

**BATES COLLEGE**

**FINANCIAL STATEMENTS**

**June 30, 2017 and 2016**

**BATES COLLEGE**  
**JUNE 30, 2017 and 2016**

**CONTENTS**

REPORT OF INDEPENDENT AUDITORS	1
STATEMENTS OF FINANCIAL POSITION	2
STATEMENTS OF ACTIVITIES	3-4
STATEMENTS OF CASH FLOWS	5
NOTES TO FINANCIAL STATEMENTS	6-18



## **Report of Independent Auditors**

To the Trustees of Bates College

We have audited the accompanying financial statements of Bates College, which comprise the statements of financial position as of June 30, 2017 and 2016, 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.

### ***Auditors' 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 Bates 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 Bates 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 as of June 30, 2017 and 2016, 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 27, 2017

**BATES COLLEGE**

**STATEMENTS OF FINANCIAL POSITION**  
**June 30, 2017 and 2016**

	<b>2017</b>	<b>2016</b>
<b>ASSETS</b>		
Cash and cash equivalents	\$ 10,488,296	\$ 17,869,809
Accounts receivable (net of allowance of \$363,011 for 2017 and \$367,025 for 2016)	1,742,235	1,912,395
Inventories and prepaid expenses	2,847,411	2,384,613
Contributions receivable - net	71,602,104	13,271,666
Notes receivable	4,636,343	5,809,709
Investments	345,941,330	289,477,687
Beneficial interest in perpetual trusts	5,970,254	5,664,628
Contributions receivable from remainder trusts	6,613,153	6,007,953
Land, buildings and equipment - net	183,438,875	179,784,703
Deposits with bond trustees	5,196,762	20,363,636
	<b>\$ 638,476,763</b>	<b>\$ 542,546,799</b>
<b>TOTAL ASSETS</b>		
 <b>LIABILITIES AND NET ASSETS</b>		
<b>LIABILITIES</b>		
Accounts payable and accrued expenses	\$ 12,863,370	\$ 17,485,634
Student deposits and deferred items	3,246,688	3,383,348
Asset retirement obligations	6,025,582	6,007,832
Split interest and annuity obligations	15,997,604	15,870,011
Federal student loan funds repayable	5,601,094	6,346,569
Bonds payable	96,393,791	99,764,751
	<b>\$ 140,128,129</b>	<b>\$ 148,858,145</b>
<b>TOTAL LIABILITIES</b>		
 <b>COMMITMENTS AND CONTINGENCIES</b>		
<b>NET ASSETS</b>		
Unrestricted	\$ 132,211,689	\$ 124,087,610
Temporarily restricted	150,529,646	88,472,192
Permanently restricted	215,607,299	181,128,852
	<b>\$ 498,348,634</b>	<b>\$ 393,688,654</b>
<b>TOTAL NET ASSETS</b>		
 <b>TOTAL LIABILITIES AND NET ASSETS</b>		
	<b>\$ 638,476,763</b>	<b>\$ 542,546,799</b>

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

**BATES COLLEGE**

**STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED JUNE 30, 2017  
WITH SUMMARIZED FINANCIAL INFORMATION FOR THE YEAR ENDED JUNE 30, 2016**

