



UNIVERSITY OF NEW HAVEN

Financial Statements

June 30, 2014

(with comparative information for June 30, 2013)

(With Independent Auditors' Report Thereon)

UNIVERSITY OF NEW HAVEN

Financial Statements

June 30, 2014

(with comparative information for June 30, 2013)

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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, 2014, 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 organization'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 organization'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, 2014, 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 2013 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated October 28, 2013. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2013 is consistent, in all material respects, with the audited financial statements from which it has been derived.

KPMG LLP

October 27, 2014

UNIVERSITY OF NEW HAVEN
Statements of Financial Position
June 30, 2014
(with comparative information as of June 30, 2013)

Assets	2014	2013
Cash and cash equivalents	\$ 50,163,237	43,657,217
Accounts and loans receivable, net (note 3)	8,894,806	7,540,865
Pledges receivable, net (note 4)	3,075,682	4,834,431
Other assets	2,995,348	1,703,625
Investments (note 5)	35,018,985	30,024,642
Investments held in trust by others (notes 5 and 9)	1,971,019	1,454,425
Deposits with bond trustee and restricted cash (note 5)	2,748,500	2,635,908
Investment in plant, net (note 7)	179,244,466	147,820,662
Total assets	\$ 284,112,043	239,671,775
Liabilities		
Accounts payable and accrued expenses	\$ 22,903,088	17,111,534
Deposits and deferred income	8,454,524	9,503,657
Bonds and notes payable (note 10)	97,382,934	79,918,307
Interest rate swap liability (notes 5 and 11)	13,483,627	13,603,328
Post retirement healthcare obligation (note 15)	3,925,184	3,986,208
Government grants refundable	3,453,060	3,453,060
Total liabilities	149,602,417	127,576,094
Net Assets		
Unrestricted	101,149,322	83,242,559
Temporarily restricted (notes 9 and 13)	20,419,465	16,514,331
Permanently restricted (note 13)	12,940,839	12,338,791
Total net assets	134,509,626	112,095,681
Total liabilities and net assets	\$ 284,112,043	239,671,775

See accompanying notes to financial statements.

UNIVERSITY OF NEW HAVEN
Statement of Activities
Year ended June 30, 2014
(with summarized information for the year ended June 30, 2013)

	2014			2013
	Unrestricted	Temporarily restricted	Permanently restricted	Total
Operating activities:				
Revenues, gains, and other support:				
Tuition and fees	\$ 187,931,786	—	—	187,931,786
Residence and dining	33,209,323	—	—	33,209,323
Less scholarships and grants	(68,077,822)	—	—	(68,077,822)
Net student fees	153,063,287	—	—	153,063,287
Federal, state, and private grants and gifts	4,432,553	1,677,845	697,654	6,808,052
Endowment spending used in operations (notes 5 and 6)	615,419	—	—	615,419
Interest income and other sources	1,101,431	1,021,781	—	2,123,212
Other auxiliary services	2,829,299	—	—	2,829,299
Net assets released from restrictions (note 14)	4,651,528	(4,651,528)	—	—
Total revenue from operations	166,693,517	(1,951,902)	697,654	165,439,269
Expenses:				
Instructional	53,987,985	—	—	53,987,985
Academic support	15,951,280	—	—	15,951,280
Student services	23,604,315	—	—	23,604,315
Institutional support	33,304,847	—	—	33,304,847
Residence and dining	23,630,610	—	—	23,630,610
Total expenses	150,479,037	—	—	150,479,037
Change in net assets from operations	16,214,480	(1,951,902)	697,654	14,960,232
Nonoperating activities:				
Net return on long-term investments, net of amounts used in operations (note 5)	542,868	3,828,107	—	4,370,975
Nonoperating contributions	1,460,000	1,520,539	—	2,980,539
Unrealized (losses)/gains on investments held in trust by others (notes 5 and 9)	—	516,594	—	516,594
Change in market value of interest rate swap (notes 5 and 11)	119,701	—	—	119,701
Loss on sale of fixed assets	(534,096)	—	—	(534,096)
Net assets released from restrictions and other transfers	103,810	(8,204)	(95,606)	—
Change in net assets	17,906,763	3,905,134	602,048	22,413,945
Net assets, beginning of year	83,242,559	16,514,331	12,338,791	112,095,681
Net assets, end of year	\$ 101,149,322	20,419,465	12,940,839	134,509,626

See accompanying notes to financial statements.

