CONNECTICUT COLLEGE

Financial Statements

June 30, 2018

(With Independent Auditors' Report Thereon)

CONNECTICUT COLLEGE

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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, 2018, 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 entity'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 entity'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, 2018, 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 2017 financial statements, and we expressed an unmodified opinion on those audited financial statements in our report dated October 23, 2017. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2017 is consistent, in all material respects, with the audited financial statements from which it has been derived.

KPMG LLP

October 22, 2018

CONNECTICUT COLLEGE

Balance Sheet

June 30, 2018
(with comparative information for June 30, 2017)

(Dollars in thousands)

Assets		**2018**	**2017**
Cash and cash equivalents	$	32,380	19,514
Accounts and student loans receivable, net		1,911	2,415
Contributions receivable, net		26,800	20,836
Inventories and other assets		2,038	2,122
Investments		315,189	299,116
Funds held in trust		16,028	12,354
Deposits with bond trustee		11,981	11,534
Land, buildings, and equipment, net		106,379	108,440
Total assets	$	512,706	476,331
Liabilities			
Accounts payable and accrued liabilities	$	10,449	6,789
Deposits and advances		1,614	1,952
Liabilities under split-interest agreements		4,444	4,580
Capital lease obligations		825	1,393
Accrued postretirement benefit obligation		8,899	7,645
Bonds and notes payable		92,443	93,673
Asset retirement obligation		1,430	1,361
Federal student loan advances		923	1,230
Total liabilities		121,027	118,623
Net Assets			
Unrestricted		67,064	71,989
Temporarily restricted		143,344	111,940
Permanently restricted		181,271	173,779
Total net assets		391,679	357,708
Total liabilities and net assets	$	512,706	476,331

See accompanying notes to financial statements.

CONNECTICUT COLLEGE

Statement of Activities

Year ended June 30, 2018
(with summarized comparative information for the year ended June 30, 2017)

(Dollars in thousands)

	2018				2017
	Unrestricted	**Temporarily restricted**	**Permanently restricted**	**Total**	**Total**
Operating:					
Revenues:					
Tuition and fees	$ 94,150	—	—	94,150	93,952
Residence and dining	23,353	—	—	23,353	22,817
Less financial aid	(38,606)	—	—	(38,606)	(34,852)
Net student fees	78,897	—	—	78,897	81,917
Grant and contract income	1,694			1,694	1,994
Contributions	5,203	6,560	—	11,763	7,259
Endowment spending used in operations	4,343	9,625	—	13,968	13,390
Other revenues	3,194	3	—	3,197	2,862
Net assets released from restrictions	12,398	(12,398)	—	—	—
Total revenues and other support from operations	105,729	3,790	—	109,519	107,422
Expenses:					
Instruction	36,399	—	—	36,399	39,022
Research	1,349	—	—	1,349	1,875
Public service	739	—	—	739	994
Academic support	16,078	—	—	16,078	14,696
Student services	15,583	—	—	15,583	15,827
Auxiliary services	16,472	—	—	16,472	18,137
Institutional support and other expenses	26,057	—	—	26,057	25,605
Total expenses	112,677	—	—	112,677	116,156
(Decrease) Increase in net assets from operating activities	(6,948)	3,790	—	(3,158)	(8,734)
Nonoperating activities:					
Contributions restricted for long-term investment	3,561	22,156	6,899	32,616	5,179
Investment return, less endowment spending used in operations	1,483	6,849	6	8,338	21,454
Change in value of split-interest agreements	62	95	587	744	1,297
Other decreases	—	(19)	—	(19)	(729)
Postretirement related changes other than net periodic benefit cost	254	—	—	254	8
Voluntary exit incentive plan	(4,804)	—	—	(4,804)	—
Net assets released from restrictions	1,467	(1,467)	—	—	—
Increase in net assets from nonoperating activities	2,023	27,614	7,492	37,129	27,209
Total (decrease) increase in net assets	(4,925)	31,404	7,492	33,971	18,475
Net assets, beginning of year	71,989	111,940	173,779	357,708	339,233
Net assets, end of year	$ 67,064	143,344	181,271	391,679	357,708

See accompanying notes to financial statements.

