KPMG

GETTYSBURG COLLEGE

Consolidated Financial Statements

May 31, 2020 and 2019

(With Independent Auditors' Report Thereon)

GETTYSBURG COLLEGE

Table of Contents

KPMG LLP
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Independent Auditors' Report

The Board of Trustees
Gettysburg College:

We have audited the accompanying consolidated financial statements of Gettysburg College and subsidiaries, which comprise the consolidated statements of financial position as of May 31, 2020 and 2019, and the related consolidated statements of activities and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with U.S. generally accepted accounting principles; this includes the design, implementation, and maintenance of internal controls relevant to the preparation and fair presentation of consolidated 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 consolidated 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 consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Gettysburg College and its subsidiaries as of May 31, 2020 and 2019, and the changes in its net assets and its cash flows for the years then ended in accordance with U.S. generally accepted accounting principles.

Other Matter

Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The accompanying Schedule of Assets, Liabilities, and Net Assets for the year ended May 31, 2020 is presented for purposes of additional analysis, and is not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Schedule of Assets, Liabilities, and Net Assets is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

KPMG LLP

Harrisburg, Pennsylvania
September 9, 2020

GETTYSBURG COLLEGE

Consolidated Statements of Financial Position

May 31, 2020 and 2019

Assets		**2020**	**2019**
Cash and cash equivalents	$	60,046,997	62,811,174
Accounts and other receivable		377,257	1,031,792
Contributions receivable, net		3,620,390	5,688,028
Student loans receivable, net		3,939,673	4,377,651
Prepaid expenses and other assets		2,422,170	2,225,266
Investments		283,319,393	280,994,557
Funds held in trust by others		32,517,397	36,286,907
Property, plant, and equipment, net		184,511,917	183,463,688
Total assets	$	570,755,194	576,879,063
Liabilities and Net Assets			
Liabilities:			
Accounts payable and accrued expenses	$	18,661,541	15,510,857
Students’ advance payments and deposits		7,086,906	2,185,119
Deposits held in custody for others		789,499	829,102
Annuities payable		5,033,738	5,235,747
Advances from federal government		1,186,570	1,413,480
Accrued postretirement benefit cost		13,481,417	12,187,862
Long-term debt		83,169,848	87,213,534
Total liabilities		129,409,519	124,575,701
Net assets:			
Without donor restrictions		209,300,644	219,021,930
With donor restrictions		232,045,031	233,281,432
Total net assets		441,345,675	452,303,362
Total liabilities and net assets	$	570,755,194	576,879,063

See accompanying notes to consolidated financial statements.

GETTYSBURG COLLEGE

Consolidated Statement of Activities

Year ended May 31, 2020
(with comparative totals for the year ended May 31, 2019)

	2020			2019
	Without donor restrictions	With donor restrictions	Total	2019 Total
Operating revenues and gains:				
Tuition and fees, net of institutional aid of $69,350,824 (2020) and $63,398,683 (2019)	$ 76,122,553	—	76,122,553	77,665,174
Auxiliary services	28,018,505	—	28,018,505	36,782,070
Investment return designated for operations	6,599,697	7,988,630	14,588,327	14,464,541
Private gifts and grants	3,930,301	2,525,254	6,455,555	5,928,995
Government grants	1,694,863	—	1,694,863	2,238,627
Other income	2,875,840	5,138	2,880,978	3,167,038
Total operating revenues and gains	119,241,759	10,519,022	129,760,781	140,246,445
Net assets released from restrictions – operations	9,071,720	(9,071,720)	—	—
Total operating revenues and gains and other support	128,313,479	1,447,302	129,760,781	140,246,445
Operating expenses:				
Instruction	48,631,478	—	48,631,478	45,244,458
Research	934,017	—	934,017	1,665,787
Public service	2,566,844	—	2,566,844	2,740,575
Academic support	19,092,595	—	19,092,595	18,450,765
Student services	24,057,106	—	24,057,106	24,554,958
Institutional support	20,436,227	—	20,436,227	22,536,461
Auxiliary services	17,599,616	—	17,599,616	21,696,616
Total operating expenses	133,317,883	—	133,317,883	136,889,620
Change in net assets from operating activities	(5,004,404)	1,447,302	(3,557,102)	3,356,825
Nonoperating activities:				
Net investment return, net of amounts designated for operations	(3,261,782)	(3,971,154)	(7,232,936)	(12,814,576)
Change in value of split-interest agreements	(251,039)	(246,731)	(497,770)	445,249
Postretirement-related changes other than net periodic benefit costs	(865,029)	—	(865,029)	4,258,935
Net periodic benefit costs other than service costs	(423,690)	—	(423,690)	(934,990)
Private gifts	—	1,581,352	1,581,352	3,453,751
Government grants	—	—	—	90,270
Other nonoperating revenues	6,364,885	15,985	6,380,870	8,745,141
Other nonoperating expenses	(6,343,382)	—	(6,343,382)	(7,281,682)
Net assets released from restrictions – capital	63,155	(63,155)	—	—
Change in net assets from nonoperating activities	(4,716,882)	(2,683,703)	(7,400,585)	(4,037,902)
Change in net assets	(9,721,286)	(1,236,401)	(10,957,687)	(681,077)
Net assets, beginning of year	219,021,930	233,281,432	452,303,362	452,984,439
Net assets, end of year	$ 209,300,644	232,045,031	441,345,675	452,303,362

See accompanying notes to consolidated financial statements.

GETTYSBURG COLLEGE

Consolidated Statement of Activities

Year ended May 31, 2019

	2019		
	Without donor restrictions	**With donor restrictions**	**Total**
Operating revenues and gains:			
Tuition and fees, net of institutional aid of $63,398,683	$ 77,665,174	—	77,665,174
Auxiliary services	36,782,070	—	36,782,070
Investment return designated for operations	6,883,488	7,581,053	14,464,541
Private gifts and grants	3,784,293	2,144,702	5,928,995
Government grants	2,238,627	—	2,238,627
Other income	3,160,948	6,090	3,167,038
Total operating revenues and gains	130,514,600	9,731,845	140,246,445
Net assets released from restrictions – operations	9,583,487	(9,583,487)	—
Total operating revenues and gains and other support	140,098,087	148,358	140,246,445
Operating expenses:			
Instruction	45,244,458	—	45,244,458
Research	1,665,787	—	1,665,787
Public service	2,740,575	—	2,740,575
Academic support	18,450,765	—	18,450,765
Student services	24,554,958	—	24,554,958
Institutional support	22,536,461	—	22,536,461
Auxiliary services	21,696,616	—	21,696,616
Total operating expenses	136,889,620	—	136,889,620
Change in net assets from operating activities	3,208,467	148,358	3,356,825
Nonoperating activities:			
Net investment return, net of amounts designated for operations	(4,338,900)	(8,475,676)	(12,814,576)
Change in value of split-interest agreements	587,994	(142,745)	445,249
Postretirement-related changes other than net periodic benefit costs	4,258,935	—	4,258,935
Net periodic benefit costs other than service costs	(934,990)	—	(934,990)
Private gifts	111,770	3,341,981	3,453,751
Government grants	—	90,270	90,270
Other nonoperating revenues	8,745,515	(374)	8,745,141
Other nonoperating expenses	(7,281,682)	—	(7,281,682)
Net assets released from restrictions – capital	245,029	(245,029)	—
Change in net assets from nonoperating activities	1,393,671	(5,431,573)	(4,037,902)
Change in net assets	4,602,138	(5,283,215)	(681,077)
Net assets, beginning of year	214,419,792	238,564,647	452,984,439
Net assets, end of year	$ 219,021,930	233,281,432	452,303,362

See accompanying notes to consolidated financial statements.

