

THE COLORADO COLLEGE AND SUBSIDIARIES
Colorado Springs, Colorado

FINANCIAL STATEMENTS
June 30, 2011 and 2010

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Independent Auditor's Report

Board of Trustees
The Colorado College and Subsidiaries
Colorado Springs, Colorado

We have audited the accompanying consolidated statement of financial position of The Colorado College and Subsidiaries (the College) as of June 30, 2011 and 2010, and the related consolidated statement 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 College as of June 30, 2011 and 2010, and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 9, 2011 on our consideration of the College's internal control over financial reporting and on 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 audits.

Clifton Gunderson LLP

Greenwood Village, Colorado
November 9, 2011

THE COLORADO COLLEGE AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
June 30, 2011 AND 2010

	2011	2010
ASSETS		
Cash and cash equivalents	\$ 24,634,259	\$ 32,640,733
Investments	21,699,429	30,468,932
General accounts receivable (net of allowance for doubtful accounts of \$22,209 and \$9,378 at June 30, 2011 and 2010, respectively)	2,513,663	1,179,472
Students accounts receivable (net of allowance for doubtful accounts of \$178,266 and \$164,310 at June 30, 2011 and 2010, respectively)	3,016,632	2,364,211
Grants receivable	405,960	437,761
Interest receivable	658,495	596,834
Contributions receivable (net of allowance for doubtful pledges and unamortized discounts of \$368,736 and \$606,811 at June 30, 2011 and 2010, respectively)	12,589,050	12,387,882
Loans to students (net of allowance for doubtful loans of \$271,413 and \$304,490 at June 30, 2011 and 2010, respectively)	5,189,611	5,506,392
Other assets	1,289,715	1,173,875
Long-term investments	528,560,661	434,375,067
Land, buildings and equipment (net of accumulated depreciation of \$76,041,985 and \$70,519,085 at June 30, 2011 and 2010, respectively)	168,576,580	161,208,610
Beneficial interest in perpetual trusts	32,643,658	28,586,021
Total assets	\$ 801,777,713	\$ 710,925,790
LIABILITIES AND NET ASSETS		
Accounts payable	\$ 8,105,321	\$ 4,302,280
Student accounts payable	325,056	171,043
Salaries and benefits payable	6,013,675	6,031,500
Deferred revenue	2,759,090	442,432
Deposits	383,144	438,013
Grants refundable	4,671,471	4,671,471
Assets held for others	3,593,504	2,990,181
Early retirement accrual	679,462	1,126,342
Capital lease obligations	866,648	1,418,342
Other postretirement benefit plan payable	1,523,337	2,279,043
Bonds payable (net of unamortized bond discount of \$102,078 and \$106,938 at June 30, 2011 and 2010, respectively, and unaccreted bond premium of \$4,407,822 and \$4,976,159 at June 30, 2011 and 2010, respectively)	74,380,744	78,239,221
Asset retirement obligation	3,318,569	3,225,659
Annuities payable	1,448,810	1,447,079
Other life income funds payable	3,597,960	3,466,459
Total liabilities	111,666,791	110,249,065
Net assets		
Unrestricted	246,253,504	215,294,974
Temporarily restricted	301,717,711	252,099,263
Permanently restricted	142,139,707	133,282,488
Total net assets	690,110,922	600,676,725
Total liabilities and net assets	\$ 801,777,713	\$ 710,925,790

The accompanying notes are an integral part of these consolidated financial statements.

THE COLORADO COLLEGE AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF ACTIVITIES
Year Ended June 30, 2011 (with Comparative Totals for the Year Ended June 30, 2010)

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>	<u>2010 Total</u>
Operating activity					
Revenues, gains and other support:					
Tuition and fees	\$ 86,398,008	\$ -	\$ -	\$ 86,398,008	\$ 81,506,708
Less scholarship allowances	<u>(28,325,567)</u>	<u>-</u>	<u>-</u>	<u>(28,325,567)</u>	<u>(26,087,910)</u>
Net tuition and fees	58,072,441	-	-	58,072,441	55,418,798
Contributions	6,420,426	3,978,397	-	10,398,823	7,618,426
Government grants and contracts	1,845,410	-	-	1,845,410	1,829,729
Endowment distribution	6,985,870	15,242,085	-	22,227,955	24,216,980
Other investment income	1,720,661	649,377	-	2,370,038	1,344,963
Auxiliary enterprises	16,780,268	-	-	16,780,268	17,957,745
Other revenue	7,714,536	-	-	7,714,536	5,632,307
Net assets released from restrictions	<u>15,499,042</u>	<u>(15,499,042)</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total operating revenue	<u>115,038,654</u>	<u>4,370,817</u>	<u>-</u>	<u>119,409,471</u>	<u>114,018,948</u>
Expenses:					
Educational and general expenses					
Instruction	40,083,802	-	-	40,083,802	39,299,941
Research	1,098,845	-	-	1,098,845	1,174,783
Public service	2,231,078	-	-	2,231,078	2,159,704
Academic support	8,623,039	-	-	8,623,039	8,851,344
Student services	19,648,185	-	-	19,648,185	17,209,612
Institutional support	<u>18,781,370</u>	<u>-</u>	<u>-</u>	<u>18,781,370</u>	<u>16,408,630</u>
Total educational and general expenses	90,466,319	-	-	90,466,319	85,104,014
Auxiliary enterprises	<u>14,118,498</u>	<u>-</u>	<u>-</u>	<u>14,118,498</u>	<u>14,853,473</u>
Total operating expenses	<u>104,584,817</u>	<u>-</u>	<u>-</u>	<u>104,584,817</u>	<u>99,957,487</u>
Increase in net assets from operating activities	<u>10,453,837</u>	<u>4,370,817</u>	<u>-</u>	<u>14,824,654</u>	<u>14,061,461</u>
Non-operating activity					
Contributions	-	-	5,615,657	5,615,657	3,393,354
Investment return on endowment, reinvested	16,968,132	47,558,375	-	64,526,507	39,321,596
Change in value of split interest agreements	(5,287)	382,357	4,090,309	4,467,379	(792,573)
Loss on retirement of debt	-	-	-	-	(474,775)
Transfer of restrictions	<u>3,541,848</u>	<u>(2,693,101)</u>	<u>(848,747)</u>	<u>-</u>	<u>-</u>
Increase in net assets from non-operating activities	<u>20,504,693</u>	<u>45,247,631</u>	<u>8,857,219</u>	<u>74,609,543</u>	<u>41,447,602</u>
Total change in net assets	<u>30,958,530</u>	<u>49,618,448</u>	<u>8,857,219</u>	<u>89,434,197</u>	<u>55,509,063</u>
Net assets, beginning of year	<u>215,294,974</u>	<u>252,099,263</u>	<u>133,282,488</u>	<u>600,676,725</u>	<u>545,167,662</u>
Net assets, end of year	<u>\$ 246,253,504</u>	<u>\$ 301,717,711</u>	<u>\$ 142,139,707</u>	<u>\$ 690,110,922</u>	<u>\$ 600,676,725</u>

The accompanying notes are an integral part of this consolidated financial statement.

