

The Colorado College and Subsidiaries

Independent Accountants' Report and Financial Statements

June 30, 2008 and 2007

The Colorado College and Subsidiaries
June 30, 2008 and 2007

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Independent Accountants' Report

Board of Trustees
The Colorado College
Colorado Springs, Colorado

We have audited the accompanying consolidated statements of financial position of The Colorado College and Subsidiaries (the College) as of June 30, 2008 and 2007, 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, 2008 and 2007, 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.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 6, 2008, 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.

/s/ **BKD, LLP**

November 6, 2008

The Colorado College and Subsidiaries
Consolidated Statements of Financial Position
June 30, 2008 and 2007

Assets

	2008	2007
Cash and cash equivalents	\$ 6,614,561	\$ 4,814,786
Investments	35,157,323	42,663,217
General accounts receivable (net of allowance for doubtful accounts of \$27,538 and \$11,141 at June 30, 2008 and 2007, respectively)	1,400,137	2,605,323
Student accounts receivable (net of allowance for doubtful accounts of \$132,907 and \$139,313 at June 30, 2008 and 2007, respectively)	1,730,945	2,004,438
Grants receivable	477,277	221,534
Interest receivable	941,118	1,757,256
Contributions receivable (net of allowance for doubtful pledges and unamortized discounts of \$826,115 and \$574,420 at June 30, 2008 and 2007, respectively)	21,534,900	10,763,353
Loans to students (net of allowance for doubtful loans of \$307,511 and \$320,248 at June 30, 2008 and 2007, respectively)	4,958,085	4,774,706
Other assets	1,904,735	1,501,237
Long-term investments	486,298,982	523,499,516
Land, buildings and equipment (net of accumulated depreciation of \$60,074,312 and \$56,999,278 at June 30, 2008 and 2007, respectively)	161,714,099	143,610,735
Beneficial interest in perpetual trusts	31,825,518	33,505,388
Total assets	\$ 754,557,680	\$ 771,721,489

Liabilities and Net Assets

	<u>2008</u>	<u>2007</u>
Liabilities		
Accounts payable	\$ 2,563,906	\$ 5,536,077
Student accounts payable	419,890	488,318
Salaries and benefits payable	5,549,911	5,399,855
Deferred revenue	2,467,314	2,223,739
Deposits	483,388	519,464
Grants refundable	4,671,471	4,671,471
Assets held for others	3,063,521	3,198,969
Early retirement accrual	1,401,474	1,229,474
Capital lease obligations	2,512,646	2,450,000
Other postretirement benefit plan payable	2,249,000	2,332,000
Bonds payable (net of unamortized bond discount of \$156,887 and \$174,490 at June 30, 2008 and 2007, respectively, and unaccreted bond premium of \$379,495 and \$395,307 at June 30, 2008 and 2007, respectively)	85,097,608	85,875,817
Asset retirement obligation	2,972,006	2,852,761
Annuities payable	1,270,816	1,200,036
Other life income funds payable	<u>4,249,751</u>	<u>4,902,611</u>
Total liabilities	<u>118,972,702</u>	<u>122,880,592</u>
Net Assets		
Unrestricted	477,879,512	505,898,773
Temporarily restricted	28,067,812	18,836,286
Permanently restricted	<u>129,637,654</u>	<u>124,105,838</u>
Total net assets	<u>635,584,978</u>	<u>648,840,897</u>
Total liabilities and net assets	<u>\$ 754,557,680</u>	<u>\$ 771,721,489</u>

The Colorado College and Subsidiaries
Consolidated Statement of Activities
Year Ended June 30, 2008

