

**GUSTAVUS ADOLPHUS COLLEGE**  
Saint Peter, Minnesota

Financial Statements  
Including Independent Auditors' Report

May 31, 2009 and 2008

# **GUSTAVUS ADOLPHUS COLLEGE**

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## INDEPENDENT AUDITORS' REPORT

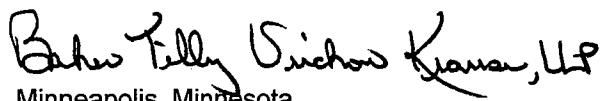
To the Board of Trustees  
Gustavus Adolphus College  
Saint Peter, Minnesota

We have audited the accompanying statements of financial position of Gustavus Adolphus College as of May 31, 2009 and 2008 and the related statements of activities and cash flows for the years then ended. These financial statements are the responsibility of the College's management. 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 audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the College's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Gustavus Adolphus College at May 31, 2009 and 2008 and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note 6 to the financial statements, Gustavus Adolphus College adopted the provisions of FASB Statement No. 157, *Fair Value Measurements* and FASB Statement No. 159, *The Fair Value Option for Financial Assets and Liabilities – Including an Amendment of FASB Statement No. 115* as of June 1, 2008. As described in Note 7 to the financial statements, the College adopted the provisions of FASB Staff Position FSP 117-1, *Endowments of Not-for-Profit Organizations: Net Asset Classifications of Funds Subject to an Enacted Version of the Uniform Prudent Management of Institutional Funds Act, and Enhanced Disclosure for all Endowment Funds* for the year ended May 31, 2009; and for the year ended May 31, 2008, adopted FASB Statement No. 158, *Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans*.

  
Minneapolis, Minnesota  
September 11, 2009

**GUSTAVUS ADOLPHUS COLLEGE**  
**STATEMENTS OF FINANCIAL POSITION**  
May 31, 2009 and 2008

<b>ASSETS</b>		2009	2008
Cash and cash equivalents	\$	12,151,376	\$ 14,184,395
Receivables			
Students accounts, net of allowance for doubtful accounts of \$420,000 and \$320,000		525,636	401,782
Government grants		191,642	151,061
Accrued interest		84,039	96,997
Contributions		3,578,000	3,327,000
Other		263,664	308,905
Inventories		510,982	461,203
Prepaid expenses and other assets		747,498	782,878
Students notes receivable, net of allowance for doubtful accounts of \$220,000 each year		3,310,071	3,029,655
Investments			
Cash and short-term investments		1,961,821	2,754,433
Investments other than endowment		19,631,873	24,453,152
Interest in buildings, net of accumulated depreciation of \$1,397,264 and \$1,338,615		1,774,210	1,875,498
Real estate held for resale		1,428,500	1,428,500
Beneficial interest in funds held in trust		639,767	1,166,240
Other		4,531,398	3,531,020
Deposits held by trustees			
Cash and short-term investments		636,089	634,406
Fixed income securities		849,487	847,113
Endowment investments		85,907,969	114,581,287
Deferred debt acquisition costs		311,590	331,083
Construction in progress		1,300,546	85,196
Property, plant and equipment, net		93,869,443	96,496,056
<b>TOTAL ASSETS</b>	<b>\$</b>	<b>234,205,601</b>	<b>\$ 270,927,860</b>
<b>LIABILITIES AND NET ASSETS</b>			
<b>LIABILITIES</b>			
Accounts payable	\$	2,293,872	\$ 1,935,267
Accrued liabilities		12,998,150	12,649,277
Deferred revenue		1,950,016	2,088,293
Future interest discount on pooled life income funds		1,075,193	1,143,389
Annuities payable		7,940,120	8,985,812
Funds held for others		1,597,875	1,690,106
Long-term debt		23,985,000	25,055,000
U.S. government grants refundable		2,952,304	2,981,272
Total Liabilities		54,792,530	56,528,416
<b>NET ASSETS</b>			
Unrestricted		41,753,080	73,548,324
Temporarily restricted		61,645,244	62,243,448
Permanently restricted		76,014,747	78,607,672
Total Net Assets		179,413,071	214,399,444
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<b>\$</b>	<b>234,205,601</b>	<b>\$ 270,927,860</b>

See accompanying notes to financial statements.

**GUSTAVUS ADOLPHUS COLLEGE**

**STATEMENT OF ACTIVITIES**  
Year Ended May 31, 2009  
With Comparative Figures for 2008

	2009			2008 Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	
<b>REVENUES, GAINS AND OTHER SUPPORT</b>				
Tuition and fees	\$ 74,631,033			\$ 74,631,033
Less: Scholarships and grants	<u>30,721,422</u>			<u>30,721,422</u>
Net tuition and fees	43,909,611			43,909,611
Government grants	1,072,579			1,072,579
Private gifts and grants	1,872,761	\$ 2,625,000	\$ 1,630,186	6,127,947
Endowment income	1,043,566	3,270,703	82,496	4,396,765
Investment income	626,988		751	627,739
Losses on investments	(15,416,179)	(17,536,325)	(274,272)	(33,226,776)
Other sources	2,018,942		3,247	2,022,189
Sales and services of auxiliary enterprises	19,749,417			19,749,417
Adjustment of actuarial liability	<u>(11,022)</u>	<u>(192,057)</u>	<u>(3,973,669)</u>	<u>(4,176,748)</u>
	54,866,663	(11,832,679)	(2,531,261)	40,502,723
Net assets released from restrictions	<u>7,667,627</u>	<u>(7,667,627)</u>		
Total Revenues, Gains and Other Support	<u>62,534,290</u>	<u>(19,500,306)</u>	<u>(2,531,261)</u>	<u>40,502,723</u>
				<u>75,734,600</u>
<b>EXPENSES AND LOSSES</b>				
Program expenses				
Instruction	30,007,796			30,007,796
Academic support	<u>4,727,429</u>			<u>4,727,429</u>
	34,735,225			34,735,225
Research	81,122			81,122
Public service	884,108			884,108
Student services	14,234,185			14,234,185
Auxiliary enterprises	15,793,981			15,793,981
Support expenses				
Institutional support	9,760,475			9,760,475
Demolition and loss on disposal of property, plant and equipment				175,254
Total Expenses and Losses	<u>75,489,096</u>			<u>75,489,096</u>
				<u>72,454,675</u>
<b>Change in net assets before cumulative effect of change in accounting principle and net asset reclassifications</b>	(12,954,806)	(19,500,306)	(2,531,261)	(34,986,373)
Reclassification of prior year net assets	(85,636)	147,300	(61,664)	
Net asset reclassification based on change in Minnesota law	(18,754,802)	18,754,802		
Cumulative effect of change in accounting principle				(377,000)
<b>Total Change in Net Assets</b>	(31,795,244)	(598,204)	(2,592,925)	(34,986,373)
Net Assets - Beginning of Year	<u>73,548,324</u>	<u>62,243,448</u>	<u>78,607,672</u>	<u>214,399,444</u>
				<u>211,496,519</u>
<b>NET ASSETS - END OF YEAR</b>	<u>\$ 41,753,080</u>	<u>\$ 61,645,244</u>	<u>\$ 76,014,747</u>	<u>\$ 179,413,071</u>
				<u>\$ 214,399,444</u>

See accompanying notes to financial statements.

