

# **ST. OLAF COLLEGE**

Northfield, Minnesota

## **FINANCIAL STATEMENTS** Including Independent Auditors' Report

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

**ST. OLAF COLLEGE**  
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**ST. OLAF COLLEGE**

HIGHLIGHTS (Unaudited)  
Years Ended May 31, 2019 and 2018

FISCAL YEAR ENDING: MAY 31 ACADEMIC YEAR	FY 2019 2018-19	FY 2018 2017-18
<b>ENROLLMENT, RETENTION, GRADUATION</b>		
Undergraduate Full Time (Fall)	3,023	3,003
Undergraduate FTE (Fall)	3,031	3,014
Undergraduate Headcount (Fall)	3,048	3,035
% Men / Women	43 / 57	42 / 58
% Who Are In-State / Out-of-State	43 / 57	43 / 57
% White / Domestic Minority / International	69 / 21 / 10	71 / 19 / 10
1st Year to Sophomore	90.6%	92.1%
Sophomore to Junior	86.8%	86.9%
Junior to Senior	85.8%	85.6%
Four-Year Graduation Rate	81.7%	80.5%
Five-Year Graduation Rate	85.4%	86.0%
Number of Seniors (May)	711	683
Number of Declared Majors	955	922
Top Five Majors		
1st	Biology 9.9%	Biology 11.2%
2nd	Economics 9.7%	Mathematics 9.9%
3rd	Mathematics 7.5%	Economics 9.0%
4th	Psychology 6.9%	Psychology 6.8%
5th	Music 6.6%	Music 6.3%
<b>Post-graduation Activities</b>	Class of 2018	Class of 2017
Responses / Response Rate	611 / 90%	596 / 92%
Activities:		
Working (Full or Part-Time) / percent	479 / 79%	384 / 64%
Service Programs / percent	106 / 17%	49 / 8%
Furthering Education / percent	26 / 4%	137 / 23%
Other Activities / percent		26 / 5%
<b>NEW STUDENT ADMISSIONS (Fall)</b>		
Applications (1st Year / Transfer)	5496 / 178	5949 / 109
Acceptances (1st Year / Transfer)	2743 / 65	2571 / 51
Acceptance Rate (1st Year / Transfer)	50% / 37%	43% / 47%
Matriculants (1st Year / Transfer)	809 / 29	786 / 25
Yield Rate (1st Year / Transfer)	30% / 45%	31% / 49%
% 1st Year Men/Women	43 / 57	39 / 61
% 1st Year In-State/Out-of-State	42 / 58	42 / 58
% 1st Year 1st Generation to College	18	18
Median ACT - 1st Year	29	29
Median SAT - 1st Year	1320	1270
<b>FACULTY AND STAFF EMPLOYED (Fall)</b>		
Faculty / Staff / Total - FTE	274 / 399 / 673	271 / 406 / 677
Faculty / Staff / Total - Full-time Headcount	241 / 357 / 598	242 / 358 / 600
Faculty / Staff / Total - Part-time Headcount	99 / 125 / 224	88 / 143 / 231
<b>TUITION AND FEES PER STUDENT</b>		
Tuition	\$ 47,840	\$ 46,000
Room & Board	10,850	10,430
Total Comprehensive Fee	<u>\$ 58,690</u>	<u>\$ 56,430</u>
<b>FINANCIAL AID - SCHOLARSHIPS &amp; GRANTS</b>		
Federal Grants	\$ 3,390,144	\$ 2,948,310
State Grants	2,731,967	2,398,904
Institutional Scholarships & Grants	84,410,924	77,626,398
Outside Scholarships & Grants	2,595,973	2,375,478
Total	<u>\$ 93,129,008</u>	<u>\$ 85,349,090</u>
Total Per Student FTE	\$ 30,726	\$ 28,318
<b>ENDOWMENT</b>		
Market Value at Fiscal Year End	\$ 540,137,850	\$ 536,053,533
Market Value per Full Time Student	\$ 178,676	\$ 178,506
Market Value per FTE Student	\$ 178,205	\$ 177,855
Total Return on Investments	0.1%	9.3%

## INDEPENDENT AUDITORS' REPORT

To the Board of Regents  
St. Olaf College  
Northfield, Minnesota

We have audited the accompanying financial statements of St. Olaf College (the "College"), which comprise the statements of financial position as of May 31, 2019 and 2018, the related statements of activities and changes in net assets and cash flows for the years then ended, the related statement of functional expenses for the year ended May 31, 2019, 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 St. Olaf College as of May 31, 2019 and 2018, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

**Other Matters**

*Report on Other Information*

Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The "Highlights" on page 1, which is the responsibility of management, is presented for purposes of additional analysis and is not a required part of the financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the financial statements, and, accordingly, we do not express an opinion or provide any assurance on it.

*Baker Tilly Virchow Krause, LLP*

Minneapolis, Minnesota  
October 16, 2019

**ST. OLAF COLLEGE**

STATEMENTS OF FINANCIAL POSITION  
As of May 31, 2019 and 2018

<b>ASSETS</b>		
	2019	2018
Cash and cash equivalents	\$ 15,812,056	\$ 18,867,938
Receivables		
Accounts, net (Note 4)	1,446,436	1,663,058
Contributions, net (Note 5)	13,759,905	7,283,233
Student loans, net (Note 6)	5,912,828	6,673,080
Notes receivable (Note 1)	901,650	750,000
Investments (Note 7)	553,530,710	562,976,629
Other assets	1,823,418	1,176,052
Deposits held by trustee (Note 7)	1,753,590	1,800,302
Beneficial interest in trusts held by others, held at fair value (Note 7)	1,767,205	1,800,919
Beneficial interest in trusts held by others, held at cost (Note 1)		491,350
Property, plant and equipment, net (Note 10)	246,735,612	244,853,535
<b>TOTAL ASSETS</b>	<b>\$ 843,443,410</b>	<b>\$ 848,336,096</b>
<b>LIABILITIES AND NET ASSETS</b>		
<b>LIABILITIES</b>		
Accounts payable	\$ 2,268,218	\$ 4,667,136
Accrued and other liabilities (Note 11)	14,016,587	15,254,936
Deferred revenue	3,170,180	4,026,795
Annuities payable (Note 16)	11,086,670	12,795,080
Long-term debt (Note 15)	78,608,179	81,980,292
U.S. government grants refundable	4,948,241	4,991,793
Deposits held in trust for others	865,961	1,751,251
Total Liabilities	114,964,036	125,467,283
<b>NET ASSETS</b>		
Without donor restrictions (Note 2)	342,010,101	350,214,057
With donor restrictions (Note 2)	386,469,273	372,654,756
Total Net Assets	728,479,374	722,868,813
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<b>\$ 843,443,410</b>	<b>\$ 848,336,096</b>

See accompanying notes to the financial statements.

ST. OLAF COLLEGE

STATEMENT OF ACTIVITIES AND CHANGE IN NET ASSETS  
For the Year Ended May 31, 2019

	Without Donor Restrictions	With Donor Restrictions	Total
<b>OPERATING REVENUES, GAINS AND OTHER SUPPORT</b>			
Tuition, room and board, net of scholarships (Note 1)	\$ 89,717,102		\$ 89,717,102
Other tuition and fees	3,588,148		3,588,148
Government grants	2,881,839		2,881,839
Private gifts and grants	3,155,441	\$ 6,042,631	9,198,072
Long-term investment income and gains allocated for operations	6,142,270	13,078,413	19,220,683
Other sources	3,789,098	53,329	3,842,427
Investment income	382,181	47,599	429,780
Net losses on investments and capital assets	(53,401)		(53,401)
Capital gifts allocated	2,086,627		2,086,627
Auxiliary enterprises - sales and services	1,553,497		1,553,497
	<u>113,242,802</u>	<u>19,221,972</u>	<u>132,464,774</u>
Net assets released from restrictions (Notes 1 and 3)	<u>18,070,474</u>	<u>(18,070,474)</u>	
Total Operating Revenues, Gains and Other Support	<u>131,313,276</u>	<u>1,151,498</u>	<u>132,464,774</u>
<b>OPERATING EXPENSES</b>			
Program expenses	109,259,531		109,259,531
Support expenses	15,103,564		15,103,564
Total Operating Expenses	<u>124,363,095</u>		<u>124,363,095</u>
<b>Change in Net Assets from Operating Activities</b>	<u>6,950,181</u>	<u>1,151,498</u>	<u>8,101,679</u>
<b>NONOPERATING ACTIVITIES</b>			
Long-term investment activities	(380,225)	959,952	579,727
Less: Long-term investment income and gains allocated for operations	<u>(6,142,270)</u>	<u>(13,078,413)</u>	<u>(19,220,683)</u>
	(6,522,495)	(12,118,461)	(18,640,956)
Student loan income net of expenses	(6,539)	69,111	62,572
Deferred giving activities - gifts	4,992	30,093	35,085
Capital giving activities - gifts and grants	749,059	15,859,687	16,608,746
Capital related gifts released from restrictions	5,131,990	(5,131,990)	
Capital gifts allocated to operations (Notes 1 and 3)	(2,086,627)		(2,086,627)
Adjustment to actuarial liability for annuities payable	(136,336)	1,333,690	1,197,354
Adjustment to prior service cost and actuarial liability for retiree health plan	332,708		332,708
<b>Change in Net Assets from Nonoperating Activities</b>	<u>(2,533,248)</u>	<u>42,130</u>	<u>(2,491,118)</u>
Change in Net Assets before reclassification of net assets	4,416,933	1,193,628	5,610,561
Reclassification of prior year net assets per gift matching	<u>(12,620,889)</u>	<u>12,620,889</u>	
<b>Change in Net Assets</b>	<u>(8,203,956)</u>	<u>13,814,517</u>	<u>5,610,561</u>
Net Assets - Beginning of Year	<u>350,214,057</u>	<u>372,654,756</u>	<u>722,868,813</u>
<b>NET ASSETS - END OF YEAR</b>	<u>\$ 342,010,101</u>	<u>\$ 386,469,273</u>	<u>\$ 728,479,374</u>

See accompanying notes to the financial statements.

