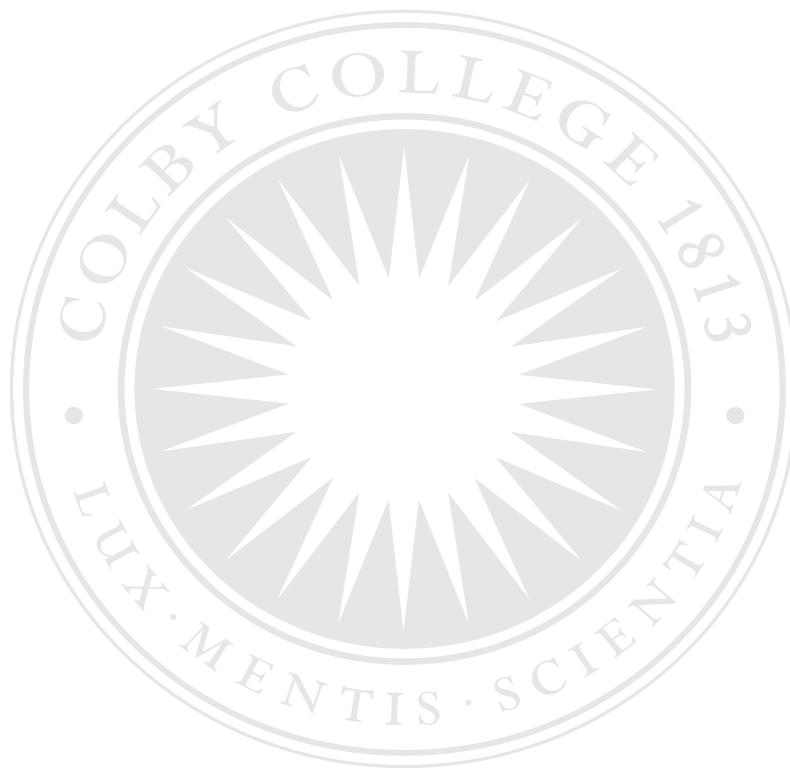


Colby

COLBY COLLEGE
FINANCIAL STATEMENTS
June 30, 2011 and 2010



Colby College

Financial Statements

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Independent Auditors' Report

Board of Trustees
Colby College
Waterville, Maine

We have audited the accompanying balance sheets of Colby College (the "College") as of June 30, 2011 and 2010, and the related statements of activities and cash flows for the years 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 audits.

We conducted our audits 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 the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide 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, 2011 and 2010, and the changes in its net assets and its cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

Mayer Hoffman McCann P.C.

October 22, 2011
Boston, Massachusetts

COLBY COLLEGE
BALANCE SHEETS
June 30, 2011 and 2010
(in thousands)

	2011	2010
ASSETS		
Cash and cash equivalents	\$ 32,090	\$ 28,730
Accrued income receivable	294	76
Accounts receivable (less allowance for doubtful accounts of \$569 in 2011 and \$562 in 2010)	2,429	1,996
Funds held by trustee (Note 6)	4,052	3,401
Inventories	700	722
Prepaid expenses and other assets	1,890	2,531
Notes receivable (less allowance for doubtful accounts of \$511 in 2011 and \$562 in 2010) (Note 3)	6,300	6,995
Pledges receivable (Note 2)	23,741	32,512
Investments, endowment	611,441	502,076
Investments, annuity and life income funds	30,349	26,812
Investments, funds held in trust by others	12,270	10,190
Investments, other	34,629	31,564
Total investments (Note 5)	688,689	570,642
Pledge of artwork collection	116,953	116,953
Land, buildings and equipment (less accumulated depreciation of \$103,819 in 2011 and \$95,740 in 2010) (Note 4)	173,486	163,876
Total assets	\$ 1,050,624	\$ 928,434
LIABILITIES		
Accounts payable and accrued liabilities	\$ 13,120	\$ 13,065
Student deposits	671	641
Government advances for student loans	5,184	5,093
Annuity obligations	12,310	11,486
Bonds payable (Note 6)	74,865	76,704
Post retirement benefit obligation (Note 7)	21,477	22,891
Asset retirement obligation (Note 12)	4,204	4,063
Total liabilities	131,831	133,943
COMMITMENTS AND CONTINGENT LIABILITIES (Notes 5 and 10)		
NET ASSETS (Note 11)		
Unrestricted	299,005	250,020
Temporarily restricted	289,844	224,555
Permanently restricted	329,944	319,916
Total net assets	918,793	794,491
Total liabilities and net assets	\$ 1,050,624	\$ 928,434

The accompanying notes are an integral
part of the financial statements

COLBY COLLEGE
STATEMENT OF ACTIVITIES
for the year ended June 30, 2011 (with comparative information for the year ended June 30, 2010)
(in thousands)

	UNRESTRICTED	TEMPORARILY RESTRICTED	PERMANENTLY RESTRICTED	TOTAL	
				2011	2010
Operating Activities					
Operating revenues and other support					
Student charges	\$ 97,306			\$ 97,306	\$ 93,138
Student aid	(24,013)			(24,013)	(22,566)
Net student charges	73,293			73,293	70,572
Contributions	4,403			4,403	4,187
Endowment return utilized for operations	21,814			21,814	22,322
Other investment income	355			355	346
Net assets released from restriction	6,685			6,685	6,349
Other revenue	5,467			5,467	5,101
Total operating revenues and other support	112,017			112,017	108,877
Expenses					
Instruction and research	38,906			38,906	37,278
Academic support	11,502			11,502	10,959
Student services	19,030			19,030	17,357
Institutional support	17,535			17,535	16,653
Auxiliary enterprises	19,111			19,111	19,605
Total operating expenses	106,084			106,084	101,852
Increase in net assets before non-operating activities	5,933			5,933	7,025
<i>Increase in net assets from general operations (Note 1)</i>	267			267	272
<i>Decrease in net assets from depreciation</i>	(8,366)			(8,366)	(8,313)
<i>Amounts designated for facilities reserves, debt service, endowment and student loans (Note 1)</i>	14,032			14,032	15,066
Non-operating activities:					
Contributions	527	\$ 11,389	\$ 6,239	18,155	25,711
Net investment income	627	843	339	1,809	(174)
Net realized and unrealized gains (losses)	35,793	88,732	1,863	126,388	66,553
Endowment return utilized for operations	(21,814)			(21,814)	(22,322)
Postretirement benefit related changes other than net periodic benefit cost	3,306			3,306	(1,293)
Other revenues and expenses, net	(689)	49		(640)	(1,452)
Net change in annuity and life income funds		(3,737)	1,587	(2,150)	548
Net assets released from restriction and reclassifications	25,302	(31,987)		(6,685)	(6,349)
Change in net assets from non-operating activities	43,052	65,289	10,028	118,369	61,222
Total change in net assets	48,985	65,289	10,028	124,302	68,247
Net assets, beginning of year	250,020	224,555	319,916	794,491	726,244
Net assets, end of year	\$ 299,005	\$ 289,844	\$ 329,944	\$ 918,793	\$ 794,491

