



BALDWIN-WALLACE COLLEGE
Financial Statements and Supplementary Information
June 30, 2009 and 2008
(With Independent Auditors' Report Thereon)

BALDWIN-WALLACE COLLEGE

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The College

Founded in 1845, Baldwin-Wallace College (B-W) was one of the first colleges in Ohio to admit students without regard to race or gender. Today, B-W continues as an independent, coeducational college in the liberal arts tradition, accredited by the Higher Learning Commission.

B-W maintains more than 50 academic programs within the following 7 divisions: Business Administration; Education; Health and Physical Education; Humanities; Music; Science and Mathematics; and Social Sciences. Undergraduate degrees offered include Bachelor of Arts, Bachelor of Science, Bachelor of Science in Education, Bachelor of Music, and Bachelor of Music Education. Baldwin-Wallace College also offers graduate programs leading to the degrees of Master of Business Administration and Master of Arts in Education.

The campus is in Berea, Ohio, a suburb southwest of Cleveland.

B-W does not discriminate because of race, creed, age, disabilities, national origin, gender, or sexual orientation in admissions, programs, or administration.

The 2008 – 2009 academic year opened with a total fall semester enrollment of 4,382. This total included 3,113 full-time undergraduate students, 568 part-time undergraduates and 701 graduate students. The full-time equivalent enrollment was 3,816, an increase of 35 from the previous fall.

Total spending for programs was \$84,825,353, an increase of approximately 3% from the previous year. B-W continued its long practice of operating with balanced budgets. The increase in unrestricted net assets was \$3,862,439. This amount resulted primarily from operations, which netted \$2,970,087. Total net assets, however, declined \$28,970,886 because of the unfavorable conditions in the financial markets. The net realized and unrealized losses on endowment and similar investments were \$35,465,030. New gifts to the endowment offset a small portion of this loss. The market value of endowment and similar investments at June 30, 2009, was \$95,786,717, compared with \$130,275,665 the previous year. Total net assets were \$183,607,220 at June 30, 2009.

In the fall of 2007, Baldwin-Wallace College began the public phase of a capital campaign with a goal to raise \$82 million, including \$49 million for campus renovation and construction. This past fiscal year, B-W undertook several significant plant projects made possible by this campaign. These included the construction of a new building, the purchase of another building, and major renovations to existing buildings. Plant spending totaled \$15,218,667, including \$9,155,147 of construction in progress at year-end.

The new building being constructed is the Center for Innovation and Growth, to be completed for use during the fall semester. This will be the first building completed as part of the James Thomas Family Center for Science and Innovation. The building will house programs that focus on entrepreneurial thinking and economic development. It is located adjacent to the present science buildings.

The Thomas Center project also includes expansion and extensive renovation to Wilker Hall (chemistry and physics), Life Science Building (biology and neuroscience), and Ward Hall (geology). This work was also in progress at June 30, 2009.

B-W renovated a portion of the Mathematics and Computer Science building to house B-W's broadcasting and film programs. The area will contain a studio, editing suites, and faculty offices.

The expansion of the Conservatory of Music continued as B-W purchased the former First Congregational United Church of Christ building, which is adjacent to Merner-Pfeiffer Hall. This space will eventually provide offices, practice rooms, and rehearsal space for large ensembles.

Plant spending also included numerous lesser renovations to campus buildings and purchases of equipment and furnishings.



REPORT OF THE ADMINISTRATION

This report covers the fiscal year 2009 financial statements and related notes of Baldwin-Wallace College, along with supplementary information. The Administration of Baldwin-Wallace is responsible for the preparation and content of these statements. They have prepared the statements from the financial records of the College, in conformity with accounting principles generally accepted in the United States of America.

Statements of Financial Accounting Standards 116, 117, and 124, issued by the Financial Accounting Standards Board, govern the form and content of private college and university financial statements. The three basic financial statements are the statements of financial position (balance sheet), activities (revenue and expense), and cash flows. Baldwin-Wallace provides additional analytical and non-financial data, including enrollment, admissions, and fees, as supplementary information.

The College's accounting system includes internal controls designed to provide reasonable assurance, at appropriate cost, of the reliability of its financial records and the proper safeguarding and use of its assets. These controls are based on established policies and procedures, and they are implemented by trained, skilled personnel, with an appropriate segregation of duties.

The independent auditing firm of KPMG has audited the financial statements in accordance with auditing principles generally accepted in the United States of America. Their opinion appears in this report.

The Board of Trustees exercises its responsibility for the financial statements through the Audit Review Committee. The Audit Review Committee has four members. It meets at least annually with members of the Administration and representatives of the independent auditing firm to discuss accounting, reporting and internal control matters.

A handwritten signature in dark ink, appearing to read 'Thomas J. Lee', is positioned in the lower right area of the page.



KPMG LLP
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Cleveland, OH 44114-1796

Independent Auditors' Report

The Board of Trustees
Baldwin-Wallace College:

We have audited the accompanying statements of financial position of Baldwin-Wallace College (College) as of June 30, 2009 and 2008, and the related statements of activities and changes in net assets 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 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 consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the College's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, 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 Baldwin-Wallace College as of June 30, 2009 and 2008, and the changes in its net assets and its cash flows for the years then ended, in conformity with U.S. generally accepted accounting principles.

As discussed in note 5 to the financial statements, the College adopted the provisions of Financial Accounting Standards Board (FASB) Statement No. 157, *Fair Value Measurements*, on July 1, 2008.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 21, 2009 on our consideration of the College's internal controls over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. 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 an opinion 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.

Our audits for the years ended June 30, 2009 and 2008 were made for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary information included in the schedules for the years ended June 30, 2009 and 2008 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information, except for that portion marked "unaudited," has been subjected to the auditing procedures applied in the audits of the June 30, 2009 and 2008 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 for the years ended June 30, 2009 and 2008.



