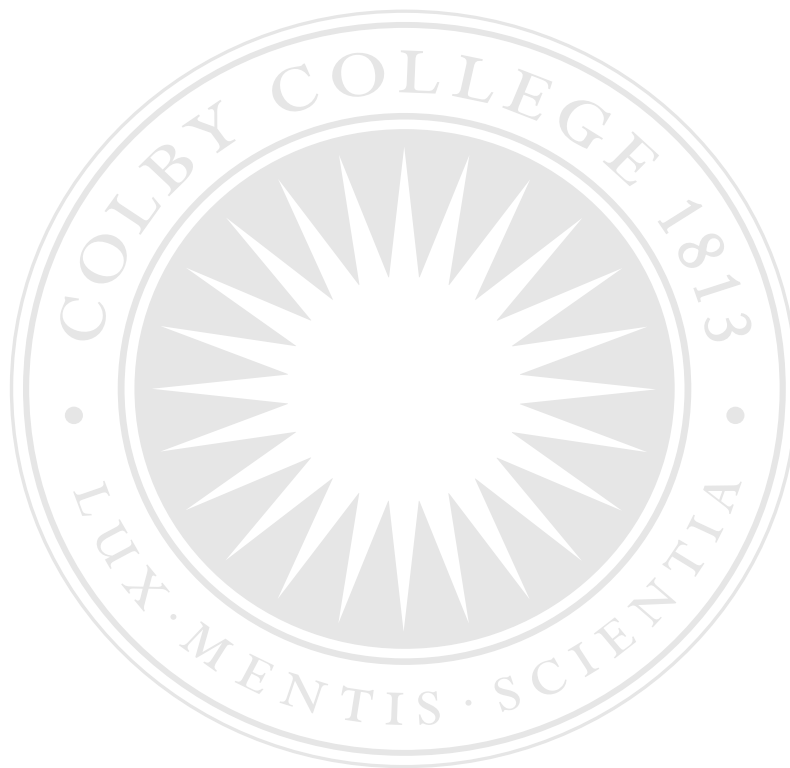


# Colby

**FINANCIAL STATEMENTS  
COLBY COLLEGE  
June 30, 2009 and 2008**



**COLBY COLLEGE**

***Financial Statements***

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**Mayer Hoffman McCann P.C.**

An Independent CPA Firm

**Tofias New England Division**

350 Massachusetts Avenue

Cambridge, MA 02139

Tel: 617.761.0703 Fax: 617.761.0601

[www.mhm-pc.com](http://www.mhm-pc.com)

*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, 2009 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 Colby College as of June 30, 2008 were audited by other auditors, Tofias, P.C., whose shareholders became shareholders of Mayer Hoffman McCann P.C. as of December 31, 2008, and whose report dated September 26, 2008, expressed an unqualified opinion on those statements.

We conducted our audit in accordance with U.S. generally accepted auditing standards. 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 financial statements referred to above present fairly, in all material respects, the financial position of Colby College as of June 30, 2009, and the changes in its net assets and its cash flows for the year then ended in conformity with U.S. generally accepted accounting principles.

*Mayer Hoffman McCann P.C.*

October 9, 2009  
Cambridge, Massachusetts

COLBY COLLEGE  
BALANCE SHEETS  
June 30, 2009 and 2008  
(in thousands)

	2009	2008
<b>ASSETS</b>		
Cash and cash equivalents	\$ 14,901	\$ 10,883
Accrued income receivable	231	59
Accounts receivable (less allowance for doubtful accounts of \$561 in 2009 and \$543 in 2008)	1,353	959
Funds held by trustee (Note 6)	4,583	11,052
Short term investments (Note 4)	10,127	14,832
Inventories	662	635
Prepaid expenses and deferred charges	2,226	2,023
Notes receivable (less allowance for doubtful accounts of \$640 in 2009 and \$595 in 2008)	7,667	8,264
Pledges receivable (Note 2)	24,426	27,502
Investments, endowment	452,990	600,248
Investments, annuity and life income funds	24,623	31,783
Investments, funds held in trust by others	9,775	13,215
Investments, other	19,630	12,075
Total investments (Note 5)	507,018	657,321
Pledge of artwork collection	116,953	116,953
Land, buildings and equipment (less accumulated depreciation of \$87,496 in 2009 and \$79,858 in 2008) (Note 3)	167,701	162,896
Total assets	\$ 857,848	\$ 1,013,379
<b>LIABILITIES</b>		
Accounts payable and accrued liabilities	\$ 9,898	\$ 11,779
Student deposits	743	823
Government advances for student loans (Note 10)	5,002	4,954
Annuity obligations	13,080	14,465
Bonds payable (Note 6)	79,069	80,570
Post retirement benefit obligation (Note 7)	19,988	16,435
Asset retirement obligation (Note 13)	3,824	3,682
Total liabilities	131,604	132,708
<b>COMMITMENTS AND CONTINGENT LIABILITIES (Notes 5 and 11)</b>		
<b>NET ASSETS (Note 12)</b>		
Unrestricted	226,214	272,517
Temporarily restricted	191,979	299,924
Permanently restricted	308,051	308,230
Total net assets	726,244	880,671
Total liabilities and net assets	\$ 857,848	\$ 1,013,379

