

RHODES COLLEGE

CONSOLIDATED FINANCIAL STATEMENTS

As of and for the Years Ended June 30, 2019 and 2018

And Report of Independent Auditor

RHODES COLLEGE
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Report of Independent Auditor

The Board of Trustees
Rhodes College
Memphis, Tennessee

Report on Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of Rhodes College (the "College"), which comprise the consolidated statements of financial position as of June 30, 2019 and 2018, 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 Consolidated Financial Statements

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

Auditor's 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 audits to obtain reasonable assurance about whether the consolidated financial statements are free of 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 auditor's 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 College'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 College'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 financial position of Rhodes College at June 30, 2019 and 2018, and the changes in their net assets and their cash flows for the years then ended in conformity with generally accepted accounting principles in the United States of America.



Charlotte, North Carolina
October 8, 2019

RHODES COLLEGE
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

JUNE 30, 2019 AND 2018

| | 2019 | 2018 |
|---|-----------------------|-----------------------|
| ASSETS | | |
| Cash and cash equivalents | \$ 41,883,781 | \$ 41,313,853 |
| Contributions receivable, net | 11,840,232 | 16,013,325 |
| Student receivables, net | 628,803 | 787,991 |
| Other receivables, net | 1,732,751 | 436,359 |
| Investments, at fair value | 313,984,495 | 319,543,772 |
| Investments held in charitable remainder trusts | 8,841,495 | 9,068,393 |
| Assets held in trust by others | 60,557,470 | 59,974,159 |
| Other assets | 2,635,677 | 2,893,886 |
| Property and equipment, net | 163,258,963 | 165,017,312 |
| Total Assets | \$ 605,363,667 | \$ 615,049,050 |
| LIABILITIES AND NET ASSETS | | |
| Liabilities: | | |
| Accounts payable and accrued expenses | \$ 12,119,829 | \$ 10,728,656 |
| Due to annuitants | 4,400,127 | 5,020,977 |
| Unearned income | 2,670,934 | 2,920,718 |
| Amounts held in custody for others | 301,494 | 275,402 |
| Refundable government advances | - | 130,142 |
| Accrued postretirement benefits | 16,695,000 | 14,060,000 |
| Long-term debt | 67,340,978 | 69,351,443 |
| Total Liabilities | 103,528,362 | 102,487,338 |
| Net Assets: | | |
| Without donor restrictions | 211,399,667 | 219,742,792 |
| With donor restrictions | 290,435,638 | 292,818,920 |
| Total Net Assets | 501,835,305 | 512,561,712 |
| Total Liabilities and Net Assets | \$ 605,363,667 | \$ 615,049,050 |

RHODES COLLEGE
CONSOLIDATED STATEMENT OF ACTIVITIES

YEAR ENDED JUNE 30, 2019 (WITH COMPARATIVE TOTALS FOR 2018)

| | Without Donor Restrictions | With Donor Restrictions | Total | 2018 Total |
|--|-------------------------------|----------------------------|-----------------------|-----------------------|
| Operating: | | | | |
| Revenues: | | | | |
| Net tuition and fees | \$ 39,971,299 | \$ - | \$ 39,971,299 | \$ 40,747,766 |
| Gifts and grants | 2,545,962 | 4,412,756 | 6,958,718 | 15,360,915 |
| Endowment income and gains distributed | 8,646,800 | 8,216,792 | 16,863,592 | 16,265,992 |
| Investment return on short and intermediate term investments | 927,321 | 21,125 | 948,446 | 602,132 |
| Income from auxiliary enterprises | 16,114,529 | - | 16,114,529 | 16,102,297 |
| Other income | 616,232 | 1,865,203 | 2,481,435 | 2,483,522 |
| Net assets released from restrictions | 17,444,008 | (17,444,008) | - | - |
| Total Revenues | <u>86,266,151</u> | <u>(2,928,132)</u> | <u>83,338,019</u> | <u>91,562,624</u> |
| Expenses: | | | | |
| Program Expenses: | | | | |
| Academic instruction | 33,827,525 | - | 33,827,525 | 33,456,086 |
| Academic support | 9,372,260 | - | 9,372,260 | 8,726,901 |
| Student services | 18,118,759 | - | 18,118,759 | 17,455,806 |
| Auxiliary enterprises | 13,814,487 | - | 13,814,487 | 14,013,193 |
| Total Program Expenses | <u>75,133,031</u> | <u>-</u> | <u>75,133,031</u> | <u>73,651,986</u> |
| Management and General Expenses: | | | | |
| Institutional support | 10,994,327 | - | 10,994,327 | 10,651,536 |
| Total Expenses | <u>86,127,358</u> | <u>-</u> | <u>86,127,358</u> | <u>84,303,522</u> |
| Change in net assets from operating activities | <u>138,793</u> | <u>(2,928,132)</u> | <u>(2,789,339)</u> | <u>7,259,102</u> |
| Nonoperating: | | | | |
| Gifts and grants | 314,251 | 975,513 | 1,289,764 | 7,290,406 |
| Endowment income and gains distributed | (8,646,800) | (8,216,792) | (16,863,592) | (16,265,992) |
| Investment return, net | 2,880,005 | 7,916,058 | 10,796,063 | 28,536,069 |
| Other | (837,672) | - | (837,672) | (674,664) |
| Net assets released from restrictions | 138,298 | (138,298) | - | - |
| Change in value of charitable remainder trust agreements | - | 8,369 | 8,369 | (692,841) |
| Extinguishment of long-term debt | - | - | - | (3,483,672) |
| Actuarial loss on postretirement benefit obligation | (2,330,000) | - | (2,330,000) | (83,000) |
| Change in net assets from nonoperating activities | <u>(8,481,918)</u> | <u>544,850</u> | <u>(7,937,068)</u> | <u>14,626,306</u> |
| Change in net assets | (8,343,125) | (2,383,282) | (10,726,407) | 21,885,408 |
| Net assets at beginning of year | <u>219,742,792</u> | <u>292,818,920</u> | <u>512,561,712</u> | <u>490,676,304</u> |
| Net assets at end of year | <u>\$ 211,399,667</u> | <u>\$ 290,435,638</u> | <u>\$ 501,835,305</u> | <u>\$ 512,561,712</u> |

The accompanying notes to the consolidated financial statements are an integral part of this statement.

