Bates College

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

June 30, 2010

EIN # 01 – 0211781

Bates College
Report on Federal Awards in Accordance with OMB Circular A-133
Index
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PART I – FINANCIAL STATEMENTS
AND SUPPLEMENTARY SCHEDULE OF EXPENDITURES OF
FEDERAL AWARDS

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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") as of June 30, 2010 and 2009, 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 and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, 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.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 18, 2010, on our consideration of the College's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters for the year ended June 30, 2010. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Our audits were conducted for the purpose of forming an opinion on the basic financial statements as a whole. The accompanying Schedule of Expenditures of Federal Awards for the year ended June 30, 2010 is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations,* and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects, in relation to the basic financial statements taken as a whole.

PricewaterhouseCoopers LLP

November 18, 2010

PricewaterhouseCoopers LLP, 125 High Street, Boston, MA 02110
T: (617) 530 5000, F: (617) 530 5001, www.pwc.com/us

BATES COLLEGE

STATEMENTS OF FINANCIAL POSITION
June 30, 2010 and 2009

	2010	2009
ASSETS		
Cash and cash equivalents	$ 13,080,611	$ 5,594,114
Accounts receivable (net of allowance of $396,445 for 2010 and $290,922 for 2009)	1,207,035	1,095,987
Inventories and prepaid expenses	1,977,337	1,805,218
Contributions receivable - net	5,801,882	5,762,440
Notes receivable	6,805,690	6,691,213
Investments	227,529,838	216,654,267
Beneficial interest in perpetual trusts	5,210,344	4,864,442
Contributions receivable from remainder trusts	6,576,832	6,100,177
Land, buildings and equipment - net	130,882,914	130,047,604
Unamortized bond origination costs and deposits with trustees	16,173,716	4,501,135
TOTAL ASSETS	$ 415,246,199	$ 383,116,597
LIABILITIES AND NET ASSETS		
LIABILITIES		
Accounts payable and accrued expenses	$ 8,290,208	$ 7,252,186
Student deposits and deferred items	3,357,135	3,117,650
Asset retirement obligations	5,392,496	5,216,268
Split interest and annuity obligations	12,488,707	12,602,038
Federal student loan funds repayable	6,294,043	6,274,752
Bond premiums	1,277,692	1,155,822
Bonds payable	68,805,450	58,090,006
TOTAL LIABILITIES	$ 105,905,731	$ 93,708,722
COMMITMENTS AND CONTINGENCIES		
NET ASSETS		
Unrestricted	$ 100,902,046	$ 93,249,764
Temporarily restricted	75,753,976	68,050,596
Permanently restricted	132,684,446	128,107,515
TOTAL NET ASSETS	$ 309,340,468	$ 289,407,875
TOTAL LIABILITIES AND NET ASSETS	$ 415,246,199	$ 383,116,597

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

BATES COLLEGE

STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2010
WITH SUMMARIZED FINANCIAL INFORMATION FOR THE YEAR ENDED JUNE 30, 2009

	2010				2009
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Total
OPERATING ACTIVITIES					
Revenues and gains					
Comprehensive fee revenue	$ 87,546,566			$ 87,546,566	$ 85,959,193
Scholarship aid	(22,201,521)			(22,201,521)	(20,703,498)
Net revenue from students	$ 65,345,045			$ 65,345,045	$ 65,255,695
Other educational program revenues	541,012			541,012	678,428
	$ 65,886,057			$ 65,886,057	$ 65,934,123
Government grants	1,453,211			1,453,211	1,197,800
Contributions and private grants	5,245,518	$ 1,804,698		7,050,216	5,524,986
Endowment return used in accordance with spending policy	2,056,206	9,937,279		11,993,485	12,528,984
Other income	4,651,401	222,560		4,873,961	5,148,014
Net assets released from restrictions	11,664,577	(11,664,577)		-	-
	$ 90,956,970	$ 299,960		$ 91,256,930	$ 90,333,907
Expenses					
Educational and general					
Instructional	$ 33,739,478			$ 33,739,478	$ 33,981,350
Research	1,188,877			1,188,877	894,331
Public service	232,488			232,488	248,244
Academic support	12,091,465			12,091,465	12,165,061
Student services	14,109,201			14,109,201	14,131,770
Institutional support	12,935,950			12,935,950	12,773,495
Total educational and general	$ 74,297,459			$ 74,297,459	$ 74,194,251
Auxiliary enterprises	15,797,596			15,797,596	16,004,075
	$ 90,095,055			$ 90,095,055	$ 90,198,326
TOTAL FROM OPERATING ACTIVITIES	$ 861,915	$ 299,960		$ 1,161,875	$ 135,581
NONOPERATING ACTIVITIES					
Revenues and gains					
Contributions	$ 176,566	$ 1,495,849	$ 1,987,088	$ 3,659,503	$ 2,768,131
Total endowment return	6,702,129	16,876,430	1,034,630	24,613,189	(72,712,163)
Endowment return used in accordance with spending policy	(2,056,206)	(9,937,279)		(11,993,485)	(12,528,984)
Other investment return including change in value of split interest agreements	174,737	761,561	1,555,213	2,491,511	(5,713,480)
Loss from early extinguishment of debt				-	(245,306)
Net assets released from restrictions	1,793,141	(1,793,141)		-	-
TOTAL FROM NONOPERATING ACTIVITIES	$ 6,790,367	$ 7,403,420	$ 4,576,931	$ 18,770,718	$ (88,431,802)
INCREASE (DECREASE) IN NET ASSETS	$ 7,652,282	$ 7,703,380	$ 4,576,931	$ 19,932,593	$ (88,296,221)
NET ASSETS - BEGINNING OF YEAR	$ 93,249,764	$ 68,050,596	$ 128,107,515	$ 289,407,875	$ 377,704,096
NET ASSETS - END OF YEAR	$ 100,902,046	$ 75,753,976	$ 132,684,446	$ 309,340,468	$ 289,407,875