CONNECTICUT COLLEGE

Statement of Cash Flows

Year ended June 30, 2018
(with comparative information for the year ended June 30, 2017)

(Dollars in thousands)

		2018	2017
Cash flows from operating activities:			
Change in net assets	$	33,971	18,475
Adjustments to reconcile change in net assets to net cash used in operating activities:			
Depreciation and amortization		8,816	8,872
Net realized and unrealized gains on investments		(24,257)	(36,732)
Net unrealized gains on split-interest agreements		(309)	(421)
Contributions restricted for long-term investment		(27,438)	(6,024)
Accounts receivable, net		278	(114)
Contributions receivable, net		(5,964)	1,939
Accounts payable and accrued liabilities		4,055	(2,356)
Accrued postretirement benefit obligation		1,254	(70)
Other changes in working capital, net		(4,054)	(913)
Net cash used in operating activities		(13,648)	(17,344)
Cash flows from investing activities:			
Student loans granted		—	(114)
Student loans repaid		220	317
Purchases of investments		(42,200)	(41,919)
Proceeds from sale of investments		50,693	53,610
Purchases of land, buildings, and equipment		(7,307)	(5,120)
Net cash provided by investing activities		1,406	6,774
Cash flows from financing activities:			
Contributions restricted for long-term investment		27,438	6,024
Proceeds from bond issue		—	57,947
Bond issuance costs		—	55
Change in deposits with bond trustee		(447)	(8,902)
Repayments of long-term debt and capital lease obligations		(1,883)	(42,960)
Net cash provided by financing activities		25,108	12,164
Net increase in cash and cash equivalents		12,866	1,594
Cash and cash equivalents at beginning of year		19,514	17,920
Cash and cash equivalents at end of year	$	32,380	19,514
Supplemental disclosures of cash flow information:			
Cash paid during the year for interest	$	3,453	4,640
Fixed asset purchases financed with capital leases		170	483
Change in accounts payable related to property and equipment		(394)	294

See accompanying notes to financial statements.

(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 of Connecticut. In 1959, the College was authorized to grant degrees to men in its graduate program, and in 1969, the undergraduate College 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.

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, 2017, 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 noncash 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 $4,466 and $5,041 for the years ended June 30, 2018 and 2017, 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.

(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 net asset value (NAV), obtained from the general partner or investment manager in the absence of readily determinable fair 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. 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, 2018, the College had no specific plans or intentions to sell investments at amounts different than NAV.

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.
- **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.

Investments measured at NAV as a practical expedient are not categorized within the fair value hierarchy.

(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, 2018 and 2017.

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.

(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, 2018, open federal and Connecticut tax years for the College include the tax years ended June 30, 2014 through June 30, 2018. The College has no examinations in progress. The College believes it has no significant uncertain tax positions.

On December 22, 2017, the President signed into law H.R. 1, originally known as the Tax Cuts and Jobs Act. The new law (Public Law No. 115-97) includes substantial changes to the taxation of individuals, businesses, multinational enterprises and others. In addition to many generally applicable provisions, the law contains several specific provisions that result in changes to the tax treatment of tax-exempt organizations and their donors. The College has reviewed these provisions and the potential impact and concluded the enactment of H.R 1 will not have a material effect on the operations of the organization.

(j) Collections

Library and art collections are not recognized as 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.

(Dollars in thousands)

(l) Recent Accounting Pronouncements

In August 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2016-14, *Presentation of Financial Statements of Not-for-Profit Entities*. The primary changes include revisions to simplify and enhance the presentation of net assets, a requirement to present functional and natural expenses in a single location, and expanded disclosures regarding liquidity and availability of resources. The ASU is effective for the College's fiscal year ending June 30, 2019. Early adoption is permitted. The College chose not to early adopt the standard.

