

Bates College

**Report on Federal Awards in Accordance with OMB
Circular A-133**

June 30, 2014

EIN # 01 – 0211781

Bates College
Report on Federal Awards in Accordance with OMB Circular A-133
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**Part I – Financial Statements and
Supplementary Schedule of Expenditures of
Federal Awards**



Independent Auditor's Report

To the Trustees of Bates College:

We have audited the accompanying financial statements of Bates College (the "College") which comprise the statements of financial position as of June 30, 2014 and June 30, 2013, 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 College'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 Bates College at June 30, 2014 and June 30, 2013, 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 for the year ended June 30, 2014 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 24, 2014 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 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 24, 2014

BATES COLLEGE**STATEMENTS OF FINANCIAL POSITION****June 30, 2014 and 2013**

	2014	2013
ASSETS		
Cash and cash equivalents	\$ 10,417,296	\$ 8,086,049
Accounts receivable (net of allowance of \$272,042 for 2014 and \$224,897 for 2013)	2,046,735	1,597,167
Inventories and prepaid expenses	2,198,011	1,916,589
Contributions receivable - net	8,983,341	3,477,928
Notes receivable	6,393,196	6,457,081
Investments	302,653,903	268,199,108
Beneficial interest in perpetual trusts	6,384,242	5,839,534
Contributions receivable from remainder trusts	5,822,026	5,067,150
Land, buildings and equipment - net	143,747,821	144,086,364
Deposits with bond trustees	50,036,301	4,387,267
Unamortized bond origination costs	1,190,792	828,745
TOTAL ASSETS	\$ 539,873,664	\$ 449,942,982
LIABILITIES AND NET ASSETS		
LIABILITIES		
Accounts payable and accrued expenses	\$ 10,658,794	\$ 8,653,504
Student deposits and deferred items	3,394,218	2,975,708
Asset retirement obligations	5,885,124	5,873,521
Split interest and annuity obligations	18,573,909	14,405,766
Federal student loan funds repayable	6,400,292	6,386,919
Bond premiums	1,754,394	1,033,311
Bonds payable	104,640,481	60,910,450
TOTAL LIABILITIES	\$ 151,307,212	\$ 100,239,179
COMMITMENTS AND CONTINGENCIES		
NET ASSETS		
Unrestricted	\$ 121,418,015	\$ 116,660,981
Temporarily restricted	113,472,986	85,400,896
Permanently restricted	153,675,451	147,641,926
TOTAL NET ASSETS	\$ 388,566,452	\$ 349,703,803
TOTAL LIABILITIES AND NET ASSETS	\$ 539,873,664	\$ 449,942,982

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

BATES COLLEGE

**STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2014
WITH SUMMARIZED FINANCIAL INFORMATION FOR THE YEAR ENDED JUNE 30, 2013**