THE COLORADO COLLEGE AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF ACTIVITIES
Year Ended June 30, 2010

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Operating activity				
Revenues, gains and other support:				
Tuition and fees	\$ 81,506,708	\$ -	\$ -	\$ 81,506,708
Less scholarship allowances	(26,087,910)	-	-	(26,087,910)
Net tuition and fees	55,418,798	-	-	55,418,798
Contributions	7,269,786	348,640	-	7,618,426
Government grants and contracts	1,829,729	-	-	1,829,729
Endowment distribution	7,792,553	16,424,427	-	24,216,980
Other investment income	729,966	614,997	-	1,344,963
Auxiliary enterprises	17,957,745	-	-	17,957,745
Other revenue	5,632,307	-	-	5,632,307
Net assets released from restrictions	18,059,757	(18,059,757)	-	-
Total operating revenue	<u>114,690,641</u>	<u>(671,693)</u>	<u>-</u>	<u>114,018,948</u>
Expenses:				
Educational and general expenses				
Instruction	39,299,941	-	-	39,299,941
Research	1,174,783	-	-	1,174,783
Public service	2,159,704	-	-	2,159,704
Academic support	8,851,344	-	-	8,851,344
Student services	17,209,612	-	-	17,209,612
Institutional support	16,408,630	-	-	16,408,630
Total educational and general expenses	85,104,014	-	-	85,104,014
Auxiliary enterprises	14,853,473	-	-	14,853,473
Total operating expenses	<u>99,957,487</u>	<u>-</u>	<u>-</u>	<u>99,957,487</u>
Increase (decrease) in net assets from operating activities	<u>14,733,154</u>	<u>(671,693)</u>	<u>-</u>	<u>14,061,461</u>
Non-operating activity				
Contributions	-	-	3,393,354	3,393,354
Investment return on endowment, reinvested	11,283,701	28,026,113	11,782	39,321,596
Change in value of split interest agreements	(22,533)	(1,830,811)	1,060,771	(792,573)
Loss on retirement of debt	(474,775)	-	-	(474,775)
Transfer of restrictions	(2,191,642)	2,103,982	87,660	-
Increase (decrease) in net assets from non-operating activities	<u>8,594,751</u>	<u>28,299,284</u>	<u>4,553,567</u>	<u>41,447,602</u>
Total change in net assets	<u>23,327,905</u>	<u>27,627,591</u>	<u>4,553,567</u>	<u>55,509,063</u>
Net assets, beginning of year	<u>191,967,069</u>	<u>224,471,672</u>	<u>128,728,921</u>	<u>545,167,662</u>
Net assets, end of year	<u>\$ 215,294,974</u>	<u>\$ 252,099,263</u>	<u>\$ 133,282,488</u>	<u>\$ 600,676,725</u>

The accompanying notes are an integral part of this consolidated financial statement.

THE COLORADO COLLEGE AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
June 30, 2011 and 2010

	<u>2011</u>	<u>2010</u>
OPERATING ACTIVITIES		
Change in net assets	\$ 89,434,197	\$ 55,509,063
Items not requiring (providing) operating activities cash flows:		
Realized and unrealized gains on investments	(73,832,570)	(56,520,567)
Depreciation, amortization and accretion	5,572,731	5,861,958
Loss on disposal of capital equipment and property	100,030	67,779
Noncash donations of land, buildings and equipment	-	(190,000)
Change in value of split-interest agreements	(3,573,051)	712,038
Contributions and investment income restricted for long-term investment	(6,151,630)	(4,514,060)
Increase in allowance for doubtful loans to students	(33,077)	4,244
Changes in:		
Accounts, grants and interest receivable	(2,016,472)	(1,034,619)
Contributions receivable	(201,168)	4,654,929
Other assets	(115,840)	64,708
Accounts payable	3,803,042	1,148,201
Student accounts payable	154,013	(286,749)
Salaries and benefits payable	(17,825)	410,026
Deferred revenue	2,316,658	395,612
Deposits	(54,869)	(178,700)
Assets held for others	603,323	440,688
Early retirement accrual	(446,880)	138,106
Other postretirement benefit plan payable	<u>(755,706)</u>	<u>31,363</u>
Net cash provided by operating activities	<u>14,784,906</u>	<u>6,714,020</u>
INVESTING ACTIVITIES		
Purchase of land, buildings and equipment	(13,495,674)	(5,301,292)
Proceeds on sales of land, buildings and equipment	24,124	35,300
Loan advances to students	(509,897)	(1,015,397)
Payments received on loans to students	859,755	693,474
Proceeds from sales or maturities of investments	54,546,888	47,649,831
Purchase of investments	<u>(66,481,762)</u>	<u>(31,242,231)</u>
Net cash provided by (used in) investing activities	<u>(25,056,566)</u>	<u>10,819,685</u>
FINANCING ACTIVITIES		
Contributions and investment income restricted for:		
Investment in endowment	6,126,664	4,508,241
Investment in annuities and other life income funds	24,966	5,819
Payments on capital leases	(591,444)	(553,085)
Issuance of new debt	-	51,597,849
Repayment of debt	-	(56,727,135)
Payments on bonds payable	<u>(3,295,000)</u>	<u>(710,000)</u>
Net cash provided by (used in) financing activities	<u>2,265,186</u>	<u>(1,878,311)</u>
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(8,006,474)	15,655,394
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	<u>32,640,733</u>	<u>16,985,339</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u>\$ 24,634,259</u>	<u>\$ 32,640,733</u>

The accompanying notes are an integral part of these consolidated financial statements.

THE COLORADO COLLEGE AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2011 and 2010

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 2,000 students each year. The 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. At June 30, 2011 and 2010, cash equivalents consisted primarily of money market accounts with brokers and certificates of deposit.

One or more of the financial institutions holding the College's cash account are participating in the FDIC's Transaction Account Guarantee Program. Under the program, through December 31, 2012, all noninterest-bearing transaction accounts at these institutions are fully guaranteed by the FDIC for the entire amount in the account.

