

**The Cleveland State University  
Foundation, Inc.**

**Financial Statements  
June 30, 2009**





Mary Taylor, CPA  
Auditor of State

Board of Directors  
Cleveland State University Foundation  
2121 Euclid Ave  
Keith Building, Room 1204  
Cleveland, Ohio 44115

We have reviewed the *Independent Auditors' Report* of the Cleveland State University Foundation, Cuyahoga County, prepared by Ciuni & Panichi, Inc., for the audit period July 1, 2008 through June 30, 2009. 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.

*Mary Taylor*

Mary Taylor, CPA  
Auditor of State

December 8, 2009

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# The Cleveland State University Foundation, Inc.

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## Independent Auditors' Report

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

We have audited the accompanying statement of financial position of The Cleveland State University Foundation, Inc. (the "Foundation") as of June 30, 2009, and the related statements of activities and cash flows for the year then ended. These financial statements are the responsibility of the Foundation's management. Our responsibility is to express an opinion on these financial statements based on our audit. The prior year summarized comparative information has been derived from the Foundation's 2008 financial statements, and in our report dated October 8, 2008, we expressed an unqualified opinion on those financial statements.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances but not for the purpose of expressing an opinion on the effectiveness of the Foundation's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of The Cleveland State University Foundation, Inc. as of June 30, 2009, 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.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 13, 2009, on our consideration of The Cleveland State University Foundation, Inc.'s internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, 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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and important for assessing the results of the audit.

*Ciuni + Panichi, Inc*

Cleveland, Ohio  
October 13, 2009

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# The Cleveland State University Foundation, Inc.

## Statement of Financial Position

June 30, 2009 (with comparative totals for 2008)

	<u>Assets</u>	
	<u>2009</u>	<u>2008</u>
Current assets:		
Cash and cash equivalents	\$ 4,909,635	\$ 7,128,858
Accounts receivable	63,674	26,771
Contributions receivable, net	704,079	924,383
Note receivable	<u>50,000</u>	<u>-</u>
Total current assets	<u>5,727,388</u>	<u>8,080,012</u>
Non-current assets:		
Contributions receivable, net	3,418,263	5,865,879
Long-term investments	30,928,404	32,675,020
Funds held on behalf of others:		
Cleveland State University	1,804,588	2,004,172
Cleveland State University Alumni Association	316,780	436,489
Note receivable	1,741,180	-
Deposit	<u>20,000</u>	<u>-</u>
Total non-current assets	<u>38,229,215</u>	<u>40,981,560</u>
Total assets	\$ <u>43,956,603</u>	\$ <u>49,061,572</u>

The accompanying notes are an integral part of these financial statements

# The Cleveland State University Foundation, Inc.

## Statement of Financial Position (continued)

June 30, 2009 (with comparative totals for 2008)

	<u>Liabilities and Net Assets</u>	
	<u>2009</u>	<u>2008</u>
Liabilities:		
Current liabilities:		
Accounts payable	\$ 165,062	\$ 33,696
Payable to Cleveland State University	741,381	138,544
Annuities payable	<u>29,847</u>	<u>34,498</u>
Total current liabilities	936,290	206,738
Non-current liabilities:		
Payable to Cleveland State University	36,115	59,762
Annuities payable	108,141	189,648
Funds held on behalf of others:		
Cleveland State University	1,804,588	2,004,172
Cleveland State University Alumni Association	<u>316,780</u>	<u>436,489</u>
Total non-current liabilities	<u>2,265,624</u>	<u>2,690,071</u>
Total liabilities	3,201,914	2,896,809
Net Assets:		
Unrestricted:		
Undesignated	(2,219,137)	320,485
Board-designated – scholarships	<u>130,130</u>	<u>170,472</u>
Total unrestricted	(2,089,007)	490,957
Temporarily restricted	12,224,957	16,219,353
Permanently restricted	<u>30,618,739</u>	<u>29,454,453</u>
Total net assets	<u>40,754,689</u>	<u>46,164,763</u>
Total liabilities and net assets	\$ <u>43,956,603</u>	\$ <u>49,061,572</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, 2009 (with comparative totals for 2008)**