	<b>2017</b>			<b>2016</b>	
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	
<b>OPERATING ACTIVITIES</b>					
Revenues and gains					
Single fee revenue	\$ 112,314,729			\$ 112,314,729	\$ 109,765,408
Scholarship aid	(33,082,456)			(33,082,456)	(31,479,000)
Net revenue from students	\$ 79,232,273			\$ 79,232,273	\$ 78,286,408
Other educational program revenues	874,079			874,079	1,101,975
	<u>\$ 80,106,352</u>			<u>\$ 80,106,352</u>	<u>\$ 79,388,383</u>
Government grants	2,126,412			2,126,412	2,053,392
Contributions and private grants	7,275,752	\$ 1,298,248		8,574,000	11,194,146
Endowment return used in accordance with spending policy	1,807,134	10,650,950		12,458,084	12,139,973
Other income	6,038,094	316,831		6,354,925	5,852,201
Net assets released from restrictions	14,203,667	(14,203,667)		-	-
	<u>\$ 111,557,411</u>	<u>\$ (1,937,638)</u>		<u>\$ 109,619,773</u>	<u>\$ 110,628,095</u>
Expenses					
Educational and general					
Instructional	\$ 40,154,643			\$ 40,154,643	\$ 39,275,764
Research	1,821,310			1,821,310	1,796,342
Public service	200,168			200,168	291,326
Academic support	15,304,415			15,304,415	14,700,237
Student services	17,137,508			17,137,508	16,395,131
Institutional support	18,676,456			18,676,456	16,354,694
Total educational and general	<u>\$ 93,294,500</u>			<u>\$ 93,294,500</u>	<u>\$ 88,813,494</u>
Auxiliary enterprises	18,779,381			18,779,381	15,761,178
	<u>\$ 112,073,881</u>			<u>\$ 112,073,881</u>	<u>\$ 104,574,672</u>
<b>TOTAL FROM OPERATING ACTIVITIES</b>	<u>\$ (516,470)</u>	<u>\$ (1,937,638)</u>		<u>\$ (2,454,108)</u>	<u>\$ 6,053,423</u>
<b>NONOPERATING ACTIVITIES</b>					
Revenues and gains					
Contributions	\$ -	\$ 44,631,396	\$ 31,990,539	\$ 76,621,935	\$ 23,961,175
Total endowment return	8,170,192	31,868,611	765,749	40,804,552	(12,743,055)
Endowment return used in accordance with spending policy	(1,807,134)	(10,650,950)	-	(12,458,084)	(12,139,973)
Other investment return including change in value of split interest agreements	-	423,526	1,722,159	2,145,685	(1,331,198)
Net assets released from restrictions	2,277,491	(2,277,491)	-	-	-
Expenses					
Loss from early extinguishment of debt	-	-	-	-	(971,381)
<b>TOTAL FROM NONOPERATING ACTIVITIES</b>	<u>\$ 8,640,549</u>	<u>\$ 63,995,092</u>	<u>\$ 34,478,447</u>	<u>\$ 107,114,088</u>	<u>\$ (3,224,432)</u>
<b>INCREASE IN NET ASSETS</b>	<u>\$ 8,124,079</u>	<u>\$ 62,057,454</u>	<u>\$ 34,478,447</u>	<u>\$ 104,659,980</u>	<u>\$ 2,828,991</u>
<b>NET ASSETS - BEGINNING OF YEAR</b>	<u>\$ 124,087,610</u>	<u>\$ 88,472,192</u>	<u>\$ 181,128,852</u>	<u>\$ 393,688,654</u>	<u>\$ 390,859,663</u>
<b>NET ASSETS - END OF YEAR</b>	<u><u>\$ 132,211,689</u></u>	<u><u>\$ 150,529,646</u></u>	<u><u>\$ 215,607,299</u></u>	<u><u>\$ 498,348,634</u></u>	<u><u>\$ 393,688,654</u></u>

