

Bates College

Report on Federal Awards in Accordance with OMB

Circular A-133

June 30, 2013

EIN # 01 – 0211781

Bates College
Report on Federal Awards in Accordance with OMB Circular A-133
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June 30, 2013

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**Part I – Financial Statements and
Supplementary Schedule of Expenditures of
Federal Awards**



Independent Auditor's Report

To the President and Trustees of Bates College

Report on the Financial Statements

We have audited the accompanying financial statements of Bates College ("the College"), which comprise the statements of financial position as of June 30, 2013 and 2012, and the related statements of activities and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on the 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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the College's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the College at June 30, 2013 and June 30, 2012, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.



Other Matters

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations* and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated, in all material respects, in relation to the financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated October 25, 2013 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 for the year ended June 30, 2013. 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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the College's internal control over financial reporting and compliance.

PricewaterhouseCoopers LLP

October 25, 2013

BATES COLLEGE

STATEMENTS OF FINANCIAL POSITION
June 30, 2013 and 2012

	2013	2012
ASSETS		
Cash and cash equivalents	\$ 8,086,049	\$ 5,240,717
Accounts receivable (net of allowance of \$224,897 for 2013 and \$281,788 for 2012)	1,597,167	1,510,209
Inventories and prepaid expenses	1,916,589	2,287,544
Contributions receivable - net	3,477,928	4,429,058
Notes receivable	6,457,081	6,479,518
Investments	268,199,108	253,649,629
Beneficial interest in perpetual trusts	5,839,534	5,534,953
Contributions receivable from remainder trusts	5,067,150	4,807,150
Land, buildings and equipment - net	144,086,364	143,674,786
Unamortized bond origination costs and deposits with bond trustees	<u>5,216,012</u>	<u>5,216,357</u>
TOTAL ASSETS	<u><u>\$ 449,942,982</u></u>	<u><u>\$ 432,829,921</u></u>
LIABILITIES AND NET ASSETS		
LIABILITIES		
Accounts payable and accrued expenses	\$ 8,653,504	\$ 8,142,591
Student deposits and deferred items	2,975,708	3,079,928
Asset retirement obligations	5,873,521	5,747,450
Split interest and annuity obligations	14,405,766	14,389,219
Federal student loan funds repayable	6,386,919	6,358,715
Bond premiums	1,033,311	1,112,423
Bonds payable	<u>60,910,450</u>	<u>63,710,450</u>
TOTAL LIABILITIES	<u><u>\$ 100,239,179</u></u>	<u><u>\$ 102,540,776</u></u>
COMMITMENTS AND CONTINGENCIES		
NET ASSETS		
Unrestricted	\$ 116,660,981	\$ 109,851,016
Temporarily restricted	85,400,896	77,337,588
Permanently restricted	<u>147,641,926</u>	<u>143,100,541</u>
TOTAL NET ASSETS	<u><u>\$ 349,703,803</u></u>	<u><u>\$ 330,289,145</u></u>
TOTAL LIABILITIES AND NET ASSETS	<u><u>\$ 449,942,982</u></u>	<u><u>\$ 432,829,921</u></u>

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

BATES COLLEGE

**STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2013
WITH SUMMARIZED FINANCIAL INFORMATION FOR THE YEAR ENDED JUNE 30, 2012**

	2013			2012	
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	
OPERATING ACTIVITIES					
Revenues and gains					
Single fee revenue	\$ 99,391,255			\$ 99,391,255	\$ 96,565,106
Scholarship aid	(27,773,780)			(27,773,780)	(27,393,033)
Net revenue from students	\$ 71,617,475			\$ 71,617,475	\$ 69,172,073
Other educational program revenues	869,735			869,735	959,394
	<u>\$ 72,487,210</u>			<u>\$ 72,487,210</u>	<u>\$ 70,131,467</u>
Government grants	1,739,175			1,739,175	1,985,319
Contributions and private grants	6,147,026	\$ 2,251,944		8,398,970	8,683,917
Endowment return used in accordance with spending policy	1,709,667	8,840,242		10,549,909	11,224,856
Other income	5,423,856	212,092		5,635,948	5,310,819
Net assets released from restrictions	12,696,784	(12,696,784)		-	-
	<u>\$100,203,718</u>	<u>\$ (1,392,506)</u>		<u>\$ 98,811,212</u>	<u>\$ 97,336,378</u>
Expenses					
Educational and general					
Instructional	\$ 37,444,531			37,444,531	\$ 35,825,634
Research	1,857,454			1,857,454	1,798,849
Public service	211,450			211,450	192,903
Academic support	13,318,236			13,318,236	12,963,564
Student services	15,401,853			15,401,853	15,566,767
Institutional support	15,462,558			15,462,558	15,480,857
Total educational and general	\$ 83,696,082			\$ 83,696,082	\$ 81,828,574
Auxiliary enterprises	15,590,926			15,590,926	15,589,649
	<u>\$ 99,287,008</u>			<u>\$ 99,287,008</u>	<u>\$ 97,418,223</u>
TOTAL FROM OPERATING ACTIVITIES	<u>\$ 916,710</u>	<u>\$ (1,392,506)</u>		<u>\$ (475,796)</u>	<u>\$ (81,845)</u>
NONOPERATING ACTIVITIES					
Revenues and gains					
Contributions	\$ 14,165	\$ 967,759	\$ 1,403,603	\$ 2,385,527	\$ 2,709,092
Total endowment return	6,146,652	18,615,313	1,022,260	25,784,225	(6,159,090)
Endowment return used in accordance with spending policy	(1,709,667)	(8,840,242)	-	(10,549,909)	(11,224,856)
Other investment return including change in value of split interest agreements	-	155,089	2,115,522	2,270,611	(588,018)
Net assets released from restrictions	1,442,105	(1,442,105)	-	-	-
TOTAL FROM NONOPERATING ACTIVITIES	<u>\$ 5,893,255</u>	<u>\$ 9,455,814</u>	<u>\$ 4,541,385</u>	<u>\$ 19,890,454</u>	<u>\$ (15,262,872)</u>
INCREASE (DECREASE) IN NET ASSETS	<u>\$ 6,809,965</u>	<u>\$ 8,063,308</u>	<u>\$ 4,541,385</u>	<u>\$ 19,414,658</u>	<u>\$ (15,344,717)</u>
NET ASSETS - BEGINNING OF YEAR	<u>\$109,851,016</u>	<u>\$ 77,337,588</u>	<u>\$143,100,541</u>	<u>\$ 330,289,145</u>	<u>\$345,633,862</u>
NET ASSETS - END OF YEAR	<u>\$116,660,981</u>	<u>\$ 85,400,896</u>	<u>\$147,641,926</u>	<u>\$ 349,703,803</u>	<u>\$330,289,145</u>

