KPMG

UNIVERSITY OF SAINT JOSEPH

Financial Statements

June 30, 2018 and 2017

(With Independent Auditors’ Report Thereon)

UNIVERSITY OF SAINT JOSEPH

Financial Statements

June 30, 2018 and 2017

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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:

Report on the Financial Statements

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, 2018 and 2017, 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 the University of Saint Joseph as of June 30, 2018 and 2017, and the results of its operations and its cash flows for the years then ended in accordance with U.S. generally accepted accounting principles.

KPMG LLP

Hartford, Connecticut
October 26, 2018

UNIVERSITY OF SAINT JOSEPH

Statements of Financial Position

June 30, 2018 and 2017

(Dollars in thousands)

Assets		**2018**	**2017**
Cash and cash equivalents	$	278	475
Accounts and loans receivable, net (note 3)		3,538	2,687
Pledges receivable, net (note 4)		1,116	1,082
Other assets		365	568
Investments (note 5)		33,289	28,627
Investment in plant, net (note 7)		46,037	46,024
Total assets	$	84,623	79,463
Liabilities			
Accounts payable and accrued expenses	$	3,906	4,046
Deposits and deferred revenue		4,446	3,721
Other liabilities		3,050	3,708
Capital lease obligation (notes 7 and 9)		290	26
Bonds and loans payable (note 8)		19,233	20,463
Government grants refundable		350	350
Total liabilities		31,275	32,314
Commitments and contingencies (note 14)			
Net Assets			
Unrestricted		29,218	24,603
Temporarily restricted (note 12)		8,692	7,744
Permanently restricted (note 12)		15,438	14,802
Total net assets		53,348	47,149
Total liabilities and net assets	$	84,623	79,463

See accompanying notes to financial statements.

UNIVERSITY OF SAINT JOSEPH

Statement of Activities

Year ended June 30, 2018

(Dollars in thousands)

	Unrestricted	Temporarily unrestricted	Permanently restricted	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 13)	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 5)	210	847	—	1,057
Change in fair value of interest rate swap	311	—	—	311
Change in net assets	4,615	948	636	6,199
Net assets, beginning of year	24,603	7,744	14,802	47,149
Net assets, end of year	$ 29,218	8,692	15,438	53,348

See accompanying notes to financial statements.

UNIVERSITY OF SAINT JOSEPH

Statement of Activities

Year ended June 30, 2017

(Dollars in thousands)

	Unrestricted	Temporarily unrestricted	Permanently restricted	Total
Operating activities:				
Revenues:				
Tuition and fees, net	$ 42,012	—	—	42,012
Grant and contract income	2,305	—	—	2,305
Contributions	1,037	450	—	1,487
Endowment spending used in operations (note 6)	256	674	—	930
Residence and dining	2,623	—	—	2,623
Other auxiliary services	362	—	—	362
Sales and services of education departments	13,765	—	—	13,765
Other revenues	601	—	—	601
Net assets released from restrictions (note 13)	1,168	(1,168)	—	—
Total revenues from operations	64,129	(44)	—	64,085
Expenses:				
Instructional	24,703	—	—	24,703
Public service	10,706	—	—	10,706
Academic support	5,382	—	—	5,382
Student services	4,601	—	—	4,601
Auxiliary services	7,452	—	—	7,452
Institutional support and other expenses	8,537	—	—	8,537
Total expenses	61,381	—	—	61,381
Increase (decrease) in net assets from operating activities	2,748	(44)	—	2,704
Nonoperating activities:				
Contributions restricted for long term investment	—	—	534	534
Net return on long-term investments, net of amounts used in operations (note 5)	706	1,474	—	2,180
Change in fair value of interest rate swap	476	—	—	476
Change in net assets	3,930	1,430	534	5,894
Net assets, beginning of year	20,673	6,314	14,268	41,255
Net assets, end of year	$ 24,603	7,744	14,802	47,149

See accompanying notes to financial statements.