UNIVERSITY OF NEW HAVEN

Statements of Cash Flows

Year ended June 30, 2014

(with comparative information for the year ended June 30, 2013)

	<u>2014</u>	<u>2013</u>
Cash flows from operating activities:		
Change in net assets	\$ 22,413,945	23,574,205
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	9,213,909	9,174,452
Disposal of plant and equipment	534,096	—
Change in market value of interest rate swap	(119,701)	(7,536,225)
Net unrealized and realized (gains) on investments	(4,635,927)	(2,834,448)
Gains on investments held in trust by others	(516,594)	(159,816)
Contributions restricted for long-term investment	(697,654)	(1,874,649)
Change in accounts and pledges receivable	710,258	(127,519)
Change in other assets	(1,291,723)	72,745
Change in accounts payable and accrued expenses	(3,107,244)	1,187,702
Change in deposits and deferred income	(1,049,133)	(528,933)
Net cash provided by operating activities	<u>21,454,232</u>	<u>20,947,514</u>
Cash flows from investing activities:		
Purchases of plant and equipment	(34,387,932)	(22,828,321)
Proceeds from disposal of fixed assets	2,069,900	—
Proceeds from maturity and sale of investments	12,240,121	22,919,728
Purchases of investments	(12,598,537)	(24,179,114)
Change in restricted cash and deposits with bond trustee	(112,592)	(102,774)
Loans receivable advanced	(679,088)	(117,250)
Loans receivable collected	373,638	422,328
Net cash used in investing activities	<u>(33,094,490)</u>	<u>(23,885,403)</u>
Cash flows from financing activities:		
Proceeds from bonds and notes payable	19,798,624	—
Principal payments on bonds and notes payable	(2,350,000)	(2,260,000)
Proceeds from contributions restricted for long-term investment	697,654	1,874,649
Net cash provided by financing activities	<u>18,146,278</u>	<u>(385,351)</u>
Net increase (decrease) in cash and cash equivalents	6,506,020	(3,323,240)
Cash and cash equivalents at beginning of year	<u>43,657,217</u>	<u>46,980,457</u>
Cash and cash equivalents at end of year	<u>\$ 50,163,237</u>	<u>43,657,217</u>
Supplemental data:		
Interest paid	\$ 4,041,745	4,056,992
Noncash investing activity – change in accounts payable attributable to fixed assets	8,837,774	1,495,504

See accompanying notes to financial statements.

UNIVERSITY OF NEW HAVEN

Notes to Financial Statements

June 30, 2014

(with comparative information for June 30, 2013)

(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 in suburban West Haven, Connecticut with branch locations also located in Orange, Connecticut and Prato Italy. Subsequent to year end, the University acquired Lyme Academy College of Fine Arts, in Lyme 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, 2013 from which the summarized information was derived.

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June 30, 2014

(with comparative information for June 30, 2013)

(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.

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(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, 2014 and 2013 totaling \$1,968,236 and \$1,557,150, 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, 2014 and 2013, 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.

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Notes to Financial Statements

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(3) Accounts and Loans Receivable

Accounts receivable consist of the following at June 30:

	2014	2013
Students	\$ 11,568,622	10,037,267
Grants	688,639	1,045,719
Others	1,510,411	1,174,002
Allowance for doubtful accounts	(7,823,963)	(7,361,770)
Net accounts receivable	<u>\$ 5,943,709</u>	<u>4,895,218</u>

Loans receivable consist of the following at June 30:

	2014	2013
Perkins loans	\$ 3,326,097	3,020,647
Allowance for doubtful accounts	(375,000)	(375,000)
Net loans receivable	<u>\$ 2,951,097</u>	<u>2,645,647</u>

(4) Pledges Receivable

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

	2014	2013
Amounts due in:		
Less than one year	\$ 151,324	1,212,521
One to five years	2,941,028	3,717,180
Greater than five years	226,500	250,000
Charitable remainder trust (note 9)	89,417	138,284
Gross pledges receivable	3,408,269	5,317,985
Less:		
Allowance for uncollectible pledges	(256,514)	(382,804)
Discount to present value	(76,073)	(100,750)
Net pledges receivable	<u>\$ 3,075,682</u>	<u>4,834,431</u>

Pledges recorded at June 30, 2014 and 2013 are discounted at rates ranging from 0.07% to 6.25%.

