

THE COLORADO COLLEGE AND SUBSIDIARIES  
Colorado Springs, Colorado

FINANCIAL STATEMENTS  
June 30, 2016 and 2015

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## Independent Auditors' Report

Board of Trustees  
The Colorado College and Subsidiaries  
Colorado Springs, Colorado

### Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of The Colorado College and Subsidiaries (the College), which comprise the consolidated statements of financial position as of June 30, 2016 and 2015, and the related consolidated statements of activities and cash flows for the years then ended, and the related notes to the consolidated financial statements.

### Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated 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 consolidated 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 consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated 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 consolidated 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 consolidated 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 consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of the College as of June 30, 2016 and 2015, 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.

### **Other Reporting Required by Government Auditing Standards**

In accordance with *Government Auditing Standards*, we have also issued our report dated October 19, 2016, on our consideration of the College's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the result of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the College's internal control over financial reporting and compliance.

A handwritten signature in black ink that reads "CliftonLarsonAllen LLP". The signature is written in a cursive, flowing style.

**CliftonLarsonAllen LLP**

Greenwood Village, Colorado  
October 19, 2016

**THE COLORADO COLLEGE AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF FINANCIAL POSITION**  
**June 30, 2016 and 2015**

|   | <b>2016</b>      | <b>2015</b>      |
|---|------------------|------------------|
| <b>ASSETS</b>   |                  |                  |
| Cash and cash equivalents   | \$ 18,582,305    | \$ 19,974,380    |
| Investments   | 87,237,208       | 104,493,442      |
| General accounts receivable (net of allowance for doubtful accounts of \$8,674 and \$4,941 at June 30, 2016 and 2015, respectively)   | 1,230,606        | 1,324,680        |
| Students accounts receivable (net of allowance for doubtful accounts of \$144,122 and \$133,285 at June 30, 2016 and 2015, respectively)  | 3,455,837        | 3,346,949        |
| Grants receivable   | 484,493          | 357,618          |
| Interest and other receivables  | 6,532,350        | 422,781          |
| Contributions receivable (net of allowance for doubtful pledges and unamortized discounts of \$550,260 and \$347,605 at June 30, 2016 and 2015, respectively)   | 24,585,239       | 18,393,155       |
| Loans to students (net of allowance for doubtful loans of \$219,501 and \$227,429 at June 30, 2016 and 2015, respectively)  | 4,931,294        | 5,101,713        |
| Other assets  | 3,159,152        | 5,757,299        |
| Long-term investments   | 656,427,730      | 687,387,738      |
| Land, buildings and equipment (net of accumulated depreciation of \$112,695,398 and \$105,144,538 at June 30, 2016 and 2015, respectively)  | 223,795,801      | 214,819,212      |
| Beneficial interest in perpetual trusts   | 32,177,206       | 35,903,766       |
| Total assets  | \$ 1,062,599,221 | \$ 1,097,282,733 |
| <b>LIABILITIES AND NET ASSETS</b>   |                  |                  |
| Accounts payable  | \$ 9,740,466     | \$ 4,687,056     |
| Student accounts payable  | 592,008          | 590,373          |
| Salaries and benefits payable   | 7,054,119        | 7,025,283        |
| Deferred revenue  | 3,797,742        | 3,748,471        |
| Deposits  | 137,666          | 217,982          |
| Grants refundable   | 4,671,471        | 4,671,471        |
| Assets held for others  | 4,238,835        | 4,398,908        |
| Early retirement accrual  | 687,690          | 849,453          |
| Capital lease obligations   | 52,043           | -                |
| Other postretirement benefit plan payable   | 816,682          | 798,898          |
| Bonds payable (net of unamortized bond discount of \$407,580 and \$479,054 at June 30, 2016 and 2015, respectively, and unaccreted bond premium of \$4,915,756 and \$6,926,292 at June 30, 2016 and 2015, respectively) | 192,328,176      | 201,337,238      |
| Asset retirement obligation   | 2,280,404        | 3,933,519        |
| Annuities payable   | 1,298,400        | 1,203,478        |
| Other life income funds payable   | 2,057,054        | 2,183,893        |
| Total liabilities   | 229,752,756      | 235,646,023      |
| Net assets  |                  |                  |
| Unrestricted  | 280,674,032      | 289,642,268      |
| Temporarily restricted  | 370,566,144      | 399,158,209      |
| Permanently restricted  | 181,606,289      | 172,836,233      |
| Total net assets  | 832,846,465      | 861,636,710      |
| Total liabilities and net assets  | \$ 1,062,599,221 | \$ 1,097,282,733 |

The accompanying notes are an integral part of these consolidated financial statements.

**THE COLORADO COLLEGE AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF ACTIVITIES**  
Year Ended June 30, 2016 (with Comparative Totals for the Year Ended June 30, 2015)

|  | <u>Unrestricted</u>   | <u>Temporarily<br/>Restricted</u> | <u>Permanently<br/>Restricted</u> | <u>2016<br/>Total</u> | <u>2015<br/>Total</u> |
|--|-----------------------|-----------------------------------|-----------------------------------|-----------------------|-----------------------|
| <b>Operating activity</b>  |                       |                                   |                                   |                       |                       |
| <b>Revenues, gains and other support:</b>                                  |                       |                                   |                                   |                       |                       |
| Tuition and fees   | \$ 109,116,796        | \$ -                              | \$ -                              | \$ 109,116,796        | \$ 100,500,709        |
| Less scholarship allowances  | <u>(35,632,142)</u>   | <u>-</u>                          | <u>-</u>                          | <u>(35,632,142)</u>   | <u>(32,962,709)</u>   |
| Net tuition and fees   | 73,484,654            | -                                 | -                                 | 73,484,654            | 67,538,000            |
| Contributions  | 7,089,719             | 6,076,412                         | -                                 | 13,166,131            | 22,169,551            |
| Government grants and contracts  | 1,138,965             | -                                 | -                                 | 1,138,965             | 1,359,913             |
| Endowment distribution   | 8,909,026             | 19,025,295                        | -                                 | 27,934,321            | 26,171,294            |
| Other investment income  | 363,890               | 1,471,296                         | -                                 | 1,835,186             | 1,549,251             |
| Auxiliary enterprises  | 18,850,512            | -                                 | -                                 | 18,850,512            | 18,341,575            |
| Other revenue  | 6,457,751             | 35,057                            | -                                 | 6,492,808             | 6,268,949             |
| Net assets released from restrictions                                      | <u>22,580,564</u>     | <u>(22,580,564)</u>               | <u>-</u>                          | <u>-</u>              | <u>-</u>              |
| Total operating revenue  | <u>138,875,081</u>    | <u>4,027,496</u>                  | <u>-</u>                          | <u>142,902,577</u>    | <u>143,398,533</u>    |
| <b>Expenses:</b>   |                       |                                   |                                   |                       |                       |
| Educational and general expenses   |                       |                                   |                                   |                       |                       |
| Instruction  | 52,593,104            | -                                 | -                                 | 52,593,104            | 48,638,534            |
| Research   | 1,560,766             | -                                 | -                                 | 1,560,766             | 1,923,212             |
| Public service   | 2,381,233             | -                                 | -                                 | 2,381,233             | 2,421,315             |
| Academic support   | 11,686,575            | -                                 | -                                 | 11,686,575            | 10,485,921            |
| Student services   | 26,990,610            | -                                 | -                                 | 26,990,610            | 24,726,251            |
| Institutional support  | <u>28,917,282</u>     | <u>-</u>                          | <u>-</u>                          | <u>28,917,282</u>     | <u>28,251,493</u>     |
| Total educational and general expenses                                     | 124,129,570           | -                                 | -                                 | 124,129,570           | 116,446,726           |
| Auxiliary enterprises  | <u>13,632,368</u>     | <u>-</u>                          | <u>-</u>                          | <u>13,632,368</u>     | <u>13,126,736</u>     |
| Total operating expenses   | <u>137,761,938</u>    | <u>-</u>                          | <u>-</u>                          | <u>137,761,938</u>    | <u>129,573,462</u>    |
| <b>Increase (decrease) in net assets<br/>from operating activities</b>     | <u>1,113,143</u>      | <u>4,027,496</u>                  | <u>-</u>                          | <u>5,140,639</u>      | <u>13,825,071</u>     |
| <b>Non-operating activity</b>  |                       |                                   |                                   |                       |                       |
| Contributions  | 418,700               | -                                 | 11,144,680                        | 11,563,380            | 6,485,366             |
| Investment return on endowment   | (10,496,393)          | (31,120,039)                      | -                                 | (41,616,432)          | (3,058,564)           |
| Change in value of split interest agreements                               | (3,686)               | (52,426)                          | (3,821,720)                       | (3,877,832)           | (1,381,237)           |
| Insurance proceeds   | -                     | -                                 | -                                 | -                     | 2,396,536             |
| Transfer of restrictions   | <u>-</u>              | <u>(1,447,096)</u>                | <u>1,447,096</u>                  | <u>-</u>              | <u>-</u>              |
| <b>Increase (decrease) in net assets<br/>from non-operating activities</b> | <u>(10,081,379)</u>   | <u>(32,619,561)</u>               | <u>8,770,056</u>                  | <u>(33,930,884)</u>   | <u>4,442,101</u>      |
| <b>Total change in net assets</b>  | <u>(8,968,236)</u>    | <u>(28,592,065)</u>               | <u>8,770,056</u>                  | <u>(28,790,245)</u>   | <u>18,267,172</u>     |
| <b>Net assets, beginning of year</b>                                       | <u>289,642,268</u>    | <u>399,158,209</u>                | <u>172,836,233</u>                | <u>861,636,710</u>    | <u>843,369,538</u>    |
| <b>Net assets, end of year</b>   | <u>\$ 280,674,032</u> | <u>\$ 370,566,144</u>             | <u>\$ 181,606,289</u>             | <u>\$ 832,846,465</u> | <u>\$ 861,636,710</u> |

The accompanying notes are an integral part of these consolidated financial statements.

