Colby

COLBY COLLEGE

CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2020 and 2019

COLBY COLLEGE

Consolidated Financial Statements

Table of Contents

Mayer Hoffman McCann P.C.
500 Boylston Street ■ Boston, MA 02116
Main: 617.761.0600 ■ Fax: 617.761.0601
www.cbiz.com/newengland

Independent Auditors' Report

The Board of Trustees
Colby College
Waterville, Maine

We have audited the accompanying consolidated financial statements of Colby College and subsidiaries (the "College"), which comprise the consolidated balance sheets as of June 30, 2020 and 2019, 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. 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 Colby College and subsidiaries as of June 30, 2020 and 2019, 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 23, 2020
Boston, Massachusetts

COLBY COLLEGE
CONSOLIDATED BALANCE SHEETS
June 30, 2020 and 2019
(in thousands)

	2020	2019
ASSETS		
Cash and cash equivalents	$ 30,399	$ 23,528
Accounts receivable	4,580	7,916
Funds held by trustee (Note 6)	3,471	5,987
Short-term investments (Note 3)	19,948	34,922
Prepaid expenses and other assets	3,617	4,032
Notes receivable (Note 1)	888	1,490
Pledges receivable (Note 2)	125,817	121,820
Investments, endowment	878,323	869,927
Investments, strategic investment fund	18,979	26,495
Investments, annuity and life income funds	29,271	31,471
Investments, funds held in trust by others	12,851	13,236
Investments, other	30,825	71,001
Total investments (Note 5)	970,249	1,012,130
Pledges of artwork (Note 1)	58,294	58,294
Land, buildings, equipment and works of art (Note 4)	638,761	552,628
Total assets	$ 1,856,024	$ 1,822,747
LIABILITIES		
Accounts payable and accrued liabilities	$ 29,536	$ 45,383
Student deposits	4,225	1,582
Government advances for student loans	409	1,323
Annuity obligations	10,076	11,492
Bonds payable (Note 6)	225,498	222,226
Post retirement benefit obligation (Note 7)	38,747	37,227
Asset retirement obligation (Note 13)	5,948	5,665
Total liabilities	314,439	324,898
COMMITMENTS AND CONTINGENT LIABILITIES (Notes 5 and 10)		
NET ASSETS (Note 11)		
Without donor restrictions	500,906	472,479
With donor restrictions	1,040,679	1,025,370
Total net assets	1,541,585	1,497,849
Total liabilities and net assets	$ 1,856,024	$ 1,822,747

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

COLBY COLLEGE
CONSOLIDATED STATEMENT OF ACTIVITIES
for the year ended June 30, 2020 (with comparative information for the year ended June 30, 2019)
(in thousands)

	WITHOUT DONOR RESTRICTIONS	WITH DONOR RESTRICTIONS	TOTAL 2020	TOTAL 2019
Operating activities				
Operating revenues and other support				
Student charges (net of student aid of $46,204 in 2020 and $43,690 in 2019)	$ 96,112		$ 96,112	$ 96,474
Contributions	4,830		4,830	4,736
Endowment return utilized for operations	43,419		43,419	43,946
Strategic investment fund utilized for operations				3,900
Other investment income	1,278		1,278	1,402
Net assets released from restriction	9,856		9,856	9,030
Other income	4,164		4,164	5,664
Total operating revenues and other support	159,659		159,659	165,152
Expenses				
Instruction and research	55,483		55,483	52,544
Academic support	19,905		19,905	19,280
Student services	31,112		31,112	31,168
Institutional support	29,150		29,150	31,677
Auxiliary enterprises	22,735		22,735	23,836
Total operating expenses	158,385		158,385	158,505
Increase in net assets before non-operating activities	1,274		1,274	6,647
Increase in net assets from general operations (Note 1)	*150*		*150*	*258*
Decrease in net assets from depreciation	*(12,296)*		*(12,296)*	*(11,778)*
Intercompany rent	*151*		*151*	*121*
Amounts designated for facilities reserves, debt service, strategic investment fund, endowment and student loans (Note 1)	*13,269*		*13,269*	*18,046*
Non-operating activities				
Contributions	325	$ 69,820	70,145	68,084
Net investment income	1,379	3,051	4,430	5,913
Net realized and unrealized gains	7,194	20,786	27,980	64,668
Endowment return utilized for operations	(43,419)		(43,419)	(43,946)
Strategic investment fund utilized for operations				(3,900)
LLC operating results	(354)		(354)	(582)
Postretirement benefit related changes other than net periodic benefit cost	(2,003)		(2,003)	(3,812)
Loss on extinguishment of debt	(4,986)		(4,986)	
Other, net	28	189	217	(1)
Net change in annuity and life income funds		308	308	(874)
Net assets released from restriction and reclassifications	68,989	(78,845)	(9,856)	(9,030)
Change in net assets from non-operating activities	27,153	15,309	42,462	76,520
Total change in net assets	28,427	15,309	43,736	83,167
Net assets, beginning of year	472,479	1,025,370	1,497,849	1,414,682
Net assets, end of year	$ 500,906	$ 1,040,679	$ 1,541,585	$ 1,497,849

COLBY COLLEGE
CONSOLIDATED STATEMENT OF ACTIVITIES
for the year ended June 30, 2019
(in thousands)

