



UNIVERSITY OF NEW HAVEN

Financial Statements

June 30, 2009 and 2008

(With Independent Auditors' Report Thereon)

UNIVERSITY OF NEW HAVEN

Financial Statements

June 30, 2009 and 2008

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KPMG LLP
One Financial Plaza
Hartford, CT 06103-4103

Independent Auditors' Report

Board of Governors
University of New Haven:

We have audited the accompanying statements of financial position of University of New Haven (the University) as of June 30, 2009 and 2008, and the related statements of activities and cash flows for the years then ended. These financial statements are the responsibility of the University's management. Our responsibility is to express an opinion on these 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 financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the University's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the University as of June 30, 2009 and 2008, and the changes in its net assets and its cash flows for the years then ended, in conformity with U.S. generally accepted accounting principles.

KPMG LLP

December 9, 2009

UNIVERSITY OF NEW HAVEN

Statement of Financial Position

June 30, 2009 and 2008 (as restated)

Assets	2009	2008
Cash and cash equivalents	\$ 16,870,368	7,488,571
Accounts and loans receivable, net (note 3)	9,230,811	7,659,417
Pledges receivable, net (note 4)	4,240,059	5,827,473
Other assets	1,907,208	1,362,829
Investments (note 5 and 6)	12,413,150	14,806,941
Investments held in trust by others (notes 5 and 10)	1,787,400	4,531,954
Deposits with bond trustee and restricted cash (note 5)	14,538,982	2,077,346
Investment in plant, net (notes 8, 9, and 11)	109,563,946	77,779,136
Total assets	\$ 170,551,924	121,533,667
Liabilities		
Accounts payable and accrued expenses	\$ 12,030,875	12,512,282
Deposits and deferred income	2,631,653	2,182,941
Bonds and notes payable (note 11)	86,734,297	41,912,720
Interest rate swap liability (notes 5 and 12)	9,081,126	3,288,122
Post-retirement obligation (note 16)	2,652,072	2,292,810
Government grants refundable	3,453,060	3,453,060
Total liabilities	116,583,083	65,641,935
Net Assets		
Unrestricted	30,459,952	28,277,298
Temporarily restricted (notes 10 and 14)	15,281,527	19,998,352
Permanently restricted (note 14)	8,227,362	7,616,082
Total net assets	53,968,841	55,891,732
Commitments and contingencies (note 17)		
Total liabilities and net assets	\$ 170,551,924	121,533,667

See accompanying notes to financial statements.

UNIVERSITY OF NEW HAVEN
Statement of Activities
Year ended June 30, 2009
(With comparative totals for the year ended June 30, 2008)

	2009			2008
	Unrestricted	Temporarily restricted	Permanently restricted	Total
Operating activities:				
Revenues, gains, and other support:				
Tuition and fees	\$ 115,094,341	—	—	115,094,341
Residence and dining	22,377,656	—	—	22,377,656
Less: Scholarships and grants	(37,896,015)	—	—	(37,896,015)
Net student fees	99,575,982	—	—	99,575,982
Federal, state, and private grants and gifts	5,183,890	2,974,064	288,651	8,446,605
Endowment spending used in operations (note 6)	377,010	—	—	377,010
Interest income and other sources	2,040,568	180,540	—	2,221,108
Other auxiliary services	772,626	985	—	773,611
Net assets released from restrictions (note 15)	3,762,381	(3,762,381)	—	—
Total revenue from operations	111,712,457	(606,792)	288,651	111,394,316
Expenses:				
Instructional	41,689,448	—	—	41,689,448
Academic support	5,963,836	—	—	5,963,836
Student services	21,347,243	—	—	21,347,243
Institutional support	17,150,428	—	—	17,150,428
Residence and dining	15,855,528	—	—	15,855,528
Total expenses	102,006,483	—	—	102,006,483
Change in net assets from operations	9,705,974	(606,792)	288,651	9,387,833
Nonoperating activities:				
Net return on long-term investments, net of amounts used in operations (note 6)	(1,407,687)	(1,365,309)	—	(2,772,996)
Unrealized losses on investments held in trust by others (note 10)	—	(2,744,724)	—	(2,744,724)
Change in market value of interest rate swap (note 12)	(5,793,004)	—	—	(5,793,004)
Clarification of donor intent	(322,629)	—	322,629	—
Change in net assets	2,182,654	(4,716,825)	611,280	(1,922,891)
Net assets, beginning of year	28,277,298	19,998,352	7,616,082	55,891,732
Net assets, end of year	\$ 30,459,952	15,281,527	8,227,362	53,968,841

See accompanying notes to financial statements.

