

**GUSTAVUS ADOLPHUS COLLEGE**  
Saint Peter, Minnesota

Financial Statements  
Including Independent Auditors' Report

As of and for the Years Ended May 31, 2016 and 2015

**GUSTAVUS ADOLPHUS COLLEGE**

TABLE OF CONTENTS

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Independent Auditors' Report	1 - 2
Statements of Financial Position	3
Statements of Activities	4 - 5
Statements of Cash Flows	6
Notes to Financial Statements	7 - 30

## 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, 2016 and 2015, 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, 2016 and 2015, 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 Virchow Krause, LLP*

Minneapolis, Minnesota  
September 26, 2016

**GUSTAVUS ADOLPHUS COLLEGE**

STATEMENTS OF FINANCIAL POSITION  
May 31, 2016 and 2015

<b>ASSETS</b>	<u>2016</u>	<u>2015</u>
Cash and cash equivalents	\$ 38,308,353	\$ 35,343,139
Receivables		
Students accounts, net of allowance for doubtful accounts of \$590,000 and \$700,000	644,690	636,078
Government grants	399,444	414,187
Accrued interest	33	25,100
Contributions	18,481,000	11,890,000
Other	276,155	849,818
Inventories	407,322	403,027
Prepaid expenses and other assets	1,204,694	1,240,781
Students notes receivable, net	2,807,934	2,870,294
Investments		
Cash and short-term investments	1,419,119	1,707,069
Investments other than endowment	37,026,441	23,900,603
Interest in buildings, net of accumulated depreciation of \$856,740 and \$1,029,858	549,398	729,880
Real estate held for resale	1,336,340	1,336,340
Beneficial interest in funds held in trust	1,342,011	2,019,833
Other	895,456	828,001
Deposits held by trustee		
Cash and short-term investments	3,469,810	5,329
Fixed income securities		3,456,191
Endowment investments	140,713,734	141,800,724
Construction in progress	3,012,108	4,506,709
Property, plant and equipment, net	<u>109,237,350</u>	<u>113,970,525</u>
 <b>TOTAL ASSETS</b>	 <b><u>\$ 361,531,392</u></b>	 <b><u>\$ 347,933,628</u></b>
<b>LIABILITIES AND NET ASSETS</b>		
<b>LIABILITIES</b>		
Accounts payable	\$ 3,775,572	\$ 1,611,558
Accrued liabilities	14,531,857	16,083,493
Deferred revenue	6,221,477	6,389,797
Future interest discount on pooled life income funds	428,338	512,119
Annuities payable	10,056,988	9,686,148
Funds held for others	2,881,080	2,981,146
Long-term debt	51,492,119	52,441,326
U.S. government grants refundable	<u>2,678,619</u>	<u>2,747,474</u>
Total Liabilities	<u>92,066,050</u>	<u>92,453,061</u>
 <b>NET ASSETS</b>		
Unrestricted	60,354,753	65,150,424
Temporarily restricted	102,069,490	86,159,434
Permanently restricted	<u>107,041,099</u>	<u>104,170,709</u>
Total Net Assets	<u>269,465,342</u>	<u>255,480,567</u>
 <b>TOTAL LIABILITIES AND NET ASSETS</b>	 <b><u>\$ 361,531,392</u></b>	 <b><u>\$ 347,933,628</u></b>

**GUSTAVUS ADOLPHUS COLLEGE**

STATEMENT OF ACTIVITIES  
Year Ended May 31, 2016  
With Comparative Totals for 2015

	2016			2015 Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	
<b>REVENUES, GAINS AND OTHER SUPPORT</b>				
Tuition and fees	\$ 97,296,768			\$ 97,658,953
Less: Scholarships and grants	<u>52,673,088</u>			<u>51,838,598</u>
Net tuition and fees	44,623,680			45,820,355
Government grants	1,344,737			1,504,692
Private gifts and grants	1,784,140	\$ 28,608,191	\$ 2,905,361	10,321,087
Endowment income	1,697,797	4,193,313	186,205	5,511,212
Investment income	262,360		124	183,913
Investment income (losses) net of endowment income	(1,722,041)	(7,077,603)	(142,338)	4,109,042
Other sources	3,370,996		466	3,467,866
Sales and services of auxiliary enterprises	22,881,315			23,341,142
Adjustment of actuarial liability	<u>(312,385)</u>	<u>(81,255)</u>	<u>(1,005,930)</u>	<u>(340,585)</u>
	73,930,599	25,642,646	1,943,888	93,918,724
Change in donor designation		(926,502)	926,502	
Net assets released from restrictions	<u>8,806,088</u>	<u>(8,806,088)</u>		
Total Revenues, Gains and Other Support	<u>82,736,687</u>	<u>15,910,056</u>	<u>2,870,390</u>	<u>93,918,724</u>
<b>EXPENSES AND LOSSES</b>				
Program expenses				
Instruction	36,359,511			37,081,362
Academic support	<u>4,768,358</u>			<u>4,641,301</u>
	41,127,869			41,722,663
Research	110,020			123,934
Public service	2,916,468			2,934,022
Student services	14,274,107			15,139,505
Auxiliary enterprises	15,052,967			15,708,359
Support expenses				
Institutional support	10,124,181			9,835,607
Asset impairment write off	<u>3,926,746</u>			<u>3,926,746</u>
Total Expenses and Losses	<u>87,532,358</u>			<u>85,464,090</u>
<b>Change in Net Assets</b>	(4,795,671)	15,910,056	2,870,390	8,454,634
Net Assets - Beginning of Year	<u>65,150,424</u>	<u>86,159,434</u>	<u>104,170,709</u>	<u>247,025,933</u>
<b>NET ASSETS - END OF YEAR</b>	<u>\$ 60,354,753</u>	<u>\$ 102,069,490</u>	<u>\$ 107,041,099</u>	<u>\$ 255,480,567</u>