**THE COLORADO COLLEGE AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENT OF ACTIVITIES**  
Year Ended June 30, 2015

|  | <u>Unrestricted</u>   | <u>Temporarily<br/>Restricted</u> | <u>Permanently<br/>Restricted</u> | <u>Total</u>          |
|--|-----------------------|-----------------------------------|-----------------------------------|-----------------------|
| <b>Operating activity</b>  |                       |                                   |                                   |                       |
| <b>Revenues, gains and other support:</b>                                  |                       |                                   |                                   |                       |
| Tuition and fees   | \$ 100,500,709        | \$ -                              | \$ -                              | \$ 100,500,709        |
| Less scholarship allowances  | <u>(32,962,709)</u>   | <u>-</u>                          | <u>-</u>                          | <u>(32,962,709)</u>   |
| Net tuition and fees   | 67,538,000            | -                                 | -                                 | 67,538,000            |
| Contributions  | 6,663,454             | 15,506,097                        | -                                 | 22,169,551            |
| Government grants and contracts  | 1,359,913             | -                                 | -                                 | 1,359,913             |
| Endowment distribution   | 8,263,287             | 17,908,007                        | -                                 | 26,171,294            |
| Other investment income  | 320,133               | 1,229,118                         | -                                 | 1,549,251             |
| Auxiliary enterprises  | 18,341,575            | -                                 | -                                 | 18,341,575            |
| Other revenue  | 6,170,259             | 98,690                            | -                                 | 6,268,949             |
| Net assets released from restrictions                                      | <u>22,037,567</u>     | <u>(22,037,567)</u>               | <u>-</u>                          | <u>-</u>              |
| Total operating revenue  | <u>130,694,188</u>    | <u>12,704,345</u>                 | <u>-</u>                          | <u>143,398,533</u>    |
| <b>Expenses:</b>   |                       |                                   |                                   |                       |
| Educational and general expenses   |                       |                                   |                                   |                       |
| Instruction  | 48,638,534            | -                                 | -                                 | 48,638,534            |
| Research   | 1,923,212             | -                                 | -                                 | 1,923,212             |
| Public service   | 2,421,315             | -                                 | -                                 | 2,421,315             |
| Academic support   | 10,485,921            | -                                 | -                                 | 10,485,921            |
| Student services   | 24,726,251            | -                                 | -                                 | 24,726,251            |
| Institutional support  | <u>28,251,493</u>     | <u>-</u>                          | <u>-</u>                          | <u>28,251,493</u>     |
| Total educational and general expenses                                     | 116,446,726           | -                                 | -                                 | 116,446,726           |
| Auxiliary enterprises  | <u>13,126,736</u>     | <u>-</u>                          | <u>-</u>                          | <u>13,126,736</u>     |
| Total operating expenses   | <u>129,573,462</u>    | <u>-</u>                          | <u>-</u>                          | <u>129,573,462</u>    |
| <b>Increase (decrease) in net assets<br/>from operating activities</b>     | <u>1,120,726</u>      | <u>12,704,345</u>                 | <u>-</u>                          | <u>13,825,071</u>     |
| <b>Non-operating activity</b>  |                       |                                   |                                   |                       |
| Contributions  | 634,015               | -                                 | 5,851,351                         | 6,485,366             |
| Investment return on endowment   | (511,051)             | (2,547,513)                       | -                                 | (3,058,564)           |
| Change in value of split interest agreements                               | 195,913               | (349,661)                         | (1,227,489)                       | (1,381,237)           |
| Insurance proceeds   | 2,396,536             | -                                 | -                                 | 2,396,536             |
| Transfer of restrictions   | <u>-</u>              | <u>(891,282)</u>                  | <u>891,282</u>                    | <u>-</u>              |
| <b>Increase (decrease) in net assets<br/>from non-operating activities</b> | <u>2,715,413</u>      | <u>(3,788,456)</u>                | <u>5,515,144</u>                  | <u>4,442,101</u>      |
| <b>Total change in net assets</b>  | <u>3,836,139</u>      | <u>8,915,889</u>                  | <u>5,515,144</u>                  | <u>18,267,172</u>     |
| <b>Net assets, beginning of year</b>                                       | <u>285,806,129</u>    | <u>390,242,320</u>                | <u>167,321,089</u>                | <u>843,369,538</u>    |
| <b>Net assets, end of year</b>   | <u>\$ 289,642,268</u> | <u>\$ 399,158,209</u>             | <u>\$ 172,836,233</u>             | <u>\$ 861,636,710</u> |

The accompanying notes are an integral part of these consolidated financial statements.

**THE COLORADO COLLEGE AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
**June 30, 2016 and 2015**

|  | <b>2016</b>          | <b>2015</b>          |
|--|----------------------|----------------------|
| <b>OPERATING ACTIVITIES</b>  |                      |                      |
| Change in net assets   | \$ (28,790,245)      | \$ 18,267,172        |
| Items not requiring (providing) operating activities cash flows:           |                      |                      |
| Realized and unrealized (gains) losses on investments                      | 42,937,338           | 11,032,233           |
| Depreciation, amortization and accretion                                   | 6,439,109            | 8,134,233            |
| Revisions to asset retirement obligation                                   | (1,822,336)          | -                    |
| (Gain) loss on disposal of capital equipment and property                  | 1,024,516            | 261,785              |
| Change in value of split-interest agreements                               | 4,049,011            | 794,348              |
| Contributions and investment income restricted for long-term investment    | (14,249,810)         | (8,118,934)          |
| Change in allowance for doubtful loans to students                         | (7,928)              | (6,500)              |
| Changes in:  |                      |                      |
| Accounts, grants, interest and other receivables                           | (6,251,257)          | 1,249,154            |
| Contributions receivable   | (6,192,083)          | (8,192,442)          |
| Other assets   | 2,598,147            | (2,352,579)          |
| Accounts payable   | 549,005              | 692,378              |
| Student accounts payable   | 1,636                | (237,466)            |
| Salaries and benefits payable  | 28,836               | 986,868              |
| Deferred revenue   | 49,272               | (561,626)            |
| Deposits   | (80,316)             | (85,611)             |
| Assets held for others   | (160,074)            | 22,222               |
| Early retirement accrual   | (161,763)            | 346,586              |
| Other postretirement benefit plan payable                                  | 17,784               | (285,968)            |
| Net cash provided (used) by operating activities                           | (21,158)             | 21,945,853           |
| <b>INVESTING ACTIVITIES</b>  |                      |                      |
| Purchase of land, buildings and equipment                                  | (13,663,092)         | (9,825,893)          |
| Proceeds on sales of land, buildings and equipment                         | 13,200               | -                    |
| Loan advances to students  | (706,128)            | (967,468)            |
| Payments received on loans to students                                     | 884,474              | 957,681              |
| Proceeds from sales or maturities of investments                           | 100,964,816          | 129,156,673          |
| Purchase of investments  | (96,040,280)         | (255,740,030)        |
| Net cash used in investing activities                                      | (8,547,010)          | (136,419,037)        |
| <b>FINANCING ACTIVITIES</b>  |                      |                      |
| Contributions and investment income restricted for investment in endowment | 14,249,810           | 8,118,934            |
| Payments on capital leases   | (3,717)              | (85,808)             |
| Issuance of new debt   | -                    | 143,055,000          |
| Payments on bonds payable  | (7,070,000)          | (36,195,000)         |
| Net cash provided by financing activities                                  | 7,176,093            | 114,893,126          |
| <b>INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>                    | <b>(1,392,075)</b>   | <b>419,942</b>       |
| <b>CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR</b>                        | <b>19,974,380</b>    | <b>19,554,438</b>    |
| <b>CASH AND CASH EQUIVALENTS, END OF YEAR</b>                              | <b>\$ 18,582,305</b> | <b>\$ 19,974,380</b> |

The accompanying notes are an integral part of these consolidated financial statements.

**THE COLORADO COLLEGE AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**June 30, 2016 and 2015**

**NOTE 1 – NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**Nature of Operations**

The Colorado College (the College) is an independent college of liberal arts and sciences. The College was established as a coeducational, residential institution in 1874. The College provides undergraduate and master-of-arts in teaching degree programs to approximately 2,000 students each year. The College's distinctive class calendar divides the year into segments called blocks. Under this system, students take, and faculty teach, only one course at a time. The student-teacher ratio is 11 to 1, typically with no more than 25 students per class. The College's revenues are predominately earned from tuition and fees, contributions, auxiliary enterprises, and investments.

A summary of the significant accounting policies consistently applied in the preparation of the accompanying consolidated financial statements follows.

**Principles of Consolidation**

The accompanying consolidated financial statements include the assets, liabilities, net assets, and financial activities of the College and two wholly owned for-profit subsidiaries of the College, Dale Street Properties, LLC, and Cascade Avenue Medical Building, Inc. All significant intercompany balances and transactions have been eliminated. Dale Street Properties, LLC was formed on November 1, 2004, to hold certain rental properties, and the College is the sole member of the LLC. As of June 30, 2006, all assets and liabilities for Cascade Avenue Medical Building, Inc. have been distributed to the College. The College maintains this corporation as an inactive entity.

**Basis of Presentation**

Net assets and revenues, gains, and losses are classified based on the existence or absence of externally imposed restrictions. Accordingly, net assets of the College are classified and reported as follows:

*Permanently restricted* – Net assets subject to externally imposed restrictions that require they be maintained permanently by the College. Generally, the donors of these assets permit the College to use all or part of the income earned on related investments for general or specific purposes. Donor-restricted endowments include endowments for instruction, research, student aid, and other purposes.

*Temporarily restricted* – Net assets subject to externally imposed restrictions that will be met either by actions of the College and/or the passage of time.

*Unrestricted* – Net assets not subject to externally imposed restrictions. Certain net assets classified as unrestricted are designated for specific purposes or uses under various internal operating and administrative arrangements of the College.

**THE COLORADO COLLEGE AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**June 30, 2016 and 2015**

**NOTE 1 – NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Cash and Cash Equivalents**

The College considers cash and all highly liquid temporary investments, with an original maturity of three months or less, to be cash equivalents. At June 30, 2016 and 2015, cash equivalents consisted primarily of money market accounts with brokers and certificates of deposit.

At June 30, 2016 and 2015, FDIC insurance limits for interest-bearing and noninterest-bearing cash accounts was \$250,000. At June 30, 2016 and 2015, the College's cash accounts exceed federally insured limits by approximately \$20,300,000 and \$21,600,000, respectively. The College has not experienced any losses in such accounts and believes it is not exposed to any significant credit risk on cash and cash equivalents held at these banks.

Cash equivalents held in investment funds are reported as investments on the statement of financial position.

**Investments**

Investments in equity securities having a readily determinable fair value and all debt securities are stated at fair value determined by quoted market prices. Other investments, for which no such quoted market values or valuations are readily available, are carried at fair value as estimated by management using values provided by external investment managers. Investment income and realized and unrealized gains and losses are reflected in the consolidated statements of activities as unrestricted, temporarily restricted or permanently restricted based upon the existence and nature of any donor or legally imposed restrictions. Investment return that is initially restricted by donor stipulation and for which the restriction will be satisfied in the same year is included in temporarily restricted revenue and net assets released from restrictions.

