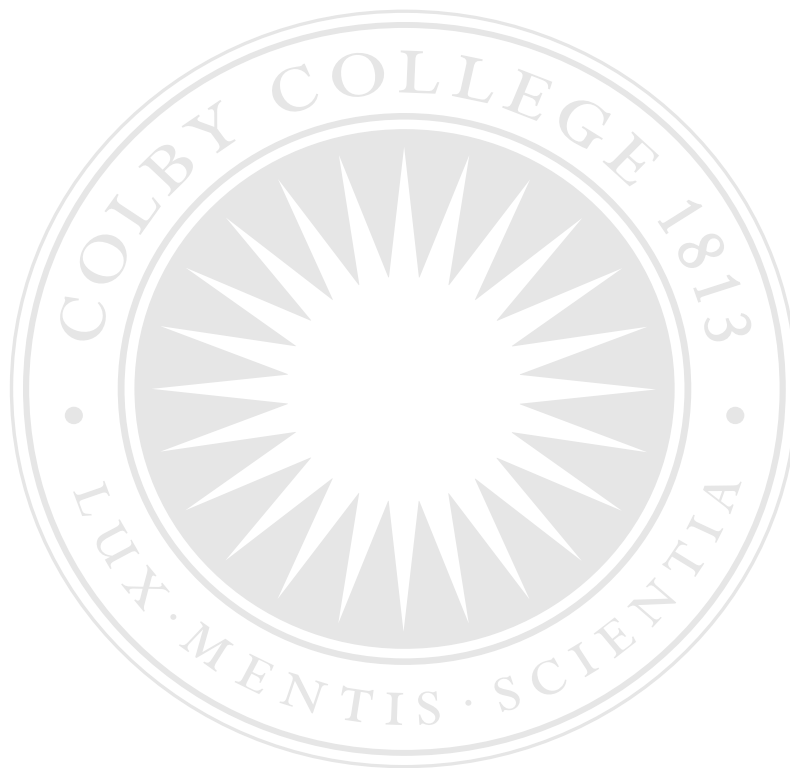


# Colby

**COLBY COLLEGE**  
**FINANCIAL STATEMENTS**  
**June 30, 2005 and 2004**



COLBY COLLEGE

TABLE OF CONTENTS

	<u>Page(s)</u>
Report of Independent Auditors	1
Financial Statements:	
Balance Sheets- June 30, 2005 and 2004	2
Statements of Activities for the years ended June 30, 2005 and 2004	3 - 4
Statements of Cash Flows for the years ended June 30, 2005 and 2004	5
Notes to Financial Statements	6 - 17

**Report of Independent Auditors**

To the Board of Trustees  
of Colby College:

In our opinion, the accompanying 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, 2005 and 2004, and the changes in their net assets and their cash flows for the years 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*

October 13, 2005

COLBY COLLEGE  
BALANCE SHEETS  
June 30, 2005 and 2004  
(in thousands)

	2005	2004
<b>ASSETS</b>		
Cash and cash equivalents	\$ 20,607	\$ 17,457
Accrued income receivable	167	60
Accounts receivable (less allowance for doubtful accounts of \$ 736 in 2005 and \$903 in 2004)	1,379	1,051
Funds held by trustee (Note 4)	3,695	6,974
Inventories	734	636
Prepaid expenses and deferred charges	1,012	1,337
Notes receivable (less allowance for doubtful accounts of \$651 in 2005 and \$680 in 2004)	6,634	6,517
Pledges receivable (Note 1)	33,206	35,444
Investments, endowment	424,205	357,171
Investments, annuity and life income funds	31,650	31,497
Investments, funds held in trust by others	12,482	14,292
Investments, other	6,096	12,410
Total investments (Note 3)	474,433	415,370
Land, buildings and equipment (less accumulated depreciation of \$59,082 in 2005 and \$53,439 in 2004) (Note 2)	124,492	118,190
Total assets	\$ 666,359	\$ 603,036
<b>LIABILITIES</b>		
Accounts payable and accrued liabilities	\$ 7,502	\$ 8,544
Student deposits	1,058	1,173
Government advances for student loans (Note 8)	5,131	5,177
Annuity obligations	14,286	13,441
Bonds payable (Note 4)	38,952	40,372
Post retirement benefit obligation (Note 6)	7,455	6,393
Total liabilities	74,384	75,100
<b>COMMITMENTS AND CONTINGENT LIABILITIES (Note 9)</b>		
<b>NET ASSETS (Note 11)</b>		
Unrestricted	215,359	189,873
Temporarily restricted	217,100	192,849
Permanently restricted	159,516	145,214
Total net assets	591,975	527,936
Total liabilities and net assets	\$ 666,359	\$ 603,036

