



UNIVERSITY OF NEW HAVEN

Financial Statements

June 30, 2012

(with comparative information for June 30, 2011)

(With Independent Auditors' Report Thereon)

UNIVERSITY OF NEW HAVEN
Financial Statements
June 30, 2012
(with comparative information for June 30, 2011)

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KPMG LLP
One Financial Plaza
755 Main Street
Hartford, CT 06103

Independent Auditors' Report

The Board of Governors
University of New Haven:

We have audited the accompanying statement of financial position of University of New Haven (the University) as of June 30, 2012, and the related statements of activities and cash flows for the year 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 audit. The prior year summarized comparative information has been derived from the University's 2011 financial statements and, in our report dated October 27, 2011, we expressed an unqualified opinion on those financial statements.

We conducted our audit 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 audit provides 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 University of New Haven as of June 30, 2012, and the changes in its net assets and its cash flows for the year then ended, in conformity with U.S. generally accepted accounting principles.

KPMG LLP

November 9, 2012

UNIVERSITY OF NEW HAVEN
Statements of Financial Position
June 30, 2012
(with comparative information as of June 30, 2011)

Assets	2012	2011
Cash and cash equivalents	\$ 46,980,457	37,592,695
Accounts and loans receivable, net (note 3)	7,513,278	7,953,877
Pledges receivable, net (note 4)	5,039,577	2,869,116
Other assets	1,776,370	1,851,854
Investments (note 5)	25,930,808	25,408,764
Investments held in trust by others (notes 5 and 9)	1,294,609	1,775,457
Deposits with bond trustee and restricted cash (note 5)	2,533,134	2,446,769
Investment in plant, net (note 7)	132,655,287	128,768,778
Total assets	\$ 223,723,520	208,667,310
Liabilities		
Accounts payable and accrued expenses	\$ 14,841,467	10,582,543
Deposits and deferred income	10,032,590	14,097,384
Bonds and notes payable (note 10)	82,162,305	84,321,302
Interest rate swap liability (notes 5 and 11)	21,139,553	10,457,511
Post-retirement healthcare obligation (note 15)	3,573,069	2,976,617
Government grants refundable	3,453,060	3,453,060
Total liabilities	135,202,044	125,888,417
Net Assets		
Unrestricted	61,424,186	61,082,753
Temporarily restricted (notes 9 and 13)	15,484,961	10,672,272
Permanently restricted (note 13)	11,612,329	11,023,868
Total net assets	88,521,476	82,778,893
Total liabilities and net assets	\$ 223,723,520	208,667,310

See accompanying notes to financial statements.

UNIVERSITY OF NEW HAVEN
Statements of Activities
Year ended June 30, 2012
(with comparative information for the year ended June 30, 2011)

	2012			2011
	Unrestricted	Temporarily restricted	Permanently restricted	Total
Operating activities:				
Revenues, gains, and other support:				
Tuition and fees	\$ 164,622,982	—	—	164,622,982
Residence and dining	31,410,694	—	—	31,410,694
Less scholarships and grants	(61,068,124)	—	—	(61,068,124)
Net student fees	134,965,552	—	—	134,965,552
Federal, state, and private grants and gifts	6,458,120	5,875,775	588,461	12,922,356
Endowment spending used in operations (note 5)	325,081	24,981	—	350,062
Interest income and other sources	584,756	850,061	—	1,434,817
Other auxiliary services	1,951,755	—	—	1,951,755
Net assets released from restrictions (note 14)	5,169,832	(5,169,832)	—	—
Total revenue from operations	149,455,096	1,580,985	588,461	151,624,542
Expenses:				
Instructional	47,187,650	—	—	47,187,650
Academic support	13,379,321	—	—	13,379,321
Student services	20,594,552	—	—	20,594,552
Institutional support	29,946,053	—	—	29,946,053
Residence and dining	23,068,715	—	—	23,068,715
Total expenses	134,176,291	—	—	134,176,291
Change in net assets from operations	15,278,805	1,580,985	588,461	17,448,251
Nonoperating activities:				
Net return on long-term investments, net of amounts used in operations (note 5)	(187,669)	(355,109)	—	(542,778)
Unrealized (losses)/gains on investments held in trust by others (notes 5 and 9)	—	(480,848)	—	(480,848)
Change in market value of interest rate swap (note 11)	(10,682,042)	—	—	(10,682,042)
Other reclassifications	(4,067,661)	4,067,661	—	—
Change in net assets	341,433	4,812,689	588,461	5,742,583
Net assets, beginning of year	61,082,753	10,672,272	11,023,868	82,778,893
Net assets, end of year	\$ 61,424,186	15,484,961	11,612,329	88,521,476

See accompanying notes to financial statements.

