

**AUGUSTANA UNIVERSITY**  
**FINANCIAL STATEMENTS**  
**YEARS ENDED JULY 31, 2020 AND 2019**

**AUGUSTANA UNIVERSITY  
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YEARS ENDED JULY 31, 2020 AND 2019**

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CliftonLarsonAllen LLP  
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## INDEPENDENT AUDITORS' REPORT

Board of Trustees  
Augustana University  
Sioux Falls, South Dakota

### **Report on the Financial Statements**

We have audited the accompanying financial statements of Augustana University (Augustana), which comprise the statements of financial position as of July 31, 2020 and 2019, and the related statements of activities, and cash flows for the years then ended, and the related notes to the financial statements.

### ***Management's Responsibility for the Financial Statements***

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### ***Auditors' Responsibility***

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to Augustana'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 Augustana'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.

Board of Trustees  
Augustana University

***Opinion***

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Augustana as of July 31, 2020 and 2019, and the change 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.

*CliftonLarsonAllen LLP*

**CliftonLarsonAllen LLP**

Minneapolis, Minnesota  
November 10, 2020

**AUGUSTANA UNIVERSITY**  
**STATEMENTS OF FINANCIAL POSITION**  
**JULY 31, 2020 AND 2019**

	<u>2020</u>	<u>2019</u>
<b>ASSETS</b>		
Cash and Cash Equivalents	\$ 4,574,941	\$ 403,412
Student Accounts Receivable, Net	1,217,966	1,537,474
Government Grants Receivable	752,894	928,673
Contributions Receivable, Net	10,438,243	5,691,414
Other Receivables	1,756,338	1,936,700
Prepaid Expenses and Other Assets	478,907	598,183
Endowment Investments	91,097,190	84,466,697
Other Investments	2,505,980	2,351,001
Student Loans Receivable, Net	3,125,969	3,729,988
Property and Equipment, Net	<u>76,406,003</u>	<u>77,192,796</u>
Total Assets	<u><u>\$ 192,354,431</u></u>	<u><u>\$ 178,836,338</u></u>
<b>LIABILITIES AND NET ASSETS</b>		
<b>LIABILITIES</b>		
Accounts Payable	\$ 1,127,531	\$ 3,660,766
Line of Credit	5,225,455	1,187,820
Accrued Liabilities	2,522,173	1,747,667
Deferred Revenue	3,291,409	2,966,124
Interest Rate Swap Agreements	406,620	275,372
Capital Lease Obligation	45,026	58,497
Bonds and Loans Payable, Net	25,795,816	24,144,444
Annuities Payable	751,668	758,962
Funds Held in Custody for Others, Including Deposits	531,252	527,986
Government Grants Refundable	<u>5,155,248</u>	<u>5,720,414</u>
Total Liabilities	44,852,198	41,048,052
<b>NET ASSETS</b>		
Without Donor Restrictions	39,248,453	36,686,800
With Donor Restrictions	<u>108,253,780</u>	<u>101,101,486</u>
Total Net Assets	<u>147,502,233</u>	<u>137,788,286</u>
Total Liabilities and Net Assets	<u><u>\$ 192,354,431</u></u>	<u><u>\$ 178,836,338</u></u>

See accompanying Notes to Financial Statements.

**AUGUSTANA UNIVERSITY  
STATEMENTS OF ACTIVITIES  
YEARS ENDED JULY 31, 2020 AND 2019**

	2020			2019		
	Without Donor Restrictions	With Donor Restrictions	Total	Without Donor Restrictions	With Donor Restrictions	Total
<b>REVENUES, GAINS, AND OTHER SUPPORT</b>						
Student Program Fees, Net of Grants and Scholarship of \$33,544,136 and \$32,853,890, respectively	\$ 29,309,529	\$ -	\$ 29,309,529	\$ 27,562,327	\$ -	\$ 27,562,327
Government Grants and Contracts	3,281,175	-	3,281,175	2,100,672	-	2,100,672
Private Gifts, Grants, and Contracts	2,583,534	13,840,532	16,424,066	428,087	7,501,157	7,929,244
Investment Income	409,387	1,852,520	2,261,907	387,714	1,107,670	1,495,384
Gain (Loss) on Investments	115,443	2,636,438	2,751,881	(168,825)	1,044,265	875,440
Sales and Services of Educational Activities	1,746,279	-	1,746,279	2,018,040	-	2,018,040
Sales and Services of Auxiliary Enterprises	7,478,819	-	7,478,819	9,778,474	-	9,778,474
Other Sources	1,125,304	-	1,125,304	1,433,194	-	1,433,194
Net Assets Released from Restrictions for Operating Purposes	8,356,752	(8,356,752)	-	5,787,686	(5,787,686)	-
Total Revenues, Gains, and Other Support	54,406,222	9,972,738	64,378,960	49,327,369	3,865,406	53,192,775
<b>EXPENSES AND LOSSES</b>						
Program Expenses:						
Instruction	25,386,453	-	25,386,453	24,498,739	-	24,498,739
Research	1,180,149	-	1,180,149	1,283,317	-	1,283,317
Public Service	1,861,982	-	1,861,982	1,896,141	-	1,896,141
Academic Support	4,355,920	-	4,355,920	5,058,080	-	5,058,080
Student Services	6,157,343	-	6,157,343	5,984,101	-	5,984,101
Auxiliary Enterprises	6,842,916	-	6,842,916	7,704,940	-	7,704,940
Institutional Support	8,636,445	-	8,636,445	7,847,433	-	7,847,433
Allocable Expenses:						
Operation and Maintenance of Plant	3,532,124	-	3,532,124	3,979,957	-	3,979,957
Depreciation	3,982,100	-	3,982,100	3,849,899	-	3,849,899
Interest	793,222	-	793,222	862,462	-	862,462
Less: Allocated Expenses	(8,307,446)	-	(8,307,446)	(8,692,318)	-	(8,692,318)
Actuarial Adjustment for Annuities Payable	89,260	31,142	120,402	90,656	(18,079)	72,577
Total Expenses and Losses	54,510,468	31,142	54,541,610	54,363,407	(18,079)	54,345,328
<b>CHANGE IN OPERATING NET ASSETS</b>	(104,246)	9,941,596	9,837,350	(5,036,038)	3,883,485	(1,152,553)
<b>OTHER CHANGES</b>						
Net Assets Released from Restrictions for Capital Improvements	2,789,302	(2,789,302)	-	3,568,052	(3,568,052)	-
Change in Fair Value of Interest Rate Swaps	(131,248)	-	(131,248)	(150,405)	-	(150,405)
Insurance Proceeds	7,845	-	7,845	-	-	-
<b>CHANGE IN NET ASSETS</b>	2,561,653	7,152,294	9,713,947	(1,618,391)	315,433	(1,302,958)
Net Assets - Beginning of Year	36,686,800	101,101,486	137,788,286	38,305,191	100,786,053	139,091,244
<b>NET ASSETS - END OF YEAR</b>	<u>\$ 39,248,453</u>	<u>\$ 108,253,780</u>	<u>\$ 147,502,233</u>	<u>\$ 36,686,800</u>	<u>\$ 101,101,486</u>	<u>\$ 137,788,286</u>

See accompanying Notes to Financial Statements.