	2014				2013
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	
OPERATING ACTIVITIES					
Revenues and gains					
Single fee revenue	\$ 102,795,760			\$ 102,795,760	\$ 99,391,255
Scholarship aid	(30,875,125)			(30,875,125)	(27,773,780)
Net revenue from students	\$ 71,920,635			\$ 71,920,635	\$ 71,617,475
Other educational program revenues	599,086			599,086	869,735
	<u>\$ 72,519,721</u>			<u>\$ 72,519,721</u>	<u>\$ 72,487,210</u>
Government grants	1,895,359			1,895,359	1,739,175
Contributions and private grants	6,439,355	\$ 3,413,040		9,852,395	8,398,970
Endowment return used in accordance with spending policy	1,749,084	9,282,316		11,031,400	10,549,909
Other income	5,768,285	282,248		6,050,533	5,635,948
Net assets released from restrictions	11,692,002	(11,692,002)		-	-
	<u>\$ 100,063,806</u>	<u>\$ 1,285,602</u>		<u>\$ 101,349,408</u>	<u>\$ 98,811,212</u>
Expenses					
Educational and general					
Instructional	\$ 37,989,841			37,989,841	\$ 37,444,531
Research	1,497,964			1,497,964	1,857,454
Public service	289,307			289,307	211,450
Academic support	13,391,590			13,391,590	13,318,236
Student services	15,509,116			15,509,116	15,401,853
Institutional support	16,113,530			16,113,530	15,462,558
Total educational and general	<u>\$ 84,791,348</u>			<u>\$ 84,791,348</u>	<u>\$ 83,696,082</u>
Auxiliary enterprises	16,166,508			16,166,508	15,590,926
	<u>\$ 100,957,856</u>			<u>\$ 100,957,856</u>	<u>\$ 99,287,008</u>
TOTAL FROM OPERATING ACTIVITIES	<u>\$ (894,050)</u>	<u>\$ 1,285,602</u>		<u>\$ 391,552</u>	<u>\$ (475,796)</u>
NONOPERATING ACTIVITIES					
Revenues and gains					
Contributions	\$ 284	\$ 5,724,072	\$ 3,705,141	\$ 9,429,497	\$ 2,385,527
Total endowment return	7,382,720	30,473,449	1,001,343	38,857,512	25,784,225
Endowment return used in accordance with spending policy	(1,749,084)	(9,282,316)	-	(11,031,400)	(10,549,909)
Other investment return including change in value of split interest agreements	(76,315)	415,473	1,327,041	1,666,199	2,270,611
Net assets released from restrictions	544,190	(544,190)	-	-	-
Expenses					
Loss from early extinguishment of debt	(450,711)	-	-	(450,711)	-
TOTAL FROM NONOPERATING ACTIVITIES	<u>\$ 5,651,084</u>	<u>\$ 26,786,488</u>	<u>\$ 6,033,525</u>	<u>\$ 38,471,097</u>	<u>\$ 19,890,454</u>
INCREASE (DECREASE) IN NET ASSETS	<u>\$ 4,757,034</u>	<u>\$ 28,072,090</u>	<u>\$ 6,033,525</u>	<u>\$ 38,862,649</u>	<u>\$ 19,414,658</u>
NET ASSETS - BEGINNING 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>
NET ASSETS - END OF YEAR	<u><u>\$ 121,418,015</u></u>	<u><u>\$ 113,472,986</u></u>	<u><u>\$ 153,675,451</u></u>	<u><u>\$ 388,566,452</u></u>	<u><u>\$ 349,703,803</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**

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
OPERATING ACTIVITIES				
Revenues and gains				
Single fee revenue	\$ 99,391,255			\$ 99,391,255
Scholarship aid	(27,773,780)			(27,773,780)
Net revenue from students	<u>\$ 71,617,475</u>			<u>\$ 71,617,475</u>
Other educational program revenues	869,735			869,735
	<u>\$ 72,487,210</u>			<u>\$ 72,487,210</u>
Government grants	1,739,175			1,739,175
Contributions and private grants	6,147,026	\$ 2,251,944		8,398,970
Endowment return used in accordance with spending policy	1,709,667	8,840,242		10,549,909
Other income	5,423,856	212,092		5,635,948
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>
Expenses				
Educational and general				
Instructional	\$ 37,444,531			\$ 37,444,531
Research	1,857,454			1,857,454
Public service	211,450			211,450
Academic support	13,318,236			13,318,236
Student services	15,401,853			15,401,853
Institutional support	15,462,558			15,462,558
Total educational and general	<u>\$ 83,696,082</u>			<u>\$ 83,696,082</u>
Auxiliary enterprises	15,590,926			15,590,926
	<u>\$ 99,287,008</u>			<u>\$ 99,287,008</u>
TOTAL FROM OPERATING ACTIVITIES	<u>\$ 916,710</u>	<u>\$ (1,392,506)</u>		<u>\$ (475,796)</u>
NONOPERATING ACTIVITIES				
Revenues and gains				
Contributions	\$ 14,165	\$ 967,759	\$ 1,403,603	\$ 2,385,527
Total endowment return	6,146,652	18,615,313	1,022,260	25,784,225
Endowment return used in accordance with spending policy	(1,709,667)	(8,840,242)	-	(10,549,909)
Other investment return including change in value of split interest agreements	-	155,089	2,115,522	2,270,611
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>
DECREASE IN NET ASSETS	<u>\$ 6,809,965</u>	<u>\$ 8,063,308</u>	<u>\$ 4,541,385</u>	<u>\$ 19,414,658</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>
NET ASSETS - END OF YEAR	<u><u>\$ 116,660,981</u></u>	<u><u>\$ 85,400,896</u></u>	<u><u>\$ 147,641,926</u></u>	<u><u>\$ 349,703,803</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, 2014 and 2013**

