

BATES COLLEGE

FINANCIAL STATEMENTS

June 30, 2015 and 2014

BATES COLLEGE
JUNE 30, 2015 and 2014

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Independent Auditor's Report

To the Trustees of Bates College:

We have audited the accompanying financial statements of Bates College (the "College"), which comprise the statements of financial position as of June 30, 2015 and 2014, and the related statements of activities and cash flows for the years then ended.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on the financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the College's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the College's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Bates College at June 30, 2015 and June 30, 2014, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

PricewaterhouseCoopers LLP

October 23, 2015

BATES COLLEGE

STATEMENTS OF FINANCIAL POSITION
June 30, 2015 and 2014

	2015	2014
ASSETS		
Cash and cash equivalents	\$ 12,459,714	\$ 10,417,296
Accounts receivable (net of allowance of \$396,473 for 2015 and \$272,042 for 2014)	2,403,605	2,046,735
Inventories and prepaid expenses	2,254,711	2,198,011
Contributions receivable - net	5,107,422	8,983,341
Notes receivable	6,240,799	6,393,196
Investments	301,731,624	302,653,903
Beneficial interest in perpetual trusts	6,113,178	6,384,242
Contributions receivable from remainder trusts	5,930,259	5,822,026
Land, buildings and equipment - net	153,749,207	143,747,821
Deposits with bond trustees	44,749,663	50,036,301
Unamortized bond origination costs	<u>1,135,673</u>	<u>1,190,792</u>
TOTAL ASSETS	<u><u>\$ 541,875,855</u></u>	<u><u>\$ 539,873,664</u></u>
LIABILITIES AND NET ASSETS		
LIABILITIES		
Accounts payable and accrued expenses	\$ 16,438,555	\$ 11,904,550
Student deposits and deferred items	3,957,009	3,394,218
Asset retirement obligations	6,004,413	5,885,124
Split interest and annuity obligations	15,078,261	17,328,153
Federal student loan funds repayable	6,418,467	6,400,292
Bond premiums	1,649,006	1,754,394
Bonds payable	<u>101,470,481</u>	<u>104,640,481</u>
TOTAL LIABILITIES	<u><u>\$ 151,016,192</u></u>	<u><u>\$ 151,307,212</u></u>
COMMITMENTS AND CONTINGENCIES		
NET ASSETS		
Unrestricted	\$ 122,922,023	\$ 121,418,015
Temporarily restricted	109,498,875	113,472,986
Permanently restricted	<u>158,438,765</u>	<u>153,675,451</u>
TOTAL NET ASSETS	<u><u>\$ 390,859,663</u></u>	<u><u>\$ 388,566,452</u></u>
TOTAL LIABILITIES AND NET ASSETS	<u><u>\$ 541,875,855</u></u>	<u><u>\$ 539,873,664</u></u>

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

BATES COLLEGE

**STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2015
WITH SUMMARIZED FINANCIAL INFORMATION FOR THE YEAR ENDED JUNE 30, 2014**

	2015			2014	
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	
OPERATING ACTIVITIES					
Revenues and gains					
Single fee revenue	\$ 106,425,812			\$ 106,425,812	\$ 102,795,760
Scholarship aid	(31,397,885)			(31,397,885)	(30,875,125)
Net revenue from students	<u>\$ 75,027,927</u>			<u>\$ 75,027,927</u>	<u>\$ 71,920,635</u>
Other educational program revenues	908,418			908,418	599,086
	<u>\$ 75,936,345</u>			<u>\$ 75,936,345</u>	<u>\$ 72,519,721</u>
Government grants	1,837,777			1,837,777	1,895,359
Contributions and private grants	7,184,963	\$ 7,946,035		15,130,998	9,852,395
Endowment return used in accordance with spending policy	1,877,949	9,716,308		11,594,257	11,031,400
Other income	5,291,337	195,504		5,486,841	6,050,533
Net assets released from restrictions	12,311,607	(12,311,607)		-	-
	<u>\$ 104,439,978</u>	<u>\$ 5,546,240</u>		<u>\$ 109,986,218</u>	<u>\$ 101,349,408</u>
Expenses					
Educational and general					
Instructional	\$ 38,699,642			\$ 38,699,642	\$ 37,989,841
Research	1,512,304			1,512,304	1,497,964
Public service	177,488			177,488	289,307
Academic support	13,825,419			13,825,419	13,391,590
Student services	16,383,258			16,383,258	15,509,116
Institutional support	16,424,887			16,424,887	16,113,530
Total educational and general	<u>\$ 87,022,998</u>			<u>\$ 87,022,998</u>	<u>\$ 84,791,348</u>
Auxiliary enterprises	16,381,245			16,381,245	16,166,508
	<u>\$ 103,404,243</u>			<u>\$ 103,404,243</u>	<u>\$ 100,957,856</u>
TOTAL FROM OPERATING ACTIVITIES	<u>\$ 1,035,735</u>	<u>\$ 5,546,240</u>		<u>\$ 6,581,975</u>	<u>\$ 391,552</u>
NONOPERATING ACTIVITIES					
Revenues and gains					
Contributions	\$ 968	\$ 248,386	\$ 3,141,309	\$ 3,390,663	\$ 9,429,497
Total endowment return	(36,389)	2,064,579	1,104,484	3,132,674	38,857,512
Endowment return used in accordance with spending policy	(1,877,949)	(9,716,308)	-	(11,594,257)	(11,031,400)
Other investment return including change in value of split interest agreements	-	264,635	517,521	782,156	1,666,199
Net assets released from restrictions	2,381,643	(2,381,643)	-	-	-
Expenses					
Loss from early extinguishment of debt	-	-	-	-	(450,711)
TOTAL FROM NONOPERATING ACTIVITIES	<u>\$ 468,273</u>	<u>\$ (9,520,351)</u>	<u>\$ 4,763,314</u>	<u>\$ (4,288,764)</u>	<u>\$ 38,471,097</u>
INCREASE (DECREASE) IN NET ASSETS	<u>\$ 1,504,008</u>	<u>\$ (3,974,111)</u>	<u>\$ 4,763,314</u>	<u>\$ 2,293,211</u>	<u>\$ 38,862,649</u>
NET ASSETS - BEGINNING OF YEAR	<u>\$ 121,418,015</u>	<u>\$ 113,472,986</u>	<u>\$ 153,675,451</u>	<u>\$ 388,566,452</u>	<u>\$ 349,703,803</u>
NET ASSETS - END OF YEAR	<u>\$ 122,922,023</u>	<u>\$ 109,498,875</u>	<u>\$ 158,438,765</u>	<u>\$ 390,859,663</u>	<u>\$ 388,566,452</u>

