

The Cleveland State University Foundation

**Financial Statements
June 30, 2018**



Dave Yost • Auditor of State

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

We have reviewed the *Independent Auditor's Report* of the Cleveland State University Foundation, Cuyahoga County, prepared by Ciuni & Panichi, Inc., for the audit period July 1, 2017 through June 30, 2018. 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

October 11, 2018

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The Cleveland State University Foundation

Financial Statements

June 30, 2018

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Independent Auditor's Report

Board of Directors
The Cleveland State University Foundation

Report on the Financial Statements

We have audited the accompanying financial statements of The Cleveland State University Foundation (a nonprofit corporation) (the "Foundation"), a component unit of Cleveland State University, which comprise the statement of financial position as of June 30, 2018, 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, 2018, 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 2017 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated September 28, 2017. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2017, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated September 28, 2018 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.

Cimini + Panichi, Inc.

Cleveland, Ohio
September 28, 2018

The Cleveland State University Foundation

Statement of Financial Position

June 30, 2018 (with comparative totals for 2017)

	<u>Assets</u>	
	<u>2018</u>	<u>2017</u>
Cash and cash equivalents	\$ 4,171,983	\$ 3,363,969
Receivable from Cleveland State University	276,674	167,742
Contributions receivable, net	17,328,931	17,930,681
Other receivable	220,588	-
Cash surrender value of life insurance	229,938	-
Funds held on behalf of others:		
Cleveland State University	3,430,446	3,329,145
Cleveland State University Alumni Association	558,439	524,897
Long-term investments	<u>85,894,999</u>	<u>79,501,736</u>
 Total assets	 \$ <u>112,111,998</u>	 \$ <u>104,818,170</u>
	 <u>Liabilities and Net Assets</u>	
Liabilities:		
Accounts payable and accrued expenses	\$ 20,502	\$ 16,728
Payable to Cleveland State University	3,187,534	2,902,771
Annuities payable	157,764	114,657
Funds held on behalf of others:		
Cleveland State University	3,430,446	3,329,145
Cleveland State University Alumni Association	<u>558,439</u>	<u>524,897</u>
Total liabilities	<u>7,354,685</u>	<u>6,888,198</u>
Net Assets:		
Unrestricted:		
Undesignated	(896,585)	(867,527)
Board-designated – endowment	<u>588,840</u>	<u>186,714</u>
Total unrestricted	<u>(307,745)</u>	<u>(680,813)</u>
Temporarily restricted	41,812,439	37,565,029
Permanently restricted	<u>63,252,619</u>	<u>61,045,756</u>
Total net assets	<u>104,757,313</u>	<u>97,929,972</u>
 Total liabilities and net assets	 \$ <u>112,111,998</u>	 \$ <u>104,818,170</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, 2018 (with comparative totals for 2017)

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>2018 Total</u>	<u>2017 Total</u>
Support and revenues:					
Contributions	\$ 116,078	\$ 10,980,532	\$ 5,374,293	\$ 16,470,903	\$ 19,909,560
Management fees related to funds held on behalf of others	37,046	-	-	37,046	37,059
Management fees related to internal funds	734,797	(734,797)	-	-	-
Net assets released from restrictions	<u>14,556,767</u>	<u>(14,556,767)</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total support and revenues	15,444,688	(4,311,032)	5,374,293	16,507,949	19,946,619
Expenses:					
Program services:					
Instruction and academic support	5,403,787	-	-	5,403,787	5,652,965
Research	308,344	-	-	308,344	493,272
Public service	1,235,966	-	-	1,235,966	1,231,138
Financial aid	5,634,366	-	-	5,634,366	5,183,885
Institutional support	755,620	-	-	755,620	429,538
Capital and other projects	<u>1,114,411</u>	<u>-</u>	<u>-</u>	<u>1,114,411</u>	<u>1,177,651</u>
Total program services	14,452,494	-	-	14,452,494	14,168,449
Supporting Services:					
Management and general	913,649	-	-	913,649	765,329
Fundraising	<u>168,756</u>	<u>-</u>	<u>-</u>	<u>168,756</u>	<u>140,683</u>
Total supporting services	<u>1,082,405</u>	<u>-</u>	<u>-</u>	<u>1,082,405</u>	<u>906,012</u>
Total expenses	15,534,899	-	-	15,534,899	15,074,461
Gains (losses):					
Investment income, net	62,866	5,779,144	-	5,842,010	9,636,231
Provision for uncollectible contributions	<u>413</u>	<u>(56,314)</u>	<u>68,182</u>	<u>12,281</u>	<u>(97,383)</u>
Total gains, net	<u>63,279</u>	<u>5,722,830</u>	<u>68,182</u>	<u>5,854,291</u>	<u>9,538,848</u>
Change in net assets	(26,932)	1,411,798	5,442,475	6,827,341	14,411,006
Transfers (Note 8)	400,000	2,835,612	(3,235,612)	-	-
Net assets – at beginning of the year	<u>(680,813)</u>	<u>37,565,029</u>	<u>61,045,756</u>	<u>97,929,972</u>	<u>83,518,966</u>
Net assets – at end of the year	\$ <u><u>(307,745)</u></u>	\$ <u><u>41,812,439</u></u>	\$ <u><u>63,252,619</u></u>	\$ <u><u>104,757,313</u></u>	\$ <u><u>97,929,972</u></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, 2018 (with comparative totals for 2017)

