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THE CHOATE ROSEMARY HALL FOUNDATION, INCORPORATED

FINANCIAL STATEMENTS

JUNE 30, 2017 AND 2016

THE CHOATE ROSEMARY HALL FOUNDATION, INCORPORATED

CONTENTS

2 Enterprise Drive
P.O. Box 2488
Shelton, CT 06484-1488

Tel 203.944.2100
Fax 203.944.2111
blumshapiro.com

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Independent Auditors' Report

To the Board of Trustees
The Choate Rosemary Hall Foundation, Incorporated
Wallingford, Connecticut

We have audited the accompanying financial statements of The Choate Rosemary Hall Foundation, Incorporated, which comprise the statements of financial position as of June 30, 2017 and 2016, and the related statements of activities and cash flows for the years 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 accounting principles generally accepted in the United States of America; 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 audits. We conducted our audits 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 auditors consider 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 The Choate Rosemary Hall Foundation, Incorporated, as of June 30, 2017 and 2016, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Change in Accounting Principle

As discussed in Note 1, during the year ended June 30, 2017, The Choate Rosemary Hall Foundation, Incorporated, elected to early adopt Accounting Standards Update No. 2015-07, *Disclosures for Investments in Certain Entities that Calculate Net Asset Value per Share (or Its Equivalent)*. The amendment requires retrospective application. Our opinion is not modified with respect to this matter.

Blum, Shapiro & Company, P.C.

Shelton, Connecticut
October 14, 2017

THE CHOATE ROSEMARY HALL FOUNDATION, INCORPORATED

STATEMENTS OF FINANCIAL POSITION
JUNE 30, 2017 AND 2016

	2017	2016
ASSETS		
Cash and cash equivalents	$ 19,202,258	$ 15,967,306
Accounts receivable, net	54,728	128,276
Student loans receivable, net	176,729	244,257
Other receivables	386,996	303,434
Pledges receivable, net	37,015,429	26,601,886
Prepaid expenses and other assets	2,840,429	2,674,761
Investments	388,321,997	365,517,603
Split-interest agreements	9,728,028	9,141,119
Land, buildings and equipment, net	156,205,436	142,231,856
Total Assets	$ 613,932,030	$ 562,810,498
LIABILITIES AND NET ASSETS		
Liabilities		
Accounts payable and accrued expenses	$ 5,649,389	$ 6,021,824
Accrued wages and other benefits	692,841	1,132,702
Interest rate swap valuation	6,992,758	10,015,410
Deferred revenue and deposits	15,400,827	16,117,789
Liability under split-interest agreements	3,574,191	3,797,210
Agency funds	322,787	364,827
Bonds payable	34,025,000	35,050,000
Total liabilities	66,657,793	72,499,762
Net Assets		
Unrestricted	228,648,732	219,690,676
Temporarily restricted	184,456,357	139,158,018
Permanently restricted	134,169,148	131,462,042
Total net assets	547,274,237	490,310,736
Total Liabilities and Net Assets	$ 613,932,030	$ 562,810,498

The accompanying notes are an integral part of the financial statements

THE CHOATE ROSEMARY HALL FOUNDATION, INCORPORATED

STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2017

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenues, Gains and Other Support				
Student related revenue:				
Tuition and fees	$ 45,554,655	$ -	$ -	$ 45,554,655
Less financial aid	(11,170,428)	-	-	(11,170,428)
	34,384,227	-	-	34,384,227
Summer programs	3,962,030	-	-	3,962,030
Program supporting revenues	2,009,516	-	-	2,009,516
Total student related revenue	40,355,773	-	-	40,355,773
Investment activity:				
Interest and dividend income	953,360	2,193,230	-	3,146,590
Realized and unrealized gains	15,227,328	33,976,805	-	49,204,133
Benefits paid on annuity obligations	-	(501,735)	-	(501,735)
Investment management fees	(1,462,317)	(2,877,984)	-	(4,340,301)
Change in value of split-interest obligations	-	222,846	-	222,846
Total investment activity, net	14,718,371	33,013,162	-	47,731,533
Net gifts and pledges	9,964,867	24,449,204	1,920,433	36,334,504
Net assets released from restrictions	19,466,357	(19,466,357)	-	-
Total revenues, gains and other support	84,505,368	37,996,009	1,920,433	124,421,810
Expenses				
Instructional	39,984,556	-	-	39,984,556
Student support services	12,456,736	-	-	12,456,736
Administrative	14,523,450	-	-	14,523,450
Development	3,516,219	-	-	3,516,219
Total expenses	70,480,961	-	-	70,480,961
Change in Net Assets from Operations	14,024,407	37,996,009	1,920,433	53,940,849
Other Changes in Net Assets				
Unrealized gain on interest rate swap	3,022,652	-	-	3,022,652
Net asset reclassification	(8,278,022)	7,491,349	786,673	-
Restricted endowment funds with deficiencies	189,019	(189,019)	-	-
Total other changes in net assets	(5,066,351)	7,302,330	786,673	3,022,652
Change in Net Assets	8,958,056	45,298,339	2,707,106	56,963,501
Net Assets - Beginning of Year	219,690,676	139,158,018	131,462,042	490,310,736
Net Assets - End of Year	$ 228,648,732	$ 184,456,357	$ 134,169,148	$ 547,274,237

