

**Southern Connecticut State University
Foundation Inc.**

**Financial Statements and
Independent Auditor's Report**

June 30, 2016 and 2015

COHN  REZNICK
ACCOUNTING • TAX • ADVISORY

Southern Connecticut State University Foundation, Inc.

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Independent Auditor's Report

To the Board of Directors
Southern Connecticut State University Foundation, Inc.

We have audited the accompanying financial statements of Southern Connecticut State University Foundation, Inc. (a nonprofit organization), which comprise the statements of financial position as of June 30, 2016 and 2015, and the related statements of activities and changes in net assets and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. 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 Southern Connecticut State University Foundation, Inc. as of June 30, 2016 and 2015, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.



Hartford, Connecticut
September 30, 2016

Southern Connecticut State University Foundation, Inc.

**Statements of Financial Position
June 30, 2016 and 2015**

	2016	2015
<u>Assets</u>		
Assets		
Cash and cash equivalents	\$ 1,282,276	\$ 912,437
Investment securities (Note 3)	25,903,140	24,043,294
Pledges receivable (Note 7)	2,402,472	2,305,347
Prepaid expense	-	102,038
Beneficial interest in trusts	104,493	109,792
Collections of works of art (Note 2)	-	-
	<u>\$ 29,692,381</u>	<u>\$ 27,472,908</u>
<u>Liabilities and Net Assets</u>		
Liabilities		
Accounts payable and accrued expenses	\$ 173,077	\$ 43,392
Gift annuities payable (Note 9)	42,659	80,860
Custodial obligation payable (Note 10)	58,200	38,525
	<u>273,936</u>	<u>162,777</u>
Net assets		
Unrestricted net assets	1,863,452	1,767,565
Board designated - unrestricted net assets (Note 11)	833,908	833,908
Temporarily restricted net assets (Note 12)	9,925,566	10,173,671
Permanently restricted net assets (Note 13)	16,795,519	14,534,987
	<u>29,418,445</u>	<u>27,310,131</u>
Total net assets	<u>\$ 29,418,445</u>	<u>\$ 27,310,131</u>
Total liabilities and net assets	<u>\$ 29,692,381</u>	<u>\$ 27,472,908</u>

See Notes to Financial Statements.

Southern Connecticut State University Foundation, Inc.

**Statements of Activities and Changes in Net Assets
Years Ended June 30, 2016 and 2015**

	2016				2015			
	<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Permanently restricted</u>	<u>Total</u>	<u>Restricted</u>	<u>Temporarily restricted</u>	<u>Permanently restricted</u>	<u>Total</u>
Support and revenues								
Support								
Contributions	\$ 276,636	\$ 2,388,437	\$ 2,203,831	\$ 4,868,904	\$ 341,079	\$ 1,462,855	\$ 817,995	\$ 2,621,929
University donated services (Note 15)	1,049,124	-	-	1,049,124	1,014,075	-	-	1,014,075
Gifts in kind	123,796	-	-	123,796	69,989	-	-	69,989
Net assets released from restrictions	<u>2,145,468</u>	<u>(2,145,468)</u>	<u>-</u>	<u>-</u>	<u>1,527,885</u>	<u>(1,527,885)</u>	<u>-</u>	<u>-</u>
Total support	<u>3,595,024</u>	<u>242,969</u>	<u>2,203,831</u>	<u>6,041,824</u>	<u>2,953,028</u>	<u>(65,030)</u>	<u>817,995</u>	<u>3,705,993</u>
Revenues								
Interest and dividend income	94,106	406,297	-	500,403	97,602	369,231	-	466,833
Administrative fee income (expense)	271,653	(271,653)	-	-	248,125	(248,125)	-	-
Gift fee income (expense)	121,909	(121,909)	-	-	63,368	(63,368)	-	-
Net realized and unrealized gains (losses) on investment securities	(1,098)	(441,809)	-	(442,907)	(7,910)	498,454	-	490,544
Change in value of annuity agreements	28,418	-	-	28,418	(4,072)	-	-	(4,072)
Change in value of perpetual trust	-	-	(5,299)	(5,299)	-	-	(1,566)	(1,566)
Total revenues	<u>514,988</u>	<u>(429,074)</u>	<u>(5,299)</u>	<u>80,615</u>	<u>397,113</u>	<u>556,192</u>	<u>(1,566)</u>	<u>951,739</u>
Total support and revenues	<u>4,110,012</u>	<u>(186,105)</u>	<u>2,198,532</u>	<u>6,122,439</u>	<u>3,350,141</u>	<u>491,162</u>	<u>816,429</u>	<u>4,657,732</u>
Expenses								
Program services (Note 16)	2,563,529	-	-	2,563,529	1,844,726	-	-	1,844,726
General and administrative services (Note 16)	711,545	-	-	711,545	544,671	-	-	544,671
Fundraising services (Note 16)	739,051	-	-	739,051	703,694	-	-	703,694
Total expenses	<u>4,014,125</u>	<u>-</u>	<u>-</u>	<u>4,014,125</u>	<u>3,093,091</u>	<u>-</u>	<u>-</u>	<u>3,093,091</u>
Changes in net assets	95,887	(186,105)	2,198,532	2,108,314	257,050	491,162	816,429	1,564,641
Net assets, beginning	2,601,473	10,173,671	14,534,987	27,310,131	2,340,743	9,698,286	13,706,461	25,745,490
Interfund transfers	-	(62,000)	62,000	-	3,680	(15,777)	12,097	-
Net assets, end	<u>\$ 2,697,360</u>	<u>\$ 9,925,566</u>	<u>\$ 16,795,519</u>	<u>\$ 29,418,445</u>	<u>\$ 2,601,473</u>	<u>\$ 10,173,671</u>	<u>\$ 14,534,987</u>	<u>\$ 27,310,131</u>

