

STATE OF CONNECTICUT



***AUDITORS' REPORT
CONNECTICUT STATE UNIVERSITY
SYSTEM FOUNDATION
FOR THE FISCAL YEAR ENDED JUNE 30, 2006***

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

INDEPENDENT AUDITORS' REPORT

The Board of Directors
Connecticut State University System Foundation, Inc.:

We have audited the accompanying statement of financial position of the Connecticut State University System Foundation, Inc., (the Foundation) as of June 30, 2006, 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, 2006, and the change in net assets and its cash flows for the year then ended in conformity with generally accepted accounting principles.

Kevin P. Johnston
Auditor of Public Accounts

Robert G. Jaekle
Auditor of Public Accounts

April 11, 2008
State Capitol
Hartford, Connecticut

CONNECTICUT STATE UNIVERSITY SYSTEM FOUNDATION, INC.
STATEMENT OF FINANCIAL POSITION
FOR THE YEAR ENDED JUNE 30, 2006

ASSETS:

Cash and cash equivalents	\$ 262,480
Investments	67,280
Unconditional promises to give, net	11,409
Prepaid Expenses	1,000
Other Receivable	<u>1,257</u>
 TOTAL ASSETS	 \$ <u><u>343,426</u></u>

LIABILITIES AND NET ASSETS

LIABILITIES	\$ 0
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NET ASSETS:

Unrestricted	97,085
Temporarily restricted	30,480
Permanently restricted	<u>215,861</u>
 TOTAL NET ASSETS	 <u>343,426</u>
 TOTAL LIABILITIES AND NET ASSETS	 \$ <u><u>343,426</u></u>

See accompanying notes to financial statements.

CONNECTICUT STATE UNIVERSITY SYSTEM FOUNDATION, INC.
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2006

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
REVENUES AND SUPPORT:				
Contributions	\$ 41,396	\$ 250	\$ 25,141	\$ 66,787
State of Connecticut matching contributions	-	-	1,479	1,479
Investment income	3,074	6,842	-	9,916
Unrealized gains/(losses) on investments	-	4,671	-	4,671
Net assets released from restrictions				
Restrictions satisfied by payments	3,500	(3,500)	-	-
TOTAL REVENUES AND SUPPORT	<u>47,970</u>	<u>8,263</u>	<u>26,620</u>	<u>82,853</u>
EXPENSES:				
Program services				
Scholarships	6,500	-	-	6,500
Educational and cultural	3,014	-	-	3,014
Supporting services				
General and administrative	2,125	-	-	2,125
Fundraising	19,124	-	-	19,124
TOTAL EXPENSES	<u>30,763</u>	<u>-</u>	<u>-</u>	<u>30,763</u>
CHANGE IN NET ASSETS	17,207	8,263	26,620	52,090
NET ASSETS, BEGINNING OF THE YEAR	<u>79,878</u>	<u>22,217</u>	<u>189,241</u>	<u>291,336</u>
NET ASSETS, END OF THE YEAR	<u>\$ 97,085</u>	<u>\$ 30,480</u>	<u>\$ 215,861</u>	<u>\$ 343,426</u>

See accompanying notes to financial statements.

CONNECTICUT STATE UNIVERSITY SYSTEM FOUNDATION, INC.
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED JUNE 30, 2006

	<u>Program Services</u>		<u>Supporting Services</u>		<u>Total</u>
	<u>Scholarships</u>	<u>Educational and Cultural</u>	<u>General and Administrative</u>	<u>Fundraising</u>	
Awards banquet	\$ 3,000	\$ -	\$ -	\$ 6,107	\$ 9,107
Scholarships and grants	3,500	-	-	-	3,500
Retirement dinner	-	-	-	10,595	10,595
Printing and postage	-	-	16	2,422	2,438
Insurance expense	-	-	1,250	-	1,250
Art activities	-	1,372	-	-	1,372
Outer Island	-	1,642	-	-	1,642
Office expense	-	-	859	-	859
TOTAL EXPENSES	\$ <u>6,500</u>	\$ <u>3,014</u>	\$ <u>2,125</u>	\$ <u>19,124</u>	\$ <u>30,763</u>

See accompanying notes to financial statements.

