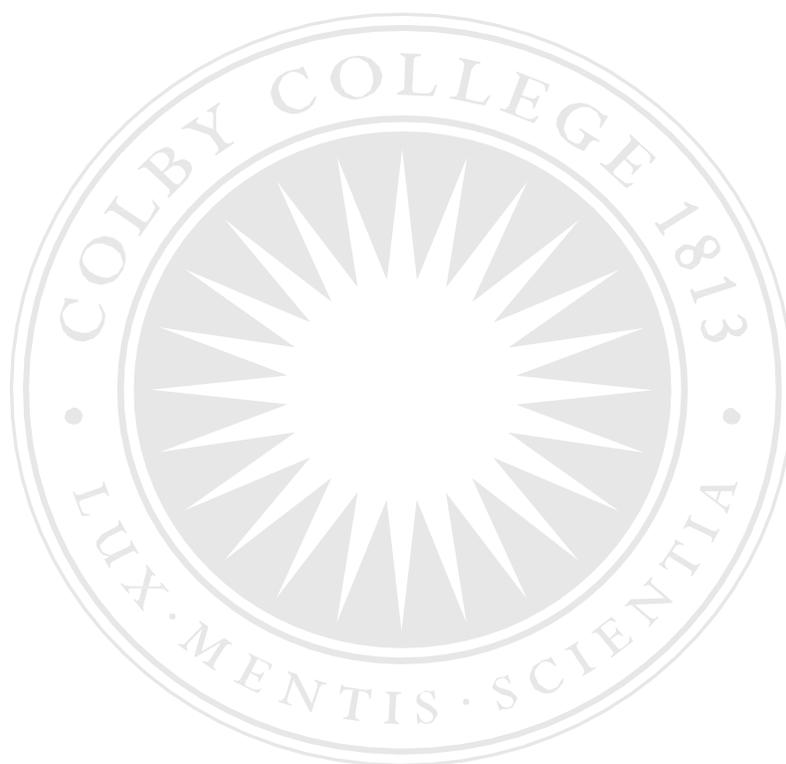


Colby

COLBY COLLEGE

CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2021 and 2020



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	7-31



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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, 2021 and 2020, 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, 2021 and 2020, 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 Hoffmann McCann P.C.

October 22, 2021
Boston, Massachusetts

COLBY COLLEGE
CONSOLIDATED BALANCE SHEETS
June 30, 2021 and 2020
(in thousands)

	2021	2020
ASSETS		
Cash and cash equivalents	\$ 21,192	\$ 30,399
Accounts receivable	11,716	4,580
Funds held by trustee (Note 6)	3,787	3,471
Short-term investments (Note 3)	11,733	19,948
Prepaid expenses and other assets	3,312	3,617
Notes receivable (Note 1)	681	888
Pledges receivable (Note 2)	94,625	125,817
Investments, endowment	1,257,738	878,323
Investments, strategic investment fund	13,556	18,979
Investments, annuity and life income funds	38,330	29,271
Investments, funds held in trust by others	15,515	12,851
Investments, other	42,134	30,825
Total investments (Note 5)	1,367,273	970,249
Pledges of artwork (Note 1)	56,177	58,294
Land, buildings, equipment, intangible assets and works of art (Note 4)	672,255	638,761
Total assets	\$ 2,242,751	\$ 1,856,024
LIABILITIES		
Accounts payable and accrued liabilities	\$ 29,115	\$ 29,536
Student deposits	2,788	4,225
Government advances for student loans	175	409
Annuity obligations	10,198	10,076
Bonds payable (Note 6)	225,540	225,498
Post retirement benefit obligation (Note 7)	37,450	38,747
Asset retirement obligation (Note 13)	6,238	5,948
Total liabilities	311,504	314,439
COMMITMENTS AND CONTINGENT LIABILITIES (Notes 5 and 10)		
NET ASSETS (Note 11)		
Without donor restrictions	594,490	500,906
With donor restrictions	1,336,757	1,040,679
Total net assets	1,931,247	1,541,585
Total liabilities and net assets	\$ 2,242,751	\$ 1,856,024

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

COLBY COLLEGE
CONSOLIDATED STATEMENT OF ACTIVITIES
for the year ended June 30, 2021 (with comparative information for the year ended June 30, 2020)
(in thousands)

