CONNECTICUT COLLEGE

Financial Statements

June 30, 2019

(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, 2019, 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, 2019, 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.

Emphasis of Matter

As discussed in Note 1(l) to the financial statements, in 2019, the College adopted Financial Accounting Standards Board Accounting Standards Update (ASU) No. 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statement of Not-for-Profit-Entities.* Our opinion is not modified with respect to this matter.

Report on Summarized Comparative Information

We have previously audited Connecticut College's 2018 financial statements, and we expressed an unmodified opinion on those audited financial statements in our report dated October 22, 2018. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2018 is consistent, in all material respects, with the audited financial statements from which it has been derived before the adjustments to adopt ASU 2016-14. As part of our audit of the 2019 financial statements, we also audited the adjustments described in Note 1(l) that were applied to adopt ASU 2016-14 retrospectively in the 2018 financial statements. In our opinion, such adjustments are appropriate and have been properly applied.

KPMG LLP

October 21, 2019

CONNECTICUT COLLEGE

Balance Sheet

June 30, 2019
(with comparative information for June 30, 2018)

(Dollars in thousands)

Assets		2019	2018
Cash and cash equivalents	$	40,549	32,380
Accounts and student loans receivable, net		1,727	1,911
Contributions receivable, net		26,181	26,800
Inventories and other assets		1,904	2,038
Investments		324,450	315,189
Funds held in trust		15,432	16,028
Deposits with bond trustee		8,507	11,981
Land, buildings, and equipment, net		105,625	106,379
Total assets	$	524,375	512,706
Liabilities			
Accounts payable and accrued liabilities	$	9,187	10,449
Deposits and advances		1,577	1,614
Liabilities under split-interest agreements		4,229	4,444
Accrued postretirement benefit obligation		9,245	8,899
Bonds and notes payable		90,849	92,443
Other obligations		2,866	3,178
Total liabilities		117,953	121,027
Net Assets			
Without donor restrictions		67,209	67,084
With donor restrictions		339,213	324,595
Total net assets		406,422	391,679
Total liabilities and net assets	$	524,375	512,706

See accompanying notes to financial statements.

CONNECTICUT COLLEGE

Statement of Activities

Year ended June 30, 2019
(with summarized comparative information for the year ended June 30, 2018)

(Dollars in thousands)

	2019 Without donor restrictions	2019 With donor restrictions	2019 Total	2018 Total
Operating:				
Revenues:				
Student charges, net of financial aid of $44,081 million in 2019 and $38,606 million in 2018	$ 79,521	—	79,521	78,897
Grant and contract income	1,820	—	1,820	1,694
Contributions	5,188	6,450	11,638	11,763
Endowment spending used in operations	4,692	9,988	14,680	13,968
Other revenues	3,556	437	3,993	3,197
Net assets released from restrictions	12,802	(12,802)	—	—
Total revenues and other support from operations	107,579	4,073	111,652	109,519
Expenses:				
Salaries and wages	50,804	—	50,804	53,451
Employee benefits	16,906	—	16,906	17,050
Supplies, services, other	26,065	—	26,065	24,476
Depreciation and amortization	8,461	—	8,461	8,825
Interest	3,419	—	3,419	3,453
Utilities	4,092	—	4,092	3,946
Total expenses	109,747	—	109,747	111,201
Increase (decrease) in net assets from operating activities	(2,168)	4,073	1,905	(1,682)
Nonoperating activities:				
Contributions restricted for long-term investment	1,287	9,521	10,808	32,616
Investment return, less endowment spending used in operations	459	1,959	2,418	8,338
Change in value of split-interest agreements	29	238	267	744
Other decreases	312	(312)	—	(19)
Postretirement related changes other than service cost	(655)	—	(655)	(1,222)
Voluntary exit incentive plan	—	—	—	(4,804)
Net assets released from restrictions	861	(861)	—	—
Increase in net assets from nonoperating activities	2,293	10,545	12,838	35,653
Total increase in net assets	125	14,618	14,743	33,971
Net assets, beginning of year	67,084	324,595	391,679	357,708
Net assets, end of year	$ 67,209	339,213	406,422	391,679

See accompanying notes to financial statements.

