

The University of Connecticut Foundation, Incorporated

Financial Statements
June 30, 2022 and 2021

The University of Connecticut Foundation, Incorporated

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June 30, 2022 and 2021

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Report of Independent Auditors

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

Opinion

We have audited the accompanying financial statements of The University of Connecticut Foundation, Incorporated (the "Foundation"), which comprise the statements of financial position as of June 30, 2022 and 2021, and the related statements of activities and of cash flows for the years then ended, including the related notes (collectively referred to as the "financial statements").

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Foundation as of June 30, 2022 and 2021, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (US GAAS). Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Foundation and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management 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, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Foundation's ability to continue as a going concern for one year after the date the financial statements are available to be issued.

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with US GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.



In performing an audit in accordance with US GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Foundation's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

A handwritten signature in cursive script that reads "PricewaterhouseCoopers LLP".

Hartford, Connecticut
October 21, 2022

The University of Connecticut Foundation, Incorporated
Statements of Financial Position
June 30, 2022 and 2021

	<u>2022</u>	<u>2021</u>
Assets		
Cash and cash equivalents	\$ 28,166,291	\$ 10,128,943
Pledges receivable, net (Note 2)	38,841,605	35,130,393
Investments, operating (Note 3)	113,286,525	112,255,920
Investments, endowment (Note 3)	532,195,110	574,615,041
Funds held in trust by others	10,245,527	13,043,676
Endowments held for the University	17,423,725	19,565,538
Cash surrender value of life insurance (Note 4)	592,828	585,283
Property and equipment, net (Note 5)	3,107,694	3,923,263
Other assets (Note 6)	733,596	533,868
Total assets	<u>\$ 744,592,901</u>	<u>\$ 769,781,925</u>
Liabilities and Net Assets		
Liabilities		
Accounts payable and accrued expenses	\$ 13,042,465	\$ 10,073,429
Trusts and annuities payable	1,968,639	2,163,836
Endowments held for the University	17,423,725	19,565,538
Lease liability	310,677	25,710
Bond and note payable (Note 8)	4,073,288	7,203,952
Total liabilities	<u>36,818,794</u>	<u>39,032,465</u>
Net Assets (Note 9)		
Without donor restrictions	15,805,034	22,496,405
With donor restrictions	691,969,073	708,253,055
Total net assets	<u>707,774,107</u>	<u>730,749,460</u>
Total liabilities and net assets	<u>\$ 744,592,901</u>	<u>\$ 769,781,925</u>

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

The University of Connecticut Foundation, Incorporated
Statements of Activities
June 30, 2022 and 2021

	2022		
	Without Donor Restrictions	With Donor Restrictions	Total
Revenues, gains, and other support			
Contributions	\$ 497,600	\$ 55,273,157	\$ 55,770,757
Net total investment return	(5,690,894)	(26,168,389)	(31,859,283)
Contractual payments from the University	12,150,201	-	12,150,201
Memberships and other income	659,394	162,854	822,248
Total revenues and gains	7,616,301	29,267,622	36,883,923
Net assets released from restrictions	35,597,011	(35,597,011)	-
Endowment spending allocation	(83,533)	83,533	-
Endowment and gift fees to fund Foundation operations	10,574,219	(10,574,219)	-
Total revenues, gains, and other support	53,703,998	(16,820,075)	36,883,923
Expenses			
University program support	35,880,561	-	35,880,561
Foundation operations			
Fundraising expenses	16,281,538	-	16,281,538
Management and general expenses	7,697,177	-	7,697,177
Total Foundation operations	23,978,715	-	23,978,715
Total expenses	59,859,276	-	59,859,276
Transfers between net asset categories	(536,093)	536,093	-
Total increase in net assets	(6,691,371)	(16,283,982)	(22,975,353)
Net assets, beginning of year	22,496,405	708,253,055	730,749,460
Net assets, end of year	\$ 15,805,034	\$ 691,969,073	\$ 707,774,107
2021			
	Without Donor Restrictions	With Donor Restrictions	Total
Revenues, gains, and other support			
Contributions	\$ 1,429,595	\$ 54,310,371	\$ 55,739,966
Net total investment return	6,980,589	132,364,875	139,345,464
Contractual payments from the University	12,150,201	-	12,150,201
Memberships and other income	3,214,079	117,902	3,331,981
Total revenues and gains	23,774,464	186,793,148	210,567,612
Net assets released from restrictions	33,582,753	(33,582,753)	-
Endowment spending allocation	(29,030)	29,030	-
Endowment and gift fees to fund Foundation operations	8,772,623	(8,772,623)	-
Total revenues, gains, and other support	66,100,810	144,466,802	210,567,612
Expenses			
University program support	33,648,652	-	33,648,652
Foundation operations			
Fundraising expenses	16,008,923	-	16,008,923
Management and general expenses	6,659,412	-	6,659,412
Total Foundation operations	22,668,335	-	22,668,335
Total expenses	56,316,987	-	56,316,987
Transfers between net asset categories	242,319	(242,319)	-
Total increase in net assets	10,026,142	144,224,483	154,250,625
Net assets, beginning of year	12,470,263	564,028,572	576,498,835
Net assets, end of year	\$ 22,496,405	\$ 708,253,055	\$ 730,749,460