UNIVERSITY OF NEW HAVEN

Notes to Financial Statements

June 30, 2014

(with comparative information for June 30, 2013)

(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. 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, 2014 and 2013 that are reported at fair value are summarized in the following tables by their fair value hierarchy:

2014	Level 1	Level 2	Level 3	2014 Total	Redemption or liquidation	Days' notice
Assets:						
Investments:						
Cash and cash equivalents	\$ 1,255,377	—	—	1,255,377	Daily	1
Fixed income	—	8,709,583	—	8,709,583	Daily	1
Equities – U.S.	19,666,453	—	—	19,666,453	Daily	1
Equities – Foreign	5,387,572	—	—	5,387,572	Daily	1
Total investments	\$ 26,309,402	8,709,583	—	35,018,985		
Other assets:						
Funds held by bond trustee - US agency/treasury debt	\$ 1,291,795	—	—	1,291,795	Daily	1
Funds held by bond trustee - US government repurchase agreements	1,456,705	—	—	1,456,705	Daily	1
Investments held in trust by others	—	—	1,971,019	1,971,019	Not applicable	Not applicable
Liabilities:						
Interest rate swap agreements	—	(13,483,627)	—	(13,483,627)	Not applicable	Not applicable

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(with comparative information for June 30, 2013)

2013	Level 1	Level 2	Level 3	2013 Total	Redemption or liquidation	Days' notice
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 – US agency/treasury debt	\$ 1,146,620	—	—	1,146,620	Daily	1
Funds held by bond trustee – US government repurchase agreements	1,489,288	—	—	1,489,288	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)	Not applicable	Not applicable

The following table presents the University's activity for the fiscal years ended June 30, 2014 and 2013 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
Fair value at June 30, 2013	\$ 1,454,425
Unrealized gains	542,594
Distributions	(26,000)
Fair value at June 30, 2014	<u>\$ 1,971,019</u>
	Investments held in trust by others
Fair value at June 30, 2012	\$ 1,294,609
Unrealized gains	177,066
Distributions	(17,250)
Fair value at June 30, 2013	<u>\$ 1,454,425</u>

UNIVERSITY OF NEW HAVEN

Notes to Financial Statements

June 30, 2014

(with comparative information for June 30, 2013)

There were no transfers between levels of the fair value hierarchy during the years ended June 30, 2014 and 2013. The University's total return on its invested assets consists of the following components reported on the statement of activities:

	2014	2013
Investment income, net of investment expenses	\$ 350,467	333,786
Net realized and unrealized gains (losses)	4,635,927	2,834,448
Total return on investments	4,986,394	3,168,234
Endowment spending used in operations	(615,419)	(541,953)
Net return on long-term investments, net of amounts used in operations	\$ 4,370,975	2,626,281

Investment expenses for June 30, 2014 and 2013 were \$284,193 and \$243,973, 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, 2014, the fair values of 2 endowment accounts were less than their original fair value (underwater) by a total of \$756. 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.

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 Long Term Investment 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.

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Notes to Financial Statements

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(with comparative information for June 30, 2013)

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:

- The duration and preservation of the fund
- The purposes of the University and the donor-restricted endowment fund
- General economic conditions
- The possible effect of inflation and deflation
- The expected total return from income and the appreciation of investments
- Other resources of the University
- The investment policies of the University

Endowment net assets consisted of the following at June 30, 2014 and June 30, 2013:

2014				
	Unrestricted	Temporarily restricted	Permanently restricted	Total
Donor restricted	\$ (756)	7,908,225	12,667,824	20,575,293
Quasi (Board designated)	10,856,838	—	—	10,856,838
Total	<u>\$ 10,856,082</u>	<u>7,908,225</u>	<u>12,667,824</u>	<u>31,432,131</u>

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>

UNIVERSITY OF NEW HAVEN

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June 30, 2014

(with comparative information for June 30, 2013)

Changes in endowment funds for the fiscal years ended June 30, 2014 and 2013 were as follows:

2014				
	Unrestricted	Temporarily restricted	Permanently restricted	Total
Balance, June 30, 2013	\$ 9,559,910	5,289,429	12,086,071	26,935,410
Investment return	105,859	218,417	—	324,276
Unrealized/realized gains	1,390,252	2,815,859	—	4,206,111
Appropriated to earnings	(199,939)	(415,480)	—	(615,419)
Contributions	—	—	581,753	581,753
Balance, June 30, 2014	<u>\$ 10,856,082</u>	<u>7,908,225</u>	<u>12,667,824</u>	<u>31,432,131</u>

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>

(7) Investment in Plant

Plant assets consist of the following at June 30:

	2014	2013	Estimated useful lives
Land	\$ 9,709,616	10,970,380	—
Land improvements	13,536,043	13,102,244	15 years
Buildings and building improvements	186,274,763	175,337,988	30 years
Furniture and equipment	54,343,378	51,322,104	3–10 years
Construction in progress	29,865,603	2,374,977	—
	<u>293,729,403</u>	<u>253,107,693</u>	
Less accumulated depreciation	<u>(114,484,937)</u>	<u>(105,287,031)</u>	
	<u>\$ 179,244,466</u>	<u>147,820,662</u>	

Depreciation expense for the years ended June 30, 2014 and 2013 amounted to \$9,197,906 and \$9,158,450, respectively.

