

EDGEWOOD COLLEGE, INC.

Madison, Wisconsin

FINANCIAL STATEMENTS

Including Independent Auditors' Report

As of and for the Years Ended June 30, 2020 and 2019

EDGEWOOD COLLEGE, INC.

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INDEPENDENT AUDITORS' REPORT

Board of Trustees
Edgewood College, Inc.
Madison, Wisconsin

Report on the Financial Statements

We have audited the accompanying financial statements of Edgewood College, Inc. (the "College"), which comprise the statements of financial position as of June 30, 2020 and 2019, and the related statements of activities and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the College as of June 30, 2020 and 2019, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 1 to the financial statements, the College adopted Accounting Standards Update No. 2016-18, *Statement of Cash Flows (Topic 230): Restricted Cash*. Our opinion is not modified with respect to that matter.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated November 12, 2020 on our consideration of the College's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the College's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the College's internal control over financial reporting and compliance.

Baker Tilly US, LLP

Baker Tilly US, LLP (formerly known as Baker Tilly Virchow Krause, LLP)
Milwaukee, Wisconsin
November 12, 2020

EDGEWOOD COLLEGE, INC.

STATEMENTS OF FINANCIAL POSITION

As of June 30, 2020 and 2019

	ASSETS	
	<u>2020</u>	<u>2019</u>
Cash and cash equivalents	\$ 18,580,585	\$ 20,823,760
Short-term investments	6,011,436	6,035,338
Restricted cash and cash equivalents	1,416,304	1,421,778
Student accounts receivable (less allowance for doubtful accounts of \$150,000 for 2020 and 2019)	1,230,676	1,063,876
Government grants receivable	112,475	165,027
Other receivables	247,248	301,173
Inventories	56,577	142,420
Prepaid expenses	1,189,116	882,168
Investments	44,809,504	46,501,365
Investment in joint venture	140,837	136,449
Beneficial interest in private foundation	15,622,855	13,488,733
Student notes receivable (less allowance for doubtful notes of \$157,426 for 2020 and \$147,750 for 2019)	609,301	719,219
Contributions receivable (less allowance for doubtful accounts of \$19,000 for 2020 and \$16,000 for 2019)	1,601,799	1,562,597
Property, plant, equipment and library books, net	<u>54,609,582</u>	<u>56,782,604</u>
TOTAL ASSETS	<u>\$ 146,238,295</u>	<u>\$ 150,026,507</u>
	LIABILITIES AND NET ASSETS	
LIABILITIES		
Accounts payable - operating	\$ 819,411	\$ 770,616
Accounts payable - construction	-	132,490
Accrued expenses	5,748,099	4,073,536
Deposits held in custody for others	669,779	681,158
Deferred revenue	2,193,128	2,164,668
Capital lease obligations	411,042	526,365
Bonds payable (net of unamortized bond costs of \$48,235 for 2020 and \$55,178 for 2019)	12,206,765	13,014,822
Refundable U.S. government student loans	764,587	866,826
Total Liabilities	<u>22,812,811</u>	<u>22,230,481</u>
NET ASSETS		
Without Donor Restrictions		
Undesignated	58,122,504	63,155,073
Designated for capital projects	3,883,539	4,391,755
Designated for long-term investment (quasi-endowment)	<u>29,490,672</u>	<u>30,309,566</u>
Total Without Donor Restrictions	91,496,715	97,856,394
With Donor Restrictions	<u>31,928,769</u>	<u>29,939,632</u>
Total Net Assets	<u>123,425,484</u>	<u>127,796,026</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 146,238,295</u>	<u>\$ 150,026,507</u>

See accompanying notes to financial statements.

EDGEWOOD COLLEGE, INC.

STATEMENT OF ACTIVITIES For the Year Ended June 30, 2020

	Without Donor Restrictions	With Donor Restrictions	Total
OPERATING REVENUES			
Tuition and fees	\$ 46,265,749	\$ -	\$ 46,265,749
Less: Federal grants	(273,606)	-	(273,606)
Institutional aid	(14,272,533)	-	(14,272,533)
Net Tuition and Fees	31,719,610	-	31,719,610
Sales and services of auxiliary enterprises	4,339,866	-	4,339,866
Gifts and private grants	330,207	1,529,652	1,859,859
Government grants and contracts	1,936,648	-	1,936,648
Investment income, net	646,334	143	646,477
Investment income beneficial interest - operating	-	625,000	625,000
Long-term investment return, net, designated for current operations	1,248,160	474,485	1,722,645
Other	867,663	12,880	880,543
Total Operating Revenues	41,088,488	2,642,160	43,730,648
Net assets released from restrictions	2,523,373	(2,523,373)	-
Total Operating Revenues	43,611,861	118,787	43,730,648
OPERATING EXPENSES			
Program			
Instruction	19,330,910	-	19,330,910
Academic support	8,679,818	-	8,679,818
Student services	5,862,497	-	5,862,497
Public service	445,966	-	445,966
Auxiliary enterprises	5,009,667	-	5,009,667
Scholarships and fellowships	1,155,965	-	1,155,965
Support			
Institutional support	6,892,040	-	6,892,040
Fundraising	1,344,522	-	1,344,522
Total Operating Expenses	48,721,385	-	48,721,385
Change in Net Assets from Operating Activities	(5,109,524)	118,787	(4,990,737)
NON-OPERATING ACTIVITIES			
Long-term investment return, net, less than amount designated for operations	(1,192,078)	(441,867)	(1,633,945)
Interest rate swap loss	(504,025)	-	(504,025)
Change in beneficial interest in private foundation	-	2,134,122	2,134,122
Change in equity in joint venture	4,388	-	4,388
Gifts and private grants for long-term endowment	373,184	229,892	603,076
Gifts and private grants for long-lived capital items	-	16,579	16,579
Net assets released from restrictions - plant	68,376	(68,376)	-
Change in Net Assets from Non-Operating Activities	(1,250,155)	1,870,350	620,195
CHANGE IN NET ASSETS	(6,359,679)	1,989,137	(4,370,542)
NET ASSETS - Beginning of Year	97,856,394	29,939,632	127,796,026
NET ASSETS - END OF YEAR	\$ 91,496,715	\$ 31,928,769	\$ 123,425,484

See accompanying notes to financial statements.

EDGEWOOD COLLEGE, INC.

STATEMENT OF ACTIVITIES For the Year Ended June 30, 2019

	Without Donor Restrictions	With Donor Restrictions	Total
OPERATING REVENUES			
Tuition and fees	\$ 49,304,467	\$ -	\$ 49,304,467
Less: Federal grants	(248,994)	-	(248,994)
Institutional aid	(13,656,374)	-	(13,656,374)
Net Tuition and Fees	35,399,099	-	35,399,099
Sales and services of auxiliary enterprises	5,752,859	-	5,752,859
Gifts and private grants	260,832	1,698,929	1,959,761
Government grants and contracts	506,429	-	506,429
Investment income, net	750,510	-	750,510
Investment income beneficial interest - operating	-	675,000	675,000
Long-term investment return, net, designated for current operations	1,225,760	460,434	1,686,194
Other	771,091	59,586	830,677
Total Operating Revenues	44,666,580	2,893,949	47,560,529
Net assets released from restrictions	2,465,371	(2,465,371)	-
Total Operating Revenues	47,131,951	428,578	47,560,529
OPERATING EXPENSES			
Program			
Instruction	20,074,836	-	20,074,836
Academic support	9,501,137	-	9,501,137
Student services	6,133,280	-	6,133,280
Public service	471,537	-	471,537
Auxiliary enterprises	5,174,282	-	5,174,282
Support			
Institutional support	5,836,245	-	5,836,245
Fundraising	1,476,393	-	1,476,393
Total Operating Expenses	48,667,710	-	48,667,710
Change in Net Assets from Operating Activities	(1,535,759)	428,578	(1,107,181)
NON-OPERATING ACTIVITIES			
Long-term investment return, net, less than amount designated for operations	(27,549)	(12,880)	(40,429)
Interest rate swap loss	(511,059)	-	(511,059)
Change in beneficial interest in private foundation	-	(1,738,892)	(1,738,892)
Change in equity in joint venture	19,933	-	19,933
Gifts and private grants for long-term endowment	-	143,941	143,941
Gifts and private grants for long-lived capital items	-	251,568	251,568
Net assets released from restrictions - plant	444,834	(444,834)	-
Reclassification	(5,474)	5,474	-
Change in Net Assets from Non-Operating Activities	(79,315)	(1,795,623)	(1,874,938)
CHANGE IN NET ASSETS	(1,615,074)	(1,367,045)	(2,982,119)
NET ASSETS - Beginning of Year	99,471,468	31,306,677	130,778,145
NET ASSETS - END OF YEAR	<u>\$ 97,856,394</u>	<u>\$ 29,939,632</u>	<u>\$ 127,796,026</u>

See accompanying notes to financial statements.

