

Fairfield University

Financial Statements

June 30, 2014 and 2013

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Independent Auditor's Report

To The Board of Trustees of Fairfield University

We have audited the accompanying financial statements of Fairfield University (the "University"), which comprise the statements of financial position as of June 30, 2014 and 2013, and the related statements of activities and of cash flows for the years then ended.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America; 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.

Auditor's Responsibility

Our responsibility is to express an opinion on the 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 our 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, we consider internal control relevant to the University'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 University'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 Fairfield University at June 30, 2014 and 2013, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

PricewaterhouseCoopers LLP

October 6, 2014

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	<u>281,004,942</u>	<u>285,054,797</u>
Total assets	<u>\$ 702,865,090</u>	<u>\$ 645,239,650</u>
Liabilities and Net Assets		
Liabilities		
Accounts payable and accrued liabilities	\$ 17,680,989	\$ 13,931,155
Accrued compensation	13,079,800	10,557,267
Deferred revenue	11,960,187	10,894,270
Government grants refundable - student loans	2,180,400	2,166,123
Long-term debt, net	<u>212,060,429</u>	<u>218,316,101</u>
Total liabilities	256,961,805	255,864,916
Net assets		
Unrestricted	225,404,198	202,310,686
Temporarily restricted	87,118,224	60,205,832
Permanently restricted	<u>133,380,863</u>	<u>126,858,216</u>
Total net assets	<u>445,903,285</u>	<u>389,374,734</u>
Total liabilities and net assets	<u>\$ 702,865,090</u>	<u>\$ 645,239,650</u>

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				
Instruction	59,862,810	-	-	59,862,810
Research	6,580,374	-	-	6,580,374
Public service	2,215,530	-	-	2,215,530
Academic support	22,084,821	-	-	22,084,821
Institutional support	33,616,152	-	-	33,616,152
Student services	29,256,142	-	-	29,256,142
Total educational and general services	153,615,829	-	-	153,615,829
Auxiliary services	34,848,064	-	-	34,848,064
Total operating expenses	188,463,893	-	-	188,463,893
Increase (decrease) in net assets from operations	4,692,250	(761,978)	-	3,930,272
Nonoperating activities				
Contributions for nonoperating purposes	139,100	12,942,643	5,993,650	19,075,393
Investment return in excess of amounts designated for current operations	18,096,730	15,293,173	559,361	33,949,264
Net asset reclassifications/other	(450,005)	10,838	82,511	(356,656)
Change in value split interest agreements	(32,702)	75,855	(112,875)	(69,722)
Nonoperating net assets released from restrictions	648,139	(648,139)	-	-
Total nonoperating activities	18,401,262	27,674,370	6,522,647	52,598,279
Increase in net assets	23,093,512	26,912,392	6,522,647	56,528,551
Net assets				
Beginning of year	202,310,686	60,205,832	126,858,216	389,374,734
End of year	\$ 225,404,198	\$ 87,118,224	\$ 133,380,863	\$ 445,903,285

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				
Tuition and fees	\$ 182,060,467	\$ -	\$ -	\$ 182,060,467
Less: Student financial aid	(57,843,819)	-	-	(57,843,819)
Net tuition and fees	124,216,648	-	-	124,216,648
Government grants and financial aid	1,709,385	2,616,912	-	4,326,297
Contributions	4,223,976	6,903,605	-	11,127,581
Investment return designated for current operations	4,705,762	6,261,751	-	10,967,513
Departmental and other revenues	3,706,817	-	-	3,706,817
Net assets released from restrictions	12,393,698	(12,393,698)	-	-
Total educational and general	150,956,286	3,388,570	-	154,344,856
Auxiliary services	37,347,969	-	-	37,347,969
Total operating revenues	188,304,255	3,388,570	-	191,692,825
Operating expenses				
Educational and general services				
Instruction	57,025,146	-	-	57,025,146
Research	6,503,710	-	-	6,503,710
Public service	2,280,815	-	-	2,280,815
Academic support	20,612,093	-	-	20,612,093
Institutional support	31,822,724	-	-	31,822,724
Student services	27,756,515	-	-	27,756,515
Total educational and general services	146,001,003	-	-	146,001,003
Auxiliary services	33,642,572	-	-	33,642,572
Total operating expenses	179,643,575	-	-	179,643,575
Increase in net assets from operations	8,660,680	3,388,570	-	12,049,250
Nonoperating activities				
Contributions for nonoperating purposes	126,109	3,853,520	7,892,245	11,871,874
Investment return in excess of amounts designated for current operations	8,505,654	7,194,028	392,906	16,092,588
Net asset reclassifications/other	(140,739)	294,125	(153,386)	-
Change in value split interest agreements	-	91,764	(342,063)	(250,299)
Nonoperating net assets released from restrictions	1,184,246	(1,184,246)	-	-
Total nonoperating activities	9,675,270	10,249,191	7,789,702	27,714,163
Increase in net assets	18,335,950	13,637,761	7,789,702	39,763,413
Net assets				
Beginning of year	183,974,736	46,568,071	119,068,514	349,611,321
End of year	\$ 202,310,686	\$ 60,205,832	\$ 126,858,216	\$ 389,374,734