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

BATES COLLEGE

STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2009

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
OPERATING ACTIVITIES				
Revenues and gains				
Comprehensive fee revenue	$ 85,959,193			$ 85,959,193
Scholarship aid	(20,703,498)			(20,703,498)
Net revenue from students	$ 65,255,695			$ 65,255,695
Other educational program revenues	678,428			678,428
	$ 65,934,123			$ 65,934,123
Government grants	1,197,800			1,197,800
Contributions and private grants	4,563,100	$ 961,886		5,524,986
Endowment return used in accordance with spending policy	2,177,642	10,351,342		12,528,984
Other income	5,054,889	93,125		5,148,014
Net assets released from restrictions	12,538,042	(12,538,042)		-
	$ 91,465,596	$ (1,131,689)		$ 90,333,907
Expenses				
Educational and general				
Instructional	$ 33,981,350			$ 33,981,350
Research	894,331			894,331
Public service	248,244			248,244
Academic support	12,165,061			12,165,061
Student services	14,131,770			14,131,770
Institutional support	12,773,495			12,773,495
Total educational and general	$ 74,194,251			$ 74,194,251
Auxiliary enterprises	16,004,075			16,004,075
	$ 90,198,326			$ 90,198,326
TOTAL FROM OPERATING ACTIVITIES	$ 1,267,270	$ (1,131,689)		$ 135,581
NONOPERATING ACTIVITIES				
Revenues and gains				
Contributions	$ 65,338	$ 1,365,849	$ 1,336,944	$ 2,768,131
Total endowment return	(20,489,717)	(52,222,446)		(72,712,163)
Endowment return used in accordance with spending policy	(2,177,642)	(10,351,342)		(12,528,984)
Other investment return including change in value of split interest agreements	102,083	(816,642)	(4,998,921)	(5,713,480)
Loss from early extinguishment of debt	(245,306)			(245,306)
Net assets released from restrictions	1,189,453	(1,189,453)		-
TOTAL FROM NONOPERATING ACTIVITIES	$ (21,555,791)	$ (63,214,034)	$ (3,661,977)	$ (88,431,802)
DECREASE IN NET ASSETS	$ (20,288,521)	$ (64,345,723)	$ (3,661,977)	$ (88,296,221)
NET ASSETS - BEGINNING OF YEAR	$ 113,538,285	$ 132,396,319	$ 131,769,492	$ 377,704,096
NET ASSETS - END OF YEAR	$ 93,249,764	$ 68,050,596	$ 128,107,515	$ 289,407,875

