

BATES COLLEGE

FINANCIAL STATEMENTS

June 30, 2011 and 2010

BATES COLLEGE
JUNE 30, 2011 and 2010

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Report of Independent Auditors

To the President and 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, 2011 and 2010, and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America. 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

November 17, 2011

BATES COLLEGE
STATEMENTS OF FINANCIAL POSITION
June 30, 2011 and 2010

	2011	2010
ASSETS		
Cash and cash equivalents	\$ 11,356,700	\$ 13,080,611
Accounts receivable (net of allowance of \$254,088 for 2011 and \$396,445 for 2010)	1,286,142	1,207,035
Inventories and prepaid expenses	1,609,608	1,977,337
Contributions receivable - net	4,987,800	5,801,882
Notes receivable	6,757,458	6,805,690
Investments	263,738,556	227,529,838
Beneficial interest in perpetual trusts	5,982,843	5,210,344
Contributions receivable from remainder trusts	6,656,348	6,576,832
Land, buildings and equipment - net	142,189,390	130,882,914
Unamortized bond origination costs and deposits with trustees	<u>7,890,075</u>	<u>16,173,716</u>
TOTAL ASSETS	<u><u>\$ 452,454,920</u></u>	<u><u>\$ 415,246,199</u></u>
LIABILITIES AND NET ASSETS		
LIABILITIES		
Accounts payable and accrued expenses	\$ 10,759,227	\$ 8,290,208
Student deposits and deferred items	3,522,359	3,357,135
Asset retirement obligations	5,571,920	5,392,496
Split interest and annuity obligations	13,053,505	12,488,707
Federal student loan funds repayable	6,319,641	6,294,043
Bond premiums	1,193,956	1,277,692
Bonds payable	<u>66,400,450</u>	<u>68,805,450</u>
TOTAL LIABILITIES	<u><u>\$ 106,821,058</u></u>	<u><u>\$ 105,905,731</u></u>
COMMITMENTS AND CONTINGENCIES		
NET ASSETS		
Unrestricted	\$ 112,596,263	\$ 100,902,046
Temporarily restricted	92,046,724	75,753,976
Permanently restricted	<u>140,990,875</u>	<u>132,684,446</u>
TOTAL NET ASSETS	<u><u>\$ 345,633,862</u></u>	<u><u>\$ 309,340,468</u></u>
TOTAL LIABILITIES AND NET ASSETS	<u><u>\$ 452,454,920</u></u>	<u><u>\$ 415,246,199</u></u>

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

BATES COLLEGE

**STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2011
WITH SUMMARIZED FINANCIAL INFORMATION FOR THE YEAR ENDED JUNE 30, 2010**

	2011				2010
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Total
OPERATING ACTIVITIES					
Revenues and gains					
Comprehensive fee revenue	\$ 90,634,750			\$ 90,634,750	\$ 87,546,566
Scholarship aid	(24,391,778)			(24,391,778)	(22,201,521)
Net revenue from students	\$ 66,242,972			\$ 66,242,972	\$ 65,345,045
Other educational program revenues	732,031			732,031	541,012
	\$ 66,975,003			\$ 66,975,003	\$ 65,886,057
Government grants	2,081,126			2,081,126	1,453,211
Contributions and private grants	6,181,260	\$ 1,643,326		7,824,586	7,050,216
Endowment return used in accordance with spending policy	1,946,040	9,342,978		11,289,018	11,993,485
Other income	5,267,154	185,234		5,452,388	4,873,961
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>	<u>\$ 91,256,930</u>
Expenses					
Educational and general					
Instructional	\$ 35,788,614			\$ 35,788,614	\$ 33,739,478
Research	1,581,022			1,581,022	1,188,877
Public service	159,842			159,842	232,488
Academic support	12,211,335			12,211,335	12,091,465
Student services	14,725,951			14,725,951	14,109,201
Institutional support	14,282,526			14,282,526	12,935,950
Total educational and general	<u>\$ 78,749,290</u>			<u>\$ 78,749,290</u>	<u>\$ 74,297,459</u>
Auxiliary enterprises	15,333,747			15,333,747	15,797,596
	<u>\$ 94,083,037</u>			<u>\$ 94,083,037</u>	<u>\$ 90,095,055</u>
TOTAL FROM OPERATING ACTIVITIES	<u>\$ 160,102</u>	<u>\$ (621,018)</u>		<u>\$ (460,916)</u>	<u>\$ 1,161,875</u>
NONOPERATING ACTIVITIES					
Revenues and gains					
Contributions	\$ 1,205	\$ 493,793	3,622,429	4,117,427	\$ 3,659,503
Total endowment return	10,672,005	27,823,849	1,002,834	39,498,688	24,613,189
Endowment return used in accordance with spending policy	(1,946,040)	(9,342,978)		(11,289,018)	(11,993,485)
Other investment return including change in value of split interest agreements		746,047	3,681,166	4,427,213	2,491,511
Net assets released from restrictions	2,806,945	(2,806,945)		-	-
TOTAL FROM NONOPERATING ACTIVITIES	<u>\$ 11,534,115</u>	<u>\$ 16,913,766</u>	<u>\$ 8,306,429</u>	<u>\$ 36,754,310</u>	<u>\$ 18,770,718</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>	<u>\$ 19,932,593</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>	<u>\$289,407,875</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>	<u>\$309,340,468</u>

