



CONNECTICUT COLLEGE

Financial Statements

June 30, 2014

(With Independent Auditors' Report Thereon)

CONNECTICUT COLLEGE

June 30, 2014

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KPMG LLP
One Financial Plaza
755 Main Street
Hartford, CT 06103

Independent Auditors' Report

The Board of Trustees
Connecticut College:

We have audited the accompanying financial statements of Connecticut College, which comprise the balance sheet as of June 30, 2014, the related statements of activities and cash flows for the year 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.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the 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 organization'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 organization'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 Connecticut College as of June 30, 2014, and the changes in its net assets and its cash flows for the year then ended in accordance with U.S. generally accepted accounting principles.



Report on Summarized Comparative Information

We have previously audited Connecticut College's 2013 financial statements, and we expressed an unmodified opinion on those financial statements in our report dated October 21, 2013. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2013 is consistent, in all material respects, with the audited financial statements from which it has been derived.

KPMG LLP

October 27, 2014

CONNECTICUT COLLEGE

Balance Sheet

June 30, 2014

(With comparative information for June 30, 2013)

(Dollars in thousands)

Assets	2014	2013
Cash and cash equivalents	\$ 16,240	18,280
Accounts and student loans receivable, net	2,726	2,864
Contributions receivable, net	19,160	24,330
Inventories and other assets	3,530	4,233
Investments	276,759	235,864
Funds held in trust	13,423	12,548
Deposits with bond trustee	2,533	2,501
Land, buildings, and equipment, net	110,060	108,820
Total assets	\$ 444,431	409,440
Liabilities		
Accounts payable and accrued liabilities	\$ 8,501	8,679
Deposits and advances	2,770	2,380
Liabilities under split-interest agreements	4,822	4,854
Capital lease obligations	1,647	1,097
Accrued postretirement benefit obligation	6,953	7,127
Bonds and notes payable	68,574	69,596
Asset retirement obligation	1,321	1,294
Federal student loan advances	1,612	1,641
Total liabilities	96,200	96,668
Net Assets		
Unrestricted	81,210	76,872
Temporarily restricted	114,188	91,162
Permanently restricted	152,833	144,738
Total net assets	348,231	312,772
Total liabilities and net assets	\$ 444,431	409,440

See accompanying notes to financial statements.

CONNECTICUT COLLEGE

Statement of Activities

Year ended June 30, 2014

(With summarized comparative information for the year ended June 30, 2013)

(Dollars in thousands)

	2014			2013 Total
	Unrestricted	Temporarily restricted	Permanently restricted	
Operating:				
Revenues:				
Tuition and fees	\$ 87,674	—	—	87,674
Residence and dining	21,620	—	—	21,620
Less financial aid	(30,072)	—	—	(30,072)
Net student fees	79,222	—	—	80,733
Grant and contract income	1,888	—	—	2,511
Contributions	4,954	3,125	—	10,299
Endowment spending used in operations	3,432	7,147	—	9,812
Other revenues	3,115	—	—	3,135
Net assets released from restrictions	8,990	(8,990)	—	—
Total revenues and other support from operations	101,601	1,282	—	106,490
Expenses:				
Instruction	38,855	—	—	37,475
Research	1,966	—	—	1,842
Public service	829	—	—	763
Academic support	12,235	—	—	12,256
Student services	14,605	—	—	13,756
Auxiliary services	17,158	—	—	17,441
Institutional support and other expenses	21,803	—	—	21,472
Total expenses	107,451	—	—	105,005
(Decrease) increase in net assets from operating activities	(5,850)	1,282	—	1,485
Nonoperating revenues and expenses:				
Contributions for long-term investments	1,788	956	6,220	8,964
Investment return, less endowment spending used in operations	5,725	23,547	5	17,476
Change in value of split-interest agreements	71	334	1,037	977
Other increases (decreases)	93	(651)	833	166
Postretirement related changes other than net periodic benefit cost	69	—	—	148
Net assets released from restrictions	2,442	(2,442)	—	—
Increase in net assets from nonoperating activities	10,188	21,744	8,095	24,937
Total increase in net assets	4,338	23,026	8,095	26,422
Net assets, beginning of year	76,872	91,162	144,738	286,350
Net assets, end of year	\$ 81,210	114,188	152,833	312,772

See accompanying notes to financial statements.

CONNECTICUT COLLEGE

Statement of Cash Flows

Year ended June 30, 2014

(With comparative information for the year ended June 30, 2013)

(Dollars in thousands)

	2014	2013
Cash flows from operating activities:		
Change in net assets	\$ 35,459	26,422
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	8,826	8,101
Net realized and unrealized gains on investments	(31,838)	(19,347)
Net unrealized gains on split-interest agreements	(667)	(334)
Contributions restricted for long-term investment	(13,172)	(11,825)
Accounts and contributions receivable, net	5,223	1,776
Accounts payable and accrued liabilities	637	(1,566)
Accrued postretirement benefits	(174)	(210)
Other changes in working capital, net	104	132
Net cash provided by operating activities	4,398	3,149
Cash flows from investing activities:		
Student loans granted	(264)	(245)
Student loans repaid	340	424
Purchases of investments	(44,563)	(38,246)
Proceeds from sale of investments	36,173	31,788
Purchases of land, buildings, and equipment	(9,509)	(8,746)
Net cash used in investing activities	(17,823)	(15,025)
Cash flows from financing activities:		
Contributions restricted for long-term investment	13,172	11,825
Change in deposits with trustee	(32)	1,423
Repayments of long-term debt and capital lease obligations	(1,755)	(1,561)
Net cash provided by financing activities	11,385	11,687
Net decrease in cash and cash equivalents	(2,040)	(189)
Cash and cash equivalents at beginning of year	18,280	18,469
Cash and cash equivalents at end of year	\$ 16,240	18,280
Supplemental disclosures of cash flow information:		
Cash paid during the year for interest	\$ 3,127	3,025
Fixed asset purchases financed with capital leases	1,340	552
Change in accounts payable related to property and equipment	(813)	1,284

See accompanying notes to financial statements.

