

KENT STATE UNIVERSITY FOUNDATION, INC.
Kent, Ohio

FINANCIAL STATEMENTS
June 30, 2018 and 2017



Dave Yost • Auditor of State

Board of Directors
Kent State University Foundation, Inc.
P. O. Box 5190
350 S. Lincoln Street
Kent, Ohio 44242

We have reviewed the *Independent Auditor's Report* of the Kent State University Foundation, Inc., Portage County, prepared by Plante & Moran, PLLC, for the audit period July 1, 2017 through June 30, 2018. 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

October 11, 2018

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KENT STATE UNIVERSITY FOUNDATION, INC.

Kent, Ohio

FINANCIAL STATEMENTS

June 30, 2018 and 2017

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Independent Auditor's Report

To the Board of Directors
Kent State University Foundation

Report on the Financial Statements

We have audited the accompanying financial statements of Kent State University Foundation (the "Foundation"), which comprise the statement of financial position as of June 30, 2018 and the related statements of activities and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Foundation as of June 30, 2018 and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

To the Board of Directors
Kent State University Foundation

Report on Prior Year Financial Statements and Restatement

The financial statements of the Foundation as of June 30, 2017 were audited by other auditors, whose report dated October 3, 2017, expressed an unqualified opinion on those statements.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated September 26, 2018 on our consideration of the Foundation's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, 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* in considering the Foundation's internal control over financial reporting and compliance.

Plante & Morse, PLLC

September 26, 2018

KENT STATE UNIVERSITY FOUNDATION, INC.
STATEMENTS OF FINANCIAL POSITION
June 30, 2018 and 2017

	2018	2017
ASSETS		
Cash and cash equivalents	\$ 2,749,506	\$ 4,692,757
Receivables:		
Pledges	20,443,860	12,001,250
Interest on notes receivable	744,510	440,776
	21,188,370	12,442,026
Investments:		
Long-term pool	174,648,555	157,338,995
Charitable remainder trusts	6,218,597	6,074,314
Short-term pool	3,858,310	2,138,198
	184,725,462	165,551,507
Beneficial interest in trusts held by others	4,396,763	4,343,969
Notes receivable - Hotel and Conference Center	14,426,108	14,426,108
Property, net of depreciation	11,683,124	11,937,513
	\$ 239,169,333	\$ 213,393,880
 LIABILITIES AND NET ASSETS		
LIABILITIES		
Accounts payable	\$ 359,459	\$ 184,291
Funds held for others	10,585,475	9,765,100
Capital lease liability	9,733,652	9,733,652
Actuarial liabilities		
Annuities	2,127,660	1,705,586
Charitable remainder trusts	2,151,281	2,242,635
	24,957,527	23,631,264
 NET ASSETS		
Unrestricted	15,946,480	13,668,183
Temporarily restricted	138,615,403	125,665,038
Permanently restricted	59,649,923	50,429,395
	214,211,806	189,762,616
	\$ 239,169,333	\$ 213,393,880

See accompanying notes to financial statements.

KENT STATE UNIVERSITY FOUNDATION, INC.
STATEMENT OF ACTIVITIES
Year ended June 30, 2018

	Unrestricted	Restricted		Total
		Temporarily	Permanently	
REVENUE AND SUPPORT				
Gifts:				
Cash and securities	\$ 168,212	\$ 14,022,928	\$ 2,931,454	\$ 17,122,594
Net change in pledges receivable	-	11,547,056	16,766	11,563,822
	168,212	25,569,984	2,948,220	28,686,416
Losses on pledges receivable	-	(2,858,307)	(262,906)	(3,121,213)
	168,212	22,711,677	2,685,314	25,565,203
Net investment income:				
Securities	2,319,845	11,846,571	-	14,166,416
Investment pool operator fee	1,773,516	(1,773,516)	-	-
Service fee	604,088	-	-	604,088
Investment in Hotel and Conference Center	675,309	-	-	675,309
	5,372,758	10,073,055	-	15,445,813
Sales, services, events, and other	14,000	51,400	-	65,400
Changes in designation of prior contributions	(199,950)	(1,695,667)	1,895,617	-
Change in actuarial liabilities	-	75,190	242,834	318,024
Release of restrictions	13,868,527	(13,868,527)	-	-
	19,223,547	17,347,128	4,823,765	41,394,440
EXPENSES				
Grants for Kent State University	15,217,351	-	-	15,217,351
Administration	1,727,899	-	-	1,727,899
	16,945,250	-	-	16,945,250
Change in net assets- before transfers	2,278,297	17,347,128	4,823,765	24,449,190
Transfers	-	(4,396,763)	4,396,763	-
Change in net assets- after transfers	2,278,297	12,950,365	9,220,528	24,449,190
Net assets at beginning of year	13,668,183	125,665,038	50,429,395	189,762,616
Net assets at end of year	<u>\$ 15,946,480</u>	<u>\$ 138,615,403</u>	<u>\$ 59,649,923</u>	<u>\$ 214,211,806</u>