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

The University of Connecticut Foundation, Incorporated
Statements of Cash Flows
June 30, 2022 and 2021

	<u>2022</u>	<u>2021</u>
Cash flows from operating activities		
Change in net assets	\$ (22,975,353)	\$ 154,250,625
Adjustments to reconcile change in net assets to net cash used in operating activities		
Net total investment return	31,859,283	(139,345,464)
Cash gifts to establish or increase permanent endowments	(13,837,448)	(19,209,293)
Gifts of securities	(7,056,068)	(5,093,397)
Proceeds from sale of donated securities	1,659,650	2,813,800
Depreciation and amortization	372,295	410,762
Loss on write off of fixed asset	25,408	-
Change in allowance for uncollectible pledges	1,527,589	1,232,255
Change in discounts on pledges receivable	1,840,545	323,733
Funds held in trust by others	2,798,149	(2,621,498)
Gain on Paycheck Protection Program Loan forgiveness	-	(2,856,635)
(Increase) decrease in assets		
Pledges receivable	(7,079,346)	(14,978,771)
Cash surrender value of life insurance	(7,545)	(14,485)
Other assets	(199,728)	1,923,863
Increase (decrease) in liabilities		
Accounts payable and accrued expenses	2,969,036	(465,850)
Trusts and annuities payable	(195,197)	125,531
Total adjustments	<u>14,676,624</u>	<u>(177,755,449)</u>
Net cash used in operating activities	<u>(8,298,729)</u>	<u>(23,504,824)</u>
Cash flows from investing activities		
Purchases of investments	(363,937,703)	(261,699,625)
Sales of investments and gifts of marketable securities	373,467,636	248,317,689
Disposals of property and equipment	25,000	-
Sales of property and equipment	725,000	(21,778)
Net cash (used in)/provided by investing activities	<u>10,279,933</u>	<u>(13,403,714)</u>
Cash flows from financing activities		
Cash gifts to establish or increase permanent endowments	13,837,448	19,209,293
Proceeds from sale of donated securities restricted for endowment	5,396,418	2,279,597
Principal payments on lease liability	(12,007)	(11,827)
Payments on bond and note payable	(3,165,714)	(3,165,714)
Net cash provided by financing activities	<u>16,056,145</u>	<u>18,311,349</u>
Net (decrease)/increase in cash and cash equivalents	18,037,349	(18,597,189)
Cash and cash equivalents at beginning of year	<u>10,128,943</u>	<u>28,726,132</u>
Cash and cash equivalents at end of year	<u>\$ 28,166,291</u>	<u>\$ 10,128,943</u>
Supplemental disclosure of cash flow information:		
Gifts of securities	\$ 7,056,068	\$ 5,093,397
Cash paid during the year for interest	163,459	240,706
Gain on Paycheck Protection Program Loan forgiveness	-	2,856,635

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

The University of Connecticut Foundation, Incorporated

Notes to the Financial Statements

June 30, 2022 and 2021

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 (the "University"), 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.

