

**COLBY COLLEGE**

**FINANCIAL STATEMENTS**

**June 30, 2003 and 2002**



COLBY COLLEGE

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COLBY COLLEGE  
BALANCE SHEETS  
June 30, 2003 and 2002  
(in thousands)

	2003	2002
<b>ASSETS</b>		
Cash and cash equivalents	\$ 15,052	\$ 13,324
Accrued income receivable	46	91
Accounts receivable (less allowance for doubtful accounts of \$718 in 2003 and \$609 in 2002)	921	961
Funds held by trustee	2,042	3,967
Inventories	591	545
Prepaid expenses and deferred charges	1,456	1,283
Notes receivable (less allowance for doubtful accounts of \$729 in 2003 and \$760 in 2002)	6,712	7,160
Pledges receivable (Note 1)	8,090	5,483
Investments, endowment	321,584	322,559
Investments, annuity and life income funds	26,976	29,023
Investments, funds held in trust by others	13,501	13,420
Investments, other	7,647	10,400
Total investments (Note 3)	369,708	375,402
Land, buildings and equipment (less accumulated depreciation of \$47,827 in 2003 and \$41,475 in 2002) (Note 2)	114,597	112,715
Total assets	\$ 519,215	\$ 520,931
<b>LIABILITIES</b>		
Accounts payable and accrued liabilities	\$ 7,786	\$ 8,091
Student deposits	1,308	1,122
Government advances for student loans (Note 8)	5,308	5,192
Annuity obligations	11,568	12,213
Bonds payable (Note 4)	31,371	30,383
Post retirement benefit obligation (Note 6)	5,242	4,207
Total liabilities	62,583	61,208
<b>COMMITMENTS AND CONTINGENT LIABILITIES (Note 9)</b>		
<b>NET ASSETS (Note 11)</b>		
Unrestricted	173,997	171,633
Temporarily restricted	150,899	157,000
Permanently restricted	131,736	131,090
Total net assets	456,632	459,723
Total liabilities and net assets	\$ 519,215	\$ 520,931

The accompanying notes are an integral  
part of the financial statements

COLBY COLLEGE  
STATEMENT OF ACTIVITIES  
for the year ended June 30, 2003 (with comparative information for the year ended June 30, 2002)  
(in thousands)

	UNRESTRICTED	TEMPORARILY RESTRICTED	PERMANENTLY RESTRICTED	TOTAL	
				2003	2002
<b>Operating Activities</b>					
Operating revenues and other support					
Student charges	\$ 69,188			\$ 69,188	\$ 66,445
Student aid	(13,169)			(13,169)	(11,420)
Net student charges	56,019			56,019	55,025
Contributions	3,636			3,636	3,846
Endowment return utilized for operations	12,283			12,283	11,842
Other investment income	650			650	905
Net assets released from restrictions for operating contributions	5,720			5,720	6,516
Other revenue	4,607			4,607	4,603
Total operating revenues and other support	82,915			82,915	82,737
Expenses					
Instruction and research	28,415			28,415	29,269
Academic support	8,148			8,148	7,891
Student services	12,654			12,654	11,656
Institutional support	12,385			12,385	11,504
Auxiliary enterprises	17,009			17,009	16,752
Additional depreciation related to fully depreciated assets (Note 1)					5,046
Total operating expenses	78,611			78,611	82,118
Increase in net assets before non-operating activities	4,304			4,304	619
<i>Increase in net assets from general operations (Note 1)</i>	106			106	190
<i>Decrease in net assets from depreciation</i>	(6,455)			(6,455)	(11,241)
<i>Amounts designated for facilities reserves, debt service, endowment and student loans (Note 1)</i>	10,653			10,653	11,670
<b>Non-operating activities:</b>					
Contributions	919	\$ 8,263	\$ 3,768	12,950	11,100
Net investment income	2,145	3,742	434	6,321	6,753
Net realized and unrealized losses	(1,084)	(5,542)	(368)	(6,994)	(37,745)
Endowment return utilized for operations	(12,283)			(12,283)	(11,842)
Other revenues and expenses, net	(584)	(308)		(892)	(1,155)
Net change in annuity and life income funds	164	(1,599)	658	(777)	(2,256)
Net assets released from restriction and reclassifications	8,783	(10,657)	(3,846)	(5,720)	(6,516)
Change in net assets from non-operating activities	(1,940)	(6,101)	646	(7,395)	(41,661)
Total change in net assets	2,364	(6,101)	646	(3,091)	(41,042)
Net assets, beginning of year	171,633	157,000	131,090	459,723	500,765
Net assets, end of year	\$ 173,997	\$ 150,899	\$ 131,736	\$ 456,632	\$ 459,723

