# Hope College

## Financial Report
## with Additional Information
## June 30, 2010

# Hope College

## Contents

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# Independent Auditor's Report

To the Board of Trustees
Hope College

We have audited the accompanying statement of financial position of Hope College (the "College") as of June 30, 2010 and the related statements of activities and cash flows for the year then ended. These financial statements are the responsibility of the College's management. Our responsibility is to express an opinion on these financial statements based on our audit. The prior year summarized comparative information has been derived from the College's 2009 financial statements and, in our report dated November 2, 2009, we expressed an unqualified opinion on those financial statements.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards,* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As explained in Note 2, the financial statements include hedge funds, limited partnerships, and fund of funds investments valued at $67,345,721 (25 percent of net assets), whose fair values have been estimated by management in the absence of readily determinable fair values. Management's estimates are based on information provided by the fund managers or the general partners.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Hope College as of June 30, 2010 and the changes in its net assets and its cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 1, the College changed its accounting policy to comply with accounting standards for endowments subject to the Uniform Prudent Management of Institutional Funds Act (UPMIFA), which took effect in the State of Michigan in September 2009.

To the Board of Trustees
Hope College

In accordance with *Government Auditing Standards,* we have also issued our report dated November 4, 2010 on our consideration of Hope College's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide opinions on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Plante & Moran, PLLC

November 4, 2010

# Hope College

## Statement of Financial Position
## June 30, 2010
**(with comparative totals for June 30, 2009)**

| | 2010 | 2009 |
|---|---|---|
| **Assets** | | |
| Cash and cash equivalents | $ 20,734,385 | $ 23,708,581 |
| Receivables: | | |
| Student accounts and loans receivable - Less allowance for doubtful accounts of $526,000 and $490,000 at June 30, 2010 and 2009, respectively | 7,377,347 | 7,325,992 |
| Contributions receivable - Net (Note 4) | 37,231,272 | 40,330,905 |
| Government grants receivable | 1,256,482 | 1,272,090 |
| Accrued income receivable | 16,139 | 134,647 |
| Other receivables | 3,118,398 | 3,653,328 |
| Inventories and other assets | 734,372 | 762,402 |
| Prepaid and deferred expenses | 916,871 | 867,836 |
| Note payable issuance costs - Net | 1,018,265 | 1,119,550 |
| Investments (Note 2) | 144,178,507 | 131,530,456 |
| Land, buildings, and equipment - Net (Note 5) | 154,052,122 | 151,438,101 |
| Total assets | **$ 370,634,160** | **$ 362,143,888** |
| **Liabilities and Net Assets** | | |
| **Liabilities** | | |
| Accounts payable | $ 2,608,972 | $ 3,236,630 |
| Accrued liabilities | 4,878,691 | 5,010,300 |
| Students' and other deposits | 1,221,460 | 1,182,966 |
| Deferred tuition and fees | 1,001,718 | 964,833 |
| Obligations under split-interest agreements (Note 8) | 9,303,904 | 9,689,402 |
| Notes payable (Note 6) | 66,875,000 | 74,055,000 |
| Fair value of interest rate swap (Note 6) | 2,484,608 | 1,209,375 |
| Refundable Federal Perkins Loan advances | 6,357,867 | 5,923,823 |
| Accumulated employee postretirement plans (Note 10) | 10,944,201 | 13,862,670 |
| Total liabilities | 105,676,421 | 115,134,999 |
| **Net Assets** | | |
| Unrestricted | 115,884,813 | 112,072,478 |
| Temporarily restricted | 37,614,775 | 29,910,949 |
| Permanently restricted | 111,458,151 | 105,025,462 |
| Total net assets | 264,957,739 | 247,008,889 |
| Total liabilities and net assets | **$ 370,634,160** | **$ 362,143,888** |

See Notes to Financial Statements.

# Hope College

## Statement of Activities
## Year Ended June 30, 2010
### (with comparative totals for year ended June 30, 2009)

| | 2010 | | | | 2009 |
|---|---|---|---|---|---|
| | Unrestricted | Temporarily Restricted | Permanently Restricted | Total | Total |
| **Revenue, Gains, and Other Support** | | | | | |
| Tuition and fees - Net of institutional discounts of $27,110,625 and $26,034,841 and other financial aid of $21,158,984 and $19,550,266 in 2010 and 2009, respectively | $ 48,499,798 | $ - | $ - | $ 48,499,798 | $ 48,063,601 |
| Other student revenue | 2,196,173 | - | - | 2,196,173 | 2,201,274 |
| Contributions | 2,346,721 | 3,613,108 | - | 5,959,829 | 7,097,427 |
| Government grants and contracts | - | 6,285,218 | - | 6,285,218 | 3,829,519 |
| Dividend, interest, and other gains (losses) on nonendowed investments | 227,591 | 1,478,222 | - | 1,705,813 | (2,958,468) |
| Income from auxiliary activities | 24,648,876 | - | - | 24,648,876 | 24,318,245 |
| Other income | 3,457,473 | 1,639,470 | - | 5,096,943 | 3,136,177 |
| Total revenue, gains, and other support | 81,376,632 | 13,016,018 | - | 94,392,650 | 85,687,775 |
| **Net Assets Released from Restrictions** | | | | | |
| Purpose restrictions accomplished for research and various programs | 10,070,770 | (10,070,770) | - | - | - |
| Endowment income recognized under spending policy | 6,203,331 | (6,203,331) | - | - | - |
| Purpose restrictions accomplished for capital projects | 2,792,597 | (2,792,597) | - | - | - |
| Maturity of annuity contract | 157,560 | (234,069) | 76,509 | - | - |
| Total net assets released from restrictions | 19,224,258 | (19,300,767) | 76,509 | - | - |
| Total revenue, gains, other support, and net assets released from restrictions | 100,600,890 | (6,284,749) | 76,509 | 94,392,650 | 85,687,775 |
| **Expenses and Losses** | | | | | |
| Instruction | 30,844,401 | - | - | 30,844,401 | 30,941,056 |
| Research | 6,804,786 | - | - | 6,804,786 | 5,810,047 |
| Academic support | 7,971,566 | - | - | 7,971,566 | 7,883,948 |
| Student services | 11,442,605 | - | - | 11,442,605 | 11,848,848 |
| Institutional support | 5,259,746 | - | - | 5,259,746 | 5,462,232 |
| Fundraising | 4,106,900 | - | - | 4,106,900 | 4,142,622 |
| Sales and service | 2,521,543 | - | - | 2,521,543 | 2,831,337 |
| Auxiliary enterprises | 23,942,899 | - | - | 23,942,899 | 25,305,976 |
| Total expenses and losses | 92,894,446 | - | - | 92,894,446 | 94,226,066 |
| **Increase (Decrease) in Net Assets** - Before endowed gifts and related revenue | 7,706,444 | (6,284,749) | 76,509 | 1,498,204 | (8,538,291) |
| **Endowed Gifts and Related Revenue** | | | | | |
| Investment income (loss) | 971,706 | 8,878,634 | 77,720 | 9,928,060 | (32,440,111) |
| Change in value of split-interest agreements | - | 244,126 | - | 244,126 | 1,443,318 |
| Endowment and other permanently restricted contributions | - | - | 6,278,460 | 6,278,460 | 5,785,719 |
| Total endowed gifts and related revenue | 971,706 | 9,122,760 | 6,356,180 | 16,450,646 | (25,211,074) |
| **Increase (Decrease) in Net Assets** | 8,678,150 | 2,838,011 | 6,432,689 | 17,948,850 | (33,749,365) |
| **Net Assets** - Beginning of year | 112,072,478 | 29,910,949 | 105,025,462 | 247,008,889 | 280,758,254 |
| **Cumulative Effect from Change in Accounting Principle** (Note 9) | (4,865,815) | 4,865,815 | - | - | - |
| **Net Assets** - End of year | **$ 115,884,813** | **$ 37,614,775** | **$ 111,458,151** | **$ 264,957,739** | **$ 247,008,889** |