	2014	2013
Cash flows from operating activities:		
Increase in net assets	\$ 38,862,649	\$ 19,414,658
Adjustments to reconcile the change in net assets to net cash used in operating activities:		
Depreciation	\$ 6,581,742	\$ 6,263,569
Asset retirement accretion, net of abatements	11,603	126,071
Proceeds from bond premiums	889,991	-
Amortization of bond origination costs and bond premiums	(54,653)	(29,753)
Loss from early extinguishment of debt	450,711	-
Net unrealized and realized gains on investments	(37,642,032)	(23,251,226)
Other investment return including change in value of split-interest agreements	(1,666,199)	(2,270,611)
Contributions received for endowment or other long-term uses	(3,924,084)	(1,892,251)
Contributions received from gifts of securities for operating purposes	(715,537)	(354,595)
Proceeds from sale of gifts of securities for operating purposes	715,537	354,595
(Increase) decrease in operating assets:		
Accounts receivable	(449,568)	(86,958)
Inventories and prepaid expenses	(281,422)	370,955
Increase in contributions receivable from current year pledges	(5,505,413)	(479,111)
Increase (decrease) in operating liabilities:		
Accounts payable and accrued expenses	1,286,329	469,283
Student deposits and deferred items	418,510	(104,220)
Total adjustments	<u>\$ (39,884,485)</u>	<u>\$ (20,884,252)</u>
Net cash used in operating activities	<u>\$ (1,021,836)</u>	<u>\$ (1,469,594)</u>
Cash flows from investing activities:		
Purchases of pla	\$ (5,507,238)	\$ (6,633,517)
Purchases of investments	(130,124,882)	(10,870,127)
Proceeds from sales and maturities of investments	137,829,877	21,294,451
Disbursements of loans to students	(1,006,054)	(1,007,268)
Repayments of loans from students	1,069,939	1,029,705
Increase in escrow deposits with bond trustees	(46,525,122)	(49,014)
Use of bond proceeds deposited with trustees	876,087	-
Net cash (used in) provided by investing activities	<u>\$ (43,387,393)</u>	<u>\$ 3,764,230</u>
Cash flows from financing activities:		
Repayments of principal on bonds payable	\$ (2,910,000)	\$ (2,800,000)
Proceeds from issuance of bonds	45,957,999	-
Bond financing costs	(244,980)	-
Cash contributions received for endowment or other long-term purposes	1,698,224	1,309,719
Proceeds from gifts of securities for long-term purposes	1,706,453	672,620
Cash received on contributions receivable for long-term purposes	519,407	1,340,153
Receipts of refundable loan funds	13,373	28,204
Net cash provided by financing activities	<u>\$ 46,740,476</u>	<u>\$ 550,696</u>
Net increase in cash and cash equivalents	\$ 2,331,247	\$ 2,845,332
Cash and cash equivalents at beginning of year	<u>8,086,049</u>	<u>5,240,717</u>
Cash and cash equivalents at end of year	<u><u>\$ 10,417,296</u></u>	<u><u>\$ 8,086,049</u></u>
Supplemental data		
Contributions of securities and other noncash assets	\$ 2,421,990	\$ 1,027,215
Accrued construction costs	790,044	71,083
Refunding and advance refunding - Series 1997A, Series 2003B and Series 2006B	10,264,496	-
Noncash debt issuance costs	395,766	-
Interest paid	3,438,127	3,267,103

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 a

Basis of Presentation

l 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, 2014 and 2013 included \$1,139,001 and \$1,059,345 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 (a) 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:

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

Level 2 - In

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 (usually within one year of the 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, 2014 and 2013 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, 2014, the College had no 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 a

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, 2014.

