Lake Forest College

Financial Report
May 31, 2022

Contents

RSM US LLP

Independent Auditor's Report

Board of Trustees
Lake Forest College

Opinion
We have audited the accompanying financial statements of Lake Forest College (the College), which comprise the statement of financial position as of May 31, 2022, the related statement of activities and changes in net assets and cash flows for the year then ended, and the related notes to the financial statements (collectively, the financial statements).

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the College as of May 31, 2022, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion
We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the College and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Other Matter
The financial statements of the College, as of and for the year ended May 31, 2021, were audited by other auditors, whose report, dated October 20, 2021 expressed an unmodified opinion on those statements.

Responsibilities of Management for the Financial Statements
Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; 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.

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

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

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the College's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the College's ability to continue as a going concern for a reasonable period of time.

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

RSM US LLP

Chicago, Illinois
October 18, 2022

Lake Forest College

Statements of Financial Position
May 31, 2022 and 2021

	2022	2021
Assets		
Cash and cash equivalents	$ **1,439,490**	$ 4,369,933
Bond funds held in trust	**1,104,795**	1,128,197
Accounts receivable, net:		
Students, less allowance of $950,789 in 2022 and $971,477 in 2021	**856,905**	679,380
Contributions, net	**7,716,827**	9,955,727
Other	**884,335**	671,078
Prepaid expense and other assets	**1,034,283**	1,252,378
Right-of-use assets—operating leases	**202,662**	288,775
Interest rate swap	**46,756**	-
Student loan funds, primarily Perkins loans	**1,230,520**	1,525,889
Long-term investments	**104,756,622**	105,313,974
Land, building and equipment, less accumulated depreciation	**122,407,186**	122,989,635
Beneficial interests in trusts held by others	**2,871,524**	3,090,178
Total assets	$ **244,551,905**	$ 251,265,144
Liabilities and Net Assets		
Liabilities:		
Accounts payable and accrued expenses	$ **2,296,130**	$ 6,038,874
Accrued payroll and benefits	**3,132,903**	3,238,813
Deposits and other liabilities	**1,104,769**	2,673,200
Operating lease liabilities	**202,662**	288,775
Deferred revenue, food service provider	**4,137,277**	3,210,259
Bridge financing line of credit	**6,000,000**	5,500,000
Interest rate swap	**-**	399,621
Bonds payable	**29,995,864**	31,443,228
Annuities payable	**674,643**	767,937
Refundable U.S. Government and other student loans	**1,240,639**	1,493,877
Accrued post-retirement and post-employment benefits	**1,436,929**	1,601,275
Total liabilities	**50,221,816**	56,655,859
Net assets:		
Without donor restrictions	**92,288,046**	78,351,728
With donor restrictions:		
Time or purpose	**20,971,277**	43,192,665
Perpetual	**81,070,766**	73,064,892
Total with donor restrictions	**102,042,043**	116,257,557
Total net assets	**194,330,089**	194,609,285
Total liabilities and net assets	$ **244,551,905**	$ 251,265,144

See notes to financial statements.

Lake Forest College

Statement of Activities and Changes in Net Assets
Year Ended May 31, 2022
(With Summarized Financial Information for the Year Ended May 31, 2021)

	2022			
	Without Donor Restrictions	**With Donor Restrictions**	**Total**	2021 Total
Operating activities:				
Revenue:				
Tuition and fees, net	**$ 26,347,042**	**$ -**	**$ 26,347,042**	$ 24,599,122
Room and board, net	**13,087,763**	**-**	**13,087,763**	3,939,328
Net student revenue	**39,434,805**	**-**	**39,434,805**	28,538,450
Private gifts and grants	**9,978,293**	**12,364,874**	**22,343,167**	20,246,451
Government grants	**3,004,136**	**-**	**3,004,136**	5,528,017
Other sources	**941,703**	**2,511**	**944,214**	526,092
Other auxiliary enterprises, net	**767,973**	**-**	**767,973**	579,174
Investment return appropriated	**924,485**	**4,475,515**	**5,400,000**	5,670,979
Net assets released from restriction	**21,287,009**	**(21,287,009)**	**-**	-
Total revenue	**76,338,404**	**(4,444,109)**	**71,894,295**	61,089,163
Expenses:				
Salaries	**24,793,921**	**-**	**24,793,921**	22,313,416
Benefits and taxes	**6,680,567**	**-**	**6,680,567**	7,407,649
Occupancy and utilities	**6,938,221**	**-**	**6,938,221**	5,963,160
Depreciation	**6,367,188**	**-**	**6,367,188**	5,501,202
Interest	**1,432,897**	**-**	**1,432,897**	1,375,291
Student aid expense	**1,057,147**	**-**	**1,057,147**	2,011,713
Supplies, services, and other	**14,176,012**	**-**	**14,176,012**	8,864,027
Total expenses	**61,445,953**	**-**	**61,445,953**	53,436,458
Increase (decrease) in net assets from operating activities	**14,892,451**	**(4,444,109)**	**10,448,342**	7,652,705
Non-operating activities:				
Investment (loss) income, net	**(649,871)**	**(5,091,760)**	**(5,741,631)**	22,235,575
Gain (loss) on disposal of fixed assets	**7,500**	**-**	**7,500**	(418,162)
Change in split interest agreements	**-**	**(14,174)**	**(14,174)**	(13,424)
Change in value of beneficial interest and pledge discount amortization	**-**	**(189,956)**	**(189,956)**	397,357
Change in interest rate swap value	**446,377**	**-**	**446,377**	201,754
Change in post-retirement and post-employment liability	**164,346**	**-**	**164,346**	492,784
Investment return appropriated	**(924,485)**	**(4,475,515)**	**(5,400,000)**	(5,670,979)
Increase (decrease) in net assets	**13,936,318**	**(14,215,514)**	**(279,196)**	24,877,610
Net assets at beginning of year	**78,351,728**	**116,257,557**	**194,609,285**	169,731,675
Net assets at end of year	**$ 92,288,046**	**$ 102,042,043**	**$ 194,330,089**	$ 194,609,285

