

NORTH CENTRAL COLLEGE

Naperville, Illinois

FINANCIAL STATEMENTS

June 30, 2023 and 2022

NORTH CENTRAL COLLEGE

FINANCIAL STATEMENTS
June 30, 2023 and 2022

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INDEPENDENT AUDITOR'S REPORT

The Board of Trustees
North Central College
Naperville, Illinois

Opinion

We have audited the financial statements of North Central College (the "College"), which comprise the statements of financial position as of June 30, 2023 and 2022, 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 North Central College as of June 30, 2023 and 2022, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

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 Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the College and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our 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 accounting principles generally accepted in the United States of America, 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 from the date the financial statements are available to be issued.

(Continued)

Auditor's Responsibilities for the Audit of the Financial Statements

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

In performing an audit in accordance with GAAS, we:

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

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

A handwritten signature in black ink that reads "Crowe LLP". The letters are cursive and slightly slanted to the right.

Crowe LLP

Chicago, Illinois
October 30, 2023

NORTH CENTRAL COLLEGE
STATEMENTS OF FINANCIAL POSITION
June 30, 2023 and 2022

| | <u>2023</u> | <u>2022</u> |
|--|---------------------------|---------------------------|
| Assets | | |
| Cash and cash equivalents | \$ 29,793,557 | \$ 29,438,276 |
| Cash held in trust | - | 4,195,271 |
| Student accounts receivable, net of allowance | 1,778,081 | 1,887,357 |
| Prepaid expense, other receivables and other assets | 2,153,611 | 3,041,122 |
| Pledges receivable, net of allowance | 1,148,037 | 1,779,338 |
| Investments | 127,440,737 | 117,699,348 |
| Interest rate swap agreement | 1,402,832 | - |
| Student loans receivable, net of allowance | 4,757,500 | 5,300,420 |
| Beneficial interest in charitable remainder trust | 166,735 | 170,400 |
| Perpetual trust held by a third party | 1,179,880 | 1,100,030 |
| Land, buildings and equipment, net | <u>192,434,987</u> | <u>196,289,102</u> |
| Total assets | <u>\$ 362,255,957</u> | <u>\$ 360,900,664</u> |
| Liabilities and net assets | | |
| Liabilities | | |
| Accounts payable, accrued liabilities and refundable deposits | \$ 6,092,203 | \$ 6,480,654 |
| Deferred revenue | 4,038,320 | 2,053,870 |
| Split-interest agreement liabilities | 1,029,370 | 1,073,894 |
| Refundable loan funds (Perkins loan) | 258,401 | 402,055 |
| Interest rate swap agreement | - | 675,568 |
| Other long-term liabilities | - | 452,934 |
| Bonds payable | <u>81,921,599</u> | <u>83,519,905</u> |
| Total liabilities | <u>93,339,893</u> | <u>94,658,880</u> |
| Net assets | | |
| Without donor restrictions | 176,788,071 | 180,244,265 |
| With donor restrictions | <u>92,127,993</u> | <u>85,997,519</u> |
| Total net assets | <u>268,916,064</u> | <u>266,241,784</u> |
| Total liabilities and net assets | <u>\$ 362,255,957</u> | <u>\$ 360,900,664</u> |

See notes to financial statements.

NORTH CENTRAL COLLEGE
STATEMENT OF ACTIVITIES
Year ended June 30, 2023

| | 2023 | | |
|---|-------------------------------|----------------------------|-----------------------|
| | Without Donor Restrictions | With Donor Restrictions | Total |
| Revenues | | | |
| Net tuition and fees | \$ 47,481,220 | \$ - | \$ 47,481,220 |
| Contributions | 1,217,862 | 6,246,186 | 7,464,048 |
| Grants | 1,691,251 | 1,266,407 | 2,957,658 |
| Endowment returns designated for spending | 2,914,424 | 3,431,647 | 6,346,071 |
| Other support | | | |
| Auxiliary enterprises | 16,074,460 | - | 16,074,460 |
| Rental | 1,382,110 | - | 1,382,110 |
| Other sources | 2,503,072 | 30,713 | 2,533,785 |
| Net assets released from restrictions and changes in donor restrictions | <u>6,637,414</u> | <u>(6,637,414)</u> | <u>-</u> |
| Total revenues and other support | 79,901,813 | 4,337,539 | 84,239,352 |
| Expenses | | | |
| Instruction | 33,543,387 | - | 33,543,387 |
| Academic support | 7,674,546 | - | 7,674,546 |
| Intercollegiate athletics | 6,756,389 | - | 6,756,389 |
| Student services | 9,597,622 | - | 9,597,622 |
| Institutional support | 14,105,658 | - | 14,105,658 |
| Auxiliary enterprises | <u>16,786,086</u> | <u>-</u> | <u>16,786,086</u> |
| Total expenses | <u>88,463,688</u> | <u>-</u> | <u>88,463,688</u> |
| Change in net assets before other changes | (8,561,875) | 4,337,539 | (4,224,336) |
| Other changes in net assets | | | |
| Investment return | 1,953,433 | 2,303,223 | 4,256,656 |
| Unrealized investment gain | 3,194,364 | 4,550,233 | 7,744,597 |
| Endowment returns designated for spending | (2,914,424) | (3,431,647) | (6,346,071) |
| Change in fair value of interest rate swap agreement | 2,078,400 | - | 2,078,400 |
| Change in value of split-interest agreements | - | 245,005 | 245,005 |
| Loss on asset disposal | (814,168) | (250,000) | (1,064,168) |
| Net assets released from restrictions - capital | 1,623,879 | (1,623,879) | - |
| Other losses | <u>(15,803)</u> | <u>-</u> | <u>(15,803)</u> |
| Change in net assets | <u>(3,456,194)</u> | <u>6,130,474</u> | <u>2,674,280</u> |
| Net assets | | | |
| Beginning of year | <u>180,244,265</u> | <u>85,997,519</u> | <u>266,241,784</u> |
| End of year | <u>\$ 176,788,071</u> | <u>\$ 92,127,993</u> | <u>\$ 268,916,064</u> |

See notes to financial statements.

NORTH CENTRAL COLLEGE
STATEMENT OF ACTIVITIES
Year ended June 30, 2022

| | 2022 | | |
|---|---------------------------------------|------------------------------------|-----------------------|
| | <u>Without Donor Restrictions</u> | <u>With Donor Restrictions</u> | <u>Total</u> |
| Revenues | | | |
| Net tuition and fees | \$ 46,316,447 | \$ - | \$ 46,316,447 |
| Contributions | 5,955,584 | 2,907,113 | 8,862,697 |
| Grants | 4,885,288 | 1,806,651 | 6,691,939 |
| Endowment returns designated for spending | 2,434,037 | 3,443,466 | 5,877,503 |
| Other support | | | |
| Auxiliary enterprises | 15,681,268 | - | 15,681,268 |
| Rental | 549,611 | - | 549,611 |
| Other sources | 1,734,974 | 123,092 | 1,858,066 |
| Net assets released from restrictions and changes in donor restrictions | <u>6,283,340</u> | <u>(6,283,340)</u> | <u>-</u> |
| Total revenues and other support | 83,840,549 | 1,996,982 | 85,837,531 |
| Expenses | | | |
| Instruction | 30,597,354 | - | 30,597,354 |
| Academic support | 6,595,956 | - | 6,595,956 |
| Intercollegiate athletics | 6,423,266 | - | 6,423,266 |
| Student services | 11,919,124 | - | 11,919,124 |
| Institutional support | 14,139,309 | - | 14,139,309 |
| Auxiliary enterprises | <u>16,534,889</u> | <u>-</u> | <u>16,534,889</u> |
| Total expenses | <u>86,209,898</u> | <u>-</u> | <u>86,209,898</u> |
| Change in net assets before other changes | (2,369,349) | 1,996,982 | (372,367) |
| Other changes in net assets | | | |
| Investment return | 5,112,207 | 6,478,483 | 11,590,690 |
| Unrealized investment loss | (13,526,705) | (17,753,285) | (31,279,990) |
| Endowment returns designated for spending | (2,434,037) | (3,443,466) | (5,877,503) |
| Change in fair value of interest rate swap agreement | 5,658,856 | - | 5,658,856 |
| Change in value of split-interest agreements | - | (791,036) | (791,036) |
| Gain (loss) on asset disposal | 270,993 | (265,000) | 5,993 |
| Other losses | <u>(26,263)</u> | <u>-</u> | <u>(26,263)</u> |
| Change in net assets | <u>(7,314,298)</u> | <u>(13,777,322)</u> | <u>(21,091,620)</u> |
| Net assets | | | |
| Beginning of year | <u>187,558,563</u> | <u>99,774,841</u> | <u>287,333,404</u> |
| End of year | <u>\$ 180,244,265</u> | <u>\$ 85,997,519</u> | <u>\$ 266,241,784</u> |

See notes to financial statements.

