KPMG

BOWDOIN COLLEGE

Financial Statements

Year ended June 30, 2018

(with summarized comparative information for June 30, 2017)

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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.

Managementô

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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
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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:					

Unrestricted Net Assets

Contain no donor-

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 flege [illegible]CobjecJN[illegible]h are as fol415capitems flege

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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

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

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	
2017:					

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 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

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	$	—	—

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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):

%

(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

On December 28, 2017, the College issued $30,435,000 Series 2017 Revenue Bonds through MHHEFA for the purpose of advance

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

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 fin