# Beloit College and Subsidiaries

Financial Report
June 30, 2021

## Contents

## Independent Auditor's Report

Board of Trustees
Beloit College

### Report on the Financial Statements

We have audited the accompanying consolidated financial statements of Beloit College and Subsidiaries, which comprise the consolidated statements of financial position as of June 30, 2021 and 2020, the related consolidated statements of activities, changes in net assets and cash flows for the years ended June 30, 2021 and 2020, and the related notes to the consolidated financial statements (collectively, 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 reasonable basis for our audit opinion.

### Opinion

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

**Other Matters**

*Other Information*
Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The consolidating and other supplementary information is presented for purposes of additional analysis rather than to present the financial position and results of operations of the individual companies and is not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The consolidating and other supplementary information, except for the portion marked “unaudited”, has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. The information marked “unaudited” has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it. In our opinion, except for that portion marked “unaudited”, the information is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

RSM US LLP

Madison, Wisconsin
December 20, 2021

**Beloit College and Subsidiaries**
**Consolidated Statements of Financial Position**
**June 30, 2021 and 2020**

| | 2021 | 2020 |
|---|---|---|
| **Assets** | | |
| Cash and cash equivalents | $ 16,855,074 | $ 40,593,903 |
| Accounts receivable, net | 5,805,816 | 3,141,394 |
| Contributions receivable, net | 2,048,156 | 1,218,219 |
| Student loans receivable, net | 6,986,581 | 6,625,349 |
| Other assets | 871,903 | 815,327 |
| Investments | 79,016,637 | 50,546,715 |
| Property, plant and equipment, net | 100,735,184 | 102,965,989 |
| Operating right of use lease asset | 430,215 | - |
| Funds held in trust by others | 831,325 | 672,845 |
| Beneficial interest in perpetual trusts | 3,603,843 | 3,074,237 |
| **Total assets** | $ 217,184,734 | $ 209,653,978 |
| **Liabilities and Net Assets** | | |
| Liabilities: | | |
| Accounts payable and other accrued liabilities | $ 7,985,171 | $ 8,685,776 |
| Deferred revenue | 2,179,464 | 1,055,887 |
| Student deposits and deferred grant revenue | 357,334 | 348,940 |
| Other liabilities | 92,043 | 92,043 |
| Refundable advance from U.S. government | 928,928 | 1,253,365 |
| Annuities payable | 4,190,021 | 3,751,901 |
| SBA PPP Loan | 4,687,300 | 4,687,300 |
| Long-term debt, net | 2,435,598 | 7,794,240 |
| Operating right of use lease liability | 430,962 | - |
| Historic tax credit obligation | 6,879,738 | 1,722,847 |
| New market tax credit obligation | 4,863,300 | 4,863,300 |
| **Total liabilities** | 35,029,859 | 34,255,599 |
| Net assets: | | |
| Net assets without donor restrictions | 52,319,971 | 53,338,467 |
| Non-controlling interest in net assets without donor restrictions | (296,912) | (368,127) |
| Total net assets without donor restrictions | 52,023,059 | 52,970,340 |
| Net assets with donor restrictions | 130,131,816 | 122,428,039 |
| **Total net assets** | 182,154,875 | 175,398,379 |
| **Total liabilities and net assets** | $ 217,184,734 | $ 209,653,978 |

See notes to consolidated financial statements.

**Beloit College and Subsidiaries**
**Consolidated Statement of Activities**
**Year Ended June 30, 2021**

| | Without Donor Restrictions | With Donor Restrictions | Total |
|---|---|---|---|
| **Operating revenues:** | | | |
| Student tuition and fees | $ 47,922,804 | $ - | $ 47,922,804 |
| Less: Funded student financial assistance | (1,760,657) | - | (1,760,657) |
| Unfunded student financial assistance | (32,504,103) | - | (32,504,103) |
| Net student tuition and fees | 13,658,044 | - | 13,658,044 |
| Auxiliary enterprises | 6,181,510 | - | 6,181,510 |
| Contributions | 5,890,494 | 2,734,141 | 8,624,635 |
| Government contracts and grants | 4,546,922 | - | 4,546,922 |
| Investment income allocated for operations | 2,234,324 | 4,791,503 | 7,025,827 |
| Other income | 1,789,858 | - | 1,789,858 |
| Net assets released from restrictions | 8,677,774 | (8,677,774) | - |
| **Total operating revenues** | 42,978,926 | (1,152,130) | 41,826,796 |
| **Operating expenses:** | | | |
| Salaries | 17,459,004 | - | 17,459,004 |
| Benefits | 6,106,111 | - | 6,106,111 |
| Student employment | 766,774 | - | 766,774 |
| Supplies | 1,997,167 | - | 1,997,167 |
| Services | 8,694,247 | - | 8,694,247 |
| Travel and meals | 530,625 | - | 530,625 |
| Utilities | 1,316,227 | - | 1,316,227 |
| Interest | 49,082 | - | 49,082 |
| Depreciation | 4,806,326 | - | 4,806,326 |
| Other | 1,151,564 | - | 1,151,564 |
| **Total operating expenses** | 42,877,127 | - | 42,877,127 |
| **Net increase (decrease) from operations** | 101,799 | (1,152,130) | (1,050,331) |
| **Non-operating activities:** | | | |
| Investment income: | | | |
| Interest income | 72,658 | 406,885 | 479,543 |
| Net gains on investments | 13,004 | 10,073,159 | 10,086,163 |
| Total investment income | 85,662 | 10,480,044 | 10,565,706 |
| Investment income allocated for operations | (2,234,324) | (4,791,503) | (7,025,827) |
| | (2,148,662) | 5,688,541 | 3,539,879 |
| Interest income on cash and cash equivalents | 128,897 | (1,749) | 127,148 |
| Endowment gifts | - | 1,749,003 | 1,749,003 |
| Capital gifts and grants | - | 245,452 | 245,452 |
| Adjustments to actuarial liability for annuities payable | 230,171 | 633,402 | 863,573 |
| Other non-operating activities | 740,514 | 541,258 | 1,281,772 |
| **Total non-operating activities** | (1,049,080) | 8,855,907 | 7,806,827 |
| **Change in net assets** | (947,281) | 7,703,777 | 6,756,496 |
| Net assets at beginning of period | 52,970,340 | 122,428,039 | 175,398,379 |
| Net assets at end of period | $ 52,023,059 | $ 130,131,816 | $ 182,154,875 |

See notes to consolidated financial statements.

**Beloit College and Subsidiaries**
**Consolidated Statement of Activities**
**Year Ended June 30, 2020**

| | Without Donor Restrictions | With Donor Restrictions | Total |
|---|---|---|---|
| **Operating revenues:** | | | |
| Student tuition and fees | $ 53,009,820 | $ - | $ 53,009,820 |
| Less: Funded student financial assistance | (1,750,728) | - | (1,867,794) |
| Unfunded student financial assistance | (33,718,528) | - | (33,718,528) |
| Net student tuition and fees | 17,540,564 | - | 17,423,498 |
| Auxiliary enterprises | 6,498,559 | - | 6,498,559 |
| Contributions | 4,125,393 | 2,339,476 | 6,464,869 |
| Government contracts and grants | 1,465,069 | - | 1,465,069 |
| Investment income allocated for operations | 3,366,913 | 5,062,177 | 8,429,090 |
| Other income | 270,500 | 2,500 | 273,000 |
| Net assets released from restrictions | 17,072,832 | (17,072,832) | - |
| **Total operating revenues** | 50,339,830 | (9,668,679) | 40,671,151 |
| **Operating expenses:** | | | |
| Salaries | 17,598,938 | - | 17,598,938 |
| Benefits | 5,433,409 | - | 5,433,409 |
| Student employment | 835,534 | - | 835,534 |
| Supplies | 1,834,145 | - | 1,834,145 |
| Services | 8,939,011 | - | 8,939,011 |
| Travel and meals | 1,091,098 | - | 1,091,098 |
| Utilities | 1,221,703 | - | 1,221,703 |
| Interest | 872,539 | - | 872,539 |
| Depreciation | 4,317,946 | - | 4,317,946 |
| Other | 1,120,231 | - | 1,120,231 |
| **Total operating expenses** | 43,264,554 | - | 43,264,554 |
| **Net increase (decrease) from operations** | 7,075,276 | (9,668,679) | (2,593,403) |
| **Non-operating activities:** | | | |
| Investment income (loss): | | | |
| Interest income | 181,294 | 1,572,518 | 1,753,812 |
| Net gain (loss) on investments | 2,149 | (724,583) | (722,434) |
| Total investment income | 183,443 | 847,935 | 1,031,378 |
| Investment income allocated for operations | (3,366,913) | (5,062,177) | (8,429,090) |
| | (3,183,470) | (4,214,242) | (7,397,712) |
| Interest income on cash and cash equivalents | 425,681 | 178,907 | 604,588 |
| Endowment gifts | - | 912,539 | 912,539 |
| Capital gifts and grants | - | 771,809 | 771,809 |
| Adjustments to actuarial liability for annuities payable | (138,885) | (237,631) | (376,516) |
| Loss on settlement of interest rate swap | (698,741) | - | (698,741) |
| State tax credits | 6,975,175 | - | 6,975,175 |
| Net assets released due to change in donor intent | 256,912 | (256,912) | - |
| Other non-operating activities | (599,333) | 77,300 | (522,033) |
| **Total non-operating activities** | 3,037,339 | (2,768,230) | 269,109 |
| **Change in net assets** | 10,112,615 | (12,436,909) | (2,324,294) |
| Net assets at beginning of period | 42,857,725 | 134,864,948 | 177,722,673 |
| Net assets at end of period | $ 52,970,340 | $ 122,428,039 | $ 175,398,379 |

See notes to consolidated financial statements.

**Beloit College and Subsidiaries**
**Consolidating Statements of Changes in Net Assets**
**Year Ended June 30, 2021**

| | Beloit College and Subsidiaries | | | | |
|---|---|---|---|---|---|
| | Net Assets Without Donor Restrictions | Net Assets With Donor Restrictions | Sub-Total | Non-Controlling Interest in Net Assets Without Donor Restrictions | Total |
| Net assets, June 30, 2020 | $ 53,338,467 | $ 122,428,039 | $ 175,766,506 | $ (368,127) | $ 175,398,379 |
| Change in net assets | (1,018,496) | 7,703,777 | 6,685,281 | 71,215 | 6,756,496 |
| Net assets, June 30, 2021 | $ 52,319,971 | $ 130,131,816 | $ 182,451,787 | $ (296,912) | $ 182,154,875 |

See notes to consolidated financial statements.

