KPMG

CONNECTICUT COLLEGE

Financial Statements

June 30, 2012

(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 statement of financial position of Connecticut College as of June 30, 2012, and the related statements of activities and cash flows for the year then ended. These financial statements are the responsibility of Connecticut College's management. Our responsibility is to express an opinion on these financial statements based on our audit. The prior year summarized comparative information has been derived from the College's 2011 financial statements and, in our report dated October 25, 2011 we expressed an unqualified opinion on those financial statements.

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 of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of Connecticut College's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our 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, 2012, and the changes in its net assets and its cash flows for the year then ended in conformity with U.S. generally accepted accounting principles.

KPMG LLP

October 29, 2012

CONNECTICUT COLLEGE

Statement of Financial Position

June 30, 2012
(with comparative financial information for June 30, 2011)

($ in Thousands)

Assets		**2012**	**2011**
Cash and cash equivalents	$	18,469	17,713
Accounts and student loans receivable, net (note 2)		2,886	2,937
Contributions receivable, net (note 3)		26,263	20,128
Inventories and other assets		4,010	4,062
Investments, at market value (notes 4 and 5)		209,725	210,339
Assets held in trust		12,339	13,026
Deposits with trustee		3,924	14,215
Land, buildings, and equipment, net (notes 6, 7, and 8)		106,309	94,281
Total assets	$	383,925	376,701
Liabilities			
Accounts payable and accrued liabilities	$	9,725	6,718
Other deposits and advances		2,235	2,001
Liabilities under split-interest agreements		4,849	4,940
Bonds and notes payable (note 7)		70,358	70,890
Capital lease obligations (note 8)		1,401	1,179
Accrued postretirement benefits (note 10)		7,337	7,614
Advances from federal government for student loans		1,670	1,688
Total liabilities		97,575	95,030
Net Assets			
Unrestricted		55,628	59,335
Temporarily restricted (note 11)		89,269	88,640
Permanently restricted (note 11)		141,453	133,696
Total net assets		286,350	281,671
Total liabilities and net assets	$	383,925	376,701

See accompanying notes to financial statements.

CONNECTICUT COLLEGE

Statement of Activities

Year ended June 30, 2012
(with summarized financial information for the year ended June 30, 2011)

($ in Thousands)

	2012 Unrestricted	2012 Temporarily restricted	2012 Permanently restricted	2012 Total	2011 Total
Operating:					
Revenues:					
Tuition and fees	$ 84,508	—	—	84,508	83,380
Residence and dining	19,024	—	—	19,024	15,517
Less financial aid	(25,792)	—	—	(25,792)	(23,305)
Net student fees	77,740	—	—	77,740	75,592
Grant and contract income	2,654	—	—	2,654	2,639
Contributions	4,446	2,420	—	6,866	6,155
Endowment spending used in operations (note 5)	2,808	6,417	—	9,225	9,491
Other auxiliary services	2,101	—	—	2,101	2,463
Other revenues and transfers	886	347	—	1,233	1,613
Net assets released from restrictions (note 11)	8,446	(8,446)	—	—	—
Total revenues and other support from operations	99,081	738	—	99,819	97,953
Expenses:					
Instruction	35,951	—	—	35,951	34,935
Research	1,740	—	—	1,740	1,801
Public service	722	—	—	722	769
Academic support	10,850	—	—	10,850	10,867
Student services	14,024	—	—	14,024	13,090
Auxiliary services	17,782	—	—	17,782	17,354
Institutional support and other expenses	21,087	—	—	21,087	18,779
Total expenses	102,156	—	—	102,156	97,595
(Decrease) increase in net assets from operating activities	(3,075)	738	—	(2,337)	358
Nonoperating revenues and expenses:					
Contributions	508	7,187	8,267	15,962	9,334
Investment return, less endowment spending used in operations (note 5)	(1,628)	(6,104)	7	(7,725)	27,929
Change in value of split-interest agreements	(67)	(218)	(515)	(800)	1,720
Other (decreases) increases	(619)	236	(2)	(385)	(34)
Postretirement related changes other than net periodic benefit cost (note 10)	(36)	—	—	(36)	(577)
Net assets released from restrictions (note 11)	1,210	(1,210)	—	—	—
(Decrease) increase in net assets from nonoperating activities	(632)	(109)	7,757	7,016	38,372
Total (decrease) increase in net assets	(3,707)	629	7,757	4,679	38,730
Net assets, beginning of year	59,335	88,640	133,696	281,671	242,941
Net assets, end of year	$ 55,628	89,269	141,453	286,350	281,671

