



UNIVERSITY OF NEW HAVEN

Financial Statements

June 30, 2013

(with comparative information for June 30, 2012)

(With Independent Auditors' Report Thereon)

UNIVERSITY OF NEW HAVEN
Financial Statements
June 30, 2013
(with comparative information for June 30, 2012)

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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 financial statements of the University of New Haven which comprise the statement of financial position as of June 30, 2013, and the related statements of activities and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with U.S. generally accepted accounting principles; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. 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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, 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 financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the 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 financial statements.

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 financial statements referred to above present fairly, in all material respects, the financial position of the University of New Haven as of June 30, 2013, and the changes in its net assets and its cash flows for the year then ended in accordance with U.S. generally accepted accounting principles.

**Report on Summarized Comparative Information**

We have previously audited the University's 2012 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated November 9, 2012. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2012 is consistent, in all material respects, with the audited financial statements from which it has been derived.

KPMG LLP

October 28, 2013

UNIVERSITY OF NEW HAVEN
Statements of Financial Position
June 30, 2013
(with comparative information as of June 30, 2012)

Assets	2013	2012
Cash and cash equivalents	\$ 43,657,217	46,980,457
Accounts and loans receivable, net (note 3)	7,540,865	7,513,278
Pledges receivable, net (note 4)	4,834,431	5,039,577
Other assets	1,703,625	1,776,370
Investments (note 5)	30,024,642	25,930,808
Investments held in trust by others (notes 5 and 9)	1,454,425	1,294,609
Deposits with bond trustee and restricted cash (note 5)	2,635,908	2,533,134
Investment in plant, net (note 7)	147,820,662	132,655,287
Total assets	\$ 239,671,775	223,723,520
Liabilities		
Accounts payable and accrued expenses	\$ 17,111,534	14,841,467
Deposits and deferred income	9,503,657	10,032,590
Bonds and notes payable (note 10)	79,918,307	82,162,305
Interest rate swap liability (notes 5 and 11)	13,603,328	21,139,553
Post retirement healthcare obligation (note 15)	3,986,208	3,573,069
Government grants refundable	3,453,060	3,453,060
Total liabilities	127,576,094	135,202,044
Net Assets		
Unrestricted	83,242,559	61,424,186
Temporarily restricted (notes 9 and 13)	16,514,331	15,484,961
Permanently restricted (note 13)	12,338,791	11,612,329
Total net assets	112,095,681	88,521,476
Total liabilities and net assets	\$ 239,671,775	223,723,520

See accompanying notes to financial statements.

UNIVERSITY OF NEW HAVEN
Statement of Activities
Year ended June 30, 2013
(with summarized information for the year ended June 30, 2012)

	2013			2012
	Unrestricted	Temporarily restricted	Permanently restricted	Total
Operating activities:				
Revenues, gains, and other support:				
Tuition and fees	\$ 173,856,525	—	—	173,856,525
Residence and dining	31,050,483	—	—	31,050,483
Less scholarships and grants	(62,802,138)	—	—	(62,802,138)
Net student fees	142,104,870	—	—	142,104,870
Federal, state, and private grants and gifts	4,884,370	2,316,122	726,462	7,926,954
Endowment spending used in operations (note 5 and 6)	440,259	101,694	—	541,953
Interest income and other sources	744,510	806,348	—	1,550,858
Other auxiliary services	2,524,386	—	—	2,524,386
Net assets released from restrictions (note 14)	4,887,564	(4,887,564)	—	—
Total revenue from operations	155,585,959	(1,663,400)	726,462	154,649,021
Expenses:				
Instructional	53,580,843	—	—	53,580,843
Academic support	15,877,521	—	—	15,877,521
Student services	21,117,404	—	—	21,117,404
Institutional support	30,731,239	—	—	30,731,239
Residence and dining	21,238,318	—	—	21,238,318
Total expenses	142,545,325	—	—	142,545,325
Change in net assets from operations	13,040,634	(1,663,400)	726,462	12,103,696
Nonoperating activities:				
Net return on long-term investments, net of amounts used in operations (note 5)	1,241,514	1,384,767	—	2,626,281
Nonoperating contributions	—	1,148,187	—	1,148,187
Unrealized (losses)/gains on investments held in trust by others (notes 5 and 9)	—	159,816	—	159,816
Change in market value of interest rate swap (note 5 and 11)	7,536,225	—	—	7,536,225
Change in net assets	21,818,373	1,029,370	726,462	23,574,205
Net assets, beginning of year	61,424,186	15,484,961	11,612,329	88,521,476
Net assets, end of year	\$ 83,242,559	16,514,331	12,338,791	112,095,681

See accompanying notes to financial statements.

