BOWDOIN COLLEGE

Financial Statements

Year ended June 30, 2017

(with summarized comparative information for June 30, 2016)

(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 financial statements of Bowdoin College (the College), which comprise the statement of financial position as of June 30, 2017, the related statements of activities and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the organization'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 organization'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 Bowdoin College as of June 30, 2017, and the changes in its net assets and its cash flows for the year then ended, in accordance with U.S. generally accepted accounting principles.

Report on Summarized Comparative Information

We have previously audited the College's 2016 financial statements, and we expressed an unmodified opinion on those financial statements in our report dated October 7, 2016. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2016 is consistent, in all material respects, with the audited financial statements from which it has been derived.

KPMG LLP

October 13, 2017

BOWDOIN COLLEGE
Statement of Financial Position
June 30, 2017
(with comparative information as of June 30, 2016)
(In thousands)

Assets		**2017**	**2016**
Cash and cash equivalents	$	2,598	2,316
Student and other receivables		1,471	2,026
Other assets		5,915	5,410
Contributions receivable, net		27,779	19,188
Student loans receivable, net		3,766	4,037
Investments		1,720,854	1,528,123
Beneficial interest in trusts		10,410	7,685
Funds held by bond trustee		6,686	6,244
Property and equipment, net		257,118	256,708
Total assets	$	2,036,597	1,831,737
Liabilities and Net Assets			
Accounts payable and accrued liabilities	$	23,048	19,046
Split-interest obligations		15,870	16,381
Liability for postretirement benefits		16,428	18,250
Bonds and notes payable		341,514	270,225
Other long-term obligations		10,878	13,343
Total liabilities		407,738	337,245
Unrestricted		234,041	214,395
Temporarily restricted		869,487	763,981
Permanently restricted		525,331	516,116
Total net assets		1,628,859	1,494,492
Total liabilities and net assets	$	2,036,597	1,831,737

See accompanying notes to financial statements.

BOWDOIN COLLEGE
Statement of Activities
Year ended June 30, 2017
(with summarized comparative information for the year ended June 30, 2016)
(In thousands)

	Unrestricted	Temporarily restricted	Permanently restricted	2017 Total	2016 Total
Operating activity:					
Revenue:					
Tuition and fees	$ 89,116	—	—	89,116	86,740
Room and board	22,358	—	—	22,358	22,056
Gross tuition and fees	111,474	—	—	111,474	108,796
Less scholarships	(33,886)	—	—	(33,886)	(33,399)
Net student charges	77,588	—	—	77,588	75,397
Auxiliary enterprises	4,624	—	—	4,624	4,701
Contributions	8,589	—	—	8,589	8,257
Endowment return appropriated	12,235	—	—	12,235	10,361
Designated net assets appropriated	—	—	—	—	2,432
Other investment income	4,861	—	—	4,861	4,717
Government grants and contracts	2,752	—	—	2,752	3,271
Other income	2,416	—	—	2,416	2,306
Net assets released from restrictions	48,174	—	—	48,174	43,046
Total operating revenue	161,239	—	—	161,239	154,488
Expenses:					
Instruction	55,472	—	—	55,472	54,178
Research	2,355	—	—	2,355	2,715
Academic support	16,492	—	—	16,492	15,882
Student services	32,324	—	—	32,324	30,563
Institutional support	23,527	—	—	23,527	23,724
Auxiliary enterprises	30,405	—	—	30,405	30,187
Total operating expenses	160,575	—	—	160,575	157,249
Increase (decrease) in net assets from operating activity	664	—	—	664	(2,761)
Nonoperating activity:					
Contributions	2,841	18,203	7,279	28,323	19,976
Investment return, net of endowment return appropriated	11,133	91,782	1,751	104,666	(76,899)
Endowment return appropriated	—	45,069	—	45,069	39,611
Designated net assets appropriated	—	—	—	—	(2,432)
Net assets released from restrictions	2,195	(50,369)	—	(48,174)	(43,046)
Other changes	2,844	985	(10)	3,819	(3,680)
Transfers between net asset categories	(31)	(164)	195	—	—
Increase (decrease) in net assets from nonoperating activity	18,982	105,506	9,215	133,703	(66,470)
Total change in net assets	19,646	105,506	9,215	134,367	(69,231)
Net assets, beginning of year	214,395	763,981	516,116	1,494,492	1,563,723
Net assets, end of year	$ 234,041	869,487	525,331	1,628,859	1,494,492

See accompanying notes to financial statements.

