

Gustavus Adolphus College

Financial Statements

May 31, 2020 and 2019

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, 2020 and 2019, 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, 2020 and 2019, 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.

Baker Tilly US, LLP

Baker Tilly US, LLP (formerly known as Baker Tilly Virchow Krause, LLP)
Minneapolis, Minnesota
September 16, 2020

Gustavus Adolphus CollegeStatements of Financial Position
May 31, 2020 and 2019

	<u>2020</u>	<u>2019</u>
Assets		
Cash and cash equivalents	\$ 37,201,785	\$ 45,019,815
Receivables		
Student accounts, net of allowance for doubtful accounts of \$530,000 and \$510,000	692,423	681,081
Government grants	379,864	506,793
Contributions, net	39,990,000	46,500,000
Other	189,000	390,294
Inventories	537,709	505,911
Prepaid expenses and other assets	1,617,196	1,652,292
Students notes receivable, net	1,551,615	1,998,266
Investments		
Cash and short-term investments	1,476,583	1,561,221
Investments other than endowment	20,889,744	28,001,382
Interest in buildings, net of accumulated depreciation of \$443,902 and \$508,498	185,388	237,777
Real estate held for resale	136,340	676,340
Beneficial interest in funds held in trust	1,022,509	1,403,395
Other	192,029	422,657
Deposits held by trustee		
Cash and short-term investments	3	226
Endowment investments	197,961,700	194,410,969
Construction in progress	22,948,263	41,230,588
Property, plant and equipment, net	141,022,988	105,310,176
 Total assets	 <u>\$ 467,995,139</u>	 <u>\$ 470,509,183</u>
Liabilities and Net Assets		
Liabilities		
Accounts payable	\$ 5,326,282	\$ 4,988,274
Accrued liabilities	13,242,845	14,375,095
Deferred revenue	4,342,088	3,600,139
Future interest discount on pooled life income funds	146,398	181,054
Annuities payable	9,217,200	9,792,123
Funds held for others	2,831,536	2,709,200
Long-term debt, net	65,517,807	66,481,398
U.S. government grants refundable	1,747,584	2,496,847
 Total liabilities	 <u>102,371,740</u>	 <u>104,624,130</u>
Net Assets		
Without donor restrictions	115,878,902	100,394,749
With donor restrictions	249,744,497	265,490,304
 Total net assets	 <u>365,623,399</u>	 <u>365,885,053</u>
 Total liabilities and net assets	 <u>\$ 467,995,139</u>	 <u>\$ 470,509,183</u>

See notes to financial statements

Gustavus Adolphus College

 Statement of Activities
 Year Ended May 31, 2020 (With Comparative Totals for 2019)

	2020		2019 Total	
	Without Donor Restrictions	With Donor Restrictions		Total
Operating Revenues and Other Additions				
Net tuition and fees, net of scholarships and grants of \$62,743,017 and \$59,746,234, respectively	\$ 40,939,873	\$ -	\$ 40,939,873	\$ 40,528,437
Government grants	-	3,356,956	3,356,956	1,780,294
Private gifts and grants	1,979,256	3,084,001	5,063,257	5,559,499
Endowment income	2,656,315	5,932,266	8,588,581	7,973,496
Investment income	680,034	-	680,034	952,006
Other sources	3,601,017	-	3,601,017	3,369,781
Sales and services of auxiliary enterprises	19,667,856	-	19,667,856	23,700,695
	69,524,351	12,373,223	81,897,574	83,864,208
Net assets released from restrictions	13,300,435	(13,300,435)	-	-
Amortization of contributions for long-lived assets	2,310,189	-	2,310,189	2,042,921
Total operating revenues and other additions	85,134,975	(927,212)	84,207,763	85,907,129
Operating Expenses				
Program expenses:				
Instruction	37,084,588	-	37,084,588	36,137,627
Academic support	4,590,770	-	4,590,770	5,001,033
Research	150,017	-	150,017	133,174
Public service	2,615,187	-	2,615,187	2,906,926
Student services	15,370,013	-	15,370,013	14,833,151
Auxiliary enterprises	13,303,950	-	13,303,950	14,457,258
Support expenses:				
Institutional support	11,884,290	-	11,884,290	11,607,645
Total operating expenses	84,998,815	-	84,998,815	85,076,814
Change in net assets from operating activity	136,160	(927,212)	(791,052)	830,315
Nonoperating Activity				
Private gifts and grants	-	9,569,147	9,569,147	36,796,213
Endowment income	-	58,445	58,445	57,958
Investment income	-	128	128	128
Investment income, net of endowment income	(291,746)	(1,995,385)	(2,287,131)	(6,108,131)
Other sources	-	4,805	4,805	-
Adjustment of actuarial liability	(88,799)	(306,069)	(394,868)	(215,227)
Loss on disposal of assets	(4,110,939)	-	(4,110,939)	(121,492)
Amortization of contributions for long-lived assets	(2,310,189)	-	(2,310,189)	(2,042,921)
Net assets released from restrictions for capital acquisitions	22,149,666	(22,149,666)	-	-
Total nonoperating activity	15,347,993	(14,818,595)	529,398	28,366,528
Change in net assets	15,484,153	(15,745,807)	(261,654)	29,196,843
Net Assets, Beginning	100,394,749	265,490,304	365,885,053	336,688,210
Net Assets, Ending	<u>\$ 115,878,902</u>	<u>\$ 249,744,497</u>	<u>\$ 365,623,399</u>	<u>\$ 365,885,053</u>

