

Fairfield University

Financial Statements

June 30, 2014 and 2013



Fairfield University
Statements of Financial Position
June 30, 2014 and 2013

	2014	2013
Assets		
Cash and cash equivalents	\$ 51,265,158	\$ 38,336,278
Deposits with trustees	21,105,135	20,975,514
Student accounts receivable, less allowance for doubtful collections of \$657,726 in 2014 and \$662,419 in 2013	154,282	160,653
Student loans, less allowance for doubtful collections of \$300,000 in 2014 and 2013	2,524,810	2,448,196
Contributions receivable, net	22,673,140	15,785,226
Other assets	7,731,225	7,552,468
Investments	316,406,398	274,926,518
Land, buildings and equipment, net	281,004,942	285,054,797

The accompanying notes are an integral part of these financial statements.

Fairfield University
 Statements of Activities
 Year Ended June 30, 2014

	Unrestricted	Temporarily Restricted	Permanently Restricted	2014 Total
Operating revenues				
Educational and general				
Tuition and fees	\$ 190,841,397	\$ -	\$ -	\$ 190,841,397
Less: Student financial aid	(60,948,523)	-	-	(60,948,523)
Net tuition and fees	129,892,874	-	-	129,892,874
Government grants and financial aid	1,444,756	2,313,291	-	3,758,047
Contributions	4,091,910	2,204,215	-	6,296,125
Investment return designated for current operations	4,451,726	6,276,526	-	10,728,252
Departmental and other revenues	3,924,961	-	-	3,924,961
Net assets released from restrictions	11,556,010	(11,556,010)	-	-
Total educational and general	155,362,237	(761,978)	-	154,600,259
Auxiliary services	37,793,906	-	-	37,793,906
Total operating revenues	193,156,143	(761,978)	-	192,394,165
Operating expenses				
Educational and general services				

The accompanying notes are an integral part of these financial statements.

Fairfield University
Statements of Activities
Year Ended June 30, 2013

	Unrestricted	Temporarily Restricted	Permanently Restricted	2013 Total
Operating revenues				
Educational and general				

The accompanying notes are an integral part of these financial statements.

Fairfield University
 Statements of Cash Flows
 Years Ended June 30, 2014 and 2013

	2014	2013
Cash flows from operating activities		
Increase in net assets	\$ 56,528,551	\$ 39,763,413
Adjustments to reconcile changes in net assets to net cash provided by operating activities		
Depreciation and amortization	15,709,791	14,915,345
Contributions restricted for long-term investment	(10,425,819)	(11,769,963)
Realized and unrealized gains on investments, net	(42,365,223)	(26,061,543)
Changes in operating assets and liabilities		
Contributions receivable	(6,887,914)	(2,279,684)
Student accounts receivable	6,371	131,336
Other assets	(178,757)	(649,226)
Accounts payable and other accrued liabilities	5,161,417	198,084
Deferred revenue	1,065,917	(1,963,823)
Government grants refundable - student loans	14,277	(39,886)
Net cash provided by operating activities	<u>18,628,611</u>	<u>12,244,053</u>
Cash flows from investing activities		
Proceeds from sale of investments	62,576,708	71,184,779
Purchase of investments	(61,691,365)	(70,547,923)
Purchase of buildings and equipment	(10,692,240)	(10,746,576)
(Increase) decrease in deposits with trustees	(129,621)	1,001,823
Issuance of student loans	(508,608)	(482,313)
Repayment of student loans	431,994	398,386
Net cash used in investing activities	<u>(10,013,132)</u>	<u>(9,191,824)</u>
Cash flows from financing activities		
Proceeds from contributions restricted for		
Permanently restricted endowment	7,199,895	9,752,647
Temporarily restricted funds	3,225,924	2,017,316
Repayment of long-term debt	(6,112,418)	(5,774,987)
Net cash provided by financing activities	<u>4,313,401</u>	<u>5,994,976</u>
Net increase in cash and cash equivalents	12,928,880	9,047,205
Cash and cash equivalents		
Beginning of year	<u>38,336,278</u>	<u>29,289,073</u>
End of year	<u>\$ 51,265,158</u>	<u>\$ 38,336,278</u>
Supplemental disclosure of cash flow information		
Interest paid on debt	\$ 10,351,085	\$ 10,562,476
Accruals for acquisitions of land, buildings and equipment	1,110,950	-

The accompanying notes are an integral part of these financial statements.

