

STATE OF CONNECTICUT



*AUDITORS' REPORT
CHARTER OAK STATE COLLEGE FOUNDATION, INC.
FOR THE FISCAL YEAR ENDED JUNE 30, 2018*

AUDITORS OF PUBLIC ACCOUNTS
JOHN C. GERAGOSIAN ❖ ROBERT J. KANE

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STATE OF CONNECTICUT



AUDITORS OF PUBLIC ACCOUNTS

State Capitol
210 Capitol Avenue
Hartford, Connecticut 06106-1559

JOHN C. GERAGOSIAN

ROBERT J. KANE

September 19, 2018

INDEPENDENT AUDITORS' REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of the Charter Oak State College Foundation, Inc. (Foundation), which comprise the statement of financial position as of June 30, 2018, and the related statements of activities, functional expenses, and cash flows for the year 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.

Auditors' Responsibility

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 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 the Foundation as of June 30, 2018, and the changes in its net assets and cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated September 19, 2018, 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, grant 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 to provide an opinion on the Foundation's compliance with Sections 4-37e to 4-37k of the Connecticut General Statutes. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Foundation's internal control over financial reporting and compliance.



John C. Geragosian
State Auditor



Robert J. Kane
State Auditor

September 19, 2018
State Capitol
Hartford, Connecticut

**CHARTER OAK STATE COLLEGE FOUNDATION, INC.
STATEMENT OF FINANCIAL POSITION
FOR THE FISCAL YEAR ENDED JUNE 30, 2018**

ASSETS:

Cash and Cash Equivalents	\$ 149,268
Investments (Note 3)	1,950,933
Other Assets	<u>625</u>

TOTAL ASSETS \$ 2,100,826

LIABILITIES AND NET ASSETS:

LIABILITIES: \$ -

NET ASSETS:

Unrestricted	\$ 20,570
Temporarily Restricted (Note 5)	982,589
Permanently Restricted (Note 6)	<u>1,097,667</u>

TOTAL LIABILITIES AND NET ASSETS \$ 2,100,826

See accompanying notes to financial statements.

**CHARTER OAK STATE COLLEGE FOUNDATION, INC.
STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2018**

	<u>Unrestricted</u>	Temporarily <u>Restricted</u>	Permanently <u>Restricted</u>	<u>Total</u>
REVENUES AND SUPPORT:				
Contributions	\$ 23,560	\$ 87,600	\$ 5,679	\$ 116,839
Dividend/Interest Income	169	58,447	-	58,616
Gain/(Loss) on Investments, Net	-	69,068	-	69,068
Fundraiser Proceeds, Net	-	(2,410)	8,717	6,307
Net Assets Released from Restrictions				
Restrictions Satisfied by Payments	<u>104,147</u>	<u>(104,147)</u>	<u>-</u>	<u>-</u>
TOTAL REVENUES AND SUPPORT	<u>\$ 127,876</u>	<u>\$ 108,558</u>	<u>\$ 14,396</u>	<u>\$ 250,830</u>
EXPENSES:				
Program Services				
Scholarships and Grants	31,427	-	-	31,427
Course Development	7,150	-	-	7,150
Women in Transition	66,026	-	-	66,026
Supporting Services				
General and Administrative	23,663	-	-	23,663
Fundraising	<u>4,284</u>	<u>-</u>	<u>-</u>	<u>4,284</u>
TOTAL EXPENSES	<u>\$ 132,550</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 132,550</u>
CHANGE IN NET ASSETS	\$ (4,674)	\$ 108,558	\$ 14,396	\$ 118,280
NET ASSETS, BEGINNING OF YEAR	<u>\$ 25,244</u>	<u>\$ 874,031</u>	<u>\$1,083,271</u>	<u>\$1,982,546</u>
NET ASSETS, END OF YEAR	<u>\$ 20,570</u>	<u>\$ 982,589</u>	<u>\$1,097,667</u>	<u>\$2,100,826</u>

See accompanying notes to financial statements.