See accompanying notes to financial statements.

KENT STATE UNIVERSITY FOUNDATION, INC.
STATEMENT OF ACTIVITIES
Year ended June 30, 2017

	Unrestricted	Restricted		Total
		Temporarily	Permanently	
REVENUE AND SUPPORT				
Gifts:				
Cash and securities	\$ 51,498	\$ 17,263,698	\$ 4,730,588	\$ 22,045,784
Net change in pledges receivable	-	5,039,908	21,528	5,061,436
	51,498	22,303,606	4,752,116	27,107,220
Losses on pledges receivable	-	(2,055,929)	(186,423)	(2,242,352)
	51,498	20,247,677	4,565,693	24,864,868
Net investment income:				
Securities	3,491,667	16,162,211	-	19,653,878
Investment pool operator fee	1,518,764	(1,518,764)	-	-
Investment in Hotel and Conference Center	974,131	-	-	974,131
	5,984,562	14,643,447	-	20,628,009
Sales, services, events, and other	363	82,664	-	83,027
Changes in designation of prior contributions	(48,950)	(1,061,030)	1,109,980	-
Change in actuarial liabilities	-	(52,936)	334,224	281,288
Release of restrictions	15,779,377	(15,779,377)	-	-
	21,766,850	18,080,445	6,009,897	45,857,192
EXPENSES				
Grants for Kent State University	16,577,206	-	-	16,577,206
Administration	1,395,185	-	-	1,395,185
	17,972,391	-	-	17,972,391
Change in net assets	3,794,459	18,080,445	6,009,897	27,884,801
Net assets at beginning of year	9,873,724	107,584,593	44,419,498	161,877,815
Net assets at end of year	<u>\$ 13,668,183</u>	<u>\$ 125,665,038</u>	<u>\$ 50,429,395</u>	<u>\$ 189,762,616</u>

See accompanying notes to financial statements.

KENT STATE UNIVERSITY FOUNDATION, INC.
STATEMENTS OF CASH FLOWS
Years ended June 30, 2018 and 2017

	2018	2017
Cash flows from operating activities		
Increase (decrease) in net assets	\$24,449,190	\$ 27,884,801
Adjustments to reconcile increase in net assets to net cash (used in) provided by operating activities:		
Net (gains) losses on investments	(8,105,804)	(17,910,005)
Contributions permanently restricted	(2,931,454)	(4,730,588)
Change in actuarial obligations	(318,024)	(281,288)
Gifts of stock	(22,815)	(9,298)
Losses on pledges receivable	3,121,211	2,242,352
Depreciation and amortization	254,388	254,388
Changes in operating assets and liabilities:		
Pledges receivable	(11,563,822)	(5,061,436)
Other receivable	(303,734)	98,334
Beneficial interest in outside trusts	(52,794)	(223,951)
Accounts payable	175,170	40,143
Funds held for others	820,375	1,174,201
Actuarial liability for annuity and unitrust agreements	1,236,288	668,544
Net cash used in operating activities	<u>6,758,175</u>	<u>4,146,197</u>
Cash flows from investing activities		
Purchases of investments	(59,831,002)	(51,210,768)
Proceeds from sales of investments	50,801,309	47,547,120
Gifts of stock and property	(1,747,643)	(726,644)
Net cash used in investing activities	<u>(10,777,336)</u>	<u>(4,390,292)</u>
Cash flows from financing activities		
Proceeds from contributions restricted for investment in endowment and trust	2,931,454	4,730,588
Gifts of stock	(268,000)	(308,316)
Payments to annuitants	(587,544)	(515,842)
Net cash provided by financing activities	<u>2,075,910</u>	<u>3,906,430</u>
Net change in cash and cash equivalents	(1,943,251)	3,662,335
Cash and cash equivalents, beginning of year	<u>4,692,757</u>	<u>1,030,422</u>
Cash and cash equivalents, end of year	<u>2,749,506</u>	<u>\$ 4,692,757</u>
Supplemental disclosure of non-cash investing and financing activities		
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, 2018 and 2017

