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KNOX COLLEGE

FINANCIAL STATEMENTS AND
INDEPENDENT AUDITOR'S REPORT

For the Years Ended June 30, 2022 and 2021

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KNOX COLLEGE
TABLE OF CONTENTS

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INDEPENDENT AUDITOR'S REPORT

To the Board of Trustees
Knox College
Galesburg, Illinois

Opinion

We have audited the accompanying financial statements of Knox College (the College) (a nonprofit organization), which comprise the statements of financial position as of June 30, 2022 and 2021, and the related statements of activities, cash flows and functional expenses for the years then ended, and the related notes to the financial statements.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Knox College as of June 30, 2022 and 2021, 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.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our responsibilities under these standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the College and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Responsibilities of Management 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, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of the financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the College's ability to continue as a going concern within one year after the date that the financial statements are available to be issued.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS and *Government Auditing Standards*, we

- Exercise professional judgment and maintain professional skepticism throughout the audit.

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.

- Obtain an understanding of internal control relevant to the audit 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, no such opinion is expressed.

- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.

- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the College's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated January 31, 2023 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 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 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.

Sikich LLP

Springfield, Illinois
January 31, 2023

FINANCIAL STATEMENTS

KNOX COLLEGE

STATEMENTS OF FINANCIAL POSITION

For the Years Ended June 30, 2022 and 2021

	2022	2021
ASSETS		
Cash and cash equivalents	$ 6,773,697	$ 13,102,203
Grants and contracts receivable	1,564,255	211,814
Students and other accounts receivable, less allowances of $1,353,817 and $1,144,925 in 2022 and 2021, respectively	1,446,212	1,112,089
Inventories	177,329	141,862
Other assets, principally prepaid expenses, deferred charges, and land held for sale	857,098	835,495
Pledges receivable, less discount and allowance of $85,148 and $213,026 in 2022 and 2021, respectively	640,385	1,643,398
Deposits held in trust for capital projects	5,011,966	-
Loans receivable, less allowance for doubtful loans of $82,254 and $106,250 in 2022 and 2021, respectively	1,619,173	2,080,634
Restricted cash	654,990	640,803
Land, buildings, and equipment, net of accumulated depreciation	62,308,530	64,591,680
Investments	170,007,589	191,356,548
Beneficial interest in perpetual trust	15,213,758	18,605,821
TOTAL ASSETS	$ 266,274,982	$ 294,322,347
LIABILITIES AND NET ASSETS		
Liabilities:		
Accounts payable and accrued liabilities	$ 1,525,562	$ 1,043,284
Accrued payroll including employee benefits	2,322,877	2,384,758
Student deposits	530,757	443,050
Accrual for medical claims	351,330	343,000
Deferred revenues	670,180	443,570
Annuities payable	1,256,695	818,673
Postretirement benefit obligation	1,609,377	2,450,618
Federal equity in loan programs	923,231	1,525,585
Interest rate swaps liability	-	5,341,669
Finance lease liabilities	135,678	220,265
Bonds payable, net of deferred bond issuance costs	44,970,146	35,258,033
Total liabilities	54,295,833	50,272,505
Net assets:		
Without donor restrictions	53,596,219	67,264,694
With donor restrictions	158,382,930	176,785,148
Total net assets	211,979,149	244,049,842
TOTAL LIABILITIES AND NET ASSETS	$ 266,274,982	$ 294,322,347

See accompanying notes to financial statements.

KNOX COLLEGE

STATEMENT OF ACTIVITIES

For the Year Ended June 30, 2022

	Without Donor Restrictions	With Donor Restrictions	Total
REVENUES, GAINS, AND OTHER SUPPORT			
Tuition and fees	$ 55,857,128	$ -	$ 55,857,128
Less student aid and scholarships	(39,311,874)	-	(39,311,874)
Net tuition and fees	16,545,254	-	16,545,254
Contributions	3,419,904	14,460,346	17,880,250
Federal grants and contracts	304,497	4,820,149	5,124,646
Investment return, net	(6,953,755)	(19,097,177)	(26,050,932)
Auxiliary enterprises	9,214,212	108,566	9,322,778
Miscellaneous	653,161	70,494	723,655
Net assets released from restrictions	15,019,727	(15,019,727)	-
Total revenues, gains, and other support	38,203,000	(14,657,349)	23,545,651
EXPENSES			
Program services:			
Instruction	19,302,268	-	19,302,268
Academic support	4,156,148	-	4,156,148
Athletics	3,821,787	-	3,821,787
Student services	6,322,682	-	6,322,682
Auxiliary enterprises	8,072,545	-	8,072,545
Supporting services			
Management and general	8,432,498	-	8,432,498
Fundraising	3,193,832	-	3,193,832
Total expenses	53,301,760	-	53,301,760
OTHER CHANGES IN NET ASSETS			
Change in fair value of interest rate swaps	589,044	-	589,044
Net periodic benefit cost	410,485	-	410,485
Other components of net periodic benefit cost	430,756	-	430,756
Adjustments of amounts due under annuity and life income agreements	-	(352,806)	(352,806)
Change in value of beneficial interest in perpetual trust	-	(3,392,063)	(3,392,063)
Total other changes in net assets	1,430,285	(3,744,869)	(2,314,584)
CHANGE IN NET ASSETS	(13,668,475)	(18,402,218)	(32,070,693)
NET ASSETS, BEGINNING OF YEAR	67,264,694	176,785,148	244,049,842
NET ASSETS, END OF YEAR	$ 53,596,219	$ 158,382,930	$ 211,979,149

See accompanying notes to financial statements.

KNOX COLLEGE

STATEMENT OF ACTIVITIES

For the Year Ended June 30, 2021

	Without Donor Restrictions	With Donor Restrictions	Total
REVENUES, GAINS, AND OTHER SUPPORT			
Tuition and fees	$ 54,859,464	$ -	$ 54,859,464
Less student aid and scholarships	(36,908,620)	-	(36,908,620)
Net tuition and fees	17,950,844	-	17,950,844
Contributions	5,473,756	5,897,099	11,370,855
Federal grants and contracts	290,802	3,670,363	3,961,165
Investment return, net	7,511,748	35,351,629	42,863,377
Auxiliary enterprises	6,601,685	31,375	6,633,060
Miscellaneous	445,096	773,748	1,218,844
Net assets released from restrictions	16,455,632	(16,455,632)	-
Total revenues, gains, and other support	54,729,563	29,268,582	83,998,145
EXPENSES			
Program services:			
Instruction	17,099,711	-	17,099,711
Academic support	3,850,638	-	3,850,638
Athletics	2,939,296	-	2,939,296
Student services	5,752,160	-	5,752,160
Auxiliary enterprises	7,420,776	-	7,420,776
Supporting services			
Management and general	5,860,462	-	5,860,462
Fundraising	3,054,114	-	3,054,114
Total expenses	45,977,157	-	45,977,157
OTHER CHANGES IN NET ASSETS			
Change in fair value of interest rate swaps	1,838,940	-	1,838,940
Net periodic benefit cost	168,924	-	168,924
Other components of net periodic benefit cost	749,347		749,347
Adjustments of amounts due under annuity and life income agreements	-	(158,052)	(158,052)
Release of restrictions	17,254,595	(17,254,595)	-
Change in value of beneficial interest in perpetual trust	-	3,651,319	3,651,319
Total other changes in net assets	20,011,806	(13,761,328)	6,250,478
CHANGE IN NET ASSETS	28,764,212	15,507,254	44,271,466
NET ASSETS, BEGINNING OF YEAR	38,500,482	161,277,894	199,778,376
NET ASSETS, END OF YEAR	$ 67,264,694	$ 176,785,148	$ 244,049,842

See accompanying notes to financial statements.

