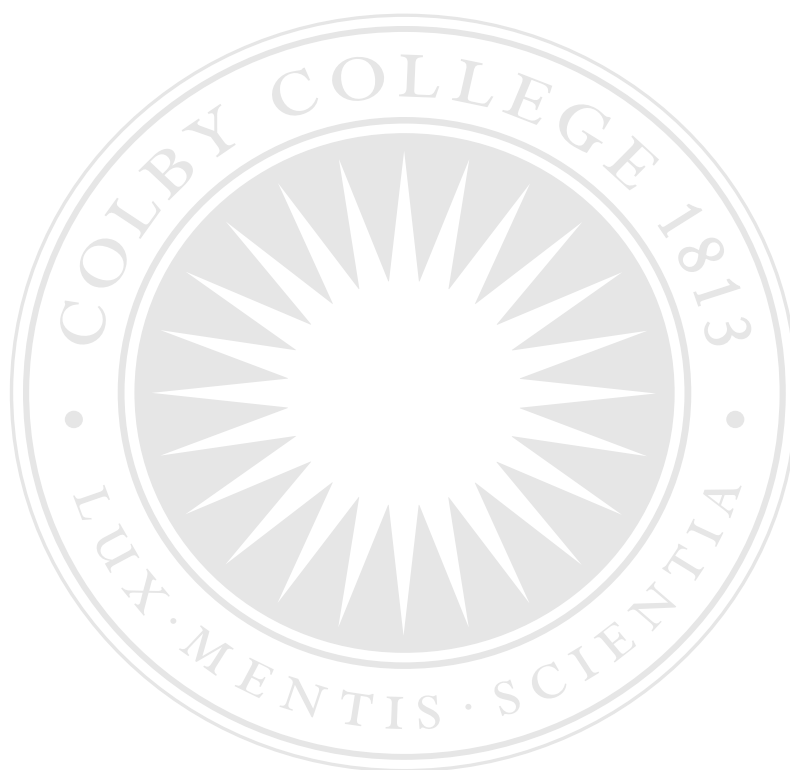


Colby

COLBY COLLEGE
FINANCIAL STATEMENTS
June 30, 2004 and 2003



COLBY COLLEGE

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Report of Independent Auditors

To the Board of Trustees
of Colby College:

In our opinion, the accompanying consolidated balance sheets and the related statements of activities and cash flows present fairly, in all material respects, the financial position of Colby College and its subsidiary (the "College") at June 30, 2004 and 2003, and the changes in their net assets and their cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the College's management. Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements 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 financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

PricewaterhouseCoopers LLP

September 28, 2004

COLBY COLLEGE
BALANCE SHEETS
June 30, 2004 and 2003
(in thousands)

	2004	2003
ASSETS		
Cash and cash equivalents	\$ 17,457	\$ 15,052
Accrued income receivable	60	46
Accounts receivable (less allowance for doubtful accounts of \$903 in 2004 and \$718 in 2003)	1,051	921
Funds held by trustee	6,974	2,042
Inventories	636	591
Prepaid expenses and deferred charges	1,337	1,456
Notes receivable (less allowance for doubtful accounts of \$680 in 2004 and \$729 in 2003)	6,517	6,712
Pledges receivable (Note 1)	35,444	8,090
Investments, endowment	357,171	321,584
Investments, annuity and life income funds	31,497	26,976
Investments, funds held in trust by others	14,292	13,501
Investments, other	12,410	7,647
Total investments (Note 3)	415,370	369,708
Land, buildings and equipment (less accumulated depreciation of \$53,439 in 2004 and \$47,827 in 2003) (Note 2)	118,190	114,597
Total assets	\$ 603,036	\$ 519,215
LIABILITIES		
Accounts payable and accrued liabilities	\$ 8,544	\$ 7,786
Student deposits	1,173	1,308
Government advances for student loans (Note 8)	5,177	5,308
Annuity obligations	13,441	11,568
Bonds payable (Note 4)	40,372	31,371
Post retirement benefit obligation (Note 6)	6,393	5,242
Total liabilities	75,100	62,583
COMMITMENTS AND CONTINGENT LIABILITIES (Note 9)		
NET ASSETS (Note 11)		
Unrestricted	189,873	173,997
Temporarily restricted	192,849	150,899
Permanently restricted	145,214	131,736
Total net assets	527,936	456,632
Total liabilities and net assets	\$ 603,036	\$ 519,215