RHODES COLLEGE
CONSOLIDATED STATEMENT OF ACTIVITIES

YEAR ENDED JUNE 30, 2018

| | Without Donor Restrictions | With Donor Restrictions | Total |
|---|---------------------------------------|------------------------------------|-----------------------|
| Operating: | | | |
| Revenues: | | | |
| Net tuition and fees | \$ 40,747,766 | \$ - | \$ 40,747,766 |
| Gifts and grants | 2,493,749 | 12,867,166 | 15,360,915 |
| Endowment income and gains distributed | 8,328,688 | 7,937,304 | 16,265,992 |
| Investment return on short and intermediate term investments | 593,628 | 8,504 | 602,132 |
| Income from auxiliary enterprises | 16,102,297 | - | 16,102,297 |
| Other income | 593,740 | 1,889,782 | 2,483,522 |
| Net assets released from restrictions | 15,447,764 | (15,447,764) | - |
| Total Revenues | <u>84,307,632</u> | <u>7,254,992</u> | <u>91,562,624</u> |
| Expenses: | | | |
| Program Expenses: | | | |
| Academic instruction | 33,456,086 | - | 33,456,086 |
| Academic support | 8,726,901 | - | 8,726,901 |
| Student services | 17,455,806 | - | 17,455,806 |
| Auxiliary enterprises | 14,013,193 | - | 14,013,193 |
| Total Program Expenses | <u>73,651,986</u> | <u>-</u> | <u>73,651,986</u> |
| Management and General Expenses: | | | |
| Institutional support | 10,651,536 | - | 10,651,536 |
| Total Expenses | <u>84,303,522</u> | <u>-</u> | <u>84,303,522</u> |
| Change in net assets from operating activities | <u>4,110</u> | <u>7,254,992</u> | <u>7,259,102</u> |
| Nonoperating: | | | |
| Gifts and grants | 668,817 | 6,621,589 | 7,290,406 |
| Endowment income and gains distributed | (8,328,688) | (7,937,304) | (16,265,992) |
| Investment return, net | 9,055,802 | 19,480,267 | 28,536,069 |
| Other | (674,664) | - | (674,664) |
| Net assets released from restrictions | 343,077 | (343,077) | - |
| Change in value of charitable remainder trust agreements | - | (692,841) | (692,841) |
| Extinguishment of long-term debt | (3,483,672) | - | (3,483,672) |
| Actuarial loss on postretirement benefit obligation | (83,000) | - | (83,000) |
| Change in net assets from nonoperating activities | <u>(2,502,328)</u> | <u>17,128,634</u> | <u>14,626,306</u> |
| Change in net assets | (2,498,218) | 24,383,626 | 21,885,408 |
| Net assets at beginning of year | <u>222,241,010</u> | <u>268,435,294</u> | <u>490,676,304</u> |
| Net assets at end of year | <u>\$ 219,742,792</u> | <u>\$ 292,818,920</u> | <u>\$ 512,561,712</u> |

The accompanying notes to the consolidated financial statements are an integral part of this statement.

RHODES COLLEGE
CONSOLIDATED STATEMENTS OF CASH FLOWS

YEARS ENDED JUNE 30, 2019 AND 2018

| | <u>2019</u> | <u>2018</u> |
|--|----------------------|----------------------|
| Cash flows from operating activities: | | |
| Change in net assets | \$ (10,726,407) | \$ 21,885,408 |
| Adjustments to reconcile change in net assets to net cash from operating activities: | | |
| Net realized and unrealized investment gains | (8,051,284) | (25,472,969) |
| Depreciation | 8,897,885 | 8,529,757 |
| Extinguishment of long-term debt | - | 3,483,672 |
| Gifts for restricted purposes | (2,844,666) | (9,156,595) |
| Income restricted for long-term investment | (72,590) | (61,913) |
| Change in value of charitable remainder trust agreements | (8,369) | 692,841 |
| Provision for postretirement benefits | 305,000 | 149,000 |
| Actuarial loss on postretirement benefit obligation | 2,330,000 | 83,000 |
| Amortization of bond premium | (469,354) | (342,014) |
| Liquidation of Perkins loans receivable | - | 619,137 |
| Changes in operating assets and liabilities: | | |
| Contributions receivable, net | 4,173,093 | (3,652,732) |
| Student receivables, net | 159,188 | 71,369 |
| Other receivables, net | (1,296,392) | (160,498) |
| Accounts payable and accrued expenses | 1,317,568 | (1,009,573) |
| Unearned income | (249,784) | (76,064) |
| Refundable government advances | (130,142) | 23,166 |
| Other | 23,997 | (310,913) |
| Net cash from operating activities | <u>(6,642,257)</u> | <u>(4,705,921)</u> |
| Cash flows from Investing activities: | | |
| Purchases of property and equipment | (6,768,229) | (10,628,485) |
| Purchases of investments | (16,876,911) | (13,875,532) |
| Proceeds from sales of investments | 29,904,894 | 17,923,670 |
| Net change in assets held in trust | 226,166 | 2,861,875 |
| Net cash from investing activities | <u>6,485,920</u> | <u>(3,718,472)</u> |
| Cash flows from Financing activities: | | |
| Gifts for restricted purposes | 2,844,666 | 9,156,595 |
| Income restricted for long-term investment | 72,590 | 61,913 |
| Proceeds from borrowing | - | 32,259,591 |
| Payments on long-term debt | (1,578,510) | (32,175,135) |
| Payments to annuitants | (658,156) | (675,704) |
| Increase in due to annuitants | 45,675 | 69,935 |
| Net cash from financing activities | <u>726,265</u> | <u>8,697,195</u> |
| Net increase in cash and cash equivalents | 569,928 | 272,802 |
| Cash and cash equivalents at beginning of year | 41,313,853 | 41,041,051 |
| Cash and cash equivalents at end of year | <u>\$ 41,883,781</u> | <u>\$ 41,313,853</u> |
| Supplemental disclosure of cash flow information: | | |
| Cash paid for interest | <u>\$ 2,539,451</u> | <u>\$ 2,793,496</u> |
| Noncash investing activities: | | |
| Gift of property and equipment | <u>\$ 297,703</u> | <u>\$ -</u> |
| Change in construction payables | <u>\$ (73,605)</u> | <u>\$ 3,235,386</u> |

The accompanying notes to the consolidated financial statements are an integral part of these statements. 5

RHODES COLLEGE
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2019 AND 2018

Note 1—Nature of activities

Rhodes College (the “College”), founded in 1848, is a private, not-for-profit, coeducational institution located in Memphis, Tennessee with an enrollment of approximately 2,000 students. The primary mission of the College is to provide a liberal arts education at the undergraduate level. The College derives revenue primarily from tuition, room and board charges to students, gifts received from donors, and income earned on investments.

The consolidated financial statements include the accounts of Lynxco, LLC (“Lynxco”), a wholly-owned subsidiary of the College. Lynxco was formed solely for the purpose of acquiring, holding, operating, and maintaining certain land, building and equipment (the “Property”) and to assume the seller’s outstanding note payable and perform the obligations thereunder. Lynxco is not engaged in any business unrelated to the acquisition, ownership, management, or operating of the Property. The College eliminates all material intercompany accounts and transactions in consolidation.

Note 2—Summary of significant accounting policies

Basis of Presentation – The College’s consolidated financial statements have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America (“U.S. GAAP”). Based on the existence or absence of donor-imposed restrictions, the College classifies resources into two categories: without donor restrictions and with donor restrictions.

Without Donor Restrictions – Net assets without donor restrictions are free of donor-imposed restrictions. All revenues, gains, and losses that are not restricted by donors are included in this classification. All expenditures are reported in the without donor restrictions class of net assets, including expenditures funded by restricted contributions. Expenditures funded by restricted contributions are reported in the without donor restrictions net asset class because the use of restricted contributions in accordance with donors’ stipulations results in the release of such restrictions.

With Donor Restrictions – Net assets with donor restrictions are limited as to use by donor-imposed stipulations that may expire with the passage of time or that may be satisfied by action of the College. Net assets with donor restrictions are designated by donors for specific purposes, and include unconditional pledges, split-interest agreements, interests in trusts held by others, and accumulated appreciation on donor-restricted endowments which have not been appropriated by the Board of Trustees (the “Board”) for distribution. Some net assets with donor restrictions are required by donors to be held in perpetuity. The donors of substantially all net assets to be held in perpetuity permit the College to use a portion of the income earned on the related investments for specified purposes.

Expirations of restrictions on net assets as the result of the passage of time and/or fulfilling donor-imposed stipulations are reported as net assets released from restrictions between the applicable classes of net assets in the consolidated statements of activities.

Cash and Cash Equivalents – Cash and cash equivalents, reported at fair value, include cash and all highly liquid investments with a maturity of three months or less when purchased.

Student Receivables – Student receivables consist of amounts due to the College related to tuition and fees. An allowance for uncollectible accounts has been recorded based upon management’s judgment and historical bad debt experience.

