

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

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

June 30, 2019 and 2018

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, 2019 and 2018, 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, 2019 and 2018, 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

Hartford, Connecticut
October 7, 2019

Southern Connecticut State University Foundation, Inc.

**Statements of Financial Position
June 30, 2019 and 2018**

	<u>2019</u>	<u>2018</u>
<u>Assets</u>		
Assets		
Cash and cash equivalents	\$ 885,950	\$ 1,320,089
Investment securities (Note 5)	35,827,475	32,392,730
Promises to give (Note 9)	1,453,735	1,527,934
Prepaid expense	2,750	-
Beneficial interest in trusts	110,744	110,966
Collections of works of art (Note 2)	-	-
	<hr/>	<hr/>
Total assets	<u>\$ 38,280,654</u>	<u>\$ 35,351,719</u>
<u>Liabilities and Net Assets</u>		
Liabilities		
Accounts payable and accrued expenses	\$ 108,552	\$ 226,810
Gift annuities payable (Note 10)	34,292	35,042
Custodial obligation payable (Note 11)	-	47,369
	<hr/>	<hr/>
Total liabilities	<u>142,844</u>	<u>309,221</u>
Net assets		
Without donor restrictions		
Undesignated	1,828,570	1,765,220
Board-designated (Note 12)	983,908	833,908
With donor restrictions (Note 13)	<u>35,325,332</u>	<u>32,443,370</u>
	<hr/>	<hr/>
Total net assets	<u>38,137,810</u>	<u>35,042,498</u>
	<hr/>	<hr/>
Total liabilities and net assets	<u>\$ 38,280,654</u>	<u>\$ 35,351,719</u>

See Notes to Financial Statements.

Southern Connecticut State University Foundation, Inc.

**Statements of Activities and Changes in Net Assets
Years Ended June 30, 2019 and 2018**

	2019			2018		
	Net assets without donor restrictions	Net assets with donor restrictions	Total	Net assets without donor restrictions	Net assets with donor restrictions	Total
Support and revenues						
Support						
Contributions	\$ 132,132	\$ 3,089,447	\$ 3,221,579	\$ 172,800	\$ 1,990,800	\$ 2,163,600
University donated services (Note 16)	812,556	-	812,556	841,735	-	841,735
Gifts in kind	2,666	-	2,666	15,722	-	15,722
Net assets released from restrictions	2,163,358	(2,163,358)	-	2,067,408	(2,067,408)	-
Total support	3,110,712	926,089	4,036,801	3,097,665	(76,608)	3,021,057
Revenues						
Investment income	319,267	2,439,820	2,759,087	77,582	2,428,297	2,505,879
Administrative fee income (expense)	269,035	(269,035)	-	281,361	(281,361)	-
Gift fee income (expense)	97,913	(97,913)	-	68,223	(68,223)	-
Change in value of annuity agreements	(9,031)	-	(9,031)	(9,781)	-	(9,781)
Change in value of perpetual trust	-	(222)	(222)	-	1,799	1,799
Total revenues	677,184	2,072,650	2,749,834	417,385	2,080,512	2,497,897
Total support and revenues	3,787,896	2,998,739	6,786,635	3,515,050	2,003,904	5,518,954
Expenses						
Program services (Note 16)	2,888,015	-	2,888,015	2,492,507	-	2,492,507
General and administrative services (Note 16)	517,229	-	517,229	663,676	-	663,676
Fundraising services (Note 16)	286,079	-	286,079	513,138	-	513,138
Total expenses	3,691,323	-	3,691,323	3,669,321	-	3,669,321
Changes in net assets	96,573	2,998,739	3,095,312	(154,271)	2,003,904	1,849,633
Net assets, beginning	2,599,128	32,443,370	35,042,498	2,753,399	30,439,466	33,192,865
Interfund transfers	116,777	(116,777)	-	-	-	-
Net assets, end	\$ 2,812,478	\$ 35,325,332	\$ 38,137,810	\$ 2,599,128	\$ 32,443,370	\$ 35,042,498

See Notes to Financial Statements.

Southern Connecticut State University Foundation, Inc.