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

BATES COLLEGE

**STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2012**

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
OPERATING ACTIVITIES				
Revenues and gains				
Single fee revenue	\$ 96,565,106			\$ 96,565,106
Scholarship aid	(27,393,033)			(27,393,033)
Net revenue from students	<u>\$ 69,172,073</u>			<u>\$ 69,172,073</u>
Other educational program revenues	959,394			959,394
	<u>\$ 70,131,467</u>			<u>\$ 70,131,467</u>
Government grants	1,985,319			1,985,319
Contributions and private grants	6,951,666	\$ 1,732,251		8,683,917
Endowment return used in accordance with spending policy	2,876,934	8,347,922		11,224,856
Other income	5,257,728	53,091		5,310,819
Net assets released from restrictions	<u>11,383,560</u>	<u>(11,383,560)</u>		<u>-</u>
	<u>\$ 98,586,674</u>	<u>\$ (1,250,296)</u>		<u>\$ 97,336,378</u>
Expenses				
Educational and general				
Instructional	\$ 35,825,634			\$ 35,825,634
Research	1,798,849			1,798,849
Public service	192,903			192,903
Academic support	12,963,564			12,963,564
Student services	15,566,767			15,566,767
Institutional support	<u>15,480,857</u>			<u>15,480,857</u>
Total educational and general	<u>\$ 81,828,574</u>			<u>\$ 81,828,574</u>
Auxiliary enterprises	<u>15,589,649</u>			<u>15,589,649</u>
	<u>\$ 97,418,223</u>			<u>\$ 97,418,223</u>
TOTAL FROM OPERATING ACTIVITIES	<u>\$ 1,168,451</u>	<u>\$ (1,250,296)</u>		<u>\$ (81,845)</u>
NONOPERATING ACTIVITIES				
Revenues and gains				
Contributions	\$ 11,515	\$ 918,721	\$ 1,778,856	\$ 2,709,092
Total endowment return	(3,138,383)	(4,112,835)	1,092,128	(6,159,090)
Endowment return used in accordance with spending policy	(2,876,934)	(8,347,922)	-	(11,224,856)
Other investment return including change in value of split interest agreements	-	173,300	(761,318)	(588,018)
Net assets released from restrictions	<u>2,090,104</u>	<u>(2,090,104)</u>	<u>-</u>	<u>-</u>
TOTAL FROM NONOPERATING ACTIVITIES	<u>\$ (3,913,698)</u>	<u>\$ (13,458,840)</u>	<u>\$ 2,109,666</u>	<u>\$ (15,262,872)</u>
DECREASE IN NET ASSETS	<u>\$ (2,745,247)</u>	<u>\$ (14,709,136)</u>	<u>\$ 2,109,666</u>	<u>\$ (15,344,717)</u>
NET ASSETS - BEGINNING OF YEAR	<u>\$ 112,596,263</u>	<u>\$ 92,046,724</u>	<u>\$ 140,990,875</u>	<u>\$ 345,633,862</u>
NET ASSETS - END OF YEAR	<u><u>\$ 109,851,016</u></u>	<u><u>\$ 77,337,588</u></u>	<u><u>\$ 143,100,541</u></u>	<u><u>\$ 330,289,145</u></u>

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

BATES COLLEGE

**STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2013 and 2012**

	2013	2012
Cash flows from operating activities:		
Increase (decrease) in net assets	\$ 19,414,658	\$ (15,344,717)
Adjustments to reconcile the change in net assets to net cash used in operating activities:		
Depreciation	\$ 6,263,569	\$ 5,856,555
Asset retirement accretion, net of abatements	126,071	161,424
Amortization of bond origination costs and bond premiums	(29,753)	(32,173)
Net unrealized and realized (gains) losses on investments	(23,251,226)	7,769,202
Other investment return including change in value of split-interest agreements	(2,270,611)	588,018
Contributions received for endowment or other long-term uses	(1,892,251)	(1,654,128)
Contributions received from gifts of securities for operating purposes	(354,595)	(565,191)
(Increase) decrease in operating assets:		
Accounts receivable	(86,958)	(224,067)
Inventories and prepaid expenses	370,955	(677,936)
Increase in contributions receivable from current year pledges	(479,111)	(1,043,449)
Increase (decrease) in operating liabilities:		
Accounts payable and accrued expenses	469,283	(398,363)
Student deposits and deferred items	(104,220)	(442,431)
Total adjustments	<u>\$ (21,238,847)</u>	<u>\$ 9,337,461</u>
Net cash used in operating activities	<u>\$ (1,824,189)</u>	<u>\$ (6,007,256)</u>
Cash flows from investing activities:		
Purchases of plant and equipment	\$ (6,633,517)	\$ (9,546,118)
Purchases of investments	(10,870,127)	(37,237,907)
Proceeds from sales and maturities of investments	22,321,666	43,617,253
Disbursements of loans to students	(1,007,268)	(805,179)
Repayments of loans from students	1,029,705	1,083,119
Increase in escrow deposits with bond trustees	(49,014)	(370,553)
Decrease in construction proceeds deposited with bond trustees	-	2,994,911
Net cash provided by (used in) investing activities	<u>\$ 4,791,445</u>	<u>\$ (264,474)</u>
Cash flows from financing activities:		
Repayments of principal on bonds payable	\$ (2,800,000)	\$ (2,690,000)
Cash contributions received for endowment or other long-term uses	1,309,719	1,361,121
Cash received on contributions receivable for long-term purposes	1,340,153	1,445,552
Receipts of refundable loan funds	28,204	39,074
Net cash (used in) provided by financing activities	<u>\$ (121,924)</u>	<u>\$ 155,747</u>
Net increase (decrease) in cash and cash equivalents	\$ 2,845,332	\$ (6,115,983)
Cash and cash equivalents at beginning of year	<u>5,240,717</u>	<u>11,356,700</u>
Cash and cash equivalents at end of year	<u><u>\$ 8,086,049</u></u>	<u><u>\$ 5,240,717</u></u>
Supplemental data		
Interest paid	\$ 3,267,103	\$ 3,376,665
Accrued construction costs	71,083	29,453
Contributions received in the form of gifts of securities	1,027,215	1,014,837

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

BATES COLLEGE

NOTES TO FINANCIAL STATEMENTS

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Description of the Entity

Bates College (the "College") is a private, coeducational, liberal arts college located in Lewiston, Maine. The College provides academic, residential and other services to a diverse student population of approximately 1,750.

Basis of Presentation

The accompanying financial statements have been prepared on the accrual basis of accounting and in accordance with accounting principles generally accepted in the United States of America. The College displays its activities and net assets in three classes: unrestricted, temporarily restricted and permanently restricted. These classes are defined as follows:

Unrestricted Net Assets - Net assets that are not subject to donor-imposed stipulations.

Temporarily Restricted Net Assets - Net assets subject to donor-imposed stipulations or legal restrictions that may or will be met either by actions of the College and/or the passage of time.

Permanently Restricted Net Assets - Net assets subject to donor-imposed stipulations that they be maintained permanently by the College.

Revenues are reported as increases in unrestricted net assets unless use of the related assets is limited by donor-imposed restrictions. Expenses are reported as decreases in unrestricted net assets. Realized and unrealized gains and losses on investments and other assets or liabilities are reported as increases or decreases in unrestricted net assets unless their use is restricted by explicit donor stipulations or law.

