Kent State University Foundation

Financial Report

June 30, 2021

OHIO AUDITOR OF STATE
KEITH FABER

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Board of Directors
Kent State University Foundation
350 South Lincoln Street
P.O. Box 5190
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We have reviewed the *Independent Auditor's Report* of the Kent State University Foundation, Portage County, prepared by RSM US LLP, for the audit period July 1, 2020 through June 30, 2021. 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 is responsible for compliance with these laws and regulations.

Keith Faber
Auditor of State
Columbus, Ohio

October 08, 2021

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Independent Auditor's Report

Board of Directors
Kent State University Foundation and
Mr. Keith Faber
Auditor of the State of Ohio

Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of Kent State University Foundation, which comprise consolidated the statement of financial position as of June 30, 2021, the related consolidated statement of activities and cash flows for the year then ended, and the related notes to the consolidated financial statements (collectively, the financial statements).

Management's Responsibility for the Consolidated 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 Kent State University Foundation as of June 30, 2021, and the changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Other Reporting Required by *Government Auditing Standards*
In accordance with *Government Auditing Standards*, we have also issued our report dated September 29, 2021, on our consideration of Kent State University Foundation's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is 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 Kent State University Foundation's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Kent State University Foundation's internal control over financial reporting and compliance.

RSM US LLP

Cleveland, Ohio
September 29, 2021

Kent State University Foundation

Consolidated Statement of Financial Position
June 30, 2021

Assets	
Cash and cash equivalents	$ 6,443,881
Receivables:	
Accounts receivable	165,404
Pledges, net	14,873,952
	15,039,356
Investments:	
Short-term pool	4,184,501
Charitable remainder trusts	4,324,664
Long-term pool	248,365,121
	256,874,286
Prepaid expenses and other	219,323
Beneficial interest in trusts held by others	5,682,457
Property, net	17,222,612
	$ 301,481,915
Liabilities and Net Assets	
Liabilities:	
Accounts payable	$ 323,087
Funds held for others	14,156,138
Capital lease liability	8,362,968
Paycheck Protection Program loan	592,518
Charitable remainder trusts	1,577,933
Charitable gift annuities	1,770,795
	26,783,439
Net assets:	
Without donor restrictions	19,446,731
With donor restrictions	255,251,745
	274,698,476
	$ 301,481,915

See notes to consolidated financial statements.

Kent State University Foundation

Consolidated Statement of Activities
Year Ended June 30, 2021

	Without Donor Restrictions	With Donor Restrictions	Total
Revenue and support:			
Contributions	$ 5,294	$ 16,876,050	$ 16,881,344
Net investment income:			
Securities	9,582,935	50,820,467	60,403,402
Investment pool operator fee	2,173,972	(2,173,972)	-
Service fee	536,791	-	536,791
	12,293,698	48,646,495	60,940,193
Sales, services, events, and other	1,826,440	96,346	1,922,786
Rental income	1,220,847	-	1,220,847
Changes in designation of prior contributions	(689,461)	689,461	-
Change in value of charitable remainder trusts and gift annuities	-	(97,915)	(97,915)
Net assets released from restrictions	14,375,705	(14,375,705)	-
Total revenue and support	29,032,523	51,834,732	80,867,255
Expenses:			
Kent State University programs	14,066,469	-	14,066,469
Downtown Kent Hotel, LLC	1,863,703	-	1,863,703
Management and general	1,130,980	-	1,130,980
Fundraising	1,339,917	-	1,339,917
	18,401,069	-	18,401,069
Loss due to acquisition of Downtown Kent Hotel, LLC (Note 4)	(9,815,460)		(9,815,460)
Change in net assets	815,994	51,834,732	52,650,726
Net assets at beginning of year	18,630,737	203,417,013	222,047,750
Net assets at end of year	$ 19,446,731	$ 255,251,745	$ 274,698,476

See notes to consolidated financial statements.