**GUSTAVUS ADOLPHUS COLLEGE**

STATEMENT OF ACTIVITIES  
Year Ended May 31, 2015

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
<b>REVENUES, GAINS AND OTHER SUPPORT</b>				
Tuition and fees	\$ 97,658,953			\$ 97,658,953
Less: Scholarships and grants	<u>51,838,598</u>			<u>51,838,598</u>
Net tuition and fees	45,820,355			45,820,355
Government grants	1,504,692			1,504,692
Private gifts and grants	2,124,518	\$ 3,890,809	\$ 4,305,760	10,321,087
Endowment income	1,475,850	3,903,247	132,115	5,511,212
Investment income	183,797		116	183,913
Investment income net of endowment income	772,131	3,274,249	62,662	4,109,042
Other sources	3,466,437		1,429	3,467,866
Sales and services of auxiliary enterprises	23,341,142			23,341,142
Adjustment of actuarial liability	<u>(400,943)</u>	<u>(24,949)</u>	<u>85,307</u>	<u>(340,585)</u>
	78,287,979	11,043,356	4,587,389	93,918,724
Net assets released from restrictions	<u>9,333,520</u>	<u>(9,333,520)</u>		
Total Revenues, Gains and Other Support	<u>87,621,499</u>	<u>1,709,836</u>	<u>4,587,389</u>	<u>93,918,724</u>
<b>EXPENSES</b>				
Program expenses				
Instruction	37,081,362			37,081,362
Academic support	<u>4,641,301</u>			<u>4,641,301</u>
	41,722,663			41,722,663
Research	123,934			123,934
Public service	2,934,022			2,934,022
Student services	15,139,505			15,139,505
Auxiliary enterprises	15,708,359			15,708,359
Support expenses				
Institutional support	<u>9,835,607</u>			<u>9,835,607</u>
Total Expenses	<u>85,464,090</u>			<u>85,464,090</u>
<b>Change in Net Assets</b>	2,157,409	1,709,836	4,587,389	8,454,634
Net Assets - Beginning of Year	<u>62,993,015</u>	<u>84,449,598</u>	<u>99,583,320</u>	<u>247,025,933</u>
<b>NET ASSETS - END OF YEAR</b>	<u>\$ 65,150,424</u>	<u>\$ 86,159,434</u>	<u>\$ 104,170,709</u>	<u>\$ 255,480,567</u>

**GUSTAVUS ADOLPHUS COLLEGE**

STATEMENTS OF CASH FLOWS  
Years Ended May 31, 2016 and 2015

	<u>2016</u>	<u>2015</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Change in net assets	\$ 13,984,775	\$ 8,454,634
Adjustments to reconcile change in net assets to net cash flows from operating activities		
Depreciation, amortization and depletion	6,683,650	6,863,706
Amortization of bond premium	(105,070)	(105,070)
Loss on disposal of property, plant and equipment	3,561	
Asset impairment write off	3,926,746	
Losses (gains) on investments	3,792,762	(8,563,621)
Actuarial adjustment of annuities payable	1,719,693	486,524
Pooled life income adjustments	172,323	205,944
Loan cancellations and reinstatements	39,399	24,590
Change in assets and liabilities		
Student receivables	(8,612)	74,428
Government grants receivable	14,743	(67,638)
Accrued interest receivable	25,067	25,708
Contributions receivable - operations	560,713	413,218
Other receivables	573,663	(554,633)
Inventories	(4,295)	42,656
Prepaid expenses and other assets	36,087	(64,234)
Accounts payable	524,762	(84,897)
Accrued liabilities	(1,551,636)	2,062,492
Deferred revenue	(168,320)	3,868,881
Funds held for others	38,757	88,452
Contributions restricted for plant and long-term investment	(21,647,167)	(4,727,631)
Investment income restricted for plant, loans, and long-term investment	(186,329)	(132,231)
Net Cash Flows from Operating Activities	<u>8,425,272</u>	<u>8,311,278</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Purchases of investments	(74,329,396)	(62,488,057)
Proceeds from sale of investments	58,541,538	64,548,331
Purchases of property, plant and equipment	(2,641,039)	(2,879,042)
Disbursements of loans to students	(463,593)	(590,023)
Repayments of loans from students	486,554	498,072
Net Cash Flows from Investing Activities	<u>(18,405,936)</u>	<u>(910,719)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Changes in deposits with bond trustee	(20,566)	
Repayment of principal on indebtedness	(870,000)	(845,000)
Receipts of investment income restricted for plant, loans and long-term investment	186,329	132,231
Contributions received restricted for plant and long-term investment	14,495,454	2,365,413
Decrease in refundable U.S. government grants	(68,855)	(55,276)
Increase in liability for new split interest agreements	587,990	333,261
Payments to annuitants and pooled life income beneficiaries	(1,364,474)	(1,431,430)
Net Cash Flows from Financing Activities	<u>12,945,878</u>	<u>499,199</u>
<b>Net Change in Cash and Cash Equivalents</b>	2,965,214	7,899,758
CASH AND CASH EQUIVALENTS - Beginning of Year	<u>35,343,139</u>	<u>27,443,381</u>
<b>CASH AND CASH EQUIVALENTS - END OF YEAR</b>	<u>\$ 38,308,353</u>	<u>\$ 35,343,139</u>
Supplemental disclosures of cash flow information		
Interest paid	\$ 2,353,225	\$ 2,375,200
Noncash investing and financing activities		
Property, plant and equipment acquired through accounts payable	1,875,888	196,561



## GUSTAVUS ADOLPHUS COLLEGE

### NOTES TO FINANCIAL STATEMENTS As of and for the Years Ended May 31, 2016 and 2015

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#### **NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES**

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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 three 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:

**Unrestricted Net Assets** - Net assets not subject to donor-imposed stipulations.

**Temporarily Restricted Net Assets** - Net assets subject to donor-imposed stipulations that will be met by action of the College and/or the passage of time.

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

**Releases from Restrictions** - Expirations of temporary 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 unrestricted net assets. 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.

**Contribution Revenue** - Contributions are recognized as revenues when the donor's commitments are received, as increases in unrestricted net assets 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.

Contributions received with donor-imposed restrictions that are met in the same year as received are reported as revenues of the temporarily restricted net asset class, and a release to unrestricted net assets is made to reflect the expiration of such restrictions.

