



BOWDOIN COLLEGE

Financial Statements

June 30, 2011 and 2010

(With Independent Auditors' Report Thereon)



KPMG LLP
Two Financial Center
60 South Street
Boston, MA 02111

Independent Auditors' Report

The Board of Trustees
Bowdoin College:

We have audited the accompanying statement of financial position of Bowdoin College (the College) as of June 30, 2011, and the related statements of activities and cash flows for the year then ended. These financial statements are the responsibility of the College's management. Our responsibility is to express an opinion on these financial statements based on our audit. The 2010 summarized financial information has been derived from the College's 2010 financial statements, which were audited by other auditors whose report thereon dated October 1, 2010, expressed an unqualified opinion on those statements.

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 of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the College's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the 2011 financial statements referred to above present fairly, in all material respects, the financial position of Bowdoin College as of June 30, 2011, and the changes in its net assets and its cash flows for the year then ended in conformity with U.S. generally accepted accounting principles.

KPMG LLP

October 14, 2011

BOWDOIN COLLEGE

Statement of Financial Position

June 30, 2011

(with summarized information as of June 30, 2010)

(In thousands)

Assets	2011	2010
Cash and cash equivalents	\$ 5,390	6,481
Student and other receivables	2,557	2,699
Other assets	4,495	4,412
Contributions receivable	16,213	21,253
Student loans receivable	6,454	7,062
Investments	991,288	826,100
Beneficial interest in trusts	15,758	13,582
Funds held by trustee	4,044	6,886
Property and equipment, net	247,974	251,617
Total assets	\$ 1,294,173	1,140,092
Liabilities and Net Assets		
Accounts payable and accrued liabilities	\$ 21,267	20,259
Split-interest obligations	13,603	12,022
Liability for postretirement benefits	11,760	10,840
U.S. government loan advances	4,208	4,208
Bonds and notes payable	152,191	145,444
Total liabilities	203,029	192,773
Unrestricted	166,058	171,876
Temporarily restricted	520,998	395,453
Permanently restricted	404,088	379,990
Total net assets	1,091,144	947,319
Total liabilities and net assets	\$ 1,294,173	1,140,092

See accompanying notes to financial statements.

BOWDOIN COLLEGE
Statement of Activities
June 30, 2011
(with summarized information for 2010)
(In thousands)

	<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Permanently restricted</u>	<u>2011 Total</u>	<u>2010 Total</u>
Operating activity:					
Revenue:					
Tuition and fees	\$ 73,111	—	—	73,111	69,870
Room and board	18,653	—	—	18,653	17,880
Gross tuition and fees	91,764	—	—	91,764	87,750
Less scholarships	(26,334)	—	—	(26,334)	(23,920)
Net student charges	65,430	—	—	65,430	63,830
Auxiliary enterprises	4,873	—	—	4,873	5,098
Contributions	12,363	—	—	12,363	10,994
Endowment return appropriated	7,704	—	—	7,704	7,580
Other investment income	609	—	—	609	1,664
Government grants and contracts	535	—	—	535	543
Other income	1,902	—	—	1,902	1,938
Net assets released from restrictions	35,863	—	—	35,863	33,919
Total operating revenue	129,279	—	—	129,279	125,566
Expenses:					
Instruction	44,057	—	—	44,057	41,314
Research	2,449	—	—	2,449	2,451
Academic support	17,251	—	—	17,251	15,774
Student services	21,864	—	—	21,864	20,961
Institutional support	19,325	—	—	19,325	18,511
Auxiliary enterprises	23,469	—	—	23,469	23,230
Total operating expenses	128,415	—	—	128,415	122,241
Increase in net assets from operating activity	864	—	—	864	3,325
Nonoperating activity:					
Contributions	—	5,635	7,313	12,948	18,187
Investment return (net of endowment return appropriated)	10,213	116,402	2,382	128,997	34,715
Endowment return appropriated	—	30,327	—	30,327	29,906
Government grants and contracts	—	2,697	—	2,697	2,385
Other income	460	542	92	1,094	998
Loss on disposal of property and equipment	(127)	—	—	(127)	(971)
Other changes	47	695	2,146	2,888	(1,694)
Net assets released from restrictions	1,662	(37,787)	262	(35,863)	(33,919)
Transfers between restrictions	(18,937)	7,034	11,903	—	—
Increase (decrease) in net assets from nonoperating activity	(6,682)	125,545	24,098	142,961	49,607
Total change in net assets	(5,818)	125,545	24,098	143,825	52,932
Net assets, beginning of year	171,876	395,453	379,990	947,319	894,387
Net assets, end of year	\$ 166,058	520,998	404,088	1,091,144	947,319

See accompanying notes to financial statements.

BOWDOIN COLLEGE

Statement of Cash Flows

June 30, 2011

(with summarized information for 2010)

(In thousands)

	<u>2011</u>	<u>2010</u>
Cash flows from operating activities:		
Change in net assets	\$ 143,825	52,932
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Depreciation and amortization	10,249	10,163
Loss on disposal of property and equipment	127	971
Gifts of securities	(2,660)	(9,190)
Net realized and unrealized gains on investments and trusts	(164,108)	(69,939)
Change in contributions receivable, net	5,040	11,239
Contributions for endowment and other long-term purposes	(8,420)	(22,927)
Change in other assets, net	42	(244)
Change in other liabilities, net	4,756	6,821
Net cash used in operating activities	<u>(11,149)</u>	<u>(20,174)</u>
Cash flows from investing activities:		
Purchases of investments	(400,334)	(362,933)
Sales of investments	399,740	375,380
Additions to land, buildings and equipment, net	(7,146)	(10,533)
Decrease (increase) in funds held by trustee for plant purposes	2,842	(451)
Changes in student loans receivable, net	609	579
Net cash (used in) provided by investing activities	<u>(4,289)</u>	<u>2,042</u>
Cash flows from financing activities:		
Borrowings on notes payable	14,685	7,318
Repayments on notes payable	(8,016)	(10,906)
Cash paid for settlements under interest rate swap	(742)	(739)
Cash received on contributions and contributions receivable for endowment and other long-term purposes	8,420	22,927
Bond issuance costs	—	21
Net cash provided by financing activities	<u>14,347</u>	<u>18,621</u>
Net (decrease) increase in cash and cash equivalents	(1,091)	489
Cash and cash equivalents, beginning of year	<u>6,481</u>	<u>5,992</u>
Cash and cash equivalents, end of year	<u>\$ 5,390</u>	<u>6,481</u>

See accompanying notes to financial statements.