See Notes to Financial Statements.

Southern Connecticut State University Foundation, Inc.

**Statements of Cash Flows
Years Ended June 30, 2016 and 2015**

	2016	2015
Cash flows from operating activities		
Changes in net assets	\$ 2,108,314	\$ 1,564,641
Adjustments to reconcile changes in net assets to net cash provided by (used in) operating activities		
Contributions restricted for long-term purposes	(2,203,831)	(817,995)
Unrealized (gains) losses on investment securities	426,770	(481,417)
Realized (gains) losses on investment securities	16,137	(9,127)
Beneficial interest in trusts	5,299	1,566
Payments on gift annuities	(9,782)	(9,783)
Changes in operating assets and liabilities		
Pledges receivable	(97,125)	23,792
Prepaid expense	102,038	(102,038)
Accounts payable and accrued expenses	129,685	(69,269)
Gift annuities payable	(28,419)	4,073
Custodial obligation payable	19,675	5,175
	468,761	109,618
Net cash provided by operating activities		
Cash flows from investing activities		
Purchase of investment securities	(2,505,374)	(1,005,035)
Proceeds from sale of investment securities	202,621	270,519
	(2,302,753)	(734,516)
Net cash used in investing activities		
Cash flows from financing activities		
Proceeds from contributions restricted for investment in permanent endowment	2,203,831	817,995
	369,839	193,097
Net increase in cash and cash equivalents		
Cash and cash equivalents, beginning	912,437	719,340
Cash and cash equivalents, end	\$ 1,282,276	\$ 912,437
Supplemental disclosures of cash flow information		
Donations of gifts in kind	\$ 123,796	\$ 69,989

See Notes to Financial Statements.

Southern Connecticut State University Foundation, Inc.

Notes to Financial Statements June 30, 2016 and 2015

Note 1 - Organization

Southern Connecticut State University Foundation, Inc. (the "Foundation") exists to assist Southern Connecticut State University (the "University"), a not-for-profit organization, in fulfilling its mission and achieving its vision through the development, stewardship and delivery of private financial resources. The Foundation provides financial management of the private resources received through the investment of contributions for the educational and support activities that may be conducted by the University.

