



FAIRFIELD UNIVERSITY

Financial Statements

June 30, 2019 and 2018

(With Independent Auditors' Report Thereon)

FAIRFIELD UNIVERSITY

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KPMG LLP
345 Park Avenue
New York, NY 10154-0102

Independent Auditors' Report

The Board of Trustees
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, 2019 and 2018, and the related statements of activities and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with U.S. generally accepted accounting principles; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the 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 as of June 30, 2019 and 2018, and the changes in its net assets and its cash flows for the years then ended, in accordance with U.S. generally accepted accounting principles.



Emphasis of Matter

As discussed in note 1 (m) to the financial statements, in 2019, the University adopted new accounting guidance, Accounting Standards Update No. 2016-14, *Presentation of Financial Statements of Not-for-Profit Entities*. Our opinion is not modified with respect to this matter.

KPMG LLP

September 26, 2019

FAIRFIELD UNIVERSITY
 Statements of Financial Position
 June 30, 2019 and 2018

Assets	2019	2018
Cash and cash equivalents	\$ 53,020,774	60,475,210
Accounts receivable – students, less allowance for doubtful collections of \$782,228 in 2019 and \$583,820 in 2018	822,377	571,977
Student loans, less allowance for doubtful collections of \$100,000 in 2019 and 2018	2,495,605	2,926,426
Contributions receivable, net	38,326,175	43,625,096
Other assets	5,575,197	7,251,625
Deposits with bond trustees	25,127,278	45,558,683
Investments	397,878,721	390,488,418
Land, buildings, and equipment, net	426,963,551	378,966,110
Total assets	<u>\$ 950,209,678</u>	<u>929,863,545</u>
Liabilities and Net Assets		
Liabilities:		
Accounts payable and accrued liabilities	\$ 32,148,197	32,515,045
Accrued compensation	13,133,329	11,415,658
Deferred revenue	15,028,913	18,370,347
Government grants refundable – student loans	2,340,889	2,327,481
Long-term debt, net	273,777,067	276,008,029
Total liabilities	<u>336,428,395</u>	<u>340,636,560</u>
Net assets:		
Without donor restrictions	310,102,637	305,651,390
With donor restrictions	303,678,646	283,575,595
Total net assets	<u>613,781,283</u>	<u>589,226,985</u>
Total liabilities and net assets	<u>\$ 950,209,678</u>	<u>929,863,545</u>

See accompanying notes to financial statements.

FAIRFIELD UNIVERSITY

Statement of Activities

Year ended June 30, 2019

	Without donor restrictions	With donor restrictions	2019 Total
Operating revenues:			
Net tuition and fees (net of financial aid of \$86,172,784)	\$ 154,139,815	—	154,139,815
Government grants and contracts	822,354	2,928,386	3,750,740
Contributions	3,903,340	9,883,516	13,786,856
Investment return designated for current operations	6,441,584	6,420,662	12,862,246
Departmental and other revenues	4,789,188	—	4,789,188
Net assets released from restrictions	15,040,053	(15,040,053)	—
Total educational and general	185,136,334	4,192,511	189,328,845
Auxiliary services	49,022,692	—	49,022,692
Total operating revenues	234,159,026	4,192,511	238,351,537
Operating expenses:			
Educational and general service:			
Instruction	80,038,126	—	80,038,126
Research	1,308,923	—	1,308,923
Public service	1,991,841	—	1,991,841
Academic support	19,204,058	—	19,204,058
Institutional support	42,399,026	—	42,399,026
Student services	36,126,973	—	36,126,973
Total educational and general services	181,068,947	—	181,068,947
Auxiliary services	41,003,324	—	41,003,324
Total operating expenses	222,072,271	—	222,072,271
Increase in net assets from operations	12,086,755	4,192,511	16,279,266
Nonoperating activities:			
Contributions for nonoperating purposes	—	14,645,755	14,645,755
Investment return in excess of amounts designated for current operations	929,805	2,083,308	3,013,113
Loss on disposals of fixed assets	(5,789,431)	—	(5,789,431)
Other nonoperating expenses	(4,441,711)	990,292	(3,451,419)
Change in value of split-interest agreements	(29,038)	(113,948)	(142,986)
Nonoperating net assets released from restrictions	1,694,867	(1,694,867)	—
Total nonoperating activities	(7,635,508)	15,910,540	8,275,032
Increase in net assets	4,451,247	20,103,051	24,554,298
Net assets:			
Beginning of year	305,651,390	283,575,595	589,226,985
End of year	\$ 310,102,637	303,678,646	613,781,283

See accompanying notes to financial statements.