# Hope College

## Statement of Cash Flows
## Year Ended June 30, 2010
**(with comparative totals for year ended June 30, 2009)**

| | 2010 | 2009 |
|---|---|---|
| **Cash Flows from Operating Activities** | | |
| Increase (decrease) in net assets | $ 17,948,850 | $ (33,749,365) |
| Adjustments to reconcile increase (decrease) in net assets to net cash from operating activities: | | |
| Depreciation | 6,770,758 | 6,860,477 |
| Amortization of loan issuance costs | 101,285 | 58,386 |
| Accumulated postretirement benefits | (2,918,469) | (2,744,596) |
| Obligations under split-interest agreements | (244,126) | (1,443,318) |
| Net (appreciation) depreciation of investments | (11,881,323) | 49,569,072 |
| Loss on interest rate swap liability | 1,275,233 | 770,273 |
| Net realized loss on sale of investments | 1,271,320 | 2,590,333 |
| Decrease (increase) in assets: | | |
| Accrued income | 118,508 | 88,139 |
| Grants receivable | 15,608 | (316,138) |
| Student receivables and other | 247,335 | (1,181,821) |
| Prepaid and deferred expenses | (49,035) | (295,050) |
| Inventory and other assets | 28,030 | (32,669) |
| Contributions receivable - Net of restricted proceeds | (4,614,101) | (13,156,763) |
| (Decrease) increase in liabilities: | | |
| Accounts payable and accrued liabilities | (759,267) | 2,102,049 |
| Students' and other deposits | 38,494 | (153,139) |
| Deferred tuition and fees | 36,885 | 103,225 |
| Net cash provided by operating activities | 7,385,985 | 9,069,095 |
| **Cash Flows from Investing Activities** | | |
| Purchase of building improvements and equipment | (9,384,779) | (10,027,349) |
| Proceeds from sale of property | - | 112,892 |
| Student loans collected | 699,422 | 666,862 |
| Student loans advanced | (463,182) | (1,357,792) |
| Proceeds from sale of investments | 142,548,994 | 112,789,320 |
| Purchase of investments | (144,587,042) | (115,898,758) |
| Net cash used in investing activities | (11,186,587) | (13,714,825) |

## Statement of Cash Flows (Continued)
## Year Ended June 30, 2010
**(with comparative totals for year ended June 30, 2009)**

| | 2010 | 2009 |
|---|---|---|
| **Cash Flows from Financing Activities** | | |
| Proceeds from contributions restricted for: | | |
| Investment in endowment | $ 5,864,094 | $ 5,548,713 |
| Investment in land, buildings, and equipment | 1,849,640 | 7,417,784 |
| Payments on obligations under split-interest agreements | (245,707) | (148,943) |
| Proceeds from new split-interest agreements | 104,335 | 168,666 |
| Payments of notes payable and long-term debt | (7,180,000) | (3,070,000) |
| Refundable Federal Perkins Loan advances - Net of assignments | 434,044 | (16,392) |
| Net cash provided by financing activities | 826,406 | 9,899,828 |
| **Net (Decrease) Increase in Cash and Cash Equivalents** | (2,974,196) | 5,254,098 |
| **Cash and Cash Equivalents** - Beginning of year | 23,708,581 | 18,454,483 |
| **Cash and Cash Equivalents** - End of year | **$ 20,734,385** | **$ 23,708,581** |

## Note 1 - Nature of Organization and Significant Accounting Policies

**Nature of Operations** - Hope College (the "College") is a four-year private residential college located in Holland, Michigan. The College is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code.

**Accrual Basis** - The financial statements of the College have been prepared on the accrual basis.

**Classification of Net Assets** - Net assets of the College are classified as permanently restricted, temporarily restricted, or unrestricted depending on the presence and characteristics of donor-imposed restrictions limiting the College's ability to use or dispose of contributed assets or the economic benefits embodied in those assets. Earnings, gains, and losses on restricted net assets are classified as unrestricted unless specifically restricted by the donor or by applicable state law.

**Permanently Restricted Net Assets** - Permanently restricted net assets result from contributions whose use is limited by donor-imposed stipulations that neither expire by passage of time nor can be removed by the College. Permanently restricted net assets at June 30, 2010 are available for the following purposes:

| | |
|---|---|
| Scholarships | $ 67,252,404 |
| General activities of the College | 43,757,354 |
| Institutional student loans | 448,393 |
| Total permanently restricted net assets | $ 111,458,151 |

**Temporarily Restricted Net Assets** - Temporarily restricted net assets result from contributions whose use is limited by donor-imposed stipulations that expire by passage of time or can be removed by actions of the College pursuant to those stipulations. Temporarily restricted net assets at June 30, 2010 are available for the following purposes:

| | |
|---|---|
| Annuity and life income funds | $ 2,724,699 |
| Temporarily restricted earnings on endowment funds | 7,580,336 |
| Buildings and equipment | 19,027,251 |
| Research, scholarships, and other | 8,282,489 |
| Total temporarily restricted net assets | $ 37,614,775 |

## Note 1 - Nature of Organization and Significant Accounting Policies (Continued)

**Cash Equivalents** - The College considers all highly liquid investments purchased with a maturity of three months or less to be cash equivalents.

**Concentration of Credit Risk Arising from Deposit Accounts** - The College maintains cash balances at several banks. Accounts at each institution are insured by the Federal Deposit Insurance Corporation (FDIC) up to $250,000. As of June 30, 2010, the College had uninsured deposits totaling $3,275,885. The College evaluates the financial institutions with which it deposits funds; however, it is not practical to insure all cash deposits.

**Investments** - Investments in equity securities with readily determinable fair values and all investments in debt securities are reported at fair value with gains and losses reported on the statement of activities. Investments are stated at current market value based on quoted prices for publicly traded securities. Real estate investments are stated at cost on the date of acquisition or fair market value at the date of receipt in the case of gifts. Investments not publicly traded are either stated at cost, which approximates market, or at appraised market values when applicable. Hedge funds and alternatives are recorded at their most recent available valuation and updated for capital contributions and distributions. The net realized and unrealized appreciation (depreciation) in market value of investments is included in the accompanying statement of activities. Gains, losses, and investment income are reported as increases or decreases in unrestricted net assets unless their use is restricted by explicit donor stipulations or law.

