



CONNECTICUT COLLEGE

Financial Statements

June 30, 2020

(With Independent Auditors' Report Thereon)

CONNECTICUT COLLEGE

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

Independent Auditors' Report

The Board of Trustees
Connecticut College:

We have audited the accompanying financial statements of Connecticut College, which comprise the balance sheet as of June 30, 2020, 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, 2020, and the changes in its net assets and its cash flows for the year then ended in accordance with U.S. generally accepted accounting principles.



Report on Summarized Comparative Information

We have previously audited Connecticut College's 2019 financial statements, and we expressed an unmodified opinion on those audited financial statements in our report dated October 21, 2019. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2019 is consistent, in all material respects, with the audited financial statements from which it has been derived.

KPMG LLP

October 26, 2020

CONNECTICUT COLLEGE

Balance Sheet

June 30, 2020

(with comparative information for June 30, 2019)

(Dollars in thousands)

Assets	2020	2019
Cash and cash equivalents	\$ 40,862	40,549
Accounts and student loans receivable, net	2,096	1,727
Contributions receivable, net	22,062	26,181
Inventories and other assets	1,587	1,904
Investments	325,459	324,450
Funds held in trust	14,801	15,432
Deposits with bond trustee	3,864	8,507
Land, buildings, and equipment, net	<u>106,089</u>	<u>105,625</u>
Total assets	<u>\$ 516,820</u>	<u>524,375</u>
Liabilities		
Accounts payable and accrued liabilities	\$ 7,498	9,187
Deposits and advances	2,961	1,577
Liabilities under split-interest agreements	4,091	4,229
Accrued postretirement benefit obligation	10,043	9,245
Bonds and notes payable	89,004	90,849
Other obligations	<u>2,642</u>	<u>2,866</u>
Total liabilities	<u>116,239</u>	<u>117,953</u>
Net Assets		
Without donor restrictions	63,593	67,209
With donor restrictions	<u>336,988</u>	<u>339,213</u>
Total net assets	<u>400,581</u>	<u>406,422</u>
Total liabilities and net assets	<u>\$ 516,820</u>	<u>524,375</u>

See accompanying notes to financial statements.

CONNECTICUT COLLEGE

Statement of Activities

Year ended June 30, 2020

(with summarized comparative information for the year ended June 30, 2019)

(Dollars in thousands)

	2020			2019 Total
	Without donor restrictions	With donor restrictions	Total	
Operating:				
Revenues:				
Student charges, net of financial aid of \$51,527 in 2020 and \$44,081 in 2019	\$ 76,844	—	76,844	79,521
Grant and contract income	1,818	—	1,818	1,820
Contributions	5,177	5,622	10,799	11,638
Endowment spending used in operations	5,044	10,309	15,353	14,680
Other revenues	2,251	309	2,560	3,993
Net assets released from restrictions	13,051	(13,051)	—	—
Total revenues and other support from operations	104,185	3,189	107,374	111,652
Expenses:				
Salaries and wages	51,138	—	51,138	50,804
Employee benefits	17,359	—	17,359	16,906
Supplies, services, other	23,751	—	23,751	26,065
Depreciation and amortization	8,291	—	8,291	8,461
Interest	3,527	—	3,527	3,419
Utilities	3,409	—	3,409	4,092
Total expenses	107,475	—	107,475	109,747
(Decrease) increase in net assets from operating activities	(3,290)	3,189	(101)	1,905
Nonoperating activities:				
Contributions restricted for long-term investment	800	3,961	4,761	10,808
Investment return, less endowment spending used in operations	(1,833)	(7,501)	(9,334)	2,418
Change in value of split-interest agreements	44	(512)	(468)	267
Other increases (decreases)	537	(175)	362	—
Postretirement related changes other than service cost	(1,061)	—	(1,061)	(655)
Net assets released from restrictions	1,187	(1,187)	—	—
(Decrease) increase in net assets from nonoperating activities	(326)	(5,414)	(5,740)	12,838
Change in net assets	(3,616)	(2,225)	(5,841)	14,743
Net assets, beginning of year	67,209	339,213	406,422	391,679
Net assets, end of year	\$ 63,593	336,988	400,581	406,422

See accompanying notes to financial statements.