The accompanying notes are an integral
part of the financial statements

COLBY COLLEGE
STATEMENT OF ACTIVITIES
for the year ended June 30, 2004 (with comparative information for the year ended June 30, 2003)
(in thousands)

	UNRESTRICTED	TEMPORARILY RESTRICTED	PERMANENTLY RESTRICTED	TOTAL	
				2004	2003
Operating Activities					
Operating revenues and other support					
Student charges	\$ 70,942			\$ 70,942	\$ 69,188
Student aid	(15,600)			(15,600)	(13,169)
Net student charges	55,342			55,342	56,019
Contributions	3,820			3,820	3,636
Endowment return utilized for operations	13,225			13,225	12,283
Other investment income	460			460	650
Net assets released from restrictions for operating contributions	6,529			6,529	5,720
Other revenue	4,931			4,931	4,607
Total operating revenues and other support	84,307			84,307	82,915
Expenses					
Instruction and research	28,807			28,807	28,415
Academic support	8,352			8,352	8,148
Student services	13,087			13,087	12,654
Institutional support	12,326			12,326	12,385
Auxiliary enterprises	16,990			16,990	17,009
Total operating expenses	79,562			79,562	78,611
Increase in net assets before non-operating activities	4,745			4,745	4,304
<i>Increase in net assets from general operations (Note 1)</i>	128			128	106
<i>Decrease in net assets from depreciation</i>	(6,129)			(6,129)	(6,455)
<i>Amounts designated for facilities reserves, debt service, endowment and student loans (Note 1)</i>	10,746			10,746	10,653
Non-operating activities:					
Contributions	299	\$ 29,921	\$ 11,937	42,157	12,950
Net investment income	1,396	2,764	465	4,625	6,321
Net realized and unrealized gains (losses)	11,410	32,024	1,047	44,481	(6,994)
Endowment return utilized for operations	(13,225)			(13,225)	(12,283)
Other revenues and expenses, net	(1,386)	(49)	(114)	(1,549)	(892)
Net change in annuity and life income funds		(3,544)	143	(3,401)	(777)
Net assets released from restriction and reclassifications	12,637	(19,166)		(6,529)	(5,720)
Change in net assets from non-operating activities	11,131	41,950	13,478	66,559	(7,395)
Total change in net assets	15,876	41,950	13,478	71,304	(3,091)
Net assets, beginning of year	173,997	150,899	131,736	456,632	459,723
Net assets, end of year	\$ 189,873	\$ 192,849	\$ 145,214	\$ 527,936	\$ 456,632

The accompanying notes are an integral
part of the financial statements

COLBY COLLEGE
STATEMENT OF ACTIVITIES
for the year ended June 30, 2003
(in thousands)

