

# **The Colorado College and Subsidiaries**

Independent Accountants' Report and Financial Statements

June 30, 2007 and 2006

**The Colorado College and Subsidiaries**  
**June 30, 2007 and 2006**

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# The Colorado College and Subsidiaries

## Treasurer's Report (Unaudited)

### June 30, 2007 and 2006

The Treasurer's Report highlights key information and significant fiscal activity for the years ended June 30, 2007 and 2006. It is intended to enhance the reader's understanding of the more comprehensive financial statements and accompanying notes that follow.

The June 30, 2007 and 2006 financial statements communicate the annual financial condition and operational results of The Colorado College (the College), which includes Dale Street Properties, LLC and Cascade Avenue Medical Building, Inc., wholly-owned subsidiaries of The Colorado College. The College's statements are presented using the terminology and classifications of activity that conform to the Financial Accounting Standards Board's Statements of Financial Accounting Standards.

Our statements are presented in ways similar to those of business enterprises; included are:

- Statements of Financial Position. These statements present the financial position as of the end of the June 30, 2007 and 2006 fiscal years including assets, liabilities, and equity (or net assets). *They should help the reader obtain information on the College's ongoing ability to provide services, as well as liquidity, financial flexibility, ability to respond to unexpected needs and opportunities, ability to meet obligations, and needs for external financing.*
- Statements of Activities. These statements present financial activity during the fiscal years, thereby reconciling the beginning and end-of-year equity positions contained in the Statement of Financial Position. *They provide information about the changes in net assets (similar to profit and loss) for three classes of net assets of the College--unrestricted, temporarily restricted and permanently restricted.*
- Statements of Cash Flows. These statements present information concerning cash receipts and cash payments occurring during the fiscal years and reconcile the changes in net assets to the changes in cash. They segregate the activities of the College into three categories: cash flows from operating, investing, and financing activities. *These statements assist readers in assessing the College's ability to produce positive future cash flows and to meet its financial obligations.*

In other ways, however, college financial statements differ from those of businesses. For example, colleges rely on contributions to help finance their activities. Because some of these net assets may not be immediately available for use, college financial statements divide those net assets into three classes, distinguished by the amount of control the college may exercise in determining their use:

- Unrestricted. This class includes all transactions that add to the College's equity, including certain contributions for which donor restrictions have been satisfied.
- Temporarily Restricted. This class of contribution has restrictions that can be satisfied by passage of time, expenditure for its specified purpose, or both.
- Permanently Restricted. This class consists of contributions received with donor restrictions that will never expire, for example, true endowments.

#### **Consolidated Statements of Financial Position**

- *Total Assets* were \$771.7 million at June 30, 2007, an increase of \$104.9 million (15.7%) from the prior year, primarily due to the increase in the College's long-term investments and the construction in progress on the new Cornerstone Arts Building.
- *Net assets* total \$648.8 million (an increase of \$66.6 million). With a total of \$505.9 million classified as unrestricted, liquidity is solid with a *Viability Ratio* of 5.4 to 1, a viability ratio greater than 1:1 is considered good. For further analysis, please look in the Ratio Analysis section of this report.

# The Colorado College and Subsidiaries

## Treasurer's Report (Unaudited)

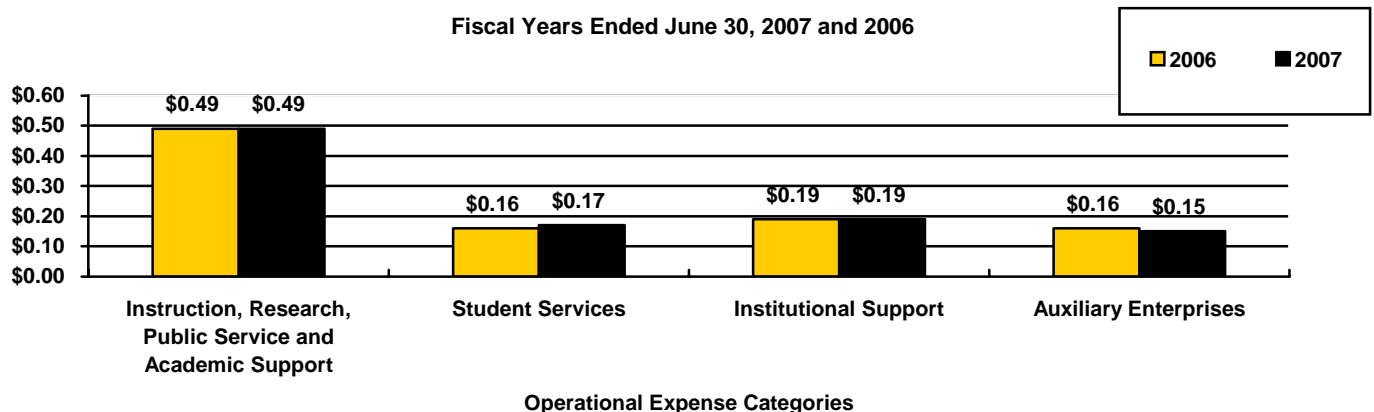
June 30, 2007 and 2006

- *Long-term Investments* represent endowment, annuity, and life income funds; these assets total \$523.5 million and comprise approximately 67.8% of the College's total assets. Pooled fund A increased from \$428 to \$489.1 million (\$61.1 million or 14.3%) from last year. While additions to pooled fund A totaled \$10.1 million (excluding pledges), realized and unrealized gains in the endowment investment portfolio constitute the remaining increase in long-term investments.
- *Plant Activity* – As of June 30, 2007, College buildings, equipment, and valuable papers have an insured replacement value of approximately \$290.9 million, and a current replacement value of \$431.2 million. The College has collaboratively worked with AJG Risk Management Services over the past two years to increase insured values to more accurately reflect the current construction trends and to meet the insurance carrier's valuation expectations.

The cost value of plant assets is \$143.6 million (net of accumulated depreciation); this reflects an increase of approximately \$17 million during the year. This increase is primarily the result of the construction in progress on the new Cornerstone Arts Building, scheduled for completion in the Spring of 2008. Net of accumulated depreciation of \$57 million, plant assets represent 18.6% of the College's asset base.

### Consolidated Statements of Activities

- *Revenue* in support of current operations and plant (total unrestricted revenues, net of scholarships/tuition discounts) is \$159.4 million in 2006-07, as compared to \$113.0 million in 2005-06; this reflects an increase of \$46.4 million or 41.1% from last year, due primarily to increases in both realized and unrealized gains on investments and tuition revenue. Income from students - including tuition and fees of \$71.5 million plus room and board of \$13.8 million - is \$85.3 million; scholarships (tuition discounts) of \$23.8 million reduce this amount to \$61.5 million. This reduction represents a tuition discount rate of 33.2% (calculation based on tuition and fees only).
- *Operational Expenses* total \$101.4 million; this reflects an increase of \$2.9 million or 3.0% over last year. Education and general expenses total \$85.7 million (an increase of \$3.3 million or 4.0% over last year). This reflects a modest increase to expenditures over the prior year.
- Within the total expense category, 49 cents of every dollar was spent directly on instruction, research, public service, and academic support (includes libraries and academic computing); 17 cents on student services, 19 cents on institutional support (*e.g.*, the College administration, development, and business expenses), and 15 cents on auxiliary enterprises. Expenses by category include a pro-rata allocation of operation and maintenance of plant expenses in accordance with generally accepted accounting principles.



# The Colorado College and Subsidiaries

## Treasurer's Report (Unaudited)

### June 30, 2007 and 2006

#### **Consolidated Statements of Cash Flows**

- The net effect of operating, investing, and financing activities for the fiscal year ended June 30, 2007 is a net increase in our cash balance of \$2.1 million. The College's cash balance at June 30, 2007 totaled \$4.8 million.
- The change in net assets (used as a starting point for the reconciliation of changes in cash balances) increased to \$66.6 million for fiscal year 2007 (as compared to \$11.7 million for fiscal year 2006). This increase is primarily due to \$68.9 million in realized and unrealized gains on investments.

#### **Ratio Analyses**

Ratio analysis can be used to demonstrate the financial condition of the College's financial operations. It is important to note the impact of the endowment gains and losses in calculating these ratios. The magnitude of the gains and losses reported in previous fiscal years will have a substantive impact on the ratio calculations. In reviewing our financial statements over the long-term, we use the following ratios:

The *Viability Ratio* is a basic determinate of financial health; this ratio shows the availability of expendable net assets to cover debt should the College need to settle its obligations as of the statement of financial position date. When viewed by the leading credit-rating agencies in higher education, a ratio of 1:1 or greater indicates that the institution is healthy – because it has sufficient expendable net assets to satisfy debt obligations. The College's viability ratio was 28:1 in 1998-99 due to increasing net assets and a constant level of debt. Over the next 6 years, the ratio fluctuated between 9.8:1 and 6.6:1 due to the issuance of 3 new bonds supporting projects such as student housing, fire/life safety projects, and campus maintenance. The ratio was 7.1:1 in 2005-06 and decreased to 5.4:1 in 2006-07 primarily due to the issuance of bonds for the construction of the new Cornerstone Arts Center.

The *Return on Net Assets Ratio* determines whether the College is financially sound by measuring total economic return; it compares the change in net assets to the total net assets at the end of the year. It is important to recognize the significant impact of annual endowment investment performance on this ratio. The ratio has averaged 5.9% over the past 10 years, with actuals fluctuating between 13.6% and (7.6%) during this period. The ratio was 10.3% and 2.0% in 2006-07 and 2005-06 respectively. This significant increase was directly due to the \$45.8 million increase in realized and unrealized gains.

