

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

**Financial Statements  
June 30, 2012**





# Dave Yost • Auditor of State

Board of Directors  
The Cleveland State University Foundation, Inc.  
2121 Euclid Avenue  
Cleveland, Ohio 44115

We have reviewed the *Independent Auditors' Report* of the Cleveland State University Foundation, Cuyahoga County, prepared by Ciuni & Panichi, for the audit period July 1, 2011 through June 30, 2012. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

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

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

Dave Yost  
Auditor of State

December 20, 2012

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# The Cleveland State University Foundation, Inc.

## Financial Statements

June 30, 2012

### Table of Contents

	<u>Page</u>
Independent Auditor's Report .....	1
Statement of Financial Position .....	2-3
Statement of Activities .....	4
Statement of Cash Flows .....	5
Notes to Financial Statements .....	6-20
Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i> .....	21-22

## Independent Auditor's 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, 2012, 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 2011 financial statements, and in our report dated October 26, 2011, 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 includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Foundation as of June 30, 2012, 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 9, 2012, 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 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 should be considered in assessing the results of our audit.

*Ciuni + Panichi, Inc.*

Cleveland, Ohio  
October 9, 2012

# The Cleveland State University Foundation, Inc.

## Statement of Financial Position

June 30, 2012 (with comparative totals for 2011)

	<u>Assets</u>	
	<u>2012</u>	<u>2011</u>
Current assets:		
Cash and cash equivalents	\$ 3,346,274	\$ 4,168,736
Accounts receivable	595,790	387,869
Contributions receivable, net	<u>1,660,074</u>	<u>1,034,821</u>
Total current assets	5,602,138	5,591,426
Non-current assets:		
Contributions receivable, net	8,906,214	6,880,023
Long-term investments	54,700,811	52,409,575
Funds held on behalf of others:		
Cleveland State University	2,530,750	2,590,934
Cleveland State University Alumni Association	<u>353,081</u>	<u>366,939</u>
Total non-current assets	<u>66,490,856</u>	<u>62,247,471</u>
Total assets	\$ <u>72,092,994</u>	\$ <u>67,838,897</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, 2012 (with comparative totals for 2011)

	<u>Liabilities and Net Assets</u>	
	<u>2012</u>	<u>2011</u>
Liabilities:		
Current liabilities:		
Accounts payable	\$ 31,666	\$ 19,243
Current portion of note payable	39,996	39,996
Payable to Cleveland State University	2,343,930	1,051,798
Current portion of annuities payable	<u>33,376</u>	<u>32,517</u>
Total current liabilities	2,448,968	1,143,554
Non-current liabilities:		
Note payable, net of current portion	644,747	684,743
Annuities payable, net of current portion	104,169	108,186
Funds held on behalf of others:		
Cleveland State University	2,530,750	2,590,934
Cleveland State University Alumni Association	<u>353,081</u>	<u>366,939</u>
Total non-current liabilities	<u>3,632,747</u>	<u>3,750,802</u>
Total liabilities	6,081,715	4,894,356
Net Assets:		
Unrestricted:		
Undesignated	(1,178,606)	(184,387)
Board-designated – scholarships	<u>164,391</u>	<u>164,169</u>
Total unrestricted	(1,014,215)	(20,218)
Temporarily restricted	24,021,694	22,395,040
Permanently restricted	<u>43,003,800</u>	<u>40,569,719</u>
Total net assets	<u>66,011,279</u>	<u>62,944,541</u>
Total liabilities and net assets	\$ <u>72,092,994</u>	\$ <u>67,838,897</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, 2012 (with comparative totals for 2011)**

