



CONNECTICUT COLLEGE

Financial Statements

June 30, 2013

(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 (the College) which comprise the balance sheet as of June 30, 2013, and the related statements of activities and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with U.S. generally accepted accounting principles; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Connecticut College as of June 30, 2013, 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 the College's 2012 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated October 29, 2012. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2012 is consistent, in all material respects, with the audited financial statements from which it has been derived.

KPMG LLP

October 21, 2013

CONNECTICUT COLLEGE**Balance Sheet**

June 30, 2013

(with comparative information for June 30, 2012)

(Dollars in thousands)

Assets	2013	2012
Cash and cash equivalents	\$ 18,280	18,469
Accounts and student loans receivable, net	2,864	2,886
Contributions receivable, net	24,330	26,263
Inventories and other assets	4,233	4,010
Investments	235,864	209,725
Funds held in trust	12,548	12,339
Deposits with bond trustee	2,501	3,924
Land, buildings, and equipment, net	108,820	106,309
Total assets	<u>\$ 409,440</u>	<u>383,925</u>
Liabilities		
Accounts payable and accrued liabilities	\$ 8,679	8,961
Deposits and advances	2,380	2,235
Liabilities under split-interest agreements	4,854	4,849
Capital lease obligations	1,097	1,401
Accrued postretirement benefits	7,127	7,337
Bonds and notes payable	69,596	70,358
Asset retirement obligation	1,294	764
Federal student loan advances	1,641	1,670
Total liabilities	<u>96,668</u>	<u>97,575</u>
Net Assets		
Unrestricted	76,872	55,628
Temporarily restricted	91,162	89,269
Permanently restricted	144,738	141,453
Total net assets	<u>312,772</u>	<u>286,350</u>
Total liabilities and net assets	<u>\$ 409,440</u>	<u>383,925</u>

See accompanying notes to financial statements.

CONNECTICUT COLLEGE

Statement of Activities

Year ended June 30, 2013

(with summarized comparative information for the year ended June 30, 2012)

(Dollars in thousands)

	2013			2012
	Unrestricted	Temporarily restricted	Permanently restricted	Total
Operating:				
Revenues:				
Tuition and fees	\$ 86,985	—	—	86,985
Residence and dining	20,766	—	—	20,766
Less financial aid	(27,018)	—	—	(27,018)
Net student fees	80,733	—	—	80,733
Grant and contract income	2,511	—	—	2,511
Contributions	5,172	5,127	—	10,299
Endowment spending used in operations	3,099	6,713	—	9,812
Other revenues	3,135	—	—	3,135
Net assets released from restrictions	8,811	(8,811)	—	—
Total revenues and other support from operations	103,461	3,029	—	106,490
Expenses:				
Instruction	38,217	—	—	38,217
Research	1,842	—	—	1,842
Public service	763	—	—	763
Academic support	10,947	—	—	10,947
Student services	14,323	—	—	14,323
Auxiliary services	17,441	—	—	17,441
Institutional support and other expenses	21,472	—	—	21,472
Total expenses	105,005	—	—	105,005
(Decrease) increase in net assets from operating activities	(1,544)	3,029	—	1,485
Nonoperating revenues and expenses:				
Contributions for long-term investments	51	4,719	1,400	6,170
Investment return, less endowment spending used in operations	4,120	13,319	37	17,476
Change in value of split-interest agreements	41	378	558	977
Other increases (decreases)	36	(1,160)	1,290	166
Postretirement related changes other than net periodic benefit cost	148	—	—	148
Net assets released from restrictions	18,392	(18,392)	—	—
Increase (decrease) in net assets from nonoperating activities	22,788	(1,136)	3,285	24,937
Total increase in net assets	21,244	1,893	3,285	26,422
Net assets, beginning of year	55,628	89,269	141,453	286,350
Net assets, end of year	\$ 76,872	91,162	144,738	312,772

See accompanying notes to financial statements.

