

STATE OF CONNECTICUT



*AUDITORS' REPORT
CONNECTICUT HERITAGE FOUNDATION
FOR THE FISCAL YEARS ENDED
JUNE 30, 2008, 2009, 2010*

AUDITORS OF PUBLIC ACCOUNTS
KEVIN P. JOHNSTON ❖ ROBERT G. JAEKLE

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INDEPENDENT AUDITORS' REPORT

The Board of Directors
Connecticut Heritage Foundation, Inc.:

We have audited the accompanying statement of net assets of the Connecticut Heritage Foundation, Inc. (the Foundation), as of June 30, 2008, 2009 and 2010, and the related statements of activities, and cash flows for the years 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 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 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, 2008, 2009 and 2010, and the results of its operations and changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Auditors of Public Accounts

In accordance with *Government Auditing Standards*, we have also issued our report dated March 4, 2011 on our consideration of the Foundation's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grants agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance and other matters. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Our audit was made for the purpose of forming an opinion on the financial statements of the Foundation taken as a whole. The Management's Discussion and Analysis information is not a required part of the basic financial statements but is supplemental information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consist primarily of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

John C. Geragosian
Auditor of Public Accounts

Robert M. Ward
Auditor of Public Accounts

March 4, 2011
State Capitol
Hartford, Connecticut

**CONNECTICUT HERITAGE FOUNDATION, INC. (FOUNDATION)
MANAGEMENT'S DISCUSSION AND ANALYSIS (MDA)**

An Overview of the Financial Statements

This Management's Discussion and Analysis is intended to serve as an introduction to the Foundation's basic financial statements. The Foundation's basic financial statements are comprised of Statements of (1) Net Assets, (2) Revenues, Expenses and Changes in Fund Net Assets, and (3) Cash Flows, and are accompanied with Notes which are an integral part of the financial statements.

The following provides an overview and analysis of the Foundation's financial performance of its activities for the fiscal years ended June 30, 2008, 2009 and 2010. The reader is encouraged to consider this information in conjunction with the information presented in the financial statements and notes.

Condensed Financial Information

	<u>Fiscal Year Ended June 30,</u>		
	<u>2008</u>	<u>2009</u>	<u>2010</u>
Total Assets	\$ 25,145	\$ 22,375	\$ 22,961
Total Liabilities	<u>0</u>	<u>0</u>	<u>0</u>
Total Net Assets	<u>\$ 25,145</u>	<u>\$ 22,375</u>	<u>\$ 22,961</u>
Total Revenues	\$ 1,452	\$ 2,339	\$ 1,942
Total Expenses	<u>2,546</u>	<u>5,109</u>	<u>1,356</u>
Changes in Net Assets	<u>\$ (1,094)</u>	<u>\$ (2,770)</u>	<u>\$ 586</u>

Financial Highlights

- The assets of the Foundation exceeded its liabilities for the fiscal year ended June 30, 2010, by \$22,961. Of this amount, \$18,927 may be used to meet future needs of the Foundation.
- The Foundation's net assets decreased by \$3,278 to \$22,961 at June 30, 2010, as compared to net assets of \$26,239 at June 30, 2007. This decrease was primarily attributable to expenditures exceeding contributions with the most significant expenditure taking place during the 2008-2009 fiscal year when the Foundation expended \$5,000 as a rental fee for the New Netherlands traveling exhibit. In addition, the Foundation transferred \$2,200 during the 2007-2008 fiscal year from the restricted Hartford Courant Digitization Project account to the Connecticut State Library's Historic Document Preservation account in order reimburse the account for prior expenditures.
- The Foundation has no debt.

Subsequent to the fiscal year ended June 30, 2010, the Foundation has continued to pursue donation and grant opportunities and has coordinated its activities with the Connecticut State Library and Raymond E. Baldwin Museum of Connecticut History and Heritage members to promote the awareness of Connecticut's history and culture.

