BOWDOIN COLLEGE

Financial Statements

Year ended June 30, 2018

(with summarized comparative information for June 30, 2017)

(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, 2018, 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, 2018, 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 2017 financial statements, and we expressed an unmodified opinion on those financial statements in our report dated October 13, 2017. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2017, is consistent, in all material respects, with the audited financial statements from which it has been derived.

KPMG LLP

October 12, 2018

BOWDOIN COLLEGE
Statement of Financial Position
June 30, 2018
(with comparative information as of June 30, 2017)
(In thousands)

Assets		2018	2017
Cash and cash equivalents	$	2,596	2,598
Student and other receivables		1,899	1,471
Other assets		6,018	5,915
Contributions receivable, net		19,482	27,779
Student loans receivable, net		3,344	3,766
Investments		1,882,718	1,720,854
Beneficial interest in trusts		10,522	10,410
Funds held by bond trustee		7,065	6,686
Property and equipment, net		267,511	257,118
Total assets	$	2,201,155	2,036,597
Liabilities and Net Assets			
Accounts payable and accrued liabilities	$	22,372	23,048
Split-interest obligations		15,517	15,870
Liability for postretirement benefits		16,749	16,428
Bonds and notes payable		334,468	341,514
Other long-term obligations		8,944	10,878
Total liabilities		398,050	407,738
Unrestricted		257,557	234,041
Temporarily restricted		1,014,430	869,487
Permanently restricted		531,118	525,331
Total net assets		1,803,105	1,628,859
Total liabilities and net assets	$	2,201,155	2,036,597

See accompanying notes to financial statements.

BOWDOIN COLLEGE
Statement of Activities
Year ended June 30, 2018
(with summarized comparative information for the year ended June 30, 2017)
(In thousands)

	Unrestricted	Temporarily restricted	Permanently restricted	2018 Total	2017 Total
Operating activity:					
Revenue:					
Tuition and fees	$ 93,342	—	—	93,342	89,116
Room and board	23,757	—	—	23,757	22,358
Gross tuition and fees	117,099	—	—	117,099	111,474
Less scholarships	(38,091)	—	—	(38,091)	(33,886)
Net student charges	79,008	—	—	79,008	77,588
Auxiliary enterprises	4,851	—	—	4,851	4,624
Contributions	9,077	—	—	9,077	8,589
Endowment return appropriated	13,543	—	—	13,543	12,235
Other investment income	5,292	—	—	5,292	4,861
Government grants and contracts	3,184	—	—	3,184	2,752
Other income	2,445	—	—	2,445	2,416
Net assets released from restrictions	52,145	—	—	52,145	48,174
Total operating revenue	169,545	—	—	169,545	161,239
Expenses:					
Instruction	57,458	—	—	57,458	55,472
Research	2,356	—	—	2,356	2,355
Academic support	16,816	—	—	16,816	16,492
Student services	33,711	—	—	33,711	32,324
Institutional support	24,669	—	—	24,669	23,527
Auxiliary enterprises	32,446	—	—	32,446	30,405
Total operating expenses	167,456	—	—	167,456	160,575
Increase in net assets from operating activity	2,089	—	—	2,089	664
Nonoperating activity:					
Contributions	1,172	9,685	4,232	15,089	28,323
Investment return, net of endowment return appropriated	17,445	142,973	1,035	161,453	104,666
Endowment return appropriated	—	49,698	—	49,698	45,069
Net assets released from restrictions	5,169	(57,314)	—	(52,145)	(48,174)
Other changes	(2,249)	372	(61)	(1,938)	3,819
Transfers between net asset categories	(110)	(471)	581	—	—
Increase in net assets from nonoperating activity	21,427	144,943	5,787	172,157	133,703
Total change in net assets	23,516	144,943	5,787	174,246	134,367
Net assets, beginning of year	234,041	869,487	525,331	1,628,859	1,494,492
Net assets, end of year	$ 257,557	1,014,430	531,118	1,803,105	1,628,859

See accompanying notes to financial statements.

BOWDOIN COLLEGE
Statement of Cash Flows
Year ended June 30, 2018
(with summarized comparative information for the year ended June 30, 2017)
(In thousands)