GETTYSBURG COLLEGE

Consolidated Statements of Cash Flows

Years ended May 31, 2020 and 2019

		2020	2019
Cash flows from operating activities:			
Change in net assets	$	(10,957,687)	(681,077)
Adjustments to reconcile change in net assets to net cash provided by operating activities:			
Depreciation		11,820,378	11,695,411
Amortization of bond issuance costs		70,606	74,597
Amortization of bond premiums		(219,968)	(241,214)
Net realized and unrealized losses (gains) on investments and funds held in trust by others		(2,455,117)	3,476,813
Loss on disposition of property, plant and equipment		21,466	84,159
Private gifts and grants restricted for long-term investment and other nonoperating activities		(1,581,352)	(3,813,012)
Changes in assets and liabilities:			
Accounts and other receivable		654,535	(169,157)
Prepaid expenses and other assets		(196,904)	1,245,547
Accounts payable and accrued expenses		1,990,972	(4,329,195)
Students' advance payments and deposits		4,901,787	(169,917)
Deposits held in custody for others		(39,603)	(46,456)
Accrued postretirement benefit cost		1,293,555	(3,295,073)
Net cash provided by operating activities		5,302,668	3,831,426
Cash flows from investing activities:			
Purchases of property, plant, and equipment		(11,663,758)	(14,899,910)
Proceeds from sale of equipment		1,600	3,000
Proceeds from sales of investments		51,910,950	76,797,255
Purchases of investments		(51,493,263)	(75,962,245)
Withdrawals from deposits with trustees under debt agreements		—	9,133,695
Student loans collected		1,138,848	1,220,369
Student loans issued		(700,870)	(684,488)
Net cash used in investing activities		(10,806,493)	(4,392,324)
Cash flows from financing activities:			
Change in annuities payable		(202,009)	(1,230,882)
Payments on long-term debt – principal payments		(3,894,324)	(3,731,775)
Change in advances from federal government for student loans		(226,910)	(13,855)
Proceeds received from private gifts and grants restricted for long-term investment		7,062,891	8,715,830
Net cash provided by financing activities		2,739,648	3,739,318
Net (decrease) increase in cash and cash equivalents		(2,764,177)	3,178,420
Cash and cash equivalents, beginning of year		62,811,174	59,632,754
Cash and cash equivalents, end of year	$	60,046,997	62,811,174
Supplemental disclosure:			
Cash paid for interest	$	3,718,105	3,855,125
Schedule of noncash investing/financing activities:			
Gifts of property, plant, and equipment	$	68,203	417,261
Purchase of property and equipment included in accounts payable		1,159,712	430,164

See accompanying notes to consolidated financial statements.

(1) Summary of Significant Accounting Policies

Gettysburg College (the College) is a private, not-for-profit institution of higher education in Gettysburg, Pennsylvania. The College provides education services at the undergraduate level.

The College's significant accounting policies are described as follows to enhance the usefulness of the consolidated financial statements to the reader:

(a) Reporting Entity

The accompanying consolidated financial statements include the accounts of the College, its pooled life income funds, and its wholly owned subsidiaries, which include the entities collectively referred to as the Gettysburg Hotel. The College is sole investor in Gettysburg Hotel Investors, LP, which was organized to own, renovate, and operate commercial real estate located at Lincoln Square in Gettysburg, Pennsylvania. Bullet Land, Inc. and Gettysburg Hotel Management, LLC were formed to serve as general partner and limited partner, respectively, of Gettysburg Hotel Investors, LP. Gettysburg Hotel, Inc., a subsidiary of Bullet Land, Inc., was created to manage and operate the Gettysburg Hotel.

Subsidiary operations are presented within other nonoperating revenues and other nonoperating expenses on the consolidated statement of activities. All significant intercompany accounts and transactions have been eliminated in consolidation.

(b) Basis of Presentation

The consolidated financial statements of the College have been prepared on the accrual basis of accounting. The preparation of consolidated financial statements in conformity with U.S. generally accepted accounting principles (GAAP) requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent asset and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting periods. Actual results may differ from those estimates.

The College follows not-for-profit reporting standards, which requires that resources be classified for reporting purposes based on the existence or absence of donor-imposed restrictions. Net assets and revenues, gains, expenses, and losses are classified as without donor restrictions and with donor restrictions based on the existence or absence of donor-imposed restrictions as follows:

Without donor restrictions – Net assets not subject to donor-imposed stipulations. Net assets without donor restrictions may be designated for specific purposes by action of the board of trustees or may otherwise be limited by contractual agreements with outside parties. The board of trustees has designated funds to function as endowments and funds to function as reserves for specific initiatives and programs approved by the board.

With donor restrictions – Net assets subject to donor-imposed restrictions. Some donor-imposed restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. Other donor-imposed restrictions are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity. Donor-imposed restrictions are released when the stipulated time has elapsed, when the stipulated purpose for which the resource was restricted has been fulfilled, or both.

(Continued)

See note 10 for more information on the composition of net assets.

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. Expiration of donor-imposed stipulations that simultaneously increase one class of net assets and decrease another are reported as reclassifications between the classes of net assets.

Nonoperating activities reflect transactions affecting net assets associated with endowment and capital contributions, gains or losses on investments (net of endowment spending), change in value of split-interest agreements, subsidiary operations, and other activities of a nonoperating nature.

(c) Cash and Cash Equivalents

Cash and cash equivalents are recorded at fair value and include institutional money market funds and similar short-term investments with original maturities of three months or less, except those held for long-term investment purposes. Cash equivalents that are held by outside investment managers and are pooled with other investments are classified as investments.

(d) Investments

Investments are reported at fair value. Whenever available, quotations from organized securities exchanges or published prices are used as the basis of fair value. For investments not traded on organized exchanges, their net asset value (NAV) per share or equivalent have been used as a practical expedient for determining fair value and are subject to additional uncertainty. Therefore, values realized upon disposition may vary significantly from currently reported values.

Investments are exposed to various risks, such as interest rate, market, and credit risks. The College attempts to manage these risks through diversification and monitoring of economic conditions. In addition, the College employs procedures to ensure appropriate oversight of its investments, including ongoing monitoring of investment managers and periodic review of fair value and other information received from managers. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and such changes could materially affect the amounts reported in the consolidated statements of financial position.

(e) Funds Held in Trust by Others

Funds held in trust by others represent the College's beneficial interest in various irrevocable trusts. The terms of these perpetual trusts provide that the College is to receive annually a certain percentage of the income earned by the funds. Distributions from the trusts are recorded as investment return designated for operations, and the carrying value of the assets is adjusted for changes in fair value of the trusts.

These funds are neither in the possession nor under the control of the College. Because of its permanent right to the earnings of the trusts, the College reports its share of these trusts on its consolidated statement of financial position as funds held in trust by others and net assets with donor restrictions. The trusts are recorded at fair value based on market prices provided by the financial institutions that administer the trust funds and are considered Level 3 in the fair value hierarchy.

