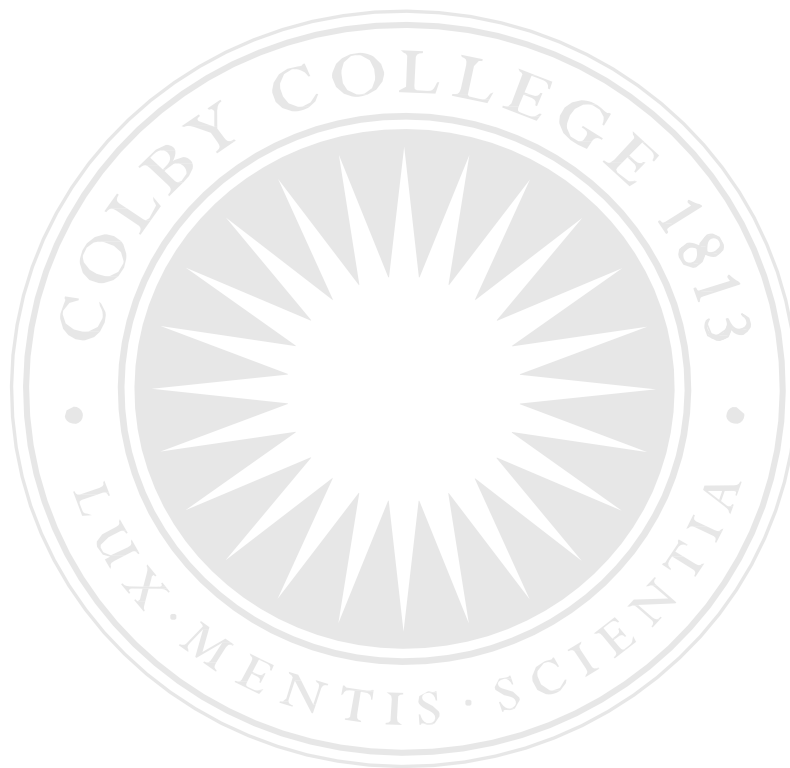


Colby

COLBY COLLEGE

CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2016 and 2015



COLBY COLLEGE

Consolidated Financial Statements

Table of Contents

Consolidated Financial Statements:

Independent Auditors' Report	1-2
Consolidated Balance Sheets	3
Consolidated Statements of Activities	4 – 5
Consolidated Statements of Cash Flows	6
Notes to Consolidated Financial Statements	7 – 30



Mayer Hoffman McCann P.C.
Tofias New England Division
An Independent CPA Firm

500 Boylston Street ■ Boston, MA 02116
Tel: 617.761.0600 ■ Fax: 617.761.0601 ■ www.cbiztofiias.com

Independent Auditors' Report

The Board of Trustees
Colby College
Waterville, Maine

We have audited the accompanying consolidated financial statements of Colby College (the "College"), which comprise the consolidated balance sheets 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 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. 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.



Member of Kreston International - a global network of independent accounting firms



Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Colby 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.

Mayer Hoffman McCann P.C.

October 22, 2016
Boston, Massachusetts

COLBY COLLEGE
CONSOLIDATED BALANCE SHEETS
June 30, 2016 and 2015
(in thousands)

	2016	2015
ASSETS		
Cash and cash equivalents	\$ 31,817	\$ 7,060
Accounts receivable (less allowance for doubtful accounts of \$641 in 2016 and \$652 in 2015)	1,297	2,709
Funds held by trustee (Note 7)	8,333	11,033
Short-term investments (Note 3)	15,894	36,017
Prepaid expenses and other assets	2,146	1,814
Notes receivable (Note 4)	2,826	4,305
Pledges receivable (Note 2)	18,905	21,769
Investments, endowment	710,659	745,957
Investments, strategic investment fund	99,909	99,821
Investments, annuity and life income funds	30,908	34,189
Investments, funds held in trust by others	12,978	13,577
Investments, other	39,133	43,230
Total investments (Note 6)	893,587	936,774
Pledge of artwork collection	27,846	27,846
Land, buildings, equipment and works of art (Note 5)	343,269	331,009
Total assets	\$ 1,345,920	\$ 1,380,336
LIABILITIES		
Accounts payable and accrued liabilities	\$ 16,307	\$ 16,367
Student deposits	1,330	1,074
Government advances for student loans	2,326	5,165
Annuity obligations	12,239	12,955
Bonds payable (Note 7)	202,854	204,266
Post retirement benefit obligation (Note 8)	38,287	35,616
Asset retirement obligation (Note 13)	4,979	4,819
Total liabilities	278,322	280,262
COMMITMENTS AND CONTINGENT LIABILITIES (Notes 6 and 11)		
NET ASSETS (Note 12)		
Unrestricted	358,054	366,541
Temporarily restricted	314,722	349,088
Permanently restricted	394,822	384,445
Total net assets	1,067,598	1,100,074
Total liabilities and net assets	\$ 1,345,920	\$ 1,380,336

The accompanying notes are an integral
part of the consolidated financial statements

COLBY COLLEGE
CONSOLIDATED STATEMENT OF ACTIVITIES
for the year ended June 30, 2016 (with comparative information for the year ended June 30, 2015)
(in thousands)

	UNRESTRICTED	TEMPORARILY RESTRICTED	PERMANENTLY RESTRICTED	TOTAL	
				2016	2015
Operating activities					
Operating revenues and other support					
Student charges	\$ 116,542			\$ 116,542	\$ 111,549
Student aid	(31,316)			(31,316)	(29,505)
Net student charges	85,226			85,226	82,044
Contributions	4,243			4,243	4,706
Endowment return utilized for operations	34,916			34,916	29,709
Strategic investment fund utilized for operations	3,400			3,400	
Other investment income	386			386	229
Net assets released from restriction	6,842			6,842	6,763
Other revenue	4,937			4,937	5,193
Total operating revenues and other support	139,950			139,950	128,644
Expenses					
Instruction and research	49,452			49,452	45,708
Academic support	17,247			17,247	15,278
Student services	25,242			25,242	23,759
Institutional support	24,893			24,893	23,678
Auxiliary enterprises	19,935			19,935	19,372
Total operating expenses	136,769			136,769	127,795
Increase in net assets before non-operating activities	3,181			3,181	849
<hr/>					
Increase in net assets from general operations (Note 1)	185			185	12
Decrease in net assets from depreciation	(10,782)			(10,782)	(9,797)
Amounts designated for facilities reserves, debt service, strategic investment fund, endowment and student loans (Note 1)	13,778			13,778	10,634
<hr/>					
Non-operating activities					
Contributions	956	\$ 16,023	\$ 8,937	25,916	18,892
Net investment income	2,391	298	248	2,937	1,676
Net realized and unrealized gains (losses)	(4,398)	(11,104)	(1,088)	(16,590)	29,177
Endowment return utilized for operations	(34,916)			(34,916)	(29,709)
Strategic investment fund utilized for operations	(3,400)			(3,400)	
LLC operating results	(288)			(288)	(41)
Postretirement benefit related changes other than net periodic benefit cost	(127)			(127)	(3,125)
Other, net	(1,875)	9		(1,866)	(1,395)
Net change in annuity and life income funds	10	(2,471)	1,980	(481)	(1,603)
Net assets released from restriction and reclassifications	29,979	(37,121)	300	(6,842)	(6,763)
Change in net assets from non-operating activities	(11,668)	(34,366)	10,377	(35,657)	7,109
Total change in net assets	(8,487)	(34,366)	10,377	(32,476)	7,958
Net assets, beginning of year	366,541	349,088	384,445	1,100,074	1,092,116
Net assets, end of year	\$ 358,054	\$ 314,722	\$ 394,822	\$ 1,067,598	\$ 1,100,074