The College reports unrestricted contributions of depreciable assets, or of cash and other assets to be used to acquire them, as temporarily restricted revenue. The restriction on the related temporarily restricted net asset is released over the estimated useful lives of the assets using the College's depreciation policies.

## GUSTAVUS ADOLPHUS COLLEGE

### NOTES TO FINANCIAL STATEMENTS As of and for the Years Ended May 31, 2016 and 2015

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#### **NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (Continued)**

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**Investment Gains and Losses** - Gains and losses on investments and other assets or liabilities are reported as increases or decreases in unrestricted net assets unless their use is restricted by 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 unrestricted net assets for board-designated endowment funds and to restore donor-restricted endowment funds with deficiencies;
- > as increases in permanently restricted net assets 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 temporarily restricted net assets in all other cases.

Losses from investments on donor-restricted endowment funds are reported as decreases in permanently or temporarily restricted net assets to the extent of the prior accumulated earnings of each individual endowment fund, with the remainder reflected as reductions to unrestricted net assets. Losses on board-designated endowment funds are reported as decreases in unrestricted net assets.

**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, short-term investments and fixed income securities 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 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, 2016 and 2015

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**NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (Continued)**

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**Property, Plant and Equipment** - 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. During fiscal 2016, the College determined that architect costs related to the Nobel Hall project were not recoverable, and therefore, wrote-off approximately \$3,927,000. See note 10. There were no impairments recorded in fiscal 2015.

**Asset Retirement Obligations** - Asset retirement obligations of \$2,735,000 and \$2,632,000, for the years ended May 31, 2016 and 2015, 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 unrestricted net assets. Asset retirement costs are subsequently accreted over the useful lives of the related assets. Accretion of approximately \$160,000 and \$159,000 was recorded for the years ended May 31, 2016 and 2015, respectively. Approximately \$57,000 and \$11,000 of asbestos was abated for the years ended May 31, 2016 and 2015, respectively.

**Deferred Revenue** - Certain revenue related to summer education programs and fall student deposits are deferred and recognized as revenue in the same period expenses are recognized. Students are generally billed for courses and programs prior to the start of the course or program.

**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. 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 and may be reloaned after collections. 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 \$2,973,000 and \$2,603,000 for the years ended May 31, 2016 and 2015, respectively. Advertising expenses totaled \$487,000 and \$378,000 for the years ended May 31, 2016 and 2015, 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, 2016 and 2015

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#### NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (Continued)

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**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, 2016 and 2015. The College's share of the cost of these benefits was approximately \$2,265,000 and \$2,262,000 for the years ended May 31, 2016 and 2015, respectively.

**Self-Funded Insurance** - A portion of the College's medical and 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 the 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. The College is also exempt from state income tax. However, any unrelated business income may be subject to taxation.

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, 2016 or 2015. The College's tax returns are subject to review and examination by federal and state authorities.

The most significant areas that potentially subject the College to unrelated business income tax include conferences and events, athletic space and various services provided by the dining service, post office and central duplicating services to the public. At May 31, 2016 and 2015, the College has no current obligation for unrelated business income tax.

**Reclassifications** - Certain amounts appearing in the 2015 financial statements have been reclassified to conform with the 2016 presentation. The reclassifications have no effect on the reported amounts of the total net assets or change in total net assets.

**New Accounting Pronouncements** - In May 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2014-09, *Revenue from Contracts with Customers*. This new accounting guidance outlines a single comprehensive model for entities to use in accounting for revenue from contracts with customers. ASU No. 2014-09 is effective for fiscal years beginning after December 15, 2017 with early application permitted for fiscal years beginning after December 15, 2016. The College is assessing the impact this new standard will have on its financial statements.

## GUSTAVUS ADOLPHUS COLLEGE

### NOTES TO FINANCIAL STATEMENTS As of and for the Years Ended May 31, 2016 and 2015

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#### NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (Continued)

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**New Accounting Pronouncements** (Continued) - In April 2015, FASB issued ASU 2015-03, *Interest-Imputation of interest (Subtopic 835-30): Simplifying the Presentation of Debt Issuance Costs*. Under the new guidance, debt issuance costs related to a recognized debt liability are presented as a direct reduction to the carrying amount of that debt liability. ASU 2015-03 is effective for fiscal years beginning after December 15, 2015, with early adoption permitted. The College elected to adopt the guidance in fiscal 2016. ASU 2015-03 is to be applied retrospectively, and as a result, the guidance was retrospectively applied to fiscal 2015. The adoption of the standard did not have a significant impact on the College's statement of financial position or results of operations.

In May 2015, FASB issued ASU 2015-07, *Disclosures for Investments in Certain Entities That Calculate Net Asset Value per Share (or Its Equivalent)*. Under the new guidance, investments measured at net asset value, as a practical expedient for fair value, are excluded from the fair value hierarchy disclosure requirements. ASU 2015-07 is effective for fiscal years beginning after December 15, 2016 with early application permitted. The College elected to adopt the guidance in fiscal 2016. ASU 2015-07 is to be applied retrospectively, and as a result, the guidance was retrospectively applied to fiscal 2015. The adoption of the standard did not have a significant impact on the College's statement of financial position or results of operations.

In January 2016, FASB issued ASU 2016-01, *Financial Instruments - Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities*. This new guidance is intended to improve the recognition and measurement of financial instruments and eliminates the requirement to disclose the fair value of financial instruments measured at amortized cost for entities that are not public business entities. ASU 2016-01 is effective for fiscal years beginning after December 15, 2018, with early adoption permitted for fiscal years beginning after December 15, 2017. However, the new guidance permits entities that are not public business entities to adopt upon issuance the provision that eliminates the requirement to disclose the fair value of financial instruments measured at amortized cost. The College elected to adopt this provision in fiscal 2016. ASU 2016-01 is to be applied by means of a cumulative-effect adjustment to the statement of financial position as of the beginning of the fiscal year of adoption. The amendments related to equity securities without readily determinable fair values (including disclosure requirements) should be applied prospectively to equity investments that exist as of the date of adoption of ASU 2016-01. The College is assessing the impact the remainder of this standard will have on its financial statements.

