

The Cleveland State University Foundation

Financial Report
June 30, 2021

OHIO AUDITOR OF STATE
KEITH FABER



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Board of Directors
The Cleveland State University Foundation
2121 Euclid Avenue
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We have reviewed the *Independent Auditor's Report* of The Cleveland State University Foundation, Cuyahoga County, prepared by RSM US LLP, for the audit period July 1, 2020 through June 30, 2021. 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 cursive script that reads "Keith Faber".

Keith Faber
Auditor of State
Columbus, Ohio

October 15, 2021

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RSM US LLP

Independent Auditor's Report

Board of Directors
The Cleveland State University Foundation

Report on the Financial Statements

We have audited the accompanying financial statements of The Cleveland State University Foundation (a nonprofit corporation), which comprise the statement of financial position as of June 30, 2021, the related statements of activities, functional expenses 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.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of The Cleveland State University Foundation as of June 30, 2021, and the changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Report on Summarized Comparative Information

We have previously audited The Cleveland State University Foundation's 2020 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated September 30, 2020. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2020, 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 30, 2021, on our consideration of The Cleveland State University 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 the effectiveness of The Cleveland State University Foundation's 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 Cleveland State University Foundation's internal control over financial reporting and compliance.

RSM US LLP

Cleveland, Ohio
September 30, 2021

The Cleveland State University Foundation

Statement of Financial Position

June 30, 2021

(With Comparative Totals at June 30, 2020)

	2021	2020
Assets		
Cash and cash equivalents	\$ 3,071,114	\$ 3,481,791
Contributions receivable, net	12,412,931	12,216,646
Cash surrender value of life insurance	272,917	258,305
Investments	119,977,296	94,275,375
	<hr/>	<hr/>
Total assets	\$ 135,734,258	\$ 110,232,117
	<hr/> <hr/>	<hr/> <hr/>
Liabilities and Net Assets		
Liabilities:		
Accounts payable and accrued expenses	\$ 40,705	\$ 59,338
Payable to Cleveland State University, net	3,322,702	3,259,589
Annuities payable	109,800	111,759
Funds held on behalf of others:		
Cleveland State University	4,281,380	3,387,555
Cleveland State University Alumni Association	760,343	589,657
	<hr/>	<hr/>
Total liabilities	8,514,930	7,407,898
Net assets:		
Without donor restrictions	862,155	373,131
With donor restrictions	126,357,173	102,451,088
	<hr/>	<hr/>
Total net assets	127,219,328	102,824,219
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Total liabilities and net assets	\$ 135,734,258	\$ 110,232,117

See notes to financial statements.

The Cleveland State University Foundation

Statement of Activities

Year Ended June 30, 2021

(With Comparative Totals at June 30, 2020)

	Without Donor Restrictions	With Donor Restrictions	2021 Total	2020 Total
Support and revenues:				
Contributions	\$ 105,080	\$ 11,755,999	\$ 11,861,079	\$ 9,887,517
Management fees related to funds held on behalf of others	39,973	-	39,973	39,563
Net assets released from restrictions	12,513,848	(12,513,848)	-	-
Gains (losses):				
Investment income, net	207,799	25,233,346	25,441,145	2,322,541
Provision for uncollectible contributions	(2,783)	(569,412)	(572,195)	(397,102)
Total support and revenues	12,863,917	23,906,085	36,770,002	11,852,519
Expenses:				
Program services	11,656,524	-	11,656,524	11,802,299
Supporting services:				
Management and general	601,685	-	601,685	661,520
Fundraising	116,684	-	116,684	94,683
Total supporting services	718,369	-	718,369	756,203
Total expenses	12,374,893	-	12,374,893	12,558,502
Change in net assets	489,024	23,906,085	24,395,109	(705,983)
Net assets:				
Beginning	373,131	102,451,088	102,824,219	103,530,202
Ending	\$ 862,155	\$ 126,357,173	\$ 127,219,328	\$ 102,824,219

See notes to financial statements.

