COLUMBIA COLLEGE CHICAGO

Financial Statements

August 31, 2022 and 2021

(With Independent Auditors’ Report Thereon)

COLUMBIA COLLEGE CHICAGO

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KPMG LLP
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200 E. Randolph Street
Chicago, IL 60601-6436

Independent Auditors' Report

The Board of Trustees
Columbia College Chicago:

Opinion

We have audited the financial statements of Columbia College Chicago (the College), which comprise the balance sheets as of August 31, 2022 and 2021, and the related statements of activities and cash flows for the years then ended, and the related notes to the financial statements.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the College as of August 31, 2022 and 2021, and the changes in its net assets and its cash flows for the years then ended in accordance with U.S. generally accepted accounting principles.

Basis for Opinion

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

Responsibilities of Management for the Financial Statements

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

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

Auditors' Responsibilities for the Audit of the Financial Statements

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

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.

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

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

KPMG LLP

Chicago, Illinois
January 19, 2023

COLUMBIA COLLEGE CHICAGO

Balance Sheets

August 31, 2022 and 2021

Assets		2022	2021
Cash and cash equivalents	$	15,913,239	3,954,466
Student accounts receivable, less allowance for doubtful accounts of $2,185,489 in 2022 and $4,001,670 in 2021		672,131	425,455
Other accounts and interest receivable, net		1,273,642	2,011,949
Deposits and prepaid expenses		3,847,748	3,758,921
Grants and contributions receivable, net		2,401,471	1,670,077
Long-term investments, at fair value		236,991,003	311,232,548
Net pension funding		—	1,817,428
Right of use assets – operating, net of amortization		104,889,106	126,615,611
Right of use assets – finance, net of amortization		443,394	1,079,950
Land, buildings, and equipment, net		209,180,376	214,506,538
Total assets	$	575,612,110	667,072,943
Liabilities and Net Assets			
Liabilities:			
Accounts payable	$	4,918,454	4,938,653
Accrued expenses		9,936,958	8,867,520
Deferred revenue and refundable deposits		32,107,673	30,447,887
Accrued interest payable		852,711	875,655
Accrued pension cost		1,184,392	—
Asset retirement obligation		6,300,325	4,635,544
Lease obligation – operating		107,573,330	129,342,496
Lease obligation – finance		417,796	700,970
Long-term indebtedness		77,440,032	79,605,042
Total liabilities		240,731,671	259,413,767
Net assets:			
Without donor restrictions		316,988,974	387,537,109
With donor restrictions		17,891,465	20,122,067
Total net assets		334,880,439	407,659,176
Total liabilities and net assets	$	575,612,110	667,072,943

See accompanying notes to financial statements.

COLUMBIA COLLEGE CHICAGO

Statements of Activities

Years ended August 31, 2022 and 2021

	2022			2021		
	Without donor restrictions	**With donor restrictions**	**Total**	**Without donor restrictions**	**With donor restrictions**	**Total**
Operating activities:						
Revenue:						
Tuition and fees, net of $69,816,700 and $63,598,600 in tuition allowances	$ 108,281,139	—	108,281,139	110,367,287	—	110,367,287
Student housing, net	29,872,760	—	29,872,760	20,424,420	—	20,424,420
Sales and services	533,348	—	533,348	602,405	—	602,405
Contributions of cash and other financial assets	159,119	1,950,214	2,109,333	157,366	2,153,877	2,311,243
Contributions of nonfinancial assets	3,425	122,786	126,211	8,745	93,120	101,865
Government grants and contracts	13,367,581	—	13,367,581	13,092,695	—	13,092,695
Investment return for operations	659,517	—	659,517	782,608	—	782,608
Additional endowment spending distribution from board designated funds	9,493,000	—	9,493,000	8,920,000	—	8,920,000
Other	110,033	—	110,033	71,662	—	71,662
Net assets released from restrictions	2,363,887	(2,363,887)	—	1,978,392	(1,978,392)	—
Total operating revenue	164,843,809	(290,887)	164,552,922	156,405,580	268,605	156,674,185
Expenses:						
Salaries and wages	76,298,150	—	76,298,150	73,313,913	—	73,313,913
Employee benefits	25,920,038	—	25,920,038	23,532,086	—	23,532,086
Supplies and services	27,831,191	—	27,831,191	22,797,918	—	22,797,918
Operation and maintenance of plant	41,209,844	—	41,209,844	42,618,835	—	42,618,835
Interest	3,776,667	—	3,776,667	4,028,419	—	4,028,419
Depreciation and amortization	14,682,251	—	14,682,251	15,655,002	—	15,655,002
Total operating expenses	189,718,141	—	189,718,141	181,946,173	—	181,946,173
Excess (deficiency) of operating revenue over operating expenses	(24,874,332)	(290,887)	(25,165,219)	(25,540,593)	268,605	(25,271,988)
Nonoperating activities:						
Investment return, less amounts for operations	(34,248,044)	(2,097,492)	(36,345,536)	39,783,259	2,589,451	42,372,710
Additional endowment spending distributed from board designated funds	(9,493,000)	—	(9,493,000)	(8,920,000)	—	(8,920,000)
Contributions of cash and other financial assets for facility, collections and endowments	—	391,285	391,285	—	1,321,458	1,321,458
Contributions of nonfinancial assets	843,450	—	843,450	505,534	—	505,534
Nonoperating other income (expense)	(7,897)	—	(7,897)	1,223,016	—	1,223,016
Gain (loss) on sale of property or disposal of equipment	—	—	—	28,084	—	28,084
Recognition of change in pension funded status	(2,822,040)	—	(2,822,040)	2,045,607	—	2,045,607
Other components of net periodic benefit cost	(179,780)	—	(179,780)	(904,978)	—	(904,978)
Net assets released from restrictions for capital	245,000	(245,000)	—	265,000	(265,000)	—
Change in fund designation	(11,492)	11,492	—	(26,710)	26,710	—
Total non-operating gain (loss)	(45,673,803)	(1,939,715)	(47,613,518)	33,998,812	3,672,619	37,671,431
Change in net assets	(70,548,135)	(2,230,602)	(72,778,737)	8,458,219	3,941,224	12,399,443
Net assets at beginning of year	387,537,109	20,122,067	407,659,176	379,078,890	16,180,843	395,259,733
Net assets at end of year	$ 316,988,974	17,891,465	334,880,439	387,537,109	20,122,067	407,659,176

See accompanying notes to financial statements.