Note 2 - Summary of significant accounting policies

Basis of presentation and revenue recognition

The Foundation follows the provisions of accounting for contributions made and received, financial statements of not-for-profit organizations and accounting for certain investments held by not-for-profit organizations. The provisions for accounting for contributions made and received generally require that contributions received or made, including unconditional promises to give, are recognized as increases or decreases in net assets in the period received or made at their fair values. The provisions for financial statements of not-for-profit organizations require that the Foundation display its activities and net assets in three classes of net assets as follows: unrestricted, temporarily restricted and permanently restricted. The provisions for accounting for certain investments held by not-for-profit organizations require that investments with readily determinable fair values be reported at fair value with gains and losses included in the statements of activities and changes in net assets. Additionally, the Foundation is required to present a statement of cash flows as a result of the provisions for financial statements of not-for-profit organizations.

Net assets and revenues, expenses, gains and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets and changes therein are classified as follows:

Permanently restricted net assets - Net assets subject to donor-imposed restrictions that they be maintained permanently by the Foundation. Generally, the donors of these assets permit the Foundation to use all or part of the income earned and capital gains, if any, on related investments for general or specific purposes.

Temporarily restricted net assets - Net assets subject to donor-imposed restrictions that may or will be met by actions of the Foundation and/or the passage of time.

Unrestricted net assets - Net assets not subject to donor-imposed restrictions.

Board-designated net assets - Net assets established by the Board of Directors, which represent unrestricted funds set aside for future needs of the Foundation.

Revenues are reported as increases in unrestricted net assets unless use of the related assets is limited by donor-imposed restrictions. Expenses are reported as decreases in unrestricted net assets. Gains and losses on investments and other assets or liabilities, if any, are reported as increases or decreases in unrestricted net assets unless their use is restricted by explicit donor restriction or by law. Expirations of temporary restrictions on net assets (i.e., the donor restricted purpose has been fulfilled and/or the restricted time period has elapsed) are reported as reclassifications between the applicable classes of net assets.

Southern Connecticut State University Foundation, Inc.

Notes to Financial Statements June 30, 2016 and 2015

Concentrations

Cash and cash equivalents includes all cash balances and highly liquid investments with a maturity of three months or less when acquired. The Foundation places its temporary cash investments with high credit quality financial institutions. At times, such investments may exceed federally insured limits.

Fair values of financial instruments

Investments are recorded at fair value (see Notes 3 and 5). Net realized and unrealized gains and losses on investments are recorded in the statements of activities and changes in net assets.

Promises to give

Unconditional promises to give, which are restricted by the donor to a specific purpose which has not been met as of the statement of financial position date, are shown as increases in temporarily restricted net assets. Conditional promises to give are recognized when the conditions on which they depend are substantially met. All contributions are considered to be available for unrestricted use unless specifically restricted by the donor.

Property and equipment

The Foundation capitalizes all expenditures for property and equipment in excess of \$5,000 and having a useful life of greater than one year. Property and equipment are stated at cost less accumulated depreciation. Depreciation is computed on the straight-line method using the estimated lives of the assets. The cost of maintenance and repairs is charged to expense as incurred, whereas significant renewals are capitalized.

Collections of works of art

Collections of works of art acquired through donations since the Foundation's inception are not recognized as assets in the accompanying statements of financial position. Each of these items is cared for and activities verifying their existence and assessing their condition are performed continuously.

Interest in perpetual trust

The Foundation is one of several income beneficiaries of one trust. The Foundation regularly receives income distributions from the trust, the amounts of which are recorded as investment income from perpetual trust in the statements of activities and changes in net assets. Income received during the years ended June 30, 2016 and 2015 with respect to the trust was \$4,000 and \$5,300, respectively, and has been classified as temporarily restricted. The principal for the Sage Trust is controlled by bank trustees independent of the Foundation.

Endowment

The State of Connecticut adopted the Uniform Prudent Management of Institutional Funds Act ("UPMIFA"), which governs the investment and management of donor-restricted endowment funds by not-for-profit organizations. In addition, the Financial Accounting Standards Board ("FASB") provided guidance on the net asset classification of endowment funds that are subject to UPMIFA. This guidance, FASB Accounting Standards Codification ("ASC") 958-205, *Reporting Endowment Funds*, has been adopted by the Foundation.