UNIVERSITY OF NEW HAVEN

Statements of Cash Flows

Year ended June 30, 2012

(with comparative information for the year ended June 30, 2011)

	<u>2012</u>	<u>2011</u>
Cash flows from operating activities:		
Change in net assets	\$ 5,742,583	21,688,350
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	8,665,520	7,997,611
Change in market value of interest rate swap	10,682,042	(2,542,230)
Net unrealized and realized gains on investments	500,029	(3,515,501)
Gains on investments held in trust by others	480,848	(427,882)
Contributions restricted for long-term investment	(588,461)	(1,611,119)
Change in accounts and pledges receivable	(1,934,051)	128,049
Change in other assets	151,614	299,608
Change in accounts payable and accrued expenses	3,700,794	(2,730,212)
Change in deposits and deferred income	(4,064,794)	6,355,668
Net cash provided by operating activities	<u>23,336,124</u>	<u>25,642,342</u>
Cash flows from investing activities:		
Purchases of plant and equipment	(11,397,447)	(15,456,223)
Proceeds from maturity and sale of investments	23,890,757	14,485,178
Purchases of investments	(24,912,830)	(17,494,430)
Proceeds from contributions restricted for long-term investment	588,461	1,611,119
Change in restricted cash and deposits with bond trustee	(86,365)	6,042,427
Decrease in loans receivable	204,189	153,056
Net cash used in investing activities	<u>(11,713,235)</u>	<u>(10,658,873)</u>
Cash flows from financing activities:		
Principal payments on bonds and notes payable	(2,175,000)	(1,245,000)
Bond issuance costs	(60,127)	(45,000)
Net cash used in financing activities	<u>(2,235,127)</u>	<u>(1,290,000)</u>
Net increase in cash and cash equivalents	9,387,762	13,693,469
Cash and cash equivalents at beginning of year	<u>37,592,695</u>	<u>23,899,226</u>
Cash and cash equivalents at end of year	<u>\$ 46,980,457</u>	<u>37,592,695</u>
Supplemental data:		
Interest paid	\$ 4,178,879	4,129,268
Noncash investing activity – change in accounts payable attributable to fixed assets	1,154,581	933,733

See accompanying notes to financial statements.

UNIVERSITY OF NEW HAVEN

Notes to Financial Statements

June 30, 2012

(with comparative information from June 30, 2011)

(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

(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 financial statements include certain prior year summarized comparative information in total but not by asset class. Such information does not include sufficient detail to constitute a presentation in conformity with generally accepted accounting principles. Accordingly, such information should be read in conjunction with the University's financial statements for the year ended June 30, 2011 from which the summarized information was derived.

(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.

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June 30, 2012

(with comparative information from June 30, 2011)

(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. The discount rate represents the risk-free rate in existence at the date of the gift. 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) 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.

(f) 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. The University believes it has taken no significant uncertain tax positions.

(g) 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. Fundraising expenses for the years ended June 30, 2012 and 2011 totaling \$1,493,783 and \$1,326,174, respectively, have been classified as institutional support expenses in the statement of activities.

(h) 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

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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.

(i) Fair Value of Financial Instruments

The fair value of investments, which is based upon quoted market prices, is disclosed in note 5. For all other financial instruments, the carrying amount as disclosed in the accompanying financial statements approximates fair value.

