LAKE FOREST COLLEGE
Lake Forest, Illinois

FINANCIAL STATEMENTS
May 31, 2021 and 2020

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Crowe LLP
Independent Member Crowe Global

INDEPENDENT AUDITOR'S REPORT

The Board of Trustees
Lake Forest College
Lake Forest, Illinois

Report on the Financial Statements

We have audited the accompanying financial statements of Lake Forest College ("the College"), which comprise the statements of financial position as of May 31, 2021 and 2020, and the related statements of activities and changes in net assets, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

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. 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.

(Continued)

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Lake Forest College as of May 31, 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 has adopted ASU 2016-02 – *Leases (Topic 842)*. Our opinion is not modified with respect to this matter.

Crowe LLP

Crowe LLP

Chicago, Illinois
October 20, 2021

LAKE FOREST COLLEGE
STATEMENTS OF FINANCIAL POSITION
May 31, 2021 and 2020

	2021	2020
ASSETS		
Cash and cash equivalents	$ 4,369,933	$ 3,840,412
Bond funds held in trust	1,128,197	1,124,866
Accounts receivable, net		
Students, less allowance of of $971,477 in 2021 and $967,166 in 2020	679,380	1,130,642
Contributions, net (Note 2)	9,955,727	12,401,735
Other	671,078	675,148
Prepaid expense and other assets	1,252,378	1,205,844
Right-of-use assets- operating leases (Note 13)	288,775	418,308
Student loan funds, primarily Perkins loans (Note 16)	1,525,889	1,883,575
Long-term investments (Note 3)	105,313,974	83,888,183
Land, building and equipment, less accumulated depreciation (Note 5)	122,989,635	108,852,091
Beneficial interests in trusts held by others (Note 3)	3,090,178	2,686,321
TOTAL ASSETS	$ 251,265,144	$ 218,107,125
LIABILITIES AND NET ASSETS		
LIABILITIES		
Accounts payable and accrued expenses	$ 6,038,874	$ 2,058,804
Accrued payroll and benefits	3,238,813	3,236,282
Deposits and other liabilities	2,673,200	1,415,608
Operating lease liabilities (Note 13)	288,775	418,308
Deferred revenue, food service provider (Note 9)	3,210,259	3,081,878
Bridge financing line of credit (Note 6)	5,500,000	-
Interest rate swap (Notes 3 and 8)	399,621	601,374
Bonds payable (Note 7)	31,443,228	32,843,795
Annuities payable	767,937	786,745
Refundable U.S. Government and other student loans (Note 16)	1,493,877	1,838,597
Accrued post-retirement and post-employment benefits (Note 11)	1,601,275	2,094,059
Total liabilities	56,655,859	48,375,450
NET ASSETS		
Without donor restrictions	78,351,728	71,748,139
With donor restrictions		
Time or purpose	43,192,665	30,357,999
Perpetual	73,064,892	67,625,537
Total with donor restrictions	116,257,557	97,983,536
Total net assets	194,609,285	169,731,675
TOTAL LIABILITIES AND NET ASSETS	$ 251,265,144	$ 218,107,125

See accompanying notes to financial statements.

LAKE FOREST COLLEGE
STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS
Year Ended May 31, 2021
(With summarized financial information for the year ended May 31, 2020)

	2021			
	Without Donor Restrictions	With Donor Restrictions	Total	2020 Total
Operating Activities				
Revenue				
Tuition and fees, net	$ 24,599,122	$ -	$ 24,599,122	$ 27,239,823
Room and board, net	3,939,328	-	3,939,328	11,380,758
Net student fees	28,538,450	-	28,538,450	38,620,581
Private gifts and grants	7,765,203	3,641,643	11,406,846	10,062,550
Government grants	5,528,017	-	5,528,017	2,102,833
Other sources	520,448	5,644	526,092	1,070,747
Other auxiliary enterprises, net	579,174	-	579,174	1,646,252
Investment return appropriated	1,209,374	4,461,605	5,670,979	4,900,000
Net assets released from restriction	6,001,304	(6,001,304)	-	-
Total revenue	50,141,970	2,107,588	52,249,558	58,402,963
Expenses				
Salaries	22,313,416	-	22,313,416	23,554,565
Benefits and taxes	7,407,649	-	7,407,649	6,612,918
Occupancy and utilities	5,963,160	-	5,963,160	6,817,245
Depreciation	5,501,202	-	5,501,202	5,520,043
Interest	1,375,291	-	1,375,291	1,726,442
Student aid expense	2,011,713	-	2,011,713	717,402
Loss on disposal of fixed assets	418,162	-	418,162	36,818
Supplies, services, and other	8,864,027	-	8,864,027	13,392,460
Total expenses	53,854,620	-	53,854,620	58,377,893
(Decrease) increase in net assets from operating activities	(3,712,650)	2,107,588	(1,605,062)	25,070
Non-Operating Activities				
Private gifts for capital	4,746,226	4,093,379	8,839,605	8,104,852
Investment income, net	4,546,065	17,689,510	22,235,575	69,620
Bad debt expense on capital pledges	-	-	-	(3,650,423)
Change in split interest agreements	-	(13,424)	(13,424)	(124,977)
Change in value of beneficial interest and pledge discount amortization	-	397,357	397,357	86,740
Change in interest rate swap value	201,754	-	201,754	(789,330)
Change in post-retirement and post-employment liability (Note 11)	492,784	-	492,784	(18,994)
Investment return appropriated	(1,209,374)	(4,461,605)	(5,670,979)	(4,900,000)
Net assets released from restriction for capital	1,538,784	(1,538,784)	-	-
Increase (decrease) in net assets	6,603,589	18,274,021	24,877,610	(1,197,442)
Net assets at beginning of year	71,748,139	97,983,536	169,731,675	170,929,117
Net assets at end of year	$ 78,351,728	$116,257,557	$194,609,285	$ 169,731,675

See accompanying notes to financial statements.

LAKE FOREST COLLEGE
STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS
Year ended May 31, 2020

	2020		
	Without Donor Restrictions	With Donor Restrictions	Total
Operating Activities			
Revenue			
Tuition and fees, net	$ 27,239,823	$ -	$ 27,239,823
Room and board, net	11,380,758	-	11,380,758
Net student fees	38,620,581	-	38,620,581
Private gifts and grants	5,474,073	4,588,477	10,062,550
Government grants	2,102,833	-	2,102,833
Other sources	1,066,428	4,319	1,070,747
Other auxiliary enterprises, net	1,646,252	-	1,646,252
Investment return appropriated	862,749	4,037,251	4,900,000
Net assets released from restriction	6,115,293	(6,115,293)	-
Total revenue	55,888,209	2,514,754	58,402,963
Expenses			
Salaries	23,554,565	-	23,554,565
Benefits and taxes	6,612,918	-	6,612,918
Occupancy and utilities	6,817,245	-	6,817,245
Depreciation	5,520,043	-	5,520,043
Interest	1,726,442	-	1,726,442
Student aid expense	717,402	-	717,402
Loss on disposal of fixed assets	36,818	-	36,818
Supplies, services, and other	13,392,460	-	13,392,460
Total expenses	58,377,893	-	58,377,893
(Decrease) increase in net assets from operating activities	(2,489,684)	2,514,754	25,070
Non-Operating Activities			
Private gifts for capital	1,203,928	6,900,924	8,104,852
Investment income, net	69,232	388	69,620
Bad debt expense on capital pledges	(3,650,423)	-	(3,650,423)
Change in split interest agreements	-	(124,977)	(124,977)
Change in value of beneficial interest and pledge discount amortization	-	86,740	86,740
Change in interest rate swap value	(789,330)	-	(789,330)
Change in post-retirement and post-employment liability (Note 11)	(18,994)	-	(18,994)
Investment return appropriated	(862,749)	(4,037,251)	(4,900,000)
Net assets released from restriction for capital	124,675	(124,675)	-
(Decrease) increase in net assets	(6,413,345)	5,215,903	(1,197,442)
Net assets at beginning of year	78,161,484	92,767,633	170,929,117
Net assets at end of year	$ 71,748,139	$ 97,983,536	$ 169,731,675

See accompanying notes to financial statements.

