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# Hope College

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**Financial Report  
with Additional Information  
June 30, 2020**

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## **Independent Auditor's Report**

To the Board of Trustees  
Hope College

**Report on the**

To the Board of Trustees  
Hope College

As described in Note 7 to the financial statements the financial statements include hedge funds, limited partnerships, and fund of funds investments valued at \$158,790 (in thousands) (37.5 percent of net assets) whose fair values have been estimated by management in absence of readily determinable fair values. Management's estimates are based on information provided by the fund managers or the general partners. Our opinion is not modified with respect to this matter.

**Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated November 4, 2020 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, *T / Auditing Standards t20.*

Statement of Financial Position

June 30, 2020 and 2019  
(in thousands)

	2020	2019
<b>Assets</b>		
Cash and cash equivalents	\$ 25,504	\$ 29,926
Investments	233,491	237,704
Receivables:		
Student accounts and loans receivable - Less allowance for doubtful accounts of \$510 and \$505 at June 30, 2020 and 2019, respectively	4,272	5,084
Contributions receivable - Net	10,285	7,490
Government grants receivable	1,365	739
Other receivables	5,335	3,627
Inventories and other assets	781	645
Prepaid and deferred expenses	950	912
Beneficial interest in trusts	1,855	2,022
Land, buildings, and equipment - Net	210,111	208,225
	<u>\$ 493,949</u>	<u>\$ 496,374</u>
<b>Liabilities and Net Assets</b>		
<b>Liabilities</b>		
Accounts payable and tax withholdings	\$ 6,159	\$ 5,831
Deposits	401	409
Obligations under split-interest agreements	5,891	6,198
Accrued liabilities	3,691	2,711
Fair value of interest rate swaps	6,816	4,545
Refundable Federal 5)		
Accumulated employ		
Student and other deposits		
Early retirement benefit	903	
Notes payable	33,930	37,945
	<u>206,838</u>	<u>211,333</u>
Total net assets	<u>L</u>	<u>L 00</u>
Total liabilities and net assets	<u>\$ 493,949</u>	<u>\$ 496,374</u>

Statement of Activities and Changes in Net Assets

Year Ended June 30, 2020  
 (with comparative totals for 2019)  
 (in thousands)

	2020			2019	
	Without Donor Restrictions	With Donor Restrictions	Total	Total	
<b>Revenue, Gains, and Other Support</b>					
Tuition and fees - Net of institutional discounts and other financial aid totaling \$38,243 and \$36,813 in 2020 and 2019, respectively	\$ 62,964	\$ -	\$ 62,964	\$ 65,048	
Income from auxiliary activities	25,178	-	25,178	32,791	
Other student revenue	1,732	-	1,732	1,863	
Contributions	7,376	3,764	11,140	5,499	
Government and private grants	3,935	2,517	6,452	2,516	
Dividend, interest, and other gains on nonendowed activities - Net of fees	(1,524)				

Statement of Cash Flows

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Years Ended June 30, 2020 and 2019  
(in thousands)

2020

2019

## Notes to Financial Statements

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**June 30, 2020**  
**(all amounts in thousands)**

### **Note 1 - Nature of Business**

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.

### **Note 2 -**





June 30, 2020  
(all amounts in thousands)

**Note 2 - Significant Accounting Policies (Continued)**

***Grant Revenue***

Revenue from government grant and contract agreements is considered a nonexchange transaction and is recognized as the conditions of the grants have been met. Revenue from private grant agreements with donor-imposed time or purpose restrictions are reported as with donor-restricted support. Grant awards available for which conditions have not yet been met as of June 30, 2020 total \$2,912.

***Measure of Operations***

The College's measure of operations, as presented in the statement of activities and changes in net assets includes revenue from tuition (net of certain institutional financial aid and discounts) and fees, grants and contracts, auxiliary activities (room and board), contributions for operating programs, and other revenue. Operating expenses are reported on the statement of activities and changes in net assets by functional classification.