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(with comparative information for June 30, 2013)

(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:	
2015	\$ 2,712,331
2016	2,294,246
2017	1,442,689
2018	661,519
2019 and thereafter	<u>665,637</u>
Total required minimum lease payments	\$ <u><u>7,776,422</u></u>

Rent expense for the years ended June 30, 2014 and 2013 was \$3,151,595 and \$3,088,943, respectively.

(9) Investments Held in Trust by Others

The University is the sole beneficiary of a charitable trust equal to \$1,971,019 and \$1,454,425 at June 30, 2014 and 2013, respectively, of which the University is not the trustee. 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 upon death of the donor. The assets of the trust are recorded as temporarily restricted pledge receivable, at the present value of estimated future payment, 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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(with comparative information for June 30, 2013)

(10) Bonds and Notes Payable

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

	<u>2014</u>	<u>2013</u>
Connecticut Health and Education Facilities Authority (CHEFA):		
Series E bonds, issued in August 2005 with variable interest, based on 70% of 1-month LIBOR plus 1.5%, 1.6057% at June 30, 2014, and an interest rate swap based on 1-month LIBOR vs. fixed rate of 3.425%; interest expense was \$1,078,544 for the fiscal year. Principal payments are made in monthly installments ranging from \$27,083 to \$155,000, through 2035	\$ 21,990,000	22,805,000
Series G bonds, issued in August 2006 with variable interest, based on 70% of 1-month LIBOR plus 1.5%, 1.6057% at June 30, 2014, and an interest rate swap based on 3-month LIBOR vs. fixed rate of 3.96%; interest expense was \$688,245 for the fiscal year. Principal payments are made in monthly installments ranging from \$20,000 to \$61,666, through 2036.	12,720,000	13,295,000
Series H bonds, issued in July 2008 with variable interest, \$46,000,000 based on 70% of 1-month LIBOR plus 1.5%, 1.6057% at June 30, 2014, and two interest rate swap agreements based on 3-month LIBOR vs. fixed rate of 3.605% and 3.638% on \$42,000,000 and \$4,000,000 respectively; interest expense was \$2,187,658 for the fiscal year. Principal payments are made in monthly installments ranging from \$73,333 to \$228,333 through 2038	43,245,000	44,205,000
Series I bonds, issued in October 2013 with variable interest at 1-month LIBOR, with a swap agreement effective November 1, 2014 fixed at 3.882% on \$24,170,000. Principal payments will begin in January 2015, ranging from \$58,764 to \$143,313 through 2040.	9,798,624	—

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	<u>2014</u>	<u>2013</u>
Series J bonds, issued in November 2013 with fixed interest rate of 1.8%; interest expense was \$110,500 for the fiscal year. Principal payments will be made annually beginning in July 2014, ranging from \$160,000 to \$600,000, through 2034.	\$ 10,000,000	—
Bonds payable	97,753,624	80,305,000
Unamortized bond discount	(370,690)	(386,693)
Bonds payable, net	<u>\$ 97,382,934</u>	<u>79,918,307</u>

In November 2013, the University issued \$10,000,000 of CHEFA Series J tax-exempt bonds. The proceeds were used to finance (a) the purchase of a student residence hall; and (b) paying capitalized interest with respect to the bonds; and (c) paying costs of issuance fees with respect to the bonds.

In October 2013, the University issued CHEFA Series I tax-exempt, draw-down bonds in amount up to \$28,670,000. The proceeds will be used to finance (a) the construction and equipping of a new student residence hall; and (b) paying capitalized interest with respect to the bonds; and (c) paying costs of issuance fees with respect to the bonds. As of June 30, 2014, the University had drawn-down \$9,798,624. The University incurred \$1,057,595 in issuance costs associated with the new bonds and these costs have been capitalized and will be amortized over the life of the bonds. These fees are reported on the statement of financial position as other assets.

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

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\$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, 2014.

Substantially all property and equipment is pledged as collateral for the above notes. Additionally, the University has granted to CHEFA and other financial institutions, a security interest in certain gross receipts, such as annual student tuition and other residence hall fees.