LAKE FOREST COLLEGE
STATEMENTS OF CASH FLOWS
Years ended May 31, 2021 and 2020

	2021	2020
Cash flows provided by operating activities		
Increase (decrease) in net assets	$ 24,877,610	$ (1,197,442)
Adjustments to reconcile increase in net assets to net cash provided by operating activities:		
Depreciation	5,501,202	5,520,043
Change in value of interest rate swap	(201,753)	789,330
Net change in beneficial interest in trusts held by others	(403,857)	(101,225)
Net gain on investments	(22,697,843)	(493,414)
Net loss on disposal of fixed assets	418,162	36,818
Bond issuance cost amortization	49,433	51,146
Cancellation of loans receivable	47,861	2,634
Change in bad debt expense	(67,319)	3,668,771
Deferred compensation expense	(141,170)	-
Private gifts for capital	(10,980,800)	(9,655,011)
(Decrease) increase in post-retirement/post-employment liability	(492,784)	18,994
Changes in assets and liabilities:		
Student accounts receivable	446,951	373,087
Contributions receivable	2,517,638	(1,058,634)
Other receivable	4,070	421,081
Prepaid expenses and other assets	(46,534)	67,037
Accounts payable and accrued expenses	1,352,569	(169,714)
Accrued payroll and benefits	143,701	44,683
Deposits and other liabilities	1,257,592	320,124
Deferred revenue, food service provider	128,381	628
Net cash provided by (used in) operating activities	1,713,110	(1,361,064)
Cash flows used in investing activities		
Purchase and contribution of investments	(4,500,000)	(5,700,000)
Proceeds from sale or maturity of investments	5,772,052	9,400,785
Acquisitions of land, building and equipment	(17,429,407)	(2,216,240)
Proceeds from sale of fixed assets	-	133,867
Student loans disbursed	(16,500)	(20,000)
Principal collected on student loans	326,325	409,003
Change in bond funds held in trust	(3,331)	(22,246)
Net cash (used in) provided by investing activities	(15,850,861)	1,985,169
Cash flows used in financing activities		
Principal payments on notes and bonds payable	(1,450,000)	(1,410,000)
Net change in refundable U.S. Government student loans	(344,720)	(321,903)
Proceeds from private gifts and grants restricted for private gifts for capital	10,980,800	9,655,011
Net draw on line of credit	5,500,000	(8,000,000)
Net change in annuity obligation	(18,808)	24,180
Net cash provided by (used in) financing activities	14,667,272	(52,712)
Net change in cash and cash equivalents	529,521	571,393
Cash and cash equivalents at beginning of year	3,840,412	3,269,019
Cash and cash equivalents at end of year	$ 4,369,933	$ 3,840,412
Supplemental disclosure of cash flow information		
Cash paid for interest	$ 1,292,668	$ 1,558,302
Fixed assets included in accounts payable	$ (3,242,635)	$ (615,134)

See accompanying notes to financial statements.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Lake Forest College (the College) was founded in 1857. The College is a co-educational undergraduate institution offering students the opportunities and challenges of a liberal arts education. Located 30 miles north of Chicago, Illinois, the College draws a diverse student body from virtually all states of the Union and a considerable number of foreign countries.

The financial statements of the College have been prepared on the accrual basis of accounting. Significant accounting policies followed by the College are described below.

Basis of Presentation: The College follows accounting standards established by the Financial Accounting Standards Board ("FASB") to ensure consistent reporting of financial condition. References to Generally Accepted Accounting Principles in these footnotes are to the FASB Accounting Standards Codification™, sometimes referred to as the "Codification" or "ASC." Net assets and revenues, expenses, gains and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets of the College and changes therein are classified as follows:

Without Donor Restrictions – Net assets that are not subject to donor-imposed stipulations.

With Donor Restrictions – Net assets subject to donor-imposed stipulations that may or will be met either by actions of the College and/or passage of time. Net assets with donor restrictions can also be subject to donor-imposed stipulations that they be maintained permanently by the College. Generally, the donors of these assets permit the College to use all or part of the income earned or related investments for general or specific purposes, supporting the College's educational purposes. Net assets with donor restrictions in perpetuity consist of endowment funds and of certain other funds which the College does not count yet as an endowment. These other funds could include future pledge receivables from donors and undistributed amounts from estates and terminated trusts. Additionally, there are two funds included in net assets with donor restrictions at fair value in which the College has a perpetual beneficial interest, the distributions of which are restricted for scholarships.

(Continued)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Net assets with donor restrictions that may be met by actions of the College and/or passage of time consist of the following as of May 31:

	2021	2020
Donor-restricted net assets not invested in perpetuity:		
Program support	$ 5,163,459	$ 6,421,146
Capital projects	18,162,738	16,379,547
Accumulated earnings from endowment funds subject to donor restrictions	17,669,772	5,800,405
Split-interest agreements	2,196,696	1,756,901
Total donor-restricted net assets not invested in perpetuity	43,192,665	30,357,999
Donor-restricted net assets invested in perpetuity:		
Endowment	68,035,364	64,281,201
Underwater endowment	-	(1,923,386)
Loan fund	50,737	50,737
Pledge for endowment	3,300,654	3,800,654
Split-interest agreements	1,678,137	1,416,331
Total donor-restricted net assets invested in perpetuity	73,064,892	67,625,537
Total net assets with donor restrictions	$ 116,257,557	$ 97,983,536

New assets with donor restrictions are released from restrictions either by the passage of time or by the fulfillment of a purpose. Contributions restricted by the donor are reported as increases in net assets without donor restrictions if the restrictions are met in the fiscal year in which the contributions are received. Restrictions released during the periods ended May 31 are summarized as follows:

	2021	2020
Scholarships and grants	$ 16,099	$ 347,904
Instruction and research	1,348,431	1,575,303
Student services	754,048	632,020
Academic support	10,400	24,289
Management and general	134,362	115,837
Appropriation of draw	3,737,964	3,419,940
Capital expenditure	1,538,784	124,675
Total net assets with donor restrictions released	$ 7,540,088	$ 6,239,968

(Continued)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Split-Interest Agreements with Donors: The College has various types of split-interest agreements with donors. In some of these agreements, the College also serves as trustee of the related assets.

Assets held under these agreements for which the College serves as trustee are included in investments. In addition, the present value of the estimated future payments to be made to the donors and/or other beneficiaries is included in liabilities. The liabilities are adjusted during the term of the agreements for changes in the value of assets, accretion of the discount, and other changes in the estimates of future benefits.

Assets held in trust for which the College does not serve as trustee are not reported as investments in the financial statements. However, contribution revenue and a beneficial interest in the trust are recognized at the date the trusts are established for the present value of estimated future payments to be received.

Perpetual trusts are valued based upon the fair value of the assets contributed to the trust, which approximates the fair value of the beneficial interest in the trust.

Cash and Cash Equivalents: The College considers all highly-liquid investments to be used for operating purposes with original maturities of three months or less to be cash equivalents.

Investments: The College's investments and investment vehicles, excluding investments in real estate and mortgage loans receivable, are recorded in the financial statements at fair value. The fair value of investments is based on quoted market prices, except for certain alternative investments, for which quoted market prices may not be available. Direct real estate investments and mortgage loans receivable are carried at cost and are reviewed for impairment whenever events or changes in circumstances indicate that the fair value of the asset or collateralized asset may be less than its carrying value. This loss would be recorded if it is not recoverable.

The College reports the fair value of market alternatives, also known as alternative investments, using the practical expedient. The practical expedient allows for the use of net asset value (NAV), as reported by the external investment manager.

The valuations for these alternative investments necessarily involve estimates, appraisals, assumptions, and methods which are reviewed by management. However, because of the inherent uncertainty of valuation, these estimated values may differ significantly from the values that would have been used had a ready market for the investments existed.

Collections and Works of Art: Collections (musical instruments, historical treasures and similar treasures held as part of collections), which were acquired through purchases or contributions since the College's inception, are not reflected in the statements of financial position. As of May 31, 2021 and 2020, the insured value of these items was approximately $4.7 million. In addition, as of May 31, 2021 and 2020, the College has a Life Estate interest in artwork and museum furnishings valued at approximately $4.4 million.

Land, Buildings and Equipment: Land, buildings and equipment are stated at cost as of the date of acquisition or their fair value at the date of donation, if received as a contribution. Depreciation is provided using the straight-line method over the estimated useful lives of the assets, which range from 5 to 50 years. Expenditures for land, buildings and equipment in excess of $15,000 are capitalized.

Long-lived assets, such as land, buildings, and equipment are reviewed for impairment whenever events or changes in circumstances indicate that the fair value of an asset may be less than its carrying value. An impairment loss would be recorded if it is not recoverable.

(Continued)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Asset Retirement Obligations: According to the Codification, *Asset Retirement and Environmental Obligations*, all entities are required to recognize the fair value of legal obligations to perform asset retirement activities when incurred. The College has performed an assessment and believes it is not subject to such obligations as of May 31, 2021 and 2020.