The College's nonoperating activity within the statement of activities and changes in net assets includes endowment and other restricted contributions, investment income net of annual endowment spending draw, and

Hope College

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## Notes to Financial Statements

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**June 30, 2020**  
**(all amounts in thousands)**

## Notes to Financial Statements

June 30, 2020  
(all amounts in thousands)

### Note 2 - Significant Accounting Policies (Continued)

#### *Subsequent Events*

The financial statements and related disclosures include evaluation of events up through and including November 4, 2020, which is the date the financial statements were available to be issued.

### Note 3 - Adoption of New Accounting Pronouncement

As of July 1, 2019, the College adopted Financial Accounting Standards Board (FASB) Accounting Standards Update No. 2018-08, *Clarifying the Scope and Accounting Guidance for Contributions Received and Contributions Made*, which provides enhanced guidance to assist entities in (1) evaluating whether transactions should be accounted for as contributions (nonreciprocal transactions) or as exchange (reciprocal transactions) and (2) determining whether a contribution is conditional. The College adopted the new standard on a modified prospective basis, and it impacted the recognition of certain contribution and grant agreements. Government grants now meet the criteria of a nonreciprocal (contribution) transaction, typically with conditions to be met before revenue is recognized. The standard did not require a restatement of prior year amounts.

### Note 4 - Liquidity and Availability of Resources

The following reflects the College's financial assets as of June 30, 2020, reduced by amounts not available for general use because of contractual or donor-imposed restrictions within one year of the date of the statement of financial position:

Cash and cash equivalents	\$	25,504
Accounts and government grants receivable		7,458
Contributions receivable		10,285
Investment proceeds receivable		3,514
Investments		233,491
Financial assets - At year end		280,252
Less those unavailable for general expenditures within one year due to - Contractual or donor-imposed restrictions:		
Restricted by donor with time or purpose restrictions		196,383
Subject to appropriation and satisfaction of donor restrictions		12,025
Investments held in annuity trust		4,155
Financial assets available to meet cash needs for general expenditures within one year	\$	67,689

None of these financial assets are subject to donor or other contractual restrictions that make them unavailable for general expenditure within one year of the date of the statement of financial position.

The College's cash flows have seasonal variations during the year attributable to tuition billing and concentration of contributions received at calendar and fiscal year end. The College manages its financial assets to be available as its general expenditures, liabilities, and other obligations come due. In addition, the College invests cash in excess of daily requirements in various short-term investments, including certificates of deposit and short-term treasury instruments.

The College also realizes there could be unanticipated liquidity needs and has undrawn available lines of credit in the amount of approximately \$12,000 at June 30, 2020, which it could draw upon, used to satisfy general expenditures, if needed, as further described in Note 10.

Notes to Financial Statements

June 30, 2020  
(all amounts in thousands)

**Note 4 - Liquidity and Availability of Resources (Continued)**

The College's endowment funds consist of donor-restricted endowments and a quasi endowment totaling \$229,197 at June 30, 2020. Included in this amount is \$30,992 of accumulated investment gains on donor-restricted endowments that is restricted for specific purposes. Currently, these funds are not available for general expenditure; however, the College could access these funds through donor and board approval, if needed, although the College has no immediate plans to do so. Additionally, the College does not intend to spend from its quasi endowment, other than amounts appropriated for general expenditure as part of its annual budget approval and appropriation process; however, amounts from its quasi endowment could be made available, if necessary. Of the investments held within the quasi endowment and donor-restricted endowments, approximately 26 percent could be liquidated daily and 7 percent could be liquidated weekly, with an additional 15 percent that could be liquidated monthly (see Note 6 for disclosures about the investments).

