

**KENT STATE UNIVERSITY FOUNDATION, INC.**  
Kent, Ohio

**FINANCIAL STATEMENTS**  
June 30, 2016 and 2015





# Dave Yost • Auditor of State

Board of Directors  
Kent State University Foundation, Inc.  
1061 Fraternity Circle  
Kent, Ohio 44242

We have reviewed the *Independent Auditor's Report* of the Kent State University Foundation, Inc., Portage County, prepared by Crowe Horwath LLP, for the audit period July 1, 2015 through June 30, 2016. 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 Kent State University Foundation, Inc. is responsible for compliance with these laws and regulations.

A handwritten signature in black ink that reads "Dave Yost".

Dave Yost  
Auditor of State

December 5, 2016

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KENT STATE UNIVERSITY FOUNDATION, INC.

Kent, Ohio

FINANCIAL STATEMENTS

June 30, 2016 and 2015

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## INDEPENDENT AUDITOR'S REPORT

Board of Directors  
Kent State University Foundation, Inc.  
Kent, Ohio

### Report on the Financial Statements

We have audited the accompanying financial statements of Kent State University Foundation, Inc., which comprise the statements of financial position as of June 30, 2016 and 2015, and the related statements of activities and cash flows for the years 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 audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

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## **Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Kent State University Foundation, Inc. as of June 30, 2016 and 2015, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

## **Report on Other Legal and Regulatory Requirements**

In accordance with *Government Auditing Standards*, we have also issued our report dated October 3, 2016 on our consideration of Kent State University Foundation, Inc.'s internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Kent State University Foundation, Inc.'s internal control over financial reporting and compliance.

*Crowe Horwath LLP*

Crowe Horwath LLP

Columbus, Ohio  
October 3, 2016

KENT STATE UNIVERSITY FOUNDATION, INC.  
STATEMENTS OF FINANCIAL POSITION  
June 30, 2016 and 2015

	<u>2016</u>	<u>2015</u>
<b>ASSETS</b>		
Cash and cash equivalents	\$ 1,030,422	\$ 2,202,184
Receivables		
Pledges	9,182,166	8,901,105
Interest on notes receivable	<u>539,110</u>	<u>436,129</u>
	9,721,276	9,337,234
Investments		
Long-term pool	137,074,323	141,781,472
Charitable remainder trusts	5,813,334	6,127,738
Short-term pool	<u>45,938</u>	<u>18,162</u>
	142,933,595	147,927,372
Beneficial interest in trusts held by others	4,120,018	4,265,258
Notes receivable – Hotel and Conference Center	14,426,108	14,426,108
Property, net of depreciation	<u>12,191,901</u>	<u>1,305,688</u>
	<u>\$ 184,423,320</u>	<u>\$ 179,463,844</u>
<b>LIABILITIES AND NET ASSETS</b>		
Liabilities		
Accounts payable	\$ 144,148	\$ 92,084
Funds held for others	8,590,899	9,039,339
Capital lease liability	9,733,652	-
Actuarial liabilities		
Annuities	1,827,765	1,774,536
Charitable remainder trusts	<u>2,249,041</u>	<u>2,457,202</u>
	<u>22,545,505</u>	<u>13,363,161</u>
Net assets		
Unrestricted	9,873,724	10,997,258
Temporarily restricted	107,584,593	114,097,081
Permanently restricted	<u>44,419,498</u>	<u>41,006,344</u>
	<u>161,877,815</u>	<u>166,100,683</u>
	<u>\$ 184,423,320</u>	<u>\$ 179,463,844</u>

See accompanying notes to financial statements.



KENT STATE UNIVERSITY FOUNDATION, INC.  
STATEMENT OF ACTIVITIES  
Year ended June 30, 2016

	Unrestricted	Restricted		Total
		Temporarily	Permanently	
<b>Revenue and Support</b>				
Gifts				
Cash and securities	\$ 55,508	\$ 12,011,962	\$ 2,731,158	\$ 14,798,628
Net change in pledges receivable	<u>-</u>	<u>824,996</u>	<u>35,281</u>	<u>860,277</u>
	55,508	12,836,958	2,766,439	15,658,905
Losses on pledges receivable	<u>-</u>	<u>(497,661)</u>	<u>(81,557)</u>	<u>(579,218)</u>
	<u>55,508</u>	<u>12,339,297</u>	<u>2,684,882</u>	<u>15,079,687</u>
Net investment income				
Securities	(1,079,109)	(3,956,189)	-	(5,035,298)
Investment pool operator fee	1,429,979	(1,429,979)	-	-
Investment in Hotel and Conference Center	<u>846,304</u>	<u>-</u>	<u>-</u>	<u>846,304</u>
	<u>1,197,174</u>	<u>(5,386,168)</u>	<u>-</u>	<u>(4,188,994)</u>
Sales, services, events, and other	270	369,740	174,506	544,516
Changes in designation of prior contributions	(109,606)	(630,581)	740,187	-
Change in actuarial liabilities	-	(192,048)	(186,421)	(378,469)
Release of restrictions	<u>13,012,728</u>	<u>(13,012,728)</u>	<u>-</u>	<u>-</u>
	<u>14,156,074</u>	<u>(6,512,488)</u>	<u>3,413,154</u>	<u>11,056,740</u>
<b>Expenses and losses</b>				
Grants for Kent State University Administration	14,439,287	-	-	14,439,287
	<u>840,321</u>	<u>-</u>	<u>-</u>	<u>840,321</u>
	<u>15,279,608</u>	<u>-</u>	<u>-</u>	<u>15,279,608</u>
<b>Change in net assets</b>	(1,123,534)	(6,512,488)	3,413,154	(4,222,868)
Net assets at beginning of year	<u>10,997,258</u>	<u>114,097,081</u>	<u>41,006,344</u>	<u>166,100,683</u>
<b>Net assets at end of year</b>	<u>\$ 9,873,724</u>	<u>\$ 107,584,593</u>	<u>\$ 44,419,498</u>	<u>\$ 161,877,815</u>

See accompanying notes to financial statements.

