



**UNIVERSITY OF NEW HAVEN**

Consolidated Financial Statements

June 30, 2020

(With summarized comparative information as of and for the year ended  
June 30, 2019)

(With Independent Auditors' Report Thereon)

**UNIVERSITY OF NEW HAVEN**

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KPMG LLP  
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Hartford, CT 06103

## Independent Auditors' Report

The Board of Governors  
University of New Haven:

We have audited the accompanying consolidated financial statements of the University of New Haven and its subsidiaries, which comprise the consolidated statement of financial position as of June 30, 2020, and the related consolidated statements of activities and cash flows for the year then ended, and the related notes to the consolidated financial statements.

### *Management's Responsibility for the Consolidated Financial Statements*

Management is responsible for the preparation and fair presentation of these consolidated 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 consolidated 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 consolidated 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 consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated 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 consolidated 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 consolidated 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 consolidated financial statements referred to above present fairly, in all material respects, the financial position of the University of New Haven and its subsidiaries as of June 30, 2020, 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 of New Haven and its subsidiaries' 2019 consolidated financial statements, and we expressed an unmodified audit opinion on those audited consolidated financial statements in our report dated October 25, 2019. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2019 is consistent, in all material respects, with the audited consolidated financial statements from which it has been derived.

KPMG LLP

October 28, 2020



**UNIVERSITY OF NEW HAVEN**

Consolidated Statement of Activities

Year ended June 30, 2020

(with summarized comparative information for the year ended June 30, 2019)

	<b>2020</b>			
	<b>Without donor restrictions</b>	<b>With donor restrictions</b>	<b>Total</b>	<b>2019 Total</b>
Operating activities:				
Revenue, gains, and other support:				
Tuition and fees, net	\$ 130,954,851	—	130,954,851	131,893,642
Residence and dining, net	31,719,711	—	31,719,711	40,199,623
Net student fees (note 4)	162,674,562	—	162,674,562	172,093,265
Federal, state, and private grants and gifts	8,380,869	4,428,031	12,808,900	10,023,782
Endowment spending used in operations	2,056,421	—	2,056,421	2,060,833
Interest income and other sources	9,497,720	158,131	9,655,851	10,389,236
Other auxiliary services	2,325,643	160,904	2,486,547	4,127,880
Net assets released from restrictions (note 16)	2,641,874	(2,641,874)	—	—
Total revenue from operations	187,577,089	2,105,192	189,682,281	198,694,996
Expenses (note 13):				
Salary and wages	82,852,228	—	82,852,228	84,554,158
Employee benefits (notes 14 and 17)	23,499,398	—	23,499,398	22,218,470
Supplies, services, other	67,030,312	—	67,030,312	75,394,636
Depreciation and amortization	8,472,897	—	8,472,897	8,417,933
Interest	4,460,966	—	4,460,966	4,706,030
Total expenses	186,315,801	—	186,315,801	195,291,227
Change in net assets from operations	1,261,288	2,105,192	3,366,480	3,403,769
Nonoperating activities:				
Net return on long-term investments, net of amounts used in operations	(1,081,437)	768,094	(313,343)	3,503,641
Capital contributions	—	1,905,134	1,905,134	301,813
Effects of de-affiliation (note 20)	—	—	—	(13,109,772)
Unrealized gains on investments held in trust by others	—	1,115,659	1,115,659	391,518
Change in net assets from nonoperating	(1,081,437)	3,788,887	2,707,450	(8,912,800)
Cumulative effect of change in accounting principle:				
Cumulative effect of change in accounting principle	—	—	—	(390,766)
Change in net assets	179,851	5,894,079	6,073,930	(5,899,797)
Net assets, beginning of year	150,973,425	60,885,866	211,859,291	217,759,088
Net assets, end of year	\$ 151,153,276	66,779,945	217,933,221	211,859,291

See accompanying notes to consolidated financial statements.