ST. OLAF COLLEGE

STATEMENT OF ACTIVITIES AND CHANGE IN NET ASSETS  
For the Year Ended May 31, 2018

	Without Donor Restrictions	With Donor Restrictions	Total
<b>OPERATING REVENUES, GAINS AND OTHER SUPPORT</b>			
Tuition, room and board, net of scholarships (Note 1)	\$ 87,575,789		\$ 87,575,789
Other tuition and fees	4,027,837		4,027,837
Government grants	2,844,081		2,844,081
Private gifts and grants	3,092,095	\$ 6,699,316	9,791,411
Long-term investment income and gains allocated for operations	5,940,826	12,272,881	18,213,707
Other sources	3,050,918	47,322	3,098,240
Investment income	277,030	43,405	320,435
Net losses on investments and capital assets	(642,142)		(642,142)
Capital gifts allocated	1,940,643		1,940,643
Auxiliary enterprises - sales and services	2,893,116		2,893,116
	<u>111,000,193</u>	<u>19,062,924</u>	<u>130,063,117</u>
Net assets released from restrictions (Notes 1 and 3)	16,676,491	(16,676,491)	
Total Operating Revenues, Gains and Other Support	<u>127,676,684</u>	<u>2,386,433</u>	<u>130,063,117</u>
<b>OPERATING EXPENSES</b>			
Program expenses	107,168,151		107,168,151
Support expenses	15,117,530		15,117,530
Total Operating Expenses	<u>122,285,681</u>		<u>122,285,681</u>
<b>Change in Net Assets from Operating Activities</b>	<u>5,391,003</u>	<u>2,386,433</u>	<u>7,777,436</u>
<b>NONOPERATING ACTIVITIES</b>			
Long-term investment activities	17,676,865	27,996,163	45,673,028
Less: Long-term investment income and gains allocated for operations	<u>(5,940,826)</u>	<u>(12,272,881)</u>	<u>(18,213,707)</u>
	11,736,039	15,723,282	27,459,321
Student loan income net of expenses	(5,506)	56,405	50,899
Deferred giving activities - gifts	606	62,123	62,729
Capital giving activities - gifts and grants	397,846	10,652,661	11,050,507
Capital related gifts released from restrictions (Notes 1 and 3)	1,794,482	(1,794,482)	
Capital gifts allocated to operations	(1,940,643)		(1,940,643)
Adjustment to actuarial liability for annuities payable	182,956	1,073,153	1,256,109
Adjustment to prior service cost and actuarial liability for retiree health plan	153,162		153,162
<b>Change in Net Assets from Nonoperating Activities</b>	<u>12,318,942</u>	<u>25,773,142</u>	<u>38,092,084</u>
<b>Change in Net Assets</b>	17,709,945	28,159,575	45,869,520
Net Assets - Beginning of Year	<u>332,504,112</u>	<u>344,495,181</u>	<u>676,999,293</u>
<b>NET ASSETS - END OF YEAR</b>	<u>\$ 350,214,057</u>	<u>\$ 372,654,756</u>	<u>\$ 722,868,813</u>

See accompanying notes to the financial statements.



ST. OLAF COLLEGE

STATEMENT OF FUNCTIONAL EXPENSES  
For the Year Ended May 31, 2019  
With Comparative Totals for 2018

	Program Expenses							Support Expenses			Total
	<u>Instruction</u>	<u>Research</u>	<u>Public Service</u>	<u>Academic Support</u>	<u>Student Services</u>	<u>Auxiliary Enterprises</u>	<u>Total Program</u>	<u>Institutional Support</u>	<u>Fundraising</u>	<u>Total Support</u>	
Compensation	\$ 36,834,741	\$ 696,690	\$ 165,736	\$ 7,036,239	\$ 11,181,008	\$ 4,315,834	\$ 60,230,248	\$ 5,399,032	\$ 3,723,087	\$ 9,122,119	\$ 69,352,367
Depreciation, amortization, and accretion	3,738,699	174,755	2,568	2,273,001	2,382,973	3,058,037	11,630,033	854,764	311,378	1,166,142	12,796,175
General operating expenses	2,091,501	119,880		2,052,277	2,551,006	161,576	6,976,240	995,472	536,962	1,532,434	8,508,674
Food services	294,955	7,371	196,712	59,538	458,414	7,587,211	8,604,201	68,241	383,178	451,419	9,055,620
Travel and meals	5,469,813	116,695	12,752	414,610	1,424,985	17,881	7,456,736	177,539	249,031	426,570	7,883,306
Contract, professional services, insurance, and taxes	3,553,160		320,724	147,521	1,249,331	202,400	5,473,136	1,349,032	695,701	2,044,733	7,517,869
Facilities - repairs, maintenance, utilities, fuel	1,590,447	96,060	6,940	489,053	1,130,202	2,469,097	5,781,799	119,302	84,405	203,707	5,985,506
Interest	<u>1,403,737</u>	<u>15,778</u>	<u>45</u>	<u>13,893</u>	<u>459,666</u>	<u>1,214,019</u>	<u>3,107,138</u>	<u>155,379</u>	<u>1,061</u>	<u>156,440</u>	<u>3,263,578</u>
Total Expenses for 2019	<u>\$ 54,977,053</u>	<u>\$ 1,227,229</u>	<u>\$ 705,477</u>	<u>\$ 12,486,132</u>	<u>\$ 20,837,585</u>	<u>\$ 19,026,055</u>	<u>\$ 109,259,531</u>	<u>\$ 9,118,761</u>	<u>\$ 5,984,803</u>	<u>\$ 15,103,564</u>	<u>\$ 124,363,095</u>
Total Expenses for 2018	<u>\$ 54,619,722</u>	<u>\$ 1,493,623</u>	<u>\$ 667,288</u>	<u>\$ 11,405,565</u>	<u>\$ 18,649,030</u>	<u>\$ 20,332,923</u>	<u>\$ 107,168,151</u>	<u>\$ 10,532,360</u>	<u>\$ 4,585,170</u>	<u>\$ 15,117,530</u>	<u>\$ 122,285,681</u>

See accompanying notes to the financial statements.

**ST. OLAF COLLEGE**

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

	<u>2019</u>	<u>2018</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Change in net assets	\$ 5,610,561	\$ 45,869,520
Adjustments to reconcile change in net assets to net cash flows from operating activities		
Depreciation, amortization and accretion expense	12,796,175	12,693,668
Net (gains) losses on investments	1,843,580	(43,638,065)
Loss on dispositions of property, plant and equipment	48,793	642,118
Actuarial adjustment of annuities payable	(416,506)	877,234
Adjustment to prior service cost and actuarial liability for retiree health plan	(332,708)	(153,162)
Gifts of property, plant and equipment	(27,100)	(130,082)
Change in:		
Accounts receivable	216,622	(403,116)
Contributions receivable for operations	41,433	(1,019)
Other assets	(647,366)	686,741
Funds held in trust by others	525,064	(117,651)
Change in:		
Accounts payable	(1,920,535)	1,740,233
Accrued and other liabilities	(1,038,382)	(569,374)
Deferred revenue	(856,615)	516,162
Change in deposits held in trust for others	(885,290)	(125,148)
Gifts and grants received for long-term investment and plant, net	(16,608,746)	(11,113,236)
Nonoperating investment income	<u>(1,837,327)</u>	<u>(3,459,238)</u>
Net Cash Flows from Operating Activities	<u>(3,488,347)</u>	<u>3,315,585</u>
<b>CASH FLOWS USED BY INVESTING ACTIVITIES</b>		
Purchases of property, plant and equipment	(15,602,700)	(12,286,232)
Purchases of investments	(218,359,739)	(434,879,157)
Proceeds from sales of investments	225,962,078	435,747,838
Proceeds from sale of property, plant and equipment		158,159
Disbursements of loans to students	(425,480)	(1,048,247)
Repayments of loans by students	<u>1,185,732</u>	<u>1,168,021</u>
Net Cash Flows Used by Investing Activities	<u>(7,240,109)</u>	<u>(11,139,618)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Principal repayments of indebtedness	(2,815,000)	(2,715,000)
Gifts and grants received for long-term investment and plant, net	16,608,746	11,113,236
Change in nonoperating contributions receivable	(6,518,106)	667,191
Change in U.S. government grants refundable, net	(43,552)	(454,847)
Increase in annuities payable from new gifts	35,085	62,729
Payments to annuitants	(1,326,988)	(1,481,882)
Nonoperating investment income	1,837,327	3,459,238
Change in trustee account for refinanced bonds, net	46,712	38,751
Change in notes receivable	<u>(151,650)</u>	<u></u>
Net Cash Flows from Financing Activities	<u>7,672,574</u>	<u>10,689,416</u>
<b>Net Change in Cash and Cash Equivalents</b>	<b>(3,055,882)</b>	<b>2,865,383</b>
CASH AND CASH EQUIVALENTS - Beginning of Year	<u>18,867,938</u>	<u>16,002,555</u>
<b>CASH AND CASH EQUIVALENTS - END OF YEAR</b>	<b>\$ 15,812,056</b>	<b>\$ 18,867,938</b>
Supplemental Disclosure:		
Interest paid	\$ 3,323,119	\$ 3,430,644
Property, plant and equipment acquired through accounts payable	409,158	887,541