The accompanying notes are an integral
part of the financial statements

COLBY COLLEGE
STATEMENT OF ACTIVITIES
for the year ended June 30, 2010
(in thousands)

	UNRESTRICTED	TEMPORARILY RESTRICTED	PERMANENTLY RESTRICTED	TOTAL 2010
Operating Activities				
Operating revenues and other support				
Student charges	\$ 93,138			\$ 93,138
Student aid	(22,566)			(22,566)
Net student charges	<u>70,572</u>			<u>70,572</u>
Contributions	4,187			4,187
Endowment return utilized for operations	22,322			22,322
Other investment income	346			346
Net assets released from restriction	6,349			6,349
Other revenue	5,101			5,101
Total operating revenues and other support	<u>108,877</u>			<u>108,877</u>
Expenses				
Instruction and research	37,278			37,278
Academic support	10,959			10,959
Student services	17,357			17,357
Institutional support	16,653			16,653
Auxiliary enterprises	19,605			19,605
Total operating expenses	<u>101,852</u>			<u>101,852</u>
Increase in net assets before non-operating activities	7,025			7,025
<i>Increase in net assets from general operations (Note 1)</i>	272			272
<i>Decrease in net assets from depreciation</i>	(8,313)			(8,313)
<i>Amounts designated for facilities reserves, debt service, endowment and student loans (Note 1)</i>	15,066			15,066
Non-operating activities:				
Contributions	2,640	\$ 13,266	\$ 9,805	25,711
Net investment income	(459)	(46)	331	(174)
Net realized and unrealized gains	19,467	46,209	877	66,553
Endowment return utilized for operations	(22,322)			(22,322)
Postretirement benefit related changes other than net periodic benefit cost	(1,293)			(1,293)
Other revenues and expenses, net	(1,462)	5	5	(1,452)
Net change in annuity and life income funds		79	469	548
Net assets released from restriction and reclassifications	20,210	(26,937)	378	(6,349)
Change in net assets from non-operating activities	<u>16,781</u>	<u>32,576</u>	<u>11,865</u>	<u>61,222</u>
Total change in net assets	23,806	32,576	11,865	68,247
Net assets, beginning of year	<u>226,214</u>	<u>191,979</u>	<u>308,051</u>	<u>726,244</u>
Net assets, end of year	<u>\$ 250,020</u>	<u>\$ 224,555</u>	<u>\$ 319,916</u>	<u>\$ 794,491</u>

The accompanying notes are an integral
part of the financial statements

COLBY COLLEGE
STATEMENTS OF CASH FLOWS
for the years ended June 30, 2011 and 2010
(in thousands)

	2011	2010
Cash flows from operating activities		
Change in net assets	\$ 124,302	\$ 68,247
Adjustments to reconcile change in net assets to net cash provided by operating activities		
Changes in:		
Accrued income receivable	(218)	155
Accounts receivable	(433)	(643)
Inventories	22	(60)
Prepaid expenses and other assets	641	110
Pledges receivable	8,771	(8,086)
Accounts payable and accrued liabilities	(1,541)	2,037
Student deposits	30	(102)
Post retirement benefit obligation	(1,414)	2,903
Depreciation	8,366	8,313
Accretion and other changes in asset retirement obligation	141	239
Amortization of bond premium	(89)	481
Net realized and unrealized gains on investments	(126,388)	(66,553)
Contributions in kind and securities	(6,067)	(2,369)
Contributions restricted for investment	(15,820)	(7,818)
Investment income restricted for investment	(1,799)	(2,287)
Net cash used in operating activities	(11,496)	(5,433)
Cash flows from investing activities		
Collections of notes receivable	745	770
Notes receivable issued	(50)	(98)
Purchase of land, buildings and equipment	(16,089)	(2,980)
Purchase of investments	(113,585)	(114,800)
Proceeds from sale of investments	127,753	129,432
Net cash provided by (used in) investing activities	(1,226)	12,324
Cash flows from financing activities		
Payments on bonds payable	(1,750)	(8,947)
Bonds payable issued		6,101
Contributions restricted for investment	15,820	7,818
Investment income restricted for investment	1,799	2,287
Change in annuity obligations	773	(1,594)
Change in government advances for student loans	91	91
Change in funds held by trustee	(651)	1,182
Net cash provided by financing activities	16,082	6,938
Net change in cash and cash equivalents	3,360	13,829
Cash and cash equivalents at beginning of year	28,730	14,901
Cash and cash equivalents at end of year	\$ 32,090	\$ 28,730
Supplemental data:		
Interest paid, net of capitalized interest	\$ 3,295	\$ 3,552
Acquisition of land, buildings and equipment included in accounts payable	\$ 1,647	\$ 1,130

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 or for which donor restrictions have expired. 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 reporting periods. Actual results could differ from the estimates included in the financial statements. Significant management estimates include the allowance for doubtful notes, pledges and accounts receivable, fair value of certain investments, fair value of the artwork pledge, annuity obligations, postretirement benefit obligation, asset retirement obligation and the allocation of common expenses over program functions.

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 2010-11 at 4.50% and for 2009-10 at 4.75% 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.