We have also previously audited, in accordance with auditing standards generally accepted in the United States of America, the statements of financial position of the College as of June 30, 2007 and 2006, and the related statements of activities and changes in net assets and cash flows for the years then ended (none of which is presented herein), and we expressed unqualified opinions on those financial statements. The supplementary information included in the schedule related to the College's 2007 and 2006 financial statements, except for that portion marked "unaudited," was subjected to auditing procedures applied in the audits of those basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements from which it has been derived.

KPMG LLP

Cleveland, Ohio
October 21, 2009

BALDWIN-WALLACE COLLEGE

Statements of Financial Position

June 30, 2009 and 2008

Assets	2009	2008
Operating assets:		
Cash and cash equivalents	\$ 21,928,331	115,776
Short-term investments	4,098,503	28,045,451
Student accounts receivable, less allowance for doubtful receivables of \$151,000 in 2009 and \$167,000 in 2008	2,686,330	2,718,327
Other receivables, less allowance for doubtful receivables of \$10,000 in 2009 and \$18,000 in 2008	728,084	1,117,927
Inventory	1,344,820	1,331,865
Prepaid expenses	755,173	759,516
Pledges receivable, less allowance for doubtful pledges of approximately \$480,000 in 2009 and \$550,000 in 2008	1,382,158	2,918,463
Student loan notes receivable, less allowance for doubtful receivables of approximately \$580,000 in 2009 and 2008	4,239,096	3,837,065
Other assets	41,044	48,766
Total operating assets	<u>37,203,539</u>	<u>40,893,156</u>
Endowment and similar funds:		
Cash and cash equivalents	5,350,508	5,075,648
Investments, at fair value	90,436,209	125,200,017
Total endowment and similar funds	<u>95,786,717</u>	<u>130,275,665</u>
Plant and equipment:		
Land	5,052,244	4,904,950
Academic buildings	83,771,063	80,567,789
Residence halls	32,698,177	32,574,395
Residences	3,152,194	3,427,256
Furniture and equipment	17,320,540	17,603,801
	<u>141,994,218</u>	<u>139,078,191</u>
Less accumulated depreciation	67,767,881	65,347,356
Construction in progress	9,155,147	—
Net plant assets	<u>83,381,484</u>	<u>73,730,835</u>
Total assets	<u>\$ 216,371,740</u>	<u>244,899,656</u>

See accompanying notes to financial statements.

Liabilities and Net Assets	2009	2008
Liabilities:		
Accounts payable	\$ 3,418,942	1,743,542
Accrued expenses	2,194,996	2,848,539
Deferred revenue and student deposits	4,400,282	4,134,414
Other liabilities	1,681,211	1,345,639
Annuity obligations	3,540,205	3,793,922
Government advances for student loans (Perkins loans)	2,798,884	2,910,494
Long-term debt	14,730,000	15,545,000
Total liabilities	<u>32,764,520</u>	<u>32,321,550</u>
Net assets:		
Unrestricted	<u>43,914,081</u>	<u>40,051,642</u>
Temporarily restricted:		
Program	16,444,599	17,543,674
Student financial aid	3,691,571	6,606,977
Plant and equipment	38,863,963	41,104,873
Total temporarily restricted	<u>59,000,133</u>	<u>65,255,524</u>
Permanently restricted:		
Program	38,205,560	53,046,552
Student financial aid	39,653,458	49,844,638
Plant and equipment	2,833,988	4,379,750
Total permanently restricted	<u>80,693,006</u>	<u>107,270,940</u>
Total net assets	183,607,220	212,578,106
Total liabilities and net assets	<u>\$ 216,371,740</u>	<u>244,899,656</u>

BALDWIN-WALLACE COLLEGE

Statements of Activities and Changes in Net Assets

Years ended June 30, 2009 and 2008

	<u>2009</u>	<u>2008</u>
Changes in unrestricted net assets:		
Revenue:		
Tuition and fees	\$ 85,064,138	80,749,967
Less student financial aid grants	<u>30,545,977</u>	<u>28,828,239</u>
Net tuition and fees	<u>54,518,161</u>	<u>51,921,728</u>
Private gifts and grants	4,251,658	1,942,520
Endowment investment income	1,680,000	1,496,754
Auxiliary enterprises	17,729,757	16,796,992
Other	<u>586,572</u>	<u>1,606,878</u>
Total other revenue	<u>24,247,987</u>	<u>21,843,144</u>
Net assets released from restrictions:		
Program	4,457,499	4,413,480
Student financial aid grants	3,897,944	4,059,367
Plant and equipment	<u>2,633,200</u>	<u>2,239,798</u>
Total net assets released from restrictions	<u>10,988,643</u>	<u>10,712,645</u>
Total revenue and net assets released from restrictions	<u>89,754,791</u>	<u>84,477,517</u>
Expenses:		
Instruction	34,617,828	33,440,358
Academic support	7,179,127	6,752,824
Libraries	1,599,530	1,752,891
Student services	8,215,851	7,696,731
Organized student activities	5,903,773	5,619,657
Institutional support	13,222,015	13,018,038
Auxiliary enterprises	<u>14,087,229</u>	<u>14,047,007</u>
Total expenses	84,825,353	82,327,506
Realized and unrealized endowment investment gains (losses), net	<u>(1,066,999)</u>	<u>(223,082)</u>
Increase in unrestricted net assets	<u>3,862,439</u>	<u>1,926,929</u>