**Accounts Receivable** - Accounts receivable are stated at net invoice amounts. An allowance for bad debts is established on a specific assessment of all invoices that remain unpaid following normal customer payment periods. All amounts deemed uncollectible are charged against bad debt expense in the period that determination is made.

**Contributions** - Contributions of cash and other assets, including unconditional promises to give in the future, are reported as revenue when received, measured at fair value. Donor promises to give in the future are recorded at the present value of estimated future cash flows. Contributions resulting from split-interest agreements, measured at the time the agreements are entered into, are based on the difference between the fair value of the assets received or promised and the present value of the obligation to the third-party recipient(s) under the contract. The College has adopted the policy of recording temporarily restricted contributions as unrestricted if the restriction is met and released in the same accounting period.

## Note 1 - Nature of Organization and Significant Accounting Policies (Continued)

**Inventories** - Inventories consist of books, merchandise, and food supplies, and are carried at the lower of cost or market determined by the first-in, first-out (FIFO) method.

**Land, Buildings, and Equipment** - Land, buildings, and equipment are recorded at cost, except for donated land and equipment, which are recorded at fair market value at the date of the gift. Depreciation is computed by the straight-line basis over the estimated useful lives of the assets, which range from 5 to 50 years. Expenditures for maintenance and repairs are charged to expense as incurred, whereas major additions are capitalized.

**Federal Financial Assistance Programs** - The College participates in federally funded Pell Grants, SEOG Grants, Federal Work-Study, Federal Direct Lending, and Perkins Loans programs. Federal programs are audited in accordance with the Single Audit Act Amendments of 1996, the U.S. Office of Management and Budget Revised Circular A-133, *Audit of States, Local Governments and Non-Profit Organizations*, and the Compliance Supplement.

During 2010, the College distributed $15,492,837 for direct lending through the U.S. Department of Education, which is not included as revenue and expenditures in the accompanying financial statements.

**Functional Expenses** - Program expenses on the statement of activities are classified as instruction, student services, and research. Support and administrative expenses include academic support, institutional support, sales and service, and auxiliary enterprises. Fundraising costs have been identified separately on the statement of activities. Although methods of allocation used are considered appropriate, other methods could be used that would produce different amounts.

**Use of Estimates** - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures in the financial statements. Accordingly, actual results could differ from those estimates.

**Risks and Uncertainties** - The College invests in various investment securities. Investment securities are exposed to various risks such as interest rate, market, and credit risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and those changes could materially affect the amounts reported in the statement of financial position.

## Note 1 - Nature of Organization and Significant Accounting Policies (Continued)

**Fair Value of Financial Instruments** - The estimated fair value amounts have been determined by the College using available market information and appropriate valuation methodologies. These estimates are subjective in nature and involve uncertainties and matters of considerable judgment. Accordingly, the estimates presented herein are not necessarily indicative of the amounts the College could realize in a current market exchange. The use of different assumptions, judgments, and/or estimation methodologies may have a material effect on the estimated fair value amounts. With the exception of long-term debt, for all financial instruments, the carrying value is a reasonable estimate of fair value because of the short-term nature of the financial instruments. All investment securities are carried at fair value in the financial statements and are discussed further in Note 3. The carrying amount of the College's notes payable was $66,875,000 compared to fair values of $67,000,000. The estimated fair values were based on rates available to the College for debt with similar terms and maturities as of June 30, 2010.

**Comparative Financial Information** - The financial statements include certain summarized comparative information for 2009. Such information does not include information by net asset class or other disclosures in sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the College's financial statements for the year ended June 30, 2009, from which the summarized information was derived.

**Change in Accounting Policy** - During the fiscal year ended June 30, 2010, the College changed its accounting policy to comply with accounting standards for endowments subject to the Uniform Prudent Management of Institutional Funds Act (UPMIFA), which took effect in the State of Michigan in September 2009. The accounting standards require investment earnings on permanently restricted endowment assets subject to UPMIFA to be classified as temporarily restricted until they are appropriated for expenditure by the College. Prior to the change, investment earnings on permanently restricted endowment assets were classified as unrestricted at the time it was earned. As a result of the change, a reclassification based on change in law has been recorded to properly account for performance on the endowment funds.

**Subsequent Events** - The financial statements and related disclosures include evaluation of events up through and including November 4, 2010, which is the date the financial statements were available to be issued.

## Note 2 - Investments

The following summarizes the College's securities by type at June 30, 2010:

| | 2010 | |
|---|---|---|
| | Fair Value | Cost |
| Real estate and land contracts | $ 6,241,209 | $ 6,790,993 |
| Publicly traded securities | 66,816,902 | 61,154,504 |
| Corporate bonds | 995,742 | 1,025,386 |
| Hedge funds, limited partnerships, and fund of funds | 67,345,721 | 67,763,333 |
| Federal and other treasury related securities | 1,936,416 | 1,720,359 |
| Certificate of deposits | 553,078 | 550,000 |
| Other | 289,439 | 299,692 |
| Total securities | $ 144,178,507 | $ 139,304,267 |

Included in the above securities is $100,744,617 in investments, generally consisting of hedge funds, limited partnerships, fund of funds, and other private equity securities of which $84,474,300 do not have readily determinable fair market values, and consequently have been recorded at their estimated fair market value based upon the most recent available valuation.

At June 30, 2010, the College has committed to investing additional capital of $20,886,610 in limited partnerships and private equity securities.

Investment income included in the accompanying statement of activities is as follows:

| | |
|---|---|
| Total dividends and interest - Net of fees | $ 892,958 |
| Net realized and unrealized gains | 10,740,915 |
| Total | $ 11,633,873 |
| Reported as: | |
| Endowment income recognized under spending policy | $ 6,203,331 |
| Dividend, interest, and other gains on nonendowed investments - Net of fees | 1,705,813 |
| Net gains on investments - Net of endowment income realized under spending policy | 3,724,729 |
| Total | $ 11,633,873 |

There was $574,835 of fees netted against investment income as of June 30, 2010.

## Note 3 - Fair Value Measurements

Accounting standards require certain assets and liabilities be reported at fair value in the financial statements and provide a framework for establishing that value. The framework for determining fair value is based on a hierarchy that prioritizes the inputs and valuation techniques used to measure fair value.

The following table presents information about the College's assets and liabilities measured at fair value on a recurring basis at June 30, 2010 and 2009 and the valuation techniques used by the College to determine those fair values.

**Level 1** - In general, fair values determined by Level 1 inputs use quoted prices in active markets for identical assets or liabilities that the College has the ability to access.

**Level 2** - Fair values determined by Level 2 inputs use other inputs that are observable, either directly or indirectly. These Level 2 inputs include quoted prices for similar assets and liabilities in active markets and other inputs such as interest rates and yield curves that are observable at commonly quoted intervals.