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>2012 Total</u>	<u>2011 Total</u>
Support and revenues:					
Contributions	\$ 179,498	\$ 5,477,086	\$ 2,466,566	\$ 8,123,150	\$ 11,695,550
Endowment management fees	23,797	-	-	23,797	22,073
Net assets released from restrictions	<u>3,444,332</u>	<u>(3,444,332)</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total support and revenues	3,647,627	2,032,754	2,466,566	8,146,947	11,717,623
Expenses:					
Program services:					
Instruction	964,479	-	-	964,479	1,205,368
Research	342,150	-	-	342,150	277,630
Public service	797,349	-	-	797,349	604,623
Academic support	53,583	-	-	53,583	72,434
Financial aid	709,690	-	-	709,690	1,374,347
Institutional support	122,906	-	-	122,906	118,664
Auxiliary enterprises	<u>454,175</u>	<u>-</u>	<u>-</u>	<u>454,175</u>	<u>786,456</u>
Total program services	3,444,332	-	-	3,444,332	4,439,522
Supporting Services:					
Management and general	489,459	-	-	489,459	523,869
Fundraising	<u>196,141</u>	<u>-</u>	<u>-</u>	<u>196,141</u>	<u>100,671</u>
Total supporting services	<u>685,600</u>	<u>-</u>	<u>-</u>	<u>685,600</u>	<u>624,540</u>
Total expenses	4,129,932	-	-	4,129,932	5,064,062
Gains (losses):					
Investment (loss) gain, including realized and unrealized (losses) gains, net	(43,644)	(766,280)	-	(809,924)	8,823,943
Provision for uncollectible contributions	<u>(79)</u>	<u>(86,685)</u>	<u>(53,589)</u>	<u>(140,353)</u>	<u>(202,854)</u>
Total gains (losses)	<u>(43,723)</u>	<u>(852,965)</u>	<u>(53,589)</u>	<u>(950,277)</u>	<u>8,621,089</u>
Change in net assets	(526,028)	1,179,789	2,412,977	3,066,738	15,274,650
Net assets – beginning	(20,218)	22,395,040	40,569,719	62,944,541	47,669,891
Reclassification of net assets (Note 1)	<u>(467,969)</u>	<u>446,865</u>	<u>21,104</u>	<u>-</u>	<u>-</u>
Net assets – ending	\$ <u>(1,014,215)</u>	\$ <u>24,021,694</u>	\$ <u>43,003,800</u>	\$ <u>66,011,279</u>	\$ <u>62,944,541</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, 2012 (with comparative totals for 2011)**

	2012	2011
Cash flows from operating activities:		
Change in net assets	\$ 3,066,738	\$ 15,274,650
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Net realized and unrealized loss (gain) on investments	2,202,349	(7,589,512)
Contributions restricted for investment in endowment	(2,466,566)	(6,771,394)
Provision for uncollectible contributions	140,353	202,854
Changes in operating assets and liabilities:		
Accounts receivable	(207,921)	(167,648)
Contributions receivable	(1,598,986)	159,291
Accounts payable	12,423	(26,571)
Annuities payable	(3,158)	9,828
Payable to Cleveland State University	<u>1,292,132</u>	<u>389,136</u>
Net cash provided by operating activities	2,437,364	1,480,634
Cash flows from investing activities:		
Proceeds from sales of investments	8,802,127	37,628,793
Purchases of investments	<u>(13,295,712)</u>	<u>(39,329,952)</u>
Net cash used in investing activities	(4,493,585)	(1,701,159)
Cash flows from financing activities:		
Principal payments on note payable	(39,996)	(39,996)
Proceeds from collection of contributions restricted for investment in endowment	<u>1,273,755</u>	<u>4,113,034</u>
Net cash provided by financing activities	<u>1,233,759</u>	<u>4,073,038</u>
(Decrease) increase in cash and cash equivalents	(822,462)	3,852,513
Cash and cash equivalents, beginning of year	<u>4,168,736</u>	<u>316,223</u>
Cash and cash equivalents, end of year	\$ <u><u>3,346,274</u></u>	\$ <u><u>4,168,736</u></u>
 <b>Supplemental disclosures of cash flow information:</b>		
Cash paid during the year for interest	\$ 20,570	\$ 22,155

# The Cleveland State University Foundation, Inc.

## Notes to Financial Statements

June 30, 2012

### 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; 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* that 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 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.

#### Basis of Presentation

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

#### Summarized Comparative Information

The financial statements include certain prior year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the Foundation's financial statements for the year ended June 30, 2011, from which the summarized information was derived.

