



Financial Statements

Bates College

June 30, 2018 and 2017



BATES COLLEGE

Financial Statements

Table of Contents

Financial Statements:

Independent Auditors' Report	1-2
Statements of Financial Position	3
Statements of Activities	4-5
Statements of Cash Flows	6
Notes to Financial Statements	7-18



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Independent Auditors' Report

The Board of Trustees
Bates College
Lewiston, Maine

We have audited the accompanying financial statements of Bates College (the "College"), which comprise the statement of financial position as of June 30, 2018, and the related statement of activities, and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these 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 these financial statements based on our audit. We conducted our audit 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 the auditors' 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, the auditor considers internal control relevant to the entity'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 entity'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 the College as of June 30, 2018, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

2017 Financial Statements

The financial statements of Bates College as of and for the year ended June 30, 2017 were audited by other auditors whose report dated October 27, 2017 expressed an unmodified opinion on those statements.

Maye Heyman McCann P.C.

October 26, 2018
Boston, Massachusetts

BATES COLLEGE**STATEMENTS OF FINANCIAL POSITION****June 30, 2018 and 2017**

	2018	2017
ASSETS		
Cash and cash equivalents	\$ 7,151,746	\$ 10,488,296
Accounts receivable (net of allowance of \$374,146 for 2018 and \$363,011 for 2017)	1,713,044	1,742,235
Inventories and prepaid expenses	2,530,163	2,847,411
Contributions receivable - net	65,124,015	71,602,104
Student loans receivable	3,546,624	4,636,343
Investments	371,897,525	345,941,330
Beneficial interest in perpetual trusts	6,118,571	5,970,254
Contributions receivable from remainder trusts	7,149,501	6,613,153
Land, buildings and equipment - net	184,571,749	183,438,875
Deposits with bond trustees	5,943,335	5,196,762
TOTAL ASSETS	<u>\$ 655,746,273</u>	<u>\$ 638,476,763</u>
LIABILITIES AND NET ASSETS		
LIABILITIES		
Accounts payable and accrued expenses	\$ 14,689,125	\$ 12,863,370
Student deposits and deferred items	2,856,121	3,246,688
Asset retirement obligations	6,101,824	6,025,582
Split interest and annuity obligations	15,269,680	15,997,604
Federal student loan funds repayable	3,486,193	5,601,094
Bonds payable	94,469,467	96,393,791
TOTAL LIABILITIES	<u>\$ 136,872,410</u>	<u>\$ 140,128,129</u>
COMMITMENTS AND CONTINGENCIES		
NET ASSETS		
Unrestricted	\$ 137,610,297	\$ 132,211,689
Temporarily restricted	154,925,405	150,529,646
Permanently restricted	226,338,161	215,607,299
TOTAL NET ASSETS	<u>\$ 518,873,863</u>	<u>\$ 498,348,634</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 655,746,273</u>	<u>\$ 638,476,763</u>

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

BATES COLLEGE

**STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2018
WITH SUMMARIZED FINANCIAL INFORMATION FOR THE YEAR ENDED JUNE 30, 2017**