	WITHOUT DONOR RESTRICTIONS	WITH DONOR RESTRICTIONS	TOTAL 2019
Operating activities			
Operating revenues and other support			
Student charges (net of student aid of $ $43,690)	$ 96,474		$ 96,474
Contributions	4,736		4,736
Endowment return utilized for operations	43,946		43,946
Strategic investment fund utilized for operations	3,900		3,900
Other investment income	1,402		1,402
Net assets released from restriction	9,030		9,030
Other income	5,664		5,664
Total operating revenues and other support	165,152		165,152
Expenses			
Instruction and research	52,544		52,544
Academic support	19,280		19,280
Student services	31,168		31,168
Institutional support	31,677		31,677
Auxiliary enterprises	23,836		23,836
Total operating expenses	158,505		158,505
Increase in net assets before non-operating activities	6,647		6,647
Increase in net assets from general operations (Note 1)	*258*		*258*
Decrease in net assets from depreciation	*(11,778)*		*(11,778)*
Intercompany rent	*121*		*121*
Amounts designated for facilities reserves, debt service, strategic investment fund, endowment and student loans (Note 1)	*18,046*		*18,046*
Non-operating activities			
Contributions	425	$ 67,659	68,084
Net investment income	2,815	3,098	5,913
Net realized and unrealized gains (losses)	24,709	39,959	64,668
Endowment return utilized for operations	(43,946)		(43,946)
Strategic investment fund utilized for operations	(3,900)		(3,900)
LLC operating results	(582)		(582)
Postretirement benefit related changes other than net periodic benefit cost	(3,812)		(3,812)
Other, net	(32)	31	(1)
Net change in annuity and life income funds		(874)	(874)
Net assets released from restriction and reclassifications	46,417	(55,447)	(9,030)
Change in net assets from non-operating activities	22,094	54,426	76,520
Total change in net assets	28,741	54,426	83,167
Net assets, beginning of year	443,738	970,944	1,414,682
Net assets, end of year	$ 472,479	$ 1,025,370	$ 1,497,849

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, 2020 and 2019
(in thousands)

	2020	2019
Cash flows from operating activities		
Change in net assets	$ 43,736	$ 83,167
Adjustments to reconcile change in net assets to net cash used in operating activities		
Changes in:		
Accounts receivable	3,336	(4,796)
Short-term investments	14,451	(9,850)
Prepaid expenses and other assets	415	57
Pledges receivable	(3,997)	(1,512)
Accounts payable and accrued liabilities	(18,952)	(2,060)
Student deposits	2,643	(594)
Post retirement benefit obligation	1,520	3,265
Depreciation	12,385	11,863
Accretion and other changes in asset retirement obligation	283	270
Amortization of bond premium and deferred financing costs	62	(291)
Loss on extinguishment of debt	4,986	
Net realized and unrealized gains on investments	(27,980)	(64,668)
Contributions in kind, securities and pledges of artwork	(804)	(12,342)
Contributions restricted for investment	(52,057)	(42,166)
Investment income restricted for investment	(2,166)	(1,862)
Net cash used in operating activities	(22,139)	(41,519)
Cash flows from investing activities		
Collections of notes receivable	289	241
Notes receivable (recovered) write off	313	(8)
Purchase of land, buildings and equipment	(94,084)	(75,698)
Purchase of investments	(189,919)	(257,133)
Proceeds from sale of investments	259,797	313,554
Net cash provided by investing activities	(23,604)	(19,044)
Cash flows from financing activities		
Payments on bonds payable	(1,775)	(1,740)
Issuance of bonds payable		25,000
Debt issuance costs		(85)
Contributions restricted for investment	52,057	42,166
Investment income restricted for investment	2,166	1,862
Change in annuity obligations	(1,436)	(269)
Change in government advances for student loans	(914)	(8)
Change in funds held by trustee	2,516	(7)
Net cash provided by financing activities	52,614	66,919
Net change in cash and cash equivalents	6,871	6,356
Cash and cash equivalents at beginning of year	23,528	17,172
Cash and cash equivalents at end of year	$ 30,399	$ 23,528
Supplemental data:		
Interest paid, net of capitalized interest	$ 9,009	$ 7,297
Acquisition of land, buildings and equipment included in accounts payable	$ 3,125	$ 18,587

Noncash financing activity - Bonds were issued during 2020 and the funds were used to simultaneously pay off oustanding bonds and new issuance costs (Note 6)

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.

The College is accredited by numerous accrediting bodies with its primary accreditation being from the New England Commission of Higher Education, Inc. The College participates in student financial aid programs sponsored by the United States Department of Education ("DOE") and to a lesser extent states which facilitate payment of tuition and other expenses incurred by students when they are determined to be eligible as evaluated by the College's financial aid office. Such determinations are subject to after the fact review by funders.

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.

Net assets without donor restrictions 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. Net assets with donor restrictions 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 may expire either because of the passage of time or because certain actions are taken by the College which fulfill the restrictions or are subject to donor-imposed restrictions which never lapse, thus requiring that the funds be retained permanently.

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 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 net assets without donor restrictions. At the discretion of the College, all or a portion of net assets

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

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. Non-operating activities include contributions primarily restricted for capital, artwork and endowment gifts, returns associated with long-term investments, certain pension related costs, changes in the value of annuity and life income funds and other nonrecurring items.