The *Primary Reserve Ratio* compares expendable net assets with total expenses. This ratio provides a snapshot of financial strength and flexibility by indicating how long the institution could operate using its expendable reserves without relying on additional net assets generated by operations. Once again, it is important to note that major components of unrestricted net assets are endowment gains and losses. *The endowment net assets are the College's major strength placing the primary reserve ratio well above the suggested ratio of 50%.* Over the past 10 years the College has an average ratio of 486.5%, the lowest being 403.2% in 2005-06. For 2006-07 the ratio increased to 460.4% primarily due to the \$45.8 million increase in realized and unrealized gains on investments.

From a shorter-term perspective (annual), the following three ratios are used to determine the College's financial strength:

# The Colorado College and Subsidiaries

## Treasurer's Report (Unaudited)

### June 30, 2007 and 2006

The *Net Income Ratio* supplements the Viability Ratio by comparing the change in unrestricted net assets with total unrestricted income (*i.e.*, whether total unrestricted activities resulted in a surplus or deficit). It is important to note the impact of the endowment gains and losses when calculating these ratios for comparison. The College's numbers have varied (78.31%) to 43.5% over the past ten years and averaged 15.9%. The ratio was 35.4% and 12.9% for 2006-07 and 2005-06, respectively.

The *Operating Income Ratio* focuses on the inflows from tuition and fees for services provided by the College and demonstrates the extent to which current-year internally generated resources have contributed to the overall financing of its operations (*i.e.*, a measure of self-sufficiency). The College's ten year average is 66.5%, with ratios of 59.5% and 65.8% for 2006-07 and 2005-06, respectively. Ratios in this range mean that we rely on tuition income for a substantial portion of the operating budget.

The *Contributed Income Ratio* demonstrates the extent to which externally generated resources other than debt contribute to the College's overall funding. The ten year average is 20.2% with ratios of 23.1% and 18.5% for 2006-07 and 2005-06, respectively.

#### **Summary**

For the forty-eighth consecutive year, the College concluded the fiscal year with a positive year-end fund balance. Continued responsible fiscal management has placed us in a sound financial position from which we can effectively respond to the challenges of the future.

The College's financial strength comes from our ability to continually generate gifts for the endowment and earn returns on our investments that meet or exceed investment benchmarks. From the June 30, 2007 analysis by the College's investment advisor, Monticello Associates, the College's total returns have been in the top 6 percentile of like investment portfolios over the last ten years. For the past five years, the College's total returns have been in the top 12 percentile. The total return for Fiscal 2006-07 was 17.3% or in the top 30 percentile. Please see the Highlights section of this report for a "Ten Year Endowment Total Return" graph.

The net assets of the College increased over the past ten years from \$402,874,928 in 1997-98 to \$648,840,897 in 2006-07.

Under the leadership of President Richard Celeste, the College will continue to work toward the Vision 2010 initiatives (Strategic Plan), taking us to fiscal year 2010. As Vision 2010 moves ahead, fundraising goals for the next three years are to increase 1.) academic support (programs and faculty) by \$80 million, 2.) student assistance (including financial aid) by \$100 million, and 3.) capital projects by \$120 million. At the end of Fiscal 2006-07, the College has received gifts and pledges in the amount of \$125.5 million toward the goal of \$300 million.

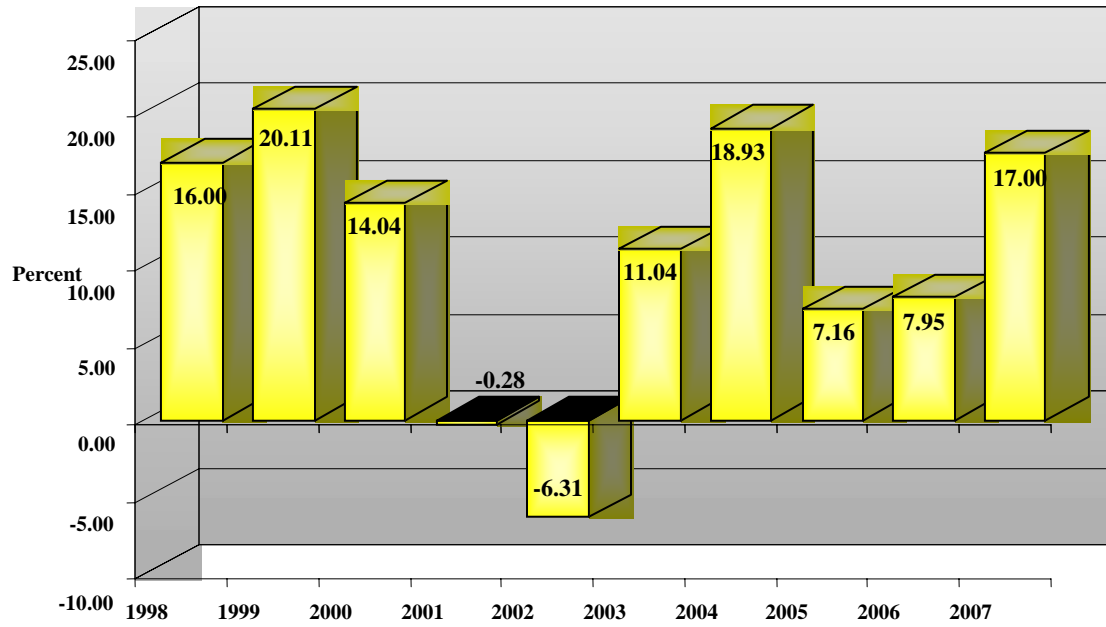
With the College's demonstrated financial strength, we will continue to move toward our goal to provide the finest liberal arts education in the country. Drawing upon the adventurous spirit of the Rocky Mountain West, we challenge students, one course at a time, to develop those habits of intellect and imagination that will prepare them for learning and leadership throughout their lives.

The following exhibits, schedules, and accompanying notes reflect the financial status of the Colorado College. Immediately following the Treasurer's Report are selected highlights that present, at a glance, the College's continuing financial strength.

**HIGHLIGHTS****2006-07****2005-06****FINANCIAL**

Total assets	\$ 771,721,489	\$ 666,810,022
College real estate & equipment	\$ 200,610,013	\$ 179,808,416
less: depreciation	(56,999,278)	(53,235,453)
Net real estate & equipment	\$ 143,610,735	\$ 126,572,963
1999 Bonds payable	\$ 1,385,000	\$ 2,035,000
2003 Bonds payable	14,165,000	14,165,000
2004 Bonds payable	10,145,000	10,145,000
2005 Bonds payable	27,505,000	27,605,000
2006 Bonds payable	32,455,000	
(net of unamortized bond discount of \$174,490 and \$178,202 at June 30, 2007 and 2006, respectively, and unaccreted bond premium of \$395,307 and \$411,119 at June 20, 2007 and 2006.	220,817	232,917
Total bonds payable	\$ 85,875,817	\$ 54,182,917
Unrestricted operating revenues		
Tuition and fees	\$ 71,540,049	\$ 65,214,249
College scholarships / financial aid	(23,759,018)	(22,766,161)
Tuition and fees net of discount	47,781,031	42,448,088
Government grants and contracts	1,797,824	1,379,858
Contributions	6,303,560	6,283,694
Auxiliary enterprises	17,255,772	16,609,712
Invest. income, realized & unrealized gains and losses	71,388,470	28,920,359
Other sources	5,325,359	4,577,365
Net assets released from restriction	9,549,386	12,784,442
Total revenues	\$ 159,401,402	\$ 113,003,518
Unrestricted operating expenses		
Educational & general	\$ 85,714,536	\$ 82,447,242
Auxiliary enterprises	15,722,373	16,025,757
Total expenses	\$ 101,436,909	\$ 98,472,999
Endowment funds		
Market value of pooled fund A investments	\$ 489,135,296	\$ 428,027,573
Investment value of assets	\$ 406,734,291	\$ 344,239,625
New gifts and additions to pooled fund A (excluding pledges)	\$ 10,044,029	\$ 8,620,449
<b>STUDENTS</b>		
Fall enrollment (full time equivalent)	1,944	1,960
Number of graduates (including MAT)	621	555
Tuition & fees paid by students, per student	\$ 40,176	\$ 37,668
Pooled fund A investment value per student	\$ 251,613	\$ 218,381

## Ten Year Endowment Total Return



as of Fiscal Year ended June 30th



## Independent Accountants' Report

Board of Trustees  
The Colorado College  
Colorado Springs, CO

We have audited the accompanying consolidated statements of financial position of The Colorado College and Subsidiaries (the College) as of June 30, 2007 and 2006, and the related consolidated 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 auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of The Colorado College and Subsidiaries as of June 30, 2007 and 2006, and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 11, effective June 30, 2007, the College adopted Statement of Financial Accounting Standards No. 158, *Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans – an Amendment of FASB Statements No. 87, 88, 106 and 132R*.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 12, 2007, on our consideration of the College's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements taken as whole. The accompanying Treasurer's Report and Highlights, as listed in the table of contents, are presented for purposes of additional analysis and are not a required part of the consolidated financial statements. Such information has not been subjected to the procedures applied in the audit of the consolidated financial statements and accordingly, we express no opinion on it.