See accompanying notes to the financial statements.

## ST. OLAF COLLEGE

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

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#### NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES

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**Organization** - Founded in 1874, St. Olaf College (the "College") is a private, four year, residential, liberal arts college located in Northfield, Minnesota. Affiliated with the Evangelical Lutheran Church in America, the College is coeducational and enrolls approximately 3,000 students. The College confers the degrees of Bachelor of Arts and Bachelor of Music.

**Basis of Financial Statements** - The accounting policies of the College reflect practices common to universities and colleges and the financial statements are prepared in accordance with accounting principles generally accepted in the United States of America. The more significant accounting policies are summarized below:

**Net Asset Classifications** - For the purposes of financial reporting, the College classifies resources into two net asset categories pursuant to any donor-imposed restrictions and applicable law. The Board of Regents has adopted practices that affect the presentation of board designations on net assets without donor restrictions. It has been the College's practice that bequests without restrictions under \$25,000 are distributed to current unrestricted funds. The same methodology is applied to matured deferred gifts. The board's practice has been to designate year-end operating surpluses to the endowment. Accordingly, the net assets of the College are classified in the accompanying financial statements in the categories that follow:

**Without Donor Restrictions** - Net assets that are not subject to donor-imposed restrictions. (See Note 2)

**With Donor Restrictions** - Net assets subject to donor-imposed restrictions that will be met by action of the College and/or the passage of time or are restricted in perpetuity (See Note 2)

**Releases from Restrictions** - Expirations of temporary restrictions on net assets (i.e., the donor-imposed purpose has been fulfilled and/or the stipulated time period has elapsed) are reported on the statement of activities as net assets released from restrictions. (See Note 3) Occasionally donor restrictions related to net assets may be clarified or changed, at which time they are reflected as a reclassification of prior year net assets on the statement of activities.

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

**Tuition, Room and Board Revenue** - The College provides academic instruction toward baccalaureate degrees. Tuition and fee revenue is recognized in the fiscal year in which the academic programs are delivered. Institutional scholarships awarded to students reduce the amount of revenue recognized. In addition, students who adjust their course load or withdraw completely within the first four weeks of the semester may receive a partial refund in accordance with the College's refund policy. Refunds issued reduce the amount of revenue recognized. Payments for services are due September 1st for Fall semester and January 1st for the Spring semester. Performance obligations for certain ancillary services are satisfied when the service is performed. The College applies the practical expedient as allowed for within the accounting standards and, therefore, does not disclose information about remaining performance obligations that have original expected durations of one year or less. All remaining performance obligations will be satisfied in connection with the completion of the fiscal 2020 year.

ST. OLAF COLLEGE

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

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

**Tuition, Room and Board Revenue** (continued) - The College also provides auxiliary services, such as residence and food services. Revenue from these services is recognized in the fiscal year in which the goods and services are provided. Students that withdraw from the College within the first 12 weeks of the semester may receive a partial refund for board plans in accordance with the College's refund policy. Students that withdraw from the College before the first day of class may receive a full refund for room plans in accordance with the College's refund policy, but partial refunds will not occur after that date. Refunds issued reduce the amount of revenue recognized. Tuition, room and board are included within a single comprehensive contract, as the College has determined that on campus residency (room and board) is part of the educational requirements. The College determines the transaction price based on standard charges for goods and services provided, reduced by discounts relating to institutional scholarships, both funded and unfunded, in accordance with the College's policies.

The College's revenue associated to tuition, room and board, net of scholarships and grants, were allocated as follows:

	2019	2018
Tuition, room and board	\$ 174,206,710	\$ 165,373,225
Unfunded scholarships and grants	(74,695,366)	(67,874,112)
Funded scholarships and grants	(9,794,242)	(9,923,324)
Tuition, room and board, net of scholarships	<u>\$ 89,717,102</u>	<u>\$ 87,575,789</u>

**Deferred Revenue** - Deferred revenue represents payments received for tuition or room and board prior to the start of the summer and fall academic terms. As of May 31, 2019, summer terms have not yet began; thus, all revenue relating to the 2019 summer terms are included in deferred revenue.

**Government Grants** - The College provides various services for state and federal agencies connected to government grants. Under the terms of the grants, the College is reimbursed for services performed and revenue is recognized in the fiscal year in which the services are performed. All performance obligations under the various contracts are satisfied in conjunction with the recognition of the associated revenues.

**Contribution Revenue** - Contributions are recognized as revenues when the donor's commitments are received, as increases in net assets without donor restrictions unless their use is limited by donor-imposed restrictions or time. Conditional promises to give are not recognized until they become unconditional, that is, when the conditions on which they depend are substantially met. During the year ended May 31, 2016, the College received a conditional promise to give up to \$15,000,000 to create an endowment to support a new program. The contribution is conditional upon the amount of other donations received for the program through 2025. Based on the terms of the agreement, the contribution will not be recognized as revenue until the end of the agreement. As of May 31, 2019, \$3,517,000 of other donations have been received for the program.

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 within the net assets with donor restrictions class, and a release to net assets without donor restrictions is made to reflect the expiration of such restrictions.

Contributions of exhaustible long-lived assets, or of cash and other assets to be used to acquire them, without donor stipulations concerning the use of such long-lived assets are reported as revenues of the net asset with donor restriction class. Gifts received for long-lived assets are released from net assets with donor restrictions when the assets are placed in service.

ST. OLAF COLLEGE

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

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

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**Operating Measure** - The College's operating revenues in excess of expenses and transfers includes support for operating activities from both donor restricted net assets and net assets without donor restrictions designated for long-term investment (the donor restricted and quasi endowment) according to the College's spending policy, which is detailed in Note 8. The measure of operations excludes endowment support for non-operating activities, investment return in excess of amounts made available for current support and changes in the actuarial value of annuities payable.

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

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

- > as increases in net assets without donor restrictions for board designated endowment funds;
- > as increases in net assets with donor restrictions to restore donor restricted endowment funds in accordance with the stipulations of the donor, reported as with deficiencies
- > as increases in net assets with donor restrictions in all other cases.

**Cash and Cash Equivalents** - The College considers all highly liquid investments, except for those held for long-term investment, with a maturity of three months or less when purchased to be cash equivalents. Certain cash held by the College is restricted for the Perkins Loan Fund.

**Receivables** - Accounts and notes receivable are carried at cost, less an allowance for doubtful accounts (See Notes 4 and 6). During the year ended May 31, 2017, the College entered into a subordinated promissory note agreement with Northfield Hotel Properties LLC for \$750,000. The loan is to be paid back in 2027 with 5.5% interest to be paid quarterly. During the year ended May 31, 2019, the College entered into a promissory note agreement with Minnesota Holding Company, LLC for \$151,650. The note is secured by a mortgage on a property owned by the College. The College received the proceeds of the sale of the property by Minnesota Holding Company, LLC in July 2019.

**Investments** - Investments in publicly traded securities are stated at quoted market value. Other investments, for which no such quoted market values or valuations are readily available, are carried at fair value as estimated by management using values provided by external investment managers. Changes in fair value are recorded as unrealized gains or losses in the period of change (See Note 7).

**Other Assets** - Prepaid expenses and inventories are included in other assets. Inventories are valued at the lower of cost or market. During the year ended May 31, 2018, the bookstore operations were outsourced to Barnes and Noble.

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

**Beneficial Interest in Trusts Held by Others** - The beneficial interest in trusts held by others and related contribution revenue are recognized at the date the trusts are established for the present value of estimated future payments to be received. Fair market value is not readily determinable for certain farmland held in trust by others in the deferred gift pool, and as such is held at cost value of \$491,350 as of May 31, 2018. This farmland sold as of May 2019.