BOWDOIN COLLEGE

Notes to Financial Statements

June 30, 2011

(with summarized information for 2010)

(1) Summary of Significant Accounting Policies

Organization

Bowdoin College is a private co-educational nonsectarian institution located in Brunswick, Maine. Founded in 1794, Bowdoin College was part of the Commonwealth of Massachusetts until Maine achieved statehood in 1820. Accredited by the New England Association of Schools and Colleges, Bowdoin is the oldest college in Maine and has educated many prominent figures including authors Nathaniel Hawthorne and Henry Wadsworth Longfellow; the 14th U.S. President Franklin Pierce; and Civil War General Joshua Lawrence Chamberlain. During the fiscal year ended June 30, 2011, Bowdoin enrolled 1,761 students, not including 116 students who studied off campus.

Basis of Presentation

The College's financial statements have been prepared in accordance with U.S. generally accepted accounting principles (GAAP) on the accrual basis of accounting.

The financial statements include certain prior-year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with GAAP. Accordingly, such information should be read in conjunction with the College's financial statements for the year ended June 30, 2010, from which the summarized information was derived.

Statement of Financial Position

Net Assets

The financial statements have been prepared to focus on the College as a whole and to present balances and transactions according to the existence or absence of donor-imposed restrictions. The College has classified its net assets as follows:

Permanently Restricted Net Assets

Contain donor-imposed stipulations that neither expire with the passage of time nor can be fulfilled or otherwise removed by actions of the College and primarily consist of the corpus of donor-restricted endowment funds.

Temporarily Restricted Net Assets

Contain donor-imposed stipulations as to the timing of their availability or use for a particular purpose. These net assets are released from restrictions when the specified time elapses or actions have been taken to meet the restrictions. As further described in note 3, the College is subject to the Maine Uniform Prudent Management of Institutional Funds Act (UPMIFA), under which donor-restricted endowment funds may be appropriated for expenditure by the Board of Trustees of the College in accordance with the standard of prudence prescribed by UPMIFA. Net assets of such funds in excess of their historic dollar value are classified as temporarily restricted net assets until appropriated by the Board and spent in accordance with the standard of prudence imposed by UPMIFA.

Unrestricted Net Assets

Contain no donor-imposed restrictions and are available for the general operations of the College. Such net assets may be designated by the College for specific purposes, including to function as endowment funds.

BOWDOIN COLLEGE

Notes to Financial Statements

June 30, 2011

(with summarized information for 2010)

Cash and Cash Equivalents

For purposes of the statement of cash flows, cash equivalents, except for those held for investment, consist of money market funds and investments with original maturities of three months or less and are carried at cost, which approximates fair value.

Fair Value Measurements

Investments, beneficial interest in trusts, funds held by trustee, and swaps are reported at fair value in the College's financial statements. Fair value represents the price that would be received upon the sale of an asset or paid upon the transfer of a liability in an orderly transaction between market participants as of the measurement date. GAAP establishes a fair value hierarchy that prioritizes inputs used to measure fair value into three levels:

- Level 1 – quoted prices (unadjusted) in active markets that are accessible at the measurement date for assets or liabilities;
- Level 2 – observable prices that are based on inputs not quoted in active markets, but corroborated by market data; and
- Level 3 – unobservable inputs that are used when little or no market data is available.

The fair value hierarchy gives the highest priority to Level 1 inputs and the lowest priority to Level 3 inputs. In determining fair value, the College utilizes valuation techniques that maximize the use of observable inputs and minimize the use of unobservable inputs to the extent possible.

Most of the College's investments are held through limited partnerships and other funds for which fair value is estimated using net asset values (NAV) reported by fund managers as a practical expedient. For such investments, GAAP requires that classification within the fair value hierarchy be based on the College's ability to timely redeem its interest rather than on inputs used. See note 3 for further discussion.

Contributions Receivable

Contributions receivable, excluding outside trusts held by third parties, expected to be collected within one year are recorded at their net realizable value. Those expected to be collected in future years are recorded at the present value of estimated future cash flows. The present value of estimated future cash flows has been measured at the time of the contribution using rates indicative of the market and credit risk associated with the contribution.

Split Interest Agreements

The College is party to various split interest agreements including charitable trusts, charitable gift annuities and pooled life income funds. Assets held in pooled life income funds and charitable gift annuities are presented as Investments at the estimated fair value of the underlying assets.

Charitable trusts under which the College serves as trustee and perpetual trusts are reported as Beneficial interest in trusts at the estimated fair value of the College's share of the underlying assets. The present value of estimated future payments to beneficiaries is reported as a liability in the statement of financial position. Inputs used to estimate the fair value of the College's beneficial interest in perpetual trusts are considered unobservable and are categorized as Level 3.