The accompanying notes are an integral part of the financial statements

THE CHOATE ROSEMARY HALL FOUNDATION, INCORPORATED

STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2016

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenues, Gains and Other Support				
Student related revenue:				
Tuition and fees	$ 44,789,297	$ -	$ -	$ 44,789,297
Less financial aid	(10,705,978)	-	-	(10,705,978)
	34,083,319	-	-	34,083,319
Summer programs	3,685,930	-	-	3,685,930
Program supporting revenues	1,941,696	-	-	1,941,696
Total student related revenue	39,710,945	-	-	39,710,945
Investment activity:				
Interest and dividend income	517,994	1,015,256	-	1,533,250
Realized and unrealized losses	(654,117)	(923,239)	-	(1,577,356)
Benefits paid on annuity obligations	-	(494,249)	-	(494,249)
Investment management fees	(948,635)	(1,585,312)	-	(2,533,947)
Change in value of split-interest obligations	-	50,659	-	50,659
Total investment activity, net	(1,084,758)	(1,936,885)	-	(3,021,643)
Net gifts and pledges	8,226,872	15,439,787	5,952,806	29,619,465
Net assets released from restrictions	13,607,468	(13,607,468)	-	-
Total revenues, gains and other support	60,460,527	(104,566)	5,952,806	66,308,767
Expenses				
Instructional	39,570,630	-	-	39,570,630
Student support services	12,062,187	-	-	12,062,187
Administrative	8,993,520	-	-	8,993,520
Development	3,503,461	-	-	3,503,461
Total expenses	64,129,798	-	-	64,129,798
Change in Net Assets from Operations	(3,669,271)	(104,566)	5,952,806	2,178,969
Other Changes in Net Assets				
Unrealized loss on interest rate swap	(2,710,096)	-	-	(2,710,096)
Restricted endowment funds with deficiencies	(185,216)	185,216	-	-
Total other changes in net assets	(2,895,312)	185,216	-	(2,710,096)
Change in Net Assets	(6,564,583)	80,650	5,952,806	(531,127)
Net Assets - Beginning of Year	226,255,259	139,077,368	125,509,236	490,841,863
Net Assets - End of Year	$ 219,690,676	$ 139,158,018	$ 131,462,042	$ 490,310,736

The accompanying notes are an integral part of the financial statements

THE CHOATE ROSEMARY HALL FOUNDATION, INCORPORATED

STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2017 AND 2016

	2017	2016
Cash Flows from Operating Activities		
Change in net assets	$ 56,963,501	$ (531,127)
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Net unrealized and realized (gains) losses on investments	(49,204,133)	1,577,356
Change in fair value of interest rate swap	(3,022,652)	2,710,096
Current provision for depreciation and amortization	11,420,684	10,743,940
Loss on disposal of property, plant and equipment	-	102,006
Contributions and investment income restricted for long-term investments	(30,819,307)	(28,088,762)
Increase (decrease) in allowance for doubtful pledges	(1,188,326)	407,411
Increase in discount for pledges	87,446	499,506
(Increase) decrease in operating assets:		
Accounts and student loans receivable, net	141,076	16,747
Other receivables	(83,562)	135,904
Pledges receivable	(1,546,081)	6,289,321
Prepaid expenses and other assets	(165,668)	(145,145)
Increase (decrease) in operating liabilities:		
Accounts payable and accrued expenses	(372,435)	275,107
Accrued wages and other benefits	(439,861)	602,709
Deferred revenue and deposits	(716,962)	794,464
Liability under split-interest agreements	(223,019)	(50,659)
Agency funds	(42,040)	200,227
Net cash used in operating activities	(19,211,339)	(4,460,899)
Cash Flows from Investing Activities		
Purchases of plant assets and equipment	(25,394,264)	(15,150,294)
Proceeds from sales of investments	79,292,400	73,862,259
Purchases of investments	(53,479,570)	(67,515,406)
Net cash provided by (used in) investing activities	418,566	(8,803,441)
Cash Flows from Financing Activities		
Proceeds from contributions restricted for long-term investments	23,052,725	13,985,962
Principal payments on bonds	(1,025,000)	(1,060,000)
Net cash provided by financing activities	22,027,725	12,925,962
Net Increase (Decrease) in Cash and Cash Equivalents	3,234,952	(338,378)
Cash and Cash Equivalents - Beginning of Year	15,967,306	16,305,684
Cash and Cash Equivalents - End of Year	$ 19,202,258	$ 15,967,306
Cash Paid During the Year for Interest	$ 1,394,568	$ 1,434,609

The accompanying notes are an integral part of the financial statements

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Organization

The Choate Rosemary Hall Foundation, Incorporated (the School) is a coeducational, independent boarding and day secondary school located in Wallingford, Connecticut. Enrollment encompasses approximately 860 students from the United States and over 40 countries.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America (GAAP) requires management to make estimates and assumptions that affect certain reported amounts and disclosures in the accompanying financial statements. Actual results could differ from those estimates.

Basis of Accounting and Presentation

The financial statements of the School include the accounts of all academic and administrative departments of the School and have been prepared in accordance with GAAP. Accordingly, the School reports its resources in separate classes of net assets based on the existence or absence of donor-imposed restrictions.

Unrestricted Net Assets
These net assets represent resources that may be expended at the discretion of the Board of Trustees. The Board of Trustees has designated a portion of unrestricted net assets as described in Note 11.