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 a component unit of Kent State 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 October 10, 2016. 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.

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KENT STATE UNIVERSITY FOUNDATION, INC.
NOTES TO FINANCIAL STATEMENTS
June 30, 2018 and 2017

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.

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 uses fair value accounting for Investments, pledge receivables, beneficial interests in lead and perpetual trusts, and actuarial liabilities.

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.

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. Pledge receivables are recorded at fair value and adjusted to fair value annually. 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.

Management has elected the fair value option for pledges receivable. Management believes that the use of fair value option for pledge receivables better reflects the value of the assets based on the anticipated investment return when the assets are realized in cash. Unrealized gains or losses on assets or liabilities for which the fair value option has been elected are reported in the statement of activities.

Notes Receivable: Notes receivable are reported at original issue amount plus accrued interest, less principal repaid. Interest is recognized according to terms of the specific notes. An allowance for loan losses is determined based on a specific assessment of all notes that are delinquent or determined to be doubtful to be collected. Notes are considered delinquent if the repayment terms are not met. All amounts deemed to be uncollectible are charged against the allowance for loan losses in the period that determination is made. The Foundation has recorded an allowance for loan losses of \$0 in the accompanying financial statements as of June 30, 2018 and 2017.

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.

(Continued)

KENT STATE UNIVERSITY FOUNDATION, INC.
NOTES TO FINANCIAL STATEMENTS
June 30, 2018 and 2017

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. Total cost of these assets is \$12,811,716 as of June 30, 2018 and 2017, respectively. Accumulated depreciation is \$1,128,592 and \$874,203 as of June 30, 2018 and 2017, respectively.

Funds Held For Others: The Foundation maintains and invests funds for alumni associations.

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NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES (Continued)

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, 2018 or 2017.

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 \$6,733 from deaccessions during the year ended June 30, 2018 and \$365 during the year ended June 30, 2017.

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.

Management has elected the fair value option for actuarial liabilities. Management believes that the use of fair value option for actuarial liabilities better reflects the value of the split interest and annuity agreements.

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 \$ 0 for June 30, 2018 and 2017.

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 \$763,000 and \$747,000 at June 30, 2018 and 2017, respectively.

Subsequent Events: The Foundation has evaluated events and transactions occurring subsequent to the financial statements date of June 30, 2017, for items that should be recognized or disclosed in these financial statements. This evaluation was conducted through September 26, 2018, the date these financial statements were available to be issued.

(Continued)

NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES (Continued)

Upcoming Pronouncements:

In May 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2014-09, Revenue from Contracts with Customers (Topic 606), which will supersede the current revenue recognition requirements in Topic 605, Revenue Recognition. The ASU is based on the principle that revenue is recognized to depict the transfer of goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The ASU also requires additional disclosure about the nature, amount, timing, and uncertainty of revenue and cash flows arising from customer contracts, including significant judgments and changes in judgments and assets recognized from costs incurred to obtain or fulfill a contract. The Foundation's primary revenue sources are not expected to be significantly impacted by the standard but a complete review of all revenue sources has not yet been completed. In addition, management is currently analyzing the disclosures that will be required with this pronouncement. The new guidance will be effective for the Foundation's year end June 30, 2020.

In August 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2016-14, Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities. ASU 2016-14 requires significant changes to the financial reporting model of organizations who follow FASB not-for-profit rules, including changing from three classes of net assets to two classes, net assets with donor restrictions and net assets without donor restrictions. The ASU will also require changes in the way certain information is aggregated and reported by the Organization, including required disclosures about the liquidity and availability of resources. The new standard is effective for the Foundation's year ending June 30, 2019 and thereafter and must be applied on a retrospective basis. The Foundation is currently evaluating the impact of the standard, and will present the two classes of net assets, add the liquidity footnote, and other related disclosures.