\s\ BKD, LLP

November 12, 2007

**The Colorado College and Subsidiaries**  
**Consolidated Statements of Financial Position**  
**June 30, 2007 and 2006**

**Assets**

	<u>2007</u>	<u>2006</u>
Cash and cash equivalents	\$ 4,814,786	\$ 2,713,920
Investments	42,663,217	38,335,782
General accounts receivable (net of allowance for doubtful accounts of \$11,141 and \$6,098 at June 30, 2007 and 2006, respectively)	2,605,323	1,597,833
Student accounts receivable (net of allowance for doubtful accounts of \$139,313 and \$146,403 at June 30, 2007 and 2006, respectively)	2,004,438	884,371
Grants receivable	221,534	360,610
Interest receivable	1,757,256	1,146,425
Contributions receivable (net of allowance for doubtful pledges and unamortized discounts of \$574,420 and \$1,025,156 at June 30, 2007 and 2006, respectively)	10,763,353	10,004,651
Loans to students (net of allowance for doubtful loans of \$320,248 and \$443,664 at June 30, 2007 and 2006, respectively)	4,774,706	4,751,849
Other assets	1,501,237	2,930,402
Long-term investments	523,499,516	446,685,772
Land, buildings and equipment (net of accumulated depreciation of \$56,999,278 and \$53,235,453 at June 30, 2007 and 2006, respectively)	143,610,735	126,572,963
Beneficial interest in perpetual trusts	<u>33,505,388</u>	<u>30,825,444</u>
Total assets	\$ <u>771,721,489</u>	\$ <u>666,810,022</u>

## Liabilities and Net Assets

	<u>2007</u>	<u>2006</u>
<b>Liabilities</b>		
Accounts payable	\$ 5,536,077	\$ 2,520,612
Student accounts payable	488,318	384,064
Salaries and benefits payable	5,399,855	4,772,694
Deferred revenue	2,223,739	2,942,699
Deposits	519,464	564,492
Grants refundable	4,671,471	4,671,471
Assets held for others	3,198,969	2,927,739
Early retirement accrual	1,229,474	1,602,897
Capital lease obligations	2,450,000	1,640,616
Other postretirement benefit plan payable	2,332,000	761,000
Bonds payable (net of unamortized bond discount of \$174,490 and \$178,202 at June 30, 2007 and 2006, respectively, and unaccreted bond premium of \$395,307 and \$411,119 at June 30, 2007 and 2006, respectively)	85,875,817	54,182,917
Asset retirement obligation	2,852,761	2,738,300
Annuities payable	1,200,036	1,105,481
Other life income funds payable	<u>4,902,611</u>	<u>3,778,230</u>
Total liabilities	<u>122,880,592</u>	<u>84,593,212</u>
<b>Net Assets</b>		
Unrestricted	505,898,773	449,424,380
Temporarily restricted	18,836,286	17,999,669
Permanently restricted	<u>124,105,838</u>	<u>114,792,761</u>
Total net assets	<u>648,840,897</u>	<u>582,216,810</u>
Total liabilities and net assets	<u>\$ 771,721,489</u>	<u>\$ 666,810,022</u>

**The Colorado College and Subsidiaries**  
**Consolidated Statement of Activities**  
**Year Ended June 30, 2007**

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
<b>Revenues, Gains and Other Support</b>				
Tuition and fees	\$ 71,540,049	\$ —	\$ —	\$ 71,540,049
Less scholarship allowances	<u>(23,759,018)</u>	<u>—</u>	<u>—</u>	<u>(23,759,018)</u>
Net tuition and fees	47,781,031	—	—	47,781,031
Contributions	6,303,560	3,062,706	6,022,746	15,389,012
Change in value of split-interest agreements	(1,363)	531,121	(20,993)	508,765
Government grants and contracts	1,797,824	—	—	1,797,824
Investment income	5,351,297	6,792,176	482,786	12,626,259
Net realized and unrealized gains and losses on investments	66,038,536	—	2,828,538	68,867,074
Auxiliary enterprises	17,255,772	—	—	17,255,772
Other revenue	<u>5,325,359</u>	<u>—</u>	<u>—</u>	<u>5,325,359</u>
Total revenues and gains	149,852,016	10,386,003	9,313,077	169,551,096
Net assets released from restrictions	<u>9,549,386</u>	<u>(9,549,386)</u>	<u>—</u>	<u>—</u>
Total revenues, gains and other support	<u>159,401,402</u>	<u>836,617</u>	<u>9,313,077</u>	<u>169,551,096</u>
<b>Expenses</b>				
Educational and general expenses				
Instruction	37,638,849	—	—	37,638,849
Research	1,084,221	—	—	1,084,221
Public service	1,630,219	—	—	1,630,219
Academic support	9,032,322	—	—	9,032,322
Student services	17,269,401	—	—	17,269,401
Institutional support	<u>19,059,524</u>	<u>—</u>	<u>—</u>	<u>19,059,524</u>
Total educational and general expenses	85,714,536	—	—	85,714,536
Auxiliary enterprises	<u>15,722,373</u>	<u>—</u>	<u>—</u>	<u>15,722,373</u>
Total expenses	<u>101,436,909</u>	<u>—</u>	<u>—</u>	<u>101,436,909</u>
<b>Change in Net Assets Before Initial Application of FASB 158</b>	57,964,493	836,617	9,313,077	68,114,187
<b>Adjustment to Initially Apply FASB Statement No. 158</b>	<u>(1,490,100)</u>	<u>—</u>	<u>—</u>	<u>(1,490,100)</u>
<b>Change in Net Assets</b>	56,474,393	836,617	9,313,077	66,624,087
<b>Net Assets, Beginning of Year</b>	<u>449,424,380</u>	<u>17,999,669</u>	<u>114,792,761</u>	<u>582,216,810</u>
<b>Net Assets, End of Year</b>	<u>\$ 505,898,773</u>	<u>\$ 18,836,286</u>	<u>\$ 124,105,838</u>	<u>\$ 648,840,897</u>

**The Colorado College and Subsidiaries**  
**Consolidated Statement of Activities**  
**Year Ended June 30, 2006**

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
<b>Revenues, Gains and Other Support</b>				
Tuition and fees	\$ 65,214,249	\$ —	\$ —	\$ 65,214,249
Less scholarship allowances	<u>(22,766,161)</u>	<u>—</u>	<u>—</u>	<u>(22,766,161)</u>
Net tuition and fees	42,448,088	—	—	42,448,088
Contributions	6,283,694	2,698,294	3,143,403	12,125,391
Change in value of split-interest agreements	(3,732)	(101,630)	56,977	(48,385)
Government grants and contracts	1,379,858	—	—	1,379,858
Investment income	5,858,052	6,124,548	284,745	12,267,345
Net realized and unrealized gains and losses on investments	23,066,039	—	—	23,066,039
Auxiliary enterprises	16,609,712	—	—	16,609,712
Other revenue	<u>4,577,365</u>	<u>—</u>	<u>—</u>	<u>4,577,365</u>
Total revenues and gains	100,219,076	8,721,212	3,485,125	112,425,413
Net assets released from restrictions	<u>12,784,442</u>	<u>(12,784,442)</u>	<u>—</u>	<u>—</u>
Total revenues, gains and other support	<u>113,003,518</u>	<u>(4,063,230)</u>	<u>3,485,125</u>	<u>112,425,413</u>
<b>Expenses</b>				
Educational and general expenses				
Instruction	36,661,938	—	—	36,661,938
Research	1,220,425	—	—	1,220,425
Public service	1,469,158	—	—	1,469,158
Academic support	9,046,700	—	—	9,046,700
Student services	15,471,538	—	—	15,471,538
Institutional support	<u>18,577,483</u>	<u>—</u>	<u>—</u>	<u>18,577,483</u>
Total educational and general expenses	82,447,242	—	—	82,447,242
Auxiliary enterprises	<u>16,025,757</u>	<u>—</u>	<u>—</u>	<u>16,025,757</u>
Total expenses	<u>98,472,999</u>	<u>—</u>	<u>—</u>	<u>98,472,999</u>
<b>Change in Net Assets Before Cumulative Effect of Change in Accounting Principle</b>				
	14,530,519	(4,063,230)	3,485,125	13,952,414
<b>Cumulative Effect on Prior Years of Change in Accounting Principle (Note 19)</b>				
	<u>(2,210,467)</u>	<u>—</u>	<u>—</u>	<u>(2,210,467)</u>
<b>Change in Net Assets</b>	12,320,052	(4,063,230)	3,485,125	11,741,947
<b>Net Assets, Beginning of Year</b>	<u>437,104,328</u>	<u>22,062,899</u>	<u>111,307,636</u>	<u>570,474,863</u>
<b>Net Assets, End of Year</b>	<u>\$ 449,424,380</u>	<u>\$ 17,999,669</u>	<u>\$ 114,792,761</u>	<u>\$ 582,216,810</u>

**The Colorado College and Subsidiaries**  
**Consolidated Statements of Cash Flows**  
**Years Ended June 30, 2007 and 2006**