Temporarily Restricted Net Assets
These net assets represent resources that have donor-imposed restrictions as to purpose or time of expenditure and accumulated investment gains and income on endowment investments that have not been appropriated for expenditure.

Permanently Restricted Net Assets
These net assets represent resources that have donor-imposed restrictions that stipulate the resources be maintained in perpetuity but permit the School to expend all or a portion of the income derived thereon.

Cash and Cash Equivalents

Cash and cash equivalents include cash on hand and highly liquid investments with maturities of three months or less that are readily convertible to cash, exclusive of cash held in escrow for debt service. The School's deposits exceed federal depository insurance limits. However, management believes that the School is not subject to significant credit risk regarding these deposits.

Investment Valuation and Income Recognition

Investments are reported at fair value. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. See Note 10 for a discussion of fair value measurements.

Purchases and sales of securities are recorded on the trade date basis. Interest income is recorded on the accrual basis. Dividends are recorded on the ex-dividend date. Realized and unrealized gains include the School's gains and losses on investments bought and sold as well as held during the year.

The School's Investment Committee and Management determine the School's valuation policies and procedures utilizing information provided by investment advisors, asset custodians, fund managers and investment companies. The School's Investment Committee reports to the Trustees on a quarterly basis.

Land, Buildings and Equipment

Land, buildings and equipment are recorded at cost at the date of acquisition or fair value at the date of donation. Depreciation is computed using the straight-line method over the estimated useful lives of buildings, equipment and land improvements. Estimated useful lives range from 3 to 15 years for equipment and 5 to 30 years for buildings and land improvements. Any gains or losses realized from the disposition of land, buildings and equipment are recognized in the period they are incurred. The threshold for capitalizing equipment is $2,000. Improvements and major renovations in excess of $10,000 are capitalized only to the extent that they expand utility or provide alternative uses for existing facilities. Routine repairs and maintenance to existing facilities are expensed as incurred.

Asset Retirement Obligations

GAAP requires that a liability be recognized for an asset retirement obligation in the period in which it is incurred if a reasonable estimate of fair value can be made. Certain of the School's buildings contain asbestos and lead paint that must be removed upon demolition or upon extensive renovation. In addition, the School is contractually obligated to remove certain underground storage tanks. An asset retirement obligation of approximately $675,000 and $680,000 associated with removal of the tanks and the demolition of certain buildings containing asbestos and lead paint has been included in accounts payable and accrued expenses on the accompanying statements of financial position as of June 30, 2017 and 2016, respectively.

Split-Interest Agreements

The School is the beneficiary of split-interest agreements with donors, which consist primarily of life income funds and charitable remainder trusts. These arrangements provide for the payment of distributions to the grantor or other designated beneficiaries over the trust's term (usually the designated beneficiary's lifetime). At the end of the trust's term, the remaining assets are available for the School's use. The trust is carried at the fair value of the underlying investments. The portion of the trust attributable to the present value of the future benefits to be received by the School is recognized in the statements of activities as a temporarily restricted contribution in the period the trust is established.

The present value of the liability to beneficiaries under life income funds or annuity arrangements is calculated using an appropriate risk-free rate of return. Gains or losses resulting from changes in actuarial assumptions and accretions of the discount are recorded as increases or decreases in the respective net asset classes in the accompanying statements of activities.

Swap Agreement

The School has entered into a swap agreement associated with its bonds payable. The agreement effectively changes the interest rate exposure of the bonds payable from variable rate to fixed rate. Accordingly, the School has reflected the swap agreement in the accompanying financial statements at the current market value in effect at June 30, 2017 and 2016, which is reflected as interest rate swap valuation in the accompanying statements of financial position. The differential paid or received on the swap agreement is recognized as interest expense in the accompanying statements of activities. See Note 6 for further information.

Contributions

All contributions are considered to be available for unrestricted use unless specifically restricted by the donor. Amounts received that are restricted for future periods or restricted for specific purposes by the donor are reported as either temporarily restricted or permanently restricted support. Contributions received that are awaiting instructions from the donor are reported as temporarily restricted support. Temporarily restricted promises to give are reclassified to unrestricted net assets when the gift is collected and the donor-imposed purpose or time restrictions are met. Unconditional promises to give that are expected to be collected within one year are recorded at their net realizable value. Unconditional promises to give that are expected to be collected in future years are recorded at the present value of estimated future cash flows using an appropriate risk-free rate of return. Amortization of the discount is included in net gifts and pledges revenue. Conditional promises to give are not included as support until such time as the conditions are substantially met.

Income Taxes

The School is a nonprofit organization generally exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code. Accordingly, no provision for income taxes has been made.

Tuition Revenue

The School recognizes registration and tuition revenue in the period in which the related educational instruction is performed. Accordingly, at each year end, registration and tuition fees received for the next school term are deferred.

Change in Accounting Principle

In May 2015, the Financial Accounting Standards Board issued Accounting Standards Update (ASU) No. 2015-07, *Disclosures for Investments in Certain Entities that Calculate Net Asset Value per Share (or Its Equivalent)*, which removes the requirement to categorize investments measured at net asset value within the fair value hierarchy tables. The standard is effective for years beginning after December 15, 2016. The School elected to early adopt ASU 2015-07 for the year ended June 30, 2017.

Reclassifications

Certain amounts in the prior year have been reclassified to conform to the current year presentation.

Subsequent Events

In preparing these financial statements, management has evaluated subsequent events through October 14, 2017, which represents the date the financial statements were available to be issued.