	2018				2017
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	
OPERATING ACTIVITIES					
Revenues and gains					
Single fee revenue	\$ 118,105,186			\$ 118,105,186	\$ 112,314,729
Scholarship aid	(34,268,150)			(34,268,150)	(33,082,456)
Net revenue from students	\$ 83,837,036			\$ 83,837,036	\$ 79,232,273
Other educational program revenues	837,433			837,433	874,079
	\$ 84,674,469			\$ 84,674,469	\$ 80,106,352
Government grants	2,039,969			2,039,969	2,126,412
Contributions and private grants	7,209,809	\$ 3,366,755		10,576,564	8,574,000
Endowment return used in accordance with spending policy	1,745,778	10,913,165		12,658,943	12,458,084
Other income	6,222,260	149,663		6,371,923	6,354,925
Net assets released from restrictions	15,377,103	(15,377,103)		-	-
	\$ 117,269,388	\$ (947,520)		\$ 116,321,868	\$ 109,619,773
Expenses					
Educational and general					
Instructional	\$ 42,108,715			\$ 42,108,715	\$ 40,154,643
Research	1,432,107			1,432,107	1,821,310
Public service	194,533			194,533	200,168
Academic support	15,610,545			15,610,545	15,304,415
Student services	17,958,143			17,958,143	17,137,508
Institutional support	18,172,243			18,172,243	18,676,456
Total educational and general	\$ 95,476,286			\$ 95,476,286	\$ 93,294,500
Auxiliary enterprises	19,876,564			19,876,564	18,779,381
	\$ 115,352,850			\$ 115,352,850	\$ 112,073,881
CHANGE IN OPERATING ACTIVITIES	\$ 1,916,538	\$ (947,520)		\$ 969,018	\$ (2,454,108)
NONOPERATING ACTIVITIES					
Revenues and gains					
Contributions	\$ 130	\$ 1,660,826	\$ 8,536,552	\$ 10,197,508	\$ 76,621,935
Total endowment return	2,986,137	16,696,826	810,563	20,493,526	40,804,552
Endowment return used in accordance with spending policy	(1,745,778)	(10,913,165)	-	(12,658,943)	(12,458,084)
Other investment return including change in value of split interest agreements	-	140,373	1,383,747	1,524,120	2,145,685
Net assets released from restrictions	2,241,581	(2,241,581)	-	-	-
CHANGE IN NONOPERATING ACTIVITIES	\$ 3,482,070	\$ 5,343,279	\$ 10,730,862	\$ 19,556,211	\$ 107,114,088
INCREASE IN NET ASSETS	\$ 5,398,608	\$ 4,395,759	\$ 10,730,862	\$ 20,525,229	\$ 104,659,980
NET ASSETS - BEGINNING OF YEAR	\$ 132,211,689	\$ 150,529,646	\$ 215,607,299	\$ 498,348,634	\$ 393,688,654
NET ASSETS - END OF YEAR	\$ 137,610,297	\$ 154,925,405	\$ 226,338,161	\$ 518,873,863	\$ 498,348,634

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

BATES COLLEGE

**STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2017**

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
OPERATING ACTIVITIES				
Revenues and gains				
Single fee revenue	\$ 112,314,729			\$ 112,314,729
Scholarship aid	(33,082,456)			(33,082,456)
Net revenue from students	\$ 79,232,273			\$ 79,232,273
Other educational program revenues	874,079			874,079
	<u>\$ 80,106,352</u>			<u>\$ 80,106,352</u>
Government grants	2,126,412			2,126,412
Contributions and private grants	7,275,752	\$ 1,298,248		8,574,000
Endowment return used in accordance with spending policy	1,807,134	10,650,950		12,458,084
Other income	6,038,094	316,831		6,354,925
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>
Expenses				
Educational and general				
Instructional	\$ 40,154,643			\$ 40,154,643
Research	1,821,310			1,821,310
Public service	200,168			200,168
Academic support	15,304,415			15,304,415
Student services	17,137,508			17,137,508
Institutional support	18,676,456			18,676,456
Total educational and general	<u>\$ 93,294,500</u>			<u>\$ 93,294,500</u>
Auxiliary enterprises	18,779,381			18,779,381
	<u>\$ 112,073,881</u>			<u>\$ 112,073,881</u>
CHANGE IN OPERATING ACTIVITIES	<u>\$ (516,470)</u>	<u>\$ (1,937,638)</u>		<u>\$ (2,454,108)</u>
NONOPERATING ACTIVITIES				
Revenues and gains				
Contributions	\$ -	\$ 44,631,396	\$ 31,990,539	\$ 76,621,935
Total endowment return	8,170,192	31,868,611	765,749	40,804,552
Endowment return used in accordance with spending policy	(1,807,134)	(10,650,950)	-	(12,458,084)
Other investment return including change in value of split interest agreements	-	423,526	1,722,159	2,145,685
Net assets released from restrictions	2,277,491	(2,277,491)	-	-
	<u>\$ 8,640,549</u>	<u>\$ 63,995,092</u>	<u>\$ 34,478,447</u>	<u>\$ 107,114,088</u>
CHANGE IN NONOPERATING ACTIVITIES	<u>\$ 8,640,549</u>	<u>\$ 63,995,092</u>	<u>\$ 34,478,447</u>	<u>\$ 107,114,088</u>
INCREASE IN NET ASSETS	<u>\$ 8,124,079</u>	<u>\$ 62,057,454</u>	<u>\$ 34,478,447</u>	<u>\$ 104,659,980</u>
NET ASSETS - BEGINNING OF YEAR	<u>\$ 124,087,610</u>	<u>\$ 88,472,192</u>	<u>\$ 181,128,852</u>	<u>\$ 393,688,654</u>
NET ASSETS - END OF YEAR	<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>

