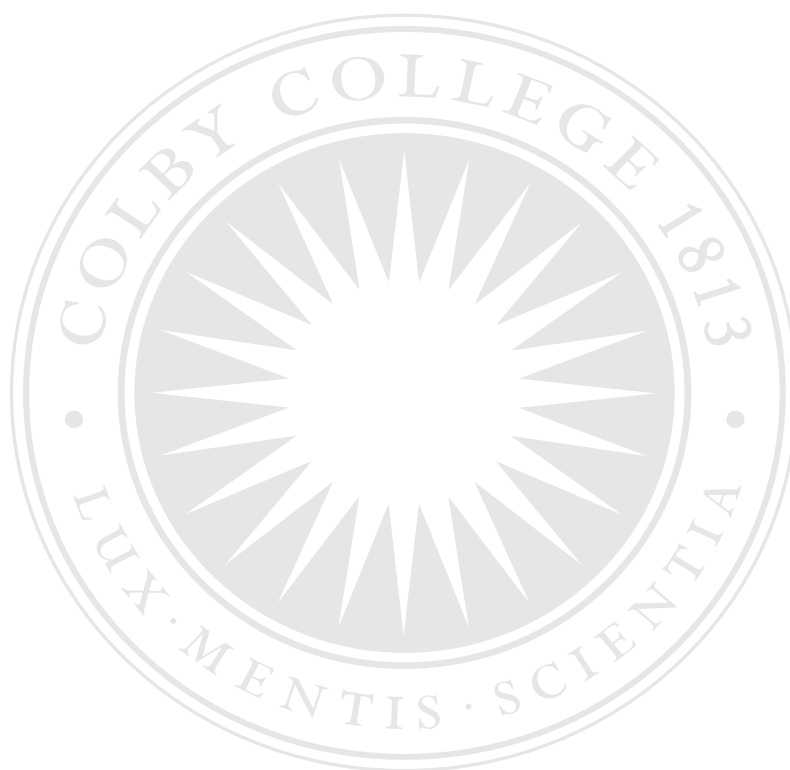


Colby

**FINANCIAL STATEMENTS
COLBY COLLEGE
June 30, 2008 and 2007**



Colby College

Financial Statements

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Independent Auditors' Report

Board of Trustees
Colby College
Waterville, Maine

We have audited the accompanying balance sheet of Colby College (the "College") as of June 30, 2008 and the related statements of activities and cash flows for the year then ended. 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 audit. The financial statements of the College as of and for the year ended June 30, 2007 were audited by other auditors whose report dated October 25, 2007 expressed an unqualified opinion on those statements.

We conducted our audit 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. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the 2008 financial statements referred to above present fairly, in all material respects, the financial position of Colby College as of June 30, 2008, and the changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

A handwritten signature in black ink that reads "Tofias PC". The signature is written in a cursive, flowing style.

September 26, 2008
Cambridge, Massachusetts

Independent Member of BKR International

COLBY COLLEGE
BALANCE SHEETS
June 30, 2008 and 2007
(in thousands)

