

**Fairleigh Dickinson  
University**  
Consolidated Financial Statements  
June 30, 2014 and 2013

**Fairleigh Dickinson University**  
**Index**  
**June 30, 2014 and 2013**

---

	<b>Page(s)</b>
<b>Independent Auditor's Report</b> .....	1-2
<b>Consolidated Financial Statements</b>	
Statements of Financial Position .....	3
Statements of Activities .....	4
Statements of Cash Flows .....	5
Notes to Financial Statements .....	6-30



## Independent Auditor's Report

To the Board of Trustees of  
Fairleigh Dickinson University

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

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

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether to fraud or error. In making those risk assessments, we consider internal control relevant to the University's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the 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 consolidated financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.



***Opinion***

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Fairleigh Dickinson University at June 30, 2014 and 2013, and the results of their operations and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

*PricewaterhouseCoopers LLP*

September 26, 2014

**Fairleigh Dickinson University**  
**Consolidated Statements of Financial Position**  
**June 30, 2014 and 2013**

<i>(in thousands of dollars)</i>	<b>2014</b>	<b>2013</b>
<b>Assets</b>		
Cash and cash equivalents	\$ 67,557	\$ 58,020
Restricted cash and cash equivalents	13,121	11,360
Student accounts receivable, net of allowance for doubtful accounts of \$16,499 and \$16,631 in 2014 and 2013, respectively	6,342	7,168
Accounts receivable and other current assets	6,138	5,320
Contributions receivable, net	2,362	1,530
Student loans receivable, net of allowance for doubtful accounts of \$2,787 and \$2,639 in 2014 and 2013, respectively	7,988	7,771
Investments, at fair value	60,989	52,909
Deferred bond issuance costs	953	2,756
Property, plant and equipment, net	185,491	181,283
Total assets	<u>\$ 350,941</u>	<u>\$ 328,117</u>
<b>Liabilities</b>		
Accounts payable and accrued liabilities	\$ 16,185	\$ 15,708
Accrued salaries and liabilities for compensated absences	6,626	6,899
Deferred tuition revenues	2,315	2,326
U.S. government grants refundable	10,376	10,055
Long-term debt	90,757	95,432
Long-term liabilities		
Post-retirement benefits liability	31,416	28,216
Asset retirement obligations	12,546	12,013
Other	5,543	5,300
Total liabilities	<u>175,764</u>	<u>175,949</u>
<b>Net Assets</b>		
Unrestricted	132,835	117,150
Temporarily restricted	22,622	15,973
Permanently restricted	19,720	19,045
Total net assets	<u>175,177</u>	<u>152,168</u>
Total liabilities and net assets	<u>\$ 350,941</u>	<u>\$ 328,117</u>

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

**Fairleigh Dickinson University**  
**Consolidated Statements of Activities**  
**Years Ended June 30, 2014 and 2013**

(in thousands of dollars)

	2014				2013			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
<b>Operating revenues, gains and other support</b>								
Tuition and fees	\$ 243,986	\$ -	\$ -	\$ 243,986	\$ 240,178	\$ -	\$ -	\$ 240,178
Less: Scholarships, tuition grants and aid	(71,260)	-	-	(71,260)	(69,305)	-	-	(69,305)
Net tuition and fees	172,726	-	-	172,726	170,873	-	-	170,873
Contributions	4,252	1,757	-	6,009	2,310	444	-	2,754
New Jersey State aid	395	-	-	395	42	-	-	42
Contracts and grants	2,387	-	-	2,387	2,125	-	-	2,125
Investment return-endowment spending rate and other	1,742	296	-	2,038	1,519	190	-	1,709
Other sources	4,289	38	-	4,327	4,463	87	-	4,550
Auxiliary enterprises	29,002	-	-	29,002	29,684	-	-	29,684
Less: Scholarships, tuition grants and aid	(299)	-	-	(299)	(321)	-	-	(321)
Total revenues, gains and other support	214,494	2,091	-	216,585	210,695	721	-	211,416
Net assets released from restrictions	551	(551)	-	-	846	(846)	-	-
Total operating revenues, gains and other support	215,045	1,540	-	216,585	211,541	(125)	-	211,416
<b>Expenses</b>								
Educational and general								
Instruction	74,529	-	-	74,529	74,412	-	-	74,412
Research	137	-	-	137	126	-	-	126
Academic support	31,682	-	-	31,682	33,089	-	-	33,089
Student services	39,242	-	-	39,242	38,607	-	-	38,607
Institutional support	31,898	-	-	31,898	30,506	-	-	30,506
Other	323	-	-	323	390	-	-	390
Total educational and general expenses	177,811	-	-	177,811	177,130	-	-	177,130
Auxiliary enterprises	22,782	-	-	22,782	22,281	-	-	22,281
Total expenses and losses	200,593	-	-	200,593	199,411	-	-	199,411
Increase (decrease) in net assets from operating activities	14,452	1,540	-	15,992	12,130	(125)	-	12,005
<b>Nonoperating</b>								
Contributions	44	945	637	1,626	41	67	1,957	2,065
Change in fair value of interests in split interest agreements	-	15	(63)	(48)	-	17	5	22
Investment return in excess of endowment spending amount	2,763	4,224	11	6,998	1,649	2,570	7	4,226
Transfer between net assets	(27)	(63)	90	-	(37)	(92)	129	-
Post-retirement medical plan changes other than net periodic cost	(1,767)	-	-	(1,767)	4,380	-	-	4,380
State Bond Grant Revenue	3,169	-	-	3,169	-	-	-	-
Early retirement of long-term debt	(2,858)	-	-	(2,858)	-	-	-	-
Faculty Retirement Incentive program	(103)	-	-	(103)	(996)	-	-	(996)
Net assets released from restrictions - for capital	12	(12)	-	-	56	(56)	-	-
Increase in net assets from nonoperating activities	1,233	5,109	675	7,017	5,093	2,506	2,098	9,697
Increase in net assets	15,685	6,649	675	23,009	17,223	2,381	2,098	21,702
<b>Net assets</b>								
Beginning of year	117,150	15,973	19,045	152,168	99,927	13,592	16,947	130,466
End of year	\$ 132,835	\$ 22,622	\$ 19,720	\$ 175,177	\$ 117,150	\$ 15,973	\$ 19,045	\$ 152,168