The accompanying notes are an integral  
part of the financial statements

COLBY COLLEGE  
STATEMENT OF ACTIVITIES  
for the year ended June 30, 2002  
(in thousands)

	<u>UNRESTRICTED</u>	<u>TEMPORARILY RESTRICTED</u>	<u>PERMANENTLY RESTRICTED</u>	<u>Total 2002</u>
<b>Operating Activities</b>				
Operating revenues and other support				
Student charges	\$ 66,445			\$ 66,445
Student aid	(11,420)			(11,420)
Net student charges	<u>55,025</u>			<u>55,025</u>
Contributions	3,846			3,846
Endowment return utilized for operations	11,842			11,842
Other investment income	905			905
Net assets released from restrictions for operating contributions	6,516			6,516
Other revenue	4,603			4,603
Total operating revenues and other support	<u>82,737</u>			<u>82,737</u>
<b>Expenses</b>				
Instruction and research	29,269			29,269
Academic support	7,891			7,891
Student services	11,656			11,656
Institutional support	11,504			11,504
Auxiliary enterprises	16,752			16,752
Additional depreciation related to fully depreciated assets (Note 1)	5,046			5,046
Total operating expenses	<u>82,118</u>			<u>82,118</u>
Increase in net assets before non-operating activities	619			619
<i>Increase in net assets from general operations (Note 1)</i>	105			105
<i>Decrease in net assets from depreciation</i>	(11,241)			(11,241)
<i>Amounts designated for facilities reserves, debt service,     endowment and student loans (Note 1)</i>	<u>11,670</u>			<u>11,670</u>
<b>Non-operating activities:</b>				
Contributions	795	\$ 7,525	\$ 2,780	11,100
Net investment income	1,551	4,783	419	6,753
Net realized and unrealized losses	(9,130)	(24,779)	(3,836)	(37,745)
Endowment return utilized for operations	(11,842)			(11,842)
Other revenues and expenses, net	(1,161)	6		(1,155)
Net change in annuity and life income funds	22	(2,616)	338	(2,256)
Net assets released from restriction	<u>9,578</u>	<u>(16,094)</u>		<u>(6,516)</u>
Change in net assets from non-operating activities	<u>(10,187)</u>	<u>(31,175)</u>	<u>(299)</u>	<u>(41,661)</u>
Total change in net assets	(9,568)	(31,175)	(299)	(41,042)
Net assets, beginning of year	<u>181,201</u>	<u>188,175</u>	<u>131,389</u>	<u>500,765</u>
Net assets, end of year	<u>\$ 171,633</u>	<u>\$ 157,000</u>	<u>\$ 131,090</u>	<u>\$ 459,723</u>

The accompanying notes are an integral  
part of the financial statements

COLBY COLLEGE  
STATEMENTS OF CASH FLOWS  
for the years ended June 30, 2003 and 2002  
(in thousands)