	<u>2018</u>	<u>2017</u>
Cash flows from operating activities:		
Change in net assets	\$ 6,827,341	\$ 14,411,006
Adjustments to reconcile change in net assets to net cash used by operating activities:		
Net realized and unrealized gain on investments	(4,410,158)	(8,722,429)
Contributions restricted for investment in endowment	(5,374,293)	(5,044,812)
Provision for uncollectible contributions	(12,281)	97,383
Pledge discounts to net present value	(479,078)	933,860
Increase in cash surrender value of life insurance	(229,938)	-
Changes in operating assets and liabilities:		
Accounts receivable	(329,520)	65,104
Contributions receivable	885,673	(3,984,605)
Accounts payable	3,774	(33,803)
Payable to Cleveland State University	284,763	1,151,941
Annuities payable	<u>43,107</u>	<u>(10,202)</u>
Net cash used by operating activities	(2,790,610)	(1,136,557)
Cash flows from investing activities:		
Purchases of investments	(2,552,021)	(13,694,901)
Proceeds from sales of investments	<u>568,916</u>	<u>12,307,717</u>
Net cash used by investing activities	(1,983,105)	(1,387,184)
Cash flows from financing activities:		
Proceeds from collection of contributions restricted for investment in endowment	<u>5,581,729</u>	<u>3,226,402</u>
Net cash provided by financing activities	<u>5,581,729</u>	<u>3,226,402</u>
Increase in cash and cash equivalents	808,014	702,661
Cash and cash equivalents, beginning of year	<u>3,363,969</u>	<u>2,661,308</u>
Cash and cash equivalents, end of year	\$ <u><u>4,171,983</u></u>	\$ <u><u>3,363,969</u></u>

The accompanying notes are an integral part of these financial statements

The Cleveland State University Foundation

Notes to Financial Statements

June 30, 2018

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 and board-designations; includes all revenues, expenses, gains, and losses that are not changes in temporarily or permanently restricted net assets, nor changes in board-designated net assets.

Board-designated – endowment are unrestricted net assets that have been designated by the Board to be used for specific purposes.

Temporarily restricted net assets include gifts and pledges receivable for which donor-imposed restrictions have not been met and for which the ultimate purpose of the proceeds are not permanently restricted.

Permanently restricted net assets represent net assets that are subject to restrictions of gift instruments requiring that the principal be invested in perpetuity. The income or loss from investment of these assets is included in the investment income or loss of unrestricted and temporarily restricted funds, as appropriate, in the accompanying statement of activities.

When a donor restriction expires, that is, when a stipulated time restriction expires or purpose restriction is satisfied, restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions. The Foundation considers the transfer of donor-restricted net assets to the University for use as specified by the donor as satisfying the donor-imposed restrictions. As such, there is the potential for liability resulting from a donor seeking reimbursement from the Foundation in the event the University does not comply with a donor’s restrictions. Foundation management meets regularly with University personnel to review the status of donations sent to the University. The Foundation’s management estimates that no liability for return of grant funds exists at June 30, 2018.