Investment Income (Loss)

Dividends, interest and net gains (losses) on investments are reported as follows:

As increases (decreases) in permanently restricted net assets if the terms of the gift require that they be added to the principal of a permanent endowment fund;

As increases (decreases) in temporarily restricted net assets if the terms of the gift impose restrictions on the current use of the income or net gains (losses); and

As increases (decreases) in unrestricted net assets in all other cases.

Measure of Operations

The Statement of Activities reports the change in net assets from operating and nonoperating activities separately. For this purpose, operations include operating revenues consisting of those items attributable to the University's educational programs or research conducted by the academic departments and operating expenses include the costs of providing University programs and other activities. Investment return on the University's long-term investments in excess (deficit) of the amount appropriated under the University spending plan, as discussed in Note 8, donor contributions restricted for capital expenditures and gain (loss) on sale of assets and certain other unusual or nonrecurring items are reported as nonoperating activities. Additionally, nonoperating activities consist of contributions that are not in direct support of the annual operating budget. Such contributions are typically multi-year gifts which the University will designate as permanently restricted or quasi-endowment. This measure of operations is different from cash flows from operating activities reported in the Statement of Cash Flows which includes the cash effects of all transactions and other events (including certain nonoperating items) that enter into the determination of the change in net assets.

Cash

The University has several bank accounts at June 30, 2014 containing balances which exceed FDIC limits. The University believes that no significant risk exists at June 30, 2014 with respect to these balances.

Cash Equivalents

Cash equivalents are held for reinvestment and are highly liquid in nature and have original maturities at the time of purchase of three months or less. Cash equivalents include cash held in money market accounts and certificates of deposit for operating and reinvestment purposes. The cash equivalents reported on the statement of financial position are principally invested in one fund. Cash equivalents are valued at one dollar per share in the money market fund and one dollar plus earned interest in certificates of deposit. These assets are categorized as Level 1.

Deposits With Trustees

Deposits with trustees are directly owned investments in securities such as government money market funds, guaranteed investment contracts and treasury bills with an interest rate of .01%, related to the Connecticut Health and Educational Facility Authority ("CHEFA") Revenue Bonds, Series M, N, O and P. These investments are valued based upon market price quotations and categorized as Level 2.

Accounts and Loans Receivable

Accounts and loans receivable are stated net of allowances for doubtful accounts. Student loans receivable are principally amounts due from students under federally sponsored loan programs

which are subject to significant restrictions. Accordingly, it is not practicable to determine the fair value of such amounts.

Fair Value Accounting

The University records its applicable assets and liabilities at fair value. Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability (i.e. "exit price") in an orderly transaction between market participants at the measurement date.

GAAP establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three Levels of the fair value hierarchy under GAAP are as follows:

- Level 1 Inputs that reflect unadjusted quoted prices in active market for identical assets or liabilities that the University has the ability to access at the measurement date.

- Level 2 Inputs other than quoted prices that are observable for the asset or liability either directly or indirectly, including inputs in markets that are not considered to be active.

- Level 3 Inputs that are unobservable.

Inputs are used in applying the various valuation techniques and broadly refer to the assumptions that market participants use to make valuation decisions, including assumptions about risk. Inputs may include price information, volatility statistics, specific and broad credit data, liquidity statistics, and other factors. A financial instrument's Level within the fair value hierarchy is based on the lowest Level of any input that is significant to the fair value measurement; however, the determination of what constitutes "observable" requires significant judgment. The University considers observable data to be that market data which is readily available, regularly distributed or updated, reliable and verifiable, not proprietary, and provided by independent sources that are actively involved in the relevant market. The categorization of a financial instrument within the hierarchy is based upon the pricing transparency of the instrument and does not necessarily correspond to the University's perceived risk of that instrument.

The availability of observable inputs can vary from product to product and is affected by a wide variety of factors, including for example, the type of product, whether the product is new and not yet established in the marketplace, the liquidity of markets and other characteristics particular to the transaction. To the extent that valuation is based on models or inputs that are less observable or unobservable in the market, the determination of fair value requires more judgment. Accordingly, the degree of judgment exercised by the University in determining fair value is greatest for instruments categorized in Level 3.