**Note 5 - Net Assets**

Net assets with donor restrictions as of June 30, 2020 are available for the following purposes:

Subject to expenditures for a specified purpose:	
Unexpended funds received and restricted by donor-specified use	\$ 12,025
Unexpended funds received for investment in property and equipment	<u>(218)</u>
Total subject to expenditures for a specified purpose	11,807
Subject to the passage of time - Annuity funds	4,155
Subject to the College's spending policy and appropriation - Unspent accumulated earnings on endowment funds	30,992
Held in perpetuity:	
Loan funds	295
Endowment funds	<u>159,589</u>
Total held in perpetuity	<u>159,884</u>
Total net assets with donor restriction	<u><u>\$ 206,838</u></u>

**Note 6 - Investments**

The following summarizes the College's investments in securities at June 30, 2020:

	<u>Fair Value</u>	<u>Cost</u>
Money markets and CDs	\$	

Notes to Financial Statements

June 30, 2020  
(all amounts in thousands)

**Note 6 - Investments (Continued)**

Investment income included in the accompanying statement of activities and changes in net assets is as follows:

Total dividends and interest - Net of fees	\$ 3,392
Net realized and unrealized losses	<u>(3,094)</u>
Total	<u>\$ 298</u>

Reported as:

Endowment income recognized under spending policy	\$ 10,985
Dividend, interest, and other gains on nonendowed investments - Net of fees	684
Net losses on investments - Net of endowment income realized under spending policy	<u>(11,371)</u>
Total	<u>\$ 298</u>

There was \$1,839 of fees netted against investment income as of June 30, 2020.

**Note 7 - 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 fair 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, 2020 and the valuation techniques used by the College to determine those fair values.

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.

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 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 or liability.

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







## Notes to Financial Statements

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June 30, 2020  
(all amounts in thousands)

### Note 7 - Fair Value Measurements (Continued)

(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 through investments in real estate private equity funds.



Notes to Financial Statements

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June 30, 2020  
(all amounts in thousands)

**Note 10 - Notes Payable and Long-term Debt (Continued)**

The balance of the above debt matures as follows:

2021	\$	2,395
2022		2,450
2023		2,315
2024		2,405
2025		2,495
Thereafter		<u>21,870</u>
Total	\$	<u><u>33,930</u></u>

Notes to Financial Statements

June 30, 2020
(all amounts in thousands)

Note 12 - 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 a charitable trust, of which the College is 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 market value of assets related to these agreements totals \$10,053 and is included in cash and cash equivalents and investments.

Net assets related to these agreements are classified as with donor restrictions 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 1.41 percent to 7.00 percent.

The College is also named as the beneficiary on certain charitable remainder trusts, lead trusts, and perpetual trusts.

The assets of the lead trusts are held with third-party trustees, (b) (6) (b) (7)(C)



Notes to Financial Statements

June 30, 2020  
(all amounts in thousands)

**Note 13 - Donor-restricted and Board-designated Endowments (Continued)**

	Changes in Endowment Net Assets for the Fiscal Year Ended June 30, 2020		
	Without Donor Restrictions	With Donor Restrictions	Total
Endowment net assets - Beginning of year	\$ 40,579	\$ 192,934	\$ 233,513
Investment return:			
Investment (loss) income	(2,037)	2,599	562
Depreciation in fair value	-	(741)	(741)
Total investment return	(2,037)	1,858	(179)
Contributions	74	6,775	6,849
Appropriation of endowment assets for expenditure	-	(10,986)	(10,986)
Endowment net assets - End of year	<u>\$ 38,616</u>	<u>\$ 190,581</u>	<u>\$ 229,197</u>

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the theA w ¾

June 30, 2020  
(all amounts in thousands)

**Note 14 - Employee Retirement Plans**

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

***1966 Plan***

This is a defined contribution plan covering substantially all regular faculty members, administrative employees, and other employees. The College contributes 10.5 percent of the regular compensation of covered employees after each payroll to TransAmerica Retirement Solutions, which then allocates those dollars to each employee's designated investment choice. Total contributions to the plan by the College were \$4,542 in 2020. 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 tenured faculty members who have reached the age of 60 and have completed at least 10 years of full-time service to the College. A discount rate of 2.91 percent was used to calculate the liability for this program. This program is in effect until July 31, 2022, at which time it shall terminate, unless it is renewed by the College's board of trustees.





