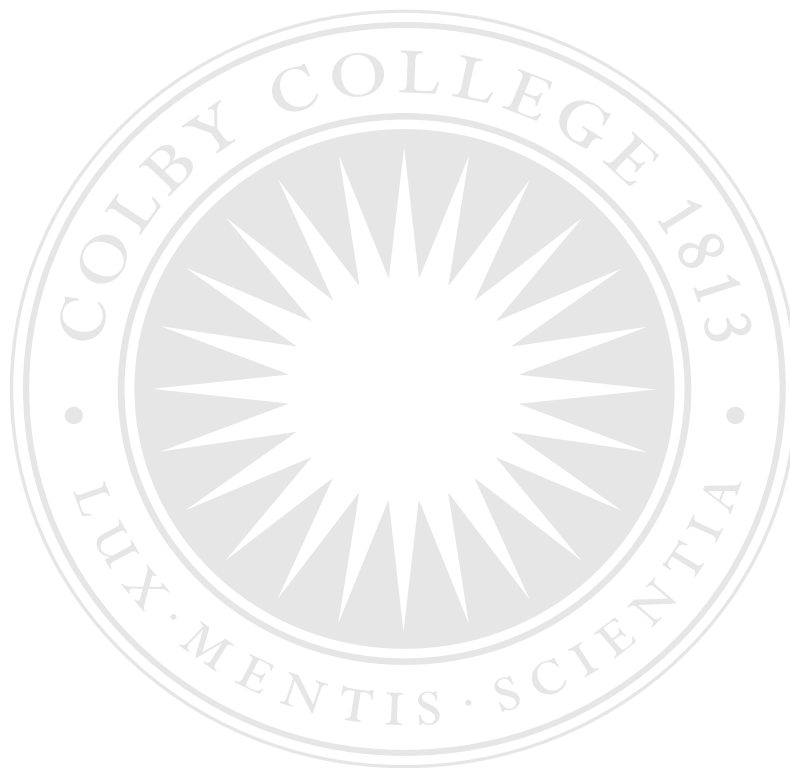


# Colby

**COLBY COLLEGE**

**CONSOLIDATED FINANCIAL STATEMENTS**

**June 30, 2023 and 2022**



**COLBY COLLEGE**

***Consolidated Financial Statements***

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*Independent Auditors' Report*

The Board of Trustees  
Colby College  
Waterville, Maine

***Opinion***

We have audited the consolidated financial statements of Colby College and subsidiaries (the "College"), which comprise the consolidated statements of financial position as of June 30, 2023 and 2022, and the related consolidated statements of activities and cash flows for the years then ended, and the related notes to the consolidated financial statements.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the College as of June 30, 2023 and 2022, 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.

***Basis for Opinion***

We conducted our audits in accordance with auditing standards generally accepted in the United States of America ("GAAS"). Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are required to be independent of the College and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

***Responsibilities of Management for the Consolidated Financial Statements***

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with accounting principles generally accepted in the United States of America and for 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.

In preparing the consolidated financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the College's ability to continue as a going concern for one year after the date that the consolidated financial statements are available to be issued.



### ***Auditors' Responsibilities for the Audit of the Consolidated Financial Statements***

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the consolidated financial statements.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements.
- Obtain an understanding of internal control relevant to the audit 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 College's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the consolidated financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the College's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

*Maya Hoffman McCann P.C.*

Boston, Massachusetts  
October 21, 2023

COLBY COLLEGE  
CONSOLIDATED STATEMENT OF FINANCIAL POSITION  
June 30, 2023 and 2022  
(in thousands)