**GUSTAVUS ADOLPHUS COLLEGE**

**STATEMENT OF ACTIVITIES**  
Year Ended May 31, 2008

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
<b>REVENUES, GAINS AND OTHER SUPPORT</b>				
Tuition and fees	\$ 71,690,557			\$ 71,690,557
Less: Scholarships and grants	28,091,268			28,091,268
Net tuition and fees	43,599,289			43,599,289
Government grants	1,157,664			1,157,664
Private gifts and grants	2,247,946	\$ 4,523,689	\$ 5,169,109	11,940,744
Endowment income	1,131,740	3,075,433	96,247	4,303,420
Investment income	864,842		5,321	870,163
Losses on investments	(4,391,739)	(1,028,242)	(232,251)	(5,652,232)
Other sources	2,052,168		582	2,052,750
Sales and services of auxiliary enterprises	18,372,764			18,372,764
Adjustment of actuarial liability	(7,341)	(21,588)	(881,033)	(909,962)
	65,027,333	6,549,292	4,157,975	75,734,600
Net assets released from restrictions	7,426,693	(7,426,693)		
Total Revenues, Gains and Other Support	72,454,026	(877,401)	4,157,975	75,734,600
<b>EXPENSES AND LOSSES</b>				
Program expenses				
Instruction	29,751,781			29,751,781
Academic support	4,529,246			4,529,246
	34,281,027			34,281,027
Research	57,452			57,452
Public service	898,435			898,435
Student services	12,998,977			12,998,977
Auxiliary enterprises	15,222,352			15,222,352
Support expenses				
Institutional support	8,821,178			8,821,178
Demolition and loss on disposal of property, plant and equipment	175,254			175,254
Total Expenses and Losses	72,454,675			72,454,675
<b>Change in net assets before cumulative effect of change in accounting principle</b>	(649)	(877,401)	4,157,975	3,279,925
Cumulative effect of change in accounting principle	(377,000)			(377,000)
<b>Total Change in Net Assets</b>	(377,649)	(877,401)	4,157,975	2,902,925
Net Assets - Beginning of Year	73,925,973	63,120,849	74,449,697	211,496,519
<b>NET ASSETS - END OF YEAR</b>	\$ 73,548,324	\$ 62,243,448	\$ 78,607,672	\$ 214,399,444

See accompanying notes to financial statements.

**GUSTAVUS ADOLPHUS COLLEGE**

**STATEMENTS OF CASH FLOWS**  
Years Ended May 31, 2009 and 2008

	2009	2008
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Change in net assets	\$ (34,986,373)	\$ 2,902,925
Adjustments to reconcile change in net assets to net cash flows from operating activities		
Cumulative effect of change in accounting principle		377,000
Depreciation and amortization	5,460,857	5,375,557
Loss on disposal of property, plant and equipment	8,927	55,855
Losses on endowment investments	29,553,665	2,723,110
Losses (gains) on other investments	436,646	(40,830)
Actuarial adjustment of annuities payable	(375,850)	364,227
Pooled life income deferral adjustments	393,091	389,286
Loan cancellations and reinstatements	48,436	51,268
Change in assets and liabilities		
Student receivables	(123,854)	(17,569)
Government grants receivable	(40,581)	50,238
Accrued interest receivable	12,958	(20,057)
Contributions receivable - operations	(587,689)	(1,125,528)
Other receivables	45,241	(99,798)
Inventories	(49,779)	6,419
Prepaid expenses and other assets	35,380	43,530
Accounts payable	(74,762)	267,368
Accrued liabilities	348,873	396,525
Deferred revenue	(138,277)	(59,686)
Funds held for others	(92,231)	(22,462)
Contributions restricted for plant and long-term investment	(2,316,820)	(7,193,170)
Investment income restricted for plant, loans, and long-term investment	(83,247)	(101,568)
Net Cash Flows from Operating Activities	<u>(2,525,389)</u>	<u>4,322,640</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Purchases of endowment and pooled investments, net	(880,347)	(2,626,285)
Drawdowns (purchases) of other investments, net	4,727,735	(1,936,688)
Purchases of property, plant and equipment	(3,528,768)	(6,208,075)
Purchases of deposits held by construction and bond trustees, net	(4,057)	(14,200)
Disbursements of loans to students	(722,291)	(430,129)
Repayments of loans from students	<u>393,439</u>	<u>357,953</u>
Net Cash Flows from Investing Activities	<u>(14,289)</u>	<u>(10,857,424)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Repayment of principal on indebtedness	(1,070,000)	(1,195,000)
Receipts of investment income restricted for plant, loans and long-term investment	83,247	101,568
Contributions received restricted for plant and long-term investment	2,653,509	7,080,698
Decrease in refundable U.S. government grants	(28,968)	(39,629)
Increase in liability for new split interest agreements	360,953	676,697
Payments to annuitants and pooled life income beneficiaries	<u>(1,492,082)</u>	<u>(1,520,113)</u>
Net Cash Flows from Financing Activities	<u>506,659</u>	<u>5,104,221</u>
<b>Net Change in Cash and Cash Equivalents</b>	<u>(2,033,019)</u>	<u>(1,430,563)</u>
<b>CASH AND CASH EQUIVALENTS - Beginning of Year</b>	<u>14,184,395</u>	<u>15,614,958</u>
<b>CASH AND CASH EQUIVALENTS - END OF YEAR</b>	<u>\$ 12,151,376</u>	<u>\$ 14,184,395</u>
<b>Supplemental disclosures of cash flow information</b>		
Interest paid	\$ 759,061	\$ 1,020,198
<b>Noncash investing and financing activities</b>		
Property, plant and equipment acquired through accounts payable	837,441	404,074

See accompanying notes to financial statements.

# GUSTAVUS ADOLPHUS COLLEGE

## NOTES TO FINANCIAL STATEMENTS

May 31, 2009 and 2008

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### NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES

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

**General** - The College maintains its accounts in accordance with the principles and practices of fund accounting. Fund accounting is the procedure by which resources for various purposes are classified for accounting purposes in accordance with activities or objectives specified by donors.

These financial statements, which are presented on the accrual basis of accounting, have been prepared to focus on the College as a whole and to present balances and transactions according to the existence or absence of donor-imposed restrictions. This has been accomplished by classification of fund balances and transactions into three classes of net assets—permanently restricted, temporarily restricted or unrestricted, as follows:

**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.

**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.

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

**Revenue Recognition** - Revenues are reported as increases in unrestricted net assets unless use of the related assets is limited by donor-imposed restrictions. Expenses are reported as decreases in unrestricted net assets. 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. Expirations of temporary restrictions on net assets (i.e., the donor-stipulated purpose has been fulfilled and/or the stipulated time period has elapsed) are reported as reclassifications between the applicable classes of net assets.