The accompanying notes are an integral
part of the consolidated financial statements

COLBY COLLEGE
CONSOLIDATED STATEMENT OF ACTIVITIES
for the year ended June 30, 2015
(in thousands)

	UNRESTRICTED	TEMPORARILY RESTRICTED	PERMANENTLY RESTRICTED	TOTAL
Operating activities				
Operating revenues and other support				
Student charges	\$ 111,549			\$ 111,549
Student aid	(29,505)			(29,505)
Net student charges	82,044			82,044
Contributions	4,706			4,706
Endowment return utilized for operations	29,709			29,709
Other investment income	229			229
Net assets released from restriction	6,763			6,763
Other revenue	5,193			5,193
Total operating revenues and other support	128,644			128,644
Expenses				
Instruction and research	45,708			45,708
Academic support	15,278			15,278
Student services	23,759			23,759
Institutional support	23,678			23,678
Auxiliary enterprises	19,372			19,372
Total operating expenses	127,795			127,795
Increase in net assets before non-operating activities	849			849
<i>Increase in net assets from general operations (Note 1)</i>	12			12
<i>Decrease in net assets from depreciation</i>	(9,797)			(9,797)
<i>Amounts designated for facilities reserves, debt service, endowment and student loans (Note 1)</i>	10,634			10,634
Non-operating activities				
Contributions	774	\$ 9,299	\$ 8,819	18,892
Net investment income	903	533	240	1,676
Net realized and unrealized gains	8,226	21,101	(150)	29,177
Endowment return utilized for operations	(29,709)			(29,709)
LLC operating results	(41)			(41)
Postretirement benefit related changes other than net periodic benefit cost	(3,125)			(3,125)
Other, net	(1,426)	26	5	(1,395)
Net change in annuity and life income funds	100	(1,901)	198	(1,603)
Net assets released from restriction and reclassifications	26,065	(32,828)		(6,763)
Change in net assets from non-operating activities	1,767	(3,770)	9,112	7,109
Total change in net assets	2,616	(3,770)	9,112	7,958
Net assets, beginning of year	363,925	352,858	375,333	1,092,116
Net assets, end of year	\$ 366,541	\$ 349,088	\$ 384,445	\$ 1,100,074

The accompanying notes are an integral
part of the consolidated financial statements

COLBY COLLEGE
CONSOLIDATED STATEMENTS OF CASH FLOWS
for the years ended June 30, 2016 and 2015
(in thousands)

	2016	2015
Cash flows from operating activities		
Change in net assets	\$ (32,476)	\$ 7,958
Adjustments to reconcile change in net assets to net cash used in operating activities		
Changes in:		
Accounts receivable	1,412	(1,291)
Short-term investments	20,123	(13,826)
Prepaid expenses and other assets	(332)	287
Pledges receivable	2,864	(603)
Accounts payable and accrued liabilities	(1,320)	(596)
Student deposits	256	340
Post retirement benefit obligation	2,671	5,061
Depreciation	10,782	9,797
Accretion and other changes in asset retirement obligation	160	146
Amortization of bond premium and deferred financing costs	(292)	(301)
Write off of uncollectible notes receivable	1,000	
Net realized and unrealized losses (gains) on investments	16,590	(29,177)
Contributions in kind and securities	(6,019)	(5,277)
Contributions restricted for investment	(14,971)	(8,950)
Investment income restricted for investment	(1,714)	(1,671)
Net cash used in operating activities	(1,266)	(38,103)
Cash flows from investing activities		
Collections of notes receivable	596	657
Notes receivable issued	(117)	(254)
Purchase of land, buildings and equipment	(21,124)	(18,853)
Purchase of investments	(204,491)	(252,646)
Proceeds from sale of investments	236,449	179,000
Net cash provided by (used in) investing activities	11,313	(92,096)
Cash flows from financing activities		
Payments on bonds payable	(1,120)	(925)
Bonds payable issued		100,032
Contributions restricted for investment	14,971	8,950
Investment income restricted for investment	1,714	1,671
Change in annuity obligations	(716)	322
Change in government advances for student loans	(2,839)	7
Change in funds held by trustee	2,700	7,871
Net cash provided by financing activities	14,710	117,928
Net change in cash and cash equivalents	24,757	(12,271)
Cash and cash equivalents at beginning of year	7,060	19,331
Cash and cash equivalents at end of year	\$ 31,817	\$ 7,060
Supplemental data:		
Interest paid, net of capitalized interest	\$ 7,423	\$ 2,231
Acquisition of land, buildings and equipment included in accounts payable	\$ 1,260	\$ 1,512

The accompanying notes are an integral
part of the consolidated financial statements

COLBY COLLEGE
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Organization and Summary of Significant Accounting Policies:

Colby College (the College) is a private, coeducational, liberal arts college located in Waterville, Maine providing academic, residential and other services to a diverse student population from across the United States and internationally.

Basis of Presentation

The consolidated financial statements have been prepared on the accrual basis of accounting and in accordance with accounting principles generally accepted in the United States of America.

Unrestricted net assets include all resources that are not subject to donor-imposed restrictions of a more specific nature than those that obligate the College to utilize funds only in furtherance of its educational mission or for which donor restrictions have expired. Temporarily restricted net assets carry specific, donor-imposed restrictions on the expenditure or other uses of contributed funds and/or the investment return on these assets or are limited for use by law. Temporary restrictions may expire either because of the passage of time or because certain actions are taken by the College which fulfill the restrictions. Permanently restricted net assets are those that are subject to donor-imposed restrictions which never lapse, thus requiring that the funds be retained permanently. Generally, the donors of permanently restricted net assets permit the College to use all or part of the investment return on these assets.

Principles of Consolidation

The accompanying consolidated financial statements include the accounts of the College and its wholly owned or controlled subsidiaries. The College has established various for-profit entities that are engaged in the purchase and potential restoration and development of real estate in Waterville, Maine. All intercompany accounts and transactions have been eliminated in consolidation.

Use of Estimates

The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities, as well as the reported amounts of revenues and expenses during the reporting periods. Actual results could differ from the estimates included in the financial statements. Significant management estimates include the allowance for doubtful notes, pledges and accounts receivable, fair value of certain investments, useful lives of buildings and equipment, fair value of the artwork pledge and artwork collection, interest in and obligations under split interest agreements, postretirement benefit obligation, asset retirement obligation and the allocation of common expenses over program functions.

Operations

Revenues received and expenses incurred in conducting the programs and services of the College are presented in the consolidated financial statements as operating activities. Student charges include the College's comprehensive fee, which is the equivalent of tuition, fees, room and board. Revenues and other support from operating activities are not restricted by donors or other external sources and are therefore classified in unrestricted net assets. At the discretion of the College, all or a portion of net assets from operations may be designated for general operations adjusted for depreciation, facilities reserves, debt service, addition to strategic investment funds, addition to unrestricted quasi-endowment or for student loan funds. 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.

COLBY COLLEGE
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, CONTINUED

1. Organization and Summary of Significant Accounting Policies, continued:

Expiration of Donor-Imposed Restrictions and Changes in Donor Intent

Contributions and investment return with donor-imposed restrictions are reported as temporarily restricted revenues and are reclassified (released from restriction) to unrestricted net assets when an expense is incurred that satisfies the donor-imposed restriction. Contributions restricted for the acquisition of land, buildings and equipment are reported as temporarily restricted revenues. These contributions are reclassified to unrestricted net assets upon acquisition of the related assets. Net assets are reclassified when a change in donor intent occurs.