(3) Accounts and Loans Receivable

Accounts receivable consist of the following at June 30:

	<u>2012</u>	<u>2011</u>
Students	\$ 10,932,445	9,937,035
Grants	1,041,559	1,536,892
Others	381,869	281,804
Allowance for doubtful accounts	<u>(7,793,320)</u>	<u>(6,955,075)</u>
Net accounts receivable	<u>\$ 4,562,553</u>	<u>4,800,656</u>

Loans receivable consist of the following at June 30:

	<u>2012</u>	<u>2011</u>
Perkins loans	\$ 3,325,725	3,528,221
Allowance for doubtful accounts	<u>(375,000)</u>	<u>(375,000)</u>
Net loans receivable	<u>\$ 2,950,725</u>	<u>3,153,221</u>

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(4) Pledges Receivable

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

	<u>2012</u>	<u>2011</u>
Amounts due in:		
Less than one year	\$ 1,804,309	1,621,801
One to five years	3,888,999	1,700,148
Greater than five years	75,000	100,000
Charitable remainder trust (note 9)	<u>188,602</u>	<u>259,030</u>
Gross pledges receivable	5,956,910	3,680,979
Less:		
Allowance for uncollectible pledges	(793,082)	(702,088)
Discount to present value	<u>(124,251)</u>	<u>(109,775)</u>
Net pledges receivable	<u>\$ 5,039,577</u>	<u>2,869,116</u>

Pledges recorded at June 30, 2012 and 2011 are discounted at rates ranging from 0.07% to 6.25%.

(5) Fair Value

At June 30, 2012 and 2011, the carrying values of the University's cash and cash equivalents, receivables, other assets, accounts payable and accrued liabilities, and deposits and deferred revenues approximated their fair values. An approximate estimate of the fair values of student loan receivables administered by the University under federal government loan programs is not practical because the receivables can only be assigned to the U.S. government or its designees.

The investment objective of the University is to invest its assets in a prudent manner to achieve a long-term rate of return sufficient to fund a portion of its spending and to increase investment value after inflation. The University's investment strategy incorporates a diversified asset allocation approach that maintains, within defined limits, exposure to global equity and fixed income.

Fair value represents the price that would be received upon the sale of an asset or paid upon the transfer of a liability in an orderly transaction between market participants as of the measurement date. Financial instruments that are measured and reported at fair value are classified and disclosed in one of the following categories:

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

Substantially all of the investments classified as Level 2 have been valued using Net Asset Value (NAV) as the practical expedient. Because of the use of NAV as a practical expedient to estimate fair value, the level in the fair value hierarchy in which each fund's fair value measurement is classified is based primarily on the University's ability to redeem its interest in the fund at or near the date of the statement of financial position.

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>2012 Total</u>	<u>Redemption or liquidation</u>	<u>Days' notice</u>
Assets:						
Investments:						
Cash and cash equivalents	\$ 842,617	—	—	842,617	Daily	1
Fixed income	—	8,190,327	—	8,190,327	Daily	1
Equities – U.S.	13,233,339	874	—	13,234,213	Daily	1
Equities – Foreign	3,663,651	—	—	3,663,651	Daily	1
Total investments	<u>\$ 17,739,607</u>	<u>8,191,201</u>	<u>—</u>	<u>25,930,808</u>		
Other assets:						
Funds held by bond trustee	\$ 2,533,134	—	—	2,533,134	Daily	1
Investments held in trust by others	—	—	1,294,609	1,294,609	Not applicable	Not applicable
Liabilities:						
Interest rate swap agreements	—	(21,139,553)	—	(21,139,553)		
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>2011 Total</u>	<u>Redemption or liquidation</u>	<u>Days' notice</u>
Assets:						
Investments:						
Cash and cash equivalents	\$ 1,028,394	—	—	1,028,394	Daily	1
Fixed income	—	7,288,753	—	7,288,753	Daily	1
Equities – U.S.	13,113,964	1,872	—	13,115,836	Daily	1
Equities – Foreign	3,975,781	—	—	3,975,781	Daily	1
Total investments	<u>\$ 18,118,139</u>	<u>7,290,625</u>	<u>—</u>	<u>25,408,764</u>		
Other assets:						
Funds held by bond trustee	\$ 2,446,769	—	—	2,446,769	Daily	1
Investments held in trust by others	—	—	1,775,457	1,775,457	Not applicable	Not applicable
Liabilities:						
Interest rate swap agreements	—	(10,457,511)	—	(10,457,511)		

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Notes to Financial Statements

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(with comparative information from June 30, 2011)