KNOX COLLEGE

STATEMENTS OF CASH FLOWS

For the Years Ended June 30, 2022 and 2021

	2022	2021
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	$ (32,070,693)	$ 44,271,466
Adjustments to reconcile change in net assets to net cash from operating activities:		
Allowance for bad debts	208,892	416,267
Discount and allowance on pledges receivable	(127,880)	(27,880)
Depreciation	4,527,165	4,486,550
Amortization	22,375	15,352
Write-off of bond issuance cost in refinancing	101,034	-
Establish actuarial liability on annuity payable	497,080	-
Change in actuarial liability on annuities and life income funds	119,046	129,399
Realized gains on sale of investments, net	(2,081,171)	(7,068,330)
Unrealized (gains) losses on investments, net	34,761,015	(30,502,014)
Change in fair value of interest rate swaps	(589,044)	(1,838,940)
Increase in cash value of life insurance	2,617	(28,753)
Change in value of beneficial interest in perpetual trust	3,392,063	(3,651,319)
Contributions restricted for investments	(8,731,561)	(2,032,464)
Change in operating assets and liabilities:		
Grants and contracts receivable	(1,352,441)	69,614
Students and other accounts receivable	(543,015)	261,907
Inventories	(35,467)	80,562
Other assets	(21,603)	(38,615)
Pledges receivable	1,130,893	206,350
Loans receivable	461,461	681,228
Accounts payable and accrued liabilities	482,278	(586,081)
Accrued payroll including employee benefits	(61,881)	(25,329)
Student deposits	87,707	(81,000)
Accrual for medical claims	8,330	12,000
Deferred revenues	226,610	(563,951)
Postretirement benefit obligation	(841,241)	(918,271)
Federal equity in loan programs	(602,354)	(547,498)
Net cash from operating activities	(1,029,785)	2,720,250

This statement is continued on the following page.

KNOX COLLEGE

STATEMENTS OF CASH FLOWS (Continued)

For the Years Ended June 30, 2022 and 2021

	2022	2021
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of land, building, and equipment	$ (2,244,015)	$ (2,894,686)
Deposits held in trust	(5,011,966)	-
Proceeds from sale of investments	4,486,531	14,857,232
Purchase of investments	(15,820,033)	(7,557,764)
Net cash from investing activities	(18,589,483)	4,404,782
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from contributions restricted for investment of endowment	8,731,561	1,946,614
Proceeds from bonds payable	5,000,000	-
Payments on bonds payable	(163,921)	(3,156,580)
Payments of annuity obligations	(178,104)	(144,794)
Principal payments on capital lease obligations	(84,587)	(72,359)
Net cash from financing activities	13,304,949	(1,427,119)
CHANGE IN CASH AND CASH EQUIVALENTS AND RESTRICTED CASH	(6,314,319)	5,697,913
CASH AND CASH EQUIVALENTS AND RESTRICTED CASH, BEGINNING OF YEAR	13,743,006	8,045,093
CASH AND CASH EQUIVALENTS AND RESTRICTED CASH, END OF YEAR	$ 7,428,687	$ 13,743,006
Cash and cash equivalents	$ 6,773,697	$ 13,102,203
Restricted cash	654,990	640,803
	$ 7,428,687	$ 13,743,006
SUPPLEMENTAL DATA		
Bond settlement through refinancing	$ 35,359,067	$ -
Settlement of interest rate swap in bond refinancing	$ 4,752,625	$ -
Debt issuance costs in refinancing	$ 733,683	$ -
Interest paid	$ 1,325,701	$ 953,640

See accompanying notes to financial statements.

KNOX COLLEGE

STATEMENT OF FUNCTIONAL EXPENSES

For the Year Ended June 30, 2022

	Program Services						Supporting Services			
	Instruction	**Academic Support**	**Athletics**	**Student Services**	**Auxiliary Enterprises**	**Total Program Services**	**Management and General**	**Fundraising**	**Total Supporting Services**	**Total Expenses**
Compensation - salaries, wages and benefits	$ 12,028,216	$ 2,190,728	$ 1,787,302	$ 3,872,303	$ 3,468,859	$ 23,347,408	$ 3,197,639	$ 2,356,528	$ 5,554,167	$ 28,901,575
Office and department supplies and equipment	4,987,197	582,727	513,827	1,112,731	2,137,965	9,334,447	661,567	181,940	843,507	10,177,954
Depreciation and amortization	892,053	857,275	593,466	104,415	1,181,547	3,628,756	684,324	236,461	920,785	4,549,541
Professional technical services	571,222	434,256	290,191	883,611	88,752	2,268,032	1,572,902	326,448	1,899,350	4,167,382
Dining supplies	-	-	-	-	51,178	51,178	-	-	-	51,178
Travel/food and entertainment	355,763	6,799	524,853	349,622	-	1,237,037	186,617	92,455	279,072	1,516,109
Occupancy	4,967	-	-	-	634,092	639,059	1,172,792	-	1,172,792	1,811,851
Debt service	462,630	84,363	68,306	-	214,094	829,393	531,289	-	531,289	1,360,682
Insurance	220	-	43,842	-	296,058	340,120	425,368	-	425,368	765,488
TOTAL EXPENSES	$ 19,302,268	$ 4,156,148	$ 3,821,787	$ 6,322,682	$ 8,072,545	$ 41,675,430	$ 8,432,498	$ 3,193,832	$ 11,626,330	$ 53,301,760

See accompanying notes to financial statements.

KNOX COLLEGE

STATEMENT OF FUNCTIONAL EXPENSES

For the Year Ended June 30, 2021

	Program Services						Supporting Services			
	Instruction	Academic Support	Athletics	Student Services	Auxiliary Enterprises	Total Program Services	Management and General	Fundraising	Total Supporting Services	Total Expenses
Compensation - salaries, wages and benefits	$ 12,187,614	$ 2,206,093	$ 1,645,659	$ 3,969,355	$ 2,503,790	$ 22,512,511	$ 1,575,211	$ 2,338,708	$ 3,913,919	$ 26,426,430
Office and department supplies and equipment	2,724,588	293,800	370,559	580,228	626,109	4,595,284	708,469	209,344	917,813	5,513,097
Depreciation and amortization	860,280	913,297	588,895	102,774	1,133,140	3,598,386	725,102	178,414	903,516	4,501,902
Professional technical services	770,699	344,787	77,829	737,364	59,919	1,990,598	1,188,502	309,174	1,497,676	3,488,274
Dining supplies	951	-	-	-	2,027,518	2,028,469	-	-	-	2,028,469
Travel/food and entertainment	44,755	381	146,545	174,405	-	366,086	15,330	18,474	33,804	399,890
Occupancy	4,856	-	-	-	629,496	634,352	920,865	-	920,865	1,555,217
Debt service	505,968	92,280	74,737	188,034	247,628	1,108,647	379,356	-	379,356	1,488,003
Insurance	-	-	35,072	-	193,176	228,248	347,627	-	347,627	575,875
TOTAL EXPENSES	$ 17,099,711	$ 3,850,638	$ 2,939,296	$ 5,752,160	$ 7,420,776	$ 37,062,581	$ 5,860,462	$ 3,054,114	$ 8,914,576	$ 45,977,157

See accompanying notes to financial statements.

1. SIGNIFICANT ACCOUNTING POLICIES

Organization: Knox College (College) is a private, nonprofit institution of higher education located in Galesburg, Illinois. The College provides education and training services for students and allows for study abroad at the undergraduate level. The College also performs research, training, and other services under grants, contracts, and similar agreements with sponsoring organizations.

Classification of Net Assets: The College's net assets have been grouped into the following two classes:

> **Without Donor Restriction** – Net assets that are not subject to donor-imposed stipulations may be designated for specific purposes by action of the Board of Trustees or may otherwise be limited by contractual agreements with outside parties.
>
> **With Donor Restriction** – Net assets whose use by the College is subject to donor-imposed stipulations that can be fulfilled by actions of the College pursuant to those stipulations or that expire by passage of time are temporary in nature. Other donor-imposed restrictions are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity. Generally, the donors of these assets permit the College to use all or part of the income earned on these assets for specified purposes.

Classification of Revenues, Expenses, Gains, and Losses: Revenues are reported as increases in net assets without donor restriction unless use of the related assets is limited by donor-imposed restrictions. Expenses are reported as decreases in net assets without donor restriction. Gains and losses on investments and other assets or liabilities are reported as increases or decreases in net assets without donor restriction unless their use is restricted by explicit donor stipulation. Expirations of donor-imposed stipulations that simultaneously increase one class of net assets and decrease another are reported as net assets released from restrictions.

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.