	WITHOUT DONOR RESTRICTIONS	WITH DONOR RESTRICTIONS	TOTAL	
			2021	2020
Operating activities				
Operating revenues and other support				
Student charges (net of student aid of \$51,149 in 2021 and \$46,204 in 2020)	\$ 106,988	\$	106,988	\$ 96,112
Contributions	12,975		12,975	7,256
Endowment return utilized for operations	42,853		42,853	43,419
Strategic investment fund utilized for operations	1,313		1,313	
Other investment income	325		325	1,278
Net assets released from restriction	5,435		5,435	7,430
Other income	2,175		2,175	4,164
Total operating revenues and other support	<u>172,064</u>		<u>172,064</u>	<u>159,659</u>
Expenses				
Instruction and research	53,655		53,655	55,483
Academic support	17,783		17,783	19,905
Student services	38,754		38,754	31,112
Institutional support	33,488		33,488	29,150
Auxiliary enterprises	26,398		26,398	22,735
Total operating expenses	<u>170,078</u>		<u>170,078</u>	<u>158,385</u>
Increase in net assets before non-operating activities	1,986		1,986	1,274
<i>Increase in net assets from general operations (Note 1)</i>	301		301	150
<i>Decrease in net assets from depreciation</i>	(14,565)		(14,565)	(12,296)
<i>Intercompany rent</i>	500		500	151
<i>Amounts designated for facilities reserves, debt service, strategic investment fund, endowment and student loans (Note 1)</i>	15,750		15,750	13,269
Non-operating activities				
Contributions	1,238	\$ 27,815	29,053	67,719
Net investment income	794	3,201	3,995	4,430
Net realized and unrealized gains	78,789	329,341	408,130	27,980
Endowment return utilized for operations	(42,853)		(42,853)	(43,419)
Strategic investment fund utilized for operations	(1,313)		(1,313)	
LLC operating results	(1,058)		(1,058)	(354)
Postretirement benefit related changes other than net periodic benefit cost	603		603	(2,003)
Non-operating loss - writeoff of assets (2021)	(2,943)		(2,943)	
Extinction of debt (2020)				(4,986)
Other, net	(9)	70	61	217
Net change in annuity and life income funds		(564)	(564)	308
Net assets released from restriction and reclassifications	58,350	(63,785)	(5,435)	(7,430)
Change in net assets from non-operating activities	<u>91,598</u>	<u>296,078</u>	<u>387,676</u>	<u>42,462</u>
Total change in net assets	93,584	296,078	389,662	43,736
Net assets, beginning of year	500,906	1,040,679	1,541,585	1,497,849
Net assets, end of year	<u>\$ 594,490</u>	<u>\$ 1,336,757</u>	<u>\$ 1,931,247</u>	<u>\$ 1,541,585</u>

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
(in thousands)

	WITHOUT DONOR RESTRICTIONS	WITH DONOR RESTRICTIONS	TOTAL
Operating activities			
Operating revenues and other support			
Student charges (net of student aid of \$ \$46,204)	\$ 96,112		\$ 96,112
Contributions	7,256		7,256
Endowment return utilized for operations	43,419		43,419
Strategic investment fund utilized for operations			
Other investment income	1,278		1,278
Net assets released from restriction	7,430		7,430
Other income	4,164		4,164
Total operating revenues and other support	159,659		159,659
Expenses			
Instruction and research	55,483		55,483
Academic support	19,905		19,905
Student services	31,112		31,112
Institutional support	29,150		29,150
Auxiliary enterprises	22,735		22,735
Total operating expenses	158,385		158,385
Increase in net assets before non-operating activities	1,274		1,274
<i>Increase in net assets from general operations (Note 1)</i>	150		150
<i>Decrease in net assets from depreciation</i>	(12,296)		(12,296)
<i>Intercompany rent</i>	151		151
<i>Amounts designated for facilities reserves, debt service, strategic investment fund, endowment and student loans (Note 1)</i>	13,269		13,269
Non-operating activities			
Contributions	325	\$ 67,394	67,719
Net investment income	1,379	3,051	4,430
Net realized and unrealized gains	7,194	20,786	27,980
Endowment return utilized for operations	(43,419)		(43,419)
Strategic investment fund utilized for operations			
LLC operating results	(354)		(354)
Postretirement benefit related changes other than net periodic benefit cost	(2,003)		(2,003)
Loss on extinguishment of debt	(4,986)		(4,986)
Other, net	28	189	217
Net change in annuity and life income funds		308	308
Net assets released from restriction and reclassifications	68,989	(76,419)	(7,430)
Change in net assets from non-operating activities	27,153	15,309	42,462
Total change in net assets	28,427	15,309	43,736
Net assets, beginning of year	472,479	1,025,370	1,497,849
Net assets, end of year	\$ 500,906	\$ 1,040,679	\$ 1,541,585