The following table presents the University's activity for the fiscal years ended June 30, 2012 and 2011 for investments measured at fair value on a recurring basis using significant unobservable inputs (Level 3) as defined in the fair value hierarchy:

	Investments held in trust by others		Investments held in trust by others
Fair value at June 30, 2011	\$ 1,775,457	Fair value at June 30, 2010	\$ 1,847,575
Dispositions	—	Dispositions	(500,000)
Unrealized losses	(480,848)	Unrealized gains	427,882
Fair value at June 30, 2012	<u>\$ 1,294,609</u>	Fair value at June 30, 2011	<u>\$ 1,775,457</u>

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

	2012	2011
Investment income, net of investment expenses	\$ 307,313	238,716
Net realized and unrealized (losses) gains	(500,029)	3,515,501
Total return on investments	(192,716)	3,754,217
Endowment spending used in operations	(350,062)	(471,415)
Net return on long-term investments, net of amounts used in operations	<u>\$ (542,778)</u>	<u>3,282,802</u>

(6) Endowment Funds

The University's endowment consists of 151 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). At June 30, 2012, the fair values of 20 endowment accounts were less than their original fair value (underwater) by a total of \$34,106. At June 30, 2011, the fair values of 9 endowment accounts were less than their original fair value (underwater) by a total of \$19,267.

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

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Notes to Financial Statements

June 30, 2012

(with comparative information from June 30, 2011)

2. The annual yield (dividends and interest) as measured by the preceding fiscal year.

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 are added to the fund.

The remaining portion of the donor-restricted endowment funds that are not classified as permanently restricted net assets, are 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

Endowment net assets consisted of the following at June 30, 2012 and June 30, 2011:

		2012		
		Unrestricted	Temporarily restricted	Permanently restricted
		Total		
Donor restricted	\$	(34,106)	3,712,552	11,023,369
Quasi (Board designated)		8,838,425	—	—
Total	\$	8,804,319	3,712,552	11,023,369
				23,540,240

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Notes to Financial Statements

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(with comparative information from June 30, 2011)

2011				
	Unrestricted	Temporarily restricted	Permanently restricted	Total
Donor restricted	\$ (19,267)	4,067,661	10,460,592	14,508,986
Quasi (Board designated)	8,978,533	—	—	8,978,533
Total	<u>\$ 8,959,266</u>	<u>4,067,661</u>	<u>10,460,592</u>	<u>23,487,519</u>

Changes in endowment funds for the fiscal years ended June 30, 2012 and 2011 were as follows:

2012				
	Unrestricted	Temporarily restricted	Permanently restricted	Total
Balance, June 30, 2011	\$ 8,959,266	4,067,661	10,460,592	23,487,519
Investment return	104,104	198,238	—	302,342
Unrealized losses	(175,166)	(287,170)	—	(462,336)
Appropriated to earnings	(83,885)	(266,177)	—	(350,062)
Contributions	—	—	562,777	562,777
Balance, June 30, 2012	<u>\$ 8,804,319</u>	<u>3,712,552</u>	<u>11,023,369</u>	<u>23,540,240</u>

2011				
	Unrestricted	Temporarily restricted	Permanently restricted	Total
Balance, June 30, 2010	\$ 5,531,179	2,080,084	8,822,104	16,433,367
Investment return	91,162	167,433	—	258,595
Unrealized gains	1,140,465	2,143,943	—	3,284,408
Appropriated to earnings and other	(73,254)	(323,799)	—	(397,053)
Contributions	2,269,714	—	1,638,488	3,908,202
Balance, June 30, 2011	<u>\$ 8,959,266</u>	<u>4,067,661</u>	<u>10,460,592</u>	<u>23,487,519</u>

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(7) Investment in Plant

Plant assets consist of the following at June 30:

	<u>2012</u>	<u>2011</u>	<u>Estimated useful lives</u>
Land	\$ 10,283,847	5,476,654	—
Land improvements	12,713,521	11,620,468	15 years
Buildings and building improvements	154,639,410	146,608,000	30 years
Furniture and equipment	49,156,402	47,144,209	3-10 years
Construction in progress	1,990,688	5,382,508	—
	<u>228,783,868</u>	<u>216,231,839</u>	
Less accumulated depreciation	<u>(96,128,581)</u>	<u>(87,463,061)</u>	
	<u>\$ 132,655,287</u>	<u>128,768,778</u>	

Depreciation expense for the years ended June 30, 2012 and 2011 amounted to \$8,665,520 and \$7,937,483, respectively.