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Consolidated Statement of Cash Flows

June 30, 2020

(with comparative information for the year ended June 30, 2019)

	<b>2020</b>	<b>2019</b>
Cash flows from operating activities:		
Change in net assets	\$ 6,073,930	(5,899,797)
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	8,472,897	8,417,933
Net unrealized and realized gains on investments	(1,940,676)	(3,809,229)
Gains on investments held in trust by others	(965,909)	(391,518)
Contributions restricted for long-term investment	(1,078,762)	(2,125,991)
Effects of de-affiliation	—	13,109,772
Change in accounts and pledges receivable	1,171,840	2,238,793
Change in other assets	(258,289)	(194,585)
Change in accounts payable and accrued expenses	(3,871,875)	1,918,681
Change in deposits and other liabilities	662,202	(2,479,280)
Change in postretirement healthcare obligation	(351,534)	(223,346)
Change in government grants refundable	(1,066,249)	—
Net cash provided by operating activities	6,847,575	10,561,433
Cash flows from investing activities:		
Purchases of plant and equipment	(38,382,536)	(38,562,970)
Cash on hand at time of de-affiliation (note 20)	—	(1,341,119)
Proceeds from maturity and sale of investments	13,743,941	14,328,556
Purchases of investments	(6,070,381)	(17,131,734)
Change in deposits with bond trustee	7,129,701	(9,295,839)
Net cash used in investing activities	(23,579,275)	(52,003,106)
Cash flows from financing activities:		
Proceeds from bonds and notes payable	—	26,797,683
Bond issuance costs	—	(388,406)
Principal payments on bonds and notes payable	(3,380,000)	(3,463,173)
Proceeds from contributions restricted for long-term investment	1,078,762	2,125,991
Loans receivable collected	910,357	305,380
Net cash (used in) provided by financing activities	(1,390,881)	25,377,475
Net change in cash and cash equivalents	(18,122,581)	(16,064,198)
Cash and cash equivalents at beginning of year	36,977,088	53,041,286
Cash and cash equivalents at end of year	\$ 18,854,507	36,977,088
Supplemental data:		
Interest paid	\$ 4,460,966	4,582,853
Noncash investing activity – change in accounts payable attributable to fixed assets	4,346,768	5,824,401

See accompanying notes to consolidated financial statements.

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**(1) Organization**

The University of New Haven (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 in Orange, Connecticut; Lyme, Connecticut; and Prato, Italy. The University includes the accounts of the Henry C. Lee Institute and Lyme Academy College of Fine Arts (Lyme Academy) in Old Lyme, Connecticut.

The University entered into an affiliation agreement effective July 31, 2014 with the Lyme Academy as its sole corporate member. Lyme Academy functioned as a separate academic unit of the University with its historical mission to be advanced by the University. The University ended the affiliation agreement effective June 30, 2019 and the assets, liabilities, and net assets of Lyme Academy were deconsolidated (note 20). Lyme Academy has a note payable due to the University of \$1,817,215 which has been fully reserved for as of June 30, 2020 and 2019.

**(2) Summary of Significant Accounting Policies**

**(a) Basis of Presentation**

The accompanying consolidated 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). All intercompany transactions and balances are eliminated in consolidation.

The accompanying consolidated 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:

*Without donor restrictions* – Net assets that are not subject to donor-imposed restrictions. Items that affect this net asset category principally consist of fees for service and related expenses associated with the core activities of the University, instruction and conduct of sponsored research. In addition to these exchange transactions, changes in this category of net assets include investment returns on “funds functioning as endowment” funds, actuarial adjustments to self-insurance liabilities, changes in postretirement benefit obligations, and certain types of philanthropic support. Such philanthropic support includes gifts without restrictions, including those designated by the Board of Governors to function as endowment and restricted gifts whose donor-imposed restrictions were met during the fiscal year, as well as previously restricted gifts and grants for buildings and equipment that have been placed in service.

*Net assets with donor restrictions* – Net assets subject to donor-imposed restrictions that will be met either by actions of the University or the passage of time. Items that affect this net asset category are gifts for which donor-imposed restrictions have not been met in the year of receipt, including gifts and grants for buildings and equipment not yet placed in service; endowment, annuity, and life income gifts; pledges; and investment returns on “true “endowment funds, and endowments where the principal may be expended upon the passage of a stated period of time (term endowments). Expirations of restrictions on net assets with donor restrictions, including reclassification of restricted gifts and grants for buildings and equipment when the associated long-lived asset is placed in service, are reported as net assets released from restrictions. Also included in this category are net assets subject to donor-imposed restrictions to be maintained permanently by the University, including gifts and pledges wherein donors stipulate that the corpus of the gift be held in perpetuity (primarily gifts for endowment

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and providing loans to students) and that only the income be made available for program operations. Other permanently restricted items in this net asset category include annuity and life income gifts for which the ultimate purpose of the proceeds is permanently restricted.

The consolidated 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, summarized 2019 information should be read in conjunction with the University's financial statements for the year ended June 30, 2019, from which the summarized information was derived.