FAIRFIELD UNIVERSITY

Statement of Activities

Year ended June 30, 2018

	Without donor restrictions	With donor restrictions	2018 Total
Operating revenues:			
Net tuition and fees (net of financial aid of \$80,158,441)	\$ 144,379,371	—	144,379,371
Government grants and contracts	622,620	2,536,110	3,158,730
Contributions	4,220,288	6,234,380	10,454,668
Investment return designated for current operations	11,726,364	6,157,637	17,884,001
Departmental and other revenues	4,681,107	—	4,681,107
Net assets released from restrictions	16,187,310	(16,187,310)	—
Total educational and general	181,817,060	(1,259,183)	180,557,877
Auxiliary services	46,067,649	—	46,067,649
Total operating revenues	227,884,709	(1,259,183)	226,625,526
Operating expenses:			
Educational and general service:			
Instruction	75,851,188	—	75,851,188
Research	1,227,000	—	1,227,000
Public service	1,780,265	—	1,780,265
Academic support	19,257,575	—	19,257,575
Institutional support	45,138,869	—	45,138,869
Student services	32,090,271	—	32,090,271
Total educational and general services	175,345,168	—	175,345,168
Auxiliary services	40,202,631	—	40,202,631
Total operating expenses	215,547,799	—	215,547,799
Increase (decrease) in net assets from operations	12,336,910	(1,259,183)	11,077,727
Nonoperating activities:			
Contributions for nonoperating purposes	27,504	9,744,231	9,771,735
Investment return in excess of amounts designated for current operations	114,800	8,772,415	8,887,215
Loss on disposals of fixed assets	(9,734,294)	—	(9,734,294)
Other nonoperating expenses	(1,934,730)	180,633	(1,754,097)
Loss on extinguishment of debt	(6,181,001)	—	(6,181,001)
Change in value of split-interest agreements	(6,035)	(1,481,749)	(1,487,784)
Nonoperating net assets released from restrictions	10,864,150	(10,864,150)	—
Total nonoperating activities	(6,849,606)	6,351,380	(498,226)
Increase in net assets	5,487,304	5,092,197	10,579,501
Net assets:			
Beginning of year	300,164,086	278,483,398	578,647,484
End of year	\$ 305,651,390	283,575,595	589,226,985

See accompanying notes to financial statements.

FAIRFIELD UNIVERSITY

Statements of Cash Flows

Years ended June 30, 2019 and 2018

	<u>2019</u>	<u>2018</u>
Cash flows from operating activities:		
Increase in net assets	\$ 24,554,298	10,579,501
Adjustments to reconcile increase in net assets to net cash provided by operating activities:		
Depreciation and amortization	18,526,970	17,690,776
Net loss on disposal of buildings and equipment	5,789,431	9,734,294
Loss on extinguishment of debt	—	6,181,001
Contributions restricted for long-term investment	(14,645,755)	(7,367,759)
Realized and unrealized gains on investments, net	(9,598,074)	(19,853,747)
Changes in operating assets and liabilities:		
Contributions receivable	(1,941,107)	1,596,469
Student accounts receivable	(250,400)	(349,820)
Other assets	1,676,428	25,673
Accounts payable and other accrued liabilities and accrued compensation	(6,305,519)	2,101,427
Deferred revenue	(3,341,434)	(419,356)
Government grants refundable – student loans	13,408	(106,985)
Net cash provided by operating activities	<u>14,478,246</u>	<u>19,811,474</u>
Cash flows from investing activities:		
Proceeds from sale of investments	277,703,277	120,892,156
Purchase of investments	(275,495,506)	(109,408,850)
Purchase of buildings and equipment	(72,735,650)	(68,854,436)
Proceeds from sale of assets	272,448	—
Accruals for the acquisition of buildings and equipment	7,687,192	823,356
Issuance of student loans	(97,700)	(494,999)
Repayment of student loans	528,521	274,309
Net cash used in investing activities	<u>(62,137,418)</u>	<u>(56,768,464)</u>
Cash flows from financing activities:		
Cash proceeds from contributions restricted for:		
Endowment	9,055,433	2,992,558
Capital	12,830,350	4,375,201
Net proceeds from long-term borrowing	—	191,083,458
Principal payments from refinancing and retirement of debt	—	(155,945,000)
Payment of long-term debt principal	(2,112,452)	(3,578,666)
Bond issuance costs incurred	—	(1,352,784)
Decrease in deposits with bond trustees	20,431,405	4,443,252
Net cash provided by financing activities	<u>40,204,736</u>	<u>42,018,019</u>
Net (decrease) increase in cash and cash equivalents	(7,454,436)	5,061,029
Cash and cash equivalents:		
Beginning of year	<u>60,475,210</u>	<u>55,414,181</u>
End of year	<u>\$ 53,020,774</u>	<u>60,475,210</u>
Supplemental disclosure of cash flow information:		
Interest paid on debt	\$ 11,461,179	11,790,276

See accompanying notes to financial statements.