BALDWIN-WALLACE COLLEGE

Statements of Activities and Changes in Net Assets

Years ended June 30, 2009 and 2008

	2009	2008
Changes in temporarily restricted net assets:		
Revenue:		
Private gifts, grants, and pledges	\$ 4,008,669	5,941,705
Endowment investment income	4,998,308	4,016,892
Government grants	1,933,894	2,179,135
Other	493,473	720,385
Total other revenue	11,434,344	12,858,117
Net assets released from restrictions:		
Program	(4,457,499)	(4,413,480)
Student financial aid grants	(3,897,944)	(4,059,367)
Plant and equipment	(2,633,200)	(2,239,798)
Total net assets released from restrictions	(10,988,643)	(10,712,645)
Net revenue	445,701	2,145,472
Realized and unrealized endowment investment gains (losses), net	(6,701,092)	(2,272,821)
Decrease in temporarily restricted net assets	(6,255,391)	(127,349)
Changes in permanently restricted net assets:		
Private gifts, grants, and pledges	647,416	813,343
Endowment investment income	374,375	258,502
Other	97,214	94,921
Realized and unrealized endowment investment gains (losses), net	(27,696,939)	(12,336,366)
Decrease in permanently restricted net assets	(26,577,934)	(11,169,600)
Decrease in net assets	(28,970,886)	(9,370,020)
Net assets at beginning of year	212,578,106	221,948,126
Net assets at end of year	\$ 183,607,220	212,578,106

See accompanying notes to financial statements.

BALDWIN-WALLACE COLLEGE

Statements of Cash Flows

Years ended June 30, 2009 and 2008

	2009	2008
Cash flows from operating activities:		
Change in net assets	\$ (28,970,886)	(9,370,020)
Adjustments to reconcile decrease in net assets to net cash provided by operating activities:		
Depreciation	5,280,789	5,129,167
Plant disposal loss	412,229	—
Net realized and unrealized losses (gains) on investments	35,465,030	14,832,269
Change in student accounts and other receivables	1,958,145	111,490
Change in inventory and prepaid expenses	(8,612)	341,833
Change in accounts payable and accrued expenses	(706,089)	1,129,679
Change in deferred revenue, annuity obligations, government advances, and other liabilities	111,113	546,263
Contributions restricted for long-term investment and plant acquisition	(3,485,053)	(3,839,072)
Dividends, interest, and other restricted for long-term investment and plant acquisition	(975,103)	(591,298)
Net cash provided by operating activities	9,081,563	8,290,311
Cash flows from investing activities:		
Purchases of plant and equipment	(13,490,721)	(6,597,561)
Purchases of endowment investments	(15,013,186)	(104,041,656)
Sales of endowment investments	14,311,964	94,542,061
Sale of short-term investments	23,946,948	(3,845,766)
Change in endowment short-term investments, net	(274,860)	7,025,840
Change in student loans, net	(402,031)	(304,296)
Change in other assets	7,722	619,857
Net cash provided by (used in) investing activities	9,085,836	(12,601,521)
Cash flows from financing activities:		
Contributions restricted for long-term investment and plant acquisition	3,485,053	3,839,072
Dividends, interest, and other restricted for long-term investment and plant acquisition	975,103	591,298
Payments on long-term debt	(815,000)	(790,000)
Net cash provided by financing activities	3,645,156	3,640,370
Net increase (decrease) in cash and cash equivalents	21,812,555	(670,840)
Cash and cash equivalents at beginning of year	115,776	786,616
Cash and cash equivalents at end of year	\$ 21,928,331	115,776
Supplemental disclosure of cash flow information:		
Cash paid for interest	\$ 758,292	785,800
Property additions in accounts payable	1,727,946	—

See accompanying notes to financial statements.

BALDWIN-WALLACE COLLEGE

Notes to Financial Statements

June 30, 2009 and 2008

(1) Nature of Organization

Baldwin-Wallace College (College), founded in 1845, is an independent, coeducational college in the liberal arts tradition. The College, which is accredited by the Higher Learning Commission, maintains 27 academic areas within seven divisions: Business Administration, Education, Health and Physical Education, Humanities, Music, Science and Mathematics, and Social Science.

(2) Summary of Significant Accounting Policies

(a) Method of Accounting

The accompanying financial statements of the College have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America.

The College prepares its financial statements to focus on the organization as a whole and to present balances and transactions classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets and changes therein are classified and reported as follows:

Unrestricted – Net assets that are not subject to donor-imposed stipulations.

Temporarily restricted – Net assets subject to donor-imposed stipulations that will be met either by actions of the College and/or the passage of time.

Permanently restricted – Net assets subject to donor-imposed stipulations that they are maintained permanently by the College. Generally, the donors of these assets permit the College to use all or part of the income earned on related investments for general or specific purposes.

Revenues are reported as increases in unrestricted net assets, unless use of the related assets is limited by donor-imposed restrictions. Expenses are reported as decreases in unrestricted net assets. Gains and losses on investments and other assets or liabilities are reported as increases or decreases in unrestricted net assets, unless their use is restricted by donor stipulation or by law that limits their use. The College has primarily reported gains or losses on investments as permanently or temporarily restricted net assets as a result of such donor stipulations or law. Expirations of temporary restrictions recognized on net assets (i.e., the donor-stipulated purpose has been fulfilled and/or the stipulated time period has elapsed) are reported as reclassifications from temporarily restricted net assets to unrestricted net assets. Temporary restrictions on gifts to acquire long-lived assets are considered to be released over the estimated useful lives of the assets using the College's depreciation policies.

Contributions, including unconditional promises to give, are recognized as revenue in the period received. Contributions of long-lived assets, or of cash or other assets to be used to acquire them, with donor stipulations concerning the use of such long-lived assets, are reported as revenue of the temporarily restricted net asset class. Conditional promises to give are not recognized until the conditions on which they depend are substantially met.

BALDWIN-WALLACE COLLEGE

Notes to Financial Statements

June 30, 2009 and 2008

Contributions of assets other than cash are recorded at their estimated fair value at the date of gift, except that contributions of works of art, historical treasures, and similar assets held as part of collections are not recognized or capitalized. Allowance is made for doubtful collection of contributions receivable based upon management's judgment and analysis of the creditworthiness of the donors, past collection experience, and other relevant factors.