CONNECTICUT COLLEGE

Notes to Financial Statements

June 30, 2014

(With comparative information as of and for the year ended June 30, 2013)

(Dollars in thousands)

(1) Summary of Significant Accounting Policies

(a) *History*

Connecticut College (the College), an independent, coeducational institution, was chartered in 1911 and opened in New London, Connecticut in 1915 as the first independent college for women in the State. In 1959, the College was authorized to grant degrees to men in its graduate program, and in 1969, the undergraduate College also was made coeducational.

(b) *General*

The financial statements have been prepared on the accrual basis of accounting in accordance with U.S. generally accepted accounting principles (GAAP). The financial statements report on the College as a whole and report transactions and net assets based on the existence or absence of donor-imposed restrictions. Three categories of net assets serve as the foundation for the accompanying financial statements. Brief definitions of the three net asset classes are presented below.

Permanently restricted net assets include only the historical cost (market value at date of gift) of contributions and other inflows of assets the use of which is limited by donor-imposed stipulations that neither expire by the passage of time nor can be fulfilled or otherwise removed by the College. Generally, the donors of these assets permit the College to use all or part of the investment return on these assets. These assets are typically represented by the College's permanent endowment.

Temporarily restricted net assets generally result from contributions, pledges and other inflows of assets the use of which is limited by donor-imposed stipulations that either expire by the passage of time or can be fulfilled and removed by actions of the College. This classification includes income and gains that can be expended but for which spending restrictions have not yet been met, or which the Board of Trustees has not appropriated for spending.

Unrestricted net assets are free of donor-imposed restrictions, but may be limited as to use in other respects, such as by contract or Board of Trustee designation (quasi-endowment).

The College's measure of operations presented in the statement of activities includes income from tuition and fees, grants and contracts, contributions for operating programs, endowment spending used in operations and other revenues. Operating expenses are reported on the statement of activities by functional categories, after allocating costs for operation and maintenance of plant, interest on indebtedness and depreciation expense.

Nonoperating activity includes contributions and other activities related to land, buildings, and equipment that are not included in the College's measure of operations. In addition, nonoperating activities also includes contributions, investment returns and other activities related to endowment, and split-interest agreements.

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Notes to Financial Statements

June 30, 2014

(With comparative information as of and for the year ended June 30, 2013)

(Dollars in thousands)

The financial statements include certain prior year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with GAAP. Accordingly, such information should be read in conjunction with the College's financial statements for the year ended June 30, 2013, from which the summarized information was derived.

(c) Contribution Revenue

The College reports contributions (including unconditional promises from donors) as restricted support if they are received with donor stipulations that limit the use of the donated assets or if they are time restricted pledges. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions. Contributions subject to donor-imposed restrictions that are met in the same reporting period are reported as unrestricted revenue. The College reports gifts of land, buildings or equipment as unrestricted nonoperating support unless the donor places restrictions on their use. Contributions of cash or other assets that must be used to acquire long-lived assets are reported as unrestricted nonoperating support provided the long-lived assets are placed in service during the same reporting period; otherwise, the contributions are reported as temporarily restricted support until the assets are acquired and placed in service.

Contributions are recorded at fair value. The College estimates the fair value for non-cash contributions. Unconditional promises to give are recognized initially at fair value as contributions revenue in the period such promises are made by donors. Fair value is estimated giving consideration to anticipated cash receipts (after allowance is made for uncollectible pledges) and discounting such amounts at appropriate discount rates. These inputs to the fair value estimate are considered level 3 in the fair value hierarchy. In subsequent periods, the discount rate is unchanged and the allowance for uncollectible pledges is reassessed and adjusted if necessary. Amortization of the discounts is recorded as additional contribution revenue.

Conditional promises to give are not recognized until they become unconditional; that is, when the conditions on which they depend are substantially met.

Fundraising expenses were \$4,576 and \$4,137 for the years ended June 30, 2014 and 2013, respectively.

(d) Cash and Cash Equivalents

Cash and cash equivalents consist of cash management accounts, money market and overnight investments with maturities at date of purchase of less than 90 days. These amounts do not include cash equivalents components of the College's investment funds or cash that is held in investment managers' accounts until suitable investment opportunities are identified.

CONNECTICUT COLLEGE

Notes to Financial Statements

June 30, 2014

(With comparative information as of and for the year ended June 30, 2013)

(Dollars in thousands)

(e) *Investments*

The College's portfolio is managed by outside investment managers who are selected according to the investment guidelines established by the Board of Trustees and its Investment Subcommittee. Investments are stated at fair value when such value is readily determinable and at estimated fair value in other cases. Unrealized gains and losses that result from market fluctuations are recognized in the statement of activities in the period in which the fluctuations occur. Realized gains and losses are computed based on the specific-identification-cost method.