	2003	2002
Cash flows from operating activities		
Change in net assets	\$ (3,091)	\$ (41,042)
Adjustments to reconcile change in net assets to net cash provided by operating activities		
Change in accrued income receivable	45	48
Change in accounts receivable	40	316
Change in inventories	(46)	65
Change in prepaid expenses and deferred charges	(173)	(105)
Change in pledges receivable	(2,607)	361
Change in accounts payable and accrued liabilities	(305)	2,075
Change in student deposits	186	(611)
Change in post retirement benefit obligation	1,035	951
Depreciation	6,455	11,241
Note cancellations and write-offs	10	86
Net realized and unrealized losses on investments	6,994	37,745
Contributions in kind and securities	(3,606)	(2,274)
Contributions restricted for investment	(1,850)	(2,801)
Investment income restricted for investment	(1,411)	(1,542)
Net cash provided by operating activities	1,676	4,513
Cash flows from investing activities		
Collections of notes receivable	1,625	806
Notes receivable issued	(1,187)	(1,096)
Purchase of land, buildings and equipment	(7,670)	(7,588)
Purchase of investments	(125,540)	(65,688)
Proceeds from sale of investments	127,179	64,684
Net cash used by investing activities	(5,593)	(8,882)
Cash flows from financing activities		
Payments on bonds payable	(1,139)	(6,110)
Bonds payable issued	2,127	10,527
Contributions restricted for investment	1,850	2,801
Investment income restricted for investment	1,411	1,542
Change in annuity obligations	(645)	822
Change in government advances for student loans	116	147
Change in funds held by trustee	1,925	(2,015)
Net cash provided by financing activities	5,645	7,714
Net change in cash and cash equivalents	1,728	3,345
Cash and cash equivalents at beginning of year	13,324	9,979
Cash and cash equivalents at end of year	\$ 15,052	\$ 13,324
Supplemental data:		
Interest paid	\$ 1,515	\$ 1,452

The accompanying notes are an integral  
part of the financial statements

COLBY COLLEGE  
NOTES TO FINANCIAL STATEMENTS

1. Organization and Summary of Significant Accounting Policies:

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

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

Basis of Presentation

The financial statements include the accounts of Colby College and its wholly owned subsidiary, Colby College (UK). The statements have been prepared on the accrual basis of accounting and in accordance with the principles of not-for-profit accounting. The purpose of Colby College (UK) is to operate the College's London program and its operations are insignificant to Colby College as a whole.

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

Expiration of Donor-Imposed Restrictions

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

Investments

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

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

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

COLBY COLLEGE  
NOTES TO FINANCIAL STATEMENTS, CONTINUED

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

Total endowment investment yield (interest, dividends, rents and royalties) received for the year is distributed to fund accounts, in accordance with the terms or restrictions of the individual fund. The amounts distributed from endowment to operating accounts are considered funds utilized for operations.

The maximum amount of endowment income utilization is determined by a spending formula approved by the Trustees. This formula is applied to all funds in the endowment pool, except those that specifically exclude the use of appreciation and certain donor restricted and board designated funds and funds where spending is limited by law, to determine the amounts which will be (a) utilized for operations, or (b) in certain cases added to principal. The amount available for use is set at 4.0% of the market base defined as the average of the market values of the participating funds for the five preceding years adjusted to reflect gifts and other additions received in subsequent years. In any year in which the amount of actual yield is not sufficient to meet the amount allocated, an amount is applied from the excess amounts of yield and net appreciation of the endowments in preceding years, if any, to compensate for this deficit in utilizable yield.

Cash and Cash equivalents

Cash and cash equivalents consist principally of funds deposited in cash management accounts with maturities of three months or less at the time of purchase.

Inventories

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

Use of Estimates

The preparation of the financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities, as well as the reported amounts of revenues and expenses during the years then ended. Actual results could differ from the estimates included in the financial statements.