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

BATES COLLEGE

**STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2018 and 2017**

	2018	2017
Cash flows from operating activities:		
Increase in net assets	\$ 20,525,229	\$ 104,659,980
Adjustments to reconcile the change in net assets to net cash used in operating activities:		
Depreciation	\$ 7,876,498	\$ 7,630,851
Asset retirement accretion, net of abatements	76,242	17,750
Amortization of bond origination costs and bond premiums	(39,324)	(40,960)
Net unrealized and realized gains on investments	(16,715,732)	(38,801,652)
Other investment return including change in value of split-interest agreements	(1,524,120)	(2,145,685)
Contributions received for endowment or other long-term uses	(5,146,870)	(11,840,840)
Contributions received from gifts of securities for operating purposes	(1,122,394)	(1,086,200)
Proceeds from sale of gifts of securities for operating purposes	1,122,394	1,086,200
(Increase) decrease in operating assets:		
Accounts receivable	29,191	170,160
Inventories and prepaid expenses	317,248	(462,798)
Contributions receivable from current year pledges	(5,050,638)	(64,781,096)
Increase (decrease) in operating liabilities:		
Accounts payable and accrued expenses	1,072,820	345,637
Student deposits and deferred items	(390,567)	(136,660)
Total adjustments	<u>\$ (19,495,252)</u>	<u>\$ (110,045,293)</u>
Net cash provided by (used in) operating activities	<u>\$ 1,029,977</u>	<u>\$ (5,385,313)</u>
Cash flows from investing activities:		
Purchases of plant and equipment	\$ (8,256,437)	\$ (16,252,924)
Purchases of investments	(64,134,028)	(83,855,577)
Proceeds from sales and maturities of investments	55,005,096	67,556,038
Disbursements of loans to students	(3,501)	(10,731)
Repayments of loans from students	1,093,220	1,184,097
(Increase) decrease in escrow deposits with bond trustees	(1,797,980)	368,039
Use of bond proceeds deposited with trustees	1,051,407	14,798,835
Net cash used in investing activities	<u>\$ (17,042,223)</u>	<u>\$ (16,212,223)</u>
Cash flows from financing activities:		
Repayments of principal on bonds payable	\$ (1,885,000)	\$ (3,330,000)
Cash contributions received for endowment or other long-term purposes	2,738,479	8,607,128
Proceeds from gifts of securities for long-term purposes	4,289,601	3,859,380
Cash received on contributions receivable for long-term purposes	9,647,517	5,824,990
Payments of refundable loan funds	(2,114,901)	(745,475)
Net cash provided by financing activities	<u>\$ 12,675,696</u>	<u>\$ 14,216,023</u>
Net decrease in cash and cash equivalents	\$ (3,336,550)	\$ (7,381,513)
Cash and cash equivalents at beginning of year	<u>10,488,296</u>	<u>17,869,809</u>
Cash and cash equivalents at end of year	<u><u>\$ 7,151,746</u></u>	<u><u>\$ 10,488,296</u></u>
Supplemental data		
Contributions of securities and other noncash assets	\$ 5,438,376	\$ 4,945,580
Accrued construction costs	2,069,516	1,316,581
Interest paid	4,465,719	4,567,319

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 1,800. The College is accredited by the New England Association of Schools and Colleges, Inc. through its Commission on Institutions of Higher Education.