	2023	2022
<b>ASSETS</b>		
Cash and cash equivalents	\$ 18,706	\$ 35,547
Accounts receivable	4,258	7,507
Funds held by trustee	5,250	2,935
Short-term investments	14,190	30,006
Prepaid expenses, notes receivable and other assets	7,270	5,545
Pledges receivable	65,120	95,578
Investments	1,250,183	1,272,015
Pledges of artwork	56,177	56,177
Land, buildings, equipment, intangible assets and works of art	823,531	743,722
Total assets	\$ 2,244,685	\$ 2,249,032
<b>LIABILITIES</b>		
Accounts payable and accrued liabilities	\$ 39,473	\$ 34,706
Student deposits	1,559	2,209
Annuity obligations	8,874	9,397
Bonds payable	325,686	325,586
Post retirement benefit obligation	29,117	30,862
Asset retirement obligation	6,627	6,550
Total liabilities	411,336	409,310
<b>COMMITMENTS AND CONTINGENT LIABILITIES (Notes 9)</b>		
<b>NET ASSETS</b>		
Without donor restrictions	663,588	627,369
With donor restrictions	1,169,761	1,212,353
Total net assets	1,833,349	1,839,722
Total liabilities and net assets	\$ 2,244,685	\$ 2,249,032

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

COLBY COLLEGE  
CONSOLIDATED STATEMENT OF ACTIVITIES  
for the year ended June 30, 2023 (with comparative information for the year ended June 30, 2022)  
(in thousands)

	WITHOUT DONOR RESTRICTIONS	WITH DONOR RESTRICTIONS	TOTAL	
			2023	2022
Operating activities				
Operating revenues and other support				
Student charges (net of student aid of \$57,937 in 2023 and \$50,680 in 2022)	\$ 122,829		\$ 122,829	\$ 117,466
Contributions	10,249		10,249	14,969
Endowment return utilized for operations	55,867		55,867	48,929
Strategic investment fund utilized for operations	3,568		3,568	568
Other investment income	2,443		2,443	417
Net assets released from restriction	8,668		8,668	6,727
Other income	5,735		5,735	5,077
Total operating revenues and other support	<u>209,359</u>		<u>209,359</u>	<u>194,153</u>
Expenses				
Instruction and research	67,298		67,298	58,856
Academic support	22,350		22,350	19,959
Student services	45,006		45,006	44,246
Institutional support	46,910		46,910	42,983
Auxiliary enterprises	28,996		28,996	26,013
Total operating expenses	<u>210,560</u>		<u>210,560</u>	<u>192,057</u>
Change in net assets before non-operating activities	(1,201)		(1,201)	2,096
Non-operating activities				
Contributions	25	27,345	27,370	74,070
Net investment income	2,053	336	2,389	3,416
Net realized and unrealized gains and losses	9,105	24,819	33,924	(118,332)
Endowment return utilized for operations	(55,867)		(55,867)	(48,929)
Strategic investment fund utilized for operations	(3,568)		(3,568)	(568)
LLC operating results	(2,774)		(2,774)	(2,310)
Postretirement benefit related changes other than net periodic benefit cost	1,004		1,004	6,107
Other, net	878	9	887	(413)
Net change in annuity and life income funds		131	131	65
Net assets released from restriction and reclassifications	<u>86,564</u>	<u>(95,232)</u>	<u>(8,668)</u>	<u>(6,727)</u>
Change in net assets from non-operating activities	<u>37,420</u>	<u>(42,592)</u>	<u>(5,172)</u>	<u>(93,621)</u>
Total change in net assets	36,219	(42,592)	(6,373)	(91,525)
Net assets, beginning of year	<u>627,369</u>	<u>1,212,353</u>	<u>1,839,722</u>	<u>1,931,247</u>
Net assets, end of year	<u>\$ 663,588</u>	<u>\$ 1,169,761</u>	<u>\$ 1,833,349</u>	<u>\$ 1,839,722</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, 2022  
(in thousands)

