GUSTAVUS ADOLPHUS COLLEGE
Saint Peter, Minnesota

Financial Statements
Including Independent Auditors' Report

As of and for the Years Ended May 31, 2017 and 2016

GUSTAVUS ADOLPHUS COLLEGE

TABLE OF CONTENTS

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, 2017 and 2016, 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, 2017 and 2016, 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
November 2, 2017

GUSTAVUS ADOLPHUS COLLEGE

STATEMENTS OF FINANCIAL POSITION
May 31, 2017 and 2016

ASSETS

	2017	2016
Cash and cash equivalents	$ 34,607,406	$ 38,308,353
Receivables		
Students accounts, net of allowance for doubtful accounts of $350,000 and $590,000	708,647	644,690
Government grants	437,753	399,444
Accrued interest	35,068	33
Contributions	23,391,000	18,481,000
Other	319,430	276,155
Inventories	426,678	407,322
Prepaid expenses and other assets	1,676,613	1,204,694
Students notes receivable, net	2,577,052	2,807,934
Investments		
Cash and short-term investments	1,347,608	1,419,119
Investments other than endowment	37,107,691	37,026,441
Interest in buildings, net of accumulated depreciation of $666,207 and $856,740	385,740	549,398
Real estate held for resale	676,340	1,336,340
Beneficial interest in funds held in trust	1,366,699	1,342,011
Other	938,145	895,456
Deposits held by trustee		
Cash and short-term investments	11,373	3,469,810
Fixed income securities	3,421,654	
Endowment investments	166,790,145	140,713,734
Construction in progress	1,710,935	3,012,108
Property, plant and equipment, net	112,493,319	109,237,350
TOTAL ASSETS	$ 390,429,296	$ 361,531,392

LIABILITIES AND NET ASSETS

	2017	2016
LIABILITIES		
Accounts payable	$ 2,159,933	$ 3,775,572
Accrued liabilities	14,123,530	14,531,857
Deferred revenue	2,404,746	6,221,477
Future interest discount on pooled life income funds	302,677	428,338
Annuities payable	9,701,429	10,056,988
Funds held for others	2,661,017	2,881,080
Long-term debt	50,527,912	51,492,119
U.S. government grants refundable	2,606,632	2,678,619
Total Liabilities	84,487,876	92,066,050
NET ASSETS		
Unrestricted	63,203,752	60,354,753
Temporarily restricted	122,703,672	102,069,490
Permanently restricted	120,033,996	107,041,099
Total Net Assets	305,941,420	269,465,342
TOTAL LIABILITIES AND NET ASSETS	$ 390,429,296	$ 361,531,392

See accompanying notes to financial statements.

GUSTAVUS ADOLPHUS COLLEGE

STATEMENT OF ACTIVITIES
For the Year Ended May 31, 2017
With Comparative Totals for 2016

	2017 Unrestricted	2017 Temporarily Restricted	2017 Permanently Restricted	2017 Total	2016 Total
REVENUES, GAINS AND OTHER SUPPORT					
Tuition and fees	$ 94,192,905			$ 94,192,905	$ 97,296,768
Less: Scholarships and grants	52,732,738			52,732,738	52,673,088
Net tuition and fees	41,460,167			41,460,167	44,623,680
Government grants	1,407,941			1,407,941	1,344,737
Private gifts and grants	1,781,165	$ 15,886,261	$ 11,871,844	29,539,270	33,297,692
Endowment income	1,175,143	4,600,721	81,956	5,857,820	6,077,315
Investment income	321,153		126	321,279	262,484
Investment income (losses) net of endowment income	2,274,484	9,867,903	271,556	12,413,943	(8,941,982)
Other sources	3,063,368		178	3,063,546	3,371,462
Sales and services of auxiliary enterprises	22,826,424			22,826,424	22,881,315
Adjustment of actuarial liability	(196,915)	28,775	767,237	599,097	(1,399,570)
	74,112,930	30,383,660	12,992,897	117,489,487	101,517,133
Net assets released from restrictions	9,749,478	(9,749,478)			
Total Revenues, Gains and Other Support	83,862,408	20,634,182	12,992,897	117,489,487	101,517,133
EXPENSES AND LOSSES					
Program expenses					
Instruction	35,159,031			35,159,031	36,359,511
Academic support	4,408,473			4,408,473	4,768,358
	39,567,504			39,567,504	41,127,869
Research	137,394			137,394	110,020
Public service	2,643,352			2,643,352	2,916,468
Student services	14,012,091			14,012,091	14,274,107
Auxiliary enterprises	14,380,845			14,380,845	15,052,967
Support expenses					
Institutional support	10,272,223			10,272,223	10,124,181
Asset impairment write off					3,926,746
Total Expenses and Losses	81,013,409			81,013,409	87,532,358
Change in Net Assets	2,848,999	20,634,182	12,992,897	36,476,078	13,984,775
Net Assets - Beginning of Year	60,354,753	102,069,490	107,041,099	269,465,342	255,480,567
NET ASSETS - END OF YEAR	$ 63,203,752	$ 122,703,672	$ 120,033,996	$ 305,941,420	$ 269,465,342

