Agenda – Regular Meeting
Audit Committee
Board of Regents for Higher Education
Tuesday, September 29, 2020 at 10:00 am
Conducted Via Remote Participation - AUDIO ONLY; No Video

Call-in toll-free number: 1-877-668-4493
Meeting number (access code): 120 218 2497

Click here to Join meeting

AGENDA

1. Call to Order: Establishment of Quorum
2. Approval of Minutes for Audit Committee Meeting of June 2, 2020
3. APA Audit Reports Update - Shannon Walsh
4. Status of Audits and Year-End Financial Statements - Melinda Cruanes
5. CSCU 2020 Draft Audit Report by CohnReznick - Carolyn Kurth, Audit Principal
6. Interim Report by Grant Thornton - Claire Esten, Audit Partner
7. Executive Session (if required)
8. Adjournment

Audit Committee Members:
Elease E. Wright, Chair
Aviva D. Budd
JoAnn Ryan
BOARD OF REGENTS FOR HIGHER EDUCATION
AUDIT COMMITTEE

Tuesday, June 2, 2020 @10:00 a.m.
Via WebEx Remote Participation

COMMITTEE MEMBERS PARTICIPATING
Elease Wright, Chair (via WebEx remote participation)
Aviva Budd (via WebEx remote participation)
JoAnn Ryan (via WebEx remote participation)

CSCU STAFF PARTICIPATING
Ben Barnes, Chief Financial Officer (via WebEx remote participation)
Melinda Cruanes, Controller (via WebEx remote participation)
Ernestine Weaver, Counsel (via WebEx remote participation)
Michael Moriarty (Via WebEx remote participation)

Guests
Claire Esten, Brian Hopkins, Matt McCormick, Corey Stadelbauer - Grant Thornton
(via WebEx remote participation)

CALL TO ORDER
With a quorum present, Chairman Wright called the meeting to order at 10:08 a.m.

Chairman Wright thanked everyone for their participation in the meeting particularly during these difficult and un-normal times in which we live. She expressed confidence that the country will prevail through the health pandemic as well as the disturbing news and protest of issues that were protested in the 1960s.

Information Items

1. 2020 Audit Planning Presentation and Discussion

Claire Esten, Partner, Grant Thornton, and staff provided an update and reviewed the final procedures for concluding the 2019 Audit report for the Connecticut Community Colleges. The majority of the items have been completed and the legal update letter from the Attorney
General’s office was received. Three open audit procedures continue to be performed for the FY2019 Statements for Connecticut Community Colleges and are expected to be completed within the next few days. The audit was executed according to plan with significant difficulties encountered during the audit to complete the audit in a timely manner. Internal control matters were shared.

The audit timeline and scope for the 2020 Audit preparation were reviewed and is currently in the planning and risk assessment stage. Final fieldwork will be conducted September through December with final findings and review with the Audit committee. The focus of the audit will be on significant risks and other areas including the impact of the COVID19 pandemic.

Chairman Wright inquired about the handling of things in the future during the pandemic and staff working remotely. She suggested that a discussion be held with CFO Barnes and staff.

CFO Barnes noted that steps are being taken to ensure the financial reports for FY2020 are prepared in an efficient manner. Delays were due to personnel changes and the departure of the Director of Accounting and Controller. Delays were also attributed to modified changes that were needed to the FY19 Charter of Accounting and IT changes to the on-line hosting of Banner. The IT changes though positive in the long run, were disruptive. The existing staff was commended for doing a great job in addressing the issues. Melinda Cruanes was hired as the new Controller in August after the year closed. The recruitment of a Director of Accounting is currently in the process. The individual hired will perform the daily activities. An Accountant Specialist will also be hired. It was noted the instability in the General Ledger System and Banner will continue to have challenges for the next few years. Banner will transition to a single less complicated model.

The current FY2020 is the last year under the current contract with Grant Thornton. GT is in the fifth year of their contract. The firm was awarded a three-year contract with a two-year extension through 2020. Over the coming year, an auditor will need to be identified for FY2021. Committee members will participate in the discussion moving forward.