BOWDOIN COLLEGE

Statement of Cash Flows

Year ended June 30, 2017

(with summarized comparative information for the year ended June 30, 2016)

(In thousands)

		2017	2016
Cash flows from operating activities:			
Change in net assets	$	134,367	(69,231)
Adjustments to reconcile change in net assets to net cash used in operating activities:			
Depreciation and amortization		12,234	11,749
Loss on disposal of property and equipment		432	176
Net realized and unrealized (gains) losses on investments and trusts		(165,532)	26,904
Change in fair value of interest rate swap		(2,448)	2,785
Cash paid for settlements under interest rate swap		659	721
Change in contributions receivable, net		(8,591)	7,076
Contributions for endowment and other long-term purposes		(11,867)	(17,941)
Change in other assets, net		(2,376)	123
Change in other liabilities, net		(220)	227
Net cash used in operating activities		(43,342)	(37,411)
Cash flows from investing activities:			
Purchases of investments		(416,610)	(309,913)
Sales of investments		389,047	341,024
Cash paid for property and equipment		(11,087)	(11,891)
Repayment of U.S. government loan advances		—	(1,288)
Change in funds held by trustee		(442)	—
Change in student loans receivable, net		336	153
Net cash (used in) provided by investing activities		(38,756)	18,085
Cash flows from financing activities:			
Borrowings on bonds payable		45,000	—
Borrowings on notes payable		33,231	6,000
Repayments on notes payable		(6,407)	(4,080)
Bond issuance costs		(652)	—
Cash paid for settlements under interest rate swap		(659)	(721)
Contributions for endowment and other long-term purposes		11,867	17,941
Net cash provided by financing activities		82,380	19,140
Net increase (decrease) in cash and cash equivalents		282	(186)
Cash and cash equivalents, beginning of year		2,316	2,502
Cash and cash equivalents, end of year	$	2,598	2,316

See accompanying notes to financial statements.

(1) Summary of Significant Accounting Policies

Organization

Founded in 1794, Bowdoin is a private, coeducational, nonsectarian, and highly selective college of approximately 1,800 students of distinction from across America and around the world. Accredited by the New England Association of Schools and Colleges, Bowdoin offers bachelor of arts degrees in more than forty majors, including interdisciplinary programs. A national leader in the teaching and study of the environment across the curriculum, Bowdoin provides a liberal arts education and residential life experience that instills principled leadership, lifelong learning, and service to the common good. During fiscal year 2017, Bowdoin enrolled 1,785 full-time equivalent (FTE) students, not including 153 FTE students who studied off campus. Prominent alumni include educator Geoffrey Canada ‘74; American Express CEO Kenneth Chenault ‘73; former Secretary of Defense William S. Cohen ‘62; Netflix CEO and co-founder Reed Hastings ‘83; former Senate Majority Leader and peacemaker George J. Mitchell ‘54; and Olympic champion Joan Benoit Samuelson ‘79, among many other leaders in all walks of life.

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, 2016, 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.

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.
- 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 commingled funds for which fair value is estimated using net asset values (NAVs) reported by fund managers as a practical expedient. Such NAV-measured investments are not categorized in the fair value hierarchy.