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Revenues, Gains, Losses and Other Support				
Tuition and fees	\$ 74,827,738	\$ —	\$ —	\$ 74,827,738
Less scholarship allowances	<u>(24,705,794)</u>	<u>—</u>	<u>—</u>	<u>(24,705,794)</u>
Net tuition and fees	50,121,944	—	—	50,121,944
Contributions	6,879,908	20,338,797	6,426,249	33,644,954
Change in value of split-interest agreements	86,936	(322,897)	(284,775)	(520,736)
Government grants and contracts	2,038,872	—	—	2,038,872
Investment income	2,255,717	7,360,936	428,546	10,045,199
Net realized and unrealized losses on investments	(27,403,844)	—	(1,038,204)	(28,442,048)
Auxiliary enterprises	18,159,156	—	—	18,159,156
Other revenue	<u>6,363,636</u>	<u>—</u>	<u>—</u>	<u>6,363,636</u>
Total revenues, gains and losses	58,502,325	27,376,836	5,531,816	91,410,977
Net assets released from restrictions	<u>18,145,310</u>	<u>(18,145,310)</u>	<u>—</u>	<u>—</u>
Total revenues, gains, losses and other support	<u>76,647,635</u>	<u>9,231,526</u>	<u>5,531,816</u>	<u>91,410,977</u>
Expenses				
Educational and general expenses				
Instruction	38,422,581	—	—	38,422,581
Research	1,346,811	—	—	1,346,811
Public service	1,899,741	—	—	1,899,741
Academic support	10,199,697	—	—	10,199,697
Student services	17,688,602	—	—	17,688,602
Institutional support	<u>19,719,135</u>	<u>—</u>	<u>—</u>	<u>19,719,135</u>
Total educational and general expenses	89,276,567	—	—	89,276,567
Auxiliary enterprises	<u>15,390,329</u>	<u>—</u>	<u>—</u>	<u>15,390,329</u>
Total expenses	<u>104,666,896</u>	<u>—</u>	<u>—</u>	<u>104,666,896</u>
Change in Net Assets	(28,019,261)	9,231,526	5,531,816	(13,255,919)
Net Assets, Beginning of Year	<u>505,898,773</u>	<u>18,836,286</u>	<u>124,105,838</u>	<u>648,840,897</u>
Net Assets, End of Year	<u>\$ 477,879,512</u>	<u>\$ 28,067,812</u>	<u>\$ 129,637,654</u>	<u>\$ 635,584,978</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>
Revenues, Gains, Losses and Other Support				
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, gains and losses	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, losses and other support	<u>159,401,402</u>	<u>836,617</u>	<u>9,313,077</u>	<u>169,551,096</u>
Expenses				
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>
Change in Net Assets Before Initial Application of FASB 158	57,964,493	836,617	9,313,077	68,114,187
Adjustment to Initially Apply FASB 158	<u>(1,490,100)</u>	<u>—</u>	<u>—</u>	<u>(1,490,100)</u>
Change in Net Assets	56,474,393	836,617	9,313,077	66,624,087
Net Assets, Beginning of Year	<u>449,424,380</u>	<u>17,999,669</u>	<u>114,792,761</u>	<u>582,216,810</u>
Net Assets, End of Year	<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 Statements of Cash Flows
Years Ended June 30, 2008 and 2007

	2008	2007
Operating Activities		
Change in net assets	\$ (13,255,919)	\$ 66,624,087
Items not requiring (providing) operating activities cash flows		
Realized and unrealized losses (gains) on investments	28,442,048	(68,867,074)
Depreciation and amortization	4,706,389	4,389,417
Loss on disposal of capital equipment and property	593,751	1,332,618
Change in value of split-interest agreements	520,736	(508,765)
Contributions and investment income restricted for long-term investments	(6,645,242)	(5,754,755)
Adjustment to initially apply FASB Statement No. 158	—	1,490,100
Decrease in allowance for doubtful loans to students	(15,237)	(120,916)
Changes in		
Accounts, grants and interest receivable	2,039,074	(2,599,312)
Contributions receivable	(10,771,547)	(758,702)
Other assets	(403,498)	1,429,165
Accounts payable	(2,972,171)	4,610,816
Student accounts payable	(68,428)	104,254
Salaries and benefits payable	150,056	627,161
Deferred revenue	243,575	(718,960)
Deposits	(36,076)	(45,028)
Assets held for others	(135,448)	271,230
Early retirement accrual	172,000	(373,423)
Other postretirement benefit plan payable	<u>(83,000)</u>	<u>80,900</u>
Net cash provided by operating activities	<u>2,481,063</u>	<u>1,212,813</u>
Investing Activities		
Purchase of land, buildings and equipment	(23,282,468)	(24,395,290)
Proceeds on sales of land, buildings and equipment	—	142,494
Loan advances to students	(863,682)	(893,023)
Payments received on loans to students	695,540	991,082
Proceeds from sales of investments	205,783,815	293,812,713
Purchase of investments	<u>(188,942,381)</u>	<u>(307,039,062)</u>
Net cash used in investing activities	<u>(6,609,176)</u>	<u>(37,381,086)</u>
Financing Activities		
Contributions and investment income restricted for		
Investment in endowment	6,426,249	5,639,034
Investment in annuities and other life income funds	218,993	115,721
Reimbursement of disbursements under capital lease agreement	521,846	2,450,000
Payments on capital leases	(459,200)	(1,640,616)
Proceeds from issuance of bonds	—	32,455,000
Principal payments on bonds payable	<u>(780,000)</u>	<u>(750,000)</u>
Net cash provided by financing activities	<u>5,927,888</u>	<u>38,269,139</u>
Increase in Cash and Cash Equivalents	1,799,775	2,100,866
Cash and Cash Equivalents, Beginning of Year	<u>4,814,786</u>	<u>2,713,920</u>
Cash and Cash Equivalents, End of Year	<u>\$ 6,614,561</u>	<u>\$ 4,814,786</u>