The College maintains its cash balances at several financial institutions, which at times may exceed federally insured limits. The College monitors its exposure associated with cash and cash equivalents and has not experienced any losses in such accounts.

Accounts Receivable

Accounts receivable are carried at their net realizable value. Management estimates the allowance for doubtful accounts by identifying troubled accounts and by using historical experience applied to an aging of accounts. Accounts receivable are written off when deemed uncollectible. Recoveries of accounts receivable previously written off are recorded as revenue when received.

Inventories

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

Student Loans Receivable and Government Advances for Student Loans and Other Loans Receivable

Included in notes receivable are College funds loaned to students and funds advances by the College via the Federal Perkins Loan Program (the Program).

Perkins funds may be reloaned by the College after collection, but in the event that the College no longer participates in the Program, the amounts are generally refundable to the Federal government. Funds advanced by the Federal government of \$5,184,000 and \$5,093,000 at June 30, 2011 and 2010, respectively, are classified as liabilities on the balance sheet. Loans receivable are carried at the original amount less an estimate made for doubtful receivables based on a review of all outstanding amounts on a periodic basis. Management determines this allowance for doubtful accounts by identifying troubled accounts and by using historical experience applied to an aging of accounts. Loans that are 15 days or more past due are assessed late fees. Interest and late fees are recorded when received. Perkins loans that are in default and meet certain requirements can be assigned to the Department of Education, which reduces the Government advances for student loans.

Loans receivable are carried at their estimated net realizable value. Management estimates the allowance for credit losses based on historical losses, current economic conditions and the credit quality of the loans. Loans receivable are written off when deemed uncollectible. Recoveries of loans receivable previously written off are recorded as decreases in the allowance for credit losses. Interest income on loans receivable is recognized in the period earned. Interest is not recorded on loans that are significantly past due and considered uncollectible.

COLBY COLLEGE
NOTES TO FINANCIAL STATEMENTS, CONTINUED

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

Split-Interest Agreements

Certain donors have established irrevocable split-interest agreements with the College, primarily charitable gift annuities, pooled income funds and charitable remainder trusts, whereby the donated assets are invested and distributions made to the donor and/or other beneficiaries in accordance with their respective agreements. Pooled income funds and charitable remainder trusts are invested separately. Charitable gift annuities are invested in the endowment pool with returns allocated on a ratable basis. The College separately tracks assets held in split-interest agreements and reports them at fair value as Investments, annuity and life income funds. The present value of the estimated future distributions to beneficiaries from these annuity agreements is recorded as a liability as of the dates the agreements are established; the liability is adjusted as distributions are made and for changes in the present value of estimated future distributions. The difference between the assets received and the liability for beneficiary payments is recognized as contribution revenue as of the dates the agreements are established.

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 2.79% - 10.00%.

Investments and Fair Value Measurements

The College reports certain assets and liabilities at fair value on a recurring and nonrecurring basis depending on the underlying accounting policy for the particular item. Recurring fair value measurements include the College's investment accounts and funds held by trustees. Nonrecurring measurements include pledges, annuity obligations and asset retirement obligations. These standards require an entity to maximize the use of observable inputs (such as quoted prices in active markets) and minimize the use of unobservable inputs (such as appraisals or valuation techniques) to determine fair value. In addition, the College reports certain investments using the net asset value per share as determined by investment managers under the so called "practical expedient". The practical expedient allows net asset value per share to represent fair value for reporting purposes when the criteria for using this method are met. Fair value measurement standards also require the College to classify these financial instruments into a three-level hierarchy, based on the priority of inputs to the valuation technique or in accordance with net asset value practical expedient rules, which allow for either level 2 or level 3 depending on lock up and notice periods associated with the underlying funds.

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 2 also includes investments reported at net asset value per share with lock up periods of 90 days or less.

COLBY COLLEGE
NOTES TO FINANCIAL STATEMENTS, CONTINUED

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

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. Level 3 also includes investments reported at net asset value per share with lock up periods in excess of 90 days.

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.

Market price is affected by a number of factors, including the type of instrument and the characteristics specific to the instrument. Instruments with readily available active quoted prices or for which fair value can be measured from actively quoted prices generally will have a higher degree of market price observability and a lesser degree of judgment used in measuring fair value. It is reasonably possible that changes in values of these instruments will occur in the near term and that such changes could materially affect amounts reported in these financial statements. For more information on the fair value of the College's financial instruments, see Note 14 – Fair Value Measurements.

Funds Held by Trustee

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

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. 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 fair value when initially pledged. The initial recording for pledges expected to be collected in one year or more is arrived at by using the present value of a risk adjusted rate to account for the inherent risk associated with the expected future cash flows. Amortization of the discount is included in contributions revenue. Unconditional promises to give are periodically reviewed to estimate an allowance for doubtful accounts. Management estimates the allowance by a review of historical experience and a specific review of collection trends that vary from the plan on individual accounts. Conditional promises to give are not included as support until the conditions are substantially met.

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.

Student Deposits

Student deposits generally represent tuition and student deposits paid in advance, which are recognized as income when the related educational services are provided.

Student Charges

Student charges revenue is recognized as revenue when earned.

Tax Status

The College is exempt from income taxes under Internal Revenue Code Section 501(c)(3). Certain of the College's investments and summer operations create unrelated business income, which is subject to tax. The College reflects investment income net of unrelated business income taxes. The College files income tax returns in the U.S. federal jurisdiction, and various state jurisdictions. Any interest or penalties on underpayment of income taxes are classified as income tax expense. Given the limited taxable activities of the College, management has concluded that disclosures related to tax provisions are not necessary.

COLBY COLLEGE
NOTES TO FINANCIAL STATEMENTS, CONTINUED

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

Uncertain Tax Positions

The College accounts for the effect of any uncertain tax positions based on a “more likely than not” threshold to the recognition of the tax positions being sustained based on the technical merits of the position under scrutiny by the applicable taxing authority. If a tax position or positions are deemed to result in uncertainties of those positions, the unrecognized tax effect is estimated based on a “cumulative probability assessment” that aggregates the estimated tax liability for all uncertain tax positions. The College has a number of tax positions, none of which result in an uncertainty requiring recognition. The College is not currently under examination by any taxing jurisdictions. The College’s Federal and state tax returns are generally open for examination for three years following the date filed.