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 years ending June 30, 2022 and 2021.

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:

Net assets without donor restriction – Net assets that are not subject to donor-imposed restrictions, or for which the donor-imposed restrictions have expired or been fulfilled. Net assets in the category may benefit the Foundation and include board designated restrictions to support the University. Expenditures are reported in this classification of net assets since the use of donor-restricted contributions in accordance with the donor's restrictions results in the release of the restriction.

Net assets with donor restrictions – Net assets that are subject to donor-imposed purpose and use restrictions to benefit a specific unit, department, or program of the University that have not yet been met. The donor-imposed restrictions may be temporary in nature or may be perpetual.

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

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

The University of Connecticut Foundation, Incorporated

Notes to the Financial Statements

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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 with donor restrictions if received with donor restrictions that designate the use of donated assets as to purpose or time.

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 (refer to Note 2) is reflected in without donor restrictions and with donor restrictions, depending on donor restrictions, if any.

The Foundation uses a combination of specific reserve and estimate of remaining uncollectible accounts to determine the total allowance for uncollectible pledges. As of June 30, 2022, the estimate of remaining uncollectible accounts was 1% on pledges without donor restriction pledges, 2% on endowment non-athletic pledges, 4% on non-endowed non-athletic pledges, 10% on endowment athletic pledges and 3% on non-endowed athletic pledges.

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.

E. Cash and Cash Equivalents

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. Short-term investments that are discretionary components of long-term portfolios managed by professional investment management firms hired by the Foundation are classified as investments (refer to Note 3).

F. Investments

Investments are reported at fair value. In accordance with the accounting pronouncement on fair value measurements, fair value is defined as the price that the Foundation would receive upon selling an investment in an orderly transaction between

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

The University of Connecticut Foundation, Incorporated

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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. Inputs 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 Foundation. Unobservable inputs are inputs that reflect the Foundation's own assumptions about the assumptions market participants would use in pricing the investment based on the best information available in the circumstances.

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 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 own data.

Certain investment funds are measured at fair value using net asset value (NAV) or its equivalent (practical expedient) to estimate the fair value. The Foundation uses NAV to determine the fair value of 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, 2022, investments whose fair values are not readily determinable using NAV accounted for 62% 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.

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

The University of Connecticut Foundation, Incorporated
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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 follows:

Unrealized gains and losses that result from market fluctuations are recognized in the period in which the fluctuations occur;

As increases or decreases in net assets with donor restrictions if the terms of the underlying endowment funds designate the purpose for specific unit, department or program of the University, or otherwise stipulated by the donor;

As increases or decreases in net assets without donor restrictions if the terms of the underlying individual endowment funds and gifts are Board designated;

As increases or decreases in net assets without donor restriction if the terms of the underlying individual funds and gifts are non-endowed; or

As increases or decreases in net assets with donor restrictions 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, 2022, the Foundation did not receive any royalty or sales revenue and does not expect any amounts to be received in the future.

G. Endowment Spending Allocation and Advancement Fee

The endowment spending policy adopted by the Foundation's Board of Directors, in conjunction with the Investment Policy Statement for the long-term pooled investment portfolio, which is predominantly endowment assets, 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 \$20,083,657 and \$13,442,230 for the years ended June 30, 2022 and 2021, respectively.

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

The University of Connecticut Foundation, Incorporated
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The Foundation's endowment spending allocation policy was enacted in accordance with the Connecticut Uniform Prudent Management of Institutional Funds Act (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 endowment was established ("spending allocation") will equal 4% annually (1% per quarter) of the rolling prior 12-quarter average fair 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.

Endowment established after July 1, 2017, will not participate in the long-term pooled investment portfolio until the principal amount is equal to or greater than the minimum needed to establish an endowment. The new fund will participate in the long-term pooled investment portfolio on the last day of the quarter after meeting the minimum amount. The spending allocation and endowment advancement fee, discussed below, will not be distributed until the endowment fund has participated in the long-term pooled investment portfolio for two full 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 fair value. Effective on July 1, 2020, this rate was 1.75%. 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 endowments that have an historic gift value that is 15% or more than the fair value (referred to as underwater fund), at the end of any quarter during the fiscal year. (refer to note H)

In order to ensure the Foundation preserves the purchasing power of the endowment pool, the endowment spending allocation and advancement fee taken together cannot exceed 6.5% 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.