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.

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Notes to Financial Statements

June 30, 2014 and 2013

1. Summary of Significant Accounting Policies

Background

Founded in 1942, Fairfield University is a private, Jesuit institution that provides undergraduate, graduate and continuing studies in five distinct schools to its students. The accompanying financial statements, which include the accounts of Fairfield University and its Preparatory School (the "University"), which together are a 501(c)(3) tax-exempt institution, have been prepared on the accrual basis and in conformity with accounting principles generally accepted in the United States of America ("GAAP").

Basis of Presentation

General

Net assets, revenues, gains and losses are classified based on 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 stipulations that they be maintained permanently by the University. Generally, the donor of these assets permits the University to use all or part of the return on the related investments.
- Temporarily restricted net assets – Net assets subject to donor-imposed stipulations that will be met by actions of the University or the passage of time.
- Unrestricted net assets – Net assets not subject to donor-imposed stipulations.

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 are reported as increases or decreases in unrestricted net assets unless their use is restricted by explicit donor stipulations or law. Expirations of temporary restrictions on net assets, that is, the donor-imposed stipulated purpose has been accomplished or the stipulated time period has elapsed, are reported as net assets released from restrictions. Donor contributions restricted for capital expenditures are released to unrestricted net assets when the assets are placed in service and time restrictions have been met.

Contributions Receivable

Contributions, including unconditional promises to give, are recognized as revenues in the period received at their fair value. Promises to give that are scheduled to be received after the date of the statement of financial position are shown as increases in temporarily restricted net assets and are released to unrestricted net assets when the purpose or time restrictions are met. Promises to give subject to donor-imposed stipulations that the Corpus be maintained permanently are recognized as increases in permanently restricted net assets.

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 to be received after one year are discounted based upon a risk free interest rate. Amortization of the discount is recorded as additional contribution revenue in accordance with the donor-imposed restrictions, if any, on the contributions.

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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

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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.

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The University utilizes the “practical expedient” to estimate the fair value of investments in various investment funds that have a calculated value of their capital account or net asset value (NAV) in accordance with, or in a manner consistent with GAAP whereby there is limited market activity. The practical expedient is permitted under GAAP to estimate the fair value of an investment at the measurement date using the reported NAV without further adjustment unless the entity expects to sell the investment at a value other than NAV or if the NAV is not calculated in accordance with GAAP.

The University performs additional procedures including due diligence reviews on its investments in investment companies and other procedures with respect to the capital account or NAV provided to ensure conformity with GAAP. The University has assessed factors including, but not limited to, managers’ compliance with fair value measurement standard, price transparency and valuation procedures in place, the ability to redeem at NAV at the measurement date, and existence of certain redemption restrictions at the measurement date.

The guidance also requires additional disclosures to enable the user of the financial statements to understand the nature and risk of the University’s financial statements (Note 3). Furthermore, investments which can be redeemed at NAV by the University on the measurement date or in the near term are classified as Level 2. Investments which cannot be redeemed on the measurement date or in the near term are classified as Level 3.

There were no transfers in and out of Levels 1 and 2 in 2014 and all other disclosures are included in Note 6.