See notes to financial statements

Gustavus Adolphus CollegeStatement of Activities
Year Ended May 31, 2019

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Operating Revenues and Other Additions			
Net tuition and fees, net of scholarships and grants of \$59,746,234	\$ 40,528,437	\$ -	\$ 40,528,437
Government grants	-	1,780,294	1,780,294
Private gifts and grants	1,637,147	3,922,352	5,559,499
Endowment income	2,421,004	5,552,492	7,973,496
Investment income	952,006	-	952,006
Other sources	3,369,781	-	3,369,781
Sales and services of auxiliary enterprises	23,700,695	-	23,700,695
	<u>72,609,070</u>	<u>11,255,138</u>	<u>83,864,208</u>
Net assets released from restrictions	10,607,900	(10,607,900)	-
Amortization of contributions for long-lived assets	2,042,921	-	2,042,921
Total operating revenues and other additions	<u>85,259,891</u>	<u>647,238</u>	<u>85,907,129</u>
Operating Expenses			
Program expenses:			
Instruction	36,137,627	-	36,137,627
Academic support	5,001,033	-	5,001,033
Research	133,174	-	133,174
Public service	2,906,926	-	2,906,926
Student services	14,833,151	-	14,833,151
Auxiliary enterprises	14,457,258	-	14,457,258
Support expenses:			
Institutional support	11,607,645	-	11,607,645
Total operating expenses	<u>85,076,814</u>	<u>-</u>	<u>85,076,814</u>
Change in net assets from operating activity	<u>183,077</u>	<u>647,238</u>	<u>830,315</u>
Nonoperating Activity			
Private gifts and grants	-	36,796,213	36,796,213
Endowment income	-	57,958	57,958
Investment income	-	128	128
Investment income, net of endowment income	(652,949)	(5,455,182)	(6,108,131)
Adjustment of actuarial liability	(3,203)	(212,024)	(215,227)
Loss on disposal of assets	(121,492)	-	(121,492)
Amortization of contributions for long-lived assets	(2,042,921)	-	(2,042,921)
Net assets released from restrictions for capital acquisitions	830,908	(830,908)	-
Total nonoperating activity	<u>(1,989,657)</u>	<u>30,356,185</u>	<u>28,366,528</u>
Change in net assets	<u>(1,806,580)</u>	<u>31,003,423</u>	<u>29,196,843</u>
Net Assets, Beginning	<u>102,201,329</u>	<u>234,486,881</u>	<u>336,688,210</u>
Net Assets, Ending	<u>\$ 100,394,749</u>	<u>\$ 265,490,304</u>	<u>\$ 365,885,053</u>

See notes to financial statements

Gustavus Adolphus College

Statements of Cash Flows

Years Ended May 31, 2020 and 2019

	<u>2020</u>	<u>2019</u>
Cash Flows From Operating Activities		
Change in net assets	\$ (261,654)	\$ 29,196,843
Adjustments to reconcile change in net assets to net cash flows from operating activities:		
Depreciation, amortization and depletion	7,480,990	6,686,048
Amortization of bond premium	(178,986)	(126,081)
Loss on disposal of assets	4,110,939	121,492
Decrease in student notes receivable allowance	(45,000)	-
Gains on investments	(5,212,624)	(904,140)
Actuarial adjustment of annuities payable	519,221	366,006
Pooled life income adjustments	88,162	112,781
Loan cancellations and reinstatements	22,398	21,713
Change in assets and liabilities:		
Student receivables	(11,342)	23,977
Government grants receivable	126,929	(17,451)
Other receivables	201,294	(127,214)
Contributions receivable, operations	696,610	(274,412)
Inventories	(31,798)	(34,184)
Prepaid expenses and other assets	35,096	136,594
Accounts payable	(316,474)	(86,262)
Accrued liabilities	(1,132,250)	358,978
Deferred revenue	741,949	1,144,632
Contributions restricted for plant and long-term investment	(11,668,485)	(22,052,882)
Investment income restricted for plant, loans, and long-term investment	(66,686)	(66,220)
	<u>(4,901,711)</u>	<u>14,480,218</u>
Cash Flows From Investing Activities		
Purchases of investments	(93,176,661)	(136,307,512)
Proceeds from sale of investments	103,096,657	145,545,488
Purchases of property, plant and equipment	(28,340,027)	(32,891,408)
Repayments of loans from students	469,253	428,242
	<u>(17,950,778)</u>	<u>(23,225,190)</u>
Cash Flows From Financing Activities		
Changes in deposits with bond trustee	223	18,106,395
Changes in funds held for others	172,574	58,675
Repayment of principal on indebtedness	(795,000)	(670,000)
Receipts of investment income restricted for plant, loans and long-term investment	66,686	66,220
Contributions received restricted for plant and long-term investment	17,481,875	1,711,294
Decrease in refundable U.S. government grants	(749,263)	(51,796)
Increase in liability for new split interest agreements	89,200	72,446
Payments to annuitants and pooled life income beneficiaries	(1,231,836)	(1,269,240)
	<u>15,034,459</u>	<u>18,023,994</u>
Net cash flows from operating activities	<u>(4,901,711)</u>	<u>14,480,218</u>
Net cash flows from investing activities	<u>(17,950,778)</u>	<u>(23,225,190)</u>
Net cash flows from financing activities	<u>15,034,459</u>	<u>18,023,994</u>
Net change in cash and cash equivalents	(7,818,030)	9,279,022
Cash and Cash Equivalents, Beginning	<u>45,019,815</u>	<u>35,740,793</u>
Cash and Cash Equivalents, Ending	<u>\$ 37,201,785</u>	<u>\$ 45,019,815</u>
Supplemental Disclosures of Cash Flow Information		
Interest paid, excluding capitalized interest of \$222,513 and \$896,089, respectively	<u>\$ 2,520,043</u>	<u>\$ 1,873,442</u>
Noncash Investing and Financing Activities		
Capital related items included in accounts payable	<u>\$ 4,154,655</u>	<u>\$ 3,500,173</u>