Kent State University Foundation

Consolidated Statement of Cash Flows
Year Ended June 30, 2021

Cash flows from operating activities:	
Change in net assets	$ 52,650,726
Adjustments to reconcile change in net assets to net cash used in operating activities:	
Net gains on investments	(65,669,978)
Contributions restricted for investment in endowment and trusts	(3,799,074)
Change in value of charitable remainder trusts and gift annuities	97,915
Net change in value of beneficial interest in trusts held by others	(608,691)
Gifts of stock and property	(2,182,631)
Accrued interest forgiven	(476,264)
Write down of capital lease liability	(1,208,652)
Write down of leased asset	251,404
Loss due to acquisition of Downtown Kent Hotel, LLC (Note 4)	9,815,460
Depreciation and amortization	451,442
Changes in operating assets and liabilities:	
Accounts receivable	(69,866)
Pledges receivable, net	2,050,508
Prepaids and other	(188,119)
Accounts payable	(32,892)
Funds held for others	3,443,179
Charitable remainder trusts and gift annuities	(156,456)
Net cash used in operating activities	(5,631,989)
Cash flows from investing activities	
Cash received from acquisition of Downtown Kent Hotel, LLC	418,866
Capital expenditures	(13,111)
Purchases of investments	(51,675,390)
Proceeds from sales of investments	57,191,304
Net cash provided by investing activities	5,921,669
Cash flows from financing activities	
Proceeds from contributions restricted for investment in endowment and trusts	3,799,074
Payments on capital lease liability	(162,032)
Proceeds from Paycheck Protection Program loan	345,586
Payments on charitable remainder trusts and gift annuities	(500,630)
Net cash provided by financing activities	3,481,998
Net change in cash and cash equivalents	3,771,678
Cash and cash equivalents	
Beginning	2,672,203
Ending	$ 6,443,881
Supplemental disclosure of noncash activties:	
Acquisition of Downtown Kent Hotel, LLC (Note 4):	
Assets acquired	$ 6,826,742
Liabilities assumed	519,274
Net assets acquired	$ 6,307,468

See notes to consolidated financial statements.

Note 1. Organization

Kent State University 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). Kent State University 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.

Kent State University Foundation has a services agreement with the University dated October 10, 2016. The provisions of that agreement requires the Kent State University Foundation to reimburse the University for direct expenses related to the Kent State University Foundation administration. Kent State University Foundation has no employees of its own. Reference Note 10 for further discussion of transactions with the University.

On July 1, 2020, Kent State University Foundation signed a purchase and sales agreement to acquire Downtown Kent Hotel, LLC, at which time Kent State University Foundation became the sole member of Downtown Kent Hotel, LLC. Downtown Kent Hotel, LLC owns and operates a 94-room hotel and restaurant and conference facility in Kent, Ohio. See Note 4 to the consolidated financial statements for further information relating to the acquisition.

Note 2. Summary of Significant Accounting Policies

Principles of consolidation: The consolidated financial statements include Kent State University Foundation and its wholly owned subsidiary, Downtown Kent Hotel, LLC (the Hotel), collectively referred to as the “Foundation”. All intercompany transactions have been eliminated in consolidation.

Basis of accounting and presentation: The consolidated 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 consolidated 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 two classes of net assets: with donor restrictions and without donor restrictions.

Net asset classification: Net assets comprise resources over which the Foundation has discretionary control for use in carrying out the financial and operational objectives of the Foundation and for purposes specified by donors. Activities of the Foundation are accounted for in the following net asset types:

> **Net assets without donor restrictions:** Net assets whose use has not been limited by donors for any period of time or specified purpose.
>
> **Net assets with donor restrictions:** Net assets with donor restrictions include gifts and grants for which donor imposed restrictions have not been met (primarily future capital projects or gifts for educational purposes), earnings from long term investments which are donor restricted, or any time restricted trust activity. Net assets with donor restrictions also include gifts which generally require, by donor restriction, that the corpus be invested in perpetuity. The donors generally permit the use of a portion of the income earned to be utilized for specific purposes based on their restrictions.