KENT STATE UNIVERSITY FOUNDATION, INC.  
STATEMENT OF ACTIVITIES  
Year ended June 30, 2015

	Unrestricted	Restricted		Total
		Temporarily	Permanently	
<b>Revenue and Support</b>				
Gifts				
Cash and securities	\$ 81,978	\$ 15,346,781	\$ 2,455,663	\$ 17,884,422
Net change in pledges receivable	<u>(2,498)</u>	<u>(84,324)</u>	<u>591,806</u>	<u>504,984</u>
	79,480	15,262,457	3,047,469	18,389,406
Losses on pledges receivable	<u>375</u>	<u>(14,226)</u>	<u>(112,711)</u>	<u>(126,562)</u>
	<u>79,855</u>	<u>15,248,231</u>	<u>2,934,758</u>	<u>18,262,844</u>
Net investment income				
Securities	392,699	2,124,177	-	2,516,876
Investment pool operator fee	1,493,216	(1,493,216)	-	-
Investment in Hotel and Conference Center	<u>910,382</u>	<u>-</u>	<u>-</u>	<u>910,382</u>
	<u>2,796,297</u>	<u>630,961</u>	<u>-</u>	<u>3,427,258</u>
Sales, services, events, and other	764	183,303	25,077	209,144
Gain or loss on sale of property	-	(177,636)	-	(177,636)
Changes in designation of prior contributions	(2,554)	(1,304,382)	1,306,936	-
Change in actuarial liabilities	-	108,615	(93,438)	15,177
Release of restrictions	<u>13,980,813</u>	<u>(13,980,813)</u>	<u>-</u>	<u>-</u>
	<u>16,855,175</u>	<u>708,279</u>	<u>4,173,333</u>	<u>21,736,787</u>
<b>Expenses and losses</b>				
Grants for Kent State University Administration	15,410,049	-	-	15,410,049
	<u>677,050</u>	<u>-</u>	<u>-</u>	<u>677,050</u>
	<u>16,087,099</u>	<u>-</u>	<u>-</u>	<u>16,087,099</u>
<b>Change in net assets</b>	768,076	708,279	4,173,333	5,649,688
Net assets at beginning of year	<u>10,229,182</u>	<u>113,388,802</u>	<u>36,833,011</u>	<u>160,450,995</u>
<b>Net assets at end of year</b>	<u>\$ 10,997,258</u>	<u>\$ 114,097,081</u>	<u>\$ 41,006,344</u>	<u>\$ 166,100,683</u>

See accompanying notes to financial statements.

KENT STATE UNIVERSITY FOUNDATION, INC.  
STATEMENTS OF CASH FLOWS  
Years ended June 30, 2016 and 2015

	<u>2016</u>	<u>2015</u>
<b>Cash flows from operating activities</b>		
Increase (decrease) in net assets	\$ (4,222,868)	\$ 5,649,688
Adjustments to reconcile change in net assets to net cash used in operating activities		
Net (gains) losses on investments	11,492,513	5,069,425
Contributions permanently restricted	(2,731,158)	(2,455,663)
Change in actuarial obligations	378,469	(15,176)
Gifts of stock	(3,692)	(6,366)
Losses on pledges receivable	579,218	126,562
Loss on sale of property	-	177,636
Depreciation and amortization	127,194	-
Changes in operating assets and liabilities		
Pledges receivable	(860,277)	(504,984)
Other receivable	(102,981)	(303,733)
Beneficial interest in lead trust	145,240	(3,909,331)
Accounts payable	52,063	3,649
Funds held for others	(448,440)	36,248
Actuarial liability for annuity and unitrust agreements	(337)	145,442
Net cash used in operating activities	<u>4,404,944</u>	<u>4,013,397</u>
<b>Cash flows from investing activities</b>		
Purchases of investments	(36,168,811)	(102,159,380)
Proceeds from sales of investments	30,677,156	98,429,242
Gifts of stock and property	(1,988,964)	(1,319,974)
Proceeds from sale of property	-	23,124
Net cash provided by (used in) investing activities	<u>(7,480,619)</u>	<u>(5,026,988)</u>
<b>Cash flows from financing activities</b>		
Repayment of notes payable		
Proceeds from contributions restricted for investment in endowment and trust	2,731,158	2,455,663
Gifts of stock	(106,681)	(262,602)
Principal payments on capital lease payable	(187,500)	-
Payments to annuitants	(533,064)	(571,865)
Net cash provided by financing activities	<u>1,903,914</u>	<u>1,621,196</u>
Net change in cash and cash equivalents	(1,171,762)	607,605
Cash and cash equivalents at beginning of year	<u>2,202,184</u>	<u>1,594,579</u>
Cash and cash equivalents at end of year	<u>\$ 1,030,422</u>	<u>\$ 2,202,184</u>
<b>Supplemental disclosure of non-cash investing and financing activities</b>		
Property acquired through capital lease	\$ 9,921,152	\$ -

See accompanying notes to financial statements.

KENT STATE UNIVERSITY FOUNDATION, INC.  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2016 and 2015

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**NOTE 1 – ORGANIZATION**

Kent State University Foundation, Inc. (the “Foundation”) was incorporated as a non-profit organization on December 27, 1965 as an independent self-governing body under the laws of the State of Ohio for the purpose of aiding, supporting, advancing, augmenting, and assisting in the development of Kent State University (the “University”). The Foundation is governed by a self-appointing Board of Directors composed of campus and community members. The Board of Directors has adopted a Code of Regulations for purposes of governance.

The Foundation has an operating agreement with the University dated July 1, 1997. The provisions of that agreement require the Foundation to reimburse the University for direct expenses related to Foundation administration. The Foundation has no employees of its own.

The Foundation is a not-for-profit corporation as described in Section 501(c) (3) of the Internal Revenue Code and is exempt from paying federal income taxes pursuant to Section 501(a) of the Internal Revenue Code. Additionally, the Foundation is defined as a public charity pursuant to 509(a) (2).

**NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES**

Basis of Accounting and Presentation: The financial statements of the Foundation have been prepared in accordance with accounting principles generally accepted in the United States of America (“U.S. GAAP”) as applied to not-for-profit organizations and utilize the accrual basis of accounting.

The financial statement presentation follows applicable Financial Accounting Standards Board (“FASB”) guidance, wherein, the Foundation is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted, temporarily restricted and permanently restricted.

The preparation of financial statements in conformity with U.S. GAAP requires the Foundation’s management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from these estimates.

Income Taxes: Pursuant to determination by the Internal Revenue Service, the Foundation is exempt from federal income tax under section 501(c) (3) of the Internal Revenue Code.