EDGEWOOD COLLEGE, INC.

STATEMENTS OF CASH FLOWS For the Years Ended June 30, 2020 and 2019

	2020	2019
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ (4,370,542)	\$ (2,982,119)
Adjustments to reconcile change in net assets to net cash flows from operating activities		
Depreciation	2,685,963	2,687,820
Amortization of loan origination fees included in interest expense	6,943	7,377
Realized and unrealized losses on investments	1,161,722	503,647
Gain on investment in joint venture	(4,388)	(19,933)
Decrease (increase) in valuation of beneficial interest in private foundation	(2,134,122)	1,738,892
Contributions received restricted for long-term investment and plant	(492,142)	(172,384)
Unrealized loss on interest rate swap agreements	504,025	511,059
Changes in assets and liabilities:		
Prepaid expenses	(306,948)	(291,117)
Receivables	(60,323)	454,338
Inventories	85,843	5,359
Contributions receivable	(39,202)	(175,972)
Accounts payable	48,795	269,086
Accrued expenses	1,170,538	593,968
Deposits held in custody for others	(11,379)	(35,679)
Deferred revenue	28,460	(916,880)
Net Cash Flows from Operating Activities	(1,726,757)	2,177,462
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of property, plant, equipment and library books	(645,431)	(987,649)
Proceeds from investments sold	2,419,805	2,978,358
Purchases of investments	(1,865,764)	(3,348,901)
Principal collections on notes to students	109,918	103,557
Net Cash Flows from Investing Activities	18,528	(1,254,635)
CASH FLOWS FROM FINANCING ACTIVITIES		
Contributions received for long-term investment and plant	492,142	172,384
Principal payments on bonds	(815,000)	(800,000)
Principal payments on capital leases	(115,323)	(111,478)
Repayments toward refundable U.S. government student loans	(102,239)	-
Net Cash Flows from Financing Activities	(540,420)	(739,094)
Net Change in Cash, Cash Equivalents and Restricted Cash	(2,248,649)	183,733
CASH, CASH EQUIVALENTS AND RESTRICTED CASH - BEGINNING OF YEAR	22,245,538	22,061,805
CASH, CASH EQUIVALENTS AND RESTRICTED CASH - END OF YEAR	\$ 19,996,889	\$ 22,245,538
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Interest paid	\$ 379,532	\$ 399,711
NONCASH INVESTING AND FINANCING ACTIVITIES		
Assets acquired with construction payables	\$ -	\$ 132,490
Capital lease (net) for new assets and refinancing	\$ -	\$ 276,716

See accompanying notes to financial statements.

EDGEWOOD COLLEGE, INC.

NOTES TO FINANCIAL STATEMENTS As of and for the Years Ended June 30, 2020 and 2019

NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES

Edgewood College, Inc. (the “College”) is an educational institution sponsored by the Sinsinawa Dominican Congregation of the Most Holy Rosary offering graduate and undergraduate degrees.

The accounting policies of the College reflect practices common to colleges and universities and conform to accounting principles generally accepted in the United States of America. The more significant accounting policies are summarized below:

Net Asset Classifications: For the purposes of financial reporting, the College classifies resources into two net asset categories pursuant to any donor-imposed restrictions and applicable law. Accordingly, the net assets of the College are classified in the accompanying financial statements in the categories that follow:

Net Assets with Donor Restrictions - Net assets subject to donor-imposed time or purpose restrictions that will be met by action of the College and/or the passage of time and donor restricted endowment funds required to be held in perpetuity.

Net Assets without Donor Restrictions - Net assets not subject to donor-imposed restrictions.

Revenues from sources other than contributions are generally reported as increases in net assets without donor restrictions. Expenses are reported as decreases in net assets without donor restrictions. Income earned on donor restricted funds is initially classified as net assets with donor restrictions and is reclassified as net assets without donor restrictions when expenses are approved for their intended purpose.

Unconditional contributions, including promises to give, are recognized as revenues in the period received and are reported as increases in the appropriate categories of net assets in accordance with donor restrictions. Contributions to be received after one year are discounted at the interest rate in effect in the year the pledge was received. Amortization of the discount is recorded as additional contribution revenue. An allowance, if any, is made for doubtful contributions receivable based upon management’s judgment and analysis of the past collection history and other relevant factors. Contributions determined to be not collectible are recorded as bad debt expense. Expirations of donor restrictions on net assets (i.e., the donor-stipulated purpose has been fulfilled and/or the stipulated time period has elapsed) are reported as releases between the applicable classes of net assets. Conditional promises to give, that is, those with a measurable performance or other barriers and a right of return, are recognized when they become unconditional, that is, when the conditions are met. As of June 30, 2020 and 2019 there are no conditional contributions.

Contributions of property and equipment without donor stipulations concerning the use of such long-lived assets are reported as increases in net assets without donor restrictions. Contributions of cash or other assets to be used to acquire property and equipment are reported as net assets with donor restrictions; the restrictions are considered to be released at the time such long-lived assets are placed in service. Gifts for long-lived assets and the related release when placed into service are included in the non-operating activities section of the statements of activities.

In the absence of donor stipulations or law to the contrary, gains or losses on the investments of a donor-restricted endowment fund increase or decrease net assets with donor restrictions.

Gains or losses on investments of endowment funds created by a board designation of funds without donor restrictions increase or decrease net assets without donor restrictions.

EDGEWOOD COLLEGE, INC.

NOTES TO FINANCIAL STATEMENTS As of and for the Years Ended June 30, 2020 and 2019

NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES (cont.)

Cash and Cash Equivalents - The College considers highly liquid investments including money market accounts and certificates of deposit with a maturity of less than two years when purchased, except for those held for long-term endowment or plant investment, to be cash equivalents. The College is required to maintain funds relating to the Perkins Loan Program in a separate account. At June 30, 2020 and 2019 the Perkins Loan program account balances were \$107,676 and \$122,226, respectively.

Short-term Investments - Short-term investments consist of investments held in short term bond mutual funds carried at fair value that may be used for the daily operation of the College.

Restricted Cash and Cash Equivalents - The College co-owns bank accounts and certificates of deposit with Edgewood High School of the Sacred Heart and Edgewood Campus School which are held as reserve accounts for future capital repairs or improvements as established by condominium association and building tenancy-in-common agreements.

The following table provides a reconciliation of cash and cash equivalents and restricted cash and cash equivalents reported within the statements of financial position that sum to the total of the same such amounts shown in the statements of cash flows.

	<u>2020</u>	<u>2019</u>
Cash and cash equivalents	\$ 18,580,585	\$ 20,823,760
Restricted cash and cash equivalents	<u>1,416,304</u>	<u>1,421,778</u>
Total Cash, Cash Equivalents and Restricted Cash shown in Statement of Cash Flows	<u>\$ 19,996,889</u>	<u>\$ 22,245,538</u>

Student Accounts Receivable - Student accounts receivable are carried at the unpaid balance of the original amount billed to students less an estimate made for doubtful accounts which is based on a review of all outstanding amounts. Management determines the allowance for doubtful accounts by identifying troubled accounts and by using historical experience applied to an aging of accounts. Student accounts are written off when deemed uncollectible. Recoveries of student accounts previously written off are recorded when received.

A late payment fee is charged to students that do not pay by the initial payment due date each term or enroll in a payment plan. Students can enroll in a payment plan that allows them to pay over the course of one term. A finance charge is charged on the unpaid balance at the end of each month and is recognized as it is charged. A student account receivable is considered to be delinquent when a scheduled payment is more than 30 days past the payment due date.

