



UNIVERSITY OF SAINT JOSEPH

Financial Statements

June 30, 2019 and 2018

(With Independent Auditors' Report Thereon)

UNIVERSITY OF SAINT JOSEPH

Financial Statements
June 30, 2019 and 2018

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

Independent Auditors' Report

The Board of Trustees
University of Saint Joseph:

We have audited the accompanying financial statements of University of Saint Joseph (the University), which comprise the statements of financial position as of June 30, 2019 and 2018, and the related statements of activities and cash flows for the years 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 audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free 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 University of Saint Joseph as of June 30, 2019 and 2018, and the changes in its net assets and its cash flows for the years then ended in accordance with U.S. generally accepted accounting principles.



Emphasis of Matter

As discussed in Note 2(a) to the financial statements, during the year ended June 30, 2019, the University adopted Financial Accounting Standards Board Accounting Standards Update (ASU) No. 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*. Our opinion is not modified with respect to this matter.

KPMG LLP

Hartford, Connecticut
October 28, 2019

UNIVERSITY OF SAINT JOSEPH

Statements of Financial Position

June 30, 2019 and 2018

(Dollars in thousands)

Assets	2019	2018
Cash and cash equivalents	\$ 5,678	278
Accounts and loans receivable, net (note 4)	3,406	3,538
Pledges receivable, net (note 5)	1,053	1,116
Other assets	653	365
Investments (note 6)	34,611	33,289
Property, plant and equipment, net (note 8)	<u>47,823</u>	<u>46,037</u>
Total assets	<u>\$ 93,224</u>	<u>84,623</u>
Liabilities		
Accounts payable and accrued expenses	\$ 4,523	3,906
Deposits and deferred revenue	4,112	4,446
Capital lease obligation (note 10)	202	290
Other liabilities	3,528	3,050
Bonds and loans payable (note 9)	23,117	19,140
Interest rate swap (note 9)	3,277	93
Government grants refundable	<u>350</u>	<u>350</u>
Total liabilities	<u>39,109</u>	<u>31,275</u>
Commitments and contingencies (note 16)		
Net Assets		
Without donor restrictions	28,315	29,222
With donor restrictions	<u>25,800</u>	<u>24,126</u>
Total net assets	<u>54,115</u>	<u>53,348</u>
Total liabilities and net assets	<u>\$ 93,224</u>	<u>84,623</u>

See accompanying notes to financial statements.

UNIVERSITY OF SAINT JOSEPH

Statement of Activities

Year ended June 30, 2019

(Dollars in thousands)

	Without donor restrictions	With donor restrictions	Total
Operating activities:			
Revenues:			
Tuition and fees, net	\$ 45,540	—	45,540
Grant and contract income	2,311	—	2,311
Contributions	676	804	1,480
Endowment spending used in operations (note 6)	393	731	1,124
Residence and dining	3,421	—	3,421
Other auxiliary services	307	—	307
Sales and services of education departments	14,767	—	14,767
Other revenues	729	—	729
Net assets released from restrictions (note 14)	1,029	(1,029)	—
Total revenues from operations	69,173	506	69,679
Expenses:			
Instructional	26,314	—	26,314
Public service	11,553	—	11,553
Academic support	4,856	—	4,856
Student services	5,637	—	5,637
Auxiliary services	8,228	—	8,228
Institutional support and other expenses	9,928	—	9,928
Total expenses	66,516	—	66,516
Increase in net assets from operating activities	2,657	506	3,163
Nonoperating activities:			
Contributions restricted for long term investment	—	1,157	1,157
Net return on long-term investments, net of amounts used in operations (note 6)	24	11	35
Loss on disposal of property, plant and equipment	(404)	—	(404)
Change in fair value of interest rate swaps	(3,184)	—	(3,184)
Change in net assets	(907)	1,674	767
Net assets, beginning of year, as reclassified	29,222	24,126	53,348
Net assets, end of year	\$ 28,315	25,800	54,115

See accompanying notes to financial statements.