Cash and Cash Equivalents: Cash and cash equivalents consist principally of funds deposited in cash management accounts with original maturities of less than 90 days. At June 30, 2022 and 2021, the College's cash balances exceeded federally insured limits by $7,362,279 and $13,454,777. The College has not experienced any losses in these accounts and believes it is not exposed to any significant credit risk in cash and cash equivalents.

1. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Restricted Cash: At June 30, 2022 and 2021, restricted cash consisted of deposits for the following:

	2022	2021
Perkins loans	$ 654,990	$ 640,803

Grants and Contracts Receivable: Grants and contracts receivable consist of amounts due from government agencies within one year and are stated at net realizable value. Grants and contracts receivable are considered fully collectible, and accordingly, no allowance for doubtful accounts has been recorded.

Students and Other Accounts Receivable: Students accounts receivable are stated at the amounts billed to students less applied scholarships and loan proceeds plus any accrued and unpaid interest. The College provides an allowance for doubtful accounts, which is based upon a review of outstanding receivables, historical collection information, and existing economic conditions. Tuition and fees are generally due at the beginning of the term unless the student has established a payment plan. A late fee may be charged to all accounts not paid in full at the start of the term or enrolled in a payment plan approximately one month prior to the start of the term. Charges that are past due without any payments for approximately five months are sent to collections and subsequently written off if there are no payments for one year.

Inventories: Inventories consist of administrative supplies and food service. All inventories are stated at the lower of cost (first-in, first-out method) or market.

Collections: The College has collections of valuable artwork, papers, and other memorabilia that were donated to the College. These items are on display and are used by educators, researchers, historians, and others. These contributed collections are not reflected on the financial statements. However, all proceeds from any sales of collections, or items in a collection, must be used to acquire other items for collections or to maintain the collections. As of June 30, 2022 and 2021, there were no unspent proceeds from the sale of collections.

Investments: Equity investments and debt securities are stated at fair value based on quoted market prices, except for certain investments which are reported at net asset value (NAV) as calculated by investment managers. Investment return is recognized based on the presence, or absence, of donor-imposed restrictions and is reported net of external and direct internal expenses.

1. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Land, Buildings, and Equipment: Land, buildings, and equipment are stated at cost at date of acquisition or fair value at date of donation in the case of gifts. The College generally capitalizes all assets with a cost of $10,000 or more. Depreciation is computed using the straight-line method over their estimated useful lives:

	Years
Land improvements	20
Buildings	20-45
Equipment and furniture	3-20

Deferred Revenues: Deferred revenue consists primarily of student tuition, housing, and other fees received or billed that are nonrefundable prior to the beginning of an academic term. Revenue from prepaid tuition is deferred and recognized over the periods to which the revenue relates.

Federal Equity in Loan Programs: U.S. government loan funds refundable under the Perkins Loan program are distributable to the federal government upon liquidation of the revolving loan program and thus are reflected as a liability in the accompanying Statements of Financial Position. The authority to make new Perkins loans ended September 30, 2017, with disbursements permitted through June 30, 2018 for students with existing Perkins loans.

Interest Rate Swap: The College has adopted authoritative guidance related to *Accounting for Derivative Instruments and Hedging Activities*. Fair values of interest rate swap agreements are the estimated amounts that the College would have received or paid, including accrued interest, to terminate the agreements on the date of the Statements of Financial Position, taking into account the creditworthiness of the underlying party. Fair value for trading-related instruments is determined by pricing models maintained by the counterparty to the swap agreement. Pricing models utilize a series of market inputs to determine the present value of future cash flows, with adjustments, as required for credit and liquidity risk. The estimated fair values of the agreements are recorded as assets or liabilities within the Statements of Financial Position. Changes in the estimated fair values are recorded in the Statements of Activities.

Leases: The College determines whether an arrangement is a lease at the inception of the arrangement based on the terms and conditions in the contract. A contract contains a lease if there is an identified asset and the College has the right to control the asset.

1. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Leases: (Continued)

Finance lease right of use assets represent the College's right to use an underlying asset for the lease term and lease liabilities represent the College's obligation to make lease payments arising from the lease. The finance right of use assets are amortized over the term of the lease agreement using the straight-line method. Finance lease liabilities are recognized at the commencement date based on the present value of lease payments over the lease term. For any leases that do not provide the lessor’s implicit rate, the College uses its incremental borrowing rate at the commencement date in determining the present value of lease payments. Leases with an initial term of 12 months or less are not recorded on the Statements of Financial Position, and lease expense is recognized on a straight-line basis over the lease term.

The College has lease agreements with lease and non-lease components, which are accounted for as a single lease component for all asset classes. Additionally, for certain equipment leases, the portfolio approach is applied to account for the operating lease right of use assets and lease liabilities.

In February 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2016-02, *Leases* (Topic 842), to increase the transparency and comparability about leases among entities. The new guidance requires lessees to recognize a lease liability and a corresponding lease asset for virtually all lease contracts. It also requires additional disclosures about leasing arrangements. ASU No. 2016-02, as amended by ASU No. 2020-05, is effective for non-public entities for fiscal years beginning after December 15, 2021 and interim periods within fiscal years beginning after December 15, 2022. Lessor accounting remains largely unchanged from the legacy US GAAP but does contain some targeted improvements to align with the new revenue recognition guidance, *Revenue from Contracts with Customers* (Topic 606).

The College implemented ASU No. 2016-02, as amended by ASU No. 2018-11, on July 1, 2020 which allows the College to apply the new standard at the adoption date and recognize a cumulative-effect adjustment to the opening balance of net assets in the period of adoption. The College elected to apply the transition requirements at the July 1, 2020 effective date rather than at the beginning of the earliest comparative period presented. This approach allows for a cumulative effect adjustment in the period of adoption and prior periods are not restated and continue to be reported in accordance with historical accounting under Accounting Standards Codification (ASC) Topic 840, *Leases*. In addition, the College has elected the package of practical expedients permitted under the transition guidance within the new standard which does not require reassessment of prior conclusion related to contracts containing a lease, lease classification and initial direct lease costs. The adoption had no impact on the Statements of Financial Position.

1. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Deposits held in trust for capital projects: Deposits held in trust represent proceeds from a long-term debt refinancing described in Note 12, $5,000,000, and accrued interest of $11,966 to be used for capital projects of the College. The proceeds shall be disbursed as needed to finance or reimburse costs relating to the capital projects as detailed in the agreement and shall be spent by May 1, 2024.

<u>Revenue Recognition</u>

Tuition and fees: Revenues from tuition and fees are derived from education services provided to students. Generally, tuition and other fees are paid upfront and recorded in contract liabilities as deferred revenue in advance of the date when education services are provided to the student.

The nature of tuition and fees give rise to variable consideration in the form of institutional scholarships awarded to students to defray the costs of the academic programs, which reduce the transaction price (tuition and fees). Scholarships awarded to students were $39,311,874 and $36,908,620 at June 30, 2022 and 2021, respectively. Payments for tuition are due prior to the start of the academic term.

Tuition and fees revenues are recognized ratably over the academic terms. The College generally uses the time elapsed method, an input measure, as it best depicts the simultaneous consumption and delivery of services.

The College's refund policy permits students who officially withdraw by the appropriate date as published for the refunds generally result in a reduction of deferred revenue during the period that the student drops or withdraws from a class.

Revenues are reported as increases in net assets without donor restrictions. Gains and losses on investments and other assets or liabilities are reported as increases or decreases in the net asset category corresponding to the underlying financial instrument. 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 in the Statements of Activities as net assets released from restrictions.

1. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Revenue Recognition (Continued)

Auxiliary Enterprises: The College's auxiliary enterprises exist primarily to furnish goods and services to students, faculty, and staff. Managed as essentially self-supporting activities, the College's auxiliary enterprises consist of residence halls, dining facilities, and the bookstore. Payments for housing and dining services are due prior to the start of the academic term. Performance obligations are delivered over the academic terms, consequently associated revenues are earned and recognized over the course of each term as services are delivered. Services performed under these contracts are considered a single performance obligation in accordance with Accounting Standards Codification (ASC) Topic 606 as issued by the FASB, as such services are regarded as a bundled series of distinct goods and services with the same timing and pattern of transfer to the resident. Sales revenue from the bookstore is recognized at a point in time at delivery of the goods and is not material to the financial statements.