RHODES COLLEGE
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2019 AND 2018

Note 2—Summary of significant accounting policies (continued)

Student Receivables (continued) – The College performs a monthly analysis of outstanding accounts receivable from students to assess the likelihood of collection. For balances on which full payment of amounts owed is not expected, the College establishes an allowance to adjust the balance of the receivable to reflect its best estimate of the amount that will ultimately be collected.

Contributions Receivable and Revenue – Contributions, including unconditional promises to give, are recognized as revenue in the period received. Conditional promises to give are not recognized until donor stipulations are met. Unconditional promises to give that are expected to be collected within one year are recorded at net realizable value. Unconditional promises to give, with payments due to the College beyond one year, are recorded as net assets with donor restrictions at the estimated present value of the expected future cash flows, using credit risk adjusted rates applicable to the years in which the promises are expected to be received. Amortization of the discounts is recorded as contribution revenue in the appropriate net asset class.

An allowance for uncollectible contributions receivable is provided based upon management's judgment of such factors as prior collection history, type of contribution, and other relevant factors.

Investments – Investments, investments held in charitable remainder trusts, and assets held in trust by others are recorded at fair value and include investments in debt and equity securities and alternative investments. Fair value for these investments is based on quoted prices in active markets, if available. If the market is inactive, fair value is determined by underlying managers and reviewed by the College after considering the sources of information.

Alternative investments consist primarily of investments in funds of funds and are included in investments and assets held in trust by others in the consolidated statements of financial position. The underlying investments of the College's funds of funds investments include investments in publicly traded equity securities, long/short hedged equity, private equity companies, private real estate, commodities, timber, and funds that employ a variety of trading styles or strategies, including, but not limited to, convertible and fixed income arbitrage, event driven investing, distressed debt, and other market neutral strategies. The underlying assets are reflected at estimated fair value. Depending on the underlying asset, the estimated fair value is determined by the investment manager utilizing the net asset valuations provided by the underlying asset's manager or through national exchange prices for securities with a readily determinable value. Due to the inherent uncertainty of these estimates, these values may differ from the values that would have been used had a ready market for these investments existed and the differences could be material.

Donated investments are recorded at fair value at the date of the gift to the College. In addition, all investment income, expenses, gains and losses are reported as investment return in the consolidated statements of activities.

The Board designates only a portion of the College's cumulative endowment investment return for support of current operations; the remainder is retained to support operations of future years and to offset potential market declines. The College utilizes a spending rate policy to determine the amount of cumulative endowment investment return available to support current operations. Investment return from short and intermediate term investments is also used to support current operations.

Fair Value of Financial Instruments – Investments, investments held in charitable remainder trusts, and assets held in trust by others, which are substantially comprised of debt and equity securities, are carried at fair value. The carrying amounts of cash and cash equivalents, receivables, accounts payable, due to annuitants, amounts held in custody for others, and long-term debt with variable interest rates approximate fair value at June 30, 2019 and 2018.

RHODES COLLEGE
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2019 AND 2018

Note 2—Summary of significant accounting policies (continued)

Fair Value of Financial Instruments (continued) – The fair value of long-term debt with fixed interest rates is based on recent trading activity and on rates assumed to be currently available for bond issues with similar terms, average maturities, and credit quality as determined by independent debt rating agencies.

Assets Held in Trust by Others – Assets held in trust by others represent resources that are intended to benefit the College's endowment fund but which are held and administered by outside fiscal agents. The College records these assets because it has legally enforceable rights or claims related to the assets or the income therefrom. The College's share of these assets is recorded at fair value. Assets held in trust by others are permanently restricted by donors and, accordingly, is reflected as net assets with donor restrictions.

Charitable Remainder Trust Agreements – The College receives gifts under charitable remainder trust agreements whereby the College will pay the donor a certain amount for a specified time, normally until the death of the donor. At the donor's death or upon fulfillment of a specified condition, the College obtains the right to utilize the remaining assets of each trust based on the terms of the agreement. The College reflects these gifts, net of amounts due to annuitants, as net assets with donor restrictions. Due to annuitants is recorded at the net present value of estimated future cash payments to beneficiaries specified in the charitable remainder trust agreements. The weighted average discount rate used to determine the amount due to annuitants was 7.30% at June 30, 2019 and 2018. Beneficiary life expectancy assumptions were determined from the 2001 Commissioners Standard Ordinary Mortality Table.

Property and Equipment – Property and equipment is recorded at cost at the date of acquisition or fair value at the date of gift. The cost of repairs and maintenance is generally charged to expense in the year incurred. Depreciation of buildings is recorded using the straight-line method over their estimated useful lives of 50 years. Depreciation of furniture, fixtures and equipment, and library books is recorded using the straight-line method over their estimated useful lives of 3 to 20 years.

Concentration of Credit Risk – The College places its cash and cash equivalents on deposit with financial institutions. The Federal Deposit Insurance Corporation insures substantially all depository accounts up to \$250,000. The College typically has amounts on deposit in excess of the insured limits. At June 30, 2019, the College had approximately \$37,400,000 in excess of the insured amounts.

Fundraising Costs – Fundraising expense for the years ended June 30, 2019 and 2018 was approximately \$3,313,000 and \$2,915,000, respectively, and is reported as institutional support in the consolidated statements of activities.

Income Taxes – The Internal Revenue Service has determined that the College is exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code ("IRC"). As a qualified tax-exempt organization, the College must operate in conformity with the IRC in order to maintain its tax-exempt status. The College is also exempt from state corporate income tax.

The College follows the guidance contained in Accounting Standard Codification ("ASC") Topic 740-10-25, *Accounting for Uncertainty in Income Taxes*. ASC Topic 740-10-25 prescribes a recognition threshold and measurement attribute for financial statement recognition and measurement of a tax position taken or expected to be taken. Based upon its evaluation, the College concluded that there are no significant uncertain tax positions requiring recognition in its consolidated financial statements. The College is subject to audit by taxing jurisdictions; however, there are currently no audits in progress for any tax periods.

RHODES COLLEGE
 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2019 AND 2018

Note 2—Summary of significant accounting policies (continued)

Use of Estimates – The preparation of consolidated financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and accompanying notes. Actual results could differ from those estimates.

Operating Activities – Changes in net assets from operating activities in the consolidated statements of activities excludes non-operating activities. Non-operating activities include contributions added to endowment, contributions supporting major capital purchases, contributions, and other activity related to charitable remainder trusts, and endowment investment return, net of amounts distributed to support operations in accordance with the spending policy. Additionally, investment return related to contributions supporting major capital purchases and charitable remainder trusts are included in non-operating activities.

Revenue Recognition – The College’s revenue recognition policies are as follows:

Net Tuition and Fees – Student tuition and fees are recorded as revenue in the fiscal year that the related academic services are rendered. Financial aid provided by the College is reflected as a reduction of tuition and fees. Gross tuition and fees revenue and student financial aid for the years ended June 30, 2019 and 2018 are as follows:

| | 2019 | 2018 |
|----------------------------|----------------------|----------------------|
| Tuition and fees | \$ 94,994,654 | \$ 92,084,756 |
| Less student financial aid | (55,023,355) | (51,336,990) |
| Net tuition and fees | <u>\$ 39,971,299</u> | <u>\$ 40,747,766</u> |

Auxiliary Enterprises – Auxiliary enterprises furnish services primarily to students and are comprised predominantly of residence halls and food service. Income from auxiliary enterprises is recorded as revenue in the fiscal year that the related services are rendered.