	2018	2017
Cash flows from operating activities:		
Change in net assets	$ 174,246	134,367
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Depreciation and amortization	12,734	12,234
Loss on extinguishment of debt	1,609	—
Loss on disposal of property and equipment	306	432
Net realized and unrealized gains on investments and trusts	(229,419)	(165,532)
Change in fair value of interest rate swap	(1,471)	(2,448)
Cash paid for settlements under interest rate swap	550	659
Change in contributions receivable, net	8,297	(8,591)
Contributions for endowment and other long-term purposes	(13,979)	(11,867)
Change in other assets, net	(558)	(2,376)
Change in other liabilities, net	(983)	(220)
Net cash used in operating activities	(48,668)	(43,342)
Cash flows from investing activities:		
Purchases of investments	(368,639)	(416,610)
Sales of investments	436,109	389,047
Cash paid for property and equipment	(23,133)	(11,087)
Repayment of U.S. government loan advances	(482)	—
Change in funds held by trustee	(379)	(442)
Change in student loans receivable, net	422	336
Net cash provided by (used in) investing activities	43,898	(38,756)
Cash flows from financing activities:		
Borrowings on bonds payable	35,979	45,000
Repayments on bonds payable	(34,980)	—
Borrowings on notes payable	23,295	33,231
Repayments on notes payable	(32,555)	(6,407)
Bond issuance costs	(400)	(652)
Cash paid for settlements under interest rate swap	(550)	(659)
Contributions for endowment and other long-term purposes	13,979	11,867
Net cash provided by financing activities	4,768	82,380
Net change in cash and cash equivalents	(2)	282
Cash and cash equivalents, beginning of year	2,598	2,316
Cash and cash equivalents, end of year	$ 2,596	2,598

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 2018, Bowdoin enrolled 1,801 full-time equivalent (FTE) students, not including 155 FTE students who studied off campus. Prominent alumni include educator Geoffrey Canada ‘74; former 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, 2017, 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, 2018 and 2017 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.

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 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 $6,778,000 and $6,354,000 for the years ended June 30, 2018 and 2017, 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 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.

On December 22, 2017, the President signed into law H.R. 1, originally known as the Tax Cuts and Jobs Act. The new law includes several provisions that result in substantial changes to the tax treatment of tax-exempt organizations and their donors. The College has reviewed these provisions and the potential impact and concluded the enactment of H.R. 1 will not have a material effect on the operations of the College.

New Accounting Pronouncement

Effective in fiscal year 2018, the College retrospectively adopted the provisions of ASU 2018-14, *Changes to the Disclosure Requirements for Defined Benefit Plans*. The ASU attempts to improve the usefulness of the disclosure requirements for defined benefit plans to financial statement users. The ASU eliminates the requirement to disclose amounts expected to be recognized as components of net periodic benefit costs over the next fiscal year, as well as eliminating the effects of a one-percentage-point change in the assumed healthcare cost trend rate on the aggregate of the service and interest cost components of net periodic benefit cost and on the benefit obligation for postretirement healthcare benefits. As a result of the retrospective adoption of the ASU in 2018, these such disclosures have been removed from footnote 6 of the College's financial statements.

(2) Restricted Net Assets

The College's restricted 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	
	2018	2017	2018	2017
Instruction	$ 83,310	66,464	41,321	40,371
Lectureships	10,343	9,063	3,393	3,314
Library and museums	50,845	43,629	22,312	21,587
Operations	214,691	186,906	51,016	50,220
Professorships	122,145	104,830	53,367	53,243
Student aid	423,719	356,627	280,642	275,016
Technology	40,542	34,501	23,168	23,168
Contributions receivable and other purposes	68,835	67,467	55,899	58,412
	$ 1,014,430	869,487	531,118	525,331

(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, 2018, 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, 2018 and 2017 (in thousands):

	Investments measured at NAV	Investments categorized in the fair value hierarchy			Total fair value
		Level 1	Level 2	Level 3	
2018:					
Cash and cash equivalents	$ —	25,412	—	—	25,412
Fixed income	22,842	54,913	15,101	—	92,856
Equities:					
Domestic	159,596	10,866	—	—	170,462
Emerging markets	96,260	434	—	—	96,694
Global	149,641	3,995	—	—	153,636
Absolute return:					
Global macro	190,911	—	—	—	190,911
Global long/short	212,709	—	—	—	212,709
Opportunistic & other	235,022	—	—	—	235,022
Alternative investments:					
Private equity	513,468	—	—	—	513,468
Real assets	185,198	—	—	6,350	191,548
	$ 1,765,647	95,620	15,101	6,350	1,882,718

	Investments measured at NAV	Investments categorized in the fair value hierarchy			Total fair value
		Level 1	Level 2	Level 3	
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

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, 2018 and 2017.