Inventories - Inventories, consisting of items for the bookstore, are valued at lower of cost or market determined by the first-in, first-out method.

Investments - Investments are carried at fair value, primarily based on quoted market prices or quoted net asset values, except for certificates of deposit, money market accounts and treasury bills which are carried at cost and approximate market value. Realized and unrealized gains and losses are reflected within long-term investment return (net) in the statements of activities.

EDGEWOOD COLLEGE, INC.

NOTES TO FINANCIAL STATEMENTS As of and for the Years Ended June 30, 2020 and 2019

NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES (cont.)

Investment in Joint Venture - The College is a member of the Center for Healthcare Education and Simulation, Inc. (the "Center"), a non-stock, non-profit organization. The Center has three members including Edgewood College, UnityPoint Health - Meriter and SSM Health St. Mary's Hospital - Madison which have identical rights and obligations with respect to voting, dissolution, redemption, transfer and otherwise. The Center is governed by a Board of Directors consisting of two directors representing each member. The Center is established to provide educational experiences for students enrolled in nursing or other medical professional programs, new and experienced nurses, and other medical professionals. The College's investment in the joint venture is accounted for using the equity method and is reported as an asset in the statements of financial position and as change in equity in joint venture in the statements of activities.

Beneficial Interest in Private Foundation - The College is a stated beneficiary of a private foundation from which the College receives a specified percentage of the annual distributions made by the foundation. The College's beneficial interest in the private foundation is reported as an asset in the statements of financial position and as change in beneficial interest in private foundation in the statements of activities.

Property, Plant, Equipment and Library Books - Physical plant, equipment and library books are stated at cost at the date of acquisition or fair value at the date of donation in the case of gifts. Depreciation of property, equipment and library books is provided on the straight-line method over the estimated useful lives of the respective assets. The College uses the following depreciable lives:

- Buildings - 50 years
- Building and land improvements - 20 years
- Library books - 12 years
- Vehicles – 5 years
- Equipment and software - 3 to 7 years

The College capitalizes building and land improvements greater than \$20,000 and software and equipment additions of \$5,000 or more. Collections of works of art, historical treasures and similar assets are not capitalized. Normal repairs and maintenance expenses are charged to operations as incurred.

Impairment of Long-Lived Assets - The College reviews long-lived assets, including property and equipment and intangible assets, for impairment whenever events or changes in business circumstances indicate that the carrying amount of an asset may not be fully recoverable. An impairment loss would be recognized when the estimated future cash flows from the use of the asset are less than the carrying amount of that asset. For the years ending June 30, 2020 and 2019 there have been no such losses.

Asset Retirement Obligations - The College recognizes the fair value of a liability for legal obligations associated with asset retirements in the period in which it is incurred, if a reasonable estimate of the fair value of the obligation can be made. Over time, the liability is accreted to its present value each year. Upon settlement of the obligation, any difference between the cost to settle the asset retirement obligation and the liability recorded is recognized as a gain or loss in the statements of activities. The College reviews its estimates annually and adjusts the recorded liability as needed.

All of the College's asset retirement obligations relate to estimated costs to remove asbestos from campus facilities. The estimate of the losses that are probable for asbestos removal was calculated using the expected cash flow approach based on an inventory of the College's long-lived assets combined with an estimate of the current market prices to remove the asbestos. The College utilized a credit-adjusted risk-free rate to discount the asset retirement obligation.

At June 30, 2020 and 2019, the asset retirement obligations are estimated to be approximately \$130,000. This obligation is included in accrued expenses within the statements of financial position.

EDGEWOOD COLLEGE, INC.

NOTES TO FINANCIAL STATEMENTS As of and for the Years Ended June 30, 2020 and 2019

NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES (cont.)

Bond Costs - Series 2015 Bond issuance costs are being amortized over the term of the related debt using the effective interest method and the unamortized balance is reported as a reduction of bonds payable within the statements of financial position (see Note 8).

Deferred Tuition Revenue and Prepaid Expenses - Certain revenues and expenses for summer courses and programs are deferred as of June 30, and are recognized as of the beginning of the next fiscal year as this is the period in which most of the summer school classes are in session. Students are generally billed prior to the start of the course or program. Summer school deferred revenue as of June 30, 2020 and 2019 approximated \$1,803,000 and \$1,640,000, respectively. Prepaid expenses related to summer school as of June 30, 2020 and 2019 approximated \$138,000 and \$163,000, respectively.

Grants to Specified Students - Amounts received from Federal and State agencies designated for the benefit of specified students are considered agency transactions and, therefore, are not reflected as revenues and expenses of the College. The amount of such grants from the State of Wisconsin totaled \$1,454,409 and \$1,647,574, and the amount from Federal Pell grants totaled \$1,628,693 and \$1,840,609 during the years ended June 30, 2020 and 2019, respectively.

Income Tax Status - The Internal Revenue Service has determined that the College is exempt from Federal income tax under Section 501(c)(3) of the Internal Revenue Code. It is also exempt from state income tax. However, any unrelated business income may be subject to taxation.

The College follows the accounting standards for contingencies in evaluating uncertain tax positions. The guidance prescribes recognition threshold principles for the financial statement recognition of tax positions taken or expected to be taken on a tax return that are not certain to be realized. No liability has been recognized by the College for uncertain tax positions as of June 30, 2020 and 2019. The College's tax returns are subject to review and examination by Federal and State authorities. The tax returns for the current year as well as fiscal years 2017 and 2016 and thereafter are open to examination by Federal and State authorities, respectively.

Measure of Operations - The College's change in net assets from operating activities include all operating revenues and expenses that are an integral part of its programs and supporting activities and net assets released from donor restrictions to support operating expenditures. The measure of operations includes support for operating activities from both donor restricted net assets and net assets without donor restrictions designated for long-term investment (the donor restricted and board designated endowments) according to the College's spending policy, which is detailed in Note 14. The measure of operations excludes investment return in excess of (less than) amounts made available for current support. The measure of operations also excludes changes in fair value of the interest rate swap agreement, beneficial interest in private foundation and equity in joint venture. The measure of operations also excludes gifts and private grants for long-term endowment and plant. Included in the line item long-term investment return, net, less than amount designated for operations is investment return appropriated from board designated endowment to operations of \$1,248,160 and \$1,225,760 for June 30, 2020 and 2019, respectively.

Use of Estimates - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Government Grants and Contracts Revenues - Revenue from government grants and contracts is recognized when conditions are met in accordance with the related agreement. Government grants and contracts where any conditions and restrictions are met simultaneously are presented as without donor restrictions on the statements of activities.

EDGEWOOD COLLEGE, INC.

NOTES TO FINANCIAL STATEMENTS As of and for the Years Ended June 30, 2020 and 2019

NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES (cont.)

Tuition and Fees and Auxiliary Revenues - Tuition revenue is recognized in the period the classes are provided. Financial assistance in the form of scholarships and grants that cover a portion of tuition is reflected as institutional aid and is shown as a reduction of tuition and fees revenues. Revenue from auxiliary enterprises is recognized when goods or services are provided.

Advertising Costs - The College follows the policy of charging the cost of advertising to expense as incurred. Advertising expense for the years ended June 30, 2020 and 2019 approximated \$730,000 and \$640,000, respectively.

Refundable U.S. Government Student Loans - Funds provided by the United States Government under the Federal Perkins Loan Program are loaned to qualified students and may be re-loaned after collection. These funds are ultimately refundable to the government and are included as liabilities in the statements of financial position. Revenues from other government grants are recognized as they are earned in accordance with the agreement. Expenses incurred before cash is received are recorded as receivables.

Federal Perkins Loan Program - The Extension Act amended section 461 of the Higher Education Act to end the College's authority to make new Perkins Loans after June 30, 2018. The College is not required to assign the outstanding Perkins Loans to the Department of Education or liquidate their Perkins Loan Revolving Funds due to the wind-down of the Perkins Loan Program, however, the College may choose to liquidate at any time in the future. As of June 30, 2020, the College continues to service the Perkins Loan Program.

Adopted Accounting Pronouncements - In 2020, the College adopted Accounting Standards Update ("ASU") No. 2016-01, *Financial Instruments - Overall (subtopic 825-10)*. The ASU modifies the guidance related to fair value disclosures of financial instruments. Adopting ASU No. 2016-01 did not have a significant impact on the financial statements of the College.