	<b>2007</b>	<b>2006</b>
<b>Operating Activities</b>		
Change in net assets	\$ 66,624,087	\$ 11,741,947
Items not requiring (providing) operating activities cash flows		
Realized and unrealized gains on investments	(68,867,074)	(23,066,039)
Depreciation and amortization	4,389,417	4,456,534
(Gain) Loss on disposal of capital equipment and property	1,332,618	(147,440)
Cumulative effect of change in accounting principle	—	2,210,467
Change in value of split-interest agreements	(508,765)	48,385
Contributions and investment income restricted for long-term investments	(5,754,755)	(3,220,911)
Adjustment to initially apply FASB Statement No. 158	1,490,100	—
Changes in		
Accounts, grants and interest receivable	(2,599,312)	(109,850)
Contributions receivable	(758,702)	(1,351,664)
Other assets	1,429,165	(878,579)
Accounts payable	4,610,816	(301,214)
Student accounts payable	104,254	83,232
Salaries and benefits payable	627,161	(2,726,056)
Deferred revenue	(718,960)	(19,972)
Deposits	(45,028)	(137,929)
Assets held for others	271,230	221,060
Early retirement accrual	(373,423)	44,243
Other postretirement benefit plan payable	<u>80,900</u>	<u>—</u>
Net cash provided by (used in) operating activities	<u>1,333,729</u>	<u>(13,153,786)</u>
<b>Investing Activities</b>		
Purchase of land, buildings and equipment	(24,395,290)	(7,786,923)
Proceeds on sales of land, buildings and equipment	142,494	334,953
Loan advances to students	(893,023)	(1,455,787)
Payments received on loans to students	991,082	991,975
Increase (decrease) in allowance for doubtful loans to students	(120,916)	62,907
Proceeds from sales of investments	293,812,713	336,039,769
Purchase of investments	<u>(307,039,062)</u>	<u>(323,470,815)</u>
Net cash provided by (used in) investing activities	<u>(37,502,002)</u>	<u>4,716,079</u>
<b>Financing Activities</b>		
Contributions and investment income restricted for		
Investment in endowment	5,639,034	3,143,403
Investment in annuities and other life income funds	115,721	77,508
Reimbursement of disbursements under capital lease agreement	2,450,000	—
Payments on capital leases	(1,640,616)	(70,388)
Proceeds from issuance of bonds	32,455,000	—
Principal payments on bonds payable	<u>(750,000)</u>	<u>(645,000)</u>
Net cash provided by financing activities	<u>38,269,139</u>	<u>2,505,523</u>
<b>Increase (Decrease) in Cash and Cash Equivalents</b>	<b>2,100,866</b>	<b>(5,932,184)</b>
<b>Cash and Cash Equivalents, Beginning of Year</b>	<u>2,713,920</u>	<u>8,646,104</u>
<b>Cash and Cash Equivalents, End of Year</b>	<u>\$ 4,814,786</u>	<u>\$ 2,713,920</u>

# **The Colorado College and Subsidiaries**

## **Notes to Consolidated Financial Statements**

### **June 30, 2007 and 2006**

#### **Note 1: Nature of Operations and Summary of Significant Accounting Policies**

##### ***Nature of Operations***

The Colorado College (the College) is an independent college of liberal arts and sciences. The College was established as a coeducational, residential institution in 1874. The College provides undergraduate and master-of-arts in teaching degree programs to approximately 1,900 students each year. The Colorado College's distinctive class calendar divides the year into segments called blocks. Under this system, students take, and faculty teach, only one course at a time. The student-teacher ratio is 11 to 1, typically with no more than 25 students per class. The College's revenues are predominately earned from tuition and fees, contributions, auxiliary enterprises and investments.

A summary of the significant accounting policies consistently applied in the preparation of the accompanying consolidated financial statements follows.

##### ***Principles of Consolidation***

The accompanying consolidated financial statements include the assets, liabilities, net assets and financial activities of the College and two wholly-owned for-profit subsidiaries of the College, Dale Street Properties, LLC, and Cascade Avenue Medical Building, Inc. All significant intercompany balances and transactions have been eliminated. Dale Street Properties, LLC was formed on November 1, 2004 to hold certain rental properties, and the College is the sole member of the LLC. As of June 30, 2006 all assets and liabilities for Cascade Avenue Medical Building, Inc. have been distributed to the college. The College will maintain this corporation as an inactive entity.

##### ***Cash and Cash Equivalents***

The College considers cash and all highly liquid temporary investments, with an original maturity of three months or less, to be cash equivalents.

##### ***Investments***

Investments in equity securities having a readily determinable fair value and all debt securities are stated at fair value determined by quoted market prices. All other investments are stated at fair value determined by appraisals for real estate and by company or manager valuation for venture capital assets, or by utilizing the equity method for investments in limited partnerships. Investment income and realized and unrealized gains and losses are reflected in the consolidated statements of activities as unrestricted, temporarily restricted or permanently restricted based upon the existence and nature of any donor or legally imposed restrictions. Investment return that is initially restricted by donor stipulation and for which the restriction will be satisfied in the same year is included in temporarily restricted revenue and net assets released from restrictions.

**The Colorado College and Subsidiaries**  
**Notes to Consolidated Financial Statements**  
**June 30, 2007 and 2006**

Certain investments of the endowment fund and annuity and life income fund are pooled on a market value basis, with each individual fund subscribing to or disposing of units on the basis of the market value per unit at the end of the calendar quarter within which the transaction takes place. At the beginning of each year, the Board establishes a fixed annual yield for funds held in the endowment fund pool (Pooled Trust Fund A). If the actual pooled investment cash earnings exceed the fixed yield for the current year, they are transferred to a reserve for use in future years; a separate reserve fund would be maintained for restricted and unrestricted endowment fund earnings. If investment cash earnings are insufficient to meet the approved payout, the Board has approved using capital gains to supplement such earnings.

***Accounts and Loans Receivable***

Accounts and loans receivable are stated at the amount billed to customers and students or net amount of outstanding loans from students. The College provides allowances for doubtful accounts and loans, which are based upon a review of outstanding receivables and student loans, historical collection information and existing economic conditions. Accounts receivable are ordinarily due 30 days after the issuance of the invoice. Accounts past due more than 120 days are considered delinquent. Delinquent accounts and loans receivable are written off based on individual credit evaluation and specific circumstances of the customer or student.

***Other Assets***

Other assets consist mainly of prepaid expenses and inventories. Inventories consist mainly of books and sundry items held for resale (bookstore inventory), postage and supplies. The bookstore inventory is valued using a combination of the lower of cost or market (using the first-in, first-out method) and the retail inventory method. Postage and supply inventories are valued at the lower of cost or market (using the first-in, first-out method).

***Buildings and Equipment***

Buildings and equipment are recorded at cost or, if donated, at the estimated fair market value at the date of donation. Depreciation is provided over the estimated useful lives of the assets using the straight-line method as follows:

	<b><u>Estimated Useful Life</u></b>
Buildings	40 years
Improvements	40 years
Furnishings and equipment	7 years
Campus infrastructure	7-15 years

Construction in progress is recorded for renovation and new construction projects that are in process at year-end. Upon project completion, the asset is transferred to the applicable asset category.

**The Colorado College and Subsidiaries**  
**Notes to Consolidated Financial Statements**  
**June 30, 2007 and 2006**

To qualify as capital expenses, costs must (1) be significant in amount; (2) provide benefit to the College over more than one accounting period; and (3) increase the productive capacity or useful life of the asset. Costs that meet all three criteria are added to the value of the affected asset and depreciated over the remaining useful life of that asset. Costs that do not meet all three criteria will be expensed in the operating period in which they occur. To be considered significant in amount, an improvement, renovation, or restoration project must have total costs greater than or equal to \$25,000. Purchased and donated furniture and equipment items must have a value of \$5,000 or more at the date of acquisition or donation to be considered for capitalization.

The College capitalizes interest costs as a component of construction in progress, based on interest costs of borrowing specifically for the project, net of interest earned on investments acquired with the proceeds of the borrowing. Total interest capitalized was:

	<b>2007</b>	<b>2006</b>
Total interest cost incurred on borrowings for project	\$ 1,316,465	\$ 303,458
Interest income from investment of proceeds of borrowings for project	<u>(999,114)</u>	<u>(197,017)</u>
Net interest cost capitalized	<u>\$ 317,351</u>	<u>\$ 106,441</u>
	<b>2007</b>	<b>2006</b>
Interest capitalized	\$ 317,351	\$ 106,441
Interest charged to expense	<u>2,874,567</u>	<u>2,048,199</u>
Total interest incurred	<u>\$ 3,191,918</u>	<u>\$ 2,154,640</u>

***Vacation Accrual***

It is the College's policy to permit employees to accumulate a limited amount of earned but unused vacation benefits that would be paid to employees upon separation from College services. The vacation accrual is included in salaries and benefits payable in the consolidated statements of financial position.

***Deferred Revenue***

Deferred revenue represent monies received for summer programs and will be recorded in revenue in the following fiscal year when the programs are completed.

***Assets Held for Others***

The College holds various funds in a fiduciary capacity for organizations of the College, such as classes and clubs. These organizations raise funds in their own capacities and expend the funds on their organization's behalf. The revenues and expenses of these organizations are not included in the accompanying financial statements.

**The Colorado College and Subsidiaries**  
**Notes to Consolidated Financial Statements**  
**June 30, 2007 and 2006**

***Early Retirement Accrual***

The College provides an early retirement program for faculty who are at least 59 and one-half years old, have completed 17 years of service and have reached a salary that is 1.8 times larger than the current lowest starting Assistant Professor's salary. The benefits under this program are payable at 50% of the employee's annual base salary at the time of entrance into the program and escalate approximately 4.5% annually until the benefits expire.

***Annuities Payable***

Annuities payable represents the present value of the remaining payments due to annuitants under annuity contracts, based upon the remaining life expectancies of the respective annuitants.

***Other Life Income Funds Payable***

Under irrevocable trust agreements, the College receives contributed investments and agrees to maintain the principal of the investment during the life of the donor(s) and make annual payments to the donor(s) for life. The annual payments are based on a fixed rate of return or on related investment income, as stipulated in the trust agreement. Amounts received under irrevocable trust agreements, net of the present value of future payments to beneficiaries, are recorded as temporarily restricted revenue upon receipt. A liability for trust obligations is recorded for the estimated present value of future payments to beneficiaries. Upon the death of the beneficiaries, the assets are transferred from temporarily restricted net assets as designated by the Board or trust agreement.