Noncash donations

Donations other than cash (securities) are recorded at their estimated fair market value at the date of the gift. Such donations are reported as unrestricted unless the donor has restricted the donated asset to a specific purpose.

Southern Connecticut State University Foundation, Inc.

**Notes to Financial Statements
June 30, 2016 and 2015**

Donated services are recognized in the financial statements if the services received require specialized skills provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation. Certain services donated to the Foundation by community volunteers do not meet the above criteria and, therefore, are not recognized in the financial statements.

Statements of cash flows

For the purpose of the statements of cash flows, the Foundation considers cash equivalents as highly liquid investments with an initial maturity of three months or less when acquired.

Income taxes

The Foundation is exempt from federal and state income taxes as an organization described in Section 501(c)(3) of the Internal Revenue Code. Accordingly, no provision has been made in the accompanying financial statements for federal or state income taxes. In addition, the Foundation qualifies for the charitable contribution deduction under Section 170(b)(1)(A) and has been classified as an organization that is not a private foundation under Section 509(a)(1).

The Foundation has no unrecognized tax benefits at June 30, 2016 or 2015. The Foundation's federal and state income tax returns prior to fiscal year 2012 are closed and management continually evaluates expiring statutes of limitations, audits, proposed settlements, changes in tax law and new authoritative rulings.

If applicable, the Foundation would recognize interest and penalties associated with tax matters as part of management and general expenses in the statements of activities and changes in net assets and include accrued interest and penalties in accrued expenses in the statements of financial position. The Foundation did not recognize any interest or penalties associated with tax matters for the years ended June 30, 2016 and 2015.

Use of estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent 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 those estimates.

Subsequent events

Management has reviewed subsequent events through September 30, 2016, which is the date the financial statements were approved and available for issuance.

Southern Connecticut State University Foundation, Inc.

**Notes to Financial Statements
June 30, 2016 and 2015**

Note 3 - Investments

The cost and fair value of investments as of June 30, 2016 and 2015 are as follows

	2016		2015	
	Cost	Fair value	Cost	Fair value
Investments				
Common stock	\$ 116,650	\$ 126,001	\$ 129,537	\$ 131,701
Common stock - international	-	-	10,936	10,354
Mutual fund - common stock	914	865	-	-
Multi-strategy bond fund	9,296,887	9,381,394	8,470,864	8,413,055
Multi-strategy equity fund	15,544,127	16,394,880	14,058,544	15,488,184
	<u>\$ 24,958,578</u>	<u>\$ 25,903,140</u>	<u>\$ 22,669,881</u>	<u>\$ 24,043,294</u>

Note 4 - Program related investment

The Foundation has placed \$100,000 in a student investment fund to provide students in business, finance and economics with an educational opportunity to gain valuable hands-on experience in fiduciary management of investment assets. This investment continues to be an asset of the Foundation and is reported and reviewed by the investment committee. The amount included in cash and cash equivalents at June 30, 2016 and 2015 was \$14,270 and \$5,795, respectively. The amount included in investments at June 30, 2016 and 2015 was \$126,001 and \$142,055, respectively.

Note 5 - Fair value of financial instruments

The framework for measuring fair value provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1) and the lowest priority to unobservable inputs (level 3). The three levels of the fair value hierarchy under FASB ASC 820 are described as follows:

Level 1: Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the Foundation has the ability to access.

Level 2: Inputs to the valuation methodology include:

- quoted prices for similar assets or liabilities in active markets;
- quoted prices for identical or similar assets or liabilities in inactive markets;
- inputs other than quoted prices that are observable for the asset or liability;
- inputs that are derived principally from or corroborated by observable market data by correlation or other means.

If the asset or liability has a specified (contractual) term, the level 2 input must be observable for substantially the full term of the asset or liability.

Level 3: Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

Southern Connecticut State University Foundation, Inc.

**Notes to Financial Statements
June 30, 2016 and 2015**

The asset or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques maximize the use of relevant observable inputs and minimize the use of unobservable inputs.

Following is a description of the valuation methodologies used for assets measured at fair value. There have been no changes in the methodologies used at June 30, 2016 and 2015.

Common stock: Valued at the closing price reported on the active market on which the individual securities are traded.

