

Kalamazoo College

Accountants' Report and Financial Statements

June 30, 2008 and 2007



Kalamazoo College

June 30, 2008 and 2007

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Independent Accountants' Report

Board of Trustees
Kalamazoo College
Kalamazoo, Michigan

We have audited the accompanying statements of financial position of Kalamazoo College (College) as of June 30, 2008 and 2007, and the related statements of activities and cash flows for the years 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 audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free 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 audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Kalamazoo College as of June 30, 2008 and 2007, and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The accompanying supplementary information is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audits of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

BKD, LLP

September 16, 2008

Kalamazoo College
Statements of Financial Position
June 30, 2008 and 2007

	2008	2007
Assets		
Cash and cash equivalents	\$ 10,799,361	\$ 11,537,075
Accounts receivable, net of allowance; 2008 – \$22,300, 2007 – \$21,100	617,550	799,156
Inventories	610,981	639,484
Prepaid expenses and other assets	1,668,936	1,362,799
Contributions receivable, net of allowance; 2008 – \$369,935, 2007 – \$146,515	7,914,457	3,901,070
Investments	171,791,214	189,924,003
Loans receivable, net of allowance; 2008 – \$197,700, 2007 – \$166,900	6,986,595	6,151,646
Property and equipment, net	<u>61,743,948</u>	<u>51,008,418</u>
Total assets	<u>\$ 262,133,042</u>	<u>\$ 265,323,651</u>
Liabilities and Net Assets		
Liabilities		
Accounts payable	\$ 1,429,812	\$ 999,768
Accrued expenses	2,449,832	1,942,339
Deferred revenue	693,740	567,021
Deposits and other liabilities	372,980	369,953
Debt	24,475,000	17,830,000
Annuities and trusts payable	6,181,466	7,227,848
Advances from government for student loans	6,403,689	6,381,519
Postretirement benefit liability	<u>13,262,856</u>	<u>12,881,282</u>
Total liabilities	<u>55,269,375</u>	<u>48,199,730</u>
Net Assets		
Unrestricted	119,067,306	133,157,024
Temporarily restricted	9,942,707	7,004,711
Permanently restricted	<u>77,853,654</u>	<u>76,962,186</u>
Total net assets	<u>206,863,667</u>	<u>217,123,921</u>
Total liabilities and net assets	<u>\$ 262,133,042</u>	<u>\$ 265,323,651</u>

Kalamazoo College
Statements of Activities
Years Ended June 30, 2008 and 2007

	2008			Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	
Revenue, Gains and Other Support				
Educational and general				
Student tuition and fees	\$ 38,962,659	\$ —	\$ —	\$ 38,962,659
Less financial aid	<u>(17,073,353)</u>	<u>—</u>	<u>—</u>	<u>(17,073,353)</u>
Net student tuition and fees	21,889,306	—	—	21,889,306
Gifts and private grants	2,704,049	6,564,651	966,397	10,235,097
Funds held in trust by others	—	1,038,151	—	1,038,151
Investment return designated for operations	6,375,278	1,289,742	683,110	8,348,130
Other income	<u>1,301,798</u>	<u>292,911</u>	<u>—</u>	<u>1,594,709</u>
Total educational and general revenue	32,270,431	9,185,455	1,649,507	43,105,393
Auxiliary enterprises	6,232,436	—	—	6,232,436
Net assets released from restrictions	<u>6,247,459</u>	<u>(6,247,459)</u>	<u>—</u>	<u>0</u>
Total revenue, gains and other support	<u>44,750,326</u>	<u>2,937,996</u>	<u>1,649,507</u>	<u>49,337,829</u>
Expenses				
Educational and general				
Instruction and research	16,588,027	—	—	16,588,027
Public service	507,631	—	—	507,631
Academic support	2,881,270	—	—	2,881,270
Operations and maintenance of plant	3,286,317	—	—	3,286,317
Student services	4,603,800	—	—	4,603,800
Institutional support	5,134,422	—	—	5,134,422
Depreciation	1,839,849	—	—	1,839,849
Debt service interest	<u>943,137</u>	<u>—</u>	<u>—</u>	<u>943,137</u>
Total educational and general expenses	<u>35,784,453</u>	<u>—</u>	<u>—</u>	<u>35,784,453</u>
Auxiliary enterprises	5,889,765	—	—	5,889,765
Administrative and other expenses	<u>1,395,778</u>	<u>—</u>	<u>—</u>	<u>1,395,778</u>
Total expenses	<u>7,285,543</u>	<u>—</u>	<u>—</u>	<u>7,285,543</u>
Total expenses	<u>43,069,996</u>	<u>—</u>	<u>—</u>	<u>43,069,996</u>
Change in Net Assets Before Investment Return Less Amounts Designated for Operations				
Investment return less amounts designated for operations	1,680,330	2,937,996	1,649,507	6,267,833
	<u>(15,770,048)</u>	<u>—</u>	<u>(758,039)</u>	<u>(16,528,087)</u>
Change in Net Assets	(14,089,718)	2,937,996	891,468	(10,260,254)
Net Assets, Beginning of Year	<u>133,157,024</u>	<u>7,004,711</u>	<u>76,962,186</u>	<u>217,123,921</u>
Net Assets, End of Year	<u>\$ 119,067,306</u>	<u>\$ 9,942,707</u>	<u>\$ 77,853,654</u>	<u>\$ 206,863,667</u>