CONNECTICUT COLLEGE

Statement of Cash Flows

Year ended June 30, 2013

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

(Dollars in thousands)

	<u>2013</u>	<u>2012</u>
Cash flows from operating activities:		
Change in net assets	\$ 26,422	4,679
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	8,101	7,298
Net realized and unrealized (gains) losses on investments	(19,347)	1,093
Net unrealized (gains) losses on split-interest agreements	(334)	166
Contributions restricted for long-term investment	(11,825)	(9,738)
Accounts and contributions receivable	1,776	(6,225)
Accounts payable and accrued liabilities	(1,566)	2,340
Accrued postretirement benefits	(210)	(277)
Other changes in working capital, net	132	2,313
Net cash provided by operating activities	<u>3,149</u>	<u>1,649</u>
Cash flows from investing activities:		
Student loans granted	(245)	(241)
Student loans repaid	424	376
Purchases of investments	(38,246)	(23,061)
Proceeds from sale of investments	31,788	22,416
Purchases of land, buildings, and equipment	(8,746)	(18,641)
Net cash used in investing activities	<u>(15,025)</u>	<u>(19,151)</u>
Cash flows from financing activities:		
Contributions restricted for long-term investment	11,825	9,738
Proceeds from bond issuance	—	12,240
Deposits with trustee	1,423	10,291
Bond issuance costs	—	(356)
Repayments of long-term debt	(1,561)	(13,655)
Net cash provided by financing activities	<u>11,687</u>	<u>18,258</u>
Net (decrease) increase in cash and cash equivalents	<u>(189)</u>	<u>756</u>
Cash and cash equivalents at beginning of year	<u>18,469</u>	<u>17,713</u>
Cash and cash equivalents at end of year	<u>\$ 18,280</u>	<u>18,469</u>
Supplemental disclosures of cash flow information:		
Cash paid during the year for interest	\$ 3,025	2,939
Fixed asset purchases financed with capital leases	552	1,106
Change in accounts payable related to property and equipment	1,284	(667)

See accompanying notes to financial statements.

CONNECTICUT COLLEGE

Notes to Financial Statements

June 30, 2013

(Dollars in thousands)

(1) Summary of Significant Accounting Policies

(a) History

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

(b) General

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

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

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

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

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

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

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

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Notes to Financial Statements

June 30, 2013

(Dollars in thousands)

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, 2012, 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 of assets other than cash are recorded at their estimated fair value. Unconditional promises to give are recognized initially at fair value as contributions revenue in the period such promises are made by donors. Fair value is estimated giving consideration to anticipated cash receipts (after allowance is made for uncollectible pledges) and discounting such amounts at appropriate discount rates. These inputs to the fair value estimate are considered level 3 in the fair value hierarchy. In subsequent periods, the discount rate is unchanged and the allowance for uncollectible pledges is reassessed and adjusted if necessary. Amortization of the discounts is recorded as additional contribution revenue.

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

Fundraising expenses were \$4,137 and \$4,426 for the years ended June 30, 2013 and 2012, 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

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Notes to Financial Statements

June 30, 2013

(Dollars in thousands)

value in other cases. Unrealized gains and losses that result from market fluctuations are recognized in the statement of activities in the period in which the fluctuations occur. Realized gains and losses are computed based on the specific-identification-cost method.

The fair value of publicly traded securities is based upon quotes from the principal exchanges on which the security is traded. Nonmarketable securities include alternative investments such as private equity, venture capital, hedge funds, natural resources partnerships, and distressed securities, which are valued using current estimates of fair value, or net asset value (NAV), obtained from the general partner or investment manager in the absence of readily determinable public market values. The College has utilized the NAV reported by the general partner or investment manager as a practical expedient to estimate the fair value of certain investments. The NAV generally reflects discounts for liquidity and considers variables such as financial performance of investments, including comparison of earnings multiples of comparable companies, cash flow analysis, recent sales prices of investments and other pertinent information. These investments represent approximately 46% and 47% of the College's investments at June 30, 2013 and June 30, 2012, respectively. The agreements under which the College participates in nonmarketable investment funds may limit the College's ability to liquidate its interest in such investments for a period of time; in the absence of such limits, these investments are generally redeemable or may be liquidated at NAV under the original terms of the subscription agreements and operations of the underlying funds. Due to the nature of the investments held in nonmarketable investment funds, changes in market conditions and the economic environment may significantly impact the NAV of the funds and, consequently, the fair value of the College's interest in the funds. Furthermore, changes in the liquidity provisions of the funds may significantly impact the fair value of the College's interest in the fund. Although certain investments may be sold in secondary market transactions, subject to meeting certain requirements by governing documents of the funds, the secondary market is not always active, is generally thinly traded with respect to nonmarketable funds, and individual transactions are not necessarily observable. It is, therefore, reasonably possible that if the College were to sell its interest in a fund in the secondary market, the sale could occur at an amount materially different than the reported value.

