



Financial Statements

Bates College

June 30, 2020 and 2019



BATES COLLEGE

Financial Statements

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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 statements of financial position as of June 30, 2020 and 2019, and the related statements of activities, and cash flows for the years 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 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 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, 2020 and 2019, 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.

Maye Hoffmann McCann P.C.

October 27, 2020
Boston, Massachusetts

BATES COLLEGE

STATEMENTS OF FINANCIAL POSITION

June 30, 2020 and 2019

	2020	2019
ASSETS		
Cash and cash equivalents	\$ 17,752,361	\$ 11,556,306
Accounts receivable (net of allowance of \$469,241 for 2020 and \$456,105 for 2019)	2,796,019	2,035,190
Inventories and prepaid expenses	2,638,948	2,820,404
Contributions receivable - net	53,724,468	63,003,706
Student loans receivable	1,968,203	2,638,161
Deposits with bond trustees	41,681,394	2,347,528
Investments	399,425,532	383,582,463
Beneficial interest in perpetual trusts	6,070,396	6,094,146
Contributions receivable from remainder trusts	7,853,159	7,730,794
Land, buildings and equipment - net	<u>207,116,483</u>	<u>192,495,633</u>
TOTAL ASSETS	<u><u>\$ 741,026,963</u></u>	<u><u>\$ 674,304,331</u></u>
 LIABILITIES AND NET ASSETS		
LIABILITIES		
Accounts payable and accrued expenses	\$ 19,231,909	\$ 17,070,362
Student deposits and deferred items	3,325,568	2,402,579
Asset retirement obligations	6,429,014	6,286,701
Split interest and annuity obligations	11,032,491	14,606,719
Federal student loan funds repayable	2,329,766	3,526,497
Bonds payable	<u>140,141,661</u>	<u>90,737,721</u>
TOTAL LIABILITIES	<u><u>\$ 182,490,409</u></u>	<u><u>\$ 134,630,579</u></u>
 COMMITMENTS AND CONTINGENCIES		
NET ASSETS		
Without donor restrictions	\$ 155,585,587	\$ 143,745,997
With donor restrictions	<u>402,950,967</u>	<u>395,927,755</u>
TOTAL NET ASSETS	<u><u>\$ 558,536,554</u></u>	<u><u>\$ 539,673,752</u></u>
TOTAL LIABILITIES AND NET ASSETS	<u><u>\$ 741,026,963</u></u>	<u><u>\$ 674,304,331</u></u>

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

BATES COLLEGE

**STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2020**

WITH SUMMARIZED FINANCIAL INFORMATION FOR THE YEAR ENDED JUNE 30, 2019

	2020			2019
	Without Donor Restrictions	With Donor Restrictions	Total	
OPERATING ACTIVITIES				
Revenues and gains				
Single fee revenue (net of scholarship aid of \$37,779,594)	\$ 87,648,976		\$ 87,648,976	\$ 87,719,931
Other educational program revenues	630,726		630,726	741,427
	<u>88,279,702</u>		<u>88,279,702</u>	<u>88,461,358</u>
Contributions and private grants	9,329,687	\$ 4,806,544	14,136,231	9,828,284
Government grants	4,619,837		4,619,837	2,540,414
Endowment return used in accordance with spending policy	1,801,718	12,847,235	14,648,953	13,646,770
Other income	5,882,480	318,956	6,201,436	7,265,241
Net assets released from restrictions	15,532,370	(15,532,370)		
	<u>125,445,794</u>	<u>2,440,365</u>	<u>127,886,159</u>	<u>121,742,067</u>
Expenses				
Educational and general				
Instructional	41,516,605		41,516,605	44,513,298
Research	2,296,234		2,296,234	2,094,432
Academic support	16,751,126		16,751,126	16,064,623
Student services	18,899,610		18,899,610	19,235,206
Institutional support	16,400,913		16,400,913	17,178,894
Total educational and general	<u>95,864,488</u>		<u>95,864,488</u>	<u>99,086,453</u>
Auxiliary enterprises	19,818,287		19,818,287	20,766,423
	<u>115,682,775</u>		<u>115,682,775</u>	<u>119,852,876</u>
CHANGE IN NET ASSETS FROM OPERATING ACTIVITIES	<u>9,763,019</u>	<u>2,440,365</u>	<u>12,203,384</u>	<u>1,889,191</u>
NONOPERATING ACTIVITIES				
Revenues and gains				
Contributions	2,800,000	8,268,637	11,068,637	16,316,604
Total endowment return	962,445	7,152,699	8,115,144	15,010,302
Endowment return used in accordance with spending policy	(1,801,718)	(12,847,235)	(14,648,953)	(13,646,770)
Other investment return including change in value of split interest agreements		2,124,590	2,124,590	1,230,562
Net assets released from restrictions	115,844	(115,844)		
	<u>2,076,571</u>	<u>4,582,847</u>	<u>6,659,418</u>	<u>18,910,698</u>
CHANGE IN NET ASSETS FROM NONOPERATING ACTIVITIES	<u>2,076,571</u>	<u>4,582,847</u>	<u>6,659,418</u>	<u>18,910,698</u>
INCREASE IN NET ASSETS	11,839,590	7,023,212	18,862,802	20,799,889
NET ASSETS - BEGINNING OF YEAR	<u>143,745,997</u>	<u>395,927,755</u>	<u>539,673,752</u>	<u>518,873,863</u>
NET ASSETS - END OF YEAR	<u>\$ 155,585,587</u>	<u>\$ 402,950,967</u>	<u>\$ 558,536,554</u>	<u>\$ 539,673,752</u>