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

# Fairleigh Dickinson University

## Consolidated Statements of Cash Flows

### Years Ended June 30, 2014 and 2013

---

<i>(in thousands of dollars)</i>	2014	2013
<b>Cash flows from operating activities</b>		
Increase in net assets	\$ 23,009	\$ 21,702
Adjustments to reconcile increase in net assets to net cash and cash equivalents provided by operating activities		
Depreciation and amortization	10,302	9,787
Early retirement of long-term debt	2,858	-
Provision for losses on student accounts receivable	2,050	2,581
Provision for losses on student loans receivable	148	99
Gifts and donations permanently restricted and temporarily restricted for capital improvements	(1,634)	(2,096)
Gifts of property, plant and equipment	(26)	-
Gain on sale of property	-	(35)
Net realized gains on investments	(70)	(30)
Net unrealized and realized appreciation on investments	(8,172)	(5,214)
Pension related changes other than net periodic pension cost	1,767	(4,380)
Changes in operating assets and liabilities		
Student accounts receivable	(1,224)	(2,569)
Accounts receivable and other current assets	(818)	749
Contributions receivable	(651)	82
Accounts payable and accrued liabilities	(382)	(1,647)
Accrued salaries and liabilities for compensated absences	(273)	(148)
Deferred tuition revenues	(11)	114
Post-retirement benefits liability	1,433	2,061
Other liabilities	243	734
Net cash provided by operating activities	28,549	21,790
<b>Cash flows from investing activities</b>		
(Increase) decrease in restricted cash and cash equivalents	(1,761)	1,134
Proceeds from student loans collections	1,149	1,052
Student loans issued	(1,514)	(1,268)
Proceeds from sale of investments	20,764	16,468
Purchases of investments	(20,602)	(23,108)
Proceeds from sale of property	-	37
Purchases of property, plant and equipment, net	(13,345)	(17,459)
Net cash used in investing activities	(15,309)	(23,144)
<b>Cash flows from financing activities</b>		
Gifts and donations permanently restricted and temporarily restricted for capital improvements	1,453	2,035
Proceeds from issuance of debt	52,224	-
Principal payments of debt	(57,701)	(4,130)
Increase in U.S. Government grants refundable	321	745
Net cash used in financing activities	(3,703)	(1,350)
Net increase (decrease) in cash and cash equivalents	9,537	(2,704)
<b>Cash and cash equivalents</b>		
Beginning of year	58,020	60,724
End of year	\$ 67,557	\$ 58,020
<b>Supplemental information</b>		
Interest paid	\$ 4,826	\$ 5,254
Noncash gifts-in-kind	137	49
Property, plant and equipment obligations incurred	859	1,415
Asset retirement cost incurred	-	1,877

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

# Fairleigh Dickinson University

## Notes to Consolidated Financial Statements

### June 30, 2014 and 2013

---

*(in thousands of dollars)*

#### 1. Organization and Summary of Significant Accounting Policies

Fairleigh Dickinson University (the "University"), founded in 1942, is the largest independent nonsectarian institution of higher education in New Jersey, serving approximately 12,000 students. With a wide range of academic programs and two main campuses in New Jersey, each with its own identity and separate mission, the University preserves the intimacy of a small college within a large suburban institution. The University also operates international campuses: Wroxton College in Oxfordshire, England, and the Fairleigh Dickinson University of British Columbia, Foundation. Courses are also offered at many locations around the State of New Jersey, and through on-line courses accessible from anywhere in the world.

The University offers over 100 degree programs on the undergraduate and graduate levels, including doctoral programs in pharmacy, clinical psychology, school psychology and nursing practice, and programs in an Association to Advance Collegiate Schools of Business ("AACSB") - accredited business school. Programs lead to associate, baccalaureate, master and doctoral degrees. Areas of study include the following: business administration, clinical psychology, education certification, engineering and engineering technology, pharmacy, health sciences, hotel, restaurant and tourism management, liberal arts, nursing, pre-professional studies, public administration, and the sciences.

The significant accounting policies followed by the University are described below to enhance the usefulness of the consolidated financial statements to the reader.

#### **Income Taxes**

The University is exempt from federal income taxes under Section 501(c) (3) of the Internal Revenue Code. The University's wholly owned subsidiary, Harbinger Corporation, currently inactive, is subject to income tax.

#### **Basis of Presentation**

The consolidated financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America on the accrual basis and include the accounts of the University and the Fairleigh Dickinson University of British Columbia, Foundation (the University's Vancouver Campus), a wholly owned subsidiary which opened with academic programs in August 2007. The consolidated financial statements also include the accounts of the University's wholly owned inactive subsidiary, Harbinger Corporation. All significant intercompany transactions and balances have been eliminated in consolidation.

#### **Net Assets**

In the accompanying consolidated financial statements, net assets that have similar characteristics have been combined into similar categories as follows:

- **Permanently Restricted** - Net assets subject to donor-imposed stipulations that they be maintained permanently by the University. Generally, the donors of these assets permit the University to use all or part of the investment return on these assets for either a specific purpose or the general use of the University (see Note 9).



# Fairleigh Dickinson University

## Notes to Consolidated Financial Statements

### June 30, 2014 and 2013

---

*(in thousands of dollars)*

- **Temporarily Restricted** - Net assets whose use by the University is subject to donor-imposed stipulations that can be fulfilled by actions of the University pursuant to those stipulations or that expire by the passage of time. Investment income and gains/losses on permanently restricted net assets are reported as temporarily restricted until appropriated for expenditure in accordance with donor imposed stipulations. The appropriation and spending of such income is subject to a standard of prudence, as more fully disclosed in footnote 9.
- **Unrestricted** - Net assets that are not subject to donor-imposed stipulations. Unrestricted net assets may be designated for specific purposes by action of the Board of Trustees or may otherwise be limited by contractual agreements with outside parties.

Expenses are reported as decreases in unrestricted net assets. Expiration of donor-imposed stipulations that simultaneously increase unrestricted net assets and decrease temporarily restricted net assets are reported as net assets released from restrictions. Temporarily restricted revenues received and expended during the same fiscal year are recorded as unrestricted revenues and expenses in the consolidated statements of activities.

Unrealized appreciation or depreciation on investments is recognized as increases or decreases, respectively, in unrestricted net assets unless its use is temporarily or permanently restricted by explicit donor stipulations.

#### **Agency Transactions**

Agency transactions such as externally provided tuition aid grants, federal direct loans, federal supplemental educational opportunity grants, the federal pell grant program and others are not included in the consolidated financial statements. Agency receipts and disbursements were \$90,843 and \$90,809, respectively, in 2014 and \$87,708 and \$87,652, respectively, in 2013.

#### **Cash and Cash Equivalents**

Cash and cash equivalents include money market deposits and highly liquid debt instruments with original maturities of three months or less when purchased.

#### **Restricted Cash and Cash Equivalents**

Restricted cash and cash equivalents represents monies legally earmarked for debt service reserves, repair and replacement reserves, bond interest fund, construction fund, scholarships, specific grants and other agreements with limitations as to use.

#### **Student Accounts Receivable and Allowance for Doubtful Accounts**

Student accounts receivable are recorded when billed to the student. Student accounts receivable are also reduced for allowance for doubtful accounts. The process for estimating the ultimate collection of receivables involves significant assumptions and judgments. Account balances are written off against the allowance when management determines it is probable the receivable will not be recovered. Historical collection is an integral part of the estimation process related to reserves for uncollectible accounts. Revisions in allowance for doubtful accounts estimates are recorded as an adjustment to the provision for bad debts.

#### **Property, Plant and Equipment**

Land is stated at cost. Land improvements, buildings, building improvements, furniture and equipment, are stated at cost less allowance for depreciation and amortization.

# **Fairleigh Dickinson University**

## **Notes to Consolidated Financial Statements**

### **June 30, 2014 and 2013**

---

*(in thousands of dollars)*

The University records furniture and equipment greater than five hundred dollars at the cost of acquisition and donated assets at fair value at date of donation. Upon sale or other disposition of assets, the cost and related accumulated depreciation are removed from the accounts and the resulting gain or loss, if any, is reflected in the consolidated statements of activities. Maintenance, repairs and minor renewals are charged to operations as incurred.