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 period. Significant estimates include the valuation of certain investments, split interest obligations, receivables, and estimated service lives of buildings and equipment. Actual results could differ from those estimates.

Cash and Cash Equivalents

The College considers all highly liquid debt instruments with maturities, when purchased, of three months or less to be cash equivalents. Cash and cash equivalents at June 30, 2013 and 2012 included \$1,059,345 and \$1,003,797 respectively, of monies held for the Perkins loan program.

Contributions Receivable

Unconditional promises to give that are expected to be collected within one year are recorded at net realizable value. Unconditional promises to give that are expected to be collected in future years are recorded at the present value of their expected future cash flows. The discounts on those amounts are computed using rates indicative of the market and credit risk associated with the contribution. Amortization of the discounts is included in contribution revenue. Conditional promises to give are not included as revenues until the conditions are substantially met.

Inventories

Inventories are stated at the lower of cost or market with cost being principally determined on a first-in, first-out basis.

Investments

Investments are stated at fair value in accordance with Fair Value Measurement standards. Fair value is defined as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date.

BATES COLLEGE

NOTES TO FINANCIAL STATEMENTS

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

The following describes the hierarchy of inputs used to measure fair value and the primary valuation methodologies used by the College for financial instruments measured at fair value on a recurring basis. On July 1, 2012, the College adopted new guidance enhancing the *Fair Value Measurement* standard to ensure that the valuation techniques for alternative investments are fair, consistent, and verifiable.

The three levels of inputs are as follows:

Level 1 - Quoted prices in active markets for identical assets or liabilities.

Level 2 - Inputs other than Level 1 that are observable, either directly or indirectly, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the same term of the assets or liabilities. Certain alternative investments, such as hedge funds, that do not have a readily determinable fair value but are redeemable in the near term (up to 90 days beyond the net asset value measurement date) at manager-reported net asset value per share or its equivalent are also categorized as Level 2.

Level 3 - Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities.

A financial instrument's categorization within the valuation hierarchy is based upon the lowest level of input that is significant to the fair value measurement.

The College's interests in alternative investments are reported at the net asset value (NAV) reported by the investment managers. The College reviews and evaluates the NAV's provided by the investment managers including, but not limited to, managers' compliance with Fair Value Measurement standards, price transparency and valuation procedures in place, and the ability to redeem at NAV at the measurement date. The College believes that these valuations are a reasonable estimate of fair value as of June 30, 2013 and 2012 but are subject to uncertainty and, therefore, may differ from the value that would have been used had a ready market for the investments existed; such differences could be material. The NAV is used as a practical expedient to estimate the fair value of these investments unless it is probable that all or a portion of the investment will be sold for an amount different from NAV. As of June 30, 2013, the College had no plans or intentions to sell investments at amounts different from NAV.

The amount of gain or loss associated with these investments is reflected in the accompanying financial statements. Investments include funds designated by the Board of Trustees and permanent endowment assets which are held in perpetuity. The College may have exposure to derivative financial instruments through its investments in various limited liability funds.

The College uses the unit market value method for the assignment of income and asset appreciation and depreciation for the investments it pools within the endowment and trust fund categories. Under this method each individual fund subscribes to, or disposes of, units on the basis of the market value per unit. Income as well as capital appreciation or depreciation earned by the pool is assigned to each individual fund on the basis of the number of units the individual fund owns.

Due to the level of risk associated with certain investment securities and level of uncertainty related to the changes in value of these investments, it is at least reasonably possible that changes in value in the near term could materially impact the amounts reported as the fair market value of these investments at June 30, 2013.

Related Party Transactions

There were no related party transactions for the year ended June 30, 2013.

For the year ended June 30, 2012, the College had business relations with certain of its Trustees as follows:

- One Trustee served on the Board of one of the College's investment vehicles amounting to 6% of total investments.
- For a portion of 2012, two Trustees were managers of a portion of College investment vehicles.
- One Trustee served on the Board of Maine Health and Higher Educational Facilities Authority through which the College has outstanding bonds payable.

Split Interest Agreements

The College is party to various split interest agreements with regards to irrevocable trusts and other agreements. These agreements include perpetual trusts, charitable remainder trusts, charitable gift annuities, pooled income funds and pooled growth funds.

BATES COLLEGE

NOTES TO FINANCIAL STATEMENTS

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

When the College is the trustee for the trust/fund, the assets held are included in investments. When a donor makes a contribution to these funds, contribution revenue is recognized and a liability for the present value of the estimated future payments to the donors and/or other beneficiaries is recorded as split interest and annuity obligations. Split interest and annuity obligations are based upon actuarial estimates and assumptions regarding the duration of the agreement and the rates used to discount the liabilities. Circumstances affecting these assumptions can change the estimate of the liabilities in future periods. Discount rates ranged from 2.35% to 8.0%, and 2.3% to 8.0% at June 30, 2013 and 2012, respectively.

Assets held by an outside trustee are classified as beneficial interest in perpetual trusts or as contributions receivable from remainder trusts. These assets represent the College's share of the fair market value of the trust assets as of the balance sheet date, net of a liability for the present value of estimated future payments to the donors or other beneficiaries. Distributions of income from the trusts to the College are recorded as revenue and the carrying value of the assets is adjusted for changes in the estimates of future receipts.

Land, Buildings and Equipment

Land, buildings and equipment are stated at cost at date of acquisition or at fair market value at date of donation in the case of gifts. Repairs and maintenance of buildings, grounds, equipment and furnishings as well as insignificant replacements of furnishings and equipment are expensed as incurred.

Land improvements, buildings and equipment are depreciated on the straight-line method over the estimated service lives of respective assets. Estimated service lives are as follows:

Land and building improvements	10 to 15 years
Buildings (masonry)	60 years
Buildings (wooden)	25 years
Equipment	4 to 10 years

When assets are retired or disposed of, the associated cost and accumulated depreciation are removed from the accounts, and gains or losses are included in other income in the statement of activities.

Collections

The College's policy is not to capitalize collections, primarily art objects, as they are held for educational, research, and curatorial purposes. Each of the items is catalogued, preserved and cared for, and activities verifying their existence and assessing their condition are performed continuously. Any proceeds from the sale of collection items are used to acquire other items for the collection.

Deposits With Bond Trustees

Deposits with Bond Trustees consists principally of investments in United States Government obligations and have been deposited with Trustees as required under certain loan agreements. Amounts at June 30, 2013 and 2012 respectively, consist of \$4,387,268 and \$4,338,253 for debt service.

Bond Origination Costs

Costs associated with issuing bonds payable have been capitalized and are being amortized on a straight-line basis over the term of the bonds.

Asset Retirement Obligations

In accordance with standards on *Accounting for Asset Retirement Obligations*, the College recognizes the fair value of a liability for legal obligations associated with asset retirements in the period in which the obligation is incurred. When the liability is initially recorded, the cost of the asset retirement obligation is capitalized by increasing the carrying amount of the related long-lived asset. The liability is accreted to its present value each period, and the capitalized cost associated with the retirement obligation is depreciated over the useful life of the related asset. Upon settlement of the obligation, any difference between the cost to settle the asset retirement obligation and the liability recorded is recognized as a gain or loss in the statement of activities.