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

**BATES COLLEGE**

**STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED JUNE 30, 2016**

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
<b>OPERATING ACTIVITIES</b>				
Revenues and gains				
Single fee revenue	\$ 109,765,408			\$ 109,765,408
Scholarship aid	(31,479,000)			(31,479,000)
Net revenue from students	<u>\$ 78,286,408</u>			<u>\$ 78,286,408</u>
Other educational program revenues	<u>1,101,975</u>			<u>1,101,975</u>
	\$ 79,388,383			\$ 79,388,383
Government grants	2,053,392			2,053,392
Contributions and private grants	8,557,653	\$ 2,636,493		11,194,146
Endowment return used in accordance with spending policy	1,809,238	10,330,735		12,139,973
Other income	5,570,195	282,006		5,852,201
Net assets released from restrictions	<u>13,320,266</u>	<u>(13,320,266)</u>		<u>-</u>
	<u>\$ 110,699,127</u>	<u>\$ (71,032)</u>		<u>\$ 110,628,095</u>
Expenses				
Educational and general				
Instructional	\$ 39,275,764			\$ 39,275,764
Research	1,796,342			1,796,342
Public service	291,326			291,326
Academic support	14,700,237			14,700,237
Student services	16,395,131			16,395,131
Institutional support	<u>16,354,694</u>			<u>16,354,694</u>
Total educational and general	<u>\$ 88,813,494</u>			<u>\$ 88,813,494</u>
Auxiliary enterprises	<u>15,761,178</u>			<u>15,761,178</u>
	<u>\$ 104,574,672</u>			<u>\$ 104,574,672</u>
<b>TOTAL FROM OPERATING ACTIVITIES</b>	<u>\$ 6,124,455</u>	<u>\$ (71,032)</u>		<u>\$ 6,053,423</u>
<b>NONOPERATING ACTIVITIES</b>				
Revenues and gains				
Contributions	\$ 500,072	\$ 97,784	\$ 23,363,319	\$ 23,961,175
Total endowment return	(4,351,048)	(8,781,485)	389,478	(12,743,055)
Endowment return used in accordance with spending policy	(1,809,238)	(10,330,735)	-	(12,139,973)
Other investment return including change in value of split interest agreements	-	(268,488)	(1,062,710)	(1,331,198)
Net assets released from restrictions	1,672,727	(1,672,727)	-	-
Expenses				
Loss from early extinguishment of debt	<u>(971,381)</u>	<u>-</u>	<u>\$ -</u>	<u>(971,381)</u>
<b>TOTAL FROM NONOPERATING ACTIVITIES</b>	<u>\$ (4,958,868)</u>	<u>\$ (20,955,651)</u>	<u>\$ 22,690,087</u>	<u>\$ (3,224,432)</u>
<b>INCREASE (DECREASE) IN NET ASSETS</b>	<u>\$ 1,165,587</u>	<u>\$ (21,026,683)</u>	<u>\$ 22,690,087</u>	<u>\$ 2,828,991</u>
<b>NET ASSETS - BEGINNING OF YEAR</b>	<u>\$ 122,922,023</u>	<u>\$ 109,498,875</u>	<u>\$ 158,438,765</u>	<u>\$ 390,859,663</u>
<b>NET ASSETS - END OF YEAR</b>	<u><u>\$ 124,087,610</u></u>	<u><u>\$ 88,472,192</u></u>	<u><u>\$ 181,128,852</u></u>	<u><u>\$ 393,688,654</u></u>

