CONNECTICUT COLLEGE

Financial Statements

June 30, 2017

(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, 2017, 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, 2017, 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 2016 financial statements, and we expressed an unmodified opinion on those financial statements in our report dated October 27, 2016. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2016 is consistent, in all material respects, with the audited financial statements from which it has been derived.

KPMG LLP

October 23, 2017

CONNECTICUT COLLEGE

Balance Sheet

June 30, 2017
(with comparative information for June 30, 2016)

(Dollars in thousands)

Assets		**2017**	**2016**
Cash and cash equivalents	$	19,514	17,920
Accounts and student loans receivable, net		2,415	2,526
Contributions receivable, net		20,836	22,775
Inventories and other assets		2,122	2,377
Investments		299,116	273,653
Funds held in trust		12,354	11,723
Deposits with bond trustee		11,534	2,632
Land, buildings, and equipment, net		108,440	111,427
Total assets	$	476,331	445,033
Liabilities			
Accounts payable and accrued liabilities	$	6,789	8,851
Deposits and advances		1,952	2,011
Liabilities under split-interest agreements		4,580	4,756
Capital lease obligations		1,393	1,865
Accrued postretirement benefit obligation		7,645	7,715
Bonds and notes payable		93,673	77,761
Asset retirement obligation		1,361	1,327
Federal student loan advances		1,230	1,514
Total liabilities		118,623	105,800
Net Assets			
Unrestricted		71,989	73,426
Temporarily restricted		111,940	96,361
Permanently restricted		173,779	169,446
Total net assets		357,708	339,233
Total liabilities and net assets	$	476,331	445,033

See accompanying notes to financial statements.

CONNECTICUT COLLEGE

Statement of Activities

Year ended June 30, 2017
(with summarized comparative information for the year ended June 30, 2016)

(Dollars in thousands)

	2017				
	Unrestricted	**Temporarily restricted**	**Permanently restricted**	**Total**	**2016 Total**
Operating:					
Revenues:					
Tuition and fees	$ 93,952	—	—	93,952	92,484
Residence and dining	22,817	—	—	22,817	22,474
Less financial aid	(34,852)	—	—	(34,852)	(32,277)
Net student fees	81,917	—	—	81,917	82,681
Grant and contract income	1,994	—	—	1,994	1,931
Contributions	5,094	2,165	—	7,259	9,817
Endowment spending used in operations	4,162	9,228	—	13,390	12,759
Other revenues	2,859	3	—	2,862	3,011
Net assets released from restrictions	11,925	(11,925)	—	—	—
Total revenues and other support from operations	107,951	(529)	—	107,422	110,199
Expenses:					
Instruction	39,022	—	—	39,022	40,646
Research	1,875	—	—	1,875	1,972
Public service	994	—	—	994	679
Academic support	14,696	—	—	14,696	13,334
Student services	15,827	—	—	15,827	15,283
Auxiliary services	18,137	—	—	18,137	17,104
Institutional support and other expenses	25,605	—	—	25,605	22,997
Total expenses	116,156	—	—	116,156	112,015
(Decrease) in net assets from operating activities	(8,205)	(529)	—	(8,734)	(1,816)
Nonoperating revenues and expenses:					
Contributions restricted for long-term investment	280	2,191	2,708	5,179	2,187
Investment return, less endowment spending used in operations	4,937	16,482	35	21,454	(18,638)
Change in value of split-interest agreements	125	264	908	1,297	(976)
Other increases (decreases)	248	(1,659)	682	(729)	2
Postretirement related changes other than net periodic benefit cost	8	—	—	8	(162)
Net assets released from restrictions	1,170	(1,170)	—	—	—
Increase (decrease) in net assets from nonoperating activities	6,768	16,108	4,333	27,209	(17,587)
Total (decrease) increase in net assets	(1,437)	15,579	4,333	18,475	(19,403)
Net assets, beginning of year	73,426	96,361	169,446	339,233	358,636
Net assets, end of year	$ 71,989	111,940	173,779	357,708	339,233

See accompanying notes to financial statements.