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:		
2015	\$	2,450,000
2016		3,052,589
2017		3,809,635
2018		3,960,618
2019		4,109,858
Thereafter		80,370,924
Total	\$	<u>97,753,624</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	
					2014	2013
August 17, 2005	\$ 21,990,000	July 1, 2035	2005	3.425%	\$ (3,050,208)	(3,137,150)
August 28, 2006	12,720,000	July 1, 2036	2006	3.960	(2,420,345)	(2,516,073)
July 1, 2008	39,485,000	July 1, 2038	2008	3.605	(7,300,736)	(7,242,983)
July 1, 2008	3,760,000	July 1, 2038	2008	3.638	(712,338)	(707,122)
Total					<u>\$ (13,483,627)</u>	<u>(13,603,328)</u>

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In conjunction with the Series I Bond, the University entered into an interest rate swap that will become effective November 1, 2014 once the amounts borrowed have been finalized and the notional amount of the interest rate swap determined.

(12) Pension Plan

The University maintains a defined contribution retirement program with Fidelity Brokerage Services LLC. The University generally contributes 9% 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, 2014 and 2013 was \$4,782,859 and \$4,378,181, respectively.

(13) Temporarily and Permanently Restricted Net Assets

Restricted net assets as of June 30 consist of:

	<u>2014</u>	<u>2013</u>
Temporarily restricted net assets:		
Time restricted	\$ 3,099,568	4,945,146
Investments held in trust by others	1,971,019	1,454,425
Use restricted:		
Capital projects	3,387,231	2,687,806
Unappropriated endowment gains	7,908,225	5,289,429
Other	4,053,422	2,137,525
Total	<u>\$ 20,419,465</u>	<u>16,514,331</u>
Permanently restricted net assets:		
Scholarships	\$ 8,289,291	7,802,835
General university support	4,651,548	4,535,956
Total	<u>\$ 12,940,839</u>	<u>12,338,791</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, 2014 and 2013, temporarily restricted net assets were released as follows:

	2014	2013
Capital projects	\$ 2,847,188	2,541,755
Academic support	444,505	345,346
Student services/athletics	326,768	868,150
Institutional support	623,099	717,032
Instruction	107,789	159,650
Student aid	302,179	255,631
Total	<u>\$ 4,651,528</u>	<u>4,887,564</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:

	June 30	
	2014	2013
Change in benefit obligation:		
Benefit obligation at beginning of year	\$ 3,986,208	3,573,069
Service cost	391,750	516,273
Interest cost	184,398	138,772
Impact of plan changes (amendments)	—	—
Assumption change (gains) losses	263,140	(311,501)
Experience losses (gains)	(736,509)	249,900
Benefits paid	<u>(163,803)</u>	<u>(180,305)</u>
Benefit obligation at end of year	<u>3,925,184</u>	<u>3,986,208</u>
Change in plan assets:		
Fair value of plan assets at beginning of year	—	—
Employer contribution	163,803	180,305
Benefits paid	<u>(163,803)</u>	<u>(180,305)</u>
Fair value of plan assets at end of year	<u>—</u>	<u>—</u>
Funded status	<u>\$ 3,925,184</u>	<u>3,986,208</u>

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	June 30	
	2014	2013
Components of net periodic postretirement benefit cost:		
Service cost	\$ 391,750	516,273
Interest cost	184,398	138,772
Amortization of actuarial loss	123,836	195,305
Net periodic postretirement benefit cost	<u>\$ 699,984</u>	<u>850,350</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:

	2014	2013
Impact of 1% increase in health care cost trend:		
On interest cost plus service cost during past year	\$ 44,222	54,349
On accumulated postretirement benefit obligation	346,952	367,489
Impact of 1% decrease in health care cost trend:		
On interest cost plus service cost during past year	(39,887)	(49,009)
On accumulated postretirement benefit obligation	(299,994)	(317,258)

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

	Estimated benefit payment
Fiscal year:	
2015	\$ 229,835
2016	270,664
2017	279,778
2018	309,677
2019	309,474
2020 – 2024	1,625,365

The expected employer contribution for fiscal year 2015 is \$229,835.

(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 July 2014 the University entered into an affiliation agreement with the Lyme Academy College of Fine Arts (Lyme), a four-year, nationally accredited college offering Bachelor of Fine Arts degrees. The affiliation agreement establishes Lyme as the sixth college of the University. As a result of the affiliation, the University is the sole member of Lyme and exerts control at the board level. The affiliation received the required regulatory approval from the Connecticut Department of Higher Education.

As a result of the affiliation, the University recognized approximately \$12.9 million in assets and assumed liabilities of \$1.5 million.

These financial statements were issued on October 27, 2014 and subsequent events have been evaluated through that date.