UNIVERSITY OF SAINT JOSEPH

Statement of Activities

Year ended June 30, 2018

(Dollars in thousands)

	Without donor restrictions	With donor restrictions	Total
Operating activities:			
Revenues:			
Tuition and fees, net	\$ 42,304	—	42,304
Grant and contract income	2,219	—	2,219
Contributions	3,946	324	4,270
Endowment spending used in operations (note 6)	197	353	550
Residence and dining	2,429	—	2,429
Other auxiliary services	264	—	264
Sales and services of education departments	14,889	—	14,889
Other revenues	718	—	718
Net assets released from restrictions (note 14)	576	(576)	—
Total revenues from operations	67,542	101	67,643
Expenses:			
Instructional	25,288	—	25,288
Public service	11,465	—	11,465
Academic support	5,014	—	5,014
Student services	5,085	—	5,085
Auxiliary services	7,621	—	7,621
Institutional support and other expenses	8,975	—	8,975
Total expenses	63,448	—	63,448
Increase in net assets from operating activities	4,094	101	4,195
Nonoperating activities:			
Contributions restricted for long term investment	—	636	636
Net return on long-term investments, net of amounts used in operations (note 6)	214	843	1,057
Change in fair value of interest rate swap	311	—	311
Change in net assets	4,619	1,580	6,199
Net assets, beginning of year	24,603	22,546	47,149
Net assets, end of year, as reclassified	\$ 29,222	24,126	53,348

See accompanying notes to financial statements.

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Statements of Cash Flows

June 30, 2019 and 2018

(Dollars in thousands)

	<u>2019</u>	<u>2018</u>
Cash flows from operating activities:		
Change in net assets	\$ 767	6,199
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	4,212	4,188
Change in interest rate swap value and change in discounts	3,184	(311)
Net unrealized and realized gains on investments	(346)	(970)
Provision for bad debts	483	597
Loss on disposal of property, plant and equipment	404	—
Forgiveness of vendor advances included in other liabilities	(560)	(392)
Asset retirement obligation accretion	82	99
Contributions restricted for long-term investment	(1,157)	(636)
Changes in operating assets and liabilities:		
Accounts and loans receivable	(351)	(1,448)
Pledges receivable	63	(34)
Other assets	(288)	203
Accounts payable and accrued expenses	(597)	(1,384)
Deposits and deferred revenue	(334)	725
Net cash provided by operating activities	<u>5,562</u>	<u>6,836</u>
Cash flows from investing activities:		
Proceeds from contributions restricted for long-term investment	1,157	636
Asset retirement obligation abatement	(44)	(366)
Purchases of plant and equipment	(5,173)	(2,573)
Proceeds from maturities and sale of investments	6,955	8,061
Purchases of investments	(7,931)	(11,753)
Net cash used in investing activities	<u>(5,036)</u>	<u>(5,995)</u>
Cash flows from financing activities:		
Proceeds from short-term line of credit and note payable	3,438	9,368
Payments on short-term line of credit and note payable	(3,438)	(9,368)
Proceeds from borrowing	5,091	368
Principal payments on bonds and loans payable	(617)	(1,310)
Payments on capital lease obligations	(88)	(96)
Issuance of bond cost and loan origination	(512)	—
Vendor advances	1,000	—
Net cash provided by (used in) financing activities	<u>4,874</u>	<u>(1,038)</u>
Net change in cash and cash equivalents	5,400	(197)
Cash and cash equivalents at beginning of year	<u>278</u>	<u>475</u>
Cash and cash equivalents at end of year	\$ <u><u>5,678</u></u>	<u><u>278</u></u>
Supplemental disclosures of cash flow information:		
Interest paid	\$ 786	701
Plant and equipment paid through accounts payable and accrued expenses	1,214	1,244
Plant and equipment paid through capital lease obligation	—	360

See accompanying notes to financial statements.

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Notes to Financial Statements

June 30, 2019 and 2018

(Dollars in thousands)

(1) Organization

University of Saint Joseph (the University) is a private, tax-exempt, nonprofit educational institution. The University was founded in 1932 and is located on approximately 91 acres in West Hartford, Connecticut with additional leased facilities in West Hartford and Hartford, Connecticut.

(2) Summary of Significant Accounting Policies

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

(a) Basis of Presentation

The accompanying financial statements, which are presented on the accrual basis of accounting in accordance with U.S. generally accepted accounting principles, have been prepared to focus on the University as a whole and to present balances and transactions according to the existence or absence of donor-imposed restrictions.

