

BATES COLLEGE

FINANCIAL STATEMENTS

June 30, 2012 and 2011

BATES COLLEGE

JUNE 30, 2012 and 2011

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Report of Independent Auditors

To the Trustees of Bates College:

In our opinion, the accompanying statements of financial position and the related statements of activities and cash flows present fairly, in all material respects, the financial position of Bates College (the "College") at June 30, 2012 and 2011, and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the College's management. Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

PricewaterhouseCoopers LLP

October 26, 2012

BATES COLLEGE

STATEMENTS OF FINANCIAL POSITION
June 30, 2012 and 2011

	2012	2011
ASSETS		
Cash and cash equivalents	\$ 5,240,717	\$ 11,356,700
Accounts receivable (net of allowance of \$281,788 for 2012 and \$254,088 for 2011)	1,510,209	1,286,142
Inventories and prepaid expenses	2,287,544	1,609,608
Contributions receivable - net	4,429,058	4,987,800
Notes receivable	6,479,518	6,757,458
Investments	253,649,629	263,738,556
Beneficial interest in perpetual trusts	5,534,953	5,982,843
Contributions receivable from remainder trusts	4,807,150	6,656,348
Land, buildings and equipment - net	143,674,786	142,189,390
Unamortized bond origination costs and deposits with bond trustees	<u>5,216,357</u>	<u>7,890,075</u>
TOTAL ASSETS	<u><u>\$ 432,829,921</u></u>	<u><u>\$ 452,454,920</u></u>
LIABILITIES AND NET ASSETS		
LIABILITIES		
Accounts payable and accrued expenses	\$ 8,142,591	\$ 10,759,227
Student deposits and deferred items	3,079,928	3,522,359
Asset retirement obligations	5,747,450	5,571,920
Split interest and annuity obligations	14,389,219	13,053,505
Federal student loan funds repayable	6,358,715	6,319,641
Bond premiums	1,112,423	1,193,956
Bonds payable	<u>63,710,450</u>	<u>66,400,450</u>
TOTAL LIABILITIES	<u><u>\$ 102,540,776</u></u>	<u><u>\$ 106,821,058</u></u>
COMMITMENTS AND CONTINGENCIES		
NET ASSETS		
Unrestricted	\$ 109,851,016	\$ 112,596,263
Temporarily restricted	77,337,588	92,046,724
Permanently restricted	<u>143,100,541</u>	<u>140,990,875</u>
TOTAL NET ASSETS	<u><u>\$ 330,289,145</u></u>	<u><u>\$ 345,633,862</u></u>
TOTAL LIABILITIES AND NET ASSETS	<u><u>\$ 432,829,921</u></u>	<u><u>\$ 452,454,920</u></u>

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

BATES COLLEGE

**STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2012
WITH SUMMARIZED FINANCIAL INFORMATION FOR THE YEAR ENDED JUNE 30, 2011**