The fair value of publicly traded securities is based upon quotes from the principal exchanges on which the security is traded. Nonmarketable securities include alternative investments such as private equity, venture capital, hedge funds, natural resources partnerships, and distressed securities, which are valued using current estimates of fair value, or net asset value (NAV), obtained from the general partner or investment manager in the absence of readily determinable public market values. The College has utilized the NAV reported by the general partner or investment manager as a practical expedient to estimate the fair value of certain investments. The NAV generally reflects discounts for liquidity and considers variables such as financial performance of investments, including comparison of earnings multiples of comparable companies, cash flow analysis, recent sales prices of investments and other pertinent information. These investments represent approximately 43% and 46% of the College's investments at June 30, 2014 and June 30, 2013, respectively. The agreements under which the College participates in nonmarketable investment funds may limit the College's ability to liquidate its interest in such investments for a period of time; in the absence of such limits, these investments are generally redeemable or may be liquidated at NAV under the original terms of the subscription agreements and operations of the underlying funds. Due to the nature of the investments held in nonmarketable investment funds, changes in market conditions and the economic environment may significantly impact the NAV of the funds and, consequently, the fair value of the College's interest in the funds. Furthermore, changes in the liquidity provisions of the funds may significantly impact the fair value of the College's interest in the fund. Although certain investments may be sold in secondary market transactions, subject to meeting certain requirements by governing documents of the funds, the secondary market is not always active, is generally thinly traded with respect to nonmarketable funds, and individual transactions are not necessarily observable. It is, therefore, reasonably possible that if the College were to sell its interest in a fund in the secondary market, the sale could occur at an amount materially different than the reported value.

As of June 30, 2014 and June 30, 2013, the College had no specific plans or intentions to sell investments at amounts different than NAV.

Fair Value Hierarchy

The three levels of the fair value hierarchy are:

- **Level 1** – Inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the College has the ability to access at the measurement date.

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Notes to Financial Statements

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(Dollars in thousands)

- **Level 2** – Inputs are other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly.
- **Level 3** – Inputs are unobservable for the asset or liability.

The level in the fair value hierarchy within which a fair value measurement in its entirety falls is based on the lowest level input that is significant to the fair value measurement in its entirety.

For investments measured at NAV as a practical expedient, the level within the fair value hierarchy is determined based on the College's ability to redeem the investment at or near the balance sheet date.

(f) *Spending from Endowment*

The College invests a significant portion of its endowment assets in an investment pool and distributes cash for expenditure in accordance with its endowment spending policy, which is intended to stabilize annual spending levels and to preserve the real value of the endowment portfolio over time. To meet these objectives, spending from endowment is set by the Board of Trustees at an amount equal to a percentage of average endowment market value for the twelve previous quarters for both restricted and unrestricted endowment funds. The spending rate was 5% for the years ended June 30, 2014 and 2013. The Board of Trustees has approved the use of a 5% endowment spending rate for fiscal year 2015 and considers such rate to be the long-term norm for the College. See note 5 for further disclosure on the endowment spending policy.

Certain endowment assets are pooled on a market value basis with each individual fund subscribing to or disposing of units on the basis of the market value per unit at the beginning of a quarterly period in which transactions take place. Endowment spending is distributed based on the number of subscribed units at the end of each quarter.

(g) *Split-Interest Agreements*

The College's split-interest agreements consist primarily of charitable gift annuities, pooled income funds, perpetual trusts, charitable lead trusts and irrevocable charitable remainder trusts. Assets are invested by the College or by third-party trustees. Payments are made to donors and/or other beneficiaries in accordance with the individual agreements.

Contribution revenues for split-interest agreements are recognized at the dates the agreements are established, and the College becomes aware of them. Revenues are recorded at fair value, net of the estimated liability for future amounts payable, where applicable.

The present value of payments to beneficiaries under split-interest agreements is calculated using discount rates that represent the risk-free rates in existence at the date of the gift for all trusts in which the College is the trustee. For those trusts with third-party trustees, the discount rates used represent the risk-free rates in existence at the end of the fiscal year.

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Notes to Financial Statements

June 30, 2014

(With comparative information as of and for the year ended June 30, 2013)

(Dollars in thousands)

(h) Land, Buildings, and Equipment

Plant assets are recorded in the balance sheet at historical cost or at estimated fair value at the date of donation. Depreciation is computed on a straight-line basis over the estimated useful lives of the assets. Leasehold improvements are depreciated over the lesser of the lease term or asset's useful life.

(i) Tax Status

The College generally does not provide for income taxes since it is a tax-exempt organization under Section 501(c)(3) of the Internal Revenue Code. Accounting Standards Codification (ASC) 740, *Income Taxes*, permits an entity to recognize the benefit and requires accrual of an uncertain tax position only when the position is "more likely than not" to be sustained in the event of examination by tax authorities. In evaluating whether a tax position has met the recognition threshold, the College must presume that the position will be examined by the appropriate taxing authority that has full knowledge of all relevant information. ASC 740 also provides guidance on the recognition, measurement, and classification of income tax uncertainties, along with any related interest or penalties. Tax positions deemed to meet the "more-likely than-not" threshold are recorded as a tax expense in the current year. The College has analyzed all open tax years, as defined by the statutes of limitations, for all major jurisdictions. Open tax years are those that are open for exam by taxing authorities. Major jurisdictions for the College include federal and the state of Connecticut. As of June 30, 2014, open federal and Connecticut tax years for the College include the tax years ended June 30, 2011 through June 30, 2013. The College has no examinations in progress. The College believes it has no significant uncertain tax positions.