2. Draft FY2019 Financial Statements CT Community Colleges (CCC)

A draft of the Connecticut Community Colleges FY2019 Financial Statements was provided for review.

**Adjournment**

There being no further business, on motion of Regent Budd, seconded by Regent Ryan, the meeting adjourned at 11:17 a.m.
Connecticut State Colleges and Universities System

Schedule of CSCU 2020 Construction Expenditures – Cash Basis

June 30, 2020
### Index

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<td>CSCU 2020 Communication with Governance – June 30, 2020</td>
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Independent Auditor’s Report

Financial Statements

Schedule of CSCU 2020 Construction Expenditures – Cash Basis

Notes to the Schedule of CSCU 2020 Construction Projects – Cash Basis
Independent Auditor's Report

To the Board of Regents and Audit Committee
Connecticut State Colleges and Universities System
Hartford, Connecticut

We have audited the expenditures paid during the years ended June 30, 2020 and June 30, 2019 as reported in the Schedule of CSCU 2020 Construction Expenditures - Cash Basis (the "Schedule") of the Connecticut State Colleges and Universities System (the "CSCU System"), and the related notes to the Schedules.

Management's Responsibility for the Schedules

Management is responsible for the preparation and fair presentation of this Schedule in accordance with the cash basis of accounting described in Note 1; this includes determining that the cash basis of accounting is an acceptable basis for the preparation of the schedule in the circumstances. Management is also responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of the Schedule that is free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on the Schedule 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 Schedule is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the Schedule. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the Schedule, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the Schedule in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the Schedule.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the accompanying Schedule referred to above presents fairly, in all material respects, the construction expenditures related to CSCU 2020 construction projects of the CSCU System specifically identified by management that were paid during the years ended June 30, 2020 and June 30, 2019 in conformity with the cash basis of accounting.
**Emphasis of Matter**

We have not audited the expenditures paid during the period from July 1, 2008 through June 30, 2018, and, accordingly, we express no opinion or other assurance with respect to these amounts. Annual expenditures for prior years through June 30, 2018 were previously audited by other auditors dated October 16, 2018 with an unmodified opinion. Our opinion on cash paid for construction expenditures for the years ended June 30, 2020 and June 30, 2019 are not modified with respect to this item.

We draw attention to Note 1 of the financial statement, which describes the basis of accounting. This financial statement is prepared on the cash basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of American. Our opinion is not modified with respect to that matter.

**Restriction on Use**

Our report is intended solely for the information and use of the Board of Regents, the Audit Committee, and management of the Connecticut State Colleges and Universities System, and is not intended to be and should not be used by anyone other than these specified parties.

Hartford, Connecticut
October XX, 2020
### Connecticut State Colleges and Universities System

#### Schedule of CSCU 2020 Construction Expenditures - Cash Basis

**June 30, 2020 and 2019**

<table>
<thead>
<tr>
<th>Approved budget as of June 30, 2020</th>
<th>Expenditures paid in the year ended June 30, 2020</th>
<th>Recommended adjustments</th>
<th>Adjusted expenditures paid in the year ended June 30, 2020</th>
<th>Adjusted expenditures paid in the year ended June 30, 2019</th>
<th>Expenditures paid during the period from July 1, 2008 through June 30, 2018</th>
<th>Total adjusted expenditures through June 30, 2020</th>
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</thead>
<tbody>
<tr>
<td><strong>Eastern Connecticut State University</strong></td>
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<td>System-wide Telecom Infrastructure Upgrades</td>
<td>18,410,000</td>
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<td>1,091,461</td>
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<td>Consolidation Updated</td>
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<td>CSUS/CCC Master Plan</td>
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<td>System-Wide New &amp; Replacement Equipment Program</td>
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<td>CSUS Auxiliary Funded Alterations/Improvements</td>
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<td><strong>Total</strong></td>
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<td>$66,889,840</td>
<td>$95,704,265</td>
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</table>