Endowment and Related Funds

Endowment investments include gifts that are subject to donor or legal restrictions as well as other unrestricted gifts and College funds, which are invested to provide support for College activities in accordance with Trustee direction. Generally, only investment return is made available for spending in accordance with a Trustee-approved endowment income utilization policy, except that some funds do allow for the expenditure of principal.

Endowment net assets classified as unrestricted include College funds and gifts from donors and any accumulated income thereon which may be expended but remains in the endowment by Trustee designation for the long-term support of College activities. Temporarily restricted endowment net assets include certain expendable gifts, and any income and appreciation of permanently restricted net assets not utilized in accordance with the spending formula approved by the Trustees. Permanently restricted endowment net assets include those funds that must be invested in perpetuity to provide a permanent source of income and can not be otherwise expended.

Most endowment and gift annuity funds are invested on a pooled basis using the unit share method. Total endowment investment yield (interest, dividends, rents and royalties) received for the year is distributed to fund accounts, in accordance with the terms or restrictions of the individual fund. The amounts distributed from endowment to operating accounts are considered endowment return utilized for operations.

The College has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of endowment assets. Under this policy, as approved by the Board of Trustees, endowment assets are invested in a manner that is intended to produce results that exceed a composite benchmark of asset class specific benchmarks weighted in accordance with the College's asset allocation targets. The College expects its endowment funds, over time, to provide an average annual real (inflation adjusted) return of approximately 6%. Actual returns in any given year may vary from this amount.

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 capital appreciation (realized and unrealized) and current yield (interest and dividends). The College targets a diversified asset allocation that places a greater emphasis on equity-based investments to achieve its long-term return objectives within prudent risk constraints.

The maximum amount of endowment income utilization is determined by a spending formula approved by the Trustees. This formula is applied to all funds in the endowment pool, except those that specifically exclude the use of appreciation and certain donor restricted and board designated funds and funds where spending is limited by law, to determine the amounts which will be (a) utilized for operations, or (b) in certain cases added to principal. The amount available for use was set for 2015-16 at 5.30% and for 2014-15 at 4.95% of the market base defined as the average of the market values of the participating funds for the five preceding years adjusted to reflect gifts and

COLBY COLLEGE
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, CONTINUED

1. Organization and Summary of Significant Accounting Policies, continued:

other additions received in subsequent years. In any year in which the amount of actual yield is not sufficient to meet the amount allocated, an amount is applied from the excess amounts of yield and net appreciation of the endowments in preceding years, if any, to compensate for this deficit in utilizable yield. In establishing this policy, the College considered the long-term expected return on its endowment. Accordingly, over the long term, the College expects the current spending policy to allow its endowment to grow at an average annual real (inflation adjusted) rate of approximately 1% to 2%. This is consistent with the College's objective to maintain the purchasing power of the endowment assets held in perpetuity or for a specified term as well as to provide additional real growth through new gifts and investment return.

Cash and Cash equivalents

Cash and cash equivalents consist principally of funds deposited in cash management accounts with maturities of three months or less at the time of purchase. A significant portion of cash and cash equivalents are held in money market mutual funds. Under ordinary circumstances, the College is allowed to withdraw all funds immediately; however, the trustees of the fund reserve the right to limit distributions under certain circumstances. The College has not experienced such limitations on these funds. Cash and cash equivalents held by investment managers are considered part of investments.

The College maintains its cash balances at several financial institutions, which at times may exceed federally insured limits. The College monitors its exposure associated with cash and cash equivalents and has not experienced any losses in such accounts.

Accounts Receivable

Accounts receivable are carried at their net realizable value. Management estimates the allowance for doubtful accounts by identifying troubled accounts and by using historical experience applied to an aging of accounts. Accounts receivable are written off when deemed uncollectible. Recoveries of accounts receivable previously written off are recorded as revenue when received.

Student Loans Receivable and Government Advances for Student Loans and Other Loans Receivable

Included in notes receivable are College funds loaned to students and funds advances by the College via the Federal Perkins Loan Program (the Program).

Perkins funds may be reloaned by the College after collection, but in the event that the College no longer participates in the Program, the amounts are generally refundable to the Federal government. Funds advanced by the Federal government of \$2,326,000 and \$5,165,000 at June 30, 2016 and 2015, respectively, are classified as liabilities on the balance sheet. Loans receivable are carried at the original amount less an estimate made for doubtful receivables based on a review of all outstanding amounts on a periodic basis. Management determines this allowance for doubtful accounts by identifying troubled accounts and by using historical experience applied to an aging of accounts. Loans that are 15 days or more past due are assessed late fees. Interest and late fees are recorded when received. Perkins loans that are in default and meet certain requirements can be assigned to the Department of Education, which reduces the Government advances for student loans. During fiscal year 2016, the College returned to the Department of Education (DOE) \$2,800,000 in Perkins loan funds that were considered to be excess liquid capital. The College also received \$485,000 in Perkins loan funds for its institutional share of the funds remitted to DOE.

COLBY COLLEGE
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, CONTINUED

1. Organization and Summary of Significant Accounting Policies, continued:

Loans receivable are carried at their estimated net realizable value. Management estimates the allowance for credit losses based on historical losses, current economic conditions and the credit quality of the loans. Loans receivable are written off when deemed uncollectible. Recoveries of loans receivable previously written off are recorded as decreases in the allowance for credit losses. Interest income on loans receivable is recognized in the period earned. Interest is not recorded on loans that are significantly past due and considered uncollectible.

Split-Interest Agreements

Certain donors have established irrevocable split-interest agreements with the College, primarily charitable gift annuities, pooled income funds and charitable remainder trusts, whereby the donated assets are invested and distributions made to the donor and/or other beneficiaries in accordance with their respective agreements. Pooled income funds and charitable remainder trusts are invested separately. Charitable gift annuities are invested in the endowment pool with returns allocated on a ratable basis. The College separately tracks assets held in split-interest agreements and reports them at fair value as Investments, annuity and life income funds. The present value of the estimated future distributions to beneficiaries from these annuity agreements is recorded as a liability as of the dates the agreements are established; the liability is adjusted as distributions are made and for changes in the present value of estimated future distributions. The difference between the assets received and the liability for beneficiary payments is recognized as contribution revenue as of the dates the agreements are established. The initially recorded fair value of the donated investments is determined based on the underlying nature of the investments, which may utilize Level 1, 2, or 3 inputs while the initial measurement of the related obligations uses Level 2 inputs.

Charitable trusts, where an outside party serves as trustee, are recorded at fair value when notification of the trust's existence is received and the third-party trustee has provided sufficient reliable information to estimate the fair value, net of the present value of any estimated future payments to beneficiaries. The College reports these amounts as Investments, funds held in trust by others.

Donor contributions to split-interest agreements are recorded as contribution revenue in the non-operating section of the statement of activities in the year the gift is made. Subsequent changes in value are reported as net change in annuity and life income funds in the statement of activities. Discount rates used to determine the present value of estimated future payments to beneficiaries range from 2.79% - 10.00%.