Investments

Investments are reflected in the financial statements at fair value. Quoted market prices are used to value short-term investments, fixed income securities, and equity securities. Values for investments in limited partnerships, which are generally subject to certain withdrawal restrictions, are provided by the general partner, and may be based on historical cost, appraisals, obtainable prices for similar assets, or other estimates. Because of the inherent uncertainty of the valuation for the University’s investments in investment partnerships and for certain underlying investments held by the investment partnerships, values for those investments may differ significantly from values that would have been used had a ready market for the investments existed. Unrealized gains or losses are determined by comparison of cost to fair value at the beginning and end of the reporting period. Purchases and sales of securities are reflected on a trade-date basis. Gains or losses on sales of securities are based on average cost.

Corporate Stocks

Corporate stocks include investments in actively traded equity securities and exchange traded funds which are listed on a national exchange are valued at the last price quoted by the exchange and are generally categorized as Level 1. The fair values of other equity securities are based upon market price quotations, and are generally categorized as Level 1.

Fixed Income Securities

Fixed income securities include investments in various U.S. treasury instruments, Corporate debt, structured products (such as mortgage-backed securities and asset-backed securities, and bank debt). Fixed income securities values are estimated based upon market price quotations and are generally categorized as Level 2 because there is the ability to redeem at or near June 30, 2014.

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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 years ended June 30, 2014 and 2013, respectively. Conditional asset retirement obligations included in accrued liabilities are \$2,943,081 and \$2,853,443 as of 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 natural expenses associated with the operation and maintenance of University plant assets are allocated to the respective functional classifications based on square footage occupancy. The expenses are allocated as follows for the years ended June 30:

	2014	2013
Plant operations and maintenance	\$ 16,217,546	\$ 15,291,372
Depreciation	15,853,045	15,290,246
Interest on indebtedness	10,295,279	10,275,023

Included in institutional support expenses are fund raising costs of \$5,411,957 and \$4,883,357 in fiscal 2014 and 2013, respectively.

New Authoritative Accounting Pronouncements

In October 2012, the FASB issued ASU No.2012-05, Statement of Cash Flows (Topic 230): Not-for-Profit Entities: Classification of the Sale Proceeds of Donated Financial Assets in the Statement of Cash Flows (a consensus of the FASB EITF). This guidance requires not-for-profit entities to classify cash receipts from the sale of donated financial assets consistently with cash donations received in the statement of cash flows if those cash receipts were from the sale of donated financial assets that upon receipt were directed without any not-for-profit entity imposed limitations for sale and were converted nearly immediately into cash. Accordingly, the cash receipts from the sale of those financial assets should be classified as cash inflows from operating activities, unless the donor restricted the use of the contributed resources to long-term purposes, in which case those cash receipts from the sale of donated financial assets should be classified as cash flows from financing activities. Otherwise, cash receipts from the sale of donated financial assets should be classified as cash flows from investing activities by the not-for-profit entity. The guidance is effective prospectively (with retrospective application permitted) for fiscal years beginning after June 15, 2013, and early adoption is permitted. The University adopted this in fiscal 2014.

Use of Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. The most significant estimates include valuation of investments, allowance for doubtful accounts on student accounts and loan receivables, and asset retirement obligations. Actual results could differ from those estimates.

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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:

	Assets at Fair Value as of June 30, 2014			
	Level 1	Level 2	Level 3	Total
	Quoted Prices	Other Significant Observable Inputs	Significant Unobservable Inputs	
Cash equivalents				
Money Markets	\$ 30,697,703	\$ -	\$ -	\$ 30,697,703
Total cash equivalents	\$ 30,697,703	\$ -	\$ -	\$ 30,697,703
Deposits with trustees				
Fixed income	\$ -	\$ 21,105,135	\$ -	\$ 21,105,135
Total deposits with trustees	\$ -	\$ 21,105,135	\$ -	\$ 21,105,135
Investments				
Cash equivalents held for reinvestment	\$ 6,706,337	\$ -	\$ -	\$ 6,706,337
Fixed income	-	5,232,819	-	5,232,819
Corporate stocks	119,262,282	-	-	119,262,282
Investment funds				
Private equity and other	-	-	51,039,008	51,039,008
Equities (registered and nonregistered)	-	40,870,476	7,176,332	48,046,808
Bonds (registered)	-	38,591,183	-	38,591,183
Hedge fund of funds	-	3,264,911	44,263,050	47,527,961
Total investments	\$ 125,968,619	\$ 87,959,389	\$ 102,478,390	\$ 316,406,398