(2) Accounts and Student Loans Receivable

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

		2018	2017
Student accounts receivable	$	402	438
Grants and contracts receivable		469	440
Miscellaneous receivables		108	380
Less allowance for doubtful accounts		(150)	(150)
Accounts receivable, net		829	1,108
Student loans receivable		1,232	1,457
Less allowance for doubtful accounts		(150)	(150)
Student loans receivable, net		1,082	1,307
Total accounts and student loans receivable, net	$	1,911	2,415

(Dollars in thousands)

(3) Contributions Receivable

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

		2018	2017
Amounts due in:			
Less than one year	$	658	1,372
One to five years		23,703	15,508
More than five years		3,794	5,058
Gross unconditional promises to give		28,155	21,938
Less:			
Present value discount		(788)	(460)
Allowance for uncollectible pledges		(567)	(642)
Net unconditional promises to give	$	26,800	20,836
Purpose:			
Endowment giving	$	10,348	10,274
Capital purposes		11,357	7,114
Operating purposes		6,450	4,550
Gross unconditional promises from donors	$	28,155	21,938

The discount rates used to present the value of the pledges range from 0.39% to 6.00% at June 30, 2018 and June 30, 2017.

As of June 30, 2018 and 2017, the College had a pledge receivable from one donor that comprised 45% and 64%, respectively, of the contributions receivable, net on the balance sheet.

(Dollars in thousands)

(4) Investments and Fair Value

The College's investments at June 30, 2018 and 2017 that are reported at fair value are summarized in the tables below and, as applicable, by their fair value hierarchy classification:

	2018				
	Investments measured at NAV	Level 1	Level 2	Level 3	Total fair value
Investments:					
Short-term[1]	$ —	6,700	5,529	—	12,229
U.S. equities	73,150	2,896	—	—	76,046
International equities	51,891	18,235	—	—	70,126
Fixed income	—	19,546	6,440	—	25,986
Private equity	11,471	—	—	—	11,471
Venture capital	17,998	—	—	—	17,998
Inflation hedging[2]	20,999	3,912	—	4,502	29,413
Hedge funds	62,000	—	—	—	62,000
Distressed debt	6,005	—	—	—	6,005
Split-interest agreements	—	—	3,915	—	3,915
Total	$ 243,514	51,289	15,884	4,502	315,189

	2017				
	Investments measured at NAV	Level 1	Level 2	Level 3	Total fair value
Investments:					
Short-term[1]	$ —	8,641	5,146	—	13,787
U.S. equities	63,999	6,510	—	—	70,509
International equities	51,181	16,354	—	—	67,535
Fixed income	—	18,991	6,983	—	25,974
Private equity	11,464	—	—	—	11,464
Venture capital	16,141	—	—	—	16,141
Inflation hedging[2]	24,387	—	—	2,439	26,826
Hedge funds	55,556	—	—	—	55,556
Distressed debt	7,394	—	—	—	7,394
Split-interest agreements	—	—	3,930	—	3,930
Total	$ 230,122	50,496	16,059	2,439	299,116

[1] Short-term includes cash in-transit, money market funds and the cash surrender value of a life insurance policy.

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

(Dollars in thousands)

Approximately $11.7 million moved from investments measured at NAV to Level 1 within international equities in fiscal year 2017 as the investment has a readily determinable fair value.

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, 2018:

		Daily	Monthly	Quarterly	Semi-annual	Subject to rolling lock-ups	Illiquid	Total
Investments:								
Short-term investments	$	12,229	—	—	—	—	—	12,229
U.S. equities		2,910	28,120	45,016	—	—	—	76,046
International equities		5,013	60,635	4,478	—	—	—	70,126
Fixed income		25,986	—	—	—	—	—	25,986
Private equity		—	—	—	—	—	11,471	11,471
Venture capital		—	—	—	—	—	17,998	17,998
Inflation hedging		3,912	9,774	—	—	—	15,727	29,413
Hedge funds		7,177	5,573	13,539	13,776	20,927	1,008	62,000
Distressed debt		—	—	—	—	—	6,005	6,005
Split-interest agreements		—	—	—	—	—	3,915	3,915
Total	$	57,227	104,102	63,033	13,776	20,927	56,124	315,189

The College's policy is to recognize transfers to and transfers from Levels 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, 2018 and 2017, there were no transfers between levels in the fair value hierarchy.