UNIVERSITY OF SAINT JOSEPH

Statements of Cash Flows

June 30, 2018 and 2017

(Dollars in thousands)

		2018	2017
Cash flows from operating activities:			
Change in net assets	$	6,199	5,894
Adjustments to reconcile change in net assets to net cash provided by operating activities:			
Depreciation and amortization		4,258	4,148
Change in interest rate swap value and change in discounts		(680)	(822)
Net unrealized and realized gains on investments		(970)	(2,623)
Provision for bad debts		617	389
Loss on disposal of assets		—	175
Contributions restricted for long-term investment		(636)	(534)
Change in accounts and loans receivable		(1,448)	(350)
Change in pledges receivable		(48)	153
Change in other assets		203	(137)
Change in accounts payable and accrued expenses		(1,384)	(608)
Change in deposits and deferred revenue		725	419
Net cash provided by operating activities		6,836	6,104
Cash flows from investing activities:			
Proceeds from contributions restricted for long-term investment		636	534
Purchases of plant and equipment		(2,939)	(5,361)
Proceeds from maturities and sale of investments		8,282	3,859
Purchases of investments		(11,974)	(4,182)
Net cash used in investing activities		(5,995)	(5,150)
Cash flows from financing activities:			
Proceeds from borrowing		9,736	5,305
Principal payments on bonds and loans payable		(1,310)	(1,290)
Principal payments on short-term line of credit		(9,368)	(5,382)
Payments on capital lease obligations		(96)	(116)
Change in deposit with bond trustee		—	333
Net cash used in financing activities		(1,038)	(1,150)
Net change in cash and cash equivalents		(197)	(196)
Cash and cash equivalents at beginning of year		475	671
Cash and cash equivalents at end of year	$	278	475
Supplemental data:			
Cash paid during the year for interest	$	701	726
Change in accounts payable related to purchases of plant and equipment		(1,244)	226
Fixed assets acquired through capital lease		360	—

See accompanying notes to financial statements.

(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. Accordingly, net assets and changes therein are classified as follows:

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

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

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

Revenues are reported as increases in unrestricted net assets unless use of the related assets is limited by donor-imposed restrictions. Expenses are reported as decreases in unrestricted net assets. Gains and losses on investments and other assets or liabilities, if any, are reported as increases or decreases in unrestricted net assets unless their use is restricted by explicit donor stipulation or by law. Expirations of temporary restrictions on net assets (i.e., the donor-restricted purpose has been fulfilled and/or the stipulated time period has elapsed) are reported as net assets released from restrictions. 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 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, temporarily restricted net assets are reclassified to unrestricted net assets 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.

(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, 2018 and 2017 was $12,795 and $12,860, respectively.

(g) Investment in Plant

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

(Continued)

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) Bond Issuance Costs

Bond issuance costs are amortized using the effective interest method over the life of the associated bond issue.

(i) 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 unrestricted revenue in the year in which the term is completed.

(j) Other Liabilities

Other liabilities include the value of the Asset Retirement Liability outlined in note 7 and vendor advances of $1,143 and $1,535 as of June 30, 2018 and 2017 respectively. These advances are subject to annual forgiveness during the contract period. Forgiveness of $392 in 2018 and $391 in 2017 related to vendor advances is reported as other income.

(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.

On December 22, 2017, the President signed into law H.R. 1, originally known as the Tax Cuts and Jobs Act. The new law includes several provisions that result in substantial changes to the tax treatment of tax-exempt organizations and their donors. The University has reviewed these provisions and the potential impact and concluded the enactment of H.R. 1 will not have a material effect on the operations of the organization.

(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.

(Continued)

(Dollars in thousands)

(m) Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles in the United States of America 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) Reclassifications

Certain prior year amounts have been reclassified for consistency with the current year presentation. These reclassifications had no effect on the statement of activities. The statement of cash flows reflects the changes in the new categories. Reclassification on the statement of financial position have been made to report $2,173 asset retirement obligations with other liabilities and $404 interest rate swap with bonds and loans payable both were previously reported in accounts payable. In addition, a reclassification has been made to report $1,535 of vendor advances previously included in deferred revenues with other liabilities.

	June 30, 2017	
	Reported	**Reclassified**
Accounts payable and accrued expenses	6,623	4,046
Deposits and deferred liabilities	5,256	3,721
Other liabilities	—	3,708
Bonds and loans payable	20,059	20,463
	31,938	31,938

(o) Recent Accounting Pronouncements

In August 2016, the FASB issued ASU 2016-14, *Presentation of Financial Statements for Not-for-Profit Entities*. The new pronouncement amends certain financial reporting requirements for not-for-profit entities, including revisions to the classification of net assets and expanded disclosure requirements concerning expenses and liquidity. The standard is effective for fiscal years beginning after December 15, 2017. The University is evaluating the impact this will have on the financial statements beginning in Fiscal Year 2019.

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.