**(b) Liquidity Information**

In order to provide information about liquidity, assets have been sequenced in the consolidated statement of financial position according to their nearness to conversion to cash, and liabilities have been sequenced according to the nearness of their maturity and resulting use of cash.

**(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 restriction are reclassified to net assets without donor restriction and reported in the consolidated 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 fund-raising activity, and future collection expectations.

**(d) Tuition and Related Revenues**

Under Accounting Standards Codification Topic 606, *Revenue from Contracts with Customers* revenue is recognized when control of the promised goods or services is transferred in an amount that reflects the consideration to which the University expects to be entitled in exchange for those goods or services (i.e., the transaction price).

Revenue from student tuition, fees, room and board is recognized over the academic year, which generally aligns with the University's fiscal year, as services are provided. Revenues associated with academic programs that cross fiscal years are recognized based on the period the services are provided in each fiscal year. Revenues are presented at stated transaction prices, which are determined based on standard published rates for the services less institutional aid awarded to qualifying students.

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The amount of revenue per student varies based on the specific program or class in which the student enrolls as well as whether the student resides in University housing. In addition, students who adjust their course load, residence assignment, board assignment, or withdraw completely within the specified period published in the University's academic calendar may receive a full or partial refund in accordance with the University's refund policy. Refunds issued reduce the amount of revenue recognized. Payments are generally due prior to the start of the academic term.

Revenues and deposits received from students in advance of services being provided are included in deposits and other liabilities in the statements of financial position and totaled \$13,628,577 and \$4,908,715 as of June 30, 2020 and 2019, respectively. Revenues and deposits received in advance of services provided related to non-degree service contracts and a facilities management contract are included in deposits and other liabilities in the statements of financial position and totaled \$11,488,194 and \$19,545,854 as of June 30, 2020 and 2019, respectively.

In March 2020, the University closed the campus to most students and transitioned to remote learning due to the COVID-19 global pandemic. Due to this closure, the University credited the accounts of students who left campus for room and board charges based on a prorated amount. These credits amounted to \$9,823,682 and are included as a reduction in the residence and dining revenues for the year ended June 30, 2020.

As a result of the COVID-19 pandemic, the University received \$2,235,950 from the Higher Education Emergency Relief Fund (HEERF). The funds were used for emergency financial aid grants to students under the 18004(a)(1) Coronavirus Aid, Relief, and Economic Security Act (CARES Act) and recognized as revenue under sponsored program income for student aid.

**(e) 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 equivalents held with investment managers for long-term investment.

**(f) 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 consolidated statement of activities.

**(g) Income Taxes**

The University and Lyme Academy 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 and Lyme Academy is generally exempt from income taxes. The University and Lyme Academy believes it has no significant uncertain tax positions.

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**(h) Use of Estimates**

The preparation of the consolidated 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 consolidated financial statements and the reported amounts of revenue 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.

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

**(j) Reclassification of Prior Year Financial Information**

Certain prior year amounts have been reclassified for consistency with the current period presentation. These reclassifications had no effect on the reported results of operations.

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**(3) Liquidity and Availability of Financial Assets**

As of June 30, 2020, financial assets and liquidity resources available within one year for general expenditures, such as operating expenses, scheduled principal payments on debt, and capitalized construction costs not financed with debt, are as follows:

	<u>2020</u>	<u>2019</u>
Cash and cash equivalents	\$ 18,532,990	36,353,150
Pledges, notes and accounts receivable, net	9,929,315	6,206,461
Budgeted endowment appropriation	2,296,682	2,395,082
Funds held in trust by bond trustee	5,704,209	6,395,162
Investments	<u>13,867,653</u>	<u>20,107,787</u>
Total financial assets available within one year	<u>\$ 50,330,849</u>	<u>71,457,642</u>

The University's cash flows have seasonal variations attributable to the timing of tuition billing and contributions received. To manage liquidity, the University regularly monitors liquidity required to meet its operating needs and other contractual commitments, while also striving to maximize the investment of its available funds. The University has various sources of liquidity at its disposal, including cash and cash equivalents, marketable debt and equity securities. For purposes of analyzing resources available to meet general expenditures over a 12-month period, the University considers all expenditures related to its ongoing mission related activities as well as the conduct of services undertaken to support those activities to be general expenditures. In addition, the University has board-designated quasi endowment funds of \$34,356,683, which, if necessary, can be utilized for operations subject to investment liquidity restrictions.