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

BATES COLLEGE

**STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2019**

	Without Donor Restrictions	With Donor Restrictions	Total
OPERATING ACTIVITIES			
Revenues and gains			
Single fee revenue (net of scholarship aid of \$36,123,214)	\$ 87,719,931		\$ 87,719,931
Other educational program revenues	<u>741,427</u>		<u>741,427</u>
	88,461,358		88,461,358
Contributions and private grants	6,420,776	\$ 3,407,508	9,828,284
Government grants	2,540,414		2,540,414
Endowment return used in accordance with spending policy	1,725,479	11,921,291	13,646,770
Other income	6,960,382	304,859	7,265,241
Net assets released from restrictions	<u>15,253,094</u>	<u>(15,253,094)</u>	
	<u>121,361,503</u>	<u>380,564</u>	<u>121,742,067</u>
Expenses			
Educational and general			
Instructional	44,513,298		44,513,298
Research	2,094,432		2,094,432
Academic support	16,064,623		16,064,623
Student services	19,235,206		19,235,206
Institutional support	<u>17,178,894</u>		<u>17,178,894</u>
Total educational and general	99,086,453		99,086,453
Auxiliary enterprises	<u>20,766,423</u>		<u>20,766,423</u>
	<u>119,852,876</u>		<u>119,852,876</u>
CHANGE IN NET ASSETS FROM OPERATING ACTIVITIES	<u>1,508,627</u>	<u>380,564</u>	<u>1,889,191</u>
NONOPERATING ACTIVITIES			
Revenues and gains			
Contributions	355,000	15,961,604	16,316,604
Total endowment return	1,831,065	13,179,237	15,010,302
Endowment return used in accordance with spending policy	(1,725,479)	(11,921,291)	(13,646,770)
Other investment return including change in value of split interest agreements		1,230,562	1,230,562
Net assets released from restrictions	<u>3,621,560</u>	<u>(3,621,560)</u>	
CHANGE IN NET ASSETS FROM NONOPERATING ACTIVITIES	<u>4,082,146</u>	<u>14,828,552</u>	<u>18,910,698</u>
INCREASE IN NET ASSETS	5,590,773	15,209,116	20,799,889
NET ASSETS - BEGINNING OF YEAR	<u>138,155,224</u>	<u>380,718,639</u>	<u>518,873,863</u>
NET ASSETS - END OF YEAR	<u>\$ 143,745,997</u>	<u>\$ 395,927,755</u>	<u>\$ 539,673,752</u>

