

**The University of Connecticut  
Foundation, Incorporated**  
Financial Statements  
June 30, 2018 and 2017

# The University of Connecticut Foundation, Incorporated

## Index

*June 30, 2018 and 2017*

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	Page
<b>REPORT OF INDEPENDENT AUDITORS.....</b>	<b>1</b>
<b>FINANCIAL STATEMENTS</b>	
<b>Statement of Financial Position.....</b>	<b>3</b>
<b>Statement of Activities as of June 30, 2018 with summarized comparatives for 2017.....</b>	<b>4</b>
<b>Statement of Cash Flows .....</b>	<b>5</b>
<b>Notes to the Financial Statements.....</b>	<b>6-23</b>



## **Report of Independent Auditors**

To the Board of Directors of  
The University of Connecticut Foundation, Incorporated:

We have audited the accompanying financial statements of The University of Connecticut Foundation Incorporated (the "Foundation"), which comprise the statement of financial position as of June 30, 2018 and 2017, and the related statement of activities for the year ended June 30, 2018, and statement of cash flows for the years ended June 30, 2018 and 2017.

### ***Management's Responsibility for the Financial Statements***

Management is responsible for the preparation and fair presentation of the 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 the financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits 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 our 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, we consider internal control relevant to the Foundation'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 Foundation'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 University of Connecticut Foundation, Incorporated as of June 30, 2018 and 2017 and the change in its net assets for the year ended June 30, 2018 and its cash flows for the years ended June 30, 2018 and 2017 in accordance with accounting principles generally accepted in the United States of America.

**Other Matter**

We previously audited the consolidated statement of financial position as of June 30, 2017, and the related consolidated statement of activities and of cash flows for the year then ended (not presented herein), and in our report dated October 10, 2017, we expressed an unmodified opinion on those consolidated financial statements. In our opinion, the information set forth in the accompanying summarized financial information as of June 30, 2017 and for the year then ended is consistent, in all material respects, with the audited consolidated financial statements from which it has been derived.

*PricewaterhouseCoopers LLP*

October 10, 2018  
Hartford, CT

**The University of Connecticut Foundation, Incorporated**  
**Statement of Financial Position**  
**June 30, 2018 and 2017**

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	<b>2018</b>	<b>2017</b>
<b>Assets</b>		
Cash and cash equivalents	\$ 6,948,129	\$ 13,951,918
Restricted cash	-	894,369
Pledges receivable, net (Note 2)	22,916,988	26,562,296
Investments, operating (Note 3)	88,358,826	66,993,320
Investments, endowment (Note 3)	411,208,325	368,651,552
Funds held in trust by others	24,572,528	19,797,153
Endowments held for the University	15,098,682	14,537,943
Cash surrender value of life insurance (Note 4)	600,796	601,936
Property and equipment, net (Note 5)	5,104,422	5,640,665
Other assets (Note 6)	639,828	1,057,690
Total assets	<u>\$ 575,448,524</u>	<u>\$ 518,688,842</u>
<b>Liabilities and Net Assets</b>		
<b>Liabilities</b>		
Accounts payable and accrued expenses	\$ 7,005,499	\$ 6,470,652
Trusts and annuities payable	2,304,391	2,344,855
Endowments held for the University	15,098,682	14,537,943
Accrued debt service interest	-	102,203
Lease liability	14,457	96,167
Bonds and note payable (Note 8)	16,595,942	19,561,833
Total liabilities	<u>41,018,971</u>	<u>43,113,653</u>
<b>Net Assets (Note 9)</b>		
Unrestricted	(81,387)	(540,708)
Temporarily restricted	124,058,118	99,232,104
Permanently restricted	410,452,822	376,883,793
Total net assets	<u>534,429,553</u>	<u>475,575,189</u>
Total liabilities and net assets	<u>\$ 575,448,524</u>	<u>\$ 518,688,842</u>

The accompanying notes are an integral part of these financial statements.

**The University of Connecticut Foundation, Incorporated**  
**Statement of Activities**  
**For the Year Ended June 30, 2018, with Summarized Comparative Totals for 2017**

	2018				2017
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Total
<b>Revenues, gains and other support</b>					
Contributions	221,054	\$ 37,094,346	\$ 27,729,400	\$ 65,044,800	\$ 35,603,065
Net total investment return	644,676	25,819,649	6,460,805	32,925,130	45,653,888
Contractual payments from the University	10,480,000	-	-	10,480,000	10,050,000
Memberships and other income	1,152,149	416,734	21,910	1,590,793	1,984,848
Total revenues and gains	12,497,879	63,330,729	34,212,115	110,040,723	93,291,801
Net assets released from restrictions	28,396,400	(28,396,400)	-	-	-
Endowment spending allocation	(42,407)	1,543,172	(1,500,765)	-	-
Endowment and gift fees to fund Foundation operations	8,796,501	(8,069,343)	(727,158)	-	-
Total revenues, gains and other support	49,648,373	28,408,158	31,984,192	110,040,723	93,291,801
<b>Expenses</b>					
<b>Program support</b>					
Student scholarships, fellowships and awards	9,448,819	-	-	9,448,819	10,964,082
Faculty and staff compensation	7,437,018	-	-	7,437,018	6,852,968
General program and research support	4,354,590	-	-	4,354,590	3,142,206
Equipment	2,603,320	-	-	2,603,320	1,951,878
Fundraising, events, promotions and donor cultivation	1,815,863	-	-	1,815,863	1,857,701
Faculty, staff and student travel, conferences and meetings	1,781,514	-	-	1,781,514	2,231,676
Facilities construction, improvements, and related expenses	955,276	-	-	955,276	597,976
Total Program support	28,396,400	-	-	28,396,400	27,598,487
<b>Foundation operations</b>					
Development expenses	9,790,958	-	-	9,790,958	9,691,119
Administration expenses	9,595,792	-	-	9,595,792	8,317,833
Alumni expenses	3,048,209	-	-	3,048,209	2,567,826
University support	355,000	-	-	355,000	355,000
Total Foundation operations	22,789,959	-	-	22,789,959	20,931,778
Total expenses	51,186,359	-	-	51,186,359	48,530,265
Transfers between net asset categories	13,423	(1,598,262)	1,584,839	-	-
Change in provision for underwater endowments	1,983,884	(1,983,884)	-	-	-
Change in net assets	459,321	24,826,012	33,569,031	58,854,364	44,761,536
Net assets, beginning of year	(540,708)	99,232,106	376,883,791	475,575,189	430,813,653
Net assets, end of year	\$ (81,387)	\$ 124,058,118	\$ 410,452,822	\$ 534,429,553	\$ 475,575,189

The accompanying notes are an integral part of these financial statements.