See Notes to Financial Statements

2007

Unrestricted	Temporarily Restricted	Permanently Restricted	Total
\$ 36,618,269	\$ —	\$ —	\$ 36,618,269
<u>(16,293,539)</u>	<u>—</u>	<u>—</u>	<u>(16,293,539)</u>
20,324,730	—	—	20,324,730
2,543,782	3,455,153	1,133,697	7,132,632
—	1,221,468	—	1,221,468
6,835,175	1,247,448	(91,609)	7,991,014
<u>495,800</u>	<u>214,072</u>	<u>—</u>	<u>709,872</u>
30,199,487	6,138,141	1,042,088	37,379,716
6,285,593	—	—	6,285,593
<u>4,863,983</u>	<u>(4,863,983)</u>	<u>—</u>	<u>0</u>
<u>41,349,063</u>	<u>1,274,158</u>	<u>1,042,088</u>	<u>43,665,309</u>
15,042,830	—	—	15,042,830
823,183	—	—	823,183
2,982,355	—	—	2,982,355
3,023,949	—	—	3,023,949
4,153,838	—	—	4,153,838
4,688,053	—	—	4,688,053
1,860,157	—	—	1,860,157
<u>924,531</u>	<u>—</u>	<u>—</u>	<u>924,531</u>
<u>33,498,896</u>	<u>—</u>	<u>—</u>	<u>33,498,896</u>
5,686,884	—	—	5,686,884
<u>1,238,569</u>	<u>—</u>	<u>—</u>	<u>1,238,569</u>
<u>6,925,453</u>	<u>—</u>	<u>—</u>	<u>6,925,453</u>
<u>40,424,349</u>	<u>—</u>	<u>—</u>	<u>40,424,349</u>
924,714	1,274,158	1,042,088	3,240,960
<u>19,735,260</u>	<u>—</u>	<u>839,943</u>	<u>20,575,203</u>
20,659,974	1,274,158	1,882,031	23,816,163
<u>112,497,050</u>	<u>5,730,553</u>	<u>75,080,155</u>	<u>193,307,758</u>
<u>\$ 133,157,024</u>	<u>\$ 7,004,711</u>	<u>\$ 76,962,186</u>	<u>\$ 217,123,921</u>

Kalamazoo College
Statements of Cash Flows
Years Ended June 30, 2008 and 2007

	2008	2007
Operating Activities		
Change in net assets	\$ (10,260,254)	\$ 23,816,163
Items not requiring (providing) operating activities cash flows		
Net realized and unrealized (gains) losses on investments	12,077,918	(24,384,711)
Depreciation	1,839,849	1,860,157
Contributions and investment income received restricted for long-term investment	(891,468)	(1,882,031)
Contributions and investment income received restricted for acquisition of long-lived assets	(468,152)	(503,108)
Changes in		
Accounts, loans and contributions receivable	(4,666,730)	(957,697)
Inventories	28,503	(60,389)
Prepaid expenses and other assets	(306,137)	83,413
Accounts payable and accrued expenses	799,407	(80,981)
Annuities and trusts payable	(1,046,382)	399,160
Increase in advances from government for student loans	22,170	128,509
Deposits and other liabilities	129,746	69,159
Postretirement benefit liability	381,574	488,916
Net cash used in operating activities	(2,359,956)	(1,023,440)
Investing Activities		
Purchase of property and equipment	(12,437,249)	(2,128,724)
Investment activity, net	6,054,871	3,940,513
Net cash provided by (used in) investing activities	(6,382,378)	1,811,789
Financing Activities		
Contributions and investment income received restricted for long-term investment	891,468	1,882,031
Contributions and investment income received restricted for acquisition of long-lived assets	468,152	503,108
Proceeds from issuance of debt	7,410,000	—
Principal payments on debt	(765,000)	(725,000)
Net cash provided by financing activities	8,004,620	1,660,139
Increase (Decrease) in Cash and Cash Equivalents	(737,714)	2,448,488
Cash and Cash Equivalents, Beginning of Year	11,537,075	9,088,587
Cash and Cash Equivalents, End of Year	\$ 10,799,361	\$ 11,537,075
Supplemental Cash Flows Information		
Interest paid	\$ 1,135,778	\$ 927,703
Capital assets in accounts payable	776,591	638,431

Kalamazoo College

Notes to Financial Statements

June 30, 2008 and 2007

Note 1: Nature of Operations and Summary of Significant Accounting Policies

Nature of Operations

Kalamazoo College (College) is a private tax-exempt, nonprofit educational institution located in Kalamazoo, Michigan. The College was founded in 1833 and is an institute of higher education which offers undergraduate programs designed to meet the needs of the student body. The College's primary sources of revenue are from tuition and auxiliary services from students and gifts and private grants.