BOWDOIN COLLEGE

Notes to Financial Statements

June 30, 2011

(with summarized information for 2010)

Charitable trusts under which an outside party serves as trustee are included in Contributions receivable at the estimated fair value of the College's share of the underlying assets net of the present value of estimated future payments to beneficiaries. Inputs used to value the College's interest in these trusts are considered unobservable and are categorized as Level 3.

Donor contributions to split interest agreements are reported as Contributions in the nonoperating section of the statement of activities in the year the gift is made. Subsequent changes in value are included in Other changes in the statement of activities. Discount rates used to calculate the present value of estimated future payments to beneficiaries range from 3.8% to 7.0%.

Interest Rate Swap Agreements

Interest rate swaps are valued at the present value of the series of net cash flows resulting from the exchange of fixed-rate payments for floating rate payments over the remaining life of the contract. Each floating rate payment is calculated based on forward market rates at the valuation date for each respective payment. Because the inputs used to value the contract can generally be corroborated by market data, the instrument is categorized in Level 2 of the fair value hierarchy.

Bonds Payable

Certain items related to the issuance of debt, such as accounting, legal and underwriting fees, as well as original issue discounts, are capitalized and amortized over the lives of the respective debt issues.

Property and Equipment

Land, buildings, fixtures, and equipment are stated at cost, or estimated fair value at date of donation in the case of gifts.

Depreciation expense is computed on a straight-line basis over the estimated useful lives of the assets, which are as follows:

	Estimated useful lives
Land improvements	20 – 25
Buildings and building improvements	25 – 60
Furnishings and fixtures	5 – 15
Instructional and computer equipment	3 – 15
Vehicles and machinery	5 – 15
Operational equipment	3 – 15

The costs of repairs and maintenance are charged to expense as incurred; major renovations and projects that prolong an asset's useful life are capitalized as plant assets. The College recognizes the fair value of liabilities for legal obligations associated with future asset retirements in the period in which the obligation is incurred.

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Notes to Financial Statements

June 30, 2011

(with summarized information for 2010)

College Collections

The College does not capitalize collections, primarily art objects, as they are held for public exhibition and education rather than financial gain. Proceeds from the sale of collection items are used to acquire other items for collection.

Statement of Activities

Significant aspects of the presentation of the statement of activities include:

- The statement of activities reflects the change in net assets for three net asset categories: unrestricted, temporarily restricted and permanently restricted.
- Revenues are reported as increases in unrestricted net assets unless use of the related assets is limited by donor-imposed restrictions, in which case they are reported as increases in temporarily or permanently restricted net assets.
- Expenses are reported as decreases in unrestricted net assets.
- When temporarily restricted resources (including endowment income appropriated under the spending formula) are expended for the purposes specified by the donor, the amounts are reclassified from temporarily restricted revenue to unrestricted revenue. The reclassification appears either in the operating section or nonoperating section of the statement of activities as Net assets released from restrictions, depending on whether the donor restricted the assets to be used for operating purposes (e.g., student aid) or nonoperating purposes (e.g., long-term investment).
- Transfers between restriction categories represent reallocations of net assets to reflect clarifications by donors or other changes to such funds.

Operations

The statement of activities reflects a subtotal for the change in net assets from operations. This subtotal reflects revenues the College received for operating purposes, including investment return used for operations and all expenses. Nonoperating activity reflects all other activity, including but not limited to the investment return in excess of the amount appropriated under the Board of Trustees' approved spending formula, contributions for endowment and plant purposes, and the change in present value of annuity and life income funds.

Contributions

The College reflects a receivable on the statement of financial position for unconditional promises to give (pledges). An unconditional promise to give is a written or oral agreement to contribute cash or other assets to the College. Contributions subject to donor-imposed stipulations that are met in the same reporting period are initially reported as temporarily restricted support and then reclassified to unrestricted net assets. Promises to give that are scheduled to be received after the statement of financial position date are shown as increases in temporarily restricted net assets and are reclassified to unrestricted net assets when the purpose or time restrictions are met. Promises to give subject to donor-imposed stipulations that the corpus be maintained permanently are recognized as increases in permanently restricted net assets. Conditional promises to give are not recognized until they become unconditional, that is, when the conditions on which they depend are substantially met.

BOWDOIN COLLEGE

Notes to Financial Statements

June 30, 2011

(with summarized information for 2010)

Allocation of Indirect Expenses

The statement of activities presents expenses by functional classification. Operation and maintenance of plant and depreciation of plant assets are allocated to program and supporting activities based on the relative percentage of plant assets used to support the functional expense category. Interest expense is allocated to the functional classifications that benefited from the use of the proceeds of the debt.

Fund-Raising Costs

All fund-raising costs including incremental costs incurred for major capital campaigns are expensed as incurred. Total fund-raising expenses were \$5,141,000 and \$5,415,000 for the years ended June 30, 2011 and 2010, respectively.

Use of Estimates

The preparation of the financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of financial statements, and the reported amounts of revenues and expenses during the period. Significant estimates include the valuation of certain investments, the liability for postretirement benefits, split-interest obligations, an interest rate swap, and receivables. Actual results could differ from those estimates.

Income Taxes

The College is a not-for-profit organization as described in Section 501(c)(3) of the Internal Revenue Code, as amended, and is generally exempt from income taxes pursuant to the Code. The College assesses uncertain tax positions and has determined there were no such positions that have a material effect on the financial statements.

Reclassifications

Certain 2010 balances have been reclassified to conform with the 2011 presentation.

During 2011, based on clarifications of and revisions to donor agreements, the College reclassified certain Board-designated and donor-restricted funds. These changes, which are included in Transfers between restrictions on the statement of activities, resulted in a net increase of approximately \$12 million to permanently restricted net assets and \$7 million to temporarily restricted net assets.