H. Net Asset Treatment Associated with Endowment Returns

To the extent that the fair value of assets associated with individual donor-restricted endowment fund is less than the historic gift value, the deficits are reported as decreases in net assets with donor restrictions, or if the endowment is a board designated endowment they are reported as decreases in net assets without donor restrictions, in accordance with accounting standards on not-for-profit investments. The number of funds underwater was 56 and 4 as of June 30, 2022 and 2021, respectively. The decrease to net assets with donor restrictions:

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

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	<u>2022</u>	<u>2021</u>
Fair Value	\$ 20,966,849	\$ 2,750,718
Historic Gift Value	21,498,519	\$ 2,765,268
Decrease in net assets with donor restrictions	<u>\$ (531,670)</u>	<u>\$ (14,550)</u>

I. Funds Held in Trust by Others

The Foundation is the remainder beneficiary of various charitable remainder trusts that are managed by third parties. At the end of the charitable remainder trust term, the Foundation will receive a specified portion of the assets remaining. The Foundation is also the named beneficiary of various perpetual trusts, under which the Foundation will receive a distribution of income and will never receive the assets of the trust. At the time the Foundation is notified of the funding of the trust, the Foundation records contribution revenue equal to the estimated discounted value of the distribution expected to be received upon the termination of each trust. Thereafter, the Foundation records adjustments to the estimated fair value of the trusts assets as investment income. The discount rates used range from 2.53% to 3.82% for 2022 and .61% to 2.49% for 2021.

Following is a reconciliation of funds held in trust by others. The assets are considered Level 3 financial instructions (refer to Note F for discussion of fair value measurements)

	<u>2022</u>	<u>2021</u>
Beginning balance	\$ 13,043,676	\$ 10,422,178
Change in fair value	(4,034,234)	3,363,184
Contributions	2,080,775	-
Distributions	<u>(844,690)</u>	<u>(741,686)</u>
Ending balance	<u>\$ 10,245,527</u>	<u>\$ 13,043,676</u>

J. Trusts and Annuities Held by the Foundation

The Foundation is named as the trustee and remainder beneficiary of several charitable remainder trusts and as trustee, the Foundation is required to make distributions to the specified income beneficiaries based on the income earned on the trust assets. The Foundation has also entered into contracts for charitable gift annuities and is required to make fixed payments to the specified life income beneficiaries. On the date the trust or annuity is established, the Foundation records contribution revenue equal to the difference between the fair value of the trust and the estimated present value of the distributions to be made to the life income beneficiaries over the term of the trusts. Distributions, investment activity and amortization the discount to present value are recorded as investment income. At the end of the trust and annuity term, the remaining asset will be transferred to the Foundation to support the University, as directed by the donor.

These trust and annuity asset amounts are carried at their net present value and are included in investments. The net assets are included in either the net asset with donor restrictions or without donor restrictions classifications based on the existence or

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

The University of Connecticut Foundation, Incorporated
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absence of donor restrictions. The difference between the amounts contributed to establish a charitable remainder 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 .4% to 8.4% for June 30, 2022 and 2021, is recognized as contribution revenue at the date of the gift.

K. Property and Equipment for Operations

Property and equipment are stated at cost. Depreciation of property and equipment is recorded 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 and then amortized over respective useful life.

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. Effective July 1, 2019, the vesting requirement is waived for terminations due to job eliminations. The unvested amount as of June 30, 2022 is \$318,405. Included in Foundation support expenses are Plan contributions of \$1,101,858 and \$1,039,869 for the years ended June 30, 2022 and 2021, 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 and state tax liabilities have 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. Recently Adopted Accounting Standards

On July 1, 2021, the Foundation adopted ASU No. 2016-02, *Leases*. The guidance sets out the principles for the recognition, measurement, presentation and disclosure of leases for both parties to a contract. The impact to the financial statements is not material.