As of June 30, 2013 and June 30, 2012, 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 value measurement in its entirety falls is based on the lowest level input that is significant to the fair value measurement in its entirety.

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June 30, 2013

(Dollars in thousands)

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

(f) *Spending from Endowment*

The College invests a significant portion of its endowment assets in an investment pool and distributes cash for expenditure in accordance with its endowment spending policy, which is intended to stabilize annual spending levels and to preserve the 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, 2013 and 2012. The Board of Trustees has approved the use of a 5% endowment spending rate for fiscal year 2014 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 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.

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Notes to Financial Statements

June 30, 2013

(Dollars in thousands)

(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, 2013, open federal and Connecticut tax years for the College include the tax years ended June 30, 2010 through June 30, 2012. The College has no examinations in progress. The College believes it has no significant uncertain tax positions.

(j) Collections

Library and art collections are not recognized in assets on the balance sheet. Purchases of such collections are recorded as 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.

(k) Use of Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and revenues and expenses during the reporting period. Significant estimates include collectability of gifts, pledges, student loans, accounts and other receivables, valuation of certain investments, and the liability for postretirement benefits. Actual results could differ from such estimates.

(l) Reclassifications

Certain amounts as of June 30, 2012 have been reclassified to conform to the presentation as of June 30, 2013.

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Notes to Financial Statements

June 30, 2013

(Dollars in thousands)

(2) Accounts and Student Loans Receivable

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

	<u>2013</u>	<u>2012</u>
Student accounts receivable	\$ 307	180
Grants and contracts receivable	577	465
Miscellaneous receivables	167	249
Less allowance for doubtful accounts	<u>(150)</u>	<u>(150)</u>
Accounts receivable, net	<u>901</u>	<u>744</u>
Student loans receivable	2,113	2,292
Less allowance for doubtful accounts	<u>(150)</u>	<u>(150)</u>
Student loans receivable, net	<u>1,963</u>	<u>2,142</u>
Total accounts and student loans receivable, net	<u>\$ 2,864</u>	<u>2,886</u>

(3) Contributions Receivable

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

	<u>2013</u>	<u>2012</u>
Amounts due in:		
Less than one year	\$ 3,397	2,938
One to five years	22,541	25,289
More than five years	<u>439</u>	<u>629</u>
Gross unconditional promises to give	26,377	28,856
Less:		
Present value discount	(328)	(466)
Allowance for uncollectible pledges	<u>(1,719)</u>	<u>(2,127)</u>
Net unconditional promises to give	<u>\$ 24,330</u>	<u>26,263</u>
Purpose:		
Endowment giving	\$ 11,066	11,213
Capital purposes	8,387	12,985
Operating purposes	<u>6,924</u>	<u>4,658</u>
Gross unconditional promises from donors	<u>\$ 26,377</u>	<u>28,856</u>

The discount rates used ranged from 0.58% to 0.39% for June 30, 2013 and 2012.

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Notes to Financial Statements

June 30, 2013

(Dollars in thousands)

(4) Investments and Fair Value

The College's investments at June 30, 2013 and 2012 that are reported at fair value are summarized in the tables below by their fair value hierarchy classification:

	Level 1	Level 2	Level 3	Total	Redemption or liquidation	Days' notice
Investments:						
Short-term	\$ 5,461	3,685	—	9,146	Daily	1
U.S. equities	30,355	27,003	—	57,358	Daily to quarterly	1–60
International equities	14,304	27,981	—	42,285	Daily to monthly	1–30
Fixed income	21,515	1,196	—	22,711	Daily	1
Private equity	—	—	13,251	13,251	Illiquid	Not applicable
Venture capital	—	—	9,673	9,673	Illiquid	Not applicable
Inflation hedging ¹	—	9,825	18,905	28,730	Monthly to illiquid	1–60
Hedge funds	—	24,196	22,765	46,961	Quarterly to illiquid	45–60
Distressed debt	—	—	5,749	5,749	Illiquid	Not applicable
Total	\$ 71,635	93,886	70,343	235,864		
Investments:						
Short-term	\$ 6,785	3,298	—	10,083	Daily	1
U.S. equities	25,795	22,007	—	47,802	Daily to quarterly	1–60
International equities	19,724	13,560	—	33,284	Daily to monthly	1–5
Fixed income	21,376	1,140	—	22,516	Daily	1
Private equity	—	—	11,117	11,117	Illiquid	Not applicable
Venture capital	—	—	8,610	8,610	Illiquid	Not applicable
Inflation hedging ¹	—	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	71,207	64,838	209,725		

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

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Notes to Financial Statements

June 30, 2013

(Dollars in thousands)

Investment liquidity as of June 30, 2013 is aggregated below based on redemption or sale period:

<u>Investment redemption or sale period</u>	<u>Investment fair values</u>
Daily	\$ 75,203
Monthly	35,646
Quarterly	49,943
Semiannually	10,865
Annually	9,510
Illiquid	54,697
	<u>\$ 235,864</u>

The following tables present the College's activity for assets measured at fair value on a recurring basis using significant unobservable inputs (Level 3) for the years ended June 30, 2013 and 2012:

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

	<u>Fair value at July 1, 2011</u>	<u>Contributions</u>	<u>Distributions</u>	<u>Investment income (loss), net</u>	<u>Realized and change in unrealized gains (losses)</u>	<u>Fair value at June 30, 2012</u>
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	<u>\$ 58,104</u>	<u>9,945</u>	<u>(6,238)</u>	<u>(604)</u>	<u>3,631</u>	<u>64,838</u>

The College's policy is to recognize transfers to and transfers from Level 1, 2, or 3 as of the actual date of the transaction or change in circumstances that caused the transfer. For the years ended June 30, 2013 and 2012, there were no transfers between levels in the fair value hierarchy.

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Notes to Financial Statements

June 30, 2013

(Dollars in thousands)

At June 30, 2013, the College's remaining outstanding commitments on investments totaled \$19,570. 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, 2013, the average remaining life of the commitments is 5 years. The remaining outstanding commitments are summarized in the table below:

Private equity	\$	2,816
Venture capital		4,031
Inflation hedging		8,023
Distressed securities		4,700
	\$	<u>19,570</u>

At June 30, 2013, funds with redemption lockup periods in the amount of \$7,894 will expire in fiscal year 2014.

(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.

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

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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.

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

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

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

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

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

	<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Permanently restricted</u>	<u>Total</u>
Endowment funds, July 1, 2012	\$ 30,681	52,583	119,486	202,750
Return on long-term investments:				
Dividends and interest	1,910	9,156	29	11,095
Net gains on investments	4,439	14,886	22	19,347
Investment management fees	(609)	(2,909)	(4)	(3,522)
	5,740	21,133	47	26,920
Appropriation of endowment assets for expenditure	(1,620)	(7,814)	(10)	(9,444)
Investment return, less endowment spending used in operations	4,120	13,319	37	17,476
Contributions	—	—	2,417	2,417
Transfers	4,166	(17)	1,289	5,438
Endowment funds, June 30, 2013	<u>\$ 38,967</u>	<u>65,885</u>	<u>123,229</u>	<u>228,081</u>

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

	<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Permanently restricted</u>	<u>Total</u>
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

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	<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Permanently restricted</u>	<u>Total</u>
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	<u>\$ 30,681</u>	<u>52,583</u>	<u>119,486</u>	<u>202,750</u>

(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 \$643 and \$1,780 as of June 30, 2013 and 2012, 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 overtime while carrying a moderate level of risk. Actual returns in any given year may vary from this 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

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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.