NORTH CENTRAL COLLEGE
STATEMENTS OF CASH FLOWS
Years ended June 30, 2023 and 2022

| | <u>2023</u> | <u>2022</u> |
|---|-----------------------------|-----------------------------|
| Cash flows from operating activities | | |
| Change in net assets | \$ 2,674,280 | \$ (21,091,620) |
| Adjustments to reconcile change in net assets to net cash from operating activities | | |
| Change in pledge discount | (12,218) | 518 |
| Net loss (gain) on asset disposal | 1,064,168 | (5,993) |
| Allowance for doubtful accounts | (6,706) | (790,444) |
| Change in value of remainder and lead trusts | 3,665 | 21,657 |
| Perpetual trust held by third party | (79,850) | 294,364 |
| Change in fair value of interest rate swap agreements | (2,078,400) | (5,658,856) |
| Change in amounts payable under split-interest agreement | (44,524) | (310,595) |
| Realized and unrealized loss (gain) on marketable securities | (9,330,300) | 21,642,705 |
| Depreciation and amortization | 8,422,049 | 7,778,276 |
| Contributions restricted for permanent investment | (3,655,451) | (945,394) |
| Investment income earned from permanent investment | (55,260) | (59,828) |
| Changes in operating assets and liabilities | | |
| Student accounts receivable | (9,584) | 1,843,001 |
| Prepaid expenses, other receivables and other assets | 887,511 | (1,293,434) |
| Pledges receivable | 659,706 | 1,053,028 |
| Accounts payable, accrued liabilities, and refundable deposits | (388,451) | (2,091,147) |
| Other long-term liabilities | (452,934) | (564,422) |
| Deferred revenue | 1,984,450 | (371,496) |
| Refundable loan funds (Perkins loan) | (143,654) | (177,954) |
| Net cash from operating activities | <u>(561,503)</u> | <u>(727,634)</u> |
| Cash flows from investing activities | | |
| Purchases of land, buildings, and equipment | (5,632,102) | (9,265,240) |
| Purchases of investments | (27,784,968) | (41,307,566) |
| Proceeds from sales of investments | 27,373,879 | 45,728,728 |
| Student loan receivable | 652,299 | 164,452 |
| Net cash from investing activities | <u>(5,390,892)</u> | <u>(4,679,626)</u> |
| Cash flows from financing activities | | |
| Proceeds from contributions restricted for investment in endowment | 3,655,451 | 945,394 |
| Investment income earned from permanent investment | 55,260 | 59,828 |
| Repayment of bonds | (1,598,306) | (7,004,309) |
| Net cash from financing activities | <u>2,112,405</u> | <u>(5,999,087)</u> |
| Net change in cash and cash equivalents, and cash held in trust | (3,839,990) | (11,406,347) |
| Cash and cash equivalents, and cash held in trust, at beginning of year | <u>33,633,547</u> | <u>45,039,894</u> |
| Cash and cash equivalents, and cash held in trust, at end of year | <u>\$ 29,793,557</u> | <u>\$ 33,633,547</u> |
| Supplemental disclosures of cash flow information | | |
| Cash paid during the year for interest | \$ 2,444,987 | \$ 2,455,878 |
| Supplemental disclosures of noncash investing and financing activities | | |
| Construction in progress included in accounts payable | \$ 305,095 | \$ 244,496 |

See notes to financial statements.

NORTH CENTRAL COLLEGE
NOTES TO FINANCIAL STATEMENTS
June 30, 2023 and 2022

NOTE 1 - DESCRIPTION OF ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Founded in 1861, North Central College (the College) is an independent college dedicated to the power of the liberal arts and sciences to transform students into leaders both in their careers and communities. Our nearly 3,000 students study across more than 65 undergraduate and graduate programs, with their education made richer by supportive faculty and staff, world-class facilities and countless opportunities to learn beyond the classroom.

The College is accredited by the North Central Association of Colleges and Schools and has been in continuous operation since its founding. The College is also accredited by the University Senate of the United Methodist Church.

Basis of Presentation: The financial statements of the College have been prepared in accordance with accounting principles generally accepted in the United States of America. These financial statements, presented on the accrual basis of accounting, have been prepared to focus on the College as a whole, and present balances and transactions classified according to the existence or absence of donor-imposed restrictions. This presentation has been accomplished by classifying net assets and activities into two classes: with donor restrictions or without donor restrictions.

Classification of Net Assets: The accompanying financial statements have been prepared to present balances and transactions according to the existence or absence of donor-imposed restrictions. Accordingly, net assets and changes therein are classified as follows:

Net assets without donor restrictions are not subject to donor-imposed stipulations. Net assets without donor restrictions may be designated for specific purposes by actions of the Board of Trustees or may otherwise be limited by contractual agreements with outside parties. Board-designated net assets consist solely of board-designated endowments, which total \$52,158,552 and \$50,339,170 for the years ended June 30, 2023 and 2022, respectively. See Note 6.

Net assets with donor restrictions are subject to donor-imposed stipulations that can be fulfilled by actions of the College pursuant to those stipulations or expire by the passage of time. Also, net assets with donor restrictions are subject to donor-imposed stipulations that the funds be maintained permanently by the College. Generally, the donors of these assets permit the College to use all or part of the income earned on these assets. Such assets primarily include the College's permanent endowment and certain loan funds.

Student Tuition and Fees: Revenue includes all tuition and fees assessed for academic services rendered on campus and online, net of any refunds and discounts recognized. The College recognizes revenue for academic services over the applicable academic period. Scholarships provided to students by the College are reflected as a reduction of gross tuition and fees. Scholarships totaled \$58,026,367 and \$56,866,687 for the years ended June 30, 2023 and 2022, respectively.

The College maintains an institutional tuition refund policy, which provides for all or a portion of tuition and fees to be refunded if a student withdraws during the stated refund period. The College does not record revenue on amounts that are expected to be refunded.

Private Gifts: Private gifts, including unconditional pledges, that are not considered exchange transactions are recognized in the period received. Conditional gifts, with a barrier and right of return, are not recognized until the conditions on which they depend are substantially met or explicitly waived by the donor.

(Continued)

NORTH CENTRAL COLLEGE
NOTES TO FINANCIAL STATEMENTS
June 30, 2023 and 2022

NOTE 1 - DESCRIPTION OF ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Grants: Revenue from grant agreements is recognized as expenditures are incurred in accordance with the agreement, since expenditure in accordance with award terms typically results in the simultaneous achievement of conditions imposed by the grantor. Grant amounts received in advance of services are reported as deferred revenue in the statements of financial position.