See notes to financial statements

Gustavus Adolphus College

Notes to Financial Statements

May 31, 2020 and 2019

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 donor 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 Revenue

Tuition and fee revenue is recognized in the fiscal year in which the academic programs are delivered (i.e. when the performance obligation is satisfied) as increases in net assets without donor restrictions. Financial assistance in the form of scholarships and grants that cover a portion of tuition and fees are reflected as a reduction of tuition and fees revenues. The College offers institutional grants to students in the form of merit-based scholarships and need-based grants at the College's discretion. 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. 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 20-21 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
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Auxiliary Revenue

The College also provides auxiliary services, such as residence and food services. Performance obligations for room and board and other auxiliary services are satisfied, and revenue is recognized as increases in net assets without donor restrictions, when the related service is performed. Contracts for room and board are combined into a single portfolio of similar contracts. Payment for room and board is required before the start of the academic term. Withdrawals that occur during the semester are calculated based upon the College's published refund policy. Refunds issued reduce the amount of revenue recognized.

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.

	<u>2020</u>	<u>2019</u>
Balance at beginning of the year	\$ 1,498,739	\$ 1,386,295
Refunds issued	(79,206)	(69,874)
Revenue recognized during the year	(1,419,533)	(1,316,421)
Cash received in advance of performance	<u>3,345,771</u>	<u>1,498,739</u>
Balance at end of the year	<u>\$ 3,345,771</u>	<u>\$ 1,498,739</u>

Contribution Revenue

Unconditional contributions are recognized as revenue 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 – that is, those with a measurable performance or other barrier and a right of return - are not recognized until they become unconditional, that is, when the conditions on which they depend are met. Gifts of assets other than cash are recorded at their estimated fair value at the date of the gift. During the year ended May 31, 2019, the College received a \$1,000,000 conditional contribution. Revenue of \$223,000 and \$30,000 was recognized in the years ending May 31, 2020 and 2019, respectively. Deferred revenue of \$747,000 and \$970,000 at May 31, 2020 and 2019, respectively, 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

A portion of the College's revenue is derived from cost-reimbursable government grants and contracts, which are conditioned upon certain performance requirements and/or the incurrence of allowable qualifying expenses. Amounts received are recognized as revenue within net assets with donor restrictions when the College has incurred expenditures in compliance with specific grant or contract provisions. Amounts received prior to incurring qualifying expenditures, if any, are reported as refundable advances in the statement of financial position.

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.

Measure of Operations

The College's operating revenues in excess of operating expenses include 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, plant and endowment gifts, 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.

Gustavus Adolphus College

Notes to Financial Statements
May 31, 2020 and 2019

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.

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 2020 or 2019.

Asset Retirement Obligations

Asset retirement obligations of \$2,331,000 and \$2,910,000, for the years ended May 31, 2020 and 2019, 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 years ended May 31, 2020 and May 31, 2019. Approximately \$579,000 and \$166,000 of asbestos was abated for the years ended May 31, 2020 and 2019, 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.

Gustavus Adolphus College

Notes to Financial Statements
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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 \$3,482,000 and \$3,150,000 for the years ended May 31, 2020 and 2019, respectively. Advertising expenses totaled \$322,000 and \$733,000 for the years ended May 31, 2020 and 2019, respectively. The College expenses advertising costs at the time incurred.

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 percent for each of the years ended May 31, 2020 and 2019. The College's share of the cost of these benefits was approximately \$2,422,000 and \$2,358,000 for the years ended May 31, 2020 and 2019, 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, 2020 and 2019, 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, 2020 or 2019. The College's tax returns are subject to review and examination by federal and state authorities.

Reclassifications

Certain amounts appearing in the 2019 financial statements have been reclassified to conform with the 2020 presentation. The reclassifications have no effect on reported amounts of total net assets or change in total net assets.

New Accounting Pronouncements Not Yet Effective

In February 2016, the FASB issued ASU 2016-02, *Leases*. ASU 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 2016-02 is effective for fiscal years beginning after December 15, 2019 (fiscal year 2021). 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.