(b) Investments

Investments are reported at fair value. With respect to other investment funds such as the College's investments managed by the Commonfund (The Common Fund for Nonprofit Organizations), the estimated fair values are provided by external investment managers. These estimated fair values are reviewed and evaluated by the College management. Due to the inherent uncertainties of these estimates, these estimated fair values may differ from the values that would have been used had a ready market existed for such investments.

Investment transactions are recorded on the trade date. Realized gains and losses on the sale of investments are calculated on the basis of the specific identification of securities sold. Investment custodial fees are classified as a reduction in investment income for financial reporting purposes.

The table below provides certain information regarding the amount of unrealized holding losses for marketable equity and debt securities as of June 30, 2009 and 2008:

	2009		
	Equity securities	Debt and other securities	Total
Unrealized losses less than one year:			
Amount of unrealized losses	\$ (21,781,247)	(1,644,425)	(23,425,672)
Fair value of related securities held in a loss position	75,184,189	23,327,628	98,511,817
Number of related security positions	20	2	22
Unrealized losses greater than one year:			
Amount of unrealized losses	(1,672,581)	(14,775)	(1,687,356)
Fair value of related securities held in a loss position	4,461,267	52,287	4,513,554
Number of related security positions	67	4	71
Total unrealized losses	(23,453,828)	(1,659,200)	(25,113,028)
Unrealized gains	2,177,525	45,278	2,222,803
Net unrealized losses	\$ (21,276,303)	(1,613,922)	(22,890,225)

BALDWIN-WALLACE COLLEGE

Notes to Financial Statements

June 30, 2009 and 2008

	2008		
	Equity securities	Debt and other securities	Total
Unrealized losses less than one year:			
Amount of unrealized losses	\$ (864,000)	—	(864,000)
Fair value of related securities held in a loss position	5,647,000	—	5,647,000
Number of related security positions	81	—	81
Unrealized losses greater than one year:			
Amount of unrealized losses	(217,000)	—	(217,000)
Fair value of related securities held in a loss position	582,000	—	582,000
Number of related security positions	18	—	18
Totals	(1,081,000)	—	(1,081,000)
Unrealized gains	6,162,000	2,766,000	8,928,000
Net unrealized gains	\$ 5,081,000	2,766,000	7,847,000

(c) Inventory

Inventories, which consist of bookstore and other supplies, are valued at cost determined using the first-in, first-out method.

(d) Annuities and Perpetual Trusts

The College's split-interest agreements with donors consist of irrevocable charitable remainder trusts, charitable gift annuities, and life income contracts for which the College is either the remainder beneficiary or both the trustee and remainder beneficiary.

Assets held in trust for which the College serves as trustee are included in investments. The fair market value of these investments was approximately \$6,900,000 at June 30, 2009 and \$8,300,000 at June 30, 2008. In addition, the present value of the estimated future payments to be made to the donors and/or other beneficiaries is included in liabilities. The liabilities are adjusted during the term of the trusts for changes in the value of the assets, accretion of the discount, and other changes in the estimates of future benefits. Significant assumptions used in the calculation of the liability include:

- Assumed mortality rates based upon the 1983 Group Annuity Mortality Table and Annuity 2000 Table
- Assumed valuation interest rates of 5.5% to 6.5%
- Assumed annuity payments made annually at the beginning of the year.

BALDWIN-WALLACE COLLEGE

Notes to Financial Statements

June 30, 2009 and 2008

Assets held in trust for which the College does not serve as trustee (i.e., perpetual trusts) are included as investments in the financial statements. The balances of \$8,596,337 and \$11,984,039 at June 30, 2009 and 2008, respectively, are recorded at fair value. Changes in the value of the College's beneficial interest in these perpetual trusts are reflected within the statement of activities and changes in net assets as temporarily restricted unrealized gains.

(e) *Deferred Revenue*

Revenue and expenses related to academic terms conducted over two fiscal years, such as the summer session, are recognized in the fiscal year in which the program is conducted. Amounts prepaid for future academic terms are included in deferred revenue and student deposits within the statements of financial position.

(f) *Plant and Equipment*

Plant and equipment are stated at cost. Amounts capitalized are depreciated over the estimated useful life of each class of depreciable asset and is computed on the straight-line method. Estimated useful lives are as follows:

Buildings	50 years
Building additions and renovations	25 years
Computers, telephones, copiers, and vehicles	5 years
Other equipment and furniture	10 years

(g) *Impairment of Long-Lived Assets*

The College evaluates the recoverability of long-lived assets and the related estimated remaining lives at each balance sheet date. The College records an impairment or change in useful life whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable or the useful life has changed in accordance with FASB Statement No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets*.

(h) *Asset Retirement Obligations*

The College follows FASB Interpretation No. 47, *Accounting for Conditional Asset Retirement Obligations – an interpretation of FASB Statement No. 143* (FIN 47). Under FIN 47, an entity is required to recognize a liability for the fair value of a conditional asset retirement obligation if the fair value can be reasonably estimated. The College has recorded a liability for asset retirement obligations in other liabilities on the statements of financial position of \$871,000 and \$822,000 at June 30, 2009 and 2008, respectively. Related discount amortization and depreciation in the fiscal years ended June 30, 2009 and 2008 were \$53,000 and \$60,000, respectively.

(i) *Income Taxes*

The College has received a determination letter from the Internal Revenue Service indicating it is a tax-exempt organization as provided for in Section 501(c)(3) of the Internal Revenue Code, except for taxes pertaining to unrelated business income, and is exempt from federal and state income taxes.

BALDWIN-WALLACE COLLEGE

Notes to Financial Statements

June 30, 2009 and 2008

No provision has been made for income taxes in the accompanying financial statements because, in management's opinion, the College does not have a significant amount of unrelated business income.