Tuition revenue is recognized in the period the classes are provided. Revenue from auxiliary enterprises is recognized when goods or services are provided. Contributions are recognized as revenues in the period received. Conditional promises to give are not recognized until they become unconditional, that is, when the conditions on which they depend are substantially met.

Income and net gains on investments of endowment and similar funds are reported as follows:

- as increases in permanently restricted net assets if the terms of the gift require that they be added to the principal of a permanent endowment fund;
- as increases in temporarily restricted net assets if the terms of the gift or state law impose restrictions on the use of the income;
- as increases in unrestricted net assets in all other cases.



GUSTAVUS ADOLPHUS COLLEGE

NOTES TO FINANCIAL STATEMENTS

May 31, 2009 and 2008

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

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Losses from investments of endowment and similar funds are reported as decreases in temporarily restricted assets to the extent of prior accumulated earnings reported as such, if any, with the remainder reflected as reductions to unrestricted endowment funds.

**Temporarily Restricted Net Assets** - With respect to temporarily restricted net assets, the College has adopted the following accounting policies:

**Reporting as Temporarily Restricted Revenues** - 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 reclassification to unrestricted net assets is made to reflect the expiration of such restrictions.

**Release of Restrictions on Net Assets for Acquisition of Land, Buildings and Equipment** - 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 temporarily restricted net asset class; the restrictions are considered to be released over the estimated useful lives of the long-lived assets using the College's depreciation policies.

**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.

**Receivables** - Student accounts receivable are carried at the unpaid balance of the original amount billed to students and student notes receivable are carried at the amount of unpaid principal. Both receivables are 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 and loans receivable are written off when deemed uncollectible. Recoveries of student accounts and loans receivable previously written off are recorded when received. Receivables are generally unsecured.

After a student is no longer enrolled in an institution of higher education and after a grace period, interest is charged on Perkins student loans receivable and is recognized as it is charged. Perkins student loans receivable are considered to be past due if a payment is not made within 30 days of the payment due date, at which time, late fees are charged and recognized. The 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.

**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. The amounts of such grants were \$2,384,000 and \$1,565,000, respectively, for the year ended May 31, 2009. The amounts of such grants were \$2,376,000 and \$1,396,000, respectively, for the year ended May 31, 2008.

**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.

**Deposits Held by Trustees** - Cash, short-term investments and fixed income securities held by the trustees include amounts restricted for debt service as required by the trust indentures.

GUSTAVUS ADOLPHUS COLLEGE

NOTES TO FINANCIAL STATEMENTS

May 31, 2009 and 2008

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

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**Deferred Debt Acquisition Costs** - Costs of bond issuance are deferred and amortized on a straight-line basis over the term of the related indebtedness. Amortization of approximately \$19,500 was recorded for each of the years ended May 31, 2009 and 2008.

**Physical 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 5 to 20 years, equipment 5 to 20 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.

**Pension Plan** - Retirement benefits are provided for the College's staff through Teachers Insurance and Annuity Association-College Retirement Equities Fund (TIAA-CREF), a national organization used to fund pension benefits for educational institutions. Under this arrangement, the College and plan participants make annual contributions to TIAA-CREF to purchase individual annuities equivalent to retirement benefits earned. The College's share of the cost of these benefits was approximately \$2,041,000 and \$1,920,000 in 2009 and 2008, respectively.

**Asset Retirement Obligations** - Asset retirement obligations of \$2,134,000 and \$2,032,000, 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. Accretions of approximately \$102,000 and \$113,000 were recorded for each of the years ended May 31, 2009 and 2008, respectively.

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

**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 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.

**Fund Raising and Advertising Expenses** - Fund raising expenses totaled \$2,477,000 and \$2,499,000 for the years ended May 31, 2009 and 2008, respectively. Advertising expenses totaled \$251,000 and \$223,000 for the years ended May 31, 2009 and 2008, respectively. The College expenses advertising costs at the time incurred.

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

**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 most significant areas that subject the College to unrelated business income tax include conferences and events, athletic space and various services provided by the dining service, post office and central duplicating services to the public. At May 31, 2009 and 2008, the College has no current obligation for unrelated business income tax.

GUSTAVUS ADOLPHUS COLLEGE

NOTES TO FINANCIAL STATEMENTS

May 31, 2009 and 2008

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

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**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.

**Value of Financial Instruments Not Carried at Fair Value** - The carrying amounts of cash and cash equivalents, accounts receivable and other receivables, amounts held for others, accounts payable and accrued expenses, deposits and deferred revenue are reasonable estimates of fair value due to the short-term maturity of these financial instruments. The carrying amounts of beneficial interest in funds held in trust are recorded using appropriate discount rates. The beneficial interest in perpetual trusts is reported at fair value of the trust assets.

A reasonable estimate of the fair value of the receivables from students under government loan programs and grants refundable to the government for student loans could not be made because the notes receivable are not saleable and can only be assigned to the U.S. Government or its designee. The fair value of receivables under institutional loan programs approximates carrying value.

The carrying amounts of the actuarial liability for trusts and annuities payable are based on life expectancies, quoted market prices, and the present value discount included in the carrying amount. The carrying amounts of long-term debt approximate fair value because these financial instruments bear interest at rates which approximate current market rates for notes with similar maturities and credit quality.

Contributions of assets other than cash are recorded at their estimated fair value at the date of the gift. Estimates of fair value involve assumptions and estimation methods that are uncertain and, therefore, the estimates could differ from the actual results.

Other investments are carried at cost.

The fair values for investments and other financial instruments recorded on a recurring basis are included in Note 6.

**Reclassifications** - Certain amounts appearing in the 2008 financial statements have been reclassified to conform with 2009 presentation. The reclassifications have no effect on reported amounts of total net assets or change in total net assets.

**Cumulative Effect of Change in Accounting Principle** - In September 2006, the Financial Accounting Standards Board (FASB) issued FASB Statement No. 158, *Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans* (SFAS No. 158). SFAS No. 158 amends SFAS No. 87, 88, 106 and 132(R). This Statement requires an employer to recognize the overfunded or underfunded status of a defined benefit postretirement plan as an asset or liability in its statement of financial position and to recognize changes in that funded status in the year in which the changes occur in unrestricted net assets. Accordingly, the College recorded an additional liability of \$377,000, for the year ended May 31, 2008, for the unfunded status of its postretirement plan.

**GUSTAVUS ADOLPHUS COLLEGE**

NOTES TO FINANCIAL STATEMENTS  
May 31, 2009 and 2008

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

***New Accounting Pronouncements*** - In March 2008, the FASB issued Statement on Financial Accounting Standards No. 161, *Disclosures about Derivative Instruments and Hedging Activities - an amendment of FASB Statement No. 133* (SFAS 161). This Statement changes the disclosure requirements for derivative instruments and hedging activities. Entities are required to provide enhanced disclosures about (a) how and why an entity uses derivative instruments; (b) how derivative instruments and related hedge items are accounted for under Statement 133 and its related interpretations; and (c) how derivative instruments and related hedged items affect an entity's financial position, financial performance, and cash flows. This Statement is effective for financial statements issued for fiscal years beginning after November 15, 2008. As of May 31, 2009, the College does not believe the adoption of SFAS 161 will materially impact the financial statement amounts. However, additional footnote disclosures may be required regarding the use of derivative instruments and hedging items.