Gustavus Adolphus College

Notes to Financial Statements
May 31, 2020 and 2019

2. Restrictions and Limitations on Net Asset Balances

At May 31, 2020 and 2019, the College's net assets were allocated as follows:

	<u>2020</u>	<u>2019</u>
Without donor restrictions:		
Operations	\$ 5,212,039	\$ 5,257,797
Student loan funds	301,124	422,026
Funds functioning as endowment	30,046,261	29,703,097
Split-interest agreements	769,679	853,117
Plant	79,549,799	64,158,712
Total without donor restrictions	<u>115,878,902</u>	<u>100,394,749</u>
With donor restrictions:		
Purpose and time restricted:		
Operations	4,929,423	4,969,436
Endowment	33,844,991	35,819,906
Split-interest agreements	256,366	263,802
Plant acquisitions	25,161,395	39,753,386
Contributions receivable	26,206,000	29,039,000
Total purpose and time restricted	<u>90,398,175</u>	<u>109,845,530</u>
Held in perpetuity:		
Student loan funds	629,715	616,669
Endowment	137,292,398	129,660,496
Split-interest agreements	7,640,209	7,906,609
Contributions receivable	13,784,000	17,461,000
Total held in perpetuity	<u>159,346,322</u>	<u>155,644,774</u>
Total with donor restrictions	<u>249,744,497</u>	<u>265,490,304</u>
Total net assets	<u>\$ 365,623,399</u>	<u>\$ 365,885,053</u>

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, 2020 and 2019, as follows:

	<u>2020</u>	<u>2019</u>
Scholarships, instruction and other departmental support	\$ 13,300,435	\$ 10,607,900
Capital acquisitions	22,149,666	830,908
Total net assets released from restrictions	<u>\$ 35,450,101</u>	<u>\$ 11,438,808</u>

Gustavus Adolphus College

Notes to Financial Statements
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4. Contributions Receivable, Net

Contributions receivable include the following unconditional promises to give at May 31, 2020 and 2019:

	<u>2020</u>	<u>2019</u>
Donor restricted, operations	\$ 5,572,000	\$ 6,268,000
Donor restricted, plant projects	22,133,000	25,012,000
Donor restricted, endowment - held in perpetuity	<u>15,188,000</u>	<u>19,240,000</u>
Gross unconditional promises to give	42,893,000	50,520,000
Less: unamortized discount	(2,539,000)	(3,677,000)
Less: allowance for uncollectible promises	<u>(364,000)</u>	<u>(343,000)</u>
Total	<u>\$ 39,990,000</u>	<u>\$ 46,500,000</u>

At May 31, 2020, net contributions receivable of \$12,374,000 are due in less than one year and \$27,616,000 are due in one to five years. Promises due in one to five years were discounted at historical rates between 0.9 percent and 3.0 percent at May 31, 2020 and 2019. Promises due in less than one year were not discounted.

Of the College's contributions receivable, approximately 70% were due from three donors and 85% were due from four donors as of May 31, 2020 and 2019, respectively.

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, 2020 and 2019, student notes receivable represented approximately 0.4 percent and 0.5 percent of total assets, respectively.

At May 31, 2020 and 2019, student notes receivable, net consisted of the following:

	<u>2020</u>	<u>2019</u>
Federal Perkins Loan Program	\$ 1,726,615	\$ 2,218,266
Less: allowance for doubtful accounts:		
Beginning of year	(220,000)	(220,000)
Allowance adjustment	<u>45,000</u>	<u>-</u>
End of year	<u>(175,000)</u>	<u>(220,000)</u>
Total	<u>\$ 1,551,615</u>	<u>\$ 1,998,266</u>

Funds advanced by the Federal government of \$1,747,584 and \$2,496,847 at May 31, 2020 and 2019, respectively, are ultimately refundable to the government and are classified as liabilities in the statements of financial position.

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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, 2020, the College continues to service the Federal Perkins loan program. During the year ended May 31, 2020, the College returned \$467,842 in excess cash to the government. In addition, the College recognized \$130,385 as the College's portion of excess cash and as a reimbursement for loan cancellations.

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 note 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, 2020, the amounts past due under the Federal Perkins loan program are as follows: less than 240 days - \$23,488, 240 days to two years - \$73,670, two years to five years - \$95,527 and no past-due amounts greater than five years, for a total past due amount of \$192,685. 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.

6. Investments

The following summarizes the College's investments in funds other than endowment, which are recorded at fair value, at May 31, 2020 and 2019:

	<u>2020</u>	<u>2019</u>
Fixed income securities:		
Government obligations	\$ 1,368,156	\$ 8,058,480
Bonds	22,273	26,384
Marketable securities:		
Equity securities	-	50,000
Mutual funds	19,499,315	19,866,518
Total	<u>\$ 20,889,744</u>	<u>\$ 28,001,382</u>

Other investments totaling \$422,657 as of May 31, 2019, includes \$263,745 of certificates of deposit carried at cost.