Auxiliary Enterprises: The College's auxiliary enterprises consist primarily of residence halls and dining services provided to students. The College recognizes revenue for housing and dining services proportionately over the applicable academic period. The College typically recognizes revenue from other sales and services of auxiliary enterprises at the point in time sales occur or as services are rendered. There is no deferred revenue related to auxiliary enterprises as of year-end because housing and dining contracts with students do not extend beyond the end of the fiscal year.

Contributions: Contributions, including unconditional promises to give and grants accounted for as contributions, are recognized as revenues when the donor's commitment is received. Unconditional promises are recognized at the present value of expected future cash flows net of allowances. Promises made and collected in the same reporting period are recorded when received in the appropriate net asset category. Promises of non-cash assets are recorded at their estimated fair value. Conditional promises, with a barrier and right of return, are not recognized until the conditions on which they depend are substantially met or explicitly waived by the donor.

Cash and Cash Equivalents: Cash and cash equivalents are reported at cost, which approximates fair value. Cash equivalents represent short-term investments with original maturities of three months or less.

The College maintains its cash balance in financial institutions which, at times, may exceed federally insured limits. The College has not experienced any losses in such accounts and believes it is not exposed to any significant credit risk on cash.

Cash Held in Trust: Cash held in trust includes amounts held by the bond trustee pursuant to the trust indenture and is available for qualified capital projects as defined by the bond documents.

Student Accounts Receivable: The majority of the College's accounts receivable are due from students of the College for tuition, room, board and fees. Credit is extended based on evaluation of a student's financial condition and collateral is not required. Student accounts receivables are stated at amounts due, net of an allowance for doubtful accounts. Accounts outstanding longer than the contractual payment terms are considered past due. The College determines its allowance for doubtful accounts by considering a number of factors, including the length of time accounts receivable are past due, the College's previous loss history and the individual student's current ability to pay his or her obligation to the College. The receivables are charged to the allowance for uncollectible accounts when they are deemed uncollectible. The College does not charge interest on past due student accounts receivable.

Concentration of credit risk with respect to student accounts receivable is limited due to the large number of accounts and low average outstanding balance.

Investments: Investments are stated at fair value. The fair value of publicly traded securities is based upon quoted market prices. Other securities for which no such quotations or valuations are readily available are carried at estimated fair values. The estimated fair value of these investments is based on valuations provided by external investment managers and reviewed by management. The College believes the carrying amount of these financial instruments is a reasonable estimate of fair value. Because these investments are not readily marketable, their estimated value is subject to uncertainty and therefore may differ from the value that would have been used had a ready market for such investments existed. Such differences could be material. Securities contributed to the College are recorded at fair value on the date of the gift.

(Continued)

NOTE 1 - DESCRIPTION OF ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Changes in fair value are recorded as unrealized gains or losses on investments.

Land, Buildings and Equipment: Land, buildings and equipment are stated at cost at the date of acquisition or estimated fair value at the date of donation less accumulated depreciation. Only major replacements and improvements are capitalized.

Depreciation is computed over estimated useful lives of the assets using the straight-line method. Buildings and improvements are depreciated over 10 to 45 years.

Furniture and equipment is capitalized when its purchase price is greater than \$5,000 and it has a useful life of more than two years. In addition, items that are part of a group purchase with a useful life greater than two years may also be capitalized even though individually the items may fall under the \$5,000 threshold. Furniture and equipment is depreciated over a range of 3 to 20 years.

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

Deferred Revenue: The majority of deferred revenue represents students' tuition for the summer term and other College programs, received in advance, to be recognized as revenue in the period the performance obligation is met. Such amounts are recorded as tuition and fees when the performance obligation is met.

Also included in deferred revenue are the following: (1) summer camp fees received prior to year-end for camps occurring in July or August of the subsequent fiscal year, (2) Fine Arts subscriptions and single ticket sales for shows taking place in the following fiscal year, (3) advanced payments for study abroad programs starting on or after July 1, and (4) unspent grant receipts.

Perpetual Trust Held by a Third Party: The perpetual trust balance represents funds that are held and administered by an outside trustee. These funds represent certain endowed scholarship funds. The trust assets totaled \$1,179,880 and \$1,100,030 at June 30, 2023 and 2022, respectively.

Beneficial Interest in Charitable Remainder Trusts Held by Third Parties: The College is a beneficiary of certain remainder trusts that are controlled by independent trustees. The beneficial interest in the trusts are measured at fair value of the trust's investments less an aggregate actuarial liability. The College's beneficial interest in trusts with donor restrictions totaled \$166,735 and \$170,400 at June 30, 2023 and 2022, respectively.

Split-interest Agreements: The College also serves as trustee of irrevocable charitable remainder trusts and administers charitable annuities. Assets held in these trusts and annuities are included in investments at fair value. Such assets totaled \$3,854,142 and \$3,563,110 at June 30, 2023 and 2022, respectively. Contribution revenues are recognized at the date the trusts are established after recording liabilities for the present value of the estimated future payments to be made to beneficiaries. Amounts payable under charitable trusts and annuities represent the present value of the aggregate liability for charitable trust payments to be made over the term of the trust or the expected lives of the beneficiaries. The discount rates used to calculate the liability for present value of estimated future payments under the charitable trusts were 4.2% and 3.6% in 2023 and 2022, respectively.

(Continued)

NOTE 1 - DESCRIPTION OF ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Interest Rate Swap Agreement: The College uses interest rate swap agreements to manage the impact of interest rate changes on underlying floating-rate debt. The College's swap portfolio consists of a pay fixed/receive floating swap, which synthetically converts a floating-rate obligation into a fixed-rate instrument.

The College accounts for its interest rate swaps by using Financial Accounting Standards Board (FASB) guidance that defines accounting for derivative instruments and hedging activities. Accordingly, the College has recorded its interest rate swap on the statements of financial position based on fair value. If the fair value is positive, the interest rate swap agreement will be listed in the asset section of the statements of financial position and if the fair value is negative, the interest rate swap agreement will be listed in the liabilities section of the statements of financial position. Changes in fair value are recorded as other changes in net assets in the statements of activities.

Endowment Spending Rate Policy: The College's endowment fund investments are managed to achieve the maximum long-term total return. The College's Board of Trustees has authorized a policy permitting the use of total returns at a rate (spending rate) of up to 6.0% of the average market value of the endowment portfolio on the last day of the three preceding fiscal years for current operations. The remainder is retained to support operations in future years. This policy is designed to preserve the value of the portfolio in real terms (after inflation) and provide a predictable flow of funds to support operations currently and into the future. The actual spending rate was 4.33% and 4.00% in 2023 and 2022, respectively.

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.

Tax Status: The College has received a favorable determination letter from the Internal Revenue Service, stating that it is a not-for-profit entity, as described in Section 501(c)(3) of the Internal Revenue Code (IRC) of 1986, and is exempt from federal income taxes on related income pursuant to Section 501(a) of the IRC, except for income taxes pertaining to unrelated business income.

Fair Value Measurements: Accounting principles generally accepted in the United States of America define fair value measurements, establish a framework for measuring fair value, establish a fair value hierarchy based on the inputs used to measure fair value and enhance disclosure requirements for fair value measurements. Furthermore, the College maximizes the use of observable inputs and minimizes the use of unobservable inputs by requiring that the observable inputs be used when available.

Observable inputs are inputs that market participants would use in pricing the asset or liability based on market data obtained from independent sources. Unobservable inputs reflect assumptions that market participants would use in pricing the asset or liability based on the best information available in the circumstances. The fair value hierarchy is broken down into three levels based on the transparency of inputs as follows:

Level 1 - Quoted prices are available in active markets for identical assets or liabilities as of the report date. A quoted price for an identical asset or liability in an active market provides the most reliable fair value measurement because it is directly observable to the market. These include active listed equities.