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 3.1% to 8.0%, and 2.35% to 8.0% at June 30, 2014 and 2013, 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, 2014 and 2013 respectively, consist of \$4,547,101 and \$4,387,268 for debt service, and \$45,489,200 at June 30, 2014 for construction.

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) a (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, 2014 and 2013 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, split interest agreements, and a loss from early extinguishment of debt. 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.

New Accounting Pronouncements

Effective July 1, 2013, the College adopted ASU 2012-05, *Not-for-Profit Entities: Classification of the Sale Proceeds of Donated Financial Assets in the Statement of Cash Flows* which defines the appropriate financial reporting for the proceeds from donated securities. The effects of adopting this amendment are presented in the *Statement of Cash Flows* and include proceeds from donated securities with no donor-imposed restrictions in the operating section of the statement, and proceeds from donated securities with donor-imposed long-term restrictions in the financing section.

Reclassification

Certain amounts in the prior year's financial statements have been reclassified to conform to the 2014 presentation.

Subsequent Events

The College evaluated subsequent events through October 24, 2014, 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, 2014 that would require recognition in the financial statements or disclosure in the notes of the financial statements.

BATES COLLEGE
NOTES TO FINANCIAL STATEMENTS

NOTE 2 - CONTRIBUTIONS RECEIVABLE

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

	2014	2013
Capital	\$ 313,281	\$ 1,058,624
Endowment	1,905,360	1,516,122
Other	7,772,542	1,217,066
Unconditional promises to give before unamortized discount and allowance for uncollectibles	\$ 9,991,183	\$ 3,791,812
Less: Unamortized discount	448,357	82,900
	\$ 9,542,826	\$ 3,708,912
Less: Allowance for uncollectibles	559,485	230,984
Net unconditional promises to give	<u>\$ 8,983,341</u>	<u>\$ 3,477,928</u>
Amounts due in:		
Less than one year	\$ 3,756,521	\$ 3,212,477
One to five years	6,234,662	579,335
	<u>\$ 9,991,183</u>	<u>\$ 3,791,812</u>

Discount rates on unconditional promises to give ranged from 1.8% to 5.1% at June 30, 2014 and 2013. Conditional promises to give at June 30, 2014 and 2013 were \$700,000, respectively. Total fund raising expenses were \$5,072,459 and \$5,209,387 for the years ended June 30, 2014 and 2013, respectively.

NOTE 3 - INVESTMENTS

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

	2014		2013	
	Cost	Fair Value	Cost	Fair Value
Cash and cash equivalents*	\$ 4,886,618	\$ 4,886,618	\$ 1,898,206	\$ 1,898,206
Equity securities and funds	102,842,404	116,393,202	89,027,272	98,346,937
Venture capital partnerships	3,294,774	3,732,533	4,558,394	5,556,369
Private equity partnerships	38,008,405	47,226,348	39,718,627	46,230,490
Hedge funds	58,505,415	77,385,866	44,835,883	67,029,416
Fixed income securities and funds	35,092,981	35,260,609	28,286,637	27,554,546
Real estate and real estate funds	6,427,201	7,305,610	5,844,896	5,983,835
Commodity and other funds	5,689,762	10,463,117	10,855,421	15,599,309
	<u>\$ 254,747,560</u>	<u>\$ 302,653,903</u>	<u>\$ 225,025,336</u>	<u>\$ 268,199,108</u>

*Cash and cash equivalents include amounts to be advanced to underlying funds in the near term.