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

**BATES COLLEGE**

**STATEMENTS OF CASH FLOWS  
FOR THE YEARS ENDED JUNE 30, 2017 and 2016**

	<b>2017</b>	<b>2016</b>
Cash flows from operating activities:		
Increase in net assets	\$ 104,659,980	\$ 2,828,991
Adjustments to reconcile the change in net assets to net cash used in operating activities:		
Depreciation	\$ 7,630,851	\$ 6,652,353
Asset retirement accretion, net of abatements	17,750	3,419
Amortization of bond origination costs and bond premiums	(40,960)	(44,583)
Loss from early extinguishment of debt	-	971,381
Net unrealized and realized (gains) losses on investments	(38,801,652)	13,855,888
Other investment return including change in value of split-interest agreements	(2,145,685)	1,331,198
Contributions received for endowment or other long-term uses	(11,840,840)	(15,796,931)
Contributions received from gifts of securities for operating purposes	(1,086,200)	(809,546)
Proceeds from sale of gifts of securities for operating purposes	1,086,200	809,546
(Increase) decrease in operating assets:		
Accounts receivable	170,160	491,210
Inventories and prepaid expenses	(462,798)	(129,902)
Contributions receivable from current year pledges	(64,781,096)	(10,327,537)
Increase (decrease) in operating liabilities:		
Accounts payable and accrued expenses	345,637	133,073
Student deposits and deferred items	(136,660)	(573,661)
Total adjustments	<u>\$ (110,045,293)</u>	<u>\$ (3,434,092)</u>
Net cash used in operating activities	<u>\$ (5,385,313)</u>	<u>\$ (605,101)</u>
Cash flows from investing activities:		
Purchases of plant and equipment	\$ (16,252,924)	\$ (31,773,843)
Purchases of investments	(83,855,577)	(41,817,829)
Proceeds from sales and maturities of investments	67,556,038	40,047,286
Disbursements of loans to students	(10,731)	(778,449)
Repayments of loans from students	1,184,097	1,209,539
Decrease in escrow deposits with bond trustees	368,039	13,932
Use of bond proceeds deposited with trustees	14,798,835	24,372,095
Net cash used in investing activities	<u>\$ (16,212,223)</u>	<u>\$ (8,727,269)</u>
Cash flows from financing activities:		
Repayments of principal on bonds payable	\$ (3,330,000)	\$ (3,155,000)
Proceeds from issuance of bonds	-	172,226
Bond financing costs	-	(163,087)
Cash contributions received for endowment or other long-term purposes	8,607,128	13,184,025
Proceeds from gifts of securities for long-term purposes	3,859,380	2,612,906
Cash received on contributions receivable for long-term purposes	5,824,990	2,163,293
Payments of refundable loan funds	(745,475)	(71,898)
Net cash provided by financing activities	<u>\$ 14,216,023</u>	<u>\$ 14,742,465</u>
Net (decrease) increase in cash and cash equivalents	\$ (7,381,513)	\$ 5,410,095
Cash and cash equivalents at beginning of year	<u>17,869,809</u>	<u>12,459,714</u>
Cash and cash equivalents at end of year	<u><u>\$ 10,488,296</u></u>	<u><u>\$ 17,869,809</u></u>
Supplemental data		
Contributions of securities and other noncash assets	\$ 4,945,580	\$ 3,422,452
Accrued construction costs	1,316,581	6,284,482
Advance refunding - Series 2006B	-	30,565,554
Noncash debt issuance costs	-	176,404
Interest paid	4,567,319	4,863,675

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, 2017 and 2016 included \$1,959,340 and \$1,661,858 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. Contributions receivable at June 30, 2017 include a concentration of an unconditional promise to give from a single donor.

##### 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.

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, 2017 and 2016 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, 2017, 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, 2017 and 2016, respectively.

#### **Split Interest Agreements**

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

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 3.2% to 8.0% at June 30, 2017 and 2016, 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	5 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, 2017 and 2016 respectively, consist of \$4,100,452 and \$4,468,491 for debt service, and \$1,096,310 and \$15,895,145 for construction.

**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% 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, 2017 and 2016 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 or less than 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.

**Upcoming Accounting Pronouncements**

In August 2016, the FASB issued ASU 2016-14, *Presentation of Financial Statements for Not-for-Profit Entities*, which makes targeted changes to the not-for-profit financial reporting model including changes to the classification of net assets and liquidity disclosures. The ASU also imposes several new requirements related to reporting expenses, including providing information about expenses by their natural classification. The ASU is effective for fiscal years beginning after December 15, 2017 and early adoption is permitted. The College is evaluating the impact of the new guidance on the financial statements.

In February 2016, the FASB issued ASU 2016-02, *Leases*, which requires lessees to recognize lease assets and lease liabilities in the statement of financial position for all leases with terms longer than 12 months. Leases will be classified as either finance or operating, with classification affecting the pattern of expense recognition in the statement of activities. The ASU is effective for the College's year ending June 30, 2020 with a modified retrospective transition approach required for capital and operating leases existing at, or entered into after the earliest comparative period present in the financial statements, with certain practical expedients available. The College is evaluating the impact of the new guidance on the financial statements.

In May 2014 the FASB issued ASU 2014-09, *Revenue from Contracts with Customers*, a principles-based standard to recognize revenue from customer contracts. ASU 2014-09 is effective for the College's fiscal year 2019. The College is evaluating the impact that the ASU may have on its financial statements.