The accompanying notes are an integral  
part of the financial statements

COLBY COLLEGE  
STATEMENT OF ACTIVITIES  
for the year ended June 30, 2005 (with comparative information for the year ended June 30, 2004)  
(in thousands)

	UNRESTRICTED	TEMPORARILY RESTRICTED	PERMANENTLY RESTRICTED	TOTAL	
				2005	2004
<b>Operating Activities</b>					
Operating revenues and other support					
Student charges	\$ 76,521			\$ 76,521	\$ 70,942
Student aid	(16,812)			(16,812)	(15,600)
Net student charges	59,709			59,709	55,342
Contributions	4,292			4,292	3,820
Endowment return utilized for operations	13,493			13,493	13,225
Other investment income	929			929	460
Net assets released from restriction	6,867			6,867	6,529
Other revenue	5,010			5,010	4,931
Total operating revenues and other support	90,300			90,300	84,307
Expenses					
Instruction and research	31,230			31,230	28,807
Academic support	8,602			8,602	8,352
Student services	14,172			14,172	13,087
Institutional support	12,587			12,587	12,326
Auxiliary enterprises	16,811			16,811	16,990
Total operating expenses	83,402			83,402	79,562
Increase in net assets before non-operating activities	6,898			6,898	4,745
<i>Increase in net assets from general operations (Note 1)</i>	198			198	128
<i>Decrease in net assets from depreciation</i>	(6,437)			(6,437)	(6,129)
<i>Amounts designated for facilities reserves, debt service, endowment and student loans (Note 1)</i>	13,137			13,137	10,746
Non-operating activities:					
Contributions	773	\$ 9,118	\$ 11,749	21,640	42,157
Net investment income	1,384	3,768	451	5,603	4,625
Net realized and unrealized gains (losses)	14,838	38,912	(32)	53,718	44,481
Endowment return utilized for operations	(13,493)			(13,493)	(13,225)
Other revenues and expenses, net	(1,221)	17		(1,204)	(1,549)
Net change in annuity and life income funds		(3,390)	1,134	(2,256)	(3,401)
Net assets released from restriction and reclassifications	16,307	(24,174)	1,000	(6,867)	(6,529)
Change in net assets from non-operating activities	18,588	24,251	14,302	57,141	66,559
Total change in net assets	25,486	24,251	14,302	64,039	71,304
Net assets, beginning of year	189,873	192,849	145,214	527,936	456,632
Net assets, end of year	\$ 215,359	\$ 217,100	\$ 159,516	\$ 591,975	\$ 527,936

The accompanying notes are an integral  
part of the financial statements

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

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

The accompanying notes are an integral  
part of the financial statements

COLBY COLLEGE  
STATEMENTS OF CASH FLOWS  
for the years ended June 30, 2005 and 2004  
(in thousands)

	2005	2004
Cash flows from operating activities		
Change in net assets	\$ 64,039	\$ 71,304
Adjustments to reconcile change in net assets to net cash provided by operating activities		
Change in accrued income receivable	(107)	(14)
Change in accounts receivable	(328)	(130)
Change in inventories	(98)	(45)
Change in prepaid expenses and deferred charges	325	119
Change in pledges receivable	2,238	(27,354)
Change in accounts payable and accrued liabilities	(1,042)	758
Change in student deposits	(115)	(135)
Change in post retirement benefit obligation	1,062	1,151
Depreciation	6,437	6,129
Net realized and unrealized gains on investments	(53,718)	(44,481)
Contributions in kind and securities	(8,184)	(5,070)
Contributions restricted for investment	(7,479)	(4,812)
Investment income restricted for investment	(1,303)	(1,400)
Net cash provided (used) by operating activities	1,727	(3,980)
Cash flows from investing activities		
Collections of notes receivable	1,532	1,501
Notes receivable issued	(1,649)	(1,306)
Purchase of land, buildings and equipment	(12,128)	(9,563)
Purchase of investments	(111,122)	(172,521)
Proceeds from sale of investments	113,350	176,251
Net cash used by investing activities	(10,017)	(5,638)
Cash flows from financing activities		
Payments on bonds payable	(1,420)	(1,261)
Bonds payable issued		10,262
Contributions restricted for investment	7,479	4,812
Investment income restricted for investment	1,303	1,400
Change in annuity obligations	845	1,873
Change in government advances for student loans	(46)	(131)
Change in funds held by trustee	3,279	(4,932)
Net cash provided by financing activities	11,440	12,023
Net change in cash and cash equivalents	3,150	2,405
Cash and cash equivalents at beginning of year	17,457	15,052
Cash and cash equivalents at end of year	\$ 20,607	\$ 17,457
Supplemental data:		
Interest paid	\$ 1,926	\$ 1,724

