

# **The Cleveland State University Foundation**

Financial Report  
June 30, 2020



OHIO AUDITOR OF STATE  
KEITH FABER



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Board of Directors  
The Cleveland State University Foundation  
2121 Euclid Avenue  
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We have reviewed the *Independent Auditor's Report* of The Cleveland State University Foundation, Cuyahoga County, prepared by RSM US LLP, for the audit period July 1, 2019 through June 30, 2020. 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

November 10, 2020

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RSM US LLP

## Independent Auditor's Report

Board of Directors  
The Cleveland State University Foundation

### Report on the Financial Statements

We have audited the accompanying financial statements of The Cleveland State University Foundation (a nonprofit corporation), which comprise the statement of financial position as of June 30, 2020, 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.

### Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of The Cleveland State University Foundation as of June 30, 2020, and the changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

**Report on Summarized Comparative Information**

The financial statements of The Cleveland State University Foundation, as of and for the year ended June 30, 2019, were audited by other auditors, whose report, dated September 26, 2019, expressed an unmodified opinion on those statements.

**Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated September 30, 2020, on our consideration of The Cleveland State University Foundation's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of The Cleveland State University Foundation's 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 Cleveland State University Foundation's internal control over financial reporting and compliance.

*RSM US LLP*

Cleveland, Ohio  
September 30, 2020



The Cleveland State University Foundation

Statement of Financial Position

June 30, 2020

(With Comparative Totals at June 30, 2019)

	2020	2019
<b>Assets</b>		
Cash and cash equivalents	\$ 3,481,791	\$ 3,102,158
Contributions receivable, net	12,216,646	14,633,752
Cash surrender value of life insurance	258,305	243,970
Investments	94,275,375	94,019,783
	<u>94,275,375</u>	<u>94,019,783</u>
<b>Total assets</b>	<b><u>\$ 110,232,117</u></b>	<b><u>\$ 111,999,663</u></b>
<b>Liabilities and Net Assets</b>		
Liabilities:		
Accounts payable and accrued expenses	\$ 59,338	\$ 22,092
Payable to Cleveland State University	3,259,589	4,306,733
Annuities payable	111,759	114,803
Funds held on behalf of others:		
Cleveland State University	3,387,555	3,447,330
Cleveland State University Alumni Association	589,657	578,503
<b>Total liabilities</b>	<b><u>7,407,898</u></b>	<b><u>8,469,461</u></b>
Net assets:		
Without donor restrictions	373,131	(133,783)
With donor restrictions	102,451,088	103,663,985
<b>Total net assets</b>	<b><u>102,824,219</u></b>	<b><u>103,530,202</u></b>
<b>Total liabilities and net assets</b>	<b><u>\$ 110,232,117</u></b>	<b><u>\$ 111,999,663</u></b>

See notes to financial statements.

The Cleveland State University Foundation

Statement of Activities

Year Ended June 30, 2020

(With Comparative Totals at June 30, 2019)

	Without Donor Restrictions	With Donor Restrictions	2020 Total	2019 Total
Support and revenues:				
Contributions	\$ 165,029	\$ 9,722,488	\$ 9,887,517	\$ 10,263,736
Management fees related to funds held on behalf of others	39,563	-	39,563	37,850
Net assets released from restrictions	12,644,524	(12,644,524)	-	-
Gains (losses):				
Investment income, net	(66,708)	2,389,249	2,322,541	3,824,169
Provision for uncollectible contributions	(4,317)	(392,785)	(397,102)	(101,206)
<b>Total support and revenues</b>	<b>12,778,091</b>	<b>(925,572)</b>	<b>11,852,519</b>	<b>14,024,549</b>
Expenses:				
Program services	11,802,299	-	11,802,299	14,312,843
Supporting services:				
Management and general	661,520	-	661,520	760,492
Fundraising	94,683	-	94,683	178,325
<b>Total supporting services</b>	<b>756,203</b>	<b>-</b>	<b>756,203</b>	<b>938,817</b>
<b>Total expenses</b>	<b>12,558,502</b>	<b>-</b>	<b>12,558,502</b>	<b>15,251,660</b>
Transfer among funds	287,325	(287,325)	-	-
<b>Change in net assets</b>	<b>506,914</b>	<b>(1,212,897)</b>	<b>(705,983)</b>	<b>(1,227,111)</b>
Net assets:				
Beginning	(133,783)	103,663,985	103,530,202	104,757,313
Ending	\$ 373,131	\$ 102,451,088	\$ 102,824,219	\$ 103,530,202

See notes to financial statements.