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. ASU No. 2016-02 is effective for fiscal years beginning after December 15, 2018, with earlier application permitted. 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 August 2016, FASB issued ASU 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*. The new guidance improves and simplifies the current net asset classification requirements and information presented in financial statements and notes that is useful in assessing a not-for-profit's liquidity, financial performance and cash flows. In addition, the ASU will no longer allow entities to imply a time restriction on contributions restricted by donors to acquire long-lived assets, including gifts of cash restricted for those acquisitions. Instead, the restrictions will expire when the long-lived assets are placed in service. The College currently implies a time restriction on such contributions, and at May 31, 2016, has included approximately \$35 million of such contributions in temporarily restricted net assets that will be reclassified to unrestricted net assets upon implementation of the new standard. ASU 2016-14 is effective for fiscal years beginning after December 15, 2017, with early adoption permitted. ASU 2016-14 is to be applied retroactively with transition provisions. The College is assessing the impact this standard will have on its financial statements.

**GUSTAVUS ADOLPHUS COLLEGE**

**NOTES TO FINANCIAL STATEMENTS**  
As of and for the Years Ended May 31, 2016 and 2015

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**NOTE 2 - RESTRICTIONS AND LIMITATIONS ON NET ASSET BALANCES**

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At May 31, 2016 and 2015, the College's unrestricted net assets were allocated as follows:

	<u>2016</u>	<u>2015</u>
Operations	\$ 4,556,510	\$ 4,587,042
Endowment funds	21,170,653	22,346,971
Gift annuity agreements	1,213,852	1,510,126
Loans to students	452,749	464,387
Plant	<u>32,960,989</u>	<u>36,241,898</u>
	<u>\$ 60,354,753</u>	<u>\$ 65,150,424</u>

Temporarily restricted net assets consist of the following at May 31, 2016 and 2015:

Gifts and other unexpended revenues and gains available for:		
Scholarships, instruction and other departmental support	\$ 4,226,549	\$ 4,081,761
Acquisition of buildings and equipment	21,441,964	3,536,329
Contributions receivable	<u>15,346,000</u>	<u>8,753,000</u>
	41,014,513	16,371,090
Endowment funds	25,595,226	32,052,254
Life income and trust agreements	420,845	842,186
Net investment in plant	<u>35,038,906</u>	<u>36,893,904</u>
	<u>\$ 102,069,490</u>	<u>\$ 86,159,434</u>

Permanently restricted net assets consist of the following at May 31, 2016 and 2015:

Endowment funds	\$ 95,360,399	\$ 91,770,397
Contributions receivable for endowment funds	3,135,000	3,137,000
Student loan funds	592,056	583,715
Gift annuity agreements and similar funds	<u>7,953,644</u>	<u>8,679,597</u>
	<u>\$ 107,041,099</u>	<u>\$ 104,170,709</u>

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**NOTE 3 - NET ASSETS RELEASED FROM RESTRICTIONS**

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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, 2016 and 2015, as follows:

	<u>2016</u>	<u>2015</u>
Amortization of contributions expended for long-lived assets	\$ 1,974,374	\$ 2,008,172
Scholarships, instruction and other departmental support	<u>6,831,714</u>	<u>7,325,348</u>
	<u>\$ 8,806,088</u>	<u>\$ 9,333,520</u>

**GUSTAVUS ADOLPHUS COLLEGE**

NOTES TO FINANCIAL STATEMENTS  
As of and for the Years Ended May 31, 2016 and 2015

**NOTE 4 - CONTRIBUTIONS RECEIVABLE**

Contributions receivable include the following unconditional promises to give at May 31, 2016 and 2015:

	2016	2015
Temporarily restricted - operations	\$ 1,061,000	\$ 1,622,000
Temporarily restricted - plant projects	15,191,000	7,680,000
Permanently restricted - endowment	3,362,000	3,368,000
Gross unconditional promises to give	19,614,000	12,670,000
Less: Unamortized discount	(160,000)	(154,000)
Allowance for uncollectible promises	(973,000)	(626,000)
	<b>\$ 18,481,000</b>	<b>\$ 11,890,000</b>

At May 31, 2016, net contributions receivable of \$14,603,000 are due in less than one year and \$3,878,000 are due in one to five years. Promises due in one to five years were discounted at historical rates between 0.9% and 6.9% at May 31, 2016 and 2015. Promises due in less than one year were not discounted.

**NOTE 5 - STUDENT NOTES RECEIVABLE**

The College issues loans to students based on financial need. Student notes are funded through the Federal Perkins Loan program or institutional loan program. Student notes receivable are carried at the amount of unpaid principal less an estimate for doubtful accounts. Allowances for doubtful accounts are 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 both May 31, 2016 and 2015, student notes receivable represented approximately 1.0% of total assets.

At May 31, 2016 and 2015, student notes receivable consisted of the following:

	2016	2015
Federal government programs	\$ 3,025,561	\$ 3,081,146
Institutional programs	2,373	9,148
	3,027,934	3,090,294
Less allowance for doubtful accounts:		
Beginning of year	(220,000)	(220,000)
Increases	(14,315)	(1,652)
Write-offs	14,315	1,652
End of year	(220,000)	(220,000)
	<b>\$ 2,807,934</b>	<b>\$ 2,870,294</b>

Funds advanced by the Federal government of \$2,678,619 and \$2,747,474 at May 31, 2016 and 2015, 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, 2016 and 2015

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**NOTE 5 - STUDENT NOTES RECEIVABLE (Continued)**

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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 programs are 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 Federal Perkins Loan Program receivables may be assigned to the U.S. Department of Education. Students may be granted a deferment, forbearance, or cancellation of their student loan receivable based on eligibility requirements defined by the U.S. Department of Education.

At May 31, 2016, the amounts past due under student loan programs are as follows: less than 240 days - \$12,000, 240 days to two years - \$37,005, two years to five years - \$11,065 and no past-due amounts greater than five years, for a total past due amount of \$60,070. At May 31, 2015, the amounts past due under student loan programs are as follows: less than 240 days - \$10,738, 240 days to two years - \$22,750, two years to five years - \$14,826 and more than five years - \$1,566 for a total past due amount of \$49,880.