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.

All contributions are considered to be available for unrestricted use unless specifically restricted by the donor. Contributions received that are designated for future periods or restricted by the donor for specific purposes are reported as temporarily or permanently restricted, increasing those net asset classes. When a qualifying expenditure occurs or a time restriction expires, temporarily restricted net assets are recognized in unrestricted net assets released from restrictions in the statement of activities.

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 and annuity obligations, receivables, estimated service lives of buildings and equipment, asset retirement obligations, and the allocation of common expenses over program functions. 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, 2018 and 2017 included \$547,339 and \$1,959,340 respectively, of monies held for the Federal Perkins loan program. Cash and cash equivalents held by investment managers is considered part of investments given its expected use for those purposes.

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 include a concentration of an unconditional promise to give from a single donor at June 30, 2018 and 2017, respectively.

BATES COLLEGE
NOTES TO FINANCIAL STATEMENTS

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

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.

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, 2018 and 2017 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, 2018, 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, 2018 and 2017, respectively.

BATES COLLEGE
NOTES TO FINANCIAL STATEMENTS

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

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 8.0% to 3.2% at June 30, 2018 and 2017, respectively.

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 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, 2018 and 2017 respectively, consist of \$3,844,914 and \$4,100,452 for debt service, \$2,098,421 for bond redemption as of June 30, 2018, and \$1,096,310 for construction as of June 30, 2017.

BATES COLLEGE
NOTES TO FINANCIAL STATEMENTS

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Asset Retirement Obligations

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

Investment Return / Spending Policy

The College's endowment represents part of the investment portfolio and consists of over 1,300 individually named funds which are invested and administered in accordance with donor stipulation or board designation. The College has interpreted the Maine Uniform Prudent Management of Institutional Funds (UPMIFA) as requiring the preservation of the historic dollar value of the original gift as of the gift date of donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the College classifies as permanently restricted net assets: (a) the original value of the gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund.

The Maine (UPMIFA) provides that unless explicitly stated otherwise by the donor, appreciation on investments of donor designated endowment funds must be classified as temporarily restricted net assets until appropriated pursuant to proper governing board action, taking into account the standards of prudence prescribed by UPMIFA.

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

To achieve its long-term return objectives, the College relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized gains) and current yield (interest and dividends). The College targets a diversified asset allocation that places greater emphasis on equity based investments to achieve an expected average real return of approximately 5% 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.

The College uses a 13-quarter moving average to determine spending from endowment which reduces the volatility of the spending distribution, allowing for a more reliable flow of funds to support the College. The endowment distributions for spending of \$12,658,943 and \$12,458,084 for fiscal years 2018 and 2017, respectively, were 4.31% and 4.96% of the endowment market value as of the beginning of the respective fiscal years. Annual distributions are expended in accordance with the terms or restrictions of the individual funds. The spending policy is reviewed annually by the Investment Committee in conjunction with the Budget and Finance Committee in recognition of the interdependent relationship of investment policy and the financial needs of the College.

Nonoperating Activities

Nonoperating activities include transactions related to capital activities, endowments, split interest agreements, and investment return net of amounts appropriated for operating activities in accordance with the College's endowment spending policy.

BATES COLLEGE
NOTES TO FINANCIAL STATEMENTS

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Donor-Imposed Restrictions

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

Sponsored Programs

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

Allocation of Certain Expenses

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

Income Taxes and Tax Status

The College qualifies under the provisions of Section 501(c)(3) of the Internal Revenue Code and is exempt from federal income taxes on all of the College's program related income. Certain activities may be subject to Federal and State taxation as unrelated business income.