Deferred Revenue – Deferred revenue primarily relates to payments received by the College from students for tuition and other costs for future academic terms. Additionally, deferred revenue includes enrollment deposits, housing deposits, and excess payments made by students for prior academic terms. Total deferred revenue at June 30, 2019 and 2018 was \$1,455,082 and \$1,885,599, respectively, and is reported as unearned income in the consolidated statements of financial position.

New Accounting Pronouncements – In May of 2014, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) 2014-09, *Revenue from Contracts with Customers*. This standard, along with all subsequent amendments to the ASU (collectively, *Accounting Standards Codification 606*), creates a single framework for recognizing revenue from contracts with customers that fall within its scope of exchange transactions. There were no material impacts to the consolidated financial statements and underlying accounting as a result of this implementation, which has been applied retrospectively to the 2018 consolidated financial statements.

In June of 2018, the FASB issued ASU 2018-08, *Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. This standard provides guidance on determining whether a transaction should be accounted for as a contribution or as an exchange transaction. The adoption of this standard allows for contributions to follow guidance in FASB (ASC) 958-605, *Not-for-Profit Entities (Topic 958) – Revenue Recognition*, rather than the guidance provided in ASC 606 discussed above. There were no material impacts to the consolidated financial statements and underlying accounting as a result of this implementation, which has been early adopted and applied retrospectively to the 2018 consolidated financial statements.

RHODES COLLEGE
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2019 AND 2018

Note 3—Contributions receivable

Contributions receivable are recorded at the net present value (based on a weighted average imputed interest rate of 2.61% and 2.70% at June 30, 2019 and 2018, respectively) of the estimated future cash flows from the contributions. Most unconditional promises are restricted by donors for scholarships, support of academic instruction, and property and equipment purchases and are due as follows:

| | 2019 | 2018 |
|--|----------------------|----------------------|
| Less than one year | \$ 3,915,786 | \$ 4,923,250 |
| One to five years | 8,665,967 | 11,870,960 |
| Thereafter | 66,500 | 84,000 |
| | <u>12,648,253</u> | <u>16,878,210</u> |
| Less present value discount | (348,675) | (602,827) |
| Less allowance for uncollectible contributions | (459,346) | (262,058) |
| | <u>\$ 11,840,232</u> | <u>\$ 16,013,325</u> |

Pledges from three donors comprise approximately 80% of undiscounted contributions receivable. Contributions receivable from Board members amounted to approximately \$1.0 million and \$1.4 million at June 30, 2019 and 2018, respectively.

Note 4—Student receivables

Student receivables as of June 30 were as follows:

| | 2019 | 2018 |
|--|-------------------|-------------------|
| Student accounts receivable | \$ 1,923,109 | \$ 2,043,018 |
| Perkins loans receivable | - | 15,464 |
| | <u>1,923,109</u> | <u>2,058,482</u> |
| Less allowance for student accounts receivable | (1,294,306) | (1,270,491) |
| | <u>\$ 628,803</u> | <u>\$ 787,991</u> |

During the year ended June 30, 2018, the College began liquidating its Perkins Revolving Student Loan Fund and assigned its Perkins Loan Portfolio to the Department of Education. During the year ended June 30, 2019, the College ended its participation in the Federal Perkins Loan Program.

For the year ended June 30, 2018, the cost of loan principal and interest accepted by the U.S. government totaled \$2,335,564. Outstanding loans cancelled under the program result in a reduction of the funds available for loan and a decrease in the liability to the government.

RHODES COLLEGE
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2019 AND 2018

Note 5—Fair value measurements

ASC 820 establishes a three-level hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The fair value hierarchy gives the highest priority to quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). If the inputs used to measure the assets or liabilities fall within different levels of the hierarchy, the classification is based on the lowest level input that is significant to the fair value measurement of the asset or liability. Classification of assets and liabilities within the hierarchy considers the markets in which the assets and liabilities are traded and the reliability and transparency of the assumptions used to determine fair value. The hierarchy requires the use of observable market data when available.

The levels of the hierarchy are defined as follows:

Level 1 – Inputs to the valuation methodology are quoted prices (unadjusted) for identical assets or liabilities traded in active markets.

Level 2 – Inputs to the valuation methodology include quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in markets that are not active, inputs other than quoted prices that are observable for the asset or liability, and market-corroborated inputs.

Level 3 – Inputs to the valuation methodology are unobservable for the asset or liability and are significant to the fair value measurement.

In determining fair value, the College uses various methods, including the market, income, and cost approaches. The College uses valuation techniques that maximize the use of observable inputs and minimize the use of unobservable inputs.

The College has evaluated the various types of securities and investment funds in its investment portfolio to determine an appropriate fair value hierarchy level based upon trading activity and observable market inputs. Level 1 investments include those traded on an active exchange, such as the New York Stock Exchange. Level 2 investments include municipal bonds and corporate debt securities. The College has estimated the fair value of Level 2 investments on the basis of quoted bond prices provided by investment managers. Because of the significance of unobservable inputs required in measuring the fair value of alternative investments, which consist primarily of investments in fund of funds, they are valued at net asset value (“NAV”) or its equivalent and are separately disclosed in Note 6.

Level 3 fair value measurements also include assets held in trust by others. The College has estimated the fair value of these assets based on its proportionate share of the fair value of the underlying investments.

As of June 30, 2019, there were no financial assets or liabilities measured at fair value on a nonrecurring basis.

During fiscal years ended June 30, 2019 and 2018, there were no transfers of investments between levels.

RHODES COLLEGE
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2019 AND 2018

Note 5—Fair value measurements (continued)

The following table presents the balances of assets measured at fair value on a recurring basis as of June 30, 2019, by level within the fair value hierarchy:

| | <u>Level 1</u> | <u>Level 2</u> | <u>Level 3</u> | <u>Total</u> |
|--|----------------------|----------------------|----------------------|-----------------------|
| Investments: | | | | |
| Equity securities: | | | | |
| Domestic equity | \$ 188,250 | \$ 145,746 | \$ - | \$ 333,996 |
| Debt securities: | | | | |
| U.S. treasury securities | 7,183,599 | - | - | 7,183,599 |
| U.S. government agencies and sponsored entities | - | 6,609,916 | - | 6,609,916 |
| Corporate bonds | - | 7,415,337 | - | 7,415,337 |
| Real assets | 9,365,426 | 111,169 | - | 9,476,595 |
| Other investments | 4,813,931 | - | - | 4,813,931 |
| Subtotal of investments | <u>21,551,206</u> | <u>14,282,168</u> | <u>-</u> | <u>35,833,374</u> |
| Investments measured using NAV | | | | 278,151,121 |
| Total investments | <u>\$ 21,551,206</u> | <u>\$ 14,282,168</u> | <u>\$ -</u> | <u>\$ 313,984,495</u> |
| Investments held in charitable remainder trusts: | | | | |
| Equity securities: | | | | |
| Domestic equity | \$ 5,542,879 | \$ - | \$ - | \$ 5,542,879 |
| Debt securities: | | | | |
| U.S. treasury securities | 2,888,714 | - | - | 2,888,714 |
| Other investments | 409,902 | - | - | 409,902 |
| Total investments held in charitable remainder trusts | <u>\$ 8,841,495</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ 8,841,495</u> |
| Assets held in trust by others | <u>\$ -</u> | <u>\$ -</u> | <u>\$ 60,557,470</u> | <u>\$ 60,557,470</u> |

RHODES COLLEGE
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2019 AND 2018

Note 5—Fair value measurements (continued)