	<u>WITHOUT DONOR RESTRICTIONS</u>	<u>WITH DONOR RESTRICTIONS</u>	<u>TOTAL</u>
Operating activities			
Operating revenues and other support			
Student charges (net of student aid of \$50,680)	\$ 117,466		\$ 117,466
Contributions	14,969		14,969
Endowment return utilized for operations	48,929		48,929
Strategic investment fund utilized for operations	568		568
Other investment income	417		417
Net assets released from restriction	6,727		6,727
Other income	<u>5,077</u>		<u>5,077</u>
Total operating revenues and other support	<u>194,153</u>		<u>194,153</u>
Expenses			
Instruction and research	58,856		58,856
Academic support	19,959		19,959
Student services	44,246		44,246
Institutional support	42,983		42,983
Auxiliary enterprises	<u>26,013</u>		<u>26,013</u>
Total operating expenses	<u>192,057</u>		<u>192,057</u>
Increase in net assets before non-operating activities	2,096		2,096
Non-operating activities			
Contributions	124	\$ 73,946	74,070
Net investment income	635	2,781	3,416
Net realized and unrealized gains	(20,740)	(97,592)	(118,332)
Endowment return utilized for operations	(48,929)		(48,929)
Strategic investment fund utilized for operations	(568)		(568)
LLC operating results	(2,310)		(2,310)
Postretirement benefit related changes other than net periodic benefit cost	6,107		6,107
Other, net	(450)	37	(413)
Net change in annuity and life income funds		65	65
Net assets released from restriction and reclassifications	<u>96,914</u>	<u>(103,641)</u>	<u>(6,727)</u>
Change in net assets from non-operating activities	<u>30,783</u>	<u>(124,404)</u>	<u>(93,621)</u>
Total change in net assets	32,879	(124,404)	(91,525)
Net assets, beginning of year	<u>594,490</u>	<u>1,336,757</u>	<u>1,931,247</u>
Net assets, end of year	<u>\$ 627,369</u>	<u>\$ 1,212,353</u>	<u>\$ 1,839,722</u>

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, 2023 and 2022  
(in thousands)

	2023	2022
Cash flows from operating activities		
Change in net assets	\$ (6,373)	\$ (91,525)
Adjustments to reconcile change in net assets to net cash used in operating activities		
Changes in:		
Accounts receivable	3,249	4,209
Short-term investments	15,816	(18,273)
Prepaid expenses and other assets	(2,010)	(1,696)
Pledges receivable	30,458	(465)
Accounts payable and accrued liabilities	(212)	5,167
Student deposits	(650)	(579)
Post retirement benefit obligation	(1,745)	(6,588)
Depreciation and amortization	16,382	15,638
Accretion and other changes in asset retirement obligation	77	312
Amortization of deferred financing costs	100	(632)
Net realized and unrealized gains on investments	(33,924)	118,332
Contributions in kind, securities and pledges of artwork	(602)	(9,270)
Contributions restricted for investment	(49,221)	(54,578)
Investment income restricted for investment	(2,059)	(535)
Net cash used in operating activities	(30,714)	(40,483)
Cash flows from investing activities		
Collections of notes receivable	108	153
Write off (recovery of) notes receivable	177	(9)
Purchase of land, buildings and equipment	(90,646)	(78,074)
Purchase of investments	(283,775)	(669,622)
Proceeds from sale of investments	339,567	646,548
Net cash used in investing activities	(34,569)	(101,004)
Cash flows from financing activities		
Proceeds from bonds payable		100,678
Contributions restricted for investment	49,221	54,578
Investment income restricted for investment	2,059	535
Change in annuity obligations	(523)	(801)
Change in funds held by trustee	(2,315)	852
Net cash provided by financing activities	48,442	155,842
Net change in cash and cash equivalents	(16,841)	14,355
Cash and cash equivalents at beginning of year	35,547	21,192
Cash and cash equivalents at end of year	\$ 18,706	\$ 35,547
Supplemental data:		
Interest paid, net of capitalized interest	\$ 10,274	\$ 9,354
Acquisition of land, buildings and equipment included in accounts payable	\$ 10,173	\$ 5,194

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



## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### 1. Organization and Summary of Significant Accounting Policies:

Colby College (the College) is a private, highly selective 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 and operating a boutique hotel. 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.

#### 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, change 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.

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.

COLBY COLLEGE  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, CONTINUED

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

Contributions, continued

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 cannot 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.

COLBY COLLEGE  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, CONTINUED

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

Endowment and Related Funds, Continued

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 2022-23 and 2021-22 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 fundraising office. The total supplemental transfer authorized and transferred for 2022-23 was \$2,500,000. For 2023-24, a transfer of \$2,500,000 has been budgeted.

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.

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.

COLBY COLLEGE  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, CONTINUED

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

Student Loans Receivable

Student loans receivable are included in prepaid expenses and other assets and represent funds loaned to students by the College and funds advanced by the College via the Federal Perkins Loan Program (“Perkins”). Funds advanced by the DOE are reflected as a liability as they are subject to return. Reserves are provided based on management's assessment of credit risk and payment status of the loans, but reserve requirements are mitigated by the ability to assign defaulted loans back to the DOE. Management has omitted detailed disclosures given the limited amounts involved.