Contributions Receivable

Contributions receivable, excluding outside trusts held by third parties, are recorded initially at fair value considering the time value of money and collectability, which are Level 3 inputs in the fair value hierarchy. Thereafter, they are reported at their net realizable value. 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 reported 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 Split-interest obligations in the statement of financial position. Beneficial interests in trusts are categorized as Level 3 due to unobservable inputs used to estimate fair value.

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. These trusts are categorized as Level 3 due to unobservable inputs used to estimate fair value.

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 3.5% to 7.0%.

Interest Rate Swap Agreements

Interest rate swap agreements are reported at fair value based on the present value 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 College's only interest rate swap at June 30, 2017 and 2016 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. Bonds payable are presented net of unamortized issue costs and discounts.

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, net of accumulated depreciation.

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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.

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 generally 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 net asset 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 and Board-designated net assets used for operations and all operating expenses. Nonoperating activity reflects all other activity, including but not limited to investment return net of the amount appropriated under the Board of Trustees' approved spending formula, contributions restricted for endowment and plant purposes as well as substantial unrestricted contributions the College determines will be used for long-term purposes, and changes in certain long-term obligations.

Contributions

The College reflects a receivable on the statement of financial position for unconditional promises (pledges), which are generally written agreements 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. Pledges subject to donor-imposed stipulations that the corpus be maintained in perpetuity are recognized as increases in permanently restricted net assets. All other pledges that are receivable 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. Conditional promises to give are not recognized until they become unconditional, that is, when the conditions on which they depend are substantially met.

Allocation of Indirect Expenses

The statement of activities presents expenses by functional classification. Operation and maintenance of plant is allocated to program and supporting activities based on the relative square footage of buildings used to support the functional expense category. Depreciation expense is allocated to the program or supporting activity where the corresponding asset is utilized. Interest expense is allocated to functional classifications benefiting from the use of corresponding debt proceeds.

Fund-Raising Costs

All fund-raising costs including incremental costs incurred for major capital campaigns are expensed as incurred. Total fund-raising expenses were $6,354,000 and $6,511,000 for the years ended June 30, 2017 and 2016, 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.

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Income Taxes

The College is a not-for-profit organization and is generally exempt from income taxes as described in Section 501(c)(3) of the Internal Revenue Code, as amended. 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 2016 balances have been reclassified to conform with the 2017 presentation.

Other Adjustments

During 2017, based on instruction from donors, the College reclassified certain unrestricted and temporarily restricted net assets to permanently restricted net assets.

New Accounting Pronouncements

Effective in fiscal year 2017, the College retrospectively adopted the provisions of ASU 2017-07, *Compensation – Retirement Benefits (Topic 715).* The ASU attempts to improve the presentation of net periodic pension and postretirement benefit costs. The ASU does not prescribe where the amount of net benefit cost should be presented in an employer's statement of activities, but it does require that the service cost component be presented in the same line item(s) as other employee compensation costs and that the remaining components be presented separately from those line items and outside of operations. It also stipulates that only the service cost component is eligible for capitalization in assets, as applicable. As a result of the retrospective adoption of the ASU in 2017, $799,000 of net periodic benefit cost other than service cost was reclassified from operating to nonoperating activities for the fiscal year ended June 30, 2016.

(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	
		2017	**2016**	**2017**	**2016**
Instruction	$	66,464	61,194	40,371	40,008
Lectureships		9,063	8,094	3,314	3,223
Library and museums		43,629	38,544	21,587	20,749
Operations		186,906	168,744	50,220	49,343
Contributions receivable and other purposes		67,467	49,987	58,412	57,822
Professorships		104,830	93,546	53,243	53,126
Student aid		356,627	313,458	275,016	268,845
Technology		34,501	30,414	23,168	23,000
	$	869,487	763,981	525,331	516,116

(3) Investments

Basis of Reporting

Investments include endowment, charitable gift annuities, pooled life income funds, taxable bond proceeds and unrestricted operating investments. 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 majority of the College's investments are in shares or units of institutional commingled funds and investment partnerships invested in equity, fixed income, absolute return, private equity, or real asset strategies. Absolute return 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 absolute return 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 by the investment manager 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.