See notes to financial statements.

Lake Forest College

Statement of Activities and Changes in Net Assets
Year Ended May 31, 2021

	2021		
	Without Donor Restrictions	With Donor Restrictions	Total
Operating activities:			
Revenue:			
Tuition and fees, net	$ 24,599,122	$ -	$ 24,599,122
Room and board, net	3,939,328	-	3,939,328
Net student revenue	28,538,450	-	28,538,450
Private gifts and grants	12,511,429	7,735,022	20,246,451
Government grants	5,528,017	-	5,528,017
Other sources	520,448	5,644	526,092
Other auxiliary enterprises, net	579,174	-	579,174
Investment return appropriated	1,209,374	4,461,605	5,670,979
Net assets released from restriction	7,540,088	(7,540,088)	-
Total revenue	56,426,980	4,662,183	61,089,163
Expenses:			
Salaries	22,313,416	-	22,313,416
Benefits and taxes	7,407,649	-	7,407,649
Occupancy and utilities	5,963,160	-	5,963,160
Depreciation	5,501,202	-	5,501,202
Interest	1,375,291	-	1,375,291
Student aid expense	2,011,713	-	2,011,713
Supplies, services, and other	8,864,027	-	8,864,027
Total expenses	53,436,458	-	53,436,458
Increase in net assets from operating activities	2,990,522	4,662,183	7,652,705
Non-operating activities:			
Investment income, net	4,546,065	17,689,510	22,235,575
Loss on disposal of fixed assets	(418,162)	-	(418,162)
Change in split interest agreements	-	(13,424)	(13,424)
Change in value of beneficial interest and pledge discount amortization	-	397,357	397,357
Change in interest rate swap value	201,754	-	201,754
Change in post-retirement and post-employment liability	492,784	-	492,784
Investment return appropriated	(1,209,374)	(4,461,605)	(5,670,979)
Increase in net assets	6,603,589	18,274,021	24,877,610
Net assets at beginning of year	71,748,139	97,983,536	169,731,675
Net assets at end of year	$ 78,351,728	$ 116,257,557	$ 194,609,285

See notes to financial statements.