For interest-bearing cash accounts, the FDIC's insurance limits increased to \$250,000, effective October 3, 2008, and amended July 21, 2010 to be permanent. At June 30, 2011 and 2010, the College's cash accounts exceed federally insured limits by approximately \$25,500,000 and \$32,000,000, 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.

THE COLORADO COLLEGE AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2011 and 2010

NOTE 1 – NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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. Other investments, for which no such quoted market values or valuations are readily available, are carried at fair value as estimated by management using values provided by external investment managers. 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.

Fair Value Measurements

The College follows the *Fair Value Measurements* standard as established by the Financial Accounting Standards Board. The standard defines fair value, establishes a framework for measuring fair value under US GAAP and enhances disclosures about fair value measurements. Under the standard, fair value is defined as the amount that would be received for an asset or paid to transfer a liability (an exit price) in an orderly transaction between market participants on the valuation date.

The standard also establishes a fair value hierarchy which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The standard describes three levels of inputs that may be used to measure fair value:

Level 1 Unadjusted quoted prices in active markets for identical assets or liabilities;

Level 2 Observable inputs other than quoted prices under Level 1 that are observable for the asset or liability, either directly or indirectly; and

Level 3 Unobservable inputs for the asset or liability used to measure fair value that rely on the reporting entity's own assumptions concerning the assumptions that market participants would use in pricing an asset or liability, including assumptions about risk.

In situations when investments do not have readily determinable fair values (alternative investments), the College will use the Net Asset Value per Share (NAV), or its equivalent, as a practical expedient for fair value.

Following is a description of the inputs and valuation methodologies used for assets and liabilities measured at fair value and recognized in the accompanying statement of financial position.

THE COLORADO COLLEGE AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2011 and 2010

NOTE 1 – NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Investments

Where quoted market prices are available in an active market, securities are classified within Level 1 of the valuation hierarchy. Level 1 securities include Fixed Income Investments and Domestic and International (publicly traded) equities. If quoted market prices are not available, then fair values are estimated by using pricing models, quoted prices of securities with similar characteristics or discounted cash flows. Level 2 securities include Global Hedged Equity and Alternative investments. In certain cases where Level 1 or Level 2 inputs are not available, securities are classified within Level 3 of the hierarchy and include Private Capital Investments, where by the College utilizes the NAV as determined by the asset manager for fair valuation, and Real Estate.

Liabilities

The carrying amount for Funds Held for Others is a reasonable estimate of fair value.

Cash and Cash Equivalents

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

Contributions Receivable

Contribution receivables carrying value approximates fair value as these instruments are recorded at estimated net present value of future cash flows. See below for further information.

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.

Bonds Payable

The fair value of the Series 2005 bonds is approximately \$26,705,617. The fair value of the Series 2010 bonds is approximately \$47,342,278.

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.

THE COLORADO COLLEGE AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2011 and 2010

NOTE 1 – NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial Instruments

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

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 primarily of unamortized bond issuance costs, prepaid expenses and inventories. Unamortized bond issuance costs totaled \$633,335 and \$678,720 at June 30, 2011 and 2010, respectively. These amounts are amortized over the life of the respective bonds. Inventories consist mainly of postage and supplies. 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 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 building 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 as capital expenses, costs must (1) be significant in amount and (2) provide benefit to the College over more than one accounting period. For improvement or restoration costs, the costs must increase the productive capacity or useful life of the asset. Costs that meet all these criteria are added to the value of the affected asset and depreciated over the remaining useful life of that asset to be capitalized. Costs that do not meet all these 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, 2011 and 2010

NOTE 1 – NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Vacation Accrual

It is the College's policy to permit employees to accumulate earned but unused vacation benefits that would be paid to employees upon separation from College services. The accrual of vacation hours is limited to 22 days pay for exempt employees and 352 hours of pay for non-exempt employees. 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.

Operating Activities

Revenues received and expenses incurred in conducting the programs and services of the College are presented in the financial statements as operating activities. Revenues and other support from operating activities that are not restricted by donors or other external sources are classified as unrestricted. Other revenues and support from operating activities that are restricted for a specific purpose by the donor are classified as temporarily restricted. Operating activities also include investment earnings from the College's working capital funds. Net assets released from restriction included in operating activities represent certain gifts and income used for operating expenses where the donor restriction was satisfied in the current year.

The College has defined non-operating activities to include contributions added to endowment, contributions supporting major capital purchases, contributions and other activity related to split-interest agreements, retirement plan actuarial adjustments, changes in fair value, and endowment income and gains or losses, net of amounts distributed to support operations in accordance with the spending policy. Certain other gains and losses that do not occur in the normal course of operations are also included in non-operating activity.

Early Retirement Accrual

The College provides either a full or phased early retirement program for tenure-track and adjunct faculty. Benefit periods are three years for the retiree between the ages of 59.5 and 67, two years at the age of 68 and one year at age 69. Retirement for tenure-track faculty is equal to 50% of salary with adjustments for inflation. Adjunct faculty retirement equates to an average number of courses taught during the prior five years. Phased retirement for tenure-track and adjunct faculty is equal to 70% of inflated salary and are required to teach half time or three blocks per academic year. Additions to the accrual are based upon the terms of the specific early retirement agreements issued.

THE COLORADO COLLEGE AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2011 and 2010

NOTE 1 – NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

Contributions receivable include pledges that are recorded at their present value using discount rates ranging from approximately 0.2% to 5.125% depending on the year of inception. An allowance is made for potentially uncollectible contributions based upon management's past collection experience and other relevant factors.

From time to time, the College receives contributions from related parties, including employees, Trustees, or other organizations in which Trustees serve on the organization's Board of Directors.

THE COLORADO COLLEGE AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2011 and 2010

NOTE 1 – NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Income Taxes

The College qualifies as a tax-exempt nonprofit organization under Section 501(c)(3) of the Internal Revenue Code. The College is subject to federal income tax only on net unrelated business income under the provisions of Section 501(c)(3) of the Internal Revenue Code. 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.

The College adopted the income tax standard for uncertain tax positions on July 1, 2009. As a result of the implementation, the College evaluated its tax positions and determined it has no uncertain tax positions as of June 30, 2011. The College's 2007 through 2010 tax years are open for examination by federal and state taxing authorities.

Collections

Collections of works of art, historical treasures and similar assets are not capitalized or depreciated 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.

Subsequent Events

Subsequent events have been evaluated through November 9, 2011, which is the date the financial statements were available to be issued.