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Statements of Cash Flows

Year ended June 30, 2013

(with comparative information for the year ended June 30, 2012)

	<u>2013</u>	<u>2012</u>
Cash flows from operating activities:		
Change in net assets	\$ 23,574,205	5,742,583
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	9,158,450	8,665,520
Change in market value of interest rate swap	(7,536,225)	10,682,042
Net unrealized and realized (gains) losses on investments	(2,834,448)	500,029
Gains on investments held in trust by others	(159,816)	480,848
Contributions restricted for long-term investment	(1,874,649)	(588,461)
Change in accounts and pledges receivable	482,637	(1,934,051)
Change in other assets	72,745	91,487
Change in accounts payable and accrued expenses	1,203,704	3,700,794
Change in deposits and deferred income	(528,933)	(4,064,794)
Net cash provided by operating activities	<u>21,557,670</u>	<u>23,275,997</u>
Cash flows from investing activities:		
Purchases of plant and equipment	(22,828,321)	(11,397,447)
Proceeds from maturity and sale of investments	22,919,728	23,890,757
Purchases of investments	(24,179,114)	(24,912,830)
Proceeds from contributions restricted for long-term investment	1,874,649	588,461
Change in restricted cash and deposits with bond trustee	(102,774)	(86,365)
Loans receivable advanced	117,250	233,481
Loans receivable collected	(422,328)	(29,292)
Net cash used in investing activities	<u>(22,620,910)</u>	<u>(11,713,235)</u>
Cash flows from financing activities:		
Principal payments on bonds and notes payable	(2,260,000)	(2,175,000)
Net cash used in financing activities	<u>(2,260,000)</u>	<u>(2,175,000)</u>
Net (decrease) increase in cash and cash equivalents	(3,323,240)	9,387,762
Cash and cash equivalents at beginning of year	<u>46,980,457</u>	<u>37,592,695</u>
Cash and cash equivalents at end of year	<u>\$ 43,657,217</u>	<u>46,980,457</u>
Supplemental data:		
Interest paid	\$ 4,056,992	4,178,879
Noncash investing activity – change in accounts payable attributable to fixed assets	1,495,504	1,154,581

See accompanying notes to financial statements.

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Notes to Financial Statements

June 30, 2013

(with comparative information for June 30, 2012)

(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 the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP), 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. This classification includes income and gains which can be expended but for which spending restrictions have not been met, or the Board of Governors has not appropriated for spending.

Unrestricted net assets – Net assets not subject to donor-imposed restrictions but may be limited as to use in other respects, such as quasi-endowment.

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, 2012 from which the summarized information was derived.

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Notes to Financial Statements

June 30, 2013

(with comparative information for June 30, 2012)

(b) *Liquidity Information*

In order to provide information about liquidity, assets have been sequenced in the statements 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. 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, nature of fundraising activity and future collection expectations.

(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, 2013 and 2012 totaling \$1,557,150 and

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(with comparative information for June 30, 2012)

\$1,493,783, 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. GAAP 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.

(i) *Fair Value*

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.

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.

At June 30, 2013 and 2012, 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.

Investments are reported at fair value. Equity securities are measured using quoted market prices at the reporting date multiplied by the quantity held. Fixed income securities are measured using quoted market prices multiplied by the quantity held when quoted market prices are available. If an investment is held directly by the University and an active market with quoted prices exists, the market price of an identical security is used as reported fair value.

(j) *Reclassifications*

Certain amounts as of June 30, 2012 have been reclassified to conform with this presentation as of June 30, 2013.

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(with comparative information for June 30, 2012)

(3) Accounts and Loans Receivable

Accounts receivable consist of the following at June 30:

	<u>2013</u>	<u>2012</u>
Students	\$ 10,037,267	10,932,445
Grants	1,045,719	1,041,559
Others	1,174,002	381,869
Allowance for doubtful accounts	<u>(7,361,770)</u>	<u>(7,793,320)</u>
Net accounts receivable	<u>\$ 4,895,218</u>	<u>4,562,553</u>

Loans receivable consist of the following at June 30:

	<u>2013</u>	<u>2012</u>
Perkins loans	\$ 3,020,647	3,325,725
Allowance for doubtful accounts	<u>(375,000)</u>	<u>(375,000)</u>
Net loans receivable	<u>\$ 2,645,647</u>	<u>2,950,725</u>

(4) Pledges Receivable

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

	<u>2013</u>	<u>2012</u>
Amounts due in:		
Less than one year	\$ 1,212,521	1,804,309
One to five years	3,717,180	3,888,999
Greater than five years	250,000	75,000
Charitable remainder trust (note 9)	<u>138,284</u>	<u>188,602</u>
Gross pledges receivable	5,317,985	5,956,910
Less:		
Allowance for uncollectible pledges	(382,804)	(793,082)
Discount to present value	<u>(100,750)</u>	<u>(124,251)</u>
Net pledges receivable	<u>\$ 4,834,431</u>	<u>5,039,577</u>

Pledges recorded at June 30, 2013 and 2012 are discounted at rates ranging from 0.07% to 6.25%.