**Beloit College and Subsidiaries**
**Consolidated Statements of Cash Flows**
**Years Ended June 30, 2021 and 2020**

| | **2021** | 2020 |
|---|---|---|
| Cash flows from operating activities: | | |
| Change in net assets | **$ 6,756,496** | $ (2,324,294) |
| Adjustments to reconcile change in net assets to net cash | | |
| (used in) provided by operating activities: | | |
| Depreciation | **4,806,326** | 4,313,769 |
| Amortization of bond premiums | **(97,104)** | 2,333 |
| (Gain) loss on sale of equipment | **(431,061)** | 431,345 |
| Change in fair value of swap liability | **-** | 698,741 |
| Amortization of lease liability | **747** | - |
| Contribution revenue for investment in endowment and capital | **(1,994,455)** | (1,684,348) |
| Increase in funds held in trust by others | | |
| and beneficial interests in perpetual trusts | **(688,086)** | (1,464) |
| Allowance for doubtful accounts | **(62,022)** | - |
| Net unrealized and realized (gains) loss gains on investments | **(10,086,163)** | 722,434 |
| Increase (decrease) from changes in: | | |
| Receivables, net | **(2,664,422)** | (1,147,260) |
| Other assets | **(56,576)** | 154,081 |
| Accounts payable | **(2,041,873)** | 2,461,465 |
| Deferred revenues | **1,123,577** | 878,632 |
| Student deposits and deferred grant revenue | **8,394** | (13,001) |
| Annuities payable and other liabilities | **438,120** | 60,513 |
| **Net cash (used in) provided by operating activities** | **(4,988,102)** | 4,552,946 |
| | | |
| Cash flows from investing activities: | | |
| Purchases of property, plant and equipment | **(803,476)** | (25,243,781) |
| Proceeds from sale of equipment | **284** | - |
| Purchases of investments | **(54,043,782)** | (15,960,262) |
| Proceeds from sales of investments | **35,660,023** | 41,157,079 |
| Swap settlement payment | **-** | (7,864,000) |
| Disbursements of loans to students | **(901,944)** | (1,192,494) |
| Repayments of loans by students | **602,734** | 576,371 |
| **Net cash used in investing activities** | **(19,486,161)** | (8,527,087) |
| | | |
| Cash flows from financing activities: | | |
| Proceeds from SBA PPP loan | **-** | 4,687,300 |
| Proceeds from long-term debt | **-** | 10,726,293 |
| Payment of principal on long-term debt | **(5,261,538)** | (33,602,663) |
| Proceeds from historic and new market tax credit obligation | **5,156,891** | 46,673 |
| Contributions received for investment in endowment and capital | **1,164,518** | 6,496,444 |
| Decrease in U.S. government grants refundable, net | **(324,437)** | (453,467) |
| **Net cash provided by (used in) financing activities** | **735,434** | (12,099,420) |
| | | |
| **Net decrease in cash and cash equivalents** | **(23,738,829)** | (16,073,561) |

Continued

**Beloit College and Subsidiaries**
**Consolidated Statements of Cash Flows (Continued)**
**Years Ended June 30, 2021 and 2020**

| | | **2021** | | 2020 |
|---|---|---|---|---|
| Cash and cash equivalents | | | | |
| Beginning | **$** | **40,593,903** | $ | 56,667,464 |
| Ending | **$** | **16,855,074** | $ | 40,593,903 |
| Supplemental disclosure of cash flow information: | | | | |
| Cash paid during the year for interest | **$** | **1,106,249** | $ | 1,252,753 |
| Supplemental schedule of non-cash investing and financing activities: | | | | |
| Purchases of property and equipment in accounts payable | **$** | **-** | $ | 1,341,268 |

See notes to consolidated financial statements.

## Note 1. Summary of Significant Accounting Policies

Beloit College is a four-year, independent, residential liberal arts college in Beloit, Wisconsin, founded in 1846 by a group of Yale graduates. Beloit College is a member of the Associated Colleges of the Midwest (ACM). The College has more than fifty fields of study in nineteen departments and offers several degrees and majors including: Bachelor of Arts, Bachelor of Science, cooperative programs in business, engineering, forestry and social work, plus five pre-professional programs. The accounting policies of Beloit College reflect practices common to colleges and universities and conform to accounting principles generally accepted in the United States of America.

**Principles of consolidation:** The consolidated financial statements include the accounts and transactions of Beloit College and its subsidiaries (collectively referred to as the College), including the following:

- Beloit Powerhouse Foundation, Inc. was established in December 2017. In April 2018, the articles of incorporation of Beloit Powerhouse Foundation, Inc. were amended to change the name of the organization to Beloit Powerhouse Holdings, Inc. (Holdings, Inc.) and to change the purpose.

- Beloit Powerhouse Holdings II, LLC (Holdings II) was established in March 2018.

- Beloit Powerhouse, LLC (Powerhouse) was established in March 2017.

  Effective June 18, 2018, Powerhouse closed on a New Market Tax Credit (NMTC) and Historic Tax Credit (HTC) financing transaction. In connection with this transaction, the following variable interest entities (VIEs) for which Powerhouse is the primary beneficiary, are also consolidated with the accounts and transactions of Powerhouse:

  - Chase NMTC Beloit Powerhouse Investment Fund, LLC (Investment Fund) – an entity owned 100% by Chase Community Equity, LLC (CCE)

  - BH New Markets Sub-CDE 18, LLC, Brownfield Revitalization 48, LLC, and CNMC Sub-CDE 165, LLC (collectively referred to as the Sub-CDEs) – entities owned 99.99% by Investment Fund and .01% by separate Community Development Entities

  - Powerhouse Master Tenant, LLC (Master Tenant) – an entity owned 99% by CCE and 1% by Holdings II.

Holdings, Inc. and Holdings II are wholly owned by the College. Powerhouse is owned 94.99% by Holdings II, 5% by Holdings, Inc. and .01% by the College.

The subsidiaries were created to finance the decommissioning and renovation of the Blackhawk Generating Station, which was contributed to the College and converted into a 130,000 square foot student center.

All intercompany balances and transactions have been eliminated in consolidation. Refer to Note 16 of these financial statements for a description of the VIEs included in the financial statements.

## Note 1. Summary of Significant Accounting Policies (Continued)

Significant accounting policies of the College are summarized below:

**Cash and cash equivalents:** Cash and cash equivalents represent demand deposits and other investments with original purchased maturities of ninety days or less excluding restricted bond proceeds.

**Accounts receivable:** Accounts receivable are carried at the unpaid balance of the original amount billed to students. The receivables are net of an estimate made for doubtful accounts based on a review of all outstanding amounts. Management determines the allowance for doubtful accounts by considering the College’s previous loss history and specific account circumstances. Recoveries of student accounts receivable previously written-off are recorded when received. Receivables are generally unsecured. The College does not charge interest or late fees on delinquent accounts but charges a one-time per term late payment penalty if the appropriate amount is not paid by the designated due date.

**Contributions receivable:** Unconditional promises to give (pledges) that are expected to be collected within one year are recorded at net realizable value. Unconditional promises to give that are expected to be collected in future years are recorded at the present value of their estimated future cash flows. Amortization of the discounts is included in contribution revenue in accordance with donor-imposed restrictions, if any, on the contributions. Allowance is made for doubtful contributions receivable based upon management’s judgment and analysis of the credit worthiness of the donors, past collection experience and other relevant factors. Promises to give are written-off when they become uncollectible. The policy for determining past due contributions is assessed on an individual basis.

**Student loans receivable:** Student loans receivable, which include Perkins governmental loans and institutional loans, are carried at unpaid principal balances, less the allowance for uncollectible loans of $910,434 and $976,678 at June 30, 2021 and June 30, 2020, respectively. The allowance calculation is based on the loans receivable past due balances. Loans receivable are considered to be past due if a payment is not made within 30 days of the payment due date. Periodically, the allowance is evaluated based on past loan loss experience and current economic conditions. Interest income is recorded monthly as payments are received. Interest on a past due loan is recognized or accrued until cash payments are received.

**Debt issuance costs:** Costs incurred relating to the issuance of bonds and other long-term debt are being deferred and amortized over the life of the debt. Unamortized debt issuance costs are reflected as a reduction of the related debt on the statements of financial position.

**Investments:** Investments are recorded at fair value. Investment income and investments in equity securities with readily determinable fair values and all investments in debt securities are reported at fair value with gains and losses included in the non-operating activities in the consolidated statement of activities when earned. The College annually appropriates 4.5 percent of the endowment fund’s average fair value for the prior three years for operations and reclassifies these earnings to operations.

## Note 1. Summary of Significant Accounting Policies (Continued)

**Split interest agreements and funds held in trust by others:** The College's split interest agreements with donors consist of charitable remainder annuity trusts, charitable remainder unitrust contracts, pooled life income funds, charitable annuity lead trusts and charitable gift annuities for which the College is either the remainder beneficiary or both the trustee and remainder beneficiary.

Assets held under these agreements for which the College serves as trustee are included in investments. Contributions of split-interest agreements, net of related liabilities, increase net assets with donor restrictions. Liabilities associated with charitable gift annuities and charitable trusts represent the present value of the expected payments to the beneficiaries based on the terms of the agreements. Pooled income funds are recognized at the net present value of the assets expected at a future date. Gains or losses resulting from changes in fair value, changes in assumptions and amortization of discount are recorded as changes in value of split-interest agreements in the appropriate restriction categories in the non-operating section of the consolidated statement of activities.

Assets held in trust for which the College does not serve as trustee are reported as funds held in trust by others. Contribution revenue and a receivable are recorded at the date the trusts are established for the present value of estimated future payments to be received.

The College is an income beneficiary of various irrevocable trusts, reported as beneficial interest in perpetual trusts. The College has recognized its interest in the estimate future cash flows as net assets with donor restrictions based on the fair value of the assets held in the trusts. Changes in the fair value of the trusts are recognized as gains and losses in net assets with donor restrictions.

**Property, plant, and equipment:** Physical plant and equipment are stated at cost at the date of acquisition or fair value at the date of donation in the case of gifts. Depreciation of property and equipment is provided on the straight-line method over the estimated useful lives of the respective assets. The College uses the following depreciable lives:

- Buildings – 40 years
- Dormitory and commons – 30 years
- Residential rental properties – 30 years
- Building improvements – 20 years
- Leasehold improvements – 10 years
- Land improvements – 20 years
- Works of art – 20 years
- Books – 20 years
- Equipment and furnishings – 5 to 10 years

The College capitalizes property, plant and equipment additions of $10,000 or more. Normal repairs and maintenance expenses are charged to operations as incurred. Museum collections (historical treasures and similar treasures held as part of museum collections) that were acquired through purchases or contributions since the College's inception are not reflected in the statements of financial position. These museum collections are insured at a value of approximately $10,500,000 as of June 30, 2021 and 2020, respectively.

## Note 1. Summary of Significant Accounting Policies (Continued)

**Deferred revenue:** Certain revenue related to summer courses and programs is deferred and recognized as revenue over time as the courses are offered. Students are generally billed for courses and programs prior to the start of the course or program with revenue recognized over time as the classes are in session. In addition, the College accounts for refundable advances received under certain contracts as deferred revenue.

**Refundable advances from U.S. Government:** Funds provided by the Henry Strong Foundation Loan Fund and United States Government, under the Perkins loan program, are loaned to qualified students and may be re-loaned after collection. These funds are ultimately refundable to the Henry Strong Foundation Loan Fund and the government and are included as liabilities in the statements of financial position. Revenues from other government grants are recognized as they are earned in accordance with the agreement. Expenses incurred before cash is received are recorded as receivables.

The Federal Perkins Loan Program expired September 30, 2017, and the College could not disburse Perkins loans to any student on or after October 1, 2017, except for subsequent disbursements of loans first disbursed between June 30, 2017 and September 30, 2017. The College will be liquidating its Federal Perkins Loan Program at the direction of the Department of Education. The liquidation will likely involve the College assigning all eligible outstanding loans to the Department of Education and the remittance of federal share of remaining Perkins cash assets to the Department of Education.