See accompanying notes to financial statements.

CONNECTICUT COLLEGE

Statement of Cash Flows

Year ended June 30, 2012
(with comparative financial information for the year ended June 30, 2011)

($ in Thousands)

		2012	2011
Cash flows from operating activities:			
Change in net assets	$	4,679	38,730
Adjustments to reconcile change in net assets to net cash (used in) provided by operating activities:			
Depreciation and amortization		7,298	7,507
Net realized and unrealized losses (gains) on investments		1,093	(34,878)
Net unrealized losses (gains) on split-interest agreements		166	(657)
Contributions restricted for long-term investment		(9,738)	(7,897)
Accounts and contributions receivable		(6,225)	(799)
Accounts payable and accrued liabilities		2,340	(319)
Accrued postretirement benefits		(277)	437
Other net changes in working capital		2,313	(2,405)
Net cash provided by (used in) operating activities		1,649	(281)
Cash flows from investing activities:			
Student loans granted		(241)	(232)
Student loans repaid		376	383
Purchases of investments		(23,061)	(64,228)
Proceeds from sale of investments		22,416	66,736
Purchases of land, buildings, and equipment		(18,641)	(7,827)
Net cash used in investing activities		(19,151)	(5,168)
Cash flows from financing activities:			
Contributions restricted for long-term investment		9,738	7,897
Proceeds from bond issuance		12,240	16,095
Deposits with trustee		10,291	(11,900)
Bond issuance costs		(356)	(92)
Repayments of long-term obligations		(13,655)	(5,085)
Net cash provided by financing activities		18,258	6,915
Net increase in cash and cash equivalents		756	1,466
Cash and cash equivalents at beginning of year		17,713	16,247
Cash and cash equivalents at end of year	$	18,469	17,713
Supplemental disclosures of cash flow information:			
Cash paid during the year for interest	$	2,939	2,900
Fixed asset purchases financed with capital leases	$	1,106	876

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 also was made coeducational.

(b) General

The financial statements have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America. 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 which can be expended but for which spending restrictions have not yet been met, or 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 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 generally accepted accounting principles. Accordingly, such information should be read in conjunction with the College's financial statements for the year ended June 30, 2011, from which the summarized information was derived.

(c) Contribution Revenue

The College reports contributions (including unconditional promises to give) 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. The College reports gifts of land, buildings or equipment as unrestricted non-operating 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 non-operating 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 asset are acquired and placed in service.

Contributions of assets other than cash are recorded at their estimated fair value. Contributions expected to be received after one year are discounted at an appropriate discount rate. The discount rate represents the risk-free rate in existence at the date of the gift. An allowance for uncollectible contributions is estimated based upon such factors as prior collection history, type of contribution and nature of fundraising activity.

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 $4,426 and $4,097 for the years ended June 30, 2012 and 2011, 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.