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The following summarizes the College's endowment investments, which are recorded at fair value unless otherwise noted, at May 31, 2020 and 2019:

	<u>2020</u>	<u>2019</u>
Cash and short-term investments (\$31,931 and \$30,382 at cost for 2020 and 2019, respectively)	\$ 17,987,491	\$ 7,115,720
Investment sale receivable, at cost	-	366,239
Contract for deed receivable, at cost	18,661	20,323
Fixed income securities	10,075	-
Marketable securities:		
Equity securities	192,619	256,321
Mutual funds	95,638,185	110,996,575
Open-end commingled funds	26,137,326	28,663,865
Alternative investments:		
Commodity funds	105,671	304,921
Fund of funds	54,016,069	42,638,793
Beneficial interest in funds held in trust	3,855,603	4,048,212
Total	<u>\$ 197,961,700</u>	<u>\$ 194,410,969</u>

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 (losses) gains from alternative investments totaled \$(3,064,502) and \$2,034,567 for the years ended May 31, 2020 and 2019, respectively.

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 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 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 assets include:

- > Beneficial interest in funds held in trust and equity funds that are not measured at fair value using the net asset value per share (or its equivalent) 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. The College has estimated the fair value of the equity funds not measured at fair value by using the estimated fair value provided by the investee.

There have been no changes in the techniques and inputs used as of May 31, 2020 and 2019.

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.

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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 tables summarize assets measured at fair value on a recurring basis as of May 31, 2020 and 2019:

	2020			Total
	Level 1	Level 2	Level 3	
Short-term investments	\$ 17,955,560	\$ -	\$ -	\$ 17,955,560
Domestic equity securities	192,619	-	-	192,619
Fixed income securities	-	1,400,504	-	1,400,504
Open-end commingled funds	-	26,137,326	-	26,137,326
Mutual funds:				
Domestic equity	68,755,573	-	-	68,755,573
Fixed income	23,766,850	-	-	23,766,850
International equity	19,708,818	-	-	19,708,818
Real assets	2,906,259	-	-	2,906,259
Private equity funds	-	-	443,389	443,389
Beneficial interest in funds held in trust	-	-	5,070,141	5,070,141
Subtotal by valuation hierarchy	<u>\$ 133,285,679</u>	<u>\$ 27,537,830</u>	<u>\$ 5,513,530</u>	<u>166,337,039</u>
Alternative investments measured using NAV:				
Private equity funds				45,426,722
Real asset funds				8,251,629
Subtotal by NAV				<u>53,678,351</u>
Total assets at fair value				<u>\$ 220,015,390</u>
Investments at May 31, 2020:				
Investments other than endowment				\$ 20,889,744
Endowment investments				197,961,700
Beneficial interest in funds held in trust				1,022,509
Other investments				192,029
Total investments				220,065,982
Less: investments at cost				<u>(50,592)</u>
Total assets at fair value				<u>\$ 220,015,390</u>

Gustavus Adolphus College

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	2019			
	Level 1	Level 2	Level 3	Total
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	-	-	5,610,519	5,610,519
Subtotal by valuation hierarchy	<u>\$ 138,254,752</u>	<u>\$ 36,748,729</u>	<u>\$ 5,610,519</u>	<u>180,614,000</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				224,238,403
Less: investments at cost				<u>(680,689)</u>
Total assets at fair value				<u>\$ 223,557,714</u>

Gustavus Adolphus College

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The following table presents a reconciliation of assets measured at fair value on a recurring basis using significant unobservable inputs (Level 3) for the years ended May 31, 2020 and 2019:

	<u>Balances May 31, 2019</u>	<u>Net Realized and Unrealized Losses</u>	<u>Purchases</u>	<u>Sales</u>	<u>Net Transfers in (out) of Level 3</u>	<u>Balances May 31, 2020</u>
Private equity funds	\$ -	\$ (12,594)	\$ 455,983	\$ -	\$ -	\$ 443,389
Beneficial interest in funds held in trust	5,610,519	(63,636)	126,074	(602,816)	-	5,070,141
Totals	<u>\$ 5,610,519</u>	<u>\$ (76,230)</u>	<u>\$ 582,057</u>	<u>\$ (602,816)</u>	<u>\$ -</u>	<u>\$ 5,513,530</u>

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, 2020 \$ (76,230)

	<u>Balances May 31, 2018</u>	<u>Net Realized and Unrealized Losses</u>	<u>Purchases</u>	<u>Sales</u>	<u>Net Transfers in (out) of Level 3</u>	<u>Balances May 31, 2019</u>
Beneficial interest in funds held in trust	<u>\$ 5,741,796</u>	<u>\$ (171,368)</u>	<u>\$ 77,969</u>	<u>\$ (37,878)</u>	<u>\$ -</u>	<u>\$ 5,610,519</u>

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 summarizes assets measured at fair value on a nonrecurring basis as of May 31, 2020 and 2019:

	2020			
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Real estate held for resale	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
	2019			
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Real estate held for resale	<u>\$ -</u>	<u>\$ 540,000</u>	<u>\$ -</u>	<u>\$ 540,000</u>

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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, 2020 and 2019:

	<u>Private Equity Funds</u>	<u>Real Asset Funds</u>
Fair value, May 31, 2020	\$ 45,426,722	\$ 8,251,629
Fair value, May 31, 2019	\$ 32,662,352	\$ 10,281,362
Significant investment strategy	Buyout, opportunistic, venture, distressed and growth equity in U.S. and international	U.S. real estate, global energy and forestry
Remaining life	1 to 12 years	1 to 12 years
Dollar amount of unfunded commitments	\$ 72,434,000	\$ 6,259,000
Timing to draw down commitments	1 to 5 years	1 to 4 years
Redemption terms	N/A	N/A
Redemption restrictions	N/A	N/A
Redemption restrictions in place at year-end	N/A	N/A

8. Endowment

The College's endowment consists of approximately 725 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.