Annuity Liability: The College estimates the liability for payments made to annuitants and to participants in a pooled income fund based on actuarial tables and uses an appropriate discount rate based on the age of the participants. The discount rate is determined based on the rates for investments at May 31, 2021 and 2020, in 5- and 10-year Treasury notes, which were 0.79% and 1.58% for 2021, and 0.30% and 0.65% for 2020.

Revenue: Revenues are reported as increases in net assets without donor restrictions, unless use of the related assets is limited by donor-imposed restrictions. Expenses are reported as decreases in net assets without donor restrictions. Gains and losses on investments are reported as increases or decreases in net assets without donor restrictions unless their use is restricted by explicit donor stipulations or by law. Expirations of restrictions recognized on net assets with donor restrictions (i.e. the donor-stipulated purpose has been fulfilled and/or the stipulated time period has elapsed) are reported as net assets released from restriction.

Private gifts and grants, including pledges, are recognized in the period the gift is made. Conditional gifts, with a barrier and a right of return, are not recognized until the conditions on which they depend are substantially met or explicitly waived by the donor. Contributions of assets other than cash are recorded at estimated fair value. Contributions to be received after one year are discounted at an appropriate discount rate commensurate with the risks involved. Accretion of discount is recorded as additional revenue in accordance with donor-imposed restrictions, if any, on the contributions.

An allowance for uncollectible pledges receivable is provided based upon management's judgment, including such factors as prior collection history, type of contribution, and nature of fundraising activity.

Contributions and appropriated endowment income received with donor-imposed restrictions that are met in the same year as the gifts are received are reported as revenue of the net asset without donor restrictions class. Private gifts and grants of land, building and equipment without donor-imposed restrictions concerning the use of such long-lived assets are reported as revenue of the net asset without donor restrictions class. Private gifts and grants of cash or other assets to be used to acquire land, building and equipment with such donor restrictions are reported as revenue of the net asset with donor restrictions class; the restrictions are considered to be released at the time of acquisition of such long-lived assets. Revenue from other grants and contract agreements is recognized as it is earned through expenditure in accordance with the agreements.

Government grants and contracts for basic research and other sponsored programs are generally subject to restrictions and conditions that must be met before the College is entitled to funding. Accordingly, advances from granting agencies are generally considered refundable in the unlikely event specified services are not performed. The College recognizes contribution revenue on grants for basic research and other sponsored programs as the awards for such programs are expended, since expenditure in accordance with award terms typically results in the simultaneous release of restrictions and conditions imposed by the grantor.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Revenue Recognition: The College provides academic instruction toward baccalaureate and graduate degrees. The College serves approximately 1,500 undergraduate students and 30 graduate students. Tuition revenue is recognized over the applicable term in the fiscal year in which the academic programs are delivered. Institutional scholarships awarded to students reduce the amount of revenue recognized. Scholarships of $54,348,066 and $47,539,934 were reported net of tuition and fees on the statement of activities for the years ended May 31, 2021 and 2020, respectively. In addition, students who adjust their course load or withdraw completely within the first six weeks of the academic term may receive a full or partial refund in accordance with the college's refund policy. Refunds issued reduce the amount of revenue recognized. Historically, refunds have been approximately 0.3% of the total amount billed.

The College also provides auxiliary services, such as residence and food services. Revenue from these services is recognized over the applicable term in the fiscal year in which the goods and services are provided. Scholarships of $615,551 and $804,267 were reported net of room and board revenue on the statement of activities for the years ended May 31, 2021 and 2020, respectively. Scholarships of $146,179 and $117,147 were reported net of other auxiliary enterprises revenue on the statement of activities for the years ended May 31, 2021 and 2020, respectively. In accordance with the College's refund policy, room and board charges are refunded on a per diem basis for students who adjust their status within the first six weeks of the academic term. Refunds issued reduce the amount of revenue recognized.

Sales and services of auxiliary enterprises consist of the following:

	2021	2020
Housing services	$ 1,699,731	$ 5,290,023
Food services	2,239,597	6,090,735
	3,939,328	11,380,758
Other	579,174	1,646,252
	$ 4,518,502	$ 13,027,010

Payments for tuition and room and board are due two weeks prior to the start of the academic term.

In December 2019, a novel strain of coronavirus surfaced and has spread around the world, with resulting business and social disruption. In March 2020, course instruction became remote for the rest of the Spring semester, and the College closed its residence halls. The College continued remote instruction with closed residence halls in Fall 2020. The College introduced a hybrid teaching model with reduced campus housing in Spring 2021. In fiscal year 2020, the College issued approximately $1.2 million in room and board reductions due to the closure.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The Higher Education Emergency Relief Fund (HEERF) grant program provides financial aid to students and higher education institutions to help with new expenses and revenue losses associated with the COVID-19 pandemic. The program was created by Congress as part of the Coronavirus Aid, Relief, and Economic Security (CARES) Act in March 2020, and received additional funding from the Coronavirus Response and Relief Supplemental Appropriations Act (CRRSAA) in December 2020 and the American Rescue Plan Act (ARPA) in March 2021. The College was awarded $1,546,268 by HEERF in fiscal year 2020, $2,375,182 by CRRSAA in fiscal year 2021, and $4,189,300 by ARPA in fiscal year 2021. Under the legislation, a portion of these grants must be used for direct emergency aid to students. The remaining portion must be used by institutions to cover costs associated with significant changes to the delivery of instruction due to the coronavirus or lost revenue. As of May 31, 2021 and 2020, the College issued $1,961,383 and $666,281 of emergency aid to its students, respectively. For the year ending May 2021, the College applied the $3,596,697 institutional portion to its room and board for lost revenue. For the year ending May 2020, the College applied the $773,134 institutional portion to its room and board reductions. At May 31, 2021 and 2020, $913,253 and $106,853 of the institutional portion is recorded as deferred revenue in other liabilities on the Statement of Financial Position, respectively. The revenue will be recognized when the College issues the remaining emergency aid directly to its students.

<u>Receivables</u>: The majority of the College's receivables, other than contributions, are due from students and governmental agencies. Credit is extended based on an evaluation of financial condition. Receivables are stated at amounts due from students net of an allowance for doubtful accounts. The College determines its allowance for doubtful accounts by considering the College's previous loss history. Student receivables are deemed uncollectible after five years and are written off at that time. The College does not charge interest on student receivables. Accounts receivables as of the years ended May 31, 2021 and 2020 were $679,380 and $1,130,642, respectively. Pledge receivables are written off after two years unless the donor presents evidence that he or she is capable and willing to fulfill the pledge on an extended time basis.

The College had no costs that were capitalized to obtain or to fulfill a contract with a customer.

<u>Contract Liability</u>: The contract liability represents payments received prior to the start of the academic term. The contract liability is recorded in deposits and other liabilities on the statement of financial position. The following tables depict activities for the contract liability related to tuition, fees and auxiliary services.

Balance at May 31, 2020	Refunds Issued	Revenue Recognized in Fiscal Year 2021 Balance	Amount Received in Advance of Performance	Balance at May 31, 2021
$ 872,916	$ 59,887	$ 813,029	$ 1,339,627	$ 1,339,627

Balance at May 31, 2019	Refunds Issued	Revenue Recognized in May 31, 2019 Balance	Amount Received in Advance of Performance	Balance at May 31, 2020
$ 409,976	$ 117,264	$ 292,712	$ 872,916	$ 872,916

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The balance of the contract liability at May 31, 2021 less any refunds will be recognized as revenue over the academic term as services are rendered. The College applies the practical expedient in paragraph ASC 606-10-50-14 and does not disclose information about remaining performance obligations that have original expected durations of one year or less. The College anticipates that students enrolled for the Fall semester will continue their studies in the Spring semester, and that students who receive their degrees in December or May will be replaced by an equivalent number of new enrollees.

Income Taxes: The College has received a determination letter from the Internal Revenue Service indicating that it is a tax-exempt organization as provided in Section 501(c)(3) of the Internal Revenue Code of 1986 and, except for taxes pertaining to unrelated business income, is exempt from federal and state income taxes. No provision has been made for income taxes in the accompanying financial statements as the College had no material unrelated business income in fiscal years 2021 and 2020.