**The University of Connecticut Foundation, Incorporated**  
**Statement of Cash Flows**  
**For the Years Ended June 30, 2018 and 2017**

	<u>2018</u>	<u>2017</u>
<b>Cash flows from operating activities</b>		
Change in net assets	\$ 58,854,364	\$ 44,761,536
Adjustments to reconcile change in net assets to net cash used in operating activities		
Net investment return	(29,414,027)	(43,500,210)
Cash gifts to establish or increase permanent endowments	(22,146,020)	(13,852,630)
Gifts of securities	(5,605,290)	(5,544,861)
Proceeds from sale of donated securities	2,823,000	3,147,174
Net (gain) loss from sale of donated property	31,000	(3,850)
Depreciation and amortization	1,204,787	927,725
(Benefit) provision for uncollectible accounts	(843,781)	3,549,844
Provision for discounts on pledges receivable	128,743	80,220
Funds held in trust by others	(4,775,375)	(1,970,486)
(Increase) decrease in assets		
Pledges receivable	4,360,347	2,396,243
Cash surrender value of life insurance	1,140	(41,498)
Other assets	386,862	(422,462)
Increase (decrease) in liabilities		
Accounts payable and accrued expenses	534,845	(635,621)
Trusts and annuities payable	(40,464)	(38,505)
Accrued debt service interest	(102,203)	(6,769)
Total adjustments	<u>(53,456,436)</u>	<u>(55,915,686)</u>
Net cash used in operating activities	<u>5,397,928</u>	<u>(11,154,150)</u>
<b>Cash flows from investing activities</b>		
Purchases of investments	(238,478,642)	(113,280,458)
Sales of investments and gifts of marketable securities	203,970,390	113,893,966
Disposals of property and equipment	10,436	-
Purchases of property and equipment	(389,277)	(348,784)
Net cash (used in) provided by investing activities	<u>(34,887,093)</u>	<u>264,724</u>
<b>Cash flows from financing activities</b>		
Cash gifts to establish or increase permanent endowments	22,146,020	13,852,630
Proceeds from sale of donated securities restricted for endowment	2,782,290	2,397,687
Principal payments on lease liability	(90,984)	(83,823)
Proceeds from note payable	4,660,000	-
Note payable costs	(62,986)	-
Payments on bonds and note payable	(7,843,333)	(2,785,000)
Decrease (increase) in cash restricted for debt service	894,369	(3,591)
Net cash provided by financing activities	<u>22,485,376</u>	<u>13,377,903</u>
Net increase (decrease) in cash and cash equivalents	(7,003,789)	2,488,477
Cash and cash equivalents at beginning of year	<u>13,951,918</u>	<u>11,463,441</u>
Cash and cash equivalents at end of year	<u>\$ 6,948,129</u>	<u>\$ 13,951,918</u>
Supplemental disclosure of cash flow information:		
Gifts of securities	\$ 5,605,290	\$ 5,544,861
Cash paid during the year for interest	557,974	536,540

The accompanying notes are an integral part of these financial statements.

# The University of Connecticut Foundation, Incorporated

## Notes to the Financial Statements

### June 30, 2018 and 2017

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#### 1. Summary of Significant Accounting Policies

##### A. Organization

The University of Connecticut Foundation, Incorporated (the "Foundation") was established in 1964 as an independent, privately governed, not-for-profit corporation, chartered under the laws of the State of Connecticut.

The Foundation's mission is to strengthen the University of Connecticut, one relationship at a time. The Foundation fulfills this mission primarily through fundraising, asset management functions, and alumni relations. The Foundation solicits and accepts donations of property, money and securities, and invests and administers such assets. The Foundation disburses funds in accordance with the terms under which they were given to aid, supplement, improve, and enlarge the educational, cultural, recreational, and research activities and facilities of the University. More detailed information regarding the Foundation and its charitable activities can be obtained from the Foundation's website at [www.foundation.uconn.edu](http://www.foundation.uconn.edu).

##### B. Basis of Presentation

The financial statements of the Foundation have been prepared on the accrual basis of accounting and include the Foundation's assets, liabilities, net assets, revenues, and expenses for the year ending June 30, 2018.

The financial statements include certain prior-year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with generally accepted accounting principles in the United States of America.

Net assets, revenues and expenses are classified based on the terms of donor-imposed restrictions, if any. Accordingly, the net assets, revenues, and expenses of the Foundation are classified and reported as follows:

Unrestricted: Unrestricted net assets are not subject to restrictions other than donor-imposed to benefit the Foundation and board designated restrictions to support the University. Such assets include unrestricted gifts, investment earnings generated on unrestricted and temporarily restricted unspent funds and assets functioning as endowment. Also included in unrestricted net assets are accumulated net investment losses, spending and advancement fees in excess of accumulated net investment gains generated from permanently restricted gifts to endowment.

Temporarily restricted: Temporarily restricted net assets are subject to donor-imposed purpose or use restrictions to benefit a specific school, department, or program of the University that have not yet been met through the disbursement of such assets for their restricted purposes. Such assets and activity primarily include restricted, non-endowed gifts, and net total unexpended investment return generated from permanently restricted gifts to endowment as well as trusts and annuities whose ultimate purpose is not permanently restricted.

**The University of Connecticut Foundation, Incorporated**  
**Notes to the Financial Statements**  
**June 30, 2018 and 2017**

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Permanently restricted: Permanently restricted net assets are subject to donor-imposed restrictions and must be maintained in perpetuity by the Foundation. Generally, such assets represent the historic dollar value of restricted endowment gifts plus those unspent balances of spending allocations that were explicitly required to be reinvested under the donor-stipulated terms of the endowment funds as well as trusts and annuities whose ultimate purpose is to be maintained in perpetuity. Such assets also include accumulated net total investment losses where the donor-stipulated terms of the endowment funds allow such treatment. Additional information on net assets relative to endowment returns is included in Note 1H.

**C. Use of Estimates**

The preparation of the financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements, and revenues and expenses during the reporting period. Actual results could differ from those estimates. The Foundation's significant estimates include the valuation of its investments, the collectability of receivables, and the present value of the liability for future payments related to trust and annuity agreements.

**D. Contribution Revenue Recognition**

Philanthropic commitments are recognized as revenues when unconditionally pledged, or when a condition on a gift or pledge is met. Outright contributions are recognized as revenue when received. Gifts of real estate, buildings and equipment, marketable securities, and other donated property are recorded at their estimated fair value on the date of the gift.