Note 2. Summary of Significant Accounting Policies (Continued)

Accounting estimates: In preparing the consolidated financial statements in conformity with U.S. GAAP, management has made, where necessary, estimates and judgments based on currently available information that affect certain amounts reflected in the consolidated financial statements. Actual results could differ from those estimates.

Cash and cash equivalents: Cash and cash equivalents as presented in the consolidated 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.

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, beneficial interests in trusts held by others, charitable remainder trusts and charitable gift annuities.

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 using a risk-free rate of return. 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 in the amount of approximately $959,000 has been recorded at June 30, 2021.

Investments: Fluctuations in fair value of investments, as well as gains or losses on sales of securities, are recognized in the consolidated statement of activities. Investments are presented in the consolidated statement 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 without donor restrictions. 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.

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 in net investment income – securities in the consolidated statement of activities.

Funds held for others: The Foundation maintains and invests funds for the Kent State University Alumni Association.

Note 2. Summary of Significant Accounting Policies (Continued)

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. Buildings are depreciated on a straight-line basis over a 40 year period, the capital lease is depreciated over 34.5 years and equipment is depreciated over 5 years. Property at June 30, 2021 consists of the following:

Land	$ 2,435,944
Buildings	7,192,620
Capital lease	8,525,000
Equipment	13,111
	18,166,675
Less: accumulated depreciation and amortization	(944,063)
	$ 17,222,612

Depreciation and amortization expense totaled $451,442 for the year ended June 30, 2021.

Impairment of long-lived assets: Long-lived assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of long-lived assets is measured by comparison of the carrying amount of the assets to future undiscounted net cash flows expected to be generated by the assets. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds the estimated fair value of the assets. The Foundation has determined that no impairment of long-lived assets exists at June 30, 2021.

Charitable remainder trusts: The Foundation has entered into charitable remainder 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 charitable remainder trust transaction are maintained in segregated custodial investment accounts. The Foundation's payment liability is limited to the amount of the trust assets. 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 estimated fair value of the future obligation to the donor is recorded as contribution revenue. Upon termination of each agreement's stipulated payout period, the liability is relieved and the remaining assets are distributed from the trust for the purpose designated by the donor.

Charitable gift annuities: 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 estimated fair value of the future obligation to the donor is recorded as contribution revenue. Upon termination of each agreement's stipulated payout period, the remaining assets are recognized as revenue subject to the purpose designated by the donor.

Assets received in an annuity agreement transaction are placed in a reserve account. Investment income, stipulated payments, and administrative expenses are recorded as with donor restriction in the consolidated statement of activities.

Note 2. Summary of Significant Accounting Policies (Continued)

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 the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. Endowment funds not classified as net assets with donor restrictions are classified as net assets without donor restrictions until utilized by the Foundation.

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.

Contributions: Contribution 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 estimated fair value. All gifts are considered to be available for general use unless specifically restricted by the donor. Gifts that are designated for future periods or restricted by the donor for specific purposes are reported as with donor restricted support.

Sales, services, events and other revenue: Consists of sales, services, event and other revenue which is recognized when the performance obligations are satisfied and occurs when control of the service is transferred to the customer and when the customer obtains substantial benefit from the services.

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.

Income taxes: The Foundation is exempt from federal income tax under section 501(c) (3) of the Internal Revenue Code (the Code) and is generally exempt from paying federal income taxes pursuant to Section 501(a) of the Code, except on unrelated business income. Additionally, the Foundation is defined as a public charity pursuant to 509(a) (2). The Foundation has evaluated its tax positions at June 30, 2021 with respect to accounting for uncertainties in income taxes and has determined that there was no material impact to the Foundation's consolidated financial statements. The ASC provides related guidance on measurement, classification, interest and penalties and disclosure as well as prescribing a threshold of more-likely-than-not for recognition of tax positions taken or expected to be taken in a tax return. The Foundation is subject to routine audits by taxing jurisdictions; however, there are currently no audits for any tax periods in progress. As of June 30, 2021, the Foundation has no uncertain tax positions.

Subsequent events: The Foundation has evaluated events and transactions for potential recognition and/or disclosure through September 29, 2021, the date the consolidated financial statements were available to be issued.