In fiscal year 2019, the University adopted ASU No. 2016-14, *Presentation of Financial Statements for Not-for-Profit Entities*. ASU 2016-14 provides for additional disclosure requirements and modifies net asset reporting. The statement requires the University to reclassify its net assets from three categories (unrestricted, temporarily restricted and permanently restricted) into two categories: net assets without donor restrictions and net assets with donor restrictions. It also requires enhanced disclosures about the governing board designations, composition of net assets with donor restrictions, the University's liquidity, and expenses by both their natural and functional classification.

As a result of implementing ASU 2016-14, the beginning 2018 net assets without donor restrictions, were previously reported as unrestricted net assets, and net assets with donor restrictions, were previously reported as temporarily restricted net assets of \$8,692 and permanently restricted net assets of \$15,438. The ending 2018 net assets were reclassified as noted below:

<u>Net assets classifications</u>	<u>ASU 2016-14 Classifications</u>		
	<u>Without donor restrictions</u>	<u>With donor restrictions</u>	<u>Total net assets</u>
As previously reported, June 30, 2018:			
Unrestricted	\$ 29,218	—	29,218
Temporarily restricted	—	8,692	8,692
Permanently restricted	—	15,438	15,438
Net assets as previously presented	29,218	24,130	53,348
Reclassifications to implement ASU 2016-14:			
Underwater endowments	4	(4)	—
Net assets, as reclassified, June 30, 2018	<u>\$ 29,222</u>	<u>24,126</u>	<u>53,348</u>

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Notes to Financial Statements

June 30, 2019 and 2018

(Dollars in thousands)

Revenues are reported as increases in net assets without donor restrictions unless use of the related assets is limited by donor-imposed restrictions. Expenses are reported as decreases in net assets without donor restrictions. Gains and losses on investments and other assets or liabilities, if any, are reported as increases or decreases in net assets without donor restrictions 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. Gifts of long-lived assets are considered unrestricted support.

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

Nonoperating activity includes changes in the interest rate swap, loss on disposal of property, plant and equipment, loss on refinancing and investment returns and other activities related to endowment utilized for long-term purposes.

(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, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statements 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 adjusted 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

For the purpose of the statements of cash flows, 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.

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Notes to Financial Statements

June 30, 2019 and 2018

(Dollars in thousands)

(e) Investments

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

(f) Student Tuition and Fees

Student tuition and fees are recorded net of University funded student aid and externally funded student aid. Total University funded and externally funded student aid for the years ended June 30, 2019 and 2018 was \$15,947 and \$12,795, respectively.

(g) Property, Plant and Equipment

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 statements of activities.

The University recognizes the fair value of a liability for legal obligations associated with asset retirements in the period in which the obligation is incurred, if a reasonable estimate of the fair value of the obligation can be made. When the liability is initially recorded, the University capitalizes the cost of the asset retirement obligation by increasing the carrying amount of the related long-lived asset. The liability is accreted to its present value each period, and the capitalized cost associated with the retirement obligation is depreciated over the useful life of the related asset. Upon settlement of the obligation, any difference between the cost to settle the asset retirement obligation and the liability recorded is recognized as a gain or loss in the statement of activities.

(h) Student Deposits

Student deposits along with advance payments for tuition, room, and board related to the next term have been deferred and will be reported as revenue without donor restrictions in the year in which the term is completed.

(i) Other Liabilities

Other liabilities include the value of the Asset Retirement Liability outlined in note 8 and vendor advances of \$1,584 and \$1,144 as of June 30, 2019 and 2018 respectively. These advances are subject to annual forgiveness during the contract period. Forgiveness of \$560 in 2019 and \$392 in 2018 related to vendor advances is reported as other income.

(j) Bond Issuance Costs

Bond issuance costs are amortized using the straight line method over the life of the associated bond issue.

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Notes to Financial Statements

June 30, 2019 and 2018

(Dollars in thousands)

(k) 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.