**(4) Net Student Fees**

Net student fees consist of the following as of June 30:

	<u>2020</u>	<u>2019</u>
Tuition and fees, net of aid of \$96,860,144 and \$92,006,804 for June 30, 2020 and June 30, 2019, respectively.	\$ 130,954,851	131,893,642
Residence and dining, net of aid of \$1,310,407 and \$1,317,214 for June 30, 2020 and June 30, 2019, respectively.	<u>31,719,711</u>	<u>40,199,623</u>
Net student fees	<u>\$ 162,674,562</u>	<u>172,093,265</u>

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**(5) Accounts, Notes and Loans Receivable, net**

Accounts, notes and loans receivable, net consist of the following as of June 30:

	<u>2020</u>	<u>2019</u>
Students	\$ 9,039,935	8,041,755
Perkins loans	1,278,525	2,188,882
Note receivable	1,817,215	1,817,215
Grants	2,840,149	359,575
Other	635,926	593,205
Allowance for doubtful accounts	<u>(7,928,852)</u>	<u>(6,729,080)</u>
Total accounts, notes and loans receivable, net	<u>\$ 7,682,898</u>	<u>6,271,552</u>

**(6) Pledges Receivable, net**

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

	<u>2020</u>	<u>2019</u>
Amounts due in:		
Less than one year	\$ 1,645,716	1,319,546
One to five years	947,215	5,029,538
Greater than five years	1,000	2,000
Charitable remainder trust (note 11)	<u>89,417</u>	<u>89,417</u>
Gross pledges receivable	2,683,348	6,440,501
Less:		
Allowance for uncollectible pledges	(1,000,469)	(1,104,921)
Discount to present value	<u>(23,464)</u>	<u>(182,622)</u>
Net pledges receivable	<u>\$ 1,659,415</u>	<u>5,152,958</u>

Pledges recorded as of June 30, 2020 and 2019 are discounted at rates ranging from 0.33% to 6.25%.

**(7) Fair Value 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 as of

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June 30, 2020 and 2019 that are reported at fair value are summarized in the following tables by their fair value hierarchy:

<u>2020</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>2020 Total</u>	<u>Redemption or liquidation</u>	<u>Days' notice</u>
Assets:						
Investments:						
Cash and cash equivalents	\$ 16,790,752	—	—	16,790,752	Daily	1
Fixed income – U.S.	—	21,682,718	—	21,682,718	Daily	1
Fixed income – Foreign	—	3,527,890	—	3,527,890	Daily	1
Equities – U.S.	41,020,352	—	—	41,020,352	Daily	1
Equities – Foreign	4,402,524	—	—	4,402,524	Daily	1
Total investments	<u>\$ 62,213,628</u>	<u>25,210,608</u>	<u>—</u>	<u>87,424,236</u>		
Other assets:						
Funds held by bond trustee – U.S. agency/treasury debt	\$ 5,121,678	—	—	5,121,678	Daily	1
Funds held by bond trustee – U.S. government repurchase agreements	1,201,381	—	—	1,201,381	Daily	1
Investments held in trust by others	—	—	3,742,060	3,742,060	Not applicable	Not applicable
<u>2019</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>2019 Total</u>	<u>Redemption or liquidation</u>	<u>Days' notice</u>
Assets:						
Investments:						
Cash and cash equivalents	\$ 5,561,008	—	—	5,561,008	Daily	1
Fixed income – U.S.	—	26,888,857	—	26,888,857	Daily	1
Fixed income – Foreign	—	4,367,089	—	4,367,089	Daily	1
Equities – U.S.	39,081,837	—	—	39,081,837	Daily	1
Equities – Foreign	17,258,329	—	—	17,258,329	Daily	1
Total investments	<u>\$ 61,901,174</u>	<u>31,255,946</u>	<u>—</u>	<u>93,157,120</u>		
Other assets:						
Funds held by bond trustee – U.S. agency/treasury debt	\$ 6,843,419	—	—	6,843,419	Daily	1
Funds held by bond trustee – U.S. government repurchase agreements	6,609,341	—	—	6,609,341	Daily	1
Investments held in trust by others	—	—	2,776,151	2,776,151	Not applicable	Not applicable
Liabilities:						
Interest rate sw ap agreements	—	—	—	—	Not applicable	Not applicable

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The following table represents the University's activity for the fiscal years ended June 30, 2020 and 2019 for investments measured at fair value on a recurring basis using significant unobservable inputs (Level 3) as defined in the fair value hierarchy:

	<b>Investments held in trust by others</b>
Fair value as of June 30, 2019	\$ 2,776,151
Unrealized gains	1,115,659
Disbursement	(149,750)
Fair value as of June 30, 2020	\$ 3,742,060
	<b>Investments held in trust by others</b>
Fair value as of June 30, 2018	\$ 2,384,633
Unrealized gains	391,518
Fair value as of June 30, 2019	\$ 2,776,151

There were no transfers between levels of the fair value hierarchy during the years ended June 30, 2020 and 2019.