Non-operating revenues are reported as increases in net assets without donor restrictions unless their use is limited by donor-imposed restrictions as follows:

The College derives revenues primarily through student charges which are under arrangements that are aligned to an academic semester which is less than one year in length.

Student charges revenue is recorded at established rates, net of institutional financial aid and scholarships provided directly to students and therefore amounts are deemed to be fixed and determinable. Such net amounts are recorded as revenue when performance obligations are satisfied which is generally over time as services are rendered whether relating to educational services or auxiliary services such as room and board. Management believes that recognizing revenue over time is the best measure of services rendered based on its academic calendar. Discounts provided to employees are considered part of fringe benefits within operating expenses and likewise are recorded over time. Management does not consider there to be significant judgment involved in the timing of satisfaction of performance obligations as those are directly linked to the academic calendar of the related academic activity.

Students may withdraw from programs of study within certain time limits as under the College's withdrawal policies by semester. These policies vary by program but allow for up to a 100% refund prior to the start of classes declining to no refund after 45 days from the start of classes. Given the normal timing of the College's programs the exposure to such refunds is limited at year end.

Payments made by third parties such as DOE relative to loans and grants to students are a mechanism to facilitate payment on behalf of students, and accordingly, such funding does not represent revenue of the College.

Revenue earned on grants for research is generally recognized as contributions revenue when the related costs are incurred. Revenue generated from contacts is recognized when value is transferred to customers and performance obligations are satisfied which generally is indicated by the incurring of allowable costs under the contract.

Factors than can impact the amount and timing of amount of cash flows related to the College's revenue sources include polices that allow for withdrawal by students after the start of the program and DOE rules for financial aid that differ for newly enrolled versus continuing students. Management does not view there to be other qualitative factors that have a significant impact on the nature and amount of revenue and cash flow.

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 donor restricted revenues and are reclassified (released from restriction) to net assets without donor restrictions when an expense is incurred that satisfies the donor-imposed restriction. Contributions restricted for the acquisition of land, buildings and equipment are reported as donor restricted revenues. These contributions are reclassified to net assets without donor restrictions upon acquisition of the related assets. Net assets are reclassified when a change in donor intent occurs.

Conditional contributions are recorded as revenue when such amounts become unconditional which generally involves the meeting of a barrier to performance. This can include items like meeting a matching provision, incurring specified allowable expenses in accordance with a framework of allowable costs or other barriers.

Endowment and Related Funds

Endowment investments include gifts that are subject to donor or legal restrictions as well as other 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 without donor restrictions 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. Donor restricted endowment net assets include certain expendable gifts, and any income and appreciation of donor restricted net assets not utilized in accordance with the spending formula approved by the Trustees. Donor 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

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

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 at 5.50% for 2019-20 and 2018-19 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 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. In addition, the College has been authorized by the Board of Trustees for supplemental transfers from unrestricted endowment for additional expenses of the Advancement office. The total supplemental transfer authorized for 2019-20 was $2,200,000, of which $1,200,000 was spent. For 2020-21, a transfer of $1,800,000 has been budgeted. These amounts are expected to be absorbed in the operating budget over a 10 year period.

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, such accounts are carried at cash plus accrued interest. 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

Students are billed based on dates outlined in the academic catalog as agreed in advance of the delivery the related academic or auxiliary activity. Payments for student charges and auxiliary enterprises charges are generally due by the start of the academic period and, depending on third party financial aid, payments being made by the DOE or others are subject to specific requirements within those programs as to when those funds can be availed. Certain DOE funding can be provided prior to the commencement of the academic period, while other amounts are paid at specified intervals based on the rules as promulgated by the DOE. As such, cash flows on accounts receivable balances and the measurement of deferred revenues do not directly depend on meeting specified performance obligations of the College.

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.

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

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 advanced by the College via the Federal Perkins Loan Program (the Program).

Perkins funds may be re-loaned 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 $409,000 and $1,323,000 at June 30, 2020 and 2019, 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 2020 and 2019, the College returned to the Department of Education (DOE) $703,000 and $0, respectively in Perkins loan funds that were considered to be excess liquid capital. The College also retained $190,000 and $0, respectively, in Perkins loan funds for its institutional share of the funds remitted to DOE.

Loans receivable are stated net of an allowance for doubtful accounts of $505,000 and $489,000 at June 30, 2020 and 2019, respectively. Loans receivable are considered past due if any portion of the balance due is outstanding for more than 90 days. Loans past due or in default totaled $699,000 and $855,000 at June 30, 2020 and 2019, respectively.

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. Write-offs and recoveries for the years ended June 30, 2020 and 2019 were insignificant.

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

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

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 1.72% - 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. Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. 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.

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 15 – Fair Value Measurements.

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

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. Such assets are capitalized when the useful life is over one year and when they exceed a management established capitalization threshold. 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:

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

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. If purchased, items accessioned into the collection are capitalized at cost, and if donated, they are capitalized at their fair value on the accession date (the date on which the item is accepted by the College). Gains or losses on the deaccession of collection items are classified on the consolidated statement of activities depending on donor restrictions, if any, placed on the item at the time of accession. 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.