(l) Functional Allocation of Expenses

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

(m) Use of Estimates

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

(n) Recent Accounting Pronouncements

In February 2016, the FASB issued ASU 2016-02, *Leases* (Topic 842). The new standard impacts accounting and disclosure of leases such that the University will need to recognize a right-of-use asset and a lease liability for virtually all of its leases (other than leases that meet the definition of a short-term lease). Operating leases will result in straight-line expense (similar to current operating leases) while finance leases will result in a front-loaded expense pattern (similar to current capital leases). The standard is effective for fiscal years beginning after December 15, 2019. The University has not determined the impact to the financial statements beginning in Fiscal Year 2021.

In May 2014, the FASB issued ASU 2014-09, *Revenue from Contracts with Customers*, effective for the fiscal year ending June 30, 2020. The new standard clarifies the timing of revenue recognition from contracts with customers and provides for enhanced disclosures of the nature, amount, timing, uncertainty and cash flow arising from contracts with customers. The University is evaluating the impact on the notes to the financial statements but does not anticipate any other impact.

In June 2018, the FASB issued ASU 2018-08, *Clarifying the Scope and Accounting Guidance for Contributions Received and Contributions Made*, effective for the fiscal year end June 30, 2020. The new standard clarifies the definition of a contribution, including classification as conditional and/or restricted and clarifies the timing of revenue recognition of the same. The University does not anticipate any impact on the financial statements.

(o) Reclassifications

Certain reclassifications were made to the 2018 financial statements to conform to the 2019 presentation.

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Notes to Financial Statements

June 30, 2019 and 2018

(Dollars in thousands)

(3) Liquidity and Availability of Resources

As of June 30, 2019, the following financial assets could readily be made available within one year of the balance sheet date to meet general expenditures:

Cash and cash equivalents	\$	5,678
Accounts receivable, net		3,406
Subsequent year's endowment appropriation		1,166
Pledge receivables		<u>276</u>
	\$	<u>10,526</u>

The University regularly monitors liquidity required to meet its operating needs while striving to maximize the investment of its available funds. For purposes of analyzing resources available to meet general expenditures over a 12-month period, the University considers all expenditures related to its mission and related activities, as well as the services to support those activities, to be general expenditures.

In addition to financial assets available to meet general expenditures over the next 12 months, the University operates with a balanced budget and anticipates collecting sufficient revenue to cover general expenditures not covered by donor-restricted resources. The University's revenues are well diversified and consisted of the following for the year ended June 30, 2019: 30% from undergraduate revenues, 22% from graduate revenues, 22% from sales and services of education departments, 17% from pharmacy revenues, 6% from physician's assistant revenues and 3% as other. Refer to the statement of cash flows, which identifies the sources and uses of the University's cash, and shows positive cash provided by operating activities for fiscal years 2019 and 2018.

The University has various sources of liquidity at its disposal, including a line of credit. See note 9c for information about the University's line of credit.

The University's Board of Trustees has designated a portion of its resources without donor restrictions for endowment and other purposes. These funds remain available and may be spent at the discretion of the board. At June 30, 2019, the following amounts were designated for specific purposes by the board:

Board designated endowment funds	\$	12,032
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The University's Board of Trustees approves an annual distribution from the endowment fund to support operations (see note 7). The Board of Trustees has the authority to approve additional distributions if needed. The excess of historical investment returns over the distribution amount is classified as net assets with donor restrictions in note 7.

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Notes to Financial Statements

June 30, 2019 and 2018

(Dollars in thousands)

(4) Accounts and Loans Receivable

Accounts and loans receivable consist of the following at June 30:

	2019	2018
Student accounts receivable	\$ 1,784	1,508
Perkins loans receivable	468	530
Gengras Center receivables	756	612
Grants and other receivables	912	1,298
Less allowance for doubtful accounts	(514)	(410)
Net accounts and loans receivable	\$ 3,406	3,538

(5) Pledges Receivable

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

	2019	2018
Amounts due in:		
Less than one year	\$ 415	887
One to five years	63	134
Greater than five years	1,912	1,982
Gross pledges receivable	2,390	3,003
Less:		
Allowance for uncollectible pledges	(263)	(801)
Discount to present value	(1,074)	(1,086)
Net pledges receivable	\$ 1,053	1,116

Pledges recorded at June 30, 2019 and 2018 are discounted at rates ranging from 3.83% to 4.15%.

At June 30, 2019, the University had received conditional promises to give of \$1,681. These promises to give are not recognized as assets until such time as the conditions have been met.