**(8) Endowment Funds**

The University's endowment consists of approximately 250 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). From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level classified as with donor restriction consistent with donor restrictions and University policies under State of Connecticut Uniform Prudent Management of Institutional Funds Act (UPMIFA). These deficiencies could result from unfavorable market fluctuations that occurred after the investment of donor restricted contributions and/or appropriation for certain programs that were deemed prudent by the University. There were no such deficiencies as of June 30, 2020 and 2019.

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 pursues investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the endowment funds in perpetuity.

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Endowment assets include those assets of donor-restricted funds that the University must hold in perpetuity or for a donor-specified period as well as board-designated funds. Under the University's investment policy, the endowment assets are currently invested in a manner that is intended to produce results consistent with the return and risk results of a combination of various indexes representative of portfolio target allocations. The University expects its endowment funds, over the long term, to provide an average annual rate of return in excess of spending plus inflation while carrying a moderate level of risk. Actual returns in any given year may vary from such amount.

To satisfy its long-term rate-of-return objectives, the University relies on a total return strategy in which investment returns are achieved through capital appreciation (realized and unrealized) and current yield (interest and dividends). The University targets a diversified asset allocation of domestic and international equities, fixed income, marketable and nonmarketable alternative investments (hedge funds and private investments), and real assets to achieve its long-term return objectives within prudent risk constraints.

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 four percent (4.0%) based upon the 12-quarter moving average market value of the fund's value at the beginning of each quarter with a one-quarter lag.

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 donor 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 accumulations are added to the fund.

The remaining portion of the donor-restricted endowment funds, are classified as donor restricted net assets until those amounts are appropriated for expenditure by the University in a manner consistent with the standard prudence prescribed by the UPMIFA. In accordance with UPMIFA, the University considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

1. The duration and preservation of the fund
2. The purposes of the University and the donor-restricted endowment fund
3. General economic conditions
4. The possible effect of inflation and deflation
5. The expected total return from income and the appreciation of investments
6. Other resources of the University
7. The investment policies of the University

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Endowment net assets consisted of the following as of June 30, 2020 and 2019:

	<b>2020</b>				
	<b>Without Donor Restrictions</b>	<b>With donor restrictions</b>			<b>Total</b>
		<b>Original gift</b>	<b>Acumulated gains/(losses)</b>	<b>Total</b>	
Quasi Donor restricted	\$ 34,356,683	—	—	—	34,356,683
	—	24,309,007	11,624,035	35,933,042	35,933,042
Total	<u>\$ 34,356,683</u>	<u>24,309,007</u>	<u>11,624,035</u>	<u>35,933,042</u>	<u>70,289,725</u>

	<b>2019</b>				
	<b>Without Donor Restrictions</b>	<b>With donor restrictions</b>			<b>Total</b>
		<b>Original gift</b>	<b>Acumulated gains/(losses)</b>	<b>Total</b>	
Quasi Donor restricted	\$ 34,639,769	—	—	—	34,639,769
	—	23,300,337	11,877,108	35,177,445	35,177,445
Total	<u>\$ 34,639,769</u>	<u>23,300,337</u>	<u>11,877,108</u>	<u>35,177,445</u>	<u>69,817,214</u>

Changes in endowment funds for the fiscal years ended June 30, 2020 and 2019 were as follows:

	<b>2020</b>		
	<b>Without donor restriction</b>	<b>With donor restriction</b>	<b>Total</b>
Balance, June 30, 2019	\$ 34,639,769	35,177,445	69,817,214
Investment return	644,769	669,796	1,314,565
Unrealized/realized gains	107,369	98,329	205,698
Appropriated to earnings	(1,035,224)	(1,021,197)	(2,056,421)
Contributions	—	1,008,669	1,008,669
Balance, June 30, 2020	<u>\$ 34,356,683</u>	<u>35,933,042</u>	<u>70,289,725</u>