	UNRESTRICTED	TEMPORARILY RESTRICTED	PERMANENTLY RESTRICTED	Total 2003
Operating Activities				
Operating revenues and other support				
Student charges	\$ 69,188			\$ 69,188
Student aid	(13,169)			(13,169)
Net student charges	<u>56,019</u>			<u>56,019</u>
Contributions	3,636			3,636
Endowment return utilized for operations	12,283			12,283
Other investment income	650			650
Net assets released from restrictions for operating contributions	5,720			5,720
Other revenue	4,607			4,607
Total operating revenues and other support	<u>82,915</u>			<u>82,915</u>
Expenses				
Instruction and research	28,415			28,415
Academic support	8,148			8,148
Student services	12,654			12,654
Institutional support	12,385			12,385
Auxiliary enterprises	17,009			17,009
Total operating expenses	<u>78,611</u>			<u>78,611</u>
Increase in net assets before non-operating activities	4,304			4,304
<i>Increase in net assets from general operations (Note 1)</i>	106			106
<i>Decrease in net assets from depreciation</i>	(6,455)			(6,455)
<i>Amounts designated for facilities reserves, debt service, endowment and student loans (Note 1)</i>	10,653			10,653
Non-operating activities:				
Contributions	919	\$ 8,263	\$ 3,768	12,950
Net investment income	2,145	3,742	434	6,321
Net realized and unrealized losses	(1,084)	(5,542)	(368)	(6,994)
Endowment return utilized for operations	(12,283)			(12,283)
Other revenues and expenses, net	(584)	(308)		(892)
Net change in annuity and life income funds	164	(1,599)	658	(777)
Net assets released from restriction	8,783	(10,657)	(3,846)	(5,720)
Change in net assets from non-operating activities	<u>(1,940)</u>	<u>(6,101)</u>	<u>646</u>	<u>(7,395)</u>
Total change in net assets	2,364	(6,101)	646	(3,091)
Net assets, beginning of year	<u>171,633</u>	<u>157,000</u>	<u>131,090</u>	<u>459,723</u>
Net assets, end of year	<u>\$ 173,997</u>	<u>\$ 150,899</u>	<u>\$ 131,736</u>	<u>\$ 456,632</u>

The accompanying notes are an integral
part of the financial statements

COLBY COLLEGE
STATEMENTS OF CASH FLOWS
for the years ended June 30, 2004 and 2003
(in thousands)

	2004	2003
Cash flows from operating activities		
Change in net assets	\$ 71,304	\$ (3,091)
Adjustments to reconcile change in net assets to net cash provided by operating activities		
Change in accrued income receivable	(14)	45
Change in accounts receivable	(130)	40
Change in inventories	(45)	(46)
Change in prepaid expenses and deferred charges	119	(173)
Change in pledges receivable	(27,354)	(2,607)
Change in accounts payable and accrued liabilities	758	(305)
Change in student deposits	(135)	186
Change in post retirement benefit obligation	1,151	1,035
Depreciation	6,129	6,455
Net realized and unrealized (gains) losses on investments	(44,481)	6,994
Contributions in kind and securities	(5,070)	(3,606)
Contributions restricted for investment	(4,812)	(1,850)
Investment income restricted for investment	(1,400)	(1,411)
Net cash provided (used) by operating activities	(3,980)	1,666
Cash flows from investing activities		
Collections of notes receivable	1,501	1,635
Notes receivable issued	(1,306)	(1,187)
Purchase of land, buildings and equipment	(9,563)	(7,670)
Purchase of investments	(172,521)	(125,540)
Proceeds from sale of investments	176,251	127,179
Net cash used by investing activities	(5,638)	(5,583)
Cash flows from financing activities		
Payments on bonds payable	(1,261)	(1,139)
Bonds payable issued	10,262	2,127
Contributions restricted for investment	4,812	1,850
Investment income restricted for investment	1,400	1,411
Change in annuity obligations	1,873	(645)
Change in government advances for student loans	(131)	116
Change in funds held by trustee	(4,932)	1,925
Net cash provided by financing activities	12,023	5,645
Net change in cash and cash equivalents	2,405	1,728
Cash and cash equivalents at beginning of year	15,052	13,324
Cash and cash equivalents at end of year	\$ 17,457	\$ 15,052
Supplemental data:		
Interest paid	\$ 1,724	\$ 1,515

The accompanying notes are an integral
part of the financial statements

COLBY COLLEGE
NOTES TO FINANCIAL STATEMENTS

1. Organization and Summary of Significant Accounting Policies:

Colby College (the College) is a private, coeducational, liberal arts college providing academic, residential and other services to a diverse student population. The College is exempt from income taxes under the Internal Revenue Code Section 501(c)(3).

The significant accounting policies followed by Colby College are set forth below.

Basis of Presentation

The financial statements include the accounts of Colby College and its wholly owned subsidiary, Colby College (UK). The statements have been prepared on the accrual basis of accounting and in accordance with generally accepted accounting principles. The purpose of Colby College (UK) is to operate the College's London program and its operations are insignificant to Colby College as a whole.