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

At May 31, 2009 and 2008, the College's unrestricted net assets were allocated as follows:

	2009	2008
Operations	\$ 4,418,218	\$ 4,178,678
Endowment funds	8,154,727	41,684,129
Gift annuity agreements	2,185,922	2,207,845
Loans to students	499,016	503,915
Plant	26,495,197	24,973,757
	<u>\$ 41,753,080</u>	<u>\$ 73,548,324</u>

Temporarily restricted net assets consist of the following at May 31, 2009 and 2008:

Gifts and other unexpended revenues and gains available for:		
Scholarships, instruction and other departmental support	\$ 4,435,293	\$ 4,698,165
Acquisition of buildings and equipment	556,958	669,256
Contributions receivable	2,709,000	2,428,000
	<u>7,701,251</u>	<u>7,795,421</u>
Endowment funds	7,094,947	6,150,474
Life income and trust agreements	1,072,428	1,038,652
Net investment in plant	45,776,618	47,258,901
	<u>\$ 61,645,244</u>	<u>\$ 62,243,448</u>

Permanently restricted net assets consist of the following at May 31, 2009 and 2008:

Endowment funds	\$ 68,371,636	\$ 66,361,445
Contributions receivable for endowment funds	869,000	899,000
Student loan funds	532,197	520,175
Gift annuity agreements and similar funds	6,241,914	10,827,052
	<u>\$ 76,014,747</u>	<u>\$ 78,607,672</u>

**GUSTAVUS ADOLPHUS COLLEGE**

**NOTES TO FINANCIAL STATEMENTS**  
May 31, 2009 and 2008

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

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The sources of net assets released from temporary donor restrictions by incurring expenses satisfying the restricted purposes or by occurrence of events specified by the donors during the years ended May 31, 2009 and 2008 were as follows:

	<u>2009</u>	<u>2008</u>
Amortization of contributions expended for long-lived assets	\$ 2,113,578	\$ 2,204,130
Maturity of deferred gifts	12,528	
Early release of contributions for disposal of property		42,810
Scholarships, instruction and other departmental support	<u>5,541,521</u>	<u>5,179,753</u>
	<u>\$ 7,667,627</u>	<u>\$ 7,426,693</u>

These assets were reclassified to unrestricted net assets.

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**NOTE 4 - CONTRIBUTIONS RECEIVABLE**

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Contributions receivable include the following unconditional promises to give at May 31, 2009 and 2008:

	<u>2009</u>	<u>2008</u>
Temporarily restricted - operations	\$ 2,182,000	\$ 1,594,000
Temporarily restricted - plant projects	862,000	1,276,000
Permanently restricted - endowment	<u>953,000</u>	<u>1,001,000</u>
Gross unconditional promises to give	3,997,000	3,871,000
Less: Unamortized discount	(219,000)	(350,000)
Allowance for uncollectible promises	<u>(200,000)</u>	<u>(194,000)</u>
Net unconditional promises to give	<u>\$ 3,578,000</u>	<u>\$ 3,327,000</u>

At May 31, 2009, contributions receivable of \$1,905,000 are due in less than one year and \$1,892,000 are due in one to five years. Promises due in one to five years were discounted at historical rates between 2.17% and 6.9% at May 31, 2009 and 6.9% at May 31, 2008. Promises due in less than one year were not discounted.

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**NOTE 5 - INVESTMENTS**

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The following summarizes the College's investments in funds other than endowment at May 31, 2009 and 2008:

	<u>2009</u>	<u>2008</u>
U.S. government and agency securities	\$ 3,991,077	\$ 3,625,347
Other fixed income securities	86,282	101,427
Stocks		13,172
Mutual funds	<u>15,554,514</u>	<u>20,713,206</u>
	<u>\$ 19,631,873</u>	<u>\$ 24,453,152</u>

**GUSTAVUS ADOLPHUS COLLEGE**

**NOTES TO FINANCIAL STATEMENTS**  
May 31, 2009 and 2008

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**NOTE 5 - INVESTMENTS (Continued)**

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The following summarizes the College's endowment investments at May 31, 2009 and 2008:

	<u>2009</u>	<u>2008</u>
Cash and short-term investments	\$ 281,983	\$ 149,100
Marketable securities		
Stocks	62,080	76,661
Mutual funds	54,035,962	68,193,336
Alternative investments		
Real estate	6,562,323	7,818,192
Commodity funds	2,433,107	2,438,447
Fund of funds	19,351,635	31,105,416
Venture capital		11,650
Beneficial interest in funds held by others	<u>3,180,879</u>	<u>4,788,485</u>
	<u>\$ 85,907,969</u>	<u>\$ 114,581,287</u>

Through the College's alternative investments, the College is indirectly involved in investment activities such as securities lending, trading in futures and forward contracts and other derivative products. Derivatives are used to adjust portfolio risk exposure or enhance returns. While these instruments may contain varying degrees of risk, the College's risk with respect to such transactions is limited to its capital balance in each investment.

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.

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**NOTE 6 - FAIR VALUE MEASUREMENTS**

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Effective June 1, 2008, the College adopted the provisions of FASB Statement No. 157, *Fair Value Measurements* (SFAS 157), which defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date and establishes a framework for measuring fair value. SFAS 157 establishes a three-level hierarchy for fair value measurements based upon the transparency of inputs to the valuation of the asset or liability as of the measurement date. SFAS 157 expands disclosures about instruments measured at fair value. SFAS 157 applies to other accounting pronouncements that require or permit fair value measurements and, accordingly, SFAS 157 does not require any new fair value measurements.

Subsequent to the issuance of SFAS 157, the FASB issued additional Financial Staff Positions (FSP) which provide implementation guidance related to fair value measurements. The College has adopted the applicable FSPs as appropriate during fiscal year 2009.

Effective June 1, 2008, the College adopted FASB Statement No. 159, *The Fair Value Option for Financial Assets and Liabilities, including an amendment of FASB Statement No. 115*, which among other things, provides an option to elect fair value as an alternative measurement for selected financial assets and liabilities not previously recorded at fair value. The College did not elect fair value accounting for any asset or liability that is not currently required to be measured at fair value.

**GUSTAVUS ADOLPHUS COLLEGE**

**NOTES TO FINANCIAL STATEMENTS**

May 31, 2009 and 2008

**NOTE 6 - FAIR VALUE MEASUREMENTS (Continued)**

As noted above, SFAS 157 establishes a three-level valuation hierarchy for disclosure of fair value measurements. The valuation hierarchy is based upon the transparency of inputs to the valuation of an asset or liability as of the measurement date. The three levels are defined as follows:

Level 1 - Inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities.