BOWDOIN COLLEGE

Notes to Financial Statements

June 30, 2011

(with summarized information for 2010)

(2) Restricted Net Assets

The College's net assets, including appreciation on donor-restricted endowment funds, are available for the following purposes as of June 30 (in thousands):

	Temporarily restricted		Permanently restricted	
	2011	2010	2011	2010
Operations	\$ 121,719	93,641	43,389	37,930
Student aid	194,742	140,805	201,067	187,364
Other purposes	87,288	70,938	81,860	78,312
Professorships	59,255	44,495	42,190	41,500
Library and museums	35,236	29,478	10,634	9,988
Technology	17,911	12,153	23,000	23,000
Lectureships	4,847	3,943	1,948	1,896
	<u>\$ 520,998</u>	<u>395,453</u>	<u>404,088</u>	<u>379,990</u>

(3) Investments

Investment Strategy

In addition to traditional stocks and fixed-income securities, the College also holds shares or units in institutional funds and alternative investment partnerships involving hedged strategies, private equity and real asset strategies. Hedged strategies involve funds whose managers have the authority to invest in various asset classes at their discretion, including the ability to invest long and short. Funds with hedged strategies generally hold securities or other financial instruments for which a ready market exists and may include stocks, bonds, put or call options, swaps, currency hedges and other instruments, and are valued accordingly. Private equity funds employ buyout, venture capital, and distressed credit strategies. Real asset and natural resources funds generally hold interests in private real estate, oil and gas partnerships and mineral holdings. Private equity and real asset strategies often require the estimation of fair values by the fund managers in the absence of readily determinable market values.

Basis of Reporting

Investments are reported at estimated fair value. If an investment is held directly by the College and an active market with quoted prices exists, the market price of an identical security is used as reported fair value. The College's interests in alternative investment funds are generally reported at the net asset value (NAV) reported by the fund managers and assessed as reasonable by the College, which is used as a practical expedient to estimate the fair value of the College's interest therein, 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, 2011, the College had no plans or intentions to sell investments at amounts different from NAV.

Because of inherent uncertainties in valuation assumptions, the estimated fair values for alternative investments such as private equity and private real estate may differ significantly from values that would have been used had a ready market existed, and the differences could be material. Such valuations are determined by fund managers and generally consider variables such as operating results, comparable earnings multiples, projected cash flows, recent sales prices, and other pertinent information.

BOWDOIN COLLEGE

Notes to Financial Statements

June 30, 2011

(with summarized information for 2010)

The following tables summarize the College's investments by class in the fair value hierarchy as of June 30, 2011 and 2010, as well as related strategy and liquidity (in thousands):

	Level 1	Level 2	Level 3	Total fair value	Redemption or liquidation	Days' notice
2011:						
Investments:						
Cash and cash equivalents	\$ 27,553	—	—	27,553	Daily	1
Equities:						
Domestic	36,484	56,461	1,027	93,972	Mostly < quarterly	1 – 60
Non-U.S.	4,310	135,068	8,058	147,436	Mostly < semiannual	1 – 60
Fixed income	24,722	1,031	—	25,753	Daily	1 – 60
Absolute return:						
Opportunistic	—	77,151	21,120	98,271	Monthly to > annual	30 – 90
Global long/short	—	154,661	21,007	175,668	Monthly to > annual	30 – 90
Global macro	—	69,538	—	69,538	Monthly to semiannual	30 – 90
Multi strategy	—	23,709	—	23,709	Monthly to quarterly	30 – 90
Buyouts/distressed	—	—	123,255	123,255	Illiquid	N/A
Venture capital	—	—	120,294	120,294	Illiquid	N/A
Real estate	—	631	62,715	63,346	Mostly illiquid	N/A
Natural resources	—	—	22,493	22,493	Illiquid	N/A
Total investments	\$ 93,069	518,250	379,969	991,288		
2010:						
Investments:						
Cash and cash equivalents	\$ 22,922	—	—	22,922	Daily	1
Equities:						
Domestic	26,673	34,330	1,386	62,389	Mostly < quarterly	1 – 60
Non-U.S.	2,639	75,503	14,474	92,616	Mostly < semiannual	1 – 60
Fixed income	14,589	1,055	—	15,644	Daily	1 – 60
Absolute return:						
Opportunistic	—	71,702	13,704	85,406	Monthly to > annual	30 – 90
Global long/short	—	112,511	48,088	160,599	Monthly to > annual	30 – 90
Global macro	—	150,002	—	150,002	Monthly to semiannual	30 – 90
Multi strategy	—	—	—	—	—	—
Buyouts/distressed	—	—	91,907	91,907	Illiquid	N/A
Venture capital	—	—	78,990	78,990	Illiquid	N/A
Real estate	—	3,075	42,424	45,499	Mostly illiquid	N/A
Natural resources	—	—	20,126	20,126	Illiquid	N/A
Total investments	\$ 66,823	448,178	311,099	826,100		

Registered mutual funds and securities custodied in the College's name are classified in Level 1 of the fair value hierarchy as defined in note 1 because their fair values are based on quoted prices for identical securities. The College's fixed income strategy is comprised primarily of one mutual fund, which has daily liquidity and is categorized as Level 1. Most investments classified in Levels 2 and 3 consist of shares or units in funds as opposed to direct interests in the funds' underlying securities, which may be readily marketable and not difficult to value. Many of these funds are not registered under the 1940 Securities and Exchange Act.

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June 30, 2011

(with summarized information for 2010)

Because the NAV reported by each fund categorized as Level 2 or 3 is used as a practical expedient to estimate the fair value of the College's interest therein, its classification in Level 2 or 3 is based on the College's ability to redeem its interest at or near the date of the statement of financial position. If the interest can be redeemed in the near term (within 180 days), the investment is classified in Level 2. Accordingly, the inputs or methodology used for valuing or classifying investments for financial reporting purposes are not necessarily an indication of the risks associated with those investments or the degree of difficulty in estimating the fair value of each fund's underlying assets and liabilities.