**Level 3** - Level 3 inputs are unobservable inputs, including inputs that are available in situations where there is little, if any, market activity for the related asset or liability. These Level 3 fair value measurements are based primarily on management's own estimates using pricing models, discounted cash flow methodologies, or similar techniques taking into account the characteristics of the asset.

In instances where inputs used to measure fair value fall into different levels in the above fair value hierarchy, fair value measurements in their entirety are categorized based on the lowest level input that is significant to the valuation. The College's assessment of the significance of particular inputs to these fair value measurements requires judgment and considers factors specific to each asset or liability.

## Note 3 - Fair Value Measurements (Continued)

### Assets and Liabilities Measured at Fair Value on a Recurring Basis at June 30, 2010

| | Balance at June 30 , 2010 | Quoted Prices in Active Markets for Identical Assets (Level 1) | Significant Other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) |
|---|---|---|---|---|
| **Assets** - Investments | | | | |
| Common stocks: | | | | |
| Domestic stocks | $ 20,708,575 | $ 13,981,410 | $ 6,727,165 | $ - |
| Foreign stocks | 17,967,235 | - | 17,967,235 | - |
| Global equity (Domestic/Int'l) | 7,562,312 | - | 7,562,312 | - |
| Fixed income: | | | | |
| Federal, government, and agency bonds | 10,350,892 | - | 10,350,892 | - |
| Corporate bonds | 995,742 | - | 995,742 | - |
| Municipal bonds | 25,038 | - | 25,038 | - |
| Other: | | | | |
| Hedge funds | 38,762,489 | - | - | 38,762,489 |
| Real estate and land contract | 1,325,606 | - | - | 1,325,606 |
| Commodities and real assets | 17,124,393 | - | - | 17,124,393 |
| Alternatives | 27,161,258 | - | - | 27,161,258 |
| Money markets and CDs | 2,094,413 | 2,094,413 | - | - |
| Other | 100,554 | - | - | 100,554 |
| Total | $ 144,178,507 | $ 16,075,823 | $ 43,628,384 | $ 84,474,300 |
| **Liabilities** - Fixed rate, variable rate wrap agreement | $ (2,484,608) | $ - | $ (2,484,608) | $ - |

Disclosures concerning assets and liabilities measured at fair value on a recurring basis are as follows:

Investments categorized as Level 3 assets primarily consist of private equity, hedge, and fund of fund positions. The College estimates the fair value of real estate investments based on appraisals with the current market and other risks involved. The College estimates the fair value of venture capital investments based on valuations provided from fund managers or the general partners.

Both observable and unobservable inputs may be used to determine the fair value of positions classified as Level 3 assets and liabilities. As a result, the unrealized gains and losses for these assets and liabilities presented in the table above may include changes in fair value that were attributable to both observable and unobservable inputs.

## Note 3 - Fair Value Measurements (Continued)

The following table sets forth a summary of the changes in the fair value of the College's Level 3 investment assets for the year ended June 30, 2010:

| | Hedge Funds, Limited Partnerships, and Fund of Funds | Real Estate and Land Contracts | Other |
|---|---|---|---|
| Balance at July 1, 2009 | $ 78,118,492 | $ 1,850,190 | $ 100,554 |
| Total realized and unrealized gains (losses) | 871,193 | (514) | - |
| Net purchases, sales, and maturities | 4,058,455 | (524,070) | - |
| Balance at June 30, 2010 | $ 83,048,140 | $ 1,325,606 | $ 100,554 |

### Investments in Entities that Calculate Net Asset Value per Share:

The College holds shares or interests in investment companies at year end where the fair value of the investment held is estimated based on the net asset value per share (or its equivalent) of the investment company.

At year end, the fair value, unfunded commitments, and redemption rules of those investments and the related strategy are as follows:

### Investments Held at June 30, 2010

| | Fair Value | Unfunded Commitments | Redemption Frequency, If Eligible | Redemption Notice Period |
|---|---|---|---|---|
| Event driven (a) | $ 20,242,345 | $ - | Quarterly to Annually | 45-90 days |
| Directional equity (b) | 7,880,817 | - | Quarterly to Annually | 45-90 days |
| Fund of hedge funds (c) | 10,532,762 | - | Quarterly to Annually | 60-90 days |
| Real estate private equity (d) | 23,283,975 | 5,811,832 | Illiquid | Illiquid |
| Private equity - Domestic (e) | 22,534,801 | 15,074,779 | Illiquid | Illiquid |
| Total | $ 84,474,700 | $ 20,886,611 | | |

### Note 3 - Fair Value Measurements (Continued)

(a) Event Driven - This strategy involves taking a long or short position in any security (stock, bond, loan) of a corporation that is undergoing some corporate "event." Events include merger, acquisition, spin-off, bankruptcy, and restructuring. For instance, in a merger or acquisition, event-driven managers usually buy the stock of the company that is being acquired, and sell short the stock of the company that is acquiring, a trade which makes money if and when the two companies consummate their merger. In other types of corporate events such as bankruptcy, event-driven managers usually use the bankruptcy to purchase the bonds or loans of the bankrupt company in order to profit from the company's restructuring, either through price appreciation of the security purchased, or through actively working with the company to restructure.

(b) Directional Equity - This strategy involves buying stock long and selling stock short in order to produce a portfolio that is exposed to far less market exposure than traditional long-only portfolios of stocks. Managers make decisions on which stocks to buy long and which to sell short by using any number of multiple styles, including computer models to model the fundamental health and technical stock movement of companies, and traditional fundamental analysis of a company's value and growth prospects.

(c) Fund of Hedge Funds - This strategy involves generating returns through diversified portfolios of hedge funds and hedge fund strategies. It should be expected that this asset class will have varying levels of exposure to all of the various hedge fund strategies previously identified. The investments in this asset class will be made in securities of offshore corporations and will have an identifiable, although thinly traded, market for liquidity.

(d) Real Estate Private Equity - This strategy involves generating returns predominately through the identification of undervalued or mispriced real estate assets or real estate-related companies. Investments would be expected to be made through either public or private equity securities, convertible notes or warrants, or other acquired or originated debt securities. The exposure within this asset class would be expected to be predominately long-only exposure, and will generally be maintaining a long exposure to direct real estate assets or real estate-related companies and securities. Additionally, it is not expected that these assets would be held as marketable securities with an active or easily identifiable market; however, the asset class overall would be expected to generate some level of current income. This exposure is obtained primarily through investments in long-dated limited partnership vehicles and is considered illiquid.

## Note 3 - Fair Value Measurements (Continued)

(e) Private Equity - Domestic - This strategy involves making investments through limited partnership structures and is illiquid in nature. Investments are typically made in unlisted companies (companies not traded on public exchanges) or in some cases listed companies are purchased and taken private. Private equity encompasses a broad array of strategies and securities. Buyout, growth equity, and venture capital strategies purchase equity in private companies at different stages of the company's life cycle. Other strategies such as mezzanine or special situations will invest in debt, preferred equity, or other parts of a company's capital structure. Investments may be in any sector of the economy or geography in the United States, though funds will typically specialize in specific industries and regions.