Fundraising expenses for the years ended June 30, 2019 and 2018 totaling \$964 and \$996, respectively, have been classified as institutional support expenses in the statement of activities.

(6) Fair Value

The carrying values of the University's cash and cash equivalents, receivables, other assets, accounts payable and accrued liabilities, and deposits and deferred revenues approximate 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. Fair value represents the price that would be received upon the sale of

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Notes to Financial Statements

June 30, 2019 and 2018

(Dollars in thousands)

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 University has no Level 3 investments.

Investments are reported at estimated fair value. 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. Shares in mutual funds are based on share prices reported by the funds as of the last business day of the fiscal year.

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 level in the fair value hierarchy within which a fair measurement in its entirety falls is based on the lowest level input that is significant to the fair value measurement in its entirety.

The University's assets and liabilities at June 30, 2019 that are reported at fair value are summarized in the following table by their fair value hierarchy:

	<u>Level 1</u>	<u>Level 2</u>	<u>Total</u>	<u>Redemption frequency</u>	<u>Days notice</u>
Assets:					
Investments:					
Cash and cash equivalents	\$ 2,403	—	2,403	Daily	1
Domestic equities	5,075	—	5,075	Daily	1
International equities	1,090	—	1,090	Daily	1
Equity funds:					
Large cap	4,496	—	4,496	Daily	1
International	8,092	—	8,092	Daily	1
Fixed income funds	8,439	—	8,439	Daily	1
Real return funds	5,016	—	5,016	Daily	1
	<u>34,611</u>	<u>—</u>	<u>34,611</u>		
Total investments	\$ <u>34,611</u>	<u>—</u>	<u>34,611</u>		
Liabilities:					
Interest rate swap agreements	\$ —	3,277	3,277		

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Notes to Financial Statements

June 30, 2019 and 2018

(Dollars in thousands)

The University's assets and liabilities at June 30, 2018 that are reported at fair value are summarized in the following table by their fair value hierarchy:

	<u>Level 1</u>	<u>Level 2</u>	<u>Total</u>	<u>Redemption frequency</u>	<u>Days notice</u>
Assets:					
Investments:					
Cash and cash equivalents	\$ 2,185	—	2,185	Daily	1
Domestic equities	4,880	—	4,880	Daily	1
International equities	988	—	988	Daily	1
Equity funds:					
Large cap	4,240	—	4,240	Daily	1
International	7,659	—	7,659	Daily	1
Fixed income funds	8,449	—	8,449	Daily	1
Real return funds	4,888	—	4,888	Daily	1
Total investments	\$ <u>33,289</u>	<u>—</u>	<u>33,289</u>		
Liabilities:					
Interest rate swap agreement	\$ <u>—</u>	<u>93</u>	<u>93</u>		

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

	<u>2019</u>	<u>2018</u>
Investment return:		
Investment income, net of investment expenses	\$ 813	637
Net realized gains on sale of securities	245	468
Net unrealized gains on securities	101	502
Total return on investments	1,159	1,607
Endowment spending used in operations	<u>(1,124)</u>	<u>(550)</u>
Reinvested investment return	\$ <u>35</u>	<u>1,057</u>

(7) Endowment Funds

The University's endowment consists of approximately 208 individual funds established for a variety of purposes, including both donor-restricted endowment funds and funds designated by the University to function as endowments (quasi-endowment).

The University manages its long-term investments in accordance with the total return concept and the goal of maximizing long-term return within acceptable levels of risk. The University's spending policy is designed to provide a stable level of financial support and to preserve the real value of its endowment. The University compares the performance of its investments against several benchmarks.

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Notes to Financial Statements

June 30, 2019 and 2018

(Dollars in thousands)

The University's annual spending distribution rate is determined by applying a spending formula outlined in the Endowment Spending Policy. The spending formula is the lesser of 5% or the actual total return generated by the portfolio over the prior three years, net of inflation for the same period. The spending rate is then applied to the average of the quarterly portfolio market values for the previous three fiscal years to determine the total spending amount. The spending total is allocated to the individual funds on a unit basis. In fiscal years 2019 and 2018, the spending rate was 5% and 2.5%, respectively.

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 permanent endowment (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.