CONNECTICUT COLLEGE

Statement of Cash Flows

Year ended June 30, 2017
(with comparative information for the year ended June 30, 2016)

(Dollars in thousands)

		2017	2016
Cash flows from operating activities:			
Change in net assets	$	18,475	(19,403)
Adjustments to reconcile change in net assets to net cash used in operating activities:			
Depreciation and amortization		8,872	9,234
Net realized and unrealized (gains) losses on investments		(36,732)	5,434
Net unrealized (gains) losses on split-interest agreements		(421)	92
Contributions restricted for long-term investment		(6,024)	(9,012)
Accounts receivable, net		(114)	(154)
Contributions receivable, net		1,939	6,304
Accounts payable and accrued liabilities		(2,356)	1,812
Accrued postretirement benefit obligation		(70)	54
Other changes in working capital, net		(913)	280
Net cash used in operating activities		(17,344)	(5,359)
Cash flows from investing activities:			
Student loans granted		(114)	(151)
Student loans repaid		317	335
Purchases of investments		(41,919)	(38,892)
Proceeds from sale of investments		53,610	42,261
Purchases of land, buildings, and equipment		(5,120)	(6,060)
Net cash provided by (used in) investing activities		6,774	(2,507)
Cash flows from financing activities:			
Contributions restricted for long-term investment		6,024	9,012
Proceeds from bond issue		57,947	—
Bond issuance costs		55	—
Change in deposits with trustee		(8,902)	(14)
Repayments of long-term debt and capital lease obligations		(42,960)	(2,065)
Net cash provided by financing activities		12,164	6,933
Net increase (decrease) in cash and cash equivalents		1,594	(933)
Cash and cash equivalents at beginning of year		17,920	18,853
Cash and cash equivalents at end of year	$	19,514	17,920
Supplemental disclosures of cash flow information:			
Cash paid during the year for interest	$	4,640	3,455
Fixed asset purchases financed with capital leases		483	1,177
Change in accounts payable related to property and equipment		294	(610)

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. 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.

(Continued)

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, 2016, 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 $5,041 and $4,231 for the years ended June 30, 2017 and 2016, 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 current estimates of fair value, or 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, 2017 and June 30, 2016, 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, 2017 and 2016. The Board of Trustees has approved the use of a 5% endowment spending rate for fiscal year 2017 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.

(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.

(Continued)

(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, 2017, open federal and Connecticut tax years for the College include the tax years ended June 30, 2014 through June 30, 2017. 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 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.

(l) Reclassifications

Certain 2016 amounts have been reclassified to conform to the 2017 presentation.

(Continued)

(Dollars in thousands)

(2) Accounts and Student Loans Receivable

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

		2017	2016
Student accounts receivable	$	438	394
Grants and contracts receivable		440	523
Miscellaneous receivables		380	226
Less allowance for doubtful accounts		(150)	(150)
Accounts receivable, net		1,108	993
Student loans receivable		1,457	1,683
Less allowance for doubtful accounts		(150)	(150)
Student loans receivable, net		1,307	1,533
Total accounts and student loans receivable, net	$	2,415	2,526

(3) Contributions Receivable

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

		2017	2016
Amounts due in:			
Less than one year	$	1,372	1,640
One to five years		15,508	15,554
More than five years		5,058	7,160
Gross unconditional promises to give		21,938	24,354
Less:			
Present value discount		(460)	(652)
Allowance for uncollectible pledges		(642)	(927)
Net unconditional promises to give	$	20,836	22,775
Purpose:			
Endowment giving	$	10,274	10,727
Capital purposes		7,114	8,151
Operating purposes		4,550	5,476
Gross unconditional promises from donors	$	21,938	24,354

The discount rates used were 1.49% and 0.86% for the years ended June 30, 2017 and 2016, respectively.

(Continued)

(Dollars in thousands)

As of June 30, 2017 and 2016, the College had a pledge receivable from one donor that comprised 64% and 68%, respectively, of the contributions receivable, net on the balance sheet.

(4) Investments and Fair Value

The College's investments at June 30, 2017 and 2016 that are reported at fair value are summarized in the tables below and, as applicable, by their fair value hierarchy classification:

	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	62,864	4,671	—	—	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	$ 241,805	38,813	16,059	2,439	299,116

	2016				
	Investments measured at NAV	Level 1	Level 2	Level 3	Total fair value
Investments:					
Short-term[1]	$ —	12,085	4,751	—	16,836
U.S. equities	56,141	8,524	—	—	64,665
International equities	39,123	13,510	—	—	52,633
Fixed income	—	25,803	—	—	25,803
Private equity	11,595	—	—	—	11,595
Venture capital	15,927	—	—	—	15,927
Inflation hedging[2]	24,124	—	—	2,026	26,150
Hedge funds	48,204	—	—	—	48,204
Distressed debt	8,089	—	—	—	8,089
Split-interest agreements	—	—	3,751	—	3,751
Total	$ 203,203	59,922	8,502	2,026	273,653

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

(Dollars in thousands)

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

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, 2017:

	Daily	Monthly	Quarterly	Semi-annual	Subject to rolling lock-ups	Illiquid	Total
Investments:							
Short-term investments	$ 13,787	—	—	—	—	—	13,787
U.S. equities	6,579	24,149	39,781	—	—	—	70,509
International equities	4,671	57,637	5,227	—	—	—	67,535
Fixed income	25,974	—	—	—	—	—	25,974
Private equity	—	—	—	—	—	11,464	11,464
Venture capital	—	—	—	—	—	16,141	16,141
Inflation hedging	—	12,936	—	—	—	13,890	26,826
Hedge funds	7,152	5,064	19,831	13,065	10,444	—	55,556
Distressed debt	—	—	—	—	—	7,394	7,394
Split-interest agreements	—	—	—	—	—	3,930	3,930
Total	$ 58,163	99,786	64,839	13,065	10,444	52,819	299,116

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, 2017 and 2016, there were no transfers between levels in the fair value hierarchy.