Operations

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

Land, Buildings and Equipment

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

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

COLBY COLLEGE  
NOTES TO FINANCIAL STATEMENTS, CONTINUED

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

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

Change in Accounting Estimate

Effective July 1, 2001, the College changed its estimated useful lives for building renovations to 20 years. Previously, the College had utilized a 60-year life for all building renovations. The effect of this change in fiscal year 2002 was to increase depreciation expense and reduce unrestricted net assets by approximately \$8,400,000. Depreciation associated with assets fully depreciated, upon adoption of the revised useful lives, totaled \$5,046,000.

Pledges Receivable

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

	<u>2003</u>	<u>2002</u>
In one year or less	\$1,886	\$1,945
Between one year and five years	5,267	3,852
Greater than five years	<u>2,663</u>	<u>      </u>
	9,816	5,797
Less: present value discount	1,001	
Less: allowance for uncollectible pledges	<u>725</u>	<u>314</u>
Net pledges receivable	<u>\$8,090</u>	<u>\$5,483</u>

In addition to the amounts noted above, the College has received intentions to give approximating \$3,269,000 at June 30, 2003, which have not been recorded in the balance sheet.

Total costs related to alumni and development activities approximated \$4,133,000 and \$3,699,000 during the years ended June 30, 2003 and 2002.

COLBY COLLEGE  
NOTES TO FINANCIAL STATEMENTS, CONTINUED

2. Land, Buildings and Equipment:

Land, buildings and equipment consist of the following as of June 30, 2003 and 2002 (in thousands):

	<u>2003</u>	<u>2002</u>
Land	\$ 201	\$ 201
Buildings and building renovations	130,035	119,630
Construction in progress	3,183	6,531
Improvements	9,092	8,829
Furniture and equipment	1,966	2,165
Works of art	17,148	16,035
Rare books	130	130
Other	<u>669</u>	<u>669</u>
 Total	 162,424	 154,190
Less accumulated depreciation	<u>47,827</u>	<u>41,475</u>
	 <u>\$114,597</u>	 <u>\$112,715</u>

As of June 30, 2003, the College estimates that the unaudited replacement value of its buildings is approximately \$234,275,000.

COLBY COLLEGE  
NOTES TO FINANCIAL STATEMENTS, CONTINUED

3. Investments:

A summary of assets of the endowment investments and the annuity and life income investments at June 30, 2003 and 2002 follows (in thousands):

	2003 Approximate Fair Value	2002 Approximate Fair Value
Pooled Assets:		
Cash and cash equivalents	\$ 13,776	\$ 15,076
Accounts receivable and accrued income	<u>177</u>	<u>42</u>
	<u>13,953</u>	<u>15,118</u>
Investments:		
U.S. Government and agencies	65,657	78,628
Domestic equities and equity funds	78,410	99,701
International equities and equity funds	48,103	45,855
Hedge funds	48,197	17,934
Real estate	23,692	17,536
Venture capital	18,452	25,543
Distressed obligations	519	451
Mezzanine financing	2,453	2,897
Private Equity	<u>25,444</u>	<u>20,786</u>
Total pooled investments	<u>310,927</u>	<u>309,331</u>
 Total pooled assets	 <u>324,880</u>	 <u>324,449</u>
Other endowment assets:		
Cash and cash equivalents	1,829	3,606
Domestic equities	1,370	2,179
Real estate	449	54
Cash value of life insurance	<u>57</u>	<u>55</u>
Total other endowment assets	<u>3,705</u>	<u>5,894</u>
 Total invested assets	 328,585	 330,343
 Less annuity and life income assets pooled with endowment and similar funds	 <u>7,001</u>	 <u>7,784</u>
 Total endowment and similar assets	 <u>\$ 321,584</u>	 <u>\$ 322,559</u>
Assets of annuity and life income funds include:		
Separately invested assets	\$ 19,975	\$ 21,239
Assets pooled with endowment and similar funds	<u>7,001</u>	<u>7,784</u>
Total annuity and life income funds	<u>\$ 26,976</u>	<u>\$ 29,023</u>