The accompanying notes are an integral  
part of the financial statements

COLBY COLLEGE  
STATEMENT OF ACTIVITIES  
for the year ended June 30, 2009 (with comparative information for the year ended June 30, 2008)  
(in thousands)

	UNRESTRICTED	TEMPORARILY	PERMANENTLY	TOTAL	
		RESTRICTED	RESTRICTED	2009	2008
Operating Activities					
Operating revenues and other support					
Student charges	\$ 90,715			\$ 90,715	\$ 88,200
Student aid	(21,792)			(21,792)	(19,397)
Net student charges	68,923			68,923	68,803
Contributions	4,055			4,055	4,726
Endowment return utilized for operations	21,534			21,534	19,823
Other investment income (loss)	(3,337)			(3,337)	1,057
Net assets released from restriction	6,157			6,157	6,290
Other revenue	5,166			5,166	5,135
Total operating revenues and other support	102,498			102,498	105,834
Expenses					
Instruction and research	36,275			36,275	34,406
Academic support	10,798			10,798	10,815
Student services	17,719			17,719	17,369
Institutional support	16,226			16,226	16,461
Auxiliary enterprises	20,163			20,163	19,318
Total operating expenses	101,181			101,181	98,369
Increase in net assets before non-operating activities	1,317			1,317	7,465
<i>Increase in net assets from general operations (Note 1)</i>	44			44	130
<i>Decrease in net assets from depreciation</i>	(8,437)			(8,437)	(7,832)
<i>Amounts designated for facilities reserves, debt service, endowment and student loans (Note 1)</i>	9,710			9,710	15,167
Non-operating activities:					
Contributions	4,773	\$ 5,881	\$ 3,610	14,264	21,357
Net investment income	(674)	(264)	453	(485)	734
Net realized and unrealized gains (losses)	(37,778)	(96,063)	(4,383)	(138,224)	1,469
Endowment return utilized for operations	(21,534)			(21,534)	(19,823)
Postretirement benefit related changes other than net periodic benefit cost	(2,506)			(2,506)	1,192
Other revenues and expenses, net	(1,312)	14		(1,298)	(2,628)
Net change in annuity and life income funds		55	141	196	(1,190)
Net assets released from restriction and reclassifications	11,411	(17,568)		(6,157)	(6,290)
Change in net assets from non-operating activities	(47,620)	(107,945)	(179)	(155,744)	(5,179)
Total change in net assets	(46,303)	(107,945)	(179)	(154,427)	2,286
Net assets, beginning of year	272,517	299,924	308,230	880,671	878,385
Net assets, end of year	\$ 226,214	\$ 191,979	\$ 308,051	\$ 726,244	\$ 880,671

The accompanying notes are an integral  
part of the financial statements

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

	UNRESTRICTED	TEMPORARILY RESTRICTED	PERMANENTLY RESTRICTED	TOTAL 2008
Operating Activities				
Operating revenues and other support				
Student charges	\$ 88,200			\$ 88,200
Student aid	(19,397)			(19,397)
Net student charges	68,803			68,803
Contributions	4,726			4,726
Endowment return utilized for operations	19,823			19,823
Other investment income	1,057			1,057
Net assets released from restriction	6,290			6,290
Other revenue	5,135			5,135
Total operating revenues and other support	105,834			105,834
Expenses				
Instruction and research	34,406			34,406
Academic support	10,815			10,815
Student services	17,369			17,369
Institutional support	16,461			16,461
Auxiliary enterprises	19,318			19,318
Total operating expenses	98,369			98,369
Increase in net assets before non-operating activities	7,465			7,465
<i>Increase in net assets from general operations (Note 1)</i>	130			130
<i>Decrease in net assets from depreciation</i>	(7,832)			(7,832)
<i>Amounts designated for facilities reserves, debt service, endowment and student loans (Note 1)</i>	15,167			15,167
Non-operating activities:				
Contributions	577	\$ 14,110	\$ 6,670	21,357
Net investment income	(226)	507	453	734
Net realized and unrealized gains	1,935	621	(1,087)	1,469
Endowment return utilized for operations	(19,823)			(19,823)
Postretirement benefit related changes other than net periodic benefit cost	1,192			1,192
Other revenues and expenses, net	(2,635)	7		(2,628)
Net change in annuity and life income funds		(4,801)	3,611	(1,190)
Net assets released from restriction and reclassifications	15,681	(21,971)		(6,290)
Change in net assets from non-operating activities	(3,299)	(11,527)	9,647	(5,179)
Total change in net assets	4,166	(11,527)	9,647	2,286
Net assets, beginning of year	268,351	311,451	298,583	878,385
Net assets, end of year	\$ 272,517	\$ 299,924	\$ 308,230	\$ 880,671