**Net asset classifications:** For the purposes of financial reporting, the College classifies resources into two net asset categories pursuant to any donor-imposed restrictions and applicable law. Accordingly, the net assets of the College are classified in the accompanying financial statements in the categories that follow:

> ***Net assets with donor restrictions* –** Net assets subject to stipulations imposed by donors and grantors. Some donor restrictions are temporary in nature; those restrictions will be met by actions of the College or by the passage of time. Other donor restrictions are perpetual in nature, including beneficial interests in perpetual trusts and split interest annuity agreements, whereby the donor has stipulated the funds be maintained in perpetuity.

> ***Net assets without donor restrictions* –** Net assets not subject to donor-imposed restrictions, including those expendable resources designated for special use by the Board of Trustees. The designated endowment funds, received without donor restrictions, were set aside for future instruction, scholarships, academic support, and other purposes as determined by the Board.

**Revenue recognition:** The College recognizes revenue from contracts with customers primarily from tuition and fees, and room and board based on the satisfaction of performance obligations. Performance obligations are the goods or services promised in the contract.

Tuition and fees revenue is recognized for the delivery of the academic program throughout the period stated in the contract. This includes student services, use of research space and study areas, including access to reference materials. Auxiliary enterprise revenue consists primarily of room revenue and board revenue. Room revenue is recognized for providing living space throughout the stated contract term. Board revenue is recognized for providing meals to students throughout the stated contract term.

## Note 1. Summary of Significant Accounting Policies (Continued)

Each of the above revenue sources are considered separate and distinct contracts with their own performance obligation and are recorded at the amount of consideration the College expects to be entitled to in exchange for transferring promised goods or services to the students. The College believes this method provides a faithful depiction of the transfer of services over the term of the performance obligation based on the inputs needed to satisfy the obligation. Payment for tuition and student fees is due in full two weeks prior to the start of classes unless other payment arrangements are made. The College has a tuition refund policy that allows the students to withdraw and receive full or partial refunds, based on the number of days the student attended school through the 33rd day of the semester. Consideration is considered variable until the refund period expires. The College uses the most likely amount method to determine the variable consideration based on historical experience. No constraints to variable consideration is considered necessary due to the duration of refund period.

The College offers grants/scholarships to attract and retain students and reduce the amount of tuition revenue recognized. The College offers institutional grants/scholarships to students in the form of merit-based and need-based grants. Institutional grants/scholarships of $34,264,760 and $35,469,256 for the years ended June 30, 2021 and 2020, respectively, were recognized as a reduction of tuition and student fees on the consolidated statement of activities. The College also offers institutional loans to students, however, the loans are not significant to the financial statements.

The College offers courses with various study abroad components in which the student receives services from a third party, however, the student pays the College for these services. In these instances, the College is responsible for the performance of the services and should the third-party institution not perform, the College would be required to perform the required services, therefore the College records the revenue in tuition and fees.

The College elected the practical expedient to not adjust the promised amount of consideration from students for the effects of a significant financing component due to the College's expectation that the period between the time the service is provided to students and the time the student pays for the service will be one year or less.

Contributions, including unconditional promises to give, are recognized as revenue in the period the contribution or promise is received and are reported as increases in the appropriate categories of net assets in accordance with donor restrictions. Conditional promises to give are not recognized until they become unconditional, that is, when the conditions on which they depend are substantially met. Contributions received with donor-imposed restrictions that are met in the same year as received are reported as revenues without donor restrictions. Contributions of property and equipment without donor stipulations concerning the use of such long-lived assets are reported as revenues without donor restrictions. Contributions of cash or other assets to be used to acquire property and equipment are reported as revenues with donor restrictions; the restrictions are considered to be released when the long-lived assets are placed in service. Contributions of assets other than cash are recorded at their estimated fair value. Contributions to be received after one year are discounted at an appropriate discount rate commensurate with the risks involved.

Gains and investment income, other than on endowment investments or other assets, received with donor-imposed restrictions that are met in the same year as received are reported as revenues without donor restrictions. Gains and losses on investments of endowment funds created by a board designation of unrestricted funds are recorded as changes in net assets without donor restrictions.

## Note 1. Summary of Significant Accounting Policies (Continued)

Grant revenue, following contribution revenue guidance, is recognized when the award notification is received and when barriers have been substantially met (generally when qualifying expenses have been incurred and all other grant requirements have been met). The College has received a federal grant of $1,404,255 from the Higher Education Emergency Relief Fund (HEERF) programs that is recorded as deferred revenue, due to conditions of the grant that have not been met.

**Noncontrolling interest:** Noncontrolling interest represents the portion of net assets in any subsidiary that is not attributable, directly or indirectly, to Beloit College. The profit or loss derived from the performance of subsidiaries are allocated to the noncontrolling interest in the consolidated statement of activities based on the terms of the operating agreements of the subsidiaries.

**Operating activities:** The College's operating revenues and operating expenses include all operating revenues and expenses that are an integral part of its programs and supporting activities and transfers from nonoperating funds to support current operating activities. The measure of operations include support for operating activities from net assets without donor restrictions and net assets with donor restrictions according to the College's spending policy, which is detailed in Note 17. The measure of operations excludes investment return in excess of (less than) amounts made available for current support, interest income on cash and cash equivalents, changes in fair value of split-interest agreements and other various items not associated with operations of the College.

**Fundraising expenses:** The College follows the policy of expensing the costs of fundraising when incurred.

**Functional allocation of expenses:** The costs of providing the various programs and other activities have been summarized on a natural basis in the consolidated statements of activities. See Note 19 for expenses summarized on a functional and natural basis of classification.

**Income taxes:** Beloit College qualifies as a Section 501(c)(3) not-for-profit educational institution under the Internal Revenue Code (the Code) and, therefore, is exempt from federal income taxes pursuant to section 501(a) of the Code. Beloit College is, however, subject to federal income taxes on any unrelated business income under the provisions of section 511 of the Code. Beloit College is exempt from state income taxes under Section 71.26 of Wisconsin Statutes.

Holdings II, Powerhouse, Master Tenant, the Investment Fund and the Sub-CDEs are organized as limited liability companies. Powerhouse, and Master Tenant are taxed as partnerships for income tax purposes. The Investment Fund and Sub-CDEs are disregarded entities for tax purposes. Income or losses are passed through to their members. Accordingly, all profits and losses of the companies are recognized by each member on their respective tax returns. Holdings II and Holdings, Inc. are taxed as corporations and have elected pursuant to Section 168(h)(6)(F)(ii) of the Code not to be treated as tax-exempt entities for purposes of Section 168(h)(5) and (6). Accordingly, any gain recognized by Beloit College on the disposition of an interest in Holdings II and Holdings, Inc. shall be treated as unrelated business taxable income.

## Note 1. Summary of Significant Accounting Policies (Continued)

**Concentration of credit risk:** Financial instruments that potentially subject the College to concentrations of credit risk consist principally of cash, investments, and accounts receivable. The College has placed much of its cash and liquid investments with one financial institution. Also, cash balances may periodically exceed federally insured limits. Marketable securities, consisting of both debt and equity instruments, are held in a variety of managed funds administered by different investment managers in order to limit credit risk. Student receivables and other receivables are due from a variety of sources concentrated primarily in the Midwestern United States. In addition, the College's students receive a substantial amount of support from state and federal student financial assistance programs which are subject to audit by governmental agencies. A significant reduction in the level of this support, if this were to occur, could have an adverse effect on the College's programs and activities.

**Recently adopted accounting pronouncements:** In February 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standard Update (ASU) 2016-02, *Leases (Topic 842),* which is intended to increase transparency and comparability among organizations related to their leasing arrangements. The new lease standard, Accounting Standards Codification (ASC 842), including all the related amendments subsequent to its issuance, supersedes the current guidance for lease accounting and requires lessees to recognize a right-of-use (ROU) asset representing the right to use an underlying asset and a lease liability representing the obligation to make lease payments over the lease term for substantially all leases, as well as disclose key quantitative and qualitative information about leasing arrangements. The new standard requires lessees to classify leases as either finance or operating leases based on the principle of whether or not the lease is effectively a financed purchase by the lessee. This classification impacts the timing and presentation of lease-related expense.

Effective July 1, 2020, the College implemented ASC 842. The FASB's authoritative guidance provides companies with the option to apply this ASU to new and existing leases within the scope of the guidance as of the beginning of the period of adoption. The College elected this transition method of applying the new standard and has recognized lease ROU assets and lease liabilities as of July 1, 2020. Prior period amounts were not adjusted and will continue to be reported under the accounting standards in effect for those periods. The adoption of this standard resulted in lease ROU assets and lease liabilities of $588,536 as of July 1, 2020.

Upon adoption of the new standard on July 1, 2020, the College elected the package of practical expedients provided under the guidance. The practical expedient package applies to leases that commenced prior to adoption of the new standard and permits companies not to reassess whether existing or expired contracts are or contain a lease, the lease classification and any initial direct costs for existing leases. The College has elected to not separate the lease and non-lease components within the lease contracts. Therefore, all fixed costs associated with the lease are included in the lease ROU asset and the lease liability. The College did not elect the hindsight practical expedient. The College has made an accounting policy election available under the new lease standard to not recognize lease assets and lease liabilities for leases with a term of 12 months or less.

## Note 1. Summary of Significant Accounting Policies (Continued)

**Pending accounting pronouncement:** 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*, which 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. ASU 2020-07 also requires additional qualitative and quantitative disclosures about contributed nonfinancial assets received, disaggregated by category. This ASU is effective for the College beginning on July 1, 2021. The College is currently evaluating the effect of this new guidance on its consolidated financial statements.

In March 2020, the FAS issued ASU 2020-04, Reference Rate Reform (Topic 848) – Facilitation of the Effects of Reference Rate Reform on Financial Reporting. The amendments in ASU 2020-04 provide optional temporary financial reporting relief from the effect of certain types of contract modifications due to the planned discontinuation of LIBOR (London Interbank Offering Rate) and other interbank-offered reference rates as of the end of 2021. ASU 2020-04 is effective for certain reference rate-related contract modifications that occur during the period March 12, 2020 through December 31, 2022. The College is currently evaluating the impact the effect on this new guidance on its consolidated financial 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 disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

**Reclassification:** Certain amounts appearing in the 2020 financial statements have been reclassified to conform to the 2021 presentation. The reclassifications have no effect on reported amounts of total net assets or change in net assets.

**Subsequent events:** The College has evaluated subsequent events through December 20, 2021, which is the date the financial statements were issued. See Note 8.

## Note 2. Accounts Receivable, Net

Accounts receivable consists of the following at June 30, 2021 and 2020:

| | 2021 | 2020 |
|---|---|---|
| Tuition and fees | $ 2,235,498 | $ 1,571,592 |
| Government grants and contracts receivable | 296,430 | 264,684 |
| Other | 3,712,443 | 1,652,667 |
| Gross accounts receivable | 6,244,371 | 3,488,943 |
| Less: Allowance for doubtful accounts | (438,555) | (347,549) |
| Accounts receivable, net | $ 5,805,816 | $ 3,141,394 |

## Note 3. Contributions Receivables, Net

Contributions receivable as of June 30, 2021 and 2020, are composed of and are to be used for the following:

| | 2021 | 2020 |
|---|---|---|
| Capital funds | $ 244,453 | $ 972,393 |
| Operations | 1,788,859 | 299,927 |
| Endowment | 140,000 | 50,000 |
| Gross contributions receivable | 2,173,312 | 1,322,320 |
| Less: Discount | (17,358) | (39,984) |
| Less: Allowance for uncollectible contributions | (107,798) | (64,117) |
| Net contributions receivable | $ 2,048,156 | $ 1,218,219 |

Contributions receivable are expected to be collected from donors over the following periods:

| | 2021 | 2020 |
|---|---|---|
| Less than one year | $ 1,783,825 | $ 761,701 |
| One to five years | 389,487 | 508,619 |
| More than five years | - | 52,000 |
| Totals | $ 2,173,312 | $ 1,322,320 |

Contributions have been discounted using a rate ranging from 0.13 percent to 2.8 percent. As of June 30, 2021 and 2020, the College had approximately $599,250 and $193,250, respectively, of gross contributions receivable from board members and employees.