In 2020, the College adopted ASU No. 2018-08 *Not-for-Profit Entities (Topic 958): Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. The guidance is intended to clarify and improve accounting guidance for contributions received and contributions made. The adoption of ASU No. 2018-08 on a modified prospective basis did not have a significant impact on the financial statements of the College.

In 2020, the College adopted ASU No. 2016-18 *Statement of Cash Flows (Topic 230): Restricted Cash*. The new standard changes the financial statements to include restricted cash and cash equivalents with cash and cash equivalents when reconciling the beginning-of-period and end-of-period amounts shown on the statement of cash flows. The College has applied the changes retrospectively to all periods presented.

As a result of the adoption of ASU No. 2016-18, the statement of cash flows for the year ended June 30, 2019 was adjusted as follows:

	After Adoption	As Originally Presented	Effect of Change
Statement of Cash Flows			
Change in restricted cash and cash equivalents	\$ -	\$ (157,499)	\$ (157,499)
Net cash flows from investing activities	\$ (1,254,635)	\$ (1,412,134)	\$ 157,499
Net change in cash, cash equivalents and restricted cash	\$ 183,733	N/A	\$ 183,733
Cash, cash equivalents, and restricted cash - beginning of year	\$ 22,061,805	N/A	\$ 22,061,805
Cash, cash equivalents, and restricted cash - end of year	\$ 22,245,538	N/A	\$ 22,245,538
Net change in cash and cash equivalents	N/A	\$ 26,234	\$ (26,234)
Net change in cash and cash equivalents - beginning of year	N/A	\$ 20,797,526	\$ (20,797,526)
Net change in cash and cash equivalents - end of year	N/A	\$ 20,823,760	\$ (20,823,760)

EDGEWOOD COLLEGE, INC.

NOTES TO FINANCIAL STATEMENTS As of and for the Years Ended June 30, 2020 and 2019

NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES (cont.)

Recent Accounting Pronouncements

In June 2016, the Financial Accounting Standards Board (“FASB”) issued ASU No. 2016-13, *Financial Instruments - Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*. ASU No. 2016-13 requires financial assets measured at amortized cost to be presented at the net amount expected to be collected, through an allowance for credit losses that is deducted from the amortized cost basis. The measurement of expected credit losses is based on relevant information about past events, including historical experience, current conditions, and reasonable and supportable forecasts that affect the collectability of the reported amount. During 2018, an update was issued which clarifies the effective date for nonpublic entities and clarifies that receivables arising from operating leases are not within the scope of subtopic 326-20. ASU No. 2016-13, as amended, is effective for annual periods beginning after December 15, 2022 (fiscal year 2023-24). Early adoption is permitted for annual and interim periods beginning after December 15, 2018. Management is currently evaluating the impact of ASU No. 2016-13 on the College's financial statements.

In May 2014, the FASB issued ASU 2014-09, *Revenue from Contracts with Customers (Topic 606)*. ASU No. 2014-09 establishes principles for recognizing revenue upon the transfer of promised goods or services to customers, in an amount that reflects the expected consideration received in exchange for those goods or services. Amendments to 2014-09 defer the effective date, clarify the implementation guidance on principal versus agent considerations, and clarify the identification of performance obligations and the licensing implementation guidance. ASU 2014-09 (as amended) is effective for fiscal years beginning after December 15, 2019 (fiscal year 2020-21). The changes may be applied retrospectively to each prior period presented or using a modified retrospective approach with the cumulative effect recognized as of the date of initial application. Management is currently evaluating the impact of ASU No. 2014-09 (as amended) on the College's financial statements.

In February 2016, the FASB issued ASU No. 2016-02, *Leases (Topic 842)* that amends the treatment for leases. The new accounting model for leases capitalizes all leases greater than twelve months, both capital and operating, as assets and liabilities on the statement of financial position. The College will be required to apply the standard for fiscal years and reporting periods beginning after December 15, 2021 (fiscal year 2022-23). Early adoption is permitted. Management is currently evaluating the impact of ASU No. 2016-02 on the College's financial statements.

NOTE 2 – CONCENTRATION OF CREDIT RISK

Financial instruments that potentially subject the College to concentrations of credit risk consist principally of cash and cash equivalents, short-term investments, money market funds, mutual funds, marketable securities, other investments, contributions receivable, and accounts and notes receivable. The College places substantially all of its cash and liquid investments with a variety of financial institutions and limits the amount of credit exposure at any one financial institution; however, cash balances may periodically exceed federally insured limits. Marketable securities, consisting of both debt and equity instruments, are generally placed in a variety of managed funds administered by different investment managers in order to limit credit risk. Student notes and receivables and other receivables are due from a variety of sources concentrated primarily in the Midwestern United States. In addition, the College's students receive a substantial amount of support from State and Federal student financial assistance programs which is subject to audit by governmental agencies. A significant reduction in the level of this support, if this were to occur, could have an adverse effect on the College's programs and activities.

EDGEWOOD COLLEGE, INC.

NOTES TO FINANCIAL STATEMENTS As of and for the Years Ended June 30, 2020 and 2019

NOTE 3 – FAIR VALUE MEASUREMENTS

Fair Value Hierarchy - Fair value is defined in the accounting guidance as the exchange price that would be received to sell an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants at the measurement date. Under this guidance, a three-level hierarchy is used for fair value measurements which is based on the transparency of information, such as the pricing source, used in the valuation of an asset or liability as of the measurement date.

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

Level 2 - Inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly. This includes quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in markets that are not active, inputs other than quoted prices that are observable for the asset or liability, or inputs that are derived principally from or corroborated by observable market data.

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

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

The following table presents financial instruments that are measured at fair value on a recurring basis by the fair value hierarchy as of June 30, 2020:

	Total	Level 1	Level 2	Level 3
ASSETS				
Short-term Investments				
Mutual funds	\$ 6,011,436	\$ 6,011,436	\$ -	\$ -
Investments				
Mutual funds	\$ 38,454,709	\$ 38,454,709	\$ -	\$ -
Certificates of deposit	1,782,000			
Money market	902,812			
U.S. Treasury bills	1,199,452			
Alternative investments measured at NAV –				
Low volatility hedge fund	2,186,373			
Private real estate fund	284,158			
Total	\$ 44,809,504			
Beneficial Interest in Private Foundation	\$ 15,622,855	\$ -	\$ -	\$ 15,622,855
LIABILITIES				
Accrued Expenses				
Interest rate exchange agreements	\$ 789,311	\$ -	\$ 789,311	\$ -

EDGEWOOD COLLEGE, INC.

NOTES TO FINANCIAL STATEMENTS As of and for the Years Ended June 30, 2020 and 2019

NOTE 3 – FAIR VALUE MEASUREMENTS (cont.)

The following table presents financial instruments that are measured at fair value on a recurring basis by the fair value hierarchy as of June 30, 2019:

	Total	Level 1	Level 2	Level 3
ASSETS				
Short-term Investments				
Mutual funds	\$ 6,035,338	\$ 6,035,338	\$ -	\$ -
Investments				
Mutual funds	\$ 39,814,422	\$ 39,814,422	\$ -	\$ -
Certificates of deposit	22,000			
Money market	1,533,068			
U.S. Treasury bills	2,939,166			
Alternative investments measured at NAV –				
Low volatility hedge fund	2,192,709			
Total	\$ 46,501,365			
Beneficial Interest in Private Foundation	\$ 13,488,733	\$ -	\$ -	\$ 13,488,733
LIABILITIES				
Accrued Expenses				
Interest rate exchange agreements	\$ 285,286	\$ -	\$ 285,286	\$ -

U.S. Treasury bills are carried at accreted cost and certificates of deposit and money market accounts are carried at cost which approximates fair value and are included within investments in the statements of financial position.

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

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

Beneficial Interest in Private Foundation - The beneficial interest in the private foundation is classified as Level 3 as the fair value is based upon the anticipated discounted cash flow from the foundation, or as a practical expedient, at the valuation of the College's portion of the foundation's assets.

Interest Rate Exchange Agreements - Interest rate exchange agreements are classified as Level 2 as the fair value is based on observable inputs to a valuation model (interest rates, credit spreads, etc.) which take into account the present value of the estimated future cash flows and credit valuation adjustments (See Note 9).