The Colorado College and Subsidiaries

Notes to Consolidated Financial Statements

June 30, 2008 and 2007

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 maintains 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, 2008 and 2007

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).

Property, Plant and Equipment

Buildings and equipment are recorded at cost or, if donated, at the estimated fair market value at the date of donation. Depreciation of property, plant and equipment, is calculated on the straight-line method over the estimated useful lives of the assets which range from seven years for equipment and 40 to 70 years for buildings and improvements.

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.

To qualify for capitalization, 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 Colorado College and Subsidiaries
Notes to Consolidated Financial Statements
June 30, 2008 and 2007

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 for tax-exempt debt. Total interest capitalized was:

	2008	2007
Total interest cost incurred on borrowings for project	\$ 1,171,230	\$ 1,316,465
Interest income from investment of proceeds of borrowings for project	<u>(284,512)</u>	<u>(999,114)</u>
Net interest cost capitalized	\$ <u>886,718</u>	\$ <u>317,351</u>
	2008	2007
Interest capitalized	\$ 886,718	\$ 317,351
Interest charged to expense	<u>2,010,732</u>	<u>2,874,567</u>
Total interest incurred	\$ <u>2,897,450</u>	\$ <u>3,191,918</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, 2008 and 2007

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 for three years 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. Additions to the accrual are based upon the terms of the specific early retirement agreements issued.

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, 2008 and 2007

Pledges receivable are recorded at their net realizable value at the date an unconditional promise to give is made to the College. Unconditional promises to give 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 2007 financial statements to conform to the 2008 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, 2008 and 2007

Note 2: Investments

The cost and market value of investments consist of the following as of June 30, 2008 and 2007:

	Market Value			
	2008		2007	
Investments	\$ 35,157,323		\$ 42,663,217	
Long-term investments	<u>486,298,982</u>		<u>523,499,516</u>	
Total investments	<u>\$ 521,456,305</u>		<u>\$ 566,162,733</u>	
	2008 Cost	2008 Market	2007 Cost	2007 Market
Cash and short-term investments	\$ 46,791,886	\$ 46,792,795	\$ 40,433,479	\$ 40,433,479
Long-term cash equivalents	9,650,000	9,650,000	—	—
Fixed income investments	59,505,988	60,987,672	69,263,653	68,584,347
Domestic equity investments	142,854,099	174,371,830	206,849,862	289,464,220
International equity investments	59,925,033	58,368,987	55,355,648	57,758,560
Domestic hedged equity investments	10,000,000	10,304,647	10,000,000	10,821,192
International hedged equity investments	10,000,000	10,402,400	10,000,000	11,520,000
Private capital investments	53,688,169	45,946,311	17,486,938	7,929,459
Alternative	89,343,745	102,536,225	69,374,363	77,556,038
Real estate	<u>2,045,438</u>	<u>2,095,438</u>	<u>2,045,438</u>	<u>2,095,438</u>
Total investments	<u>\$ 483,804,358</u>	<u>\$ 521,456,305</u>	<u>\$ 480,809,381</u>	<u>\$ 566,162,733</u>

It is the College's policy to invest and maintain a diversified investment portfolio. The fair value of investments is based on the quoted market prices, 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.