Recent accounting pronouncements adopted: In August 2018, the FASB issued Accounting Standards Update (ASU) 2018-13, *Fair Value Measurement (Topic 820): Disclosure Framework—Changes to the Disclosure Requirements for Fair Value Measurement*. ASU 2018-13 removes, modifies and adds certain disclosures requirements on fair value required by Topic 820. The Foundation adopted this ASU in the accompanying consolidated financial statements. The adoption of this ASU did not have a material impact on the Foundation's consolidated financial statements.

Note 2. Summary of Significant Accounting Policies (Continued)

Recent accounting pronouncements not yet adopted: In February 2016, the FASB issued ASU 2016-02, *Leases (Topic 842)*, which will supersede the current lease requirements in ASC Topic 840, *Leases*. Under the new guidance, lessees are required to recognize lease assets and lease liabilities on the consolidated statement of financial position for all leases with terms longer than 12 months. Leases will be classified as either financing or operating, with classification affecting the pattern of expense recognition in the consolidated statement of activities. This standard was initially due to be implemented in fiscal years beginning after December 15, 2020. In response to the Coronavirus Disease 2019 (COVID-19) pandemic which is adversely affecting the global economy, and causing significant widespread business and capital disruptions, FASB issued ASU 2020-05, *Revenue from Contracts with Customers (Topic 606) and Leases (Topic 842) – Effective Dates for Certain Entities,* in June 2020. The amendments in this updated standard defer the effective date of the lease standard for private entities with fiscal years beginning after December 15, 2021, and interim period within fiscal years beginning after December 15, 2022. Early application continues to be permitted.

In September 2020, the FASB issued ASU 2020-07, *Presentation and Disclosures by Not-for-Profit Entities for Contributed Nonfinancial Assets (Topic 958),* which requires a not-for-profit entity to present contributed nonfinancial assets in the consolidated statement of activities as a line item that is separate from contributions of cash or other financial assets. ASU 2020-07 also requires additional qualitative and quantitative disclosures about contributed nonfinancial assets received, disaggregated by category. The new standard will be effective for the Foundation’s June 30, 2022 consolidated financial statements.

Management is currently evaluating the impact of these new standards on their consolidated financial statements.

Note 3. Investments and Fair Value Measurements and Disclosures

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. In July 2019, the Board replaced the previous consultant with an outsourced chief investment officer (OCIO). The OCIO has full discretion of the Foundation’s investment portfolio, including but not limited to: buying and selling of assets, movement of cash in and out of accounts, asset allocation and performance measurement as long as within the approved defined investment policy.

The Foundation’s investments are exposed to a variety of uncertainties, including interest rate, market and credit risks. 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 consolidated financial statements of the Foundation.

The Foundation uses fair value measurements to record the fair value of certain assets and liabilities and to determine fair value disclosures.

Level 1 – Quoted prices that are available in active markets as of the report date. The quoted market prices are from those securities traded on an active exchange such as the New York Stock Exchange, NASDAQ or an active over-the-counter markets.

Level 2 – Pricing inputs other than quoted prices in active markets, which are either directly or indirectly observable as of the report date.

Level 3 – Inputs that are unobservable including the Foundation’s own assumptions in determining the fair value of investments or liabilities.

Note 3. Investments and Fair Value Measurements and Disclosures (Continued)

Investments that are measured at fair value using the net asset value per share (or its equivalent) as a practical expedient are not classified in the fair value hierarchy below. Liabilities associated with the charitable remainder trusts and gift annuities represent the estimated fair value of the expected payments to the beneficiaries over the terms of the agreements.

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.