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

BATES COLLEGE

**STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2010**

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
OPERATING ACTIVITIES				
Revenues and gains				
Comprehensive fee revenue	\$ 87,546,566			\$ 87,546,566
Scholarship aid	(22,201,521)			(22,201,521)
Net revenue from students	\$ 65,345,045			\$ 65,345,045
Other educational program revenues	541,012			541,012
	<u>\$ 65,886,057</u>			<u>\$ 65,886,057</u>
Government grants	1,453,211			1,453,211
Contributions and private grants	5,245,518	\$ 1,804,698		7,050,216
Endowment return used in accordance with spending policy	2,056,206	9,937,279		11,993,485
Other income	4,651,401	222,560		4,873,961
Net assets released from restrictions	11,664,577	(11,664,577)		-
	<u>\$ 90,956,970</u>	<u>\$ 299,960</u>		<u>\$ 91,256,930</u>
Expenses				
Educational and general				
Instructional	\$ 33,739,478			\$ 33,739,478
Research	1,188,877			1,188,877
Public service	232,488			232,488
Academic support	12,091,465			12,091,465
Student services	14,109,201			14,109,201
Institutional support	12,935,950			12,935,950
Total educational and general	<u>\$ 74,297,459</u>			<u>\$ 74,297,459</u>
Auxiliary enterprises	15,797,596			15,797,596
	<u>\$ 90,095,055</u>			<u>\$ 90,095,055</u>
TOTAL FROM OPERATING ACTIVITIES	<u>\$ 861,915</u>	<u>\$ 299,960</u>		<u>\$ 1,161,875</u>
NONOPERATING ACTIVITIES				
Revenues and gains				
Contributions	\$ 176,566	\$ 1,495,849	\$ 1,987,088	\$ 3,659,503
Total endowment return	6,702,129	16,876,430	1,034,630	24,613,189
Endowment return used in accordance with spending policy	(2,056,206)	(9,937,279)		(11,993,485)
Other investment return including change in value of split interest agreements	174,737	761,561	1,555,213	2,491,511
Net assets released from restrictions	1,793,141	(1,793,141)		-
TOTAL FROM NONOPERATING ACTIVITIES	<u>\$ 6,790,367</u>	<u>\$ 7,403,420</u>	<u>\$ 4,576,931</u>	<u>\$ 18,770,718</u>
INCREASE IN NET ASSETS	<u>\$ 7,652,282</u>	<u>\$ 7,703,380</u>	<u>\$ 4,576,931</u>	<u>\$ 19,932,593</u>
NET ASSETS - BEGINNING OF YEAR	<u>\$ 93,249,764</u>	<u>\$ 68,050,596</u>	<u>\$ 128,107,515</u>	<u>\$ 289,407,875</u>
NET ASSETS - END OF YEAR	<u><u>\$ 100,902,046</u></u>	<u><u>\$ 75,753,976</u></u>	<u><u>\$ 132,684,446</u></u>	<u><u>\$ 309,340,468</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, 2011 and 2010**

