

# **The Cleveland State University Foundation**

**Financial Statements  
June 30, 2015**





# Dave Yost • Auditor of State

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

We have reviewed the *Independent Auditor's Report* of the Cleveland State University Foundation, Cuyahoga County, prepared by Ciuni & Panichi, Inc., for the audit period July 1, 2014 through June 30, 2015. 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 8, 2015

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# The Cleveland State University Foundation

## Financial Statements

June 30, 2015

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## Independent Auditor's Report

Board of Directors  
The Cleveland State University Foundation  
Cleveland, Ohio

We have audited the accompanying financial statements of The Cleveland State University Foundation (the "Foundation"), a component unit of Cleveland State University, which comprise of the statement of financial position as of June 30, 2015, and the related statements of activities and cash flows for the year then ended, and the related notes to the financial statements.

### Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Board of Directors  
The Cleveland State University Foundation

## **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, 2015, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## **Report on Summarized Comparative Information**

We have previously audited the Foundation's 2014 financial statements, and our report dated September 17, 2014, expressed an unmodified opinion on those audited financial statements. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2014, 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 October 10, 2015, on our consideration of the Foundation's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Foundation's internal control over financial reporting and compliance.

*Ciuni + Panichi, Inc.*

Cleveland, Ohio  
October 10, 2015

# The Cleveland State University Foundation

## Statement of Financial Position

June 30, 2015 (with comparative totals for 2014)

	<u>Assets</u>	
	<u>2015</u>	<u>2014</u>
Cash and cash equivalents	\$ 3,312,441	\$ 857,905
Accounts receivable	369,977	428,496
Contributions receivable, net	13,540,032	15,590,433
Long-term investments	71,549,838	71,901,510
Funds held on behalf of others:		
Cleveland State University	14,041,595	8,383,471
Cleveland State University Alumni Association	<u>484,021</u>	<u>471,713</u>
Total assets	\$ <u>103,297,904</u>	\$ <u>97,633,528</u>
	<u>Liabilities and Net Assets</u>	
Liabilities:		
Accounts payable & accrued expenses	\$ 47,501	\$ 52,208
Payable to Cleveland State University	2,338,741	2,580,949
Note payable	-	604,751
Annuities payable	144,909	161,931
Funds held on behalf of others:		
Cleveland State University	14,041,595	8,383,471
Cleveland State University Alumni Association	<u>484,021</u>	<u>471,713</u>
Total liabilities	17,056,767	12,255,023
Net Assets:		
Unrestricted:		
Undesignated	(1,284,978)	(1,382,850)
Board-designated – scholarships	<u>191,647</u>	<u>203,878</u>
Total unrestricted	(1,093,331)	(1,178,972)
Temporarily restricted	35,123,216	36,080,894
Permanently restricted	<u>52,211,252</u>	<u>50,476,583</u>
Total net assets	<u>86,241,137</u>	<u>85,378,505</u>
Total liabilities and net assets	\$ <u>103,297,904</u>	\$ <u>97,633,528</u>