Depreciation is computed on the straight-line basis over the estimated useful lives of the assets as follows: buildings, building improvements and land improvements, generally 15 to 60 years; furniture, 15 years; equipment and other plant assets, 5 to 10 years.

Interest charges, net of related interest income, relating to the construction of major projects are capitalized during the construction phase.

Contributions for capital are reported as unrestricted revenue. Contributions restricted by donors for the acquisition and/or construction of land, buildings and equipment are reported as temporarily restricted revenues in nonoperating activities. These contributions are reclassified to unrestricted net assets upon acquisition of the assets or when the constructed assets have been placed in service.

#### **Tuition and Fees**

Tuition and fees are recognized on the accrual basis. Students are billed in advance of the services rendered, and revenues are recognized as earned.

#### **Scholarships, Tuition Grants and Aid**

The policy of the University has been to award scholarships, tuition grants and aid to deserving students in lieu of accepting only students who have the ability to pay full tuition. Scholarships, tuition grants and aid are netted against tuition and fees.

#### **Impairment**

Long-lived assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. If such assets are deemed to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds the fair value based on estimated undiscounted future net cash flows expected to be generated by the asset. Assets to be disposed of are reported at the lower of the carrying amount or fair value less costs to sell. There was no impairment loss for the years ended June 30, 2014 and 2013.

#### **Endowment Spending Rate**

The University's endowment spending rate policy was designed to stabilize annual spending levels and to preserve the real value of the endowment portfolio over time. To meet these objectives, the policy limits spending of endowment return to 5% of the moving average of the fair value of endowment investments for the previous twelve quarters. Endowment investments principally consist of permanently restricted net assets and accumulated unspent investment return. The revenues from applying this endowment spending rate policy are recorded in the unrestricted and temporarily restricted operating revenues section in the consolidated statements of activities. Any difference between actual total endowment return, including realized and unrealized gains and losses, and the endowment spending rate is recorded in the nonoperating section of the consolidated statements of activities.

# Fairleigh Dickinson University

## Notes to Consolidated Financial Statements

### June 30, 2014 and 2013

---

*(in thousands of dollars)*

#### **Operating Measure**

The operating activities of the University include all revenues, gains and other support and expenses related to carrying out its mission of educating students. In accordance with the endowment spending rate policy, included in operating revenues is the return from endowment investments limited to the 5% spending rate (amounting to \$1,815 and \$1,501 for the years ended June 30, 2014 and 2013, respectively) while nonoperating activities include endowment returns in excess of the spending rate. Nonoperating activities include contributions and grants for capital projects or of a permanent nature to be used by the University to generate a return that will support operations. Nonoperating activities also include contributions in excess of endowment spending amount, change in fair value of interest in split interest agreements, investment (loss)/return, transfer between net assets, post-retirement medical plan changes other than net periodic costs, faculty retirement incentive program, state bond grant revenue, early retirement of debt, and net assets released from restrictions for capital.

#### **Use of Estimates**

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. The most significant estimates include liabilities for postretirement benefits, the allowance for doubtful student accounts and loans receivable, valuation of investments and the asset retirement obligations. Actual results could differ from those estimates.

#### **Advertising**

All advertising costs are expensed in the year they are incurred. The amount totaled \$1,540 in 2014 and \$1,493 in 2013.

#### **Allocation of Expenses**

Certain expenses related to more than one activity of the University were allocated among the appropriate functions. Operation and maintenance of plant expenses (including depreciation) of \$27,886 and \$27,107 in fiscal year 2014 and 2013, respectively, were allocated based on the square footage of space occupied by, or assets assigned to, each program and supporting service. Interest costs of \$4,945 and \$5,410 in fiscal year 2014 and 2013, respectively, were allocated functionally based on usage of debt proceeds. Employee benefits costs of \$29,746 and \$29,731 in fiscal year 2014 and 2013, respectively, were allocated functionally based on salary expenses.

#### **Asset Retirement Obligations**

The University has asset retirement obligations for asbestos related removal costs. The University accrues for asset retirement obligations in the period in which they are incurred if sufficient information is available to reasonably estimate the fair value of the obligation. Over time, the liability is accreted to its settlement value. Upon settlement of the liability, the University will recognize a gain or loss for any difference between the settlement amount and liability recorded. The liability recorded at June 30, 2014 and 2013 was \$12,546 and \$12,013, respectively.

The University had no change in estimate associated with their asset retirement obligations as of June 30, 2014. Due to new information becoming available, the University had a change in estimate which resulted in an increase in the asset retirement obligation and the associated asset

# Fairleigh Dickinson University

## Notes to Consolidated Financial Statements

### June 30, 2014 and 2013

---

*(in thousands of dollars)*

retirement cost within Property, Plant and Equipment of \$4,275 in the consolidated statement of financial position as of June 30, 2013.

#### **Fair Value Accounting**

The University follows guidance with respect to accounting and reporting for the fair value of their financial assets and liabilities. This guidance defines fair value, establishes a framework for measuring fair value under generally accepted accounting principles and enhances disclosures about fair value measurements. Fair value is defined as the exchange price that would be received for an asset or paid to transfer liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date.

This guidance also establishes a hierarchy of valuation inputs based on the extent to which the inputs are observable in the marketplace. Observable inputs reflect market data obtained from sources independent of the reporting entity and unobservable inputs reflect the entities own assumptions about how market participants would value an asset or liability based on the best information available. Valuation techniques used to measure fair value must maximize the use of observable inputs and minimize the use of unobservable inputs. The guidance describes a fair value hierarchy based on three levels of inputs, of which the first two are considered observable and the last unobservable, that may be used to measure fair value.

The following describes the hierarchy of inputs used to measure fair value and the primary valuation methodologies used by the University for financial instruments measured at fair value on a recurring basis. The three levels of inputs are as follows:

- Level 1      Quoted prices in active markets for identical assets or liabilities.
- Level 2      Inputs other than Level 1 that are observable, either directly or indirectly, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the same terms of the assets or liabilities.
- Level 3      Unobservable inputs that are supported by little or no market activity and that are significant to the fair value measurement.

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 by the University. 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 perceived risk of that instrument.

# Fairleigh Dickinson University

## Notes to Consolidated Financial Statements

### June 30, 2014 and 2013

---

*(in thousands of dollars)*

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.

Following is a description of the University's valuation methodologies for assets and liabilities measured at fair value.

Fair value for Level 1 is based upon quoted prices in active markets that the University has the ability to access for identical assets and liabilities. Fair value estimates for publicly traded marketable equity securities are based on quoted market prices and are generally obtained from exchange or dealer markets. The University does not adjust the quoted price for such assets and liabilities. Investments included in Level 1 primarily consist of securities that are actively traded on an exchange.