**Statements of Cash Flows
Years Ended June 30, 2019 and 2018**

	2019	2018
Cash flows from operating activities		
Changes in net assets	\$ 3,095,312	\$ 1,849,633
Adjustments to reconcile changes in net assets to net cash used in operating activities		
Contributions restricted for long-term purposes	(972,696)	(698,544)
Realized/unrealized (gains) losses on investment securities	(2,161,340)	(2,035,781)
Beneficial interest in trusts	222	(1,799)
Payments on gift annuities	(9,781)	(9,783)
Changes in operating assets and liabilities		
Promises to give	74,199	341,957
Prepaid expense	(2,750)	9,458
Accounts payable and accrued expenses	(118,258)	98,096
Gift annuities payable	9,031	9,781
Custodial obligation payable	(47,369)	(13,104)
Net cash used in operating activities	(133,430)	(450,086)
Cash flows from investing activities		
Purchase of investment securities	(1,777,174)	(1,283,052)
Proceeds from sale of investment securities	503,769	822,670
Net cash used in investing activities	(1,273,405)	(460,382)
Cash flows from financing activities		
Proceeds from contributions restricted for investment in permanent endowment	972,696	698,544
Net decrease in cash and cash equivalents	(434,139)	(211,924)
Cash and cash equivalents, beginning	1,320,089	1,532,013
Cash and cash equivalents, end	\$ 885,950	\$ 1,320,089

See Notes to Financial Statements.

Southern Connecticut State University Foundation, Inc.

**Notes to Financial Statements
June 30, 2019 and 2018**

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 two classes of net assets as follows: net assets without donor restrictions and net assets with donor restrictions. 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:

Net assets without donor restrictions - Net assets without donor restrictions represent available resources other than donor-restricted contributions. Included in net assets without donor restrictions are funds that may be earmarked for specific purposes.

Board designated net assets - net assets established by the Board of Directors, which represent net assets without donor restrictions set aside for future needs of the Foundation.

Net assets with donor restrictions - Net assets subject to donor- (or certain grantor-) imposed restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. Other donor-imposed restrictions are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity.

Revenues are reported as increases in net assets without donor restrictions unless use of the related assets is limited by donor-imposed restrictions. Expenses are reported as decreases in net assets without donor restrictions. Gains and losses on investments and other assets or liabilities, if any, are reported as increases or decreases in net assets without donor restrictions unless their use is restricted by explicit donor restriction or by law. Expirations of 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, 2019 and 2018**

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 5 and 7). 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 net assets with donor restriction. Conditional promises to give are recognized when the conditions on which they depend are substantially met. All contributions are considered to be available without donor restriction 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 with donor restrictions from perpetual trust in the statements of activities and changes in net assets. Income received with respect to the trust was \$5,200 for the years ended June 30, 2019 and 2018. 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 without donor restrictions unless the donor has restricted the donated asset to a specific purpose.

Southern Connecticut State University Foundation, Inc.

**Notes to Financial Statements
June 30, 2019 and 2018**

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, 2019 and 2018. The Foundation's federal and state income tax returns prior to fiscal year 2016 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, 2019 and 2018.

Functional expenses

The statements of activities and changes in net assets presents the natural classification detail of expenses by function. The Foundation directly allocates its costs among the programs and supporting services benefited.

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 7, 2019, which is the date the financial statements were approved and available for issuance.

Reclassifications

Certain items from the prior year financial statements have been reclassified to conform to the current year presentation.

Southern Connecticut State University Foundation, Inc.

**Notes to Financial Statements
June 30, 2019 and 2018**

Note 3 - New accounting pronouncement

During 2019, the Foundation adopted the provisions of Accounting Standards Update ("ASU") 2016-14, *Not-for-Profit Entities (Topic 958) - Presentation of Financial Statements of Not-for-Profit Entities*. In addition to changes in terminology used to describe categories of net assets throughout the financial statements, new disclosures were added regarding liquidity and availability of resources and related to functional allocation of expenses. The accompanying information from the 2018 financial statements has been restated to conform to the 2019 presentation and disclosure requirements of ASU 2016-14. The adoption of ASU 2016-14 has had no effect on the Foundation's total net assets.

Note 4 - Liquidity

The Foundation regularly monitors liquidity required to meet its annual operating needs and other contractual commitments while also striving to maximize the return on investment of its funds not required for annual operations. As of June 30, 2019, the Foundation has approximately \$3 million of financial assets available to meet annual operating needs for the 2019 fiscal year as follows:

Cash and cash equivalents	\$ 885,950
Investment securities	35,827,475
Promises to give	<u>1,453,735</u>
Financial assets accessible by management in the next year	38,167,160
Less	
Promises to give after more than one year	966,390
Endowment funds to be used in perpetuity	19,862,302
Endowment earnings not available	8,444,003
Beneficial interest in trust	110,744
Student managed investments	187,581
Donor restricted funds for time or purpose to be used after one year	4,006,763
Board-designated funds	983,908
Reserve funds	<u>542,260</u>
Financial assets accessible by management in the next year	<u><u>\$ 3,063,209</u></u>

Donor funds restricted to time or purpose anticipated to be used after one year may be used in the next year as long as the purpose or time restriction is met. Upon approval of the Board, the board-designated and reserve funds may be repurposed and used within any year. Additionally, the Board may approve the use of additional endowment investment earnings above the spending policy. However, prudent investment management must be considered to ensure the preservation of the funds for future use.