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**NOTE 6 - INVESTMENTS**

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The following summarizes the College's investments in funds other than endowment, which are recorded at fair value, at May 31, 2016 and 2015:

	<u>2016</u>	<u>2015</u>
Government obligations	\$ 17,545,342	\$ 3,574,312
Bonds	34,634	36,610
Mutual funds	<u>19,446,465</u>	<u>20,289,681</u>
	<u>\$ 37,026,441</u>	<u>\$ 23,900,603</u>

Other investments totaling \$895,456 and \$828,001 as of May 31, 2016 and 2015, respectively, includes \$259,045 and \$256,481, respectively, of certificates of deposit carried at cost.



**GUSTAVUS ADOLPHUS COLLEGE**

NOTES TO FINANCIAL STATEMENTS  
As of and for the Years Ended May 31, 2016 and 2015

**NOTE 6 - INVESTMENTS (Continued)**

The following summarizes the College's endowment investments, which are recorded at fair value unless otherwise noted, at May 31, 2016 and 2015:

	2016	2015
Cash and short-term investments (\$2,971 and \$1,473 at cost for 2016 and 2015, respectively)	\$ 306,540	\$ 5,044,866
Contract for deed receivable (at cost)	24,892	26,281
Marketable securities		
Equity securities	167,599	181,886
Mutual funds	75,398,272	75,505,701
Alternative investments		
Commodity funds	496,079	1,232,472
Fund of funds	60,638,500	55,930,711
Real estate funds	56,039	461,713
Beneficial interest in funds held in trust	3,625,813	3,417,094
	\$ 140,713,734	\$ 141,800,724

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 estate, 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 following summarizes total investment return for the years ended May 31, 2016 and 2015:

	2016	2015
Dividend, interest and other income, net of fees of \$172,084 and \$173,003 for 2016 and 2015, respectively	\$ 1,190,579	\$ 1,240,546
Net gains (losses) on investments	(3,792,762)	8,563,621
	\$ (2,602,183)	\$ 9,804,167

## GUSTAVUS ADOLPHUS COLLEGE

### NOTES TO FINANCIAL STATEMENTS As of and for the Years Ended May 31, 2016 and 2015

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#### NOTE 7 - FAIR VALUE MEASUREMENTS

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**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) 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.

**GUSTAVUS ADOLPHUS COLLEGE**

**NOTES TO FINANCIAL STATEMENTS**  
As of and for the Years Ended May 31, 2016 and 2015

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**NOTE 7 - FAIR VALUE MEASUREMENTS (Continued)**

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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. The College has estimated the fair value of these funds by using the net asset value provided by the investee. The College adopted ASU 2015-07, *Disclosures for Investment in Certain Entities That Calculate Net Asset Value per Share (or Its Equivalent)*, during the year ended May 31, 2016. Under the new guidance, investments measured using the net asset value per share (or its equivalent) practical expedient are not classified in the fair value hierarchy.

Except for the implementation of ASU 2015-7, there have been no changes in the techniques and inputs used as of May 31, 2016 and 2015.

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.

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.

**GUSTAVUS ADOLPHUS COLLEGE**

NOTES TO FINANCIAL STATEMENTS  
As of and for the Years Ended May 31, 2016 and 2015

**NOTE 7 - FAIR VALUE MEASUREMENTS (Continued)**

The following table summarizes assets measured at fair value on a recurring basis as of May 31, 2016:

	<u>Total</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Short-term investments	\$ 3,773,379	\$ 3,773,379		
Domestic equity securities	167,599	167,599		
Fixed income securities	17,579,976		\$ 17,579,976	
Mutual funds				
Domestic equity	44,787,052	44,787,052		
Fixed income	16,191,357	16,191,357		
International equity	31,449,477	31,449,477		
Real assets	2,416,851	2,416,851		
Beneficial interest in funds held in trust	<u>5,604,235</u>			<u>\$ 5,604,235</u>
Subtotal by valuation hierarchy	<u>121,969,926</u>	<u>\$ 98,785,715</u>	<u>\$ 17,579,976</u>	<u>\$ 5,604,235</u>
Alternative investments measured using NAV				
Long/short global equity funds	12,799,895			
Open-end commingled funds	23,569,533			
Private equity funds	18,475,956			
Real asset funds	<u>6,345,234</u>			
Subtotal by NAV	<u>61,190,618</u>			
Total assets at fair value	<u>\$ 183,160,544</u>			

The following table summarizes assets measured at fair value on a recurring basis as of May 31, 2015:

	<u>Total</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Short-term investments	\$ 5,048,722	\$ 5,048,722		
Domestic equity securities	181,886	181,886		
Fixed income securities	7,067,113		\$ 7,067,113	
Mutual funds				
Domestic equity	46,616,151	46,616,151		
Fixed income	15,832,861	15,832,861		
International equity	30,732,011	30,732,011		
Real assets	2,614,359	2,614,359		
Beneficial interest in funds held in trust	<u>6,008,447</u>			<u>\$ 6,008,447</u>
Subtotal by valuation hierarchy	<u>114,101,550</u>	<u>\$ 101,025,990</u>	<u>\$ 7,067,113</u>	<u>\$ 6,008,447</u>
Alternative investments measured using NAV				
Long/short global equity funds	13,630,042			
Open-end commingled funds	17,814,496			
Private equity funds	19,965,917			
Real asset funds	<u>6,214,441</u>			
Subtotal by NAV	<u>57,624,896</u>			
Total assets at fair value	<u>\$ 171,726,446</u>			

**GUSTAVUS ADOLPHUS COLLEGE**

NOTES TO FINANCIAL STATEMENTS  
As of and for the Years Ended May 31, 2016 and 2015

**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, 2016:

	Balances May 31, 2015	Net realized and unrealized losses	Purchases	Sales	Net transfers in (out) of Level 3	Balances May 31, 2016
Beneficial interest in funds held in trust	\$ 6,008,447	\$ (424,909)	\$ 347,414	\$ (326,717)	\$	\$ 5,604,235

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, 2016. \$ (424,838)

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, 2015:

	Balances May 31, 2014	Net realized and unrealized gains	Purchases	Sales	Net transfers in (out) of Level 3	Balances May 31, 2015
Beneficial interest in funds held in trust	\$ 5,409,958	\$ 117,278	\$ 618,077	\$ (136,866)	\$	\$ 6,008,447

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, 2015. \$ 117,278

**GUSTAVUS ADOLPHUS COLLEGE**

NOTES TO FINANCIAL STATEMENTS  
As of and for the Years Ended May 31, 2016 and 2015

**NOTE 7 - FAIR VALUE MEASUREMENTS (Continued)**

The College uses the net asset value as a practical expedient to determine fair value of all underlying investments which do not have a readily determinable fair value and are in investment companies or similar entities that report their investment assets at fair values.