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. Effective May 1, 2005, the College ceased operation of the London program and notified employees of a plan of termination. One-time employee termination benefits totaled \$187,000 and were fully recognized in Instructional expense in the June 30, 2005 Colby College Statement of Activities. The College's remaining obligation under the terms of the existing building lease in London totals \$256,000 and was included in Instructional expense in the June 30, 2005 Colby College Statement of Activities.

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/or the investment return on these assets or are limited for use by law. Temporary restrictions may expire either because of the passage of time or because certain actions are taken by the College which fulfill the restrictions. Permanently restricted net assets are those that are subject to donor-imposed restrictions which never lapse, thus requiring that the funds be retained permanently. Generally, the donors of permanently restricted net assets permit the College to use all or part of the investment return on these assets.

Expiration of Donor-Imposed Restrictions and Changes in Donor Intent

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

Endowment and Related Funds

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

COLBY COLLEGE  
NOTES TO FINANCIAL STATEMENTS, CONTINUED

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

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. Rates used to determine the present value of annuity obligations ranged from 4% to 10%.

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.

COLBY COLLEGE  
NOTES TO FINANCIAL STATEMENTS, CONTINUED

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

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. Revenues and other support 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 general operations adjusted for depreciation, facilities reserves, debt service, addition to unrestricted quasi-endowment or for student loan funds.

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. 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 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>2005</u>	<u>2004</u>
In one year or less	\$6,983	\$10,489
Between one year and five years	24,032	29,500
Greater than five years	<u>7,935</u>	<u>2,882</u>
	38,950	42,871
Less: present value discount	3,997	5,262
Less: allowance for uncollectible pledges	<u>1,747</u>	<u>2,165</u>
Net pledges receivable	<u>\$33,206</u>	<u>\$35,444</u>

Rates used to determine the present value discount are based on appropriate risk free rates.

COLBY COLLEGE  
NOTES TO FINANCIAL STATEMENTS, CONTINUED

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

In addition to the amounts noted above, the College has received intentions to give approximating \$2,297,000 at June 30, 2005, which have not been recorded in the balance sheet.

Total costs related to alumni and development activities approximated \$4,355,000 and \$4,270,000 during the years ended June 30, 2005 and 2004.

Line of Credit

The College maintains a line of credit agreement with a financial institution totaling \$2,000,000. At June 30, 2005 and 2004, there were no outstanding borrowings under this agreement. This agreement expires on December 21, 2005.

2. Land, Buildings and Equipment:

Land, buildings and equipment consist of the following as of June 30, 2005 and 2004 (in thousands):

	<u>2005</u>	<u>2004</u>
Land	\$ 201	\$ 201
Buildings and building renovations	137,381	134,855
Construction in progress	7,717	6,932
Improvements	17,195	9,236
Furniture and equipment	1,799	2,090
Works of art	18,482	17,516
Rare books	130	130
Other	<u>669</u>	<u>669</u>
 Total	 183,574	 171,629
Less accumulated depreciation	<u>59,082</u>	<u>53,439</u>
	<u>\$124,492</u>	<u>\$118,190</u>

As of June 30, 2005, the College estimates that the unaudited replacement value of its buildings is approximately \$255,540,000. The College capitalizes the interest cost related to outstanding debt on qualifying assets. Interest costs capitalized at June 30, 2005 total \$454,000.

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, 2005 and 2004 follows (in thousands):

