

The Cleveland State University Foundation

**Financial Statements
June 30, 2019**

OHIO AUDITOR OF STATE
KEITH FABER



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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, 2018 through June 30, 2019. 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 "Keith Faber".

Keith Faber
Auditor of State
Columbus, Ohio

October 17, 2019

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The Cleveland State University Foundation

Financial Statements

June 30, 2019

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Independent Auditor's Report

To the Board of Directors of
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, 2019, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

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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, 2019, 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.

Change in Accounting Principle

As described in Note 1 to the financial statements, the Foundation adopted new accounting guidance, Financial Accounting Standards Board (FASB) Accounting Standards Update (ASU) 2016-14, *Not-for-Profit Entities – Presentation of Financial Statements of Not-for-Profit Entities*. Our opinion is not modified with respect to this matter.

Report on Summarized Comparative Information

We have previously audited the Foundation's 2018 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated September 28, 2018. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2018, 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 26, 2019 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.

Civini + Panzhi, PC

Cleveland, Ohio
September 26, 2019

The Cleveland State University Foundation

Statement of Financial Position

June 30, 2019 (with comparative totals for 2018)

	<u>Assets</u>	
	<u>2019</u>	<u>2018</u>
Cash and cash equivalents	\$ 3,102,158	\$ 4,171,983
Receivable from Cleveland State University	61,578	276,674
Contributions receivable, net	14,629,791	17,328,931
Other receivables	3,961	220,588
Cash surrender value of life insurance	243,970	229,938
Funds held on behalf of others:		
Cleveland State University	3,447,330	3,430,446
Cleveland State University Alumni Association	578,503	558,439
Long-term investments	<u>89,993,950</u>	<u>85,894,999</u>
 Total assets	 \$ <u>112,061,241</u>	 \$ <u>112,111,998</u>
	<u>Liabilities and Net Assets</u>	
Liabilities:		
Accounts payable and accrued expenses	\$ 22,092	\$ 20,502
Payable to Cleveland State University	4,368,311	3,187,534
Annuities payable	114,803	157,764
Funds held on behalf of others:		
Cleveland State University	3,447,330	3,430,446
Cleveland State University Alumni Association	<u>578,503</u>	<u>558,439</u>
Total liabilities	8,531,039	7,354,685
Net Assets:		
Without donor restrictions	(133,783)	(242,348)
With donor restrictions	<u>103,663,985</u>	<u>104,999,661</u>
Total net assets	<u>103,530,202</u>	<u>104,757,313</u>
 Total liabilities and net assets	 \$ <u>112,061,241</u>	 \$ <u>112,111,998</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, 2019 (with comparative totals for 2018)

	2019			2018 <u>Total</u>
	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>	
Support and revenues:				
Contributions	\$ 186,236	\$ 10,077,500	\$ 10,263,736	\$ 16,470,903
Management fees related to funds held on behalf of others	37,850	-	37,850	37,046
Management fees related to internal funds	798,355	(798,355)	-	-
Net assets released from restrictions	<u>14,498,343</u>	<u>(14,498,343)</u>	<u>-</u>	<u>-</u>
Total support and revenues	<u>15,520,784</u>	<u>(5,219,198)</u>	<u>10,301,586</u>	<u>16,507,949</u>
Expenses:				
Program services	14,312,843	-	14,312,843	14,452,494
Supporting services:				
Management and general	760,492	-	760,492	847,279
Fundraising	<u>178,325</u>	<u>-</u>	<u>178,325</u>	<u>168,756</u>
Total supporting services	<u>938,817</u>	<u>-</u>	<u>938,817</u>	<u>1,016,035</u>
Total expenses	<u>15,251,660</u>	<u>-</u>	<u>15,251,660</u>	<u>15,468,529</u>
Gains (losses):				
Investment income, net	57,351	3,766,818	3,824,169	5,775,640
Provision for uncollectible contributions	<u>(217,910)</u>	<u>116,704</u>	<u>(101,206)</u>	<u>12,281</u>
Total gains, net	<u>(160,559)</u>	<u>3,883,522</u>	<u>3,722,963</u>	<u>5,787,921</u>
Change in net assets	108,565	(1,335,676)	(1,227,111)	6,827,341
Net assets – at beginning of the year, as restated (Note 1)	<u>(242,348)</u>	<u>104,999,661</u>	<u>104,757,313</u>	<u>97,929,972</u>
Net assets – at end of the year	<u>\$ (133,783)</u>	<u>\$ 103,663,985</u>	<u>\$ 103,530,202</u>	<u>\$ 104,757,313</u>

