The University of Connecticut Foundation, Incorporated

Consolidated Financial Statements

June 30, 2017 and 2016

The University of Connecticut Foundation, Incorporated
Index
June 30, 2017 and 2016

Report of Independent Auditors

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

We have audited the accompanying consolidated financial statements of The University of Connecticut Foundation Incorporated (the "Foundation"), which comprise the consolidated statement of financial position as of June 30, 2017 and 2016, and the related consolidated statement of activities for the year ended June 30, 2017, and statement of cash flows for the years ended June 30, 2017 and 2016.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated 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 consolidated 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 consolidated 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 audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the consolidated 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 consolidated 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 consolidated financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

pwc

Opinion

In our opinion, the consolidated 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, 2017 and 2016, and the changes in net assets for the year ended June 30, 2017 and its cash flows for the years ended June 30, 2017 and 2016 in accordance with accounting principles generally accepted in the United States of America.

Other Matter

We have previously audited the consolidated statement of financial position as of June 30, 2016, and the related consolidated statements of activities (not presented herein) and of cash flows for the year then ended, and in our report dated October 6, 2016, 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, 2016 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, 2017
Hartford, CT

The University of Connecticut Foundation, Incorporated
Consolidated Statement of Financial Position
June 30, 2017 and 2016
(Dollars in Thousands)

	2017	2016
Assets	*(Dollars in Thousands)*	
Cash and cash equivalents	$ 13,952	$ 11,463
Restricted cash	894	891
Pledges receivable, net (Note 2)	26,562	32,589
Investments, operating (Note 3)	66,993	60,514
Investments, endowment (Note 3)	368,651	332,245
Funds held in trust by others	19,797	17,827
Endowments held for the University	14,538	12,645
Cash surrender value of life insurance (Note 4)	602	560
Property and equipment, net (Note 5)	5,641	6,172
Other assets (Note 6)	1,058	631
Total assets	$ 518,688	$ 475,537
Liabilities and Net Assets		
Liabilities		
Accounts payable and accrued expenses	$ 6,470	$ 7,107
Trusts and annuities payable	2,345	2,383
Endowments held for the University	14,538	12,645
Accrued debt service interest	102	109
Lease liability	96	180
Bonds payable (Note 8)	19,562	22,299
Total liabilities	43,113	44,723
Net Assets (Note 9)		
Unrestricted	(541)	(10,590)
Temporarily restricted	99,232	85,872
Permanently restricted	376,884	355,532
Total net assets	475,575	430,814
Total liabilities and net assets	$ 518,688	$ 475,537

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

The University of Connecticut Foundation, Incorporated
Consolidated Statement of Activities
For the Year Ended June 30, 2017, with Summarized Comparative Totals for 2016
(Dollars in Thousands)

	2017				2016
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Total
Revenues, gains and other support					
Contributions	$ 249	$ 21,504	$ 13,850	$ 35,603	$ 40,741
Net total investment return	3,408	35,677	6,568	45,653	(3,070)
Contractual payments from the University	10,050	-	-	10,050	9,450
Memberships and other income	1,312	670	3	1,985	1,694
Total revenues and gains	15,019	57,851	20,421	93,291	48,815
Net assets released from restrictions	27,644	(27,644)	-	-	-
Endowment spending allocation	(36)	1,540	(1,504)	-	-
Endowment and gift fees to fund Foundation operations	7,674	(6,896)	(778)	-	-
Total revenues, gains and other support	50,301	24,851	18,139	93,291	48,815
Expenses					
Program support					
Student scholarships, fellowships and awards	10,963	-	-	10,963	11,010
Faculty and staff compensation	6,853	-	-	6,853	8,799
General program and research support	3,103	-	-	3,103	4,460
Faculty, staff and student travel, conferences and meetings	2,232	-	-	2,232	3,699
Equipment	1,952	-	-	1,952	2,075
Fundraising, events, promotions and donor cultivation	1,858	-	-	1,858	2,048
Facilities construction, improvements, and related expenses	598	-	-	598	2,049
Alumni Association	39	-	-	39	41
Total Program support	27,598	-	-	27,598	34,181
Foundation operations					
Development expenses	9,691	-	-	9,691	9,767
Administration expenses	8,318	-	-	8,318	7,446
Alumni expenses	2,568	-	-	2,568	2,143
University support	355	-	-	355	355
Total Foundation operations	20,932	-	-	20,932	19,711
Total expenses	48,530	-	-	48,530	53,892
Transfers between net asset categories	(311)	(2,902)	3,213	-	-
Change in provision for underwater endowments	8,589	(8,589)	-	-	-
Less change in net assets not owned by Foundation	-	-	-	-	(109)
Change in net assets	10,049	13,360	21,352	44,761	(4,968)
Net assets, beginning of year	(10,590)	85,872	355,532	430,814	435,782
Net assets, end of year	$ (541)	$ 99,232	$ 376,884	$ 475,575	$ 430,814