(Continued)

The fair value of publicly traded securities is based upon quotes from the principal exchanges on which the security is traded. Nonmarketable securities include alternative investments such as private equity, venture capital, hedge funds, natural resources partnerships, and distressed securities, which are valued using current estimates of fair value, or net asset value (NAV), obtained from the general partner or investment manager in the absence of readily determinable public market values. The College has utilized the NAV reported by the general partner or investment manager as a practical expedient to estimate the fair value of certain investments. The NAV generally reflects discounts for liquidity and considers variables such as financial performance of investments, including comparison of earnings multiples of comparable companies, cash flow analysis, recent sales prices of investments and other pertinent information. These investments represent approximately 47% of the College's investments at June 30, 2012 and 2011. 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, 2012 and June 30, 2011, the College had no specific plans or intentions to sell investments at amounts different than NAV.

Fair Value Hierarchy

The three levels of the fair value hierarchy are:

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

- **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 measurement in its entirety falls is based on the lowest level input that is significant to the fair value measurement in its entirety.

(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 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, 2012 and 2011. The Board of Trustees has approved the use of a 5% endowment spending rate for fiscal year 2013 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 actuarial 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 statement of financial position at historical cost or at fair market 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. 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, 2012, open Federal and Connecticut tax years for the College include the tax years ended June 30, 2009 through June 30, 2011. The College has no examination in progress. The College believes it has no significant uncertain tax positions.

(j) Inventories

Inventories are stated at the lower of cost or market.

(k) Collections

Library and art collections are not recognized in assets on the statement of financial position. Purchases of such collections are recorded as decreases in net assets 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.

(l) Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles 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.

(Continued)

($ in Thousands)

(2) Accounts and Student Loans Receivable

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

		2012	2011
Student accounts receivable	$	180	78
Grants and contracts receivable		465	464
Miscellaneous receivables		249	261
Less allowance for doubtful accounts		(150)	(150)
Student accounts receivable, net		744	653
Student loans receivable		2,292	2,434
Less allowance for doubtful accounts		(150)	(150)
Student loans receivable, net		2,142	2,284
Total accounts and student loans receivable, net	$	2,886	2,937

(3) Contributions Receivable

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

		2012	2011
Amounts due in:			
Less than one year	$	2,938	1,661
One to five years		25,289	19,998
More than five years		629	841
Gross unconditional promises to give		28,856	22,500
Less:			
Present value discount		(466)	(542)
Allowance for uncollectible pledges		(2,127)	(1,830)
Net unconditional promises to give	$	26,263	20,128
Purpose:			
Endowment giving		11,213	5,222
Capital purposes		12,985	12,762
Operating purposes		4,658	4,516
Gross unconditional promises to give	$	28,856	22,500

The discount rates used ranged from 0.39% to 0.71% for June 30, 2012 and 2011.

(Continued)

($ in Thousands)

(4) Investments and Fair Value

The College's investments at June 30, 2012 that are reported at fair value are summarized in the table below by their fair value hierarchy classification:

		Level 1	Level 2	Level 3	Total	Redemption or Liquidation	Days' Notice
Investments:							
Short-term[1]	$	6,785	13	3,285	10,083	Daily	1
US equities[2]		25,795	21,991	16	47,802	Daily to Illiquid	1 – 60
International equities		19,724	13,560	—	33,284	Daily to Monthly	1 – 5
Fixed income[2]		21,376	1,140	—	22,516	Daily to Illiquid	1 – 6
Private equity		—	—	11,117	11,117	Illiquid	Not applicable
Venture capital		—	—	8,610	8,610	Illiquid	Not applicable
Inflation hedging		—	9,479	18,127	27,606	Monthly to Illiquid	1 – 60
Hedge funds		—	21,723	19,537	41,260	Quarterly to Illiquid	45 – 60
Distressed debt		—	—	7,447	7,447	Illiquid	Not applicable
Total	$	73,680	67,906	68,139	209,725		

[1]Level 3 short-term investments represent cash surrender value of a life insurance policy.
[2]Illiquid investments in US Equities and Fixed Income are related to Pooled Income Fund investments.

