

# **The Cleveland State University Foundation, Inc.**

**Financial Statements  
June 30, 2011**





# Dave Yost • Auditor of State

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

We have reviewed the *Independent Auditors' Report* of The Cleveland State University Foundation, Inc., Cuyahoga County, prepared by Ciuni & Panichi, Inc., for the audit period July 1, 2010 through June 30, 2011. 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, Inc. is responsible for compliance with these laws and regulations.

A handwritten signature in black ink that reads "Dave Yost". The signature is written in a cursive style with a large, looping "Y" and "O".

Dave Yost  
Auditor of State

December 7, 2011

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# The Cleveland State University Foundation, Inc.

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## Independent Auditors' Report

Board of Directors  
The Cleveland State University Foundation, Inc.  
Cleveland, Ohio

We have audited the accompanying statement of financial position of The Cleveland State University Foundation, Inc. (the "Foundation") as of June 30, 2011, and the related statements of activities and cash flows for the year then ended. These financial statements are the responsibility of the Foundation's management. Our responsibility is to express an opinion on these financial statements based on our audit. The prior year summarized comparative information has been derived from the Foundation's 2010 financial statements, and in our report dated October 14, 2010, we expressed an unqualified opinion on those financial statements.

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 of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances but not for the purpose of expressing an opinion on the effectiveness of the Foundation's internal control over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our 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, 2011, 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.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 26, 2011, on our consideration of the Foundation's internal control over financial reporting and 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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

*Ciuni + Panichi, Inc.*



Cleveland, Ohio  
October 26, 2011  
C&P Advisors, LLC  
Ciuni & Panichi, Inc.  
Joel Strom Associates LLC  
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# The Cleveland State University Foundation, Inc.

## Statement of Financial Position

June 30, 2011 (with comparative totals for 2010)

	<u>Assets</u>	
	<u>2011</u>	<u>2010</u>
Current assets:		
Cash and cash equivalents	\$ 5,603,609	\$ 5,051,468
Accounts receivable	387,869	220,221
Contributions receivable, net	<u>1,034,821</u>	<u>912,225</u>
Total current assets	7,026,299	6,183,914
Non-current assets:		
Contributions receivable, net	6,880,023	4,706,404
Long-term investments	50,974,702	38,383,659
Funds held on behalf of others:		
Cleveland State University	2,590,934	1,993,632
Cleveland State University Alumni Association	<u>366,939</u>	<u>313,317</u>
Total non-current assets	<u>60,812,598</u>	<u>45,397,012</u>
Total assets	\$ <u>67,838,897</u>	\$ <u>51,580,926</u>

The accompanying notes are an integral part of these financial statements



# The Cleveland State University Foundation, Inc.

## Statement of Financial Position (continued)

**June 30, 2011 (with comparative totals for 2010)**

	<u>Liabilities and Net Assets</u>	
	2011	2010
Liabilities:		
Current liabilities:		
Accounts payable	\$ 19,243	\$ 45,814
Current portion of note payable	39,996	39,996
Payable to Cleveland State University	1,051,798	626,547
Annuities payable	32,517	29,847
Total current liabilities	1,143,554	742,204
Non-current liabilities:		
Note payable, net of current portion	684,743	724,739
Payable to Cleveland State University	-	36,115
Annuities payable	108,186	101,028
Funds held on behalf of others:		
Cleveland State University	2,590,934	1,993,632
Cleveland State University Alumni Association	366,939	313,317
Total non-current liabilities	3,750,802	3,168,831
Total liabilities	4,894,356	3,911,035
Net Assets:		
Unrestricted:		
Undesignated	(184,387)	(566,725)
Board-designated – scholarships	164,169	140,597
Total unrestricted	(20,218)	(426,128)
Temporarily restricted	22,395,040	14,086,876
Permanently restricted	40,569,719	34,009,143
Total net assets	62,944,541	47,669,891
Total liabilities and net assets	\$ 67,838,897	\$ 51,580,926