The College's interests in commingled 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, in the absence of readily determinable fair value, unless it is probable that all or a portion of the investment will be sold for an amount different from NAV. As of June 30, 2017, the College had no plans or intentions to sell investments at amounts different from NAV.

Although the College's non-marketable managers adhere to fair value accounting as required by ASC 820, *Fair Value Measurements and Disclosures*, 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.

The following tables summarize the College's investments by strategy and, as applicable, categorization in the fair value hierarchy as of June 30, 2017 and 2016 (in thousands):

	Investments measured at NAV	Investments categorized in the fair value hierarchy Level 1	Level 2	Level 3	Total fair value
2017:					
Cash and cash equivalents	$ —	60,984	—	—	60,984
Fixed income	10,011	36,421	7,004	—	53,436
Equities:					
Domestic	146,791	22,695	—	—	169,486
Emerging markets	88,841	476	—	—	89,317
Global	147,265	3,323	—	—	150,588
Absolute return:					
Global macro	168,300	—	—	—	168,300
Global long/short	192,053	—	—	—	192,053
Opportunistic & other	252,928	—	—	—	252,928
Alternative investments:					
Private equity	422,810	—	—	—	422,810
Real assets	155,459	—	—	5,493	160,952
	$ 1,584,458	123,899	7,004	5,493	1,720,854

	Investments measured at NAV	Investments categorized in the fair value hierarchy Level 1	Level 2	Level 3	Total fair value
2016:					
Cash and cash equivalents	$ —	55,678	—	—	55,678
Fixed income	23,444	27,239	66	—	50,749
Equities:					
Domestic	112,532	24,538	—	—	137,070
Emerging markets	81,065	519	—	—	81,584
Global	124,556	4,914	—	—	129,470
Absolute return:					
Global macro	134,726	—	—	—	134,726
Global long/short	181,316	—	—	—	181,316
Opportunistic & other	223,814	—	—	—	223,814
Alternative investments:					
Private equity	378,053	—	—	—	378,053
Real assets	148,851	—	—	6,812	155,663
	$ 1,408,357	112,888	66	6,812	1,528,123

Registered mutual funds are classified in Level 1 of the fair value hierarchy, as defined in note 1, as are equity securities custodied in the College's name because their fair values are based on quoted prices for identical securities. The College's fixed income investments may include directly held U.S. corporate bonds, which although readily marketable are valued using matrix pricing and are classified as Level 2.

Transfers between categories occur when there is an event that changes the inputs used to measure the fair value of an asset or liability. There were no transfers between Levels 1, 2 or 3 during the years ended June 30, 2017 and 2016.

Liquidity

Investment liquidity as of June 30, 2017 and 2016 is aggregated in the tables below based on redemption or sale period (in thousands):

		Daily	Monthly	Quarterly	Semi-annually	Annual/ longer	Illiquid	Total
2017:								
Cash and cash equivalents	$	60,643	—	—	—	—	341	60,984
Fixed income		34,545	—	9,974	—	—	8,917	53,436
Equities		46,744	56,651	218,422	11,995	60,577	15,002	409,391
Absolute return		—	65,887	438,831	40,803	34,674	33,086	613,281
Alternative investments		—	—	—	—	—	583,762	583,762
	$	141,932	122,538	667,227	52,798	95,251	641,108	1,720,854

		Daily	Monthly	Quarterly	Semi-annually	Annual/ longer	Illiquid	Total
2016:								
Cash and cash equivalents	$	55,501	—	—	—	—	177	55,678
Fixed income		17,576	—	10,178	—	—	22,995	50,749
Equities		45,358	51,595	182,519	—	53,587	15,065	348,124
Absolute return		6	65,418	372,496	44,868	32,592	24,476	539,856
Alternative investments		—	—	—	—	—	533,716	533,716
	$	118,441	117,013	565,193	44,868	86,179	596,429	1,528,123