For the 2007-08 fiscal year, the College has invested in five 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.

Investment income of \$10,045,199 and \$12,626,259 in the consolidated statements of activities for the years ended June 30, 2008 and 2007, respectively, is net of \$1,011,487 and \$1,346,025 of investment expenses incurred during the years ended June 30, 2008 and 2007, respectively.

The Colorado College and Subsidiaries

Notes to Consolidated Financial Statements

June 30, 2008 and 2007

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 \$31,825,518 and \$33,505,388 at June 30, 2008 and 2007, 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
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Contribution revenue recognized and investments recorded by the College related to split-interest agreements are as follows:

	Year Ended June 30,	
	2008	2007
Contribution Revenue		
CRATs/CRUTs	\$ 75,671	\$ 561,899
Charitable gift annuities	\$ 143,321	\$ 34,981
	June 30,	
	2008	2007
Investments		
CRATs/CRUTs	\$ 8,889,082	\$ 9,825,767
Charitable gift annuities	\$ 1,992,044	\$ 2,036,489

Note 5: Contributions Receivable

Contributions receivable consist of the following unconditional promises to give as of June 30, 2008 and 2007:

	2008	2007
Annual fund	\$ 132,687	\$ 138,478
Gifts for operations	17,762,930	6,694,532
Endowment	4,465,398	4,504,763
	22,361,015	11,337,773
Less allowance for doubtful pledges	(121,893)	(91,908)
Less unamortized discount	(704,222)	(482,512)
	\$ 21,534,900	\$ 10,763,353
 Amounts due in		
Less than one year	\$ 6,604,478	\$ 5,742,782
One to five years	14,930,422	5,020,571
	\$ 21,534,900	\$ 10,763,353

Discount rates ranged from 2.749% to 5.125% for the years ended June 30, 2008 and 2007.

The College has conditional promises to give of \$3,785,050 and \$3,946,511 at June 30, 2008 and 2007, 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 \$59.8 million and \$57.8 million as of June 30, 2008 and 2007, respectively. Because these bequest pledges do not yet meet existing revenue recognition criteria, they have not been recorded on the books of the College.

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Notes to Consolidated Financial Statements
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Note 6: Land, Buildings and Equipment

Land, buildings and equipment consist of the following as of June 30, 2008 and 2007:

	2008	2007
Buildings and improvements	\$ 175,138,487	\$ 137,693,346
Land	5,829,638	5,564,949
Campus infrastructure	23,103,286	16,910,731
Furnishings and equipment	14,978,330	12,883,477
Construction in progress	<u>2,738,670</u>	<u>27,557,510</u>
	221,788,411	200,610,013
Less accumulated depreciation	<u>(60,074,312)</u>	<u>(56,999,278)</u>
	<u>\$ 161,714,099</u>	<u>\$ 143,610,735</u>

Note 7: Operating Leases

The College leases various office equipment, vehicles and property under operating leases expiring through calendar year 2018. Rent expense on operating leases during the years ended June 30, 2008 and 2007 was \$105,684 and \$71,746, respectively.

Future minimum lease payments under the operating leases as of June 30, 2008 for years ending June 30, 2009 and thereafter are:

2009	\$ 78,868
2010	43,789
2011	46,242
2012	48,835
2013	51,576
Thereafter	<u>248,945</u>
	<u>\$ 518,255</u>

The Colorado College and Subsidiaries
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Note 8: Capital Lease Obligations

The College leases various equipment and real estate under capital leases expiring through 2015. The capitalized cost and accumulated amortization of equipment and real estate under capital leases as of June 30, 2008 and 2007 are as follows:

	2008	2007
Campus infrastructure	\$ 2,472,686	\$ —
Equipment	521,846	—
Construction in progress	—	1,777,937
Total cost	2,994,532	1,777,937
Less accumulated amortization	5,151	—
	\$ 2,989,381	\$ 1,777,937

Future minimum lease payments under capital leases, together with the present value of the net minimum lease payments at June 30, 2008 were:

Year Ending June 30,		
2009	\$	650,888
2010		622,803
2011		622,413
2012		622,004
2013		84,069
Thereafter		167,352
Less amount representing interest		(256,883)
Present value of future minimum lease payments	\$	2,512,646