(5) Investments

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.

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Notes to Financial Statements

June 30, 2013

(with comparative information for June 30, 2012)

The University's investment strategy incorporates a diversified asset allocation approach that maintains, within defined limits, exposure to global equity and fixed income.

The University's assets and liabilities at June 30, 2013 and 2012 that are reported at fair value are summarized in the following tables by their fair value hierarchy:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>2013 Total</u>	<u>Redemption or liquidation</u>	<u>Days' notice</u>
Assets:						
Investments:						
Cash and cash equivalents	\$ 1,151,837	—	—	1,151,837	Daily	1
Fixed income	—	8,419,898	—	8,419,898	Daily	1
Equities – U.S.	15,870,381	—	—	15,870,381	Daily	1
Equities – Foreign	4,582,526	—	—	4,582,526	Daily	1
Total investments	<u>\$ 21,604,744</u>	<u>8,419,898</u>	<u>—</u>	<u>30,024,642</u>		
Other assets:						
Funds held by bond trustee	\$ 2,635,908	—	—	2,635,908	Daily	1
Investments held in trust by others	—	—	1,454,425	1,454,425	Not applicable	Not applicable
Liabilities:						
Interest rate swap agreements	—	(13,603,328)	—	(13,603,328)		
	<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)		

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Notes to Financial Statements

June 30, 2013

(with comparative information for June 30, 2012)

The following table presents the University's activity for the fiscal years ended June 30, 2013 and 2012 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, 2012	\$ 1,294,609	Fair value at June 30, 2011	\$ 1,775,457
Unrealized gains	<u>159,816</u>	Unrealized losses	<u>(480,848)</u>
Fair value at June 30, 2013	<u><u>\$ 1,454,425</u></u>	Fair value at June 30, 2012	<u><u>\$ 1,294,609</u></u>

There were no transfers between levels of the fair value hierarchy during the years ended June 30, 2013 and 2012. The University's total return on its invested assets consists of the following components reported on the statement of activities:

	2013	2012
Investment income, net of investment expenses	\$ 333,786	307,313
Net realized and unrealized gains (losses)	<u>2,834,448</u>	<u>(500,029)</u>
Total return on investments	3,168,234	(192,716)
Endowment spending used in operations	<u>(541,953)</u>	<u>(350,062)</u>
Net return on long-term investments, net of amounts used in operations	<u><u>\$ 2,626,281</u></u>	<u><u>(542,778)</u></u>

Investment expenses for June 30, 2013 and 2012 were \$243,973 and \$213,848, respectively.

(6) Endowment Funds

The University's endowment consists of approximately 150 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, 2013, the fair values of 6 endowment accounts were less than their original fair value (underwater) by a total of \$13,078. 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.

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.

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Notes to Financial Statements

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(with comparative information for June 30, 2012)

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 percent (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.

The University's endowment includes both donor-restricted endowment funds and funds designated by the Board of Governors 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 the State of Connecticut Uniform Prudent Management of Institutional Funds Act (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, 2013 and June 30, 2012:

	2013			
	Unrestricted	Temporarily restricted	Permanently restricted	Total
Donor restricted	\$ (13,078)	5,289,429	12,086,071	17,362,422
Quasi (Board designated)	9,572,988	—	—	9,572,988
Total	<u>\$ 9,559,910</u>	<u>5,289,429</u>	<u>12,086,071</u>	<u>26,935,410</u>

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Notes to Financial Statements

June 30, 2013

(with comparative information for June 30, 2012)

	2012			
	Unrestricted	Temporarily restricted	Permanently restricted	Total
Donor restricted	\$ (34,106)	3,712,552	11,023,369	14,701,815
Quasi (Board designated)	8,838,425	—	—	8,838,425
Total	<u>\$ 8,804,319</u>	<u>3,712,552</u>	<u>11,023,369</u>	<u>23,540,240</u>

Changes in endowment funds for the fiscal years ended June 30, 2013 and 2012 were as follows:

	2013			
	Unrestricted	Temporarily restricted	Permanently restricted	Total
Balance, June 30, 2012	\$ 8,804,319	3,712,552	11,023,369	23,540,240
Investment return	101,668	206,835	—	308,503
Unrealized/realized gains	832,524	1,733,394	—	2,565,918
Appropriated to earnings	(178,601)	(363,352)	—	(541,953)
Contributions	—	—	1,062,702	1,062,702
Balance, June 30, 2013	<u>\$ 9,559,910</u>	<u>5,289,429</u>	<u>12,086,071</u>	<u>26,935,410</u>

	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/realized 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>

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(with comparative information for June 30, 2012)

(7) Investment in Plant

Plant assets consist of the following at June 30:

	<u>2013</u>	<u>2012</u>	<u>Estimated useful lives</u>
Land	\$ 10,970,380	10,283,847	—
Land improvements	13,102,244	12,713,521	15 years
Buildings and building improvements	175,337,988	154,639,410	30 years
Furniture and equipment	51,322,104	49,156,402	3-10 years
Construction in progress	2,374,977	1,990,688	—
	<u>253,107,693</u>	<u>228,783,868</u>	
Less accumulated depreciation	<u>(105,287,031)</u>	<u>(96,128,581)</u>	
	<u>\$ 147,820,662</u>	<u>132,655,287</u>	

Depreciation expense for the years ended June 30, 2013 and 2012 amounted to \$9,158,450 and \$8,665,520, 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.

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

Year ending June 30:	
2014	\$ 3,152,401
2015	2,164,759
2016	1,725,733
2017	1,255,717
2018	452,023
2019 and thereafter	<u>455,836</u>
Total required minimum lease payments	<u>\$ 9,206,469</u>

Rent expense for the years ended June 30, 2013 and 2012 was \$3,088,943 and \$4,017,250, respectively.

(9) Investments Held in Trust by Others

The University is the sole beneficiary of a charitable trust (\$1,454,425 and \$1,294,609 at June 30, 2013 and 2012, 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

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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 upon death of the donor. 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.

(10) Bonds and Notes Payable

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

	<u>2013</u>	<u>2012</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%, 1.536% at June 30, 2013, and an interest rate swap based on 1M LIBOR vs. fixed rate of 3.425%; interest expense was \$1,100,299 for the fiscal year. Principal payments are made in monthly installments ranging from \$27,083 to \$155,000, through 2035.	\$ 22,805,000	23,605,000
Series G bonds, issued in August 2006 with variable interest, based on 68% of 3M LIBOR plus 1.44%, 1.627% at June 30, 2013, and an interest rate swap based on 3M LIBOR vs. fixed rate of 3.96%; interest expense was \$718,355 for the fiscal year. Principal payments are made in monthly installments ranging from \$20,000 to \$61,666, through 2036.	13,295,000	13,840,000

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	<u>2013</u>	<u>2012</u>
Series H bonds, issued in July 2008 with variable interest, \$46,000,000 based on 68% of 3M LIBOR plus 1.44%, 1.627% at June 30, 2013, 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 \$2,226,650 for the fiscal year. Principal payments are made in monthly installments ranging from \$73,333 to \$228,333 through 2038.	\$ 44,205,000	45,120,000
Bonds payable	80,305,000	82,565,000
Unamortized bond discount	(386,693)	(402,695)
Bonds payable, net	<u>\$ 79,918,307</u>	<u>82,162,305</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. These fees are reported on the statements of financial position as other assets.

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 \$492,480 in costs associated with the new bonds which have been capitalized and will be amortized over the life of the bonds. These fees are reported on the statements of financial position as other assets.

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. These fees are reported on the statements of financial position as other assets.

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, 2013.

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.

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Fair value measurement of bonds and notes payable are based on observable interest rates and maturity schedules that fall within Level 2 of the hierarchy of fair value inputs. The fair value of the University's bonds and notes payable approximates the carrying value as a result of the variable interest rates.

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

Year ending June 30:	
2014	\$ 2,350,000
2015	2,450,000
2016	2,540,000
2017	2,645,000
2018	2,760,000
Thereafter	<u>67,560,000</u>
Total	<u>\$ 80,305,000</u>

(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	
					2013	2012
August 17, 2005	\$ 22,805,000	July 1, 2035	2005	3.425%	\$ (3,137,150)	(4,875,566)
August 28, 2006	13,295,000	July 1, 2036	2006	3.960	(2,516,073)	(3,707,350)
July 1, 2008	40,360,000	July 1, 2038	2008	3.605	(7,242,983)	(11,445,326)
July 1, 2008	3,845,000	July 1, 2038	2008	3.638	<u>(707,122)</u>	<u>(1,111,311)</u>
Total					<u>\$ (13,603,328)</u>	<u>(21,139,553)</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, 2013 and 2012 was \$4,378,181 and \$3,712,336, respectively.