CONNECTICUT COLLEGE

Statement of Cash Flows

Year ended June 30, 2019
(with comparative information for the year ended June 30, 2018)

(Dollars in thousands)

		2019	2018
Cash flows from operating activities:			
Change in net assets	$	14,743	33,971
Adjustments to reconcile change in net assets to net cash used in operating activities:			
Depreciation and amortization		8,454	8,816
Net realized and unrealized gains on investments		(19,044)	(24,257)
Net unrealized gains on split-interest agreements		(131)	(309)
Contributions restricted for long-term investment		(10,677)	(27,438)
Accounts receivable, net		(126)	278
Contributions receivable, net		619	(5,964)
Accounts payable and accrued liabilities		(375)	4,055
Accrued postretirement benefit obligation		(646)	1,254
Other changes in working capital, net		504	(4,054)
Net cash used in operating activities		(6,679)	(13,648)
Cash flows from investing activities:			
Student loans repaid		256	220
Purchases of investments		(50,948)	(42,200)
Proceeds from sale of investments		60,863	50,693
Purchases of land, buildings, and equipment		(7,490)	(7,307)
Net cash provided by investing activities		2,681	1,406
Cash flows from financing activities:			
Contributions restricted for long-term investment		10,677	27,438
Change in deposits with bond trustee		3,474	(447)
Repayments of long-term debt and capital lease obligations		(1,984)	(1,883)
Net cash provided by financing activities		12,167	25,108
Net increase in cash and cash equivalents		8,169	12,866
Cash and cash equivalents at beginning of year		32,380	19,514
Cash and cash equivalents at end of year	$	40,549	32,380
Supplemental disclosures of cash flow information:			
Cash paid during the year for interest	$	3,419	3,453
Fixed asset purchases financed with capital leases		120	170
Change in accounts payable related to property and equipment		105	(394)

See accompanying notes to financial statements.

(1) Summary of Significant Accounting Policies

(a) History

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

(b) General

The financial statements have been prepared on the accrual basis of accounting in accordance with U.S. generally accepted accounting principles (GAAP). The financial statements report on the College as a whole and report transactions and net assets based on the existence or absence of donor-imposed restrictions. 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, 2018, from which the summarized information was derived.

(Continued)

(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 $4,084 and $4,466 for the years ended June 30, 2019 and 2018, 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 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.

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, 2019, the College had no specific plans or intentions to sell investments at amounts different than NAV.

The three levels of the fair value hierarchy are:

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

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

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

(f) Spending from Endowment

The College invests a significant portion of its endowment assets in an investment pool and distributes cash for expenditure in accordance with its endowment spending policy, which is intended to stabilize annual spending levels and to preserve the real value of the endowment portfolio over time. To meet these objectives, spending from endowment is set by the Board of Trustees at an amount equal to a percentage of average endowment market value for the twelve previous quarters for both with donor restriction and without donor restriction endowment funds. The spending rate was 5% for the years ended June 30, 2019 and 2018.

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

(g) Split-Interest Agreements

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

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

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

(h) Land, Buildings, and Equipment

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

(Continued)

(i) Tax Status

The College generally does not provide for income taxes since it is a tax-exempt organization under Section 501(c)(3) of the Internal Revenue Code. Accounting Standards Codification (ASC) 740, *Income Taxes*, permits an entity to recognize the benefit and requires accrual of an uncertain tax position only when the position is "more likely than not" to be sustained in the event of examination by tax authorities. In evaluating whether a tax position has met the recognition threshold, the College must presume that the position will be examined by the appropriate taxing authority that has full knowledge of all relevant information. ASC 740 also provides guidance on the recognition, measurement, and classification of income tax uncertainties, along with any related interest or penalties. Tax positions deemed to meet the "more-likely than-not" threshold are recorded as a tax expense in the current year. The College has analyzed all open tax years, as defined by the statutes of limitations, for all major jurisdictions. Open tax years are those that are open for exam by taxing authorities. Major jurisdictions for the College include federal and the state of Connecticut. As of June 30, 2019, open federal and Connecticut tax years for the College include the tax years ended June 30, 2014 through June 30, 2019. The College has no examinations in progress. The College believes it has no significant uncertain tax positions.

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

(j) Collections

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

(k) Use of Estimates

The preparation of financial statements in conformity with 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.