NOTE 2 - STUDENT LOANS RECEIVABLE

Certain loan programs, established to provide loans to both parents and students, have been funded jointly by the School and a gift from the Independence Foundation. The loan agreements, which extend credit without requiring collateral, provide for interest at a yearly fixed rate of 5.3% and principal repayments in accordance with the loan agreements. Student loan payments generally become due beginning the year following graduation. Student loans receivable is presented net of a reserve of $20,000 and $35,000 as of June 30, 2017 and 2016, respectively.

NOTE 3 - PLEDGES RECEIVABLE

Pledges receivable consist of the following as of June 30, 2017 and 2016:

	2017	2016
Gross pledges receivable	$ 42,055,030	$ 32,742,367
Less allowance for uncollectible accounts	(3,976,055)	(5,164,381)
Less discount	(1,063,546)	(976,100)
Net Pledges Receivable	$ 37,015,429	$ 26,601,886
Amounts due in:		
Less than one year	$ 12,847,325	$ 8,899,552
One to five years	23,886,027	17,662,224
More than five years	282,077	40,110
Total	$ 37,015,429	$ 26,601,886

A risk-free rate of return of 2.50% as of June 30, 2017 and 2016, was used to calculate the present value of pledges receivable due to be collected beyond one year.

The School has not recorded approximately $43,622,000 and $44,026,000 of conditional promises to give as of June 30, 2017 and 2016, respectively. Conditional promises to give are not included as support until such time as the conditions are substantially met.

NOTE 4 - INVESTMENTS

A summary of investments at fair value as of June 30, 2017 and 2016, is as follows:

	2017	2016
Flexible capital	$ 111,207,805	$ 105,737,879
Fixed income	14,777,174	48,305,834
Global public equity	131,672,741	102,037,510
Natural resources	35,521,664	30,414,728
Global private equity	37,246,055	20,544,495
Private real estate	37,451,772	39,186,698
Public energy	6,285,473	14,977,635
	$ 374,162,684	$ 361,204,779

In addition to the items listed above, investments on the accompanying statements of financial position include amounts due from brokers of $14,159,313 and $4,312,824 at June 30, 2017 and 2016, respectively.

A summary of the liquidity of the School's investments as of June 30, 2017 and 2016, is as follows:

	2017	2016
Daily	$ 44,712,232	$ 76,375,138
Monthly	20,044,651	12,650,686
Quarterly	102,729,596	81,030,364
Annually	95,675,125	93,274,064
Illiquid	125,160,393	102,187,351
	$ 388,321,997	$ 365,517,603

Certain funds contain lockup provisions. Under such provisions, share classes of investments are available for redemption at prescribed dates in accordance with the partnership agreement of the fund. In some cases, funds may impose fees in exchange for advanced liquidity opportunities. A portion of the underlying investments within the categories of monthly to quarterly and semi-annual to annual may include private or side pocket investments from which the School may not have an ability to redeem. Additionally, tranches of certain funds within these categories my restrict redemptions to a portion of the value over a rolling quarterly or annual basis.

NOTE 5 - LAND, BUILDINGS AND EQUIPMENT

Land, buildings and equipment consist of the following as of June 30, 2017 and 2016:

	2017	2016
Land	$ 2,622,278	$ 2,622,278
Land improvements	13,621,865	13,802,466
Buildings and building improvements	244,351,498	215,317,666
Equipment	25,282,957	23,679,437
Construction in progress	5,411,882	11,385,809
	291,290,480	266,807,656
Less accumulated depreciation and amortization	(135,085,044)	(124,575,800)
	$ 156,205,436	$ 142,231,856

Depreciation expense for the years ended June 30, 2017 and 2016, was $11,420,684 and $10,743,940, respectively.

The School has approximately $5.0 million of general commitments for capital renovations and improvements as of June 30, 2017 not included in its land, buildings and equipment above.

NOTE 6 - BONDS PAYABLE AND FUNDS HELD WITH TRUSTEE

The Connecticut Health and Educational Facilities Authority (CHEFA) bonds represent obligations under an agreement pursuant to which the School is required to make payments to CHEFA sufficient to liquidate the debt. Choate Rosemary Hall Issue, Series E Serial Bonds outstanding of $34,025,000 and $35,050,000 at June 30, 2017 and 2016, respectively, are at a variable interest rate and mature in 2037.

As discussed in Note 1, the School has an interest rate swap agreement with Barclays Capital. The original notional value of the swap was $41,850,000 and is reduced periodically according to a schedule.

The swap arrangement is currently for $34,025,000. The swap agreement provides the School with interest rate protection for its CHEFA Series E variable rate bonds. The School agrees to pay Barclays Capital a fixed rate of 3.641% in exchange for receiving a floating variable rate. In December 2012, the School restructured the swap agreement whereby the School receives 67% of 3-month LIBOR. The swap term matches the CHEFA debt and will expire on July 1, 2037. Payments are made between the School and Barclays Capital on a monthly basis. The unrealized gain (loss) on the swap agreement was $3,022,652 and ($2,710,096) for the years ended June 30, 2017 and 2016, respectively, which is reflected in the accompanying statements of activities.