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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, 2020 and 2019:

	2020				
	Without Donor Restrictions	With Donor Restrictions			Balances May 31, 2020
		Original Gift	Accumulated Gains (Losses)	Total	
Board designated endowment funds	\$ 30,046,261	\$ -	\$ -	\$ -	\$ 30,046,261
Donor-restricted endowment funds:					
Underwater funds	-	24,745,411	(753,105)	23,992,306	23,992,306
Other funds	-	112,546,987	34,598,096	147,145,083	147,145,083
Total endowment net assets	\$ 30,046,261	\$ 137,292,398	\$ 33,844,991	\$ 171,137,389	\$ 201,183,650

	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
Total endowment net assets	\$ 29,703,097	\$ 129,660,496	\$ 35,819,906	\$ 165,480,402	\$ 195,183,499

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Changes in endowment net assets for the year ended May 31, 2020 and 2019, are as follows:

	2020		
	Without Donor Restrictions	With Donor Restrictions	Total
Endowment net assets, May 31, 2019	\$ 29,703,097	\$ 165,480,402	\$ 195,183,499
Investment return:			
Investment income	381,625	765,646	1,147,271
Net appreciation, realized and unrealized	1,930,195	3,240,460	5,170,655
Total investment return	2,311,820	4,006,106	6,317,926
Contributions	-	7,553,580	7,553,580
Matured deferred gifts	-	29,567	29,567
Appropriation of endowment assets for expenditure (spending rate)	(2,656,315)	(5,932,266)	(8,588,581)
Other changes:			
Transfers to board designated endowment funds	687,659	-	687,659
Endowment net assets, May 31, 2020	<u>\$ 30,046,261</u>	<u>\$ 171,137,389</u>	<u>\$ 201,183,650</u>
	2019		
	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 (depreciation), 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 (spending 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	<u>\$ 29,703,097</u>	<u>\$ 165,480,402</u>	<u>\$ 195,183,499</u>

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, 2020 and 2019, the College appropriated for distribution 5.2 percent of its endowment fund's average fair value using the prior twenty quarters as of November 30. Included in this distribution were additional approved draws of \$1,150,000 and \$1,073,000 for the years ended May 31, 2020 and 2019, respectively. 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 percent to 5 percent, 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.

9. Pooled Life Income Fund

As of May 31, 2020, 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, 2020 and 2019, leaseback interest in the buildings recorded in the financial statements was \$185,388 and \$237,777, respectively. Depreciation for financial statement purposes is recorded using the straight-line method over periods of 40 to 45 years. Depreciation totaling \$17,512 and \$18,328 was recorded in fiscal 2020 and 2019, 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 2020 and 2019 totaled \$145,744 and \$148,828, respectively, with payment to the College for the land, which was \$2,497 and \$2,571 in 2020 and 2019, respectively. Terms of the lease arrangements provide for adjustments to the rental amount every five years based on changes in the Consumer Price Index.

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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 2020, \$122,347, including related income, was transferred back to the College as the result of donor deaths or assignments. This included \$116,985, net of \$82,108 accumulated depreciation, related to buildings. 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.

Future interest discount on pooled life income funds funded by the above rental arrangement totaled \$146,398 and \$181,054 at May 31, 2020 and 2019, respectively.

10. Construction in Progress

At May 31, 2020, the following projects were in progress:

	<u>Estimated Total Cost</u>	<u>Cost to Date</u>	<u>Funding Plan</u>
Arboretum expansion (initial architect fees)	\$ 40,000	\$ 40,000	Gifts
Athletics locker room remodel project	110,000	60,190	Gifts and operations
Baseball expansion (phase 2)	900,000	35,688	Gifts and operations
Lund Center project (initial architect fees)	3,800,000	579,583	Gifts
Nobel Hall of Science and Schaefer Fine Arts Center project (phase 2)	28,000,000	21,563,459	Gifts, operations and debt
Roof replacement project	350,000	108,951	Operations
Swanson tennis center project	450,000	334,083	Gifts and operations
Wayfinding project	500,000	226,309	Operations
Total		<u>\$ 22,948,263</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 \$4,989,000 as of May 31, 2020.