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

BATES COLLEGE

**STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2020 and 2019**

	2020	2019
Cash flows from operating activities:		
Increase in net assets	\$ 18,862,802	\$ 20,799,889
Adjustments to reconcile the change in net assets to net cash provided by operating activities:		
Depreciation	8,124,057	7,906,150
Asset retirement accretion, net of abatements	142,313	184,877
Amortization of bond origination costs and bond premiums	(41,700)	(584)
Net unrealized and realized gains on investments	(6,809,557)	(11,158,339)
Other investment return including change in value of split-interest agreements	(2,124,590)	(1,230,562)
Contributions received for endowment or other long-term uses	(8,266,519)	(5,507,310)
Contributions received from gifts of securities for operating purposes	(412,152)	(522,179)
Proceeds from sale of gifts of securities for operating purposes	412,152	522,179
(Increase) decrease in operating assets:		
Accounts receivable	(760,829)	(322,146)
Inventories and prepaid expenses	181,456	(290,241)
Contributions receivable from current year pledges	(2,802,118)	(10,809,294)
Increase (decrease) in operating liabilities:		
Accounts payable and accrued expenses	(949,256)	1,758,143
Student deposits and deferred items	922,989	(453,542)
Total adjustments	<u>(12,383,754)</u>	<u>(19,922,848)</u>
Net cash provided by operating activities	<u>6,479,048</u>	<u>877,041</u>
Cash flows from investing activities:		
Purchases of plant and equipment	(19,634,104)	(15,206,940)
Purchases of investments	(112,013,350)	(93,834,030)
Proceeds from sales and maturities of investments	101,431,585	93,318,164
Repayments of loans from students	669,958	908,463
(Increase) decrease in deposits with bond trustees	(50,610,408)	3,550,998
Use of bond proceeds deposited with trustees	11,276,542	44,809
Net cash used in investing activities	<u>(68,879,777)</u>	<u>(11,218,536)</u>
Cash flows from financing activities:		
Repayments of principal on bonds payable	(315,444)	(3,731,163)
Proceeds from issuance of bonds	50,000,000	
Bond origination costs	(238,916)	
Cash contributions received for endowment or other long-term purposes	6,255,251	4,207,432
Proceeds from gifts of securities for long-term purposes	3,796,991	4,933,790
Cash received on contributions receivable for long-term purposes	10,295,633	9,295,691
Earnings (payments) of refundable loan funds	(1,196,731)	40,305
Net cash provided by financing activities	<u>68,596,784</u>	<u>14,746,055</u>
Net increase in cash and cash equivalents	6,196,055	4,404,560
Cash and cash equivalents at beginning of year	<u>11,556,306</u>	<u>7,151,746</u>
Cash and cash equivalents at end of year	<u>\$ 17,752,361</u>	<u>\$ 11,556,306</u>
Supplemental data		
Contributions of securities and other noncash assets	\$ 4,209,144	\$ 5,455,970
Accrued construction costs	5,803,413	2,692,610
Interest paid including amounts capitalized in fiscal year 2020	5,009,872	4,286,544
Non-cash refinancing of bonds payable	10,325,000	

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 from across the United States of America and internationally. The College is accredited by the New England Commission of Higher Education, Inc.

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.

Classification of Activities and Net Assets

The College displays its activities and net assets based on two classes of net assets: without donor restrictions and with donor restrictions. These classes are defined as follows:

Without Donor Restrictions - This classification includes all net assets that are not subject to donor-imposed restrictions. All operating expenses are reported as decreases in net assets without donor restriction since the use of restricted contributions require the release of restriction. Revenues with donor-imposed restrictions that are met within the same reporting period are reported as net assets without donor restrictions. This classification includes land, buildings and equipment, and designations by the Board of Trustees of net assets for endowment.

With Donor Restrictions - This classification includes net assets subject to donor-imposed stipulations or legal restrictions that specify their use for specific purposes that may or will be met either by actions of the College or the passage of time. This classification also includes net assets subject to donor-imposed stipulations that they be maintained permanently by the College. Donor-imposed restrictions that are temporary in nature include gifts for capital projects, split interest and annuity obligations, and contributions receivable and totaled \$158,822,577 and \$155,748,862 as of June 30, 2020 and 2019, respectively. Donor-imposed restrictions that are perpetual in nature include endowment funds, beneficial interest in perpetual trusts, and split interest and annuity obligations and contributions receivable that, upon receipt or maturity, will be added to the endowment. Net assets with perpetual donor-imposed restrictions totaled \$244,128,390 and \$240,178,893 as of June 30, 2020 and 2019, respectively.