The remaining portion of the donor-restricted endowment fund that is not classified as permanent endowment is classified as temporary endowment until those amounts are appropriated for expenditure by the University in a manner consistent with the standard prudence prescribed by 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) possible effect of inflation and deflation, (5) the expected total return from income and the appreciation of investments, (6) other resources of the University, and (7) the investment policies of the University.

Endowment net assets consisted of the following at June 30, 2019 and 2018:

	2019		
	Without donor restrictions	With donor restrictions	Total
Donor restricted	\$ —	22,749	22,749
Quasi (board designated)	12,032	—	12,032
Total	<u>\$ 12,032</u>	<u>22,749</u>	<u>34,781</u>

	2018		
	Without donor restrictions	With donor restrictions	Total
Donor restricted	\$ —	21,581	21,581
Quasi (board designated)	11,938	—	11,938
Total	<u>\$ 11,938</u>	<u>21,581</u>	<u>33,519</u>

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Notes to Financial Statements

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(Dollars in thousands)

Changes in endowment net assets for the fiscal years ended June 30, 2019 and 2018 were as follows:

	2019		
	Without donor restrictions	With donor restrictions	Total
Net assets June 30, 2018	\$ 11,938	21,581	33,519
Investment return	406	741	1,147
Contributions	69	1,157	1,226
Distributions	(381)	(730)	(1,111)
Net assets June 30, 2019	<u>\$ 12,032</u>	<u>22,749</u>	<u>34,781</u>
	2018		
	Without donor restrictions	With donor restrictions	Total
Net assets June 30, 2017	\$ 8,548	20,162	28,710
Investment return	397	1,177	1,574
Contributions	3,176	578	3,754
Distributions	(183)	(336)	(519)
Net assets June 30, 2018	<u>\$ 11,938</u>	<u>21,581</u>	<u>33,519</u>

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below their original contributed value. Deficiencies of this nature are reported in net assets with donor restrictions and aggregated \$4 as of June 30, 2019 and 2018, respectively. These deficiencies resulted from unfavorable market fluctuations that occurred after the investment of new permanently restricted contributions.

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(8) Property, plant and equipment

Property, plant and equipment assets consisted of the following at June 30:

	<u>2019</u>	<u>2018</u>	<u>Estimated useful lives</u>
Land	\$ 2,523	2,523	—
Land improvements	7,980	5,157	10–39 years
Leasehold improvements	2,479	2,479	10–30 years
Buildings and building improvements	64,882	62,983	10–45 years
Furniture and equipment	26,020	25,969	3–10 years
Construction in progress	2,423	2,224	—
	<u>106,307</u>	<u>101,335</u>	
Less accumulated depreciation	<u>(58,484)</u>	<u>(55,298)</u>	
	<u>\$ 47,823</u>	<u>46,037</u>	

Depreciation expense for the years ended June 30, 2019 and 2018 amounted to \$4,197 and \$4,164, respectively.

As of June 30, 2019 and 2018, the University had assets under capital lease of \$360 with related accumulated depreciation of \$90 and \$45, respectively. These assets are included in furniture and equipment above.

Costs related to legal obligations to perform certain activities in connection with the retirement, disposal, or abandonment of assets are required to be accrued. The University has identified asbestos abatement as a conditional asset retirement obligation. Asbestos abatement costs were estimated using a per square foot estimate. At June 30, 2019 and 2018, the balance in the asset retirement obligation (included in other liabilities) was \$1,944 and \$1,906, respectively.

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(9) Bonds Payable and Line of Credit

(a) Bonds Payable

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

	2019	2018
Connecticut Health and Educational Facilities Authority (CHEFA):		
Series C bonds, face amount, \$10,800 issued in November 2013, due 2038 with variable interest rate of 1.099% at June 30, 2019 plus 1.75%	\$ 9,058	9,394
Series D bonds, face amount, \$10,800 issued in November 2013, due 2043 with a fixed interest rate of 3.50% through 2028	9,427	9,708
Series E bonds, face amount, \$30,000 issued in December 2018, due 2048 with variable interest rate of 1.57% at June 30, 2019 plus 1.65%. Repayment of principal commencing in 2021.	5,459	—
Non-revolving Credit Note, face amount \$5,000 issued in April 2018, with a fixed interest of 4.72%, refinanced with Series E bonds.	—	368
	23,944	19,470
Unamortized discount and debt issuance costs	(827)	(330)
Total	\$ 23,117	19,140

In November 2013, the University issued CHEFA Series C bonds in the amount of \$10,800. The proceeds were used to (a) refund a portion of the CHEFA Series B bonds; (b) purchase a vacant lot adjacent to the University campus; (c) fund the interest rate swap termination fee associated with the CHEFA Series B bonds; and (d) pay cost of issuance fees with respect to the bonds. The bonds are secured by a pledge of gross receipts of the University.