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

Expiration of Donor-Imposed Restrictions

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

Investments

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

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

Most endowment and gift annuity funds are invested on a pooled basis using the unit share method. Pooled income funds and charitable remainder trust funds are separately invested. Distributions to beneficiaries of gift annuities, pooled income funds and charitable remainder trusts are made in accordance with their respective gift/trust instruments. Upon termination of the trusts, the remainder interest reverts to the College.

COLBY COLLEGE
NOTES TO FINANCIAL STATEMENTS, CONTINUED

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

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 funds utilized for operations.

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 is set at 4.0% 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.

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.

Inventories

Inventories are valued at the lower of cost or market with cost determined on the moving average method.

Use of Estimates

The preparation of the financial statements in conformity with generally accepted accounting principles 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 years then ended. Actual results could differ from the estimates included in the financial statements.

Operations

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

Reclassifications

Certain 2003 balances have been reclassified to conform with the 2004 presentation.

COLBY COLLEGE
NOTES TO FINANCIAL STATEMENTS, CONTINUED

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

Land, Buildings and Equipment

Land, buildings and equipment are stated at construction cost, acquisition cost or fair value at dates of gifts, less accumulated depreciation computed on a straight-line basis over the estimated useful lives of the assets:

	<u>Estimated Useful Lives</u>
Buildings and building renovations	20-60
Improvements other than buildings	20
Furniture and equipment	5

The College considers its collections of works of art and rare books as inexhaustible because they have cultural, aesthetic or historical value that will be preserved and, therefore, does not depreciate those assets. The cost of repairs and maintenance are charged to expense as incurred; major renewals and betterments are capitalized. All assets, other than buildings, are removed from the records in the year of disposal or when fully depreciated. Buildings are removed from the records in the year of disposal.

Pledges Receivable

Pledges receivable include grants from foundations, governmental units and pledges from donors or other sources considered to be legally binding. Bequests are recognized as contributions at the time the College is notified of its valid interest in an estate by the appropriate court. These amounts are recorded at the estimated value of future cash flows. Amounts are receivable as follows (in thousands):

	<u>2004</u>	<u>2003</u>
In one year or less	\$10,489	\$1,886
Between one year and five years	29,500	5,267
Greater than five years	<u>2,882</u>	<u>2,663</u>
	42,871	9,816
Less: present value discount	5,262	1,001
Less: allowance for uncollectible pledges	<u>2,165</u>	<u>725</u>
Net pledges receivable	<u>\$35,444</u>	<u>\$8,090</u>

Rates used to determine the present value discount ranged from 4.00% - 5.75%.

In addition to the amounts noted above, the College has received intentions to give approximating \$2,406,000 at June 30, 2004, which have not been recorded in the balance sheet.

Total costs related to alumni and development activities approximated \$4,270,000 and \$4,133,000 during the years ended June 30, 2004 and 2003.

Line of Credit

The College maintains a line of credit agreement with a financial institution totaling \$2,000,000. At June 30, 2004, there were no outstanding borrowings under this agreement.

COLBY COLLEGE
NOTES TO FINANCIAL STATEMENTS, CONTINUED

2. Land, Buildings and Equipment:

Land, buildings and equipment consist of the following as of June 30, 2004 and 2003 (in thousands):

	<u>2004</u>	<u>2003</u>
Land	\$ 201	\$ 201
Buildings and building renovations	134,855	130,035
Construction in progress	6,932	3,183
Improvements	9,236	9,092
Furniture and equipment	2,090	1,966
Works of art	17,516	17,148
Rare books	130	130
Other	<u>669</u>	<u>669</u>
 Total	 171,629	 162,424
Less accumulated depreciation	 <u>53,439</u>	 <u>47,827</u>
	 <u>\$118,190</u>	 <u>\$114,597</u>

As of June 30, 2004, the College estimates that the unaudited replacement value of its buildings is approximately \$242,100,000.