The accompanying notes are an integral  
part of the financial statements

COLBY COLLEGE  
STATEMENTS OF CASH FLOWS  
for the years ended June 30, 2009 and 2008  
(in thousands)

	2009	2008
Cash flows from operating activities		
Change in net assets	\$ (154,427)	\$ 2,286
Adjustments to reconcile change in net assets to net cash provided by operating activities		
Changes in :		
Accrued income receivable	(172)	201
Accounts receivable	(394)	1,274
Inventories	(27)	(21)
Prepaid expenses and deferred charges	(203)	(198)
Pledges receivable	3,076	(1,914)
Accounts payable and accrued liabilities	(2,108)	(879)
Student deposits	(80)	(27)
Post retirement benefit obligation	3,553	(10)
Depreciation	8,437	7,832
Accretion and other changes in asset retirement obligation	142	92
Amortization of bond premium	129	75
Net realized and unrealized losses (gains) on investments	138,224	(1,469)
Loss on disposition of investments, other		249
Net realized and unrealized losses on short term investments	3,682	168
Contributions in kind and securities	(4,959)	(5,832)
Contributions restricted for investment	(5,592)	(6,561)
Investment income restricted for investment	(2,465)	(2,359)
Net cash used in operating activities	(13,184)	(7,093)
Cash flows from investing activities		
Collections of notes receivable	679	831
Notes receivable issued	(82)	(2,361)
Purchase of land, buildings and equipment	(9,677)	(13,942)
Purchase of investments	(161,360)	(178,481)
Purchase of short term investments		(15,000)
Proceeds from sale of short term investments	1,023	
Proceeds from sale of investments	175,060	188,656
Net cash provided by (used in) investing activities	5,643	(20,297)
Cash flows from financing activities		
Payments on bonds payable	(1,630)	(1,770)
Bonds payable issued		16,257
Contributions restricted for investment	5,592	6,561
Investment income restricted for investment	2,465	2,359
Change in annuity obligations	(1,385)	(39)
Change in government advances for student loans	48	(76)
Change in funds held by trustee	6,469	(5,006)
Net cash provided by financing activities	11,559	18,286
Net change in cash and cash equivalents	4,018	(9,104)
Cash and cash equivalents at beginning of year	10,883	19,987
Cash and cash equivalents at end of year	\$ 14,901	\$ 10,883
Supplemental data:		
Interest paid, net of capitalized interest	\$ 2,806	\$ 2,847
Acquisition of land, buildings and equipment included in accounts payable	\$ 227	\$ 3,132

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 U.S. generally accepted accounting principles.

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 U.S. 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. Revenues and other support from operating activities are not restricted by donors or other external sources and are therefore classified in unrestricted. 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 College has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of endowment assets. Under this policy, as approved by the Board of Trustees, the endowment assets are invested in a manner that is intended to produce results that exceed a composite benchmark of asset class specific benchmarks weighted in accordance with the College's asset allocation targets. The College expects its endowment funds, over time, to provide an average annual real (inflation adjusted) return of approximately 6%. Actual returns in any given year may vary from this amount.

To satisfy its long-term rate-of-return objectives, the College relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The College targets a diversified asset allocation that places a greater emphasis on equity-based investments to achieve its long-term return objectives within prudent risk constraints.

The maximum amount of endowment income utilization is determined by a spending formula approved by the Trustees. This formula is applied to all funds in the endowment pool, except those that specifically exclude the use of appreciation and certain donor restricted and board designated funds and funds where spending is limited by law, to determine the amounts which will be (a) utilized for operations, or (b) in certain cases added to principal. The amount available for use was set for 2008-09 at 4.42% of the market base defined as the average of the market values of the participating funds for the five preceding years adjusted to reflect gifts and other additions received in subsequent years. In any year in which the amount of actual yield is not sufficient to meet the amount allocated, an amount is applied from the excess amounts of yield and net appreciation of the endowments in preceding years, if any, to compensate for this deficit in utilizable yield. In establishing this policy, the College considered the long-term expected return on its endowment. Accordingly, over the long term, the College expects the current spending policy to allow its endowment to grow at an average annual real (inflation adjusted) rate of approximately 1% to 2%. This is consistent with the College's objective to maintain the purchasing power of the endowment assets held in perpetuity or for a specified term as well as to provide additional real growth through new gifts and investment return.