Gifts are reported as restricted contributions if received with donor restrictions that designate the use of donated assets as to purpose or time. When a donor restriction is met (usually by the disbursement of the asset to benefit the University in accordance with the donor restriction), temporarily restricted net assets are reported in the statement of activities and changes in net assets as released from restrictions.

Pledges receivable represent outstanding unconditional promises by donors to make contributions to the Foundation. Unconditional promises to give that are expected to be collected within one year of the statement of financial position date are recorded at face value. Unconditional promises to give that are expected to be collected in future years are recorded at the present value of their estimated realizable future contribution amounts. The discount rates used to determine present values are an interest rate that reflects fair value applicable to the year in which the promises to give were received; the amortization of the related discount is subsequently included in contribution revenues. Contribution revenue recorded from pledges (see Note 2) is reflected in unrestricted, temporarily, or permanently restricted net assets, depending on donor restrictions, if any.

The Foundation uses a combination of specific reserve and estimate of remaining

# The University of Connecticut Foundation, Incorporated

## Notes to the Financial Statements

### June 30, 2018 and 2017

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uncollectible accounts to determine the total allowance for uncollectible pledges. As of June 30, 2018 the estimate of remaining uncollectible accounts was 1% on unrestricted pledges, pledges to non-athletic restricted accounts, and pledges to the Werth Family UConn Basketball Champions Center. Endowed and restricted pledges made to athletic accounts, other than the Werth Family UConn Basketball Champions Center, had a reserve rate of 5%. Non-athletic endowed pledges had a reserve rate of 2%.

Conditional promises to give are not recorded as revenue until they become unconditional, which is when the conditions on which they depend are substantially met.

On July 1, 2017, the UConn Law School Foundation transferred assets and operations to the University of Connecticut Foundation, resulting in \$23,506,799 revenue and \$443,231 pledges receivable being recorded on the Foundation's books.

#### **E. Cash and Cash Equivalents, and Restricted Cash**

The Foundation generally considers short-term, highly liquid financial instruments to be cash equivalents. Cash equivalents consist of time deposits and short-term investments with maturities of 90 days or less at the date of purchase. Cash equivalents are stated at cost, which approximates fair value. Cash and cash equivalents that are discretionary components of long-term portfolios managed by professional investment management firms hired by the Foundation are classified as investments (see Note 3).

Cash restricted for debt service is \$0 and \$894,369 at June 30, 2018 and 2017, respectively, and is comprised of debt service reserve and amounts payable to bondholders on July 1 required to be on deposit with the bond trustee at June 30 (See Note 8).

#### **F. Investments**

Investments are reported at fair value (see Note 3). The valuation of marketable securities is based upon quoted market prices and exchange rates, if applicable. Fair values for private equity, real estate, and other investments held through limited partnerships or commingled funds are estimated by the respective external investment managers if market values are not ascertainable. The Foundation uses the Net Asset Value (NAV) to determine the fair value of all the underlying investments which (a) do not have a readily determinable fair value and (b) prepare their financial statements consistent with the measurement principles of an investment company, or have the attributes of an investment company. As of June 30, 2018, investments in securities whose fair values are not readily determinable (NAV and level 3) accounted for 52% of all investments. Because they are not readily determinable, the fair values may differ from the values that would have been used had a ready market for these investments existed. Unrealized gains and losses that result from market fluctuations are recognized in the period in which the fluctuations occur. External investment management fees of \$3,011,577 are netted against total investment return.

Net investment return (defined as dividends, interest, and net realized and unrealized gains and losses on investments, net of investment management fees), is reported as

**The University of Connecticut Foundation, Incorporated**  
**Notes to the Financial Statements**  
**June 30, 2018 and 2017**

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follows:

As increases or decreases in temporarily restricted net assets if the terms of the underlying endowment funds designate the purpose for specific schools, departments, programs or otherwise stipulated by the donor;

As increases or decreases in unrestricted net assets if the terms of the underlying individual endowment funds and gifts are Board-designated;

As decreases in unrestricted net assets to the degree the endowment fair value has fallen below the historic dollar value of the endowment fund, unless the donor has stipulated such losses may reduce historic dollar value and are then recorded as part of permanently restricted net assets;

As increases or decreases in unrestricted net assets if the terms of the underlying individual funds and gifts are not endowed; or

As increases or decreases in permanently restricted net assets if there is a change in the present value of an annuity or trust due to the passage of time or changes in actuarial life expectancies.

**Investment in University of Connecticut Research and Development Corporation**

The Foundation was the sole shareholder of the R&D Corporation, a for-profit corporation duly established in the State of Connecticut in 1984. On December 31, 2015, the Foundation divested its interest in the R&D Corporation, which was transferred to The University of Connecticut, a related party, without compensation.

The agreement with the University allows the Foundation to retain a continuing interest in the underlying companies owned by the R&D Corporation on the divestiture date. The Foundation will derive income equal to 10% of sales and 30% of royalties. The Foundation may use 50% of any royalty revenue interest and 100% of sales to support the Foundation's mission. The remaining will be designated to support technology commercialization at the University of Connecticut. For the year ended June 30, 2018, the Foundation did not receive any royalty revenue.

**G. Endowment Spending Allocation and Advancement Fee**

The endowment spending policy adopted by the Foundation's Board of Directors, in conjunction with the strategic asset allocation policy for the long-term pooled investment portfolio, is designed to provide reliable growth in annual spending allocation levels and to preserve or increase the real value of the endowment principal, over time. To meet these objectives, the Foundation utilizes a total return investment approach, with total return consisting of interest and dividends, and realized and unrealized gains and losses, net of investment management fees.

The spending allocation distributed in support of designated purposes was \$15,587,590 and \$13,023,978 for the year ended June 30, 2018 and 2017, respectively.

The Foundation's endowment spending allocation policy was enacted in accordance with the Connecticut Uniform Prudent Management of Institutional Funds Act

**The University of Connecticut Foundation, Incorporated**  
**Notes to the Financial Statements**  
**June 30, 2018 and 2017**

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(UPMIFA). UPMIFA considers prudence in maintaining an endowment fund in perpetuity. Spending can occur from an endowment fund whose fair value is below its historic value, as long as the governing body has determined that its policies will continue the perpetual nature of the endowment over time.

The amount of funds allocated for expenditure for the purposes for which an endowed fund was established (“spending allocation”) will equal 4.25% annually (1.0625% per quarter) of the rolling prior 12-quarter average market value on a unitized basis. The corresponding calculated spending allocations are distributed in equal quarterly installments on the first day of each quarter from the accumulated net total investment return for individual endowment funds where available, otherwise from principal.