UNIVERSITY OF NEW HAVEN
Statement of Activities
Year ended June 30, 2008 (as restated)

	<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Permanently restricted</u>	<u>Total</u>
Operating activities:				
Revenues, gains, and other support:				
Tuition and fees	\$ 95,434,464	—	—	95,434,464
Residence and dining	17,677,847	—	—	17,677,847
Less: Scholarships and grants	(27,810,406)	—	—	(27,810,406)
Net student fees	85,301,905	—	—	85,301,905
Federal, state, and private grants and gifts	4,636,188	2,864,833	623,467	8,124,488
Endowment spending used in operations (note 6)	384,062	—	—	384,062
Interest income and other sources	1,693,150	188,558	—	1,881,708
Other auxiliary services	536,587	—	—	536,587
Net assets released from restrictions (note 15)	2,781,737	(2,781,737)	—	—
Total revenue from operations	95,333,629	271,654	623,467	96,228,750
Expenses:				
Instructional	35,875,231	—	—	35,875,231
Academic support	5,544,587	—	—	5,544,587
Student services	16,695,381	—	—	16,695,381
Institutional support	18,659,766	—	—	18,659,766
Residence and dining	13,084,101	—	—	13,084,101
Total expenses	89,859,066	—	—	89,859,066
Change in net assets from operations	5,474,563	271,654	623,467	6,369,684
Nonoperating activities:				
Net return on long-term investments, net of amounts used in operations (note 6)	(817,390)	—	—	(817,390)
Unrealized gains on investments held in trust by others (note 10)	—	577,290	—	577,290
Change in market value of interest rate swap (note 12)	(4,314,173)	—	—	(4,314,173)
Change in net assets	343,000	848,944	623,467	1,815,411
Net assets, beginning of year, as originally presented	29,413,491	17,670,215	6,992,615	54,076,321
Cumulative effect of change in accounting principle (note 2)	(1,479,193)	1,479,193	—	—
Net assets, at beginning of year, restated	27,934,298	19,149,408	6,992,615	54,076,321
Net assets, end of year	\$ 28,277,298	19,998,352	7,616,082	55,891,732

See accompanying notes to financial statements.

UNIVERSITY OF NEW HAVEN

Statement of Cash Flows

Year ended June 30, 2009 and 2008

	<u>2009</u>	<u>2008</u>
Cash flows from operating activities:		
Change in net assets	\$ (1,922,891)	1,815,411
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	6,260,903	5,551,478
Change in market value of interest rate swap	5,793,004	4,314,173
Net unrealized and realized losses on investments	2,656,853	703,689
Loss (gain) on investments held in trust by others	2,744,724	(577,290)
Contributions restricted for long-term investment	(288,651)	(623,467)
Change in accounts and pledges receivable	68,758	(723,403)
Change in other assets	(375,174)	249,816
Change in accounts payable and accrued expenses	(2,630,482)	1,178,611
Change in deposits and deferred income	448,712	786,341
Net cash provided by operating activities	<u>12,755,756</u>	<u>12,675,359</u>
Cash flows from investing activities:		
Purchases of plant and equipment	(35,541,336)	(18,173,157)
Disposals of plant and equipment	25,324	—
Proceeds from maturity and sale of investments	5,061,256	8,927,616
Purchases of investments	(5,324,318)	(11,523,191)
Increase in loans receivable	(52,738)	(139,799)
Net cash used by investing activities	<u>(35,831,812)</u>	<u>(20,908,531)</u>
Cash flows from financing activities:		
Proceeds from contributions restricted for long-term investment	288,651	623,467
Proceeds from issuance of bonds and notes payable	46,000,000	—
Principal payments on bonds and notes payable	(955,000)	(885,000)
Bond issuance costs	(414,162)	—
Principal payments on capital leases	—	(153,905)
Change in restricted cash and deposits with bond trustee	(12,461,636)	5,828,562
Net cash provided by financing activities	<u>32,457,853</u>	<u>5,413,124</u>
Net increase (decrease) in cash and cash equivalents	9,381,798	(2,820,048)
Cash and cash equivalents at beginning of year	<u>7,488,571</u>	<u>10,308,619</u>
Cash and cash equivalents at end of year	<u>\$ 16,870,369</u>	<u>7,488,571</u>
Supplemental data:		
Interest paid	<u>\$ 2,822,476</u>	<u>1,234,058</u>

See accompanying notes to financial statements.

UNIVERSITY OF NEW HAVEN

Notes to Financial Statements

June 30, 2009

(1) Organization

The University of New Haven (the University) is a private, tax-exempt, nonprofit educational institution. The University was founded in 1920 and is located on 78 acres in suburban West Haven, Connecticut.

(2) Summary of Significant Accounting Policies

The significant accounting policies followed by the University are described below to enhance the usefulness of the financial statements to the reader.