The following table presents the balance of assets measured at fair value on a recurring basis as of June 30, 2018, by level within the fair value hierarchy:

| | <u>Level 1</u> | <u>Level 2</u> | <u>Level 3</u> | <u>Total</u> |
|--|----------------------|----------------------|----------------------|-----------------------|
| Investments: | | | | |
| Equity securities: | | | | |
| Domestic equity | \$ 96,746 | \$ 145,746 | \$ - | \$ 242,492 |
| Debt securities: | | | | |
| U.S. treasury securities | 8,210,150 | - | - | 8,210,150 |
| U.S. government agencies and sponsored entities | - | 5,011,119 | - | 5,011,119 |
| Corporate bonds | - | 7,333,229 | - | 7,333,229 |
| Real assets | 10,045,355 | 111,169 | - | 10,156,524 |
| Other investments | 3,543,587 | - | - | 3,543,587 |
| Subtotal of investments | <u>21,895,838</u> | <u>12,601,263</u> | <u>-</u> | <u>34,497,101</u> |
| Investments measured using NAV | | | | 285,046,671 |
| Total investments | <u>\$ 21,895,838</u> | <u>\$ 12,601,263</u> | <u>\$ -</u> | <u>\$ 319,543,772</u> |
| Investments held in charitable remainder trusts: | | | | |
| Equity securities: | | | | |
| Domestic equity | \$ 5,960,261 | \$ - | \$ - | \$ 5,960,261 |
| Debt securities: | | | | |
| U.S. treasury securities | 3,029,063 | - | - | 3,029,063 |
| Real assets | 27,236 | - | - | 27,236 |
| Other investments | 51,833 | - | - | 51,833 |
| Total investments held in charitable remainder trusts | <u>\$ 9,068,393</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ 9,068,393</u> |
| Assets held in trust by others | <u>\$ -</u> | <u>\$ -</u> | <u>\$ 59,974,159</u> | <u>\$ 59,974,159</u> |

The following table summarizes changes in Level 3 assets measured at fair value on a recurring basis for the year ended June 30, 2019:

| | Assets Held in Trust by Others |
|---------------------------------------|---|
| Beginning balance as of June 30, 2018 | \$ 59,974,159 |
| Change in fair value | 2,760,657 |
| Redemptions from Level 3 | (2,177,346) |
| Ending balance as of June 30, 2019 | <u>\$ 60,557,470</u> |

RHODES COLLEGE
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2019 AND 2018

Note 5—Fair value measurements (continued)

The following table summarizes changes in Level 3 assets measured at fair value on a recurring basis for the year ended June 30, 2018:

| | Assets Held in Trust by Others |
|---------------------------------------|---|
| Beginning balance as of June 30, 2017 | \$ 59,360,432 |
| Change in fair value | 2,962,798 |
| Redemptions from Level 3 | (2,349,071) |
| Ending balance as of June 30, 2018 | <u>\$ 59,974,159</u> |

Note 6—Investments carried at net asset value

The table below sets forth a summary of investments that are valued using NAV at June 30, 2019 and 2018. This category includes the following types of investments:

- (a) Investment in a fund of funds that invests primarily in long domestic equities.
- (b) Investments in a fund of funds that invests primarily in long non-U.S equities.
- (c) Investment in a fund of funds that invests primarily in closed-end bond mutual funds.
- (d) Equities held in both long and short positions in the global market.
- (e) Investments in various strategies, including credit-oriented hedges, long/short hedged equity, master limited partnerships, energy/commodities, various relative value arbitrage strategies such as convertible and statistical arbitrage, as well as various other value-oriented hedges.
- (f) Investments in private equity fund of funds investment vehicles that invest in private investment funds operated by private equity investment managers specializing in distressed, special situations, traditional buyouts, secondary funds, and venture capital.
- (g) Investment funds consisting of diversified real assets of real estate, oil and gas, minerals, timber, farmland, and other commodities.
- (h) Investment in debt instruments that allow insurance-related risk and return to be transferred to investors. The instruments may be issued by life insurance or reinsurance companies, by special purpose vehicles such companies establish, or by entities involved in a mortality-related business.
- (i) Investment in a multi-manager fund allocated to a diverse set of insurance related investments. The fund is focused primarily on reinsurance and secondarily on retrocession, with an emphasis on property catastrophes.

RHODES COLLEGE
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2019 AND 2018

Note 6—Investments carried at net asset value (continued)

| June 30, 2019 | Fair Value | Unfunded Commitments | Redemption Frequency | Redemption Notice Period |
|-------------------------------------|-----------------------|---------------------------------|---------------------------------|-------------------------------------|
| Domestic equity fund of funds (a) | \$ 25,971,953 | \$ - | Quarterly | 60 days |
| Foreign equity fund of funds (b) | 52,240,715 | - | Quarterly - Annually | 60-90 days |
| Debt securities fund of funds (c) | 1,635,625 | - | Monthly | 1 day |
| Long/Short hedged equity (d) | 83,712,391 | - | Annual | 90 days |
| Multi-strategy (e) | 66,291,376 | - | Annual | 90 days |
| Private equity (f) | 33,305,404 | 21,996,958 | N/A | N/A |
| Private real assets (g) | 12,961,954 | 6,100,000 | N/A | N/A |
| Distressed debt (h) | 617,113 | - | N/A | N/A |
| Insurance related investments (i) | 1,414,590 | - | Annual | 100 days |
| Total assets measured at NAV | \$ 278,151,121 | | | |

| June 30, 2018 | Fair Value | Unfunded Commitments | Redemption Frequency | Redemption Notice Period |
|-------------------------------------|-----------------------|---------------------------------|---------------------------------|-------------------------------------|
| Domestic equity fund of funds (a) | \$ 24,055,782 | \$ - | Quarterly | 60 days |
| Foreign equity fund of funds (b) | 54,918,767 | - | Quarterly - Annually | 60-90 days |
| Debt securities fund of funds (c) | 1,488,658 | - | Monthly | 1 day |
| Long/Short hedged equity (d) | 82,170,229 | - | Annual | 90 days |
| Multi-strategy (e) | 65,018,106 | - | Annual | 90 days |
| Private equity (f) | 37,989,237 | 26,695,617 | N/A | N/A |
| Private real assets (g) | 13,553,295 | 10,150,000 | N/A | N/A |
| Distressed debt (h) | 514,239 | - | N/A | N/A |
| Insurance related investments (i) | 5,338,358 | - | Annual | 100 days |
| Total assets measured at NAV | \$ 285,046,671 | | | |

RHODES COLLEGE
 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2019 AND 2018

Note 7—Property and equipment, net

Major classes of property and equipment consist of the following at June 30:

| | 2019 | 2018 |
|------------------------------------|-----------------------|-----------------------|
| Land | \$ 1,409,026 | \$ 1,409,026 |
| Buildings and improvements | 252,971,179 | 249,422,009 |
| Furniture, fixtures, and equipment | 27,065,018 | 26,673,197 |
| Library books | 14,577,000 | 14,501,111 |
| Construction in progress | 2,762,606 | 716,777 |
| | <u>298,784,829</u> | <u>292,722,120</u> |
| Less accumulated depreciation | <u>(135,525,866)</u> | <u>(127,704,808)</u> |
| | <u>\$ 163,258,963</u> | <u>\$ 165,017,312</u> |

For the years ended June 30, 2019 and 2018, depreciation expense totaled \$8,897,885 and \$8,529,757, respectively. The College did not have any losses on disposals of assets during the aforementioned periods.