The Cleveland State University Foundation

Statement of Functional Expenses
 Year Ended June 30, 2021
 (With Comparative Totals at June 30, 2020)

	Program Services						Support Services				2021 Total Expenses	2020 Total Expenses
	Instruction and Academic Support	Research	Public Service	Student Services and Scholarships	Institutional Support	Plant and Auxiliary	Total Program Services	Management and General	Fundraising	Total Support Services		
Grants and other assistance	\$ 3,326,074	\$ 178,007	\$ 567,910	\$ 6,502,956	\$ 20,465	\$ 715,216	\$ 11,310,628	\$ -	\$ -	\$ -	\$ 11,310,628	\$ 11,421,251
Personnel and related	78,693	-	-	18,109	-	-	96,802	386,008	48,094	434,102	530,904	588,837
Professional fees	16,467	-	4,118	1,700	83,331	-	105,616	111,770	-	111,770	217,386	158,729
Other expenses	28,748	-	-	472	51,151	-	80,371	102,062	-	102,062	182,433	140,808
Advertising and promotion	7,500	-	-	-	-	-	7,500	-	68,590	68,590	76,090	96,560
Conferences and meetings	8,478	-	-	-	18,892	520	27,890	1,291	-	1,291	29,181	113,975
Occupancy	17,608	-	-	406	540	-	18,554	46	-	46	18,600	3,541
Office expenses	3,115	-	-	-	6,048	-	9,163	508	-	508	9,671	21,394
Travel	-	-	-	-	-	-	-	-	-	-	-	13,407
Total	\$ 3,486,683	\$ 178,007	\$ 572,028	\$ 6,523,643	\$ 180,427	\$ 715,736	\$ 11,656,524	\$ 601,685	\$ 116,684	\$ 718,369	\$ 12,374,893	\$ 12,558,502

See notes to financial statements.

The Cleveland State University Foundation

Statement of Cash Flows

Year Ended June 30, 2021

(With Comparative Totals at June 30, 2020)

	2021	2020
Cash flows from operating activities:		
Change in net assets	\$ 24,395,109	\$ (705,983)
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Net realized and unrealized gain on investments	(25,392,727)	(136,629)
Contributions restricted for investment in endowment	(1,861,574)	(1,830,090)
Provision for uncollectible contributions	572,195	397,102
Pledge discounts to net present value	(1,735,165)	(582,724)
Increase in cash surrender value of life insurance	(14,612)	(14,335)
Changes in operating assets and liabilities:		
Contributions receivable, net	966,685	2,602,728
Accounts payable and accrued expenses	(18,633)	37,246
Payable to Cleveland State University	63,113	(1,047,144)
Annuities payable	(1,959)	(3,044)
Funds held on behalf of others	1,064,511	(48,621)
Net cash used in operating activities	(1,963,057)	(1,331,494)
Cash flows from investing activities:		
Purchases of investments	(1,878,220)	(7,941,524)
Proceeds from sales of investments	1,569,026	7,822,561
Net cash used in investing activities	(309,194)	(118,963)
Cash flows from financing activities:		
Proceeds from collection of contributions restricted for investment in endowment	1,861,574	1,830,090
Net cash provided by financing activities	1,861,574	1,830,090
Net (decrease) increase in cash and cash equivalents	(410,677)	379,633
Cash and cash equivalents:		
Beginning	3,481,791	3,102,158
Ending	\$ 3,071,114	\$ 3,481,791

See notes to financial statements.

The Cleveland State University Foundation

Notes to Financial Statements

Note 1. Summary of Significant Accounting Policies

Purpose and accounting method: The Cleveland State University Foundation (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 two net asset categories based upon the presence or absence of donor-imposed restrictions. A description of the categories follows:

Net assets without donor restrictions: Net assets whose use has not been limited by donors for any period of time or specified purpose. Net assets with board-designations are included in this category and are comprised of approximately \$901,000 for institutional support and \$220,000 for financial aid.

Net assets with donor restrictions: Net assets that include investment earnings from long-term investments, gifts and contributions receivable that are subject to donor-imposed restrictions as to time and/or purpose. When a donor restriction expires, net assets with donor restrictions are reclassified to net assets without donor restrictions 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.

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 (GAAP). Accordingly, such information should be read in conjunction with the Foundation's financial statements for the year ended June 30, 2020, from which the summarized information was derived.