	2008	2007
ASSETS		
Cash and cash equivalents	\$ 10,883	\$ 19,987
Accrued income receivable	59	260
Accounts receivable (less allowance for doubtful accounts of \$543 in 2008 and \$595 in 2007)	959	2,233
Funds held by trustee (Note 6)	11,052	6,046
Short term investments (Note 4)	14,832	
Inventories	635	614
Prepaid expenses and deferred charges	2,023	1,825
Notes receivable (less allowance for doubtful accounts of \$595 in 2008 and \$603 in 2007)	8,264	6,734
Pledges receivable (Note 2)	27,502	25,588
Investments, endowment	600,248	598,729
Investments, annuity and life income funds	31,783	36,259
Investments, funds held in trust by others	13,215	13,966
Investments, other	12,075	11,849
Total investments (Note 5)	657,321	660,803
Assets restricted to investment in land, buildings and equipment (Note 1)	116,953	116,953
Land, buildings and equipment (less accumulated depreciation of \$79,858 in 2008 and \$72,344 in 2007) (Note 3)	162,896	153,295
Total assets	\$ 1,013,379	\$ 994,338
LIABILITIES		
Accounts payable and accrued liabilities	\$ 11,779	\$ 9,526
Student deposits	823	850
Government advances for student loans (Note 10)	4,954	5,030
Annuity obligations	14,465	14,504
Bonds payable (Note 6)	80,570	66,008
Post retirement benefit obligation (Notes 7 and 15)	16,435	16,445
Asset retirement obligation (Note 14)	3,682	3,590
Total liabilities	132,708	115,953
COMMITMENTS AND CONTINGENT LIABILITIES (Notes 5 and 11)		
NET ASSETS (Note 13)		
Unrestricted	272,517	268,351
Temporarily restricted	299,924	311,451
Permanently restricted	308,230	298,583
Total net assets	880,671	878,385
Total liabilities and net assets	\$ 1,013,379	\$ 994,338

The accompanying notes are an integral
part of the financial statements

COLBY COLLEGE
STATEMENT OF ACTIVITIES
for the year ended June 30, 2008 (with comparative information for the year ended June 30, 2007)
(in thousands)

	UNRESTRICTED	TEMPORARILY	PERMANENTLY	TOTAL	
		RESTRICTED	RESTRICTED	2008	2007
Operating Activities					
Operating revenues and other support					
Student charges	\$ 88,200			\$ 88,200	\$ 84,621
Student aid	(19,397)			(19,397)	(19,671)
Net student charges	68,803			68,803	64,950
Contributions	4,726			4,726	5,068
Endowment return utilized for operations	19,823			19,823	17,660
Other investment income	1,057			1,057	2,165
Net assets released from restriction	6,290			6,290	6,709
Other revenue	5,135			5,135	4,816
Total operating revenues and other support	105,834			105,834	101,368
Expenses					
Instruction and research	34,406			34,406	32,940
Academic support	10,815			10,815	9,539
Student services	17,369			17,369	15,475
Institutional support	16,461			16,461	14,621
Auxiliary enterprises	19,318			19,318	18,427
Total operating expenses	98,369			98,369	91,002
Increase in net assets before non-operating activities	7,465			7,465	10,366
<i>Increase in net assets from general operations (Note 1)</i>	130			130	233
<i>Decrease in net assets from depreciation</i>	(7,832)			(7,832)	(6,924)
<i>Amounts designated for facilities reserves, debt service, endowment and student loans (Note 1)</i>	15,167			15,167	17,057
Non-operating activities:					
Contributions	577	\$ 14,110	\$ 6,670	21,357	138,088
Net investment income	(226)	507	453	734	6,136
Net realized and unrealized gains	1,935	621	(1,087)	1,469	107,791
Endowment return utilized for operations	(19,823)			(19,823)	(17,660)
Other revenues and expenses, net	(1,443)	7		(1,436)	(850)
Net change in annuity and life income funds		(4,801)	3,611	(1,190)	(1,393)
Net assets released from restriction and reclassifications	15,681	(21,971)		(6,290)	(6,709)
Change in net assets from non-operating activities	(3,299)	(11,527)	9,647	(5,179)	225,403
Total change in net assets before effect of adoption of FASB Statement No. 158	4,166	(11,527)	9,647	2,286	235,769
Effect of adoption of recognition provisions of FASB Statement No. 158 (Note 15)					(6,325)
Total change in net assets	4,166	(11,527)	9,647	2,286	229,444
Net assets, beginning of year	268,351	311,451	298,583	878,385	648,941
Net assets, end of year	\$ 272,517	\$ 299,924	\$ 308,230	\$ 880,671	\$ 878,385

The accompanying notes are an integral part of the financial statements

COLBY COLLEGE
STATEMENT OF ACTIVITIES
for the year ended June 30, 2007
(in thousands)

