



**KNOX COLLEGE**

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INDEPENDENT AUDITOR'S REPORTS  
PURSUANT TO THE UNIFORM GUIDANCE

For the Year Ended June 30, 2020



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**KNOX COLLEGE**  
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**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER  
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED  
ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE  
WITH GOVERNMENT AUDITING STANDARDS**

To the Board of Trustees  
Knox College  
Galesburg, Illinois

We have audited, in accordance with the 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, the financial statements of Knox College (College), which comprise the Statement of Financial Position as of June 30, 2020, and the related Statements of Activities, Cash Flows and Functional Expenses for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated December 10, 2020.

**Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the College's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the College's internal control. Accordingly, we do not express an opinion on the effectiveness of the College's internal control.

*A deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

## **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the College's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our testing disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

## **Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the College's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the College's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

*Sikich LLP*

Springfield, Illinois  
December 10, 2020

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**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR  
FEDERAL PROGRAM; REPORT ON INTERNAL CONTROL OVER COMPLIANCE;  
AND REPORT ON THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
REQUIRED BY THE UNIFORM GUIDANCE**

The Board of Trustees  
Knox College  
Galesburg, Illinois

**Report on Compliance for Each Major Federal Program**

We have audited Knox College's (College) compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the College's major federal programs for the year ended June 30, 2020. Knox College's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

**Management's Responsibility**

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

**Auditor's Responsibility**

Our responsibility is to express an opinion on compliance for each of Knox College's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; the audit requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the College's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the College's compliance.

## **Opinion on Each Major Federal Program**

In our opinion, the College complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2020.

## **Report on Internal Control Over Compliance**

Management of the College is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the College's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the College's internal control over compliance.

*A deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

## **Report on Schedule of Expenditures of Federal Awards Required by Uniform Guidance**

We have audited the financial statements of the College as of and for the year ended June 30, 2020 and have issued our report thereon dated December 10, 2020 which contained an unmodified opinion on those financial statements. Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by the Uniform Guidance and is not a required part of the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Schedule of Expenditures of Federal Awards is fairly stated in all material respects in relation to the financial statements as a whole.

This purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

*Sikich LLP*

Springfield, Illinois  
December 10, 2020

**KNOX COLLEGE**

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

For the Year Ended June 30, 2020

Federal Grantor/Pass Through Grantor/Program or Cluster Title	CFDA Number	Federal Expenditures
<b>MAJOR PROGRAMS</b>		
U.S. Department of Education:		
Student Financial Aid Cluster:		
Federal Supplemental Educational Opportunity Grants	84.007	\$ 183,537
Federal Work-Study Program	84.033	178,195
Federal Perkins Loan Program	84.038	2,430,871
Federal Pell Grant Program	84.063	1,891,977
Federal Direct Student Loans	84.268	6,722,450
Total Student Financial Aid Cluster		<u>11,407,030</u>
Total Major Programs		<u>11,407,030</u>
<b>NONMAJOR PROGRAMS</b>		
National Endowment for the Arts		
Promotion of the Humanities Division of Preservation and Access	45.149	17
Promotion of the Humanities Teaching and Learning Resources and Curriculum Development *	45.162	42,133
Total National Endowment for the Arts		<u>42,150</u>
National Science Foundation:		
Research and Development Cluster:		
Computer and Information Science and Engineering	47.070	30,731
Social, Behavioral, and Economic Sciences	47.075	17,155
Education and Human Resources		
Passed through SageFox Consulting, grant number 1745199-03-17	47.076	4,923
Passed through University of Buffalo, grant number R1185121	47.076	11,706
Education and Human Resources, grant number 1757402	47.076	36,844
Education and Human Resources, grant number DUE-1258935	47.076	30,766
Total Education and Human Resources		<u>84,239</u>
Total Research and Development Cluster		<u>132,125</u>
U.S. Department of Education:		
TRIO cluster		
TRIO Student Support Services	84.042	378,432
TRIO McNair Post-Baccalaureate Achievement	84.217	305,663
Total TRIO cluster		<u>684,095</u>
Education Stabilization Fund*		
Student Portion	84.425E	664,035
Institution Portion	84.425F	2,997
Total Education Stabilization Fund		<u>667,032</u>
Total Nonmajor Programs		<u>1,525,402</u>
<b>TOTAL EXPENDITURES OF FEDERAL AWARDS</b>		<u><u>\$ 12,932,432</u></u>