Use of estimates: The preparation of the financial statements in conformity with GAAP 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.

The Cleveland State University Foundation

Notes to Financial Statements

Note 1. Summary of Significant Accounting Policies (Continued)

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 at the time of the gift, net of allowances. The estimated present value is computed using risk-free interest rates applicable to the years in which the promises are received. Promises made that are designated for future periods or restricted by the donor for specific purposes are reported as net assets with donor restrictions. 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 net assets with donor restrictions. Upon accumulation of minimum balance requirements, the net assets are transferred to endowment.

It is the Foundation's policy to record an allowance for uncollectible contributions when a donor has not made an expected payment on an unconditional promise to give. The allowance ranges from 20% to 80% of the unpaid amount, depending on the length of the delay in the expected payment.

Investments: Investments of debt and equity securities with readily determinable fair values are stated at fair value. Investment in alternative investments, which do not have readily determinable fair values, are carried at the Foundation's proportionate share of the fund's net asset value used as a practical expedient. Investments of funds with and without donor restrictions 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: 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 \$20,700 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, 2021, range from 5.1% to 9.0%. These obligations are reflected within annuities payable on the statement of financial position.

Funds held on behalf of others: Included in the Foundation's investments are assets held for Cleveland State University and the Cleveland State University Alumni Association. The assets held for these entities are maintained as separate funds on the financial system of the Foundation and receive a proportional share of the investment's activity. The Foundation owns the assets in the investments; the other entities have a financial interest in the investments but do not own the underlying assets. The Foundation has recorded a liability equal to the fair value for the assets held for other entities.

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.

The Cleveland State University Foundation

Notes to Financial Statements

Note 1. Summary of Significant Accounting Policies (Continued)

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 the investment 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.

At June 30, 2021, approximately 72% of the Foundation's gross contributions receivable is due from three donors.

At various times during the year ended June 30, 2021, the Foundation's cash in bank balances exceeded federally insured limits. The Foundation has not experienced any losses in such accounts. The Foundation believes it is not exposed to any significant credit risk on cash and cash equivalents.

Federal income taxes: The Foundation is a not-for-profit corporation as described in Section 501(c)(3) of the Internal Revenue Code (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, 2021, 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.

Functional allocation of expenses: The statement of functional expenses presents expenses by functional and natural classification. Expenses directly attributable to program services, management and general, and fundraising are reported as expenses of that functional area. Payroll expenses have been allocated between program, management and general and fundraising functions based on time spent in respective functions. All remaining expenses are directly attributable to functional expense categories and none were considered indirect costs requiring allocation.

Recent accounting pronouncement: In September 2020, the FASB issued Accounting Standards Update (ASU) 2020-07, *Not-for-Profit Entities (Topic 958): Presentation and Disclosures by Not-for-Profit Entities for Contributed Nonfinancial Assets*, which requires a not-for-profit entity to present contributed nonfinancial assets in the statement of activities as a line item that is separate from contributions of cash or other financial assets. ASU 2020-07 also requires additional qualitative and quantitative disclosures about contributed nonfinancial assets received, disaggregated by category. This guidance is effective for fiscal years beginning after June 15, 2021, and for interim periods within annual periods beginning after June 15, 2022. The adoption of ASU 2020-07 is not expected to have a significant impact on the Foundation's financial statements.

Subsequent events: The Foundation has evaluated subsequent events for potential recognition and/or disclosure through September 30, 2021, the date the financial statements were available to be issued.

The Cleveland State University Foundation

Notes to Financial Statements

Note 2. Contributions Receivable, Net

Contributions receivable are accounted for in accordance with FASB ASC topic, Revenue Recognition. Contributions receivable are initially recorded at fair value, which is the present value of estimated future cash receipts using a discount rate equivalent to the applicable U.S. Treasury Yield Curve Rate on the day of the pledge plus 0.05%, which ranged from 0.1% to 4.1%. The contributions receivable are also adjusted for an allowance for uncollectible contributions (see Note 1).