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>2009 Total</u>	<u>2008 Total</u>
Revenues:					
Contributions	\$ 210,533	\$ 4,701,789	\$ 2,264,172	\$ 7,176,494	\$ 8,400,117
Endowment management fee	28,171	-	-	28,171	29,439
Change in donor restrictions	-	(155,114)	155,114	-	-
Net assets released from restrictions	<u>4,612,736</u>	<u>(4,612,736)</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total revenues	4,851,440	(66,061)	2,419,286	7,204,665	8,429,556
Expenses and losses:					
Program services:					
Instruction	973,373	-	-	973,373	742,811
Research	182,164	-	-	182,164	213,019
Public service	1,110,466	-	-	1,110,466	1,468,290
Academic support	114,560	-	-	114,560	163,462
Financial aid	1,299,264	-	-	1,299,264	1,003,811
Institutional support	332,688	-	-	332,688	118,317
Auxiliary enterprises	<u>564,632</u>	<u>-</u>	<u>-</u>	<u>564,632</u>	<u>2,270,496</u>
Total program services	4,577,147	-	-	4,577,147	5,980,206
Supporting Services					
Management and general	412,477	-	-	412,477	420,344
Fund raising	<u>136,743</u>	<u>-</u>	<u>-</u>	<u>136,743</u>	<u>59,739</u>
Total supporting services	549,220	-	-	549,220	480,083
Losses:					
Investment loss, including realized and unrealized losses, net	2,305,037	3,349,946	-	5,654,983	3,384,347
Provision for uncollectible contributions	<u>-</u>	<u>578,389</u>	<u>1,255,000</u>	<u>1,833,389</u>	<u>162,970</u>
Total expenses and losses	<u>7,431,404</u>	<u>3,928,335</u>	<u>1,255,000</u>	<u>12,614,739</u>	<u>10,007,606</u>
Change in net assets	(2,579,964)	(3,994,396)	1,164,286	(5,410,074)	(1,578,050)
Net assets – beginning	<u>490,957</u>	<u>16,219,353</u>	<u>29,454,453</u>	<u>46,164,763</u>	<u>47,742,813</u>
Net assets – ending	\$ <u>(2,089,007)</u>	\$ <u>12,224,957</u>	\$ <u>30,618,739</u>	\$ <u>40,754,689</u>	\$ <u>46,164,763</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, 2009 (with comparative totals for 2008)**

	2009	2008
Cash flows from operating activities:		
Change in net assets	\$ (5,410,074)	\$ (1,578,050)
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Realized loss (gain) on sale of investments	2,772,376	(170,184)
Net unrealized loss in the fair market value of investments	4,551,160	5,713,164
Contributions restricted for investment in endowment	(2,264,172)	(3,700,822)
Contributions receivable written-off	1,755,000	148,876
Changes in operating assets and liabilities:		
Accounts receivable	(36,903)	125,271
Contributions receivable	(638,655)	1,052,618
Accounts payable	131,366	19,176
Annuities payable	(86,158)	81,986
Payable to Cleveland State University	<u>579,190</u>	<u>(2,541,722)</u>
Net cash provided by (used in) operating activities	1,353,130	(849,687)
Cash flows from investing activities:		
Deposit on property purchase	(20,000)	-
Acquisition of note receivable	(1,791,180)	-
Proceeds from sales of investments	13,498,085	1,035,846
Purchases of investments	<u>(19,075,005)</u>	<u>(4,064,450)</u>
Net cash used in investing activities	<u>(7,388,100)</u>	<u>(3,028,604)</u>
Cash flows from financing activities:		
Proceeds from collection of contributions restricted for investment in endowment	<u>3,815,747</u>	<u>1,808,730</u>
Net cash provided by financing activities	<u>3,815,747</u>	<u>1,808,730</u>
Decrease in cash and cash equivalents	(2,219,223)	(2,069,561)
Cash and cash equivalents, beginning of year	<u>7,128,858</u>	<u>9,198,419</u>
Cash and cash equivalents, end of year	\$ <u><u>4,909,635</u></u>	\$ <u><u>7,128,858</u></u>

The accompanying notes are an integral part of these financial statements

# The Cleveland State University Foundation, Inc.

## Notes to Financial Statements

June 30, 2009

### 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 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; includes all revenues, expenses, gains, and losses that are not changes in temporarily or permanently restricted net assets.

*Board-designated – scholarships* are unrestricted net assets that have been designated by the Board to be used for scholarship purposes.

