

The Cleveland State University Foundation

**Financial Statements
June 30, 2013**



Dave Yost • Auditor of State

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

We have reviewed the *Independent Auditors' Report* of the Cleveland State University Foundation, Cuyahoga County, prepared by Ciuni & Panichi, for the audit period July 1, 2012 through June 30, 2013. 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

November 1, 2013

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The Cleveland State University Foundation

Financial Statements

June 30, 2013

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Independent Auditor's Report

Board of Directors
The Cleveland State University Foundation
Cleveland, Ohio

We have audited the accompanying financial statements of The Cleveland State University Foundation (the "Foundation"), which comprise the statement of financial position as of June 30, 2013, 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. 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, 2013, 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.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated September 12, 2013 on our consideration of the Foundation's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Foundation's internal control over financial reporting and compliance.

Ciuni + Panichi, Inc.

Cleveland, Ohio
September 12, 2013

The Cleveland State University Foundation

Statement of Financial Position

June 30, 2013

Assets

| | | |
|---|----|-------------------|
| Cash and cash equivalents | \$ | 803,418 |
| Accounts receivable | | 729,457 |
| Contributions receivable, net | | 11,477,972 |
| Long-term investments | | 61,865,366 |
| Funds held on behalf of others: | | |
| Cleveland State University | | 2,884,353 |
| Cleveland State University Alumni Association | | <u>402,313</u> |
| Total assets | \$ | <u>78,162,879</u> |

Liabilities and Net Assets

| | | |
|---|----|-------------------|
| Liabilities: | | |
| Accounts payable | \$ | 44,628 |
| Payable to Cleveland State University | | 2,206,072 |
| Note payable | | 644,747 |
| Annuities payable | | 123,464 |
| Funds held on behalf of others: | | |
| Cleveland State University | | 2,884,353 |
| Cleveland State University Alumni Association | | <u>402,313</u> |
| Total liabilities | | 6,305,577 |
| Net Assets: | | |
| Unrestricted: | | |
| Undesignated | | (1,485,045) |
| Board-designated – scholarships | | <u>181,180</u> |
| Total unrestricted | | (1,303,865) |
| Temporarily restricted | | 30,045,079 |
| Permanently restricted | | <u>43,116,088</u> |
| Total net assets | | <u>71,857,302</u> |
| Total liabilities and net assets | \$ | <u>78,162,879</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, 2013

| | <u>Unrestricted</u> | <u>Temporarily Restricted</u> | <u>Permanently Restricted</u> | <u>Total</u> |
|---|-----------------------|-------------------------------|-------------------------------|----------------------|
| Support and revenues: | | | | |
| Contributions | \$ 142,404 | \$ 5,497,811 | \$ 1,487,717 | \$ 7,127,932 |
| Endowment management fees | 27,146 | - | - | 27,146 |
| Net assets released from restrictions | <u>7,041,521</u> | <u>(7,041,521)</u> | <u>-</u> | <u>-</u> |
| Total support and revenues | 7,211,071 | (1,543,710) | 1,487,717 | 7,155,078 |
| Expenses: | | | | |
| Program services: | | | | |
| Instruction | 2,334,805 | - | - | 2,334,805 |
| Research | 331,966 | - | - | 331,966 |
| Public service | 855,752 | - | - | 855,752 |
| Academic support | 171,076 | - | - | 171,076 |
| Financial aid | 1,962,778 | - | - | 1,962,778 |
| Institutional support | 150,873 | - | - | 150,873 |
| Auxiliary enterprises | <u>802,942</u> | <u>-</u> | <u>-</u> | <u>802,942</u> |
| Total program services | 6,610,192 | - | - | 6,610,192 |
| Supporting Services: | | | | |
| Management and general | 412,294 | - | - | 412,294 |
| Fundraising | <u>104,204</u> | <u>-</u> | <u>-</u> | <u>104,204</u> |
| Total supporting services | <u>516,498</u> | <u>-</u> | <u>-</u> | <u>516,498</u> |
| Total expenses | 7,126,690 | - | - | 7,126,690 |
| Gains (losses): | | | | |
| Investment gain, including realized and unrealized gains, net | 169,080 | 7,168,373 | - | 7,337,453 |
| Provision for uncollectible contributions | <u>2,577</u> | <u>(103,816)</u> | <u>52,841</u> | <u>(48,398)</u> |
| Total gains (losses) | <u>171,657</u> | <u>7,064,557</u> | <u>52,841</u> | <u>7,289,055</u> |
| Change in net assets | 256,038 | 5,520,847 | 1,540,558 | 7,317,443 |
| Reclassification of net assets (Note 1 and 6) | (445,146) | 1,483,416 | (1,038,270) | - |
| Net assets – at beginning of the year, as restated, (Note 9) | <u>(1,114,757)</u> | <u>23,040,816</u> | <u>42,613,800</u> | <u>64,539,859</u> |
| Net assets – at end of the year | \$ <u>(1,303,865)</u> | \$ <u>30,045,079</u> | \$ <u>43,116,088</u> | \$ <u>71,857,302</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, 2013