COLBY COLLEGE  
NOTES TO FINANCIAL STATEMENTS, CONTINUED

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

Cash and Cash equivalents

Cash and cash equivalents consist principally of funds deposited in cash management accounts with maturities of three months or less at the time of purchase. A significant portion of cash and cash equivalents are held in money market mutual funds. Under ordinary circumstances, the College is allowed to withdraw all funds immediately; however, the trustees of the fund reserve the right to limit distributions under certain circumstances. The College has not experienced such limitations on these funds. Cash and cash equivalents held by investment managers are considered part of investments.

Short term investments

Short term investments are reported at fair value. Fair value is determined as per the fair value policies noted later.

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 with returns allocated on a ratable basis. The College separately tracks assets held in split-interest agreements and reports them as Investments, annuity and life income funds.

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

Investments are reported at fair value. Fair value is determined as per the following note. Certain investments are subject to 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

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

Fair Value

In accordance with SFAS No. 157, "Fair Value Measurements", the College has categorized its financial instruments, based on the priority of the inputs to the valuation technique, into a three-level fair value hierarchy. The fair value hierarchy gives the highest priority to quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3).

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

Level 1 – Quoted prices are available in active markets for identical investments as of the reporting date. The type of financial instruments included in Level 1 include listed equity and debt securities.

Level 2 – Pricing inputs are other than quoted prices in active markets, which are either directly or indirectly observable as of the reporting date, and fair value is determined through the use of models or other valuation methodologies. Financial instruments which are generally included in this category include less liquid and restricted equity securities and over-the-counter derivatives.

Level 3 – Pricing inputs are unobservable for the financial instruments and could include situations where there is little, if any, market activity for the financial instruments. The inputs into the determination of fair value require significant management judgment and estimation. Financial instruments that are included in this category generally include limited partnership and offshore investment vehicle investments in private equity, real estate, natural resources and hedge funds.

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

Funds Held by Trustee

Funds held by trustee consist primarily of unexpended debt proceeds and funds held for debt service that have been invested in accordance with the various resolutions and note agreements in connection with the Maine Health and Higher Educational Facilities Authority Bonds. Unexpended funds are invested in cash, temporary investments and fixed income securities and are reported at cost which approximates fair value.

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.

COLBY COLLEGE  
NOTES TO FINANCIAL STATEMENTS, CONTINUED

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

The cost of repairs and maintenance are charged to expense as incurred while major renewals and betterments are capitalized. Land, buildings and equipment are removed from the records in the year of disposal and the resulting gain or loss is recorded in the statement of activities.

Pledges Receivable

Pledges receivable include grants from foundations, governmental units and pledges from donors or other sources considered to be unconditional. 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.

Pledge of Artwork Collection

Pledge of artwork collection represents 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 subsequent to its initial recognition. 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, 2006. 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.

Subsequent Events

The College has evaluated subsequent events through October 9, 2009, the date that the financial statements have been issued.

Reclassification

Certain 2008 balances have been reclassified to conform with the 2009 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 appropriate rates (in thousands):

	<u>2009</u>	<u>2008</u>
In one year or less	\$6,219	\$5,899
Between one year and five years	19,628	22,925
Greater than five years	<u>1,925</u>	<u>2,774</u>
	27,772	31,598
Less: present value discount	2,060	2,648
Less: allowance for uncollectible pledges	<u>1,286</u>	<u>1,448</u>
Net pledges receivable	<u>\$24,426</u>	<u>\$27,502</u>

The present value discount was determined utilizing rates ranging from 3.30% to 5.00% in 2009 and 2008.

In addition to the amounts noted above, the College has received intentions to give approximating \$3,232,000 and \$3,140,000 at June 30, 2009 and 2008, which have not been recorded in the balance sheet. Total costs related to alumni and development activities approximated \$5,342,000 and \$5,474,000 during the years ended June 30, 2009 and 2008.

3. Land, Buildings and Equipment:

Land, buildings and equipment consist of the following as of June 30, 2009 and 2008 (in thousands):

	<u>2009</u>	<u>2008</u>
Land	\$ 194	\$ 194
Buildings and building renovations	197,901	191,238
Construction in progress	1,818	6,096
Improvements	27,009	20,813
Furniture and equipment	1,640	1,703
Works of art	25,861	21,660
Rare books	130	130
Other	<u>644</u>	<u>920</u>
Total	255,197	242,754
Less accumulated depreciation	<u>87,496</u>	<u>79,858</u>
	<u>\$167,701</u>	<u>\$162,896</u>

As of June 30, 2009, the College estimates that the unaudited replacement value of its buildings is approximately \$359,859,000. The College capitalizes the interest cost related to outstanding debt on qualifying assets. Interest costs capitalized at June 30, 2009 and 2008 total \$311,000 and \$555,000, respectively.