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

BATES COLLEGE

STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2010 and 2009

	2010	2009
Cash flows from operating activities:		
Increase (decrease) in net assets	$ 19,932,593	$ (88,296,221)
Adjustments to reconcile the change in net assets to net cash used in operating activities:		
Depreciation	$ 5,033,732	$ 4,740,071
Asset retirement accretion, net of abatements	176,228	(204,701)
Proceeds from bond premiums	199,114	101,721
Amortization of bond origination costs and bond premiums	(31,727)	(32,947)
Loss from early extinguishment of debt	-	245,306
Net unrealized and realized (gains) losses on investments	(23,313,407)	74,358,441
Other investment return including change in value of split-interest agreements	(2,491,511)	5,713,480
Contributions received for endowment or other long-term uses	(1,726,576)	(1,136,017)
Contributions received from gifts of securities for operating purposes	(417,323)	(293,132)
(Increase) decrease in operating assets:		
Accounts receivable	(111,048)	(147,405)
Inventories and prepaid expenses	(172,119)	102,930
Increase in contributions receivable from current year pledges	(1,756,361)	(1,563,523)
Increase (decrease) in operating liabilities:		
Accounts payable and accrued expenses	597,688	(1,970)
Student deposits and deferred items	239,485	182,835
Total adjustments	$ (23,773,825)	$ 82,065,089
Net cash used in operating activities	$ (3,841,232)	$ (6,231,132)
Cash flows from investing activities:		
Purchases of plant and equipment	$ (5,428,708)	$ (7,835,229)
Purchases of investments	(41,850,401)	(29,711,727)
Proceeds from sales and maturities of investments	57,562,252	37,480,778
Disbursements of loans to students	(935,644)	(1,262,556)
Repayments of loans from students	821,167	702,635
Increase in escrow deposits with trustees	(121,510)	(974,935)
(Increase) decrease in bond construction proceeds deposited with trustees	(11,453,795)	32,774
Net cash used in investing activities	$ (1,406,639)	$ (1,568,260)
Cash flows from financing activities:		
Repayments of principal on bonds payable	$ (1,990,000)	$ (1,955,000)
Refunding of 2000A and 2000B Series Bonds	-	(14,086,795)
Additional bonds payable	12,705,444	14,106,163
Bond financing costs	(142,793)	(186,777)
Cash contributions received for endowment or other long-term uses	587,966	985,442
Cash received on contributions receivable for long-term purposes	1,554,460	1,949,450
Receipts of refundable loan funds	19,291	22,299
Net cash provided by financing activities	$ 12,734,368	$ 834,782
Net increase (decrease) in cash and cash equivalents	$ 7,486,497	$ (6,964,610)
Cash and cash equivalents at beginning of year	5,594,114	12,558,724
Cash and cash equivalents at end of year	$ 13,080,611	$ 5,594,114
Supplemental data		
Interest paid	$ 2,950,935	$ 3,022,012
Accrued construction costs	979,131	538,797
Contributions received in the form of gifts of securities	1,718,392	715,138

The accompanying notes are an integral part of these 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, 2010 and 2009 included $601,699 and $700,173 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.

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 reviews and evaluates the valuations provided by the investment managers and believes that these valuations are a reasonable estimate of fair value as of June 30, 2010 and 2009 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 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, 2010.

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 4.3% and 4.4% of total investments at June 30, 2010 and 2009, respectively.
- One Trustee serves on the Board of one of the College's investment vehicles amounting to 5.1% and 3.0% of total investments at June 30, 2010 and 2009, respectively.
- One Trustee is affiliated with a company that owns one of the College's investment vehicles amounting to 5.9% and 4.6% of total investments at June 30, 2010 and 2009, 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 life income funds and pooled life growth funds.

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, 2010.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

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, 2010 and 2009, respectively, consist of $3,743,098 and $3,621,588 for debt service, and $11,453,795 at June 30, 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.

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.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

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, 2010 and 2009 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 and losses on early extinguishments of debt.

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.

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 18, 2010, which is the date the financial statements were issued.

NOTE 2 - CONTRIBUTIONS RECEIVABLE

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

	2010	2009
Capital	$ 3,148,646	$ 3,255,476
Endowment	1,572,884	1,388,515
Other	1,804,911	1,882,440
Unconditional promises to give before unamortized discount and allowance for uncollectibles	$ 6,526,441	$ 6,526,431
Less: Unamortized discount at risk-free rates	305,697	345,302
	$ 6,220,744	$ 6,181,129
Less: Allowance for uncollectibles	418,862	418,689
Net unconditional promises to give	$ 5,801,882	$ 5,762,440
Amounts due in:		
Less than one year	$ 3,601,416	$ 3,547,234
One to five years	2,925,025	2,926,197
More than five years	-	53,000
	$ 6,526,441	$ 6,526,431

Conditional promises to give at June 30, 2010 and 2009, respectively, were $1,884,000 and $1,984,000.

Total fund raising expenses were $4,280,117 and $3,664,984 for the years ended June 30, 2010 and 2009, respectively.