On October 11, 2013, the University entered into an interest rate swap in the amount of \$10,800 with an effective date of November 1, 2013 to November 1, 2023 for the CHEFA Series C bonds. The interest rate swap agreement was not entered into for trading or speculative purposes. The purpose of the swap was to effectively fix the variable rate, 68% of 30 day LIBOR plus 1.75%, to an interest rate of 3.25%. The fair value of the interest rate swap was as a liability of \$340 and \$93 for the years ended June 30, 2019 and 2018, respectively, due to low market interest rates. If held to maturity, the value of the swap on November 1, 2023 will be zero.

In November 2013, the University issued CHEFA Series D bonds in the amount of \$10,800. The proceeds were used to (a) refund a portion of the outstanding principal of the CHEFA Series B bonds; (b) purchase a vacant lot adjacent to the University campus; (c) partially fund the construction of the

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Center for Applied Research and Education (CARE) facility; and (d) pay cost of issuance fees with respect to the bonds. The bonds are secured by a pledge of gross receipts of the University.

In December 2018, the University issued CHEFA Series E bonds in the amount of \$30,000. The proceeds will be used to (a) fund the construction and renovation of the student center, (b) fund the construction of an addition and expansion of the athletic center, (c) fund the construction and renovation of a turf athletic field, (d) refinancing \$3,912 of the amount outstanding on the \$5,000 bridge loan which provided funds for the renovation of certain residence halls and costs of improvements of the electrical infrastructure and (e) pay cost of issuance fees of \$512 with respect to the bonds. The bonds are secured by a pledge of gross receipts of the University. The University has chosen to draw down the debt as needed to fund the appropriate capital expenditures. Monthly interest only payments beginning January 1, 2019 at a floating rate of 78.7% of 30-day LIBOR plus 1.65% through December 1, 2020. Monthly principle and interest payments beginning December 1, 2020 through December 1, 2033 at a floating rate of 78.7% of 30-day LIBOR plus 1.65%. Final maturity of Series E is on December 1, 2048.

On December 6, 2018, the University entered into an interest rate swap in the amount of \$30,000 with an effective date of December 1, 2020 to December 1, 2033 for the CHEFA Series E bonds. The interest rate swap agreement was not entered into for trading or speculative purposes. The purpose of the swap was to effectively fix the variable rate, 78.7% of 30 day LIBOR plus 1.30%, to an interest rate of 3.81%. The fair value of the interest rate was a liability of \$2,937 for the year ended June 30, 2019 due to low market interest rates. If held to maturity, the value of the swap on December 1, 2033 will be zero. The change in fair value of the interest rate swaps are reflected separately as a nonoperating activity on the statement of activities.

Under the bond agreement with CHEFA and a line of credit agreement with a bank, the University has agreed to certain financial covenants. The University has met its financial covenants as of June 30, 2019.

Bond cost amortization expenses charged to operations in fiscal 2019 and 2018 was \$15 and \$14 respectively.

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

Year ending June 30:		
2020	\$	636
2021		660
2022		683
2023		707
2024		730
Thereafter		<u>20,528</u>
Total	\$	<u><u>23,944</u></u>

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The University determined that the carrying value of its long-term debt approximated its fair value as of June 30, 2019 and 2018, respectively.

(b) Note Payable

On April 10, 2018, the University closed on a Credit Agreement which includes an interest only 4.72% annual fixed rate NonRevolving Credit Note in the amount of \$5,000 with a maturity date of April 5, 2020. Commencing on May 1, 2020 the agreement provides for a twenty five (25) year repayment of principal and interest. This funding was restricted to support capital project expenditures. The balance of \$3,912 as of December 2018 was refinanced as part of the CHEFA Series E issuance.