Common stock - international: Valued at the closing price reported on the active market on which the individual securities are traded.

Mutual fund - common stock: Valued at the closing price reported on the active market on which the individual securities are traded.

Multi-strategy bond fund: Valued based on the net asset value as a practical expedient. Funds may be redeemed at or near the measurement date. Diversification within fixed income investments is based upon the allocation among maturities of different lengths according to interest rate prospects and the goals of the fund. Fixed income instruments reduce the overall volatility of the fund's assets and provide a deflation or inflation hedge, where appropriate. Domestic and international fixed income investments provide a diversified dependable source of current income. The fund seeks to outperform the US bond market. The Barclays Capital United States Aggregate Bond Index is the benchmark for the fund.

Multi-strategy equity fund: Valued based on the net asset value as a practical expedient. Funds may be redeemed at or near the measurement date. The purpose of equity investments, both domestic and international, in the fund is to provide capital appreciation, growth of income, and current income. This asset class carries the assumption of greater market volatility and increased risk of loss, but also provides a traditional approach to meeting portfolio total return goals.

Beneficial interest in trusts: Individual stocks are valued at the closing price reported on the active market on which the individual securities are traded. Funds are valued at the daily closing prices as reported by the funds. Mutual funds held by the Foundation are open-end mutual funds that are registered with the Securities and Exchange Commission. These funds are required to publish their daily net asset value ("NAV") and to transact at that price. The mutual funds held by the Foundation are deemed to be actively traded.

Gift annuities payable: Valued using assumptions about life expectancy and discounted cash flow.

Southern Connecticut State University Foundation, Inc.

**Notes to Financial Statements
June 30, 2016 and 2015**

Fair values of assets and the liability measured on a recurring basis at June 30, 2016 and 2015 are as follows for the Foundation:

	Fair value	Quoted prices in active markets for identical assets/liabilities (level 1)	Significant other observable inputs (level 2)	Significant unobservable inputs (level 3)	Investments valued at NAV (a)
June 30, 2016					
Assets:					
Common stock	\$ 126,001	\$ 126,001	\$ -	\$ -	\$ -
Mutual fund - common stock	865	865	-	-	-
Multi-strategy equity fund	16,394,880	-	-	-	16,394,880
Multi-strategy bond fund	9,381,394	-	-	-	9,381,394
Beneficial interest in trusts	104,493	104,493	-	-	-
	<u>\$ 26,007,633</u>	<u>\$ 231,359</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 25,776,274</u>
Liability:					
Gift annuities payable	<u>\$ 42,659</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 42,659</u>	<u>\$ -</u>

A reconciliation for the liability using significant unobservable inputs is as follows:

Description	Beginning balance	Total gains or losses included in revenues	Purchases	Payments to beneficiaries	Ending balance
Gift annuities payable	<u>\$ 80,860</u>	<u>\$ (28,419)</u>	<u>\$ -</u>	<u>\$ 9,782</u>	<u>\$ 42,659</u>

Changes in unrealized gains and losses relating to assets and the liability still held at year end reported in the change in the value of annuity agreements are \$(28,419).

	Fair value	Quoted prices in active markets for identical assets/liabilities (level 1)	Significant other observable inputs (level 2)	Significant unobservable inputs (level 3)	Investments valued at NAV (a)
June 30, 2015					
Assets:					
Common stock	\$ 131,701	\$ 131,701	\$ -	\$ -	\$ -
Common stock - international	10,354	10,354	-	-	-
Multi-strategy equity fund	15,488,184	-	-	-	15,488,184
Multi-strategy bond fund	8,413,055	-	-	-	8,413,055
Beneficial interest in trusts	109,792	109,792	-	-	-
	<u>\$ 24,153,086</u>	<u>\$ 251,847</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 23,901,239</u>
Liability:					
Gift annuities payable	<u>\$ 80,860</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 80,860</u>	<u>\$ -</u>

- (a) The Foundation has early adopted Accounting Standards Update 2015-07. As a result, in accordance with Subtopic 820-10, certain investments that were 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 line items presented in the statements of financial position.

Southern Connecticut State University Foundation, Inc.