At June 30, 2017, the College's remaining outstanding commitments on investments totaled $16,892. 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, 2017, the average remaining life of the commitments is 4 years. The remaining outstanding commitments are summarized in the table below:

Private equity	$ 4,924
Venture capital	4,420
Inflation hedging	5,163
Distressed securities	2,385
	$ 16,892

At June 30, 2017, funds with redemption lockup periods in the amount of $5,237 will expire in fiscal year 2018 and $5,208 will expire in 2019.

(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, 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

Pooled endowment funds consist of the following at June 30, 2016:

		Unrestricted	Temporarily restricted	Permanently restricted	Total
Donor-restricted endowment funds	$	(1,165)	70,228	148,736	217,799
Board-designated endowment funds		47,214	—	—	47,214
	$	46,049	70,228	148,736	265,013

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

(Dollars in thousands)

	Unrestricted	Temporarily restricted	Permanently restricted	Total
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

Changes in pooled endowment funds for the year ended June 30, 2016 are as follows:

	Unrestricted	Temporarily restricted	Permanently restricted	Total
Endowment funds, July 1, 2015	$ 50,186	84,484	139,947	274,617
Return on long-term investments:				
Dividends and interest	296	1,338	24	1,658
Net losses on investments	(2,042)	(3,391)	—	(5,433)
Investment management fees	(450)	(2,072)	—	(2,522)
	(2,196)	(4,125)	24	(6,297)
Appropriation of endowment assets for expenditure	(2,210)	(10,131)	—	(12,341)
Investment return, less endowment spending used in operations	(4,406)	(14,256)	24	(18,638)
Cash contributions	—	—	6,613	6,613
Transfers	269	—	2,152	2,421
Endowment funds, June 30, 2016	$ 46,049	70,228	148,736	265,013

(Continued)

(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 $29 and $1,165 as of June 30, 2017 and 2016, 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.

(Continued)

(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	2017	2016
Campus land	—	$ 1,080	1,080
Land improvements	20 years	19,482	17,868
Buildings and building improvements	20–40 years	193,770	192,153
Equipment and furniture	5–10 years	47,984	47,027
Software	3–10 years	6,050	6,050
Construction in progress		5,808	4,192
		274,174	268,370
Less accumulated depreciation and amortization		(165,734)	(156,943)
		$ 108,440	111,427

(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 2017 and 2016 are listed below.

	2017	2016
Expenditures:		
Physical plant operations	$ 8,656	8,701
Depreciation	8,879	9,145
Interest expense and amortization	4,643	3,523
Total expenditures to be allocated	$ 22,178	21,369

(Dollars in thousands)

Allocations to functional expenditure categories:

		2017	2016
Instruction	$	3,987	5,486
Research		954	1,134
Public service		34	14
Academic support		3,477	2,715
Student services		3,294	3,306
Auxiliary services		5,933	5,770
Institutional support and other expenses		4,499	2,944
Total allocations	$	22,178	21,369

(8) Bonds and Notes Payable

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

		2017	2016
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
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
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		3,310	3,455
Series I bonds, face amount $12,240 issued 2012, interest is fixed at rates ranging from 2.0% to 5.0%, maturities to 2032		7,970	8,975
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	—

(Dollars in thousands)

		2017	2016
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	—
		89,525	77,895
Net bond premiums		5,123	941
Net bond issuance costs		(975)	(1,075)
	$	93,673	77,761

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

2018	$	1,145
2019		1,510
2020		1,760
2021		1,911
2022		1,956
Thereafter		81,243
	$	89,525

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, 2017 and 2016, there were no outstanding advances under the line of credit. As of June 30, 2017 and 2016, 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.

On September 21, 2016, the College issued $40,725 of CHEFA Series L-1 tax-exempt bonds which carry fixed interest rates ranging from 3% to 5%. On the same date, the College also issued $12,910 of CHEFA Series L-2 taxable bonds which carry fixed interest rates ranging from 1.316% to 2.902%. The proceeds from Series L-1 were used for the redemption of the prior Series F and Series G bonds and to finance planned campus renovations and improvements. The proceeds from Series L-2 were used for the redemption of the prior Series F and Series G bonds. The Series L-1 and Series L-2 mature on July 1, 2046 and July 1, 2027, respectively.