## ST. OLAF COLLEGE

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

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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 at the date of acquisition or market value if donated, less accumulated depreciation. The College typically depreciates its assets on the straight-line basis over estimated useful lives ranging from 15 to 50 years for buildings and improvements and 5 to 15 years for furnishings, library materials and equipment. The College has developed a schedule of the estimated funding required for significant repairs and maintenance of its facilities based on a forty-year life cycle. Normal repair and maintenance expenses are charged to operations as incurred. Certain property and equipment purchased with government grant funds are subject to certain requirements and limitations. Generally, the College capitalizes physical plant additions and equipment in excess of \$5,000. (See Note 10)

**Annuities Payable** - Annuities payable represent the College's liability under annuity contracts with donors and irrevocable charitable remainder trusts for which the College serves as the trustee. Assets held under these agreements are included in investments. (See Note 16)

**U.S. Government Grants Refundable** - Funds provided by the United States 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 liabilities on 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 shown as a reduction in the government grants refundable liability on the statement of financial position.

**Deposits Held in Trust for Others** - The College acts as trustee 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 statement of financial position.

**Expenses** - The financial statements report certain categories of expenses that are attributable to program and support functions. These expenses require allocation on a reasonable basis that is consistently applied. These expenses include depreciation and amortization, interest, health and dental expenses, tuition and benefit expenses, and operation and maintenance of plant. Depreciation and amortization is allocated based on square footage, whereby interest expense is allocated based on the program and/or supporting function that benefit from the related debt issuances. Operation and maintenance of plant is allocated based on square footage.

**Advertising Expenses** - Advertising costs are expensed when incurred.

**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.

## ST. OLAF COLLEGE

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

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

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**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 taxes. 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, 2019 and 2018. The College's tax returns are subject to review and examination by federal and state authorities.

**New Accounting Pronouncements Adopted in Current Year** - In fiscal year 2019, the College adopted the Financial Accounting Standard Board's ("FASB") Accounting Standards Update No. 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*. ASU No. 2016-14 addresses the complexity and understandability of net asset classifications, deficiencies in information about liquidity and availability of resources, and the lack of consistency in the type of information provided about expenses and investment return. The College has adjusted the presentation of these financial statements accordingly. ASU No. 2016-14 has been applied retrospectively to all periods presented. Disclosures regarding liquidity and functional expenses have been presented for 2019 only, as allowed by ASU No. 2016-14.

The new standard changes the following aspects of the financial statements:

- The unrestricted net assets class has been renamed net assets without donor restrictions
- The temporarily and permanently restricted net asset classes have been combined into a single net asset class called net assets with donor restrictions
- Disclosure about liquidity and availability of resources at May 31, 2019 (Note 9)
- Additional disclosures related to underwater endowments (Note 8)
- Expanded disclosure related to natural and functional classifications of expenses (Statement of Functional Expenses)

In May 2014, the FASB issued Accounting Standards Update ("ASU") 2014-09, *Revenue from Contracts with Customers*. This ASU is a comprehensive new revenue recognition model that creates a single source of revenue guidance for all companies in all industries. The model is more principles-based than historical guidance, and is primarily based on recognizing revenue at an amount that reflects consideration to which the entity expects to be entitled to in exchange for transferring goods or services to a customer. The College adopted this guidance during the year ended May 31, 2019 utilizing the modified retrospective method of adoption, and the adoption of this guidance did not have a material impact on the College's business practices, financial condition, or results of operations during the fiscal year ended May 31, 2019. Additionally, there was no adjustment to net assets as of June 1, 2018. The primary impact of adopting the new standard has been expanded disclosures pertaining to revenue recognition within Note 1.

**New Accounting Pronouncements Not Yet Effective** - During June 2018, the FASB issued ASU 2018-08, *Not-for-Profit Entities (Topic 958): Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. The guidance is intended to clarify and improve accounting guidance for contributions received and contributions made. The amendments in this ASU should assist entities in (1) evaluating whether transactions should be accounted for as contributions (nonreciprocal transactions) or as exchange (reciprocal transactions) subject to other guidance and (2) determining whether a contribution is conditional. Not-for-profit entities that have conduit debt should apply the amendments for fiscal years beginning after June 15, 2019 (fiscal year 2020). The College is currently assessing the impact this standard will have on its financial statements.

ST. OLAF COLLEGE

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

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

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In February 2016, FASB issued ASU No. 2016-02, *Leases*. ASU No. 2016-02 was issued to increase transparency and comparability among entities. Lessees will need to recognize nearly all lease transactions (other than leases that meet the definition of a short-term lease) on the statement of financial position as a lease liability and a right-of-use asset (as defined). Lessor accounting under the new guidance will be similar to the current model. For public business entities, including not-for-profit organizations that have issued, or are a conduit bond obligor for, securities that are traded, listed or quoted on an exchange or an over-the-counter market, ASU No. 2016-02 is effective for fiscal years beginning after December 15, 2018 (fiscal year 2020). Early application is 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 currently assessing the impact this standard will have on its financial statements.

In November 2016, FASB issued ASU No. 2016-18, *Statement of Cash Flows (Topic 230): Restricted Cash*. This standard will require cash flow statements to explain the change during a reporting period of the totals for cash, cash equivalents, restricted cash, and restricted cash equivalents. Amounts reported as restricted cash should be included with cash and cash equivalents when reconciling the beginning-of-period and end-of-period total amounts shown on the statement of cash flows. The update also includes a requirement that the footnotes to the financial statements explain the nature of the restrictions. ASU No. 2016-18 is effective for fiscal years beginning after December 15, 2018 (fiscal year 2020). The College is currently assessing the impact this standard will have on its financial statements.

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

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

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Net assets without donor restrictions were allocated as follows:

	<u>2019</u>	<u>2018</u>
Plant	\$ 165,391,946	\$ 159,776,484
Operations	(11,623,320)	(13,319,935)
Endowment funds	183,982,642	199,066,038
Deferred gifts	3,466,930	3,889,621
Student loan programs - matching federal government	<u>791,903</u>	<u>801,849</u>
	<u>\$ 342,010,101</u>	<u>\$ 350,214,057</u>



ST. OLAF COLLEGE

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

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**NOTE 2 - RESTRICTIONS AND LIMITATIONS ON NET ASSET BALANCES (CONTINUED)**

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Net assets with donor restrictions consist of the following:

	<u>2019</u>	<u>2018</u>
Gifts and other unexpended revenues and gains available for:		
Scholarships, instruction and other support	\$ 12,893,070	\$ 12,676,447
Acquisition of buildings and equipment	<u>7,652</u>	<u>3,460,255</u>
	12,900,722	16,136,702
Endowment funds	356,155,208	336,987,495
Deferred gifts	14,549,733	16,753,832
Student loan funds	<u>2,863,610</u>	<u>2,776,727</u>
	<u>\$ 386,469,273</u>	<u>\$ 372,654,756</u>

Total net assets consist of the following:

	<u>2019</u>	<u>2018</u>
Plant	\$ 165,399,598	\$ 163,236,739
Operations	1,269,750	(643,488)
Endowment funds (Note 8)	540,137,850	536,053,533
Deferred gifts (Note 16)	18,016,663	20,643,453
Student loan funds	<u>3,655,513</u>	<u>3,578,576</u>
	<u>\$ 728,479,374</u>	<u>\$ 722,868,813</u>

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

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

	<u>2019</u>	<u>2018</u>
Capital related gifts for projects placed in service	\$ 5,131,990	\$ 1,794,482
Scholarships, instruction and other departmental support	<u>18,070,474</u>	<u>16,676,491</u>
	<u>\$ 23,202,464</u>	<u>\$ 18,470,973</u>

**ST. OLAF COLLEGE**

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

**NOTE 4 - ACCOUNTS RECEIVABLE**

Accounts receivable, and the related allowance for doubtful accounts, was as follows at May 31, 2019 and 2018:

	2019			2018		
	Receivable	Allowance	Net	Receivable	Allowance	Net
Student accounts	\$ 819,170	\$ 250,000	\$ 569,170	\$ 749,550	\$ 250,000	\$ 499,550
Other accounts	<u>1,736,743</u>	<u>859,477</u>	<u>877,266</u>	<u>1,963,437</u>	<u>799,929</u>	<u>1,163,508</u>
Total accounts receivable	<u>\$ 2,555,913</u>	<u>\$ 1,109,477</u>	<u>\$ 1,446,436</u>	<u>\$ 2,712,987</u>	<u>\$ 1,049,929</u>	<u>\$ 1,663,058</u>

An allowance for doubtful accounts is recorded annually based on historical experience and management's evaluation of receivables at the end of each year. Bad debts are written-off when deemed uncollectible. Receivables are generally unsecured.