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.

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.

COLBY COLLEGE  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, CONTINUED

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

Investments and Fair Value Measurements, Continued

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

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

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

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

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

Market price is affected by a number of factors, including the type of instrument and the characteristics specific to the instrument. Instruments with readily available active quoted prices or for which fair value can be measured from actively quoted prices generally will have a higher degree of market price observability and a lesser degree of judgment used in measuring fair value. It is reasonably possible that changes in values of these instruments will occur in the near term and that such changes could materially affect amounts reported in these financial statements. For more information on the fair value of the College's financial instruments, see Note 5 – Investments and 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.

COLBY COLLEGE  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, CONTINUED

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

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. Donated assets were \$566,000 and \$8,782,000 for the years ended June 30, 2023 and 2022, respectively. 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.

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. The full value of this pledge is expected to be satisfied within the next five years with the remainder beyond five years.

During 2023 and 2022, the College did not receive any additional pledges of artwork and there were no additional artwork pledges satisfied during 2023.

COLBY COLLEGE  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, CONTINUED

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

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 deposit 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.

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. Accretion expense was \$77,000 and \$312,000 for the years ended June 30, 2023 and 2022, respectively.

Reclassifications

Certain reclassifications have been made to the June 30, 2022 amounts to conform with June 30, 2023 presentation. The reclassifications did not impact net asset balances.

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 21, 2023, which is the date the financial statements were issued and there were no events requiring adjustment to or disclosure in the consolidated financial statements.



COLBY COLLEGE  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, CONTINUED

2. 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).

	2023	2022
Financial Assets, at June 30	\$ 1,359,707	\$ 1,444,139
Less those unavailable for general expenditures within one year, due to:		
Contractual or donor-imposed restrictions		
Restricted by donor with time or purpose restrictions	(98,320)	(130,466)
Subject to appropriation and satisfaction of donor restrictions	(815,671)	(813,350)
Annuity and life income funds	(29,335)	(29,538)
Funds held by trustee	(5,250)	(2,935)
Notes receivable	(252)	(537)
Funds held in trust by others	(15,274)	(15,334)
Employee mortgages and other	(8,581)	(7,541)
Board Designations:		
Quasi-endowment	(267,252)	(274,213)
Strategic investment fund	(17,649)	(23,725)
Cash held for long-term investment	(63,221)	(73,426)
	\$ 38,902	\$ 73,074

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 \$267,252,000 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), this 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 a 6 – 9 month duration.

COLBY COLLEGE  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, CONTINUED

3. Pledges Receivable:

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

	<u>2023</u>	<u>2022</u>
In one year or less	\$ 31,910	\$ 57,611
Between one year and five years	42,850	47,824
Greater than five years	74,760	105,435
Less: present value discount	5,694	4,497
Less: allowance for uncollectible pledges	3,946	5,360
Net pledges receivable	<u>\$ 65,120</u>	<u>\$ 95,578</u>

In addition to the amounts noted above, the College has received intentions to give approximating \$86,101,000 and \$41,121,000 at June 30, 2023 and 2022, respectively, which have not been recorded in the consolidated financial statements. Total costs related to alumni and development activities approximated \$12,269,000 and \$11,348,000 during the years ended June 30, 2023 and 2022, respectively, and are included in institutional support in the consolidated statements of activities

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, 2023 and 2022 (in thousands):

	<u>2023</u>	<u>2022</u>
Land	\$ 10,249	\$ 10,249
Buildings and building renovations	587,640	550,459
Construction in progress	131,056	85,474
Improvements	71,059	63,918
Cloud computing costs	3,342	3,342
Furniture and equipment	13,916	11,479
Works of art	230,067	225,566
Rare books	139	139
Other	2,683	2,683
Total	1,050,151	953,309
Less accumulated depreciation and amortization	226,620	209,587
	<u>\$823,531</u>	<u>\$743,722</u>

The College capitalizes the interest cost related to outstanding debt on qualifying assets. Interest costs capitalized for the years ended June 30, 2023 and 2022 total \$936,000 and \$91,000, respectively.