FAIRFIELD UNIVERSITY
Notes to Financial Statements
June 30, 2019 and 2018

(1) Summary of Significant Accounting Policies

(a) 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).

(b) Basis of Presentation

(i) 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:

Net assets without donor restrictions comprised the following:

- Undesignated net assets not subject to donor-imposed restrictions or the donor-imposed restrictions have expired
- Designated net assets by action of the Board of Trustees

Net assets with donor restrictions comprised the following:

- Net assets subject to donor-imposed stipulations that will be met by actions of the University or the passage of time.
- 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.

Revenues are reported as increases in net assets without donor restrictions unless their use is limited by donor-imposed restrictions. Expenses are reported as decreases in net assets without donor restrictions. Gains and losses on investments and other assets or liabilities are reported as increases or decreases in net assets without donor restrictions unless their use is restricted by explicit donor stipulations or law. Expirations of 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 net assets without donor restrictions when the assets are placed in service.

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Notes to Financial Statements
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(ii) Contributions Receivable

Contributions, including unconditional promises to give, are recognized as revenues in the period received at their fair value. Unconditional promises to give that are scheduled to be received after the date of the statements of financial position are shown as increases in net assets with donor restrictions and are released to net assets without donor restrictions when the purpose and time restrictions are met. Promises to give subject to donor-imposed stipulations that the corpus be maintained permanently are recognized as increases in net assets with donor restrictions.

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 adjusted interest rate. Amortization of the discount is recorded as additional contribution revenue in accordance with the donor-imposed restrictions, if any, on the contributions. Conditional promises to give are not recognized until they become unconditional, that is, when the conditions on which they depend are met. At June 30, 2019, the University received conditional promises to give of approximately \$6,000,000 in the form of measurable performance-related or other barriers and right of return that have not been reflected on the accompanying financial statements because the conditions on which they depend have not been met.

(iii) Measure of Operations

The statements of activities report 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 of the amount appropriated under the University's spending plan, as discussed in note 8, donor contributions restricted for capital expenditures 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. This measure of operations is different from cash flows from operating activities reported in the statements 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.

(c) Cash and Cash Equivalents

The University has several bank accounts at June 30, 2019 containing balances, which exceed FDIC limits. The University believes that no significant risk exists at June 30, 2019 with respect to these balances. The University has cash equivalents 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. 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.

(d) Deposits with Bond Trustees

Deposits with bond trustees are directly owned investments in government money market funds related to the Connecticut Health and Educational Facility Authority (CHEFA) Revenue Bonds, Series P, Q-1, and R. These investments are valued based upon market price quotations and categorized as Level 1.

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Notes to Financial Statements
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(e) Accounts and Student Loans Receivable

Accounts and student 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.

(f) 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 or published 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 or published prices in active markets 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.

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.

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Notes to Financial Statements
June 30, 2019 and 2018

In determining an instrument's placement within the hierarchy, the University separates the marketable investment portfolio and other fair valued assets and liabilities into the following categories: cash equivalents, certificates of deposit, fixed income, corporate stocks, equity funds, bond investment fund, and deposits with bond trustees.

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.

(g) Investments

Investments are reported in the financial statements at fair value. Quoted or published market prices are used to value short-term investments, fixed income securities, corporate stocks, equity funds, and bond investment fund. 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 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.

(i) 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.

(ii) Fixed-Income Securities

Fixed-income securities include investments in various U.S. Treasury instruments, corporate debt, structured products (such as mortgage-backed securities, asset-backed securities, and bank debt). Fixed-income securities values are estimated based upon market price quotations and are generally categorized as Level 2.

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Notes to Financial Statements
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(iii) Bond Investment Fund (Registered)

Bonds in investment fund include a mutual fund (registered under the Investors' 1940 Act). Mutual funds are principally invested in fixed income securities and trade in over the counter markets. The fair value is based upon published prices and are generally categorized as Level 1.

(iv) 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.

(v) 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, have readily determinable fair values and are generally categorized as Level 1. The hedge funds are invested principally in exchange traded and over the counter securities. The University has opted to utilize the NAV practical expedient for nonregistered hedge fund investments fair value.

(vi) 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.

(h) 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 \$20,277,733 and \$18,439,641 for the years ended June 30, 2019 and 2018, respectively. Conditional asset retirement obligations included in accrued liabilities are \$2,195,337 and \$2,456,463 as of June 30, 2019 and 2018, respectively.

