

BATES COLLEGE

FINANCIAL STATEMENTS

June 30, 2010 and 2009

BATES COLLEGE

JUNE 30, 2010 and 2009

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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, 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. 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 18, 2010

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	<u>16,173,716</u>	<u>4,501,135</u>
TOTAL ASSETS	<u><u>\$ 415,246,199</u></u>	<u><u>\$ 383,116,597</u></u>
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	<u>68,805,450</u>	<u>58,090,006</u>
TOTAL LIABILITIES	<u><u>\$ 105,905,731</u></u>	<u><u>\$ 93,708,722</u></u>
COMMITMENTS AND CONTINGENCIES		
NET ASSETS		
Unrestricted	\$ 100,902,046	\$ 93,249,764
Temporarily restricted	75,753,976	68,050,596
Permanently restricted	<u>132,684,446</u>	<u>128,107,515</u>
TOTAL NET ASSETS	<u><u>\$ 309,340,468</u></u>	<u><u>\$ 289,407,875</u></u>
TOTAL LIABILITIES AND NET ASSETS	<u><u>\$ 415,246,199</u></u>	<u><u>\$ 383,116,597</u></u>

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
	<u>\$ 65,886,057</u>			<u>\$ 65,886,057</u>	<u>\$ 65,934,123</u>
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)		-	-
	<u>\$ 90,956,970</u>	<u>\$ 299,960</u>		<u>\$ 91,256,930</u>	<u>\$ 90,333,907</u>
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	<u>\$ 74,297,459</u>			<u>\$ 74,297,459</u>	<u>\$ 74,194,251</u>
Auxiliary enterprises	15,797,596			15,797,596	16,004,075
	<u>\$ 90,095,055</u>			<u>\$ 90,095,055</u>	<u>\$ 90,198,326</u>
TOTAL FROM OPERATING ACTIVITIES	<u>\$ 861,915</u>	<u>\$ 299,960</u>		<u>\$ 1,161,875</u>	<u>\$ 135,581</u>
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)		-	-
	<u>\$ 6,790,367</u>	<u>\$ 7,403,420</u>	<u>\$ 4,576,931</u>	<u>\$ 18,770,718</u>	<u>\$ (88,431,802)</u>
TOTAL FROM NONOPERATING ACTIVITIES	<u>\$ 6,790,367</u>	<u>\$ 7,403,420</u>	<u>\$ 4,576,931</u>	<u>\$ 18,770,718</u>	<u>\$ (88,431,802)</u>
INCREASE (DECREASE) IN NET ASSETS	<u>\$ 7,652,282</u>	<u>\$ 7,703,380</u>	<u>\$ 4,576,931</u>	<u>\$ 19,932,593</u>	<u>\$ (88,296,221)</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>	<u>\$ 377,704,096</u>
NET ASSETS - END 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>

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	<u>\$ 65,255,695</u>			<u>\$ 65,255,695</u>
Other educational program revenues	678,428			678,428
	<u>\$ 65,934,123</u>			<u>\$ 65,934,123</u>
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)		-
	<u>\$ 91,465,596</u>	<u>\$ (1,131,689)</u>		<u>\$ 90,333,907</u>
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	<u>\$ 74,194,251</u>			<u>\$ 74,194,251</u>
Auxiliary enterprises	16,004,075			16,004,075
	<u>\$ 90,198,326</u>			<u>\$ 90,198,326</u>
TOTAL FROM OPERATING ACTIVITIES	<u>\$ 1,267,270</u>	<u>\$ (1,131,689)</u>		<u>\$ 135,581</u>
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	<u>\$ (21,555,791)</u>	<u>\$ (63,214,034)</u>	<u>\$ (3,661,977)</u>	<u>\$ (88,431,802)</u>
DECREASE IN NET ASSETS	<u>\$ (20,288,521)</u>	<u>\$ (64,345,723)</u>	<u>\$ (3,661,977)</u>	<u>\$ (88,296,221)</u>
NET ASSETS - BEGINNING OF YEAR	<u>\$ 113,538,285</u>	<u>\$ 132,396,319</u>	<u>\$ 131,769,492</u>	<u>\$ 377,704,096</u>
NET ASSETS - END OF YEAR	<u>\$ 93,249,764</u>	<u>\$ 68,050,596</u>	<u>\$ 128,107,515</u>	<u>\$ 289,407,875</u>