(j) Cash and Cash Equivalents and Short-Term Investments

Cash equivalents consist of short-term highly liquid instruments purchased with an original maturity date of three months or less, except for cash and cash equivalents of endowments and similar funds, which are treated as long-term investment assets.

Short-term investments are reported at fair value and represent the College's operating cash that has been invested in a short-term investment fund, which has underlying investments that are not considered cash equivalents and are reported at fair value.

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

(3) Long-Term Debt

On June 1, 2004, the College issued State of Ohio Higher Educational Facility Revenue Bonds (the Bonds) in the amount of \$18,585,000. Issuance costs of \$238,000 were recorded in prepaid expenses at June 30, 2004 and are being amortized over the life of the Bonds. The Bonds were issued pursuant to a Trust Agreement between the Ohio Higher Educational Facility Commission (the Commission) and National City Bank (the Trustee). The Bonds were dated as of June 1, 2004, and are scheduled to mature annually through 2024. Interest is payable beginning December 1, 2004, and semiannually on each June 1 and December 1, at an annual rate ranging from 2.0% to 5.5%. The outstanding debt balance had fair values of approximately \$15,143,000 and \$15,884,000 at June 30, 2009 and 2008, respectively.

The annual principal payments required on bonds payable for 2009 and thereafter are as follows:

Fiscal year ending June 30:	
2010	\$ 845,000
2011	880,000
2012	920,000
2013	960,000
2014	1,005,000
Thereafter	<u>10,120,000</u>
	<u>\$ 14,730,000</u>

The bond payable agreements contain certain covenants, including a net revenue covenant whereby the College covenants that it will establish, charge and collect tuition, student fees and charges for services provided by the College such that net revenues available for debt service will equal or exceed, in each fiscal year, 110% of the bond service charges for such fiscal year.

BALDWIN-WALLACE COLLEGE

Notes to Financial Statements

June 30, 2009 and 2008

(4) Investments

Endowment and similar investments include endowment funds, funds functioning as endowment, charitable gift annuities, charitable remainder trusts, and beneficial interests in outside trusts. At June 30, 2009 and 2008, investments and cash and cash equivalents comprised the following:

	2009	2008
Cash and cash equivalents	\$ 5,350,508	5,075,648
Commonfund:		
Core Equity Fund	27,334,487	35,060,343
High Quality Bond Fund	19,060,558	27,400,000
International Equity Fund	6,483,984	10,100,000
All Cap Equity Fund	19,339,728	25,400,000
Equities	8,592,210	14,203,428
Fixed income	777,843	909,841
Beneficial interest in perpetual trust	8,596,337	11,984,039
Miscellaneous	251,062	142,366
	\$ 95,786,717	130,275,665

In June 2008, the College sold investment securities in the main investment pool and, on June 30, 2008, deposited the proceeds into investment funds that are part of the investment program managed by Commonfund. Commonfund is an institutional investment manager serving higher education, health care, foundations, and other nonprofits.

As of June 30, 2009 and 2008, the total net gain (loss) for the year comprises of the following:

	2009	2008
Unrealized net gain (loss)	\$ (30,737,545)	(51,563,687)
Realized net gain (loss)	(4,727,485)	36,731,418
Total net loss for the year	\$ (35,465,030)	(14,832,269)

Interest income earned on operating cash equivalents and included in other unrestricted revenue was approximately \$140,309 and \$975,000 for the years ended June 30, 2009 and 2008, respectively.

On September 29, 2008, the trustee of the Common Fund for Short Term Investments (the Fund) notified the College that it was resigning as trustee, had initiated the process of terminating the Fund, and had established procedures for an orderly liquidation and distribution of the assets of the Fund over a period of time. As of that date, the College had \$32,530,081 on deposit, and had earned \$107,353 in interest since June 30, 2008. Part of that interest was later forfeited, leaving net interest earned for the fiscal year at \$66,497. Permitted withdrawals during the year after the notification date totaled \$28,507,181, leaving a balance of \$3,982,044 at June 30, 2009. The College expects to be able to withdraw all of this balance.

BALDWIN-WALLACE COLLEGE

Notes to Financial Statements

June 30, 2009 and 2008

(5) Fair Value Measurements

On July 1, 2008, the College adopted the recognition and disclosure provisions of FASB Statement No. 157, *Fair Value Measurements* (SFAS 157) for financial assets and liabilities. SFAS 157 establishes a framework in generally accepted accounting principles for measuring fair value and expands disclosures about fair value measurements. Although it does not require any new fair value measurements, SFAS 157 emphasizes that fair value is a market-based measurement, not an entity-specific measurement, and should be determined based on the assumptions that market participants would use in pricing the asset or liability.

SFAS 157 establishes a hierarchy for ranking the quality and reliability of the information used to determine fair values. SFAS 157 requires that assets and liabilities carried at fair value be disclosed according to the following three levels:

Level 1 – Unadjusted quoted prices in active markets for identical assets or liabilities. Level 1 yields the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities. A quoted price in an active market provides the most reliable evidence of fair value and shall be used to measure fair value whenever available.

Level 2 – Observable inputs other than quoted prices in Level 1. Inputs such as quoted prices for similar assets and liabilities in active markets, quoted prices for identical or similar liabilities that are not active, or other inputs that are observable or can be corroborated by observable market data.

Level 3 – Unobservable inputs that are significant to the valuation of assets or liabilities and are supported by little or no market data. This includes discounted cash flow methodologies, pricing models, and similar techniques that use significant unobservable inputs.

In accordance with SFAS 157, the College has categorized the investments by valuation technique. Level 1 valuations are based on quoted prices from stock exchange for identical assets. Level 2 valuations are based on quoted prices from stock exchanges for similar assets, quoted prices in inactive markets, or other observable market data. Commonfund management quotes net asset values for each of its funds at the end of each month based on the quoted market price of the fund's underlying securities. The net asset value has been applied as a practical expedient for estimating fair value as the investment can be redeemed at the net asset value. The net asset value is also applied as a practical expedient for the valuation of the College's beneficial interest in perpetual trusts. However, these assets are classified as Level 3 as the investments cannot be redeemed at net asset value.