(Continued)

(Dollars in thousands)

(3) Accounts and Loans Receivable

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

		2018	2017
Student accounts receivable	$	1,508	748
Perkins loans receivable		530	483
Gengras Center receivables		612	455
Grants and other receivables		1,298	1,165
Less allowance for doubtful accounts		(410)	(164)
Net accounts and loans receivable	$	3,538	2,687

(4) Pledges Receivable

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

		2018	2017
Amounts due in:			
Less than one year	$	887	931
One to five years		134	43
Greater than five years		1,982	1,933
Gross pledges receivable		3,003	2,907
Less:			
Allowance for uncollectible pledges		(801)	(801)
Discount to present value		(1,086)	(1,024)
Net pledges receivable	$	1,116	1,082

Pledges recorded at June 30, 2018 and 2017 are discounted at rates ranging from 1.72% to 3.83%.

At June 30, 2018, the University had received conditional promises to give of $1,927. 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, 2018 and 2017 totaling $966 and $1,044, respectively, have been classified as institutional support expenses in the statement of activities.

(Continued)

(5) 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 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.

(Dollars in thousands)

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

		Level 1	Level 2	Total	Redemption frequency	Days notice
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	$	33,289	—	33,289		
Liabilities:						
Interest rate swap agreement	$	—	93	93		

The University's assets and liabilities at June 30, 2017 that are reported at fair value are summarized in the following table by their fair value hierarchy:

		Level 1	Level 2	Total	Redemption frequency	Days notice
Assets:						
Investments:						
Cash and cash equivalents	$	1,792	—	1,792	Daily	1
Domestic equities		4,655	—	4,655	Daily	1
International equities		257	—	257	Daily	1
Equity funds:						
Large cap		3,607	—	3,607	Daily	1
International		6,988	—	6,988	Daily	1
Fixed income funds		7,078	—	7,078	Daily	1
Real return funds		4,250	—	4,250	Daily	1
Total investments	$	28,627	—	28,627		
Liabilities:						
Interest rate swap agreement	$	—	404	404		

(Continued)

(Dollars in thousands)

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

		2018	2017
Investment return:			
Investment income, net of investment expenses	$	637	487
Net realized gains on sale of securities		468	495
Net unrealized gains on securities		502	2,128
Total return on investments		1,607	3,110
Amount appropriated for operations		(550)	(930)
Reinvested investment return	$	1,057	2,180

(6) Endowment Funds

The University's endowment consists of approximately 200 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.

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 2018 and 2017, the spending rate was 2.5% and 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 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.

The remaining portion of the donor-restricted endowment fund that is not classified as permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the University in a manner consistent with the standard prudence prescribed by 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

(Continued)

(Dollars in thousands)

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, 2018 and 2017:

	2018			
	Unrestricted	**Temporarily restricted**	**Permanently restricted**	**Total**
Donor restricted	$ (4)	6,251	15,334	21,581
Quasi (board designated)	11,938	—	—	11,938
Total	$ 11,934	6,251	15,334	33,519

	2017			
	Unrestricted	**Temporarily restricted**	**Permanently restricted**	**Total**
Donor restricted	$ (3)	5,406	14,756	20,159
Quasi (board designated)	8,551	—	—	8,551
Total	$ 8,548	5,406	14,756	28,710

Changes in endowment net assets for the fiscal years ended June 30, 2018 and 2017 were as follows:

	2018			
	Unrestricted	**Temporarily restricted**	**Permanently restricted**	**Total**
Net assets June 30, 2017	$ 8,548	5,406	14,756	28,710
Investment return	345	726	—	1,071
Unrealized gains	48	455	—	503
Transfers	3,176	—	—	3,176
Contributions	—	—	578	578
Distributions	(183)	(336)	—	(519)
Net assets June 30, 2018	$ 11,934	6,251	15,334	33,519

(Continued)

(Dollars in thousands)

	2017			
	Unrestricted	**Temporarily restricted**	**Permanently restricted**	**Total**
Net assets June 30, 2016	$ 7,662	3,913	14,214	25,789
Investment return	338	715	—	1,053
Unrealized gains	641	1,484	—	2,125
Transfers	28	(28)	—	—
Contributions	152	—	542	694
Distributions	(273)	(678)	—	(951)
Net assets June 30, 2017	$ 8,548	5,406	14,756	28,710

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 unrestricted net assets and aggregated $4 and $3 as of June 30, 2018 and 2017, respectively. These deficiencies resulted from unfavorable market fluctuations that occurred after the investment of new permanently restricted contributions. Subsequent gains that restore the fair value of the assets of the endowment fund to the required level are classified as an increase in unrestricted net assets.