The Foundation recognizes a benefit only if it is “more-likely-than-not” that the tax position would be sustained in a tax examination, with a tax examination being presumed to occur. The amount recognized is the largest amount of tax benefit that is greater than 50% likely of being realized on examination. For tax positions not meeting the “more-likely-than-not” test, no tax benefit is recorded. Management has concluded that they are unaware of any uncertain tax benefits or liabilities to be recognized at June 30, 2016 or 2015.

The Foundation would recognize interest and penalties related to unrecognized tax benefits in interest and income tax, respectively. The Foundation has no amounts accrued for interest or penalties at June 30, 2016 or 2015. The Foundation does not expect the total amount of unrecognized tax benefits to significantly change in the next twelve months.

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(Continued)

KENT STATE UNIVERSITY FOUNDATION, INC.  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2016 and 2015

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**NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES (Continued)**

Gifts: Gift revenue is recognized on the date of receipt. Gifts of securities are recorded at fair value. Gift revenue from gifts requiring future payment obligations are recorded as the difference between the assets received and the future payment obligation. Gifts-in-kind are recorded at a substantiated amount which reflects the useful value for its intended purpose. All gifts are considered to be available for unrestricted use unless specifically restricted by the donor. Gifts that are designated for future periods or restricted by the donor are reported as temporarily or permanently restricted support.

Functional Allocation of Expenses: The grants made to Kent State University are summarized on a functional basis in footnote 14.

Fair Value of Assets and Liabilities: FASB Accounting Standards Codification (“ASC”) 820 defines fair value, provides enhanced guidance for using fair value to measure assets and liabilities and expands the disclosure of the methods used and the effect of fair value measurements on earnings. The Foundation elected fair value accounting for pledge receivables, beneficial interests in lead and perpetual trusts, and actuarial liabilities. The Foundation uses fair value accounting for investments. The estimated fair value amounts have been determined by the Foundation using available market information and appropriate valuation methodologies. Considerable judgment is required in interpreting market data and developing these estimates.

Fair value is defined as the price that would be received for an asset or paid to transfer a liability (an exit price) in the Foundation’s principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date.

There are three levels of inputs that may be used to measure fair values.

Level 1: Quoted prices for identical assets or liabilities in active markets that the entity has the ability to access as of the measurement date.

Level 2: Significant other observable inputs other than Level 1 prices such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data.

Level 3: Significant unobservable inputs that reflect a reporting entity’s own assumptions about the assumptions that market participants would use in pricing an asset or liability.

Cash and Cash Equivalents: Cash and cash equivalents as presented in the financial statements are for operating purposes and include highly liquid investments with original maturities of three months or less that are not included in investments. At various times throughout the fiscal year, the Foundation had in excess of \$250,000 on deposit with a financial institution whose deposits are federally insured up to \$250,000.

Investments: Fluctuations in fair value of investments, as well as gains or losses on sales of securities, are recognized in the statements of activities. Investments are presented in the statements of financial position according to their intended purpose. The Foundation maintains a long-term pool and a short-term pool of investments. Trust investments are segregated into individual funds. All income from the short-term pool is unrestricted. The long-term pool is operated using a unitized share method and is the primary investment vehicle for endowed funds and annuities. Trust investment income is assigned to the segregated fund which generated the income.

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(Continued)

KENT STATE UNIVERSITY FOUNDATION, INC.  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2016 and 2015

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**NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES (Continued)**

Pledges Receivable: Unconditional pledges are recorded in the period that the pledges are received. Conditional pledges are recorded in the period in which the conditions have been met. Funds from pledges to be collected in future years are presented at net present value. Pledges receivable are reviewed annually to determine the allowance for uncollectible contributions. Based upon management's judgment, considering such factors as prior collection history, type of contribution and nature of fund-raising activity, an allowance for uncollectible contributions receivable has been provided.

Beneficial Interest in Trusts Held By Others: Non-custodial, non-revocable trusts which will benefit the Foundation are recognized as gift revenue and as an asset in an amount equal to the fair value of the trusts. Changes in the asset value are recognized as market gains and losses.

Property: Property consists of real estate acquired through purchase, gifts, or capital lease. All property is recognized at the acquisition cost or the fair value of the gift when received. For assets under capital lease, if the present value of the minimum lease payments exceeds the fair value of the leased property at lease inception, the asset is recorded at fair value. Buildings included in real estate are depreciated on a straight-line basis over a forty-year period.

Impairment of Long-Lived Assets: The Foundation continually evaluates whether events and circumstances have occurred that indicate the remaining estimated useful life of long-lived assets may warrant revision. In evaluating whether these long-lived assets are recoverable, the Foundation estimates the sum of the expected future cash flows, undiscounted and without interest charge derived from such assets over their remaining useful life. The Foundation has determined that no impairment of long-lived assets exists at June 30, 2016 or 2015.

Collections: Purchases of collection items are expensed as incurred. Items contributed to collections during the year are not reflected in the Foundation's financial statements. Proceeds from deaccessions or insurance recoveries are reflected as increases in the appropriate net asset classes. The Foundation received proceeds of \$4,883 from deaccessions during the year ended June 30, 2016 and \$6,755 during the year ended June 30, 2015.

Actuarial Liabilities: Obligations to pay stipulated amounts periodically to donors and/or other designated individuals under split interest and annuity agreements are accounted for at fair value using an income approach.

Net Assets: The Foundation's net assets are classified into three categories: (1) unrestricted, which have no donor restrictions, (2) temporarily restricted, which include donor-imposed restrictions that will expire in the future, and (3) permanently restricted, which include donor imposed restrictions that the assets be maintained permanently.

Endowments: The Foundation accounts for endowment funds in accordance with FASB guidance pertaining to the Uniform Prudent Management of Institutional Funds Act ("UPMIFA"). The Foundation interprets UPMIFA as requiring only those gifts and accumulations explicitly directed by the donor to be preserved to be classified as permanently restricted net assets. Endowment funds not classified as permanently restricted net assets are classified as temporarily restricted net assets until utilized by the Foundation in a manner consistent with the standards of prudence prescribed by UPMIFA.

As a result of market declines, the fair value of certain permanently restricted endowment funds may fall below the level that the donor requires the Foundation to retain as a fund of perpetual duration. Deficiencies of this nature that are in excess of related temporarily restricted amounts are reported in unrestricted net assets. Such amounts totaled \$222,916 and \$11,598 at June 30, 2016 and 2015.