The accompanying notes are an integral part of this Schedule.
Note 1 - Presentation

Presentation
The Connecticut State Colleges and Universities System (the "CSCU System") is a comprehensive institution of higher education and is a major enterprise fund of the State of Connecticut. The Connecticut State University System Infrastructure Act authorized the issuance of up to $950,000,000 in general obligation bonds over a ten-year period beginning in the year ended June 30, 2009. Effective July 1, 2014, The Connecticut State University Infrastructure Act (CSUS 2020) was repealed and renamed as The Board of Regents for Higher Education Infrastructure Act (CSCU 2020). The act was amended to include the regional community-technical colleges and Charter Oak State College and authorized additional issuance of general obligation bonds in the amount of $80,000,000 during the year ended June 30, 2015 and $23,500,000 during the year ended June 30, 2016. The proceeds from the bonds fund capital improvements for all four universities (Eastern Connecticut State University, Central Connecticut State University, Western Connecticut State University and Southern Connecticut State University), regional community-technical colleges and Charter Oak State College along with improvements made to the Central Office of the System.

The Schedule has been prepared by System management to comply with Connecticut General Statutes Section 10a-91h requiring independent auditors to annually conduct an audit of any project of CSCU 2020 as defined in subdivision (4) of Section 10a-91c. The purpose of the legislation is to provide assurance that invoices, expenditures, cost allocations and other appropriate documentation reconcile to project costs and are in conformance with project budgets, cost allocations agreements and applicable contracts. The audit is required to be submitted to the Governor and the General Assembly in accordance with Section 11-4a.

The CSCU System has prepared the Schedule of CSCU 2020 Construction Expenditures (the "Schedule") on the cash basis of accounting rather than under the accrual basis method in accordance with accounting principles generally accepted in the United States of America. As such, expenditures are recognized when cash is disbursed rather than when the related obligation is incurred.

The Schedule does not include expenditures paid for or incurred by the Department of Public Safety ("DPS"). DPS directly pays for the costs associated with Building Code and Fire Code inspections of threshold buildings. Threshold buildings are defined by Connecticut State Statute §29-276b as, "(1) having four stories, (2) sixty feet in height, (3) with a clear span of one hundred fifty feet in width, (4) containing one hundred fifty thousand square feet of total gross floor area, or (5) with an occupancy of one thousand persons." The CSCU System provides funding through its operating funds for the necessary costs of the DPS for the inspection of nonthreshold buildings that are part of CSCU 2020. Because these expenditures paid by DPS are not paid with CSCU 2020 bond funds, the expenditures are not included in the Schedule.

Note 2 - Summary of significant accounting policies

Use of estimates
Management uses estimates and assumptions in preparing the Schedule in accordance with the cash basis of accounting. Those estimates and assumptions affect the reported amounts of project costs and disclosure of contingent project costs. Actual results could vary from the estimates used.
Approved budget
The approved budget amounts are the revised budgeted amounts for the entire contract approved by the Department of Construction Services ("DCS") on CSCU 2020 projects. The breakdown by category is provided by CSCU System management and approved by the DCS.

Expenditures paid in the year ended June 30, 2020
Expenditures paid in the year ended June 30, 2020 represent expenditures that were paid on CSCU 2020 projects during the fiscal year ended June 30, 2020.

Recommended adjustments
Recommended adjustments represent the net value of costs reviewed that either lacked sufficient supporting documentation or represented errors.

Adjusted expenditures paid in the year ended June 30, 2020
Adjusted expenditures paid in the year ended June 30, 2020 include expenditures that were paid on CSCU 2020 projects during the fiscal year ended June 30, 2020 plus (or minus) the recommended adjustments.

Adjusted expenditures paid in the year ended June 30, 2019
Adjusted expenditures paid in the year ended June 30, 2019 include expenditures that were paid on CSCU 2020 projects during the fiscal year ended June 30, 2019 plus (or minus) the recommended adjustments.