Fair value for Level 2 is based on quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active and model-based valuation techniques for which all significant assumptions are observable in the market or can be corroborated by observable market data for substantially the full term of the assets. Inputs are obtained from various sources including market participants, dealers, and brokers. Investments included in Level 2 primarily consist of the University's ownership share in certain funds with the Commonfund (Equity Fund, Equity Index Fund, Bond Fund and Intermediate Term Fund), U.S. government securities, as well as specific corporate bonds held within the Bank of New York General Securities Fund. Estimated fair values of the U.S. government securities are based on market data for the same or comparable instruments and transactions in establishing the prices. The Commonfund's marketable funds pricing and valuation processes are built upon a base of independent third-party pricing for the majority of fund holdings. In general, readily marketable securities held under custodial arrangements are valued by the custodian at market, based on independent pricing services. Securities that are not marketable and for which custodians cannot obtain pricing are priced on net asset value estimated by the manager responsible for such securities under procedures reviewed by Commonfund investment management staff. Since these funds currently have significant inputs that are market observable, they have been classified as Level 2. The University has no unfunded commitments. The Commonfund's funds can be redeemed daily to monthly.

Fair value for Level 3 is based on valuation techniques that use significant inputs that are unobservable as they trade infrequently or not at all. Investments included in Level 3 consist of nonmarketable stocks. Portfolio securities for which market quotations are not readily available are valued at fair value using approved procedures. Interest in split interest agreements is valued each period utilizing an income valuation which uses the current values of the underlying instruments as an estimate for fair value. There were no transfers between categories in 2014 and 2013.

# Fairleigh Dickinson University

## Notes to Consolidated Financial Statements

### June 30, 2014 and 2013

---

*(in thousands of dollars)*

Assets and liabilities measured at fair value are based on one or more of three valuation techniques. The three valuation techniques are as follows:

- Market approach (M) - Prices and other relevant information generated by market transactions involving identical or comparable assets or liabilities;
- Cost approach (C) - Amount that would be required to replace the service capacity of an asset (i.e., replacement cost); and
- Income approach (I) - Techniques to convert future amounts to a single present amount based on market expectations (including present value techniques, option-pricing models, and lattice models).

The Fair Value Option for financial assets and liabilities gives entities the option, at specific election dates, to measure certain financial assets and liabilities at fair value. The election may be applied to financial assets and liabilities on an instrument by instrument basis, is irrevocable, and may only be applied to entire instruments. Unrealized gains and losses on instruments for which the fair value option has been elected are reported in earnings at each subsequent reporting date. During fiscal year 2014 and 2013, the University did not elect fair value accounting for any assets or liabilities that are not currently required to be measured at fair value.

#### **Subsequent Events**

The University has performed an evaluation of subsequent events through September 26, 2014, the date our consolidated financial position and activities was issued.

#### **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.

**Fairleigh Dickinson University**  
**Notes to Consolidated Financial Statements**  
**June 30, 2014 and 2013**

---

*(in thousands of dollars)*

**2. Contributions Receivable**

Contributions receivable include all unconditional promises to give and interests in split interest agreements where the University is the remainderman. Contributions are recognized as revenue when the unconditional promise is received. Unconditional promises are recognized at the estimated present value of the future cash flows, net of allowances. Promises made that are designated for future periods or restricted by the donor for specific purposes are reported as temporarily restricted or permanently restricted support. Conditional promises are recorded as contributions when donor stipulations are substantially met.

Interests in split interest agreements represent resources in which the University derives residual interest from the assets, primarily interests in charitable remainder trusts. These interests are recognized at the estimated fair value of the residual assets when the irrevocable trust is established or the University is notified of its existence.

Charitable remainder trusts neither in the possession nor under the control of the University, but held in trust by others, are included in the consolidated financial statements at fair value of the contributed assets less the estimated present value of the liabilities for future payments to other beneficiaries in the amount of \$316 and \$367 at June 30, 2014 and 2013, respectively. Contributed charitable remainder trust assets under the control of the University as trustee are included at the estimated present value of \$177 and \$179 at June 30, 2014 and 2013, with a liability for future payments to other beneficiaries included at an estimated amount of \$25 and \$30 at June 30, 2014 and 2013, respectively.

During fiscal year 2014 and 2013, the University reported payments from charitable remainder trusts of \$104 and \$32, respectively, from the close out of certain trusts.

The components of contributions receivable at June 30 are as follows:

	<b>2014</b>	<b>2013</b>
Unconditional promises to give	\$ 2,043	\$ 1,096
Interests in split interest agreements	493	546
	<u>2,536</u>	<u>1,642</u>
Less: Discount to present value	(162)	(89)
	<u>2,374</u>	<u>1,553</u>
Less: Allowance for uncollectibles	(12)	(23)
Net contributions receivable	<u>\$ 2,362</u>	<u>\$ 1,530</u>

Discount rates ranged as follows at June:

	<b>2014</b>	<b>2013</b>
Split interest agreements	2.5% to 9.0%	1.0% to 9.0%
Unconditional promises to give	4.2% to 8.0%	3.8% to 8.0%

**Fairleigh Dickinson University**  
**Notes to Consolidated Financial Statements**  
**June 30, 2014 and 2013**

---

*(in thousands of dollars)*

Unconditional promises to give and interests in split interest agreements at June 30 are expected to be realized in the following periods:

	<b>2014</b>	<b>2013</b>
Within one year	\$ 626	\$ 335
Between one to five years	1,243	649
More than five years	493	546
	<u>\$ 2,362</u>	<u>\$ 1,530</u>

As of June 30, 2014 and 2013, a conditional promise relating to a life insurance policy with a face value of \$4,000 is not included in these consolidated financial statements. The University is the beneficiary of the policy.

Expenses related to fundraising activities are \$3,627 and \$3,616 for the years ended June 30, 2014 and 2013, respectively.

**3. Student Loans Receivable**

The University makes uncollateralized loans to students based on financial need. Student loans are funded mainly through Federal government loan programs.

The following is an analysis of gross student loans receivable aging as of June 30:

	<b>2014</b>	<b>2013</b>
Past Due:		
1-89 days	\$ 645	\$ 730
Greater than 90 days	230	259
Collections	1,400	1,177
Litigation	1,509	1,584
Total past due	<u>3,784</u>	<u>3,750</u>
Current	<u>6,991</u>	<u>6,660</u>
Total gross student loans receivable	<u>\$ 10,775</u>	<u>\$ 10,410</u>



**Fairleigh Dickinson University**  
**Notes to Consolidated Financial Statements**  
**June 30, 2014 and 2013**

(in thousands of dollars)

Management regularly assesses the adequacy of the allowance for credit losses by performing ongoing evaluations of the student loan portfolio, including such factors as the differing economic risks associated with each loan category, the financial condition of specific borrowers, the economic environment in which the borrowers operate, the level of delinquent loans, the value of any collateral and, where applicable, the existence of any guarantees or indemnifications. The University's receivable includes the amounts due from current and former students. Loans disbursed under the Federal government loan programs are able to be assigned to the Federal Government in certain nonrepayment situations. In these situations the Federal portion of the loan balance is guaranteed.

Factors also considered by management when performing its assessment, in addition to general economic conditions and the other factors described above, included, but were not limited to, a detailed review of the aging of the student loan receivable detail and a review of the default rate by loan category in comparison to prior years. The level of the allowance is adjusted based on the results of management's annual analysis.