*Temporarily restricted net assets* include gifts and pledge receivables 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 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 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 accomplished, restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

#### Reclassification

Certain accounts in the prior year financial statements have been reclassified for comparative purposes 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, 2008, from which the summarized information was derived.

# The Cleveland State University Foundation, Inc.

## Notes to Financial Statements

June 30, 2009

### Note 1: Summary of Significant Accounting Policies (continued)

#### Cash and Cash Equivalents

For purposes of the statement of cash flows, the Foundation considers all highly liquid debt instruments with a maturity of three months or less to be cash equivalents.

#### Investments

Investments of unrestricted, temporarily restricted, and permanently restricted funds are pooled for making investment transactions and are carried at fair market value. Interest and dividend income, as well as realized and unrealized gains and losses, are allocated to the funds quarterly using the unitized fair value method of accounting for pooled investment funds.

#### Contributions and Notes Receivable

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 designed 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 stipulations 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 not generally to exceed 48 months, for the accumulation of contributions and interest to meet the minimum principal balance requirements.

Notes receivable are considered delinquent by management on a case by case basis.

#### Fair Value of Financial Instruments

The Foundation's financial instruments consist principally of cash and investments, contribution and grant receivables, accounts payable, and other accrued liabilities in which the fair value of these financial instruments approximates the carrying value.

#### 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.

# The Cleveland State University Foundation, Inc.

## Notes to Financial Statements

June 30, 2009

### 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 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 various times during the year ended June 30, 2009, the Foundation's cash in bank balances may exceed the federally insured limits. The Foundation places its cash and temporary investments with creditworthy, high-quality financial institutions. Effective November 21, 2008, the Federal Deposit Insurance Corporation ("FDIC") adopted a Final Rule to implement its Temporary Liquidity Guarantee Program ("TLGP"). The Transaction Account Guarantee Program ("TAGP"), which is part of the FDIC's TLGP, provides an unlimited U.S. government-backed guarantee on all dollars in non-interest bearing deposit transaction accounts held in the U.S. offices of FDIC insured institutions. This coverage will last through December 31, 2009.

#### Subsequent Events

In preparing these financial statements, the Foundation has evaluated events and transactions for potential recognition or disclosure through October 13, 2009, the date the financial statements were available to be issued.

#### Endowment Management Fees

On October 31, 1997, the Foundation implemented a 1% fee to be levied by the Foundation for managing funds held on behalf of related entities. Total endowment management fees for the year ended June 30, 2009, were \$28,171.

#### Gift Annuities

The Foundation is obligated under various annuity contracts, whereby donors have contributed cash to the Foundation with the agreement that the donor shall be the sole recipient of annual annuity payments. These annual payments, currently totaling \$29,847 per year, shall terminate on the last payment date preceding the death of the donor. The discount rates used to estimate the obligations at June 30, 2009, range from 6.5% through 10.0%.

# The Cleveland State University Foundation, Inc.

## Notes to Financial Statements

June 30, 2009

### 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.

In accordance with the Financial Accounting Standards Board (“FASB”) Staff Position (“FSP”) 48-3, the Foundation has elected to defer implementation of FASB Interpretation No. 48, *Accounting for Uncertainty in Income Taxes*. Uncertain income tax positions are evaluated at least annually by management. The Foundation’s current policy is to follow Statement of Financial Accounting Standard (“SFAS”) No. 5, *Accounting for Contingencies*, when determining whether to accrue or disclose uncertain income tax positions.

### Note 2: Cash and Cash Equivalents

Cash and cash equivalents consisted of the following at June 30, 2009:

Cash	\$ 567,444
Money market mutual fund	<u>4,342,191</u>
	\$ <u><u>4,909,635</u></u>

### Note 3: Contributions Receivable

Contributions receivable are accounted for in accordance with FASB SFAS No. 116, *Accounting for Contributions Received and Contributions Made*. 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 5% of the discounted contributions receivable balance. Amounts due as of June 30, 2009, are as follows:

Gross receivables due within:	
One year or less	\$ 2,061,971
One to five years	<u>2,638,309</u>
	4,700,280
Discount	(360,972)
Allowance for uncollectible contributions	<u>(216,966)</u>
Contributions receivable, net	\$ <u><u>4,122,342</u></u>

# The Cleveland State University Foundation, Inc.

## Notes to Financial Statements

June 30, 2009

### Note 3: Contributions Receivable (continued)

Included in the amount to be received in one year or less is \$1,254,791, which represents amounts due on permanently restricted contributions. As such, these amounts have been classified as non-current assets on the statement of financial position.