Expenditures paid during the period from July 1, 2008 through June 30, 2018
Expenditures paid during the period from July 1, 2008 through June 30, 2018 represent expenditures that were paid on CSCU 2020 projects from inception of the projects through June 30, 2018.

Total adjusted expenditures through June 30, 2020
Total adjusted expenditures through June 30, 2020 represent expenditures that were paid on CSCU 2020 projects from the inception of the project through June 30, 2020.

Subsequent events
In preparing the Schedule, management has evaluated subsequent events through October XX, 2020, which represents the date the Schedule was available to be issued.

Note 3 - Construction expenditures
Construction expenditures include all general contractor and subcontractor costs, and certain indirect costs related to project performance that can be attributed to specific projects. Indirect costs not specifically allocable to contracts and general and administrative costs are not included in construction expenditures.
October xx, 2020
CohnReznick LLP
350 Church Street
Hartford, CT 06103

This representation letter is provided in connection with your audit of the expenditures paid during the year ended June 30, 2020 as reported in the schedule of CSCU 2020 Construction Expenditures – Cash basis (the schedule) of the Connecticut State Colleges and Universities System (the “CSCU System”), and the related notes to the schedule, for the purpose of expressing an opinion as to whether the Schedule is presented fairly, in all material respects, in conformity with the cash basis of accounting, and the requirements for the master contract (DAS Contract #16PSX0081).

Certain representations in this letter are described as being limited to matters that are material. Items are considered material, regardless of size, if they involve an omission or misstatement of accounting information that, in light of surrounding circumstances, makes it probable that the judgment of a reasonable person relying on the information would be changed or influenced by the omission or misstatement. An omission or misstatement that is monetarily small in amount could be considered material as a result of qualitative factors.

We confirm, to the best of our knowledge and belief, as of October xx, 2020, the following representations made to you during your audit.

Schedule
1) We have fulfilled our responsibilities, as set out in the terms of the audit engagement letter dated July 6, 2020, including our responsibility for the preparation and fair presentation of the Schedule.
2) The Schedule referred to above are fairly presented in conformity with the cash basis of accounting.
3) We acknowledge our responsibility for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of Schedule that are free from material misstatement, whether due to fraud or error.
4) We acknowledge our responsibility for the design, implementation, and maintenance of internal control to prevent and detect fraud.
5) Significant assumptions we used in making accounting estimates, including those measured at fair value, are reasonable.
6) Related party relationships and transactions have been appropriately accounted for and disclosed in conformity with the cash basis of accounting.
7) All events subsequent to the date of the Schedule and for which the cash basis of accounting requires adjustment or disclosure have been adjusted or disclosed.
8) The effects of all known actual or possible litigation, claims, and assessments have been accounted for and disclosed in conformity with the cash basis of accounting.
9) Material concentrations have been properly disclosed in conformity with the cash basis of accounting.
10) Guarantees, whether written or oral, under which the CSCU System is contingently liable, have been properly recorded or disclosed in conformity with the cash basis of accounting.

Information Provided
11) We have provided you with:
   a) Access to all information, of which we are aware, that is relevant to the preparation and fair presentation of the Schedule, such as records, documentation, and other matters.
   b) Additional information that you have requested from us for the purpose of the audit.
   c) Unrestricted access to persons within the CSCU System from whom you determined it necessary to obtain audit evidence.
   d) Minutes of the meetings of committees or summaries of actions of recent meetings for which minutes have not yet been prepared.
12) All material transactions have been recorded in the accounting records and are reflected in the Schedule.

13) We have disclosed to you the results of our assessment of the risk that the Schedule may be materially misstated as a result of fraud.

14) We have no knowledge of any fraud or suspected fraud that affects the CSCU System and involves:
   a) Management,
   b) Employees who have significant roles in internal control, or
   c) Others where the fraud could have a material effect on the Schedule.