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

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.

Pledges of Artwork

Pledge of artwork collection represents a pledge of certain artwork to the College. The pledge is 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. $29,000,000 of this pledge is expected to be satisfied within the next five years with the remainder beyond five years.

During 2020 and 2019, the College received additional pledges of artwork of approximately $0 and $15,001,000 respectively, that will be satisfied either by delivery of a portion of the donor's existing collection or by the donor contributing funds to the College that are restricted for the purchase of artwork. Since the gift may be satisfied by the delivery of artwork, the related receivable was recorded as pledge of artwork. There were no additional artwork pledges satisfied during 2020.

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, which is generally within one year. Very limited amounts may not be earned due to student withdrawal rights that management did not consider material. The remaining performance obligation is time driven given the academic calendar that underlies the earnings process for student charges. There were no significant changes in student deposits amounts on a quantitative or qualitative basis.

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 and deferred taxes 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.

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

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 categorized in net assets based on the existence or absence of donor restrictions. Amounts received with donor-imposed restrictions that are recorded as donor restricted contributions are reclassified to net assets without donor restrictions 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 23, 2020, which is the date the financial statements were issued and there were no events requiring adjustment to or disclosure in the financial statements.

New Accounting Pronouncements

During 2020, the College adopted Accounting Standards Update ("ASU") No. 2017-07, *Compensation - Retirement Benefits*. This standard requires that the service cost component of net periodic postretirement benefit cost be reported in the same statement of activities line item as other compensation costs arising from services rendered by the pertinent employees during the period. The standard was retrospectively applied and the impact resulted in a reclassification of $1,420,000 from operating expenses to non-operating expenses for the year ended June 30, 2019.

The College also adopted ASU 2018-15, *Customer's Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement That Is a Service Contract* during 2020. This ASU aligns the requirements for capitalizing implementation costs incurred to develop or obtain internal-use software. The College adopted this standard prospectively to all implementation costs incurred after July 1, 2019.

Reclassifications

Certain reclassifications were made to the 2019 consolidated financial statements to conform to the 2020 presentation.

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):

	2020	2019
In one year or less	$ 43,941	$ 44,233
Between one year and five years	86,562	82,558
Greater than five years	12,179	17,022
	142,682	143,813
Less: present value discount	10,242	13,170
Less: allowance for uncollectible pledge	6,623	8,823
Net pledges receivable	$ 125,817	$ 121,820

In addition to the amounts noted above, the College has received intentions to give approximating $14,399,000 and $4,238,000 at June 30, 2020 and 2019, respectively, which have not been recorded in the consolidated financial statements. Total costs related to alumni and development activities approximated $8,068,000 and $10,581,000 during the years ended June 30, 2020 and 2019, respectively, and are included in institutional support in the consolidated statements 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. Land, Buildings, Equipment and Works of Art:

Land, buildings, equipment and works of art consist of the following as of June 30, 2020 and 2019 (in thousands):

	2020	2019
Land	$ 194	$ 194
Buildings and building renovations	367,017	347,550
Construction in progress	190,850	124,571
Improvements	47,051	42,873
Furniture and equipment	7,219	5,635
Works of art	216,977	211,468
Rare books	130	130
Other	2,683	2,159
Total	832,121	734,580
Less accumulated depreciation	193,360	181,952
	$638,761	$552,628

As of June 30, 2020, the College estimates that the unaudited replacement value of its buildings is approximately $583,350,000. The College capitalizes the interest cost related to outstanding debt on qualifying assets. Interest costs capitalized for the years ended June 30, 2020 and 2019 total $1,142,000 and $1,128,000, respectively

5. Investments:

A summary of assets of the endowment investments and the annuity and life income investments at June 30, 2020 and 2019 follows (in thousands):

	2020 Estimated Fair Value	2019 Estimated Fair Value
Pooled Assets:		
Cash and cash equivalents	$ 57,205	$ 69,390
Accounts receivable and accrued income	3,694	2,923
	60,899	72,313
Investments:		
Global equity funds	266,016	269,891
Hedge funds	201,297	191,718
Venture capital	162,157	147,432
Buyout funds	85,445	81,229
Real estate funds	36,342	43,611
Fixed income securities	36,956	30,548
Natural resources	43,687	47,007
Total pooled investments	831,900	811,436
Total pooled assets	892,799	883,749
Other endowment assets:		
Cash and cash equivalents	4	821
Domestic equities	196	175
Real estate	943	1,003
Cash value of life insurance	256	267
Total other endowment assets	1,399	2,266
Total invested assets	894,198	886,015
Less annuity and life income assets pooled with endowment and similar funds	15,875	16,088
Total endowment and similar assets	$ 878,323	$ 869,927
Assets of annuity and life income funds include:		
Separately invested assets		
Cash and cash equivalents	$ 655	$ 739
Domestic equities	5,080	6,226
Global equity funds	3,439	4,317
Fixed income securities	3,783	3,708
Other	439	393
	13,396	15,383
Assets pooled with endowment and similar funds	15,875	16,088
Total annuity and life income funds	$ 29,271	$ 31,471

5. Investments, continued:

Colby College is subject to the Maine Uniform Prudent Management of Institutional Funds Act (Maine UPMIFA) and thus, classifies amounts in its donor-restricted endowment funds as net assets with donor restrictions because those net assets are time restricted until the Board of Trustees appropriates such amounts for expenditure. Most of those net assets also are subject to purpose restrictions that must be met before reclassifying those net assets to net assets without donor restrictions. The Board of Trustees of Colby College has interpreted 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 donor-restricted net assets (a) the original value of initial and subsequent gift amounts donated to the endowment fund and (b) any accumulations to the fund that are required to be maintained in perpetuity in accordance with the direction of the applicable donor gift instrument. 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. No such deficiencies exist at June 30, 2020 or 2019. The College policy is to only appropriate for spending the actual yield on such underwater funds.

