

# Hope College

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Financial Report  
with Additional Information  
June 30, 2008





Independent Auditor's Report

To the Board of Trustees  
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# Hope College

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## Statement of Financial Position June 30, 2008 (with comparative totals for June 30, 2007)

	<u>2008</u>	<u>2007</u>
Cash and cash equivalents	\$ 18,454,483	\$ 17,182,353
Receivables:		
Student accounts and loans receivable - Less allowance for doubtful accounts of \$370,000 and \$345,000 at June 30, 2008 and 2007, respectively	6,828,015	6,325,171
Contributions receivable - Net (Note 3)	10,486,026	4,077,343
Government grants receivable	955,952	1,615,125
Accrued income receivable	222,786	184,241
Other receivables	2,278,554	1,065,073
Inventories and other assets	729,733	600,535
Prepaid and deferred expenses	572,786	452,767
Loan issuance costs - Net	1,177,936	1,236,321
Investments held for long-term purposes (Note 2)	180,580,423	190,747,806



## Statement of Activities Year Ended June 30, 2008 (with comparative totals for year ended June 30, 2007)

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	2007  Total
<b>Revenue, Gains, and Other Support</b>					
Tuition and fees - Net of institutional discounts of \$24,173,618 and \$22,126,683 and other financial aid of \$16,145,585 and \$15,171,817 in 2008 and 2007, respectively	\$ 46,765,362	\$ -	\$ -	\$ 46,765,362	\$ 44,408,776
Other student revenue	2,280,807	-	-	2,280,807	2,353,672
Contributions	12,148,289	16,441,741	-	28,590,030	4,109,662
Government grants and contracts	-	3,383,700	-	3,383,700	3,504,169
Endowment income recognized under spending policy	6,304,462	-	-	6,304,462	6,033,153
Dividend, interest, and other	488,826	(346,629)	-	142,197	2,817,461

## Statement of Cash Flows Year Ended June 30, 2008 (with comparative totals for year ended June 30, 2007)

	<u>2008</u>	<u>2007</u>
<b>Cash Flows from Operating Activities</b>		
Increase in net assets	\$ 17,403,142	\$ 20,311,870
Adjustments to reconcile increase in net assets to net cash from operating activities:		
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Hope College

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

**Nature of Operations** - Hope College (the "College") is a four-year private residential institution 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, 2008 are available for the following purposes:

Scholarships	\$ 73,754,323
General activities of the College	24,584,775
Institutional student loans	<u>754,786</u>
Total permanently restricted net assets	<u>\$ 99,093,884</u>

**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, 2008 are available for the following purposes:

Periods after June 30	\$ 12,406,476
Building and equipment	13,190,191
Research, scholarships, and other	<u>33,328</u>
Total temporarily restricted net assets	<u>\$ 25,629,995</u>

## 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.

**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 unreportmentappodt0z6G7 5 Tc TD003 Tc -1S thSg e





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

**New Accounting Pronouncement** - In September 2006, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards No. 157 (SFAS 157), *Fair Value Measurements*. SFAS 157 defines fair value and expands disclosures about fair value measurements. SFAS 157 does not require any new fair value measurements, but provides guidance on how to measure fair value by providing a fair value hierarchy used to classify the source of the information. The provisions of SFAS 157 are effective for the fiscal year beginning July 1, 2008. The College is currently evaluating the impact, if any, of the provisions of SFAS 157 on the College's financial statements.

**Reclassification** - Certain 2007 balances have been reclassified to be consistent with the current year presentation.

**Note 2 - Investments**

The following summarizes the College's securities by type at June 30, 2008:

	Cost	Carrying Value
	<u>                    </u>	<u>                    </u>
Real estate and land contracts	\$ 3,312,742	\$ 2,066,199
Stocks	6,579,644	6,313,311
Corporate bonds	2,357,587	2,277,129
Limited partnerships	55,210,730	67,133,310
Federal securities	2,210,469	2,256,372
Mutual funds	74,923,235	99,385,670
Other	<u>1,158,092</u>	<u>1,148,432</u>
Total securities	<u>\$ 145,752,499</u>	<u>\$ 180,580,423</u>

Included in the above securities is approximately \$124 million in investments, generally consisting of hedge funds, limited partnerships, and other private equity securities that 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, 2008, the College has committed to investing additional capital of \$40,916,899 in limited partnerships and private equity securities.