The Colorado College and Subsidiaries
Notes to Consolidated Financial Statements
June 30, 2008 and 2007

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 \$705,000 and \$1,374,619 (net of unamortized bond discount of \$0 and \$10,381) as of June 30, 2008 and 2007, respectively. Bonds payable for the Series 2003 bonds were \$14,165,000 as of June 30, 2008 and 2007. Bonds payable for the Series 2004 Bonds were \$10,126,739 and \$10,125,598 (net of unamortized bond discount of \$18,261 and \$19,402) as of June 30, 2008 and 2007, respectively. Bonds payable for the Series 2005 bonds were \$27,667,835 and \$27,778,786 (net of unamortized bond discount of \$116,660 and \$121,521 and unaccreted bond premium of \$379,495 and \$395,307) as of June 30, 2008 and 2007, respectively. Bonds payable for the Series 2006 bonds were \$32,433,034 and \$32,431,814 (net of unamortized bond discount of \$21,966 and \$23,186) as of June 30, 2008 and 2007, respectively.

Proceeds of the Series 1999 bond issue 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 was legally defeased with the issuance of the 2005 bonds, as described below. The remaining Series 1999 bonds bear interest at 4.95%, payable semi-annually. The final principal payment for the Series 1999 bonds is due June 2009 in the amount of \$705,000. The Series 1999 bonds are unsecured.

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 bonds (\$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, 2008 and 2007 were 1.35 % and 3.72%, 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, 2008 and 2007 were 1.5% and 3.74%, respectively. Interest rates are reset weekly and interest is payable monthly. The Series 2004 bonds are unsecured and mature June 2024.

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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 rates as of June 30, 2008 and 2007 were 2.9 % and 3.93 %, respectively. 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.

Aggregate annual maturities for the remaining term of the bonds outstanding at June 30, 2008, are:

Year Ending June 30,	Series 1999 Bonds	Series 2003 Bonds	Series 2004 Bonds	Series 2005 Bonds	Series 2006 Bonds	Totals
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
2013	—	—	—	925,000	1,270,000	2,195,000
Thereafter	<u>—</u>	<u>14,165,000</u>	<u>10,145,000</u>	<u>24,075,000</u>	<u>28,790,000</u>	<u>77,175,000</u>
	<u>\$ 705,000</u>	<u>\$ 14,165,000</u>	<u>\$ 10,145,000</u>	<u>\$ 27,405,000</u>	<u>\$ 32,455,000</u>	84,875,000
Less discount						(156,887)
Plus premium						<u>379,495</u>
						<u>\$ 85,097,608</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.

The Colorado College and Subsidiaries
Notes to Consolidated Financial Statements
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Note 10: Net Assets

Unrestricted Net Assets

Unrestricted net assets as of June 30, 2008 and 2007 consist of the following, with some net assets maintained in funds for the purposes noted below:

	<u>2008</u>	<u>2007</u>
Operations and reserves	\$ 20,447,105	\$ 22,608,661
Student loans	1,446,615	1,340,801
Appreciation on endowments	329,406,413	374,110,405
Funds functioning as endowments	37,427,301	29,414,884
Net investment in plant	<u>89,152,078</u>	<u>78,424,022</u>
Total unrestricted net assets	<u>\$ 477,879,512</u>	<u>\$ 505,898,773</u>

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 \$566,659 and \$500,218 as of June 30, 2008 and 2007, respectively.

Temporarily Restricted Net Assets

Temporarily restricted net assets as of June 30, 2008 and 2007 are available for the following purposes or periods:

	<u>2008</u>	<u>2007</u>
Gifts and endowment income for specific purposes	\$ 23,571,822	\$ 11,528,479
Plant	—	2,702,762
Split-interest	<u>4,495,990</u>	<u>4,605,045</u>
Total temporarily restricted net assets	<u>\$ 28,067,812</u>	<u>\$ 18,836,286</u>

Permanently Restricted Net Assets

Permanently restricted net assets as of June 30, 2008 and 2007 are restricted to investment in perpetuity, the income from which is expendable to support the following:

	<u>2008</u>	<u>2007</u>
Endowment	\$ 96,900,556	\$ 89,341,004
Split-interest funds and perpetual trusts	<u>32,737,098</u>	<u>34,764,834</u>
Total permanently restricted net assets	<u>\$ 129,637,654</u>	<u>\$ 124,105,838</u>

