

STATE OF CONNECTICUT



*AUDITORS' REPORT
CHARTER OAK STATE COLLEGE FOUNDATION, INC.
FOR THE FISCAL YEAR ENDED JUNE 30, 2015*

AUDITORS OF PUBLIC ACCOUNTS
JOHN C. GERAGOSIAN ❖ ROBERT M. WARD

STATE OF CONNECTICUT



AUDITORS OF PUBLIC ACCOUNTS

State Capitol
210 Capitol Avenue
Hartford, Connecticut 06106-1559

JOHN C. GERAGOSIAN

ROBERT M. WARD

INDEPENDENT AUDITORS' REPORT

The Board of Directors
Charter Oak State College Foundation, Inc.:

We have audited the accompanying statement of financial position of the Charter Oak State College Foundation, Inc. as of June 30, 2015, and the related statements of activities, functional expenses, and cash flows for the year then ended. These financial statements are the responsibility of the foundation's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the foundation as of June 30, 2015, and the change in net assets and its cash flows for the year then ended in conformity with generally accepted accounting principles.

A handwritten signature in black ink, appearing to read "John C. Geragosian".

John C. Geragosian
Auditor of Public Accounts

A handwritten signature in black ink, appearing to read "Robert M. Ward".

Robert M. Ward
Auditor of Public Accounts

October 15, 2015
State Capitol
Hartford, Connecticut

CHARTER OAK STATE COLLEGE FOUNDATION, INC.
STATEMENT OF FINANCIAL POSITION
FOR THE FISCAL YEAR ENDED JUNE 30, 2015

ASSETS:

Cash and Cash Equivalents	\$	123,367
Investments (Note 3)		1,682,103
Accounts Receivable		10,496
Other Assets		<u>625</u>
 TOTAL ASSETS	 \$	 <u><u>1,816,591</u></u>

LIABILITIES AND NET ASSETS:

LIABILITIES: \$ -

NET ASSETS:

Unrestricted		52,252
Temporarily Restricted (Note 5)		713,131
Permanently Restricted (Note 6)		<u>1,051,208</u>
 TOTAL LIABILITIES AND NET ASSETS	 \$	 <u><u>1,816,591</u></u>

See accompanying notes to financial statements.

CHARTER OAK STATE COLLEGE FOUNDATION, INC.
STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2015

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
REVENUES AND SUPPORT:				
Contributions	\$ 20,534	\$ 69,743	\$ 21,410	\$ 111,687
Investment Income	953	53,105	-	54,058
Gain/(Loss) on Investments, Net	-	-	-	-
Fundraiser Proceeds, Net	2,063	2,063	-	4,126
Net Assets Released from Restrictions				
Restrictions Satisfied by Payments	<u>96,227</u>	<u>(96,227)</u>	<u>-</u>	<u>-</u>
TOTAL REVENUES AND SUPPORT	<u>119,777</u>	<u>28,684</u>	<u>21,410</u>	<u>169,871</u>
EXPENSES:				
Program Services				
Scholarships and Grants	33,488	-	-	33,488
Women in Transition	59,613	-	-	59,613
Supporting Services				
General and Administrative	26,291	-	-	26,291
Fundraising	<u>3,126</u>	<u>-</u>	<u>-</u>	<u>3,126</u>
TOTAL EXPENSES	<u>122,518</u>	<u>-</u>	<u>-</u>	<u>122,518</u>
CHANGE IN NET ASSETS	<u>(2,741)</u>	<u>28,684</u>	<u>21,410</u>	<u>47,353</u>
NET ASSETS, BEGINNING OF YEAR	<u>\$ 54,993</u>	<u>\$ 684,447</u>	<u>\$ 1,029,798</u>	<u>\$1,769,238</u>
NET ASSETS, END OF YEAR	<u>\$ 52,252</u>	<u>\$ 713,131</u>	<u>\$ 1,051,208</u>	<u>\$1,816,591</u>

See accompanying notes to financial statements.