CONNECTICUT COLLEGE

Statement of Cash Flows

Year ended June 30, 2020

(with comparative information for the year ended June 30, 2019)

(Dollars in thousands)

	2020	2019
Cash flows from operating activities:		
Change in net assets	\$ (5,841)	14,743
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Depreciation and amortization	8,284	8,454
Net realized and unrealized gains on investments	(8,916)	(19,044)
Net unrealized losses (gains) on split-interest agreements	57	(131)
Contributions restricted for long-term investment	(8,866)	(10,677)
Accounts receivable, net	(563)	(126)
Contributions receivable, net	4,119	619
Accounts payable and accrued liabilities	(2,699)	(375)
Accrued postretirement benefit obligation	798	(646)
Other changes in working capital, net	2,041	504
Net cash used in operating activities	(11,586)	(6,679)
Cash flows from investing activities:		
Student loans repaid	194	256
Purchases of investments	(37,688)	(50,948)
Proceeds from sale of investments	45,537	60,863
Purchases of land, buildings, and equipment	(7,587)	(7,490)
Net cash provided by investing activities	456	2,681
Cash flows from financing activities:		
Borrowings from line of credit	10,000	—
Payments on line of credit	(10,000)	—
Contributions restricted for long-term investment	8,866	10,677
Change in deposits with bond trustee	4,643	3,474
Repayments of long-term debt and capital lease obligations	(2,066)	(1,984)
Net cash provided by financing activities	11,443	12,167
Net increase in cash and cash equivalents	313	8,169
Cash and cash equivalents at beginning of year	40,549	32,380
Cash and cash equivalents at end of year	\$ 40,862	40,549
Supplemental disclosures of cash flow information:		
Cash paid during the year for interest	\$ 3,374	3,419
Fixed asset purchases financed with capital leases	275	120
Change in accounts payable related to property and equipment	1,010	105

See accompanying notes to financial statements.

CONNECTICUT COLLEGE

Notes to Financial Statements

June 30, 2020

(with comparative information for the year ended June 30, 2019)

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

(b) General

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

Without donor restrictions net assets are not subject to donor stipulations restricting their use, but may be designated for specific purposes by the College or may be limited by contractual agreements with outside parties.

With donor restrictions net assets are subject to donor stipulations that expire by the passage of time, can be fulfilled by actions pursuant to the stipulations, or which may be perpetual.

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 natural categories, after allocating costs for operation and maintenance of plant.

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

The financial statements include certain prior year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with GAAP. Accordingly, such information should be read in conjunction with the College's financial statements for the year ended June 30, 2019, from which the summarized information was derived.

For fiscal years 2020 and 2019, student tuition and fee revenue was \$104,914 and \$99,121, room and board revenues were \$23,457 and \$24,481, and financial aid was \$51,527 and 44,081, respectively.

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Notes to Financial Statements

June 30, 2020

(with comparative information for the year ended June 30, 2019)

(Dollars in thousands)

(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, net assets with donor restriction are reclassified to net assets without donor restriction 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 revenue without donor restriction. The College reports gifts of land, buildings or equipment as nonoperating support without donor restriction 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 nonoperating support without donor restriction provided the long-lived assets are placed in service during the same reporting period; otherwise, the contributions are reported as with donor restriction until the assets are acquired and placed in service.

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

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

Fundraising expenses were \$4,239 and \$4,084 for the years ended June 30, 2020 and 2019, 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, deposits with bond trustee, 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 recorded at fair value. 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 trade-date basis.

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(with comparative information for the year ended June 30, 2019)

(Dollars in thousands)

The fair value of publicly traded securities is based upon quotes from the principal exchanges on which the security is traded. Nonmarketable securities include alternative investments such as private equity, venture capital, hedge funds, natural resources partnerships, and distressed securities, which are valued using net asset value (NAV), obtained from the general partner or investment manager. The College has utilized the NAV reported by the general partner or investment manager as a practical expedient to estimate the fair value of certain investments. The NAV generally reflects discounts for liquidity and considers variables such as financial performance of investments, including comparison of earnings multiples of comparable companies, cash flow analysis, recent sales prices of investments and other pertinent information. The agreements under which the College participates in nonmarketable investment funds may limit the College's ability to liquidate its interest in such investments for a period of time; in the absence of such limits, these investments are generally redeemable or may be liquidated at NAV under the original terms of the subscription agreements and operations of the underlying funds. Due to the nature of the investments held in nonmarketable investment funds, changes in market conditions and the economic environment may significantly impact the NAV of the funds. Furthermore, changes in the liquidity provisions of the funds may significantly impact 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, 2020, the College had no specific plans or intentions to sell investments at amounts different than NAV.