## Note 4 - Contributions Receivable

Contributions receivable are recorded at their net present value using a discount rate equal to the 30-year Treasury bond rate on June 30 of the year in which the gift was received. The contributions have been made primarily for capital and operating purposes and are expected to be received as follows:

| | |
|---|---|
| Less than one year | $ 12,526,920 |
| One to five years | 27,546,815 |
| Total contributions receivable | 40,073,735 |
| Less unamortized discount | 2,033,842 |
| Less allowance for uncollectibles | 808,621 |
| Present value of contributions receivable | $ 37,231,272 |

## Note 5 - Land, Buildings, and Equipment

Land, buildings, and equipment consist of the following as of June 30, 2010:

| | |
|---|---|
| Land and improvements | $ 18,282,707 |
| Buildings | 187,511,118 |
| Equipment and other | 27,489,694 |
| Construction in progress | 1,767,154 |
| Total | 235,050,673 |
| Less accumulated depreciation | 80,998,551 |
| Net land, buildings, and equipment | $ 154,052,122 |

Depreciation expense was $6,770,758 for the year ended June 30, 2010.

## Note 6 - Notes Payable and Long-term Debt

The College has notes payable as follows as of June 30, 2010:

| | |
|---|---|
| Unsecured MHEFA notes issued in connection with the revenue bonds of 2004, due serially each April 1 in amounts ranging from $550,000 to $1,200,000, plus interest payable monthly at a variable weekly rate (an effective rate at June 30, 2010 of .27 percent). The 2004 bonds mature in fiscal year 2034 | $ 19,465,000 |
| Unsecured Michigan Higher Education Facilities Authority (MHEFA) notes issued in connection with the revenue bonds of 2002, due serially each April 1 in amounts ranging from $410,000 to $1,285,000 for the Series A Bonds, plus interest payable semiannually, increasing from 4.7 percent to 5.9 percent per annum, and Series B Bonds due serially each April 1 in amounts ranging from $555,000 to $1,145,000, plus interest payable monthly at a variable weekly rate (an effective rate at June 30, 2010 of .27 percent). The 2002 bonds mature in fiscal year 2032 | 34,780,000 |
| Unsecured MHEFA notes issued in connection with the revenue refunding bonds of 1999, due serially each October 1 in amounts ranging from $885,000 to $1,495,000, plus interest payable semiannually, increasing from 4.8 percent to 5.4 percent per annum. The 1999 bonds mature in fiscal year 2021 | $ 12,630,000 |
| Total | $ 66,875,000 |

## Note 6 - Notes Payable and Long-term Debt (Continued)

Scheduled minimum principal payments on these notes payable to maturity are as follows:

| | | |
|---|---|---|
| 2011 | | $ 2,890,000 |
| 2012 | | 2,995,000 |
| 2013 | | 3,115,000 |
| 2014 | | 3,230,000 |
| 2015 | | 3,335,000 |
| Thereafter | | 51,310,000 |
| | Total | $ 66,875,000 |

The College has an unsecured line of credit with a bank, which has available borrowings of $8,000,000. Interest is payable monthly at a rate of LIBOR plus an applicable margin. The line expires on February 5, 2011 and is subject to various financial covenants. There were no borrowings outstanding on this line of credit as of June 30, 2010.

Other information concerning the more significant indenture agreements is as follows:

**Michigan Higher Education Facilities Notes of 2004** - In July 2004, for the benefit of the College, MHEFA issued $25,000,000 in general revenue and Refunding Variable Rate Demand Bonds. The bonds were used to provide funding for the remaining construction on the Martha Miller Center and the construction of the DeVos Fieldhouse as well as the advanced refunding of $4,890,000 Series 1994 Bonds and $8,972,500 of Series 1996B Bonds.

The revenue of the College is pledged as collateral to the debt and, as additional collateral for the 2004 Bonds, the College obtained a letter of credit in the maximum amount of $22,671,103. This letter of credit shall terminate no earlier than July 15, 2012, or the first business day following the conversion of interest to a fixed rate. Due to the remarketing agreement, it is possible, but not expected, that $19,465,000 of this debt may be current if the bonds are not able to be remarketed.

## Note 6 - Notes Payable and Long-term Debt (Continued)

Agreements related to the notes require that the College shall:

- Maintain for each year a liquidity ratio (as defined) equal to or greater than 100 percent (at June 30, 2010, the defined liquidity ratio amounted to 204 percent)

- Establish and maintain income available for debt service (as defined) in an amount sufficient to provide annually sums equal to at least 110 percent of maximum debt service (for the year ended June 30, 2010, income available for debt service was 206 percent of maximum debt service)

- Not incur an adjusted annual deficit (as defined) that is equal to or greater than 15 percent of total unrestricted current fund revenue plus cumulative realized and unrealized net gains on investments in any fiscal year, and the sum of adjusted annual deficit percentages in the immediately preceding last three fiscal years minus the sum of adjusted annual surplus percentages in the immediately preceding last three fiscal years shall not equal or exceed 25 percent (for the year ended June 30, 2010 and the two preceding years, the College did not incur an adjusted annual deficit)

**Michigan Higher Education Facilities Notes of 2002** - In April 2002, for the benefit of the College, MHEFA issued $18,910,000 in Limited Obligation Revenue Bonds (Series A) and $20,955,000 in Variable Rate Demand Limited Obligation Revenue Bonds (Series B), primarily to provide funding for the addition to the existing Peale Science Center and construction of the Martha Miller Center. The College executed notes payable to MHEFA related to such bonds. The obligations to make repayments on the notes payable related to the 2002 Series A and B Bonds are unsecured general obligations of the College.

At the option of the College, the variable rate Series B Bonds can be converted to a fixed rate on any business day of any calendar month, at which time the interest rate would be fixed by the lender at the prevailing market rate; therefore, the College's liability to MHEFA can be converted to a fixed interest rate.

The revenue of the College is pledged as collateral to the debt and, as additional collateral for the 2002 Series B Bonds, the College obtained a letter of credit in the maximum amount of $18,753,390. This letter of credit shall terminate no earlier than December 17, 2011, or the first business day following the conversion of interest to a fixed rate. Due to the remarketing agreement, it is possible, but not expected, that $17,985,000 of this debt may be current if the bonds are not able to be remarketed.