(a) *Basis of Presentation*

The accompanying financial statements have been prepared using accrual accounting, and include the accounts of the University and the Henry C. Lee Institute.

The accompanying financial statements present balances and transactions according to the existence or absence of donor-imposed restrictions. Accordingly, net assets and changes therein are classified as follows:

Permanently restricted net assets – Net assets subject to donor-imposed restrictions that they be maintained permanently by the University. Generally, the donors of these assets permit the University to use, for general or specific purposes, all or part of the income and capital gains, if any, on related investments.

Temporarily restricted net assets – Net assets subject to donor-imposed restrictions that will be met by actions of the University and/or the passage of time.

Unrestricted net assets – Net assets not subject to donor-imposed restrictions.

Revenues are reported as increases in unrestricted net assets unless use of the related assets is limited by donor-imposed restrictions. Expenses are reported as decreases in unrestricted net assets. Gains and losses on investments and other assets or liabilities, if any, are reported as increases or decreases in unrestricted net assets unless their use is restricted by explicit donor stipulation or by law. Expirations of temporary restrictions on net assets (i.e., the donor-restricted purpose has been fulfilled and/or the stipulated time period has elapsed) are reported as net assets released from restrictions. Donor-restricted contributions, and any income earned on those contributions, whose restrictions are met in the same reporting period have been reported as unrestricted support in the statement of activities. Gifts of long-lived assets are considered unrestricted support.

The University's measure of operations presented in the statement of activities includes income from tuition and fees, grants and contracts, contributions for operating programs, endowment spending used in operations and other revenues. Operating expenses are reported on the statement of activities by functional categories, after allocating costs for operation and maintenance of plant, interest on indebtedness and depreciation expense.

Non-operating activity includes interest rate swap losses/gains, and investment returns and other activities related to endowment utilized for long-term purposes.

UNIVERSITY OF NEW HAVEN

Notes to Financial Statements

June 30, 2009

(b) *Liquidity Information*

In order to provide information about liquidity, assets have been sequenced in the statement of financial position according to their nearness to conversion to cash, and liabilities have been sequenced according to the nearness of their maturity and resulting use of cash.

(c) *Contribution Revenue*

The University reports contributions (including unconditional promises to give) as restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions. Conditional promises to give are not recognized until they become unconditional; that is, when the conditions on which they depend are substantially met. Contributions of assets other than cash are recorded at their estimated fair value. Contributions expected to be received after one year are discounted at an appropriate discount rate commensurate with the risk involved. An allowance for uncollectible contributions is estimated based upon such factors as prior collection history, type of contribution and nature of fundraising activity.

(d) *Cash Equivalents*

The University considers all highly liquid debt instruments purchased with an original maturity date of three months or less to be cash equivalents, except for cash held with investment managers for long-term investment.

(e) *Investments*

Investments are reported in the financial statements at fair value based on quoted market sources. Accordingly, the gains and losses that result from market fluctuations are recognized in the statement of activities in the period in which the fluctuations occur.

(f) *Spending Policy*

The University uses an endowment spending rate, established by the Board of Governors. This policy is set at an annual rate that is the lesser of four and one-half percent (4.5%) based upon the twelve-quarter moving average market value at the beginning of each quarter with a one-quarter lag, or total annual yield (dividends and interest) as measured by the preceding fiscal year.

(g) *Investment in Plant*

All plant assets are stated at cost except gifts in kind, which are recorded at their estimated fair value on the date of the gift. Depreciation is computed on a straight-line basis over the estimated useful lives of the assets. Construction in progress is not depreciated until placed in service. When plant assets are retired or disposed of, the cost and related accumulated depreciation are removed and any resulting gain or loss is reflected in the statement of activities.

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Notes to Financial Statements

June 30, 2009

(h) *Unamortized Bond Issuance Costs*

Deferred bond issuance costs are stated net of accumulated amortization, and are amortized over the lives of the related bonds.

(i) *Income Taxes*

The University was granted an exempt status under the Internal Revenue Code (IRC) Section 501(a), as an organization described in Section 501(c)(3). Under IRC Section 501(a) the University is generally exempt from income taxes.

(j) *Functional Allocation of Expenses*

The costs of providing the various programs and other activities have been summarized on a functional basis in the statement of activities. These costs include direct and indirect costs that have been allocated, on a consistent basis, among the program and supporting services benefited.

(k) *Use of Estimates*

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. The current economic environment increases the uncertainty of those estimates.

