

GUSTAVUS ADOLPHUS COLLEGE

Saint Peter, Minnesota

Financial Statements
Including Independent Auditors' Report

As of and for the Years Ended May 31, 2019 and 2018

GUSTAVUS ADOLPHUS COLLEGE

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors
Gustavus Adolphus College
Saint Peter, Minnesota

We have audited the accompanying financial statements of Gustavus Adolphus College (the "College"), which comprise the statements of financial position as of May 31, 2019 and 2018, and the related statements of activities and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

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 audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Gustavus Adolphus College as of May 31, 2019 and 2018, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 1 to the financial statements, on June 1, 2018, the College adopted Accounting Standards Update (ASU) No. 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*. Our opinion is not modified with respect to this matter.

Baker Tilly Virchow Krause, LLP

Minneapolis, Minnesota
September 25, 2019

GUSTAVUS ADOLPHUS COLLEGE

STATEMENTS OF FINANCIAL POSITION
May 31, 2019 and 2018

| ASSETS | 2019 | 2018 |
|---|-----------------------|-----------------------|
| Cash and cash equivalents | \$ 45,019,815 | \$ 35,740,793 |
| Receivables | | |
| Students accounts, net of allowance for doubtful accounts of \$510,000 and \$425,000 | 681,081 | 705,058 |
| Government grants | 506,793 | 489,342 |
| Contributions, net | 46,500,000 | 25,884,000 |
| Other | 390,294 | 263,080 |
| Inventories | 505,911 | 471,727 |
| Prepaid expenses and other assets | 1,652,292 | 1,788,886 |
| Students notes receivable, net | 1,998,266 | 2,448,221 |
| Investments | | |
| Cash and short-term investments | 1,561,221 | 1,306,978 |
| Investments other than endowment | 28,001,382 | 47,374,380 |
| Interest in buildings, net of accumulated depreciation of \$508,498 and \$506,694 | 237,777 | 264,179 |
| Real estate held for resale | 676,340 | 676,340 |
| Beneficial interest in funds held in trust | 1,403,395 | 1,396,660 |
| Other | 422,657 | 415,422 |
| Deposits held by trustee | | |
| Cash and short-term investments | 226 | 17,964,998 |
| Endowment investments | 194,410,969 | 183,693,425 |
| Construction in progress | 41,230,588 | 9,823,868 |
| Property, plant and equipment, net | 105,310,176 | 109,540,061 |
| TOTAL ASSETS | \$ 470,509,183 | \$ 440,247,418 |
| LIABILITIES AND NET ASSETS | | |
| LIABILITIES | | |
| Accounts payable | \$ 4,988,274 | \$ 3,815,765 |
| Accrued liabilities | 14,375,095 | 14,016,117 |
| Deferred revenue | 3,600,139 | 2,455,507 |
| Future interest discount on pooled life income funds | 181,054 | 197,637 |
| Annuities payable | 9,792,123 | 10,493,846 |
| Funds held for others | 2,709,200 | 2,711,705 |
| Long-term debt, net | 66,481,398 | 67,319,988 |
| U.S. government grants refundable | 2,496,847 | 2,548,643 |
| Total Liabilities | 104,624,130 | 103,559,208 |
| NET ASSETS | | |
| Without donor restrictions | 100,394,749 | 102,201,329 |
| With donor restrictions | 265,490,304 | 234,486,881 |
| Total Net Assets | 365,885,053 | 336,688,210 |
| TOTAL LIABILITIES AND NET ASSETS | \$ 470,509,183 | \$ 440,247,418 |

See accompanying notes to financial statements.

GUSTAVUS ADOLPHUS COLLEGE

STATEMENT OF ACTIVITIES
Year Ended May 31, 2019
With Comparative Totals for 2018

| | 2019 | | | 2018 Total |
|---|-------------------------------|----------------------------|-----------------------|-----------------------|
| | Without Donor Restrictions | With Donor Restrictions | Total | |
| OPERATING REVENUES AND OTHER ADDITIONS | | | | |
| Net tuition and fees, net of scholarships and grants of \$59,746,234 and \$54,656,281, respectively | \$ 40,528,437 | | \$ 40,528,437 | \$ 40,759,228 |
| Government grants | 1,780,294 | | 1,780,294 | 1,326,473 |
| Private gifts and grants | 1,637,147 | \$ 3,776,168 | 5,413,315 | 5,633,191 |
| Endowment income | 2,421,004 | 5,552,492 | 7,973,496 | 6,757,601 |
| Investment income | 952,006 | | 952,006 | 461,491 |
| Other sources | 3,369,781 | | 3,369,781 | 3,367,045 |
| Sales and services of auxiliary enterprises | 23,700,695 | | 23,700,695 | 23,233,065 |
| | 74,389,364 | 9,328,660 | 83,718,024 | 81,538,094 |
| Net assets released from restrictions | 8,827,606 | (8,827,606) | | |
| Amortization of contributions for long-lived assets | 2,042,921 | | 2,042,921 | 2,005,365 |
| Total Operating Revenues and Other Additions | 85,259,891 | 501,054 | 85,760,945 | 83,543,459 |
| OPERATING EXPENSES | | | | |
| Program expenses | | | | |
| Instruction | 36,137,627 | | 36,137,627 | 35,645,934 |
| Academic support | 5,001,033 | | 5,001,033 | 4,487,320 |
| Research | 133,174 | | 133,174 | 115,733 |
| Public service | 2,906,926 | | 2,906,926 | 2,744,631 |
| Student services | 14,833,151 | | 14,833,151 | 14,525,965 |
| Auxiliary enterprises | 14,457,258 | | 14,457,258 | 14,561,955 |
| Support expenses | | | | |
| Institutional support | 11,607,645 | | 11,607,645 | 11,323,084 |
| Total Operating Expenses | 85,076,814 | - | 85,076,814 | 83,404,622 |
| Change in Net Assets from Operating Activity | 183,077 | 501,054 | 684,131 | 138,837 |
| NONOPERATING ACTIVITY | | | | |
| Private gifts and grants | | 36,942,397 | 36,942,397 | 26,286,116 |
| Endowment income | | 57,958 | 57,958 | 74,405 |
| Investment income | | 128 | 128 | 127 |
| Investment income, net of endowment income | (652,949) | (5,455,182) | (6,108,131) | 7,294,499 |
| Other sources | | | | 37 |
| Adjustment of actuarial liability | (3,203) | (212,024) | (215,227) | 97,471 |
| Loss on debt refinancing | | | | (1,139,337) |
| Loss on disposal of assets | (121,492) | | (121,492) | |
| Amortization of contributions for long-lived assets | (2,042,921) | | (2,042,921) | (2,005,365) |
| Net assets released from restrictions for capital acquisitions | 830,908 | (830,908) | | |
| Total Nonoperating Activity | (1,989,657) | 30,502,369 | 28,512,712 | 30,607,953 |
| Change in Net Assets | (1,806,580) | 31,003,423 | 29,196,843 | 30,746,790 |
| Net Assets - Beginning of Year | 102,201,329 | 234,486,881 | 336,688,210 | 305,941,420 |
| NET ASSETS - END OF YEAR | \$ 100,394,749 | \$ 265,490,304 | \$ 365,885,053 | \$ 336,688,210 |

See accompanying notes to financial statements.

GUSTAVUS ADOLPHUS COLLEGE

STATEMENT OF ACTIVITIES
Year Ended May 31, 2018

| | Without Donor Restrictions | With Donor Restrictions | Total |
|--|-------------------------------|----------------------------|-----------------------|
| OPERATING REVENUES AND OTHER ADDITIONS | | | |
| Net tuition and fees, net of scholarships and grants of \$54,565,281 | \$ 40,759,228 | | \$ 40,759,228 |
| Government grants | 1,326,473 | | 1,326,473 |
| Private gifts and grants | 1,828,590 | \$ 3,804,601 | 5,633,191 |
| Endowment income | 1,675,725 | 5,081,876 | 6,757,601 |
| Investment income | 461,491 | | 461,491 |
| Other sources | 3,367,045 | | 3,367,045 |
| Sales and services of auxiliary enterprises | 23,233,065 | | 23,233,065 |
| | <u>72,651,617</u> | <u>8,886,477</u> | <u>81,538,094</u> |
| Net assets released from restrictions | 8,767,478 | (8,767,478) | |
| Amortization of contributions for long-lived assets | 2,005,365 | | 2,005,365 |
| Total Operating Revenues and Other Additions | <u>83,424,460</u> | <u>118,999</u> | <u>83,543,459</u> |
| OPERATING EXPENSES | | | |
| Program expenses | | | |
| Instruction | 35,645,934 | | 35,645,934 |
| Academic support | 4,487,320 | | 4,487,320 |
| Research | 115,733 | | 115,733 |
| Public service | 2,744,631 | | 2,744,631 |
| Student services | 14,525,965 | | 14,525,965 |
| Auxiliary enterprises | 14,561,955 | | 14,561,955 |
| Support expenses | | | |
| Institutional support | 11,323,084 | | 11,323,084 |
| Total Operating Expenses | <u>83,404,622</u> | <u>-</u> | <u>83,404,622</u> |
| Change in Net Assets from Operating Activity | 19,838 | 118,999 | 138,837 |
| NONOPERATING ACTIVITY | | | |
| Private gifts and grants | | 26,286,116 | 26,286,116 |
| Endowment income | | 74,405 | 74,405 |
| Investment income | | 127 | 127 |
| Investment income, net of endowment income | 963,255 | 6,331,244 | 7,294,499 |
| Other sources | | 37 | 37 |
| Adjustment of actuarial liability | (181,956) | 279,427 | 97,471 |
| Loss on debt refinancing | (1,139,337) | | (1,139,337) |
| Amortization of contributions for long-lived assets | (2,005,365) | | (2,005,365) |
| Net assets released from restrictions for capital acquisitions | 1,713,002 | (1,713,002) | |
| Total Nonoperating Activity | <u>(650,401)</u> | <u>31,258,354</u> | <u>30,607,953</u> |
| Change in Net Assets | <u>(630,563)</u> | <u>31,377,353</u> | <u>30,746,790</u> |
| Net Assets - Beginning of Year | <u>102,831,892</u> | <u>203,109,528</u> | <u>305,941,420</u> |
| NET ASSETS - END OF YEAR | <u>\$ 102,201,329</u> | <u>\$ 234,486,881</u> | <u>\$ 336,688,210</u> |

See accompanying notes to financial statements.