	UNRESTRICTED	TEMPORARILY RESTRICTED	PERMANENTLY RESTRICTED	TOTAL 2007
Operating Activities				
Operating revenues and other support				
Student charges	\$ 84,621			\$ 84,621
Student aid	(19,671)			(19,671)
Net student charges	64,950			64,950
Contributions	5,068			5,068
Endowment return utilized for operations	17,660			17,660
Other investment income	2,165			2,165
Net assets released from restriction	6,709			6,709
Other revenue	4,816			4,816
Total operating revenues and other support	101,368			101,368
Expenses				
Instruction and research	32,940			32,940
Academic support	9,539			9,539
Student services	15,475			15,475
Institutional support	14,621			14,621
Auxiliary enterprises	18,427			18,427
Total operating expenses	91,002			91,002
Increase in net assets before non-operating activities	10,366			10,366
<i>Increase in net assets from general operations (Note 1)</i>	233			233
<i>Decrease in net assets from depreciation</i>	(6,924)			(6,924)
<i>Amounts designated for facilities reserves, debt service, endowment and student loans (Note 1)</i>	17,057			17,057
Non-operating activities:				
Contributions	442	\$ 13,384	\$ 124,262	138,088
Net investment income	1,387	4,312	437	6,136
Net realized and unrealized gains	29,790	76,082	1,919	107,791
Endowment return utilized for operations	(17,660)			(17,660)
Other revenues and expenses, net	(861)	11		(850)
Net change in annuity and life income funds	118	(2,476)	965	(1,393)
Net assets released from restriction and reclassifications	18,530	(25,239)		(6,709)
Change in net assets from non-operating activities	31,746	66,074	127,583	225,403
Total change in net assets before effect of adoption of FASB Statement No. 158	42,112	66,074	127,583	235,769
Effect of adoption of recognition provisions of FASB Statement No. 158 (Note 15)	(6,325)			(6,325)
Total change in net assets	35,787	66,074	127,583	229,444
Net assets, beginning of year	232,564	245,377	171,000	648,941
Net assets, end of year	\$ 268,351	\$ 311,451	\$ 298,583	\$ 878,385

The accompanying notes are an integral
part of the financial statements

COLBY COLLEGE
STATEMENTS OF CASH FLOWS
for the years ended June 30, 2008 and 2007
(in thousands)

	<u>2008</u>	<u>2007</u>
Cash flows from operating activities		
Change in net assets	\$ 2,286	\$ 229,444
Adjustments to reconcile change in net assets to net cash provided by operating activities		
Changes in :		
Accrued income receivable	201	(14)
Accounts receivable	1,274	(786)
Inventories	(21)	(1)
Prepaid expenses and deferred charges	(198)	(310)
Pledges receivable	(1,914)	(1,541)
Assets restricted to investment in land, buildings and equipment		(114,836)
Accounts payable and accrued liabilities	(879)	(1,144)
Student deposits	(27)	(165)
Post retirement benefit obligation	(10)	7,688
Depreciation	7,832	6,924
Accretion and other changes in asset retirement obligation	92	(774)
Net realized and unrealized gains on investments	(1,469)	(107,791)
Loss on disposition of investments, other	249	
Unrealized loss on short term investments	168	
Contributions in kind and securities	(5,832)	(11,597)
Contributions restricted for investment	(6,561)	(3,815)
Investment income restricted for investment	(2,359)	(1,966)
Net cash used in operating activities	<u>(7,168)</u>	<u>(684)</u>
Cash flows from investing activities		
Collections of notes receivable	831	1,464
Notes receivable issued	(2,361)	(1,675)
Purchase of land, buildings and equipment	(13,942)	(17,685)
Purchase of investments	(178,481)	(198,260)
Purchase of short term investments	(15,000)	
Proceeds from sale of investments	188,656	195,186
Net cash used in investing activities	<u>(20,297)</u>	<u>(20,970)</u>
Cash flows from financing activities		
Payments on bonds payable	(1,770)	(1,675)
Bonds payable issued	16,332	12,935
Contributions restricted for investment	6,561	3,815
Investment income restricted for investment	2,359	1,966
Change in annuity obligations	(39)	(56)
Change in government advances for student loans	(76)	(62)
Change in funds held by trustee	(5,006)	(968)
Net cash provided by financing activities	<u>18,361</u>	<u>15,955</u>
Net change in cash and cash equivalents	(9,104)	(5,699)
Cash and cash equivalents at beginning of year	19,987	25,686
Cash and cash equivalents at end of year	<u>\$ 10,883</u>	<u>\$ 19,987</u>
Supplemental data:		
Interest paid, net of capitalized interest	<u>\$ 2,847</u>	<u>\$ 2,551</u>
Acquisition of land, buildings and equipment included in asset retirement obligation	<u>\$</u>	<u>\$ 1,026</u>
Acquisition of land, buildings and equipment included in accounts payable	<u>\$ 3,132</u>	<u>\$ 1,609</u>