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11. Property, Plant and Equipment, net

Property, plant and equipment, net consisted of the following as of May 31, 2020 and 2019:

	<u>2020</u>	<u>2019</u>
Land	\$ 955,993	\$ 955,993
Land improvements	12,758,790	12,672,012
Buildings	212,430,211	179,327,352
Equipment	29,218,330	30,604,686
Library books	9,292,937	9,152,868
	<u>264,656,261</u>	<u>232,712,911</u>
Less: accumulated depreciation	<u>(123,870,021)</u>	<u>(127,671,633)</u>
	140,786,240	105,041,278
Memorial garden, net	<u>236,748</u>	<u>268,898</u>
Total	<u>\$ 141,022,988</u>	<u>\$ 105,310,176</u>

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 percent of the cost of medical insurance (100 percent 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, 2020 and 2019:

	<u>2020</u>	<u>2019</u>
Active employees	\$ 828,257	\$ 571,231
Current retirees	<u>897,571</u>	<u>946,350</u>
Accrued postretirement benefit obligation	<u>\$ 1,725,828</u>	<u>\$ 1,517,581</u>

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

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The following is a reconciliation of the benefit obligation and the fair value of plan assets at May 31, 2020 and 2019:

	<u>2020</u>	<u>2019</u>
Change in projected benefit obligation:		
Projected benefit obligation at June 1	\$ 1,517,581	\$ 1,482,853
Interest cost	53,457	51,220
Service cost	42,204	29,132
Actuarial loss	278,310	271,333
Benefits paid	<u>(165,724)</u>	<u>(316,957)</u>
Projected benefit obligation at May 31	<u>\$ 1,725,828</u>	<u>\$ 1,517,581</u>
Change in plan assets:		
Fair value of plan assets at June 1	\$ -	\$ -
Employer contribution	165,724	316,957
Participant contribution	518,572	434,511
Benefits paid	<u>(684,296)</u>	<u>(751,468)</u>
Fair value of plan assets at May 31	<u>\$ -</u>	<u>\$ -</u>
Funded status:		
Unfunded status at May 31	<u>\$ (1,725,828)</u>	<u>\$ (1,517,581)</u>

Net periodic postretirement benefit expense for the years ended May 31, 2020 and 2019, is comprised of the following:

	<u>2020</u>	<u>2019</u>
Service cost	\$ 42,204	\$ 29,132
Interest cost	53,457	51,220
Amortization of prior service gain	(14,758)	(14,758)
Amortization of unrecognized loss	<u>67,839</u>	<u>33,306</u>
Net periodic benefit cost	<u>\$ 148,742</u>	<u>\$ 98,900</u>

Benefits expected to be paid for each of the five years subsequent to May 31, 2020 are estimated to be \$170,000, \$168,000, \$150,000, \$144,000 and \$127,000, respectively. Benefits expected to be paid from 2026 through 2030 are \$527,000. Contributions from the College and retirees expected to be paid to the plan for the year ended May 31, 2021, are estimated to be \$366,000.

The estimated interest cost, service cost, net loss and expected benefits to be paid for the year ended May 31, 2021, and the estimated benefit obligation at May 31, 2021, are as follows:

	<u>2021</u>
Change in projected benefit obligation:	
Benefit obligation at June 1	\$ 1,725,828
Interest cost	37,743
Service cost	48,655
Expected benefits to be paid	<u>(169,662)</u>
Projected benefit obligation at May 31	<u>\$ 1,642,564</u>

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The above assumptions and calculations are based on census data as of June 1, 2019 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, 2020. A 6.0 percent rate of increase in the per capita costs of covered health care benefits was assumed at May 31, 2020, decreasing 0.5 percent per year to an ultimate level of 4.0 percent in fiscal years ending May 31, 2025 and later. A discount rate of 2.3 percent and 3.3 percent were used to determine the accrued postretirement benefit obligation for fiscal 2020 and 2019, respectively.

The effect of a 1.0 percent increase in each future health care trend rate would increase the combined service cost and interest cost by approximately \$11,400 or 11.9 percent and the accumulated postretirement benefit obligation as of May 31, 2020, by approximately \$156,100 or 9.0 percent. The effect of a 1.0 percent decrease in each future health care trend rate would decrease the combined service cost and interest cost by approximately \$9,700 or 10.1 percent and the accumulated postretirement benefit obligation by approximately \$137,000 or 7.9 percent.

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

13. Long-Term Debt, Net

The College had the following long-term debt outstanding at May 31, 2020 and 2019:

	<u>Original Amount</u>	<u>2020</u>	<u>2019</u>
Minnesota Higher Education Facilities Authority Revenue Bonds - Gustavus Adolphus College (Series Seven-W Bonds of 2013)	\$ 11,410,000	\$ 9,045,000	\$ 9,470,000
Minnesota Higher Education Facilities Authority Revenue and Refunding Bonds, Series 2017 (Gustavus Adolphus College)	52,515,000	<u>51,885,000</u>	<u>52,255,000</u>
Principal outstanding on bonds		60,930,000	61,725,000
Premiums on bonds	5,813,370	5,226,113	5,422,735
Deferred debt acquisition costs	755,555	<u>(638,306)</u>	<u>(666,337)</u>
Total		<u>\$ 65,517,807</u>	<u>\$ 66,481,398</u>

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

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 in September 2013. The Series Seven-W Revenue Bonds have interest rates varying from 3.0 percent to 5.0 percent and mature in annual installments of \$435,000 to \$500,000 on October 1 in the years 2020 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.

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 3.0 percent to 5.0 percent and mature in annual amounts ranging from \$495,000 to \$3,740,000 on October 1 in the years 2020 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, 2020, approximate: \$930,000, \$1,070,000, \$1,220,000, \$1,285,000 and \$1,350,000, respectively.