**4. Investments**

Investments, which are reflected at fair value, at June 30, consist of:

	2014		2013	
	Fair Value	Cost	Fair Value	Cost
<b>Commonfund and other U.S. Government securities</b>	\$ 4,705	\$ 4,738	\$ 9,193	\$ 9,216
<b>Corporate stocks</b>				
Equities-marketable	527	395	426	357
Equities-nonmarketable	30	30	30	30
Total corporate stocks	557	425	456	387
<b>Corporate stock funds</b>				
Commonfund equity fund	25,063	10,201	18,912	8,607
Commonfund equity index fund	16,618	9,912	12,916	9,432
Other equity funds	189	157	172	139
Total equity funds	41,870	20,270	32,000	18,178
Total stocks and stock funds	42,427	20,695	32,456	18,565
<b>Corporate bonds</b>				
Specific corporate bonds	331	328	332	327
<b>Corporate bond funds</b>				
Commonfund bond fund	13,107	11,539	10,376	9,133
Other bond funds	378	384	504	522
Total corporate bond funds	13,485	11,923	10,880	9,655
Total corporate bonds and bond funds	13,816	12,251	11,212	9,982
<b>Other</b>				
Other alternative investments	41	38	48	51
Total other	41	38	48	51
Total investments	\$ 60,989	\$ 37,722	\$ 52,909	\$ 37,814

Included in Commonfund and U.S. Government Securities at June 30, 2014 and 2013 is \$4,705 and \$9,193, respectively, restricted for debt service and renewal and replacement. At June 30,

**Fairleigh Dickinson University**  
**Notes to Consolidated Financial Statements**  
**June 30, 2014 and 2013**

(in thousands of dollars)

2014 and 2013, specific corporate bonds are also restricted for debt service and renewals and replacement in the amount of \$122 and \$174, respectively.

The following table presents the financial instruments carried at fair value as of June 30, 2014, by caption on the consolidated statement of financial position by the valuation hierarchy defined above:

	Quoted Prices in Active Markets Level 1	Significant Other Observable Inputs Level 2	Significant Unobservable Inputs Level 3	Total Fair Value	Valuation Techniques
<b>Assets</b>					
Investments					
Commonfund and other U.S. Government Securities	\$ -	\$ 4,705	\$ -	\$ 4,705	M
Corporate stocks	527	-	-	527	M
Commonfund and other equity funds	189	41,681	-	41,870	M
Corporate bonds					
Specific corporate bonds	112	219	-	331	M
Commonfund bond fund	-	13,107	-	13,107	M
Other	297	122	30	449	M
Total investments	1,125	59,834	30	60,989	
Cash and cash equivalents					
Money market funds	-	8,348	-	8,348	M
Contributions receivable					
Interest in split interest agreements	-	-	493	493	I
Total assets at fair value	\$ 1,125	\$ 68,182	\$ 523	\$ 69,830	

The following table presents the financial instruments carried at fair value as of June 30, 2013, by caption on the consolidated statement of financial position by the valuation hierarchy defined above:

	Quoted Prices in Active Markets Level 1	Significant Other Observable Inputs Level 2	Significant Unobservable Inputs Level 3	Total Fair Value	Valuation Techniques
<b>Assets</b>					
Investments					
Commonfund and other U.S. Government Securities	\$ -	\$ 9,193	\$ -	\$ 9,193	M
Corporate stocks	426	-	-	426	M
Commonfund and other equity funds	172	31,828	-	32,000	M
Corporate bonds					
Specific corporate bonds	53	279	-	332	M
Commonfund bond fund	-	10,376	-	10,376	M
Other	378	174	30	582	M
Total investments	1,029	51,850	30	52,909	
Cash and cash equivalents					
Money market funds	-	7,114	-	7,114	M
Contributions receivable					
Interest in split interest agreements	-	-	546	546	I
Total assets at fair value	\$ 1,029	\$ 58,964	\$ 576	\$ 60,569	

**Fairleigh Dickinson University**  
**Notes to Consolidated Financial Statements**  
**June 30, 2014 and 2013**

---

(in thousands of dollars)

The following table is a roll forward of the statements of financial position amounts for financial instruments classified by the University within Level 3 of the fair value hierarchy defined above:

	Other	Interest in Split Interest Agreements
<b>Fair values at June 30, 2012</b>	\$ 259	\$ 561
Net purchases, sales, settlements	-	(32)
Total gains (realized/unrealized)	-	17
Transfers (out) in	(229)	-
<b>Fair values at June 30, 2013</b>	<u>30</u>	<u>546</u>
Net purchases, sales, settlements	-	-
Total gains (realized/unrealized)	-	(53)
Transfers in (out)	-	-
<b>Fair values at June 30, 2014</b>	<u>\$ 30</u>	<u>\$ 493</u>

Realized and unrealized losses in the table above are included in investment (loss) return in excess of the endowment spending amount in the consolidated statements of activities.

**5. Property, Plant and Equipment**

Property, plant and equipment at June 30 consist of:

	2014	2013
Land and land improvements	\$ 20,541	\$ 19,148
Buildings and building improvements	249,671	244,533
Furniture and equipment	32,873	29,968
Construction in progress	5,126	1,304
	<u>308,211</u>	<u>294,953</u>
Less: Accumulated depreciation		
Buildings and building improvements	(102,395)	(95,868)
Furniture and equipment	(20,325)	(17,802)
	<u>(122,720)</u>	<u>(113,670)</u>
Property, plant and equipment, net	<u>\$ 185,491</u>	<u>\$ 181,283</u>

Depreciation of property, plant, and equipment for the years ended June 30, 2014 and 2013 amounted to \$10,022 and \$8,906, respectively. Accretion and depreciation expense relating to the asset retirement obligations for the years ended June 30, 2014 and 2013 was \$788 and \$364, respectively.

**Fairleigh Dickinson University**  
**Notes to Consolidated Financial Statements**  
**June 30, 2014 and 2013**

---

*(in thousands of dollars)*

**6. Revolving Credit Facility**

At June 30, 2014, the University had a \$5,000 aggregate revolving credit facility ("Credit Agreement") with a bank, which will expire on March 31, 2015. The University anticipates that the Credit Agreement will be renewed. Borrowings under the Credit Agreement are collateralized by a first lien on unencumbered tuition and revenues. There were no borrowings under this agreement in fiscal years 2014 and 2013.

The Credit Agreement contains certain covenants which, among other things, place limitations on the University. For the year ended June 30, 2014, the most restrictive of these provisions required that the University's change in net assets from operating activities plus depreciation and amortization plus interest on long term debt for the fiscal year ended June 30, 2014 must equal or exceed aggregate annual debt service of long term debt by 1.15 times. Additionally, the University is required to reduce the aggregate unpaid principal balance of the Credit Agreement to zero for a period of at least thirty consecutive days at any one time prior to the expiration of the Credit Agreement. For the years ended June 30, 2014 and 2013, the University was in compliance with these covenants.