5. Investments, continued:

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):

	2020		
	Without Donor Restrictions	With Donor Restrictions	Total
Endowment investments, beginning of year	$ 228,328	$ 641,599	$ 869,927
Investment return, net	7,970	22,486	30,456
Gifts and additions	325	21,321	21,646
Distribution of endowment return to all funds	(12,874)	(32,246)	(45,120)
Amounts designated to (from) endowment		(369)	(369)
Matured life income funds		2,283	2,283
Other changes, net	(43)	(457)	(500)
Endowment investments, end of year	$ 223,706	$ 654,617	$ 878,323

	2019		
	Without Donor Restrictions	With Donor Restrictions	Total
Endowment investments, beginning of year	$ 223,254	$ 604,759	$ 828,013
Investment return, net	17,996	49,466	67,462
Gifts and additions	425	18,672	19,097
Distribution of endowment return to all funds	(14,182)	(30,917)	(45,099)
Amounts designated to (from) endowment	824	(1,021)	(197)
Matured life income funds		669	669
Other changes, net	11	(29)	(18)
Endowment investments, end of year	$ 228,328	$ 641,599	$ 869,927

5. Investments, continued:

	2020		
	Without Donor Restrictions	With Donor Restrictions	Total
Board-designated endowment funds	$ 223,706		$ 223,706
Donor-restricted endowment funds:			
Original donor-restricted gift amount and amounts required to be maintained in perpetuity by donor		$ 314,443	314,443
Accumulated investment gains		314,174	314,174
Term endowment		7,417	7,417
Restricted quasi endowment		18,583	18,583
Total investments, endowment	$ 223,706	$ 654,617	$ 878,323

	2019		
	Without Donor Restrictions	With Donor Restrictions	Total
Board-designated endowment funds	$ 228,328		$ 228,328
Donor-restricted endowment funds:			
Original donor-restricted gift amount and amounts required to be maintained in perpetuity by donor		$ 290,796	290,796
Accumulated investment gains		324,622	324,622
Term endowment		8,014	8,014
Restricted quasi endowment		18,167	18,167
Total investments, endowment	$ 228,328	$ 641,599	$ 869,927

The yield per unit, exclusive of net gains (losses), computed on the weighted average of units outstanding, was $3.40 and $3.19 for the years ended June 30, 2019 and 2018, respectively. Spending per unit for current use, computed on units outstanding as of July 1, 2020 and July 1, 2019, was $23.94 and $23.15, respectively. The Board of Trustees has approved appropriations from the investment funds of $41,494,000 for 2021, which the College expects to fund from normal liquidity in its portfolio. Under certain unusual circumstances, investment managers may alter redemption provisions of their investment vehicles which could impact the ultimate liquidity of the funds.

5. Investments, continued:

Other investments, measured at fair value, at June 30, 2020 and 2019 consist of the following (in thousands):

	2020	2019
Cash and cash equivalents held for long-term purposes	$ 25,403	$ 41,153
Bond proceeds held for construction		25,000
Employee mortgages and other (average interest rate 3.47%)	5,422	4,848
Total investments, other	$ 30,825	$ 71,001
Investments, funds held in trust by others (See Note 1)	$ 12,851	$ 13,236
Investments, strategic investment fund (See Note 1)	$ 18,979	$ 26,495

6. Bonds Payable:

Bonds payable at June 30, 2020 and 2019 are as follows (in thousands):

Facilities Financing	2020	2019
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%)		$ 21,545
Series 2014A Revenue Bonds, maturing through 2044 at fixed rates (ranging from 3.00% - 5.00%)		65,755
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%	100,800	100,800
Series 2019 Tax-Exempt Bonds, maturing in 2026 at a fixed rate of 2.22%, privately placed with a bank	25,000	25,000
Series 2020 Taxable Bonds, maturing in 2058 at a fixed rates (ranging from 2.98% - 3.20%)	96,455	
	$226,920	$217,765
Unamortized premium/(discount) (amortized over the life of the related debt issue)		6,023
Unamortized debt issuance costs (amortized over the life of the related debt issue)	(1,422)	(1,562)
Total bonds payable	$225,498	$222,226

6. Bonds Payable, continued:

Payments on bonds payable commence in the year ended June 30, 2034.

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 for debt service funds were $3,471,000 and $5,987,000 at June 30, 2020 and 2019, respectively. The interest rate on the Series 2019 bonds increases, by up to 0.2%, if the College's credit rating changes.