(Continued)

NOTE 1 - DESCRIPTION OF ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Level 2 - Pricing inputs other than quoted prices in active markets, which are either directly or indirectly observable as of the report date. The nature of these securities includes investments for which quoted prices are available but which are traded less frequently and investments that are valued using other securities, the parameters of which can be directly observed. The interest rate swap agreements qualify as a Level 2 fair value measurement. Also included in Level 2 are corporate bonds, and government and agency obligations.

Level 3 - Securities and trusts that have little to no observable pricing as of the report date. These instruments are measured using management's best estimate of fair value, where the inputs into the determination of fair value are not observable and require significant management judgment or estimation. These primarily consist of trust receivable accounts. The inputs used by the College in estimating the value of Level 3 instruments is the fair value of the assets held by the trusts, less any projected obligations to the donor beneficiary.

In general, where available and appropriate, alternative investments, which generally do not have a readily determinable fair value, are valued using fund net asset values per share or ownership interest (NAVs). Fair value is discussed further in Note 5.

The College recognizes transfers between levels at the end of the reporting period.

Higher Education Emergency Relief Funds: Federal relief efforts have been created to help offset revenue losses and expense increases that colleges and universities faced because of COVID-19. The Coronavirus Aid, Relief, and Economic Security Act (CARES) created a Higher Education Emergency Relief Fund (HEERF) to provide financial relief to students and institutions impacted by the COVID-19 pandemic. The Coronavirus Response and Relief Supplemental Appropriations Act (CRRSAA) and the American Rescue Plan (ARP) provided additional rounds of HEERF (II and III). The HEERF funds contained two components, an institutional award and a student aid award. The student aid portion must be distributed to students in the form of emergency financial aid grants to generally cover any component of the cost of attendance for the distribution of education or emergency costs that arose due to COVID-19. The institutional portion can be used for multiple items, but primarily to cover lost revenue, defray and pay for expenses related to the disruption of campus operations due to COVID-19, and reimburse for costs associated with a transition to distance education environment, among other items. HEERF funds distributed as student aid was \$0 and \$3,260,416 for the years ending June 30, 2023, and 2022, respectively. The College applied \$1,672,351 and \$1,587,693 in institutional funds to provide telehealth services to students and replace lost revenue for the years ending June 30, 2023 and 2022, respectively.

(Continued)

NORTH CENTRAL COLLEGE
NOTES TO FINANCIAL STATEMENTS
June 30, 2023 and 2022

NOTE 2 - ALLOWANCE FOR DOUBTFUL ACCOUNTS

Changes in the College's allowance for doubtful accounts for the years ended June 30 are as follows:

| | <u>2023</u> | <u>2022</u> |
|---|---------------------|---------------------|
| Student accounts receivable allowance for doubtful accounts | | |
| Beginning balance | \$ 2,009,755 | \$ 2,893,358 |
| Bad debt expense | 239,110 | 586,320 |
| Bad debt recoveries (written off) | <u>(120,250)</u> | <u>(1,469,923)</u> |
| Ending balance | <u>\$ 2,128,615</u> | <u>\$ 2,009,755</u> |
| Student loan receivables allowance for doubtful accounts | | |
| Beginning balance | \$ 841,638 | \$ 722,140 |
| Bad debt expense | <u>(109,379)</u> | <u>119,498</u> |
| Ending balance | <u>\$ 732,259</u> | <u>\$ 841,638</u> |
| Pledges receivable allowance for doubtful accounts | | |
| Beginning balance | \$ 45,624 | \$ 71,963 |
| Allowance adjustment for pledges | <u>(16,187)</u> | <u>(26,339)</u> |
| Ending balance | <u>\$ 29,437</u> | <u>\$ 45,624</u> |

NOTE 3 - PLEDGES RECEIVABLE

Unconditional promises for which payments have not been received are included in the financial statements as pledges receivable and revenue in the appropriate net asset category. The College has discounted long-term pledges receivable to their estimated net present value, using discount rates ranging from 0.09% to 5.43%.

Pledge balances are written off at the time they are determined to be uncollectible. New unconditional promises to give are recorded when received. Based on historical analyses and a review of the donor's ability to pay, the College has determined that the allowance for doubtful accounts for pledges be maintained at a rate of approximately 2.50% of total pledges.

Unconditional promises are expected to be received in the following periods as of June 30:

| | <u>2023</u> | <u>2022</u> |
|--------------------------------------|---------------------|---------------------|
| In one year or less | \$ 779,709 | \$ 1,219,620 |
| Between two years and five years | <u>410,500</u> | <u>612,234</u> |
| | 1,190,209 | 1,831,854 |
| Less discount | (12,735) | (6,892) |
| Less allowance for doubtful accounts | <u>(29,437)</u> | <u>(45,624)</u> |
| Total | <u>\$ 1,148,037</u> | <u>\$ 1,779,338</u> |

(Continued)

NORTH CENTRAL COLLEGE
NOTES TO FINANCIAL STATEMENTS
June 30, 2023 and 2022

NOTE 4 - STUDENT LOANS RECEIVABLE/LOAN FUNDS

The College issues uncollateralized loans to students based on financial need. Student loans are funded through the Perkins federal governmental loan program or institutional resources. Perkins loans are guaranteed by the federal government, bear interest of 5.0% and are payable over 10 years upon graduation. The interest-free institutional loan program was initially funded by a donor contribution to which institutional funds have been added. These student loans have various repayment terms up to five years as defined in the individual loan agreements. Beginning in 2016, new institutional loans were assessed an interest rate at 5% and are repayable over 10 years. At June 30, 2023 and 2022, student loans represented 1.3% and 1.5%, respectively, of total assets.

At June 30, student loans receivable consisted of the following:

| | <u>2023</u> | <u>2022</u> |
|---|---------------------|---------------------|
| Federal government programs (Perkins) | \$ 221,441 | \$ 509,903 |
| Institutional programs (Roller & Legacy) | <u>5,268,318</u> | <u>5,632,155</u> |
| | 5,489,759 | 6,142,058 |
| Less allowance for uncollectible accounts | <u>(732,259)</u> | <u>(841,638)</u> |
| Student loans receivable, net | <u>\$ 4,757,500</u> | <u>\$ 5,300,420</u> |

The College participates in the Perkins federal revolving loan program. The federal Perkins loan program expired in 2017 with final disbursements through June 30, 2018. Funds advanced by the federal government of \$258,401 and \$402,055 at June 30, 2023 and 2022, respectively, are ultimately refundable to the government and are classified as liabilities in the statements of financial position. Outstanding loans cancelled under the program result in a reduction of the funds available for loan and a decrease in the liability to the government.

Allowances for doubtful accounts are established based on prior collection experience and current economic factors which, in management's judgment, could influence the ability of loan recipients to repay the amounts per the loan terms. Institutional loan balances are written off only when they are deemed to be permanently uncollectible.