(Continued)

(Dollars in thousands)

(l) Recent Accounting Pronouncements

In August 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2016-14, *Presentation of Financial Statements of Not-for-Profit Entities*. The primary changes include revisions to simplify and enhance the presentation of net assets, a requirement to present functional and natural expenses in a single location, and expanded disclosures regarding liquidity and availability of resources. The ASU is effective for the College's fiscal year ending June 30, 2019. A summary of the net asset reclassifications resulting from the adoption of ASU 2016-14 as of June 30, 2018 is as follows:

	ASU 2016-14 Classification		
	Without donor restrictions	With donor restrictions	Total net assets
2018 ending net assets as previously presented:			
Unrestricted	$ 67,064	—	67,064
Temporarily restricted	—	143,344	143,344
Permanently restricted	—	181,271	181,271
Reclassification to implement ASU 2016-14:			
Underwater endowments	20	(20)	—
2018 ending net assets, as restated	$ 67,084	324,595	391,679

ASU 2014-09, *Revenue from Contracts with Customers*, was issued by the FASB in May 2014 and is intended to improve the financial reporting requirements for revenue from contracts with customers. The ASU establishes a five-step model and application guidance for determining the timing and amount of revenue recognition guidance in U.S. GAAP. The ASU became effective for the College for the year ended June 30, 2019. The College's adoption of the ASU did not materially change the timing or amount of revenue recognized by the College. However, the ASU requires that tuition, fees and auxiliary student revenues be presented in the statement of activities at the transaction price, i.e., net of any institutional student aid. Previously, such revenues were presented gross, i.e., at published rates, followed by a reduction for institutional student aid. Accordingly, the College's 2018 statement of activities has been revised to conform to the 2019 presentation. For fiscal year 2019, student tuition and fee revenue was $99,121, room and board revenues were $24,481 and financial aid was $44,081.

(Continued)

In fiscal 2019 the College adopted Accounting Standards Update (ASU) No. 2017-07, *Compensation – Retirement Benefits (Topic 715): Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost.* This guidance requires the service cost component of net periodic benefit cost for pension and other postretirement benefit costs be presented as a component part of employee benefit expense. The other components of net periodic benefit cost, such as interest, expected return on plan assets, and amortization of other actuarially determined amounts, are required to be presented as nonoperating change in net assets without donor restrictions. These changes have been applied retrospectively in the 2018 statement of activities by reclassifying all nonservice related components of net periodic benefit cost from benefit expense to nonoperating revenue (expense) in net assets without donor restrictions which did not result in a material change in the financial statements.

Effective July 1, 2018 the College adopted FASB ASU 2018-08, *Not-for-Profit Entities, Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made.* The ASU clarifies and improves current accounting guidance to determine when a transaction should be accounted for as a contribution or exchange transaction and provides additional guidance about how to determine whether a contribution is conditional. The adoption of this standard had no impact on other operating revenue or total net assets.

(m) Reclassifications

Certain reclassifications have been made to 2018 information to conform to the 2019 presentation.

(2) Liquidity

As of June 30, 2019, 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:

Cash and cash equivalents	$	40,549
Contributions, notes, and accounts receivable, net		1,803
Fiscal 2020 endowment appropriation		14,752
Total financial assets available within one year	$	57,104

The College's Board of Trustees establishes the annual spending policy. Under the provisions of the spending policy for fiscal year 2019 and 2018 the Board approved a spending rate of 5% of the 12-quarter trailing average of the pool's market value resulting in allocations (in thousands) of $14,048 and $13,465 respectively. For fiscal year 2020 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 (in thousands) of $14,752. Additionally, the college has board-designated endowment funds (in thousands) of $57,415 as of June 30, 2019. 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.

(Dollars in thousands)

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.

(3) Accounts and Student Loans Receivable

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

		2019	2018
Student accounts receivable	$	459	402
Grants and contracts receivable		482	469
Miscellaneous receivables		164	108
Less allowance for doubtful accounts		(150)	(150)
Accounts receivable, net		955	829
Student loans receivable		922	1,232
Less allowance for doubtful accounts		(150)	(150)
Student loans receivable, net		772	1,082
Total accounts and student loans receivable, net	$	1,727	1,911

(4) Contributions Receivable

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

		2019	2018
Amounts due in:			
Less than one year	$	925	658
One to five years		27,222	23,703
More than five years		1,850	3,794
Gross unconditional promises to give		29,997	28,155
Less:			
Present value discount		(884)	(788)
Allowance for uncollectible pledges		(2,932)	(567)
Net unconditional promises to give	$	26,181	26,800

(Continued)

(Dollars in thousands)

		2019	2018
Purpose:			
Endowment giving	$	15,167	10,348
Capital purposes		6,729	11,357
Operating purposes		8,101	6,450
Gross unconditional promises from donors	$	29,997	28,155

The discount rates used to present the value of the pledges range from 0.39% to 6.00% at June 30, 2019 and June 30, 2018.