THE COLORADO COLLEGE AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2011 and 2010

NOTE 1 – NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Prior Year Summarized Financial Information

The consolidated statement of activities for the year ended June 30, 2011 on page 3 contains prior year summarized comparative information that does not include sufficient detail to constitute a full presentation in conformity with GAAP. A full presentation of prior year information in conformity with GAAP is presented on the consolidated statement of activities for the year ended June 30, 2010 on page 4.

NOTE 2 – INVESTMENTS AND FINANCIAL INSTRUMENTS MEASURED AT FAIR VALUE

The following table present investments and financial instruments carried at fair value in accordance with the valuation hierarchy defined in Note 1 as of June 30, 2011:

Investments measured at fair value on a recurring basis as of June 30, 2011:

Investments	\$ 21,699,429
Long-term investments	<u>528,560,661</u>
Total	<u>\$ 550,260,090</u>

Investments	2011			Total
	Level 1	Level 2	Level 3	
Cash and cash equivalents	\$ 7,418,258	\$ -	\$ -	\$ 7,418,258
Government treasuries and agencies	29,667,057	-	-	29,667,057
Asset backed securities	-	5,754,435	-	5,754,435
Corporate bonds	-	10,972,616	-	10,972,616
Mutual funds	-	79,620	-	79,620
Municipal bonds	-	1,058,738	-	1,058,738
Preferred stock	-	2,339,876	-	2,339,876
Large cap domestic equity	131,803,825	2,611,232	-	134,415,057
International equity	-	73,294,303	8,750,595	82,044,898
Global hedged equity investments	-	-	62,033,122	62,033,122
Fixed Income Arbitrage	-	-	30,454,405	30,454,405
Multi-strategy absolute return	-	-	77,761,426	77,761,426
Private capital	-	-	97,981,971	97,981,971
Real estate	-	-	425,000	425,000
Planned gift agreements	<u>6,821,167</u>	<u>-</u>	<u>1,032,444</u>	<u>7,853,611</u>
Total Investments	<u>\$ 175,710,307</u>	<u>\$ 96,110,820</u>	<u>\$ 278,438,963</u>	<u>\$ 550,260,090</u>
Beneficial Interests in Perpetual Trusts	<u>\$ -</u>	<u>\$ 27,774,051</u>	<u>\$ 4,869,607</u>	<u>\$ 32,643,658</u>

THE COLORADO COLLEGE AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2011 and 2010

NOTE 2 – INVESTMENTS AND FINANCIAL INSTRUMENTS MEASURED AT FAIR VALUE
(CONTINUED)

Liabilities measured at fair value on a recurring basis as of June 20, 2011:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Funds held for others	<u>\$ -</u>	<u>\$ 3,593,504</u>	<u>\$ -</u>	<u>\$ 3,593,504</u>

The following table presents investments and financial instruments carried at fair value in accordance with the valuation hierarchy defined in Note 1 as of June 30, 2010

Investments measured at fair value on a recurring basis as of June 30, 2010:

Investments	\$ 30,468,932
Long-term investments	<u>434,375,067</u>
Total	<u>\$ 464,843,999</u>

<u>Investments</u>	<u>2010</u>			
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Cash and cash equivalents	\$ 9,933,798	\$ -	\$ -	\$ 9,933,798
Government treasuries and agencies	33,125,805	-	-	33,125,805
Asset backed securities	-	11,945,601	-	11,945,601
Corporate bonds	-	7,011,188	-	7,011,188
Mutual funds	-	15,202,787	-	15,202,787
Municipal bonds	-	294,970	-	294,970
Preferred stock	-	200,000	-	200,000
Large cap domestic equity	100,953,871	1,981,330	-	102,935,201
International equity	-	59,868,034	6,250,058	66,118,092
Global hedged equity investments	-	-	54,157,342	54,157,342
Fixed Income Arbitrage	-	-	27,043,426	27,043,426
Multi-strategy absolute return	-	-	65,659,130	65,659,130
Private capital	-	-	63,532,669	63,532,669
Real estate	-	-	425,000	425,000
Planned gift agreements	<u>6,258,990</u>	<u>-</u>	<u>1,000,000</u>	<u>7,258,990</u>
Total Investments	<u>\$ 150,272,464</u>	<u>\$ 96,503,910</u>	<u>\$ 218,067,625</u>	<u>\$ 464,843,999</u>
Beneficial Interests in Perpetual Trusts	<u>\$ -</u>	<u>\$ 24,505,007</u>	<u>\$ 4,081,014</u>	<u>\$ 28,586,021</u>

Liabilities measured at fair value on a recurring basis as of June 30, 2010:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Funds held for others	<u>\$ -</u>	<u>\$ 2,990,181</u>	<u>\$ -</u>	<u>\$ 2,990,181</u>

THE COLORADO COLLEGE AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2011 and 2010

NOTE 2 – INVESTMENTS AND FINANCIAL INSTRUMENTS MEASURED AT FAIR VALUE
(CONTINUED)

For the 2010-11 fiscal year, the College has invested in four 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.

Direct investment expenses totaled \$756,587 and \$949,750 for the years ended June 30, 2011 and 2010, respectively.

The following is a reconciliation of the beginning and ending balances of recurring fair value measurements recognized in the accompanying statement of financial position using significant unobservable (Level 3) inputs:

	<u>Global Hedged Equity</u>	<u>Private Capital Investment</u>	<u>International Equity</u>	<u>Alternative</u>	<u>Real Estate</u>	<u>Planned Gift Agreements</u>	<u>BPITs</u>
Balance, July 1, 2010	\$ 54,157,342	\$ 63,532,669	\$ 6,250,058	\$ 92,702,556	\$ 425,000	\$ 1,000,000	\$ 4,081,014
Unrealized gains and losses	7,875,780	22,665,444	2,500,537	10,513,275	-	-	788,593
Redemptions	-	(9,731,584)	-	-	-	-	-
Purchases, issuance and settlements	-	24,834,530	-	5,000,000	-	32,444	-
Return of recallable capital	-	(3,319,088)	-	-	-	-	-
Transfers in and/or out of Level 3	-	-	-	-	-	-	-
Balance, June 30, 2011	<u>\$ 62,033,122</u>	<u>\$ 97,981,971</u>	<u>\$ 8,750,595</u>	<u>\$ 108,215,831</u>	<u>\$ 425,000</u>	<u>\$ 1,032,444</u>	<u>\$ 4,869,607</u>
	<u>Global Hedged Equity</u>	<u>Private Capital Investment</u>	<u>International Equity</u>	<u>Alternative</u>	<u>Real Estate</u>	<u>Planned Gift Agreements</u>	<u>BPITs</u>
Balance, July 1, 2009	\$ 20,453,129	\$ 50,455,493	\$ -	\$ 27,682,065	\$ 425,000	\$ 1,000,000	\$ 185,588
Unrealized gains and losses	3,718,533	16,212,878	(1,041,837)	3,501,070	-	-	-
Redemptions	(9,719,800)	-	-	(5,000,000)	-	-	-
Purchases, issuance and settlements	10,000,000	8,771,454	-	10,000,000	-	-	-
Return of recallable capital	-	(11,907,156)	-	-	-	-	-
Transfers in and/or out of Level 3	29,705,480	-	7,291,895	56,519,421	-	-	3,895,426
Balance, June 30, 2010	<u>\$ 54,157,342</u>	<u>\$ 63,532,669</u>	<u>\$ 6,250,058</u>	<u>\$ 92,702,556</u>	<u>\$ 425,000</u>	<u>\$ 1,000,000</u>	<u>\$ 4,081,014</u>