	2012			2011	
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Total
OPERATING ACTIVITIES					
Revenues and gains					
Comprehensive fee revenue	\$ 96,565,106			\$ 96,565,106	\$ 90,634,750
Scholarship aid	(27,393,033)			(27,393,033)	(24,391,778)
Net revenue from students	<u>\$ 69,172,073</u>			<u>\$ 69,172,073</u>	<u>\$ 66,242,972</u>
Other educational program revenues	959,394			959,394	732,031
	<u>\$ 70,131,467</u>			<u>\$ 70,131,467</u>	<u>\$ 66,975,003</u>
Government grants	1,985,319			1,985,319	2,081,126
Contributions and private grants	6,951,666	\$ 1,732,251		8,683,917	7,824,586
Endowment return used in accordance with spending policy	2,876,934	8,347,922		11,224,856	11,289,018
Other income	5,257,728	53,091		5,310,819	5,452,388
Net assets released from restrictions	11,383,560	(11,383,560)		-	-
	<u>\$ 98,586,674</u>	<u>\$ (1,250,296)</u>		<u>\$ 97,336,378</u>	<u>\$ 93,622,121</u>
Expenses					
Educational and general					
Instructional	\$ 35,825,634			\$ 35,825,634	\$ 35,788,614
Research	1,798,849			1,798,849	1,581,022
Public service	192,903			192,903	159,842
Academic support	12,963,564			12,963,564	12,211,335
Student services	15,566,767			15,566,767	14,725,951
Institutional support	15,480,857			15,480,857	14,282,526
Total educational and general	<u>\$ 81,828,574</u>			<u>\$ 81,828,574</u>	<u>\$ 78,749,290</u>
Auxiliary enterprises	15,589,649			15,589,649	15,333,747
	<u>\$ 97,418,223</u>			<u>\$ 97,418,223</u>	<u>\$ 94,083,037</u>
TOTAL FROM OPERATING ACTIVITIES	<u>\$ 1,168,451</u>	<u>\$ (1,250,296)</u>		<u>\$ (81,845)</u>	<u>\$ (460,916)</u>
NONOPERATING ACTIVITIES					
Revenues and gains					
Contributions	\$ 11,515	\$ 918,721	\$ 1,778,856	\$ 2,709,092	\$ 4,117,427
Total endowment return	(3,138,383)	(4,112,835)	1,092,128	(6,159,090)	39,498,688
Endowment return used in accordance with spending policy	(2,876,934)	(8,347,922)	-	(11,224,856)	(11,289,018)
Other investment return including change in value of split interest agreements	-	173,300	(761,318)	(588,018)	4,427,213
Net assets released from restrictions	2,090,104	(2,090,104)	-	-	-
TOTAL FROM NONOPERATING ACTIVITIES	<u>\$ (3,913,698)</u>	<u>\$ (13,458,840)</u>	<u>\$ 2,109,666</u>	<u>\$ (15,262,872)</u>	<u>\$ 36,754,310</u>
INCREASE (DECREASE) IN NET ASSETS	<u>\$ (2,745,247)</u>	<u>\$ (14,709,136)</u>	<u>\$ 2,109,666</u>	<u>\$ (15,344,717)</u>	<u>\$ 36,293,394</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>	<u>\$ 309,340,468</u>
NET ASSETS - END 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>

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

BATES COLLEGE

**STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2011**

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
OPERATING ACTIVITIES				
Revenues and gains				
Comprehensive fee revenue	\$ 90,634,750			\$ 90,634,750
Scholarship aid	(24,391,778)			(24,391,778)
Net revenue from students	<u>\$ 66,242,972</u>			<u>\$ 66,242,972</u>
Other educational program revenues	732,031			732,031
	<u>\$ 66,975,003</u>			<u>\$ 66,975,003</u>
Government grants	2,081,126			2,081,126
Contributions and private grants	6,181,260	\$ 1,643,326		7,824,586
Endowment return used in accordance with spending policy	1,946,040	9,342,978		11,289,018
Other income	5,267,154	185,234		5,452,388
Net assets released from restrictions	11,792,556	(11,792,556)		-
	<u>\$ 94,243,139</u>	<u>\$ (621,018)</u>		<u>\$ 93,622,121</u>
Expenses				
Educational and general				
Instructional	\$ 35,788,614			\$ 35,788,614
Research	1,581,022			1,581,022
Public service	159,842			159,842
Academic support	12,211,335			12,211,335
Student services	14,725,951			14,725,951
Institutional support	14,282,526			14,282,526
Total educational and general	<u>\$ 78,749,290</u>			<u>\$ 78,749,290</u>
Auxiliary enterprises	15,333,747			15,333,747
	<u>\$ 94,083,037</u>			<u>\$ 94,083,037</u>
TOTAL FROM OPERATING ACTIVITIES	<u>\$ 160,102</u>	<u>\$ (621,018)</u>		<u>\$ (460,916)</u>
NONOPERATING ACTIVITIES				
Revenues and gains				
Contributions	\$ 1,205	\$ 493,793	\$ 3,622,429	\$ 4,117,427
Total endowment return	10,672,005	27,823,849	1,002,834	39,498,688
Endowment return used in accordance with spending policy	(1,946,040)	(9,342,978)	-	(11,289,018)
Other investment return including change in value of split interest agreements		746,047	3,681,166	4,427,213
Net assets released from restrictions	2,806,945	(2,806,945)	-	-
	<u>\$ 11,534,115</u>	<u>\$ 16,913,766</u>	<u>\$ 8,306,429</u>	<u>\$ 36,754,310</u>
TOTAL FROM NONOPERATING ACTIVITIES	<u>\$ 11,534,115</u>	<u>\$ 16,913,766</u>	<u>\$ 8,306,429</u>	<u>\$ 36,754,310</u>
INCREASE IN NET ASSETS	<u>\$ 11,694,217</u>	<u>\$ 16,292,748</u>	<u>\$ 8,306,429</u>	<u>\$ 36,293,394</u>
NET ASSETS - BEGINNING OF YEAR	<u>\$ 100,902,046</u>	<u>\$ 75,753,976</u>	<u>\$ 132,684,446</u>	<u>\$ 309,340,468</u>
NET ASSETS - END OF YEAR	<u>\$ 112,596,263</u>	<u>\$ 92,046,724</u>	<u>\$ 140,990,875</u>	<u>\$ 345,633,862</u>