The College follows guidance issued by the FASB, ASU 2009-06, *Income Taxes*, with respect to accounting for uncertainty in income taxes. A tax position is recognized as a benefit only if it is “more likely than not” that the tax position would be sustained in a tax examination, with a tax examination being presumed to occur. The amount recognized is the largest amount of tax benefit that is greater than 50% likely of being realized on examination. For tax positions not meeting the “more likely than not” test, no tax benefit is recorded. The College recognizes interest and penalties related to unrecognized tax benefits in interest and income tax expense, respectively. The College has no amounts accrued for interest or penalties as of May 31, 2021.

The College does not expect the total amount of unrecognized tax benefits to significantly change in the next 12 months.

The College has determined that its tax provisions satisfy the more likely than not criterion and that no provision for income taxes is required at May 31, 2021.

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 the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

Concentration of Credit Risk: The College maintains cash balances in one financial institution in excess of the insurance limits provided by the Federal Deposit Insurance Corporation.

Reclassifications: Certain 2020 amounts have been reclassified to conform to the 2021 presentation. There were no changes to net assets or changes in net assets as previously reported.

Measure of Operations: The College reports a change in net assets from operating activities including all operating revenue and expense that are an integral part of its programs and supporting activities, net assets released from donor restriction to support operating expenditures, and transfers from board-designated and other nonoperating funds to support current operating activities. The measure of operations excludes investment return in excess of (less than) amounts allocated by the Board of Trustees to support operations as established by endowment spending policy. The measure of operations also excludes changes in market value of beneficial interest in perpetual trusts, changes in the fair value of planned giving agreements, private gifts and grants restricted for long-term investment and capital projects, changes in fair value of the interest rate swap, and changes in value post-retirement and post-employment benefits.

(Continued)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The College prepares internal budgets for cover all debt principal payments through operating revenues. The College does not plan to cover depreciation within the scope of the internal budget. Capital improvements are primarily funded through gift revenue.

Adoption of New Accounting Standard: In February 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2016-02, *Leases (Topic 842)*. This ASU affects any entity that enters into a lease, with some specified scope exemptions. The main difference between previous GAAP and this ASU is the recognition of lease assets and lease liabilities by lessees for those leases classified as operating leases under previous GAAP. The College has implemented this ASU for the year ended May 31, 2021, using the modified retrospective approach. The College elected the optional practical expedient package which, among other things, includes the historical classification of leases.

Subsequent Events: Management has performed an analysis of the activities and transactions subsequent to May 31, 2021, to determine the need for any adjustments to and/or disclosures within the financial statements for the year ended May 31, 2021. Management has performed their analysis through October 20, 2021, the date the financial statements were issued.

NOTE 2 - CONTRIBUTIONS RECEIVABLE

Contributions receivable consist primarily of donor pledges for facility improvements and for various scholarships. Net contributions receivable are summarized as follows for May 31:

	2021	2020
Total contributions receivable	$ 10,665,980	$ 13,118,832
Less adjustments to present value future cash flows and allowances for contributions receivable	(710,253)	(717,097)
Net contributions receivable	$ 9,955,727	$ 12,401,735

The College uses a risk adjusted discount rate used to determine the present value of contributions to reflect credit risk based on the College's history with collection on receivables. The College deemed $0 and $3,729,869 of contributions receivable uncollectible during the year ended May 31, 2021 and 2020, respectively.

Payments on contributions receivable as of May 31, 2021, are scheduled as follows:

Year ending May 31,	
2022	$ 2,400,118
2023	3,944,861
2024	555,667
2025	1,998,667
2026	1,716,667
2027 and thereafter	50,000
	$ 10,665,980

(Continued)

NOTE 2 - CONTRIBUTIONS RECEIVABLE (Continued)

As of May 31, 2021, the College had received documented conditional pledges of approximately $34,600,000, which are not reflected in the accompanying financial statements. Conditional promises to give are recognized when the conditions on which they depend are substantially met.

NOTE 3 - INVESTMENTS AND FAIR VALUE MEASUREMENTS

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

Financial instruments measured and reported at fair value are classified and disclosed in one of the following three categories.

> Level 1: Quoted prices (unadjusted) for identical assets or liabilities in active markets that the entity has the ability to access as of the measurement date.
>
> Level 2: Significant other observable inputs other than Level 1 prices such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data.
>
> Level 3: Significant unobservable inputs that reflect a reporting entity's own assumptions about the assumptions that market participants would use in pricing an asset or liability.

In many cases, a valuation technique used to measure fair value includes inputs from multiple levels of the fair value hierarchy. The lowest level of significant input determines the placement of the entire fair value measurement in the hierarchy. If during the year, the fair value inputs change, the assets are reclassified between the levels.

Bond funds held in trust: Bond funds held in trust consist of short term fixed income mutual funds including U.S. Treasury and foreign fixed income instruments (Level 2 inputs) (market approach). The fair value is estimated using recently executed transactions, reported sales of similar securities, or market price quotations of the underlying trust assets.

Cash and short-term investments: The money held by the College is readily marketable and is determined by obtaining quoted prices on nationally recognized securities and exchanges (Level 1 inputs). A small portion of these investments are priced using Level 2 inputs (market approach).

Liquid Market Fund: Liquid Market Fund is a private investment partnership offering a multi-strategy investment program with a relatively liquid investment portfolio. Limited partners are permitted to redeem from the fund on a monthly basis. The College generally uses the most recent NAV information provided by the investment manager, which approximates fair value.

Investments (LFCIH): Investments presented in the following schedule are in a limited liability partnership. The College generally uses the most recent NAV information provided by the investment manager, which approximates fair value.

(Continued)

NOTE 3 - INVESTMENTS AND FAIR VALUE MEASUREMENTS (Continued)

Beneficial interest in trusts: The fair value of the beneficial interests in various perpetual trust assets was determined based upon the College's percentage of interest in the fair value of the underlying trust assets at May 31, 2021 and 2020. Because these units are not actively traded, the assets are deemed to be classified as level 3 assets (income approach).

Interest Rate Swap: The fair value of the interest rate swap is determined based on the relative values of the fixed and floating portions of the interest rate contract. The valuation model utilized involves current interest rates, projected yield curves and volatility factors to determine the fair value of the instrument as of the date of measurement. As such, significant fair value inputs can generally be verified and do not involve significant management judgment (Level 2 inputs - income approach).

Contributions are reported at fair value at the date the contribution is made. Contributions may include cash, securities, fixed assets or pledges receivable. Securities are measured using the same methodology as discussed above. Contributed fixed assets are measured using appraisals or quoted market prices for similar assets or other market data. Pledges receivable are measured at the discounted cash flows less an allowance for collectability.

Assets and liabilities measured at fair value at May 31, 2021 and 2020, on a recurring basis are summarized below:

NOTE 3 - INVESTMENTS AND FAIR VALUE MEASUREMENTS (Continued)

As of May 31, 2021, there are no unfunded commitments related to investments.

	Fair Value Measurements at May 31, 2021				
	Level 1	Level 2	Level 3	NAV	Total
Assets:					
Bond funds held in trust	$ -	$ 1,128,197	$ -	$ -	$ 1,128,197
Investments at fair value					
Cash and short-term investments	2,001,790	189,011	-	-	2,190,801
Liquid Market Fund	-	-	-	7,591,445	7,591,445
Investments (LFCIH)	-	-	-	92,730,230	92,730,230
Total investments at fair value	2,001,790	189,011	-	100,321,675	102,512,476
Investments held at cost					
Direct real estate					2,336,076
Mortgages receivable					465,422
Total investments					$ 105,313,974
Beneficial interest in trusts	-	-	3,090,178	-	$ 3,090,178
Total assets at fair value	$ 2,001,790	$ 1,317,208	$ 3,090,178	$ 100,321,675	
Liabilities:					
Interest rate swap	$ -	$ 399,621	$ -	$ -	$ 399,621

(Continued)

NOTE 3 - INVESTMENTS AND FAIR VALUE MEASUREMENTS (Continued)

	Fair Value Measurements at May 31, 2020				
	Level 1	Level 2	Level 3	NAV	Total
Assets:					
Bond funds held in trust	$ -	$ 1,124,866	$ -	$ -	$ 1,124,866
Investments at fair value					
Cash and short-term investments	1,789	179,932	-	-	181,721
Liquid Market Fund	-	-	-	3,861,892	3,861,892
Investments (LFCIH)	-	-	-	77,019,895	77,019,895
Total investments at fair value	1,789	179,932	-	80,881,787	81,063,508
Investments held at cost					
Direct real estate					2,336,076
Mortgages receivable					488,599
Total investments					$ 83,888,183
Beneficial interest in trusts	-	-	2,686,321	-	$ 2,686,321
Total assets at fair value	$ 1,789	$ 1,304,798	$ 2,686,321	$ 80,881,787	
Liabilities:					
Interest rate swap	$ -	$ 601,374	$ -	$ -	$ 601,374

Investments using NAV as a fair value expedient are not included in the fair value hierarchy, pursuant to the adoption of ASU 2015-07, *Fair Value Measurement*.