The mission of Kalamazoo College is to prepare its graduates to better understand, live successfully within and provide enlightened leadership to a richly diverse and increasingly complex world. As a highly selective and nationally distinctive four-year college of arts and sciences, Kalamazoo College has developed a tradition of excellence in the fulfillment of this mission.

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 the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue, expenses, gains, losses and other changes in net assets during the reporting period. Actual results could differ from those estimates.

Cash and Cash Equivalents

The College considers all liquid investments with original maturities of three months or less to be cash equivalents. At June 30, 2008 and 2007, cash equivalents consisted primarily of money market funds and certificates of deposit. Cash equivalents related to uninvested cash are considered part of investments in the accompanying financial statements.

At June 30, 2008, the College's cash accounts exceeded federally insured limits by approximately \$400,000.

Investments and Investment Return

Investments in equity securities having a readily determinable fair value and in all debt securities are carried at fair value. Other investments are valued at estimated fair value. The following methods and assumptions were used by the College in estimating fair value for other investments:

Investments in private equity or limited partnerships are recorded at estimated fair value based on the College's capital balance in each partnership, which is calculated by the general partner of each limited partnership. Approximately \$7,800,000 and \$5,500,000, or 5.0% and 3.2%, at June 30, 2008 and 2007, respectively, of the College's long-term investments is invested in private equity, with a commitment of up to \$12,500,000 and \$11,000,000, or approximately 7.3% and 5.8%, at June 30, 2008 and 2007, respectively, of the total endowment.

Beginning in the year ended June 30, 2005, the College invested in various types of hedge funds, including those employing long/short equity, long/short sector specific and absolute

Kalamazoo College

Notes to Financial Statements

June 30, 2008 and 2007

return strategies. Hedge funds are recorded at estimated fair value based on information provided by the fund manager and generally represents the College's estimated capital balance in each fund. Approximately \$23,900,000 and \$16,100,000, or 13.9% and 8.5%, was invested in these types of funds at June 30, 2008 and 2007, respectively.

Investment return includes dividend, interest and other investment income; and realized and unrealized gains and losses on investments carried at fair value.

Investment return that is initially restricted by donor stipulation and for which the restriction will be satisfied in the same year is included in unrestricted net assets. Other investment return is reflected in the statements of activities as unrestricted, temporarily restricted or permanently restricted based upon the existence and nature of any donor or legally imposed restrictions.

The College maintains pooled investment accounts for its endowments. Investment income and realized and unrealized gains and losses from securities in the pooled investment accounts are allocated quarterly to the individual endowments based on the relationship of the fair value of the interest of each endowment to the total fair value of the pooled investments accounts, as adjusted for additions to or deductions from those accounts.

The Board of Trustees designates only a portion of the College's cumulative investment return of the endowment fund for support of current operations. The remainder is retained to support operations of future years and to offset potential market declines. The payout amount computed under the endowment spending policy of the investment pool is used to support current operations.

Fair Value of Financial Instruments

The carrying amount is a reasonable estimate of the fair value for all financial assets and liabilities.

The following methods were used to estimate the fair value of financial instruments. The fair values of certain of these instruments were calculated by discounting expected cash flows, which method involves significant judgments by management and uncertainties.

Investments

Fair value is based on quoted market prices, if available. If a quoted market price is not available, fair value is estimated using quoted market prices for similar securities or information obtained from general partners or fund managers. Investments in rental properties are excluded from the disclosure because they are not financial instruments.

Contributions Receivable

Fair value is estimated by discounting the expected future cash flows using the risk-free rate of return at the time of contribution.

Notes Receivable

Fair value is estimated by discounting the future cash flows using the rates at which similar notes would be written for the same remaining maturities.

Kalamazoo College
Notes to Financial Statements
June 30, 2008 and 2007

Interest in Assets Held in Charitable Remainder Trusts and Charitable Gift Annuities

Fair value is estimated by discounting the expected future cash flows.

Debt

Fair value is estimated based on the borrowing rates available to the College for debt with similar terms and maturities.

Annuities and Trusts Payable

Fair values of the annuity and trust obligations are based on an actuarial evaluation of the estimated annuity or other payment under such obligations.