**Subsequent Events**

The College evaluated subsequent events through October 27, 2017, the date the financial statements were issued, and determined that there have been no subsequent events for the period after June 30, 2017 that would require recognition in the financial statements or disclosure in the notes of the financial statements.

**BATES COLLEGE**

**NOTES TO FINANCIAL STATEMENTS**

**NOTE 2 - CONTRIBUTIONS RECEIVABLE**

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

	2017	2016
Capital	\$ 47,022,947	\$ 180,999
Endowment	31,621,173	11,600,780
Other	5,283,570	2,670,257
Unconditional promises to give before unamortized discount and allowance for uncollectibles	\$ 83,927,690	\$ 14,452,036
Less: Unamortized discount	10,219,859	611,297
	\$ 73,707,831	\$ 13,840,739
Less: Allowance for uncollectibles	2,105,727	569,073
Net unconditional promises to give	\$ 71,602,104	\$ 13,271,666
Amounts due in:		
Less than one year	\$ 12,967,577	\$ 6,875,771
One to five years	\$ 45,960,113	7,576,265
Six to ten years	25,000,000	-
	\$ 83,927,690	\$ 14,452,036

Discount rates on unconditional promises to give ranged from 2.4% to 3.3% at June 30, 2017 and from 1.8% to 3.36% at June 30, 2016. Conditional promises to give at June 30, 2017 and 2016 were \$500,000 and \$0 respectively. Total fundraising expenses were \$7,210,005 and \$6,261,415 for the years ended June 30, 2017 and 2016, respectively.

**NOTE 3 - INVESTMENTS**

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

	2017	2016
Cash and cash equivalents *	\$ 16,524,830	\$ 12,048,198
Equity securities and funds	136,589,190	106,176,831
Venture capital partnerships	8,446,467	6,123,967
Private equity partnerships	25,295,760	33,083,345
Hedge funds	87,567,640	73,734,630
Fixed income securities and funds	57,709,925	43,621,651
Real estate and real estate funds	5,364,991	4,758,309
Commodity and other funds	8,442,527	9,930,756
	\$ 345,941,330	\$ 289,477,687

\* 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:

	2017			Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	
Interest and dividends	\$ 262,324	\$ 1,735,356	\$ 5,220	\$ 2,002,900
Net unrealized and realized gains *	5,354,203	33,110,446	2,482,688	40,947,337
Reclassified investment gains **	<u>2,553,665</u>	<u>(2,553,665)</u>	-	-
Total investment return	<u>\$ 8,170,192</u>	<u>\$ 32,292,137</u>	<u>\$ 2,487,908</u>	<u>\$ 42,950,237</u>
Less: Investment return designated for current operations	<u>1,807,134</u>	<u>10,650,950</u>	<u>-</u>	<u>12,458,084</u>
Investment return greater than spending formula and return for pooled funds and other funds	<u><u>\$ 6,363,058</u></u>	<u><u>\$ 21,641,187</u></u>	<u><u>\$ 2,487,908</u></u>	<u><u>\$ 30,492,153</u></u>
	2016			Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	
Interest and dividends	\$ 153,747	\$ 957,359	\$ 1,727	\$ 1,112,833
Net unrealized and realized losses *	(1,999,485)	(12,512,642)	(674,959)	(15,187,086)
Reclassified investment gains **	<u>(2,505,310)</u>	<u>2,505,310</u>	-	-
Total investment return	<u>\$ (4,351,048)</u>	<u>\$ (9,049,973)</u>	<u>\$ (673,232)</u>	<u>\$ (14,074,253)</u>
Less: Investment return designated for current operations	<u>1,809,238</u>	<u>10,330,735</u>	<u>-</u>	<u>12,139,973</u>
Investment return less than spending formula and return for pooled funds and other funds	<u><u>\$ (6,160,286)</u></u>	<u><u>\$ (19,380,708)</u></u>	<u><u>\$ (673,232)</u></u>	<u><u>\$ (26,214,226)</u></u>

\* Direct external management and custodial fees for the endowment investments and other College investments are charged to the investment portfolio and were \$1,876,216 and \$1,626,093 for the years ended June 30, 2017 and 2016, 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 \$865,336 and \$3,419,001 at June 30, 2017 and 2016, respectively.