GUSTAVUS ADOLPHUS COLLEGE

STATEMENTS OF CASH FLOWS
Years Ended May 31, 2019 and 2018

| | 2019 | 2018 |
|---|----------------------|----------------------|
| CASH FLOWS FROM OPERATING ACTIVITIES | | |
| Change in net assets | \$ 29,196,843 | \$ 30,746,790 |
| Adjustments to reconcile change in net assets to net cash flows from operating activities | | |
| Depreciation, amortization and depletion | 6,686,048 | 6,678,618 |
| Amortization of bond premium | (126,081) | (120,828) |
| Loss on disposal of assets | 121,492 | |
| Loss on debt refinancing | | 1,139,337 |
| Gains on investments | (904,140) | (13,026,728) |
| Actuarial adjustment of annuities payable | 366,006 | 235,930 |
| Pooled life income adjustments | 112,781 | 28,727 |
| Loan cancellations and reinstatements | 21,713 | 34,868 |
| Change in assets and liabilities | | |
| Student receivables | 23,977 | 3,589 |
| Government grants receivable | (17,451) | (51,589) |
| Other receivables | (127,214) | 91,418 |
| Contributions receivable - operations | (274,412) | (330,255) |
| Inventories | (34,184) | (45,049) |
| Prepaid expenses and other assets | 136,594 | (112,273) |
| Accounts payable | (86,262) | (138,239) |
| Accrued liabilities | 358,978 | (107,413) |
| Deferred revenue | 1,144,632 | 50,761 |
| Funds held for others | 58,675 | (52,561) |
| Contributions restricted for plant and long-term investment | (22,052,882) | (31,936,270) |
| Investment income restricted for plant, loans, and long-term investment | (66,220) | (82,551) |
| Net Cash Flows from Operating Activities | 14,538,893 | (6,993,718) |
| CASH FLOWS FROM INVESTING ACTIVITIES | | |
| Purchases of investments | (136,307,512) | (124,922,956) |
| Proceeds from sale of investments | 145,545,488 | 112,486,637 |
| Purchases of property, plant and equipment | (32,891,408) | (10,213,010) |
| Disbursements of loans to students | | (388,685) |
| Repayments of loans from students | 428,242 | 482,648 |
| Net Cash Flows from Investing Activities | (23,225,190) | (22,555,366) |
| CASH FLOWS FROM FINANCING ACTIVITIES | | |
| Changes in deposits with bond trustee | 18,106,395 | 2,207,205 |
| Repayment of principal on indebtedness | (670,000) | (790,625) |
| Payments for deferred debt acquisition costs | | (13,103) |
| Receipts of investment income restricted for plant, loans and long-term investment | 66,220 | 82,551 |
| Contributions received restricted for plant and long-term investment | 1,711,294 | 29,773,525 |
| Decrease in refundable U.S. government grants | (51,796) | (57,989) |
| Increase in liability for new split interest agreements | 72,446 | 737,290 |
| Payments to annuitants and pooled life income beneficiaries | (1,269,240) | (1,256,383) |
| Net Cash Flows from Financing Activities | 17,965,319 | 30,682,471 |
| Net Change in Cash and Cash Equivalents | 9,279,022 | 1,133,387 |
| CASH AND CASH EQUIVALENTS - Beginning of Year | 35,740,793 | 34,607,406 |
| CASH AND CASH EQUIVALENTS - END OF YEAR | \$ 45,019,815 | \$ 35,740,793 |

See accompanying notes to financial statements.

GUSTAVUS ADOLPHUS COLLEGE

NOTES TO FINANCIAL STATEMENTS As of and for the Years Ended May 31, 2019 and 2018

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES

Gustavus Adolphus College (the "College") is an institution of higher education affiliated with the Evangelical Lutheran Church in America. The accounting policies of the College reflect practices common to universities and colleges and conform to accounting principles generally accepted in the United States of America. The more significant accounting policies are summarized below:

Net Asset Classifications - For the purposes of financial reporting, the College classifies resources into two net asset categories pursuant to any donor-imposed restrictions and applicable law. Accordingly, the net assets of the College are classified in the accompanying financial statements in the categories that follow:

Without Donor Restrictions - Net assets not subject to donor-imposed stipulations.

With Donor Restrictions - Net assets subject to donor-imposed stipulations that will be met by action of the College and/or the passage of time or maintained permanently by the College. Generally, the donors of assets held in perpetuity permit the College to use all or part of the income earned on related investments for general or specific purposes.

The Board of Directors has adopted a policy that affects the presentation of board designations on net assets without donor restrictions. Bequests and matured deferred gifts without restrictions received during the fiscal year are distributed to the quasi endowment fund unless its use for other purposes is authorized by the Board of Directors (see Note 8).

Releases from Restrictions - Expirations of donor restrictions on net assets (i.e., the donor-stipulated purpose has been fulfilled and/or the stipulated time period has elapsed and the law allows the release of the restriction) are reported on the statement of activities as net assets released from restrictions. Occasionally donor restrictions related to net assets may be clarified or changed, at which time they are reflected as reclassification of prior year net assets on the statement of activities.

Revenue Recognition - The timing and classification of revenue are summarized below:

Tuition and Fees and Auxiliary Revenue - Revenues from tuition and fees and auxiliary enterprises are recognized in the period the goods or services are provided as increases in net assets without donor restrictions. Financial assistance in the form of scholarships and grants that cover a portion of tuition, living and other costs is reflected as a reduction of tuition and fees revenues.

Tuition revenue is recognized in the fiscal year in which the academic programs are delivered, i.e. when the performance obligation is satisfied. Room and board and other auxiliary services revenue are recognized when the related service is performed. In addition, withdrawals that occur during the semester are calculated based upon the College's published refund policy. Payments for tuition are due approximately one week prior to the start of the academic term. Generally, the College's performance obligations are satisfied equally over the academic term. Performance obligations for certain auxiliary services are satisfied when the service is performed. The College applies the practical expedient as allowed for within the accounting standards and, therefore, does not disclose information about remaining performance obligations that have original expected durations of one year or less. All remaining performance obligations will be satisfied in connection with the completion of the fiscal 19-20 academic year. The College determines the transaction price based on standard charges for goods and services provided reduced by discounts provided relating to institutional scholarships in accordance with the College's policies.

GUSTAVUS ADOLPHUS COLLEGE

NOTES TO FINANCIAL STATEMENTS
As of and for the Years Ended May 31, 2019 and 2018

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (Continued)

Deferred revenue represents payments received for tuition or room and board prior to the start of the fall academic term. The following table notes the activity within the deferred revenue accounts relating to tuition.

| Balances May 31, 2018 | Refunds issued | Revenue recognized included in May 31, 2018 balance | Cash received in advance of performance | Balances May 31, 2019 |
|--------------------------|-------------------|---|---|--------------------------|
| \$ 1,386,295 | \$ (69,874) | \$ 1,316,421 | \$ 1,498,739 | \$ 1,498,739 |

Contribution Revenue - Contributions are recognized as revenues when the donor's irrevocable commitments are received, as increases in net assets without donor restrictions unless use of the related assets is limited by donor-imposed restrictions. Conditional promises to give are not recognized until they become unconditional, that is, when the conditions on which they depend are substantially met. Gifts of assets other than cash are recorded at their estimated fair value at the date of gift. At May 31, 2019, the College has received a \$1,000,000 conditional contribution, of which only \$30,000 had been recognized as revenue. The remaining \$970,000 is included in deferred revenue at May 31, 2019 and will be recognized as revenue when allowable expenses are incurred.

Contributions received with donor-imposed restrictions that are met in the same year as received are reported as revenues with donor restrictions, and a release to net assets without donor restrictions is made to reflect the expiration of such restrictions.

The College reports contributions of depreciable assets, or of cash and other assets to be used to acquire them, as donor restricted revenue. The restriction on the related net assets are released when the assets are placed in service.

Government Grants - Revenues from government grants are considered contributions as transactions are non-reciprocal in nature and contain a right of return. As such, revenues from grants are recognized when conditions are met, that is as allowable expenditures are incurred, and reported as increases in net assets without donor restrictions.

Contracts and Exchange Transactions - Revenue from contract and exchange transactions are recognized as performance obligations are satisfied and reported as increases in net assets without donor restrictions.

Investment Gains and Losses - Gains and losses on investments and other assets or liabilities are reported as increases or decreases in net assets without donor restrictions unless their use is restricted by explicit donor stipulation or by law.

Income and net gains on investments of endowment and similar funds are reported in the statement of activities as follows:

- > as increases in net assets without donor restrictions for board-designated endowment funds
- > as increases in net assets with donor restrictions if the terms of the gift that gave rise to the investment require that they be added to the principal of a permanent endowment fund;
- > as increases in net assets with donor restrictions in all other cases.

Losses from investments on donor-restricted endowment funds are reported as decreases in net assets with donor restrictions. Losses on board-designated endowment funds are reported as decreases in net assets without donor restrictions.

GUSTAVUS ADOLPHUS COLLEGE

NOTES TO FINANCIAL STATEMENTS
As of and for the Years Ended May 31, 2019 and 2018

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (Continued)

Measure of Operations - The College's operating revenues in excess of operating expenses includes support for operating activities. The measure of operations excludes endowment support for non-operating activities, investment return in excess of amounts made available for current support, changes in the actuarial value of annuities payable, losses on debt refinancing and disposal of fixed assets, release from restrictions for capital acquisitions and the amortization of contributions expended for long-lived assets already placed in service.

Cash and Cash Equivalents - The College considers all highly liquid investments, except for those held for long-term investment purposes, with a maturity of three months or less when purchased to be cash equivalents.

Receivables - Student accounts receivable are carried at the unpaid balance of the original amount billed to students less an estimate made for doubtful accounts based on a review of all outstanding amounts. Management determines the allowance for doubtful accounts by identifying troubled accounts and by using historical experience applied to an aging of accounts. Student accounts receivable are written off when deemed uncollectible. Recoveries of student accounts previously written off are recorded when received. Receivables are generally unsecured. A student account receivable is considered to be delinquent if not paid by the due date. A monthly service fee is charged on delinquent amounts.

Inventories - Bookstore inventories are valued at cost using the first-in, first-out method. All other inventories are valued at the lower of cost (first-in, first-out) or market.

Beneficial Interest in Funds Held in Trust - The beneficial interest in funds held in trust and related contribution revenue are recognized at the date the trusts are established for the present value of estimated future payments to be received. Perpetual trusts are valued based upon the market value of the trust assets which approximates fair value of the beneficial interest in the trusts.

Deposits Held by Trustee - Cash and short-term investments held by the trustee include amounts restricted for debt service as required by the trust indentures.