EDGEWOOD COLLEGE, INC.

NOTES TO FINANCIAL STATEMENTS As of and for the Years Ended June 30, 2020 and 2019

NOTE 3 – FAIR VALUE MEASUREMENTS (cont.)

Alternative Investments Measured at NAV - The fair value of certain funds has been estimated using the Net Asset Value (“NAV”) as reported by the management of the fund. Accounting guidance allows for the use of the NAV as a “practical expedient” estimating the fair value of alternative investments. NAV reported by each alternative investment fund is used as a practical expedient to estimate the fair value of the College’s interest in the fund.

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

The following table presents a reconciliation of the statements of financial position amounts for assets measured at fair value on a recurring basis using significant unobservable inputs (level 3) for the year ended June 30, 2020:

	<u>Balance June 30, 2019</u>	<u>Net Realized and Unrealized Gain</u>	<u>Purchases (Sales)</u>	<u>Net Transfers In (Out) of Level 3</u>	<u>Balance June 30, 2020</u>
Beneficial interest in private foundation	\$ 13,488,733	\$ 2,134,122	\$ -	\$ -	\$ 15,622,855

The amount of total gain for the period included in change in net assets attributable to the change in unrealized gain relating to assets measured at fair value still held at June 30, 2020. \$ 2,134,122

Net realized and unrealized gain is included within change in beneficial interest in private foundation on the statements of activities.

The following table presents a reconciliation of the statements of financial position amounts for assets measured at fair value on a recurring basis using significant unobservable inputs (level 3) for the year ended June 30, 2019:

	<u>Balance June 30, 2018</u>	<u>Net Realized and Unrealized Loss</u>	<u>Purchases (Sales)</u>	<u>Net Transfers In (Out) of Level 3</u>	<u>Balance June 30, 2019</u>
Beneficial interest in private foundation	\$ 15,227,625	\$ (1,738,892)	\$ -	\$ -	\$ 13,488,733

The amount of total loss for the period included in change in net assets attributable to the change in unrealized loss relating to assets measured at fair value still held at June 30, 2019. \$ (1,738,892)

Net realized and unrealized loss is included within change in beneficial interest in private foundation on the statements of activities.

EDGEWOOD COLLEGE, INC.

NOTES TO FINANCIAL STATEMENTS As of and for the Years Ended June 30, 2020 and 2019

NOTE 3 – FAIR VALUE MEASUREMENTS (cont.)

The estimated fair value of the Low Volatility Hedge Fund and private real estate fund are based on the valuations provided by the external investment managers as of June 30. The College believes the carrying amount of these investments are a reasonable estimate of fair value. Because the investments are not readily marketable, the estimated fair values are subject to uncertainty and, therefore, may differ from the value that would have been used had a ready market for such investments existed. The following table lists the alternative investments at June 30, 2020:

	Low Volatility Hedge Fund – Blackstone Partners Offshore Fund Ltd.
Fair Value June 30, 2020	\$ 2,186,373
Significant Investment Strategy	Low volatility hedge fund of funds
Remaining Life	N.A.
Dollar Amount of Unfunded Commitments	None
Timing to Draw Down Commitments	N.A.
Redemption Terms	Semi-annual redemption with 95 day notice
Redemption Restrictions	None
Redemption Provisions in Place at Year End	None
	Private Real Estate Fund – Harrison Street Real Partners VII, LP
Fair Value June 30, 2020	\$ 284,158
Significant Investment Strategy	Real estate
Remaining Life	August 22, 2028 with provisions to extend
Dollar Amount of Unfunded Commitments	\$ 692,111
Timing to Draw Down Commitments	August 22, 2021 with provisions to extend
Distributions Terms	Distributions based on partnership agreement
Redemption Terms	None

EDGEWOOD COLLEGE, INC.

NOTES TO FINANCIAL STATEMENTS As of and for the Years Ended June 30, 2020 and 2019

NOTE 4 – INVESTMENTS

The College's investment objectives include seeking long-term total return consistent with prudent levels of risk by maintaining a well-diversified investment portfolio that follows the Investment and Spending Policy Statement adopted by the Board of Trustees. Equity investments are diversified by market capitalization, style, industry and country. Fixed income investments are diversified by market sector, maturity, credit quality and issuer. The College utilizes an investment consultant to provide independent review, analysis and recommendations regarding oversight of the investment portfolio and to recommend asset allocation and investment funds. The College's Finance, Audit and Investment Committee, within the framework set by the Board of Trustees, has responsibility for the establishment and oversight of investment policies and procedures which are implemented by College management.

The following summarizes the College's investments at June 30:

	2020	2019
Short-term Investments		
Mutual Funds – Short-term bonds	\$ 6,011,436	\$ 6,035,338
Investments		
Endowment Fund		
Money market funds	\$ 727	\$ 102,479
Mutual funds		
Domestic Equity	16,845,108	16,897,305
International Equity	10,026,037	9,693,705
Global Tactical Asset Allocation	2,365,834	2,516,661
Real Assets	1,759,961	2,005,016
Fixed Income	7,274,871	8,498,060
Alternative investments measured at NAV		
Low Volatility Hedge Fund	2,186,373	2,192,709
Private Real Estate Fund	284,158	-
Capital Projects Fund		
Money market funds	902,085	1,430,589
Certificates of deposit	1,782,000	22,000
U.S. Treasury bills	1,199,452	2,939,166
Other – Mutual funds	182,898	203,675
Total Investments	\$ 44,809,504	\$ 46,501,365

EDGEWOOD COLLEGE, INC.

NOTES TO FINANCIAL STATEMENTS As of and for the Years Ended June 30, 2020 and 2019

NOTE 5 – CREDIT QUALITY OF STUDENT NOTES RECEIVABLE

The College issues uncollateralized loans to students based on financial need. Student loans are funded through Federal government loan programs or institutional resources. Student loans receivable are carried at the amount of unpaid principal less an estimate for doubtful accounts. Allowances for doubtful accounts are established based on prior collection experience and current economic factors which, in management's judgment, could influence the ability of loan recipients to repay the amounts per the loan terms. At June 30, 2020 and 2019, student notes represented .4% and .5% of total assets, respectively.

At June 30, 2020 and 2019, student loans consisted of the following:

	2020	2019
Federal government programs	\$ 757,301	\$ 857,543
Institutional programs	9,426	9,426
Totals	766,727	866,969
Less: allowance for doubtful accounts		
Beginning of year	(147,750)	(125,750)
Increase	(9,676)	(22,000)
End of year	(157,426)	(147,750)
Student Notes Receivable, Net	\$ 609,301	\$ 719,219

Funds advanced by the Federal government of \$764,587 and \$866,826 as of June 30, 2020 and 2019, respectively, are ultimately refundable to the government and are classified as liabilities in the statements of financial position.

After a student is no longer enrolled in an institution of higher education and after a grace period, interest is charged on student notes receivable and is recognized as it is charged. Student loans receivable through the loan programs are considered to be past due if a payment is not made within 30 days of the payment due date, at which time, late charges are charged and recognized. The Federal Perkins Loan Program receivables may be assigned to the U.S. Department of Education. Students may be granted a deferment, forbearance, or cancellation of their student loan receivable based on eligibility requirements defined by the U.S. Department of Education.

At June 30, 2020 and 2019, the following amounts were past due under student loan programs:

<u>June 30</u>	Amounts Past Due			
	1-60 days	60-90 days	90+ days	Total
2020	\$ -	\$ 707	\$ 138,067	\$ 138,774
2019	159	1,566	123,110	124,835

EDGEWOOD COLLEGE, INC.

NOTES TO FINANCIAL STATEMENTS As of and for the Years Ended June 30, 2020 and 2019

NOTE 6 – CONTRIBUTIONS RECEIVABLE

Contributions receivable as of June 30 are composed of and are to be used for the following:

	<u>2020</u>	<u>2019</u>
Capital funds	\$ 262,850	\$ 376,961
Scholarships and programs	1,488,464	1,340,861
Total contributions receivable	<u>1,751,314</u>	<u>1,717,822</u>
Less: Allowance for doubtful accounts	(19,000)	(16,000)
Less: Discount	<u>(130,515)</u>	<u>(139,225)</u>
Net Contributions Receivable	<u>\$ 1,601,799</u>	<u>\$ 1,562,597</u>
Less than one year	\$ 433,649	
One to five years	1,067,655	
More than five years	<u>250,000</u>	
Total Contributions Receivable	<u>\$ 1,751,314</u>	

Contributions have been discounted at the interest rate in effect in the year the pledge was made. This rate was 2.13% for 2020 and 4.14% for 2019. Approximately 90% and 84% of contributions receivable on June 30, 2020 and 2019, respectively, was from five donors.