Accounts and Loans Receivable

Accounts receivable are stated at the amount billed to the students less applied scholarships and loan proceeds. The College provides an allowance for doubtful accounts, which is based upon a review of outstanding receivables, historical collection information and existing economic conditions. Tuition is generally due at the beginning of the semester unless the student has signed a payment plan. Accounts that are unpaid after the due date bear interest at 1% per month. Accounts past due more than 120 days are considered delinquent. Delinquent loans are written off based on individual credit evaluation and specific circumstances of the student.

Loans receivable consist of amounts due under the Federal Perkins Loan Program and institutional loan programs and are stated at their outstanding principal amount, net of an allowance for doubtful notes. Loans are made to students based on demonstrated financial need and satisfaction of federal eligibility and institutional requirements. Principal and interest payments on loans generally do not commence until after the borrower graduates or otherwise ceases enrollment. The College provides an allowance for doubtful notes, which is based upon a review of outstanding loans, historical collection information and existing economic conditions. Loans that are delinquent continue to accrue interest. Loans that are past due for at least one payment are considered delinquent. Delinquent loans are written off based on individual credit evaluation and specific circumstances of the student. The amount of loans delinquent greater than 90 days and accruing interest was approximately \$448,000 and \$341,000 at June 30, 2008 and 2007, respectively.

Property and Equipment

Property and equipment are recorded at cost and depreciated on a straight-line basis over the estimated useful life of each asset.

The College capitalizes interest costs as a component of construction in progress, based on interest costs of borrowing specifically for the project, net of interest earned on investments acquired with the proceeds of the borrowing. Total interest capitalized was:

	2008
Total interest expense incurred on borrowings for project	\$ 277,456
Interest income from investment of proceeds of borrowings for project	(49,821)
Net interest cost capitalized	\$ 227,635

Kalamazoo College
Notes to Financial Statements
June 30, 2008 and 2007

	2008
Interest capitalized	\$ 227,635
Interest charged to expense	943,137
Total interest incurred	\$ 1,170,772

Unrestricted, Temporarily and Permanently Restricted Net Assets

To ensure compliance with restrictions placed on the resources available to the College, accounts are maintained in accordance with the principles of fund accounting. This is the procedure by which resources are classified for accounting and reporting into funds established according to their nature and purposes. In the financial statements, funds that have similar characteristics have been combined into the net asset categories of unrestricted, temporarily restricted and permanently restricted in accordance with the requirements of Statement of Financial Accounting Standards (SFAS) No. 117, *Financial Statements of Not-for-Profit Organizations*.

Unrestricted Net Assets – Are either not restricted by donors or the donor-imposed restrictions have expired.

Temporarily Restricted Net Assets – Contain donor-imposed restrictions that permit the College to use or expend the assets only as specified by the donor. The restrictions are satisfied either by the passage of time or by actions of the College. These assets are generally available for future scholarships or to support the College’s educational programs.

Permanently Restricted Net Assets – Contain donor-imposed restrictions which stipulate that resources be maintained in perpetuity, but permit the College to use or expend part or all of the income derived from the donated assets for specified or unspecified purposes. Generally, the income from these donated assets is available for scholarships or to support the College’s educational programs.

Contributions

Gifts of cash and other assets received without donor stipulations are reported as unrestricted revenue and net assets. Gifts received with a donor stipulation that limits their use are reported as temporarily or permanently restricted revenue and net assets. When a donor stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions. Gifts and investment income that are originally restricted by the donor and for which the restriction is met in the same time period are recorded as temporarily restricted and then released from restriction.

Gifts of land, buildings, equipment and other long-lived assets are reported as unrestricted revenue and net assets unless explicit donor stipulations specify how such assets must be used, in which case the gifts are reported as temporarily or permanently restricted revenue and net assets. Absent explicit donor stipulations for the time long-lived assets must be held, expirations of restrictions resulting in reclassification of temporarily restricted net assets as unrestricted net assets are reported when the long-lived assets are placed in service.

Kalamazoo College
Notes to Financial Statements
June 30, 2008 and 2007

Unconditional gifts expected to be collected within one year are reported at their net realizable value. Unconditional gifts expected to be collected in future years are reported at the present value of estimated future cash flows. The resulting discount is amortized using the level-yield method and is reported as contribution revenue.

Inventory Pricing

Inventories consist of books and supplies and are stated at the lower of cost or market. Cost is determined using the first-in, first-out (FIFO) method.

Deferred Revenue

Income from tuition and other revenue is deferred and recognized over the periods to which the tuition and other revenue relate.

Government Grants

Support funded by grants is recognized as the College performs the contracted services or incurs outlays eligible for reimbursement under the grant agreements. Grant activities and outlays are subject to audit and acceptance by the granting agency and, as a result of such audit, adjustments could be required.

Income Taxes

The College is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code and a similar provision of state law. However, the College is subject to federal income tax on any unrelated business taxable income.

Functional Allocation of Expenses

The costs of supporting the various programs and other activities have been summarized on a functional basis in the notes to the financial statements. Certain costs have been allocated among the program services, institutional support and fund raising categories based on time and effort.