## Note 4. Student Loans Receivable

The College issues uncollateralized loans to students based on financial need. Student loans are funded through Federal government loan programs or institutional resources.

At June 30, 2021 and 2020, student loans consisted of the following:

| | 2021 | 2020 |
|---|---|---|
| Federal government programs | $ 1,081,389 | $ 1,272,428 |
| Institutional programs | 6,815,486 | 6,332,599 |
| | 7,896,875 | 7,605,027 |
| Less allowance for doubtful accounts: | | |
| Beginning of period | (979,678) | (1,007,211) |
| Increase/decrease | 69,384 | 27,533 |
| End of period | (910,294) | (979,678) |
| Student loans receivable, net | $ 6,986,581 | $ 6,625,349 |

### Note 4. Student Loans Receivable (Continued)

Funds advanced by the Federal government of $928,928 and $1,253,365 at June 30, 2021 and 2020, respectively, are ultimately refundable to the government and are classified as liabilities in the consolidated statements of financial position.

After a student is no longer enrolled in an institution of higher education and after a grace period, interest is charged on student loans receivable and is recognized as it is received. Student loans receivable through the loan programs are considered to be past due if a payment is not made within 30 days of the payment due date, at which time, late charges are assessed and recognized. The Federal Perkins Loan Program receivables may be assigned to the U.S. Department of Education. Students may be granted a deferment, forbearance, or cancellation of their student loan receivable based on eligibility requirements defined by the U.S. Department of Education.

At June 30, 2021 and 2020, the following amounts were past due under student loan programs:

| | Amount Past Due | | | | |
|---|---|---|---|---|---|
| | Less than 240 Days | 240 Days - 2 Years | 2 - 5 Years | 5 + Years | Total |
| June 30, 2021 | $ 4,800 | $ 39,300 | $ 166,300 | $ 832,500 | $ 1,042,900 |
| June 30, 2020 | $ 10,700 | $ 75,000 | $ 116,100 | $ 880,300 | $ 1,082,100 |

### Note 5. Investments

The following summarizes the College's investments as of June 30, 2021 and 2020:

| | 2021 | 2020 |
|---|---|---|
| Certificates of deposit | $ 41,277 | $ 80,000 |
| Money market funds | 75,172 | 136,219 |
| Mutual funds - bonds: | | |
| U.S. bonds | 13,150,498 | - |
| Non-U.S. bonds | 2,737,820 | - |
| Other fixed income | 2,148,775 | 17,202,610 |
| Mutual funds - equities: | | |
| U.S. equities | 27,095,920 | 3,330,077 |
| Non-U.S. equities | 16,393,892 | 874,702 |
| Mutual funds - diversified | - | 12,745,714 |
| Alternative investments: | | |
| Private equity funds | 6,456,895 | 6,588,853 |
| Investment companies | 10,816,849 | 9,373,564 |
| Real estate investment | 94,880 | 100,250 |
| Accrued interest and pending investment trades | 4,659 | 114,726 |
| Totals | $ 79,016,637 | $ 50,546,715 |

### Note 5. Investments (Continued)

Investments, in general, are subject to various risks, including credit, interest and overall market volatility risks. Due to the level of risk associated with certain investment securities, it is reasonably possible that changes in values of investment securities will occur in the near term and that such changes could materially affect the amounts reported in the financial statements.

Investment income (loss) for the years ended June 30, 2021 and 2020, consists of the following:

| | 2021 | 2020 |
|---|---|---|
| Interest and dividends, net | $ 479,543 | $ 1,753,812 |
| Realized gains on investments | 1,984,131 | 4,874,009 |
| Unrealized gains (losses) on investments | 8,102,032 | (5,596,443) |
| Totals | $ 10,565,706 | $ 1,031,378 |

### Note 6. Available Resources and Liquidity

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 and cash equivalents, marketable debt, and equity securities.

For purposes of analyzing resources available to meet general expenditures over a 12-month period, the College considers all expenditures related to its ongoing activities of instruction, academic support, student services 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.

In addition to financial assets available to meet general expenditures over the next 12 months, the College strives to operate with a balanced budget concept and aims to collect sufficient revenue to cover general expenditures not covered by donor-restricted resources. In the fiscal years where the college cannot achieve a balanced budget, the College relies on the use of the board-designated endowment to cover general expenditures.

The College’s governing board has designated a portion of its resources to function as an endowment, designated for future instruction, scholarships, academic support and other purposes as determined by the Board. Those amounts are included in cash and cash equivalents and investments in the table below. These resources are invested for long-term appreciation and current income and may be spent at the discretion and approval of the Board of Trustees.

## Note 6. Available Resources and Liquidity (Continued)

The College does not foresee issues with available resources or liquidity. The College implemented a five-year financial plan to improve its financial position. The financial plan includes the Board of Trustees appropriating additional funds from the unrestricted designated endowment to support operations, continuing implementation of the College's Deficit Reduction Plan to reduce costs, an extraordinary fundraising campaign to provide annual budgetary relief to the college's operating budget in the amount of $41.3 million over the next four years.

| | 2021 | 2020 |
|---|---|---|
| Cash and cash equivalents | $ 16,855,074 | $ 40,593,903 |
| Accounts receivable | 5,805,816 | 3,141,394 |
| Contributions receivable, net | 2,048,156 | 1,218,219 |
| Investments | 79,016,637 | 50,546,715 |
| Funds held in trust by others, restricted | 831,325 | 672,845 |
| Beneficial interest in perpetual trusts, restricted | 3,603,843 | 3,074,237 |
| Total financial assets as of June 30, 2020 | 108,160,851 | 99,247,313 |
| Less amounts not available to meet cash needs for general expenditures within one year: | | |
| Contributions receivable, not due in one year | 389,487 | 560,619 |
| Contractual or donor restrictions: | | |
| Endowments and perpetual trusts | 85,437,561 | 82,742,041 |
| Restricted by time or purpose, net of financial assets spent for long-term assets of $285,000 and $4,704,599 not placed in service as of June 30, 2021 and 2020, respectively, endowment loan of $13,781,115 and $13,339,959 as of June 30, 2021 and 2020, respectively, and $4,300,000 and $4,300,000 of funds appropriated for general expenditures by June 30, 2022 and 2021, respectively | 26,328,140 | 17,341,440 |
| Board designated funds, net of Quasi-endowment receivables of ($2,636,141) and ($147,190) for June 30, 2021 and 2020, respectively, and $4,000,000 and $3,800,000 of funds appropriated for general expenditures by June 30, 2022 and 2021 | 10,218,384 | 10,325,584 |
| Financial assets available to meet cash needs for general expenditures within one year | $ (14,212,721) | $ (11,722,371) |

## Note 7. Property, Plant and Equipment, Net

A summary of property, plant, and equipment as of June 30, 2021 and 2020, is as follows:

| | 2021 | 2020 |
|---|---|---|
| Leasehold improvements | $ - | $ 75,744 |
| Land and land improvements | 10,990,875 | 10,108,980 |
| Buildings | 124,639,973 | 120,334,377 |
| Building improvements | 10,288,254 | 9,228,899 |
| Equipment and furnishings | 12,919,815 | 12,849,223 |
| Dormitory and commons | 26,152,480 | 26,152,480 |
| Residential rental properties | 891,740 | 891,740 |
| Works of art | 722,579 | 722,579 |
| Books | 1,125,851 | 1,125,851 |
| | 187,731,567 | 181,489,873 |
| Less: accumulated depreciation | (87,281,383) | (83,228,483) |
| | 100,450,184 | 98,261,390 |
| Construction in process | 285,000 | 4,704,599 |
| Property, plant and equipment, net | $ 100,735,184 | $ 102,965,989 |

## Note 8. SBA PPA Loan and Long-Term Debt

On March 27, 2020, the Coronavirus Aid, Relief, and Economic Security Act (CARES Act) was enacted to amongst other provisions, provide emergency assistance for individuals, families and businesses affected by the coronavirus pandemic. The CARES Act established the Paycheck Protection Program (PPP), which is administered by the U.S. Small Business Administration (SBA), to provide loans to help offset certain payroll and other operating costs. The College applied for and was awarded a PPP loan in the amount of $4,687,300 on April 15, 2020, calculated on the basis of documented payroll costs. The loan and accrued interest are forgivable as long as the borrower uses the loan proceeds for eligible purposes, including payroll, benefits, rent and utilities, and maintains payroll levels during the subsequent 24-week period. The loan is reflected as a debt as of June 30, 2021. The loan was forgiven on October 31, 2021 and will be recognized in other income in the College's year ending June 30, 2022.

On September 14, 2016, WHEFA issued $23,080,000 of Revenue Bonds on behalf of the College. The Series 2016 bonds require semiannual interest payments at fixed interest rates ranging from 3.0 percent to 5.0 percent and have maturity dates from 2022 to 2033. The proceeds of the Series 2016 bonds were used to generate the needed escrow account. During the year ending June 30, 2019, the College repurchased $21,635,000 and during the year ending June 30, 2021, the College repurchased $830,000 of the Series 2016 bonds and continues to hold the bonds as an investment. In accordance with U.S. generally accepted accounting principles (U.S. GAAP), reacquisition by the College of its outstanding Series 2016 bonds requires de-recognition of the debt and no related recognition of the investment in the series 2016 bond securities. The bond series 2016 bonds have not been defeased.

### Note 8. SBA PPA Loan and Long-Term Debt (Continued)

In June 2018, Powerhouse entered into a construction loan agreement (historic tax credit bridge loan) with a bank. The agreement allows for borrowings of up to $11,840,950 for construction and development costs relating to the Powerhouse project. Interest is due and payable monthly on outstanding balances at a rate equal to the 30-day LIBOR plus 2.65%. At year ended June 30, 2021 and 2020, no borrowings were outstanding.

The College has entered into a food services agreement with a vendor effective through May 31, 2032 with options to renew on an annual basis subsequent to that date. In addition to managing the food service program on campus on an exclusive basis, the vendor is also funding an investment in the College's dining service program to fund capital improvements. The investment is amortized on a straight-line basis through June 2032. The amortization expense was $199,551 for June 30, 2021 and 2020 and is classified within services in the consolidated statement of activities.

Effective April 2021, the debt service coverage ratio was deleted in its entirety from the Master Indenture. At June 30, 2020, the College did not meet the annual debt service coverage, however, this was not an event of default under the Master Indenture until the debt service coverage is less than 1.0 to 1 for two consecutive years or less than 1.10 to 1 for three consecutive years.