Lake Forest College

Statements of Cash Flows
Years Ended May 31, 2022 and 2021

		2022		2021
Cash flows provided by operating activities:				
(Decrease) increase in net assets	**$**	**(279,196)**	$	24,877,610
Adjustments to reconcile increase in net assets to net cash provided by operating activities:				
Depreciation		**6,367,188**		5,501,202
Change in value of interest rate swap		**(446,377)**		(201,754)
Net change in beneficial interest in trusts held by others		**218,654**		(403,857)
Net loss (gain) on investments		**5,151,978**		(22,697,843)
Net loss (gain) on disposal of fixed assets		**(7,500)**		418,162
Bond issuance cost amortization		**47,637**		49,433
Cancellation of loans receivable		**4,978**		47,861
Change in bad debt expense		**55,257**		(67,319)
Deferred compensation expense		**(15,000)**		(141,170)
Private gifts for capital		**(2,264,516)**		(10,980,800)
Increase in post-retirement/post-employment liability		**(164,346)**		(492,784)
Changes in assets and liabilities:				
Student accounts receivable		**(156,837)**		446,951
Contributions receivable		**435,355**		2,517,638
Other receivable		**(213,257)**		4,070
Prepaid expenses and other assets		**218,095**		(46,534)
Accounts payable and accrued expenses		**(897,779)**		1,352,569
Accrued payroll and benefits		**(90,910)**		143,701
Deposits and other liabilities		**(1,568,431)**		1,257,592
Deferred revenue, food service provider		**927,018**		128,381
Net cash provided by operating activities		**7,322,011**		1,713,109
Cash flows used in investing activities:				
Purchase of investments		**(18,120,000)**		(4,500,000)
Proceeds from sale or maturity of investments		**13,525,373**		5,772,053
Acquisitions of land, building and equipment		**(8,629,704)**		(17,429,407)
Proceeds from sale of fixed assets		**7,500**		-
Student loans disbursed		**-**		(16,500)
Principal collected on student loans		**290,391**		326,325
Purchase of investments in bond funds held in trust		**(839,102)**		(535,540)
Proceeds from sales or maturity of investments in bond funds held in trust		**862,504**		532,209
Net cash used in investing activities		**(12,903,038)**		(15,850,860)
Cash flows used in financing activities:				
Principal payments on notes and bonds payable		**(1,495,000)**		(1,450,000)
Net change in refundable U.S. Government student loans		**(253,238)**		(344,720)
Proceeds from private gifts and grants restricted for private gifts for capital		**3,992,116**		10,980,800
Net draw on line of credit		**500,000**		5,500,000
Payments to annuitants		**(93,294)**		(18,808)
Net cash provided by financing activities		**2,650,584**		14,667,272
Net change in cash and cash equivalents		**(2,930,443)**		529,521
Cash and cash equivalents:				
Beginning of year		**4,369,933**		3,840,412
End of year	**$**	**1,439,490**	$	4,369,933
Supplemental disclosure of cash flow information:				
Cash paid for interest	**$**	**1,302,669**	$	1,292,668
Fixed assets included in accounts payable	**$**	**(397,670)**	$	(3,242,635)

Note 1. Nature of Business and Significant Accounting Policies

Nature of business: 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.

A summary of the College's significant accounting policies is as follows:

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.

Note 1. Nature of Business and 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:

	2022	2021
Donor-restricted net assets not invested in perpetuity:		
Program support	$ 5,605,054	$ 5,163,459
Capital projects	4,636,465	18,162,738
Endowment funds subject to donor restrictions	8,615,368	17,669,772
Split-interest agreements	2,114,390	2,196,696
Total donor-restricted net assets not invested in perpetuity	20,971,277	43,192,665
Donor-restricted net assets invested in perpetuity:		
Endowment	78,598,431	68,035,364
Underwater endowment	(680,006)	-
Loan fund	50,737	50,737
Pledge for endowment	1,602,937	3,300,654
Split-interest agreements	1,498,667	1,678,137
Total donor-restricted net assets invested in perpetuity	81,070,766	73,064,892
Total net assets with donor restrictions	$ 102,042,043	$ 116,257,557

Net 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 years ended May 31, are summarized as follows:

	2022	2021
Scholarships and grants	$ 232,763	$ 16,099
Instruction and research	1,300,590	1,348,431
Student services	504,289	754,048
Academic support	-	10,400
Management and general	87,420	134,362
Appropriation of draw	3,684,150	3,737,964
Capital expenditure	15,477,797	1,538,784
Total net assets with donor restrictions released	$ 21,287,009	$ 7,540,088

Note 1. Nature of Business and 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, 2022 and 2021, the insured value of these items was approximately $4,500,000 and $4,700,000, respectively. In addition, as of May 31, 2022 and 2021, the College has a Life Estate interest in artwork and museum furnishings valued at approximately $4,400,000.

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.

Note 1. Nature of Business and 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, 2022 and 2021.

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, 2022 and 2021, in 5- and 10-year Treasury notes, which were 2.81% and 2.85% for 2022 and 0.79% and 1.58% for 2021.

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. Nature of Business and Significant Accounting Policies (Continued)

Revenue recognition: The College provides academic instruction toward baccalaureate and graduate degrees. The College serves approximately 1,600 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 $59,285,843 and $54,348,066 were reported net of tuition and fees on the statement of activities for the years ended May 31, 2022 and 2021, 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 $1,727,190 and $615,551 were reported net of room and board revenue on the statement of activities for the years ended May 31, 2022 and 2021, respectively. Scholarships of $278,660 and $146,179 were reported net of other auxiliary enterprises revenue on the statement of activities for the years ended May 31, 2022 and 2021, 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:

	2022	2021
Housing services	$ 6,409,279	$ 1,699,731
Food services	6,678,484	2,239,597
	13,087,763	3,939,328
Other	767,973	579,174
	$ 13,855,736	$ 4,518,502

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. 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, 2022 and 2021, the College issued $1,013,255 and $1,961,383 of emergency aid to its

Note 1. Nature of Business and Significant Accounting Policies (Continued)

students, respectively. For the year ended May 31, 2021, the College applied the $3,596,697 institutional portion to its room and board lost revenue. For the year ended May 31, 2022, the College applied the remaining $100,000 institutional portion to additional room lost revenue, monitor and suppress coronavirus on campus and conduct direct outreach to financial aid applicants about the opportunity to receive a financial aid adjustment. At May 31, 2022 and 2021, $0 and $913,253 of the institutional portion is recorded as deferred revenue in other liabilities on the statement of financial position, respectively. The revenue was recognized when the College issued the remaining emergency aid directly to its students.