(j) Collections

Library and art collections are not recognized in assets on the balance sheet. Purchases of such collections are recorded as expenses in the period in which the items are acquired. Contributed collection items are not reflected in the financial statements. Proceeds from the sale of collection items or insurance recoveries are reflected as increases in the appropriate net asset class.

(k) 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 revenues and expenses during the reporting period. Significant estimates include collectability of gifts, pledges, student loans, accounts and other receivables, valuation of certain investments, and the liability for postretirement benefits. Actual results could differ from such estimates.

(l) Reclassifications

Certain amounts as of June 30, 2013 have been reclassified to conform to the presentation as of June 30, 2014.

CONNECTICUT COLLEGE

Notes to Financial Statements

June 30, 2014

(With comparative information as of and for the year ended June 30, 2013)

(Dollars in thousands)

(2) Accounts and Student Loans Receivable

Accounts and student loans receivable consisted of the following as of June 30:

	<u>2014</u>	<u>2013</u>
Student accounts receivable	\$ 234	307
Grants and contracts receivable	626	577
Miscellaneous receivables	138	167
Less allowance for doubtful accounts	<u>(150)</u>	<u>(150)</u>
Accounts receivable, net	<u>848</u>	<u>901</u>
Student loans receivable	2,028	2,113
Less allowance for doubtful accounts	<u>(150)</u>	<u>(150)</u>
Student loans receivable, net	<u>1,878</u>	<u>1,963</u>
Total accounts and student loans receivable, net	<u>\$ 2,726</u>	<u>2,864</u>

(3) Contributions Receivable

Contributions receivable consisted of the following unconditional promises to give as of June 30:

	<u>2014</u>	<u>2013</u>
Amounts due in:		
Less than one year	\$ 3,506	3,397
One to five years	17,140	22,541
More than five years	<u>22</u>	<u>439</u>
Gross unconditional promises to give	20,668	26,377
Less:		
Present value discount	(271)	(328)
Allowance for uncollectible pledges	<u>(1,237)</u>	<u>(1,719)</u>
Net unconditional promises to give	<u>\$ 19,160</u>	<u>24,330</u>
Purpose:		
Endowment giving	\$ 9,336	11,066
Capital purposes	6,911	8,387
Operating purposes	<u>4,421</u>	<u>6,924</u>
Gross unconditional promises from donors	<u>\$ 20,668</u>	<u>26,377</u>

The discount rates used ranged from 0.90% to 0.58% for June 30, 2014 and 2013.

CONNECTICUT COLLEGE

Notes to Financial Statements

June 30, 2014

(With comparative information as of and for the year ended June 30, 2013)

(Dollars in thousands)

(4) Investments and Fair Value

The College's investments at June 30, 2014 and 2013 that are reported at fair value are summarized in the tables below by their fair value hierarchy classification:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>2014 Total</u>
Investments:				
Short-term	\$ 10,928	4,003	—	14,931
U.S. equities	30,090	32,769	—	62,859
International equities	16,654	36,881	—	53,535
Fixed income	25,142	—	—	25,142
Private equity	—	—	13,812	13,812
Venture capital	—	—	12,849	12,849
Inflation hedging ¹	—	11,829	20,226	32,055
Hedge funds	—	27,324	22,488	49,812
Distressed debt	—	—	7,123	7,123
Split-interest agreements	—	4,641	—	4,641
	<u>\$ 82,814</u>	<u>117,447</u>	<u>76,498</u>	<u>276,759</u>
Total				
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>2013 Total</u>
Investments:				
Short-term	\$ 5,461	3,641	—	9,102
U.S. equities	30,355	24,191	—	54,546
International equities	14,304	27,981	—	42,285
Fixed income	21,515	—	—	21,515
Private equity	—	—	13,251	13,251
Venture capital	—	—	9,673	9,673
Inflation hedging ¹	—	9,825	18,905	28,730
Hedge funds	—	24,196	22,765	46,961
Distressed debt	—	—	5,749	5,749
Split-interest agreements	—	4,052	—	4,052
	<u>\$ 71,635</u>	<u>93,886</u>	<u>70,343</u>	<u>235,864</u>
Total				

¹ Inflation hedging includes such investments as natural resources partnerships, agricultural and other commodities, real estate and treasury inflation-protected securities.

CONNECTICUT COLLEGE

Notes to Financial Statements

June 30, 2014

(With comparative information as of and for the year ended June 30, 2013)

(Dollars in thousands)

Certain investments are redeemable with the funds or limited partnerships at NAV under the terms of the subscription agreements and/or partnership agreements. Investments with daily liquidity generally do not require any notice prior to withdrawal. Investments with monthly, quarterly or annual redemption frequency typically require notice periods ranging from 30 to 60 days. The long-term investments' fair values are broken out below by their redemption frequency as of June 30, 2014.