In certain cases, the inputs used to measure fair value may fall into different Levels of the fair value hierarchy. In such cases, for disclosure purposes, the Level in the fair value hierarchy within which the fair value measurement falls in its entirety is determined based on the lowest Level input that is significant to the fair value measurement in its entirety.

In determining an instrument's placement within the hierarchy, the University separates the investment portfolio and other fair valued assets and liabilities into the following categories: cash equivalents, deposits with trustees, Corporate stocks, fixed income securities, private equity and other funds, equity funds, bond funds, hedge fund of funds, and multi-asset strategy funds.

Private Equity and Other

Private equity and other include equity positions in a variety of private equity funds with various strategies, private real estate funds that hold real property holdings, and direct investments in real estate funds through partnership interests. These securities are valued by the investment managers and the NAVs are recorded under GAAP utilizing the practical expedient. There are no active markets or significant observable data and are, therefore, categorized as Level 3.

Equity Funds (Registered and Nonregistered)

Equities in investment funds include mutual funds (registered under the Investors' 1940 Act) and hedge funds (nonregistered under the Investors' 1940 Act). Mutual funds are principally invested in exchange traded securities. These hedge funds are invested principally in exchange traded and over the counter securities. The University has opted to utilize the NAV practical expedient for valuing hedge fund investments. Five of these investments are categorized as Level 2 because there is the ability to redeem at or near June 30, 2014. Two of these investments are categorized as Level 3 because there is no ability to redeem at or near June 30, 2014.

Bond Funds (Registered)

Bonds in investment funds include mutual funds (registered under the Investors' 1940 Act). Mutual funds are principally invested in fixed income securities and trade in over the counter market. These securities are valued by the investment manager and NAVs are recorded under GAAP utilizing the practical expedient. These investments are categorized as Level 2 because there is the ability to redeem at or near June 30, 2014.

Hedge Fund of Funds

Hedge fund of funds are nonregistered funds whereby the investment managers are investing in various underlying hedge funds that principally invest in exchange traded and over the counter securities. These securities are valued by the investment manager and NAVs are recorded under GAAP utilizing the practical expedient. Two of these investments are categorized as Level 3 because there is no ability to redeem at or near June 30, 2014. One of these investments is categorized as Level 2 because there is the ability to redeem at or near June 30, 2014.

Multi Asset Strategy Funds

Multi asset fund is an investment in a hedge fund (nonregistered under the Investors' 1940 Act) with a multi-strategy approach. These securities are valued by the investment manager and the NAVs are recorded under GAAP utilizing the practical expedient. This investment is categorized as Level 2 because there is the ability to redeem at or near June 30, 2014.

Land, Buildings and Equipment

Land, buildings and equipment, net is stated at cost less accumulated depreciation, computed on a straight-line basis over the estimated useful lives of buildings (40-60 years), building improvements (15-30 years) and equipment and library books (3-7 years). Depreciation expense is \$15,853,045 and \$15,290,245 for the years ended June 30, 2014 and 2013, respectively. The University recognized \$89,638 and \$109,748 of expenses relating to the accretion of liabilities associated with the retirement of long-lived assets, for the period ended June 30, 2014 and 2013, respectively.

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Tuition and Fees

The University recognizes revenues from student tuition and fees predominantly within the fiscal year in which the academic term is conducted. Therefore, student advance payments for tuition, room and board are deferred and then recorded as unrestricted revenues when earned.

Government Grants and Financial Aid

Revenues associated with Government grants for educational purposes and contracts are recognized as the related direct costs are incurred and are accounted for in unrestricted net assets. The University records reimbursement of indirect costs relating to such grants and financial aid contracts at authorized rates for each fiscal year as unrestricted revenue.

Allocation of Certain Expenses

The financial statements report expenses by functional classification. Certain

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Subsequent Events

The University has performed an evaluation of subsequent events through October 6, 2014, which is the date the financial statements were issued.

2. Contributions Receivable

Contributions receivable at June 30, 2014 and 2013 are expected to be collected as follows:

	2014	2013
2014	\$ -	\$ 4,074,336
2015	5,151,081	3,752,671
2016	5,115,694	4,214,724
2017	3,514,542	2,385,378
2018	2,038,281	2,411,672
2019 and later	8,244,138	-
	<u>24,063,736</u>	<u>16,838,781</u>
Less:		
Present value discount	(1,190,596)	(853,555)
Allowance for doubtful collections	<u>(200,000)</u>	<u>(200,000)</u>
Contributions receivable, net	<u>\$ 22,673,140</u>	<u>\$ 15,785,226</u>

The discount rates used in 2014 and 2013 were 1.6% and 1.4%, respectively.

