

**Southern Connecticut State University  
Foundation Inc.**

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

**June 30, 2017 and 2016**

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**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, 2017 and 2016, 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, 2017 and 2016, 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  
October 10, 2017

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

**Statements of Financial Position  
June 30, 2017 and 2016**

	2017	2016
<u>Assets</u>		
Assets		
Cash and cash equivalents	\$ 1,532,013	\$ 1,282,276
Investment securities (Note 3)	29,896,567	25,903,140
Promises to give (Note 7)	1,869,891	2,402,472
Prepaid expense	9,458	-
Beneficial interest in trusts	109,167	104,493
Collections of works of art (Note 2)	-	-
	<u>\$ 33,417,096</u>	<u>\$ 29,692,381</u>
<u>Liabilities and Net Assets</u>		
Liabilities		
Accounts payable and accrued expenses	\$ 128,714	\$ 173,077
Gift annuities payable (Note 9)	35,044	42,659
Custodial obligation payable (Note 10)	60,473	58,200
	<u>224,231</u>	<u>273,936</u>
Net assets		
Unrestricted net assets	1,789,728	1,863,452
Board designated - unrestricted net assets (Note 11)	963,671	833,908
Temporarily restricted net assets (Note 12)	12,406,366	9,925,566
Permanently restricted net assets (Note 13)	18,033,100	16,795,519
	<u>33,192,865</u>	<u>29,418,445</u>
Total net assets	<u>33,192,865</u>	<u>29,418,445</u>
Total liabilities and net assets	<u>\$ 33,417,096</u>	<u>\$ 29,692,381</u>

See Notes to Financial Statements.

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

**Statements of Activities and Changes in Net Assets  
Years Ended June 30, 2017 and 2016**

	2017				2016			
	Unrestricted	Temporarily restricted	Permanently restricted	Total	Unrestricted	Temporarily restricted	Permanently restricted	Total
Support and revenues								
Support								
Contributions	\$ 363,856	\$ 1,612,805	\$ 1,222,692	\$ 3,199,353	\$ 276,636	\$ 2,388,437	\$ 2,203,831	\$ 4,868,904
University donated services (Note 15)	1,002,745	-	-	1,002,745	1,049,124	-	-	1,049,124
Gifts in kind	24,360	-	-	24,360	123,796	-	-	123,796
Net assets released from restrictions	1,994,202	(1,994,202)	-	-	2,145,468	(2,145,468)	-	-
Total support	<u>3,385,163</u>	<u>(381,397)</u>	<u>1,222,692</u>	<u>4,226,458</u>	<u>3,595,024</u>	<u>242,969</u>	<u>2,203,831</u>	<u>6,041,824</u>
Revenues								
Interest and dividend income	92,233	386,367	-	478,600	94,106	406,297	-	500,403
Administrative fee income (expense)	236,665	(236,665)	-	-	271,653	(271,653)	-	-
Gift fee income (expense)	104,752	(104,752)	-	-	121,909	(121,909)	-	-
Net realized and unrealized gains (losses) on investment securities	136,614	2,827,462	-	2,964,076	(1,098)	(441,809)	-	(442,907)
Change in value of annuity agreements	(2,167)	-	-	(2,167)	28,418	-	-	28,418
Change in value of perpetual trust	-	-	4,674	4,674	-	-	(5,299)	(5,299)
Total revenues	<u>568,097</u>	<u>2,872,412</u>	<u>4,674</u>	<u>3,445,183</u>	<u>514,988</u>	<u>(429,074)</u>	<u>(5,299)</u>	<u>80,615</u>
Total support and revenues	<u>3,953,260</u>	<u>2,491,015</u>	<u>1,227,366</u>	<u>7,671,641</u>	<u>4,110,012</u>	<u>(186,105)</u>	<u>2,198,532</u>	<u>6,122,439</u>
Expenses								
Program services (Note 16)	2,494,304	-	-	2,494,304	2,563,529	-	-	2,563,529
General and administrative services (Note 16)	701,057	-	-	701,057	711,545	-	-	711,545
Fundraising services (Note 16)	701,860	-	-	701,860	739,051	-	-	739,051
Total expenses	<u>3,897,221</u>	<u>-</u>	<u>-</u>	<u>3,897,221</u>	<u>4,014,125</u>	<u>-</u>	<u>-</u>	<u>4,014,125</u>
Changes in net assets	56,039	2,491,015	1,227,366	3,774,420	95,887	(186,105)	2,198,532	2,108,314
Net assets, beginning	2,697,360	9,925,566	16,795,519	29,418,445	2,601,473	10,173,671	14,534,987	27,310,131
Interfund transfers	-	(10,215)	10,215	-	-	(62,000)	62,000	-
Net assets, end	<u>\$ 2,753,399</u>	<u>\$ 12,406,366</u>	<u>\$ 18,033,100</u>	<u>\$ 33,192,865</u>	<u>\$ 2,697,360</u>	<u>\$ 9,925,566</u>	<u>\$ 16,795,519</u>	<u>\$ 29,418,445</u>

See Notes to Financial Statements.