Subsequent Events

The College evaluated subsequent events through October 26, 2018, the date the financial statements were issued, and determined that there have been no subsequent events for the period after June 30, 2018 that would require recognition in the financial statements or disclosure in the notes of the financial statements, other than the bond redemption included in Note 6.

NOTE 2 - CONTRIBUTIONS RECEIVABLE

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

	2018	2017
Capital	\$ 43,511,000	\$ 47,022,947
Endowment	25,981,302	31,621,173
Other	5,546,198	5,283,570
Unconditional promises to give before unamortized discount and allowance for uncollectibles	\$ 75,038,500	\$ 83,927,690
Less: Unamortized discount	8,471,914	10,219,859
	\$ 66,566,586	\$ 73,707,831
Less: Allowance for uncollectibles	1,442,571	2,105,727
Contributions receivable, net	<u>\$ 65,124,015</u>	<u>\$ 71,602,104</u>
Amounts due in:		
Less than one year	\$ 12,348,139	\$ 12,967,577
One to five years	42,190,361	\$ 45,960,113
Six to ten years	20,500,000	25,000,000
	<u>\$ 75,038,500</u>	<u>\$ 83,927,690</u>

BATES COLLEGE
NOTES TO FINANCIAL STATEMENTS

NOTE 2 - CONTRIBUTIONS RECEIVABLE - CONTINUED

Discount rates on unconditional promises to give ranged from 2.4% to 3.4% at June 30, 2018 and from 2.4% to 3.3% at June 30, 2017. Conditional promises to give at June 30, 2018 and 2017 were \$2,246,164 and \$500,000 respectively. Total fundraising expenses were \$6,015,496 and \$7,210,005 for the years ended June 30, 2018 and 2017, respectively.

NOTE 3 - INVESTMENTS

Fair value of investments and other items as of June 30, 2018 including investments measured at net asset value as a practical expedient:

	Total	Level 1	Level 2	Level 3	NAV Measurement
Investments					
Cash and cash equivalents	\$ 16,389,486	\$ 16,389,486	\$ -	\$ -	\$ -
Equity securities and funds	146,556,078	64,954,252	-	-	81,601,826
Venture capital partnerships	12,570,112	-	-	-	12,570,112
Private equity partnerships	23,527,106	-	-	-	23,527,106
Hedge funds	102,121,252	-	-	-	102,121,252
Fixed income securities and funds	59,038,238	59,038,238	-	-	-
Real estate and real estate funds	7,402,537	3,701,803	-	-	3,700,734
Commodity and other funds	4,292,716	-	-	-	4,292,716
Investment total	<u>\$ 371,897,525</u>	<u>\$ 144,083,779</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 227,813,746</u>
Other assets					
Beneficial interest in perpetual trusts	6,118,571	-	-	6,118,571	-
Contributions receivable from remainder trusts	7,149,501	-	-	7,149,501	-
Total assets at fair value	<u>\$ 385,165,597</u>	<u>\$ 144,083,779</u>	<u>\$ -</u>	<u>\$ 13,268,072</u>	<u>\$ 227,813,746</u>

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

	Total	Level 1	Level 2	Level 3	NAV Measurement
Investments					
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>
Other assets					
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>

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:

	2018			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Interest and dividends	\$ 471,704	\$ 3,296,387	\$ 9,703	\$ 3,777,794
Net unrealized and realized gains *	2,194,024	13,861,221	2,184,607	18,239,852
Reclassified investment gains **	320,409	(320,409)	-	-
Total investment return	\$ 2,986,137	\$ 16,837,199	\$ 2,194,310	\$ 22,017,646
Less: Investment return appropriated for current operations	1,745,778	10,913,165	-	12,658,943
Investment return, net of amounts appropriated, and return for pooled funds and other funds	<u>\$ 1,240,359</u>	<u>\$ 5,924,034</u>	<u>\$ 2,194,310</u>	<u>\$ 9,358,703</u>