# The Cleveland State University Foundation, Inc.

## Notes to Financial Statements

June 30, 2012

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

#### Reclassifications

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. In addition, the Foundation has reclassified beginning net assets to properly reflect the allocation of investment income related to prior years.

#### 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 in real estate without readily determinable fair values are stated at cost less accumulated depreciation. Investments of unrestricted, temporarily restricted, and permanently restricted funds are pooled for making investment transactions. Interest and dividend income, as well as realized and unrealized gains and losses, are allocated to the individual endowment funds using a unitized method of accounting for pooled investment funds.

Notes receivable are stated at cost. Notes receivable are considered delinquent by management on a case-by-case basis.

#### 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 \$1,371,659 at June 30, 2012.

#### Fair Value of Financial Instruments

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

# The Cleveland State University Foundation, Inc.

## Notes to Financial Statements

June 30, 2012

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

#### 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 \$33,376 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, 2012, range from 6.5% through 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 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.

#### Concentrations of Credit Risk

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

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

Credit risk with respect to contributions receivable is limited due to the number and credit worthiness of the foundations, corporations, and individuals who comprise the contributor base. At June 30, 2012, \$11.2 million of the Foundation's gross contributions receivable is due from two donors. The contribution receivables are due at various times through June 30, 2035.

At various times during the year ended June 30, 2012, the Foundation's cash in bank balances may exceed the federally insured limits.

# The Cleveland State University Foundation, Inc.

## Notes to Financial Statements

June 30, 2012

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

#### Federal Income Taxes

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

Uncertain income tax positions are evaluated at least annually by management. The Foundation classifies interest and penalties related to income tax matters as income tax expense in the accompanying financial statements. As of June 30, 2012, 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 a state registration in the office of the state's attorney general for the State of Ohio. The Organization is generally no longer subject to examination by the Internal Revenue Service for fiscal years before 2009.

#### 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.

#### Subsequent Events

In preparing these financial statements, the Foundation has evaluated events and transactions for potential recognition or disclosure through October 9, 2012, the date the financial statements were available to be issued.

### Note 2: Contributions Receivable

Contributions receivable are accounted for in accordance with FASB ASC topic "Revenue Recognition". The recorded fair value of contributions receivable is the present value of estimated future cash receipts using a discount rate of 6% and an allowance for uncollectible contributions of 5% of the discounted contributions receivable balance.

Amounts due as of June 30, 2012, are as follows:

Gross receivables due within:	
One year or less	\$ 3,274,424
One to five years	4,954,005
Thereafter	<u>8,733,787</u>
	16,962,216
Discount	(5,839,808)
Allowance for uncollectible contributions	<u>(556,120)</u>
Contributions receivable, net	\$ <u>10,566,288</u>

# The Cleveland State University Foundation, Inc.

## Notes to Financial Statements

June 30, 2012

### Note 2: Contributions Receivable (continued)

Included in the amount to be received in one year or less is \$1,614,350, which represents amounts due on permanently restricted contributions net of the allowance for uncollectible contributions and discount. As such, these amounts have been classified as non-current assets on the statement of financial position.

The table below presents a reconciliation of contributions receivable, net which are measured at fair value on a non-recurring basis during the year of recognition using significant unobservable inputs (Level 3) for the year ended June 30, 2012.

Balance at beginning of year	\$ 7,914,844
Additional pledges	4,939,895
Write-offs	(39,254)
Collection on pledges	(1,966,466)
Provision for uncollectible contributions	(140,353)
Change in present value	<u>(142,378)</u>
Balance at end of year	\$ <u>10,566,288</u>

Contributions receivable, net at June 30, 2012, have the following restrictions:

Instruction	\$ 1,587,190
Research	246,762
Public service	1,476,772
Academic Support	1,750,470
Financial aid	5,052,376
Institutional support	20,278
Auxiliary enterprises	<u>432,440</u>
	\$ <u>10,566,288</u>

As of June 30, 2012, the Foundation had an outstanding conditional promise to give of \$400,000 (matching grant) related to the equipment needed for the new film and digital media center to be located within the Idea Center. The original conditional promise to give was for \$500,000. During the year ended June 30, 2012, the Foundation has recorded \$100,000 in temporarily restricted revenue and contributions receivable, due to the Foundation meeting the matching requirements. The remaining portion of the promise to give is conditional upon the matching contributions being raised. As such, the conditional portion of the promise to give has not been recorded as of June 30, 2012.