COLUMBIA COLLEGE CHICAGO

Statements of Cash Flows

Years ended August 31, 2022 and 2021

		2022	2021
Cash flows from operating activities:			
Change in net assets	$	(72,778,737)	12,399,443
Adjustments to reconcile change in net assets to net cash used in operating activities:			
Recognition of change in pension funded status		3,001,820	(1,140,629)
Depreciation and amortization		14,751,342	15,730,701
Donation of fixed assets and collections, net of costs		(843,450)	(503,915)
Gain on disposal of property and equipment		—	(28,084)
Net (gain) loss on investments		35,478,393	(43,358,225)
Gifts to endowment		(119,260)	(497,018)
Changes in assets and liabilities:			
Student accounts receivable		(246,676)	369,926
Other accounts and interest receivable		738,307	(694,668)
Deposits and prepaid expenses		(88,827)	(433,530)
Grants and contributions receivable		(731,394)	(45,643)
Accounts payable		(20,199)	508,065
Accrued expenses		(671,435)	936,647
Deferred revenue and refundable deposits		1,659,786	10,508,218
Accrued interest payable		(22,944)	(36,779)
Asset retirement obligation		231,777	437,036
Change in net operating ROU assets and liabilities		(42,661)	550,815
Net cash used in operating activities		(19,704,158)	(5,297,640)
Cash flows from investing activities:			
Proceeds from sale of investments		56,543,571	179,188,403
Purchase of investments		(17,780,420)	(171,454,382)
Proceeds from sale of land, buildings, and equipment		—	70,000
Purchase of land, buildings, and equipment		(4,891,306)	(3,130,433)
Net cash provided by investing activities		33,871,845	4,673,588
Cash flows from financing activities:			
Proceeds from gifts to endowment		119,260	497,018
Payments on finance lease obligation		(283,174)	(1,022,190)
Principal payments on long-term debt		(2,045,000)	(1,610,000)
Net cash used in financing activities		(2,208,914)	(2,135,172)
Net increase (decrease) in cash and cash equivalents		11,958,773	(2,759,224)
Cash and cash equivalents at beginning of year		3,954,466	6,713,690
Cash and cash equivalents at end of year	$	15,913,239	3,954,466
Supplementary disclosure of cash flow information:			
Cash paid during the year for interest	$	3,498,772	3,524,085
Supplementary disclosure of noncash transactions:			
Donated fixed assets and collections	$	843,450	503,915
Change in accrued expenses for land, buildings, and equipment		(1,740,873)	349,149

See accompanying notes to financial statements.

(1) Organization

Columbia College Chicago (the College) is a private, not-for-profit, fully accredited college offering comprehensive academic programs in the performing, visual, communications, and writing arts within a liberal arts framework. The College is an urban institution located in Chicago's South Loop that enrolls students from the Chicago area, across the United States, and internationally. Students are primarily enrolled in undergraduate degree programs although the College also offers graduate programs.

(2) Summary of Significant Accounting Policies

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

(a) Basis of Presentation

To ensure the observance of limitations and restrictions placed on the use of resources available, the College maintains its accounts in accordance with the principles and practices of fund accounting. Fund accounting is the procedure by which resources for various purposes are classified for accounting purposes into funds that are maintained in accordance with activities or objectives of the College.

For external reporting purposes, however, the College's financial statements have been prepared to focus on the organization as a whole and to present balances and transactions classified in accordance with the existence or absence of donor-imposed restrictions. As such, the College adheres to the provisions of Financial Accounting Standards Board (FASB) Accounting Standard Update (ASU) No. 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities* and classifies net assets into two categories, net assets without donor restrictions and net assets with donor restrictions, defined as follows:

- Net assets without donor restrictions are derived from tuition and other institutional resources not subject to donor-imposed restrictions, including those designated by the Board of Trustees to function as endowment (quasi-endowments) and other board-designated net assets.
- Net assets with donor restrictions are subject to donor-imposed restrictions including those restricted for a particular use, expiring with the passage of time or the occurrence of an event, or to be maintained in perpetuity. When time and purpose restrictions expire, net assets with donor restrictions are released as net assets without donor restrictions. Net assets subject to donor-imposed restrictions may also require assets to be maintained permanently in perpetuity by the College. Generally, the donors of these assets permit the College to use all or part of the income earned on related investments for general or specific purposes.

Revenue is reported as an increase in net assets without donor restrictions unless use of the related assets is limited by donor-imposed restrictions. Expenses are reported as decreases in net assets without donor restrictions. Gains and losses on investments and other assets or liabilities are reported as increases or decreases in net assets without restriction unless their use is restricted by explicit donor stipulation or law.

(b) Revenue Recognition

The College follows the guidance in FASB ASU No. 2014-09, *Revenue from Contracts with Customers (Topic 606)*, as amended, in its revenue recognition practices. This guidance requires that the College recognizes revenue to depict the transfer of promised goods and services to customers in an amount that reflects the consideration to which the College expects to receive in exchange for those goods and services.

(i) Tuition and Fees, Net of Scholarships

Tuition from academic programs delivered to students is recognized in the fiscal year in which the academic programs are delivered. Tuition is charged at different rates depending on the program in which the student is enrolled, less any institutional financial aid awarded by the College to qualifying students. This institutional aid represents a reduction of the tuition transaction price. As part of a student's course of instruction, certain fees, such as technology fees, are billed to students. Tuition and fees are earned ratably over the applicable term and are not considered separate performance obligations.

The College bills tuition and fees in advance of each academic term; however, students have until approximately the second week of the term to drop classes and receive a full refund. Student receivables are not recognized until the passage of the refund deadline. In some instances, students pay prior to the deadline and the College recognizes deferred revenue in these situations.

(ii) Student Housing, Net of Scholarships

Housing revenue consists of fees for room and dining services (board) during the student's education. These fees are viewed as one performance obligation. Fees are charged at different rates depending on the room accommodations. Both room fees and dining services are billed in advance of each academic term and recognized ratably as revenue over the period in which these services are provided. As with tuition, the College records deferred revenue when students pay prior to the start of the academic term.

(iii) Sales and Services

This category consists of revenue generated by the College from different arrangements that are deemed to be exchange transactions. Major revenue streams in this category include ticket sales for dance and theater performances, revenue from seminars and workshops, and tuition from community outreach programs. Revenue from these activities is generally recognized as services are performed.

(iv) Grant and Contract Revenue

The College adheres to FASB ASU No. 2018-08, *Clarifying the Scope and Accounting Guidance for Contributions Received and Made*. This ASU provides a framework for determining whether a transaction should be accounted for as a contribution or as an exchange transaction. The guidance also helps determine whether a contribution is conditional and provides guidance to distinguish between a donor-imposed condition and a donor-imposed restriction.