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:

	2014			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Interest and dividends	\$ 180,790	\$ 1,030,078	\$ 4,612	\$ 1,215,480
Net unrealized and realized gains*	5,536,734	31,447,725	2,323,772	39,308,231
Reclassified investment gains**	1,588,881	(1,588,881)	-	-
Total investment return	\$ 7,306,405	\$ 30,888,922	\$ 2,328,384	\$ 40,523,711
Less: Investment return designated for current operations	1,749,084	9,282,316	-	11,031,400
Investment return greater than spending formula and return for pooled funds and other funds	<u>\$ 5,557,321</u>	<u>\$ 21,606,606</u>	<u>\$ 2,328,384</u>	<u>\$ 29,492,311</u>

	2013			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
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**	2,161,826	(2,161,826)	-	-
Total investment return	\$ 6,146,652	\$ 18,770,402	\$ 3,137,782	\$ 28,054,836
Less: Investment return designated for current operations	1,709,667	8,840,242	-	10,549,909
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>

*Direct external management and custodial fees for the endowment investments and other College investments are charged to the investment portfolio and were \$1,814,251 and \$1,338,811 for the years ended June 30, 2014 and 2013, 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 \$422,208 and \$2,011,089 at June 30, 2014 and 2013, respectively. Market gains in fiscal year 2014 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, 2014:

	Level 1	Level 2	Level 3	Total
Investments				
Cash and cash equivalents	\$ 4,886,618	\$ -	\$ -	\$ 4,886,618
Equity securities and funds	55,818,486	54,807,415	5,767,301	116,393,202
Venture capital partnerships	-	-	3,732,533	3,732,533
Private equity partnerships	-	-	47,226,348	47,226,348
Hedge funds	-	38,583,639	38,802,227	77,385,866
Fixed income securities and funds	35,260,609	-	-	35,260,609
Real estate and real estate funds	4,065,296	-	3,240,314	7,305,610
Commodity and other funds	11,927	10,451,190	-	10,463,117
Investment total	\$ 100,042,936	\$ 103,842,244	\$ 98,768,723	\$ 302,653,903
Other assets				
Beneficial interest in perpetual trusts	-	-	6,384,242	6,384,242
Contributions receivable from remainder trusts	-	-	5,822,026	5,822,026
Deposits with bond trustees	50,036,301	-	-	50,036,301
Total assets at fair value	<u>\$ 150,079,237</u>	<u>\$ 103,842,244</u>	<u>\$ 110,974,991</u>	<u>\$ 364,896,472</u>

Fair Value Hierarchy as of June 30, 2013:

	Level 1	Level 2	Level 3	Total
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	\$ 81,165,858	\$ 110,865,092	\$ 76,168,158	\$ 268,199,108
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>

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, 2013	Realized/Unrealized Gains/(Losses)	Purchases	Sales	Value at June 30, 2014
Investments					
Equity securities and funds	\$ 964,020	\$ 1,021,545	\$ 3,781,736	\$ -	\$ 5,767,301
Venture capital partnerships	5,556,369	911,369	250,000	(2,985,205)	3,732,533
Private equity partnerships	46,230,490	7,850,774	3,169,426	(10,024,342)	47,226,348
Hedge funds	20,606,632	3,587,700	15,029,790	(421,895)	38,802,227
Real estate and real estate funds	2,810,647	433,667	-	(4,000)	3,240,314
	<u>\$ 76,168,158</u>	<u>\$ 13,805,055</u>	<u>\$ 22,230,952</u>	<u>\$ (13,435,442)</u>	<u>\$ 98,768,723</u>
Other assets					
Beneficial interest in perpetual trusts	5,839,534	544,708	-	-	6,384,242
Contributions receivable from remainder trusts	5,067,150	754,876	-	-	5,822,026
Total assets classified as level 3	<u>\$ 87,074,842</u>	<u>\$ 15,104,639</u>	<u>\$ 22,230,952</u>	<u>\$ (13,435,442)</u>	<u>\$ 110,974,991</u>