BALDWIN-WALLACE COLLEGE

Notes to Financial Statements

June 30, 2009 and 2008

The following table presents assets that are measured at fair value on a recurring basis as of June 30, 2009:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Cash equivalents	\$ 5,350,508	—	—
Commonfund:			
Core Equity Fund	—	27,334,487	—
High Quality Bond Fund	—	19,060,558	—
International Equity Fund	—	6,483,984	—
All Cap equity Fund	—	19,339,728	—
Equities	8,592,210	—	—
Fixed income	—	777,843	—
Beneficial interest in perpetual trusts	—	—	8,596,337
Miscellaneous	—	251,062	—
	<u>\$ 13,942,718</u>	<u>73,247,662</u>	<u>8,596,337</u>

The following table presents activity for the year ended June 30, 2009 for assets classified as Level 3:

	<u>Fair value measurements using unobservable inputs (Level 3) Beneficial interest in perpetual trusts</u>
Balance at July 1, 2008	\$ 11,984,039
Additions	85,100
Payments	—
Investment income	320,261
Realized and unrealized gains (losses)	(3,327,646)
Change in actuarial estimate	145,909
Transfers out	(611,326)
Balance at June 30, 2009	<u>\$ 8,596,337</u>

(6) Endowment

The College adopted the provisions of FASB Staff Position 117-1, *Endowments of Not-for-Profit Organizations* (FSP 117-1), effective July 1, 2008. The College's endowment consists of approximately 450 individual funds. The donors of most of these funds have restricted the principal for investment. Some of those donors have also restricted the use of the income as to purpose. The College classifies these funds, sometimes referred to as true endowment, as permanently restricted net assets. The College's Board of Trustees has designated other funds, usually resulting from major bequests or gifts, as funds functioning as endowment. The College classifies these funds as temporarily restricted net assets if the donor restricted the gift as to purpose, or as unrestricted net assets.

BALDWIN-WALLACE COLLEGE

Notes to Financial Statements

June 30, 2009 and 2008

As a matter of fundraising practice, the College executes a signed agreement with all true endowment donors. These agreements specify, among other things, that the funds are governed by Baldwin-Wallace endowment policy, and that gains in excess of those required by the spending policy are added to principal, increasing the permanently restricted fund balance by such gains.

The College's spending policy is to withdraw each year an amount not exceeding 5.5% of the average of the June 30 market values for the preceding three years. These withdrawals include all ordinary investment income and the amount of accumulated gains required. The statements of activities and changes in net assets for each of the three net asset classes show these withdrawals as endowment investment income.

From time to time, the fair value of assets associated with individual endowment funds may fall below the level that the donor or legislation requires the College to maintain as a fund of perpetual duration. In accordance with GAAP, deficiencies of this nature are reported in unrestricted net assets. There were no such deficiencies as of June 30, 2009 and 2008.

BALDWIN-WALLACE COLLEGE

Notes to Financial Statements

June 30, 2009 and 2008

The following tables present the presents the endowment net asset composition by fund type as of June 30, 2009 and 2008:

	June 30, 2009			
	Permanently restricted	Temporarily restricted	Unrestricted	Total
Donor-restricted endowment funds	\$ 74,538,959	—	—	74,538,959
Board designated funds	—	5,440,588	3,378,667	8,819,255
	<u>\$ 74,538,959</u>	<u>5,440,588</u>	<u>3,378,667</u>	<u>83,358,214</u>

	June 30, 2008			
	Permanently restricted	Temporarily restricted	Unrestricted	Total
Donor-restricted endowment funds	\$ 101,149,216	—	—	101,149,216
Board designated funds	—	8,426,367	4,445,666	12,872,033
	<u>\$ 101,149,216</u>	<u>8,426,367</u>	<u>4,445,666</u>	<u>114,021,249</u>

The following table presents the changes in endowment net assets held by the College for the years ended June 30, 2008 and 2009:

	Permanently restricted	Temporarily restricted	Unrestricted	Total
Balances June 30, 2007	\$ 112,333,574	10,007,821	4,668,748	127,010,143
Ordinary investment income	3,525,185	314,059	146,512	3,985,756
Investment losses	(11,344,534)	(1,000,242)	(181,861)	(12,526,637)
Gifts and gift pledges	819,654	75	—	819,729
Transfers and other	93,131	(2,590)	—	90,541
Distributions for expenditure	(4,277,794)	(102,756)	(187,733)	(4,568,283)
Withdrawal for debt payment	—	(790,000)	—	(790,000)
Balances June 30, 2008	101,149,216	8,426,367	4,445,666	114,021,249
Ordinary investment income	2,149,323	179,052	94,466	2,422,841
Investment losses	(24,489,591)	(2,218,285)	(926,031)	(27,633,907)
Gifts and gift pledges	641,108	—	—	641,108
Transfers and other	95,864	(5,000)	—	90,864
Distributions for expenditure	(5,006,961)	(126,546)	(235,434)	(5,368,941)
Withdrawal for debt payment	—	(815,000)	—	(815,000)
Balances June 30, 2009	<u>\$ 74,538,959</u>	<u>5,440,588</u>	<u>3,378,667</u>	<u>83,358,214</u>

BALDWIN-WALLACE COLLEGE

Notes to Financial Statements

June 30, 2009 and 2008

Members of the Baldwin-Wallace College Investment Committee develop investment policy subject to the approval by the Board of Trustees. They design the policy to be flexible and subject to revisions as the needs of the College may change. While the endowment is under the responsibility of the Board of Trustees, the Board has delegated authority, decision-making and investment activities – including appointment, oversight, and evaluation of the Investment Manager – to the Investment Committee whose members are appointed and serve at the pleasure of the Chairperson of the Board of Trustees. The members of the Investment Committee are all Trustees who volunteer their services on a pro bono basis. It should be noted that the College reserves the right to engage the services of outside money managers and consultants at any time.