NOTE 7 – PROPERTY, PLANT, EQUIPMENT AND LIBRARY BOOKS

A summary of property, plant, equipment and library books as of June 30 is as follows:

	<u>2020</u>	<u>2019</u>
Land	\$ 755,510	\$ 745,510
Land improvements	1,637,169	1,637,169
Buildings and improvements	84,146,865	84,487,002
Equipment and software	7,313,712	8,097,280
Library books	372,646	432,380
Vehicles	153,334	134,734
Construction in process	-	47,829
Total	<u>94,719,373</u>	<u>95,241,767</u>
Less: Accumulated depreciation	<u>(40,109,791)</u>	<u>(38,459,163)</u>
Net Property, Plant, Equipment and Library Books	<u>\$ 54,609,582</u>	<u>\$ 56,782,604</u>

EDGEWOOD COLLEGE, INC.

NOTES TO FINANCIAL STATEMENTS As of and for the Years Ended June 30, 2020 and 2019

NOTE 8 – LONG-TERM OBLIGATIONS

BONDS PAYABLE

Bonds payable at June 30 consist of the following:

	2020	2019
Wisconsin Health and Educational Facilities Authority Revenue Bonds, Series 2015 were issued in the amount of \$16,870,000. The Series 2015 Bonds have a variable interest rate (1.08% at June 30, 2020) and semiannual maturities varying from \$230,000 to \$500,000 through April 2035. The bonds are secured by various covenants and conditions along with a security interest in all real and personal property of the College.	\$ 12,255,000	\$ 13,070,000
Bond issuance costs of \$83,982 net of amortization of \$35,747 and \$28,804 at June 30, 2020 and 2019, respectively	(48,235)	(55,178)
Total Bonds Payable, Net	\$ 12,206,765	\$ 13,014,822

To minimize the effect of changes in the interest rate the College has entered into an interest rate swap agreement on the Series 2015 Bonds. The fixed interest rate under this swap agreement is 1.70% and the credit fee is .95%. Under the agreement, the College either pays or receives interest depending on the relationship between the variable rate and the fixed rate. See Note 9 regarding derivative instruments.

The College is required to comply with certain financial covenants of the Series 2015 Bonds. For the year ending June 30, 2020 the College must maintain a minimum liquidity ratio of 1.8 to 1 and a ratio of liabilities to net assets of less than .55 to 1.0. For the year ending June 30, 2019 the College must maintain a debt service coverage ratio of greater than 1.15 to 1, a minimum liquidity ratio of 1.2 to 1 and a ratio of liabilities to net assets of less than .55 to 1.0. The College was in compliance with all of the above financial covenants as of June 30, 2020 and 2019.

Future principal payments on the 2015 bonds are due as follows:

<u>Years Ending June 30,</u>	
2021	\$ 825,000
2022	840,000
2023	850,000
2024	865,000
2025	875,000
2026 to 2030	4,615,000
2031 to 2035	3,385,000
Total	\$ 12,255,000

Bond interest expense incurred during the years ended June 30, 2020 and 2019 was \$273,000 and \$366,000 respectively. See Note 9 for amounts paid or received related to the interest rate swap agreements.

EDGEWOOD COLLEGE, INC.

NOTES TO FINANCIAL STATEMENTS As of and for the Years Ended June 30, 2020 and 2019

NOTE 8 – LONG-TERM OBLIGATIONS (CONT.)

OBLIGATIONS UNDER CAPITAL LEASES

The College leases various assets under capital lease agreements. Total capitalized assets acquired under leases are \$579,720 at June 30, 2020 and 2019. Total accumulated depreciation on assets acquired under leases is \$173,916 and \$57,972 at June 30, 2020 and 2019, respectively. Amortization of capital leases are included with depreciation expense. Future minimum lease payments under capital leases together with the present value of the net minimum lease payments are as follows:

<u>Years Ending June 30,</u>	
2021	\$ 148,680
2022	148,680
2023	148,680
2024	<u>12,390</u>
Total Minimum Lease Payments	458,430
Less: Amount representing interest	<u>(47,388)</u>
Present Value of Minimum Lease Payments	<u>\$ 411,042</u>

NOTE 9 – DERIVATIVE INSTRUMENTS

The College uses an interest rate swap agreement as part of its risk management strategy to manage exposure to fluctuations in interest rates and to manage the overall cost of its debt (see Note 8). The interest rate swap agreement is used to manage identified and approved exposure and is not used for speculative purposes. The interest rate swap agreement is recognized as either an asset or liability on the statements of financial position and is measured at fair value. Interest rate swap agreements are often held for the life of the strategy, but may reflect significant interim unrealized gains or losses depending on the change in value since the inception of the contract. All unrealized and realized gains and losses from the interest rate swap agreement are reflected within non-operating activities in the statements of activities.

An interest rate swap agreement between the College and a third party (counterparty) provides for periodic exchange of payments between the parties based on changes in a defined index and a fixed rate and include counterparty credit risk. Counterparty credit risk is the risk that contractual obligations of the counterparty will not be fulfilled. Concentrations of credit risk relate to groups of counterparties that have similar economic or industry characteristics that would cause their ability to meet contractual obligations to be similarly affected by changes in economic or other conditions. Counterparty credit risk is managed by requiring high credit standards for the College's counterparty. The counterparty to this contract is a financial institution that carries investment-grade credit ratings. The interest rate swap agreement contains collateral provisions applicable to both parties to mitigate credit risk. The College does not anticipate non-performance by its counterparty.

For the year ended June 30, 2020 the College paid \$67,951 more than it received and for the year ended June 30, 2019 the College received \$4,366 more than it paid under the interest rate swap agreement. The difference between amounts received and amounts paid under the agreements is included within interest expense in the statements of activities.

EDGEWOOD COLLEGE, INC.

NOTES TO FINANCIAL STATEMENTS As of and for the Years Ended June 30, 2020 and 2019

NOTE 9 – DERIVATIVE INSTRUMENTS (cont.)

The following is a summary of the outstanding positions under the interest rate swap agreement as of June 30:

Year	Instrument Type	Notional Amount	Maturity Date	Rate Paid	Rate Received
2020	Floating to fixed rate swap	\$ 12,255,000	May 1, 2025	1.70%	74% of LIBOR interest rate
2019	Floating to fixed rate swap	\$ 13,070,000	May 1, 2025	1.70%	74% of LIBOR interest rate

The College also pays a .95% credit fee related to the Series 2015 Bonds.

Derivative instruments reported in the statements of financial position at fair value as of June 30 are as follows:

Derivative Designated as Hedging Instrument	Statements of Financial Position Location	Derivative	
		Fair Value	
		2020	2019
Interest rate swap agreement	Accrued expenses	\$ 789,311	\$ 285,286

The effect of the derivative instrument is reported in the Statements of Activities as follows:

Derivative Designated as Hedging Instruments	Location of Loss on Derivative Recognized in the Statements of Activities	Amount of Loss on Derivative Recognized in the Statements of Activities	
		2020	2019
		Interest rate swap agreement	Interest rate swap loss

NOTE 10 – LINE OF CREDIT

The College had a \$1,000,000 unsecured line of credit with BMO Harris Bank NA as of June 30, 2019. The line of credit agreement matured on May 29, 2020 and was not renewed. No borrowings were made under this line of credit during the years ended June 30, 2020 or 2019.

EDGEWOOD COLLEGE, INC.