**Fairleigh Dickinson University**  
**Notes to Consolidated Financial Statements**  
**June 30, 2014 and 2013**

(in thousands of dollars)

**7. Long-term Debt**

Long-term debt at June 30 consists of:

	2014	2013
<b>Bonds payable</b>		
Dormitory and Dining Hall Bonds of 1967, 3%, due serially through 2017	\$ 450	\$ 550
<b>Mortgages payable</b>		
3%, payable to Department of Housing and Urban Development in semi-annual installments of \$17 including interest to 2021	196	224
Higher Education Facilities Revenue Bonds, Higher Education Capital Improvement Fund, 2000 Series A due serially through 2020, interest from 5.0% to 5.75%	1,608	1,765
Higher Education Facilities Revenue Bonds of 2002, Series D due serially through 2032, interest from 4.0% to 6.0%	-	54,100
Higher Education Facilities Revenue Bonds of 2004, Series C due serially through 2023, interest from 4.25% to 6.0%	23,790	25,555
Higher Education Facilities Revenue Bonds of 2006, Series G due serially through 2028, interest of 4.95% through 2021, adjusted thereafter based on terms stated in the loan agreement	11,730	12,250
Higher Education Facilities Revenue Bonds of 2006, Series H due serially through 2027, interest of 4.95% through 2021, adjusted thereafter based on terms stated in the loan agreement	797	839
Higher Education Facilities Revenue Refunding Bonds of 2014, Series B due serially through 2032, interest of 3.65% through 2029, adjusted thereafter based on terms stated in the loan agreement	51,185	-
<b>Other debt</b>		
NJEFA Dormitory Safety Trust Fund, 2001 and 2003 Series A, due serially through 2018 at 0% interest	519	739
NJEFA Capital Improvement Fund, 2014 Series B, due serially through 2034 interest from 3.5% to 5% interest	271	-
	<u>90,546</u>	<u>96,022</u>
Less: Unamortized bond premium/(discount)	211	(590)
Net long term debt	<u>\$ 90,757</u>	<u>\$ 95,432</u>

In accordance with each of the bond and mortgage indentures, the University maintains deposits of restricted cash and cash equivalents as well as marketable securities (Note 4) with the trustee, having an aggregate fair value of \$14,097 and \$17,399 at June 30, 2014 and 2013, respectively, as debt service and renewal and replacement reserves. The bonds and mortgages are collateralized by land, buildings and certain net revenues.

The debt agreements contain various restrictive covenants, including a restriction that the annual debt service on outstanding borrowings not exceed 10% of unrestricted gross revenues. The University was in compliance with these restrictive covenants for the years ended June 30, 2014 and 2013.

Interest expense was \$4,945 and \$5,410 in fiscal year 2014 and 2013, respectively.

# Fairleigh Dickinson University

## Notes to Consolidated Financial Statements

### June 30, 2014 and 2013

---

(in thousands of dollars)

On January 16, 2014, the New Jersey Educational Facilities Authority sold 51,925 bonds for Fairleigh Dickinson University. The Series 2014 B Bonds refunded all of the Authority' Series 2002 D Bonds. The Series 2014 B Bonds were sold at a fixed rate of 3.65% for 15 years and will be adjusted subsequent to the 15 year period through maturity based on the terms stated in the loan agreement. Management expects an economic benefit from this refinancing over the term of the bonds (present value of cash flow savings) of \$6,497. However, for financial reporting purposes, the refunding resulted in a charge of \$2,858, for the year ended June 30, 2014, reported as a non-operating item in the consolidated statement of activities.

As of June 30, 2014, the total principal payments due over the next five fiscal years and thereafter are:

2015	\$	5,034
2016		5,259
2017		5,292
2018		5,552
2019		5,662
Thereafter		63,747
	\$	<u>90,546</u>

#### 8. Postretirement Benefits

##### Pension Plans

Retirement benefits are provided through Teachers Insurance and Annuity Association and/or College Retirement Equities Fund ("TIAA-CREF"), a national organization used to fund pension benefits for educational institutions.

All faculty, nonunion and clerical employees make contributions to the plan in addition to the contributions made by the University. The University's contributions to the plan for the years ended June 30, 2014 and 2013 were \$5,783 and \$5,393, respectively.

##### Medical Plan

The University sponsors a defined benefit postretirement medical plan that covers all of its full-time tenured faculty and certain administrators. The eligible employees are those who have attained age 62 with ten years of tenured service and are no longer actively employed by the University. Retired employees are required to contribute to the plan. The plan is not funded.

The University recognized the difference between the benefit obligations and any plan assets of the University's defined postretirement medical plan. In addition, unrecognized amounts (e.g., net actuarial gains or losses and prior service costs or credits) to be recognized as changes to unrestricted net assets and that these amounts be adjusted as they are subsequently recognized as components of net periodic benefit cost based on the current requirements of accounting principles generally accepted in the United States of America.

**Fairleigh Dickinson University**  
**Notes to Consolidated Financial Statements**  
**June 30, 2014 and 2013**

---

(in thousands of dollars)

The following tables provide a reconciliation of the changes in the plans' benefit obligations and fair value of assets for the periods ended June 30, 2014 and 2013 and statements of the funded status both years.

	<b>2014</b>	<b>2013</b>
<b>Change in Accumulated Postretirement Benefit Obligation (APBO)</b>		
APBO at July 1	\$ 28,216	\$ 30,535
Service cost	940	1,112
Interest cost	1,196	1,163
Retiree contributions	472	433
Benefits paid	(1,568)	(1,475)
Actuarial loss (gain)	2,160	(3,552)
	<u>\$ 31,416</u>	<u>\$ 28,216</u>
<b>Change in plan assets</b>		
University's contribution	\$ 1,096	\$ 1,042
Retiree contributions	472	433
Benefits paid	(1,568)	(1,475)
	<u>\$ -</u>	<u>\$ -</u>
Net change in plan assets		
<b>Funded status of the plan</b>		
APBO in excess of plan assets	<u>\$ 31,416</u>	<u>\$ 28,216</u>
Accrued liabilities	<u>\$ 31,416</u>	<u>\$ 28,216</u>
<b>Periodic costs recognized in income</b>		
Service cost	\$ 940	\$ 1,112
Interest cost	1,196	1,163
Amortization of net actuarial loss	394	828
	<u>\$ 2,530</u>	<u>\$ 3,103</u>
<b>Weighted-average assumptions used to determine benefit obligations at end of year</b>		
Discount rate	4.26 %	4.75 %
Rate of compensation increase	N/A	N/A
<b>Healthcare cost trend</b>		
Increase from current to next fiscal year: Pre-65 medical	8.50 %	9.00 %
Increase from current to next fiscal year: Post-65 medical	7.00 %	7.00 %
Increase from current to next fiscal year: Prescription drug	7.00 %	7.00 %
Ultimate rate of decline	5.00 %	5.00 %
Year that the ultimate rate is attained	2022	2022
<b>Amounts recognized in accumulated unrestricted net assets</b>		
Net actuarial loss	\$ 11,338	\$ 9,571

**Fairleigh Dickinson University**  
**Notes to Consolidated Financial Statements**  
**June 30, 2014 and 2013**

---

(in thousands of dollars)

A one-percentage-point change in assumed healthcare cost trend rate would have the following effect:

	<b>1% Point Increase</b>	<b>1% Point Decrease</b>
Effect on the accumulated postretirement benefit obligation	\$ 5,660	\$ (4,460)
	<b>2014</b>	<b>2013</b>

**Weighted-average assumptions used to determine  
the net periodic benefit cost at beginning of year**

Discount rate	4.75 %	4.12 %
Expected return on plan assets	N/A	N/A
Rate of compensation increase	N/A	N/A
Healthcare cost trend		
Increase from current to next fiscal year: Pre-65 medical	8.50 %	9.00 %
Increase from current to next fiscal year: Post-65 medical	7.00 %	7.00 %
Increase from current to next fiscal year: Prescription drug	7.00 %	7.00 %
Ultimate rate of decline	5.00 %	5.00 %
Year that the ultimate rate is attained	2022	2022

A one-percentage-point change in assumed healthcare cost trend rate would have the following effect:

	<b>1% Point Increase</b>	<b>1% Point Decrease</b>
Effect on total service and interest cost components	\$ 513	\$ (385)

**Expected Benefit Payments**

The following benefit payments, which reflect expected future service, as appropriate, are expected to be paid:

<b>Fiscal Year</b>	<b>Postretirement Benefits</b>
2015	\$ 1,252
2016	1,327
2017	1,401
2018	1,464
2019	1,526
Years 2020-2024	8,220



# Fairleigh Dickinson University

## Notes to Consolidated Financial Statements

### June 30, 2014 and 2013

---

*(in thousands of dollars)*

“Expected benefit payments” is the total amount expected to be paid from the University’s assets. For postretirement benefits, the amounts shown are net of plan participant contributions, but before deducting the expected federal subsidy under the Medicare Modernization Act of 2003 (MMA).

#### **Employer Contributions**

Expected employer contributions for the postretirement benefits and federal subsidy under MMA for fiscal year 2014 are the same as expected benefit payments.

Estimated amount that will be amortized from accumulated unrestricted net assets into net periodic benefit cost in 2014 relates to an actuarial loss of \$1,767.

## **9. Endowment**

The University adopted the Uniform Prudent Management of Institutional Funds Act (UPMIFA) during 2009. This law provides guidance on the accounting and financial reporting changes required when a not-for-profit organization (NPO) with donor-restricted endowments becomes subject to UPMIFA. In addition, UPMIFA requires all NPOs to provide enhanced disclosures with respect to their endowments.

The University’s endowment consists of approximately 122 individual funds established for a variety of purposes. The endowment includes both donor-restricted endowment funds and funds designated by the Board of Trustees to function as endowments. 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.

The Board of Trustees of the University has interpreted the New Jersey State Prudent Management of Institutional Funds Act (SPMIFA) as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the University classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the University in a manner consistent with the standard of prudence prescribed by SPMIFA. In accordance with SPMIFA the University considers the following factors in making a determination to appropriate or accumulate donor-restricted funds:

- The duration and preservation of the fund;
- The purposes of the University and the donor-restricted endowment fund;
- General economic conditions;
- The possible effect of inflation or deflation;
- The expected total return from income and the appropriation of investments;

**Fairleigh Dickinson University**  
**Notes to Consolidated Financial Statements**  
**June 30, 2014 and 2013**

---

*(in thousands of dollars)*

- Other resources of the University; and
- The investment policy of the University.

The University has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain purchasing power of the endowment assets. Endowment assets include those assets of donor-restricted funds that the University must hold in perpetuity or for a donor-specific period(s) as well as board-designated funds. Under this policy, as approved by the Board of Trustees, the endowment assets are invested in a manner that is intended to produce a real return, net of inflation and investment management costs, of at least 5% over the long term. Actual returns in any given year may vary from this amount.

To satisfy its long-term rate-of-return objectives, the University relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The University targets a diversified asset allocation that places a greater emphasis on equity-based investments to achieve its long-term objective within prudent risk constraints.

The University has a policy of appropriating for distribution each year 5% of its endowment fund's moving average fair value over the previous twelve quarters. In establishing this policy, the University considered the long-term rate of inflation. This is consistent with the University's objective to maintain the purchasing power of the endowment assets held in perpetuity or for a specific term as well as to provide additional real growth through new gifts and investment return.

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

	<b>Unrestricted</b>	<b>Temporarily Restricted</b>	<b>Permanently Restricted</b>	<b>Total</b>
Donor-restricted funds	\$ -	\$ 14,194	\$ 19,720	\$ 33,914
Board-designated funds	<u>22,672</u>	<u>-</u>	<u>-</u>	<u>22,672</u>
Total funds	<u>\$ 22,672</u>	<u>\$ 14,194</u>	<u>\$ 19,720</u>	<u>\$ 56,586</u>

During 2014 and 2013, the University transferred \$4,476 and \$3,000, respectively, of surplus funds into board designated endowment funds to be used for scholarships.

**Fairleigh Dickinson University**  
**Notes to Consolidated Financial Statements**  
**June 30, 2014 and 2013**

---

(in thousands of dollars)

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

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
<b>Endowment net assets at beginning of year</b>	\$ 15,378	\$ 9,881	\$ 19,045	\$ 44,304
Investment return				
Investment income	245	394	3	642
Net appreciation (realized and unrealized)	3,226	4,936	9	8,171
Total investment gain	3,471	5,330	12	8,813
Contributions	-	-	637	637
Change in fair value of interests in split-interest agreements	-	-	(63)	(63)
Appropriation of endowment assets for expenditure	(693)	(1,120)	(2)	(1,815)
Other changes				
Transfers to create board- designed endowment funds	4,476	-	-	4,476
Other transfers	40	103	91	234
<b>Endowment net assets at end of year June 30, 2014</b>	<u>\$ 22,672</u>	<u>\$ 14,194</u>	<u>\$ 19,720</u>	<u>\$ 56,586</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	\$ (1)	\$ 9,881	\$ 19,045	\$ 28,925
Board-designated funds	15,379	-	-	15,379
Total funds	<u>\$ 15,378</u>	<u>\$ 9,881</u>	<u>\$ 19,045</u>	<u>\$ 44,304</u>

**Fairleigh Dickinson University**  
**Notes to Consolidated Financial Statements**  
**June 30, 2014 and 2013**

---

(in thousands of dollars)

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

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
<b>Endowment net assets at beginning of year</b>	\$ 10,713	\$ 7,244	\$ 16,947	\$ 34,904
Investment return				
Investment income	180	352	3	535
Net appreciation (realized and unrealized)	1,994	3,194	6	5,194
Total investment gain	2,174	3,546	9	5,729
Contributions	-	-	1,957	1,957
Change in fair value of interests in split-interest agreements	-	-	5	5
Appropriation of endowment assets for expenditure	(509)	(990)	(2)	(1,501)
Other changes				
Transfers to create board- designed endowment funds	3,000	-	-	3,000
Other transfers	-	81	129	210
<b>Endowment net assets at end of year June 30, 2013</b>	<b>\$ 15,378</b>	<b>\$ 9,881</b>	<b>\$ 19,045</b>	<b>\$ 44,304</b>

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor or UPMIFA requires to retain as a fund of perpetual duration. There were no deficiencies of this nature as of June 30, 2014 and \$1 as of June 30, 2013. These deficiencies result from unfavorable market fluctuations that occurred shortly after the investment of new permanently restricted contributions and continued appropriations for certain programs deemed prudent by the Board of Trustees.