Certain marketable investment 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 Return

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

		2017	2016
Investment return:			
Interest and dividends, net	$	1,663	4,162
Net realized and unrealized gains (losses)		165,168	(26,372)
Investment return	$	166,831	(22,210)

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

		2017	2016
Investment return:			
Endowment return appropriated (operating)	$	12,235	10,361
Other investment income (operating)		4,861	4,717
Endowment return appropriated (nonoperating)		45,069	39,611
Investment return (nonoperating)		104,666	(76,899)
Investment return	$	166,831	(22,210)

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-seven years. Subsequent to the expiration of the investment period, a fund is usually prohibited from calling capital for new investments. The aggregate amount of unfunded commitments associated with private limited partnerships as of June 30, 2017 was $345,225,000. Of this amount, 8.1% 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.

Endowment Funds

The College maintains 1,578 individual donor-restricted endowment funds and 134 Board-designated endowment funds.

Endowment net assets classified as unrestricted include funds designated by the Board as endowment (also referred to as quasi-endowment), including any accumulated return thereon. For donor-restricted endowment funds, the College follows the provisions of the Maine Uniform Prudent Management of Institutional Funds Act (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 contributions and accumulations pursuant to the applicable gift instrument. Unless otherwise explicitly stipulated by the donor, return on investments in donor-restricted endowment funds is reported as temporarily restricted net assets until appropriated for expenditure by the College. The College 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.

Endowment net asset composition by type of fund as of June 30, 2017 and 2016 is as follows (in thousands):

		Unrestricted	Temporarily restricted	Permanently restricted	Total
2017:					
Donor-restricted endowment funds	$	—	838,072	496,405	1,334,477
Board-designated endowment funds		120,421	1,011	—	121,432
Total endowment funds	$	120,421	839,083	496,405	1,455,909

		Unrestricted	Temporarily restricted	Permanently restricted	Total
2016:					
Donor-restricted endowment funds	$	(97)	745,275	486,506	1,231,684
Board-designated endowment funds		107,355	942	—	108,297
Total endowment funds	$	107,258	746,217	486,506	1,339,981

Changes in endowment net assets for the years ended June 30, 2017 and 2016 are as follows (in thousands):

		Unrestricted	Temporarily restricted	Permanently restricted	Total
2017:					
Endowment net assets, beginning of year	$	107,258	746,217	486,506	1,339,981
Investment return		12,921	144,179	—	157,100
Appropriation of endowment assets for expenditure		(12,235)	(45,069)	—	(57,304)
Use of accumulated gains on donor restricted funds to support appropriation		7,642	(7,642)	—	—
New gifts, other additions and transfers between restriction categories		4,835	1,398	9,899	16,132
Endowment net assets, end of year	$	120,421	839,083	496,405	1,455,909

		Unrestricted	Temporarily restricted	Permanently restricted	Total
2016:					
Endowment net assets, beginning of year	$	109,768	814,426	468,566	1,392,760
Investment return		(1,970)	(22,348)	—	(24,318)
Appropriation of endowment assets for expenditure		(10,361)	(39,611)	—	(49,972)
Use of accumulated gains on donor restricted funds to support appropriation		6,423	(6,423)	—	—
New gifts, other additions and transfers between restriction categories		3,398	173	17,940	21,511
Endowment net assets, end of year	$	107,258	746,217	486,506	1,339,981

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 for 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.

The total return of the College's endowment (consisting of investment gains and losses and dividends and interest, net of expenses) was 12.4% and -1.4% for the fiscal years ending June 30, 2017 and 2016, respectively.