	2017			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
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 **	2,553,665	(2,553,665)	-	-
Total investment return	\$ 8,170,192	\$ 32,292,137	\$ 2,487,908	\$ 42,950,237
Less: Investment return appropriated for current operations	1,807,134	10,650,950	-	12,458,084
Investment return, net of amounts appropriated, and return for pooled funds and other funds	<u>\$ 6,363,058</u>	<u>\$ 21,641,187</u>	<u>\$ 2,487,908</u>	<u>\$ 30,492,153</u>

* Direct external management and custodial fees for the endowment investments and other College investments are charged to the investment portfolio and were \$3,189,022 and \$1,876,216 for the years ended June 30, 2018 and 2017, respectively. The increase in external management and custodial fees in 2018 is primarily attributed to improved reporting of fees by the fund managers. 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 \$544,927 and \$865,336 at June 30, 2018 and 2017, respectively.

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 June 30, 2017	Realized/Unrealized Gains/(Losses)	Purchases	Sales	Value at June 30, 2018
Beneficial interest in perpetual trusts	\$ 5,970,254	\$ 148,317	\$ -	\$ -	\$ 6,118,571
Contributions receivable from remainder trusts	6,613,153	536,348	-	-	7,149,501
Total assets classified as level 3	<u>\$ 11,672,581</u>	<u>\$ 684,665</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 13,268,072</u>

	Value at June 30, 2016	Realized/Unrealized Gains/(Losses)	Purchases	Sales	Value at 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>

There were no transfers between levels during 2018 and 2017, respectively.

BATES COLLEGE
NOTES TO FINANCIAL STATEMENTS

NOTE 3 - INVESTMENTS - CONTINUED

Redemption terms for investments measured at NAV as of June 30, 2018:

Redemption Terms	Equity Securities and Funds	Venture Capital and Private Equity Partnerships	Hedge Funds	Real Estate, Commodity and Other Funds	Total
Within 30 Days	\$ -	\$ -	\$ -		\$ -
Monthly (10-120 days notice)	25,955,298	-	-	-	25,955,298
Quarterly (30-90 days notice)	-	-	32,833,008	-	32,833,008
Semi-Annually (30 days notice)	5,026,026	-	-	-	5,026,026
Annually & Biannually (45-90 days notice)	36,742,234	-	61,005,501	-	97,747,735
1 - 5 years	11,263,191	3,001,051	613,093	159,986	15,037,321
6 - 10 years and thereafter	2,615,077	33,096,167	7,669,650	7,833,464	51,214,358
	<u>\$ 81,601,826</u>	<u>\$ 36,097,218</u>	<u>\$ 102,121,252</u>	<u>\$ 7,993,450</u>	<u>\$ 227,813,746</u>

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

Redemption Terms	Equity Securities and Funds	Venture Capital and Private Equity Partnerships	Hedge Funds	Real Estate, Commodity and Other Funds	Total
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
Annually & Biannually (45-90 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 and thereafter	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>

Investment Commitments:

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 \$54 million and \$30 million at June 30, 2018 and 2017, respectively.

NOTE 4 - LAND, BUILDINGS AND EQUIPMENT

Land, buildings and equipment consist of the following:

	2018	2017
Land and improvements	\$ 4,923,383	\$ 4,860,477
Buildings	260,554,507	258,348,717
Equipment	19,325,623	18,238,186
Construction in progress	6,316,093	714,164
	<u>\$ 291,119,606</u>	<u>\$ 282,161,544</u>
Less: Accumulated depreciation	106,547,857	98,722,669
	<u>\$ 184,571,749</u>	<u>\$ 183,438,875</u>

BATES COLLEGE

NOTES TO FINANCIAL STATEMENTS

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, 2019. At June 30, 2018 and 2017, there was no balance outstanding on this line and there were no draws during fiscal years 2018 and 2017.

NOTE 6 - BONDS PAYABLE

The College has a number of bonds outstanding with maturities at various dates through 2043. All bonds carry fixed rates ranging from 3% to 5.25% depending on the duration of the tranche that underlied the various bonds comprising the offering. Bonds are generally used to finance capital expenditures or to refinance prior issues at lower cost. The College has given a security interest in all its gross receipts and a negative pledge on the College's central facilities. The terms of the various bonds include certain financial covenants.