The accompanying notes are an integral part of these financial statements

# The Cleveland State University Foundation

## Statement of Activities

**For the year ended June 30, 2015 (with comparative totals for 2014)**

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>2015 Total</u>	<u>2014 Total</u>
<b>Support and revenues:</b>					
Contributions	\$ 191,416	\$ 14,290,827	\$ 1,283,039	\$ 15,765,282	\$ 18,557,315
Management fees related to funds held on behalf of others	33,429	-	-	33,429	30,412
Management fees related to internal funds	587,259	(587,259)	-	-	-
Net assets released from restrictions	<u>16,293,545</u>	<u>(16,293,545)</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total support and revenues	17,105,649	(2,589,977)	1,283,039	15,798,711	18,587,727
<b>Expenses:</b>					
<b>Program services:</b>					
Instruction and academic support	2,240,502	-	-	2,240,502	3,392,130
Research	294,503	-	-	294,503	189,833
Public service	1,269,256	-	-	1,269,256	1,014,488
Financial aid	5,072,487	-	-	5,072,487	3,020,560
Institutional support	641,630	-	-	641,630	293,616
Capital and other projects	<u>7,485,660</u>	<u>-</u>	<u>-</u>	<u>7,485,660</u>	<u>6,349,764</u>
Total program services	17,004,038	-	-	17,004,038	14,260,391
<b>Supporting Services:</b>					
Management and general	616,020	-	-	616,020	696,007
Fundraising	<u>133,199</u>	<u>-</u>	<u>-</u>	<u>133,199</u>	<u>143,198</u>
Total supporting services	<u>749,219</u>	<u>-</u>	<u>-</u>	<u>749,219</u>	<u>839,205</u>
Total expenses	17,753,257	-	-	17,753,257	15,099,596
<b>Gains (losses):</b>					
Investment income, including realized and unrealized gains, net	738,576	1,881,197	-	2,619,773	10,392,929
Provision for uncollectible contributions	<u>(5,327)</u>	<u>(217,460)</u>	<u>420,192</u>	<u>197,405</u>	<u>(359,857)</u>
Total gains (losses)	<u>733,249</u>	<u>1,663,737</u>	<u>420,192</u>	<u>2,817,178</u>	<u>10,033,072</u>
Change in net assets before transfers	85,641	(926,240)	1,703,231	862,632	13,521,203
Transfers	<u>-</u>	<u>(31,438)</u>	<u>31,438</u>	<u>-</u>	<u>-</u>
Change in net assets	85,641	(957,678)	1,734,669	862,632	13,521,203
Net assets – at beginning of the year	<u>(1,178,972)</u>	<u>36,080,894</u>	<u>50,476,583</u>	<u>85,378,505</u>	<u>71,857,302</u>
Net assets – at end of the year	\$ <u>(1,093,331)</u>	\$ <u>35,123,216</u>	\$ <u>52,211,252</u>	\$ <u>86,241,137</u>	\$ <u>85,378,505</u>

The accompanying notes are an integral part of these financial statements

# The Cleveland State University Foundation

## Statement of Cash Flows

**For the year ended June 30, 2015 (with comparative totals for 2014)**

	2015	2014
Cash flows from operating activities:		
Change in net assets	\$ 862,632	\$ 13,521,203
Adjustments to reconcile change in net assets to net cash used by operating activities:		
Net realized and unrealized gain on investments	(548,381)	(9,632,349)
Contributions restricted for investment in endowment	(1,283,039)	(6,775,436)
Provision for uncollectible contributions	(197,405)	359,857
Changes in operating assets and liabilities:		
Accounts receivable	58,519	300,961
Contributions receivable	(899,871)	57,849
Accounts payable	(4,707)	7,580
Annuities payable	(17,022)	38,467
Payable to Cleveland State University	<u>(242,208)</u>	<u>374,877</u>
Net cash used by operating activities	(2,271,482)	(1,746,991)
Cash flows from investing activities:		
Purchases of investments	(24,078,238)	(17,499,599)
Proceeds from sales of investments	<u>24,978,291</u>	<u>17,095,804</u>
Net cash provided (used) by investing activities	900,053	(403,795)
Cash flows from financing activities:		
Principal payments on note payable	(604,751)	(39,996)
Proceeds from collection of contributions restricted for investment in endowment	<u>4,430,716</u>	<u>2,245,269</u>
Net cash provided by financing activities	<u>3,825,965</u>	<u>2,205,273</u>
Increase in cash and cash equivalents	2,454,536	54,487
Cash and cash equivalents, beginning of year	<u>857,905</u>	<u>803,418</u>
Cash and cash equivalents, end of year	\$ <u><u>3,312,441</u></u>	\$ <u><u>857,905</u></u>
 <b>Supplemental disclosures of cash flow information:</b>		
Cash paid during the year for interest	\$ 8,825	\$ 17,996

The accompanying notes are an integral part of these financial statements

# The Cleveland State University Foundation

## Notes to Financial Statements

June 30, 2015

### 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 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* 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.

# The Cleveland State University Foundation

## Notes to Financial Statements

June 30, 2015

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

#### 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, 2014, from which the summarized information was derived.

#### 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.

#### 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 decisions. Interest and dividend income, as well as realized and unrealized gains and losses, are allocated 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 \$1,042,473 at June 30, 2015.

# The Cleveland State University Foundation

## Notes to Financial Statements

June 30, 2015

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

#### Split-Interest Agreement (continued)

The Foundation is obligated under various gift annuity contracts, whereby donors have contributed cash to the Foundation with the agreement that the donor shall be the sole recipient of annual annuity payments. These annual payments, currently totaling \$37,839 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, 2015, range from 6.4% to 10%.