NOTE 3 - INVESTMENTS

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

	2010		2009	
	Cost	Fair Value	Cost	Fair Value
Cash and cash equivalents	$ 6,639,308	$ 6,639,308	$ 1,914,560	$ 1,914,560
Equity securities and funds	78,256,141	85,193,122	68,131,892	67,938,449
Venture capital partnerships	6,265,333	5,812,825	6,310,749	6,795,764
Private equity partnerships	31,690,748	34,649,952	30,046,283	27,390,040
Hedge funds	54,981,293	61,407,121	53,965,699	53,560,692
Fixed income securities and funds	25,598,031	25,087,101	49,182,760	52,849,149
Real estate and real estate funds	4,201,424	2,973,277	4,403,450	2,685,149
Commodity and other funds	5,271,870	5,767,132	3,161,006	3,520,464
	$ 212,904,148	$ 227,529,838	$ 217,116,399	$ 216,654,267

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:

	2010			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Interest and dividends	$ 204,161	$ 1,088,848	$ 6,773	$ 1,299,782
Net unrealized and realized gains*	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 greater than spending formula and return for pooled funds and other funds	$ 4,820,660	$ 7,700,712	$ 2,589,843	$ 15,111,215

	2009			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Interest and dividends	$ 262,758	$ 1,383,520	$ -	$ 1,646,278
Net unrealized and realized losses*	(11,725,842)	(63,347,158)	(4,998,921)	(80,071,921)
Reclassified investment losses**	(8,924,550)	8,924,550	-	-
Total investment return	$ (20,387,634)	$ (53,039,088)	$ (4,998,921)	$ (78,425,643)
Less: Investment return designated for current operations	2,177,642	10,351,342	-	12,528,984
Investment return less than spending formula and return for pooled funds and other funds	$ (22,565,276)	$ (63,390,430)	$ (4,998,921)	$ (90,954,627)

*Management and custodial fees for the endowment investments and other College investments are charged to the investment portfolio and were $2,858,585 and $2,854,875 for the years ended June 30, 2010 and 2009, 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 $6,165,549 and $8,969,929 at June 30, 2010 and 2009, respectively. Market gains in fiscal year 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:

	2010	2009
Endowment assets:		
Permanent endowment (principal and unspent gains)	$ 172,119,307	$ 162,163,887
Quasi endowment	26,428,225	21,684,349
Total Endowment	$ 198,547,532	$ 183,848,236
Trust assets	21,812,762	21,153,350
Other assets (primarily capital related)	7,169,544	11,652,681
Total Fair Value of Investments	$ 227,529,838	$ 216,654,267

NOTE 3 - INVESTMENTS - CONTINUED

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	$ 53,327,651	$ 102,490,382	$ 83,498,981	$ 239,317,014

Fair Value Hierarchy as of June 30, 2009:

	Level 1	Level 2	Level 3	Total
Investments				
Cash and cash equivalents	$ 1,914,560	$ -	$ -	$ 1,914,560
Equity securities and funds	26,774,818	30,826,992	10,336,639	67,938,449
Venture capital partnerships	-	-	6,795,764	6,795,764
Private equity partnerships	-	-	27,390,040	27,390,040
Hedge funds	-	25,884,183	27,676,509	53,560,692
Fixed income securities and funds	8,989,192	43,503,688	356,269	52,849,149
Real estate and real estate funds	1,637,804	381,485	665,860	2,685,149
Commodity and other funds	688,614	2,831,850	-	3,520,464
Investment Total	$ 40,004,988	$ 103,428,198	$ 73,221,081	$ 216,654,267
Other assets				
Beneficial interest in perpetual trusts	-	-	4,864,442	4,864,442
Contributions receivable from remainder trusts	-	-	6,100,177	6,100,177
Total assets at fair value	$ 40,004,988	$ 103,428,198	$ 84,185,700	$ 227,618,886

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.

NOTE 3 - INVESTMENTS - CONTINUED

Roll forward of Investments Classified as Level 3:

	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
	$ 73,221,081	$ 8,711,018	$ 3,677,765	$ (13,898,059)	$ 71,711,805
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	$ 84,185,700	$ 9,533,575	$ 3,677,765	$ (13,898,059)	$ 83,498,981

* 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.