The accompanying notes are an integral part of these financial statements

The Cleveland State University Foundation

Statement of Functional Expenses

For the year ended June 30, 2019 (with comparative totals for 2018)

	Program Services						Support Services				
	Instruction & Academic Support	Research	Public Service	Student Services & Scholarships	Institutional Support	Plan & Auxiliary	Total Program	General & Management	Fund-raising	Total Support	Total Expenses
Grants and other assistance	\$ 4,637,428	\$ 57,028	\$ 1,044,874	\$ 6,307,534	\$ 265,685	\$ 1,020,951	\$ 13,333,500	\$ -	\$ -	\$ -	\$ 13,333,500
Professional fees	71,985	-	18,894	3,275	35,227	18,279	147,660	40,883	-	40,883	188,543
Advertising and Promotion	24,270	-	-	600	31,298	5,250	61,418	800	139,010	139,810	201,228
Office Expenses	8,485	83	310	-	20,341	-	29,219	557	-	557	29,776
Occupancy	22,426	-	-	242	15,968	-	38,636	400	-	400	39,036
Travel	14,457	-	-	3,111	27,669	40,000	85,237	-	-	-	85,237
Conferences and meetings	79,149	-	6,543	36,475	241,291	-	363,458	1,884	-	1,884	365,342
Other expenses	<u>141,569</u>	<u>180</u>	<u>120</u>	<u>6,063</u>	<u>34,326</u>	<u>71,457</u>	<u>253,715</u>	<u>715,968</u>	<u>39,315</u>	<u>755,283</u>	<u>1,008,998</u>
Totals — 2019	\$ <u>4,999,769</u>	\$ <u>57,291</u>	\$ <u>1,070,741</u>	\$ <u>6,357,300</u>	\$ <u>671,805</u>	\$ <u>1,155,937</u>	\$ <u>14,312,843</u>	\$ <u>760,492</u>	\$ <u>178,325</u>	\$ <u>938,817</u>	\$ <u>15,251,660</u>
Totals — 2018	\$ <u>5,403,787</u>	\$ <u>308,344</u>	\$ <u>1,235,966</u>	\$ <u>5,634,366</u>	\$ <u>755,620</u>	\$ <u>1,114,411</u>	\$ <u>14,452,494</u>	\$ <u>847,279</u>	\$ <u>168,756</u>	\$ <u>1,016,035</u>	\$ <u>15,468,529</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, 2019 (with comparative totals for 2018)