**AUGUSTANA UNIVERSITY**  
**STATEMENTS OF CASH FLOWS**  
**YEARS ENDED JULY 31, 2020 AND 2019**

	2020	2019
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Change in Net Assets	\$ 9,713,947	\$ (1,302,958)
Adjustments to Reconcile Change in Net Assets to Net Cash Provided by Operating Activities:		
Depreciation	3,982,100	3,849,899
Amortization	11,782	11,784
(Gain) Loss on Investments, Net	(2,737,174)	1,317,796
Donated Stock and Land	(75,208)	(66,494)
Loss on Property and Equipment	5,656	125,297
Actuarial Adjustment for Annuities Payable	110,859	83,540
Change in Fair Value of Interest Rate Swap	131,248	150,406
Loan Cancellations and Assignments, Net	44,049	72,563
Change in Working Capital Components:		
Student Accounts Receivable	319,508	(699,491)
Government Grants Receivable	175,779	(205,621)
Other Receivables	180,362	(75,871)
Contributions Receivable	(3,267,005)	177,986
Prepaid Expenses and Other Assets	119,276	59,158
Accounts Payable and Accrued Liabilities	329,909	53,841
Funds Held in Custody for Others, Including Deposits	3,266	(17,293)
Deferred Revenue	325,285	34,160
Contributions Restricted for Long-Term Investment	(1,949,229)	(888,746)
Net Cash Provided by Operating Activities	<u>7,424,410</u>	<u>2,679,956</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Purchase of Investments	(8,984,506)	(7,575,283)
Proceeds from Sale of Investments	4,985,979	6,174,630
Purchases of Property and Equipment	(5,265,807)	(3,246,529)
Proceeds from Sale of Property and Equipment	1,643	132,935
Disbursements of Student Loans	(196,139)	(206,735)
Repayments of Student Loans	756,109	507,717
Net Cash Used by Investing Activities	<u>(8,702,721)</u>	<u>(4,213,265)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Payments of Principal on Bonds and Loans Payable	(1,873,881)	(1,881,350)
Proceeds from Issuance of Bonds and Loans Payable	3,500,000	-
Net Borrowings on Line of Credit	4,037,635	1,187,820
Contributions Received Restricted for Long-Term Investment	469,405	1,792,021
Proceeds from Issuance of Annuities Payable	39,992	-
Payments of Annuities Payable	(158,145)	(156,284)
Change in Government Grants Refundable	(565,166)	150,808
Net Cash Provided by Financing Activities	<u>5,449,840</u>	<u>1,093,015</u>
<b>INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	4,171,529	(440,294)
Cash and Cash Equivalents - Beginning of Year	<u>403,412</u>	<u>843,706</u>
<b>CASH AND CASH EQUIVALENTS - END OF YEAR</b>	<u><u>\$ 4,574,941</u></u>	<u><u>\$ 403,412</u></u>

See accompanying Notes to Financial Statements.

**AUGUSTANA UNIVERSITY**  
**STATEMENTS OF CASH FLOWS (CONTINUED)**  
**YEARS ENDED JULY 31, 2020 AND 2019**

	<u>2020</u>	<u>2019</u>
<b>SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION</b>		
Cash Paid for Interest	<u>\$ 793,222</u>	<u>\$ 862,462</u>
<b>SUPPLEMENTAL DISCLOSURE OF NONCASH INVESTING AND FINANCING ACTIVITIES</b>		
Property and Equipment Purchased with Accounts Payable	<u>\$ 5,491</u>	<u>\$ 2,099,482</u>

*See accompanying Notes to Financial Statements.*



**AUGUSTANA UNIVERSITY**  
**NOTES TO FINANCIAL STATEMENTS**  
**JULY 31, 2020 AND 2019**

**NOTE 1    SIGNIFICANT ACCOUNTING POLICIES**

**Organization**

Founded in 1860, Augustana University (Augustana) is a private, residential, comprehensive (liberal arts and professional) university of the Evangelical Lutheran Church in America. Central to Augustana's mission are five core values—**Christian, Liberal Arts, Excellence, Community** and **Service**—that serve as the foundation for Augustana's academic and student life programs. Students who enroll at Augustana are attracted by Augustana's intellectually challenging and supportive learning environment, the integration of faith, and an active and engaged campus community. These elements of Augustana experience add up to an education of enduring worth, preparing students for a lifetime of learning and service.

The accounting policies of Augustana reflect practices common to universities and colleges and conform to accounting principles generally accepted in the United States of America. Below is a summary of Augustana's significant accounting policies.

**Basis of Accounting**

Augustana 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 donor-imposed restrictions.

These financial statements, which are presented on the accrual basis of accounting, have been prepared to focus on Augustana 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 two classes of net assets; net assets without donor restrictions and net assets with donor restrictions:

*Net Assets Without Donor Restrictions* – Net assets that are not subject to donor-imposed stipulations. Net assets without donor restrictions may be designated for specific purposes by action of the board of trustees.

*Net Assets With Donor Restrictions* – Net assets whose use by Augustana is subject to donor-imposed stipulations that can be either fulfilled by actions of Augustana pursuant to those stipulations or that expire by the passage of time.

Revenues are reported as increases in net assets without donor restrictions unless use of the related assets is limited by donor-imposed restrictions. Expenses are reported as decreases in net assets without donor restrictions. Expirations of temporary donor restrictions on net assets (i.e., the donor-imposed restriction has been fulfilled and/or the stipulated time period has lapsed) are reported as reclassifications between the applicable classes of net assets.

Contributions of assets other than cash are recorded at their estimated fair value.

**AUGUSTANA UNIVERSITY**  
**NOTES TO FINANCIAL STATEMENTS**  
**JULY 31, 2020 AND 2019**

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

**Basis of Accounting (Continued)**

Investment income includes interest and dividends earned on endowment investments and other investments. Gains and losses on investments include the realized and unrealized gains and losses for the endowment investments and other investments.

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

- As increases in donor-restricted net assets held in perpetuity if the terms of the gift require that they be added to the principal of a perpetual endowment fund;
- As increases in donor-restricted net assets with temporary restrictions in all other cases until the time the funds are appropriated and spent.

Net losses on perpetually restricted endowment funds are reported as reductions in temporarily donor-restricted net assets.

**Net Assets With Donor Restrictions**

With respect to net assets with donor restrictions whose restrictions are temporary, Augustana has adopted the following accounting policies:

Contributions received with donor-imposed restrictions that are met in the same year as received are reported as revenues of the net asset with donor restrictions class, and a reclassification to net assets without donor restrictions is made to reflect the expiration of such restrictions.

Release of donor restrictions on net assets for acquisition of land, buildings, and equipment: Contributions of land, buildings, and equipment are reported as revenues of net assets without donor restrictions. Contributions of cash or other assets to be used to acquire land, buildings, and equipment are reported as revenues with donor restrictions; the restrictions are considered to be released at the time such long-lived assets are acquired.

**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. Estimates that are particularly susceptible to significant change in the near term relate to the allowance for doubtful accounts, the discount on pledges receivable, liabilities under annuity obligations, asset retirement obligations, and valuation of the interest rate swap agreements and alternative investments.

**AUGUSTANA UNIVERSITY**  
**NOTES TO FINANCIAL STATEMENTS**  
**JULY 31, 2020 AND 2019**

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

**Cash and Cash Equivalents**

Augustana 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. Management believes it places its cash and cash equivalents with high quality credit institutions.

**Student Accounts Receivable**

Student accounts receivable are carried at the unpaid balance of the original amount billed to students. Student accounts receivable are net of allowance for doubtful accounts. Management determines the allowance for doubtful accounts based on historical experience and identifying specific past due accounts. Student accounts are written off when deemed uncollectible. Recoveries of student receivable previously written off are recognized when received. The allowance for doubtful student accounts receivable was \$362,250 and \$337,050 at July 31, 2020 and 2019, respectively.

Interest is charged on student accounts receivable that are past due. Interest is recognized as charged. Late charges are imposed if payments are not made by the payment due date and are recognized as they are received.

**Student Loans Receivable**

Student loans receivable are carried at the amount of the unpaid principal. Management determines the allowance for doubtful accounts based on historical experience and identifying specific past due loans. Student loans receivable are written off when deemed uncollectible. Recoveries of student loans receivable previously written off are recognized when received. No allowance for doubtful student loans receivable was deemed necessary at July 31, 2020 or 2019.

Interest is charged and recognized on student loans receivable after a student is no longer enrolled as a full-time student and after a grace period. Interest is recognized as charged. Late charges are imposed if payments are not made by the payment due date and are recognized as they are received. Students may be granted a deferment, forbearance, or cancellation of their student loans receivable based on eligibility requirements defined by the United States Department of Education or, in the case of loan funds of Augustana, based on the respective loan program.

**Contributions Receivable**

Unconditional promises to give that are expected to be received within one year are recorded at the gross amount of the promise, net of an allowance for doubtful pledges. Unconditional promises to give, net of an allowance for doubtful pledges that are expected to be received in more than one year are recorded at the present value of estimated future cash flows using a discount rate of 6% in 2020 and 2019, which is commensurate with the risks involved. Conditional promises to give are recognized only when the conditions on which they depend are substantially met and the promises become unconditional.

**AUGUSTANA UNIVERSITY**  
**NOTES TO FINANCIAL STATEMENTS**  
**JULY 31, 2020 AND 2019**

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

**Prepaid Expenses and Other Assets**

Prepaid expenses and other assets include pre-payments for premiums, memberships, dues, inventories of supplies and miscellaneous items held for resale, which are valued at the lower of cost or net realizable value.

**Investments**

Marketable securities are recorded at fair value determined by quoted market prices. Alternative investments, which include investments in hedge funds and private equity funds, are valued utilizing the most current information provided by the fund. As these alternative investments are not readily marketable, their estimated value is subject to uncertainty and therefore may differ from the value that would have been used had a readily available market for such investments existed. Such difference could be material. Augustana has the ability to liquidate its alternative investments periodically in accordance with the provisions of the alternative investment agreements. All other investments are recorded at cost. Donated investments are recorded at fair value on the date received. Realized gains (losses) are calculated using the average cost method.