**NOTE 5 - CONTRIBUTIONS RECEIVABLE**

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

	2019	2018
Unconditional promises expected to be collected in:		
Less than one year	\$ 3,064,412	\$ 2,615,210
One to five years	10,671,834	5,492,688
Over five years	<u>706,500</u>	<u>1,002,100</u>
Gross unconditional promises to give	14,442,746	9,109,998
Less: Unamortized discount	(209,893)	(317,541)
Allowance for uncollectible promises	<u>(472,948)</u>	<u>(1,509,224)</u>
	<u>\$ 13,759,905</u>	<u>\$ 7,283,233</u>

Contributions receivable due within one year are not discounted. Contributions receivable expected to be collected in more than one year have been discounted using historic rates, ranging from 1% to 6%. As of May 31, 2019, net contributions receivable consisted of \$12,038,951 for endowments and \$1,720,954 for operations. As of May 31, 2018, net contributions receivable consisted of \$5,520,846 for endowments and \$1,762,387 for operations.

**ST. OLAF COLLEGE**

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

**NOTE 6 - CREDIT QUALITY OF STUDENT LOANS RECEIVABLE**

The College issues uncollateralized loans to students based on financial need. Loans to students are funded through Federal government loan programs or institutional resources. 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. Interest income on student loan receivables is recognized when received, and fees and costs are recognized when incurred. Government student loan program receivables (Perkins) that become uncollectible can be assigned to the federal government. At May 31, 2019 and 2018, student loans receivable represented 0.70% and 0.79% of total assets, respectively.

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

	2019	2018
Federal government programs	\$ 4,367,765	\$ 5,351,686
Institutional programs	1,976,863	1,753,194
	<u>6,344,628</u>	<u>7,104,880</u>
Less allowance for doubtful accounts:		
Beginning of year	(431,800)	(431,800)
Decreases (increases) to allowance	2,551	(10,037)
Write-off recoveries	(2,551)	(532)
Write-offs		10,569
End of year	<u>(431,800)</u>	<u>(431,800)</u>
Student loans receivable, net	<u>\$ 5,912,828</u>	<u>\$ 6,673,080</u>

Funds advanced by the Federal government of \$5,075,123 and \$5,143,886 at May 31, 2019 and 2018, respectively, are ultimately refundable to the government and are classified as liabilities in the statement of financial position. These amounts are partially offset by related receivables from the Federal government.

At May 31, 2019 and 2018, the past due and current amounts under student loan programs were as follows:

	2019	2018
Past due student loans receivable:		
0 - 240 days past due	\$ 710,117	\$ 328,269
240 days - 2 years past due	275,231	97,752
2 - 5 years past due	115,405	97,852
5+ years past due	74,272	116,891
Total past due	<u>1,175,025</u>	<u>640,764</u>
Current student loans receivable	<u>5,169,603</u>	<u>6,464,116</u>
Total student loans receivable, gross	<u>\$ 6,344,628</u>	<u>\$ 7,104,880</u>

**ST. OLAF COLLEGE**

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

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**NOTE 7 - INVESTMENTS AND 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 are 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 that 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:

- > Investments in cash and short-term investments (consisting primarily of money market funds), mutual funds, stocks, bonds, and deposits held by trustee (consisting primarily of money market funds and other short-term investments) for which quoted prices are readily available.

Level 2 - Level 2 assets include:

- > Investments in certain fixed income securities (corporate bonds and notes) 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:

- > Investments in real estate for which fair value is based on inputs such as appraisals and the county assessed value.
- > Other investments, which represent ownership interests in insurance contracts. The fair value has been estimated based on information provided by the insurance companies.
- > Beneficial interest in trusts held by others 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).

**ST. OLAF COLLEGE**

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

**NOTE 7 - INVESTMENTS AND FAIR VALUE MEASUREMENTS (CONTINUED)**

Certain mutual funds and 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.

A financial instrument's categorization within the valuation hierarchy is based upon the lowest level of input that is significant to the fair value measurement.

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

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 presents information about the College's assets measured at fair value on a recurring basis as of May 31, 2019:

	<u>Total</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
<b>ASSETS</b>				
Investments				
Cash and short-term investments	\$ 16,320,774	\$ 16,320,774		
Marketable securities				
Mutual funds				
Fixed income - domestic	5,928,178	5,928,178		
Fixed income - international	1,278,983	1,278,983		
Equity funds - domestic	19,073,968	19,073,968		
Equity funds - international	15,388,410	15,388,410		
Real asset funds	7,921,922	7,921,922		
Stocks	31,703,174	31,703,174		
Bonds	19,925,208	430,907	\$ 19,494,301	
Real estate	1,058,000			\$ 1,058,000
Other investments	1,778,299			1,778,299
Subtotal investments	<u>120,376,916</u>	<u>98,046,316</u>	<u>19,494,301</u>	<u>2,836,299</u>
Deposits held by trustee	1,753,590	1,753,590		
Beneficial interest in trusts held by others	<u>1,767,205</u>			<u>1,767,205</u>
Subtotal by valuation hierarchy	<u>\$ 123,897,711</u>	<u>\$ 99,799,906</u>	<u>\$ 19,494,301</u>	<u>\$ 4,603,504</u>
Investments measured using NAV				
Hedge funds	120,818,746			
Private equity funds	73,291,835			
Global equity funds	158,447,425			
Fixed income funds	12,615,667			
Real estate funds	22,400,862			
Commodity funds	<u>45,579,259</u>			
Subtotal investments by NAV	<u>433,153,794</u>			
Total assets at fair value	<u>\$ 557,051,505</u>			
Investments by valuation hierarchy	\$ 120,376,916			
Investments by NAV	<u>433,153,794</u>			
Total investments	<u>\$ 553,530,710</u>			

**ST. OLAF COLLEGE**

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

**NOTE 7 - INVESTMENTS AND FAIR VALUE MEASUREMENTS (CONTINUED)**

The following table presents information about the College's assets measured at fair value on a recurring basis as of May 31, 2018:

	<u>Total</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
<b>ASSETS</b>				
Investments				
Cash and short-term investments	\$ 45,812,776	\$ 45,812,776		
Marketable securities				
Mutual funds				
Fixed income - domestic	18,437,713	18,437,713		
Fixed income - international	1,434,261	1,434,261		
Equity funds - domestic	22,363,394	22,363,394		
Equity funds - international	17,235,870	17,235,870		
Real asset funds	10,923,463	10,923,463		
Stocks	44,317,065	44,317,065		
Bonds	9,504,389	437,233	\$ 9,067,156	
Real estate	1,713,849			\$ 1,713,849
Other investments	1,753,253			1,753,253
Subtotal investments	<u>173,496,033</u>	<u>160,961,775</u>	<u>9,067,156</u>	<u>3,467,102</u>
Deposits held by trustee	1,800,302	1,800,302		
Beneficial interest in trusts held by others	1,800,919			1,800,919
Subtotal by valuation hierarchy	<u>\$ 177,097,254</u>	<u>\$ 162,762,077</u>	<u>\$ 9,067,156</u>	<u>\$ 5,268,021</u>
Investments measured using NAV				
Hedge funds	135,772,970			
Private equity funds	63,835,550			
Global equity funds	130,081,743			
Real estate funds	19,328,158			
Commodity funds	40,462,175			
Subtotal investments by NAV	<u>389,480,596</u>			
Total assets at fair value	<u>\$ 566,577,850</u>			
Investments by valuation hierarchy	\$ 173,496,033			
Investments by NAV	<u>389,480,596</u>			
Total investments	<u>\$ 562,976,629</u>			

**ST. OLAF COLLEGE**

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

**NOTE 7 - INVESTMENTS AND FAIR VALUE MEASUREMENTS (CONTINUED)**

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

	Balances May 31, 2018	Net realized and unrealized gains (losses)	Purchases	Sales	Net transfers in (out) of Level 3	Balances May 31, 2019
Assets						
Real estate	\$ 1,713,849	\$ (135,465)		\$ (520,384)		\$ 1,058,000
Other investments	1,753,253	25,046				1,778,299
Beneficial interest in trusts held by others	<u>1,800,919</u>	<u>(33,714)</u>				<u>1,767,205</u>
Total	<u>\$ 5,268,021</u>	<u>\$ (144,133)</u>	<u>\$ -</u>	<u>\$ (520,384)</u>	<u>\$ -</u>	<u>\$ 4,603,504</u>

The amount of total gains(losses) for the period included in change in net assets attributable to the change in unrealized gains or losses relating to assets measured at fair value still held at May 31, 2019. \$ 28,232

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

	Balances May 31, 2017	Net realized and unrealized gains (losses)	Purchases	Sales	Net transfers in (out) of Level 3	Balances May 31, 2018
Assets						
Real estate	\$ 2,024,600	\$ (58,860)		\$ (251,891)		\$ 1,713,849
Other investments	1,718,161	35,092				1,753,253
Beneficial interest in trusts held by others	<u>1,683,268</u>	<u>117,651</u>				<u>1,800,919</u>
Total	<u>\$ 5,426,029</u>	<u>\$ 93,883</u>	<u>\$ -</u>	<u>\$ (251,891)</u>	<u>\$ -</u>	<u>\$ 5,268,021</u>

The amount of total gains (losses) for the period included in change in net assets attributable to the change in unrealized gains or losses relating to assets measured at fair value still held at May 31, 2018. \$ 144,493

Investment income and gains (losses) for the investments without readily determinable fair values totaled \$3,836,268 and \$23,304,358 for the years ended May 31, 2019 and 2018, respectively.