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 inputs that are derived principally from or corroborated by observable market data.

Level 3 - Inputs are unobservable for the asset or liability. Unobservable inputs reflect the reporting entity's own assumptions about the assumptions that market participants would use in pricing the asset or liability developed based on the best information available in the circumstances.

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.

The following table presents financial instruments that are measured at fair value on a recurring basis by the SFAS 157 hierarchy as of May 31, 2009:

	Total	Level 1	Level 2	Level 3
<b>ASSETS</b>				
Short-term investments	\$ 2,879,893	\$ 2,879,893		
Equity securities	62,080	62,080		
Certificates of deposit	4,500,000		\$ 4,500,000	
Bonds	86,282		86,282	
Government obligations	4,840,564		4,840,564	
Mutual funds	69,590,476	69,590,476		
Real estate funds	7,990,823			\$ 7,990,823
Commodity funds	2,433,107			2,433,107
Fund of funds	19,351,635			19,351,635
Beneficial interest in funds held by others	3,852,044			3,852,044
<b>Total</b>	<b>\$ 115,586,904</b>	<b>\$ 72,532,449</b>	<b>\$ 9,426,846</b>	<b>\$ 33,627,609</b>

The following methods and assumptions were used to estimate the fair value for each class of financial instrument measured at fair value:

**Short-term investments** - The fair value of short-term investments, consisting primarily of money market funds, is classified as Level 1 as these funds are traded on a regular basis.

**Equity securities** - Investments in equity securities are measured at fair value using quoted market prices. They are classified as Level 1 as they are traded in an active market for which closing stock prices are readily available.

GUSTAVUS ADOLPHUS COLLEGE

NOTES TO FINANCIAL STATEMENTS  
May 31, 2009 and 2008

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**NOTE 6 - FAIR VALUE MEASUREMENTS (Continued)**

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***Certificates of deposit*** - Investments in certificates of deposit are classified as Level 2 as these are not traded on a regular basis.

***Fixed income securities*** - Investments in fixed income securities are comprised of asset backed securities, government securities, municipal bonds and corporate bonds. These investments are classified as Level 2 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.

***Mutual funds*** - Mutual funds are classified as Level 1 as they are traded in an active market for which closing prices are readily available.

***Alternative investments*** - Investments in real estate funds, commodity funds and funds of funds for which there is no readily determinable fair value are classified as level 3 as the valuation is based on significant unobservable inputs. In cases where the investee has provided its investors with a net asset value per share that has been calculated in accordance with the AICPA Audit and Accounting Guide, *Investment Companies*, the College has estimated its fair value by using the net asset value provided by the investee as of December 31, adjusted for cash receipts, cash disbursements, significant known valuation changes in market values of publicly held securities contained in the portfolio and security distributions through May 31. As of May 31, 2009, the College has commitments to make further investments in various alternative investments of \$15,351,000.

***Beneficial interest in funds held by others*** - The College's beneficial interest in perpetual trusts administered by a third party are classified as Level 3 as the fair values are 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 the College's beneficial interest is estimated to approximate the fair value of the trusts' assets.

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



# GUSTAVUS ADOLPHUS COLLEGE

## NOTES TO FINANCIAL STATEMENTS

May 31, 2009 and 2008

### NOTE 6 - FAIR VALUE MEASUREMENTS (Continued)

The following table presents a reconciliation of the statement of financial position amounts for financial instruments measured at fair value on a recurring basis using significant unobservable inputs (Level 3) for the year ended May 31, 2009:

	Balances May 31, 2008	Net realized and unrealized gains (losses) included in change in net assets	Purchases, sales, issuances and settlement, net	Net transfers in (out) of Level 3	Balances May 31, 2009
<b>ASSETS</b>					
Real estate funds	\$ 9,246,692	\$ (993,133)	\$ (262,736)		\$ 7,990,823
Commodity funds	2,438,447	25,049	(30,389)		2,433,107
Fund of funds	19,754,189	(3,306,608)	2,904,054		19,351,635
Beneficial interest in funds held by others	<u>5,985,745</u>	<u>(1,135,515)</u>	<u>(23,541)</u>	\$ (974,645)	<u>3,852,044</u>
Total	<u>\$ 37,425,073</u>	<u>\$ (5,410,207)</u>	<u>\$ 2,587,388</u>	<u>\$ (974,645)</u>	<u>\$ 33,627,609</u>

The amount of total gains or losses for the period included in change in net assets attributable to the change in unrealized gains or losses relating to financial instruments still held at May 31, 2009

\$ (5,407,182)

### NOTE 7 - ENDOWMENT

Effective June 1, 2008, the College adopted the provisions of FASB Staff Position FSP 117-1, *Endowments of Not-for-Profit Organizations: Net Asset Classifications of Funds Subject to an Enacted Version of the Uniform Prudent Management of Institutional Funds Act, and Enhanced Disclosures for all Endowment Funds*. The FSP provides guidance on classifying net assets associated with donor-restricted endowment funds held by organizations that are subject to an enacted version of Uniform Prudent Management of Institutional Funds Act (UPMIFA). A key component of the FSP is a requirement to classify the portion of a donor-restricted endowment fund that is not classified as permanently restricted net assets as temporarily restricted net assets until appropriated for expenditure. Another key component of the FSP is a requirement for expanded disclosures about all endowment funds. The State of Minnesota adopted a version of UPMIFA effective for fiscal years ending after December 15, 2008. As a result of adopting the FSP, the College reclassified approximately \$18,755,000 out of unrestricted net assets and into temporarily restricted net assets.

The College's endowment consists of approximately 500 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 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.

**GUSTAVUS ADOLPHUS COLLEGE**

NOTES TO FINANCIAL STATEMENTS  
May 31, 2009 and 2008

**NOTE 7 - ENDOWMENT (Continued)**

**Interpretation of Relevant Law** - The College's governing board has interpreted the Uniform Prudent Management of Institutional Funds Act (UPMIFA) enacted in the State of Minnesota as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the College classifies as permanently restricted net assets (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 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, 2009:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Donor-restricted endowment funds	\$ (6,281,639)	\$ 7,094,947	\$ 68,371,636	\$ 69,184,944
Board-designated endowment funds	14,436,366			14,436,366
<b>Total endowment net assets</b>	<b><u>\$ 8,154,727</u></b>	<b><u>\$ 7,094,947</u></b>	<b><u>\$ 68,371,636</u></b>	<b><u>\$ 83,621,310</u></b>

Endowment net asset composition by type of fund consists of the following as of May 31, 2008:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Donor-restricted endowment funds		\$ 6,150,474	\$ 66,361,445	\$ 72,511,919
Board-designated endowment funds	\$ 41,684,129			41,684,129
<b>Total endowment net assets</b>	<b><u>\$ 41,684,129</u></b>	<b><u>\$ 6,150,474</u></b>	<b><u>\$ 66,361,445</u></b>	<b><u>\$ 114,196,048</u></b>