Total interest expense incurred by the College for the years ended June 30, 2020 and 2019 is as follows (in thousands):

	2020	2019
Total interest cost	$ 8,193	$ 8,142
Less: Capitalized interest	1,142	1,128
Net interest expense	$ 7,051	$ 7,014

The College maintains a line of credit agreement with a financial institution totaling $40,000,000. At June 30, 2020 and 2019, there were no outstanding borrowings under this agreement. This agreement expires on March 31, 2022. The interest that would be charged under this facility is equal to 0.50% above the one month LIBOR rate (0.16% at June 30, 2020). 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.

The College has established a separate fund within its unrestricted quasi endowment assets that is intended to build resources that will be used to retire the Series 2015 Taxable Bonds when they mature in 2055. The value of this fund was $6,586,000 and $6,355,000 at June 30, 2020 and 2019, respectively. The College will fund a sinking fund relating to the 2020 bond issue on July 1, 2020 for $12,200,000.

Bond issuance costs are capitalized and amortized on the straight-line basis over the life of the bonds. At June 30, 2020 and 2019, bond issuance costs total $1,518,000 and $1,562,000, respectively, net of accumulated amortization of $96,000 and $381,000, respectively. Amortization expense amounted to $62,000 and $64,000 for the years ended June 30, 2020 and 2019, respectively, and bond issuance costs were $647,000 and $85,000 for the years ended June 30, 2020 and 2019, respectively.

On January 28, 2020, the College issued $96,455,000 in taxable bonds. The proceeds were used to defease the College's Revenue Bonds, Series 2012, and Series 2014A, which had an aggregate principal balance outstanding of $85,525,000. The defeasance was accomplished by funding $98,808,000 and the College was legally released from the obligations. An irrevocable refunding escrow was established to satisfy the full payment of the defeasance requirement. The College has fully funded this refunding escrow account and has no further legal obligations with respect to the Revenue Bonds being defeased. As a result of the early extinguishment of debt, the College recognized a loss of $4,986,000, net, in the statement of activities. This loss represents $10,283,000 in set-aside payments to fund the early redemption of the bonds, the write off of unamortized premiums and debt issuance costs of $5,297,000. This refinancing allowed the College to replace debt with interest rates ranging from 2.00% to 5.00 % due through 2044 with debt carrying interests rates of 2.98% to 3.20% due through 2058.

7. 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, 2020 and 2019 (in thousands):

	2020	2019
Change in Benefit Obligation		
Postretirement benefit obligation, beginning of year	$ 37,227	$ 33,962
Service cost	548	518
Interest cost	1,371	1,420
Plan participants' contributions	292	304
Actuarial loss (gain)	721	2,367
Benefits paid	(1,412)	(1,344)
Postretirement benefit obligation, end of year	$ 38,747	$ 37,227

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, 2020 and 2019 included the following components (in thousands):

	2020	2019
Service cost	$ 548	$ 518
Interest cost	1,371	1,420
Amortization of actuarial loss	330	
Net postretirement benefit cost	$ 2,249	$ 1,938

Amounts recognized in non-operating activities for the years ended June 30, 2020 and 2019 included the following components (in thousands):

	2020	2019
Net current period actuarial (gain) loss	$ 302	$ 2,392
Interest cost	1,371	1,420
Amortization of actuarial loss	330	
Postretirement benefit related changes other than net periodic benefit cost	$ 2,003	$ 3,812

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	$ 376

7. Postretirement Benefits, continued:

The amounts that have not been recognized as components of net periodic postretirement benefit cost for the year ended June 30, 2020 and 2019 are as follows (in thousands):

	2020	2019
Net actuarial loss	$ 6,084	$ 5,693

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

	Benefit Obligation		Net Periodic Benefit Cost	
	2020	2019	2020	2019
Discount rate	3.00%	3.75%	3.75%	4.25%

The College expects to contribute $1,525,000 to its postretirement benefit plan in 2021.

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

	Gross Benefit Payments
2021	$ 1,525,000
2022	1,586,000
2023	1,660,000
2024	1,793,000
2025	1,816,000
2026-2030	$ 9,774,000

The health care trend rate assumption used in determining the accumulated benefit obligation for 2020 was 7.18% pre 65 and post 65 gradually decreasing to 4.50% in 2028 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, 2020 by $5,652,000 ($4,657,000) 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, 2020 by $305,000 ($245,000).

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

8. 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 $4,018,000 and $3,724,000 in fiscal 2020 and 2019, respectively. The College maintains a plan in accordance with Section 457(b) of the Internal Revenue Code. Under the terms of this plan, annual contributions are made by the College for highly-compensated employees.

9. 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 $582,000.

10. Commitments and Contingent Liabilities:

Construction Commitments

The College has outstanding commitments of $19,199,000 at June 30, 2020 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.