| | |
|---|--------------------------|
| Cash flows from operating activities: | |
| Change in net assets | \$ 7,317,443 |
| Adjustments to reconcile change in net assets to net cash used by operating activities: | |
| Net realized and unrealized gain on investments | (5,887,557) |
| Contributions restricted for investment in endowment | (1,487,717) |
| Provision for uncollectible contributions | 48,398 |
| Changes in operating assets and liabilities: | |
| Accounts receivable | (133,667) |
| Contributions receivable | (553,345) |
| Accounts payable | 12,962 |
| Annuities payable | (14,081) |
| Payable to Cleveland State University | <u>(1,609,278)</u> |
| Net cash used by operating activities | (2,306,842) |
| Cash flows from investing activities: | |
| Purchases of investments | (1,825,603) |
| Proceeds from sales of investments | <u>548,605</u> |
| Net cash used in investing activities | (1,276,998) |
| Cash flows from financing activities: | |
| Principal payments on note payable | (39,996) |
| Proceeds from collection of contributions restricted for investment in endowment | <u>1,080,980</u> |
| Net cash provided by financing activities | <u>1,040,984</u> |
| Decrease in cash and cash equivalents | (2,542,856) |
| Cash and cash equivalents, beginning of year | <u>3,346,274</u> |
| Cash and cash equivalents, end of year | \$ <u><u>803,418</u></u> |
| Supplemental disclosures of cash flow information: | |
| Cash paid during the year for interest | \$ 19,414 |

The accompanying notes are an integral part of these financial statements

The Cleveland State University Foundation

Notes to Financial Statements

June 30, 2013

Note 1: Summary of Significant Accounting Policies

Purpose and Accounting Method

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

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

Unrestricted:

Undesignated are free of donor-imposed restrictions; includes all revenues, expenses, gains, and losses that are not changes in temporarily or permanently restricted net assets, nor changes in board-designated net assets.

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

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

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

When a donor restriction expires, that is, when a stipulated time restriction expires or purpose restriction is satisfied, restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

Basis of Presentation

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

Reclassifications

The Foundation has reclassified net assets to properly re-allocate a portion of prior years’ investment income and to reflect changes in donors’ restrictions that occurred during the current year.

The Cleveland State University Foundation

Notes to Financial Statements

June 30, 2013

Note 1: Summary of Significant Accounting Policies (continued)

Use of Estimates

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

Cash and Cash Equivalents

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

Investments

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

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

Split-Interest Agreement

During the year ended June 30, 2011, a donor established a trust naming the Foundation as the lead beneficiary of a charitable lead annuity trust. Under terms of the split-interest agreement, the Foundation is to receive \$200,000 annually for ten years. Ten years after the formation of the trust, the trust will terminate and remaining trust assets will be distributed to other parties. Based on the use of a 6% discount rate, the present value of the contribution receivable from the charitable lead trust was \$1,441,959 at June 30, 2013.