Note 2: Investments and Investment Return

Investments at June 30 consisted of the following:

	2008	2007
Cash and cash equivalents	\$ 592,282	\$ 1,702,445
Equity securities	22,127,144	54,090,213
Corporate debt securities	1,425,000	1,485,000
Mutual funds	97,315,305	90,812,597

Kalamazoo College
Notes to Financial Statements
June 30, 2008 and 2007

	2008	2007
Private equity	\$ 7,801,881	\$ 5,519,786
Hedge funds	23,909,573	16,069,725
Rental properties	2,221,146	2,220,289
Assets held in charitable remainder trusts and charitable gift annuities	<u>16,398,883</u>	<u>18,023,948</u>
	<u>\$ 171,791,214</u>	<u>\$ 189,924,003</u>

Under the College's endowment spending policy, 5.00% of a 12-quarter moving average of fair market value of the endowment fund is appropriated to support current operations. In addition, the Board of Trustees has authorized specific additional expenses that may be drawn from endowment that resulted in a total spending rate of 5.60% and 5.38% for fiscal 2008 and 2007, respectively.

The following schedule summarizes the investment return and its classification in the statements of activities:

	2008	2007
Dividends, interest, rent (less investment expenses of \$674,577 in 2008 and \$804,253 in 2007)	\$ 3,897,961	\$ 4,181,506
Net realized and unrealized gains (losses)	<u>(12,077,918)</u>	<u>24,384,711</u>
Total return on investments	(8,179,957)	28,566,217
Investment return designated for current operations	<u>8,348,130</u>	<u>7,991,014</u>
Investment return not designated for current operations	<u>\$ (16,528,087)</u>	<u>\$ 20,575,203</u>

Note 3: Contributions Receivable

Contributions receivable at June 30 consisted of the following:

	2008	2007
Expected to be collected in		
Less than one year	\$ 2,552,212	\$ 2,731,923
One to five years	<u>6,598,992</u>	<u>1,693,725</u>
	9,151,204	4,425,648
Less unamortized discount	<u>(866,812)</u>	<u>(378,063)</u>
	8,284,392	4,047,585
Less allowance for uncollectible pledges	<u>(369,935)</u>	<u>(146,515)</u>
	<u>\$ 7,914,457</u>	<u>\$ 3,901,070</u>

Kalamazoo College
Notes to Financial Statements
June 30, 2008 and 2007

Discount rates ranged from 1.7% to 5.2% for the years ended June 30, 2008 and 2007.

The College has received verbal and other informal indications that certain potential donors intend to remember the College in their wills or through future donations. However, the College has insufficient verifiable evidence to quantify the amount and timing of such potential donations. Therefore, no contributions receivable have been recorded for these potential donations or are estimable in order to be disclosed. It is the College's policy to record donors' promises to contribute when formal written or other verifiable documentation is received and when the amount is estimable.

Note 4: Property and Equipment

Property and equipment at June 30 consisted of the following:

	2008	2007
Land	\$ 2,418,885	\$ 2,426,052
Real estate held for expansion	32,256	33,255
Stadiums and athletic fields	1,429,478	1,429,478
Buildings	77,557,194	65,719,453
Furniture, fixtures and equipment	20,988,541	17,628,280
Automobiles and trucks	685,962	695,762
Construction in progress	<u>—</u>	<u>2,637,456</u>
	103,112,316	90,569,736
Less accumulated depreciation	<u>(41,368,368)</u>	<u>(39,561,318)</u>
	<u>\$ 61,743,948</u>	<u>\$ 51,008,418</u>

Note 5: Debt

Debt at June 30 consisted of the following:

	2008	2007
Michigan Higher Education Facilities Authority Limited Obligation Revenue Bonds (Kalamazoo College Project), Series 2007 (A)	\$ 7,410,000	\$ —
Michigan Higher Education Facilities Authority Limited Obligation Revenue Bonds (Kalamazoo College Project), Series 2003 (B)	12,940,000	\$ 12,940,000
Michigan Higher Education Facilities Authority Limited Obligation Revenue Bonds (Kalamazoo College Project), Series 2000 (C)	<u>4,125,000</u>	<u>4,890,000</u>
	<u>\$ 24,475,000</u>	<u>\$ 17,830,000</u>