Receivables: 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, 2022 and 2021 were $856,905 and $679,380, 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.

Contract liability: 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 table depicts activities of the contract liability related to tuition, fees and auxiliary services.

Balance at May 31, 2021	Refunds Issued	Recognized in Fiscal Year 2022 Balance	Received in Advance of Performance	Balance at May 31, 2022
$ 1,339,627	$ 238,402	$ 1,101,225	$ 647,013	$ 647,013

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

The balance of the contract liability at May 31, 2022 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.

Note 1. Nature of Business and Significant Accounting Policies (Continued)

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.

The College follows guidance issued by the FASB Accounting Standards Update (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 accounting standard on accounting for uncertainty in income taxes addresses the determination of whether tax benefits claimed or expected to be claimed on a tax return should be recorded in the financial statements. Under this guidance, the College may recognize the tax benefit from an uncertain tax position only if it is more likely than not that the tax position will be sustained on examination by taxing authorities, based on the technical merits of the position. Examples of tax positions include the tax-exempt status of the College and various positions related to the potential sources of unrelated business taxable income (UBIT). The College has no amounts accrued for interest or penalties as of May 31, 2022. There were no unrecognized tax benefits identified or recorded as liabilities for the reporting periods presented in these statements.

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 2021 amounts have been reclassified to conform to the 2022 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, gain (loss) on disposal of fixed assets and changes in value post-retirement and post-employment benefits.

Note 1. Nature of Business and Significant Accounting Policies (Continued)

Pending accounting pronouncements: In September 2020, the FASB issued ASU 2020-07, *Not-for-Profit Entities (Topic 958): Presentation and Disclosures by Not-For-Profit Entities for Contributed Nonfinancial Assets.* This ASU requires a not-for-profit entity to present contributed nonfinancial assets in the statement of activities as a line item that is separate from contributions of cash or other financial assets. The ASU also requires a not-for-profit entity to disclose contributed nonfinancial assets received disaggregated by category that depicts the type of contributed nonfinancial assets. The new standard is effective for the College in 2023.

Subsequent events: Management has performed an analysis of the activities and transactions subsequent to May 31, 2022, to determine the need for any adjustments to and/or disclosures within the financial statements for the year ended May 31, 2022. Management has performed their analysis through October 18, 2022, the date the financial statements were issued.

The Illinois Finance Authority, on behalf of the College, issued its Revenue Bonds, Lake Forest College, Series 2022A (the Series 2022A Bonds) in the aggregate principal amount of $38,150,000. The Series 2022A Bonds were dated, issued, and delivered on June 13, 2022 and have a final maturity date of October 1, 2052. A portion of the proceeds of the Series 2022A Bonds will be used to refund and defease a portion of the outstanding Series 2012 Bonds maturing October 1, 2023, through October 1, 2048. Another portion refunded all of the outstanding $18,275,000 original principal amount Illinois Finance Authority Revenue Refunding Bond, Series 2014 (Lake Forest College) (the Series 2014 Bonds and, together with the Series 2012 Bonds, the Prior Bonds). The remaining funds are to finance, refinance or reimburse the costs of the construction, renovation, improvement and equipping of certain educational facilities of the College including, but not limited to, (i) the renovation, improvement, expansion, construction and equipping of the facilities relating to Brown Hall, (ii) repairs, replacement and improvement of residence halls, including, without limitation, repair and replacement of roofs, upgrading and replacement of doors, painting and similar improvements, (iii) upgrading of the HVAC systems and the plumbing systems in residence halls, and (iv) general campus improvements to related facilities.

The College terminated its related interest rate swap on June 23, 2022.

Coronavirus implications: In 2020, the coronavirus was declared a Public Health Emergency of International Concern by the World Health Organization. The operations and business results of the College, including student recruitment and education, and campus and program development, could potentially be materially adversely affected, depending on the future course of the coronavirus, which remains highly uncertain. To date, the College has maintained enrollment and has not experienced a significant budget challenge. The College brought all residential students back for the 2021 Fall semester, and faculty taught courses in person. Donors have maintained strong support, and campus construction projects are continuing without interruption.

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:

	2022	2021
Total contributions receivable	$ 8,464,762	$ 10,665,980
Less discount on contributions receivable	(566,643)	(604,906)
Less allowances for contributions receivable	(181,292)	(105,347)
Net contributions receivable	$ 7,716,827	$ 9,955,727

Note 2. Contributions Receivable (Continued)

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 average discount rate used ranged from 0.8% to 3.21% during the years ended May 31, 2022 and 2021. The College deemed $122,689 and $0 of contributions receivable uncollectible during the years ended May 31, 2022 and 2021, respectively.