CONNECTICUT STATE UNIVERSITY SYSTEM FOUNDATION, INC.
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2006

CASH FLOWS FROM OPERATING ACTIVITIES	
Change in net assets	\$ 52,090
Adjustments to reconcile change in net assets to net cash provided by operating activities:	
Other receivable	(1,257)
Prepaid expenses	(1,000)
Unrealized gain on investments	(4,671)
Total adjustments	<u>(6,928)</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>45,162</u>
CASH FLOWS FROM INVESTING ACTIVITIES	
Payments for purchase of investments, net	<u>(1,119)</u>
NET CASH PROVIDED BY (USED IN) INVESTING ACTIVITIES	<u>(1,119)</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	44,043
CASH AND CASH EQUIVALENTS - June 30, 2005	218,437
CASH AND CASH EQUIVALENTS - June 30, 2006	<u>\$ 262,480</u>

See accompanying notes to financial statements.

**CONNECTICUT STATE UNIVERSITY SYSTEM FOUNDATION, INC.
NOTES TO FINANCIAL STATEMENTS**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Activities:

The Connecticut State University System Foundation, Inc. (the Foundation), operates exclusively for charitable and educational purposes and as such promotes, encourages and assists all forms of education and research in the Connecticut State University System. The Foundation solicits donations of properties, monies or securities and disburses such funds and property, or the income, therefrom, in aiding, supplementing, improving and enlarging the educational, cultural and research facilities and activities of the Connecticut State University.

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 stipulations that may or will be met, either by actions of the Foundation and/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 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.

Cash and Cash Equivalents:

For financial statement purposes, the Foundation considers all funds in checking and savings accounts to be cash equivalents, as well as highly liquid investments that are readily convertible into cash.

Contributions:

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

**CONNECTICUT STATE UNIVERSITY SYSTEM FOUNDATION, INC.
NOTES TO FINANCIAL STATEMENTS**

Investments:

Investments in marketable securities 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).

NOTE 2 CONCENTRATION OF CREDIT RISK

As of June 30, 2006, the Foundation maintained uninsured deposits in the amount of \$109,161 in a money market account. The Foundation also maintained certificates of deposit in the amount of \$131,440; \$31,440 was not FDIC insured. Uninsured deposits total \$140,601. The Foundation has not experienced any losses in such accounts and does not believe it is exposed to any significant risk.

NOTE 3 INVESTMENTS

Investments are stated at fair value and consist of marketable securities and mutual funds.

	<u>June 30, 2006</u>
Marketable Securities:	
Market value	\$ 781
Cost	<u>736</u>
Excess of market value over cost	\$ <u>45</u>
 Mutual Funds:	
Market value	\$ 66,500
Cost	<u>59,676</u>
Excess of market value over cost	\$ <u>6,824</u>

NOTE 4 PROMISES TO GIVE

The State of Connecticut has established a Higher Education State Matching Grant Fund to be administered by the Department of Higher Education in accordance with Section 10a-8b of the General Statutes. Section 10a-99a of the General Statutes requires the Board of Trustees of the Connecticut State University System to establish a permanent Endowment Fund for the Connecticut State University System to encourage donations from the private sector. The net earnings on the endowment principal are dedicated and made available to a State university or the Connecticut State University system as a whole for endowed professorships, scholarships and programmatic enhancements.

**CONNECTICUT STATE UNIVERSITY SYSTEM FOUNDATION, INC.
NOTES TO FINANCIAL STATEMENTS**

Public Act 05-3 enacted by the June 2005 Special Session of the General Assembly, and effective July 1, 2005, reduced the State match from one half to one quarter of private funds raised for those endowment funds. (Note that Public Act 06-135, effective July 1, 2006, extended through June 30, 2005, the State's obligation to match one half of private funds raised.) In addition, effective June 30, 2005, Public Act 05-3 revised Section 10a-8c of the General Statutes to provide that no appropriations for the State match may be made unless the following conditions are met: (1) The amount in the Budget Reserve Fund must equal ten per cent of the net General Fund appropriation for the fiscal year in progress; (2) The amount of the grants appropriated shall be reduced proportionately if the amount available to be appropriated is less than the amount required for such grants; and (3) The amount of funds available to be appropriated during any fiscal year for such grants shall not exceed \$25,000,000.

Therefore, it appears that, effective with the audited period July 1, 2005, through June 30, 2006, there is no assurance that the conditions noted above will be met. Accordingly, consistent with Statement of Financial Accounting Standards No. 116 issued by the Financial Accounting Standards Board, State matching funds pertaining to this time period are considered "conditional promises to give" and are, therefore, not being recognized as receivables.

Based on the legislation, the Foundation has recognized the following unconditional promises to give for the year ended June 30, 2006:

Match receivable for calendar year 2004 contributions	\$ 4,979
Match receivable for calendar year 2005 contributions, through June 30, 2005	<u>7,000</u>
Total	<u>\$11,979</u>

Unconditional promises to give at June 30, 2006, discounted to net present value, are as follows:

Receivable due in less than one year	\$ 0
Receivable due in one to five years	<u>11,979</u>
Total promises to give	11,979
Less: discount to net present value at 5% discount rate	<u>(570)</u>
Net promises to give	<u>\$11,409</u>

NOTE 5 TEMPORARILY AND PERMANENTLY RESTRICTED NET ASSETS

Temporarily restricted net assets are available for scholarships. Permanently restricted net assets are restricted in perpetuity, the income of which is expendable to support scholarships.