Financial assets and liabilities recorded on the statements of financial position are categorized based on the inputs to the valuation techniques as follows:

*Level 1* – Valuations based on unadjusted quoted prices in active markets for identical assets or liabilities that the University has the ability to access. Valuation adjustments and block discounts are not applied to Level 1 securities. Since valuations are based on quoted prices that are readily and regularly available in an active market, valuation of these securities does not entail a significant degree of judgment.

*Level 2* – Valuations based on quoted prices in markets that are not active or for which all significant inputs are observable, either directly or indirectly.

*Level 3* – Valuations based on inputs that are unobservable and significant to the overall fair value measurement.

**AUGUSTANA UNIVERSITY**  
**NOTES TO FINANCIAL STATEMENTS**  
**JULY 31, 2020 AND 2019**

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

**Debt Acquisition**

Debt acquisition costs are amortized over the term of the related debt by a method that approximates the effective interest method. Debt acquisition costs are reported as a reduction of Bonds Payable (see Note 12).

**Property and Equipment**

Property and equipment is stated at cost less accumulated depreciation. Augustana depreciates its property and equipment, starting in the year it is placed into service if purchased prior to January 1 and the year following if it is purchase after January 1, on a straight-line basis over the estimated useful lives as follows:

Buildings	40 Years
Improvements	20 Years
Equipment	5 to 15 Years
Library Books	15 Years

Normal repair and maintenance expenses are charged to operations as incurred. Augustana capitalizes property and equipment additions in excess of \$5,000. Interest costs incurred specific contributions received for the construction.

**Government Grants and Contracts**

A portion of Augustana's revenue is derived from cost reimbursable federal and state contracts and grants, which are conditioned upon certain performance requirements and/ or the incurrence of allowable qualifying expenses. Amounts received are recognized as revenue when Augustana has incurred expenditures in compliance with specific contract or grant provisions. Amounts received prior to incurring qualifying expenditures are reported as deferred revenue in the statements of financial position.

**Asset Retirement Policy**

Augustana recognizes the fair value of a liability for legal obligations associated with asset retirements in the period in which it is incurred, if a reasonable estimate of the fair value of the obligation can be made. When the liability is initially recorded, the cost of the retirement obligation is capitalized by increasing the carrying value of the related asset. Over time, the liability is accreted to its present value each year, and the capitalized cost associated with the retirement obligation is depreciated over the useful life of the related asset. Upon settlement of the obligation, any difference between the cost to settle the asset retirement obligation and the liability recorded is recognized as a gain or loss in the statements of activities. Augustana reviews its estimates annually and adjusts the recorded liability as needed.

**AUGUSTANA UNIVERSITY**  
**NOTES TO FINANCIAL STATEMENTS**  
**JULY 31, 2020 AND 2019**

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

**Interest Rate Swap Agreements**

The fair value of Augustana's interest rate swap agreements are recognized as either an asset or liability in the statements of financial position, with changes in the fair value reported in the current period statements of activities.

**Annuities Payable**

Gifts received under these arrangements are split into the amount representing the actuarial present value of future distributions back to the donor or to the third-party beneficiaries and the remaining gift value to be retained for the benefit of Augustana. 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 donor. Augustana used an average discount rate of 6% in making the calculations at July 31, 2020 and 2019.

**Deferred Revenue**

Deferred revenue consists primarily of cash received related to specific contracts and tuition payments received in advance. Revenue related to the specific contracts is recognized over the life of the related agreement as an exchange transaction. Tuition or revenue is recognized in the academic term to which the tuition applies.

**Funds Held in Custody for Others**

Funds held in custody for others include the estimated liability under various charitable trusts and funds held under agency relationships.

**Government Grants Refundable**

Funds provided by the United States Government under the Federal Perkins Loan Program are loaned to qualified students and may be re-loaned after collections. These funds are ultimately refundable to the government and are included as liabilities 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. Costs incurred before cash is received are recorded as an expense, revenue, and a receivable.

**AUGUSTANA UNIVERSITY**  
**NOTES TO FINANCIAL STATEMENTS**  
**JULY 31, 2020 AND 2019**

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

**Grants to Specified Students**

Amounts received from federal agencies designated for the benefit of specified students are considered agency transactions and, therefore, are not reflected as revenues and expenses of Augustana. The amounts of such grants were \$1,543,538 and \$1,498,886 for the years ended July 31, 2020 and 2019, respectively.

**Institutional Scholarships and Grants**

Institutional scholarships and grants are offered by Augustana to attract and retain students. Augustana offers institutional grants to students in the form of merit-based scholarships and need-based grants. These scholarships and grants are presented in the accompanying statements of activities as a reduction to tuition and fees.

**Income Taxes**

The Internal Revenue Service has determined that Augustana is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code (IRC). As such, Augustana is subject to federal income taxes only on any unrelated income under Section 511 of the IRC.

Augustana follows the guidance on accounting for uncertainty in income taxes. Management evaluated Augustana's tax positions and concluded that Augustana had taken no uncertain tax positions that require adjustment to the financial statements to comply with the provisions of this guidance.

Augustana files an informational 990 tax return in the U.S. federal jurisdiction. Augustana has no federal or state examinations currently in progress.

**Pension Plans**

Augustana has certain contributory, defined contribution pension plans for academic and nonacademic personnel. Contributions for employees are based on a percentage of compensation. Augustana's match on the retirement plan totaled approximately \$1,242,000 and \$1,219,000 for the years ended July 31, 2020 and 2019, respectively.

**Revenue Recognition**

Revenue from contracts with customers is recognized when control of the promised goods or services is transferred to customers (students), in an amount that reflects the consideration expected to be entitled in exchange for those goods or services.

The following table shows Augustana's tuition revenue disaggregated according to the timing of the transfer of goods or service and by source, as of the year ended July 31, 2020 and 2019:

Revenue Recognized Over Time:	2020	2019
Tuition and Fees	\$ 62,853,665	\$ 60,416,217
Less: Scholarships and Grants	(33,544,136)	(32,853,890)
Total	<u>\$ 29,309,529</u>	<u>\$ 27,562,327</u>

**AUGUSTANA UNIVERSITY**  
**NOTES TO FINANCIAL STATEMENTS**  
**JULY 31, 2020 AND 2019**

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

**Revenue Recognition (Continued)**

The following table shows Augustana's auxiliary revenues disaggregated according to the timing of the transfer of goods or service and by source, as of the year ended July 31:

	2020	2019
Revenue Recognized Over Time:		
Housing	\$ 3,419,911	\$ 4,651,408
Dining	3,977,243	5,029,894
Total	<u>\$ 7,397,154</u>	<u>\$ 9,681,302</u>

Augustana's contract assets and liabilities consist of the following as of July 31:

	2020	2019
Deferred Revenue - Students	\$ 1,622,532	\$ 1,002,050
Deferred Revenue - Auxiliary	712,500	825,000
Deferred Revenue - Other	956,377	1,139,074
Total	<u>\$ 3,291,409</u>	<u>\$ 2,966,124</u>

**Performance Obligations and Revenue Recognition**

Augustana has two semesters. Tuition revenue is recognized in the fiscal year in which the academic programs are delivered, proratably over the term of the related semester. Auxiliary revenue is recognized in the fiscal year in which housing and food services are provided, proratably over the term of the related semester. Any payments received prior to fiscal year-end related to academic terms that occur subsequent to fiscal year-end are recorded as deferred revenue in the accompanying statements of financial position.

Customer contracts generally have separately stated prices for each performance obligation contained in the contract. Therefore, each performance obligation generally has its own standalone selling price. Arrangements for payment are agreed to prior to registration of the student's first academic term. Many students obtain Title IV or other financial aid resulting in Augustana's receiving a significant amount of the transaction price at the beginning of the academic term.

Augustana does not require students to live on campus for the entire time of study and the price of educational services and residential services are not dependent on one another. Therefore, housing and tuition revenue do not need to be combined according to ASC 606-15-25-9.

**Transaction Price**

Revenue, or transaction price, is measured as the amount of consideration expected to be received in exchange for transferring goods or services. Tuition and auxiliary revenues are reported at established rates, net of financial assistance provided by Augustana.

Students may receive discounts, scholarships, or refunds, which gives rise to variable consideration. The amounts of discounts or scholarships are applied to individual student accounts when such amounts are awarded. Therefore, the transaction price is reduced directly by these discounts or scholarships from the amount of the standard rates charged.