GUSTAVUS ADOLPHUS COLLEGE

STATEMENT OF ACTIVITIES
For the Year Ended May 31, 2016

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
REVENUES, GAINS AND OTHER SUPPORT				
Tuition and fees	$ 97,296,768			$ 97,296,768
Less: Scholarships and grants	52,673,088			52,673,088
Net tuition and fees	44,623,680			44,623,680
Government grants	1,344,737			1,344,737
Private gifts and grants	1,784,140	$ 28,608,191	$ 2,905,361	33,297,692
Endowment income	1,697,797	4,193,313	186,205	6,077,315
Investment income	262,360		124	262,484
Investment losses net of endowment income	(1,722,041)	(7,077,603)	(142,338)	(8,941,982)
Other sources	3,370,996		466	3,371,462
Sales and services of auxiliary enterprises	22,881,315			22,881,315
Adjustment of actuarial liability	(312,385)	(81,255)	(1,005,930)	(1,399,570)
	73,930,599	25,642,646	1,943,888	101,517,133
Change in donor designation		(926,502)	926,502	
Net assets released from restrictions	8,806,088	(8,806,088)		
Total Revenues, Gains and Other Support	82,736,687	15,910,056	2,870,390	101,517,133
EXPENSES AND LOSSES				
Program expenses				
Instruction	36,359,511			36,359,511
Academic support	4,768,358			4,768,358
	41,127,869			41,127,869
Research	110,020			110,020
Public service	2,916,468			2,916,468
Student services	14,274,107			14,274,107
Auxiliary enterprises	15,052,967			15,052,967
Support expenses				
Institutional support	10,124,181			10,124,181
Asset impairment write off	3,926,746			3,926,746
Total Expenses and Losses	87,532,358			87,532,358
Change in Net Assets	(4,795,671)	15,910,056	2,870,390	13,984,775
Net Assets - Beginning of Year	65,150,424	86,159,434	104,170,709	255,480,567
NET ASSETS - END OF YEAR	$ 60,354,753	$ 102,069,490	$ 107,041,099	$ 269,465,342

See accompanying notes to financial statements.

GUSTAVUS ADOLPHUS COLLEGE

STATEMENTS OF CASH FLOWS
For the Years Ended May 31, 2017 and 2016

	2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	$ 36,476,078	$ 13,984,775
Adjustments to reconcile change in net assets to net cash flows from operating activities		
Depreciation, amortization and depletion	6,553,323	6,683,650
Amortization of bond premium	(105,070)	(105,070)
Loss on disposal of property, plant and equipment		3,561
Real estate held for resale write-off	660,000	
Asset impairment write-off		3,926,746
(Gains) losses on investments	(16,940,351)	3,792,762
Actuarial adjustment of annuities payable	(847,138)	1,719,693
Pooled life income adjustments	89,500	172,323
Loan cancellations and reinstatements	37,307	39,399
Change in assets and liabilities		
Student receivables	(63,957)	(8,612)
Government grants receivable	(38,309)	14,743
Accrued interest receivable	(35,035)	25,067
Contributions receivable - operations	(4,602,040)	560,713
Other receivables	(43,275)	573,663
Inventories	(19,356)	(4,295)
Prepaid expenses and other assets	(471,919)	36,087
Accounts payable	(187,082)	524,762
Accrued liabilities	(408,327)	(1,551,636)
Deferred revenue	(3,816,731)	(168,320)
Funds held for others	(432,815)	38,757
Contributions restricted for plant and long-term investment	(21,377,227)	(21,647,167)
Investment income restricted for plant, loans, and long-term investment	(82,082)	(186,329)
Net Cash Flows from Operating Activities	(5,654,506)	8,425,272
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of investments	(41,065,355)	(74,329,396)
Proceeds from sale of investments	33,762,078	58,541,538
Purchases of property, plant and equipment	(9,879,932)	(2,641,039)
Disbursements of loans to students	(288,600)	(463,593)
Repayments of loans from students	482,175	486,554
Net Cash Flows from Investing Activities	(16,989,634)	(18,405,936)
CASH FLOWS FROM FINANCING ACTIVITIES		
Changes in deposits with bond trustee	4,807	(20,566)
Repayment of principal on indebtedness	(885,000)	(870,000)
Receipts of investment income restricted for plant, loans and long-term investment	82,082	186,329
Contributions received restricted for plant and long-term investment	21,069,267	14,495,454
Decrease in refundable U.S. government grants	(71,987)	(68,855)
Increase in liability for new split interest agreements	19,446	587,990
Payments to annuitants and pooled life income beneficiaries	(1,275,422)	(1,364,474)
Net Cash Flows from Financing Activities	18,943,193	12,945,878
Net Change in Cash and Cash Equivalents	(3,700,947)	2,965,214
CASH AND CASH EQUIVALENTS - Beginning of Year	38,308,353	35,343,139
CASH AND CASH EQUIVALENTS - END OF YEAR	$ 34,607,406	$ 38,308,353
Supplemental disclosures of cash flow information		
Interest paid	$ 2,330,725	$ 2,353,225
Noncash investing and financing activities		
Property, plant and equipment acquired through accounts payable	447,331	1,875,888