In September 2020, the Financial Accounting Standards Board issued ASU No. 2020-07 *Contributed Nonfinancial Assets*. The guidance requires contributed nonfinancial assets to be a separate revenue category within the statement of activities. Disclosure on the types of nonfinancial contributions will be disclosed on the note of the financial statements and will include qualified information on the valuation technic used and any donor imposed restrictions.

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The guidance is effective for reporting period beginning after June 15, 2021 and is required to be applied retroactively. The Foundation has adopted the accounting standard with no impact to the financial statements.

2. Pledges Receivable, Net

Pledges receivable includes unconditional promises to give:

	June 30,	
	2022	2021
Pledges	\$ 46,903,745	\$ 39,824,399
Less: allowance for uncollectible pledges	(4,356,900)	(2,829,311)
Less: discount to record net realizable pledges at net present value (1)	<u>(3,705,240)</u>	<u>(1,864,695)</u>
Pledges receivable, net	<u>\$ 38,841,605</u>	<u>\$ 35,130,393</u>
	2022	2021
Net pledge receivable amounts due in:		
Less than one year	\$ 10,029,956	\$ 11,119,323
One to five years	23,020,183	19,214,792
More than five years	4,558,976	3,563,788
Net contributions receivable from deferred gifts	<u>1,232,490</u>	<u>1,232,490</u>
Total	<u>\$ 38,841,605</u>	<u>\$ 35,130,393</u>

(1) The interest rates used in the computation of the discount ranged from .61% to 4.18% for June 30, 2022 and .61% to 2.70% for June 30, 2021.

Conditional pledges of \$11,658,670 at June 30, 2022 are reported when the condition has been met. Bequest expectancies totaling \$219,650,460 have also been excluded from these amounts and are not recorded in the financial statements.

3. Investments

The investment portfolio is shown below at fair value by investment asset class and hierarchy. Investments measured using NAV are not classified in the fair value hierarchy. The amounts presented in the table are intended to permit reconciliation of the hierarchy to the statement of financial position for operating and endowed investments.

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

The University of Connecticut Foundation, Incorporated
Notes to the Financial Statements
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	June 30, 2022				
	Level 1	Level 2	Level 3	NAV	Total
Short Term Investments	\$ 6,494,191	\$ -	\$ -	\$ -	\$ 6,494,191
Global Fixed Income	119,221,634	2,394,947	-	21,085,296	142,701,877
Global Equity	119,463,515	-	-	49,683,369	169,146,884
Hedge Funds - Non-Directional	-	-	-	59,496,864	59,496,864
Hedge Funds - Directional	-	-	-	11,301,525	11,301,525
Private Capital	-	-	-	207,592,970	207,592,970
Private Real Assets	-	-	-	48,747,324	48,747,324
Total	<u>\$ 245,179,340</u>	<u>\$ 2,394,947</u>	<u>\$ -</u>	<u>\$ 397,907,348</u>	<u>\$ 645,481,635</u>

	June 30, 2021				
	Level 1	Level 2	Level 3	NAV	Total
Short Term Investments	\$ 8,832,326	\$ -	\$ -	\$ -	\$ 8,832,326
Global Fixed Income	119,802,904	3,225,062	-	34,241,298	157,269,264
Global Equity	179,558,451	-	-	52,925,136	232,483,587
Hedge Funds - Non-Directional	-	-	-	100,704,330	100,704,330
Hedge Funds - Directional	-	-	-	22,468,549	22,468,549
Private Capital	-	-	-	121,992,792	121,992,792
Private Real Assets	-	-	-	43,120,113	43,120,113
Total	<u>\$ 308,193,681</u>	<u>\$ 3,225,062</u>	<u>\$ -</u>	<u>\$ 375,452,218</u>	<u>\$ 686,870,961</u>

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.

Net asset values provided by third parties have been utilized in determining fair value. Fund 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 fund 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.