Note 8—Endowment funds

ASC 958 provides guidance on the net asset classification of donor-restricted endowment funds for a not-for-profit organization that is subject to an enacted version of the Uniform Prudent Management of Institutional Funds Act of 2006 (“UPMIFA”) and requires additional disclosures about an organization’s endowment funds. The College’s endowment consists of approximately 600 individual funds established for a variety of purposes. The endowment includes both donor-restricted endowment funds and funds designated by the Board to function as endowments. Net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

Interpretation of Relevant Law – The College has interpreted UPMIFA as the prudent 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, (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, and (d) the remaining portion of the donor-restricted endowment until those amounts are appropriated for expenditure by the College in a manner consistent with the standard of prudence prescribed by UPMIFA. In accordance with UPMIFA, the College considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

- a. The duration and preservation of the fund
- b. The purposes of the College and the donor-restricted endowment fund
- c. General economic conditions
- d. The possible effect of inflation and deflation
- e. The expected total return from income and the appreciation of investments
- f. Other resources of the College
- g. The College’s investment policies

RHODES COLLEGE
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2019 AND 2018

Note 8—Endowment funds (continued)

Changes in endowment net assets for the fiscal year ended June 30, 2019 consist of the following:

| | Without Donor Restrictions | With Donor Restrictions | | Total |
|--|-------------------------------|------------------------------|------------------------|-----------------------|
| | | Purpose/Time Restrictions | Perpetual in Nature | |
| Endowment net assets, beginning of year | \$ 88,136,460 | \$ 73,850,494 | \$ 197,291,898 | \$ 359,278,852 |
| Investment return, net | 3,077,527 | 6,367,398 | 597,694 | 10,042,619 |
| Contributions | 120 | - | 912,408 | 912,528 |
| Appropriation of endowment assets for expenditure | (8,646,800) | (8,216,792) | - | (16,863,592) |
| Other changes | 172,489 | (1,646,556) | 309,926 | (1,164,141) |
| Endowment net assets, end of year | <u>\$ 82,739,796</u> | <u>\$ 70,354,544</u> | <u>\$ 199,111,926</u> | <u>\$ 352,206,266</u> |

Changes in endowment net assets for the fiscal year ended June 30, 2018 consist of the following:

| | Without Donor Restrictions | With Donor Restrictions | | Total |
|--|-------------------------------|------------------------------|------------------------|-----------------------|
| | | Purpose/Time Restrictions | Perpetual in Nature | |
| Endowment net assets, beginning of year | \$ 87,320,587 | \$ 64,816,867 | \$ 190,212,458 | \$ 342,349,912 |
| Investment return, net | 10,831,120 | 17,333,574 | 615,595 | 28,780,289 |
| Contributions | 150 | - | 6,454,857 | 6,455,007 |
| Appropriation of endowment assets for expenditure | (8,328,688) | (7,937,304) | - | (16,265,992) |
| Other changes | (1,686,709) | (362,643) | 8,988 | (2,040,364) |
| Endowment net assets, end of year | <u>\$ 88,136,460</u> | <u>\$ 73,850,494</u> | <u>\$ 197,291,898</u> | <u>\$ 359,278,852</u> |

Endowment net assets without donor restrictions identified in the tables above represent Board designated net assets. The College's Board has not designated net assets without donor restrictions for purposes other than quasi-endowment.

Funds with Deficiencies – From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor or UPMIFA requires the College to retain as a fund of perpetual duration. There were no deficiencies of this nature as of June 30, 2019 and 2018.

Strategies Employed for Achieving Objectives – To satisfy its long-term rate-of-return objectives, the College relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The College's asset allocation policy is to provide a diversified strategic mix of asset classes that places emphasis on investments in equity securities and funds, fixed income securities and funds, and real assets to achieve its long-term return objective within a prudent risk framework.

RHODES COLLEGE
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2019 AND 2018

Note 8—Endowment funds (continued)

Return Objectives and Risk Parameters – Endowment assets include those assets of donor-restricted funds that the College must hold in perpetuity or for a donor-specified period as well as Board-designated funds. The College has adopted investment and spending policies for endowment assets that attempt to maintain the purchasing power of the endowment assets in perpetuity and achieve investment returns sufficient to sustain the level of spending necessary to support ongoing College operations. Under the College’s investment policy, as approved by the Board, the endowment assets are invested in a manner that is intended to produce an average annual real return, net of inflation and investment management costs, of at least 5% over the long term. Actual returns in any given year may vary from this amount. A secondary investment objective of the fund is to constrain the volatility of the total fund through a program of broad diversification. In practice, the fund should have a standard deviation of less than ten over rolling three and five year time frames. Central to the achievement of this goal is the concept of investing in asset classes and investment strategies that demonstrate relatively low correlation to one another.

Spending Policy – The College’s spending policy was developed with the objectives of meeting the current operating needs of the College, providing year-to-year budget stability, and protecting the future purchasing power of the endowment assets against the impact of inflation. The College has determined that it may spend a prudent portion of its endowment regardless of underwater conditions provided it does so in accordance with the College’s Board-approved spending policy.

Under the College’s spending rate policy, the amount of endowment fund investments appropriated to support current operations is increased by 4% from the previous year provided that the resulting amount does not exceed 5.5% of the average market value of endowment assets for the three prior fiscal years and is not less than 4.5% of the average market value of endowment assets for the three prior fiscal years. Beginning in 2016 and continuing for a period of eight years, the College’s Board authorized management to appropriate a supplemental endowment allocation to augment funding for capital needs. For the years 2016 through 2019, the College appropriated 0.5% of the average market value of endowment assets for the three prior fiscal years to supplement funding for capital needs. Beginning in 2020 and continuing through 2023, the maximum supplemental appropriation for capital needs is reduced annually from the preceding year by 0.1% of the average fair value of endowment assets for the three prior fiscal years.

Note 9—Long-term debt

During the year ended June 30, 2018, the Educational Facilities Revenue Refunding Bonds, Series 2017 (“2017 Bonds”) (with final payment due in August 2040) in the amount of \$31,075,000 were issued to advance refund \$30,685,000 of the 2011 Bonds. The 2017 Bonds were sold at a premium of \$4,106,362, which will be amortized over the period that the bonds are outstanding. Extinguishment of long-term debt costs of \$3,483,672, primarily interest expense on the 2011 Bonds from the date of the transaction to the call date in August 2021, has been recorded in its entirety in the 2018 consolidated statement of activities as a non-operating item. The present value of interest rate savings from the advanced refunding transaction was \$4,634,980.

The 2017 Bonds bear interest at rates ranging from 3.00% to 5.00%. The 2017 Bonds are not secured by any assets of the College. The outstanding balance of the 2017 Bonds at June 30, 2019 and 2018 was \$34,634,995 and \$34,996,412, respectively, including unamortized premium of \$3,604,995 and \$3,921,412, respectively.

Educational Facilities Revenue Bonds, Series 2015 (“2015 Bonds”) (with final payment due in August 2045) in the amount of \$21,350,000 were issued to finance the construction of a new academic building. The 2015 Bonds bear interest at rates ranging from 2.00% to 5.00%. The 2015 Bonds are not secured by any assets of the College. The outstanding balance of the 2015 bonds at June 30, 2019 and 2018 was \$21,909,345 and \$22,472,282, respectively, including unamortized premium of \$1,764,345 and \$1,917,282, respectively.

RHODES COLLEGE
 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2019 AND 2018

Note 9—Long-term debt (continued)

Educational Facilities Revenue Bonds, Series 2000 (“2000 Bonds”) (with final payment due in August 2025) bear interest at a rate necessary to enable the bonds to be sold at par; the rate is determined weekly by the remarketing agent. The interest rate on the 2000 Bonds was 1.95% and 1.56% at June 30, 2019 and 2018, respectively. The 2000 Bonds are not secured by any assets of the College. The principal balance outstanding was \$7,985,000 and \$8,675,000 at June 30, 2019 and 2018, respectively.

The College’s outstanding bond issues contain certain covenants and restrictions including maintenance of specified financial ratios. The College is in compliance with all covenants and restrictions at June 30, 2019 and 2018.