## Note 6 - Notes Payable and Long-term Debt (Continued)

Agreements related to the notes require that the College shall:

- Maintain a Debt Service Reserve Fund or obtain a letter of credit for at least $1,370,470 (at June 30, 2010, the College has a letter of credit in the amount of $1,370,470, which expires on June 15, 2012)

- Maintain for each year a liquidity ratio (as defined) equal to or greater than 100 percent (at June 30, 2010, the defined liquidity ratio amounted to 204 percent)

- Establish and maintain income available for debt service (as defined) in an amount sufficient to provide annually sums equal to at least 110 percent of maximum debt service (for the year ended June 30, 2010, income available for debt service was 206 percent of maximum debt service)

- Maintain for each year a minimum expendable resources to debt ratio of not less than 70 percent (at June 30, 2010, the defined expendable resources to debt ratio amounted to 99 percent)

- Not incur an adjusted annual deficit (as defined) that is equal to or greater than 15 percent of total unrestricted current fund revenue plus cumulative realized and unrealized net gains on investments in any fiscal year, and the sum of adjusted annual deficit percentages in the immediately preceding last three fiscal years minus the sum of adjusted annual surplus percentages in the immediately preceding last three fiscal years shall not equal or exceed 25 percent (for the year ended June 30, 2010 and the two preceding years, the College did not incur an adjusted annual deficit)

**Michigan Higher Education Facilities Notes of 1999** - In March 1999, for the benefit of the College, the Michigan Higher Education Facilities Authority issued $17,080,000 in Limited Obligation Revenue Refunding Bonds, Series 1999 primarily to advance refund $14,385,000 of previously issued 1994 Series Bonds. The College executed notes payable to MHEFA related to such bonds, and revenue of the College is pledged as collateral for repayment of the bonds.

## Note 6 - Notes Payable and Long-term Debt (Continued)

Substantially all of the proceeds of the 1999 Series Bonds were placed in escrow with a bond trustee and used to purchase State of Michigan and United States Treasury obligations. The future cash flows from bond proceeds placed in escrow are expected to be sufficient to meet the obligations for debt service on the refunded bonds. In connection with the advance refunding, the College has been legally released from its notes to MHEFA associated with the portion of the Series 1994 Bonds to be refunded. As of June 30, 2010, $10,985,000 of the advance refunded bonds, which are considered extinguished, remains outstanding.

Agreements related to the notes require that the College shall:

- Maintain a Debt Service Reserve Fund of at least $1,540,653 (at June 30, 2010, the Debt Service Reserve Fund, included within investments in the accompanying statement of financial position, had a balance of $1,540,691)

- Maintain the market value of the marketable securities in its Endowment and Quasi-endowment Fund not pledged to any debt of the College at an amount equal to 2.0 times the sum of the principal outstanding of the Series 1999 Bonds and the Series 1996 Bonds, plus interest due on the Series 1999 Bonds and the Series 1996 Bonds on the next two succeeding interest payment dates, less any monies then on deposit in the Debt Service Reserve Fund and the Reserve Fund for the Series 1996 Bonds (at June 30, 2010, the market value of Endowment and Quasi-endowment Fund marketable securities was $134,972,981, which is $110,205,473 more than the required market value)

- Establish and maintain income available for debt service (as defined) in an amount sufficient to provide annually sums equal to at least 115 percent of maximum annual debt service (for the year ended June 30, 2010, income available for debt service was 206 percent of maximum debt service)

- Not incur an adjusted annual deficit (as defined) that is equal to or greater than 15 percent of total unrestricted revenue in any fiscal year, and the sum of adjusted annual deficit percentages in the immediately preceding last three fiscal years minus the sum of adjusted annual surplus percentages in the immediately preceding last three fiscal years shall not equal or exceed 25 percent (for the year ended June 30, 2010 and the two preceding years, the College did not incur an adjusted annual deficit)

## Note 6 - Notes Payable and Long-term Debt (Continued)

The calculations supporting the various debt covenants at June 30, 2010 and for the year then ended are as follows:

2004 and 2002 issue - Liquidity ratio:

| | |
|---|---|
| Market value of endowment fund | $ 134,972,981 |
| Long-term debt | $ 66,875,000 |
| Interest expense paid and accrued | 4,014,840 |
| Debt Service Reserve Fund | (4,705,380) |
| Total long-term debt plus interest less Debt Service Reserve Fund | $ 66,184,460 |
| Liquidity ratio | 204% |

2004 and 2002 issue - Expendable resources to debt ratio:

| | |
|---|---|
| Unrestricted net assets | $ 115,884,813 |
| Temporarily restricted net assets | 37,614,775 |
| Net assets available | $ 153,499,588 |
| Net land, buildings, and equipment | $ 154,052,122 |
| Outstanding debt | 66,875,000 |
| Net land, buildings, and equipment less debt | $ 87,177,122 |
| Expendable resources | $ 66,322,466 |
| Outstanding debt | $ 66,875,000 |
| Ratio of expendable resources to debt | 99% |

2004, 2002, and 1999 issues - Debt service coverage:

| | |
|---|---|
| Current unrestricted fund - Increase in current year net assets | $ 1,298,563 |
| Depreciation | 6,770,758 |
| Interest expense paid and accrued | 4,014,840 |
| Total income available for debt service | $ 12,084,161 |
| Maximum annual debt service | $ 5,857,447 |
| Percentage of debt service coverage | 206% |

## Note 7 - Derivative Financial Instruments

The College is exposed to certain risks in the normal course of its business operations. The main risks are those relating to the variability of future earnings and cash flows, which are managed through the use of derivatives. All derivative financial instruments are reported in the balance sheet at fair value.

In particular, interest rate swaps which are designated as fair value hedges are used to manage the risk associated with interest rates on variable-rate borrowings.

For fair value hedges, the gain or loss on the derivative instruments is offset against the loss or gain on the related hedged item recognized in current earnings. Generally, the College enters into hedging relationships such that changes in the fair value or cash flows of items and transactions being hedged are expected to be offset by corresponding changes in the values of the derivatives.

Any gains or losses recognized on derivatives that are not designated as hedging instruments for which the College has elected not to apply hedge accounting are recognized in current year earnings.

As of June 30, 2010, the College holds an interest rate swap where the College receives a variable rate and pays a fixed rate on a total notional amount of $23,500,000. An unrealized loss totaling $1,275,233 and realized losses on borrowings of $634,365 have been recognized in interest expense for the year ended June 30, 2010.

Liability derivatives are reported in the statement of financial position at fair value. As of June 30, 2010, the fair value of the liability derivative designated as an interest rate swap was $2,484,608.

## Note 8 - Beneficial Interests and Obligations Under Split-interest Agreements

The College is party to split-interest agreements with certain donors. These agreements include contracts entered into with certain donors and trust agreements from which the College benefits (matching unitrusts, pooled life revenue funds, and irrevocable trusts). Under each agreement, the donor has contributed funds to be held in trust, with the College as the beneficiary. As a condition of accepting the gift, the College is required to pay a specified amount each year to the donor or a designated beneficiary until his or her death. Upon death of the beneficiaries, the remaining funds become the property of the College. The beneficial interests (market value of assets) related to these agreements total $12,044,478 and are included in cash and cash equivalents and investments.

## Note 8 - Beneficial Interests and Obligations Under Split-interest Agreements (Continued)

Net assets related to these agreements are classified as temporarily and permanently restricted based on donor stipulations.