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, 2021 and 2020
(in thousands)

	2021	2020
Cash flows from operating activities		
Change in net assets	\$ 389,662	\$ 43,736
Adjustments to reconcile change in net assets to net cash used in operating activities		
Changes in:		
Accounts receivable	(7,136)	3,336
Short-term investments	8,215	14,451
Prepaid expenses and other assets	305	415
Pledges receivable	33,309	(3,997)
Accounts payable and accrued liabilities	(4,656)	(18,952)
Student deposits	(1,437)	2,643
Post retirement benefit obligation	(1,297)	1,520
Depreciation and amortization	14,565	12,385
Accretion and other changes in asset retirement obligation	290	283
Amortization of bond premium and deferred financing costs	42	62
Loss on extinguishment of debt		4,986
Loss on disposal of assets	2,943	
Net realized and unrealized gains on investments	(408,130)	(27,980)
Contributions in kind, securities and pledges of artwork	(1,979)	(804)
Contributions restricted for investment	(52,582)	(52,057)
Investment income restricted for investment	(996)	(2,166)
Net cash used in operating activities	(28,882)	(22,139)
Cash flows from investing activities		
Collections of notes receivable	215	289
Notes receivable (recovered) write off	(8)	313
Purchase of land, buildings and equipment	(44,788)	(94,084)
Purchase of investments	(278,568)	(189,919)
Proceeds from sale of investments	289,674	259,797
Net cash used in investing activities	(33,475)	(23,604)
Cash flows from financing activities		
Payments on bonds payable		(1,775)
Contributions restricted for investment	52,582	52,057
Investment income restricted for investment	996	2,166
Change in annuity obligations	122	(1,436)
Change in government advances for student loans	(234)	(914)
Change in funds held by trustee	(316)	2,516
Net cash provided by financing activities	53,150	52,614
Net change in cash and cash equivalents	(9,207)	6,871
Cash and cash equivalents at beginning of year	30,399	23,528
Cash and cash equivalents at end of year	\$ 21,192	\$ 30,399
Supplemental data:		
Interest paid, net of capitalized interest	\$ 7,711	\$ 9,009
Acquisition of land, buildings and equipment included in accounts payable	\$ 4,945	\$ 3,125

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.

The College is accredited by numerous accrediting bodies with its primary accreditation being from the New England Commission of Higher Education. 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 and Revenue Recognition

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

COLBY COLLEGE
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, CONTINUED

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

Operations and Revenue Recognition, 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 net of amounts utilized for operations, certain pension related costs, changes in the value of annuity and life income funds and other nonrecurring items.

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 contracts 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 that can impact the amount and timing of amount of cash flows related to the College's revenue sources include policies 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.

COLBY COLLEGE
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, CONTINUED

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

Contributions

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.

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 or as without donor restrictions if the restriction is satisfied in the same year the contribution is made.

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.

COLBY COLLEGE
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, CONTINUED

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

Endowment and Related Funds, Continued

To satisfy its long-term rate-of-return objectives, the College relies on a total return strategy in which investment returns are achieved through both 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 at 5.50% for 2020-21 and 2019-20 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 2020-21 was \$1,800,000, of which \$0 was spent. For 2021-22, a transfer of \$1,600,000 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.