The Cleveland State University Foundation

Statement of Functional Expenses  
Year Ended June 30, 2020  
(With Comparative Totals at June 30, 2019)

	Program Services						Support Services				2020 Total Expenses	2019 Total Expenses
	Instruction and Academic Support	Research	Public Service	Student Services and Scholarships	Institutional Support	Plant and Auxiliary	Total Program Services	General and Management	Fundraising	Total Support Services		
Grants and other assistance	\$ 5,576,108	\$ 98,753	\$ 740,452	\$ 4,194,507	\$ 94,226	\$ 709,205	\$ 11,413,251	\$ 8,000	\$ -	\$ 8,000	\$ 11,421,251	\$ 13,333,500
Professional fees	42,870	4,000	15,325	-	5,974	-	68,169	90,560	-	90,560	158,729	188,543
Advertising and promotion	13,950	-	500	-	27,510	-	41,960	-	54,600	54,600	96,560	201,228
Office expenses	9,750	-	97	-	9,188	1,000	20,035	1,359	-	1,359	21,394	29,776
Occupancy	2,084	-	-	-	1,457	-	3,541	-	-	-	3,541	39,036
Travel	6,088	-	-	1,231	3,680	2,408	13,407	-	-	-	13,407	85,237
Conferences and meetings	39,819	308	1,642	1,846	67,805	289	111,709	2,266	-	2,266	113,975	365,342
Personnel and related	60,579	-	-	16,604	-	-	77,183	471,571	40,083	511,654	588,837	572,260
Other expenses	14,124	25	477	898	37,118	402	53,044	87,764	-	87,764	140,808	436,738
<b>Total</b>	<b>\$ 5,765,372</b>	<b>\$ 103,086</b>	<b>\$ 758,493</b>	<b>\$ 4,215,086</b>	<b>\$ 246,958</b>	<b>\$ 713,304</b>	<b>\$ 11,802,299</b>	<b>\$ 661,520</b>	<b>\$ 94,683</b>	<b>\$ 756,203</b>	<b>\$ 12,558,502</b>	<b>\$ 15,251,660</b>

See notes to financial statements.

The Cleveland State University Foundation

Statement of Cash Flows

Year Ended June 30, 2020

(With Comparative Totals at June 30, 2019)

	2020	2019
Cash flows from operating activities:		
Change in net assets	\$ (705,983)	\$ (1,227,111)
Adjustments to reconcile change in net assets to net cash (used in) provided by operating activities:		
Net realized and unrealized (gain) loss on investments	(136,629)	1,231,957
Contributions restricted for investment in endowment	(1,830,090)	(2,572,012)
Provision for uncollectible contributions	397,102	101,206
Pledge discounts to net present value	(582,724)	572,364
Increase in cash surrender value of life insurance	(14,335)	(14,032)
Changes in operating assets and liabilities:		
Contributions receivable, net	2,602,728	2,334,334
Accounts payable	37,246	1,590
Payable to Cleveland State University	(1,047,144)	1,395,873
Annuities payable	(3,044)	(42,961)
Funds held on behalf of others	(48,621)	(36,948)
<b>Net cash (used in) provided by operating activities</b>	<b>(1,331,494)</b>	<b>1,744,260</b>
Cash flows from investing activities:		
Purchases of investments	(7,941,524)	(6,094,908)
Proceeds from sales of investments	7,822,561	800,948
<b>Net cash used in investing activities</b>	<b>(118,963)</b>	<b>(5,293,960)</b>
Cash flows from financing activities:		
Proceeds from collection of contributions restricted for investment in endowment	1,830,090	2,479,875
<b>Net cash provided by financing activities</b>	<b>1,830,090</b>	<b>2,479,875</b>
<b>Net increase (decrease) in cash and cash equivalents</b>	<b>379,633</b>	<b>(1,069,825)</b>
Cash and cash equivalents:		
Beginning	3,102,158	4,171,983
Ending	<b>\$ 3,481,791</b>	<b>\$ 3,102,158</b>

See notes to financial statements.