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(13) Temporarily and Permanently Restricted Net Assets

Restricted net assets as of June 30 consist of:

	<u>2013</u>	<u>2012</u>
Temporarily restricted net assets:		
Time restricted	\$ 4,945,146	5,020,410
Investments held in trust by others	1,454,425	1,294,609
Use restricted:		
Capital projects	2,687,806	3,215,688
Unappropriated endowment gains	5,289,429	3,712,552
Other	2,137,525	2,241,702
Total	<u>\$ 16,514,331</u>	<u>15,484,961</u>
Permanently restricted net assets:		
Scholarships	\$ 7,802,835	7,309,462
General university support	4,535,956	4,302,867
Total	<u>\$ 12,338,791</u>	<u>11,612,329</u>

(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, 2013 and 2012, temporarily restricted net assets were released as follows:

	<u>2013</u>	<u>2012</u>
Capital projects	\$ 2,541,755	2,020,913
Academic support	345,346	437,378
Student services/athletics	868,150	316,419
Institutional support	717,032	188,287
Instruction	159,650	2,016,210
Student aid	255,631	190,625
Total	<u>\$ 4,887,564</u>	<u>5,169,832</u>

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(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:

	June 30	
	2013	2012
Change in benefit obligation:		
Benefit obligation at beginning of year	\$ 3,573,069	2,976,617
Service cost	516,273	175,278
Interest cost	138,772	165,305
Impact of plan changes (amendments)	—	116,466
Assumption change (gains) losses	(311,501)	615,772
Experience losses (gains)	249,900	(293,163)
Benefits paid	(180,305)	(183,206)
Benefit obligation at end of year	<u>3,986,208</u>	<u>3,573,069</u>
Change in plan assets:		
Fair value of plan assets at beginning of year	—	—
Employer contribution	180,305	183,206
Benefits paid	(180,305)	(183,206)
Fair value of plan assets at end of year	<u>—</u>	<u>—</u>
Funded status	<u>\$ 3,986,208</u>	<u>3,573,069</u>
	June 30	
	2013	2012
Discount rate used to value obligations	4.75%	4.00%
Weighted average health care cost trend:		
Initial trend rate:		
Pre-65	5.80	6.00
Post-65	5.80	6.00
Ultimate trend rate:		
Pre-65	4.70	4.70
Post-65	4.70	4.70
Year ultimate trend rate attained	2088	2088

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	June 30	
	2013	2012
Components of net periodic postretirement benefit cost:		
Service cost	\$ 516,273	175,278
Interest cost	138,772	165,305
Amortization of actuarial loss	195,305	103,896
Impact of plan changes (amendments)	—	116,466
Net periodic postretirement benefit cost	<u>\$ 850,350</u>	<u>560,945</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:

	2013	2012
Impact of 1% increase in health care cost trend:		
On interest cost plus service cost during past year	\$ 54,349	31,553
On accumulated postretirement benefit obligation	367,489	390,910
Impact of 1% decrease in health care cost trend:		
On interest cost plus service cost during past year	(49,009)	(27,655)
On accumulated postretirement benefit obligation	(317,258)	(329,482)

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

	Estimated benefit payment
Fiscal year:	
2014	\$ 205,917
2015	282,970
2016	317,420
2017	324,996
2018	360,855
2019 – 2023	1,875,661

The expected employer contribution for fiscal year 2014 is \$205,917.

(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.

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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.

In August 2013 the University entered into an agreement with University Ventures (UV), a higher education investment firm, to establish New Engineering University (NEU), a private for profit business with the mission to provide postsecondary educational programs that prepare students for gainful employment. UNH does not exert control at the Board level, but the University retains all academic control and supports the initiative with its strong brand and accreditation. UV will provide all required capital and is responsible for the operational aspects at NEU. As of the end of September, 2013 NEU is awaiting regulatory notification from the Connecticut Department of Higher Education concerning the program's approval.

In October 2013, the University issued \$28,670,000 of Connecticut Health and Education Facilities Authority (CHEFA) Series I tax-exempt bonds at an interest rate of 3.75% and with maturities monthly beginning November 2013 and ending September 2039. The bond proceeds, along with other University funds, will be used to finance construction of a new residence hall and the costs of issuance.

These financial statements were issued on October 28, 2013 and subsequent events have been evaluated through that date.