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

The University of Connecticut Foundation, Incorporated
Consolidated Statement of Cash Flows
For the Years Ended June 30, 2017 and 2016
(Dollars in Thousands)

	2017	2016
Cash flows from operating activities		
Change in net assets	$ 44,761	$ (4,968)
Adjustments to reconcile change in net assets to net cash used in operating activities		
Net losses (gains) on investments	(43,498)	2,107
Cash gifts to establish or increase permanent endowments	(13,856)	(18,459)
Gifts of securities	(5,545)	(8,679)
Proceeds from sale of donated securities	3,147	7,281
Net (gain) loss from sale of donated property	(4)	81
Depreciation and amortization	928	874
(Benefit) provision for uncollectible accounts	3,550	(60)
(Benefit) provision for discounts on pledges receivable	80	(504)
(Increase) decrease in assets		
Pledges receivable	2,396	556
Funds held in trust by others	(1,970)	1,384
Cash surrender value of life insurance	(42)	(36)
Other assets	(423)	(32)
Increase (decrease) in liabilities		
Accounts payable and accrued expenses	(636)	859
Trusts and annuities payable	(38)	(9)
Accrued debt service interest	(7)	(5)
Interest on lease liability	(1)	(1)
Total adjustments	(55,919)	(14,643)
Net cash (used in) provided by operating activities	(11,158)	(19,611)
Cash flows from investing activities		
Purchases of investments	(113,280)	(197,208)
Sales of investments and gifts of marketable securities	113,894	208,132
Proceeds from sale of asset	-	(16)
Disposals of property and equipment	-	33
Purchases of property and equipment	(349)	(214)
Net cash (used in) provided by investing activities	265	10,727
Cash flows from financing activities		
Cash gifts to establish or increase permanent endowments	13,856	18,459
Proceeds from sale of donated securities restricted for endowment	2,398	1,398
Principal payments on lease liability	(84)	(96)
Payments on bonds and notes payable	(2,785)	(3,370)
Decrease in cash restricted for debt service	(3)	(4)
Net cash (used in) provided by financing activities	13,382	16,387
Net increase (decrease) in cash and cash equivalents	2,489	7,503
Cash and cash equivalents at beginning of year	11,463	3,960
Cash and cash equivalents at end of year	$ 13,952	$ 11,463
Supplemental disclosure of cash flow information:		
Gifts of securities	$ 5,545	$ 8,679
Cash paid during the year for interest	537	586

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

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.

B. Basis of Presentation

The consolidated 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, 2017. The year ending June 30, 2016, includes The University of Connecticut Research and Development Corporation's ("R&D Corporation", doing business as UConn Ventures, Inc.) revenue and expenses for the first six months of that period, for which all significant inter-organization accounts have been eliminated. The R&D Corporation was transferred to the University of Connecticut on December 31, 2015 (see Note 1F) and is therefore not included in the assets, liabilities, and net assets at either June 30, 2017 or 2016.

The consolidated 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 administrative 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.

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 consolidated 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 consolidated 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 consolidated 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 consolidated 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 uncollectible accounts to determine the total allowance for uncollectible pledges. As of June 30, 2017 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.

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 $894,369 and $890,778 at June 30, 2017 and 2016, 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 both June 30, 2017 and 2016, investments in securities whose fair values are not readily determinable (NAV and level 3) accounted for 55% 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 $2.1 million 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 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, 2017, the Foundation did not receive any royalty revenue.

G. Endowment Spending Allocation and Administrative 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 $13.0 million and $13.8 million for the years ended June 30, 2017 and 2016, respectively.

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.