Principal and sinking fund installment payments due on the Series E bonds are as follows:

Year Ending June 30

2018	$ 1,050,000
2019	1,100,000
2020	1,125,000
2021	1,200,000
2022	1,250,000
Thereafter	28,300,000
	$ 34,025,000

Interest expense on the above bonds totaled $1,394,568 and $1,434,609 for the years ended June 30, 2017 and 2016, respectively. Under the terms of the School's CHEFA bond agreement, the School is required to maintain certain financial and other restrictive covenants, including a long-term debt coverage ratio of not less than 1.25 to 1.00. The bonds are collateralized by the gross receipts of the School.

NOTE 7 - CAPITAL LEASES

The School has leases for certain equipment that are classified as capital leases. The School records the present value of the future minimum lease payments related to these leases as a liability within accounts payable and accrued expenses on the statements of financial position with a corresponding asset within its land, buildings and equipment balance on the statements of financial position. Capital assets are depreciated over their useful lives on a straight-line basis, while the obligation is reduced upon each payment by the amount of the payment that represents the principal balance. The School is obligated under capital leases for equipment with a net book value totaling $185,430 and $270,178 as of June 30, 2017 and 2016, respectively.

Future obligations on the equipment capital lease together with the present value of the net minimum lease payments as of June 30, 2017 are as follows:

Year Ending June 30

2018	$ 100,982
2019	100,982
2020	13,228
	215,192
Less amount representing interest	8,486
Present Value of Minimum Capital Lease Payments	$ 206,706

NOTE 8 - DEFINED CONTRIBUTION RETIREMENT PLAN

The School maintains a defined contribution 403(b) plan covering all of its employees subject to age and hours worked requirements. Under the current plan, the School contributes an amount equal to 15% of each participant's qualifying salary. The contribution is applied as a premium to the Teachers Insurance and Annuity Association and/or the College Retirement Equities Fund in any proportion elected by the participant. In addition, the participant can elect to make additional contributions. The School's pension expense relative to the plan approximated $3,313,000 and $3,214,000 for the years ended June 30, 2017 and 2016, respectively.

NOTE 9 - NET ASSETS

Temporarily restricted net assets are available for the following purposes or time periods as of June 30, 2017 and 2016:

	2017	2016
Educational programs	$ 44,967,334	$ 34,525,001
Financial aid	52,354,474	39,156,144
Administration	583,406	522,594
Physical plant	40,139,276	31,293,406
Student support services	4,551,686	3,625,766
Pledges receivable restricted due to passage of specified time or purpose	35,706,344	24,691,198
Life income	6,153,837	5,343,909
	$ 184,456,357	$ 139,158,018

Net assets released from restrictions by incurring expenses satisfying the restricted purposes or by the occurrence of other events specified by donors are as follows for the years ended June 30, 2017 and 2016:

	2017	2016
Educational programs	$ 3,926,682	$ 3,274,911
Financial aid	6,380,427	3,757,868
Administration	398,029	26,860
Physical plant	8,431,184	6,240,312
Student support services	330,035	307,517
	$ 19,466,357	$ 13,607,468

Permanently restricted net assets consist of the following as of June 30, 2017 and 2016:

	2017	2016
Investment in perpetuity, the return from which is expendable and restricted for:		
Educational programs	$ 47,734,277	$ 46,992,880
Financial aid	63,563,673	61,639,873
Student support services	3,854,389	3,196,115
Administration	274,384	274,384
Physical plant	17,433,340	17,448,102
Pledges receivable	1,309,085	1,910,688
	$ 134,169,148	$ 131,462,042

NOTE 10 - FAIR VALUE OF FINANCIAL INSTRUMENTS

Generally accepted accounting principles establish a framework for measuring fair value. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy are described below:

Level 1
Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the School has the ability to access.

Level 2
Inputs to the valuation methodology include:

- Quoted prices for similar assets or liabilities in active markets;
- Quoted prices for identical or similar assets or liabilities in inactive markets;
- Inputs other than quoted prices that are observable for the asset or liability;
- Inputs that are derived principally from or corroborated by observable market data by correlation or other means.

Level 3
Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

The asset's or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs. As a practical expedient, certain investments are measured at fair value on the basis of net asset value. The fair value of these investments is not included in the fair value hierarchy.

Financial Instruments Measured at Fair Value

The following is a description of the valuation methodologies used for financial instruments measured at fair value:

Investment Partnerships
Interests in investment partnerships, which include flexible capital, fixed income, global public equity, natural resources, global private equity and real estate are valued by external investment managers taking into consideration the fair value of the underlying assets and liabilities, current distribution rates and discounts for redemption and liquidity restrictions. The valuations involve assumptions and methods that are reviewed by the School's Investment Committee. Because investments in these partnerships are not readily marketable, their estimated fair value is subject to uncertainty and may differ significantly from the value that would have been used had a market for such investments existed.

Interest Rate Swaps
Interest rate swaps are valued using both observable and unobservable inputs, such as quotations received from the counterparty, dealers or brokers, whenever available and considered reliable. In instances where models are used, the value of the interest rate swap depends upon the contractual terms of, and specific risks inherent in, the instrument as well as the availability and reliability of observable inputs. Such inputs include market prices for reference securities, yield curves, credit curves, measures of volatility, prepayment rates, assumptions for nonperformance risk, and correlations of such inputs. Interest rate swap agreements have inputs which can generally be corroborated by marked data and are therefore classified as Level 3.

Pledge Receivables
The fair value of pledges receivable are estimated based upon the net present value of estimated cash flows discounted at a treasury rate commensurate with the timing of the estimated cash flow.