The accompanying notes are an integral part of these financial statements

# The Cleveland State University Foundation, Inc.

## Statement of Activities

**For the year ended June 30, 2011 (with comparative totals for 2010)**

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>2011 Total</u>	<u>2010 Total</u>
Support and revenues:					
Contributions	\$ 281,424	\$ 4,642,732	\$ 6,771,394	\$ 11,695,550	\$ 6,718,879
Endowment management fees	22,073	-	-	22,073	24,796
Net assets released from restrictions	<u>4,476,279</u>	<u>(4,476,279)</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total support and revenues	4,779,776	166,453	6,771,394	11,717,623	6,743,675
Expenses:					
Program services:					
Instruction	1,205,368	-	-	1,205,368	1,104,264
Research	277,630	-	-	277,630	238,381
Public service	604,623	-	-	604,623	1,147,565
Academic support	72,434	-	-	72,434	98,608
Financial aid	1,374,347	-	-	1,374,347	1,128,229
Institutional support	118,664	-	-	118,664	99,265
Auxiliary enterprises	<u>786,456</u>	<u>-</u>	<u>-</u>	<u>786,456</u>	<u>668,776</u>
Total program services	4,439,522	-	-	4,439,522	4,485,088
Supporting Services:					
Management and general	523,869	-	-	523,869	497,510
Fundraising	<u>100,671</u>	<u>-</u>	<u>-</u>	<u>100,671</u>	<u>155,970</u>
Total supporting services	<u>624,540</u>	<u>-</u>	<u>-</u>	<u>624,540</u>	<u>653,480</u>
Total expenses	5,064,062	-	-	5,064,062	5,138,568
Gains and losses:					
Investment gain, including realized and unrealized gains, net	690,196	8,133,747	-	8,823,943	5,497,847
Provision for uncollectible contributions	<u>-</u>	<u>7,964</u>	<u>(210,818)</u>	<u>(202,854)</u>	<u>(187,752)</u>
Total gains and losses	<u>690,196</u>	<u>8,141,711</u>	<u>(210,818)</u>	<u>8,621,089</u>	<u>5,310,095</u>
Change in net assets	405,910	8,308,164	6,560,576	15,274,650	6,915,202
Net assets – beginning	<u>(426,128)</u>	<u>14,086,876</u>	<u>34,009,143</u>	<u>47,669,891</u>	<u>40,754,689</u>
Net assets – ending	\$ <u>(20,218)</u>	\$ <u>22,395,040</u>	\$ <u>40,569,719</u>	\$ <u>62,944,541</u>	\$ <u>47,669,891</u>

The accompanying notes are an integral part of these financial statements

# The Cleveland State University Foundation, Inc.

## Statement of Cash Flows

**For the year ended June 30, 2011 (with comparative totals for 2010)**

	2011	2010
Cash flows from operating activities:		
Change in net assets	\$ 15,274,650	\$ 6,915,202
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Realized gain on sale of investments	(7,174,214)	(3,740)
Net unrealized gain in the fair market value of investments	(415,298)	(4,199,568)
Contributions restricted for investment in endowment	(6,771,394)	(3,416,985)
Contributions receivable written-off	82,000	109,000
Changes in operating assets and liabilities:		
Accounts receivable	(167,648)	(156,547)
Contributions receivable	280,145	(77,809)
Accounts payable	(26,571)	(119,248)
Annuities payable	9,828	(7,113)
Payable to Cleveland State University	389,136	(114,834)
Net cash provided by (used in) operating activities	1,480,634	(1,071,642)
Cash flows from investing activities:		
Proceeds from sales of investments	37,628,793	9,221,327
Purchases of investments	(42,630,324)	(10,662,094)
Net cash used in investing activities	(5,001,531)	(1,440,767)
Cash flows from financing activities:		
Proceeds received from note payable	-	800,000
Principal payments on note payable	(39,996)	(35,265)
Proceeds from collection of contributions restricted for investment in endowment	4,113,034	1,889,507
Net cash provided by financing activities	4,073,038	2,654,242
Increase in cash and cash equivalents	552,141	141,833
Cash and cash equivalents, beginning of year	5,051,468	4,909,635
Cash and cash equivalents, end of year	\$ 5,603,609	\$ 5,051,468
 <b>Supplemental disclosures of cash flow information:</b>		
Cash paid during the year for interest	\$ 22,155	\$ 22,471