Total interest expense for the years ended May 31, 2020 and 2019, amounted to approximately \$2,737,000 and \$2,766,000, respectively. For the years ended May 31, 2020 and 2019, capitalized interest totaled approximately \$223,000 and \$896,000, 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 was recorded for the years ended May 31, 2020 and 2019, respectively.

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 20, 2020. The line of credit is payable at an interest rate equal to the Wall Street Journal prime rate plus 1.25 percent. The interest rate will never be less than 4.50 percent. At May 31, 2020, the interest rate was 4.50 percent. In addition, the line of credit is subject to a non-use fee of 0.15 percent of any unused portion to be accrued and charged monthly. At May 31, 2020 and 2019, the College had no borrowings outstanding under this agreement. On July 1, 2020, the unsecured line of credit was increased to \$10,000,000 with the same terms.

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 with donor restrictions, or in some instances, distributed to third-party beneficiaries.

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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 0.8 percent to 10.2 percent, in making the calculations for the year ended May 31, 2020 and 1.2 percent to 10.2 percent for the year ended May 31, 2019.

During the year ended May 31, 2020, the College received gift income of approximately \$62,000 relating to deferred gift agreements. Total assets held by the College under deferred gift agreements and liabilities related to these agreements totaled approximately \$18,459,000 and \$9,793,000 respectively, at May 31, 2020.

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.

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.

17. Related Party Transactions

As of May 31, 2020 and 2019, contributions receivable included approximately \$22,962,000 and \$30,325,000, 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 one private equity investment 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, 2020, total approximately \$3,000,000 and \$90,000 is outstanding on future commitments. The value of these funds approximates \$439,000 and \$494,000 as of May 31, 2020 and 2019, respectively.

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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, 2020, the College billed students \$464,400 and paid expenses of \$372,774, resulting in a management fee of \$91,626. 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. 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.

18. 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>2020</u>	<u>2019</u>
Financial assets:		
Cash and cash equivalents	\$ 37,201,785	\$ 45,019,815
Receivables	1,261,287	1,578,168
Contributions receivable, net	39,990,000	46,500,000
Student notes receivable, net	1,551,615	1,998,266
Investments	220,520,059	224,396,455
Beneficial interest in funds held in trust	1,022,509	1,403,395
	<u>301,547,255</u>	<u>320,896,099</u>
Less: those unavailable for general expenditures within one year, due to:		
Contractual, donor-imposed restrictions or board designations:		
Government grant receivables	(373,653)	(453,105)
Contributions receivable, net, restricted for plant and endowment	(34,731,000)	(40,638,000)
Contributions receivable, net, collectible beyond one year	(3,172,000)	(4,223,000)
Student notes receivable, net, Federal Perkins Loan program	(1,551,615)	(1,998,266)
Investments, donor restricted	(17,839,695)	(20,701,249)
Endowment funds, net of appropriation for subsequent years	(191,483,650)	(185,683,499)
Beneficial interest in funds held in trust	(1,022,509)	(1,403,395)
	<u>51,373,133</u>	<u>65,795,585</u>
Financial assets available to meet cash needs for general expenditures within one year	<u>\$ 51,373,133</u>	<u>\$ 65,795,585</u>

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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 (Note 8), as authorized by the board or accessing the line of credit as described in Note 14.

19. Expenses by Function and Nature

The financial statements report certain categories of expenses that are attributable to one or more programs 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, 2020 and 2019, respectively. Depreciation is allocated based on square footage and interest is allocated based on usage.

Expenses for the years ended May 31, 2020 and 2019, include the following:

	2020						Total
	Salaries and Wages	Benefits	Operation and Maintenance of Plant	Depreciation	Interest	Other	
Instruction	\$ 16,777,617	\$ 6,179,491	\$ 3,838,574	\$ 3,927,237	\$ 1,811,475	\$ 4,550,194	\$ 37,084,588
Academic support	1,983,280	715,099	562,303	315,367	-	1,014,721	4,590,770
Research	116,505	12,399	-	-	-	21,113	150,017
Public service	489,331	99,990	611,594	286,703	11,775	1,115,794	2,615,187
Student services	7,014,946	2,355,108	872,633	688,367	30,511	4,408,448	15,370,013
Auxiliary enterprises	2,599,595	769,776	3,546,563	1,962,078	435,719	3,990,219	13,303,950
Institutional support	5,699,989	2,137,415	309,283	241,057	14,087	3,482,459	11,884,290
Operation and maintenance of plant	3,928,279	1,351,150	(9,740,950)	-	60,271	4,401,250	-
Total expenses	<u>\$ 38,609,542</u>	<u>\$ 13,620,428</u>	<u>\$ -</u>	<u>\$ 7,420,809</u>	<u>\$ 2,363,838</u>	<u>\$ 22,984,198</u>	<u>\$ 84,998,815</u>

	2019						Total
	Salaries and Wages	Benefits	Operation and Maintenance of Plant	Depreciation	Interest	Other	
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	3,864,780	1,269,241	(9,935,157)	-	39,135	4,762,001	-
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>

20. Subsequent Events

The College has evaluated subsequent events through September 16, 2020 which is the date that the financial statements were issued.