CHARTER OAK STATE COLLEGE FOUNDATION, INC.
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE FISCAL YEAR ENDED JUNE 30, 2015

	Program Services		Supporting Services		Total
	Scholarships and Grants	Women in Transition	General and Administrative	Fund Raising	
Computer and Related Services	-	3,263	-	-	3,263
Scholarships and Grants	33,488	56,350	1,824	-	91,662
Investment-related Charges	-	-	8,523	-	8,523
Accounting Services	-	-	9,764	-	9,764
Insurance	-	-	1,431	-	1,431
Meetings and Conferences	-	-	363	-	363
Postage	-	-	3,159	-	3,159
Office Supplies / Other Expenses	-	-	1,227	3,126	4,353
TOTAL EXPENSES	\$ 33,488	\$ 59,613	\$ 26,291	\$ 3,126	\$122,518

See accompanying notes to financial statements.

CHARTER OAK STATE COLLEGE FOUNDATION, INC.
STATEMENT OF CASH FLOWS
FOR THE FISCAL YEAR ENDED JUNE 30, 2015

CASH FLOWS FROM OPERATING ACTIVITIES	
Change in Net Assets	\$ 47,353
Adjustments to Reconcile Change in Net Assets to Net	
Cash Provided by (used in) Operating Activities:	
Decrease in Payables	(1,658)
Increase in Receivables	<u>(9,982)</u>
Total Adjustments	<u>(11,640)</u>
NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES	<u>35,713</u>
CASH FLOWS FROM INVESTING ACTIVITIES	
Reinvested Dividends	(58,433)
Net Realized and Unrealized Loss on Investments	5,328
Investment-related Charges	8,523
Dividend Transfers	<u>35,154</u>
NET CASH PROVIDED BY (USED IN) INVESTING ACTIVITIES	<u>(9,428)</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	26,285
CASH AND CASH EQUIVALENTS - JUNE 30, 2014	<u>97,082</u>
CASH AND CASH EQUIVALENTS - JUNE 30, 2015	<u>\$ 123,367</u>

See accompanying notes to financial statements.

**CHARTER OAK STATE COLLEGE FOUNDATION, INC.
NOTES TO FINANCIAL STATEMENTS**

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

Nature of Activities:

The Charter Oak State College Foundation, Inc. operates exclusively for charitable and educational purposes and as such promotes interest in and support of open learning and credentialing in higher education. The foundation solicits contributions of funds for the support of such activities.

Basis of Presentation:

The accompanying financial statements have been prepared on the accrual basis of accounting in accordance with generally accepted accounting principles. Net assets and revenues, expenses, gains, and losses are classified based upon the existence or absence of donor-imposed restrictions. Accordingly, net assets of the foundation and changes therein are classified and reported as follows:

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

Temporarily restricted net assets-- Net assets subject to donor-imposed restrictions that may or will be met, either by actions of the foundation or by the passage of time. When a restriction expires, temporarily restricted assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

Permanently restricted net assets-- Net assets subject to donor-imposed restrictions that may be maintained permanently by the foundation. Generally, the donors of these assets permit the foundation to use all or part of the income earned on any related investments for general or specified purposes.

Cash and Cash Equivalents:

Cash and cash equivalents consist of cash in checking and savings accounts.

Contributions:

Contributions, including unconditional promises to give, are recorded as made. All contributions are available for unrestricted use unless specifically restricted by the donor.

Conditional pledges, which depend on the occurrence of a specified future and uncertain event to bind the promisor, shall be recognized when the conditions on which they depend are substantially met, that is, when the conditional promise becomes unconditional.

Investments:

Investments in mutual funds with readily determinable fair values are valued at their fair values in the statement of financial position. Unrealized gains and losses are included in the change in

net assets.

Income Taxes:

The foundation is exempt from federal income taxes under Internal Revenue Code Section 501(c)(3) and therefore has made no provision for federal income taxes in the accompanying financial statements.

NOTE 2: CONCENTRATION OF CREDIT RISK

The foundation's bank deposits are insured by the Federal Deposit Insurance Corporation up to \$250,000. At June 30, 2015, there were no uninsured deposits.

NOTE 3: INVESTMENTS

Investments are stated at market value and consist of mutual funds.

	Cost	Market Value
Vanguard Short Term Investment Index Fund	\$ 93,677	\$ 93,439
Vanguard Total International Stock Index Fund	290,279	317,598
Vanguard Strategic Equity Index Fund	31,110	58,756
Vanguard Intermediate Term Investment Fund	146,971	138,119
Vanguard Total Bond Market Index Fund	248,204	244,447
Vanguard Growth Index Fund	73,335	135,786
Vanguard Windsor II Fund	91,192	133,595
Vanguard Total Stock Market Index Fund	218,219	384,555
Vanguard Explorer Fund	45,065	61,453
Vanguard Total International Bond Index Fund	117,911	114,355
	<u>\$ 1,355,963</u>	<u>\$ 1,682,103</u>

The following methods and assumptions were used to estimate the fair values of each of these funds.