CONNECTICUT HERITAGE FOUNDATION, INC.
STATEMENT OF NET ASSETS
AS OF JUNE 30, 2008, 2009 AND 2010

	<u>JUNE 30,</u>		
	<u>2008</u>	<u>2009</u>	<u>2010</u>
ASSETS			
CURRENT ASSETS:			
Cash and Cash Equivalents	\$ <u>25,145</u>	\$ <u>22,375</u>	\$ <u>22,961</u>
TOTAL CURRENT ASSETS	<u>25,145</u>	<u>22,375</u>	<u>22,961</u>
TOTAL NONCURRENT ASSETS	<u>0</u>	<u>0</u>	<u>0</u>
TOTAL ASSETS	<u>25,145</u>	<u>22,375</u>	<u>22,961</u>
LIABILITIES AND NET ASSETS			
TOTAL LIABILITIES	<u>0</u>	<u>0</u>	<u>0</u>
NET ASSETS			
Unrestricted Net Assets	21,111	18,341	18,927
Temporarily Restricted Net Assets	<u>4,034</u>	<u>4,034</u>	<u>4,034</u>
TOTAL NET ASSETS	\$ <u><u>25,145</u></u>	\$ <u><u>22,375</u></u>	\$ <u><u>22,961</u></u>

See accompanying notes to the financial statements.

**CONNECTICUT HERITAGE FOUNDATION, INC.
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS
FOR THE YEARS ENDED JUNE 30, 2008, 2009 AND 2010**

	<u>JUNE 30,</u>		
	<u>2008</u>	<u>2009</u>	<u>2010</u>
OPERATING REVENUES	\$ <u>0</u>	\$ <u>0</u>	\$ <u>0</u>
OPERATING EXPENSES			
Administrative Expenses	<u>346</u>	<u>5,109</u>	<u>1,356</u>
TOTAL OPERATING EXPENSES	<u>346</u>	<u>5,109</u>	<u>1,356</u>
OPERATING INCOME (LOSS)	<u>(346)</u>	<u>(5,109)</u>	<u>(1,356)</u>
NONOPERATING REVENUES (EXPENSES)			
Donations and Contributions	1,275	1,770	1,575
CD Interest	177	569	367
Hartford Courant Digitization Project	<u>(2,200)</u>	<u>0</u>	<u>0</u>
TOTAL NONOPERATING REVENUES (EXPENSES)	<u>(748)</u>	<u>2,339</u>	<u>1,942</u>
INCOME (LOSS) BEFORE EXTRAORDINARY ITEMS	<u>(1,094)</u>	<u>(2,770)</u>	<u>586</u>
EXTRAORDINARY ITEMS	<u>0</u>	<u>0</u>	<u>0</u>
Change in Net Assets	<u>(1,094)</u>	<u>(2,770)</u>	<u>586</u>
NET ASSETS (DEFICIT) - BEGINNING OF YEAR	<u>26,239</u>	<u>25,145</u>	<u>22,375</u>
NET ASSETS (DEFICIT) - END OF YEAR	\$ <u><u>25,145</u></u>	\$ <u><u>22,375</u></u>	\$ <u><u>22,961</u></u>

See accompanying notes to the financial statements.

CONNECTICUT HERITAGE FOUNDATION, INC.
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS
FOR THE YEARS ENDED JUNE 30, 2008, 2009 AND 2010

	For the Year Ended June 30,		
	2008	2009	2010
CASH FLOWS FROM OPERATING ACTIVITIES			
SOURCE:			
USE:			
Administrative Expenses	\$ 346	\$ 5,109	\$ 1,356
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>(346)</u>	<u>(5,109)</u>	<u>(1,356)</u>
CASH FLOWS FROM EXTRAORDINARY AND CAPITAL ACTIVITIES			
SOURCE:			
Donations	1,275	1,770	1,575
CD Interest	177	569	367
	<u>1,452</u>	<u>2,339</u>	<u>1,942</u>
USE:			
Hartford Courant Digitization Project	2,200	0	0
Increase (Decrease) in Assets	0	0	0
(Increase) Decrease in Liabilities	0	0	0
	<u>2,200</u>	<u>0</u>	<u>0</u>
NET CASH USED FROM EXTRAODINARY AND CAPITAL ACTIVITIES	<u>(748)</u>	<u>2,339</u>	<u>1,942</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(1,094)	(2,770)	586
Cash and Cash Equivalents - beginning of year	26,239	25,145	22,375
CASH AND CASH EQUIVALENTS - END OF YEAR	<u>\$ 25,145</u>	<u>\$ 22,375</u>	<u>\$ 22,961</u>
RECONCILIATION OF OPERATING AND OTHER INCOME TO NET CASH PROVIDED BY ACTIVITIES			
OPERATING AND OTHER INCOME	(1,094)	(2,770)	586
Adjustments to Reconcile Operating/Other Income to Net Cash:			
Decrease (Increase) in Assets	0	0	0
Increase (Decrease) in Liabilities	0	0	0
NET INCREASE (DECREASE) IN CASH PROVIDED BY OPERATING AND OTHER ACTIVITIES	<u>\$ (1,094)</u>	<u>\$ (2,770)</u>	<u>\$ 586</u>

See accompanying notes to the financial statements.