The three levels of the fair value hierarchy are:

- **Level 1** – Inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the College has the ability to access at the measurement date.
- **Level 2** – Inputs are other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly.
- **Level 3** – Inputs are unobservable for the asset or liability.

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

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

(f) Spending from Endowment

The College invests a significant portion of its endowment assets in an investment pool and distributes cash for expenditure in accordance with its endowment spending policy, which is intended to stabilize annual spending levels and to preserve the real value of the endowment portfolio over time. To meet

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Notes to Financial Statements

June 30, 2020

(with comparative information for the year ended June 30, 2019)

(Dollars in thousands)

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 with donor restriction and without donor restriction endowment funds. The spending rate was 5% for the years ended June 30, 2020 and 2019.

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

(g) Split-Interest Agreements

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

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

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

(h) Land, Buildings, and Equipment

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

(i) Tax Status

The College generally does not provide for income taxes since it is a tax-exempt organization under Section 501(c)(3) of the Internal Revenue Code. Accounting Standards Codification (ASC) 740, *Income Taxes*, permits an entity to recognize the benefit and requires accrual of an uncertain tax position only when the position is "more likely than not" to be sustained in the event of examination by tax authorities. In evaluating whether a tax position has met the recognition threshold, the College must presume that the position will be examined by the appropriate taxing authority that has full knowledge of all relevant information. ASC 740 also provides guidance on the recognition, measurement, and classification of income tax uncertainties, along with any related interest or penalties. Tax positions deemed to meet the "more-likely than-not" threshold are recorded as a tax expense in the current year. The College has analyzed all open tax years, as defined by the statutes of limitations, for all major jurisdictions. Open tax years are those that are open for exam by taxing authorities. Major jurisdictions

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June 30, 2020

(with comparative information for the year ended June 30, 2019)

(Dollars in thousands)

for the College include federal and the state of Connecticut. As of June 30, 2020, open federal and Connecticut tax years for the College include the tax years ended June 30, 2017 through June 30, 2020. The College has no examinations in progress. The College believes it has no significant uncertain tax positions.

(j) Collections

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

(k) Use of Estimates

The preparation of financial statements in conformity with U.S. 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) COVID-19 Pandemic

As a result of the COVID-19 Pandemic (the pandemic), the College decided to close the residential campus effective March 11, 2020. Due to this closure, the College issued refunds and future statement credits to students for room and board charges and comprehensive fees based on a prorated amount. These refunds and credits amounted to \$2,442 and resulted in a reduction of room and board revenue for the fiscal year ended June 30, 2020.

Also, as a result of the pandemic, in fiscal year 2020 the College was awarded \$1,202 from the Higher Education Emergency Relief Fund (HEERF). The funds were awarded for emergency financial aid grants to students and institutional expenditures under the 18004(a)(1) Coronavirus Aid, Relief, and Economic Security Act (CARES Act). The College disbursed \$776 of the total received to the students to assist the students in their transition to remote learning with the remaining \$426 to be utilized in fiscal year 2021 to support institutional expenditures relating to the pandemic.

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Notes to Financial Statements

June 30, 2020

(with comparative information for the year ended June 30, 2019)

(Dollars in thousands)

(2) Liquidity

As of June 30, 2020, financial assets and liquidity resources available within one year for general expenditure, such as operating expenses, scheduled principal payments on debt, and capital costs not financed with debt, were as follows:

	<u>2020</u>	<u>2019</u>
Cash and cash equivalents	\$ 40,862	40,549
Contributions, notes, and accounts receivable due within one year, net	3,148	1,803
Subsequent fiscal year budgeted endowment appropriation	<u>14,504</u>	<u>14,752</u>
Total financial assets available within one year	<u>\$ 58,514</u>	<u>57,104</u>

The College's Board of Trustees establishes the annual spending policy. Under the provisions of the spending policy for fiscal year 2020 and 2019 the Board approved a spending rate of 5% of the 12-quarter trailing average of the pool's market value resulting in allocations of \$14,759 and \$14,048 respectively. For fiscal year 2021 the Board approved a spending rate of 5% of the 12-quarter trailing average of the pool's market value for a total spending allocation of \$14,504. Additionally, the College has board-designated endowment funds of \$57,844 as of June 30, 2020. Although the College does not intend to spend from its board-designated endowment funds other than amounts appropriated for operation, amounts could be made available if necessary.