BATES COLLEGE

NOTES TO FINANCIAL STATEMENTS

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Investment Return / Spending Policy

The Maine Uniform Prudent Management of Institutional Funds Act (UPMIFA) provides that unless explicitly stated otherwise by the donor, appreciation on investments of donor designated endowment funds, until appropriated pursuant to proper governing board action, must be classified as temporarily restricted net assets.

The investment time horizon for the endowment is long-term, consistent with its expected perpetual life. The financial goals for the endowment are (a) to achieve investment returns, net of all costs of management, over full market cycles at least equal to the sum of the rate of inflation (Higher Education Price Index) and the spending rate, and (b) to provide a predictable and stable flow of funds for the operating budget of the College.

To achieve its long-term return objectives, the College relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized gains) and current yield (interest and dividends). The College targets a diversified asset allocation that places greater emphasis on equity based investments to achieve an expected average real return of approximately 5.0% annually (actual returns in any given year may vary from this amount.)

The College's endowment spending policy is also based upon the "total return" concept. The portion to be spent is determined by a budgetary process whereby the objective of the governing board is that the actual spending does not exceed 5% of the estimated average fair market value of the endowment investments. Accordingly, over the long term, the College expects its endowment to grow at the rate of inflation annually, consistent with the financial goals of the endowment.

Financial Instruments

The College has a number of financial instruments including: cash and cash equivalents; contributions and accounts receivable; accounts payable and accrued expenses; and bonds payable. Management of the College estimates that the fair value of financial instruments at June 30, 2013 and 2012 does not differ materially from the aggregate carrying values of its financial instruments recorded in the accompanying statements of financial position. Notes receivable are principally amounts due from students under U.S. Government sponsored loan programs, which are subject to significant restrictions. Accordingly, it is not practicable to determine the fair value of such amounts.

Nonoperating Activities

Nonoperating activities include transactions related to capital activities, endowments, and split interest agreements. Nonoperating activities also include the investment return in excess of amounts used for operations in accordance with the College's endowment spending policy.

Donor-Imposed Restrictions

Contributions received are recorded as unrestricted, temporarily restricted or permanently restricted support, depending on the existence and/or nature of any donor restrictions. All donor-restricted support is reported as an increase in temporarily or permanently restricted net assets, depending on the nature of the restriction. When a restriction expires (that is, when a 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.

Sponsored Programs

Revenues associated with federal and state government grants and contracts are recognized as the related costs are incurred. The College records reimbursement of indirect costs relating to government grants and contracts at predetermined negotiated rates for each year.

Allocation of Certain Expenses

The statement of activities presents expenses by functional classification. Operation and maintenance of plant is allocated to program and supporting activities based principally upon square footage of facilities. Depreciation of plant assets is allocated based on the specific use of the asset. Interest expense is allocated to the functional classifications that benefited from the use of the proceeds of the debt.

BATES COLLEGE

NOTES TO FINANCIAL STATEMENTS

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Income Taxes and Tax Status

The College qualifies under the provisions of Section 501(c)(3) of the Internal Revenue Code and is exempt from federal income taxes on all of the College's program related income.

Reclassification

Certain amounts in prior year's financial statements have been reclassified to conform to the 2013 presentation.

Subsequent Events

The College evaluated subsequent events through October 25, 2013, the date the financial statements were available to be issued, and determined that there have been no subsequent events for the period after June 30, 2013 that would require recognition in the financial statements or disclosure in the notes of the financial statements.

NOTE 2 - CONTRIBUTIONS RECEIVABLE

Included in contributions receivable are the following unconditional promises to give:

	2013	2012
Capital	\$ 1,058,624	\$ 1,491,020
Endowment	1,516,122	1,755,994
Other	1,217,066	1,643,560
Unconditional promises to give before unamortized discount and allowance for uncollectibles	\$ 3,791,812	\$ 4,890,574
Less: Unamortized discount	82,900	127,903
	\$ 3,708,912	\$ 4,762,671
Less: Allowance for uncollectibles	230,984	333,613
Net unconditional promises to give	\$ 3,477,928	\$ 4,429,058
Amounts due in:		
Less than one year	\$ 3,212,477	\$ 3,807,158
One to five years	579,335	1,083,416
	\$ 3,791,812	\$ 4,890,574

Discount rates on unconditional promises to give ranged from 1.8% to 5.1% at June 30, 2013 and 2012. Conditional promises to give at June 30, 2013 and 2012 were \$700,000 and \$900,000, respectively. Total fund raising expenses were \$5,209,387 and \$4,955,296 for the years ended June 30, 2013 and 2012, respectively.

NOTE 3 - INVESTMENTS

The cost and fair value of investments at June 30 are as follows:

	2013		2012	
	Cost	Fair Value	Cost	Fair Value
Cash and cash equivalents	\$ 1,898,206	\$ 1,898,206	\$ 5,834,375	\$ 5,834,375
Equity securities and funds	89,027,272	98,346,937	85,957,293	90,028,694
Venture capital partnerships	4,558,394	5,556,369	4,942,955	5,168,375
Private equity partnerships	39,718,627	46,230,490	38,130,470	42,011,081
Hedge funds	44,835,883	67,029,416	47,982,438	60,479,139
Fixed income securities and funds	28,286,637	27,554,546	29,188,887	29,133,995
Real estate and real estate funds	5,844,896	5,983,835	5,884,350	5,783,733
Commodity and other funds	10,855,421	15,599,309	10,848,132	15,210,237
	\$225,025,336	\$268,199,108	\$228,768,900	\$ 253,649,629

BATES COLLEGE

NOTES TO FINANCIAL STATEMENTS

NOTE 3 - INVESTMENTS - CONTINUED

The following schedule summarizes the total endowment return and other investment return including the change in value of split interest agreements and its classification in the statements of activities for the years ended June 30:

	2013			Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	
Interest and dividends	\$ 381,419	\$ 2,140,505	\$ 11,075	\$ 2,532,999
Net unrealized and realized gains*	3,603,407	18,791,723	3,126,707	25,521,837
Reclassified investment gains**	<u>2,161,826</u>	<u>(2,161,826)</u>	<u>-</u>	<u>-</u>
Total investment return	\$ 6,146,652	\$ 18,770,402	\$ 3,137,782	\$ 28,054,836
Less: Investment return designated for current operations	<u>1,709,667</u>	<u>8,840,242</u>	<u>-</u>	<u>10,549,909</u>
Investment return greater than spending formula and return for pooled funds and other funds	<u>\$ 4,436,985</u>	<u>\$ 9,930,160</u>	<u>\$ 3,137,782</u>	<u>\$ 17,504,927</u>

	2012			Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	
Interest and dividends	\$ 245,192	\$ 1,362,372	\$ 2,548	\$ 1,610,112
Net unrealized and realized (losses) gains*	(924,532)	(7,760,950)	328,262	(8,357,220)
Reclassified investment losses**	<u>(2,459,043)</u>	<u>2,459,043</u>	<u>-</u>	<u>-</u>
Total investment return	\$ (3,138,383)	\$ (3,939,535)	\$ 330,810	\$ (6,747,108)
Less: Investment return designated for current operations	<u>2,876,934</u>	<u>8,347,922</u>	<u>-</u>	<u>11,224,856</u>
Investment return (less) greater than spending formula and return for pooled funds and other funds	<u>\$ (6,015,317)</u>	<u>\$ (12,287,457)</u>	<u>\$ 330,810</u>	<u>\$ (17,971,964)</u>

*Direct external management and custodial fees for the endowment investments and other College investments are charged to the investment portfolio and were \$1,338,811 and \$1,420,933 for the years ended June 30, 2013 and 2012, respectively. Net unrealized and realized results are presented net of these fees.