**GUSTAVUS ADOLPHUS COLLEGE**

**NOTES TO FINANCIAL STATEMENTS**  
May 31, 2009 and 2008

**NOTE 7 - ENDOWMENT (Continued)**

Changes in endowment net assets for the year ended May 31, 2009 are as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets, May 31, 2008	\$ 41,684,129	\$ 6,150,474	\$ 66,361,445	\$ 114,196,048
Net asset reclassification based on change in Minnesota law	<u>(18,754,802)</u>	<u>18,754,802</u>		
Endowment net assets after reclassification	22,929,327	24,905,276	66,361,445	114,196,048
Investment return:				
Investment income, net of fees \$154,792	305,657	835,348	19,293	1,160,298
Net depreciation - realized and unrealized	<u>(14,880,602)</u>	<u>(14,453,969)</u>	<u>(219,094)</u>	<u>(29,553,665)</u>
Total investment return	<u>(14,574,945)</u>	<u>(13,618,621)</u>	<u>(199,801)</u>	<u>(28,393,367)</u>
Contributions			1,593,794	1,593,794
Matured deferred gifts			677,862	677,862
Appropriation of endowment assets for expenditure	<u>(1,043,566)</u>	<u>(3,278,727)</u>		<u>(4,322,293)</u>
Other changes:				
Transfers to (from) board designated endowment funds and reclassifications	<u>843,911</u>	<u>(912,981)</u>	<u>(61,664)</u>	<u>(130,734)</u>
Endowment net assets, May 31, 2009	<u>\$ 8,154,727</u>	<u>\$ 7,094,947</u>	<u>\$ 68,371,636</u>	<u>\$ 83,621,310</u>

Changes in endowment net assets for the year ended May 31, 2008 are as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets, May 31, 2007	\$ 45,521,691	\$ 7,184,547	\$ 62,269,997	\$ 114,976,235
Investment return:				
Investment income, net of fees \$166,596	439,639	857,517	36,311	1,333,467
Net appreciation (depreciation) - realized and unrealized	<u>(3,734,637)</u>	<u>1,191,713</u>	<u>(180,186)</u>	<u>(2,723,110)</u>
Total investment return	<u>(3,294,998)</u>	<u>2,049,230</u>	<u>(143,875)</u>	<u>(1,389,643)</u>
Contributions			4,099,645	4,099,645
Matured deferred gifts			135,678	135,678
Appropriation of endowment assets for expenditure	<u>(1,131,740)</u>	<u>(3,083,303)</u>		<u>(4,215,043)</u>
Other changes:				
Transfers to board designated endowment funds	<u>589,176</u>			<u>589,176</u>
Endowment net assets, May 31, 2008	<u>\$ 41,684,129</u>	<u>\$ 6,150,474</u>	<u>\$ 66,361,445</u>	<u>\$ 114,196,048</u>

GUSTAVUS ADOLPHUS COLLEGE

NOTES TO FINANCIAL STATEMENTS

May 31, 2009 and 2008

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**NOTE 7 - ENDOWMENT (Continued)**

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**Funds with Deficiencies** - From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor or UPMIFA requires the College to retain as a fund of perpetual duration. In accordance with GAAP, deficiencies of this nature that are reported in unrestricted net assets were \$6,281,639 and \$259,472 as of May 31, 2009 and 2008, 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, as approved by the governing board, the endowment assets are invested in a manner that is intended to produce results that exceed inflation plus 5% while assuming a moderate level of investment risk. The College expects its endowment funds, over time, to provide an average annual rate of approximately 8.5% annually. Actual returns in any 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 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** - The College has a policy of appropriating for distribution each year 4.5% of its endowment fund's average fair value using the prior sixteen quarters as of November 30. In establishing this policy, the College considered the long-term expected return on its endowment. Accordingly, over the long term, the College expects the current spending policy to allow its endowment to grow at an average of 4% annually. 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.

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**NOTE 8 - POOLED LIFE INCOME FUND**

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As of May 31, 2009, the Gustavus Adolphus College Pooled Life Income Fund (the Fund) owned substantially all of three buildings which were purchased from and leased back to the College in prior years. At May 31, 2009 and 2008, leaseback interest in the building recorded in the financial statements was \$1,774,210 and \$1,875,498, respectively. Depreciation for financial statement purposes is recorded using the straight-line method over periods of 40 to 45 years. Depreciation totaling \$76,893 and \$77,706 was recorded in fiscal 2009 and 2008, 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 2009 and 2008 totaled \$505,058 and \$510,517, respectively, with payment to the College for the land, which was \$10,866 and \$10,984 in 2009 and 2008, respectively. Terms of the lease arrangements provide for adjustments to the rental amount every five years based on changes in the Consumer Price Index.

**GUSTAVUS ADOLPHUS COLLEGE**

**NOTES TO FINANCIAL STATEMENTS**  
May 31, 2009 and 2008

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**NOTE 8 - POOLED LIFE INCOME FUND (Continued)**

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As the units of the Fund mature on the death of each donor or beneficiary, the Fund transfers that portion of the building and leasehold interests back to the College. At the earlier of the end of the 20-year lease term or the time when the Fund's ownership in the building is reduced to 25% or less, 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 2009, \$44,208, including related income, was transferred back to the College as the result of donor deaths or assignments. This included \$42,640, net of \$18,244 accumulated depreciation, related to buildings. During 2008, \$86,868, including related income, was transferred back to the College as the result of donor deaths or assignments. This included \$84,227, net of \$32,825 accumulated depreciation, related to buildings.

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**NOTE 9 - CONSTRUCTION IN PROGRESS**

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At May 31, 2009 the following projects were in progress:

	Estimated Total Cost	Cost To Date	Funding Plan
Dormitory restroom remodeling projects	\$ 810,000	\$ 27,354	Current operations
Elevator projects	600,000	96,246	Current operations
New academic building (architectural costs)	1,400,000	899,699	Current operations
Window replacement projects	600,000	277,247	Current operations
		<u>\$ 1,300,546</u>	

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

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Property, plant and equipment consisted of the following as of May 31, 2009 and 2008:

	2009	2008
Land	\$ 955,993	\$ 955,993
Land improvements	8,004,212	7,860,260
Buildings	127,478,736	126,311,639
Equipment	20,791,168	20,701,080
Library books	7,887,809	7,732,254
	<u>165,117,918</u>	<u>163,561,226</u>
Less: Accumulated depreciation	<u>(71,248,475)</u>	<u>(67,065,170)</u>
	<u>\$ 93,869,443</u>	<u>\$ 96,496,056</u>

# GUSTAVUS ADOLPHUS COLLEGE

## NOTES TO FINANCIAL STATEMENTS May 31, 2009 and 2008

### NOTE 11 - POSTRETIREMENT BENEFIT PLAN

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

In 2006, the College began the process for obtaining the Medicare Part D 28% Federal subsidy to offset prescription drug charges for Medicare eligible participants in the plan. The subsidy would have been retroactive back to 2006. For this reason, the June 1, 2006 and June 1, 2007 actuarial valuations and fiscal year ending disclosure information reflected the 28% Federal subsidy as a reduction in liability and annual costs. In 2008, the College decided to no longer pursue obtaining the 28% Federal subsidy causing a substantial loss or increase in liability to the plan.