The College's cash flows have seasonal variations attributable to the timing of tuition billing and contributions received. To manage liquidity, the college maintains a working capital portfolio which corresponds with the projected liquidity need. As part of the College's liquidity management, the College maintains working capital lines of credit, and maintains capital allocations which provides liquidity of assets available to meet general expenditures as liabilities and other obligation come due. General expenditures consist of funding for the College's operating budget including debt obligation payments and funding for the annual capital renewal and replacement expenditures.

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Notes to Financial Statements

June 30, 2020

(with comparative information for the year ended June 30, 2019)

(Dollars in thousands)

(3) Accounts and Student Loans Receivable

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

	<u>2020</u>	<u>2019</u>
Student accounts receivable	\$ 1,407	459
Grants and contracts receivable	177	482
Miscellaneous receivables	84	164
Less allowance for doubtful accounts	<u>(150)</u>	<u>(150)</u>
Accounts receivable, net	<u>1,518</u>	<u>955</u>
Student loans receivable	728	922
Less allowance for doubtful accounts	<u>(150)</u>	<u>(150)</u>
Student loans receivable, net	<u>578</u>	<u>772</u>
Total accounts and student loans receivable, net	<u>\$ 2,096</u>	<u>1,727</u>

(4) Contributions Receivable

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

	<u>2020</u>	<u>2019</u>
Amounts due in:		
Less than one year	\$ 1,698	925
One to five years	21,949	27,222
More than five years	<u>987</u>	<u>1,850</u>
Gross contributions receivable	24,634	29,997
Less:		
Present value discount	(474)	(884)
Allowance for uncollectible pledges	<u>(2,098)</u>	<u>(2,932)</u>
Contributions receivable, net	<u>\$ 22,062</u>	<u>26,181</u>

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Notes to Financial Statements
June 30, 2020
(with comparative information for the year ended June 30, 2019)
(Dollars in thousands)

	2020	2019
Purpose:		
Endowment giving	\$ 11,026	15,167
Capital purposes	4,565	6,729
Operating purposes	9,043	8,101
Gross contributions receivable	\$ 24,634	29,997

The discount rates used to present the value of the pledges range from 0.22% to 6% at June 30, 2020 and June 30, 2019.

As of June 30, 2020 and 2019, the College had a pledge receivable from one donor that comprised 32% and 33%, respectively, of the contributions receivable, net on the balance sheet.

(5) Investments and Fair Value

The College's investments at June 30, 2020 and 2019 that are reported at fair value are summarized in the tables below and, as applicable, by their fair value hierarchy classification:

		2020				
		Investments measured at NAV	Level 1	Level 2	Level 3	Total fair value
Investments:						
Short-term ¹	\$	—	12,779	6,136	—	18,915
U.S. equities		85,782	557	—	—	86,339
International equities		47,501	7,451	—	—	54,952
Fixed income		—	20,011	7,563	—	27,574
Private equity		16,718	—	—	—	16,718
Venture capital		29,081	—	—	—	29,081
Inflation hedging ²		7,078	—	—	3,063	10,141
Hedge funds		72,627	—	—	—	72,627
Distressed debt		5,277	—	—	—	5,277
Split-interest agreements		—	—	3,835	—	3,835
Total	\$	264,064	40,798	17,534	3,063	325,459

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Notes to Financial Statements

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(with comparative information for the year ended June 30, 2019)

(Dollars in thousands)

		2019				
		Investments measured at NAV	Level 1	Level 2	Level 3	Total fair value
Investments:						
Short-term ¹	\$	—	8,096	5,931	—	14,027
U.S. equities		82,016	653	—	—	82,669
International equities		52,367	10,854	—	—	63,221
Fixed income		—	21,295	6,376	—	27,671
Private equity		14,752	—	—	—	14,752
Venture capital		24,094	—	—	—	24,094
Inflation hedging ²		9,450	—	—	4,837	14,287
Hedge funds		74,224	—	—	—	74,224
Distressed debt		5,499	—	—	—	5,499
Split-interest agreements		—	—	4,006	—	4,006
Total	\$	262,402	40,898	16,313	4,837	324,450

¹ Short-term includes money market funds and the cash surrender value of a life insurance policy.