See accompanying notes to financial statements.

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES

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

Net Asset Classifications - For the purposes of financial reporting, the College classifies resources into 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.

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (Continued)

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. There were no impairments recorded in fiscal 2017. 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.

Asset Retirement Obligations - Asset retirement obligations of $2,905,000 and $2,735,000, for the years ended May 31, 2017 and 2016, 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 $171,000 and $160,000 was recorded for the years ended May 31, 2017 and 2016, respectively. Approximately $1,000 and $57,000 of asbestos was abated for the years ended May 31, 2017 and 2016, 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 $2,998,000 and $2,973,000 for the years ended May 31, 2017 and 2016, respectively. Advertising expenses totaled $443,000 and $487,000 for the years ended May 31, 2017 and 2016, respectively. The College expenses advertising costs at the time incurred.

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (Continued)

Retirement Plan - Retirement benefits are provided for the College's eligible staff through a defined contribution 403(b) plan for which Teachers Insurance and Annuity Association (TIAA) is the trustee. Under this arrangement, the College and plan participants make contributions to the plan. Contributions for eligible employees are determined on a percentage of annual compensation. The percentage contributed by the College was 7% for each of the years ended May 31, 2017 and 2016. The College's share of the cost of these benefits was approximately $2,244,000 and $2,265,000 for the years ended May 31, 2017 and 2016, 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 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, athletic space rentals and various services provided by the dining service and print and mail services to the public. At May 31, 2017 and 2016, 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, 2017 or 2016. The College’s tax returns are subject to review and examination by federal and state authorities.

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 (fiscal year 2019) 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.

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (Continued)

New Accounting Pronouncements (Continued) - 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 (fiscal year 2020), 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, 2017, has included approximately $39 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 (fiscal year 2019), 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.

In November 2016, FASB issued ASU 2016-18, *Statement of Cash Flows (Topic 230): Restricted Cash*. The amendments in this update require that a statement of cash flows explain the change during the period in the total of cash, cash equivalents and amounts generally described as restricted cash or restricted cash equivalents. Amounts generally described as restricted cash and restricted cash equivalents should be included with cash and cash equivalents when reconciling the beginning-of-period and end-of-period amounts shown on the combining statement of cash flows. ASU 2016-18 is effective for non-public entities for fiscal years beginning after December 15, 2018 (fiscal year 2020), with early adoption permitted. ASU 2016-18 is to be applied retroactively with transition provisions. The College is assessing the impact this standard will have on its financial statements.

NOTE 2 - Restrictions and Limitations on Net Asset Balances

At May 31, 2017 and 2016, the College's unrestricted net assets were allocated as follows:

	2017	2016
Operations	$ 5,161,419	$ 4,556,510
Endowment funds	24,168,098	21,170,653
Gift annuity agreements	1,020,882	1,213,852
Loans to students	440,582	452,749
Plant	32,412,771	32,960,989
	$ 63,203,752	$ 60,354,753

Temporarily restricted net assets consist of the following at May 31, 2017 and 2016:

	2017	2016
Gifts and other unexpended revenues and gains available for:		
Scholarships, instruction and other departmental support	$ 4,724,386	$ 4,226,549
Acquisition of buildings and equipment	23,588,962	21,441,964
Contributions receivable	19,232,000	15,346,000
	47,545,348	41,014,513
Endowment funds	35,430,675	25,595,226
Life income and trust agreements	262,678	420,845
Net investment in plant	39,464,971	35,038,906
	$ 122,703,672	$ 102,069,490

Permanently restricted net assets consist of the following at May 31, 2017 and 2016:

	2017	2016
Endowment funds	$ 107,378,795	$ 95,360,399
Contributions receivable for endowment funds	4,159,000	3,135,000
Student loan funds	600,224	592,056
Gift annuity agreements and similar funds	7,895,977	7,953,644
	$ 120,033,996	$ 107,041,099

NOTE 3 - Net Assets Released From Restrictions

Net assets were released from donor restrictions by incurring expenses satisfying the restricted purposes or by occurrence of events specified by the donors during the years ended May 31, 2017 and 2016, as follows:

	2017	2016
Amortization of contributions expended for long-lived assets	$ 1,887,918	$ 1,974,374
Maturity of deferred gifts	159,214	
Scholarships, instruction and other departmental support	7,702,346	6,831,714
	$ 9,749,478	$ 8,806,088

NOTE 4 - CONTRIBUTIONS RECEIVABLE

Contributions receivable include the following unconditional promises to give at May 31, 2017 and 2016:

	2017	2016
Temporarily restricted - operations	$ 5,663,000	$ 1,061,000
Temporarily restricted - plant projects	15,094,000	15,191,000
Permanently restricted - endowment	4,586,000	3,362,000
Gross unconditional promises to give	25,343,000	19,614,000
Less: Unamortized discount	(721,000)	(160,000)
Allowance for uncollectible promises	(1,231,000)	(973,000)
	$ 23,391,000	$ 18,481,000

At May 31, 2017, net contributions receivable of $13,382,000 are due in less than one year and $10,009,000 are due in one to five years. Promises due in one to five years were discounted at historical rates between 0.9% and 1.8% at May 31, 2017 and between 0.9% and 6.9% at May 31, 2016. 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, 2017 and 2016, student notes receivable represented approximately 1.0% of total assets.

At May 31, 2017 and 2016, student notes receivable consisted of the following:

	2017	2016
Federal government programs	$ 2,795,826	$ 3,025,561
Institutional programs	1,226	2,373
	2,797,052	3,027,934
Less allowance for doubtful accounts:		
Beginning of year	(220,000)	(220,000)
Increases	(9,873)	(14,315)
Write-offs	9,873	14,315
End of year	(220,000)	(220,000)
	$ 2,577,052	$ 2,807,934

Funds advanced by the Federal government of $2,606,632 and $2,678,619 at May 31, 2017 and 2016, respectively, are ultimately refundable to the government and are classified as liabilities in the statements of financial position.

NOTE 5 - STUDENT NOTES RECEIVABLE (Continued)

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, 2017, the amounts past due under student loan programs are as follows: less than 240 days - $11,102, 240 days to two years - $36,093, two years to five years - $22,212 and no past-due amounts greater than five years, for a total past due amount of $69,407. 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.

NOTE 6 - INVESTMENTS

The following summarizes the College's investments in funds other than endowment, which are recorded at fair value, at May 31, 2017 and 2016:

	2017	2016
Government obligations	$ 17,751,573	$ 17,545,342
Bonds	31,361	34,634
Mutual funds	19,324,757	19,446,465
	$ 37,107,691	$ 37,026,441

Other investments totaling $938,145 and $895,456 as of May 31, 2017 and 2016, respectively, includes $261,643 and $259,045, respectively, of certificates of deposit carried at cost.

NOTE 6 - INVESTMENTS (Continued)

The following summarizes the College's endowment investments, which are recorded at fair value unless otherwise noted, at May 31, 2017 and 2016:

	2017	2016
Cash and short-term investments ($1,698 and $2,971 at cost for 2017 and 2016, respectively)	$ 13,517,706	$ 306,540
Contract for deed receivable (at cost)	23,436	24,892
Marketable securities		
Equity securities	186,067	167,599
Mutual funds	88,452,874	75,398,272
Alternative investments		
Commodity funds	489,412	496,079
Fund of funds	60,096,815	60,638,500
Real estate funds	10,880	56,039
Beneficial interest in funds held in trust	4,012,955	3,625,813
	$ 166,790,145	$ 140,713,734

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, 2017 and 2016:

	2017	2016
Dividend, interest and other income, net of fees of $164,992 and $172,084 for 2017 and 2016, respectively	$ 1,652,691	$ 1,190,579
Net gains (losses) on investments	16,940,351	(3,792,762)
	$ 18,593,042	$ (2,602,183)

The total investment return is reflected on the statement of activities as follows for the years ended May 31, 2017 and 2016:

	2017	2016
Endowment income	$ 5,857,820	$ 6,077,315
Investment income	321,279	262,484
Investment income (losses) net of endowment income	12,413,943	(8,941,982)
	$ 18,593,042	$ (2,602,183)

The amount of investment income and realized and unrealized gains (losses) from alternative investments totaled $$6,280,352 and ($116,681) for the years ended May 31, 2017 and 2016, respectively.