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 located in Waterville, Maine providing academic, residential and other services to a diverse student population.

Basis of Presentation

The statements have been prepared on the accrual basis of accounting and in accordance with accepted accounting principles generally accepted in the United States of America.

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.

Use of Estimates

The preparation of 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 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. 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. 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.

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.

COLBY COLLEGE
NOTES TO FINANCIAL STATEMENTS, CONTINUED

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

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.

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. 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 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 4.5% 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.

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 using the unit share method. The College's share of the fair market value of the underlying assets held in split-interest agreements is reported as Investments, annuity and life income funds.

COLBY COLLEGE
NOTES TO FINANCIAL STATEMENTS, CONTINUED

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

Charitable trusts where an outside party serves as trustee are recorded 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 3.30% - 10.00%.

Investments

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 or non-traditional investment vehicles 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.

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 fair value.

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. Depreciation is computed on a straight-line basis over the estimated useful lives of the assets. Useful lives are as follows:

	<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 while major renewals and betterments are capitalized. Land, buildings and equipment are removed from the records in the year of disposal and the resulting gain or loss is recorded in the statement of activities.

COLBY COLLEGE
NOTES TO FINANCIAL STATEMENTS, CONTINUED

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

Pledges Receivable

Pledges receivable include grants from foundations, governmental units and pledges from donors or other sources considered to be unconditional. Conditional promises to give are not recognized until they become unconditional, that is when the conditions on which they depend are substantially met. 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.

Assets Restricted for Investment in Land, Buildings and Equipment

Assets restricted for investment in land, buildings and equipment consist of pledges for the donation of certain artwork to the College. The pledges are recorded at the estimated fair value of the underlying assets as of the date of initial recognition of the pledge. Donation of a substantial portion of the artwork to the College is conditioned on the construction of a facility dedicated to its exhibition. The artwork will be donated over the joint lifetimes of the donors and will be recorded in land, buildings and equipment at its estimated fair value at the time it is received by the College. Management determined that recognition of this pledge as revenue in 2007 was appropriate given its plans to construct a facility to house this artwork. The quantity and nature of the pledge have not changed in 2008. Management believes the fair value of this pledge is at least equal to its initial recorded value.

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. With few exceptions, the College is no longer subject to U.S. federal or state examinations by tax authorities for years before June 30, 2005. Any interest or penalties on underpayment of income taxes are classified as income tax expense.

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 recognized at the fair value of the asset retirement obligation.

Reclassifications

Certain 2007 amounts have been reclassified to conform with the 2008 presentation.

COLBY COLLEGE
NOTES TO FINANCIAL STATEMENTS, CONTINUED

2. Pledges Receivable:

Unconditional pledges as of June 30 are expected to be realized in the following periods discounted based on approximate risk free rates:

	<u>2008</u>	<u>2007</u>
In one year or less	\$5,899	\$5,845
Between one year and five years	23,580	21,857
Greater than five years	<u>2,119</u>	<u>2,204</u>
	31,598	29,906
Less: present value discount	2,648	2,971
Less: allowance for uncollectible pledges	<u>1,448</u>	<u>1,347</u>
Net pledges receivable	<u>\$27,502</u>	<u>\$25,588</u>

In addition to the amounts noted above, the College has received intentions to give approximating \$3,140,000 and \$1,945,000 at June 30, 2008 and 2007, which have not been recorded in the balance sheet.

