KNOX COLLEGE

FINANCIAL STATEMENTS AND
INDEPENDENT AUDITOR'S REPORT

For the Years Ended June 30, 2021 and 2020

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KNOX COLLEGE
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INDEPENDENT AUDITOR'S REPORT

To the Board of Trustees
Knox College
Galesburg, Illinois

We have audited the accompanying financial statements of Knox College (College), which comprise the Statements of Financial Position as of June 30, 2021 and 2020, and the related Statements of Activities, Cash Flows and Functional Expenses for the years then ended, and the related notes to financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Knox College as of June 30, 2021 and 2020, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 1 to the financial statements, the College adopted new accounting guidance as issued by the Financial Accounting Standards Board under Accounting Standards Update (ASU) No. 2016-02, *Leases (Topic 842)*. Our opinion has not been modified with respect to this matter.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated October 29, 2021 on our consideration of Knox 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 Knox College's internal control over financial reporting and compliance.

Sikich LLP

Springfield, Illinois
October 29, 2021

FINANCIAL STATEMENTS

KNOX COLLEGE

STATEMENTS OF FINANCIAL POSITION

For the Years Ended June 30, 2021 and 2020

	2021	2020
ASSETS		
Cash and cash equivalents	$ 13,102,203	$ 6,853,565
Grants and contracts receivable	211,814	281,428
Students and other accounts receivable, less allowances of $1,144,925 and $728,658 in 2021 and 2020, respectively	1,112,089	1,790,263
Inventories	141,862	222,424
Other assets, principally prepaid expenses, deferred charges, and land	835,495	796,880
Pledges receivable, less discount and allowance	1,643,398	1,736,018
Loans receivable, less allowance for doubtful loans of $106,250 and $141,449 in 2021 and 2020, respectively	2,080,634	2,761,862
Restricted cash	640,803	1,191,528
Land, buildings, and equipment, net of accumulated depreciation	64,591,680	66,183,544
Investments	191,356,548	161,056,919
Beneficial interest in perpetual trust	18,605,821	14,954,502
TOTAL ASSETS	$ 294,322,347	$ 257,828,933
LIABILITIES AND NET ASSETS		
Liabilities:		
Accounts payable and accrued liabilities	$ 1,043,284	$ 1,629,365
Accrued payroll including employee benefits	2,384,758	2,410,087
Student deposits	443,050	524,050
Accrual for medical claims	343,000	331,000
Deferred revenues	443,570	1,007,521
Annuities payable	818,673	834,068
Postretirement benefit obligation	2,450,618	3,368,889
Federal equity in loan programs	1,525,585	2,073,083
Interest rate swaps liability	5,341,669	7,180,609
Finance lease liabilities	220,265	292,624
Bonds payable, net of deferred bond issuance costs	35,258,033	38,399,261
Total liabilities	50,272,505	58,050,557
Net assets:		
Without donor restrictions	67,264,694	38,500,482
With donor restrictions	176,785,148	161,277,894
Total net assets	244,049,842	199,778,376
TOTAL LIABILITIES AND NET ASSETS	$ 294,322,347	$ 257,828,933

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
Postretirement benefits related changes	918,271	-	918,271
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