Split-Interest Agreements
The fair value of assets under split-interest agreements are based upon the carrying value of underlying investments or the present value of future benefits to be received by the School. The fair value of liabilities under split-interest agreements is based on the 90CM mortality table for charitable gift annuities made to the School.

There have been no changes in the methodologies used at June 30, 2017 and 2016.

The methods described above may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, while the School believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

The following tables set forth by level, within the fair value hierarchy, the School's assets at fair value as of June 30, 2017 and 2016:

		2017			
		Investments Measured at Net Asset Value	Fair Value Measurements Using		
	Total	(a)	Level 1	Level 2	Level 3
Investments measured at fair value:					
Fixed income	$ 12,206,009	$ -	$ 12,206,009	$ -	$ -
Global public equity	26,220,752	-	26,220,752	-	-
Natural resources	6,285,473	-	6,285,473	-	-
Investments measured at net asset value:					
Flexible capital	111,207,805	111,207,805	-	-	-
Fixed income	2,571,165	2,571,165	-	-	-
Global public equity	105,451,989	105,451,989	-	-	-
Natural resources	35,521,664	35,521,664	-	-	-
Global private equity	37,246,055	37,246,055	-	-	-
Real estate	37,451,772	37,451,772	-	-	-
Total investments	374,162,684	329,450,450	44,712,234	-	-
Pledges receivable, net	37,015,429	-	-	-	37,015,429
Assets held under split-interest agreements, net	9,728,028	-	8,100,688	-	1,627,340
Total Assets at Fair Value	$ 420,906,141	$ 329,450,450	$ 52,812,922	$ -	$ 38,642,769

	2016				
	Total	Investments Measured at Net Asset Value (a)	Fair Value Measurements Using Level 1	Level 2	Level 3
Investments measured at fair value:					
Fixed income	$ 40,843,748	$ -	$ 40,843,748	$ -	$ -
Global public equity	16,240,930	-	16,240,930	-	-
Natural resources	14,977,635	-	14,977,635	-	-
Investments measured at net asset value:					
Flexible capital	105,737,879	105,737,879	-	-	-
Fixed income	7,462,086	7,462,086	-	-	-
Global public equity	85,796,580	85,796,580	-	-	-
Natural resources	30,414,728	30,414,728	-	-	-
Global private equity	20,544,495	20,544,495	-	-	-
Real estate	39,186,698	39,186,698	-	-	-
Total investments	361,204,779	289,142,466	72,062,313	-	-
Pledges receivable, net	26,601,886	-	-	-	26,601,886
Assets held under split-interest agreements, net	9,141,119	-	7,550,925	-	1,590,194
Total Assets at Fair Value	$ 396,947,784	$ 289,142,466	$ 79,613,238	$ -	$ 28,192,080

(a) Certain investments that are measured at fair value using the net asset value per share (or its equivalent) practical expedient have not been classified in the fair value hierarchy. The fair value amounts presented in this table are intended to permit reconciliation of the fair value hierarchy to the amounts presented in the statements of financial position.

In addition to the items listed above, investments on the accompanying statement of financial position include amounts due from brokers of $14,159,313 and $4,312,824 at June 30, 2017 and 2016, respectively.

There were no transfers between levels of investments during the years ended June 30, 2017 and 2016.

The School does not develop its own quantitative unobservable inputs for investment partnerships and interest rate swaps, but uses pricing information supplied by the fund's investment managers or counterparties.

Additional information regarding investments that report fair value based on net asset value per share or unit as of June 30, 2017 is as follows:

Type		Fair Value	Unfunded Commitments	Redemption Frequency	Redemption Notice Period
Flexible capital	(a.)	$ 111,207,805	$ 4,998,392	Quarterly, semiannually annually and illiquid	30-90 days
Fixed income	(b.)	2,571,165	-	Annually	90 days
Global public equity	(c.)	105,451,989	-	Monthly, quarterly and annually	30-90 days
Natural resources	(d.)	35,521,664	13,739,344	N/A	N/A
Global private equity	(d.)	37,246,055	25,482,775	N/A	N/A
Real estate	(d.)	37,451,772	17,565,369	N/A	N/A
Total		$ 329,450,450	$ 61,785,880		

a. The School invests with managers who, in addition to purchasing equities and fixed income securities, will also purchase derivative securities, sell securities short, utilize leverage, etc. Strategies include “relative value,” “equity long short,” “event driven” and “fixed income arbitrage.”

b. This includes investments in fixed income instruments such as bonds, bank loans, convertibles or other bond-like instruments. These may include, but are not limited to, U.S. Investment Grade Bonds, Non-U.S. Investment Grade Bonds, U.S. Non-Investment Grade Bonds and Non-U.S. Non-Investment Grade Bonds.

c. Global public equity is defined as a portfolio of ownership interests in companies whose securities trade on a public exchange. Geographically this includes U.S. and all international stocks. Note that the School will include in this category managers who do limited shorting and/or hold some nonequity securities as long as the primary driver of their returns are long-only equity positions.

d. Natural resources invests in private companies or assets primarily related to the development, production, transportation and distribution of energy of all types. Global private equity firms can be divided into two categories. The first is a buyout where managers generally invest in going-concerns via straightforward acquisitions, leveraged buyouts, management buyouts, reorganizations, restructurings and spin-offs. The second is venture capital managers who invest in start-up, early stage and very high-growth companies. Real estate invests in commercial real estate equity or debt, held as individual assets or in commingled vehicles. Holdings generally are significant ownership of commercial buildings such as office, warehouse, retail shopping and apartments with the intent to earn both a high-current income and longer-term capital appreciation.