Payments on contributions receivable as of May 31, 2022, are scheduled as follows:

Years ending May 31:	
2023	$ 5,429,762
2024	789,500
2025	497,500
2026	1,693,000
2027	51,000
2028 and thereafter	4,000
	$ 8,464,762

As of May 31, 2022, the College had received documented conditional pledges of approximately $35,200,000, 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. These conditional pledges generally represent instances where the College has been named in a will, which are conditional upon the probate court declaring the will valid.

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.

Note 3. Investments and Fair Value Measurements (Continued)

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. There have been no changes in valuation techniques used for any assets or liabilities measured at fair value during the year ended May 31, 2022.

A description of the valuation methodologies used for assets and liabilities measured at fair value is set forth below:

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.

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, 2022 and 2021. 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.

Note 3. Investments and Fair Value Measurements (Continued)

Assets and liabilities measured at fair value at May 31, 2022 and 2021, on a recurring basis are summarized below:

	Fair Value Measurements at May 31, 2022				
	Level 1	Level 2	Level 3	NAV	Total
Assets:					
Bond funds held in trust	$ -	$ 1,104,795	$ -	$ -	$ 1,104,795
Investments at fair value:					
Cash and short-term investments	1,789	195,911	-	-	197,700
Liquid Market Fund	-	-	-	4,604,000	4,604,000
Investments (LFCIH)	-	-	-	97,177,377	97,177,377
Total investments at fair value	1,789	195,911	-	101,781,377	101,979,077
Investments held at cost:					
Direct real estate					2,336,076
Mortgages receivable					441,469
Total investments					$ 104,756,622
Interest rate swap	-	46,756	-	-	46,756
Beneficial interest in trusts	-	-	2,871,524	-	$ 2,871,524
Total assets at fair value	$ 1,789	$ 1,347,462	$ 2,871,524	$ 101,781,377	

	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

The following is a summary of the investment strategies, redemption frequencies, notice periods and fair values of the investments that are measured at NAV as of May 31, 2022 and 2021. The College did not have any outstanding commitments as of May 31, 2022 and 2021.

	2022	2021	Redemptions Permitted	Days' Notice
Liquid Market Fund	$ 4,604,000	$ 7,591,445	Monthly	5
LFC Investments Holdings, LP (LFCIH)	97,177,377	92,730,230	Semi-annual	90

Note 3. Investments and Fair Value Measurements (Continued)

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 11 legacy investments in real estate and partnerships with seven 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.

The College may withdraw up to 7% from the value of LFCIH annually. Additional redemption requests require written notice 120 days 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, 2022 and 2021, the underlying investments of LFCIH consisted of the following asset classes:

	2022	2021
Short-term investments	- %	2.1 %
Public equity	24.7	30.2
Private equity	29.1	22.2
Hedge funds	18.5	19.9
Credit	0.9	0.7
Real assets	12.9	11.7
Natural resources	6.4	5.3
Fixed income	7.5	7.9
	100.0 %	100.0 %

Note 3. Investments and Fair Value Measurements (Continued)

At May 31, 2022 and 2021, the College's return on investment was made up of the following components:

	2022	2021
Return on long-term investments:		
Interest and dividends	$ 180,053	$ 143,936
Realized and unrealized (loss) gain, net	(5,151,978)	22,697,843
Total return on long-term investments	(4,971,925)	22,841,779
Other short-term investments loss	(13,382)	(7,750)
Investment fees	(756,324)	(598,454)
Total return (loss) on investments	$ (5,741,631)	$ 22,235,575

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.

Endowment net asset composition by type of fund as of May 31, 2022, is as follows:

	Without Donor Restrictions	With Donor Restrictions	Total
Donor-restricted endowment funds	$ -	$ 86,533,793	$ 86,533,793
Quasi-endowment funds	18,756,512	-	18,756,512
Total funds	$ 18,756,512	$ 86,533,793	$ 105,290,305

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

Note 4. Endowment Composition (Continued)

Changes in endowment net assets for years ended May 31, 2022 and 2021, are as follows:

	Without Donor Restrictions	With Donor Restrictions	Total
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
Total investment return	(1,000,240)	(4,687,281)	(5,687,521)
Contributions	1,259,896	10,564,203	11,824,099
Release of restriction	572,750	(572,750)	-
Appropriation for expenditures	(924,485)	(4,475,515)	(5,400,000)
Endowment net assets, May 31, 2022	$ 18,756,512	$ 86,533,793	$ 105,290,305

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, 2022, the amount by which funds were underwater was calculated as follows:

	2022
Aggregate original gift amount	$ 19,268,427
Aggregate fair value	18,588,421
Aggregate deficiency	$ 680,006

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.

