

**Southern Connecticut State University  
Foundation, Inc.**

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

**June 30, 2014 and 2013**

**Southern Connecticut State University Foundation, Inc.**

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## Independent Auditor's Report

To the Board of Directors of  
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, 2014 and 2013, 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, 2014 and 2013, 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.

*CohnReznick LLP*

Farmington, Connecticut  
October 9, 2014

**Southern Connecticut State University Foundation, Inc.**

**Statements of Financial Position  
June 30, 2014 and 2013**

	2014	2013
<u>Assets</u>		
Assets:		
Cash and cash equivalents	\$ 719,340	\$ 666,701
Investment securities (Note 3)	22,818,234	18,987,600
Pledges receivable (Note 8)	2,329,139	344,869
Accounts receivable - other	-	92,543
Property and equipment, net (Note 9)	-	1,514
Prepaid expense	-	54,250
Beneficial interest in trusts	111,358	146,835
Collections of works of art (Note 2)	-	-
	\$ 25,978,071	\$ 20,294,312
Total assets		
<u>Liabilities and Net Assets</u>		
Liabilities:		
Accounts payable and accrued expenses	\$ 112,661	\$ 27,693
Gift annuities payable (Note 10)	86,570	85,183
Custodial obligation payable (Note 11)	33,350	39,375
	232,581	152,251
Total liabilities		
Net assets:		
Unrestricted net assets	1,681,835	1,308,755
Board designated - unrestricted net assets	658,908	658,908
Temporarily restricted net assets (Note 12)	9,698,286	6,323,129
Permanently restricted net assets (Note 13)	13,706,461	11,851,269
	25,745,490	20,142,061
Total net assets		
Total liabilities and net assets	\$ 25,978,071	\$ 20,294,312

See Notes to Financial Statements.

**Southern Connecticut State University Foundation, Inc.**

**Statements of Activities and Changes in Net Assets  
Years Ended June 30, 2014 and 2013**

	2014				2013			
	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Support and revenues:								
Support:								
Contributions	\$ 187,524	\$ 1,913,540	\$ 1,863,669	\$ 3,964,733	\$ 214,788	\$ 1,357,361	\$ 540,869	\$ 2,113,018
University donated services (Note 15)	822,151	-	-	822,151	586,036	-	-	586,036
Net assets released from restrictions	1,626,905	(1,626,905)	-	-	1,267,717	(1,267,717)	-	-
<b>Total support</b>	<b>2,636,580</b>	<b>286,635</b>	<b>1,863,669</b>	<b>4,786,884</b>	<b>2,068,541</b>	<b>89,644</b>	<b>540,869</b>	<b>2,699,054</b>
Revenues:								
Interest and dividend income	84,678	369,974	-	454,652	88,468	383,535	-	472,003
Administrative fee income (expense)	222,440	(222,440)	-	-	178,971	(178,971)	-	-
Gift fee income (expense)	42,503	(42,503)	-	-	46,626	(46,626)	-	-
Net realized and unrealized gains on investment securities	245,343	3,010,491	-	3,255,834	108,804	1,832,962	-	1,941,766
Net realized loss on sale of property and equipment	-	-	-	-	(16,495)	-	-	(16,495)
Change in value of annuity agreements	(11,169)	-	-	(11,169)	705	-	-	705
Change in value of perpetual trusts	-	-	(35,477)	(35,477)	-	-	9,866	9,866
<b>Total revenues</b>	<b>583,795</b>	<b>3,115,522</b>	<b>(35,477)</b>	<b>3,663,840</b>	<b>407,079</b>	<b>1,990,900</b>	<b>9,866</b>	<b>2,407,845</b>
<b>Total support and revenues</b>	<b>3,220,375</b>	<b>3,402,157</b>	<b>1,828,192</b>	<b>8,450,724</b>	<b>2,475,620</b>	<b>2,080,544</b>	<b>550,735</b>	<b>5,106,899</b>
Expenses:								
Program services (Note 16)	1,816,402	-	-	1,816,402	1,388,215	-	-	1,388,215
General and administrative services (Note 16)	562,267	-	-	562,267	462,472	-	-	462,472
Fundraising services (Note 16)	468,626	-	-	468,626	334,040	-	-	334,040
<b>Total expenses</b>	<b>2,847,295</b>	<b>-</b>	<b>-</b>	<b>2,847,295</b>	<b>2,184,727</b>	<b>-</b>	<b>-</b>	<b>2,184,727</b>
Changes in net assets	373,080	3,402,157	1,828,192	5,603,429	290,893	2,080,544	550,735	2,922,172
Net assets, beginning of year	1,967,663	6,323,129	11,851,269	20,142,061	1,720,960	4,198,395	11,300,534	17,219,889
Interfund transfers	-	(27,000)	27,000	-	(44,190)	44,190	-	-
<b>Net assets, end of year</b>	<b>\$ 2,340,743</b>	<b>\$ 9,698,286</b>	<b>\$ 13,706,461</b>	<b>\$ 25,745,490</b>	<b>\$ 1,967,663</b>	<b>\$ 6,323,129</b>	<b>\$ 11,851,269</b>	<b>\$ 20,142,061</b>