** Certain losses which would cause individual endowment funds to be reduced below the historical dollar amount contributed by the donor have been allocated to unrestricted net assets. These losses resulted from unfavorable market fluctuations that occurred shortly after the investment of newly established endowments, and authorized spending in accordance with the endowment spending policy. The total losses allocated to unrestricted net assets were \$2,011,089 and \$4,172,914 at June 30, 2013 and 2012, respectively. Market gains in fiscal year 2013 have been used to restore this deficiency in unrestricted net assets and will continue before any net appreciation above the historical dollar value of such funds increases temporarily restricted net assets.

BATES COLLEGE

NOTES TO FINANCIAL STATEMENTS

NOTE 3 - INVESTMENTS - CONTINUED

Fair Value Hierarchy as of June 30, 2013:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Investments				
Cash and cash equivalents	\$ 1,898,206	\$ -	\$ -	\$ 1,898,206
Equity securities and funds	59,666,991	37,715,926	964,020	98,346,937
Venture capital partnerships	-	-	5,556,369	5,556,369
Private equity partnerships	-	-	46,230,490	46,230,490
Hedge funds	-	46,422,784	20,606,632	67,029,416
Fixed income securities and funds	16,417,345	11,137,201	-	27,554,546
Real estate and real estate funds	3,173,188	-	2,810,647	5,983,835
Commodity and other funds	10,128	15,589,181	-	15,599,309
Investment total	<u>\$ 81,165,858</u>	<u>\$ 110,865,092</u>	<u>\$ 76,168,158</u>	<u>\$ 268,199,108</u>
Other assets				
Beneficial interest in perpetual trusts	-	-	5,839,534	5,839,534
Contributions receivable from remainder trusts	-	-	5,067,150	5,067,150
Total assets at fair value	<u>\$ 81,165,858</u>	<u>\$ 110,865,092</u>	<u>\$ 87,074,842</u>	<u>\$ 279,105,792</u>

Fair Value Hierarchy as of June 30, 2012:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Investments				
Cash and cash equivalents	\$ 5,834,375	\$ -	\$ -	\$ 5,834,375
Equity securities and funds	57,617,408	31,865,068	546,218	90,028,694
Venture capital partnerships	-	-	5,168,375	5,168,375
Private equity partnerships	-	-	42,011,081	42,011,081
Hedge funds	-	30,400,514	30,078,625	60,479,139
Fixed income securities and funds	16,550,782	12,583,213	-	29,133,995
Real estate and real estate funds	3,192,366	1,238	2,590,129	5,783,733
Commodity and other funds	31,609	15,178,628	-	15,210,237
Investment total	<u>\$ 83,226,540</u>	<u>\$ 90,028,661</u>	<u>\$ 80,394,428</u>	<u>\$ 253,649,629</u>
Other assets				
Beneficial interest in perpetual trusts	-	-	5,534,953	5,534,953
Contributions receivable from remainder trusts	-	-	4,807,150	4,807,150
Total assets at fair value	<u>\$ 83,226,540</u>	<u>\$ 90,028,661</u>	<u>\$ 90,736,531</u>	<u>\$ 263,991,732</u>

Beneficial interest in perpetual trusts and contributions receivable from remainder trusts are valued at the present value of the future distributions expected to be received over the term of the agreement.

BATES COLLEGE

NOTES TO FINANCIAL STATEMENTS

NOTE 3 - INVESTMENTS - CONTINUED

Roll forward of Investments Classified as Level 3:

	Value at June 30, 2012	Realized/Unrealized Gains/(Losses)	Purchases	Sales	Transfers out of Level 3	Value at June 30, 2013
Investments						
Equity securities and funds	\$ 546,218	\$ -	\$ 417,802	\$ -	\$ -	\$ 964,020
Venture capital partnerships	5,168,375	1,177,835	31,516	(821,357)	-	5,556,369
Private equity partnerships	42,011,081	5,620,013	5,271,752	(6,672,356)	-	46,230,490
Hedge funds	30,078,625	3,556,331	-	(4,493,618)	(8,534,706)	20,606,632
Real estate and real estate funds	2,590,129	225,738	-	(5,220)	-	2,810,647
	<u>\$ 80,394,428</u>	<u>\$ 10,579,917</u>	<u>\$ 5,721,070</u>	<u>\$ (11,992,551)</u>	<u>\$ (8,534,706)</u>	<u>\$ 76,168,158</u>
Other assets						
Beneficial interest in						
perpetual trusts	5,534,953	304,581	-	-	-	5,839,534
Contributions receivable						
from remainder trusts	4,807,150	546,099	-	(286,099)	-	5,067,150
Total assets classified as level 3	<u><u>\$ 90,736,531</u></u>	<u><u>\$ 11,430,597</u></u>	<u><u>\$ 5,721,070</u></u>	<u><u>\$ (12,278,650)</u></u>	<u><u>\$ (8,534,706)</u></u>	<u><u>\$ 87,074,842</u></u>

	Value at June 30, 2011	Realized/Unrealized Gains/(Losses)	Purchases	Sales	Value at June 30, 2012
Investments					
Equity securities and funds	\$ 512,566	\$ 13,373	\$ 140,068	\$ (119,789)	\$ 546,218
Venture capital partnerships	5,798,061	702,775	170,279	(1,502,740)	5,168,375
Private equity partnerships	41,033,586	(1,731,315)	6,669,906	(3,961,096)	42,011,081
Hedge funds	33,571,542	(683,726)	1,500,000	(4,309,191)	30,078,625
Real estate and real estate funds	650,380	(58,251)	2,000,000	(2,000)	2,590,129
	<u>\$ 81,566,135</u>	<u>\$ (1,757,144)</u>	<u>\$ 10,480,253</u>	<u>\$ (9,894,816)</u>	<u>\$ 80,394,428</u>
Other assets					
Beneficial interest in perpetual trusts	5,982,843	(447,890)	-	-	5,534,953
Contributions receivable from remainder trusts	6,656,348	28,760	-	(1,877,958)	4,807,150
Total assets classified as level 3	<u><u>\$ 94,205,326</u></u>	<u><u>\$ (2,176,274)</u></u>	<u><u>\$ 10,480,253</u></u>	<u><u>\$ (11,772,774)</u></u>	<u><u>\$ 90,736,531</u></u>

In accordance with standards for estimating the fair value of investments, the College conducted a review of changes between levels occurring during fiscal year 2013 and noted no leveling changes between Level 1 and Level 2, and one transfer of \$8.5 million from Level 3 to Level 2 due to changes in liquidity provisions. There were no leveling changes between Level 1 and Level 2, and between Level 2 and Level 3 for the year ended June 30, 2012.