The following is a summary of bonds outstanding at June 30, 2018 and 2017, respectively, net of unamortized premiums, issuance costs, and required reserve funds:

Series	Rate	Due	Par Value	2018 Bonds Payable, net	2017 Bonds Payable, net
Obligations to Maine Health and Higher Educational Facilities Authority (MHHEFA):					
2008D Revenue Bonds	4.5% - 5.125%	2018 - 2023	5,220,000	3,383,603	4,749,554
2010A Revenue Bonds	3.25% - 5.25%	2018 - 2040	11,835,000	10,955,468	11,249,793
2013 Revenue Bonds, Bates College Issue	3% - 5%	2023 - 2043	52,990,000	53,157,492	53,392,891
2015 Revenue Bonds, Bates College Issue	3% - 5%	2020 - 2036	26,790,000	26,972,904	27,001,553
				<u>94,469,467</u>	<u>96,393,791</u>

Total interest expense was \$4,422,244 and \$3,750,601 for the years ended June 30, 2018 and 2017 respectively, net of interest capitalized of \$758,593 for the year ended June 30, 2017.

The approximate maturities of these bonds are as follows at June 30, 2018:

2019	\$ 1,730,000
2020	1,710,000
2021	2,205,000
2022	2,295,000
2023	2,390,000
Thereafter	83,821,606
Unamortized original issue premiums and costs of issuance, net	<u>317,861</u>
Total	<u>\$ 94,469,467</u>

On July 1, 2018, the College early redeemed the Series 2008D Revenue Bonds of \$3,383,603, net of a bond reserve fund of \$1,788,838.

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:

	2018		2017	
	Permanently Restricted	Temporarily Restricted	Permanently Restricted	Temporarily Restricted
Endowment, income to support				
Scholarships	\$ 77,454,684	\$ 47,343,846	\$ 68,898,610	\$ 44,729,031
Professorships	33,825,152	12,669,669	31,689,766	11,671,609
Library and other academic support	7,218,920	7,267,322	7,184,924	6,941,279
Other purposes	23,077,084	5,849,804	21,322,346	5,392,291
Any operation of the College	38,282,189	22,002,955	36,051,938	20,655,803
Pledges	23,560,575	41,563,440	28,037,655	43,564,449
Beneficial interest in perpetual trusts	6,118,571	-	5,970,254	-
Life income funds	16,800,986	3,105,650	16,176,807	3,141,633
Capital and other purposes	-	15,122,719	275,000	14,433,551
	<u>\$ 226,338,161</u>	<u>\$ 154,925,405</u>	<u>\$ 215,607,299</u>	<u>\$ 150,529,646</u>

Changes in endowment net assets:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, June 30, 2017	\$ 37,618,512	\$ 91,066,590	\$ 165,147,584	\$ 293,832,686
Investment income	471,704	3,296,387	9,703	3,777,794
Net realized and unrealized gains	2,194,024	13,732,570	789,138	16,715,732
Gifts and maturities	129	-	13,911,604	13,911,733
Endowment return used in accordance with spending policy	(1,745,778)	(10,913,165)	-	(12,658,943)
Reclassified investment gains	320,409	(320,409)	-	-
Endowment net assets, June 30, 2018	<u>\$ 38,859,000</u>	<u>\$ 96,861,973</u>	<u>\$ 179,858,029</u>	<u>\$ 315,579,002</u>

	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>

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 2018 and 2017. 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 \$5,221,925 and \$5,039,230 for the years ended June 30, 2018 and 2017, 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 \$732,006 and \$761,958 for the years ended June 30, 2018 and 2017, respectively.

NOTE 9 - COMMITMENTS AND CONTINGENCIES

Commitments for Construction

The College has entered into contracts for capital construction projects with a combined total balance of approximately \$9,358,000 and \$662,000 at June 30, 2018 and 2017, 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.