NOTE 7 - FAIR VALUE MEASUREMENTS

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

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

Level 1 - Inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the reporting entity can access at the measurement date.

Level 2 - Inputs other than quoted prices included in Level 1 are observable for the asset or liability, either directly or indirectly. This includes quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in markets that are not active, inputs other than quoted prices that are observable for the asset or liability, or market corroborated inputs.

Level 3 - Inputs are unobservable for the asset or liability. Unobservable inputs reflect the assumptions that market participants would use in pricing the asset or liability (including assumptions about risk) using the best information available in the circumstances, which may include using the reporting entity's own data.

Valuation Techniques and Inputs

Level 1 - Level 1 assets include:

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

Level 2 - Level 2 assets include:

- Investments in fixed income securities (comprised of asset backed securities and government securities) 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.

NOTE 7 - FAIR VALUE MEASUREMENTS (Continued)

There have been no changes in the techniques and inputs used as of May 31, 2017 and 2016.

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

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

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

The following table summarizes assets measured at fair value on a recurring basis as of May 31, 2017:

	Total	Level 1	Level 2	Level 3
Short-term investments	$ 13,527,381	$ 13,527,381		
Domestic equity securities	186,067	186,067		
Fixed income securities	21,204,588		$ 21,204,588	
Mutual funds				
Domestic equity	52,087,072	52,087,072		
Fixed income	14,688,439	14,688,439		
International equity	38,489,525	38,489,525		
Real assets	2,512,595	2,512,595		
Beneficial interest in funds held in trust	6,056,156			$ 6,056,156
Subtotal by valuation hierarchy	148,751,823	$ 121,491,079	$ 21,204,588	$ 6,056,156
Alternative investments measured using NAV				
Long/short global equity funds	14,025,046			
Open-end commingled funds	18,411,258			
Private equity funds	19,086,698			
Real asset funds	9,074,105			
Subtotal by NAV	60,597,107			
Total assets at fair value	$ 209,348,930			
Investments at May 31, 2017				
Investments other than endowment	$ 37,107,691			
Endowment investments	166,790,145			
Deposits held by trustee	3,433,027			
Beneficial interest in funds held in trust	1,366,699			
Other investments	938,145			
Total investments	209,635,707			
Less investments at cost	(286,777)			
Total assets at fair value	$ 209,348,930			

NOTE 7 - FAIR VALUE MEASUREMENTS (Continued)

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

	Total	Level 1	Level 2	Level 3
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	5,604,235			$ 5,604,235
Subtotal by valuation hierarchy	121,969,926	$ 98,785,715	$ 17,579,976	$ 5,604,235
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	6,345,234			
Subtotal by NAV	61,190,618			
Total assets at fair value	$ 183,160,544			

Investments at May 31, 2016	
Investments other than endowment	$ 37,026,441
Endowment investments	140,713,734
Deposits held by trustee	3,469,810
Beneficial interest in funds held in trust	1,342,011
Other investments	895,456
Total investments	183,447,452
Less investments at cost	(286,908)
Total assets at fair value	$ 183,160,544

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, 2017:

	Balances May 31, 2016	Net realized and unrealized gains	Purchases	Sales	Net transfers in (out) of Level 3	Balances May 31, 2017
Beneficial interest in funds held in trust	$ 5,604,235	$ 366,233	$ 129,549	$ (43,861)	$	$ 6,056,156

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, 2017	$ 366,233

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 summarizes assets measured at fair value on a nonrecurring basis as of May 31, 2017:

	Total	Level 1	Level 2	Level 3	Total Loss
Real estate held for resale	$ 540,000	$	$ 540,000		$ 660,000

On January 1, 2017, an appraisal on real estate held for resale was performed resulting in a write-down of the property's carrying value from $1,200,000 to an estimated fair value of $540,000. The write-off of $660,000 is included in adjustment of actuarial liability on the statement of activities. The fair value was estimated using market data for comparable real estate sales transactions and other data for property in the same geographic region.

NOTE 7 - FAIR VALUE MEASUREMENTS (Continued)

The following table lists the alternative investments in which net asset value was utilized as the practical expedient for estimating fair value by major category as of May 31, 2017 and 2016:

	Long/Short Global Equity Funds	Open-End Commingled Funds	Private Equity Funds	Real Asset Funds
Fair value, May 31, 2016	$12,799,895	$23,569,533	$18,475,956	$6,345,234
Fair value, May 31, 2017	$14,025,046	$18,411,258	$19,086,698	$9,074,105
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 12 years
Dollar Amount of Unfunded Commitments	None	None	$15,649,000	$5,838,000
Timing to Draw Down Commitments	N.A.	N.A.	1 to 6 years	1 to 4 years
Redemption Terms	One fund has quarterly redemption with 45 days notice; the remaining fund has annual redemption with 105 days notice	One fund has redemption 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.