The Foundation is obligated under various gift annuity contracts, whereby donors have contributed cash to the Foundation with the agreement that the donor shall be the sole recipient of annual annuity payments. These annual payments, currently totaling \$33,376 per year, shall terminate on the last payment date preceding the death of the donor. The discount rates used to estimate the obligations at June 30, 2013, range from 6.5% to 10%.

The Cleveland State University Foundation

Notes to Financial Statements

June 30, 2013

Note 1: Summary of Significant Accounting Policies (continued)

Fair Value of Financial Instruments

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

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 not generally to exceed 48 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.

Endowment Management Fees

On October 31, 1997, the Foundation implemented a 1% fee to be levied by the Foundation for managing funds held on behalf of related entities.

Concentrations of Credit Risk

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

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

Credit risk with respect to contributions receivable is limited due to the number and credit worthiness of the foundations, corporations, and individuals who comprise the contributor base. At June 30, 2013, \$11.1 million of the Foundation's gross contributions receivable is due from two donors. The contributions receivable are due at various times through June 30, 2035.

At various times during the year ended June 30, 2013, the Foundation's cash in bank balances may have exceeded the federally insured limits.

The Cleveland State University Foundation

Notes to Financial Statements

June 30, 2013

Note 1: Summary of Significant Accounting Policies (continued)

Federal Income Taxes

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

Uncertain income tax positions are evaluated at least annually by management. The Foundation classifies interest and penalties related to income tax matters as income tax expense in the accompanying financial statements. As of June 30, 2013, the Foundation has identified no uncertain income tax positions and has incurred no amounts for income tax penalties and interest for the year then ended.

The Foundation files its Federal Form 990 in the U.S. federal jurisdiction and an online charitable registration in the office of the state's attorney general for the State of Ohio. The Organization is generally no longer subject to examination by the Internal Revenue Service for fiscal years before 2010.

Subsequent Events

In preparing these financial statements, the Foundation has evaluated events and transactions for potential recognition or disclosure through September 12, 2013, the date the financial statements were available to be issued.

Note 2: Contributions Receivable

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

Amounts due as of June 30, 2013, are as follows:

| | |
|---|-----------------------------|
| Gross receivables due within: | |
| One year or less | \$ 4,728,917 |
| One to five years | 3,605,400 |
| Thereafter | <u>8,721,500</u> |
| | 17,055,817 |
| Discount | (4,973,741) |
| Allowance for uncollectible contributions | <u>(604,104)</u> |
| Contributions receivable, net | \$ <u><u>11,477,972</u></u> |

The Cleveland State University Foundation

Notes to Financial Statements

June 30, 2013

Note 2: Contributions Receivable (continued)

The table below presents a reconciliation of contributions receivable, net which are measured at fair value on a non-recurring basis during the year of recognition using significant unobservable inputs (Level 3) for the year ended June 30, 2013.

| | |
|---|----------------------|
| Balance at beginning of year | \$ 10,566,288 |
| Additional pledges | 3,719,878 |
| Write-offs | (97,426) |
| Collection on pledges | (3,528,437) |
| Provision for uncollectible contributions | (48,398) |
| Change in present value | <u>866,067</u> |
| Balance at end of year | \$ <u>11,477,972</u> |

During the year ended June 30, 2013, the Foundation updated the timing of future payments utilized in calculating the discount on contributions receivable. The timing of contribution payments assumption as of June 30, 2013, reflects the payments being collected at the beginning of the fiscal year. The assumption of receiving the payments at the beginning of the fiscal year is believed to be more accurate than receiving the payments at the end of the fiscal year. The improved assumption reduced the discount on contributions receivable by \$416,161 over the amounts calculated assuming the payments would be received at the end of the fiscal year.