(l) *Recently Issued Accounting Standards*

Through September 30, 2007, the University's management and investment of donor-restricted endowment funds were subject to the provisions of the Uniform Management of Institutional Funds Act (UMIFA). In 2006, the Uniform Law Commission approved the model act, Uniform Prudent Management of Institutional Funds Act (UPMIFA) that serves as a guideline to states to use in enacting legislation. Among UPMIFA's most significant changes is the elimination of UMIFA's concept of historic dollar value threshold, the amount below which an organization could not spend from the fund in favor of a more robust set of guidelines about what constitutes prudent spending. Effective October 1, 2007, the State of Connecticut enacted UPMIFA, the provisions of which apply to funds existing on or established after that date.

Effective July 1, 2008, the University adopted FASB Staff Position No. FAS 117-1, *Endowments of Not-for-Profit Organizations: Net Asset Classification of Funds Subject to an Enacted Version of the Uniform Prudent Management of Institutional Funds Act and Enhanced Disclosures for All Endowment Funds* (FSP 117-1). FSP 117-1 provides guidance on the net asset classification of donor-restricted endowment funds for a not-for-profit organization that is subject to an enacted version of UPMIFA and requires disclosures about endowment funds. The adoption of FSP 117-1 required the University to retrospectively reclassify net assets related to accumulated investment earnings from unrestricted to temporarily restricted in the amount of \$1,479,193 as of June 30, 2008.

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Effective July 1, 2008, the University adopted FASB Statement No. 157, *Fair Value Measurements* (Statement 157). Statement 157 defines fair value, requires expanded disclosures about fair value measurements, and establishes a three-level hierarchy for fair value measurements based on the observable inputs to the valuation of an asset or liability at the measurement date. Fair value is defined as the price that the University would receive to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. It prioritizes the inputs to the valuation techniques used to measure fair value by giving the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements), and the lowest priority to measurements involving significant unobservable inputs (Level 3 measurements).

Effective June 30, 2009, the University adopted FASB Statement No. 165, *Subsequent Events* (Statement 165). Statement 165 establishes principles and requirements for subsequent events and applies to accounting for and disclosure of subsequent events not addressed in other applicable generally accepted accounting principles. The University evaluated events subsequent to June 30, 2009 and through December 9, 2009. The adoption of Statement 165 had no impact on the University's financial statements.

(m) *Reclassifications*

Certain items in 2008 have been reclassified to conform to the current year presentation.

(3) **Accounts and Loans Receivable**

Accounts receivable consist of the following at June 30:

	2009	2008
Students	\$ 7,529,567	7,119,974
Grants	2,301,729	1,620,067
Others	1,032,927	284,422
Allowance for doubtful accounts	(5,055,402)	(4,734,298)
Net accounts receivable	<u>\$ 5,808,821</u>	<u>4,290,165</u>

Loans receivable consist of the following at June 30:

	2009	2008
Perkins loans	\$ 3,796,990	3,744,252
Allowance for doubtful accounts	(375,000)	(375,000)
Net loans receivable	<u>\$ 3,421,990</u>	<u>3,369,252</u>

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Notes to Financial Statements

June 30, 2009

(4) Pledges Receivable

Pledges receivable consist of the following unconditional promises to give as of June 30:

	<u>2009</u>	<u>2008</u>
Amounts due in:		
Less than one year	\$ 2,160,838	3,897,816
One to five years	2,393,154	2,289,208
Greater than five years	—	7,394
Charitable remainder trust (note 10)	<u>615,244</u>	<u>836,794</u>
Gross pledges receivable	5,169,236	7,031,212
Less:		
Allowance for uncollectible pledges	(758,715)	(848,215)
Discount to present value	<u>(170,462)</u>	<u>(355,524)</u>
Net pledges receivable	<u>\$ 4,240,059</u>	<u>5,827,473</u>

Pledges recorded at June 30, 2009 and 2008 are discounted at rates ranging from 1.58% to 6.25%.

Fundraising expenses for the years ended June 30, 2009 and 2008 totaling \$1,338,353 and \$1,256,393, respectively, have been classified as institutional support expenses in the statement of activities.

(5) Fair Value

At June 30, 2009 and June 30, 2008, the carrying values of the University's cash and cash equivalents, receivables, accounts payable and deposits approximated their fair values.

Under Statement 157, which prioritizes the inputs to valuation techniques used to measure fair value, the three levels of the fair value hierarchy are as follows:

- Level 1— inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the University has the ability to access at measurement date.
- Level 2 – inputs are inputs other than quoted prices included in Level 1 that are either directly or indirectly observable for the assets or liabilities.

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Notes to Financial Statements

June 30, 2009

- Level 3 – inputs are unobservable inputs for the assets or liabilities. The level in the fair value hierarchy within which a fair measurement in its entirety falls is based on the lowest level input that is significant to the fair value measurement in its entirety.