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

Certain investments are redeemable with the funds or limited partnerships at NAV under the terms of the subscription agreements and/or partnership agreements. Investments with daily liquidity generally do not require any notice prior to withdrawal. Investments with monthly, quarterly or annual redemption frequency typically require notice periods ranging from 30 to 60 days. The long-term investments' fair values are broken out below by their redemption frequency as of June 30, 2020:

		Daily	Monthly	Quarterly	Semi-annual	Subject to rolling lock-ups	Illiquid	Total
Investments:								
Short-term investments	\$	18,915	—	—	—	—	—	18,915
U.S. equities		570	31,368	54,401	—	—	—	86,339
International equities		—	48,210	6,742	—	—	—	54,952
Fixed income		27,574	—	—	—	—	—	27,574
Private equity		—	—	—	—	—	16,718	16,718
Venture capital		—	—	—	—	—	29,081	29,081
Inflation hedging		—	—	—	—	—	10,141	10,141
Hedge funds		4,416	16,855	20,332	8,747	18,935	3,342	72,627
Distressed debt		—	—	—	—	—	5,277	5,277
Split-interest agreements		—	—	—	—	—	3,835	3,835
Total	\$	51,475	96,433	81,475	8,747	18,935	68,394	325,459

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June 30, 2020

(with comparative information for the year ended June 30, 2019)

(Dollars in thousands)

The College enters into derivative instruments such as futures for trading purposes. The College may enter into equity or index option contracts to speculate on the price movements of the financial instrument or index underlying the option.

Index future contracts are included in investments on the statement of financial position. The College held certain index future contracts in a net liability position of \$2,855 and \$2,021 for June 30, 2020 and 2019, respectively. The College posted collateral on the index futures contracts of \$0 and \$2,000 and June 30, 2020 and 2019, respectively.

The fair market value of investment derivatives held by the fund at June 30, 2020 and 2019, are summarized in the following table:

	<u>2020</u>	
	<u>Long notional</u>	<u>Unrealized (loss) gain</u>
Instrument type:		
Equity index futures	\$ 2,318	(2)
Currency futures	—	—
International equity index futures	1,698	2
Total	<u>\$ 4,016</u>	<u>—</u>
	<u>2019</u>	
	<u>Long notional</u>	<u>Unrealized (loss) gain</u>
Instrument type:		
Equity index futures	\$ 2,797	(10)
Currency futures	689	1
International equity index futures	12,380	8
Total	<u>\$ 15,866</u>	<u>(1)</u>

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At June 30, 2020, the College's remaining outstanding commitments on investments totaled \$30,243. 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, 2020, the average remaining life of the commitments is 4 years. The remaining outstanding commitments are summarized in the table below:

Private equity	\$	15,859
Hedge funds		500
Venture capital		8,269
Inflation hedging		1,797
Distressed securities		3,818
	\$	<u>30,243</u>

At June 30, 2020, funds with redemption lockup periods in the amount of \$11,038 will expire in fiscal year 2021.

(6) 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 U.S. 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 with donor restriction amount will remain intact. This perspective is aligned with the accounting standards definition that with donor restriction funds are those that must be held in perpetuity even though some portions of the historic dollar value may be reduced by drawings on a temporary basis.

The College classifies as with donor restriction net assets (a) the original value of gifts donated to the with donor restriction endowment, (b) the original value of subsequent gifts to the with donor restriction endowment, and (c) accumulations to the with donor restriction 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 with donor

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restriction net assets is classified as with donor restriction 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.

(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 with donor restriction consistent with donor restrictions and college policies under CT UPMIFA. In accordance with U.S. GAAP, deficiencies of this nature are reported in net assets with donor restrictions with an original gift value of \$809 and \$197 and were underwater by \$32 and \$18 as of June 30, 2020 and 2019, respectively. These deficiencies resulted from unfavorable market fluctuations that occurred after the investment of with donor restriction contributions and/or appropriation for certain programs that was deemed prudent by the College.