***Contributions***

Gifts of cash and other assets received without donor stipulations are reported as unrestricted revenue and net assets. Gifts received with a donor stipulation that limits their use are reported as temporarily or permanently restricted revenue and net assets. When a donor stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions. Gifts that are originally restricted by the donor and for which the restriction is met in the same time period are recorded as temporarily restricted and then released from restriction.

The College reports gifts of land, buildings, and equipment as unrestricted support unless explicit donor stipulations specify how the donated assets must be used. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire long-lived assets are reported as restricted support. Absent explicit donor stipulations about how long those long-lived assets must be maintained, the College reports expirations of donor restrictions when the donated or acquired long-lived assets are placed in service.

# **The Colorado College and Subsidiaries**

## **Notes to Consolidated Financial Statements**

### **June 30, 2007 and 2006**

Pledges receivable are recorded at the date an unconditional promise to give is made to the College. Unconditional promises to give expected to be collected within one year are reported at their net realizable value. Unconditional promises to give expected to be collected beyond one year are reported at the present value of estimated future cash flows. The resulting discount is amortized using the level-yield method and is reported as contribution revenue.

#### ***Income Taxes***

The College is exempt from Federal income tax under Internal Revenue Code Section 501(c)(3). The College is not considered to be a private foundation. Cascade Avenue Medical Building, Inc. is subject to Federal and State income taxes. Profits and losses of Dale Street Properties, LLC, pass through directly to the College.

#### ***Collections***

Collections of works of art, historical treasures and similar assets are not capitalized because the items are preserved and cared for continuously. Purchases of collection items are reported in the year of acquisition as decreases in unrestricted net assets and as net assets released from restriction if the assets used to purchase the items were restricted to that use by donor stipulation. Contributions of collection items are not reported in the financial statements. Proceeds from disposal of and insurance recoveries related to collection items are reported as increases in the appropriate net asset classes.

#### ***Functional Allocation of Expenses***

The costs of providing the various programs, support services and other activities have been allocated among the programs and supporting services benefited.

#### ***Use of Estimates***

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

#### ***Reclassifications***

Certain reclassifications have been made to the 2006 financial statements to conform to the 2007 financial statement presentation. These reclassifications had no effect on the change in net assets.

**The Colorado College and Subsidiaries**  
**Notes to Consolidated Financial Statements**  
**June 30, 2007 and 2006**

**Note 2: Investments**

The cost and market value of investments consist of the following as of June 30, 2007 and 2006:

	<b>Market Value</b>			
	<b>2007</b>		<b>2006</b>	
Investments	\$ 42,663,217		\$ 38,335,782	
Long-term investments	<u>523,499,516</u>		<u>446,685,772</u>	
Total investments	<u>\$ 566,162,733</u>		<u>\$ 485,021,554</u>	

	<b>2007 Cost</b>	<b>2007 Market</b>	<b>2006 Cost</b>	<b>2006 Market</b>
Money market fund	\$ 5,566,635	\$ 5,566,635	\$ 8,307,727	\$ 8,307,727
Short-term fund	18,635,650	18,635,650	25,636,112	25,636,112
Intermediate fund	—	—	7,000	7,000
U.S. Government obligations	38,383,587	38,002,022	30,430,836	29,642,930
U.S. Government agency obligations	25,007,608	24,944,196	29,613,543	29,407,210
Foreign government obligations	4,176,217	3,701,288	4,176,217	3,890,621
Municipal obligations	5,185	5,000	5,185	5,103
Mortgage-backed and other asset-backed securities	264,369	480,324	2,247,227	2,720,238
Corporate obligations	1,426,687	1,451,517	7,178,003	7,357,197
Domestic equity	194,610,332	275,570,776	222,546,822	302,152,265
Untraded equity shares	213,096	213,096	309,687	309,687
Hedged Equity	10,000,000	10,821,192	—	—
Mutual funds	2,026,434	2,070,008	1,812,795	1,795,671
International equity	55,355,648	57,758,560	20,000,000	36,985,468
International hedged equity	10,000,000	11,520,000	—	—
Emerging market	10,000,000	11,610,339	—	—
Absolute return funds	55,000,000	57,788,848	15,000,000	14,660,808
Venture capital	17,486,938	7,929,459	16,651,438	7,482,806
Real estate	2,045,438	2,095,438	1,099,522	1,099,522
Limited partnerships	14,374,363	19,767,191	6,895,706	8,625,151
Construction bond proceeds	<u>16,231,194</u>	<u>16,231,194</u>	<u>4,936,038</u>	<u>4,936,038</u>
	<u>\$ 480,809,381</u>	<u>\$ 566,162,733</u>	<u>\$ 396,853,858</u>	<u>\$ 485,021,554</u>

It is the College's policy to invest and maintain a diversified investment portfolio. The fair value of investments are based on the quoted market prices and analytical pricing methods for investments for which there is no market and the fair value of limited partnership net assets in proportion to the College's interest.

As of June 30, 2007, the College has invested in eight new alternative investment funds. These funds potentially include, but are not limited to, derivative instruments, including option contracts, forward contracts and swap contracts, inverse floating rate notes, debt securities of financially distressed issuers, government futures, and money market futures.

# The Colorado College and Subsidiaries

## Notes to Consolidated Financial Statements

### June 30, 2007 and 2006

The construction bond proceeds consist of money market funds and are limited as to use under the bond indenture for specific capital construction projects.

Investment income of \$12,626,259 and \$12,267,345 in the consolidated statements of activities for the years ended June 30, 2007 and 2006, respectively, is net of \$1,346,025 and \$894,656 of investment expenses incurred during the years ended June 30, 2007 and 2006, respectively.

#### **Note 3: Beneficial Interest in Perpetual Trusts**

The beneficial interest in perpetual trusts represents the estimated net present value of the future interest in trusts. The present value of the future interest in the trusts is estimated to be the fair market value of the trust assets, which was \$33,505,388 and \$30,825,444 at June 30, 2007 and 2006, respectively. Distributions received from the trusts are recorded as unrestricted investment income or temporarily restricted investment income as stipulated by the donor. A third party (trustee) holds the trust assets and the College is to receive the net income from the assets. As the trusts are to be held in perpetuity by the trustee, the net assets from the trusts have been recorded as permanently restricted.

#### **Note 4: Split-Interest Agreements**

The College participates in split-interest agreements, which include beneficial interests in perpetual trusts, charitable remainder trusts, charitable gift annuities, and pooled life income funds. Beneficial interest in perpetual trusts is described in Note 3. A charitable remainder trust is an arrangement in which a donor establishes and funds a trust with specified distributions to be made to a designated beneficiary over the trust's term. Upon termination of the trust, the College receives the assets remaining in the trust. The College has charitable remainder annuity trusts (CRATs), which pay fixed amounts to designated beneficiaries, and charitable remainder unitrusts (CRUTs), which pay an established percentage of the fair market value of the annuity investment to designated beneficiaries. The College is the trustee of all CRATs and CRUTs.

The College has charitable gift annuities, which represent an arrangement between a donor and the College in which the donor contributes assets to the College in exchange for a promise by the College to pay a fixed amount for a specified period of time to designated beneficiaries.

The College also manages life income funds. These funds are divided into units, and contributions of many donors' life income gifts are pooled and invested as a group. Donors are assigned a specific number of units based on the proportion of the fair value of their contributions to the total fair value of the pooled income fund on the date of the donor's entry to the pooled fund. At the time of the donor's death, the donor's designated beneficiaries are paid the actual income earned on the donor's assigned units and the value of the donor's assigned units reverts to the College.

The College has recorded investments at fair market value and liabilities on the statements of financial position for annuities payable and other life income funds payable. The liability recorded is calculated based on the present value of the expected distributions to beneficiaries, using a discount rate of approximately 6% and estimated life of the youngest beneficiary based on Internal Revenue Service mortality tables.

**The Colorado College and Subsidiaries**  
**Notes to Consolidated Financial Statements**  
**June 30, 2007 and 2006**

Contribution revenue recognized and investments recorded by the College related to split-interest agreements are as follows:

	<b>Year Ended June 30,</b>	
	<b>2007</b>	<b>2006</b>
<b>Contribution Revenue</b>		
CRATs/CRUTs	\$ 561,899	\$ 1,210
Charitable gift annuities	\$ 34,981	\$ 60,235
	<b>Year Ended June 30,</b>	
	<b>2007</b>	<b>2006</b>
<b>Investments</b>		
CRATs/CRUTs	\$ 9,825,767	\$ 7,611,775
Charitable gift annuities	\$ 2,036,489	\$ 1,930,893

**Note 5: Contributions Receivable**

Contributions receivable consist of the following unconditional promises to give as of June 30, 2007 and 2006:

	<b>2007</b>	<b>2006</b>
Annual fund	\$ 138,478	\$ 107,533
Gifts for operations	6,694,532	8,287,877
Endowment	<u>4,504,763</u>	<u>2,634,397</u>
	11,337,773	11,029,807
Less allowance for doubtful pledges	(91,908)	(71,703)
Less unamortized discount	<u>(482,512)</u>	<u>(953,453)</u>
	<u>\$ 10,763,353</u>	<u>\$ 10,004,651</u>
Amounts due in		
Less than one year	\$ 6,005,061	\$ 3,872,125
One to five years	<u>5,332,712</u>	<u>7,157,682</u>
	<u>\$ 11,337,773</u>	<u>\$ 11,029,807</u>

Discount rates ranged from 2.625% to 5.125% for the years ending June 30, 2007 and 2006.