	<u>Daily</u>	<u>Monthly</u>	<u>Quarterly</u>	<u>Semi-Annual</u>	<u>Annual</u>	<u>Illiquid</u>	<u>Total</u>
Investments:							
Short-term Investments	\$ 14,931	—	—	—	—	—	14,931
U.S. equities	30,105	—	32,754	—	—	—	62,859
International equities	16,654	34,539	2,342	—	—	—	53,535
Fixed income	25,142	—	—	—	—	—	25,142
Private equity	—	—	—	—	—	13,812	13,812
Venture capital	—	—	—	—	—	12,849	12,849
Inflation hedging	—	11,829	4,894	—	—	15,332	32,055
Hedge funds	—	—	21,137	11,956	10,258	6,461	49,812
Distressed debt	—	—	—	—	—	7,123	7,123
Split-interest agreements	—	—	—	—	—	4,641	4,641
Total	<u>\$ 86,832</u>	<u>46,368</u>	<u>61,127</u>	<u>11,956</u>	<u>10,258</u>	<u>60,218</u>	<u>276,759</u>

The following tables present the College's activity for assets measured at fair value on a recurring basis using significant unobservable inputs (Level 3) for the years ended June 30, 2014 and 2013:

	<u>Fair value at July 1, 2013</u>	<u>Contributions</u>	<u>Distributions</u>	<u>Investment income (loss), net</u>	<u>Realized and change in unrealized net gains</u>	<u>Fair value at June 30, 2014</u>
Private equity	\$ 13,251	730	(2,223)	(66)	2,120	13,812
Venture capital	9,673	1,336	(1,373)	(159)	3,372	12,849
Inflation hedging	18,905	2,307	(3,298)	(143)	2,455	20,226
Hedge funds	22,765	—	(3,382)	2,263	842	22,488
Distressed debt	5,749	2,680	(2,222)	489	427	7,123
Total	<u>\$ 70,343</u>	<u>7,053</u>	<u>(12,498)</u>	<u>2,384</u>	<u>9,216</u>	<u>76,498</u>

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Notes to Financial Statements

June 30, 2014

(With comparative information as of and for the year ended June 30, 2013)

(Dollars in thousands)

	Fair value at July 1, 2012	Contributions	Distributions	Investment income (loss), net	Realized and change in unrealized net gains	Fair value at June 30, 2013
Private equity	\$ 11,117	2,193	(1,757)	(54)	1,752	13,251
Venture capital	8,610	1,178	(812)	(140)	837	9,673
Inflation hedging	18,127	2,113	(2,283)	(175)	1,123	18,905
Hedge funds	19,537	—	—	1,926	1,302	22,765
Distressed debt	7,447	800	(3,800)	916	386	5,749
Total	<u>\$ 64,838</u>	<u>6,284</u>	<u>(8,652)</u>	<u>2,473</u>	<u>5,400</u>	<u>70,343</u>

The College's policy is to recognize transfers to and transfers from Level 1, 2, or 3 as of the actual date of the transaction or change in circumstances that caused the transfer. For the years ended June 30, 2014 and 2013, there were no transfers between levels in the fair value hierarchy.

At June 30, 2014, the College's remaining outstanding commitments on investments totaled \$16,623. These commitments are expected to be funded from existing investments included within the endowment. Generally, these commitments have 10-year terms, with the option to extend. As of June 30, 2014, the average remaining life of the commitments is 5 years. The remaining outstanding commitments are summarized in the table below:

Private equity	\$ 3,876
Venture capital	4,700
Inflation hedging	6,027
Distressed securities	<u>2,020</u>
	<u>\$ 16,623</u>

At June 30, 2014, funds with redemption lockup periods in the amount of \$6,462 will expire in fiscal year 2015, and funds with redemption lockup periods in the amount of \$5,796 will expire in fiscal year 2016.

(5) Endowment

The College's pooled endowment consists of approximately 650 individual funds established for a variety of purposes. Its endowment includes both donor-restricted endowment funds and funds designated by the Board of Trustees to function as endowments. As required by GAAP, 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 or state statute.

(a) *Relevant Law*

The State of Connecticut has enacted the Connecticut Uniform Prudent Management of Institutional Funds Act (CT UPMIFA), which governs the management of donor-restricted endowment funds by institutions.

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Although CT UPMIFA offers short-term spending flexibility, the explicit consideration of the preservation of funds among factors for prudent spending suggests that a donor-restricted endowment fund is still perpetual in nature. Under CT UPMIFA, the College's Board of Trustees (the Board) is permitted to determine and continue a prudent payout amount, even if the market value of the fund is below historic dollar value. There is an expectation that, over time, the permanently restricted amount will remain intact. This perspective is aligned with the accounting standards definition that permanently restricted funds are those that must be held in perpetuity even though some portions of the historic-dollar-value may be reduced by drawings on a temporary basis.

In accordance with the accounting standards, the College 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 College in a manner consistent with the standard of prudence prescribed by CT UPMIFA.

In accordance with CT UPMIFA, the College considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

- (1) The duration and preservation of the fund
- (2) The purposes of the College and the donor-restricted endowment fund
- (3) General economic conditions
- (4) The possible effects of inflation and deflation
- (5) The expected total return from income and the appreciation of investments
- (6) Other resources of the College
- (7) The investment policies of the College
- (8) The need to support activities of the College for both current and future generations of students.