15) We have no knowledge of any allegations of fraud or suspected fraud affecting the CSCU System's Schedule communicated by employees, former employees, analysts, regulators, or others.

16) We have no knowledge of any instances of noncompliance or suspected noncompliance with laws and regulations whose effects should be considered when preparing Schedule.

17) We have disclosed to you all known actual or possible litigation, claims, and assessments whose effects should be considered when preparing the Schedule. This includes providing you with a list of attorneys utilized in the CSCU 2020 Construction Expenditures. We are not aware of any pending or threatened litigation, claims, or assessments, or un-asserted claims or assessments that affect the Schedule or that would be required to be accrued or disclosed in the Schedule in conformity with the cash basis of accounting.

18) We have disclosed to you the identity of the CSCU System’s related parties and all the related party relationships and transactions of which we are aware.

19) We have disclosed to you all CSCU 2020 Construction expenditures funded.

20) We take responsibility for the presentation of the Approved Budget amounts shown in the Schedule as of June 30, 2020.

21) In regard to the Schedule preparation services performed by you, we have:
   a) Assumed all management responsibilities
   b) Designated Keith Epstein, Vice President of Facilities, Infrastructure Planning & Real Estate, who has suitable skill, knowledge, or experience, to oversee the services
   c) Evaluated the adequacy and results of the services performed
   d) Accepted responsibility for the results of the services

Signature: ____________________________________________
Title: ______________________________________________

Signature: ____________________________________________
Title: ______________________________________________
October xx, 2020  
Board of Trustees and Joint Audit and Compliance Committee  
Connecticut State Colleges and Universities  
61 Woodland Street  
Hartford, CT 06105  

We have audited the Schedule of CSCU 2020 Construction Projects and Schedule of CSCU 2020 Reported Project Values (the “Schedule”) related to CSCU 2020 Construction Projects of the Connecticut State Colleges and University’s (the “CSCU System”), specifically identified by management that were substantially completed during the year ended June 30, 2020, and the related notes to the Schedule, and have issued our report thereon dated October xx, 2020. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards, as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our letter to you dated July 6, 2020. Professional standards also require that we communicate to you the following information related to our audit.

**Significant Audit Findings**

**Qualitative Aspects of Accounting Practices**

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the CSCU System is described in Note 1 to the Schedule. No new accounting policies were adopted and the application of existing policies was not changed during 2020. We noted no transactions entered into by the CSCU System during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the Schedule in the proper period.

Accounting estimates are an integral part of the Schedule prepared by management and are based on management’s knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the Schedule and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimates affecting the Schedule were:

- Management’s estimate of the project budgets and anticipated remaining costs is based on management’s analysis of the estimated contract costs to be incurred compared to what has been incurred to date. We evaluated the key factors and assumptions used to develop the project budgets and anticipated remaining costs in determining that it is reasonable in relation to the Schedule taken as a whole.

The financial statement disclosures are neutral, consistent, and clear.

**Difficulties Encountered in Performing the Audit**

We encountered no significant difficulties in dealing with management in performing and completing our audit.

**Corrected and Uncorrected Misstatements**

Professional standards require us to accumulate all misstatements identified during the audit, other than those that are clearly trivial, and communicate them to the appropriate level of management. We noted no such misstatements as a result of audit procedures.

**Disagreements with Management**

For purposes of this letter, a disagreement with management is a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the Schedule or the auditor’s report. We are pleased to report that no such disagreements arose during the course of our audit.

**Management Representations**

We have requested certain representations from management that are included in the management representation letter dated October xx, 2020.

**Management Consultations with Other Independent Accountants**

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a “second opinion” on certain situations. If a consultation involves application of an accounting principle to the CSCU System’s Schedule or a determination of the type of auditor’s opinion that may be expressed
on those Schedule, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the CSCU System’s auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Other Matters

This information is intended solely for the use of the Board of Trustees and Joint Audit and Compliance Committee charged with governance and, management of the Connecticut State Colleges and Universities and is not intended to be, and should not be, used by anyone other than these specified parties.