Endowed funds established after July 1, 2017, will not participate in the pool until the principal amount is equal to or greater than the minimum needed to establish an endowment. The new fund will participate in the pool on the first day of the quarter after meeting the minimum amount. The spending allocation and endowment advancement fee, discussed below, will not be distributed until the endowed fund has participated in the long-term pool investment portfolio for two quarters.

An advancement fee is assessed to fund expenses incurred in meeting the Foundation’s fiduciary and fundraising responsibilities to donors and the University. This on-going advancement fee is also assessed based on a rolling 12 quarter unitized market value. Effective on July 1, 2015, this rate was 2.0%. The calculated fee is charged in equal quarterly installments on the first day of each quarter from the accumulated net total investment return for individual endowment funds where available, otherwise from principal.

Neither the spending allocation nor the endowment advancement fee will be distributed from endowed funds that are ‘underwater’ by greater than 25% at the end of any quarter during the fiscal year.

The endowment spending allocation and advancement fee taken together cannot exceed 6.75% or fall below 3.0% of the fair value of endowment funds. Should this occur, the calculated amounts will be decreased or increased, respectively, on a pro rata basis.

Over the long term, the Foundation expects the current spending allocation and advancement fee policies to allow endowments to grow at least at the annualized rate of inflation on average. This is consistent with the organization’s objective of providing resources for the underlying purposes of endowment assets over the life of the endowments whether in perpetuity or for a specified term, as well as to provide additional growth through new gifts and investment return. In order to ensure the Foundation preserves the purchasing power of the endowment pool, the policy does not allow the effective rate of the sum of the spending allocation and advancement fee to be greater than 6.75% of the endowment market value.

**H. Net Asset Treatment Associated with Endowment Returns**

To the extent that realized and unrealized losses, spending allocations, and advancement

**The University of Connecticut Foundation, Incorporated**  
**Notes to the Financial Statements**  
**June 30, 2018 and 2017**

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fees are in excess of accumulated gains for certain endowment funds, they are reported as decreases in unrestricted net assets in accordance with accounting standards on not-for-profit investments except as otherwise stipulated by the donor.

The Foundation is required to administer all endowment funds in accordance with the provisions of Connecticut's UPMIFA statute. Unlike endowment accounting pronouncements, UPMIFA does not require that such investment losses be replenished or funded by unrestricted net assets. The inconsistencies between accounting pronouncements and UPMIFA intersect in periods of market decline. The differences have no impact on total net assets, but rather impact the presentation between the unrestricted net asset category and the temporarily restricted net asset category.

On the statement of financial position and the statement of activities, market losses and advancement fees that would otherwise cause a reduction in restricted net assets under UPMIFA are offset by a reclassification from unrestricted net assets (provision for underwater endowment), except when the donor has stipulated market losses may be recorded as permanently restricted net assets, consistent with accepted best practices.

**I. Funds Held in Trust by Others**

The Foundation is irrevocably named as a beneficiary of funds held by third-party trustees, the purpose of which may be restricted by the donor. Generally, the Foundation will receive a specified portion of the assets remaining when third-party trusts are terminated. The present value of the amounts to be received upon termination is recorded by the Foundation as an asset on the statement of financial position and contribution revenue on the statement of activities using discount rates of 2.1% to 3.7% for 2018 and 1.6% to 3.8% for 2017. Trusts held in perpetuity are reported at their fair value. Funds held in trust by others totaled \$24,572,528 and \$19,797,153 at June 30, 2018 and 2017, respectively, and are considered Level 3 financial instruments (see Note 3 for discussion of classification of fair value measurements). At the time the Foundation is notified of the funding of a third-party trust, the fair value of the Foundation's interest in the trust is recorded as contribution revenue. Any distributions from perpetual trusts are recorded as investment income.

Following is a reconciliation of funds held in trust by others in which significant unobservable inputs (Level 3) were used in determining value:

	<u>2018</u>	<u>2017</u>
Balance as of July 1, 2017 and 2016	\$ 19,797,153	\$ 17,826,667
Change in fair value	3,971,450	2,263,318
Net contributions/(distributions)	<u>803,925</u>	<u>(292,832)</u>
Balance as of June 30, 2018 and 2017	<u>\$ 24,572,528</u>	<u>\$ 19,797,153</u>

**J. Trusts and Annuities**

The Foundation is named as the trustee and remainder beneficiary of several charitable remainder trusts. In addition, the Foundation has entered into contracts with donors for charitable gift annuities for which the Foundation has accepted contributions. These trust and annuity asset amounts are carried at their net present value and generally

**The University of Connecticut Foundation, Incorporated**  
**Notes to the Financial Statements**  
**June 30, 2018 and 2017**

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require that the income earned on the funds be accumulated or distributed in accordance with the respective trust or gift agreements. The trust and annuity assets are included in either the temporarily or permanently restricted net asset classifications based on the donor restrictions for the remainder asset. The difference between the amounts contributed to establish a charitable trust or charitable gift annuity and the present value of the liability for future payments to donors, determined using actuarial life expectancies and discount rates ranging from 1.2% to 8.8% for June 30, 2018 and 2017, is recognized as contribution revenue at the date of the gift. Changes in the present value of the liability due to the passage of time and changes in actuarial life expectancies are reported as part of net total investment return in the statements of activities.

**K. Property and Equipment for Operations**

Property and equipment are stated at cost. Depreciation of property and equipment is charged to expense on a straight-line basis over their estimated useful lives which range from 3 to 40 years. Expenditures for repairs and maintenance are expensed as incurred. Costs directly related to software development and acquisition, are capitalized until the asset is placed in service.

**L. Retirement Plan**

The Foundation sponsors The University of Connecticut Foundation, Inc. Retirement Annuity Plan (the "Plan"), which is a fully funded, qualified plan under Section 403(b) of the Internal Revenue Code. The Plan covers all full time and certain part time employees, excluding students. Participants are required to contribute 3% of regular salary, with the Foundation contributing 8% of each participant's salary. Participants are subject to three-year cliff vesting for Foundation contributions to the plan. The unvested amount as of June 30, 2018 is \$492,811. Included in Foundation support expenses are Plan contributions of \$900,644 and \$784,097 for the year ended June 30, 2018 and 2017, respectively.