The Colorado College and Subsidiaries
Notes to Consolidated Financial Statements
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Recent Accounting Pronouncements

In August 2008, the Financial Accounting Standards Board (FASB) issued Staff Position (FSP) FAS 117-1, *Endowments of Not-for-Profit Organizations - Net Asset Classification of Funds Subject to an Enacted Version of the Uniform Prudent Management of Institutional Funds Act, and Enhanced Disclosures for All Endowment Funds*. The effective date for adoption is for fiscal years ending after December 15, 2008. The College intends to fully adopt FAS 117-1 for the fiscal year ending June 30, 2009.

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 \$232,000 to the plan in 2009.

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.

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

	2008	2007
Benefit obligation	\$ (2,249,000)	\$ (2,332,000)
Fair value of plan assets	—	—
Funded status	\$ <u>(2,249,000)</u>	\$ <u>(2,332,000)</u>

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

	2008	2007
Net loss	\$ 387,000	\$ 413,000
Transition obligation	941,000	1,077,100
	\$ <u>1,328,000</u>	\$ <u>1,490,100</u>

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Other significant balances and costs are:

	<u>2008</u>	<u>2007</u>
Employer contribution	\$ 224,000	\$ 224,000
Benefits paid	<u>(224,000)</u>	<u>(224,000)</u>
Benefit costs	\$ <u> </u>	\$ <u> </u>

The following amounts have been recognized in the statements of activities for the years ended June 30, 2008 and 2007:

	<u>2008</u>	<u>2007</u>
Amounts arising during the period:		
Net (gain) loss	\$ (13,000)	\$ 210,000
Amounts reclassified as components of net periodic benefit cost of the period:		
Net loss	13,000	14,000
Net transition obligation	<u>136,000</u>	<u>136,000</u>
Net periodic postretirement benefit cost	\$ <u>136,000</u>	\$ <u>360,000</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.

Significant assumptions include:

	<u>2008</u>	<u>2007</u>
Weighted-average assumptions used to determine benefit obligations:		
Discount rate	5.75%	6.00%
Weighted-average assumptions used to determine benefit costs:		
Discount rate	5.75%	6.00%

The Colorado College and Subsidiaries
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For measurement purposes, 6.5% and 7% annual rates of increase in the per capita cost of covered health care benefits were assumed for 2008 and 2007, respectively. In 2008, the rate was assumed to decrease gradually to 4% by the year 2013 and remain at that level thereafter. A 1% increase in the health care inflation rates would increase the accumulated postretirement benefit obligation by \$80,000 and \$93,000 as of June 30, 2008 and 2007, respectively, and the aggregate of the service and interest cost components of net periodic postretirement benefit cost for the years then ended by \$4,000 and \$6,000, respectively.

The following benefit payments, which reflect expected future service, as appropriate, are expected to be paid as of June 30, 2008:

2009	\$ 232,000
2010	229,000
2011	225,000
2012	219,000
2013	211,000
2014-2017	<u>903,000</u>
	<u>\$ 2,019,000</u>

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 \$3,289,527 and \$3,009,631 for the years ended June 30, 2008 and 2007, respectively.

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Note 13: Scholarship Allowances (Tuition Discounts)

For the years ended June 30, 2008 and 2007, College scholarship allowances (tuition discounts, prizes and external scholarships) were provided for students at the College from the following sources:

	<u>2008</u>	<u>2007</u>
Unrestricted sources		
Colorado College funds	\$ 13,727,545	\$ 13,452,387
ACM tuition exchange	<u>285,366</u>	<u>256,992</u>
Total unrestricted sources *	<u>14,012,911</u>	<u>13,709,379</u>
Restricted sources		
Endowments	8,609,840	8,161,481
Private gifts and grants **	1,278,708	1,028,554
Government grants ***	<u>804,335</u>	<u>859,604</u>
Total restricted sources	<u>10,692,883</u>	<u>10,049,639</u>
Total scholarships provided	<u>\$ 24,705,794</u>	<u>\$ 23,759,018</u>

* Excludes tuition remission for benefits for the children of employees totaling \$803,437 and \$723,041 for the years ended June 30, 2008 and 2007, respectively.