Endowment spending allocation calculations are performed for individual endowment funds at a rate of 4.25% of the rolling 12 quarter average market value on a unitized basis on March 31st each year for the following fiscal year beginning July 1st. 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.
An administrative fee is assessed to fund expenses incurred in meeting the Foundation's fiduciary and fundraising responsibilities to donors and the University. This on-going administrative fee is also assessed based on a rolling 12 quarter unitized market value, calculated on March 31st, for the following fiscal year beginning July 1st. 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.

The endowment spending allocation and administrative fee taken together cannot exceed 6.75% or fall below 3.0% of the fair value of endowment funds at March 31st. 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 administrative 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 administrative 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 administrative 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 consolidated statement of financial position and the consolidated statement of activities and changes in net assets, market losses and administrative 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 consolidated statement of financial position and contribution revenue on the consolidated statement of activities and changes in net assets using discount rates of 1.6% to 3.8% for 2017 and 1.2% to 3.3% for 2016. Trusts held in perpetuity are reported at their fair value. Funds held in trust by others totaled $19.8 million and $17.8 million at June 30, 2017 and 2016, 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 (amounts are in thousands):

	2017	2016
Balance as of July 1, 2016 and 2015	$ 17,827	$ 19,211
Change in fair value	2,263	(1,384)
Net contributions/distributions	(293)	-
Balance as of June 30, 2017 and 2016	$ 19,797	$ 17,827

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 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, 2017 and 2016, 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 consolidated statements of activities and changes in net assets.

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, 2017 is $583,223. Included in Foundation support expenses are Plan contributions of $784,097 and $806,787 for the years ended June 30, 2017 and 2016, 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. Recently 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 will be effective for the fiscal year 2018 statements. The Foundation does not believe it will make a material impact.

In February 2016, the Financial Accounting Standards Board issued 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 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 consolidated 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.

O. Subsequent Events

The Foundation has performed an evaluation of subsequent events through October 10, 2017, which is the date the consolidated statements were issued.

On March 6, 2017 the board of The University of Connecticut Law School Foundation, Inc. (LSF) voted to dissolve. The LSF has entered into an agreement with the Foundation to transfer all assets to the Foundation as of July 1, 2017. The distribution includes endowment funds, restricted non-endowed funds, and other investment funds.

2. Pledges Receivable, Net

Pledges receivable includes unconditional promises to give:

	June 30, 2017	June 30, 2016
	(Dollars in Thousands)	
Pledges	$ 33,172	$ 35,569
Less: allowance for uncollectible pledges	(4,866)	(1,316)
Less: discount to record net realizable pledges at net present value	(1,744)	(1,664)
Pledges receivable, net	$ 26,562	$ 32,589

	2017	2016
	(Dollars in Thousands)	
Net pledge receivable amounts due in:		
Less than one year	$ 12,984	$ 13,995
One to five years	11,772	17,309
More than five years	954	382
Net contributions receivable from deferred gifts	852	903
Total	$ 26,562	$ 32,589

The interest rates used in the computation of the discount ranged from 1.0% to 2.8% for June 2017 and 1.0% to 4.2% for June 2016.

Conditional pledges of $7.1 million at June 30, 2017 are unreported. Bequest expectancies totaling $110.0 million 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 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 consolidated statements of financial position, because NAV is a practical expedient.

	June 30, 2017				
	Level 1	**Level 2**	**Level 3**	**NAV**	**Total**
	(Dollars in Thousands)				
Cash and cash equivalents	$ 5,714	$ -	$ -	$ -	$ 5,714
Fixed income securities:					
U.S. treasury securities	-	-	-	-	-
Corporate investment grade	67,093	-	-	13,124	80,217
Corporate high yield	-	-	-	6,068	6,068
Equity securities:					
Domestic	122,459	2,560	-	15,088	140,107
Offshore	-	-	-	14,854	14,854
Long/short equities	-	-	-	35,461	35,461
Global macro	-	-	-	-	-
Relative value	-	-	-	35,509	35,509
Private capital:					
Buyout/venture capital	-	-	-	19,036	19,036
Debt	-	-	-	19,210	19,210
Royalties	-	-	-	18,120	18,120
Private real estate	-	-	-	32,684	32,684
Private natural resources	-	-	-	28,664	28,664
Total	$ 195,266	$ 2,560	$ -	$ 237,818	$ 435,644