(Continued)

NORTH CENTRAL COLLEGE
NOTES TO FINANCIAL STATEMENTS
June 30, 2023 and 2022

NOTE 5 - INVESTMENTS AND FAIR VALUE OF FINANCIAL INSTRUMENTS

Investments consist of the following as of June 30:

| | <u>2023</u> <u>Fair Value</u> | <u>2022</u> <u>Fair Value</u> |
|-----------------------------|----------------------------------|----------------------------------|
| Marketable securities | | |
| Corporate bonds | \$ 17,094,793 | \$ 15,638,990 |
| Equities | | |
| Common stock | 10,803,573 | 8,706,265 |
| Mutual funds | <u>75,576,108</u> | <u>70,711,885</u> |
| Total marketable securities | 103,474,474 | 95,057,140 |
| Other investments | | |
| Hedge funds | 15,034,660 | 15,440,365 |
| Real estate fund | 3,679,653 | 4,108,967 |
| Private equity | <u>5,251,950</u> | <u>3,092,876</u> |
| Total other investments | <u>23,966,263</u> | <u>22,642,208</u> |
| | <u>\$ 127,440,737</u> | <u>\$ 117,699,348</u> |

The following summarizes investment return in the statements of activities for the years ended June 30:

| | <u>2023</u> | <u>2022</u> |
|--|----------------------|------------------------|
| Operating investment return | | |
| Dividends and interest income | \$ 2,670,953 | \$ 1,953,405 |
| Realized gain on marketable securities | 1,585,703 | 9,637,285 |
| Unrealized gain (loss) on securities | <u>7,744,597</u> | <u>(31,279,990)</u> |
| Total | <u>\$ 12,001,253</u> | <u>\$ (19,689,300)</u> |

The fair value of alternative investments, determined using NAV, consisted of the following:

| | <u>Fair Value</u> | <u>Unfunded</u> <u>Commitments</u> | <u>Redemption</u> <u>Frequency</u> | <u>Redemption</u> <u>Notice</u> |
|----------------------|----------------------|---------------------------------------|---------------------------------------|------------------------------------|
| <u>2023</u> | | | | |
| Real estate fund (a) | \$ 3,679,653 | \$ - | Quarterly | 45 days |
| Private equity (b) | 5,251,950 | 10,315,454 | N/A | N/A |
| Hedge funds (c) | <u>15,034,660</u> | <u>-</u> | Monthly-Annually | 0-90 days |
| Total | <u>\$ 23,966,263</u> | <u>\$ 10,315,454</u> | | |

(Continued)

NORTH CENTRAL COLLEGE
NOTES TO FINANCIAL STATEMENTS
June 30, 2023 and 2022

NOTE 5 - INVESTMENTS AND FAIR VALUE OF FINANCIAL INSTRUMENTS (Continued)

| | <u>Fair Value</u> | <u>Unfunded Commitments</u> | <u>Redemption Frequency</u> | <u>Redemption Notice</u> |
|----------------------|--------------------------|---------------------------------|---------------------------------|------------------------------|
| <u>2022</u> | | | | |
| Real estate fund (a) | \$ 4,108,967 | \$ - | Quarterly | 45 days |
| Private equity (b) | 3,092,876 | 5,246,941 | N/A | N/A |
| Hedge funds (c) | <u>15,440,365</u> | <u>-</u> | Monthly-Annually | 0-90 days |
| Total | <u>\$ 22,642,208</u> | <u>\$ 5,246,941</u> | | |

- a) Real estate consists of a limited liability real estate partnership. These funds include open-end core real estate whose primary objective is to exceed the returns of the NCREIF Fund Index and an open end fund that combines private real estate direct investment, mezzanine funds, private real estate funds and REIT funds.
- b) Private equity funds consist of limited partnerships. These funds generally cannot be redeemed and are subject to the terms of the individual funds. The funds typically have lives of up to 10 years, and distributions are at the discretion of the general partners and are usually only after the realization of investments within the fund.
- c) The College's hedge funds invest in both long and short securities to mitigate market risk. Certain investment funds concentrate their investment programs in specific industries, sectors or market capitalization. In addition, the funds may utilize leverage, options, futures, commodities or other derivatives and may invest in non-U.S. securities and illiquid securities. These investments are subject to certain redemption restrictions.

The following methods and assumptions were used to measure the carrying value of each class of financial instruments appearing on the accompanying statements of financial position for which it is practical to estimate the fair value.

Perpetual Trusts - Assets held by third parties under split-interest agreements consist of various arrangements in which a donor establishes and funds a perpetual trust administered by an individual or organization other than the College. These trusts are recorded at the College's interest in the fair value of the assets contributed to the trust (Level 3 inputs) (market approach).

Investments - Marketable securities are recorded at quoted market prices as determined on the last day of the fiscal year or last day the market was open if June 30 should fall on a weekend (Level 1 inputs).

Corporate bonds, and agency obligations are determined by quoted market prices of similar securities with similar due dates or matrix pricing, which is a mathematical technique widely used in the industry to value fixed income securities without relying exclusively on quoted prices for the specific securities, but rather by relying on the securities' relationship to other benchmark quoted securities (Level 2 inputs) (market approach).

Alternative investments are recorded at fair value using NAV as a practical expedient.

(Continued)

NORTH CENTRAL COLLEGE
NOTES TO FINANCIAL STATEMENTS
June 30, 2023 and 2022

NOTE 5 - INVESTMENTS AND FAIR VALUE OF FINANCIAL INSTRUMENTS (Continued)

Interest Rate Swap Agreements - The fair value of the interest rate swap agreements is computed using the present value of cash flows based on the notional amount, term, and fixed and variable interest rates contained in the contract. The model prices the instrument at an exit value were the agreement terminated at the date of valuation. Significant fair value inputs can be verified and do not involve management judgments (Level 2 inputs) (income approach).

Fair Value of Financial Instruments - The following table summarizes financial instruments measured at fair value by fair value hierarchy levels as of June 30:

| | 2023 | | | | |
|-----------------------------|----------------------|----------------------|---------------------|----------------------|-----------------------|
| | <u>Level 1</u> | <u>Level 2</u> | <u>Level 3</u> | <u>NAV</u> | <u>Total</u> |
| Assets | | | | | |
| Investments | | | | | |
| Corporate bonds | \$ - | \$ 17,094,793 | \$ - | \$ - | \$ 17,094,793 |
| Common stock | 10,803,573 | - | - | - | 10,803,573 |
| Mutual funds | 75,576,108 | - | - | - | 75,576,108 |
| Hedge funds | - | - | - | 15,034,660 | 15,034,660 |
| Real estate fund | - | - | - | 3,679,653 | 3,679,653 |
| Private equity | - | - | - | 5,251,950 | 5,251,950 |
| Charitable remainder trusts | - | - | 166,735 | - | 166,735 |
| Perpetual trusts | - | - | 1,179,880 | - | 1,179,880 |
| | <u>-</u> | <u>-</u> | <u>1,179,880</u> | <u>-</u> | <u>1,179,880</u> |
| Total assets at fair value | <u>\$ 86,379,681</u> | <u>\$ 17,094,793</u> | <u>\$ 1,346,615</u> | <u>\$ 23,966,263</u> | <u>\$ 128,787,352</u> |
| Assets | | | | | |
| Interest rate swap | <u>\$ -</u> | <u>\$ 1,402,832</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ 1,402,832</u> |
| 2022 | | | | | |
| | <u>Level 1</u> | <u>Level 2</u> | <u>Level 3</u> | <u>NAV</u> | <u>Total</u> |
| Assets | | | | | |
| Investments | | | | | |
| Corporate bonds | \$ - | \$ 15,638,990 | \$ - | \$ - | \$ 15,638,990 |
| Common stock | 8,706,265 | - | - | - | 8,706,265 |
| Mutual funds | 70,711,885 | - | - | - | 70,711,885 |
| Hedge funds | - | - | - | 15,440,365 | 15,440,365 |
| Real estate fund | - | - | - | 4,108,967 | 4,108,967 |
| Private equity | - | - | - | 3,092,876 | 3,092,876 |
| Charitable remainder trusts | - | - | 170,400 | - | 170,400 |
| Perpetual trusts | - | - | 1,100,030 | - | 1,100,030 |
| | <u>-</u> | <u>-</u> | <u>1,100,030</u> | <u>-</u> | <u>1,100,030</u> |
| Total assets at fair value | <u>\$ 79,418,150</u> | <u>\$ 15,638,990</u> | <u>\$ 1,270,430</u> | <u>\$ 22,642,208</u> | <u>\$ 118,969,778</u> |
| Liabilities | | | | | |
| Interest rate swap | <u>\$ -</u> | <u>\$ 675,568</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ 675,568</u> |