The Financial Accounting Standards Board (FASB) issued ASU 2016-02, Leases, which will supersede the current lease requirements in ASC 840. The ASU did not significantly change the accounting requirements for lessors and, accordingly, application of the new lease standard is not expected to have a significant effect on the Foundation's financial statements. The new lease guidance will be effective for the Foundations year ending June 30, 2021 and will be applied using a modified retrospective transition method to the beginning of the earliest period presented.

In June 2018, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update 2018-08, Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made, which provides enhanced guidance to assist entities in (1) evaluating whether transactions should be accounted for as contributions (nonreciprocal transactions) or as exchange (reciprocal transactions) and (2) determining whether a contribution is conditional. The accounting guidance will result in more governmental contracts being accounted for as contributions and may delay revenue recognition for certain grants and contributions that no longer meet the definition of unconditional. The new guidance will be effective for the Foundation's year ending June 30, 2021 and will be applied on a modified prospective basis. The Foundation does not expect the standard to have a significant impact on the timing of revenue recognition for government grants and contracts but has not yet determined the impact on the timing of recognition of foundation and individual grants and contributions.

(Continued)

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.

The Foundation's investments are exposed to a variety of uncertainties, including interest rate, market and credit risks. With respect to the 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 Foundation categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset or liability. Level 1 inputs are quoted prices in active markets for identical assets or liability; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs.

In instances whereby inputs used to measure fair value fall into different levels in the above fair value hierarchy, fair value measurements in their entirety are categorized based on the lowest level input that is significant to the valuation. The Foundation's assessment of the significance of particular inputs to these fair value measurements requires judgment and considers factors specific to each asset or liability.

As of July 1, 2017, the Foundation implemented new guidance that changes the required disclosures for investments valued at net asset value (NAV) per share (or its equivalent) as a practical expedient. Previously, investments measured at fair value using the NAV practical expedient were classified in the fair value hierarchy based on the redemption features associated with the investment. Under the new guidance, investments measured at fair value using net asset value per share (or its equivalent) as a practical expedient are no longer classified in the fair value hierarchy above and the information for 2017 has been adjusted to conform to the new disclosure requirements.

The following tables present information about the investments measured at fair value on a recurring basis as of June 30, 2018 and 2017:

(Continued)

KENT STATE UNIVERSITY FOUNDATION, INC.
NOTES TO FINANCIAL STATEMENTS
June 30, 2018 and 2017

NOTE 3 – INVESTMENTS (Continued)

Assets and Liabilities Measured at Fair Value on a Recurring Basis

	Balance at June 30, 2018	Fair Value Measurements Using		
		Quoted Prices In Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Investments by fair value level				
Corporate stocks	\$ 5,798,497	\$ 5,798,497	\$ -	\$ -
ETFs	19,225,240	19,225,240		
Mutual funds	-			
Large capitalization equity funds	49,181,287	49,181,287		
Small / middle capitalization equity funds	5,129,145	5,129,145		
International equity funds	39,755,693	39,755,693		
Multi-asset funds	497,416	497,416		
Fixed income funds	21,838,127	21,838,127		
Bonds	94,496		94,496	
Total investments by fair value level	\$ 141,519,901	\$ 141,425,405	\$ 94,496	\$ -
Investments measured at net asset value (NAV)				
Private equity	5,336,649			
Hedge funds	15,327,394			
Real assets	10,997,802			
Bond trust	11,543,716			
Total investments measured at NAV	\$ 43,205,561			
Total investments measured at fair value	\$ 184,725,462			

(Continued)

KENT STATE UNIVERSITY FOUNDATION, INC.
NOTES TO FINANCIAL STATEMENTS
June 30, 2018 and 2017

NOTE 3 – INVESTMENTS (Continued)