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

BATES COLLEGE

**STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2014**

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
OPERATING ACTIVITIES				
Revenues and gains				
Single fee revenue	\$ 102,795,760			\$ 102,795,760
Scholarship aid	(30,875,125)			(30,875,125)
Net revenue from students	<u>\$ 71,920,635</u>			<u>\$ 71,920,635</u>
Other educational program revenues	<u>599,086</u>			<u>599,086</u>
	<u>\$ 72,519,721</u>			<u>\$ 72,519,721</u>
Government grants	1,895,359			1,895,359
Contributions and private grants	6,439,355	\$ 3,413,040		9,852,395
Endowment return used in accordance with spending policy	1,749,084	9,282,316		11,031,400
Other income	5,768,285	282,248		6,050,533
Net assets released from restrictions	<u>11,692,002</u>	<u>(11,692,002)</u>		<u>-</u>
	<u>\$ 100,063,806</u>	<u>\$ 1,285,602</u>		<u>\$ 101,349,408</u>
Expenses				
Educational and general				
Instructional	\$ 37,989,841			\$ 37,989,841
Research	1,497,964			1,497,964
Public service	289,307			289,307
Academic support	13,391,590			13,391,590
Student services	15,509,116			15,509,116
Institutional support	<u>16,113,530</u>			<u>16,113,530</u>
Total educational and general	<u>\$ 84,791,348</u>			<u>\$ 84,791,348</u>
Auxiliary enterprises	<u>16,166,508</u>			<u>16,166,508</u>
	<u>\$ 100,957,856</u>			<u>\$ 100,957,856</u>
TOTAL FROM OPERATING ACTIVITIES	<u>\$ (894,050)</u>	<u>\$ 1,285,602</u>		<u>\$ 391,552</u>
NONOPERATING ACTIVITIES				
Revenues and gains				
Contributions	\$ 284	\$ 5,724,072	\$ 3,705,141	\$ 9,429,497
Total endowment return	7,382,720	30,473,449	1,001,343	38,857,512
Endowment return used in accordance with spending policy	(1,749,084)	(9,282,316)	-	(11,031,400)
Other investment return including change in value of split interest agreements	(76,315)	415,473	1,327,041	1,666,199
Net assets released from restrictions	544,190	(544,190)	-	-
Expenses				
Loss from early extinguishment of debt	<u>(450,711)</u>	<u>-</u>	<u>-</u>	<u>(450,711)</u>
TOTAL FROM NONOPERATING ACTIVITIES	<u>\$ 5,651,084</u>	<u>\$ 26,786,488</u>	<u>\$ 6,033,525</u>	<u>\$ 38,471,097</u>
INCREASE IN NET ASSETS	<u>\$ 4,757,034</u>	<u>\$ 28,072,090</u>	<u>\$ 6,033,525</u>	<u>\$ 38,862,649</u>
NET ASSETS - BEGINNING OF YEAR	<u>\$ 116,660,981</u>	<u>\$ 85,400,896</u>	<u>\$ 147,641,926</u>	<u>\$ 349,703,803</u>
NET ASSETS - END OF YEAR	<u>\$ 121,418,015</u>	<u>\$ 113,472,986</u>	<u>\$ 153,675,451</u>	<u>\$ 388,566,452</u>