**M. Income Taxes**

The Foundation has a letter of exemption from federal income tax from the Internal Revenue Service under Section 501(c) (3) of the Internal Revenue Code. Due to certain investments, the Foundation does have unrelated business income, however the federal tax liability has been immaterial. The Foundation has appropriate support for any tax position taken and believes it does not have any uncertain tax positions that are material to the financial statements.

**N. Recent Accounting Pronouncements**

In May 2014, the Financial Accounting Standards Board issued ASU No. 2014-09, *Revenue from Contracts with Customers*. The guidance applies to all contracts but specifically excludes contribution income. The guidance is effective for the fiscal year 2019 statements. The Foundation doesn't expect there to be any impact on the statements related to this pronouncement.

In February 2016, the Financial Accounting Standards Board issued ASU No. 2016-

**The University of Connecticut Foundation, Incorporated**  
**Notes to the Financial Statements**  
**June 30, 2018 and 2017**

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02, *Leases*. The guidance sets out the principles for the recognition, measurement, presentation and disclosure of leases for both parties to a contract. The guidance will be effective for the fiscal year 2020 statements and supersedes the existing guidance on accounting for leases. The Foundation is in the process of evaluating the impact of adoption on its financial statements.

In August 2016, the Financial Accounting Standards Board issued, ASU No. 2016-14, *Presentation of Financial Statements of Not-for-Profit Entities* effective for annual financial statements issued for fiscal years beginning after December 15, 2017. The purpose of the guidance is to improve the current net asset classification requirements and the information presented in financial statements and notes about a not-for-profit entity's liquidity, financial performance, and cash flows. As such, this standard also requires underwater endowment amounts to be part of "with donor restrictions". The Foundation expects to reclassify its underwater endowments under this standard.

In November 2017, the Financial Accounting Standards Board issued ASU 2016-18 *Statement of Cash Flows: Restricted Cash*. The new standard requires that the statement of cash flows explain the change during the period in the total of cash, cash equivalents, and restricted cash. The guidance is effective for fiscal year 2020 statements. The Foundation has reviewed the guidance and has determined the impact to the financial statement will be immaterial.

In January 2017, the FASB issued ASU 2017-02, *Clarifying When a Not-for-Profit Entity that is a General Partner or a Limited Partner Should Consolidate a For Profit Limited Partnership or Similar Entity*, which amends the consolidation guidance for Not-for-Profit entities in ASC 958-810. The final guidance clarifies the model used by Not-for-Profit entities to evaluate the consolidation of investments in limited partnerships. The new standard also affirms the FASB's intent to retain that Not-for-Profit "portfolio-wide" fair value option under its new investment recognition and measurement rules that will take effect in fiscal years beginning after December 15, 2018. The Foundation is in the process of evaluating the impact of the adoption on its financial statements and related disclosures.

In June 2018, the Financial Accounting Standards Board issued ASU 2018-08 *Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. The guidance clarifies the definition of an exchange transaction used to evaluate whether contributions are unconditional or conditional. The guidance is effective for fiscal year 2020 statements. The Foundation has reviewed the guidance and has determined the impact to the financial statements will be immaterial.

The Tax Cuts and Jobs Act (the "Act") was enacted on December 22, 2017. The Act impacts the Foundation in the computation of unrelated business taxable income separately for each unrelated trade or business. The Act reduces the federal corporate tax rate from 35% to 21%. The overall impact of the Act will not be known until regulatory guidance is issued.

**The University of Connecticut Foundation, Incorporated**  
**Notes to the Financial Statements**  
**June 30, 2018 and 2017**

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**2. Pledges Receivable, Net**

Pledges receivable includes unconditional promises to give:

	<b>June 30,</b>	
	<b>2018</b>	<b>2017</b>
	<u>          </u>	<u>          </u>
Pledges	\$ 28,812,114	\$ 33,172,461
Less: allowance for uncollectible pledges	(4,021,997)	(4,865,779)
Less: discount to record net realizable pledges at net present value	<u>(1,873,129)</u>	<u>(1,744,386)</u>
Pledges receivable, net	<u>\$ 22,916,988</u>	<u>\$ 26,562,296</u>
	<u>          </u>	<u>          </u>
	<b>2018</b>	<b>2017</b>
	<u>          </u>	<u>          </u>
Net pledge receivable amounts due in:		
Less than one year	\$ 8,828,988	\$ 12,984,966
One to five years	\$ 11,448,850	11,771,771
More than five years	\$ 1,756,760	953,694
Net contributions receivable from deferred gifts	<u>882,390</u>	<u>851,865</u>
Total	<u>\$ 22,916,988</u>	<u>\$ 26,562,296</u>

The interest rates used in the computation of the discount ranged from 1.0% to 2.8% for June 2018 and June 2017.

Conditional pledges of \$4,065,049 at June 30, 2018 are unreported. Bequest expectancies totaling \$139,502,176 have also been excluded from these amounts and are not recorded in the financial statements.

**3. Investments**

In accordance with the accounting pronouncement on fair value measurements, fair value is defined as the price that the Foundation or its investment manager would receive upon selling an investment in an orderly transaction between market participants in the principal or most advantageous market at the measurement date. A three-tier hierarchy is established, based on inputs to valuation techniques, to maximize the use of observable market data and to establish classification of fair value measurements for disclosure purposes. Inputs refer broadly to the assumptions that market participants would use in pricing the investment, including assumptions about risk. Input may be observable or unobservable. Observable inputs are inputs that reflect the assumptions that market participants would use in pricing the investment based on market data obtained from sources independent of the investment manager or Foundation. Unobservable inputs are inputs that reflect the Fund's own assumptions about the assumptions market participants would use in pricing the investment based on the best information available in the circumstances.

**The University of Connecticut Foundation, Incorporated**  
**Notes to the Financial Statements**  
**June 30, 2018 and 2017**

The three-tier hierarchy of inputs is summarized in the three broad levels listed below:

- Level 1 – Quoted prices (unadjusted) in active markets for identical investments that the Foundation has the ability to access at the measurement date. This level of the fair value hierarchy provides the most reliable evidence of fair value and is used to measure fair value whenever available.
- Level 2 – Inputs other than quoted prices included within Level 1 that are observable for an investment. These inputs include quoted prices for similar investments in active markets, quoted prices for identical or similar investments in markets that are not active, and inputs other than quoted prices that are observable for the investment, for example interest rate and yield curves, volatilities, prepayment rates and credit risk among others. These are inputs that are derived principally from or corroborated by observable market data by correlation or other means. Certain investments defined as Level 2 are in the form of commingled funds, the shares of which are not publicly traded, where the valuation of the underlying securities held in the fund is taken from quoted prices in active markets.
- Level 3 – Inputs that are unobservable inputs for the investment that are used to measure fair value when observable inputs are not available. Unobservable inputs reflect the Foundation’s or its investment manager’s own assumptions about the assumptions that market participants would use in pricing the investment. These inputs are developed based on the best information available in the circumstances, which might include the Foundation’s or its investment manager’s own data. The investment portfolio is shown below at fair value by investment asset class and hierarchy.