The plan was amended May 31, 2009 to require coverage for all current and future Medicare eligible retirees to be in the Senior Gold Medicare Supplemental plan effective January 1, 2010. The effect of this plan amendment is included in the May 31, 2009 accrued postretirement benefit obligation.

The College accounts for its postretirement benefits other than pensions in accordance with Statement of Financial Accounting Standards (SFAS) No. 106, *Employers' Accounting for Postretirement Benefits Other Than Pensions* as amended by SFAS No. 158, *Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans*.

Accrued postretirement benefit obligation components are as follows for the years ended May 31, 2009 and 2008:

	<u>2009</u>	<u>2008</u>
Active employees	\$ (432,925)	\$ (280,428)
Current retirees	<u>(2,219,343)</u>	<u>(2,288,382)</u>
Accrued postretirement benefit obligation	<u>\$ (2,652,268)</u>	<u>\$ (2,568,810)</u>

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

**GUSTAVUS ADOLPHUS COLLEGE**

**NOTES TO FINANCIAL STATEMENTS**

May 31, 2009 and 2008

**NOTE 11 - POSTRETIREMENT BENEFIT PLAN (Continued)**

The following is a reconciliation of the benefit obligation and the value of plan assets at May 31, 2009 and May 31, 2008:

	<u>2009</u>	<u>2008</u>
Change in projected benefit obligation		
Benefit obligation at June 1	\$ 2,568,810	\$ 2,666,004
Interest cost	207,801	151,659
Service cost	24,945	17,853
Actuarial loss	991,820	405,694
Plan amendment	(665,876)	
Benefits paid	<u>(475,232)</u>	<u>(672,400)</u>
Projected benefit obligation at May 31	<u>\$ 2,652,268</u>	<u>\$ 2,568,810</u>
Change in plan assets		
Fair value of plan assets at June 1	\$ 0	\$ 0
Employer contribution	475,232	672,400
Participant contribution	228,083	203,618
Benefits paid	<u>(703,315)</u>	<u>(876,018)</u>
Fair value of plan assets at May 31	<u>\$ 0</u>	<u>\$ 0</u>

Net periodic postretirement benefit expense for the years ended May 31, 2009 and May 31, 2008 is comprised of the following:

Service cost	\$ 24,945	\$ 17,853
Interest cost	207,801	151,415
Amortization of prior service cost	56,900	56,900
Amortization of loss	<u>55,522</u>	<u></u>
Net periodic benefit cost	<u>\$ 345,168</u>	<u>\$ 226,168</u>

Benefits expected to be paid for each of the five years subsequent to May 31, 2009 are estimated to be \$257,000, \$268,000, \$279,000, \$275,000 and \$275,000, respectively. Benefits expected to be paid 2015 through 2019 are \$1,242,000. Contributions from the College and retirees expected to be paid to the plan for the year ended May 31, 2010 are estimated to be \$505,000.

**GUSTAVUS ADOLPHUS COLLEGE**

**NOTES TO FINANCIAL STATEMENTS**  
May 31, 2009 and 2008

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**NOTE 11 - POSTRETIREMENT BENEFIT PLAN (Continued)**

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The estimated interest cost, service cost, net loss and expected benefits paid for the years ended May 31, 2009 and 2008 and the estimated benefit obligation at May 31, 2010 are as follows:

	<u>2009</u>	<u>2008</u>
Change in projected benefit obligation		
Benefit obligation at June 1	\$ 2,652,268	\$ 2,568,810
Interest cost	160,519	155,656
Service cost	24,796	18,990
Expected benefits to be paid	<u>(256,771)</u>	<u>(250,457)</u>
Projected benefit obligation at May 31	<u>\$ 2,580,812</u>	<u>\$ 2,492,999</u>

The above assumptions and calculations are based on census data as of June 1, 2008 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, 2009. A 9.5% rate of increase in the per capita costs of covered health care benefits was assumed at May 31, 2009, decreasing .5% per year to an ultimate level of 4.5% in fiscal years ending May 31, 2020 and later. A discount rate of 6.36% and 6.37% was used to determine the accrued postretirement benefit obligation for fiscal 2009 and 2008, 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 \$17,980 or 7.7%. Increasing the assumed health care cost trend rate by 1% would increase the accumulated postretirement benefit obligation as of May 31, 2009 by approximately \$197,000. 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 \$16,000 or 6.9%.

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**NOTE 12 - LONG-TERM DEBT**

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The College had the following long-term debt outstanding at May 31, 2009 and 2008:

	<u>Original Amount</u>	<u>2009</u>	<u>2008</u>
Minnesota Higher Education Facilities Authority Revenue Bonds - Gustavus Adolphus College (Series Four-H Bonds of 1996)	\$ 6,135,000	\$ 990,000	\$ 1,210,000
Minnesota Higher Education Facilities Authority Revenue Bonds - Gustavus Adolphus College (Series Four-X Bonds of 1998)	11,695,000	9,045,000	9,395,000
Minnesota Higher Education Facilities Authority Variable Rate Demand Revenue Bonds - Gustavus Adolphus College (Series Five-X Bonds of 2004)	16,550,000	<u>13,950,000</u>	<u>14,450,000</u>
		<u>\$ 23,985,000</u>	<u>\$ 25,055,000</u>



# GUSTAVUS ADOLPHUS COLLEGE

## NOTES TO FINANCIAL STATEMENTS

May 31, 2009 and 2008

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### NOTE 12 - LONG-TERM DEBT (Continued)

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

During July 1996, the Minnesota Higher Education Facilities Authority issued Revenue Bonds Series Four-H (Gustavus Adolphus College) on behalf of the College totaling \$6,135,000. The bond proceeds were used to finance the acquisition and installation of an administrative computer system. Net proceeds were also used to finance the refunding of the Authority's outstanding Mortgage Revenue Bonds, Series Three-B (Gustavus Adolphus College), Mortgage Revenue Bonds, Series Two-V (Gustavus Adolphus College) and Mortgage Revenue Bonds, Series Two-N (Gustavus Adolphus College). The outstanding balances on these bonds were paid in full pursuant to early redemption clauses. The Series Four-H Revenue Bonds have interest rates of 5.25% and mature in annual installments of \$225,000 on October 1, 2009 and \$765,000 on October 1, 2010. The bonds are secured by a pledge of the Loan Repayments and a Reserve Account.

During November 1998, the Minnesota Higher Education Facilities Authority issued Revenue Bonds Series Four-X (Gustavus Adolphus College) on behalf of the College totaling \$11,695,000. The bond proceeds were used to finance the construction, furnishing and equipping of the expansion and remodeling of the College's Campus Center and the construction of the College View Apartments for student housing. The revenue bonds have interest rates varying from 4.75% to 4.80% and mature in annual installments of \$370,000 to \$505,000 on October 1 through 2015 with payments of \$1,680,000, \$1,985,000 and \$2,340,000 due October 1, 2018, 2021 and 2024, respectively. The term bonds maturing in the years 2018, 2021 and 2024 are subject to annual sinking fund payments on October 1 in the years 2016 through 2024 in amounts varying from \$530,000 to \$825,000. The bonds are secured by a pledge of the Loan Repayments and a Reserve Account.