(6) **Land, Buildings, and Equipment**

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

	Estimated useful lives	2013	2012
Campus land	—	\$ 1,005	1,005
Land improvements	20 years	17,375	16,371
Buildings and building improvements	20–40 years	172,235	148,581
Equipment and furniture	5–10 years	41,056	39,378
Leasehold improvements	Lease term ¹	337	227
Software	3–10 years	5,820	5,708
Construction in progress		2,593	19,174
		<u>240,421</u>	<u>230,444</u>
Less accumulated depreciation and amortization		<u>(131,601)</u>	<u>(124,135)</u>
		<u>\$ 108,820</u>	<u>106,309</u>

¹ Lease terms ranging from 3 to 6 year.

Computer software costs capitalized, net of accumulated amortization, as of June 30, 2013 and 2012 are \$1,345 and \$1,923, respectively.

The College has reported a liability of \$1,294 and \$764 as of June 30, 2013, and 2012, respectively, for conditional asset retirement obligations related to the removal and disposal of asbestos insulation in several buildings. This amount is reported as asset retirement obligations.

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(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 2013 and 2012 are listed below.

	<u>2013</u>	<u>2012</u>
Expenditures		
Physical plant operations	\$ 8,784	8,374
Depreciation	8,071	7,416
Interest expense and amortization	3,153	3,470
Total expenditures to be allocated	<u>\$ 20,008</u>	<u>19,260</u>

Allocations to functional expenditure categories:

	<u>2013</u>	<u>2012</u>
Instruction	\$ 5,016	4,178
Research	1,048	748
Public service	13	13
Academic support	2,071	2,124
Student services	3,243	3,041
Auxiliary services	6,097	6,519
Institutional support and other expenses	2,520	2,637
Total allocations	<u>\$ 20,008</u>	<u>19,260</u>

(8) Bonds and Notes Payable

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

	<u>2013</u>	<u>2012</u>
Connecticut Health and Educational Facilities Authority (CHEFA):		
Series F bonds, face amount \$28,855 issued 2007, interest is fixed at rates ranging from 4.0% to 5.0%, maturities to 2030; a general obligation bond insured by MBIA Insurance Corporation	\$ 28,855	28,855
Series G bonds, face amount \$12,000 issued 2007, interest is fixed at 4.5%, maturities to 2037; a general obligation bond insured by MBIA Insurance Corporation	12,000	12,000

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	<u>2013</u>	<u>2012</u>
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	3,860	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	<u>11,660</u>	<u>12,240</u>
	68,485	69,190
Net bond premiums	<u>1,111</u>	<u>1,168</u>
	<u>\$ 69,596</u>	<u>70,358</u>

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

2014	\$ 965
2015	1,010
2016	1,115
2017	1,150
2018	1,145
Thereafter	<u>63,100</u>
	<u>\$ 68,485</u>

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, 2013 and 2012, there were no outstanding advances under the line of credit. As of June 30, 2013 and 2012, the interest rate is set at LIBOR plus an applicable margin.

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

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

The fair value of the College's long-term debt is determined using an income approach valuation technique that considers, among other things, rates currently observed in publically traded debt markets for debt of similar terms to companies with comparable credit risk, a Level 2 fair value measurement. The fair value of long-term debt was \$70,417 and \$73,857 at June 30, 2013 and 2012, respectively.

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Bond interest expense for the years ended June 30, 2013 and 2012 was \$3,075 and \$3,358, 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, 2013, the College had committed \$1,097 under these obligations, of which \$54 represented interest.

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

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

	<u>Capital</u>	<u>Operating</u>
2014	\$ 663	550
2015	423	504
2016	53	—
2017	12	—
Total minimum lease payments	1,151	1,054
Amount representing interest	(54)	—
Present value of net minimum lease payments	<u>\$ 1,097</u>	<u>1,054</u>

As of June 30, 2013, the College had assets under capital lease of \$7,642 with related accumulated depreciation of \$5,460. As of June 30, 2012, the College had assets under capital lease of \$7,555 with related accumulated depreciation of \$4,987.

Rent expense for the years ended June 30, 2013 and 2012 was \$551.

(10) Retirement Plan

Retirement benefits are provided for eligible employees of the College through Teachers' Insurance and Annuity Association and College Retirement Equities Fund under a defined-contribution plan. Under the plan, the College contributes 10% of the gross salaries of eligible employees within limits established by the Internal Revenue Code. Total retirement expense for the fiscal years ended June 30, 2013 and 2012 was \$3,773 and \$3,716, respectively.