**Notes to Financial Statements
June 30, 2016 and 2015**

A reconciliation for the liability using significant unobservable inputs is as follows:

Description	Beginning balance	Total gains or losses included in revenues	Purchases	Payments to beneficiaries	Ending balance
Gift annuities payable	\$ 86,570	\$ 4,073	\$ -	\$ 9,783	\$ 80,860

Changes in unrealized gains and losses relating to assets still held at year end reported in the change in the value of annuity agreements are \$4,073.

Quantitative information about significant unobservable inputs used in level 3 fair value measurements

The following table represents the Foundation's level 3 financial instruments, the valuation techniques used to measure the fair value of those financial instruments, and the significant unobservable inputs and the ranges of values for those inputs as of June 30, 2016 and 2015:

Instrument	Fair value	Principal valuation technique	Unobservable values inputs	Range of significant input
<u>2016</u>				
Gift annuities	\$ 42,659	Income approach	Life expectancy Discounted cash flow	4-15 years 2.48% - 4.51%
<u>2015</u>				
Gift annuities	\$ 80,860	Income approach	Life expectancy Discounted cash flow	5-17 years 2.48% - 4.51%

Fair value of investments in entities that use NAV

The following table summarizes investments measured at fair value based on NAV per share as of June 30, 2016 and 2015:

June 30, 2016	Fair value	Unfunded commitments	Redemption frequency (if currently eligible)	Redemption notice period
Multi-strategy equity fund	\$ 16,394,880	N/A	Monthly	5 business days prior to month end
Multi-strategy bond fund	\$ 9,381,394	N/A	Monthly	5 business days prior to month end

Southern Connecticut State University Foundation, Inc.

**Notes to Financial Statements
June 30, 2016 and 2015**

June 30, 2015	Fair value	Unfunded commitments	Redemption frequency (if currently eligible)	Redemption notice period
Multi-strategy equity fund	\$ 15,488,184	N/A	Monthly	5 business days prior to month end
Multi-strategy bond fund	\$ 8,413,055	N/A	Monthly	5 business days prior to month end

Note 6 - Pledges receivable - state match

Public Act 97-293, and as amended by Public Acts 98-252 and 01-141, empowered the Board of Trustees of the Connecticut State University System ("CSUS") to establish a permanent Endowment Fund. This fund was established for the benefit of the universities within the CSUS to encourage donations from the private sector through a match in the form of Endowment Fund state grants. Private funds permanently restricted by donors and received by CSUS foundations, of which the Foundation is one, were eligible for 50% state-matching grants commencing on January 1, 1998, through June 30, 2016. On June 23, 2005, during a Special Assembly, the General Assembly adopted new legislation. Effective with calendar year 2005, the matching ratio was changed to 25% state-matching grants. Additionally, going forward, state-matching dollars will only be provided when the State's Rainy Day Fund equals 10% of the general fund appropriation for a given fiscal year. In addition, the legislation caps state payments for the match at \$25 million in any given fiscal year. Due to the uncertainty regarding the timing of state payments, revenue is recorded upon receipt.

The total state-matching grants were calculated based on eligible funds received by the Foundation during the calendar year subject to certifications and other statutory limitations. Payments were subject to fluctuating annual maximum state grant commitments. During the years ended June 30, 2016 and 2015, the Foundation did not receive any state match.

Note 7 - Pledges receivable

Pledges receivable consists of the following:

	2016	2015
Unrestricted	\$ 75,000	\$ -
Temporarily restricted	1,335,400	1,228,150
Permanently restricted	1,200,325	1,384,125
	<u>2,610,725</u>	<u>2,612,275</u>
Less unamortized discount	208,253	306,928
	<u>\$ 2,402,472</u>	<u>\$ 2,305,347</u>

Southern Connecticut State University Foundation, Inc.

**Notes to Financial Statements
June 30, 2016 and 2015**

Gross amounts expected to be collected in:

Less than one year	\$ 584,875
One to five years	1,425,850
Five to nine years	<u>600,000</u>
	<u>\$ 2,610,725</u>

Discount rates used on long-term pledges were 1.01% and 2.35% for the years ended June 30, 2016 and 2015, respectively.