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

BATES COLLEGE

**STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2015 and 2014**

	2015	2014
Cash flows from operating activities:		
Increase in net assets	\$ 2,293,211	\$ 38,862,649
Adjustments to reconcile the change in net assets to net cash used in operating activities:		
Depreciation	\$ 6,599,851	\$ 6,581,742
Asset retirement accretion, net of abatements	119,289	11,603
Proceeds from bond premiums	-	889,991
Amortization of bond origination costs and bond premiums	(50,269)	(54,653)
Loss from early extinguishment of debt	-	450,711
Net unrealized and realized gains on investments	(2,149,866)	(37,642,032)
Other investment return including change in value of split-interest agreements	(782,156)	(1,666,199)
Contributions received for endowment or other long-term uses	(7,266,583)	(3,924,084)
Contributions received from gifts of securities for operating purposes	(979,679)	(715,537)
Proceeds from sale of gifts of securities for operating purposes	979,679	715,537
(Increase) decrease in operating assets:		
Accounts receivable	(356,870)	(449,568)
Inventories and prepaid expenses	(56,700)	(281,422)
Increase in contributions receivable from current year pledges	(1,612,137)	(5,505,413)
Increase (decrease) in operating liabilities:		
Accounts payable and accrued expenses	(46,427)	1,286,329
Student deposits and deferred items	562,791	418,510
Total adjustments	<u>\$ (5,039,077)</u>	<u>\$ (39,884,485)</u>
Net cash used in operating activities	<u>\$ (2,745,866)</u>	<u>\$ (1,021,836)</u>
Cash flows from investing activities:		
Purchases of plant and equipment	\$ (11,535,805)	\$ (5,507,238)
Purchases of investments	(89,680,917)	(130,124,882)
Proceeds from sales and maturities of investments	90,963,157	137,829,877
Disbursements of loans to students	(946,106)	(1,006,054)
Repayments of loans from students	1,098,503	1,069,939
Increase in escrow deposits with bond trustees	(11,636)	(46,525,122)
Use of bond proceeds deposited with trustees	5,298,274	876,087
Net cash used in investing activities	<u>\$ (4,814,530)</u>	<u>\$ (43,387,393)</u>
Cash flows from financing activities:		
Repayments of principal on bonds payable	\$ (3,170,000)	\$ (2,910,000)
Proceeds from issuance of bonds	-	45,957,999
Bond financing costs	-	(244,980)
Cash contributions received for endowment or other long-term purposes	4,708,105	1,698,224
Proceeds from gifts of securities for long-term purposes	2,558,478	1,706,453
Cash received on contributions receivable for long-term purposes	5,488,056	519,407
Receipts of refundable loan funds	18,175	13,373
Net cash provided by financing activities	<u>\$ 9,602,814</u>	<u>\$ 46,740,476</u>
Net increase in cash and cash equivalents	\$ 2,042,418	\$ 2,331,247
Cash and cash equivalents at beginning of year	<u>10,417,296</u>	<u>8,086,049</u>
Cash and cash equivalents at end of year	<u>\$ 12,459,714</u>	<u>\$ 10,417,296</u>
Supplemental data		
Contributions of securities and other noncash assets	\$ 3,538,157	\$ 2,421,990
Accrued construction costs	5,370,476	790,044
Refunding and advance refunding - Series 1997A, Series 2003B and Series 2006B	-	10,264,496
Noncash debt issuance costs	-	395,766
Interest paid	5,175,773	3,438,127

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

BATES COLLEGE

NOTES TO FINANCIAL STATEMENTS

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Description of the Entity

Bates College (the "College") is a private, coeducational, liberal arts college located in Lewiston, Maine. The College provides academic, residential and other services to a diverse student population of approximately 1,750.

Basis of Presentation

The accompanying financial statements have been prepared on the accrual basis of accounting and in accordance with accounting principles generally accepted in the United States of America. The College displays its activities and net assets in three classes: unrestricted, temporarily restricted and permanently restricted. These classes are defined as follows:

Unrestricted Net Assets - Net assets that are not subject to donor-imposed stipulations.

Temporarily Restricted Net Assets - Net assets subject to donor-imposed stipulations or legal restrictions that may or will be met either by actions of the College and/or the passage of time.

Permanently Restricted Net Assets - Net assets subject to donor-imposed stipulations that they be maintained permanently by the College.

Revenues are reported as increases in unrestricted net assets unless use of the related assets is limited by donor-imposed restrictions. Expenses are reported as decreases in unrestricted net assets. Realized and unrealized gains and losses on investments and other assets or liabilities are reported as increases or decreases in unrestricted net assets unless their use is restricted by explicit donor stipulations or law.

Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the period. Significant estimates include the valuation of certain investments, split interest obligations, receivables, and estimated service lives of buildings and equipment. Actual results could differ from those estimates.