# The Cleveland State University Foundation, Inc.

## Notes to Financial Statements

June 30, 2012

### 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, 2012, are composed of the following:

	Cost	Carrying Value
Cash and cash equivalents	\$ 461,584	\$ 461,584
Stocks – domestic	369,407	454,643
Mutual funds – domestic	27,408,666	27,844,329
Mutual funds – international	12,683,380	12,316,052
Fixed income securities	4,528,458	4,771,633
Alternative investments	<u>6,174,481</u>	<u>6,380,505</u>
Investments carried at fair value	\$ <u>51,625,976</u>	52,228,746
Note receivable		1,544,741
Investment in real estate, net of accumulated depreciation		<u>927,324</u>
Investments carried at adjusted cost		<u>2,472,065</u>
		 \$ <u>54,700,811</u>

Funds held on behalf of others at June 30, 2012, are composed of the following:

	Cost	Carrying Value
Cash and cash equivalents	\$ 24,335	\$ 24,335
Stocks – domestic	19,475	23,968
Mutual funds – domestic	1,444,987	1,467,955
Mutual funds – international	668,669	649,303
Fixed income securities	238,741	251,561
Alternative investments	<u>325,519</u>	<u>336,381</u>
Investments carried at fair value	\$ <u>2,721,726</u>	2,753,503
Note receivable		81,439
Investment in real estate, net of accumulated depreciation		<u>48,889</u>
Investments carried at adjusted cost		<u>130,328</u>
		 \$ <u>2,883,831</u>

The Foundation's note receivable is due from Euclid Avenue Development Corporation (the "Corporation"). Beginning September 1, 2009, the note is due in monthly installments of \$5,000, plus interest fixed at a rate of 9%, through July 2039. The note is secured by mortgage deed on a building and real property.

# The Cleveland State University Foundation, Inc.

## Notes to Financial Statements

June 30, 2012

### Note 3: Long-Term Investments (continued)

The Foundation's investment in real estate relates to land and building that has been leased to the University. Commencing July 1, 2009, rental payments due from the University are \$7,000 per month. The lease expires on June 30, 2013.

Investment loss, net for the year ended June 30, 2012, as presented in the accompanying statement of activities is comprised of the following:

Interest, dividends, and other	\$ 1,392,425
Realized and unrealized loss, net	<u>(2,202,349)</u>
Total investment loss, net	\$ <u><u>(809,924)</u></u>

### Note 4: Note payable

Note payable, due to a bank, beginning August 1, 2009, due in monthly installments of \$3,333, plus variable rate interest at the adjusted LIBOR rate (2.92% at June 30, 2012), through July 2013. The note is secured by the assignment of rents and an \$800,000 certificate of deposit held by the University.

	\$ 684,743
Less: current portion	<u>(39,996)</u>
Note payable, net of current portion	\$ <u><u>644,747</u></u>

### 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, 2012:

Instruction	\$ 6,036,572
Research	270,944
Public service	4,944,336
Academic support	1,257,491
Financial aid	8,494,155
Institutional support	1,934,139
Auxiliary enterprises	<u>1,084,057</u>
	\$ <u><u>24,021,694</u></u>

# The Cleveland State University Foundation, Inc.

## Notes to Financial Statements

June 30, 2012

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

Temporarily restricted net assets were released from restriction for the following purposes during the year ended June 30, 2012:

Instruction	\$	964,479
Research		342,150
Public service		797,349
Academic support		53,583
Financial aid		709,690
Institutional support		122,906
Auxiliary enterprises		<u>454,175</u>
	\$	<u>3,444,332</u>

Permanently restricted net assets are held in perpetuity to support the following purposes at June 30, 2012:

Instruction	\$	7,688,242
Research		805,128
Public service		50,607
Academic support		901,281
Financial aid		32,421,206
Institutional support		1,099,429
Auxiliary enterprises		<u>37,907</u>
	\$	<u>43,003,800</u>

### Note 6: Net Asset Classification of Endowment Funds

The Foundation's endowments consist of approximately 290 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 is added to the fund.