LFC Investments Holdings, LP (LFCIH), a limited partnership, has two components. The largest component is an ownership interest in a limited partnership investment fund (the Fund), and the remaining amount is made up of 12 legacy investments in real estate and partnerships with 7 managers and cash allocated for future capital calls. As the legacy investments mature, the distributions will be invested into the Fund. While the legacy investments are in place, the general partner will manage the overall investment portfolio for the purpose of remaining within targeted ranges.

The Fund has a strategy that focuses on varied and nontraditional investment opportunities, in an effort to provide a diversified, single-portfolio for investors. The Fund's portfolio is globally diversified and allocated across multiple asset classes including equities, real assets, commodities/resources and fixed income instruments and is invested for total return; generating current income is not an objective. The long-term, total return objective dictates a significant allocation to asset classes expected to generate equity-like returns.

A majority of the Fund's investments include limited partnership interests (sub-partnerships) whose investments are mostly comprised of illiquid, non-publicly traded securities. Certain sub-partnership investments include exchange traded funds and derivative contracts (e.g. futures contracts, options, forward currency contracts and swap agreements). These and other investments are subject to various risk factors including market, credit and industry risk. Market risk represents the potential loss in value of financial instruments caused by movements in market variables, such as interest rate. Other risks affecting these investments include, but are not limited to, increasing competition, rapid changes in technology and change in economic conditions.

(Continued)

NOTE 3 - INVESTMENTS AND FAIR VALUE MEASUREMENTS (Continued)

The College may withdraw up to 7% from the value of LFCIH annually. Additional redemption requests require written notice 120 day before the redemption date, and are generally fulfilled by the General Partner based on liquidity of the underlying assets. The General Partner may be removed at any time in the College's sole discretion by 90 days prior written notice to the General Partner.

At May 31, 2021 and 2020, the underlying investments of LFCIH consisted of the following asset classes:

	2021	2020
Short-term investments	2.1 %	3.7 %
Public equity	30.2	32.2
Private equity	22.2	18.3
Hedge funds	19.9	19.7
Credit	0.7	-
Real assets	11.7	17.4
Natural Resources	5.3	-
Fixed income	7.9	8.7
	100.0 %	100.0 %

At May 31, 2021 and 2020, the College's return on investment was made up of the following components:

	2021	2020
Return on long-term investments:		
Interest and dividends	$ 166,974	$ 210,756
Net gain on investments		
Realized gain	1,262,223	176,064
Unrealized gain	21,412,582	330,891
Net gain on investments	22,674,805	506,955
Total return on long-term investments	22,841,779	717,711
Other short-term investments loss	(7,750)	(24,760)
Investment fees	(598,454)	(623,331)
Total return on investments	$ 22,235,575	$ 69,620

NOTE 4 - ENDOWMENT COMPOSITION

The College's endowment includes both donor-restricted endowment funds and funds designated by the Board of Trustees to function as endowments. 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.

The schedule below excludes certain net assets with donor restrictions in the statement of financial position including future pledge receivables from donors and undistributed amounts from estates and terminated trusts. Additionally, there are two funds included in net assets with donor restrictions in the statement of financial position at fair value in which the College has a perpetual beneficial interest, the distributions of which are restricted for scholarships.

NOTE 4 - ENDOWMENT COMPOSITION (Continued)

Endowment net asset composition by type of fund as of May 31, 2021, is as follows:

	Without Donor Restrictions	With Donor Restrictions	Total
Donor-restricted endowment funds	$ -	$ 85,705,136	$ 85,705,136
Quasi-endowment funds	18,848,591	-	18,848,591
Total funds	$ 18,848,591	$ 85,705,136	$ 104,553,727

Endowment net asset composition by type of fund as of May 31, 2020, is as follows:

	Without Donor Restrictions	With Donor Restrictions	Total
Donor-restricted endowment funds	$ -	$ 70,081,606	$ 70,081,606
Underwater endowments	-	(1,923,386)	(1,923,386)
Quasi-endowment funds	16,034,688	-	16,034,688
Total funds	$ 16,034,688	$ 68,158,220	$ 84,192,908

Changes in endowment net assets for years ended May 31, 2021 and 2020, are as follows:

	Without Donor Restrictions	With Donor Restrictions	Total
Endowment net assets, May 31, 2019	$ 16,619,034	$ 70,879,669	$ 87,498,703
Total investment return	(16,505)	(35,716)	(52,221)
Contributions	294,908	1,351,518	1,646,426
Appropriation for expenditures	(862,749)	(4,037,251)	(4,900,000)
Endowment net assets, May 31, 2020	16,034,688	68,158,220	84,192,908
Total investment return	4,022,577	17,752,900	21,775,477
Contributions	700	4,255,621	4,256,321
Appropriation for expenditures	(1,209,374)	(4,461,605)	(5,670,979)
Endowment net assets, May 31, 2021	$ 18,848,591	$ 85,705,136	$ 104,553,727

(Continued)

NOTE 4 - ENDOWMENT COMPOSITION (Continued)

A donor-restricted endowment fund is considered to be underwater if the fair value of the fund is less than either the original gift amount or the amount required to be maintained by the donor or by law. At times, the College may have individual donor-restricted endowment funds that are underwater. The College has a policy that permits spending from underwater funds depending on the degree to which the fund is underwater, unless specifically prohibited by the donor or relevant laws and regulations. There were no underwater funds at May 31, 2021. At May 31, 2020, the amount by which funds were underwater was calculated as follows:

	2020
Aggregate original gift amount	$ 38,707,020
Aggregate fair value	36,783,634
Aggregate deficiency	$ (1,923,386)

Interpretation of Relevant Law: Effective June 30, 2009, Illinois signed into law the Uniform Prudent Management of Institutional Funds Act (UPMIFA). UPMIFA modernizes the laws governing a not-for-profit organization's investment and management of donor-restricted endowment funds. The Board of Trustees of the College, serving as the body delegated to manage the College's endowments, has interpreted UPMIFA as allowing, but not requiring, the preservation of the historic dollar value of the original gift of donor-restricted endowment funds, absent explicit donor stipulations to the contrary. As a result of this interpretation, the College has chosen to classify as net assets with donor restrictions 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.

In accordance with accounting principles governing not-for-profit organizations subject to an enacted version of UPMIFA, the portions of donor-restricted endowments not classified as net assets with donor restrictions are classified as net assets with donor restrictions until appropriated for expenditure. Realized and unrealized gains and losses on all College new assets with donor restrictions in perpetuity endowments are being recognized in net assets with donor restrictions with specific restrictions and/or passage of time, except for unrealized gains and losses on deferred gifts that will provide proceeds upon death of the annuitant for a permanent endowment.

Return Objectives and Risk Parameters: The purpose of the College's long-term investments is to support the College and its mission over the long term. Thus the financial goals for the endowment fund are to preserve and increase real purchasing power, to offset the effects of inflation, to take advantage of long-term horizons and to maintain and ideally increase the contribution to the operating budget. The performance of the endowment fund against these goals evaluated over rolling three- and five-year periods.

The long-term return objective is to generate a 5% return after inflation, and to outperform a global passive portfolio 70% equities/30% bonds portfolio with less downside volatility overtime. Short and medium term performance (periods of one to five years) is judged primarily against a policy portfolio benchmark, which is constructed using the target asset class percentage weightings multiplied by the corresponding index return, and rebalanced monthly.

(Continued)

NOTE 4 - ENDOWMENT COMPOSITION (Continued)

Strategies Employed for Achieving Objectives: The long-term investments of the College, particularly the endowment, have an indefinite time horizon that runs concurrent with the endurance of the College in perpetuity. As such, these funds can assume a time horizon that extends well beyond a normal market cycle, and can assume an above-average level of risk as measured by the standard deviation of annual returns. It is expected, however, that both professional investment management and sufficient portfolio diversification will smooth volatility, help to assure a reasonable consistency of return and a flow of income to support College operations.