Total costs related to alumni and development activities approximated \$5,474,000 and \$5,122,000 during the years ended June 30, 2008 and 2007.

3. Land, Buildings and Equipment:

Land, buildings and equipment consist of the following as of June 30, 2008 and 2007 (in thousands):

	<u>2008</u>	<u>2007</u>
Land	\$ 194	\$ 201
Buildings and building renovations	191,238	171,478
Construction in progress	6,096	11,246
Improvements	20,813	19,992
Furniture and equipment	1,703	1,177
Works of art	21,660	20,495
Rare books	130	130
Other	<u>920</u>	<u>920</u>
Total	242,754	225,639
Less accumulated depreciation	<u>79,858</u>	<u>72,344</u>
	<u>\$162,896</u>	<u>\$153,295</u>

As of June 30, 2008, the College estimates that the unaudited replacement value of its buildings is approximately \$353,407,000. The College capitalizes the interest cost related to outstanding debt on qualifying assets. Interest costs capitalized at June 30, 2008 and 2007 total \$555,000 and \$450,000, respectively.

4. Short term investments:

The College has invested a portion of its core working capital in a hedge fund-of-funds investment in order to increase the potential for higher long-term returns. The investment provides for quarterly liquidity with a 91 day advance notice. The amount invested at June 30, 2008 totals \$14,832,000 and is recorded at estimated fair value. Investment return (including unrealized and realized gains and losses) from this fund is included in operating activities for the year ended June 30, 2008 and totals a loss of \$168,000.

COLBY COLLEGE
NOTES TO FINANCIAL STATEMENTS, CONTINUED

5. Investments:

A summary of assets of the endowment investments and the annuity and life income investments at June 30, 2008 and 2007 follows (in thousands):

	2008 Estimated Fair Value	2007 Estimated Fair Value
Pooled Assets:		
Cash and cash equivalents	\$ 4,489	\$ 27,615
Accounts receivable and accrued income	<u>116</u>	<u>22,601</u>
	<u>4,605</u>	<u>50,216</u>
Investments:		
U.S. Government and agencies	41,591	39,316
Domestic equities and equity funds	70,644	87,402
International equities and equity funds	122,386	138,819
Hedge funds	166,362	119,730
Real estate funds	45,645	38,383
Venture capital	59,826	49,021
Mezzanine financing	560	642
Private equity	67,709	63,062
Natural resources	<u>29,247</u>	<u>18,899</u>
Total pooled investments	<u>603,970</u>	<u>555,274</u>
Total pooled assets	<u>608,575</u>	<u>605,490</u>
Other endowment assets:		
Cash and cash equivalents	2,472	4,408
Domestic equities	962	1,076
Real estate	2,118	130
Cash value of life insurance	<u>115</u>	<u>101</u>
Total other endowment assets	<u>5,667</u>	<u>5,715</u>
Total invested assets	614,242	611,205
Less annuity and life income assets pooled with endowment and similar funds	<u>13,994</u>	<u>12,476</u>
Total endowment and similar assets	<u>\$ 600,248</u>	<u>\$ 598,729</u>
Assets of annuity and life income funds include:		
Separately invested assets	\$ 17,789	\$ 23,783
Assets pooled with endowment and similar funds	<u>13,994</u>	<u>12,476</u>
Total annuity and life income funds	<u>\$ 31,783</u>	<u>\$ 36,259</u>

COLBY COLLEGE
NOTES TO FINANCIAL STATEMENTS, CONTINUED

5. Investments, continued:

The majority of the endowment investments are pooled on a fair value basis. Each individual fund subscribes to or disposes of units on the basis of the fair value per unit on the last business day of the month previous to that within which the transaction takes place. The changes in estimated fair value of net assets held in endowment and similar funds for the years ended June 30 were as follows (in thousands):