**Fair Value Measurements**

The College follows the *Fair Value Measurements* standard as established by the Financial Accounting Standards Board. The standard defines fair value, establishes a framework for measuring fair value under U.S. GAAP and enhances disclosures about fair value measurements. Under the standard, fair value is defined as the amount that would be received for an asset or paid to transfer a liability (an exit price) in an orderly transaction between market participants on the valuation date.

The standard also establishes a fair value hierarchy which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The standard describes three levels of inputs that may be used to measure fair value:

**THE COLORADO COLLEGE AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**June 30, 2016 and 2015**

**NOTE 1 – NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Level 1** Unadjusted quoted prices in active markets for identical assets or liabilities;

**Level 2** Observable inputs other than quoted prices under Level 1 that are observable for the asset or liability, either directly or indirectly; and

**Level 3** Unobservable inputs for the asset or liability used to measure fair value that rely on the reporting entity's own assumptions concerning the assumptions that market participants would use in pricing an asset or liability, including assumptions about risk.

In situations when investments do not have readily determinable fair values (alternative investments), the College will use the Net Asset Value per Share (NAV), or its equivalent, as a practical expedient for fair value.

Following is a description of the inputs and valuation methodologies used for assets and liabilities measured at fair value and recognized in the accompanying statement of financial position.

*Investments*

Where quoted market prices are available in an active market, securities are classified within Level 1 of the valuation hierarchy. If quoted market prices are not available, then fair values are estimated by using pricing models, quoted prices of securities with similar characteristics, or discounted cash flows. In certain cases where Level 1 or Level 2 inputs are not available, securities are classified within Level 3 of the hierarchy. The College generally utilizes the NAV as determined by the asset manager for valuation of these investments. Water Rights and Real Estate fair values are determined at the time conveyed by appraisal, with reappraisals done on a periodic basis.

*Liabilities*

The carrying amount for Funds Held for Others is a reasonable estimate of fair value.

*Cash and Cash Equivalents*

The carrying amount approximates fair value because of the short maturities of the instruments.

*Contributions Receivables*

Contribution receivables carrying value approximates fair values as these instruments are recorded at estimated net present value of future cash flows. See below for further information.

**THE COLORADO COLLEGE AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**June 30, 2016 and 2015**

**NOTE 1 – NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

*Loans to Students*

Management believes that the carrying value of these instruments approximates fair value due to the interest rates on the loans approximating the market rate.

*Bonds Payable*

The fair value of bonds are determined using externally developed models and quoted market prices or estimated based upon borrowing rates currently available to the College for similar terms and maturities of debt and are classified as using Level 2 inputs. The fair value of the Series 2005 bonds is approximately \$5,431,000. The fair value of the Series 2010 bonds is approximately \$18,113,000. The fair value of the Series 2012 bonds is approximately \$27,625,000. The fair value of the Series 2015A bonds is approximately \$16,625,000. The fair value of the Series 2015B bonds is approximately \$15,930,000. The fair value of the Series 2015C bonds is approximately \$123,060,000.

*Annuities Payable and Other Life Income Funds Payable*

These instruments are discounted to their present value which approximates fair value.

*Asset Retirement Obligation*

The carrying amount approximates fair value.

*Financial Instruments*

The carrying amounts and estimated fair values of all other financial instruments are approximately equal due to short maturities of the instruments.

**Accounts and Loans Receivable**

Accounts and loans receivable are stated at the amount billed to customers and students or net amount of outstanding loans from students. The College provides allowances for doubtful accounts and loans, which are based upon a review of outstanding receivables and student loans, historical collection information and existing economic conditions. Accounts receivable are ordinarily due 30 days after the issuance of the invoice. Accounts past due more than 120 days are considered delinquent. Interest is not accrued on unpaid accounts. Delinquent accounts and loans receivable are written off based on individual credit evaluation and specific circumstances of the customer or student.

**Other Assets**

Other assets consist primarily of unamortized bond issuance costs, prepaid expenses and inventories. Unamortized bond issuance costs totaled \$1,060,039 and \$1,385,036 at June 30, 2016 and 2015, respectively. These amounts are amortized over the life of the respective bonds. Inventories consist mainly of fuel, postage, and supplies. Inventories are valued at the lower of cost or market (using the first-in, first-out method).

**THE COLORADO COLLEGE AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**June 30, 2016 and 2015**

**NOTE 1 – NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Property, Plant, and Equipment**

Buildings and equipment are recorded at cost or, if donated, at the estimated fair value at the date of donation. Depreciation of property, plant, and equipment, is calculated on the straight-line method over the estimated useful lives of the assets which range from seven to 20 years for equipment and 40 to 70 years for building and improvements.

Construction in progress is recorded for renovation and new construction projects that are in process at year-end. Upon project completion, the asset is transferred to the applicable asset category.

To qualify as capital expenses, costs must (1) be significant in amount and (2) provide benefit to the College over more than one accounting period. For improvement or restoration costs, the costs must increase the productive capacity or useful life of the asset. Costs that meet all these criteria are added to the value of the affected asset and depreciated over the remaining useful life of that asset to be capitalized. Costs that do not meet all these criteria will be expensed in the operating period in which they occur. To be considered significant in amount, an improvement, renovation, or restoration project must have total costs greater than or equal to \$25,000. Purchased and donated furniture and equipment items must have a value of \$5,000 or more at the date of acquisition or donation to be considered for capitalization.

**Vacation Accrual**

It is the College's policy to permit employees to accumulate earned but unused vacation benefits that would be paid to employees upon separation from College services. The accrual of vacation hours is limited to 352 hours for exempt and non-exempt employees. The vacation accrual is included in salaries and benefits payable in the consolidated statements of financial position.

**Deferred Revenue**

Deferred revenue represent monies received for summer programs and will be recorded in revenue in the following fiscal year when the programs are completed.

**Assets Held for Others**

The College holds various funds in a fiduciary capacity for organizations of the College, such as classes and clubs. These organizations raise funds in their own capacities and expend the funds on their organization's behalf. The revenues and expenses of these organizations are not included in the accompanying financial statements.

**THE COLORADO COLLEGE AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**June 30, 2016 and 2015**

**NOTE 1 – NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Operating Activities**

Revenues received and expenses incurred in conducting the programs and services of the College are presented in the financial statements as operating activities. Revenues and other support from operating activities that are not restricted by donors or other external sources are classified as unrestricted. Other revenues and support from operating activities that are restricted for a specific purpose by the donor are classified as temporarily restricted. Operating activities also include investment earnings from the College's working capital funds. Net assets released from restriction included in operating activities represent certain gifts and income used for operating expenses where the donor restriction was satisfied in the current year.

The College has defined non-operating activities to include contributions added to endowment, contributions supporting major capital purchases, contributions and other activity related to split-interest agreements, retirement plan actuarial adjustments, changes in fair value, and endowment income and gains or losses, net of amounts distributed to support operations in accordance with the spending policy. Certain other gains and losses that do not occur in the normal course of operations are also included in non-operating activity.

**Early Retirement Accrual**

The College provides either a full or phased early retirement program for tenure-track and adjunct faculty. Benefit periods are three years for the retiree between the ages of 59.5 and 67, two years at the age of 68 and one year at age 69. Retirement for tenure-track faculty is equal to 50% of salary with adjustments for inflation. Adjunct faculty retirement equates to an average number of courses taught during the prior five years. Phased retirement for tenure-track and adjunct faculty is equal to 70% of inflated salary and are required to teach half time or three blocks per academic year. Additions to the accrual are based upon the terms of the specific early retirement agreements issued.

**Annuities Payable**

Annuities payable represents the present value of the remaining payments due to annuitants under annuity contracts, based upon the remaining life expectancies of the respective annuitants.

**Other Life Income Funds Payable**

Under irrevocable trust agreements, the College receives contributed investments and agrees to maintain the principal of the investment during the life of the donor(s) and make annual payments to the donor(s) for life. The annual payments are based on a fixed rate of return or on related investment income, as stipulated in the trust agreement. Amounts received under irrevocable trust agreements, net of the present value of future payments to beneficiaries, are recorded as temporarily restricted revenue upon receipt. A liability for trust obligations is recorded for the estimated present value of future payments to beneficiaries. Upon the death of the beneficiaries, the assets are transferred from temporarily restricted net assets as designated by the Board or trust agreement.

**THE COLORADO COLLEGE AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**June 30, 2016 and 2015**

**NOTE 1 – NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Contributions**

Gifts of cash and other assets received without donor stipulations are reported as unrestricted revenue and net assets. Gifts received with a donor stipulation that limits their use are reported as temporarily or permanently restricted revenue and net assets. When a donor stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions. Gifts that are originally restricted by the donor and for which the restriction is met in the same time period are recorded as temporarily restricted and then released from restriction.

The College reports gifts of land, buildings, and equipment as unrestricted support unless explicit donor stipulations specify how the donated assets must be used. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire long-lived assets are reported as restricted support. Absent explicit donor stipulations about how long those long-lived assets must be maintained, the College reports expirations of donor restrictions when the donated or acquired long-lived assets are placed in service.

Contributions receivable include pledges that are recorded at their present value using discount rates ranging from approximately 0.045% to 5.125% depending on the year of inception. An allowance is made for potentially uncollectible contributions based upon management's past collection experience and other relevant factors.

From time to time, the College receives contributions from related parties, including employees, Trustees, or other organizations in which Trustees serve on the organization's Board of Directors.

**Income Taxes**

The College qualifies as a tax-exempt nonprofit organization under Section 501(c)(3) of the Internal Revenue Code. The College is subject to federal income tax only on net unrelated business income under the provisions of Section 501(c)(3) of the Internal Revenue Code.

Cascade Avenue Medical Building, Inc. is subject to federal and state income taxes. Profits and losses of Dale Street Properties, LLC pass through directly to the College.

The College has adopted the requirements related to accounting for uncertain tax positions. The College evaluated its tax positions and determined it has no uncertain tax positions as of June 30, 2016 and 2015.