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. Interest 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 official spending rate, approved annually by the Board of Trustees, for each of the years ended June 30, 2017 and 2016 was 5%. The annual distribution amounted to $57,304,000 in 2017 and $49,972,000 in 2016. The total fiscal year 2017 distribution of $57,304,000 was

4.3% of the endowment market value as of June 30, 2016. 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 $97,000 at June 30, 2016. There were no funds with deficiencies at June 30, 2017. Under UPMIFA, spending from certain endowment funds with deficiencies as of June 30, 2016 was allowed for fiscal year 2017.

(4) Contributions Receivable

Contributions receivable consist of the following at June 30, 2017 and 2016 (in thousands):

		Temporarily restricted	Permanently restricted	Total
2017:				
Pledges receivable	$	16,415	9,844	26,259
Contributions receivable held in outside trusts		4,884	4,549	9,433
Total contributions receivable		21,299	14,393	35,692
Less allowance for uncollectibles		(420)	(280)	(700)
Less unamortized discount (rates ranging from 1.3% to 5.0%)		(4,366)	(2,847)	(7,213)
Contributions receivable, net	$	16,513	11,266	27,779
Amounts due in:				
Less than one year	$	4,900	4,420	9,320
One to five years		11,515	5,424	16,939
More than five years		4,884	4,549	9,433
Gross amount due		21,299	14,393	35,692
Less allowance for uncollectibles and unamortized discount		(4,786)	(3,127)	(7,913)
Contributions receivable, net	$	16,513	11,266	27,779

As of June 30, 2017, 65% of the gross pledges receivable balance is due from five donors.

		Temporarily restricted	Permanently restricted	Total
2016:				
Pledges receivable	$	3,488	14,031	17,519
Contributions receivable held in outside trusts		4,419	4,510	8,929
Total contributions receivable		7,907	18,541	26,448
Less allowance for uncollectibles		(140)	(560)	(700)
Less unamortized discount (rates ranging from 1.3% to 5.0%)		(3,472)	(3,088)	(6,560)
Contributions receivable, net	$	4,295	14,893	19,188
Amounts due in:				
Less than one year	$	1,552	7,262	8,814
One to five years		1,936	6,769	8,705
More than five years		4,419	4,510	8,929
Gross amount due		7,907	18,541	26,448
Less allowance for uncollectibles and unamortized discount		(3,612)	(3,648)	(7,260)
Contributions receivable, net	$	4,295	14,893	19,188

(5) Property and Equipment

A summary of property and equipment at June 30, 2017 and 2016 is as follows (in thousands):

		2017	2016
Land	$	5,420	5,228
Land improvements		7,805	7,912
Buildings		348,487	344,208
Furniture and fixtures		5,353	5,415
Instructional and computer equipment		10,033	9,284
Machinery and vehicles		2,930	2,696
Operational equipment		27,794	26,509
Construction in progress		8,706	3,544
		416,528	404,796
Accumulated depreciation		(159,410)	(148,088)
Land, buildings and equipment, net	$	257,118	256,708

The construction in progress balance at June 30, 2017 relates principally to construction of a new academic building and improvements to the central heating plant and Whittier Field complex.

(6) Retirement Plans

Defined Contribution Plan

Retirement benefits are provided under defined contribution plans. The College's expense under these plans is based on the qualifying salaries of the participants and was $7,537,000 and $7,216,000 in 2017 and 2016, 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, 2017 and 2016 is as follows (in thousands):

		2017	2016
Change in benefit obligation:			
APBO, beginning of year	$	18,250	16,253
Service costs		952	877
Interest costs		501	612
Plan participant contributions		280	281
Medicare Part D subsidy received		—	6
Actuarial (gain) loss		(2,000)	1,526
Benefits paid		(1,555)	(1,305)
APBO and funded status, end of year	$	16,428	18,250
Change in plan assets:			
Fair value of plan assets at beginning of year	$	—	—
Employer contributions		1,275	1,024
Plan participant contributions		280	281
Benefits paid		(1,555)	(1,305)
Fair value of plan assets at end of year	$	—	—

In 2015, the College began using the RP-2014 mortality tables issued by the Society of Actuaries in October 2014 to value the APBO. The discount rate used to value the APBO was 3.43% in 2017 and 2.98% in 2016 based on prevailing interest rates. As of June 30, 2017 and 2016, the College has internally funded a portion of this obligation through the establishment of a Board-designated endowment fund, which had a balance of $8,035,000 and $7,484,000, respectively.