A summary of outstanding SBA PPP Loan and long-term debt at June 30, 2021 and 2020 is as follows:

| | 2021 | 2020 |
|---|---|---|
| SBA PPP Loan | $ 4,687,300 | $ 4,687,300 |
| Series 2016 Bonds | 615,000 | 1,445,000 |
| Historic tax credit bridge loan | - | 4,232,003 |
| Vendor note | 2,011,646 | 2,211,197 |
| | 7,313,946 | 12,575,500 |
| Bond premiums | 75,011 | 185,952 |
| Less Bond issuance costs, net of amortization | (266,059) | (279,912) |
| | $ 7,122,898 | $ 12,481,540 |

Future principal payments on the long-term debt as of June 30, 2021, are due as follows:

| | |
|---|---|
| Years ending June 30: | |
| 2022 | $ 4,886,834 |
| 2023 | 199,534 |
| 2024 | 199,534 |
| 2025 | 197,533 |
| 2026 | 197,533 |
| Thereafter | 1,632,978 |
| | $ 7,313,946 |

The Series 2016 bonds are collateralized by a mortgage on the property and buildings of the College. The bank loan agreements are secured by substantially all assets of the College.

Interest expense on all long-term debt was approximately $47,025 and $566,911 for the years ended June 30, 2021 and 2020, respectively.

### Note 9. Related Parties

Contributions from trustees, officers, and employees totaled approximately $949,028 and $6,884,000 during the years ended June 30, 2021 and 2020, respectively. See Note 3 for related party contributions receivable.

### Note 10. Leases and rent expense

The College determines if a contract is or contains a lease at inception, which is the date on which the terms of the contract are agreed to and the agreement creates enforceable rights and obligations. A contract is or contains a lease if it conveys the right to control the use of an identified asset for a period of time in exchange for consideration. Lease ROU assets and lease liabilities are recognized based on the present value of lease payments over the lease term at commencement. The College has elected to use the risk-free rate, specifically the U.S. Treasury bill rate, to discount the lease payments for leases that do not have a readily determinable implicit rate.

Under ASC 842, the College has elected to not apply the recognition requirements to leases of less than twelve months. These leases are expensed on a straight-line basis and are not included within the College's lease ROU asset or lease liability. The College has lease transactions with related parties and has eliminated all intercompany transactions.

The components of lease expense and supplemental cash flow information related to leases for the period are as follows:

| | | |
|---|---|---|
| Lease cost: | | |
| Operating lease cost | $ | 159,055 |
| Total lease cost | $ | 159,055 |
| | | |
| Other information: | | |
| Cash paid for amounts included in the measurement of lease liabilities - operating leases | $ | 158,309 |
| | | |
| Weighted-average remaining lease term (in years) | | 2.90 |
| Weighted-average discount rate | | 0.29 % |

The approximate future minimum lease payments under operating leases at June 30, 2021 are as follows:

| | | |
|---|---|---|
| Years ending: | | |
| 2022 | $ | 158,826 |
| 2023 | | 141,468 |
| 2024 | | 95,689 |
| 2025 | | 32,821 |
| 2026 | | 3,915 |
| Total lease payments | | 432,719 |
| Less imputed interest | | (1,757) |
| Total present value of lease liabilities | $ | 430,962 |

## Note 11. Net Assets

Net assets without donor restrictions are those which are not subject to donor-imposed restrictions. Certain net assets classified as without donor restrictions are designated for specific purposes or uses by the Board of Trustees. As of June 30, 2021 and 2020, the College's net assets without donor restrictions which are Board designated for investment in the endowment totaled $11,582,243 and $13,978,394, respectively.

As of June 30, 2021 and 2020, the College's net assets with donor restrictions totaled $130,131,816 and $122,428,039. Donor restricted assets in perpetuity were $79,103,472 and $77,354,468 as of June 30, 2020 and 2019, respectively. Net assets with donor restrictions consists of the following at June 30, 2021 and 2020:

| | 2021 | 2020 |
|---|---|---|
| Subject to expenditure for the following specified purposes: | | |
| Capital expenditures | $ 14,832,642 | $ 16,134,793 |
| Student loans | 450,061 | 446,076 |
| Academic support | 5,567,488 | 5,301,843 |
| Instruction | 5,106,577 | 5,207,213 |
| Scholarships | 8,549,411 | 8,359,327 |
| Other | 6,304,270 | 117,253 |
| Time restrictions | | |
| Contribution receivables, investment earnings/losses, and other | 3,883,806 | 4,119,493 |
| | 44,694,255 | 39,685,998 |
| Endowments and perpetual trusts, the income from which is expendable for the following: | | |
| Scholarships | 28,409,234 | 27,764,612 |
| Instruction | 30,366,651 | 30,341,611 |
| Academic support | 12,342,417 | 11,462,639 |
| Other | 7,985,170 | 7,785,606 |
| Beneficial interest in perpetual trusts | 3,603,843 | 3,074,237 |
| Split-interest annuity agreements | 1,770,540 | 1,362,003 |
| Revolving student loan funds | 959,706 | 951,333 |
| | 85,437,561 | 82,742,041 |
| Total net assets with donor restrictions | $ 130,131,816 | $ 122,428,039 |

### Note 11. Net Assets (Continued)

Net assets released for the following:

| | 2021 | 2020 |
|---|---|---|
| Scholarships | $ 1,266,599 | $ 1,389,387 |
| Academic support | 1,549,455 | 1,367,520 |
| Instruction | 1,614,760 | 1,719,664 |
| Capital expenditure | 1,547,603 | 10,742,266 |
| Other | 2,699,357 | 2,110,907 |
| | $ 8,677,774 | $ 17,329,744 |

### Note 12. Retirement Plan

On October 2, 2015, the Board of Trustees of the College approved a resolution to freeze the 401(a) and amend the existing 403(b) retirement plans as of December 31, 2015. This change was done to incorporate all active employees into one retirement plan to gain efficiencies. Benefits provided under the plans remained the same for employees.

Employees working over 1,000 hours are eligible to participate in individual annuity retirement programs provided through Teachers Insurance Annuity Association and the College Retirement Equities Fund.

Total expenses relating to contributions to all of these plans were approximately $906,000 and $889,000 for years ending June 30, 2021 and 2020, respectively.

### Note 13. Self-Insurance

The College provides medical benefits through a self-insurance plan which provides benefits to eligible employees of the College and their eligible dependents. Provisions of the plan require that the College be self-insured to the extent of the first $130,000 in annual major medical benefits per participant.

The plan had insurance contracts to provide stop-loss coverage for benefit payments in excess of the self-insured amounts. Contributions to the plan are based upon the number of participants and the types of coverage elected. Employees are responsible for 33.3 percent of the plan’s required contributions and the College is responsible for the remaining required contributions. Accounts payable and other accrued expenses include an incurred but not reported reserve of approximately $227,000 and $311,000 as of June 30, 2021 and 2020, respectively. These are estimates of amounts due and payable on existing claims for which the College is self-insured and which are expected to be settled currently.

### Note 14. Unemployment Compensation Claims

The College is self-insured for unemployment compensation claims. As a result, the College has a $252,771 bank letter of credit, which expires on December 31, 2022, that was issued in favor of the Treasurer of the Wisconsin Unemployment Reserve Fund in order to assure payment of unemployment compensation.

## Note 15. Endowment

The College's endowment includes more than 500 individual funds established for a variety of purposes. The endowment includes both donor-restricted endowment funds and funds designated by the Board of Trustees to function as quasi endowments. Net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

**Interpretation of relevant law:** The College follows the guidance relative to the Wisconsin enacted version of the Uniform Prudent Management of Institutional Funds Act (UPMIFA). UPMIFA requires the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent any explicit donor stipulations to the contrary. As a result of this interpretation, the College classified as net assets with donor restriction (a) the original value of the gifts donated to the perpetual endowment, (b) the original value of subsequent gifts to the perpetual endowment, and (c) accumulations to the perpetual 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 UPMIFA, the College considers the following factors in deciding to appropriate or accumulate earnings on donor-restricted endowment funds:

1. The duration and preservation of the fund
2. The purpose of the College and the endowment fund
3. General economic conditions
4. The possible effect of inflation and deflation
5. The expected total return from income and the appreciation of investments
6. Other resources of the College
7. The investment policies of the College

Endowment asset composition by type of fund consists of the following as of June 30, 2021 and 2020:

| | 2021 | | | 2020 | | |
|---|---|---|---|---|---|---|
| | Without Donor Restrictions | With Donor Restrictions | Total | Without Donor Restrictions | With Donor Restrictions | Total |
| Donor-restricted endowment funds | $ - | $ 82,527,915 | $ 82,527,915 | $ - | $ 73,685,062 | $ 73,685,062 |
| Board-designated endowment funds | 11,582,243 | - | 11,582,243 | 13,978,394 | - | 13,978,394 |
| Total endowment assets | $ 11,582,243 | $ 82,527,915 | $ 94,110,158 | $ 13,978,394 | $ 73,685,062 | $ 87,663,456 |

Changes in endowment assets for June 30, 2021 and 2020 are as follows:

| | 2021 | | | 2020 | | |
|---|---|---|---|---|---|---|
| | Without Donor Restrictions | With Donor Restrictions | Total | Without Donor Restrictions | With Donor Restrictions | Total |
| Endowment assets, beginning | $ 13,978,394 | $ 73,685,062 | $ 87,663,456 | $ 60,789,159 | $ 75,955,823 | $ 136,744,982 |
| Investment return | 91,303 | 11,542,563 | 11,633,866 | 183,443 | 847,935 | 1,031,378 |
| Contributions and other additions | 17,723 | 2,248,629 | 2,266,352 | 2,492 | 722,665 | 725,157 |
| Appropriation of endowment assets | (2,232,424) | (4,543,886) | (6,776,310) | (3,366,913) | (5,062,177) | (8,429,090) |
| Appropriation to retire debt | - | - | - | (34,772,838) | - | (34,772,838) |
| Other | (272,753) | (404,453) | (677,206) | (9,113,861) | 1,477,728 | (7,636,133) |
| Net asset release due to change in donor intent | - | - | - | 256,912 | (256,912) | - |
| Endowment assets, ending | $ 11,582,243 | $ 82,527,915 | $ 94,110,158 | $ 13,978,394 | $ 73,685,062 | $ 87,663,456 |

## Note 15. Endowment (Continued)

Through resolutions, the Board of Trustees approved loans from the endowment fund to supplement the College's operating activities. The endowment assets consist of the following at June 30:

| | 2021 | | | 2020 | | |
|---|---|---|---|---|---|---|
| | Without Donor Restrictions | With Donor Restrictions | Total | Without Donor Restrictions | With Donor Restrictions | Total |
| Cash and investments | $ 14,218,384 | $ 68,746,800 | $ 82,965,184 | $ 14,125,584 | $ 60,345,103 | $ 74,470,687 |
| Endowment loan (payable)/receivable | (2,636,141) | 13,781,115 | 11,144,974 | (147,190) | 13,339,959 | 13,192,769 |
| Endowment assets | $ 11,582,243 | $ 82,527,915 | $ 94,110,158 | $ 13,978,394 | $ 73,685,062 | $ 87,663,456 |

**Funds with deficiencies:** From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor requires the College to retain as a fund of perpetual duration. For the year ending June 30, 2021, deficiencies of this nature, reported in net assets with donor restrictions, had an original gift value of approximately $9,684,000, a current fair market value of $9,154,000 and a deficiency of approximately $530,000. For the year ending June 30, 2020, deficiencies reported in net assets with donor restrictions, had an original gift value of approximately $16,204,000, a current fair market value of $14,941,000 and a deficiency of approximately $1,263,000. The deficiencies resulted from unfavorable market fluctuations that occurred after the investment of new net assets with donor restrictions and the continued distributions for certain programs that were deemed prudent by the Board of Trustees. Subsequent gains that restore the fair value of the assets of the endowment fund to the required level will be classified as an increase in net assets with donor restrictions.