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>2009 Total</u>	<u>2008 Total</u>
Assets:					
Investments:					
Cash and cash equivalents	\$ 507,132	—	—	507,132	592,678
Equities	7,107,299	2,714	—	7,110,013	4,961,532
Fixed income	—	4,796,005	—	4,796,005	9,252,731
Total investments	7,614,431	4,798,719	—	12,413,150	14,806,941
Other assets:					
Funds held by bond trustee	14,538,982	—	—	14,538,982	2,077,346
Investments held in trust by others	—	—	1,787,400	1,787,400	4,531,954
Total assets	<u>\$ 22,153,413</u>	<u>4,798,719</u>	<u>1,787,400</u>	<u>28,739,532</u>	<u>21,416,241</u>
Liabilities:					
Interest rate swap agreements		(9,081,126)		(9,081,126)	(3,288,122)
Total liabilities		<u>\$ (9,081,126)</u>		<u>\$ (9,081,126)</u>	<u>(3,288,122)</u>

The following table presents the University's activity for the fiscal year ended June 30, 2009 for investments measured at fair value on a recurring basis using significant unobservable inputs (Level 3) as defined in Statement 157:

	<u>Fixed income and equities</u>
Fair value at June 30, 2008	\$ 4,531,954
Dispositions	—
Investment return	—
Unrealized losses	(2,744,554)
Fair value at June 30, 2009	<u>\$ 1,787,400</u>

UNIVERSITY OF NEW HAVEN

Notes to Financial Statements

June 30, 2009

(6) Investments

The fair value of investments at June 30 is summarized as follows:

	2009	2008
Cash and short-term investments	\$ 507,132	592,678
Fixed income	4,796,005	4,961,532
Equities	7,110,013	9,252,731
Total investments	<u>\$ 12,413,150</u>	<u>14,806,941</u>

The University's total return on its invested assets consists of the following components reported on the statement of activities:

	2009	2008
Investment income, net of investment expenses	\$ 260,867	270,361
Net realized and unrealized losses	(2,656,853)	(703,689)
Total return (loss) on investments	(2,395,986)	(433,328)
Endowment spending used in operations	(377,010)	(384,062)
Net return (loss) on long-term investments, net of amounts used in operations	<u>\$ (2,772,996)</u>	<u>(817,390)</u>

(7) Endowment Funds

The University's endowment consists of 123 individual funds established for a variety of purposes, including both donor restricted endowment funds and funds designated by the University to function as endowments (quasi endowment).

The University manages its long-term investments to ensure that the future growth of the endowments are sufficient to offset normal inflation plus reasonable spending, thereby preserving the constant dollar value and purchasing power of the endowment for future generations.

The University's annual spending distribution is determined by applying a spending formula outlined in the Endowment Spending Policy. The actual endowment fund distribution shall be at an annual rate that is the lesser of the following:

- 1 Four and one-half (4.5%) based upon the twelve quarter moving average market value of the fund's value at the beginning of each quarter with a one-quarter lag, or
- 2 The annual yield (dividends and interest) as measured by the preceding fiscal year.

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June 30, 2009

The University's endowment includes both donor-restricted endowment funds and funds designated by the Board of Trustees to function as endowment. The University 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 funds that are not classified as permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the University in a manner consistent with the standard prudence prescribed by UPMIFA. In accordance with UPMIFA, the University 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 University 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 University
- (7) The investment policies of the University

Endowments consisted of the following at June 30, 2009 and June 30, 2008:

2009				
	Unrestricted	Temporarily restricted	Permanently restricted	Total
Donor restricted	\$ (312,783)	113,884	7,479,076	7,280,177
Quasi (Board designated)	5,006,106	—	—	5,006,106
Total	<u>\$ 4,693,323</u>	<u>113,884</u>	<u>7,479,076</u>	<u>12,286,283</u>
2008				
	Unrestricted	Temporarily restricted	Permanently restricted	Total
Donor restricted	\$ —	1,479,193	6,905,313	8,384,506
Quasi (Board designated)	6,303,256	—	—	6,303,256
Total	<u>\$ 6,303,256</u>	<u>1,479,193</u>	<u>6,905,313</u>	<u>14,687,762</u>

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Notes to Financial Statements

June 30, 2009

At June 30, 2009, the fair values of 35 endowment accounts were less than their original fair value (“underwater”) by a total of \$312,783.