COLBY COLLEGE  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, CONTINUED

5. Investments and 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 (in thousands):

	2023				Total
	Net Asset Value	Level 1	Level 2	Level 3	
Funds held by trustee		\$ 5,250			\$ 5,250
Short-term investments			\$ 14,190		14,190
Investments:					
Cash and receivables		91,525			91,525
Fixed income direct holdings			155,430		155,430
Global equity funds	\$ 249,988	29,648			279,636
Equity securities, other		11,613			11,613
Hedge funds	207,677				207,677
Venture capital funds	211,718				211,718
Buyout funds	154,549				154,549
Real estate funds	53,182				53,182
Natural resources funds	30,138	29,492			59,630
Investments, other			8,581	\$ 16,642	25,223
	907,252	162,278	164,011	16,642	1,250,183
	\$ 907,252	\$ 167,528	\$ 178,201	\$ 16,642	\$ 1,269,623

	2022				Total
	Net Asset Value	Level 1	Level 2	Level 3	
Funds held by trustee		\$ 2,935			\$ 2,935
Short-term investments			\$ 30,006		30,006
Investments:					
Cash and receivables		121,923			121,923
Fixed income direct holdings			132,725		132,725
Global equity funds	\$ 194,710	78,744			273,454
Equity securities, other		11,291			11,291
Hedge funds	202,087				202,087
Venture capital funds	241,582				241,582
Buyout funds	144,417				144,417
Real estate funds	38,850	19,871			58,721
Natural resources funds	32,064	29,505			61,569
Investments, other			7,540	\$ 16,706	24,246
	853,710	261,334	140,265	16,706	1,272,015
	\$ 853,710	\$ 264,269	\$ 170,271	\$ 16,706	\$ 1,304,956

COLBY COLLEGE  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, CONTINUED

5. Investments and Fair Value Measurements, Continued:

\$44,386,000 and \$54,620,000 of the investments measured at net asset value have redemption periods of less than 90 days and \$862,866,000 and \$799,090,000 have redemption periods over 90 days at June 30, 2023 and 2022, 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 \$0 for the years ended June 30, 2023 and 2022. Level 3 also includes \$15,274,000 and \$15,334,000 of perpetual trusts for the years ended June 30, 2023 and 2022, respectively. 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. Management has elected to omit the fair value inputs as the value is not material to the endowment and related operations.

Unfunded commitments under various investment vehicles amounted to approximately \$284,182,000 at June 30, 2023.

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

Investments, measured at fair value, at June 30, 2023 and 2022 consist of the following operational categories (in thousands):

	<u>2023</u>	<u>2022</u>
Cash and cash equivalents held for long-term purposes	\$ 63,221	\$ 73,426
Employee mortgages and other (average interest rate 3.05%)	<u>8,581</u>	<u>7,541</u>
Total investments, other	<u>71,802</u>	<u>80,967</u>
Investments, funds held in trust by others (See Note 1)	15,274	15,334
Investments, strategic investment fund (See Note 1)	17,649	23,725
Investments, endowment (See Note 1)	1,116,123	1,122,451
Investments, annuity and life income funds	<u>29,335</u>	<u>29,538</u>
Total Investments	<u>\$ 1,250,183</u>	<u>\$ 1,272,015</u>

COLBY COLLEGE  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, CONTINUED

6. Bonds Payable:

Bonds payable at June 30, 2023 and 2022 are as follows (in thousands):

<u>Facilities Financing</u>	<u>2023</u>	<u>2022</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 2054 at fixed rates (ranging from 2.98% - 3.20%)	96,455	96,455
Series 2022 Taxable Bonds, maturing in 2052 at a fixed rate of 3.072%	<u>100,700</u>	<u>100,700</u>
	\$327,620	\$327,620
Unamortized debt issuance costs (amortized over the life of the related debt issue)	<u>(1,934)</u>	<u>(2,034)</u>
Total bonds payable	<u>\$325,686</u>	<u>\$325,586</u>

Payments on bonds with serial maturities commence in the year ended June 30, 2035.

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 \$5,250,000 and 2,935,000 at June 30, 2023 and 2022, respectively. The interest rate on the Series 2019 bonds increases, by up to 0.2%, if the College's credit rating changes.