Obligations under split-interest agreements represent the present value of future payments to beneficiaries required under the agreements. The present value is computed based on the normal life expectancy of the beneficiaries, using discount rates ranging from 4.25 percent to 7.00 percent.

## Note 9 - Donor-restricted and Board-designated Endowments

The College's endowment fund consists of donor-restricted gifts, unrestricted gifts, and other College established quasi-endowment funds.

### Interpretation of Relevant Law

The State of Michigan enacted a version of the Uniform Prudent Management of Institutional Funds Act (UPMIFA) in September 2009. The College has interpreted the UPMIFA as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary.

As a result of this interpretation, the College classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the College in a manner consistent with the standard of prudence prescribed by UPMIFA. In accordance with UPMIFA, the College considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

(1) The duration and preservation of the fund

(2) The purposes of the organization and the donor-restricted endowment fund

(3) General economic conditions

(4) The expected total return from income and the appreciation of investments

(5) Other resources of the College

(6) The investment policies of the College

## Note 9 - Donor-restricted and Board-designated Endowments (Continued)

### Changes in Endowment Net Assets for the Fiscal Year Ended June 30, 2010

| | Unrestricted | Temporarily Restricted | Permanently Restricted | Total |
|---|---|---|---|---|
| Endowment net assets at July 1, 2009 | $ 32,805,807 | $ 37,236 | $ 103,566,329 | $ 136,409,372 |
| Contributions | 853,483 | 2,004 | 6,354,969 | 7,210,456 |
| Investment income | - | 2,255,727 | 73,865 | 2,329,592 |
| Appreciation in fair value | - | 7,594,591 | - | 7,594,591 |
| Transfers to unrestricted for positive accumulations on prior year underwater endowments | 971,706 | (971,706) | - | - |
| Spending draw | - | (6,203,331) | - | (6,203,331) |
| Effect of change in accounting principal | (4,865,815) | 4,865,815 | - | - |
| Endowment net assets at June 30, 2010 | $ 29,765,181 | $ 7,580,336 | $ 109,995,163 | $ 147,340,680 |

### Funds with Deficiencies

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor or UPMIFA requires the College to retain as a fund of perpetual duration. Deficiencies of this nature that are in excess of related temporarily restricted amounts are reported in unrestricted net assets. Such amounts totaled $4,685,986 as of June 30, 2010. These deficiencies resulted from unfavorable market fluctuations.

### Return Objectives and Risk Parameters

The College has adopted a policy to ensure a total return (yield plus capital appreciation) necessary to preserve and enhance (in real dollar terms) the principal of the funds, and at the same time, provide a dependable source of support for current projects of the College.

### Strategies Employed for Achieving Objectives

To satisfy its long-term rate-of-return objectives, the College relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The College targets a diversified asset allocation that places a greater emphasis on equity-based investments to achieve its long-term return objectives within prudent risk constraints.

### Note 9 - Donor-restricted and Board-designated Endowments (Continued)

**Spending Policy and How the Investment Objectives Relate to Spending Policy**

The College has adopted a policy to utilize a spending rate up to 5.5 percent of the trailing 12 quarter moving average of the fund's marketable securities. For the years ended June 30, 2010 and 2009, the College used a rate of 4.5 percent. The College has established an unrestricted endowment fund balance that meets or exceeds any deficiencies in donor-restricted endowments.

### Note 10 - Employee Retirement Plans

The College has the following employee retirement benefit plans that cover substantially all nonstudent employees as follows:

**1949 Plan** - This noncontributory defined benefit plan was replaced by the 1966 plan. All of the participants are now retired. The pension fund consists of assets segregated for the purpose of meeting obligations under the 1949 plan. The College's policy is to fund the 1949 plan to the extent of required minimum contributions determined actuarially. A discount rate of 6 percent was used to calculate the benefit.

**1966 Plan** - This is a defined contribution plan covering substantially all regular faculty members, administrative, and other employees. The College contributes 10.5 percent of the regular compensation of covered employees on a monthly basis to the Teachers Insurance and Annuity Association and other approved plans. Total contributions to the plan by the College were $3,431,125 in 2010. Employees may also make voluntary contributions to the plan up to certain limitations allowed by law. All contributions vest immediately.

**Early Retirement Program** - An early retirement program is available to faculty members who have reached the age of 60 and have completed 20 years of full-time service to the College. A discount rate of 6.25 percent was used to calculate the liability for this program. This program is in effect until July 31, 2011, at which time it shall terminate, unless it is renewed by the College's board of trustees.

## Note 10 - Employee Retirement Plans (Continued)

**Postretirement Benefits** - The College also provides healthcare benefits to faculty who retire after attaining age 60 with 10 years of service and to all retirees beginning at age 65. Effective April 1995, this plan was amended to discontinue offering postemployment health insurance to new employees hired after June 1, 1995. Employees hired after June 1, 1995 can receive retiree health insurance, but will be required to pay 100 percent of the monthly premiums. Effective January 1, 2005, the plan was further amended to include a level of retiree contribution by employees hired before June 1, 1995 based upon years of service and employment date. A discount rate of 6.25 percent was used to calculate the benefit.

The change in the accumulated postretirement benefit costs for the year ended June 30, 2010 is as follows:

| | 1949 Plan | Early Retirement Program | Postretirement Benefit Plan | Total |
|---|---|---|---|---|
| Accumulated benefit costs - July 1, 2009 | $ 6,412 | $ 1,287,502 | $ 12,267,839 | $ 13,561,753 |
| Service costs on benefits earned | - | 82,880 | 165,948 | 248,828 |
| Interest costs on accumulated benefit obligation | 16,380 | 72,352 | 735,378 | 824,110 |
| Expected return on plan assets | (13,330) | - | - | (13,330) |
| Amortization (deferral) of prior service cost | - | 93,091 | (333,466) | (240,375) |
| Recognition of net actuarial loss | 31,224 | (118,019) | - | (86,795) |
| Net periodic benefit cost | 34,274 | 130,304 | 567,860 | 732,438 |
| Expected benefit payments - Net of retiree payments | (55,381) | (39,410) | (501,797) | (596,588) |
| Unrecognized actuarial gain and other | 25,431 | (84,340) | (2,683,757) | (2,742,666) |
| Accumulated benefit costs - June 30, 2010 | $ 10,736 | $ 1,294,056 | $ 9,650,145 | $ 10,954,937 |

The primary source of actuarial gain recognized above relates to a decrease in the average post-65 premium costs.

## Note 10 - Employee Retirement Plans (Continued)

The expected benefits to be paid in the next fiscal years are as follows:

| | 1949 Plan | Postretirement Benefit Plan | Total |
|---|---|---|---|
| 2011 | $ 47,635 | $ 514,312 | $ 561,947 |
| 2012 | 42,967 | 524,811 | 567,778 |
| 2013 | 38,184 | 538,214 | 576,398 |
| 2014 | 33,441 | 546,377 | 579,818 |
| 2015 | 28,884 | 558,918 | 587,802 |
| 2016-2020 | 88,268 | 3,163,234 | 3,251,502 |

The 2010 costs were developed based on the health insurance plan in effect at June 30, 2010. For the year ended June 30, 2010, the actuary assumed that retiree medical cost increases would be 4 percent. The healthcare cost trend rate assumption significantly affects the amounts reported. For example, a one percentage point increase in each year would increase the accumulated postretirement benefit obligation as of June 30, 2010 by approximately $1,200,000 and the aggregate of the service and interest cost components of net periodic retiree health costs for 2010 by approximately $148,000.