Cash and Cash Equivalents

The College considers all highly liquid debt instruments with maturities, when purchased, of three months or less to be cash equivalents. Cash and cash equivalents at June 30, 2015 and 2014 included \$1,314,548 and \$1,139,001 respectively, of monies held for the Perkins loan program.

Contributions Receivable

Unconditional promises to give that are expected to be collected within one year are recorded at net realizable value. Unconditional promises to give that are expected to be collected in future years are recorded at the present value of their expected future cash flows. The discounts on those amounts are computed using rates indicative of the market and credit risk associated with the contribution. Amortization of the discounts is included in contribution revenue. Conditional promises to give are not included as revenues until the conditions are substantially met.

Inventories

Inventories are stated at the lower of cost or market with cost being principally determined on a first-in, first-out basis.

Investments

Investments are stated at fair value in accordance with Fair Value Measurement standards. Fair value is defined as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date.

BATES COLLEGE

NOTES TO FINANCIAL STATEMENTS

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

The following describes the hierarchy of inputs used to measure fair value and the primary valuation methodologies used by the College for financial instruments measured at fair value on a recurring basis.

The three levels of inputs are as follows:

Level 1 - Quoted prices in active markets for identical assets or liabilities.

Level 2 - Inputs other than Level 1 that are observable, either directly or indirectly, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the same term of the assets or liabilities. Certain alternative investments, such as hedge funds, that do not have a readily determinable fair value but are redeemable in the near term (up to 90 days beyond the net asset value measurement date) at manager-reported net asset value per share or its equivalent are also categorized as Level 2.

Level 3 - Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities.

A financial instrument's categorization within the valuation hierarchy is based upon the lowest level of input that is significant to the fair value measurement.

The College's interests in alternative investments are reported at the net asset value (NAV) reported by the investment managers. The College reviews and evaluates the NAVs provided by the investment managers including, but not limited to, managers' compliance with Fair Value Measurement standards, price transparency and valuation procedures in place, and the ability to redeem at NAV at the measurement date. The College believes that these valuations are a reasonable estimate of fair value as of June 30, 2015 and 2014 but are subject to uncertainty and, therefore, may differ from the value that would have been used had a ready market for the investments existed; such differences could be material. The NAV is used as a practical expedient to estimate the fair value of these investments unless it is probable that all or a portion of the investment will be sold for an amount different from NAV. As of June 30, 2015, the College had no plans or intentions to sell investments at amounts different from NAV.

The amount of gain or loss associated with these investments is reflected in the accompanying financial statements. Investments include funds designated by the Board of Trustees and permanent endowment assets which are held in perpetuity. The College may have exposure to derivative financial instruments through its investments in various limited liability funds.

The College uses the unit market value method for the assignment of income and asset appreciation and depreciation for the investments it pools within the endowment and trust fund categories. Under this method each individual fund subscribes to, or disposes of, units on the basis of the market value per unit. Income as well as capital appreciation or depreciation earned by the pool is assigned to each individual fund on the basis of the number of units the individual fund owns.

Due to the level of risk associated with certain investment securities and level of uncertainty related to the changes in value of these investments, it is at least reasonably possible that changes in value in the near term could materially impact the amounts reported as the fair market value of these investments at June 30, 2015.

Split Interest Agreements

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

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 2.9% to 8.0%, and 3.1% to 8.0% at June 30, 2015 and 2014, respectively.

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 Bond Trustees

Deposits with Bond Trustees consists principally of investments in United States Government obligations and have been deposited with Trustees as required under certain loan agreements. Amounts at June 30, 2015 and 2014 respectively, consist of \$4,482,423 and \$4,547,101 for debt service, and \$40,267,240 and \$45,489,200 for construction.

Bond Origination Costs

Costs associated with issuing bonds payable have been capitalized and are being amortized on a straight-line basis over the term of the bonds.

Asset Retirement Obligations

In accordance with standards on *Accounting for Asset Retirement Obligations*, the College recognizes the fair value of a liability for legal obligations associated with asset retirements in the period in which the obligation is incurred. When the liability is initially recorded, the cost of the asset retirement obligation is capitalized by increasing the carrying amount of the related long-lived asset. The liability is accreted to its present value each period, and the capitalized cost associated with the retirement obligation is depreciated over the useful life of the related asset. Upon settlement of the obligation, any difference between the cost to settle the asset retirement obligation and the liability recorded is recognized as a gain or loss in the statement of activities.

BATES COLLEGE

NOTES TO FINANCIAL STATEMENTS

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Investment Return / Spending Policy

The Maine Uniform Prudent Management of Institutional Funds Act (UPMIFA) provides that unless explicitly stated otherwise by the donor, appreciation on investments of donor designated endowment funds, until appropriated pursuant to proper governing board action, must be classified as temporarily restricted net assets.

The investment time horizon for the endowment is long-term, consistent with its expected perpetual life. The financial goals for the endowment are (a) to achieve investment returns, net of all costs of management, over full market cycles at least equal to the sum of the rate of inflation (Higher Education Price Index) and the spending rate, and (b) to provide a predictable and stable flow of funds for the operating budget of the College.