**BATES COLLEGE**

**NOTES TO FINANCIAL STATEMENTS**

**NOTE 3 - INVESTMENTS - CONTINUED**

Fair value of investments as of June 30, 2017 including investments measured at net asset value as a practical expedient:

	<u>Total</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>NAV Measurement</u>
<b>Investments</b>					
Cash and cash equivalents	\$ 16,524,830	\$ 16,524,830	\$ -	\$ -	\$ -
Equity securities and funds	136,589,190	62,916,621	-	-	73,672,569
Venture capital partnerships	8,446,467	-	-	-	8,446,467
Private equity partnerships	25,295,760	-	-	-	25,295,760
Hedge funds	87,567,640	-	-	-	87,567,640
Fixed income securities and funds	57,709,925	57,709,925	-	-	-
Real estate and real estate funds	5,364,991	3,623,758	-	-	1,741,233
Commodity and other funds	8,442,527	3,004,237	-	-	5,438,290
Investment total	<u>\$ 345,941,330</u>	<u>\$ 143,779,371</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 202,161,959</u>
<b>Other assets</b>					
Beneficial interest in perpetual trusts	5,970,254	-	-	5,970,254	-
Contributions receivable from remainder trusts	6,613,153	-	-	6,613,153	-
Total assets at fair value	<u>\$ 358,524,737</u>	<u>\$ 143,779,371</u>	<u>\$ -</u>	<u>\$ 12,583,407</u>	<u>\$ 202,161,959</u>

Fair value of investments as of June 30, 2016 including investments measured at net asset value as a practical expedient:

	<u>Total</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>NAV Measurement</u>
<b>Investments</b>					
Cash and cash equivalents	\$ 12,048,198	\$ 12,048,198	\$ -	\$ -	\$ -
Equity securities and funds	106,176,831	50,382,019	-	-	55,794,812
Venture capital partnerships	6,123,967	-	-	-	6,123,967
Private equity partnerships	33,083,345	-	-	-	33,083,345
Hedge funds	73,734,630	-	-	-	73,734,630
Fixed income securities and funds	43,621,651	43,621,651	-	-	-
Real estate and real estate funds	4,758,309	3,535,633	-	-	1,222,676
Commodity and other funds	9,930,756	5,436,887	-	-	4,493,869
Investment total	<u>\$ 289,477,687</u>	<u>\$ 115,024,388</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 174,453,299</u>
<b>Other assets</b>					
Beneficial interest in perpetual trusts	5,664,628	-	-	5,664,628	-
Contributions receivable from remainder trusts	6,007,953	-	-	6,007,953	-
Deposits with bond trustees *	20,363,636	20,363,636	-	-	-
Total assets at fair value	<u>\$ 321,513,904</u>	<u>\$ 135,388,024</u>	<u>\$ -</u>	<u>\$ 11,672,581</u>	<u>\$ 174,453,299</u>

\* Primarily short term investments of bond proceeds for construction at June 30, 2016.

BATES COLLEGE

NOTES TO FINANCIAL STATEMENTS

NOTE 3 - INVESTMENTS - CONTINUED

**Significant Investment Strategies**

**Equity Securities and Funds:**

The Equities category is globally diversified across public markets including domestic and international developed and emerging market equities. This includes investments in separate accounts, mutual funds and partnerships.

**Venture Capital and Private Equity Partnerships:**

The Private Equities category includes investments in limited partnerships that invest primarily in unlisted, non-public U.S. and non-U.S. domiciled companies. Private Equity includes venture capital (early-stage) and buyout (later-stage) investments. These investments are generally illiquid, with some partnership commitment terms of up to ten years.

**Hedge Funds:**

The Hedge Fund category includes investments in funds that invest primarily in the equity, debt, and derivative securities of U.S. and non-U.S. domiciled corporations. Fund managers hold long and short portfolio capital assets. Investments in hedged strategies are made in sub-strategies including event driven, distressed/credit, relative value, long/short equity and multi-strategy funds.