The College has conditional promises to give of \$3,946,511 and \$4,641,635 at June 30, 2007 and 2006, respectively. Conditional promises to give are not recognized as assets in the consolidated statements of financial position. Additionally, the College has been notified that it either has been named in the wills of individuals or that it is the intent of certain individuals to name the College in their wills or trust instruments, for amounts totaling approximately \$57.8 million and \$14.5 million as of June 30, 2007 and 2006, respectively. Because these bequest pledges do not yet meet existing revenue recognition criteria, they have not been recorded on the books of the College.

**The Colorado College and Subsidiaries**  
**Notes to Consolidated Financial Statements**  
**June 30, 2007 and 2006**

**Note 6: Land, Buildings and Equipment**

Land, buildings and equipment consist of the following as of June 30, 2007 and 2006:

	<u>2007</u>	<u>2006</u>
Buildings and improvements	\$ 137,693,346	\$ 135,447,393
Land	5,564,949	5,564,949
Campus infrastructure	16,910,731	12,556,249
Furnishings and equipment	12,883,477	12,149,202
Construction in progress	<u>27,557,510</u>	<u>14,090,623</u>
	200,610,013	179,808,416
Less accumulated depreciation	<u>(56,999,278)</u>	<u>(53,235,453)</u>
	<u>\$ 143,610,735</u>	<u>\$ 126,572,963</u>

**Note 7: Operating Leases**

The College leases various office equipment, vehicles and property under operating leases expiring through calendar year 2010. Rent expense on operating leases during the years ended June 30, 2007 and 2006, was \$71,746 and \$107,951, respectively.

Future minimum lease payments under the operating leases as of June 30, 2007 for the years ending June 30, 2008-2011 were:

2008	\$ 85,223
2009	51,143
2010	46,271
2011	<u>48,865</u>
	<u>\$ 231,502</u>

**Note 8: Capital Lease Obligations**

The College leases various equipment and real estate under capital leases expiring through 2012. The capitalized cost and accumulated amortization of equipment and real estate under capital leases as of June 30, 2007 and 2006, are as follows:

	<u>2007</u>	<u>2006</u>
Building	\$ —	\$ 1,494,338
Land	—	245,162
Equipment	—	58,469
Construction in progress	<u>1,777,937</u>	<u>—</u>
Total cost	1,777,937	1,797,969
Less accumulated amortization	<u>—</u>	<u>(32,224)</u>
	<u>\$ 1,777,937</u>	<u>\$ 1,765,745</u>

**The Colorado College and Subsidiaries**  
**Notes to Consolidated Financial Statements**  
**June 30, 2007 and 2006**

The College purchased the “J’s Motel” property at 816 North Nevada Avenue in May 2007 for \$1,578,075. This property was previously under a capital lease.

Future minimum lease payments under capital leases, together with the present value of the net minimum lease payments at June 30, 2007, were:

Year ending June 30, 2008	\$ 542,454
Year ending June 30, 2009	542,454
Year ending June 30, 2010	542,454
Year ending June 30, 2011	542,454
Year ending June 30, 2012	542,454
Less amount representing interest	<u>(262,270)</u>
Present value of future minimum lease payments	<u>\$ 2,450,000</u>

**Note 9: Bonds Payable**

Bonds payable consist of the City of Colorado Springs, Colorado Revenue Bonds (The Colorado College Project), Series 1999 with an original issue of \$30,460,000, Series 2003 with an original issue of \$14,165,000, Series 2004 with an original issue of \$10,145,000, Series 2005 with an original issue of \$27,630,000 and Series 2006 with an original issue of \$32,455,000. Bonds payable for the Series 1999 bonds were \$1,374,619 and \$2,003,723 (net of unamortized bond discount of \$10,381 and \$31,277) as of June 30, 2007 and 2006, respectively. Bonds payable for the Series 2003 bonds were \$14,165,000 and \$14,165,000 as of June 30, 2007 and 2006, respectively. Bonds payable for the Series 2004 Bonds were \$10,125,598 and \$10,124,456 (net of unamortized bond discount of \$19,402 and \$20,544) as of June 30, 2007 and 2006, respectively. Bonds payable for the Series 2005 bonds were \$27,778,786 and \$27,889,738 (net of unamortized bond discount of \$121,521 and \$126,381 and unaccreted bond premium of \$395,307 and \$411,119) as of June 30, 2007 and 2006, respectively. Bonds payable for the Series 2006 bonds were \$32,431,814 and \$0 (net of unamortized bond discount of \$23,186 and \$0) as of June 30, 2007 and 2006, respectively.

Proceeds of the Series 1999 bonds were used to finance the construction of the College’s Western Ridge Housing project and certain utility upgrades identified in the College’s Utility Master Plan. \$26,105,000 of these bonds were legally defeased with the issuance of the 2005 bonds, as described below. The Series 1999 bonds bear interest at rates varying from 4.75% to 4.95%, payable semi-annually. Principal payments for the Series 1999 bonds are due annually through June 2009 in varying amounts ranging from \$680,000 to \$705,000. The Series 1999 bonds are unsecured.

# **The Colorado College and Subsidiaries**

## **Notes to Consolidated Financial Statements**

### **June 30, 2007 and 2006**

Proceeds of the Series 2003 bond issue were used to fund various Fire and Life Safety projects (\$4,500,000) and to provide advance refunding of the College's Series 1994 bond (\$9,665,000), which were fully refunded on June 1, 2004 in the amount of \$9,115,000 at the date of refunding. The Series 2003 bonds have variable interest rates. The interest rates as of June 30, 2007 and 2006, were 3.72% and 3.97%, respectively. Interest rates are reset weekly and interest is payable monthly. The Series 2003 bonds are unsecured and mature June 2023.

Proceeds of the Series 2004 bond issue were used primarily to defray the cost of a series of capital renewal projects for the College campus, including remodeling, renovating, repairing, and upgrading the educational and general facilities of the campus. A portion of the proceeds (approximately \$145,000) was used to pay certain costs of issuing the bonds. The Series 2004 bonds have variable interest rates. The interest rates as of June 30, 2007 and 2006, were 3.74 % and 3.97%, respectively. Interest rates are reset weekly and interest is payable monthly. The Series 2004 bonds are unsecured and mature June 2024.

Proceeds of the Series 2005 bond issue were used to advance refund 1999 Bonds in the aggregate principal amount of \$26,105,000. The proceeds used to advance refund the 1999 Bonds were deposited in an Escrow Account pursuant to an Escrow Agreement dated May 1, 2005, by and between the College and Wells Fargo Bank, N.A. as escrow agent. Moneys in the Escrow Account were used by the Escrow Agent to establish an initial cash balance and purchase the Federal Securities designated in the Escrow Agreement. The principal of and interest on the Federal Securities, together with any beginning cash balance held therein, will be sufficient to pay the regularly scheduled principal of, premium, if any, and interest on the 1999 Bonds through the redemption date. On June 1, 2009, the City will utilize moneys in the Escrow Account to redeem the 1999 Bonds at a redemption price equal to 101% of the principal amount thereof, plus accrued interest to such redemption date. The Series 2005 bonds have interest rates ranging from 3.5% to 5.0%. Principal payments for the Series 2005 bonds are due annually beginning in 2006 and continuing through June 2032 in varying amounts ranging from \$25,000 to \$8,715,000. The Series 2005 bonds are unsecured.

The Series 2006 bonds were issued on September 13, 2006. Proceeds of the Series 2006 bond issue are being used to fund the construction of the Cornerstone Arts Center (\$25,012,961), the development of parking lots (\$1,800,000) and several other central plant improvements (\$3,757,039). In addition, the CC Inn was purchased with 2006 bonds proceeds(\$1,578,075). The Series 2006 bonds have variable interest rates. The interest rate as of June 30, 2007 was 3.93%. Interest rates are reset daily and interest is payable monthly. The Series 2006 bonds are secured only by the general obligation pledge of the College; they are not secured by a mortgage, lien or security interest in any funds, buildings or other assets of the College. These bonds mature June 2029.

**The Colorado College and Subsidiaries**  
**Notes to Consolidated Financial Statements**  
**June 30, 2007 and 2006**

Aggregate annual maturities for the remaining term of the bonds outstanding at June 30, 2007, are:

Year Ending June 30,	Series 1999 Bonds	Series 2003 Bonds	Series 2004 Bonds	Series 2005 Bonds	Series 2006 Bonds	Totals
2008	\$ 680,000	\$ —	\$ —	\$ 100,000	\$ —	\$ 780,000
2009	705,000	—	—	100,000	—	805,000
2010	—	—	—	710,000	—	710,000
2011	—	—	—	715,000	1,175,000	1,890,000
2012	—	—	—	880,000	1,220,000	2,100,000
Thereafter	<u>—</u>	<u>14,165,000</u>	<u>10,145,000</u>	<u>25,000,000</u>	<u>30,060,000</u>	<u>79,370,000</u>
	<u>\$ 1,385,000</u>	<u>\$ 14,165,000</u>	<u>\$ 10,145,000</u>	<u>\$ 27,505,000</u>	<u>\$ 32,455,000</u>	85,655,000
Less discount						(174,490)
Plus premium						<u>395,307</u>
						<u>\$85,875,817</u>

Bond issuance costs and the bond discounts, when significant in amount, are amortized over the life of the bond issue. Bond premiums are accreted over the life of the bond issue.