**ST. OLAF COLLEGE**

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

**NOTE 7 - INVESTMENTS AND FAIR VALUE MEASUREMENTS (CONTINUED)**

The College uses the NAV as a practical expedient to determine fair value of all underlying investments which (a) do not have a readily determinable fair value; and (b) prepare their financial statements consistent with the measurement principles of an investment company or have the attributes of an investment company.

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

Investment Type	Unfunded Commitments	Fair Value May 31, 2019	Fair Value May 31, 2018	Redemption Frequency	Redemption Notice Period	Estimated Remaining Life
Alternative Investments						
Hedge funds (a)		\$ 120,818,746	\$ 135,772,970	Quarterly to 2 years	45-90 days	N/A (a)
Private equity funds (b)	\$ 43,450,600	73,291,835	63,835,550	Not redeemable	N/A	1-15 years
Global equity funds (c)		158,447,425	130,081,743	Monthly to 3 years	8-90 days	N/A
Fixed income funds (d)		12,615,667		Daily	2 days	N/A
Real estate funds (e)	16,643,974	22,400,862	19,328,158	Not redeemable	N/A	1-12 years
Commodity funds (f)	<u>21,015,582</u>	<u>45,579,259</u>	<u>40,462,175</u>	Monthly to not redeemable	30 days to N/A	1-12 years
Total	<u>\$ 81,110,156</u>	<u>\$ 433,153,794</u>	<u>\$ 389,480,596</u>			

- (a) Comprised of various hedge funds which primarily focus on absolute return, security selection, and hedging. A portion of the investments in this category cannot be redeemed currently because the investments include restrictions that do not allow for redemption in the first 12 to 36 months after acquisition.
- (b) Comprised of various private equity funds with a broad range of investment objectives which include diversified fund of funds focused on venture, buyout, and special situations, as well as smaller direct funds that have more specific niche strategies. These investments are generally not redeemable. Instead, distributions are received through the liquidation of the underlying assets of the fund.
- (c) Comprised of limited partnership investments both holding long-only domestic and international equities.
- (d) Comprised of two limited partnership investments at the statement of financial position date; the funds invest in international long-only fixed income securities.
- (e) Includes funds having diversified investment objectives that focus on domestic commercial properties to apartments and office holdings. The other investments cannot be redeemed, but distributions from each fund will be received as the underlying investments in the funds are liquidated.
- (f) Includes fund of funds investments that focus on natural resources and/or energy.



**ST. OLAF COLLEGE**

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

**NOTE 8 - ENDOWMENT**

The College's endowment consists of approximately 1,800 individual funds established for a variety of purposes. The endowment includes both donor-restricted endowment funds and funds designated by the Board of Regents to function as endowments. As required by U.S. generally accepted accounting principles, net assets associated with endowment funds, including funds designated by the Board of Regents as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

**Interpretation of Relevant Law** - The College's Board of Regents 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 Board of Regents 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. The College classifies as net assets with restrictions (a) the original value of the gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of a donor-restricted endowment fund is classified as net assets with restriction until those amounts are appropriated for expenditure by the College through the Board of Regents' approval of the annual budget, which is inclusive of the spending rate for its endowment funds established pursuant to the College's spending policy. See Note 1 for further information on net asset classifications.

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

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>		
		<u>Accumulated Gains</u>	<u>Original Gifts</u>	<u>Total</u>
Donor-restricted endowment funds		\$ 121,440,447	\$ 234,714,761	\$ 356,155,208
Board-designated endowment funds	<u>\$ 183,982,642</u>			<u>183,982,642</u>
 Total endowment net assets	 <u>\$ 183,982,642</u>	 <u>\$ 121,440,447</u>	 <u>\$ 234,714,761</u>	 <u>\$ 540,137,850</u>

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

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>		
		<u>Accumulated Gains</u>	<u>Original Gifts</u>	<u>Total</u>
Donor-restricted endowment funds		\$ 133,144,600	\$ 203,842,895	\$ 336,987,495
Board-designated endowment funds	<u>\$ 199,066,038</u>			<u>199,066,038</u>
 Total endowment net assets	 <u>\$ 199,066,038</u>	 <u>\$ 133,144,600</u>	 <u>\$ 203,842,895</u>	 <u>\$ 536,053,533</u>

**ST. OLAF COLLEGE**

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

**NOTE 8 - ENDOWMENT (CONTINUED)**

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

	Without Donor Restrictions	With Donor Restrictions		Total
		Accumulated Gains	Original Gifts	
Endowment net assets, May 31, 2018	\$ 199,066,038	\$ 133,144,600	\$ 203,842,895	\$ 536,053,533
Total investment return	(380,225)	1,251,629	(323,097)	548,307
Contributions	749,059		14,839,172	15,588,231
Appropriation of endowment assets for:				
Operating expenditures	(6,142,270)	(13,078,413)		(19,220,683)
Non-operating expenditures	(48,993)		(17,772)	(66,765)
Other changes:				
Transfers from other funds	3,376,000			3,376,000
Transfers between endowment funds	(12,916,983)	122,631	12,794,352	
Matured deferred gifts	280,016		3,579,211	3,859,227
Endowment net assets, May 31, 2019	<u>\$ 183,982,642</u>	<u>\$ 121,440,447</u>	<u>\$ 234,714,761</u>	<u>\$ 540,137,850</u>

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

	Without Donor Restrictions	With Donor Restrictions		Total
		Accumulated Gains	Original Gifts	
Endowment net assets, May 31, 2017	\$ 186,996,048	\$ 116,220,855	\$ 195,493,071	\$ 498,709,974
Total investment return	17,676,865	27,696,625	299,538	45,673,028
Contributions	381,130	1,500,001	7,169,660	9,050,791
Appropriation of endowment assets for:				
Operating expenditures	(5,940,826)	(12,272,881)		(18,213,707)
Non-operating expenditures	(48,102)		(17,442)	(65,544)
Other changes:				
Matured deferred gifts	923		898,068	898,991
Endowment net assets, May 31, 2018	<u>\$ 199,066,038</u>	<u>\$ 133,144,600</u>	<u>\$ 203,842,895</u>	<u>\$ 536,053,533</u>

**Funds with Deficiencies** - From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the original value of the gifts contributed to each endowment fund. At May 31, 2019, 106 donor-restricted funds with original gift values of \$12,661,806, fair values of \$12,371,046 and deficiencies of \$290,760 were reported in net assets with donor restrictions. At May 31, 2018, 10 donor-restricted funds with original gift values of \$707,385, fair values of \$675,437 and deficiencies of \$31,423 were reported in net assets with donor restrictions. These deficiencies resulted from unfavorable market fluctuations that occurred after the investment of new donor-restricted endowment funds and continued appropriation for certain programs that was deemed prudent by the Board of Regents.

The College's endowment spending policy states that, as permitted by UPMIFA, the Investment Committee will decide on a case-by-case basis whether or not to continue spending from the endowments with deficiencies, otherwise known as underwater endowments.

ST. OLAF COLLEGE

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

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**NOTE 8 - ENDOWMENT (CONTINUED)**

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**Return Objectives and Risk Parameters** - The College has adopted investment and spending policies for endowment assets that strive to provide a source of income for spending that is reasonably stable and predictable from year-to-year, while seeking to preserve capital, maintain the purchasing power of the endowment assets, and prudently earn the highest possible rate of return consistent with the College's ability to accommodate risk. Endowment assets include those assets of donor-restricted funds that the College must hold indefinitely or for a donor-specified period(s) as well as board-designated funds. Under this policy, as approved by the Board of Regents, the endowment assets are invested in a manner that is intended to produce results that outperform the appropriate benchmark for each asset class and to outperform a simple benchmark of the broad market mix represented by a 70 percent S&P 500 and 30 percent Barclays Aggregate allocation. The College expects its endowment funds, over time, to provide an average real total return of 6 percent, net of fees. Actual returns in any given year may vary from this amount.

**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 including asset classes such as public equities, fixed income and alternative assets in order to achieve its long-term return objectives within prudent risk constraints.

**Spending Policy and How the Investment Objectives Relate to Spending Policy** - The Board of Regents designates only a portion of the College's cumulative investment return for support of current operations; the remainder is retained to support operations of future years and to offset potential market declines. In developing its spending policy, the College considers certain of the following factors which it determines relevant:

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.

The Board has adopted a policy to appropriate for distribution during each fiscal year an amount per endowment unit calculated at a rate of 4.7% of the average endowment market value per endowment unit from the preceding 16 quarters established as of the end of the calendar year prior to the beginning of the fiscal year.