The following table present information about the investments measured at fair value on a recurring basis as of June 30, 2021:

	Total	Level 1	Level 2	Level 3
Investments by fair value level:				
Exchange traded funds	$ 5,416,198	$ 5,416,198	$ -	$ -
Mutual funds:				
Multi-asset funds	667,812	667,812	-	-
International equity funds	4,949,139	4,949,139	-	-
Fixed income funds	5,658,567	5,658,567	-	-
Total investments by fair value level	16,691,716	$ 16,691,716	$ -	$ -
Investments measured at fair value based on net asset value: [a]				
Private equity	29,319,432			
Hedge funds	2,498,977			
Commingled asset funds	199,787,817			
Real assets	8,576,344			
Total investments measured at NAV	240,182,570			
Total investment assets	$ 256,874,286			
Investment liabilities:				
Charitable remainder trusts	$ 1,577,933	$ -	$ -	$ 1,577,933
Charitable gift annuities	1,770,795	-	-	1,770,795
Total investment liabilities	$ 3,348,728	$ -	$ -	$ 3,348,728

[a] In accordance with ASC Subtopic 820-10, certain investments that are measured at net asset value per share (or its equivalent) have not been classified in the fair value hierarchy. The fair value amounts presented in this table are intended to permit reconciliation of the fair value hierarchy to the amounts presented in the consolidated statement of financial position.

Note 3. Investments and Fair Value Measurements and Disclosures (Continued)

The following table sets forth the significant terms of the agreements with non-publicly traded funds reported at fair value based on net asset value at June 30, 2021:

	Fair Value	Unfunded Commitments	Redemption Frequency, if Eligible	Redemption Notice Period
Private equity	$ 29,319,432	$ 27,401,546	5+ years	not applicable
Hedge funds	2,498,977	-	quarterly	90 days
Commingled asset funds	199,787,817		quarterly	90 days
Real assets	7,610,678	-	quarterly	90 days
Real assets (private)	965,666	4,251,747	5+ years	not applicable
Total	$ 240,182,570	$ 31,653,293		

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 and commingled asset class consists of fund-of-fund managers and OCIO holdings who allocate funds to underlying hedge funds and/or commingled asset funds which invest 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 private real asset class is similar to the real asset class described above; however, it has a significantly longer lock-up period.

Note 4. Hotel and Conference Center

Effective July 1, 2020, the Foundation acquired Downtown Kent Hotel, LLC and it its wholly owned subsidiary. For accounting purposes, this transaction is considered an acquisition under ASC 958-805, *Not-For-Profit Entities: Business Combinations*. As a condition of the acquisition, the Foundation forgave existing notes and interest receivable due from Downtown Kent Hotel, LLC totaling $14,426,108 and $1,955,359, respectively. The Foundation recognized a loss due to the acquisition totaling approximately $9,815,000 which is made up of the following components:

Assets acquired:	
Cash and cash equivalents	$ 418,866
Accounts receivable, net	95,538
Prepaid expenses and other	31,204
Property, net	6,700,000
Total assets acquired	7,245,608
Liabilities assumed:	
Accounts payable and other	(272,342)
Paycheck Protection Program loan	(246,932)
Total liabilities assumed	(519,274)
Net assets acquired	6,726,334
Less: consideration for acquisition of Downtown Kent Hotel, LLC:	
Note receivable forgiven	(14,426,108)
Interest receivable forgiven	(1,955,359)
Transaction costs	(160,327)
	(16,541,794)
Loss due to acquisition of Downtown Kent Hotel, LLC	$ (9,815,460)

From July 1, 2020 to June 30, 2021, the Foundation recognized approximately $1,221,000 of rental of 7.5% of earnings before interest, taxes, depreciation, and amortization (EBITDA) in excess of $250,000. The total fee plus incentive fee is capped at 4% of gross revenue. For the year ended June 30, 2021, the Hotel paid $74,237 in management fees. The management agreement will expire December 31, 2023.

The Hotel's business is subject to all of the risks inherent in the lodging industry. These risks include, among other factors, varying levels of demand for rooms and related services, adverse effects of general and local economic and market conditions, changes in governmental regulations that influence wages or prices, changes in interest rates, the availability of credit, changes in real estate taxes and other operating expenses, and the recurring need for renovation, refurbishment and improvements.