\* COVID-19 Emergency Acts Expenditures

See accompanying Notes to Schedule of Expenditures of Federal Awards.



**KNOX COLLEGE**

**NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**

June 30, 2020

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**NOTE 1 - BASIS OF PRESENTATION**

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of Knox College and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the financial statements.

**NOTE 2 - LOANS OUTSTANDING**

The amount presented for the Federal Perkins Loans represents total loans outstanding at June 30, 2020, for which the U.S. Department of Education imposes continuing compliance requirements. Such amounts have been recorded net of an allowance of \$121,544 in the College's financial statements.

The College originates but does not provide funding for Federal Direct Student Loans (FDSLs). The amount presented represents the value of new FDSLs awarded by the U.S. Department of Education during the year as follows:

<u>Program Title</u>	<u>Federal CFDA Number</u>	<u>Amount Awarded</u>
Federal Direct Stafford Loans	84.268	\$ 2,864,752
Federal Direct Unsubsidized Stafford Loans	84.268	1,978,853
Federal Direct PLUS and Grad PLUS Loans	84.268	1,878,845
<b>TOTAL FEDERAL DIRECT STUDENT LOANS</b>		<u>\$ 6,722,450</u>

**NOTE 3 - AMOUNTS REQUIRED FOR MATCHING**

To comply with program requirements, amounts required to be expended from nonfederal sources have been excluded from reported expenditures. For June 30, 2020, the College's portion of expenditures was as follows:

<u>Program Title</u>	<u>Federal CFDA Number</u>	<u>Amount Provided for Matching</u>
Federal Work Study Program	84.033	\$ 213,408

**KNOX COLLEGE**

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (Continued)

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**NOTE 4 - OTHER INFORMATION**

Knox College did not receive any federal insurance or federal noncash assistance and did not provide any amounts to sub-recipients.

**NOTE 5 - DE MINIMIS RATE**

The College did not elect to use the de minimis rate of 10 percent for the year ended June 30, 2020.

**KNOX COLLEGE**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**

For the Year Ended June 30, 2020

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**Section I - Summary of Auditor's Results**

Financial Statements

Type of auditor's report issued: Unmodified

Internal control over financial reporting:

- Material weakness(es) identified? \_\_\_\_\_ yes      X   no
- Significant deficiency(ies) identified? \_\_\_\_\_ yes      X   none reported
- Noncompliance material to financial statements noted? \_\_\_\_\_ yes      X   no

Federal Awards

Internal control over major federal programs:

- Material weakness(es) identified? \_\_\_\_\_ yes      X   no
- Significant deficiency(ies) identified? \_\_\_\_\_ yes      X   none reported

Type of auditor's report issued on compliance for all major federal programs:

Unmodified

Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.16(a)?

\_\_\_\_\_ yes      X   no

Identification of major federal programs:

CFDA Number

Name of Federal Program

Student Financial Aid Cluster:

84.007

Federal Supplemental Educational Opportunity Grants  
Federal Work-Study Program  
Federal Perkins Loan Program  
Federal Pell Grant Program  
Federal Direct Student Loans

84.033

84.038

84.063

84.268

Dollar threshold used to distinguish between type A and type B programs:

\$ 750,000

Auditee qualified as low-risk auditee?