Very truly yours,

CohnReznick, LLP
Status update to the Audit Committee

Connecticut State Colleges and Universities

September 29, 2020
Status Update – CSUS (as of 9/23/20)

1. Central
   - Year end fieldwork 9/21 - 10/2
   - On track in all audit areas
   - No audit adjustments identified to date

2. Eastern
   - Year end fieldwork 9/21 - 10/2
   - On track in all audit areas
   - No audit adjustments identified to date

3. Southern
   - Year end fieldwork 9/8 - 9/18
   - On track in all audit areas
   - No audit adjustments identified to date
   - Wrap up meeting held with VP of Finance and Controller on 9/18

4. Western
   - Year end fieldwork 9/8 – 9/18
   - On track in all audit areas
   - No audit adjustments to date
   - Wrap up meeting held with VP of Finance and Controller on 9/18

5. System Office
   - Fieldwork begins on 10/19
   - Legal confirm request sent to State AG on 9/16, requested response by 11/13, with an update expected just prior to the December AC meeting
Status Update – CCC and Charter Oak

1. CCC
   • Year end fieldwork begins 10/26
   • Scheduled kick-off call for GPA audit with Hartford Public Schools contacts

2. Charter Oak
   • Year end fieldwork begins 10/19
An important component of our audit approach is to understand how IT is used in supporting business operations and producing financial reports. Our technology specialists place particular emphasis on the risks relating to the use of technology and its associated controls, processes and practices.

Our general controls review evaluates the design of controls that mitigate risk in areas such as organization and operations, protection of physical assets, application systems development and maintenance, access controls and computer operations.
Status Update – IT Audit

1. University System Office and CCC - Banner
   • Testing underway – Majority of the requested items have been provided, coordinating remote walkthroughs with management
   • Any findings noted will be communicated to management in October

2. Charter Oak State College - Jenzabar
   • Testing has been completed
   • Preliminary findings have been shared with management, pending formal discussions via closing call on 9/25
Navigating the Impact of COVID-19

1. **Liquidity and cash management**
   - Continued decline in revenues in the fall 2020 semester and potentially beyond
   - Current financial and operational models no longer reflect reality, limiting ability to manage ongoing business

2. **Supply & demand**
   - Strain on tools and technology as a result of changes in academic delivery and operations
   - New and unanticipated enterprise risks due to changes in business model

3. **External factors**
   - Competitive pressures to consider alternate models
   - Additional compliance requirements associated with government relief programs

4. **People**
   - Evolving workforce expectations and culture
   - Additional student service requirements
Moody’s outlook went from “stable” in November 2019 to “negative” in April 2020, with recent sector updates reporting more negatives than positives

**Positives:**

- Projecting Fall 2020 enrollment gains due to high unemployment from pandemic
- Endowment investments rebounded during FY 2020 after short term large declines
- Largest Institutions are projected as well positioned to weather coronavirus shocks and maintain strong credit quality

**Negatives:**

- Projecting decreases in average revenue per student combining net tuition revenue and net auxiliary revenue
- Projecting around 10% of Institutions to be more heavily exposed to substantial financial challenges made worse by the coronavirus pandemic
- Unfavorable demographics worrisome in East and Midwest continue to cause enrollment concerns
- Uncertainty on state budgets and impact of lower tax revenues from coronavirus recession
Largest Institutions are projected as well positioned to weather coronavirus shocks and maintain strong credit quality and this group accounts for nearly 90% of debt outstanding for Institutions Moody’s has rated.

Approximately 50% of Moody’s rated issuers have sound credit quality but face challenges.
Moody’s projects approximately 10% of colleges and universities will face major fiscal challenges that have been made greater by the coronavirus pandemic and its economic impact.

- However, these 10% account for less than 3% of sector debt in total.
- Moody’s has had more downgrades in the past decade than upgrades, as shown below.