Note 5. Pledges Receivable, Net

Unconditional promises to give are included in the consolidated financial statements as pledges receivable and total $15,975,334 at June 30, 2021. The future expected cash flows from pledges receivable are discounted to their net present value using discount rates ranging from 0.07% to 1.45%. Pledges receivable at June 30, 2021 are as follows:

Unconditional pledges expected to be collected:	
Less than one year	$ 5,472,897
One to five years	8,972,437
More than five years	1,530,000
Pledges receivable	15,975,334
Less allowance for uncollectible pledges	(958,520)
Less present value discount	(142,862)
	$ 14,873,952

As of June 30, 2021, the Foundation has approximately $113,425,000 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.

Note 6. Capital Lease Obligation

On January 1, 2016, the Foundation entered into a sublease agreement for building office space with Kent State University. 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.

On November 2, 2020, the sublease between the Foundation and University was amended. The amendment replaced the lease payment schedule with a new version bearing an annual interest rate of 2.5% and revised the outstanding principal from $9,921,152 to $8,525,000. As a result, the Foundation also adjusted the cost of the building and wrote-off the accumulated amortization associated with the old sublease. This resulted in a gain of approximately $957,000 which is recorded within the sales, services, events and other caption on the consolidated statement of activities.

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

Year ending June 30,	
2022	$ 375,158
2023	375,158
2024	375,158
2025	375,158
2026	375,158
Thereafter	10,504,411
Total lease payments	12,380,201
Interest	4,017,233
Total principal balance	$ 8,362,968

Note 6. Capital Lease Obligation (Continued)

The cost and accumulated amortization of the building office space under the amended capital lease obligation are as follows at June 30, 2021:

Building	$ 8,525,000
Less: accumulated amortization	(247,102)
	$ 8,277,898

Note 7. Beneficial Interest in Trusts Held by Others

The Foundation has beneficial interests in various perpetual trusts. Accordingly, the Foundation does not have the ability to redeem the beneficial interest in these perpetual trusts but will benefit from the income generated by the trusts. The beneficial interest in perpetual trusts are recorded at the estimated fair value of the Foundation's proportionate interest in the fair value of the assets held by the trusts and are classified as a level 3 input within the fair value hierarchy as described in Note 3. The following presents a reconciliation of the fair value of the beneficial interest in perpetual trusts for the year ended June 30, 2021:

Balance at beginning of year, July 1, 2020	$ 5,073,766
Change in fair value	608,691
Balance at end of year, June 30, 2021	$ 5,682,457

Note 8. Net Assets

Donor restricted net assets are principally related to scholarships, specific schools within the University, department chairs, and various other purposes. As of June 30, 2021, net assets are as follows:

	Without Donor Restrictions	With Donor Restrictions
Available for expenditure:		
Current operations	$ 16,038,111	$ 45,141,441
Term endowments	2,859,499	60,729,166
Accumulated earnings on endowments	-	59,132,085
Real estate	549,121	1,886,822
	19,446,731	166,889,514
Unavailable for expenditure:		
Endowments	-	65,070,801
Trusts	-	2,735,021
Beneficial interest in perpetual trusts	-	5,682,457
Uncollected pledges, net	-	14,873,952
	-	88,362,231
	$ 19,446,731	$ 255,251,745

Included in the accompanying consolidated statement of activities are changes in the net asset designation of prior contributions as donors may elect to change the designation of prior contributions. There were transfers of prior contributions from without donor restriction to with donor restricted net assets in the amounts of $689,641 for the year ended June 30, 2021.

Note 9. 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 Directors to function as endowments. As required by U.S. GAAP, 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 4.6% 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 distribution is calculated using a 2.3% semi-annual equivalent of the rate, applied against an average of the investment balances. The average preceding month-end investment balance is calculated as the lesser of the average of the prior 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.

On June 19, 2020, the Board of Directors approved a change to reduce the Foundation's spending policy to 4.2% effective for fiscal year 2022.

As a result of market declines, the fair value of certain donor 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 donor restricted amounts are reported in with donor restricted net assets. There were no funds with deficiencies for the year ended June 30, 2021.