Revenue from government grants and contracts are deemed to be nonexchange (nonreciprocal) transactions and fall under the contribution guidance when conditions are met. Revenue is recognized as qualifying expenditures are incurred in accordance with the agreement.

Private gifts, including unconditional promises to give (i.e., pledges), are recognized in the period received. Conditional pledges are not recognized until the conditions on which they depend are substantially met. A promise to give is conditional based on whether the agreement includes a barrier that must be overcome and either a right of return of assets transferred or a right of release of a promisor's obligation to transfer assets exists. A conditional promise to give becomes an unconditional promise to give when the barriers in the agreement are overcome. Contributions of assets other than cash are recorded at estimated fair value. Contributions to be received after one year are discounted at an appropriate rate commensurate with the risks involved. Amortization of the discount is recorded as additional contribution revenue in accordance with donor-imposed restrictions, if any, on the contributions. An allowance for doubtful pledges receivable is provided based upon the administration's judgment considering such factors as the creditworthiness of the donor, prior collection history, type of contribution, and nature of the fund-raising activity.

Contributions received with donor-imposed restrictions are reported as revenue of the net assets with donor restrictions class and released to the net assets without donor restrictions class when the restriction has been met. Donor-restricted contributions whose restrictions are met within the same fiscal year in which they are received are reported as revenue without donor restrictions. Contributions of land, buildings, and equipment without donor-imposed restrictions concerning the use of such long-lived assets are reported as revenue of the net assets without donor restrictions class. Contributions of cash or other assets to be used to acquire land, buildings, and equipment with donor-imposed use restrictions are reported as revenue of the net assets with donor restrictions class; the restrictions are considered to be released at the time such long-lived assets are placed into service.

(c) COVID-19 Pandemic and Higher Education Emergency Relief Fund

During the College's fiscal year 2020, the federal government passed the Coronavirus Aid, Relief, and Economic Security Act (the Act), which established a Higher Education Emergency Relief Fund ("HEERF").Subsequently, during the College's fiscal year 2021, two additional acts were passed by the government to again award funds to higher education institutions under HEERF, the Coronavirus Response and Relief Supplemental Appropriations Act and the American Rescue Plan Act of 2021.

Funds awarded to institutions under HEERF are to be used to provide eligible students emergency financial aid grants for expenses related to the disruption of campus operations due to the COVID-19 crisis ("HEERF Student Share"). Additionally, institutions are permitted use of remaining funds upon meeting the requirements of the HEERF Student Share to cover operational costs and lost revenue associated with the significant changes brought on by this crisis ("HEERF Institutional Share").

The amounts awarded to the College as HEERF Student Share and HEERF Institutional Share under each of these Acts are as follows:

		HEERF Student Share	HEERF Institutional Share
Coronavirus Aid, Relief, and Economic Security Act ("HEERF I")	$	3,170,771	3,170,771
Coronavirus Response and Relief Supplemental Appropriations Act ("HEERF II")		3,170,771	6,619,998
American Rescue Plan Act of 2021 ("HEERF III")		8,613,491	8,601,621
Total awarded	$	14,955,033	18,392,390

Following is a summary of the HEERF-related funding recorded by the College during fiscal year 2022:

		Student Share	Institutional Share
HEERF II	$	—	197,161
HEERF III		4,835,327	5,749,544
Total	$	4,835,327	5,946,705

Revenues of $10.8 million were recorded within government grants and contracts on the College’s statements of activities during fiscal year 2022. The corresponding expense of $4.8 million related to Student Share funding was recorded as supplies and services expense. No associated expenditures were recorded for the Institutional Share since nearly all the funds were used to offset lost revenue resulting from the pandemic.

Following is a summary of the HEERF-related funding recorded during fiscal year 2021:

		Student Share	Institutional Share
HEERF I	$	11,750	11,750
HEERF II		3,170,771	6,422,837
HEERF III		1,459,119	—
Total	$	4,641,640	6,434,587

In fiscal year 2021, HEERF Student Share disbursements were recorded as supplies and services expense on the College’s statement of activities. The College used the Institutional Share from HEERF II to offset the remainder of the housing and dining refunds given to students during the 2019-20 academic year, $4.5 million, as well as using certain of the funds to recover a portion of lost revenue from the pandemic, $1.9 million. There were no associated expenditures recorded on the College’s statement of activities associated with these uses. The College recognized HEERF revenue of approximately $11 million within government grants and contracts on the statement of activities during fiscal year 2021.

(d) Long-Term Pooled Investment Payout

The College has adopted a spending policy in support of current operational budget requirements. This policy allows for the spending of a percentage (7% for fiscal years 2022 and 2021) of the average fair value of the long-term pooled (LTP) investments over the past three years. Pooled investments consist of assets of the College's endowment, certain assets with donor restrictions, and funds designated by the Board of Trustees to be invested as endowment. See note 15 for additional information regarding the College's investment strategy and objectives.

(e) Operations

Operating results in the statements of activities reflect all transactions increasing or decreasing net assets without donor restrictions except those items of a long-term capital nature, that is, associated with long-term investments, gifts for physical plant, or certain pension changes.

(f) Cash Equivalents

Cash equivalents consist primarily of highly liquid debt instruments acquired with an original maturity of three months or less. Certain securities of a similar nature may be included in investments because such instruments are held by the College for designated purposes.

(g) Land, Buildings, and Equipment

Land, buildings, and equipment are stated at cost or, in the case of gifts, fair value at date of donation, less accumulated depreciation. Leased equipment is depreciated using a straight-line method over the shorter of the estimated useful life of the equipment or the term of the lease. Buildings and equipment are depreciated using the straight-line method over their estimated useful lives. The estimated useful lives are as follows:

Buildings	50 years
Building improvements	15–25 years
Library books	10 years
Furnishings and equipment	3–10 years

Long-lived assets, such as buildings and equipment, are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. If events are identified, recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to its estimated undiscounted future cash flows expected to be generated by the asset. If the carrying amount of an asset exceeds its estimated future cash flows, an impairment charge is recognized for the amount by which the carrying amount of the asset exceeds the fair value of the asset. Assets to be disposed of are separately presented in the balance sheet and reported at the lower of the carrying amount or fair value less costs to sell and are no longer depreciated.