## ST. OLAF COLLEGE

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

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#### NOTE 9 - LIQUIDITY AND AVAILABILITY

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The following table reflects the College's financial assets as of May 31, 2019, reduced by amounts not available for general expenditures within one year. Financial assets are considered unavailable when illiquid or not convertible to cash within one year. Other financial assets that are excluded from this measure of liquidity include cash and other investments that are restricted by donors, the College's Board of Regents, or are restricted for a specific use.

Financial assets	
Cash and cash equivalents	\$ 15,812,056
Accounts receivable	1,446,436
Contributions receivable	13,759,905
Student loan receivables	5,912,828
Notes receivable	901,650
Investments	553,530,710
Deposits held by trustee	1,753,590
Assets held in trust by others	<u>1,767,205</u>
Financial assets at May 31	<u>594,884,380</u>
Less those unavailable for general expenditure within one year:	
Cash restricted for student loans	2,821,357
Accounts receivable beyond one year	137,732
Contributions receivable for endowments	12,038,951
Contributions receivable greater than one year	914,589
Student loan receivables restricted for financial aid purposes	5,912,828
Note receivable beyond one year	750,000
Endowment assets restricted by donors, net of appropriation for next year	328,416,479
Endowment assets restricted by the Board of Regents, net of appropriation for next year	175,572,209
Cash and other investments held for gift annuitants	27,518,233
Bond proceeds and reserves restricted by use	1,753,590
Investments held for others connected to split-interest agreements	<u>1,767,205</u>
Financial assets not available for expenditure within one year	<u>557,603,173</u>
Financial assets available to meet cash needs for general purposes within one year	<u>\$ 37,281,207</u>

As of May 31, 2019, the College had liquid assets on hand to cover approximately three to four months of operating expenses. The College's practice is to structure its financial assets to be available as its general expenses, liabilities and obligations come due.

Cash in excess of daily requirements is typically invested in short-term, liquid securities. The College also has an unsecured \$5,000,000 line of credit through Wells Fargo Bank, representing approximately 15 days of operating expenses. Borrowings under this line of credit bear interest at an annual rate of 50 basis points below the Bank's base (prime) rate. Interest is payable on the last day of each month. Principal, and any unpaid interest, is due on March 31, 2020. In addition, the agreement requires the College to comply with certain financial covenants. At May 31, 2019 and 2018, there were no outstanding borrowings under this arrangement.

**ST. OLAF COLLEGE**

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

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**NOTE 10 - PROPERTY, PLANT AND EQUIPMENT**

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At May 31, 2019 and 2018, property, plant and equipment consisted of the following:

	<u>2019</u>	<u>2018</u>
Land	\$ 1,277,890	\$ 1,277,890
Improvements other than buildings	28,548,067	27,334,608
Buildings	319,507,483	307,152,627
Equipment	60,436,947	56,387,498
Library materials	15,620,936	16,375,025
Art collection	1,768,200	1,731,700
Construction in progress	296,129	4,019,442
	<u>427,455,652</u>	<u>414,278,790</u>
Less: Accumulated depreciation	<u>(180,720,040)</u>	<u>(169,425,255)</u>
	<u>\$ 246,735,612</u>	<u>\$ 244,853,535</u>

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**NOTE 11 - ACCRUED AND OTHER LIABILITIES**

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At May 31, 2019 and 2018, accrued and other liabilities consisted of the following:

	<u>2019</u>	<u>2018</u>
Payroll	\$ 8,053,003	\$ 8,765,685
Self-insurance reserve (Note 12)	282,000	357,000
Post-retirement benefit obligations (Note 13)	1,443,120	1,966,749
Interest	1,295,159	1,354,701
Asset retirement obligations (Note 14)	2,784,760	2,654,819
Other	<u>158,545</u>	<u>155,982</u>
	<u>\$ 14,016,587</u>	<u>\$ 15,254,936</u>

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**NOTE 12 - SELF-INSURANCE**

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The College provides medical benefits through a self-insurance plan, which is available to all employees of the College who meet the eligibility requirements for certain medical expenses. Accrued and other liabilities include an incurred but not reported reserve of approximately \$282,000 and \$357,000 at May 31, 2019 and 2018, respectively, an estimate of amounts due and payable on existing claims for which the College is self-insured and which are expected to be settled currently. The College is self-insured for the first \$225,000 per claim with an aggregate stop loss of approximately \$9,485,000. As of May 31, 2019 and 2018, the College had unrestricted net assets of \$1,093,341 and \$969,227, respectively, designated for health insurance benefits, which consists of the cumulative amount that employee and college contributions towards health premiums have exceeded expenses over the life of the plan.

**ST. OLAF COLLEGE**

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

**NOTE 13 - RETIREMENT PLANS AND POSTRETIREMENT BENEFIT PLAN**

The College has certain defined contribution retirement plans for employees. All employees are eligible to participate after meeting certain eligibility requirements. College contributions are based upon a percentage of salaries. The College's contributions to the retirement plans approximated \$3,956,000 and \$3,882,000 for the years ended May 31, 2019 and 2018, respectively.

The College also provides postretirement health care benefits for current or retired employees and covered dependents, which are recorded on the accrual basis. Two voluntary employee benefit association (VEBA) trusts were established in fiscal year 2006. The Employee After-Tax-Contributions VEBA Trust (funded solely by employee after tax contributions) and the Employer Contribution VEBA Trust (funded solely by employer pre-tax contributions) were established to provide employee welfare benefit plans providing certain insured and/or self-insured health and life benefits for eligible retired employees and their eligible spouses and dependents. The trusts are managed by a trustee, who invests in money market and mutual funds (Level 1 assets). The trusts are exempt from taxation to the extent permitted under section 501(c)(9) and 512 of the Internal Revenue Code of 1986.

The following tables set forth the postretirement health care benefit plan's status with amounts reported in the College's financial statements at May 31, 2019 and 2018:

	2019	2018
<b><i>Change in benefit obligation</i></b>		
Benefit obligation at beginning of year	\$ 12,861,263	\$ 11,904,899
Service cost	33,312	109,033
Interest cost	477,681	400,819
Plan participants' VEBA contributions	38,838	20,803
Employer VEBA contributions	800,546	794,133
Actuarial (gain)/loss	(829,971)	373,323
Benefits paid	(778,991)	(741,747)
Benefit obligation at end of year	\$ 12,602,678	\$ 12,861,263
<b><i>Change in plan assets</i></b>		
Fair value of plan assets at beginning of year	\$ 10,894,514	\$ 9,539,144
Actual return on plan assets	47,463	1,137,040
Employer contributions	957,734	939,274
Plan participants' contributions	38,838	20,803
Benefits paid	(778,991)	(741,747)
Fair value of plan assets at end of year	\$ 11,159,558	\$ 10,894,514
<b><i>Funded status</i></b>		
Funded status at end of year	\$ (1,443,120)	\$ (1,966,749)
<b><i>Amounts recognized in the statement of financial position consist of:</i></b>		
Current liabilities	\$ (215,000)	\$ (233,000)
Noncurrent liabilities	(1,228,120)	(1,733,749)
Net amount recognized (Note 11)	\$ (1,443,120)	\$ (1,966,749)

ST. OLAF COLLEGE

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

**NOTE 13 - RETIREMENT PLANS AND POSTRETIREMENT BENEFIT PLAN (CONTINUED)**

	<u>2019</u>	<u>2018</u>
<b>Amounts recognized in change in net assets consist of:</b>		
Prior service cost	\$ -	\$ -
(Gain)/loss	(360,400)	(27,692)
Accumulated change in net assets	<u>\$ (360,400)</u>	<u>\$ (27,692)</u>
<b>Weighted-average assumptions used to determine benefit obligations at May 31</b>		
Discount rate	3.25%	3.75%
Expected return on plan assets	5.00%	5.00%
Rate of compensation increase	0.00%	0.00%
<b>Components of net periodic benefit cost</b>		
Service cost	\$ 33,312	\$ 109,033
Interest cost	477,681	400,819
Expected return on plan assets	(544,726)	(476,957)
Amortization of prior service cost	-	(133,598)
Net periodic postretirement benefit cost	<u>\$ (33,733)</u>	<u>\$ (100,703)</u>
<b>Changes in net assets</b>		
Net (gain)/loss	\$ (332,708)	\$ (286,760)
Amortization of prior service cost	-	133,598
Total amount (gain)/loss recognized in change in net assets	<u>\$ (332,708)</u>	<u>\$ (153,162)</u>
Total amount recognized in net periodic benefit cost and change in net assets	<u>\$ (366,441)</u>	<u>\$ (253,865)</u>
<b>Weighted-average assumptions used to determine net periodic benefit cost as of June 1</b>		
Discount rate	3.75%	3.40%
Expected return on plan assets	5.00%	5.00%
Rate of compensation increase	0.00%	0.00%
<b>Assumed health care cost trend rates at May 31</b>		
Health care cost trend rate assumed for next year	8.00% - Post 65 8.00% - Pre 65	8.50% - Post 65 8.50% - Pre 65
Rate to which the cost trend rate is assumed to decline (the ultimate trend)	5.00%	5.00%
Year that the rate reaches the ultimate rate	2025	2024

Plan assets are invested primarily in mutual funds, which are classified as Level 1 in the fair value hierarchy, as of May 31, 2019 and 2018.