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Endowment net asset composition by type of fund consist of the following at June 30, 2020:

	Without donor restrictions	With donor restrictions		Total	Total 2020
		Original gift	Accumulated gains (losses)		
Board-designated endowment funds	\$ 57,844	—	—	—	57,844
Donor restricted endowment funds:					
Underwater	—	809	(32)	777	777
Other	—	169,616	88,033	257,649	257,649
	<u>\$ 57,844</u>	<u>170,425</u>	<u>88,001</u>	<u>258,426</u>	<u>316,270</u>

Endowment net asset composition by type of fund consist of the following at June 30, 2019:

	Without donor restrictions	With donor restrictions		Total	Total 2019
		Original gift	Accumulated gains (losses)		
Board-designated endowment funds	\$ 57,415	—	—	—	57,415
Donor restricted endowment funds:					
Underwater	—	197	(18)	179	179
Other	—	160,411	95,505	255,916	255,916
	<u>\$ 57,415</u>	<u>160,608</u>	<u>95,487</u>	<u>256,095</u>	<u>313,510</u>

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Changes in pooled endowment funds for the year ended June 30, 2020 are as follows:

	<u>Without donor restrictions</u>	<u>With donor restrictions</u>	<u>Total</u>
Endowment funds, June 30, 2019	\$ 57,415	256,095	313,510
Return on long-term investments:			
Dividends and interest	109	475	584
Net gains on investments	1,644	7,272	8,916
Investment management fees	(747)	(3,328)	(4,075)
	<u>1,006</u>	<u>4,419</u>	<u>5,425</u>
Appropriation of endowment assets for expenditure	<u>(2,839)</u>	<u>(11,920)</u>	<u>(14,759)</u>
Investment return, less endowment spending used in operations	(1,833)	(7,501)	(9,334)
Contributions and transfers	<u>2,262</u>	<u>9,832</u>	<u>12,094</u>
Endowment funds, June 30, 2020	<u>\$ 57,844</u>	<u>258,426</u>	<u>316,270</u>

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Changes in pooled endowment funds for the year ended June 30, 2019 are as follows:

	<u>Without donor restrictions</u>	<u>With donor restrictions</u>	<u>Total</u>
Endowment funds, June 30, 2018	\$ 55,785	249,878	305,663
Return on long-term investments:			
Dividends and interest	172	764	936
Net gains on investments	3,497	15,547	19,044
Investment management fees	(641)	(2,873)	(3,514)
	<u>3,028</u>	<u>13,438</u>	<u>16,466</u>
Appropriation of endowment assets for expenditure	<u>(2,569)</u>	<u>(11,479)</u>	<u>(14,048)</u>
Investment return, less endowment spending used in operations	459	1,959	2,418
Contributions and transfers	<u>1,171</u>	<u>4,258</u>	<u>5,429</u>
Endowment funds, June 30, 2019	<u>\$ 57,415</u>	<u>256,095</u>	<u>313,510</u>

(c) Return Objectives and Risk Parameters

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

(d) Strategies Employed for Achieving Objectives

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

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(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.

(7) Land, Buildings, and Equipment

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

	Estimated useful lives	2020	2019
Campus land	—	\$ 1,080	1,080
Land improvements	20 years	20,748	20,496
Buildings and building improvements	20–40 years	209,656	202,280
Equipment and furniture	5–10 years	48,898	50,628
Software	3–10 years	6,050	6,050
Construction in progress		7,653	7,463
		294,085	287,997
Less accumulated depreciation		(187,996)	(182,372)
		<u>\$ 106,089</u>	<u>105,625</u>

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(8) Bonds and Notes Payable

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

	2020	2019
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	2,840	3,005
Series I bonds, face amount \$12,240 issued 2012, interest is fixed at rates ranging from 2.0% to 5.0%, maturities to 2032	6,975	6,975
Series J bonds, face amount \$9,200 issued 2015, interest is fixed at 3.17% until maturity in 2029	9,038	9,200
Series K bonds, face amount \$3,300 issued 2015, interest is fixed at 2.64% until maturity in 2029	3,237	3,300
Series L-1 bonds, face amount \$40,725 issued 2017, interest is fixed at rates ranging from 3.0% to 5.0%, maturities to 2046	40,725	40,725
Series L-2 bonds, face amount \$12,910 issued 2017, interest is fixed at rates ranging from 1.316% to 2.902%, maturities to 2027	10,185	11,555
	85,110	86,870
Net bond premiums	4,735	4,865
Net bond issuance costs	(841)	(886)
Total bonds and notes payable	\$ 89,004	90,849

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

	Bonds
2021	\$ 1,911
2022	1,956
2023	2,012
2024	2,099
2025	2,155
Thereafter	74,977
	\$ 85,110

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The College has an unsecured \$10,000 line of credit established with Citizens Bank for short-term working capital purposes that matures on January 31, 2023. During the year ended June 30, 2020, the College had drawn \$10,000 under this agreement which was fully repaid in June of 2020. As of June 30, 2020 and 2019, there were no outstanding advances under the line of credit. As of June 30, 2020 and 2019, the interest rate is set at LIBOR plus an applicable margin.