Contributions receivable, net at June 30, 2009, have the following restrictions:

Instruction	\$	578,875
Research		438,631
Public service		85,703
Academic support		2,271
Financial aid		1,897,325
Institutional support		299,250
Auxiliary enterprises		<u>820,287</u>
	\$	<u>4,122,342</u>

### Note 4: Conditional Promise to Give

During the year ended June 30, 2009, the Foundation received a conditional promise to give of \$1,000,000. This conditional promise will not be recognized in the financial statements until the conditions upon which the promise depends have been substantially met. The conditional promise to give is related to the Allen Theatre Project and is conditional upon certain planning elements of the project being completed.

### Note 5: Note Receivable

Note receivable dated June 16, 2009, due from Euclid Avenue Housing Corporation (the "Corporation"), beginning September 1, 2009, due in monthly installments of \$5,000, plus interest fixed at a rate of 9%, through July 2039. Interest charged from the date of the note through August 31, 2009, will be capitalized into the principal of the note. The note is secured by mortgage deed on a building and real property (Note 10).

	<u>2009</u>
	1,791,180
Less current portion	<u>(50,000)</u>
Notes receivable, long-term portion	\$ <u><u>1,741,180</u></u>

# The Cleveland State University Foundation, Inc.

## Notes to Financial Statements

June 30, 2009

### Note 5: Note Receivable (continued)

Annual maturities of note receivable are as follows:

2010	\$	50,000
2011		60,000
2012		60,000
2013		60,000
2014		60,000
Thereafter		<u>1,501,180</u>
	\$	<u><u>1,791,180</u></u>

### Note 6: Long-Term Investments

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

Investments at June 30, 2009, are composed of the following:

	<u>Cost</u>	<u>Market</u>
Stocks – domestic	\$ 6,331,974	\$ 6,835,009
Mutual funds – domestic	19,453,278	16,570,428
Mutual funds – international	2,592,615	2,756,628
Fixed income securities	<u>4,771,895</u>	<u>4,766,339</u>
	\$ <u><u>33,149,762</u></u>	\$ <u><u>30,928,404</u></u>

Funds held on behalf of others at June 30, 2009, are composed of the following:

	<u>Cost</u>	<u>Market</u>
Stocks – domestic	\$ 434,290	\$ 468,877
Mutual funds – domestic	1,334,239	1,136,514
Mutual funds – international	177,819	189,069
Fixed income securities	<u>327,288</u>	<u>326,908</u>
	\$ <u><u>2,273,636</u></u>	\$ <u><u>2,121,368</u></u>

# The Cleveland State University Foundation, Inc.

## Notes to Financial Statements

June 30, 2009

### Note 6: Long-Term Investments (continued)

Investment loss, net for the year ended June 30, 2009, as presented in the accompanying statement of activities is comprised of the following:

Interest and dividends	\$ 1,668,553
Realized loss, net	(2,772,376)
Unrealized loss, net	<u>(4,551,160)</u>
Total investment loss, net	\$ <u>(5,654,983)</u>

### Note 7: Fair Value Measurements

On July 1, 2008, the Foundation adopted FASB SFAS No. 157, *Fair Value Measurements*, for measuring “financial” assets and liabilities. SFAS 157 defines fair value as the price received to transfer an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. SFAS 157 establishes a framework for measuring fair value by creating a hierarchy of valuation inputs used to measure fair value. 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 inputs are quoted prices for similar assets and liabilities in active markets or inputs that are observable for the asset or liability, either directly or indirectly; 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 and are based on the best available information, which has been internally developed.

In accordance with FASB FSP 157-2, the Foundation has elected to not apply the provisions of SFAS 157 to non-financial assets and liabilities, except for those items that are recognized or disclosed at fair value in an entity’s financial statements on a recurring basis.