COLBY COLLEGE  
NOTES TO FINANCIAL STATEMENTS, CONTINUED

3. Investments, continued:

The majority of the endowment investments and annuity and life income investments are pooled on a fair value basis. Each individual fund subscribes to or disposes of units on the basis of the fair value per unit on the last business day of the month previous to that within which the transaction takes place. Ownership of units as of June 30, 2003 was as follows:

	<u>Units</u>	<u>Approximate Fair Value (in thousands)</u>
Endowment	1,695,967	\$216,699
Unrestricted quasi-endowment	694,698	88,764
Restricted quasi-endowment	96,269	12,300
Term endowment	909	116
Annuities	<u>54,796</u>	<u>7,001</u>
	<u>2,542,639</u>	<u>\$324,880</u>

The following tabulation summarizes changes in relationships between cost and fair values of pooled assets for the year ended June 30, 2003 (in thousands):

	<u>Pooled Assets</u>			<u>Fair Value per Unit</u>
	<u>Fair Value</u>	<u>Cost</u>	<u>Net Gain(Loss)</u>	
End of year	\$324,880	\$354,879	\$(29,999)	\$127.77
Beginning of year	324,449	354,652	<u>(30,203)</u>	<u>128.43</u>
Unrealized net gain			204	
Realized net loss			<u>(7,068)</u>	
Total unrealized and realized net loss for the year			<u>\$(6,864)</u>	<u>\$ (.66)</u>

The yield per unit, exclusive of net gains (losses), computed on the weighted average of units outstanding, was \$1.98 for the year ended June 30, 2003. Spending per unit for current use, computed on units outstanding as of July 1, 2002, was \$5.42. Investment expenses included in net investment income totaled \$3,059,000 and \$4,768,000 for the years ended June 30, 2003 and 2002, respectively.

Endowment investments include Limited Partnership interests in various real estate, venture capital, distressed securities, buyout, mezzanine financing and hedge funds. The College has Limited Partnership investments that have not been fully funded. These investments require a total capital commitment of \$146,070,000 of which \$83,508,000 has been paid as of June 30, 2003. The College is contingently liable for the balance of \$62,562,000 which is expected to be paid in various installments through 2006.

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

COLBY COLLEGE  
NOTES TO FINANCIAL STATEMENTS, CONTINUED

3. Investments, continued:

As a result of market declines, the fair market value of certain donor-restricted endowments is less than the historical cost of such funds by \$1,028,000 at June 30, 2003 and \$881,000 at June 30, 2002. In accordance with generally accepted accounting principles, these unrealized losses have been recorded as reductions in unrestricted net assets. Future market gains will be used to restore this deficiency in unrestricted net assets before any net appreciation above the historical cost of such funds increases temporarily restricted net assets. Under the Maine Uniform Management of Institutional Funds Act, the College is under no legal obligation to record these unrealized losses as reductions in unrestricted net assets.

Other investments, measured at fair value, at June 30, 2003 and 2002 consist of the following (in thousands):

	<u>2003</u>	<u>2002</u>
Cash and cash equivalents	\$ 4,709	\$ 5,987
Employee mortgages (average interest rate 7.0%)	2,776	3,971
Privately held equity and other	<u>162</u>	<u>442</u>
Total investments, other	<u>\$ 7,647</u>	<u>\$10,400</u>
Investments, funds held in trust by others	<u>\$13,501</u>	<u>\$13,420</u>

4. Bonds Payable:

Bonds and notes payable at June 30, 2003 and 2002 are as follows (in thousands):

<u>Facilities Financing</u>	<u>2003</u>	<u>2002</u>
Series 1996A Revenue Bonds	\$10,462	10,847
Series 1998A Revenue Bonds	8,614	9,009
Series 2001C Revenue Bonds	10,168	10,527
Series 2002B Revenue Bonds	<u>2,127</u>	<u>          </u>
Total Bonds Payable	<u>\$31,371</u>	<u>\$30,383</u>

Maturities of outstanding bonds are as follows:

<u>Year</u>	<u>Principal Amount (in thousands)</u>
July 1, 2003	1,260
July 1, 2004	1,305
July 1, 2005	1,360
July 1, 2006	1,415
July 1, 2007	1,480
Thereafter	<u>24,551</u>
	<u>\$31,371</u>

Interest rates on the outstanding bond obligations range from 3.25% - 5.75%.