Note 4. Endowment Composition (Continued)

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 net 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.

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 $3,761,747 and $3,029,717 in 2022 and 2021, respectively. The draw for other non-operating restricted funds, $572,253 and $1,575,262 in 2022 and 2021, respectively. The Board of Trustees also approved the use of accumulated realized gains on investment to make debt service payments. During fiscal years 2022 and 2021, 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:

	2022	2021
Land	$ 2,257,533	$ 2,257,533
Buildings and improvements	197,944,059	174,464,343
Equipment	3,925,324	3,801,428
Construction-in-progress	670,641	18,516,231
	204,797,557	199,039,535
Less accumulated depreciation	82,390,371	76,049,900
Net land, buildings and equipment	$ 122,407,186	$ 122,989,635

Depreciation expense for the years ended May 31, 2022 and 2021 was $6,367,188 and $5,501,202, respectively.

Note 6. Line of Credit

In October 2017, the College entered into an uncommitted loan agreement with The Northern Trust Company (Bank) that expired September 2021. The agreement provided for an unsecured line of credit with maximum borrowings of $14,000,000. This loan was amended on October 22, 2021 and will expire October 2024. The loan provides for an unsecured line of credit with maximum borrowings of $10,000,000. The loan bears interest at the Overnight LIBOR plus 1.25% (May 31, 2022 and 2021 is 2.08% and 1.31%, respectively). The purpose of the loan is to provide bridge financing for the science center and Brown Hall which will be funded by the receipt of pledges receivable. Outstanding borrowings as of May 31, 2022 and 2021, were $6,000,000 and $5,500,000, respectively. Interest expense on the line of credit was $71,617 and $21,057 for the years ended May 31, 2022 and 2021, respectively.

In October 2017, the College entered into an unsecured line of credit agreement with the Bank that was amended and restated in January 2021 and will expire September 30, 2022. The unsecured line of credit provides for maximum borrowings of $2,000,000 and bears interest at the overnight LIBOR (floor of 0%) plus 1.25% (May 31, 2022 and 2021 is 2.08% and 1.31%, respectively). The purpose of the line of credit is to provide cash flow for operations. There were no outstanding borrowings as of May 31, 2022 or 2021. Interest expense on the line of credit was $0 for the years ended May 31, 2022 and 2021.

Note 7. Bonds Payable

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

	2022	2021
Illinois Finance Authority Bonds, Series 2008, payable in annual installments beginning 2031, including variable interest (0.87% and 0.10% at May 31, 2022 and 2021, 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.	14,455,000	14,675,000
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 (1.79% at May 31, 2022 and 1.32% at May 31, 2021), due 2028.	10,025,000	11,300,000
	30,480,000	31,975,000
Unamortized bond premium (2012 Bond)	354,030	367,125
Bond issuance costs	(838,166)	(898,897)
	$ 29,995,864	$ 31,443,228

Aggregate maturities of bonds payable as of May 31, 2022, are as follows:

Years ending May 31:	
2023	$ 1,550,000
2024	1,600,000
2025	1,650,000
2026	1,705,000
2027	1,760,000
2028 and thereafter	22,215,000
	$ 30,480,000

Interest on bonds payable was $1,230,533 and $1,238,742 for the years ended May 31, 2022 and 2021, 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 expired August 2021 and was renewed at the same terms which will expire on 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 including minimum debt service coverage, operating margin, and minimum enrollment and student fees.

Note 7. Bonds Payable (Continued)

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, which approximates the effective interest rate method, 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 2022 and 2021.

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 $10,025,000 and $11,300,000 as of May 31, 2022 and 2021, 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.

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 $299,876 and $305,565 for the years ended May 31, 2022 and 2021, respectively.

For the years ended May 31, 2022 and 2021, respectively, the College recognized an unrealized gain of $446,377 and $201,754, 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, 2022 and 2021, is as follows:

	2022	2021
Weighted average pay rates (fixed)	2.83%	2.83%
Weighted average one-month LIBOR (variable)	1.79%	1.32%

The interest rate swap is recorded at fair value on the statement of financial position with a balance of $46,756 asset and $399,621 liability as of May 31, 2022 and 2021, 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 2022 and 2021, respectively, the vendor provided additional funding of $1,500,000 and $500,000. The amounts recognized annually in 2022 and 2021 were $572,982 and $628,381, respectively. Deferred revenue recorded on the statement of financial position as of May 31, 2022 and 2021 was $4,137,277 and $3,210,259, 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 2022 and 2021, was $1,507,963 and $1,464,361, 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.