**CHARTER OAK STATE COLLEGE FOUNDATION, INC.
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE FISCAL YEAR ENDED JUNE 30, 2018**

	<u>Scholarships</u> <u>and</u> <u>Grants</u>	<u>Course</u> <u>Development</u>	<u>Women</u> <u>in</u> <u>Transition</u>	<u>General</u> <u>and</u> <u>Administrative</u>	<u>Fund</u> <u>Raising</u>	<u>Total</u>
Computer and Related	\$ -	\$ -	\$ 1,317	\$ -	\$ -	\$ 1,317
Scholarships and Grants	31,427	-	64,709	-	-	96,136
Course Development	-	7,150	-	-	-	7,150
Investment and Bank Fees	-	-	-	10,181	-	10,181
Accounting Services	-	-	-	8,165	-	8,165
Insurance	-	-	-	1,431	-	1,431
Meetings	-	-	-	609	-	609
Postage	-	-	-	2,225	-	2,225
Other	-	-	-	1,052	4,284	5,336
TOTAL EXPENSES	<u>\$ 31,427</u>	<u>\$ 7,150</u>	<u>\$ 66,026</u>	<u>\$ 23,663</u>	<u>\$ 4,284</u>	<u>\$ 132,550</u>

See accompanying notes to financial statements.

**CHARTER OAK STATE COLLEGE FOUNDATION, INC.
STATEMENT OF CASH FLOWS
FOR THE FISCAL YEAR ENDED JUNE 30, 2018**

CASH FLOWS FROM OPERATING ACTIVITIES:	
Change in Net Assets	\$ 118,280
Adjustments to Reconcile Change in Net Assets to Net Cash Provided by (used in) Operating Activities:	
Net Realized and Unrealized Gain on Investments	(69,068)
Changes in Operating Assets and Liabilities:	
Decrease in Payables	<u>(748)</u>
	<u>(69,816)</u>
 NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES	 \$ <u>48,464</u>
 CASH FLOWS FROM INVESTING ACTIVITIES:	
Purchases of Investments (Reinvested Dividends)	(34,781)
Sales of Investments (Investment Fees)	<u>9,117</u>
 NET CASH PROVIDED BY (USED IN) INVESTING ACTIVITIES	 \$ <u>(25,664)</u>
 NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	 \$ 22,800
 CASH AND CASH EQUIVALENTS - JUNE 30, 2017	 \$ <u>126,468</u>
CASH AND CASH EQUIVALENTS - JUNE 30, 2018	<u>\$ 149,268</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. (Foundation) operates exclusively for charitable and educational purposes. The Foundation 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 for the benefit of Charter Oak State College.

Basis of Presentation:

The accompanying financial statements have been prepared on the accrual basis of accounting in accordance with generally accepted accounting principles, as promulgated by the Financial Accounting Standards Board (FASB) Accounting Standards Codification. 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 will be met either by actions of the Foundation or by the passage of time. When a restriction has been met or 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 must 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 date or 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 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, 2018, there were no uninsured deposits.

NOTE 3: FAIR VALUE MEASUREMENT:

The framework for measuring fair value provides a 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 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's 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.

The Foundation's investments are carried at fair value using Level 1 inputs and consist of the following:

	Cost	Market Value
Bond Funds	\$ 618,151	\$ 608,463
Equity Funds	1,316,965	1,317,835
Cash & Cash Equivalents	24,635	24,635
	\$ 1,959,751	\$ 1,950,933

NOTE 4: CONDITIONAL PLEDGE:

In 2005, the State of Connecticut established a higher education state matching fund 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 10% 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 that the conditional pledge will be received.

NOTE 5: TEMPORARILY RESTRICTED NET ASSETS:

Temporarily restricted net assets are available for the following purposes:

Educational Lectures	\$ 69,344
Scholarships and Grants	497,307
Technology	134,324
Women in Transition Program	281,614
Total Temporarily Restricted Net Assets	\$ 982,589

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	\$ 94,713
Scholarships and Grants	740,872
Technology	103,383
Women in Transition Program	158,699
Total Permanently Restricted Net Assets	\$ 1,097,667

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	\$ 66,026
Scholarships and Grants	31,427
Shea Lectures	2,410
Other Funds Restricted for Program Purposes	4,284
Total Net Assets Released From Restrictions	<u>\$ 104,147</u>

NOTE 8: ENDOWMENT:

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

The Foundation's board of directors 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 Foundation used the annual income generated from its investment portfolio to support programs the board of directors deemed prudent.

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 board-approved policy, the endowment assets are invested in the following 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 board's 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.

NOTE 9: TRANSACTIONS WITH CHARTER OAK STATE COLLEGE:

To ensure the proper use of funds, the Foundation disburses certain funds directly to Charter Oak State College. The Foundation provides institutional support to Charter Oak State College for various programs and other services. All of the Foundation's expenditures are in an effort to advance the college.

STATE OF CONNECTICUT



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ROBERT J. KANE

**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, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the Charter Oak State College Foundation, Inc. (Foundation) as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the Foundation's basic financial statements, and have issued our report thereon dated September 19, 2018.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Foundation's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances 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. Accordingly, we do not express an opinion on the effectiveness of the Foundation's internal control.