Exhibit 5
Beginning in 2008, downgrades have outpaced upgrades, highlighting pre-coronavirus sector challenges

Source: Moody’s Investors Service
Moody’s projecting 2% - 4% Fall 2020 enrollment gains on average due to high unemployment from pandemic, partially offsetting decreases in revenue per student (see chart below).

Moody’s projecting 5% - 13% FY 2021 decreases in average revenue per student from combined net tuition and net auxiliary (primarily housing and dining) driven by declines in household income, driving students to demand and choose lower cost options.

“Even with potential enrollment gains, colleges face drop in tuition revenue”

Source: Moody’s Investors Service

Exhibit 3
Average net tuition and net auxiliary revenue per student under three scenarios show declines versus 2018-19 academic year

- 2018-19: $14,698
- 2020-2021 lower price stress case: $13,964
- 2020-2021 mid price stress case: $13,532
- 2020-2021 higher stress price case: $3,353
Impacts from current recession will vary state by state, bringing reductions in state funding for higher education while at the same time, most public colleges and universities have eliminated any tuition increases for fiscal 2021.

Somewhat dissimilar to public university peers, private institutions vary with respect to tuition costs for 2021- overall S&P expects net tuition revenue down for the sector.

Immigration issues continue to put pressure on revenue from “full-pay” international student populations.

Auxiliary revenue will suffer due to many institutions choosing remote instruction; Average FY19 revenue from auxiliary enterprises is 11% for private and 10% for public.

More expense cuts are likely, such as hiring freezes, furloughs and layoffs, as well as functional consolidations.

“A Fall unlike any we have ever seen before”
U.S. Projected High School Graduation Rates

- 2025-2029 shows declining high school graduates which is expected to translate to decreased enrollment in higher education.
- Shorter term - small increases (except in Midwest and Northeast).
Washington Update

• To date, there have been several options offered to higher education in terms of relief due to impacts of pandemic:
  • CARES Act/HEERF, tax credits/deferrals, SBA PPP, Main Street Lending Program, etc.
• Washington is debating a “phase 4” relief package with additional requests
  • pandemic liability protections, supplemental emergency funding, suspension of taxability on scholarship aid and investment income excise tax, among other requests
• New Borrower Defense rules in place, including new financial responsibility requirements
• DACA- Supreme Court decision did little to end Dreamers sense of uncertainty, with further action unlikely until after the election
## What presidents are saying:

"Confident my institution will be financially stable"

<table>
<thead>
<tr>
<th>Time Period</th>
<th>All Institutions &quot;Agree or Strongly Agree&quot;</th>
<th>Public Universities &quot;Agree or Strongly Agree&quot;</th>
<th>Nonprofit Private Colleges &quot;Agree or Strongly Agree&quot;</th>
</tr>
</thead>
<tbody>
<tr>
<td>Over five years</td>
<td>69%</td>
<td>69%</td>
<td>69%</td>
</tr>
<tr>
<td>Over ten years</td>
<td>57%</td>
<td>53%</td>
<td>59%</td>
</tr>
</tbody>
</table>

This survey was taken in **February 2020**
What presidents are saying:

"Confident my institution will be financially sustainable over ten years"

- 57% Overall response
- 59% Private four-year colleges
- 46% Public master’s & baccalaureate colleges

Private four-year colleges had the most confidence while public masters & baccalaureate colleges had the lowest.

9% (67) of the 746 Presidents in the survey expect their institution to close or merge in the next five years.
What chief business officers say overall:

"Confident my institution will be financially stable over ten years"

Confidence has increased slightly with a growing split between public (51%) and private (41%) with private baccalaureate colleges having the least ten year confidence at 38% while public doctoral is the highest at 74%.

For the first time in the survey’s history the short term outlook is more negative than the long term outlook (52% stable five year outlook overall)

53% in 2020
50% in 2019
50% in 2018

This survey was taken in June 2020
At private nonprofit colleges:

"Confident my institution will be financially stable over ten years"

41% in 2020
49% in 2019
52% in 2018

Confidence is declining sharply among private nonprofit colleges.
What chief business officers say overall

On mergers (next five years)...