Asset Retirement Obligation

The asset retirement obligation represents a legal obligation to the College to perform an asset retirement activity in which the timing and/or method of settlement are conditional on a future event that may or may not be within the control of the College. Uncertainty with respect to the timing and/or method of settlement of the asset retirement obligation does not defer recognition of a liability. The obligation to perform the asset retirement activity is unconditional, and accordingly, a liability is initially recognized at the fair value of the asset retirement obligation.

Subsequent Events

The College recognizes in the financial statements the effects of all subsequent events that provide additional evidence about conditions that existed at the date of the balance sheet, including estimates inherent in the process of preparing financial statements. Subsequent events have been evaluated through October 22, 2011, which is the date the financial statements were issued.

Reclassifications

Certain 2010 balances have been reclassified to conform with the 2011 presentation.

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>2011</u>	<u>2010</u>
In one year or less	\$11,951	\$22,621
Between one year and five years	12,259	13,716
Greater than five years	<u>2,115</u>	<u>2,317</u>
	26,325	38,654
Less: present value discount	1,334	2,319
Less: allowance for uncollectible pledges	<u>1,250</u>	<u>3,823</u>
Net pledges receivable	<u>\$23,741</u>	<u>\$32,512</u>

COLBY COLLEGE
NOTES TO FINANCIAL STATEMENTS, CONTINUED

2. Pledges Receivable, continued:

In addition to the amounts noted above, the College has received intentions to give approximating \$4,603,000 and \$3,428,000 at June 30, 2011 and 2010, which have not been recorded in the balance sheet. Total costs related to alumni and development activities approximated \$5,347,000 and \$5,485,000 during the years ended June 30, 2011 and 2010 and are included in institutional support in the statement of activities.

3. Notes Receivable:

Notes receivable consist of the following as of June 30, 2011 and 2010 (in thousands):

	<u>2011</u>	<u>2010</u>
Perkins loans	\$ 5,234	\$ 5,928
Local development loan	1,000	1,000
Other loans	<u>577</u>	<u>629</u>
	6,811	7,557
Less allowance for doubtful accounts:		
Beginning of year	562	640
Increases		
Recoveries		
Write-offs	<u>(51)</u>	<u>(78)</u>
End of year	<u>511</u>	<u>562</u>
Notes receivable, net	<u>\$ 6,300</u>	<u>\$ 6,995</u>

An age analysis of past due financing receivables is as follows (in thousands):

	<u>30-59 Days Past Due</u>	<u>60-89 Days Past Due</u>	<u>Greater than 90 Days</u>	<u>Total Past Due</u>	<u>Current</u>	<u>Total Financing Receivables</u>
June 30, 2011						
Perkins Loans	\$ 244	\$ 35	\$ 378	\$ 657	\$ 4,577	\$ 5,234
Local Development Loan					1,000	1,000
Other Loans			422	422	155	577
Total	<u>\$ 244</u>	<u>\$ 35</u>	<u>\$ 800</u>	<u>\$ 1,079</u>	<u>\$ 5,732</u>	<u>\$ 6,811</u>

COLBY COLLEGE
NOTES TO FINANCIAL STATEMENTS, CONTINUED

3. Notes Receivable, continued:

June 30, 2010

Perkins Loans	\$	338	\$	6	\$	361	\$	705	\$	5,223	\$	5,928
Local Development Loan										1,000		1,000
Other Loans					445	445		184				629
Total	\$	<u>338</u>	\$	<u>6</u>	\$	<u>806</u>	\$	<u>1,150</u>	\$	<u>6,407</u>	\$	<u>7,557</u>

4. Land, Buildings and Equipment:

Land, buildings and equipment consist of the following as of June 30, 2011 and 2010 (in thousands):

	<u>2011</u>	<u>2010</u>
Land	\$ 194	\$ 194
Buildings and building renovations	200,573	198,653
Construction in progress	14,096	4,315
Improvements	27,620	27,517
Furniture and equipment	1,786	1,715
Works of art	31,844	26,397
Rare books	130	130
Other	<u>1,061</u>	<u>695</u>
Total	277,304	259,616
Less accumulated depreciation	<u>103,818</u>	<u>95,740</u>
	<u>\$173,486</u>	<u>\$163,876</u>

As of June 30, 2011, the College estimates that the unaudited replacement value of its buildings is approximately \$392,000,000. The College capitalizes the interest cost related to outstanding debt on qualifying assets. Interest costs capitalized at June 30, 2011 and 2010 total \$0 and \$17,000, respectively.

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, 2011 and 2010 follows (in thousands):

	2011 Estimated Fair Value	2010 Estimated Fair Value
Pooled Assets:		
Cash and cash equivalents	\$ 32,290	\$ 14,508
Accounts receivable and accrued income	<u>281</u>	<u>365</u>
	<u>32,571</u>	<u>14,873</u>
Investments:		
U.S. Government and agencies	32,733	32,779
Domestic equities and equity funds	47,511	46,804
International equities and equity funds	107,093	93,321
Hedge funds	167,221	151,517
Real estate funds	40,104	26,344
Venture capital	96,522	63,525
Mezzanine financing	222	237
Private equity	59,282	55,562
Natural resources	<u>34,100</u>	<u>22,479</u>
Total pooled investments	<u>584,788</u>	<u>492,568</u>
 Total pooled assets	 <u>617,359</u>	 <u>507,441</u>
Other endowment assets:		
Cash and cash equivalents	3,315	3,373
Domestic equities	1,036	865
Real estate	1,909	1,753
Cash value of life insurance	<u>149</u>	<u>138</u>
Total other endowment assets	<u>6,409</u>	<u>6,129</u>
 Total invested assets	 623,768	 513,570
 Less annuity and life income assets pooled with endowment and similar funds	 <u>12,327</u>	 <u>11,494</u>
 Total endowment and similar assets	 <u>\$ 611,441</u>	 <u>\$ 502,076</u>
Assets of annuity and life income funds include:		
Separately invested assets	\$ 18,022	\$ 15,318
Assets pooled with endowment and similar funds	<u>12,327</u>	<u>11,494</u>
Total annuity and life income funds	<u>\$ 30,349</u>	<u>\$ 26,812</u>

COLBY COLLEGE
NOTES TO FINANCIAL STATEMENTS, CONTINUED

5. Investments, continued:

The Board of Trustees of Colby College has interpreted the Maine Uniform Prudent Management of Institutional Funds Act (Maine UPMIFA) as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, Colby College classifies as 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 UPMIFA. Maine UPMIFA requires the College act in good faith in determining amounts to appropriate for expenditure with the care that an ordinary prudent person in a like position would exercise under similar circumstances, and shall consider certain factors outlined in the law.