(i) Student Services Revenue Recognition

The University recognizes revenues from student tuition and fees and room and board revenues in the fiscal year in which the academic programs and residential services are delivered. Institutional scholarships awarded to students reduce the amount of tuition and fees revenue recognized. Room and board revenues are reported in auxiliary services in the accompanying statement of activities. Payments for tuition and fees and residential services are due prior to the start of the academic term in accordance with the University's due dates. Generally, students who adjust their course load or withdraw completely within 5 weeks of the academic term may receive a full or partial refund in accordance with the University's refund policy. Refunds issued reduce the amount of revenue recognized. Student advance payments for tuition, room, and board are deferred and then recorded as revenue without donor restrictions when earned.

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Notes to Financial Statements

June 30, 2019 and 2018

(j) Government Grants and Contracts

Revenues associated with government grants for educational purposes and contracts are recognized as the related direct costs are incurred and are accounted for in net assets without donor restrictions. The University records reimbursement of indirect costs relating to such grants and contracts at authorized rates for each fiscal year as revenue without donor restrictions.

(k) Government Grants Refundable – Student Loans

Funds provided by the U.S. government under the Federal Health Professions Student Loan program are loaned to qualified students and may be reloaned after collection. These funds, in addition to funds provided under the Federal Perkins Loan and Federal Nursing Loan programs, are ultimately refundable to the U.S. government and are presented in the accompanying statements of financial position as a liability.

(l) Tax Status

The University is a not-for-profit corporation as described in Section 501(c)(3) of the Internal Revenue Code (the Code) and is generally exempt from income taxes on related income pursuant to Section 501(a) of the Code. The University recognizes the effects of income tax positions only if those positions are more likely than not of being sustained. The University evaluates, on an annual basis, the effects of any uncertain tax positions on its financial statements. As of June 30, 2019, the University has not identified or provided for any such positions.

(m) New Authoritative Accounting Pronouncements

The Financial Accounting Standards Board (FASB) issued Accounting Standard Update (ASU) No. 2014-09, *Revenue from Contract with Customers (Topic 606)*. The University adopted this ASU for the fiscal year ended June 30, 2019. This ASU requires the University to recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the University expects to be entitled in exchange for those goods or services. Management has determined that ASU No. 2014-09 did not have a significant impact on its financial statements.

The FASB issued ASU No. 2016-14, *Presentation of Financial Statements of Not-for-Profit Entities*, which, among other things, changes how not-for-profit entities report net asset classes, expenses, and liquidity in their financial statements. The University adopted the main provisions of the ASU, including the reduction of the number of net asset classes from three to two: with donor restrictions, previously reported as temporarily restricted net assets of \$130,316,218 and permanently restricted net assets of \$153,259,377 in 2018, and without donor restrictions, previously reported as unrestricted net assets in 2018; the presentation of expenses by their function and their natural classification in one location; and quantitative and qualitative information about the management of liquid resources and availability of financial assets to meet cash needs within one year of the date of the statement of financial position.

The FASB issued ASU No. 2018-08, *Not-for-Profit Entities Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. ASU No. 2018-08 helps an entity evaluate whether it should account for a grant (or similar transaction) as a contribution or as an exchange transaction. The ASU also clarifies and expands the criteria for determining whether a contribution is conditional, which may delay recognition of contribution revenue (recipient) or expense

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(resource provided). The University adopted the provisions of ASU No. 2018-08 as of July 1, 2018, which did not significantly impact the University's financial statements.

The FASB issued ASU No. 2016-02, *Leases (Topic 842)*. This guidance, effective for the University's fiscal year ending June 30, 2020, requires a lessee to recognize a right-of-use asset and a lease liability, initially measured at the present value of the lease payments on the statement of financial position and disclose key information about leasing arrangements. Management is evaluating the effect that ASU No. 2016-02 will have on its financial statements.

(n) 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 and functional allocation of expenses. Actual results could differ from those estimates.

(o) Reclassifications

Certain reclassifications have been made to the 2018 amounts to conform to the current year presentation.

(p) Subsequent Events

The University has performed an evaluation of subsequent events through September 26, 2019, which is the date the financial statements were issued and has determined that there are no subsequent events to disclose.

(2) Functional and Natural Classification of Expenses

The University's primary program service is instruction. Expenses reported as research, public service, academic support, and student services are incurred in support of this primary program activity.

The University allocates expenses relating to the operation and maintenance of plant and depreciation using building square footage based on functional use. Interest expense and amortization of bond discount and premium is allocated based on the functional use of each facility financed by debt.

Included in institutional support expenses are fundraising costs of \$6,999,474 and \$6,451,254 in fiscal year 2019 and 2018, respectively.