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3. Fair Value Measurements

The following tables present the fair value hierarchy of the University's financial assets and liabilities that were measured at fair value on a recurring basis as of June 30, 2014 and 2013:

	Level 1	Level 2	Level 3	Total
	Quoted	Other	Significant	
	Prices	Significant	Unobservable	
		Observable	Inputs	
		Inputs		
Cash equivalents				

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The University uses the Net Asset Value (NAV) to determine the fair value of all the underlying investments which (a) do not have a readily

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NAV	Number	Remaining	Amount of Unfunded	Timing of Draw Down	Redemption	Redemption	Redemption Restrictions in Place
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4. Investments

Investments at June 30, 2014 and 2013 consisted of the following:

	Cost	Fair Value	Cost	Fair Value
Cash and cash equivalents held for reinvestment	\$ 6,706,337	\$ 6,706,337	\$ 12,883,307	\$ 12,883,307

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5. Land, Buildings and Equipment

The University's investments in land, buildings and equipment, net are stated at cost at date of acquisition or fair market value at date of donation in the case of gifts. The cost of land, buildings and equipment, net at June 30, 2014 and 2013 is as follows:

At June 30, 2014 and 2013, construction in progress represents ongoing construction costs associated with new construction and improvements to various University facilities on campus.

At June 30, 2014 and 2013, net investment in plant included in unrestricted net assets totaled

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In February 2009, the University entered into an agreement and note with Bank of America for a nonrestoring line of credit in the amount of \$7,933,930. This represents a portion of the costs associated with the on campus construction of a Jesuit Community Center. The loan matures in 2016 and will be repaid on a 15 year schedule beginning in 2011. Interest on the borrowings is based on the LIBOR rate plus .80% at June 30, 2014.

In accordance with each of the bond indentures, the University maintains a sinking fund with bank trustees at an amount sufficient to pay interest and principal during the succeeding twelve months. The amounts in deposits with trustee in the statement of financial position are \$2,960,179 and \$9,938,250 required by the Series M and N bond indentures and \$1,065,750 as required by the Series P bond indentures as of June 30, 2014 and June 30, 2013. The amounts in deposit with trustee for the Series O indenture are \$7,125,506 and \$7,011,335 as of June 30, 2014 and June 30, 2013, respectively.

The University's long-term debt agreements contain various covenants which may restrict the ability of the University to incur or guarantee debt. These agreements also require the University to meet a debt service ratio as defined in the agreements. The University was in compliance with the debt covenants at June 30, 2014.

The fair values of the University's long-term debt at June 30, 2014 and 2013 are based on market information for underlying debt securities and are classified as Level 2. The fair value of the University's bonds at June 30, 2014 and 2013 is \$223,111,018 and \$223,371,751, respectively.

Interest expense and amortization of bond discount and premium for the years ended June 30, 2014 and 2013 was \$10,295,279 and \$10,275,023, respectively.

The aggregate amount of principal due with respect to long-term debt within each of the five fiscal years subsequent to June 30, 2014 is as follows:

2015	\$ 6,100,204
2016	12,038,134
2017	6,395,000
2018	6,705,000
2019	7,020,000
Thereafter	171,921,063
	<u>\$210,179,401</u>

7. Retirement Benefits

The University has a 403(b) defined contribution retirement plan which covers substantially all of its employees, other than those of the Jesuit Community, and which is funded through direct payments to the Teachers' Insurance and Annuity Association and College Retirement Equities Fund and/or Fidelity Investment Tax Exempt Services Company for the purchase of individual annuities. For each eligible employee, the University generally contributes an amount equal to between 8% and 10% of the employee's salary or base compensation and the employee contributes 2-1/2%. With respect to faculty and administrative members of the Jesuit Community, an equivalent between 8% and 10% of their salaries are paid directly to the Jesuit Community. Retirement contributions paid by the University and charged to unrestricted operations for the years ended June 30, 2014 and 2013 were \$4,740,336 and \$4,630,264, respectively.