**AUGUSTANA UNIVERSITY**  
**NOTES TO FINANCIAL STATEMENTS**  
**JULY 31, 2020 AND 2019**

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

**Transaction Price (Continued)**

Students who adjust their course load or withdraw completely within the first three days of the academic term (add/drop period) may receive a full or partial refund in accordance with Augustana's refund policy.

If a student withdraws prior to completing an academic term, federal regulations permit Augustana to retain only a set percentage of the total tuition and auxiliary revenues received from such student, which varies with, but generally equals or exceeds, the percentage of the academic term completed by such student. Payment amounts received by Augustana in excess of such set percentages of tuition are refunded to the student or the appropriate funding source.

For contracts with similar characteristics and historical data on refunds, the expected value method is applied in determining the variable consideration related to refunds. Estimates of Augustana's expected refunds are determined at the outset of each academic term, based upon actual experience in previous academic terms. All refunds are netted against revenue during the applicable academic term. Management believes it is not probable that a significant reversal in the amount of cumulative revenue recognized will occur when the uncertainty associated with variable consideration is subsequently resolved.

Management reassesses collectability throughout the period revenue is recognized by Augustana on a student-by-student basis. This reassessment is based upon new information and changes in facts and circumstances relevant to a student's ability to pay. Management also reassesses collectability when a student withdraws from the institution and has unpaid charges.

**Contract Balances**

Tuition, fees, and auxiliary revenues are recognized in the period classes and services are provided and amounts received for future periods are reported as deferred revenue. Students are billed at the beginning of each academic term and payment is due at that time. Augustana's performance obligations are to provide educational services in the form of instruction as well as housing facilities and meals during the academic term. As these performance obligations are satisfied over the academic term, deferred revenue is reduced. A significant portion of student payments are from Title IV financial aid and other programs and are generally received during the first month of the respective term. When payments are received, accounts receivable is reduced.

The following table depicts activities for deferred revenue related to tuition and fees, auxiliary revenues, athletic memberships, and other miscellaneous items:

Balance at 8/1/2019	Refunds Issued	Revenue Recognized Included in 7/31/2019 Balance	Cash Received in Advance of Performance	Balance at 7/31/2020
<u>\$ 2,966,124</u>	<u>\$ -</u>	<u>\$ 1,678,627</u>	<u>\$ 2,003,912</u>	<u>\$ 3,291,409</u>

The balance of deferred revenue at July 31, 2020 will be recognized as revenue over the academic term beginning on August 1, 2020 as services are rendered.

**AUGUSTANA UNIVERSITY**  
**NOTES TO FINANCIAL STATEMENTS**  
**JULY 31, 2020 AND 2019**

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

**Fundraising and Advertising Expenses**

Fundraising expenses totaled approximately \$2,311,000 and \$2,384,000 for the years ended July 31, 2020 and 2019, respectively. Augustana expenses advertising at the time incurred, which totaled approximately \$307,000 and \$248,000 for the years ended July 31, 2020 and 2019, respectively.

**Reclassifications**

Certain amounts in 2019 have been reclassified for comparative purposes to conform to the presentation in 2020. The reclassifications have no effect on the previously reported change in net assets or net assets balance.

**Risk and Uncertainties**

In March 2020, the World Health Organization declared the spread of Coronavirus Disease (COVID-19) a worldwide pandemic. The COVID-19 pandemic is having significant effects on global markets, supply chains, businesses, and communities. Specific to Augustana University, COVID-19 may impact various parts of its 2020-2021 operations and financial results, including, but not limited to, declines in enrollment, loss of auxiliary revenues, additional bad debts, costs for increased use of technology, or potential shortages of personnel. Management believes Augustana University is taking appropriate actions to mitigate the negative impact. However, the full impact of COVID-19 is unknown and cannot be reasonably estimated as these events are still developing subsequent to fiscal year-end.

**Functional Allocation of Expenses**

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

**NOTE 2    NET ASSETS**

Net assets without donor restrictions consist of the following at July 31:

	2020	2019
Undesignated (Deficit)	\$ (20,621,806)	\$ (22,055,386)
Loans to Students	505,170	562,254
Retirement of Indebtedness	2,879,535	2,879,535
Replacement of Plant Facilities	297,361	250,224
Board Designated Endowment	1,669,739	1,564,983
Annuity Reserves	601,164	596,493
Net Investment in Plant	53,917,290	52,888,697
Total Board Designated	<u>\$ 39,248,453</u>	<u>\$ 36,686,800</u>

**AUGUSTANA UNIVERSITY**  
**NOTES TO FINANCIAL STATEMENTS**  
**JULY 31, 2020 AND 2019**

**NOTE 2 NET ASSETS (CONTINUED)**

Undesignated net assets (deficit) represent undesignated assets net of various payables, accruals, and reserves.

Net assets with donor restrictions consist of the following as of July 31:

	<u>2020</u>	<u>2019</u>
Subject to Specified Purpose:		
Scholarships and Grants	\$ 566,972	\$ 677,812
Academic, Student Programs and Support	3,892,392	3,601,810
Acquisition of Property and Equipment	<u>1,401,060</u>	<u>1,647,207</u>
	5,860,424	5,926,829
Subject to Passage of Time:		
Contributions Receivable	10,438,242	5,691,414
Annuity, Life Income and Similar Funds	<u>1,300,292</u>	<u>1,249,008</u>
	11,738,534	6,940,422
Subject to the University Spending Policy		
Accumulated Gains and Term Endowments	19,834,555	19,548,189
Endowment Funds Restricted in Perpetuity	<u>70,820,267</u>	<u>68,686,046</u>
	<u>90,654,822</u>	<u>88,234,235</u>
 Total Net Assets with Donor Restrictions	 <u><u>\$ 108,253,780</u></u>	 <u><u>\$ 101,101,486</u></u>

**NOTE 3 ENDOWMENT FUNDS**

Augustana's endowment funds consist of various donor-restricted endowment funds and funds designated as endowment by Augustana's Board of Trustees. The endowment funds were established for a variety of purposes, primarily related to scholarships and to supplement salary and expense budgets. Net assets associated with endowment funds are classified and reported based on the existence of donor-imposed restrictions.

Augustana has determined that absent explicit donor restrictions, the original gift amount of the donor-restricted endowment will be classified as restricted in perpetuity. The remaining portion of the donor-restricted endowment fund that is not classified as net assets restricted in perpetuity is classified as donor-restricted net assets with temporary restrictions until those amounts are appropriated for expenditure and spent by Augustana in a manner consistent with the standard of prudence prescribed by the state of South Dakota in its enacted version of the Uniform Prudent Management of Institutional Funds Act (UPMIFA).

**AUGUSTANA UNIVERSITY**  
**NOTES TO FINANCIAL STATEMENTS**  
**JULY 31, 2020 AND 2019**

**NOTE 3 ENDOWMENT FUNDS (CONTINUED)**

Augustana has adopted investment and spending policies 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 investments. To satisfy its investment and return objectives, Augustana relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest, dividends and rents). Augustana targets a diversified allocation of investments that places a greater emphasis on equity-based investments to achieve its long-term objectives and is invested in a diversified portfolio of global equities (65%), fixed instrument bonds (20%) and other assets (15%), including real estate.

Augustana has a policy of appropriating for distribution each year an amount equal to 5% of the average endowment value over the previous 12 quarters. If the endowment value is below the original gift amount, the distribution amount is reduced to the current yield percentage applied to the average endowment value. The distribution for the 2020 – 2021 fiscal year is expected to be approximately \$4.6 million. Augustana expects that the average long-term return of its endowment will support this distribution and maintain the purchasing power of the endowment. Augustana considers the following factors in making a determination to appropriate or accumulate endowment funds: (1) purpose of Augustana and the endowment fund, (2) duration and preservation of the fund, (3) general economic conditions and effect of inflation/deflation, (4) investment policy and expected return on the endowment and (5) other resources of Augustana.