	2019	2018
Cash flows from operating activities:		
Change in net assets	\$ (1,227,111)	\$ 6,827,341
Adjustments to reconcile change in net assets to net cash provided (used) by operating activities:		
Net realized and unrealized loss (gain) on investments	1,231,957	(4,410,158)
Contributions restricted for investment in endowment	(2,572,012)	(5,374,293)
Provision for uncollectible contributions	101,206	(12,281)
Pledge discounts to net present value	572,364	(479,078)
Increase in cash surrender value of life insurance	(14,032)	(229,938)
Changes in operating assets and liabilities:		
Accounts receivable	431,723	(329,520)
Contributions receivable	2,117,707	885,673
Accounts payable	1,590	3,774
Payable to Cleveland State University	1,180,777	284,763
Annuities payable	<u>(42,961)</u>	<u>43,107</u>
Net cash provided (used) by operating activities	1,781,208	(2,790,610)
Cash flows from investing activities:		
Purchases of investments	(6,131,856)	(2,552,021)
Proceeds from sales of investments	<u>800,948</u>	<u>568,916</u>
Net cash used by investing activities	(5,330,908)	(1,983,105)
Cash flows from financing activities:		
Proceeds from collection of contributions restricted for investment in endowment	<u>2,479,875</u>	<u>5,581,729</u>
Net cash provided by financing activities	<u>2,479,875</u>	<u>5,581,729</u>
(Decrease) increase in cash and cash equivalents	(1,069,825)	808,014
Cash and cash equivalents, beginning of year	<u>4,171,983</u>	<u>3,363,969</u>
Cash and cash equivalents, end of year	\$ <u><u>3,102,158</u></u>	\$ <u><u>4,171,983</u></u>

The accompanying notes are an integral part of these financial statements

The Cleveland State University Foundation

Notes to Financial Statements

June 30, 2019

Note 1: Summary of Significant Accounting Policies

Purpose and Accounting Method

The Cleveland State University Foundation (the “Foundation”) is organized primarily to engage in activities and programs to provide support and service to Cleveland State University (the “University”). The Foundation’s primary sources of revenue are endowment income and public support through donations from individuals, corporations, foundations, and trusts located primarily in northeastern Ohio.

The financial statements have been prepared on the accrual basis of accounting. The Foundation’s resources are classified into two net asset categories based upon the presence or absence of donor-imposed restrictions. A description of the categories follows:

Net assets without donor restrictions include all revenues, expenses, gains, and losses that are not changes in net assets with donor restrictions. Net assets with board-designations are included in this category and are comprised of approximately \$400,000 for institutional support and \$180,000 for financial aid.

Net assets with donor restrictions include gifts and pledges receivable that are subject to donor-imposed restrictions as to time and/or purpose. When a donor restriction expires, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statement of activities as net assets released from restrictions. The Foundation considers the transfer of donor-restricted net assets to the University for use as specified by the donor as satisfying the donor-imposed restrictions. 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, 2019.

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, 2018, from which the summarized information was derived.

The Cleveland State University Foundation

Notes to Financial Statements

June 30, 2019

Note 1: Summary of Significant Accounting Policies (continued)

Adoption of Recent Accounting Pronouncements

The FASB issued Accounting Standards Update (ASU) 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*. This ASU changes the current 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 restriction” 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’s financial statements have been updated to reflect the implementation of this standard. Amounts previously reported as unrestricted net assets are now reported as net assets without donor restrictions and amounts previously reported as temporarily restricted and permanently restricted net assets are now combined and reported as net assets with donor restrictions. The ASU has been applied retrospectively to all periods presented which increased net assets without donor restrictions by \$65,397 and decreased net assets with donor restrictions by \$65,397 resulting from the reclassifications of underwater endowment funds as required under ASU 2016-14. There was no effect on total net assets as a result of the adoption of this standard. The Foundation’s financial statements have been updated to reflect the implementation of this standard. There was no impact on beginning net assets as a result of this implementation.

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.

The Cleveland State University Foundation

Notes to Financial Statements

June 30, 2019

Note 1: Summary of Significant Accounting Policies (continued)

Investments

Investments of debt and equity securities with readily determinable fair values are stated at fair value. Investments of funds with and without donor restrictions are pooled for making investment decisions. Interest and dividend income, realized and unrealized gains and losses, and investment management fees are allocated using a unitized method of accounting for pooled investment funds.

Split-Interest Agreement

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 \$388,679 at June 30, 2019.

The Foundation is obligated under various gift annuity contracts, whereby donors have contributed cash to the Foundation with the agreement that the donors shall be the sole recipients of annual annuity payments. These annual payments, currently totaling \$20,700 per year, shall terminate after the last payment date that a donor remains living. The discount rates used to estimate the obligations at June 30, 2019, range from 5.8% to 9.0%.