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Notes to Financial Statements
June 30, 2019 and 2018

The composition of expenses for the year ended June 30, 2019 and 2018 (in thousands) is as follows:

	<u>Instruction</u>	<u>Research</u>	<u>Public service</u>	<u>Academic support</u>	<u>Institutional support</u>	<u>Student services</u>	<u>Auxiliary services</u>	<u>Total 2019</u>	<u>Total 2018</u>
Compensation	\$ 46,413	592	745	7,786	19,058	14,646	5,493	94,733	88,014
Benefits and payroll taxes	13,243	96	588	4,570	8,065	4,976	1,396	32,934	29,767
Food and beverage	308	16	16	160	933	983	12,375	14,791	14,596
Utilities	1,084	—	—	567	292	882	1,905	4,730	4,686
Study abroad tuition and housing	6,029	—	—	—	252	2	—	6,283	6,281
Professional fees and consulting	987	26	103	953	3,680	849	160	6,758	7,611
Other services	664	8	9	959	4,237	1,022	380	7,279	7,312
Materials and supplies	2,922	50	94	1,761	1,873	3,458	5,746	15,904	14,978
Travel and team transportation	864	94	81	240	635	2,605	141	4,660	4,906
Other	595	427	356	12	1,749	1,030	1,317	5,486	9,419
Depreciation	4,562	—	—	1,446	1,070	3,736	7,960	18,774	16,937
Interest	2,367	—	—	750	555	1,938	4,130	9,740	11,041
Total operating expenses	<u>80,038</u>	<u>1,309</u>	<u>1,992</u>	<u>19,204</u>	<u>42,399</u>	<u>36,127</u>	<u>41,003</u>	<u>222,072</u>	<u>215,548</u>
Total nonoperating expenses	<u>366</u>	<u>276</u>	<u>—</u>	<u>116</u>	<u>623</u>	<u>299</u>	<u>1,771</u>	<u>3,451</u>	<u>1,754</u>
Total expenses	<u>\$ 80,404</u>	<u>1,585</u>	<u>1,992</u>	<u>19,320</u>	<u>43,022</u>	<u>36,426</u>	<u>42,774</u>	<u>225,523</u>	<u>217,302</u>

(3) Contributions Receivable

Contributions receivable at June 30, 2019 and 2018 are expected to be collected as follows:

	<u>2019</u>	<u>2018</u>
2019	\$ —	20,028,176
2020	21,229,742	9,896,104
2021	9,254,856	7,158,889
2022	4,080,908	4,168,275
2023	1,801,043	955,775
2024	1,033,242	741,429
Thereafter	<u>2,101,879</u>	<u>2,192,893</u>
	39,501,670	45,141,541
Less:		
Present value discount (at rates ranging from 1.00% to 2.73%)	(975,495)	(1,316,445)
Allowance for doubtful collections	<u>(200,000)</u>	<u>(200,000)</u>
Contributions receivable, net	<u>\$ 38,326,175</u>	<u>43,625,096</u>

Amounts receivable from three donors represented 56% and 61% of gross contributions receivable in the years ended June 30, 2019 and 2018, respectively. During 2019 and 2018, 23% and 17%, respectively, of gross contributions revenue was recognized from two donors.

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(4) Investments

The following tables present the University's investments that were measured at fair value on a recurring basis as of June 30, 2019 and 2018:

Assets at fair value as of June 30, 2019			
	Level 1	Level 2	Total
Investments:			
Cash equivalents held for reinvestment	\$ 27,620,056	—	27,620,056
Certificates of deposit	16,500,000	—	16,500,000
Fixed income	—	6,667,868	6,667,868
Corporate stocks	174,368,788	—	174,368,788
Equity funds	62,822,715	—	62,822,715
Bond investment fund	38,541,125	—	38,541,125
	\$ 319,852,684	6,667,868	326,520,552
Investment funds:			
Measured at NAV (or its equivalent)			71,358,169
Total investments			\$ 397,878,721

Assets at fair value as of June 30, 2018			
	Level 1	Level 2	Total
Investments:			
Cash equivalents held for reinvestment	\$ 35,747,877	—	35,747,877
Certificates of deposit	23,000,000	—	23,000,000
Fixed income	—	6,416,666	6,416,666
Corporate stocks	198,372,896	—	198,372,896
Equity funds	23,956,830	—	23,956,830
Bond investment fund	35,231,819	—	35,231,819
	\$ 316,309,422	6,416,666	322,726,088
Investment funds:			
Measured at NAV (or its equivalent)			67,762,330
Total investments			\$ 390,488,418

The University uses the NAV to determine the fair value of all the investments, which (a) do not have a readily determinable fair value and (b) prepare their financial statements consistent with the measurement

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principles of an investment company or have the attributes of an investment company. The following tables list investments in other investment companies by major category:

		June 30, 2019					
Strategy	NAV in funds	Number of funds	Remaining life	Amount of unfunded commitments	Timing of draw down commitments	Redemption terms	
Private equity and other							
Equity funds (nonregistered)							
Hedge fund of funds							
	\$ 18,098,760	20	1-14 years	\$ 22,262,006	1-7 years	NA*	
	24,821,609	4	NA	111,000	NA	Annually w ith 60 days w ritten notice	
	28,437,800	1	NA	—	NA	Ranges between monthly w ith 35 days w ritten notice to annually w ith 95 days	
	<u>\$ 71,358,169</u>	<u>25</u>		<u>\$ 22,373,006</u>			