Certain investment funds may have agreements that contain funding commitments and redemption terms and restrictions. The following table summarizes the unfunded commitments and the redemption frequency:

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

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	Unfunded commitments June 30, 2022	Fair value June 30, 2022	Fair value June 30, 2021	Redemption Frequency	Redemption Notice Period
Global Fixed Income	\$ -	\$ 21,085,296	\$ 34,241,298	Monthly	30 Days
Global Equity	-	49,683,369	52,925,136	1 to 90 Days 3 to 12	1 to 90 Days 60 to 90 Days
Hedge Funds - Non-Directional	-	59,496,864	100,704,330	months 1 to 12	30 to 90 Days
Hedge Funds - Directional	-	11,301,525	22,468,549	months Not applicable	Not applicable
Private Capital	120,726,642	207,592,970	121,992,792	or none	or none
Private Real Assets	20,213,129	48,747,324	43,120,113	Not applicable or none	Not applicable or none
Total	\$ 140,939,771	\$ 397,907,348	\$ 375,452,218		

Net total investment return is summarized as follows:

	June 30	
	2022	2021
Interest and dividends	\$ 9,955,348	\$ 9,740,594
Net realized and unrealized gains(losses) on investments	(29,345,801)	140,944,766
Investment management fees	(12,045,753)	(10,903,126)
Salary expenses related to investments	(423,077)	(436,770)
Net total investment return	<u>\$ (31,859,283)</u>	<u>\$ 139,345,464</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, 2022 is \$4,249,674 and 2021 was \$4,235,284, while their aggregate cash surrender value was \$592,828 and \$585,283, respectively.

5. Property and Equipment

Depreciation expense was \$337,245 and \$375,711 for property and equipment used for Foundation operations for the years ended June 30, 2022 and 2021, respectively.

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

The University of Connecticut Foundation, Incorporated
Notes to the Financial Statements
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	June 30,	
	2022	2021
	<u> </u>	<u> </u>
Building and improvements	\$ 6,559,681	\$ 7,296,216
Land	-	201,361
Furniture and equipment	664,812	1,593,409
Capital leases	532,359	235,275
Fundraising system	2,518,820	2,518,820
Subtotal	<u>10,275,672</u>	<u>11,845,081</u>
Less: accumulated depreciation	<u>(7,167,978)</u>	<u>(7,921,818)</u>
	<u><u>\$ 3,107,694</u></u>	<u><u>\$ 3,923,263</u></u>

6. Other Assets

Other assets are comprised of the following:

	June 30,	
	2022	2021
	<u> </u>	<u> </u>
Other receivables	\$ 83,241	\$ 84,241
Prepaid expenses	485,819	282,721
Life insurance receivable	156,696	159,066
Donated property	7,840	7,840
	<u><u>\$ 733,596</u></u>	<u><u>\$ 533,868</u></u>

7. Operating Leases

In January 2022, the Foundation entered into a lease for office space for Foundation staff that support fundraising operations for the University of Connecticut Health Center. Expenditures reported for the lease during the year ended June 30, 2022, were \$15,341.

The University of Connecticut Foundation, Incorporated
Notes to the Financial Statements
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8. Bond and Note Payable

Bond and notes payable at June 30, 2022 and 2021 consist of the following obligations:

	<u>June 30,</u>	
	<u>2022</u>	<u>2021</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 \$2,519,167, payable April 1st each year through 2023	2,500,000	\$ 5,000,000
Wells Fargo Bank 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	1,608,810	2,274,524
Less: deferred bond and note payable issuance costs, net	(35,522)	(70,572)
Total bond and note payable	<u>\$ 4,073,288</u>	<u>\$ 7,203,952</u>

(1) 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.

(2) On October 27, 2017, the Foundation entered into a loan agreement with Wells Fargo Bank for a taxable term loan note. The proceeds of the loan were used for refunding the Series B Bonds. Series B Bonds were issued in January 2007.

Principal payments due on all bonds and notes payable as of June 30, 2022 for each of the next five fiscal years are:

2023	3,165,714
2024	665,714
2025	277,382
	<u>\$ 4,108,810</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 bond and note payable, respectively.

The deferred costs are presented as a direct deduction of bond and note payable. Amortization expense for the years ended June 30, 2022 and 2021 was \$35,051 and is included in Foundation support expenses.