	2005 Estimated <u>Fair Value</u>	2004 Estimated <u>Fair Value</u>
Pooled Assets:		
Cash and cash equivalents	\$ 32,034	\$ 23,962
Accounts receivable and accrued income	<u>10,980</u>	<u>3,196</u>
	<u>43,014</u>	<u>27,158</u>
Investments:		
U.S. Government and agencies	52,330	51,862
Domestic equities and equity funds	86,079	73,147
International equities and equity funds	79,014	56,740
Hedge funds	79,380	71,543
Real estate funds	20,090	23,219
Venture capital	26,195	21,756
Distressed obligations	68	109
Mezzanine financing	1,584	2,520
Private equity	<u>40,157</u>	<u>32,434</u>
Total pooled investments	<u>384,897</u>	<u>333,330</u>
Total pooled assets	<u>427,911</u>	<u>360,488</u>
Other endowment assets:		
Cash and cash equivalents	3,683	2,380
Domestic equities	928	1,504
Real estate	703	593
Cash value of life insurance	<u>79</u>	<u>59</u>
Total other endowment assets	<u>5,393</u>	<u>4,536</u>
Total invested assets	433,304	365,024
Less annuity and life income assets pooled with endowment and similar funds	<u>9,099</u>	<u>7,853</u>
Total endowment and similar assets	<u>\$ 424,205</u>	<u>\$ 357,171</u>
Assets of annuity and life income funds include:		
Separately invested assets	\$ 22,551	\$ 23,644
Assets pooled with endowment and similar funds	<u>9,099</u>	<u>7,853</u>
Total annuity and life income funds	<u>\$ 31,650</u>	<u>\$ 31,497</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, 2005 was as follows:

	<u>Units</u>	<u>Estimated Fair Value (in thousands)</u>
Endowment	1,667,721	\$280,933
Unrestricted quasi-endowment	725,940	122,287
Restricted quasi-endowment	91,825	15,468
Term endowment	731	123
Annuities	<u>54,018</u>	<u>9,100</u>
	<u>2,540,235</u>	<u>\$427,911</u>

The following tabulation summarizes changes in relationships between cost and fair values of pooled assets for the year ended June 30, 2005 (in thousands):

	<u>Pooled Assets</u>		<u>Net Gain(Loss)</u>	<u>Fair</u>
	<u>Fair Value</u>	<u>Cost</u>		<u>Value per Unit</u>
End of year	\$427,911	\$394,183	\$ 33,728	\$168.45
Beginning of year	360,488	351,013	<u>9,475</u>	<u>145.47</u>
Unrealized net gain			24,253	
Realized net gain			<u>28,740</u>	
Total unrealized and realized net gain for the year			<u>\$52,993</u>	<u>\$ 22.98</u>

The yield per unit, exclusive of net gains (losses), computed on the weighted average of units outstanding, was \$1.76 for the year ended June 30, 2005. Spending per unit for current use, computed on units outstanding as of July 1, 2004, was \$5.97. Investment expenses included in net investment income totaled \$3,891,000 and \$3,453,000 for the years ended June 30, 2005 and 2004, 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 future capital commitments of \$73,421,000 as of June 30, 2005 which are expected to be paid in various installments through 2010. Subsequent to June 30, 2005, the College entered into additional capital commitments totaling \$18,000,000.

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 by management based upon fair values provided by external investment managers. Because of the inherent uncertainty of these valuations, it is reasonably possible that those estimated values may differ materially 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:

Other investments, measured at fair value, at June 30, 2005 and 2004 consist of the following (in thousands):

	<u>2005</u>	<u>2004</u>
Cash and cash equivalents held for long-term purposes	\$ 2,464	\$ 9,394
Employee mortgages (average interest rate 5.88%)	2,178	1,904
Real Estate	1,001	1,001
Other	<u>453</u>	<u>111</u>
Total investments, other	<u>\$ 6,096</u>	<u>\$ 12,410</u>
Investments, funds held in trust by others	<u>\$ 12,482</u>	<u>\$14,292</u>

4. Bonds Payable:

Bonds and notes payable at June 30, 2005 and 2004 are as follows (in thousands):

<u>Facilities Financing</u>	<u>2005</u>	<u>2004</u>
Series 1996A Revenue Bonds	\$9,637	10,057
Series 1998A Revenue Bonds	7,779	8,204
Series 2001C Revenue Bonds	9,262	9,722
Series 2002B Revenue Bonds	2,127	2,127
Series 2003B Revenue Bonds	<u>10,147</u>	<u>10,262</u>
Total Bonds Payable	<u>\$38,952</u>	<u>\$40,372</u>

Maturities of outstanding bonds are as follows:

<u>Year</u>	<u>Principal Amount (in thousands)</u>
July 1, 2005	1,490
July 1, 2006	1,545
July 1, 2007	1,615
July 1, 2008	1,690
July 1, 2009	1,765
Thereafter	<u>30,847</u>
	<u>\$38,952</u>

Interest rates on the outstanding bond obligations are fixed and 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.