Assets and Liabilities Measured at Fair Value on a Recurring Basis

	Balance at June 30, 2017	Fair Value Measurements Using		
		Quoted Prices In Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Investments by fair value level				
Corporate stocks	\$ 4,172,511	\$ 4,172,511	\$ -	\$ -
ETFs	18,667,761	18,667,761		
Mutual funds	-			
Large capitalization equity funds	41,919,561	41,919,561		
Small / middle capitalization equity funds	4,585,114	4,585,114		
International equity funds	37,510,794	37,510,794		
Multi-asset funds	14,299,179	14,299,179		
Fixed income funds	20,201,132	20,201,132		
Bonds	98,339		98,339	
Total investments by fair value level	\$ 141,454,391	\$ 141,356,052	\$ 98,339	\$ -
Investments measured at net asset value (NAV)				
Private equity	2,128,321			
Real assets	10,409,899			
Bond trust	11,558,896			
Total investments measured at NAV	\$ 24,097,116			
Total investments measured at fair value	\$ 165,551,507			

Investments classified in Level 1 are valued using prices quoted in active markets.

Holdings within Level 2 of the fair value hierarchy are indirectly observable. The Foundation records the fair value of these investments using values from statements obtained from third-party administrators. These third-party administrators are responsible for the custody, accounting, fund administration and shareholder recordkeeping for the investments.

(Continued)

KENT STATE UNIVERSITY FOUNDATION, INC.
NOTES TO FINANCIAL STATEMENTS
June 30, 2018 and 2017

NOTE 3 – INVESTMENTS (Continued)

The Foundation holds shares or interests in investment companies whereby the fair value of the investments are measured on a recurring basis using net asset value per share (or its equivalent) of the investment companies as a practical expedient.

At year end, the fair value, unfunded commitments, and redemption rules of those investments is as follows:

Investments Held at June 30					
	<u>June 30, 2018</u>	<u>June 30, 2017</u>		<u>Redemption Frequency, if Eligible</u>	<u>Redemption Notice Period</u>
	<u>Fair Value</u>	<u>Fair Value</u>	<u>Unfunded Commitments</u>		
Private equity	\$ 5,336,649	\$ 2,128,321	\$ 4,970,049	Not eligible	Not eligible
Hedge funds	15,327,394	-	-	Quarterly/ Semi-annually	75-90 days
Real assets	10,997,802	10,409,899	-	Monthly	30 days
Bond Trust	11,543,716	11,558,896		Weekly	None
Total	<u>\$ 43,205,561</u>	<u>\$ 24,097,116</u>	<u>\$ 4,970,049</u>		

The private equity class is made up of fund-of-funds managers who allocate to a specific sector or investment stage, including venture and growth capital, buyout, private credit/debt, real estate, and natural resources. An initial commitment is made by the investor, and capital is called over several years (3-5). As underlying companies are sold, issue an initial public offering, or are otherwise recapitalized, managers distribute the realized proceeds to limited partner investors.

The hedge fund class consists of fund-of-fund managers who allocate funds to underlying hedge funds which invest both long and short positions in various asset classes globally. Investments may include public equities, fixed income, credit instruments, commodities, currencies, and other securities based on economic trends or index hedging. While underlying investments are generally very liquid, the manager offers only periodic redemptions and subscriptions in order to better align with a longer investment time horizon.

The real assets class is comprised of investments in equity securities and derivative instruments with primary exposure to tangible assets including commodities, energy, infrastructure, real estate securities, and inflation-protected Treasuries. Investments are primarily liquid, though the managers may only allow periodic redemptions in order to better align with a longer investment time horizon.

The bond trust class is a private placement fund investing in high and medium grade fixed income securities with intermediate maturities.

(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 a line of credit 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. On an ongoing basis the Foundation assesses the credit quality based on review of borrower’s financial position and receipt of interest payments when due. Based on the Foundation’s analysis, as on June 30, 2018 and 2017, the Foundation had no allowances for credit losses.

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, 2018 and 2017

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 3) (weighted average discount rate of 2.61% and 1.49% at June 30, 2018 and 2017, respectively).