COLBY COLLEGE
NOTES TO FINANCIAL STATEMENTS, CONTINUED

3. Investments:

A summary of assets of the endowment investments and the annuity and life income investments at June 30, 2004 and 2003 follows (in thousands):

	2004 Approximate Fair Value	2003 Approximate Fair Value
Pooled Assets:		
Cash and cash equivalents	\$ 23,962	\$ 13,776
Accounts receivable and accrued income	<u>3,196</u>	<u>177</u>
	<u>27,158</u>	<u>13,953</u>
Investments:		
U.S. Government and agencies	51,862	65,657
Domestic equities and equity funds	73,147	78,410
International equities and equity funds	56,740	48,103
Hedge funds	71,543	48,197
Real estate funds	23,219	23,692
Venture capital	21,756	18,452
Distressed obligations	109	519
Mezzanine financing	2,520	2,453
Private equity	<u>32,434</u>	<u>25,444</u>
Total pooled investments	<u>333,330</u>	<u>310,927</u>
 Total pooled assets	 <u>360,488</u>	 <u>324,880</u>
Other endowment assets:		
Cash and cash equivalents	2,380	1,829
Domestic equities	1,504	1,370
Real estate	593	449
Cash value of life insurance	<u>59</u>	<u>57</u>
Total other endowment assets	<u>4,536</u>	<u>3,705</u>
 Total invested assets	 365,024	 328,585
 Less annuity and life income assets pooled with endowment and similar funds	 <u>7,853</u>	 <u>7,001</u>
 Total endowment and similar assets	 <u>\$ 357,171</u>	 <u>\$ 321,584</u>
Assets of annuity and life income funds include:		
Separately invested assets	\$ 23,644	\$ 19,975
Assets pooled with endowment and similar funds	<u>7,853</u>	<u>7,001</u>
Total annuity and life income funds	<u>\$ 31,497</u>	<u>\$ 26,976</u>

COLBY COLLEGE
NOTES TO FINANCIAL STATEMENTS, CONTINUED

3. Investments, continued:

The majority of the endowment investments and annuity and life income 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. Ownership of units as of June 30, 2004 was as follows:

	<u>Units</u>	<u>Approximate Fair Value (in thousands)</u>
Endowment	1,649,417	\$239,945
Unrestricted quasi-endowment	679,938	98,912
Restricted quasi-endowment	93,892	13,659
Term endowment	814	119
Annuities	<u>53,986</u>	<u>7,853</u>
	<u>2,478,047</u>	<u>\$360,488</u>

The following tabulation summarizes changes in relationships between cost and fair values of pooled assets for the year ended June 30, 2004 (in thousands):

	<u>Pooled Assets</u>		<u>Net Gain(Loss)</u>	<u>Fair</u>
	<u>Fair</u>	<u>Cost</u>		<u>Value</u>
	<u>Value</u>	<u>Cost</u>	<u>Net Gain(Loss)</u>	<u>per Unit</u>
End of year	\$360,488	\$351,013	\$ 9,475	\$145.47
Beginning of year	324,880	354,879	<u>(29,999)</u>	<u>127.77</u>
Unrealized net gain			39,474	
Realized net gain			<u>1,439</u>	
Total unrealized and realized net gain for the year			<u>\$40,913</u>	<u>\$ 17.70</u>

The yield per unit, exclusive of net gains (losses), computed on the weighted average of units outstanding, was \$1.37 for the year ended June 30, 2004. Spending per unit for current use, computed on units outstanding as of July 1, 2003, was \$5.69. Investment expenses included in net investment income totaled \$3,453,000 and \$3,059,000 for the years ended June 30, 2004 and 2003, respectively.

Endowment investments include Limited Partnership interests in various real estate, venture capital, distressed securities, buyout, mezzanine financing and hedge funds. The College has Limited Partnership investments that have not been fully funded. These investments require a total capital commitment of \$159,876,000 of which \$101,106,000 has been paid as of June 30, 2004. The College is contingently liable for the balance of \$58,770,000 which is expected to be paid in various installments through 2010.