	2011	2010
Cash flows from operating activities:		
Increase in net assets	\$ 36,293,394	\$ 19,932,593
Adjustments to reconcile the change in net assets to net cash used in operating activities:		
Depreciation	\$ 5,453,433	\$ 5,033,732
Asset retirement accretion, net of abatements	161,729	176,228
Proceeds from bond premiums	-	199,114
Amortization of bond origination costs and bond premiums	(34,377)	(31,727)
Net unrealized and realized gains on investments	(38,218,948)	(23,313,407)
Other investment return including change in value of split-interest agreements	(4,427,213)	(2,491,511)
Contributions received for endowment or other long-term uses	(2,764,394)	(1,726,576)
Contributions received from gifts of securities for operating purposes	(532,111)	(417,323)
(Increase) decrease in operating assets:		
Accounts receivable	(79,107)	(111,048)
Inventories and prepaid expenses	367,729	(172,119)
Increase in contributions receivable from current year pledges	(1,351,828)	(1,756,361)
Increase in operating liabilities:		
Accounts payable and accrued expenses	1,200,424	597,688
Student deposits and deferred items	165,224	239,485
Total adjustments	<u>\$ (40,059,439)</u>	<u>\$ (23,773,825)</u>
Net cash used in operating activities	<u>\$ (3,766,045)</u>	<u>\$ (3,841,232)</u>
Cash flows from investing activities:		
Purchases of plant and equipment	\$ (15,473,618)	\$ (5,428,708)
Purchases of investments	(33,042,520)	(41,850,401)
Proceeds from sales and maturities of investments	40,527,184	57,562,252
Disbursements of loans to students	(929,456)	(935,644)
Repayments of loans from students	977,688	821,167
Increase in escrow deposits with trustees	(224,602)	(121,510)
Decrease (increase) in bond construction proceeds deposited with trustees	8,458,884	(11,453,795)
Net cash provided by (used in) investing activities	<u>\$ 293,560</u>	<u>\$ (1,406,639)</u>
Cash flows from financing activities:		
Repayments of principal on bonds payable	\$ (2,405,000)	\$ (1,990,000)
Proceeds from issuance of bonds	-	12,705,444
Bond financing costs	-	(142,793)
Cash contributions received for endowment or other long-term uses	2,440,029	587,966
Cash received on contributions receivable for long-term purposes	1,687,947	1,554,460
Receipts of refundable loan funds	25,598	19,291
Net cash provided by financing activities	<u>\$ 1,748,574</u>	<u>\$ 12,734,368</u>
Net (decrease) increase in cash and cash equivalents	\$ (1,723,911)	\$ 7,486,497
Cash and cash equivalents at beginning of year	<u>13,080,611</u>	<u>5,594,114</u>
Cash and cash equivalents at end of year	<u><u>\$ 11,356,700</u></u>	<u><u>\$ 13,080,611</u></u>
Supplemental data		
Interest paid	\$ 3,268,029	\$ 2,950,935
Accrued construction costs	2,247,726	979,131
Contributions received in the form of gifts of securities	1,334,438	1,718,392

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 1,700.

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, 2011 and 2010 included \$679,984 and \$601,699 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 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, 2011 and 2010 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, 2011, 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, 2011.

Related Party Transactions

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

- Two Trustees are managers of College investment vehicles amounting to 4.4% and 4.3% of total investments at June 30, 2011 and 2010, respectively.
- One Trustee serves on the Board of one of the College's investment vehicles amounting to 6.7% and 5.1% of total investments at June 30, 2011 and 2010, respectively.
- For a portion of 2011 and all of 2010, one Trustee was affiliated with a company that owned one of the College's investment amounting to 6.5% and 5.9% of total investments at June 30, 2011 and 2010, respectively.

Split Interest Agreements

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

BATES COLLEGE

NOTES TO FINANCIAL STATEMENTS

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

When the College is the trustee for the trust/fund, the assets held are included in investments. When a donor makes a contribution to these funds, contribution revenue is recognized and a liability for the present value of the estimated future payments to the donors and/or other beneficiaries is recorded as split interest and annuity obligations. Split interest and annuity obligations are based upon actuarial estimates and assumptions regarding the duration of the agreement and the rates used to discount the liabilities. Circumstances affecting these assumptions can change the estimate of the liabilities in future periods. Discount rates ranged from 2.35% to 8.0% at June 30, 2011.

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 Trustees

Deposits with 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, 2011 and 2010, respectively, consist of \$3,967,700 and \$3,743,098 for debt service, and \$2,994,911 and \$11,453,795 at June 30, 2011 and 2010 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

An amendment to the Uniform Management of Institutional Funds Act (UMIFA) in Maine 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.

In June 2009, the Maine State Legislature enacted a version of UPMIFA, effective July 1, 2009. The financial statement presentation and institutional administration of donor-restricted endowment funds for the years ended June 30, 2011 and 2010 conform to Maine UPMIFA.