The Cleveland State University Foundation

Notes to Financial Statements

June 30, 2018

Note 1: Summary of Significant Accounting Policies (continued)

Basis of Presentation

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

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, 2017, from which the summarized information was derived.

Adoption of Recent Accounting Pronouncements

In May 2015, the FASB amended ASC Topic 820, Fair Value Measurements. The amendment removes the requirement to categorize within the fair value hierarchy all investments for which fair value is measured using the net asset value per share practical expedient. The amendment is effective for fiscal years beginning after December 15, 2016, with early adoption permitted. The amendment is to be applied retrospectively. Management has adopted this amendment during the year ended June 30, 2018.

Use of Estimates

The preparation of the financial statements in conformity with accounting principles generally accepted in the United States of America requires the Foundation's management to make estimates and assumptions that affect the amounts reported in the financial statements and related notes. Actual results may differ from those estimates.

Cash and Cash Equivalents

The Foundation considers all highly liquid investments available for current use (excluding cash equivalents held in investment brokerage accounts) with an initial maturity of three months or less to be cash equivalents.

Investments

Investments of debt and equity securities with readily determinable fair values are stated at fair value. Investments of unrestricted, temporarily restricted, and permanently restricted funds are pooled for making investment decisions. Interest and dividend income, realized and unrealized gains and losses, and investment management fees are allocated using a unitized method of accounting for pooled investment funds.

The Cleveland State University Foundation

Notes to Financial Statements

June 30, 2018

Note 1: Summary of Significant Accounting Policies (continued)

Split-Interest Agreement

During the year ended June 30, 2011, a donor established a trust naming the Foundation as the lead beneficiary of a charitable lead annuity trust. Under terms of the split-interest agreement, the Foundation is to receive \$200,000 annually for ten years. Ten years after the formation of the trust, the trust will terminate and remaining trust assets will be distributed to other parties. Based on the use of a 6% discount rate, the present value of the contribution receivable from the charitable lead trust was \$534,602 at June 30, 2018.

The Foundation is obligated under various gift annuity contracts, whereby donors have contributed cash to the Foundation with the agreement that the donors shall be the sole recipients of annual annuity payments. These annual payments, currently totaling \$37,325 per year, shall terminate after the last payment date that a donor remains living. The discount rates used to estimate the obligations at June 30, 2018, range from 5.8% to 10%.

Contributions

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

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

Endowment Management Fees

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

Concentrations of Credit Risk

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

The Cleveland State University Foundation

Notes to Financial Statements

June 30, 2018

Note 1: Summary of Significant Accounting Policies (continued)

Concentrations of Credit Risk (continued)

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

At June 30, 2018, approximately 67% of the Foundation's gross contributions receivable is due from three donors.

At various times during the year ended June 30, 2018, the Foundation's cash in bank balances exceeded federally insured limits.

Federal Income Taxes

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

Uncertain income tax positions are evaluated at least annually by management. The Foundation classifies interest and penalties related to income tax matters as income tax expense in the accompanying financial statements. As of June 30, 2018, the Foundation has identified no uncertain income tax positions and has incurred no amounts for income tax penalties and interest for the year then ended.

The Foundation files its Federal Form 990 in the U.S. federal jurisdiction and an online charitable registration in the office of the state's attorney general for the State of Ohio.

Subsequent Events

In preparing these financial statements, the Foundation has evaluated events and transactions for potential recognition or disclosure through September 28, 2018, the date the financial statements were available to be issued.