As of June 30, 2019 and 2018, the College had a pledge receivable from one donor that comprised 33% and 45%, respectively, of the contributions receivable, net on the balance sheet.

(5) Investments and Fair Value

The College's investments at June 30, 2019 and 2018 that are reported at fair value are summarized in the tables below and, as applicable, by their fair value hierarchy classification:

		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

(Dollars in thousands)

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

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, 2019:

		Daily	Monthly	Quarterly	Semi-annual	Subject to rolling lock-ups	Illiquid	Total
Investments:								
Short-term investments	$	14,027	—	—	—	—	—	14,027
U.S. equities		667	31,806	50,196	—	—	—	82,669
International equities		2,947	54,132	6,142	—	—	—	63,221
Fixed income		27,671	—	—	—	—	—	27,671
Private equity		—	—	—	—	—	14,752	14,752
Venture capital		—	—	—	—	—	24,094	24,094
Inflation hedging		—	—	—	—	—	14,287	14,287
Hedge funds		7,320	19,016	21,246	8,049	16,799	1,794	74,224
Distressed debt		—	—	—	—	—	5,499	5,499
Split-interest agreements		—	—	—	—	—	4,006	4,006
Total	$	52,632	104,954	77,584	8,049	16,799	64,432	324,450

(Dollars in thousands)

The College's policy is to recognize transfers to and transfers from Levels 1, 2, or 3 as of the actual date of the transaction or change in circumstances that caused the transfer. For the years ended June 30, 2019 and 2018, there were no transfers between levels in the fair value hierarchy.

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. At June 30, 2019 the College held certain index future contracts in a net liability position of $2. The College posted collateral on the index futures contracts of $2,000 at June 30, 2019. The College did not enter into any derivative instruments as of June 30, 2018.

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

	2019		
	Long notional	**Short notional**	**Unrealized (loss) gain**
Instrument type:			
Equity index futures	2,797	—	(10)
Currency futures	689	—	1
International equity index futures	12,380	—	8
Total	15,866	—	(1)

At June 30, 2019, the College's remaining outstanding commitments on investments totaled $32,795. 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, 2019, the average remaining life of the commitments is 4 years. The remaining outstanding commitments are summarized in the table below:

Private equity	$ 10,982
Hedge funds	3,500
Venture capital	9,747
Inflation hedging	2,811
Distressed securities	5,755
	$ 32,795

At June 30, 2019, funds with redemption lockup periods in the amount of $6,822 will expire in fiscal year 2020, $9,977 will expire in 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 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

(Dollars in thousands)

(7) The investment policies of the College

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

(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 $197 and $349 and were underwater by $18 and $20 as of June 30, 2019 and 2018, 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.

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

	Without donor restrictions	With donor restrictions: Original gift	With donor restrictions: Accumulated gains (losses)	With donor restrictions: Total	Total 2019
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
	$ 57,415	160,608	95,487	256,095	313,510

Endowment net asset composition by type of fund consist of the following at June 30, 2018:

	Without donor restrictions	With donor restrictions: Original gift	With donor restrictions: Accumulated gains (losses)	With donor restrictions: Total	Total 2018
Board-designated endowment funds	$ 55,785	—	—	—	55,785
Donor restricted endowment funds:					
Underwater	—	349	(20)	329	329
Other	—	155,990	93,559	249,549	249,549
	$ 55,785	156,339	93,539	249,878	305,663

(Dollars in thousands)

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

	Without donor restrictions	With donor restrictions	Total
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)
	3,028	13,438	16,466
Appropriation of endowment assets for expenditure	(2,569)	(11,479)	(14,048)
Investment return, less endowment spending used in operations	459	1,959	2,418
Contributions and transfers	1,171	4,258	5,429
Endowment funds, June 30, 2019	$ 57,415	256,095	313,510