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KENT STATE UNIVERSITY FOUNDATION, INC.  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2016 and 2015

**NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES (Continued)**

Life Insurance Policies: The Foundation has been named as the beneficiary of several life insurance policies. The Foundation's accounting policy is to record the insurance proceeds as other revenue when received. The total face value of the policies that name the Foundation as beneficiary is approximately \$764,000 and \$444,000 at June 30, 2016 and 2015, respectively.

Subsequent Events: The Foundation has evaluated events and transactions occurring subsequent to the financial statements date of June 30, 2016, for items that should be recognized or disclosed in these financial statements. This evaluation was conducted through October 3, 2016, the date these financial statements were available to be issued.

**NOTE 3 – INVESTMENTS**

Investments are managed by the Board of Directors of the Foundation based upon the recommendations of a board directed investment committee and in accordance with a defined investment policy. The policy contains objectives, guidelines, and restrictions regarding investing. The board employs an investment consultant to assist in matters of asset allocation, investment manager selection, and performance measurement. All investments are maintained by custodians with the exception of a small amount of securities held by the Foundation.

The various investments in stocks, securities, mutual funds and other investments are exposed to a variety of uncertainties, including interest rate, market and credit risks. With respect to the Foundation's investments in corporate stocks, the Foundation maintains a diverse investment portfolio, without any concentration of risk in any particular industry sector. Due to the level of risk associated with certain investments, it is possible that changes in the values of these investments could occur in the near term. Such changes could materially affect the amounts reported in the financial statements of the Foundation.

The following table presents information about the investments measured at fair value on a recurring basis as of June 30, 2016 and 2015:

	<u>Total</u>	Quoted Prices In Active Markets For Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
<u>June 30, 2016</u>				
Corporate stocks	\$ 4,419,270	\$ 4,419,270	\$ -	\$ -
Limited partnership hedge funds	8,320,628	-	-	8,320,628
Private equity	344,640	-	-	344,640
Exchange Traded Funds ("ETFs")	10,700,987	10,700,987	-	-
Mutual funds				
Large capitalization equity funds	36,662,798	36,662,798	-	-
Small / middle capitalization equity funds	8,177,385	8,177,385	-	-
International equity funds	30,297,424	30,297,424	-	-
Other mutual funds	12,796,031	12,796,031	-	-
Fixed income funds	31,214,432	19,679,509	11,534,923	-
	<u>\$ 142,933,595</u>	<u>\$ 122,733,404</u>	<u>\$ 11,534,923</u>	<u>\$ 8,665,268</u>

(Continued)

KENT STATE UNIVERSITY FOUNDATION, INC.  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2016 and 2015

**NOTE 3 – INVESTMENTS** (Continued)

	<u>Total</u>	Quoted Prices In Active Markets For Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
<u>June 30, 2015</u>				
Corporate stocks	\$ 5,053,104	\$ 5,053,104	\$ -	\$ -
Limited partnership hedge fund	5,044,665	-	-	5,044,665
Exchange Traded Funds (“ETFs”)	5,472,401	5,472,401	-	-
Mutual funds				
Large capitalization equity funds	42,349,972	42,349,972	-	-
Small / middle capitalization equity funds	9,522,498	9,522,498	-	-
International equity funds	30,607,126	30,607,126	-	-
Other mutual funds	19,382,921	19,382,921	-	-
Fixed income funds	<u>30,494,685</u>	<u>19,428,285</u>	<u>11,066,400</u>	<u>-</u>
	<u>\$ 147,927,372</u>	<u>\$ 131,816,307</u>	<u>\$ 11,066,400</u>	<u>\$ 5,044,665</u>

The fair values of debt and equity investments, and mutual funds, that are readily marketable are determined by obtaining quoted prices on nationally recognized securities exchanges (Level 1 inputs) or by quoted market prices of similar securities with similar due dates (Level 2 inputs).

The Foundation invests in alternative investments which include investments in limited partnerships. Fair value represents the Foundation’s proportionate interest in the net assets of these funds. Fair values are supplied to the Foundation by third party administrators, and audited information about these funds is available annually. Due to current market conditions as well as the limited trading activity of these securities, the market value of the securities is highly sensitive to assumption changes and market volatility (Level 3 inputs). The objective of these alternative investments is to provide returns consistent with the United States consumer price index plus 5% over the long-term by investing in areas that offer strong relative performance in rising inflation environments. In accordance with the terms of the investments, the Foundation is able to redeem its investments in these limited alternative investments by providing prior written notice ranging from one-hundred days to one year. At June 30, 2016 and 2015, the Foundation has no unfunded commitments to either of these alternative investments.

During fiscal year 2016 the Foundation entered in to multiple private equity investments. The Foundation has estimated fair value of these investments using net asset values provided by the underlying private investment companies and/or their administrators. Due to current market conditions as well as the limited trading activity of these securities, the market value of the securities is highly sensitive to assumption changes and market volatility (Level 3 inputs). There are no redemption options on these funds. Commitments outstanding on these funds are approximately \$10,155,000 at June 30, 2016. The investment objective of these funds is to obtain long term growth capital. These investments offer investors an opportunity to access the private equity market through a much smaller commitment than would be feasible investing directly in funds.

(Continued)



KENT STATE UNIVERSITY FOUNDATION, INC.  
 NOTES TO FINANCIAL STATEMENTS  
 June 30, 2016 and 2015

**NOTE 3 – INVESTMENTS** (Continued)

The table below presents a reconciliation and activity statement classification of gains and losses for investments measured at fair value on a recurring basis using significant unobservable inputs (Level 3):

	Limited Partnership Hedge Funds	Private Equity	Total
Beginning balance, July 1 2015	\$ 5,044,665	\$ -	\$ 5,044,665
Purchases	3,668,871	344,640	4,013,511
Sales and redemptions	(76,753)	-	(76,753)
Realized gains (losses)	18,408	-	18,408
Unrealized gains (losses)	<u>(334,563)</u>	<u>-</u>	<u>(334,563)</u>
Ending balance, June 30, 2016	<u>\$ 8,320,628</u>	<u>\$ 344,640</u>	<u>\$ 8,665,268</u>

	Limited Partnership Hedge Funds	Private Equity	Total
Beginning balance, July 1 2014	\$ 6,065,277	\$ -	\$ 6,065,277
Purchases	580,632	-	580,632
Sales and redemptions	(316,654)	-	(316,654)
Realized gains (losses)	26,977	-	26,977
Unrealized gains (losses)	<u>(1,311,567)</u>	<u>-</u>	<u>(1,311,567)</u>
Ending balance, June 30, 2015	<u>\$ 5,044,665</u>	<u>\$ -</u>	<u>\$ 5,044,665</u>

At June 30, 2016 and 2015, the amount of unrealized losses related to investments measured at fair value on a recurring basis using significant unobservable inputs (Level 3), for those investments still held at June 30, 2016 and 2015, was \$(974,559) and \$(639,996), respectively.