(Dollars in thousands)

Bond interest expense for the years ended June 30, 2017 and 2016 was $4,628 and $3,348, 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, 2017, the College had committed $1,461 under these obligations.

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

		Capital
2018	$	756
2019		441
2020		233
2021		22
2022		9
Total minimum lease payments		1,461
Amount representing interest		(68)
Present value of net minimum lease payments	$	1,393

As of June 30, 2017, the College had assets under capital lease of $4,670 with related accumulated depreciation of $3,135. As of June 30, 2016, the College had assets under capital lease of $4,186 with related accumulated depreciation of $2,199.

(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, 2017 and 2016 was $4,208 and $4,098, 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	
	2017	**2016**
Change in benefit obligation:		
Benefit obligation at beginning of year	$ 7,715	7,661
Service cost	271	228
Interest cost	228	267
Plan participants' contributions	200	217
Medicare Part D subsidy received	24	(6)
Actuarial loss (gain)	(271)	(123)
Benefits paid	(522)	(529)
Benefit obligation at end of year	7,645	7,715
Change in plan assets:		
Fair value of plan assets at beginning of year	—	—
Employer contribution	298	318
Plan participants' contributions	200	217
Medicare Part D subsidy received	24	(6)
Benefits paid	(522)	(529)
Fair value of plan assets at end of year	—	—
Funded status	$ 7,645	7,715

(Dollars in thousands)

	June 30			
	2017		2016	
	Medical	Drug	Medical	Drug
Discount rate used to value obligations	3.45 %	3.45 %	3.04 %	3.04 %
Discount rate used to value expenses	3.04	3.04	3.89	3.89
Weighted average healthcare cost trend:				
Initial trend rate	7.50	7.50	6.00	6.00
Ultimate trend rate	5.00	5.00	5.00	5.00
Year ultimate trend rate attained	2019	2019	2018	2018

	June 30	
	2017	2016
Components of net periodic postretirement benefit cost:		
Service cost	$ 271	228
Interest cost	228	267
Amortization of actuarial loss	22	—
Net amortization of unrecognized prior service cost	(285)	(285)
Net periodic postretirement benefit cost	$ 236	210

	June 30	
	2017	2016
Postretirement related changes other than net periodic benefit cost:		
Actuarial gain	$ 271	123
Net amortization of unrecognized prior service cost	(263)	(285)
Total recognized in nonoperating activities	$ 8	(162)

(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:

		2017	2016
Impact of 1% increase in healthcare cost trend:			
On interest cost plus service cost during past year	$	62	64
On accumulated postretirement benefit obligation		569	526
Impact of 1% decrease in healthcare cost trend:			
On interest cost plus service cost during past year	$	(52)	(38)
On accumulated postretirement benefit obligation		(497)	(449)

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

		Estimated benefit payments
Year beginning July 1:		
2017	$	436
2018		439
2019		489
2020		514
2021		534
2022–2026		2,929

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, 2017 and 2016 was $247 and $244, respectively.

(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, 2017 and 2016:

	2017	2016
Temporarily restricted net assets:		
Endowment and accumulated/unspent income and gains	$ 86,710	70,228
Contributions receivable, net	11,032	12,726
Restricted for plant additions	2,686	1,889
Assets held in trust and split-interest agreements	2,591	2,476
Other donor restricted funds	8,921	9,042
Total temporarily restricted net assets	$ 111,940	96,361

	2017	2016
Permanently restricted net assets:		
Student loan funds	$ 418	418
Contributions receivable, net	9,804	10,049
Assets held in trust and split-interest agreements	10,999	10,243
True endowment funds restricted for the following purposes:		
Instruction	67,077	66,027
Financial aid	41,681	39,484
Academic support	9,821	9,666
Student services	7,847	7,810
General institutional or undesignated	26,132	25,749
Total endowment net assets	152,558	148,736
Total permanently restricted net assets	$ 173,779	169,446

(Dollars in thousands)

Temporarily restricted net assets for the years ended June 30, 2017 and 2016 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:

		2017	2016
Instruction and research	$	4,873	5,762
Financial aid		3,181	3,062
Public service		13	7
Academic support		1,369	1,184
Student services		832	1,033
General institutional		1,657	2,294
Total operating net assets released from restrictions		11,925	13,342
Plant and other nonoperating		1,170	858
Total nonoperating net assets released from restrictions		1,170	858
Total net assets released from restrictions	$	13,095	14,200

(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 23, 2017, the date on which the financial statements were available to be issued. No subsequent events were identified.