(Continued)

NORTH CENTRAL COLLEGE
NOTES TO FINANCIAL STATEMENTS
June 30, 2023 and 2022

NOTE 5 - INVESTMENTS AND FAIR VALUE OF FINANCIAL INSTRUMENTS (Continued)

Changes in fair value associated with fair value hierarchy Level 3 are as follows:

| | Perpetual <u>Trusts</u> | Charitable Remainder <u>Trusts</u> | <u>Total</u> |
|-----------------------------|----------------------------|--|---------------------|
| Balance as of June 30, 2021 | \$ 1,394,394 | \$ 192,057 | \$ 1,586,451 |
| Unrealized losses | <u>(294,364)</u> | <u>(21,657)</u> | <u>(316,021)</u> |
| Balance as of June 30, 2022 | 1,100,030 | 170,400 | 1,270,430 |
| Unrealized gains (losses) | <u>79,850</u> | <u>(3,665)</u> | <u>76,185</u> |
| Balance as of June 30, 2023 | <u>\$ 1,179,880</u> | <u>\$ 166,735</u> | <u>\$ 1,346,615</u> |

NOTE 6 - ENDOWMENT

Certain net assets with donor restrictions are restricted as investments in perpetuity. The College's endowment consists of various individual funds established for different purposes that all support the mission of the College. The College's endowment consists of \$49,048,179 and \$45,312,878 in original donor-restricted endowment funds classified as net assets with donor restrictions at June 30, 2023 and 2022, respectively. Net assets associated with the College's endowment funds are classified and reported based on the existence of donor-imposed restrictions.

The College accounts for endowment net assets based on the College's interpretation of the Illinois Uniform Prudent Management of Institutional Funds Act (UPMIFA) by preserving the fair value of the original gift as of the gift date of the donor-restricted endowment fund 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. The remaining portion of the donor-restricted endowment fund is classified as net assets with donor restrictions, according to donor stipulations, until those amounts are appropriated for expenditure by the College for the donor-stipulated purpose. The College considers the following factors in making a determination either to appropriate or to accumulate donor-restricted endowment funds:

1. The duration and preservation of the fund.
2. The purposes of the College's and donor-restricted endowment funds.
3. General economic conditions.
4. The possible effects 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.

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. There were no deficiencies of this nature in 2023 and 2022.

(Continued)

NORTH CENTRAL COLLEGE
NOTES TO FINANCIAL STATEMENTS
June 30, 2023 and 2022

NOTE 6 - ENDOWMENT (Continued)

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. As of June 30, 2023 and 2022, endowment assets include those assets of donor-restricted funds that the College must hold in perpetuity or for donor-specified periods and Board-designated (quasi) endowment funds. Under this policy, as approved by the Board of Trustees, the endowment assets are invested in a manner that is intended to provide adequate liquidity, maximizing returns on all funds invested and achieving full employment of all available funds as earning assets. The College has an active Investment Committee that meets regularly to ensure that the objectives of the investment policy are being met and that the strategies used to meet the objectives are in accordance with the investment policy.

At June 30, 2023 and 2022, the College's endowment was comprised of the following:

| | Without Donor <u>Restrictions</u> | With Donor <u>Restrictions</u> | <u>Total</u> |
|------------------------|--------------------------------------|-----------------------------------|-----------------------|
| <u>2023</u> | | | |
| Donor endowment funds | \$ - | \$ 75,538,195 | \$ 75,538,195 |
| Board-designated funds | <u>52,158,552</u> | <u>-</u> | <u>52,158,552</u> |
| Total funds | <u>\$ 52,158,552</u> | <u>\$ 75,538,195</u> | <u>\$ 127,696,747</u> |
| <u>2022</u> | | | |
| Donor endowment funds | \$ - | \$ 68,794,410 | \$ 68,794,410 |
| Board-designated funds | <u>50,339,170</u> | <u>-</u> | <u>50,339,170</u> |
| Total funds | <u>\$ 50,339,170</u> | <u>\$ 68,794,410</u> | <u>\$ 119,133,580</u> |

During the fiscal years ended June 30, 2023 and 2022, changes in endowment net assets consisted of the following:

| | <u>2023</u> | | |
|---|--------------------------------------|-----------------------------------|-----------------------|
| | Without Donor <u>Restrictions</u> | With Donor <u>Restrictions</u> | <u>Total</u> |
| Net assets, beginning of year | \$ 50,339,170 | \$ 68,794,410 | \$ 119,133,580 |
| Contributions received | - | 3,655,451 | 3,655,451 |
| Contributions to Board-designated endowment funds | 31,871 | - | 31,871 |
| Investment return | | | |
| Investment income net of fees | 1,041,988 | 1,505,926 | 2,547,914 |
| Realized gains | <u>568,224</u> | <u>797,297</u> | <u>1,365,521</u> |
| Total investment return | 1,610,212 | 2,303,223 | 3,913,435 |
| Appropriation of endowment | | | |
| assets for expenditure | (2,914,424) | (3,687,115) | (6,601,539) |
| Unrealized investment gain | 3,194,364 | 4,550,233 | 7,744,597 |
| Transfer of net assets and other changes | <u>(102,641)</u> | <u>(78,007)</u> | <u>(180,648)</u> |
| Net assets, end of year | <u>\$ 52,158,552</u> | <u>\$ 75,538,195</u> | <u>\$ 127,696,747</u> |

(Continued)

NORTH CENTRAL COLLEGE
NOTES TO FINANCIAL STATEMENTS
June 30, 2023 and 2022

NOTE 6 - ENDOWMENT (Continued)

| | 2022 | | |
|---|-------------------------------|----------------------------|----------------|
| | Without Donor Restrictions | With Donor Restrictions | Total |
| Net assets, beginning of year | \$ 61,749,880 | \$ 83,133,345 | \$ 144,883,225 |
| Contributions received | - | 945,394 | 945,394 |
| Contributions to Board- designated endowment funds | 47,329 | - | 47,329 |
| Investment return | | | |
| Investment income net of fees | 555,823 | 1,128,768 | 1,684,591 |
| Realized gains | 4,042,181 | 5,349,703 | 9,391,884 |
| Total investment return | 4,598,004 | 6,478,471 | 11,076,475 |
| Appropriation of endowment assets for expenditure | (2,434,037) | (3,885,859) | (6,319,896) |
| Unrealized investment loss | (13,324,080) | (17,753,285) | (31,077,365) |
| Transfer of net assets and other changes | (297,926) | (123,656) | (421,582) |
| Net assets, end of year | \$ 50,339,170 | \$ 68,794,410 | \$ 119,133,580 |

Transfers of net assets without donor restrictions and net assets with donor restrictions and other changes consisted of the Board designation of net assets without donor restrictions and other changes.

NOTE 7 - LAND, BUILDINGS AND EQUIPMENT

The components of land, buildings and equipment as of June 30 are as follows:

| | 2023 | 2022 |
|-------------------------------|----------------|----------------|
| Land and improvements | \$ 8,229,544 | \$ 8,467,857 |
| Buildings and improvements | 267,016,676 | 261,223,720 |
| Furniture and equipment | 34,037,563 | 30,388,260 |
| Construction in progress | 1,053,808 | 8,033,697 |
| | 310,337,591 | 308,113,534 |
| Less accumulated depreciation | (117,902,604) | (111,824,432) |
| Total | \$ 192,434,987 | \$ 196,289,102 |

Depreciation and amortization expense for the years ended June 30, 2023 and 2022, was \$8,422,049 and \$7,778,276, respectively.

NOTE 8 - SHORT-TERM BORROWINGS

At June 30, 2023, the College had available a \$5,000,000 line of credit with a financial institution that bears interest at the Secured Overnight Financing Rate (SOFR) plus 95 basis points, which shall be reset on the first business date of every month. There were no borrowings at June 30, 2023 and 2022. The line of credit will expire on March 31, 2024. It is renewable at the option of the lender. The College plans to renew the line of credit with the lender.