Certain investments are measured at fair value using net asset value (or its equivalent). The fair value amounts presented in this table are intended to permit reconciliation of the fair value hierarchy to the amounts presented in the statements of financial position, because NAV is a practical expedient.

	<b>June 30, 2018</b>				
	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>NAV</b>	<b>Total</b>
Cash and cash equivalents	13,419,902	-	-	-	13,419,902
Global Fixed Income	98,938,579	2,778,950	-	19,837,235	121,554,764
Global Equity	123,457,279	-	-	46,278,782	169,736,061
Hedge Funds - Non-Directional	-	-	-	31,981,627	31,981,627
Hedge Funds - Directional	-	-	-	39,651,842	39,651,842
Portfolio Diversification Strategies	-	-	-	10,008,702	10,008,702
Private Capital	-	-	-	53,674,535	53,674,535
Private Debt	-	-	-	-	-
Marketable Real Assets	-	-	-	-	-
Private Real Assets	-	-	-	59,539,717	59,539,717
<b>Total</b>	<b>235,815,760</b>	<b>2,778,950</b>	<b>-</b>	<b>260,972,441</b>	<b>499,567,151</b>

**The University of Connecticut Foundation, Incorporated**  
**Notes to the Financial Statements**  
**June 30, 2018 and 2017**

	June 30, 2017				
	Level 1	Level 2	Level 3	NAV	Total
Cash and cash equivalents	6,141,941	-	-	-	6,141,941
Global Fixed Income	68,831,137	2,560,422	-	19,847,562	91,239,121
Global Equity	120,293,213	-	-	35,187,937	155,481,150
Hedge Funds - Non-Directional	-	-	-	21,614,764	21,614,764
Hedge Funds - Directional	-	-	-	33,180,860	33,180,860
Portfolio Diversification Strategies	-	-	-	10,239,293	10,239,293
Private Capital	-	-	-	56,366,224	56,366,224
Private Debt	-	-	-	-	-
Marketable Real Assets	-	-	-	-	-
Private Real Assets	-	-	-	61,381,519	61,381,519
Total	<u>195,266,291</u>	<u>2,560,422</u>	<u>-</u>	<u>237,818,159</u>	<u>435,644,872</u>

Net asset values provided by third-parties have been utilized in determining fair value where there are significant unobservable inputs. Investment managers utilize outside pricing services and administrators as well as their own internal valuation models in determining and verifying fair values. The Foundation performs ongoing due diligence with the investment managers that include evaluation of manager operations and valuation procedures, site visits, investor calls, review of manager filings, and audited financial statements among other items. The Foundation's Investment Committee of the Board of Directors monitors performance of investment managers and meets formally with the managers on a periodic basis in addition to the ongoing due diligence performed by Foundation investment staff.

Operating investments are invested in level 1 assets; a short duration bond portfolio which is diversified across investment grade corporate bonds, high yield short duration corporate bonds, and asset backed securities. The portfolio maintains an average credit quality above BBB.

Agreements with external managers include certain redemption terms and restrictions as noted in the following table:

Investment strategy	Fair value	Unfunded commitments	Remaining life	Redemption terms	Redemption restrictions	Redemption restrictions in place at June 30, 2018
Private capital partnerships including venture, buyout, and debt in the U.S. and international	\$ 53,674,535	\$ 34,725,443	<1 to 11 years	Not applicable	Not applicable	Not applicable
Private real estate partnerships in commercial, residential, office, industrial properties and Natural resource partnerships in energy and timber	59,539,717	17,272,447	1 to 12 years	Not applicable	Not applicable	Not applicable
Total	<u>\$ 113,214,252</u>	<u>\$ 51,997,890</u>				

**The University of Connecticut Foundation, Incorporated**  
**Notes to the Financial Statements**  
**June 30, 2018 and 2017**

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Net total investment return is summarized as follows:

	<b>June 30,</b>	
	<b>2018</b>	<b>2017</b>
	<u>          </u>	<u>          </u>
Interest and dividends	\$ 10,912,511	\$ 14,500,218
Realized & unrealized gains	\$ 25,024,196	33,219,460
Professional asset management and custodian fees	<u>\$ (3,011,577)</u>	<u>(2,065,790)</u>
Net investment return	<u>\$ 32,925,130</u>	<u>\$ 45,653,888</u>

**4. Cash Surrender Value of Life Insurance**

Life insurance policies donated to the Foundation have been recorded as contributions and assets at their respective cash surrender values in the year of donation. Any changes in the cash surrender values after donation are offset against life insurance premiums expense in the year of the change. The Foundation will receive the face value of these policies upon their maturation. The face value of these policies as of June 30, 2018 and 2017 was \$4,090,294 and \$4,486,138, respectively, while their aggregate cash surrender value was \$600,796 and \$601,936, respectively.

**5. Property and Equipment**

Depreciation expense was \$924,358 and \$879,944 for property and equipment used for Foundation operations for the year ended June 30, 2018 and 2017, respectively.

	<b>June 30,</b>	
	<b>2018</b>	<b>2017</b>
	<u>          </u>	<u>          </u>
Building and improvements	\$ 7,384,479	\$ 7,241,459
Land	201,361	\$ 201,361
Furniture and equipment	1,737,941	\$ 1,534,590
Vehicles	31,108	\$ 31,108
Fundraising system	<u>2,518,820</u>	<u>\$ 2,518,820</u>
Subtotal	11,873,709	11,527,338
Less: accumulated depreciation	<u>(6,769,287)</u>	<u>(5,886,673)</u>
	<u>\$ 5,104,422</u>	<u>\$ 5,640,665</u>

**The University of Connecticut Foundation, Incorporated**  
**Notes to the Financial Statements**  
**June 30, 2018 and 2017**

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**6. Other Assets**

Other assets are comprised of the following:

	<b>June 30,</b>	
	<u><b>2018</b></u>	<u><b>2017</b></u>
Other receivables	\$ 50,928	\$ 343,298
Prepaid expenses	407,271	435,911
Life insurance receivable	173,229	177,841
Donated property and collections	<u>8,400</u>	<u>100,640</u>
	<u><u>\$ 639,828</u></u>	<u><u>\$ 1,057,690</u></u>

**7. Operating Leases**

During fiscal year 2016, the Foundation amended its expired ten-year lease agreement renting office space for Foundation staff that support fundraising operations for the University of Connecticut Health Center. Rentable space was reduced, and the term was set to a period of five years and 1 month. Expenditures reported for the lease during the year ended June 30, 2018 were \$56,056. The future minimum lease payments are as follows:

**Fiscal Year Ending June 30:**

2019	57,127
2020	57,127
2021	4,761
Thereafter	-
	<u><u>\$ 119,015</u></u>

**8. Bonds and Note Payable**

In April 2013, the Foundation entered into a loan agreement with Connecticut Health and Education Facilities Authority to issue Series C revenue bonds, the proceeds of which were used to fund the construction of the Werth Family UConn Basketball Champions Center on the University of Connecticut campus in Storrs. The Foundation committed that it would provide financial support up to \$33 million inclusive of the \$20 million bond financing.