Investment liquidity as of June 30, 2012 is aggregated below based on redemption or sale period:

Investment redemption or sale period		Investment fair values
Daily	$	76,898
Monthly		23,040
Quarterly		41,708
Semi-annually		9,175
Annually		8,659
Illiquid		50,245
	$	209,725

In the tables above, inflation hedging includes such investments as natural resources partnerships, agricultural and other commodities, real estate and treasury inflation-protected securities.

($ in Thousands)

The College's investments at June 30, 2011 that are reported at fair value are summarized in the table below by their fair value hierarchy classification:

	Level 1	Level 2	Level 3	Total	Redemption or Liquidation	Days' Notice
Investments:						
Short-term	$ 2,775	71	2,938	5,784	Daily	1
US equities	28,777	19,080	16	47,873	Daily to Illiquid	1 – 5
International equities	23,103	15,024	—	38,127	Monthly	1 – 5
Fixed income	22,807	1,154	—	23,961	Daily to Illiquid	1 – 6
Private equity	—	—	9,651	9,651	Illiquid	Not applicable
Venture capital	—	—	7,325	7,325	Illiquid	Not applicable
Inflation hedging	—	14,102	16,861	30,963	Monthly to Illiquid	1 – 60
Hedge funds	—	22,388	16,674	39,062	Quarterly to Illiquid	45 – 60
Distressed debt	—	—	7,588	7,588	Illiquid	Not applicable
Faculty mortgages	—	—	5	5	Illiquid	Not applicable
Total	$ 77,462	71,819	61,058	210,339		

The following tables presents the College's activity for assets measured at fair value on a recurring basis using significant unobservable inputs (Level 3) for the years ended June 30, 2012 and June 30, 2011:

	Fair value at July 1, 2011	Contributions	Distributions	Investment income/ (loss), net	Realized and change in unrealized gains/ (losses)	Fair value at June 30, 2012
Short-term	$ 2,938	—	—	347	—	3,285
US equities	16	—	—	—	—	16
Private equity	9,651	1,984	(1,273)	57	698	11,117
Venture capital	7,325	1,504	(575)	(146)	502	8,610
Inflation hedging	16,861	2,857	(3,537)	(165)	2,111	18,127
Hedge funds	16,674	3,000	—	(462)	325	19,537
Distressed debt	7,588	600	(853)	117	(5)	7,447
Faculty mortgages	5	—	—	(5)	—	—
Total	$ 61,058	9,945	(6,238)	(257)	3,631	68,139

($ in Thousands)

		Fair value at July 1, 2010	Contributions	Distributions	Investment income/ (loss), net	Realized and change in unrealized gains/ (losses)	Transfers	Fair value at June 30, 2011
Short-term	$	2,539	—	—	399	—	—	2,938
US equities		9,366	—	(1)	—	—	(9,349)	16
Private equity		7,618	2,513	(1,642)	(93)	1,255	—	9,651
Venture capital		4,921	1,515	(716)	(157)	1,762	—	7,325
Inflation hedging		12,918	2,356	(930)	(314)	2,831	—	16,861
Hedge funds		25,084	—	(500)	332	1,915	(10,157)	16,674
Distressed debt		7,065	—	(555)	658	420	—	7,588
Faculty mortgages		7	—	—	(2)	—	—	5
Total	$	69,518	6,384	(4,344)	823	8,183	(19,506)	61,058

The College's policy is to recognize transfers in and transfers out of Levels 1, 2, or 3 as of the actual date of the transaction or change in circumstances that caused the transfer. For the year ended June 30, 2011, the College transferred $19,506 from level 3 to level 2 due to changes in liquidity restrictions.

At June 30, 2012, the College's remaining outstanding commitments on investments totaled $18,785. 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, 2012, the average remaining life of the commitments is 5 years. The remaining outstanding commitments are summarized in the table below:

Private equity	$	5,009
Venture capital		5,208
Inflation hedging		5,068
Distressed securities		3,500
	$	18,785

At June 30, 2012, redemption lock up periods for $6,449 and $4,428 will expire in fiscal year 2013 and 2014, respectively.