	2018	2017
Receivable in less than one year	\$ 13,257,076	\$ 8,042,913
Receivable in greater than one year	15,255,116	8,188,826
Gross unconditional promises to give	28,512,192	16,231,739
Less allowance for uncollectible pledges	\$ (6,841,283)	\$ (3,909,398)
Discount to fair value	(1,227,049)	(321,091)
Net unconditional promises to give	\$ 20,443,860	\$ 12,001,250

Pledges receivable at June 30, 2018 and 2017 are expected to be realized in the following periods:

	2018	2017
Less than one year	\$13,257,076	\$ 8,042,913
One to five years	14,885,116	8,138,826
More than five years	370,000	50,000
	\$28,512,192	\$16,231,739

As of June 30, 2018, the Foundation has approximately \$93,673,000 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.

The table below presents a reconciliation of the fair value of pledge receivables for the years ended June 30, 2018 and 2017:

	2018	2017
Balance at beginning of year	\$ 12,001,250	\$ 9,182,166
Additional pledges	19,084,000	10,753,427
Collections on pledges	(6,614,220)	(5,484,027)
Provision for doubtful pledges	(3,121,214)	(2,242,352)
Present value change	(905,956)	(207,964)
Balance at end of year	\$ 20,443,860	\$ 12,001,250

(Continued)

KENT STATE UNIVERSITY FOUNDATION, INC.
NOTES TO FINANCIAL STATEMENTS
June 30, 2018 and 2017

NOTE 6 – 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,	
2019	\$ 375,000
2020	375,000
2021	462,500
2022	550,000
2023	575,000
Thereafter	<u>20,521,809</u>
Total lease payments	22,859,309
Interest	<u>13,125,657</u>
Total principal balance	<u>\$ 9,733,652</u>

(Continued)

KENT STATE UNIVERSITY FOUNDATION, INC.
 NOTES TO FINANCIAL STATEMENTS
 June 30, 2018 and 2017

NOTE 6 – CAPITAL LEASE OBLIGATION (Continued)

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

	<u>2018</u>	<u>2017</u>
Building	\$ 9,921,152	\$9,921,152
Less: Accumulated amortization	<u>635,971</u>	<u>381,583</u>
	<u>\$ 9,285,181</u>	<u>\$ 9,539,569</u>

NOTE 7 – 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, 2017 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, 2018 and 2017, the fair value of the Foundation's interests in these perpetual trusts was \$ 4,396,763 and \$4,343,969, respectively.

Asset	Valuation Technique	Significant Unobservable Inputs Used	Range (Weighted Average)
Beneficial interest in perpetual trust	Trust investment statement	Market value of trust assets	FY 18- \$4,396,763 FY 17- \$4,343,969

The table below presents a reconciliation of the fair value of the beneficial interest in perpetual trusts for the year ended June 30, 2018 and 2017:

	<u>2018</u>	<u>2017</u>
Balance at beginning of year	\$ 4,343,969	\$ 4,120,018
Contributions	-	-
Change in fair value	<u>52,794</u>	<u>223,951</u>
Balance at end of year	<u>\$ 4,396,763</u>	<u>\$ 4,343,969</u>

NOTE 8 – 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.

(Continued)

KENT STATE UNIVERSITY FOUNDATION, INC.
NOTES TO FINANCIAL STATEMENTS
June 30, 2018 and 2017

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.

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 3 inputs) as of each balance sheet date (3.4% and 2.4% for the years ended June 30, 2018 and 2017, 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, 2018 and 2017:

	<u>2018</u>	<u>2017</u>
Balance at beginning of year	\$ 2,242,635	\$ 2,249,041
New gifts	-	-
Investment income	496,120	651,146
Annuity/trust payments	(328,731)	(300,226)
Expenses	(15,909)	(23,102)
Maturities	-	-
Net change in actuarial liability	<u>(242,834)</u>	<u>(334,224)</u>
	<u>(91,354)</u>	<u>(6,406)</u>
 Balance at end of year	 <u>\$ 2,151,281</u>	 <u>\$ 2,242,635</u>

NOTE 9 – 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.