## The Cleveland State University Foundation

### Notes to Financial Statements

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#### 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:** Net assets whose use has not been limited by donors for any period of time or specified purpose. Net assets with board-designations are included in this category and are comprised of approximately \$700,000 for institutional support and \$180,000 for financial aid.

**Net assets with donor restrictions:** Net assets that include investment earnings from long term investments, gifts and contributions 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.

**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 (GAAP). Accordingly, such information should be read in conjunction with the Foundation's financial statements for the year ended June 30, 2019, from which the summarized information was derived.

**Use of estimates:** The preparation of the financial statements in conformity with GAAP 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

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#### Note 1. Summary of Significant Accounting Policies (Continued)

**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 at the time of the gift, net of allowances. The estimated present value is computed using risk-free interest rates applicable to the years in which the promises are received. 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.

**Investments:** Investments of debt and equity securities with readily determinable fair values are stated at fair value. Investment in alternative investments, which do not have readily determinable fair values, are carried at the Foundation's proportionate share of the fund's net asset value used as a practical expedient. 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 \$200,000 at June 30, 2020, and is reflected within contributions receivable on the statement of financial position.

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, 2020, range from 5.1% to 9.0%. These obligations are reflected within annuities payable on the statement of financial position.

**Funds held on behalf of others:** Included in the Foundation's investments are assets held for Cleveland State University and the Cleveland State University Alumni Association. The assets held for these entities are maintained as separate funds on the financial system of the Foundation and receive a proportional share of the investment's activity. The Foundation owns the assets in the investments; the other entities have a financial interest in the investments but do not own the underlying assets. The Foundation has recorded a liability equal to the fair value for the assets held for other entities.

**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.

## The Cleveland State University Foundation

### Notes to Financial Statements

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#### Note 1. Summary of Significant Accounting Policies (Continued)

**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, 2020, approximately 68% of the Foundation's gross contributions receivable is due from three donors.

At various times during the year ended June 30, 2020, the Foundation's cash in bank balances exceeded federally insured limits. The Foundation has not experienced any losses in such accounts. The Foundation believes it is not exposed to any significant credit risk on cash and cash equivalents.

**Federal income taxes:** The Foundation is a not-for-profit corporation as described in Section 501(c)(3) of the Internal Revenue Code (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, 2020, 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.

**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.

**Recent accounting pronouncements:** In May 2014, the FASB issued Accounting Standards Update (ASU) No. 2014-09, *Revenue from Contracts with Customers (Topic 606)*. 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 ASU 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. The Foundation adopted this ASU for the year ended June 30, 2020. The ASU did not have a material effect on the financial statements.

## The Cleveland State University Foundation

### Notes to Financial Statements

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#### Note 1. Summary of Significant Accounting Policies (Continued)

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. The Foundation adopted this ASU for the year ended June 30, 2020. The ASU did not have a material effect on the 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. The Foundation adopted this ASU for the year ended June 30, 2020. The ASU did not have a material effect on the financial statements.

**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.

**Subsequent events:** The Foundation has evaluated subsequent events for potential recognition and/or disclosure through September 30, 2020, the date the financial statements were available to be issued.

#### Note 2. Contributions Receivable, Net

Contributions receivable are accounted for in accordance with FASB Accounting Standards Codification (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, 2020, are as follows: Gross receivables due within:

One year or less	\$ 3,673,115
One to five years	5,625,346
Thereafter	<u>8,399,087</u>
	17,697,548
Discount	(4,925,067)
Allowance for uncollectible contributions	<u>(555,835)</u>
	<u>\$ 12,216,646</u>

At June 30, 2020, the Foundation had approximately \$664,000 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 or as those conditions are otherwise met.



## The Cleveland State University Foundation

### Notes to Financial Statements

#### Note 3. Investments

Investments at June 30, 2020, are composed of the following:

	Carrying Value
Cash and cash equivalents	\$ 805,507
Stocks – domestic	948,839
Mutual funds – domestic	33,955,381
Mutual funds – international	16,543,172
Balanced fund	3,557,075
Fixed income securities	19,218,626
Fixed income - other	14,437
Investments carried at fair value	75,043,037
Alternative investments, at net asset value	19,232,338
Total investments	<u>\$ 94,275,375</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.