The following table includes a roll forward of activity for the year ended June 30, 2014 for financial instruments classified as Level 3:

	Private Equity and Other	Equities	Hedge Fund of Funds	Total
Balances at June 30, 2013	\$ 54,096,342	\$ 6,966,611	\$ 40,219,059	\$ 101,282,012
Purchase of investments	2,897,892	-	-	2,897,892
Distributions from investments	(15,130,317)	(1,243,923)	-	(16,374,240)
Transfers in (out) of Level 3	(305,766)	61,784	-	(243,982)
Gains, net				
Realized	6,268,349	517,844	-	6,786,193
Unrealized	3,212,508	874,016	4,043,991	8,130,515
Balances at June 30, 2014	\$ 51,039,008	\$ 7,176,332	\$ 44,263,050	\$ 102,478,390

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	Assets at Fair Value as of June 30, 2013			
	Level 1	Level 2	Level 3	Total
	Quoted Prices	Other Significant Observable Inputs	Significant Unobservable Inputs	
Cash equivalents				
Money Markets	\$ 23,566,779	\$ -	\$ -	\$ 23,566,779
Total cash equivalents	\$ 23,566,779	\$ -	\$ -	\$ 23,566,779
Deposits with trustees				
Fixed income	\$ -	\$ 20,975,514	\$ -	\$ 20,975,514
Total deposits with trustees	\$ -	\$ 20,975,514	\$ -	\$ 20,975,514
Investments				
Cash equivalents held for reinvestment	\$ 12,883,307	\$ -	\$ -	\$ 12,883,307
Fixed income	-	3,708,830	-	3,708,830
Corporate stocks	58,634,986	-	-	58,634,986
Investment funds				
Private equity and other	-	-	54,096,342	54,096,342
Equities (registered and nonregistered)	-	53,516,361	6,966,611	60,482,972
Bonds (registered)	-	36,389,935	-	36,389,935
Hedge fund of funds	-	2,968,892	40,219,059	43,187,951
Multi asset	-	5,542,195	-	5,542,195
Total investments	\$ 71,518,293	\$ 102,126,213	\$ 101,282,012	\$ 274,926,518

The following table includes a roll forward of activity for the year ended June 30, 2013 for financial instruments classified as Level 3:

	Private Equity and Other	Equities	Hedge Fund of Funds	Total
Balances at June 30, 2012	\$ 51,704,581	\$ 7,628,833	\$ 36,503,262	\$ 95,836,676
Purchase of investments	3,807,020	-	-	3,807,020
Distributions from investments	(7,125,351)	(1,662,365)	-	(8,787,716)
Transfers (out) of Level 3	(278,827)	-	-	(278,827)
Gains, net				
Realized	3,687,363	-	-	3,687,363
Unrealized	2,301,556	1,000,143	3,715,797	7,017,496
Balances at June 30, 2013	\$ 54,096,342	\$ 6,966,611	\$ 40,219,059	\$ 101,282,012

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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 determinable fair value and (b) prepare their financial statements consistent with the measurement principles of an investment company or have the attributes of an investment company. The following tables list investments in other investment companies (in partnership format) by major category.

		June 30, 2014							
	Strategy	NAV in Funds	Number of Funds	Remaining Life	Amount of Unfunded Commitments	Timing of Draw Down Commitments	Redemption Terms	Redemption Restrictions	Redemption Restrictions in Place at Year End
Private equity and other	Equity positions in funds with various strategies and private real estate funds and partnerships holding real estate	\$ 51,039,008	20	1 - 15 years	\$ 9,697,749	1 - 15 years	N.A.*	N.A	N.A
Equity funds (nonregistered)	Equities in investment funds (nonregistered)	48,046,808	7	N.A	111,000	N.A	Annually with 60 days written notice	None	None
Hedge fund of funds	Investment in various underlying hedge funds principally invested in exchange traded and over the counter securities	47,527,961	3	N.A	-	N.A	Ranges between monthly with 35 days written notice to annually with 95 days	None	None
Bonds (registered)	Investment in bond funds (registered)	38,591,183	2	N.A.	-	N.A	Ranges between daily to monthly with 10 days written notice	None	None
		<u>\$ 185,204,960</u>	<u>32</u>		<u>\$ 9,808,749</u>				

* These funds are in private equity structure, with no ability to be redeemed.