At June 30, 2018, the College's remaining outstanding commitments on investments totaled $29,978. 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, 2018, the average remaining life of the commitments is 4 years. The remaining outstanding commitments are summarized in the table below:

Private equity	$	6,907
Hedge funds		4,000
Venture capital		10,127
Inflation hedging		4,333
Distressed securities		4,611
	$	29,978

At June 30, 2018, funds with redemption lockup periods in the amount of $5,555 will expire in fiscal year 2019, $5,241 will expire in 2020 and $10,131 will expire in 2020.

(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.

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.

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

(Dollars in thousands)

(7) The investment policies of the College

(8) The need to support activities of the College for both current and future generations of students.

Pooled endowment funds consist of the following at June 30, 2018:

		Unrestricted	Temporarily restricted	Permanently restricted	Total
Donor-restricted endowment funds	$	(20)	93,559	156,339	249,878
Board-designated endowment funds		55,785	—	—	55,785
	$	55,765	93,559	156,339	305,663

Pooled endowment funds consist of the following at June 30, 2017:

		Unrestricted	Temporarily restricted	Permanently restricted	Total
Donor-restricted endowment funds	$	(29)	86,710	152,558	239,239
Board-designated endowment funds		51,298	—	—	51,298
	$	51,269	86,710	152,558	290,537

Changes in pooled endowment funds for the year ended June 30, 2018 are as follows:

		Unrestricted	Temporarily restricted	Permanently restricted	Total
Endowment funds, June 30, 2017	$	51,269	86,710	152,558	290,537
Return on long-term investments:					
Dividends and interest		145	743	6	894
Net gains on investments		4,354	19,903	—	24,257
Investment management fees		(603)	(2,745)	—	(3,348)
		3,896	17,901	6	21,803

(Dollars in thousands)

	Unrestricted	Temporarily restricted	Permanently restricted	Total
Appropriation of endowment assets for expenditure	$ (2,413)	(11,052)	—	(13,465)
Investment return, less endowment spending used in operations	1,483	6,849	6	8,338
Cash contributions	3,001	—	3,736	6,737
Transfers	12	—	39	51
Endowment funds, June 30, 2018	$ 55,765	93,559	156,339	305,663

Changes in pooled endowment funds for the year ended June 30, 2017 are as follows:

	Unrestricted	Temporarily restricted	Permanently restricted	Total
Endowment funds, June 30, 2016	$ 46,049	70,228	148,736	265,013
Return on long-term investments:				
Dividends and interest	159	695	35	889
Net gains on investments	7,649	29,083	—	36,732
Investment management fees	(561)	(2,605)	—	(3,166)
	7,247	27,173	35	34,455
Appropriation of endowment assets for expenditure	(2,310)	(10,691)	—	(13,001)
Investment return, less endowment spending used in operations	4,937	16,482	35	21,454
Cash contributions	250	—	2,929	3,179
Transfers	33	—	858	891
Endowment funds, June 30, 2017	$ 51,269	86,710	152,558	290,537

(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 $20 and $29 as of June 30, 2018 and 2017, 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.

(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.

(Dollars in thousands)

(6) Land, Buildings, and Equipment

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

	Estimated useful lives		2018	2017
Campus land	—	$	1,080	1,080
Land improvements	20 years		20,269	19,482
Buildings and building improvements	20–40 years		199,255	193,770
Equipment and furniture	5–10 years		49,669	47,984
Software	3–10 years		6,050	6,050
Construction in progress			4,474	5,808
			280,797	274,174
Less accumulated depreciation and amortization			(174,418)	(165,734)
		$	106,379	108,440

(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 depreciation of facilities identified for each functional expenditure category. The expenditures and allocations for fiscal years 2018 and 2017 are listed below.