Contributions receivable, net at June 30, 2013, have the following restrictions:

| | |
|------------------------|----------------------|
| Instruction | \$ 2,264,989 |
| Research | 229,586 |
| Public service | 663,937 |
| Management and general | 17,447 |
| Financial aid | 7,992,469 |
| Institutional support | 4,750 |
| Auxiliary enterprises | <u>304,794</u> |
| | \$ <u>11,477,972</u> |

As of June 30, 2013, the Foundation had an outstanding conditional promise to give of \$400,000 (matching grant) related to the equipment needed for the new film and digital media center to be located within the Idea Center. The original conditional promise to give was for \$500,000. The remaining portion of the promise to give is conditional upon the matching contributions being raised. As such, the conditional portion of the promise to give has not been recorded as of June 30, 2013.

During the year ended June 30, 2013, the Foundation received two conditional promises to give of \$5,000,000 each. The promises to give are conditional upon a publicly traded stock price reaching a specific price per share and other donor requirements. As of June 30, 2013, the conditions had not been met and the entire amount of the promises to give was not recognized.

The Cleveland State University Foundation

Notes to Financial Statements

June 30, 2013

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, 2013, are composed of the following:

| | <u>Cost</u> | <u>Carrying Value</u> |
|--|----------------------|---------------------------|
| Cash and cash equivalents | \$ 370,203 | \$ 370,203 |
| Stocks – domestic | 411,131 | 460,248 |
| Mutual funds – international | 9,080,796 | 9,754,539 |
| Mutual funds – domestic | 34,996,397 | 38,352,356 |
| Fixed-income securities | 3,555,882 | 3,499,696 |
| Alternative investments | <u>6,172,100</u> | <u>7,034,785</u> |
| Investments carried at fair value | \$ <u>54,586,509</u> | 59,471,827 |
| Note receivable | | 1,487,172 |
| Investment in real estate, net of accumulated depreciation | | <u>906,367</u> |
| Investments carried at adjusted cost | | <u>2,393,539</u> |
| | | \$ <u>61,865,366</u> |

Funds held on behalf of others at June 30, 2013, are composed of the following:

| | <u>Cost</u> | <u>Carrying Value</u> |
|--|---------------------|---------------------------|
| Cash and cash equivalents | \$ 19,667 | \$ 19,667 |
| Stocks – domestic | 21,843 | 24,451 |
| Mutual funds – international | 482,427 | 518,221 |
| Mutual funds – domestic | 1,859,222 | 2,037,511 |
| Fixed-income securities | 188,910 | 185,925 |
| Alternative investments | <u>327,900</u> | <u>373,731</u> |
| Investments carried at fair value | \$ <u>2,899,969</u> | 3,159,506 |
| Note receivable | | 79,008 |
| Investment in real estate, net of accumulated depreciation | | <u>48,152</u> |
| Investments carried at adjusted cost | | <u>127,160</u> |
| | | \$ <u>3,286,666</u> |

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

The Cleveland State University Foundation

Notes to Financial Statements

June 30, 2013

Note 3: Long-Term Investments (continued)

The Foundation's investment in real estate relates to land and building that has been leased to the University. Rental payments due from the University are \$7,000 per month. The lease expires on June 30, 2015.

Investment gain, net for the year ended June 30, 2013, as presented in the accompanying statement of activities is comprised of the following:

| | |
|-----------------------------------|----------------------------|
| Interest, dividends, and other | \$ 1,449,896 |
| Realized and unrealized gain, net | <u>5,887,557</u> |
| Total investment gain, net | \$ <u><u>7,337,453</u></u> |

Note 4: Note payable

Note payable, due to a bank, beginning August 1, 2009, due in monthly installments of \$3,333, plus variable rate interest at the adjusted LIBOR rate (2.87% at June 30, 2013), through July 10, 2015. The note is secured by the assignment of rents and an \$800,000 certificate of deposit held by the University.