The valuation of investment in securities traded on a national securities exchange is based on the closing price on the last business day of the period. Securities for which there is no ready market are valued as estimated by the securities manager. Because of the inherent uncertainty of these valuations, it is reasonably possible that those estimated values may differ significantly from the values that would have been used had a ready market for the securities existed. The College may have exposure to derivative financial instruments through certain of its commingled investments. Derivatives, such as forward foreign currency and futures contracts, are used by the funds to hedge against risk.

COLBY COLLEGE
NOTES TO FINANCIAL STATEMENTS, CONTINUED

3. Investments, continued:

As a result of market declines, the fair market value of certain donor-restricted endowments is less than the historical cost of such funds by \$260,000 at June 30, 2004 and \$1,028,000 at June 30, 2003. In accordance with generally accepted accounting principles, these unrealized losses have been recorded as reductions in unrestricted net assets. Future market gains will be used to restore this deficiency in unrestricted net assets before any net appreciation above the historical cost of such funds increases temporarily restricted net assets. Under the Maine Uniform Management of Institutional Funds Act, the College is under no legal obligation to record these unrealized losses as reductions in unrestricted net assets.

Other investments, measured at fair value, at June 30, 2004 and 2003 consist of the following (in thousands):

	<u>2004</u>	<u>2003</u>
Cash and cash equivalents	\$ 9,394	\$ 4,709
Employee mortgages (average interest rate 6.20%)	1,904	2,776
Real Estate	1,001	
Privately held equity and other	<u>111</u>	<u>162</u>
Total investments, other	<u>\$ 12,410</u>	<u>\$ 7,647</u>
Investments, funds held in trust by others	<u>\$ 14,292</u>	<u>\$13,501</u>

4. Bonds Payable:

Bonds and notes payable at June 30, 2004 and 2003 are as follows (in thousands):

<u>Facilities Financing</u>	<u>2004</u>	<u>2003</u>
Series 1996A Revenue Bonds	\$10,057	10,462
Series 1998A Revenue Bonds	8,204	8,614
Series 2001C Revenue Bonds	9,722	10,168
Series 2002B Revenue Bonds	2,127	2,127
Series 2003B Revenue Bonds	<u>10,262</u>	<u> </u>
Total Bonds Payable	<u>\$40,372</u>	<u>\$31,371</u>

Maturities of outstanding bonds are as follows:

<u>Year</u>	<u>Principal Amount (in thousands)</u>
July 1, 2004	1,420
July 1, 2005	1,490
July 1, 2006	1,545
July 1, 2007	1,615
July 1, 2008	1,690
Thereafter	<u>32,612</u>
	<u>\$40,372</u>

Interest rates on the outstanding bond obligations range from 2.00% - 5.75%.

COLBY COLLEGE
NOTES TO FINANCIAL STATEMENTS, CONTINUED

4. Bonds Payable, continued:

The College borrowed \$12,527,000 from the Maine Health and Higher Educational Facilities Authority (the Authority) in conjunction with the Authority's Series 1996A Revenue Bonds, which are insured by a Municipal Bond Insurance Policy issued by AMBAC Indemnity Corporation. The College has pledged its gross receipts as collateral for its note to the Authority. The bonds reach final maturity in 2026.

The College borrowed \$10,104,000 from the Authority in conjunction with the Authority's Series 1998A Revenue Bonds, which are insured by a Municipal Bond Insurance Policy issued by Financial Security Assurance, Inc. The College has pledged its gross receipts as collateral for its note to the Authority. The bonds reach final maturity in 2018.

The College borrowed \$10,527,000 from the Authority in conjunction with the Authority's Series 2001C Revenue Bonds, which are insured by a Municipal Bond Insurance Policy issued by Financial Security Assurance, Inc. The College has pledged its gross receipts as collateral for its note to the Authority. The bonds reach final maturity in 2021.

The College borrowed \$2,127,000 from the Authority in conjunction with the Authority's Series 2002B Revenue Bonds, which are insured by a Municipal Bond Insurance Policy issued by Financial Security Assurance, Inc. The College has pledged its gross receipts as collateral for its note to the Authority. The bonds reach final maturity in 2023.