Kalamazoo College
Notes to Financial Statements
June 30, 2008 and 2007

- (A) The Michigan Higher Education Facilities Authority (MHEFA) Limited Obligation Revenue Bonds (Kalamazoo College Project), Series 2007, totaling \$7,410,000, were issued pursuant to an agreement dated September 28, 2007. The bond proceeds were used to renovate and expand the Hicks Student Center, acquire an enterprise resource system and renovate Hoben Residence Hall. The bonds are an unsecured general obligation of the College. The bonds mature on December 1, 2036, and require annual principal payments ranging from \$0 in 2008 through 2023 to \$755,000 in 2036, with annual interest at varying rates from 4.50% to 5.00%.
- (B) The MHEFA Limited Obligation Revenue Bonds (Kalamazoo College Project), Series 2003, totaling \$12,940,000, were issued pursuant to an agreement dated August 14, 2003. The bond proceeds were used to renovate and expand the Upjohn Library and were also used to advance/refund the outstanding bonds of the MHEFA \$4,400,000 Limited Obligation Revenue Bonds (Kalamazoo College Project), Series 1997. The bonds are an unsecured general obligation of the College. The bonds mature on December 1, 2023, and require annual principal payments ranging from \$0 in 2006 through 2009 to \$1,505,000 in 2023, with annual interest at varying rates from 4.10% to 5.50%.
- (C) The MHEFA Limited Obligation Revenue Bonds (Kalamazoo College Project), Series 2000, were issued pursuant to an agreement dated November 2000. The funds were used to renovate the College's fine arts building and to refund the College's 1994 bond issue. The bonds are an unsecured general obligation of the College. The bonds mature on December 1, 2015, and require annual principal payments ranging from \$365,000 to \$840,000, with annual interest at varying rates ranging from 4.90% to 5.25%.

Management estimates that the fair value of the bonds at June 30, 2008 and 2007, approximates their carrying value.

Aggregate annual maturities of debt at June 30, 2008, are:

2009	\$ 800,000
2010	840,000
2011	775,000
2012	815,000
2013	855,000
Thereafter	<u>20,390,000</u>
	<u>\$ 24,475,000</u>

Note 6: Annuities and Trusts Payable

The College has been the recipient of several gift annuities which require future payments to the donor or their named beneficiaries. The assets received from the donor are recorded at fair value. The College has recorded a liability at June 30, 2008 and 2007, of \$3,512,016 and \$4,455,302, respectively, which represents the present value of the future annuity obligations. The liability has been determined using a discount rate of 3.8%.

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The College administers various charitable remainder trusts. A charitable remainder trust provides for the payment of distributions to the grantor or other designated beneficiaries over the trust's term (usually the designated beneficiary's lifetime). At the end of the trust's term, the remaining assets are available for the College's use. The portion of the trust attributable to the future interest of the College is recorded in the statements of activities as temporarily restricted contributions in the period the trust is established. Assets held in the charitable remainder trusts are recorded at fair value in the College's statements of financial position. On an annual basis, the College revalues the liability to make distributions to the designated beneficiaries based on actuarial assumptions. The present value of the estimated future payments is calculated using a discount rate of 3.8% and applicable mortality tables.

Note 7: Net Assets

Temporarily Restricted Net Assets

Temporarily restricted net assets at June 30 are available for the following purposes or periods:

	2008	2007
Funds restricted for specific purposes	\$ 8,168,433	\$ 3,186,061
Unexpended property and equipment fund	<u>1,774,274</u>	<u>3,818,650</u>
	<u>\$ 9,942,707</u>	<u>\$ 7,004,711</u>

Permanently Restricted Net Assets

Permanently restricted net assets at June 30 are restricted to:

	2008	2007
Investment in perpetuity, the income of which is expendable to support scholarships and operations	\$ 73,043,379	\$ 71,691,130
Annuity, life income and charitable remainder and perpetual trusts	<u>4,810,275</u>	<u>5,271,056</u>
	<u>\$ 77,853,654</u>	<u>\$ 76,962,186</u>

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Net Assets Released from Restrictions

Net assets were released from donor restrictions by incurring expenses satisfying the restricted purposes or by occurrence of other events specified by donors.

	2008	2007
Purpose restrictions accomplished		
Educational program expenses	\$ 3,733,999	\$ 4,863,983
Expended property and equipment	<u>2,513,460</u>	<u>—</u>
Total releases from restriction	<u>\$ 6,247,459</u>	<u>\$ 4,863,983</u>

Note 8: Postretirement and Other Retirement Obligations

The College contributes to defined-contribution retirement plans administered by the Teachers Insurance and Annuity Association and others for the benefit of eligible academic, administrative and support employees. The plans cover substantially all employees. The College is required to contribute 5% to the plans based on participants' annual income. In addition, the College matches from 1% to 5% of participant contributions to the plans. Contributions expense to these plans were \$1,322,771 and \$1,298,752 for years ended June 30, 2008 and 2007, respectively.

The College provides noncontributory defined health care benefits to retirees whose age and service total 70 at their retirement dates, with a minimum retirement age of 55 and minimum of ten years of service. Effective October 1, 2001, new faculty and staff hired after that date are not eligible for the defined health care benefits. The College utilizes the immediate recognition method for liability gains and losses, and the plan is unfunded. The College pays claims as they are incurred.