**Return objectives and risk parameters:** The College has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of the endowment assets. Endowment assets include those assets of donor-restricted funds that the College must hold in perpetuity or for a donor-specified period(s) as well as board designated funds. Under this policy, as approved by the Board of Trustees, the endowment assets are invested in a manner that is intended to produce results that exceed the price and yield results of various indices appropriate to the investment asset class while assuming a moderate level of investment risk. The College's investment objectives and policies are designed to meet the spending policy of the fund while also growing the assets of the fund at least equal to the long-term rate of inflation. Actual returns in any given year may vary from this amount.

**Strategies employed for achieving objectives:** To satisfy its long-term rate-of-return objectives, the College relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The College targets a diversified asset allocation that places a greater emphasis on equity-based investments to achieve its long-term return objectives within prudent risk constraints.

**Spending policy and how the investment objectives relate to spending policy:** The College has a policy of appropriating for distribution each year approximately 4.5 percent of its endowment fund's average fair market value over the prior 3 years. In establishing this policy, the College considered the long-term expected return on its endowment. Accordingly, over the long term, the College expects the current spending policy to allow its endowment to maintain its purchasing power.

## Note 16. New Markets Tax Credit and Historic Tax Credit Entities

New Markets Tax Credit Entities

On June 18, 2018, the College entered into a financing transaction with CCE related to a decommissioning and renovation project at the Blackhawk Power Station in Beloit, Wisconsin to serve as the College's student and recreation center. CCE made a capital contribution and the College made a loan to the Investment Fund under a qualified NMTC program. The NMTC program was provided for in the Community Renewal Tax Relief Act of 2000 (the Act) and is intended to induce capital investment in qualified low-income communities. The Act permits taxpayers to claim credits against their federal income taxes for up to 39 percent of qualified investments in the equity of community development entities (CDEs). CDEs are privately managed investment institutions that are required to make qualified low-income community investments.

In connection with the financing transaction, the College loaned $10,111,700 to the Investment Fund in exchange for a 1% note due March 2048. The Investment Fund then contributed the loan proceeds along with other funds, to the Sub-CDEs, which in turn loaned the funds on similar terms to Powerhouse, as partial financing for the decommissioning and renovation project. The proceeds of the loan from the Sub-CDEs, including loans representing the capital contribution made by CCE are available only for use on the decommissioning and renovation project.

Simultaneously, CCE contributed $4,863,300 to the Investment Fund and, as such, CCE is entitled to substantially all of the benefits derived from the NMTCs. The CCE contribution has been included in the College's consolidated statements of financial position and is presented separately as a liability. This transaction also includes a put provision whereby the College may be obligated to repurchase CCE's interest in the investment fund for $1,000. If the put provision is not exercised by CCE, the College may choose to repurchase the equity interest of CCE for an amount equal to the fair market value (call option). The College believes that CCE will exercise the put option in June 2025 at the end of the recapture period. The value attributed to the put is de minimis. Additionally, the NMTC is subject to 100 percent recapture for a period of seven years as provided in the IRC.

Powerhouse is required to comply with various regulations and contractual provisions that apply to the NMTC arrangement during the recapture period. Non-compliance with applicable requirements could result in projected tax benefits not being realized and, therefore, require Powerhouse, together with the College to indemnify CCE's sole member for any loss or recapture of NMTCs related to the financing until such time as Powerhouse's obligation to deliver tax benefits is relieved. The College does not anticipate that any credit recaptures will be required in connection with this arrangement.

Powerhouse has determined that the financing arrangement established through the creation of the Investment Fund, together with the put and call agreements and indemnification agreement resulted in a variable interest in Investment Fund. In addition, Powerhouse has determined that the Investment Fund is a VIE. The ongoing activities of the VIE – collecting and remitting interest and fees and NMTC compliance – were all considered in the initial design and are not expected to significantly affect economic performance throughout the life of the VIE. Management considered the contractual arrangements that obligate Powerhouse to deliver tax benefits and provide various other guarantees to the structure, CCE's lack of a material interest in the underlying economics of the project and the fact that Powerhouse is obligated to absorb losses of the VIE. The College concluded that Powerhouse was the primary beneficiary and consolidated the VIE in accordance with the accounting guidance for consolidation. Incremental costs to maintain the structure during the compliance period will be recognized as incurred.

## Note 16. New Markets Tax Credit and Historic Tax Credit Entities (Continued)

Historic Tax Credit Entities

On June 18, 2018, the College entered into an additional financial transaction with CCE relating to the renovation project discussed above. CCE and Holdings II made initial capital contributions of $1,623,414 and $16,398, respectively to Master Tenant. The Federal Historic Preservation Tax Incentive Program (Federal HTC) is administered by the Department of Interior's National Park Service in partnership with the Internal Revenue Services. The Federal HTC program provides funding for developers that rehabilitate certified historic landmarks and buildings into income generating properties that create jobs and promote economic revitalization.

In connection with the financing above, Master Tenant will loan certain capital contributions to Powerhouse in exchange for a 3.05% note due June 2048. As of June 30, 2021 and 2020, $6,531,822 and $1,639,812, respectively was advanced under the note. In addition, capital contributions will be utilized for the purchase of certain furniture and equipment necessary to furnish the building when completed. The proceeds of the loan will be used by Powerhouse for the renovation project. Total expected capital contributions from CCE and Holdings II are $6,559,248, $1,000,000 of which is for furniture and up to $5,554,248 is available under the note agreement.

The CCE contributions through June 30, 2021 and 2020 of $6,531,822 and $1,676,174, respectively, have been included in the College's consolidated statements of financial position as a liability. Pursuant to the Master Tenant operating agreement, CCE has entered into a separate put option agreement. This agreement provides CCE with the option to put their membership interests in Master Tenant to Holdings II in exchange for the lesser of fair market value of the membership interest, and the sum of CCE's capital contributions time 5%, plus any accrued unpaid amounts and any past due amounts. The put option begins 61 months after the building is placed in service and expires 6 months later. In addition, the Master Tenant operating agreement requires that a priority return be accrued annually for distribution to CCE in an amount equal to 3% of the CCE's capital contributions.

Powerhouse is required to comply with various regulations and contractual provisions that apply to the HTC arrangement during the recapture period. Non-compliance with applicable requirements could result in projected tax benefits not being realized and, therefore, require Powerhouse, together with the College, to guarantee payment to CCE for any recapture adjustments as well as other payments until such time as Powerhouse's obligation to deliver tax benefits is relieved. Powerhouse does not anticipate that any credit recaptures will be required in connection with this arrangement.

Powerhouse has determined that the financing arrangement established through the creation of the Master Tenant, together with the put option agreement and guarantee agreement resulted in a variable interest in Master Tenant. In addition, Powerhouse has determined that the Master Tenant is a VIE. The ongoing activities of the VIE – intercompany leasing arrangements, collecting and remitting interest and fees and HTC compliance – were all considered in the initial design and are not expected to significantly affect economic performance throughout the life of the VIE. Management considered the contractual arrangements that obligate Powerhouse to deliver tax benefits and provide various other guarantees to the structure, CCE's lack of a material interest in the underlying economics of the project and the fact that Powerhouse is obligated to absorb losses of the VIE. The College concluded that Powerhouse was the primary beneficiary and consolidated the VIE in accordance with the accounting guidance for consolidation. Incremental costs to maintain the structure during the compliance period will be recognized as incurred.

On June 18, 2018, the College and Powerhouse entered into a separate agreement with U.S. Bank National Association (U.S. Bank) for the sale of certain State Historic Tax Credits.

## Note 16. New Markets Tax Credit and Historic Tax Credit Entities (Continued)

With respect to the rehabilitation of the building discussed above, Powerhouse has received certification from the Wisconsin Economic Development Corporation (WEDC) that the building is eligible for a maximum of $7,500,938 of Wisconsin Historic Preservation Tax Credits for a Qualified Rehabilitated Building. Pursuant to this separate agreement, Powerhouse and the College agreed to transfer and assign to U.S. Bank these State Historic Tax Credits in exchange for an amount up to $6,976,000. The tax credits were sold to U.S. Bank during the year ended June 30, 2020.

## Note 17. Fair Value Measurements

Fair value is defined 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. 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 received and reported at fair value are classified and disclosed in one of the following three levels. There have been no changes in the techniques and inputs used at June 30, 2021 and 2020.

Level 1 - Inputs are quoted prices unadjusted in active markets for identical assets or liabilities that the reporting entity can access at the measurement date.

Level 2 - Inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly. This includes quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in markets that are not active, inputs other than quoted prices that are observable for the asset or liability, or market corroborated inputs.

Level 3 - Inputs are unobservable for the asset or liability. Unobservable inputs reflect the assumptions that market participants would use in pricing the asset or liability, including assumptions about risk, using the best information available in the circumstances.

**Valuation techniques and inputs:**

Investments in money market funds, U.S. Government bonds, common stocks and mutual funds are traded on nationally recognized exchanges. Fair value is based on quoted market prices which are readily available.

The fair value of the College’s alternative investments, including real estate investments, private equity funds and investment companies for which quoted market prices are not readily available, are estimated using the net asset value (NAV) as a practical expedient.

The fair value of funds held in trust by others for which quoted prices are not readily available are based on a combination of observable inputs (interest rates and yield curves) and significant unobservable inputs (entity specific estimates of cash flows). The fair values are measured at the present value of the future distributions the College expects to receive over the term of the agreements.

The fair value of investments in beneficial interest in perpetual trusts are estimated using an income approach by calculating the present value of the future distributions expected to be received based on a combination of observable inputs (interest rates and yield curves) and significant unobservable inputs (entity specific estimates of cash flows).

### Note 17. Fair Value Measurements (Continued)

In certain cases, the inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such cases, the level in the fair value hierarchy within which the fair value measurement in its entirety falls has been determined based on the lowest level input that is significant to the fair value measurement in its entirety. The assessment of the significance of a particular input to the fair value measurement in its entirety requires judgment and considers factors specific to the asset or liability. While the College believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different estimate of fair value at the reporting date.