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor or Maine UPMIFA requires the College to retain as a fund of perpetual duration. In accordance with U.S. generally accepted accounting principles, deficiencies of this nature that are reported in unrestricted net assets were \$175,000 and \$2,037,000 as of June 30, 2011 and 2010, respectively. These deficiencies resulted from unfavorable market fluctuations that occurred after the investment of recent permanently restricted contributions. 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 UPMIFA, 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):

COLBY COLLEGE
NOTES TO FINANCIAL STATEMENTS, CONTINUED

5. Investments, continued:

	2011			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment investments, beginning of year	\$ 149,030	\$ 185,051	\$ 167,995	\$ 502,076
Investment return:				
Investment income	1,746	4,276	248	6,270
Net gain in fair value	35,793	82,767	212	118,772
Total investment return	37,539	87,043	460	125,042
Gifts	287	602	12,698	13,587
Distribution of endowment return to all funds	(7,204)	(15,573)		(22,777)
Investment expenses	(1,529)	(3,751)		(5,280)
Amounts designated to (from) endowment	(760)	(2,169)		(2,929)
Matured life income funds			1,587	1,587
Reclassifications	1,862	(1,862)		
Other changes, net	331	(201)	5	135
Endowment investments, end of year	\$ 179,556	\$ 249,140	\$ 182,745	\$ 611,441
	2010			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment investments, beginning of year	\$ 130,433	\$ 161,486	\$ 161,071	\$ 452,990
Investment return:				
Investment income	743	2,873	325	3,941
Net gain in fair value	19,469	43,546	198	63,213
Total investment return	20,212	46,419	523	67,154
Gifts	2,235	142	5,637	8,014
Distribution of endowment return to all funds	(7,459)	(15,606)		(23,065)
Investment expenses	(1,581)	(3,773)		(5,354)
Amounts designated to endowment	2,097		378	2,475
Matured life income funds			498	498
Reclassifications	3,394	(3,394)		
Other changes, net	(301)	(223)	(112)	(636)
Endowment investments, end of year	\$ 149,030	\$ 185,051	\$ 167,995	\$ 502,076

COLBY COLLEGE
NOTES TO FINANCIAL STATEMENTS, CONTINUED

5. Investments, continued:

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

	2011			Total
	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	
Donor-restricted endowment funds		\$ 249,140	\$ 182,745	\$ 431,885
Board-designated endowment funds	\$ 179,556			179,556
Total investments, endowment	<u>\$ 179,556</u>	<u>\$ 249,140</u>	<u>\$ 182,745</u>	<u>\$ 611,441</u>

	2010			Total
	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	
Donor-restricted endowment funds		\$ 185,051	\$ 167,995	\$ 353,046
Board-designated endowment funds	\$ 149,030			149,030
Total investments, endowment	<u>\$ 149,030</u>	<u>\$ 185,051</u>	<u>\$ 167,995</u>	<u>\$ 502,076</u>

The yield per unit, exclusive of net gains (losses), computed on the weighted average of units outstanding, was \$1.80 and \$1.03 for the years ended June 30, 2011 and 2010, respectively. Spending per unit for current use, computed on units outstanding as of July 1, 2010 and July 1, 2009, was \$9.31 and \$9.63, respectively.

Other investments, measured at fair value, at June 30, 2011 and 2010 consist of the following (in thousands):

	<u>2011</u>	<u>2010</u>
Cash and cash equivalents held for long-term purposes	\$ 30,493	\$ 27,649
Employee mortgages (average interest rate 5.14%)	4,111	4,071
Other	25	(156)
Total investments, other	<u>\$ 34,629</u>	<u>\$ 31,564</u>
Investments, funds held in trust by others (See Note 1)	<u>\$ 12,270</u>	<u>\$ 10,190</u>

COLBY COLLEGE
NOTES TO FINANCIAL STATEMENTS, CONTINUED

6. Bonds Payable:

Bonds and notes payable at June 30, 2011 and 2010 are as follows (in thousands):

<u>Facilities Financing</u>	<u>2011</u>	<u>2010</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 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%)	9,337	9,477
Series 2005 Revenue Bonds, maturing through 2035 at fixed rates (ranging from 3.00% - 5.00%)	15,725	15,890
Series 2006G Revenue Bonds, maturing through 2036 at fixed rates (ranging from 4.00% - 5.00%)	12,438	12,613
Series 2007A Revenue Bonds, maturing through 2026 at fixed rates (ranging from 4.00% - 4.75%)	6,639	7,244
Series 2007B Revenue Bonds, maturing through 2037 at fixed rates (ranging from 4.00% - 5.00%)	10,475	10,550
Series 2008C Revenue Bonds, maturing through 2038 at fixed rates (ranging from 3.00% - 5.00%)	10,665	11,255
Series 2010B Revenue Bonds, maturing through 2021 at fixed rates (ranging from 2.50% - 5.25%)	<u>6,101</u>	<u>6,101</u>
	73,507	75,257
Unamortized premium (amortized over the life of the related debt issue)	<u>1,358</u>	<u>1,447</u>
Total Bonds Payable	<u>\$74,865</u>	<u>\$76,704</u>

Maturities of outstanding bonds are as follows:

<u>Year</u>	<u>Principal Amount (in thousands)</u>
July 1, 2011	\$ 2,480
July 1, 2012	2,430
July 1, 2013	2,515
July 1, 2014	3,495
July 1, 2015	3,620
Thereafter	<u>58,967</u>
	<u>\$73,507</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