See Notes to Financial Statements.

**Southern Connecticut State University Foundation, Inc.**

**Statements of Cash Flows  
Years Ended June 30, 2014 and 2013**

	2014	2013
Operating activities:		
Changes in net assets	\$ 5,603,429	\$ 2,922,172
Adjustments to reconcile changes in net assets to net cash provided by (used in) operating activities:		
Depreciation	1,514	27,521
Contributions restricted for long-term purposes	(1,863,669)	(540,869)
Unrealized gains on investment securities	(894,531)	(1,711,146)
Realized gain on investment securities	(2,361,303)	(230,620)
Realized loss on transfer of equipment	-	16,495
Changes in operating assets and liabilities:		
Pledges receivable	(1,984,270)	(85,686)
Accounts receivable - other	92,543	(92,543)
Prepaid expense	54,250	(54,250)
Beneficial interest in trusts	35,477	(9,866)
Accounts payable and accrued expenses	84,968	(33,256)
Gift annuities payable	1,387	(363)
Custodial obligation payable	(6,025)	25
Other liabilities	-	(62,000)
Net cash provided by (used in) operating activities	(1,236,230)	145,614
Investing activities:		
Purchase of investment securities	(22,071,845)	(933,663)
Proceeds from sale of investment securities	21,497,045	261,294
Net cash used in investing activities	(574,800)	(672,369)
Financing activities:		
Proceeds from contributions restricted for investment in permanent endowment	1,863,669	540,869
Net increase in cash and cash equivalents	52,639	14,114
Cash and cash equivalents, beginning of year	666,701	652,587
Cash and cash equivalents, end of year	\$ 719,340	\$ 666,701

See Notes to Financial Statements.

**Southern Connecticut State University Foundation, Inc.**

**Notes to Financial Statements  
June 30, 2014 and 2013**

**Note 1 - Organization**

Southern Connecticut State University Foundation, Inc. (the "Foundation") exists to assist Southern Connecticut State University (the "University"), a not-for-profit, 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 any or all of 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.



## **Southern Connecticut State University Foundation, Inc.**

### **Notes to Financial Statements June 30, 2014 and 2013**

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.

#### **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. At June 30, 2014 and 2013, the Foundation's uninsured cash balances totaled \$452,885 and \$399,709, respectively.

#### **Fair values of financial instruments**

Investments are recorded at fair value (see Notes 3 and 6). 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.

## **Southern Connecticut State University Foundation, Inc.**

### **Notes to Financial Statements June 30, 2014 and 2013**

#### **Interest in perpetual trust**

The Foundation is one of several income beneficiaries of two trusts. The Foundation regularly receives income distributions from the trusts, the amounts of which are recorded as investment income from perpetual trusts in the statements of activities and changes in net assets. Income received during the years ended June 30, 2014 and 2013 with respect to the trusts was \$14,099 and \$8,758, respectively, and has been classified as temporarily restricted. The principal for the Sage Trust is controlled by bank trustees independent of the Foundation. The Pauline P. Schwartz trust was liquidated in March 2014 which resulted in a contribution of \$25,177. This contribution along with value of the beneficial interest in trust established the permanently restricted Pauline P. Schwartz Endowed Scholarship for \$63,461.