(f) Property, Plant, and Equipment

Property, plant, and equipment is recorded at cost on the date of acquisition or at fair value on the date of donation. Depreciation is calculated on a straight-line basis over useful lives ranging from 15 to 40 years for building and improvements, 5 to 15 years for equipment and vehicles, and 5 to 39 years for hotel equipment and buildings. The College capitalizes interest on borrowed funds during construction periods. Capitalized interest is charged to construction in progress or buildings and, upon completion of the project, amortized over the useful lives of the assets.

(g) Split-Interest Agreements and Annuities Payable

The College's split-interest agreements with donors consist primarily of charitable remainder trusts and annuity agreements for which the College serves as trustee. Assets held in these trusts are included in investments and reported at fair value. Annuity funds represent funds received on the condition that the College pays stipulated amounts for a specified term to individuals designated in the split-interest agreement. Contribution revenues are recognized at the date the trusts are established after recording liabilities for the present value of the estimated future payments to be made to the donors and/or other beneficiaries. The College uses the applicable federal rate at the time of gift as the basis for determining the discount rate for recording annuity obligations at net present value. Discount rates range from 1.2% to 11% for the years ended May 31, 2020 and 2019, respectively. Adjustments to annuities payable are included in nonoperating activities on the consolidated statements of activities.

Pursuant to charitable gift annuity regulations COMAR 31.09.0703, the College maintains assets at least equal to the sum of the reserves on its outstanding annuity agreements.

(h) Bond Issuance Costs

Costs associated with issuing bonds payable have been capitalized and are amortized over the term of the bonds using the effective interest rate method. Unamortized issuance costs totaled $573,671 and $644,277 for the fiscal years ended May 31, 2020 and 2019, respectively, and are reported as a component of long-term debt on the consolidated statements of financial position.

(i) Revenue Recognition

(i) Revenue from Contracts with Customers

Revenue is measured based on consideration specified in a contract with a customer. The College recognizes revenue when it satisfies a performance obligation by transferring control over a product or service to a customer.

The College's principal activities resulting in contracts with customers include academic services consisting of tuition and fees and related auxiliary services including housing, dining services and other education-related activities.

(ii) Tuition and Fees

The performance obligation related to tuition and fees is the delivery of educational services. Tuition and fees are billed and recorded as revenue during the year that the related academic services are rendered. Tuition and fee revenue is billed at published rates established by the Board of Trustees on an annual basis. Payments are due by the first business day of August for the fall semester and the first business day of January for the spring semester. Tuition and fees received in advance of services to be rendered are categorized as deferred revenue and reported within students' advance payments and deposits in the consolidated statements of financial position. Because the College's fiscal year coincides with the academic year, accounts receivable related to tuition and fee revenue are de minimis at year-end.

Institutional aid provided by the College as a discount to tuition and fees is reflected as a reduction of tuition and fee revenue.

Students withdrawing or requesting a leave of absence within the first six weeks of classes each semester may receive a full or partial refund in accordance with the College's refund policy. Refunds were approximately .21% and .49% of the total amounts billed for the fiscal years ended May 31, 2020 and 2019, respectively. Refunds issued reduce the amount of revenue recognized.

The College has measured revenue for tuition and fees using the portfolio of contracts practical expedient, having determined that measuring revenue for the individual contracts within the portfolio would not differ materially.

(iii) *Auxiliary Services*

Auxiliary services include student housing, dining services and other operations which furnish goods and services to students and staff and, on a limited basis, the general public. Fees charged are directly related to the costs of goods provided or services rendered and are recognized accordingly.

The performance obligation related to housing and dining services provided through meal plans is the respective services. Housing and meal plan revenue are billed at published rates established by the Board of Trustees on an annual basis and recorded as revenue throughout the year as the related services are rendered. Payments are due by the first business day of August for the fall semester and the first business day of January for the spring semester. Housing and meal plan revenue accounted for 92% and 89% of total auxiliary services revenue for the fiscal years ended May 31, 2020 and 2019 respectively.

The performance obligation for certain other auxiliary revenue including dining services provided outside of meal plans is satisfied at the time goods or services are received (point of sale) and are recognized at the time of purchase.

For housing and student dining services provided through meal plans, students withdrawing or requesting a leave of absence within the first six weeks of classes each semester may receive a full or partial refund in accordance with the College's refund policy. Due to the campus closure related to the coronavirus pandemic, the College refunded students approximately $7 million or one half of the semester charges for housing and meal plans during fiscal year 2020. Students could choose to receive a refund payment or leave a credit balance on their account to pay for charges in the following year. Refunds were approximately 23.73% and .47% of the total amounts billed for the fiscal years ended May 31, 2020 and 2019 respectively. Refunds issued reduce the amount of revenue recognized.

No significant discounts are provided by the College for auxiliary services.

Amounts received in advance of services to be rendered are categorized as deferred revenue and reported within students' advance payments and deposits in the consolidated statements of financial position. Because the College's fiscal year coincides with the academic year, accounts receivable related to auxiliary services are de minimis at year-end.

The College has measured revenue using the portfolio of contracts practical expedient for housing and dining services provide through meal plans, having determined that measuring revenue to the individual contracts within each portfolio would not differ materially.

(iv) Deferred Revenue

Deferred revenue is classified within students' advance payments and deposits on the consolidated statement of financial position. Substantially all of the deferred revenue balance related to tuition and fees and auxiliary revenue of $966,259 at May 31, 2019 was recognized into revenue during fiscal year 2020. The balance of deferred revenue of $5,929,349 at May 31, 2020 less any refunds issued will be recognized as revenue over the academic term beginning August 2020 as services are rendered.

(v) Contributions, Gifts and Government Grants

Unconditional contributions, gifts and grants, including unconditional promises to give, are recognized as revenue in the period received.

A contribution, gift or grant is conditional if an agreement includes a barrier that must be overcome and either a right of return of assets transferred or a right of release of a promisor's obligation to transfer assets. The presence of both a barrier and a right of return or right of release indicates that a recipient is not entitled to the contribution until it has overcome the barrier(s) in the agreement. Conditional promises to give are not recognized until they become unconditional, that is, when the barrier(s) in the agreement are overcome.

Unconditional contributions, gifts and grants with no purpose or time restrictions are reported as revenues without donor restrictions.

Unconditional contributions, gifts and grants with donor-imposed restrictions that limit the use of the asset are reported as revenues with donor restrictions and are reclassified to net assets without donor restrictions when an expense is incurred that satisfies the donor-imposed restriction. However, for unconditional donor-restricted contributions, gifts or grants that were initially conditional, if donor-imposed restrictions are met in the same year that they become unconditional, the revenues are reported as revenues without donor restrictions on the consolidated statements of activities. Contributions restricted for the acquisition of plant and equipment are released from restriction when the asset is placed in service.

(Continued)

Contributions of assets other than cash are recorded at their estimated fair value. Contributions to be received after one year are discounted at an appropriate discount rate commensurate with the risks involved. Amortization of discounts is recorded as additional contribution revenue in accordance with donor-imposed restrictions, if any, on the contributions. An allowance for uncollectible contributions receivable is provided based upon management's judgment, including such factors as prior collection history, type of contribution, and nature of the fundraising activity. Contributions receivable are recorded at estimated fair value on the date the donor's unconditional promise to contribute is made using the present value of future cash flows. Contributions receivable are not measured at fair value subsequent to the initial measurement because the discount rate selected for each contribution receivable remains constant over time.