Endowment net asset composition by type as of June 30, 2021 are as follows:

	Without Donor Restrictions	With Donor Restrictions	Total
Board designated endowment funds	$ 2,859,499	$ -	$ 2,859,499
Donor restricted endowment funds:			
Original donor restricted gift amount and amounts required to be maintained in perpetuity by donor	-	65,070,801	65,070,801
Term endowments	-	60,729,166	60,729,166
Accumulated investment gains	-	59,132,085	59,132,085
Total donor-restricted endowment funds	-	184,932,052	184,932,052
Total	$ 2,859,499	$ 184,932,052	$ 187,791,551

Note 9. Endowments (Continued)

Change in endowment net assets for the year June 30, 2021, are as follows:

	Without Donor Restrictions	With Donor Restrictions	Total
Endowment net assets, July 1, 2020	$ 2,122,717	$ 135,990,415	$ 138,113,132
Investment return:			
Dividend and interest income, net of fees of $3,625,549	(54,499)	(3,417,725)	(3,472,224)
Net appreciation (realized and unrealized gains)	897,681	49,983,834	50,881,515
Total investment return	843,182	46,566,109	47,409,291
Gifts	-	7,858,956	7,858,956
Change in designation of prior gifts	-	555,880	555,880
Endowment spending transfers	(106,400)	(6,039,308)	(6,145,708)
Endowment net assets, June 30, 2021	$ 2,859,499	$ 184,932,052	$ 187,791,551

Note 10. 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 net assets without donor restriction at the direction of the Foundation's Board of Directors.

Additionally, the Foundation made payments to the University in accordance with a services agreement between the parties. Payments made under the agreement were $869,971 for the year ended June 30, 2021. The payments were primarily for staffing used in the execution of Foundation operations. The amount payable to the University at June 30, 2021 is $100,693, and is recorded within accounts payable in the consolidated statement of financial position. 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 6, the Foundation is party to a lease for rental of its building office space with the University.

Note 11. Functional Expenses

Expenses classified by natural classification for the year ended June 30, 2021 are as follows:

	KSU Programs	Downtown Kent Hotel, LLC	Management and General	Fundraising	Total
Operating expenses:					
Salaries and wages	$ -	$ 613,685	$ 623,084	$ -	$ 1,236,769
Benefits and related taxes	-	15,828	256,027	-	271,855
Contracted services	-	299,949	83,120	-	383,069
Supplies	-	445,274	4,233	-	449,507
Travel	-	5,399	-	-	5,399
Real estate taxes	-	202,255	-	-	202,255
Other	-	-	9,755	-	9,755
Insurance	-	24,408	13,291	-	37,699
Interest	-	6,363	36,018	177,107	219,488
Credit card fees	-	43,312	56,434	-	99,746
Meeting expense	-	2,889	7,258	-	10,147
Grants to KSU	14,066,469	-	-	957,469	15,023,938
Depreciation and amortization	-	204,341	41,760	205,341	451,442
	$ 14,066,469	$ 1,863,703	$ 1,130,980	$ 1,339,917	$ 18,401,069

The consolidated financial statements report certain categories of expenses that are attributed to one or more program or supporting functions of the Foundation. Those expenses include depreciation and amortization and interest expense related to the office building and capital lease. These expenses are allocated based on square footage. Administration expense consists of expenses related to the Foundation operations and shared expenses while fundraising consists of remaining square footage. All other expenses are direct expenses and fall specifically into administrative, fundraising and program.

Note 12. Grants to Kent State University

The grants made to Kent State University by the Foundation shown in Note 11 are summarized below for the year ended June 30, 2021, based on the program or supporting service. All grants are made to, or for the benefit of, Kent State University.