(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 generally accepted accounting principles, 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.

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 Board is permitted to determine and continue a prudent payout amount, even if the market value of the fund is below historic dollar value. There is an expectation that, over time, the permanently restricted amount will remain intact. This perspective is aligned with the accounting standards definition that permanently restricted funds are those that must be held in perpetuity even though some portions of the historic-dollar-value may be reduced by drawings on a temporary basis.

In accordance with appropriate accounting standards, the College classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the College in a manner consistent with the standard of prudence prescribed by CT UPMIFA.

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

(1) The duration and preservation of the fund

(2) The purposes of the College and the donor-restricted endowment fund

(3) General economic conditions

(4) The possible effects of inflation and deflation

(5) The expected total return from income and the appreciation of investments

(6) Other resources of the College

(7) The investment policies of the College

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

($ in Thousands)

Pooled endowment funds consist of the following at June 30, 2012:

		Unrestricted	Temporarily restricted	Permanently restricted	Total
Donor-restricted endowment funds	$	(1,780)	52,583	119,486	170,289
Board-designated endowment funds		32,461	—	—	32,461
	$	30,681	52,583	119,486	202,750

Pooled endowment funds consist of the following at June 30, 2011:

		Unrestricted	Temporarily restricted	Permanently restricted	Total
Donor-restricted endowment funds	$	(1,321)	58,471	117,193	174,343
Board-designated endowment funds		29,370	—	—	29,370
	$	28,049	58,471	117,193	203,713

Changes in pooled endowment funds for the year ended June 30, 2012 are as follows:

		Unrestricted	Temporarily restricted	Permanently restricted	Total
Endowment funds, July 1, 2011	$	28,049	58,471	117,193	203,713
Return on long-term investments:					
Dividends and interest		717	3,746	20	4,483
Net losses on investments		(562)	(530)	(1)	(1,093)
Investment management fees		(361)	(1,887)	(2)	(2,250)
		(206)	1,329	17	1,140
Appropriation of endowment assets for expenditure		(1,422)	(7,433)	(10)	(8,865)
Investment return, less endowment spending used in operations		(1,628)	(6,104)	7	(7,725)
Contributions		500	—	2,288	2,788
Transfers		3,760	216	(2)	3,974
Endowment funds, June 30, 2012	$	30,681	52,583	119,486	202,750

(Continued)

($ in Thousands)

Changes in pooled endowment funds for the year ended June 30, 2011 are as follows:

		Unrestricted	Temporarily restricted	Permanently restricted	Total
Endowment funds, July 1, 2010	$	7,396	40,810	123,321	171,527
Return on long-term investments:					
Dividends and interest		507	4,445	20	4,972
Net gains on investments		10,719	24,121	38	34,878
Investment management fees		(288)	(2,525)	(3)	(2,816)
		10,938	26,041	55	37,034
Appropriation of endowment assets for expenditure		(932)	(8,163)	(10)	(9,105)
Investment return, less endowment spending used in operations		10,006	17,878	45	27,929
Contributions		1,026	100	2,348	3,474
Transfers		9,621	(317)	(8,521)	783
Endowment funds, June 30, 2011	$	28,049	58,471	117,193	203,713

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 generally accepted accounting principles, deficiencies of this nature are reported in unrestricted net assets and were $1,780 and $1,321 as of June 30, 2012 and 2011, 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.

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 overtime while carrying a moderate level of risk. Actual returns in any given year may vary from this amount.

($ in Thousands)

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 non-marketable alternative investments (hedge funds and private investments), and real assets to achieve its long-term return objectives within prudent risk constraints.

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 the June 30th preceding the fiscal year in which the distribution is planned. In establishing its spending policy, the College considered the expected return on its endowment. Accordingly, the College expects its spending policy will allow its endowment funds to be maintained in perpetuity by growing at a rate at least equal to planned payouts. Additional real endowment growth will be provided through new gifts and any excess investment return.