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

BATES COLLEGE

**STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2012 and 2011**

	2012	2011
Cash flows from operating activities:		
(Decrease) increase in net assets	\$ (15,344,717)	\$ 36,293,394
Adjustments to reconcile the change in net assets to net cash used in operating activities:		
Depreciation	\$ 5,856,555	\$ 5,453,433
Asset retirement accretion, net of abatements	161,424	161,729
Amortization of bond origination costs and bond premiums	(32,173)	(34,377)
Net unrealized and realized losses (gains) on investments	7,769,202	(38,218,948)
Other investment return including change in value of split-interest agreements	588,018	(4,427,213)
Contributions received for endowment or other long-term uses	(1,654,128)	(2,764,394)
Contributions received from gifts of securities for operating purposes	(565,191)	(532,111)
(Increase) decrease in operating assets:		
Accounts receivable	(224,067)	(79,107)
Inventories and prepaid expenses	(677,936)	367,729
Increase in contributions receivable from current year pledges	(1,043,449)	(1,351,828)
(Decrease) increase in operating liabilities:		
Accounts payable and accrued expenses	(398,363)	1,200,424
Student deposits and deferred items	(442,431)	165,224
Total adjustments	<u>\$ 9,337,461</u>	<u>\$ (40,059,439)</u>
Net cash used in operating activities	<u>\$ (6,007,256)</u>	<u>\$ (3,766,045)</u>
Cash flows from investing activities:		
Purchases of plant and equipment	\$ (9,546,118)	\$ (15,473,618)
Purchases of investments	(25,465,133)	(33,042,520)
Proceeds from sales and maturities of investments	31,844,479	40,527,184
Disbursements of loans to students	(805,179)	(929,456)
Repayments of loans from students	1,083,119	977,688
Increase in escrow deposits with bond trustees	(370,553)	(224,602)
Decrease in construction proceeds deposited with bond trustees	2,994,911	8,458,884
Net cash (used in) provided by investing activities	<u>\$ (264,474)</u>	<u>\$ 293,560</u>
Cash flows from financing activities:		
Repayments of principal on bonds payable	\$ (2,690,000)	\$ (2,405,000)
Cash contributions received for endowment or other long-term uses	1,361,121	2,440,029
Cash received on contributions receivable for long-term purposes	1,445,552	1,687,947
Receipts of refundable loan funds	39,074	25,598
Net cash provided by financing activities	<u>\$ 155,747</u>	<u>\$ 1,748,574</u>
Net decrease in cash and cash equivalents	\$ (6,115,983)	\$ (1,723,911)
Cash and cash equivalents at beginning of year	<u>11,356,700</u>	<u>13,080,611</u>
Cash and cash equivalents at end of year	<u><u>\$ 5,240,717</u></u>	<u><u>\$ 11,356,700</u></u>
Supplemental data		
Interest paid	\$ 3,376,665	\$ 3,268,029
Accrued construction costs	29,453	2,247,726
Contributions received in the form of gifts of securities	1,014,837	1,334,438

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. 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, 2012 and 2011 included \$1,003,797 and \$679,984 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. 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 generally 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 and believes that these valuations are a reasonable estimate of fair value as of June 30, 2012 and 2011 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, 2012, 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, 2012.