Changes in endowment funds for the fiscal years ended June 30, 2009 and 2008 were as follows:

2009				
	Unrestricted	Temporarily restricted	Permanently restricted	Total
Balance, June 30, 2008	\$ 6,303,256	1,479,193	6,905,313	14,687,762
Investment return	(642,065)	(351,895)	—	(993,960)
Unrealized losses	(394,105)	(1,013,414)	—	(1,407,519)
Clarification of donor intent	(573,763)	—	573,763	—
Balance, June 30, 2008	<u>\$ 4,693,323</u>	<u>113,884</u>	<u>7,479,076</u>	<u>12,286,283</u>

2008				
	Unrestricted	Temporarily restricted	Permanently restricted	Total
Balance, June 30, 2007	\$ 6,729,027	—	6,385,200	13,114,227
Change in accounting principle	(1,479,193)	1,479,193	—	—
Investment return	534,701	—	—	534,701
Unrealized losses	(961,166)	—	—	(961,166)
Contributions	1,479,887	—	520,113	2,000,000
	<u>\$ 6,303,256</u>	<u>1,479,193</u>	<u>6,905,313</u>	<u>14,687,762</u>

(8) Investment in Plant

Plant assets consist of the following at June 30:

	2009	2008	Estimated useful lives
Land	\$ 5,412,102	4,577,956	—
Land improvements	9,244,906	7,581,850	50 years
Buildings and building improvements	88,076,644	85,748,879	30 years
Furniture and equipment	43,226,145	40,239,584	3-10 years
Construction in progress	35,645,578	5,488,391	—
	<u>181,605,375</u>	<u>143,636,660</u>	
Less accumulated depreciation	<u>(72,041,429)</u>	<u>(65,857,524)</u>	
	<u>\$ 109,563,946</u>	<u>77,779,136</u>	

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The University capitalized \$658,816 and \$438,895 of interest on construction projects during the years ended June 30, 2009 and 2008, respectively.

Depreciation expense for the years ended June 30, 2009 and 2008 amounted to \$6,239,539 and \$5,521,472, respectively.

The University follows the provisions of FASB Interpretation No. 47 to account for conditional asset retirement obligations. The University determined that it has conditional asset retirement obligations primarily related to the removal and disposal of asbestos insulation in several buildings. Conditional asset retirement obligations of \$480,769 and \$449,945 are included within other liabilities in the statement of financial position at June 30, 2009 and 2008, respectively.

(9) Leases

The University has entered into operating lease agreements to rent property for office space and for off campus residences. These lease agreements have varying remaining terms until fiscal year 2017.

In fiscal year 2003, the University signed two leases with Acorn Property Management (Acorn) for the leasing of grounds and a residence hall that Acorn constructed. The principal owner of Acorn was formerly a trustee of the University. The initial leasing term is eight years. During the lease term, the average annual commitment is \$859,375. The lease has a renewal option in which the University can extend the lease for an additional seven years and five additional renewal options of five years each.

The approximate future minimum rental commitments under operating lease agreements are as follows:

Year ending June 30:	
2010	\$ 3,457,233
2011	3,474,484
2012	3,308,116
2013	1,335,544
2014	939,886
Thereafter	981,247
Total required minimum lease payments	<u>\$ 13,496,510</u>

Rent expense for the years ended June 30, 2009 and 2008 was \$3,225,208 and \$2,444,539, respectively.

(10) Investments Held in Trust by Others

The University is the sole beneficiary of a charitable trust (\$1,787,400 and \$4,531,954 at June 30, 2009 and 2008, respectively) of which the University is not the trustee. The trust is time restricted. The University's beneficial interest in the trust is recognized as a temporarily restricted net asset. Distributions are reflected as reductions in the beneficial interest of the trust and as reclassifications from temporarily restricted to unrestricted net assets.

The University is the sole beneficiary of a charitable remainder trust payable to the University in fiscal 2013. The University is also a beneficiary of a share of a charitable lead annuity trust payable to the University over a 10-year term ending in April 2014. The assets of the trusts are recorded as temporarily

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Notes to Financial Statements

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and permanently restricted pledges receivable, respectively, at the present value of estimated future payments, as disclosed in note 4.

The University is named as a beneficiary of a charitable remainder trust. Under the trust agreement, distributions for the benefit of the primary beneficiaries may include the expenditure of principal causing the remainder amount the University expects to receive to be undeterminable. As a result, the trust has not been recorded in the University's financial statements.