The School received cash distributions of $22,418,195 and $24,087,022 for the years ended June 30, 2017 and 2016, respectively, from these managers.

The table below sets forth a summary of changes in the fair value of the School's Level 3 pledges receivable for the years ended June 30, 2017 and 2016:

	Pledges Receivable, Net	
	2017	2016
Balance - beginning of year	$ 26,601,886	$ 19,695,324
New pledges receivable	24,544,500	24,459,840
Collections on pledges receivable	(15,015,621)	(12,378,432)
Write-offs and adjustments	(216,216)	(4,267,929)
Change in allowance for uncollectible accounts	1,188,326	(407,411)
Change in discount on pledges receivable	(87,446)	(499,506)
Balance - End of Year	$ 37,015,429	$ 26,601,886

The table below sets forth a summary of changes in the fair value of the School's Level 3 assets held under split-interest agreements for the years ended June 30, 2017 and 2016:

	Assets Held Under Split-Interest Agreements, Net	
	2017	2016
Balance - beginning of year	$ 1,590,194	$ 1,879,466
Change in value of trust assets	32,928	(318,283)
Change in discount used for present valuation	4,218	29,011
Balance - End of Year	$ 1,627,340	$ 1,590,194

The following tables set forth by level, within the fair value hierarchy, the School's liabilities at fair value as of June 30, 2017 and 2016:

	2017			
	Level 1	**Level 2**	**Level 3**	**Total**
Interest rate swap agreements	$ -	$ -	$ 6,992,758	$ 6,992,758
Liability under split-interest agreements	-	-	3,574,191	3,574,191
Total Liabilities at Fair Value	$ -	$ -	$ 10,566,949	$ 10,566,949

	2016			
	Level 1	**Level 2**	**Level 3**	**Total**
Interest rate swap agreements	$ -	$ -	$ 10,015,410	$ 10,015,410
Liability under split-interest agreements	-	-	3,797,210	3,797,210
Total Liabilities at Fair Value	$ -	$ -	$ 13,812,620	$ 13,812,620

The table below sets forth a summary of changes in the fair value of the School's Level 3 liabilities under split-interest agreements for the years ended June 30, 2017 and 2016:

	Liability Under Split-Interest Agreements	
	2017	**2016**
Balance - beginning of year	$ 3,797,210	$ 3,847,869
Valuation of new agreements	-	107,475
Payments to beneficiaries	(513,177)	(514,134)
Change in value of liability	290,158	356,000
Balance - End of Year	$ 3,574,191	$ 3,797,210

The table below sets forth a summary of changes in the fair value of the School's Level 3 hedging instruments for the years ended June 30, 2017 and 2016:

	Interest Rate Swap Agreements	
	2017	**2016**
Balance - beginning of year	$ 10,015,410	$ 7,305,314
Total unrealized (gains) losses included in change in net assets	(3,022,652)	2,710,096
Balance - End of Year	$ 6,992,758	$ 10,015,410
The Amount of Total (Gains) Losses for the Period Included in Changes in Net Assets Attributable to the Change in Unrealized Losses Relating to Liabilities Still Held at Year End	$ (3,022,652)	$ 2,710,096

Financial Instruments Not Measured at Fair Value

The carrying amounts of cash, accounts receivable, prepaid expenses and other assets, accounts payable and accrued expenses, deferred revenue and deposits, and agency funds approximate their fair value because of the short-term nature of these instruments.

The fair value of student loans receivable is not provided because it is not practicable to determine since no markets exist for this item.

The fair value of bonds payable as of June 30, 2017 and 2016, approximates the total outstanding principal balance. The method used to determine the fair value of bonds payable is quoted prices for similar debt instruments.

There have been no changes in the methodologies used at June 30, 2017 and 2016.

NOTE 11 - ENDOWMENT

The School's endowment consists of approximately 580 funds established for a variety of purposes, mainly designated by donor restrictions. As required by GAAP, net assets associated with endowment funds are classified and reported as permanently restricted net assets, temporarily restricted net assets or unrestricted net assets based on the existence or absence of donor-imposed restrictions.

The Board of Trustees of the School has interpreted the Connecticut Prudent Management of Institutional Funds Act (CTPMIFA) as requiring preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the School classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment as of the actual date on which the gift is received by the School, (b) the original value of subsequent gifts donated to the permanent endowment as of the actual date on which the gift is received by the School, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor instrument at the time the accumulation is added to that fund. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the School in a manner consistent with the standard of prudence prescribed by CTPMIFA. In accordance with CTPMIFA, the School considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds: (i) the duration and preservation of the fund, (ii) the purposes of the School and the donor-restricted endowment fund, (iii) general economic conditions, (iv) the possible effect of inflation or deflation, (v) the expected total return from income and the appreciation of investments, (vi) other resources of the School, and (vii) the School's investment policies.