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

COLBY COLLEGE  
NOTES TO FINANCIAL STATEMENTS, CONTINUED

4. Bonds Payable, continued:

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

The College borrowed \$10,527,000 from the Authority in conjunction with the Authority's Series 2001C Revenue Bonds. The College has pledged its gross receipts as collateral for its note to the Authority. The bonds reach final maturity in 2021.

The College borrowed \$2,127,000 from the Authority in conjunction with the Authority's Series 2002B Revenue Bonds. The College has pledged its gross receipts as collateral for its note to the Authority. Interest rates on these bond obligations vary from 4.125% - 5.0% and the bonds reach final maturity in 2022.

Subsequent to June 30, 2003, the College borrowed \$10,262,000 from the Authority in conjunction with the Authority's Series 2003B Revenue Bonds. The College has pledged its gross receipts as collateral for its note to the Authority. Interest rates on these bond obligations vary from 2.0% - 5.0% and the bonds reach final maturity in 2023.

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

5. Retirement Plans:

Colby employees participate in individual annuity contracts through Teachers Insurance and Annuity Association and College Retirement Equities Fund. Contributions for each annuity are made both by the participant and the College. The College's contribution amounted to approximately \$1,936,000 and \$1,362,000 in fiscal 2003 and 2002, respectively. Effective January 1, 2003, the College increased its contribution rate for each annuity by 3% of eligible compensation.

6. Postretirement Benefits:

The College provides medical benefits to eligible employees who have 10 years of continuous service after age 40, and have reached a minimum age of 60 years. SFAS No. 106 permits either a prospective or immediate recognition approach to recording the transition obligation at the date of adoption. The College has elected to amortize the transition obligation of \$3,412,000 over a 20 year period. The following sets forth the plan status with amounts reported in the College's financial statements at June 30, 2003 and 2002 (in thousands):

	<u>2003</u>	<u>2002</u>
Change in Benefit Obligation		
Postretirement benefit obligation, beginning of year	\$ 9,715	\$ 7,853
Service cost	457	419
Interest cost	664	596
Plan participants' contributions	128	122
Actuarial loss	1,345	1,787
Plan amendment		(536)
Benefits paid	<u>(558)</u>	<u>(526)</u>
Postretirement benefit obligation, end of year	11,751	9,715

COLBY COLLEGE  
NOTES TO FINANCIAL STATEMENTS, CONTINUED

6. Postretirement Benefits, continued:

Change in Plan Assets		
Fair value at beginning of year	0	0
Employer contributions	430	404
Plan participants' contributions	128	122
Benefits paid	<u>(558)</u>	<u>(526)</u>
Total fair value of plan assets	0	0
Unfunded status	11,751	9,715
Unrecognized actuarial loss	(4,960)	(3,829)
Unrecognized net obligation at transition	<u>(1,549)</u>	<u>(1,679)</u>
Accrued postretirement benefit obligation	<u>\$ 5,242</u>	<u>\$ 4,207</u>

Net periodic postretirement benefit cost for the year ended June 30, 2003 and 2002 included the following components (in thousands):

	<u>2003</u>	<u>2002</u>
Service cost	\$ 457	\$ 419
Interest cost	664	596
Amortization of transition obligation	130	171
Amortization of actuarial loss	<u>244</u>	<u>169</u>
Net postretirement benefit cost	<u>\$1,495</u>	<u>\$1,355</u>

The health care trend rate assumption used in determining the accumulated benefit obligation for 2003 was 10%, decreasing to 5% through 2008. 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, 2003 by \$1,520,000 (\$1,295,000) 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, 2003 by \$190,000 (\$150,000). Discount rates of 6.0% and 7.0% were used to determine the accumulated postretirement benefit obligation in 2003 and 2002, respectively.