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Pooled endowment funds consist of the following at June 30, 2014:

	<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Permanently restricted</u>	<u>Total</u>
Donor-restricted endowment funds	\$ (19)	89,432	131,592	221,005
Board-designated endowment funds	47,228	—	—	47,228
	<u>\$ 47,209</u>	<u>89,432</u>	<u>131,592</u>	<u>268,233</u>

Pooled endowment funds consist of the following at June 30, 2013:

	<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Permanently restricted</u>	<u>Total</u>
Donor-restricted endowment funds	\$ (643)	65,885	123,229	188,471
Board-designated endowment funds	39,610	—	—	39,610
	<u>\$ 38,967</u>	<u>65,885</u>	<u>123,229</u>	<u>228,081</u>

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(Dollars in thousands)

Changes in pooled endowment funds for the year ended June 30, 2014 are as follows:

	<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Permanently restricted</u>	<u>Total</u>
Endowment funds, July 1, 2013	\$ 38,967	65,885	123,229	228,081
Return on long-term investments:				
Dividends and interest	2,053	9,720	5	11,778
Net gains on investments	6,169	25,669	—	31,838
Investment management fees	<u>(730)</u>	<u>(3,443)</u>	<u>—</u>	<u>(4,173)</u>
	7,492	31,946	5	39,443
Appropriation of endowment assets for expenditure	<u>(1,767)</u>	<u>(8,399)</u>	<u>—</u>	<u>(10,166)</u>
Investment return, less endowment spending used in operations	5,725	23,547	5	29,277
Contributions	1,783	—	7,533	9,316
Transfers	<u>734</u>	<u>—</u>	<u>825</u>	<u>1,559</u>
Endowment funds, June 30, 2014	\$ <u>47,209</u>	<u>89,432</u>	<u>131,592</u>	<u>268,233</u>

Changes in pooled endowment funds for the year ended June 30, 2013 are as follows:

	<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Permanently restricted</u>	<u>Total</u>
Endowment funds, July 1, 2012	\$ 30,681	52,583	119,486	202,750
Return on long-term investments:				
Dividends and interest	1,910	9,156	29	11,095
Net gains on investments	4,439	14,886	22	19,347
Investment management fees	<u>(609)</u>	<u>(2,909)</u>	<u>(4)</u>	<u>(3,522)</u>
	5,740	21,133	47	26,920
Appropriation of endowment assets for expenditure	<u>(1,620)</u>	<u>(7,814)</u>	<u>(10)</u>	<u>(9,444)</u>
Investment return, less endowment spending used in operations	4,120	13,319	37	17,476

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	Unrestricted	Temporarily restricted	Permanently restricted	Total
Contributions	\$ —	—	2,417	2,417
Transfers	4,166	(17)	1,289	5,438
Endowment funds, June 30, 2013	\$ 38,967	65,885	123,229	228,081

(b) Funds with Deficiencies

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level classified as permanently restricted consistent with donor restrictions and college policies under CT UPMIFA. In accordance with GAAP, deficiencies of this nature are reported in unrestricted net assets and were \$19 and \$643 as of June 30, 2014 and 2013, respectively. These deficiencies resulted from unfavorable market fluctuations that occurred after the investment of permanently restricted contributions and/or appropriation for certain programs that was deemed prudent by the College. Subsequent gains that restore the fair value of the assets of the endowment fund to the fair value of the original gift will be classified as an increase in unrestricted net assets.

(c) Return Objectives and Risk Parameters

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

(d) Strategies Employed for Achieving Objectives

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

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(Dollars in thousands)

(e) Spending Policy and How the Investment Objectives Relate to Spending Policy

The College has a policy of appropriating for distribution each year 5% of its endowment fund's average fair value using the prior twelve quarters through June 30 preceding the fiscal year in which the distribution is planned. In establishing its spending policy, the College considered the expected return on its endowment. Accordingly, the College expects its spending policy will allow its endowment funds to be maintained in perpetuity by growing at a rate at least equal to planned payouts. Additional real endowment growth will be provided through new gifts and any excess investment return.

(6) Land, Buildings, and Equipment

Included in land, buildings, and equipment as of June 30 are the following amounts:

	Estimated useful lives	2014	2013
Campus land	—	\$ 1,080	1,005
Land improvements	20 years	17,561	17,375
Buildings and building improvements	20–40 years	176,287	172,235
Equipment and furniture	5–10 years	43,197	41,056
Leasehold improvements	Lease term ¹	337	337
Software	3–10 years	5,874	5,820
Construction in progress		6,063	2,593
		250,399	240,421
Less accumulated depreciation and amortization		(140,339)	(131,601)
		\$ 110,060	108,820

¹ Lease terms ranging from 3 to 6 years.

Computer software costs capitalized, net of accumulated amortization, as of June 30, 2014 and 2013 are \$1,003 and \$1,345, respectively.

The College has reported a liability of \$1,321 and \$1,294 as of June 30, 2014, and 2013, respectively, for conditional asset retirement obligations related to the removal and disposal of asbestos insulation in several buildings. This amount is reported as asset retirement obligations.