(Continued)

(h) Collections

In 1997, the College began capitalizing its collections retroactively. To the extent reliable records existed, the College capitalized items acquired prior to 1997 at their cost at the date of purchase or, if the items were contributed, at their fair or appraised value at the accession date (the date the item was accepted by the College). Other items, particularly those acquired prior to 1997, when detailed curatorial records began to be maintained, have been capitalized at their appraised or estimated current fair value. In some cases, collection items held solely for their potential educational value or historical significance were determined to have no alternative use and were not assigned values for the purpose of capitalization.

Proceeds from the sale of collection items are used to purchase works of art for the permanent collection or for the direct care of objects within the permanent collection by enhancing their life, usefulness or quality.

(i) Income Taxes

The College has received a determination letter from the Internal Revenue Service (IRS) indicating that it is a tax-exempt organization as provided in Section 501(c)(3) of the Internal Revenue Code of 1986 and, except for taxes pertaining to unrelated business income, is exempt from federal and state income taxes. No provision has been made for income taxes in the accompanying financial statements, as the College has had no significant unrelated business income. In accordance with U.S. generally accepted accounting principles (GAAP), the College recognizes the tax benefit from an uncertain tax position only if it is more likely than not that the tax position will be sustained on examination by the taxing authorities, based on the technical merits of the position. Based upon this practice, the College, as of August 31, 2022 and 2021, believes it has no significant uncertain tax positions.

(j) Conditional Asset Retirement Obligation

The College has recorded a liability to recognize the estimated cost of conditional asset retirement obligations related to potential asbestos abatement. The costs of abatement were estimated using a variety of assumptions and estimates, including a cost-per-square-foot estimate, inflation estimates, and an estimated discount rate. At August 31, 2022 and 2021, the College has recorded an asset retirement obligation of $6,300,325 and $4,635,544, respectively.

(k) Fair Value of Financial Instruments

The College follows the provisions of Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) Topic 820, *Fair Value Measurement*, the official pronouncement for fair value measurements for financial instruments. The pronouncement defines fair value as the price that could be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market of the asset or liability in an orderly transaction between market participants on the measurement date.

(Continued)

The pronouncement also establishes a fair value hierarchy that requires an entity to maximize the use of observable inputs when measuring fair value. The standard describes three levels of inputs that may be used to measure fair value:

Level 1: Quoted prices for identical assets or liabilities in active markets that the entity has the ability to access as of the measurement date.

Level 2: Observable inputs other than Level 1 prices such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.

Level 3: Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets and liabilities. Level 3 assets and liabilities include financial instruments whose value is determined using pricing models, discounted cash flow methodologies, or similar techniques, as well as instruments for which the determination of fair value requires significant management judgment or estimation.

In many cases, the valuation technique used to measure fair value includes inputs from multiple levels of the fair value hierarchy. The lowest level of significant input determines the placement of the entire fair value measurement in the hierarchy.

As a practical expedient, the College records its investment in certain entities that calculate net asset value per share (or its equivalent) that do not have a readily determinable fair value using the net asset value per share of the investment (or its equivalent) as of the College's fiscal year-end. Using this approach, the value of these investments does not include certain attributes that may impact the final value of the investments, such as restrictions on redemption and transaction prices for principal-to-principal and brokered transactions.

(l) Use of Estimates

In order to prepare these financial statements, the College has made a number of estimates and assumptions relating to the reporting of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements, and the reporting of revenue, expenses, gains, and losses during the reporting period. Actual results could differ from these estimates.

(m) Recently Adopted Accounting Pronouncements

Effective September 1, 2020, the College adopted FASB ASU No. 2016-02, *Leases (Topic 842)*, as amended. The ASU is intended to improve financial reporting of leasing transactions by requiring organizations that lease assets to recognize assets and liabilities for the rights and obligations created by leases that extend more than twelve months. The standard also requires reclassification of previously capitalized leases to new standalone accounts on the balance sheet.

The College adopted Topic 842 using the effective date transition method. No cumulative effect of a change in accounting principle resulted from adoption. As permitted by Topic 842, for leases with a term of 12 months or less, the College has elected not to recognize the lease assets and liabilities.

The College elected the following practical expedients provided by the new standard:

- the package of practical expedients that permits no reassessment of whether any expired or existing contracts are or contain a lease, the lease classification for any expired or existing leases, and any initial direct costs for any existing leases as of the effective date,
- the practical expedient that permits not separating lease and non-lease components for any lessee, and
- the practical expedient that permits no reassessment of whether land easements meet the definition of a lease if they were not accounted for as such under Topic 840.

As of September 1, 2020, the College recognized an operating lease liability of $150,853,500 and a corresponding right of use asset of $148,677,428 on its balance sheet. Other balance sheet accounts impacted by adoption included recording the balance of rent abatement, formerly a component of deferred revenue and refundable deposits, as a reduction to right of use assets - operating. Additionally, capital lease assets were reclassified from land, buildings and equipment to right of use assets - finance, and the associated liabilities were reclassified from long-term debt to lease obligation -finance.

In March 2019, the FASB issued ASU 2019-03, *Updating the Definition of Collections (Topic 958)*. ASU 2019-03 modifies the definition of the term collections and clarifies certain accounting and disclosure guidance related to such collections. This guidance, which was effective for the College beginning September 1, 2020, had no impact on the financial statements.

Effective September 1, 2021, the College adopted ASU No. 2018-15, *Customer's Accounting for Fees Paid in a Cloud Computing Arrangement (Subtopic 350-40)*, which helps entities evaluate the accounting for fees paid by a customer in a cloud computing arrangement (CCA), and more specifically, how to treat implementation costs resulting from a CCA. Under ASU No. 2018-15, the College has applied the same criteria for capitalizing CCA implementation costs as it would for an arrangement that has a software license. As a result of adoption, the College capitalized approximately $20,000 in fiscal 2022 by recording these costs as prepaid assets.

In August 2018, the FASB issued ASU 2018-14, *Compensation-Retirement Benefits-Defined Benefit Plans-General (Subtopic 715-20)*: *Changes to the Disclosure Requirements for Defined Benefit Plans*. This ASU modifies the disclosures required for defined benefit pension and other postretirement benefit plans. The ASU is effective for all entities for fiscal years ending after December 15, 2021. The College adopted the provisions of the ASU on September 1, 2021 on a retrospective basis. See Note 9 for discussion on significant actuarial gains/losses to changes in the benefit obligation.