COLBY COLLEGE  
NOTES TO FINANCIAL STATEMENTS, CONTINUED

4. Short term investments:

Short term investments are as follows at June 30, 2009 and 2008 (in thousands):

	<u>2009</u>	<u>2008</u>
Common Fund short term investments	\$3,419	
Hedge fund of funds	<u>6,708</u>	<u>\$14,832</u>
	<u>\$10,127</u>	<u>\$14,832</u>

The hedge fund is subject to quarterly liquidity with a 91 day advance notice. Investment return (including unrealized and realized gains and losses) from this fund is included in operating activities for the years ended June 30, 2009 and 2008 and totals a loss of \$3,682,000 and \$168,000, respectively.

The Common Fund short term investment fund is in the process of being liquidated by the trustee. Management expects these funds to become available as underlying investments of the fund mature over the next twelve to eighteen months.

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, 2009 and 2008 follows (in thousands):

	2009 Estimated Fair Value	2008 Estimated Fair Value
Pooled Assets:		
Cash and cash equivalents	\$ 47,551	\$ 4,489
Accounts receivable and accrued income	<u>287</u>	<u>116</u>
	<u>47,838</u>	<u>4,605</u>
Investments:		
U.S. Government and agencies	31,434	41,591
Domestic equities and equity funds	44,653	70,644
International equities and equity funds	83,111	122,386
Hedge funds	119,973	166,362
Real estate funds	24,858	45,645
Venture capital	48,923	59,826
Mezzanine financing	274	560
Private equity	48,379	67,709
Natural resources	<u>10,553</u>	<u>29,247</u>
Total pooled investments	<u>412,158</u>	<u>603,970</u>
Total pooled assets	<u>459,996</u>	<u>608,575</u>
Other endowment assets:		
Cash and cash equivalents	1,144	2,472
Domestic equities	758	962
Real estate	1,815	2,118
Cash value of life insurance	<u>127</u>	<u>115</u>
Total other endowment assets	<u>3,844</u>	<u>5,667</u>
Total invested assets	463,840	614,242
Less annuity and life income assets pooled with endowment and similar funds	<u>10,850</u>	<u>13,994</u>
Total endowment and similar assets	<u>\$ 452,990</u>	<u>\$ 600,248</u>
Assets of annuity and life income funds include:		
Separately invested assets	\$ 13,773	\$ 17,789
Assets pooled with endowment and similar funds	<u>10,850</u>	<u>13,994</u>
Total annuity and life income funds	<u>\$ 24,623</u>	<u>\$ 31,783</u>

COLBY COLLEGE  
NOTES TO FINANCIAL STATEMENTS, CONTINUED

5. Investments, continued:

The Board of Trustees of Colby College has interpreted the Maine Uniform Management of Institutional Funds Act (Maine UMIFA) as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, Colby College classifies as permanently restricted net assets (a) the original gift value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the College in a manner consistent with Maine UMIFA.

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor or Maine UMIFA requires the College to retain as a fund of perpetual duration. In accordance with U.S. generally accepted accounting principles, deficiencies of this nature that are reported in unrestricted net assets were \$5,431,000 as of June 30, 2009. These deficiencies resulted from unfavorable market fluctuations that occurred after the investment of recent permanently restricted contributions. There were no such material deficiencies as of June 30, 2008. 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 Maine UMIFA, the College is under no legal obligation to record these unrealized losses as reductions in unrestricted net assets.

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):

	2009			Total
	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	
Endowment investments, beginning of year	\$ 180,700	\$ 261,831	\$ 157,717	\$ 600,248
Investment return:				
Investment income	1,073	3,559	438	5,070
Net gain (loss) in fair value	(37,778)	(88,718)	(1,139)	(127,635)
Total investment return	<u>(36,705)</u>	<u>(85,159)</u>	<u>(701)</u>	<u>(122,565)</u>
Gifts	1,419	125	3,988	5,532
Distribution of endowment return to all funds	(6,991)	(15,482)		(22,473)
Investment expenses	(2,132)	(4,982)		(7,114)
Amounts designated to endowment	(175)			(175)
Matured life income funds			141	141
Reclassifications	(5,431)	5,431		
Other changes, net	(252)	(278)	(74)	(604)
Endowment investments, end of year	<u>\$ 130,433</u>	<u>\$ 161,486</u>	<u>\$ 161,071</u>	<u>\$ 452,990</u>

COLBY COLLEGE  
NOTES TO FINANCIAL STATEMENTS, CONTINUED

5. Investments, continued:

	2008			Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	
Endowment investments, beginning of year	\$ 178,535	\$ 272,584	\$ 147,610	\$ 598,729
Investment return:				
Investment income	1,172	3,721	436	5,329
Net gain (loss) in fair value	1,935	3,715	(352)	5,298
Total investment return	3,107	7,436	84	10,627
Gifts	201	1,150	6,476	7,827
Distribution of endowment return to all funds	(6,085)	(14,476)		(20,561)
Investment expenses	(1,915)	(4,556)		(6,471)
Amounts designated to endowment	7,166			7,166
Matured life income funds		38	3,611	3,649
Other changes, net	(309)	(345)	(64)	(718)
Endowment investments, end of year	\$ 180,700	\$ 261,831	\$ 157,717	\$ 600,248