(j) Income Taxes

The College is recognized by the Internal Revenue Service as a not-for-profit educational institution and, therefore, qualifies under Section 501(c)(3) of the Internal Revenue Code for exemption from federal income tax on activities related to its exempt purpose. Management annually reviews its tax positions and has determined that there are no material uncertain tax positions that require recognition in the financial statements.

Bullet Land, Inc. and Gettysburg Hotel, Inc. are for-profit corporations subject to federal income taxes and are included in nonoperating activities. Gettysburg Hotel Management, LLC is a single member limited liability company and, as such, is disregarded for federal income tax purposes. Gettysburg Hotel Investors, L.P. is a limited partnership.

(k) Recently Adopted Accounting Standards

In August 2016, the FASB issued ASU No. 2016-15, *Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments*. ASU No. 2016-15 provides guidance on how to record eight specific cash flow issues, and how the predominant principle should be applied when cash receipts and cash payments have more than one class of cash flows. The College adopted ASU No. 2016-15 on June 1, 2019 using the retrospective transition method. The adoption of this guidance did not have an impact on the consolidated financial statements.

In November 2016, the FASB issued ASU No. 2016-18, *Statement of Cash Flows (Topic 230): Restricted Cash*. The new guidance requires that a statement of cash flows explain the change in the total of cash, cash equivalents and amounts generally described as restricted cash or restricted cash equivalents when reconciling the beginning and ending total amounts shown on the statements of cash flows. The College adopted ASU No. 2016-18 on June 1, 2019 using the retrospective transition method. The adoption of this guidance did not have an impact on the consolidated financial statements.

(2) Fair Value of Financial Instruments

(a) Fair Value Measurements

Fair value is defined 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 reporting date.

A three-tier hierarchical framework has been established that classifies valuation inputs based on the extent to which the inputs are observable in the marketplace. Inputs may be observable or unobservable and refer broadly to the assumptions that market participants, in the context of an orderly market, would use in pricing the asset or liability. Valuation techniques used to measure fair value must maximize the use of observable inputs and minimize the use of unobservable inputs, and are summarized as follows:

Level 1 Valuations are based on observable inputs that reflect quoted or published prices in active markets for identical assets or liabilities.

Level 2 Valuations are based on observable inputs that reflect quoted or published prices for similar assets or liabilities in markets that are less active; or other significant market-based inputs, which are observable, either directly or indirectly.

Level 3 Valuations are based on significant unobservable inputs that may be supported by little or no market activity for the assets or liabilities.

In certain cases, the inputs used to measure valuations may fall into different levels of the fair value hierarchy. Accordingly, the fair value level is determined based on the lowest level of input that is significant to the valuation of the specific investment. These classifications are intended to reflect the observability of the inputs used in valuation and are not necessarily an indication of risk or liquidity.

(b) Investments

The following tables summarize the College's investments for which fair value is measured on a recurring basis by level within the fair value hierarchy. The tables also summarize investments measured using the NAV per share (or its equivalent) as a practical expedient. These investments have not been categorized within the fair value hierarchy.

	Fair value measurement			
May 31, 2020	**Level 1**	**Level 3**	**NAV**	**Total**
Long-term pooled endowment:				
Global public equities	$ 39,048,484	—	112,823,222	151,871,706
Hedge funds	—	—	29,940,677	29,940,677
Real assets	4,708,704	—	6,916,967	11,625,671
Private equity	—	—	20,102,578	20,102,578
Private common stock	—	940,000	—	940,000
Fixed income securities	30,231,662	—	—	30,231,662
Cash equivalents	5,943,700	—	—	5,943,700
	79,932,550	940,000	169,783,444	250,655,994
Trust and split interest investments:				
Global public equities	3,214,588	—	—	3,214,588
Fixed income securities	1,408,857	—	—	1,408,857
Cash equivalents	393,501	—	—	393,501
	5,016,946	—	—	5,016,946
Nonpooled investments:				
Private preferred stock	—	700,000	—	700,000
Fixed income securities	26,946,453	—	—	26,946,453
	26,946,453	700,000	—	27,646,453
Total investments	$ 111,895,949	1,640,000	169,783,444	283,319,393

May 31, 2019	Fair value measurement Level 1	Level 3	NAV	Total
Long-term pooled endowment:				
Global public equities	$ 47,407,642	—	98,278,008	145,685,650
Hedge funds	—	—	36,877,365	36,877,365
Real assets	4,550,584	—	9,174,747	13,725,331
Private equity	—	—	17,438,219	17,438,219
Private common stock	—	940,000	—	940,000
Fixed income securities	30,337,606	—	—	30,337,606
Cash equivalents	4,828,978	—	—	4,828,978
	87,124,810	940,000	161,768,339	249,833,149
Trust and split interest investments:				
Global public equities	881,990	—	2,296,415	3,178,405
Fixed income securities	528,278	—	1,004,943	1,533,221
Cash equivalents	405,819	—	—	405,819
	1,816,087	—	3,301,358	5,117,445
Nonpooled investments:				
Private preferred stock	—	700,000	—	700,000
Fixed income securities	25,343,963	—	—	25,343,963
	25,343,963	700,000	—	26,043,963
Total investments	$ 114,284,860	1,640,000	165,069,697	280,994,557

(i) Investments Measured under the Fair Value Hierarchy

For those investments that are measured under the fair value hierarchy, the investments have been assigned a level based upon the observability of the inputs that are significant to the overall valuation, which is summarized as follows:

Level 1 Investments include publicly traded equity and fixed income securities held in separate accounts and institutional commingled mutual and money market funds that have daily quoted prices in organized securities exchanges. These investments allow daily redemptions with one-day notice.

Level 2 At May 31 2020, and 2019, there were no Level 2 investments.

Level 3 Investments include common and preferred stock in a private company. Since quoted prices are not readily available, fair value is estimated using valuation techniques based on a dividend discount model and restricted stock transactions disclosed in the private company’s audited financial statements.

(ii) Investments Measured Using the NAV Practical Expedient

For those investments measured using NAV as a practical expedient, the College uses the reported capital account or NAV per share to determine the fair value of investments that (a) do not have a readily determinable fair value due to a lack of market activity or transparency into the underlying investments of the fund and (b) either have the attributes of an investment company or prepare their audited financial statements consistent with the measurement principles of an investment company. The College reviews and evaluates the external valuations of underlying assets that comprise the capital accounts provided by the fund managers in determining the NAV of those investments.

Investments measured using the NAV practical expedient include equity common trust funds, hedge funds utilizing absolute return and long/short equity strategies, private equity, and real assets (including buyout, energy, real estate, and natural resources).