# The Cleveland State University Foundation, Inc.

## Notes to Financial Statements

**June 30, 2012**

**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 accumulate donor-restricted endowment funds:

- (1) The duration and preservation of the fund;
- (2) The purpose of the Foundation and the donor-restricted endowment fund;
- (3) General economic conditions; and
- (4) The investment policies of the Foundation.

During the year ended June 30, 2012, the Foundation had the following endowment related activities:

	<u>Donor-Restricted Endowment Funds</u>	<u>Board-Designated Endowment Funds</u>	<u>Total</u>
Investment return:			
Investment income	\$ 1,654,745	\$ 5,674	\$ 1,660,419
Net unrealized loss	<u>(2,392,326)</u>	<u>(8,207)</u>	<u>(2,400,533)</u>
Total investment return	(737,581)	(2,533)	(740,114)
Contributions	1,275,880	-	1,275,880
Amounts appropriated for expenditure	(425,982)	-	(425,982)
Endowment management fees	<u>(407,977)</u>	<u>(1,461)</u>	<u>(409,438)</u>
Total change in endowment funds	\$ <u>(295,660)</u>	\$ <u>(3,994)</u>	\$ <u>(299,654)</u>

Endowment Net Asset Composition by Type of Fund  
as of June 30, 2012:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Donor-restricted endowment funds	\$ (320,127)	\$ 15,137,697	\$ 35,482,537	\$ 50,300,107
Board-designated endowment funds	<u>164,391</u>	<u>-</u>	<u>-</u>	<u>164,391</u>
Total funds	\$ <u>(155,736)</u>	\$ <u>15,137,697</u>	\$ <u>35,482,537</u>	\$ <u>50,464,498</u>

# The Cleveland State University Foundation, Inc.

## Notes to Financial Statements

**June 30, 2012**

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

Changes in Endowment Net Assets  
for the Fiscal Year Ended June 30, 2012:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets, beginning of year, reclassified	\$ (34,428)	\$ 16,589,798	\$ 34,208,782	\$ 50,764,152
Investment return:				
Investment income	268,872	1,391,547	-	1,660,419
Net unrealized loss	<u>(388,719)</u>	<u>(2,011,814)</u>	<u>-</u>	<u>(2,400,533)</u>
Total investment return	(119,847)	(620,267)	-	(740,114)
Contributions	-	2,125	1,273,755	1,275,880
Amounts appropriated for expenditure	-	(425,982)	-	(425,982)
Endowment management fees	<u>(1,461)</u>	<u>(407,977)</u>	<u>-</u>	<u>(409,438)</u>
Endowment net assets, end of year	\$ <u>(155,736)</u>	\$ <u>15,137,697</u>	\$ <u>35,482,537</u>	\$ <u>50,464,498</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 \$ 35,162,410

Total endowment funds classified as permanently restricted net assets \$ 35,482,537

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 \$ 35,482,537  
 Permanently restricted contributions receivable, net 7,521,263

Total permanently restricted net assets \$ 43,003,800

# The Cleveland State University Foundation, Inc.

## Notes to Financial Statements

June 30, 2012

### 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 \$320,127 as of June 30, 2012.

#### 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% to 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 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.

# The Cleveland State University Foundation, Inc.

## Notes to Financial Statements

June 30, 2012

### 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 4% to 6% 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

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, 2012, the Foundation had accounts receivable due from the University of \$572,290.

At June 30, 2012, the Foundation had payables to the University of \$2,343,930.

At June 30, 2012, the Foundation is investing \$353,081 and \$2,530,750 of assets on behalf of the Cleveland State University Alumni Association and the University, respectively.

The Foundation recognized interest income of \$148,831 from the Euclid Avenue Development Corporation during the year ended June 30, 2012.