Of the total unrealized gains and losses, approximately \$8,500,000 and \$4,900,000 were recognized in unrestricted net assets during the year ended June 30, 2011 and 2010, respectively.

THE COLORADO COLLEGE AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2011 and 2010

NOTE 2 – INVESTMENTS AND FINANCIAL INSTRUMENTS MEASURED AT FAIR VALUE
(CONTINUED)

As of June 30, 2011, the College had seventeen investments, held with ten companies, that involve capital commitments not reflected in the market valuations shown above. As of June 30, 2011, the College has contributed \$108,009,828 in capital toward total commitments of \$161,875,931 in aggregate, leaving \$53,866,103 in remaining commitments. As of June 30, 2010, the College has contributed \$84,855,149 in capital toward total commitments of \$131,875,931 in aggregate, leaving \$47,020,782 in remaining commitments.

The College reviews the endowment portfolio investment liquidity quarterly. The following table represents the endowment portfolio liquidity, by category, as percentage of the total endowment portfolio:

	Endowment Portfolio Liquidity for the Fiscal Year Ending June 30,	
	<u>2011</u>	<u>2010</u>
Daily/Weekly	32%	37%
Monthly	14%	14%
Quarterly	10%	10%
Annually	5%	5%
Multi-year lock-ups	17%	17%
Illiquid	22%	17%

Redemption requirements range from one day to 120 days as found in the individual investment Offering Memorandum for each investment.

Investment Return

Investment return consists of the following for the years ending June 30:

	<u>2011</u>	<u>2010</u>
Operating interest and dividend income	\$ 371,905	\$ 732,077
Perpetual trust distributions	787,360	745,421
Operating net realized and unrealized gains (losses)	1,210,773	892,540
Endowment distributed income	14,132,665	7,945,605
Endowment net realized and unrealized gains (losses)	<u>72,621,797</u>	<u>54,567,896</u>
Total	<u>\$ 89,124,500</u>	<u>\$ 64,883,539</u>

Investment revenues are reported net of related investment expenses of \$756,587 and \$949,750 for fiscal years 2011 and 2010, respectively, in the statement of activities.

THE COLORADO COLLEGE AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2011 and 2010

NOTE 2 – INVESTMENTS AND FINANCIAL INSTRUMENTS MEASURED AT FAIR VALUE
(CONTINUED)

Investment return is presented in the consolidated statement of activities as follows:

	<u>2011</u>	<u>2010</u>
Operating revenue	\$ 24,597,993	\$ 25,561,943
Nonoperating activity	<u>64,526,507</u>	<u>39,321,596</u>
Total	<u>\$ 89,124,500</u>	<u>\$ 64,883,539</u>

NOTE 3 – 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 interests in perpetual trusts are described in Note 4. 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 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 donors 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 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, 2011 and 2010

NOTE 3 – SPLIT-INTEREST AGREEMENTS (CONTINUED)

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

	<u>Year Ended June 30,</u>	
	<u>2011</u>	<u>2010</u>
Contribution revenue		
CRATs/CRUTs	\$ 4,373	\$ -
Charitable gift annuities	20,593	5,819
	<u>Year Ended June 30,</u>	
	<u>2011</u>	<u>2010</u>
Investments		
CRATs/CRUTs	\$ 6,155,790	\$ 5,700,316
Charitable gift annuities	1,697,821	1,568,175

NOTE 4 – 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 value of the trust assets, which was \$32,643,658 and \$28,586,021 at June 30, 2011 and 2010, 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. Beneficial Interest Perpetual Trust Investments are classified by the College in the fair value hierarchy as Level II and Level III.

NOTE 5 – ENDOWMENT

The College's endowment consists of approximately 695 individual funds established for a variety of purposes. The endowment includes both donor-restricted endowment funds and funds functioning as endowments (internally-designated endowment funds). As required by accounting principles generally accepted in the United States of America (GAAP), net assets associated with endowment funds, including internally-designated endowment funds, are classified and reported based on the existence or absence of donor-imposed restrictions.

The College's Board of Trustees has interpreted the State of Colorado Prudent Management of Institutional Funds Act (SPMIFA) as requiring preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the College classifies the original value of gifts, subsequent gifts and other accumulations to the permanent endowment as permanently restricted net assets with the direction of the applicable donor gift instrument. The appreciation of a donor-restricted endowment fund is classified as temporarily restricted net assets consistent with the standard of prudence prescribed by SPMIFA.

THE COLORADO COLLEGE AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2011 and 2010

NOTE 5 – ENDOWMENT (CONTINUED)

The composition of net assets (including contributions receivable) by type of endowment fund at June 30, 2011 and June 30, 2010 was:

	2011			Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	
Donor-restricted endowment funds	\$ (965,969)	\$ 282,448,743	\$ 108,877,792	\$ 390,360,566
Internally-designated endowment funds	118,993,405	-	-	118,993,405
Total endowment funds	<u>\$ 118,027,436</u>	<u>\$ 282,448,743</u>	<u>\$ 108,877,792</u>	<u>\$ 509,353,971</u>

	2010			Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	
Donor-restricted endowment funds	\$ (2,138,862)	\$ 234,822,120	\$ 104,110,882	\$ 336,794,140
Internally-designated endowment funds	94,189,398	-	-	94,189,398
Total endowment funds	<u>\$ 92,050,536</u>	<u>\$ 234,822,120</u>	<u>\$ 104,110,882</u>	<u>\$ 430,983,538</u>

Changes in endowment net assets for the fiscal year ended June 30, 2011 and June 30, 2010 were:

	2011			Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	
Endowment net assets, beginning of year	\$ 92,050,536	\$ 234,822,120	\$ 104,110,882	\$ 430,983,538
Contributions/additions	290,741	-	5,615,657	5,906,398
Endowment gains/losses	19,085,976	53,535,821	-	72,621,797
Investment income	3,695,133	10,437,532	-	14,132,665
Transfers	1,788,399	(586,049)	(1,202,350)	-
Reinvestments	6,929,628	654,297	353,603	7,937,528
Reclassification from split interest	-	-	-	-
Change in underwater endowments	1,172,893	(1,172,893)	-	-
Appropriation of endowment assets for expenditures	(6,985,870)	(15,242,085)	-	(22,227,955)
Endowment, net assets, end of year	<u>\$ 118,027,436</u>	<u>\$ 282,448,743</u>	<u>\$ 108,877,792</u>	<u>\$ 509,353,971</u>

THE COLORADO COLLEGE AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2011 and 2010

NOTE 5 – ENDOWMENT (CONTINUED)

	2010			Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	
Endowment net assets, beginning of year	\$ 74,538,346	\$ 201,644,046	\$ 100,231,372	\$ 376,413,764
Contributions/additions	612,512	-	3,393,354	4,005,866
Endowment gains/losses	13,757,662	40,810,234	-	54,567,896
Investment income	2,003,247	5,942,358	-	7,945,605
Transfers	(179,460)	179,460	-	-
Reinvestments	6,050,909	5,730,322	99,442	11,880,673
Reclassification from split interest	-	-	-	-
Change in underwater endowments	3,059,874	(3,059,874)	386,714	386,714
Appropriation of endowment assets for expenditures	<u>(7,792,553)</u>	<u>(16,424,427)</u>	<u>-</u>	<u>(24,216,980)</u>
Endowment, net assets, end of year	<u>\$ 92,050,537</u>	<u>\$ 234,822,119</u>	<u>\$ 104,110,882</u>	<u>\$ 430,983,538</u>

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level the College is required to retain as a fund of perpetual duration pursuant to donor stipulation or SPMIFA. In accordance with GAAP, deficiencies of this nature are reported in unrestricted net assets and aggregated \$965,969 and \$2,138,862 at June 30, 2011 and 2010 respectively. These deficiencies are a result of unfavorable market fluctuations.

In accordance with SPMIFA, the College considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

1. Duration and preservation of the fund
2. Purposes of the College and the fund
3. General economic conditions
4. Possible effect of inflation and deflation
5. Expected total return from investment income and appreciation or depreciation of investments
6. Other resources of the College
7. Investment policies of the College

The College has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs and other items supported by its endowment while seeking to maintain the purchasing power of the endowment. Endowment assets include those assets of donor-restricted endowment funds the College must hold in perpetuity or for donor-specified periods, as well as those of internally-designated endowment funds. Under the College's policies, endowment assets are invested in a manner that is intended to produce results that exceed the spending rate plus inflation annually while assuming a reasonable level of investment risk.

THE COLORADO COLLEGE AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2011 and 2010

NOTE 5 – ENDOWMENT (CONTINUED)

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

The College has a Board approved spending policy for appropriating funds for expenditure each year. For fiscal year 2010-11 the College appropriated 5.0% of its endowment fund's average market value over the prior 12-quarters through the calendar year-end prior to the year in which expenditure is planned. In establishing this policy, long-term expected return on its endowment was considered. Accordingly, over the long term, the College expects the current spending policy to allow its endowment to grow at an average of 3% annually. This is consistent with the College's objective to maintain the purchasing power of endowment assets held in perpetuity or for a specified term, as well as to provide additional real growth through new gifts and investment return.

NOTE 6 – CONTRIBUTIONS RECEIVABLE

Contributions receivable consist of the following unconditional promises to give as of June 30, 2011 and 2010:

	<u>2011</u>	<u>2010</u>
Annual fund	\$ 51,523	\$ 80,853
Gifts for operations	11,404,610	10,859,363
Endowment	<u>1,501,653</u>	<u>2,054,477</u>
	12,957,786	12,994,693
Less allowance for doubtful pledges	(78,544)	(228,163)
Less unamortized discount	<u>(290,192)</u>	<u>(378,648)</u>
	<u>\$ 12,589,050</u>	<u>\$ 12,387,882</u>
Amounts due in		
Less than one year	\$ 5,231,463	\$ 3,615,702
One to five years	<u>7,357,587</u>	<u>8,772,180</u>
Total	<u>\$ 12,589,050</u>	<u>\$ 12,387,882</u>

Discount rates ranged from 0.200% to 5.125% for the years ended June 30, 2011 and 2010.

THE COLORADO COLLEGE AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2011 and 2010

NOTE 6 – CONTRIBUTIONS RECEIVABLE (CONTINUED)

The College has conditional promises to give of \$13,530,400 and \$2,696,523 at June 30, 2011 and 2010, 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 \$38.1 million and \$57.4 million as of June 30, 2011 and 2010, respectively. Because these bequest pledges do not yet meet existing revenue recognition criteria, they have not been recorded on the books of the College.

NOTE 7 – LAND, BUILDINGS AND EQUIPMENT

Land, buildings and equipment consist of the following as of June 30, 2011 and 2010:

	<u>2011</u>	<u>2010</u>
Buildings and improvements	\$ 184,638,391	\$ 180,998,116
Land	6,156,239	6,099,141
Campus infrastructure	25,619,169	24,548,147
Furnishings and equipment	15,002,491	14,572,296
Construction in progress	<u>13,202,275</u>	<u>5,509,995</u>
	244,618,565	231,727,695
Less accumulated depreciation	<u>(76,041,985)</u>	<u>(70,519,085)</u>
Total	<u>\$ 168,576,580</u>	<u>\$ 161,208,610</u>

Total depreciation and amortization expense as of June 20, 2011 and 2010 was \$6,043,298 and \$5,861,958, respectively.

NOTE 8 – OPERATING LEASES

The College leases various office equipment, vehicles and property under operating leases expiring through calendar year 2017. Rent expense on operating leases during the years ended June 30, 2011 and 2010, was \$119,667 and \$122,012, respectively.