The College borrowed \$10,262,000 from the Authority in conjunction with the Authority's Series 2003B Revenue Bonds, which are insured by a Municipal Bond Insurance Policy issued by Financial Security Assurance, Inc. The College has pledged its gross receipts as collateral for its note to the Authority. The bonds reach final maturity in 2023.

The College is required to maintain certain debt service coverage ratios under the bond obligations.

5. Retirement Plans:

Colby employees participate in individual annuity contracts through Teachers Insurance and Annuity Association and College Retirement Equities Fund. Contributions for each annuity are made both by the participant and the College. The College's contribution amounted to approximately \$2,206,000 and \$1,936,000 in fiscal 2004 and 2003, respectively. Effective January 1, 2003, the College increased its contribution rate for each annuity by 3% of eligible compensation.

6. Postretirement Benefits:

The College provides medical benefits to eligible employees who have 10 years of continuous service after age 40, and have reached a minimum age of 60 years. SFAS No. 106 permits either a prospective or immediate recognition approach to recording the transition obligation at the date of adoption. The College has elected to amortize the transition obligation of \$3,412,000 over a 20 year period. The following sets forth the plan status with amounts reported in the College's financial statements at June 30, 2004 and 2003 (in thousands):

	<u>2004</u>	<u>2003</u>
Change in Benefit Obligation		
Postretirement benefit obligation, beginning of year	\$ 11,751	\$ 9,715
Service cost	557	457
Interest cost	691	664
Plan participants' contributions	162	128
Actuarial (gain) loss	(110)	1,345
Benefits paid	<u>(653)</u>	<u>(558)</u>
Postretirement benefit obligation, end of year	12,398	11,751

COLBY COLLEGE
NOTES TO FINANCIAL STATEMENTS, CONTINUED

6. Postretirement Benefits, continued:

Change in Plan Assets			
Fair value at beginning of year	0	0	
Employer contributions	491	430	
Plan participants' contributions	162	128	
Benefits paid	<u>(653)</u>	<u>(558)</u>	
Total fair value of plan assets	0	0	
Unfunded status	12,398	11,751	
Unrecognized actuarial loss	(4,586)	(4,960)	
Unrecognized net obligation at transition	<u>(1,419)</u>	<u>(1,549)</u>	
Accrued postretirement benefit obligation	<u>\$ 6,393</u>	<u>\$ 5,242</u>	

Net periodic postretirement benefit cost for the year ended June 30, 2004 and 2003 included the following components (in thousands):

	<u>2004</u>	<u>2003</u>
Service cost	\$ 557	\$ 457
Interest cost	691	664
Amortization of transition obligation	130	130
Amortization of actuarial loss	<u>322</u>	<u>244</u>
Net postretirement benefit cost	<u>\$1,700</u>	<u>\$1,495</u>

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

	<u>Benefit Obligation</u>		<u>Net Periodic Benefit Cost</u>	
	<u>2004</u>	<u>2003</u>	<u>2004</u>	<u>2003</u>
Discount rate	6.25%	6.0%	6.0%	6.0%

Colby College expects to contribute \$500,000 to its postretirement benefit plan in 2005.

The following benefit payments, which reflect expected future service, as appropriate, are expected to be paid: 2005 - \$500,000, 2006 - \$525,000, 2007 - \$545,000, 2008 - \$600,000, 2009 - \$650,000, Years 2010 – 2014 - \$3,935,000.

The health care trend rate assumption used in determining the accumulated benefit obligation for 2004 was 12.0% for medical and 14.0% for prescription drugs, decreasing to 5.0% in 2010 (medical) and 2011 (prescription drugs) and remaining at that level thereafter.

Colby College uses a July 1 measurement date for its postretirement benefit plan.