- **5%** Institution had serious talks with another
- **22%** Believe their institution should merge with another
- **6%** Institution likely to merge with another

On shared services or programs (next 12 months)...

- **19%** Seriously contemplating sharing administrative services with another institution(s)
- **61%** Revamping our academic calendar to provide more flexibility
- **52%** Increasing the number of employees who permanently work remotely
Recent headlines covering closure projections in higher education

One Third Of Private 4-Year Colleges Are At High Risk Financially, Model Predicts

Who Will Thrive, Survive, Struggle, or Face Significant Challenges?

Coronavirus May Mark The End For Many Small Liberal Arts Colleges

Amid coronavirus pandemic, a growing list of colleges in financial peril

How Much Did Coronavirus Disruptions Affect 2 Closing Colleges?
Closed or merged since 2016-2020 (to date)

- 47 closings and mergers 2016-2020 (YTD)
- Moody’s projects closures and mergers to continue at approximately 10-12 a year (pre-COVID19 prediction)
Closed or merged in 2016-2020 (year to date) by region

2020 Closings (YTD):
- Holy Family College (WI)
- Urbana University (OH)
- Nebraska Christian College (NE)
- MacMurray College (IL)
- Robert Morris University (IL)
- Concordia University – Portland (OR)

2020 Mergers (YTD):
- Wesley College (MA)
- School of Architecture at Taliesin (AZ)
- Pine Manor College (MA)
- Robert Morris University (IL)
- Watkins College of Art (TN)
10 Predictions for Higher Education’s Future

“Rough Times”

1) Colleges and universities will try to open, but it will be challenging
2) Revenue will go way down, and costs way up
3) Colleges will maintain major online presence
4) The nation will debate the value of in-person education
5) There will be massive online competition and consolidation
6) There will be an existential crisis and many closures
7) No federal bailout
8) More corporations will enter the market
9) Greater inequality will result
10) A new ubiquitous learning platform will result

Source: InsideHigherEd - May 26, 2020
Endowment returns in the pandemic

Study of 774 endowments FY2019:
• The ten year annualized return was 8.4%

Survey of 333 endowments in April 2020:
• Respondents experienced an average first quarter (calendar) return of -13.4%
• Larger endowments are typically weighted less towards US Equities, resulting in less downside exposure
• With smaller endowments, the upside is that those institutions rely less heavily on endowment return to fund operations

Source: May 2020 NACUBO-TIAA Survey of Endowments
Endowment spending – reactions to pandemic

• FY19 study indicated an average effective spending rate of 4.5%
• FY20 survey indicates 72% of institutions expect to maintain current spending rate, 8% expect to increase and 7% to decrease (with the remaining “unsure”)
• In FY09 (Great Recession), about half of institutions reported increasing spending rates
• The decisions to change or maintain spending rate varies by endowment size (those with larger endowments are more likely to maintain current spending rates)
• Some institutions are planning to continue to spend on underwater endowments, while others will not, and 5% of institutions plan to “borrow” from the endowment due to COVID-19 pandemic
“Before COVID-19, Private College Tuition discount Rates Reached Record Highs” - 2019 NACUBO Tuition Discounting Study

**FIGURE 1: AVERAGE INSTITUTIONAL TUITION DISCOUNT RATE, BY STUDENT CATEGORY**

- **Source:** NACUBO Tuition Discounting Study, 2010 to 2019; data are as of the fall of each academic year.

*NNote:* Preliminary estimates.
Guidance on important emerging developments and challenges

Articles in the 2020 report

• Charting a future course: A new operating model
• Effectively navigating campus crises
• A new role for the president: Chief innovator
• Gen Z is coming: Is your institution ready?
• The evolving impact of data privacy regulations
• Creative necessity: The need for new revenue streams
• Changing tuition models: Tuition resetting and ISAs
• The expanding influence of CFIs

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