COLBY COLLEGE
NOTES TO FINANCIAL STATEMENTS, CONTINUED

6. Bonds Payable, continued:

defined in the Revenue Bond agreements) to the maximum annual debt service of at least 1.20 under the bond obligations. At June 30, 2011, the College's debt service ratio was 2.66. 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, 2011 and 2010 (in thousands):

	<u>2011</u>	<u>2010</u>
Debt service reserve funds	<u>\$ 4,052</u>	<u>\$ 3,401</u>

Total interest expense incurred by the College for the years ended June 30, 2011 and 2010 is as follows (in thousands):

	<u>2011</u>	<u>2010</u>
Total interest cost	\$ 3,299	\$ 3,520
Less: Capitalized interest		<u>(17)</u>
Net interest expense	<u>\$ 3,299</u>	<u>\$ 3,503</u>

The College maintains a line of credit agreement with a financial institution totaling \$40,000,000. At June 30, 2011 and 2010, there were no outstanding borrowings under this agreement. This agreement expires on December 1, 2011. 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.

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, 2011 and 2010 (in thousands):

	<u>2011</u>	<u>2010</u>
Change in Benefit Obligation		
Postretirement benefit obligation, beginning of year	\$ 22,891	\$ 19,988
Service cost	705	628
Interest cost	1,237	1,224
Plan participants' contributions	261	273
Medicare prescription subsidy	76	80
Actuarial (gain) loss	(2,666)	1,779
Benefits paid	<u>(1,027)</u>	<u>(1,081)</u>
Postretirement benefit obligation, end of year	<u>\$ 21,477</u>	<u>\$ 22,891</u>

The postretirement benefit obligation is funded as costs are incurred and accordingly, there are no plan assets.

COLBY COLLEGE
NOTES TO FINANCIAL STATEMENTS, CONTINUED

7. Postretirement Benefits, continued:

Net periodic postretirement benefit cost for the year ended June 30, 2011 and 2010 included the following components (in thousands):

	<u>2011</u>	<u>2010</u>
Service cost	\$ 705	\$ 628
Interest cost	1,237	1,224
Amortization of transition obligation	130	130
Amortization of actuarial loss	<u>633</u>	<u>457</u>
Net postretirement benefit cost	<u>\$2,705</u>	<u>\$2,439</u>

Amounts recognized in non-operating activities for the year ended June 30, 2011 and 2010 included the following components (in thousands)

	<u>2011</u>	<u>2010</u>
Net current period actuarial gain (loss)	\$ 2,543	\$ (1,880)
Amortization of transition obligation	130	130
Amortization of actuarial loss	<u>633</u>	<u>457</u>
Postretirement benefit related changes other than net periodic benefit cost	<u>\$ 3,306</u>	<u>\$ (1,293)</u>

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>315</u>
Net postretirement benefit cost	<u>\$445</u>

The amounts that have not been recognized as components of net periodic postretirement benefit cost for the year ended June 30, 2011 and 2010 are as follows (in thousands):

	<u>2011</u>	<u>2010</u>
Net actuarial (gain) loss	\$ 4,731	\$ 8,030
Transition obligation	<u>509</u>	<u>639</u>
Net postretirement benefit cost	<u>\$ 5,240</u>	<u>\$ 8,669</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>2011</u>	<u>2010</u>	<u>2011</u>	<u>2010</u>
Discount rate	5.75%	5.50%	5.50%	6.25%

COLBY COLLEGE
NOTES TO FINANCIAL STATEMENTS, CONTINUED

7. Postretirement Benefits, continued:

The College expects to contribute \$820,000 to its postretirement benefit plan in 2012.

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>
2012	\$970,000	\$150,000
2013	1,046,000	172,000
2014	1,157,000	190,000
2015	1,271,000	207,000
2016	1,369,000	223,000
2017-2021	8,087,000	1,400,000

The health care trend rate assumption used in determining the accumulated benefit obligation for 2011 was 8% gradually decreasing to 5% in 2013 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, 2011 by \$3,289,000 (\$2,793,000) 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, 2011 by \$301,000 (\$244,000).

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

8. Retirement Plans:

College 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 \$2,835,000 and \$2,760,000 in fiscal 2011 and 2010, 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 \$551,000.

10. 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, 2011 and 2010, the notional amount of the U.S. dollar commitment required under the terms of outstanding foreign currency forward contracts amounted to approximately \$597,000 and \$881,000, respectively. Contracts are for European Union Euros and extend through 2011. As a result of the use of foreign currency forward contracts, the College is exposed to risk that the counterparties will fail to meet their contractual obligation. To mitigate this risk, the College only enters into contracts with selected major financial institutions based upon

COLBY COLLEGE
NOTES TO FINANCIAL STATEMENTS, CONTINUED

10. Commitments and Contingent Liabilities, continued:

their credit ratings and other factors, and continually assesses the creditworthiness of counterparties. The College does not enter into derivative instruments for trading or speculation purposes.

For the year ended June 30, 2011 and 2010, the College recorded a \$181,000 gain and \$269,000 loss, 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 \$16,357,000 at June 30, 2011 to complete various construction projects in connection with the strategic plan of the College.

Legal

Various legal cases arise in the normal course of the College's operations. The College believes that there are currently no outstanding cases which would have a material effect on the financial position of the College.

Employment Agreements

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

Other

The College outsources services in connection with its dining activities under long-term contracts with the supplier. Management believes this arrangement is under commercially reasonable terms.