Future minimum lease payments under the operating leases as of June 30, 2010 through the years ending June 30, 2015 and thereafter are:

2012	\$ 94,923
2013	98,502
2014	103,817
2015	109,435
2016	110,586
Thereafter	<u>40,428</u>
Total	<u>\$ 557,691</u>

THE COLORADO COLLEGE AND SUBSIDIARIES
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NOTE 9 – 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, 2011 and 2010 are as follows:

	<u>2011</u>	<u>2010</u>
Campus infrastructure	\$ 2,472,686	\$ 2,472,686
Equipment	<u>633,984</u>	<u>547,646</u>
Total cost	3,106,670	3,020,332
Less accumulated amortization	<u>(433,224)</u>	<u>(284,949)</u>
Total	<u>\$ 2,673,446</u>	<u>\$ 2,735,383</u>

Future minimum lease payments under capital leases, together with the present value of the net minimum lease payments at June 30, 2011, were:

Year ending June 30, 2012	\$ 637,522
Year ending June 30, 2013	94,826
Year ending June 30, 2014	94,570
Year ending June 30, 2015	87,126
Less amount representing interest	<u>(47,396)</u>
Present value of future minimum lease payments	<u>\$ 866,648</u>

NOTE 10 – BONDS PAYABLE

Bonds payable consist of the City of Colorado Springs, Colorado Revenue Bonds (The Colorado College Project), Series 2005 with an original issue of \$27,630,000 and Series 2010 with an original issue of \$46,775,000. Bonds payable for the 2005 bonds were \$26,109,980 and \$26,835,932 (net of unamortized bond discount of \$102,078 and \$106,938 and unaccreted bond premium of \$332,058 and \$347,870) as of June 30, 2011 and 2010, respectively. Bonds payable for the Series 2010 bonds were \$48,270,764 and \$51,403,289 (net of unamortized bond premium of \$4,075,764 and \$4,628,289) as of June 30, 2011 and 2010, respectively.

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. On June 1, 2009, the City utilized 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. 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 \$1,615,000. The Series 2005 bonds are unsecured.

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NOTE 10 – BONDS PAYABLE (CONTINUED)

The Series 2010 bonds were issued on February 1, 2010. Proceeds of the Series 2010 bond issue were used to advance refund the 2003, 2004 and 2006 bonds in the aggregate principal amount of \$56,765,000. The Series 2010 bonds have interest rates ranging from 2.0% to 5.25%. Principal payments are due annually beginning in 2011 and continuing through 2024 in varying amounts ranging from \$2,580,000 to \$4,425,000. The Series 2010 bonds are unsecured.

Aggregate annual maturities for the remaining term of the bonds outstanding at June 30, 2011, are:

	<u>Series 2005 Bonds</u>	<u>Series 2010 Bonds</u>	<u>Total</u>
2012	\$ 880,000	\$ 2,585,000	\$ 3,465,000
2013	925,000	2,705,000	3,630,000
2014	980,000	2,800,000	3,780,000
2015	1,025,000	2,930,000	3,955,000
2016	1,075,000	3,070,000	4,145,000
Thereafter	<u>20,995,000</u>	<u>30,105,000</u>	<u>51,100,000</u>
	<u>\$ 25,880,000</u>	<u>\$ 44,195,000</u>	70,075,000
Less discount			(102,078)
Plus premium			<u>4,407,822</u>
Total			<u>\$ 74,380,744</u>

Bond issuance costs and the bond discounts are amortized over the life of the bond issue using the straight-line method. Bond premiums are accreted over the life of the bond issue using the straight-line method for the Series 2005 bonds and the effective-interest method for the Series 2010 bonds.

NOTE 11 – NET ASSETS

Net Assets

Unrestricted net assets, temporarily restricted net assets and permanently restricted net assets as of June 30, 2011 and 2010, consist of the following, with some net assets maintained in funds for the purposes noted below:

	<u>2011</u>	<u>2010</u>
Operations and reserves	\$ 26,524,508	\$ 30,940,443
Student loans	1,554,276	1,537,191
Net appreciation on endowments	58,637,601	40,646,845
Funds functioning as endowments	59,389,835	51,403,691
Split-interest agreements	24,085	29,372
Net investment in plant	<u>100,123,199</u>	<u>90,737,432</u>
Total unrestricted net assets	<u>\$ 246,253,504</u>	<u>\$ 215,294,974</u>

THE COLORADO COLLEGE AND SUBSIDIARIES
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NOTE 11 – NET ASSETS (CONTINUED)

	<u>2011</u>	<u>2010</u>
Gifts income for specific purposes	\$ 15,551,265	\$ 13,978,967
Endowment income for specific purposes	1,381,997	1,412,107
Reinvested endowment income	9,784,200	8,559,399
Appreciation on endowments	272,664,543	226,262,721
Split-interest agreements	<u>2,335,706</u>	<u>1,886,069</u>
Total temporally restricted net assets	<u>\$ 301,717,711</u>	<u>\$ 252,099,263</u>
	<u>2011</u>	<u>2010</u>
Endowment	\$ 108,877,792	\$ 104,110,882
Split-interest agreement	<u>33,261,915</u>	<u>29,171,606</u>
Total permanently restricted net assets	<u>\$ 142,139,707</u>	<u>\$ 133,282,488</u>

NOTE 12 – OTHER POSTRETIREMENT BENEFIT PLANS

The College has a closed noncontributory defined benefit postretirement health care plan for those who retired prior to July 1, 1995. (On June 30, 2005, the post-retirement fully-insured medical program was changed to a defined contribution program that created accounts to be used for the purchase of post-retirement medical coverage that are funded during the active employment years. The change affected all active employees and all retirees with a retirement date on or after July 1, 1995. This group received lump-sum contributions into their newly created accounts to use for the future purchase of retiree medical. This settlement was accounted for in the fiscal year-end June 30, 2005 reporting; hence, eliminating all future retiree medical obligation for this group.)

Post-retirement medical liability remains for those who retired prior to July 1, 1995 who receive an 80% subsidy from the College for medical coverage and any pre-65 retiree enrolled in medical. Although early retirees pay 100% of the active premium, their medical costs are higher than the active employees, thus creating a 'hidden' College subsidy liability.

The College's funding policy is generally to fund as amounts become due (pay-as you go), but may elect to pre-fund the liability from time to time. The College expects to contribute \$210,563 to the plan in 2012.