(11) Debt

(a) Bonds and Notes Payable

The following is a summary of bonds and notes payable at June 30:

	<u>2009</u>	<u>2008</u>
Connecticut Health and Education Facilities Authority (CHEFA):		
Series E bonds, issued in August 2005 with variable interest, based on an industry adjusted Securities Industry and Financial Markets Association Municipal Swap Index, 0.24 % at June 30, 2009, and an interest rate swap based on 1M LIBOR vs. fixed rate of 3.425% payable in increasing monthly installments ranging from \$27,083 to \$155,000, through 2035.	\$ 25,815,000	26,490,000
Series G bonds, issued in August 2006 with variable interest, based on an industry adjusted Securities Industry and Financial Markets Association Municipal Swap Index, 0.26 % at June 30, 2009, and an interest rate swap based on 3M LIBOR vs. fixed rate of 3.96% payable in increasing monthly installments ranging from \$20,000 to \$61,666, through 2036.	15,370,000	15,650,000
Series H bonds, issued in July 2008 with variable interest, \$46,000,000 based on an industry adjusted Securities Industry and Financial Markets Association Municipal Swap Index, 0.24 % at June 30, 2009, and two interest rate swap agreements based on 3M LIBOR vs. fixed rate of 3.605% and 3.638% on \$42,000,000 and \$4,000,000 respectively, monthly installments ranging from \$73,333 to \$228,333, through 2038.	46,000,000	—
Bonds payable	87,185,000	42,140,000
Unamortized bond discount	(450,703)	(227,280)
Bonds payable, net	<u>\$ 86,734,297</u>	<u>41,912,720</u>

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In July 2008, the University issued \$46,000,000 of CHEFA Series H tax-exempt bonds. The proceeds were used to finance (a) the construction and equipping of a new student dormitory; and (b) paying capitalized interest with respect to the bonds; and (c) paying costs of issuance fees with respect to the bonds. The University incurred \$644,662 in costs associated with the new bonds which have been capitalized and will be amortized over the life of the bonds.

In August 2006, the University issued \$15,890,000 of CHEFA Series G tax-exempt bonds. The proceeds were used to finance (a) the construction and equipping of a new student recreation center; and (b) the defeasance of the prior issue Series F bonds; and (c) paying capitalized interest with respect to the bonds; and (d) paying costs of issuance and credit enhancement fees with respect to the bonds. The University incurred \$424,474 in costs associated with the new bonds which have been capitalized and will be amortized over the life of the bonds.

In August 2005, the University issued \$27,460,000 of CHEFA Series E tax-exempt bonds and \$4,800,000 of CHEFA Series F taxable bonds. The proceeds were used to finance (a) deferred maintenance and various improvements to the University's campus, including classroom, lab, faculty office and residence hall renovations; and (b) the defeasance of the prior issue Series D bonds. The University incurred \$638,848 in costs associated with the new bonds which have been capitalized and will be amortized over the life of the bonds.

Under the bond agreement with CHEFA and a line of credit agreement with Wachovia Bank, the University has agreed to certain financial covenants. The University has met its financial covenants as of June 30, 2009.

Substantially all property and equipment is pledged as collateral for the above notes. Additionally, the University has granted to CHEFA and the aforementioned bank a security interest in certain gross receipts, as defined, from annual student tuition and other dormitory fees.

The following is a schedule of debt maturities payable over the next five years and thereafter by the University:

Year ending June 30:	
2010	\$ 1,200,000
2011	1,245,000
2012	2,175,000
2013	2,260,000
2014	2,350,000
Thereafter	<u>77,955,000</u>
Total	<u>\$ 87,185,000</u>

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(b) *Short-Term Line of Credit*

The University has a revolving line of credit agreement with Wachovia Bank for \$4,500,000 until December 31, 2009. The line is secured by a mortgage on certain University property. Borrowings under the line bear interest at the LIBOR Market Index Rate. Outstanding borrowings against the line of credit were \$0 at June 30, 2009 and 2008.

(12) **Interest Rate Swaps**

In conjunction with the University's issuances of variable rate debt, the University has interest rate swap agreements with a financial institution counterparty. The purpose of these agreements is to swap the variable rate on underlying debt for fixed rates. The University entered into the agreements to manage the risk associated with the cash flows attributable to interest payments on the debt and does not use such instruments for speculative purposes. Under SFAS No. 133, *Accounting for Derivatives and Hedging Activities*, the instruments' fair value and changes therein must be measured in the University's net assets. The fair value of the swap instruments at June 30, 2009 and 2008 is recorded as a liability on the Statement of Financial Position.

Trade date	Notional amount	Maturity	Series	Rate	Fair value at June 30	
					2009	2008
August 17, 2005	\$ 25,815,000	July 1, 2035	2005	3.425%	\$ (1,939,948)	(407,681)
August 28, 2006	\$ 15,370,000	July 1, 2036	2006	3.960%	(2,010,160)	(1,107,633)
July 1, 2008	\$ 42,000,000	July 1, 2038	2008	3.605%	(4,668,864)	(1,604,109)
July 1, 2008	\$ 4,000,000	July 1, 2038	2008	3.638%	(462,154)	(168,699)
Total					\$ (9,081,126)	(3,288,122)

(13) **Pension Plan**

The University maintains a defined contribution retirement program with the Teachers Insurance and Annuity Association – College Retirement Equities Fund (TIAA/CREF). The University generally contributes 7% of base salaries, as defined, for both exempt and non-exempt participating employees. Eligible employees may contribute a percentage of their annual compensation, pretax, subject to various restrictions within the Internal Revenue Code. Pension expense for the years ended June 30, 2009 and 2008 was \$2,748,196 and \$2,594,365, respectively.