Medicare Modernization Act of 2003

It is expected that the post age 65 prescription drug benefit provided under the College's retiree medical plan will be actuarially equivalent to the Medicare Part D benefit provided under the Medicare Modernization Act. The July 1, 2004 accrued postretirement benefit obligation reflects a \$2,685,000 reduction, in the total liability, due to anticipated retiree drug subsidy payments. The reduction in fiscal 2005 net postretirement benefit cost (operating expense) due to the reflection of the retiree drug subsidy is \$595,000.

COLBY COLLEGE
NOTES TO FINANCIAL STATEMENTS, CONTINUED

7. Guarantee Fund with Maine Employment Security Commission:

The College has elected to discharge its responsibility 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 \$460,000.

8. Government Advances for Student Loans:

Government advances for student loans at June 30, 2004 and 2003 includes funds advanced to Colby by the federal government under the Perkins Student Loan Program totaling \$5,177,000 and \$5,308,000, respectively. Such funds may be reloaned by Colby after collection, but ultimately are refundable to the federal government.

9. Commitments and Contingent Liabilities:

Foreign Currency Forward Commitments

The College uses foreign currency forward contracts to hedge the currency exposure associated with its off-campus programs and certain endowment investments. At June 30, 2004 and 2003, the notional amount of the U.S. dollar commitment required under the terms of outstanding foreign currency forward contracts amounted to approximately \$3,855,000 and \$2,827,000, respectively. Contracts are for British Pounds and European Union Euros and extend through 2005.

At June 30, 2004, the College recorded a \$51,000 loss on the contracts related to its off-campus programs in the operating portion of its statement of activities and a \$105,000 loss on the contracts related to its endowment investment commitments in the nonoperating portion of its statement of activities.

Construction Commitments

The College has outstanding commitments of \$7,700,000 at June 30, 2004 to complete various construction projects in connection with the strategic plan of the College.

10. Disclosures of the Fair Value of Financial Instruments:

The fair value of the College's foreign currency forward commitments based on June 30, 2004 spot market rates is estimated to be \$4,019,000.

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

Cash and Equivalents

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

Invested Assets

The College accounts for its invested assets on a fair value basis. The endowment and similar funds and the annuity and life income funds have investments with a fair value of \$388,668,000 at June 30, 2004, as detailed in Note 3. The current unrestricted fund's investments consist of employee mortgages for which the fair value at June 30, 2004 is estimated at \$1,904,000 and a foreign currency forward contracts asset of \$111,000. The plant fund investment consists of real estate of \$1,001,000.

COLBY COLLEGE
NOTES TO FINANCIAL STATEMENTS, CONTINUED

10. Disclosures of the Fair Value of Financial Instruments, continued:

Student and Parent Loan Receivables

Determination of the fair value of student and parent loan receivables, which include donor restricted and federally sponsored student loans with mandated interest rates and repayment terms subject to significant restriction as to their transfer and disposition, could not be made without incurring excessive costs.

Bonds Payable

The fair value of the College bonds payable approximates \$41,733,000. The fair value of bonds is estimated based on quoted market prices for the same or similar issues. The market prices utilized reflect the rate that the College would have to pay to a creditworthy third party to assume its obligation and do not reflect an additional liability to the College.

11. Net assets:

Net assets comprise the following at June 30, 2004 and 2003 (in thousands):

	2004		
	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>
General operating reserves	\$ 2,996		
Unexpended restricted funds received for general operating purposes		\$ 2,918	
Loan funds	2,307		\$ 940
Endowment	99,871	144,203	113,097
Annuity and life income funds		18,056	
Funds for facilities	84,699	3,220	5,893
Pledges receivable		23,974	11,470
Funds held in trust by others		478	13,814
	<u>\$189,873</u>	<u>\$192,849</u>	<u>\$145,214</u>
		2003	
	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>
General operating reserves	\$ 2,868		
Unexpended restricted funds received for general operating purposes		\$ 3,020	
Loan funds	2,322		\$ 880
Endowment	88,689	123,478	109,417
Annuity and life income funds		15,408	
Funds for facilities	80,118	2,948	5,893
Pledges receivable		5,653	2,437
Funds held in trust by others		392	13,109
	<u>\$173,997</u>	<u>\$150,899</u>	<u>\$131,736</u>