#### Contributions

Contributions received, including unconditional promises to give, are recognized as revenue by net asset class when the donor's unconditional commitment is received. Donated items are recorded at fair value when received. Unconditional promises are recognized at the estimated present value of the future cash flows, net of allowances (fair value). Promises made that are designated for future periods or restricted by the donor for specific purposes are reported as temporarily restricted or permanently restricted support. Conditional promises are recorded when donor-imposed conditions are substantially met.

It is the Foundation's policy that an initial minimum balance of \$25,000 be required to establish an endowment fund. The policy allows a period, which is generally not to exceed 60 months, for the accumulation of contributions and interest to meet the minimum principal balance requirements. During this time period, the Foundation records the contributions and interest as temporarily restricted net assets. Upon accumulation of minimum balance requirements, the net assets are transferred to permanently restricted.

#### Endowment Management Fees

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

#### Concentrations of Credit Risk

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

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

Credit risk with respect to contributions receivable is limited due to the number and credit worthiness of the foundations, corporations, and individuals who comprise the contributor base. At June 30, 2015, approximately 77% of the Foundation's gross contributions receivable is due from six donors.

At various times during the year ended June 30, 2015, the Foundation's cash in bank balances may have exceeded federally insured limits.

# The Cleveland State University Foundation

## Notes to Financial Statements

June 30, 2015

### 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, 2015, 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. The Organization is generally no longer subject to examination by the Internal Revenue Service for fiscal years before 2012.

#### Subsequent Events

In preparing these financial statements, the Foundation has evaluated events and transactions for potential recognition or disclosure through October 10, 2015, 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, 2015, are as follows:

Gross receivables due within:	
One year or less	\$ 5,782,227
One to five years	6,210,376
Thereafter	<u>7,166,197</u>
	19,158,800
Discount	(4,906,136)
Allowance for uncollectible contributions	<u>(712,632)</u>
Contributions receivable, net	\$ <u>13,540,032</u>

# The Cleveland State University Foundation

## Notes to Financial Statements

June 30, 2015

### Note 2: Contributions Receivable (continued)

Contributions receivable, net at June 30, 2015, have the following restrictions:

Instruction	\$	484,230
Research		534,750
Public service		208,492
Management and general		57,948
Financial aid		10,856,988
Capital and other projects		<u>1,397,624</u>
	\$	<u>13,540,032</u>

As of June 30, 2015, the Foundation had a conditional promise to give (matching grant) with \$370,000 remaining to help fund the equipment needed for the new film and digital media center to be located within the Idea Center. As such, the conditional portion of the promise to give has not been recorded as of June 30, 2015.

As of June 30, 2015, the Foundation received two conditional promises to give of \$1,500,000 and \$300,000, respectively. The promises to give are conditional upon the completion of the renovations to the Main Classroom building. As of June 30, 2015, the conditions had not been met. Accordingly these promises to give were not recognized as of June 30, 2015. During July, 2015, the renovations associated with these conditional promises to give have been completed, and the promises to give were recognized.

During the year ended June 30, 2015, the Foundation received a conditional promise to give of \$5,000,000. The promise to give is conditional upon the completion of a building and may be cancelled at any time by the donor if the donor is not satisfied with the plans for, or progress toward, construction of the building. Accordingly, this promise to give was not recognized as of June 30, 2015.

### 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, 2015, are composed of the following:

	<u>Cost</u>	<u>Carrying Value</u>
Cash and cash equivalents	\$ 49,581	\$ 49,581
Stocks – domestic	594,763	709,260
Mutual funds – international	8,082,207	9,876,409
Mutual funds – domestic	18,166,358	25,924,219
U.S. Treasuries	3,094,837	3,103,155
Balanced fund	4,819,566	4,771,090
Fixed income securities	15,456,265	15,183,322
Alternative investments	<u>9,433,740</u>	<u>11,932,802</u>
Investments carried at fair value	\$ <u>59,697,317</u>	\$ <u>71,549,838</u>

# The Cleveland State University Foundation

## Notes to Financial Statements

**June 30, 2015**

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

Funds held on behalf of others at June 30, 2015, are composed of the following:

	Cost	Carrying Value
Cash and cash equivalents	\$ 5,219,753	\$ 5,219,753
Stocks – domestic	37,277	49,031
Mutual funds – international	3,795,359	3,908,589
Mutual funds – domestic	1,138,578	1,624,803
Certificates of deposit	1,528,095	1,530,418
U.S. Treasuries	193,969	194,490
Balanced fund	302,066	299,028
Fixed income securities	968,722	951,615
Alternative investments	<u>591,260</u>	<u>747,889</u>
Investments carried at fair value	<u>\$ 13,775,079</u>	<u>\$ 14,525,616</u>

The Foundation’s note receivable was due from Euclid Avenue Development Corporation (the “Corporation”). Beginning September 1, 2009, the note was due in monthly installments of \$5,000, plus interest fixed at a rate of 9%, through July 2039. The note was secured by a mortgage deed on a building and real property. In fiscal year 2015, the underlying building and real property were sold and the note receivable was paid in full.