STATEMENT OF ACTIVITIES

For the Year Ended June 30, 2020

	Without Donor Restrictions	With Donor Restrictions	Total
REVENUES, GAINS, AND OTHER SUPPORT			
Tuition and fees	$ 57,642,140	$ -	$ 57,642,140
Less student aid and scholarships	(38,956,673)	-	(38,956,673)
Net tuition and fees	18,685,467	-	18,685,467
Contributions	7,055,409	4,800,722	11,856,131
Federal grants and contracts	142,727	1,768,598	1,911,325
Investment return, net	1,406,161	10,637,606	12,043,767
Auxiliary enterprises	7,664,729	7,515	7,672,244
Miscellaneous	633,658	240,639	874,297
Net assets released from restrictions	11,440,841	(11,440,841)	-
Total revenues, gains, and other support	47,028,992	6,014,239	53,043,231
EXPENSES			
Program services:			
Instruction	16,218,015	-	16,218,015
Academic support	4,238,270	-	4,238,270
Athletics	3,317,816	-	3,317,816
Student services	6,130,445	-	6,130,445
Auxiliary enterprises	8,718,423	-	8,718,423
Supporting services			
Management and general	6,370,460	-	6,370,460
Fundraising	3,251,053	-	3,251,053
Total expenses	48,244,482	-	48,244,482
OTHER CHANGES IN NET ASSETS			
Change in fair value of interest rate swaps	(1,991,274)	-	(1,991,274)
Postretirement benefits related changes	(725,523)	-	(725,523)
Adjustments of amounts due under annuity and life income agreements	-	(85,670)	(85,670)
Change in value of beneficial interest in perpetual trust	-	479,431	479,431
Total other changes in net assets	(2,716,797)	393,761	(2,323,036)
CHANGE IN NET ASSETS	(3,932,287)	6,408,000	2,475,713
NET ASSETS, BEGINNING OF YEAR	42,432,769	154,869,894	197,302,663
NET ASSETS, END OF YEAR	$ 38,500,482	$ 161,277,894	$ 199,778,376

See accompanying notes to financial statements.

KNOX COLLEGE

STATEMENTS OF CASH FLOWS

For the Years Ended June 30, 2021 and 2020

	2021	2020
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	$ 44,271,466	$ 2,475,713
Adjustments to reconcile change in net assets to net cash from operating activities:		
Allowance for bad debts	416,267	268,079
Discount and allowance on pledges receivable	(27,880)	(6,169)
Depreciation	4,486,550	4,158,890
Amortization	15,352	15,353
Establish actuarial liability on annuity payable	-	71,393
Change in actuarial liability on annuities and life income funds	129,399	85,494
Realized gains on sale of investments, net	(7,068,330)	(5,756,317)
Unrealized (gains) losses on investments, net	(30,502,014)	(2,346,010)
Change in fair value of interest rate swaps	(1,838,940)	1,991,274
Increase in cash value of life insurance	(28,753)	(1,596)
Change in value of beneficial interest in perpetual trust	(3,651,319)	479,431
Contributions restricted for investments	(2,032,464)	(2,675,068)
Change in operating assets and liabilities:		
Grants and contracts receivable	69,614	(74,008)
Students and other accounts receivable	261,907	(912,514)
Inventories	80,562	(95,551)
Other assets	(38,615)	81,525
Pledges receivable	206,350	(154,358)
Loans receivable	681,228	430,316
Accounts payable and accrued liabilities	(586,081)	(3,742,822)
Accrued payroll including employee benefits	(25,329)	(131,379)
Student deposits	(81,000)	5,640
Deposits held in custody for others	-	(51,991)
Accrual for medical claims	12,000	(103,000)
Deferred revenues	(563,951)	704,437
Postretirement benefit obligation	(918,271)	725,523
Federal equity in loan programs	(547,498)	54,767
Net cash from operating activities	2,720,250	(4,502,948)

This statement is continued on the following page.

KNOX COLLEGE

STATEMENTS OF CASH FLOWS (Continued)