11. Net assets:

Net assets comprise the following at June 30, 2011 and 2010 (in thousands):

	<u>2011</u>		
	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>
General operating reserves	\$ (1,291)		
Unexpended restricted funds		\$ 6,694	
Loan funds	2,566		\$ 1,495
Endowment	179,556	249,140	182,745
Annuity and life income funds		17,948	
Funds for facilities	118,174	2,909	5,893
Pledges receivable		12,410	11,331
Assets restricted to investment in land, buildings and equipment			116,953
Funds held in trust by others		743	11,527
	<u>\$299,005</u>	<u>\$289,844</u>	<u>\$329,944</u>

COLBY COLLEGE
NOTES TO FINANCIAL STATEMENTS, CONTINUED

11. Net assets, continued:

	2010		
	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>
General operating reserves	\$ (4,864)		
Unexpended restricted funds		\$ 5,671	
Loan funds	2,537		\$ 1,408
Endowment	149,030	185,051	167,995
Annuity and life income funds		15,275	
Funds for facilities	103,317	3,523	5,893
Pledges receivable		14,721	17,791
Assets restricted to investment in land, buildings and equipment			116,953
Funds held in trust by others		<u>314</u>	<u>9,876</u>
	<u>\$250,020</u>	<u>\$224,555</u>	<u>\$319,916</u>

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

	2011	
	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>
Operations	\$ 61,444	\$ 27,549
Student aid	114,056	83,603
Professorships	51,656	38,856
Library	6,662	2,111
Lectureships	3,161	1,740
Research	3,301	5,680
Facilities	2,910	122,846
Other purposes	<u>46,654</u>	<u>47,559</u>
	<u>\$289,844</u>	<u>\$329,944</u>

	2010	
	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>
Operations	\$ 47,482	\$ 25,191
Student aid	85,401	78,940
Professorships	37,450	38,542
Library	5,281	2,106
Lectureships	2,393	1,739
Research	2,062	5,010
Facilities	3,523	122,846
Other purposes	<u>40,963</u>	<u>45,542</u>
	<u>\$224,555</u>	<u>\$319,916</u>

COLBY COLLEGE
NOTES TO FINANCIAL STATEMENTS, CONTINUED

11. Net assets, continued:

See Note 6 for a description of the components and activity associated with endowment investments. In accordance with U.S. generally accepted accounting principles and Maine state law, unappropriated gains on permanently restricted endowment investments are included in temporarily restricted net assets. These amounts total approximately \$223,000,000 and \$195,000,000 in 2011 and 2010, respectively.

12. Asset Retirement Obligation:

The following sets forth the change in the asset retirement obligation during 2011 and 2010 (in thousands) consisting of obligations for asbestos contamination in several buildings and other potentially hazardous items.

	<u>2011</u>	<u>2010</u>
Asset Retirement Obligation, beginning of year	\$ 4,063	\$ 3,824
Accretion expense	203	191
Net changes to estimated cash flow	<u>(62)</u>	<u>48</u>
Asset Retirement Obligation, end of year	<u>\$ 4,204</u>	<u>\$ 4,063</u>

13. Fair Value Measurements:

The valuation of the College's financial instruments measured on a recurring basis using the fair value hierarchy consisted of the following at June 30:

	2011			Total
	Level 1	Level 2	Level 3	
Cash and receivables	\$ 65,560			\$ 65,560
Fixed income securities	32,893			32,893
Global equity funds	51,017	\$ 82,490	\$ 22,749	156,256
Equity securities, other	17,973			17,973
Equity Long-Short Hedge funds			58,260	58,260
Absolute Return Hedge funds			108,961	108,961
Venture capital funds			96,522	96,522
Buyout funds			59,504	59,504
Real Estate funds			40,096	40,096
Natural Resources funds	9,425	8,873	15,802	34,100
Employee Mortgages		4,136		4,136
Investments, other			14,428	14,428
	<u>\$ 176,868</u>	<u>\$ 95,499</u>	<u>\$ 416,322</u>	<u>\$ 688,689</u>

COLBY COLLEGE
NOTES TO FINANCIAL STATEMENTS, CONTINUED

13. Fair Value Measurements, continued:

	2010			
	Level 1	Level 2	Level 3	Total
Cash and receivables	\$ 45,311			\$ 45,311
Fixed income securities	32,926		\$ 182	33,108
Global equity funds	50,156	\$ 71,112	20,117	141,385
Equity securities, other	15,318			15,318
Commodities		9,127		9,127
Equity Long-Short Hedge funds			48,190	48,190
Absolute Return Hedge funds			103,327	103,327
Venture capital funds			63,525	63,525
Buyout funds			55,798	55,798
Real Estate funds			28,097	28,097
Natural Resources funds			13,352	13,352
Employee Mortgages		3,914		3,914
Investments, other			10,190	10,190
	\$ 143,711	\$ 84,153	\$ 342,778	\$ 570,642

The following table provides a summary of changes in fair value of the College's Level 3 financial instruments for the years ended June 30, 2011 and 2010 (in thousands):

	2011							Total Investments
	Global Equity	Long-Short Hedge Funds	Absolute Return Funds	Venture Capital	Buyout	Real Estate	Natural Resource & Other	
Estimated fair value of investments at July 1, 2010	\$ 20,117	\$ 55,025	\$ 96,492	63,525	\$ 55,798	\$ 26,336	\$ 25,485	\$ 342,778
Transfers into Level 3								
Transfers out of Level 3								
Net realized and unrealized gains (losses) included in non-operating activities	5,632	7,589	10,703	37,678	15,855	6,149	3,709	87,315
Purchases, issuances, sales and settlements								
Purchases		3,000	1,974	9,113	5,531	8,553	2,158	30,329
Sales	(3,000)	(7,354)	(208)	(13,794)	(17,680)	(942)	(1,122)	(44,100)
Estimated fair value of investments at June 30, 2011	\$ 22,749	\$ 58,260	\$ 108,961	96,522	\$ 59,504	\$ 40,096	\$ 30,230	\$ 416,322
Changes in unrealized gains (losses) included in earnings related to Level 3 investments held at June 30, 2011	\$ 5,142	\$ 7,449	\$ 10,654	28,603	\$ 7,918	\$ 6,252	\$ 3,960	\$ 69,978

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NOTES TO FINANCIAL STATEMENTS, CONTINUED