Investments - Investments in publicly traded securities are stated at fair value based on quoted market prices from national security exchanges. Other investments, for which quoted prices are not available, are stated at fair value as estimated by management using values provided by external investment managers or general partners. Other investments, including certificates of deposit, are recorded at cost, except those items received as gifts, which are valued at fair value at the date of the gift.

GUSTAVUS ADOLPHUS COLLEGE

NOTES TO FINANCIAL STATEMENTS As of and for the Years Ended May 31, 2019 and 2018

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (Continued)

Property, Plant and Equipment, Net - Physical plant assets are stated at cost less accumulated depreciation. The College depreciates its assets on the straight-line basis over estimated useful lives as follows: buildings 40 years, improvements 3 to 20 years, equipment 5 to 25 years, and library books 15 years. Normal repair and maintenance expenses are charged to operations as incurred. The College capitalizes physical plant additions in excess of \$5,000.

Impairment of Long-Lived Assets - The College reviews long-lived assets, including property, equipment and intangible assets, for impairment whenever events or changes in business circumstances indicate that the carrying amount of an asset may not be fully recoverable. An impairment loss would be recognized when the estimated future cash flows from the use of the asset are less than the carrying amount of that asset. There were no impairments recorded in fiscal 2019 or 2018.

Asset Retirement Obligations - Asset retirement obligations of \$2,910,000 and \$3,076,000, for the years ended May 31, 2019 and 2018, respectively, included in accrued liabilities represent estimated costs and obligations associated with the retirement of long-lived assets. These liabilities were initially recorded at fair value and the related retirement costs were recorded as decreases in net assets without donor restrictions. Asset retirement costs are subsequently accreted over the useful lives of the related assets. No accretion was recorded in the year ended May 31, 2019 and \$180,000 of accretion was recorded in the year ended May 31, 2018. Approximately \$166,000 and \$9,000 of asbestos was abated for the years ended May 31, 2019 and 2018, respectively.

Funds Held for Others - The College acts as custodian for funds transferred from various organizations for investment management and administrative purposes. The funds are to be distributed back to these organizations as they request them or are distributed to beneficiaries as they mature. The College recognizes the funds as a liability in the accompanying statements of financial position.

U.S. Government Grants Refundable - Funds provided by the U.S. Government under the Federal Perkins Loan Program are loaned to qualified students. These funds are ultimately refundable to the government and are included as a liability in the statements of financial position. Revenues from other government grants are recognized as they are earned in accordance with the agreement. Any funding received before it is earned is recorded as a refundable advance. Expenses incurred before cash is received are recorded as receivables.

Scholarships and Grants - Scholarships and grants are offered by the College to attract and retain students. The College offers institutional grants to students in the form of merit-based scholarships and need-based grants at the College's discretion.

Grants to Specified Students - Amounts received from state and federal agencies designated for the benefit of specified students are considered agency transactions and, therefore, are not reflected as revenues and expenses of the College.

Fund Raising and Advertising Expenses - Fund raising expenses totaled \$3,150,000 and \$3,149,000 for the years ended May 31, 2019 and 2018, respectively. Advertising expenses totaled \$733,000 and \$422,000 for the years ended May 31, 2019 and 2018, respectively. The College expenses advertising costs at the time incurred.

GUSTAVUS ADOLPHUS COLLEGE

NOTES TO FINANCIAL STATEMENTS As of and for the Years Ended May 31, 2019 and 2018

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (Continued)

Retirement Plan - Retirement benefits are provided for the College's eligible staff through a defined contribution 403(b) plan for which Teachers Insurance and Annuity Association (TIAA) is the trustee. Under this arrangement, the College and plan participants make contributions to the plan. Contributions for eligible employees are determined on a percentage of annual compensation. The percentage contributed by the College was 7% for each of the years ended May 31, 2019 and 2018. The College's share of the cost of these benefits was approximately \$2,358,000 and \$2,325,000 for the years ended May 31, 2019 and 2018, respectively.

Self-Funded Insurance - A portion of the College's dental plan is maintained as a self-funded health plan. Specific and aggregate stop loss coverage on the health plan is provided to limit the ultimate exposure of the College. A liability is provided for claims incurred but not reported and is included in accrued liabilities on the statements of financial position. Management reviews this accrual on an on-going basis and believes it is adequate to cover such claims.

Functional Allocation of Expenses - The costs of providing various programs and other activities have been summarized on a functional basis in the statement of activities. Accordingly, certain expenses have been allocated among the programs and supporting services benefited.

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 revenues and expenses during the reporting period. Actual results could differ from those estimates.

Income Tax Status - The Internal Revenue Service has determined that the College is exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code. Accordingly, the College is not subject to federal income taxes except to the extent it derives income from certain activities not substantially related to its tax-exempt purposes (unrelated trade or business activities). The College is also exempt from state income tax.

The most significant areas that potentially subject the College to unrelated business income tax include hosting conferences and events, various services provided by the dining service to the public and endowment investments. At May 31, 2019 and 2018, the College has no current obligation for unrelated business income tax.

The College follows the accounting standards for contingencies in evaluating uncertain tax positions. This guidance prescribes recognition threshold principles for the financial statement recognition of tax positions taken or expected to be taken on a tax return that are not certain to be realized. No liability has been recognized by the College for uncertain tax positions as of May 31, 2019 or 2018. The College's tax returns are subject to review and examination by federal and state authorities.

Reclassifications - Certain amounts appearing in the 2018 financial statements have been reclassified to conform with the 2019 presentation. The reclassifications have no effect on reported amounts of total net assets or change in total net assets.

GUSTAVUS ADOLPHUS COLLEGE

NOTES TO FINANCIAL STATEMENTS
As of and for the Years Ended May 31, 2019 and 2018

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (Continued)

New Accounting Pronouncements Adopted in Current Year - In August 2016, FASB issued ASU 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*. The College adopted the provisions of this new standard beginning June 1, 2018. The primary changes include presenting two classes of net assets versus the three categories previously required and recognition of underwater endowment funds as a reduction to the net assets with donor restrictions class. In addition, the College was required to change the method of accounting for contributions restricted by donors to acquire long-lived assets, including gifts of cash restricted for those acquisitions. Previously, the College implied a time restriction on the contributions that expired over the estimated useful life of the long-lived assets. The standard also provides for enhanced disclosures for board designated amounts, composition of net assets without donor restrictions, liquidity and availability of financial assets, and expenses by both natural and functional classification. This standard has been retrospectively applied to the prior period presented with certain transition provisions.

The cumulative effect of the change in accounting for contributions restricted by donors to acquire long-lived assets and underwater endowment fund on each class of net assets has been presented in the 2018 statement of activities as of the beginning of the year. The effect of this change in accounting principle is as follows:

| | Without Donor Restrictions | With Donor Restrictions | Total |
|---|-------------------------------|----------------------------|-----------------------|
| Net assets balances at May 31, 2017, as previously reported | \$ 63,203,752 | \$ 242,737,668 | \$ 305,941,420 |
| Release of plant gifts for projects already placed in service | 39,464,971 | (39,464,971) | |
| Reclassify underwater endowment funds | 163,169 | (163,169) | |
| Net assets balances at May 31, 2017, as adjusted | <u>\$ 102,831,892</u> | <u>\$ 203,109,528</u> | <u>\$ 305,941,420</u> |
| Net asset balances at May 31, 2018, as previously reported | \$ 62,907,367 | \$ 273,780,843 | \$ 336,688,210 |
| Release of plant gifts for projects already placed in service | 39,172,608 | (39,172,608) | |
| Reclassify underwater endowment funds | 121,354 | (121,354) | |
| Net assets balances at May 31, 2018, as adjusted | <u>\$ 102,201,329</u> | <u>\$ 234,486,881</u> | <u>\$ 336,688,210</u> |

The total change in net assets and total net assets for the years ended May 31, 2019 and 2018 did not change as a result of the implementation of this accounting standard.

In May 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2014-09, *Revenue from Contracts with Customers*. This ASU is a comprehensive new revenue recognition model that creates a single source of revenue guidance for all companies in all industries. The model is more principles-based than historical guidance, and is primarily based on recognizing revenue at an amount that reflects consideration to which the entity expects to be entitled to in exchange for transferring goods or services to a customer. The College adopted this guidance beginning June 1, 2018 utilizing the modified retrospective method of adoption, and the adoption of this standard did not have a material impact on the College's business practices, financial condition, or results of operations during the fiscal year ended May 31, 2019. The College has provided expanded disclosures pertaining to revenue recognition within Note 1.

GUSTAVUS ADOLPHUS COLLEGE

NOTES TO FINANCIAL STATEMENTS As of and for the Years Ended May 31, 2019 and 2018

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (Continued)

In June 2018, the FASB issued ASU 2018-08, *Not-for-Profit Entities (Topic 958): Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. The standard provided clarity and improved accounting guidance for contributions received and contributions made. The College adopted this guidance June 1, 2018, utilizing the modified retrospective method of adoption, and the adoption of this guidance did not have a material impact on the College's business practices, financial condition, or results of operations during the fiscal year ended May 31 2019. The College has provided expanded disclosures within Note 1.

New Accounting Pronouncements Not Yet Effective - In February 2016, FASB issued ASU No. 2016-02, *Leases*. ASU No. 2016-02 was issued to increase transparency and comparability among entities. Lessees will need to recognize nearly all lease transactions (other than leases that meet the definition of a short-term lease) on the statement of financial position as a lease liability and a right-of-use asset (as defined). Lessor accounting under the new guidance will be similar to the current model. For public business entities, including not-for-profit organizations that have issued, or are a conduit bond obligor for, securities that are traded, listed or quoted on an exchange or an over-the-counter market, ASU No. 2016-02 is effective for fiscal years beginning after December 15, 2018 (fiscal year 2020). Upon adoption, lessees and lessors will be required to recognize and measure leases at the beginning of the earliest period presented using a modified retrospective approach, which includes a number of optional practical expedients that entities may elect to apply. The College is assessing the impact this standard will have on its financial statements.

In November 2016, FASB issued ASU 2016-18, *Statement of Cash Flows (Topic 230): Restricted Cash*. The new guidance requires restricted cash and restricted cash equivalents be included in cash and cash equivalents when reconciling the beginning-of-period and end-of-period amounts shown on the consolidated statement of cash flows. ASU 2016-18 is effective for fiscal years beginning after December 15, 2018 (fiscal year 2020). ASU 2016-18 is to be applied retroactively with transition provisions. The College is assessing the impact this standard will have on its consolidated financial statements.