#### **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.

#### **Non-cash donations**

Donations other than cash (securities) are recorded as support 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.

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.

## **Southern Connecticut State University Foundation, Inc.**

### **Notes to Financial Statements June 30, 2014 and 2013**

#### **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, 2014 or 2013. The Foundation's Federal and state income tax returns prior to fiscal year 2010 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, 2014 and 2013.

#### **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, 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 October 9, 2014, which is the date the financial statements were approved and available for issuance.

#### **Note 3 - Investments**

The cost and fair value of investments as of June 30, 2014 and 2013 are as follows:

**Southern Connecticut State University Foundation, Inc.**

**Notes to Financial Statements  
June 30, 2014 and 2013**

	2014		2013	
	<u>Cost</u>	<u>Fair Value</u>	<u>Cost</u>	<u>Fair Value</u>
Investments:				
Common stock	\$ 109,075	\$ 115,172	\$ 57,801	\$ 60,642
Common stock - international	5,681	5,727	6,455	6,168
Publicly traded partnership	2,526	2,693	6,436	6,427
Multi-strategy bond fund	7,890,914	7,989,702	-	-
Multi-strategy equity fund	13,914,061	14,704,940	-	-
Index fund	-	-	22,369	21,621
Fixed income - preferred	-	-	6,554	6,205
High quality bond fund	-	-	6,151,138	6,563,868
Small cap fund	-	-	695,045	899,000
International equity fund	-	-	1,886,879	1,687,190
Core equity fund	-	-	8,030,543	9,736,479
	<u>\$ 21,922,257</u>	<u>\$ 22,818,234</u>	<u>\$ 16,863,220</u>	<u>\$ 18,987,600</u>

**Note 4 - Other investments**

The Foundation receives various contributions of interests in limited partnerships. Fairmont Heights Associates Limited Partnership property was sold during the year and the Foundation received \$21,197 which was recorded as other income.

**Note 5 - Program related investment**

The Foundation has provided \$100,000 to 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, 2014 and 2013 was \$16,455 and \$16,992, respectively. The amount included in investments at June 30, 2014 and 2013 was \$123,592 and \$101,063, respectively.

**Note 6 - 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.

**Southern Connecticut State University Foundation, Inc.**

**Notes to Financial Statements  
June 30, 2014 and 2013**

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.

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, 2014 and 2013.

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.

Publicly traded partnerships: Valued at the closing price reported on the active market on which the partnerships are traded.

Multi-strategy equity fund: The multi-strategy equity mutual fund's valuation is based on the net asset value as a practical expedient. Funds may be redeemed at or near the measurement date and, therefore, are classified as level 2 investments. 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.

## Southern Connecticut State University Foundation, Inc.

### Notes to Financial Statements June 30, 2014 and 2013

Multi-strategy bond fund: The multi-strategy bond mutual fund's valuation is based on the net asset value as a practical expedient. Funds may be redeemed at or near the measurement date and, therefore, are classified as level 2 investments. 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.

Index fund: Valued at the daily closing price as reported by the fund. 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.

Fixed income - preferred: Valued at the closing price reported on the active market on which the individual securities are traded.

High quality bond fund: Valued based on the net asset value as the practical expedient. The fund's investment strategy is to outperform the Barclays Capital U.S. Aggregate Bond Index and tries to outperform the index over a full market cycle while reducing risk through diversification of manager allocations.

Small cap fund: Valued based on the net asset value as the practical expedient. The investment strategy is to outperform the Russell 2000 Index and the fund tries to outperform the index over a full market cycle while reducing risk through diversification of manager allocations.

International equity fund: Valued based on the net asset value as the practical expedient. This fund strives to outperform the Morgan Stanley Capital International (MSCI) EAFX index and tries to outperform the index over a full market cycle while reducing risk through diversification of manager allocations.

Core equity fund: Valued based on the net asset value as the practical expedient. The fund looks to outperform the S&P 500 index and tries to outperform the index over a full market cycle while reducing risk through diversification of manager allocations.

Beneficial interests 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.