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(11) Postretirement Medical Benefits Plan

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

	June 30	
	2013	2012
Change in benefit obligation:		
Benefit obligation at beginning of year	\$ 7,337	7,614
Service cost	211	151
Interest cost	258	295
Plan participants' contributions	226	231
Medicare Part D subsidy received	50	25
Actuarial gain	(340)	(349)
Benefits paid	(615)	(630)
Benefit obligation at end of year	7,127	7,337
Change in plan assets:		
Fair value of plan assets at beginning of year	—	—
Employer contribution	339	374
Plan participants' contributions	226	231
Medicare Part D subsidy received	50	25
Benefits paid	(615)	(630)
Fair value of plan assets at end of year	—	—
Funded status	\$ (7,127)	(7,337)

	June 30			
	2013		2012	
	Medical	Drug	Medical	Drug
Discount rate used to value obligations	4.10%	4.10%	3.50%	3.50%
Weighted average healthcare cost trend:				
Initial trend rate	8.00%	8.00%	9.00%	9.00%
Ultimate trend rate	5.00	5.00	5.00	5.00
Year ultimate trend rate attained	2016	2016	2016	2016

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	June 30	
	2013	2012
Components of net periodic postretirement benefit cost:		
Service cost	\$ 211	151
Interest cost	258	295
Amortization of actuarial loss	125	47
Net amortization and unrecognized prior service cost	(313)	(313)
Net periodic postretirement benefit cost	\$ 281	180

	June 30	
	2013	2012
Postretirement related changes other than net periodic benefit cost:		
Actuarial gain	\$ (340)	(349)
Amortization of actuarial loss	125	47
Medicare Part D reimbursement	50	25
Net amortization and unrecognized prior service cost	313	313
Total recognized in nonoperating activities	\$ 148	36

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:

	2013	2012
Impact of 1% increase in healthcare cost trend:		
On interest cost plus service cost during past year	\$ 53	45
On accumulated postretirement benefit obligation	351	408
Impact of 1% decrease in healthcare cost trend:		
On interest cost plus service cost during past year	(30)	(20)
On accumulated postretirement benefit obligation	(290)	(256)

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

	<u>Estimated benefit payment</u>
Year beginning July 1:	
2013	\$ 500
2014	557
2015	544
2016	553
2017	538
2018 – 2022	2,660

(12) Components of Temporarily and Permanently Restricted Net Assets

The following represents the various components of net assets as of June 30, 2013 and 2012:

	<u>2013</u>	<u>2012</u>
Temporarily restricted net assets:		
Endowment and accumulated/unspent income and gains	\$ 65,885	52,583
Contributions receivable, net	14,083	14,799
Restricted for plant additions	2,161	9,171
Assets held in trust and split-interest agreements	2,824	3,101
Other donor restricted funds	6,209	9,615
Total temporarily restricted net assets	<u>\$ 91,162</u>	<u>89,269</u>
	<u>2013</u>	<u>2012</u>
Permanently restricted net assets:		
Student loan funds	\$ 418	418
Contributions receivable, net	10,247	11,464
Assets held in trust and split-interest agreements	10,844	10,085
True endowment funds for which the income and gains are restricted for the following purposes:		
Instruction	54,907	53,914
Financial aid	34,666	33,780
Academic support	4,681	4,613
Student services	6,801	6,187
General institutional or undesignated	22,174	20,992
Total permanently restricted net assets	<u>\$ 144,738</u>	<u>141,453</u>

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Temporarily restricted net assets at June 30, 2013 and 2012 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:

	<u>2013</u>	<u>2012</u>
Instruction and research	\$ 4,242	3,879
Financial aid	2,712	2,727
Public service	6	—
Academic support	601	651
Student services	683	643
General institutional	<u>567</u>	<u>313</u>
Total operating net assets released from restrictions	<u>8,811</u>	<u>8,213</u>
Plant and other nonoperating	<u>18,392</u>	<u>1,443</u>
Total nonoperating net assets released from restrictions	<u>18,392</u>	<u>1,443</u>
Total net assets released from restrictions	<u>\$ 27,203</u>	<u>9,656</u>

(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 21, 2013, the date on which the financial statements were available to be issued. No subsequent events were identified.