As required by the *Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans* topic of FASB ASC, an employer must 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 COLORADO COLLEGE AND SUBSIDIARIES
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NOTE 12 – OTHER POSTRETIREMENT BENEFIT PLANS (CONTINUED)

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

	<u>2011</u>	<u>2010</u>
Benefit obligation	\$ (1,523,337)	\$ (2,279,043)
Funded status	<u>\$ (1,523,337)</u>	<u>\$ (2,279,043)</u>

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

	<u>2011</u>	<u>2010</u>
Net loss (gain)	\$ (226,495)	\$ 373,251
Unrecognized prior service cost	149,583	178,130
Transition obligation (asset)	<u>533,051</u>	<u>669,034</u>
Total	<u>\$ 456,139</u>	<u>\$ 1,220,415</u>

Other significant balances and costs are:

	<u>2011</u>	<u>2010</u>
Employer contribution	\$ 279,174	\$ 234,605
Benefits paid	<u>(279,174)</u>	<u>(234,605)</u>
Benefit costs	<u>\$ -</u>	<u>\$ -</u>

At June 30, net periodic postretirement benefit cost included the following components:

	<u>2011</u>	<u>2010</u>
Service cost	\$ 9,344	\$ 22,020
Interest cost	104,583	132,193
Amortization of unrecognized loss	9,287	2,460
Amortization of prior service costs	28,547	28,547
Amortization of transition obligation	<u>135,983</u>	<u>135,983</u>
Net periodic postretirement benefit cost	<u>\$ 287,744</u>	<u>\$ 321,203</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 \$9,287 and \$2,460 respectively.

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NOTE 12 – OTHER POSTRETIREMENT BENEFIT PLANS (CONTINUED)

Significant assumptions include:

	2011	2010
Weighted-average assumptions used to determine benefit obligations:		
Discount rate	5.18%	4.91%
Weighted-average assumptions used to determine benefit cost:		
Discount rate	5.18%	4.91%

For measurement purposes, a 5.18% annual rate of increase in the per capita cost of covered health care benefits was assumed for 2011.

The estimated benefits expected to be paid in following years are as follows:

2012	\$	210,563
2013		196,310
2014		190,197
2015		175,833
2016		162,848
2017-2021		602,140
Total	\$	1,537,891

NOTE 13 – 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 9.3% of base salary for all other employees. Total pension expense was \$3,406,272 and \$3,379,371 for the years ended June 30, 2011 and 2010, respectively.

THE COLORADO COLLEGE AND SUBSIDIARIES
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NOTE 14 – SCHOLARSHIP ALLOWANCES (TUITION DISCOUNTS)

For the years ended June 30, 2011 and 2010, respectively, College scholarship allowances (tuition discounts, prizes and external scholarships) were provided for students at the College from the following sources:

	<u>2011</u>	<u>2010</u>
Unrestricted sources		
Colorado College funds	\$ 18,178,751	\$ 14,342,105
ACM tuition exchange	<u>209,239</u>	<u>176,849</u>
Total unrestricted sources *	<u>18,387,990</u>	<u>14,518,954</u>
Restricted sources		
Endowments	7,757,822	8,662,022
Private gifts and grants **	1,542,867	2,207,848
Government grants ***	<u>636,888</u>	<u>699,086</u>
Total restricted sources	<u>9,937,577</u>	<u>11,568,956</u>
Total scholarships provided	<u>\$ 28,325,567</u>	<u>\$ 26,087,910</u>

* Excludes tuition remission for benefits for the children of employees totaling \$1,027,213 and \$828,805 for the years ended June 30, 2011 and 2010, respectively.

** Excludes scholarships provided directly to our students from outside foundations and other organizations totaling \$1,899,036 and \$1,879,508 for the years ended June 30, 2011 and 2010, respectively. The College acted as custodian for these funds, but did not determine the recipient or the amount awarded.

*** Excludes Pell Grants of \$923,968 and \$799,847 for the years ended June 30, 2011 and 2010, respectively.

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NOTE 15 – FUNCTIONAL EXPENSES

Expenses by functional classification are as follows for the years ended June 30, 2011 and 2010:

	<u>2011</u>	<u>2010</u>
Educational		
Instruction	\$ 40,083,802	\$ 39,299,941
Research	1,098,845	1,174,783
Public service	2,231,078	2,159,704
Academic support	8,623,039	8,851,344
Student services	19,648,185	17,209,612
Auxiliary expenses	<u>14,118,498</u>	<u>14,853,473</u>
Total educational	85,803,447	83,548,857
Institutional support, excluding fundraising	14,707,728	12,547,669
Fundraising	<u>4,073,642</u>	<u>3,860,961</u>
Total	<u>\$ 104,584,817</u>	<u>\$ 99,957,487</u>

NOTE 16 – ADDITIONAL CASH FLOW INFORMATION

Additional cash flow information includes the following for the years ended June 30, 2011 and 2010, respectively:

	<u>2011</u>	<u>2010</u>
Interest paid	\$ 2,899,317	\$ 1,902,252
Noncash investing and financing activities		
Fixed asset additions included in accounts payable	\$ 631,490	\$ 1,436,571
Amortization of bond discounts/premiums	\$ 224,066	\$ 205,511
Gifts-in-kind	\$ 227,396	\$ 435,618

NOTE 17 – 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.

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NOTE 17 – COMMITMENTS AND CONTINGENCIES (CONTINUED)

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.

Construction Commitments

The College had several major construction projects in progress at June 30, 2011 and 2010. Construction contractor commitments under those projects totaled \$5,626,176 and \$3,011,644 as of June 30, 2011 and 2010, respectively. Cumulative funds available from existing sources for completion of those projects totaled \$10,301,683 and \$8,899,936 as of June 30, 2011 and 2010, respectively.

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.

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. Under these plans, the College incurs insurance claims expense of approximately \$474,148 per month. 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 during the year ended June 30, 2008. Aggregate stop loss is applicable when the entire plan is experiencing claims in excess of 125% of expected claims.

The expense for this Plan was \$4,249,072 and \$4,026,186 for the years ended June 30, 2011 and 2010, respectively. Incurred but not reported claims, based on actuarial calculations, were \$772,213 and \$755,576 as of June 30, 2011 and 2010, respectively.

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NOTE 18 – SELF-FUNDED HEALTH INSURANCE PLAN (CONTINUED)

The College has established a reserve (designated unrestricted net assets) of \$3,572,345 and \$3,865,513 as of June 30, 2011 and 2010, respectively, (included in “operations and reserves” in Note 11) 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

The College recognizes asset retirement obligations (ARO) associated with the retirement of a tangible long-lived asset as a liability in the period in which it is incurred or becomes determinable 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.

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

	<u>2011</u>	<u>2010</u>
Liability, beginning of year	\$ 3,225,659	\$ 3,096,236
Accretion expense	<u>92,910</u>	<u>129,423</u>
Liability, end of year	<u><u>\$ 3,318,569</u></u>	<u><u>\$ 3,225,659</u></u>

This information is an integral part of the accompanying financial statements.