(iii) Liquidity

Investment liquidity is aggregated below based on redemption provisions and lockup periods as of May 31, 2020:

	Daily	Monthly	Quarterly	Annual	>1 year	Total
Cash equivalents	$ 6,337,201	—	—	—	—	6,337,201
Fixed income securities	58,586,972	—	—	—	—	58,586,972
Global public equities	42,263,072	72,809,462	40,013,760	—	—	155,086,294
Hedge funds	—	11,316,545	3,331,206	9,620,461	5,672,465	29,940,677
Real assets	4,708,704	—	—	—	6,916,967	11,625,671
Private equity	—	—	—	—	20,102,578	20,102,578
Private stock	—	—	—	—	1,640,000	1,640,000
	$ 111,895,949	84,126,007	43,344,966	9,620,461	34,332,010	283,319,393

Investment liquidity is aggregated below based on redemption provisions and lockup periods as of May 31, 2019:

	Daily	Monthly	Quarterly	Annual	>1 year	Total
Cash equivalents	$ 5,234,797	—	—	—	—	5,234,797
Fixed income securities	57,214,790	—	—	—	—	57,214,790
Global public equities	50,586,047	62,227,896	36,050,112	—	—	148,864,055
Hedge funds	—	8,177,855	7,183,506	18,362,380	3,153,624	36,877,365
Real assets	4,550,584	—	—	—	9,174,747	13,725,331
Private equity	—	—	—	—	17,438,219	17,438,219
Private stock	—	—	—	—	1,640,000	1,640,000
	$ 117,586,218	70,405,751	43,233,618	18,362,380	31,406,590	280,994,557

Investments in the “>1 year” category include hedge funds that are not eligible for redemption because of certain illiquid side pocket investments or the manager has restricted the amount of annual redemptions. The real assets and private equity investments are not available for liquidation and depend on the fund managers’ decisions about exit timing to provide capital distributions. It is estimated that the underlying assets of the funds will be liquidated over the remaining life of the respective funds that expire over the next 5 to 12 years. Private stock includes shares of common and preferred stock in a privately held company. The College intends to retain these shares for an indefinite period of time.

(iv) Commitments

Private equity and real asset investments are generally made through private limited partnerships. Under the terms of the partnership agreements, the College makes a commitment of a specific amount of capital to a partnership and is obligated to remit committed funding periodically when capital calls are exercised by the general partner as the partnership executes on its investment strategy. Private equity and real asset funds are structured with commitment periods of three to five years, within which the funds can make investments as established in the limited partnership agreements. The aggregate amount of unfunded commitments associated with private limited partnerships as of May 31, 2020 and 2019 was $21,276,000 and $28,362,000, respectively. The timing and amount of future capital calls expected to be exercised in any particular future year is uncertain.

(v) Reconciliation of Level 3 Opening and Closing Balances

The following tables provide a reconciliation of the beginning and ending balances of investments classified within the fair value hierarchy Level 3:

	Market value at May 31, 2019	Purchases and acquisitions	Sales, redemptions and distributions	Unrealized loss	Transfer in (out) of Level 3	Market value at May 31, 2020
Private common stock	$ 940,000	—	—	—	—	940,000
Private preferred stock	700,000	—	—	—	—	700,000
Total	$ 1,640,000	—	—	—	—	1,640,000

	Market value at May 31, 2018	Purchases and acquisitions	Sales, redemptions and distributions	Unrealized loss	Transfer in (out) of Level 3	Market value at May 31, 2019
Private common stock	$ 950,000	—	—	(10,000)	—	940,000
Private preferred stock	700,000	—	—	—	—	700,000
Total	$ 1,650,000	—	—	(10,000)	—	1,640,000

(c) Funds Held in Trust by Others

Perpetual trust assets that include investments in commingled fixed income and equity securities are reported at fair value based on market prices provided by the trust administrators. Perpetual trust assets that include investments in hedge funds and real assets are reported at estimated fair values based on NAV reported by trust administrators.

The following table presents the fair value hierarchy of funds held in trust by others:

		Level 3	
		2020	**2019**
Fair value	$	32,517,397	36,286,907

The following table provides a reconciliation of beginning and ending balances of funds held in trust by others classified within the fair value hierarchy Level 3:

		2020	**2019**
Beginning balance	$	36,286,907	39,702,737
Net realized and unrealized loss		(287,406)	(707,509)
Distributions		(3,482,104)	(2,708,321)
Ending balance	$	32,517,397	36,286,907

(3) Endowments

The College's endowment consists of approximately 850 individual funds established for a variety of purposes. The endowment includes both donor-restricted endowment funds and funds designated by the board of trustees to function as endowments. Net assets associated with endowment funds, including funds designated by the College to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

(a) Interpretation of Relevant Law

The Commonwealth of Pennsylvania has not enacted the Uniform Prudent Management of Institutional Funds Act (UPMIFA), or a version of the Uniform Management of Institutional Funds Act (UMIFA). Governing law resides in 15 Pa C.S. § 5548, Investment of Trust Funds. The College has interpreted relevant Pennsylvania law 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 net assets with donor restrictions: (a) the original value of 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 held in perpetuity remains in the endowment until it is appropriated for expenditure by the board of trustees in a manner consistent with the standard of prudence prescribed by Pennsylvania law.

The College considers the following factors, among others, 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 organization

(7) The investment policies of the College.

Pennsylvania law permits the College to allocate to income each year a portion of endowment return. The amount that may be allocated under an endowment spending policy is limited to a minimum of 2% and a maximum of 7% of the fair value of the endowed assets averaged over a period of three or more preceding years.

(b) 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 requires the College to retain as a fund of perpetual duration. These deficiencies result from unfavorable market fluctuations that occur after the initial investment of the donor restricted contributions. As of May 31, 2020 and 2019, endowment funds with an original gift value of $39,004,800 and $25,221,690 have accumulated deficiencies of $1,745,785 and $783,054, respectively. Future investment gain will be used to restore the balance up to the fair market value of the original amount of the gift. Both fund deficiencies and subsequent gains above that amount are reported in net assets with donor restrictions.

(c) 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 over time. Under these policies, as approved by the board of trustees, the endowment assets are invested in a manner that is intended to generate average annual rates of return that equal or exceed the spending policy requirements, match inflation, and cover expenses of managing the assets, while assuming a moderate level of investment risk.

(d) Strategies Employed for Achieving Objectives

To satisfy its long-term return objectives, the College has adopted a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized gains) and current income (interest and dividends). In order to achieve its investment return objectives, the College targets a diversified asset allocation that places emphasis on global equities, diversifying strategies, private markets, real assets and fixed income strategies within prudent risk constraints. Additional real growth will be provided through new gifts and the reinvestment of excess investment return over annual spending distributions.

(e) Spending Policy and the Investment Objectives Relationship to Spending Policy

The College has adopted a spending policy designed to designate a stable level of investment return to operations. Should actual endowment returns be insufficient to support this policy, the balance is provided from accumulated capital gains. Should actual endowment returns exceed the amounts necessary to attain this objective, the balance is reinvested. In establishing this policy, as approved by the board of trustees, the College considers the long-term expected return on its endowment. Accordingly, over the long term, the College expects the spending policy to provide for annual distributions while preserving the real value of the endowment over time.

For the years ended May 31, 2020 and 2019, the amount appropriated to operations was determined by applying the targeted spending rate of 5% to the endowment fund's average fair value over the prior 20 quarters through the calendar year preceding the fiscal year in which the distribution is planned. Based on the formula, total distributable endowment income for the years ended May 31, 2020 and 2019 amounted to $11,835,000 and $11,201,000, respectively.