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

		June 30, 2018					
Strategy	NAV in funds	Number of funds	Remaining life	Amount of unfunded commitments	Timing of draw down commitments	Redemption terms	
Private equity and other							
Equity funds (nonregistered)							
Hedge fund of funds							
	\$ 22,117,532	20	1-8 years	\$ 9,359,682	1-3 years	NA*	
	18,321,628	4	NA	111,000	NA	Annually w ith 60 days w ritten notice	
	27,323,170	1	NA	—	NA	Ranges between monthly w ith 35 days w ritten notice to annually w ith 95 days	
	<u>\$ 67,762,330</u>	<u>25</u>		<u>\$ 9,470,682</u>			

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

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The following table summarizes the investment return for the years ended June 30:

	<u>2019</u>	<u>2018</u>
Dividends and interest	\$ 4,973,747	5,463,967
Realized and unrealized gains, net	<u>9,544,719</u>	<u>19,815,836</u>
Return on long-term investments	14,518,466	25,279,803
Interest on short-term investments	<u>1,356,893</u>	<u>1,491,413</u>
Total return on investments, net	15,875,359	26,771,216
Investment return designated for current operations	<u>(12,862,246)</u>	<u>(17,884,001)</u>
Investment return in excess of amounts designated for current operations	<u>\$ 3,013,113</u>	<u>8,887,215</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.

(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. Land, buildings, and equipment, net at June 30, 2019 and 2018 is as follows:

	<u>2019</u>	<u>2018</u>
Land and land improvements	\$ 22,099,911	28,545,916
Buildings	528,093,472	490,986,657
Equipment and library books	75,963,072	66,248,930
Construction in progress	<u>61,931,554</u>	<u>49,667,373</u>
	688,088,009	635,448,876
Less accumulated depreciation	<u>(261,124,458)</u>	<u>(256,482,766)</u>
Land, buildings, and equipment, net	<u>\$ 426,963,551</u>	<u>378,966,110</u>

At June 30, 2019 and 2018, construction in progress represents ongoing construction costs associated with new construction and improvements to various University facilities on campus.

At June 30, 2019 and 2018, net investment in plant included in net assets without donor restrictions totaled \$145,362,978 and \$135,027,022, respectively. The 2019 results include a loss on disposal of fixed assets of \$5,789,431 relating to the refurbishment of campus facilities.

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(6) Long-Term Debt

Bonds and notes payable at June 30, 2019 and 2018 consisted of the following:

<u>Type of financing</u>	<u>Average interest rate</u>	<u>June 30, 2019</u>		<u>June 30, 2018</u>	
		<u>Unamortized amounts</u>	<u>Outstanding balances*</u>	<u>Unamortized amounts</u>	<u>Outstanding balances*</u>
CHEFA Bonds 2010-P, due 2028	4.42	\$ 175,135	7,725,135	195,234	8,404,509
CHEFA Bonds 2016-Q-1, due 2046	4.16	5,717,881	52,317,881	5,942,513	52,542,512
CHEFA Bonds 2016-Q-2, due 2034	2.96	1,692,848	18,382,848	1,818,497	19,463,496
CHEFA Bonds 2017-R, due 2047	3.75	3,542,847	120,887,847	3,758,930	121,103,930
CHEFA Bonds 2018-S, due 2034	2.92	6,754,323	73,064,324	7,918,623	74,463,624
Capital Leases, due 2022	Variable	—	1,399,032	—	29,958
		<u>\$ 17,883,034</u>	<u>273,777,067</u>	<u>19,633,797</u>	<u>276,008,029</u>

* For the CHEFA bonds, amounts are net of unamortized premiums and bond issuance costs.

The above listed CHEFA bonds financed for various campus facilities are payable in annual installments on a graduating scale.

The premiums will be amortized as reductions in interest expense over the remaining life of the bonds. The University amortized \$1,750,763 and \$870,359 of debt premiums and bond issuance costs to interest expense in the years ended June 30, 2019 and 2018, respectively.

The Series P bonds were issued in March 2010 to refund the outstanding balance of the Series H bonds. The Series Q-1 bonds were issued in February 2016 and the proceeds were used for the renovation and expansion of the Health Sciences Building and other various University facilities on campus. The Series Q-2 bonds were issued in March 2016 to advance refund a portion of the Series M bonds. The Series R bonds were issued in December 2017 to advance refund the outstanding balance of Series O bonds and to generate funds for the construction of a new resident hall facility and the renovation of dormitory and academic facilities. The Series S bonds were issued in April 2018 to refund the outstanding balance of Series M and N bonds. The effect of the refundings was a nonoperating charge of \$6,181,001 for the year ended June 30, 2018.