\$ 644,747

Annual maturities of the note payable for the years ending June 30 are as follows:

| | |
|------|--------------------------|
| 2014 | \$ 39,996 |
| 2015 | 39,996 |
| 2016 | <u>564,755</u> |
| | \$ <u><u>644,747</u></u> |

Note 5: Temporarily and Permanently Restricted Net Assets

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

Temporarily restricted net assets are available for the following purposes at June 30, 2013:

| | |
|-----------------------|-----------------------------|
| Instruction | \$ 7,575,792 |
| Research | 371,351 |
| Public service | 5,343,811 |
| Academic support | 1,330,717 |
| Financial aid | 12,431,249 |
| Institutional support | 2,092,524 |
| Auxiliary enterprises | <u>899,635</u> |
| | \$ <u><u>30,045,079</u></u> |

The Cleveland State University Foundation

Notes to Financial Statements

June 30, 2013

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

Permanently restricted net assets are held in perpetuity to support the following purposes at June 30, 2013:

| | |
|-----------------------|----------------------|
| Instruction | \$ 6,402,790 |
| Research | 810,974 |
| Public service | 96,763 |
| Academic support | 901,381 |
| Financial aid | 33,666,769 |
| Institutional support | 1,099,479 |
| Auxiliary enterprises | <u>137,932</u> |
| | \$ <u>43,116,088</u> |

Note 6: Net Asset Classification of Endowment Funds

The Foundation's endowments consist of approximately 310 individual funds, established for a variety of purposes and consisting of both donor-restricted endowment funds and funds designated by the Board of Directors to function as endowment. As required by accounting principles generally accepted in the United States of America, net assets associated with endowment funds, including board-designated funds, are classified and reported based on the existence or absence of donor-imposed restrictions.

The Board of Directors of the Foundation has interpreted the State Prudent Management of Institutional Fund Act (SPMIFA) as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Foundation classifies as permanently restricted net assets (a) the original value of gifts donated, (b) the original value of subsequent gifts, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund.

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

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

The Cleveland State University Foundation

Notes to Financial Statements

June 30, 2013

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

During the year ended June 30, 2013, the Foundation had the following endowment related activities:

| | <u>Donor-Restricted Endowment Funds</u> | <u>Board-Designated Endowment Funds</u> | <u>Total</u> |
|--------------------------------------|---|---|----------------------------|
| Investment return: | | | |
| Investment income | \$ 1,487,317 | \$ 5,008 | \$ 1,492,325 |
| Net unrealized gain | <u>5,804,177</u> | <u>19,946</u> | <u>5,824,123</u> |
| Total investment return | 7,291,494 | 24,954 | 7,316,448 |
| Contributions | 1,085,521 | - | 1,085,521 |
| Transfers in | 353,297* | - | 353,297 |
| Amounts appropriated for expenditure | (1,525,437) | (6,700) | (1,532,137) |
| Endowment management fees | <u>(467,052)</u> | <u>(1,564)</u> | <u>(468,616)</u> |
| Total change in endowment funds | \$ <u><u>6,737,823</u></u> | \$ <u><u>16,690</u></u> | \$ <u><u>6,754,513</u></u> |

Endowment Net Asset Composition by Type of Fund as of June 30, 2013:

| | <u>Unrestricted</u> | <u>Temporarily Restricted</u> | <u>Permanently Restricted</u> | <u>Total</u> |
|----------------------------------|---------------------------|-----------------------------------|-----------------------------------|-----------------------------|
| Donor-restricted endowment funds | \$ (200,912) | \$ 19,392,536 | \$ 36,526,814 | \$ 55,718,438 |
| Board-designated endowment funds | <u>181,180</u> | <u>-</u> | <u>-</u> | <u>181,180</u> |
| Total funds | \$ <u><u>(19,732)</u></u> | \$ <u><u>19,392,536</u></u> | \$ <u><u>36,526,814</u></u> | \$ <u><u>55,899,618</u></u> |