Spending Policy and How the Investment Objectives Relate to Spending Policy: The draw is the amount withdrawn from the investment pool to support the College's operations and mission. The Board of Trustees approved the annual endowment draw for the operating budget of $3,029,717 and $2,625,000 in 2021 and 2020 respectively. The draw for other non-operating restricted funds, $1,575,262 and $1,209,000 in 2021 and 2020, respectively. The Board of Trustees also approved the use of accumulated realized gains on investment to make debt service payments. During fiscal years 2021 and 2020, the College utilized $1,066,000 each year for debt service payments.

The spending policy, based on total return, will from time to time result in a draw from funds that are below fair value. The College continues to draw from these funds, in order to honor the wishes of the donors who have generously supported the functions of the College. The draw and the allocation of market losses together will be reviewed by the Executive Committee during market downturns to assess whether the spending rate is prudent for those accounts.

NOTE 5 - LAND, BUILDINGS AND EQUIPMENT

The College’s land, buildings and equipment as of May 31, are as follows:

	2021	2020
Land	$ 2,257,533	$ 2,257,533
Buildings and improvements	174,464,343	173,520,319
Equipment	3,801,428	3,835,490
Construction-in-progress	18,516,231	2,645,830
	199,039,535	182,259,172
Less accumulated depreciation	76,049,900	73,407,081
Net land, buildings and equipment	$ 122,989,635	$ 108,852,091

Depreciation expense for the years ending May 31, 2021 and 2020, was $5,501,202 and $5,520,043, respectively.

NOTE 6 - LINE OF CREDIT

In October 2017, the College entered into an uncommitted loan agreement with The Northern Trust Company (Bank) that expires October 25, 2021. The agreement provides for an unsecured line of credit with maximum borrowings of $14,000,000 which bears interest at the Overnight LIBOR plus 1.25 percent (May 31, 2021 and 2020 is 1.31%). The purpose of the new loan is to provide bridge financing for the new science center which will be funded by the receipt of pledges receivable. Outstanding borrowings as of May 31, 2021 and 2020, were $5,500,000 and $0, respectively. Interest expense on the line of credit was $21,057 and $137,249 for the years ended May 31, 2021 and 2020, respectively.

In October 2017, the College entered into an unsecured line of credit agreement with the Bank that was renewed and restated in January 2021. The line of credit expired April 30, 2021 and was renewed subsequent to yearend. The unsecured line of credit provides for maximum borrowings of $4,000,000 and bears interest at the overnight LIBOR (floor of 0 percent) plus 1.25 percent (May 31, 2021 and 2020 is 1.31%). The purpose of the line of credit is to provide cash flow for operations. There were no outstanding borrowings as of May 31, 2021 or 2020. Interest expense on the line of credit was $0 for the years ended May 31, 2021 and 2020.

NOTE 7 - BONDS PAYABLE

The College has the following bonds payable as of May 31:

	2021	2020
Illinois Finance Authority Bonds, Series 2008, payable in annual installments beginning 2031, including variable interest (0.10% and 0.23% at May 31, 2021 and 2020, respectively) calculated weekly and paid monthly, for term bonds, due 2039	$ 6,000,000	$ 6,000,000
Illinois Finance Authority Bonds, Series 2012, payable in annual installments beginning 2014, including interest paid semi-annually ranging from 4.25% to 5.75% for the term bonds, due 2049	14,675,000	14,885,000
Illinois Finance Authority Revenue Refunding Bonds, Series 2014, payable in annual installments beginning 2015, including variable interest at a rate of 68% of 1 month LIBOR plus 125 basis points (1.32% at May 31, 2021 and 1.50% at May 31, 2020), due 2028	11,300,000	12,540,000
	31,975,000	33,425,000
Unamortized bond premium (2012 Bond)	367,125	378,423
Bond issuance costs	(898,897)	(959,628)
	$ 31,443,228	$ 32,843,795

(Continued)

NOTE 7 - BONDS PAYABLE (Continued)

Aggregate maturities of bonds payable as of May 31, 2021, are as follows:

Year ending May 31,	
2022	$ 1,495,000
2023	1,550,000
2024	1,600,000
2025	1,650,000
2026	1,705,000
2027 and thereafter	23,975,000
	$ 31,975,000

Interest on bonds payable was $1,238,742 and $1,391,536 for the years ended May 31, 2021 and 2020, respectively.

For the Series 2008 Bonds, the College entered into a reimbursement agreement with the Bank, which includes a letter of credit in the amount of $6,069,041. The letter of credit expires August 2023. Because the above bond issue is operating in a floating mode and is remarketed at par value weekly, its carrying value approximates fair value of the outstanding balances of the bonds. Should the agent not be able to remarket the bonds, they become demand notes under the letter of credit agreement.

The Series 2012 and Series 2014 Bonds are the general obligation of the College.

The bond agreements contain various restrictive financial covenants that College management believes they are in compliance with as of May 31, 2021.

Bond issuance costs consist of closing expenses paid related to the issuance of the IFA Series 2008, Series 2012 and Series 2014 bonds. These costs are being amortized on a straight-line basis over the life of the bond. Bond issuance costs amortized for the IFA Series and 2008, Series 2012 and Series 2014 was $60,731 for both fiscal years 2021 and 2020.

NOTE 8 - INTEREST RATE SWAP

The College entered into an interest rate swap agreement, which is considered a derivative financial instrument, on October 17, 2014. The agreement was entered into in order to manage interest rate exposure. The College does not utilize interest rate swaps or other similar financial instruments for trading or other speculative purposes. The counterparty for the swap agreement is the Bank.

The principal objective of the swap agreement is to minimize the risks associated with financing activities by reducing the impact of changes in interest rates on floating rate debt. The swap agreement is a contract to exchange floating rate for fixed interest payments over the life of the swap agreement without the exchange of the underlying notional amounts. The effect of these agreements is to limit the interest rate exposure to 2.83% on a notional amount of $11,300,000 and $12,540,000 as of May 31, 2021 and 2020, respectively. This agreement is effective until October 1, 2024. The College is exposed to credit loss in the event of nonperformance by the Bank to the interest rate swap agreement. However, the College does not anticipate nonperformance by the Bank.

(Continued)

NOTE 8 - INTEREST RATE SWAP (Continued)

The net cash paid or received under the swap agreement is recognized as an adjustment to interest expense. As a result of this swap agreement, interest expense was $305,565 and $372,401 for the years ended May 31, 2021 and 2020, respectively.

For the years ended May 31, 2021 and 2020, respectively, the College recognized an unrealized gain (loss) of $201,754 and $(789,330), which is included as a non-operating item, to reflect the fair value adjustment of the interest rate swap. This valuation is based upon valuation models used by the Bank and it represents the Bank's good faith estimates of mid-market values of the referenced transactions. This is an estimate of the loss that would be incurred if the College terminates the transaction prior to the early termination option date.

Summary information about the interest rate swap agreement as of May 31, 2021 and 2020, is as follows:

	2021	2020
Weighted average pay rates (fixed)	2.83%	2.83%
Weighted average one-month LIBOR (variable)	1.32%	1.50%

The interest rate swap is recorded at fair value on the statement of financial position with a balance of $399,621 and $601,374 as of May 31, 2021 and 2020, respectively.

NOTE 9 - DEFERRED REVENUE WITH FOOD SERVICE PROVIDER

In 2011, the College entered into a contract that was to expire in 2025 in which the College's food service provider committed to fund the expansion of a building on the College's campus in the amount of $4,151,000. The College recognizes revenue amortized over the life of the contract on a straight line basis. In fiscal year 2019, the College changed food service providers. The new provider assumed the liability under a new contract and provided additional renovation funding that expires in 2030. In 2021, the vendor provided additional funding of $500,000. The amounts recognized annually in 2021 and 2020 were $628,381 and $458,381, respectively. Deferred revenue recorded on the statement of financial position as of May 31, 2021 and 2020 was $3,210,259 and $3,081,878, respectively.

NOTE 10 - RETIREMENT PLAN

Retirement benefits are provided for salaried and hourly employees through TIAA, a national organization used to fund retirement benefits for employees of educational institutions through a defined contribution plan. The College makes contributions to TIAA to purchase individual annuities equivalent to retirement benefits earned. Total contribution expense for the College during fiscal years 2021 and 2020, was $1,464,361 and $1,570,081, respectively.

NOTE 11 - POST-RETIREMENT AND POST-EMPLOYMENT BENEFITS

The College sponsors a top hat post-retirement plan that provides medical coverage to select retired employees who have worked for the College for at least 15 years. Spouses under age 65 of eligible retirees are also eligible for medical coverage. Medical coverage terminates at age 70. In addition, the College sponsors a post-employment disability plan that provides medical coverage for all permanently disabled full-time tenured and non-tenured employees.