Southern Connecticut State University Foundation, Inc.

**Notes to Financial Statements
June 30, 2019 and 2018**

Note 5 - Investments

The fair value of investments as of June 30, 2019 and 2018 are as follows:

	2019	2018
Common stock	\$ 187,581	\$ 165,006
Multi-strategy bond fund	11,444,120	10,424,781
Multi-strategy equity fund	24,195,774	21,802,943
	\$ 35,827,475	\$ 32,392,730

Note 6 - 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, 2019 and 2018 was \$6,903 and \$15,826, respectively. The amount included in investments at June 30, 2019 and 2018 was \$187,581 and \$165,006, respectively.

Note 7 - 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.

Southern Connecticut State University Foundation, Inc.

**Notes to Financial Statements
June 30, 2019 and 2018**

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, 2019 and 2018.

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

Investments measured at net asset value ("NAV")

These funds' investments are based on the NAV as a practical expedient. Funds may be redeemed at or near the measurement date. Funds in this category include domestic and international equity investments, domestic and international fixed income investments and commodities.

Multi-strategy bond fund: 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: 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.

There were no transfers between Levels 1 and 2 and no transfers in or out of Level 3 during the years ended June 30, 2019 and 2018. Transfers are recognized at the end of the reporting period.

Fair values of assets and the liability measured on a recurring basis at June 30, 2019 and 2018 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
June 30, 2019					
Assets					
Common stock	\$ 187,581	\$ 187,581	\$ -	\$ -	\$ -
Multi-strategy equity fund	24,195,774	-	-	-	24,195,774
Multi-strategy bond fund	11,444,120	-	-	-	11,444,120
Beneficial interest in trusts	110,744	-	-	110,744	-
	<u>\$ 35,938,219</u>	<u>\$ 187,581</u>	<u>\$ -</u>	<u>\$ 110,744</u>	<u>\$ 35,639,894</u>
Liability					
Gift annuities payable	\$ 34,292	\$ -	\$ -	34,292	\$ -

Southern Connecticut State University Foundation, Inc.

**Notes to Financial Statements
June 30, 2019 and 2018**

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	\$ 110,966	\$ 4,978	\$ -	\$ 5,200	\$ 110,744
Gift annuities payable	35,042	9,032	-	9,782	34,292

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 \$4,978. 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 \$9,032.

	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
June 30, 2018					
Assets					
Common stock	\$ 165,006	\$ 165,006	\$ -	\$ -	\$ -
Multi-strategy equity fund	21,802,943	-	-	-	21,802,943
Multi-strategy bond fund	10,424,781	-	-	-	10,424,781
Beneficial interest in trusts	110,966	-	-	110,966	-
	<u>\$ 32,503,696</u>	<u>\$ 165,006</u>	<u>\$ -</u>	<u>\$ 110,966</u>	<u>\$ 32,227,724</u>
Liability					
Gift annuities payable	\$ 35,042	\$ -	\$ -	\$ 35,042	\$ -

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	\$ 109,167	\$ 6,999	\$ -	\$ 5,200	\$ 110,966
Gift annuities payable	35,044	9,781	-	9,783	35,042

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 \$6,999. 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 \$9,781.

Southern Connecticut State University Foundation, Inc.

**Notes to Financial Statements
June 30, 2019 and 2018**

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, 2019 and 2018:

Instrument	Fair value	Principal valuation technique	Unobservable values inputs	Range of significant input
<u>2019</u>				
Beneficial interest in trusts	\$ 110,744	The Foundation's fair value of the trust assets	N/A	20% beneficial interest
Gift annuities	34,292	Income approach	Life expectancy Discounted cash flow	3-13 years 2.48% - 4.51%
<u>2018</u>				
Beneficial interest in trusts	\$ 110,966	The Foundation's fair value of the trust assets	N/A	20% beneficial interest
Gift annuities	35,042	Income approach	Life expectancy Discounted cash flow	3-14 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, 2019 and 2018:

June 30, 2019	Fair value	Unfunded commitments	Redemption frequency (if currently eligible)	Redemption notice period
Multi-strategy equity fund	\$ 11,444,120	N/A	Monthly	5 business days prior to month-end
Multi-strategy bond fund	24,195,774	N/A	Monthly	5 business days prior to month-end
<u>June 30, 2018</u>				
Multi-strategy equity fund	\$ 21,802,943	N/A	Monthly	5 business days prior to month-end
Multi-strategy bond fund	10,424,781	N/A	Monthly	5 business days prior to month-end

Southern Connecticut State University Foundation, Inc.