Subsequent to June 30, 2005, the College borrowed \$16,495,000 from the Authority in conjunction with the Authority's Series 2005 Revenue Bonds. The College has pledged its gross receipts as collateral for its note to the Authority. Interest rates on these bond obligations vary from 3% - 5% and the bonds reach final maturity in 2035.

The College is required to maintain a ratio of income available for debt service to annual debt service of at least 1.20 under the bond obligations and to maintain certain funds with the bond trustee.

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 \$2,254,000 and \$2,206,000 in fiscal 2005 and 2004, respectively.

COLBY COLLEGE  
NOTES TO FINANCIAL STATEMENTS, CONTINUED

6. 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. 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, 2005 and 2004 (in thousands):

	<u>2005</u>	<u>2004</u>
Change in Benefit Obligation		
Postretirement benefit obligation, beginning of year	\$ 12,398	\$ 11,751
Service cost	496	557
Interest cost	759	691
Plan participants' contributions	164	162
Actuarial (gain) loss	2,209	(110)
Benefits paid	<u>(769)</u>	<u>(653)</u>
Postretirement benefit obligation, end of year	15,257	12,398
 Change in Plan Assets		
Fair value at beginning of year	0	0
Employer contributions	605	491
Plan participants' contributions	164	162
Benefits paid	<u>(769)</u>	<u>(653)</u>
Total fair value of plan assets	0	0
 Unfunded status	15,257	12,398
Unrecognized actuarial loss	(6,513)	(4,586)
Unrecognized net obligation at transition	<u>(1,289)</u>	<u>(1,419)</u>
 Accrued postretirement benefit obligation	<u>\$ 7,455</u>	<u>\$ 6,393</u>

Net periodic postretirement benefit cost for the year ended June 30, 2005 and 2004 included the following components (in thousands):

	<u>2005</u>	<u>2004</u>
Service cost	\$ 496	\$ 557
Interest cost	759	691
Amortization of transition obligation	130	130
Amortization of actuarial loss	<u>280</u>	<u>322</u>
 Net postretirement benefit cost	<u>\$1,665</u>	<u>\$1,700</u>

COLBY COLLEGE  
NOTES TO FINANCIAL STATEMENTS, CONTINUED

6. 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>2005</u>	<u>2004</u>	<u>2005</u>	<u>2004</u>
Discount rate	5.25%	6.25%	6.25%	6.0%

Colby College expects to contribute \$525,000 to its postretirement benefit plan in 2006.

The following benefit payments, which reflect expected future service, as appropriate, are expected to be paid: 2006 - \$525,000, 2007 - \$545,000, 2008 - \$600,000, 2009 - \$650,000, 2010 - \$690,000, Years 2011 – 2015 - \$4,180,000.

The health care trend rate assumption used in determining the accumulated benefit obligation for 2005 was 10.5% for medical and 12.5% 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.

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 \$466,000.

8. Government Advances for Student Loans:

Government advances for student loans at June 30, 2005 and 2004 includes funds advanced to Colby by the federal government under the Perkins Student Loan Program totaling \$5,131,000 and \$5,177,000, respectively. Such funds may be reloaned by Colby after collection, but ultimately are refundable to the federal government.

COLBY COLLEGE  
NOTES TO FINANCIAL STATEMENTS, CONTINUED

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, 2005 and 2004, the notional amount of the U.S. dollar commitment required under the terms of outstanding foreign currency forward contracts amounted to approximately \$1,091,000 and \$3,855,000, respectively. Contracts are for European Union Euros and extend through 2005.

At June 30, 2005, the College recorded a \$158,000 loss on the contracts related to its off-campus programs in the operating portion of its statement of activities and a \$39,000 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 \$16,767,000 at June 30, 2005 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, 2005 spot market rates is estimated to be \$1,059,000.

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.

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 \$40,232,000. 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.

COLBY COLLEGE  
NOTES TO FINANCIAL STATEMENTS, CONTINUED

11. Net assets:

Net assets comprise the following at June 30, 2005 and 2004 (in thousands):

	2005		
	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>
General operating reserves	\$ 3,194		
Unexpended restricted funds		\$ 6,846	
Loan funds	2,371		\$ 1,003
Endowment	124,648	173,054	126,503
Annuity and life income funds		17,364	
Funds for facilities	85,146	265	5,893
Pledges receivable		19,095	14,111
Funds held in trust by others		476	12,006
	<u>\$215,359</u>	<u>\$217,100</u>	<u>\$159,516</u>
		2004	
	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>
General operating reserves	\$ 2,996		
Unexpended restricted funds		\$ 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>