**Real Assets, Commodities and Other Funds:**

This category includes investments in limited partnerships that invest primarily in unlisted, non-public U.S. and non-U.S. real estate and investments in commingled vehicles that invest in natural resource assets and the equities of natural resource companies.

**Roll forward of Investments Classified as Level 3:**

	Value at	Realized/Unrealized			Value at
	June 30, 2016	Gains/(Losses)	Purchases	Sales	June 30, 2017
Beneficial interest in perpetual trusts	\$ 5,664,628	\$ 305,626	\$ -	\$ -	\$ 5,970,254
Contributions receivable from					
remainder trusts	6,007,953	605,200	-	-	6,613,153
Total assets classified as level 3	<u>\$ 11,672,581</u>	<u>\$ 910,826</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 12,583,407</u>

In accordance with standards for estimating the fair value of investments, the College conducted a review of changes between levels occurring during the years ended June 30, 2017 and June 30, 2016 and there were no leveling changes.

**BATES COLLEGE**

**NOTES TO FINANCIAL STATEMENTS**

**NOTE 3 - INVESTMENTS - CONTINUED**

**Redemption terms for investments measured at NAV as of June 30, 2017:**

Redemption Terms	Equity Securities	Venture Capital		Real Estate,	Total
	and Funds	and Private Equity	Hedge Funds	Commodity and	
		Partnerships		Other Funds	
Within 30 Days	\$ -	\$ -	\$ -	\$ 2,799,857	\$ 2,799,857
Monthly (10-120 days notice)	37,042,176	-	-	-	37,042,176
Quarterly (30-90 days notice)	-	-	28,483,257	-	28,483,257
Biannually & Annually (45-120 days notice)	31,109,929	-	53,435,643	-	84,545,572
1 - 5 years	3,464,674	3,826,219	931,386	636,442	8,858,721
6 - 10 years	2,055,790	29,916,008	4,717,354	3,743,224	40,432,376
	<u>\$ 73,672,569</u>	<u>\$ 33,742,227</u>	<u>\$ 87,567,640</u>	<u>\$ 7,179,523</u>	<u>\$ 202,161,959</u>

**Redemption terms for investments measured at NAV as of June 30, 2016:**

Redemption Terms	Equity Securities	Venture Capital		Real Estate,	Total
	and Funds	and Private Equity	Hedge Funds	Commodity and	
		Partnerships		Other Funds	
Within 30 Days	\$ -	\$ -	\$ -	\$ 3,354,165	\$ 3,354,165
Monthly (10-120 days notice)	29,396,694	-	-	-	29,396,694
Quarterly (30-90 days notice)	9,355,144	-	28,441,250	-	37,796,394
Biannually & Annually (45-120 days notice)	15,339,751	-	43,141,716	-	58,481,467
1 - 5 years	-	3,975,125	26,144	1,222,677	5,223,946
6 - 10 years	1,703,223	35,232,187	2,125,520	1,139,703	40,200,633
	<u>\$ 55,794,812</u>	<u>\$ 39,207,312</u>	<u>\$ 73,734,630</u>	<u>\$ 5,716,545</u>	<u>\$ 174,453,299</u>

**NOTE 4 - LAND, BUILDINGS AND EQUIPMENT**

Land, buildings and equipment consist of the following:

	2017	2016
Land and improvements	\$ 4,860,477	\$ 4,079,465
Buildings	258,348,717	204,400,469
Equipment	18,238,186	18,681,487
Construction in progress	714,164	45,358,321
	<u>\$ 282,161,544</u>	<u>\$ 272,519,742</u>
Less: Accumulated depreciation	98,722,669	92,735,039
	<u>\$ 183,438,875</u>	<u>\$ 179,784,703</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% with a minimum floor of 2.5% renewable on March 31, 2018. At June 30, 2017 and 2016, there was no balance outstanding on this line and there were no draws during fiscal years 2017 and 2016.