	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 t			-	-	-	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>\$ 90,736,531</u>	<u>\$ 11,430,597</u>	<u>\$ 5,721,070</u>	<u>\$ (12,278,650)</u>	<u>\$ (8,534,706)</u>	<u>\$ 87,074,842</u>

In accordance with standards for estimating the fair value of investments, the College conducted a review of changes between levels occurring during the year ended June 30, 2014 and there were no leveling changes. For the year ended June 30, 2013 there were 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.

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, 2014:

Redemption Terms	Equity Securities and Funds	Venture Capital and Private Equity Partnerships	Hedge Funds	Real Estate, Commodity and Other Funds	Total
Within 30 Days	\$ -	\$ -	\$ -	\$ 10,451,190	\$ 10,451,190
Monthly 48,807,414 (10-120 days notice)		-	-	-	48,807,414
Quarterly (30-90 days notice)	6,000,000	-	38,583,640	-	44,583,640
Biannually & Annually (45-90 days notice)	4,521,545	-	38,657,531	-	43,179,076
1 - 5 years	-	9,715,436	144,695	2,667,224	12,527,355
6 - 10 years	1,245,757	41,243,445	-	573,090	43,062,292
	<u>\$ 60,574,716</u>	<u>\$ 50,958,881</u>	<u>\$ 77,385,866</u>	<u>\$ 13,691,504</u>	<u>\$ 202,610,967</u>

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

Redemption Terms	Equity Securities and Funds	Venture Capital and Private Equity Partnerships	Hedge Funds	Fixed Income Funds	Real Estate, Commodity and Other Funds	Total
Within 30 Days	\$ -	\$ -	\$ -	\$ -	\$ 15,589,181	\$ 15,589,181
Monthly 37,715,926 (10-120 days notice)		-	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>

NOTE 4 - LAND, BUILDINGS AND EQUIPMENT

Land, buildings and equipment consist of the following:

	2014	2013
Land and improvements	\$ 4,016,506	\$ 4,016,506
Buildings	200,727,724	197,603,364
Equipment	15,315,747	14,267,939
Construction in progress	4,484,609	2,478,216
	<u>\$ 224,544,586</u>	<u>\$ 218,366,025</u>
Less: Accumulated depreciation	80,796,765	74,279,661
	<u>\$ 143,747,821</u>	<u>\$ 144,086,364</u>

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, 2015. At June 30, 2014 and 2013, there was no balance outstanding on this line.

BATES COLLEGE

NOTES TO FINANCIAL STATEMENTS

NOTE 6 - BONDS PAYABLE

In 1997, \$8,310,000 of Series 1997A 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. In November 2013, the bonds were refunded in total using proceeds from the Series 2013 bonds.

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. In November 2013, the bonds were refunded in total using proceeds from the Series 2013 bonds.

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. In November 2013, \$3,060,000 of the 2006B bonds were advance refunded using proceeds from the Series 2013 bonds. The interest rates for the remaining bonds range from fixed rates of 4% to 5% resulting in an average interest rate of 4.9%. These bonds have an outstanding balance of \$28,523,875 at June 30, 2014 and 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 4.84%. 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 4.96%. These bonds reach final maturity in 2040.

In November 2013, \$55,410,000 of Bates College Issue, Series 2013 Revenue Bonds were issued by MHHEFA for the benefit of the College. The proceeds from the issue were used to refund the Series 1997A and Series 2003B bonds, to advance refund \$3,060,000 of the Series 2006B bonds, to pay for the construction of a student residence complex, renovate two existing residence halls, to pay for capitalized interest during the construction period, to fund miscellaneous capital improvements and equipment, and to pay for the costs of issuance. The interest rates for these bonds range from fixed rates of 3% to 5% resulting in an average interest rate of 4.8%. These bonds reach final maturity in 2043.