The Cleveland State University Foundation

Notes to Financial Statements

June 30, 2018

Note 1: Summary of Significant Accounting Policies (continued)

Recent Accounting Pronouncements

The FASB issued Accounting Standards Update (ASU) 2016-14, *Not-for-Profit Entities and Health Care Entities – Presentation of Financial Statements of Not-for-Profit Entities*. This ASU changes the reporting requirements for nonprofit organizations and their required disclosures. The changes include: (a) requiring the presentation of only two classes of net assets, entitled “net assets without donor restrictions” and “net assets with donor restrictions,” (b) modifying the presentation and disclosures of underwater endowment funds, (c) requiring the use of the placed in service approach to recognize the releases from restriction for gifts utilized to acquire or construct long-lived assets, (d) requiring that all nonprofits present an analysis of expenses by function and nature in either the statement of activities, a separate statement, or in the notes to the financial statements and to summarize the allocation methodologies utilized to allocate the costs, (e) requiring the disclosure of quantitative and qualitative information regarding liquidity, and (f) modifying other financial statement reporting requirements and disclosures to enhance the usefulness of nonprofit financial statements. This ASU is effective for fiscal years beginning after December 15, 2017, with early adoption permitted. The Foundation will be evaluating the potential impact of adopting this guidance on its financial statements.

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

In November 2016, the FASB issued ASU 2016-18, *Statement of Cash Flows (Topic 230): Restricted Cash*, which clarifies the presentation of restricted cash as included in the cash balances in the statement of cash flows. This ASU is effective for fiscal years beginning after December 15, 2018, and interim periods within fiscal years beginning after December 15, 2019. Early adoption of this ASU is permitted. Management estimates the adoption of this ASU will have no material effect on its financial statements.

The Cleveland State University Foundation

Notes to Financial Statements

June 30, 2018

Note 1: Summary of Significant Accounting Policies (continued)

Recent Accounting Pronouncements (continued)

In June 2018, the FASB issued ASU 2018-08, *Clarifying the Scope and Accounting Guidance for Contributions Received and Contributions Made*, to assist entities in evaluating whether transactions should be accounted for as contributions (nonreciprocal) or as exchange transactions subject to the guidance issued under ASU 2014-09. This ASU gives further guidance related to when a contribution is deemed to be conditional such that recognition of revenue should be delayed until conditions are substantially met. This ASU is effective for fiscal years beginning after December 15, 2018 for recipients of funds and for fiscal years beginning after December 15, 2019 for resource providers. Early adoption is permitted. Management is currently evaluating the impact of this ASU on its financial statements.

Note 2: Contributions Receivable

Contributions receivable are accounted for in accordance with FASB ASC topic "Revenue Recognition". The recorded fair value of contributions receivable is the present value of estimated future cash receipts using a discount rate of 6% and an allowance for uncollectible contributions of 2% of the discounted contributions receivable balance.

Amounts due as of June 30, 2018, are as follows:

Gross receivables due within:	
One year or less	\$ 6,117,999
One to five years	8,905,276
Thereafter	<u>7,594,734</u>
	22,618,009
Discount	(4,935,426)
Allowance for uncollectible contributions	<u>(353,652)</u>
Contributions receivable, net	\$ <u>17,328,931</u>

Contributions receivable, net at June 30, 2018, have the following restrictions:

Instruction	\$ 777,840
Research	8,330
Public service	115,707
Restricted for time	5,180,679
Financial aid	11,134,460
Capital and other projects	<u>111,915</u>
	\$ <u>17,328,931</u>

The Cleveland State University Foundation

Notes to Financial Statements

June 30, 2018

Note 2: Contributions Receivable (continued)

During the year ended June 30, 2017, the Foundation received a conditional promise to give for \$389,993. The balance was collected during the current fiscal year and recognized as revenue when collected. This promise to give was conditional on being spent to promote a particular program.

During the year ended June 30, 2018, the Foundation received two conditional promises to give totaling \$488,226. These balances were not collected as of June 30, 2018. Each of these promises to give is conditional on being spent to promote a particular program and may be cancelled at any time by the donor if the donor is not satisfied with the progress of the program. Accordingly, the Foundation is recognizing these promises as payments are received from the donors.