(6) Land, Buildings, and Equipment

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

	Estimated useful lives		2012	2011
Buildings and building improvements	20 – 40 years	$	148,581	148,278
Equipment and furniture	5 – 10 years		39,378	39,343
Campus and campus improvements	20 years		17,376	15,659
Leasehold improvements	Lease term[1]		227	227
Software	3 – 10 years		5,708	5,625
Construction in progress			19,174	5,028
			230,444	214,160
Less accumulated depreciation and amortization			(124,135)	(119,879)
		$	106,309	94,281

[1]Lease terms ranging from 3 to 6 years.

Computer software costs are capitalized, net of accumulated amortization, as of June 30, 2012 and 2011 are $1,923 and $2,261, respectively.

The College has recorded a liability of $811 and $651 as of June 30, 2012, and 2011, respectively, for conditional asset retirement obligations related to the removal and disposal of asbestos insulation in several buildings. This amount is included within accounts payable and accrued liabilities on the statement of financial position.

(Continued)

($ in Thousands)

(7) Bonds and Notes Payable

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

		2012	2011
Connecticut Health and Educational Facilities Authority (CHEFA):			
Series E bonds, face amount $17,785 issued 2002, interest is fixed at rates ranging from 3.0% to 5.25%, maturities to 2032; a general obligation bond insured by MBIA Insurance Corporation	$	—	13,655
Series F bonds, face amount $28,855 issued 2007, interest is fixed at rates ranging from 4.0% to 5.0%, maturities to 2030; a general obligation bond insured by MBIA Insurance Corporation		28,855	28,855
Series G bonds, face amount $12,000 issued 2007, interest is fixed at 4.5%, maturities to 2037; a general obligation bond insured by MBIA Insurance Corporation		12,000	12,000
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		3,985	3,985
Series I bonds, face amount $12,240 issued 2012, interest is fixed at rates ranging from 2.0% to 5.0%, maturities to 2032		12,240	—
		69,190	70,605
Net bond premiums		1,168	285
	$	70,358	70,890

(Continued)

($ in Thousands)

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

2013	$	125
2014		130
2015		715
2016		975
2017		1,020
Thereafter		66,225
	$	69,190

The College has an unsecured $10,000 line of credit established with Citizens Bank for short-term working capital purposes that matures on May 31, 2015. As of June 30, 2012 and 2011, there were no outstanding advances under the line of credit. As of June 30, 2012 and 2011, the interest rate is set at LIBOR plus an applicable margin.

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

In April 2012, the College issued $12,240 of CHEFA Series I tax-exempt bonds. The proceeds from Series I were used for the redemption of the prior issue Series E bonds.

The College maintains debt service reserve funds and unspent proceeds from the issuance of CHEFA Series H-1 and H-2 as required by the associated bond agreements. The deposits with trustees of debt obligations are reported in deposits with trustees on the statement of financial position.

The fair value of long-term debt was $73,857 and $70,057 at June 30, 2012 and 2011, respectively.

Bond interest expense for the years ended June 30, 2012 and 2011 was $3,358 and $2,785, respectively.

(8) 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, 2012, the College had committed $1,401 under these obligations, of which $84 represented interest.

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

($ in Thousands)

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

		Capital	Operating
2013	$	779	553
2014		473	550
2015		233	504
Total minimum lease payments		1,485	1,607
Amount representing interest		(84)	—
Present value of net minimum lease payments	$	1,401	1,607

As of June 30, 2012, the College had assets under capital lease of $7,555 with related accumulated depreciation of $4,987. As of June 30, 2011, the College had assets under capital lease of $6,665 with related accumulated depreciation of $4,209.

Rent expense for the years ended June 30, 2012 and 2011 was $551.

The College had subleased a portion of this office space under a noncancellable lease agreement that terminated in 2011.

(9) 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 pension expense for the fiscal years ended June 30, 2012 and 2011 was $3,716 and $3,648, respectively.