The accompanying notes are an integral part of these financial statements

# The Cleveland State University Foundation, Inc.

## Notes to Financial Statements

June 30, 2011

### Note 1: Summary of Significant Accounting Policies

#### Purpose and Accounting Method

The Cleveland State University Foundation, Inc. (the "Foundation") is organized primarily to engage in activities and programs to provide support and service to Cleveland State University (the "University").

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.

*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 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 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.

#### Summarized Comparative Information

The financial statements include certain prior year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the Foundation's financial statements for the year ended June 30, 2010, from which the summarized information was derived.

# The Cleveland State University Foundation, Inc.

## Notes to Financial Statements

June 30, 2011

### 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

For purposes of the statement of cash flows, the Foundation considers all highly liquid debt instruments with a 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 transactions. Interest and dividend income, as well as realized and unrealized gains and losses, are allocated to the funds quarterly 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 six percent discount rate, the present value of future benefits expected to be received by the Foundation was estimated to be \$1,560,338, which was reported during the year ended June 30, 2011, as a permanently restricted contribution and as a contribution receivable from the charitable lead trust at June 30, 2011. The Foundation also recorded a discount on the estimated present value of future benefits of \$439,662 during the year ended June 30, 2011.

#### 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 designed 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 stipulations are substantially met.

# The Cleveland State University Foundation, Inc.

## Notes to Financial Statements

June 30, 2011

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

#### Contributions (continued)

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.

#### 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.

#### 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, 2011, \$11.45 million of the Foundation's gross contributions receivable is due from two donors. The contribution receivables are due at various times through June 30, 2035.

At various times during the year ended June 30, 2011, the Foundation's cash in bank balances may exceed the federally insured limits.

#### 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.

The Foundation accounts for income taxes in accordance with the "Income Taxes" topic of the FASB ASC. 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, 2011, 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 forms 990 in the U.S. federal jurisdiction and the office of the state's attorney general for the State of Ohio. The Foundation is generally no longer subject to examination by the Internal Revenue Service for fiscal years before 2008.

# The Cleveland State University Foundation, Inc.

## Notes to Financial Statements

June 30, 2011

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

#### 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.

#### Gift Annuities

The Foundation is obligated under various 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 \$32,517 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, 2011, range from 6.5% through 10.0%.

#### Subsequent Events

In preparing these financial statements, the Foundation has evaluated events and transactions for potential recognition or disclosure through October 26, 2011, the date the financial statements were available to be issued.

### Note 2: Cash and Cash Equivalents

Cash and cash equivalents consisted of the following at June 30, 2011:

Cash	\$ 4,168,735
Money market mutual funds	<u>1,434,874</u>
	\$ <u>5,603,609</u>

# The Cleveland State University Foundation, Inc.

## Notes to Financial Statements

June 30, 2011

### Note 3: 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, 2011, are as follows:

Gross receivables due within:	
One year or less	\$ 2,048,785
One to five years	2,947,131
Thereafter	<u>9,032,929</u>
	14,028,845
Discount	(5,697,430)
Allowance for uncollectible contributions	<u>(416,571)</u>
Contributions receivable, net	\$ <u><u>7,914,844</u></u>

Included in the amount to be received in one year or less is \$1,013,964, which represents amounts due on permanently restricted contributions net of the allowance for uncollectible contributions and discount. As such, these amounts have been classified as non-current assets on the statement of financial position.

The table below represents 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, 2011.

