Colby enjoyed another successful year in FY2011-12. Highlights include:

- The College finished the year with an operating surplus of $15.6 million, a positive variance of $5.6 million. This result was driven by higher endowment utilization combined with below-budget compensation and financial aid expenses as well as unused contingency.

- The net endowment value decreased by $11 million to $600 million at June 30, 2012, with an investment return of 0.8 percent for the fiscal year.

- Contributions from alumni, parents, corporations, foundations, and friends totaled nearly $20.7 million in 2011-12.

- The positive budget variance allowed the College to make supplemental transfers totaling $5.1 million, divided equally between the plant fund and unrestricted endowment.
Operating Budget

Colby’s fiscal year 2012 budget was developed using an enrollment projection of 1,830, a renovation allocation of approximately 2.0 percent of estimated plant replacement cost, and a budgeted contingency of 1 percent of total revenues.

Colby completed the year with revenues of $140.1 million and operating expenses of $124.5 million, resulting in an operating surplus of over $15.6 million.

Student charge revenues of $99.7 million – including the comprehensive fee and other charges – represented the largest source of income for the College, comprising 71 percent of total revenues. Endowment support for operations of $24.0 million accounted for 17 percent of total revenues; gifts and grants of $11.0 million added 8 percent; and all other sources, totaling $5.5 million, represented the remaining 4 percent of revenues.

4. FY2012 Revenues by Functional Category

Instruction, research, and academic support activities – the core of Colby’s educational mission – represented $43.1 million, or about 35 percent of the total operating expense. Financial aid expense of $25.2 million represented about 20 percent, including continuation of the “no loan” program and aid programs designed to increase racial, geographic, and socio-economic diversity. Educational plant and student residence expenses totaled $17.1 million, roughly 14 percent of total expenditures. Other major categories of expense included $16.4 million (13 percent) for institutional support; $13.8 million (11 percent) for student services such as admissions, student affairs, athletics, and health services; and $8.9 million associated with dining services, the bookstore, and special programs (7 percent).

5. FY2012 Expenses by Functional Category

Operating revenues in 2011-12 were $1.5 million above budget. Major positive variances included $1.0 million in gifts and grants with offsetting expenses and $.5 million in endowment utilized for operations.

Operating expenses were $4.1 million under budget. Major positive variances included $2.3 million in unused contingency and strategic reserve, $1.7 million in lower financial aid expense, and $1.6 million in lower compensation expense. Major negative variances included $1.0 million for gifts and grants and $.5 million in higher off-campus and JanPlan expenses.

Other deductions included transfers to the plant fund totaling $10.6 million for renovation allocation, $2.4 million for debt-service principal payments, $.4 million from endowment to cover
investment management office expenses, and $2.5 million to unrestricted quasi endowment. The resulting operating surplus for 2011-12 was $268,000.

6. 2011-12 Operating Budget Major Variances by Category ($000s)

<table>
<thead>
<tr>
<th>Category</th>
<th>Variance (in $000s)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Contingency</td>
<td>1,500</td>
</tr>
<tr>
<td>Financial aid</td>
<td>500</td>
</tr>
<tr>
<td>Compensation</td>
<td>500</td>
</tr>
<tr>
<td>Endowment</td>
<td>500</td>
</tr>
<tr>
<td>Net all other</td>
<td>500</td>
</tr>
<tr>
<td>Comprehensive fee</td>
<td>500</td>
</tr>
</tbody>
</table>

Total variances = $5,648

Endowment

Colby’s endowment was valued at $600 million as of June 30, 2012, a decrease of roughly $11 million from a year earlier. Endowment spending for operations was $24 million, based on a 4.43 percent spending rate, and represented 17 percent of total revenues.

The endowment is invested in a sophisticated and diversified portfolio that seeks to achieve a long-term return of at least 6 percent real while also minimizing volatility. Actual investment return for 2011-12 was 0.8 percent.

Colby has emphasized equity-based investments in managing the endowment and has also made a significant commitment to alternative investments such as private equity, real estate, hedge funds, and hard assets. These investments provided above-market returns over the last 10 years.