11. Net assets:

Net assets comprise the following at June 30, 2020 and 2019 (in thousands):

	2020	
	Without Donor Restrictions	With Donor Restrictions
General operating reserves	$ (19,980)	
LLC operations	2,708	$ 9,188
Unexpended restricted funds		12,188
Loan funds	746	2,379
Endowment	223,706	654,617
Annuity and life income funds		19,195
Strategic investment fund	(61,892)	
Funds for facilities and artwork	355,618	146,150
Pledges receivable		125,817
Assets restricted to investment in land, buildings, equipment and works of art		58,294
Funds held in trust by others		12,851
Total net assets	$ 500,906	$ 1,040,679

	2019	
	Without Donor Restrictions	With Donor Restrictions
General operating reserves	$ (18,127)	
LLC operations	3,135	$ 2,222
Unexpended restricted funds		12,636
Loan Funds	862	2,286
Endowment	228,328	641,599
Annuity and life income funds		19,979
Strategic investment fund	(65,541)	
Funds for facilities and artwork	323,822	153,298
Pledges receivable		121,820
Assets restricted to investment in land, buildings, equipment and works of art		58,294
Funds held in trust by others		13,236
Total net assets	$ 472,479	$ 1,025,370

11. Net assets, continued:

Net assets with donor restriction are restricted for the following purposes at June 30, 2020 and 2019 (000's):

	2020	2019
Financial aid	$ 1,116	$ 1,137
Departmental support	17,245	16,804
Building and equipment	13,640	15,678
Other purposes (various)	222	227
	32,223	33,846
Subject to the passage of time	7,416	8,014
Subject to Colby spending policy and appropriation investment in perpetuity (including amounts above original gift amount of $314,443 and $290,796), which, once appropriated, is expendable to support:		
Financial aid	267,404	265,111
Library	11,045	11,256
Professorships	121,736	124,058
Departmental support	78,947	75,332
Research	15,199	13,642
Lectures	6,705	6,193
Other	126,229	119,826
	627,265	615,418
Not subject to appropriation of expenditure		
Artwork held in perpetuity	199,992	199,205
Pledges	125,817	121,820
Other	47,966	47,067
	$ 1,040,679	$ 1,025,370

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, 2020 and 2019 were for the following purposes (in thousands):

	2020	2019
Student aid	$ 17,955	$ 17,086
Instruction	9,877	10,010
Facilities	38,444	16,656
Academic support	5,282	4,725
Research	1,471	1,473
Student services	3,793	3,608
Other	2,023	1,889
Net assets released from restrictions	$ 78,845	$ 55,447

12. Natural expenses:

The tables below present expenses by both their nature and function for the years ended June 30, 2020 and 2019 (in thousands):

	2020					
	Instruction/ Research	Academic Support	Student Services	Institutional Support	Auxiliary Enterprises	Total
Compensation	$ 42,129	$ 8,957	$ 15,580	$ 18,305	$ 6,168	$ 91,139
Occupancy	1,229	949	2,546	1,036	3,244	9,004
Travel and Entertainment	2,388	686	2,387	2,402	120	7,983
Depreciation	3,690	2,252	2,915	1,422	2,017	12,296
Interest	1,771	1,081	1,399	682	2,118	7,051
Contract Services	1,600	1,127	3,684	2,610	5,050	14,071
Information technology and supplies	1,559	4,777	1,613	2,301	3,820	14,070
Other expenses	1,117	76	988	392	198	2,771
Total	$ 55,483	$ 19,905	$ 31,112	$ 29,150	$ 22,735	$ 158,385

	2019					
	Instruction/ Research	Academic Support	Student Services	Institutional Support	Auxiliary Enterprises	Total
Compensation	$ 38,476	$ 8,617	$ 14,669	$ 17,811	$ 6,093	$ 85,666
Occupancy	1,313	884	2,604	1,272	3,236	9,309
Travel and Entertainment	2,657	810	3,578	4,429	76	11,550
Depreciation	3,563	2,023	2,833	1,360	1,999	11,778
Interest	1,685	956	1,339	643	2,391	7,014
Contract Services	1,856	1,448	3,588	3,417	5,859	16,168
Information technology and supplies	2,024	4,489	1,880	2,275	4,179	14,847
Other expenses	970	53	677	470	3	2,173
Total	$ 52,544	$ 19,280	$ 31,168	$ 31,677	$ 23,836	$ 158,505

13. Asset Retirement Obligation:

The following sets forth the change in the asset retirement obligation during 2020 and 2019 (in thousands) consisting of obligations for asbestos contamination in several buildings and other potentially hazardous items:

	2020	2019
Asset retirement obligation, beginning of year	$ 5,665	$ 5,395
Accretion expense	283	270
Asset retirement obligation, end of year	$ 5,948	$ 5,665

14. Financial assets available for general use:

The following reflects Colby College's financial assets as of the balance sheet date reduced by amounts not available for general use because of contractual or donor-imposed restrictions within one year of the balance sheet date. Amounts not available include amounts set aside for long-term investing in quasi-endowment that could be drawn upon if the Board of Trustees approves that action. However, amounts already appropriated from either the donor-restricted endowment or quasi-endowment for general expenditure within one year of the balance sheet date have not been subtracted as unavailable (000's).

	2020	2019
Financial Assets, at June 30	$ 1,155,875	$ 1,207,793
Less those unavailable for general expenditures within one year, due to:		
Contractual or donor-imposed restrictions		
Restricted by donor with time or purpose restrictions	(151,817)	(149,015)
Subject to appropriation and satisfaction of donor restrictions	(627,265)	(615,418)
Annuity and life income funds	(29,271)	(31,471)
Funds held by trustee	(3,471)	(5,987)
Notes receivable	(888)	(1,490)
Funds held in trust by others	(12,851)	(13,236)
Employee mortgages and other	(5,422)	(4,848)
Board Designations:		
Quasi-endowment	(223,706)	(228,328)
Strategic investment fund	(18,979)	(26,495)
Bond proceeds for construction		(25,000)
Cash held for long term investment	(25,403)	(41,153)
	$ 56,802	$ 65,352

Endowment funds consist of donor-restricted endowments and funds designated by the Board of Trustees as endowments. Income from donor-restricted endowments is restricted for specific purposes, with the exception of the amounts available for general use. Donor-restricted funds are not available for general expenditure.