(f) Endowment Asset Composition

Endowment assets by donor restriction as of May 31, 2020 are as follows:

		2020		
		Without donor restrictions	**With donor restrictions**	**Total**
Pooled (unitized) investments:				
Original gift values	$	—	148,784,515	148,784,515
Board-designated endowment funds		65,024,364	—	65,024,364
Accumulated earnings		6,424,064	30,423,051	36,847,115
Trusts and split-interest investments (a)		261,619	4,755,327	5,016,946
Nonpooled investments		18,753,599	8,892,854	27,646,453
Total investments		90,463,646	192,855,747	283,319,393
Funds held in trust by others		—	32,517,397	32,517,397
Other unitized investments:				
Gettysburg Hotel (b)		6,900,000	—	6,900,000
Total endowment assets	$	97,363,646	225,373,144	322,736,790

Changes in endowment assets by donor restriction classification for the year ended May 31, 2020 are as follows:

	2020		
	Without donor restrictions	**With donor restrictions**	**Total**
Beginning balance, June 1, 2019	$ 99,400,954	224,780,510	324,181,464
Net investment return	2,708,966	3,506,620	6,215,586
Contributions	1,015	3,332,353	3,333,368
Endowment spending draw	(4,344,735)	(7,490,265)	(11,835,000)
Beneficiary payments, transfers, and other changes	(402,554)	1,243,926	841,372
Ending balance, May 31, 2020	$ 97,363,646	225,373,144	322,736,790

Endowment assets by donor restriction as of May 31, 2019 are as follows:

	2019		
	Without donor restrictions	**With donor restrictions**	**Total**
Pooled (unitized) investments:			
Original gift values	$ —	141,841,684	141,841,684
Board-designated endowment funds	66,614,127	—	66,614,127
Accumulated earnings	6,849,744	34,527,594	41,377,338
Trusts and split-interest investments (a)	264,358	4,853,087	5,117,445
Nonpooled investments	18,772,725	7,271,238	26,043,963
Total investments	92,500,954	188,493,603	280,994,557
Funds held in trust by others	—	36,286,907	36,286,907
Other unitized investments:			
Gettysburg Hotel (b)	6,900,000	—	6,900,000
Total endowment assets	$ 99,400,954	224,780,510	324,181,464

Changes in endowment assets by donor restriction classification for the year ended May 31, 2019 are as follows:

		2019		
		Without donor restrictions	**With donor restrictions**	**Total**
Beginning balance, June 1, 2018	$	103,273,773	227,946,655	331,220,428
Net investment return		198,018	(1,536,061)	(1,338,043)
Contributions		912	5,722,103	5,723,015
Endowment spending draw		(4,227,675)	(6,973,325)	(11,201,000)
Beneficiary payments, transfers, and other changes		155,926	(378,862)	(222,936)
Ending balance, May 31, 2019	$	99,400,954	224,780,510	324,181,464

(a) The portion of annuities payable to be funded from trust and split-interest investments was approximately $3,179,000 and $3,296,000 as of May 31, 2020 and 2019, respectively.

(b) The Gettysburg Hotel is a wholly owned subsidiary, which is reported in the consolidated statements of financial position, activities, and cash flows. The endowment fund’s interest in the Gettysburg Hotel represents the cumulative total value of paid-in capital.

(4) Liquidity Management and Availability of Resources

The College’s liquidity management practices are designed to ensure financial assets and liquidity resources are available as general expenditures, liabilities and other obligations come due. Operating liquidity is managed in accordance with investment policies that are intended to optimize income earned on available funds within the constraints of risk tolerance and time horizon.

The College's financial resources available to meet cash needs for general expenditures within one year of the date of the consolidated statements of financial position were as follows:

		2020	2019
Cash and cash equivalents	$	60,046,997	62,811,174
Accounts and other receivables		377,257	1,031,792
Contributions receivable, net		3,620,390	5,688,028
Investments		283,319,393	280,994,557
Total financial assets		347,364,037	350,525,551
Less:			
Cash and investments subject to donor-restrictions		(18,023,882)	(16,236,902)
Contributions receivable (net) not available within one year		(2,992,407)	(4,907,839)
Long-term pooled endowment investments		(250,655,994)	(249,833,149)
Trust and split interest investments		(5,016,945)	(5,117,445)
Board designated for purposes beyond one year		(21,912,550)	(26,512,851)
Add:			
Endowment return designated for operations next year		12,453,000	11,835,000
Total financial resources available within one year	$	61,215,259	59,752,365

Total financial resources available within one year excludes board-designated endowment funds of $65,024,364 and $66,614,127 as of May 31, 2020 and 2019, respectively. Although the College does not intend to spend from its board-designated endowment funds other than amounts appropriated as part of its annual budget approval process, these funds could be made available if necessary. While the College does not expect to spend funds that are board-designated for purposes beyond one year, these funds could also be made available if necessary. In addition, the College's $5,000,000 committed bank line of credit could be drawn upon to meet cash flow needs.

(5) Net Investment Return

Net Investment return represents investment return net of investment management fees and expenses, and is reported in the consolidated statements of activities as follows:

	2020	2019
Interest and dividends	$ 4,898,921	5,126,777
Net realized/unrealized gain/(loss) on investments and funds held in trust by others	2,456,470	(3,476,812)
Total net return on investments	7,355,391	1,649,965
Distributable endowment income	11,835,000	11,201,000
Other investment income, principally related to trusts	2,753,327	3,263,541
Investment return designated to operations	14,588,327	14,464,541
Net investment return, net of amounts designated to operations	$ (7,232,936)	(12,814,576)

(6) Property, Plant, and Equipment

A summary of the College's property, plant, and equipment as of May 31 is as follows:

	2020		2019	
	Cost	Accumulated depreciation	Cost	Accumulated depreciation
Land	$ 4,042,336	—	4,042,336	—
Hotel land	859,385	—	859,385	—
Land improvements	24,941,644	(16,152,983)	23,911,418	(15,462,209)
Building and improvements	272,890,174	(134,615,045)	269,540,035	(127,060,129)
Hotel building and improvements	15,198,733	(6,420,083)	15,177,286	(5,816,983)
Equipment	59,792,613	(42,680,044)	57,959,091	(41,471,436)
Hotel equipment	4,046,962	(3,518,856)	3,957,668	(3,280,324)
Construction in progress	6,127,081	—	1,107,550	—
	$ 387,898,928	(203,387,011)	376,554,769	(193,091,081)

Depreciation expense for the College for the years ended May 31, 2020 and 2019 was $10,978,745 and $10,817,028, respectively. Depreciation expense for the Gettysburg Hotel for the years ended May 31, 2020 and 2019 was $841,633 and $878,383, respectively.

(7) Contributions Receivable, Net

Contributions receivable, net as of May 31 is as follows:

		2020	2019
Unconditional promises expected to be collected:			
One year or less	$	2,873,346	2,945,197
One year to five years		1,553,754	3,954,626
		4,427,100	6,899,823
Less:			
Allowance for doubtful accounts		(630,633)	(855,186)
Discount of contributions receivable		(176,077)	(356,609)
Total	$	3,620,390	5,688,028

Contributions receivable due in excess of one year are discounted at rates ranging between 0.3% and 2.7% for the year ended May 31, 2020 and between 1.1% and 2.7% for the year ended May 31, 2019.