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, 2016:

	<u>Long/Short Global Equity Funds</u>	<u>Open-End Commingled Funds</u>	<u>Private Equity Funds</u>	<u>Real Asset Funds</u>
Fair value, May 31, 2016	\$12,799,895	\$23,569,533	\$18,475,956	\$6,345,234
Significant Investment Strategy	Global long/short equities	International and emerging market equities	Primarily buyout, venture, distressed and growth equity in U.S. and international	U.S. real estate, global energy and forestry
Remaining Life	N.A.	N.A.	1 to 13 years	1 to 13 years
Dollar Amount of Unfunded Commitments	None	None	\$19,629,000	\$4,484,000
Timing to Draw Down Commitments	N.A.	N.A.	1 to 7 years	1 to 5 years
Redemption Terms	One fund has quarterly redemption with 45 days notice; the remaining fund has annual redemption with 105 days notice	Two funds have redemptions with 30 days notice; the remaining fund has daily liquidity	N.A.	N.A.
Redemption Restrictions	1 to 2-year initial lockup	N.A.	N.A.	N.A.
Redemption Restrictions in Place at Year End	N.A.	N.A.	N.A.	N.A.

**GUSTAVUS ADOLPHUS COLLEGE**

NOTES TO FINANCIAL STATEMENTS  
As of and for the Years Ended May 31, 2016 and 2015

**NOTE 8 - ENDOWMENT**

The College's endowment consists of approximately 625 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 permanently restricted net assets is classified as temporarily restricted net assets 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, 2016:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds	\$ (641,869)	\$ 25,595,226	\$ 95,360,399	\$ 120,313,756
Board-designated endowment funds	21,812,522			21,812,522
Total endowment net assets	\$ 21,170,653	\$ 25,595,226	\$ 95,360,399	\$ 142,126,278

Endowment net asset composition by type of fund consists of the following as of May 31, 2015:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds	\$ (219,173)	\$ 32,052,254	\$ 91,770,397	\$ 123,603,478
Board-designated endowment funds	22,566,144			22,566,144
Total endowment net assets	\$ 22,346,971	\$ 32,052,254	\$ 91,770,397	\$ 146,169,622

**GUSTAVUS ADOLPHUS COLLEGE**

NOTES TO FINANCIAL STATEMENTS  
As of and for the Years Ended May 31, 2016 and 2015

**NOTE 8 - ENDOWMENT (Continued)**

Changes in endowment net assets for the year ended May 31, 2016, are as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets, May 31, 2015	\$ 22,346,971	\$ 32,052,254	\$ 91,770,397	\$ 146,169,622
Investment return:				
Investment income, net of fees \$172,084	357,742	547,685	22,668	928,095
Net appreciation (depreciation) - realized and unrealized	<u>(339,539)</u>	<u>(2,803,649)</u>	13,448	<u>(3,129,740)</u>
Total investment return	18,203	<u>(2,255,964)</u>	36,116	<u>(2,201,645)</u>
Contributions			2,672,650	2,672,650
Matured deferred gifts			294,820	294,820
Appropriation of endowment assets for expenditure (spending rate)	<u>(1,697,797)</u>	<u>(4,201,064)</u>		<u>(5,898,861)</u>
Other changes:				
Change in donor designation			586,416	586,416
Transfers to board designated endowment funds	<u>503,276</u>			<u>503,276</u>
Endowment net assets, May 31, 2016	<u>\$ 21,170,653</u>	<u>\$ 25,595,226</u>	<u>\$ 95,360,399</u>	<u>\$ 142,126,278</u>

Changes in endowment net assets for the year ended May 31, 2015, are as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets, May 31, 2014	\$ 20,745,340	\$ 28,852,627	\$ 88,878,010	\$ 138,475,977
Investment return:				
Investment income, net of fees \$173,003	299,825	733,622	23,186	1,056,633
Net appreciation - realized and unrealized	<u>1,907,092</u>	<u>6,376,553</u>	164,290	<u>8,447,935</u>
Total investment return	2,206,917	7,110,175	187,476	9,504,568
Contributions			2,327,375	2,327,375
Matured deferred gifts			377,536	377,536
Appropriation of endowment assets for expenditure (spending rate)	<u>(1,475,850)</u>	<u>(3,910,548)</u>		<u>(5,386,398)</u>
Other changes:				
Transfers to board designated endowment funds	<u>870,564</u>			<u>870,564</u>
Endowment net assets, May 31, 2015	<u>\$ 22,346,971</u>	<u>\$ 32,052,254</u>	<u>\$ 91,770,397</u>	<u>\$ 146,169,622</u>



## GUSTAVUS ADOLPHUS COLLEGE

### NOTES TO FINANCIAL STATEMENTS As of and for the Years Ended May 31, 2016 and 2015

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#### **NOTE 8 - ENDOWMENT (Continued)**

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**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. In accordance with GAAP, deficiencies of this nature that are reported in unrestricted net assets were \$641,869 and \$219,173 as of May 31, 2016 and 2015, respectively. 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. Subsequent gains that restore the fair value of the assets of the endowment fund to the required level will be classified as an increase in unrestricted net assets.