Note 8 - Property and equipment

Property and equipment are summarized by major classifications as follows:

	<u>2016</u>	<u>2015</u>
Software	\$ 169,259	\$ 169,259
Less accumulated depreciation	<u>(169,259)</u>	<u>(169,259)</u>
Net book value of property and equipment	<u>\$ -</u>	<u>\$ -</u>

Note 9 - Charitable gift annuity

The Foundation has established a program under which donors may set up charitable gift annuities. Under this program, donors can contribute assets to the Foundation and in return receive a guaranteed fixed income for life. The Foundation recognizes contribution revenue for the difference between the fair value of the assets received and the annuity liability.

Annuity liabilities are recorded for the required life of annuity payments at the present value of expected future cash payments discounted using discount rates for the 5-year U.S. Treasury rate at the time of the original gift and actuarial assumptions for the life expectancy of the beneficiary. The annuity obligations are adjusted each year for changes in the life expectancy of the beneficiaries and are reduced as payments are made to the donor. The present value of future liability payments of charitable gift annuities was \$42,659 and \$80,860 at June 30, 2016 and 2015, respectively.

Note 10 - Custodial obligation payable

The Foundation is the custodian of grant funds belonging to the Southern Connecticut State University Alumni Association, Inc. (the "Association"). The investments of these grant funds are held in an investment pool. The agreement between the Association and the Foundation provide for payment of a programming grant from the Foundation to the Association in recognition of the value of the Association's programs for alumni in supporting the fundraising efforts of the Foundation.

The amount of the annual grant provides a guaranteed annual base of \$35,000, annually adjusted for inflation with the CPI beginning 2017 and a supplemental amount requested by the Association to be approved by the Foundation's Board. A new agreement was executed on June 30, 2016. As of June 30, 2016 and 2015, this obligation was \$58,200 and \$38,525, respectively, and is classified on the statements of financial position as a liability. The programming grant expense for the years ended June 30, 2016 and 2015 was \$58,200 and \$38,525, respectively.

Southern Connecticut State University Foundation, Inc.

**Notes to Financial Statements
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Note 11 - Board-designated net assets

The balance in board-designated net assets as of June 30, 2016 and 2015 are from contributions. Board-designated net assets are available for the following purposes:

	2016	2015
Scholarships and other financial aid	\$ 348,494	\$ 348,494
Other University programs	485,414	485,414
	\$ 833,908	\$ 833,908

Note 12 - Temporarily restricted net assets

The balance in temporarily restricted net assets as of June 30, 2016 and 2015 are from the following sources:

	2016	2015
Unspent temporarily restricted endowment funds	\$ 4,689,143	\$ 5,740,879
Unspent temporarily non-endowed restricted gifts	5,236,423	4,432,792
	\$ 9,925,566	\$ 10,173,671

Temporarily restricted net assets are available for the following purposes:

	2016	2015
Scholarships and other financial aid	\$ 3,721,380	\$ 3,788,273
Athletic activities	549,621	641,226
Other University programs	5,654,565	5,744,172
	\$ 9,925,566	\$ 10,173,671

Endowment funds consist of donations that were permanently restricted by the donor, the income from which is available to support the activities specified by the donor.

Note 13 - Permanently restricted net assets

At June 30, 2016 and 2015, permanently restricted net assets consist of the following:

	2016	2015
Endowment fund	\$ 16,691,026	\$ 14,425,195
Beneficial interest in trusts	104,493	109,792
	\$ 16,795,519	\$ 14,534,987

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explicit donor stipulations to the contrary. As a result of this interpretation, the Foundation classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Foundation in a manner consistent with the standards of prudence prescribed by UPMIFA. In accordance with UPMIFA, the Foundation considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

- (1) The duration and preservation of the fund
- (2) The purposes of the Foundation and the donor-restricted endowment fund
- (3) General economic conditions
- (4) The possible effect of inflation and deflation
- (5) The expected total return from income and the appreciation of investments
- (6) Other resources of the Foundation
- (7) The investment policies of the Foundation