Certain hedge funds contain lock-up provisions. Under such provisions, share classes of the investment are available for redemption at various times in accordance with the management agreement with the fund.

Investment liquidity as of June 30, 2011 is aggregated below based on redemption or sale period (in thousands):

	Investment fair values
Investment redemption or sale period:	
Daily	\$ 143,382
Semi-monthly	631
Monthly	116,401
Quarterly	302,194
Semi-annually	19,800
Annually	51,105
Longer than one-year	11,350
Illiquid	<u>346,425</u>
Total as of June 30, 2011	<u>\$ 991,288</u>

The following tables present a summary of the College's activity for the years ended June 30, 2011 and 2010 for investments classified in Level 3 (in thousands):

	Fair value June 30, 2010	Realized and unrealized gains (losses)	Gross purchases	Gross sales and settlements	Transfers out of Level 3	Fair value June 30, 2011
Investments:						
Equities	\$ 15,860	4,274	8,000	(149)	(18,900)	9,085
Absolute return	61,792	12,078	2,579	(16,556)	(17,766)	42,127
Buyouts/distressed and venture capital	170,897	57,208	50,196	(34,752)	—	243,549
Real estate	42,424	6,649	17,573	(3,931)	—	62,715
Natural resources	<u>20,126</u>	<u>9,943</u>	<u>795</u>	<u>(8,371)</u>	<u>—</u>	<u>22,493</u>
Total	<u>\$ 311,099</u>	<u>90,152</u>	<u>79,143</u>	<u>(63,759)</u>	<u>(36,666)</u>	<u>379,969</u>

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June 30, 2011

(with summarized information for 2010)

	Fair value June 30, 2009	Realized and unrealized gains (losses)	Gross purchases	Gross sales and settlements	Transfers out of Level 3	Fair value June 30, 2010
Investments:						
Equities	\$ 55,231	7,525	—	(4,907)	(41,989)	15,860
Absolute return	217,352	29,548	21,417	(46,660)	(159,865)	61,792
Buyouts/distressed and venture capital	124,438	22,173	43,250	(18,964)	—	170,897
Real estate	46,572	(10,459)	10,878	(1,492)	(3,075)	42,424
Natural resources	14,908	3,596	1,888	(266)	—	20,126
Total	\$ 458,501	52,383	77,433	(72,289)	(204,929)	311,099

The following summarizes investment return components for the years ended June 30 (in thousands):

	2011	2010
Investment return:		
Interest and dividends, net	\$ 5,669	(273)
Net realized and unrealized gains	161,933	73,934
Investment return	\$ 167,602	73,661

Investment returns are included in the statements of activities as follows for the years ended June 30 (in thousands):

	2011	2010
Investment return:		
Operating revenue	\$ 8,278	9,040
Nonoperating activity	159,324	64,621
Investment return	\$ 167,602	73,661

Commitments

Private equity and real asset investments are generally made through private limited partnerships. Under the terms of the Partnership agreements, the College makes a commitment of a specific amount of capital to a partnership and is obligated to remit committed funding periodically when capital calls are exercised by the General Partner as the partnership executes on its investment strategy. Private equity and real asset funds are typically structured with investment periods of three-to-five years. Subsequent to the expiration of the investment period, a fund is typically prohibited from calling capital for new investments, only management fees and reserves to support existing investments. The aggregate amount of unfunded commitments associated with limited partnerships as of June 30, 2011 was \$175,815,000. Of this amount, approximately 12.1% of commitments were for funds whose investment period had expired. The timing and amount of future capital calls expected to be exercised in any particular future year is uncertain.

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Investment Derivatives

The College's endowment portfolio participates in a total return swap with a third party in order to gain exposure to a particular investment. The swap is valued on a monthly basis using the actual NAV of the underlying fund, less fees, and is classified in Level 2 of the fair value hierarchy. The estimated fair value of the swap at June 30, 2011 is \$23,834,000.

Endowment Funds

Endowment funds include unrestricted, temporarily restricted and permanently restricted net assets. Endowment net assets classified as unrestricted include funds designated by the Board as endowment (also referred to as quasi-endowment), including any accumulated income and appreciation thereon. Temporarily restricted endowment net assets include accumulated appreciation on donor-restricted endowment funds, as well as donor-restricted, spendable gifts designated by the Board as endowment. Permanently restricted endowment net assets include those funds designated by donors to be invested in perpetuity to provide a permanent source of income.

The College follows the provisions of the Maine Uniform Prudent Management of Institutional Funds Act (UPMIFA). Consistent with UPMIFA, the College reports as permanently restricted net assets an amount equal to the value of each permanent donor-restricted endowment fund at the time it became an endowment fund, and subsequent donations and accumulations pursuant to the applicable gift instrument. Unless otherwise explicitly stipulated by the donor, realized and unrealized net appreciation on investments in permanent donor-restricted endowment funds is reported as temporarily restricted net assets until appropriated for expenditure by the College. The Board of Trustees considers several factors in making a determination to appropriate or accumulate donor-restricted endowment funds including the individual endowment fund's purpose, duration and preservation, the possible effect of inflation (or deflation), and expected total return.

The College maintains 1,442 individual donor-restricted endowment funds and 146 Board-designated endowment funds.