Notes to Financial Statements

June 30, 2020  
 (all amounts in thousands)

Note 18 - Functional Expenses

	Instruction	Research	Academic Support	Student Services	Auxiliary Activities	Fundraising	Sales and Services	Institutional Support	Total
Salary and benefits \$	33,032	\$ 2,823	\$ 7,107	\$ 11,757	\$ 6,746	\$ 4,221	\$ 1,393	\$ 4,883	\$ 71,962
Depreciation	2,622	269	279	1,048	4,626	435	409	601	10,289
Interest	349	36	37	139	617	58	54	80	1,370
Utilities	466	48	145	196	2,020	79	123	107	3,184
Food service	88	72	55	428	8,246	110	2	90	9,091
Travel	160	235	228	708	23	180			

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## Additional Information

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## Independent Auditor's Report on Additional Information

To the Board of Trustees  
Hope College

We have audited the financial statements of Hope College as of and for the year ended June 30, 2020 and have issued our report thereon dated November 4, 2020, which contained an unmodified opinion on those financial statements. Our audit was performed for the purpose of forming an opinion on the 2020 financial statements as a whole. The combining statement of financial position is presented for the purpose of additional analysis and is not a required part of the financial statements. Additionally, the financial responsibility supplemental schedule is also presented for the purpose of additional analysis, as required by Title 34 U.S. Code of Federal Regulations (CFR) Section 668.172, Department of Education Financial Ratios, and is also not a required part of the financial statements. Such information is the responsibility of management and was derived from, and relates directly to, the underlying accounting and other records used to prepare the 2020 financial statements. The information has been subjected to the auditing procedures applied in the audit of the 2020 financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the 2020 financial statements as a whole.

*Plante & Moran, PLLC*

November 4, 2020

Combining Statement of Financial Position

June 30, 2020  
 (with combined totals for June 30, 2019)  
 (in thousands)

	Current Unrestricted	Current Restricted	Plant	Endowment	Annuities	Agency	Student Loan	Total	2019
<b>Assets</b>									
Cash and cash equivalents	\$ 3,848	\$ 13,111	\$ 4,690	\$ 1,015	\$ 270	\$ 954	\$ 1,616	\$ 25,504	\$ 29,926
Investments	11	-	-	223,697	9,783	-	-	233,491	237,704
Receivables:									
Student accounts and loans receivable - Less allowance for doubtful accounts of \$510 and \$505 at June 30, 2020 and 2019, respectively	498	-	-	-	-	-	3,774	4,272	5,084
Contributions receivable	-	2,303	7,238	744	-	-	-	10,285	7,490
Government grants receivable	-	1,365	-	-	-	-	-	1,365	739

Combining Statement of Financial Position (Continued)

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**June 30, 2020**  
**(with combined totals for June 30, 2019)**  
**(in thousands)**

Current  
Unrestricted

## Hope College

Ratio	Section	Line item or subsection	Financial element needed to calculate the composite score ratios	Gross Amounts	Net Amounts
<b>Primary Reserve Ratio:</b> Expendable Net Assets:	Statement of Financial Position	Net assets without donor restrictions	Net assets without donor restrictions		\$ 216,236
	N/A	Net assets with donor restrictions	Net assets with donor restrictions		206,838
	N/A	N/A	Secured and Unsecured related party receivable		-
	N/A	N/A	Unsecured related party receivable		-
	Statement of Financial Position	Land, buildings, and equipment - Net	Property, plant, and equipment, net (including construction in progress)		210,111
	N/A	N/A	Property, plant, and equipment, net - Pre-implementation less any construction in progress		-
	N/A	N/A	Property, plant, and equipment, net - Post-implementation less any construction in progress with outstanding debt for original purchase		-
	N/A	N/A	Property, plant, and equipment, net - Post-implementation less any construction in progress without outstanding debt for original purchase		-
	Financial Statement Footnotes	Note 9 - Construction in progress	Construction in progress		7,400
	N/A	N/A	<del>Lease right-of-use asset</del>		
	N/A	N/A			

N/

Hope College

Ratio