**CONNECTICUT HERITAGE FOUNDATION, INC.
NOTES TO THE FINANCIAL STATEMENTS**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

The financial statements of The Connecticut Heritage Foundation, Inc. (the Foundation) were prepared in conformity with accounting principles generally accepted in the United States of America (GAAP). The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. GASB established standards for the external financial reporting and the presentation of the Management's Discussion and Analysis (MD&A). The MD&A is considered to be required supplemental information and precedes the financial statements. The Foundation's significant accounting policies are described below.

Nature of Activities:

The Connecticut Heritage Foundation, Inc. (the Foundation) operates exclusively for charitable, educational and scientific purposes and, as such, promotes the furtherance and support of the programs and purposes of the Connecticut State Library and the Raymond E. Baldwin Museum of Connecticut History and Heritage. The Foundation solicits and receives 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 as noted above. Net assets and revenues, expenses, gains and losses are classified based upon the existence or absence of donor-imposed or grant fund 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 or grant restrictions.

Temporarily restricted net assets--Net assets subject to donor-imposed or grant stipulations that may or will be met, either by actions of the Foundation and/or 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 or grant stipulations 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.

Auditors of Public Accounts

Cash and Cash Equivalents:

For financial statement purposes, the Foundation considers all funds held in a checking account or a certificate of deposit to be cash equivalents.

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 promises to give are recognized when the conditions on which they depend are substantially met. Unconditional promises to give due in the next year are recorded at their net realizable value. Unconditional promises to give due in subsequent years are reported at the present value of their net realizable value, using risk-free interest rates applicable to the years in which the promises are to be received.

Computer Equipment:

Computer equipment is stated at cost less accumulated depreciation. As of fiscal year 2006 computer equipment was fully depreciated.

Federal Income Taxes:

The Foundation is exempt from Federal income taxes under Internal Revenue Code Section 501 (c) (3).

Foundation Accounts:

In December 1999, the Foundation opened its own private checking account and since July 1, 2000, all Foundation activities have been operating through this account. The balances as of June 30, 2008, 2009, and 2010, were \$6,968, \$3,629, and \$4,008, respectively.

The Foundation purchased a certificate of deposit in the amount of \$18,000 in July 2007 from unobligated funds maintained in its checking account. The interest generated from the certificate of deposit is considered unrestricted and available to fund Foundation operations. The certificate of deposit balances as of June 30, 2008, 2009, and 2010, were \$18,482, \$18,967, and \$19,225, respectively.

NOTE 2 CONCENTRATION OF CREDIT RISK:

The Foundation's deposits are insured by the Federal Deposit Insurance Corporation up to \$250,000. At June 30, 2010, there were no uninsured deposits.

NOTE 3 TEMPORARILY RESTRICTED NET ASSETS:

The detail of temporarily restricted net assets at June 30, 2008, 2009 and 2010 were as follows:

	<u>Fiscal Year Ended June 30,</u>		
	<u>2008</u>	<u>2009</u>	<u>2010</u>
Temporarily Restricted:			
Great Kids – Website	\$ 3,934	\$ 3,934	\$ 3,934
Civil War Exhibit	<u>100</u>	<u>100</u>	<u>100</u>
Total	<u>\$ 4,034</u>	<u>\$ 4,034</u>	<u>\$ 4,034</u>

**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
Connecticut Heritage Foundation, Inc.:

We have audited the financial statements of the Connecticut Heritage Foundation, Inc., (the Foundation) as of and for the years ended June 30, 2008, 2009 and 2010, and have issued our report thereon dated March 4, 2011. 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 misstatements and that the Foundation complied in all material or significant respects with the provisions of certain laws, regulations, contracts and grant agreements and to obtain a sufficient understanding of the internal controls to plan the audit and determine the nature, timing, and extent of tests to be performed during the conduct of the audit.

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.