Investments and Fair Value Measurements

The College reports certain assets and liabilities at fair value on a recurring and nonrecurring basis depending on the underlying accounting policy for the particular item. Recurring fair value measurements include the College's investment accounts and funds held by trustees. Nonrecurring measurements include pledges, donated land, buildings and equipment, annuity obligations and asset retirement obligations. Fair value standards require an entity to maximize the use of observable inputs (such as quoted prices in active markets) and minimize the use of unobservable inputs (such as appraisals or valuation techniques) to determine fair value. In addition, the College reports certain investments using the net asset value per share as determined by investment managers under the so called "practical expedient". The practical expedient allows net asset value (NAV) per share to represent fair value for reporting purposes when the criteria for using this method are met. Fair value measurement standards also require the College to classify financial instruments (but for those measured using NAV) into a three-level hierarchy, based on the priority of inputs to the valuation technique.

COLBY COLLEGE
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, CONTINUED

1. Organization and Summary of Significant Accounting Policies, continued:

The three levels of the fair value hierarchy are described below:

Level 1 – Quoted prices are available in active markets for identical investments as of the reporting date.

Level 2 – Inputs to the valuation methodology include quoted prices for similar assets and liabilities in active markets; quoted prices for identical or similar assets and liabilities in inactive markets; inputs other than quoted market prices that are observable for the asset or liability; and inputs that are derived principally from or corroborated by observable market data by correlation or other means.

Level 3 – Pricing inputs are unobservable and could include situations where there is little, if any, market activity for the financial instruments. The inputs into the determination of fair value require significant management judgment and estimation.

In some instances, the inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such instances, the level within the fair value hierarchy is based on the lowest level of input that is significant to the fair value measurement. The categorization of investments as level 3 is not necessarily indicative of the characterization of the underlying investments.

Market price is affected by a number of factors, including the type of instrument and the characteristics specific to the instrument. Instruments with readily available active quoted prices or for which fair value can be measured from actively quoted prices generally will have a higher degree of market price observability and a lesser degree of judgment used in measuring fair value. It is reasonably possible that changes in values of these instruments will occur in the near term and that such changes could materially affect amounts reported in these financial statements. For more information on the fair value of the College's financial instruments, see Note 14 – Fair Value Measurements.

Funds Held by Trustee

Funds held by trustee consist primarily of unexpended debt proceeds and funds held for debt service that have been invested in accordance with the various resolutions and note agreements in connection with the Maine Health and Higher Educational Facilities Authority Bonds. Unexpended funds are invested in cash, temporary investments and fixed income securities and are reported at cost which approximates fair value.

Strategic Investment Fund

The College has established a strategic investment fund to be used for capital projects approved by the Board of Trustees, to service other debt of the College, to fund strategic operating investments and for any other purposes as may be subsequently approved by the Board of Trustees. The strategic investment fund is reported at fair value using level 1 and 2 inputs and consists of a money market mutual fund and Treasury bills with maturities of fifteen months to thirty-six months at date of purchase. The amounts distributed from the strategic investment fund to operating accounts are considered strategic investment fund utilized for operations and were used primarily towards operating expenses and property acquisitions of the College.

Land, Buildings, Equipment and Works of Art

Land, buildings, equipment and works of art are stated at construction cost, acquisition cost or fair value at dates of gifts, less accumulated depreciation. Fair value of donated assets is effectively recorded using Level 3 market inputs on the date of accession. Depreciation is computed on the straight-line basis over the estimated useful lives of the assets. Useful lives are as follows:

COLBY COLLEGE
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, CONTINUED

1. Organization and Summary of Significant Accounting Policies, continued:

Buildings, building renovations and other	20-60
Improvements other than buildings	20
Furniture and equipment	5

The College considers its collections of works of art and rare books as inexhaustible because they have cultural, aesthetic or historical value that will be preserved and, therefore, does not depreciate those assets. The cost of repairs and maintenance are charged to expense as incurred while major renewals and betterments are capitalized. Land, buildings and equipment are removed from the records in the year of disposal and the resulting gain or loss is recorded in the statement of activities.

Pledges Receivable

Pledges receivable include grants from foundations, governmental units and pledges from donors or other sources considered to be unconditional. Bequests are recognized as contributions at the time the College is notified of its valid interest in an estate by the appropriate court and the amount can be reasonable estimated. These amounts are recorded at fair value when initially pledged using Level 2 inputs. The initial recording for pledges expected to be collected in one year or more is arrived at by using the present value of a risk adjusted rate to account for the inherent risk associated with the expected future cash flows. Amortization of the discount is included in contributions revenue. Unconditional promises to give are periodically reviewed to estimate an allowance for doubtful accounts. Management estimates the allowance by a review of historical experience and a specific review of collection trends that vary from the plan on individual accounts. Conditional promises to give are not included as support until the conditions are substantially met.

Pledge of Artwork Collection

Pledge of artwork collection represents the donation of certain artwork to the College. The pledges are recorded at the estimated fair value of the underlying assets as of the date of initial recognition of the pledge using Level 3 market inputs including appraisals. Donation of a substantial portion of the artwork to the College was conditioned on the construction of a facility dedicated to its exhibition. The facility construction was completed in 2014 and the College subsequently received artwork with an estimated fair value of \$102,155,000 in partial satisfaction of the pledge. This amount has been recorded in land, buildings and equipment and the remaining outstanding pledge is expected to be satisfied within the next 5 years.

Student Deposits

Student deposits generally represent tuition and student deposits paid in advance, which are recognized as income when the related educational services are provided.

Student Charges

Student charges revenue is recognized as revenue when earned.

COLBY COLLEGE
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, CONTINUED

1. Organization and Summary of Significant Accounting Policies, continued:

Tax Status

The College is exempt from income taxes under Internal Revenue Code Section 501(c)(3). Certain of the College's investments and summer operations create unrelated business income, which is subject to tax. The College reflects investment income net of unrelated business income taxes. The College files income tax returns in the U.S. federal jurisdiction, and various state jurisdictions. Any interest or penalties on underpayment of income taxes are classified as income tax expense. Given the limited taxable activities of the College, management has concluded that disclosures related to tax provisions are not necessary.

Uncertain Tax Positions

The College accounts for the effect of any uncertain tax positions based on a "more likely than not" threshold to the recognition of the tax positions being sustained based on the technical merits of the position under scrutiny by the applicable taxing authority. If a tax position or positions are deemed to result in uncertainties of those positions, the unrecognized tax effect is estimated based on a "cumulative probability assessment" that aggregates the estimated tax liability for all uncertain tax positions. The College has a number of tax positions, none of which result in an uncertainty requiring recognition. The College is not currently under examination by any taxing jurisdictions. The College's Federal and state tax returns are generally open for examination for three years following the date filed.

Asset Retirement Obligation

The asset retirement obligation represents a legal obligation to the College to perform an asset retirement activity in which the timing and/or method of settlement are conditional on a future event that may or may not be within the control of the College. Uncertainty with respect to the timing and/or method of settlement of the asset retirement obligation does not defer recognition of a liability. The obligation to perform the asset retirement activity is unconditional, and accordingly, a liability is initially recognized at the estimated fair value of the asset retirement obligation using Level 2 inputs that include discount rates and other observable inputs.

Contributions Revenue

Contributions, including unconditional promises to give, are initially recorded as revenue at fair value when verifiably committed. Fair value is determined at the date the revenue is recorded using Level 2 fair value inputs that includes risk adjusted discount rates and other observable inputs. Conditional contributions and intentions to give are generally recorded as revenue when the conditions have been met. Contributions are reflected as unrestricted, temporarily restricted or permanently restricted based on the existence or absence of donor restrictions. Amounts received with donor-imposed restrictions that are recorded as temporarily restricted contributions are reclassified to unrestricted net assets when the time or purpose restriction has been satisfied.