Balance at beginning of year	\$ 5,618,629
Additional pledges	8,959,500
Collection on pledges	(4,309,274)
Provision for uncollectible contributions	(202,854)
Change in present value	<u>(2,151,157)</u>
Balance at end of year	\$ <u><u>7,914,844</u></u>

Contributions receivable, net at June 30, 2011, have the following restrictions:

Instruction	\$ 371,206
Research	223,250
Public service	109,661
Financial aid	5,250,036
Institutional support	1,409,171
Auxiliary enterprises	<u>551,520</u>
	\$ <u><u>7,914,844</u></u>



# The Cleveland State University Foundation, Inc.

## Notes to Financial Statements

June 30, 2011

### Note 4: Long-Term Investments

For investment purposes, assets of the various unrestricted, temporarily restricted, and permanently restricted classifications are pooled.

Investments at June 30, 2011, are composed of the following:

	<u>Cost</u>	<u>Carrying Value</u>
Stocks – domestic	\$ 505,677	\$ 788,585
Mutual funds – domestic	22,509,954	23,434,775
Mutual funds – international	8,988,690	10,171,568
Fixed income securities	<u>13,357,132</u>	<u>14,047,618</u>
Investments carried at fair value	\$ <u>45,361,453</u>	48,442,546
Note receivable		1,588,978
Investment in real estate, net of accumulated depreciation		<u>943,178</u>
Investments carried at adjusted cost		<u>2,532,156</u>
		\$ <u>50,974,702</u>

Funds held on behalf of others at June 30, 2011, are composed of the following:

	<u>Cost</u>	<u>Carrying Value</u>
Common stocks – domestic	\$ 29,343	\$ 45,760
Mutual funds – domestic	1,306,170	1,359,833
Mutual funds – international	521,580	590,218
Fixed income securities	<u>775,065</u>	<u>815,131</u>
Investments carried at fair value	\$ <u>2,632,158</u>	2,810,942
Note receivable		92,202
Investment in real estate, net of accumulated depreciation		<u>54,729</u>
Investments carried at adjusted cost		<u>146,931</u>
		\$ <u>2,957,873</u>

The Foundation's note receivable is due from Euclid Avenue Housing 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 Foundation's investment in real estate relates to land and building that has been leased to the University. Commencing July 1, 2009 rental payments due from the University are \$7,000 per month. The lease expires on June 30, 2013.

# The Cleveland State University Foundation, Inc.

## Notes to Financial Statements

June 30, 2011

### Note 4: Long-Term Investments (continued)

Investment gain, net for the year ended June 30, 2011, as presented in the accompanying statement of activities is comprised of the following:

Interest, dividends, and other	\$ 1,234,431
Realized gain, net	7,174,214
Unrealized gain, net	<u>415,298</u>
Total investment gain, net	\$ <u>8,823,943</u>

### Note 5: Note payable

Note payable dated July 10, 2009 and amended July 10, 2011, 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, 2011), through July 2013. The note is secured by the assignment of rents and an \$800,000 certificate of deposit held by the University.

	\$ 724,739
Less: current portion	<u>(39,996)</u>
Note payable, net of current portion	\$ <u>684,743</u>

### Note 6: 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, 2011:

Instruction	\$ 4,897,637
Research	269,121
Public service	4,914,969
Academic support	1,140,804
Financial aid	8,100,831
Institutional support	2,489,770
Auxiliary enterprises	<u>581,908</u>
	\$ <u>22,395,040</u>

# The Cleveland State University Foundation, Inc.

## Notes to Financial Statements

June 30, 2011

### Note 6: Temporarily and Permanently Restricted Net Assets (continued)

Temporarily restricted net assets were released from restriction for the following purposes during the year ended June 30, 2011:

Instruction	\$ 1,205,368
Research	277,630
Public service	604,623
Academic support	72,434
Financial aid	1,374,347
Institutional support	118,664
Auxiliary enterprises	786,456
Other	<u>36,757</u>
	\$ <u>4,476,279</u>

Permanently restricted net assets are held in perpetuity to support the following purposes at June 30, 2011:

Instruction	\$ 6,260,536
Research	797,032
Public service	50,607
Academic support	2,450,951
Financial aid	29,873,296
Institutional support	1,099,430
Auxiliary enterprises	<u>37,867</u>
	\$ <u>40,569,719</u>

### Note 7: Net Asset Classification of Endowment Funds

The Foundation's endowments consist of approximately 288 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 added to the fund.