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

**Statements of Cash Flows  
Years Ended June 30, 2017 and 2016**

	2017	2016
Cash flows from operating activities		
Changes in net assets	\$ 3,774,420	\$ 2,108,314
Adjustments to reconcile changes in net assets to net cash provided by operating activities		
Contributions restricted for long-term purposes	(1,222,692)	(2,203,831)
Unrealized (gains) losses on investment securities	(2,947,558)	426,770
Realized (gains) losses on investment securities	(16,518)	16,137
Beneficial interest in trusts	(4,674)	5,299
Payments on gift annuities	(9,782)	(9,782)
Changes in operating assets and liabilities		
Promises to give	532,581	(97,125)
Prepaid expense	(9,458)	102,038
Accounts payable and accrued expenses	(44,363)	129,685
Gift annuities payable	2,167	(28,419)
Custodial obligation payable	2,273	19,675
	56,396	468,761
Net cash provided by operating activities		
Cash flows from investing activities		
Purchase of investment securities	(1,286,363)	(2,505,374)
Proceeds from sale of investment securities	257,012	202,621
	(1,029,351)	(2,302,753)
Net cash used in investing activities		
Cash flows from financing activities		
Proceeds from contributions restricted for investment in permanent endowment	1,222,692	2,203,831
	249,737	369,839
Net increase in cash and cash equivalents		
Cash and cash equivalents, beginning	1,282,276	912,437
Cash and cash equivalents, end	\$ 1,532,013	\$ 1,282,276
Supplemental disclosures of cash flow information		
Donations of gifts in kind	\$ 24,360	\$ 123,796

See Notes to Financial Statements.

## Southern Connecticut State University Foundation, Inc.

### Notes to Financial Statements June 30, 2017 and 2016

#### 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, 2017 and 2016

#### **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, 2017 and 2016 with respect to the trust was \$5,200 and \$4,000, 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, 2017 and 2016

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, 2017 or 2016. The Foundation's federal and state income tax returns prior to fiscal year 2013 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, 2017 and 2016.

#### 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 October 10, 2017, 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, 2017 and 2016 are as follows

	2017		2016	
	Cost	Fair value	Cost	Fair value
Investments				
Common stock	\$ 140,779	\$ 153,034	\$ 116,650	\$ 126,001
Mutual fund - common stock	914	1,095	914	865
Multi-strategy bond fund	9,757,366	9,723,963	9,296,887	9,381,394
Multi-strategy equity fund	16,112,435	20,018,475	15,544,127	16,394,880
	<u>\$ 26,011,494</u>	<u>\$ 29,896,567</u>	<u>\$ 24,958,578</u>	<u>\$ 25,903,140</u>

## Southern Connecticut State University Foundation, Inc.

### Notes to Financial Statements June 30, 2017 and 2016

#### 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, 2017 and 2016 was \$7,319 and \$14,270, respectively. The amount included in investments at June 30, 2017 and 2016 was \$153,034 and \$126,001, 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; and
- 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, 2017 and 2016.

Common stock: 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

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

**Notes to Financial Statements  
June 30, 2017 and 2016**

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: Valued using the fair values of the underlying assets of the trust. The trust is made up of individual stocks that are valued at the closing price reported on the active market on which the individual securities are traded and mutual funds that are valued at the daily closing prices as reported by the funds.

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

Fair values of assets and the liability measured on a recurring basis at June 30, 2017 and 2016 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, 2017					
Assets:					
Common stock	\$ 153,034	\$ 153,034	\$ -	\$ -	\$ -
Mutual fund - common stock	1,095	1,095	-	-	-
Multi-strategy equity fund	20,018,475	-	-	-	20,018,475
Multi-strategy bond fund	9,723,963	-	-	-	9,723,963
Beneficial interest in trusts	109,167	-	-	109,167	-
	<u>\$ 30,005,734</u>	<u>\$ 154,129</u>	<u>\$ -</u>	<u>\$ 109,167</u>	<u>\$ 29,742,438</u>
Liability:					
Gift annuities payable	\$ 35,044	\$ -	\$ -	\$ 35,044	\$ -

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

Description	Beginning balance	Total gains or losses included in revenues	Purchases	Payments to beneficiaries	Ending balance
Beneficial interest in trusts	\$ 104,493	\$ 9,874	\$ -	\$ 5,200	\$ 109,167
Gift annuities payable	42,659	2,167	-	9,782	35,044

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

**Notes to Financial Statements  
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Changes in unrealized gains and losses relating to the asset still held at year end reported in the change in the value of beneficial interest in trust are \$9,874. Changes in unrealized gains and losses relating to the liability still held at year end reported in the change in the value of annuity agreements are \$2,167.