Liquidity

Investment liquidity as of June 30, 2018 and 2017 is aggregated in the tables below based on redemption or sale period (in thousands):

		Daily	Monthly	Quarterly	Semi-annually	Annual/ longer	Illiquid	Total
2018:								
Cash and cash equivalents	$	25,398	—	—	—	—	14	25,412
Fixed income		60,959	—	22,842	—	—	9,055	92,856
Equities		41,790	53,389	231,157	12,514	66,815	15,127	420,792
Absolute return		—	82,424	464,167	19,691	38,301	34,059	638,642
Alternative investments		—	—	—	—	—	705,016	705,016
	$	128,147	135,813	718,166	32,205	105,116	763,271	1,882,718

		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

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):

		2018	2017
Investment return:			
Interest and dividends, net	$	652	1,663
Net realized and unrealized gains		229,334	165,168
Investment return	$	229,986	166,831

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

		2018	2017
Investment return:			
Endowment return appropriated (operating)	$	13,543	12,235
Other investment income (operating)		5,292	4,861
Endowment return appropriated (nonoperating)		49,698	45,069
Investment return (nonoperating)		161,453	104,666
Investment return	$	229,986	166,831

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, 2018 was $312,769,000. Of this amount, 11.8% 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 1,592 individual donor-restricted endowment funds and 137 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, 2018 and 2017 is as follows (in thousands):

		Unrestricted	Temporarily restricted	Permanently restricted	Total
2018:					
Donor-restricted endowment funds	$	—	981,180	505,491	1,486,671
Board-designated endowment funds		135,556	5,938	—	141,494
Total endowment funds	$	135,556	987,118	505,491	1,628,165

		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

Changes in endowment net assets for the years ended June 30, 2018 and 2017 are as follows (in thousands):

		Unrestricted	Temporarily restricted	Permanently restricted	Total
2018:					
Endowment net assets, beginning of year	$	120,421	839,083	496,405	1,455,909
Investment return		18,158	200,806	—	218,964
Appropriation of endowment assets for expenditure		(13,543)	(49,698)	—	(63,241)
Use of accumulated gains on donor restricted funds to support appropriation		8,313	(8,313)	—	—
New gifts, other additions and transfers between restriction categories		2,207	5,240	9,086	16,533
Endowment net assets, end of year	$	135,556	987,118	505,491	1,628,165

		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

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.

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. 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, 2018 and 2017 was 5%. The annual distribution amounted to $63,241,000 in 2018 and $57,304,000 in 2017. The fiscal year 2018 distribution of $63,241,000 was 4.3% of the endowment market value as of June 30, 2017. 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 Resources 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. There were no funds with deficiencies at June 30, 2018 and 2017.

(4) Contributions Receivable

Contributions receivable consist of the following at June 30, 2018 and 2017 (in thousands):

		Temporarily restricted	Permanently restricted	Total
2018:				
Pledges receivable	$	10,923	6,461	17,384
Contributions receivable held in outside trusts		4,952	4,812	9,764
Total contributions receivable		15,875	11,273	27,148
Less allowance for uncollectibles		(600)	(400)	(1,000)
Less unamortized discount (rates ranging from 1.3% to 5.9%)		(4,039)	(2,627)	(6,666)
Contributions receivable, net	$	11,236	8,246	19,482
Amounts due in:				
Less than one year	$	2,539	3,837	6,376
One to five years		8,385	2,624	11,009
More than five years		4,951	4,812	9,763
Gross amount due	$	15,875	11,273	27,148

As of June 30, 2018, 56% of the gross pledges receivable balance is due from four donors.

		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 5.6%)		(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

(5) Property and Equipment

A summary of property and equipment at June 30, 2018 and 2017 is as follows (in thousands):

		2018	2017
Land	$	5,650	5,420
Land improvements		14,156	7,805
Buildings		356,635	348,487
Furniture and fixtures		5,491	5,353
Instructional and computer equipment		10,438	10,033
Machinery and vehicles		3,453	2,930
Operational equipment		28,040	27,794
Construction in progress		14,777	8,706
		438,640	416,528
Accumulated depreciation		(171,129)	(159,410)
Land, buildings and equipment, net	$	267,511	257,118

The construction in progress balance at June 30, 2018 relates principally to construction of a new academic building, improvements to the campus electrical system, and construction of new student housing.

(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 $7,796,000 and $7,537,000 in 2018 and 2017, 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, 2018 and 2017 is as follows (in thousands):

		2018	2017
Change in benefit obligation:			
APBO, beginning of year	$	16,428	18,250
Service costs		959	952
Interest costs		584	501
Plan participant contributions		280	280
Actuarial loss (gain)		92	(2,000)
Benefits paid		(1,594)	(1,555)
APBO and funded status, end of year	$	16,749	16,428
Change in plan assets:			
Fair value of plan assets at beginning of year	$	—	—
Employer contributions		1,314	1,275
Plan participant contributions		280	280
Benefits paid		(1,594)	(1,555)
Fair value of plan assets at end of year	$	—	—

The College uses the RP-2014 mortality tables issued by the Society of Actuaries to value the APBO. The discount rate used to value the APBO was 3.89% in 2018 and 3.43% in 2017 based on prevailing interest rates. The weighted average health care cost trend rate used in measuring the APBO and benefit cost is 7.5% in 2018, gradually declining to 5% in 2024. As of June 30, 2018 and 2017, the College has internally funded a portion of this obligation through the establishment of a Board-designated endowment fund, which had a balance of $8,885,000 and $8,035,000, respectively.