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, 2018, are composed of the following:

	<u>Cost</u>	<u>Carrying (fair) Value</u>
Cash and cash equivalents	\$ 88,665	\$ 88,665
Stocks – domestic	470,666	749,060
Mutual funds – international	12,385,193	15,355,848
Mutual funds – domestic	30,643,723	38,063,869
Balanced fund	5,141,377	5,244,694
Fixed income securities	15,850,929	15,309,511
Alternative investments	<u>9,580,109</u>	<u>11,083,352</u>
Investments carried at fair value	\$ <u>74,160,662</u>	\$ <u>85,894,999</u>

The Cleveland State University Foundation

Notes to Financial Statements

June 30, 2018

Note 3: Long-Term Investments (continued)

Funds held on behalf of others at June 30, 2018, are composed of the following:

	<u>Cost</u>	<u>Carrying (fair) Value</u>
Cash and cash equivalents	\$ 4,117	\$ 4,117
Stocks – domestic	21,857	34,786
Mutual funds – international	611,187	713,112
Mutual funds – domestic	1,387,037	1,767,650
Balanced fund	238,761	243,559
Fixed income securities	736,103	710,960
Alternative investments	<u>444,891</u>	<u>514,701</u>
Investments carried at fair value	\$ <u>3,443,953</u>	\$ <u>3,988,885</u>

Investment income, net for the year ended June 30, 2018, as presented in the accompanying statement of activities includes the following:

Interest and dividends	\$ 1,431,852
Realized and unrealized gain, net	<u>4,410,158</u>
Total investment income, net	\$ <u>5,842,010</u>

Investment fees for the year ended June 30, 2018 were \$74,516.

Note 4: Fair Value Measurements

In accordance with the “Fair Value Measurements” topic of the FASB ASC, the Foundation uses a three-level fair value hierarchy that categorizes assets and liabilities measured at fair value based on the observability of the inputs utilized in the valuation. This hierarchy prioritizes the inputs into three broad levels as follows: Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities; Level 2 values are based on quoted prices in markets that are not active or model inputs that are observable either directly or indirectly for substantially the full term of the asset or liability; and Level 3 inputs are unobservable inputs in which little or no market data exists, therefore, requiring an entity to develop its own valuation assumptions. These inputs reflect management’s judgment about the assumptions that a market participant would use in pricing the asset or liability and are based on the best available information, which has been internally developed.

The Cleveland State University Foundation

Notes to Financial Statements

June 30, 2018

Note 4: Fair Value Measurements (continued)

Financial assets measured at fair value on a recurring basis consisted of the following at June 30, 2018:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Totals</u>
Long-term investments:				
Common stocks	\$ 783,846	\$ -	\$ -	\$ 783,846
Mutual funds – international	16,068,960	-	-	16,068,960
Mutual funds – domestic	39,831,519	-	-	39,831,519
Balanced fund	5,488,253	-	-	5,488,253
Fixed income securities	-	<u>16,020,471</u>	-	<u>16,020,471</u>
	<u>\$ 62,172,578</u>	<u>\$ 16,020,471</u>	<u>\$ -</u>	<u>78,193,049</u>
Investments valued at NAV*				<u>11,598,053</u>
				<u>\$ 89,791,102</u>

Long-term investments and funds held for others also include cash of \$92,782 which does not appear in the table above.

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

The following table summarizes investments measured at fair value based on NAV per share as of June 30, 2018.

<u>Investment</u>	<u>Fair Value</u>	<u>Redemption Frequency (if currently eligible)</u>	<u>Redemption Notice Period</u>
The Weatherlow Offshore Fund I Ltd. (a)	\$ 7,478,230	Quarterly*	65 days
Standard Life Investments Global Absolute Return Strategies Offshore Feeder Fund Ltd. (b)	\$ 4,119,823	Monthly	5 days

*There is an initial one-year lock-up period before funds can be redeemed.

- (a) The Weatherlow Offshore Fund I Ltd. This fund invests in The Weatherlow Fund I L.P. That fund is a partnership and is a multi-manager, multi-strategy fund-of-funds formed to invest predominantly in limited partnerships and similar pooled investment vehicles referred to as Portfolio Funds.
- (b) Standard Life Investments Global Absolute Return Strategies Offshore Feeder Fund Ltd. This fund invests in the Standard Life Investments Global Absolute Return Strategies Master Fund Ltd. That fund's objective is to deliver a positive absolute return in the form of capital growth over the medium to long term by investing in a combination of traditional assets and investment strategies based on advanced derivative techniques. It seeks to maintain a diversified portfolio consisting of listed equity, equity-related and debt securities, including exchange traded funds, other securities and other pooled investment vehicles whose managers may be affiliated with the Investment Advisor.