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 net assets with donor restrictions. Conditional promises are recorded when donor-imposed conditions are substantially met.

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

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

The Cleveland State University Foundation

Notes to Financial Statements

June 30, 2019

Note 1: Summary of Significant Accounting Policies (continued)

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 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, 2019, approximately 68% of the Foundation's gross contributions receivable is due from three donors.

At various times during the year ended June 30, 2019, 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, 2019, 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 26, 2019, the date the financial statements were available to be issued.

The Cleveland State University Foundation

Notes to Financial Statements

June 30, 2019

Note 1: Summary of Significant Accounting Policies (continued)

Recent Accounting Pronouncements

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 is 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.

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.

The Cleveland State University Foundation

Notes to Financial Statements

June 30, 2019

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 (see Note 1).

Amounts due as of June 30, 2019, are as follows:

Gross receivables due within:	
One year or less	\$ 3,959,139
One to five years	8,089,439
Thereafter	<u>8,339,737</u>
	20,388,315
Discount	(5,507,791)
Allowance for uncollectible contributions	<u>(250,733)</u>
Contributions receivable, net	\$ <u>14,629,791</u>

Contributions receivable, net at June 30, 2019, have the following restrictions:

Instruction	\$ 1,503,872
Public service	89,673
Restricted for time	99,560
Financial aid	12,592,681
Capital and other projects	<u>344,005</u>
	\$ <u>14,629,791</u>

At June 30, 2019, the Foundation had approximately \$1,068,000 in outstanding conditional promises to give. These promises are conditional on costs being incurred to promote particular programs and may be cancelled at any time by the donors if the donors are not satisfied with a particular program's progress. Accordingly, the Foundation is recognizing these promises as payments are received from the donors.

The Cleveland State University Foundation

Notes to Financial Statements

June 30, 2019

Note 3: Long-Term Investments

For investment purposes, assets with and without donor restrictions are pooled.

Investments at June 30, 2019, are composed of the following:

	<u>Cost</u>	<u>Carrying (fair) Value</u>
Cash and cash equivalents	\$ 4,485,349	\$ 4,485,349
Stocks – domestic	553,428	719,285
Mutual funds – international	13,155,095	15,401,500
Mutual funds – domestic	31,146,841	37,310,927
Balanced fund	2,932,162	3,000,049
Fixed income securities	18,079,820	18,027,808
Alternative investments	<u>9,332,515</u>	<u>11,049,032</u>
Investments carried at fair value	\$ <u>79,685,210</u>	\$ <u>89,993,950</u>

Funds held on behalf of others at June 30, 2019, are composed of the following:

	<u>Cost</u>	<u>Carrying (fair) Value</u>
Cash and cash equivalents	\$ 200,650	\$ 200,650
Stocks – domestic	24,757	38,854
Mutual funds – international	621,534	688,978
Mutual funds – domestic	1,360,290	1,662,407
Balanced fund	131,169	134,206
Fixed income securities	808,791	806,465
Alternative investments	<u>417,485</u>	<u>494,273</u>
Investments carried at fair value	\$ <u>3,564,676</u>	\$ <u>4,025,833</u>

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, 2019

Note 4: Fair Value Measurements (continued)

Financial assets measured at fair value on a recurring basis consisted of the following at June 30, 2019:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Totals</u>
Long-term investments:				
Common stocks	\$ 758,139	\$ -	\$ -	\$ 758,139
Mutual funds – international	16,090,478	-	-	16,090,478
Mutual funds – domestic	38,973,334	-	-	38,973,334
Balanced fund	3,134,255	-	-	3,134,255
Fixed income securities	-	<u>18,834,273</u>	-	<u>18,834,273</u>
	<u>\$ 58,956,206</u>	<u>\$ 18,834,273</u>	<u>\$ -</u>	<u>77,790,479</u>
Investments valued at NAV*				<u>11,543,305</u>
				<u>\$ 89,333,784</u>

Long-term investments and funds held for others also include cash of \$4,685,999 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, 2019.