  X   yes    \_\_\_\_\_ no

**KNOX COLLEGE**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS (Continued)**

For the Year Ended June 30, 2020

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**Section II - Financial Statement Findings**

None

**KNOX COLLEGE**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS (Continued)**

For the Year Ended June 30, 2020

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**Section III - Federal Award Findings and Questioned Costs**

None

**KNOX COLLEGE**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS (Continued)**

For the Year Ended June 30, 2020

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**Section IV - Prior Year Financial Statement and Federal Award Findings**

None

## KNOX COLLEGE

### FINANCIAL RESPONSIBILITY SUPPLEMENTAL SCHEDULE REQUIRED BY THE U.S. DEPARTMENT OF EDUCATION

For the Year Ended June 30, 2020

In order to participate in the Student Financial Aid Program, an institution must demonstrate that it is financially responsible. One of the general standards for institutions is the composite score standard in 34 CFR 668.171(b). The composite score combines different measures of fundamental elements of financial health to yield a single measure of an institution's overall financial health.

The required disclosure of the components of the composite score for the year ended June 30, 2020 are below:

#### Primary Reserve Ratio

	Expendable Net Assets	
Statement of Financial Position - total net assets without donor restrictions	Total net assets without donor restrictions	\$ 38,500,482
Statement of Financial Position - total net assets with donor restrictions	Total net assets with donor restrictions	161,277,894
Note 15 – Net assets	Total net assets with donor restrictions: restricted in perpetuity	111,930,261
Note 14 – Annuities, term endowments, and life income funds	Annuities, term endowments, and life income funds with donor restrictions	834,068
Statement of financial position - all related party receivable, net and related party note	Secured and unsecured related party receivables and/or other related party assets	\$ -
Statement of financial position - related party receivable, net and receivable from affiliate, net and related party note	Unsecured related party receivables and/or other related party assets	-
Statement of financial position - land, buildings, and equipment, net	Land, buildings, and equipment, net - including construction in progress	66,183,544
Table 1 - Line A	Land, buildings, and equipment, net - including pre-implementation less any construction in progress	49,403,334
Table 1 - Line B	Land, buildings, and equipment, net - post-implementation less any construction in progress with outstanding debt for original purchase with debt	12,196,923
Table 1 - Line D	Land, buildings, and equipment, net - post-implementation less any construction in progress with outstanding debt for original purchase without debt	1,048,240

**KNOX COLLEGE**

**FINANCIAL RESPONSIBILITY SUPPLEMENTAL SCHEDULE REQUIRED BY  
THE U.S. DEPARTMENT OF EDUCATION (Continued)**

For the Year Ended June 30, 2020

Primary Reserve Ratio (Continued)

	<u>Expendable Net Assets (Continued)</u>	
Note 8- land, buildings, and equipment - construction in process	Construction in progress	3,535,047
Statement of financial position - goodwill	Intangible assets	-
Statement of financial position - post-employment and pension liability	Post-employment and defined pension plan liabilities	3,368,889
Notes 10, 11 and 12 - notes payable and line of credit (both current and long-term) and line of credit for construction in process	Long-term debt - for long-term purposes and construction in process debt	\$ 38,808,272
Table 2 - Line A	Long-term debt for long-term purposes pre-implementation	31,808,272
Table 2 - Line B	Qualified long-term debt for long-term purposes post-implementation for purchase of land, buildings, and equipment	7,000,000
Statement of financial position - notes payable and line of credit for construction in process	Line of credit for construction in process	-
Statement of activities - total operating expenses without donor restrictions,	Total expenses without donor restrictions	48,244,482
Statement of activities - loss on disposal of property, change in fair value of interest rate swap agreements, change in value of split interest agreements, and loss on extinguishment of debt	Total losses without donor restrictions	2,716,797
	Total expenses without donor restrictions and losses without donor restrictions	50,961,279