COLBY COLLEGE
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, CONTINUED

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

Accounts Receivable, Continued

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

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 \$175,000 and \$409,000 at June 30, 2021 and 2020, 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 DOE, which reduces the Government advances for student loans. During fiscal year 2021 and 2020, the College returned to the DOE \$257,000 and \$703,000, respectively in Perkins loan funds that were considered to be excess liquid capital. The College also retained \$46,000 and \$190,000, 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 at June 30, 2021 and 2020, 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 \$731,000 and \$699,000 at June 30, 2021 and 2020, 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, 2021 and 2020 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,

COLBY COLLEGE
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, CONTINUED

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

Split-Interest Agreements, Continued

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 1.29% - 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

COLBY COLLEGE
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, CONTINUED

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

Investments and Fair Value Measurements, Continued

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.

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 inputs and consists of a money market mutual fund. 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, Intangible Assets and Works of Art

Land, buildings, equipment, capitalized costs associated with cloud computing arrangements 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:

	<u>Years</u>
Buildings, building renovations and other	20-60
Improvements other than buildings	20
Office furniture and equipment and capitalized cloud computing costs	5-15

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.

COLBY COLLEGE
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, CONTINUED

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

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 reasonably 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.

Pledges of Artwork

Pledges 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. \$27,000,000 of this pledge is expected to be satisfied within the next five years with the remainder beyond five years.

During 2021 and 2020, the College did not receive any additional pledges of artwork and there were no additional artwork pledges satisfied during 2021.

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

COLBY COLLEGE
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, CONTINUED

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

Uncertain Tax Positions, Continued

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.

Reclassifications

Certain reclassifications have been made to the 2020 financial statements to conform with the 2021 presentation. 2020 non-operating contributions revenue and operating and non-operating net assets released from restriction decreased by \$2,246,000 and operating revenues increased by the same amount to conform with the 2021 presentation of restrictions that are met in the same year as the contribution being reported as without donor restrictions. The reclassification did not impact the previously reported change in net assets from operations.

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, 2021, which is the date the financial statements were issued and there were no events requiring adjustment to or disclosure in the consolidated financial statements.

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):

	2021	2020
In one year or less	\$ 26,812	\$ 43,941
Between one year and five years	68,351	86,562
Greater than five years	9,042	12,179
	104,205	142,682
Less: present value discount	6,828	10,242
Less: allowance for uncollectible pledges	2,752	6,623
Net pledges receivable	\$ 94,625	\$ 125,817

COLBY COLLEGE
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, CONTINUED

2. Pledges Receivable, Continued:

In addition to the amounts noted above, the College has received intentions to give approximating \$47,513,000 and \$14,399,000 at June 30, 2021 and 2020, respectively, which have not been recorded in the consolidated financial statements. Total costs related to alumni and development activities approximated \$8,177,000 and \$8,068,000 during the years ended June 30, 2021 and 2020, 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, Intangible Assets and Works of Art:

Land, buildings, equipment, intangible assets and works of art consist of the following as of June 30, 2021 and 2020 (in thousands):

	<u>2021</u>	<u>2020</u>
Land	\$ 194	\$ 194
Buildings and building renovations	544,389	367,017
Construction in progress	28,076	190,850
Improvements	56,680	47,051
Cloud computing costs	3,166	
Furniture and equipment	9,879	7,219
Works of art	220,648	216,977
Rare books	130	130
Other	<u>2,683</u>	<u>2,683</u>
Total	865,845	832,121
Less accumulated depreciation and amortization	<u>193,590</u>	<u>193,360</u>
	<u>\$672,255</u>	<u>\$638,761</u>

As of June 30, 2021, the College estimates that the unaudited replacement value of its buildings is approximately \$725,170,000. The College capitalizes the interest cost related to outstanding debt on qualifying assets. Interest costs capitalized for the years ended June 30, 2021 and 2020 total \$136,000 and \$1,142,000, respectively.

On September 1, 2020, the College demolished the prior Alford Athletic Center, which resulted in a write-off of \$17,637,000 in Buildings and building renovations, and \$14,694,000 of accumulated depreciation and a non-operating loss due to the disposal of \$2,943,000.