BATES COLLEGE

NOTES TO FINANCIAL STATEMENTS

NOTE 3 - INVESTMENTS - CONTINUED

Redemption Terms for Investments classified as Level 2 and Level 3 as of June 30, 2013:

Redemption Terms	Equity Securities	Venture Capital	Hedge Funds	Fixed Income	Real Estate,	Total
	and Funds	and Private Equity		Funds	Commodity and	
		Partnerships			Other Funds	
Within 30 Days	\$ -	\$ -	\$ -	\$ -	\$ 15,589,181	\$ 15,589,181
Monthly (10-120 days notice)	37,715,926	-	5,265,124	11,137,201	-	54,118,251
Quarterly (30-60 days notice)	-	-	41,157,660	-	-	41,157,660
Annually (45-90 days notice)	-	-	20,451,563	-	-	20,451,563
1 - 5 years	-	12,844,777	155,069	-	2,263,387	15,263,233
6 - 10 years	964,020	38,942,082	-	-	547,260	40,453,362
	<u>\$ 38,679,946</u>	<u>\$ 51,786,859</u>	<u>\$ 67,029,416</u>	<u>\$ 11,137,201</u>	<u>\$ 18,399,828</u>	<u>\$ 187,033,250</u>

Redemption Terms for Investments classified as Level 2 and Level 3 as of June 30, 2012:

Redemption Terms	Equity Securities	Venture Capital	Hedge Funds	Fixed Income	Real Estate,	Total
	and Funds	and Private Equity		Funds	Commodity and	
		Partnerships			Other Funds	
Within 30 Days	\$ -	\$ -	\$ -	\$ -	\$ 15,179,866	\$ 15,179,866
Monthly (10-120 days notice)	31,865,068	-	4,833,380	12,583,213	-	49,281,661
Quarterly (30-60 days notice)	-	-	25,567,135	-	-	25,567,135
Annually (45-90 days notice)	-	-	29,834,121	-	-	29,834,121
1 - 5 years	-	13,181,577	244,503	-	2,061,769	15,487,849
6 - 10 years	546,218	33,997,879	-	-	528,360	35,072,457
	<u>\$ 32,411,286</u>	<u>\$ 47,179,456</u>	<u>\$ 60,479,139</u>	<u>\$ 12,583,213</u>	<u>\$ 17,769,995</u>	<u>\$ 170,423,089</u>

NOTE 4 - LAND, BUILDINGS AND EQUIPMENT

Land, buildings and equipment consist of the following:

	2013	2012
Land and improvements	\$ 4,016,506	\$ 3,818,528
Buildings	197,603,364	193,305,468
Equipment	14,267,939	13,022,342
Construction in progress	2,478,216	1,661,590
	<u>\$218,366,025</u>	<u>\$ 211,807,928</u>
Less: Accumulated depreciation	74,279,661	68,133,142
	<u>\$144,086,364</u>	<u>\$ 143,674,786</u>

BATES COLLEGE

NOTES TO FINANCIAL STATEMENTS

NOTE 5 - LINE OF CREDIT

The College has a \$5,000,000 unsecured line of credit with interest at LIBOR plus 1.75% renewable on December 31, 2013. At June 30, 2013 and 2012, there was no balance outstanding on this line.

NOTE 6 - BONDS PAYABLE

In 1997, \$8,310,000 of Revenue Bonds were issued by Maine Health and Higher Educational Facilities Authority ("MHHEFA") for the benefit of the College. The purpose of the issue was to construct a five-story academic building and a two-story maintenance building, fund a debt service reserve fund, and fund miscellaneous capital items. The interest rates for these bonds range from fixed rates of 5.375% to 5.5% resulting in an average interest rate of 5.39%. These bonds reach final maturity in 2027.

In 2003, \$3,965,000 of Series 2003B Revenue Bonds were issued by MHHEFA for the benefit of the College. The proceeds were used to fund an electronic security access system and a new telephone system. The interest rates for these bonds range from fixed rates of 3.4% to 5% resulting in an average interest rate of 4.36%. These bonds reach final maturity in 2016.

In April 2006, \$37,990,000 of Series 2006B Revenue Bonds were issued by MHHEFA for the benefit of the College. The purpose of the issue was to renovate an existing chapel, construct a new residential village and a new dining facility, fund capitalized interest during the construction period, and fund other miscellaneous capital improvements and equipment acquisitions. The interest rates for these bonds range from fixed rates of 4% to 5% resulting in an average interest rate of 4.9%. These bonds reach final maturity in 2036.

In December 2008, \$15,895,000 of Series 2008D Revenue Bonds were issued by MHHEFA for the benefit of the College. The proceeds from the issue were used to extinguish the Series 2000A bonds which refinanced the construction of a student residence complex and renovations of Carnegie Science Hall, and the 2000B bonds which financed the construction of Pettengill Hall and improvements to the athletic facilities. The refunding converted variable interest rates on the Series 2000A and 2000B bonds to fixed interest rates on the Series 2008D bonds that range from 4% to 5.13%, resulting in an average interest rate of 4.79%. The Series 2008D bonds reach final maturity in 2022.

In April 2010, \$13,600,000 of Series 2010A Revenue Bonds were issued by MHHEFA for the benefit of the College. The purpose of the issue was to finance the renovation, overhaul and equipping of two residence halls for use as academic classrooms and offices, and to fund miscellaneous capital improvements and capitalized interest during the construction period. The interest rates for these bonds range from fixed rates of 3% to 5.25% resulting in an average interest rate of 4.95%. These bonds reach final maturity in 2040.

The College has given a collateral interest in all its gross receipts, a negative pledge on the College's central facilities, and a debt fund reserve as collateral for these bonds. The agreements contain various covenants regarding such items as additional permitted encumbrances, submission of financial statements and budgets, permitted dispositions and acquisitions of property, additional debt, and meeting certain debt coverage financial ratios.

Total interest expense for the years ended June 30, 2013 and 2012 was \$3,205,959 and \$3,221,706, net of interest capitalized of \$106,543 for June 30, 2012.

The approximate maturities of these bonds are as follows:

2014	\$ 2,910,000
2015	3,035,000
2016	3,115,000
2017	3,230,000
2018	2,970,000
Thereafter	45,650,450
Total	<u>\$ 60,910,450</u>

As of June 30, 2013 and 2012, the estimated fair values of bonds payable based on Level 2 inputs was \$63,869,336 and \$67,324,351, respectively. The fair value of bonds payable generally represents a mid-market estimate, a market bid and/or market ask, or any other price or estimate within a market spread.