For the Years Ended June 30, 2021 and 2020

	2021	2020
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of land, building, and equipment	$ (2,894,686)	$ (6,382,700)
Proceeds from sale of investments	14,857,232	14,512,612
Purchase of investments	(7,557,764)	(6,593,753)
Net cash from investing activities	4,404,782	1,536,159
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from contributions restricted for investment of endowment	1,946,614	2,628,480
Proceeds on line of credit	-	3,000,000
Payments on line of credit	-	(4,500,000)
Proceeds from bonds payable	-	7,000,000
Payments on bonds payable	(3,156,580)	(1,250,000)
Payments of annuity obligations	(144,794)	(127,379)
Principal payments on capital lease obligations	(72,359)	(114,413)
Net cash from financing activities	(1,427,119)	6,636,688
CHANGE IN CASH AND CASH EQUIVALENTS AND RESTRICTED CASH	5,697,913	3,669,899
CASH AND CASH EQUIVALENTS AND RESTRICTED CASH, BEGINNING OF YEAR	8,045,093	4,375,194
CASH AND CASH EQUIVALENTS AND RESTRICTED CASH, END OF YEAR	$ 13,743,006	$ 8,045,093
Cash and cash equivalents	$ 13,102,203	$ 6,853,565
Restricted cash	640,803	1,191,528
	$ 13,743,006	$ 8,045,093
SUPPLEMENTAL DATA		
Interest paid	$ 953,640	$ 953,640

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.

KNOX COLLEGE

STATEMENT OF FUNCTIONAL EXPENSES

For the Year Ended June 30, 2020

	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	$ 12,514,515	$ 2,398,087	$ 1,713,886	$ 3,896,498	$ 3,101,182	$ 23,624,168	$ 3,050,917	$ 2,495,631	$ 5,546,548	$ 29,170,716
Office and department supplies and equipment	1,630,548	444,025	371,355	1,250,041	1,120,170	4,816,139	50,252	173,170	223,422	5,039,561
Depreciation and amortization	588,159	890,193	585,183	101,659	1,107,369	3,272,563	723,156	178,524	901,680	4,174,243
Professional technical services	315,172	382,750	131,462	378,811	78,530	1,286,725	1,024,314	279,015	1,303,329	2,590,054
Dining supplies	-	-	-	-	2,198,863	2,198,863	-	-	-	2,198,863
Travel/food and entertainment	588,820	5,636	370,944	298,106	815	1,264,321	68,269	124,713	192,982	1,457,303
Occupancy	5,207	-	-	-	699,791	704,998	822,075	-	822,075	1,527,073
Debt service	575,271	117,579	96,273	205,330	261,199	1,255,652	322,594	-	322,594	1,578,246
Insurance	323	-	48,713	-	150,504	199,540	308,883	-	308,883	508,423
TOTAL EXPENSES	$ 16,218,015	$ 4,238,270	$ 3,317,816	$ 6,130,445	$ 8,718,423	$ 38,622,969	$ 6,370,460	$ 3,251,053	$ 9,621,513	$ 48,244,482

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, 2021 and 2020, respectively, the College's cash balances exceeded federally insured limits by $13,454,777 and $7,860,204. 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, 2021 and 2020, restricted cash consisted of deposits for the following:

	2021	2020
Construction account for capital projects	$ -	$ 593,127
Perkins loans	640,803	598,401
Total restricted cash	$ 640,803	$ 1,191,528

Students 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. As of June 30, 2021 and 2020, 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.

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

1. SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

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.

1. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Leases: (Continued)

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 has 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.

Revenue Recognition: 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 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 $36,908,620 and $38,956,673 at June 30, 2021 and 2020, 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 data 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.

1. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Revenue Recognition: (Continued)

Revenues are reported as increases in net assets without donor restrictions unless use of the related assets is limited by donor-imposed 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.

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

Contract Balances: The timing of revenue recognition, billings and cash collections results in billed accounts receivable and deferred revenue (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, 2021, and 2020:

	2021	2020	2019
Contract assets	$ 844,344	$ 1,035,600	$ 619,743
Contract liabilities	$ 69,192	$ 388,616	$ 303,084

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.

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)

Contributions: (Continued)

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 $374,378 and $618,905 for the years ended June 30, 2021 and 2020, respectively. At June 30, 2021 and 2020 the College had conditional grant awards remaining of $3,568,997 and $1,033,401, 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.

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 Financial Accounting Standards Board (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. Revenues from the College's auxiliary enterprises are recognized for these contracts over time as the performance obligation is satisfied by transferring control of the goods and services 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.

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.