The College has given a collateral interest in all its gross receipts and a negative pledge on the College's central facilities; a debt fund reserve has been established as collateral for the Series 2006B, Series 2008D and Series 2010A 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, 2014 and 2013 was \$3,050,152 and \$3,205,959, net of interest capitalized of \$1,401,996 for the year ended June 30, 2014.

The approximate maturities of these bonds are as follows:

2015	\$ 3,170,000
2016	3,155,000
2017	3,275,000
2018	1,885,000
2019	1,730,000
Thereafter	91,425,481
Total	<u>\$ 104,640,481</u>

As of June 30, 2014 and 2013, the estimated fair values of bonds payable based on Level 2 inputs was \$110,651,802 and \$63,869,336, 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:

	2014		2013	
	Permanently Restricted	Temporarily Restricted	Permanently Restricted	Temporarily Restricted
Endowment, income to support				
Scholarships	\$ 53,535,137	\$ 47,300,700	\$ 51,899,623	\$ 37,656,308
Professorships	17,731,866	11,801,230	17,671,134	8,954,763
Library and other academic support	6,627,299	7,391,436	6,511,329	6,010,381
Other purposes	17,956,937	5,899,671	17,398,934	4,281,523
Any operation of the College	32,517,676	22,483,875	31,676,372	16,932,108
Pledges	1,672,891	7,310,450	1,343,175	2,134,753
Beneficial interest in perpetual trusts	6,384,242	-	5,839,534	-
Life income funds	17,249,403	2,866,641	15,301,825	2,539,117
Other purposes	-	8,418,983	-	6,891,943
	<u>\$ 153,675,451</u>	<u>\$ 113,472,986</u>	<u>\$ 147,641,926</u>	<u>\$ 85,400,896</u>

Changes in endowment net assets:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, June 30, 2013	\$ 33,195,119	\$ 75,451,475	\$ 125,157,392	\$ 233,803,986
Investment income	180,790	1,030,078	4,612	1,215,480
Net realized and unrealized gains	5,613,048	31,083,816	981,566	37,678,430
Gifts and maturities	284	-	2,225,345	2,225,629
Endowment return used in accordance with spending policy	(1,749,084)	(9,282,316)	-	(11,031,400)
Reclassified investment gains	1,588,881	(1,588,881)	-	-
Endowment net assets, June 30, 2014	<u>\$ 38,829,038</u>	<u>\$ 96,694,172</u>	<u>\$ 128,368,915</u>	<u>\$ 263,892,125</u>

	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>

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, contributions to this plan were 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 \$4,636,682 and \$4,558,622 for the years ended June 30, 2014 and 2013, 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 \$701,945 and \$787,802 for the years ended June 30, 2014 and 2013, 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 \$12 million and \$13 million at June 30, 2014 and 2013, respectively.

Commitments for Utilities and Construction

The College has entered into contracts for utilities and capital construction projects with a combined total balance of approximately \$2.6 million at June 30, 2014.