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June 30, 2013									
	Strategy	NAV in Funds	Number of Funds	Remaining Life	Amount of Unfunded Commitments	Timing of Draw Down Commitments	Redemption Terms	Redemption Restrictions	Redemption Restrictions in Place at Year End
Private equity and other	Equity positions in funds with various strategies and private real estate funds and partnerships holding real estate	\$ 54,096,342	20	1 - 15 years	\$ 11,006,588	1 - 15 years	N.A.*	N.A	N.A
Equity funds (nonregistered)	Equities in investment funds (nonregistered)	60,482,972	9	N.A	111,000	N.A	Annually with 60 days written notice	None	None
Hedge fund of funds	Investment in various underlying hedge funds principally invested in exchange traded and over the counter securities	43,187,951	3	N.A	-	N.A	Ranges between monthly with 35 days written notice to annually with 95 days	None	None
Multi asset strategy fund	Investment in hedge funds with a multi-strategy approach	5,542,195	1	N.A	-	N.A	Quarterly with 60 days written notice	None	None
Bonds (registered)	Investment in bond funds (registered)	36,389,935	2	N.A	-	N.A	Ranges between daily to monthly with 10 days written notice	None	None
		<u>\$ 199,699,395</u>	<u>35</u>		<u>\$ 11,117,588</u>				

* These funds are in private equity structure, with no ability to be redeemed.

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4. Investments

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

	2014		2013	
	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
Corporate bonds	4,710,105	5,232,819	3,378,082	3,708,830
Corporate stocks	100,036,286	119,262,282	50,697,363	58,634,986
Investment funds				
Private equity and other	44,380,067	51,039,008	50,649,910	54,096,342
Equities (registered and nonregistered)	38,131,992	48,046,808	53,867,639	60,482,972
Bonds (registered)	22,690,083	38,591,183	22,690,083	36,389,935
Hedge fund of funds	24,427,454	47,527,961	24,427,454	43,187,951
Multi asset	-	-	4,636,989	5,542,195
	<u>\$241,082,324</u>	<u>\$316,406,398</u>	<u>\$223,230,827</u>	<u>\$274,926,518</u>

The following schedule summarizes the investment return for the years ended June 30, 2014 and 2013:

	2014	2013
Dividends and interest	\$ 2,143,148	\$ 947,438
Realized and unrealized gains, net	<u>42,444,242</u>	<u>26,042,862</u>
Return on long-term investments	44,587,390	26,990,300
Interest on short-term investments	<u>90,126</u>	<u>69,801</u>
Total return on investments	44,677,516	27,060,101
Investment return designated for current operations	<u>(10,728,252)</u>	<u>(10,967,513)</u>
Investment return in excess of amounts designated for current operations	<u>\$ 33,949,264</u>	<u>\$ 16,092,588</u>

The University's policy is to distribute a portion of the total investment return for current operations at the predetermined spending rate as discussed in Note 8.

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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:

	2014	2013
Land and land improvements	\$ 22,009,949	\$ 21,660,930
Buildings	405,681,783	400,922,338
Equipment and library books	51,424,225	48,965,041
Construction in progress	4,268,317	1,215,215
	<u>483,384,274</u>	<u>472,763,524</u>
Less: Accumulated depreciation	<u>(202,379,332)</u>	<u>(187,708,727)</u>
Land, buildings and equipment, net	<u>\$ 281,004,942</u>	<u>\$ 285,054,797</u>

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 \$85,893,195 and \$86,260,682, respectively.

6. Long-Term Debt

Bonds and notes payable at June 30, 2014 and 2013 consisted of the following:

Facility Financed	Type of Financing	Average Interest Rate	2014 Outstanding Balances*	2013 Outstanding Balances*
Various campus facilities	CHEFA Bonds 2008-M, due 2034	4.76 %	\$ 29,300,697	\$ 30,860,696
Various campus facilities	CHEFA Bonds 2008-N, due 2034	4.92 %	93,063,673	96,871,863
Various campus facilities	CHEFA Bonds 2010-O, due 2040	5.09 %	73,524,093	73,512,585
Various campus facilities	CHEFA Bonds 2010-P, due 2028	4.42 %	9,928,628	10,265,200
Jesuit Community Center	Bank of America Note, due 2016	Variable	6,188,465	6,712,105
Various campus facilities	Capital Leases, due 2016	Variable	54,873	93,652
			<u>\$212,060,429</u>	<u>\$218,316,101</u>

* For the CHEFA bonds, amounts are net of unamortized discounts or unamortized premiums.