NOTE 6 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 were released for scholarships and awards.

INDEPENDENT AUDITORS' REPORT ON COMPLIANCE

The Board of Directors
Connecticut State University System Foundation, Inc.:

We have audited the financial statements of the Connecticut State University System Foundation, Inc., (the Foundation) as of and for the fiscal year ended June 30, 2006, and have issued our report dated April 11, 2008.

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.

Compliance with Sections 4-37e to 4-37k of the Connecticut General Statutes, any other laws and internal controls relevant to the Foundation is the responsibility of the Foundation's management. As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we performed tests of the Foundation's compliance with Sections 4-37e to 4-37k of the Connecticut General Statutes. However, the objective of our audit of the financial statements was not to provide an opinion on overall compliance with such statutes. Accordingly, we do not express such an opinion.

The results of our tests disclosed certain instances of noncompliance that are required to be reported under *Government Auditing Standards*. We noted that the Foundation did not fully comply with Section 4-37h of the General Statutes. This section requires that the Foundation inform potential donors that the donors may request in writing that their identity remain confidential. We also found that the Foundation did not fully adhere to Section 4-37f, subsection (7), of the General Statutes, which requires that such foundations use generally accepted accounting principles in their financial record-keeping and reporting. Generally accepted accounting principles, as noted in Statement of Financial Accounting Standards No. 117, require that permanently restricted, temporarily restricted, and unrestricted assets be displayed in the statement of financial position and that the amounts of change in those classes of assets be displayed in the statement of activities. These matters are further discussed in the accompanying "Management Letter."

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.

Kevin P. Johnston
Auditor of Public Accounts

Robert G. Jaekle
Auditor of Public Accounts

April 11, 2008
State Capitol
Hartford, Connecticut

INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL BASED UPON AN AUDIT OF FINANCIAL STATEMENTS

The Board of Directors
Connecticut State University System Foundation, Inc.:

We have audited the financial statements of the Connecticut State University System Foundation, Inc, (the Foundation), as of and for the fiscal year ended June 30, 2006, and have issued our report dated April 11, 2008.

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.

The management of the Foundation is responsible for establishing and maintaining effective internal control. In planning and performing our audit, we considered the Foundation's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting.

Our consideration of internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that would be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted other matters involving internal control over financial reporting that are described in the accompanying Management Letter.

This report is intended for the information of the Board of Directors. However, this report is a matter

of public record and its distribution is not limited.

Kevin P. Johnston
Auditor of Public Accounts

Robert G. Jaekle
Auditor of Public Accounts

April 11, 2008
State Capitol
Hartford, Connecticut

MANAGEMENT LETTER

The Board of Directors
Connecticut State University System Foundation, Inc.

In planning and performing our audit of the financial statements of the Connecticut State University System Foundation, Inc. for the fiscal year ended June 30, 2006, 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. As indicated in our report on internal control, we noted no matters involving the internal accounting control structure and its operation that we consider to be material weaknesses. However, during our audit, we became aware of certain matters that present opportunities for strengthening internal controls.

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

Recording and Reporting of Revenues and Support

Criteria:

- Section 10a-99a(a)(3)(b) of the General Statutes defines "endowment fund eligible gift" as a gift which the donor has specifically designated for deposit in the endowment fund or which explicitly or implicitly, by the terms of the gift, is deposited in the endowment fund.
- As noted above, Section 10a-99a(a)(3)(b) of the General Statutes defines "endowment fund eligible gift." In addition, Section 10a-99a of the General Statutes provides that endowment fund eligible gifts not included in the original certification may be carried forward and be eligible for the State matching grant in any succeeding fiscal year.

Generally Accepted Accounting Principles noted in Statement of Financial Accounting Standards (SFAS) No. 116 require that the Foundation recognize donor-imposed restrictions and account for the donation accordingly.