Amounts due as of June 30, 2021, are as follows:

Gross receivables due within:	
One year or less	\$ 2,846,390
One to five years	4,143,973
Thereafter	8,767,500
	<u>15,757,863</u>
Discount	(3,189,902)
Allowance for uncollectible contributions	<u>(155,030)</u>
Contributions receivable, net	<u>\$ 12,412,931</u>

At June 30, 2021, the Foundation had approximately \$676,000 in outstanding conditional promises to give. These promises are conditional on costs being incurred to promote particular programs and may be cancelled at any time by the donors if the donors are not satisfied with a particular program's progress. Accordingly, the Foundation is recognizing these promises as payments are received from the donors or as those conditions are otherwise met.

Note 3. Investments

Investments at June 30, 2021, are composed of the following:

	<u>Carrying Value</u>
Cash and cash equivalents	\$ 789,558
Stocks – domestic	1,322,367
Mutual funds – domestic	49,243,402
Mutual funds – international	23,977,110
Balanced fund	4,022,540
Fixed income securities	16,932,527
Fixed income – other	9,740
Investments carried at fair value	<u>96,297,244</u>
Alternative investments, at net asset value	<u>23,680,052</u>
Total investments	<u>\$ 119,977,296</u>

The Cleveland State University Foundation

Notes to Financial Statements

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, 2021:

	Level 1	Level 2	Level 3	Total
Long-term investments:				
Common stocks	\$ 1,322,367	\$ -	\$ -	\$ 1,322,367
Mutual funds – international	49,243,402	-	-	49,243,402
Mutual funds – domestic	23,977,110	-	-	23,977,110
Balanced fund	4,022,540	-	-	4,022,540
Fixed income securities	-	16,932,527	-	16,932,527
Fixed income securities – other	-	9,740	-	9,740
	<u>\$ 78,565,419</u>	<u>\$ 16,942,267</u>	<u>\$ -</u>	95,507,686
Investments valued at NAV*				23,680,052
Cash held in investment accounts				789,558
				<u>\$ 119,977,296</u>
Investment liabilities:				
Split-interest funds	\$ -	\$ -	\$ 109,800	\$ 109,800

*In accordance with *Fair Value Measurements* topic of the FASB ASC, certain investments that were measured at net asset value (NAV) per share (or its equivalent) have not been classified in the fair value hierarchy. The amounts presented in this table are intended to permit reconciliation of the fair value hierarchy to the line items presented in the statement of financial position.

The Cleveland State University Foundation

Notes to Financial Statements

Note 4. Fair Value Measurements (Continued)

The following table summarizes investments measured at estimate fair value based on NAV per share as of June 30, 2021:

Investment	Fair Value	Redemption Frequency (if currently eligible)	Redemption Notice Period
The Weatherlow Offshore Fund I Ltd. ^(a)	\$ 8,596,194	Quarterly	65 days
Black Diamond Arbitrage Ltd. ^(b)	5,126,561	Monthly	45 days
Harrison Street Core Property Fund, L.P. ^(c)	4,828,302	Monthly	45 days
White Oak Fixed Income Fund C, L.P. ^(d)	4,954,280	Bi-annual	180 days
GLASfunds SPC ^(e)	174,715	N/A	N/A

^(a) The Weatherlow Offshore Fund I Ltd. – This fund invests in The Weatherlow Fund I L.P. That fund is a partnership and is a multi-manager, multi-strategy fund-of-funds formed to invest predominantly in limited partnerships and similar pooled investment vehicles referred to as Portfolio Funds.

^(b) Black Diamond Arbitrage Ltd. – This fund invests in Black Diamond Arbitrage Offshore Ltd. That fund is an exempted, incorporated company that invests in securities of companies facing a major corporate event, such as a merger or acquisition.

^(c) Harrison Street Core Property Fund L.P.. – This fund is a limited partnership that was formed to invest primarily in real estate investments.

^(d) White Oak Fixed Income Fund C, L.P. – This fund is a limited partnership that was formed to lend and invest in a diversified portfolio of fixed income securities and corporate high yield bonds and bank debt.

^(e) GLASfunds SPC – This fund is a segregated portfolio company established to provide streamlined and efficient access to institutional level private equity and hedge funds.

Unfunded commitments associated with investments valued at NAV were \$362,785 as of June 30, 2021.

