Colby enjoyed another successful year in FY2014-15. Highlights include:

- The College finished the year with an operating margin of $10.6 million, a positive variance of $0.9 million. This result was driven by higher endowment revenues, unused contingency, savings in compensation due to unfilled positions and below-budget financial aid expense.

- The net endowment value increased by $5 million to $746 million at June 30, 2015, with an investment return of 4 percent for the fiscal year.


- Colby issued $100 million in taxable debt in 2014-15 to create an investment fund for strategic initiatives, with about $1.2 million of unbudgeted interest expense.

- Other deductions totaled $10.6 million, including transfers to plant and a $.2 million addition to the strategic investment fund, resulting in a total operating margin of $12,000.

### 1. Revenue and Expense Summary ($000s)

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Revenues</td>
<td>158,149</td>
</tr>
<tr>
<td>Operating Expenses</td>
<td>147,503</td>
</tr>
<tr>
<td>Operating margin before other deductions</td>
<td>10,046</td>
</tr>
<tr>
<td>From Endowment - investment management office</td>
<td>(962)</td>
</tr>
<tr>
<td>To Plant - debt service</td>
<td>1,751</td>
</tr>
<tr>
<td>To Plant - renovation allocation</td>
<td>9,608</td>
</tr>
<tr>
<td>To Strategic Investment Fund</td>
<td>237</td>
</tr>
<tr>
<td>Net margin</td>
<td>12</td>
</tr>
</tbody>
</table>

### 2. June 30 endowment market value and return

![Endowment Market Value and Return](chart)

### 3. 2014-15 gifts received ($000s)

<table>
<thead>
<tr>
<th>Type</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Endowment Funds, $9,368</td>
<td></td>
</tr>
<tr>
<td>Life Income / CRT, $582</td>
<td></td>
</tr>
<tr>
<td>Plant Funds, $3,683</td>
<td></td>
</tr>
<tr>
<td>Gifts in Kind, $670</td>
<td></td>
</tr>
<tr>
<td>Restr. Current Funds, $2,760</td>
<td></td>
</tr>
<tr>
<td>Unrestr. Current Funds, $4,424</td>
<td></td>
</tr>
</tbody>
</table>
Operating Budget

Colby's fiscal 2015 budget was developed using an enrollment projection of 1,850, 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 $158.1 million and operating expenses of $147.5 million, resulting in an operating margin of $10.6 million.

Student charge revenues of $108.7 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 $29.7 million accounted for 19 percent of total revenues; gifts and grants of $11.5 million added 7 percent; and all other sources including auxiliaries were $5.4 million for the remaining 3 percent of revenues.

4. FY2015 Revenues by Functional Category

Instruction, research, and academic support activities—the core of Colby's educational mission—represented $48.8 million, or about 35 percent of the total operating expense. Financial aid expense of $29.5 million represented about 20 percent, including continuation of the “no loan” program and aid initiatives designed to support racial, geographic, and socio-economic diversity as well as enroll more presidential scholars.

Educational plant and student residence expenses totaled $20.1 million, roughly 14 percent of total expenditures. Other major categories of expense included $21.6 million (14 percent) for institutional support; $18.0 million (12 percent) for student services such as admissions, student affairs, athletics, and health services; and $9.4 million associated with dining services, the bookstore, and special programs (6 percent).

5. FY2015 Expenses by Functional Category

Operating revenues in 2014-15 were $3.1 million above budget. Major positive variances included $1.6 million in gifts and grants with mostly off-setting expenses, $1.0 million in higher endowment utilized for operations, and $.5 million net all other.

Operating expenses of $147.5 million were $2.2 million above budget. Major negative variances included $1.6 million in higher gifts and grants with off-setting revenues, $1.2 million in higher interest costs associated with the 2015 bonds, $.7 million in new Admissions recruiting initiatives, $.3 million in higher off-campus expense with largely off-setting revenues, $.2 million campus master plan expense, and $.3 million net all other. Major positive variance included $.7 million in compensation savings due largely to vacant positions and $.4 million in lower financial aid expense. The budgeted $1 million reserve for initiatives and $1.5 million contingency were allocated to strategic priorities and one-time expenses.
The operating surplus before other deductions variance was $0.9 million. Other deductions variances included $0.2 million to the plant fund for capitalized equipment, $0.6 million for capitalized interest expense and net savings of $0.1 million in the investment office and principal payments. A supplemental transfer of $0.2 million was made to the strategic investment fund to support future initiatives.

6. 2014-15 Operating Budget Major Variances by Category ($000s)

Operating variance before other deductions = $897

Endowment

Colby’s endowment was valued at $746 million as of June 30, 2015, an increase of roughly $5 million from a year earlier. Endowment spending for operations was $29.7 million, based on a 4.95 percent spending rate, and represented 19 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 2014-15 was 4 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 ten years.