	<u>2008</u>	<u>2007</u>
Net assets, beginning of year	\$ 598,729	\$ 482,019
Investment return:		
Investment income	5,329	8,610
Net gain (loss) in fair value		
Realized	53,439	35,527
Unrealized	<u>(48,141)</u>	<u>65,849</u>
Total investment return	10,627	109,986
Gifts	7,827	11,934
Distribution of endowment return to all funds	(20,561)	(18,273)
Investment expenses	(6,471)	(4,940)
Amounts designated to endowment	7,166	17,618
Matured life income funds	3,649	1,083
Other changes, net	<u>(718)</u>	<u>(698)</u>
Net assets, end of year	<u>\$ 600,248</u>	<u>\$ 598,729</u>

The yield per unit, exclusive of net gains (losses), computed on the weighted average of units outstanding, was \$1.18 for the year ended June 30, 2008. Spending per unit for current use, computed on units outstanding as of July 1, 2007, was \$8.40.

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 \$136,949,000 as of June 30, 2008 which are expected to be paid in various installments through 2014. Subsequent to June 30, 2008 through September 2008, the College entered into additional capital commitments totaling \$20,000,000.

Other investments, measured at fair value, at June 30, 2008 and 2007 consist of the following (in thousands):

	<u>2008</u>	<u>2007</u>
Cash and cash equivalents held for long-term purposes	\$ 7,767	\$ 7,183
Employee mortgages (average interest rate 5.8%)	4,233	3,164
Real estate		1,001
Other	<u>75</u>	<u>501</u>
Total investments, other	<u>\$ 12,075</u>	<u>\$ 11,849</u>
Investments, funds held in trust by others	<u>\$ 13,215</u>	<u>\$13,966</u>

COLBY COLLEGE
NOTES TO FINANCIAL STATEMENTS, CONTINUED

6. Bonds Payable:

Bonds and notes payable at June 30, 2008 and 2007 are as follows (in thousands):

<u>Facilities Financing</u>	<u>2008</u>	<u>2007</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 1996A Revenue Bonds, maturing through 2026 at fixed rates (ranging from 5.125% - 5.75%)		\$ 8,737
Series 1998A Revenue Bonds, maturing through 2018 at fixed rates (ranging from 4.55% - 5.00%)		6,869
Series 2001C Revenue Bonds, maturing through 2021 at fixed rates (ranging from 4.00% - 5.10%)	\$ 7,787	8,298
Series 2002B Revenue Bonds, maturing through 2022 at fixed rates (ranging from 4.13% - 5.00%)	2,127	2,127
Series 2003B Revenue Bonds, maturing through 2023 at fixed rates (ranging from 2.00% - 5.00%)	9,752	9,887
Series 2005 Revenue Bonds, maturing through 2035 at fixed rates (ranging from 3.00% - 5.00%)	16,210	16,365
Series 2006G Revenue Bonds, maturing through 2036 at variable rates (average rate of 4.20% in fiscal year 2008)	12,963	12,963
Series 2007A Revenue Bonds, maturing through 2026 at fixed rates (ranging from 4.00% - 4.75%)	8,409	
Series 2007B Revenue Bonds, maturing through 2037 at fixed rates (ranging from 4.00% - 5.00%)	10,665	
Series 2008C Revenue Bonds, maturing through 2038 at fixed rates (ranging from 3.00% - 5.00%)	<u>11,820</u>	
	79,733	<u>65,246</u>
Unamortized premium	<u>837</u>	<u>762</u>
Total Bonds Payable	<u>\$80,570</u>	<u>\$66,008</u>

Maturities of outstanding bonds are as follows:

<u>Year</u>	<u>Principal Amount (in thousands)</u>
July 1, 2008	\$ 1,630
July 1, 2009	2,250
July 1, 2010	2,330
July 1, 2011	2,450
July 1, 2012	2,410
Thereafter	<u>68,663</u>
	<u>\$79,733</u>