Net Periodic Postretirement Benefit Cost

The discount rate used to value the net periodic postretirement benefit cost was 3.43% in 2018 and 2.98% in 2017. The net periodic postretirement benefit cost for the years ended June 30, 2018 and 2017 is as follows (in thousands):

		2018	2017
Postretirement benefits earned during the year (service cost)	$	959	952
Interest cost on accumulated postretirement benefit obligation		584	501
Amortization of prior service cost and actuarial loss		67	136
Net periodic postretirement benefit cost other than service cost		651	637
Total net periodic postretirement benefit cost	$	1,610	1,589

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.

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

		Estimated benefit payments, net
Year ending June 30:		
2019	$	845
2020		908
2021		973
2022		1,024
2023		1,164
2024–2028		6,816

The College expects to make employer contributions of $845,000 for the year ending June 30, 2019.

(7) Bonds and Other Debt Obligations

Bonds Payable

The following is a summary of bonds outstanding at June 30, 2018, net of unamortized discounts and issuance costs (in thousands):

Obligations to Maine Health and Higher Education Facilities Authority (MHHEFA):		
Series 2008, variable rate (2.060% at June 30, 2018), due 2032-2037, par value $20,700	$	20,421
Series 2009A, 5.000% – 5.125%, due 2035 – 2039, par value $64,790		63,693
Series 2009B, taxable, 6.667%, due 2035 – 2039, par value $19,750		19,631
Series 2017, 5.000%, due 2035 - 2039, par value $30,435		35,459
Total MHHEFA		139,204
Series 2012, taxable, 4.693%, due 2112, par value $128,500		127,054
Series 2017, taxable, 4.061%, due 2047, par value $45,000		44,495
Bonds payable, net	$	310,753

On December 28, 2017, the College issued $30,435,000 Series 2017 Revenue Bonds through MHHEFA for the purpose of advance refunding $33,960,000 Series 2009A bonds. The bonds bear interest at a rate of 5.000%, payable semi-annually to bondholders.

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 $64,790,000 remaining Series 2009A Revenue Bonds at their first optional call date of July 1, 2019. In December 2017, the Board voted to release $33,960,000 of the escrow in conjunction with the advance refunding of the Series 2009A bonds. The released escrow is available to finance capital projects. The balance held in the escrow was $97,012,000 at June 30, 2018. 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, reported in Investments and Bonds and notes payable, respectively.

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 $7,065,000 and $6,686,000 at June 30, 2018 and 2017, 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, 2018 was $14,237,000, net of amounts capitalized of $182,000. Total interest expense incurred for the year ended June 30, 2017 was $12,906,000, net of amounts capitalized of $18,000.

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, 2018 and 2017:

Counterparty	Expiration date	Remaining notional balance	Swap fixed/ floating rates	Fair value of liability at June 30 2018	Fair value of liability at June 30 2017
JPMorgan	July 1, 2037	$ 20,500,000	Pay 3.84%/Receive 67% 3-month LIBOR	$ (5,051,000)	(6,522,000)

The terms and conditions of the swap include two-way collateral posting requirements for either counterparty in a liability position. As of June 30, 2018, 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, 2018 and 2017. 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 $550,000 and $659,000 for the years ended June 30, 2018 and 2017, respectively. The College recognized unrealized gains of $1,471,000 and $2,448,000 for the years ended June 30, 2018 and 2017, 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 2020, 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 $23,295,000 and $32,274,000 at June 30, 2018 and 2017, respectively.

During the year ended June 30, 2018, the College was obligated under two capital leases for the purchase of 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%. The principal outstanding was $420,000 and $701,000 at June 30, 2018 and 2017, 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, 2018 (in thousands):

2019	$	23,578
2020		53
2021		56
2022		28
2023		—
Thereafter		309,175
	$	332,890

(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 $154,238,000 and $124,473,000 at June 30, 2018 and 2017, respectively. The selection, due diligence, recommendation and monitoring associated with these investments is equally as rigorous as with any of the College's investments. Related parties must recuse themselves from any decisions involving their respective entities and are subject to the Investment Committee conflict of interest policies. 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):

		2018	2017
Cash paid for interest	$	14,394	12,598
Noncash activities:			
Increase in accrued liabilities from construction of buildings and purchase of equipment		294	1,872
(Decrease) in net fixed asset recognized related to asset retirement obligation		(3)	(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 12, 2018 and subsequent events have been evaluated through that date.