A control deficiency 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 misstatements on a timely basis. *A significant deficiency* is a control deficiency, or a combination of

control deficiencies, that adversely affects the entity's ability to properly initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

A *material weakness* is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of the internal control over the entity's financial reporting and on compliance and other matters would not necessarily identify all deficiencies in the internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over the entity's financial reporting and on compliance and other matters that we consider to be material weaknesses, as defined above.

Compliance and Other Matters:

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 Connecticut General Statutes, any other laws, contracts and grants, noncompliance with which would 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*.

This report is intended for the information of the Connecticut Heritage Foundation, Inc.'s 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

March 4, 2011
State Capitol
Hartford, Connecticut

MANAGEMENT LETTER

The Board of Directors
Connecticut Heritage Foundation, Inc.:

In planning and performing our audit of the financial statements of the Connecticut Heritage Foundation, Inc. for the fiscal years ended June 30, 2008, 2009 and 2010, we considered the Foundation's internal control 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. We noted no matters involving the internal accounting control structure and its operation 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 opportunities for strengthening internal controls and compliance.

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

Receiving, Recording and Reconciling Receipts:

Criteria: Sound internal controls over revenues require that there be a reasonable segregation of duties to the extent possible. When possible there

should be a segregation of the duties of receiving, posting and depositing of receipts and the reconciling of bank accounts.

Condition: During the 2010 fiscal year the duties of one individual included receiving, recording, and preparing receipts for deposit. This one individual also was responsible for reconciling the Foundations checking account records to the bank records. In addition, this one individual was also responsible for preparing disbursements from the checking account for signature by the authorized signatory.

Effect: There is an increase risk over the receiving, posting and depositing of receipts that such receipts could be received and not recorded and deposited; and that such receipts, not being recorded or deposited, will not be detected in a timely manner.

Cause: It appears that when a key individual involved in the internal control process retired at the end of the 2009 fiscal year that individual's duties were absorbed by other staff without consideration as to the impact on internal controls and the control risk.

Recommendation: The Foundation should consider periodically reviewing the internal control procedures employed by the Connecticut State Library, whose staff administers the Foundation's financial matters, and make recommendations when warranted to strengthen internal control processes for ensuring safe and accurate accounting of its assets.

Agency Response: "The Foundation concurs with this recommendation and going forward will periodically review the internal control procedures employed by the Connecticut State Library, as it relates to administering the Foundation's financial matters. In addition, the Connecticut State Library has taken immediate steps to address the condition cited in the audit by segregating the duty of reconciling the bank account from the duties of receiving, posting, and depositing of receipts."

Financial Transaction Approval:

Criteria: The Foundation has established procedures, which are incorporated in its By-Laws, for approving financial activity involving Foundation resources. These procedures include the Board of Directors voting to approve financial transactions and the recording of Board of Directors minutes of meetings evidencing the actions of the Board.

Condition: During our examination of Foundation records it was noted that two financial transactions processed during the audited period could not be shown to have been approved by the Board of Directors in a manner

consistent with the Foundation's established procedures.

The Board of Directors approved the purchase of a certificate of deposit in the amount of \$17,000 during its July 12, 2007 Board meeting, as reflected in the minutes of the meeting. However, the actual purchase for the certificate of deposit was \$18,000. There was no documentation to support that the amount of the certificate of deposit approved by the Board was revised by the Board.

Additionally, the Foundation expended \$5,000 for the rental of a traveling exhibit which, though discussed by the Board as reflected in minutes of meetings, was not shown to be evidenced in the minutes of the meetings as having been approved by the Board.

Effect: Expenditures of the Foundation are, in part, being transacted without supporting documentation evidencing approval of its Board of Directors, thereby creating an atmosphere where funds of the Foundation may be expended without Board approval.

Cause: The cause could not be determined.

Recommendation: The Foundation should ensure that only financial transactions duly approved by the Board of Directors and sufficiently documented are the only transactions processed by the administrative arm of the Foundation, the Connecticut State Library.

Agency Response: "The Foundation will take extra care to insure that all motions by the Board of Director's regarding financial transactions are being recorded in the Board's minutes and will only request that transactions be processed in compliance with the minutes of the Board."

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 the personnel of the Connecticut Heritage Foundation, Inc. greatly facilitated the conduct of this examination.

Mark Dickerson
Associate Auditor

Approved:

John C. Geragosian
Auditor of Public Accounts

Robert M. Ward
Auditor of Public Accounts