### Note 2 - Investments (Continued)

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

Total dividends and interest - Net of fees	\$ 2,696,585
Net realized and unrealized losses	<u>(8,171,290)</u>
Total	<u><u>\$ (5,474,705)</u></u>
Reported as:	
Endowment income recognized under spending policy	\$ 6,304,462
Other dividend and interest income - Net of fees	142,197
Net losses on investments - Net of endowment income realized under spending policy	<u>(11,921,364)</u>
Total	<u><u>\$ (5,474,705)</u></u>

There was \$785,000 of fees netted against investment income as of June 30, 2008.

### Note 3 - 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	\$ 10,486,026
One to five years	<u>37,598,368</u>
Total contributions receivable	48,084,394
Less unamortized discount	7,107,399
Less allowance for uncollectibles	<u>836,356</u>
Present value of contributions receivable	<u><u>\$ 40,140,639</u></u>

## Note 4 - Land, Buildings, and Equipment

Land, buildings, and equipment consist of the following as of June 30, 2008:

Land and improvements	\$ 17,008,193
Buildings	





## Note 5 - Notes Payable and Long-term Debt (Continued)

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.

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, 2008, the defined liquidity ratio amounted to 223 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, 2008, income available for debt service was 194 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 revenues plus cumulative

## Note 5 - Notes Payable and Long-term Debt (Continued)

**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 \$19,459,314. This letter of credit shall terminate no earlier than May 15, 2012, or the first business day following the conversion of interest to a fixed rate.

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, 2008, 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, 2008, the defined liquidity ratio amounted to 223 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, 2008, income available for debt service was 194 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 revenues 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, 2008 and three preceding years, the College did not incur an adjusted annual deficit)

Hope College

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Notes to Financial Statements  
June 30, 2008

Note 5 - Notes Payable and Long-term Debt (Continued)

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### Note 5 - Notes Payable and Long-term Debt (Continued)

The calculations supporting the various debt covenants at June 30, 2008 and for the year then ended are as follows:

#### 2004 and 2002 Issue - Liquidity ratio:

Market value of endowment fund	<u>\$ 157,814,814</u>
Long-term debt	\$ 77,125,000
Interest expense	3,328,369
Debt Service Reserve Fund	(9,618,190)
Total long-term debt plus interest less Debt Service Reserve Fund	<u>\$ 70,835,179</u>
Liquidity ratio	<u>223%</u>

#### 2004, 2002, and 1999 Issues - Debt service coverage:

Current unrestricted fund - Increase in current year net assets	\$ 1,935,598
Depreciation	6,985,892
Interest expense	<u>3,328,369</u>
Total income available for debt service	<u>\$ 12,249,859</u>
Maximum annual debt service	<u>\$ 6,308,029</u>
Percentage of debt service coverage	<u>194%</u>

#### 1996 Issue - Income available for debt service:

Current funds revenues plus plant funds gains (or losses)	\$ 114,366,852
Current unrestricted funds expenses - Less mandatory transfer	<u>(99,362,816)</u> 2 13.620473.74

Hope College

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## Note 7 - 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 approximately \$3,006,000 in 2008. 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. The program provides a lump-sum payment based on the employee's years of service and salary at the time of retirement. The program is subject to the terms and conditions of the plan.