The following summarizes endowment net assets at July 31:

		With Donor Restrictions		
	Without Donor Restrictions	Original Gift Amount	Accumulated Gain (Losses)	Total
2020				
Donor-Restricted Endowment Funds				
Underwater Funds	\$ -	\$ 722,237	\$ (28,906)	\$ 693,331
Other Funds	-	73,730,088	16,231,404	89,961,492
Board-Designated Endowment Funds				
Scholarship	934,262	-	-	934,262
Maintenance	735,478	-	-	735,478
Total Endowment Funds	\$ 1,669,740	\$ 74,452,325	\$ 16,202,498	\$ 92,324,563
		With Donor Restrictions		
	Without Donor Restrictions	Original Gift Amount	Accumulated Gain (Losses)	Total
2019				
Donor-Restricted Endowment Funds				
Underwater Funds	\$ -	\$ 51,355	\$ (13,384)	\$ 37,971
Other Funds	-	71,786,210	16,410,055	88,196,265
Board-Designated Endowment Funds				
Scholarship	933,645	-	-	933,645
Maintenance	631,338	-	-	631,338
Total Endowment Funds	\$ 1,564,983	\$ 71,837,565	\$ 16,396,671	\$ 89,799,219

Augustana had perpetually restricted pledges receivable for endowment of \$2,177,000 and \$139,700 at July 31, 2020 and 2019, respectively, net of reductions for allowances and discounts.

**AUGUSTANA UNIVERSITY**  
**NOTES TO FINANCIAL STATEMENTS**  
**JULY 31, 2020 AND 2019**

**NOTE 3    ENDOWMENT FUNDS (CONTINUED)**

The following summarizes changes in the endowment net assets for the years ended July 31:

		With Donor Restrictions		
	Without Donor Restrictions	Original Gift Amount	Accumulated Gain (Losses)	Total
<u>2020</u>				
Endowment Net Assets, July 31, 2019	\$ 1,564,983	\$ 71,837,565	\$ 16,396,671	\$ 89,799,219
Investment Income, Net	13,446	-	1,619,964	1,633,410
Net Appreciation (Realized and Unrealized Gain)	59,480	-	2,843,548	2,903,028
Contributions	89,890	2,614,760	-	2,704,650
Gift Fee	(1,797)	-	(48,532)	(50,329)
Appropriation for Expenditure	(56,262)	-	(4,609,153)	(4,665,415)
Endowment Net Assets, July 31, 2020	<u>\$ 1,669,740</u>	<u>\$ 74,452,325</u>	<u>\$ 16,202,498</u>	<u>\$ 92,324,563</u>

		With Donor Restrictions		
	Without Donor Restrictions	Original Gift Amount	Accumulated Gain (Losses)	Total
<u>2019</u>				
Endowment Net Assets, July 31, 2018	\$ 1,577,920	\$ 68,935,803	\$ 18,046,555	\$ 88,560,278
Investment Income, Net	17,371	-	1,083,160	1,100,531
Net Appreciation (Realized and Unrealized Gain)	10,893	-	1,056,495	1,067,388
Contributions	4,049	2,901,762	-	2,905,811
Appropriation for Expenditure	(45,250)	-	(3,789,539)	(3,834,789)
Endowment Net Assets, July 31, 2019	<u>\$ 1,564,983</u>	<u>\$ 71,837,565</u>	<u>\$ 16,396,671</u>	<u>\$ 89,799,219</u>

**AUGUSTANA UNIVERSITY**  
**NOTES TO FINANCIAL STATEMENTS**  
**JULY 31, 2020 AND 2019**

**NOTE 4 NET ASSETS RELEASED FROM RESTRICTIONS**

The sources of net assets released from temporary donor restrictions by incurring expenses satisfying the restricted purpose or by occurrence of events specified by the donors for the years ended July 31 were as follows:

	2020	2019
Operating Purposes	\$ 8,356,752	\$ 5,787,686
Capital Improvements	2,789,302	3,568,052
Total	<u>\$ 11,146,054</u>	<u>\$ 9,355,738</u>

These assets were reclassified to net assets without donor restrictions.

**NOTE 5 CONTRIBUTIONS RECEIVABLE**

The following summarizes Augustana's contributions receivable at July 31:

	2020	2019
With Donor Restriction - Capital Improvements	\$ 7,122,772	\$ 8,093,320
With Donor Restriction - Scholarships, Grants and Operations	4,895,179	481,005
With Donor Restriction - Held in Perpetuity for Endowment	2,868,692	167,994
Subtotal	14,886,643	8,742,319
Less: Unamortized Discount	(3,288,595)	(2,418,526)
Less: Allowance for Doubtful Pledges	(1,159,805)	(632,379)
Total	<u>\$ 10,438,243</u>	<u>\$ 5,691,414</u>
Amounts Due in:		
Less than One Year	\$ 1,957,054	\$ 1,143,354
One to Five Years	8,980,600	3,890,816
More than Five Years	3,948,989	3,708,149
Total	<u>\$ 14,886,643</u>	<u>\$ 8,742,319</u>

Pledges receivable at July 31, 2020 and 2019 include gifts from several board members of Augustana with a gross recorded value of \$318,460 and \$439,700, respectively, before reductions for allowance and discounts.

**AUGUSTANA UNIVERSITY**  
**NOTES TO FINANCIAL STATEMENTS**  
**JULY 31, 2020 AND 2019**

**NOTE 6 OTHER RECEIVABLES**

The following summarizes Augustana's other receivables at July 31:

	2020	2019
Cancelled Federal Perkins Loans Receivable	\$ 1,732,096	\$ 1,868,852
Miscellaneous Receivables	24,242	67,848
Total	<u>\$ 1,756,338</u>	<u>\$ 1,936,700</u>

**NOTE 7 ENDOWMENT INVESTMENTS**

The following summarizes the carrying values of Augustana's endowment investments at July 31:

	2020	2019
Investments Carried at Fair Value:		
Marketable Securities:		
Money Market Funds	\$ 2,681,744	\$ 2,553,577
Fixed Income Securities	3,605,388	2,982,330
Mutual Funds - U.S. Equity Securities	19,080,870	18,189,059
Mutual Funds - International Equity Securities	12,079,342	11,434,347
Mutual Funds - Global Securities	7,040,337	6,631,552
Mutual Funds - U.S. Debt Securities	3,343,336	3,018,576
Mutual Funds - International Debt Securities	2,651,184	2,669,873
Nonmarketable Securities:		
Long/Short Equity	5,700,237	5,965,226
Equity	14,451,886	12,523,190
Fixed Income Securities	4,090,404	4,316,274
Hedge Funds	2,105,398	295,933
Limited Partnerships	1,361,486	1,480,347
Commodities	-	2,883
Real Estate Fund	3,807,350	3,050,773
Subtotal	<u>81,998,962</u>	<u>75,113,940</u>
Investments Carried at Cost:		
Certificates of Deposit	204,840	303,854
Cash Surrender Value of Life Insurance Policies	1,334,474	1,260,342
Real Estate	5,813,533	5,838,970
Preferred Stock	1,674,000	1,674,000
Miscellaneous Receivable	22,044	230,757
Accrued Interest	49,337	44,834
Subtotal	<u>9,098,228</u>	<u>9,352,757</u>
Total	<u>\$ 91,097,190</u>	<u>\$ 84,466,697</u>

**AUGUSTANA UNIVERSITY**  
**NOTES TO FINANCIAL STATEMENTS**  
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**NOTE 7    ENDOWMENT INVESTMENTS (CONTINUED)**

Real estate consists of residential real estate currently being rented to students, faculty, and staff. Real estate is recorded net of accumulated depreciation of \$852,916 and \$664,791 at July 31, 2020 and 2019, respectively.

**NOTE 8    OTHER INVESTMENTS**

The following summarizes the carrying values of Augustana's other investments at July 31:

	2020	2019
Investments Carried at Fair Value:		
Marketable Securities:		
Money Market Funds	\$ 183,471	\$ 94,131
U.S. Government Securities	-	133,042
Fixed Income Securities	-	89,991
Mutual Funds - Equity Securities	1,205,559	1,194,144
Mutual Funds - Debt Securities	481,713	228,576
Subtotal	<u>1,870,743</u>	<u>1,739,884</u>
Investments Carried at Cost:		
Funds Held by Outside Parties	194,534	204,078
Accounts Receivable - Payment in Transit	-	4,616
Certificates of Deposit	10,363	10,129
Cash Surrender Value of Life Insurance Policies	430,340	392,294
Subtotal	<u>635,237</u>	<u>611,117</u>
Total	<u><u>\$ 2,505,980</u></u>	<u><u>\$ 2,351,001</u></u>

Augustana has arrangements with donors classified as charitable annuity trusts and charitable remainder trusts. Total assets held by Augustana under deferred gift agreements totaled approximately \$478,000 and \$490,000 at July 31, 2020 and 2019, respectively.