	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>\$ 126,866</u>	<u>\$ -</u>	<u>\$ 104,493</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) The Foundation has early adopted Accounting Standards Update 2016-07. As a result, in accordance with Subtopic 820-10, certain investments that were measured at NAV 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.

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

Description	Beginning balance	Total gains or losses included in revenues	Purchases	Payments to beneficiaries	Ending balance
Beneficial interest in trusts	\$ 109,792	\$ (1,299)	\$ -	\$ 4,000	\$ 104,493
Gift annuities payable	80,860	(28,419)	-	9,782	42,659

Changes in unrealized gains and losses relating to assets still held at year end reported in the change in the value of beneficial interest in trust are \$(1,299). Changes in unrealized gains and losses relating to the liability still held at year end reported in the change in the value of annuity agreements are \$(28,419).

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

The following tables represent 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, 2017 and 2016:

Instrument	Fair value	Principal valuation technique	Unobservable values inputs	Range of significant input
<u>2017</u>				
Beneficial interest in trusts	\$ 109,167	The Foundation's fair value of the trust assets	N/A	20% beneficial interest
Gift annuities	35,044	Income approach	Life expectancy Discounted cash flow	4-15 years 2.48% - 4.51%
<u>2016</u>				
Beneficial interest in trusts	\$ 104,493	The Foundation's fair value of the trust assets	N/A	20% beneficial interest
Gift annuities	42,659	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 tables summarize investments measured at fair value based on NAV per share as of June 30, 2017 and 2016:

June 30, 2017	Fair value	Unfunded commitments	Redemption frequency (if currently eligible)	Redemption notice period
Multi-strategy equity fund	\$ 20,018,475	N/A	Monthly	5 business days prior to month end
Multi-strategy bond fund	\$ 9,723,963	N/A	Monthly	5 business days prior to month end
<u>June 30, 2016</u>				
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.**

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**Note 6 - Promises to give - 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, 2005. 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, 2017 and 2016, the Foundation did not receive any state match.

**Note 7 - Promises to give**

Pledges receivable consists of the following:

Pledge Receivable

	2017	2016
Unrestricted	\$ 25,000	\$ 75,000
Temporarily restricted	998,200	1,335,400
Permanently restricted	1,003,058	1,200,325
	2,026,258	2,610,725
Less unamortized discount	156,367	208,253
	<b>\$ 1,869,891</b>	<b>\$ 2,402,472</b>

Gross amounts expected to be collected in:

Less than one year	\$ 481,758
One to five years	1,244,500
Five to nine years	300,000
	<b>\$ 2,026,258</b>

Discount rates used on long-term pledges were 1.89% and 1.01% for the years ended June 30, 2017 and 2016, respectively.

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

**Notes to Financial Statements  
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**Note 8 - Property and equipment**

Property and equipment are summarized by major classifications as follows:

	<u>2017</u>	<u>2016</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 \$35,044 and \$42,659 at June 30, 2017 and 2016, 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, 2017 and 2016, this obligation was \$60,473 and \$58,200, respectively, and is classified on the statements of financial position as a liability. The programming grant expense for the years ended June 30, 2017 and 2016 was \$60,473 and \$58,200, 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, 2017 and 2016 are from contributions. Board-designated net assets are available for the following purposes:

	2017	2016
Scholarships and other financial aid	\$ 348,494	\$ 348,494
Other University programs	615,177	485,414
	\$ 963,671	\$ 833,908

**Note 12 - Temporarily restricted net assets**

The balance in temporarily restricted net assets as of June 30, 2017 and 2016 are from the following sources:

	2017	2016
Unspent temporarily restricted endowment funds	\$ 6,891,704	\$ 4,689,143
Unspent temporarily non-endowed restricted gifts	5,514,662	5,236,423
	\$ 12,406,366	\$ 9,925,566

Temporarily restricted net assets are available for the following purposes:

	2017	2016
Scholarships and other financial aid	\$ 5,360,993	\$ 3,721,380
Athletic activities	469,358	549,621
Other University programs	6,576,015	5,654,565
	\$ 12,406,366	\$ 9,925,566

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, 2017 and 2016, permanently restricted net assets consist of the following:

	2017	2016
Endowment fund	\$ 17,923,933	\$ 16,691,026
Beneficial interest in trust	109,167	104,493
	\$ 18,033,100	\$ 16,795,519



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

**Notes to Financial Statements  
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**Note 14 - Endowment**

The required disclosures are as follows:

	<u>2017</u>			
	<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Permanently restricted</u>	<u>Total</u>
Endowment net asset composition				
Donor-restricted endowment funds	\$ -	\$ 6,891,704	\$ 17,923,933	\$ 24,815,637
Board-designated endowment funds	963,671	-	-	963,671
	<u>\$ 963,671</u>	<u>\$ 6,891,704</u>	<u>\$ 17,923,933</u>	<u>\$ 25,779,308</u>
Change in endowment net assets				
Endowment net assets, July 1, 2016	\$ 833,908	\$ 4,689,143	\$ 16,691,026	\$ 22,214,077
Investment return				
Investment income	-	362,897	-	362,897
Net appreciation	-	2,657,133	-	2,657,133
Contributions	-	84,777	1,222,692	1,307,469
Transfers from non-endowed funds	129,763	11,826	10,215	151,804
Appropriation of endowment assets for expenditure	-	(914,072)	-	(914,072)
Endowment net assets, June 30, 2017	<u>\$ 963,671</u>	<u>\$ 6,891,704</u>	<u>\$ 17,923,933</u>	<u>\$ 25,779,308</u>
	<u>2016</u>			
	<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Permanently restricted</u>	<u>Total</u>
Endowment net asset composition				
Donor-restricted endowment funds	\$ -	\$ 4,689,143	\$ 16,691,026	\$ 21,380,169
Board-designated endowment funds	833,908	-	-	833,908
	<u>\$ 833,908</u>	<u>\$ 4,689,143</u>	<u>\$ 16,691,026</u>	<u>\$ 22,214,077</u>
Change in endowment net assets				
Endowment net assets, July 1, 2015	\$ 833,908	\$ 5,740,879	\$ 14,425,195	\$ 20,999,982
Investment return				
Investment income	-	382,095	-	382,095
Net appreciation	-	(425,747)	-	(425,747)
Contributions	-	24,554	2,263,831	2,288,385
Transfers from non-endowed funds	-	-	2,000	2,000
Appropriation of endowment assets for expenditure	-	(1,032,638)	-	(1,032,638)
Endowment net assets, June 30, 2016	<u>\$ 833,908</u>	<u>\$ 4,689,143</u>	<u>\$ 16,691,026</u>	<u>\$ 22,214,077</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.

## Southern Connecticut State University Foundation, Inc.

### Notes to Financial Statements June 30, 2017 and 2016

#### **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:

- (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 sets a target for its endowment assets, over time, to produce an average rate of return of approximately 6.50% 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, 2017 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, 2015, prior to the start of the fiscal year. The standard policy percentage is 4% with a resulting effective rate, based on the December 31, 2015 market value of 3.46%.

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, 2017 and 2016, the overall difference between fair value and historic gift value was approximately \$5,607 and \$94,940,

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

**Notes to Financial Statements  
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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.

**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, 2017. The value of these services for the years ended June 30, 2017 and 2016 is \$1,002,745 and \$1,049,124, respectively, and is reflected as income and itemized as donated services (see Note 16).

**Note 16 - Functional expense classifications**

The Foundation's functional expense classifications for the years ended June 30, 2017 and 2016 were as follows:

	<u>2017</u>	<u>2016</u>
Program services		
Athletic and University activities	\$ 1,292,499	\$ 1,392,188
Donated services	230,631	229,412
Scholarships	795,666	727,614
Equipment	4,787	46,378
Other support	170,721	128,324
	<u>\$ 2,494,304</u>	<u>\$ 2,523,916</u>

	<u>2017</u>	<u>2016</u>
General and administrative services		
Salaries and benefits	\$ 270,897	\$ 269,405
Rent and overhead	78,984	76,999
Investment fees	78,431	74,195
Donated services	70,254	80,661
Partnership agreement - Alumni Association	60,473	66,875
Office expenses	34,109	22,910
Audit fees	29,000	28,450
Administration	21,645	18,720
Advertising	17,173	27,900
Consultants	15,780	34,140
Board and Director's activities	15,056	3,425
Insurance	4,265	4,292
Dues, memberships and subscriptions	2,400	2,350
Legal	1,710	-
Travel	880	1,223
	<u>\$ 701,057</u>	<u>\$ 711,545</u>

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

**Notes to Financial Statements  
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	<u>2017</u>	<u>2016</u>
Fundraising services		
Donated services	<u>\$ 701,860</u>	<u>\$ 739,051</u>

**Note 17 - Concentrations of grant sources**

The Foundation received approximately 28% of contribution revenues from two donors for the year ended June 30, 2017. The Foundation received approximately 53% of contribution revenues from two donors for the year ended June 30, 2016.

**Note 18 - Commitment and contingencies**

The Foundation maintains a renewable letter of agreement between the Foundation and the University dated July 1, 2017 and terminating June 30, 2019. 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 19 - Operating lease**

The Organization entered into an operating lease for space which expires in January 2018. Lease expense for the years ended June 30, 2017 and 2016 is \$76,152 and \$75,408 respectively. The future minimum lease payment for the next year is \$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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