(Continued)

(Dollars in thousands)

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

		Without donor restrictions	With donor restrictions	Total
Endowment funds, June 30, 2017	$	51,270	239,268	290,538
Return on long-term investments:				
Dividends and interest		145	749	894
Net gains on investments		4,374	19,883	24,257
Investment management fees		(603)	(2,745)	(3,348)
		3,916	17,887	21,803
Appropriation of endowment assets for expenditure		(2,413)	(11,052)	(13,465)
Investment return, less endowment spending used in operations		1,503	6,835	8,338
Contributions and transfers		3,012	3,775	6,787
Endowment funds, June 30, 2018	$	55,785	249,878	305,663

(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.

(Dollars in thousands)

(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	2019	2018
Campus land	—	$ 1,080	1,080
Land improvements	20 years	20,496	20,269
Buildings and building improvements	20–40 years	202,280	199,255
Equipment and furniture	5–10 years	50,628	49,669
Software	3–10 years	6,050	6,050
Construction in progress		7,463	4,474
		287,997	280,797
Less accumulated depreciation and amortization		(182,372)	(174,418)
		$ 105,625	106,379

(Dollars in thousands)

(8) Bonds and Notes Payable

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

		2019	2018
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		3,005	3,160
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		9,200	9,200
Series K bonds, face amount $3,300 issued 2015, interest is fixed at 2.64% until maturity in 2029		3,300	3,300
Series L-1 bonds, face amount $40,725 issued 2017, interest is fixed at rates ranging from 3.0% to 5.0%, maturities to 2046		40,725	40,725
Series L-2 bonds, face amount $12,910 issued 2017, interest is fixed at rates ranging from 1.316% to 2.902%, maturities to 2027		11,555	12,910
		86,870	88,380
Net bond premiums		4,865	4,994
Net bond issuance costs		(886)	(931)
	$	90,849	92,443

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

		Bonds
2020	$	1,760
2021		1,911
2022		1,956
2023		2,012
2024		2,099
Thereafter		77,132
	$	86,870

The College has an unsecured $10,000 line of credit established with Citizens Bank for short-term working capital purposes that matures on January 31, 2020. As of June 30, 2019 and 2018, there were no outstanding advances under the line of credit. As of June 30, 2019 and 2018, the interest rate is set at LIBOR plus an applicable margin.

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

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

Bond interest expense for the years ended June 30, 2019 and 2018 was $3,385 and $3,410, 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, 2019 and 2018 was $3,858 and $4,272, respectively.

(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.

(Dollars in thousands)

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	
		2019	**2018**
Change in benefit obligation:			
Benefit obligation at beginning of year	$	8,899	7,645
Service cost		238	281
Interest cost		346	241
Plan participants’ contributions		233	229
Medicare Part D subsidy received		8	18
Actuarial curtailment loss		—	184
Termination liability		—	1,300
Actuarial gain		309	(497)
Benefits paid		(788)	(502)
Benefit obligation at end of year		9,245	8,899
Change in plan assets:			
Fair value of plan assets at beginning of year		—	—
Employer contribution		547	255
Plan participants’ contributions		233	229
Medicare Part D subsidy received		8	18
Benefits paid		(788)	(502)
Fair value of plan assets at end of year		—	—
Funded status	$	(9,245)	(8,899)

(Dollars in thousands)

	June 30			
	2019		2018	
	Medical	**Drug**	**Medical**	**Drug**
Discount rate used to value obligations	3.25 %	3.25 %	3.92 %	3.92 %
Discount rate used to value expenses	3.92	3.92	3.45	3.45
Weighted average healthcare cost trend:				
Initial trend rate	7.00	7.00	7.50	8.00
Ultimate trend rate	5.00	5.00	5.00	5.00
Year ultimate trend rate attained	2023	2021	2023	2021

	June 30	
	2019	**2018**
Components of net periodic postretirement benefit cost:		
Service costs	$ 238	281
Interest cost	346	241
Curtailment adjustment to prior service costs	—	(6)
HRA Curtailment loss	—	184
HRA Termination expense	—	1,300
Net amortization of unrecognized prior service cost	(154)	(243)
Total net periodic postretirement benefit cost	$ 430	1,757
Recongnized in employee benefits expense:		
Service cost	$ 238	281
Total recognized in employee benefits expense	$ 238	281
Recognized in nonoperating activities:		
Actuarial (loss) gain, net	$ (463)	254
Interest cost	(346)	(241)
Curtailment adjustment to prior service costs	—	6
HRA Curtailment loss	—	(184)
HRA Termination expense	—	(1,300)
Net amortization of unrecognized prior service cost	154	243
Total recognized in nonoperating activities	$ (655)	(1,222)