	Value at June 30, 2008	Realized/Unrealized Gains/(Losses)	Net Purchases (Sales)	Value at June 30, 2009
Investments				
Equity securities and funds	$ 10,341,197	$ (1,883,371)	$ 1,878,813	$ 10,336,639
Venture capital partnerships	9,623,606	(1,292,587)	(1,535,255)	6,795,764
Private equity partnerships	32,891,586	(11,297,630)	5,796,084	27,390,040
Hedge funds	30,779,200	(8,975,917)	5,873,226	27,676,509
Fixed income securities and funds	384,150	(5,427)	(22,454)	356,269
Real estate and real estate funds	64,000	(119,991)	721,851	665,860
	$ 84,083,739	$ (23,574,923)	$ 12,712,265	$ 73,221,081
Other assets				
Beneficial interest in perpetual trusts	6,564,019	(1,699,577)	-	4,864,442
Contributions receivable from remainder trusts	6,759,992	(659,815)	-	6,100,177
Total assets classified as level 3	$ 97,407,750	$ (25,934,315)	$ 12,712,265	$ 84,185,700

NOTE 3 - INVESTMENTS - CONTINUED

Redemption Terms for Investments classified as Level 2 and Level 3:

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
	$ 49,372,063	$ 40,462,777	$ 61,407,121	$ 16,537,845	$ 6,422,381	$ 174,202,187

NOTE 4 - LAND, BUILDINGS AND EQUIPMENT

Land, buildings and equipment consist of the following:

	2010	2009
Land and improvements	$ 3,527,730	$ 3,442,347
Buildings	168,975,222	165,954,968
Equipment	11,212,918	9,845,213
Construction in progress	4,590,626	3,338,377
	$ 188,306,496	$ 182,580,905
Less: Accumulated depreciation	57,423,582	52,533,301
	$ 130,882,914	$ 130,047,604

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 April 30, 2011. There was no balance outstanding on this line at June 30, 2010.

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 5.2% 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 2.9% to 5% resulting in an average interest rate of 4.02%. 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 3.5% to 5% resulting in an average interest rate of 4.87%. These bonds reach final maturity in 2036.

NOTE 6 - BONDS PAYABLE - CONTINUED

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 loss on extinguishment of debt incurred as a result of the refunding, amounting to $245,306, has been reflected as a non-operating loss on the statement of activities for the year ended June 30, 2009. 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 3.25% to 5.13%, resulting in an average interest rate of 4.67%. 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, 2010 and 2009, respectively, was $2,863,915 and $3,323,293, net of interest capitalized of $123,530 for 2010.

The approximate maturities of these bonds are as follows:

	Issue					
	1997	2003B	2006B	2008D	2010A	Total
2011	$ 225,000	$ 310,000	$ 750,000	$ 1,120,000	$ -	$ 2,405,000
2012	235,000	320,000	780,000	1,145,000	210,000	2,690,000
2013	250,000	330,000	805,000	1,175,000	240,000	2,800,000
2014	260,000	340,000	840,000	1,220,000	250,000	2,910,000
2015	275,000	355,000	875,000	1,260,000	270,000	3,035,000
Thereafter	4,733,856	346,113	30,708,875	7,441,162	11,735,444	54,965,450
Total	$ 5,978,856	$ 2,001,113	$ 34,758,875	$ 13,361,162	$ 12,705,444	$ 68,805,450

NOTE 7 - NET ASSETS

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

	2010		2009	
	Permanently Restricted	Temporarily Restricted	Permanently Restricted	Temporarily Restricted
Endowment, income to support				
Scholarships	$ 45,753,536	$ 30,068,260	$ 44,562,861	$ 26,531,375
Professorships	16,456,090	7,111,286	16,296,359	6,330,194
Library and other academic support	6,247,551	4,789,269	6,054,155	4,268,922
Other purposes	16,372,167	3,070,098	16,255,558	2,531,459
Any operation of the College	29,086,646	13,164,404	27,601,396	11,731,608
Pledges	1,277,159	4,524,723	1,132,401	4,630,039
Beneficial interest in perpetual trusts	5,210,344	-	4,864,442	-
Life income funds	12,280,953	3,773,811	11,340,343	3,809,359
Other (including funds for capital projects)	-	9,252,125	-	8,217,640
	$ 132,684,446	$ 75,753,976	$ 128,107,515	$ 68,050,596

NOTE 7 - NET ASSETS - CONTINUED

Changes in endowment net assets:

	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	$ 25,021,030	$ 59,610,512	$ 113,915,990	$ 198,547,532

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, June 30, 2008	$ 43,036,000	$ 115,278,052	$ 108,905,998	$ 267,220,050
Investment income	261,847	1,384,431	-	1,646,278
Net realized and unrealized losses	(11,827,014)	(62,531,427)	-	(74,358,441)
Gifts and maturities	5,002	-	1,864,331	1,869,333
Endowment return used in accordance with spending policy	(2,177,642)	(10,351,342)	-	(12,528,984)
Reclassified investment losses (see Note 3)	(8,924,550)	8,924,550	-	-
Endowment net assets, June 30, 2009	$ 20,373,643	$ 52,704,264	$ 110,770,329	$ 183,848,236

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, 2010 and 2009 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.