<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)	\$ 7,367,905	Quarterly*	65 days
Black Diamond Arbitrage Ltd. (b)	\$ 4,175,400	Monthly	45 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) Black Diamond Arbitrage Ltd. This fund invests in Black Diamond Arbitrage Offshore Ltd. That fund is an exempted, incorporated company that invests in securities of companies facing a major corporate event, such as a merger or acquisition.

The Cleveland State University Foundation

Notes to Financial Statements

June 30, 2019

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: Net Assets with Donor Restrictions

Net assets with donor restrictions are restricted for the following purposes or periods.

Subject to expenditure for specified purpose at June 30, 2019:

Instruction and academic support	\$ 8,974,190
Research	725,671
Public service	5,103,236
Financial aid	23,745,158
Institutional support	1,550,702
Capital and other projects	<u>743,299</u>
	<u>40,842,256</u>

Perpetual in nature, earnings from which are subject to endowment spending policy and appropriation at June 30, 2019:

Instruction and academic support	15,303,887
Research	887,876
Public service	158,284
Financial aid	45,340,821
Institutional support	151,100
Capital and other projects	<u>979,761</u>
	<u>62,821,729</u>
	\$ <u>103,663,985</u>

The Cleveland State University Foundation

Notes to Financial Statements

June 30, 2019

Note 5: Net Assets with Donor Restrictions (continued)

Net assets released from restriction during the year ended June 30, 2019 were as follows:

Instruction and academic support	\$	5,023,519
Research		65,791
Public service		1,070,741
Financial aid		6,507,300
Institutional support		671,805
Capital and other projects		<u>1,159,187</u>
	\$	<u>14,498,343</u>

Note 6: Net Asset Classification of Endowment Funds

The Foundation's endowments consist of approximately 410 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 not requiring the maintenance of the purchasing power of the original gift amount contributed to an endowment fund, unless a donor stipulates to the contrary. As a result of this interpretation, when reviewing its donor-restricted endowment funds, the Foundation considers a fund to be underwater if the fair value of the fund is less than the sum of (a) the original value of initial gifts (b) the original value of subsequent gifts, and (c) accumulations to the fund that are required to be maintained in perpetuity in accordance with the direction of the applicable donor gift instrument. The Foundation has interpreted UPMIFA to permit spending from underwater funds in accordance with the prudent measures described under the law.

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

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

The Cleveland State University Foundation

Notes to Financial Statements

June 30, 2019

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

During the year ended June 30, 2019, the Foundation had the following endowment related activities:

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Investment return:			
Investment income	\$ 11,215	\$ 4,953,799	\$ 4,965,014
Net realized and unrealized loss	<u>(2,937)</u>	<u>(1,221,217)</u>	<u>(1,224,154)</u>
Total investment return	8,278	3,732,582	3,740,860
Contributions	-	2,708,369	2,708,369
Reclassification*	-	(561,101)	(561,101)
Amounts appropriated for expenditure	(14,450)	(4,032,444)	(4,046,894)
Endowment management fees	<u>(1,834)</u>	<u>(793,801)</u>	<u>(795,635)</u>
Total change in endowment funds	\$ <u><u>(8,006)</u></u>	\$ <u><u>1,053,605</u></u>	\$ <u><u>1,045,599</u></u>

*Reclassification relates to endowment with clarification of donor intent.