(Continued)

NORTH CENTRAL COLLEGE
NOTES TO FINANCIAL STATEMENTS
June 30, 2023 and 2022

NOTE 9 - BONDS PAYABLE

Bonds payable as of June 30, including current maturities, consist of the following:

| | <u>2023</u> | <u>2022</u> |
|--|-----------------------------|-----------------------------|
| Bonds payable, Series 2014A, to refund and redeem the Series 1998 and 2008 Bonds, the swap termination payment in connection with the 2008 Bond interest rate exchange agreement and bond issuance costs, principal due December 1, 2028 and December 1, 2038. | \$ 33,953,000 | \$ 33,953,000 |
| Bonds payable, Series 2014B, to refund and redeem the Series 1999 Bonds, construction of a new residence hall and bond issuance costs, principal due annually from June 1, 2016 - June 1, 2044. | 25,986,000 | 26,850,000 |
| Bonds payable, Series 2015, to plan, design, construct, furnish and equip certain educational facilities, available for drawdown with maximum borrowings of \$30,177,000, principal due annually from December 1, 2017 - December 1, 2025. | 2,266,976 | 2,366,976 |
| Bonds payable, Series 2020, to plan, design, acquire, construct, furnish and equip certain educational facilities, available for drawdown with maximum borrowings of \$21,524,000, principle due annually from June 1, 2022 - June 1, 2045. | <u>20,216,000</u> | <u>20,879,000</u> |
| | 82,421,976 | 84,048,976 |
| Unamortized bond issuance costs | <u>(500,377)</u> | <u>(529,071)</u> |
| Total bonds payable | <u>\$ 81,921,599</u> | <u>\$ 83,519,905</u> |

The Series 2014A Revenue Bonds were issued by the Illinois Finance Authority and purchased by BMO Harris Bank on December 4, 2014, with interest payable monthly at a rate based upon the bank purchase rate. The Loan Agreement with BMO Bank matures on December 2, 2024 at which time the Bond may be retained by BMO Harris, remarketed to a new purchaser, or purchased by the College. The average interest rate for the Series 2014A bonds was 3.72% in 2023 and 1.18% in 2022. The interest rate swap agreement on the 2014A Series decreased the rate by 1.00% in 2023 and increased the rate by 1.54% in 2022, bringing the effective interest rate on the 2014A issue to an annual rate of 2.72% for 2023 and 2022.

The Series 2014B Revenue Bonds were issued by the Illinois Finance Authority and purchased by PNC Bank on December 4, 2014, with interest payable semi-annually on June 1 and December 1 based on the bank purchase rate. The Loan Agreement with PNC Bank matures on December 2, 2024 at which time the Bond may be retained by PNC Bank, remarketed to a new purchaser, or purchased by the College. The average interest rate for the Series 2014B bonds was 3.63% in 2023 and 0.96% in 2022. The interest rate swap agreement on the 2014B Series decreased the rate by 0.37% in 2023 and increased the rate by 2.30% in 2022, bringing the effective interest rate on the 2014B issue to an annual rate of 3.26% for 2023 and 2022.

The Series 2015 Revenue Bonds were issued by the Illinois Finance Authority and purchased by BMO Harris Bank on July 9, 2015, with interest payable monthly based on the bank purchase rate. The Loan Agreement with BMO Harris Bank matures on December 1, 2025. The average rate for the 2015 bonds (including the commitment fee) was 3.84% for 2023 and 0.99% for 2022.

(Continued)

NORTH CENTRAL COLLEGE
NOTES TO FINANCIAL STATEMENTS
June 30, 2023 and 2022

NOTE 9 - BONDS PAYABLE (Continued)

The Series 2020 Revenue Bonds were issued by the Illinois Finance Authority and purchased by BMO Harris Bank on May 28, 2020, with interest payable monthly based on the bank purchase rate. The Loan Agreement with BMO Harris Bank matures on June 1, 2027 at which time the Bond may be retained by BMO Harris Bank, remarketed to a new purchaser, or purchased by the College. The average rate for the 2020 bonds was 2.85% for 2023.

During the fiscal years ended June 30, 2023 and 2022, the College incurred interest in the amount of \$2,444,987 and \$2,455,878, respectively.

The related bond agreements contain various financial covenants, including liquid assets to long-term debt and debt coverage ratios. The College believes it is in compliance with these financial covenants as of June 30, 2023 and 2022 except for the June 30, 2023, debt service coverage ratio requirement on the bond issuances. Subsequent to June 30, 2023, the College obtained waivers of this covenant requirement.

Scheduled maturities on bonds payable for each of the five upcoming fiscal years ending June 30 and thereafter are as follows. The related loan agreements with the purchasers of the bonds mature prior to the scheduled maturities below, as discussed previously in this footnote.

| | |
|---------------------|----------------------|
| 2024 | \$ 1,568,000 |
| 2025 | 1,621,000 |
| 2026 | 3,935,976 |
| 2027 | 1,718,000 |
| 2028 | 1,009,000 |
| 2029 and thereafter | <u>72,570,000</u> |
| Total | <u>\$ 82,421,976</u> |

During the fiscal year ended June 30, 2015, the College entered into interest rate swap agreements on December 4, 2014 to synthetically convert the Series 2014A and Series 2014B bonds from floating rate to fixed rate instruments.

At June 30, 2023 and 2022, the fair value of the interest rate swaps were as follows:

| <u>Notional Amount</u> | <u>Interest Rate</u> | <u>Maturity Date</u> | <u>Fair Value June 30, 2023</u> |
|----------------------------|--------------------------|--------------------------|---|
| \$ 33,953,000 | 2.72% | December 2024 | \$ 948,399 |
| \$ 26,850,000 | 3.26% | June 2044 | <u>454,433</u> |
| | | | <u>\$ 1,402,832</u> |
| <u>Notional Amount</u> | <u>Interest Rate</u> | <u>Maturity Date</u> | <u>Fair Value June 30, 2022</u> |
| \$ 33,953,000 | 2.72% | December 2024 | \$ 282,881 |
| \$ 26,850,000 | 3.21% | June 2044 | <u>(958,449)</u> |
| | | | <u>\$ (675,568)</u> |

(Continued)

NORTH CENTRAL COLLEGE
NOTES TO FINANCIAL STATEMENTS
June 30, 2023 and 2022

NOTE 9 - BONDS PAYABLE (Continued)

The fair value of these interest rate swap agreements resulted in an unrealized gain of \$2,078,400 in 2023 and an unrealized gain of \$5,658,856 in 2022 based on a yield curve and projected interest rates through the maturity of the instruments.

NOTE 10 - NET ASSETS WITH DONOR RESTRICTIONS

Net assets with donor restrictions consist of the following as of June 30:

| | <u>2023</u> | <u>2022</u> |
|--|----------------------|----------------------|
| Educational and general operations | \$ 48,167,649 | \$ 44,391,952 |
| Scholarships | 34,118,720 | 31,847,953 |
| Physical plant expenditures | 6,446,455 | 6,527,601 |
| Restricted net assets related to split-interest agreements | 2,824,771 | 2,659,615 |
| Student loan funds | <u>570,398</u> | <u>570,398</u> |
| | <u>\$ 92,127,993</u> | <u>\$ 85,997,519</u> |

NOTE 11 - NET ASSETS RELEASED FROM RESTRICTIONS

Net assets were released from donor restrictions by incurring expenses satisfying the restricted purposes or by the passage of time as follows for the years ended June 30:

| | <u>2023</u> | <u>2022</u> |
|--------------------------------------|---------------------|---------------------|
| Instruction | \$ 1,297,033 | \$ 999,341 |
| Academic support | 328,728 | 199,015 |
| Intercollegiate athletics | 862,479 | 684,419 |
| Student services | 54,683 | 150,427 |
| Private scholarships and fellowships | 3,249,781 | 2,001,106 |
| Operations and maintenance | 1,149 | 1,440,106 |
| Institutional support | 403,413 | - |
| Fixed-asset additions | <u>2,064,027</u> | <u>808,926</u> |
| | 8,261,293 | 6,283,340 |
| Loss on asset write offs | <u>250,000</u> | <u>265,000</u> |
| Total | <u>\$ 8,511,293</u> | <u>\$ 6,548,340</u> |

NOTE 12 - RETIREMENT PROGRAM

The College provides defined contribution and retirement benefits for academic and non-academic personnel through the Teachers Insurance and Annuity Association/College Retirement Equity Fund. During fiscal years 2023 and 2022, \$2,860,482 and \$2,719,955, respectively, was deposited into individual employee retirement accounts from College resources without donor restrictions.