COLBY COLLEGE
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, CONTINUED

5. Investments:

A summary of assets of the endowment investments and the annuity and life income investments at June 30, 2021 and 2020 follows (in thousands):

	2021 Estimated <u>Fair Value</u>	2020 Estimated <u>Fair Value</u>
Pooled Assets:		
Cash and cash equivalents	\$ 127,204	\$ 57,205
Accounts receivable and accrued income	2,011	3,694
	<u>129,215</u>	<u>60,899</u>
 Investments:		
Global equity funds	311,472	266,016
Hedge funds	225,676	201,297
Venture capital	301,187	162,157
Buyout funds	168,110	85,445
Real estate funds	51,616	36,342
Fixed income securities	36,501	36,956
Natural resources	55,124	43,687
Total pooled investments	<u>1,149,686</u>	<u>831,900</u>
 Total pooled assets	<u>1,278,901</u>	<u>892,799</u>
 Other endowment assets:		
Cash and cash equivalents	1	4
Domestic equities	280	196
Real estate	952	943
Cash value of life insurance	228	256
Total other endowment assets	<u>1,461</u>	<u>1,399</u>
 Total invested assets	<u>1,280,362</u>	<u>894,198</u>
 Less annuity and life income assets pooled with endowment and similar funds	<u>22,624</u>	<u>15,875</u>
Total endowment and similar assets	<u>\$ 1,257,738</u>	<u>\$ 878,323</u>
 Assets of annuity and life income funds include:		
Separately invested assets		
Cash and cash equivalents	\$ 701	\$ 655
Domestic equities	6,421	5,080
Global equity funds	4,461	3,439
Fixed income securities	3,684	3,783
Other	439	439
	<u>15,706</u>	<u>13,396</u>
Assets pooled with endowment and similar funds	<u>22,624</u>	<u>15,875</u>
Total annuity and life income funds	<u>\$ 38,330</u>	<u>\$ 29,271</u>

COLBY COLLEGE
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, CONTINUED

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, 2021 or 2020. The College policy is to only appropriate for spending the actual yield on such underwater funds.

COLBY COLLEGE
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, CONTINUED

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):

	2021		
	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Endowment investments, beginning of year	\$ 223,706	\$ 654,617	\$ 878,323
Investment return, net	101,747	298,988	400,735
Contributions	1,238	24,273	25,511
Distribution of endowment return to all funds	(11,822)	(34,889)	(46,711)
Amounts designated to (from) endowment	(67)	(768)	(835)
Matured life income funds	39	775	814
Other changes, net	29	(128)	(99)
Endowment investments, end of year	<u>\$ 314,870</u>	<u>\$ 942,868</u>	<u>\$ 1,257,738</u>

	2020		
	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Endowment investments, beginning of year	\$ 228,328	\$ 641,599	\$ 869,927
Investment return, net	7,970	22,486	30,456
Contributions	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	<u>\$ 223,706</u>	<u>\$ 654,617</u>	<u>\$ 878,323</u>

COLBY COLLEGE
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, CONTINUED

5. Investments, continued:

	2021	
	Without Donor <u>Restrictions</u>	With Donor <u>Restrictions</u>
Board-designated endowment funds	\$ 314,870	\$ 314,870
Donor-restricted endowment funds:		
Original donor-restricted gift amount and amounts required to be maintained in perpetuity by donor		340,568
Accumulated investment gains		564,418
Term Endowment		10,947
Restricted quasi endowment		26,935
Total investments, endowment	\$ 314,870	\$ 942,868

	2020	
	Without Donor <u>Restrictions</u>	With Donor <u>Restrictions</u>
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
Accumulated investment gains		314,174
Term Endowment		7,417
Restricted quasi endowment		18,583
Total investments, endowment	\$ 223,706	\$ 654,617

The yield per unit, exclusive of net gains (losses), computed on the weighted average of units outstanding, was \$5.29 and \$3.40 for the years ended June 30, 2021 and 2020, respectively. Spending per unit for current use, computed on units outstanding as of July 1, 2021 and 2020, was \$25.34 and \$23.94, respectively. The Board of Trustees has approved appropriations from the investment funds of \$49,308,000 for 2022, 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.