COLBY COLLEGE  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, CONTINUED

6. Bonds Payable, Continued:

Total interest expense incurred by the College for the years ended June 30, 2023 and 2022 is as follows (in thousands):

	<u>2023</u>	<u>2022</u>
Total interest cost	\$ 11,210	\$ 9,449
Less: capitalized interest	<u>936</u>	<u>91</u>
Net interest expense	<u>\$ 10,274</u>	<u>\$ 9,358</u>

The College maintains a line of credit agreement with a financial institution totaling \$60,000,000. At June 30, 2023 and 2022, there were no outstanding borrowings under this agreement. This agreement expires on March 31, 2024. The interest that would be charged under this facility is equal to 0.50% above the one-month SOFR rate (5.09% at June 30, 2023). 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.

Bond issuance costs and bond premiums are capitalized and amortized on the straight-line basis over the life of the bonds. Bond issuance costs total \$2,218,000, net of accumulated amortization of \$284,000 and \$260,000, at June 30, 2023 and 2022, respectively. Amortization expense amounted to \$100,000 and \$76,000 for the years ended June 30, 2023 and 2022, respectively. The College incurred \$700,000 of costs in connection with the issuance of the 2022 bonds.

On January 11, 2022, the College issued \$100,700,000 in taxable bonds. The proceeds are being used to fund the construction of academic and residential buildings.

The College has established a series of separate funds within its unrestricted quasi endowment assets that are intended to build resources that will be used to retire the taxable bonds when they mature. A summary of the value of these funds at June 30, 2023 and 2022 follows (in thousands):

	Book Value		Market Value	
			<u>2023</u>	<u>2022</u>
Series 2015 Taxable Bonds	\$	7,130	\$ 9,048	\$ 8,808
Series 2020 Taxable Bonds	\$	12,200	\$ 15,909	\$ 15,487
Series 2022 Taxable Bonds	\$	10,007	\$ 9,571	\$ 9,317

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, 2023 and 2022 (in thousands):

	<u>2023</u>	<u>2022</u>
Change in Benefit Obligation		
Postretirement benefit obligation, beginning of year	\$ 30,862	\$ 37,450
Service cost	436	586
Interest cost	1,352	847
Plan participants' contributions	356	347
Actuarial gain	(2,362)	(6,895)
Benefits paid	<u>(1,527)</u>	<u>(1,473)</u>
Postretirement benefit obligation, end of year	<u>\$ 29,117</u>	<u>\$ 30,862</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, 2023 and 2022 included the following components (in thousands):

	<u>2023</u>	<u>2022</u>
Service cost	\$ 436	\$ 586
Interest cost	1,352	847
Amortization of actuarial loss	<u>-</u>	<u>22</u>
Net postretirement benefit cost	<u>\$ 1,788</u>	<u>\$ 1,455</u>

Amounts recognized in non-operating activities for the years ended June 30, 2023 and 2022 included the following components (in thousands):

	<u>2023</u>	<u>2022</u>
Net current period actuarial gain	\$ (2,356)	\$ (6,976)
Interest cost	1,352	847
Amortization of actuarial loss	<u>-</u>	<u>22</u>
Postretirement benefit related changes other than net periodic benefit cost	<u>\$ (1,004)</u>	<u>\$ (6,107)</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 loss	<u>\$ 490</u>
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The amounts that have not been recognized as components of net periodic postretirement benefit cost for the years ended June 30, 2023 and 2022 are as follows (in thousands):

	<u>2023</u>	<u>2022</u>
Net actuarial gain	<u>\$ (5,414)</u>	<u>\$ (3,052)</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>2023</u>	<u>2022</u>	<u>2023</u>	<u>2022</u>
Discount rate	5.15%	4.79%	4.79%	2.97%

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>
2024	\$1,474,000
2025	1,604,000
2026	1,798,000
2027	1,924,000
2028	1,993,000
2029-2033	10,739,000

The health care trend rate assumption used in determining the accumulated benefit obligation for 2024 was 7.50% pre 65 and post 65, gradually decreasing to 4.50% in 2033 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 a qualified defined contribution plan which invests 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 \$4,314,000 and \$4,206,000 in fiscal 2023 and 2022, respectively. The College also maintains a non-qualified supplemental defined contribution 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. Commitments and Contingent Liabilities:

Construction Commitments

The College has outstanding commitments of \$16,423,000 at June 30, 2023 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, including inquiries from regulators and employee indemnification matters. The College believes that there are currently no outstanding matters which would have a material effect on the financial position of the College.