## KNOX COLLEGE

### FINANCIAL RESPONSIBILITY SUPPLEMENTAL SCHEDULE REQUIRED BY THE U.S. DEPARTMENT OF EDUCATION (Continued)

For the Year Ended June 30, 2020

#### Equity Ratio

	Modified Net Assets	
Statement of financial position - total net assets without donor restrictions	Total net assets without donor restrictions	\$ 38,500,482
Statement of financial position - total net assets with donor restrictions	Total net assets with donor restrictions	161,277,894
Statement of financial position - goodwill	Intangible assets	-
Statement of financial position - all related party receivable, net and receivable from affiliate, net and related party note	Secure and unsecured related party receivables and/or other related party assets	\$ -
Statement of financial position - related party receivable, net and receivable from affiliate, net and related party note	Unsecured related party receivables and/or other related party assets	-
	Modified Assets	
Statement of financial position - total assets	Total assets	257,828,933
Statement of financial position - goodwill	Intangible assets	-
Statement of financial position - all related party receivable, net and receivable from affiliate, net and related party note	Secure and unsecured related party receivables and/or other related party assets	-
Statement of financial position - related party receivable, net and receivable from affiliate, net and related party note	Unsecured related party receivables and/or other related party assets	-

#### Net Income Ratio

Statement of activities – change in net assets without donor restrictions	Change in net assets without donor restrictions	(\$ 3,932,287)
Statement of activities - total revenue without donor restrictions	Total revenue without donor restrictions	47,028,992
Statement of activities - gain on disposal of property, change in fair value of interest rate swap agreements, change in value of split interest agreements, and gain on extinguishment of debt	Total gains without donor restrictions	-
	Total revenue without donor restrictions and gains without donor restrictions	47,028,992

**KNOX COLLEGE**

**FINANCIAL RESPONSIBILITY SUPPLEMENTAL SCHEDULE REQUIRED BY  
THE U.S. DEPARTMENT OF EDUCATION (Continued)**

For the Year Ended June 30, 2020

Table 1 – Net Land, Buildings, and Equipment

A	Pre-implementation land, buildings, and equipment		\$ 49,403,334
B	Post-implementation land, buildings, and equipment		12,196,923
	Vehicles	\$ -	
	Buildings and furniture	12,196,923	
	Computers	-	
C	Construction in progress		3,535,047
D	Post-implementation land, buildings, and equipment		1,048,240
	<b>TOTAL</b>		<u><u>\$ 66,183,544</u></u>

A – This is the ending balance on the last financial statement submission prior to the implementation of the regulations - less any depreciation or disposals.

B – This is the balance of assets purchased after the implementation of the regulations that was purchased by obtaining debt.

C – Asset value of the construction in progress.

D – Post-implementation land, buildings, and equipment with no outstanding debt.

Table 2 - Long-Term Debt for Long-Term Purposes

A	Pre-implementation long-term debt		\$ 31,808,272
B	Allowable post-implementation long-term debt		-
	Vehicles	\$ -	
	Buildings and furniture	7,000,000	
	Computers	-	
C	Construction in progress - debt		-
D	Long-term debt not for the purchase of land, buildings, and equipment or liability greater than assets value		-
	<b>TOTAL</b>		<u><u>\$ 38,808,272</u></u>

A – This is the ending balance of the last financial statement submission prior to the implementation of the regulations - less any repayments. See Notes 10, 11 and 12 for the terms of the debt and capital lease obligations.

B - This is the lesser of actual outstanding debt of each assets or the value of the asset.

C - All debt associated with construction in progress up to the asset value for construction in process is included.

D - Long-term debt not for the purchase of land, buildings, and equipment.

**KNOX COLLEGE**

**FINANCIAL RESPONSIBILITY SUPPLEMENTAL SCHEDULE REQUIRED BY  
THE U.S. DEPARTMENT OF EDUCATION (Continued)**

For the Year Ended June 30, 2020

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The College's composite score is calculated as follows:

	<u>2020</u>
Primary reserve ratio	1.200
Equity ratio	1.200
Net income ratio	<u>(0.200)</u>
<b>COMPOSITE SCORE</b>	<u><u>2.200</u></u>

As the composite score is between 1.5 and 3.0, the College is considered financially responsible under this general standard for the year ended June 30, 2020.