# The Cleveland State University Foundation, Inc.

## Notes to Financial Statements

June 30, 2012

### Note 7: Relationship with Related Entities (continued)

During the year ended June 30, 2012, the Foundation had program expenditures supporting the University as follows:

	Reimbursed <u>Expenses</u>	<u>Expenses</u>	<u>Total</u>
Instruction	\$ 852,118	\$ 112,361	\$ 964,479
Research	329,040	13,110	342,150
Public service	755,308	42,041	797,349
Academic support	48,051	5,532	53,583
Financial aid	661,012	48,678	709,690
Institutional support	36,713	86,193	122,906
Auxiliary enterprises	<u>411,193</u>	<u>42,982</u>	<u>454,175</u>
	\$ <u>3,093,435</u>	\$ <u>350,897</u>	\$ <u>3,444,332</u>

### Note 8: 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 and are based on the best available information, which has been internally developed.

# The Cleveland State University Foundation, Inc.

## Notes to Financial Statements

June 30, 2012

### Note 8: Fair Value Measurements (continued)

Financial assets consisted of the following at June 30, 2012:

	Level 1	Level 2	Level 3	Totals
Cash equivalents:				
Money market funds	\$ 485,919	\$ -	\$ -	\$ 485,919
Long-term investments:				
Common stocks:				
Consumer goods	78,783	-	-	78,783
Utilities	6,945	-	-	6,945
Energy	12,541	-	-	12,541
Conglomerate	52,875	-	-	52,875
Financial services	36,034	-	-	36,034
Health care	68,139	-	-	68,139
Consumer Services	77,383	-	-	77,383
Information and technology	116,690	-	-	116,690
Materials	29,221	-	-	29,221
Mutual funds:				
Growth funds	8,411,983	-	-	8,411,983
Diversified funds	1,051,423	-	-	1,051,423
Value funds	5,612,359	-	-	5,612,359
Blended funds	15,804,476	-	-	15,804,476
Bond funds	6,639,954	-	-	6,639,954
Bank loan funds	1,084,089	-	-	1,084,089
World allocation funds	3,648,652	-	-	3,648,652
Index funds	14,920	-	-	14,920
Commodities funds	9,783	-	-	9,783
U.S government securities:				
U.S. Treasuries	-	1,149,160	-	1,149,160
Mortgage backed securities	-	1,724,081	-	1,724,081
Corporate bonds:				
A- or better	-	1,187,443	-	1,187,443
B- to BBB+	-	962,510	-	962,510
Pooled trusts	-	-	3,357,508	3,357,508
Limited partnerships	-	-	3,359,378	3,359,378
	\$ 43,242,169	\$ 5,023,194	\$ 6,716,886	\$ 54,982,249

# The Cleveland State University Foundation, Inc.

## Notes to Financial Statements

June 30, 2012

### Note 8: Fair Value Measurements (continued)

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, 2012:

	<u>Pooled Trusts</u>	<u>Limited Partnerships</u>
Balance, June 30, 2011	\$ -	\$ -
Purchases	3,250,000	3,250,000
Unrealized gains	<u>107,508</u>	<u>109,378</u>
Balance, June 30, 2012	\$ <u>3,357,508</u>	\$ <u>3,359,378</u>

These changes 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. 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 are 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.

**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 the financial statements of The Cleveland State University Foundation, Inc. (the “Foundation”) as of and for the year ended June 30, 2012, and have issued our report thereon dated October 9, 2012. 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

Management of the Foundation is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the Foundation’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 Foundation’s internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Foundation’s internal control over financial reporting.

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 combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the Foundation’s financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, 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.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Foundation’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*.

Board of Directors  
The Cleveland State University Foundation, Inc.

We noted certain matters that we reported to management of The Cleveland State University Foundation, Inc. in a separate letter dated October 9, 2012.

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

*Ciuni + Panichi, Inc.*

Cleveland, Ohio  
October 9, 2012

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# Dave Yost • Auditor of State

**CLEVELAND STATE UNIVERSITY FOUNDATION**

**CUYAHOGA COUNTY**

**CLERK'S CERTIFICATION**

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

*Susan Babbitt*

**CLERK OF THE BUREAU**

**CERTIFIED  
DECEMBER 31, 2012**