Financial assets measured at fair value on a recurring basis consisted of the following at June 30, 2020:

	Level 1	Level 2	Level 3	Total
Long-term investments:				
Common stocks	\$ 948,839	\$ -	\$ -	\$ 948,839
Mutual funds – international	33,955,381	-	-	33,955,381
Mutual funds – domestic	16,543,172	-	-	16,543,172
Balanced fund	3,557,075	-	-	3,557,075
Fixed income securities	-	19,218,626	-	19,218,626
Fixed income securities - other	-	14,437	-	14,437
	<u>\$ 55,004,467</u>	<u>\$ 19,233,063</u>	<u>\$ -</u>	74,237,530
Investments valued at NAV*				19,232,338
Cash held in investment accounts				805,507
				<u>\$ 94,275,375</u>

## The Cleveland State University Foundation

### Notes to Financial Statements

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#### Note 4. Fair Value Measurements (Continued)

\*In accordance with *Fair Value Measurements* topic of the FASB ASC, certain investments that were measured at net asset value (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, 2020.

<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. <sup>(a)</sup>	\$ 5,491,699	Quarterly	65 days
Black Diamond Arbitrage Ltd. <sup>(b)</sup>	4,755,005	Monthly	45 days
Harrison Street Core Fund <sup>(c)</sup>	4,526,997	Monthly	45 days
White Oak Fixed Income Fund C, L.P. <sup>(d)</sup>	4,458,637	Bi-annual	180 days

(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.

(c) Harrison Street Core Property Fund Ltd. This fund is a limited partnership that was formed to invest primarily in real estate investments.

(d) White Oak Fixed Income Fund C, L.P. This fund is a limited partnership that was formed to lend and invest in a diversified portfolio of fixed income securities and corporate high yield bonds and bank debt.

There are no unfunded commitments associated with investments valued at NAV as of June 30, 2020.

## The Cleveland State University Foundation

### Notes to Financial Statements

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#### 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, 2020:

Instruction and academic support	\$ 7,982,436
Research	753,261
Public service	4,768,007
Financial aid	21,698,504
Institutional support	2,238,793
Capital and other projects	456,344
	<u>\$ 37,897,345</u>

Net assets that are perpetual in nature, earnings from which are subject to endowment spending policy and appropriation at June 30, 2020:

Instruction and academic support	\$ 14,669,516
Research	887,876
Public service	158,284
Financial aid	47,501,431
Institutional support	356,525
Capital and other projects	980,111
	<u>\$ 64,553,743</u>

Net assets released from restriction during the year ended June 30, 2020, were as follows:

Instruction and academic support	\$ 5,765,372
Research	103,086
Public service	758,493
Financial aid	4,215,086
Institutional support	246,958
Capital and other projects	713,304
Management fees related to internal funds	842,225
	<u>\$ 12,644,524</u>

## The Cleveland State University Foundation

### Notes to Financial Statements

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

The Foundation's endowments consist of approximately 420 individual funds, established for a variety of purposes and consisting of both donor-restricted endowment funds and funds designated by the Board of Directors (Board) to function as endowment. As required by GAAP, 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 has interpreted the Ohio-enacted version of the Uniform Prudent Management of Institutional Funds Act (UPMIFA) as 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

During the year ended June 30, 2020, the Foundation had the following changes in endowment net assets:

	Without Donor Restrictions	With Donor Restrictions	Total
Endowment net assets, beginning of year	\$ 580,834	\$ 84,379,516	\$ 84,960,350
Investment return:			
Investment income	22,811	2,189,540	2,212,351
Net realized and unrealized gain	1,479	32,934	34,413
Total investment return	24,290	2,222,474	2,246,764
Contributions	-	1,968,392	1,968,392
Reclassification*	287,325	(287,325)	-
Amounts appropriated for expenditure	(4,963)	(3,714,636)	(3,719,599)
Endowment management fees	(9,688)	(829,504)	(839,192)
Endowment net assets, end of year	\$ 877,798	\$ 83,738,917	\$ 84,616,715