Related Party Transactions

The College has business relationships with certain of its Trustees regarding investments as follows:

- One Trustee serves on the Board of one of the College's investment vehicles amounting to 6.0% and 6.7% of total investments at June 30, 2012 and 2011, respectively.
- For a portion of 2012 and all of 2011, two Trustees were managers of College investment vehicles amounting to 4.4% of total investments at June 30, 2011.
- One Trustee serves on the Board of the 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 2.3% to 8.0% at June 30, 2012.

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, 2012 and 2011, consist of \$4,338,253 and \$3,967,700 for debt service, and \$2,994,911 at June 30, 2011 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) 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, 2012 and 2011 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 such as contributions to be used for facilities and equipment or to be invested by the College to generate a return that will support operations. Nonoperating activities also include the investment return in excess of amounts used for operations in accordance with the College's 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. Certain investments generate an insignificant amount of unrelated business income, subject to Unrelated Business Income Tax.

Reclassification

Certain amounts in prior year's financial statements have been reclassified to conform to the 2012 presentation.

Subsequent Events

The College evaluated subsequent events through October 26, 2012, 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, 2012 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:

	2012	2011
Capital	\$ 1,491,020	\$ 2,035,360
Endowment	1,755,994	1,934,752
Other	1,643,560	1,619,335
Unconditional promises to give before unamortized discount and allowance for uncollectibles	\$ 4,890,574	\$ 5,589,447
Less: Unamortized discount	127,903	204,325
	\$ 4,762,671	\$ 5,385,122
Less: Allowance for uncollectibles	333,613	397,322
Net unconditional promises to give	\$ 4,429,058	\$ 4,987,800
Amounts due in:		
Less than one year	\$ 3,807,158	\$ 3,685,123
One to five years	1,083,416	1,904,324
	\$ 4,890,574	\$ 5,589,447

Conditional promises to give at June 30, 2012 and 2011 were \$900,000 and \$1,884,000, respectively.

Total fund raising expenses were \$4,955,296 and \$4,582,784 for the years ended June 30, 2012 and 2011, respectively.

NOTE 3 - INVESTMENTS

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

	2012		2011	
	Cost	Fair Value	Cost	Fair Value
Cash and cash equivalents	\$ 5,834,375	\$ 5,834,375	\$ 2,480,058	\$ 2,480,058
Equity securities and funds	85,957,293	90,028,694	91,664,866	99,304,995
Venture capital partnerships	4,942,955	5,168,375	5,473,670	5,798,061
Private equity partnerships	38,130,470	42,011,081	33,617,040	41,033,586
Hedge funds	47,982,438	60,479,139	54,549,532	68,926,573
Fixed income securities and funds	29,188,887	29,133,995	20,598,263	26,270,783
Real estate and real estate funds	5,884,350	5,783,733	1,612,770	1,527,544
Commodity and other funds	10,848,132	15,210,237	11,409,622	18,396,956
	\$ 228,768,900	\$ 253,649,629	\$ 221,405,821	\$ 263,738,556

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:

	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>	-	-
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>11,224,856</u>
Investment return less 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>
	2011			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Interest and dividends	\$ 201,602	\$ 1,072,593	\$ 5,545	\$ 1,279,740
Net unrealized and realized gains*	6,018,725	31,948,981	4,678,455	42,646,161
Reclassified investment gains**	<u>4,451,678</u>	<u>(4,451,678)</u>	-	-
Total investment return	\$ 10,672,005	\$ 28,569,896	\$ 4,684,000	\$ 43,925,901
Less: Investment return designated for current operations	<u>1,946,040</u>	<u>9,342,978</u>	-	<u>11,289,018</u>
Investment return greater than spending formula and return for pooled funds and other funds	<u>\$ 8,725,965</u>	<u>\$ 19,226,918</u>	<u>\$ 4,684,000</u>	<u>\$ 32,636,883</u>

*Direct external management and custodial fees for the endowment investments and other College investments are charged to the investment portfolio and were \$1,420,933 and \$1,613,539 for the years ended June 30, 2012 and 2011, 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 \$4,172,914 and \$1,713,871 at June 30, 2012 and 2011, respectively.