The Cleveland State University Foundation

Notes to Financial Statements

Note 5. Net Assets with Donor Restrictions

Net assets with donor restrictions are restricted for the following purposes at June 30, 2021:

Instruction and academic support	\$ 11,982,047
Research	1,290,080
Public service	5,204,193
Financial aid	37,197,178
Institutional support	3,608,148
Capital and other projects	483,757
	<u>\$ 59,765,403</u>

Net assets that are perpetual in nature, earnings from which are subject to endowment spending policy and appropriation at June 30, 2021, are as follows:

Instruction and academic support	\$ 14,231,203
Research	893,876
Public service	158,284
Financial aid	49,963,656
Institutional support	357,325
Capital and other projects	987,426
	<u>\$ 66,591,770</u>

Net assets released from restriction during the year ended June 30, 2021, were as follows:

Instruction and academic support	\$ 3,486,683
Research	178,007
Public service	572,028
Financial aid	6,523,643
Institutional support	192,444
Capital and other projects	715,736
Management fees related to internal funds	845,307
	<u>\$ 12,513,848</u>

The Cleveland State University Foundation

Notes to Financial Statements

Note 6. Net Asset Classification of Endowment Funds

The Foundation's endowments consist of approximately 430 individual funds, established for a variety of purposes and consisting of both donor-restricted endowment funds and funds designated by the Board of Directors (Board) to function as endowment. As required by GAAP, 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 has interpreted the Ohio-enacted version of the Uniform Prudent Management of Institutional Funds Act (UPMIFA) as requiring the maintenance of the purchasing power of the original gift amount contributed to an endowment fund, unless a donor stipulates to the contrary. As a result of this interpretation, when reviewing its donor-restricted endowment funds, the Foundation considers a fund to be underwater if the fair value of the fund is less than the sum of: (a) the original value of initial gifts (b) the original value of subsequent gifts and (c) accumulations to the fund that are required to be maintained in perpetuity in accordance with the direction of the applicable donor gift instrument. The Foundation has interpreted UPMIFA to permit spending from underwater funds in accordance with the prudent measures described under the law.

In accordance with UPMIFA, 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, 2021, the Foundation had the following changes in endowment net assets:

	Without Donor Restrictions	With Donor Restrictions	Total
Endowment net assets, beginning of year	\$ 877,798	\$ 83,738,917	\$ 84,616,715
Investment return:			
Investment income	13,522	1,288,692	1,302,214
Net realized and unrealized gain	248,083	23,623,658	23,871,741
Total investment return	261,605	24,912,350	25,173,955
Contributions	-	2,047,569	2,047,569
Amounts appropriated for expenditure	(9,944)	(3,399,185)	(3,409,129)
Endowment management fees	(9,380)	(832,594)	(841,974)
Endowment net assets, end of year	<u>\$ 1,120,079</u>	<u>\$ 106,467,057</u>	<u>\$ 107,587,136</u>

*Reclassification relates to endowment with clarification of donor intent.

The Cleveland State University Foundation

Notes to Financial Statements

Note 6. Net Asset Classification of Endowment Funds (Continued)

Endowment net asset composition by type of fund as of June 30, 2021:

	Without Donor Restrictions	With Donor Restrictions	Total
Donor-restricted endowment:			
Historical gift value	\$ -	\$ 60,719,983	\$ 60,719,983
Appreciation	-	45,747,074	45,747,074
Board-designated endowment	1,120,079	-	1,120,079
Total	<u>\$ 1,120,079</u>	<u>\$ 106,467,057</u>	<u>\$ 107,587,136</u>

Funds with deficiencies: From time to time, the fair value of assets associated with individual endowment funds with donor restrictions may fall below the level that the donor or UPMIFA requires the Foundation to retain as a fund of perpetual duration. Deficiencies of this nature exist in 2 donor-restricted endowment funds, which together have an original gift value of \$128,411, a current fair value of \$94,644 and a deficiency of \$33,767 as of June 30, 2021. These deficiencies resulted from unfavorable market fluctuations and release of spendable amounts before there were sufficient resources to cover the deficiencies.

The Foundation's policy is that if a particular endowment fund is underwater by more than 10%, spending is frozen until the fund is replenished through positive returns resulting in the fund being less than 10% underwater.