Endowment net asset composition by type of fund as of June 30, 2011 and 2010 is as follows (in thousands):

	Unrestricted	Temporarily restricted	Permanently restricted	Total
2011:				
Donor-restricted endowment funds	\$ (146)	466,411	367,525	833,790
Board-designated endowment funds	38,920	31,505	—	70,425
Total endowment funds	\$ 38,774	497,916	367,525	904,215
	Unrestricted	Temporarily restricted	Permanently restricted	Total
2010:				
Donor-restricted endowment funds	\$ (2,900)	346,095	343,527	686,722
Board-designated endowment funds	41,504	25,299	—	66,803
Total endowment funds	\$ 38,604	371,394	343,527	753,525

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Changes in endowment net assets for the years ended June 30, 2011 and 2010 are as follows (in thousands):

	Unrestricted	Temporarily restricted	Permanently restricted	Total
2011				
Endowment net assets, beginning of year	\$ 38,604	371,394	343,527	753,525
Investment return:				
Investment income, net of investment expenses	298	5,124	117	5,539
Net appreciation (realized and unrealized)	11,749	146,633	129	158,511
Total investment return	12,047	151,757	246	164,050
New gifts and other additions	2,695	4,224	17,752	24,671
Appropriation of endowment assets for expenditure	(2,103)	(35,928)	—	(38,031)
Transfers between restrictions	(12,469)	6,469	6,000	—
Endowment net assets, end of year	\$ 38,774	497,916	367,525	904,215
	Unrestricted	Temporarily restricted	Permanently restricted	Total
2010:				
Endowment net assets, beginning of year	\$ 28,953	340,001	319,430	688,384
Investment return:				
Investment income, net of investment expenses	(27)	(546)	46	(527)
Net appreciation (realized and unrealized)	6,909	65,241	64	72,214
Total investment return	6,882	64,695	110	71,687
New gifts and other additions	6,524	465	23,951	30,940
Appropriation of endowment assets for expenditure	(1,867)	(35,619)	—	(37,486)
Transfers between restrictions	(1,888)	1,852	36	—
Endowment net assets, end of year	\$ 38,604	371,394	343,527	753,525

Return Objectives and Risk Parameters

The College's endowment is invested with the intent of balancing the often conflicting goals of generating a steady, stable stream of support for the current operations of the College while preserving the purchasing power of the endowment to support programs and initiatives of future generations of Bowdoin students. Using the basic tenets of modern portfolio theory, the endowment is diversified across multiple asset classes with differing correlations and risk and return characteristics. The endowment is managed with a total return goal of attaining an average annualized real return in excess of 5% in order to support spending and maintain or grow the endowment's purchasing power.

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Strategies Employed for Achieving Investment Objectives

In order to achieve the long-term target return, the endowment is invested in asset classes and strategies with long-term return potential. Active management is pursued in areas where the College has a competitive advantage and access to top quality investment management teams. In recognition of the potential for equities to generate strong returns, the portfolio is substantially invested in equity-oriented strategies. In order to mitigate risk, the College combines diversification across noncorrelated asset classes with a prudent spending policy.

Endowment Spending Allocation and Relationship of Spending Policy to Investment Objectives

The College employs a total return approach to endowment management. Income and dividends are used to fund spending first, with net realized and unrealized appreciation providing incremental funds as needed. The College uses a twelve-quarter moving average to determine spending from endowment, with the yearly spending distribution determined on June 30 in the year preceding the fiscal year of spending. The smoothing function imposed by the twelve-quarter average effectively reduces the volatility of the spending distribution, allowing for a sustainable flow of funds to support the College. The College may spend in a range between 4% and 5.5%. The spending rate, approved annually by the Board of Trustees, for each of the years ended June 30, 2011 and 2010 was 5%. The annual distribution amounted to \$38,031,000 in 2011 and \$37,486,000 in 2010. 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 Financial Planning Committee in recognition of the interdependent relationship of investment policy and the financial needs of the College.

Funds with Deficiencies

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the historic dollar value of permanently restricted contributions. Deficiencies of this nature are reported in unrestricted net assets and were \$146,000 and \$2,900,000 at June 30, 2011 and 2010, respectively. Under UPMIFA, spending from certain endowment funds with deficiencies as of June 30, 2010 was allowed for fiscal year 2011.

(4) Contributions Receivable

Unconditional promises to give consist of the following at June 30, 2011 and 2010 (in thousands):

	Temporarily restricted	Permanently restricted	Total
2011:			
Capital campaign promises	\$ 4,502	6,670	11,172
Contributions receivable held in outside trusts	9,390	4,524	13,914
Total unconditional promises to give	13,892	11,194	25,086
Less allowance for uncollectibles	(750)	(150)	(900)
Less unamortized discounts (rates ranging from 2.9% to 7.0%)	(5,247)	(2,726)	(7,973)
Contributions receivable, net	\$ 7,895	8,318	16,213
Amounts due in:			
Less than one year	\$ 2,453	3,231	5,684
One to five years	1,181	2,951	4,132
More than five years	4,261	2,136	6,397
Total	\$ 7,895	8,318	16,213

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	Temporarily restricted	Permanently restricted	Total
2010:			
Capital campaign promises	\$ 7,104	10,511	17,615
Contributions receivable held in outside trusts	8,316	3,901	12,217
Total unconditional promises to give	15,420	14,412	29,832
Less allowance for uncollectibles	(750)	(150)	(900)
Less unamortized discounts (rates ranging from 2.9% to 7.0%)	(4,909)	(2,770)	(7,679)
Contributions receivable, net	\$ 9,761	11,492	21,253
Amounts due in:			
Less than one year	\$ 4,200	4,486	8,686
One to five years	1,897	5,259	7,156
More than five years	3,664	1,747	5,411
Total	\$ 9,761	11,492	21,253

(5) Property and Equipment

A summary of land, buildings and equipment at June 30, 2011 and 2010 is as follows (in thousands):

	2011	2010
Land	\$ 4,345	4,345
Land improvements	4,928	4,705
Buildings	323,665	317,351
Furniture and fixtures	6,013	5,964
Instructional and computer equipment	6,137	6,087
Machinery and vehicles	2,427	2,231
Operational equipment	19,363	18,816
Library books	—	3,458
Construction in progress	1,458	2,498
	368,336	365,455
Accumulated depreciation	(120,362)	(113,838)
Land, buildings and equipment, net	\$ 247,974	251,617

The construction in progress balance at June 30, 2011 relates principally to a new student information and admission system.