GUSTAVUS ADOLPHUS COLLEGE

NOTES TO FINANCIAL STATEMENTS
As of and for the Years Ended May 31, 2019 and 2018

NOTE 2 - RESTRICTIONS AND LIMITATIONS ON NET ASSET BALANCES

At May 31, 2019 and 2018, the College's net assets were allocated as follows:

| | <u>2019</u> | <u>2018</u> |
|-----------------------------------|-----------------------|-----------------------|
| Without donor restrictions | | |
| Operations | \$ 5,257,797 | \$ 5,097,722 |
| Student loan funds | 422,026 | 430,780 |
| Funds functioning as endowment | 29,703,097 | 26,667,445 |
| Split-interest agreements | 853,117 | 855,231 |
| Plant | <u>64,158,712</u> | <u>69,150,151</u> |
| Total without donor restrictions | <u>100,394,749</u> | <u>102,201,329</u> |
| With donor restrictions | | |
| Purpose and time restricted | | |
| Operations | 4,969,436 | 4,730,848 |
| Endowment | 35,819,906 | 41,160,127 |
| Split-interest agreements | 263,802 | 272,835 |
| Plant acquisitions | 39,753,386 | 35,733,867 |
| Contributions receivable | <u>29,039,000</u> | <u>14,094,000</u> |
| Total purpose and time restricted | <u>109,845,530</u> | <u>95,991,677</u> |
| Held in perpetuity | | |
| Student loan funds | 616,669 | 608,407 |
| Endowment | 129,660,496 | 117,680,225 |
| Split interest agreements | 7,906,609 | 8,416,572 |
| Contributions receivable | <u>17,461,000</u> | <u>11,790,000</u> |
| Total held in perpetuity | <u>155,644,774</u> | <u>138,495,204</u> |
| Total with donor restrictions | <u>265,490,304</u> | <u>234,486,881</u> |
| Total Net Assets | <u>\$ 365,885,053</u> | <u>\$ 336,688,210</u> |

NOTE 3 - NET ASSETS RELEASED FROM RESTRICTIONS

Net assets were released from donor restrictions by incurring expenses satisfying the restricted purposes or by occurrence of events specified by the donors during the years ended May 31, 2019 and 2018, as follows:

| | <u>2019</u> | <u>2018</u> |
|--|---------------------|---------------------|
| Scholarships, instruction and other departmental support | <u>\$ 8,827,606</u> | <u>\$ 8,767,478</u> |

GUSTAVUS ADOLPHUS COLLEGE

NOTES TO FINANCIAL STATEMENTS
As of and for the Years Ended May 31, 2019 and 2018

NOTE 4 - CONTRIBUTIONS RECEIVABLE, NET

Contributions receivable include the following unconditional promises to give at May 31, 2019 and 2018:

| | <u>2019</u> | <u>2018</u> |
|---|----------------------|----------------------|
| Donor restricted - operations | \$ 6,268,000 | \$ 5,993,000 |
| Donor restricted - plant projects | 25,012,000 | 9,521,000 |
| Donor restricted - endowment - held in perpetuity | <u>19,240,000</u> | <u>13,100,000</u> |
| Gross unconditional promises to give | 50,520,000 | 28,614,000 |
| Less: Unamortized discount | (3,677,000) | (1,368,000) |
| Allowance for uncollectible promises | <u>(343,000)</u> | <u>(1,362,000)</u> |
| | <u>\$ 46,500,000</u> | <u>\$ 25,884,000</u> |

At May 31, 2019, net contributions receivable of \$10,131,000 are due in less than one year and \$36,369,000 are due in one to five years. Promises due in one to five years were discounted at historical rates between 0.9% and 3.0% at May 31, 2019 and between 0.9% and 2.6% at May 31, 2018. Promises due in less than one year were not discounted.

NOTE 5 - STUDENT NOTES RECEIVABLE, NET

The College issued loans to students based on financial need funded through the Federal Perkins Loan program. Student notes receivable are carried at the amount of unpaid principal less an estimate for doubtful accounts. An allowance for doubtful accounts is established based on prior collection experience and current economic factors which, in management's judgment, could influence the ability of loan recipients to repay the amounts per the loan terms. At May 31, 2019 and 2018, student notes receivable represented approximately 0.5% and 1.0% of total assets, respectively.

At May 31, 2019 and 2018, student notes receivable, net consisted of the following:

| | <u>2019</u> | <u>2018</u> |
|---------------------------------------|---------------------|---------------------|
| Federal Perkins Loan program | <u>\$ 2,218,266</u> | <u>\$ 2,668,221</u> |
| Less allowance for doubtful accounts: | | |
| Beginning of year | (220,000) | (220,000) |
| Increases | | (12,743) |
| Write-offs | | 12,743 |
| End of year | <u>(220,000)</u> | <u>(220,000)</u> |
| | <u>\$ 1,998,266</u> | <u>\$ 2,448,221</u> |

Funds advanced by the Federal government of \$2,496,847 and \$2,548,643 at May 31, 2019 and 2018, respectively, are ultimately refundable to the government and are classified as liabilities in the statements of financial position.

GUSTAVUS ADOLPHUS COLLEGE

NOTES TO FINANCIAL STATEMENTS As of and for the Years Ended May 31, 2019 and 2018

NOTE 5 - STUDENT NOTES RECEIVABLE, NET (Continued)

The Extension Act amended section 461 of the Higher Education Act to end the College's authority to make new Federal Perkins loans after June 30, 2018. The College is not required to assign the outstanding Federal Perkins loans to the Department of Education or liquidate their Federal Perkins loan funds due to the wind-down of the Federal Perkins loan program. However, the College may choose to liquidate at any time in the future. As of May 31, 2019, the College continues to service the Federal Perkins loan program.

After a student is no longer enrolled at a higher education institution and after a grace period, interest is charged on student notes receivable and is recognized as it is charged. Student notes receivable through the loan program is considered to be past due if a payment is not made within 30 days of the payment due date, at which time, late charges are charged and recognized. The student notes receivables may be assigned to the U.S. Department of Education. Students may be granted a deferment, forbearance, or cancellation of their receivable balance based on eligibility requirements defined by the U.S. Department of Education.

At May 31, 2019, the amounts past due under the Federal Perkins loan program are as follows: less than 240 days - \$19,469, 240 days to two years - \$109,861, two years to five years - \$34,173 and no past-due amounts greater than five years, for a total past due amount of \$163,503. At May 31, 2018, the amounts past due under the Federal Perkins loan program are as follows: less than 240 days - \$16,006, 240 days to two years - \$38,190, two years to five years - \$15,736 and no past-due amounts greater than five years, for a total past due amount of \$69,932.

NOTE 6 - INVESTMENTS

The following summarizes the College's investments in funds other than endowment, which are recorded at fair value, at May 31, 2019 and 2018:

| | <u>2019</u> | <u>2018</u> |
|-------------------------|----------------------|----------------------|
| Fixed income securities | | |
| Government obligations | \$ 8,058,480 | \$ 26,496,795 |
| Bonds | 26,384 | 27,981 |
| Marketable securities | | |
| Equity securities | 50,000 | |
| Mutual funds | <u>19,866,518</u> | <u>20,849,604</u> |
| | <u>\$ 28,001,382</u> | <u>\$ 47,374,380</u> |

Other investments totaling \$422,657 and \$415,422 as of May 31, 2019 and 2018, respectively, includes \$263,745 and \$262,303, respectively, of certificates of deposit carried at cost.

GUSTAVUS ADOLPHUS COLLEGE

NOTES TO FINANCIAL STATEMENTS
As of and for the Years Ended May 31, 2019 and 2018

NOTE 6 - INVESTMENTS (Continued)

The following summarizes the College's endowment investments, which are recorded at fair value unless otherwise noted, at May 31, 2019 and 2018:

| | 2019 | 2018 |
|--|----------------|----------------|
| Cash and short-term investments (\$30,382 and \$184 at cost for 2019 and 2018, respectively) | \$ 7,115,720 | \$ 2,925,399 |
| Investment sale receivable (at cost) | 366,239 | |
| Contract for deed receivable (at cost) | 20,323 | 21,914 |
| Marketable securities | | |
| Equity securities | 256,321 | 204,789 |
| Mutual funds | 110,996,575 | 98,864,601 |
| Open-end commingled funds | 28,663,865 | 29,236,577 |
| Alternative investments | | |
| Commodity funds | 304,921 | 464,896 |
| Fund of funds | 42,638,793 | 47,783,232 |
| Beneficial interest in funds held in trust | 4,048,212 | 4,192,017 |
| | \$ 194,410,969 | \$ 183,693,425 |

The College's alternative investments are intended to reduce the volatility of the endowment fund and provide a complementary source of return and diversification to traditional investments. Alternative investments include hedge fund, private equity, real asset, and natural resource strategies accessed through both direct funds and diversified fund-of-funds. Investments are broadly diversified by manager, strategy, geography, sector, and company/issue.

Investments, in general, are subject to various risks, including credit, interest and overall market volatility risks. Due to the level of risk associated with certain investment securities, it is reasonably possible that changes in values of investment securities will occur in the near term and that such changes could materially affect the amounts reported in the financial statements.

The amount of investment income and realized and unrealized gains from alternative investments totaled \$2,034,567 and \$4,226,922 for the years ended May 31, 2019 and 2018, respectively.

GUSTAVUS ADOLPHUS COLLEGE

NOTES TO FINANCIAL STATEMENTS
As of and for the Years Ended May 31, 2019 and 2018

NOTE 7 - FAIR VALUE MEASUREMENTS

Fair Value Hierarchy - Fair value is defined in the accounting guidance as the exchange price that would be received to sell an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the assets or liability in an orderly transaction between market participants at the measurement date. Under this guidance, a three-level hierarchy is used for fair value measurements, which is based on the transparency of information, such as the pricing source, used in the valuation of an asset or liability as of the measurement date.

Financial instruments measured and reported at fair value are classified and disclosed in one of the following three categories.

- Level 1 - Inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the reporting entity can access at the measurement date.
- Level 2 - Inputs other than quoted prices included in Level 1 are observable for the asset or liability, either directly or indirectly. This includes quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in markets that are not active, inputs other than quoted prices that are observable for the asset or liability, or market corroborated inputs.
- Level 3 - Inputs are unobservable for the asset or liability. Unobservable inputs reflect the assumptions that market participants would use in pricing the asset or liability (including assumptions about risk) using the best information available in the circumstances, which may include using the reporting entity's own data.

Valuation Techniques and Inputs

Level 1 - Level 1 assets include:

- > Short-term investments (consisting primarily of money market funds), domestic equity securities and mutual funds for which quoted prices are readily available or that trade with sufficient frequency and volume to enable the College to obtain pricing information on an ongoing basis.