NOTES TO FINANCIAL STATEMENTS As of and for the Years Ended June 30, 2020 and 2019

NOTE 11 – OPERATING LEASES

The College leases vehicles, usually over a three-year period. Rent expense for the years ended June 30, 2020 and 2019 was \$39,827 and \$47,871, respectively. Future lease commitments are due as follows:

<u>Years Ending June 30,</u>	
2021	\$ 20,509
2022	15,906
2023	<u>2,638</u>
Total	<u>\$ 39,053</u>

The College entered into a lease with Edgewood High School of the Sacred Heart (the High School) on July 3, 2018 related to the College's use of space in the High School performing arts center for performances, rehearsals, classroom instruction and other educational purposes. The initial term of the lease is for twenty years ending July 31, 2039 with an extension option for an additional ten years. The base rent for the initial twenty-year term is \$1,700,000 with \$425,000 partial prepayment of rent paid upon commencement of construction in 2018-19 and \$425,000 additional prepaid rent paid upon occupancy in 2019-20. The College will pay the remaining balance of \$850,000 in twenty annual installments of \$42,500 due on December 31 of each year during the initial term. The prepaid rent amortizes over the initial term on a straight-line basis. For the year ending June 30, 2020 the College made the annual lease payment of \$42,500 and the prepayment of \$425,000 and recognized amortization of lease prepayments of \$42,500 for total lease expense of \$85,000. At June 30, 2020 the College has unamortized lease prepayments of \$807,500 which is included on the statements of financial position within prepaid expenses. Future annual lease payments are due as follows:

<u>Years Ending June 30,</u>	
2021	\$ 42,500
2022	42,500
2023	42,500
2024	42,500
2025	42,500
2026 to 2030	212,500
2031 to 2035	212,500
2036 to 2039	<u>170,000</u>
Total	<u>\$ 807,500</u>

EDGEWOOD COLLEGE, INC.

NOTES TO FINANCIAL STATEMENTS As of and for the Years Ended June 30, 2020 and 2019

NOTE 12 – NET ASSETS WITH DONOR RESTRICTIONS

Net assets with donor restrictions include the following as of June 30:

	<u>2020</u>	<u>2019</u>
Subject to expenditure for a specified use -		
Scholarships	\$ 1,317,944	\$ 1,069,461
Educational programs	1,886,371	1,683,652
Capital	50,000	499,127
Student loans	34,309	34,309
Total subject to expenditure for specified use	<u>3,288,624</u>	<u>3,286,549</u>
Subject to the passage of time -		
Contributions receivable that are unavailable for use until received	<u>1,551,231</u>	<u>1,486,313</u>
Beneficial interest in private foundation unavailable until received	<u>15,622,855</u>	<u>13,488,733</u>
Endowments -		
Subject to appropriations for subsequent year expenditure:		
Scholarships	300,170	284,970
General use	7,000	5,000
Subject to endowment spending policy and appropriation		
Scholarships	6,496,550	6,667,702
Educational programs	2,116,799	2,072,492
Capital	2,266,937	2,336,939
General use	228,035	234,650
Total endowments	<u>11,415,491</u>	<u>11,601,753</u>
Endowment contributions receivable unavailable until received	<u>50,568</u>	<u>76,284</u>
 Total Net Assets with Donor Restrictions	 <u>\$ 31,928,769</u>	 <u>\$ 29,939,632</u>

NOTE 13 – BOARD DESIGNATED NET ASSETS

Over the years the Board of Trustees has transferred undesignated funds into board designated endowment funds. These funds are managed and invested within the College's endowment fund (see Note 14). The quasi-endowment funds totaled \$29,490,672 and \$30,309,566 at June 30, 2020 and June 30, 2019, respectively.

Additionally, over the years the Board has transferred undesignated funds into capital projects investment accounts for construction and improvement projects. The board designated capital project fund totaled \$3,883,539 and \$4,391,755 at June 30, 2020 and 2019, respectively.

EDGEWOOD COLLEGE, INC.

NOTES TO FINANCIAL STATEMENTS As of and for the Years Ended June 30, 2020 and 2019

NOTE 14 – ENDOWMENT

The College's endowment consists of 106 individual funds established for a variety of purposes. Its endowment includes both donor-restricted endowment funds and funds designated by the governing board to function as endowments. As required by Generally Accepted Accounting Principles ("GAAP"), net assets associated with endowment funds, including funds designated by the governing board to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

Interpretation of Relevant Law – The College is subject to the Uniform Prudent Management of Institutional Funds Act (UPMIFA) and, thus, classifies amounts in its donor-restricted endowment funds as net assets with donor restrictions because those net assets are time restricted until the Board of Trustees appropriates such amounts for expenditure. Most of those net assets are also subject to purpose restrictions that must be met before reclassifying those net assets to net assets without donor restrictions. The Board of Trustees has interpreted UPMIFA as not requiring the maintenance of purchasing power of the original gift amount contributed to an endowment fund, unless a donor stipulates to the contrary. As a result of this interpretation, when reviewing its donor-restricted endowment funds, the College considers a fund to be underwater if the fair value of the fund is less than the sum of the original value of initial and subsequent gift amounts donated to the fund and any accumulations to the fund that are required to be maintained in perpetuity in accordance with the direction of the applicable donor gift instrument. The College has interpreted UPMIFA to permit spending from underwater funds in accordance with the prudent measures required under the law. Additionally, in accordance with UPMIFA, the College considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

1. The duration and preservation of the fund
2. The purposes of the College and the donor-restricted endowment fund
3. General economic conditions
4. The possible effect of inflation and deflation
5. The expected total return from income and the appreciation of investments
6. Other resources of the College
7. The investment and spending policies of the College

Endowment net asset composition by type of fund consists of the following as of June 30, 2020:

	Without Donor Restrictions	With Donor Restrictions	Total
Board designated endowment net assets	\$ 29,490,672	\$ -	\$ 29,490,672
Donor restricted endowment net assets			
Original donor restricted amounts not required to be maintained in perpetuity	-	970,423	970,423
Original donor restricted amounts required to be maintained in perpetuity	-	7,576,296	7,576,296
Accumulated investment gains	-	2,868,952	2,868,952
Total Endowment Net Assets	\$ 29,490,672	\$ 11,415,491	\$ 40,906,163

EDGEWOOD COLLEGE, INC.

NOTES TO FINANCIAL STATEMENTS As of and for the Years Ended June 30, 2020 and 2019

NOTE 14 – ENDOWMENT (cont.)

Endowment net asset composition by type of fund consists of the following as of June 30, 2019:

	Without Donor Restrictions	With Donor Restrictions	Total
Board designated endowment net assets	\$ 30,309,566	\$ -	\$ 30,309,566
Donor restricted endowment net assets			
Original donor restricted amounts not required to be maintained in perpetuity	-	1,033,409	1,033,409
Original donor restricted amounts required to be maintained in perpetuity	-	7,320,689	7,320,689
Accumulated investment gains	-	3,247,655	3,247,655
 Total Endowment Net Assets	 \$ 30,309,566	 \$ 11,601,753	 \$ 41,911,319

Changes in endowment net assets for the year ended June 30, 2020 are as follows:

	Without Donor Restrictions	With Donor Restrictions	Total
Net assets, June 30, 2019	\$ 30,309,566	\$ 11,601,753	\$ 41,911,319
Investment return (net)	56,082	32,618	88,700
Contributions	373,184	255,605	628,789
Appropriation of endowment assets for expenditure	(1,248,160)	(474,485)	(1,722,645)
 Net Assets, June 30, 2020	 \$ 29,490,672	 \$ 11,415,491	 \$ 40,906,163

Changes in endowment net assets for the year ended June 30, 2019 are as follows:

	Without Donor Restrictions	With Donor Restrictions	Total
Net assets, June 30, 2018	\$ 30,337,114	\$ 11,440,823	\$ 41,777,937
Investment return (net)	1,198,212	447,554	1,645,766
Contributions	-	173,810	173,810
Appropriation of endowment assets for expenditure	(1,225,760)	(460,434)	(1,686,194)
 Net Assets, June 30, 2019	 \$ 30,309,566	 \$ 11,601,753	 \$ 41,911,319

EDGEWOOD COLLEGE, INC.

NOTES TO FINANCIAL STATEMENTS As of and for the Years Ended June 30, 2020 and 2019

NOTE 14 – ENDOWMENT (cont.)

Underwater Endowment Funds - 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, 2020 or 2019.