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(6) Retirement Plans

Defined Contribution Pension Plan

Pension benefits are provided under defined contribution plans which are administered by the Teachers Insurance and Annuity Association, the College Retirement Equities Fund and Fidelity Investments Tax-Exempt Services Company. The College's expense under these plans is based on the qualifying salaries of the participants and was approximately \$5,845,000 and \$5,724,000 in 2011 and 2010, respectively.

Postretirement Benefit Obligation

The College administers health care and life insurance plans for retired employees and their spouses.

A reconciliation of the Accumulated Postretirement Benefit Obligation (APBO) for the years ended June 30, 2011 and 2010 is as follows (in thousands):

	2011	2010
Change in benefit obligation:		
APBO, beginning of year	\$ 10,840	9,275
Service costs	433	352
Interest costs	568	578
Plan participant contributions	218	213
Medicare Part D subsidy received	17	18
Actuarial loss	325	1,173
Benefits paid	(641)	(769)
APBO, end of year	<u>\$ 11,760</u>	<u>10,840</u>
Change in plan assets:		
Fair value of plan assets at beginning of year	\$ —	—
Employer contributions	423	556
Plan participant contributions	218	213
Benefits paid	(641)	(769)
Fair value of plan assets at end of year	<u>\$ —</u>	<u>—</u>

The discount rate used to value the postretirement benefit obligation was 5.01% in 2011 and 5.06% in 2010 based on prevailing interest rates. As of June 30, 2011 and 2010, the College has internally funded a portion of this obligation through the establishment of a Board-designated fund, which had a balance of \$5,745,000 and \$4,935,000, respectively.

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Net Periodic Postretirement Benefit Cost

The discount rate used to value the net periodic postretirement benefit cost was 5.06% in 2011 and 6.17% in 2010. The net postretirement benefit cost for fiscal years 2011 and 2010 consisted of the following (in thousands):

	2011	2010
Postretirement benefits earned during the year	\$ 433	352
Interest cost on accumulated postretirement benefit obligation	568	578
Amortization of prior service cost and actuarial loss	112	112
Total postretirement benefit cost	<u>\$ 1,113</u>	<u>1,042</u>

The prior service cost that will be amortized from unrestricted net assets into net periodic benefit cost in 2012 is \$115,000.

The weighted average health care cost trend rate used in measuring the benefit obligation and benefit cost is 8% in 2011, gradually declining to 5% in 2018. The effect of a 1% increase in the healthcare cost trend rate is an increase of \$938,000 in the accumulated postretirement benefit obligation and an increase of \$93,000 in the service and interest cost components of the net postretirement benefit. The effect of a 1% decrease in the healthcare cost trend rate is a decrease of \$828,000 in the accumulated postretirement benefit obligation and a decrease of \$81,000 in the service and interest cost components of the net postretirement benefit.

Estimated future benefit payments, net of employee contributions, and the Medicare subsidy are as follows (in thousands):

	Expected Medicare part D subsidy	Estimated benefit payments
Year ending June 30:		
2012	\$ 16	622
2013	15	687
2014	14	750
2015	13	795
2016	12	884
2017 – 2021	41	5,067

The College expects to make employer contributions of \$622,000 for the year ending June 30, 2012.

Funded Status of the Postretirement Benefit Obligation

GAAP requires reporting of the funded status of benefit plans and requires recognition of benefit liabilities for under-funded plans and benefit assets for over-funded plans, with offsetting impacts to unrestricted net assets. The status of the Plan was recorded as a liability of \$11,760,000 and \$10,840,000 as of June 30, 2011 and 2010, respectively.

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The amount not yet reflected in net periodic benefit cost and recognized in unrestricted net assets, and the changes therein, are as follows (in thousands):

	Net actuarial (gain) loss	Net prior service cost (credit)	Total
Unamortized amount as of June 30, 2009	\$ (438)	964	526
New activity	1,173	—	1,173
Amortization	3	(115)	(112)
Total amount recognized in nonoperating expense (income)	<u>1,176</u>	<u>(115)</u>	<u>1,061</u>
Unamortized amount as of June 30, 2010	738	849	1,587
New activity	325	—	325
Amortization	3	(115)	(112)
Total amount recognized in nonoperating expense (income)	<u>328</u>	<u>(115)</u>	<u>213</u>
Unamortized amount as of June 30, 2011	<u>\$ 1,066</u>	<u>734</u>	<u>1,800</u>

(7) Bonds and Notes Payable**Obligations to Maine Health and Higher Education Facilities Authority**

The following is a summary of bonds outstanding at June 30, 2011, issued by the Maine Health and Higher Education Facilities Authority (in thousands):

Series 2008 Revenue Bonds:		
Serial bonds with interest payable monthly at a variable rate (0.095% at June 30, 2011), with annual principal payments ranging from \$875,000 to \$5,000,000 beginning in 2032 through 2037	\$	20,700
Series 2009A Revenue Bonds:		
Term bond due July 1, 2039 with annual principal payments ranging from \$17,860,000 to \$21,735,000 beginning in 2035 through 2039 with interest payable semiannually at 5.0% and 5.125%		98,750
Series 2009B Revenue Bonds:		
Term bond due July 1, 2039 with annual principal payments ranging from \$3,455,000 to \$4,475,000 beginning in 2035 through 2039 with interest payable semiannually at 6.667%		<u>19,750</u>
Total outstanding		139,200
Less unamortized discounts		<u>(2,171)</u>
Bonds payable, net	\$	<u>137,029</u>

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The Series 2008 Bonds are supported by a direct-pay letter of credit which expires in March 2014. If the Bonds are unable to be remarketed, the Trustee will request purchase under the letter of credit scheduled repayment terms. Based on the existing repayment and maturity terms of the underlying letter of credit, if the maximum amount were drawn down the scheduled payments would be as follows: \$6,900,000 in 2012, \$6,900,000 in 2013, and \$6,900,000 in 2014.