Level 2 - Level 2 assets include:

- > Investments in fixed income securities (comprised of asset backed securities and government securities) and open-end commingled funds for which quoted prices are not readily available. The fair values are estimated using Level 2 inputs based on multiple sources of information, which may include market data and/or quoted market prices from either markets that are not active or are for the same or similar assets in active markets.

Level 3 - Level 3 assets include:

- > Beneficial interest in funds held in trust for which quoted prices are not readily available. The fair values are estimated using an income approach by calculating the present value of the future distributions expected to be received based on a combination of Level 2 inputs (interest rates and yield curves) and significant unobservable inputs (entity specific estimates of cash flows). Since the College has an irrevocable right to receive the income earned from the trust's assets, the fair value of the College's beneficial interest is estimated to approximate the fair value of the trusts' assets.

There have been no changes in the techniques and inputs used as of May 31, 2019 and 2018.

GUSTAVUS ADOLPHUS COLLEGE

NOTES TO FINANCIAL STATEMENTS
As of and for the Years Ended May 31, 2019 and 2018

NOTE 7 - FAIR VALUE MEASUREMENTS (Continued)

In certain cases, the inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such cases, the level in the fair value hierarchy within which the fair value measurement in its entirety falls has been determined based on the lowest level input that is significant to the fair value measurement in its entirety. The assessment of the significance of a particular input to the fair value measurement in its entirety requires judgment and considers factors specific to the asset.

Alternative investments are measured at fair value using the net asset value (NAV) per share (or its equivalent) of such investment funds as a practical expedient for fair value and are not classified in the fair value hierarchy. The College has estimated the fair value of these funds by using the net asset value provided by the investee.

While the College believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different estimate of fair value at the reporting date.

The following table summarizes assets measured at fair value on a recurring basis as of May 31, 2019:

| | <u>Total</u> | <u>Level 1</u> | <u>Level 2</u> | <u>Level 3</u> |
|--|-----------------------|-----------------------|----------------------|---------------------|
| Short-term investments | \$ 7,085,338 | \$ 7,085,338 | | |
| Domestic equity securities | 306,321 | 306,321 | | |
| Fixed income securities | 8,084,864 | | \$ 8,084,864 | |
| Open-end commingled funds | 28,663,865 | | 28,663,865 | |
| Mutual funds | | | | |
| Domestic equity | 50,517,472 | 50,517,472 | | |
| Fixed income | 34,579,193 | 34,579,193 | | |
| International equity | 42,557,370 | 42,557,370 | | |
| Real assets | 3,209,058 | 3,209,058 | | |
| Beneficial interest in funds held in trust | <u>5,610,519</u> | | | \$ 5,610,519 |
| Subtotal by valuation hierarchy | <u>180,614,000</u> | <u>\$ 138,254,752</u> | <u>\$ 36,748,729</u> | <u>\$ 5,610,519</u> |
| Alternative investments measured using NAV | | | | |
| Private equity funds | 32,662,352 | | | |
| Real asset funds | <u>10,281,362</u> | | | |
| Subtotal by NAV | <u>42,943,714</u> | | | |
| Total assets at fair value | <u>\$ 223,557,714</u> | | | |
| Investments at May 31, 2019 | | | | |
| Investments other than endowment | \$ 28,001,382 | | | |
| Endowment investments | 194,410,969 | | | |
| Beneficial interest in funds held in trust | 1,403,395 | | | |
| Other investments | <u>422,657</u> | | | |
| Total investments | <u>224,238,403</u> | | | |
| Less investments at cost | <u>(680,689)</u> | | | |
| Total assets at fair value | <u>\$ 223,557,714</u> | | | |

GUSTAVUS ADOLPHUS COLLEGE

NOTES TO FINANCIAL STATEMENTS
As of and for the Years Ended May 31, 2019 and 2018

NOTE 7 - FAIR VALUE MEASUREMENTS (Continued)

The following table summarizes assets measured at fair value on a recurring basis as of May 31, 2018:

| | <u>Total</u> | <u>Level 1</u> | <u>Level 2</u> | <u>Level 3</u> |
|--|-----------------------|-----------------------|----------------------|---------------------|
| Short-term investments | \$ 2,925,215 | \$ 2,925,215 | | |
| Domestic equity securities | 204,789 | 204,789 | | |
| Fixed income securities | 26,524,776 | | \$ 26,524,776 | |
| Open-end commingled funds | 29,236,577 | | 29,236,577 | |
| Mutual funds | | | | |
| Domestic equity | 53,428,475 | 53,428,475 | | |
| Fixed income | 17,700,063 | 17,700,063 | | |
| International equity | 45,738,976 | 45,738,976 | | |
| Real assets | 2,846,691 | 2,846,691 | | |
| Beneficial interest in funds held in trust | <u>5,741,796</u> | | | <u>\$ 5,741,796</u> |
| Subtotal by valuation hierarchy | <u>184,347,358</u> | <u>\$ 122,844,209</u> | <u>\$ 55,761,353</u> | <u>\$ 5,741,796</u> |
| Alternative investments measured using NAV | | | | |
| Long/short global equity funds | 15,471,632 | | | |
| Private equity funds | 23,321,098 | | | |
| Real asset funds | <u>9,455,398</u> | | | |
| Subtotal by NAV | <u>48,248,128</u> | | | |
| Total assets at fair value | <u>\$ 232,595,486</u> | | | |
| Investments at May 31, 2018 | | | | |
| Investments other than endowment | \$ 47,374,380 | | | |
| Endowment investments | 183,693,425 | | | |
| Beneficial interest in funds held in trust | 1,396,660 | | | |
| Other investments | <u>415,422</u> | | | |
| Total investments | 232,879,887 | | | |
| Less investments at cost | <u>(284,401)</u> | | | |
| Total assets at fair value | <u>\$ 232,595,486</u> | | | |

GUSTAVUS ADOLPHUS COLLEGE

NOTES TO FINANCIAL STATEMENTS

As of and for the Years Ended May 31, 2019 and 2018

NOTE 7 - FAIR VALUE MEASUREMENTS (Continued)

The following table presents a reconciliation of assets measured at fair value on a recurring basis using significant unobservable inputs (Level 3) for the year ended May 31, 2019:

| | Balances May 31, 2018 | Net realized and unrealized losses | Purchases | Sales | Net transfers in (out) of Level 3 | Balances May 31, 2019 |
|--|-----------------------------|---|-----------|-------------|---|-----------------------------|
| Beneficial interest in funds held in trust | \$ 5,741,796 | \$ (171,368) | \$ 77,969 | \$ (37,878) | \$ | \$ 5,610,519 |

The amount of total losses for the period included in change in net assets attributable to the change in unrealized losses relating to Level 3 assets still held at May 31, 2019 \$ (171,368)

The following table presents a reconciliation of assets measured at fair value on a recurring basis using significant unobservable inputs (Level 3) for the year ended May 31, 2018:

| | Balances May 31, 2017 | Net realized and unrealized gains | Purchases | Sales | Net transfers in (out) of Level 3 | Balances May 31, 2018 |
|--|-----------------------------|--|------------|--------------|---|-----------------------------|
| Beneficial interest in funds held in trust | \$ 6,056,156 | \$ 149,553 | \$ 443,618 | \$ (907,531) | \$ | \$ 5,741,796 |

The amount of total gains for the period included in change in net assets attributable to the change in unrealized gains relating to Level 3 assets still held at May 31, 2018 \$ 149,553

The following table summarizes assets measured at fair value on a nonrecurring basis as of May 31, 2019 and 2018:

| | Total | Level 1 | Level 2 | Level 3 |
|-----------------------------|-------------------|-----------|-------------------|-----------|
| Real estate held for resale | <u>\$ 540,000</u> | <u>\$</u> | <u>\$ 540,000</u> | <u>\$</u> |

GUSTAVUS ADOLPHUS COLLEGE

NOTES TO FINANCIAL STATEMENTS
As of and for the Years Ended May 31, 2019 and 2018

NOTE 7 - FAIR VALUE MEASUREMENTS (Continued)

The following table lists the alternative investments in which net asset value was utilized as the practical expedient for estimating fair value by major category as of May 31, 2019 and 2018:

| | <u>Long/Short Global Equity Funds</u> | <u>Private Equity Funds</u> | <u>Real Asset Funds</u> |
|--|---|---|--|
| Fair value, May 31, 2018 | \$15,471,632 | \$23,321,098 | \$9,455,398 |
| Fair value, May 31, 2019 | \$0 | \$32,662,352 | \$10,281,362 |
| Significant Investment Strategy | Global long/short equities | Buyout, opportunistic, venture, distressed and growth equity in U.S. and international | U.S. real estate, global energy and forestry |
| Remaining Life | N.A. | 1 to 13 years | 1 to 13 years |
| Dollar Amount of Unfunded Commitments | None | \$43,035,000 | \$6,976,000 |
| Timing to Draw Down Commitments | N.A. | 1 to 6 years | 1 to 5 years |
| Redemption Terms | N.A. | N.A. | N.A. |
| Redemption Restrictions | N.A. | N.A. | N.A. |
| Redemption Restrictions in Place at Year End | N.A. | N.A. | N.A. |

GUSTAVUS ADOLPHUS COLLEGE

NOTES TO FINANCIAL STATEMENTS
As of and for the Years Ended May 31, 2019 and 2018

NOTE 8 - ENDOWMENT

The College's endowment consists of approximately 705 individual funds established for a variety of purposes. Its endowment includes both donor-restricted endowment funds and funds designated by the governing board to function as endowments. As required by generally accepted accounting principles ("GAAP"), net assets associated with endowment funds, including funds designated by the governing board to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

Interpretation of Relevant Law - The College's governing board has interpreted the Minnesota enacted version of the Uniform Prudent Management of Institutional Funds Act (UPMIFA) as allowing the College to appropriate for expenditure or accumulate so much of an endowment fund as the College determines is prudent for the uses, benefits, purposes and duration for which the endowment fund is established, subject to the intent of the donor as expressed in the gift instrument. The College's governing board has determined it is prudent to preserve the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. See Note 1 for further information on net asset classifications.