# The Cleveland State University Foundation, Inc.

## Notes to Financial Statements

June 30, 2011

### Note 7: Net Asset Classification of Endowment Funds (continued)

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

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

During the year ended June 30, 2011, the Foundation had the following endowment related activities:

	Donor-Restricted Endowment Funds	Board-Designated Endowment Funds	Total
Investment return:			
Investment income	\$ 8,399,244	\$ 7,334	\$ 8,406,578
Net unrealized gain	<u>387,296</u>	<u>25,125</u>	<u>412,421</u>
Total investment return	8,786,540	32,459	8,818,999
Contributions	4,113,234	-	4,113,234
Amounts appropriated for expenditure	(1,447,083)	(7,406)	(1,454,489)
Endowment management fees	<u>(358,513)</u>	<u>(1,481)</u>	<u>(359,994)</u>
Total change in endowment funds	\$ <u>11,094,178</u>	\$ <u>23,572</u>	\$ <u>11,117,750</u>

### Endowment Net Asset Composition by Type of Fund as of June 30, 2011:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds	\$ (132,234)	\$ 15,005,798	\$ 34,208,782	\$ 49,082,346
Board-designated endowment funds	<u>164,169</u>	<u>-</u>	<u>-</u>	<u>164,169</u>
Total funds	\$ <u>31,935</u>	\$ <u>15,005,798</u>	\$ <u>34,208,782</u>	\$ <u>49,246,515</u>

# The Cleveland State University Foundation, Inc.

## Notes to Financial Statements

**June 30, 2011**

**Note 7: Net Asset Classification of Endowment Funds (continued)**

Changes in Endowment Net Assets  
for the Fiscal Year Ended June 30, 2011:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets, beginning of year	\$ (648,828)	\$ 8,681,845	\$ 30,095,748	\$ 38,128,765
Investment return:				
Investment income	635,557	7,771,021	-	8,406,578
Net unrealized gain	<u>54,093</u>	<u>358,328</u>	<u>-</u>	<u>412,421</u>
Total investment return	689,650	8,129,349	-	8,818,999
Contributions	-	200	4,113,034	4,113,234
Amounts appropriated for expenditure	(7,406)	(1,447,083)	-	(1,454,489)
Endowment management fees	<u>(1,481)</u>	<u>(358,513)</u>	<u>-</u>	<u>(359,994)</u>
Endowment net assets, end of year	\$ <u>31,935</u>	\$ <u>15,005,798</u>	\$ <u>34,208,782</u>	\$ <u>49,246,515</u>

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 \$ 34,076,548

Total endowment funds classified as permanently restricted net assets \$ 34,208,782

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	\$ 34,208,782
Permanently restricted contributions receivable, net	<u>6,360,937</u>
Total permanently restricted net assets	\$ <u>40,569,719</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 \$132,234 as of June 30, 2011. These deficiencies resulted from unfavorable market fluctuations that occurred during the economic downturn that was experienced in the United States and worldwide.

# The Cleveland State University Foundation, Inc.

## Notes to Financial Statements

June 30, 2011

### Note 7: Net Asset Classification of Endowment Funds (continued)

#### Return Objectives and Risk Parameters

The Foundation has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment funds, while seeking to maintain the purchasing power of the endowment assets. Endowment assets include those assets of 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 investment strategy for the Foundation's portfolio may include domestic and international equities and fixed income investments, and alternatives. Strategies of the Foundation's investment manager(s) may include investing in securities in another asset category and/or in derivatives, futures contract, and currency hedging. Alternatives include, but are not limited to, domestic and international equities, open-end and closed-end funds, real estate and real estate investment trusts, the shorting of securities, hedge funds, private equity, venture capital, and exchange-traded funds. It is expected the alternative investments in the aggregate will not increase the risk of the Foundation's portfolio beyond the level anticipated in the Foundation's investment strategy.

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

# The Cleveland State University Foundation, Inc.

## Notes to Financial Statements

June 30, 2011

### Note 7: Net Asset Classification of Endowment Funds (continued)

#### 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 8: 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, 2011, the Foundation had accounts receivable due from the University of \$387,869.