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 funds with donor restrictions that the Foundation must hold in perpetuity and on earnings from those funds, 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%-20%-25% (equities-fixed-income-alternatives) 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

Notes to Financial Statements

Note 6. Net Asset Classification of Endowment Funds (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 appropriation for distribution of 4-6% of its endowment funds' market value. It uses an inflationary banded method that requires a starting dollar point adjusted by the rate of inflation as determined by the rolling five-year average of the Consumer Price Index (CPI) for the U.S. Each year, the actual spending rate is compared to the established bands; currently 4-6%. If necessary, the Finance and Investment committees will adjust it to fit within the banded range. 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, 2021, the Foundation had accounts receivable due from the University of \$37,879 and payables to the University of \$3,360,581, presented as a net payable to the University on the Statement of Financial Position.

At June 30, 2021, the Foundation is investing \$4,281,380 and \$760,343 of assets on behalf of the University and the Cleveland State University Alumni Association, respectively.

During the year ended June 30, 2021, the Foundation had program expenditures supporting the University of \$11,656,524.

During the year ended June 30, 2021, the Foundation recognized investment management fee income of \$39,973 from the Cleveland State University Alumni Association and the University.

The Cleveland State University Foundation

Notes to Financial Statements

Note 8. Liquidity and Availability of Resources

The Foundation maintains a policy of structuring its financial assets to be available as its general expenditures, liabilities and other obligations come due.

The Foundation's financial assets available within one year of June 30, 2021, for general expenditures are as follows:

Financial assets at year end:	
Cash and cash equivalents	\$ 3,071,114
Contributions receivable, net	12,412,931
Cash surrender value of life insurance	272,917
Investments	<u>119,977,296</u>
Total financial assets	<u>135,734,258</u>
Less amounts not available to be used within one year:	
Net assets with donor restrictions	126,357,173
Funds held on behalf of others	5,041,723
Net assets with board-designations	<u>1,120,079</u>
Total amount unavailable for general expenditures within one year	<u>132,518,975</u>
Total financial assets available to management for general expenditures within one year	<u>\$ 3,215,283</u>

Under the spending policy for the endowment, 4-6% of the donor restricted and board-designated endowment is appropriated on an annual basis and is available for general expenditure. In addition, the Board has the option to repurpose the net assets with board-designations in their entirety for general expenditure.

Note 9. COVID-19

On January 30, 2020, the World Health Organization declared the Coronavirus outbreak (COVID-19) a "Public Health Emergency of International Concern" and on March 11, 2020, declared COVID-19 a pandemic. The coronavirus and actions taken to mitigate the spread of it have had, and is expected to continue to have, an adverse impact on the economies and financial markets, including the geographical area which the Foundation operates. The extent to which COVID-19 impacts the Foundation will depend on future developments, which are highly uncertain and cannot be predicted, including new information which may emerge concerning the severity of COVID-19 and actions taken to contain COVID-19 or its impact, among others.

**Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based
on an Audit of Financial Statements Performed in Accordance With *Government Auditing
Standards***

Independent Auditor's Report

Board of Directors
The Cleveland State University Foundation

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of The Cleveland State University Foundation, which comprise the statement of financial position as of June 30, 2021, and the related statements of activities, functional expenses and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated September 30, 2021.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered The Cleveland State University 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 Cleveland State University Foundation's internal control. Accordingly, we do not express an opinion on the effectiveness of The Cleveland State University 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.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether The Cleveland State University 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.

RSM US LLP

Cleveland, Ohio
September 30, 2021

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OHIO AUDITOR OF STATE KEITH FABER



CLEVELAND STATE UNIVERSITY FOUNDATION

CUYAHOGA COUNTY

AUDITOR OF STATE OF OHIO CERTIFICATION

This is a true and correct copy of the report, which is required to be filed pursuant to Section 117.26, Revised Code, and which is filed in the Office of the Ohio Auditor of State in Columbus, Ohio.



Certified for Release 11/4/2021

88 East Broad Street, Columbus, Ohio 43215
Phone: 614-466-4514 or 800-282-0370

This report is a matter of public record and is available online at
www.ohioauditor.gov