COLBY COLLEGE  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, CONTINUED

9. Commitments and Contingent Liabilities, Continued:

Employment Agreements

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

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 \$2,225,000.

Other

The College outsources services in connection with its dining activities under long-term contracts with the supplier. This agreement can be canceled upon notice. Management believes this arrangement is under commercially reasonable terms.

COLBY COLLEGE  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, CONTINUED

10. Net Assets and Endowment Matters:

Net assets comprise the following at June 30, 2023 and 2022 (in thousands):

	2023		2022	
	Without Donor Restrictions	With Donor Restrictions	Without Donor Restrictions	With Donor Restrictions
General operation reserves	\$ (11,573)		\$ (12,693)	
LLC operations	29,735		23,446	
Loan Funds	571		652	
Board-designated endowment funds	267,252		274,213	
Strategic investment fund	(66,505)		(60,849)	
Funds for facilities	444,108		402,600	
Financial aid		\$ 1,336		\$ 1,364
Departmental support		22,651		22,811
Building and equipment		(55)		(55)
Other purposes (various)		264		271
	<u>663,588</u>	<u>24,196</u>	<u>627,369</u>	<u>24,391</u>
Subject to the passage of time		7,678		8,293
Subject to Colby spending policy and appropriation investment in perpetuity (including amounts above original gift amount of \$384,098 and \$367,005), which, once appropriated, is expendable to support:				
Financial aid		350,016		342,767
Library		13,221		13,520
Professorships		148,142		151,413
Departmental support		119,044		114,512
Research		19,243		19,420
Lectures		8,485		8,494
Other		156,719		163,224
	<u>-</u>	<u>814,870</u>	<u>-</u>	<u>813,350</u>
Not subject to appropriation of expenditure				
Artwork held in perpetuity		201,026		200,460
Pledges		65,120		95,578
Other		56,901		70,281
	<u>\$ 663,588</u>	<u>\$ 1,169,791</u>	<u>\$ 627,369</u>	<u>\$ 1,212,353</u>

COLBY COLLEGE  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, CONTINUED

10. Net Assets and Endowment Matters, 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 composition of net assets held in endowment and similar funds at June 30 was as follows (in thousands):

	2023		
	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Board-designated endowment funds	\$ 267,252		\$ 267,252
Donor-restricted endowment funds:			
Original donor-restricted gift amount and amounts required to be maintained in perpetuity by donor		\$ 384,098	384,098
Accumulated investment gains		430,772	430,772
Term endowment		8,805	8,805
Restricted quasi endowment		25,196	25,196
Total investments, endowment	\$ 267,252	\$ 848,871	\$ 1,116,123

	2022		
	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Board-designated endowment funds	\$ 274,213		\$ 274,213
Donor-restricted endowment funds:			
Original donor-restricted gift amount and amounts required to be maintained in perpetuity by donor		\$ 367,005	367,005
Accumulated investment gains		446,582	446,582
Term endowment		9,238	9,238
Restricted quasi endowment		25,413	25,413
Total investments, endowment	\$ 274,213	\$ 848,238	\$ 1,122,451

COLBY COLLEGE  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, CONTINUED

10. Net Assets and Endowment Matters, Continued:

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):

	2023		
	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Endowment investments, beginning of year	\$ 274,213	\$ 848,238	\$ 1,122,451
Investment return, net	8,147	23,304	31,451
Contributions	25	13,433	13,458
Distribution of endowment return to all funds	(15,067)	(45,640)	(60,707)
Amounts designated to (from) endowment	8	6,419	6,427
Matured life income funds	64	2,762	2,826
Other changes, net	(138)	355	217
Endowment investments, end of year	<u>\$ 267,252</u>	<u>\$ 848,871</u>	<u>\$ 1,116,123</u>
	2022		
	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Endowment investments, beginning of year	\$ 314,870	\$ 942,868	\$ 1,257,738
Investment return, net	(28,591)	(82,568)	(111,159)
Contributions	124	24,766	24,890
Distribution of endowment return to all funds	(12,462)	(41,713)	(54,175)
Amounts designated to (from) endowment	182	(112)	70
Matured life income funds	90	5,284	5,374
Other changes, net	(287)	(287)	(287)
Endowment investments, end of year	<u>\$ 274,213</u>	<u>\$ 848,238</u>	<u>\$ 1,122,451</u>