**Notes to Financial Statements
June 30, 2019 and 2018**

Note 8 - 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 an 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 restricted by donors in perpetuity 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, 2019 and 2018, the Foundation did not receive any state match.

Note 9 - Promises to give

Pledges receivable consists of the following:

	2019	2018
Without donor restrictions	\$ -	\$ 25,000
With donor restrictions due to purpose or time	891,605	777,630
With donor restrictions in perpetuity	645,991	840,828
	1,537,596	1,643,458
Less unamortized discount	83,861	115,524
	\$ 1,453,735	\$ 1,527,934

Gross amounts expected to be collected in:

Less than one year	\$ 487,345
One to five years	1,050,251
	\$ 1,537,596

Discount rates used on long-term pledges were 1.76% and 2.73% for the years ended June 30, 2019 and 2018, respectively.

Southern Connecticut State University Foundation, Inc.

**Notes to Financial Statements
June 30, 2019 and 2018**

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.

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 \$34,292 and \$35,042 at June 30, 2019 and 2018, respectively.

Note 11 - 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 and a supplemental amount requested by the Association to be approved by the Foundation's Board. As of June 30, 2019 and 2018, this obligation was \$- and \$47,369, respectively, and is classified on the statements of financial position as a liability and as a general and administrative services expense on the statement of activities and changes in net assets.

Note 12 - Board-designated net assets

The balance in board-designated net assets as of June 30, 2019 and 2018 are from contributions. Board-designated net assets are available for the following purposes:

	<u>2019</u>	<u>2018</u>
Scholarships and other financial aid	\$ 432,505	\$ 348,494
Other University programs	551,403	485,414
	<u>\$ 983,908</u>	<u>\$ 833,908</u>

Southern Connecticut State University Foundation, Inc.

**Notes to Financial Statements
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Note 13 - Net assets with donor restrictions

The balance in net assets with donor restrictions as of June 30, 2019 and 2018 are from the following sources:

	2019	2018
Net assets with donor restrictions - purpose and time	\$ 15,352,286	\$ 13,464,941
Net assets with donor restrictions - in perpetuity	19,973,046	18,978,429
	\$ 35,325,332	\$ 32,443,370

Net assets with donor restrictions are available for the following purposes:

	2019	2018
Scholarships and other financial aid	\$ 7,312,771	\$ 6,409,906
Athletic activities	603,399	531,145
Other University programs	7,436,116	6,523,890
	\$ 15,352,286	\$ 13,464,941

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

At June 30, 2019 and 2018, net assets with donor restrictions in perpetuity consist of the following:

	2019	2018
Endowment fund - in perpetuity	\$ 19,862,302	\$ 18,867,463
Beneficial interest in trust - in perpetuity	110,744	110,966
	\$ 19,973,046	\$ 18,978,429

Southern Connecticut State University Foundation, Inc.

**Notes to Financial Statements
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Note 14 - Endowment

The required disclosures are as follows:

	2019		
	Without donor restrictions	With donor restrictions	Total
Endowment net asset composition			
Donor-restricted endowment funds	\$ -	\$ 29,438,766	\$ 29,438,766
Board-designated endowment funds	863,581	-	863,581
	<u>\$ 863,581</u>	<u>\$ 29,438,766</u>	<u>\$ 30,302,347</u>
Change in endowment net assets			
Endowment net assets, July 1, 2018	\$ 833,908	\$ 27,156,679	\$ 27,990,587
Investment return			
Investment income	-	540,020	540,020
Net appreciation	-	1,845,665	1,845,665
Contributions	-	1,048,015	1,048,015
Transfers from non-endowed funds	29,673	21,997	51,670
Appropriation of endowment assets for expenditure	-	(1,173,610)	(1,173,610)
Endowment net assets, June 30, 2019	<u>\$ 863,581</u>	<u>\$ 29,438,766</u>	<u>\$ 30,302,347</u>
	2018		
	Without donor restrictions	With donor restrictions	Total
Endowment net asset composition			
Donor-restricted endowment funds	\$ -	\$ 27,156,679	\$ 27,156,679
Board-designated endowment funds	833,908	-	833,908
	<u>\$ 833,908</u>	<u>\$ 8,289,216</u>	<u>\$ 27,990,587</u>
Change in endowment net assets			
Endowment net assets, July 1, 2017	\$ 963,671	\$ 24,815,637	\$ 25,779,308
Investment return			
Investment income	-	428,662	428,662
Net appreciation	-	1,865,755	1,865,755
Contributions	-	771,645	771,645
Transfers from non-endowed funds	-	244,986	238,861
Appropriation of endowment assets for expenditure	(129,763)	(963,881)	(1,093,644)
Endowment net assets, June 30, 2018	<u>\$ 833,908</u>	<u>\$ 8,289,216</u>	<u>\$ 27,990,587</u>

Southern Connecticut State University Foundation, Inc.