	June 30, 2016				
	Level 1	**Level 2**	**Level 3**	**NAV**	**Total**
	(Dollars in Thousands)				
Cash and cash equivalents	$ 15,678	$ -	$ -	$ -	$ 15,678
Fixed income securities:	-	-	-	-	
U.S. treasury securities	-	-	-	-	-
Corporate investment grade	58,609	-	-	5,434	64,043
Corporate high yield	-	-	-	9,158	9,158
Equity securities:	-	-	-	-	
Domestic	103,066	-	-	14,235	117,301
Offshore	-	-	-	17,166	17,166
Long/short equities	-	-	-	22,321	22,321
Global macro	-	-	-	-	-
Relative value	-	-	-	28,956	28,956
Private capital:	-	-	-	-	
Buyout/venture capital	-	-	-	20,758	20,758
Debt	-	-	-	19,445	19,445
Royalties	-	-	-	18,440	18,440
Private real estate	-	-	-	37,232	37,232
Private natural resources	-	-	-	22,261	22,261
Total	$ 177,353	$ -	$ -	$ 215,406	$ 392,759

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.

Following is additional information relating to investments whose fair value is derived either principally from observable market transactions other than quoted market prices, or from unobservable inputs.

Investment strategy	Fair value	Unfunded commitments	Remaining life	Redemption terms	Redemption restrictions	Redemption restrictions in place at June 30, 2017
			(Dollars in Thousands)			
Private capital partnerships including venture, buyout, and distressed in the U.S. and international	$ 56,366	$ 20,544	<1 to 11 years	Not applicable	Not applicable	Not applicable
Private real estate partnerships in commercial, residential, office, and industrial properties	32,684	981	1 to 7 years	Not applicable	Not applicable	Not applicable
Natural resource partnerships in energy and timber	28,664	2,157	2 to 12 years	Not applicable	Not applicable	Not applicable
Total	$ 117,714	$ 23,682				

Net total investment return is summarized as follows:

	June 30, 2017	June 30, 2016
	(Dollars in Thousands)	
Interest and dividends	$ 14,500	$ 10,882
Realized gains	14,571	27,079
Unrealized gains/(losses)	18,648	(38,299)
Professional asset management and custodian fees	(2,066)	(2,732)
Net investment return	$ 45,653	$ (3,070)

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, 2017 and 2016 was $4.5 million and $4.6 million, respectively, while their aggregate cash surrender value was $601,936 and $560,438, respectively.

5. Property and Equipment

Depreciation expense was $879,944 and $826,164 for property and equipment used for Foundation operations for the years ended June 30, 2017 and 2016, respectively.

	June 30, 2017	June 30, 2016
	(Dollars in Thousands)	
Building and improvements	$ 7,241	$ 6,940
Land	201	201
Furniture and equipment	1,535	1,578
Vehicles	31	31
Fundraising system	2,519	2,519
Subtotal	11,527	11,269
Less: accumulated depreciation	(5,886)	(5,097)
	$ 5,641	$ 6,172

6. Other Assets

Other assets are comprised of the following:

	June 30, 2017	June 30, 2016
	(Dollars in Thousands)	
Other receivables	$ 343	$ 50
Prepaid expenses	436	422
Life insurance receivable	178	148
Donated property and collections	101	11
	$ 1,058	$ 631

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, 2017 were $50,825. The future minimum lease payments are as follows:

Fiscal Year Ending June 30:
(Dollars in Thousands)

2018	57
2019	57
2020	57
2021	5
Thereafter	-
	$ 176

8. Bonds 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 of 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.

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

	2017	2016
	(Dollars in Thousands)	
Connecticut Health and Education Facilities Authority 1.90% Series C Revenue Bonds due in installments including principal and interest payments ranging from $2,504 to $2,528, payable April 1st each year through 2023.	$ 15,000	$ 17,500
Connecticut Health and Education Facilities Authority 3.875% - 5% Series B Revenue Bonds due in installments, including principal and interest payments ranging from $495 to $503, payable July 1st each year through 2024.	2,735	3,020
Connecticut Health and Education Facility Authority 4.125% Series B Term Bond(s) due on July 1, 2029.	2,220	2,220
Less: Deferred bond issuance costs, net	(393)	(441)
Total bonds payable	$ 19,562	$ 22,299

