, and 15% to 25% be allocated to fixed-income investments and up to 30% in alternative investments. An allocation of 55%-25%-20% (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 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.

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

Strategies Employed for Achieving Objectives (continued)

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, 2017, the Foundation had accounts receivable due from the University of $167,742.

At June 30, 2017, the Foundation had payables to the University of $2,902,771.

At June 30, 2017, the Foundation is investing $524,897 and $3,329,145 of assets on behalf of the Cleveland State University Alumni Association and the University, respectively.

During the year ended June 30, 2017, the Foundation had program expenditures supporting the University of $14,168,449.

During the year ended June 30, 2017, the Foundation recognized investment management fee income of $37,059 from the Cleveland State University Alumni Association and the University.

Note 8: Subsequent Event

On July 1, 2017, the Foundation redeemed its investment in one of its alternative investments and reinvested the funds in Level 1 investments (see Note 4). Fair value on the date of redemption approximated fair value at June 30, 2017.

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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, 2017, 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 28, 2017.

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.

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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 28, 2017

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
NOVEMBER 9, 2017

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