The above listed Connecticut Health and Educational Facilities Authority ("CHEFA") bonds are payable in annual installments on a graduating scale. The principal balance of the 2010-O bonds is net of unamortized debt discount of \$295,907 and \$307,415 at June 30, 2014 and 2013, respectively. The principal balances of the 2008-N and the 2010-P bonds, at June 30, 2014, include unamortized premiums of \$1,812,581 and \$364,353, respectively, and at June 30, 2013 \$1,940,771 and \$390,924, respectively. The premiums will be amortized as reductions in interest expense over the remaining life of the bonds.

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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 they be held in perpetuity to generate earnings now and in future years to support the University's programs of instruction, research and public service and funds designated by the Board of Trustees to function as endowment. Earnings from endowment investments support scholarships, chairs, professorships, fellowships, basic research, as well as academic and public service programs. The endowment should provide stability since the principal is invested and earnings are generated year after year. Net assets associated with endowment funds, including funds designated by the Board of Trustees to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

To accomplish these goals, the University relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The primary investment objective of the endowment is to attain an average annual total return in excess of the spending rate (currently at 4.25% of the average fair market value of total endowment assets for the preceding twelve quarters); over the long-term, defined as rolling five-year periods that should be achieved within acceptable risk levels, while avoiding large short-term declines in market value. Actual returns in any given year may vary from this amount. The University targets a diversified asset allocation that places a greater emphasis on equity-based and alternative investments to achieve its long-term objective within prudent risk constraints.

The Board of Trustees after consideration of the factors provided in CUPMIFA approved a policy that, absent specific donor imposed directions, University management may decide to spend a portion of or the entire spending amount on funds which are underwater. For the year ended June 30, 2014 and 2013, funds were distributed in total according to the spending formula. Although CUPMIFA permits prudent spending from the individual underwater endowments, University management chose not to spend from those funds but to fund this spending from the University unrestricted quasi endowment.

Assets of the endowment and quasi-endowment are pooled on a market value basis, with each individual asset subscribing to or disposing of units on the basis of the market value per unit at the end of the quarter within which the transaction takes place.

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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	\$118,557,648	\$ 34,526,446	\$126,858,216	\$279,942,310

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>

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10. Net Assets Released From Restrictions

Net assets released from donor restrictions when expenses were incurred to satisfy the restricted purposes or by occurrence of other events as specified by donors for the years ended June 30, 2014 and 2013 were as follows:

	2014	2013
Purpose of restrictions		
Student financial aid	\$ 5,108,313	\$ 5,599,511
Educational and general programs	6,371,390	6,717,358
Auxiliary services	76,307	76,829
Total operating	<u>11,556,010</u>	<u>12,393,698</u>
Capital expenditures	648,139	1,184,246
	<u>\$ 12,204,149</u>	<u>\$ 13,577,944</u>

11. Student Financial Aid

Student financial aid reported in the Statement of Activities as a reduction of tuition and fees, were funded in fiscal year 2014 and 2013 from the following revenue sources:

	2014	2013
Tuition and fees	\$ 55,419,322	\$ 51,008,057
Endowment distribution	3,449,456	3,884,790
Donor contributions	809,294	1,433,041
Government grants	1,270,451	1,517,931
Total student financial aid	<u>\$ 60,948,523</u>	<u>\$ 57,843,819</u>

12. Operating Leases

The University has various lease agreements, for the bookstore, printers, copiers, and other types of similar equipment, with obligations that extend through 2021. Future minimum rental payments at June 30, 2014, under agreements classified as operating leases with terms in excess of one year are as follows:

2015	\$ 988,584
2016	832,229
2017	769,688
2018	769,688
2019	769,687
Thereafter	<u>1,513,500</u>
Total future minimum lease payments	<u>\$ 5,643,376</u>

13. Commitments and Contingencies

At June 30, 2014, the University had a line of credit agreement which allows for borrowings up to \$20,000,000. The agreement expires on January 25, 2015. Interest on any borrowings is at the

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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.