The investments are carried at fair values based on active quoted market prices for these investments. (Level 1)

NOTE 4: CONDITIONAL PLEDGE

In 2005, the State of Connecticut established a higher education state matching fund to be administered by the Department of Higher Education in accordance with Section 10a-8b of the General Statutes. The payment of the matching funds is contingent upon whether the state's Budget Reserve Fund equals at least ten percent of the net General Fund appropriations for the fiscal year in progress. Management has not recognized this conditional pledge, in excess of \$50,000, in the financial statements since it is unlikely the conditional pledge will be received.

NOTE 5: TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets are available for the following purposes:

Educational Lectures	\$ 48,229
Scholarships and Grants	336,090
Technology	101,003
Women in Transition Program	227,809
Total Temporarily Restricted Net Assets	<u>\$ 713,131</u>

NOTE 6: PERMANENTLY RESTRICTED NET ASSETS

Permanently restricted net assets, though restricted in perpetuity, generate income which is expendable to support the following purposes:

Educational Lectures	\$ 85,643
Scholarships and Grants	705,826
Technology	103,283
Women in Transition Program	156,456
Total Permanently Restricted Net Assets	<u>\$ 1,051,208</u>

NOTE 7: NET ASSETS RELEASED FROM RESTRICTIONS

Temporarily restricted net assets were released from donor restrictions during the year by incurring expenses satisfying the restricted purpose specified by the donor. The temporarily restricted net assets released from restriction related to the following:

Women in Transition Program	\$ 59,613
Scholarships and Grants	33,488
Other Funds Restricted for Program Purposes	3,126
Net Assets Released from Restrictions	<u>\$ 96,227</u>

NOTE 8: ENDOWMENT

The Charter Oak State College Foundation, Inc.'s endowment consists of individual funds established for scholarship and program services. Its endowment includes donor-restricted endowment funds. As required by GAAP, net assets associated with endowment funds are classified and reported based on the existence of donor-imposed restrictions.

The board of directors of the foundation has interpreted the State of Connecticut Uniform Prudent Management of Institutional Funds Act (UPMIFA) as requiring the preservation of the face value 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, and (b) the original value of subsequent gifts to the permanent endowment. In accordance with the act, 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. The general economic conditions.
4. The possible effects of inflation and deflation.
5. The expected total return from income and appreciation of investment.
6. The investment policies of the organization.

Funds with Deficiencies

From time to time, the fair market value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor or UPMIFA requires the foundation to retain as a fund of perpetual duration. Despite this adverse investment performance, the annual income generated from the foundation's investment portfolio will be used to support programs deemed prudent by the board of directors.

Return Objectives and Risk Parameters

The foundation has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of the endowment assets. Endowment assets include those assets of donor-restricted funds that the foundation must hold in perpetuity or for a donor-specified period. Under this policy, approved by the board of directors, the endowment assets are invested in asset classes: bonds, domestic equities and international equities. These asset classes are intended to produce results that will approximate the price and yield performance generated by an appropriate major bond or stock index relevant to each specific asset class held by the foundation.

A major function of the Investment Committee is to determine the percentage allocation among the asset classes. Factors to be weighed in reaching any such decisions are: the need for income, the desire for asset appreciation, economic outlook both near and longer term, and risk level associated with each asset class.

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ROBERT M. WARD

INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

The Board of Directors
Charter Oak State College Foundation, Inc.:

We have audited the financial statements of the Charter Oak State College Foundation, Inc. as of and for the year ended June 30, 2015, and have issued our report dated October 15, 2015. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States.

Internal Control over Financial Reporting

Management of the Charter Oak State College Foundation, Inc. is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the foundation's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the foundation's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the foundation's internal control over financial reporting.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency or a combination of deficiencies in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

Compliance with Sections 4-37e to 4-37k of the General Statutes, and any other laws, regulations, contracts, and grant agreements relevant to the foundation is the responsibility of the foundation's management. As part of obtaining reasonable assurance about whether the foundation's financial statements are free of material misstatement, we performed tests of its compliance with Sections 4-37e to 4-37k of the General Statutes and certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion.