Upon its formation, Lynxco purchased land and a building for a total purchase price of \$6,100,000, which included \$2,340,954 for the land and building, plus the College’s assumption of the seller’s outstanding note payable related to the property in the amount of \$3,759,046. The note payable bears interest at a fixed rate of 5.40% and requires monthly debt service payments of \$21,338 continuing through October 2023, with a balloon payment due at maturity, November 2023. The note is secured by the acquired property which had a net book value of \$4,502,186 and \$4,735,792 at June 30, 2019 and 2018, respectively. The outstanding balance of the note payable was \$3,481,678 and \$3,545,188 at June 30, 2019 and 2018, respectively.

The scheduled maturities of long-term debt for the next five fiscal years and in total are as follows:

| <u>Year</u> | |
|-----------------------------------|----------------------|
| 2020 | \$ 1,705,270 |
| 2021 | 1,714,160 |
| 2022 | 1,728,265 |
| 2023 | 1,812,598 |
| 2024 | 4,966,385 |
| Thereafter | 50,715,000 |
| Par amount of long-term debt | <u>62,641,678</u> |
| Unamortized bond premium | 5,369,340 |
| Subtotal long-term debt | <u>68,011,018</u> |
| Unamortized deferred bond expense | (670,040) |
| Total long-term debt | <u>\$ 67,340,978</u> |

The College capitalizes interest cost incurred on funds used to construct property and equipment. The capitalized interest is recorded as part of the asset to which it relates and is amortized over the asset’s estimated useful life. Interest cost capitalized was \$74,038 during the year ended June 30, 2018. No interest was capitalized during the year ended June 30, 2019.

Total interest cost incurred, inclusive of capitalized interest, was \$2,560,673 and \$2,669,134 during the years ended June 30, 2019 and 2018, respectively.

The fair value of all outstanding long-term debt at June 30, 2019 and 2018 was approximately \$67,548,390 and \$69,943,171, respectively.

RHODES COLLEGE
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2019 AND 2018

Note 10—Retirement plans

Employees with more than two years of service are eligible to participate in contributory pension plans wherein benefits are provided solely through individually owned, fully funded, and vested annuity contracts. The College's contributions vary between 8% and 12% of the employees' salaries. Total pension expense recognized and funded by the College for the years ended June 30, 2019 and 2018, was approximately \$3,002,000 and \$2,974,000, respectively.

The College also sponsors a postretirement medical and life insurance plan for full-time employees hired prior to January 1, 1995, who have ten consecutive years of service with the College subsequent to the age of 50. The plan is contributory, with contributions adjusted annually, and contains other cost-sharing features such as deductibles and coinsurance.

The following table sets forth the change in the College's accumulated postretirement benefit obligation related to the plan, as determined by consulting actuaries, for the years ended June 30:

| | <u>2019</u> | <u>2018</u> |
|---------------------------------------|----------------------|----------------------|
| Benefit obligation, beginning of year | \$ 14,060,000 | \$ 13,828,000 |
| Service cost | 262,000 | 334,000 |
| Interest cost | 611,000 | 535,000 |
| Actuarial loss | 2,330,000 | 83,000 |
| Benefits paid | <u>(568,000)</u> | <u>(720,000)</u> |
| Benefit obligation, end of year | <u>\$ 16,695,000</u> | <u>\$ 14,060,000</u> |

The large actuarial loss during the year ended June 30, 2019 is because the weighted-average discount rate used to determine the accumulated postretirement benefit obligation was decreased and because per capita claims cost assumptions were updated to reflect more recent experience.

Net periodic postretirement benefit cost includes the following components, as determined by consulting actuaries, for the years ended June 30:

| | <u>2019</u> | <u>2018</u> |
|--|-------------------|-------------------|
| Service cost | \$ 262,000 | \$ 334,000 |
| Interest cost | 611,000 | 535,000 |
| Net periodic postretirement benefit cost | <u>\$ 873,000</u> | <u>\$ 869,000</u> |

The weighted-average annual assumed rate of increase in the per capita cost of covered benefits (i.e., health care cost trend rate) is 6.17% for 2019 and is assumed to decrease at varying amounts until it reaches 4.50% for 2038 and remain at that level thereafter. The health care cost trend rate assumption has a significant effect on the amounts reported. Increasing the assumed health care cost trend rates by one percentage point in each year would increase the accumulated postretirement benefit obligation by \$2,364,380 at June 30, 2019.

The weighted-average discount rate used to determine the accumulated postretirement benefit obligation was 3.43% and 4.14% at June 30, 2019 and 2018, respectively.

RHODES COLLEGE
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2019 AND 2018

Note 10—Retirement plans (continued)

Estimated Future Benefit Payments – The following benefit payments, which reflect expected future service, as appropriate, are expected to be paid, as determined by consulting actuaries:

| | | |
|-----------|----|-----------|
| 2020 | \$ | 717,614 |
| 2021 | | 759,365 |
| 2022 | | 798,496 |
| 2023 | | 826,600 |
| 2024 | | 862,153 |
| 2025-2029 | | 4,749,118 |

Note 11—Nature and amount of net assets with donor restrictions

Net assets with donor restrictions are available for the following purposes at June 30:

| | <u>2019</u> | <u>2018</u> |
|---|-----------------------|-----------------------|
| Subject to expenditure for specified purpose: | | |
| Student financial aid | \$ 45,818,584 | \$ 46,258,541 |
| Academic instruction | 32,136,776 | 34,111,545 |
| Academic support | 440,076 | 600,424 |
| Student services | 765,150 | 754,125 |
| Institutional support | 3,524,847 | 3,890,075 |
| Plant operations | 1,689,373 | 1,841,554 |
| Purchases of property and equipment | 489,264 | 496,092 |
| Other | 6,413,135 | 7,465,969 |
| | <u>91,277,205</u> | <u>95,418,325</u> |
| Subject to the spending policy and appropriation: | | |
| Restricted in perpetuity, the income from which is expendable to support: | | |
| Student financial aid | 140,608,346 | 138,413,329 |
| Academic instruction | 49,986,564 | 49,500,561 |
| Academic support | 1,738,784 | 1,738,784 |
| Student services | 1,785,059 | 1,685,059 |
| Institutional support | 120,091 | 147,893 |
| Plant operations | 3,197,611 | 3,197,611 |
| Other | 1,721,978 | 2,717,358 |
| | <u>199,158,433</u> | <u>197,400,595</u> |
| | <u>\$ 290,435,638</u> | <u>\$ 292,818,920</u> |

RHODES COLLEGE
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2019 AND 2018

Note 11—Nature and amount of net assets with donor restrictions (continued)

The College released net assets with donor restrictions for the following purposes during the years ended June 30:

| | <u>2019</u> | <u>2018</u> |
|--------------------------------------|-------------------|-------------------|
| Student financial aid | \$ 3,914,310 | \$ 3,603,614 |
| Academic instruction | 2,970,140 | 2,790,308 |
| Academic support | 194,399 | 26,151 |
| Student services | 976,430 | 1,062,127 |
| Institutional support | 1,171,372 | 26,705 |
| Auxiliary enterprises | 565 | 1,555 |
| Endowment distributions | 8,216,792 | 7,937,304 |
| Purchases of property and equipment | 138,298 | 343,077 |
| | <u>17,582,306</u> | <u>15,790,841</u> |
| Released for operating activities | 17,444,008 | 15,447,764 |
| Released for nonoperating activities | <u>\$ 138,298</u> | <u>\$ 343,077</u> |