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

The University of Connecticut Foundation, Incorporated
Notes to the Financial Statements
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As of June 30, 2022, the Foundation was not in compliance with the debt service coverage ratio, which is one of the debt covenants for the CHEFA Series C bonds and the Wells Fargo unsecured note. Refer to Note 14 for discussion of subsequent events.

9. Net Assets

At June 30, 2022 and 2021, net assets included funds without donor restrictions and with donor restrictions for the following purposes:

	<u>2022</u>	<u>2021</u>
Net assets without donor restrictions		
Available for Foundation Operations	\$ 13,733,611	\$ 20,319,988
Board-designated endowments	2,071,423	2,176,417
Total without donor restrictions	<u>\$ 15,805,034</u>	<u>\$ 22,496,405</u>
Net assets with donor restrictions		
Subject to expenditure for specified purpose		
Scholarship support	\$ 28,187,087	\$ 26,661,887
Faculty support	9,556,105	8,445,991
Program support	78,609,099	64,959,366
Total subject to expenditure for specified purpose	<u>116,352,291</u>	<u>100,067,244</u>
Endowments		
Scholarship support	229,831,054	241,505,585
Faculty support	155,641,863	158,465,935
Program support	190,143,865	208,214,291
Total Endowments	<u>575,616,782</u>	<u>608,185,811</u>
Total net assets with donor restrictions	<u>\$ 691,969,073</u>	<u>\$ 708,253,055</u>

The Foundation's endowment net assets consist of approximately 1,940 individual funds established for a variety of purposes and the following where the assets have been designated for endowment: pledges receivable, charitable remainder trusts and charitable gift annuities. The endowment includes both donor-restricted endowment funds and funds designated by the Board of Directors to function as endowments.

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 net assets with donor restrictions 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. In accordance with Connecticut UPMIFA, the Foundation considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

The University of Connecticut Foundation, Incorporated
Notes to the Financial Statements
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- 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
- 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 years ended June 30, 2022 and 2021 summarized by net asset class of without donor-restriction versus with donor-restrictions:

	2022			2021		
	Without Donor Restrictions	With Donor Restrictions	Total	Without Donor Restrictions	With Donor Restrictions	Total
Endowment net assets, beginning balance	\$ 2,176,417	\$ 608,185,811	\$ 610,362,228	\$ 1,767,057	\$ 470,038,395	\$ 471,805,452
Contributions	-	23,026,877	23,026,877	460	24,989,271	24,989,731
Net total investment return and other income	15,085	(26,319,381)	(26,304,296)	463,903	132,170,669	132,634,572
Endowment spending allocation	(83,533)	(20,000,124)	(20,083,657)	(29,030)	(13,413,200)	(13,442,230)
Endowment and gift fees to fund Foundation	(36,546)	(9,581,789)	(9,618,335)	(25,973)	(7,998,740)	(8,024,713)
Transfers between net asset categories	-	305,388	305,388	-	2,399,416	2,399,416
Endowment net assets, ending balance	<u>\$ 2,071,423</u>	<u>\$ 575,616,782</u>	<u>\$ 577,688,205</u>	<u>\$ 2,176,417</u>	<u>\$ 608,185,811</u>	<u>\$ 610,362,228</u>

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 advancement fee. 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. Liquidity and Availability

Financial assets available for general expenditure, that is, without donor restrictions or other restrictions limiting their use, within one year of the statement of financial position date are comprised of the following:

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

The University of Connecticut Foundation, Incorporated
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Cash and cash equivalents	\$ 919,957
Investments, operating	<u>14,000,000</u>
	<u>\$ 14,919,957</u>

The Foundation's unrestricted investments represent non-endowed assets that are not designated to a specific unit or purpose and can be used by the Foundation at any time. The assets are invested in short-term investments determined by the Foundation's investment policy.

Many of the Foundation's liabilities may be funded by financial assets with donor restrictions, which are not included in the liquidity table above.

11. Expenses by Nature and Function

Expenses are presented by functional classification in accordance with the overall service mission of the Foundation. Each functional classification displays all expenses related to the underlying operations by natural classification.

The financial statements report certain categories of expenses that are attributable to more than one program or supporting function. Therefore, these expenses require allocation on a reasonable basis that is consistently applied. The expenses that are allocated include depreciation and interest (included in facilities and equipment expense), which are allocated on a headcount basis.