(Continued)

KENT STATE UNIVERSITY FOUNDATION, INC.  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2016 and 2015

**NOTE 3 – INVESTMENTS** (Continued)

The table below presents net investment income for securities for the years ended June 30, 2016 and 2015:

	<u>Total</u>	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>
<u>June 30, 2016</u>				
Interest and dividends	\$ 6,660,932	\$ 1,028,182	\$ 5,632,750	\$ -
Market gains (losses)	(11,842,324)	(2,058,281)	(9,784,043)	-
Investment Expenses	(302,498)	(49,010)	(253,488)	-
Investment income allocated to beneficiaries of funds held for others	<u>448,592</u>	<u>-</u>	<u>448,592</u>	<u>-</u>
	<u>\$ (5,035,298)</u>	<u>\$ (1,079,109)</u>	<u>\$ (3,956,189)</u>	<u>\$ -</u>
	<u>Total</u>	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>
<u>June 30, 2015</u>				
Interest and dividends	\$ 7,957,495	\$ 1,245,497	\$ 6,711,998	\$ -
Market gains (losses)	(5,075,154)	(799,805)	(4,275,349)	-
Investment Expenses	(324,066)	(52,993)	(271,073)	-
Investment income allocated to beneficiaries of funds held for others	<u>(41,399)</u>	<u>-</u>	<u>(41,399)</u>	<u>-</u>
	<u>\$ 2,516,876</u>	<u>\$ 392,699</u>	<u>\$ 2,124,177</u>	<u>\$ -</u>

(Continued)

**NOTE 4 – HOTEL AND CONFERENCE CENTER**

On February 23, 2012, the Foundation entered into a Construction Loan Agreement with the party (Downtown Kent Hotel, LLC, the “Borrower”) developing a hotel and conference center located in Kent, Ohio (the “Hotel and Conference Center”). The Construction Loan Agreement allowed for the Borrower to borrow up to \$15,400,000 under the Construction Loan Agreement for purposes of developing the Hotel and Conference Center. The Construction Loan Agreement included terms for interest at 8.00% per annum. In October 2012 the outstanding borrowings under the Construction Loan Agreement were repaid in full.

The Foundation then made loans of \$11,061,000 and \$3,015,614 under new loan agreements with parties involved in the development of the Hotel and Conference Center. The Foundation funded these loans with proceeds from the Line of Credit (see Note 7) as well as operating funds.

The \$3,015,614 note is with the developer. The note agreement states that the loan principal and interest will be paid with the net cash flow generated by the Hotel and Conference Center when available. Interest will be paid at a fixed rate of 2.20%.

The \$11,061,000 note is with an LLC investment fund and calls for quarterly interest only payments beginning December 31, 2012 through September 30, 2019 at a fixed rate of 7.27%. Principal and interest payments of \$172,828 will be made quarterly beginning October 1, 2019 through September 2035. All final amounts are due September 21, 2035.

During fiscal year 2014, the Foundation advanced \$349,494 through additional note agreements for quarterly interest payments. The notes are collateralized by a security interest in the hotel and conference center. The Foundation has the credit risk that the developer, the investment fund or both will not have sufficient liquidity to repay the receivables in the agreed upon manner and the security interest in the property will not be sufficient to fund any shortfall.

The Foundation has also entered into a ground lease agreement with the Downtown Kent Hotel, LLC for occupancy by the Hotel and Conference Center on land owned by the Foundation. Lease payments are due to the Foundation based upon revenues generated by the Hotel and Conference Center and commenced in June 2013, the date the Hotel and Conference Center opened for business. The ground lease agreement matures in June 2033.

KENT STATE UNIVERSITY FOUNDATION, INC.  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2016 and 2015

**NOTE 5 – PLEDGES RECEIVABLE**

Unconditional promises to give are included in the financial statements as pledges receivable. Pledges are recorded at fair value using an income approach. The use of an income approach in determining fair value requires the Foundation to estimate the expected timing of future cash flows from pledges receivable. The future expected cash flows from pledges receivable are discounted to their net present value using discount rates representing the daily Treasury Bill rates as of each balance sheet date (Level 2) (weighted average discount rate of 0.69% and 0.97% at June 30, 2016 and 2015, respectively). Pledges receivable at June 30, 2016 and 2015 have the following restrictions:

	<u>Total</u>	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>
<u>June 30, 2016</u>				
Pledges receivable	\$ 11,797,635	\$ -	\$ 11,048,114	\$ 749,521
Less: Reserve for uncollectible pledges	2,502,342	-	2,325,244	177,098
Less: Present value discount	<u>113,127</u>	<u>-</u>	<u>104,693</u>	<u>8,434</u>
	<u>\$ 9,182,166</u>	<u>\$ -</u>	<u>\$ 8,618,177</u>	<u>\$ 563,989</u>
	<u>Total</u>	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>
<u>June 30, 2015</u>				
Pledges receivable	\$ 11,815,078	\$ -	\$ 11,018,068	\$ 797,010
Less: Reserve for uncollectible pledges	2,737,548	-	2,563,037	174,511
Less: Present value discount	<u>176,425</u>	<u>-</u>	<u>164,190</u>	<u>12,235</u>
	<u>\$ 8,901,105</u>	<u>\$ -</u>	<u>\$ 8,290,841</u>	<u>\$ 610,264</u>

Pledges receivable at June 30, 2016 and 2015 are expected to be realized in the following periods:

	<u>2016</u>	<u>2015</u>
Less than one year	\$ 5,778,236	\$ 1,492,820
One to five years	5,922,333	9,897,658
More than five years	<u>97,066</u>	<u>424,600</u>
	<u>\$ 11,797,635</u>	<u>\$ 11,815,078</u>

As of June 30, 2016, the Foundation has approximately \$70,694,000 in numerous outstanding pledges which are considered to be intentions to give and are contingent upon future events. Substantially all of the Foundation's contingent pledges are bequests. These pledges are not recorded as receivables or recognized as revenue because they do not represent unconditional promises to give.