COLBY COLLEGE
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, CONTINUED

5. Investments, Continued:

Other investments, measured at fair value, at June 30, 2021 and 2020 consist of the following (in thousands):

	<u>2021</u>	<u>2020</u>
Cash and cash equivalents held for long-term purposes	\$ 35,798	\$ 25,403
Employee mortgages and other (average interest rate 3.47%)	<u>6,336</u>	<u>5,422</u>
Total investments, other	<u>\$ 42,134</u>	<u>\$ 30,825</u>
Investments, funds held in trust by others (See Note 1)	<u>\$ 15,515</u>	<u>\$ 12,851</u>
Investments, strategic investment fund (See Note 1)	<u>\$ 13,556</u>	<u>\$ 18,979</u>

6. Bonds Payable:

Bonds payable at June 30, 2021 and 2020 are as follows (in thousands):

<u>Facilities Financing</u>	<u>2021</u>	<u>2020</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 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%)	<u>96,455</u>	<u>96,455</u>
	\$226,920	\$226,920
Unamortized debt issuance costs (amortized over the life of the related debt issue)	<u>(1,380)</u>	<u>(1,422)</u>
Total bonds payable	<u>\$225,540</u>	<u>\$225,498</u>

COLBY COLLEGE
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, CONTINUED

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 \$3,787,000 and 3,471,000 at June 30, 2021 and 2020, 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, 2021 and 2020 is as follows (in thousands):

	<u>2021</u>	<u>2020</u>
Total interest cost	\$ 7,778	\$ 8,193
Less: capitalized interest	<u>136</u>	<u>1,142</u>
Net interest expense	<u>\$ 7,642</u>	<u>\$ 7,051</u>

The College maintains a line of credit agreement with a financial institution totaling \$40,000,000. At June 30, 2021 and 2020, there were no outstanding borrowings under this agreement. This agreement expires on March 31, 2023. The interest that would be charged under this facility is equal to 0.50% above the one month LIBOR rate (0.07% at June 30, 2021). 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 \$9,703,000 and \$6,586,000 at June 30, 2021 and 2020, respectively. The College funded a sinking fund relating to the 2020 bond issue on July 1, 2020 for \$12,200,000, the value of this fund was \$17,060,000 at June 30, 2021.

Bond issuance costs are capitalized and amortized on the straight-line basis over the life of the bonds. At June 30, 2021 and 2020, bond issuance costs total \$1,518,000, respectively, net of accumulated amortization of \$138,000 and \$96,000, respectively. Amortization expense amounted to \$42,000 and \$62,000 for the years ended June 30, 2021 and 2020.

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 resulting in a loss of \$4,986,000, net, in the statement of activities.

COLBY COLLEGE
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, CONTINUED

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, 2021 and 2020 (in thousands):

	<u>2021</u>	<u>2020</u>
Change in Benefit Obligation		
Postretirement benefit obligation, beginning of year	\$ 38,747	\$ 37,227
Service cost	551	548
Interest cost	1,140	1,371
Plan participants' contributions	350	292
Actuarial loss (gain)	(1,843)	721
Benefits paid	<u>(1,495)</u>	<u>(1,412)</u>
Postretirement benefit obligation, end of year	<u>\$ 37,450</u>	<u>\$ 38,747</u>

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, 2021 and 2020 included the following components (in thousands):

	<u>2021</u>	<u>2020</u>
Service cost	\$ 551	\$ 548
Interest cost	1,140	1,371
Amortization of actuarial loss	<u>376</u>	<u>330</u>
Net postretirement benefit cost	<u>\$ 2,067</u>	<u>\$ 2,249</u>

Amounts recognized in non-operating activities for the years ended June 30, 2021 and 2020 included the following components (in thousands):

	<u>2021</u>	<u>2020</u>
Net current period actuarial (gain) loss	\$ (913)	\$ 302
Interest cost	1,140	1,371
Amortization of actuarial loss	<u>376</u>	<u>330</u>
Postretirement benefit related changes other than net periodic benefit cost	<u>\$ (603)</u>	<u>\$ 2,003</u>

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

Amortization of actuarial (gain) loss	<u>\$ 22</u>
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The amounts that have not been recognized as components of net periodic postretirement benefit cost for the year ended June 30, 2021 and 2020 are as follows (in thousands):

	<u>2021</u>	<u>2020</u>
Net actuarial loss	<u>\$ 3,865</u>	<u>\$ 6,084</u>

COLBY COLLEGE
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, CONTINUED

7. Postretirement Benefits, Continued:

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>2021</u>	<u>2020</u>	<u>2021</u>	<u>2020</u>
Discount rate	3.00%	3.00%	3.00	3.75%

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

	<u>Gross Benefit Payments</u>
2022	\$1,420,000
2023	1,524,000
2024	1,708,000
2025	1,780,000
2026	1,857,000
2027-2031	\$ 10,266,000

The health care trend rate assumption used in determining the accumulated benefit obligation for 2021 was 6.84% pre 65 and post 65 gradually decreasing to 4.50% in 2029 and remaining at that level thereafter.