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NOTE 11 - POST-RETIREMENT AND POST-EMPLOYMENT BENEFITS (Continued)

Financial accounting standards require the College to recognize the funded status (i.e., the difference between the fair value of plan assets and the projected benefit obligations) of its plans. Accounting standards also require that the costs of providing post-employment health insurance coverage to disabled employees be recognized when the event causing disability occurs and a reasonable estimate of the related costs can be made.

Net periodic benefit cost for fiscal years 2021 and 2020, included the following components:

	Retired		Disabled	
	2021	2020	2021	2020
Service cost – benefits earned during the period	$ 143,151	$ 163,338	$ -	$ -
Interest cost on accumulated benefit obligation	45,807	66,341	157	651
Recognized curtailment (gain)/loss	(776,069)	-	-	-
Amortization of prior service cost	-	(4,337)	-	-
Amortization of (gain) loss	(73,576)	(64,559)	(22,353)	(14,496)
Net periodic benefit cost	$ (660,687)	$ 160,783	$ (22,196)	$ (13,845)

Benefit costs not previously recognized as a component of the periodic benefit cost, but included as a cumulative separate charge to net assets for the periods ended May 31, 2021 and May 31, 2020, are as follows:

	Retired		Disabled	
	2021	2020	2021	2020
Prior service cost	$ -	$ -	$ -	$ -
Net actuarial gain	(1,021,311)	(1,451,905)	(20,162)	(42,508)
Net amount recognized	$ (1,021,311)	$ (1,451,905)	$ (20,162)	$ (42,508)

(Continued)

NOTE 11 - POST-RETIREMENT AND POST-EMPLOYMENT BENEFITS (Continued)

Net changes in periodic benefit cost for fiscal years 2021 and 2020, included the following components:

	Retired		Disabled	
	2021	2020	2021	2020
Accumulated benefit obligation, beginning of year	$ 2,084,753	$ 2,044,606	$ 9,306	$ 30,459
Service cost	143,151	163,338	-	-
Interest cost	45,807	66,341	157	651
Retiree contributions	10,268	9,028	-	-
Actuarial (gain) loss	357,018	(156,404)	(7)	(12,644)
Disbursements	(47,536)	(42,156)	(4,755)	(9,160)
Plan amendment	(220,818)	-	-	-
Plan curtailment	(776,069)	-	-	-
Accumulated benefit obligation end of year	$ 1,596,574	$ 2,084,753	$ 4,701	$ 9,306

Fair value of plan assets for fiscal years of 2021 and 2020, including both post-retirement and post-employment benefits:

	2021	2020
Fair value of plan assets, beginning of the year	$ -	$ -
College and retiree contributions	52,291	51,316
Benefits paid	(52,291)	(51,316)
Fair value of plan benefits end of year	$ -	$ -

The financial status of the plans and the amounts recognized in the statement of financial position as of May 31 are shown below:

	Retired		Disabled	
	2021	2020	2021	2020
Accumulated benefit obligation:				
Retirees	$ 84,739	$ 69,110	$ 4,701	$ 9,306
Active employees eligible for benefits	559,913	33,689	-	-
Active employees not yet eligible for eligible for benefits	951,922	1,981,954	-	-
Accrued benefit cost recognized in the statements of financial position	$ 1,596,574	$ 2,084,753	$ 4,701	$ 9,306

(Continued)

NOTE 11 - POST-RETIREMENT AND POST-EMPLOYMENT BENEFITS (Continued)

The amount of amortization expected to be recognized as net periodic benefit cost (benefit) during the fiscal year ending May 31, 2021, is as follows:

	Retired	Disabled
Prior service credit	$ -	$ -
Net gain	(73,576)	(22,353)

The weighted average discount rate used in determining the accumulated post-retirement and post-employment benefit obligations was 2.31% in 2021 and 2.25% in 2020.

The assumed health care cost trend rate used in measuring the accumulated post-retirement and post-employment benefit obligations was 7.50% for fiscal 2021, reduced linearly to 4.50% in fiscal 2042 and all years thereafter for pre-65 and post-65 claims.

The health care cost trend rate has a significant effect on the accounts reported. For example, if the health care cost trend rate assumptions changed by 1%, the approximate effect is as follows:

Impact of a 1% increase in medical trend:

Effect on total service and interest components	$ 19,898
Effect on benefit obligation	21,206

Impact of a 1% decrease in medical trend:

Effect on total service and interest components	$ (15,973)
Effect on benefit obligations	(19,083)

The College's expected contributions to the retired and disabled plans are as follows:

Fiscal Year ending May 31:	Retired	Disabled	Total
2022	$ 144,132	$ 4,755	$ 148,887
2023	142,800	-	142,800
2024	120,810	-	120,810
2025	128,893	-	128,893
2026	119,384	-	119,384
2027 - 2031	632,455	-	632,455
	$ 1,288,474	$ 4,755	$ 1,293,229

NOTE 12 - DEFERRED COMPENSATION PLAN

The College has a voluntary relinquishment of tenure and employment plan, which offers a benefit to qualifying tenured faculty and administrative staff members. The deferred compensation liability as of May 31, 2021 and 2020, was approximately $215,000 and $356,000, respectively.

(Continued)

NOTE 13 - COMMITMENTS AND CONTINGENCIES

Operating Leases: Operating leases are included in operating lease right-of-use (ROU) assets and operating lease liabilities in our statement of financial position. The lease terms range from two to five years. The rental commitments for operating leases consist of lease obligations for various copiers, postage meters, and vehicles. The College determines if an arrangement is a lease at inception. Rental expense for operating leases during 2021 and 2020, was approximately $119,000 and $145,000, respectively. The weighted average remaining lease term is 3 years and 4 years at May 31, 2021 and 2020, respectively. The College used a discount rate of 1.5% for 2021 and 2020.

Rental Facilities: The College entered into a lease agreement with The Flats at East-West University located in Chicago, Illinois. The lease agreement commenced on August 15, 2016 and was not renewed in fiscal year 2021. Rental expense during 2021 and 2020 was approximately $212,000 and $298,000, respectively.

Operating lease maturities at May 31, 2021 are as follows:

Year ending May 31,	
2022	$ 102,292
2023	92,398
2024	79,123
2025	19,294
Total lease payments	293,107
Less imputed interest	(4,332)
Total	$ 288,775

Claims and Legal Action: The College is involved in various claims and legal actions arising in the ordinary course of business. In the opinion of management, the ultimate disposition of these matters will not have a material adverse effect on the College's financial position, changes in net assets, or liquidity.

Federal Financial Aid: The College receives significant student financial aid from the U.S. Department of Education and other federal awards. The disbursement of funds received under such programs generally requires compliance with terms and conditions specified in federal regulations and are subject to audit by the federal agencies and possible disallowance of certain expenditures. The College has not had any significant disallowance of federal funds in the past and expects such amounts, if any, to be immaterial.

NOTE 14 - RELATED PARTY TRANSACTIONS

Full-time tenured teaching faculty and certain full-time administrative staff were eligible to take out second mortgages on their primary residence with the College. The interest rate on the notes is 60% of the rate published in the Wall Street Journal seven days preceding the date of closing as the yield posted by Federal National Mortgage Association on 30-year standard conventional fixed-rate mortgage commitments for delivery within 30 days. Interest rates varied from 2.18% to 4.17% at May 31, 2021 and 2020. Interest income on mortgages receivable is recognized over the term of the receivable based upon the effective yield method.

Second mortgages outstanding were $465,422 and $488,599 as of May 31, 2021 and 2020, respectively. The second mortgages are classified as part of long-term investments on the statement of financial position.

NOTE 14 - RELATED PARTY TRANSACTIONS (Continued)

Future minimum payments are scheduled as follows:

Year ending May 31,		
2022	$	23,953
2023		24,757
2024		25,590
2025		26,452
2026		25,558
Thereafter		339,112
	$	465,422

During the years ended May 31, 2021 and 2020, respectively, the College received approximately $6,300,000 and $9,500,000 in contributions from board members.

NOTE 15 - SELF-INSURANCE PLAN

The College is self-insured for its employee health insurance plan. United Healthcare provides administrative services and access to its provider network. The College is responsible for the funding of all claims up to $135,000 per individual claim per policy year but has individual stop loss insurance through another firm for the expenses above that amount. A liability of $230,000 and $156,000 has been recorded by the College as of May 31, 2021 and 2020, respectively, to estimate the total outstanding liability for payment of claims submitted and pending on that date. Group health insurance expense, including administrative fees and stop loss insurance, for the fiscal years ended May 31, 2021 and 2020 totaled $3,903,070 and $3,274,090, respectively.