The Cleveland State University Foundation

Notes to Financial Statements

June 30, 2013

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

Changes in Endowment Net Assets for the Fiscal Year Ended June 30, 2013:

| | <u>Unrestricted</u> | <u>Temporarily Restricted</u> | <u>Permanently Restricted</u> | <u>Total</u> |
|---|---------------------------|-------------------------------|-------------------------------|-----------------------------|
| Endowment net assets, as previously reported | \$ (155,736) | \$ 15,137,697 | \$ 35,482,537 | \$ 50,464,498 |
| Restatement (Note 9) | <u>(38,490)</u> | <u>(890,903)</u> | <u>(390,000)</u> | <u>(1,319,393)</u> |
| Endowment net assets, as restated | (194,226) | 14,246,794 | 35,092,537 | 49,145,105 |
| Investment return: | | | | |
| Investment income | 43,617 | 1,448,708 | - | 1,492,325 |
| Net unrealized gain | <u>170,623</u> | <u>5,653,500</u> | <u>-</u> | <u>5,824,123</u> |
| Total investment return | 214,240 | 7,102,208 | - | 7,316,448 |
| Contributions | - | 4,541 | 1,080,980 | 1,085,521 |
| Transfers in | - | - | 353,297* | 353,297 |
| Amounts appropriated for expenditure | (38,182) | (1,493,955) | - | (1,532,137) |
| Endowment management fees | <u>(1,564)</u> | <u>(467,052)</u> | <u>-</u> | <u>(468,616)</u> |
| Endowment net assets, end of year | \$ <u><u>(19,732)</u></u> | \$ <u><u>19,392,536</u></u> | \$ <u><u>36,526,814</u></u> | \$ <u><u>55,899,618</u></u> |

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

Permanently Restricted Net Assets:

| | |
|--|----------------------|
| The portion of perpetual endowment funds that is required to be retained permanently either by explicit donor stipulation or by SPMIFA | \$ <u>36,325,902</u> |
| Total endowment funds classified as permanently restricted net assets | \$ <u>36,526,814</u> |

The Cleveland State University Foundation

Notes to Financial Statements

June 30, 2013

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

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 | \$ 36,526,814 |
| Permanently restricted contributions receivable, net | <u>6,589,274</u> |
| Total permanently restricted net assets | \$ <u>43,116,088</u> |

Funds with Deficiencies

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor or SPMIFA requires the Foundation to retain as a fund of perpetual duration. In accordance with accounting principles generally accepted in the United States of America, deficiencies of this nature that are reported in unrestricted net assets were \$200,912 as of June 30, 2013.

Return Objectives and Risk Parameters

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

Strategies Employed for Achieving Objectives

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

The Cleveland State University Foundation

Notes to Financial Statements

June 30, 2013

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

Strategies Employed for Achieving Objectives (continued)

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

In addition to asset classes, the Foundation may be diversified between managers/funds and investment styles, as well. The purpose of this approach is to incorporate prudent diversification within the Foundation, enhancing expected returns, and/or reducing risk of the total portfolio. This structure will be reviewed by the investment committee on an ongoing basis as part of the overall monitoring process.

Spending Policy

The Foundation has a policy of appropriating for distribution 4% to 6% of its endowment funds' average fair value over the prior three fiscal years preceding the fiscal year in which the distribution is planned. In establishing this policy, the Foundation considered the long-term expected return on its endowments. This policy is consistent with the Foundation's objective to maintain the purchasing power of the endowment assets held in perpetuity, or for an otherwise specified term, as well as to provide additional real growth through new gifts and investment returns.

Note 7: Relationship with Related Entities

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

At June 30, 2013, the Foundation had accounts receivable due from the University of \$705,957.

At June 30, 2013, the Foundation had payables to the University of \$2,206,072.

At June 30, 2013, the Foundation is investing \$402,313 and \$2,884,353 of assets on behalf of the Cleveland State University Alumni Association and the University, respectively.

The Cleveland State University Foundation

Notes to Financial Statements

June 30, 2013

Note 7: Relationship with Related Entities (continued)

The Foundation recognized interest income of \$131,685 from the Corporation during the year ended June 30, 2013.

During the year ended June 30, 2013, the Foundation had program expenditures supporting the University of \$6,610,192.