(Continued)

(Dollars in thousands)

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

		2019	2018
Impact of 1% increase in healthcare cost trend:			
On interest cost plus service cost during past year	$	76	79
On accumulated postretirement benefit obligation		1,108	522
Impact of 1% decrease in healthcare cost trend:			
On interest cost plus service cost during past year	$	(48)	(49)
On accumulated postretirement benefit obligation		(181)	(484)

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

		Estimated benefit payments
Year beginning July 1:		
2020	$	866
2021		818
2022		770
2023		756
2024		528
2025–2029		2,944

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, 2019 and 2018 was $199 and $242, respectively.

In fiscal year 2018, the College offered a one-time voluntary retirement incentive program to certain faculty and staff whose age plus years of continuous benefits-eligible service totals 75 or more as of June 30, 2019. The program provided eligible faculty and staff with a special retirement bonus and a contribution to a health reimbursement account (HRA). The program effected the College’s existing postretirement medical benefit liability resulting in a curtailment loss of $184 thousand and termination liability of $1.3 million. The total cost for the voluntary retirement incentive program is $4.8 million including the curtailment loss and termination liability expense. This amount is reported as Voluntary exit incentive plan expense in nonoperating activities on the Statement of Activities in fiscal year 2018.

(Dollars in thousands)

(11) Net Assets

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

	Without donor restrictions	With donor restrictions	Total
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
	$ 67,209	339,213	406,422

Net assets as of June 30, 2018 are as follows:

	Without donor restrictions	With donor restrictions	Total
Endowment:			
Scholarship	$ 13,539	78,973	92,512
Professorship/directorship	3,038	53,744	56,782
General purpose	39,208	117,161	156,369
Plant funds	22,149	19,604	41,753
Assets held in trust and split-interest agreements	(1,788)	17,297	15,509
Accrued postretirement benefits and other funds	(9,062)	37,816	28,754
	$ 67,084	324,595	391,679

Net assets with donor restrictions for the years ended June 30, 2019 and 2018 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:

		2019	2018
Instruction and research	$	4,443	4,716
Financial aid		3,687	3,308
Academic support		2,204	2,408
Student services		704	762
General institutional		1,764	1,204
Total operating net assets released from restrictions		12,802	12,398
Plant and other nonoperating		861	1,467
Total nonoperating net assets released from restrictions		861	1,467
Total net assets released from restrictions	$	13,663	13,865

(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, 2019 are as follows (in thousands):

		Instruction	Research and public service	Academic support	Student services	Auxiliary services	Institutional support	Total
Salaries and wages	$	21,123	594	5,709	7,101	5,592	10,685	50,804
Employee benefits		7,473	163	1,788	2,202	1,882	3,398	16,906
Supplies, services, other		6,101	677	4,490	3,872	4,881	6,044	26,065
Depreciation and amortization		1,179	310	1,429	1,624	2,456	1,463	8,461
Interest		103	91	697	142	135	2,251	3,419
Utilities		357	59	434	643	2,364	235	4,092
	$	36,336	1,894	14,547	15,584	17,310	24,076	109,747

Functional Expenses for the year ended June 30, 2018, are as follows (in thousands):

	Instruction	Research and public service	Academic support	Student services	Auxiliary services	Institutional support	Total
Salaries and wages	$ 21,862	763	6,513	7,291	4,968	12,054	53,451
Employee benefits	7,556	243	2,173	2,333	1,823	2,922	17,050
Supplies, services, other	5,203	567	4,713	3,607	5,066	5,320	24,476
Depreciation and amortization	1,333	334	1,482	1,611	2,516	1,549	8,825
Interest	104	91	697	137	138	2,286	3,453
Utilities	341	90	500	604	1,961	450	3,946
	$ 36,399	2,088	16,078	15,583	16,472	24,581	111,201

(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, 2019, the date on which the financial statements were available to be issued. No subsequent events were identified.