NOTE 8 - ENDOWMENT

The College's endowment consists of approximately 650 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, 2017:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds	$ (163,169)	$ 35,430,675	$ 107,378,795	$ 142,646,301
Board-designated endowment funds	24,331,267			24,331,267
Total endowment net assets	$ 24,168,098	$ 35,430,675	$ 107,378,795	$ 166,977,568

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

NOTE 8 - ENDOWMENT (Continued)

Changes in endowment net assets for the year ended May 31, 2017, are as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, May 31, 2016	$ 21,170,653	$ 25,595,226	$ 95,360,399	$ 142,126,278
Investment return:				
Investment income, net of fees $164,992	269,689	1,044,843	16,880	1,331,412
Net appreciation - realized and unrealized	3,234,939	13,399,191	328,769	16,962,899
Total investment return	3,504,628	14,444,034	345,649	18,294,311
Contributions			10,836,457	10,836,457
Matured deferred gifts			836,290	836,290
Appropriation of endowment assets for expenditure (spending rate)	(1,175,143)	(4,608,585)		(5,783,728)
Other changes:				
Transfers to board designated endowment funds	667,960			667,960
Endowment net assets, May 31, 2017	$ 24,168,098	$ 35,430,675	$ 107,378,795	$ 166,977,568

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

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
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	(339,539)	(2,803,649)	13,448	(3,129,740)
Total investment return	18,203	(2,255,964)	36,116	(2,201,645)
Contributions			2,672,650	2,672,650
Matured deferred gifts			294,820	294,820
Appropriation of endowment assets for expenditure (spending rate)	(1,697,797)	(4,201,064)		(5,898,861)
Other changes:				
Change in donor designation			586,416	586,416
Transfers to board designated endowment funds	503,276			503,276
Endowment net assets, May 31, 2016	$ 21,170,653	$ 25,595,226	$ 95,360,399	$ 142,126,278

NOTE 8 - ENDOWMENT (Continued)

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 $163,169 and $641,869 as of May 31, 2017 and 2016, 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, 2017 and 2016, the College appropriated for distribution 4.5% and 4.8%, respectively of its endowment fund's average fair value using the prior twenty quarters as of November 30. In establishing this policy, the College considered the long-term expected return on its endowment. Accordingly, over the long term, the College expects the endowment to grow at an average of 4% - 5%, annually, net of inflation. Actual returns in any given year may vary from this amount. This is consistent with the College's objective to maintain the purchasing power of the endowment assets held in perpetuity or for a specified term as well as to provide additional real growth through new gifts and investment return.

NOTE 9 - POOLED LIFE INCOME FUND

As of May 31, 2017, 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, 2017 and 2016, leaseback interest in the buildings recorded in the financial statements was $385,740 and $549,398, respectively. Depreciation for financial statement purposes is recorded using the straight-line method over periods of 40 to 45 years. Depreciation totaling $30,881 and $39,952 was recorded in fiscal 2017 and 2016, 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 2017 and 2016 totaled $249,904 and $312,017, respectively, with payment to the College for the land, which was $4,395 and $5,639 in 2017 and 2016, 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 2017, $358,176, including related income, was transferred back to the College as the result of donor deaths or assignments. This included $354,191, net of $221,414 accumulated depreciation, related to buildings. 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.

Future interest discount on pooled life income funds funded by the above rental arrangement totaled $302,677 and $428,338 at May 31, 2017 and 2016, respectively.

NOTE 10 - CONSTRUCTION IN PROGRESS

At May 31, 2017, the following projects were in progress:

	Estimated Total Cost	Cost To Date	Funding Plan
Athletic locker room project	$ 150,000	$ 6,227	Gifts
Baseball turf project	1,000,000	118,644	Gifts
Chiller project	270,000	117,355	Operations
Energy projects	160,000	105,481	Operations
Library renovation (initial architect fees)	44,000	43,397	Operations
Nobel Hall of Science and Schaefer Fine Arts Center (initial architect fees)	3,900,000	1,290,929	Gifts
South Mall (initial architect fees)	Unknown	28,902	Gifts and operations
		$ 1,710,935	

The College has entered into an agreement with an architect for $4,000,000 for the Nobel Hall of Science and the Schaefer Fine Arts Center Project. Construction on phase 1 is expected to begin in Spring 2018.