(c) Short-Term Line of Credit

In November 2013, the University secured a revolving line of credit with Berkshire Bank for \$3,500. The line of credit was most recently amended in December 2018 with a maturity date of December 31, 2021. Borrowings under the line bear interest at Prime or LIBOR plus 1.75% (4.15% at June 30, 2019). There were no outstanding borrowings against the line at June 30, 2019 and June 30, 2018.

(10) Capital Lease Obligations

The University has entered into various capital lease agreements to lease academic and administrative computing equipment.

Future minimum lease payments for these lease obligations are as follows:

Year ending June 30:		
2020	\$	98
2021		98
2022		16
		<hr/>
		212
Less portion representing interest		<hr/>
		(10)
Present value of net minimum lease payments	\$	<hr/> <hr/>
		202

(11) Operating Leases

The University leases various office equipment, vehicles and other equipment under operating leases. Rent expense under operating leases was \$100 and \$68 in fiscal 2019 and 2018, respectively.

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

Year ending June 30:			
2020	\$	243	
2021		54	
2022		14	
2023		2	
		313	
	\$	313	

The University has an agreement with the Town of West Hartford to lease a building and certain town property for the operation of the School for Young Children. The lease expires on July 31, 2047 and may be terminated by the University at any time before the end of the lease. Rent is payable in amounts of one dollar per year. The lease is contingent upon the University continuing to operate a comprehensive integrated child development and family support services program within the facility.

(12) Pension Plan

The University maintains a defined contribution retirement program with the Teachers Insurance and Annuity Association – College Retirement Equities Fund (TIAA/CREF). The University generally contributes 11% of salaries, as defined, for both nonexempt participating employees and for exempt participating employees, as defined. 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, 2019 and 2018 was \$2,686 and \$2,585, respectively.

(13) Net Assets with Donor Restrictions

Net assets with donor restrictions as of June 30 consisted of:

		2019	2018
With donor restrictions, net assets:			
Time restricted promises to give	\$	960	995
Use of restricted temporary endowment and one time gifts:			
Library and lectures		1,236	1,209
Scholarships		3,237	3,373
Capital		412	266
Other		3,360	2,845
Permanent endowment:			
Scholarships		13,612	12,129
General university support		2,983	3,309
Total	\$	25,800	24,126

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(14) Net Assets Released from Restrictions

Temporarily restricted endowment distributions and one time restricted contributions were released from net assets with donor restrictions by incurring expenses satisfying the restricted purpose specified by the donor. For the years ended June 30, 2019 and 2018, net assets released from restriction were as follows:

	<u>2019</u>	<u>2018</u>
Student aid, support and services	\$ 975	552
Capital	54	24
Total	\$ <u>1,029</u>	<u>576</u>

(15) Functional and Natural Classification of Expenses

	<u>Salaries and wages</u>	<u>Benefits</u>	<u>Capital related costs</u>	<u>All other</u>	<u>Total expenses</u>
Instructional	\$ 16,705	3,782	3,351	2,476	26,314
Public service	7,376	1,970	998	1,209	11,553
Academic support	2,058	954	1,066	778	4,856
Student services	3,479	1,008	1,001	149	5,637
Auxiliary services	318	108	4,343	3,459	8,228
Institutional support and other expenses	4,422	2,181	979	2,346	9,928
2019 total expenses	\$ <u>34,358</u>	<u>10,003</u>	<u>11,738</u>	<u>10,417</u>	<u>66,516</u>
2018 total expenses	\$ <u>33,063</u>	<u>9,755</u>	<u>11,382</u>	<u>9,248</u>	<u>63,448</u>

Certain expenses are attributable to more than one program or supporting function. These expenses are allocated consistently on the following bases: Depreciation and utilities are allocated based on square-footage used by each function. Interest is allocated to programs and support based on the related debt. Benefits are allocated based on headcount. Capital related costs include depreciation, interest, utilities and rents.

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(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.

In the ordinary course of business, the University is involved in various claims and litigation. Adequate provision has been made in the financial statements for these matters. The ultimate outcome is not expected to have a material effect on the University's financial position. Legal counsel currently expresses no opinion on the outcome of these matters.

(17) 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. These financial statements were issued on October 28, 2019 and subsequent events have been evaluated through that date.