To achieve its long-term return objectives, the College relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized gains) and current yield (interest and dividends). The College targets a diversified asset allocation that places greater emphasis on equity based investments to achieve an expected average real return of approximately 5.0% annually (actual returns in any given year may vary from this amount).

The College's endowment spending policy is also based upon the "total return" concept. The portion to be spent is determined by a budgetary process whereby the objective of the governing board is that the actual spending does not exceed 5% of the estimated average fair market value of the endowment investments. Accordingly, over the long term, the College expects its endowment to grow at the rate of inflation annually, consistent with the financial goals of the endowment.

Financial Instruments

The College has a number of financial instruments including: cash and cash equivalents; contributions and accounts receivable; and accounts payable and accrued expenses. Management of the College estimates that the fair value of financial instruments at June 30, 2015 and 2014 does not differ materially from the aggregate carrying values of its financial instruments recorded in the accompanying statements of financial position. Notes receivable are principally amounts due from students under U.S. Government sponsored loan programs, which are subject to significant restrictions. Accordingly, it is not practicable to determine the fair value of such amounts.

Nonoperating Activities

Nonoperating activities include transactions related to capital activities, endowments, split interest agreements, and a loss from early extinguishment of debt. Nonoperating activities also include the investment return in excess of amounts used for operations in accordance with the College's endowment spending policy.

Donor-Imposed Restrictions

Contributions received are recorded as unrestricted, temporarily restricted or permanently restricted support, depending on the existence and/or nature of any donor restrictions. All donor-restricted support is reported as an increase in temporarily or permanently restricted net assets, depending on the nature of the restriction. When a restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished), temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

Sponsored Programs

Revenues associated with federal and state government grants and contracts are recognized as the related costs are incurred. The College records reimbursement of indirect costs relating to government grants and contracts at predetermined negotiated rates for each year.

Allocation of Certain Expenses

The statement of activities presents expenses by functional classification. Operation and maintenance of plant is allocated to program and supporting activities based principally upon square footage of facilities. Depreciation of plant assets is allocated based on the specific use of the asset. Interest expense is allocated to the functional classifications that benefited from the use of the proceeds of the debt.

BATES COLLEGE

NOTES TO FINANCIAL STATEMENTS

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Income Taxes and Tax Status

The College qualifies under the provisions of Section 501(c)(3) of the Internal Revenue Code and is exempt from federal income taxes on all of the College's program related income.

New Accounting Pronouncements

In May 2015, the Financial Accounting Standards Board issued a standard on *Disclosures for Investments in Certain Entities That Calculate Net Asset Value per Share (or Its Equivalent)* that is effective for fiscal years beginning after December 15, 2016. This standard requires investments that are measured at net asset value (NAV) as a practical expedient for fair value to be excluded from the fair value hierarchy. In addition, when the NAV as a practical expedient is not applied to eligible investments, certain other disclosures regarding nature and risks of investments will no longer be required. The College is evaluating the impact this will have on the financial statements beginning in fiscal year 2018.

Reclassification

Certain amounts in the prior year's financial statements have been reclassified to conform to the 2015 presentation.

Subsequent Events

The College evaluated subsequent events through October 23, 2015, the date the financial statements were issued, and determined that there have been no subsequent events for the period after June 30, 2015 that would require recognition in the financial statements or disclosure in the notes of the financial statements other than the subsequent issuance of bonds included in Note 6.

BATES COLLEGE

NOTES TO FINANCIAL STATEMENTS

NOTE 2 - CONTRIBUTIONS RECEIVABLE

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

	2015	2014
Capital	\$ 1,103,150	\$ 313,281
Endowment	1,150,081	1,905,360
Other	3,341,354	7,772,542
Unconditional promises to give before unamortized discount and allowance for uncollectibles	\$ 5,594,585	\$ 9,991,183
Less: Unamortized discount	190,939	448,357
	\$ 5,403,646	\$ 9,542,826
Less: Allowance for uncollectibles	296,224	559,485
Net unconditional promises to give	\$ 5,107,422	\$ 8,983,341
Amounts due in:		
Less than one year	\$ 3,114,808	\$ 3,756,521
One to five years	2,479,777	6,234,662
	\$ 5,594,585	\$ 9,991,183

Discount rates on unconditional promises to give ranged from 1.8% to 5.1% at June 30, 2015 and 2014. Conditional promises to give at June 30, 2015 and 2014 were \$700,000. Total fund raising expenses were \$5,760,823 and \$5,072,459 for the years ended June 30, 2015 and 2014, respectively.