Financial assets consisted of the following at June 30, 2009:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Money market funds	\$ 4,342,191	\$ -	\$ -	\$ 4,342,191
Stocks – domestic	7,303,886	-	-	7,303,886
Mutual funds – domestic	17,706,942	-	-	17,706,942
Mutual funds – international	2,945,697	-	-	2,945,697
Fixed income securities	<u>-</u>	<u>5,093,247</u>	<u>-</u>	<u>5,093,247</u>
	\$ <u>32,298,716</u>	\$ <u>5,093,247</u>	\$ <u>-</u>	\$ <u>37,391,963</u>

# The Cleveland State University Foundation, Inc.

## Notes to Financial Statements

June 30, 2009

### Note 8: Temporarily and Permanently Restricted Net Assets

Temporarily restricted net assets are those whose use by the Foundation has been limited by donors to a specific time period or purpose.

Temporarily restricted net assets are available for the following purposes at June 30, 2009:

Instruction	\$	3,008,626
Research		144,215
Public service		4,038,942
Academic support		908,351
Financial aid		2,576,955
Institutional support		490,815
Auxiliary enterprises		<u>1,057,053</u>
	\$	<u>12,224,957</u>

Temporarily restricted net assets were released from restriction for the following purposes during the year ended June 30, 2009:

Instruction	\$	973,373
Research		182,164
Public service		1,110,466
Academic support		114,560
Financial aid		1,299,264
Institutional support		332,688
Auxiliary enterprises		564,632
Other		<u>35,589</u>
	\$	<u>4,612,736</u>

Permanently restricted net assets are held in perpetuity to support the following purposes at June 30, 2009:

Instruction	\$	6,084,152
Research		757,424
Public service		50,567
Academic support		900,326
Financial aid		21,720,151
Institutional support		1,068,801
Auxiliary enterprises		<u>37,318</u>
	\$	<u>30,618,739</u>

# The Cleveland State University Foundation, Inc.

## Notes to Financial Statements

June 30, 2009

### Note 9: Net Asset Classification of Endowment Funds

The Foundation's endowments consist of approximately 270 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 Fund 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 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.
- (4) The investment policies of the Foundation.

During the year ended June 30, 2009, The Cleveland State University Foundation Inc. had the following endowment related activities:

	Donor-Restricted Endowment Funds	Board-Designated Endowment Funds	Total
Investment return			
Investment loss	\$ (1,265,583)	\$ (6,080)	\$ (1,271,663)
Net unrealized loss	(4,351,163)	(23,224)	(4,374,387)
Total investment return	(5,616,746)	(29,304)	(5,646,050)
Contributions to perpetual endowment	3,947,364	-	3,947,364
Amounts appropriated for expenditure	(1,220,377)	(9,198)	(1,229,575)
Endowment management fee	(346,608)	(1,840)	(348,448)
Total change in endowment funds	\$ <u>(3,236,367)</u>	\$ <u>(40,342)</u>	\$ <u>(3,276,709)</u>

# The Cleveland State University Foundation, Inc.

## Notes to Financial Statements

**June 30, 2009**

**Note 9: Net Asset Classification of Endowment Funds (continued)**

Endowment Net Asset Composition by Type of Fund  
As of June 30, 2009:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Donor-restricted endowment funds	\$ (2,620,120)	\$ 6,900,802	\$ 28,052,898	\$ 32,333,580
Board-designated endowment funds	<u>130,130</u>	<u>-</u>	<u>-</u>	<u>130,130</u>
Total funds	<u>\$ (2,489,990)</u>	<u>\$ 6,900,802</u>	<u>\$ 28,052,898</u>	<u>\$ 32,463,710</u>

Changes in Endowment Net Assets  
For the Fiscal Year Ended June 30, 2009:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets, beginning of year	\$ 170,472	\$ 11,487,910	\$ 24,082,037	\$ 35,740,419
Investment return:				
Investment income	(6,080)	(1,265,583)	-	(1,271,663)
Net unrealized loss	<u>(2,643,344)</u>	<u>(1,731,043)</u>	<u>-</u>	<u>(4,374,387)</u>
Total investment return	(2,649,424)	(2,996,626)	-	(5,646,050)
Contributions	-	131,617	3,815,747	3,947,364
Appropriation of endowment assets for expenditure	(9,198)	(1,220,377)	-	(1,229,575)
Endowment management fee	(1,840)	(346,608)	-	(348,448)
Change in donor restriction	<u>-</u>	<u>(155,114)</u>	<u>155,114</u>	<u>-</u>
Endowment net assets, end of year	<u>\$ (2,489,990)</u>	<u>\$ 6,900,802</u>	<u>\$ 28,052,898</u>	<u>\$ 32,463,710</u>