7. Guarantee Fund with Maine Employment Security Commission:

The College has elected to discharge its responsibility with the Maine Employment Security Commission based on actual charges rather than making periodic insurance payments. As collateral for payment, the College has purchased a surety bond in the amount of \$460,000.

8. Government Advances for Student Loans:

Government advances for student loans at June 30, 2003 and 2002 includes funds advanced to Colby by the federal government under the Perkins Student Loan Program totaling \$5,308,000 and \$5,192,000, respectively. Such funds may be reloaned by Colby after collection, but ultimately are refundable to the federal government.

COLBY COLLEGE  
NOTES TO FINANCIAL STATEMENTS, CONTINUED

9. Commitments and Contingent Liabilities:

Foreign Currency Forward Commitments

The College uses foreign currency forward contracts to hedge the currency exposure associated with its off-campus programs and certain endowment investments. At June 30, 2003 and 2002, the notional amount of the U.S. dollar commitment required under the terms of outstanding foreign currency forward contracts amounted to approximately \$2,827,000 and \$4,327,000, respectively. Contracts are for British Pounds and European Union Euros and extend through 2004.

At June 30, 2003, the College recorded a \$38,000 gain on the contracts related to its off-campus programs in the operating portion of its statement of activities and a \$120,000 gain on the contracts related to its endowment investment commitments in the nonoperating portion of its statement of activities.

10. Disclosures of the Fair Value of Financial Instruments:

The fair value of the College's foreign currency forward commitments based on June 30, 2003 spot market rates is estimated to be \$3,148,000.

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

Cash and Equivalents

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

Invested Assets

The College accounts for its invested assets on a fair value basis. The endowment and similar funds and the annuity and life income funds have investments with a fair value of \$348,560,000 at June 30, 2003, as detailed in Note 3. The current unrestricted fund's investments consist of employee mortgages for which the fair value at June 30, 2003 was \$2,776,000 and a foreign currency forward contracts asset of \$161,000.

Student and Parent Loan Receivables

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

Bonds Payable

The fair value of the College bonds payable approximates \$32,968,000. The fair value of bonds is estimated based on quoted market prices for the same or similar issues. The market prices utilized reflect the rate that the College would have to pay to a creditworthy third party to assume its obligation and do not reflect an additional liability to the College.

COLBY COLLEGE  
NOTES TO FINANCIAL STATEMENTS, CONTINUED

11. Net assets:

Net assets comprise the following at June 30, 2003 and 2002 (in thousands):

	2003		
	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>
General operating reserves	\$ 2,868		
Unexpended restricted funds received for general operating purposes		\$ 3,020	
Loan funds	2,322		\$ 880
Endowment	88,689	123,478	109,417
Annuity and life income funds		15,408	
Funds for facilities	80,118	2,948	5,893
Pledges receivable		5,653	2,437
Funds held in trust by others		<u>392</u>	<u>13,109</u>
	<u>\$173,997</u>	<u>\$150,899</u>	<u>\$131,736</u>
	2002		
	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>
General operating reserves	\$ 2,762		
Unexpended restricted funds received for general operating purposes		\$ 3,345	
Loan funds	2,180		\$ 819
Endowment	82,732	130,177	109,650
Annuity and life income funds		16,810	
Funds for facilities	83,959	2,493	5,893
Pledges receivable		3,831	1,652
Funds held in trust by others		<u>344</u>	<u>13,076</u>
	<u>\$171,633</u>	<u>\$157,000</u>	<u>\$131,090</u>