Revenues are reported as increases in net assets without donor restrictions unless use of the related assets is limited by donor-imposed restrictions. Expenses are reported as decreases in net assets without donor restrictions. Realized and unrealized gains and losses on investments and other assets or liabilities are reported as increases or decreases in net assets without donor restrictions 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 net assets with donor restrictions. When a qualifying expenditure occurs or a time restriction expires, net assets with donor restrictions are recognized as released from restrictions in the statement of activities and included in net assets without donor restrictions.

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, 2020 and 2019 included \$768,219 and \$1,503,121, 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.

BATES COLLEGE

NOTES TO FINANCIAL STATEMENTS

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

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. Contributions receivable include a concentration of an unconditional promise to give from a single donor at June 30, 2020 and 2019, respectively.

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 fair value measurement standards also provide for a practical expedient of fair value allowing for the use of net asset value (NAV) per share when certain requirements are met.

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 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, 2020 and 2019 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, 2020, 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 that 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, including 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, 2020 and 2019, respectively. It is also possible that redemption rights may be restricted or eliminated by investment managers in the future in accordance with the underlying fund agreements.

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 2.3% to 8% at June 30, 2020 and 3.2% to 8% at June 30, 2019.

Assets for split interest agreements included in investments were \$18,349,226 and \$27,289,466 for the years ended June 30, 2020 and 2019, respectively. Assets held by outside trustees 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 consist principally of a commercial money market account and investments in United States Government obligations valued at cost, and have been deposited with Trustees as required under certain loan agreements. Amounts at June 30, 2020 and 2019 consist of \$2,957,841 and \$2,347,528, respectively, for debt service; and \$38,723,553 for construction as of June 30, 2020.

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 College's endowment represents part of the investment portfolio and consists of over 1,300 individually named funds that 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 net assets with donor restrictions: (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 net assets with donor restrictions 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 \$14,648,953 and \$13,646,770 for fiscal years 2020 and 2019, respectively, were 4.44% and 4.32% 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 contributions and 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.

Single Fee Revenue

Single fee revenue is recognized in the fiscal year for which educational services are provided; the relevant cycles of educational services are aligned to be fully provided within each fiscal year. Tuition discounts in the form of scholarships and financial aid grants are reported as a reduction of single fee revenue. Students may withdraw from programs of study within certain time limits under the College's refund policy by semester. The refund policy allows for up to a 100% refund prior to the start of classes declining to no refund after 50 days from the start of classes.

Contributions and Private Grants

Contributions, including unconditional promises to give, are recognized as revenues in the period in which they are unconditionally committed. Contributions with donor-imposed restrictions that are not met in the same year as received are reported as net assets with donor restrictions and are reclassified to net assets without donor restrictions when the donor-imposed restrictions are satisfied. Conditional promises to give are not recognized until the conditions are substantially met. Conditions can include items such as incurring specified allowable expenses in accordance with a framework of allowable costs, meeting a matching provision, or other performance-related barriers.

BATES COLLEGE

NOTES TO FINANCIAL STATEMENTS

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Government Grants

Revenues associated with federal and state government grants and contracts are considered conditional contributions with measurable performance-related barriers and 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 27, 2020, the date the financial statements were made available, and determined that there have been no subsequent events for the period after June 30, 2020 that would require recognition in the financial statements or disclosure in the notes of the financial statements other than the issuance of bonds payable included in Note 7.

NOTE 2 - LIQUIDITY AND AVAILABILITY

As of June 30, 2020 and 2019, the College's financial assets and liquidity resources available within one year for general expenditures, such as operating expenses, scheduled interest and principal payments on debt, capital construction costs not financed by debt, and programs supported by donor restricted funds were as follows:

	<u>2020</u>	<u>2019</u>
Financial assets:		
Cash and cash equivalents, net of restricted cash	\$ 16,984,142	\$ 10,053,185
Accounts receivable, net	2,796,019	2,035,190
Contributions receivable for operations and constructions costs	5,746,861	5,028,784
Investments available for general expenditures	22,383,238	17,482,896
Deposits with bond trustees	2,957,841	2,347,528
Board designations:		
Subsequent year's endowment return in accordance with spending policy	15,870,248	14,648,953
Financial assets available for general expenditures within one year	<u>66,738,349</u>	<u>51,596,536</u>
Liquidity resources:		
Line of credit (Note 6)	15,000,000	5,000,000
Total financial assets and liquidity resources available within one year	<u>\$ 81,738,349</u>	<u>\$ 56,596,536</u>

The College's cash flows have seasonal variations during the year attributable to tuition billing and a concentration of contributions received at calendar and fiscal year-end. The College regularly monitors liquidity required to meet its operating needs and other contractual commitments, while also striving to maximize the investment of its available funds.