The purpose of the endowment is to provide adequate security to the College, to protect the institution's heritage, fulfill the mission statement, further the goals of the strategic plan, and provide current cash flow for annual operation. This necessitates high-quality marketable investments that assure maximum liquidity. Therefore, the investment policy is the basic framework against which portfolio strategy is made. It should be flexible and subject to frequent review.

The long-term investment objectives of the endowment are to remain balanced to reflect the current needs for operations and the long-term preservation of the institution. The investment policy has been formulated to assist in accomplishing the following specific objectives as market and other conditions permit:

1. To increase the capital base while avoiding excessive risk in order to provide the opportunity for capital appreciation over time;
2. To develop and maintain a desired level of cash flow to supplement the total return requirements of the current payout;
3. To maintain principal liquidity at reasonable levels to stabilize the portfolio, maintain portfolio flexibility, and provide for unforeseen contingencies; and
4. To conserve principal through diversification of asset classes.

The Board of Trustees expects that the Investment Committee will review the policy annually and amend it as appropriate.

In 2009, the Uniform Prudent Management of Institutional Funds Act (UPMIFA) has been enacted to update and replace Ohio's current version of legislation, with an effective date of June 1, 2009. The College believes that its policies and procedures comply with the new provisions of the law.

(7) Retirement Plan

The College participates in the Teachers Insurance and Annuity Association retirement plan, which covers substantially all regular full-time employees. The retirement plan is funded by College contributions ranging from 7% to 10% of the covered employees' regular salary and by required employee contributions ranging from 3% to 5% of regular salary. During 2009 and 2008, the College's contributions aggregated approximately \$1,956,000 and \$1,868,000, respectively.

BALDWIN-WALLACE COLLEGE

Notes to Financial Statements

June 30, 2009 and 2008

(8) Commitments and Contingencies

Under the terms of federal and state grants, periodic audits are required and certain costs may be questioned as to their allowability in connection with the terms of the grants. Such audits could lead to reimbursement to the grantor agencies. College management believes disallowances, if any, will not be material to the College's financial statements.

(9) Gift Pledges

Gift pledges totaling \$1,382,158 and \$2,918,463 at June 30, 2009 and 2008, respectively, represent unconditional promises to give. All gift pledges are restricted as to use for various purposes, primarily for plant or endowment. These promises are reported at the present value of estimated future cash flows and are discounted at a rate of 6%. Discounts of \$99,456 and \$163,906 were recorded at June 30, 2009 and 2008, respectively.

Gift pledges are expected to be realized as follows:

	2009	2008
In one year or less	\$ 1,245,628	2,399,764
Between one and five years	715,986	1,232,605
More than five years	—	—
	1,961,614	3,632,369
Less allowance for uncollectible pledges	(480,000)	(550,000)
Less discount on pledges	(99,456)	(163,906)
Net pledges receivable	\$ 1,382,158	2,918,463

Conditional promises to give totaled approximately \$31,099,000 as of June 30, 2009. This amount included \$24,679,000 in commitments contained in wills or insurance policies, and approximately \$6,420,000 in pledges, which contain matching and other requirements. The amount at June 30, 2008 was approximately \$20,238,000. Conditional promises to give are not recorded in the financial statements.

(10) Income Taxes

Effective July 1, 2007, the College adopted FASB Financial Interpretation No. 48 (FIN 48), *Accounting for Uncertainty of Income Taxes*, which clarifies the accounting for uncertainty in income taxes recognized in an organization's financial statements. FIN 48 prescribes a more-likely than-not recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken. Under FIN 48, tax provisions are evaluated for recognition, derecognition, and measurement using consistent criteria and they will provide more information about the uncertainty in income tax assets and liabilities. As a result of its analysis, the College has determined that the application of FIN 48 has no material effect on its financial statements.

BALDWIN-WALLACE COLLEGE

Notes to Financial Statements

June 30, 2009 and 2008

(11) Line of Credit

The College has entered into a \$5,000,000 line of credit, which bears an interest rate of one-month LIBOR plus 250 basis points. There were no borrowings outstanding as of June 30, 2009.

(12) Subsequent Events

The College evaluated subsequent events applicable to the year ended June 30, 2009 through October 21, 2009, the date of issuance of the financial statements. No reportable events occurred.

BALDWIN-WALLACE COLLEGE

Supplementary Information

Years ended June 30, 2009, 2008, 2007, and 2006

	<u>2009</u>	<u>2008</u>	<u>2007</u>	<u>2006</u>
Significant assets and liabilities (in millions):				
Operating cash and short-term investments	\$ 26.0	28.2	25.0	22.6
Student and other receivables, net	3.4	3.8	3.7	2.7
Gift pledges receivable, net	1.4	2.9	3.2	2.2
Student loan notes (primarily Perkins) receivable, net	4.2	3.8	3.5	3.5
Endowment investments (fair value)	95.8	130.3	142.6	130.5
Physical plant (historical cost)	151.1	139.1	134.0	132.1
Accumulated depreciation	67.8	65.3	61.7	58.5
Accounts payable and accruals	5.6	4.6	3.4	3.4
Annuity obligations	3.5	3.8	3.5	3.5
Long-term debt	14.7	15.5	16.3	17.1
Net assets (in millions):				
Unrestricted:				
Designated operating	\$ 1.1	1.1	1.1	1.1
Functioning as endowment	3.4	4.6	5.1	3.9
Designated for plant expenditures	1.4	0.7	0.9	1.6
Plant	<u>38.0</u>	<u>33.7</u>	<u>31.0</u>	<u>29.7</u>
Total	43.9	40.1	38.1	36.3
Temporarily restricted by donors, expendable for specific purposes	59.0	65.2	65.4	60.7
Permanently restricted by donors for endowment investment or student loans	<u>80.7</u>	<u>107.3</u>	<u>118.4</u>	<u>109.2</u>
Total net assets	<u>\$ 183.6</u>	<u>212.6</u>	<u>221.9</u>	<u>206.2</u>
Enrollment, fall term (unaudited):				
Full-time undergraduate	\$ 3,113	3,037	2,929	2,994
Part-time undergraduate	568	601	696	687
Graduate	<u>701</u>	<u>756</u>	<u>740</u>	<u>788</u>
Total	<u>\$ 4,382</u>	<u>4,394</u>	<u>4,365</u>	<u>4,469</u>
Full-time equivalent (unaudited)	\$ 3,816	3,781	3,692	3,792
Residence hall occupancy, fall term (unaudited)	1,834	1,778	1,632	1,627
New day students, fall term (unaudited):				
Applied	3,846	3,621	3,079	2,762
Admitted	2,491	2,364	2,332	2,130
Enrolled	919	900	877	776