Net Periodic Postretirement Benefit Cost

The discount rate used to value the net periodic postretirement benefit cost was 2.98% in 2017 and 3.86% in 2016. The net periodic postretirement benefit cost for the years ended June 30, 2017 and 2016 is as follows (in thousands):

		2017	2016
Postretirement benefits earned during the year (service cost)	$	952	877
Interest cost on accumulated postretirement benefit obligation		501	612
Amortization of prior service cost and actuarial loss		136	187
Net periodic postretirement benefit cost other than service cost		637	799
Total net periodic postretirement benefit cost	$	1,589	1,676

In the statement of activities, service cost has been allocated to expenses by function in operating activity, and net periodic benefit cost other than service cost is included in Other changes in nonoperating activity.

The weighted average health care cost trend rate used in measuring the APBO and benefit cost is 8% in 2017, gradually declining to 5% in 2023. The effect of a 1% increase in the healthcare cost trend rate is an increase of $1,162,000 in the APBO and an increase of $146,000 in the service and interest cost components of the net periodic postretirement benefit. The effect of a 1% decrease in the healthcare cost trend rate is a decrease of $1,039,000 in the APBO and a decrease of $127,000 in the service and interest cost components of the net periodic postretirement benefit.

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

		Estimated benefit payments
Year ending June 30:		
2018	$	845
2019		906
2020		966
2021		1,014
2022		1,147
2023–2027		6,350

The College expects to make employer contributions of $845,000 for the year ending June 30, 2018.

(Continued)

The amount not yet recognized as net periodic postretirement 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, 2015	$	2,455	274	2,729
New activity		1,526	—	1,526
Amortization		(72)	(115)	(187)
Total amount recognized in nonoperating activity, other changes		1,454	(115)	1,339
Unamortized amount as of June 30, 2016		3,909	159	4,068
New activity		(2,000)	—	(2,000)
Amortization		(21)	(115)	(136)
Total amount recognized in nonoperating activity, other changes		(2,021)	(115)	(2,136)
Unamortized amount as of June 30, 2017	$	1,888	44	1,932

The prior service cost that will be recognized as net periodic benefit cost in 2018 is $44,000.

(7) Bonds and Other Debt Obligations

Bonds Payable

The following is a summary of bonds outstanding at June 30, 2017, net of unamortized discounts and issuance costs (in thousands):

Obligations to Maine Health and Higher Education Facilities Authority (MHHEFA):		
Series 2008, variable rate (1.407% at June 30, 2017), due 2032-2037, par value $20,700	$	20,400
Series 2009A, 5.00% – 5.125%, due 2035 – 2039, par value $98,750		96,998
Series 2009B, taxable, 6.667%, due 2035 – 2039, par value $19,750		19,625
Total MHHEFA		137,023
Series 2012, taxable, 4.693%, due 2112, par value $128,500		127,039
Series 2017, taxable, 4.061%, due 2047, par value $45,000		44,477
Bonds payable, net	$	308,539

On April 3, 2017, the College converted the MHHEFA Series 2008 Variable Rate Demand Revenue Bonds from a weekly rate mode to a direct purchase rate mode; the bonds were subsequently purchased by a banking institution. Following the conversion, the Series 2008 Bonds bear interest at a variable rate based on 70% of 1-month London Interbank Offered Rate (LIBOR) and are subject to mandatory tender in 2027. Prior to the conversion, the Series 2008 Revenue Bonds were supported by a direct-pay letter of credit that expired in March 2017.