BATES COLLEGE

NOTES TO FINANCIAL STATEMENTS

NOTE 2 - LIQUIDITY AND AVAILABILITY - CONTINUED

In addition to financial assets available to meet general expenditures within one year, the College operates a balanced budget and anticipates collecting sufficient revenue to cover general expenditures. The College's endowment funds consist of donor restricted funds and board designated funds functioning as endowment. The College's funds functioning as endowment as of June 30, 2020 and 2019 totaled \$41,470,240 and \$39,509,513, respectively. Although the College does not intend to spend from its funds functioning as endowment other than amounts distributed in accordance with the spending policy of approximately \$1.9 million and \$1.8 million for the years ended June 30, 2020 and 2019, respectively, included above, the remaining amount of funds functioning as endowment could be made available with Board approval.

NOTE 3 - CONTRIBUTIONS RECEIVABLE

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

	2020	2019
Capital	\$ 36,538,000	\$ 40,070,000
Endowment	17,443,691	25,469,102
Other	6,517,611	5,585,417
Unconditional promises to give before unamortized discount and allowance for uncollectibles	60,499,302	71,124,519
Less: Unamortized discount	5,298,131	6,931,646
	55,201,171	64,192,873
Less: Allowance for uncollectibles	1,476,703	1,189,167
Contributions receivable, net	\$ 53,724,468	\$ 63,003,706
Amounts due in:		
Less than one year	\$ 21,622,895	\$ 18,213,056
One to five years	27,376,407	36,911,463
Six to ten years	11,500,000	16,000,000
	\$ 60,499,302	\$ 71,124,519

Discount rates on unconditional promises to give ranged from 2.2% to 3.6% at June 30, 2020 and from 2.4% to 3.6% at June 30, 2019. Conditional promises to give at June 30, 2020 and 2019 were \$10,156,438 and \$7,972,865 from federal grants and contracts, respectively. Net pledges receivable that, upon fulfillment, are required to be added to the endowment to be maintained in perpetuity were \$16,253,941 and \$23,745,840 as of June 30, 2020 and 2019, respectively.

BATES COLLEGE

NOTES TO FINANCIAL STATEMENTS

NOTE 4 - INVESTMENTS

Fair value of investments and other items as of June 30, 2020 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>
Investments					
Cash and cash equivalents	\$ 13,201,376	\$ 13,201,376	\$ -	\$ -	\$ -
Equity securities and funds	133,975,897	53,358,374			80,617,523
Venture capital partnerships	22,816,692				22,816,692
Private equity partnerships	32,727,840				32,727,840
Hedge funds	110,581,784				110,581,784
Fixed income securities and funds	71,952,123	71,952,123			
Real estate and real estate funds	9,679,765	2,550,822			7,128,943
Commodity and other funds	4,490,055				4,490,055
Investment total	399,425,532	141,062,695			258,362,837
Other assets					
Beneficial interest in perpetual trusts	6,070,396			6,070,396	
Contributions receivable from remainder trusts	7,853,159			7,853,159	
Total assets at fair value	\$ 413,349,087	\$ 141,062,695	\$ -	\$ 13,923,555	\$ 258,362,837

Fair value of investments and other items as of June 30, 2019 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>
Investments					
Cash and cash equivalents	\$ 10,744,346	\$ 10,744,346	\$ -	\$ -	\$ -
Equity securities and funds	147,202,762	62,619,879			84,582,883
Venture capital partnerships	14,330,739				14,330,739
Private equity partnerships	27,617,286				27,617,286
Hedge funds	108,434,673				108,434,673
Fixed income securities and funds	61,060,569	61,060,569			
Real estate and real estate funds	8,794,229	3,788,160			5,006,069
Commodity and other funds	5,397,859				5,397,859
Investment total	383,582,463	138,212,954			245,369,509
Other assets					
Beneficial interest in perpetual trusts	6,094,146			6,094,146	
Contributions receivable from remainder trusts	7,730,794			7,730,794	
Total assets at fair value	\$ 397,407,403	\$ 138,212,954	\$ -	\$ 13,824,940	\$ 245,369,509