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. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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 that might be material weaknesses or significant deficiencies. Given these limitations, during our audit, we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

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. In our opinion, the Charter Oak State College Foundation, Inc. complied, in all material respects, with the provisions of Sections 4-37e to 4-37k of the Connecticut General Statutes for the year ended June 30, 2018.

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

Purpose of 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
State Auditor



Robert J. Kane
State Auditor

September 19, 2018
State Capitol
Hartford, Connecticut

STATE OF CONNECTICUT



AUDITORS OF PUBLIC ACCOUNTS

JOHN C. GERAGOSIAN

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210 Capitol Avenue
Hartford, Connecticut 06106-1559

ROBERT J. KANE

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. (Foundation) for the fiscal year ended June 30, 2018, 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 compliance with Sections 4-37e through 4-37k of the Connecticut General Statutes, and not to provide an opinion on internal control. 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 we have already discussed with various personnel affiliated with the Foundation, are summarized below.

1. Segregation of Duties

Criteria: The Foundation established procedures to address the lack of segregation of duties between the general ledger and reconciliation functions. These procedures include the Foundation Treasurer's review of all bank reconciliations and expenditures. In February 2018, the Foundation's policy was modified to reflect that this review should be performed on a quarterly rather than monthly basis.

- Condition:* We reviewed all bank reconciliations for the audited period and noted that the Treasurer did not perform a review in any month or quarter during the fiscal year.
- Effect:* There was a lack of segregation of duties between the general ledger and reconciliation functions during the audited period.
- Cause:* The Foundation did not perform procedures to address the lack of segregation of duties.
- Recommendation:* The Charter Oak State College Foundation, Inc. should follow established procedures to address the lack of segregation of duties.
- Agency Response:* “We recognize our responsibility in making sure that Foundation funds are accounted for accurately and with proper internal controls. The quarterly review is an important control and we will comply with this policy in the current fiscal year.”

2. Foundation Accounting Records

- Criteria:* The Foundation’s accounting records should be accurately stated and should reconcile to underlying supporting documentation.
- Condition:* In March 2018, the Foundation sold its investment accounts with Vanguard and purchased new investments. The Foundation’s general ledger continued to reflect the Vanguard accounts (total balance of \$1.3 million as of June 30, 2018) but did not reflect the new investments accounts.
- In addition, the Foundation’s general ledger reflects several old balances, including advance receivables of \$514.20 and equipment and related accumulated depreciation of \$53,473.90 and (\$53,473.90), respectively. Foundation personnel have indicated for several years that these amounts should be written off.
- Effect:* The Foundation did not accurately state its general ledger.
- Cause:* The Foundation did not review and reconcile its general ledger to supporting documentation in a timely manner.
- Recommendation:* The Charter Oak State College Foundation should update its accounting records in a timely manner to reflect accurate balances based on underlying supporting documentation.
- Agency Response:* “We have since recorded the transfer from Vanguard. Unfortunately, we had not completed the recording of this event when the records were turned over to the auditors in early July.

Regarding the old receivable balances and old equipment still on the records, we will write those off in the current fiscal year.”

3. Outdated Policy Document

Criteria: The Foundation has a written policy detailing procedures and controls for cash receipts, disbursements, and investments.

Condition: The Foundation last updated the written policy in November 2014. Although several changes to Foundation procedures have been made, the Foundation has not updated its written policy to reflect those changes.

Effect: The Foundation’s written policy does not reflect current practice.

Cause: The Foundation has not updated the written policy.

Recommendation: The Charter Oak State College Foundation should update its written policy to reflect current practice regarding procedures and controls for cash receipts, disbursements, and investments.

Agency Response: “We will review and update our written procedures to reflect changes made since the last update.”

Status of Prior Audit Recommendations

The following summarizes the recommendations presented in our prior audit and the current status of those prior recommendations.

1. *The Charter Oak State College Foundation, Inc. should follow established procedures to address the lack of segregation of duties.* This recommendation is restated and repeated. (See Recommendation 1.)
2. *The Charter Oak State College Foundation, Inc. should strengthen controls around the expenditures process.* This recommendation was resolved and is not repeated.

ACKNOWLEDGEMENT

The Auditors of Public Accounts would like to recognize the auditors who contributed to this report:

Jamie Drozdowski

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

Jamie Drozdowski
Associate Auditor

Approved:



John C. Geragosian
State Auditor



Robert J. Kane
State Auditor