(Continued)

KENT STATE UNIVERSITY FOUNDATION, INC.
NOTES TO FINANCIAL STATEMENTS
June 30, 2018 and 2017

NOTE 9 – 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 3 inputs) as of each balance sheet date (3.4% and 2.4% for the years ended June 30, 2018 and 2017, 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, 2018 and 2017:

	<u>2018</u>	<u>2017</u>
Balance at beginning of year	\$ 1,705,586	\$ 1,827,765
New gifts	756,077	40,501
Annuity payments	(258,813)	(215,616)
Change in actuarial liability	<u>(75,190)</u>	<u>52,936</u>
	<u>422,074</u>	<u>(122,179)</u>
Balance at end of year	<u>\$ 2,127,660</u>	<u>\$ 1,705,586</u>

(Continued)

KENT STATE UNIVERSITY FOUNDATION, INC.
NOTES TO FINANCIAL STATEMENTS
June 30, 2018 and 2017

NOTE 10 – 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, 2018 and 2017 net assets are as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>
<u>June 30, 2018</u>			
Available for expenditure:			
Current operations	\$12,987,047	\$36,209,435	\$ -
Endowments	2,410,312	56,974,113	-
Earnings on endowments	-	24,799,420	-
Beneficial interests in perpetual trusts	-	-	4,396,763
Real estate	549,121	1,848,823	-
	<u>15,946,480</u>	<u>119,831,791</u>	<u>4,396,763</u>
Unavailable for expenditure:			
Endowments	-	-	49,536,901
Trusts	-	-	4,056,012
Uncollected pledges, net	-	18,783,612	1,660,247
	<u>-</u>	<u>18,783,612</u>	<u>59,649,923</u>
	<u>\$15,946,480</u>	<u>\$138,615,403</u>	<u>\$59,649,923</u>
	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>
<u>June 30, 2017</u>			
Available for expenditure:			
Current operations	\$ 10,870,055	\$ 31,610,953	\$ -
Endowments	2,249,007	56,414,770	-
Earnings on endowments	-	20,080,809	-
Beneficial interests in perpetual trusts	-	4,343,969	-
Real estate	549,121	1,848,823	-
	<u>13,668,183</u>	<u>114,299,324</u>	<u>-</u>
Unavailable for expenditure:			
Endowments	-	-	45,980,681
Trusts	-	-	3,813,178
Uncollected pledges, net	-	11,365,714	635,536
	<u>-</u>	<u>11,365,714</u>	<u>50,429,395</u>
	<u>\$ 13,668,183</u>	<u>\$ 125,665,038</u>	<u>\$ 50,429,395</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 \$1,905,533 and \$1,127,130 during the years ended June 30, 2018 and 2017, respectively; transfers of prior contributions from unrestricted net assets to temporarily restricted net assets were \$182,450 for the year ended June 30, 2018 and \$48,950 for the year ended June 30, 2017; transfers of prior contributions from permanently restricted net assets to temporarily restricted net assets were \$27,416 and \$17,150 during the years ended June 30, 2018 and 2017, respectively; and transfer of \$17,500 from unrestricted to permanent for year ended June 30, 2018.

(Continued)

KENT STATE UNIVERSITY FOUNDATION, INC.
 NOTES TO FINANCIAL STATEMENTS
 June 30, 2018 and 2017

NOTE 11 – 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 31st and November 30th 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 2018 and 2017 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, 2018 and 2017 are as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
<u>June 30, 2018</u>				
Donor restricted endowment funds	\$ -	\$ 81,773,533	\$ 49,536,902	\$ 131,310,435
Board designated endowment funds	2,410,312	-	-	2,410,312
Beneficial interests in perpetual trusts	-	-	4,396,763	4,396,763
Total	<u>\$ 2,410,312</u>	<u>\$ 81,773,533</u>	<u>\$ 53,933,665</u>	<u>\$ 138,117,510</u>

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
<u>June 30, 2017</u>				
Donor restricted endowment funds	\$ -	\$ 76,495,579	\$ 45,980,681	\$ 122,476,260
Board designated endowment funds	2,249,007	-	-	2,249,007
Beneficial interests in perpetual trusts	-	4,343,969	-	4,343,969
Total	<u>\$ 2,249,007</u>	<u>\$ 80,839,548</u>	<u>\$ 45,980,681</u>	<u>\$ 129,069,236</u>

(Continued)

KENT STATE UNIVERSITY FOUNDATION, INC.
NOTES TO FINANCIAL STATEMENTS
June 30, 2018 and 2017

NOTE 11 – ENDOWMENTS (Continued)