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.

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.

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.

BATES COLLEGE

NOTES TO FINANCIAL STATEMENTS

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Subsequent Events

The College adopted guidance on Subsequent Events as of June 30, 2009. The guidance establishes general standards of accounting for and disclosure of events that occur after the balance sheet date but before financial statements are issued and requires disclosure of the date through which an entity has evaluated subsequent events. Subsequent events have been evaluated through the audit opinion date of November 17, 2011, which is the date the financial statements were issued.

NOTE 2 - CONTRIBUTIONS RECEIVABLE

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

	2011	2010
Capital	\$ 2,035,360	\$ 3,148,646
Endowment	1,934,752	1,572,884
Other	1,619,335	1,804,911
Unconditional promises to give before unamortized discount and allowance for uncollectibles	\$ 5,589,447	\$ 6,526,441
Less: Unamortized discount	204,325	305,697
	\$ 5,385,122	\$ 6,220,744
Less: Allowance for uncollectibles	397,322	418,862
Net unconditional promises to give	<u>\$ 4,987,800</u>	<u>\$ 5,801,882</u>
Amounts due in:		
Less than one year	\$ 3,685,123	\$ 3,601,416
One to five years	1,904,324	2,925,025
	<u>\$ 5,589,447</u>	<u>\$ 6,526,441</u>

Conditional promises to give at June 30, 2011 and 2010 were \$1,884,000.

Total fund raising expenses were \$4,582,784 and \$4,280,117 for the years ended June 30, 2011 and 2010, respectively.

NOTE 3 - INVESTMENTS

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

	2011		2010	
	Cost	Fair Value	Cost	Fair Value
Cash and cash equivalents	\$ 2,480,058	\$ 2,480,058	\$ 6,639,308	\$ 6,639,308
Equity securities and funds	95,582,310	107,891,658	78,256,141	85,193,122
Venture capital partnerships	5,473,670	5,798,061	6,265,333	5,812,825
Private equity partnerships	33,617,040	41,033,586	31,690,748	34,649,952
Hedge funds	54,549,532	68,926,573	54,981,293	61,407,121
Fixed income securities and funds	20,598,263	26,270,783	25,598,031	25,087,101
Real estate and real estate funds	1,612,770	1,527,544	4,201,424	2,973,277
Commodity and other funds	7,492,178	9,810,293	5,271,870	5,767,132
	<u>\$ 221,405,821</u>	<u>\$ 263,738,556</u>	<u>\$ 212,904,148</u>	<u>\$ 227,529,838</u>

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:

	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**	4,451,678	(4,451,678)	-	-
Total investment return	\$ 10,672,005	\$ 28,569,896	\$ 4,684,000	\$ 43,925,901
Less: Investment return designated for current operations	1,946,040	9,342,978	-	11,289,018
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>

	2010			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Interest and dividends	\$ 204,161	\$ 1,088,848	\$ 6,773	\$ 1,299,782
Net unrealized and realized losses*	3,868,325	19,353,523	2,583,070	25,804,918
Reclassified investment gains**	2,804,380	(2,804,380)	-	-
Total investment return	\$ 6,876,866	\$ 17,637,991	\$ 2,589,843	\$ 27,104,700
Less: Investment return designated for current operations	2,056,206	9,937,279	-	11,993,485
Investment return less than spending formula and return for pooled funds and other funds	<u>\$ 4,820,660</u>	<u>\$ 7,700,712</u>	<u>\$ 2,589,843</u>	<u>\$ 15,111,215</u>

*Management and custodial fees for the endowment investments and other College investments are charged to the investment portfolio and were \$3,039,951 and \$2,858,585 for the years ended June 30, 2011 and 2010, 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. The total losses allocated to unrestricted net assets were \$1,713,871 and \$6,165,549 at June 30, 2011 and 2010, respectively. Market gains in fiscal year 2011 and 2010 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.