The following table presents information about the College's assets and liabilities measured at fair value on a recurring basis as of June 30, 2021, based upon the three-tier hierarchy:

| | Total | Level 1 | Level 2 | Level 3 |
|---|---|---|---|---|
| **Assets** | | | | |
| Investments: | | | | |
| Mutual funds - bonds: | | | | |
| U.S. bonds | $ 13,150,498 | $ 13,150,498 | $ - | $ - |
| Non-U.S. bonds | 2,737,820 | 2,737,820 | - | - |
| Other fixed income | 2,148,775 | 2,148,775 | - | - |
| Mutual funds - equities: | | | | - |
| U.S. equities | 27,095,920 | 27,095,920 | - | - |
| Non-U.S. equities | 16,393,892 | 16,393,892 | - | - |
| Real estate investment | 94,880 | 78,580 | - | 16,300 |
| | 61,621,785 | $ 61,605,485 | $ - | $ 16,300 |
| Investments in funds measured at NAV: | | | | |
| Investment companies | 10,816,849 | | | |
| Private equity funds | 6,456,895 | | | |
| Investments not recorded at fair value: | | | | |
| Money market funds | 75,172 | | | |
| Certificates of deposit | 41,277 | | | |
| Accrued interest and dividends | 4,659 | | | |
| Total investments | $ 79,016,637 | | | |
| Funds held in trust by others | $ 831,325 | $ - | $ - | $ 831,325 |
| Beneficial interest in perpetual trusts | $ 3,603,843 | $ - | $ - | $ 3,603,843 |

### Note 17. Fair Value Measurements (Continued)

The following table presents information about the College's assets and liabilities measured at fair value on a recurring basis as of June 30, 2020, based upon the three-tier hierarchy:

| | Total | Level 1 | Level 2 | Level 3 |
|---|---|---|---|---|
| **Assets** | | | | |
| Investments: | | | | |
| Mutual funds - bonds: | | | | |
| Other fixed income | 17,202,610 | 17,202,610 | - | - |
| Mutual funds - equities: | | | | |
| U.S. equities | 3,330,077 | 3,330,077 | - | - |
| Non-U.S. equities | 874,702 | 874,702 | - | - |
| Mutual funds - diversified | 12,745,714 | 12,745,714 | - | - |
| Real estate investment | 100,250 | 83,950 | - | 16,300 |
| Subtotal | 34,253,353 | $ 34,237,053 | $ - | $ 16,300 |
| Investments in funds measured at NAV: | | | | |
| Investment companies | 9,373,564 | | | |
| Private equity funds | 6,588,853 | | | |
| Investments not recorded at fair value: | | | | |
| Money market funds | 136,219 | | | |
| Certificates of deposit | 80,000 | | | |
| Accrued interest and dividends | 114,726 | | | |
| Total investments | $ 50,546,715 | | | |
| | | | | |
| Funds held in trust by others | $ 672,845 | $ - | $ - | $ 672,845 |

The following table presents a reconciliation of financial instruments measured at fair value on a recurring basis using significant unobservable inputs (level 3) for the years ended June 30, 2021 and 2020:

| | Real Estate Investment | Funds Held in Trust for Others | Beneficial Interest in Perpetual Trust |
|---|---|---|---|
| Balance June 30, 2019 | $ 16,300 | $ 671,169 | $ 3,074,449 |
| Change in value | - | 1,676 | (212) |
| Balance June 30, 2020 | 16,300 | 672,845 | 3,074,237 |
| Change in value | - | 158,480 | 529,606 |
| Balance June 30, 2021 | $ 16,300 | $ 831,325 | $ 3,603,843 |

The College uses the NAV as a practical expedient to determine fair value. The NAV is based on the underlying investments of the funds. Investments valued using NAV as a practical expedient are not included in the levels within the fair value hierarchy.

### Note 17. Fair Value Measurements (Continued)

The following table sets forth additional disclosures of the College's alternative investments whose fair value was estimated using NAV as a practical expedient as of June 30, 2021:

| | Fair Value 2021 | Fair Value 2020 | Unfunded Commitments as of June 30, 2021 |
|---|---|---|---|
| Abbott Capital VI | $ 3,084,147 | $ 2,549,725 | $ 25,000 |
| Rockwood | 2,342,522 | 2,066,228 | 398,804 |
| Crow | 962,520 | 1,556,654 | 257,507 |
| Other | 67,706 | 416,246 | - |
| | $ 6,456,895 | $ 6,588,853 | $ 681,311 |

The private equity funds listed above have fixed termination dates and the College may not redeem prior to those dates. The term for these agreements is within 10 to 12 years from the initial investment.

The alternative investments seek to take long and short positions primarily in equity securities of publicly traded companies. The funds' principal objective is to deliver risk-adjusted returns with low correlations to market indices.

The following table summarizes the College's investments in investment companies by strategy, which are valued using the practical expedient as of June 30, 2021 and 2020:

| Investment Strategy | Fair Value 2021 | Fair Value 2020 | Redemptions Permitted | Redemption Notice Period in Days |
|---|---|---|---|---|
| Multi-strategy | $ 8,780,839 | $ 7,426,513 | Quarterly | 65 |
| Education, healthcare and storage real estate | 2,036,010 | 1,947,051 | N/A | N/A |
| | $ 10,816,849 | $ 9,373,564 | | |

## Note 18. Functional Expenses

The College's expenses have been classified according to their function and natural expenses as follows for the years ended June 30, 2021 and 2020:

| 2021 | Instructional | Student Services | Academic Support | Auxiliary Enterprises | General and Administrative | Total |
|---|---|---|---|---|---|---|
| Salaries | $ 6,587,193 | $ 3,105,698 | $ 1,496,582 | $ 182,414 | $ 6,087,117 | $ 17,459,004 |
| Benefits | 2,789,330 | 843,460 | 424,735 | 55,311 | 1,993,275 | 6,106,111 |
| Student employment | 83,474 | 240,862 | 119,885 | 154,635 | 167,918 | 766,774 |
| Supplies | 137,308 | 619,373 | 279,216 | 146,358 | 814,912 | 1,997,167 |
| Services | 1,782,392 | 1,985,260 | 953,064 | 3,495,126 | 478,405 | 8,694,247 |
| Travel/meals | 14,151 | 223,752 | 128,832 | 4,074 | 159,816 | 530,625 |
| Utilities | - | 11,056 | - | 6,188 | 1,298,983 | 1,316,227 |
| Interest | 18,843 | - | - | 24,199 | 6,040 | 49,082 |
| Depreciation | 551,070 | 553,905 | 307,961 | 1,291,440 | 2,101,950 | 4,806,326 |
| Other | - | 62 | 714,880 | - | 436,622 | 1,151,564 |
| Total | $ 11,963,761 | $ 7,583,428 | $ 4,425,155 | $ 5,359,745 | $ 13,545,038 | $ 42,877,127 |

| 2020 | Instructional | Student Services | Academic Support | Auxiliary Enterprises | General and Administrative | Total |
|---|---|---|---|---|---|---|
| Salaries | $ 7,134,702 | $ 2,901,091 | $ 1,331,963 | $ 174,435 | $ 6,056,747 | $ 17,598,938 |
| Benefits | 2,190,690 | 806,044 | 395,303 | 48,780 | 1,992,592 | 5,433,409 |
| Student employment | 126,891 | 303,254 | 124,862 | 138,007 | 142,520 | 835,534 |
| Supplies | 149,710 | 915,995 | 228,235 | 99,532 | 440,673 | 1,834,145 |
| Services | 2,174,162 | 2,050,177 | 847,242 | 2,875,160 | 992,270 | 8,939,011 |
| Travel/meals | 86,669 | 501,054 | 287,060 | 519 | 215,796 | 1,091,098 |
| Utilities | - | 38,577 | - | 24,930 | 1,158,196 | 1,221,703 |
| Interest | 528,677 | - | - | 32,831 | 311,031 | 872,539 |
| Depreciation | 526,826 | 569,372 | 272,128 | 1,448,482 | 1,501,138 | 4,317,946 |
| Other | 5,500 | 66,806 | 861,772 | - | 186,153 | 1,120,231 |
| Total | $ 12,923,827 | $ 8,152,370 | $ 4,348,565 | $ 4,842,676 | $ 12,997,116 | $ 43,264,554 |

The financial statements present certain expenses that are attributable to more than one program or supporting function. Therefore, expenses require allocation on a reasonable basis that is consistently applied. Costs not directly attributable to a function include plant maintenance, depreciation, amortization and other occupancy costs and are allocated based on square footage and tuition remission which is allocated based on total salaries. Salaries and benefits are allocated based on time and effort in each program.

## Note 19. Contingencies

The College has certain claims and pending legal proceedings that generally involve employment issues. These proceedings are, in the opinion of management, ordinary routine matters incidental to the normal business conducted by the College. In the opinion of management, the ultimate disposition of such proceedings are not expected to have a material adverse effect on the College's financial position, statement of activities or cash flows.

**COVID-19 pandemic:** In January 2020, the Secretary of the U.S. Department of Health and Human Services (HHS) declared a national public health emergency due to a novel strain of coronavirus (COVID-19). In March 2020, the World Health Organization declared the outbreak of COVID-19 a pandemic. The resulting measures to contain the spread and impact of COVID-19 have adversely affected the College’s results of operations. The College continues to monitor the effects of COVID-19 on the College.

# Supplementary Information

**Beloit College and Subsidiaries**
**Consolidating Statement of Financial Position**
**June 30, 2021**

| | Beloit College | Beloit Powerhouse Holdings, Inc. | Beloit Powerhouse Holdings II, LLC | Beloit Powerhouse, LLC and Affiliates | Eliminations | Total |
|---|---|---|---|---|---|---|
| **Assets** | | | | | | |
| Cash and cash equivalents | $ 15,749,683 | $ - | $ - | $ 1,105,391 | $ - | $ 16,855,074 |
| Accounts receivable, net | 3,941,827 | - | - | 2,935,194 | (1,071,205) | 5,805,816 |
| Contributions receivable, net | 2,048,156 | - | - | - | - | 2,048,156 |
| Student loans receivable, net | 6,986,581 | - | - | - | - | 6,986,581 |
| Other assets | 871,903 | - | - | - | - | 871,903 |
| Investments | 79,016,637 | - | - | - | - | 79,016,637 |
| Property, plant and equipment, net | 55,574,995 | - | - | 45,160,189 | - | 100,735,184 |
| Operating right of use lease asset | 14,725,883 | - | - | - | (14,295,668) | 430,215 |
| Funds held in trust by others | 831,325 | - | - | - | - | 831,325 |
| Beneficial interest in perpetual trusts | 3,603,843 | - | - | - | - | 3,603,843 |
| Note receivable, affiliate | 10,111,700 | - | - | - | (10,111,700) | - |
| Investment in subsidiaries | 25,456,348 | 1,026,771 | 19,019,345 | - | (45,502,464) | - |
| **Total assets** | $ 218,918,881 | $ 1,026,771 | $ 19,019,345 | $ 49,200,774 | $ (70,981,037) | $ 217,184,734 |
| **Liabilities and Net Assets** | | | | | | |
| Liabilities: | | | | | | |
| Accounts payable and other accrued liabilities | $ 2,901,126 | $ - | $ - | $ 6,155,250 | $ (1,071,205) | $ 7,985,171 |
| Deferred revenue | 2,179,464 | - | - | - | - | 2,179,464 |
| Student deposits and deferred grant revenue | 357,334 | - | - | - | - | 357,334 |
| Other liabilities | 92,043 | - | - | - | - | 92,043 |
| Refundable advance from U.S. government | 928,928 | - | - | - | - | 928,928 |
| Annuities payable | 4,190,021 | - | - | - | - | 4,190,021 |
| SBA PPP Loan | 4,687,300 | - | - | - | - | 4,687,300 |
| Long-term debt | 2,638,705 | - | - | - | (203,107) | 2,435,598 |
| Operating right of use lease liability | 15,262,941 | - | - | - | (14,831,979) | 430,962 |
| Historic tax credit obligation | - | - | - | 6,879,738 | - | 6,879,738 |
| New market tax credit obligation | - | - | - | 4,863,300 | - | 4,863,300 |
| Notes payable, affiliates | - | - | - | 9,908,593 | (9,908,593) | - |
| **Total liabilities** | 33,237,862 | - | - | 27,806,881 | (26,014,884) | 35,029,859 |
| Net assets: | | | | | | |
| Net assets without donor restrictions | 55,549,203 | 1,026,771 | 19,019,345 | 21,690,805 | (44,966,153) | 52,319,971 |
| Net assets with donor restrictions | 130,131,816 | - | - | - | - | 130,131,816 |
| Non-controlling interest in net assets without donor restrictions | - | - | - | (296,912) | - | (296,912) |
| **Total net assets** | 185,681,019 | 1,026,771 | 19,019,345 | 21,393,893 | (44,966,153) | 182,154,875 |
| **Total liabilities and net assets** | $ 218,918,881 | $ 1,026,771 | $ 19,019,345 | $ 49,200,774 | $ (70,981,037) | $ 217,184,734 |