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Notes to Financial Statements

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(Dollars in thousands)

(7) Allocation of Physical Plant Operations, Depreciation and Interest Expenses

The College has allocated all expenditures for maintenance of physical plant, depreciation expense and interest on indebtedness based on square footage of facilities identified for each functional expenditure category. The expenditures and allocations for fiscal year 2014 and 2013 are listed below.

	2014	2013
Expenditures		
Physical plant operations	\$ 8,973	9,392
Depreciation	8,796	8,071
Interest expense and amortization	3,140	3,153
Total expenditures to be allocated	\$ 20,909	20,616

Allocations to functional expenditure categories:

	2014	2013
Instruction	\$ 5,664	5,016
Research	1,220	1,048
Public service	14	13
Academic support	1,984	2,071
Student services	3,173	3,243
Auxiliary services	5,908	6,097
Institutional support and other expenses	2,946	3,128
Total allocations	\$ 20,909	20,616

(8) Bonds and Notes Payable

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

	2014	2013
Connecticut Health and Educational Facilities Authority (CHEFA):		
Series F bonds, face amount \$28,855 issued 2007, interest is fixed at rates ranging from 4.0% to 5.0%, maturities to 2030; a general obligation bond insured by MBIA Insurance Corporation	\$ 28,855	28,855
Series G bonds, face amount \$12,000 issued 2007, interest is fixed at 4.5%, maturities to 2037; a general obligation bond insured by MBIA Insurance Corporation	12,000	12,000

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	2014	2013
Series H-1 bonds, face amount \$12,110 issued 2011, interest is fixed at 5.0%, maturities to 2041	\$ 12,110	12,110
Series H-2 bonds, face amount \$3,985 issued 2011, interest is fixed at rates ranging from 3.1% to 6.0%, maturities to 2031	3,730	3,860
Series I bonds, face amount \$12,240 issued 2012, interest is fixed at rates ranging from 2.0% to 5.0%, maturities to 2032	10,825	11,660
	67,520	68,485
Net bond premiums	1,054	1,111
	\$ 68,574	69,596

Future maturities of the bonds and notes payable are as follows:

2015	\$ 1,010
2016	1,115
2017	1,150
2018	1,145
2019	2,035
Thereafter	61,065
	\$ 67,520

The College has an unsecured \$10,000 line of credit established with Citizens Bank for short-term working capital purposes that matures on May 31, 2015. As of June 30, 2014 and 2013, there were no outstanding advances under the line of credit. As of June 30, 2014 and 2013, the interest rate is set at LIBOR plus an applicable margin.

The preceding debt agreements impose certain restrictions upon the College with respect to incurring additional indebtedness, selling real property, and establishing liens or encumbrances on the mortgaged assets of the College and minimum debt to expendable net assets ratio requirements. The College is in compliance with all debt covenants.

The College maintains debt service reserve funds as required by the associated bond agreements which are reported in deposits with trustees on the balance sheet.

The fair value of the College's long-term debt is determined using an income approach valuation technique that considers, among other things, rates currently observed in publicly traded debt markets for debt of similar terms to companies with comparable credit risk, a Level 2 fair value measurement. The fair value of long-term debt was \$72,025 and \$70,417 at June 30, 2014 and 2013, respectively.

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Bond interest expense for the years ended June 30, 2014 and 2013 was \$3,045 and \$3,075, respectively.

(9) Capital and Operating Lease Obligations

The College has entered into various master lease agreements to lease academic and administrative computing equipment. This arrangement allows the College to lease computer hardware, software and peripheral equipment periodically over three- to six-year lease terms. At June 30, 2014, the College had committed \$1,756 under these obligations, of which \$109 represented interest.

The College has entered into an operating lease agreement to rent office space. This lease agreement has a remaining term of one year.

Future minimum lease payments for these lease obligations are as follows:

	<u>Capital</u>	<u>Operating</u>
2015	\$ 812	504
2016	442	—
2017	324	—
2018	178	—
Total minimum lease payments	<u>1,756</u>	<u>504</u>
Amount representing interest	<u>(109)</u>	<u>—</u>
Present value of net minimum lease payments	<u>\$ 1,647</u>	<u>504</u>

As of June 30, 2014, the College had assets under capital lease of \$4,007 with related accumulated depreciation of \$2,203. As of June 30, 2013, the College had assets under capital lease of \$2,930 with related accumulated depreciation of \$1,605.

Rent expense for the years ended June 30, 2014 and 2013 was \$551.

(10) Retirement Plan

Retirement benefits are provided for eligible employees of the College through Teachers' Insurance and Annuity Association and College Retirement Equities Fund under a defined-contribution plan. Under the plan, the College contributes 10% of the gross salaries of eligible employees within limits established by the Internal Revenue Code. Total retirement expense for the fiscal years ended June 30, 2014 and 2013 was \$3,863 and \$3,773, respectively.