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	<u>\$ (23,773,825)</u>	<u>\$ 82,065,089</u>
Net cash used in operating activities	<u>\$ (3,841,232)</u>	<u>\$ (6,231,132)</u>
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	<u>\$ (1,406,639)</u>	<u>\$ (1,568,260)</u>
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	<u>\$ 12,734,368</u>	<u>\$ 834,782</u>
Net increase (decrease) in cash and cash equivalents	\$ 7,486,497	\$ (6,964,610)
Cash and cash equivalents at beginning of year	<u>5,594,114</u>	<u>12,558,724</u>
Cash and cash equivalents at end of year	<u><u>\$ 13,080,611</u></u>	<u><u>\$ 5,594,114</u></u>
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.

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, 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.

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 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.

BATES COLLEGE

NOTES TO FINANCIAL STATEMENTS

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.

BATES COLLEGE

NOTES TO FINANCIAL STATEMENTS

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.

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 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

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:

	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	<u>\$ 4,820,660</u>	<u>\$ 7,700,712</u>	<u>\$ 2,589,843</u>	<u>\$ 15,111,215</u>

	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	<u>\$ (22,565,276)</u>	<u>\$ (63,390,430)</u>	<u>\$ (4,998,921)</u>	<u>\$ (90,954,627)</u>

*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	<u>\$ 198,547,532</u>	<u>\$ 183,848,236</u>
Trust assets	21,812,762	21,153,350
Other assets (primarily capital related)	7,169,544	11,652,681
Total Fair Value of Investments	<u>\$ 227,529,838</u>	<u>\$ 216,654,267</u>

BATES COLLEGE

NOTES TO FINANCIAL STATEMENTS

NOTE 3 - INVESTMENTS - CONTINUED

Fair Value Hierarchy as of June 30, 2010:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
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	<u>\$ 53,327,651</u>	<u>\$ 102,490,382</u>	<u>\$ 71,711,805</u>	<u>\$ 227,529,838</u>
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>

Fair Value Hierarchy as of June 30, 2009:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
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	<u>\$ 40,004,988</u>	<u>\$ 103,428,198</u>	<u>\$ 73,221,081</u>	<u>\$ 216,654,267</u>
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	<u>\$ 40,004,988</u>	<u>\$ 103,428,198</u>	<u>\$ 84,185,700</u>	<u>\$ 227,618,886</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, 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.

	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
	<u>\$ 84,083,739</u>	<u>\$ (23,574,923)</u>	<u>\$ 12,712,265</u>	<u>\$ 73,221,081</u>
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	<u>\$ 97,407,750</u>	<u>\$ (25,934,315)</u>	<u>\$ 12,712,265</u>	<u>\$ 84,185,700</u>

BATES COLLEGE

NOTES TO FINANCIAL STATEMENTS

NOTE 3 - INVESTMENTS - CONTINUED

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

Redemption Terms	Equity Securities	Venture Capital		Fixed Income	Real Estate,	Total
	and Funds	and Private Equity	Hedge Funds	Funds	Commodity and	
		Partnerships			Other Funds	
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:

	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
	<u>\$ 188,306,496</u>	<u>\$ 182,580,905</u>
Less: Accumulated depreciation	57,423,582	52,533,301
	<u>\$ 130,882,914</u>	<u>\$ 130,047,604</u>

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.

BATES COLLEGE

NOTES TO FINANCIAL STATEMENTS

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					Total
	1997	2003B	2006B	2008D	2010A	
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	<u>\$ 5,978,856</u>	<u>\$ 2,001,113</u>	<u>\$ 34,758,875</u>	<u>\$ 13,361,162</u>	<u>\$ 12,705,444</u>	<u>\$ 68,805,450</u>

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
	<u>\$ 132,684,446</u>	<u>\$ 75,753,976</u>	<u>\$ 128,107,515</u>	<u>\$ 68,050,596</u>

BATES COLLEGE

NOTES TO FINANCIAL STATEMENTS

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	<u>\$ 25,021,030</u>	<u>\$ 59,610,512</u>	<u>\$ 113,915,990</u>	<u>\$ 198,547,532</u>

	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	<u>\$ 20,373,643</u>	<u>\$ 52,704,264</u>	<u>\$ 110,770,329</u>	<u>\$ 183,848,236</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, 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.

BATES COLLEGE

NOTES TO FINANCIAL STATEMENTS

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.