** Excludes scholarships provided directly to our students from outside foundations and other organizations totaling \$1,849,633 and \$1,611,016 for the years ended June 30, 2008 and 2007, respectively. The College acted as custodian for these funds but did not determine the recipient or the amount awarded.

*** Excludes Pell Grants of \$628,475 and \$639,844 for the years ended June 30, 2008 and 2007, respectively.

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Note 14: Functional Expenses

Expenses by functional classification are as follows for the years ended June 30, 2008 and 2007:

	<u>2008</u>	<u>2007</u>
Educational		
Instruction	\$ 38,422,581	\$ 37,638,849
Research	1,346,811	1,084,221
Public service	1,899,741	1,630,219
Academic support	10,199,697	9,032,322
Student services	17,688,602	17,269,401
Auxiliary expenses	<u>15,390,329</u>	<u>15,722,373</u>
Total educational	84,947,761	82,377,385
Institutional support, excluding fundraising	15,358,547	15,053,998
Fundraising	<u>4,360,588</u>	<u>4,005,526</u>
	<u>\$ 104,666,896</u>	<u>\$ 101,436,909</u>

Note 15: Additional Cash Flow Information

Additional cash flow information includes the following for the years ended June 30, 2008 and 2007:

	<u>2008</u>	<u>2007</u>
Interest paid, net of capitalized interest (Note 1)	\$ 1,805,504	\$ 1,833,243
Noncash investing and financing activities		
Fixed asset additions included in accounts payable	\$ 6,400	\$ 113,318
Amortization of bond discounts/premiums	\$ 1,791	\$ 12,305

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

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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, 2008 and 2007, these balances exceeded federally insured limits by approximately \$5.8 million and \$4.4 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, 2008 and 2007. Construction contractor commitments under those projects totaled \$328,731 and \$13,514,657 as of June 30, 2008 and 2007, respectively. Cumulative funds available from existing sources for completion of those projects totaled \$7,231,090 and \$19,402,253 as of June 30, 2008 and 2007, respectively.

Investment Commitments

The College had six investments, held with four companies, as of June 30, 2008 and 2007, 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, 2008, the College has contributed \$53,688,169 in capital toward total commitments of \$113,800,000 in aggregate, leaving \$60,111,831 in remaining commitments. As of June 30, 2007, the College had contributed \$31,861,301 in capital toward total commitments of \$58,800,000 in aggregate, leaving \$26,938,699 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.

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Notes to Consolidated Financial Statements
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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 \$28,130,000.

Assets Held for Others

The carrying amount is a reasonable estimate of fair value.

The Colorado College and Subsidiaries
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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 \$150,000 per person, per incident. The aggregate stop loss was dropped for the fiscal year ended June 30, 2008. Aggregate stop loss is applicable when the entire plan experiences claims in excess of 125% of expected claims.

The expense for this Plan was \$4,476,959 and \$4,284,525 for the years ended June 30, 2008 and 2007, respectively. Incurred but not reported claims, based on actuarial calculations, were \$538,571 and \$546,505 as of June 30, 2008 and 2007, respectively.

The College has established a reserve (designated unrestricted net assets) of \$1,553,236 and \$1,732,532 as of June 30, 2008 and 2007, respectively, (included in "operations and reserves" 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 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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A summary of changes in asset retirement obligations since the date of adoption is included in the table below:

	<u>2008</u>	<u>2007</u>
Liability, beginning of year	\$ 2,852,761	\$ 2,738,300
Accretion expense	<u>119,245</u>	<u>114,461</u>
Liability, end of year	<u>\$ 2,972,006</u>	<u>\$ 2,852,761</u>

Note 20: Subsequent Event

Colorado College invests in various investment securities which are exposed to various risks such as interest rate, market and credit risks. Due to the level of risk associated with certain investments, it is reasonable to assume changes in the values of investment securities will occur in the near term and that such change could materially affect the amounts reported in the accompanying statement of financial position.

Subsequent to year-end and through October 31, 2008, the investment markets have experienced significant declines. The S&P 500 has declined approximately 25% in value for this period. The fair market value of the College's investments has also declined subsequent to year-end. Management does not believe this will affect the College's ability to meet its current obligations.