Significant Judgments: There are no significant judgments involved in the recognition of revenue due to the passage of time.

Various economic factors could affect the recognition of revenues and cash flows, including the demand for services, ability to provide services, availability of labor, and prompt payment.

All tuition and fees and auxiliary revenues are recognized over time.

Contract Balances: The timing of revenue recognition, billings and cash collections results in billed accounts receivable (contract assets) and deferred revenue and student deposits (contract liabilities) on the Statements of Financial Position. Contract liabilities are released as the performance obligations are met. The following table provides information about the beginning and ending contract assets and liabilities for the years ended June 30, 2022, 2021 and 2020:

	2022	2021	2020
Contract assets	$ 993,118	$ 844,344	$ 1,035,600
Contract liabilities	$ 675,746	$ 512,242	$ 441,016

Contributions: Contributions received, including unconditional promises, are recognized as revenues when the donor's commitment is received. Unconditional promises are recognized at the estimated present value of the future cash flows, net of allowances. Promises made and collected in the same reporting period are recorded when received in the appropriate net asset category. Promises of noncash assets are recorded at their fair value. Conditional promises are recorded when donor stipulations are substantially met.

1. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Revenue Recognition (Continued)

Grants: Grant revenue is derived from cost-reimbursable federal, state grants and foundations, which are conditioned upon certain performance requirements and/or the incurrence of allowable qualifying expenses. Amounts received are recognized as revenue when the College has incurred expenditures in compliance with specific grant provisions. Amounts received prior to incurring qualifying expenditures are reported as refundable grant advances in deferred revenue in the Statements of Financial Position. The College had refundable grant advances of $525,191 and $374,378 for the years ended June 30, 2022 and 2021, respectively. At June 30, 2022 and 2021 the College had conditional grant awards remaining of $80,692 and $3,568,997, respectively. These awards are conditional upon incurring allowable expenditures under the grants. Grant revenue is classified as income without donor restrictions unless the use of the income is limited by donor restrictions.

Functional Allocation of Expenses: Expenses are recognized when they are incurred. The costs of providing various programs have been summarized on a functional basis in the Statements of Activities and in the Statements of Functional Expenses. The 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. Expenses specifically identifiable with a program, including payroll and related expenses, are charged to that program. Certain costs, primarily physical plant, depreciation and interest, have been allocated among functional categories based on square footage or direct benefit to the function. Management and general expenses include those expenses that are not directly identifiable with any other specific function but provide for the overall support and direction of the College.

Operations: Revenues received and expenses incurred in conducting the programs and services of the College are presented in the financial statements as operating activities. Nonoperating results include change in fair value of interest rate swaps, postretirement benefits related changes, adjustments of amounts due under annuity and life income agreements and change in value of beneficial interest in perpetual trust.

2. INCOME TAX STATUS

The College is a not-for-profit entity as described in Section 501(c)(3) of the Internal Revenue Code (IRC) and is exempt from federal income taxes on related income pursuant to Section 501(a) of the IRC and similar provisions of the state tax code. The College is not classified as a private foundation.

3. LIQUIDITY AND AVAILABILITY OF RESOURCES

The College's financial assets available within one year of the Statement of Financial Position date for general expenditures for the years ended June 30 are as follows:

	2022	2021
Cash and cash equivalents	$ 6,773,697	$ 13,102,203
Grants and contracts receivable	1,564,255	211,814
Students and other receivables	1,446,212	1,112,089
Pledge receivables	640,385	1,643,398
Restricted cash	654,990	640,803
Investments	170,007,589	191,356,548
Beneficial interest in perpetual trust	15,213,758	18,605,821
	196,300,886	226,672,676
Less those unavailable for general expenditure:		
Board designated net assets	(35,791,264)	(44,166,472)
Net assets with donor restrictions	(158,382,930)	(176,785,148)
Financial assets available to meet cash needs for general expenditures	2,126,692	5,721,056
Liquidity resources:		
Board approved appropriation from endowment investments for fiscal year 2023 and 2022 operating budget	15,612,000	9,702,000
Total financial assets available to meet cash needs for general expenditures within one year	$ 17,738,692	$ 15,423,056

The College monitors liquidity to meet operating needs, liabilities and other contractual commitments, while striving to maximize the investment of its available needs. A portion of resources has been designated by the Board of Trustees for endowment to be invested for long-term appreciation and current income but remain available and may be spent at the discretion of the Board. These funds are reported in Note 19 as board designated funds. In addition to the board designated funds, the College has an operating line of credit from which it could draw upon in an unanticipated liquidity need. This operating line of credit is more fully described in Note 10.

4. PLEDGES RECEIVABLE

Unconditional promises to give are included in the financial statements as pledges receivable and revenue of the appropriate net asset category. Pledges are recorded after discounting to the present value of the future cash flows at a rate ranging from 0.29% to 2.73% for the years ended June 30, 2022 and June 30, 2021 respectively.

Unconditional promises at June 30, 2022 and 2021 are expected to be realized in the following periods:

	2022	2021
In one year or less	$ 637,033	$ 1,498,924
Between two years and five years	88,500	357,500
	725,533	1,856,424
Less discount	(13,998)	(31,649)
Less allowance	(71,150)	(181,377)
Total pledges receivable	$ 640,385	$ 1,643,398

5. LOANS RECEIVABLE

Loans receivable at June 30, 2022 and 2021 consist of the following:

	2022	2021
Perkins loan program	$ 1,385,667	$ 1,797,953
Less allowance for doubtful accounts	(69,283)	(89,898)
Total Perkins loan program	1,316,384	1,708,055
College loan fund - student loans	259,424	323,594
Less allowance for doubtful accounts	(12,971)	(16,352)
Total college loan fund - student loans	246,453	307,242
Other loans receivable	56,336	65,337
Total loans receivable	$ 1,619,173	$ 2,080,634

Federal Perkins Loans are loans for which the College acts as an agent for the Federal government in administering the loan program. The Perkins Loan portfolio is guaranteed by the United States Department of Education. There are no impaired or nonperforming loans and no modifications to loan terms executed by the College since past-due loans are turned over to the Department of Education. Under federal law, the authority for schools to award new Perkins Loans ended on September 30, 2017. Final disbursements were permitted through June 30, 2018.

5. LOANS RECEIVABLE (Continued)

The College determined the allowance for estimated losses on these student loans by considering historical default rates and analyzing the aging of past-due loans.

Classes of loans as of June 30, 2022:

	Not in Repayment	Current	<270 Days	270 Days to 2 Years	2-5 Years	More than 5 Years	Total
Perkins Loan Fund	$ 101,380	$ 832,749	$ 191,293	$ 160,927	$ 58,630	$ 40,687	$ 1,385,667
College Loan Fund	55,094	61,295	71,046	57,357	4,843	9,790	259,424
Total	$ 156,474	$ 894,044	$ 262,339	$ 218,284	$ 63,473	$ 50,477	$ 1,645,091
Percentage of total loan portfolio	9.5%	54.3%	15.9%	13.3%	3.9%	3.1%	100.0%

Classes of loans as of June 30, 2021:

	Not in Repayment	Current	<270 Days	270 Days to 2 Years	2-5 Years	More than 5 Years	Total
Perkins Loan Fund	$ 197,183	$ 1,438,318	$ 17,515	$ 39,853	$ 74,434	$ 30,650	$1,797,953
College Loan Fund	69,405	179,102	-	41,976	16,284	16,827	323,594
Total	$ 266,588	$ 1,617,420	$ 17,515	$ 81,829	$ 90,718	$ 47,477	$2,121,547
Percentage of total loan portfolio	12.6%	76.2%	0.8%	3.9%	4.3%	2.2%	100.0%

6. INVESTMENTS

Investments recorded at fair value at June 30, 2022 and 2021 consisted of the following:

	2022	2021
Mutual funds	$ 87,202,953	$ 91,973,129
Marketable equity securities	78,006,843	92,347,472
Corporate bonds	657,502	739,709
U.S. Government obligations	3,244,389	5,024,653
Limited partnership	53,041	343,621
Other	842,861	927,964
Total investments	$ 170,007,589	$ 191,356,548

6. INVESTMENTS (Continued)

The College invests in various investment securities. Investment securities are exposed to various risks such as interest rate, market, and credit risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the value of investment securities will occur in the near term and that such changes could materially affect the fair value and the amounts reported in the Statement of Financial Position.