BATES COLLEGE

NOTES TO FINANCIAL STATEMENTS

NOTE 7 - NET ASSETS

Temporarily and permanently restricted net assets are composed of the following general classes of uses or purposes:

	2013		2012	
	Permanently Restricted	Temporarily Restricted	Permanently Restricted	Temporarily Restricted
Endowment, income to support				
Scholarships	\$ 51,899,623	\$ 37,656,308	\$ 50,104,134	\$ 33,056,908
Professorships	17,671,134	8,954,763	17,061,085	7,773,110
Library and other academic support	6,511,329	6,010,381	6,385,760	5,263,344
Other purposes	17,398,934	4,281,523	17,290,412	3,542,768
Any operation of the College	31,676,372	16,932,108	31,000,182	14,431,010
Pledges	1,343,175	2,134,753	1,523,444	2,905,614
Beneficial interest in perpetual trusts	5,839,534	-	5,534,953	-
Life income funds	15,301,825	2,539,117	14,200,571	3,187,191
Other purposes	-	6,891,943	-	7,177,643
	<u>\$147,641,926</u>	<u>\$ 85,400,896</u>	<u>\$143,100,541</u>	<u>\$ 77,337,588</u>

Changes in endowment net assets:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, June 30, 2012	\$ 28,743,970	\$ 65,570,671	\$ 121,841,572	\$ 216,156,213
Investment income	381,419	2,140,505	11,075	2,532,999
Net realized and unrealized gains	3,603,406	18,742,367	882,641	23,228,414
Gifts and maturities	14,165	-	2,422,104	2,436,269
Endowment return used in accordance with spending policy	(1,709,667)	(8,840,242)	-	(10,549,909)
Reclassified investment gains	2,161,826	(2,161,826)	-	-
Endowment net assets, June 30, 2013	<u>\$ 33,195,119</u>	<u>\$ 75,451,475</u>	<u>\$ 125,157,392</u>	<u>\$ 233,803,986</u>

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, June 30, 2011	\$ 34,747,450	\$ 78,106,563	\$ 118,597,097	\$ 231,451,110
Investment income	245,192	1,362,372	2,548	1,610,112
Net realized and unrealized (losses) gains	(924,210)	(8,009,385)	1,076,984	(7,856,611)
Gifts and maturities	11,515	-	2,164,943	2,176,458
Endowment return used in accordance with spending policy	(2,876,934)	(8,347,922)	-	(11,224,856)
Reclassified investment losses	(2,459,043)	2,459,043	-	-
Endowment net assets, June 30, 2012	<u>\$ 28,743,970</u>	<u>\$ 65,570,671</u>	<u>\$ 121,841,572</u>	<u>\$ 216,156,213</u>

NOTE 8 - PENSION PLANS

All eligible College employees are covered under the Bates College Retirement Plan which is a 401(a) money purchase plan. Contributions to this plan are by the employer only and as of May 1, 2013 were 9% of wages. Prior to May 1, 2013, and for the year ended June 30, 2012, contributions to this plan were 6.7% of the first \$16,850 of wages plus 11% of wages over \$16,850. All eligible employees may also participate in the Bates College 403(b) Retirement Plan and may receive a 50% matching employer contribution to the plan, based on the participant's salary reduction contribution up to a maximum of 6% of the participant's compensation. Prior to May 1, 2013, all eligible employees received a 100% matching employer contribution to the 403(b) Retirement Plan, based on the participant's salary reduction contribution up to a maximum of 1% of the participant's compensation.

BATES COLLEGE

NOTES TO FINANCIAL STATEMENTS

NOTE 8 - PENSION PLANS - CONTINUED

The College's contributions to these plans were \$4,558,622 and \$4,361,087 for the years ended June 30, 2013 and 2012, respectively.

Additionally, certain highly paid employees are eligible to participate in the Bates College 457(b) Supplemental Savings Plan. Contributions to this plan are by employees only. Under all plans, retirement benefits are individually funded and vested.

The College currently has an Early Retirement Plan offered to tenured faculty which provides certain incentives to retire. This Plan resulted in an expense of \$787,802 and \$405,392 for the years ended June 30, 2013 and 2012, respectively.

NOTE 9 - COMMITMENTS AND CONTINGENCIES

Investments in Partnerships

Certain of the College's investments in partnerships involve future cash commitments. These future cash commitments represent venture capital and private equity partnership commitments and amount to approximately \$13 million at June 30, 2013.

Commitments for Utilities and Construction

The College has entered into contracts for utilities and capital construction projects with a combined total balance of approximately \$1.3 million at June 30, 2013.

Contingencies

The College is subject to certain legal proceedings and claims which arise in the ordinary course of conducting its activities. In the opinion of management, the College has defensible positions and any ultimate liabilities will not materially affect the financial position of the College.

**Schedule of Expenditures of
Federal Awards**

Bates College
Schedule of Expenditures of Federal Awards
Year Ended June 30, 2013

Federal Grantor/Pass-Through Grantor/Program / Cluster Title	Federal CFDA Number	Pass-Through Entity Identification Number	Federal Expenditures
Student Financial Assistance Cluster			
US Department of Education			
Federal Supplemental Educational Opportunity Grants	84.007		\$ 279,922
Federal Work-Study Program	84.033		218,141
Federal Pell Grant Program	84.063		933,608
Total Student Financial Assistance Cluster			<u>1,431,671</u>
Research and Development Cluster			
National Science Foundation			
Mathematical and Physical Sciences	47.049		179,520
Education and Human Resources	47.076		108,115
Education and Human Resources - Bowdoin College	47.076	DUE-1140562	1,500
Polar Programs	47.078		129,742
Polar Programs - Hampshire College	47.078	ARC-0649006	3,387
Geosciences	47.050		124,905
Experimental Program to Stimulate Competitive Research - University of Maine	47.081	EPS-0904155	46,821
Trans-NSF Recovery Act Research Support - ARRA	47.082		143,869
Total National Science Foundation			<u>737,859</u>
Department of Health and Human Services			
Biomedical Research and Research Training	93.859		11,522
National Center for Research Resources-Mount Desert Island Biological Lab	93.389	5 P20 RR016463-11	279
National Center for Research Resources-Mount Desert Island Biological Lab	93.389	5 P20 RR016463-12	339,670
National Center for Research Resources-Mount Desert Island Biological Lab	93.389	5 P20 RR016463-13	60,610
Allergy, Immunology and Transplantation Research	93.855		67,427
Trans-NIH Recovery Act Research Support - ARRA	93.701		85,995
Total Department of Health and Human Services			<u>565,503</u>
Department of the Interior			
National Park Service/Natural Resource Stewardship	15.944		22,520
Department of Defense			
Air Force Defense Research Sciences Program	12.800		122,777
Department of Commerce			
National Institutes of Standards and Technology - ARRA	11.609		4,241
National Oceanic and Atmospheric Administration/Sea Grant- University of Maine	11.417	NA 10OAR4170081 Amend. 20	36,595
Department of Energy			
Office of Science Financial Assistance Programs- University of Maine	81.049	DE-FG02-07ER46373 Mod. 7	27,163
Total Research and Development Cluster			<u>1,516,658</u>
Other Programs			
Corporation for National and Community Service			
Volunteers in Service to America-University of New Hampshire	94.013	GH 06VSANH002	23,977
Environmental Protection Agency			
Environmental Education Grants	66.951		20,484
National Endowment for the Arts			
Promotion of the Arts - Grants to Organizations and Individuals	45.024		30,000
Total Expenditures of Federal Awards			<u>\$ 3,022,791</u>

The accompanying notes are an integral part of the schedule.