COLBY COLLEGE
NOTES TO FINANCIAL STATEMENTS, CONTINUED

6. Bonds Payable, continued:

The College is restricted from granting any lien on its facilities, assets or revenues to a third party, except as specifically permitted by the Revenue Bond agreements or unless the Authority is granted an equivalent or superior lien. The agreements contain various covenants regarding such items as additional permitted encumbrances, submission of financial statements and budgets, permitted dispositions and acquisitions of property, additional debt and meeting certain debt coverage financial ratios. The College is required to maintain a ratio of income available for debt service (as defined in the Revenue Bond agreements) to the maximum annual debt service of at least 1.20 under the bond obligations. At June 30, 2008, the College's debt service ratio was 2.72. The College has pledged its gross receipts as collateral for its note to the Authority. In addition, the College is required to maintain certain funds with the bond trustee. At June 30, 2008, the total amount maintained with bond trustee was \$11,052,000, of which \$7,938,000 is for construction funds and \$3,114,000 for debt service. At June 30, 2007, the total amount maintained with bond trustee was \$6,046,000, of which \$2,732,000 is for construction funds and \$3,314,000 for debt service.

Total interest expense incurred by the College for the year June 30, 2008 was \$2,760,000. Total interest expense incurred for the year ended June 30, 2007 was \$2,449,000.

The College maintains a line of credit agreement with a financial institution totaling \$2,000,000. At June 30, 2008 and 2007, there were no outstanding borrowings under this agreement. This agreement expires on December 21, 2008.

In July 2008, the College converted its Series 2006G Revenue Bonds from variable rates to fixed rates, ranging from 4.00% - 5.00%. The bonds reach final maturity in 2036.

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, 2008 and 2007 (in thousands):

	<u>2008</u>	<u>2007</u>
Change in Benefit Obligation		
Postretirement benefit obligation, beginning of year	\$ 16,445	\$ 16,376
Service cost	467	470
Interest cost	1,007	1,005
Plan participants' contributions	244	216
Medicare prescription subsidy	87	79
Actuarial (gain) loss	(753)	(719)
Benefits paid	<u>(1,062)</u>	<u>(982)</u>
Postretirement benefit obligation, end of year	16,435	16,445
Change in Plan Assets		
Fair value at beginning of year	0	0
Employer contributions	818	766
Plan participants' contributions	244	216
Benefits paid	<u>(1,062)</u>	<u>(982)</u>
Total fair value of plan assets	0	0
Accumulated postretirement benefit obligation	<u>\$ 16,435</u>	<u>\$ 16,445</u>

COLBY COLLEGE
NOTES TO FINANCIAL STATEMENTS, CONTINUED

7. Postretirement Benefits, continued:

Net periodic postretirement benefit cost for the year ended June 30, 2008 and 2007 included the following components (in thousands):

	<u>2008</u>	<u>2007</u>
Service cost	\$ 467	\$ 470
Interest cost	1,007	1,005
Amortization of transition obligation	358	130
Amortization of actuarial loss	130	431
Net postretirement benefit cost	<u>\$1,962</u>	<u>\$2,036</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>2008</u>	<u>2007</u>	<u>2008</u>	<u>2007</u>
Discount rate	6.75%	6.25%	6.25%	6.25%

Colby College expects to contribute \$774,000 to its postretirement benefit plan in 2009.

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

	<u>Gross Benefit Payments</u>	<u>Medicare Part D Subsidy</u>
2009	\$877,000	\$103,000
2010	1,000,000	119,000
2011	1,075,000	138,000
2012	1,151,000	156,000
2013	1,202,000	176,000
2014-2018	7,442,000	1,128,000

The health care trend rate assumption used in determining the accumulated benefit obligation for 2008 was 8.0% pre 65 and 7.0% post 65 for medical and 10.5% pre 65 and 11.0% post 65 for prescription drugs, decreasing to 5.0% in 2011 (medical) and 2013 (prescription drugs) and remaining at that level thereafter.