**AUGUSTANA UNIVERSITY**  
**NOTES TO FINANCIAL STATEMENTS**  
**JULY 31, 2020 AND 2019**

**NOTE 9 FAIR VALUE MEASUREMENTS**

Augustana uses fair value measurements to record fair value adjustments to certain assets and liabilities and to determine fair value disclosures. For additional information on how Augustana measures fair value, refer to Note 1 – Significant Accounting Policies. The following tables represent Augustana's fair value hierarchy for those assets and liabilities measured at fair value on a recurring basis as of July 31:

<u>2020</u>	Level 1	Level 2	Level 3	Investments Measured at NAV	Total
Endowment Investments:					
Money Market Funds	\$ 2,681,744	\$ -	\$ -	\$ -	\$ 2,681,744
Mutual Funds - U.S. Equity Securities	19,080,870	-	-	-	19,080,870
Mutual Funds - International Equity Securities	12,079,342	-	-	-	12,079,342
Mutual Funds - Global Securities	7,040,337	-	-	-	7,040,337
Mutual Funds - U.S. Debt Securities	3,343,336	-	-	-	3,343,336
Mutual Funds - International Debt Securities	2,651,184	-	-	-	2,651,184
Long/Short Equity	-	-	-	5,700,237	5,700,237
Equity	-	-	-	14,451,886	14,451,886
Fixed Income Securities	-	3,605,388	-	4,090,404	7,695,792
Hedge Funds	-	-	-	2,105,398	2,105,398
Limited Partnerships	-	-	-	1,361,486	1,361,486
Commodities	-	-	-	-	-
Real Estate Fund	-	-	-	3,807,350	3,807,350
Total Endowment Investments	46,876,813	3,605,388	-	31,516,761	81,998,962
Other Investments:					
Money Market Funds	183,471	-	-	-	183,471
U.S. Government Securities	-	-	-	-	-
Fixed Income Securities	-	-	-	-	-
Mutual Funds - Equity Securities	1,205,559	-	-	-	1,205,559
Mutual Funds - Debt Securities	481,713	-	-	-	481,713
Total Other Investments	1,870,743	-	-	-	1,870,743
Total Investments Valued at Fair Value	\$ 48,747,556	\$ 3,605,388	\$ -	\$ 31,516,761	\$ 83,869,705
Interest Rate Swap Agreements	\$ -	\$ (406,620)	\$ -	\$ -	\$ (406,620)

**AUGUSTANA UNIVERSITY**  
**NOTES TO FINANCIAL STATEMENTS**  
**JULY 31, 2020 AND 2019**

**NOTE 9 FAIR VALUE MEASUREMENTS (CONTINUED)**

2019	Level 1	Level 2	Level 3	Investments Measured at NAV	Total
Endowment Investments:					
Money Market Funds	\$ 2,553,577	\$ -	\$ -	\$ -	\$ 2,553,577
Mutual Funds - U.S. Equity Securities	18,189,059	-	-	-	18,189,059
Mutual Funds - International Equity Securities	11,434,347	-	-	-	11,434,347
Mutual Funds - Global Securities	6,631,552	-	-	-	6,631,552
Mutual Funds - U.S. Debt Securities	3,018,576	-	-	-	3,018,576
Mutual Funds - International Debt Securities	2,669,873	-	-	-	2,669,873
Long/Short Equity	-	-	-	5,965,226	5,965,226
Equity	-	-	-	12,523,190	12,523,190
Fixed Income Securities	-	2,982,330	-	4,316,274	7,298,604
Hedge Funds	-	-	-	295,933	295,933
Limited Partnerships	-	-	-	1,480,347	1,480,347
Commodities	-	-	-	2,883	2,883
Real Estate Fund	-	-	-	3,050,773	3,050,773
Total Endowment Investments	44,496,984	2,982,330	-	27,634,626	75,113,940
Other Investments:					
Money Market Funds	94,131	-	-	-	94,131
U.S. Government Securities	133,042	-	-	-	133,042
Fixed Income Securities	-	89,991	-	-	89,991
Mutual Funds - Equity Securities	1,194,144	-	-	-	1,194,144
Mutual Funds - Debt Securities	228,576	-	-	-	228,576
Total Other Investments	1,649,893	89,991	-	-	1,739,884
Total Investments Valued at Fair Value	<u>\$ 46,146,877</u>	<u>\$ 3,072,321</u>	<u>\$ -</u>	<u>\$ 27,634,626</u>	<u>\$ 76,853,824</u>
Interest Rate Swap Agreements	<u>\$ -</u>	<u>\$ (275,372)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (275,372)</u>

The following table provides a summary of redemption restrictions of alternative investments at July 31:

	2020	2019	Unfunded Commitments at July 31, 2020	Redemption Frequency (if Currently Eligible)	Redemption Notice Period
Long/Short Equity	\$ 5,700,237	\$ 5,965,226	\$ -	Daily	100 days
Fixed Income Securities	4,090,404	4,316,274	1,314,273	Daily	90 days
Hedge Funds	2,105,398	295,933	-	Daily-Monthly	45 days
Limited Partnerships	1,361,486	1,480,347	1,666,988	Limited	n/a
Commodities	-	2,883	-	Daily-Monthly	1-30 days
Equity	14,451,886	12,523,190	-	Monthly	10 days
Real Estate Fund	3,807,350	3,050,773	730,726	Monthly	35 days
Total	<u>\$ 31,516,761</u>	<u>\$ 27,634,626</u>	<u>\$ 3,711,987</u>		

Long/short equity contains investments in multiple hedge funds with separate managers using long and short strategies. The fair value of the funds in this category have been estimated using the net asset value of the investments provided by each investment's fund administrator based on their percentage ownership of the overall fund.

Equity investments reflect long position investments in mutual funds, exchange-traded funds, or index funds that invest in high-quality domestic and international markets. The fair value of the funds in this category have been estimated using the net asset value of the investments provided by each investment's fund administrator based on their percentage ownership of the overall fund.

**AUGUSTANA UNIVERSITY**  
**NOTES TO FINANCIAL STATEMENTS**  
**JULY 31, 2020 AND 2019**

**NOTE 9 FAIR VALUE MEASUREMENTS (CONTINUED)**

Fixed income securities consist of interest rate and credit-sensitive investments. The fair value of these investments is based on quoted market prices for the underlying securities which comprise the fund.

Hedge Funds provide capital appreciation through the use of fund of funds, multi-manager investment strategy. The Hedge Funds allocate their assets among several private partnerships and limited liability companies. The fair value of the funds in this category have been estimated using the net asset value of the investments provided by each investment's fund administrator based on their percentage ownership of the overall fund.

Limited Partnerships (LPs) reflect investments in LP's which in turn invest in other LP's, early and growth stage companies. The fair value of the funds in this category have been estimated using the net asset value of the investments, which are based on estimates and assumptions of the general partners or partnership valuation committees in the absence of readily determinable market values.

Commodities take positions in a variety of commodities, commodity futures, as well as equity securities closely correlated with the performance of such assets. Investing in commodities provides additional diversification as well as a hedge against inflation. In this category, units are priced daily and some redemptions can be made within one business day of the request.

Real Estate attempts to achieve long-term returns through the use of a global portfolio consisting of publicly traded real estate equity securities. The fair value of the fund in this category has been estimated using the net asset value of the investments provided by each investment's fund administrator based on their percentage ownership of the overall fund.

**NOTE 10 PROPERTY AND EQUIPMENT**

The following summarizes Augustana's property and equipment at July 31:

	2020	2019
Campus Land	\$ 924,315	\$ 924,315
Buildings and Building Improvements	119,957,649	117,737,256
Equipment	12,525,456	12,213,429
Improvements Other than Buildings	7,638,257	5,073,244
Library Books	828,051	819,515
Artwork	161,138	161,138
Construction in Progress	275,325	2,478,021
Subtotal	142,310,191	139,406,918
Less: Accumulated Depreciation	(65,904,188)	(62,214,122)
Total	<u>\$ 76,406,003</u>	<u>\$ 77,192,796</u>

**AUGUSTANA UNIVERSITY**  
**NOTES TO FINANCIAL STATEMENTS**  
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**NOTE 11 LINE OF CREDIT**

In 2019, Augustana obtained an unsecured \$6 million line of credit agreement with a bank. Interest on the line of credit varies with the bank's index rate, which was 5.50% at July 31, 2020. The line of credit expires in April 2021. Collateral for the agreement includes any funds or securities held by the lender. The outstanding borrowing under this line of credit at July 31, 2020 and 2019 was \$5,225,455 and \$1,187,820, respectively.