In August 1999, the Foundation entered into a loan agreement with Connecticut Health and Education Facilities Authority (the "Authority"), which issued Series A revenue bonds primarily for the construction of an office building on the University campus at Storrs to house all the administrative functions and operations of the Foundation, and to finance a portion of a Visitor's Center. In January 2007, the Foundation completed a plan with the Authority that provided for the advance refunding of this debt and the issuance of new debt resulting in the defeasance of the Series A bonds and establishment of Series B bonds. On October 27, 2017, the Foundation was issued a taxable term loan note from Wells Fargo Bank for the purpose of

**The University of Connecticut Foundation, Incorporated**  
**Notes to the Financial Statements**  
**June 30, 2018 and 2017**

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refunding the Series B Bonds, which resulted in the release of restricted cash, full amortization of the balance of the Bond's deferred issuance costs, and the defeasance of the Series B Bonds.

Bonds and note payable at June 30 consist of the following obligations:

	<u>2018</u>	<u>2017</u>
Connecticut Health and Education Facilities Authority 1.9% - 2.30% Series C Revenue Bonds due in installments including principal and interest payments ranging from \$2,504,792 to \$2,523,958, payable April 1st each year through 2023.	\$ 12,500,000	\$ 15,000,000
Connecticut Health and Education Facilities Authority 3.875% - 5% Series B Revenue Bonds, including principal and interest payment of \$397,203.	-	2,735,000
Connecticut Health and Education Facility Authority 4.125% Series B Term Bond(s) .	-	2,220,000
Wells Fargo unsecured, \$4,660,000 loan, 2.92% fixed rate taxable term loan note (to defease Series B Bonds) issued on October 27, 2017 with a maturity date of October 28, 2024, equal monthly payments of \$55,476 plus interest commencing December 1, 2017 and ending at maturity	\$ 4,271,667	\$ -
Less: deferred bond and note payable issuance costs, net	<u>175,725</u>	<u>393,167</u>
Total bonds and note payable	<u>\$ 16,595,942</u>	<u>\$ 19,561,833</u>

CHEFA Series C bondholders and Wells Fargo are paid interest monthly on the 1<sup>st</sup>.  
Principal payments due on all long-term debt as of June 30, 2018 for each of the next five  
fiscal years are:

**The University of Connecticut Foundation, Incorporated**  
**Notes to the Financial Statements**  
**June 30, 2018 and 2017**

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**Fiscal Year Ending June 30:**

2019	\$ 3,165,714
2020	\$ 3,165,714
2021	\$ 3,165,714
2022	\$ 3,165,714
2023	\$ 3,165,714
Thereafter	\$ 943,097
	<u>\$ 16,771,667</u>

The following restricted funds and their balances at June 30, 2018 and 2017 have been established in accordance with the Series B Loan, and are presented as cash restricted for debt service in the accompanying statement of financial position:

	<u>2018</u>	<u>2017</u>
Debt service reserve fund	\$ -	\$ 497,014
Principal and interest payment fund	-	397,355
	<u>\$ -</u>	<u>\$ 894,369</u>

Costs related to acquiring the note payable and the portion of bond proceeds which funded costs of the bond issuance, together with costs funded by Foundation operations relating to issuance costs, have been recognized as deferred costs on the accompanying statement of financial position and are amortized over the life of the bonds and note payable, respectively. The deferred costs are presented as a direct deduction of bonds and note payable. The balance of the costs of issuance of the Series B bonds, which were defeased in October 2017, were fully amortized during this reporting period. Amortization expense for the year ended June 30, 2018 and 2017 was \$280,429 and \$47,781, respectively, and is included in Foundation support expenses.

Interest cost attributable to the Visitor's Center for the University is included in University support expenses and net interest cost attributable to the Foundation office building is included in Foundation support expenses as follows:

	<b>June 30,</b>	
	<u>2018</u>	<u>2017</u>
University support expenses	\$ 24,215	\$ 31,938
Foundation support expenses	130,762	172,468
	<u>\$ 154,977</u>	<u>\$ 204,406</u>

**The University of Connecticut Foundation, Incorporated**  
**Notes to the Financial Statements**  
**June 30, 2018 and 2017**

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**9. Net Assets**

At June 30, 2018 and 2017 net assets included unrestricted funds, temporarily, and permanently restricted funds by donors for the following purposes:

	<u>2018</u>	<u>2017</u>
<b>Unrestricted</b>		
Available for Foundation Operations	\$ 7,916,108	\$ 9,440,670
Provision for underwater endowment	(9,967,352)	(11,951,235)
Funds functioning as endowment	1,969,857	1,969,857
Total Unrestricted	<u>(81,387)</u>	<u>(540,708)</u>
<b>Temporarily restricted</b>		
Scholarship support	29,323,291	19,462,766
Faculty support	26,091,337	18,775,766
Program support	68,643,490	60,993,572
Total Temporarily restricted	<u>124,058,118</u>	<u>99,232,104</u>
<b>Permanently restricted</b>		
Scholarship support	161,593,875	143,565,219
Faculty support	110,894,103	101,027,199
Program support	137,964,844	132,291,375
Total Permanently restricted	<u>\$ 410,452,822</u>	<u>\$ 376,883,793</u>

The Foundation's endowment net assets consist of approximately 1,780 individual funds established for a variety of purposes plus the following where the assets have been designated for endowment: pledges receivable, split interest agreements, and other net assets. The endowment includes both donor-restricted endowment funds and funds designated by the Board of Directors to function as endowment.