Permanently Restricted Net Assets:

The portion of perpetual endowment funds that is required to be retained permanently either by explicit donor stipulation or by SPMIFA	\$ <u>25,432,778</u>
Total endowment funds classified as permanently restricted net assets	\$ <u>28,052,898</u>

# The Cleveland State University Foundation, Inc.

## Notes to Financial Statements

June 30, 2009

### Note 9: Net Asset Classification of Endowment Funds (continued)

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

Permanently restricted net assets within endowment fund	\$ 28,052,898
Permanently restricted contributions included in contributions receivable, net	<u>2,565,841</u>
Total permanently restricted net assets	\$ <u>30,618,739</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 \$2,620,120 as of June 30, 2009. These deficiencies resulted from unfavorable market fluctuations that occurred during the economic downturn that was experienced in the United States and worldwide.

### 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 requires superior performance to retain Foundation 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%-75% be allocated to equities, including 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, 2009

### **Note 9: 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 and 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 4% to 6% of its endowment fund's 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 endowment. 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 10: Relationship with Related Entities**

A significant portion of the general and administrative expenses of the Foundation, including certain salaries and other operating costs, are paid directly by the University and are not reflected as operating expenses of the Foundation. Certain other program costs are reflected as Foundation expenses but are initially funded by the University with the expectation of repayment by the Foundation.

At June 30, 2009, the Foundation had accounts receivable due from the University of \$54,674.

At June 30, 2009, the Foundation had payables to the University of \$777,496.

During 1997, the Foundation began investing funds of the Cleveland State University Alumni Association. At June 30, 2009, the Foundation is investing \$316,780 of assets on behalf of the Cleveland State University Alumni Association.

# The Cleveland State University Foundation, Inc.

## Notes to Financial Statements

June 30, 2009

### Note 10: Relationship with Related Entities (continued)

During 1998, the Foundation began investing funds of the University. At June 30, 2009, the Foundation is investing \$1,804,588 of assets on behalf of the University.

During 2008, the Foundation acquired a note receivable (Note 5) to Euclid Avenue Housing Corporation (the "Corporation"). The Corporation is a related party to both the Foundation and the University.

During 2009, the Foundation had program expenditures of \$4,577,147 supporting the University as follows:

	<u>Transfers</u>	<u>Other Expenditures</u>	<u>Total</u>
Instruction	\$ 845,427	\$ 127,946	\$ 973,373
Research	182,164	-	182,164
Public service	961,310	149,156	1,110,466
Academic support	112,073	2,487	114,560
Financial aid	1,287,632	11,632	1,299,264
Institutional support	79,827	252,861	332,688
Auxiliary enterprises	<u>452,764</u>	<u>111,868</u>	<u>564,632</u>
	<u>\$ 3,921,197</u>	<u>\$ 655,950</u>	<u>\$ 4,577,147</u>



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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.  
Cleveland, Ohio

We have audited the financial statements of The Cleveland State University Foundation, Inc. as of and for the year ended June 30, 2009, and have issued our report thereon dated October 13, 2009. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered The Cleveland State University Foundation, Inc.'s internal control over financial reporting as a basis for designing our auditing procedures 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, Inc.'s internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of The Cleveland State University Foundation, Inc.'s internal control over financial reporting.

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects The Cleveland State University Foundation, Inc.'s ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of The Cleveland State University Foundation, Inc.'s financial statements, that is more than inconsequential, will not be prevented or detected by The Cleveland Statement University Foundation, Inc.'s internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by The Cleveland State University Foundation, Inc.'s internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

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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 Cleveland State University Foundation, Inc.'s financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we reported to management of The Cleveland State University Foundation, Inc. in a separate letter dated October 13, 2009.

This report is intended solely for the information and use of the management, the Board of Directors, and Ohio Auditor of State's office and is not intended to be and should not be used by anyone other than these specified parties.

*Cimini + Panichi, Inc.*

Cleveland, Ohio  
October 13, 2009





**Mary Taylor, CPA**  
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  
FEBRUARY 9, 2010**