COLBY COLLEGE  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, CONTINUED

10. Net Assets and Endowment Matters, Continued:

Net assets were released from donor restrictions as a result of incurring expenses satisfying the restricted purposes or occurrence of events specified by the donors. Net assets released from restrictions for the years ended June 30, 2023 and 2022 were for the following purposes (in thousands):

	2023	2022
Student aid	\$ 21,183	\$ 20,178
Instruction	9,090	8,342
Facilities	45,765	60,447
Academic support	3,135	2,172
Research	1,522	1,075
Student services	8,562	6,963
Unrestricted support	5,975	4,464
<b>Net assets released from restrictions</b>	<b>\$ 95,232</b>	<b>\$ 103,641</b>

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. Deficiencies of this nature existed in 35 donor-restricted funds, which together have an original gift value of \$33,181,000, a current fair value of \$31,004,000, and a deficiency of \$2,176,000 at June 30, 2023. The College’s policy is to only appropriate for spending the actual yield on such underwater funds.

The Board of Trustees has approved appropriations from the investment funds of \$58,148,000 for 2024, 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

11. Natural Expenses:

The tables below present expenses by both their nature and function for the years ended June 30, 2023 and 2022 (in thousands):

	2023					
	Instruction/ Research	Academic Support	Student Services	Institutional Support	Auxiliary Enterprises	Total
Compensation	\$ 48,132	\$ 8,961	\$ 19,345	\$ 22,966	\$ 4,998	\$ 104,402
Occupancy	2,095	1,319	4,619	2,981	4,353	15,367
Travel and Entertainment	3,424	1,193	4,410	3,854	(1,744)	11,137
Depreciation and Amortization	2,251	2,361	4,395	1,334	6,041	16,382
Interest and Debt Service Costs	2,646	1,203	3,286	928	2,370	10,433
Contract Services	5,883	2,075	7,023	11,558	6,857	33,396
Information technology and supplies	2,523	5,221	1,974	2,628	6,154	18,500
Other expenses	344	17	(46)	661	(33)	943
<b>Total</b>	<b>\$ 67,298</b>	<b>\$ 22,350</b>	<b>\$ 45,006</b>	<b>\$ 46,910</b>	<b>\$ 28,996</b>	<b>\$ 210,560</b>

	2022					
	Instruction/ Research	Academic Support	Student Services	Institutional Support	Auxiliary Enterprises	Total
Compensation	\$ 43,548	\$ 8,147	\$ 18,041	\$ 22,239	\$ 5,123	\$ 97,098
Occupancy	2,232	1,201	4,616	3,161	2,857	14,067
Travel and Entertainment	1,865	558	3,672	3,300	(1,873)	7,522
Depreciation and Amortization	2,163	2,213	4,296	1,258	5,708	15,638
Interest and Debt Service Costs	2,558	1,165	3,183	893	1,913	9,712
Contract Services	3,730	1,666	8,707	8,953	6,537	29,593
Information technology and supplies	2,368	4,977	1,698	2,947	5,638	17,628
Other expenses	392	32	33	232	110	799
<b>Total</b>	<b>\$ 58,856</b>	<b>\$ 19,959</b>	<b>\$ 44,246</b>	<b>\$ 42,983</b>	<b>\$ 26,013</b>	<b>\$ 192,057</b>

12. COVID-19 Matters:

Given the impact of COVID-19, the College was eligible for certain funding and the programs that impacted 2022 were as follows:

The College received grants from the Federal Emergency Management Agency totaling \$6,390,000, all of which was reported as revenue for the year ended June 30, 2022.

The CARES Act permitted 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 had deferred tax balances of \$1,400,000 at June 30, 2022 which was fully repaid during 2023.