(8) 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 2019.

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:	
2013	\$ 2,791,749
2014	2,792,183
2015	2,213,183
2016	976,004
2017	553,830
2018 and thereafter	<u>609,906</u>
Total required minimum lease payments	<u>\$ 9,936,855</u>

Rent expense for the years ended June 30, 2012 and 2011 was \$4,017,250 and \$3,615,877, respectively.

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(9) Investments Held in Trust by Others

The University is the sole beneficiary of a charitable trust (\$1,294,609 and \$1,775,457 at June 30, 2012 and 2011, 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 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.

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(10) Bonds and Notes Payable

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

	<u>2012</u>	<u>2011</u>
Connecticut Health and Education Facilities Authority (CHEFA):		
Series E bonds, issued in August 2005 with variable interest, based on 70% of 1M LIBOR plus 1.40%, LIBOR plus 1.40%, 1.567% at June 30, 2012, and an interest rate swap based on 1M LIBOR vs. fixed rate of 3.425%; interest expense was \$1,138,985 for the fiscal year. Principal payments are made in monthly installments ranging from \$27,083 to \$155,000, through 2035.	\$ 23,605,000	24,370,000
Series G bonds, issued in August 2006 with variable interest, based on 68% of 3M LIBOR plus 1.44%, 1.758% at June 30, 2012, and an interest rate swap based on 3M LIBOR vs. fixed rate of 3.96%; interest expense was \$746,940 for the fiscal year. Principal payments are made in monthly installments ranging from \$20,000 to \$61,666, through 2036.	13,840,000	14,370,000
Series H bonds, issued in July 2008 with variable interest, \$46,000,000 based on 68% of 3M LIBOR plus 1.44%, 1.758% at June 30, 2012, 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; interest expense was \$2,282,534 for the fiscal year. Principal payments are made in monthly installments ranging from \$73,333 to \$228,333 through 2038.	45,120,000	46,000,000
Bonds payable	82,565,000	84,740,000
Unamortized bond discount	(402,695)	(418,698)
Bonds payable, net	<u>\$ 82,162,305</u>	<u>84,321,302</u>

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 \$753,424 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

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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 \$492,480 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 \$582,484 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 the University has agreed to certain financial covenants. The University has met its financial covenants as of June 30, 2012.

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:	
2013	\$ 2,260,000
2014	2,350,000
2015	2,450,000
2016	2,540,000
2017	2,645,000
Thereafter	<u>70,320,000</u>
Total	\$ <u><u>82,565,000</u></u>

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(11) Interest Rate Swap

The University entered into 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. The instruments fair value and changes therein must be measured in the University's net assets. The value of the swap instruments represents the estimated benefit or cost to the University to cancel the agreement at the reporting date, and is based on an option-pricing model that considers risks and market factors.

Trade date	Notional amount	Maturity	Series	Rate	Fair value at June 30	
					2012	2011
August 17, 2005	\$ 23,605,000	July 1, 2035	2005	3.425%	\$ (4,875,566)	(2,411,732)
August 28, 2006	13,840,000	July 1, 2036	2006	3.960	(3,707,350)	(2,165,405)
July 1, 2008	41,195,000	July 1, 2038	2008	3.605	(11,445,326)	(5,354,009)
July 1, 2008	3,925,000	July 1, 2038	2008	3.638	(1,111,311)	(526,365)
Total					<u>\$ (21,139,553)</u>	<u>(10,457,511)</u>

(12) Pension Plan

The University maintains a defined contribution retirement program with Fidelity Brokerage Services LLC. The University generally contributes 8% of base salaries, as defined, for both exempt and nonexempt 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, 2012 and 2011 was \$3,712,336 and \$3,305,495, respectively.