The remaining portion of the donor-restricted endowment fund that is not classified as held in perpetuity is classified as net assets with donor restrictions until those amounts are appropriated for expenditure by the College in a manner consistent with the standard of prudence prescribed by UPMIFA. In accordance with UPMIFA, the College considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

1. The duration and preservation of the fund
2. The purposes of the College and the donor-restricted endowment fund
3. General economic conditions
4. The possible effect of inflation and deflation
5. The expected total return from income and the appreciation of investments
6. Other resources of the College
7. The investment policies of the College

Endowment net asset composition by type of fund consists of the following as of May 31, 2019:

| | Without Donor Restrictions | With Donor Restrictions | | | Balances May 31, 2019 |
|----------------------------------|-------------------------------|-------------------------|-------------------------------|----------------|--------------------------|
| | | Original Gift | Accumulated Gains (Losses) | Total | |
| Board-designated endowment funds | \$ 29,703,097 | | | | \$ 29,703,097 |
| Donor-restricted endowment funds | | | | | |
| Underwater funds | | \$ 15,642,695 | \$ (466,253) | \$ 15,176,442 | 15,176,442 |
| Other funds | | 114,017,801 | 36,286,159 | 150,303,960 | 150,303,960 |
| | \$ 29,703,097 | \$ 129,660,496 | \$ 35,819,906 | \$ 165,480,402 | \$ 195,183,499 |

GUSTAVUS ADOLPHUS COLLEGE

NOTES TO FINANCIAL STATEMENTS
As of and for the Years Ended May 31, 2019 and 2018

NOTE 8 - ENDOWMENT (Continued)

Endowment net asset composition by type of fund consists of the following as of May 31, 2018:

| | Without Donor Restrictions | With Donor Restrictions | | Balances May 31, 2018 |
|----------------------------------|-------------------------------|-------------------------|-------------------------------|--------------------------|
| | | Original Gift | Accumulated Gains (Losses) | |
| Board-designated endowment funds | \$ 26,667,445 | | | \$ 26,667,445 |
| Donor-restricted endowment funds | | | | |
| Underwater funds | | \$ 7,837,419 | \$ (121,354) | \$ 7,716,065 |
| Other funds | | 109,842,806 | 41,281,481 | 151,124,287 |
| | | | | |
| Total endowment net assets | \$ 26,667,445 | \$ 117,680,225 | \$ 41,160,127 | \$ 185,507,797 |

Changes in endowment net assets for the year ended May 31, 2019, are as follows:

| | Without Donor Restrictions | With Donor Restrictions | Total |
|---|-------------------------------|----------------------------|----------------|
| Endowment net assets, May 31, 2018 | \$ 26,667,445 | \$ 158,840,352 | \$ 185,507,797 |
| Investment return: | | | |
| Investment income | 319,698 | 699,485 | 1,019,183 |
| Net appreciation - realized and unrealized | 1,144,331 | (533,449) | 610,882 |
| Total investment return | 1,464,029 | 166,036 | 1,630,065 |
| Contributions | | 11,663,168 | 11,663,168 |
| Matured deferred gifts | | 363,338 | 363,338 |
| Appropriation of endowment assets for expenditure (pending rate) | (2,421,004) | (5,552,492) | (7,973,496) |
| Other changes: | | | |
| Transfers to board designated endowment funds | 3,992,627 | | 3,992,627 |
| | | | |
| Endowment net assets, May 31, 2019 | \$ 29,703,097 | \$ 165,480,402 | \$ 195,183,499 |

GUSTAVUS ADOLPHUS COLLEGE

NOTES TO FINANCIAL STATEMENTS
As of and for the Years Ended May 31, 2019 and 2018

NOTE 8 - ENDOWMENT (Continued)

Changes in endowment net assets for the year ended May 31, 2018, are as follows:

| | Without Donor Restrictions | With Donor Restrictions | Total |
|--|-------------------------------|----------------------------|----------------|
| Endowment net assets, May 31, 2017 | \$ 24,331,267 | \$ 142,646,301 | \$ 166,977,568 |
| Investment return: | | | |
| Investment income | 281,488 | 818,289 | 1,099,777 |
| Net appreciation - realized and unrealized | 2,429,274 | 10,358,575 | 12,787,849 |
| Total investment return | 2,710,762 | 11,176,864 | 13,887,626 |
| Contributions | | 9,993,558 | 9,993,558 |
| Matured deferred gifts | | 105,505 | 105,505 |
| Appropriation of endowment assets for expenditure (spending rate) | (1,675,725) | (5,081,876) | (6,757,601) |
| Other changes: | | | |
| Transfers to board designated endowment funds | 1,301,141 | | 1,301,141 |
| Endowment net assets, May 31, 2018 | \$ 26,667,445 | \$ 158,840,352 | \$ 185,507,797 |

Funds with Deficiencies - From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor or UPMIFA requires the College to retain as a fund of perpetual duration. These deficiencies generally resulted from unfavorable market fluctuations that occurred shortly after the investment of new permanently restricted contributions and continued appropriation for certain programs that was deemed prudent by the governing board.

Return Objectives and Risk Parameters - The College has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of the endowment assets. Endowment assets include those assets of donor-restricted funds that the College must hold in perpetuity or for a donor-specified period(s) as well as board-designated funds. Under this policy, the long-term minimum need of the endowment is to exceed a total return averaging at least the annual spending rate plus inflation, fees and costs. Actual returns in any year may vary from this amount. The long-term objective is to build endowment value over time by achieving incremental returns in excess of need while appropriately managing portfolio risk.

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

Spending Policy and How the Investment Objectives Relate to Spending Policy - For the years ended May 31, 2019 and 2018, the College appropriated for distribution 5.2% and 4.8%, respectively of its endowment fund's average fair value using the prior twenty quarters as of November 30. In establishing this policy, the College considered the long-term expected return on its endowment. Accordingly, over the long term, the College expects the endowment to grow at an average of 4% - 5%, annually, net of inflation. Actual returns in any given year may vary from this amount. This is consistent with the College's objective to maintain the purchasing power of the endowment assets held in perpetuity or for a specified term as well as to provide additional real growth through new gifts and investment return.

GUSTAVUS ADOLPHUS COLLEGE

NOTES TO FINANCIAL STATEMENTS
As of and for the Years Ended May 31, 2019 and 2018

NOTE 9 - POOLED LIFE INCOME FUND

As of May 31, 2019, the Gustavus Adolphus College Pooled Life Income Fund (the "Fund") owned a portion of three buildings which were purchased from and leased back to the College in prior years. At May 31, 2019 and 2018, leaseback interest in the buildings recorded in the financial statements was \$237,777 and \$264,179, respectively. Depreciation for financial statement purposes is recorded using the straight-line method over periods of 40 to 45 years. Depreciation totaling \$18,328 and \$21,180 was recorded in fiscal 2019 and 2018, respectively. The Fund and the College also entered into a lease agreement whereby the land under the buildings is leased from the College over a term of 99 years. The land and building leases under which the Fund leases the buildings and subleases the underlying land to the College are for a term of 20 years. The leases provide for the Fund to receive annual rental on the facilities, which for fiscal years 2019 and 2018 totaled \$148,828 and \$171,376, respectively, with payment to the College for the land, which was \$2,571 and \$3,014 in 2019 and 2018, respectively. Terms of the lease arrangements provide for adjustments to the rental amount every five years based on changes in the Consumer Price Index.

As the units of the Fund mature on the death of each donor or beneficiary, the Fund transfers that portion of the building and leasehold interests back to the College. The land and building leases grant the College the right to purchase the Fund's fractional ownership interests in the buildings at the fair market value of the Fund's fractional ownership interests at the date the option is exercised. During 2019, \$25,688, including related income, was transferred back to the College as the result of donor deaths or assignments. This included \$24,598, net of \$16,524 accumulated depreciation, related to buildings. During 2018, \$297,379, including related income, was transferred back to the College as the result of donor deaths or assignments. This included \$281,074, net of \$180,693 accumulated depreciation, related to buildings.

Future interest discount on pooled life income funds funded by the above rental arrangement totaled \$181,054 and \$197,637 at May 31, 2019 and 2018, respectively.

NOTE 10 - CONSTRUCTION IN PROGRESS

At May 31, 2019, the following projects were in progress:

| | Estimated Total Cost | Cost To Date | Funding Plan |
|--|-------------------------|----------------------|-------------------------------|
| Arboretum expansion (initial architect fees) | \$ 40,000 | \$ 30,850 | Gifts |
| Baseball expansion (initial architect fees) | 30,000 | 7,506 | Gifts and operations |
| Lund Center project (initial architect fees) | 250,000 | 223,772 | Gifts |
| Nobel Hall of Science and Schaefer Fine Arts Center project | 70,000,000 | 40,720,411 | Gifts, operations and debt |
| Roof replacement projects | 650,000 | 43,229 | Operations |
| Student life remodeling project | 75,000 | 3,628 | Operations |
| Swanson tennis center project | 1,500,000 | 3,777 | Gifts and operations |
| Wayfinding project | 1,000,000 | 197,415 | Operations |
| | | <u>\$ 41,230,588</u> | |

The College has entered into an agreement with a general contractor for Nobel Hall of Science and Schaefer Fine Arts Center project; the remaining contract amount was \$23,396,000 as of May 31, 2019.

GUSTAVUS ADOLPHUS COLLEGE

NOTES TO FINANCIAL STATEMENTS
As of and for the Years Ended May 31, 2019 and 2018

NOTE 11 - PROPERTY, PLANT AND EQUIPMENT, NET

Property, plant and equipment, net consisted of the following as of May 31, 2019 and 2018:

| | <u>2019</u> | <u>2018</u> |
|--------------------------------|-----------------------|-----------------------|
| Land | \$ 955,993 | \$ 955,993 |
| Land improvements | 12,672,012 | 12,552,796 |
| Buildings | 179,327,352 | 178,718,919 |
| Equipment | 30,604,686 | 30,119,319 |
| Library books | 9,152,868 | 9,027,988 |
| | <u>232,712,911</u> | <u>231,375,015</u> |
| Less: Accumulated depreciation | <u>(127,671,633)</u> | <u>(122,140,388)</u> |
| | 105,041,278 | 109,234,627 |
| Memorial garden, net | <u>268,898</u> | <u>305,434</u> |
| | <u>\$ 105,310,176</u> | <u>\$ 109,540,061</u> |

NOTE 12 - POSTRETIREMENT BENEFIT PLAN

The College sponsors a postretirement medical plan (the "Plan") that covers eligible employees who retire after age 60 with at least 20 years of service. The Plan is contributory for those employees and their spouses who retired after 1992. Eligible employees who retired after May 31, 2005 pay 100% of the cost of medical insurance (100% of group premiums). The College accrues its share of the cost of postretirement benefits during the service lives of employees.

Accrued postretirement benefit obligation components are as follows for the years ended May 31, 2019 and 2018:

| | <u>2019</u> | <u>2018</u> |
|---|---------------------|---------------------|
| Active employees | \$ 571,231 | \$ 568,262 |
| Current retirees | <u>946,350</u> | <u>914,591</u> |
| Accrued postretirement benefit obligation | <u>\$ 1,517,581</u> | <u>\$ 1,482,853</u> |

The above accrued postretirement benefit obligation is included in accrued liabilities in the statements of financial position.