The Board of Directors of the Foundation has interpreted Connecticut UPMIFA as requiring prudent management of the fair value of the original gifts as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Foundation classifies as permanently restricted net assets a) the original value of gifts donated to the permanent endowment, b) the original value of subsequent gifts to the permanent endowment, and c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Foundation in a manner consistent with the standard of prudence prescribed by Connecticut UPMIFA. In accordance with Connecticut UPMIFA, the Foundation considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

- 1) The duration and preservation of the fund
- 2) The purposes of the Foundation and the donor-restricted endowment fund
- 3) General economic conditions
- 4) The possible effect of inflation and deflation

**The University of Connecticut Foundation, Incorporated**  
**Notes to the Financial Statements**  
**June 30, 2018 and 2017**

- 5) The expected total return from income and the appreciation of investments
- 6) Other resources of the Foundation
- 7) The Foundation's investment policies

The Foundation had the following endowment activity during the year ended June 30, 2018 and 2017 delineated by net asset class and donor-restricted vs. Board-designated funds:

	2018				2017	
	<u>Board</u>	<u>Provision For</u>	<u>Donor-restricted</u>		<u>Total</u>	<u>Total</u>
	<u>Designated</u>	<u>Underwater</u>	<u>Temporarily</u>	<u>Permanently</u>		
	<u>Unrestricted</u>	<u>Endowments</u>				
Endowment net assets, beginning balance	\$ 1,969,857	\$ (11,951,236)	\$ 34,602,664	\$ 376,883,791	\$ 401,505,076	\$ 362,417,911
Contributions	-	-	7,051,768	27,751,310	34,803,078	14,351,833
Net total investment return & other income	127,060	-	25,661,845	6,460,805	32,249,710	42,317,398
Endowment spending allocation	(42,407)	-	(14,044,418)	(1,500,765)	(15,587,590)	(13,023,978)
Endowment and gift fees to fund Foundation operations	(33,978)	-	(7,047,896)	(727,158)	(7,809,032)	(6,903,526)
Transfers between net asset categories	-	-	(253,814)	1,584,839	1,331,025	2,345,440
Change in provision for underwater endowments	(50,675)	1,983,884	(1,933,209)	-	-	-
Endowment net assets, ending balance	\$ 1,969,857	\$ (9,967,352)	\$ 44,036,940	\$ 410,452,822	\$ 446,492,267	\$ 401,505,078

Endowment assets are long-term in nature and managed as such on a total return basis. There are certain short-term considerations in constructing the endowment investment portfolio, such as spending allocations and annual operating support. However, the assets can tolerate a reasonable level of short-term volatility in the interest of maximizing long-term performance. In order to attain the varied investment objectives, a proper balance must be struck between return and risk. With a proper risk/return profile, the Foundation believes maintaining real purchasing power of the spending allocation and meeting annual funding needs can be achieved over time through the asset allocation and spending policies adopted by its Board of Directors.

The Foundation utilizes a diversified asset allocation consisting of: growth strategies (primarily equity-based investments); inflation hedging strategies to protect against inflation and provide purchasing power (strategies with significant correlations to inflation); and risk minimizing strategies to reduce volatility and preserve capital (fixed income and other strategies with low correlations to equities). Investment returns are achieved through capital appreciation (realized and unrealized) and current yield (interest and dividends).

## 10. University Support

The Foundation, at the direction of its donors, makes payments on behalf of or directly to the University in support of the University's mission. Such amounts are classified as Program Support on the statement of activities. There are two primary sources of Foundation funds available to the University: charitable gifts and philanthropic grants contributed to the Foundation that are immediately available for expenditure, and spending allocation from the accumulated investment earnings of individual endowment funds (Note 1G). Total funds disbursed by the Foundation in support of the University in accordance with the donated purpose were \$28,396,400 and \$27,598,487 for the year ended June 30, 2018 and 2017, respectively. Fluctuations in spending are driven by the current needs of the University, and availability of support from the Foundation.

# The University of Connecticut Foundation, Incorporated

## Notes to the Financial Statements

### June 30, 2018 and 2017

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#### 11. Related Party Transactions

In December 1994, the Foundation assumed primary responsibility for the fundraising program conducted for the benefit of the University and, in June 1995, the Foundation assumed responsibility for related advancement services. The relationship, roles and arrangements between the Foundation and the University are documented in an Agreement dated July 1, 2015 (the "Agreement"), and in a Memorandum of Understanding (the "MOU"), which is updated on a one or two year basis. In payment for fundraising and other services outlined in the MOU, the Foundation recorded revenue from the University of \$8,565,000 and \$8,415,000 for year ended June 30, 2018 and 2017, respectively.

The University of Connecticut Foundation has a contractual arrangement with the University of Connecticut to act as the University's agent in managing their endowed assets. The endowments are invested in a manner consistent with the Foundation's endowments. The Foundation has elected to disclose the fair value of the endowed assets on the balance sheet with an offsetting liability. The University's endowment had a fair value of \$15,098,682 and \$14,537,943 as of June 30, 2018 and 2017 respectively.

In April 2015 the Foundation assumed primary responsibility for alumni engagement activities for the University. The Foundation will focus on strengthening lifelong bonds between all members of University alumni. The University has granted the Foundation rights to use the Alumni Center at the cost of \$1.00 rent per year. In payment for alumni engagement outlined in the MOU, the Foundation recorded revenue from the University of \$1,915,000 and \$1,635,000 for year ended June 30, 2018 and 2017, respectively.

The Foundation has recorded a liability due to the University of \$4,630,216 and \$3,862,096 and to the University Health Center of \$3,430 and \$235,372, for disbursement requests as of June 30, 2018 and 2017 respectively, which is included in accounts payable and accrued expenses in the accompanying statement of financial position. In addition, at the request of the University of Connecticut's Board of Trustees, the Foundation's Board of Directors agreed in 1996 to help fund a deferred compensation package for the former University's President which is included in the Foundation's liabilities.

The Foundation has recorded no amount due from the University at June 30, 2018 and 2017.

The Foundation office building is owned by the Foundation and was constructed on approximately 1.58 acres of land owned by the University, which the University has leased to the Foundation pursuant to the terms of a ground lease (the "Lease") at an annual rental of \$1.00. The initial term of the Lease is ninety-nine years and the Foundation has the right to extend the term of the Lease for ninety-nine additional years. The Lease provides that at its expiration or earlier termination, unless it is extended, the Foundation shall surrender the premises, and title to the building will then vest in the University. The Lease may be terminated by the University upon a breach by the Foundation of any of the terms and conditions of the Lease. The University must notify the Foundation of any such breach and allow 30 days for the Foundation to cure the breach.