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 balance sheet date for general expenditures for the years ended June 30 are as follows:

	2021	2020
Cash and cash equivalents	$ 13,102,203	$ 6,853,565
Grants receivable	211,814	281,428
Students and other receivables	1,112,089	1,790,263
Pledge receivables	1,643,398	1,736,018
Restricted cash	640,803	593,127
Investments	191,356,548	161,056,919
Beneficial interest in perpetual trust	18,605,821	14,954,502
	226,672,676	187,265,822
Less those unavailable for general expenditure:		
Board designated net assets	(44,166,472)	(19,699,261)
Net assets with donor restrictions	(176,785,148)	(161,277,894)
Financial assets available to meet cash needs for general expenditures	5,721,056	6,288,667
Liquidity resources:		
Board approved appropriation from endowment investments for fiscal year 2022 and 2021 operating budget	9,702,000	9,113,000
Total financial assets available to meet cash needs for general expenditures within one year	$ 15,423,056	$ 15,401,667

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, 2021 and June 30, 2020 respectively.

Unconditional promises at June 30, 2021 and 2020 are expected to be realized in the following periods:

	2021	2020
In one year or less	$ 1,498,924	$ 1,026,963
Between one year and five years	357,500	949,961
	1,856,424	1,976,924
Less discount	(31,649)	(50,015)
Less allowance	(181,377)	(190,891)
Total pledges receivable	$ 1,643,398	$ 1,736,018

5. LOANS RECEIVABLE

Loans receivable at June 30, 2021 and 2020 consist of the following:

	2021	2020
Perkins loan program	$ 1,797,953	$ 2,430,872
Less allowance for doubtful accounts	(89,898)	(121,544)
Total Perkins loan program	1,708,055	2,309,328
College loan fund - student loans	323,594	398,102
Less allowance for doubtful accounts	(16,352)	(19,905)
Total college loan fund - student loans	307,242	378,197
Other loans receivable	65,337	74,337
Total loans receivable	$ 2,080,634	$ 2,761,862

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.

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.

5. LOANS RECEIVABLE (Continued)

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%

Classes of loans as of June 30, 2020:

	Not in Repayment	Current	<270 Days	270 Days to 2 Years	2-5 Years	More than 5 Years	Total
Perkins Loan Fund	$ 1,018,874	$ 963,101	$ 114,649	$ 102,826	$ 142,331	$ 89,091	$ 2,430,872
College Loan Fund	172,146	71,641	44,557	28,054	36,921	44,783	398,102
Total	$ 1,191,020	$ 1,034,742	$ 159,206	$ 130,880	$ 179,252	$ 133,874	$ 2,828,974
Percentage of total loan portfolio	42.1%	36.6%	5.6%	4.6%	6.4%	4.7%	100.0%

6. INVESTMENTS

Investments recorded at fair value at June 30, 2021 and 2020 consisted of the following:

	2021	2020
Mutual funds	$ 91,973,129	$ 78,765,696
Marketable equity securities	92,347,472	73,868,350
Corporate bonds	739,709	784,008
U.S. Government obligations	5,024,653	6,513,291
Limited partnership	343,621	217,442
Other	927,964	908,132
Total investments	$ 191,356,548	$ 161,056,919

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 $140,011 and $224,964 was received from this trust in 2021 and 2020, 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, 2021 and 2020.

- 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, 2021 and 2020. 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)

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

8. FAIR VALUE MEASUREMENTS (Continued)

Fair value measurements recorded on a recurring basis at June 30, 2020 were as follows:

	Assets at Fair Value as of June 30, 2020			
	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	$ 78,765,696	$ -	$ -	$ 78,765,696
Marketable equity securities	73,868,350	-	-	73,868,350
Corporate bonds	-	784,008	-	784,008
U.S. government agency securities	-	1,150,233	-	1,150,233
U.S. government securities	5,363,058	-	-	5,363,058
Collateralized mortgage obligations	-	1,560	-	1,560
Subtotal	$ 157,997,104	$ 1,935,801	$ -	159,932,905
Life insurance contracts (contract value)				597,278
Certificates of deposit (cost)				309,294
Limited partnership (NAV)				217,442
Total investments				$ 161,056,919
Beneficial interest in perpetual trust	$ -	$ -	$14,954,502	$ 14,954,502
Liabilities:				
Interest rate swaps liability	$ -	$ 7,180,609	$ -	$ 7,180,609

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

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, 2020.