**BATES COLLEGE**

**NOTES TO FINANCIAL STATEMENTS**

**NOTE 6 - BONDS PAYABLE**

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 4.5% to 5.1%, resulting in an average interest rate of 5%. 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.

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, the purpose of which was to renovate an existing chapel, construct a new residential village and a new dining facility, and fund miscellaneous capital improvements, equipment acquisitions, capitalized interest and costs of issuance. The interest rates for these bonds range from fixed rates of 3% to 5% with an average interest rate of 3.9% and reach final maturity in 2036.

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 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, 2017 and 2016 was \$3,750,601 and \$2,344,116, net of interest capitalized of \$758,593 and \$2,140,203 for the years ended June 30, 2017 and 2016 respectively.

The approximate maturities of these bonds are as follows:

2018	\$ 1,885,000
2019	1,730,000
2020	1,710,000
2021	2,205,000
2022	2,295,000
Thereafter	86,211,606
Unamortized original issue premiums and costs of issuance, net	<u>357,185</u>
Total	<u>\$ 96,393,791</u>

**BATES COLLEGE**

**NOTES TO FINANCIAL STATEMENTS**

**NOTE 7 - NET ASSETS**

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

	2017		2016	
	Permanently Restricted	Temporarily Restricted	Permanently Restricted	Temporarily Restricted
Endowment, income to support				
Scholarships	\$ 68,898,610	\$ 44,729,031	\$ 63,543,056	\$ 35,124,154
Professorships	31,689,766	11,671,609	25,183,827	8,329,657
Library and other academic support	7,184,924	6,941,279	6,902,803	5,639,642
Other purposes	21,322,346	5,392,291	20,716,372	3,864,048
Any operation of the College	36,051,938	20,655,803	33,411,447	15,392,200
Pledges	28,037,655	43,564,449	10,622,753	2,648,913
Beneficial interest in perpetual trusts	5,970,254	-	5,664,628	-
Life income funds	16,176,807	3,141,633	15,083,966	2,876,959
Other purposes	275,000	14,433,551	-	14,596,619
	<u>\$ 215,607,299</u>	<u>\$ 150,529,646</u>	<u>\$ 181,128,852</u>	<u>\$ 88,472,192</u>

**Changes in endowment net assets:**

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, June 30, 2016	\$ 31,255,454	\$ 69,963,518	\$ 149,757,505	\$ 250,976,477
Investment income	262,324	1,735,356	5,220	2,002,900
Net realized and unrealized gains	5,354,203	32,572,331	875,118	38,801,652
Gifts and maturities	-	-	14,509,741	14,509,741
Endowment return used in accordance with spending policy	(1,807,134)	(10,650,950)	-	(12,458,084)
Reclassified investment gains	2,553,665	(2,553,665)	-	-
Endowment net assets, June 30, 2017	<u>\$ 37,618,512</u>	<u>\$ 91,066,590</u>	<u>\$ 165,147,584</u>	<u>\$ 293,832,686</u>

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, June 30, 2015	\$ 36,915,668	\$ 89,059,026	\$ 135,526,664	\$ 261,501,358
Investment income	153,747	957,359	1,727	1,112,833
Net realized and unrealized gains	(1,999,485)	(12,227,442)	371,039	(13,855,888)
Gifts and maturities	500,072	-	13,858,075	14,358,147
Endowment return used in accordance with spending policy	(1,809,238)	(10,330,735)	-	(12,139,973)
Reclassified investment gains	(2,505,310)	2,505,310	-	-
Endowment net assets, June 30, 2016	<u>\$ 31,255,454</u>	<u>\$ 69,963,518</u>	<u>\$ 149,757,505</u>	<u>\$ 250,976,477</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 2017 and 2016. 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 \$5,039,230 and \$4,900,309 for the years ended June 30, 2017 and 2016, 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 \$761,958 and \$677,521 for the years ended June 30, 2017 and 2016, 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 \$30 million and \$26 million at June 30, 2017 and 2016, 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 \$662,000 and \$5 million at June 30, 2017 and 2016, respectively.

**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.