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 \$4,134,000 and \$4,018,000 in fiscal 2021 and 2020, 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 \$735,000.

COLBY COLLEGE
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, CONTINUED

10. Commitments and Contingent Liabilities:

Construction Commitments

The College has outstanding commitments of \$19,163,000 at June 30, 2021 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

11. Net Assets:

Net assets comprise the following at June 30, 2021 and 2020 (in thousands):

	2021	
	Without Donor Restrictions	With Donor Restrictions
General operating reserves	\$ (19,076)	
LLC operations	2,786	\$ 9,643
Unexpended restricted funds		43,923
Loan funds	695	2,507
Endowment	314,870	942,868
Annuity and life income funds		28,118
Strategic investment fund	(59,626)	
Funds for facilities and artwork	354,841	143,381
Pledges receivable		94,625
Assets restricted to investment in land, buildings, equipment and works of art		56,177
Funds held in trust by others		15,515
	<u>\$ 594,490</u>	<u>\$ 1,336,757</u>
Total net assets	<u>\$ 594,490</u>	<u>\$ 1,336,757</u>
	2020	
	Without Donor Restrictions	With Donor Restrictions
General operating reserves	\$ (19,980)	
LLC operations	2,708	\$ 9,188
Unexpended restricted funds		38,493
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	119,845
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
	<u>\$ 500,906</u>	<u>\$ 1,040,679</u>
Total net assets	<u>\$ 500,906</u>	<u>\$ 1,040,679</u>

COLBY COLLEGE
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, CONTINUED

11. Net Assets, Continued:

Net assets with donor restriction are restricted for the following purposes at June 30, 2021 and 2020 (in thousands):

	2021	2020
Financial aid	\$ 1,564	\$ 1,116
Departmental support	25,061	17,245
Building and equipment	9,367	13,640
Other purposes (various)	311	222
	36,303	32,223
 Subject to the passage of time	 9,915	 7,416
 Subject to Colby spending policy and appropriation investment in perpetuity (including amounts above original gift amount of \$340,568 and \$314,443), which, once appropriated, is expendable to support:		
Financial aid	384,457	267,404
Library	15,445	11,045
Professorships	170,271	121,736
Departmental support	118,008	78,947
Research	21,764	15,199
Lectures	9,538	6,705
Other	185,126	126,229
	904,609	627,265
 Not subject to appropriation of expenditure		
Artwork held in perpetuity	199,833	199,992
Pledges	94,625	125,817
Other	91,472	47,966
	\$ 1,336,757	\$ 1,040,679

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, 2021 and 2020 were for the following purposes (in thousands):

	2021	2020
Student aid	\$ 17,801	\$ 17,955
Instruction	7,224	7,451
Facilities	27,206	38,444
Academic support	2,236	5,282
Research	818	1,471
Student services	4,869	3,793
Unrestricted Support	3,631	2,023
Net assets released from restrictions	\$ 63,785	\$ 76,419

COLBY COLLEGE
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, CONTINUED

12. Natural Expenses:

The tables below present expenses by both their nature and function for the years ended June 30, 2021 and 2020 (in thousands):

	2021					
	Instruction/ Research	Academic Support	Student Services	Institutional Support	Auxiliary Enterprises	Total
Compensation	\$ 42,233	\$ 7,539	\$ 17,071	\$ 20,920	\$ 5,029	\$ 92,792
Occupancy	1,850	999	3,545	894	5,226	12,514
Travel and Entertainment	396	147	801	550	10	1,904
Depreciation and Amortization	2,210	2,119	3,144	1,209	5,883	14,565
Interest	2,300	1,048	2,702	803	789	7,642
Contract Services	2,623	1,008	9,640	6,242	5,190	24,703
Information technology and supplies	1,750	4,871	1,713	2,694	3,915	14,943
Other expenses	293	52	138	176	356	1,015
Total	\$ 53,655	\$ 17,783	\$ 38,754	\$ 33,488	\$ 26,398	\$ 170,078