(Continued)

KENT STATE UNIVERSITY FOUNDATION, INC.  
 NOTES TO FINANCIAL STATEMENTS  
 June 30, 2016 and 2015

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**NOTE 5 – PLEDGES RECEIVABLE (Continued)**

The table below presents a reconciliation of the fair value of pledge receivables for the years ended June 30, 2016 and 2015:

	<u>2016</u>	<u>2015</u>
Balance at beginning of year	\$ 8,901,105	\$ 8,522,683
Additional pledges	5,082,903	5,255,227
Collections on pledges	(4,285,923)	(4,776,381)
Provision for doubtful pledges	(579,218)	(126,563)
Present value change	<u>63,299</u>	<u>26,139</u>
Balance at end of year	<u>\$ 9,182,166</u>	<u>\$ 8,901,105</u>

**NOTE 6 – SHORT TERM BORROWINGS**

The Foundation entered into a loan agreement with a bank for a \$10,000,000 revolving line of credit (“Line of Credit”) on April 6, 2012. The loan agreement was most recently amended on April 15, 2015 to extend the maturity date of the Line of Credit. The Foundation had no outstanding borrowings on the Line of Credit at June 30, 2016 and 2015. The Line of Credit matured on July 14, 2015 and was not subsequently renewed by the Foundation.

The Line of Credit required the Foundation to comply with certain affirmative and negative covenants. The Foundation was in compliance with these covenants during the term of the loan agreement.

**NOTE 7 – CAPITAL LEASE OBLIGATION**

On January 1, 2016, the Foundation entered into a sublease agreement for building office space with Kent State University. This lease meets the lease capitalization criteria and is recorded as an asset and liability at fair value. The interest rate used in computing the net present value of the lease payments was based on the Foundation’s incremental borrowing rate at the inception of the lease and is 4.97%. Amortization of the building under capital lease is included with depreciation expense.

The aggregate minimum lease payments under capital lease obligations are as follows:

Year ending June 30,		
2017	\$	375,000
2018		375,000
2019		375,000
2020		375,000
2021		462,500
Thereafter		<u>21,646,809</u>
Total lease payments		23,609,309
Interest		<u>13,875,952</u>
Total principal balance	<u>\$</u>	<u>9,733,652</u>

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(Continued)

KENT STATE UNIVERSITY FOUNDATION, INC.  
 NOTES TO FINANCIAL STATEMENTS  
 June 30, 2016 and 2015

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**NOTE 7 – CAPITAL LEASE OBLIGATION (Continued)**

The cost and accumulated amortization of the building under the capital lease are as follows at June 30:

	<u>2016</u>
Building	\$ 9,921,152
Less: Accumulated amortization	<u>127,194</u>
	<u>\$ 9,793,958</u>

**NOTE 8 – BENEFICIAL INTEREST IN TRUSTS HELD BY OTHERS**

The Foundation has beneficial interests in various perpetual trusts. The fair value of the beneficial interest is based on quoted prices for similar assets or liabilities that are observable or can be corroborated by observable market data (Level 2 inputs). However, in accordance with FASB guidance, at June 30, 2016 the beneficial interests in perpetual trusts are classified as a Level 3 investment, as the Foundation does not have the ability to redeem the beneficial interest in these perpetual trusts. At June 30, 2016 and 2015, the fair value of the Foundation's interests in these perpetual trusts was \$4,120,018 and \$4,265,258, respectively.

The table below presents a reconciliation of the fair value of the beneficial interest in perpetual trusts for the year ended June 30, 2016 and 2015:

	<u>2016</u>	<u>2015</u>
Balance at beginning of year	\$ 4,265,258	\$ 273,178
Contributions	247,754	4,202,159
Change in fair value	<u>(392,994)</u>	<u>(210,079)</u>
Balance at end of year	<u>\$ 4,120,018</u>	<u>\$ 4,265,258</u>

**NOTE 9 – SPLIT INTEREST TRUSTS**

The Foundation has entered into split interest trust agreements whereby it receives assets from donors on the condition that it binds itself to pay stipulated amounts periodically to the donor and/or other designated individuals. Assets received in a split interest trust transaction are maintained in segregated custodial investment accounts. The Foundation's payment liability is limited to the amount of the trust assets. For periods subsequent to the effective date of the agreements, investment income from the segregated assets increases the actuarial liability account. Stipulated payments, administrative expenses, and investment losses from the segregated assets decrease the actuarial liability account. At year-end, an adjustment is made to the actuarial liability to record the net change in the actuarial obligation between years.

At the date the agreements are made effective, the difference between the assets received and the fair value of the future obligation to the donor, the net asset, is recorded as gift revenue. Upon termination of each agreement's stipulated payout period, the remaining assets are distributed for the purpose designated by the donor.

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(Continued)

KENT STATE UNIVERSITY FOUNDATION, INC.  
 NOTES TO FINANCIAL STATEMENTS  
 June 30, 2016 and 2015

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**NOTE 9 – SPLIT INTEREST TRUSTS (Continued)**

The obligation for future stipulated payments to donors and other designated individuals is accounted for at fair value using an income approach. Using an income approach to measure these obligations requires the Foundation to estimate the expected timing of payments associated with these obligations. These obligations are discounted to fair value using a discount rate consistent with Internal Revenue Service publications (Level 2 inputs) as of each balance sheet date (1.8% and 2.0% for the years ended June 30, 2016 and 2015, respectively). Under this method, the change in the fair value of the future amounts payable is credited to the actuarial liability account.

Presented below is a roll forward of the fair value of the liability at June 30, 2016 and 2015:

	<u>2016</u>	<u>2015</u>
Balance at beginning of year	\$ 2,457,202	\$ 2,609,396
New gifts	39,527	51,830
Investment income	95,878	65,574
Annuity/trust payments	(322,027)	(344,886)
Expenses	(9,087)	(18,150)
Maturities	(198,873)	-
Net change in actuarial liability	<u>186,421</u>	<u>93,438</u>
	<u>(208,161)</u>	<u>(152,194)</u>
Balance at end of year	<u>\$ 2,249,041</u>	<u>\$ 2,457,202</u>

**NOTE 10 – GIFT ANNUITY FUNDS**

The Foundation has entered into annuity agreements whereby the Foundation receives assets from donors on the condition that it binds itself to pay stipulated amounts periodically to the donor and/or other designated individuals. The Foundation's payment liability is the fair value of the future obligation to the donor regardless of the amount in the investment account.