The Revenue Bond Agreements associated with the College's outstanding debt contain covenants regarding permitted dispositions, permitted reorganizations and continuing disclosure requirements.

In accordance with the terms of the Revenue Bond Agreements, the College has established certain principal, interest, and construction funds. The fair value of the funds was approximately \$4,045,000 and \$6,886,000 at June 30, 2011 and 2010, respectively. The Trustee has invested these funds in a government agency money market fund.

Total interest expense incurred for the year ended June 30, 2011 was \$6,281,000, net of amounts capitalized of \$74,000. Total interest expense incurred for the year ended June 30, 2010 was \$6,244,000, net of amounts capitalized of \$131,000.

The estimated fair value of the College's bonds at June 30, 2011 approximates \$147,935,000. The fair value is estimated using equivalent bond yields at June 30, 2011 to discount the debt service cash flows for each of the College's outstanding bond issues.

Interest Rate Swap Agreements

The College has an interest rate swap agreement with a financial institution counterparty. The purpose of the agreement is to substantially convert the variable rate on the Series 2008 Bonds to an annual fixed rate. On the first business day of each month, the counterparty pays the College a variable rate of interest equal to 67% of the 3-month London Interbank Offered Rate (LIBOR) and the College pays the counterparty an annual fixed rate of 3.84% on the notional amount. The swap agreement expires upon maturity of the Series 2008 Bonds and the notional principal amount will reduce on the dates and in amounts similar to the amortization of the Series 2008 Bonds. As of June 30, 2011, the total notional amount of the interest rate swap was \$20,500,000.

The terms and conditions of the swap include two-way collateral posting requirements for either counterparty in a liability position. As of June 30, 2011, the College's collateral posting threshold was \$25,000,000. The threshold increases or decreases \$5,000,000 for each incremental ratings adjustment assigned by Moody's Investor Services, Inc. The College was not required to post any collateral in connection with the swap as of June 30, 2011. The College has the right to terminate the interest rate swap agreement at any time at the prevailing market rate.

The College reported the fair value of its interest rate swap agreement in the statement of financial position as a liability in Accounts payable and accrued liabilities of \$3,927,000 and \$4,929,000 at June 30, 2011 and 2010, respectively. The College recognized a realized loss related to swap settlements of \$742,000 and \$739,000 for the years ended June 30, 2011 and 2010, respectively. The College recognized an unrealized gain of \$1,002,000 and an unrealized loss of \$1,273,000 for the years ended June 30, 2011 and 2010, respectively. The gain/loss is included in Other changes in the statement of activities.

Notes Payable

The College has an uncollateralized note payable amounting to \$130,000, which matures in 2012, with a variable interest rate based upon LIBOR. The College has \$30,000,000 available under an uncollateralized, renewable line of credit expiring in June 2012, with interest payable monthly on outstanding advances at variable rates based upon LIBOR and/or a federal funds rate, as selected by the College on the date of the advance. At June 30, 2011, the balance outstanding on the line of credit was \$14,685,000.

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In March 2009, the College executed an unsecured, interest-free note payable in the amount of \$569,000 to pre-pay software licensing and maintenance agreements. The note matures in 2012; the balance at June 30, 2011 was \$190,000.

The College is obligated under three capital leases for the purchase of computer networking, fitness, and general office equipment. The lease terms range from 36 to 60 months. Interest is computed using incremental borrowing rates that range from 4.2% to 5.3%. The amount outstanding on these leases was \$158,000 at June 30, 2011 and \$365,000 at June 30, 2010.

The following is a schedule of principal maturities of bonds and notes payable for the next five years and thereafter as of June 30, 2011 (in thousands):

2012	\$	15,130
2013		33
2014		—
2015		—
2016		—
Thereafter		139,200
	\$	<u>154,363</u>

(8) 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 are covered by insurance or will not materially affect the financial position of the College.

(9) Related Party Transactions

Certain of the College's investments are managed by entities in which the management or ownership of the entities includes members of the College's Board of Trustees or its Committees. The total amount of investments managed by such entities amounted to approximately \$20,965,000 and \$147,677,000 at June 30, 2011 and 2010, respectively. In all cases, the College pays fees for these investments that are at or below market. In addition, management at the financial institution with which the College has a renewable letter of credit and which serves as counterparty to the College's interest rate swap and total return swap includes a member of the College's Board of Trustees.

(10) Supplemental Disclosure of Cash Flow Information

Supplemental disclosure of cash flow information is as follows (in thousands):

	2011	2010
Cash paid for interest	\$ 6,407	4,189
Noncash activities:		
Construction of buildings and purchase of equipment included in accounts payable	347	853
Net fixed asset recognized related to asset retirement obligation	(7)	(6)
Securities received as gifts and contribution receivable payments	2,660	9,190

(11) Subsequent Events

The College considers events or transactions that occur after the statement of financial position date, but before the financial statements are issued, to provide additional evidence relative to certain estimates or to identify matters that require additional disclosure. These financial statements were issued on October 14, 2011, and subsequent events have been evaluated through that date.