	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

13. Asset Retirement Obligation:

The following sets forth the change in the asset retirement obligation during 2021 and 2020 (in thousands) consisting of obligations for asbestos contamination in several buildings and other potentially hazardous items:

	<u>2021</u>	<u>2020</u>
Asset retirement obligation, beginning of year	\$ 5,948	\$ 5,665
Accretion expense	290	283
Asset retirement obligation, end of year	<u>\$ 6,238</u>	<u>\$ 5,948</u>

COLBY COLLEGE
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, CONTINUED

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 (in thousands).

	2021	2020
Financial Assets, at June 30	\$ 1,511,007	\$ 1,155,875
Less those unavailable for general expenditures within one year, due to:		
Contractual or donor-imposed restrictions		
Restricted by donor with time or purpose restrictions	(141,253)	(151,817)
Subject to appropriation and satisfaction of donor restrictions	(896,240)	(627,265)
Annuity and life income funds	(38,330)	(29,271)
Funds held by trustee	(3,787)	(3,471)
Notes receivable	(681)	(888)
Funds held in trust by others	(15,515)	(12,851)
Employee mortgages and other	(6,336)	(5,422)
Board Designations:		
Quasi-endowment	(314,870)	(223,706)
Strategic investment fund	(13,556)	(18,979)
Cash held for long term investment	(35,798)	(25,403)
	\$ 44,641	\$ 56,802

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 \$314,870,000 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.

COLBY COLLEGE
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, CONTINUED

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:

	2021				
	Net Asset Value	Level 1	Level 2	Level 3	Total
Funds held by trustee		\$ 3,787			\$ 3,787
Short-term investments			\$ 11,733		11,733
Investments:					
Cash and receivables		72,569			72,569
Fixed income direct holdings			141,772		141,772
Global equity funds	\$ 182,504	129,977			312,481
Equity securities, other		15,706			15,706
Hedge funds	225,676				225,676
Venture capital funds	301,187				301,187
Buyout funds	168,110				168,110
Real estate funds	25,680	25,936			51,616
Natural resources funds	24,782	30,342			55,124
Investments, other			6,336	16,696	23,032
	927,939	274,530	148,108	16,696	1,367,273
	\$ 927,939	\$ 278,317	\$ 159,841	\$ 16,696	\$ 1,382,793

	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

COLBY COLLEGE
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, CONTINUED

15. Fair Value Measurements, Continued:

\$71,360,000 and \$118,056,000 of the investments measured at net asset value have redemption periods of less than 90 days and \$856,579,000 and \$514,708,000 have redemption periods over 90 days at June 30, 2021 and 2020, respectively.

Level 3 measurements include real estate and 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. Net purchases, issuances, sales and settlements of Level 3 investments were \$(18) and \$(25) for the years ended June 30, 2021 and 2020, respectively.

Unfunded commitments under various investment vehicles amounted to approximately \$7,360,000 at June 30, 2021.

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. COVID-19 Matters:

The College welcomed students back in September 2020 but offered a remote option where students could attend classes remotely at a reduced fee. For the year ended June 30, 2021, the College and its students benefitted from the Federal Coronavirus Aid, Relief and Economic Security Act (the "CARES Act"), along with the American Rescue Plan. One such provision is the Higher Education Emergency Relief Fund II under which the College was eligible to draw up to \$1,804,000, approximately one third of which must be used for direct grants to students and the remainder can be used by the College for certain COVID-19 related costs. Under the America Rescue Plan, the College was eligible to draw \$3,293,000, half of which was to be used for direct grants to students and the other half to be used by the College for certain COVID-19 related costs. As of June 30, 2021, the College spent all available funding, including amounts remaining from the fiscal year ending June 30, 2020, for a total of \$5,428,000.

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 \$2,268,000 of such taxes at June 30, 2021.