Investment Asset Breakdown at Fair Value as of June 30:

	2011	2010
Endowment assets:		
Permanent endowment (principal and unspent gains)	\$ 195,089,597	\$ 172,119,307
Quasi endowment	36,361,513	26,428,225
Total Endowment	<u>\$ 231,451,110</u>	<u>\$ 198,547,532</u>
Trust assets	23,922,105	21,812,762
Other assets (primarily capital related)	8,365,341	7,169,544
Total Fair Value of Investments	<u>\$ 263,738,556</u>	<u>\$ 227,529,838</u>

BATES COLLEGE

NOTES TO FINANCIAL STATEMENTS

NOTE 3 - INVESTMENTS - CONTINUED

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	52,932,381	512,566	107,891,658
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	9,028,807	-	9,810,293
Investment total	\$ 66,590,962	\$ 115,581,459	\$ 81,566,135	\$ 263,738,556
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>

Fair Value Hierarchy as of June 30, 2010:

	Level 1	Level 2	Level 3	Total
Investments				
Cash and cash equivalents	\$ 6,639,308	\$ -	\$ -	\$ 6,639,308
Equity securities and funds	35,821,059	49,000,790	371,273	85,193,122
Venture capital partnerships	-	-	5,812,825	5,812,825
Private equity partnerships	-	-	34,649,952	34,649,952
Hedge funds	-	31,106,186	30,300,935	61,407,121
Fixed income securities and funds	8,549,256	16,537,845	-	25,087,101
Real estate and real estate funds	2,000,689	395,768	576,820	2,973,277
Commodity and other funds	317,339	5,449,793	-	5,767,132
Investment total	\$ 53,327,651	\$ 102,490,382	\$ 71,711,805	\$ 227,529,838
Other assets				
Beneficial interest in perpetual trusts	-	-	5,210,344	5,210,344
Contributions receivable from remainder trusts	-	-	6,576,832	6,576,832
Total assets at fair value	<u>\$ 53,327,651</u>	<u>\$ 102,490,382</u>	<u>\$ 83,498,981</u>	<u>\$ 239,317,014</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, 2010	Realized/Unrealized Gains/(Losses)	Net 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	(798,518)	41,033,586
Hedge funds	30,300,935	3,774,336	(503,729)	33,571,542
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>\$ (2,399,864)</u>	<u>\$ 81,566,135</u>
Other assets				
Beneficial interest in perpetual trusts	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>\$ (2,399,864)</u>	<u>\$ 94,205,326</u>

	Value at June 30, 2009	Realized/Unrealized Gains/(Losses)	Net Purchases (Sales)	Reclassifications *	Value at June 30, 2010
Investments					
Equity securities and funds	\$ 10,336,639	\$ 92,460	\$ -	\$ (10,057,826)	\$ 371,273
Venture capital partnerships	6,795,764	1,151,302	(2,134,241)	-	5,812,825
Private equity partnerships	27,390,040	5,131,975	2,127,937	-	34,649,952
Hedge funds	27,676,509	2,424,321	3,684,069	(3,483,964)	30,300,935
Fixed income securities and funds	356,269	-	-	(356,269)	-
Real estate and real estate funds	665,860	(89,040)	-	-	576,820
	<u>\$ 73,221,081</u>	<u>\$ 8,711,018</u>	<u>\$ 3,677,765</u>	<u>\$ (13,898,059)</u>	<u>\$ 71,711,805</u>
Other assets					
Beneficial interest in perpetual trusts	4,864,442	345,902	-	-	5,210,344
Contributions receivable from remainder trusts	6,100,177	476,655	-	-	6,576,832
Total assets classified as level 3	<u>\$ 84,185,700</u>	<u>\$ 9,533,575</u>	<u>\$ 3,677,765</u>	<u>\$ (13,898,059)</u>	<u>\$ 83,498,981</u>

* As a result of adopting new guidance for estimating the fair value of investments, certain investments have been reclassified as of July 1, 2009, subject to the criteria for Level 2 classification.

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, 2011:

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	\$ 13,712,887	\$ -	\$ -	\$ 6,122,662	\$ 9,493,247	\$ 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>\$ 53,444,947</u>	<u>\$ 46,831,647</u>	<u>\$ 68,926,573</u>	<u>\$ 17,800,800</u>	<u>\$ 10,143,627</u>	<u>\$ 197,147,594</u>

Redemption Terms for Investments classified as Level 2 and Level 3 as of June 30, 2010:

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	\$ 10,127,474	\$ -	\$ -	\$ 6,600,775	\$ 5,845,561	\$ 22,573,810
Monthly (10-120 days notice)	38,873,316	-	4,464,238	9,937,070	-	53,274,624
Quarterly (30-60 days notice)	-	-	26,641,948	-	-	26,641,948
Semi-Annually (60 days notice)	-	-	2,431,984	-	-	2,431,984
Annually (45-90 days notice)	-	-	27,084,781	-	-	27,084,781
1 - 5 years	-	12,752,495	784,170	-	64,000	13,600,665
6 - 10 years	371,273	27,710,282	-	-	512,820	28,594,375
	<u>\$ 49,372,063</u>	<u>\$ 40,462,777</u>	<u>\$ 61,407,121</u>	<u>\$ 16,537,845</u>	<u>\$ 6,422,381</u>	<u>\$ 174,202,187</u>