Subsequent Events

The College recognizes in the financial statements the effects of all subsequent events that provide additional evidence about conditions that existed at the date of the balance sheet, including estimates inherent in the process of preparing financial statements. Subsequent events have been evaluated through October 22, 2016, which is the date the financial statements were issued and there were no events requiring adjustment to or disclosure in the financial statements.

Reclassifications

Certain 2015 balances have been reclassified to conform with the 2016 presentation. During 2016, the College retrospectively adopted Financial Accounting Standards (FASB) Accounting Standards

COLBY COLLEGE
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, CONTINUED

Organization and Summary of Significant Accounting Policies, continued:

Update (ASU) No. 2015-03, *Interest-Imputation of Interest (Subtopic 835-30) – Simplifying the Presentation of Debt Issuance Costs*, and debt issuance costs are now presented as a deduction of debt on the financial statements for each year. Accordingly, bonds payable originally stated at \$205,997,000 in the June 30, 2015 financial statements have been restated to \$204,266,000 to reflect \$1,731,000 of unamortized issuance costs previously included in prepaid expenses and other assets. Additionally, during 2016 the College retrospectively adopted FASB ASU No. 2015-07, *Fair Value Measurement (Topic 820) – Disclosures for Investments in Certain Entities That Calculate Net Asset Value per Share (or Its Equivalent)*, and investments valued at net asset value are now presented in a separate column in the related footnote disclosure for 2016 and 2015.

2. Pledges Receivable:

Unconditional pledges as of June 30 are expected to be realized in the following periods discounted based on appropriate rates (in thousands):

	<u>2016</u>	<u>2015</u>
In one year or less	\$ 10,129	\$ 9,975
Between one year and five years	10,276	13,673
Greater than five years	<u>129</u>	<u>186</u>
	20,534	23,834
Less: present value discount	634	919
Less: allowance for uncollectible pledge	<u>995</u>	<u>1,146</u>
Net pledges receivable	<u>\$ 18,905</u>	<u>\$ 21,769</u>

In addition to the amounts noted above, the College has received intentions to give approximating \$35,575,000 and \$4,339,000 at June 30, 2016 and 2015, respectively, which have not been recorded in the balance sheets. Total costs related to alumni and development activities approximated \$6,505,000 and \$5,514,000 during the years ended June 30, 2016 and 2015, respectively, and are included in institutional support in the statement of activities.

3. Short-Term Investments:

Short-term investments are reported at fair value using observable Level 2 inputs of market quotes for similar instruments and consist of Treasury bills with maturities of six months to ten months at original date of purchase.

4. Notes Receivable:

Notes receivable consist of the following as of June 30, 2016 and 2015 (in thousands):

	<u>2016</u>	<u>2015</u>
Perkins loans	\$ 2,757	\$ 3,264
Local development loan		1,000
Other loans	<u>505</u>	<u>485</u>
	<u>3,262</u>	<u>4,749</u>
Less allowance for doubtful accounts:		
Beginning of year	444	457
Write-offs	<u>(8)</u>	<u>(13)</u>
End of year	<u>436</u>	<u>444</u>
Notes receivable, net	<u>\$ 2,826</u>	<u>\$ 4,305</u>

COLBY COLLEGE
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, CONTINUED

4. Notes Receivable, continued:

An age analysis of past due financing receivables is as follows (in thousands):

	<u>30-59 Days Past Due</u>	<u>60-89 Days Past Due</u>	<u>Greater than 90 Days</u>	<u>Total Past Due</u>	<u>Current</u>	<u>Total Financing Receivables</u>
June 30, 2016						
Perkins loans	\$ 144	\$ 22	\$ 477	\$ 643	\$ 2,114	\$ 2,757
Other loans			498	498	7	505
Total	<u>\$ 144</u>	<u>\$ 22</u>	<u>\$ 975</u>	<u>\$ 1,141</u>	<u>\$ 2,121</u>	<u>\$ 3,262</u>
June 30, 2015						
Perkins loans	\$ 144	\$ 21	\$ 461	\$ 626	\$ 2,638	\$ 3,264
Local development loan			1,000	1,000		1,000
Other loans			474	474	11	485
Total	<u>\$ 144</u>	<u>\$ 21</u>	<u>\$ 1,935</u>	<u>\$ 2,100</u>	<u>\$ 2,649</u>	<u>\$ 4,749</u>

5. Land, Buildings, Equipment and Works of Art:

Land, buildings, equipment and works of art consist of the following as of June 30, 2016 and 2015 (in thousands):

	<u>2016</u>	<u>2015</u>
Land	\$ 194	\$ 194
Buildings and building renovations	293,557	279,814
Construction in progress	8,148	11,762
Improvements	38,586	30,670
Furniture and equipment	2,009	1,269
Works of art	148,436	144,416
Rare books	130	130
Other	<u>1,168</u>	<u>1,168</u>
Total	492,228	469,423
Less accumulated depreciation	<u>148,959</u>	<u>138,414</u>
	<u>\$343,269</u>	<u>\$331,009</u>

As of June 30, 2016, the College estimates that the unaudited replacement value of its buildings is approximately \$488,000,000. The College capitalizes the interest cost related to outstanding debt on qualifying assets. Interest costs capitalized for the years ended June 30, 2016 and 2015 total \$720,000 and \$631,000, respectively.

COLBY COLLEGE
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, CONTINUED

6. Investments:

A summary of assets of the endowment investments and the annuity and life income investments at June 30, 2016 and 2015 follows (in thousands):

	2016 Estimated Fair Value	2015 Estimated Fair Value
Pooled Assets:		
Cash and cash equivalents	\$ 66,437	\$ 52,227
Accounts receivable and accrued income	<u>74</u>	<u>408</u>
	<u>66,511</u>	<u>52,635</u>
Investments:		
Global equity funds	215,959	203,097
Hedge funds	166,237	207,700
Venture capital	103,621	112,944
Buyout funds	56,577	64,786
Real estate funds	37,987	44,970
Fixed income securities	30,858	30,254
Natural resources	44,693	41,029
Total pooled investments	<u>655,932</u>	<u>704,780</u>
Total pooled assets	<u>722,443</u>	<u>757,415</u>
Other endowment assets:		
Domestic equities	4	991
Real estate	1,677	1,751
Cash value of life insurance	<u>222</u>	<u>207</u>
Total other endowment assets	<u>1,903</u>	<u>2,949</u>
Total invested assets	724,346	760,364
Less annuity and life income assets pooled with endowment and similar funds	<u>13,687</u>	<u>14,407</u>
Total endowment and similar assets	<u>\$ 710,659</u>	<u>\$ 745,957</u>
Assets of annuity and life income funds include:		
Separately invested assets	\$ 17,221	\$ 19,782
Assets pooled with endowment and similar funds	<u>13,687</u>	<u>14,407</u>
Total annuity and life income funds	<u>\$ 30,908</u>	<u>\$ 34,189</u>

COLBY COLLEGE
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, CONTINUED

6. Investments, continued:

The Board of Trustees of Colby College has interpreted the Maine Uniform Prudent Management of Institutional Funds Act (Maine UPMIFA) as requiring the 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, Colby College classifies as permanently restricted net assets (a) the original gift value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the College in a manner consistent with Maine UPMIFA. Maine UPMIFA requires the College act in good faith in determining amounts to appropriate for expenditure with the care that an ordinary prudent person in a like position would exercise under similar circumstances, and shall consider certain factors outlined in the law.