Note 7 - Employee Retirement Plans (Continued)

The change in the accumulated postretirement benefit costs for the year ended June 30, 2008 is as follows:

	1949 Plan	Early Retirement Program	Postretirement Benefit Plan	Total
Accumulated benefit costs - July 1, 2007	\$ 6,089	\$ 2,272,541	\$ 13,640,386	\$ 15,919,016
Service costs on benefits earned	-	155,016	220,688	375,704
Interest costs on accumulated benefit obligation	22,680	127,186	818,593	968,459
Expected return on plan assets	(19,092)	-	-	(19,092)
Amortization of prior service cost	-	(93,091)	(333,466)	(426,557)
Recognition of net actuarial loss	38,370	(814)	129,870	167,426
Net periodic benefit cost	41,958	188,297	835,685	1,065,940
Less benefit payments - Net of retiree payments	(78,019)	(52,456)	(446,855)	(577,330)
Participant contributions	-	-	169,668	169,668
Accumulated benefit costs - June 30, 2008	<u>\$ (29,972)</u>	<u>\$ 2,408,382</u>	<u>\$ 14,198,884</u>	<u>\$ 16,577,294</u>

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

	1949 Plan	1966 Plan	Postretirement Benefit Plan	Total
2009	\$ 61,946	\$ -	\$ 538,513	\$ 600,459
2010	55,667	-	588,152	643,819
2011	49,517	-	666,781	716,298
2012	43,592	-	699,545	743,137
2013	37,974	-	745,040	783,014
2014-2018	119,909	-	4,354,613	4,474,522



## Note 7 - Employee Retirement Plans (Continued)

The 2008 costs were developed based on the health insurance plan in effect at June 30, 2008. For the year ended June 30, 2008, the actuary assumed that retiree medical cost increases would be 10 percent in the first year and would gradually decrease each year until the rate of increase was 5 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, 2008 by approximately \$2,036,000 and the aggregate of the service and interest cost components of net periodic retiree health costs for 2008 by approximately \$176,000.

The College has adopted the provisions of FASB Statement No. 158 (FAS 158), *Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans*, an amendment of FASB Statements No. 87, 88, 106, and 132(R). FAS 158 changes the accounting for defined benefit pension and postretirement plans by requiring that the full over- or underfunded status of a defined benefit plan be recognized as an asset or liability. For defined benefit pension plans, the funded status of the plan is the difference between the projected benefit obligation (PBO) and the fair value of plan assets. For all other postretirement benefit plans, the funded status is the difference between the accumulated postretirement benefit obligation (ABO) and the fair value of plan assets.

The adoption of FAS 158 as of June 30, 2007 resulted in a decrease to unrestricted net assets of \$1,225,710.

## Note 8 - 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 \$2,129,827 during 2008.

The investment committee of the board of trustees has authorized the allocation of up to 15 percent of endowment funds to investments that may involve board members or other related parties of the College. The carr4c.erTj7.51 an d theyeeColleg.(7

**Note 10 - Subsequent Events**

Subsequent to year end, the College's investment portfolio has incurred a decline in fair value, consistent with the general decline in the financial markets. However, because the values of individual investments fluctuate with market conditions, the amount of losses that will be recognized in subsequent periods, if any, cannot be determined at this time.

## Additional Information

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To the Board of Trustees  
Hope College

# Hope College

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	Current <u>Unrestricted</u>	Current <u>Restricted</u>	<u>Plant</u>
<b>Assets</b>			
Cash and cash equivalents	\$ 2,136,555	\$ 6,733,638	\$ 4,941,594
Receivables:			
Student accounts and loans receivable - Less allowance for doubtful accounts of \$370,000 and \$345,000 at June 30, 2008 and 2007, respectively	532,958	-	-
Contributions receivable - Net	-	1,939,720	5,030,219
Government grants receivable	-	955,952	-
Accrued income receivable	220,284	-	2,414
Other receivables	1,614,816	-	352,000
Inventories and other assets	729,733	-	-
Prepaid and deferred expenses	534,632	-	-
Loan issuance costs - Net	-	-	1,177,936
Investments held for long-term purposes	1,020,831	-	9,932,673
Contributions restricted for long-term purposes - Net	-	7,814,368	13,843,054

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Combining Statement of Financial Position - All Funds  
June 30, 2008

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Combining Statement of Financial Position - All Funds (Continued)  
June 30, 2008