**NOTE 12 BONDS AND LOANS PAYABLE**

The following summarizes Augustana's bonds and loans payable at July 31:

	2020	2019
Minnehaha County 2014 Bond Issue	\$ 14,511,487	\$ 15,443,825
Lincoln County 2008 Bond Issue	5,362,494	5,882,268
Lincoln County 2005 Bond Issue	2,569,703	2,978,001
Reliabank - Loan Payable	3,500,000	-
Less: Unamortized Bond Issuance Costs	(147,868)	(159,650)
Total	<u>\$ 25,795,816</u>	<u>\$ 24,144,444</u>

The Minnehaha County 2014 Bond Issue (2014 Bonds) requires monthly interest payments equal to the outstanding principal times the annual interest rate of 3.27%. Starting in December 2016, Augustana began making quarterly principal payments of approximately \$250,000 until maturity on December 1, 2038. The 2014 Bonds are secured by certain property and equipment and require that Augustana meet certain financial covenants including a debt service coverage ratio, as defined in the agreement, of at least 1.25 and a primary reserve ratio, as defined in the agreement, of 0.25.

The Lincoln County 2008 Bond Issue (2008 Bonds) requires monthly payments consisting of variable interest (1.75% at July 31, 2020; see Note 14) and principal payments of \$40,788 progressively increasing by approximately \$1,500 each year until maturity on December 10, 2028. The 2008 Bonds are secured by certain Augustana property and equipment, and require that Augustana meet certain financial covenants including a debt service coverage ratio, as defined in the agreement, of at least 1.25 and a primary reserve ratio, as defined in the agreement, of 0.25.

The Lincoln County 2005 Bond Issue (2005 Bonds) requires monthly payments consisting of variable interest (1.75% at July 31, 2020; see Note 14) and principal payments of \$45,546 and matures on December 31, 2026. The 2005 Bonds are secured by certain Augustana property and equipment, and require that Augustana meet certain financial covenants including a debt service coverage ratio, as defined in the agreement, of at least 1.25 and a primary reserve ratio, as defined in the agreement, of 0.25.

The Reliabank Loan Payable requires monthly payments of \$27,747 consisting of 4.95% interest and matures on August 1, 2027. The loan is secured by certain Augustana property and equipment. The loan was paid off in full subsequent to year-end.

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**NOTE 12 BONDS AND LOANS PAYABLE (CONTINUED)**

The following summarizes Augustana's scheduled principal payments on bonds and loans payable at July 31, 2020:

<u>Year Ending July 31,</u>	<u>Amount</u>
2021	\$ 2,028,560
2022	2,546,762
2023	2,570,743
2024	2,146,799
2025	2,284,252
Subsequent Years	<u>14,366,568</u>
Total	<u><u>\$ 25,943,684</u></u>

**NOTE 13 CONCENTRATIONS OF CREDIT RISK**

Financial instruments that potentially subject Augustana to concentrations of credit risk consist principally of marketable securities and student loans receivable. Marketable securities are generally placed in a variety of managed funds administered by different investment managers in order to limit credit risk. Investments with a market value of approximately \$46,000,000 and \$44,000,000 were in custody of Augustana's investment manager at July 31, 2020 and 2019, respectively, and were primarily invested in mutual funds. Student loans receivable are due from individuals concentrated primarily in the Midwest. In addition, Augustana's students receive a substantial amount of support from federal student financial assistance programs, which are subject to audit by governmental agencies. A significant reduction in the level of this support could have an adverse effect on Augustana's programs and activities.

Augustana maintains the majority of its cash in bank deposit accounts at two banks that generally exceed federally insured limits. Augustana has not experienced any losses in such accounts. Augustana believes it is not exposed to any significant credit risk on cash.

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**NOTE 14 INTEREST RATE SWAP AGREEMENTS**

Augustana entered into interest rate swap agreements with a bank dated November 1, 2005. The agreements were entered into in connection with the 2005 Bonds to reduce the interest rate volatility of the variable rate demand bonds (see Note 12). On February 8, 2012, Augustana combined and extended the two swaps related to the 2005 Bonds. The agreement was entered into to extend the upcoming expiring swap, combine the two separate swaps, and increase the amount that was swapped from floating to a fixed rate. The notional amount was \$2,505,264 and \$2,908,725 at July 31, 2020 and 2019, respectively. Under the new agreement, Augustana pays interest at fixed rates equal to 3.56% and receives interest at a variable rate based on prime (3.25% and 5.25% at July 31, 2020 and 2019, respectively). The agreement requires payments to be made or received monthly. The weighted average of the variable rates during the calculation period determines the variable portion of the interest rate swaps for the preceding one-month period.

Augustana also entered into an interest rate swap agreement with a bank dated December 10, 2008 and expiring on January 1, 2024, with an original notional amount of \$7,000,000. The agreement was entered into in connection with the 2008 Bonds to reduce the interest rate volatility of the variable rate demand bonds (see Note 12). The notional amount, which decreases over the term of the agreement as principal payments are made on the bonds, was \$4,170,829 and \$4,575,097 at July 31, 2020 and 2019, respectively. Under the agreement, Augustana pays interest at a fixed rate equal to 3.64% and receives interest at a variable rate based on prime (3.25% and 5.25% at July 31, 2020 and 2019, respectively). The agreement requires payments to be made or received monthly. The weighted average of the variable rate during the calculation period determines the variable portion of the interest rate swap for the preceding one-month period.

As discussed above, Augustana has entered into interest swap agreements to hedge exposure to interest rate risk related to its variable rate bonds. Augustana's specific goal is to lower (where possible) the cost of its borrowed funds over the borrowing term. Although Augustana believes its interest rate swap agreements are economic hedges, none have been designated as a hedge for accounting purposes. The fair value of the swap agreements was recorded as a liability of \$406,620 and \$275,372 at July 31, 2020 and 2019, respectively, with changes in fair value recognized in the current period change in net assets without donor restrictions. The following amounts have been included in the statements of activities for the years ended July 31:

	2020	2019
Swap Settlements included in Interest Expense	\$ 84,955	\$ 46,886
Change in Fair Value of Interest Rate Swaps	131,248	150,405
Total	<u>\$ 216,203</u>	<u>\$ 197,291</u>

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**NOTE 15 DEFERRED REVENUE**

Sanford Health has exclusive naming rights of Augustana's practice gymnasium through 2026. Revenue from the agreement is recognized over its term. Augustana received a total of \$2,250,000, of which \$712,500 and \$825,000 was included in Deferred Revenue on the statements of financial position for the years ended July 31, 2020 and 2019, respectively.

**NOTE 16 CONDITIONAL ASSET RETIREMENT OBLIGATION**

Costs related to legal obligations to perform certain activities in connection with the retirement, disposal, or abandonment of assets are accrued when the obligation to perform the asset retirement activity is not conditional, even though the timing or method may be conditional. The fair value of a liability for a legal obligation associated with an asset retirement is required to be recorded in the period in which the obligation is incurred. When the liability is initially recorded, the cost of the asset retirement is capitalized.

Substantially all of the costs accrued relate to the estimated cost to remove asbestos from campus facilities. The future value of the asset retirement obligation at July 31, 2020 and 2019 is estimated to be approximately \$135,000 and \$130,000, respectively. The liability was estimated using an inflation rate of 3.8%. The initial asset retirement obligation was calculated using a discount rate ranging from 5.8% to 6.2%. Changes in the accrual for asset retirement obligation for the years ended July 31 are as follows:

	2020	2019
Beginning Accrual	\$ 129,660	\$ 124,595
Abatement of Asset Retirement Liability	-	-
Accretion of Asset Retirement Liability	5,354	5,065
Ending Accrual	<u>\$ 135,014</u>	<u>\$ 129,660</u>

The accruals for the asset retirement obligation are included in Accrued Liabilities on the statements of financial position.

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**NOTE 17 CREDIT QUALITY OF STUDENT LOANS RECEIVABLE**

Augustana issues uncollateralized loans to students based on financial need. Student loans are funded through federal government loan programs. 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. No allowance was deemed necessary at July 31, 2020 and 2019, since the federal government program loans can be assigned to the federal government if Augustana follows required due diligence and collection procedures. Student loans represented approximately 2% of total assets as of July 31.

At July 31, student loans consisted of the following:

	2020	2019
Federal Government Programs	\$ 3,051,482	\$ 3,637,252
Institutional Loan Programs	74,487	92,736
Student Loans Receivable, Net	<u>\$ 3,125,969</u>	<u>\$ 3,729,988</u>

Funds advanced by the federal government of \$5,155,248 and \$5,708,149 at July 31, 2020 and 2019, respectively, are ultimately refundable to the government and are classified as liabilities on the statements of financial position.