**THE COLORADO COLLEGE AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**June 30, 2016 and 2015**

**NOTE 1 – NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Collections**

Collections of works of art, historical treasures, and similar assets are not capitalized or depreciated because the items are preserved and cared for continuously. Purchases of collection items are reported in the year of acquisition as decreases in unrestricted net assets and as net assets released from restriction if the assets used to purchase the items were restricted to that use by donor stipulation. Contributions of collection items are not reported in the financial statements. Proceeds from disposal of and insurance recoveries related to collection items are reported as increases in the appropriate net asset classes.

**Functional Allocation of Expenses**

The costs of providing the various programs, support services, and other activities have been allocated among the programs and supporting services benefited.

**Use of Estimates**

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America (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 the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

**Reclassifications**

Certain amounts within the June 30, 2015 financial statements have been reclassified to conform to the June 30, 2016 presentation. The reclassifications had no effect on previously reported net assets.

**Prior Year Summarized Financial Information**

The consolidated statement of activities for the year ended June 30, 2016 on page 4 contains prior year summarized comparative information that does not include sufficient detail to constitute a full presentation in conformity with U.S. GAAP. A full presentation of prior year information in conformity with U.S. GAAP is presented on the consolidated statement of activities for the year ended June 30, 2015 on page 5.

**Subsequent Events**

Subsequent events have been evaluated through October 19, 2016, which is the date the financial statements were available to be issued.

**THE COLORADO COLLEGE AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**June 30, 2016 and 2015**

**NOTE 2 – INVESTMENTS AND FINANCIAL INSTRUMENTS MEASURED AT FAIR VALUE**

The following table present investments and financial instruments carried at fair value in accordance with the valuation hierarchy defined in Note 1 as of June 30, 2016:

|                       | <b>June 30, 2016</b>  |
|-----------------------|-----------------------|
| Investments           | \$ 87,237,208         |
| Long-term investments | 656,427,730           |
| <b>Total</b>          | <b>\$ 743,664,938</b> |

Investments measured at fair value on a recurring basis as of June 30, 2016:

| Investments                              | 2016                  |                       |                       |                       |
|--|-----------------------|-----------------------|-----------------------|-----------------------|
|  | Level 1               | Level 2               | Level 3               | Total                 |
| Cash and cash equivalents                | \$ 61,179,277         | \$ -                  | \$ -                  | \$ 61,179,277         |
| Government treasuries and agencies       | 36,988,876            | -                     | -                     | 36,988,876            |
| Asset backed securities                  | -                     | 15,197,066            | -                     | 15,197,066            |
| Corporate bonds                          | 51,177,192            | -                     | -                     | 51,177,192            |
| Mutual funds                             | -                     | 11,000                | -                     | 11,000                |
| Municipal bonds                          | -                     | 25,000                | -                     | 25,000                |
| Preferred stock                          | -                     | 2,368,622             | -                     | 2,368,622             |
| Large cap domestic equity                | 156,082,510           | 264,074               | -                     | 156,346,584           |
| International equity                     | -                     | 92,022,187            | -                     | 92,022,187            |
| Global hedged equity investments         | -                     | -                     | 76,419,517            | 76,419,517            |
| Fixed Income Arbitrage                   | -                     | -                     | 36,142,738            | 36,142,738            |
| Multi-strategy absolute return           | -                     | -                     | 83,492,026            | 83,492,026            |
| Private capital                          | -                     | -                     | 123,763,976           | 123,763,976           |
| Water rights                             | -                     | -                     | 2,168,831             | 2,168,831             |
| Real estate                              | -                     | -                     | 420,000               | 420,000               |
| Planned gift agreements                  | 5,434,256             | -                     | 507,790               | 5,942,046             |
| <b>Total Investments</b>                 | <b>\$ 310,862,111</b> | <b>\$ 109,887,949</b> | <b>\$ 322,914,878</b> | <b>\$ 743,664,938</b> |
| Beneficial Interests in Perpetual Trusts | \$ -                  | \$ 27,154,107         | \$ 5,023,099          | \$ 32,177,206         |

Liabilities measured at fair value on a recurring basis as of June 30, 2016:

|                       | Level 1 | Level 2      | Level 3 | Total        |
|-----------------------|---------|--------------|---------|--------------|
| Funds held for others | \$ -    | \$ 4,238,835 | \$ -    | \$ 4,238,835 |

**THE COLORADO COLLEGE AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**June 30, 2016 and 2015**

**NOTE 2 – INVESTMENTS AND FINANCIAL INSTRUMENTS MEASURED AT FAIR VALUE**  
**(CONTINUED)**

The following table presents investments and financial instruments carried at fair value in accordance with the valuation hierarchy defined in Note 1 as of June 30, 2015.

|                       | <b>June 30, 2015</b>  |
|-----------------------|-----------------------|
| Investments           | \$ 104,493,442        |
| Long-term investments | 687,387,738           |
| <b>Total</b>          | <b>\$ 791,881,180</b> |

Investments measured at fair value on a recurring basis as of June 30, 2015:

| <b>Investments</b>                       | <b>2015</b>           |                       |                       | <b>Total</b>          |
|--|-----------------------|-----------------------|-----------------------|-----------------------|
|  | <b>Level 1</b>        | <b>Level 2</b>        | <b>Level 3</b>        |                       |
| Cash and cash equivalents                | \$ 153,348,893        | \$ -                  | \$ -                  | \$ 153,348,893        |
| Government treasuries and agencies       | 15,452,080            | -                     | -                     | 15,452,080            |
| Asset backed securities                  | -                     | 351,653               | -                     | 351,653               |
| Corporate bonds                          | 13,920,706            | -                     | -                     | 13,920,706            |
| Mutual funds                             | -                     | 11,000                | -                     | 11,000                |
| Municipal bonds                          | 10,588,030            | -                     | -                     | 10,588,030            |
| Preferred stock                          | -                     | 2,561,160             | -                     | 2,561,160             |
| Large cap domestic equity                | 136,846,106           | 224,208               | -                     | 137,070,314           |
| International equity                     | -                     | 100,688,529           | -                     | 100,688,529           |
| Global hedged equity investments         | -                     | -                     | 74,501,079            | 74,501,079            |
| Fixed Income Arbitrage                   | -                     | -                     | 40,506,831            | 40,506,831            |
| Multi-strategy absolute return           | -                     | -                     | 89,596,761            | 89,596,761            |
| Private capital                          | -                     | -                     | 144,593,078           | 144,593,078           |
| Water Rights                             | -                     | -                     | 2,168,831             | 2,168,831             |
| Real estate                              | -                     | -                     | 497,000               | 497,000               |
| Planned gift agreements                  | 5,517,445             | -                     | 507,790               | 6,025,235             |
| <b>Total Investments</b>                 | <b>\$ 335,673,260</b> | <b>\$ 103,836,550</b> | <b>\$ 352,371,370</b> | <b>\$ 791,881,180</b> |
| Beneficial Interests in Perpetual Trusts | \$ -                  | \$ 28,926,229         | \$ 6,977,537          | \$ 35,903,766         |

Liabilities measured at fair value on a recurring basis as of June 30, 2015:

|                       | <b>Level 1</b> | <b>Level 2</b> | <b>Level 3</b> | <b>Total</b> |
|-----------------------|----------------|----------------|----------------|--------------|
| Funds held for others | \$ -           | \$ 4,398,908   | \$ -           | \$ 4,398,908 |

**THE COLORADO COLLEGE AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**June 30, 2016 and 2015**

**NOTE 2 – INVESTMENTS AND FINANCIAL INSTRUMENTS MEASURED AT FAIR VALUE**  
**(CONTINUED)**

For the 2015-16 fiscal year, the College invested in two new alternative investment funds. These funds potentially include, but are not limited to, derivative instruments, including option contracts, forward contracts and swap contracts, inverse floating rate notes, debt securities of financially distressed issuers, government futures, and money market futures.

The following is a reconciliation of the beginning and ending balances of recurring fair value measurements recognized in the accompanying statement of financial position using significant unobservable (Level 3) inputs:

|                                     | Global<br>Hedged<br>Equity | Private<br>Capital<br>Investment | Alternative           | Water Rights        | Real Estate       | Planned<br>Gift<br>Agreements | BPITs               |
|-------------------------------------|----------------------------|----------------------------------|-----------------------|---------------------|-------------------|-------------------------------|---------------------|
| <b>Balance, July 1, 2015</b>        | \$ 74,501,079              | \$ 144,593,078                   | \$ 130,103,592        | \$ 2,168,831        | \$ 497,000        | \$ 507,790                    | \$ 6,977,537        |
| Unrealized gains and (losses)       | 3,383,906                  | (34,150,989)                     | (468,828)             | -                   | (77,000)          | -                             | (1,954,438)         |
| Redemptions                         | (1,465,468)                | -                                | (10,000,000)          | -                   | -                 | -                             | -                   |
| Purchases, issuance and settlements | -                          | 15,821,384                       | -                     | -                   | -                 | -                             | -                   |
| Return of callable capital          | -                          | (2,499,497)                      | -                     | -                   | -                 | -                             | -                   |
| Transfers in and/or out of Level 3  | -                          | -                                | -                     | -                   | -                 | -                             | -                   |
| <b>Balance, June 30, 2016</b>       | <u>\$ 76,419,517</u>       | <u>\$ 123,763,976</u>            | <u>\$ 119,634,764</u> | <u>\$ 2,168,831</u> | <u>\$ 420,000</u> | <u>\$ 507,790</u>             | <u>\$ 5,023,099</u> |
|                                     | Global<br>Hedged<br>Equity | Private<br>Capital<br>Investment | Alternative           | Water Rights        | Real Estate       | Planned<br>Gift<br>Agreements | BPITs               |
| <b>Balance, July 1, 2014</b>        | \$ 71,971,708              | \$ 138,403,944                   | \$ 134,071,886        | \$ -                | \$ 497,000        | \$ 1,068,504                  | \$ 5,080,541        |
| Unrealized gains and (losses)       | 5,127,279                  | (18,740,641)                     | 1,031,706             | -                   | -                 | (560,714)                     | 1,896,996           |
| Redemptions                         | (2,597,908)                | -                                | (5,000,000)           | -                   | -                 | -                             | -                   |
| Purchases, issuance and settlements | -                          | 27,971,355                       | -                     | 2,168,831           | -                 | -                             | -                   |
| Return of callable capital          | -                          | (3,041,580)                      | -                     | -                   | -                 | -                             | -                   |
| Transfers in and/or out of Level 3  | -                          | -                                | -                     | -                   | -                 | -                             | -                   |
| <b>Balance, June 30, 2015</b>       | <u>\$ 74,501,079</u>       | <u>\$ 144,593,078</u>            | <u>\$ 130,103,592</u> | <u>\$ 2,168,831</u> | <u>\$ 497,000</u> | <u>\$ 507,790</u>             | <u>\$ 6,977,537</u> |

Of the total Level 3 unrealized gains and (losses), approximately (\$7,800,000) and (\$3,300,000) were recognized in unrestricted net assets during the year ended June 30, 2016 and 2015, respectively.