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(11) Postretirement Medical Benefits Plan

The College provides certain healthcare benefits, including medical care and prescription drug components, for certain of its retired employees. Effective July 1, 2007, the College adopted the Emeriti Retiree Health Plan and began funding separate health accounts for eligible employees for retirement medical expenses. For employees nearing retirement, the College provides a transition benefit. Information with respect to the plan is as follows:

	<u>June 30</u>	
	<u>2014</u>	<u>2013</u>
Change in benefit obligation:		
Benefit obligation at beginning of year	\$ 7,127	7,337
Service cost	193	211
Interest cost	260	258
Plan participants' contributions	219	226
Medicare Part D subsidy received	23	50
Actuarial gain	(317)	(340)
Benefits paid	<u>(552)</u>	<u>(615)</u>
Benefit obligation at end of year	<u>6,953</u>	<u>7,127</u>
Change in plan assets:		
Fair value of plan assets at beginning of year	—	—
Employer contribution	310	339
Plan participants' contributions	219	226
Medicare Part D subsidy received	23	50
Benefits paid	<u>(552)</u>	<u>(615)</u>
Fair value of plan assets at end of year	<u>—</u>	<u>—</u>
Funded status	<u>\$ (6,953)</u>	<u>(7,127)</u>

	<u>June 30</u>			
	<u>2014</u>		<u>2013</u>	
	<u>Medical</u>	<u>Drug</u>	<u>Medical</u>	<u>Drug</u>
Discount rate used to value obligations	3.72%	3.72%	4.10%	4.10%
Weighted average healthcare cost trend:				
Initial trend rate	8.00%	8.00%	8.00%	8.00%
Ultimate trend rate	5.00	5.00	5.00	5.00
Year ultimate trend rate attained	2017	2017	2016	2016

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	June 30	
	2014	2013
Components of net periodic postretirement benefit cost:		
Service cost	\$ 193	211
Interest cost	260	258
Amortization of actuarial loss	37	125
Net amortization and unrecognized prior service cost	<u>(285)</u>	<u>(317)</u>
Net periodic postretirement benefit cost	<u>\$ 205</u>	<u>277</u>

	June 30	
	2014	2013
Postretirement related changes other than net periodic benefit cost:		
Actuarial gain	\$ 317	340
Amortization of actuarial loss	37	125
Net amortization and unrecognized prior service cost	<u>(285)</u>	<u>(317)</u>
Total recognized in nonoperating activities	<u>\$ 69</u>	<u>148</u>

The assumed healthcare cost trend rate has a significant effect on the amounts reported. A one-percentage-point change in the assumed healthcare cost trend rate would have the following effects:

	2014	2013
Impact of 1% increase in healthcare cost trend:		
On interest cost plus service cost during past year	\$ 46	53
On accumulated postretirement benefit obligation	405	351
Impact of 1% decrease in healthcare cost trend:		
On interest cost plus service cost during past year	(39)	(30)
On accumulated postretirement benefit obligation	(362)	(290)

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Estimated future benefit payments, net of employee contributions and expected Medicare Part D Subsidy, are as follows:

	Estimated benefit payment
Year beginning July 1:	
2014	\$ 456
2015	470
2016	481
2017	488
2018	468
2019 – 2023	2,692

(12) Components of Temporarily and Permanently Restricted Net Assets

The following represents the various components of net assets as of June 30, 2014 and 2013:

	2014	2013
Temporarily restricted net assets:		
Endowment and accumulated/unspent income and gains	\$ 89,432	65,885
Contributions receivable, net	10,342	14,083
Restricted for plant additions	2,991	2,161
Assets held in trust and split-interest agreements	3,082	2,824
Other donor restricted funds	8,341	6,209
Total temporarily restricted net assets	<u>\$ 114,188</u>	<u>91,162</u>

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	2014	2013
Permanently restricted net assets:		
Student loan funds	\$ 418	418
Contributions receivable, net	8,818	10,247
Assets held in trust and split-interest agreements	12,005	10,844
True endowment funds for which the income and gains are restricted for the following purposes:		
Instruction	59,160	54,907
Financial aid	36,104	34,666
Academic support	6,239	4,681
Student services	7,666	6,801
General institutional or undesignated	22,423	22,174
Total endowment net assets	131,592	123,229
Total permanently restricted net assets	\$ 152,833	144,738

Temporarily restricted net assets for the years ended June 30, 2014 and 2013 were released from donor restrictions as a result of incurring expenses satisfying the restricted purposes or by the occurrence of other events specified by donors. Such assets were utilized to fund expenditures in the following categories:

	2014	2013
Instruction and research	\$ 4,245	4,242
Financial aid	2,801	2,712
Public service	1	6
Academic support	778	601
Student services	600	683
General institutional	565	567
Total operating net assets released from restrictions	8,990	8,811
Plant and other nonoperating	2,442	18,392
Total nonoperating net assets released from restrictions	2,442	18,392
Total net assets released from restrictions	\$ 11,432	27,203

(13) Commitments and Contingencies

The College is subject to certain legal proceedings and claims that arose in the ordinary course of its business. In the opinion of management, the amount of the ultimate liability with respect to those actions will not materially affect the financial position of the College.

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(14) Subsequent Events

The College evaluated subsequent events for potential recognition or disclosure through October 27, 2014, the date on which the financial statements were available to be issued. On September 30, 2014, the College issued \$9,200 of CHEFA Series J tax-exempt bonds which carry a fixed interest rate of 3.17%. On the same date, the College also issued \$3,300 of CHEFA Series K tax-exempt draw down bonds which carry a floating interest rate based on LIBOR plus an applicable margin. The interest rate on Series K will be fixed at a rate calculated once the funds are fully drawn or after 2 years, whichever is earlier. The proceeds from both Series J and Series K are to be used to finance planned campus renovations and improvements. Both series mature September 2044 with a mandatory redemption September 2029. No other subsequent events were identified.