The College's contributions to these plans were $4,068,270 and $3,992,933 for the years ended June 30, 2010 and 2009, 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 $209,500 and $162,918 for the years ended June 30, 2010 and 2009, 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 $22 million at June 30, 2010.

Commitments for Utilities and Construction

The College has entered into contracts for utilities and capital construction projects with a combined total balance of approximately $11.8 million at June 30, 2010.

NOTE 9 - COMMITMENTS AND CONTINGENCIES - CONTINUED

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; investments; 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, 2010 and 2009 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.

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Bates College
Schedule of Expenditures of Federal Awards
June 30, 2010

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Federal CFDA Number	Pass-Through Entity Identification Number	Federal Expenditures
Student Financial Aid Cluster			
US Department of Education			
Federal Supplemental Educational Opportunity Grants	84.007		$ 279,172
Federal Work-Study Program	84.033		218,141
Federal Pell Grant Program	84.063		771,680
Federal Perkins Loan Program (Note 2)	84.038		-
Federal Family Education Loans Program (Note 3)	84.032		-
National Science and Mathematics Access to Retain Talent (SMART) Grants	84.376		50,000
Academic Competitiveness Grants	84.375		64,975
Total Student Financial Aid Cluster			1,383,968
Research and Development Cluster			
National Science Foundation			
Mathematical and Physical Sciences	47.049		63,793
Biological Sciences	47.074		99,775
Trans-NSF Recovery Act Research Support	47.082		25,522
Geosciences	47.050		34,198
Social, Behavioral and Economic Sciences	47.075		22,050
Education and Human Resources	47.076		50,938
Experimental Program to Stimulate Competitive Research - University of Maine	47.081	EPS-0904155	46,849
Total National Science Foundation			343,125
Department of Health and Human Services			
Biomedical Research and Research Training	93.859		79,823
Trans-NIH Recovery Act Research Support	93.701		22,002
Lung Disease Research	93.838		32,503
National Center for Research Resources - Mount Desert Island Biological Lab	93.389	5 P20 RR016463-09	412,952
National Center for Research Resources - Mount Desert Island Biological Lab	93.389	5 P20 RR016463-10	32,721
Total Department of Health and Human Services			580,001
Department of the Interior			
Partners for Fish and Wildlife	15.631		5,541
National Park Service	15.944		3,146
Assistance to State Water Resources Research Institutes - University of Maine	15.805	06HQGR0089	13,327
Total Department of the Interior			22,014
Department of Energy			
Office of Science Financial Assistance Program-University of Maine	81.049	DE-FG02-07ER46373	5,438
Department of Defense			
Air Force Defense Research Sciences Program	12.800		84,814
Total Research and Development Cluster			1,035,392
Corporation for National and Community Service			
Learn and Serve America - Higher Education-University of New Hampshire	94.007	03LHHVT001	1,123
Learn and Serve America - School and Community Based Programs - Princeton University	94.004	06LHHNJ001	14,533
Volunteers in Service to America-University of New Hampshire	94.013	GH 06VSANH002	20,757
Total Corporation for National and Community Service			36,413
Department of Homeland Security			
Assistance to Firefighters Grant	97.044		5,542
Department of Agriculture			
Empowerment Zones Program - Empower Lewiston	10.772	06HQGR0089	24,940
National Endowment for the Humanities			
Promotion of the Humanities - Division of Preservation and Access	45.149		2,256
National Endowment for the Arts			
Promotion of the Arts - Grants to Organizations and Individuals	45.024		20,000
Total Expenditures of Federal Awards			$ 2,508,511

The accompanying notes are an integral part of the schedule.

1. Summary of Significant Accounting Policies

Basis of Presentation

The accompanying Schedule of Expenditures of Federal Awards (the "Schedule") has been prepared using the accrual basis of accounting and in accordance with OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. The purpose of the Schedule is to provide a summary of those activities of Bates College (the "College") for the year ended June 30, 2010, which have been financed by the U.S. Government. For purposes of the Schedule, federal awards include all federal assistance entered into directly between the federal government and the College, and federal funds awarded to the College by a prime recipient. As the Schedule presents only a selected portion of the activities of the College, it is not intended to, and does not present the financial position, changes in net assets or cash flows of the College.