Change in endowment net assets for the years ended June 30, 2018 and 2017 are as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Year ended June 30, 2018				
At beginning of year:	\$ 2,249,007	\$80,839,548	\$45,980,681	\$129,069,236
Investment return				
Investment income, net	101,569	5,378,106	-	5,479,675
Investment administrative fees	(30,193)	(1,599,056)	-	(1,629,249)
Investment consultant fees	(2,484)	(131,552)	-	(134,036)
Net appreciation (realized and unrealized gains and losses)	111,041	5,882,185	-	5,993,226
Underwater endowments	-	-	-	-
Total investment return	<u>179,933</u>	<u>9,529,683</u>	<u>-</u>	<u>9,709,616</u>
Gifts	100,000	1,850,737	2,931,454	4,882,191
Change in designation of prior gifts		(211,912)	624,767	412,855
Endowment spending transfers	<u>(118,628)</u>	<u>(10,234,523)</u>	<u>4,396,763</u>	<u>(5,956,388)</u>
At end of year	<u>\$ 2,410,312</u>	<u>\$81,773,533</u>	<u>\$ 53,933,665</u>	<u>\$138,117,510</u>
	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Year ended June 30, 2017				
At beginning of year:	\$ 1,859,766	\$ 68,510,479	\$ 40,376,554	\$ 110,746,799
Investment return				
Investment income, net	47,568	2,413,527	-	2,461,095
Investment administrative fees	(27,145)	(1,375,672)	-	(1,402,817)
Investment consultant fees	(2,362)	(119,750)	-	(122,112)
Net appreciation (depreciation) (realized and unrealized gains and losses)	261,892	13,439,431	-	13,701,323
Underwater endowments	<u>222,916</u>	<u>(222,916)</u>	<u>-</u>	<u>-</u>
Total investment return	502,869	14,134,620	-	14,637,489
Gifts	-	4,665,371	4,730,588	9,395,959
Other income	-	2,010	-	2,010
Change in designation of prior gifts		(1,237,846)	873,539	(364,307)
Endowment spending transfers	<u>(113,628)</u>	<u>(5,235,086)</u>	<u>-</u>	<u>(5,348,714)</u>
At end of year	<u>\$ 2,249,007</u>	<u>\$ 80,839,548</u>	<u>\$ 45,980,681</u>	<u>\$ 129,069,236</u>

(Continued)

KENT STATE UNIVERSITY FOUNDATION, INC.
 NOTES TO FINANCIAL STATEMENTS
 June 30, 2018 and 2017

NOTE 12 – 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 \$871,483 and \$577,924 for the years ended June 30, 2018 and 2017 respectively. The payments were primarily for staffing used in the execution of Foundation operations. The amount payable to the University at June 30, 2018 and 2017 is \$75,356 and \$29,645, 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 4, the Foundation is party to a lease for rental of its building office space with the University.

NOTE 13 – GRANTS TO KENT STATE UNIVERSITY

The grants made to Kent State University by the Foundation are summarized below for the years ended June 30, 2018 and 2017, based on the program or supporting service. All grants are made to, or for the benefit of, Kent State University.

	<u>2018</u>	<u>2017</u>
Academic programs	\$4,936,021	\$ 5,354,819
Scholarships	4,872,098	4,642,790
Construction projects	1,405,019	2,469,897
WKSU	1,821,708	1,762,593
Fundraising	1,328,013	1,851,344
Athletics	768,068	252,610
Entrepreneurship initiatives	<u>86,424</u>	<u>243,153</u>
	<u>\$ 15,217,351</u>	<u>\$ 16,577,206</u>

NOTE 14 – 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 15 – 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.

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

Independent Auditor's Report

To Management and the Board of Directors
Kent State University Foundation

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the consolidated financial statements of Kent State University Foundation, an Ohio not-for-profit corporation, and its subsidiaries, which comprise the basic statements of financial position as of June 30, 2018 and the related basic statements of activities and cash flows for the year then ended, and the related notes to the consolidated financial statements, and have issued our report thereon dated September 26, 2018.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Kent State University Foundation's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we do not express an opinion on the effectiveness of the entity'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.

To Management and the Board of Directors
Kent State University Foundation

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Kent State University Foundation's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

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

Plante & Moran, PLLC

September 26, 2018

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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
NOVEMBER 8, 2018**