The endowment net asset composition by type of fund for the years ended June 30 is as follows (in thousands):

	2009			Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	
Donor-restricted endowment funds		\$ 161,486	\$ 161,071	\$ 322,557
Board-designated endowment funds	\$ 130,433			130,433
Total investments, endowment	\$ 130,433	\$ 161,486	\$ 161,071	\$ 452,990

	2008			Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	
Donor-restricted endowment funds		\$ 261,831	\$ 157,717	\$ 419,548
Board-designated endowment funds	\$ 180,700			180,700
Total investments, endowment	\$ 180,700	\$ 261,831	\$ 157,717	\$ 600,248

COLBY COLLEGE  
NOTES TO FINANCIAL STATEMENTS, CONTINUED

5. Investments, continued:

The yield per unit, exclusive of net gains (losses), computed on the weighted average of units outstanding, was \$1.01 for the year ended June 30, 2009. Spending per unit for current use, computed on units outstanding as of July 1, 2008, was \$9.10.

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 \$99,856,000 as of June 30, 2009 which are expected to be paid in various installments through 2015.

Other investments, measured at fair value, at June 30, 2009 and 2008 consist of the following (in thousands):

	<u>2009</u>	<u>2008</u>
Cash and cash equivalents held for long-term purposes	\$ 15,914	\$ 7,767
Employee mortgages (average interest rate 5.50%)	3,603	4,233
Other	<u>113</u>	<u>75</u>
Total investments, other	<u>\$ 19,630</u>	<u>\$ 12,075</u>
Investments, funds held in trust by others	<u>\$ 9,775</u>	<u>\$13,215</u>

6. Bonds Payable:

Bonds and notes payable at June 30, 2009 and 2008 are as follows (in thousands):

<u>Facilities Financing</u>	<u>2009</u>	<u>2008</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 2001C Revenue Bonds, maturing through 2021 at fixed rates (ranging from 4.20% - 5.10%)	\$ 7,252	7,787
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 2.55% - 5.00%)	9,617	9,752
Series 2005 Revenue Bonds, maturing through 2035 at fixed rates (ranging from 3.00% - 5.00%)	16,050	16,210
Series 2006G Revenue Bonds, maturing through 2036 at fixed rates (ranging from 4.00% - 5.00%)	12,788	12,963
Series 2007A Revenue Bonds, maturing through 2026 at fixed rates (ranging from 4.00% - 4.75%)	7,829	8,409
Series 2007B Revenue Bonds, maturing through 2037 at fixed rates (ranging from 4.00% - 5.00%)	10,620	10,665
Series 2008C Revenue Bonds, maturing through 2038 at fixed rates (ranging from 3.00% - 5.00%)	<u>11,820</u>	<u>11,820</u>
	78,103	79,733
Unamortized premium	<u>966</u>	<u>837</u>
Total Bonds Payable	<u>\$79,069</u>	<u>\$80,570</u>

COLBY COLLEGE  
NOTES TO FINANCIAL STATEMENTS, CONTINUED

6. Bonds Payable, continued:

Maturities of outstanding bonds are as follows:

<u>Year</u>	<u>Principal Amount (in thousands)</u>
July 1, 2009	2,250
July 1, 2010	2,330
July 1, 2011	2,450
July 1, 2012	2,410
July 1, 2013	2,500
Thereafter	<u>66,163</u>
	<u>\$78,103</u>

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, 2009, the College's debt service ratio was 1.96. 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. Funds held by bond trustee were as follows at June 30, 2009 and 2008 (in thousands):

	<u>2009</u>	<u>2008</u>
Construction funds	\$380	\$7,938
Debt service reserve funds	<u>4,203</u>	<u>3,114</u>
	<u>\$ 4,583</u>	<u>\$11,052</u>

Total interest expense incurred by the College for the years ended June 30, 2009 and 2008 is as follows (in thousands):

	<u>2009</u>	<u>2008</u>
Total interest cost	\$3,581	\$3,315
Less: Capitalized interest	<u>(311)</u>	<u>(555)</u>
Net interest expense	<u>\$ 3,270</u>	<u>\$ 2,760</u>

The College maintains a line of credit agreement with a financial institution totaling \$70,000,000. At June 30, 2009 and 2008, there were no outstanding borrowings under this agreement. This agreement expires on December 2, 2009. The interest that would be charged under this facility is equal to 1.5% above the one month LIBOR rate. The College is required to comply with certain financial covenants under this credit facility including liquidity and debt service coverage ratios. The College is also restricted in the amount of additional indebtedness it can incur. An annual fee is charged on the unused portion of the credit facility equal to 0.25%, paid quarterly.