The Cleveland State University Foundation

Notes to Financial Statements

June 30, 2018

Note 4: Fair Value Measurements (continued)

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

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

Note 5: Temporarily and Permanently Restricted Net Assets

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

Temporarily restricted net assets are available for the following purposes at June 30, 2018:

Instruction and academic support	\$ 8,725,930
Research	666,495
Public service	5,187,166
Financial aid	21,311,709
Institutional support	544,897
Restricted for time	5,212,364
Capital and other projects	<u>163,878</u>
	\$ <u>41,812,439</u>

Permanently restricted net assets are held in perpetuity to support the following purposes at June 30, 2018:

Instruction and academic support	\$ 15,030,845
Research	886,776
Public service	153,909
Financial aid	45,050,227
Institutional support	1,151,100
Capital and other projects	<u>979,762</u>
	\$ <u>63,252,619</u>

The Cleveland State University Foundation

Notes to Financial Statements

June 30, 2018

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

Net assets released from restriction during the year ended June 30, 2018 were as follows:

Instruction and academic support	\$ 5,403,787
Research	308,344
Public service	1,235,966
Financial aid	5,681,289
Institutional support	755,620
Capital and other projects	<u>1,171,761</u>
	\$ <u>14,556,767</u>

Note 6: Net Asset Classification of Endowment Funds

The Foundation's endowments consist of approximately 380 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 Ohio-enacted version of the Uniform Prudent Management of Institutional Funds Act (UPMIFA) 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.

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

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

The Cleveland State University Foundation

Notes to Financial Statements

June 30, 2018

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

During the year ended June 30, 2018, the Foundation had the following endowment related activities:

	Donor-Restricted Endowment Funds	Board-Designated Endowment Funds	Total
Investment return:			
Investment income	\$ 1,471,722	\$ 3,482	\$ 1,475,204
Net realized and unrealized gain	<u>4,144,243</u>	<u>9,984</u>	<u>4,154,227</u>
Total investment return	5,615,965	13,466	5,629,431
Contributions	6,025,208	-	6,025,208
Reclassification	(400,000)	400,000*	-
Amounts appropriated for expenditure	(3,388,346)	(9,498)	(3,397,844)
Endowment management fees	<u>(730,474)</u>	<u>(1,842)</u>	<u>(732,316)</u>
Total change in endowment funds	\$ <u>7,122,353</u>	\$ <u>402,126</u>	\$ <u>7,524,479</u>

*Reclassification relates to endowment with clarification of donor intent and set aside as board-designated endowment.

Endowment Net Asset Composition by Type of Fund as of June 30, 2018:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Donor-restricted endowment funds	\$ (65,397)	\$ 27,606,539	\$ 55,784,769	\$ 83,325,911
Board-designated endowment funds	<u>588,840</u>	<u>-</u>	<u>-</u>	<u>588,840</u>
Total funds	\$ <u>523,443</u>	\$ <u>27,606,539</u>	\$ <u>55,784,769</u>	\$ <u>83,914,751</u>

The Cleveland State University Foundation

Notes to Financial Statements

June 30, 2018

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

Changes in Endowment Net Assets for the Fiscal Year Ended June 30, 2018:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets, beginning of year	\$ 105,446	\$ 25,888,628	\$ 50,396,198	\$ 76,390,272
Investment return:				
Investment income	7,643	1,467,561	-	1,475,204
Net realized and unrealized gain	<u>21,694</u>	<u>4,132,533</u>	<u>-</u>	<u>4,154,227</u>
Total investment return	29,337	5,600,094	-	5,629,431
Contributions	-	443,479	5,581,729	6,025,208
Transfers	-	(206,842)	206,842*	-
Reclassification	400,000	-	(400,000)**	-
Amounts appropriated for expenditure	(9,498)	(3,388,346)	-	(3,397,844)
Endowment management fees	<u>(1,842)</u>	<u>(730,474)</u>	<u>-</u>	<u>(732,316)</u>
Endowment net assets, end of year	\$ <u>523,443</u>	\$ <u>27,606,539</u>	\$ <u>55,784,769</u>	\$ <u>83,914,751</u>

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

**Reclassification relates to endowment with clarification of donor intent and set aside as board-designated endowment.

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

Permanently restricted net assets within the endowment funds	\$ 55,784,769
Permanently restricted contributions receivable, net	<u>7,467,850</u>
 Total permanently restricted net assets	 \$ <u>63,252,619</u>

The Cleveland State University Foundation

Notes to Financial Statements

June 30, 2018

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 UPMIFA 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 \$65,397 as of June 30, 2018.