BALDWIN-WALLACE COLLEGE

Supplementary Information

Years ended June 30, 2009, 2008, 2007, and 2006

(in millions)

	<u>2009</u>	<u>2008</u>	<u>2007</u>	<u>2006</u>
Unrestricted revenue:				
Tuition and fees	\$ 85.1	80.7	74.7	73.4
Gifts, endowed, and other	6.5	5.0	6.1	4.7
Auxiliary enterprises	17.7	16.8	14.9	14.2
Restricted funds available	<u>11.0</u>	<u>10.7</u>	<u>9.8</u>	<u>9.6</u>
Total	<u>120.3</u>	<u>113.2</u>	<u>105.5</u>	<u>101.9</u>
Direct expenses:				
Academic and student services	47.0	45.6	43.5	42.5
Student financial aid grants	30.5	28.8	26.3	24.5
Educational plant operation and general support	24.1	22.7	22.2	20.7
Auxiliary enterprises	<u>13.7</u>	<u>14.0</u>	<u>12.0</u>	<u>12.6</u>
Total	115.3	111.1	104.0	100.3
Investment gains (losses) and other	(1.1)	(0.2)	0.4	0.1
Cumulative effect of change in accounting principle	<u>—</u>	<u>—</u>	<u>—</u>	<u>(0.7)</u>
Increase in unrestricted net assets	\$ <u>3.9</u>	<u>1.9</u>	<u>1.9</u>	<u>1.0</u>
Gifts received:				
Endowment and similar	\$ 0.8	1.8	2.4	3.4
Restricted or allocated for plant	4.9	2.0	0.9	2.7
Annual fund	2.1	1.8	1.7	1.6
Other current and loan	<u>2.6</u>	<u>3.1</u>	<u>3.1</u>	<u>2.1</u>
	\$ <u>10.4</u>	<u>8.7</u>	<u>8.1</u>	<u>9.8</u>
Government grants	\$ 1.9	2.2	1.7	1.7
Endowment investment income distributed:				
Unrestricted	\$ 1.7	1.5	1.6	1.5
Restricted for program or financial aid	4.9	4.1	4.5	4.3
Endowment (reinvested per donors' instructions)	0.4	0.3	0.2	0.2
Plant	<u>0.1</u>	<u>0.2</u>	<u>0.2</u>	<u>0.2</u>
	\$ <u>7.1</u>	<u>6.1</u>	<u>6.5</u>	<u>6.2</u>

BALDWIN-WALLACE COLLEGE

Supplementary Information

Years ended June 30, 2009, 2008, 2007, and 2006

	<u>2009</u>	<u>2008</u>	<u>2007</u>	<u>2006</u>
Fees charged per full-time student (unaudited):				
Tuition	\$ 23,524	22,404	21,236	20,518
Residence hall room (double)	3,776	3,594	3,406	3,290
Campus card (food, bookstore)	<u>3,952</u>	<u>3,764</u>	<u>3,568</u>	<u>3,448</u>
	<u>\$ 31,252</u>	<u>29,762</u>	<u>28,210</u>	<u>27,256</u>
Student financial aid grants (in millions):				
Unrestricted funds	\$ 26.6	24.7	22.6	20.5
Restricted gifts, grants, and endowment earnings	<u>3.9</u>	<u>4.1</u>	<u>3.7</u>	<u>4.0</u>
Total college aid	<u>30.5</u>	<u>28.8</u>	<u>26.3</u>	<u>24.5</u>
Government grants to students administered by the college:				
Pell and other federal	3.2	2.7	2.3	1.9
Ohio choice	1.6	1.6	2.2	2.2
Ohio instructional and other state	<u>2.1</u>	<u>1.7</u>	<u>1.8</u>	<u>1.6</u>
Total government administered	<u>6.9</u>	<u>6.0</u>	<u>6.3</u>	<u>5.7</u>
Total grant aid	<u>\$ 37.4</u>	<u>34.8</u>	<u>32.6</u>	<u>30.2</u>
Student financial aid grants as a percentage of tuition revenue from full-time students (unaudited):				
Unrestricted	38%	38%	38%	35%
Restricted gifts, grants, and endowment earnings	<u>6</u>	<u>6</u>	<u>6</u>	<u>7</u>
Total college aid	44	44	44	42
Administered	<u>10</u>	<u>9</u>	<u>10</u>	<u>9</u>
Total	<u>54%</u>	<u>53%</u>	<u>54%</u>	<u>51%</u>
Dollar amounts per full-time equivalent enrollment (unaudited):				
Academic and student services	\$ 12,300	12,100	11,800	11,500
Educational plant and general support	6,300	6,100	6,000	5,700
Gift support	2,700	2,400	2,300	2,500
Endowment market value	25,100	34,500	38,600	34,000

See accompanying independent auditors' report.