The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* issued by the Comptroller of the United States. However, we noted certain matters that we reported to the foundation's management in the accompanying Management Letter section of this report.

This report is intended for the information of the board of directors and any applicable regulatory body. However, this report is a matter of public record, and its distribution is not limited.



John C. Geragosian
Auditor of Public Accounts



Robert M. Ward
Auditor of Public Accounts

October 15, 2015
State Capitol
Hartford, Connecticut

STATE OF CONNECTICUT



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State Capitol
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Hartford, Connecticut 06106-1559

JOHN C. GERAGOSIAN

ROBERT M. WARD

MANAGEMENT LETTER

The Board of Directors
Charter Oak State College Foundation, Inc.:

In planning and performing our audit of the financial statements of the Charter Oak State College Foundation, Inc. for the fiscal year ended June 30, 2015, we considered the foundation's internal control and compliance with certain provisions of laws, regulations, contracts, and grant agreements in order to determine our auditing procedures for the purpose of expressing an opinion on the financial statements and not to provide assurance on internal control or compliance. We noted no matters involving the internal accounting control structure and its operation or the foundation's compliance with certain provisions of laws, regulations, contracts, and grant agreements that we consider to be material weaknesses according to auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. However, during our audit, we became aware of certain matters that present an opportunity for improving internal controls.

Our comments and suggestions, which have already been discussed with various personnel affiliated with the foundation, are summarized below.

1. Segregation of Duties

Criteria: Good internal controls dictate that the general ledger function and bank and investments statements functions should be performed by different individuals.

Condition: The foundation's general ledger is maintained by the same employee who reconciles the various bank and investments statements.

Effect: There is a lack of segregation of duties between the general ledger function and the reconciliations functions.

Cause: The small number of staff is the cause for of this situation.

Recommendation: The Charter Oak State College Foundation, Inc. should implement procedures that document that the bank and investments statements are opened, reviewed, and reconciled by someone other than the employee who maintains the general ledger.

Agency Response: “For several months during the audited period the foundation treasurer reviewed the checking account reconciliations and approved the checks written. However this practice was not continued throughout the entire year. The foundation accountant should have scheduled time with the treasurer to ensure that this control was in force. This review and approval by the treasurer will be reinstated in the future.”

2. Expenditure Approval and Check Writing

Criteria: The foundation’s policy requires that expenditures over \$1,000 be approved by two board members. In addition, a check greater than \$1,000 requires signatures of two board members authorized to sign checks.

Condition: We tested five expenditures for evidence of the foundation’s approval and check-writing controls. An expenditure in the amount of \$2,269.23 was approved by only one board member. In addition, the check was not signed.

Effect: Established controls were not followed and expenditures were not fully authorized before being paid.

Cause: The cause is unknown.

Recommendation: The Charter Oak State College Foundation, Inc. should strengthen controls around the expenditures process.

Agency Response: “We agree with the auditor’s finding. Although we have procedures that we are required to follow regarding approvals for large expenditures, it is obvious that they were not followed in this case. The check signers and the foundation accountant have been reminded of the check signing controls.”

3. Investments

Criteria: The foundation’s records should be reconcilable to the monthly statements received from Vanguard.

Condition: A review of the May 2015 investment statement showed that the Emerging Markets Stock Index Admiral Shares fund was sold off and closed. A balance of \$4,422 for this investment account continued to be reflected in the foundation’s general ledger as of June 30, 2015.

Effect: This general ledger account was overstated.

Cause: The cause is unknown.

Recommendation: The Charter Oak State College Foundation, Inc. records should be reconciled to the investment statements received from Vanguard on a monthly basis.

Agency Response: “The foundation accountant’s records should have reflected the change in our position in the fund. We attribute the cause to be an oversight by the foundation accountant.”

CONCLUSION

In conclusion, we wish to express our appreciation for the courtesies shown to our representatives during the course of our audit. The assistance and cooperation extended to them by members of the Charter Oak State College Foundation, Inc. greatly facilitated the conduct of this examination.



Jamie Drozdowski
Auditor II

Approved:



John C. Geragosian
Auditor of Public Accounts



Robert M. Ward
Auditor of Public Accounts