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 2022 and 2021, included the following components:

	Retired		Disabled	
	2022	2021	2022	2021
Service cost—benefits earned during the period	$ 62,358	$ 143,151	$ -	$ -
Interest cost on accumulated benefit obligation	35,216	45,807	54	157
Recognized curtailment gain	-	(776,069)	-	-
Recognized prior service cost	(30,627)	-	-	-
Amortization of gain	(72,713)	(73,576)	(19,692)	(22,353)
Net periodic benefit cost	$ (5,766)	$ (660,687)	$ (19,638)	$ (22,196)

Note 11. Post-Retirement and Post-Employment Benefits (Continued)

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 years ended May 31, 2022 and 2021, are as follows:

	Retired		Disabled	
	2022	2021	2022	2021
Prior service cost	$ (190,191)	$ (220,818)	$ -	$ -
Net actuarial (gain) loss	(1,185,186)	(1,021,311)	6,298	(20,162)
Net amount recognized	$ (1,375,377)	$ (1,242,129)	$ 6,298	$ (20,162)

Net changes in periodic benefit cost for fiscal years 2022 and 2021, included the following components:

	Retired		Disabled	
	2022	2021	2022	2021
Accumulated benefit obligation, beginning of year	$ 1,596,574	$ 2,084,753	$ 4,701	$ 9,306
Service cost	62,358	143,151	-	-
Interest cost	35,216	45,807	54	157
Retiree contributions	7,707	10,268	-	-
Actuarial (gain) loss	(236,588)	357,018	6,768	(7)
Disbursements	(35,631)	(47,536)	(4,230)	(4,755)
Plan amendment	-	(220,818)	-	-
Plan curtailment	-	(776,069)	-	-
Accumulated benefit obligation end of year	$ 1,429,636	$ 1,596,574	$ 7,293	$ 4,701

Fair value of plan assets for fiscal years of 2022 and 2021, including both post-retirement and post-employment benefits:

	2022	2021
Fair value of plan assets, beginning of the year	$ -	$ -
College and retiree contributions	39,861	52,291
Benefits paid	(39,861)	(52,291)
Fair value of plan benefits end of year	$ -	$ -

Note 11. Post-Retirement and Post-Employment Benefits (Continued)

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	
	2022	2021	2022	2021
Accumulated benefit obligation:				
Retirees	$ 46,953	$ 84,739	$ 7,293	$ 4,701
Active employees eligible for benefits	454,204	559,913	-	-
Active employees not yet eligible for eligible for benefits	928,479	951,922	-	-
Accrued benefit cost recognized in the statements of financial position	$ 1,429,636	$ 1,596,574	$ 7,293	$ 4,701

The amount of amortization expected to be recognized as net periodic benefit cost (benefit) during the fiscal year ending May 31, 2023, is as follows:

	Retired	Disabled
Prior service credit	$ (30,627)	$ -
Net gain	(87,951)	5,569

The weighted average discount rate used in determining the accumulated post-retirement and post-employment benefit obligations was 3.84% in 2022 and 2.31% in 2021.

The assumed health care cost trend rate used in measuring the accumulated post-retirement and post-employment benefit obligations was 7.50% for fiscal 2022, reduced linearly to 4.50% in fiscal 2043 and all years thereafter for pre-65 and post-65 claims.

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

	Retired	Disabled	Total
Fiscal years ending May 31:			
2023	$ 143,291	$ 4,952	$ 148,243
2024	121,658	2,575	124,233
2025	130,335	-	130,335
2026	121,115	-	121,115
2027	120,035	-	120,035
2028-2032	630,415	-	630,415
	$ 1,266,849	$ 7,527	$ 1,274,376

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, 2022 and 2021, was approximately $45,000 and $215,000, respectively.

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 2022 and 2021, was approximately $295,000 and $119,000, respectively. The weighted average remaining lease term is 3 years and 4 years at May 31, 2022 and 2021, respectively. The College used a discount rate of 5.0% and 1.5% for 2022 and 2021, respectively.

Operating lease maturities at May 31, 2022, are as follows:

Years ending May 31:	
2023	$ 97,678
2024	84,403
2025	24,134
Total lease payments	206,215
Less imputed interest	(3,553)
Total	$ 202,662

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, 2022 and 2021. Interest income on mortgages receivable is recognized over the term of the receivable based upon the effective yield method.