COLBY COLLEGE  
NOTES TO FINANCIAL STATEMENTS, CONTINUED

7. Postretirement Benefits:

The College provides medical benefits to eligible employees, as defined by the plan, who have 10 years of continuous service after age 40, and have reached a minimum age of 60 years. The following sets forth the plan status with amounts reported in the College's financial statements at June 30, 2009 and 2008 (in thousands):

	<u>2009</u>	<u>2008</u>
Change in Benefit Obligation		
Postretirement benefit obligation, beginning of year	\$ 16,435	\$ 16,445
Service cost	440	467
Interest cost	1,083	1,007
Plan participants' contributions	379	244
Medicare prescription subsidy	100	87
Actuarial (gain) loss	2,696	(753)
Benefits paid	<u>(1,145)</u>	<u>(1,062)</u>
Postretirement benefit obligation, end of year	19,988	16,435
Change in Plan Assets		
Fair value at beginning of year	0	0
Employer contributions	766	818
Plan participants' contributions	379	244
Benefits paid	<u>(1,145)</u>	<u>(1,062)</u>
Total fair value of plan assets	0	0
Accumulated postretirement benefit obligation	<u>\$ 19,988</u>	<u>\$ 16,435</u>

Net periodic postretirement benefit cost for the year ended June 30, 2009 and 2008 included the following components (in thousands):

	<u>2009</u>	<u>2008</u>
Service cost	\$ 440	\$ 467
Interest cost	1,083	1,007
Amortization of transition obligation	130	130
Amortization of actuarial loss	<u>252</u>	<u>358</u>
Net postretirement benefit cost	<u>\$1,905</u>	<u>\$1,962</u>

Amounts recognized in non-operating activities for the year ended June 30, 2009 and 2008 included the following components (in thousands)

	<u>2009</u>	<u>2008</u>
Net current period actuarial gain (loss)	\$ (2,888)	\$ 704
Amortization of transition obligation	130	130
Amortization of actuarial loss	<u>252</u>	<u>358</u>
Postretirement benefit related changes other than net periodic benefit cost	<u>\$(2,506)</u>	<u>\$1,192</u>

COLBY COLLEGE  
NOTES TO FINANCIAL STATEMENTS, CONTINUED

7. Postretirement Benefits, continued:

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

Amortization of transition obligation	\$ 130
Amortization of actuarial (gain) loss	<u>457</u>
Net postretirement benefit cost	<u>\$587</u>

The amounts that have not been recognized as components of net periodic postretirement benefit cost for the year ended June 30, 2009 and 2008 are as follows (in thousands):

	<u>2009</u>	<u>2008</u>
Net actuarial (gain) loss	\$ 6,629	\$ 4,185
Transition obligation	<u>769</u>	<u>899</u>
Net postretirement benefit cost	<u>\$7,398</u>	<u>\$5,084</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>2009</u>	<u>2008</u>	<u>2009</u>	<u>2008</u>
Discount rate	6.25%	6.75%	6.75%	6.25%

Colby College expects to contribute \$817,000 to its postretirement benefit plan in 2010.

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>
2010	\$978,000	\$161,000
2011	1,036,000	183,000
2012	1,143,000	209,000
2013	1,232,000	243,000
2014	1,360,000	276,000
2015-2019	8,450,000	1,735,000

The health care trend rate assumption used in determining the accumulated benefit obligation for 2009 was 10% gradually decreasing to 5.0% in 2016 and remaining at that level thereafter. The effect of increasing (decreasing) the health care cost trend rate by one percentage point in each year would be to increase (decrease) the accumulated postretirement benefit obligation as of June 30, 2009 by \$2,835,000 (\$2,352,000) and to increase (decrease) the aggregate of the service cost and interest cost components of net postretirement benefit cost for the year ended June 30, 2009 by \$323,000 (\$261,000).

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

COLBY COLLEGE  
NOTES TO FINANCIAL STATEMENTS, CONTINUED

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 \$2,613,000 and \$2,549,000 in fiscal 2009 and 2008, respectively.

9. Guarantee Fund with Maine Employment Security Commission:

The College has elected to discharge its responsibility for unemployment insurance costs with the Maine Employment Security Commission based on actual charges rather than making periodic insurance payments. As collateral for payment, the College has purchased a surety bond in the amount of \$500,000.

10. Government Advances for Student Loans:

Government advances for student loans at June 30, 2009 and 2008 includes funds advanced to Colby by the federal government under the Perkins Student Loan Program totaling \$5,002,000 and \$4,954,000, 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, 2009 and 2008, the notional amount of the U.S. dollar commitment required under the terms of outstanding foreign currency forward contracts amounted to approximately \$909,000 and \$1,043,000, respectively. Contracts are for European Union Euros and extend through 2009.

For the year ended June 30, 2009 and 2008, the College recorded a \$38,000 and \$73,000 gain, respectively, 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 \$661,000 at June 30, 2009 to complete various construction projects in connection with the strategic plan of the College.