**Beloit College and Subsidiaries**
**Consolidating Statement of Activities**
**Year Ended June 30, 2021**

| | Net Assets Without Donor Restrictions | | | | | | Net Assets With Donor Restrictions | |
|---|---|---|---|---|---|---|---|---|
| | **Beloit College** | **Beloit Powerhouse Holdings, Inc.** | **Beloit Powerhouse Holdings II, LLC** | **Beloit Powerhouse, LLC and Affiliates** | **Eliminations** | **Total** | **Beloit College** | **Total** |
| **Operating revenues:** | | | | | | | | |
| Student tuition and fees | $ 47,922,804 | $ - | $ - | $ - | $ - | $ 47,922,804 | $ - | $ 47,922,804 |
| Less: | | | | | | | | |
| Funded student financial assistance | (1,760,657) | - | - | - | - | (1,760,657) | - | (1,760,657) |
| Unfunded student financial assistance | (32,504,103) | - | - | - | - | (32,504,103) | - | (32,504,103) |
| Net student tuition and fees | 13,658,044 | - | - | - | - | 13,658,044 | - | 13,658,044 |
| Auxiliary enterprises | 6,181,510 | - | - | - | - | 6,181,510 | - | 6,181,510 |
| Contributions | 5,890,494 | - | - | - | - | 5,890,494 | 2,734,141 | 8,624,635 |
| Government contracts and grants | 4,546,922 | - | - | - | - | 4,546,922 | - | 4,546,922 |
| Investment income allocated for operations | 2,234,324 | - | - | - | - | 2,234,324 | 4,791,503 | 7,025,827 |
| Other income | 1,700,509 | - | - | 1,338,838 | (1,249,489) | 1,789,858 | - | 1,789,858 |
| Net assets released from restrictions | 8,677,774 | - | - | - | - | 8,677,774 | (8,677,774) | - |
| **Total operating revenues** | 42,889,577 | - | - | 1,338,838 | (1,249,489) | 42,978,926 | (1,152,130) | 41,826,796 |
| **Operating expenses:** | | | | | | | | |
| Salaries | 17,459,004 | - | - | - | - | 17,459,004 | - | 17,459,004 |
| Benefits | 6,106,111 | - | - | - | - | 6,106,111 | - | 6,106,111 |
| Student employment | 766,774 | - | - | - | - | 766,774 | - | 766,774 |
| Supplies | 1,997,167 | - | - | - | - | 1,997,167 | - | 1,997,167 |
| Services | 9,943,736 | - | - | - | (1,249,489) | 8,694,247 | - | 8,694,247 |
| Travel and meals | 530,625 | - | - | - | - | 530,625 | - | 530,625 |
| Utilities | 1,316,227 | - | - | - | - | 1,316,227 | - | 1,316,227 |
| Interest | 49,082 | - | - | - | - | 49,082 | - | 49,082 |
| Depreciation | 4,104,820 | - | - | 1,237,817 | (536,311) | 4,806,326 | - | 4,806,326 |
| Other | 753,868 | - | - | 397,696 | - | 1,151,564 | - | 1,151,564 |
| **Total operating expenses** | 43,027,414 | - | - | 1,635,513 | (1,785,800) | 42,877,127 | - | 42,877,127 |
| **Net increase/(decrease) from operations** | (137,837) | - | - | (296,675) | 536,311 | 101,799 | (1,152,130) | (1,050,331) |
| **Non-operating activities:** | | | | | | | | |
| Investment income: | | | | | | | | |
| Interest income | 72,658 | - | - | - | - | 72,658 | 406,885 | 479,543 |
| Net gain on investments | 13,004 | - | - | - | - | 13,004 | 10,073,159 | 10,086,163 |
| Total investment income | 85,662 | - | - | - | - | 85,662 | 10,480,044 | 10,565,706 |
| Investment income allocated for operations | (2,234,324) | - | - | - | - | (2,234,324) | (4,791,503) | (7,025,827) |
| | (2,148,662) | - | - | - | - | (2,148,662) | 5,688,541 | 3,539,879 |
| Interest income on cash and cash equivalents | 128,897 | - | - | - | - | 128,897 | (1,749) | 127,148 |
| Endowment gifts | - | - | - | - | - | - | 1,749,003 | 1,749,003 |
| Capital gifts and grants | - | - | - | - | - | - | 245,452 | 245,452 |
| Adjustments to actuarial liability for annuities payable | 230,171 | - | - | - | - | 230,171 | 633,402 | 863,573 |
| Gain/(Loss) from subsidiaries | (367,890) | 40,396 | (408,366) | - | 735,860 | - | - | - |
| Other non-operating activities | 740,514 | - | - | - | - | 740,514 | 541,258 | 1,281,772 |
| **Total non-operating activities** | (1,416,970) | 40,396 | (408,366) | - | 735,860 | (1,049,080) | 8,855,907 | 7,806,827 |
| **Change in net assets** | (1,554,807) | 40,396 | (408,366) | (296,675) | 1,272,171 | (947,281) | 7,703,777 | 6,756,496 |
| Net assets at beginning of period | 57,104,010 | 986,375 | 19,427,711 | 19,429,534 | (43,977,290) | 52,970,340 | 122,428,039 | 175,398,379 |
| Contributions of net assets and members' equity | - | - | - | 2,261,034 | (2,261,034) | - | - | - |
| Net assets at end of period | $ 55,549,203 | $ 1,026,771 | $ 19,019,345 | $ 21,393,893 | $ (44,966,153) | $ 52,023,059 | $ 130,131,816 | $ 182,154,875 |

**Beloit Powerhouse, LLC and Affiliates**
**Consolidating Statement of Financial Position**
**June 30, 2021**

| | Beloit Powerhouse, LLC | Powerhouse Master Tenant, LLC | Chase NMTC Beloit Powerhouse Investment Fund, LLC | Sub-CDEs ** | Eliminations | Total |
|---|---|---|---|---|---|---|
| **Assets** | | | | | | |
| Cash and cash equivalents | $ 546,398 | $ 123,719 | $ - | $ 435,274 | $ - | $ 1,105,391 |
| Accounts receivable, net | 1,463,500 | 1,471,694 | - | - | - | 2,935,194 |
| Property, plant and equipment, net | 44,355,399 | 804,790 | - | - | - | 45,160,189 |
| Notes receivable, affiliate | - | 6,531,822 | - | 14,310,000 | (20,841,822) | - |
| Operating right out use lease asset | - | 10,680,342 | - | - | (10,680,342) | - |
| Investment in subsidiaries | - | - | 14,743,799 | - | (14,743,799) | - |
| **Total assets** | $ 46,365,297 | $ 19,612,367 | $ 14,743,799 | $ 14,745,274 | $ (46,265,963) | $ 49,200,774 |
| **Liabilities and Equity** | | | | | | |
| Liabilities: | | | | | | |
| Accounts payable and other accrued liabilities | $ 3,548,530 | $ 2,539,534 | $ 67,186 | $ - | $ - | $ 6,155,250 |
| Long-term debt | - | - | - | - | - | - |
| Notes payable, affiliates | 20,638,715 | - | 10,111,700 | - | (20,841,822) | 9,908,593 |
| Operating right of use lease liability | - | 11,016,697 | - | - | (11,016,697) | - |
| Historic tax credit obligation | - | 6,879,738 | - | - | - | 6,879,738 |
| New market tax credit obligation | - | - | 4,863,300 | - | - | 4,863,300 |
| **Total liabilities** | 24,187,245 | 20,435,969 | 15,042,186 | - | (31,858,519) | 27,806,881 |
| Equity: | | | | | | |
| Beloit Powerhouse, LLC members' equity | 22,178,052 | (823,602) | - | - | 336,355 | 21,690,805 |
| Noncontrolling interest | - | - | (298,387) | 14,745,274 | (14,743,799) | (296,912) |
| **Total equity** | 22,178,052 | (823,602) | (298,387) | 14,745,274 | (14,407,444) | 21,393,893 |
| **Total liabilities and equity** | $ 46,365,297 | $ 19,612,367 | $ 14,743,799 | $ 14,745,274 | $ (46,265,963) | $ 49,200,774 |

** The Sub-CDE column includes the balances of BH New Markets Sub-CDE 18, LLC, Brownfield Revitalization 48, LLC and CNMC Sub-CDE 165, LLC, which are variable interest entities of Beloit Powerhouse, LLC.

**Beloit Powerhouse, LLC and Affiliates**
**Consolidating Statement of Income**
**Year Ended June 30, 2021**

| | Beloit Powerhouse, LLC | Powerhouse Master Tenant, LLC | Chase NMTC Beloit Powerhouse Investment Fund, LLC | Sub-CDEs ** | Eliminations | Total |
|---|---|---|---|---|---|---|
| **Operating revenues:** | | | | | | |
| Other income | $ 2,271,702 | $ 1,267,421 | $ - | $ 71,215 | $ (2,271,500) | $ 1,338,838 |
| Income from subsidiaries | - | - | 71,208 | - | (71,208) | - |
| **Total operating revenues** | 2,271,702 | 1,267,421 | 71,208 | 71,215 | (2,342,708) | 1,338,838 |
| **Operating expenses:** | | | | | | |
| Other operating expenses | 1,463,773 | 2,779,595 | - | - | (2,607,855) | 1,635,513 |
| **Total operating expenses** | 1,463,773 | 2,779,595 | - | - | (2,607,855) | 1,635,513 |
| **Net income (loss)** | $ 807,929 | $ (1,512,174) | $ 71,208 | $ 71,215 | $ 265,147 | $ (296,675) |

** The Sub-CDE column includes the activity of BH New Markets Sub-CDE 18, LLC, Brownfield Revitalization 48, LLC and CNMC Sub-CDE 165, LLC, which are variable interest entities of Beloit Powerhouse, LLC.

**Beloit College**
**Schedule of Investments Held**
**June 30, 2021 (Unaudited)**

| | Cost | Market | Unrealized Gain(Loss) |
|---|---|---|---|
| **Equities** | | | |
| U.S. Equities | $ 23,108,675 | $ 27,095,920 | $ 3,987,245 |
| Non-U.S. Equities | 15,060,298 | 16,393,892 | 1,333,594 |
| Total Equities | 38,168,973 | 43,489,812 | 5,320,839 |
| **Fixed Income** | | | |
| U.S. Bonds | 13,241,584 | 13,150,498 | (91,086) |
| Non-U.S. Bonds | 2,802,512 | 2,737,820 | (64,692) |
| Other Fixed Income | 2,136,269 | 2,148,775 | 12,506 |
| Total Equities | 18,180,365 | 18,037,093 | (143,272) |
| **Other Funds** | | | |
| Money Market | 106,884 | 75,172 | (31,712) |
| Certificate of Deposit | 41,603 | 41,277 | (326) |
| Equity REITS | 80,963 | 94,880 | 13,917 |
| Investment Companies | 12,547,177 | 10,816,849 | (1,730,328) |
| Private equity funds | 7,457,810 | 6,456,895 | (1,000,915) |
| Total Other Funds | 20,234,437 | 17,485,073 | (2,749,364) |
| Accrued Interest and Pending Trades | 4,659 | 4,659 | - |
| Total | $ 76,588,434 | $ 79,016,637 | $ 2,428,203 |