**Note 10: Net Assets**

***Unrestricted Net Assets***

Unrestricted net assets as of June 30, 2007 and 2006, consist of the following, with some net assets maintained in funds for the purposes noted below:

	<b>2007</b>	<b>2006</b>
Available for operations	\$ 6,181,545	\$ 6,816,762
KRCC – FM radio station	227,125	267,497
Loan funds	2,030,862	1,877,785
Gains on endowments and quasi-endowments	403,475,993	346,836,173
Departmental activities	8,712,857	7,726,820
Subsequent years' budgets	1,838,959	1,642,412
Other specific purposes		
Legal reserve	509,589	509,589
Athletics reserve	—	104,444
Benefits reserve	1,732,532	1,706,881
Senior status reserve	2,553,742	2,740,172
Mini-sabbaticals reserve	30,000	30,000
Net assets attributable to split-interest agreements	49,296	50,538
Net assets attributable to annual fund pledges	132,251	102,910
Net investment in plant	<u>78,424,022</u>	<u>79,012,397</u>
Total unrestricted net assets	<u>\$ 505,898,773</u>	<u>\$ 449,424,380</u>

**The Colorado College and Subsidiaries**  
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The benefits reserve provides funds to stabilize costs for employee welfare, benefits and/or post-employment benefits.

The College has a policy to designate a portion of the plant fund balance to fund equipment replacement. The approach is to amortize the costs of equipment items purchased using unrestricted funds in excess of \$100,000 over seven years. The amount designated was \$500,218 and \$566,659 as of June 30, 2007 and 2006, respectively, and is included in the table above in “Net Investment in Plant”.

***Temporarily Restricted Net Assets***

Temporarily restricted net assets as of June 30, 2007 and 2006, are available for the following purposes or periods:

	<u>2007</u>	<u>2006</u>
Student financial aid	\$ 573,873	\$ 578,286
Instruction and research	3,732,638	3,999,108
Plant operation	97,679	105,541
Capital projects	2,702,762	1,443,955
Pending donor designation	221,443	143,046
Pledges receivable	6,560,391	7,602,562
Life income and annuity agreements	4,605,045	3,851,239
Other	<u>342,455</u>	<u>275,932</u>
Total temporarily restricted net assets	<u>\$ 18,836,286</u>	<u>\$ 17,999,669</u>

The undesignated gifts and bequests shown above as pending donor designation represent the portion of gifts that have not yet been designated for a specific purpose.

**The Colorado College and Subsidiaries**  
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***Permanently Restricted Net Assets***

Permanently restricted net assets as of June 30, 2007 and 2006, are restricted to investment in perpetuity, the income from which is expendable to support the following:

	<b>2007</b>	<b>2006</b>
Beneficial interest in perpetual trusts		
Student financial aid	\$ 28,218,845	\$ 25,907,732
Operations and other	<u>5,435,137</u>	<u>4,917,712</u>
	<u>33,653,982</u>	<u>30,825,444</u>
 Life income and annuity agreements	 <u>1,110,852</u>	 <u>748,133</u>
Endowment		
Student aid	34,606,821	31,753,926
Pledges Receivable	4,292,010	2,027,714
Operations and other	<u>50,442,173</u>	<u>49,437,544</u>
	<u>89,341,004</u>	<u>83,219,184</u>
 Total permanently restricted net assets	 \$ <u>124,105,838</u>	 \$ <u>114,792,761</u>

**Note 11: Other Postretirement Benefit Plans**

The College has a noncontributory defined benefit postretirement health care plan covering all employees who meet the eligibility requirements. The College's funding policy is to make the minimum annual contribution that is required by applicable regulations, plus such amounts as the College may determine to be appropriate from time to time. The College expects to contribute \$224,000 to the plan in 2008.

Effective June 30, 2007, the College adopted Statement of Financial Accounting Standards No. 158, *Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans, an Amendment of FASB Statements No. 87, 88, 106 and 132(R)*. FASB 158 requires an employer to recognize the overfunded or underfunded status of a defined benefit postretirement plan (other than a multiemployer plan), as an asset or liability in its statement of financial position and to recognize changes in that funded status in the year in which changes occur through changes in unrestricted net assets.

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**June 30, 2007 and 2006**

The College uses a June 30<sup>th</sup> measurement date for the plans. Information about the plan's funded status follows:

	<b>2007</b>	<b>2006</b>
Benefit obligation	\$ (2,332,000)	\$ (761,000)
Fair value of plan assets	<u>                    —</u>	<u>                    —</u>
Funded status	<u>\$ (2,332,000)</u>	<u>\$ (761,000)</u>

Amounts recognized in unrestricted net assets not yet recognized as components of net periodic benefit cost consist of:

	<b>2007</b>	<b>2006</b>
Net loss (gain)	\$ 413,000	N/A
Transition obligation (asset)	<u>1,077,100</u>	N/A
	<u>\$ 1,490,100</u>	N/A

Other significant balances and costs are:

	<b>2007</b>	<b>2006</b>
Employer contributions	\$ 224,000	\$ 248,000
Benefits paid	\$ (224,000)	\$ (248,000)
Benefit costs	\$ —	\$ —

The following amounts have been recognized in the statements of activities for the years ended June 30, 2007 and 2006:

	<b>2007</b>	<b>2006</b>
Amounts arising during the period:		
Net (gain) loss	\$ 210,000	\$ 217,000
Amounts reclassified as components of net periodic benefit cost of the period:		
Net (gain) loss	14,000	11,000
Net transition (asset) obligation	<u>136,000</u>	<u>136,000</u>
	<u>\$ 360,000</u>	<u>\$ 364,000</u>

The estimated net loss and transition obligation for the defined benefit postretirement health care plan that will be amortized from unrestricted net assets into net periodic benefit cost over the next fiscal year are \$13,000 and \$136,000, respectively.

**The Colorado College and Subsidiaries**  
**Notes to Consolidated Financial Statements**  
**June 30, 2007 and 2006**

Significant assumptions include:

	<b>2007</b>	<b>2006</b>
Weighted-average assumptions used to determine benefit obligations:		
Discount rate	6%	6%
Weighted-average assumptions used to determine benefit costs:		
Discount rate	6%	6%

For measurement purposes, a 7% and 8.5% annual rate of increase in the per capita cost of covered health care benefits was assumed for 2007 and 2006, respectively. In 2006, the rate was assumed to decrease gradually to 4% by the year 2013 and remain at that level thereafter. In 2007, the rate was assumed to decrease gradually to 4% by the year 2011 and remain at that level thereafter. A 1% increase in the health care inflation rates would increase the accumulated postretirement benefit obligation by \$93,000 and \$90,000 as of June 30, 2007 and 2006, respectively, and the aggregate of the service and interest cost components of net periodic postretirement benefit cost for the years then ended by \$6,000 and \$5,000, respectively.

The incremental effect of applying Statement of Financial Accounting Standards No. 158 on specific line items in the statement of financial position was as follows:

	<b>Before Application of SFAS 158</b>	<b>Adjustments</b>	<b>After Application of SFAS 158</b>
Other postretirement benefit plan	\$ (841,900)	\$ (1,490,100)	\$ (2,332,000)
Total liabilities	\$ (121,390,492)	\$ (1,490,100)	\$ (122,880,592)
Unrestricted net assets	\$ (507,388,873)	\$ 1,490,100	\$ (505,898,773)
Total net assets	\$ (650,330,997)	\$ 1,490,000	\$ (648,840,897)

The following benefit payments, which reflect expected future service, as appropriate, are expected to be paid as of June 30, 2007:

2008	\$ 224,000
2009	222,000
2010	222,000
2011	219,000
2012	213,000
2013-2017	927,000
	\$ 2,027,000

**The Colorado College and Subsidiaries**  
**Notes to Consolidated Financial Statements**  
**June 30, 2007 and 2006**

**Note 12: Pension Plan**

All employees of the College with one year of service are eligible to participate in a defined contribution retirement plan administered by Teachers Insurance and Annuity Association/College Retirement Equities Fund. Upon the attainment of age 30, eligible employees are required to participate and make contributions equivalent to 5% of their salary. For employees hired before July 1, 1991, the College contributes 6% of salary up to the first half of the median faculty/administrator salary and 11% of the balance of their salary. The College currently contributes 9% of base salary for all other employees. Total pension expense was \$3,009,631 and \$2,859,394 for the years ended June 30, 2007 and 2006, respectively.

**Note 13: Scholarship Allowances (Tuition Discounts)**

For the years ended June 30, 2007 and 2006, respectively, College scholarship allowances (tuition discounts, prizes and external scholarships) were provided for students at the College from the following sources:

	<b>2007</b>	<b>2006</b>
Unrestricted sources		
Colorado College funds	\$ 13,452,387	\$ 12,580,829
ACM tuition exchange	<u>256,992</u>	<u>270,432</u>
Total unrestricted sources *	<u>13,709,379</u>	<u>12,851,261</u>
Restricted sources		
Endowments	8,161,481	7,775,824
Private gifts and grants **	1,028,554	1,435,642
Government grants ***	<u>859,604</u>	<u>703,434</u>
Total restricted sources	<u>10,049,639</u>	<u>9,914,900</u>
Total scholarships provided	<u>\$ 23,759,018</u>	<u>\$ 22,766,161</u>

\* Excludes tuition remission for benefits for the children of employees totaling \$723,041 and \$758,482 for the years ended June 30, 2007 and 2006, respectively.