Modest changes have been made to the portfolio following the stressful 2008-2009 period and the College has placed additional emphasis on liquidity management. The Investment Committee will continue its efforts to manage the endowment for long-term growth while addressing liquidity issues as they arise.

Fundraising

Colby received $20.7 million in gifts during 2011-12. Gifts included $3.9 million of unrestricted gifts for operations and $3.6 million in restricted gifts and grants. Capital gifts totaled $13.2 million, consisting of $5.6 million of gifts to endowment, $.8 million in new deferred gifts, $6.4 million in gifts for construction, and $.3 million of gifts-in-kind.
While the majority of the gifts received represent payments on commitments made during the highly successful Reaching the World campaign, new commitments are being made to support Colby 2013 initiatives through capital gifts and multi-year pledges to the Colby Fund.

**Debt**

Colby’s outstanding debt as of June 30, 2012 totaled $87.5 million. With a $600-million endowment value, Colby’s debt-to-endowment ratio stands at 14.6 percent, providing the College with significant balance sheet strength. All of Colby’s debt is at fixed rates.

The debt portfolio contains both incremental borrowing for major new construction projects (41 percent of total debt), and so-called “systematic” borrowing for renovations and other small projects (59 percent). This latter debt represents a balance sheet management strategy that places a portion of unrestricted funds in the endowment to cover future debt-service payments for the underlying liability.

**Financial Projections**

Continued market volatility, slow economic growth, and the impending national “fiscal cliff” present many financial challenges, including financial aid pressures, a more cautious fundraising environment, and heightened pressure to restrain comprehensive fee increases.

The 2012-13 academic year will mark the celebration of Colby bicentennial and implementation of key initiatives in the College’s five-year plan. The plan includes new academic, co-curricular, and financial aid initiatives; significant investment in new facilities and staffing; and focused fundraising and communications initiatives that engage alumni, parents, and
friends. Together, these initiatives build on Colby’s strengths and seize exciting, new opportunities.

Using the 2012-13 budget as a base, the 10-year financial projections continued to show marked improvement over recent years. The projections are generally balanced, with new initiative expenses associated offset by new fundraising, a modest increase in the endowment spending formula, and operational savings from the biomass plant.

As with any projection, however, it is important to note that results are very sensitive to the starting assumptions, including the comprehensive fee, endowment return, energy costs, and financial aid expense, which could change significantly (positively or negatively) in the future. The projections will continue to be reviewed and future budgets adjusted as new information becomes available.

Colby continued to make important progress on key initiatives in 2011-12. The board approved five new faculty and 10 new staff positions last year, the initial staffing investments in Colby 2013 initiatives. Overall staffing is anticipated to increase by 35 positions in total by the end of 2015. Academic positions included additions for the Writing Program, the Goldfarb Center, music, and a tenure-track position in environmental studies. Staff additions were allocated to communications, development, student affairs, museum and sustainability programs.

Last year saw progress in the development of new academic initiatives, including the Colby semester program at the Bigelow Laboratory for Ocean Science, a center for humanities, and a center for teaching and learning. Departments and programs continue to assess curricula and ways to evaluate student learning, and these efforts will be the subject of a revamped overseers program.

The Class of 2016 builds on recent efforts to increase diversity in the student body, with more than 100 students of color enrolled in the entering class. The Student Affairs Division continued implementation of Colby 360; added two new positions to enhance programs in spiritual life and gender and sexual diversity; added personal development programs in the Career Center; and reinvigorated collaborative programs with students, faculty, and staff to increase appreciation and understanding of difference.

These are just a few examples of important and positive progress made through strategic investment of financial resources.

Summary

Colby experienced another successful financial year in 2011-12. The College exceeded its operating budget targets, providing resources to fund the renovation allocation at 2.5 percent of replacement value and also transfer $2.5 million to endowment.

The endowment ended the year down modestly from June 2011 but higher than projected when the 2012-13 budget was prepared in March. With a strong balance sheet, a culture of financial discipline, and an energized leadership, the College is in a strong position to continue executing the initiatives outlined in Colby 2013. Thoughtful planning, strategic investments, and a commitment to balanced budgets will allow Colby to continue enhancing the academic program and fulfilling the College’s educational mission.