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	<b>2019</b>		
	<u>Without donor restriction</u>	<u>With donor restriction</u>	<u>Total</u>
Balance, June 30, 2018	\$ 33,541,574	38,482,392	72,023,966
Investment return	835,354	586,896	1,422,250
Unrealized/realized gains	1,724,201	1,431,578	3,155,779
Appropriated to earnings	(1,097,298)	(963,535)	(2,060,833)
Contributions	447,921	1,844,542	2,292,463
Effect of de-affiliation	(811,983)	(6,204,428)	(7,016,411)
Balance, June 30, 2019	<u>\$ 34,639,769</u>	<u>35,177,445</u>	<u>69,817,214</u>

**(9) Investment in Plant, net**

Plant assets consist of the following as of June 30:

	<u>2020</u>	<u>2019</u>	<u>Estimated useful lives</u>
Land	\$ 13,264,215	12,905,229	—
Land improvements	26,348,527	21,154,993	15 years
Buildings and building improvements	277,762,640	260,427,534	30-50 years
Furniture and equipment	70,865,486	68,433,554	3–10 years
Collections	188,743	188,743	—
Construction in progress	61,748,918	44,347,415	—
	<u>450,178,529</u>	<u>407,457,468</u>	
Less accumulated depreciation	<u>(173,825,360)</u>	<u>(164,478,471)</u>	
	<u>\$ 276,353,169</u>	<u>242,978,997</u>	

Depreciation expense for the years ended June 30, 2020 and 2019 amounted to \$9,335,139 and \$9,098,001, respectively.

Construction in progress consists of approximately \$47,000,000 related to construction of a new academic building, \$10,100,000 related to remodeling of existing academic buildings, and \$4,500,000 related to general campus capital projects. Total commitments as of June 30, 2020 for all projects are approximately \$14,400,000.

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**(10) 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 2032.

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

Year ending June 30:		
2021	\$	4,649,000
2022		3,218,000
2023		2,677,000
2024		2,231,000
2025 and thereafter		<u>15,686,000</u>
Total required minimum lease payments	\$	<u>28,461,000</u>

Rent expense for the years ended June 30, 2020 and 2019 amounted to \$3,564,359 and \$3,807,056, respectively, and was recorded in supplies, services, other expenses in the consolidated statement of activities.

**(11) Investments Held in Trust by Others**

The University is the sole beneficiary of a charitable trust with a fair value of \$3,742,060 and \$2,776,151 as of June 30, 2020 and 2019, respectively, of which the University is not the trustee. The trust is time restricted. The University's beneficial interest in the trust is recognized as net asset with donor restrictions. Distributions are reflected as reductions in the beneficial interest of the trust and as reclassifications from net assets with donor restrictions to net assets without donor restrictions.

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 a donor restricted pledge receivable, at the present value of estimated future payment, as disclosed in note 6.

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 consolidated financial statements.

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**(12) Bonds Payable, net**

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

	<b>2020</b>	<b>2019</b>
Series K-1 bond, issued in May 2018 with fixed interest rate of 5.00% on \$86,455,000. Interest expense was \$4,322,750 for the fiscal year. Principal payments are made semi-annually ranging from \$3,215,000 to \$6,075,000, through 2040.	\$ 86,455,000	86,455,000
Series K-2 bond, issued in May 2018 with fixed interest rate of 3.32% on \$3,485,000. Interest expense was \$115,667 for the fiscal year. Principle payments are made semi-annually ranging from \$3,385,000 to \$3,485,000, through 2020.	3,485,000	6,865,000
Series K-3 bond, issued in November 2018 with fixed interest rate of 5.00% on \$25,100,000. Interest cost of \$1,257,000 was capitalized during the fiscal year. Principle payments are made semi-annually ranging from \$420,000 to \$1,630,000, through 2049.	25,150,000	25,150,000
Bonds payable	115,090,000	118,470,000
Series K bond premium and unamortized bond discount	10,736,217	11,580,245
Bond issuance costs	(962,327)	(1,037,362)
Bonds payable, net	\$ 124,863,890	129,012,883

In May 2018, the University issued \$86,455,000 of CHEFA Series K-1 tax exempt and \$10,250,000 of CHEFA Series K-2 taxable bonds. The Series K-1 bonds were issued at a premium of \$11,156,168. The proceeds were used to retire the University's previous bond debt (Series E, G, H, I, and J) and associated interest rate swap liabilities. The University incurred issuance costs of \$729,470 with respect to the bonds. The bonds are secured by a pledge of gross receipts of the University.