On September 1, 2021, the College adopted ASU No. 2020-07, *Presentation and Disclosure by Not-for-Profit Entities for Contributed Nonfinancial Assets* (Topic 958). This ASU is intended to increase the transparency of the reporting of contributed nonfinancial assets by modifying the presentation of contribution revenue on the statement of activities and requiring entities to disclose information regarding its in-kind contributions. The College adopted this ASU on a retrospective basis. See Note 12 for details of the College's in-kind revenue reported for fiscal years ended August 31, 2022 and 2021.

(Continued)

(3) Grants and Contributions Receivable

At August 31, 2022 and 2021, grants and contributions receivable were $2,401,471 and $1,670,077, respectively, net of discounts of $23,225 and allowances of $0 for fiscal year 2022 and discounts of $19,037 and allowances of $0 for fiscal year 2021. Of the amount outstanding at August 31, 2022, $2,074,696 is expected to be collected within one year, and $350,000 is expected to be collected within two to five years.

(4) Investments

Investments are stated at fair value. The fair value of investments is based upon quoted market prices when available. However, the investments also include certain instruments where quoted market prices may not be available. For these instruments, the College has applied a practical expedient and recorded the net asset value reported by each underlying fund. The valuations for these investments involve estimates, appraisals, assumptions, and other analytical methods performed by investment managers and then reviewed by the College and the College’s investment consultant.

The College’s interests in alternative investment funds such as absolute return, equity, hedge funds, and private equity are reported at the net asset value (NAV) reported by the fund managers, which is used as a practical expedient to estimate the fair value, unless it is probable that all or a portion of the investment will be sold for an amount different from NAV. As of August 31, 2022 and 2021, the College had no plans to sell investments at amounts different from NAV.

The College’s investments are exposed to various risks, such as interest rate, market, and credit risks. Due to the level of risk associated with certain investment vehicles, it is at least reasonably possible that changes in the value of investments will occur in the near term and that such changes could materially affect amounts reported in the balance sheets.

Investment income, gains and losses, and any investment-related expenses are recorded as an increase (decrease) in net assets without donor restrictions in the statements of activities unless their use is restricted by explicit donor stipulations or law. In the absence of donor stipulations or law to the contrary, losses on the investment of a donor-restricted endowment fund are applied to reduce net assets with donor restrictions to the extent that donor-imposed restrictions on net appreciation of the fund have not been met before the loss occurs.

The investments, including cash and cash equivalents, at August 31, 2022 and 2021 are comprised of the following:

		2022		Redemption	Days'
		Level 1	**Total**	**or liquidity**	**notice**
Cash and cash equivalents	$	15,913,239	15,913,239	Daily	1
Investments:					
Fixed income [(a)]					
Endowment	$	16,621,741	16,621,741	Daily	1
Operations		44,919,163	44,919,163	Daily	1
Subtotal	$	61,540,904	61,540,904		
Equities [(b)]	$	15,494,973	15,494,973	Daily	1
Investments measured at net asset value			159,955,126		
Total investments at fair value as of August 31, 2022		$	236,991,003		

		2021		Redemption	Days'
		Level 1	**Total**	**or liquidity**	**notice**
Cash and cash equivalents	$	3,954,466	3,954,466	Daily	1
Investments:					
Fixed income [(a)]					
Endowment	$	28,927,998	28,927,998	Daily	1
Operations		75,618,024	75,618,024	Daily	1
Subtotal	$	104,546,022	104,546,022		
Equities [(b)]	$	21,739,906	21,739,906	Daily	1
Investments measured at net asset value			184,946,620		
Total investments at fair value as of August 31, 2021		$	311,232,548		

(a) Includes investments in mutual funds that invest in fixed income securities.

(b) Includes small to mid-capitalization growth stocks.

In accordance with the fair value measurements and disclosures guidance, the following table presents the category, fair value, redemption frequency, and redemption notice period for College investments, the fair values of which are estimated using the NAV per share as of August 31, 2022 and 2021:

		2022	2021	Redemption frequency (if currently eligible)	Redemption notice period (if currently eligible)
Absolute return	$	39,667,361	41,058,748	Quarterly to two years	45-90
Equity		81,724,058	102,753,032	Monthly to quarterly	30
Hedge funds		25,208,584	33,232,697	Quarterly to annual	60-90
Private equity		13,355,123	7,902,143	NA	NA
Total	$	159,955,126	184,946,620		

(5) Land, Buildings, and Equipment

Land, buildings, and equipment at August 31, 2022 and 2021 are comprised of the following:

		2022	2021
Land	$	21,898,620	21,898,620
Buildings and improvements		335,046,857	331,184,918
Furnishings and equipment		38,333,551	39,873,447
Library collections		12,933,289	12,933,289
Museum and art collections		19,082,830	18,127,798
Construction in process		5,734,126	2,211,964
		433,029,273	426,230,036
Less accumulated depreciation		223,848,897	211,723,498
	$	209,180,376	214,506,538

Outstanding commitments for construction contracts amounted to $2,272,938 and $567,162 at August 31, 2022 and 2021, respectively. Depreciation expense was $14,234,795 and $15,112,072 for the years ended August 31, 2022 and 2021, respectively.

(6) Leases

The College has entered into various leasing arrangements with lessors for equipment and auxiliary building space. The College's lease portfolio contains both operating and finance leases and is primarily comprised of real estate leases.

The College recognizes lease liabilities and their corresponding right of use ("ROU") assets at the lease commencement date, and initially measures the lease liabilities and ROU assets using the present value of lease payments over the lease term, with adjustments made to ROU assets for any prepayments and rent abatements. During the years ended August 31, 2022 and 2021, the College used the BBB+ yield curve as the source for its discount rates to calculate liabilities, which corresponds to the College’s debt rating issued by Standard and Poor’s.