At the date the agreements are made effective, the difference between the assets received and the fair value of the future obligation to the donor, the net asset, is recorded as gift revenue. Upon termination of each agreement's stipulated payout period, the remaining assets are distributed for the purpose designated by the donor.

Assets received in an annuity agreement transaction are placed in a reserve. Investment income, stipulated payments, and administrative expenses are recorded as temporarily restricted in the statement of activity.

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(Continued)

KENT STATE UNIVERSITY FOUNDATION, INC.  
 NOTES TO FINANCIAL STATEMENTS  
 June 30, 2016 and 2015

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**NOTE 10 – GIFT ANNUITY FUNDS** (Continued)

The future obligation to donors and other designated individuals is accounted for at fair value using an income approach. Using an income approach to measure these obligations requires the Foundation to estimate the expected timing of payments associated with these obligations. These obligations are discounted to fair value using a discount rate consistent with Internal Revenue Service publications (Level 2 inputs) as of each balance sheet date (1.8% and 2.0% for the years ended June 30, 2016 and 2015, respectively). Under this method, the fair value of the future amounts payable is credited to the liability account. At year-end, an adjustment is made to the liability to record the change in the fair value of the obligation between years. The change is recorded in the statement of activity.

Presented below is a roll forward of the fair value of the liability for the annuity assets at June 30, 2016 and 2015:

	<u>2016</u>	<u>2015</u>
Balance at beginning of year	\$ 1,774,536	\$ 2,063,941
New gifts	72,218	46,188
Annuity payments	(211,037)	(226,978)
Change in actuarial liability	<u>192,048</u>	<u>(108,615)</u>
	<u>53,229</u>	<u>(289,405)</u>
Balance at end of year	<u>\$ 1,827,765</u>	<u>\$ 1,774,536</u>

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(Continued)



KENT STATE UNIVERSITY FOUNDATION, INC.  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2016 and 2015

**NOTE 11 – NET ASSETS**

Temporarily and permanently restricted net assets are principally related to scholarships, specific schools within the University, department chairs, and various other purposes.

As of June 30, 2016 and 2015 net assets are as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>
<u>June 30, 2016</u>			
Available for expenditure:			
Current operations	\$ 7,464,837	\$ 28,607,114	\$ -
Endowments	2,082,682	53,101,944	-
Earnings on endowments	(222,916)	11,288,517	-
Beneficial interests in perpetual trusts	-	4,120,018	-
Real estate	<u>549,121</u>	<u>1,848,823</u>	-
	<u>9,873,724</u>	<u>98,966,416</u>	-
Unavailable for expenditure:			
Endowments	-	-	40,376,554
Trusts	-	-	3,478,955
Uncollected pledges, net	-	<u>8,618,177</u>	<u>563,989</u>
	-	<u>8,618,177</u>	<u>44,419,498</u>
	<u>\$ 9,873,428</u>	<u>\$ 107,584,593</u>	<u>\$ 44,419,498</u>
	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>
<u>June 30, 2015</u>			
Available for expenditure:			
Current operations	\$ 8,154,205	\$ 28,182,439	\$ -
Endowments	2,305,530	52,219,826	-
Earnings on endowments	(11,598)	20,382,150	-
Beneficial interests in perpetual trusts	-	4,265,258	-
Real estate	<u>549,121</u>	<u>756,567</u>	-
	<u>10,997,258</u>	<u>105,806,240</u>	-
Unavailable for expenditure:			
Endowments	-	-	36,756,299
Trusts	-	-	3,639,781
Uncollected pledges, net	-	<u>8,290,841</u>	<u>610,264</u>
	-	<u>8,290,841</u>	<u>41,006,344</u>
	<u>\$ 10,997,258</u>	<u>\$ 114,097,081</u>	<u>\$ 41,006,344</u>

Included in the accompanying statements of activities are changes in the net asset designation of prior contributions. Donors may elect to change the designation of prior contributions. These transfers from temporarily restricted net assets to permanently restricted net assets were \$771,768 and \$1,706,936 during the years ended June 30, 2016 and 2015, respectively; transfers of prior contributions from unrestricted net assets to temporarily restricted net assets were \$109,606 for the year ended June 30, 2016 and \$2,554 for the year ended June 30, 2015; and transfers of prior contributions from permanently restricted net assets to temporarily restricted net assets were \$31,581 and \$400,000 during the years ended June 30, 2016 and 2015, respectively.

(Continued)

KENT STATE UNIVERSITY FOUNDATION, INC.  
 NOTES TO FINANCIAL STATEMENTS  
 June 30, 2016 and 2015

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**NOTE 12 – ENDOWMENTS**

The Foundation's endowment consists of over 1,000 funds. Its endowment includes both donor-restricted endowment funds and funds designated by the Board of Trustees to function as endowments. In addition, the endowment also includes beneficial interests in two perpetual trusts that are administered by outside parties. As required by applicable standards, net assets associated with endowment funds, including funds designated by the Board of Directors to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

Endowment funds are invested with the overall objective of preservation of principal, competitive investment returns, and moderate investment risk resulting in a real (inflation-adjusted) annualized rate of return greater than the spending rate and investment-related expenses. The Foundation considers the expected annual return on its endowment investments when developing its spending policy. As a result, the Foundation expects that its current spending policy will allow the endowment funds to maintain real value while also experiencing growth through additional gifts and accumulated earnings.

The Foundation has a 5% spending policy whereby a portion of the accumulated investment return for endowment assets is distributed on May 31<sup>st</sup> and November 30<sup>th</sup> each year to funds which may be expended for current operations in accordance with any restrictions of the endowment fund. The amount of endowment assets distributed during fiscal years 2016 and 2015 are disclosed below. The distribution is calculated using a 2.5% semi-annual equivalent of the rate, applied against the average of the preceding month-end investment balances. The average preceding month end investment balance is calculated as the lesser of thirty-six months or the number of months the fund has been in existence. Certain endowment funds do not permit a spending distribution below the historic gift value or other donor designated amount.