**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, 2016 and 2015, the College appropriated for distribution 4.8% 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 current spending policy to allow its endowment to grow at an average of 4% annually. 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, 2016 and 2015

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**NOTE 9 - POOLED LIFE INCOME FUND**

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As of May 31, 2016, 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, 2016 and 2015, leaseback interest in the buildings recorded in the financial statements was \$549,398 and \$729,880, respectively. Depreciation for financial statement purposes is recorded using the straight-line method over periods of 40 to 45 years. Depreciation totaling \$39,952 and \$50,963 was recorded in fiscal 2016 and 2015, 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 2016 and 2015 totaled \$312,017 and \$390,538, respectively, with payment to the College for the land, which was \$5,639 and \$7,223 in 2016 and 2015, 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 2016, \$369,711, including related income, was transferred back to the College as the result of donor deaths or assignments. This included \$353,600, net of \$213,070 accumulated depreciation, related to buildings. During 2015, \$520,838, including related income, was transferred back to the College as the result of donor deaths or assignments. This included \$496,653, net of \$287,338 accumulated depreciation, related to buildings.

Future interest discount on pooled life income funds funded by the above rental arrangement totaled \$428,338 and \$512,119 at May 31, 2016 and 2015, respectively.

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**NOTE 10 - CONSTRUCTION IN PROGRESS**

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At May 31, 2016, the following projects were in progress:

	<u>Estimated Total Cost</u>	<u>Cost To Date</u>	<u>Funding Plan</u>
Anderson Hall renovation	\$ 8,000,000	\$ 2,682,661	Gifts and operations
Baseball initiative (initial architect fees)	25,000	20,012	Operations
Chiller project	270,000	107,818	Operations
Energy projects	160,000	105,481	Operations
Heating plant project	175,000	25,103	Operations
Library renovation (initial architect fees)	75,000	56,738	Gifts and operations
South Mall (initial architect fees)	Unknown	14,295	Gifts and operations
		<u>\$ 3,012,108</u>	

The College has entered into an agreement with the general contractor for \$6,100,000 for the Anderson Hall renovation project which is expected to be completed by January 2017.

During the year ended May 31, 2016, management, in consultation with the Board of Directors, decided to pursue an alternative plan for the Nobel Hall project resulting in a write off \$3,927,000 of initial architect fees related to the project that had been incurred in prior years.

**GUSTAVUS ADOLPHUS COLLEGE**

**NOTES TO FINANCIAL STATEMENTS**  
As of and for the Years Ended May 31, 2016 and 2015

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**NOTE 11 - PROPERTY, PLANT AND EQUIPMENT**

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Property, plant and equipment consisted of the following as of May 31, 2016 and 2015:

	<u>2016</u>	<u>2015</u>
Land	\$ 955,993	\$ 955,993
Land improvements	11,291,781	11,096,208
Buildings	169,350,171	168,679,891
Equipment	28,667,129	28,422,778
Library books	8,775,597	8,696,652
	<u>219,040,671</u>	<u>217,851,522</u>
Less: Accumulated depreciation	<u>(110,162,827)</u>	<u>(104,249,272)</u>
	108,877,844	113,602,250
Memorial garden, net	<u>359,506</u>	<u>368,275</u>
	<u>\$ 109,237,350</u>	<u>\$ 113,970,525</u>

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**NOTE 12 - POSTRETIREMENT BENEFIT PLAN**

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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 retire 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, 2016 and 2015:

	<u>2016</u>	<u>2015</u>
Active employees	\$ 376,418	\$ 359,564
Current retirees	<u>1,374,527</u>	<u>1,624,081</u>
Accrued postretirement benefit obligation	<u>\$ 1,750,945</u>	<u>\$ 1,983,645</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, 2016 and 2015

**NOTE 12 - POSTRETIREMENT BENEFIT PLAN (Continued)**

The following is a reconciliation of the benefit obligation and the value of plan assets at May 31, 2016 and 2015:

	<u>2016</u>	<u>2015</u>
Change in projected benefit obligation		
Benefit obligation at June 1	\$ 1,983,645	\$ 1,703,119
Interest cost	56,975	52,550
Service cost	20,180	14,125
Actuarial (gain) loss	(82,332)	347,834
Benefits paid	<u>(227,523)</u>	<u>(133,983)</u>
Projected benefit obligation at May 31	<u>\$ 1,750,945</u>	<u>\$ 1,983,645</u>
Change in plan assets		
Fair value of plan assets at June 1	\$ 0	\$ 0
Employer contribution	227,523	133,983
Participant contribution	338,640	231,430
Benefits paid	<u>(566,163)</u>	<u>(365,413)</u>
Fair value of plan assets at May 31	<u>\$ 0</u>	<u>\$ 0</u>
Funded Status		
Unfunded status at May 31	<u>\$ (1,750,945)</u>	<u>\$ (1,983,645)</u>

Net periodic postretirement benefit expense for the years ended May 31, 2016 and 2015, is comprised of the following:

Service cost	\$ 20,180	\$ 14,125
Interest cost	56,975	52,550
Amortization of prior service gain	(14,758)	(14,758)
Amortization of unrecognized loss	<u>52,734</u>	<u>38,031</u>
Net periodic benefit cost	<u>\$ 115,131</u>	<u>\$ 89,948</u>

Benefits expected to be paid for each of the five years subsequent to May 31, 2016 are estimated to be \$168,000, \$172,000, \$169,000, \$157,000 and \$149,000, respectively. Benefits expected to be paid 2022 through 2026 are \$652,000. Contributions from the College and retirees expected to be paid to the plan for the year ended May 31, 2017, are estimated to be \$312,000.

**GUSTAVUS ADOLPHUS COLLEGE**

**NOTES TO FINANCIAL STATEMENTS**  
As of and for the Years Ended May 31, 2016 and 2015

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**NOTE 12 - POSTRETIREMENT BENEFIT PLAN (Continued)**

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The estimated interest cost, service cost, net loss and expected benefits to be paid for the year ended May 31, 2017, and the estimated benefit obligation at May 31, 2017, are as follows:

	<u>2017</u>
Change in projected benefit obligation	
Benefit obligation at June 1	\$ 1,750,945
Interest cost	51,168
Service cost	21,762
Expected benefits to be paid	<u>(168,482)</u>
 Projected benefit obligation at May 31	 <u>\$ 1,655,393</u>

The above assumptions and calculations are based on census data as of June 1, 2015 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, 2016. A 8.0% rate of increase in the per capita costs of covered health care benefits was assumed at May 31, 2016, decreasing 0.5% per year to an ultimate level of 4.5% in fiscal years ending May 31, 2025 and later. A discount rate of 3.1% and 3.2% was used to determine the accrued postretirement benefit obligation for fiscal 2016 and 2015, 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 \$7,700 or 10.0% and the accumulated postretirement benefit obligation as of May 31, 2016, by approximately \$139,300 or 8.0%. 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 \$6,700 or 8.7% and the accumulated postretirement benefit obligation by approximately \$124,700 or 7.1%.