Lease costs for the years ended August 31, 2022 and 2021 are as follows:

Lease cost		2022	2021
Finance lease expense:			
Amortization of ROU assets	$	636,556	732,030
Interest on lease liabilities		14,068	58,399
Operating lease expense		24,435,933	24,384,162
Short-term lease expense		1,972,385	4,843,756
Variable lease expense		2,251	—
Total lease cost	$	27,061,193	30,018,347

Other supplemental lease information		2022	2021
Cash paid for amounts included in the measurement of lease liabilities:			
Operating cash flows for finance leases	$	16,817	73,096
Operating cash flows for operating leases		26,344,506	28,078,296
Financing cash flows for finance leases		283,174	1,022,190
Weighted average remaining lease term (years):			
Finance leases		2.4	2.9
Operating leases		5.6	6.4
Weighted average discount rate:			
Finance leases		2.5 %	2.7 %
Operating leases		2.5	2.0

(Continued)

A maturity analysis for finance and operating leases as of August 31, 2022 is as follows:

		Finance	Operating
Year ending August 31:			
2023	$	178,061	25,101,148
2024		178,061	25,725,007
2025		75,425	26,297,580
2026		—	24,680,680
2027		—	10,765,800
Thereafter		—	10,738,299
Total		431,547	123,308,514
Less present value discount		(13,751)	(15,735,184)
Lease liability	$	417,796	107,573,330

(7) Deferred Revenue and Refundable Deposits

The components of deferred revenue and refundable deposits as of August 31 are presented below:

		2022	2021
Tuition and housing deferred revenue	$	28,574,400	20,981,796
Deferred grant revenue		2,880,593	8,858,684
Refundable deposits		652,680	607,407
	$	32,107,673	30,447,887

Tuition and housing deferred revenue and refundable deposits are recognized ratably as revenue over the subsequent fiscal year in which the academic programs are delivered and housing services are provided. Deferred grant revenue is recognized as revenue when qualifying expenditures are incurred.

(Continued)

(8) Long-Term Debt

Long-term debt at August 31, 2022 and 2021 is as follows:

		2022	2021
IFA first mortgage notes:			
Series 2000 issued April 1, 2000	$	5,700,000	5,700,000
Series 2015 issued October 15, 2015		50,780,000	52,825,000
Series 2019 issued November 20, 2019		18,035,000	18,035,000
		74,515,000	76,560,000
Unamortized premiums:			
Series 2015		1,692,716	1,803,714
Series 2019		2,128,270	2,206,371
Unamortized bond issuance costs		(895,954)	(965,043)
	$	77,440,032	79,605,042

Maturities of long-term debt outstanding at August 31, 2022 are as follows:

		FY 2023	FY 2024	FY 2025	FY 2026	FY 2027	Thereafter	Total
Series 2000	$	—	—	—	—	—	5,700,000	5,700,000
Series 2015		2,135,000	2,245,000	2,360,000	2,480,000	2,610,000	38,950,000	50,780,000
Series 2019		—	—	—	370,000	390,000	17,275,000	18,035,000
	$	2,135,000	2,245,000	2,360,000	2,850,000	3,000,000	61,925,000	74,515,000

All first mortgage notes were issued by the Illinois Finance Authority (IFA) to finance the costs of the acquisition, construction, renovation, and equipping of educational or student housing facilities and are secured by such facilities. Interest rates, except for the Series 2000, are fixed rates ranging from 1.38% to 5.00%. Interest payments are due semiannually except for the Series 2000 mortgage notes on which interest is due monthly.

Effective as of November 20, 2019, the College issued $18,035,000 Illinois Finance Authority Revenue Bonds, the proceeds of which were used to reimburse the College for a portion of the student center construction that was completed in September 2019 (Series 2019 Bonds).

In October 2015, the College issued $50,490,000 Illinois Finance Authority Revenue Refunding Bonds, Series 2015A and $7,975,000 Illinois Finance Authority Taxable Revenue Refunding Bonds, Series 2015B (Series 2015 Bonds). The proceeds were used to refund all of the outstanding Illinois Finance Authority Revenue Bonds, Series 2003, Series 2007, and Series 2011; and to pay certain costs of issuance of the bonds. The transaction also generated a $2,359,000 premium on the Series 2015A bonds. Interest rates on the bonds range from 2.00% to 5.00%.

Included in long-term debt are general obligation variable rate demand bonds, maturing on June 30, 2030, of $5,700,000 at August 31, 2022 and 2021. The bonds are marketed weekly by a remarketing agent, and the interest rate is reset each week based on current market conditions. The interest rates for the weeks ended August 31, 2022 and 2021 were 1.52% and 0.03%, respectively. In the event that the agent is unable to remarket the bonds, the bonds become a demand note under an irrevocable letter of credit issued by BMO Harris Bank. This is to provide the necessary credit enhancement and liquidity that make the Series 2000 Bonds marketable at a reasonable interest cost. The amount available under this reimbursement agreement was $5,754,658 as of August 31, 2022 and 2021. The reimbursement agreement carries an interest rate equal to the prime rate (6.25% at August 31, 2022 and 3.25% at August 31, 2021) in effect at the time of use. The reimbursement agreement and letter of credit are for a two-year term. The reimbursement agreement and letter of credit are payable in quarterly installments over the remaining life of the agreement commencing on the first quarterly date within 60 days after the letter of credit is used. As of August 31, 2022 and 2021, no amounts have been drawn on the letter of credit. The letter of credit is valid through July 1, 2023. Should the irrevocable letter of credit not be renewed, an alternative credit facility must be obtained, or the bonds require immediate repayment.

The irrevocable letter of credit is subject to certain financial covenants, the most restrictive of which include net asset ratio restrictions, cash and investment restrictions, and a debt service limitation. Except for the Series 2000 debt service limitation covenant for which a waiver dated October 14, 2022 was issued, management believes that these debt covenants were met as of August 31, 2022.

(9) Employee Benefit Plans

(a) Columbia College Pension Plan

The College has a defined-benefit pension plan, the Columbia College Chicago Pension Plan, covering all eligible employees. The College has received a determination letter from the IRS, indicating that the plan is exempt from tax under the applicable provisions of the Internal Revenue Code.

On May 7, 2003, all eligible employees were given notice, as required by Section 204(h) of the Employee Retirement Income Security Act of 1974, that the plan was amended to end all benefit accruals effective June 23, 2003, prior to the accumulation of an additional benefit accrual earned for the 2003 calendar year. Therefore, the pension plan was effectively frozen at the amounts determined as of December 31, 2002.

The College adheres to FASB ASU No. 2017-07, *Compensation – Retirement Benefits (Topic 715): Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost,* which requires the service cost component of the net periodic pension cost to be reported in the same line item as employee benefit costs on the statements of activities. Other components of net periodic pension cost are presented in the statements of activities separately from the service cost component and outside of nonoperating activities.