($ in Thousands)

(10) Postretirement Medical Benefits Plan

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

		June 30	
		2012	**2011**
Change in benefit obligation:			
Benefit obligation at beginning of year	$	7,614	7,177
Service cost		151	200
Interest cost		295	339
Plan participants' contributions		231	225
Medicare Part D subsidy received		25	43
Actuarial (gain)/loss		(349)	339
Benefits paid		(630)	(709)
Benefit obligation at end of year	$	7,337	7,614
Change in plan assets:			
Fair value of plan assets at beginning of year		—	—
Employer contribution		374	441
Plan participants' contributions		231	225
Medicare Part D subsidy received		25	43
Benefits paid		(630)	(709)
Fair value of plan assets at end of year	$	—	—
Funded status	$	(7,337)	(7,614)

($ in Thousands)

	June 30			
	2012		2011	
	Medical	Drug	Medical	Drug
Discount rate used to value obligations	3.50%	3.50%	5.00%	5.00%
Weighted average health care cost trend:				
Initial trend rate	9.00%	9.00%	10.00%	10.00%
Ultimate trend rate	5.00%	5.00%	5.00%	5.00%
Year ultimate trend rate attained	2016	2016	2016	2016

	June 30	
	2012	2011
Components of net periodic postretirement benefit cost:		
Service cost	$ 151	200
Interest cost	295	339
Amortization of actuarial loss	47	118
Net amortization and unrecognized prior service cost	(313)	(313)
Net periodic postretirement benefit cost	$ 180	344

	June 30	
	2012	2011
Postretirement related changes other than net periodic benefit cost:		
Actuarial (gain)/loss	$ (349)	339
Amortization of actuarial loss	47	(118)
Medicare Part D reimbursement	25	43
Net amortization and unrecognized prior service cost	313	313
Total recognized in non-operating activities	$ 36	577

(Continued)

($ in Thousands)

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

		2012	2011
Impact of 1% increase in health care cost trend:			
On interest cost plus service cost during past year	$	45	41
On accumulated postretirement benefit obligation		408	296
Impact of 1% decrease in health care cost trend:			
On interest cost plus service cost during past year		(20)	(36)
On accumulated postretirement benefit obligation		(256)	(315)

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

		Estimated benefit payment
Year beginning July 1:		
2012	$	489
2013		496
2014		554
2015		540
2016		548
2017 – 2019		2,556

(11) Components of Temporarily and Permanently Restricted Net Assets

The following represents the various components of net assets as of June 30, 2012 and 2011:

		2012	2011
Temporarily restricted net assets:			
Endowment and accumulated/unspent income and gains	$	52,583	58,471
Contributions receivable, net		14,799	14,523
Restricted for plant additions		9,171	3,174
Assets held in trust and split-interest agreements		3,101	3,314
Other externally restricted funds		9,615	9,158
Total temporarily restricted net assets	$	89,269	88,640

(Continued)

($ in Thousands)

		2012	2011
Permanently restricted net assets:			
Student loan funds	$	418	417
Contributions receivable, net		11,464	5,605
Assets held in trust and split-interest agreements		10,085	10,481
True endowment funds for which the income and gains are restricted for the following purposes:			
Instruction		53,914	53,435
Financial aid		33,780	32,725
Academic support		4,613	4,602
Student services		6,187	5,481
General institutional or undesignated		20,992	20,950
Total permanently restricted net assets	$	141,453	133,696

Temporarily restricted net assets at June 30, 2012 and 2011 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:

		2012	2011
Instruction and research	$	3,879	3,877
Financial aid		2,727	2,993
Public service		—	—
Academic support		651	676
Student services		643	536
Plant		1,443	3,590
General institutional		313	512
	$	9,656	12,184

(12) 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.

(13) Subsequent Events

The College evaluated subsequent events for potential recognition or disclosure through October 29, 2012, the date on which the financial statements were available to be issued.