On April 4, 2017, the College issued $45,000,000 Series 2017 Taxable Bonds at a rate of 4.061%. Interest is payable semi-annually to bondholders, and the bonds are subject to a bullet maturity in 2047. Bond proceeds are expected to be used to finance certain capital projects.

The College administers a refunding escrow originating from a portion of the Series 2012 Taxable Bond proceeds for the purpose of paying debt service, including the redemption price of all or a portion of the $98,750,000 Series 2009A Revenue Bonds at their first optional call date of July 1, 2019. The balance held in the escrow was $96,462,000 at June 30, 2017. Certain securities held in the escrow do not meet the definition of permitted investments for the purpose of legally defeasing the Series 2009A Revenue Bonds. Therefore, both the escrow investment assets and the Series 2009A Revenue Bond debt are included in the statement of financial position.

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 and Taxable Bond Agreements, the College has established certain principal, interest, and construction funds. These funds, presented as Funds held by bond trustee on the accompanying statement of financial position, were $6,686,000 and $6,244,000 at June 30, 2017 and 2016, respectively, and were invested in a government agency money market fund (Level 1 in the fair value hierarchy).

Total interest expense incurred for the year ended June 30, 2017 was $12,906,000, net of amounts capitalized of $18,000. Total interest expense incurred for the year ended June 30, 2016 was $12,330,000, net of amounts capitalized of $15,000.

Interest Rate Swap Agreement

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 Revenue Bonds to an annual fixed rate. The following table summarizes the outstanding swap agreement at June 30, 2017 and 2016:

Counterparty	Expiration date	Remaining notional balance	Swap fixed/ floating rates	Fair value of liability at June 30: 2017	Fair value of liability at June 30: 2016
JPMorgan	July 1, 2037	$ 20,500,000	Pay 3.84%/Receive 67% 3-month LIBOR	$ (6,522,000)	(8,970,000)

The terms and conditions of the swap include two-way collateral posting requirements for either counterparty in a liability position. As of June 30, 2017, 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 during the years ended June 30, 2017 and 2016. The College has the right to terminate the interest rate swap agreement at any time at the prevailing market rate.

The College recognized a realized loss related to swap settlements of $659,000 and $721,000 for the years ended June 30, 2017 and 2016, respectively. The College recognized an unrealized gain of $2,448,000 and an unrealized loss of $2,785,000 for the years ended June 30, 2017 and 2016, respectively. The activity is included in Other changes in the statement of activities.

Other Debt Obligations

The College has $70,000,000 available under an uncollateralized, revolving line of credit with a financial institution expiring in March 2019, 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. The balance outstanding on the line of credit was $32,274,000 and $6,000,000 at June 30, 2017 and 2016, respectively.

During the year ended June 30, 2017, the College was obligated under three capital leases for the purchase of an electronic student information and admissions system, fitness equipment, and network infrastructure licensing and maintenance. The lease terms range from 36 to 60 months. Interest is computed using incremental borrowing rates that range from interest-free to 3.29%. One of the leases expired in 2017. The principal outstanding was $701,000 and $151,000 at June 30, 2017 and 2016, respectively.

Debt Maturities

The following is a schedule of principal maturities of bonds and notes payable for the next five fiscal years and thereafter as of June 30, 2017 (in thousands):

2018	$	32,555
2019		283
2020		54
2021		55
2022		28
Thereafter		312,700
	$	345,675

(8) Contingencies

The College is subject to certain legal proceedings and claims that 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 $124,473,000 and $127,948,000 at June 30, 2017 and 2016, respectively. In all cases, the College pays fees for these investments that are at or below market.

(10) Supplemental Disclosure of Cash Flow Information

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

		2017	2016
Cash paid for interest	$	12,598	12,348
Noncash activities:			
Increase (decrease) in accrued liabilities from construction of buildings and purchase of equipment		1,872	(601)
(Decrease) increase in net fixed asset recognized related to asset retirement obligation		(7)	7

(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 13, 2017 and subsequent events have been evaluated through that date.