The College uses a June 30 measurement date for the postretirement health care plan. The following table summarizes the liability recognized in the statements of financial position and changes in such amounts relating to obligations of the plan:

	2008	2007
Accumulated benefit obligation at beginning of year	\$ 12,881,282	\$ 12,392,366
Service cost	309,712	331,668
Interest cost	950,330	921,870
Actuarial and experience gains	(383,760)	(287,322)
Benefit payments	<u>(494,708)</u>	<u>(477,300)</u>
Accumulated benefit obligation at end of year	<u>\$ 13,262,856</u>	<u>\$ 12,881,282</u>

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The following table represents the postretirement benefit expense recognized in the statements of activities:

	2008	2007
Service cost	\$ 309,712	\$ 331,668
Interest cost	<u>950,330</u>	<u>921,870</u>
	1,260,042	1,253,538
Actuarial and experience gains	<u>(383,760)</u>	<u>(287,322)</u>
Total postretirement benefit expense	<u>\$ 876,282</u>	<u>\$ 966,216</u>
Components of expense		
Benefit payments	\$ 494,708	\$ 477,300
Increase in postretirement benefit liability	<u>381,574</u>	<u>488,916</u>
Total postretirement benefit expense	<u>\$ 876,282</u>	<u>\$ 966,216</u>

At June 30, 2008 and 2007, the College used a discount rate of 7.25% in accounting for the postretirement benefit obligation.

For measurement purposes, a 6.36% annual rate of increase in the per capita cost of covered health care benefits was assumed for 2008. The rate was assumed to decrease gradually to 5.75% by 2011.

Assumed health care cost trend rates have a significant effect on the amounts reported for the health care plans. A one-percentage-point change in assumed health care cost trend rates would have the following effects:

	One-Percentage Point Increase	One-Percentage Point Decrease
Increase (decrease) on total of service and interest cost components for 2008	\$ 204,000	\$ (164,000)
Increase (decrease) on postretirement benefit obligation at June 30, 2008	1,840,000	(1,515,000)

On May 19, 2004, the FASB issued Staff Position No. 106-2, *Accounting and Disclosure Requirements Related to the Medicare Prescription Drug, Improvement and Modernization Act of 2003* (FSP 106-2) in response to the Act that was signed into law on December 8, 2003. The Act introduced a prescription drug benefit under Medicare (Medicare Part D) as well as a federal subsidy to sponsors of retiree health care plans that provide a benefit that is at least actuarially equivalent to Medicare Part D. Management, working with their advisors, have determined the amount of a federal subsidy, if any, related to its plan is immaterial.

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The following benefit payments, which reflect expected future service, as appropriate, are expected to be paid as of June 30, 2008:

2009	\$ 544,000
2010	599,000
2011	658,000
2012	724,000
2013	797,000
2014-2018	5,349,000

Note 9: Functional Expenses

The College's expenses on a functional basis are as follows:

	2008			
	Expenses per the Statement of Activities	Expense Reconciliation	Allocated Costs	Functional Expenses
Instruction	\$ 16,588,027	\$ —	\$ 5,503,657	\$ 22,091,684
Public service	507,631	—	—	507,631
Academic support	2,881,270	—	—	2,881,270
Operations and maintenance of plant	3,286,317	—	(3,286,317)	0
Student services	4,603,800	—	—	4,603,800
Auxiliary services	5,889,765	—	—	5,889,765
Financial aid	—	17,073,353	—	<u>17,073,353</u>
Total program services				53,047,503
Depreciation	1,839,849	—	(1,839,849)	0
Debt service interest	943,137	—	(943,137)	0
Institutional support	5,134,422	—	789,353	5,923,775
Investment fees	—	674,577	(674,577)	0
Administrative and other expenses	1,395,778	—	(1,395,778)	0
Fund raising	—	—	1,846,648	1,846,648
Donated services	—	—	—	<u>0</u>
Total expenses	<u>\$ 43,069,996</u>	<u>\$ 17,747,930</u>	<u>\$ 0</u>	<u>\$ 60,817,926</u>

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	2007			
	Expenses per the Statement of Activities	Expense Reconciliation	Allocated Costs	Functional Expenses
Instruction	\$ 15,042,830	\$ —	\$ 5,288,060	\$ 20,330,890
Public service	823,183	—	—	823,183
Academic support	2,982,355	—	—	2,982,355
Operations and maintenance of plant	3,023,949	—	(3,023,949)	0
Student services	4,153,838	—	—	4,153,838
Auxiliary services	5,686,884	—	—	5,686,884
Financial aid	—	16,293,539	—	<u>16,293,539</u>
Total program services				50,270,689
Depreciation	1,860,157	—	(1,860,157)	0
Debt service interest	924,531	—	(924,531)	0
Institutional support	4,688,053	—	784,634	5,472,687
Investment fees	—	804,253	(804,253)	0
Administrative and other expenses	1,238,569	—	(1,238,569)	0
Fund raising	—	—	1,769,587	1,769,587
Donated services	<u>—</u>	<u>(9,178)</u>	<u>9,178</u>	<u>0</u>
Total expenses	<u>\$ 40,424,349</u>	<u>\$ 17,088,614</u>	<u>\$ 0</u>	<u>\$ 57,512,963</u>

The College's expenses on a functional basis above include investment expenses of \$674,577 and \$804,253 for the years ended June 30, 2008 and 2007, respectively.