At June 30, 2011, the Foundation had payables to the University of \$1,051,798.

At June 30, 2011, the Foundation is investing \$366,939 and \$2,590,934 of assets on behalf of the Cleveland State University Alumni Association and the University, respectively.

The Foundation recognized interest income of \$154,004 from the Corporation during the year ended June 30, 2011.

During the year ended June 30, 2011, the Foundation had program expenditures supporting the University as follows:

	<u>Transfers</u>	<u>Expenditures</u>	<u>Total</u>
Instruction	\$ 1,132,128	\$ 73,240	\$ 1,205,368
Research	277,586	44	277,630
Public service	567,201	37,422	604,623
Academic support	70,126	2,308	72,434
Financial aid	1,343,417	30,930	1,374,347
Institutional support	61,772	56,892	118,664
Auxiliary enterprises	<u>350,604</u>	<u>435,852</u>	<u>786,456</u>
	\$ <u>3,802,834</u>	\$ <u>636,688</u>	\$ <u>4,439,522</u>

# The Cleveland State University Foundation, Inc.

## Notes to Financial Statements

June 30, 2011

### Note 9: 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 inputs are quoted prices for similar assets and liabilities in active markets or inputs that are observable for the asset or liability, either directly or indirectly; 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 consisted of the following at June 30, 2011:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Totals</u>
Cash equivalents:				
Money market funds	\$ 1,434,874	\$ -	\$ -	\$ 1,434,874
Long-Term Investments:				
Common stocks:				
Consumer discretionary	15,111	-	-	15,111
Consumer staples	79,213	-	-	79,213
Energy	51,308	-	-	51,308
Financials	489,590	-	-	489,590
Health care	32,449	-	-	32,449
Industrials	46,386	-	-	46,386
Information and technology	71,933	-	-	71,933
Materials	31,664	-	-	31,664
Telecommunication services	16,692	-	-	16,692
Mutual funds:				
Blended funds	21,705,750	-	-	21,705,750
Growth funds	8,792,202	-	-	8,792,202
Income funds	8,039,579	-	-	8,039,579
Value funds	5,058,442	-	-	5,058,442
U.S government securities:				
U.S. Treasuries	-	779,904	-	779,904
Mortgage backed securities	-	1,878,329	-	1,878,329
Corporate bonds:				
A- or better	-	1,915,559	-	1,915,559
B- to BBB+	-	2,249,378	-	2,249,378
	<u>\$ 45,865,193</u>	<u>\$ 6,823,170</u>	<u>\$ -</u>	<u>\$ 52,688,363</u>



# **The Cleveland State University Foundation, Inc.**

**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*  
June 30, 2011**

**The Cleveland State University Foundation, Inc.**

**For The Year Ended June 30, 2011**

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

Board of Directors  
The Cleveland State University Foundation, Inc.  
Cleveland, Ohio

We have audited the financial statements of The Cleveland State University Foundation, Inc. (the “Foundation”) as of and for the year ended June 30, 2011, and have issued our report thereon dated October 26, 2011. 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.

**Internal Control over Financial Reporting**

Management of the Foundation is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the Foundation’s internal control over financial reporting as a basis for designing our auditing procedures 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 over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Foundation’s internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying schedule of findings, we identified a deficiency in internal control over financial reporting that we consider to be a material weakness.

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 combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the Foundation’s financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiency (Finding 2011-1) described in the accompanying schedule of findings to be a material weakness. A *significant deficiency* is a deficiency, or 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.

Board of Directors  
The Cleveland State University Foundation, Inc.

### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the Foundation's financial statements are free of 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*.

The Foundation's response to the finding identified in our audit is described in the accompanying schedule of findings. We did not audit the Foundation's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of the management, the Board of Directors, and the Ohio Auditor of State's office and is not intended to be and should not be used by anyone other than these specified parties.