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, 2014

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Federal CFDA Number	Pass-Through Entity Identification Number	Federal Expenditure
Student Financial Aid 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		975,298
Total Student Financial Aid Cluster			<u>1,473,361</u>
Research and Development Cluster			
National Science Foundation			
Mathematical and Physical Sciences	47.049		161,182
Education and Human Resources	47.076		156,331
Education and Human Resources - St. Lawrence University	47.076	DUE-1255945	8,138
Polar Programs	47.078		125,786
Polar Programs - Hampshire College	47.078	ARC-0649006	14,000
Geosciences	47.050		55,028
Experimental Program to Stimulate Competitive Research - University of Maine	47.081	EPS-0904155	82,205
Experimental Program to Stimulate Competitive Research - University of Hawaii	47.081	EPS-0903833	2,000
Trans-NSF Recovery Act Research Support (ARRA)	47.082		32,037
Total National Science Foundation			<u>636,707</u>
Department of Health and Human Services			
National Center for Research Resources-Mount Desert Island Biological Lab	93.389	5 P20 GM103423-13	290,491
Lung Disease Research	93.838		99,756
Allergy, Immunology and Transplantation Research	93.855		134,781
Biomedical Research and Research Training	93.859		67,869
Biomedical Research and Research Training- Mount Desert Island Biological Lab	93.859	2 P20 GM103423-14	8,664
Total Department of Health and Human Services			<u>601,561</u>
Department of the Interior			
National Park Service/Natural Resource Stewardship	15.945		286
Department of Commerce			
National Institutes of Standards and Technology/ Measurement and Engineering Research and Standards	11.609		12,844
National Oceanic and Atmospheric Administration/ Sea Grant- University of Maine	11.417	NA 10OAR4170081 Amend. 20	21,673
Department of Energy			
Office of Science Financial Assistance Programs- University of Maine	81.049	DE-FG02-07ER46373 Mod. 8	19,828
Total Research and Development Cluster			<u>1,292,899</u>
Corporation for National and Community Service			
Volunteers in Service to America-University of New Hampshire	94.013	GH 06VSANH002	21,243
Environmental Protection Agency			
Environmental Education Grants	66.951		119,170
National Endowment for the Arts			
Promotion of the Arts - Grants to Organizations and Individuals	45.024		30,000
Total Expenditures of Federal Awards			<u>\$ 2,936,673</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, 2014

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, 2014, 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, 2014, 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, 2014:

Perkins Loans receivable at June 30, 2014	\$ 6,375,126
New Perkins Loans processed in fiscal year 2014	1,024,088

Perkins loans cancelled (CFDA #84.037) for recipients who entered certain fields of public service were \$28,721 for the year ended June 30, 2014. The College recovered an administrative cost allowance of \$83,507 from the Federal Perkins Loan Program for the year ended June 30, 2014.

3. Federal Direct Student Loan Program

During the fiscal year ended June 30, 2014, the College processed the following amount of new loans under the Federal Direct Student Loan Program (CFDA #84.268):

Stafford Subsidized	\$ 798,645
Stafford Unsubsidized	956,966
PLUS	<u>2,290,207</u>
Total Federal Direct Student Loan Program	<u>\$ 4,045,818</u>

Bates College
Notes to Schedule of Expenditures of Federal Awards
Year Ended June 30, 2014

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, 2014.

Program Title	CFDA #	Amount
Research & Development Cluster		
National Science Foundation - Education and Human Resources	47.076	\$ 17,444
National Science Foundation - Polar Programs	47.078	13,650
Department of the Interior - Natural Resource Stewardship	15.945	243
		<u>31,337</u>
Other Programs		
Environmental Protection Agency - Environmental Education Grants	66.951	<u>96,497</u>
Total Amounts Provided to Subrecipients		<u>\$ 127,834</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 Trustees of Bates College

We have audited, 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, the financial statements of Bates College (the "College"), which comprise the statements of financial position as of June 30, 2014, and the related statements of activities and cash flows for the year then ended, and the related notes to the financial statements and have issued our report thereon dated October 24, 2014.

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 College'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 College'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 College's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

PricewaterhouseCoopers LLP

October 24, 2014



**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 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 the College's major federal program for the year ended June 30, 2014. The College's major federal program is 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 the College's major federal program based on our audit of the types of compliance requirements referred to above. 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 the Major Federal Program

In our opinion, 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 its major federal program for the year ended June 30, 2014.

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, 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.

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 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. 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 8, 2014

Part III – Audit Findings and Questioned Costs

Bates College
Schedule of Findings and Questioned Costs
Year Ended June 30, 2014

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
CFDA Number

Name of Federal Program or
Cluster

Various

Student Financial Aid 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, 2014

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, 2014

There were no prior year audit findings.