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

8. Retirement Plans:

Colby employees participate in individual annuity contracts through the Teachers Insurance and Annuity Association and the College Retirement Equities Fund. Contributions for each annuity are made both by the participant and the College. The College's contribution amounted to approximately \$2,549,000 and \$2,461,000 in fiscal 2008 and 2007, respectively.

COLBY COLLEGE
NOTES TO FINANCIAL STATEMENTS, CONTINUED

9. 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 \$500,000.

10. Government Advances for Student Loans:

Government advances for student loans at June 30, 2008 and 2007 includes funds advanced to Colby by the federal government under the Perkins Student Loan Program totaling \$4,954,000 and \$5,030,000, respectively. Such funds may be reloaned by Colby after collection, but ultimately are refundable to the federal government.

11. 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. At June 30, 2008 and 2007, the notional amount of the U.S. dollar commitment required under the terms of outstanding foreign currency forward contracts amounted to approximately \$1,043,000 and \$796,000, respectively. Contracts are for European Union Euros and extend through 2008.

At June 30, 2008, the College recorded a \$73,000 gain on contracts related to its off-campus programs in the operating portion of its statement of activities.

Construction Commitments

The College has outstanding commitments of \$7,848,000 at June 30, 2008 to complete various construction projects in connection with the strategic plan of the College.

Leases

The College leases a student residence hall. The lease commenced on August 1, 2005 and its term expires on September 15, 2009 and the College has the option to renew the lease for up to 1 additional one year term. The minimum rental payments under this lease are \$131,000 for the year ended June 30, 2009 and \$28,000 for the year ended June 30, 2010. Rental expense for the years ended June 30, 2008 and 2007 totaled \$125,000 and \$120,000, respectively.

12. Disclosures of the Fair Value of Financial Instruments:

The fair value of the College's foreign currency forward commitments based on June 30, 2008 spot market rates is estimated to be \$1,118,000.

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.

Notes Receivable

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.

COLBY COLLEGE
NOTES TO FINANCIAL STATEMENTS, CONTINUED

14. Asset Retirement Obligation:

The following sets forth the change in the asset retirement obligation during 2008 and 2007 (in thousands) consisting of obligations for asbestos contamination in several buildings and other potentially hazardous items.

	<u>2008</u>	<u>2007</u>
Asset Retirement Obligation, beginning of year	\$ 3,590	\$ 3,338
Accretion expense	179	167
Liabilities settled		
Net changes to estimated cash flow	<u>(87)</u>	<u>85</u>
Asset Retirement Obligation, end of year	<u>\$ 3,682</u>	<u>\$ 3,590</u>

15. Financial Accounting Standards Board Statement No. 158

On September 29, 2006, the Financial Accounting Standards Board (FASB) issued Statement No. 158 (SFAS 158) which addresses changes to accounting for pensions and other postretirement benefit plans. One of the key requirements of FAS 158 is that the over/under-funded status of postretirement benefit plans must be recognized on the balance sheet. Another key element of FAS 158 is to eliminate an entity's ability to select a date to measure plan assets and obligations that is prior to its year-end balance sheet date. This new standard is effective for non-public entities with fiscal years ending on or after June 15, 2007, except that the requirement to measure plan assets at the year end balance sheet date is effective for fiscal years ending after December 15, 2008. The incremental effect of applying SFAS 158 on individual line items in the balance sheet as of June 30, 2007 is as follows (in thousands):

	<u>Before application of SFAS 158</u>	<u>Postretirement benefit plan adjustment</u>	<u>After application of SFAS 158</u>
Postretirement benefit obligation	\$10,120	\$6,325	\$16,445
Total liabilities	\$109,628	\$6,325	\$115,953
Unrestricted net assets	\$274,676	\$6,325	\$268,351

The postretirement benefit plan adjustment is comprised of the transition obligation of \$1,029,000 and unrecognized net loss of \$5,296,000.