(8) Long-Term Debt

(a) Bonds and Note Payable

Bonds and note payable consist of the following at May 31:

	Issue date		Original principal		Principal outstanding at May 31 2020	2019
Adams County IDA:						
Series 2010	June 23, 2010	$	67,680,000		36,865,000	40,505,000
Series 2013	July 24, 2013		18,890,000		18,890,000	18,890,000
Gettysburg Municipal Authority:						
Series 2017	February 15, 2017		19,860,000		19,860,000	19,860,000
					75,615,000	79,255,000
Unamortized bond premiums, net					1,011,408	1,231,376
Unamortized issuance costs, net					(573,671)	(644,277)
Total bonds payable					76,052,737	79,842,099
PNC Note	June 20, 2014		8,500,000		7,117,111	7,371,435
Total long-term debt				$	83,169,848	87,213,534

(Continued)

(i) Series 2010 Bonds

In June 2010, the College issued fixed rate bonds through the Adams County Industrial Development Authority (IDA). The proceeds were used for various tax-exempt purposes, including the current refunding of the Series 1998B and 2008B Bonds as well as the current and advance refunding of the Series 1998 Bonds and to pay issuance costs. The remaining balance of the Series 1998 Bonds was defeased with college proceeds. The Series 2010 Bonds were issued at a premium and bear interest rates of 4.00% to 5.00% depending upon the maturity date, which ranges between 2013 and 2028. Interest is paid semiannually.

(ii) Series 2013 Bonds

In July 2013, the College issued fixed rate bonds through Adams County Industrial Development Authority in the aggregate principal amount of $18,890,000 at a discount of approximately $305,000. The proceeds were used for current refunding of the outstanding Series 2008A Bonds and payment of issuance costs. The Series 2013 Bonds have varying maturities beginning August 2028 through August 2033 and bear interest rates ranging from 4.00% to 4.25% depending on the maturity date. Interest is paid semiannually.

(iii) Series 2017 Bonds

In February 2017, the College issued fixed rate bonds through the Gettysburg Municipal Authority in the aggregate principal amount of $19,860,000 at a premium of approximately $471,000. The proceeds are being used to finance a project for the benefit of the College consisting of the acquisition and construction of various capital improvements to the facilities of the College and the payment of certain costs of issuing the 2017 Bonds. The Series 2017 Bonds have varying maturities beginning August 2034 through August 2042 and bear interest rates ranging from 3.63% to 5.00% depending on the maturity date. Interest is paid semiannually.

(iv) PNC Note

In June 2014, the College entered into a term note with PNC Bank, NA with an aggregate principal amount of $8,500,000. The proceeds were used for the full repayment of a prior note to Wells Fargo Bank, NA, various improvements and to pay issuance costs. The note bears a fixed interest rate of 3.55%, which will be paid in monthly installments through June 2024. Any outstanding principal and accrued interest is due and payable in full on June 20, 2024.

Approximate aggregate principal maturities for bonds and note payable are as follows:

		Bonds payable	Note payable	Total
Year ending May 31:				
2021	$	3,830,000	264,361	4,094,361
2022		3,990,000	274,034	4,264,034
2023		4,170,000	284,062	4,454,062
2024		4,380,000	293,854	4,673,854
2025		4,800,000	6,000,800	10,800,800
Thereafter		54,445,000	—	54,445,000
	$	75,615,000	7,117,111	82,732,111

(b) Line of Credit

The College has a committed revolving line of credit (the Line) under which it may request advances in an aggregate outstanding amount up to $5,000,000. The expiration date of the Line is March 31, 2023, or such later date as may be designated by the bank.

Each advance outstanding under the Line will bear interest at a rate or rates per annum as may be selected by the College from the following interest rate options: (a) prime rate, (b) LIBOR plus 45 basis points, or (c) rate offered by the bank in its sole discretion.

There were no borrowings during the year or balance outstanding as of May 31, 2020 or 2019.

(9) Retirement and Postemployment Benefits

(a) Retirement Benefits

Defined-contribution retirement benefits are provided for substantially all employees through the Teacher's Insurance and Annuity Associations – College Retirement Equities Fund (TIAA). The College's contribution to the fund during the years ended May 31, 2020 and 2019 was approximately $4,554,000 and $4,677,000, respectively.

(b) Health and Welfare Plan

The College offers eligible employees a defined-contribution health and welfare plan (HW Plan) through Emeriti Retirement Health Solutions, a consortium of colleges and universities organized to address retiree healthcare needs. The HW Plan is intended to assist employees and their families with medical expenses during their retirement years. Funding for the HW Plan is provided through Voluntary Employees' Beneficiary Association trusts (VEBA). The College begins making contributions to the HW Plan on behalf of eligible employees on the first day of the month following attainment of age 35 and completion of two years of service. The College's contribution to the HW Plan was approximately $267,000 and $276,000, respectively, for the years ended May 31, 2020 and 2019.

(c) Postretirement Healthcare Plan

The College provides a postretirement healthcare plan (PH Plan) that covers premiums for medical insurance of eligible retirees and their spouses. The PH Plan has a measurement date of May 31 and is not funded.

The following table sets forth the PH Plan's change in benefit obligations and change in plan assets for the year ended May 31:

		2020	2019
Change in benefit obligations:			
Benefit obligation at beginning of year	$	12,187,862	15,482,935
Service cost		4,836	28,872
Interest cost		423,690	595,835
Actuarial and other losses/(gains)		1,636,839	(3,336,683)
Participant contributions		142,317	133,418
Benefits paid		(914,127)	(716,515)
Benefit obligation at end of year	$	13,481,417	12,187,862
Change in plan assets:			
Fair value of plan assets at beginning of year	$	—	—
Benefits paid		(914,127)	(716,515)
Employer contribution		771,810	583,097
Participant contributions		142,317	133,418
Fair value of plan assets at end of year	$	—	—

Weighted average assumptions used to determine benefit obligations as of May 31 were as follows:

	2020	2019
Year ultimate healthcare cost trend rate is reached	2075	2075
Discount rate, end of year	2.30 %	3.59 %
Initial healthcare cost trend rate	5.50	5.40
Ultimate healthcare cost trend rate	4.00	3.90

The impact of a 1% change in medical cost trend rate is as follows:

		2020	
		Increase one percentage	Decrease one percentage
Effect on 2020 service and interest cost	$	32,758	(29,673)
Effect on May 31, 2020 benefit obligation		107,922	(93,550)

		Year ended May 31	
		2020	**2019**
Components of net periodic benefit costs:			
Service cost – benefits earned during the year	$	4,836	28,872
Interest cost on projected benefit obligation		423,690	595,835
Amortization of net loss		—	339,155
Net periodic benefit cost	$	428,526	963,862

The service cost component of the net periodic benefit costs are included in employee benefits within the various functional classifications and the remaining components are reported in net periodic benefit costs other than service costs within nonoperating activities on the consolidated statements of activities for the years ended May 31, 2020 and 2019.

Weighted average assumptions used to determine net periodic postretirement benefit costs for the years ended May 31, 2020 and 2019 were as follows:

	2020	**2019**
Year ultimate healthcare cost trend rate is reached	2,075	2075
Discount rate, beginning of year	3.59 %	3.95 %
Initial healthcare cost trend rate	5.40	5.50
Ultimate healthcare cost trend rate	3.94	3.84

Actuarial net loss of $5,952 will be amortized in fiscal year 2021.

(d) Cash Flows

The College expects to contribute approximately $657,000 to its postretirement healthcare plan in fiscal year 2021. The benefits expected to be paid from the postretirement healthcare plan in each of the subsequent fiscal years are as follows:

2021	$	800,442
2022		804,234
2023		795,591
2024		789,193
2025		788,050
2026–2030		3,777,680

The expected benefits are based on the same assumptions used to measure the College’s benefit obligation at May 31, 2020 and include estimated future employee services.