NOTE 11 - PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment consisted of the following as of May 31, 2017 and 2016:

	2017	2016
Land	$ 955,993	$ 955,993
Land improvements	11,435,404	11,291,781
Buildings	177,860,551	169,350,171
Equipment	29,255,513	28,667,129
Library books	8,882,691	8,775,597
	228,390,152	219,040,671
Less: Accumulated depreciation	(116,235,879)	(110,162,827)
	112,154,273	108,877,844
Memorial garden, net	339,046	359,506
	$ 112,493,319	$ 109,237,350

NOTE 12 - POSTRETIREMENT BENEFIT PLAN

The College sponsors a postretirement medical plan (the "Plan") that covers eligible employees who retire after age 60 with at least 20 years of service. The Plan is contributory for those employees and their spouses who retired after 1992. Eligible employees who 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, 2017 and 2016:

	2017	2016
Active employees	$ 803,448	$ 376,418
Current retirees	1,010,627	1,374,527
Accrued postretirement benefit obligation	$ 1,814,075	$ 1,750,945

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

NOTE 12 - POSTRETIREMENT BENEFIT PLAN (Continued)

The following is a reconciliation of the benefit obligation and the value of plan assets at May 31, 2017 and 2016:

	2017	2016
Change in projected benefit obligation		
Projected benefit obligation at May 31	$ 1,750,945	$ 1,983,645
Interest cost	47,756	56,975
Service cost	29,782	20,180
Actuarial loss (gain)	80,094	(82,332)
Benefits paid	(94,502)	(227,523)
Projected benefit obligation at May 31	$ 1,814,075	$ 1,750,945
Change in plan assets		
Fair value of plan assets at May 31	$ 0	$ 0
Employer contribution	94,502	227,523
Participant contribution	329,296	338,640
Benefits paid	(423,798)	(566,163)
Fair value of plan assets at May 31	$ 0	$ 0
Funded Status		
Unfunded status at May 31	$ (1,814,075)	$ (1,750,945)

Net periodic postretirement benefit expense for the years ended May 31, 2017 and 2016, is comprised of the following:

	2017	2016
Service cost	$ 29,782	$ 20,180
Interest cost	47,756	56,975
Amortization of prior service gain	(14,758)	(14,758)
Amortization of unrecognized loss	41,994	52,734
Net periodic benefit cost	$ 104,774	$ 115,131

Benefits expected to be paid for each of the five years subsequent to May 31, 2017 are estimated to be $188,000, $164,000, $162,000, $161,000 and $166,000, respectively. Benefits expected to be paid 2023 through 2027 are $641,000. Contributions from the College and retirees expected to be paid to the plan for the year ended May 31, 2018, are estimated to be $318,000.

NOTE 12 - POSTRETIREMENT BENEFIT PLAN (Continued)

The estimated interest cost, service cost, net loss and expected benefits to be paid for the year ended May 31, 2018, and the estimated benefit obligation at May 31, 2018, are as follows:

	2018
Change in projected benefit obligation	
Benefit obligation at June 1	$ 1,814,075
Interest cost	56,080
Service cost	45,760
Expected benefits to be paid	(187,683)
Projected benefit obligation at May 31	$ 1,728,232

The above assumptions and calculations are based on census data as of June 1, 2016 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, 2017. A 7.5% rate of increase in the per capita costs of covered health care benefits was assumed at May 31, 2017, decreasing 0.5% per year to an ultimate level of 4.0% in fiscal years ending May 31, 2025 and later. A discount rate of 3.3% and 3.1% was used to determine the accrued postretirement benefit obligation for fiscal 2017 and 2016, respectively.

The effect of a 1.0% increase in each future health care trend rate would increase the combined service cost and interest cost by approximately $8,700 or 11.2% and the accumulated postretirement benefit obligation as of May 31, 2017, by approximately $150,400 or 8.3%. The effect of a 1.0% decrease in each future health care trend rate would decrease the combined service cost and interest cost by approximately $7,500 or 9.6% and the accumulated postretirement benefit obligation by approximately $133,600 or 7.4%.

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

NOTE 13 - LONG-TERM DEBT

The College had the following long-term debt outstanding at May 31, 2017 and 2016:

	Original Amount	2017	2016
Minnesota Higher Education Facilities Authority Revenue Bonds - Gustavus Adolphus College (Series Seven-B Bonds of 2010)	$ 41,680,000	$ 38,880,000	$ 39,380,000
Minnesota Higher Education Facilities Authority Revenue Bonds - Gustavus Adolphus College (Series Seven-W Bonds of 2013)	11,410,000	10,275,000	10,660,000
Principal Outstanding on Bonds		49,155,000	50,040,000
Premiums on Bonds	2,504,992	1,821,213	1,926,283
Deferred Debt Acquisition Costs	595,526	(448,301)	(474,164)
		$ 50,527,912	$ 51,492,119

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 4.00% to 5.00% and mature in annual installments of $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 $3,433,027 and $3,469,810 at May 31, 2017 and 2016, 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 3.00% to 5.00% and mature in annual installments of $395,000 to $500,000 on October 1 in the years 2017 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.