Investment	Fair Value	Unfunded Commitment	Redemption Frequency	Redemption Notice Period
Limited partnership (a)	$ 217,442	$ -	N/A	N/A

8. FAIR VALUE MEASUREMENTS (Continued)

(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, 2021 and 2020.

	2021	2020
Balance, beginning of year	$ 14,954,502	$ 15,433,933
Interest in distribution of perpetual trust	(630,005)	(758,534)
Total income and realized/unrealized gains	4,281,324	279,103
Balance, end of year	$ 18,605,821	$ 14,954,502

9. LAND, BUILDINGS, AND EQUIPMENT

The following is a summary of land, buildings, and equipment as of June 30, 2021 and 2020, respectively:

	2021	2020
Land and campus expansion	$ 630,636	$ 630,636
Land - campus and grounds	2,598,153	2,598,153
Land improvements	11,855,088	9,088,765
Buildings:		
Educational and general	77,722,695	77,403,396
Auxiliary enterprises	31,788,789	30,573,518
Equipment and furniture	26,808,800	25,571,137
Construction in process	891,177	3,535,047
Subtotal	152,295,338	149,400,652
Less accumulated depreciation	(87,703,658)	(83,217,108)
Net land, buildings, and equipment	$ 64,591,680	$ 66,183,544

Construction in process at June 30, 2021 and 2020 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, 2021 and 2020.

10. LINES OF CREDIT

The College has an available line of credit of $7,500,000 (LIBOR plus 125 basis points) for operating purposes which matures on November 27, 2021. At June 30, 2021 and 2020, there was no outstanding balance. Subsequent to year end, 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.

The line of credit agreement contains various covenants including availability of certain financial records, maintenance of insurance, and certain financial ratios related to debt service and liquidity. The College believes it is in compliance with these covenants and ratios as of June 30, 2021 and 2020.

11. LEASES

The College is leasing various equipment under financing leases expiring through 2024. The right of use assets with a balance of $231,522 are included in the equipment and furniture line of land, buildings, and equipment.

The following table provides the maturities of the finance lease liabilities at June 30, 2021:

Year Ending June 30,	Payment	Interest	Principal
2022	$ 88,609	$ 10,499	$ 78,110
2023	72,795	6,470	66,325
2024	71,103	2,594	68,509
2025	7,385	64	7,321
	$ 239,892	$ 19,627	$ 220,265

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, 2021 was $104,654.

Lease term and Discount Rate

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.

12. LONG-TERM DEBT

Long-term debt outstanding as of June 30, 2021 and 2020, is as follows:

Bonds payable	2021	2020
Variable rate demand		
Revenue bonds		
Series 1996	$ 19,700,000	$ 19,700,000
Series 1999	5,000,000	5,000,000
Term Loan – SMC Phase I	10,659,067	13,815,648
	35,359,067	38,515,648
Less deferred bond issuance costs	(101,034)	(116,387)
	$ 35,258,033	$ 38,399,261

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

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.

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 years ended June 30, 2021 and 2020, the weighted average interest rate on the bonds, including credit enhancement fees, was 1.34% and 2.45%, respectively. The bonds operated in a floating rate mode bearing an interest rate of 0.09% and 1.20% at June 30, 2021 and 2020, respectively.

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 expires on November 27, 2021. Subsequent to year end, on September 30, 2021 the agreement was amended to extend the agreement to March 31, 2022.

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.