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

## The Cleveland State University Foundation

### Notes to Financial Statements

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#### Note 6. Net Asset Classification of Endowment Funds (Continued)

Endowment net asset composition by type of fund as of June 30, 2020:

	Without Donor Restrictions	With Donor Restrictions	Total
Donor-restricted endowment:			
Historical gift value	\$ -	\$ 58,858,408	\$ 58,858,408
Appreciation	-	24,880,509	24,880,509
Board-designated endowment	877,798	-	877,798
Total	<u>\$ 877,798</u>	<u>\$ 83,738,917</u>	<u>\$ 84,616,715</u>

**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 UPMIFA requires the Foundation to retain as a fund of perpetual duration. Deficiencies of this nature exist in 35 donor-restricted endowment funds, which together have an original gift value of \$2,933,316, a current fair value of \$2,796,251 and a deficiency of \$137,065 as of June 30, 2020. 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.

**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 funds with donor restrictions that the Foundation must hold in perpetuity and on earnings from those funds, 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 55%-20%-25% (equities-fixed-income-alternatives) 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

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#### **Note 6. Net Asset Classification of Endowment Funds (Continued)**

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.

**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, 2020, the Foundation had accounts receivable due from the University of \$36,981. At June 30, 2020, the Foundation had payables to the University of \$3,296,570.

At June 30, 2020, the Foundation is investing \$3,387,555 and \$589,657 of assets on behalf of the Cleveland State University Alumni Association and the University, respectively.

During the year ended June 30, 2020, the Foundation had program expenditures supporting the University of \$11,802,299.

During the year ended June 30, 2020, the Foundation recognized investment management fee income of \$39,563 from the Cleveland State University Alumni Association and the University.

## The Cleveland State University Foundation

### Notes to Financial Statements

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#### 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, 2020 for general expenditures are as follows:

Financial assets at year end:	
Cash and cash equivalents	\$ 3,481,791
Contributions receivable, net	12,216,646
Cash surrender value of life insurance	258,305
Investments	94,275,375
Total financial assets	<u>110,232,117</u>
Less amounts not available to be used within one year:	
Net assets with donor restrictions	102,451,088
Funds held on behalf of others	3,977,212
Net assets with board-designations	877,798
Total amount unavailable for general expenditures within one year	<u>107,306,098</u>
Total financial assets available to management for general expenditures within one year	<u>\$ 2,926,019</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. COVID-19

On January 30, 2020, the World Health Organization declared the Coronavirus outbreak (COVID-19) a "Public Health Emergency of International Concern" and on March 11, 2020, declared COVID-19 a pandemic. The coronavirus and actions taken to mitigate the spread of it have had, and is expected to continue to have, an adverse impact on the economies and financial markets, including the geographical area which the Foundation operates. The extent to which COVID-19 impacts the Foundation will depend on future developments, which are highly uncertain and cannot be predicted, including new information which may emerge concerning the severity of COVID-19 and actions taken to contain COVID-19 or its impact, among others.

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**Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based  
on an Audit of Financial Statements Performed in Accordance With *Government Auditing  
Standards***

**Independent Auditor's Report**

Board of Directors  
The Cleveland State University Foundation

We have audited, in accordance with the 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, which comprise the statement of financial position as of June 30, 2020, 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 30, 2020.

**Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered The Cleveland State University 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 Cleveland State University Foundation's internal control. Accordingly, we do not express an opinion on the effectiveness of The Cleveland State University 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.

**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether The Cleveland State University 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.

*RSM US LLP*

Cleveland, Ohio  
September 30, 2020

# OHIO AUDITOR OF STATE KEITH FABER



**CLEVELAND STATE UNIVERSITY FOUNDATION**

**CUYAHOGA COUNTY**

**AUDITOR OF STATE OF OHIO CERTIFICATION**

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



**Certified for Release 11/24/2020**

88 East Broad Street, Columbus, Ohio 43215  
Phone: 614-466-4514 or 800-282-0370

This report is a matter of public record and is available online at  
[www.ohioauditor.gov](http://www.ohioauditor.gov)