ST. OLAF COLLEGE

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

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**NOTE 13 - RETIREMENT PLANS AND POSTRETIREMENT BENEFIT PLAN (CONTINUED)**

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During the year ending May 31, 2020, the College expects to contribute approximately \$223,000 in benefit payments for the postretirement medical plan, which includes the liability for post-65 retiree VEBA and the present value of the projected future liability for the pre-65 retiree health plan. The College also expects to contribute approximately \$645,000 to the VEBA for current employees during the year ending May 31, 2020.

The following estimated benefit payments for the postretirement medical plan, which reflect expected future service, as appropriate, are expected to be paid during the years ending May 31:

2020	\$	223,000
2021		215,000
2022		206,000
2023		172,000
2024		158,000
2025 - 2029		518,000

It is reasonably possible that changes in these estimates could occur in the near term and that actual results could differ from these estimates and could have a material impact on the financial statements.

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**NOTE 14 - ASSET RETIREMENT OBLIGATIONS**

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The College owns certain buildings that contain encapsulated asbestos material and as such records a liability for the reasonably estimated fair value of the conditional asset retirement obligation.

The following shows the activity in the College's asset retirement obligations:

	<u>2019</u>	<u>2018</u>
Balance at beginning of the year	\$ 2,654,819	\$ 2,535,856
Abatement costs	(2,800)	(7,830)
Accretion expense	<u>132,741</u>	<u>126,793</u>
Balance at end of the year (Note 11)	<u>\$ 2,784,760</u>	<u>\$ 2,654,819</u>



**ST. OLAF COLLEGE**

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

**NOTE 15 - LONG-TERM DEBT**

Long-term debt at May 31, 2019 and 2018 consisted of the following bonds issued by the Minnesota Higher Education Facilities Authority (MHEFA) on behalf of the College:

	<u>Interest</u>	<u>Principal Payment</u>	<u>Year of Maturity</u>	<u>Outstanding Balance</u>	
				2019	2018
MHEFA Revenue Bonds, Series Seven-F, issued to refinance variable debt	Bonds bear rates from 2.63% to 5.00%	Annual payments range from \$535,000 to \$555,000	2021	\$ 1,090,000	\$ 1,610,000
MHEFA Revenue Bonds, Series Eight-G, issued to finance construction and advance refunding	Bonds bear rates from 3.25% to 5.00%	Annual payments range from \$2,410,000 to \$4,495,000	2033	47,095,000	49,390,000
MHEFA Revenue Bonds, Series Eight-N, issued to advance refund previous issuance	Bonds bear rates from 2.25% to 4.00%	Annual payments range from \$370,000 to \$5,760,000	2036	<u>22,845,000</u>	<u>22,845,000</u>
Principal outstanding on bonds				71,030,000	73,845,000
Plus: Unamortized premium - Series Seven-F Revenue Bonds				9,900	39,598
Unamortized premium - Series Eight-G Revenue Bonds				5,529,845	5,939,463
Unamortized premium - Series Eight-N Revenue Bonds				2,309,152	2,450,528
Less: Unamortized debt issue costs				<u>(270,718)</u>	<u>(294,297)</u>
Total Long-Term Debt				<u>\$ 78,608,179</u>	<u>\$ 81,980,292</u>

On August 10, 2016, the College issued \$22,845,000 in tax-exempt bonds, Series Eight-N, through the Minnesota Higher Education Facilities Authority (MHEFA). A portion of the Series Seven-F Revenue Bonds (\$24,465,000) was legally defeased by proceeds from the Series Eight-N Revenue Bonds, as well as a portion of the debt service reserve fund on Series Seven-F (\$1,866,000). The proceeds of the Series Eight-N Revenue Bonds related to the defeasance were placed in an escrow until October 1, 2019, at which time, the refunded bonds are callable and will be paid off. At May 31, 2019, the balance outstanding on the bonds to be refunded was \$21,375,000 and the balance in the escrow account was \$21,595,816.

Revenue Bonds Series Seven-F, Eight-G and Eight-N are secured by a pledge of loan repayment from the College and require that certain covenants be maintained.

**ST. OLAF COLLEGE**

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

**NOTE 15 - LONG-TERM DEBT (CONTINUED)**

The College maintains short-term investments and U.S. government securities held by a trustee for retirement of indebtedness that totaled \$1,753,590 and \$1,800,302 as of May 31, 2019 and 2018, respectively. These funds are intended to satisfy the reserve requirements of the Series Seven-F issue.

Anticipated principal payments on long-term debt are as follows:

Year Ending May 31:		
2020	\$	2,945,000
2021		3,460,000
2022		3,045,000
2023		3,190,000
2024		3,350,000
Thereafter		<u>55,040,000</u>
Total	\$	<u>71,030,000</u>

**NOTE 16 - DEFERRED GIFT (SPLIT-INTEREST) 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 an interest and agrees to pay the donor stipulated amounts. The arrangement may cover one or more lives. The College invests and administers the related assets and makes distributions to the beneficiaries as required. When the agreement reaches the end of its term, remaining assets are retained by the College as net assets with restrictions or net assets without restrictions, or in some instances, distributed to third-party beneficiaries.

When a gift is received under one of these arrangements, it is split into the amount representing the actuarial present value of future distributions back to the donor and the remaining gift value to be retained for the benefit of the College or third-party beneficiaries. The actuarial liability is adjusted annually using actuarial tables appropriate for the type of arrangement, number of lives covered and age and gender characteristics of the beneficiary. The College used historical discount rates ranging from 1.2% to 11.6% for the years ended May 31, 2019 and 2018 in making the actuarial and gift calculations. In some cases, there can be a time delay in the recording of the asset because of the time needed for discovery, verification of the College's rights, and the determination of the valuation of future payments.

Information pertaining to the College's deferred gift agreements for the years ended May 31, 2019 and 2018 is as follows:

	<u>2019</u>	<u>2018</u>
Cash and investments	\$ 27,518,233	\$ 31,176,410
Interfund receivable	2,220	154,922
Beneficial interest in trusts held by others, fair value	1,767,205	1,800,919
Beneficial interest in trusts held by others, cost	-	491,350
Deposits held in trust for others	(184,325)	(185,068)
Annuities payable	<u>(11,086,670)</u>	<u>(12,795,080)</u>
	<u>\$ 18,016,663</u>	<u>\$ 20,643,453</u>
Net Assets		
Without donor restrictions	\$ 3,466,930	\$ 3,889,621
With donor restrictions	<u>14,549,733</u>	<u>16,753,832</u>
	<u>\$ 18,016,663</u>	<u>\$ 20,643,453</u>

**ST. OLAF COLLEGE**

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

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**NOTE 17 - CONCENTRATIONS**

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Financial instruments that potentially subject the College to concentrations of credit risk consist principally of cash and cash equivalents, investments, accounts receivable, notes receivable and derivatives. Cash, cash equivalents and investment holdings are concentrated in a limited number of financial institutions and amounts in excess of FDIC and similar coverage are subject to the usual risks of balances in excess of those limits. Investments are diversified in order to reduce credit risk. Student loans, student 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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The College has various signed contracts with a construction company owned by a former member of the Board of Regents. The contracts were approved unanimously by the Board of Regents in accordance with the College's conflict of interest policy. Amounts payable to the construction company totaled approximately \$0 and \$615,000 as of May 31, 2019 and 2018, respectively. Total payments to this construction company were approximately \$8,976,000 and \$6,423,000 for the years ended May 31, 2019 and 2018, respectively.

As of May 31, 2019 and 2018, approximately \$3,326,000 and \$2,300,000, respectively, of contributions receivable were due from members of the Board of Regents. Contribution revenue from members of the Board of Regents totaled approximately \$4,796,000 and \$3,191,000 for the years ending May 31, 2019 and 2018, respectively. Board members are not compensated.

The College has invested in various private equity investments, in which members of the Investment Committee and Board of Regents have an affiliation. The individuals fully disclosed their interests 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. As of May 31, 2019 and 2018, the College's total value of these funds was approximately \$6,767,000 and \$9,137,000, respectively. The College's cumulative contributions, net of distributions, to these investments as of May 31, 2019 totaled approximately \$2,609,000. The College's cumulative contributions, net of distributions, to these investments as of May 31, 2018 totaled approximately \$2,295,000. The College's outstanding future commitments to these investments totaled approximately \$1,955,000 at May 31, 2019 and 2018, respectively.

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**NOTE 19 - SUBSEQUENT EVENTS**

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The College has evaluated subsequent events through October 16, 2019, which is the date that the financial statements were issued.