During October 2004, the Minnesota Higher Education Facilities Authority issued Variable Rate Demand Revenue Bonds Series Five-X (Gustavus Adolphus College) on behalf of the College totaling \$16,550,000. The bond proceeds were used to finance the construction and furnishing of a new apartment complex, complete the installation of fire sprinkler systems in existing residence halls and renovate Old Main. Interest on the bonds is payable monthly and no principal payments are required until maturity on October 1, 2034. The bonds bear interest at a variable (weekly reset) rate, which at May 31, 2009 was 1.25%, with an average rate of 1.76% for the 2009 fiscal year. In addition to the variable rate interest, the bonds incur a letter of credit fee of 55 basis points on the letter of credit amount outstanding and a remarketing fee equal to .09 basis points. The bonds are secured by the irrevocable direct-pay letter of credit to the trustee. The letter of credit expires October 7, 2009 and must be extended by the College 45 days prior to its expiration to prevent the outstanding debt and accrued interest from becoming immediately due and payable. The letter of credit shall be extended for twelve months, unless the bank denies the requested extension. The letter of credit is unsecured. The College is currently under negotiations to place the letter of credit with a new financial institution.

The College is required to maintain debt service reserve funds under the Series Four-H and Series Four-X bond issues in amounts aggregating \$1,478,000. The bonds issued under the Authority also include certain financial covenants which include meeting a Revenue/Expenditure Test, as defined, for at least two of each preceding three fiscal year period and which limit the College's ability to incur additional long-term debt. In addition, the agreement with the letter of credit provider for the Series Five-X bond issue provides for various financial covenants.

Annual maturities of all long-term debt for each of the five years subsequent to May 31, 2009 approximate \$595,000, \$1,155,000, \$410,000, \$430,000 and \$455,000, respectively. Total interest charges for the years ended May 31, 2009 and 2008 amounted to approximately \$744,000 and \$991,000, respectively.

## **GUSTAVUS ADOLPHUS COLLEGE**

### **NOTES TO FINANCIAL STATEMENTS**

May 31, 2009 and 2008

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#### **NOTE 13 - LINE-OF-CREDIT AGREEMENT**

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The College has an unsecured line of credit totaling \$6,650,000 with a local bank which is payable on demand. The agreement expires in March 2010 and is payable at an interest rate equal to the Wall Street Journal prime rate. The interest rate will never be greater than 8.00% or less than 4.50%. In addition, the line of credit is subject to a non-use fee of .10% of any unused portion to be accrued and charged monthly. At May 31, 2009 and 2008, the College had no borrowings outstanding under this agreement.

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#### **NOTE 14 - DEFERRED GIFT AGREEMENTS**

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

When a gift is received under one of these arrangements, it is split into the amount representing the actuarial present value of future distributions back to the donor and the remaining gift value to be retained for the benefit of the College or third-party beneficiaries. The actuarial liability is adjusted annually using actuarial tables appropriate for the type of arrangement, number of lives covered and age(s) of the donor(s). The College used the historical interest rates ranging from 2.6% to 11.2%, in making the calculations for the years ended May 31, 2009 and 2008.

During the year ended May 31, 2009, the College received gift income of approximately \$305,000 relating to deferred gift agreements. Total assets held by the College under deferred gift agreements and liabilities related to these agreements totaled approximately \$18,851,000 and \$9,351,000, respectively, at May 31, 2009.

During the year ended May 31, 2008, the College received gift income of approximately \$491,000 relating to deferred gift agreements. Total assets held by the College under deferred gift agreements and liabilities related to these agreements totaled approximately \$24,597,000 and \$10,524,000, respectively, at May 31, 2008.

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#### **NOTE 15 - ALLOCATION OF EXPENSES**

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The College allocated interest expense of \$744,389 and \$990,612; depreciation and amortization of \$5,460,857 and \$5,375,557; operation and maintenance of plant expense of \$11,287,261 and \$10,481,991; and lease payments of \$461,287 and \$474,370 to program and support functions for the years ended May 31, 2009 and 2008, respectively.

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#### **NOTE 16 - OPERATING LEASE**

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The College made its final payment on an operating lease for an energy conservation system in February 2009. Rental expense associated with this lease totaled \$458,000 and \$591,000 for each of the years ended May 31, 2009 and 2008, respectively.

# **GUSTAVUS ADOLPHUS COLLEGE**

## **NOTES TO FINANCIAL STATEMENTS**

May 31, 2009 and 2008

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### **NOTE 17 - CONCENTRATIONS OF CREDIT RISK**

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Financial instruments that potentially subject the College to concentrations of credit risk consist principally of cash and cash equivalents, short-term investments, marketable securities and other investments, accounts receivable and notes and mortgages. The College places substantially all of its cash and liquid investments with high-quality financial institutions and limits the amount of credit exposure to any one financial institution; however, cash balances periodically exceed federally insured limits. Investments, consisting of both debt and equity instruments, are generally placed in a variety of managed funds administered by different investment managers in order to limit credit risk. Concentrations of credit risk with respect to the notes and mortgages are limited due to the College holding a secured position in these agreements.

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

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### **NOTE 18 - RELATED PARTY TRANSACTIONS**

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As of May 31, 2009 and 2008, contributions receivable included approximately \$98,000 and \$174,000, respectively from members of the Board of Trustees and employees of the College. No compensation is paid to members of the Board of Trustees.

As of May 31, 2009 and 2008, other receivables included approximately \$25,000 and \$22,000, respectively from employees of the College.

The College has a short-term and an intermediate term cash management account in which a member of the Board of Trustees has an affiliation. The individual has disclosed their interest in the financial institution and did not receive a commission or referral fee. As of May 31, 2009 and 2008, the value of these funds was approximately \$4,920,000 and \$3,500,000, respectively.

The College has invested in two private equity investments in which a member of the Investment Committee and Board of Trustees has an affiliation. The individual fully disclosed their interest in these investments when they were discussed, did not receive a commission or referral fee and did not participate in the voting regarding these investments. Capital contributions as of May 31, 2009, total approximately \$3,935,000 and \$2,065,000 is outstanding on future commitments. The value of these funds approximates \$3,234,000 and \$3,478,000 as of May 31, 2009 and 2008, respectively.

The Greater Gustavus Fund (Fund) is a corporation which exists for the benefit of the College. In January 2009, the board members of the Fund approved the discontinuation of the Fund and made a pledge to distribute its remaining net assets of approximately \$1,000,000. Once the pledge has been fulfilled, it is anticipated that the Fund will no longer exist and any future bequests or gifts to the Fund will be directed to the College.

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