Leases

The College is obligated under a building lease in London, England through October 2014. The commitments under this lease are not considered significant to the College's financial statements.

COLBY COLLEGE  
NOTES TO FINANCIAL STATEMENTS, CONTINUED

12. Net assets:

Net assets comprise the following at June 30, 2009 and 2008 (in thousands):

	2009		
	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>
General operating reserves	\$ (3,843)		
Unexpended restricted funds		\$ 5,711	
Loan funds	2,485		\$ 1,314
Endowment	130,433	161,486	161,071
Annuity and life income funds		11,543	
Funds for facilities	97,139	1,858	5,893
Pledges receivable		11,090	13,336
Assets restricted to investment in land, buildings and equipment			116,953
Funds held in trust by others		<u>291</u>	<u>9,484</u>
	<u>\$226,214</u>	<u>\$191,979</u>	<u>\$308,051</u>

	2008		
	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>
General operating reserves	\$ (1,381)		
Unexpended restricted funds		\$ 5,422	
Loan funds	2,527		\$ 1,225
Endowment	180,700	261,831	157,717
Annuity and life income funds		17,318	
Funds for facilities	90,671	1,078	5,893
Pledges receivable		13,789	13,713
Assets restricted to investment in land, buildings and equipment			116,953
Funds held in trust by others		<u>486</u>	<u>12,729</u>
	<u>\$272,517</u>	<u>\$299,924</u>	<u>\$308,230</u>

The College's net assets, including appreciation on endowment funds, are available for the following purposes (in thousands):

	2009	
	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>
Operations	\$ 42,960	\$ 23,062
Student aid	74,350	75,985
Professorships	32,039	37,759
Library	4,733	2,106
Lectureships	2,096	1,737
Research	1,665	4,706
Facilities	1,858	122,846
Other purposes	<u>32,278</u>	<u>39,850</u>
	<u>\$191,979</u>	<u>\$308,051</u>

COLBY COLLEGE  
NOTES TO FINANCIAL STATEMENTS, CONTINUED

12. Net assets, continued:

	2008	
	Temporarily Restricted	Permanently Restricted
Operations	\$ 62,129	\$ 22,591
Student aid	120,510	74,549
Professorships	55,847	37,651
Library	7,083	2,105
Lectureships	3,384	1,671
Research	3,403	4,608
Facilities	1,078	122,846
Other purposes	46,490	42,209
	<u>\$299,924</u>	<u>\$308,230</u>

See Note 5 for a description of the components and activity associated with the endowment investments.

13. Asset Retirement Obligation:

The following sets forth the change in the asset retirement obligation during 2009 and 2008 (in thousands) consisting of obligations for asbestos contamination in several buildings and other potentially hazardous items.

	2009	2008
Asset Retirement Obligation, beginning of year	\$ 3,682	\$ 3,590
Accretion expense	184	179
Liabilities settled		
Net changes to estimated cash flow	(42)	(87)
Asset Retirement Obligation, end of year	<u>\$ 3,824</u>	<u>\$ 3,682</u>

14. Fair Value Measurements:

Effective July 1, 2008, the College adopted Statement on Financial Accounting Standards (SFAS) No. 157, *Fair Value Measurements*. This standard clarifies the definition of fair value for financial reporting, establishes a framework for measuring fair value and requires additional disclosures about the use of fair value measurements.

The College uses fair value measurements to record fair value adjustments to its financial instruments and to determine fair value disclosures. For additional information on how the College measure fair value refer to Note 1 – Organization and Summary of Significant Accounting Policies. The following table presents the College’s fair value hierarchy for those assets measured at fair value on a recurring basis as of June 30, 2009 (in thousands).

COLBY COLLEGE  
NOTES TO FINANCIAL STATEMENTS, CONTINUED

14. Fair Value Measurements, continued:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Short term investments		\$ 3,419	\$ 6,708	\$ 10,127
Investments	<u>\$ 146,191</u>	<u>\$ 77,973</u>	<u>\$ 282,854</u>	<u>\$ 507,018</u>
	<u>\$ 146,191</u>	<u>\$ 81,392</u>	<u>\$ 289,562</u>	<u>\$ 517,145</u>

The following table provides a summary of changes in fair value of the College's Level 3 financial instruments for the year ended June 30, 2009 (in thousands):

	<u>Total Investments</u>
Estimated fair value of investments at July 1, 2008	\$ 395,796
Net realized and unrealized gains (losses)	(77,823)
Net purchases and sales	(28,411)
Estimated fair value of investments at June 30, 2009	<u>\$ 289,562</u>

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 and Funds Held by Trustee

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.

Bonds Payable

The fair value of the College bonds payable approximates \$79,232,000. 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.

Foreign Currency

The fair value of the College's foreign currency forward commitments based on June 30, 2009 spot market rates is estimated to be \$1,022,000.