12. LONG-TERM DEBT (Continued)

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 years ended June 30, 2021 and 2020, the weighted average interest rate on the bonds, including credit enhancement fees, was 1.54% and 2.45%, respectively. The bonds operated in a floating rate mode bearing an interest rate of 0.29% and 1.20% at June 30, 2021 and 2020, respectively.

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 expires November 27, 2021. Subsequent to year end, on September 30, 2021 the agreement was amended to extend the agreement to March 31, 2022.

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 expires on November 1, 2021. The interest rate on the term loan is LIBOR plus 150 basis points (1.50%) as of June 30, 2021 and 2020. The outstanding balance of this loan as of June 30, 2021 and 2020 was $10,659,067 and $13,815,648, respectively. Subsequent to year end, on September 30, 2021 the agreement was amended to extend the maturity date to March 31, 2022.

Interest expense and fees related to long-term debt, including capital lease obligations, was $1,488,003 and $1,578,246 for the years ended June 30, 2021 and 2020, respectively.

These aforementioned agreements contain several covenants with which the College believes it is in compliance with at June 30, 2021 and 2020.

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

Year Ending June 30,	
2022	$ 10,659,067
2023	-
2024	5,000,000
Thereafter	19,700,000
Total	$ 35,359,067

The College is amortizing debt issuance costs of $464,363 over the life of the bonds. At June 30, 2021 and 2020, debt issuance costs, net of accumulated amortization, of $101,034 and $116,387, respectively, were included net of the bonds payable on the Statements of Financial Position. Amortization expense was $15,353 and $15,353 for the years ended June 30, 2021 and 2020, respectively.

12. LONG-TERM DEBT (Continued)

The College has entered into agreements for the issuance of an amount not to exceed $45,000,000 in one or more series of bonds expected to be titled City of Galesburg, Knox County, Illinois Revenue Bonds, Series 2021A and City of Galesburg, Illinois Taxable Revenue Bonds, Series 2012B. The bond issuance will refund in whole the 1996 Bonds, the 1999 Bonds and the term loan, as well as, terminate respective swap liabilities related to these issues, provide funding for capital projects or improvements, and pay certain expenses incurred in connection with the issuance of the 2021 Bonds. The bond offering is expected to occur in December 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 and 2020, the fair value of the swap agreement on the Series 1996 was a liability of $4,865,268 and $6,501,660, 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 and 2020, the fair value of the swap agreement on the Series 1999 was a liability of $476,401 and $678,949, respectively.

Although this financial instrument involves 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 $3,538,584 and $3,408,846 at June 30, 2021 and 2020, 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 $818,673 and $834,068 for June 30, 2021 and 2020, 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, 2021 and 2020:

	2021	2020
Unexpended funds received for property and equipment	$ 1,642,836	$ 2,638,742
Term endowment funds	9,973,178	4,325,927
Operating funds from gifts and grants	5,119,556	4,026,054
Split interest agreements	2,106,626	1,749,779
Undistributed earnings on endowment funds	55,309,021	36,607,131
Total	$ 74,151,217	$ 49,347,633

The portion of net assets with donor restrictions required to be retained permanently by explicit donor stipulations or Illinois UPMIFA as of June 30, 2021 and 2020:

	2021	2020
Donor-specified educational activities	$ 39,715,050	$ 35,638,768
Scholarships	33,032,855	46,533,860
Professorships (endowed chairs)	24,966,411	24,875,648
Library	3,996,335	3,979,080
Prizes	923,280	902,905
Total	$ 102,633,931	$ 111,930,261

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, 2021 and 2020:

	2021	2020
Designated for endowment purposes	$ 44,166,472	$ 19,699,261
Undesignated	23,098,022	18,801,221
Net assets without donor restriction	$ 67,264,694	$ 38,500,482

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, 2021 and 2020:

	2021	2020
Instruction	$ 12,780,441	$ 7,731,165
Academic support	33,738	98,009
Student services	474,355	875,815
Scholarships and fellowships	2,854,154	2,573,972
Athletics	103,125	77,064
Operations, maintenance, and other	209.819	84,816
Total	$ 16,455,632	$ 11,440,841

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 $88,849 and $837,721 in the years ended June 30, 2021 and 2020, respectively. Beginning in April 2020 the College match was reduced, and in September 2020, the College match was suspended.