(10) Composition of Net Assets

Composition of net assets at May 31 is as follows:

		2020	2019
Without donor restrictions:			
Board-designated endowments	$	72,759,946	73,514,127
Board-designated reserves		23,892,394	26,031,062
Other net assets without donor restrictions		112,648,304	119,476,741
Total without donor restrictions		209,300,644	219,021,930
With donor restrictions:			
Amounts restricted in perpetuity		184,127,285	181,563,526
Purpose and time restricted		47,917,746	51,717,906
Total with donor restrictions		232,045,031	233,281,432
Total net assets	$	441,345,675	452,303,362

Net assets without donor restrictions include board-designated endowments and reserves that are created by board resolution to support the general operations of the College as well as future programs and projects.

(11) Expenses by Functional and Natural Classification

The composition of expenses by natural and functional classification for May 31, 2020 and 2019 are as follows:

		Year ended May 31, 2020								
		Instruction	Research	Public Service	Academic Support	Student Services	Institutional Support	Auxiliary Services	Nonoperating Expense (Hotel)	Total
Salaries and wages	$	25,293,710	189,300	878,793	5,707,033	10,133,545	10,434,886	5,005,795	1,668,083	59,311,145
Employee benefits		11,288,781	20,026	326,198	2,218,795	3,705,927	4,210,660	1,948,461	538,100	24,256,948
Supplies, services and other		7,701,178	691,443	792,784	10,133,930	4,526,411	4,415,691	4,019,256	2,708,005	34,988,698
Insurance, utilities and rent		932,283	—	60,491	275,161	827,609	755,432	2,568,119	325,647	5,744,742
Interest and depreciation		3,415,526	33,248	508,578	757,676	4,863,614	619,558	4,057,985	1,103,547	15,359,732
Net periodic benefit cost other than service costs		182,477	—	6,517	43,838	70,451	81,615	38,792	—	423,690
Total expenses	$	48,813,955	934,017	2,573,361	19,136,433	24,127,557	20,517,842	17,638,408	6,343,382	140,084,955

	Year ended May 31, 2019								
	Instruction	Research	Public Service	Academic Support	Student Services	Institutional Support	Auxiliary Services	Nonoperating Expense (Hotel)	Total
Salaries and wages	$ 23,791,371	329,384	917,717	5,618,079	10,067,211	10,517,790	5,527,569	1,991,340	58,760,461
Employee benefits	9,433,020	23,148	344,339	2,243,393	3,690,910	4,222,934	2,274,152	635,491	22,867,387
Supplies, services and other	7,606,035	1,280,228	939,005	9,450,298	5,583,067	6,366,508	6,862,503	3,188,015	41,275,659
Insurance, utilities and rent	951,725	—	40,828	396,934	819,504	761,043	2,611,529	333,517	5,915,080
Interest and depreciation	3,462,307	33,027	498,686	742,061	4,394,266	668,186	4,420,863	1,133,319	15,352,715
Net periodic benefit cost other than service costs	395,554	—	14,989	96,056	153,298	93,979	181,114	—	934,990
Total expenses	$ 45,640,012	1,665,787	2,755,564	18,546,821	24,708,256	22,630,440	21,877,730	7,281,682	145,106,292

Expenses are presented on the consolidated statements of activities by functional classification in alignment with the overall operations of the College. Program services are comprised of instruction, research, public service, academic support, student services and auxiliary services. Supporting services are comprised of institutional support. Library expenses are included in academic support and athletics expenses are included in student services. The College expended approximately $4,322,000 and $5,483,000 for the years ended May 31, 2020 and 2019, respectively, for payroll and benefits, informational materials, travel and special events relating to fundraising activities. These costs are all classified as institutional support in the consolidated statements of activities

Natural expenses are accounted for on a direct cost basis to the program or function upon which the expense is incurred. Expenses attributable to more than one functional expense category are allocated using reasonable cost allocation techniques. Depreciation and plant operations and maintenance are allocated on a square footage basis. Interest expense on indebtedness is allocated to the functional categories which have benefited from the associated debt.

(12) Commitments and Contingencies

The College is involved in various claims and legal actions arising in the ordinary course of business. In the opinion of management, the ultimate disposition of these matters will not have a material adverse effect on the College’s consolidated financial position, results of operations, or liquidity.

(13) Subsequent Events

The College has evaluated subsequent events through September 9, 2020, the date the consolidated financial statements were issued.

In July 2020, the College issued the Gettysburg College Revenue Bonds, Series 2020 through the Adams County General Authority with an aggregate principal amount of $31,820,000. The proceeds of the Series 2020 Bonds were used to refund the outstanding Gettysburg College Revenue Bonds, Series 2010 issued by Adams County Industrial Authority. The Series 2020 Bonds have varying maturities beginning August 2023 through August 2045 and bear fixed interest coupons ranging from 3.0% to 5.0%. The yield to maturity on the Series 2020 Bonds was 2.65%.

On June 22, 2020 the College announced its intention to have students return to campus for the start of the 2021 academic year. In preparation for students returning to residential living along with the continued need for a remote learning environment, the College planned to incur additional expenses related to the expansion of housing, COVID-19 testing, additional classroom space and information technology equipment.

On September 4, 2020, due to an increasing number of COVID-19 cases on campus, the College announced its plans to de-densify the campus to a maximum of 900 students allowed to remain within its residential facilities through the end of the fall semester. While this decision will negatively impact revenue for tuition, room, and board for the 2020 fall semester, the College continues to monitor the operational and financial impact of COVID-19 and is prepared to take additional measures to protect the health of the College community.

GETTYSBURG COLLEGE

Schedule of Assets, Liabilities, and Net Assets

Year ended May 31, 2020

Assets		Gettysburg College	Subsidiaries of Gettysburg College	Eliminating entries	Consolidated
Cash and cash equivalents	$	56,793,083	3,253,914	—	60,046,997
Accounts and other receivable		427,257	—	(50,000)	377,257
Contributions receivable, net		3,620,390	—	—	3,620,390
Student loans receivable, net		3,939,673	—	—	3,939,673
Notes receivable		7,171,301	—	(7,171,301)	—
Prepaid expenses and other assets		2,240,870	181,300	—	2,422,170
Investments		283,319,393	—	—	283,319,393
Funds held in trust by others		32,517,397	—	—	32,517,397
Property, plant, and equipment, net		174,117,050	10,394,867	—	184,511,917
Total assets	$	564,146,414	13,830,081	(7,221,301)	570,755,194
Liabilities and Net Assets					
Liabilities:					
Accounts payable and accrued expenses	$	17,938,516	773,025	(50,000)	18,661,541
Students' advance payments and deposits		7,086,906	—	—	7,086,906
Deposits held in custody for others		782,838	6,661	—	789,499
Annuities payable		5,033,738	—	—	5,033,738
Advances from federal government		1,186,570	—	—	1,186,570
Accrued postretirement benefit cost		13,481,417	—	—	13,481,417
Long-term debt		83,169,848	7,171,301	(7,171,301)	83,169,848
Total liabilities		128,679,833	7,950,987	(7,221,301)	129,409,519
Net assets:					
Without donor restrictions		203,421,550	5,879,094	—	209,300,644
With donor restrictions		232,045,031	—	—	232,045,031
Total net assets		435,466,581	5,879,094	—	441,345,675
Total liabilities and net assets	$	564,146,414	13,830,081	(7,221,301)	570,755,194

See accompanying independent auditors' report.