7. BENEFICIAL INTEREST IN PERPETUAL TRUST

The College is the beneficiary of a perpetual trust held and administered by a third-party trustee. Under the terms of the trust, the College has the right to receive the income earned on the trust assets in perpetuity. The fair value of the beneficial interest in the trust is recognized as an asset and as a contribution restricted in perpetuity at the date the trust is established. The College's estimate of fair value is based on fair value information received from the trustee. The trust assets consist of, but are not limited to, cash and cash equivalents, corporate and government bonds, mutual funds, and equity securities. These assets are not subject to the control or direction of the College. Gains and losses, which are not distributed by the trust, and income are reflected as change in value of beneficial interest in perpetual trust in the Statements of Activities. Income of $752,857 and $140,011 was received from this trust in 2022 and 2021, respectively.

8. FAIR VALUE MEASUREMENTS

GAAP establishes a framework for measuring fair value. That framework uses a hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. GAAP requires the College to maximize the use of observable inputs when measuring fair value. The hierarchy describes three levels of inputs, which are as follows:

Level 1: Quoted prices in active markets for identical assets or liabilities.

Level 2: Quoted prices for similar assets or liabilities in active markets; quoted prices for identical assets or liabilities in inactive markets; or inputs that are derived principally from or corroborated by observable market data by correlation or other means.

Level 3: Significant unobservable inputs.

In many cases, a valuation technique used to measure fair value includes inputs from more than one level of the fair value hierarchy. The lowest level of significant input determines the placement of the entire fair value measurement in the hierarchy. The categorization of an investment within the hierarchy reflects the relative ability to observe the fair value measure and does not necessarily correspond to the perceived risk of that investment.

8. FAIR VALUE MEASUREMENTS (Continued)

If an investment that is measured using net asset value (NAV) has a readily determinable fair value (that is, it can be traded at the measurement date at its published NAV), it is included in Level 1 of the hierarchy. Otherwise, investments measured using NAVs are not included in Level 1, 2, or 3, but are separately reported.

Valuation Techniques

Following is a description of the valuation techniques used for assets and liabilities measured at fair value on a recurring basis. There have been no changes to the techniques used during the years ended June 30, 2022 and 2021.

- Mutual funds and marketable equity securities: Valued at the closing quoted price in an active market.

- Corporate bonds: The investment grade corporate bonds held by the College generally do not trade in active markets on the measurement date. Therefore, corporate debt securities are valued using inputs including yields currently available on comparable securities of issuers with similar credit ratings, recent market price quotations (where observable), bond spreads, and fundamental data relating to the issuer.

- U.S. government agency securities and collateralized mortgage obligations: Valued by a pricing service using models that incorporate market observable data such as reported sales of similar securities, broker quotes, yields, bids, offers and reference data.

- U.S. government securities: U.S. Treasury bonds and notes that are “on the run” are measured at quoted prices in active markets for the same security.

- Beneficial interest in perpetual trust: Valued using the fair value of the assets held in the trust reported by the trustee as of June 30, 2022 and 2021. The College considers the measurement of its beneficial interest in the perpetual charitable trust to be a Level 3 measurement within the hierarchy because even though that measurement is based on the unadjusted fair value of trust assets reported by the trustee, the College will never receive those assets or have the ability to direct the trustee to redeem them.

- Interest rate swaps liability: The fair value is estimated using forward-looking interest rate curves and discounted cash flows that are observable or that can be corroborated by observable market data.

8. FAIR VALUE MEASUREMENTS (Continued)

Valuation Techniques (Continued)

Fair value measurements recorded on a recurring basis at June 30, 2022 were as follows:

	Assets at Fair Value as of June 30, 2022			
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
Assets:				
Investments				
Mutual funds	$ 85,272,046	$ 1,930,907	$ -	$ 87,202,953
Marketable equity securities	78,006,843	-	-	78,006,843
Corporate bonds	-	657,502	-	657,502
U.S. government agency securities	-	489,291	-	489,291
U.S. government securities	2,755,098	-	-	2,755,098
Subtotal	$ 166,033,986	$ 3,077,700	$ -	169,111,686
Life insurance contracts (contract value)				574,867
Certificates of deposit (cost)				267,994
Limited partnership (NAV)				53,041
Total investments				$ 170,007,589
Beneficial interest in perpetual trust	$ -	$ -	$ 15,213,758	$ 15,213,758

8. FAIR VALUE MEASUREMENTS (Continued)

Fair value measurements recorded on a recurring basis at June 30, 2021 were as follows:

	Assets at Fair Value as of June 30, 2021			
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
Assets:				
Investments				
Mutual funds	$ 91,973,129	$ -	$ -	$ 91,973,129
Marketable equity securities	92,347,472	-	-	92,347,472
Corporate bonds	-	739,709	-	739,709
U.S. government agency securities	-	730,974	-	730,974
U.S. government securities	4,293,679	-	-	4,293,679
Collateralized mortgage obligations	-	1,139	-	1,139
Subtotal	$ 188,614,280	$ 1,471,822	$ -	190,086,102
Life insurance contracts (contract value)				626,030
Certificates of deposit (cost)				300,795
Limited partnership (NAV)				343,621
Total investments				$ 191,356,548
Beneficial interest in perpetual trust	$ -	$ -	$18,605,821	$ 18,605,821
Liabilities:				
Interest rate swaps liability	$ -	$ 5,341,669	$ -	$ 5,341,669

The following table sets forth additional disclosures of the College's investments whose fair value is estimated using NAV per share (or its equivalent) as of June 30, 2022.

Investment	Fair Value	Unfunded Commitment	Redemption Frequency	Redemption Notice Period
Limited partnership (a)	$ 53,041	$ -	N/A	N/A

8. FAIR VALUE MEASUREMENTS (Continued)

The following table sets forth additional disclosures of the College's investments whose fair value is estimated using NAV per share (or its equivalent) as of June 30, 2021.

Investment	Fair Value	Unfunded Commitment	Redemption Frequency	Redemption Notice Period
Limited partnership (a)	$ 343,621	$ -	N/A	N/A

(a) This class includes investment in a limited partnership that invest primarily equity and equity-related securities of consumer-oriented companies. No liquidity is available, but there are allocations of profits and losses of the partnership.

The following table presents a reconciliation of changes in fair value of the beneficial interest in perpetual trust classified as Level 3 in the fair value hierarchy for the years ended June 30, 2022 and 2021:

	2022	2021
Balance, beginning of year	$ 18,605,821	$ 14,954,502
Interest in distribution of perpetual trust	(751,662)	(630,005)
Total income and realized/unrealized gains	(2,640,401)	4,281,324
Balance, end of year	$ 15,213,758	$ 18,605,821

9. LAND, BUILDINGS, AND EQUIPMENT

The following is a summary of land, buildings, and equipment as of June 30, 2022 and 2021, respectively:

	2022	2021
Land and campus expansion	$ 630,636	$ 630,636
Land - campus and grounds	2,598,153	2,598,153
Land improvements	12,545,813	11,855,088
Buildings:		
Educational and general	77,936,822	77,722,695
Auxiliary enterprises	32,735,333	31,788,789
Equipment and furniture	27,588,235	26,808,800
Construction in process	504,361	891,177
Subtotal	154,539,353	152,295,338
Less accumulated depreciation	(92,230,823)	(87,703,658)
Net land, buildings, and equipment	$ 62,308,530	$ 64,591,680

9. LAND, BUILDINGS, AND EQUIPMENT (Continued)

Construction in process at June 30, 2022 and 2021 consisted of architectural and construction work for the Science and Math elevator renovation, the Fire Alarm System upgrade, Ingersoll House renovations, and various other building projects.

The College had no outstanding construction commitments at June 30, 2022 and 2021.