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor or Maine UPMIFA requires the College to retain as a fund of perpetual duration. In accordance with accounting principles generally accepted in the United States of America, deficiencies of this nature are reported in unrestricted net assets. Such deficiencies totaled \$224,000 and \$0 as of June 30, 2016 and 2015, respectively.

The majority of the endowment investments are pooled on a fair value basis. Each individual fund subscribes to or disposes of units on the basis of the fair value per unit on the last business day of the month previous to that within which the transaction takes place. The changes in estimated fair value of net assets held in endowment and similar funds for the years ended June 30 were as follows (in thousands):

COLBY COLLEGE
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, CONTINUED

6. Investments, continued:

	2016			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment investments, beginning of year	\$ 214,790	\$ 312,782	\$ 218,385	\$ 745,957
Investment return:				
Investment income	1,990	5,121	131	7,242
Net gain (loss) in fair value	(4,648)	(10,422)	(554)	(15,624)
Total investment return	(2,658)	(5,301)	(423)	(8,382)
Gifts	298	195	14,750	15,243
Distribution of endowment return to all funds	(10,627)	(25,063)		(35,690)
Investment expenses	(1,340)	(5,569)		(6,909)
Amounts designated to (from) endowment	(1,048)	(926)	300	(1,674)
Matured life income funds	10		1,980	1,990
Other changes, net	(278)	400	2	124
Endowment investments, end of year	\$ 199,147	\$ 276,518	\$ 234,994	\$ 710,659

	2015			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment investments, beginning of year	\$ 215,493	\$ 315,713	\$ 209,425	\$ 740,631
Investment return:				
Investment income	1,562	3,875	103	5,540
Net gain (loss) in fair value	8,226	20,400	(55)	28,571
Total investment return	9,788	24,275	48	34,111
Gifts	104	128	8,674	8,906
Distribution of endowment return to all funds	(9,307)	(21,666)		(30,973)
Investment expenses	(1,376)	(3,414)		(4,790)
Amounts designated to (from) endowment		(2,394)		(2,394)
Matured life income funds	101		50	151
Other changes, net	(13)	140	188	315
Endowment investments, end of year	\$ 214,790	\$ 312,782	\$ 218,385	\$ 745,957

COLBY COLLEGE
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, CONTINUED

6. Investments, continued:

The endowment net asset composition by type of fund for the years ended June 30 is as follows (in thousands):

	2016			Total
	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	
Donor-restricted endowment funds		\$ 276,518	\$ 234,994	\$ 511,512
Board-designated endowment funds	\$ 199,147			199,147
Total investments, endowment	<u>\$ 199,147</u>	<u>\$ 276,518</u>	<u>\$ 234,994</u>	<u>\$ 710,659</u>

	2015			Total
	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	
Donor-restricted endowment funds		\$ 312,782	\$ 218,385	\$ 531,167
Board-designated endowment funds	\$ 214,790			214,790
Total investments, endowment	<u>\$ 214,790</u>	<u>\$ 312,782</u>	<u>\$ 218,385</u>	<u>\$ 745,957</u>

The yield per unit, exclusive of net gains (losses), computed on the weighted average of units outstanding, was \$1.85 and \$1.49 for the years ended June 30, 2016 and 2015, respectively. Spending per unit for current use, computed on units outstanding as of July 1, 2015 and July 1, 2014, was \$16.18 and \$14.07, respectively. The Board of Trustees has approved appropriations from the investment funds of \$35,366,000 for 2017, which the College expects to fund from normal liquidity in its portfolio. Certain funds management fees are embedded as a net cost against investment returns and, accordingly, the investment fees reported above relate only to those costs incurred directly by the College or reported separately by fund managers. Under certain unusual circumstances, investment managers may alter redemption provisions of their investment vehicles which could impact the ultimate liquidity of the funds.

Other investments, measured at fair value, at June 30, 2016 and 2015 consist of the following (in thousands):

	<u>2016</u>	<u>2015</u>
Cash and cash equivalents held for long-term purposes	\$ 34,121	\$ 38,155
Employee mortgages and other (average interest rate 3.8%)	<u>5,012</u>	<u>5,075</u>
Total investments, other	<u>\$ 39,133</u>	<u>\$ 43,230</u>
Investments, funds held in trust by others (See Note 1)	<u>\$ 12,978</u>	<u>\$ 13,577</u>
Investments, strategic investment fund (See Note 1)	<u>\$ 99,909</u>	<u>\$ 99,821</u>

COLBY COLLEGE
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, CONTINUED

7. Bonds Payable:

Bonds payable at June 30, 2016 and 2015 are as follows (in thousands):

<u>Facilities Financing</u>	<u>2016</u>	<u>2015</u>
Revenue Bonds issued through the Maine Health and Higher Educational Facilities Authority (the Authority) for the acquisition, installation, construction, renovation and equipping of various academic and administrative facilities:		
Series 2012 Revenue Bonds, maturing through 2041 at fixed rates (ranging from 2.00% - 5.00%)	\$ 25,390	\$ 26,335
Series 2014A Revenue Bonds, maturing through 2044 at fixed rates (ranging from 3.00% - 5.00%)	66,580	66,755
Series 2014B Taxable Revenue Bonds, maturing through 2044 at fixed rates (ranging from 4.34% - 4.44%)	4,665	4,665
Series 2015 Taxable Bonds, maturing in 2055 at a fixed rate of 4.25%	<u>100,800</u>	<u>100,800</u>
	197,435	198,555
Unamortized premium (amortized over the life of the related debt issue)	7,087	7,442
Unamortized debt issuance costs (amortized over the life of the related debt issue)	<u>(1,668)</u>	<u>(1,731)</u>
Total bonds payable	<u>\$202,854</u>	<u>\$204,266</u>

Maturities of outstanding bonds are as follows:

<u>Date</u>	<u>Principal Amount (in thousands)</u>
July 1, 2016	\$1,230
July 1, 2017	1,700
July 1, 2018	1,740
July 1, 2019	1,775
July 1, 2020	1,860
Thereafter	<u>189,130</u>
	<u>\$197,435</u>

COLBY COLLEGE
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, CONTINUED

7. Bonds Payable, continued:

The College has pledged its gross revenues as collateral for its notes to the Authority. In addition, the College is required to maintain certain funds with the bond trustee. Funds held by bond trustee were as follows at June 30, 2016 and 2015 (in thousands):

	<u>2016</u>	<u>2015</u>
Construction Funds	\$ 2,834	\$ 5,890
Debt service funds	<u>5,499</u>	<u>5,143</u>
	<u>\$ 8,333</u>	<u>\$ 11,033</u>

Total interest expense incurred by the College for the years ended June 30, 2016 and 2015 is as follows (in thousands):

	<u>2016</u>	<u>2015</u>
Total interest cost	\$ 8,221	\$ 5,633
Less: Capitalized interest	<u>720</u>	<u>631</u>
Net interest expense	<u>\$ 7,501</u>	<u>\$ 5,002</u>

The College maintains a line of credit agreement with a financial institution totaling \$40,000,000. At June 30, 2016 and 2015, there were no outstanding borrowings under this agreement. This agreement expires on December 31, 2016. The interest that would be charged under this facility is equal to 1.5% above the one month LIBOR rate (.45% at June 30, 2016). The College is required to comply with certain financial covenants under this credit facility including liquidity and debt service coverage ratios. The College is also restricted in the amount of additional indebtedness it can incur. An annual fee is charged on the unused portion of the credit facility equal to 0.20%, paid quarterly. It is the College's intention to renew this credit facility under similar terms.