		2018	2017
Expenditures:			
Physical plant operations	$	9,317	8,656
Depreciation		8,823	8,879
Interest expense and amortization		3,400	4,643
Total expenditures to be allocated	$	21,540	22,178

(Continued)

(Dollars in thousands)

Allocations to functional expenditure categories:

		2018	2017
Instruction	$	2,850	3,987
Research		730	954
Public service		57	34
Academic support		3,971	3,477
Student services		3,230	3,294
Auxiliary services		5,232	5,933
Institutional support and other expenses		5,470	4,499
Total allocations	$	21,540	22,178

(8) Bonds and Notes Payable

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

		2018	2017
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		3,160	3,310
Series I bonds, face amount $12,240 issued 2012, interest is fixed at rates ranging from 2.0% to 5.0%, maturities to 2032		6,975	7,970
Series J bonds, face amount $9,200 issued 2015, interest is fixed at 3.17% until maturity in 2029		9,200	9,200
Series K bonds, face amount $3,300 issued 2015, interest is fixed at 2.64% until maturity in 2029		3,300	3,300
Series L-1 bonds, face amount $40,725 issued 2017, interest is fixed at rates ranging from 3.0% to 5.0%, maturities to 2046		40,725	40,725
Series L-2 bonds, face amount $12,910 issued 2017, interest is fixed at rates ranging from 1.316% to 2.902%, maturities to 2027		12,910	12,910
		88,380	89,525
Net bond premiums		4,994	5,123
Net bond issuance costs		(931)	(975)
	$	92,443	93,673

(Dollars in thousands)

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

		Bonds
2019	$	1,510
2020		1,760
2021		1,911
2022		1,956
2023		2,012
Thereafter		79,231
	$	88,380

The College has an unsecured $10,000 line of credit established with Citizens Bank for short-term working capital purposes that matures on January 31, 2020. As of June 30, 2018 and 2017, there were no outstanding advances under the line of credit. As of June 30, 2018 and 2017, 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, as well as 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.

Bond interest expense for the years ended June 30, 2018 and 2017 was $3,410 and $4,628, respectively.

(9) Capital 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, 2018, the College had committed $887 under these obligations.

(Dollars in thousands)

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

		Capital
2019	$	483
2020		275
2021		66
2022		39
2023		24
Total minimum lease payments		887
Amount representing interest		(62)
Present value of net minimum lease payments	$	825

As of June 30, 2018, the College had gross assets under capital lease of $4,839 with related accumulated depreciation of $4,060. As of June 30, 2017, the College had gross assets under capital lease of $4,670 with related accumulated depreciation of $3,135.

(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, 2018 and 2017 was $4,272 and $4,208, respectively.

(Dollars in thousands)

(11) Postretirement Medical Benefit Plan

Prior to July 1, 2007, the College provided certain healthcare benefits, including insurance for medical care and prescription drug components, for certain of its retired employees under a defined benefit plan. Effective June 30, 2007, the College closed the defined benefit plan. Information with respect to the closed defined benefit plan is as follows:

	June 30	
	2018	**2017**
Change in benefit obligation:		
Benefit obligation at beginning of year	$ 7,645	7,715
Service cost	281	271
Interest cost	241	228
Plan participants’ contributions	229	200
Medicare Part D subsidy received	18	24
Actuarial curtailment loss	184	—
Termination liability	1,300	—
Actuarial gain	(497)	(271)
Benefits paid	(502)	(522)
Benefit obligation at end of year	8,899	7,645
Change in plan assets:		
Fair value of plan assets at beginning of year	—	—
Employer contribution	255	298
Plan participants’ contributions	229	200
Medicare Part D subsidy received	18	24
Benefits paid	(502)	(522)
Fair value of plan assets at end of year	—	—
Funded status	$ (8,899)	(7,645)

(Dollars in thousands)

	June 30			
	2018		2017	
	Medical	Drug	Medical	Drug
Discount rate used to value obligations	3.92 %	3.92 %	3.45 %	3.45 %
Discount rate used to value expenses	3.45	3.45	3.04	3.04
Weighted average healthcare cost trend:				
Initial trend rate	7.50	8.00	8.00	9.00
Ultimate trend rate	5.00	5.00	5.00	5.00
Year ultimate trend rate attained	2023	2021	2023	2021