NOTE 3 - INVESTMENTS

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

	2015		2014	
	Cost	Fair Value	Cost	Fair Value
Cash and cash equivalents*	\$ 5,739,434	\$ 5,739,434	\$ 4,886,618	\$ 4,886,618
Equity securities and funds	108,024,266	113,349,662	102,842,404	116,393,202
Venture capital partnerships	4,875,745	4,729,152	3,294,774	3,732,533
Private equity partnerships	33,458,212	43,178,137	38,008,405	47,226,348
Hedge funds	78,975,359	83,770,720	58,505,415	77,385,866
Fixed income securities and funds	42,750,510	42,230,384	35,092,981	35,260,609
Real estate and real estate funds	3,982,306	3,884,196	6,427,201	7,305,610
Commodity and other funds	2,491,021	4,849,939	5,689,762	10,463,117
	\$ 280,296,853	\$ 301,731,624	\$ 254,747,560	\$ 302,653,903

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

BATES COLLEGE

NOTES TO FINANCIAL STATEMENTS

NOTE 3 - INVESTMENTS - CONTINUED

The following schedule summarizes the total endowment return and other investment return including the change in value of split interest agreements and its classification in the statements of activities for the years ended June 30:

	2015			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Interest and dividends	\$ 142,175	\$ 836,482	\$ 4,151	\$ 982,808
Net unrealized and realized gains*	312,919	1,001,249	1,617,854	2,932,022
Reclassified investment gains**	(491,483)	491,483	-	-
Total investment return	<u>\$ (36,389)</u>	<u>\$ 2,329,214</u>	<u>\$ 1,622,005</u>	<u>\$ 3,914,830</u>
Less: Investment return designated for current operations	<u>1,877,949</u>	<u>9,716,308</u>	<u>-</u>	<u>11,594,257</u>
Investment return (less than) greater than spending formula and return for pooled funds and other funds	<u>\$ (1,914,338)</u>	<u>\$ (7,387,094)</u>	<u>\$ 1,622,005</u>	<u>\$ (7,679,427)</u>
	2014			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Interest and dividends	\$ 180,790	\$ 1,030,078	\$ 4,612	\$ 1,215,480
Net unrealized and realized gains*	5,536,734	31,447,725	2,323,772	39,308,231
Reclassified investment gains**	1,588,881	(1,588,881)	-	-
Total investment return	<u>\$ 7,306,405</u>	<u>\$ 30,888,922</u>	<u>\$ 2,328,384</u>	<u>\$ 40,523,711</u>
Less: Investment return designated for current operations	<u>1,749,084</u>	<u>9,282,316</u>	<u>-</u>	<u>11,031,400</u>
Investment return greater than spending formula and return for pooled funds and other funds	<u>\$ 5,557,321</u>	<u>\$ 21,606,606</u>	<u>\$ 2,328,384</u>	<u>\$ 29,492,311</u>

*Direct external management and custodial fees for the endowment investments and other College investments are charged to the investment portfolio and were \$1,875,279 and \$1,814,251 for the years ended June 30, 2015 and 2014, respectively. Net unrealized and realized gains are presented net of these fees.

** Certain losses which would cause individual endowment funds to be reduced below the historical dollar amount contributed by the donor have been allocated to unrestricted net assets. These losses resulted from unfavorable market fluctuations that occurred shortly after the investment of newly established endowments, and authorized spending in accordance with the endowment spending policy. The total losses allocated to unrestricted net assets were \$913,691 and \$422,208 at June 30, 2015 and 2014, respectively.

BATES COLLEGE

NOTES TO FINANCIAL STATEMENTS

NOTE 3 - INVESTMENTS - CONTINUED

Fair Value Hierarchy as of June 30, 2015:

	Level 1	Level 2	Level 3	Total
Investments				
Cash and cash equivalents	\$ 5,739,434	\$ -	\$ -	\$ 5,739,434
Equity securities and funds	49,622,361	51,595,934	12,131,367	113,349,662
Venture capital partnerships	-	-	4,729,152	4,729,152
Private equity partnerships	-	-	43,178,137	43,178,137
Hedge funds	-	31,843,757	51,926,963	83,770,720
Fixed income securities and funds	42,230,384	-	-	42,230,384
Real estate and real estate funds	3,396,248	-	487,948	3,884,196
Commodity and other funds	-	4,849,939	-	4,849,939
Investment total	\$ 100,988,427	\$ 88,289,630	\$ 112,453,567	\$ 301,731,624
Other assets				
Beneficial interest in perpetual trusts	-	-	6,113,178	6,113,178
Contributions receivable from remainder trusts	-	-	5,930,259	5,930,259
Deposits with bond trustees	44,749,663	-	-	44,749,663
Total assets at fair value	\$ 145,738,090	\$ 88,289,630	\$ 124,497,004	\$ 358,524,724

Fair Value Hierarchy as of June 30, 2014:

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

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, 2014	Realized/Unrealized Gains/(Losses)	Purchases	Sales	Value at June 30, 2015
Investments					
Equity securities and funds	\$ 5,767,301	\$ 2,114,759	\$ 4,249,307	\$ -	\$ 12,131,367
Venture capital partnerships	3,732,533	(272,158)	1,669,209	(400,432)	4,729,152
Private equity partnerships	47,226,348	5,179,254	2,437,454	(11,664,919)	43,178,137
Hedge funds	38,802,227	2,065,141	19,875,000	(8,815,405)	51,926,963
Real estate and real estate funds	3,240,314	24,137	-	(2,776,503)	487,948
	<u>\$ 98,768,723</u>	<u>\$ 9,111,133</u>	<u>\$ 28,230,970</u>	<u>\$ (23,657,259)</u>	<u>\$ 112,453,567</u>
Other assets					
Beneficial interest in perpetual trusts	6,384,242	(271,064)	-	-	6,113,178
Contributions receivable from remainder trusts	5,822,026	100,995	7,238	-	5,930,259
Total assets classified as level 3	<u>\$ 110,974,991</u>	<u>\$ 8,941,064</u>	<u>\$ 28,238,208</u>	<u>\$ (23,657,259)</u>	<u>\$ 124,497,004</u>

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

In accordance with standards for estimating the fair value of investments, the College conducted a review of changes between levels occurring during the year ended June 30, 2015 and June 30, 2014 and there were no leveling changes.

BATES COLLEGE

NOTES TO FINANCIAL STATEMENTS

NOTE 3 - INVESTMENTS - CONTINUED

Redemption Terms for Investments classified as Level 2 and Level 3 as of June 30, 2015:

<u>Redemption Terms</u>	Equity Securities	Venture Capital		Real Estate,	<u>Total</u>
	<u>and Funds</u>	<u>and Private Equity</u>	<u>Hedge Funds</u>	<u>Commodity and</u>	
		<u>Partnerships</u>		<u>Other Funds</u>	
Within 30 Days	\$ -	\$ -	\$ -	\$ 4,849,939	\$ 4,849,939
Monthly (10-120 days notice)	41,421,685	-	-	-	41,421,685
Quarterly (30-90 days notice)	10,174,249	-	31,843,757	-	42,018,006
Biannually & Annually (45-120 days notice)	10,636,303	-	50,381,878	-	61,018,181
1 - 5 years	-	7,169,876	146,220	487,948	7,804,044
6 - 10 years	1,495,064	40,737,413	1,398,865	-	43,631,342
	<u>\$ 63,727,301</u>	<u>\$ 47,907,289</u>	<u>\$ 83,770,720</u>	<u>\$ 5,337,887</u>	<u>\$ 200,743,197</u>

Redemption Terms for Investments classified as Level 2 and Level 3 as of June 30, 2014:

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

NOTE 4 - LAND, BUILDINGS AND EQUIPMENT

Land, buildings and equipment consist of the following:

	<u>2015</u>	<u>2014</u>
Land and improvements	\$ 4,079,465	\$ 4,016,506
Buildings	201,533,455	200,727,724
Equipment	17,323,960	15,315,747
Construction in progress	17,179,497	4,484,609
	<u>\$ 240,116,377</u>	<u>\$ 224,544,586</u>
Less: Accumulated depreciation	86,367,170	80,796,765
	<u>\$ 153,749,207</u>	<u>\$ 143,747,821</u>

NOTE 5 - LINE OF CREDIT

The College has a \$5,000,000 unsecured line of credit with interest at monthly LIBOR plus 1.75% renewable on December 31, 2015. At June 30, 2015 and 2014, there was no balance outstanding on this line.

BATES COLLEGE

NOTES TO FINANCIAL STATEMENTS

NOTE 6 - BONDS PAYABLE

In April 2006, \$37,990,000 of Series 2006B 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 renovate an existing chapel, construct a new residential village and a new dining facility, fund capitalized interest during the construction period, and fund other miscellaneous capital improvements and equipment acquisitions. In November 2013, \$3,060,000 of the 2006B bonds were advance refunded using proceeds from the Series 2013 bonds. The interest rates for the remaining bonds range from fixed rates of 4% to 5% resulting in an average interest rate of 4.9%. These bonds reach final maturity in 2036.

In December 2008, \$15,895,000 of Series 2008D Revenue Bonds were issued by MHHEFA for the benefit of the College. The proceeds from the issue were used to extinguish the Series 2000A bonds which refinanced the construction of a student residence complex and renovations of Carnegie Science Hall, and the 2000B bonds which financed the construction of Pettengill Hall and improvements to the athletic facilities. The refunding converted variable interest rates on the Series 2000A and 2000B bonds to fixed interest rates on the Series 2008D bonds that range from 4% to 5.1%, resulting in an average interest rate of 4.9%. The Series 2008D bonds reach final maturity in 2022.

In April 2010, \$13,600,000 of Series 2010A Revenue Bonds were issued by MHHEFA for the benefit of the College. The purpose of the issue was to finance the renovation, overhaul and equipping of two residence halls for use as academic classrooms and offices, and to fund miscellaneous capital improvements and capitalized interest during the construction period. The interest rates for these bonds range from fixed rates of 3.3% to 5.3% resulting in an average interest rate of 5%. These bonds reach final maturity in 2040.