On January 26, 2015, the College issued \$100,000,000 Series 2015 Taxable Bonds. The proceeds of the Series 2015 Taxable Bonds will be used primarily to finance various capital projects, operating costs, investments and other activities. The Series 2015 Bonds are subject to an optional make-whole redemption prior to maturity.

Bond issuance costs are capitalized and amortized on the straight-line basis over the life of the bonds. Bond issuance costs total \$1,668,000 and \$1,731,000 net of accumulated amortization of \$192,000 and \$129,000. Amortization expense amounted to \$63,000 and \$54,000 for the years ended June 30, 2016 and 2015, respectively.

8. Postretirement Benefits:

The College provides medical benefits to eligible employees, as defined by the plan, who have 10 years of continuous service after age 40, and have reached a minimum age of 60 years. The following sets forth the plan status with amounts reported in the College's financial statements at June 30, 2016 and 2015 (in thousands):

	<u>2016</u>	<u>2015</u>
Change in Benefit Obligation		
Postretirement benefit obligation, beginning of year	\$ 35,616	\$ 30,555
Service cost	781	709
Interest cost	1,574	1,351
Plan participants' contributions	259	266
Actuarial loss	1,271	3,950
Benefits paid	<u>(1,214)</u>	<u>(1,215)</u>
Postretirement benefit obligation, end of year	<u>\$ 38,287</u>	<u>\$ 35,616</u>

COLBY COLLEGE
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, CONTINUED

8. Postretirement Benefits, continued:

The postretirement benefit obligation is funded as costs are incurred and accordingly, there are no plan assets.

Net periodic postretirement benefit cost for the years ended June 30, 2016 and 2015 included the following components (in thousands):

	<u>2016</u>	<u>2015</u>
Service cost	\$ 781	\$ 709
Interest cost	1,574	1,351
Amortization of transition obligation		119
Amortization of actuarial loss	<u>1,176</u>	<u>745</u>
Net postretirement benefit cost	<u>\$ 3,531</u>	<u>\$2,924</u>

Amounts recognized in non-operating activities for the years ended June 30, 2016 and 2015 included the following components (in thousands)

	<u>2016</u>	<u>2015</u>
Net current period actuarial loss	\$ (1,303)	\$ (3,989)
Amortization of transition obligation		119
Amortization of actuarial loss	<u>1,176</u>	<u>745</u>
Postretirement benefit related changes other than net periodic benefit cost	<u>\$ (127)</u>	<u>\$ (3,125)</u>

The estimated amounts for the postretirement benefit obligation that will be amortized from nonoperating activities into net periodic postretirement benefit cost over the next fiscal year are as follows (in thousands):

Amortization of actuarial (gain) loss	<u>\$1,199</u>
---------------------------------------	----------------

The amounts that have not been recognized as components of net periodic postretirement benefit cost for the year ended June 30, 2016 and 2015 are as follows (in thousands):

	<u>2016</u>	<u>2015</u>
Net actuarial loss	<u>\$ 12,137</u>	<u>\$ 12,042</u>

Weighted-average assumptions used to determine benefit obligations and net periodic benefit cost for the years ended June 30 were as follows:

	<u>Benefit Obligation</u>		<u>Net Periodic Benefit Cost</u>	
	<u>2016</u>	<u>2015</u>	<u>2016</u>	<u>2015</u>
Discount rate	4.00%	4.50%	4.50%	4.50%

COLBY COLLEGE
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, CONTINUED

8. Postretirement Benefits, continued:

The College expects to contribute \$1,072,000 to its postretirement benefit plan in 2017.

The following benefit payments, which reflect expected future service, as appropriate, are expected to be paid:

	<u>Gross Benefit Payments</u>
2017	\$1,072,000
2018	1,204,000
2019	1,341,000
2020	1,502,000
2021	1,654,000
2022-2025	9,266,000

The health care trend rate assumption used in determining the accumulated benefit obligation for 2016 was 8.57% pre 65 and post 65 gradually decreasing to 4.50% in 2025 and remaining at that level thereafter. The effect of increasing (decreasing) the health care cost trend rate by one percentage point in each year would be to increase (decrease) the accumulated postretirement benefit obligation as of June 30, 2016 by \$6,388,000 (\$5,170,000) and to increase (decrease) the aggregate of the service cost and interest cost components of net postretirement benefit cost for the year ended June 30, 2016 by \$461,000 (\$363,000).

The College uses a June 30 measurement date for its postretirement benefit plan.

9. Retirement Plans:

College employees participate in individual annuity contracts through the Teachers Insurance and Annuity Association and the College Retirement Equities Fund. Contributions for each annuity are made both by the participant and the College. The College's contribution amounted to approximately \$3,342,000 and \$3,213,000 in fiscal 2016 and 2015, respectively.

10. Guarantee Fund with Maine Employment Security Commission:

The College has elected to discharge its responsibility for unemployment insurance costs with the Maine Employment Security Commission based on actual charges rather than making periodic insurance payments. As collateral for payment, the College has purchased a surety bond in the amount of \$551,000.

COLBY COLLEGE
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, CONTINUED

11. Commitments and Contingent Liabilities:

Foreign Currency Forward Commitments

The College uses foreign currency forward contracts to hedge the currency exposure associated with its off-campus programs. At June 30, 2016 and 2015, the notional amount of the U.S. dollar commitment required under the terms of outstanding foreign currency forward contracts amounted to approximately \$432,000 and \$533,000, respectively. Contracts are for European Union Euros and extend through December 2016. As a result of the use of foreign currency forward contracts, the College is exposed to risk that the counterparties will fail to meet their contractual obligation. To mitigate this risk, the College only enters into contracts with selected major financial institutions based upon their credit ratings and other factors, and continually assesses the creditworthiness of counterparties. The College does not enter into derivative instruments for trading or speculation purposes.

For the years ended June 30, 2016 and 2015, the College recorded a gain of \$65,000 and a loss of \$54,000, respectively, on contracts related to its off-campus programs in the operating portion of its statement of activities.

Construction Commitments

The College has outstanding commitments of \$1,366,000 at June 30, 2016 to complete various construction projects in connection with the strategic plan of the College.

Legal

Various legal matters arise in the normal course of the College's operations. The College believes that there are currently no outstanding matters which would have a material effect on the financial position of the College.

Employment Agreements

The College has employment agreements with certain faculty and staff that stipulate a variety of business terms typical in the education sector.

Other

The College outsources services in connection with its dining activities under long-term contracts with the supplier. Management believes this arrangement is under commercially reasonable terms.