NOTE 4 - LAND, BUILDINGS AND EQUIPMENT

Land, buildings and equipment consist of the following:

	2011	2010
Land and improvements	\$ 3,789,239	\$ 3,527,730
Buildings	174,824,836	168,975,222
Equipment	11,847,348	11,212,918
Construction in progress	14,536,476	4,590,626
	<u>\$ 204,997,899</u>	<u>\$ 188,306,496</u>
Less: Accumulated depreciation	62,808,509	57,423,582
	<u>\$ 142,189,390</u>	<u>\$ 130,882,914</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, 2012. At June 30, 2011 and 2010, 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 3.1% to 5% resulting in an average interest rate of 4.12%. 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 3.75% to 5% resulting in an average interest rate of 4.89%. 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 3.5% to 5.13%, resulting in an average interest rate of 4.71%. 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 2.5% to 5.25% resulting in an average interest rate of 4.93%. 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, 2011 and 2010 was \$2,780,575 and \$2,863,915, net of interest capitalized of \$644,506 and \$123,530 for 2011 and 2010, respectively.

The approximate maturities of these bonds are as follows:

2012	\$ 2,690,000
2013	2,800,000
2014	2,910,000
2015	3,035,000
2016	3,115,000
Thereafter	51,850,450
Total	<u>\$ 66,400,450</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:

	2011		2010	
	Permanently Restricted	Temporarily Restricted	Permanently Restricted	Temporarily Restricted
Endowment, income to support				
Scholarships	\$ 48,593,523	\$ 38,875,469	\$ 45,753,536	\$ 30,068,260
Professorships	16,836,640	9,317,217	16,456,090	7,111,286
Library and other academic support	6,292,095	6,168,220	6,247,551	4,789,269
Other purposes	16,969,652	4,465,305	16,372,167	3,070,098
Any operation of the College	29,905,187	17,666,289	29,086,646	13,164,404
Pledges	1,651,398	3,336,402	1,277,159	4,524,723
Beneficial interest in perpetual trusts	5,982,843	-	5,210,344	-
Life income funds	14,759,537	3,377,460	12,280,953	3,773,811
Other (including funds for capital projects)	-	8,840,362	-	9,252,125
	<u>\$ 140,990,875</u>	<u>\$ 92,046,724</u>	<u>\$ 132,684,446</u>	<u>\$ 75,753,976</u>

Changes in endowment net assets:

	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 losses	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>

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, June 30, 2009	\$ 20,373,643	\$ 52,704,264	\$ 110,770,329	\$ 183,848,236
Investment income	204,161	1,088,848	6,773	1,299,782
Net realized and unrealized losses	3,693,588	18,559,059	1,013,623	23,266,270
Gifts and maturities	1,464	-	2,125,265	2,126,729
Endowment return used in accordance with spending policy	(2,056,206)	(9,937,279)	-	(11,993,485)
Reclassified investment losses (see Note 3)	2,804,380	(2,804,380)	-	-
Endowment net assets, June 30, 2010	<u>\$ 25,021,030</u>	<u>\$ 59,610,512</u>	<u>\$ 113,915,990</u>	<u>\$ 198,547,532</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, 2011 and 2010 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. On December 31, 2009, the former Bates College Matching Plan and the former Bates College Tax-deferred Annuity Plan were merged and renamed the Bates College 403(b) Retirement Plan, effective January 1, 2010.

BATES COLLEGE

NOTES TO FINANCIAL STATEMENTS

NOTE 8 - PENSION PLANS - CONTINUED

The College's contributions to these plans were \$4,204,367 and \$4,068,270 for the years ended June 30, 2011 and 2010, 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 \$408,020 and \$209,500 for the years ended June 30, 2011 and 2010, 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 \$20 million at June 30, 2011.

Commitments for Utilities and Construction

The College has entered into contracts for utilities and capital construction projects with a combined total balance of approximately \$2.5 million at June 30, 2011.

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.

NOTE 10 - 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, 2011 and 2010 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.