BATES COLLEGE

NOTES TO FINANCIAL STATEMENTS

NOTE 4 - 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, 2019	Realized/Unrealized Gains/(Losses)	Purchases	Sales	Value at June 30, 2020
Beneficial interest in perpetual trusts	\$ 6,094,146	\$ (23,750)	\$ -	\$ -	\$ 6,070,396
Contributions receivable from remainder trusts	7,730,794	122,365			7,853,159
Total assets classified as level 3	<u>\$ 13,824,940</u>	<u>\$ 98,615</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 13,923,555</u>

	Value at June 30, 2018	Realized/Unrealized Gains/(Losses)	Purchases	Sales	Value at June 30, 2019
Beneficial interest in perpetual trusts	\$ 6,118,571	\$ (24,425)	\$ -	\$ -	\$ 6,094,146
Contributions receivable from remainder trusts	7,149,501	548,384	32,909		7,730,794
Total assets classified as level 3	<u>\$ 13,268,072</u>	<u>\$ 523,959</u>	<u>\$ 32,909</u>	<u>\$ -</u>	<u>\$ 13,824,940</u>

There were no transfers between levels during 2020 and 2019, respectively.

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

	2020	2019
Monthly	\$ -	\$ 10,874,199
Quarterly	34,616,191	33,205,583
Semi-Annually	25,041,884	22,902,931
Annually & Biannually	60,321,188	76,255,690
1 - 5 years	58,764,084	39,479,121
6 - 10 years and thereafter	79,619,490	62,651,985
	<u>\$ 258,362,837</u>	<u>\$ 245,369,509</u>

BATES COLLEGE

NOTES TO FINANCIAL STATEMENTS

NOTE 4 - INVESTMENTS - CONTINUED

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 \$56 million and \$55 million at June 30, 2020 and 2019, respectively.

NOTE 5 - LAND, BUILDINGS AND EQUIPMENT

Land, buildings and equipment consist of the following at June 30:

	2020	2019
Land and improvements	\$ 5,401,297	\$ 5,346,377
Buildings	275,545,554	271,464,311
Equipment	22,072,052	19,940,253
Construction in progress	26,533,729	10,127,418
	<u>329,552,632</u>	<u>306,878,359</u>
Less: Accumulated depreciation	122,436,149	114,382,726
	<u>\$ 207,116,483</u>	<u>\$ 192,495,633</u>

NOTE 6 - LINE OF CREDIT

The College has a \$15,000,000 unsecured line of credit with interest at monthly LIBOR plus 1.40% with a minimum floor of 1.75% renewable on March 31, 2021. At June 30, 2020 and 2019, there was no balance outstanding on this line and there were no draws during fiscal years 2020 and 2019. The College intends to renew this line of credit on similar terms prior to its expiration.

NOTE 7 - BONDS PAYABLE

The College has a number of bonds outstanding with maturities at various dates through 2043. All bonds carry fixed rates ranging from 1.89% to 5% 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 following is a summary of bonds outstanding at June 30, 2020 and 2019, respectively, net of unamortized premiums and issuance costs:

Series	Rate	Due	Par Value	2020 Bonds Payable, net	2019 Bonds Payable, net
Obligations to Maine Health and Higher Educational Facilities Authority (MHHEFA):					
2010A Revenue Bonds	4.0% - 5.25%	2019 - 2040	\$ 11,535,000	\$ -	\$ 10,651,371
2013 Revenue Bonds, Bates College Issue	3.125% - 5%	2023 - 2043	52,990,000	53,126,696	53,142,094
2015 Revenue Bonds, Bates College Issue	3% - 5%	2020 - 2036	26,790,000	26,915,608	26,944,256
2019 Revenue Bonds, Bates College Issue	1.89%	2020 - 2029	50,000,000	49,844,983	
2020 Revenue Bonds, Bates College Issue	2.00%	2020 - 2040	10,325,000	10,254,374	
				<u>\$ 140,141,661</u>	<u>\$ 90,737,721</u>

Total interest expense was \$4,162,288 and \$4,150,844 for the years ended June 30, 2020 and 2019 respectively.