Note 8: Fair Value Measurements

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

Financial assets measured at fair value on a recurring basis consisted of the following at June 30, 2013:

| | <u>Level 1</u> | <u>Level 2</u> | <u>Level 3</u> | <u>Totals</u> |
|------------------------------|----------------------|---------------------|---------------------|----------------------|
| Long-term investments: | | | | |
| Common stocks | \$ 484,699 | \$ - | \$ - | \$ 484,699 |
| Mutual funds - international | 10,272,760 | - | - | 10,272,760 |
| Mutual funds - domestic | 40,389,867 | - | - | 40,389,867 |
| Fixed-income securities | - | 3,685,621 | - | 3,685,621 |
| Alternative investments | <u>-</u> | <u>-</u> | <u>7,408,516</u> | <u>7,408,516</u> |
| | \$ <u>51,147,326</u> | \$ <u>3,685,621</u> | \$ <u>7,408,516</u> | \$ <u>62,241,463</u> |

The Foundation's fixed-income securities are valued based on bid-side quotations from dealers.

The Cleveland State University Foundation

Notes to Financial Statements

June 30, 2013

Note 8: Fair Value Measurements (continued)

The table below sets forth a summary of changes in the fair value of the Foundation's Level 3 assets for the year ended June 30, 2013:

| | | |
|------------------------|----|------------------|
| Balance, June 30, 2013 | \$ | 6,716,886 |
| Unrealized gains, net | | <u>691,630</u> |
| Balance, June 30, 2013 | \$ | <u>7,408,516</u> |

These changes are included in investment gain, net on the accompanying statement of activities. The Foundation's Level 3 investments are valued based upon information obtained from the investment advisor that manages the fund and are measured at fair value based on the net asset value per share or unit as of June 30, 2013. Management performs due diligence on the valuation techniques used by the investment advisor to ensure that they are in accordance with the applicable accounting standards. In addition, these are investments in unregistered securities, for which the Foundation must give 65 days' written notice in advance of the last business day of the calendar quarter that ends at least 12 full calendar months after the issuance of such shares and, thereafter, as of each calendar quarter in order to liquidate its position.

Note 9: Restatement of Financial Statements

The Foundation and the University have significant transactions between the entities. As of June 30, 2012, the Foundation had recorded a payable to the University in the amount of \$2,343,930. Subsequent to June 30, 2012, the Foundation identified the following errors related to the payable to the University:

- 1) The University and Foundation had a reconciling error which understated the reimbursable expenses payable to the University in the amount of \$1,081,420.
- 2) The Foundation determined that in a prior period, a donor requested a permanently restricted gift of \$390,000 to be transferred to the University and spent on scholarships.

As such, the Foundation has restated the net asset balances as previously reported at June 30, 2012 to reflect these two adjustments. The effects of the adjustments will be reflected in Net assets – at beginning of the year, as restated, on the accompanying statement of activities. The effects of these adjustments on the net asset classifications are shown below.

| | <u>Unrestricted</u> | <u>Temporarily Restricted</u> | <u>Permanently Restricted</u> | <u>Total</u> |
|------------------------------------|-----------------------|-------------------------------|-------------------------------|----------------------|
| Net assets, as previously reported | \$ (1,014,215) | \$ 24,021,694 | \$ 43,003,800 | \$ 66,011,279 |
| Payable to University adjustment | <u>(100,542)</u> | <u>(980,878)</u> | <u>(390,000)</u> | <u>(1,471,420)</u> |
| Net assets, as restated | \$ <u>(1,114,757)</u> | \$ <u>23,040,816</u> | \$ <u>42,613,800</u> | \$ <u>64,539,859</u> |

**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, 2013, 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 12, 2013.

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*.

We noted certain matters that we reported to management of The Cleveland State University Foundation in a separate letter dated September 12, 2013.

Purpose of this Report

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

Ciuni + Panichi, Inc.

Cleveland, Ohio
September 12, 2013



Dave Yost • Auditor of State

THE 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 14, 2013**