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 $15,250 for the years ended June 30, 2021, and none for 2020. Beginning in April 2020 this benefit was suspended.

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, 2021 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 $3,284,821 and $4,063,474 for the years ended June 30, 2021 and 2020, 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 at June 30, 2021 and 2020, respectively.

Change in benefit obligation:	2021	2020
Accumulated postretirement benefit obligation (APBO) at beginning of year	$ 3,368,889	$ 2,643,366
Service cost	30	1,549
Interest cost	81,000	83,202
Actuarial (gain)/loss	(792,494)	792,772
Net benefits paid	(206,807)	(152,000)
Accrued postretirement benefit liability	$ 2,450,618	$ 3,368,889

Net periodic postretirement benefit cost for 2021 and 2020 includes:

	2021	2020
Service cost	$ 30	$ 1,549
Interest cost	81,000	83,202
Recognized actuarial (gain)	(249,954)	(211,509)
Total	$ (168,924)	$ (126,758)

18. POSTRETIREMENT BENEFITS (Continued)

An annual rate of increase of 7% in 2021 and 2020 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 2.56% and 2.48% was used to determine the accumulated postretirement benefit obligation as of June 30, 2021 and 2020, 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.

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.

19. ENDOWMENT (Continued)

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, 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.

For the year ending June 30, 2020, the Board of Trustees authorized endowment spending of $8,231,000 (includes $1,899,000 of supplemental spending above regular endowment support) representing 6.5% of the average endowment value. Actual endowment spending for the year ended June 30, 2020 was $12,669,070.

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. There were no donor restricted funds as of June 30, 2021. As of June 30, 2020, there were five donor restricted funds underwater with a total book value of $1,300,773 and a total fair value of $1,286,981.

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

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

	Without Donor Restriction	With Donor Restriction	Total
Donor-restricted	$ -	$ 151,931,939	$ 151,931,939
Board designated	19,699,261	-	19,699,261
Total	$ 19,699,261	$ 151,931,939	$ 171,631,200

During the year ended June 30, 2020, the College had the following endowment-related activities:

	Without Donor Restriction	With Donor Restriction	Total
Endowment net assets, beginning of year	$ 24,066,580	$ 146,107,441	$ 170,174,021
Investment total return	1,274,314	11,073,153	12,347,467
Contributions	2,215	2,967,266	2,969,481
Beneficial interest in perpetual trust	-	(758,534)	(758,534)
Appropriation of endowment assets for expenditure	(5,643,848)	(7,452,842)	(13,096,690)
Other changes	-	(4,545)	(4,545)
Endowment net assets, end of year	$ 19,699,261	$ 151,931,939	$ 171,631,200

19. ENDOWMENT (Continued)

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

	2021	2020
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	$ 18,605,821	$ 14,954,502
Portion of endowment funds required to be retained permanently by explicit donor stipulation or Illinois UPMIFA	83,081,582	96,044,379
Portion of endowment funds subject to time and purpose restricted under Illinois UPMIFA	55,309,021	36,607,131
Term endowment funds subject to time restrictions	9,973,178	4,325,927
Total	$ 166,969,602	$ 151,931,939

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, 2021 and 2020, approximately $1,026,000 (55%) and $931,500 (47%), respectively, of contributions receivable were due from related parties primarily members of the Board of Trustees. Approximately $4,169,210 (37%) and $3,166,755 (27%) of all contribution revenue for the fiscal year ended June 30, 2021 and 2020, respectively, was received from related parties primarily members of the Board of Trustees.

21. SUBSEQUENT EVENTS

Knox College evaluated subsequent events through October 29, 2021, which was the date that these financial statements were issued and determined that except as disclosed in Notes 10 and 12 there were no significant nonrecognized subsequent events through that date.