In November 2018, the University issued \$25,100,000 of CHEFA Series K-3 tax-exempt bonds. The Series K-3 bonds were issued at a premium of \$1,754,071. The proceeds were used to fund the design, construction and equipping of an academic facility. The University incurred issuance costs of \$388,406 with respect to the bonds. The bonds are secured by a pledge of gross receipts of the University.

Under the bond agreements with CHEFA, the University has certain financial covenants.

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

Year ending June 30:	
2021	\$ 3,485,000
2022	3,635,000
2023	3,825,000
2024	4,020,000
2025	4,230,000
Thereafter	<u>95,895,000</u>
Total	<u>\$ 115,090,000</u>

**(13) Functional Expenses**

The statement of activities presents expenses in their natural classification. The University also summarizes its expense by functional classification. The University's primary program service is academic instruction and research. Expenses reported as student services, institutional support and auxiliary enterprises are incurred in support of this primary program activity.

Functional expenses for the year ended June 30, 2020 are as follows:

	Instruction & research	Academic support	Student services	Institutional support	Auxiliary enterprises	Grand Total
Salary and wages	\$ 41,258,833	11,565,063	11,434,508	17,205,036	1,388,788	82,852,228
Employee benefits	10,006,200	2,589,546	3,282,099	7,105,967	515,586	23,499,398
Supplies, services, other	10,317,917	4,743,420	13,266,135	16,779,990	21,922,850	67,030,312
Depreciation and amortization	3,143,445	499,901	1,135,369	754,087	2,940,095	8,472,897
Interest	1,655,018	263,197	597,770	397,026	1,547,955	4,460,966
Total	<u>\$ 66,381,413</u>	<u>19,661,127</u>	<u>29,715,881</u>	<u>42,242,106</u>	<u>28,315,274</u>	<u>186,315,801</u>

Functional expenses for the year ended June 30, 2019 are as follows:

	Instruction & research	Academic support	Student services	Institutional support	Auxiliary enterprises	Grand Total
Salary and wages	\$ 41,343,088	11,160,492	11,820,807	18,164,553	2,065,218	84,554,158
Employee benefits	10,776,182	2,785,411	3,437,532	4,510,064	709,281	22,218,470
Supplies, services, other	12,578,554	5,771,506	12,863,397	16,423,978	27,757,201	75,394,636
Depreciation and amortization	3,028,075	416,186	1,059,282	904,148	3,010,242	8,417,933
Interest	1,685,876	221,288	607,987	450,596	1,740,283	4,706,030
Total	<u>\$ 69,411,775</u>	<u>20,354,883</u>	<u>29,789,005</u>	<u>40,453,339</u>	<u>35,282,225</u>	<u>195,291,227</u>

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The costs of providing the various programs and other activities have been summarized on a functional basis in the tables above. These costs include direct and indirect costs that have been allocated on the following basis: Depreciation, maintenance and utilities are allocated based on square footage used by each function. Interest is allocated to programs and support based on the related debt. Fundraising expenses for the years ended June 30, 2020 and 2019 totaling \$1,762,522 and \$2,316,468, respectively, have been classified as institutional support expenses in the tables above.

**(14) 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, 2020 and 2019 was \$4,327,577 and \$5,889,571, respectively.

**(15) Net Assets**

Net assets with donor restrictions as of June 30, 2020 and June 30, 2019, are as follows:

	<u>2020</u>	<u>2019</u>
Investments held in trust by others	\$ 3,742,060	2,776,151
Pledges	1,659,415	5,152,958
Use restricted:		
Capital projects	15,541,562	10,972,362
Scholarships	2,205,350	1,582,516
Other	7,698,516	5,224,434
Endowment:		
Scholarships	27,228,119	27,021,124
Chair, fellowships, other	8,704,923	8,156,321
	<u>\$ 66,779,945</u>	<u>60,885,866</u>

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**(16) Net Assets Released from Restrictions**

Donor restricted assets were released from restriction by incurring expenses satisfying the restricted purpose specified by the donor. For the years ended June 30, 2020 and 2019, donor restricted net assets were released as follows:

	<u>2020</u>	<u>2019</u>
Capital projects	\$ —	435,564
Academic support	334,880	808,070
Student services/athletics	459,811	644,560
Institutional support	737,997	483,023
Instruction	267,829	516,748
Student aid	841,357	738,387
Total	<u>\$ 2,641,874</u>	<u>3,626,352</u>