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, 2016 and 2015

**NOTE 13 - LONG-TERM DEBT**

The College had the following long-term debt outstanding at May 31, 2016 and 2015:

	Original Amount	2016	2015
Minnesota Higher Education Facilities Authority Revenue Bonds - Gustavus Adolphus College (Series Seven-B Bonds of 2010)	\$ 41,680,000	\$ 39,380,000	\$ 39,870,000
Minnesota Higher Education Facilities Authority Revenue Bonds - Gustavus Adolphus College (Series Seven-W Bonds of 2013)	11,410,000	10,660,000	11,040,000
Principal Outstanding on Bonds		50,040,000	50,910,000
Premiums on Bonds	2,504,992	1,926,283	2,031,353
Deferred Debt Acquisition Costs	595,526	(474,164)	(500,027)
		\$ 51,492,119	\$ 52,441,326

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 have interest rates varying from 3.00% to 5.00% and mature in annual installments of \$500,000 on October 1, 2016, \$3,020,000 to \$4,035,000 on October 1 in the years 2017 through 2023, \$910,000 and \$945,000 on October 1, 2024 and 2025, respectively, and payments of \$6,770,000 and \$5,755,000 due October 1, 2031 and 2035, respectively. The term bonds maturing in the years in 2031 and 2035 are subject to annual sinking fund payments on October 1 in the years 2026 through 2035 in amounts varying from \$990,000 to \$1,540,000.

The College is required to maintain debt service reserve funds under the Series Seven-B bond issue. The reserve funds totaled \$3,469,810 and \$3,461,520 at May 31, 2016 and 2015, respectively. The Series Seven-B bonds are secured by a pledge of the loan repayments and the reserve account. The Series Seven-B bonds also require that certain liquidity and debt service coverage ratios be maintained.

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 2.00% to 5.00% and mature in annual installments of \$385,000 to \$500,000 on October 1 in the years 2016 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, 2016 and 2015

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#### **NOTE 13 - LONG-TERM DEBT** (Continued)

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The College adopted ASU 2015-03, *Interest - Imputation of interest (Subtopic 835-30): Simplifying the Presentation of Debt Issuance Costs*, during the year ended May 31, 2016. Under the new guidance, debt issuance costs related to a recognized debt liability are presented as a direct reduction to the carrying amount of that debt liability. As required by the new guidance, the amendments were applied retrospectively to the year ended May 31, 2015.

Annual maturities of all long-term debt for each of the five years subsequent to May 31, 2016, approximate \$885,000, \$3,415,000, \$3,585,000, \$3,745,000 and \$3,905,000, respectively.

Total interest expense for the years ended May 31, 2016 and 2015, amounted to approximately \$2,349,000 and \$2,372,000, respectively.

Costs of bond issuance are deferred and amortized on a straight-line basis over the term of the related indebtedness. Amortization of approximately \$26,000 was recorded for each of the years ended May 31, 2016 and 2015.

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#### **NOTE 14 - LINE OF CREDIT AGREEMENT**

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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, 2016. 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 4.5%. 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, 2016 and 2015, the College had no borrowings outstanding under this agreement.

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#### **NOTE 15 - DEFERRED GIFT AGREEMENTS**

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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 unrestricted, temporarily restricted or permanently restricted net assets, 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, 2016 and 2015.

During the year ended May 31, 2016, the College received gift income of approximately \$235,000 relating to deferred gift agreements. Total assets held by the College under deferred gift agreements and liabilities related to these agreements totaled approximately \$20,610,000 and \$11,022,000, respectively, at May 31, 2016.

During the year ended May 31, 2015, the College received gift income of approximately \$254,000 relating to deferred gift agreements. Total assets held by the College under deferred gift agreements and liabilities related to these agreements totaled approximately \$21,785,000 and \$10,753,000, respectively, at May 31, 2015.

**GUSTAVUS ADOLPHUS COLLEGE**

**NOTES TO FINANCIAL STATEMENTS**  
As of and for the Years Ended May 31, 2016 and 2015

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**NOTE 16 - ALLOCATION OF EXPENSES**

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The College allocated interest expense of approximately \$2,244,000 and \$2,267,000; depreciation and amortization of approximately \$6,675,000 and \$6,839,000; operation and maintenance of plant expense of approximately \$11,150,000 and \$11,290,000; and lease payments of approximately \$256,000 and \$315,000 to program and support functions for the years ended May 31, 2016 and 2015, respectively.

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**NOTE 17 - CONCENTRATIONS OF CREDIT RISK**

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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 which are subject to audit by governmental agencies. 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.

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**NOTE 18 - RELATED PARTY TRANSACTIONS**

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As of May 31, 2016 and 2015, contributions receivable included approximately \$4,657,000 and \$3,579,000, 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 a member of the Investment Committee and Board of Directors has an affiliation. The individual fully disclosed their interest in these investments when they were discussed, did not receive a commission or referral fee, and did not participate in the voting regarding these investments. Capital contributions as of May 31, 2016, total approximately \$5,910,000 and \$90,000 is outstanding on future commitments. The value of these funds approximates \$1,393,000 and \$1,884,000 as of May 31, 2016 and 2015, respectively.

The College conducts various treasury functions with a local bank in which an officer of the College serves on the Board of Directors. A report is filed on an annual basis with the President of the College and the Audit Committee of the Board of Directors disclosing the scope of these treasury activities.

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**NOTE 19 - SUBSEQUENT EVENTS**

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The College has evaluated subsequent events through September 26, 2016, which is the date that the financial statements were issued.