Endowment net asset composition by type of fund as of June 30, 2017 is as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds	$ -	$ 126,320,441	$ 132,860,063	$ 259,180,504
Board-designated endowment funds	112,090,614	-	-	112,090,614
Total	$ 112,090,614	$ 126,320,441	$ 132,860,063	$ 371,271,118

Changes in endowment net assets for the year ended June 30, 2017 are as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets - beginning of year	$ 115,854,814	$ 97,695,250	$ 129,551,354	$ 343,101,418
Investment return:				
Investment income	894,813	1,941,206	-	2,836,098
Realized/unrealized investment gains	15,273,862	33,250,635	-	48,524,497
Investment fees	(1,351,882)	(2,988,419)	-	(4,340,301)
Total investment return	14,816,793	32,203,422	-	47,020,215
Contributions	401,719	-	2,522,035	2,923,754
Restricted endowment funds deficiency reclassification	189,019	(189,019)	-	-
Reclassifications	(8,278,022)	7,491,348	786,674	-
Appropriation of endowment assets for expenditure	(10,893,709)	(10,880,560)	-	(21,774,269)
Endowment Net Assets - End of Year	$ 112,090,614	$ 126,320,441	$ 132,860,063	$ 371,271,118

NOTES TO THE FINANCIAL STATEMENTS

During the year ended June 30, 2017, the School identified that reclassifications were required to be made to certain endowment net assets based upon donor intent. As a result and as noted in the changes in endowment net assets on page 23, the School reclassified certain net assets between unrestricted, temporarily restricted and permanent restricted net assets.

Endowment net asset composition by type of fund as of June 30, 2016 is as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds	$ -	$ 97,695,250	$ 129,551,354	$ 227,246,604
Board-designated endowment funds	115,854,814	-	-	115,854,814
Total	$ 115,854,814	$ 97,695,250	$ 129,551,354	$ 343,101,418

Changes in endowment net assets for the year ended June 30, 2016 are as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets - beginning of year	$ 123,193,138	$ 107,873,719	$ 122,541,303	$ 353,608,160
Investment return:				
Investment income	491,411	822,448	-	1,313,859
Realized/unrealized investment losses	(612,157)	(822,550)	-	(1,434,707)
Investment fees	(948,635)	(1,585,312)	-	(2,533,947)
Total investment return	(1,069,381)	(1,585,414)	-	(2,654,795)
Contributions	510,947	-	7,010,051	7,520,998
Restricted endowment funds deficiency reclassification	(185,216)	185,216	-	-
Change in restriction	(316,330)	316,330	-	-
Appropriation of endowment assets for expenditure	(6,278,344)	(9,094,601)	-	(15,372,945)
Endowment Net Assets - End of Year	$ 115,854,814	$ 97,695,250	$ 129,551,354	$ 343,101,418

Funds with Deficiencies

From time to time, the fair value of assets associated with donor-restricted endowment funds may fall below the level that the donor or CTPMIFA requires the School to retain as a fund of perpetual duration. In accordance with GAAP, deficiencies of this nature are reported in unrestricted net assets. As of June 30, 2017 and 2016, these deficiencies totaled $-0- and $189,019, respectively. These deficiencies resulted from the unfavorable market fluctuations that occurred shortly after the investment of new permanently restricted contributions and continued appropriation for certain programs that was deemed prudent by the Board of Trustees.

Return Objectives and Risk Parameters

The School has adopted investment and spending policies for endowment assets that attempt to provide a low volatility stream of funding supported by its endowment while maintaining the purchasing power of the endowment assets. Endowment assets include donor-restricted funds that the organization must hold in perpetuity or for a donor-specified period(s) as well as board-designated funds. The School expects its endowment funds, over time, to provide an average annual rate of return of approximately 6%. Actual returns in any given year will vary from this amount.

Strategies Employed for Achieving Objectives

The School relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and cash yield (interest and dividends). The endowment assets are diversified among several asset classes and, within each asset class, among multiple investment managers. Targets for each asset class are reviewed and, if appropriate, reset annually. As necessary during the year, actual allocations are rebalanced back to these targets. In order to achieve a 6% return, the fund has a strong bias towards securities representing an ownership interest in the relative enterprise. The inherent price volatility of ownership interests is partially mitigated at the portfolio level by diversification among asset classes and strategies, as well as the employment of some fixed income investments.

Spending Policy and How the Investment Objectives Relate to Spending Policy

The School has a policy of appropriating for distribution each year an amount resulting from the following formula: 50% of last year's endowment spending inflated for HEPI (Higher Education Price Index) plus 50% of 5% of the 12-quarter moving market average for the most recent calendar year end. In establishing this policy, the School considered the long-term expected return on its endowment. Accordingly, over the long term, the School expects the current spending policy to allow its endowment to grow. This is consistent with the School's objective to maintain the purchasing power of the endowment assets held in perpetuity or for a specified term as well as to provide additional real growth through new gifts. The Board of Trustees authorized an additional appropriation of $5,426,939 during the year ended June 30, 2017.

NOTE 12 - CONTINGENCIES

The School continues to investigate potential past transgressions involving students, faculty and staff. As of June 30, 2017, the School has recognized costs relating to the investigation, legal defense and settlement of these issues. There remains other known potential claims against the School, but at this time there is no realistic method available to measure a potential liability, if any exists. Accordingly, the School has made no accrual of additional liabilities relating to any unknown costs.

The School has submitted claims to insurance carriers as of June 30, 2017 related to the claims and legal costs incurred to date. Amounts of future insurance recoveries are uncertain at this time and, accordingly, have not been recorded in the June 30, 2017 financial statements.