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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 net assets with restrictions in perpetuity: (a) the original value of gifts donated to the endowment, (b) the original value of subsequent gifts to the endowment, and (c) accumulations to the 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 as net assets with restrictions in perpetuity is classified as net assets with donor restrictions due to purpose or time 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% annual endowment advancement 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.

Southern Connecticut State University Foundation, Inc.

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The Foundation's spending policy calculation for fiscal years ended June 30, 2019 and 2018 was based on a percentage of the 12 quarters (3 year) average of the market value of the portfolio for the years ended December 31, 2017 and 2016, respectively, prior to the start of the fiscal year. The spending policy may be between a floor of 4% and a ceiling of 6%, including a 1% endowment advancement fee. The standard policy percentage is 4% with a resulting effective rate, based on the December 31, 2017 market value of 4.27% (including the 1% annual endowment advancement fee) for the year ended June 30, 2019 and 4.38% (including the 1% annual endowment advancement fee) based on the December 31, 2016 market value for the year ended June 30, 2018.

Underwater endowments

In the event any of the endowment accounts are underwater, then the Finance Committee shall meet and specifically approve any distribution. If the endowment agreement specifically prohibits distributions for any reason, including underwater situations, the endowment agreement shall prevail and the distributions will be eliminated or reduced in accordance with the donor intent.

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. The aggregate underwater funds as of June 30, 2019 and 2018 are as follows:

	Number of funds underwater	Fair value	Original gift	Amount of deficiencies
2019	-	N/A	N/A	N/A
2018	5	\$ 227,507	\$ 229,780	\$ 2,273

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 years ended June 30, 2019 and 2018. The value of these services for the years ended June 30, 2019 and 2018 is \$812,556 and \$841,735, respectively, and is reflected as income and itemized as donated services (see Note 16).

Southern Connecticut State University Foundation, Inc.

**Notes to Financial Statements
June 30, 2019 and 2018**

Note 16 - Functional expense classifications

The Foundation's functional expense classifications for the years ended June 30, 2019 and 2018 were as follows:

	2019	2018
Program services		
Athletic and University activities	\$ 1,316,362	\$ 1,283,478
Donated services	436,003	265,683
Scholarships	923,061	761,019
Equipment	2,666	-
Other support	209,923	182,327
Total program services	\$ 2,888,015	\$ 2,492,507
General and administrative services		
Salaries and benefits	\$ 263,585	\$ 281,529
Rent and overhead	40,993	79,017
Donated services	90,474	62,914
Consultants	1,750	56,243
Partnership agreement - Alumni Association	-	47,369
Audit fees	32,175	30,200
Office expenses	36,463	28,473
Legal	287	26,498
Administration	18,203	22,330
Board and Director's activities	25,269	19,306
Insurance	2,561	4,721
Travel	2,836	2,626
Dues, memberships and subscriptions	2,633	2,450
Total general and administrative services	\$ 517,229	\$ 663,676
Fundraising services		
Donated services	\$ 286,079	\$ 513,138

Note 17 - Concentrations

The Foundation maintains cash in several financial institutions. Accounts at each institution are insured by the Federal Deposit Insurance Corporation. From time-to-time, the Foundation's balances may exceed these limits. At June 30, 2019, the Foundation's uninsured balances totaled \$890,711. The Foundation limits its credit risk by selecting financial institutions considered to be highly creditworthy.

The Foundation received approximately 10% of contribution revenues from one donor for the year ended June 30, 2018. There was no concentration of revenue for the year ended June 30, 2019. For the years ended June 30, 2019 and 2018, respectively, promises to give consist of 78% and 91% of receivables from one donor.

Southern Connecticut State University Foundation, Inc.

**Notes to Financial Statements
June 30, 2019 and 2018**

Note 18 - Commitment and contingencies

The Foundation maintains a renewable letter of agreement between the Foundation and the University dated July 1, 2019 and terminating June 30, 2021. 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 had an operating lease for space which expired in December 2018. Lease expense for the years ended June 30, 2019 and 2018 is \$38,079 and \$79,017 respectively. Donations from a private donor covered the cost of the lease and property insurance.

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