10. LINES OF CREDIT

The College had an available line of credit of $7,500,000 (LIBOR plus 125 basis points) for operating purposes which matured on November 27, 2021. On September 30, 2021 the agreement was amended to reduce the amount available to $5,000,000 and extend the agreement to September 29, 2022. At June 30, 2022 and 2021, there was no outstanding balance.

The line of credit agreement contains various covenants including availability of certain financial records, maintenance of insurance, and certain financial reporting requirements. The College believes it is in compliance with these covenants and ratios as of June 30, 2022 and 2021.

11. LEASES

The College is leasing various equipment under financing leases expiring through 2025. The right of use assets with a balance of $135,678 and $231,522 at June 30, 2022 and 2021 are included in the equipment and furniture line of land, buildings, and equipment in the statements of financial position.

The following table provides the maturities of the finance lease liabilities at June 30, 2022:

Year Ending June 30,	Payment	Interest	Principal
2023	$ 71,103	$ 6,161	$ 64,942
2024	71,103	2,267	68,836
2025	1,936	36	1,900
	$ 144,142	$ 8,464	$ 135,678

The College utilizes the incremental borrowing rate in determining the present value of lease payments unless the implicit rate is readily determinable.

Cash paid for financing cash flows for finance leases included in the measurement of lease liabilities for the year ended June 30, 2022 and 2021 was $105,179 and $104,654, respectively.

11. LEASES (Continued)

Lease term at June 30, 2022:

Weighted average remaining lease term (years)	0.42

Lease term and Discount Rate at June 30, 2021:

Weighted average remaining lease term (years)	0.58
Weighted average discount rate	0.23%

The College did not have any operating leases that are one year or less at June 30, 2022 and 2021.

The following summarizes the line items in the statements of activities which include the components of lease expense for the year ended June 30:

	2022	2021
Finance lease costs:		
Amortization of lease assets included in management and general expenses	$ 94,444	$ 104,435
Interest on lease liabilities included in management and general expenses	10,455	15,144
Total finance lease costs	$ 104,899	$ 119,579

The following summarizes cash flow information related to leases for the year ended June 30:

	2022	2021
Cash paid for amounts included in the measurement of lease liabilities:		
Operating cash flows from finance leases	$ 10,455	$ 15,144
Financing cash flows from finance leases	$ 105,179	$ 104,654

12. LONG-TERM DEBT

Long-term debt outstanding as of June 30, 2022 and 2021, is as follows:

Bonds payable	2022	2021
Revenue bonds		
Series 2021A	$ 36,150,000	$ -
Series 2021B	4,780,000	-
Series 1996	-	19,700,000
Series 1999	-	5,000,000
Term Loan – SMC Phase I	-	10,659,067
	40,930,000	35,359,067
Series 2021A unamortized original issue premium	4,751,453	-
Less deferred bond issuance costs	(711,307)	(101,034)
	$ 44,970,146	$ 35,258,033

Repayment terms and collateral relating to the long-term debt are summarized as:

In December 2021, the College borrowed $36,150,000 under a loan agreement with the City of Galesburg, Illinois (the City). The City issued $36,150,000 aggregate principal amount tax-exempt fixed revenue bonds titled City of Galesburg, Knox County, Illinois Revenue Bonds, Series 2021A, due October 1, 2046. Pursuant to the loan agreement dated December 2021, the City loaned the proceeds of the bond issue to the College. The proceeds are to be used for repayment of Series 1996 and Series 1999 revenue bonds, term loan, related issuance costs and fees and to fund a project fund in the amount of $5,000,000 to be used towards costs of acquisition, construction, and renovation of certain educational facilities. The loan agreement contains various options where the borrower may prepay the loan based on circumstances defined in the agreement.

In conjunction with the 2021A bonds, at June 30, 2022, there is a $4,751,453 issue premium that is being amortized over the life of the bonds following the schedule and rates below.

Interest under the loan agreement is paid semi-annually, and the interest rate is determined as defined in the agreement as below:

Description	Rate	Amount
Serial Bonds Final Payment Due October 1, 2031	5.00%	$ 3,865,000
Term Bonds Due October 1, 2036	4.00%	3,625,000
Term Bonds Due October 1, 2041	4.00%	4,425,000
Term Bonds Due October 1, 2046	4.00%	24,235,000
		$ 36,150,000

12. LONG-TERM DEBT (Continued)

In December 2021, the College borrowed $4,780,000 under a loan agreement with the City. The City issued $4,780,000 aggregate principal amount taxable fixed revenue bonds, titled City of Galesburg, Knox County, Illinois Revenue Bonds, Series 2021B, due October 1, 2024. Pursuant to the loan agreement dated December 2021, the City loaned the proceeds of the bond issue to the College. The proceeds are to be used for financing certain swap termination payments and paying certain costs of issuance in connection with the authorization and issuance of the Series 2021B bonds. The loan agreement contains various options where the borrower may prepay the loan based on circumstances defined in the agreement.

Interest under the loan agreement is paid semi-annually, and the interest rate is determined as defined in the agreement as below:

Description	Rate	Amount
Taxable Serial Bonds Due October 1, 2022	1.49%	$ 3,865,000
Taxable Serial Bonds Due October 1, 2023	1.59%	3,625,000
Taxable Serial Bonds Due October 1, 2024	1.92%	4,425,000
		$ 4,780,000

In March 1996, the College borrowed $19,700,000 under a loan agreement with the City of Galesburg, Illinois (the City). The City issued $19,700,000 aggregate principal amount floating/adjustable/fixed revenue bonds, Series 1996, due March 1, 2031. Pursuant to the loan agreement dated March 1996, the City loaned the proceeds of the bond issue to the College. The proceeds are to be used for repayment of bank loans obtained to refund in advance $2,740,000 of Illinois Educational Facilities Authority Revenue Bond, Series 1993 and $2,485,291 of Illinois Educational Facilities Authority notes and costs of acquisition, construction, and renovation of certain educational facilities. The loan agreement contains various options where the borrower may prepay the loan based on circumstances defined in the agreement. The bonds were paid off during refinancing in December 2021.

Interest under the loan agreement is payable monthly, and the interest rate is determined under various adjustable methods as defined in the agreement. During the year ended June 30, 2021, the weighted average interest rate on the bonds, including credit enhancement fees, was 1.34%. The bonds operated in a floating rate mode bearing an interest rate of 0.09% at June 30, 2021.

Pursuant to the above agreement, the College has entered into a related reimbursement agreement with a bank that provides the bank's letter of credit in the amount of $19,991,453, for principal and interest. The letter of credit agreement expired on November 27, 2021. On September 30, 2021 the agreement was amended to extend the agreement to March 31, 2022. This letter of credit was paid in full with a December 2021 bond issuance.

12. LONG-TERM DEBT (Continued)

On July 29, 1999, the College borrowed $5,000,000 under a loan agreement with the City. The City issued $5,000,000 in Variable Rate Demand Revenue Bonds, Series 1999, due July 1, 2024. Pursuant to the loan agreement dated July 1999, the City loaned the proceeds of the bond issue to the College. The proceeds are to be used to provide funds to finance or refinance (1) all or a portion of the costs of the acquisition, construction, renovation, and equipping of certain educational facilities of the College and (2) all or a portion of the costs of issuance of the bonds. The bonds were paid off during refinancing in December 2021.

Interest under the loan agreement was payable monthly, and the interest rate was determined under various adjustable methods as defined in the agreement. During the year ended June 30, 2021, the weighted average interest rate on the bonds, including credit enhancement fees, was 1.54%. The bonds operated in a floating rate mode bearing an interest rate of 0.29% at June 30, 2021.

Pursuant to the above agreement, the College has entered into a related reimbursement agreement with a bank that provides the bank's letter of credit in the amount of $5,073,973, for principal and interest. The letter of credit agreement expired November 27, 2021. On September 30, 2021 the agreement was amended to extend the agreement to March 31, 2022. This letter of credit was paid in full with a December 2021 bond issuance.

The College entered into a term loan agreement on November 1, 2018 for the amount of $15,065,647 of which $7,000,000 is available for the phase I of the Sharvy G. Umbeck Science–Mathematics Center renovations. This term loan expired on November 1, 2021. The interest rate on the term loan is LIBOR plus 150 basis points (1.50%) as of June 30, 2022 and 2021. The outstanding balance of this loan as of June 30, 2021 was $10,659,067, respectively. On September 30, 2021 the agreement was amended to extend the maturity date to March 31, 2022. This loan was paid in full with a December 2021 bond issuance.