	2022			
	University	Foundation Operations		Total
	Program	Management		
	Support	Fundraising	& General	
Expenses				
Faculty and staff compensation and benefits	\$ 9,107,054	\$ 12,630,853	\$ 4,899,345	\$ 26,637,252
Student support	16,459,839	-	-	16,459,839
General support	4,681,573	1,970,283	2,261,197	8,913,053
Facilities and equipment expense	2,897,265	565,139	441,790	3,904,194
Fundraising events and donor cultivation	863,560	799,038	63,566	1,726,164
Travel, conferences, and meetings	1,871,270	316,225	31,279	2,218,774
Total expenses	<u>\$ 35,880,561</u>	<u>\$ 16,281,538</u>	<u>\$ 7,697,177</u>	<u>\$ 59,859,276</u>

	2021			
	University	Foundation Operations		Total
	Program	Management		
	Support	Fundraising	& General	
Expenses				
Faculty and staff compensation and benefits	\$ 9,266,310	\$ 12,442,651	\$ 4,507,480	\$ 26,216,441
Student support	9,731,939	-	-	9,731,939
General support	2,458,534	2,430,580	1,730,073	6,619,187
Facilities and equipment expense	11,647,918	657,992	366,456	12,672,366
Fundraising events and donor cultivation	260,182	416,119	44,520	720,821
Travel, conferences, and meetings	283,769	61,581	10,883	356,233
Total expenses	<u>\$ 33,648,652</u>	<u>\$ 16,008,923</u>	<u>\$ 6,659,412</u>	<u>\$ 56,316,987</u>

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

The University of Connecticut Foundation, Incorporated

Notes to the Financial Statements

June 30, 2022 and 2021

12. 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 University Program Support in the statement of activities and in Note 11. There are two primary sources of Foundation funds available to the University: charitable gifts and philanthropic grants included in contributions 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 \$35,880,561 and \$33,582,753 for the years ended June 30, 2022 and 2021, respectively. The University determines the amount of support that will be requested from the Foundation based on the amounts available to be spent.

13. 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 \$9,315,000 for the years ended June 30, 2022 and 2021.

The University of Connecticut Foundation has a contractual arrangement with the University of Connecticut to act as the University's agent in managing their endowment assets. The pool is managed under the same policies as the Foundation's endowment pool but may have a different asset allocation. The Foundation has elected to disclose the fair value of the endowment assets on the balance sheet with an offsetting liability. The University's endowment had a fair value of \$17,423,725 and \$19,565,538 as of June 30, 2022 and 2021, respectively.

In April 2015, the Foundation assumed primary responsibility for alumni engagement activities for the University. The Foundation focuses on strengthening the connection with alumni with the University over their lifetime. The University has granted the Foundation rights to use the Alumni Center at the cost of \$1.00 rent per year in perpetuity. In payment for alumni engagement outlined in the MOU, the Foundation recorded revenue from the University of \$2,835,201 for the years ended June 30, 2022 and 2021.

The Foundation has recorded a liability due to the University of \$8,977,389 and \$6,235,490 and to the University Health Center of \$108,982 and \$271,007 for disbursement requests as of June 30, 2022 and June 30, 2021 respectively. The liabilities to the University and the University Health Center are 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 University's former President which is included in the Foundation accounts payable and accrued expenses in the accompanying statement of financial position. The liability was \$108,982 and \$271,756 as of June 30, 2022 and 2021, respectively.

The University of Connecticut Foundation, Incorporated
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The Foundation has recorded no amount due from the University at June 30, 2022 and 2021.

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.

14. Subsequent Event

As of June 30, 2022 the Foundation was not in compliance with the debt service coverage ratio, which is one of the debt covenants for the CHEFA Series C bonds and the Wells Fargo unsecured note. Subsequently, on October 14, 2022, the Foundation repaid the CHEFA Series C bonds and Wells Fargo unsecured note in full using available cash. The Foundation believes the impact of these events to be immaterial.

Management has evaluated subsequent events for the period after June 30, 2022, through October 21, 2022.