(7) Investment in Plant

Plant assets consist of the following at June 30:

	2018	**2017**	**Estimated useful lives**
Land	$ 2,523	2,523	—
Land improvements	5,157	5,150	10–39 years
Leasehold improvements	2,479	2,479	10–30 years
Buildings and building improvements	62,983	62,346	10–45 years
Furniture and equipment	25,969	24,719	3–10 years
Construction in progress	2,224	78	—
	101,335	97,295	
Less accumulated depreciation	(55,298)	(51,271)	
	$ 46,037	46,024	

Depreciation expense for the years ended June 30, 2018 and 2017 amounted to $4,164 and $4,057, respectively.

As of June 30, 2018 and 2017, the University had assets under capital lease of $360 and $301, respectively, with related accumulated depreciation of $45 and $188, respectively. These assets are included in furniture and equipment above.

(Continued)

(Dollars in thousands)

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, 2018 and 2017, the balance in the asset retirement obligation (included in other liabilities) was $1,906 and $2,173, respectively.

(8) Bonds Payable and Line of Credit

(a) Bonds Payable

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

		2018	2017
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 1.501% at June 30, 2018	$	9,394	9,719
Series D bonds, face amount, $10,800 issued in November 2013, due 2043 with a fixed rate of 3.50% through 2028		9,708	9,980
Easy Loan program, face amount $5,000 issued in August 2011, due 2018 with a fixed rate of 2.81%		—	714
Nonrevolving Credit Note, face amount $5,000 issued in April 2018, with repayment of principal and interest commencing in 2020 with a fixed rate of 4.72% through 2045.		368	—
		19,470	20,413
Interest rate swap, effective November 2013 to November 2023 related to Series C bonds with a fixed rate of 3.25% through 2023		93	404
Unamortized discount and debt issuance costs		(330)	(354)
Total	$	19,233	20,463

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.

(Dollars in thousands)

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 1.19%, to an interest rate of 3.25%.

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 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.

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, 2018.

Bond cost amortization expenses charged to operations in fiscal 2018 and 2017 was $14 and $15, 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:		
2019	$	617
2020		639
2021		668
2022		691
2023		715
Thereafter		16,140
Total	$	19,470

The University determined that the carrying value of its long-term debt approximated its fair value as of June 30, 2018 and 2017, respectively.

(b) Loans and Notes 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 is restricted to support capital project expenditures. The loan is secured by a lien and security interest in the University’s gross receipts.

(Dollars in thousands)

On August 26, 2011, the University closed on a $5,000 tax exempt equipment loan with First Niagara Leasing, Inc. through the CHEFA Easyloan program. The loan is secured by an interest in the equipment and furnishings purchased with the proceeds of the loan. The term of the lease is 7 years and carries a fixed interest rate of 2.81%. Payments of principal and interest are due semiannually. The loan was repaid in fiscal 2018.

Loan origination cost amortization expenses charged to operations was $8 in fiscal 2017 and 2016.

(c) Short-Term Line of Credit

In March 2018, the University secured a revolving line of credit with Berkshire Bank for $3,500 until December 31, 2019. Borrowings under the line bear interest at Prime or LIBOR plus 1.75% (3.83% at June 30, 2018). There were no outstanding borrowings against the line at June 30, 2018 and June 30, 2017.

(9) 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:

FY19	$	90
FY20		98
FY21		98
Thereafter		24
		310
Less portion representing interest		(20)
Present value of net minimum lease payments	$	290

(10) Operating Leases

The University leases various office equipment, vehicles and other equipment under operating leases. Rent expense under operating leases was $68 and $47 in fiscal 2018 and 2017, respectively.

(Continued)

(Dollars in thousands)

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

Year ending June 30:		
2019	$	102
2020		92
2021		49
2022		5
2023		1
Total	$	249

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.

(11) 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, 2018 and 2017 was $2,585 and $2,502, respectively.

(12) Temporarily and Permanently Restricted Net Assets

Restricted net assets as of June 30 consist of:

		2018	2017
Temporarily restricted net assets:			
Time restricted	$	995	1,025
Use restricted:			
Library and lectures		1,209	1,092
Scholarships		3,373	2,819
Capital		266	196
Other		2,849	2,612
Total	$	8,692	7,744

(Continued)

(Dollars in thousands)

		2018	2017
Permanently restricted net assets:			
Scholarships	$	12,129	11,481
General university support		3,309	3,321
Total	$	15,438	14,802

(13) 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, 2018 and 2017, temporarily restricted net assets were released as follows:

		2018	2017
Student aid, support and services	$	552	905
Capital		24	263
Total	$	576	1,168

(14) 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.

(15) 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 26, 2018 and subsequent events have been evaluated through that date.