Bates College
Notes to Schedule of Expenditures of Federal Awards
Year Ended June 30, 2013

1. Summary of Significant Accounting Policies

Basis of Presentation

The accompanying Schedule of Expenditures of Federal Awards (the "Schedule") has been prepared using the accrual basis of accounting and in accordance with OMB Circular A-133, *Audits of States, Local Governments, and Nonprofit Organizations*. The purpose of the Schedule is to provide a summary of those activities of Bates College (the "College") for the year ended June 30, 2013, which have been financed by the U.S. Government. For purposes of the Schedule, federal awards include all federal assistance entered into directly between the federal government and the College, and federal funds awarded to the College by a prime recipient. As the Schedule presents only a selected portion of the activities of the College, it is not intended to, and does not present the financial position, changes in net assets or cash flows of the College.

Expenditures consist of direct costs which are recognized as incurred using the accrual method of accounting and the cost accounting principles contained in the U.S. Office of Management and Budget (OMB) Circular A-21, *Cost Principles for Educational Institutions*. Under those cost principles, certain types of expenditures are not allowable or are limited as to reimbursement. Expenditures also include facilities and administrative costs. For the year ended June 30, 2013, the College has a predetermined facilities and administrative cost rate of 40% for on-campus locations based on modified total direct costs.

2. Federal Perkins Loan Program

The following sets forth certain activities in the Federal Perkins Loan Program (CFDA #84.038) for the year ended June 30, 2013:

Perkins Loans receivable at June 30, 2013	\$ 6,439,011
New Perkins Loans processed in fiscal year 2013	\$ 988,368

Perkins loans cancelled (CFDA #84.037) for recipients who entered certain fields of public service was \$32,282 for the year ended June 30, 2013. The College recovered an administrative cost allowance of \$83,393 from the Federal Perkins Loan Program for the year ended June 30, 2013.

3. Federal Direct Student Loan Program

During the fiscal year ended June 30, 2013, the College processed the following amount of new loans under the Federal Direct Student Loan Program (CFDA #84.268):

Stafford Subsidized	\$ 696,599
Stafford Unsubsidized	926,802
Parent Loans for Undergraduate Students	<u>2,022,647</u>
Total Federal Direct Student Loan Program	<u>\$ 3,646,048</u>

Bates College
Notes to Schedule of Expenditures of Federal Awards
Year Ended June 30, 2013

4. Subrecipients

Certain federal funds are provided to subrecipient organizations by the College. The following expenditures incurred by these subrecipients are reimbursed by the College and included on the Schedule for the year ended June 30, 2013.

Program Title	CFDA #	Amount
Research & Development Cluster		
National Science Foundation – Education and Human Resources	47.076	\$ 46,346
National Science Foundation – Polar Programs	47.078	31,186
Department of the Interior – Natural Resource Stewardship	15.944	<u>19,166</u>
Subtotal		<u>96,698</u>
Other Programs		
Environmental Protection Agency – Environmental Education Grants	66.951	<u>1,500</u>
Total Amounts Provided to Subrecipients		\$ <u>98,198</u>

**Part II – Reports on Internal
Control and Compliance and Other Matters**



Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

To the President and Trustees of Bates College

We have audited the financial statements of Bates College (the "College"), which comprise the statements of financial position as of June 30, 2013 and 2012, and the related statements of activities and cash flows for the years then ended, and the related notes to the financial statements, as of and for the years ended June 30, 2013 and 2012, and have issued our report thereon dated October 25, 2013. 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.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the College's internal control over financial reporting ("internal control") to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the College's internal control. Accordingly, we do not express an opinion on the effectiveness of the College's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the College's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.



Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

PricewaterhouseCoopers LLP

October 25, 2013



**Independent Auditor's Report on Compliance with Requirements
That Could Have a Direct and Material Effect on Each Major Program and on Internal
Control Over Compliance in Accordance with OMB Circular A-133**

To the President and Trustees of Bates College

Report on Compliance for Each Major Federal Program

We have audited Bates College's (the "College") compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the College's major federal programs for the year ended June 30, 2013. The College's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the College's major federal programs based on our audit of the types of compliance requirements referred to above. We did not audit the College's compliance with the billing and certain of the collections and due diligence compliance requirements specified by the Federal Perkins Loan Program ("Perkins Loan") and described in the *OMB Circular A-133 Compliance Supplement*. Compliance with these requirements was audited by other auditors whose report has been furnished to us, and our opinion, insofar as it relates to the College's compliance with those requirements, is based solely on the report of the other auditors. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the College's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the College's compliance.

Opinion on Each Major Federal Program

In our opinion, based on our audit and the report of other auditors, the College complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2013.



Report on Internal Control Over Compliance

Management of the College is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, except as noted in the following paragraph, we considered the College's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the College's internal control over compliance.

We did not consider internal control over compliance with the billing and certain of the collections and due diligence compliance requirements specified by the Federal Perkins Loan Program ("Perkins Loan") and described in the *OMB Circular A-133 Compliance Supplement*. Internal control over these compliance requirements was considered by the other auditors referred to above; and our report, insofar as it relates to the College's internal control over those compliance requirements, is based solely upon the report of the other auditors.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration and the other auditors' consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. Also, the report of the other auditors did not identify any deficiencies in internal control over compliance that they consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

PricewaterhouseCoopers LLP

December 23, 2013

Part III – Audit Findings and Questioned Costs

Bates College
Schedule of Findings and Questioned Costs
Year Ended June 30, 2013

I. Summary of Auditor's Results

Financial Statements		
Type of auditor's report issued:		Unmodified
Internal control over financial reporting		
Material weakness(es) identified?	_____ yes	___X___ no
Significant deficiency(ies) identified not considered to be material weaknesses?	_____ yes	___X___ none reported
Noncompliance material to financial statements noted	_____ yes	___X___ no
Federal Awards		
Internal control over major programs		
Material weakness(es) identified?	_____ yes	___X___ no
Significant deficiency(ies) identified not considered to be material weaknesses?	_____ yes	___X___ none reported
Type of auditor's report issued on compliance for major programs:		Unmodified
Any audit findings disclosed that are required to be reported in accordance with Circular A-133, Section 510(a)?	_____ yes	___X___ no
Identification of major programs		Name of Federal Program or Cluster
CFDA Number		
Various		Student Financial Aid Cluster
Various		Research and Development Cluster
Dollar threshold used to distinguish between Type A and Type B programs		\$300,000
Auditee qualified as low-risk auditee	___X___ yes	_____ no

II. Financial Statement Findings

No matters were reported.

Bates College
Schedule of Findings and Questioned Costs
Year Ended June 30, 2013

III. Part A - Federal Award Findings and Questioned Costs

There are no current year audit findings.

Bates College
Summary Schedule of Prior Audit Findings
Year Ended June 30, 2013

There were no prior year audit findings.