Interest expense and fees related to long-term debt, including capital lease obligations, was $1,360,682 and $1,488,003 for the years ended June 30, 2022 and 2021, respectively.

These aforementioned agreements contain several covenants with which the College believes it is in compliance with at June 30, 2022 and 2021.

Maturities of the long-term debt described above are as follows:

Year Ending June 30,	
2023	$ 375,000
2024	380,000
2025	4,025,000
2026	475,000
2027	495,000
Thereafter	35,180,000
Total	$ 40,930,000

12. LONG-TERM DEBT (Continued)

The College is amortizing debt issuance costs of $733,683 over the life of the bonds. At June 30, 2022, debt issuance costs, net of accumulated amortization, of $711,307, was included net of the bonds payable on the Statements of Financial Position. Amortization expense was $22,376 for the year ended June 30, 2022.

At June 30, 2021, debt issuance costs, net of accumulated amortization, $101,034, respectively, were included net of the bonds payable on the Statements of Financial Position. These debt issuance costs were written off in the year ended June 30, 2022 in conjunction with the 2021 bond refinancing. Amortization expense was $15,352 for the year ended June 30, 2021.

13. INTEREST RATE SWAPS

During the year ended June 30, 2006, the College entered into two interest rate swap agreements with a financial institution (counterparty). The purpose of the agreements is to effectively fix the variable rates on the Revenue Bond Series 1996 and 1999. For the Series 1996, the notional amount is $19,700,000 with a fixed rate of 3.556% through March 1, 2031. At June 30, 2021, the fair value of the swap agreement on the Series 1996 was a liability of $4,865,268, respectively. For the Series 1999, the notional amount is $5,000,000 with a fixed rate of 3.524% through July 1, 2024. At June 30, 2021, the fair value of the swap agreement on the Series 1999 was a liability of $476,401, respectively. The interest rate swap agreements were terminated in the year ended June 30, 2022 as part of the bond refinancing described in Note 12.

Although this financial instrument involved counterparty credit exposure, the counterparty for the agreements is a major financial institution that meets the College’s criteria for financial stability and creditworthiness. The College entered into these agreements to manage cash flows attributable to interest payments and does not use such instruments for speculative purposes.

14. ANNUITIES PAYABLE

The College administers various split-interest agreements, including charitable remainder trusts, charitable gift annuities, and life income agreements whereby donors may contribute assets to a pooled fund or individual trust under the control of the College in exchange for a designated beneficiary right to receive a specified annual return during their lifetimes. Annuity funds held in investments totaled $3,566,411 and $3,538,584 at June 30, 2022 and 2021, respectively. Upon the death of the beneficiary, the remaining assets are available for the College’s use. For remainder trusts and gift annuities, the difference between the annuity amount invested and the present value of future payments, determined on an actuarial basis, is recognized as contribution income at the date of the gift. The actuarial liability is revalued annually and any surplus or deficiency is recognized as a change in value in the Statements of Activities.

14. ANNUITIES PAYABLE (Continued)

Under life income agreements, contribution revenue is recognized based on the present value of the annuity amount invested to be received upon the beneficiary's death. The difference between the contribution revenue recognized and the annuity amount invested is held as deferred income in the annuities payable. The actuarial liability is revalued annually and any surplus or deficiency is recognized as change in value in the Statements of Activities.

The present value of the estimated future payments to beneficiaries, or amounts to be received under life income agreements, is calculated based on the beneficiary's age and discount rate established at the time of the gift utilizing current IRS actuarial tables. The annuity liability was $1,256,695 and $818,673 for June 30, 2022 and 2021, respectively. The discount rates used range from 1.4% to 10.0%.

15. NET ASSETS

Net assets with donor restrictions are available for the following as of June 30, 2022 and 2021:

	2022	2021
Unexpended funds received for property and equipment	$ 3,354,587	$ 1,642,836
Term endowment funds	9,825,813	9,973,178
Operating funds from gifts and grants	5,848,889	5,119,556
Split interest agreements	1,792,177	2,106,626
Undistributed earnings on endowment funds	29,294,753	55,309,021
Total	$ 50,116,219	$ 74,151,217

The portion of net assets with donor restrictions required to be retained permanently by explicit donor stipulations or Illinois UPMIFA as of June 30, 2022 and 2021:

	2022	2021
Donor-specified educational activities	$ 36,856,472	$ 39,715,050
Scholarships	34,397,098	33,032,855
Professorships (endowed chairs)	32,067,422	24,966,411
Library	4,017,249	3,996,335
Prizes	928,470	923,280
Total	$ 108,266,711	$ 102,633,931

15. NET ASSETS (Continued)

The Board of Directors has chosen to place the following limitations on net assets without donor restrictions, as of June 30, 2022 and 2021:

	2022	2021
Designated for endowment purposes	$ 35,791,264	$ 44,166,472
Undesignated	17,804,955	23,098,022
Net assets without donor restriction	$ 53,596,219	$ 67,264,694

Net assets were released from donor restrictions by incurring expenses satisfying the restricted purposes or by the passage of time as follows during the years ended June 30, 2022 and 2021:

	2022	2021
Instruction	$ 10,680,430	$ 12,780,441
Academic support	98,179	33,738
Student services	656,532	474,355
Scholarships and fellowships	3,139,857	2,854,154
Athletics	353,749	103,125
Operations, maintenance, and other	90,980	209.819
Total	$ 15,019,727	$ 16,455,632

16. RETIREMENT PLAN

Academic and certain other employees of the College are participants in a 403(b) retirement plan sponsored by the Teachers Insurance and Annuity Association. Under this plan, the employees are eligible to participate and are fully vested after completion of two years of service and attainment of certain age requirements, as defined in the plan. The College matches employee contributions up to a percentage of each employee’s pay. Contributions to the defined contribution plan totaled $677,520 and $88,849 in the years ended June 30, 2022 and 2021, respectively. Beginning in April 2020 the College match was reduced, and in September 2020, the College match was suspended. In September 2021, the College match was reinstated.

During the fiscal year ended June 30, 2016, the College initiated a 457b retirement plan sponsored by the Teachers Insurance and Annuity Association. This plan is open to certain employees as defined by the Board of Trustees. There were (College) contributions of $22,546 and $15,250 for the years ended June 30, 2022 and 2021. Beginning in April 2020 this benefit was suspended, and it was reinstated in September 2021.

17. COMMITMENTS AND CONTINGENCIES

The College is obligated to pay for the health care costs of its employees. The College sponsors a self-funded health plan to pay medical claims of the College's employees and their covered dependents and to minimize the total cost of the annual insurance to the College. Medical claims exceeding $95,000 at June 30, 2022 per covered person are covered through a private insurance carrier subject to aggregate limitations as provided by the underlying policies. The cost of this plan was $3,824,870 and $3,284,821 for the years ended June 30, 2022 and 2021, respectively.

Beginning around March 2020, the Covid-19 virus has been declared a global pandemic as it continues to spread rapidly. Business continuity, including enrollment, program delivery and demand for auxiliary services could be severely impacted for months or beyond as governments and their citizens take significant and unprecedented measurers to mitigate the consequences of the pandemic. Management is carefully monitoring the situation and evaluating its options during this time. No adjustments have been made to these financial statements.

18. POSTRETIREMENT BENEFITS

The College provides postretirement medical, dental, and life insurance coverage to eligible employees who are 55 years of age, have ten or more consecutive years of service, and were hired prior to January 1, 1992. The related coverage is treated as a form of deferred compensation and accrued over the employment period.

The following sets forth the plan's funded status reconciled with amounts reported in the College's Statement of Financial Position as Postretirement benefit obligation at June 30, 2022 and 2021, respectively.