The Foundation’s investment in real estate related to land and building that had been leased to the University. Rental payments due from the University were \$7,000 per month. In fiscal year 2015, the building and property were sold and the lease was terminated.

Investment income, net for the year ended June 30, 2015, as presented in the accompanying statement of activities includes the following:

Interest, dividends, and other	\$ 2,071,392
Realized and unrealized gain, net	<u>548,381</u>
Total investment income, net	<u>\$ 2,619,773</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 (2.85% at June 30, 2015), through July 10, 2015. The note was secured by the assignment of rents and an \$800,000 certificate of deposit held by the University. The note was paid in full during fiscal year 2015

\$           -

# The Cleveland State University Foundation

## Notes to Financial Statements

June 30, 2015

### 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, 2015:

Instruction and academic support	\$	6,583,159
Research		1,444,041
Public service		5,288,013
Financial aid		18,766,067
Institutional support		1,692,108
Capital and other projects		<u>1,349,828</u>
	\$	<u>35,123,216</u>

Permanently restricted net assets are held in perpetuity to support the following purposes at June 30, 2015:

Instruction and academic support	\$	9,428,628
Research		238,226
Public service		127,609
Financial aid		40,419,782
Institutional support		1,151,050
Capital and other projects		<u>845,957</u>
	\$	<u>52,211,252</u>

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

The Foundation's endowments consist of approximately 330 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

## Notes to Financial Statements

June 30, 2015

### 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, 2015, the Foundation had the following endowment related activities:

	Donor-Restricted Endowment Funds	Board-Designated Endowment Funds	Total
Investment return:			
Investment income	\$ 2,645,575	\$ 7,724	\$ 2,653,299
Net unrealized loss	<u>(240,586)</u>	<u>(879)</u>	<u>(241,465)</u>
Total investment return	2,404,989	6,845	2,411,834
Contributions	4,789,530	-	4,789,530
Amounts appropriated for expenditure	(3,291,616)	(17,243)	(3,308,859)
Endowment management fees	<u>(585,427)</u>	<u>(1,832)</u>	<u>(587,259)</u>
Total change in endowment funds	\$ <u>3,317,476</u>	\$ <u>(12,230)</u>	\$ <u>3,305,246</u>

### Endowment Net Asset Composition by Type of Fund as of June 30, 2015:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds	\$ (65,028)	\$ 25,384,397	\$ 43,999,341	\$ 69,318,710
Board-designated endowment funds	<u>191,647</u>	<u>-</u>	<u>-</u>	<u>191,647</u>
Total funds	\$ <u>126,619</u>	\$ <u>25,384,397</u>	\$ <u>43,999,341</u>	\$ <u>69,510,357</u>

# The Cleveland State University Foundation

## Notes to Financial Statements

**June 30, 2015**

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

Changes in Endowment Net Assets for the Fiscal Year Ended June 30, 2015:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets, beginning of year	\$ 159,346	\$ 26,508,578	\$ 39,537,187	\$ 66,205,111
Investment return:				
Investment income (loss)	(14,825)	2,668,124	-	2,653,299
Net unrealized gain (loss)	<u>1,173</u>	<u>(242,638)</u>	<u>-</u>	<u>(241,465)</u>
Total investment return	(13,652)	2,425,486	-	2,411,834
Contributions	-	358,814	4,430,716	4,789,530
Transfers	-	(31,438)	31,438*	-
Amounts appropriated for expenditure	(17,243)	(3,291,616)	-	(3,308,859)
Endowment management fees	<u>(1,832)</u>	<u>(585,427)</u>	<u>-</u>	<u>(587,259)</u>
Endowment net assets, end of year	\$ <u><u>126,619</u></u>	\$ <u><u>25,384,397</u></u>	\$ <u><u>43,999,341</u></u>	\$ <u><u>69,510,357</u></u>

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

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>43,934,313</u>
Total endowment funds classified as permanently restricted net assets	\$ <u>43,999,341</u>