**Southern Connecticut State University Foundation, Inc.**

**Notes to Financial Statements  
June 30, 2014 and 2013**

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

Fair values of assets and liabilities measured on a recurring basis at June 30, 2014 and 2013 are as follows for the Foundation:

	Fair Value	Quoted Prices In Active Markets for Identical Assets/ (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
June 30, 2014				
Assets:				
Common stock	\$ 115,172	\$ 115,172	\$ -	\$ -
Common stock - international	5,727	5,727	-	-
Publicly traded partnership	2,693	2,693	-	-
Multi-strategy equity fund	14,704,940	-	14,704,940	-
Multi-strategy bond fund	7,989,702	-	7,989,702	-
Beneficial interest in trusts	111,358	111,358	-	-
	<u>\$ 22,929,592</u>	<u>\$ 234,950</u>	<u>\$ 22,694,642</u>	<u>\$ -</u>
Liability:				
Gift annuities payable	<u>\$ 86,570</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 86,570</u>

A reconciliation for assets using significant unobservable inputs is as follows:

Fair Value Measurements Using Significant Unobservable Inputs (Level 3)

Description	Beginning Balance	Total Gains or Losses Included in Revenues	Purchases	Payments to Beneficiaries	Ending Balance
Gift annuities payable	<u>\$ 85,183</u>	<u>\$ 11,170</u>	<u>\$ -</u>	<u>\$ 9,783</u>	<u>\$ 86,570</u>

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 \$11,170.

**Southern Connecticut State University Foundation, Inc.**

**Notes to Financial Statements  
June 30, 2014 and 2013**

Fair Value Measurements at Reporting Date Using

	Fair Value	Quoted Prices In Active Markets for Identical Assets/ Liabilities (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
June 30, 2013				
Assets:				
Common stock	\$ 60,642	\$ 60,642	\$ -	\$ -
Common stock - international	6,168	6,168	-	-
Index fund	21,621	21,621	-	-
Closed end bond mutual funds			-	-
Fixed income - preferred	6,205	6,205	-	-
Publicly traded partnerships	6,427	6,427	-	-
High quality bond fund	6,563,868	-	6,563,868	-
Small cap fund	899,000	-	899,000	-
International equity fund	1,687,190	-	1,687,190	-
Core equity fund	9,736,479	-	9,736,479	-
Beneficial interest in trusts	146,835	146,835	-	-
	<u>\$ 19,134,435</u>	<u>\$ 247,898</u>	<u>\$ 18,886,537</u>	<u>\$ -</u>
Liability:				
Gift annuities payable	<u>\$ 85,183</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 85,183</u>

A reconciliation for assets using significant unobservable inputs is as follows:

Fair Value Measurements Using Significant Unobservable Inputs (Level 3)

Description	Beginning Balance	Total Gains or Losses Included in Revenues	Purchases	Payments to Beneficiaries	Ending Balance
Gift annuities payable	<u>\$ 85,546</u>	<u>\$ 9,299</u>	<u>\$ -</u>	<u>\$ 9,662</u>	<u>\$ 85,183</u>

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 \$9,299.



**Southern Connecticut State University Foundation, Inc.**

**Notes to Financial Statements  
June 30, 2014 and 2013**

**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, 2014 and 2013, respectively.

<u>Instrument</u>	<u>Fair Value</u>	<u>Principal Valuation Technique</u>	<u>Unobservable Inputs</u>	<u>Range of Significant Input Values</u>
<u>2014</u>				
Gift annuity	\$ 86,570	Income approach	Life expectancy Discounted cash flow	5-17 years 2.48% - 4.51%
<u>2013</u>				
Gift annuity	\$ 85,183	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, 2014 and 2013, respectively.

<u>June 30, 2014</u>	<u>Fair Value</u>	<u>Unfunded Commitments</u>	<u>Redemption Frequency (if currently eligible)</u>	<u>Redemption Notice Period</u>
Multi-strategy equity fund	\$14,704,940	N/A	Monthly	5 business days prior to month end
Multi-strategy bond fund	7,989,702	N/A	Monthly	5 business days prior to month end

**Southern Connecticut State University Foundation, Inc.**

**Notes to Financial Statements  
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<u>June 30, 2013</u>	<u>Fair Value</u>	<u>Unfunded Commitments</u>	<u>Redemption Frequency (if currently eligible)</u>	<u>Redemption Notice Period</u>
High quality bond fund	\$ 6,563,868	N/A	Weekly	5 business days prior to month end
Small cap fund	899,000	N/A	Monthly	5 business days prior to month end
International equity fund	1,687,190	N/A	Monthly	5 business days prior to month end
Core equity fund	9,736,479	N/A	Weekly	5 business days prior to month end

**Note 7 - 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, 2014. 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, 2014 and 2013, the Foundation did not receive any state match.