**THE COLORADO COLLEGE AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**June 30, 2016 and 2015**

**NOTE 2 – INVESTMENTS AND FINANCIAL INSTRUMENTS MEASURED AT FAIR VALUE**  
**(CONTINUED)**

As of June 30, 2016, the College had 42 investments held with 27 companies that involve capital commitments not reflected in the market valuations shown above. As of June 30, 2016, the College has contributed \$184,058,132 in capital toward total commitments of \$244,806,240 in aggregate, leaving \$60,748,108 in remaining commitments. As of June 30, 2015, the College has contributed \$169,288,938 in capital toward total commitments of \$229,597,539 in aggregate, leaving \$60,308,601 in remaining commitments.

The College reviews the endowment portfolio investment liquidity quarterly. The following table represents the endowment portfolio liquidity, by category, as a percentage of the total endowment portfolio:

|                     | <b>Endowment Portfolio<br/>Liquidity for the Fiscal Year<br/>Ending June 30,</b> |                    |
|---------------------|--|--------------------|
|                     | <b><u>2016</u></b>   | <b><u>2015</u></b> |
| Daily/Weekly        | 37%  | 34%                |
| Monthly             | 14%  | 15%                |
| Quarterly           | 11%  | 11%                |
| Annually            | 5%   | 5%                 |
| Multi-year lock-ups | 13%  | 13%                |
| Illiquid            | 20%  | 22%                |

Redemption requirements range from one day to 120 days as found in the individual investment Offering Memorandum for each investment.

**Investment Return**

Investment return consists of the following for the years ending June 30:

|  | <b><u>2016</u></b>            | <b><u>2015</u></b>          |
|--|-------------------------------|-----------------------------|
| Operating interest and dividend income               | \$ 975,316                    | \$ 284,618                  |
| Perpetual trust distributions                        | 1,659,891                     | 1,320,846                   |
| Operating net realized and unrealized gains (losses) | (800,021)                     | (56,214)                    |
| Endowment distributed income                         | 33,283,426                    | 33,089,933                  |
| Endowment net realized and unrealized gains (losses) | <u>(46,965,537)</u>           | <u>(9,977,202)</u>          |
| <b>Total</b>   | <b><u>\$ (11,846,925)</u></b> | <b><u>\$ 24,661,981</u></b> |

**THE COLORADO COLLEGE AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**June 30, 2016 and 2015**

**NOTE 2 – INVESTMENTS AND FINANCIAL INSTRUMENTS MEASURED AT FAIR VALUE**  
**(CONTINUED)**

Investment revenues are reported net of related investment expenses of \$1,143,112 and \$968,220 for fiscal years 2016 and 2015, respectively, in the statement of activities.

Investment return is presented in the consolidated statement of activities as follows:

|                       | <u>2016</u>            | <u>2015</u>          |
|-----------------------|------------------------|----------------------|
| Operating revenue     | \$ 29,769,507          | \$ 27,720,545        |
| Nonoperating activity | <u>(41,616,432)</u>    | <u>(3,058,564)</u>   |
| <b>Total</b>          | <u>\$ (11,846,925)</u> | <u>\$ 24,661,981</u> |

**NOTE 3 – SPLIT-INTEREST AGREEMENTS**

The College participates in split-interest agreements, which include beneficial interests in perpetual trusts, charitable remainder trusts, charitable gift annuities, and pooled life income funds. Beneficial interests in perpetual trusts are described in Note 4. A charitable remainder trust is an arrangement in which a donor establishes and funds a trust with specified distributions to be made to a designated beneficiary over the trust's term. Upon termination of the trust, the College receives the assets remaining in the trust. The College has charitable remainder annuity trusts (CRATs), which pay fixed amounts to designated beneficiaries, and charitable remainder unitrusts (CRUTs), which pay an established percentage of the fair value of the annuity investment to designated beneficiaries. The College is the trustee of all CRATs and CRUTs.

The College has charitable gift annuities, which represent an arrangement between donors and the College in which the donor contributes assets to the College in exchange for a promise by the College to pay a fixed amount for a specified period of time to designated beneficiaries.

The College also manages life income funds. These funds are divided into units, and contributions of many donors' life income gifts are pooled and invested as a group. Donors are assigned a specific number of units based on the proportion of the fair value of their contributions to the total fair value of the pooled income fund on the date of the donor's entry to the pooled fund. At the time of the donor's death, the donor's designated beneficiaries are paid the actual income earned on the donor's assigned units and the value of the donor's assigned units reverts to the College.

The College has recorded investments at fair value and liabilities on the statements of financial position for annuities payable and other life income funds payable. The liability recorded is calculated based on the present value of the expected distributions to beneficiaries, using a discount rate of approximately 6% and estimated life of the youngest beneficiary based on Internal Revenue Service mortality tables.

**THE COLORADO COLLEGE AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**June 30, 2016 and 2015**

**NOTE 3 – SPLIT-INTEREST AGREEMENTS (CONTINUED)**

Contribution revenue recognized and investments recorded by the College related to split-interest agreements are as follows:

|                           | <u>Year Ended June 30,</u> |              |
|---------------------------|----------------------------|--------------|
|                           | <u>2016</u>                | <u>2015</u>  |
| Contribution revenue      |                            |              |
| CRATs/CRUTs               | \$ 3,534                   | \$ 1,501     |
| Charitable gift annuities | \$ -                       | \$ 8,617     |
|                           |                            |              |
|                           | <u>Year Ended June 30,</u> |              |
|                           | <u>2016</u>                | <u>2015</u>  |
| Investments               |                            |              |
| CRATs/CRUTs               | \$ 4,384,640               | \$ 4,254,737 |
| Charitable gift annuities | \$ 1,557,406               | \$ 1,519,775 |

**NOTE 4 – BENEFICIAL INTEREST IN PERPETUAL TRUSTS**

The beneficial interest in perpetual trusts represents the estimated net present value of the future interest in trusts. The present value of the future interest in the trusts is estimated to be the fair value of the trust assets, which was \$32,177,206 and \$35,903,766 at June 30, 2016 and 2015, respectively. Distributions received from the trusts are recorded as unrestricted investment income or temporarily restricted investment income as stipulated by the donor. A third party (trustee) holds the trust assets and the College is to receive the net income from the assets. As the trusts are to be held in perpetuity by the trustee, the net assets from the trusts have been recorded as permanently restricted. Beneficial Interest Perpetual Trust Investments are classified by the College in the fair value hierarchy as Level 2 and Level 3.

**NOTE 5 – ENDOWMENT**

The College's endowment consists of approximately 875 individual funds established for a variety of purposes. The endowment includes both donor-restricted endowment funds and funds functioning as endowments (internally-designated endowment funds). As required by U.S. GAAP, net assets associated with endowment funds, including internally-designated endowment funds, are classified and reported based on the existence or absence of donor-imposed restrictions.

The College's Board of Trustees has interpreted the State of Colorado Prudent Management of Institutional Funds Act (SPMIFA) 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 College classifies the original value of gifts, subsequent gifts and other accumulations to the permanent endowment as permanently restricted net assets with the direction of the applicable donor gift instrument. The appreciation of a donor-restricted endowment fund is classified as temporarily restricted net assets consistent with the standard of prudence prescribed by SPMIFA.

**THE COLORADO COLLEGE AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**June 30, 2016 and 2015**

**NOTE 5 – ENDOWMENT (CONTINUED)**

The composition of net assets (including contributions receivable) by type of endowment fund at June 30, 2016 and June 30, 2015 was:

|                                       | <b>2016</b>                  |                              |                              |                              |
|---------------------------------------|------------------------------|------------------------------|------------------------------|------------------------------|
|                                       | <b>Unrestricted</b>          | <b>Temporarily</b>           | <b>Permanently</b>           | <b>Total</b>                 |
|                                       |                              | <b>Restricted</b>            | <b>Restricted</b>            |                              |
| Donor-restricted endowment funds      | \$ (369,638)                 | \$ 343,769,535               | \$ 148,954,798               | \$ 492,354,695               |
| Internally-designated endowment funds | 167,750,991                  | -                            | -                            | 167,750,991                  |
| <b>Total endowment funds</b>          | <b><u>\$ 167,381,353</u></b> | <b><u>\$ 343,769,535</u></b> | <b><u>\$ 148,954,798</u></b> | <b><u>\$ 660,105,686</u></b> |

|                                       | <b>2015</b>                  |                              |                              |                              |
|---------------------------------------|------------------------------|------------------------------|------------------------------|------------------------------|
|                                       | <b>Unrestricted</b>          | <b>Temporarily</b>           | <b>Permanently</b>           | <b>Total</b>                 |
|                                       |                              | <b>Restricted</b>            | <b>Restricted</b>            |                              |
| Donor-restricted endowment funds      | \$ (5,068)                   | \$ 373,231,541               | \$ 136,363,021               | \$ 509,589,494               |
| Internally-designated endowment funds | 179,400,896                  | -                            | -                            | 179,400,896                  |
| <b>Total endowment funds</b>          | <b><u>\$ 179,395,828</u></b> | <b><u>\$ 373,231,541</u></b> | <b><u>\$ 136,363,021</u></b> | <b><u>\$ 688,990,390</u></b> |

Changes in endowment net assets for the fiscal year ended June 30, 2016 and June 30, 2015 were:

|   | <b>2016</b>                  |                              |                              |                              |
|---|------------------------------|------------------------------|------------------------------|------------------------------|
|   | <b>Unrestricted</b>          | <b>Temporarily</b>           | <b>Permanently</b>           | <b>Total</b>                 |
|   |                              | <b>Restricted</b>            | <b>Restricted</b>            |                              |
| Endowment net assets,<br>beginning of year            | \$ 179,395,828               | \$ 373,231,541               | \$ 136,363,021               | \$ 688,990,390               |
| Contributions/additions                               | 418,700                      | -                            | 11,144,680                   | 11,563,380                   |
| Endowment gains/losses                                | (11,908,934)                 | (35,056,603)                 | -                            | (46,965,537)                 |
| Investment income                                     | 10,686,137                   | 22,597,289                   | -                            | 33,283,426                   |
| Reinvestments/withdrawal from<br>reinvestments        | (1,936,782)                  | 2,111,445                    | 993,685                      | 1,168,348                    |
| Transfers   | -                            | (453,412)                    | 453,412                      | -                            |
| Change in underwater endowments                       | (364,570)                    | 364,570                      | -                            | -                            |
| Appropriation of endowment<br>assets for expenditures | (8,909,026)                  | (19,025,295)                 | -                            | (27,934,321)                 |
| Endowment, net assets,<br>end of year                 | <b><u>\$ 167,381,353</u></b> | <b><u>\$ 343,769,535</u></b> | <b><u>\$ 148,954,798</u></b> | <b><u>\$ 660,105,686</u></b> |