*Ciuni + Panichi, Inc.*

Cleveland, Ohio  
October 26, 2011

# The Cleveland State University Foundation, Inc.

## Schedule of Findings

### For the Year Ended June 30, 2011

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#### 1. Summary of Auditors' Results

Type of Financial Statement Opinion	Unqualified
Were there any significant deficiencies reported at the financial statement level (GAGAS)?	None reported
Were there any material weaknesses reported at the financial statement level (GAGAS)?	Yes
Was there any material noncompliance reported at the financial statement level (GAGAS)?	No

#### 2. Findings Related To the Financial Statements Required To Be Reported in Accordance With GAGAS

##### 2011-1 Financial Close Process – Material Weakness

During the course of our audit procedures as of and for the year ended June 30, 2011, we identified numerous issues that contributed to significant adjustments and delays in the financial close process. These issues were primarily the result of the lack of timely recording of transactions into the general ledger and reconciling key account balances throughout the year. The significant audit issues included:

- There was no input of transactions into the Foundation's general ledger during the entire fiscal year.
- Cash and investment reconciliations for the entire fiscal year were not performed until after year-end. We did propose an audit adjustment to record certain investments at fair market value.
- Year-end investment reconciliations were initially prepared on the cost basis versus market value.
- Contributions receivable were not reconciled during the year. During our contribution receivable confirmation audit procedures, we requested to confirm a contribution receivable which management subsequently determined should be written off due to being uncollectible.
- Financial statement preparation required significant assistance in the following areas:
  - Presentation and classification of certain accounts within the statement of activities;
  - Allocation of investment income between the unrestricted and temporary net asset classifications;
  - Preparation of the statement of cash flows, specifically, cash flows related to endowment contributions, investment activity, and other operating liabilities;
  - Removal of a conditional promise to give footnote that was related to a prior period;
  - Assistance with endowment accounting and disclosures, including adjusting for the inclusion of the Foundation's note receivable into the endowment investment pool.

Some of these identified issues individually were material in nature. As these issues and adjustments arise from the financial statement closing process (both interim and year-end), rather than the processing of individual transactions, we have aggregated these items with other issues identified during the financial statement close process. Given the number of issues, magnitude of adjustments, the materiality thresholds applicable to the Foundation, and the risk that these errors could have resulted in additional or larger adjustments, we have concluded that, on an aggregate basis, these issues indicate a material weakness within the financial statement close process.

# **The Cleveland State University Foundation, Inc.**

## **Schedule of Findings**

### **For the Year Ended June 30, 2011**

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#### *Management's Response*

The Foundation recognizes there are issues with internal control over financial reporting. Currently, the Foundation's accounting function is performed through the Cleveland State University's controller's office. Prior to the start of the fiscal year 2011 audit, the Foundation and the University recognized the need to reorganize the manner in which the Foundation receives accounting and financial services from the University and made this reorganization a priority. The Foundation's accounting function will shift from the University's controller's office to the University's Division of Advancement. The University's Vice President – Advancement, who also serves as the Foundation's Executive Director, is in the process of reorganizing the division and a component of this reorganization is hiring a senior financial position to manage the accounting and finance activities of the Advancement Division and the Foundation. This position will report directly to the Vice President – Advancement and will be responsible for all financial operations concerning the Advancement Division and the Foundation, including internal accounting controls, budget preparation and control, financial reporting, the annual financial statement audit, and serving as the liaison to the Foundation's external auditors. This reorganization is planned to be completed in the first half of 2012 and will be in place by the time the Foundation's fiscal year 2012 audit commences. The University has taken steps to assure a smooth transition of the accounting function by undertaking efforts to identify the financial requirements and service needs of the Foundation, as well as those of the University's individual colleges and departments regarding gift account and endowment account balances.

### **3. Compliance Findings**

None noted.



# Dave Yost • Auditor of State

THE CLEVELAND STATE UNIVERSITY FOUNDATION, INC.

CUYAHOGA COUNTY

## CLERK'S CERTIFICATION

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

*Susan Babbitt*

CLERK OF THE BUREAU

CERTIFIED  
DECEMBER 20, 2011