In November 2013, \$55,410,000 of Bates College Issue, Series 2013 Revenue Bonds were issued by MHHEFA for the benefit of the College. The proceeds were used to refund the Series 1997A bonds issued to construct a five -story academic building and a two-story maintenance building, and Series 2003B bonds issued to fund an electronic security access system and a new telephone system; to advance refund \$3,060,000 of the Series 2006B bonds; to pay for the construction of a student residence complex and renovate two existing residence halls; to pay for capitalized interest during the construction period; to fund miscellaneous capital improvements and equipment; and to pay for the costs of issuance. The interest rates for these bonds range from fixed rates of 3% to 5% resulting in an average interest rate of 4.9%. These bonds reach final maturity in 2043.

The College has given a collateral interest in all its gross receipts and a negative pledge on the College's central facilities; a debt fund reserve has been established as collateral for the Series 2006B, Series 2008D and Series 2010A bonds. The agreements contain various covenants regarding such items as additional permitted encumbrances, submission of financial statements and budgets, permitted dispositions and acquisitions of property, additional debt, and meeting certain debt coverage financial ratios.

Total interest expense for the years ended June 30, 2015 and 2014 was \$2,844,043 and \$3,050,152, net of interest capitalized of \$2,167,111 and \$1,401,996 for the years ended June 30, 2015 and 2014 respectively.

The approximate maturities of these bonds are as follows:

2016	\$ 3,155,000
2017	3,275,000
2018	1,885,000
2019	1,730,000
2020	1,710,000
Thereafter	89,715,481
Total	<u>\$ 101,470,481</u>

As of June 30, 2015 and 2014, the estimated fair values of bonds payable based on Level 2 inputs was \$109,373,358 and \$110,651,802, respectively. The fair value of bonds payable generally represents a mid-market estimate, a market bid and/or market ask, or any other price or estimate within a market spread.

On July 8, 2015, \$27,790,000 of Bates College Issue, Series 2015 Revenue Bonds were issued by MHHEFA for the benefit of the College for the purpose of advance refunding all of the Series 2006B Revenue Bonds and costs of issuance. The interest rates for these bonds range from fixed rates of 3% to 5% and reach final maturity in 2036.

BATES COLLEGE

NOTES TO FINANCIAL STATEMENTS

NOTE 7 - NET ASSETS

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

	2015		2014	
	Permanently Restricted	Temporarily Restricted	Permanently Restricted	Temporarily Restricted
Endowment, income to support				
Scholarships	\$ 57,142,713	\$ 43,778,548	\$ 53,535,137	\$ 47,300,700
Professorships	17,799,951	10,789,020	17,731,866	11,801,230
Library and other academic support	6,854,536	6,901,411	6,627,299	7,391,436
Other purposes	20,401,291	5,319,401	17,956,937	5,899,671
Any operation of the College	33,328,173	20,502,677	32,517,676	22,483,875
Pledges	967,498	4,139,924	1,672,891	7,310,450
Beneficial interest in perpetual trusts	6,113,178	-	6,384,242	-
Life income funds	15,831,425	3,109,587	17,249,403	2,866,641
Other purposes	-	14,958,307	-	8,418,983
	<u>\$ 158,438,765</u>	<u>\$ 109,498,875</u>	<u>\$ 153,675,451</u>	<u>\$ 113,472,986</u>

Changes in endowment net assets:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, June 30, 2014	\$ 38,829,038	\$ 96,694,172	\$ 128,368,915	\$ 263,892,125
Investment income	142,175	836,482	4,151	982,808
Net realized and unrealized gains	312,919	753,197	1,083,750	2,149,866
Gifts and maturities	968	-	6,069,848	6,070,816
Endowment return used in accordance with spending policy	(1,877,949)	(9,716,308)	-	(11,594,257)
Reclassified investment gains	(491,483)	491,483	-	-
Endowment net assets, June 30, 2015	<u>\$ 36,915,668</u>	<u>\$ 89,059,026</u>	<u>\$ 135,526,664</u>	<u>\$ 261,501,358</u>

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

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 were 9% of wages for fiscal years 2015 and 2014. All eligible employees may also participate in the Bates College 403(b) Retirement Plan and may receive a 50% matching employer contribution to the plan, based on the participant's salary reduction contribution up to a maximum of 6% of the participant's compensation.

BATES COLLEGE

NOTES TO FINANCIAL STATEMENTS

NOTE 8 - PENSION PLANS - CONTINUED

The College's contributions to these plans were \$4,657,349 and \$4,636,682 for the years ended June 30, 2015 and 2014, 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 \$680,895 and \$701,945 for the years ended June 30, 2015 and 2014, 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 \$17 million and \$12 million at June 30, 2015 and 2014, respectively.

Commitments for Utilities and Construction

The College has entered into contracts for utilities and capital construction projects with a combined total balance of approximately \$26 million at June 30, 2015.

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.