**THE COLORADO COLLEGE AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**June 30, 2016 and 2015**

**NOTE 5 – ENDOWMENT (CONTINUED)**

|   | 2015                  |                           |                           | Total                 |
|---|-----------------------|---------------------------|---------------------------|-----------------------|
|   | Unrestricted          | Temporarily<br>Restricted | Permanently<br>Restricted |                       |
| Endowment net assets,<br>beginning of year            | \$ 144,499,709        | \$ 374,575,017            | \$ 129,420,733            | \$ 648,495,459        |
| Contributions/additions                               | 634,015               | -                         | 5,851,351                 | 6,485,366             |
| Endowment gains/losses                                | (2,597,813)           | (7,379,389)               | -                         | (9,977,202)           |
| Investment income                                     | 10,355,118            | 22,734,815                | -                         | 33,089,933            |
| Reinvestments/withdrawal from<br>reinvestments        | (199,453)             | 1,522,739                 | 744,842                   | 2,068,128             |
| Transfers   | 34,972,607            | (318,702)                 | 346,095                   | 35,000,000            |
| Change in underwater endowments                       | (5,068)               | 5,068                     | -                         | -                     |
| Appropriation of endowment<br>assets for expenditures | (8,263,287)           | (17,908,007)              | -                         | (26,171,294)          |
| Endowment, net assets,<br>end of year                 | <u>\$ 179,395,828</u> | <u>\$ 373,231,541</u>     | <u>\$ 136,363,021</u>     | <u>\$ 688,990,390</u> |

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level the College is required to retain as a fund of perpetual duration pursuant to donor stipulation or SPMIFA. In accordance with U.S. GAAP, deficiencies of this nature are reported in unrestricted net assets and aggregated \$369,638 and \$5,068 at June 30, 2016 and 2015, respectively. These deficiencies are a result of unfavorable market fluctuations.

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

1. Duration and preservation of the fund
2. Purposes of the College and the fund
3. General economic conditions
4. Possible effect of inflation and deflation
5. Expected total return from investment income and appreciation or depreciation of investments
6. Other resources of the College
7. Investment policies of the College

The College has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs and other items supported by its endowment while seeking to maintain the purchasing power of the endowment. Endowment assets include those assets of donor-restricted endowment funds the College must hold in perpetuity or for donor-specified periods, as well as those of internally-designated endowment funds. Under the College's policies, endowment assets are invested in a manner that is intended to produce results that exceed the spending rate plus inflation annually while assuming a reasonable level of investment risk.

**THE COLORADO COLLEGE AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**June 30, 2016 and 2015**

**NOTE 5 – ENDOWMENT (CONTINUED)**

To satisfy its long-term rate of return objectives, the College relies on a total return strategy in which investment returns are achieved through both current yield (investment income such as dividends and interest) and capital appreciation (both realized and unrealized). The College has established a strategic asset allocation model that places a greater emphasis on equity-based investments to achieve its long-term return objectives within prudent risk constraints.

The College has a Board approved spending policy for appropriating funds for expenditure each year. For fiscal year 2015-16, the College appropriated 5% of its endowment fund's average market value over the prior 12 quarters through the calendar year-end prior to the year in which expenditure is planned. In establishing this policy, long-term expected return on its endowment was considered. Accordingly, over the long term, the College expects the current spending policy to allow its endowment to grow at an average of the Consumer Price Index annually. This is consistent with the College's objective to maintain the purchasing power of endowment assets held in perpetuity or for a specified term, as well as to provide additional real growth through new gifts and investment return.

**NOTE 6 – CONTRIBUTIONS RECEIVABLE**

Contributions receivable consist of the following unconditional promises to give as of June 30, 2016 and 2015:

|                                     | <u>2016</u>          | <u>2015</u>          |
|-------------------------------------|----------------------|----------------------|
| Annual fund                         | \$ 436,029           | \$ 262,026           |
| Gifts for operations                | 15,550,027           | 13,597,228           |
| Endowment                           | <u>9,149,443</u>     | <u>4,881,506</u>     |
|                                     | 25,135,499           | 18,740,760           |
| Less allowance for doubtful pledges | (58,329)             | (88,204)             |
| Less unamortized discount           | <u>(491,931)</u>     | <u>(259,401)</u>     |
|                                     | <u>\$ 24,585,239</u> | <u>\$ 18,393,155</u> |
| Amounts due in                      |                      |                      |
| Less than one year                  | \$ 4,799,678         | \$ 3,324,286         |
| One to five years                   | 12,584,626           | 10,343,869           |
| Greater than five years             | <u>7,200,935</u>     | <u>4,725,000</u>     |
| <b>Total</b>                        | <u>\$ 24,585,239</u> | <u>\$ 18,393,155</u> |

Discount rates ranged from 0.045% to 5.125% for the years ended June 30, 2016 and 2015.

**THE COLORADO COLLEGE AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**June 30, 2016 and 2015**

**NOTE 6 – CONTRIBUTIONS RECEIVABLE (CONTINUED)**

The College has conditional promises to give of approximately \$23,000 and \$2,000,000 at June 30, 2016 and 2015, respectively. Conditional promises to give are not recognized as assets in the consolidated statements of financial position.

Additionally, the College has been notified that it either has been named in the wills of individuals or that it is the intent of certain individuals to name the College in their wills or trust instruments for amounts totaling approximately \$54.9 million and \$41.0 million as of June 30, 2016 and 2015, respectively. Because these bequest pledges do not yet meet existing revenue recognition criteria, they have not been recorded on the books of the College.

**NOTE 7 – LAND, BUILDINGS, AND EQUIPMENT**

Land, buildings, and equipment consist of the following as of June 30, 2016 and 2015:

|                               | <u>2016</u>           | <u>2015</u>           |
|-------------------------------|-----------------------|-----------------------|
| Buildings and improvements    | \$ 262,561,987        | \$ 259,910,208        |
| Land                          | 6,616,463             | 6,616,463             |
| Campus infrastructure         | 27,036,792            | 26,876,559            |
| Furnishings and equipment     | 20,630,059            | 20,294,365            |
| Long term equipment           | 4,371,783             | 2,529,504             |
| Construction in progress      | 14,633,349            | 2,624,342             |
| Buildings - CARO              | 640,766               | 1,112,309             |
|                               | <u>336,491,199</u>    | <u>319,963,750</u>    |
| Less accumulated depreciation | <u>(112,695,398)</u>  | <u>(105,144,538)</u>  |
| <b>Total</b>                  | <u>\$ 223,795,801</u> | <u>\$ 214,819,212</u> |

Total depreciation and amortization expense was \$8,208,950 and \$9,142,154 for the years ended June 30, 2016 and 2015, respectively.

The College capitalized \$350,282 and \$377,592 in interest costs related to construction in progress during the years ended June 30, 2016 and 2015, respectively.

**NOTE 8 – OPERATING LEASES**

The College leases various office equipment, vehicles, and property under operating leases expiring through calendar year 2023. Rent expense on operating leases during the years ended June 30, 2016 and 2015, was \$183,768 and \$142,800, respectively.

**THE COLORADO COLLEGE AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**June 30, 2016 and 2015**

**NOTE 8 – OPERATING LEASES (CONTINUED)**

Future minimum lease payments under the operating leases as of June 30, 2016 are as follows:

|              |                          |
|--------------|--------------------------|
| 2017         | \$ 164,409               |
| 2018         | 143,540                  |
| 2019         | 105,235                  |
| 2020         | 76,552                   |
| 2021         | 61,788                   |
| Thereafter   | <u>118,427</u>           |
| <b>Total</b> | <b>\$ <u>669,951</u></b> |

**NOTE 9 – CAPITAL LEASE OBLIGATIONS**

The College leases various equipment and real estate under capital leases expiring through March 2021. The capitalized cost and accumulated amortization of equipment and real estate under capital leases as of June 30, 2016 and 2015 are as follows:

|                               | <u>2016</u>                | <u>2015</u>                |
|-------------------------------|----------------------------|----------------------------|
| Campus infrastructure         | \$ 2,472,686               | \$ 2,472,686               |
| Equipment                     | <u>714,334</u>             | <u>658,574</u>             |
| Total cost                    | 3,187,020                  | 3,131,260                  |
| Less accumulated amortization | <u>(1,058,925)</u>         | <u>(1,053,307)</u>         |
| <b>Total</b>                  | <b>\$ <u>2,128,095</u></b> | <b>\$ <u>2,077,953</u></b> |

As of June 30, 2016, future minimum lease payments under capital leases, together with the present value of the net minimum lease payments were:

|  |                         |
|--|-------------------------|
| 2017   | \$ 11,152               |
| 2018   | 11,152                  |
| 2019   | 11,152                  |
| 2020   | 11,152                  |
| 2021   | 7,435                   |
| Less amount representing interest              | <u>-</u>                |
| Present value of future minimum lease payments | <b>\$ <u>52,043</u></b> |

**THE COLORADO COLLEGE AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**June 30, 2016 and 2015**

**NOTE 10 – BONDS PAYABLE**

Bonds payable consist of the following:

Series 2005 Revenue Refunding Bonds (2005 Bonds) were issued May 17, 2005 through the City of Colorado Springs, Colorado with an original issue of \$27,630,000. The 2005 Bonds are unsecured. The 2005 Bonds were an advance refunding of the Series 1999 Bonds. A portion of the 2005 Bonds had a current refunding component in connection with the issuance of the 2015A Bonds. The 2005 Bonds have interest rates ranging from 4.375% to 5%. Payments are due annually and continue through 2020 in varying amounts ranging from \$1,358,000 to \$1,367,000. Bonds payable for the 2005 Bonds were \$4,871,068 and \$6,074,272 (net of unamortized bond discount of \$16,009 and \$72,912 and unamortized bond premium of \$52,077 and \$237,184) as of June 30, 2016 and 2015, respectively.