## Note 11 - Self-insurance

The College has a self-insured medical plan covering all of its eligible employees. The College's individual excess risk benefit level per employee for the period ended June 30, 2010 was $100,000, with total exposure limited to approximately $3,854,000. Losses in excess of these limitations are covered by reinsurance. Amounts expensed by the College under the plan were $4,725,095 for the year ended June 30, 2010. The College has recorded an accrual of $1,032,274 at June 30, 2010 for known claims and estimated claims incurred but not reported.

## Note 12 - Related Party Transactions

The College provides tuition grants to employees and dependents of employees under an employee tuition plan. Such individuals must meet certain employment and academic requirements. Benefits under the plan do not vest. Tuition grants related to this plan were $2,646,869 during 2010.

## Note 12 - Related Party Transactions (Continued)

The College holds investments in its endowment funds that involve board members or other related parties of the College. The carrying value of such investments totaled $6,027,602 at June 30, 2010.

## Note 13 - Cash Flows

Noncash investing activities during 2010 consisted of noncash gifts and contributions totaling $87,312. Cash paid for interest during 2010 totaled $2,965,540.

# Additional Information

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To the Board of Trustees
Hope College

We have audited the financial statements of Hope College for the year ended June 30, 2010. Our audit was made for the purpose of forming an opinion on the basic financial statements taken as a whole. The accompanying combining statement of financial position - all funds as of June 30, 2010 is presented for the purpose of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects to the basic financial statements taken as a whole.

Plante & Moran, PLLC

November 4, 2010

| | June 30 | | |
|---|---|---|---|
| | 2010 | | |
| | Current Unrestricted | Current Restricted | Plant |
| **Assets** | | | |
| Cash and cash equivalents | $ 2,099,920 | $ 5,760,828 | $ 7,678,971 |
| Receivables: | | | |
| Student accounts and loans receivable - Less allowance for doubtful accounts of $526,000 and $490,000 at June 30, 2010 and 2009, respectively | 640,760 | - | - |
| Contributions receivable - Net | - | 3,911,479 | 20,952,094 |
| Government grants receivable | - | 1,256,482 | - |
| Accrued income receivable | 16,126 | - | 13 |
| Other receivables | 2,158,038 | - | 352,000 |
| Inventories and other assets | 734,372 | - | - |
| Prepaid and deferred expenses | 875,747 | 1,388 | - |
| Note payable issuance costs - Net | - | - | 1,018,265 |
| Investments | 123,783 | - | 1,575,579 |
| Land, buildings, and equipment - Net | - | - | 154,052,122 |
| Total assets | **$ 6,648,746** | **$ 10,930,177** | **$ 185,629,044** |
| **Liabilities and Net Assets (Deficit)** | | | |
| **Liabilities** | | | |
| Accounts payable | $ 754,297 | $ 201,416 | $ 1,579,766 |
| Accrued liabilities | 3,023,492 | 199,655 | 1,655,544 |
| Students' and other deposits | 431,615 | - | - |
| Deferred tuition and fees | 959,993 | - | - |
| Obligations under split-interest agreements | - | - | - |
| Notes payable | - | - | 66,875,000 |
| Fair value of interest rate swap | - | - | 2,484,608 |
| Refundable Federal Perkins Loan advances | | - | - |
| Accumulated employee postretirement benefits | 10,944,201 | - | - |
| Total liabilities | 16,113,598 | 401,071 | 72,594,918 |
| **Net Assets (Deficit)** | | | |
| Unrestricted (deficit) | (9,464,852) | 3,792,835 | 91,446,062 |
| Temporarily restricted | - | 6,728,271 | 20,581,469 |
| Permanently restricted | - | 8,000 | 1,006,595 |
| Total net assets (deficit) | (9,464,852) | 10,529,106 | 113,034,126 |
| Total liabilities and net assets (deficit) | **$ 6,648,746** | **$ 10,930,177** | **$ 185,629,044** |

# Combining Statement of Financial Position - All Funds
## June 30, 2010
**(with comparative totals for June 30, 2009)**

| June 30 | | | | | |
|---|---|---|---|---|---|
| 2010 | | | | | 2009 |
| Endowment | Annuities | Agency | Student Loan | Total | Total |
| $ 3,978,265 | $ 379,241 | $ 401,567 | $ 435,593 | $ 20,734,385 | $ 23,708,581 |
| - | - | - | 6,736,587 | 7,377,347 | 7,325,992 |
| 12,367,699 | - | - | - | 37,231,272 | 40,330,905 |
| - | - | - | - | 1,256,482 | 1,272,090 |
| - | - | - | - | 16,139 | 134,647 |
| 492,876 | - | 115,484 | - | 3,118,398 | 3,653,328 |
| - | - | - | - | 734,372 | 762,402 |
| - | - | 39,736 | - | 916,871 | 867,836 |
| - | - | - | - | 1,018,265 | 1,119,550 |
| 130,510,830 | 11,665,237 | 303,078 | - | 144,178,507 | 131,530,456 |
| - | - | - | - | 154,052,122 | 151,438,101 |
| **$ 147,349,670** | **$ 12,044,478** | **$ 859,865** | **$ 7,172,180** | **$ 370,634,160** | **$ 362,143,888** |
| $ 8,990 | $ 15,875 | $ 28,295 | $ 20,333 | $ 2,608,972 | $ 3,236,630 |
| - | - | - | - | 4,878,691 | 5,010,300 |
| - | - | 789,845 | - | 1,221,460 | 1,182,966 |
| - | - | 41,725 | - | 1,001,718 | 964,833 |
| - | 9,303,904 | - | - | 9,303,904 | 9,689,402 |
| - | - | - | - | 66,875,000 | 74,055,000 |
| - | - | - | - | 2,484,608 | 1,209,375 |
| - | - | - | 6,357,867 | 6,357,867 | 5,923,823 |
| - | - | - | - | 10,944,201 | 13,862,670 |
| 8,990 | 9,319,779 | 859,865 | 6,378,200 | 105,676,421 | 115,134,999 |
| 29,765,181 | - | - | 345,587 | 115,884,813 | 112,072,478 |
| 7,580,336 | 2,724,699 | - | - | 37,614,775 | 29,910,949 |
| 109,995,163 | - | - | 448,393 | 111,458,151 | 105,025,462 |
| 147,340,680 | 2,724,699 | - | 793,980 | 264,957,739 | 247,008,889 |
| **$ 147,349,670** | **$ 12,044,478** | **$ 859,865** | **$ 7,172,180** | **$ 370,634,160** | **$ 362,143,888** |