The following table sets forth the Columbia College Pension Plan's funded status and amounts recognized in the College's financial statements at August 31, 2022 and 2021, as determined at the measurement dates of August 31, 2022 and 2021:

		2022	2021
Change in benefit obligation:			
Benefit obligation at beginning of year	$	39,351,721	42,742,108
Interest cost		966,200	992,970
Actuarial (gain)/loss		(6,782,780)	(420,493)
Benefits paid		(2,506,697)	(3,962,864)
Benefit obligation at end of year		31,028,444	39,351,721
Change in fair value of plan assets:			
Fair value of plan assets at beginning of year		41,169,149	43,418,907
Actual gain (loss) on plan assets		(8,818,400)	1,713,106
Employer contributions		—	—
Benefits paid		(2,506,697)	(3,962,864)
Fair value of plan assets at end of year		29,844,052	41,169,149
Funded status recognized on the balance sheets	$	(1,184,392)	1,817,428

The accumulated benefit obligation for the plan was $31,028,444 and $39,351,721 at August 31, 2022 and 2021, respectively. A significant amount of the actuarial gain in the change in benefit obligation for the year ended August 31, 2022 is related to an increase in the discount rate.

Net periodic pension cost for the plan for the fiscal years ended August 31, 2022 and 2021 included the following components:

		2022	2021
Interest cost on projected benefit obligation	$	966,200	992,970
Expected return on plan assets		(1,565,179)	(1,661,877)
Net amortization and deferral		778,759	972,549
Impact of plan settlements		—	601,336
Net periodic pension cost	$	179,780	904,978

Discount rates of 4.63% and 2.59% were used in determining the actuarial present value of the projected benefit obligations for fiscal years 2022 and 2021, respectively. The expected long-term rate of return on assets was 4% for fiscal years 2022 and 2021 and is based on analysis of actual and projected rates of return. Because the plan is frozen and new benefits are not accruing, the projected salary increase to normal retirement age for all employees for fiscal years 2022 and 2021 was 0.

Weighted average asset allocation by asset category is as follows:

	2022	2021
Bonds	95 %	94 %
Equities	5	6

The plan achieves its asset allocation by investing in two bond funds as well as an index fund. The bond funds invest in medium to high-grade corporate bonds, with one focusing on intermediate-term corporate bonds and the other on long-term corporate bonds. The index fund represents stocks of all S&P 500 companies. The plan's investments are all Level 1 investments and are stated at fair value as of the fiscal year-end.

The College made no contributions to the plan during fiscal years 2022 and 2021.

The following benefit payments, which reflect expected future service, are expected to be paid for each of the fiscal years ending August 31:

Fiscal year(s)	Amount
2023	$ 3,958,173
2024	2,483,361
2025	2,945,718
2026	2,473,883
2027	2,155,828
2028–2032	10,895,731

(b) Columbia College Employees' Retirement Trust

Effective January 1, 2003, the College instituted a new defined-contribution plan, the Columbia College Chicago Employees' Retirement Plan (the Plan). The Columbia College Chicago Employees' Retirement Trust has been established to implement the Plan.

The amount contributed annually by the College to the trust will be distributed to eligible employees based on years of service and age. No participant contributions are necessary to receive the employer contributions. The College made contributions to participant accounts of $4,040,791 and $2,699,195 during fiscal years 2022 and 2021, respectively, which are reported in employee benefits expenses.

(10) Contingencies

The College is a defendant in various litigation matters arising in the normal course of business. In the opinion of management, the ultimate resolution of all such litigation matters will not have a material effect on the financial position or activities of the College.

(Continued)

(11) Net Assets

Net assets at August 31 are comprised of the following:

		2022	2021
Amounts without donor restrictions:			
Board-designated for endowment	$	180,129,772	221,303,487
Undesignated		136,859,202	166,233,622
Total net assets without donor restrictions		316,988,974	387,537,109
Amounts with donor restrictions:			
Amounts restricted by time or purpose:			
Endowment returns subject to future appropriation		3,260,405	5,767,428
Academic programs		648,209	662,474
Scholarships		2,595,152	2,297,341
Community		1,093,184	1,082,687
Facility		1,612,849	1,768,531
Subtotal		9,209,799	11,578,461
Amounts with perpetual restrictions:			
Endowment		8,681,666	8,543,606
Total net assets with donor restrictions		17,891,465	20,122,067
Total net assets	$	334,880,439	407,659,176

(12) Contributed Nonfinancial Assets

For the years ended August 31, contributed nonfinancial assets recognized within the College's statements of activities included:

		2022	2021	Utilization in Programs/ Activities	Donor Restrictions	Techniques
Auction Items	$	108,400	91,500	Photographs and prints used in annual fundraising gala	No associated donor restrictions	Independent professional consultant
Supplies, Services and Others		17,811	35,984	Fundraising gala and academic use	No associated donor restrictions	Actual or estimated cost
Works of Art		843,450	479,915	Photographs added to the permanent collection	No associated donor restrictions	Independent professional consultant
Total	$	969,661	607,399			

(13) Expenses by Functional Classifications

The College's primary activity is to provide academic programs. Student services, auxiliary and institutional support expenses are incurred in support of this mission. The College also incurs expenses related to programming that serves the local community.

In accordance with ASC Topic 958, the College recorded direct expenses by program and allocated operation and maintenance of plant to each functional expense category using a square footage allocation methodology for the years ended August 31, 2022 and 2021, as follows:

				2022			
		Educational activities	Student services	Public services	Auxiliaries	Support activities	Total
Operating expenses:							
Salaries and wages	$	47,687,593	11,971,779	927,860	760,853	14,950,065	76,298,150
Employee benefits		13,283,991	4,129,439	139,147	222,011	8,145,450	25,920,038
Supplies and services		5,629,710	12,037,694	447,237	4,043,344	5,673,206	27,831,191
Rent, utilities, and maintenance		8,543,484	2,839,616	276,028	25,311,838	4,238,878	41,209,844
Interest		1,080	—	—	6,915	3,768,672	3,776,667
Depreciation and amortization		10,281,484	2,668,440	356,013	56,962	1,319,352	14,682,251
Total	$	85,427,342	33,646,968	2,146,285	30,401,923	38,095,623	189,718,141

				2021			
		Educational activities	Student services	Public services	Auxiliaries	Support activities	Total
Operating expenses:							
Salaries and wages	$	47,027,698	11,632,827	1,274,422	709,294	12,669,672	73,313,913
Employee benefits		13,416,252	4,132,684	230,295	208,234	5,544,621	23,532,086
Supplies and services		3,902,991	9,992,507	267,720	3,722,804	4,911,896	22,797,918
Rent, utilities, and maintenance		8,036,365	1,944,812	253,948	29,079,645	3,304,065	42,618,835
Interest		1,406	—	—	9,145	4,017,868	4,028,419
Depreciation and amortization		11,089,891	2,794,407	383,947	57,723	1,329,034	15,655,002
Total	$	83,474,603	30,497,237	2,410,332	33,786,845	31,777,156	181,946,173

(14) Financial Assets and Liquidity Resources

The College actively monitors liquidity required to meet its general expenditures. General expenditures include operating expenses, principal and interest payments on debt, pension and retirement plan payments, and internally funded capital projects. The annual cash cycle has seasonal variations primarily related to the timing of tuition billings. Cash in excess of daily requirements is invested in highly liquid investment funds.