Investment Asset Breakdown at Fair Value as of June 30:

	2012	2011
Endowment assets:		
Permanent endowment (principal and unspent gains)	\$ 185,908,712	\$ 195,089,597
Quasi endowment	<u>30,247,501</u>	<u>36,361,513</u>
Total Endowment	<u>\$ 216,156,213</u>	<u>\$ 231,451,110</u>
Trust assets	26,282,432	23,922,105
Other assets (primarily capital related)	<u>11,210,984</u>	<u>8,365,341</u>
Total Fair Value of Investments	<u>\$ 253,649,629</u>	<u>\$ 263,738,556</u>

BATES COLLEGE

NOTES TO FINANCIAL STATEMENTS

NOTE 3 - INVESTMENTS - CONTINUED

Fair Value Hierarchy as of June 30, 2012:

	Level 1	Level 2	Level 3	Total
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>

Fair Value Hierarchy as of June 30, 2011:

	Level 1	Level 2	Level 3	Total
Investments				
Cash and cash equivalents	\$ 2,480,058	\$ -	\$ -	\$ 2,480,058
Equity securities and funds	54,446,711	44,345,718	512,566	99,304,995
Venture capital partnerships	-	-	5,798,061	5,798,061
Private equity partnerships	-	-	41,033,586	41,033,586
Hedge funds	-	35,355,031	33,571,542	68,926,573
Fixed income securities and funds	8,469,983	17,800,800	-	26,270,783
Real estate and real estate funds	412,724	464,440	650,380	1,527,544
Commodity and other funds	781,486	17,615,470	-	18,396,956
Investment total	<u>\$ 66,590,962</u>	<u>\$ 115,581,459</u>	<u>\$ 81,566,135</u>	<u>\$ 263,738,556</u>
Other assets				
Beneficial interest in perpetual trusts	-	-	5,982,843	5,982,843
Contributions receivable from remainder trusts	-	-	6,656,348	6,656,348
Total assets at fair value	<u>\$ 66,590,962</u>	<u>\$ 115,581,459</u>	<u>\$ 94,205,326</u>	<u>\$ 276,377,747</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, 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>\$ 94,205,326</u>	<u>\$ (2,176,274)</u>	<u>\$ 10,480,253</u>	<u>\$ (11,772,774)</u>	<u>\$ 90,736,531</u>

	Value at June 30, 2010	Realized/Unrealized Gains/(Losses)	Purchases	Sales	Value at June 30, 2011
Investments					
Equity securities and funds	\$ 371,273	\$ -	\$ 141,293	\$ -	\$ 512,566
Venture capital partnerships	5,812,825	1,206,146		(1,220,910)	5,798,061
Private equity partnerships	34,649,952	7,182,152	6,604,908	(7,403,426)	41,033,586
Hedge funds	30,300,935	3,774,336		(503,729)	33,571,542
Fixed income securities and funds	-	-		-	-
Real estate and real estate funds	576,820	91,560	-	(18,000)	650,380
	<u>\$ 71,711,805</u>	<u>\$ 12,254,194</u>	<u>\$ 6,746,201</u>	<u>\$ (9,146,065)</u>	<u>\$ 81,566,135</u>
Other assets					
Beneficial interest in perpetual trust:	5,210,344	772,499	-	-	5,982,843
Contributions receivable from remainder trusts	6,576,832	79,516	-	-	6,656,348
Total assets classified as level 3	<u>\$ 83,498,981</u>	<u>\$ 13,106,209</u>	<u>\$ 6,746,201</u>	<u>\$ (9,146,065)</u>	<u>\$ 94,205,326</u>

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, 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)	-	2,926,169	29,834,121	-	-	32,760,290
1 - 5 years	-	10,255,408	244,503	-	2,061,769	12,561,680
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>

Redemption Terms for Investments classified as Level 2 and Level 3 as of June 30, 2011:

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	\$ 5,126,224	\$ -	\$ -	\$ 6,122,662	\$ 18,079,910	\$ 29,328,796
Monthly (10-120 days notice)	39,219,494	-	4,941,316	11,678,138	-	55,838,948
Quarterly (30-60 days notice)	-	-	30,413,715	-	-	30,413,715
Semi-Annually (60 days notice)	-	-	2,548,334	-	-	2,548,334
Annually (45-90 days notice)	-	-	30,732,250	-	-	30,732,250
1 - 5 years	-	14,798,859	290,958	-	46,000	15,135,817
6 - 10 years	512,566	32,032,788	-	-	604,380	33,149,734
	<u>\$ 44,858,284</u>	<u>\$ 46,831,647</u>	<u>\$ 68,926,573</u>	<u>\$ 17,800,800</u>	<u>\$ 18,730,290</u>	<u>\$ 197,147,594</u>

NOTE 4 - LAND, BUILDINGS AND EQUIPMENT

Land, buildings and equipment consist of the following:

	2012	2011
Land and improvements	\$ 3,818,528	\$ 3,789,239
Buildings	193,305,468	174,824,836
Equipment	13,022,342	11,847,348
Construction in progress	1,661,590	14,536,476
	<u>\$ 211,807,928</u>	<u>\$ 204,997,899</u>
Less: Accumulated depreciation	68,133,142	62,808,509
	<u>\$ 143,674,786</u>	<u>\$ 142,189,390</u>

BATES COLLEGE

NOTES TO FINANCIAL STATEMENTS

NOTE 5 - SHORT-TERM LOAN PAYABLE

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, 2012 and 2011, 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 5.3% 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 3.3% to 5% resulting in an average interest rate of 4.23%. 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 4.75%. 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 4.94%. 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, 2012 and 2011 was \$3,221,706 and \$2,780,575, net of interest capitalized of \$106,543 and \$644,506 for 2012 and 2011, respectively.

The approximate maturities of these bonds are as follows:

2013	\$ 2,800,000
2014	2,910,000
2015	3,035,000
2016	3,115,000
2017	3,230,000
Thereafter	48,620,450
Total	<u>\$ 63,710,450</u>

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:

	2012		2011	
	Permanently Restricted	Temporarily Restricted	Permanently Restricted	Temporarily Restricted
Endowment, income to support				
Scholarships	\$ 50,104,134	\$ 33,056,908	\$ 48,593,523	\$ 38,875,469
Professorships	17,061,085	7,773,110	16,836,640	9,317,217
Library and other academic support	6,385,760	5,263,344	6,292,095	6,168,220
Other purposes	17,290,412	3,542,768	16,969,652	4,465,305
Any operation of the College	31,000,182	14,431,010	29,905,187	17,666,289
Pledges	1,523,444	2,905,614	1,651,398	3,336,402
Beneficial interest in perpetual trusts	5,534,953	-	5,982,843	-
Life income funds	14,200,571	3,187,191	14,759,537	3,377,460
Other (including funds for capital projects)	-	7,177,643	-	8,840,362
	<u>\$ 143,100,541</u>	<u>\$ 77,337,588</u>	<u>\$ 140,990,875</u>	<u>\$ 92,046,724</u>

Changes in endowment net assets:

	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 (see Note 3)	(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>

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, June 30, 2010	\$ 25,021,030	\$ 59,610,512	\$ 113,915,990	\$ 198,547,532
Investment income	201,602	1,072,593	5,545	1,279,740
Net realized and unrealized gains	6,017,975	31,218,114	983,225	38,219,314
Gifts and maturities	1,205	-	3,692,337	3,693,542
Board designated transfer to quasi-endowment	1,000,000	-	-	1,000,000
Endowment return used in accordance with spending policy	(1,946,040)	(9,342,978)	-	(11,289,018)
Reclassified investment losses (see Note 3)	4,451,678	(4,451,678)	-	-
Endowment net assets, June 30, 2011	<u>\$ 34,747,450</u>	<u>\$ 78,106,563</u>	<u>\$ 118,597,097</u>	<u>\$ 231,451,110</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 for the years ended June 30, 2012 and 2011 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 100% matching employer contribution to the 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 \$4,361,087 and \$4,204,367 for the years ended June 30, 2012 and 2011, 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 \$405,392 and \$408,020 for the years ended June 30, 2012 and 2011, 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 \$19 million at June 30, 2012.

Commitments for Utilities and Construction

The College has entered into contracts for utilities and capital construction projects with a combined total balance of approximately \$1.4 million at June 30, 2012.

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.