\*\* Excludes scholarships provided directly to our students from outside foundations and other organizations totaling \$1,611,016 and \$1,738,807 for the years ended June 30, 2007 and 2006, respectively. The College acted as custodian for these funds, but did not determine the recipient or the amount awarded.

\*\*\* Excludes Pell Grants of \$639,844 and \$615,983 for the years ended June 30, 2007 and 2006, respectively.

**The Colorado College and Subsidiaries**  
**Notes to Consolidated Financial Statements**  
**June 30, 2007 and 2006**

**Note 14: Functional Expenses**

Expenses by functional classification are as follows for the years ended June 30, 2007 and 2006:

	<u>2007</u>	<u>2006</u>
Educational		
Instruction	\$ 37,638,849	\$ 36,661,938
Research	1,084,221	1,220,425
Public service	1,630,219	1,469,158
Academic support	9,032,322	9,046,700
Student services	17,269,401	15,471,538
Auxiliary expenses	<u>15,722,373</u>	<u>16,025,757</u>
Total educational	82,377,385	79,895,516
Institutional support, excluding fundraising	15,053,998	14,791,243
Fundraising	<u>4,005,526</u>	<u>3,786,240</u>
	<u>\$ 101,436,909</u>	<u>\$ 98,472,999</u>

**Note 15: Additional Cash Flow Information**

Additional cash flow information includes the following for the years ended June 30, 2007 and 2006, respectively:

	<u>2007</u>	<u>2006</u>
Interest paid	\$ 2,946,827	\$ 2,103,649
Noncash investing and financing activities		
Fixed asset additions included in accounts payable	\$ 113,318	\$ 119,408
Amortization of bond discounts/premiums	\$ 12,305	\$ 11,085
Issuance of note receivable for sale of property	\$ —	\$ 165,000

**Note 16: Commitments and Contingencies**

***Litigation***

In the normal course of business, the College is involved in various legal matters. Management does not currently believe that any liability related to this litigation would be material to the financial statements. Therefore, no liability has been recorded in these financial statements. Events could occur that would change this estimate materially in the near term.

# The Colorado College and Subsidiaries

## Notes to Consolidated Financial Statements

### June 30, 2007 and 2006

#### ***Federal Programs***

The College participates in various federally assisted grant programs that are subject to review and audit by the grantor agencies. Entitlements to these resources are generally conditional upon compliance with the terms and conditions of grant agreements and applicable federal regulations, including the expenditure for allowable purposes. Any disallowable expenditures resulting from federal audit may become a liability of the College. It is believed that the ultimate disallowance pertaining to these regulations, if any, will not be material to the overall financial condition of the College.

#### ***Cash Balances***

The College routinely maintains operating cash balances to support monthly payroll, vendor payables, and other various short-term cash needs on account with its principal commercial banks. As of June 30, 2007 and 2006, these balances exceeded federally insured limits by approximately \$4.4 million and \$3.3 million, respectively. The College has not experienced any losses in such accounts and believes it is not exposed to any significant credit risk on cash and cash equivalents held at these banks.

#### ***Construction Commitments***

The College had several major construction projects in progress at June 30, 2007 and 2006. Construction contractor commitments under those projects totaled \$13,514,657 and \$967,073 as of June 30, 2007 and 2006, respectively. Cumulative funds available from existing sources for completion of those projects totaled \$19,402,253 and \$19,011,082 as of June 30, 2007 and 2006, respectively.

#### ***Investment Commitments***

The College had six investments, held with four companies as of June 30, 2007 and 2006, which are invested in the Endowment, that involve capital commitments not reflected in the cost or market valuations in Note 2. As of June 30, 2007, the College has contributed \$31,861,301 in capital toward total commitments of \$58,800,000 in aggregate, leaving \$26,938,699 in remaining commitments. As of June 30, 2006, the College had contributed \$23,547,144 in capital toward total commitments of \$38,800,000 in aggregate, leaving \$15,252,856 in remaining commitments.

#### ***Physical Access Plan***

On August 2, 2006 the College entered into a settlement agreement with the United States Department of Justice (DOJ) to develop a Physical Access Plan to address alleged barriers to access to certain facilities of the College identified by DOJ, and to modify its policies, practices and procedures to make its campus more accessible. The study by DOJ was a routine assessment and not the result of any complaint against the College. The settlement does not require the College to pay any monetary penalties or damages. The cost of developing the Physical Access Plan and ensuing renovations is estimated to be approximately \$5 million. The settlement allows the College six years to plan and implement the agreement.

**The Colorado College and Subsidiaries**  
**Notes to Consolidated Financial Statements**  
**June 30, 2007 and 2006**

**Note 17: Disclosures About Fair Value of Financial Instruments**

The following methods were used to estimate the fair value of financial instruments.

The fair values of certain of these instruments were calculated by discounting expected cash flows, which method involves significant judgments by management and uncertainties. Fair value is the estimated amount at which financial assets or liabilities could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale. Because no market exists for certain of these financial instruments and because management does not intend to sell these financial instruments, the College does not know whether the fair values shown below represent values at which the respective financial instruments could be sold individually or in the aggregate.

***Cash and Cash Equivalents***

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

***Investments***

The fair value of the majority of the College's investments are estimated based on either quoted market prices for securities, appraised market values for real estate or company or manager valuation for venture capital assets.

***Loans to Students***

Management believes that the carrying value of these instruments approximates fair value due to the interest rates on the loans approximating the market rate.

***Contributions Receivable***

The carrying amount is a reasonable estimate of fair value.

***Beneficial Interest in Perpetual Trusts***

The beneficial interest in perpetual trusts represents the estimated net present value of the future interest in trusts. The present value of the future interest in the trusts is estimated to be the fair market value of the trust assets based on quoted market prices.

***Bonds Payable***

Management believes that the carrying value of the Series 1999, Series 2003, Series 2004 and Series 2006 bonds approximates fair value due to the interest rates on the bonds approximating the market rate. The fair value of the Series 2005 bonds is approximately \$28,050,000.

***Assets Held for Others***

The carrying amount is a reasonable estimate of fair value.

**The Colorado College and Subsidiaries**  
**Notes to Consolidated Financial Statements**  
**June 30, 2007 and 2006**

***Annuities Payable and Other Life Income Funds Payable***

These instruments are discounted to their present value which approximates fair value.

***Asset Retirement Obligation***

The carrying amount approximates fair value.

***Financial Instruments***

The carrying amounts and estimated fair values of all other financial instruments are approximately equal.

**Note 18: Self-funded Health Insurance Plan**

In July 2002, the College established a self-funded dental insurance plan. In July 2003, the self-funded benefits program was expanded to include a self-funded health insurance plan. The College has contracted with a third-party administrator to process claims. The third-party administrator submits employee insurance claims for payment on a weekly basis, one week in arrears. Administrative costs are paid on a monthly basis. The College is liable for claims of up to \$75,000 per person, per incident (specific stop loss insurance). The aggregate claims limit for the year ended June 30, 2007 was \$6,442,405. The aggregate claims limit varies by year and is calculated based upon claims for the year.

The expense for this Plan was \$4,284,525 and \$3,436,271 for the years ended June 30, 2007 and 2006, respectively. Incurred but not reported claims, based on actuarial calculations, were \$546,505 and \$411,863 as of June 30, 2007 and 2006, respectively.

The College has established a reserve (designated unrestricted net assets) of \$1,732,532 and \$1,706,881 as of June 30, 2007 and 2006, respectively, (included in "benefits reserve" in Note 10) to protect the financial stability of the self-insured benefits program and to provide rate stabilization within the plans.

**Note 19: Conditional Asset Retirement Obligation**

As of July 1, 2005, the College adopted FASB Interpretation No. 47 (FIN 47), *Accounting for Conditional Asset Retirement Obligations*. FIN 47 requires that an asset retirement obligation (ARO) associated with the retirement of a tangible long-lived asset be recognized as a liability in the period in which it is incurred or becomes determinable (as defined by the standard) even when the timing and/or method of settlement may be conditional on a future event. The College's conditional asset retirement obligations primarily relate to asbestos contained in buildings that the College owns. Environmental regulations exist in Colorado that require the College to handle and dispose of asbestos in a special manner if a building undergoes major renovations or is demolished.

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The difference between the amount of net assets as of June 30, 2005 and the amount of net assets that would have been reported at that date if the new accounting method had been applied retroactively for all periods that would have been affected is a decrease therein of \$2,210,467, which is reflected as the cumulative effect of a change in accounting principle in the 2006 change in net assets.

A summary of changes in asset retirement obligations since the date of adoption is included in the table below.

	<b>2007</b>	<b>2006</b>
Liability, beginning of year	\$ 2,738,300	\$ 2,628,432
Accretion expense	114,461	109,868
Liability, end of year	\$ 2,852,761	\$ 2,738,300

**Note 20: Subsequent Event**

On July 30, 2007, one of the College's endowment Absolute Return Managers, Sowood Capital Management, notified their clients of their decision to sell the funds' entire portfolio due to the severe declines in the value of their credit positions and non-performance of the offsetting hedges. The College participated in several conference calls with the firm's founder, Jeff Larson and determined the events occurred the week prior to July 30, 2007 and in no way impacted the June 30, 2007 valuation of the fund. The College invested \$10 million on January 1, 2007 and the June 30, 2007 valuation was \$10,425,472. Based on communications the College expects a loss of approximately 53 percent for this fund.

**Note 21: Subsequent Event**

On October 11, 2007 the El Pomar Foundation of Colorado Springs announced a \$10 million pledge to the College's "Vision 2010" capital campaign, to be paid over 10 years. The gift will be used to support capital construction and scholarships at Colorado College.