**(17) Postretirement Medical Benefits Plan**

The University provides certain healthcare benefits, including medical care and prescription drug components, of its retired employees but does not prefund these benefits. Information with respect to the plan is as follows:

	<u>June 30</u>	
	<u>2020</u>	<u>2019</u>
Change in benefit obligation:		
Benefit obligation at beginning of year	\$ 4,289,717	4,512,063
Interest cost	128,112	170,501
Assumption change	106,182	252,686
Experience losses	(191,050)	(252,550)
Benefits paid	(394,778)	(392,983)
Benefit obligation at end of year	<u>3,938,183</u>	<u>4,289,717</u>
Change in plan assets:		
Fair value of plan assets at beginning of year	—	—
Employer contribution	394,778	392,983
Benefits paid	(394,778)	(392,983)
Fair value of plan assets at end of year	<u>—</u>	<u>—</u>
Funded status	<u>\$ (3,938,183)</u>	<u>(4,289,717)</u>

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	<b>June 30</b>	
	<b>2020</b>	<b>2019</b>
Components of net periodic postretirement benefit cost:		
Interest cost	\$ 128,112	170,501
Net periodic postretirement benefit cost	\$ 128,112	170,501

	<b>June 30</b>	
	<b>2020</b>	<b>2019</b>
Discount rate used to value obligations	2.13 %	3.13 %
Discount rate used to value expenses	3.13	3.95
Weighted average healthcare cost trend:		
Initial trend rate	5.70	5.70
Ultimate trend rate	4.70	4.70

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

	<b>Estimated benefit payment</b>
Fiscal year:	
2021	\$ 381,561
2022	388,635
2023	394,531
2024	386,623
2025	389,516
2026–2030	1,176,923

The expected employer contribution for fiscal year 2021 is \$381,561.

**(18) 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 consolidated 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 consolidated financial position.

In December 2019, an outbreak of a novel strain corona virus (COVID-19) emerged globally, and in March of 2020, the World Health Organization recognized COVID-19 as a pandemic. Although it is not possible to reliably estimate the length or severity of this outbreak, and hence its financial impact, the University could be materially and possibly adversely affected by the risks, or the public perception of the risks, related to the outbreak of COVID-19. For the year ended June 30, 2020, the University experienced disruption to its ability to provide in-person education to its students due to COVID19. The most significant financial impact on the University to date has been the inability to fully realize room and board revenues.

The pandemic may materially affect the ability of the University to conduct its operations and the cost of its operations. Other adverse consequences may include, but are not limited to, decline in enrollment, decline in demand for campus housing or programs involving travel or international connections, volatility in financial markets with the potential for declines in the fair value of the University's endowment, and declines in philanthropic donations. The full extent of the impact of COVID-19 on the University will depend on future developments, including the duration and spread of the outbreak.

**(19) 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, 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.

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**(20) De-Affiliation with Lyme Academy**

As noted in Note 1, the University ended its affiliation agreement with Lyme Academy effective June 30, 2019. The following table summarizes the values assigned to the Lyme Academy net assets deconsolidated as of the de-affiliation date, June 30, 2019.

Assets:	
Cash	\$ 1,341,119
Current assets	7,121,749
Property, plant and equipment	10,034,638
Other assets	<u>71,472</u>
Total assets	<u>18,568,978</u>
Liabilities:	
Notes payable	832,788
Note due to University of New Haven	1,817,215
Other liabilities	<u>2,809,203</u>
Total liabilities	<u>5,459,206</u>
Net assets deconsolidated	<u>\$ 13,109,772</u>

**(21) Subsequent Events**

The University evaluated subsequent events for potential recognition or disclosure through October 28, 2020, the date on which the consolidated financial statements were available to be issued.

In July of 2020, the University entered into an agreement for a line of credit with maximum borrowings of \$10,000,000. The line of credit bears interest at a rate per annum equal to the adjusted LIBOR rate for the applicable interest period plus 2.0% and expires on December 31, 2020. There have been no borrowings on the line of credit as of October 28, 2020.

In July of 2020, the University entered into a second agreement for a line of credit with maximum borrowings of \$10,000,000. The line of credit bears interest at a rate per annum equal to the adjusted LIBOR rate for the applicable interest period plus 2.0% and expires on June 29, 2021. There have been no borrowings on the line of credit as of October 28, 2020.

These consolidated financial statements were issued on October 28, 2020 and subsequent events have been evaluated through that date.