Note 10: Significant Estimates and Concentrations

Contributions

Approximately 62% and 36% of all contributions were received from two donors in 2008 and 2007, respectively.

Approximately 85% and 65% of contributions receivable were due from four and three donors at June 30, 2008 and 2007, respectively.

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Note 11: Funds Held in Trust by Others

The financial statements do not reflect the assets of the F.W. Heyl and Elsie L. Heyl Science Scholarship Fund (Heyl Fund), a public foundation administered by an outside fiscal agent. Each year, qualifying students are awarded scholarships from the Heyl Fund, which are then distributed to the College and recognized in its financial statements. These scholarships are determined on a discretionary basis each year by designated members of the Heyl Fund. Financial data of the Heyl Fund is as follows:

	<u>2008</u>	<u>2007</u>
Market value	\$ <u>38,446,977</u>	\$ <u>42,961,231</u>
Heyl Fund distributions to College	\$ <u>1,062,651</u>	\$ <u>1,227,968</u>

In addition, the College is a direct beneficiary of \$2,000 of the Heyl Fund's current income. This amount is included in unrestricted net assets in the statements of activities. Also, the College is eligible to receive student research grant funding. For each of the years ended June 30, 2008 and 2007, the College received \$4,500 of such grants. These amounts are included in gifts and private grants in the statements of activities.

Supplementary Information

Kalamazoo College

Schedule of Selected Temporarily Restricted Programs Years Ended June 30, 2008 and 2007

A summary of operating activity for the years ended June 30, 2008 and 2007, of the S. Rudolph Light Trust dated May 28, 1952, and the S. Rudolph Light Trust dated June 5, 1958, are as follows:

	2008	2007
Restricted net asset balance at beginning of year	\$ 1,021,844	\$ 1,021,844
Income from the S. Rudolph Light Endowment Fund	374,337	360,138
	1,396,181	1,381,982
Excess of Foreign Study Program expenditures over student tuition and fees, limited to the extent of income from the S. Rudolph Light Endowment Fund		
Expenditures		
Salaries and fringes	465,048	447,324
Student travel	338,434	275,663
Student tuition, fees, room and board	3,274,719	2,771,336
Cost allocated from current unrestricted fund	26,600	25,905
Other expenditures	216,685	228,581
Scholarships granted	1,535,001	1,790,923
	5,856,487	5,539,732
Less tuition and fees charged to participating students	(5,482,150)	(5,179,594)
	374,337	360,138
Restricted net asset balance at end of year	\$ 1,021,844	\$ 1,021,844

The cost of the trust's units included in the Endowment Fund's (permanently restricted) common investment pool at June 30, 2008 and 2007, was approximately \$2,576,926. The market value of the units totaled \$7,578,569 and \$8,409,551 at June 30, 2008 and 2007, respectively.

Summaries of activity of the Kalamazoo College Endowed Chairs in Asian Studies, Chinese, Classics and Japanese for the years ended June 30, 2008 and 2007, are as follows:

	Beginning Balance	Endowment Income	Expenditures	Ending Balance
Year Ended June 30, 2008				
Chen Asian Studies Chair	\$ 67,551	\$ 65,674	\$ (86,682)	\$ 46,543
Chinese Chair	9,911	100,499	(95,549)	14,861
Classics Chair	17,290	206,748	(200,511)	23,527
Japanese Chair	252,358	109,867	(123,338)	238,887
Year Ended June 30, 2007				
Chen Asian Studies Chair	\$ 109,979	\$ 62,368	\$ (104,796)	\$ 67,551
Chinese Chair	(2,686)	96,687	(84,089)	9,912
Classics Chair	18,678	198,956	(200,344)	17,290
Japanese Chair	256,862	105,700	(110,204)	252,358

The ending balances at June 30, 2008 and 2007, reflect the accumulated unexpended earnings of the trust.

The market value and cost of the trust's units included in the Endowment Fund's (permanently restricted) common investment pool follows:

	2008		2007	
	Market Value	Cost	Market Value (Revised)	Cost
Chen Asian Studies Chair	\$ 1,330,479	\$ 757,366	\$ 1,475,021	\$ 756,116
Chinese Chair	2,034,629	975,000	2,257,723	975,000
Classics Chair	4,185,684	2,490,000	4,644,639	2,490,000
Japanese Chair	2,224,302	1,125,000	2,468,194	1,125,000