Return Objectives and Risk Parameters

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

Strategies Employed for Achieving Objectives

To satisfy its long-term rate-of-return objectives, the Foundation relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). In recognition of the difficulty in predicting the direction of the markets or future state of the economy, the Foundation's assets are diversified among asset classes, managers/funds, and investment styles. The Board has currently determined that this "strategic asset allocation" in a range from 45% to 65% be allocated to equities, including domestic, international and real estate securities, and 15% to 25% be allocated to fixed-income investments and up to 30% in alternative investments. An allocation of 65%-30%-25% (equities-alternatives-fixed-income) is the "target" allocation. These proportions may vary in the above outlined ranges and are designed to reflect the long-term expectations for the Foundation. The Board will also review the portfolio on a regular basis (at least annually) to consider the portfolio's asset mix relative to its target and the allowable range around the target.

The investment strategy for the Foundation's portfolio may include domestic and international equities, fixed-income investments, and alternatives. Strategies of the Foundation's investment manager(s) may include investing in securities in another asset category and/or in derivatives, futures contract, and currency hedging. Alternatives include, but are not limited to, domestic and international equities, open-end and closed-end funds, real estate and real estate investment trusts, the shorting of securities, hedge funds, private equity, venture capital, and exchange-traded funds. It is expected the alternative investments in the aggregate will not increase the risk of the Foundation's portfolio beyond the level anticipated in the Foundation's investment strategy.

The Cleveland State University Foundation

Notes to Financial Statements

June 30, 2018

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 appropriation for distribution 4-6% of its endowment funds' market value. It uses an inflationary banded method that requires a starting dollar point adjusted by the rate of inflation as determined by the rolling five-year average of the Consumer Price Index (CPI) for the U.S. Each year the actual spending rate is compared to the established bands; currently 4-6%. If necessary, the Finance and Investment committees will adjust it to fit within the banded range. In establishing this policy, the Foundation considered the long-term expected return on its endowments. This policy is consistent with the Foundation's objective to maintain the purchasing power of the endowment assets held in perpetuity, or for an otherwise specified term, as well as to provide additional real growth through new gifts and investment returns.

Note 7: Relationship with Related Entities

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

At June 30, 2018, the Foundation had accounts receivable due from the University of \$276,674.

At June 30, 2018, the Foundation had payables to the University of \$3,187,534.

At June 30, 2018, the Foundation is investing \$558,439 and \$3,430,446 of assets on behalf of the Cleveland State University Alumni Association and the University, respectively.

During the year ended June 30, 2018, the Foundation had program expenditures supporting the University of \$14,452,494.

During the year ended June 30, 2018, the Foundation recognized investment management fee income of \$37,046 from the Cleveland State University Alumni Association and the University.

The Cleveland State University Foundation

Notes to Financial Statements

June 30, 2018

Note 8: Transfers

A donor re-prioritized its pledge, allowing it to designate the funds contributed for specific purposes when paying them to the Foundation. This was done to allow the donor to better address the needs of the University and its students on an ongoing basis. This pledge is restricted in regard to time as to the collection of the funds and when paid will likely be restricted as to purpose. It is a component of temporarily restricted net assets. This pledge had originally been restricted for permanent endowment; the re-prioritization resulted in a transfer from permanently restricted funds to temporarily restricted funds.

Clarification was obtained on funds that were received by the Foundation that had originally been recorded as permanently restricted. It was determined that \$400,000 of these funds were not permanently restricted by the donor with regard to purpose. As a result, the funds were transferred from permanently restricted to unrestricted and were then added to a board-designated endowment.

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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

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, 2018, and the related statements of activities and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated September 28, 2018.

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.

Cimini + Panichi, Inc.

Cleveland, Ohio
September 28, 2018



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
NOVEMBER 8, 2018**