**Southern Connecticut State University Foundation, Inc.**

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**Note 8 - Pledges receivable**

Pledges receivable - other consists of the following:

	2014	2013
Temporarily restricted	\$ 1,254,350	\$ 356,850
Permanently restricted	<u>1,396,750</u>	<u>750</u>
	2,651,100	357,600
Less unamortized discount	<u>321,961</u>	<u>12,731</u>
	<u><u>\$ 2,329,139</u></u>	<u><u>\$ 344,869</u></u>

Gross amounts expected to be collected in:

Less than one year	\$ 187,600
One to five years	1,563,500
Five to nine years	<u>900,000</u>
	<u><u>\$ 2,651,000</u></u>

Discount rates used on long-term pledges were 2.53% and 2.52% for the years ended June 30, 2014 and 2013, respectively.

**Note 9 - Property and equipment**

Property and equipment are summarized by major classifications as follows:

	2014	2013
Software	\$ 169,259	\$ 169,259
Less accumulated depreciation	<u>(169,259)</u>	<u>(167,745)</u>
Net book value of property and equipment	<u><u>\$ -</u></u>	<u><u>\$ 1,514</u></u>

**Note 10 - 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.

**Southern Connecticut State University Foundation, Inc.**

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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 10-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 \$86,570 and \$85,183 at June 30, 2014 and 2013, respectively.

**Note 11 - Custodial obligation payable**

The Foundation is custodian of grant funds belonging to the Southern Connecticut State University Alumni Association, Inc. (the "Association"). The investments of these are held in fixed income securities. 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 is equal to the first \$25 of each unrestricted gift of \$25 or above received from alumni in the previous year. As of June 30, 2014 and 2013, this obligation was \$33,350 and \$39,375, respectively, and is classified on the statements of financial position as a liability. The programming grant expense for the years ended June 30, 2014 and 2013 was \$33,350 and \$39,375, respectively.

**Note 12 - Temporarily restricted net assets**

The balance in temporarily restricted net assets as of June 30, 2014 and 2013 are from the following sources:

	<u>2014</u>	<u>2013</u>
Unspent investment earnings on endowment funds, net of fees	\$ 3,314,608	\$ 1,944,076
Unspent gifts for expendable purposes	<u>6,383,678</u>	<u>4,379,053</u>
	<u>\$ 9,698,286</u>	<u>\$ 6,323,129</u>

**Southern Connecticut State University Foundation, Inc.**

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Temporarily restricted net assets are available for the following purposes:

	2014	2013
Scholarships and other financial aid	\$ 3,761,337	\$ 1,691,180
Athletic activities	677,533	738,338
Other University programs	5,259,416	3,893,611
	\$ 9,698,286	\$ 6,323,129

**Note 13 - Permanently restricted net assets**

At June 30, 2014 and 2013, permanently restricted net assets consist of the following:

	2014	2013
Endowment fund	\$ 13,595,103	\$ 11,704,434
Beneficial interest in trusts	111,358	146,835
	\$ 13,706,461	\$ 11,851,269

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 14 - Endowment**

The required disclosures are as follows:

	2014			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment Net Asset Composition:				
Donor-restricted endowment funds	\$ -	\$ 5,660,510	\$ 13,595,103	\$ 19,255,613
Board-designated endowment funds	658,908	-	-	658,908
	\$ 658,908	\$ 5,660,510	\$ 13,595,103	\$ 19,914,521
Change in Endowment Net Assets:				
Endowment net assets, July 1, 2013	\$ 658,908	\$ 3,047,668	\$ 11,704,434	\$ 15,411,010
Investment return:				
Investment income	-	355,382	-	355,382
Net appreciation	-	2,897,604	-	2,897,604
Contributions	-	32,972	1,863,669	1,896,641
Interfund transfers	-	-	27,000	27,000
Appropriation of endowment assets for expenditure	-	(673,116)	-	(673,116)
Endowment net assets, June 30, 2014	\$ 658,908	\$ 5,660,510	\$ 13,595,103	\$ 19,914,521