Change in benefit obligation:	2022	2021
Accumulated postretirement benefit obligation (APBO) at beginning of year	$ 2,450,618	$ 3,368,889
Service cost	-	30
Interest cost	60,550	81,000
Actuarial (gain)/loss	(729,918)	(792,494)
Net benefits paid	(171,873)	(206,807)
Accrued postretirement benefit liability	$ 1,609,377	$ 2,450,618

Net periodic postretirement benefit cost for 2022 and 2021, reported in the College's Statements of Activities as Net periodic benefit cost, includes:

	2022	2021
Service cost	$ -	$ 30
Interest cost	60,550	81,000
Recognized actuarial (gain)	(471,035)	(249,954)
Total	$ (410,485)	$ (168,924)

18. POSTRETIREMENT BENEFITS (Continued)

Items not yet recognized as a component of net periodic benefit cost (NPBC):

	2022	2021
Beginning balance	$ 2,219,200	$ 1,586,660
Amount recognized in current year under NPBC	(471,035)	(249,954)
Obligation gain incurred in current year	729,918	792,494
Ending balance	$ 2,388,083	$ 2,129,200

The following benefit payments, which reflect future service, are expected to be paid:

Year Ending June 30,	
2023	$ 128,059
2024	140,979
2025	138,103
2026	147,207
2027	123,378
Thereafter	534,355
Total	$ 1,212,081

Employer contributions for the years ended June 30, 2022 and 2021 were $171,873 and $206,807, respectively.

Estimated benefit cost amortization during the next fiscal year is $556,786.

An annual rate of increase of 7.5% in 2022 and 7% in 2021 in the per capita costs of covered health care benefits for participants under 65 years and participants over 65 years was assumed, gradually decreasing to 4.5% by the year 2025. A discount rate of 4.31% and 2.56% was used to determine the accumulated postretirement benefit obligation as of June 30, 2022 and 2021, respectively.

The plan was amended effective July 1, 2003, to revise the date of participation to the later of the employee’s date of hire or age 45. This change has been recognized as a curtailment and has resulted in the immediate recognition of gains and losses.

19. ENDOWMENT

The College’s endowment consists of several individual funds established for a variety of purposes: scholarships, professorships, library, lectureships, research, prizes, and donor-specified educational activities. Included in these funds are both donor-restricted endowment funds and funds designated by the Board of Trustees to function as endowments. As required by accounting principles generally accepted in the United States of America, net assets associated with endowment funds, including funds designated by the Board of Trustees to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

19. ENDOWMENT (Continued)

In addition, the College includes in its endowment to be held in perpetuity, a beneficial interest in a perpetual trust administered by a third-party trustee, the income from which is restricted to scholarships. The College also holds a portion of term endowments related to donor-specified spending for scholarships, professorships, library and prizes that is not subject to the passage of time.

The Board of Trustees of the College has interpreted the State of Illinois Uniform Prudent Management of Institutional Funds Act (UPMIFA), as requiring the preservation of the fair value of the original gift. Further, prudent spending may allow permanently endowed funds to fall below historic value on a temporary basis unless prohibited by the terms of the gift. The College classifies as assets restricted in perpetuity (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of donor-restricted endowment funds is classified as with donor restriction on a temporary basis until those amounts are appropriated for expenditure by the College in a manner consistent with the standard of prudence prescribed by Illinois UPMIFA.

The Board of Trustees has adopted investment and spending policies for the College's endowment funds that attempt to provide a predictable stream of funding while maintaining purchasing power of the assets. The Board of Trustees does not allow spending from underwater endowment funds. In accordance with UPMIFA, as adopted by the State of Illinois, 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 endowment fund;
2. the purposes of the institution and the endowment fund;
3. general economic conditions;
4. the possible effect of inflation or deflation;
5. the expected total return from income and the appreciation of investments;
6. other resources of the College; and
7. the investment policy of the College.

The College invests certain endowment assets to maximize long-term total return. Authorized spending from the endowment is based on a 12-quarter moving average market value of the endowment.

For the year ending June 30, 2022, the Board of Trustees authorized endowment spending of \$9,702,000 (includes \$2,239,000 of supplemental spending above regular endowment support) representing 6.5% of the average endowment value. Actual endowment spending for the year ended June 30, 2022 was \$9,702,000.

19. ENDOWMENT (Continued)

For the year ending June 30, 2021, the Board of Trustees authorized endowment spending of $9,113,000 (includes $1,623,000 of supplemental spending above regular endowment support) representing 6.5% of the average endowment value. Actual endowment spending for the year ended June 30, 2021 was $9,628,853. In addition, the College successfully petitioned the State of Illinois Attorney General for the release of endowment restrictions on ten funds reflected as other changes in the endowment activity.

From time-to-time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level the College is required to retain as a fund of perpetual duration pursuant to donor stipulation or Illinois UPMIFA. Such endowments are often referred to as “underwater” endowments. As of June 30, 2022, there were 35 donor restricted funds underwater with a total book value of $5,148,051 and a total fair value of $4,743,742. There were no underwater donor restricted funds as of June 30, 2021.

Endowment net asset composition by type of fund as of June 30, 2022:

	Without Donor Restriction	With Donor Restriction	Total
Donor-restricted	$ -	$ 146,363,241	$ 146,363,241
Board designated	35,791,263	-	35,791,263
Total	$ 35,791,263	$ 146,363,241	$ 182,154,504

During the year ended June 30, 2022, the College had the following endowment-related activities:

	Without Donor Restriction	With Donor Restriction	Total
Endowment net assets, beginning of year	$ 44,166,472	$ 166,969,602	$ 211,136,074
Investment total return	(6,890,639)	(22,236,279)	(29,126,918)
Contributions	10,353	9,085,333	9,095,686
Beneficial interest in perpetual trust	-	751,662	751,662
Appropriation of endowment assets for expenditure	(1,494,923)	(8,027,077)	(9,702,000)
Other changes	-	-	-
Endowment net assets, end of year	$35,791,263	$ 146,363,241	$ 182,154,504

19. ENDOWMENT (Continued)

Endowment net asset composition by type of fund as of June 30, 2021:

	Without Donor Restriction	With Donor Restriction	Total
Donor-restricted	$ -	$ 166,969,602	$ 166,969,602
Board designated	44,166,472	-	44,166,472
Total	$ 44,166,472	$ 166,969,602	$ 211,136,074

During the year ended June 30, 2021, the College had the following endowment-related activities:

	Without Donor Restriction	With Donor Restriction	Total
Endowment net assets, beginning of year	$ 19,699,261	$ 151,931,939	$ 171,631,200
Investment total return	6,586,008	38,598,121	45,184,129
Contributions	3,226	2,367,270	2,370,496
Beneficial interest in perpetual trust	-	(630,005)	(630,005)
Appropriation of endowment assets for expenditure	(971,618)	(8,043,128)	(9,014,746)
Other changes	18,849,595	(17,254,595)	1,595,000
Endowment net assets, end of year	$ 44,166,472	$ 166,969,602	$ 211,136,074

Amounts of endowment funds classified as net assets with donor restrictions at June 30 consisted of:

	2022	2021
Net assets with donor restriction:		
Beneficial interest in perpetual trust the income of which is to support teaching, learning and collections of early American history	$ 15,213,758	$ 18,605,821
Portion of endowment funds required to be retained permanently by explicit donor stipulation or Illinois UPMIFA	92,028,917	83,081,582
Portion of endowment funds subject to time and purpose restricted under Illinois UPMIFA	29,294,753	55,309,021
Term endowment funds subject to time restrictions	9,825,813	9,973,178
Total	$ 146,363,241	$ 166,969,602

20. RELATED PARTY TRANSACTIONS

All Trustees are required to complete a "Trustee's Annual Statement Regarding Trustee Responsibilities and Conflicts of Interest" each year. In addition, all Officers of the College and any employees having any responsibility or influence over purchasing decisions must complete an "Employee Statement Concerning Conflicts of Interest."

As of June 30, 2022, and 2021, approximately $320,000 (44%) and $1,026,000 (55%), respectively, of contributions receivable were due from related parties primarily members of the Board of Trustees. Approximately $2,833,581 (15%) and $4,169,210 (37%) of all contribution revenue for the fiscal year ended June 30, 2022 and 2021, respectively, was received from related parties primarily members of the Board of Trustees.

21. SUBSEQUENT EVENTS

Knox College evaluated subsequent events through January 31, 2023, which was the date that these financial statements were issued and determined that except as disclosed in Note 10 there were no significant nonrecognized subsequent events through that date.