(13) Temporarily and Permanently Restricted Net Assets

Restricted net assets as of June 30 consist of:

	2012	2011
Temporarily restricted net assets:		
Time restricted	\$ 5,020,410	3,096,577
Investments held in trust by others	1,294,609	1,775,457
Use restricted:		
Capital projects	3,215,688	4,717,114
Unappropriated endowment gains and other	5,954,254	1,083,124
Total	<u>\$ 15,484,961</u>	<u>10,672,272</u>
Permanently restricted net assets:		
Scholarships	\$ 7,309,462	6,883,881
General university support	4,302,867	4,139,987
Total	<u>\$ 11,612,329</u>	<u>11,023,868</u>

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(14) 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, 2012 and 2011, temporarily restricted net assets were released as follows:

	<u>2012</u>	<u>2011</u>
Capital projects	\$ 2,020,913	5,553,628
Academic support	437,378	142,708
Student services/athletics	316,419	366,495
Institutional support	188,287	33,746
Instruction	2,016,210	396,603
Student aid	190,625	264,996
Total	<u>\$ 5,169,832</u>	<u>6,758,176</u>

(15) Postretirement Medical Benefits Plan

The University provides certain healthcare benefits, including medical care and prescription drug components, for certain of its retired employees. Information with respect to the plan is as follows:

	<u>June 30</u>	
	<u>2012</u>	<u>2011</u>
Change in benefit obligation:		
Benefit obligation at beginning of year	\$ 2,976,617	2,948,937
Service cost	175,278	—
Interest cost	165,305	156,938
Impact of plan changes (amendments)	116,466	—
Assumption change losses (gains)	615,772	(68,789)
Experience losses	(293,163)	109,115
Benefits paid	(183,206)	(169,584)
Benefit obligation at end of year	<u>3,573,069</u>	<u>2,976,617</u>
Change in plan assets:		
Fair value of plan assets at beginning of year	—	—
Employer contribution	183,206	169,584
Benefits paid	(183,206)	(169,584)
Fair value of plan assets at end of year	<u>—</u>	<u>—</u>
Funded status	<u>\$ (3,573,069)</u>	<u>(2,976,617)</u>

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	June 30	
	2012	2011
Discount rate used to value obligations	4.00%	5.75%
Weighted average health care cost trend:		
Initial trend rate:		
Pre-65	6.00	6.10
Post-65	6.00	6.10
Ultimate trend rate:		
Pre-65	4.70	4.70
Post-65	4.70	4.70
Year ultimate trend rate attained	2088	2088

	June 30	
	2012	2011
Components of net periodic postretirement benefit cost:		
Service cost	\$ 175,278	—
Interest cost	165,305	156,938
Amortization of actuarial loss	103,896	19,557
Impact of plan changes (amendments)	116,466	—
Net periodic postretirement benefit cost	<u>\$ 560,945</u>	<u>176,495</u>

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:

	2012	2011
Impact of 1% increase in health care cost trend:		
On interest cost plus service cost during past year	\$ 31,553	19,290
On accumulated postretirement benefit obligation	390,910	354,931
Impact of 1% decrease in health care cost trend:		
On interest cost plus service cost during past year	(27,655)	(16,256)
On accumulated postretirement benefit obligation	(329,482)	(308,162)

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

	<u>Estimated benefit payment</u>
Fiscal year:	
2013	\$ 202,159
2014	242,759
2015	276,796
2016	285,965
2017	317,563
2018 – 2022	1,646,311

The expected employer contribution for fiscal year 2013 is \$202,159.

(16) 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.

(17) Related-Parties

Members of the University's Board of Governors and senior management may, from time to time, be associated, either directly or indirectly, with companies doing business with the University. The Board's conflict of interest policy requires, among other things, that no member of the Board of Governors or its committees can participate in any decision by the University in which he or she (or immediate family member) has a material financial interest. For members of the Board of Governors and senior management, the University requires an annual disclosure of significant financial interest in, or employment or consulting relationships with, entities doing business with the University. When such relationships exist, measures are taken to address the actual or perceived conflict to protect the best interest of the University and ensure compliance with relevant conflict of interest laws or policy.

(18) Subsequent Events

The University considers events or transactions that occur after the balance sheet date, but before the financial statements are issued to provide additional evidence relative to certain estimates or to identify matters that require additional disclosure. On July 27, 2012, the University purchased a residence hall in the amount of \$12,596,867. These financial statements were issued on November 9, 2012 and subsequent events have been evaluated through that date.