8. Endowment Funds

In August 2008, the FASB issued "Endowments of Not-For-Profit Organizations: Net Asset Classification of Funds Subject to an Enacted Version of the Uniform Prudent Management of Institutional Funds Act and Enhanced Disclosure for all Endowment Funds". This pronouncement provides guidance on the net asset classification of donor-restricted endowment funds for a not-for-profit organization that is subject to an enacted version of the Uniform Prudent Management of Institutional Funds Act of 2006 (UPMIFA). Connecticut adopted the Uniform Management of Institutional Funds Act effective October 1, 2007 (CUPMIFA). This pronouncement requires disclosures about an organization's endowment funds (both donor-restricted and board-designated endowment funds), whether or not the organization is subject to UPMIFA.

The University's endowment is an aggregation of gifts provided by donors with the requirement

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At June 30, 2014, the endowment net asset composition by type of fund consisted of the following:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted funds	\$ -	\$ 49,824,956	\$ 133,380,863	\$ 183,205,819
Board designated funds	138,212,973	-	-	138,212,973
Total endowment funds	<u>\$ 138,212,973</u>	<u>\$ 49,824,956</u>	<u>\$ 133,380,863</u>	<u>\$ 321,418,792</u>

Changes in endowment net assets for the fiscal year ended June 30, 2014 consisted of the following:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets at June 30, 2013	\$ 118,557,648	\$ 34,526,446	\$ 126,858,216	\$ 279,942,310
Investment return				
Investment income	1,114,781	949,628	78,740	2,143,149
Realized and unrealized gains, net	24,241,132	19,242,420	512,020	43,995,572
Total investment gains	25,355,913	20,192,048	590,760	46,138,721
Contributions	44,000	-	6,044,762	6,088,762
Appropriation of endowment assets for expenditure	(5,744,588)	(4,893,538)	-	(10,638,126)
Other changes				
Change in value-split interest agreement	-	-	(112,875)	(112,875)
Endowment net assets at June 30, 2014	<u>\$ 138,212,973</u>	<u>\$ 49,824,956</u>	<u>\$ 133,380,863</u>	<u>\$ 321,418,792</u>

At June 30, 2013, the endowment net asset composition by type of fund consisted of the following:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted funds	\$ -	\$ 34,526,446	\$ 126,858,216	\$ 161,384,662
Board designated funds	118,557,648	-	-	118,557,648
Total endowment funds	<u>\$ 118,557,648</u>	<u>\$ 34,526,446</u>	<u>\$ 126,858,216</u>	<u>\$ 279,942,310</u>

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Changes in endowment net assets for the fiscal year ended June 30, 2013 consisted of the following:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets at June 30, 2012	\$109,736,235	\$ 27,324,554	\$119,068,514	\$256,129,303
Investment return				
Investment income	465,415	396,464	85,559	947,438
Realized and unrealized gains, net	14,196,762	11,818,376	307,347	26,322,485
Total investment gains	14,662,177	12,214,840	392,906	27,269,923
Contributions	44,000	-	7,738,859	7,782,859
Appropriation of endowment assets for expenditure	(5,884,764)	(5,012,948)	-	(10,897,712)
Other changes				
Change in value-split interest agreement	-	-	(342,063)	(342,063)
Endowment net assets at June 30, 2013	<u>\$118,557,648</u>	<u>\$ 34,526,446</u>	<u>\$126,858,216</u>	<u>\$279,942,310</u>

9. Temporarily and Permanently Restricted Net Assets

Temporarily restricted net assets at June 30, 2014 and 2013 were available for the following purposes:

	2014	2013
Educational and general services	\$ 68,178,249	\$ 54,033,810
Acquisition of buildings and equipment	18,939,975	6,172,022
Total temporarily restricted net assets	<u>\$ 87,118,224</u>	<u>\$ 60,205,832</u>

Permanently restricted net assets at June 30, 2014 and 2013 were available for the following purposes:

	2014	2013
Purpose of restrictions		
Scholarships	\$ 80,493,621	\$ 74,530,848
Educational and general services	52,887,242	52,327,368
Total permanently restricted net assets	<u>\$133,380,863</u>	<u>\$126,858,216</u>

10. Net Assets Released From Restrictions

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LIBOR rate plus .80%. There is an unused commitment fee of .30% per annum. There are no outstanding borrowings at June 30, 2014.

The University is involved in various legal actions, arising in the normal course of operations. The University is of the opinion that the resolution of these matters will not have a significant effect on the financial condition of the University.