13. Fair Value Measurements, continued:

	2010							Total Investments
	Global Equity	Long-Short Hedge Funds	Absolute Return Funds	Venture Capital	Buyout	Real Estate	Natural Resource & Other	
Estimated fair value of investments at July 1, 2009	\$ 18,132	\$ 36,282	\$ 83,691	48,923	\$ 48,652	\$ 24,850	\$ 22,324	\$ 282,854
Transfers into Level 3								
Transfers out of Level 3								
Net realized and unrealized gains (losses) included in non-operating activities	4,985	857	12,246	13,733	9,288	(2,741)	1,734	40,102
Purchases, issuances, sales and settlements								
Purchases		17,987	14,956	8,012	4,730	4,323	2,335	52,343
Sales	(3,000)	(101)	(14,401)	(7,143)	(6,872)	(96)	(908)	(32,521)
Estimated fair value of investments at June 30, 2010	<u>\$ 20,117</u>	<u>\$ 55,025</u>	<u>\$ 96,492</u>	<u>63,525</u>	<u>\$ 55,798</u>	<u>\$ 26,336</u>	<u>\$ 25,485</u>	<u>\$ 342,778</u>
Changes in unrealized gains (losses) included in earnings related to Level 3 investments held at June 30, 2010	<u>\$ 4,637</u>	<u>\$ 874</u>	<u>\$ 11,767</u>	<u>11,162</u>	<u>\$ 7,443</u>	<u>\$ (1,767)</u>	<u>\$ 1,737</u>	<u>\$ 35,853</u>

The College invests in certain entities that calculate net asset value per share in accordance with Financial Accounting Standards Board guidance relative to investment companies and these investments are reported at fair value based on the net asset value per share as reported by the investee. These investments are measured at fair value using Level 2 or Level 3 inputs. Investments are categorized as Level 2 financial instruments when the College has the ability to redeem its investment in the entity at net asset value per share at year-end or within 90 days of that date. Investments are categorized as Level 3 financial instruments when the College cannot redeem its investment within 90 day of year-end. The College's policy is to recognize transfers in and transfers out as of the actual date of the event or change in circumstances that caused the transfer. A summary of the significant categories of such investments and their attributes is as follows (in thousands):

COLBY COLLEGE
NOTES TO FINANCIAL STATEMENTS, CONTINUED

13. Fair Value Measurements, continued:

	Fair Value			Unfunded Commitments	Redemption Frequency (If Currently Eligible)	Redemption Notice Period
	Level 2	Level 3	Total			
Global equity funds	\$ 82,490	\$ 22,749	\$ 105,239		monthly, quarterly	30 days
Equity Long-Short Hedge funds		58,260	58,260		quarterly, annually	30-90 days
Absolute Return Hedge funds		108,961	108,961		quarterly through bi-annually	45-90 days
Venture capital funds		96,522	96,522	\$ 25,687	N/A	N/A
Buyout funds		59,504	59,504	23,752	N/A	N/A
Real estate funds		40,096	40,096	18,257	N/A	N/A
Natural resource funds and other	8,873	28,116	36,989	6,122	N/A	N/A
Financial instruments measured at net asset value	<u>91,363</u>	<u>414,208</u>	<u>505,571</u>	<u>73,818</u>		
Other financial instruments - not measured based on net asset value						
Real estate		1,966	1,966		N/A	N/A
Other	<u>4,136</u>	<u>148</u>	<u>4,284</u>		N/A	N/A
	<u>4,136</u>	<u>2,114</u>	<u>6,250</u>			
Total	<u>\$ 95,499</u>	<u>\$ 416,322</u>	<u>\$ 511,821</u>	<u>\$ 73,818</u>		

Global equity funds – includes five pooled investment vehicles that invest in U.S. and international equities. Redemptions are available with 30-90 days notice.

Hedge funds – includes fifteen hedge funds that invest in various combinations of long/short equity, distressed securities and arbitrage strategies. Management of these hedge funds has broad discretion to modify the net and gross exposures of the funds, and in some cases the strategy allocations as well. Redemption periods vary between 90 days and two years, with funds subject to initial lock-up periods of three months to two and a half years. Approximately 2% of the hedge fund investments have been allocated by underlying managers to side-pocket vehicles that provide investor liquidity only upon liquidation of the underlying investments.

Venture capital funds – includes investments in 56 venture capital partnerships that invest primarily in U.S. technology, medical devices and biotechnology companies. The category also includes venture capital investments in China and India that invest across a broader group of sectors. These investments can never be redeemed with the funds. Instead, the nature of the investments in this category is that distributions will be received as the underlying investments of the fund are liquidated. It is estimated that the majority of the underlying assets of these partnerships will be liquidated over the next five to ten years.

Buyout funds – includes investments in 39 private equity partnerships that invest in a variety of sectors primarily in the U.S. and Western Europe. These investments can never be redeemed with the funds. Instead, the nature of the investments in this category is that distributions will be received as the underlying investments of the fund are liquidated. It is estimated that the majority of the underlying assets of these partnerships will be liquidated over the next five to ten years.

COLBY COLLEGE
NOTES TO FINANCIAL STATEMENTS, CONTINUED

13. Fair Value Measurements, continued:

Real estate funds – includes investments in 21 real estate partnerships that invest in a variety of commercial real estate property types primarily in the U.S. and Western Europe. These investments can never be redeemed with the funds. Instead, the nature of the investment in this category is that distributions will be received as the underlying investments of the funds are liquidated. It is estimated that the majority of the underlying assets of these partnerships will be liquidated over the next five to ten years.

Natural resource funds – includes investments in 7 partnerships that invest primarily in U.S. natural resources. The portfolio contains a combination of fund-of-funds and direct partnership investments. These investments can never be redeemed with the funds. Instead, the nature of the investments in this category is that distributions will be received as the underlying investments of the fund are liquidated. It is estimated that the majority of the underlying assets of these partnerships will be liquidated over the next five to ten years.

Real estate and other – includes several gifts of real estate, insurance policies and other illiquid assets for which the liquidation time-frame is difficult to determine. To estimate the fair value of these investments, management uses market and income valuation approaches which utilize valuation inputs that include third-party appraisals, evaluation of market conditions and the creditworthiness of the policy issuers.

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 \$75,444,000. 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, 2011 spot market rates is estimated to be \$621,000.

Management has determined that fair value approximates carrying value for accounts receivable, accounts payable, student deposits, government advances for student loans and annuity obligations, given the short-term nature of these instruments.