Expenditures consist of direct costs which are recognized as incurred using the accrual method of accounting and the cost accounting principles contained in the U.S. Office of Management and Budget (OMB) Circular A-21, *Cost Principles for Educational Institutions*. Under those cost principles, certain types of expenditures are not allowable or are limited as to reimbursement. Expenditures also include facilities and administrative costs. For the year ended June 30, 2010, the College has a predetermined facilities and administrative cost rate of 40% for on-campus locations based on modified total direct costs.

2. Federal Perkins Loan Program

The following sets forth certain activities in the Federal Perkins Loan Program (CFDA #84.038) for the year ended June 30, 2010:

Perkins Loans receivable at June 30, 2010, net	$ 6,787,620
New Perkins Loans processed in fiscal year 2010	$ 935,644

The College also recovered an administrative cost allowance of $79,986 from the Federal Perkins Loan Program for the year ended June 30, 2010.

3. Federal Family Education Loans Program

During the fiscal year ended June 30, 2010, the College processed the following amount of new loans under the Federal Family Education Loans Program (CFDA #84.032):

	Amount Authorized
Federal Stafford Loans	
Subsidized	$ 950,020
Unsubsidized	1,168,873
Federal Parents' Loans for Undergraduate Students	2,913,150
Total Federal Family Education Loans Program	$ 5,032,043

PART II – REPORTS ON INTERNAL CONTROL AND COMPLIANCE AND OTHER MATTERS

Report of Independent Auditors on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of the Financial Statements Performed in Accordance with *Government Auditing Standards*

To the President and Trustees of Bates College:

We have audited the financial statements of Bates College (the "College") as of and for the year ended June 30, 2010, and have issued our report thereon dated November 18, 2010. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control over Financial Reporting

In planning and performing our audit, we considered the College's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the College's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the College's internal control over financial reporting.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

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

We noted certain matters that we reported to management of the College in a separate letter dated October 30, 2010.

PricewaterhouseCoopers LLP, 125 High Street, Boston, MA 02110
T: (617) 530 5000, F: (617) 530 5001, www.pwc.com/us

This report is intended solely for the information and use of the College's Audit Committee, management, and federal awarding agencies and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.

PricewaterhouseCoopers LLP

November 18, 2010

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

To the President and Trustees of Bates College:

Compliance

We have audited the compliance of Bates College (the "College") with the types of compliance requirements described in the OMB *Circular A-133 Compliance Supplement* that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2010, except as described in the second paragraph of this report. The College's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the College's management. Our responsibility is to express an opinion on the College's compliance based on our audit.

We did not audit the College's compliance with the billing and certain of the collections and due diligence compliance requirements specified by the Federal Perkins Loan Program ("Perkins Loan") and described in the OMB Circular A-133 Compliance Supplement. Compliance with these requirements was audited by other auditors whose report thereon has been furnished to us, and our opinion expressed herein, insofar as it relates to the College's compliance with those requirements, is based solely on the report of the other auditors.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the College's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the College's compliance with those requirements.

In our opinion, based on our audit and the report of other auditors, the College complied, in all material respects, with the requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2010. However, the results of our auditing procedures disclosed instances of noncompliance with those requirements, which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying schedule of findings and questioned costs as items 10-1 and 10-2.

Internal Control over Compliance

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

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

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

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

The College's response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. We did not audit the College's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of the College's Audit Committee, management, and federal awarding agencies and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.

PricewaterhouseCoopers LLP

March 28, 2011

PART III – AUDIT FINDINGS AND QUESTIONED COSTS INCLUDING MANAGEMENT'S VIEWS AND CORRECTIVE ACTION PLAN

I. Summary of Auditors' Results

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

II. Financial Statement Findings

No matters were reported.

III. Federal Award Findings and Questioned Costs

10-1 - Cost Transfers
Research and Development Cluster

CFDA #	Award #	Award Name	Year
47.082	SES-0921193	Trans-NSF Recovery Act Research Support	2010

Criteria

All costs that are transferred from one grant to another sponsored award or to an institutional fund should be processed in accordance with federal regulation (A-21) and institutional policy. Per the College's policy, cost transfers must be timely, must be fully documented, must conform to Bates College and sponsor allowability standards, and must be approved by the Principal Investigators of each grant affected.

Condition
Of the thirteen cost transfers selected for testing, we identified one cost transfer that was processed 145 days after the date of the original charge.

Cause
This transferred cost was processed late due to principal investigator and management oversight during the normal review of grant expenditures and was identified during final annual review.

Effect
Due to the late processing of this transferred cost, indirect costs were incorrectly calculated for the respective award. The College used the correct rate in their indirect cost calculation; however, the modified direct cost base included costs of approximately $180 that were subsequently transferred from the sponsored award to institutional funds. As a result, excess indirect costs of approximately $70 were charged and recovered by the College.