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

	2020	2019
Current Notes Receivable	\$ 2,255,574	\$ 2,691,073
Past Due Note Receivables:		
0-240 Days Past Due	154,083	166,768
240 Days - 2 Years Past Due	184,355	228,191
2-5 Years Past Due	207,467	280,657
5+ Years Past Due	324,490	363,299
Total Past Due	<u>870,395</u>	<u>1,038,915</u>
Total Notes Receivable, Net	<u>\$ 3,125,969</u>	<u>\$ 3,729,988</u>

**NOTE 18 COMMITMENTS AND CONTINGENCIES**

Augustana is subject to certain claims arising out of the ordinary course of business. Although it is not possible to predict the outcome of these claims, management believes they will not have a material effect on the financial condition of Augustana.



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**NOTE 19 LIQUIDITY AND AVAILABILITY OF RESOURCES**

Augustana regularly monitors liquidity required to meet its operating needs and other contractual commitments, while also striving to maximize the investment of its available funds. Augustana has various sources of liquidity at its disposal, including cash and cash equivalents, marketable debt and equity securities, and a line of credit.

For purposes of analyzing resources available to meet general expenditures over a 12-month period, Augustana considers all expenditures related to its ongoing activities of teaching, research, and public service as well as the conduct of services undertaken to support those activities to be general expenditures. Student loans receivable are not included in the analysis as principal and interest on these loans are used solely to make new loans and are, therefore, not available to meet current operating needs.

As of July 31, 2020 and 2019, the following tables show the total financial assets held by Augustana and the amounts of those financial assets could readily be made available within one year of the statement of financial position date to meet general expenditures:

Financial Assets:	2020	2019
Cash and Cash Equivalents	\$ 4,574,941	\$ 403,412
Student Accounts Receivable, Net	1,217,966	1,537,474
Government Grants Receivable	752,894	928,673
Contributions Receivable, Net	10,438,243	5,691,414
Other Receivables	1,756,338	1,936,700
Endowment Investments	91,097,190	84,466,697
Other Investments	2,505,980	2,351,001
Total	<u>\$ 112,343,552</u>	<u>\$ 97,315,371</u>

Financial Assets Available to Meet General

Expenditures Over the Next 12 Months:

Cash and Cash Equivalents	\$ 4,574,941	\$ 403,412
Student Accounts Receivable, Net	1,217,966	1,537,474
Government Grants Receivable	752,894	928,673
Current Portion of Contributions For General Expenditures	712,299	328,156
Endowment Payout for Use Over the Next 12 Months	288,832	281,187
Other Investments	132,175	14,141
Total	<u>\$ 7,679,107</u>	<u>\$ 3,493,043</u>

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**NOTE 20 FUNCTIONAL EXPENSES**

	Program				Supporting					Total 2020
	Educational Activities	Academic Support	Student Services	Auxiliary	Total Program Activities	Management and General	Fundraising	Facilities Operation and Maintenance	Total Supporting Activities	
Compensation	\$ 15,107,117	\$ 1,970,130	\$ 2,643,295	\$ 403,157	\$ 20,123,699	\$ 2,513,836	\$ 1,286,214	\$ 1,681,062	\$ 5,481,112	\$ 25,604,811
Employee Benefits	5,229,941	654,358	837,382	157,311	6,878,992	1,081,481	443,879	589,432	2,114,792	8,993,784
Services and Professional Fees	961,495	76,856	448,270	133,271	1,619,892	940,075	144,890	44,321	1,129,286	2,749,178
CARES Student Funds	-	-	607,697	-	607,697	-	-	-	-	607,697
Advertising	49,721	50	7,685	-	57,456	207,957	41,328	735	250,020	307,476
Office Expenses	101,207	12,991	148,521	438	263,157	164,005	127,427	2,450	293,882	557,039
Information Technology	82,713	188,113	140,332	6,454	417,612	65,043	32,137	11,848	109,028	526,640
Office and Occupancy	169,773	-	87,273	673,338	930,384	103,951	15,467	778,359	897,777	1,828,161
Travel	879,052	12,500	176,536	156	1,068,244	26,432	24,734	33,308	84,474	1,152,718
Conferences and Meetings	137,101	19,679	50,546	-	207,326	67,809	17,574	8,995	94,378	301,704
Insurance	3,984	-	-	57,577	61,561	413,956	614	-	414,570	476,131
Food and Provisions	281,093	10,690	127,508	3,166,149	3,585,440	41,362	99,863	1,678	142,903	3,728,343
Supplies	881,895	452,637	135,182	46,610	1,516,324	61,608	29,306	231,094	322,008	1,838,332
Equipment Maintenance	79,261	4,884	1,005	47,784	132,934	-	-	106,978	106,978	239,912
Miscellaneous	238,269	337,891	52,398	36,358	664,916	8,287	18,893	41,864	69,044	733,960
Depreciation	-	-	-	-	-	-	-	3,982,100	3,982,100	3,982,100
Interest	-	-	-	-	-	-	-	793,222	793,222	793,222
Actuarial Adjustment	-	-	-	-	-	120,402	-	-	120,402	120,402
Allocation of Operation and Maintenance	4,225,962	615,141	693,713	2,114,313	7,649,129	658,317	-	(8,307,446)	(7,649,129)	-
Total Expenses	<u>\$ 28,428,584</u>	<u>\$ 4,355,920</u>	<u>\$ 6,157,343</u>	<u>\$ 6,842,916</u>	<u>\$ 45,784,763</u>	<u>\$ 6,474,521</u>	<u>\$ 2,282,326</u>	<u>\$ -</u>	<u>\$ 8,756,847</u>	<u>\$ 54,541,610</u>

	Program				Supporting					Total 2019
	Educational Activities	Academic Support	Student Services	Auxiliary	Total Program Activities	Management and General	Fundraising	Facilities Operation and Maintenance	Total Supporting Activities	
Compensation	\$ 14,282,537	\$ 2,142,487	\$ 2,779,177	\$ 359,723	\$ 19,563,924	\$ 2,326,518	\$ 1,189,663	\$ 1,673,061	\$ 5,189,242	\$ 24,753,166
Employee Benefits	4,857,754	694,102	870,295	135,023	6,557,174	997,159	408,512	590,657	1,996,328	8,553,502
Services and Professional Fees	851,877	476,226	470,492	287,299	2,085,894	552,344	169,615	112,329	834,288	2,920,182
Advertising	47,791	100	18,371	-	66,262	155,262	24,409	1,648	181,319	247,581
Office Expenses	120,905	13,897	170,680	383	305,865	67,439	139,164	6,580	213,183	519,048
Information Technology	52,339	155,821	91,880	34,244	334,284	21,240	35,215	7,833	64,288	398,572
Office and Occupancy	137,633	-	88,513	782,272	1,008,418	107,821	26,474	978,069	1,112,364	2,120,782
Travel	1,086,923	135,571	220,983	49	1,443,526	68,981	23,234	45,064	137,279	1,580,805
Conferences and Meetings	244,895	32,554	74,898	243	352,590	74,141	7,617	3,445	85,203	437,793
Insurance	3,674	-	-	57,969	61,643	391,668	-	468	392,136	453,779
Food and Provisions	401,670	16,754	170,756	3,579,204	4,168,384	81,577	115,472	3,266	200,315	4,368,699
Supplies	924,582	465,673	161,245	75,832	1,627,332	23,055	30,233	228,968	282,256	1,909,588
Equipment Maintenance	90,372	5,149	2,703	55,175	153,399	-	-	107,077	107,077	260,476
Miscellaneous	162,640	240,184	115,945	153,872	672,641	109,187	52,433	221,492	383,112	1,055,753
Depreciation	-	-	-	-	-	-	-	3,849,899	3,849,899	3,849,899
Interest	-	-	-	-	-	-	-	862,462	862,462	862,462
Actuarial Adjustment	53,241	-	-	-	53,241	-	-	-	-	53,241
Allocation of Operation and Maintenance	4,431,941	679,562	748,163	2,183,652	8,043,318	486,750	162,250	(8,692,318)	(8,043,318)	-
Total Expenses	<u>\$ 27,750,774</u>	<u>\$ 5,058,080</u>	<u>\$ 5,984,101</u>	<u>\$ 7,704,940</u>	<u>\$ 46,497,895</u>	<u>\$ 5,463,142</u>	<u>\$ 2,384,291</u>	<u>\$ -</u>	<u>\$ 7,847,433</u>	<u>\$ 54,345,328</u>

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**NOTE 21 SUBSEQUENT EVENTS**

Management has considered subsequent events through November 10, 2020, the date the financial statements were available to be issued, in preparing these financial statements and notes and no additional disclosures or adjustments were deemed necessary by management.