Second mortgages outstanding were $441,469 and $465,422 as of May 31, 2022 and 2021, 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:

Years ending May 31:		
2023	$	24,757
2024		25,590
2025		26,452
2026		25,558
2027		25,495
Thereafter		339,112
	$	466,964

During the years ended May 31, 2022 and 2021, respectively, the College received approximately $7,100,000 and $6,300,000 in contributions from board members. At May 31, 2022 and 2021, the College's contributions receivable, net, included approximately $5,474,000 and $8,204,000, respectively, of amounts receivable 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 $145,000 per individual claim per policy year but has individual stop loss insurance through another firm for the expenses above that amount. A liability of $175,000 and $230,000 has been recorded by the College as of May 31, 2022 and 2021, 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, 2022 and 2021 totaled $3,501,892 and $3,903,070, 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, 2022 and 2021, the College has outstanding loans receivable, of $1,230,520 and $1,525,889, which represented 0.50% and 0.61% of total assets, respectively. As of May 31, 2022 and 2021, the College has an allowance for doubtful accounts of $287,947. Additionally, as of May 31, 2022 and 2021, the College has certain mortgages receivable from employees included on the statement of financial position in investments, of $441,469 and $465,422, which represented 0.18% and 0.19% of total assets, respectively. At May 31, 2022 and 2021, the College's financing receivables are as follows:

	2022	2021
Notes receivable:		
Federal programs	$ 1,413,670	$ 1,705,595
Institutional programs	104,797	108,241
Notes receivable, gross	1,518,467	1,813,836
Less allowance for doubtful accounts	287,947	287,947
Notes receivable, net	1,230,520	1,525,889
Mortgages receivable	441,469	465,422
Total financing receivables	$ 1,671,989	$ 1,991,311
Beginning of year	$ 1,991,311	$ 2,372,174
New loans	-	16,500
Less payments on principal	314,344	349,502
Less cancellations and adjustments	4,978	47,861
End of year	$ 1,671,989	$ 1,991,311

The availability of funds for loans under the institutional program is dependent upon reimbursements to the pool through repayments of outstanding loans as of May 31, 2022 and 2021. The amount of funds in the Federal Perkins Loan program advanced by the Federal Government is $1,324,452 and $1,577,891, 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, 2022 and 2021 is $132,413 and $132,212, respectively.

Note 16. Loans Receivable (Continued)

At May 31, 2022 and 2021, the following amounts were past due under the Perkins and institutional loan programs:

	1-270 Day Past Due	270 Days-2 Years Past Due	2-5 Years Past Due	5+ Years Past Due	Total Past Due
May 31, 2022	$ 80,558	$ 30,852	$ 88,181	$ 302,774	$ 502,365
May 31, 2021	110,497	52,873	91,394	396,126	650,890

Note 17. Functional Classification 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, 2022 and 2021.

	2022						
	Program Activities				Supporting Services		
	Instruction and Research	Academic Support	Student Services	Auxiliary Enterprises	Management and General	Fundraising and Alumni Relations	Total Expenses
Salaries	$ 11,296,778	$ 2,285,877	$ 7,161,885	$ 539,635	$ 2,445,039	$ 1,064,707	$ 24,793,921
Benefits and taxes	2,767,419	622,316	1,675,646	252,093	1,067,817	295,276	6,680,567
Occupancy and utilities	2,024,774	13,174	1,209,815	1,108,648	2,563,252	18,558	6,938,221
Depreciation	3,139,219	683,179	1,172,246	1,211,174	161,370	-	6,367,188
Interest	283,631	38,684	83,135	1,024,683	2,764	-	1,432,897
Student aid expense	-	-	43,892	-	1,013,255	-	1,057,147
Supplies, services and other	1,563,157	998,321	2,892,029	5,623,307	2,681,092	418,106	14,176,012
	$ 21,074,978	$ 4,641,551	$ 14,238,648	$ 9,759,540	$ 9,934,589	$ 1,796,647	$ 61,445,953

	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
	$ 18,464,159	$ 4,362,606	$ 12,306,656	$ 7,405,545	$ 9,549,881	$ 1,347,611	$ 53,436,458

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.

Note 17. Functional Classification Expenses (Continued)

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.

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, 2022 and 2021, 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:

	2022	2021
Financial assets:		
Cash	$ 1,439,490	$ 4,369,933
Student accounts receivable, net	856,905	679,380
Contributions receivable, net	7,716,827	9,955,727
Other receivables	884,335	671,078
Investments convertible to cash in the next 12 months	11,420,108	16,045,209
Other long-term investments	93,336,514	89,268,765
Total	$ 115,654,179	$ 120,990,092
Financial assets available to meet general expenditures over the next 12 months:		
Cash	$ 1,439,490	$ 4,369,933
Student accounts receivable expected to be received	856,905	679,380
Contributions receivable expected to be received	2,929,762	2,400,118
Other receivables	884,335	671,078
Additional investments convertible to cash in the next 12 months	5,420,108	10,645,209
Approved subsequent fiscal year endowment draw	6,000,000	5,400,000
Total	$ 17,530,600	24,165,718

Note 18. Liquidity and Availability (Continued)

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, 2022, the College has $4,000,000 available to draw on its project financing line of credit and $2,000,000 on its operating line of credit. At May 31, 2022, the College had $18,756,512 of quasi-endowments which could be made available for operations, which includes $988,139 of approved draw included in the table above.