The financial assets of the College that could readily be made available for general expenditures within one year of August 31, 2022 and 2021 are as follows:

		2022	2021
Cash and cash equivalents	$	15,913,239	3,954,466
Student accounts receivable, net		672,131	425,455
Other receivables		932,444	1,417,571
Subsequent year's endowment distribution		10,336,000	9,493,000
Investments not subject to donor or board restrictions		44,919,163	75,618,024
Total financial assets available to meet general expenditures within one year	$	72,772,977	90,908,516

In addition to financial assets available to meet general expenditures in the year following August 31, 2022, a significant portion of the College's annual expenditures will be funded by current year operating revenues. Although the College does not intend to spend from its board-designated endowment other than amounts appropriated for general expenditures as part of its annual operating budget approval process, amounts from this fund could be made available if necessary.

(15) Net Asset Classification of Funds and Enhanced Disclosures for Endowment

The College's endowment includes both donor-restricted endowment funds and funds designated by the Board of Trustees to function as endowments. Net assets associated with endowment funds, including funds designated by the Board of Trustees to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

(a) Interpretation of Relevant Law

The Board of Trustees of the College has reviewed the Illinois Uniform Prudent Management of Institutional Funds Act (UPMIFA) and, having considered its rights and obligations thereunder, has chosen to require the preservation of the original value of a contribution of a donor-restricted endowment fund as of the gift date, absent explicit donor stipulations to the contrary. As a result, the College classifies as net assets with donor restrictions (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. Also included in net assets with donor restrictions is accumulated appreciation on donor-restricted endowments, which are available for expenditure subject to spending policies.

In accordance with UPMIFA, the College considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

1. The duration and preservation of the fund
2. The purposes of the College and the donor-restricted 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

The total long-term investments reported on the balance sheets include true endowments, funds functioning as endowment, and expendable gifts. Endowment net assets exclude the expendable gifts included in the long-term investments.

Endowment net assets consist of the following at August 31, 2022:

		2022		
		Without donor restrictions	With donor restrictions	Total
Donor-restricted endowment funds	$	—	11,942,069	11,942,069
Board-designated endowment funds		180,129,772	—	180,129,772
Total endowment net assets	$	180,129,772	11,942,069	192,071,841

Endowment net assets consist of the following at August 31, 2021:

		2021		
		Without donor restrictions	With donor restrictions	Total
Donor-restricted endowment funds	$	—	14,311,037	14,311,037
Board-designated endowment funds		221,303,487	—	221,303,487
Total endowment net assets	$	221,303,487	14,311,037	235,614,524

(Continued)

Changes in endowment net assets for the year ended August 31, 2022 are as follows:

	2022		
	Without donor restrictions	With donor restrictions	Total
Endowment net assets, August 31, 2021	$ 221,303,487	14,311,037	235,614,524
Investment returns, net	(31,682,040)	(2,097,492)	(33,779,532)
Contributions	(270,151)	119,260	(150,891)
Change in donor designation	271,476	18,800	290,276
Appropriation for expenditure	(9,493,000)	(409,536)	(9,902,536)
Endowment net assets, August 31, 2022	$ 180,129,772	11,942,069	192,071,841

Changes in endowment net assets for the year ended August 31, 2021 are as follows:

	2021		
	Without donor restrictions	With donor restrictions	Total
Endowment net assets, August 31, 2020	$ 190,256,902	11,420,512	201,677,414
Investment returns, net	40,200,638	2,589,451	42,790,089
Contributions	67,016	497,023	564,039
Change in donor designation	(301,069)	137,800	(163,269)
Appropriation for expenditure	(8,920,000)	(333,749)	(9,253,749)
Endowment net assets, August 31, 2021	$ 221,303,487	14,311,037	235,614,524

(b) 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. Deficiencies of this nature, referred to as underwater endowments, are reported in net assets with donor restrictions. In the event an endowment falls underwater, current management practice is to disallow spending from the fund until the fair value of the endowment fund exceeds the original gift amount. Underwater funds were $11,895 and $0 as of August 31, 2022 and 2021, respectively.

(c) Return Objective 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. Endowment assets include those assets of donor-restricted funds that the College must hold in perpetuity or for a donor-specified period 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 annual Consumer Price Index (CPI) by 5%, while assuming a risk level that is consistent with the risk associated with the above benchmark. Based on the investment policy, the College expects its endowment funds, over its stated investment horizon of 10 years, to provide an average annual real rate of return of approximately 5% plus the CPI. Actual returns in any given year may vary from this amount.

(d) 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 emphasis on investments in global equities, absolute return strategies, hedge funds and private equity.

(e) Spending Policy and How the Investment Objectives Relate to Spending Policy

The purpose of endowment funds is to facilitate donor's desires to make substantial long-term gifts to the College and to develop a new and significant source of revenue to the College. In doing so, the endowment is designed to provide a secure, long-term source of funds to (a) fund special programs; (b) ensure long-term growth, and (c) support the administrative expenses of the College as deemed appropriate.

To achieve these goals, the College has a policy of appropriating for distribution each year up to 7% of its endowment funds' average fair value using the three years prior to the budget year. Under the policy adopted by the College, interest, dividends, and appreciation on investments held in the investment pool are made available for spending. The Board of Trustees set the endowment distribution at $409,536 for fiscal year 2022 and $333,749 for fiscal year 2021. In addition, the Board of Trustees approved a distribution from board-designated endowments of approximately $9.5 million in 2022 and $8.9 million in 2021 to be used for operations.

(16) Subsequent Events

In connection with the preparation of the financial statements and in accordance with FASB ASC Topic 855, *Subsequent Events*, management evaluated subsequent events after the balance sheet date of August 31, 2022 through January 19, 2023, the date when the financial statements were issued.

Effective December 21, 2022, the College entered into a renewable, 364-day credit facility with a financial institution under which the College can borrow up to $10,000,000 on a revolving basis. Borrowings under this facility bear interest at the one-month term secured overnight financing rate plus 1.25%. The facility also carries an unused fee of 0.15%. The credit facility contains the same security and covenants as the College's current master trust indenture.