COLBY COLLEGE
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, CONTINUED

12. Net assets:

Net assets comprise the following at June 30, 2016 and 2015 (in thousands):

	<u>2016</u>		
	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>
General operating reserves	\$ (7,162)		
LLC operations	385	\$ 1,286	
Unexpended restricted funds		7,605	
Loan funds	1,495		\$ 1,975
Endowment	199,147	276,518	234,994
Annuity and life income funds		18,663	
Strategic investment fund	1,241		
Funds for facilities	162,948	726	108,048
Pledges receivable		9,172	9,733
Assets restricted to investment in land, buildings, equipment and works of art			27,846
Funds held in trust by others		<u>752</u>	<u>12,226</u>
	<u>\$358,054</u>	<u>\$314,722</u>	<u>\$394,822</u>

	<u>2015</u>		
	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>
General operating reserves	\$ (7,220)		
LLC operations	(41)		
Unexpended restricted funds		\$ 7,100	
Loan funds	2,728		\$ 1,860
Endowment	214,790	312,782	218,385
Annuity and life income funds		21,228	
Funds for facilities	156,284	938	108,048
Pledges receivable		6,223	15,546
Assets restricted to investment in land, buildings, equipment and works of art			27,846
Funds held in trust by others		<u>817</u>	<u>12,760</u>
	<u>\$366,541</u>	<u>\$349,088</u>	<u>\$384,445</u>

COLBY COLLEGE
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, CONTINUED

12. Net assets, continued:

The College's net assets, including appreciation on endowment funds, are available for the following purposes (in thousands):

	2016	
	Temporarily Restricted	Permanently Restricted
Operations (Various)	\$ 69,815	\$ 37,797
Student aid	122,958	105,427
Professorships (Instruction)	57,747	46,297
Library (Academic Support)	7,231	2,649
Lectureships (Instruction)	3,477	1,889
Research	3,948	6,568
Facilities	2,012	135,894
Other purposes (Various)	47,534	58,301
	<u>\$314,722</u>	<u>\$394,822</u>

	2015	
	Temporarily Restricted	Permanently Restricted
Operations (Various)	\$ 76,278	\$ 35,627
Student aid	140,201	99,958
Professorships (Instruction)	65,281	43,801
Library (Academic Support)	7,960	2,656
Lectureships (Instruction)	3,870	1,894
Research	4,684	6,435
Facilities	938	135,894
Other purposes (Various)	49,876	58,180
	<u>\$349,088</u>	<u>\$384,445</u>

See Note 6 for a description of the components and activity associated with endowment investments. In accordance with accounting principles generally accepted in the United States of America and Maine state law, unappropriated gains on permanently restricted endowment investments are included in temporarily restricted net assets. These amounts total approximately \$251,470,000 and \$285,628,000 in 2016 and 2015, respectively.

COLBY COLLEGE
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, CONTINUED

12. Net assets, continued:

Net assets were released from donor restrictions as a result of incurring expenses satisfying the restricted purposes or occurrence of events specified by the donors. Net assets released from restrictions for the years ended June 30, 2016 and 2015 were for the following purposes (in thousands):

	<u>2016</u>	<u>2015</u>
Student aid	\$ 15,207	\$ 13,375
Instruction	8,136	7,259
Facilities	5,772	5,667
Academic Support	3,378	2,525
Research	1,507	1,347
Student Services	1,313	1,331
Other	1,808	1,324
Net assets released from restrictions	<u>\$ 37,121</u>	<u>\$ 32,828</u>

13. Asset Retirement Obligation:

The following sets forth the change in the asset retirement obligation during 2016 and 2015 (in thousands) consisting of obligations for asbestos contamination in several buildings and other potentially hazardous items.

	<u>2016</u>	<u>2015</u>
Asset retirement obligation, beginning of year	\$ 4,819	\$ 4,673
Accretion expense	241	233
Net changes to estimated cash flow	<u>(81)</u>	<u>(87)</u>
Asset retirement obligation, end of year	<u>\$ 4,979</u>	<u>\$ 4,819</u>

COLBY COLLEGE
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, CONTINUED

14. Fair Value Measurements:

The valuation of the College's financial instruments measured on a recurring basis using the fair value hierarchy consisted of the following at June 30:

2016					
	Net Asset Value	Level 1	Level 2	Level 3	Total
Funds held by trustee		\$ 8,333			\$ 8,333
Short-term investments			\$ 15,894		15,894
Investments:					
Cash and receivables		138,364			138,364
Fixed income direct holdings			91,305		91,305
Global equity funds	\$ 117,245	100,441			217,686
Equity securities, other		17,172			17,172
Hedge funds	166,237				166,237
Venture capital funds	103,621				103,621
Buyout funds	56,577				56,577
Real Estate funds	37,987				37,987
Natural Resources funds	44,161	532			44,693
Investments, other				\$ 19,945	19,945
	525,828	256,509	91,305	19,945	893,587
	\$ 525,828	\$ 264,842	\$ 107,199	\$ 19,945	\$ 917,814

2015					
	Net Asset Value	Level 1	Level 2	Level 3	Total
Funds held by trustee		\$ 11,033			\$ 11,033
Short-term investments			\$ 36,017		36,017
Investments:					
Cash and receivables		161,767			161,767
Fixed income direct holdings			56,723		56,723
Global equity funds	\$ 102,369	104,085			206,454
Equity securities, other		19,733			19,733
Hedge funds	207,700				207,700
Venture capital funds	112,944				112,944
Buyout funds	64,786				64,786
Real Estate funds	44,970				44,970
Natural Resources funds	32,123	8,906			41,029
Investments, other				\$ 20,668	20,668
	564,892	294,491	56,723	20,668	936,774
	\$ 564,892	\$ 305,524	\$ 92,740	\$ 20,668	\$ 983,824

COLBY COLLEGE
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, CONTINUED

14. Fair Value Measurements, continued:

\$283,482,000 and \$310,069,000 of the investments measured at net asset value have redemption periods of less than 90 days and \$242,346,000 and \$254,823,000 have redemption periods over 90 days at June 30, 2016 and 2015, respectively.

The following table provides a summary of changes in fair value of the College's Level 3 financial instruments for the years ended June 30, 2016 and 2015 (in thousands):

	2016		
	Funds Held in Trust		
	by Others	Other	Total
Estimated fair value of investments at July 1, 2015	\$ 13,577	\$ 7,091	\$ 20,668
Unrealized losses	(599)	(12)	(611)
Realized losses		(29)	(29)
Purchases, issuances, sales and settlements			
Purchases		64	64
Sales		(147)	(147)
Estimated fair value of investments at June 30, 2016	\$ 12,978	\$ 6,967	\$ 19,945
	2015		
	Funds Held in Trust		
	by Others	Other	Total
Estimated fair value of investments at July 1, 2014	\$ 13,696	\$ 6,701	\$ 20,397
Unrealized gains		11	11
Unrealized losses	(119)		(119)
Realized losses		(35)	(35)
Purchases, issuances, sales and settlements			
Purchases		580	580
Sales		(166)	(166)
Estimated fair value of investments at June 30, 2015	\$ 13,577	\$ 7,091	\$ 20,668

COLBY COLLEGE
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, CONTINUED

14. Fair Value Measurements, continued:

Unfunded commitments under various investment vehicles amounted to approximately \$78,317,000 at June 30, 2016.

Real estate and other investments include several gifts of real estate, insurance policies, collections and other illiquid assets for which the liquidation time-frame is difficult to determine. To estimate the fair value of these investments, management uses market and income valuation approaches which utilize valuation inputs that include third-party appraisals, evaluation of market conditions and the creditworthiness of the policy issuers.

U.S. Treasury bills, bonds and notes are valued using proprietary valuation models incorporating live data from active market makers and inter-dealer brokers as reposted on electronic communication networks. The valuation models incorporate benchmark yields, reported trades, broker/dealer quotes, bids, offers and other data, all of which are considered to be Level 2 fair value inputs.

The fair value of Level 3 real estate and other investments is estimated using income and market approaches to valuation considering third party market data.

The following methods and assumptions were used to estimate the fair value of each class of financial instruments for which it is practicable to estimate that value:

Funds Held by Trustee

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

Foreign Currency

The fair value of the College's foreign currency forward commitments based on June 30, 2016 spot market rates is estimated to be \$436,000 using Level 2 inputs.