Note 12—Expenses

Expenses by function and nature consist of the following for the year ended June 30, 2019:

| | <u>Academic Instruction</u> | <u>Academic Support</u> | <u>Student Services</u> | <u>Auxiliary Enterprises</u> | <u>Institutional Support</u> | <u>Nonoperating</u> | <u>Total</u> |
|---------------------------------|---------------------------------|-----------------------------|-----------------------------|----------------------------------|----------------------------------|---------------------|----------------------|
| Salaries and wages | \$ 19,538,761 | \$ 3,711,407 | \$ 7,831,994 | \$ 2,068,109 | \$ 5,293,969 | \$ 145,304 | \$ 38,589,544 |
| Fringe benefits | 6,961,564 | 1,274,037 | 2,736,739 | 667,663 | 1,877,413 | - | 13,517,416 |
| Operation and maintenance | | | | | | | |
| of plant | 952,771 | 374,303 | 578,468 | 1,361,101 | 136,110 | - | 3,402,753 |
| Depreciation | 2,272,843 | 1,953,433 | 1,978,285 | 2,350,451 | 342,873 | - | 8,897,885 |
| Interest | 663,075 | 260,494 | 402,581 | 1,139,798 | 94,725 | - | 2,560,673 |
| Food service | - | - | - | 4,702,079 | - | - | 4,702,079 |
| Other non-compensation expenses | 3,438,511 | 1,798,586 | 4,590,692 | 1,525,286 | 3,249,237 | 692,368 | 15,294,680 |
| | <u>\$ 33,827,525</u> | <u>\$ 9,372,260</u> | <u>\$ 18,118,759</u> | <u>\$ 13,814,487</u> | <u>\$ 10,994,327</u> | <u>\$ 837,672</u> | <u>\$ 86,965,030</u> |

RHODES COLLEGE
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2019 AND 2018

Note 12—Expenses (continued)

Expenses by function and nature consist of the following for the year ended June 30, 2018:

| | Academic Instruction | Academic Support | Student Services | Auxiliary Enterprises | Institutional Support | Nonoperating | Total |
|---------------------------------------|-------------------------|---------------------|----------------------|--------------------------|--------------------------|---------------------|----------------------|
| Salaries and wages | \$ 18,944,824 | \$ 3,451,839 | \$ 7,158,052 | \$ 1,985,580 | \$ 5,540,471 | \$ - | \$ 37,080,766 |
| Fringe benefits | 6,749,770 | 1,181,248 | 2,496,533 | 660,302 | 1,961,940 | - | 13,049,793 |
| Operation and maintenance of plant | 1,127,843 | 443,081 | 684,762 | 1,611,203 | 161,120 | - | 4,028,009 |
| Depreciation | 2,162,712 | 1,824,948 | 1,923,223 | 2,338,604 | 280,270 | - | 8,529,757 |
| Interest | 671,768 | 263,909 | 407,859 | 1,155,593 | 95,967 | - | 2,595,096 |
| Food service | - | - | - | 4,774,324 | - | - | 4,774,324 |
| Extinguishment of long-term debt | - | - | - | - | - | 3,483,672 | 3,483,672 |
| Other non-compensation expenses | 3,799,169 | 1,561,876 | 4,785,377 | 1,487,587 | 2,611,768 | 674,664 | 14,920,441 |
| | <u>\$ 33,456,086</u> | <u>\$ 8,726,901</u> | <u>\$ 17,455,806</u> | <u>\$ 14,013,193</u> | <u>\$ 10,651,536</u> | <u>\$ 4,158,336</u> | <u>\$ 88,461,858</u> |

The consolidated financial statements report certain categories of expenses that are attributable to more than one program or supporting function. Therefore, these expenses require allocation on a reasonable basis that is consistently applied. The expenses that are allocated include depreciation, interest, and plant operations and maintenance which are allocated on a square-footage basis.

Note 13—Liquidity

The following table reflects the College's financial assets as of June 30, reduced by amounts not available for general use because of contractual or donor-imposed restrictions within one year of the consolidated statement of financial position date.

| | 2019 | 2018 |
|---|----------------------|----------------------|
| Cash and cash equivalents | \$ 41,883,781 | \$ 41,313,853 |
| Contributions receivable, net | 11,840,232 | 16,013,325 |
| Student receivables, net | 628,803 | 787,991 |
| Other receivables, net | 1,732,751 | 436,359 |
| Investments, at fair value | 313,984,495 | 319,543,772 |
| Investments held in charitable remainder trusts | 8,841,495 | 9,068,393 |
| Assets held in trust by others | 60,557,470 | 59,974,159 |
| Financial assets at end of year | 439,469,027 | 447,137,852 |
| Less assets unavailable for general expenditures within one year: | | |
| Restricted by donors with purpose restrictions | (14,863,446) | (18,251,239) |
| Subject to appropriation and satisfaction of donor restrictions | (270,793,119) | (278,956,469) |
| Investments held in charitable remainder trusts | (8,841,495) | (9,068,393) |
| Assets held in trust by others | (60,557,470) | (59,974,159) |
| Financial assets available to meet cash needs for general expenditures within one year | <u>\$ 84,413,497</u> | <u>\$ 80,887,592</u> |

RHODES COLLEGE
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2019 AND 2018

Note 13—Liquidity (continued)

For purposed of analyzing resources available to meet general expenditures within one year, the College considers all expenditures related to its ongoing activities of academic instruction and related services to be general expenditures. Endowment funds consist of donor-restricted endowments and funds designated by the Board as endowments. Income from donor-restricted endowments is restricted for specific purposes and is not available for general expenditure. Board-designated endowment of \$82,739,796 and \$88,136,460 at June 30, 2019 and 2018, respectively, is subject to the College's spending policy as described in Note 8. The College does not intend to spend from the Board-designated endowment other than amounts appropriated for general expenditure in accordance with the spending policy, and has deducted the funds from financial assets available in the table above. However, these amounts could be made available if necessary. As part of the College's liquidity management plan, it structures its financial assets to be available as its obligations come due. Cash is held in interest bearing bank accounts and is invested in short and intermediate term fixed income investments, certificates of deposit, and money market funds.

Note 14—Commitments

On August 9, 2017, the Trustees (the "Trustees") of the Bellingrath-Morse Foundation (the "Foundation") filed a lawsuit in Probate Court of Mobile County, Alabama against Rhodes College, Huntingdon College, and Stillman College (the "College Beneficiaries"). The Foundation, established by Walter Bellingrath in 1950, names the College Beneficiaries as beneficiaries of the Foundation and provides that the Foundation will operate and maintain the Bellingrath Gardens and Home (the "Gardens"). The lawsuit initiated by the Trustees seeks, among other things, to redirect a portion of the Foundation's financial support from the College Beneficiaries to the Gardens in amounts to be determined annually at the Trustees' discretion. The College's share of the Foundation's assets at June 30, 2019 was approximately \$53,577,000 and is recorded in assets held in trust. During each year ended June 30, 2019 and 2018, the College received funding of approximately \$2,000,000 from the Foundation.

On October 5, 2018, the Probate Court issued an interlocutory partial summary judgment ruling in favor of the Trustees of the Bellingrath-Morse Foundation. The College Beneficiaries intend to appeal the decision of the Probate Court. The likelihood of a negative outcome in this matter on appeal and the financial impact of an ultimate adverse determination are unknown at this time, however, the impact of an adverse resolution could be material.

The College is engaged in various other legal actions occurring in the normal course of activities. While the final outcomes cannot be determined at this time, management is of the opinion that the resolution of these matters will not have a material adverse effect on the College's financial position.

Note 15—Subsequent events

The College has evaluated subsequent events for potential recognition and/or disclosure through October 8, 2019, the date the consolidated financial statements were available to be issued.