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 $21.5 million in gifts in 2014-15. Gifts included $4.4 million of unrestricted gifts for operations and $2.8 million in restricted gifts and grants. Capital gifts totaled $13.0 million, consisting of $8.9 million of gifts to endowment and $4.1 million in gifts for construction. The College also received $0.6 million in deferred gifts and $0.7 million of gifts-in-kind.

8. Gifts 2010-11 through 2014-15

Debt

In February 2015 Colby issued $100 million in new debt for investment in future strategic initiatives, including anticipated new facilities for athletics and the performing arts. This borrowing was designed to take advantage of the College’s strong balance sheet, favorable market conditions, and to provide flexibility to support facilities and other key strategic initiatives.

At June 30, 2015, Colby had three debt issuances outstanding with a combined balance of $198.6 million. All of Colby’s current debt is issued under its own credit rating at fixed rates, with a weighted average coupon of about 4.3 percent.

The Series 2015 debt was a taxable issue with a bullet maturity in 2055. The College will create a sinking-fund, to be invested with the endowment, which is expected to grow over time to fund repayment of the debt. Colby’s debt-to-endowment ratio stood at 27 percent at fiscal year-end.

9. Debt and Debt-to-Endowment as of June 30

Facilities

The first phase of Roberts Hall renovation project was nearing completion at the end of 2014-15, converting the recently vacated 2nd and 3rd floors to residential space with 75 beds arranged in a mix of singles, doubles, and suites. Both floors include central lounge space and the 2nd floor lounge extends to a covered porch. A number of historic features have been preserved, including fluted columns and textured plaster walls in some areas, and the original woodwork aesthetic has been restored.

Construction began last spring on a combined baseball/softball complex. The project will provide artificial turf fields for baseball and softball, stadium lighting, multiple batting tunnels, and related spectator spaces. In addition to allowing Colby teams to practice and play games at home throughout the season, the fields will be available for campus recreation and for use by the community. The project is scheduled for completion this fall.

A variety of smaller projects were completed last year; the most notable involved energy efficiency measures that were designed to reduce the College’s electricity consumption by about 500,000 kWh annually.

A series of major planning studies were initiated last year. The College began work on a new campus master plan to provide a context for future development, including possible sites for new facilities, opportunities to enhance campus gathering spaces, pedestrian and vehicular circulation, wayfinding, lighting, and landscaping.

Program planning studies were begun for performing arts and athletics facilities in January. Working with consulting firms, the planning committees worked through winter/spring to assess
current conditions, needs, and aspirations, benchmarked facilities at peer institutions, explored a variety of options for consideration, and developed options for program, siting, and cost estimating. In addition to the broadly-representative membership, the committees solicited campus feedback through interviews and forums open to students, faculty, and staff. The results will be reviewed with the Board of Trustees at the October 2015 meeting.

Design work for the renovation and expansion of Grossman continued in 2015-16 with a change of focus. The building was planned for conversion to administrative use following the opening of Roberts as a residence hall. Grossman is now being programmed as a new home for the Career Center. The existing building is slated to be renovated for counseling spaces, offices, interview rooms while a new, two-story addition will house an expanded resource library and meeting rooms. These spaces will be available for both formal and informal gathering areas.

Financial Projections

The Board of Trustees engaged in a year-long discussion of financial planning assumptions and opportunities to use Colby’s financial strengths to invest in important new strategic initiatives. This process began with the trustee retreat in August 2014 and continued through the academic year. A broad range of sensitivity analyses on revenue, expense, facility, and program assumptions were conducted to support these deliberations.

With these in mind, the College undertook a major new financial aid initiative — $5 million of new aid funding over four classes to support enrollment of additional academically high achieving students — and made critical investments in admissions staffing and outreach programs to enhance the strength of the applicant pool. As noted previously, the College took advantage of the current interest rate environment to secure advance funding for anticipated major facility projects to support the performing arts and athletics programs. Colby also approved additional staffing in a variety of academic and administrative functions to build institutional capacity to support current and new programs.

The Committee on Mission and Priorities, comprised of faculty, student and staff representatives, was established to advise the president on long-term planning and priorities, reviewing areas of need as well as opportunities for improvement, and ensuring that programmatic priorities and the College’s financial strategy are aligned. The committee has provided valuable input to the strategic planning process thus far and its recommendations will in many cases inform deliberations of the Colby College Board of Trustees.

Summary

Colby experienced another successful financial year in 2014-15. The College made significant new investments in admissions, academic programs, student life programs, and faculty and staff positions to build capacity for current and future strategic initiatives within the operating budget.

President Greene has articulated a bold vision for Colby with a strong commitment to the liberal arts, to excellence, to innovation, and to the student experience. With aspirational goals, thoughtful planning, focused execution, and engaged alumni, parents, and friends, Colby can achieve this vision.