Endowment net asset composition by type as of June 30, 2016 and 2015 are as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
<u>June 30, 2016</u>				
Donor restricted endowment funds	\$ (222,916)	\$ 64,390,461	\$ 40,376,554	\$104,544,099
Board designated endowment funds	2,082,682	-	-	2,082,682
Beneficial interests in perpetual trusts	-	4,120,018	-	4,120,018
<b>Total</b>	<b><u>\$ 1,859,766</u></b>	<b><u>\$ 68,510,479</u></b>	<b><u>\$ 40,376,554</u></b>	<b><u>\$110,746,799</u></b>
	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
<u>June 30, 2015</u>				
Donor restricted endowment funds	\$ (11,598)	\$ 72,601,976	\$ 36,756,299	\$109,346,677
Board designated endowment funds	2,305,530	-	-	2,305,530
Beneficial interests in perpetual trusts	-	4,265,258	-	4,265,258
<b>Total</b>	<b><u>\$ 2,293,932</u></b>	<b><u>\$ 76,867,234</u></b>	<b><u>\$ 36,756,299</u></b>	<b><u>\$ 115,917,465</u></b>

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(Continued)

KENT STATE UNIVERSITY FOUNDATION, INC.  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2016 and 2015

**NOTE 12 – ENDOWMENTS** (Continued)

Change in endowment net assets for the years ended June 30, 2016 and 2015 are as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
<b>Year ended June 30, 2016</b>				
At beginning of year:	\$ 2,293,932	\$ 76,867,234	\$ 36,756,299	\$ 115,917,465
Investment return				
Investment income, net	97,988	4,754,672	-	4,852,660
Investment administrative fees	(26,801)	(1,294,555)	-	(1,321,356)
Investment consultant fees	(2,017)	(97,425)	-	(99,442)
Net appreciation (depreciation) (realized and unrealized gains and losses)	(182,752)	(9,073,479)	-	(9,256,231)
Underwater endowments	(211,317)	211,317	-	-
Total investment return	(324,899)	(5,499,470)	-	(5,824,369)
Gifts	-	1,957,720	2,705,564	4,663,284
Other income	-	278,844	174,506	453,350
Change in designation of prior gifts	-	(429,981)	740,185	310,204
Endowment spending transfers	(109,267)	(4,663,868)	-	(4,773,135)
At end of year	<u>\$ 1,859,766</u>	<u>\$ 68,510,479</u>	<u>\$ 40,376,554</u>	<u>\$ 110,746,799</u>
	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
<b>Year ended June 30, 2015</b>				
At beginning of year:	\$ 2,399,240	\$ 75,502,064	\$ 33,010,418	\$ 110,911,722
Investment return				
Investment income, net	123,679	5,712,798	-	5,836,477
Investment administrative fees	(29,256)	(1,348,662)	-	(1,377,918)
Investment consultant fees	(2,142)	(98,748)	-	(100,890)
Net appreciation (depreciation) (realized and unrealized gains and losses)	(81,084)	(3,908,084)	-	(3,989,168)
Underwater endowments	(11,598)	11,598	-	-
Total investment return	(401)	368,902	-	368,501
Gifts	-	5,838,937	2,413,869	8,252,806
Other income	-	33,688	25,076	58,764
Change in designation of prior gifts	-	(344,854)	1,306,936	962,082
Endowment spending transfers	(104,907)	(4,531,503)	-	(4,636,410)
At end of year	<u>\$ 2,293,932</u>	<u>\$ 76,867,234</u>	<u>\$ 36,756,299</u>	<u>\$ 115,917,465</u>

(Continued)

KENT STATE UNIVERSITY FOUNDATION, INC.  
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June 30, 2016 and 2015

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**NOTE 13 – TRANSACTIONS WITH KENT STATE UNIVERSITY**

The Foundation made grants to the University in furtherance of the Foundation's mission and in compliance with donor restrictions. Additionally, grants were made to the University from unrestricted net assets at the direction of the Foundation's Board of Directors.

The Foundation made payments to the University in accordance with an operating agreement between the parties. Payments made under the agreement were \$563,493 and \$595,141 for the years ended June 30, 2016 and 2015 respectively. The payments were primarily for staffing used in the execution of Foundation operations. The amount payable to the University at June 30, 2016 and 2015 is \$111,221 and \$57,329, respectively. In addition, the Foundation rents certain facilities and information technology support from the University for nominal amounts as consideration in the operating agreement.

As discussed in footnote 7, the Foundation is party to a lease for rental of its building office space with the University.

**NOTE 14 – GRANTS TO KENT STATE UNIVERSITY**

The grants made to Kent State University by the Foundation are summarized below for the years ended June 30, 2016 and 2015, based on the program or supporting service. All grants are made to, or for the benefit of, Kent State University.

	<u>2016</u>	<u>2015</u>
Academic programs	\$ 5,086,655	\$ 4,933,952
Scholarships	4,638,506	3,938,697
Construction projects	1,012,052	3,696,297
WKSU	1,852,061	1,893,988
Fundraising	1,240,758	512,673
Athletics	402,535	245,188
Entrepreneurship initiatives	<u>206,720</u>	<u>189,254</u>
	<u>\$ 14,439,287</u>	<u>\$ 15,410,049</u>

**NOTE 15 – INVESTMENT POOL OPERATOR FEE**

Endowment funds, annuity funds, and Kent State University Alumni Association funds invested in investment pools are assessed a pool operator fee from the unrestricted fund. The 1.25% annual fee is used to offset unrestricted fund costs for administrative, clerical and fiduciary services. The monthly equivalent of the rate is applied against the preceding month-end investment balances in the calculation of the fee.

**NOTE 16 – CREDIT RISK CONCENTRATIONS**

Financial instruments which potentially expose the Foundation to concentrations of credit risk include cash and cash equivalents, investments in marketable securities and pledges receivable. As a matter of policy, the Foundation only maintains cash balances with financial institutions having a high credit quality. Concentration of credit risk for investments in marketable securities is mitigated by both the distribution of investment funds among asset managers and the overall diversification of managed investment portfolios. Concentration of credit risk for pledges receivable is generally limited due to the dispersion of these balances over a wide base of donors.

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**SUPPLEMENTARY INFORMATION**

**INDEPENDENT AUDITOR'S 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  
Kent State University Foundation, Inc.  
Kent, Ohio

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 Kent State University Foundation, Inc., which comprise the statement of financial position as of June 30, 2016, and the related statement of activities, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated October 3, 2016.

**Internal Control Over Financial Reporting**

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

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(Continued)

## Compliance and Other Matters

As part of obtaining reasonable assurance about whether Kent State University Foundation, Inc.'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*.

## Purpose of this Report

The purpose of this report is solely 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 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.

*Crowe Horwath LLP*

Crowe Horwath LLP

Columbus, Ohio  
October 3, 2016

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# Dave Yost • Auditor of State

**KENT STATE UNIVERSITY FOUNDATION**

**PORTAGE 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 15, 2016**