**10. Net Assets**

**Net Assets Released From Restrictions**

Reclassifications from temporarily restricted net assets to unrestricted net assets in the consolidated statements of activities include all current year expenditures which were funded through revenues specifically restricted for such purposes. Any expenditures for which temporarily restricted net assets are not available are funded directly with unrestricted net assets.

**Fairleigh Dickinson University**  
**Notes to Consolidated Financial Statements**  
**June 30, 2014 and 2013**

---

(in thousands of dollars)

Restrictions were satisfied as follows for the years ended June 30:

	<b>2014</b>	<b>2013</b>
<b>Operating</b>		
Split interest agreements	\$ -	\$ 32
Scholarships	247	390
University programs and other	309	424
	<u>556</u>	<u>846</u>
<b>Nonoperating</b>		
Buildings and equipment	12	56
	<u>\$ 568</u>	<u>\$ 902</u>

**Composition of Temporarily Restricted Net Assets**

Temporarily restricted net assets consist of the following at June 30:

	<b>2014</b>	<b>2013</b>
Split interest agreements	\$ 236	\$ 221
Endowment return restricted for scholarships and other	14,194	9,881
Scholarships	2,662	2,353
Buildings and equipment	1,356	927
University programs and other	4,174	2,591
	<u>\$ 22,622</u>	<u>\$ 15,973</u>

**Composition of Permanently Restricted Net Assets**

Permanently restricted net assets consist of endowment funds and the related investment income, which is restricted for the following purposes at June 30:

	<b>2014</b>	<b>2013</b>
Split interest agreements	\$ 232	\$ 295
Pledges-endowed scholarships	596	923
Endowments-scholarships	15,550	14,487
Endowments-endowed chairs and other	3,305	3,305
Other-scholarships	37	35
	<u>\$ 19,720</u>	<u>\$ 19,045</u>

**Fairleigh Dickinson University**  
**Notes to Consolidated Financial Statements**  
**June 30, 2014 and 2013**

(in thousands of dollars)

**11. Investment Return**

The following schedules summarize the investment return and its classification in the consolidated statements of activities for the years ended June 30:

	<b>2014</b>			
	<b>Unrestricted</b>	<b>Temporarily Restricted</b>	<b>Permanently Restricted</b>	<b>Total</b>
Net interest and dividend income	\$ 498	\$ 296	\$ -	\$ 794
Net realized and unrealized gains (losses)	4,007	4,224	11	8,242
Total return on investments	4,505	4,520	11	9,036
Less: Investment return designated for current operations				
Endowment return-spending rate	1,519	296	-	1,815
Other investment return	223	-	-	223
Investment return in excess of endowment spending amount	<u>\$ 2,763</u>	<u>\$ 4,224</u>	<u>\$ 11</u>	<u>\$ 6,998</u>

	<b>2013</b>			
	<b>Unrestricted</b>	<b>Temporarily Restricted</b>	<b>Permanently Restricted</b>	<b>Total</b>
Net interest and dividend income	\$ 501	\$ 190	\$ -	\$ 691
Net realized and unrealized gains (losses)	2,667	2,570	7	5,244
Total return on investments	3,168	2,760	7	5,935
Less: Investment return designated for current operations				
Endowment return-spending rate	1,311	190	-	1,501
Other investment return	208	-	-	208
Investment return in excess of endowment spending amount	<u>\$ 1,649</u>	<u>\$ 2,570</u>	<u>\$ 7</u>	<u>\$ 4,226</u>

**12. Commitments and Contingencies**

At June 30, 2014, the University is obligated under operating and capital leases for equipment, software and buildings used in its operations aggregating \$38,357. These obligations are payable for the following fiscal years ending:

2015	\$ 4,554
2016	4,009
2017	2,954
2018	2,863
2019	2,771
2020 and thereafter	<u>21,206</u>
	<u>\$ 38,357</u>

**Fairleigh Dickinson University**  
**Notes to Consolidated Financial Statements**  
**June 30, 2014 and 2013**

---

*(in thousands of dollars)*

Equipment, software, and space rental expenses for 2014 and 2013 were \$5,439 and \$6,010, respectively.

The University is involved in various legal proceedings which consist of litigation attributable to its normal course of business. The University and its attorneys believe that the ultimate outcome of such litigation will not have a significant effect on the consolidated financial condition, changes in net assets or cash flows of the University.

The University receives other funding from governmental agencies for various activities which are subject to audit. Although such audits may result in disallowance of certain expenditures which would be absorbed by the University, in management's opinion the ultimate outcome of such audits would not have a significant effect on the consolidated financial condition, changes in net assets or cash flows of the University.

**13. Concentration of Credit Risk**

Financial instruments which potentially subject the University to a concentration of credit risk principally consist of cash and cash equivalents, student accounts receivable and investments. The University maintains its cash in bank deposit accounts which, at times, may exceed federally insured limits of \$250 at June 30, 2014 and 2013 which is the maximum amount insured by the Federal Deposit Insurance Company. However management believes that their financial institutions are viable entities and therefore risk of loss is minimized. The University has not experienced any losses in such accounts. The University believes that the concentration of risk with respect to student accounts receivable is limited due to the large number of students comprising the University's student base. With respect to investments, the University maintains its investments in U.S. Government securities, corporate stocks, stock funds, bond funds, and bonds. The University periodically reviews the performance and risks associated with these investments, and believes that credit risk is limited.

**14. Fair Value of Financial Instrument**

The fair value of a financial instrument is the amount at which the instrument could be exchanged in a current transaction between willing parties. All financial instruments in the financial statements are at fair value except for the long-term debt.

The carrying amounts and fair values of the University's long-term debt at June 30, 2014 and 2013 based on market inputs for underlying debt securities are as follows and classified as Level 2:

	2014		2013	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Long-term debt	\$ 90,546	\$ 90,822	\$ 96,022	\$ 97,544

**Fairleigh Dickinson University**  
**Notes to Consolidated Financial Statements**  
**June 30, 2014 and 2013**

---

*(in thousands of dollars)*

At June 30, 2014 and 2013, the fair value of cash equivalents, in the aggregate, approximated their respective carrying amounts. The fair value of cash equivalents is based on the quoted market price of the underlying securities.

All investments with readily determinable market values are reported in the consolidated financial statements at fair value. Investments in funds, whose underlying investments consist of both readily marketable securities and nonmarketable securities, are carried at fair value as reported by the fund manager. At June 30, 2014 and 2013, the majority of the investments held by the fund manager are readily marketable. Purchase and sale transactions are recorded on a trade date basis. Gains and losses on the sale of investment securities are recognized when realized and are computed on a specific identification basis.

Determination of the fair value of student loans receivable, which are primarily federally sponsored student loans with U.S. government mandated interest rates and repayment terms and subject to significant restrictions as to their transfer or disposition, are not determinable without incurring excessive costs.