	2018	2017
Components of net periodic postretirement benefit cost:		
Service cost	$ 281	271
Interest cost	241	228
Amortization of actuarial loss	—	22
Curtailment adjustment to prior service costs	(6)	—
HRA Curtailment loss	184	—
HRA Termination expense	1,300	—
Net amortization of unrecognized prior service cost	(243)	(285)
Net periodic postretirement benefit cost	$ 1,757	236

	June 30	
	2018	2017
Postretirement related changes other than net periodic benefit cost:		
Actuarial gain	$ 497	271
Net amortization of unrecognized prior service cost	(243)	(263)
Total recognized in nonoperating activities	$ 254	8

(Dollars in thousands)

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:

		2018	2017
Impact of 1% increase in healthcare cost trend:			
On interest cost plus service cost during past year	$	79	62
On accumulated postretirement benefit obligation		522	569
Impact of 1% decrease in healthcare cost trend:			
On interest cost plus service cost during past year	$	(49)	(52)
On accumulated postretirement benefit obligation		(484)	(497)

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

		Estimated benefit payments
Year beginning July 1:		
2019	$	591
2020		605
2021		593
2022		546
2023		497
2024–2027		2,681

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 under a defined contribution plan. For employees who were nearing retirement at the time the defined benefit plan was closed, the College provides a transition benefit in the defined contribution plan. Total postretirement medical expenses for the Emeriti Retiree Health Plan for fiscal years ended June 30, 2018 and 2017 was $242 and $247, respectively.

In fiscal year 2018, the College offered a one-time voluntary retirement incentive program to certain faculty and staff whose age plus years of continuous benefits-eligible service totals 75 or more as of June 30, 2018. The program provided eligible faculty and staff with a special retirement bonus and a contribution to a health reimbursement account (HRA). The program effected the College’s existing postretirement medical benefit liability resulting in a curtailment loss of $184 thousand and termination liability of $1.3 million. The total cost for the voluntary retirement incentive program is $4.8 million including the curtailment loss and termination liability expense. This amount is reported as Voluntary exit incentive plan expense in nonoperating activities on the Statement of Activities.

(Continued)

(Dollars in thousands)

(12) Components of Temporarily and Permanently Restricted Net Assets

The following represents the various components of net assets as of June 30, 2018 and 2017:

		2018	2017
Temporarily restricted net assets:			
Endowment and accumulated/unspent income and gains	$	93,559	86,710
Contributions receivable, net		16,959	11,032
Restricted for plant additions		19,606	2,686
Assets held in trust and split-interest agreements		2,624	2,591
Other donor restricted funds		10,596	8,921
Total temporarily restricted net assets	$	143,344	111,940

		2018	2017
Permanently restricted net assets:			
Student loan funds	$	419	418
Contributions receivable, net		9,841	9,804
Assets held in trust and split-interest agreements		14,672	10,999
True endowment funds restricted for the following purposes:			
Instruction		68,376	67,077
Financial aid		43,877	41,681
Academic support		9,890	9,821
Student services		7,992	7,847
General institutional or undesignated		26,204	26,132
Total endowment net assets		156,339	152,558
Total permanently restricted net assets	$	181,271	173,779

(Dollars in thousands)

Temporarily restricted net assets for the years ended June 30, 2018 and 2017 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:

		2018	2017
Instruction and research	$	4,716	4,873
Financial aid		3,308	3,181
Public service		14	13
Academic support		2,408	1,369
Student services		762	832
General institutional		1,190	1,657
Total operating net assets released from restrictions		12,398	11,925
Plant and other nonoperating		1,467	1,170
Total nonoperating net assets released from restrictions		1,467	1,170
Total net assets released from restrictions	$	13,865	13,095

(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.

(14) Subsequent Events

The College evaluated subsequent events for potential recognition or disclosure through October 22, 2018, the date on which the financial statements were available to be issued. No subsequent events were identified.