In accordance with the Series P bond indenture, the University maintains a sinking fund with bank trustees at an amount sufficient to pay interest and principal during the succeeding 12 months. The amounts in deposits with bond trustees are as follows:

<u>Type of financing</u>	<u>2019</u>	<u>2018</u>
CHEFA Bonds 2010-P	\$ 830,733	841,549
CHEFA Bonds 2016-Q-1, Construction	—	1,515,061
CHEFA Bonds 2017-R, Construction	<u>24,296,545</u>	<u>43,202,073</u>
	<u>\$ 25,127,278</u>	<u>45,558,683</u>

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The University's long-term debt agreement for Series P contain various covenants, which may restrict the ability of the University to incur or guarantee debt. This agreement also requires the University to meet a debt service ratio, as defined in the agreement. The University was in compliance with the financial debt covenants at June 30, 2019.

Interest expense and amortization of bond premium for the years ended June 30, 2019 and 2018 was \$9,710,416 and \$11,041,411, respectively.

The aggregate amount of principal due with respect to long-term debt (not including unamortized premiums and bond issuance costs) within each of the five fiscal years subsequent to June 30, 2019 and in total thereafter is as follows:

2020	\$	6,676,760
2021		7,664,568
2022		8,023,436
2023		8,432,628
2024		8,722,715
Thereafter		<u>216,373,926</u>
		255,894,033
Plus unamortized premiums		19,939,372
Less unamortization bond issuance costs		<u>(2,056,338)</u>
	\$	<u><u>273,777,067</u></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 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 2.5%. 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 operations for the years ended June 30, 2019 and 2018 were \$5,774,572 and \$5,918,051, 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

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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. Funds are also 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 3.25% of the average fair market value of total endowment assets for the preceding twelve quarters, prior to fiscal year ended June 30, 2018 special appropriation of \$6.0 million); 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 years ended June 30, 2019 and 2018, funds were distributed in total according to the spending formula. Although CUPMIFA permits prudent spending from the individual underwater endowments, the Board of Trustees chose not to spend from those funds, if applicable, but to fund this spending from the University board-designated quasi-endowment. There were no underwater endowments as of June 30, 2019 or 2018.

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.

At June 30, 2019, the endowment net asset composition by type of fund consisted of the following:

	<u>Without donor restrictions</u>	<u>With donor restrictions</u>	<u>Total</u>
Donor-restricted funds	\$ —	230,535,937	230,535,937
Board-designated funds	151,914,581	—	151,914,581
Total endowment funds	<u>\$ 151,914,581</u>	<u>230,535,937</u>	<u>382,450,518</u>

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Changes in endowment net assets for the fiscal year ended June 30, 2019 consisted of the following:

	<u>Without donor restrictions</u>	<u>With donor restrictions</u>	<u>Total</u>
Endowment net assets at June 30, 2018	\$ 150,957,210	220,225,466	371,182,676
Investment return:			
Investment income	1,687,613	2,654,607	4,342,220
Realized and unrealized gains, net	<u>3,727,671</u>	<u>5,844,291</u>	<u>9,571,962</u>
Total investment return	5,415,284	8,498,898	13,914,182
Contributions/transfers	—	8,376,657	8,376,657
Appropriation of endowment assets for expenditure	(4,457,913)	(6,415,045)	(10,872,958)
Other changes:			
Change in value split-interest agreement	<u>—</u>	<u>(150,039)</u>	<u>(150,039)</u>
Endowment net assets at June 30, 2019	<u>\$ 151,914,581</u>	<u>230,535,937</u>	<u>382,450,518</u>

At June 30, 2018, the endowment net asset composition by type of fund consisted of the following:

	<u>Without donor restrictions</u>	<u>With donor restrictions</u>	<u>Total</u>
Donor-restricted funds	\$ —	220,225,466	220,225,466
Board-designated funds	<u>150,957,210</u>	<u>—</u>	<u>150,957,210</u>
Total endowment funds	<u>\$ 150,957,210</u>	<u>220,225,466</u>	<u>371,182,676</u>

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Changes in endowment net assets for the fiscal year ended June 30, 2018 consisted of the following:

	<u>Without donor restrictions</u>	<u>With donor restrictions</u>	<u>Total</u>
Endowment net assets at June 30, 2017	\$ 149,320,070	205,986,196	355,306,266
Investment return:			
Investment income	2,269,936	3,154,795	5,424,731
Realized and unrealized gains, net	<u>8,179,838</u>	<u>11,658,969</u>	<u>19,838,807</u>
Total investment return	10,449,774	14,813,764	25,263,538
Contributions/transfers	1,527,487	6,958,019	8,485,506
Appropriation of endowment assets for expenditure	(10,340,121)	(6,013,229)	(16,353,350)
Other changes:			
Change in value split-interest agreement	<u>—</u>	<u>(1,519,284)</u>	<u>(1,519,284)</u>
Endowment net assets at June 30, 2018	<u>\$ 150,957,210</u>	<u>220,225,466</u>	<u>371,182,676</u>

(9) Net Assets

Net assets without donor restrictions at June 30, 2019 and 2018 were available for the following purposes:

	<u>2019</u>	<u>2018</u>
Board-designated endowment	\$ 151,914,581	150,957,210
Net investment in plant	145,362,978	135,027,022
Undesignated	<u>12,825,078</u>	<u>19,667,158</u>
Total net assets without donor restrictions	<u>\$ 310,102,637</u>	<u>305,651,390</u>

Net assets with donor restrictions at June 30, 2019 and 2018 were available for the following purposes:

	<u>2019</u>	<u>2018</u>
Time or purpose, primarily for capital	\$ 73,142,709	63,350,129
Perpetual in nature, primarily for scholarships	161,098,153	152,360,060
Accumulated return on donor-restricted endowment, net, primarily for scholarships	<u>69,437,784</u>	<u>67,865,406</u>
Total net assets with donor restrictions	<u>\$ 303,678,646</u>	<u>283,575,595</u>

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(10) Student Financial Aid

Student financial aid reported in the statements of activities as a reduction of tuition and fees were funded in fiscal years 2019 and 2018 from the following revenue sources:

	2019	2018
Institutional operating funds	\$ 80,267,183	75,080,273
Endowment distribution	4,407,492	3,856,209
Contributions	902,815	921,239
Government grants	595,294	300,720
Total student financial aid	\$ 86,172,784	80,158,441

(11) Liquidity and Availability of Resources

The University regularly monitors liquidity required to meet its operating needs and other contractual commitments, including capital. 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 other services undertaken to support mission related activities, including scheduled principal payments on debt and capital construction costs not financed with debt. The University includes in this analysis, the amount of funds authorized by the Board of Trustees to be distributed from the endowment. Student loans receivable are not considered to be available to meet general expenditures since principal and interest collected on these loans are used to make new loans.

In addition to financial assets available to meet general expenditures over the next 12 months, the University operates with a balanced budget and anticipates collecting sufficient revenue to cover general expenditures not otherwise covered by donor restricted resources. Refer to the statements of cash flows, which identifies the sources and uses of the University's cash and shows positive cash flows from operations for fiscal years 2019 and 2018.

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At June 30, 2019, available financial assets and liquidity resources within one year were as follows:

	Total financial assets at June 30, 2019	Less financial assets not available at June 30, 2019	Planned endowment drawdown in 2020	Total
Financial assets available:				
Cash and cash equivalents	\$ 53,020,774	(3,298,248)	—	49,722,526
Accounts receivable, net	822,377	—	—	822,377
Contribution receivables due within one year or less	21,229,742	(6,750,187)	—	14,479,555
Payout on donor-restricted endowments	—	—	7,143,332	7,143,332
Payout on board-designated endowments	—	—	4,346,626	4,346,626
Investments not subject to donor restrictions or board designations	<u>16,500,000</u>	<u>(11,000,000)</u>	<u>—</u>	<u>5,500,000</u>
Total financial assets available	91,572,893	(21,048,435)	11,489,958	82,014,416
Liquidity resources:				
Bank line of credit (no balance outstanding at June 30, 2019)	<u>20,000,000</u>	<u>—</u>	<u>—</u>	<u>20,000,000</u>
Total financial assets and other liquidity resources	<u>\$ 111,572,893</u>	<u>(21,048,435)</u>	<u>11,489,958</u>	<u>102,014,416</u>

In addition, at June 30, 2019, the University had \$151,914,581 of board-designated endowment funds that, with board approval, could be made available for operations.

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(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 2025. Future minimum rental payments at June 30, 2019, under agreements classified as operating leases with terms in excess of one year, are as follows:

2020	\$	644,256
2021		581,100
2022		165,930
2023		27,896
2024 and later		<u>34,870</u>
Total future minimum lease payments		\$ <u><u>1,454,052</u></u>

(13) Commitments and Contingencies

At June 30, 2019, the University had a line of credit agreement, which allows for borrowings up to \$20,000,000. The agreement expires on January 23, 2020. Interest on any borrowings is at the LIBOR rate plus 0.80%. There is an unused commitment fee of 0.30% per annum. There were no borrowings during the year or outstanding at June 30, 2019 or 2018.

The University has entered into construction-related commitments of approximately \$14,250,000 as of June 30, 2019.

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.