CHEFA Series B bondholders are paid interest each January 1 and July 1, and principal each July 1. CHEFA Series C bondholders are paid interest monthly on the 1st. The maturity of long-term debt based on the payment schedules to the bondholders is as follows (in thousands):

Fiscal Year Ending June 30: (Dollars in Thousands)	
2018	2,795
2019	2,805
2020	2,820
2021	2,835
2022	2,850
Thereafter	5,850
	$ 19,955

For the retirement of the Series B term bonds maturing on July 1, 2029, the loan agreement requires the establishment of a sinking fund to be funded on July 1, 2025 and on each July

1 thereafter as follows (in thousands):

2025	$ 410
2026	425
2027	445
2028	460
2029	480
	$ 2,220

The following restricted funds and their balances at June 30, 2017 and 2016 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:

	2017	2016
	(Dollars in Thousands)	
Debt Service Reserve Fund	$ 497	$ 497
Principal and Interest Payment Fund	397	394
	$ 894	$ 891

The portion of bond proceeds which funded costs of issuance, together with costs funded by Foundation operations relating to issuance costs, has been recognized as deferred bond issuance costs on the accompanying consolidated statements of financial position and is amortized over the life of the bond. The issuance costs are presented as a direct deduction of bonds payable as described at Note 1N. Amortization expense recognized was $47,781 for the years ended June 30, 2017 and 2016 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:

	June 30,	
	2017	2016
	(Dollars in Thousands)	
University support expenses	$ 32	$ 34
Foundation support expenses	172	184
	$ 204	$ 218

9. Net Assets

At June 30, 2017 and 2016 net assets included unrestricted funds, temporarily and permanently restricted funds by donors for the following purposes:

	2017	2016
	(Dollars in thousands)	
Unrestricted		
Available for Foundation Operations	$ 9,440	$ 8,101
Provision for underwater endowment	(11,951)	(20,661)
Funds functioning as endowment	1,970	1,970
Total Unrestricted	(541)	(10,590)
Temporarily restricted		
Scholarship support	19,463	17,602
Faculty support	18,776	19,366
Program support	60,993	48,904
Total Temporarily restricted	99,232	85,872
Permanently restricted		
Scholarship support	143,565	135,914
Faculty support	101,027	98,251
Program support	132,292	121,367
Total Permanently restricted	$ 376,884	$ 355,532

The Foundation's endowment net assets consist of approximately 1,600 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
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, 2017 and 2016 delineated by net asset class and donor-restricted vs. Board-designated funds:

	2017					2016
	(Dollars in Thousands)					
	Unrestricted		Donor-restricted			
	Board Designated	Provision For Underwater Endowments	Temporarily	Permanently	Total	Total
Endowment net assets, beginning balance	$ 1,970	$ (20,661)	$ 25,578	$ 355,532	$ 362,419	$ 368,179
Contributions	-	-	499	13,853	14,352	18,609
Net total investment return & other income	187	-	35,561	6,568	42,316	(4,768)
Endowment spending allocation	(36)	-	(11,484)	(1,504)	(13,024)	(13,755)
Endowment and gift fees to fund Foundation operations	(30)	-	(6,095)	(778)	(6,903)	(6,595)
Transfers between net asset categories	-	-	(868)	3,213	2,345	749
Change in provision for underwater endowments	(121)	8,710	(8,589)	-	-	-
Endowment net assets, ending balance	$ 1,970	$ (11,951)	$ 34,602	$ 376,884	$ 401,505	$ 362,419

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 University Support on the consolidated statement of activities and changes in net assets. 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 $27.7 million and $34.1 million for the years ended June 30, 2017 and 2016, respectively. Fluctuations in spending are driven by the current needs of the University, and availability of support from the Foundation.

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 $10.1 million and $9.5 million for years ended June 30, 2017 and 2016, 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 $14.5 million and $12.6 million as of June 30, 2017 and 2016 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.

The Foundation has recorded a liability due to the University of $3.8 million and $4.2 million and to the University Health Center of $235,372 and $397,399, for disbursement requests as of June 30, 2017 and 2016 respectively, which is included in accounts payable and accrued expenses in the accompanying consolidated 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, 2017 and 2016.

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.