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

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

Bond interest expense for the years ended June 30, 2020 and 2019 was \$3,355 and \$3,385, respectively.

(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 retirement expense for the fiscal years ended June 30, 2020 and 2019 was \$3,840 and \$3,858, respectively.

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(10) Postretirement Medical Benefit Plan

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

	June 30	
	2020	2019
Change in benefit obligation:		
Benefit obligation at beginning of year	\$ 9,245	8,899
Service cost	274	238
Interest cost	286	346
Plan participants' contributions	189	233
Medicare Part D subsidy received	7	8
Actuarial curtailment loss	—	—
Termination liability	—	—
Actuarial gain	775	309
Benefits paid	(733)	(788)
Benefit obligation at end of year	10,043	9,245
Change in plan assets:		
Fair value of plan assets at beginning of year	—	—
Employer contribution	537	547
Plan participants' contributions	189	233
Medicare Part D subsidy received	7	8
Benefits paid	(733)	(788)
Fair value of plan assets at end of year	—	—
Funded status	\$ (10,043)	(9,245)

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	June 30			
	2020		2019	
	Medical	Drug	Medical	Drug
Discount rate used to value obligations	2.17 %	2.17 %	3.25 %	3.25 %
Discount rate used to value expenses	3.25	3.25	3.92	3.92
Weighted average healthcare cost trend:				
Initial trend rate	6.50	6.50	7.00	7.00
Ultimate trend rate	5.00	5.00	5.00	5.00
Year ultimate trend rate attained	2023	2021	2023	2021

	June 30	
	2020	2019
Components of net periodic postretirement benefit cost:		
Service costs	\$ 274	238
Interest cost	286	346
Net amortization of unrecognized prior service cost	—	(154)
Total net periodic postretirement benefit cost	\$ <u>560</u>	<u>430</u>
Recognized in employee benefits expense:		
Service cost	\$ 274	238
Total recognized in employee benefits expense	\$ <u>274</u>	<u>238</u>
Recognized in nonoperating activities:		
Actuarial loss, net	\$ (775)	(463)
Interest cost	(286)	(346)
Net amortization of unrecognized prior service cost	—	154
Total recognized in nonoperating activities	\$ <u>(1,061)</u>	<u>(655)</u>

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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:

	<u>2020</u>	<u>2019</u>
Impact of 1% increase in healthcare cost trend:		
On interest cost plus service cost during past year	\$ 72	76
On accumulated postretirement benefit obligation	882	1,108
Impact of 1% decrease in healthcare cost trend:		
On interest cost plus service cost during past year	\$ (64)	(48)
On accumulated postretirement benefit obligation	(794)	(181)

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

	<u>Estimated benefit payments</u>
Year beginning July 1:	
2021	\$ 820
2022	775
2023	766
2024	544
2025	622
2026–2030	2,947

Effective July 1, 2007, the College adopted the Emeriti Retiree Health Plan and began funding separate health accounts for eligible employees for retirement medical expenses under a defined contribution plan. For employees who were nearing retirement at the time the defined benefit plan was closed, the College provides a transition benefit in the defined contribution plan. Total postretirement medical expenses for the Emeriti Retiree Health Plan for fiscal years ended June 30, 2020 and 2019 was \$216 and \$199, respectively.

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(11) Net Assets

Net assets as of June 30, 2020 are as follows:

	<u>Without donor restrictions</u>	<u>With donor restrictions</u>	<u>Total</u>
Endowment:			
Scholarship	\$ 13,207	82,273	95,480
Professorship/directorship	2,951	53,441	56,392
General purpose	41,686	122,712	164,398
Plant funds	8,004	26,169	34,173
Assets held in trust and split-interest agreements	(1,597)	16,151	14,554
Accrued postretirement benefits and other funds	(658)	36,242	35,584
	<u>\$ 63,593</u>	<u>336,988</u>	<u>400,581</u>

Net assets as of June 30, 2019 are as follows:

	<u>Without donor restrictions</u>	<u>With donor restrictions</u>	<u>Total</u>
Endowment:			
Scholarship	\$ 13,632	81,587	95,219
Professorship/directorship	3,059	55,119	58,178
General purpose	40,724	119,389	160,113
Plant funds	19,855	26,020	45,875
Assets held in trust and split-interest agreements	(1,694)	16,902	15,208
Accrued postretirement benefits and other funds	(8,367)	40,196	31,829
	<u>\$ 67,209</u>	<u>339,213</u>	<u>406,422</u>

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Net assets with donor restrictions for the years ended June 30, 2020 and 2019 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>2020</u>	<u>2019</u>
Instruction and research	\$ 4,829	4,443
Financial aid	3,489	3,687
Academic support	1,888	2,204
Student services	411	704
General institutional	<u>2,434</u>	<u>1,764</u>
Total operating net assets released from restrictions	<u>13,051</u>	<u>12,802</u>
Plant and other nonoperating	<u>1,187</u>	<u>861</u>
Total nonoperating net assets released from restrictions	<u>1,187</u>	<u>861</u>
Total net assets released from restrictions	\$ <u>14,238</u>	<u>13,663</u>

(12) Functional Expenses

The statement of activities present expenses by natural classification. The College also summarizes its expenses by functional classification. Operation and maintenance of plant are allocated based on square footage. Depreciation expense for capital assets is allocated to functional classifications based on the functional classifications of the departments for which the capital asset serves. Interest expense is allocated based on the functional purpose for which the debt proceeds were used.

Functional expenses for the year ended June 30, 2020 are as follows (in thousands):

	<u>Instruction</u>	<u>Research and public service</u>	<u>Academic support</u>	<u>Student services</u>	<u>Auxiliary services</u>	<u>Institutional support</u>	<u>Operations and maintenance</u>	<u>Total</u>
Salaries and wages	\$ 20,823	441	5,182	6,536	3,300	10,635	4,221	51,138
Employee benefits	7,612	123	1,653	2,116	1,213	3,312	1,330	17,359
Supplies, services, other	5,525	432	3,624	3,948	4,181	4,870	1,171	23,751
Depreciation and amortization	1,112	308	1,463	1,573	2,390	1,445	—	8,291
Interest	105	93	705	158	136	2,328	2	3,527
Utilities	7	1	111	151	935	43	2,161	3,409
Operations and maintenance	1,246	200	1,115	1,585	4,036	703	(8,885)	—
	\$ <u>36,430</u>	<u>1,598</u>	<u>13,853</u>	<u>16,067</u>	<u>16,191</u>	<u>23,336</u>	<u>—</u>	<u>107,475</u>

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Functional Expenses for the year ended June 30, 2019, are as follows (in thousands):

	Instruction	Research and public service	Academic support	Student services	Auxiliary services	Institutional support	Operations and maintenance	Total
Salaries and wages	\$ 20,556	503	5,201	6,380	3,749	10,364	4,051	50,804
Employee benefits	7,306	137	1,638	1,989	1,338	3,303	1,195	16,906
Supplies, services, other	6,014	664	4,423	3,774	4,631	6,002	557	26,065
Depreciation and amortization	1,179	310	1,429	1,624	2,456	1,463	—	8,461
Interest	101	91	695	139	129	2,250	14	3,419
Utilities	5	1	110	184	1,192	31	2,569	4,092
Operations and maintenance	1,175	188	1,051	1,494	3,815	663	(8,386)	—
	<u>\$ 36,336</u>	<u>1,894</u>	<u>14,547</u>	<u>15,584</u>	<u>17,310</u>	<u>24,076</u>	<u>—</u>	<u>109,747</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 26, 2020, the date on which the financial statements were available to be issued. On August 18, 2020 the College issued a \$23,217 promissory note entitled Series A Term Note with Boston Private Bank and Trust Company (the Bank) which carries a fixed interest rate of 3.09% per annum. On the same day the College issued a promissory note with the Bank in the amount of \$5,000 entitled Series B Term Advance which carries a rate of interest equal to 3.00% per annum. The proceeds from Series A were used for the redemption of the prior issue CHEFA Series H-1, H-2, and I bonds. The Series B is to be used for short-term working capital purposes.

In fiscal year 2021, in response to the COVID-19 pandemic, the College offered remote only courses for the summer and will be offering remote through the fall semester.