The Cleveland State University Foundation

Notes to Financial Statements

June 30, 2019

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

Changes in Endowment Net Assets for the Fiscal Year Ended June 30, 2019:

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Endowment net assets, beginning of year, as restated (Note 1)	\$ 588,840	\$ 83,325,911	\$ 83,914,751
Investment return:			
Investment income	11,215	4,953,799	4,965,014
Net realized and unrealized loss	<u>(2,937)</u>	<u>(1,221,217)</u>	<u>(1,224,154)</u>
Total investment return	8,278	3,732,582	3,740,860
Contributions	-	2,708,369	2,708,369
Reclassification**	-	(561,101)	(561,101)
Amounts appropriated for expenditure	(14,450)	(4,032,444)	(4,046,894)
Endowment management fees	<u>(1,834)</u>	<u>(793,801)</u>	<u>(795,635)</u>
Endowment net assets, end of year	\$ <u>580,834</u>	\$ <u>84,379,516</u>	\$ <u>84,960,350</u>

**Reclassification relates to endowment with clarification of donor intent.

Funds with Deficiencies

From time to time, the fair value of assets associated with individual endowment funds with donor restrictions may fall below the level that the donor or the Uniform Prudent Management of Institutional Funds Act (UPMIFA) requires the Foundation to retain as a fund of perpetual duration. Deficiencies of this nature exist in 9 donor-restricted endowment funds, which together have an original gift value of \$734,904, a current fair value of \$667,807 and a deficiency of \$67,097 as of June 30, 2019. These deficiencies resulted from unfavorable market fluctuations and release of spendable amounts before there were sufficient resources to cover the deficiencies.

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

The Cleveland State University Foundation

Notes to Financial Statements

June 30, 2019

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

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 funds with donor restrictions 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.

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, 2019

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

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, 2019, the Foundation had accounts receivable due from the University of \$61,578.

At June 30, 2019, the Foundation had payables to the University of \$4,368,311.

At June 30, 2019, the Foundation is investing \$578,503 and \$3,447,330 of assets on behalf of the Cleveland State University Alumni Association and the University, respectively.

During the year ended June 30, 2019, the Foundation had program expenditures supporting the University of \$14,498,343.

During the year ended June 30, 2019, the Foundation recognized investment management fee income of \$37,850 from the Cleveland State University Alumni Association and the University.

The Cleveland State University Foundation

Notes to Financial Statements

June 30, 2019

Note 8: Liquidity and Availability of Resources

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

The Foundation's financial assets available within one year of June 30, 2019 for general expenditures are as follows:

Financial assets at year end:	
Cash and cash equivalents	\$ 3,102,158
Contributions receivable, net	14,629,791
Other receivables	65,539
Cash surrender value of life insurance	243,970
Investments	<u>94,019,783</u>
Total financial assets	<u>112,061,241</u>
Less amounts not available to be used within one year:	
Net assets with donor restrictions	103,663,985
Funds held on behalf of others	4,025,833
Net assets with board-designations	<u>580,834</u>
Total amount unavailable for general expenditures within one year	<u>108,270,652</u>
Total financial assets available to management for general expenditures within one year	\$ <u>3,790,589</u>

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

Note 9: Functional Allocation of Expenses

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

The Cleveland State University Foundation

Notes to Financial Statements

June 30, 2019

Note 10: Subsequent Event

The Foundation invested \$4.5 million in White Oak Fixed Income Fund C, L.P. Regular Class, effective July 1, 2019. The \$4.5 million investment was included in long-term investments as cash and cash equivalents, at June 30, 2019. The Foundation must give six months' notice before liquidating this investment. The investment itself will be in private loans; a liquidating event will take up to five years for the loans held by the Foundation to mature – allowing the option for the Foundation to exit the investment.

**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, 2019, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated September 26, 2019, wherein we noted that the Foundation implemented Financial Accounting Standards Board Accounting Standards Update 2016-14, *Not-for-Profit Entities – Presentation of Financial Statements of Not-for-Profit Entities*, and as a result restated their June 30, 2018 net assets as disclosed in Note 1.

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.

Cleveland, Ohio
September 26, 2019

Civita + Panzhi, Inc.

OHIO AUDITOR OF STATE KEITH FABER



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 7, 2019**