Series 2010 Revenue Refunding Bonds (2010 Bonds) were issued on February 18, 2010 through El Paso County, Colorado with an original issue of \$46,775,000. The 2010 Bonds are unsecured. The 2010 Bonds refunded the Series 2003, Series 2004, and Series 2006 Bonds. A portion of the 2010 Bonds had a current refunding component in connection with the issuance of the 2015B Bonds. The 2010 Bonds have interest rates ranging from 3.0% to 5.25%. Payments are due annually and continue through 2024 in varying amounts ranging from \$761,000 to \$3,964,000. Bonds payable for the 2010 Bonds were \$17,370,762 and \$21,785,201 (net of unamortized bond premium of \$1,015,762 and \$2,360,201) as of June 30, 2016 and 2015, respectively.

Series 2012 Revenue Bonds (2012 Bonds) were issued May 24, 2012 with an original issue of \$33,530,000. The 2012 Bonds are unsecured. The 2012 Bonds have interest rates ranging from 4.0% to 5.0%. Payments are due annually and continue through 2024 in varying amounts ranging from \$3,720,000 to \$3,728,000. Bonds payable for the 2012 Bonds were \$27,922,917 and \$30,828,907 (net of unamortized bond premium of \$3,847,917 and \$4,328,907) as of June 30, 2016 and 2015, respectively.

Series 2015A Revenue Refunding Bonds (2015A Bonds) were issued April 30, 2015 through El Paso County, Colorado and are structured as a bank loan with an original issue of \$16,730,000. The 2015A Bonds are unsecured. The 2015A Bonds have a 2.10% interest rate. Payments are due annually and continue through 2032 with varying amounts ranging from \$483,000 to \$1,852,000. Bonds payable for the 2015A Bonds were \$16,572,951 and \$16,674,698 (net of unamortized bond discount of \$52,049 and \$55,302) as of June 30, 2016 and 2015, respectively.

Series 2015B Revenue Refunding Bonds (2015B Bonds) were issued April 29, 2015 through El Paso County, Colorado and are structured as a bank loan with an original issue of \$16,325,000. The 2015B Bonds are unsecured. The 2015B Bonds have a 1.86% interest rate. Payments are due annually and continue through 2024 with varying amounts ranging from \$620,000 to \$3,825,000. Bonds payable for the 2015B Bonds were \$15,930,000 and \$16,325,000 as of June 30, 2016 and 2015, respectively.

**THE COLORADO COLLEGE AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**June 30, 2016 and 2015**

**NOTE 10 – BONDS PAYABLE (CONTINUED)**

Series 2015C Taxable Revenue Bonds (2015C Bonds) were issued June 10, 2015 through El Paso County, Colorado with an original issue of \$110,000,000. The 2015C Bonds are unsecured. The 2015C Bonds have interest rates ranging from 3.3% to 4.7%. Payments are due annually and continue through 2046 in varying amounts ranging from \$3,926,000 to \$7,930,000. Bonds payable for 2015C Bonds were \$109,660,478 and \$109,649,161 (net of unamortized bond discount of \$339,522 and \$350,839) as of June 30, 2016 and 2015, respectively.

Aggregate annual maturities for the term of the bonds outstanding at June 30, 2016 are:

|               | Series 2005<br>Bonds | Series 2010<br>Bonds | Series 2012<br>Bonds | Series 2015A<br>Bonds | Series 2015B<br>Bonds | Series 2015C<br>Bonds | Total                 |
|---------------|----------------------|----------------------|----------------------|-----------------------|-----------------------|-----------------------|-----------------------|
| 2017          | \$ 1,120,000         | \$ 3,200,000         | \$ 2,520,000         | \$ 135,000            | \$ 325,000            | \$ -                  | \$ 7,300,000          |
| 2018          | 1,180,000            | 3,340,000            | 2,645,000            | 140,000               | 330,000               | -                     | 7,635,000             |
| 2019          | 1,235,000            | 3,470,000            | 2,775,000            | 140,000               | 340,000               | -                     | 7,960,000             |
| 2020          | 1,300,000            | 3,645,000            | 2,920,000            | 145,000               | 345,000               | -                     | 8,355,000             |
| 2021          | -                    | 630,000              | 3,065,000            | 1,515,000             | 3,545,000             | -                     | 8,755,000             |
| Thereafter    | -                    | 2,070,000            | 10,150,000           | 14,550,000            | 11,045,000            | 110,000,000           | 147,815,000           |
|               | <u>\$ 4,835,000</u>  | <u>\$ 16,355,000</u> | <u>\$ 24,075,000</u> | <u>\$ 16,625,000</u>  | <u>\$ 15,930,000</u>  | <u>\$ 110,000,000</u> | 187,820,000           |
| Less discount |                      |                      |                      |                       |                       |                       | (407,580)             |
| Plus premium  |                      |                      |                      |                       |                       |                       | <u>4,915,756</u>      |
|               |                      |                      |                      |                       |                       |                       | <u>\$ 192,328,176</u> |

Bond issuance costs and the bond discounts are amortized over the life of the bond issue using the straight-line method. Bond premiums are accreted over the life of the bond issue using the straight-line or effective-interest methods.

Total interest charged to expense for the years ended June 30, 2016 and 2015 was \$7,943,730 and \$3,452,650, respectively.

**THE COLORADO COLLEGE AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**June 30, 2016 and 2015**

**NOTE 11 – NET ASSETS**

Unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets as of June 30, 2016 and 2015, consist of the following, with some net assets maintained in funds for the purposes noted below:

|  | <u>2016</u>           | <u>2015</u>           |
|--|-----------------------|-----------------------|
| Operations and reserves                        | \$ 20,871,268         | \$ 18,288,721         |
| Student loans                                  | 2,282,065             | 2,483,456             |
| Net appreciation on endowments                 | 69,457,084            | 79,953,478            |
| Funds functioning as endowments                | 62,924,269            | 64,442,350            |
| Split-interest agreements                      | (36,745)              | (33,059)              |
| Net investment in plant                        | <u>125,176,091</u>    | <u>124,507,322</u>    |
| <b>Total unrestricted net assets</b>           | <u>\$ 280,674,032</u> | <u>\$ 289,642,268</u> |
|  | <u>2016</u>           | <u>2015</u>           |
| Gifts income for specific purposes             | \$ 23,465,742         | \$ 24,429,464         |
| Endowment income for specific purposes         | 974,688               | 1,127,307             |
| Endowment Pledges                              | 1,665,027             | 2,118,439             |
| Reinvested endowment income                    | 17,215,929            | 12,986,045            |
| Appreciation on endowments                     | 324,888,579           | 356,008,618           |
| Split-interest agreements                      | <u>2,356,179</u>      | <u>2,488,336</u>      |
| <b>Total temporally restricted net assets</b>  | <u>\$ 370,566,144</u> | <u>\$ 399,158,209</u> |
|  | <u>2016</u>           | <u>2015</u>           |
| Endowment                                      | \$ 141,561,741        | \$ 133,671,968        |
| Endowment Pledges                              | 7,393,057             | 2,691,053             |
| Split-interest agreement                       | <u>32,651,491</u>     | <u>36,473,212</u>     |
| <b>Total permanently restricted net assets</b> | <u>\$ 181,606,289</u> | <u>\$ 172,836,233</u> |

**NOTE 12 – OTHER POSTRETIREMENT BENEFIT PLANS**

The College has a closed noncontributory defined benefit postretirement health care plan for those who retired prior to July 1, 1995. On June 30, 2005, the post-retirement fully-insured medical program was changed to a defined contribution program that created accounts to be used for the purchase of post-retirement medical coverage that are funded during the active employment years.

The change affected all active employees and all retirees with a retirement date on or after July 1, 1995. This group received lump-sum contributions into their newly created accounts to use for the future purchase of retiree medical insurance. This settlement was accounted for in the fiscal year-end June 30, 2005 reporting; hence, eliminating all future retiree medical obligations for this group.

**THE COLORADO COLLEGE AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**June 30, 2016 and 2015**

**NOTE 12 – OTHER POSTRETIREMENT BENEFIT PLANS (CONTINUED)**

Post-retirement medical liability remains for those who retired prior to July 1, 1995 who receive an 80% subsidy from the College for medical coverage and any pre-65 retiree enrolled in medical. Although early retirees pay 100% of the active premium, their medical costs are higher than the active employees, thus creating a 'hidden' College subsidy liability.

The College's funding policy is generally to fund as amounts become due (pay-as you go), but may elect to pre-fund the liability from time to time. The College expects to contribute \$110,686 to the plan in 2017.

As required by the *Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans* topic of FASB ASC, an employer must recognize the overfunded or underfunded status of a defined benefit postretirement plan (other than a multiemployer plan), as an asset or liability in its statement of financial position and to recognize changes in that funded status in the year in which changes occur through changes in unrestricted net assets.

The College uses a June 30<sup>th</sup> measurement date for the plan. Information about the plan's funded status follows:

|                    | <u>2016</u>         | <u>2015</u>         |
|--------------------|---------------------|---------------------|
| Benefit obligation | \$ (816,682)        | \$ (798,898)        |
| Funded Status      | <u>\$ (816,682)</u> | <u>\$ (798,898)</u> |

Amounts recognized in unrestricted net assets not yet recognized as components of net periodic benefit cost consist of:

|                                 | <u>2016</u>       | <u>2015</u>      |
|---------------------------------|-------------------|------------------|
| Net loss (gain)                 | \$ 514,351        | \$ 35,313        |
| Unrecognized prior service cost | <u>28,547</u>     | <u>35,395</u>    |
| <b>Total</b>                    | <u>\$ 542,898</u> | <u>\$ 70,708</u> |

Other significant balances and costs are:

|                       | <u>2016</u>      | <u>2015</u>      |
|-----------------------|------------------|------------------|
| Employer contribution | \$ 514,682       | \$ 408,539       |
| Benefits paid         | <u>(514,682)</u> | <u>(408,539)</u> |
| <b>Benefit costs</b>  | <u>\$ -</u>      | <u>\$ -</u>      |

**THE COLORADO COLLEGE AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**June 30, 2016 and 2015**

**NOTE 12 – OTHER POSTRETIREMENT BENEFIT PLANS (CONTINUED)**

At June 30, net periodic postretirement benefit cost included the following components:

|   | <u>2016</u>      | <u>2015</u>       |
|---|------------------|-------------------|
| Service cost                                    | \$ 14,213        | \$ 13,113         |
| Interest cost                                   | 31,570           | 42,012            |
| Amortization of unrecognized (gain) loss        | 7,645            | 5,606             |
| Amortization of prior service costs             | 6,848            | 28,547            |
| Amortization of transition obligation           | -                | 125,102           |
| <b>Net periodic postretirement benefit cost</b> | <u>\$ 60,276</u> | <u>\$ 214,380</u> |

The estimated net loss and transition obligation for the defined benefit postretirement health care plan that will be amortized from unrestricted net assets into net periodic benefit cost over the next fiscal year are \$6,848 and \$27,861, respectively.