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	\$ 43,999,341
Permanently restricted contributions receivable, net	<u>8,211,911</u>
Total permanently restricted net assets	\$ <u>52,211,252</u>

# The Cleveland State University Foundation

## Notes to Financial Statements

June 30, 2015

### 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 \$65,028 as of June 30, 2015.

#### Return Objectives and Risk Parameters

The Foundation has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment funds, while seeking to maintain the purchasing power of the endowment assets. Endowment assets include those assets of donor-restricted funds that the Foundation must hold in perpetuity, as well as board-designated funds. In general, it is desired that the Foundation portfolio earn at least competitive nominal returns in comparison with their respective benchmarks. To achieve such target returns will require investments in assets that allow the Foundation to retain principal and purchasing power, i.e., keeping pace with inflation.

#### Strategies Employed for Achieving Objectives

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

The 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.

# The Cleveland State University Foundation

## Notes to Financial Statements

June 30, 2015

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

#### Spending Policy

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

### Note 7: Relationship with Related Entities

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

At June 30, 2015, the Foundation had accounts receivable due from the University of \$367,890.

At June 30, 2015, the Foundation had payables to the University of \$2,338,741.

At June 30, 2015, the Foundation is investing \$484,021 and \$14,041,595 of assets on behalf of the Cleveland State University Alumni Association and the University, respectively.

The Foundation recognized interest income of \$110,901 from the Corporation during the year ended June 30, 2015.

During the year ended June 30, 2015, the Foundation had program expenditures supporting the University of \$17,004,038.

During the year ended June 30, 2015, the Foundation recognized investment management fee income of \$33,429 from the Cleveland State University Alumni Association and the University.

### 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 or liability and are based on the best available information, which has been internally developed.

# The Cleveland State University Foundation

## Notes to Financial Statements

**June 30, 2015**

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

Financial assets measured at fair value on a recurring basis consisted of the following at June 30, 2015:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Totals</u>
Long-term investments:				
Common stocks	\$ 758,291	\$ -	\$ -	\$ 758,291
Mutual funds - international	13,784,998	-	-	13,784,998
Mutual funds - domestic	27,549,022	-	-	27,549,022
Certificates of deposits	-	1,530,418	-	1,530,418
U.S. Treasuries	-	3,297,645	-	3,297,645
Balanced fund	-	5,070,118	-	5,070,118
Fixed income securities	-	16,134,937	-	16,134,937
Alternative investments	-	-	<u>12,680,691</u>	<u>12,680,691</u>
	<u>\$ 42,092,311</u>	<u>\$ 26,033,118</u>	<u>\$ 12,680,691</u>	<u>\$ 80,806,120</u>

The Foundation's U.S. treasuries are categorized as level two, as they are valued based on bid-side quotations from dealers.

The Foundation's certificates of deposits are categorized as level two, as they are not actively traded and quoted on a daily basis.

The table below sets forth a summary of changes in the fair value of the Foundation's Level 3 assets for the year ended June 30, 2015:

Balance, June 30, 2014	\$ 8,273,193
Additions	4,025,000
Unrealized gains, net	<u>382,498</u>
Balance, June 30, 2015	<u>\$ 12,680,691</u>

These unrealized gains are included in investment gains, including realized and unrealized gains, net on the accompanying statement of activities. The Foundation's Level 3 investments are valued based upon information obtained from the investment advisor that manages the fund and are measured at fair value based on the net asset value per share or unit as of June 30, 2015. Management performs due diligence on the valuation techniques used by the investment advisor to ensure that they are in accordance with the applicable accounting standards. In addition, these include investments in unregistered securities, for which the Foundation must give 65 days written notice in advance of the last business day of the calendar quarter that ends at least 12 full calendar months after the issuance of such shares and, thereafter, as of each calendar quarter in order to liquidate its position.

# **The Cleveland State University Foundation**

## **Notes to Financial Statements**

**June 30, 2015**

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

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

**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

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of The Cleveland State University Foundation (the “Foundation”), which comprise the statement of financial position as of June 30, 2015, and the related statements of activities and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated October 10, 2015.

**Internal Control over Financial Reporting**

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

*A deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. *A material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity’s financial statements will not be prevented, or detected and corrected on a timely basis. *A significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Board of Directors  
The Cleveland State University Foundation

### **Compliance and Other Matters**

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

### **Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

*Ciuni + Panichi, Inc.*

Cleveland, Ohio  
October 10, 2015

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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 22, 2015**