Condition:

- The Foundation is required to annually report to the Department of Higher Education the amount of contributions that are eligible for the State match. During our review of revenue, we found that the Foundation reported revenue eligible for a State match that we determined was not eligible. During the fiscal year ended June 30, 2006, the Foundation sponsored a retirement party; a portion of the proceeds from that event would be allocated to the CSU Endowment Fund. The invitation explicitly specified that the balance of the ticket price for the party, after expenses, would be placed in the CSU Endowed Scholarship Fund as a tax-deductible donation. Expenses reported on the Foundation's income statement relating to the retirement dinner included the cost of the dinner, invitations, postage, mailing, and flowers. However, when determining the balance of the ticket price that should have been directed to the endowment fund, the only expense the Foundation used in that calculation was the price of the ticket related to the cost of the dinner. All other expenses were not deducted. Therefore, the Foundation reported an excess of funds eligible for the State match in the amount of \$1,606.

In addition, the Foundation sent a letter to the donor specifying the amount that qualified as a tax-deductible donation; that amount also was incorrect.

- We also noted that the amount certified by the Foundation as eligible for a State match did not include a \$1,000 gift. That donation was an employer match of a gift donated by a UTC employee. The original gift was designated to the CSU Endowment Fund. Therefore, the employer match should also have been similarly recorded as an endowment gift. However, it was erroneously recorded as an unrestricted donation.

Effect:

- The amount reported to the State as eligible for the State match was \$1,606 greater than allowed according to the provisions of the Statute. Also, that amount differed from the revenue reported on the Foundation's financial statements. In addition, the amount reported to the donor as eligible for a tax deduction was incorrect.

- The Foundation underreported endowment gifts eligible for the State match in the amount of \$1,000; however, that amount may be reported in the succeeding fiscal year. In addition, the Foundation did not adhere to SFAS No. 116.

Cause:

- At the time the acknowledgement forms to the donors were prepared, the Foundation had not incurred all expenses related to the retirement party. Therefore, because the Foundation believed that the cost of the meal was the primary expense referred to in the invitation as designated to the endowment fund, the meal cost was the only expense deducted from retirement party revenue when preparing the report of funds eligible for the State match. (As noted above, however, the financial statements reported a transfer to the CSU Endowment fund in the amount of \$16,528; this amount was the net figure after all expenses had been deducted.)
- The omission of the \$1,000 gift was an oversight.

Recommendation:

The Foundation should take steps to ensure that procedures used to determine whether gifts are eligible for the State match are adequate to ensure compliance with State regulations and to ensure that the donation is classified according to the donor's intent. Further, the Foundation should ensure that those amounts reported as eligible for the State match agree with the restricted revenue reported on the Foundation's financial statements.

Auditee's Response:

We agree with these findings and have already taken the necessary action to correct the incorrectly recorded gifts and the amount of matchable endowment reported. In addition, we will ensure in the future that matchable endowments are recorded correctly.

Compliance with Section 4-37h of the General Statutes

Criteria: As noted in Section 4-37h of the General Statutes, the Foundation must inform potential donors, either at the time of solicitation or in any receipt for or other written confirmation of such donation, that the donors may request in writing that their identity remain confidential.

Condition: We reviewed Foundation solicitation letters to verify that the Foundation provided that disclosure to donors. We noted that fundraising solicitations do not provide that disclosure.

Effect: The Foundation did not provide the notification to donors required by Section 4-37h of the General Statutes.

Cause: The Foundation was not aware that such notification was required.

Recommendation:

The Foundation should revise the donor solicitation letter to provide the required disclosure.

Auditee's Response:

The donor solicitation letter has been revised to provide the required disclosure.

Financial Statement Reporting:

Criteria: Statement of Financial Accounting Standards (SFAS) No. 117 requires that the amounts for each of three classes of net assets (permanently restricted, temporarily restricted, and unrestricted) be presented in a statement of financial position and that the amounts of change in each of those classes of net assets be presented in a statement of activities.

Condition: During our audit of the 2002-2003 fiscal year, we noted that the Foundation did not separate restricted assets into permanently restricted and temporarily restricted classifications. During the current audit, we found that although the Foundation did provide a temporarily restricted classification, not all temporarily restricted activity was reported on the financial statements.

Effect: The Foundation did not adhere to certain requirements of SFAS No. 117.

Cause: The Foundation was unable to fully modify the financial statements in response to our comments of the prior audit.

Recommendation:

The Foundation should adhere to SFAS No. 117, which requires that permanently restricted, temporarily restricted, and unrestricted assets be displayed in the statement of financial position and that

the amounts of change in those classes of assets be presented in the statement of activities.

Auditee's Response:

We agree with this recommendation and have corrected the format of the Foundation financial statements to conform to this presentation.

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 Connecticut State University System Foundation, Inc., greatly facilitated the conduct of this examination.

Cynthia Ostroske
Associate Auditor

Approved:

Kevin P. Johnston
Auditor of Public Accounts

Robert G. Jaekle
Auditor of Public Accounts