GUSTAVUS ADOLPHUS COLLEGE

NOTES TO FINANCIAL STATEMENTS
As of and for the Years Ended May 31, 2019 and 2018

NOTE 12 - POSTRETIREMENT BENEFIT PLAN (Continued)

The following is a reconciliation of the benefit obligation and the fair value of plan assets at May 31, 2019 and 2018:

| | 2019 | 2018 |
|--|----------------|----------------|
| Change in projected benefit obligation | | |
| Projected benefit obligation at June 1 | \$ 1,482,853 | \$ 1,814,075 |
| Interest cost | 51,220 | 53,457 |
| Service cost | 29,132 | 37,285 |
| Actuarial loss (gain) | 271,333 | (223,423) |
| Benefits paid | (316,957) | (198,541) |
| Projected benefit obligation at May 31 | \$ 1,517,581 | \$ 1,482,853 |
| Change in plan assets | | |
| Fair value of plan assets at June 1 | \$ - | \$ - |
| Employer contribution | 316,957 | 198,541 |
| Participant contribution | 434,511 | 357,437 |
| Benefits paid | (751,468) | (555,978) |
| Fair value of plan assets at May 31 | \$ - | \$ - |
| Funded Status | | |
| Unfunded status at May 31 | \$ (1,517,581) | \$ (1,482,853) |

Net periodic postretirement benefit expense for the years ended May 31, 2019 and 2018, is comprised of the following:

| | | |
|------------------------------------|-----------|------------|
| Service cost | \$ 29,132 | \$ 37,285 |
| Interest cost | 51,220 | 53,457 |
| Amortization of prior service gain | (14,758) | (14,758) |
| Amortization of unrecognized loss | 33,306 | 47,568 |
| Net periodic benefit cost | \$ 98,900 | \$ 123,552 |

Benefits expected to be paid for each of the five years subsequent to May 31, 2019 are estimated to be \$172,000, \$164,000, \$158,000, \$152,000 and \$137,000, respectively. Benefits expected to be paid 2025 through 2029 are \$508,000. Contributions from the College and retirees expected to be paid to the plan for the year ended May 31, 2020, are estimated to be \$382,000.

GUSTAVUS ADOLPHUS COLLEGE

NOTES TO FINANCIAL STATEMENTS
As of and for the Years Ended May 31, 2019 and 2018

NOTE 12 - POSTRETIREMENT BENEFIT PLAN (Continued)

The estimated interest cost, service cost, net loss and expected benefits to be paid for the year ended May 31, 2020, and the estimated benefit obligation at May 31, 2020, are as follows:

| | <u>2020</u> |
|--|-------------------------|
| Change in projected benefit obligation | |
| Benefit obligation at June 1 | \$ 1,517,581 |
| Interest cost | 46,526 |
| Service cost | 31,336 |
| Expected benefits to be paid | <u>(172,008)</u> |
| Projected benefit obligation at May 31 | <u>\$ 1,423,435</u> |

The above assumptions and calculations are based on census data as of June 1, 2018 and other information as of the measurement date for the plan. The accrued benefit cost represents the full obligation for the retirees and the current service cost for eligible employees at May 31, 2019. A 6.5% rate of increase in the per capita costs of covered health care benefits was assumed at May 31, 2019, decreasing .5% per year to an ultimate level of 4.0% in fiscal years ending May 31, 2025 and later. A discount rate of 3.3% and 3.8% was used to determine the accrued postretirement benefit obligation for fiscal 2019 and 2018, respectively.

The effect of a 1.0% increase in each future health care trend rate would increase the combined service cost and interest cost by approximately \$8,400 or 10.5% and the accumulated postretirement benefit obligation as of May 31, 2019, by approximately \$116,800 or 7.7%. The effect of a 1.0% decrease in each future health care trend rate would decrease the combined service cost and interest cost by approximately \$7,300 or 9.0% and the accumulated postretirement benefit obligation by approximately \$104,300 or 6.9%.

It is reasonably possible that changes in these estimates could occur in the near term and that actual results could differ from these estimates.

GUSTAVUS ADOLPHUS COLLEGE

NOTES TO FINANCIAL STATEMENTS
As of and for the Years Ended May 31, 2019 and 2018

NOTE 13 - LONG-TERM DEBT, NET

The College had the following long-term debt outstanding at May 31, 2019 and 2018:

| | Original Amount | 2019 | 2018 |
|--|--------------------|----------------------|----------------------|
| Minnesota Higher Education Facilities Authority Revenue Bonds - Gustavus Adolphus College (Series Seven-W Bonds of 2013) | \$ 11,410,000 | \$ 9,470,000 | \$ 9,880,000 |
| Minnesota Higher Education Facilities Authority Revenue and Refunding Bonds, Series 2017 (Gustavus Adolphus College) | 52,515,000 | 52,255,000 | 52,515,000 |
| Principal Outstanding on Bonds | | 61,725,000 | 62,395,000 |
| Premiums on Bonds | 5,813,370 | 5,422,735 | 5,619,356 |
| Deferred Debt Acquisition Costs | 755,555 | (666,337) | (694,368) |
| | | \$ 66,481,398 | \$ 67,319,988 |

The College has loans outstanding with the Minnesota Higher Education Facilities Authority (the "Authority") in connection with bonds issued by the Authority:

During August 2010, the Minnesota Higher Education Facilities Authority issued Revenue Bonds Series Seven-B (Gustavus Adolphus College) on behalf of the College totaling \$41,680,000. The bond proceeds were used to finance the construction, furnishing and equipping of Beck Academic Hall, the development of a new west mall and to finance the refunding of the Authority's outstanding Mortgage Revenue Bonds, Series Four-X (Gustavus Adolphus College). The Series Seven-B Revenue Bonds were legally defeased on September 1, 2017 with the issuance of the Minnesota Higher Education Facilities Authority Revenue and Refunding Bonds, Series 2017 (Gustavus Adolphus College). Proceeds from the Series 2017 issue of \$42,130,112 were placed in escrow until the bonds are callable on October 1, 2019. At May 31, 2019, the balance outstanding on the bonds to be refunded was \$32,685,000 and the balance in the escrow account was \$33,111,029.

During July 2013, the Minnesota Higher Education Facilities Authority issued Revenue Bonds Series Seven-W (Gustavus Adolphus College) on behalf of the College totaling \$11,410,000. The bond proceeds were used to finance the refunding of the Authority's outstanding Variable Rate Demand Revenue Bonds Series Five-X (Gustavus Adolphus College) plus interest to the redemption date on September 2013. The Series Seven-W Revenue Bonds have interest rates varying from 3.00% to 5.00% and mature in annual installments of \$425,000 to \$500,000 on October 1 in the years 2019 through 2023, \$2,840,000 in 2028 and \$4,345,000 in 2034. The term bonds maturing in the years in 2028 and 2034 are subject to annual sinking fund payments on October 1 in the years 2024 through 2034 in amounts varying from \$520,000 to \$810,000. The bonds are secured by a pledge of the loan repayments, the payment of which is a general obligation of the College. In addition, the bonds require that certain liquidity and debt service coverage ratios be maintained.

GUSTAVUS ADOLPHUS COLLEGE

NOTES TO FINANCIAL STATEMENTS As of and for the Years Ended May 31, 2019 and 2018

NOTE 13 - LONG-TERM DEBT, NET (Continued)

During September 2017, the Minnesota Higher Education Facilities Authority issued Revenue and Refunding Bonds, Series 2017(Gustavus Adolphus College) on behalf of the College totaling \$52,515,000. The bond proceeds were used to finance the legal defeasance of the Authority's outstanding Revenue Bonds Series Seven-B (Gustavus Adolphus College) plus interest to the redemption date on October 1, 2019, and to construct, expand and renovate Nobel Hall of Science and Schaefer Fine Arts Center. The Series 2017 Revenue and Refunding Bonds have interest rates varying from 3.00% to 5.00% and mature in annual amounts ranging from \$370,000 to \$3,740,000 on October 1 in the years 2019 through 2047. The bonds are secured by a pledge of the loan repayments, the payment of which is a general obligation of the College.

Annual maturities of all long-term debt for each of the five years subsequent to May 31, 2019, approximate: \$795,000, \$930,000, \$1,070,000, \$1,220,000 and \$1,285,000, respectively.

Total interest expense for the years ended May 31, 2019 and 2018, amounted to approximately \$2,766,000 and \$2,628,000, respectively. For the years ended May 31, 2019 and 2018, capitalized interest totaled approximately \$896,000 and \$659,000, respectively.

Costs of bond issuance are deferred and amortized on a straight-line basis over the term of the related indebtedness. Amortization of approximately \$28,000 and \$27,000 was recorded for the years ended May 31, 2019 and 2018, respectively.

NOTE 14 - LINE OF CREDIT AGREEMENT

The College has an unsecured line of credit totaling \$5,000,000 with a local bank which is payable on demand. The agreement expires on December 1, 2019. The line of credit is payable at an interest rate equal to the Wall Street Journal prime rate plus 1.25%. The interest rate will never be less than 4.50%. At May 31, 2019, the interest rate was 6.75%. In addition, the line of credit is subject to a non-use fee of 0.15% of any unused portion to be accrued and charged monthly. At May 31, 2019 and 2018, the College had no borrowings outstanding under this agreement.

NOTE 15 - DEFERRED GIFT AGREEMENTS

The College has arrangements with donors classified as charitable lead trusts, charitable remainder trusts, charitable gift annuities and pooled life income funds. In general, under these arrangements the College receives a gift from a donor in which it has a remainder interest and agrees to pay the donor stipulated amounts over the life of the donor. The arrangement may cover one or more lives. The College invests and administers the related assets and makes distributions to the beneficiaries as required. When the agreement reaches the end of its term, remaining assets are retained by the College as net assets without donor restrictions or net assets without donor restrictions, or in some instances, distributed to third-party beneficiaries.

When a gift is received under one of these arrangements, it is split into the amount representing the actuarial present value of future distributions back to the donor and the remaining gift value to be retained for the benefit of the College or third-party beneficiaries. The actuarial liability is adjusted annually using the mortality table appropriate for the type of arrangement, number of lives covered and age(s) of the donor(s). The College used historical gift date interest rates ranging from 1.2% to 10.2%, in making the calculations for the years ended May 31, 2019 and 2018.