NOTE 13 - LONG-TERM DEBT (Continued)

Annual maturities of all long-term debt (excluding the effects of the refinancing disclosed in Note 19) for each of the five years subsequent to May 31, 2017, approximate: $3,415,000, $3,585,000, $3,745,000, $3,905,000 and $4,095,000, respectively.

Annual principal payments on long-term debt after the refinancing disclosed in Note 19 for each of the five years subsequent to May 31, 2017 approximate: $395,000, $670,000, $795,000, $930,000 and $1,070,000, respectively.

Total interest expense for the years ended May 31, 2017 and 2016, amounted to approximately $2,327,000 and $2,349,000, 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, 2017 and 2016.

NOTE 14 - LINE OF CREDIT AGREEMENT

The College has an unsecured line of credit totaling $5,000,000 with a local bank which is payable on demand. The agreement expires on December 1, 2017. 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%. At May 31, 2017, the interest rate was 5.25%. 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, 2017 and 2016, the College had no borrowings outstanding under this agreement.

NOTE 15 - DEFERRED GIFT AGREEMENTS

The College has arrangements with donors classified as charitable lead trusts, charitable remainder trusts, charitable gift annuities and pooled life income funds. In general, under these arrangements the College receives a gift from a donor in which it has a remainder interest and agrees to pay the donor stipulated amounts over the life of the donor. The arrangement may cover one or more lives. The College invests and administers the related assets and makes distributions to the beneficiaries as required. When the agreement reaches the end of its term, remaining assets are retained by the College as 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, 2017 and 2016.

During the year ended May 31, 2017, the College received gift income of approximately $11,000 relating to deferred gift agreements. Total assets held by the College under deferred gift agreements and liabilities related to these agreements totaled approximately $19,622,000 and $10,442,000 respectively, at May 31, 2017.

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.

NOTE 16 - ALLOCATION OF EXPENSES

The College allocated interest expense of approximately $2,222,000 and $2,244,000; depreciation and amortization of approximately $6,533,000 and $6,675,000; operation and maintenance of plant expense of approximately $10,334,000 and $11,150,000; and lease payments of approximately $215,000 and $256,000 to program and support functions for the years ended May 31, 2017 and 2016, respectively.

NOTE 17 - CONCENTRATIONS OF CREDIT RISK

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

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

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

NOTE 18 - RELATED PARTY TRANSACTIONS

As of May 31, 2017 and 2016, contributions receivable included approximately $9,505,000 and $4,657,000, respectively from members of the Board of Directors and employees of the College. No compensation is paid to members of the Board of Directors.

The College has invested in two private equity investments in which two members of the Investment Committee and Board of Directors 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, 2017, total approximately $5,910,000 and $90,000 is outstanding on future commitments. The value of these funds approximates $919,000 and $1,393,000 as of May 31, 2017 and 2016, respectively.

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, 2017, the College billed students $434,806 and paid expenses of $362,301, resulting in a management fee of $72,505. During the year ended May 31, 2016, the College billed students $418,046 and paid expenses of $365,296, resulting in a management fee of $52,750. The agreement is in full force until May 31, 2018, and shall continue thereafter on successive five year terms, through May 31, 2032 unless sooner terminated by the College or the owner.

NOTE 19 - SUBSEQUENT EVENTS

The College has evaluated subsequent events through November 2, 2017, which is the date that the financial statements were issued.

On July 11, 2017, the College announced a total gift commitment of $40 million to the College. This gift will support scholarships as well as the expansion and renovation of the Nobel Hall of Science. Of the $40 million total commitment, $7 million is reflected as gift income in the fiscal 2017 financial statements.

On August 22, 2017, the Minnesota Higher Education Facilities Authority (MHEFA) issued $52,515,000 in tax-exempt bonds, Series 2017, on behalf of the College. In addition to the principal amount, premiums on the bonds are $5,572,076, for total net proceeds of $58,087,076.

The bond proceeds will be used to:

- Provide for the refunding on an advance refunding basis the outstanding principal ($38,880,000) of Series Seven-B revenue bonds plus interest to the October 1, 2019 redemption date;
- Construct, expand and renovate the Nobel Hall of Science and Schaefer Fine Arts Center on the College's campus; and
- Pay issuance costs.

The Series 2017 Revenue and Refunding Bonds have interest rates varying from 3.30% to 5.00% and mature in annual amounts ranging from $260,000 to $3,740,000 beginning on October 1, 2018 through October 1, 2047.