BATES COLLEGE

NOTES TO FINANCIAL STATEMENTS

NOTE 7 - BONDS PAYABLE - CONTINUED

The approximate maturities of these bonds are as follows at June 30, 2020:

2021	\$ 1,150,000
2022	1,609,000
2023	1,663,000
2024	6,627,000
2025	6,730,000
Thereafter	122,326,000
Unamortized original issue premiums and costs of issuance, net	<u>36,661</u>
Total	<u><u>\$ 140,141,661</u></u>

On September 30, 2020, as part of the College's liquidity planning during the COVID-19 pandemic, the College issued \$18 million of Senior Secured Notes as taxable debt and committed to a second tranche of \$18 million of Senior Secured Notes that will close on August 31, 2021. Proceeds not used for short term liquidity needs will be applied to capital construction and bond redemptions when callable.

NOTE 8 - NET ASSETS

Net assets at year end are composed of the following general classes of uses or purposes:

	2020		2019	
	Without Donor Restrictions	With Donor Restrictions	Without Donor Restrictions	With Donor Restrictions
Undesignated and reserves	\$ 19,723,994		\$ 11,603,078	
Net investment in land, buildings and equipment	94,391,353		92,633,406	
Endowment, income to support				
Scholarships	4,429,359	\$ 138,613,575	4,525,491	\$ 131,398,937
Professorships	111,625	50,605,816	114,048	50,695,370
Library and other academic support	5,991,723	14,285,640	6,121,764	14,563,397
Other purposes	6,770,437	33,078,954	4,056,608	30,673,523
Any operation of the College	24,167,096	63,532,821	24,691,602	62,882,048
Contributions receivable		53,724,468		63,003,706
Beneficial interest in perpetual trusts		6,070,396		6,094,146
Life income funds		15,148,584		20,392,534
Capital and other purposes		27,890,713		16,224,094
	<u>\$ 155,585,587</u>	<u>\$ 402,950,967</u>	<u>\$ 143,745,997</u>	<u>\$ 395,927,755</u>

Endowment funds with donor restrictions include donor gifts and donor required additions to be maintained in perpetuity of \$209,199,299 and \$193,143,962 as of June 30, 2020 and 2019, respectively. Life income funds that, upon maturity, are required to be added to the endowment to be maintained in perpetuity were \$12,604,754 and \$17,194,945 as of June 30, 2020 and 2019, respectively.

Changes in endowment net assets:

	Without Donor Restrictions	With Donor Restrictions	Total
Endowment net assets, June 30, 2019	\$ 39,509,513	\$ 290,213,275	\$ 329,722,788
Investment income	158,504	1,147,083	1,305,587
Net realized and unrealized gains	803,941	6,005,616	6,809,557
Gifts and maturities	2,800,000	15,598,067	18,398,067
Endowment return used in accordance with spending policy	<u>(1,801,718)</u>	<u>(12,847,235)</u>	<u>(14,648,953)</u>
Endowment net assets, June 30, 2020	<u>\$ 41,470,240</u>	<u>\$ 300,116,806</u>	<u>\$ 341,587,046</u>

BATES COLLEGE

NOTES TO FINANCIAL STATEMENTS

NOTE 8 - NET ASSETS - CONTINUED

	Without Donor Restrictions	With Donor Restrictions	Total
Endowment net assets, June 30, 2018	\$ 39,403,927	\$ 276,175,075	\$ 315,579,002
Investment income	461,465	3,390,498	3,851,963
Net realized and unrealized gains	1,369,600	9,788,739	11,158,339
Gifts and maturities		12,780,254	12,780,254
Endowment return used in accordance with spending policy	(1,725,479)	(11,921,291)	(13,646,770)
Endowment net assets, June 30, 2019	<u>\$ 39,509,513</u>	<u>\$ 290,213,275</u>	<u>\$ 329,722,788</u>

The Maine UPMIFA does not preclude the College from spending below the original gift value, plus donor required additions, of endowment with donor restrictions. From time to time, individual endowment funds may temporarily have a fair value that is less than the original gift value, plus donor required additions, that are required to be maintained in perpetuity. Deficiencies of this nature are in net assets with donor restrictions.