GUSTAVUS ADOLPHUS COLLEGE

NOTES TO FINANCIAL STATEMENTS
As of and for the Years Ended May 31, 2019 and 2018

NOTE 15 - DEFERRED GIFT AGREEMENTS (Continued)

During the year ended May 31, 2019, the College received gift income of approximately \$56,000 relating to deferred gift agreements. Total assets held by the College under deferred gift agreements and liabilities related to these agreements totaled approximately \$19,428,000 and \$10,404,000 respectively, at May 31, 2019.

During the year ended May 31, 2018, the College received gift income of approximately \$357,000 relating to deferred gift agreements. Total assets held by the College under deferred gift agreements and liabilities related to these agreements totaled approximately \$20,668,000 and \$11,123,000 respectively, at May 31, 2018.

NOTE 16 - CONCENTRATIONS

Financial instruments that potentially subject the College to concentrations of credit risk consist principally of cash and cash equivalents, short-term investments, marketable securities and other investments, accounts receivable and notes and mortgages. Cash, cash equivalents and investment holdings are concentrated in a limited number of financial institutions and amounts in excess of FDIC and similar coverages are subject to the usual risks of balances in excess of those limits. Investments are diversified in order to reduce credit risk. Concentrations of credit risk with respect to the notes and mortgages are limited due to the College holding a secured position in these agreements.

Student notes and receivables and other receivables are due from a variety of sources concentrated primarily in the midwestern United States. In addition, the College's students receive a substantial amount of support from state and federal student financial assistance programs. A significant reduction in the level of this support, if this were to occur, could have an adverse effect on the College's programs and activities.

The College receives funds from various federal and state government-funded programs, including student loan funds, which are subject to audit by cognizant governmental agencies. The College is also subject to audit by other governmental agencies. Management is of the opinion that the ultimate outcome of such matters will not have a significant effect on the financial position of the College.

NOTE 17 - RELATED PARTY TRANSACTIONS

As of May 31, 2019 and 2018, contributions receivable included approximately \$30,325,000 and \$11,608,000, respectively from members of the Board of Directors and employees of the College. No compensation is paid to members of the Board of Directors.

The College has invested in two private equity investments in which two members of the Investment Committee have an affiliation. The individuals fully have disclosed their interest in these investments, did not receive a commission or referral fee, and did not participate in the voting regarding these investments. Capital contributions as of May 31, 2019, total approximately \$5,910,000 and \$90,000 is outstanding on future commitments. The value of these funds approximates \$500,000 and \$570,000 as of May 31, 2019 and 2018, respectively.

GUSTAVUS ADOLPHUS COLLEGE

NOTES TO FINANCIAL STATEMENTS
As of and for the Years Ended May 31, 2019 and 2018

NOTE 17 - RELATED PARTY TRANSACTIONS (Continued)

The College has a property management agreement with a current member of the Board of Directors and her husband. Under this agreement, the College rents apartment units to current students. The College serves as fiscal agent on the property and is responsible for all maintenance, repairs and capital improvements. The remaining balance at the end of each fiscal year is paid to the College as a management fee. During the year ended May 31, 2019, the College billed students \$444,140 and paid expenses of \$396,779, resulting in a management fee of \$47,361. During the year ended May 31, 2018, the College billed students \$458,258 and paid expenses of \$362,421, resulting in a management fee of \$95,837. The agreement is in full force until May 31, 2023, and shall continue thereafter on successive five year terms, through May 31, 2032 unless sooner terminated by the College or the owner. During the year ended May 31, 2019, one unit under this agreement was transferred to the ownership of the College.

NOTE 18 - SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION

| | <u>2019</u> | <u>2018</u> |
|---|--------------|------------------|
| Interest paid, excluding capitalized interest of \$896,089 and \$659,059, respectively | \$ 1,873,442 | \$ 1,891,515 |
| Noncash investing and financing activities | | |
| Capital related items included in accounts payable | 3,500,173 | 2,241,402 |
| Summary of noncash financing activities associated with bond issuance | | |
| Proceeds of bond issue | | \$ 52,515,000 |
| Prior debt service reserve funds | | 3,397,289 |
| College contribution | | 1,180,000 |
| Net original issue premium | | <u>5,572,076</u> |
| | | 62,664,365 |
| Amount deposited to refunding account | | (42,130,112) |
| Amount deposited to construction account | | (20,000,000) |
| Deferred debt acquisition costs and underwriter's discounts | | <u>(534,253)</u> |
| | <u>\$ -</u> | <u>\$ -</u> |

GUSTAVUS ADOLPHUS COLLEGE

NOTES TO FINANCIAL STATEMENTS
As of and for the Years Ended May 31, 2019 and 2018

NOTE 19 - LIQUIDITY AND AVAILABILITY

The following reflects the College's financial assets as of the statement of financial position date, reduced by amounts not available for general use because of contractual or donor-imposed restrictions within one year of the statement of financial position date. Amounts not available include amounts set aside for long-term investment in the board-designated endowments that could be drawn upon if the governing board approves that action. However, amounts already appropriated from either the donor-restricted endowment or board designated endowment for general expenditures within one year of the balance sheet date have not been subtracted as unavailable.

| | <u>2019</u> |
|--|--------------------------|
| Financial assets: | |
| Cash and cash equivalents | \$ 45,019,815 |
| Receivables | 1,578,168 |
| Contributions receivable, net | 46,500,000 |
| Student notes receivable, net | 1,998,266 |
| Investments | 224,396,455 |
| Beneficial interest in funds held in trust | <u>1,403,395</u> |
| Total financial assets | 320,896,099 |
| Less those unavailable for general expenditures within one year, due to: | |
| Contractual, donor-imposed restrictions or board designations: | |
| Government grant receivables | (453,105) |
| Contributions receivable, net – restricted for plant and endowment | (40,638,000) |
| Contributions receivable, net – collectible beyond one year | (4,223,000) |
| Student notes receivable, net – Federal Perkins Loan program | (1,998,266) |
| Investments – donor restricted | (20,701,249) |
| Endowment funds, net of appropriation for fiscal year 2020 | (185,683,499) |
| Beneficial interest in funds held in trust | <u>(1,403,395)</u> |
| Financial assets available to meet cash needs for general expenditures within one year | <u>\$ 65,795,585</u> |

The College regularly monitors liquidity required to meet its operating needs and other contractual commitments, while also striving to maximize the investment of its available funds. The College operates with a balanced operating budget and anticipates collecting sufficient revenue to cover general expenditures not covered by donor-restricted resources.

If necessary, liquidity needs could be met through the release of quasi endowment funds, as authorized by the board or accessing the line of credit as described in Note 14.

GUSTAVUS ADOLPHUS COLLEGE

NOTES TO FINANCIAL STATEMENTS

As of and for the Years Ended May 31, 2019 and 2018

NOTE 20 - EXPENSES BY FUNCTION AND NATURE

The financial statements report certain categories of expenses that are attributable to one or more program or supporting functions of the College. The College allocated interest expense; depreciation and amortization; operation and maintenance of plant expense; and lease payments to program and support functions for the years ended May 31, 2019 and 2018, respectively. Depreciation is allocated base on square footage and interest is allocated based on usage.

Expenses for the year ended May 31, 2019, including the following:

| | Salaries and wages | Benefits | Operation and maintenance of plant | Depreciation | Interest | Other | Total |
|---------------------------------------|-----------------------|----------------------|---|---------------------|---------------------|----------------------|----------------------|
| Instruction | \$ 17,112,461 | \$ 6,066,198 | \$ 3,584,363 | \$ 3,113,821 | \$ 1,205,735 | \$ 5,055,049 | \$ 36,137,627 |
| Academic support | 2,130,436 | 724,555 | 605,023 | 331,529 | | 1,209,490 | 5,001,033 |
| Research | 106,442 | 10,913 | | | | 15,819 | 133,174 |
| Public service | 492,291 | 87,813 | 658,058 | 267,542 | 13,466 | 1,387,756 | 2,906,926 |
| Student services | 6,975,018 | 2,206,406 | 938,929 | 652,380 | 34,090 | 4,026,328 | 14,833,151 |
| Auxiliary enterprises | 2,653,724 | 714,435 | 3,816,004 | 1,973,756 | 463,105 | 4,836,234 | 14,457,258 |
| Institutional support | 5,443,123 | 1,945,289 | 332,780 | 282,453 | 16,111 | 3,587,889 | 11,607,645 |
| Operation and maintenance of plant | <u>3,864,780</u> | <u>1,269,241</u> | <u>(9,935,157)</u> | | <u>39,135</u> | <u>4,762,001</u> | <u>-</u> |
| Total expenses | <u>\$ 38,778,275</u> | <u>\$ 13,024,850</u> | <u>\$ -</u> | <u>\$ 6,621,481</u> | <u>\$ 1,771,642</u> | <u>\$ 24,880,566</u> | <u>\$ 85,076,814</u> |

Expenses for the year ended May 31, 2018, including the following:

| | Salaries and wages | Benefits | Operation and maintenance of plant | Depreciation | Interest | Other | Total |
|---------------------------------------|-----------------------|----------------------|---|---------------------|---------------------|----------------------|----------------------|
| Instruction | \$ 16,633,632 | \$ 5,858,239 | \$ 3,863,414 | \$ 3,112,237 | \$ 1,263,064 | \$ 4,915,348 | \$ 35,645,934 |
| Academic support | 1,767,418 | 571,065 | 652,126 | 344,211 | | 1,152,500 | 4,487,320 |
| Research | 83,963 | 8,466 | | | | 23,304 | 115,733 |
| Public service | 479,718 | 85,369 | 709,290 | 265,586 | 15,351 | 1,189,317 | 2,744,631 |
| Student services | 6,702,760 | 2,118,735 | 1,012,028 | 648,848 | 38,069 | 4,005,525 | 14,525,965 |
| Auxiliary enterprises | 2,587,280 | 706,738 | 4,113,092 | 1,948,306 | 493,180 | 4,713,359 | 14,561,955 |
| Institutional support | 5,457,559 | 1,942,621 | 358,688 | 298,329 | 18,366 | 3,247,521 | 11,323,084 |
| Operation and maintenance of plant | <u>3,919,336</u> | <u>1,268,783</u> | <u>(10,708,638)</u> | | <u>47,095</u> | <u>5,473,424</u> | <u>-</u> |
| Total expenses | <u>\$ 37,631,666</u> | <u>\$ 12,560,016</u> | <u>\$ -</u> | <u>\$ 6,617,517</u> | <u>\$ 1,875,125</u> | <u>\$ 24,720,298</u> | <u>\$ 83,404,622</u> |

NOTE 21 - SUBSEQUENT EVENTS

The College has evaluated subsequent events through September 25, 2019, which is the date that the financial statements were issued.