Significant assumptions include:

|   | <u>2016</u> | <u>2015</u> |
|---|-------------|-------------|
| Weighted-average assumptions used to determine benefit obligations: |             |             |
| Discount rate   | 4.00%       | 4.29%       |
| Weighted-average assumptions used to determine benefit cost:        |             |             |
| Discount rate   | 4.00%       | 4.29%       |

For measurement purposes, a 4.00% annual rate of increase in the per capita cost of covered health care benefits was assumed for 2016.

The estimated benefits expected to be paid in the following years are as follows:

|              |                   |
|--------------|-------------------|
| 2016         | \$ 107,149        |
| 2017         | 100,461           |
| 2018         | 92,803            |
| 2019         | 84,891            |
| 2020         | 75,420            |
| 2022-2025    | <u>276,125</u>    |
| <b>Total</b> | <u>\$ 736,849</u> |

**THE COLORADO COLLEGE AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**June 30, 2016 and 2015**

**NOTE 13 – PENSION PLAN**

All employees of the College with one year of service are eligible to participate in a defined contribution retirement plan administered by Teachers Insurance and Annuity Association/College Retirement Equities Fund. Upon the attainment of age 30, eligible employees are required to participate and make contributions equivalent to 5% of their salary. For employees hired before July 1, 1991, the College contributes 6% of salary up to the first half of the median faculty/administrator salary and 11% of the balance of their salary. The College currently contributes 9.75% of base salary for all other employees. Total pension expense was \$4,374,743 and \$3,871,460 for the years ended June 30, 2016 and 2015, respectively.

**NOTE 14 – SCHOLARSHIP ALLOWANCES (TUITION DISCOUNTS)**

For the years ended June 30, 2016 and 2015, respectively, College scholarship allowances (tuition discounts, prizes, and external scholarships) were provided for students at the College from the following sources:

|                                    | <u>2016</u>                 | <u>2015</u>                 | <u>2014</u>                 |
|------------------------------------|-----------------------------|-----------------------------|-----------------------------|
| Unrestricted sources               |                             |                             |                             |
| Colorado College funds             | \$ 23,873,657               | \$ 22,012,990               | \$ 19,834,041               |
| ACM tuition exchange               | <u>89,056</u>               | <u>69,000</u>               | <u>203,726</u>              |
| Total unrestricted sources *       | <u>23,962,713</u>           | <u>22,081,990</u>           | <u>20,037,767</u>           |
| Restricted sources                 |                             |                             |                             |
| Endowments                         | 10,108,562                  | 9,355,224                   | 8,714,830                   |
| Private gifts and grants **        | 1,209,563                   | 1,189,398                   | 1,200,743                   |
| Government grants ***              | <u>351,304</u>              | <u>336,097</u>              | <u>377,439</u>              |
| Total restricted sources           | <u>11,669,428</u>           | <u>10,880,719</u>           | <u>10,293,012</u>           |
| <b>Total scholarships provided</b> | <u><u>\$ 35,632,142</u></u> | <u><u>\$ 32,962,709</u></u> | <u><u>\$ 30,330,779</u></u> |

\* Excludes tuition remission for benefits for the children of employees totaling \$848,825 and \$787,795 for the years ended June 30, 2016 and 2015, respectively.

\*\* Excludes scholarships provided directly to our students from outside foundations and other organizations totaling \$2,263,931 and \$1,994,086 for the years ended June 30, 2016 and 2015, respectively. The College acted as custodian for these funds, but did not determine the recipient or the amount awarded.

\*\*\* Excludes Pell Grants of \$1,103,235 and \$953,788 for the years ended June 30, 2016 and 2015, respectively.

**THE COLORADO COLLEGE AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
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**NOTE 15 – FUNCTIONAL EXPENSES**

Expenses by functional classification are as follows for the years ended June 30, 2016 and 2015:

|  | <u>2016</u>           | <u>2015</u>           |
|--|-----------------------|-----------------------|
| Educational                                  |                       |                       |
| Instruction                                  | \$ 52,593,104         | \$ 48,638,534         |
| Research                                     | 1,560,766             | 1,923,212             |
| Public service                               | 2,381,233             | 2,421,315             |
| Academic support                             | 11,686,575            | 10,485,921            |
| Student services                             | 26,990,610            | 24,726,251            |
| Auxiliary expenses                           | <u>13,632,368</u>     | <u>13,126,736</u>     |
| Total educational                            | 108,844,656           | 101,321,969           |
| Institutional support, excluding fundraising | 21,287,071            | 21,546,004            |
| Fundraising                                  | <u>7,630,211</u>      | <u>6,705,489</u>      |
| <b>Total</b>                                 | <u>\$ 137,761,938</u> | <u>\$ 129,573,462</u> |

**NOTE 16 – ADDITIONAL CASH FLOW INFORMATION**

Additional cash flow information includes the following for the years ended June 30, 2016 and 2015, respectively:

|   | <u>2016</u>         | <u>2015</u>         |
|---|---------------------|---------------------|
| Cash paid for interest                                | <u>\$ 6,337,138</u> | <u>\$ 4,174,848</u> |
| Noncash investing and financing activities:           |                     |                     |
| Equipment acquired with capital lease                 | <u>\$ 55,760</u>    | <u>\$ -</u>         |
| Construction in progress included in accounts payable | <u>\$ 4,504,404</u> | <u>\$ -</u>         |
| Amortization of bond discounts/premiums               | <u>\$ 1,939,062</u> | <u>\$ 1,182,221</u> |
| Gifts-in-kind   | <u>\$ 467,116</u>   | <u>\$ 259,138</u>   |

**THE COLORADO COLLEGE AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**June 30, 2016 and 2015**

**NOTE 17 – COMMITMENTS AND CONTINGENCIES**

**Litigation**

In the normal course of business, the College is involved in various legal matters. Management does not currently believe that any liability related to this litigation would be material to the financial statements. Therefore, no liability has been recorded in these financial statements. Events could occur that would change this estimate materially in the near term.

**Federal Programs**

The College participates in various federally assisted grant programs that are subject to review and audit by the grantor agencies. Entitlements to these resources are generally conditional upon compliance with the terms and conditions of grant agreements and applicable federal regulations, including the expenditure for allowable purposes. Any disallowable expenditures resulting from federal audit may become a liability of the College. It is believed that the ultimate disallowance pertaining to these regulations, if any, will not be material to the overall financial condition of the College.

**Construction Commitments**

The College had several major construction projects in progress at June 30, 2016 and 2015. Construction contractor commitments under those projects totaled \$31,721,870 and \$764,315 as of June 30, 2016 and 2015, respectively. Cumulative funds available from existing sources for completion of those projects totaled \$31,721,870 and \$8,826,373 as of June 30, 2016 and 2015, respectively.

**NOTE 18 – SELF-FUNDED INSURANCE PLANS**

The College maintains self-funded dental and health insurance plans. Under these plans, the College incurs insurance claims expense of approximately \$680,000 per month. The College has contracted with a third-party administrator to process claims. The third-party administrator submits employee insurance claims for payment on a weekly basis, one week in arrears. Administrative costs are paid on a monthly basis. The College is liable for claims of up to \$150,000 per individual, per year. Claims above \$150,000 per individual, per year are covered by a specific stop loss insurance program, which has no stop loss max.

The expense for this Plan was \$5,395,183 and \$5,369,025 for the years ended June 30, 2016 and 2015, respectively. Incurred but not reported claims, based on actuarial calculations, were \$923,584 and \$948,079 as of June 30, 2016 and 2015, respectively, which are included in salaries and benefits payable in the accompanying consolidated statements of financial position.

The College has established a reserve (designated unrestricted net assets) of \$3,047,422 and \$3,207,594 as of June 30, 2016 and 2015, respectively, (included in “operations and reserves” in Note 11) to protect the financial stability of the self-insured benefits program and to provide rate stabilization within the plans.

**THE COLORADO COLLEGE AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**June 30, 2016 and 2015**

**NOTE 19 – CONDITIONAL ASSET RETIREMENT OBLIGATION**

The College recognizes asset retirement obligations (ARO) associated with the retirement of a tangible long-lived asset as a liability in the period in which it is incurred or becomes determinable even when the timing and/or method of settlement may be conditional on a future event.

The fair value of the conditional asset retirement obligation is based on the expected costs to be incurred escalated at an inflation rate and discounted at a credit adjusted risk-free rate. This liability is capitalized as part of the cost of the related asset and amortized over its useful life. The liability accretes until the College settles the obligation.

The College's conditional asset retirement obligations primarily relate to asbestos contained in buildings that the College owns. Environmental regulations exist in Colorado that require the College to handle and dispose of asbestos in a special manner if a building undergoes major renovations or is demolished.

A summary of changes in asset retirement obligations since the date of adoption is included in the table below:

|                               | <u>2016</u>                | <u>2015</u>                |
|-------------------------------|----------------------------|----------------------------|
| Liability, beginning of year  | \$ 3,933,519               | \$ 3,759,220               |
| Accretion expense             | 169,221                    | 174,299                    |
| Revisions to estimate         | <u>(1,822,336)</u>         | <u>-</u>                   |
| <b>Liability, end of year</b> | <u><u>\$ 2,280,404</u></u> | <u><u>\$ 3,933,519</u></u> |

**NOTE 20 – SUBSEQUENT EVENT**

On July 1, 2016, an Alliance Agreement was signed by the College and the Colorado Springs Fine Arts Center (Fine Arts Center). Until June 30, 2017, the College will serve as the manager of the Fine Arts Center. The College will enter into a three-year lease with the Fine Arts Center Foundation (the Foundation) and serve as the operator of the Fine Arts Center. The College has designated \$20 million of its Quasi-endowment for the Fine Arts Center. By June 30, 2020, the Fine Arts Center Foundation will convey all of the property and the museum collection to the College.

This information is an integral part of the accompanying consolidated financial statements.