NOTE 16 - LOANS RECEIVABLE

The College makes uncollateralized loans to students based upon financial need. Amounts due under the Federal Perkins Loan program are guaranteed by the Federal government. As of May 31, 2021 and 2020, the College has outstanding loans receivable, of $1,525,889 and $1,883,575, which represented 0.72% and 0.87% of total assets, respectively. As of May 31, 2021 and 2020, the College has an allowance for doubtful accounts of $287,947. Additionally, as of May 31, 2021 and 2020, the College has certain mortgages receivable from employees included on the statement of financial position in investments, of $465,422 and $488,599, which represented 0.19% and 0.22% of total assets, respectively. At May 31, 2021 and 2020, the College's financing receivables are as follows:

NOTE 16 - LOANS RECEIVABLE (Continued)

	2021	2020
Notes receivable		
Federal programs	$ 1,705,595	$ 2,033,028
Institutional programs	108,241	138,494
Notes receivable, gross	1,813,836	2,171,522
Less allowance for doubtful accounts	287,947	287,947
Notes receivable, net	1,525,889	1,883,575
Mortgages receivable	465,422	488,599
Total financing receivables	$ 1,991,311	$ 2,372,174
Beginning of year	$ 2,372,174	$ 2,894,565
New loans	16,500	20,000
Less payments on principal	349,502	510,232
Less cancellations and adjustments	47,861	2,634
Less allowance adjustment	-	29,525
End of year	$ 1,991,311	$ 2,372,174

The availability of funds for loans under these programs is dependent upon reimbursements to the pool through repayments of outstanding loans as of May 31, 2021 and 2020. The amount of funds in the Federal Perkins Loan program advanced by the Federal Government is $1,577,891 and $1,923,004, respectively; these are ultimately refundable to the government, and are classified as liabilities on the statement of financial position. Outstanding loans cancelled under the Federal Perkins Loan Program result in a reduction of funds available for loans and a decrease in the liability to the government. The College has reserved $216,226 of institutional funds against the Federal Portion of loans refundable, decreasing the liability. A second loan program is funded by the Strong Foundation, and the amount outstanding and classified as a liability for that program as of May 31, 2021 and 2020 is $132,212 and $131,819, respectively.

At May 31, 2021 and 2020, the following amounts were past due under the Perkins and institutional loan programs:

May 31,	1 - 270 Day Past Due	270 Days - 2 Years Past Due	2 - 5 Years Past Due	5 + Years Past Due	Total Past Due
2021	$ 110,497	$ 52,873	$ 91,394	$ 396,126	$ 650,890
2020	$ 149,328	$ 60,641	$ 131,055	$ 385,273	$ 726,297

(Continued)

NOTE 17 – FUNCTIONAL CLASSIFICATION OF EXPENSES

The statements of activities reports expenses according to their natural classification. These expenses are attributable to the programs and supporting functions of the College. The tables below present these expenses by their natural and functional classification for the years ended May 31, 2021 and 2020.

	2021						
	Program Activities				Supporting Services		
	Instruction and Research	Academic Support	Student Services	Auxiliary Enterprises	Management and General	Fundraising and Alumni Relations	Total Expenses
Salaries	$ 10,437,348	$ 2,119,714	$ 6,141,965	$ 521,660	$ 2,300,298	$ 792,431	$ 22,313,416
Benefits and taxes	3,240,221	693,676	1,821,299	287,289	1,081,120	284,044	7,407,649
Occupancy and utilities	1,457,409	9,085	958,409	1,214,237	2,309,096	14,924	5,963,160
Depreciation	2,350,308	683,179	1,043,479	1,279,846	144,390	-	5,501,202
Interest	176,022	43,360	94,083	1,055,043	6,783	-	1,375,291
Student aid expense	-	-	50,330	-	1,961,383	-	2,011,713
Supplies, services, and other	802,851	813,592	2,197,091	3,047,470	1,746,811	256,212	8,864,027
Total expenses on the Statement of Activities	$ 18,464,159	$ 4,362,606	$ 12,306,656	$ 7,405,545	$ 9,549,881	$ 1,347,611	$ 53,436,458

	2020						
	Program Activities				Supporting Services		
	Instruction and Research	Academic Support	Student Services	Auxiliary Enterprises	Management and General	Fundraising and Alumni Relations	Total Expenses
Salaries	$ 10,817,109	$ 2,355,679	$ 6,425,901	$ 591,181	$ 2,323,314	$ 1,041,381	$ 23,554,565
Benefits and taxes	2,648,336	675,698	1,615,262	195,509	1,168,543	309,570	6,612,918
Occupancy and utilities	1,857,469	12,320	1,089,440	1,279,240	2,561,395	17,381	6,817,245
Depreciation	2,333,578	702,704	1,030,972	1,282,850	169,939	-	5,520,043
Interest	298,577	48,040	284,185	1,084,919	10,721	-	1,726,442
Student aid expense	-	-	51,121	-	666,281	-	717,402
Bad debt expense on capital pledges	-	-	-	-	3,650,423	-	3,650,423
Supplies, services, and other	1,828,388	1,073,156	3,162,924	5,532,026	1,326,377	469,589	13,392,460
Total expenses on the Statement of Activities	$ 19,783,457	$ 4,867,597	$ 13,659,805	$ 9,965,725	$ 11,876,993	$ 1,837,921	$ 61,991,498

Expenses are charged directly to the categories based upon specific identification where possible. Expenses which are not directly identifiable to the program activities or supporting services are allocated on a reasonable basis that is consistently applied. Operation and maintenance expenses are allocated based on square footage. Depreciation expense is allocated to other functions based on the building or location of the equipment and the use of that space. Interest expense is allocated based on the program and/or supporting function that benefit from the related debt issuances. Benefit expenses are allocated based on salary expenses.

Instruction and research includes expenses for all activities that are part of the instructional program and for activities specifically organized to produce research. Academic support includes expenses for all activities that directly support the instructional programs of the college such as the library and technology services. Student services are considered programmatic and include activities that contribute to student emotional and physical well-being and intellectual, cultural and social development outside the formal instructional program. Auxiliary enterprises include expenses relating to the operation of the auxiliary activities such as housing, dining services, and parking. Support services include centralized management and administrative support services such as executive management, fiscal operations, general administration, and fundraising activities.

(Continued)

NOTE 18 - LIQUIDITY AND AVAILABILITY

The College regularly monitors liquidity required to meet its operating needs and other contractual commitments, while also striving to maximize the investment of its available funds. The College has various sources of liquidity at its disposal, including cash, marketable debt and equity securities, and lines of credit.

For purposes of analyzing resources available to meet general expenditures over a 12-month period, the College considers all expenditures related to its ongoing mission-related activities as well as the conduct of services undertaken to support those activities to be general expenditures. Student loans receivable are not included in the analysis as principal and interest on these loans are used solely to make new loans and are, therefore, not available to meet current operating needs.

As of May 31, 2021 and 2020, the following tables show the total financial assets held by the College and the amounts of those financial assets that could readily be made available within one year to meet general expenditures:

Financial Assets:	2021	2020
Cash	$ 4,369,933	$ 3,840,412
Student accounts receivable, net	679,380	1,130,642
Contributions receivable, net	9,955,727	12,401,735
Other receivables	671,078	675,148
Investments convertible to cash in the next 12 months	16,045,209	9,396,012
Other long-term investments	89,268,765	74,492,171
Total	$ 120,990,092	$ 101,938,140
Financial Assets Available to Meet General Expenditures Over the Next 12 Months:		
Cash	$ 4,369,933	$ 3,840,412
Student accounts receivable expected to be received	679,380	1,130,642
Contributions receivable expected to be received	2,400,118	2,336,279
Other receivables	671,078	675,148
Additional investments convertible to cash in the next 12 months	10,645,209	3,996,012
Approved fiscal year 2021 endowment draw	5,400,000	5,400,000
Total	$ 24,165,718	$ 17,378,493

In addition to financial assets available to meet general expenditures over the next 12 months, the College operates with a balanced budget and anticipates collecting sufficient revenue to cover general expenditures not covered by donor-restricted resources.

To help manage unanticipated liquidity needs, at May 31, 2021, the College has $8,500,000 available to draw on its bridge financing line of credit. At May 31, 2021, the College had $18,848,591 of quasi-endowments which could be made available for operations, which includes $886,521 of approved draw included in the table above.