Academic programs	$ 4,941,098
Scholarships	6,225,217
Construction projects	418,524
WKSU	2,360,240
Fundraising	957,469
Athletics	121,390
	$ 15,023,938

Note 13. 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. The 1.25% annual fee is used to offset the without donor restricted 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 14. Liquidity

The Foundation's financial assets available within one year of the consolidated statement of financial position date for general expenditure are as follows:

Financial assets at year end:	
Cash and cash equivalents	$ 6,443,881
Receivables	15,039,356
Investments	256,874,286
Total financial assets	278,357,523
Less amounts not available to be used within one year:	
Donor restricted by time or purpose	(70,319,693)
Board designated endowment	(2,859,499)
Donor restricted endowment	(184,932,052)
Financial assets not available to be used within one year	(258,111,244)
Financial assets available to meet general expenditures within one year	$ 20,246,279

The Organization has a goal to maintain financial assets, which consist of cash and short-term investments, on hand to meet 45 days of normal operating expenses, which are on average, approximately $2,093,000 at June 30, 2021. The Foundation has a policy to structure its financial assets to be available as its general expenditures, liabilities, and other obligations come due. In addition, the Foundation invests cash in excess of daily requirements in various short-term investments, including certificates of deposit and short-term treasury instruments.

Note 15. Pandemic

On January 30, 2020, the World Health Organization declared the coronavirus (COVID-19) outbreak a "Public Health Emergency of International Concern" and on March 11, 2020, declared it to be a pandemic. Actions taken around the world to help mitigate the spread of the coronavirus include restrictions on travel, quarantines in certain areas, and forced closures for certain types of public places and businesses. The coronavirus and actions taken to mitigate it have had, and are expected to continue to have, an adverse impact on the economies and financial markets of many counties. The extent to which the coronavirus impacts the Foundation's financial condition, results of operations, and cash flows will depend on future developments, which are highly uncertain and cannot be predicted, included new information which may emerge concerning the severity of the coronavirus and actions taken to contain the coronavirus or its impact, among others. To date, the Foundation is experiencing significant fluctuations in the fair value of its investment portfolio. The concentration due to revenue from investments being a significant source of support for the Foundation's activities make it reasonably possible that the Foundation is vulnerable to the risk of a near-term impact to the investment portfolio. The Foundation works closely with its Outside Chief Investment Officer to develop an investment strategy that is positioned to provide a ballast during any storm in the market. The pandemic has also impacted the Foundation with a reduction of gifts during this time. Donors are not able to be called upon in the manner that is typical for this industry so other strategies have had to be implemented. Although the Foundation has seen a reduction of gifts overall due to the uncertainty of the times, the Foundation has seen an increase in donors responding with special emergency funding to help students and their families who find themselves in need during these unprecedented times. The pandemic has caused significant impact on the wholly owned subsidiary, the Hotel especially earlier in the fiscal year. The Hotel has rebounded considerably since one year ago but still operating below pre-pandemic levels.

Note 15. Pandemic (Continued)

On March 27, 2020, the Coronavirus Aid, Relief, and Economic Security (CARES) Act was signed into law. The CARES Act legislation is intended to provide relief for small businesses that have been negatively impacted by the COVID-19 pandemic. One of the many provisions of the CARES Act, the Paycheck Protection Program (PPP) provided loans to small businesses to prevent layoffs and business closures during the pandemic. The Hotel received two separate PPP loans; the first in the amount of $246,932 and a second in the amount of $345,586. The PPP loan had a stated interest rate of 1% and one of the provisions of the PPP loan outlined an application process in which satisfaction of certain conditions would result in forgiveness of some or all of the loan. During September 2021, the Foundation was notified the $246,932 loan was forgiven in full.

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

Independent Auditor's Report

Board of Directors
Kent State University Foundation and
Mr. Keith Faber
Auditor of the State of 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 consolidated financial statements of Kent State University Foundation, which comprise the consolidated statement of financial position as of June 30, 2021, the related consolidated statement 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 29, 2021.

Internal Control Over Financial Reporting

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's consolidated financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters
As part of obtaining reasonable assurance about whether Kent State University Foundation's consolidated 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 consolidated financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

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

RSM US LLP

Cleveland, Ohio
September 29, 2021

OHIO AUDITOR OF STATE
KEITH FABER

KENT STATE UNIVERSITY FOUNDATION

PORTAGE COUNTY

AUDITOR OF STATE OF OHIO CERTIFICATION

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

Certified for Release 11/4/2021

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