Investment return objectives, risk parameters and strategies

The Foundation has adopted investment and spending policies, approved by the Board of Directors, for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment funds, while also maintaining the purchasing power of those endowment assets over the long-term. Accordingly, the investment process seeks to achieve an after-cost total real rate of return, including investment income as well as capital appreciation, which exceeds the annual distribution with acceptable levels of risk. Endowment assets are invested in a well-diversified asset mix, which includes equity and debt securities, that is intended to result in a consistent inflation-protected rate of return that has sufficient liquidity to make an annual distribution of 4%, and a 1.25% annual endowment administration fee, while growing the funds if possible. Therefore, the Foundation expects its endowment assets, over time, to produce an average rate of return of approximately 7.25% annually. Actual returns in any given year may vary from this amount. Investment risk is measured in terms of the total endowment fund; investment assets and allocation between asset classes and strategies are managed to not expose the fund to unacceptable levels of risk.

Spending formula

The Foundation has adopted an endowment spending policy to help assure that there is a stable stream of dollars available for scholarships, awards, research or other program support over the long-term.

The Foundation's spending policy calculation for fiscal year ended June 30, 2016 was based on a percentage of the 12 quarters (3 year) average of the market value of the portfolio for the year ended December 31, 2014, prior to the start of the fiscal year. The standard policy percentage is 4% with a resulting effective rate, based on the December 31, 2014 market value of 3.35%.

Due to a decline in investment earnings combined with newly established funds, the fair values of some of the endowments have dropped below their historic gift value. As of June 30, 2016 and 2015, the overall difference between fair value and historic gift value was approximately \$94,940 and \$13,697, respectively. Management believes the economic conditions will improve over the next few years and has decided not to permanently reduce the historic gift value of the endowments.

Southern Connecticut State University Foundation, Inc.

**Notes to Financial Statements
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Note 15 - University donated services

The Foundation received support from the University through the donation of the University's employees' time in effect for the year ended June 30, 2016. The value of these services for the years ended June 30, 2016 and 2015 is \$1,049,124 and \$1,014,075, respectively, and is reflected as income and itemized as donated services (see Note 16). The increase represents a full year salary for the Vice President of Institutional Advancement, other staff member salary increases, and additional duties performed by staff.

Note 16 - Functional expense classifications

The Foundation's functional expense classifications for the years ended June 30, 2016 and 2015 were as follows:

	2016	2015
Program services		
Athletic and University activities	\$ 1,392,188	\$ 816,476
Donated services	229,412	196,695
Scholarships	727,614	711,326
Uncollected program receipts	-	1,400
Equipment	85,991	46,378
Other support	128,324	72,451
Total program services	\$ 2,563,529	\$ 1,844,726

	2016	2015
General and administrative services		
Salaries	\$ 269,405	\$ 105,801
Donated services	80,661	113,686
Rent and overhead	76,999	74,766
Investment fees	74,195	69,498
Partnership agreement - Alumni Association	66,875	38,525
Consultants	34,140	37,953
Audit fees	28,450	30,500
Advertising	27,900	18,000
Office expenses	22,910	21,743
Administration	18,720	17,441
Insurance	4,292	5,497
Board and Director's activities	3,425	7,519
Dues, memberships and subscriptions	2,350	2,736
Travel	1,223	1,006
Total general and administrative services	\$ 711,545	\$ 544,671

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	<u>2016</u>	<u>2015</u>
Fundraising services		
Donated services	<u>\$ 739,051</u>	<u>\$ 703,694</u>

Note 17 - Commitment and contingencies

The Foundation maintains a renewable letter of agreement between the Foundation and the University dated July 1, 2016 and terminating June 30, 2017. This agreement specifies that the Foundation shall maintain an identity separate from that of the University, while working only to serve the interests of the University.

Note 18 - Operating lease

The Organization entered into an operating lease for space which expires in January 2018. Lease expense for the years ended June 30, 2016 and 2015 is \$75,408 and \$73,566 respectively. Future minimum lease payments for the next two years is as follows:

2017	\$ 76,919
2018	38,840

As of January 1, 2016, donations from a private donor are covering the cost of the lease and property insurance for a period of up to three years.

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