Board designated quasi-endowment of $223,706,000 is subject to an annual spending rate of 5.50% as described in Note 1. Although the College does not intend to spend from this board-designated endowment (other than amounts appropriated for general expenditure as part of the Board of Trustees annual budget approval and appropriation), these amount could be made available if necessary.

The strategic investment fund can be used to fund operations and/or capital needs as determined by management.

As part of a liquidity management plan, the College has a policy to structure its financial assets to be available as its general expenditure liabilities and other obligations come due. The College invests cash in excess of daily requirements in short-term investments and treasury notes of generally 6 – 9 month duration.

15. 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:

	2020				
	Net Asset Value	Level 1	Level 2	Level 3	Total
Funds held by trustee		$ 3,471			$ 3,471
Short-term investments			$ 19,948		19,948
Investments:					
Cash and receivables		59,464			59,464
Fixed income direct holdings			82,496		82,496
Global equity funds	$ 145,356	121,137			266,493
Equity securities, other		13,396			13,396
Hedge funds	201,297				201,297
Venture capital funds	162,157				162,157
Buyout funds	85,445				85,445
Real estate funds	20,585	15,757			36,342
Natural resources funds	17,924	25,763			43,687
Investments, other			5,422	14,050	19,472
	632,764	235,517	87,918	14,050	970,249
	$ 632,764	$ 238,988	$ 107,866	$ 14,050	$ 993,668

	2019				
	Net Asset Value	Level 1	Level 2	Level 3	Total
Funds held by trustee		$ 5,987			$ 5,987
Short-term investments			$ 34,922		34,922
Investments:					
Cash and receivables		100,310			100,310
Fixed income direct holdings			95,183		95,183
Global equity funds	$ 156,750	113,808			270,558
Equity securities, other		15,383			15,383
Hedge funds	191,718				191,718
Venture capital funds	147,432				147,432
Buyout funds	81,229				81,229
Real estate funds	17,176	26,435			43,611
Natural resources funds	24,156	22,851			47,007
Investments, other			5,239	$ 14,460	19,699
	618,461	278,787	100,422	14,460	1,012,130
	$ 618,461	$ 284,774	$ 135,344	$ 14,460	$ 1,053,039

15. Fair Value Measurements, continued:

$118,056,000 and $116,283,000 of the investments measured at net asset value have redemption periods of less than 90 days and $514,708,000 and $502,178,000 have redemption periods over 90 days at June 30, 2020 and 2019, 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, 2020 and 2019 (in thousands):

Unfunded commitments under various investment vehicles amounted to approximately $80,885,000 at June 30, 2020.

	2020		
	Funds Held in Trust by Others	Other	Total
Estimated fair value of investments at July 1, 2019	$ 13,236	$ 1,224	$ 14,460
Unrealized gains (losses)	(385)		(385)
Realized losses			0
Purchases, issuances, sales and settlements			
Purchases		15	15
Sales/Settlments		(40)	(40)
Estimated fair value of investments at June 30, 2020	$ 12,851	$ 1,199	$ 14,050

	2019		
	Funds Held in Trust by Others	Other	Total
Estimated fair value of investments at July 1, 2018	$ 14,546	1,657	$ 16,203
Unrealized gains (losses)	166		166
Realized losses			
Purchases, issuances, sales and settlements			
Purchases		28	28
Sales/Settlments	(1,476)	(461)	(1,937)
Estimated fair value of investments at June 30, 2019	$ 13,236	$ 1,224	$ 14,460

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.

15. Fair Value Measurements, continued:

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 College has determined that the carrying amount approximates fair value for funds held by trustee because of the short maturity of those instruments.

16. Risks and Uncertainties

Management is currently unable to accurately forecast the future impact on attendance patterns resulting from the Coronavirus (COVID-19) pandemic which could impact the number of students, the course loads taken by students, the mode of delivery, price levels trends and the utilization of residence halls and other facilities of the College on a forward basis. In March of 2020 the College transitioned to remote learning and most students left campus. In connection with this transition, the College issued room and board credits of approximately $5,125,000. The Federal Coronavirus Aid, Relief and Economic Security Act (the "CARES Act") has provisions that benefit the College. One such provision is the Higher Education Emergency Relief Fund under which the College is eligible to draw up to $1,245,000, half of which must be used for direct grants to students and the other half of which can be used by the College for certain COVID-19 related costs. As of June 30, 2020, the College has spent $910,000.

The CARES Act also permits entities that were disrupted by COVID-19 to defer payment of the employer share of social security taxes due between March 27, 2020 and December 31, 2020 to paying half only December 31, 2021 and the other half by December 31, 2022. The College has deferred payment of $910,000 of such taxes at June 30, 2020.