As of June 30, 2020, funds that were below their individual perpetual fund balance of \$45,295,273 had accumulated losses of \$1,195,132 and a total fair value of \$44,100,141. As of June 30, 2019, funds that were below their individual perpetual fund balance of \$13,206,050 had accumulated losses of \$510,555 and a total fair value of \$12,695,495. These losses resulted from unfavorable market fluctuations that occurred shortly after the investment of newly established endowments, and authorized spending in accordance with UPMIFA and the endowment spending policy.

NOTE 9 - FUNCTIONAL EXPENSES

The College's primary program service is academic instruction and research. Expenses reported as academic and student services are incurred in support of this primary program activity. Natural expenses attributable to more than one functional expense category including depreciation, interest expense, and plant operation and maintenance are allocated using cost allocation techniques including square footage, time and effort, and specific identification.

	Academic instruction and research	Institutional support	Auxiliary enterprises	Total
For the year ended June 30, 2020, functional expenses within operating activities consisted of the following:				
Salaries and wages	\$ 46,073,396	\$ 9,639,382	\$ 3,851,261	\$ 59,564,039
Employee benefits	14,474,424	2,863,026	1,237,820	18,575,270
Depreciation	4,784,334	178,729	3,160,994	8,124,057
Interest	696,777	674	3,464,837	4,162,288
Supplies, services and other	13,434,644	3,719,102	8,103,375	25,257,121
	<u>\$ 79,463,575</u>	<u>\$ 16,400,913</u>	<u>\$ 19,818,287</u>	<u>\$ 115,682,775</u>

For the year ended June 30, 2019, functional expenses within operating activities consisted of the following:

Operating activities:				
Salaries and wages	\$ 45,711,283	\$ 9,564,204	\$ 3,954,174	\$ 59,229,661
Employee benefits	14,610,874	2,959,503	1,240,200	18,810,577
Depreciation	4,663,875	232,101	3,010,174	7,906,150
Interest	660,194	25,812	3,464,838	4,150,844
Supplies, services and other	16,261,333	4,397,274	9,097,037	29,755,644
	<u>\$ 81,907,559</u>	<u>\$ 17,178,894</u>	<u>\$ 20,766,423</u>	<u>\$ 119,852,876</u>

BATES COLLEGE

NOTES TO FINANCIAL STATEMENTS

NOTE 10 - 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 2020 and 2019. 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.

The College's contributions to these plans were \$5,708,659 and \$5,421,893 for the years ended June 30, 2020 and 2019, respectively. In response to COVID-19, the College has suspended its contributions to these plans for fiscal year 2021.

Additionally, certain highly paid employees are eligible to participate in the College's Supplemental Savings Plan and Deferred Compensation Plan. Contributions to the Supplemental Savings 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 \$463,932 and \$1,232,394 for the years ended June 30, 2020 and 2019, respectively.

NOTE 11 - COMMITMENTS, CONTINGENCIES, RISKS AND UNCERTAINTIES

Commitments for Construction

The College has entered into contracts for capital construction projects with a combined total balance of approximately \$27,724,000 and \$44,367,000 at June 30, 2020 and 2019, 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.

Risks and Uncertainties

In March 2020, the College transitioned students to remote learning during the COVID-19 global pandemic. For these students, the College provided a refund for room and board without modification of financial aid award reflecting the prorated amount of room and board for the remainder of the winter semester. These credits of \$3.2 million are included in net single fee revenue. The Coronavirus Aid, Relief, and Economic Security (CARES) Act was enacted into law as a \$2 trillion national economic rescue package, with approximately \$14 billion of the overall funding reserved for students and higher education institutions through the Higher Education Emergency Relief Fund (HEERF). The College was eligible for a total of \$476,758 for Emergency Financial Aid Grants to students, issued as additional payments to eligible students, with an equal amount for institutional support.

The COVID-19 pandemic is having significant effects on higher education, businesses, and communities around the world. COVID-19 may also impact the College's fiscal year 2021 operations and financial results, including, but not limited to fluctuations in enrollment, loss of room and board and other auxiliary revenues, and cost increases in testing, technology, public health investments, and cleaning. Management believes the College is taking reasonable and appropriate actions to mitigate the negative impact. However, the full impact and duration of the COVID-19 pandemic is unknown and continues to unfold.