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Notes to Financial Statements

June 30, 2009

(14) Temporarily and Permanently Restricted Net Assets

Restricted net assets as of June 30 consist of:

	<u>2009</u>	<u>2008</u>
Temporarily restricted net assets:		
Time restricted	\$ 3,358,989	5,203,489
Investments held in trust by others	1,787,400	4,531,954
Use restricted:		
Capital projects	9,960,358	9,388,447
Other	174,780	874,462
Total	<u>\$ 15,281,527</u>	<u>19,998,352</u>
Permanently restricted net assets:		
Scholarships	\$ 5,480,762	4,883,912
General University support	2,746,600	2,732,170
Total	<u>\$ 8,227,362</u>	<u>7,616,082</u>

(15) Net Assets Released from Restrictions

Temporarily restricted assets were released from donor restriction by incurring expenses satisfying the restricted purpose specified by the donor. For the years ended June 30, 2009 and 2008, temporarily restricted net assets were released as follows:

	<u>2009</u>	<u>2008</u>
Expiration of time restrictions	\$	
Capital projects	1,945,083	1,754,842
Academic support	153,812	153,223
Student services/athletics	814,616	195,380
Institutional support	94,520	205,073
Instruction	140,077	28,561
Student aid	614,273	444,658
Total	<u>\$ 3,762,381</u>	<u>2,781,737</u>

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(16) Postretirement Medical Benefits Plan

The University provides certain health care benefits, including medical care and prescription drug components for certain of its retired employees. The University follows FASB Statement No. 158, *Employers' Accounting for Defined Benefit and Other Postretirement Plans*. Information with respect to the plan is as follows:

	June 30	
	2009	2008
Change in benefit obligation:		
Benefit obligation at beginning of year	\$ 2,292,810	1,933,136
Service cost	—	558,175
Interest cost	148,941	118,576
Assumption change losses (gains)	224,857	(247,857)
Experience losses	156,602	—
Benefits paid	(171,138)	(69,220)
Benefit obligation at end of year	<u>\$ 2,652,072</u>	<u>2,292,810</u>
Change in plan assets:		
Fair value of plan assets at beginning of year	—	—
Actual return on plan assets	—	—
Employer contribution	171,138	69,220
Plan participants' contributions	—	—
Benefits paid	(171,138)	(69,220)
Fair value of plan assets at end of year	<u>\$ —</u>	<u>—</u>
Funded status	<u>\$ (2,652,072)</u>	<u>(2,292,810)</u>

	June 30	
	2009	2008
Discount rate used to value obligations	6.25%	6.75%
Weighted average health care cost trend:		
Initial trend rate:		
Pre-65	9.00%	9.00%
Post-65	9.00%	9.00%
Ultimate trend rate:		
Pre-65	5.00%	5.00%
Post-65	5.00%	5.00%
Year ultimate trend rate attained	2013	2012

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	June 30	
	2009	2008
Components of net periodic postretirement benefit cost:		
Service cost	\$ —	558,175
Interest cost	148,941	118,576
Amortization of actuarial loss	—	54,376
Amortization of unrecognized prior service cost	—	313,276
Net periodic postretirement benefit cost	\$ 148,941	1,044,403

The assumed health care cost trend rate has a significant effect on the amounts reported. A one-percentage-point change in the assumed health care cost trend rate would have the following effects:

	2009	2008
Impact of 1% increase in health care cost trend:		
On interest cost plus service cost during past year	\$ 16,067	77,566
On accumulated postretirement benefit obligation	292,823	237,154
Impact of 1% decrease in health care cost trend:		
On interest cost plus service cost during past year	(13,707)	(66,294)
On accumulated postretirement benefit obligation	(269,230)	(233,729)

Estimated future benefit payments, net of employee contributions, are as follows:

	Estimated benefit payment
Fiscal year:	
2010	\$ 195,300
2011	204,800
2012	199,500
2013	190,700
2014	187,700
2015-2017	1,020,600

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(17) Commitments and Contingencies

The University participates in a number of federal programs that are subject to financial and compliance audits. The amount of expenditures that may be disallowed by the granting agencies cannot be determined at this time, although the University does not expect these amounts, if any, to be material to the financial statements.

The University is subject to certain legal proceedings and claims that arose in the ordinary course of its business. In the opinion of management, the amount of the ultimate liability with respect to those actions will not materially affect the University's financial position.