**Southern Connecticut State University Foundation, Inc.**

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	<u>2013</u>			
	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment Net Asset Composition:				
Donor-restricted endowment funds	\$ -	\$ 3,047,668	\$ 11,704,434	\$ 14,752,102
Board-designated endowment funds	658,908	-	-	658,908
	<u>\$ 658,908</u>	<u>\$ 3,047,668</u>	<u>\$ 11,704,434</u>	<u>\$ 15,411,010</u>
Change in Endowment Net Assets:				
Endowment net assets, July 1, 2012	\$ 658,908	\$ 1,832,227	\$ 11,163,565	\$ 13,654,700
Investment return:				
Investment income	-	371,044	-	371,044
Net appreciation	-	1,775,510	-	1,775,510
Contributions	-	26,872	540,869	567,741
Interfund transfers	-	43,242	-	43,242
Appropriation of endowment assets for expenditure	-	(1,001,227)	-	(1,001,227)
Endowment net assets, June 30, 2013	<u>\$ 658,908</u>	<u>\$ 3,047,668</u>	<u>\$ 11,704,434</u>	<u>\$ 15,411,010</u>

The Foundation's endowment includes funds designated by the Board of Directors to function as endowments. As required by FASB ASC 958-205, 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.

**Interpretation of relevant law**

The Board of Directors of the Foundation have interpreted the 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. 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:

## **Southern Connecticut State University Foundation, Inc.**

### **Notes to Financial Statements June 30, 2014 and 2013**

- (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 8% 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, 2014 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, 2012, prior to the start of the fiscal year. The standard policy percentage is 4% with a resulting effective rate, based on the December 31, 2012, market value of 3.64%.

Due to the decline in economic conditions, the fair values of some of the endowments have dropped below their historic gift value. As of June 30, 2014 and 2013, the overall difference between fair value and historic gift value was approximately \$2,000 and \$7,345, 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.**

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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, 2014. The value of these services for the years ended June 30, 2014 and 2013 is \$822,151 and \$586,036, respectively, and is reflected as income and itemized as donated services (see Note 16). The increase represents the addition of a new Vice President of Institutional Advancement and other staff members.

**Note 16 - Functional expense classifications**

The Foundation's functional expense classifications for the years ended June 30, 2014 and 2013 were as follows:

	2014	2013
Program services:		
Athletic and University activities	\$ 993,289	\$ 756,686
Donated services	180,873	128,928
Scholarships	598,548	465,589
Uncollected program receipts	-	1,100
Other support	43,692	35,912
Total program services	\$ 1,816,402	\$ 1,388,215
	2014	2013
General and administrative services:		
Donated services	\$ 172,652	\$ 123,068
Salaries	91,025	67,104
Investment fees	67,824	56,708
Rent and overhead	43,900	1,200
Consultants	43,200	58,240
Office expenses	36,082	19,909
Partnership agreement - Alumni Association	33,350	39,375
Professional fees	29,500	28,600
Administration	18,488	16,640
Board and director's activities	8,576	7,919
Insurance	6,381	4,947
Travel	5,205	4,231
Dues, memberships and subscriptions	4,570	3,368
Depreciation	1,514	27,521
Legal	-	3,642
Total general and administrative services	\$ 562,267	\$ 462,472



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	<u>2014</u>	<u>2013</u>
Fundraising services:		
Donated services	<u>\$ 468,626</u>	<u>\$ 334,040</u>

**Note 17 - Commitment and contingencies**

The Foundation maintains a renewable annual letter of agreement between the Foundation and the University dated July 1, 2014 and terminating June 30, 2015. 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 leases**

The Organization entered into an operating lease for space during 2014 which expires in January 2015. Lease expense for the year ended June 30, 2014 is \$42,700. Minimum future rental payments in total for the next 12 months is \$36,600.