Recommendation
We recommend that principal investigators and management review direct costs to ensure transfers for correction of keying errors are processed in a reasonable time period after the original charge. In addition, we recommend that management verify that all cost transfers are processed prior to preparing their indirect cost calculations.

Management's View and Corrective Action Plan
Following this finding are management's views and corrective action plan.

10-2 - Indirect Costs
Research and Development Cluster

CFDA #	Award #	Award Name	Year
12.800	FA 9550-10-1-0043	Air Force Defense Research Sciences Program	2010

Criteria
OMB Circular A-21 authorizes the use of predetermined rates in determining the indirect costs applicable under research agreements with educational institutions. When applying such predetermined rates to determine the allocation of indirect costs, the Circular states that all costs incurred for the same purpose, in like circumstances, are either direct costs only or F&A ("indirect") costs only with respect to final cost objectives.

Condition
We identified one award out of the five selected for testing in which one expenditure was incorrectly included in the calculation of indirect costs. The College utilized the correct rate in their indirect cost calculation; however, the amount of modified direct costs that the respective rate was applied to was incorrect. This resulted in an excess of indirect costs applied to the award totaling approximately $2,020.

Cause
Indirect costs were not correctly applied in the instance described above due to the improper inclusion of an equipment expenditure of $5,040 within the modified direct cost base.

Effect
Improper inclusion of an equipment expenditure resulted in excess indirect costs of approximately $2,020 being reported by the College. As this sponsored award is funded on an advanced basis, Bates did not recover excess indirect costs from the awarding agency; however, the allocation of their expended funds in their reporting to the awarding agency was overstated by $2,020 related to indirect costs.

Recommendation
We recommend that management implement additional controls or management reviews around indirect cost calculations. Specifically, we recommend that management reconcile and perform a detailed review of modified direct costs before applying the indirect cost rate.

Management's View and Corrective Action Plan
Following this finding are management's views and corrective action plan.

09-1 - Entrance Counseling
Student Financial Aid

CFDA #	**Award Name**
84.032	Federal Family Education Loan Program

Condition

In fiscal year 2009, our auditors reported a finding related to entrance counseling for first time borrowers under the Federal Family Education Loan Program (FFELP). Of the 55 student files sampled, our auditors identified three student files that did not include evidence of entrance counseling procedures as set forth in CFR Section 682.604. All three students were upperclassmen who were first time borrowers in the previous academic year. At the time, Bates' administrative computing system was configured to identify the need for entrance counseling for first time, *first-year* borrowers, and did not identify *continuing* students borrowing FFELP loan funds for the first time.

Recommendation

Our auditors recommended that Bates expand its current entrance counseling procedures to include upperclassmen and transfer students that are identified as first time borrowers under the FFELP program.

Current Year Status

We have reconfigured our administrative computing system to flag the need for entrance counseling for any student who submits a loan request to allow staff to immediately see whether the requirement has been satisfied in a prior year, or is required for the current year. Additional system requirements have been implemented to prevent the disbursement of any loan for which the entrance counseling requirement has not been satisfied. There were no findings related to this item during the current year audit.

Management Views and Corrective Action Plan

10-1 Cost Transfers, Research and Development Cluster - Trans-NSF Recovery Act Research Support (CFDA No. 47.082)

A cost transfer of $182 was needed to correct a keying error discovered by management during a final annual review of grant expenditures. Management and principal investigator's will continue to review costs regularly throughout the year to identify incorrectly coded charges in order to facilitate more timely correction.

10-2 - Indirect Costs, Research and Development Cluster - Air Force Defense Research Sciences Program (CFDA No. 12.800)

In order to properly determine the modified direct cost base for indirect cost calculation, the College has two account codes for equipment charges which are "Equipment Over $5,000" and "Equipment Under $5,000". In the instance reported, a piece of equipment for $4,995 was improperly coded due to the additional charges of $47 for a power cord and freight, bringing the total equipment cost to $5,042. The coding error resulted in the improper inclusion of the equipment expenditure in the modified direct cost base for indirect cost calculation. In order to avoid the improper inclusion of equipment expenditures in the modified direct cost base for indirect cost calculation, management will expand the search for excludable equipment purchases to include both of the account codes above, specifically searching for those expenditures that are at the margin.

Questions or comments concerning management's progress with the measures in place should be addressed to:

Natalie Williamson, Director of Accounting
Bates College
221 Lane Hall, 2 Andrews Rd.
Lewiston, ME 04240
(207)786-6167