Return Objectives and Risk Parameters - The College has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of the endowment assets. Endowment assets include those assets of donor-restricted funds that the College must hold in perpetuity or for a donor-specified period(s) as well as board-designated funds. Under this policy, as approved by the governing board, the endowment assets are invested in a manner that is intended to produce results that equal or exceed the spending rate plus inflation (Consumer Price Index-CPI) over a three to five-year market cycle. Actual returns in any year may vary from this amount.

Strategies Employed for Achieving Objectives - To satisfy its long-term rate-of-return objectives, the College relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The College targets a diversified asset allocation that places a greater emphasis on capital appreciation to achieve its long-term return objectives within prudent risk constraints.

Spending Policy and How the Investment Objectives Relate to Spending Policy - The College has a policy of appropriating for distribution each year 4.5% of its endowment fund's average fair value over the prior 20 quarters through the calendar year-end preceding the fiscal year in which the distribution is planned. In establishing this policy, the College considered the long-term expected return on its endowment. Accordingly, over the long term, the College expects the current spending policy to allow its endowment to grow at a rate approximating the rate of inflation. The College has a policy that permits spending from underwater endowment funds depending on the degree to which the fund is underwater, unless otherwise precluded by donor intent or relevant laws and regulations.

NOTE 15 – RETIREMENT PLAN

The College provides retirement benefits for all employees after they have met the requirements for participation in the Edgewood College Retirement Plan (the "Plan"). Teachers Insurance and Annuity Association ("TIAA") serves as custodian of the Plan. Plan participants direct the College as to the investment of amounts credited to their individual accounts under the Plan.

The College contributed amounts equal to 6 percent of the eligible salary of an employee, up to a maximum of \$7,000. The total contributions of the College to the Plan for the years ended June 30, 2020 and 2019 were \$1,127,306 and \$1,199,009, respectively.

EDGEWOOD COLLEGE, INC.

NOTES TO FINANCIAL STATEMENTS As of and for the Years Ended June 30, 2020 and 2019

NOTE 16 – LIQUIDITY AND AVAILABILITY

The College's financial assets available within one year of the statements of financial position date of June 30, 2020 and 2019 for general expenditures are as follows:

	<u>2020</u>	<u>2019</u>
Cash and cash equivalents	\$ 18,580,585	\$ 20,823,760
Short-term investments	6,011,436	6,035,338
Student accounts receivable	1,230,676	1,063,876
Other receivables	247,248	301,173
Board designated endowment investment appropriated for current use	1,245,000	1,225,000
General endowment investment appropriated for current use	7,000	5,000
Less: restricted amounts	<u>(3,503,185)</u>	<u>(3,503,455)</u>
Total	<u>\$ 23,818,760</u>	<u>\$ 25,950,692</u>

The College's endowment funds consist of donor restricted endowments, board designated endowments and a general endowment. Income from donor-restricted endowments is restricted for specific purposes and therefore is not available for general expenditure. As described in Note 14, the board designated endowment and the general endowment have a spending rate of 4.5%. As of June 30, 2020 \$1,245,000 of appropriations from the board designated endowment and \$7,000 from the general endowment will be available within the next 12 months.

The College's practice is to structure its financial assets to be available as its general expenditures, liabilities and other obligations come due. The College invests cash in excess of daily requirements in short-term investments. The College has a board designated endowment of \$29,490,672 and \$30,309,566 as of June 30, 2020 and 2019, respectively. Although the College does not intend to spend from the board designated endowment other than amounts appropriated for general expenditure as part of its annual budget and approval process, amounts from its board designated endowment could be made available if necessary.

EDGEWOOD COLLEGE, INC.

NOTES TO FINANCIAL STATEMENTS As of and for the Years Ended June 30, 2020 and 2019

NOTE 17 – COMMITMENTS AND CONTINGENCIES

FINANCIAL AWARDS FROM GRANTORS

Financial awards from federal, state and local governments in the form of grants are subject to special audit. Such awards could result in claims against the College for disallowed costs or noncompliance with grantor restrictions. No provision has been made for any liabilities that may arise from such audits since the amounts, if any, cannot be determined at this time.

ATHLETIC FIELD PROJECT COMMITMENT

The College entered into a construction and licensing agreement on November 5, 2019 with the Madison Area Youth Soccer Association (MAYSA) for the construction of a turf athletic field on property leased and managed by MAYSA to be used by the College for lacrosse, soccer and other athletic events and activities. The College will be responsible for funding the construction costs estimated at \$1.3 million. The initial agreement is for ten years and includes early termination and extension options. As of June 30, 2020 the College has disbursed \$62,100 toward this project.

NOTE 18 – EXPENSES BY NATURE AND FUNCTION

The College's expenses by natural classification and function are shown in the tables below. Expense categories that are attributable to more than one function include depreciation and operations and maintenance of plant which are allocated based on square footage of space used. Following are expenses by nature and function for the year ending June 30, 2020.

	Instruction	Academic Support	Student Services	Public Service	Auxiliary Enterprises	Scholarships and Fellowships	Institutional Support	Fundraising	Operations & Maintenance of Plant	Totals
Salaries	\$ 11,515,194	\$ 5,106,993	\$ 2,706,612	\$ 130,917	\$ 384,239	\$ -	\$ 2,605,059	\$ 766,171	\$ 1,484,655	\$ 24,699,840
Employee benefits	3,355,940	1,613,253	828,000	39,031	105,821	-	876,551	267,770	476,280	7,562,646
Supplies, services and other	1,333,612	905,580	1,481,186	267,357	1,613,446	-	2,294,334	236,865	1,547,209	9,679,589
Utilities	-	-	-	-	-	-	-	-	771,592	771,592
Student aid	-	-	-	-	-	1,155,965	-	-	-	1,155,965
Information technology	561,517	357,914	220,515	-	7,519	-	577,041	22,558	34,863	1,781,927
Depreciation	991,470	242,101	222,106	8,661	779,028	-	370,436	20,517	51,644	2,685,963
Interest	-	-	-	-	350,506	-	33,357	-	-	383,863
Operations & maintenance of plant	1,573,177	453,977	404,078	-	1,769,108	-	135,262	30,641	(4,366,243)	-
Total	\$ 19,330,910	\$ 8,679,818	\$ 5,862,497	\$ 445,966	\$ 5,009,667	\$ 1,155,965	\$ 6,892,040	\$ 1,344,522	\$ -	\$ 48,721,385

EDGEWOOD COLLEGE, INC.

NOTES TO FINANCIAL STATEMENTS As of and for the Years Ended June 30, 2020 and 2019

NOTE 18 – EXPENSES BY NATURE AND FUNCTION (cont.)

Following are expenses by nature and function for the year ending June 30, 2019.

	Instruction	Academic Support	Student Services	Public Service	Auxiliary Enterprises	Institutional Support	Fundraising	Operations & Maintenance of Plant	Total
Salaries	\$ 11,752,828	\$ 5,379,869	\$ 2,758,287	\$ 135,708	\$ 395,347	\$ 2,660,624	\$ 796,282	\$ 1,577,754	\$ 25,456,699
Employee benefits	3,385,289	1,686,323	805,600	40,412	115,266	827,496	275,003	494,626	7,630,015
Supplies, services and other	1,547,838	1,238,158	1,723,883	287,887	1,700,656	1,241,239	334,130	1,606,409	9,680,200
Utilities	-	-	-	-	-	-	-	898,378	898,378
Information technology	576,350	417,213	200,317	-	7,439	650,356	19,275	35,844	1,906,794
Depreciation	1,058,757	270,843	224,134	7,530	769,887	281,797	20,287	54,585	2,687,820
Interest	-	-	-	-	371,759	36,045	-	-	407,804
Operations & maintenance of plant	1,753,774	508,731	421,059	-	1,813,928	138,688	31,416	(4,667,596)	-
Total	<u>\$ 20,074,836</u>	<u>\$ 9,501,137</u>	<u>\$ 6,133,280</u>	<u>\$ 471,537</u>	<u>\$ 5,174,282</u>	<u>\$ 5,836,245</u>	<u>\$ 1,476,393</u>	<u>\$ -</u>	<u>\$ 48,667,710</u>

NOTE 19 – SUBSEQUENT EVENTS

The College has evaluated subsequent events through November 12, 2020, which is the date that the financial statements were approved and available to be issued.