(Continued)

NORTH CENTRAL COLLEGE
NOTES TO FINANCIAL STATEMENTS
June 30, 2023 and 2022

NOTE 12 - RETIREMENT PROGRAM (Continued)

The College established a 457(b) deferred compensation plan effective November 1, 2013 and a 457(f) plan effective July 1, 2016 with certain key employees. The liabilities for these plans totaled \$320,261 and \$310,738 at June 30, 2023 and 2022, respectively, which is included in the statements of financial position. The College is contractually obligated to maintain these balances in separate accounts, as elected by the participants. These accounts are included in the College's other assets and are available to general creditors.

NOTE 13 - FUND-RAISING COSTS

Fund-raising costs incurred by the College in fiscal years 2023 and 2022 totaled \$1,724,844 and \$1,595,571, respectively. These costs related primarily to planned giving, annual fund, institutional advancement, corporate relations and the capital campaign.

NOTE 14 - INCOME TAXES

The FASB issued guidance that requires tax effects from uncertain tax positions to be recognized in the financial statements only if the position is more likely than not to be sustained if the position were to be challenged by a taxing authority. Management has determined there are no material uncertain positions that require recognition in the financial statements. Additionally, no provision for income taxes is reflected in these financial statements as the College's unrelated business income was offset by the expenses directly connected with the conduct of the activity creating a net operating loss. There are no interest or penalties recognized in the statements of activities or statements of financial position.

NOTE 15 - COMMITMENTS AND CONTINGENCIES

All funds expended in conjunction with government grants are subject to audit by government agencies. In the opinion of management, if any liability results from such audits, it will not have a material effect on the College's financial statements. The College is currently unaware of any pending audits related to government grants.

The College is a party to various claims, legal actions, and complaints arising in the ordinary course of business. In the opinion of management of the College, such items are adequately covered by insurance or their ultimate outcome will not have a material impact on the financial position of the College.

The College entered into construction contracts for which construction was incomplete as of June 30, 2023 and 2022. These outstanding contracts were for various renovation and construction projects. Commitments are recorded as liabilities as the underlying contracted services are delivered. Open construction contracts for which construction was incomplete as of June 30, 2023 and 2022 were approximately \$18,100,000 and \$3,400,000, respectively.

(Continued)

NORTH CENTRAL COLLEGE
NOTES TO FINANCIAL STATEMENTS
June 30, 2023 and 2022

NOTE 16 - RELATED PARTIES

The College conducts business with various vendors throughout the Naperville and greater Chicagoland areas. Several of the College's vendors have principals or employees currently serving on its Board of Trustees. In accordance with the College's Conflict of Interest Policy, each Trustee is required to disclose his or her business relationship with the College on an annual basis. For the years ended June 30, 2023 and 2022, the College purchased products or services worth \$956,244 and \$1,189,780, respectively, from these related parties. Where applicable, these expenditures are competitively bid, and management believes that having such relationships with the Trustees saves the College money on both an aggregate and an individual basis.

For the years ended June 30, 2023 and 2022, the College recognized contribution revenue from Board members in the amounts of \$409,423 and \$2,758,824, respectively. As of the years ended June 30, 2023 and 2022, the College had outstanding pledges receivable from Board members in the amounts of \$194,218 and \$265,218, respectively.

NOTE 17 - HEALTH PLAN – SELF-INSURANCE COMMITMENT

The College provides a self-insured health insurance plan for its employee's medical and pharmaceutical claims, whereby United Healthcare services as a Third-Party Administrator and provides specific aggregate stop-loss coverage. Per the stop-loss policy, the College pays a monthly premium and is responsible for the funding of all claims up to \$125,000 per individual participant per policy year. The College has established a separate banking account to hold funds as a reserve for claims. The balance of the reserve funds available to settle any claims incurred but not paid as of June 30, 2023 and 2022 was \$1,125,624 and \$1,043,380, respectively. Employee health insurance expense, under the self-insurance plan, totaled \$2,106,295 and \$1,491,998 for the years ended June 30, 2023 and 2022, respectively.

NOTE 18 - FUNCTIONAL EXPENSE

The statements of activities report certain categories of expenses attributable to more than one program or supporting activity that were allocated among appropriate functions. Expenses associated with property primarily depreciation, interest, facilities operations and maintenance expenses are allocated primarily on the basis of square footage.

The table below presents these functional expenses by their natural classification for the years ended June 30, 2023 and 2022.

(Continued)

NORTH CENTRAL COLLEGE
NOTES TO FINANCIAL STATEMENTS
June 30, 2023 and 2022

NOTE 18 - FUNCTIONAL EXPENSE (Continued)

| Category | 2023 | | | | | | 2023 Total |
|--------------------------------------|-----------------------------|----------------------------|----------------------------|----------------------------|-----------------------------|-----------------------------|-----------------------------|
| | Instruction | Academic Support | Intercollegiate Athletics | Student Services | Institutional Support | Auxiliary | |
| Salary | \$ 20,296,756 | \$ 3,672,218 | \$ 2,797,269 | \$ 4,194,209 | \$ 4,747,311 | \$ 1,906,495 | \$ 37,614,258 |
| Benefits | 4,216,896 | 776,302 | 637,706 | 868,670 | 2,428,446 | 401,524 | 9,329,544 |
| Depreciation and amortization | 3,172,658 | 395,641 | 551,924 | 771,906 | 369,721 | 3,160,199 | 8,422,049 |
| Operations and maintenance | 2,449,428 | 305,452 | 426,109 | 595,944 | 285,441 | 2,439,810 | 6,502,184 |
| Interest expense | 921,047 | 114,858 | 160,228 | 224,090 | 107,333 | 917,431 | 2,444,987 |
| Auxiliary enterprise | - | - | - | - | - | 5,532,770 | 5,532,770 |
| General | 1,853,184 | 2,331,259 | 1,942,579 | 2,030,497 | 4,766,940 | 2,416,401 | 15,340,860 |
| Professional and contracted services | <u>633,418</u> | <u>78,816</u> | <u>240,574</u> | <u>912,306</u> | <u>1,400,466</u> | <u>11,456</u> | <u>3,277,036</u> |
| Total | \$ <u>33,543,387</u> | \$ <u>7,674,546</u> | \$ <u>6,756,389</u> | \$ <u>9,597,622</u> | \$ <u>14,105,658</u> | \$ <u>16,786,086</u> | \$ <u>88,463,688</u> |

| Category | 2022 | | | | | | 2022 Total |
|--------------------------------------|-----------------------------|----------------------------|----------------------------|-----------------------------|-----------------------------|-----------------------------|-----------------------------|
| | Instruction | Academic Support | Intercollegiate Athletics | Student Services | Institutional Support | Auxiliary | |
| Salary | \$ 18,932,129 | \$ 3,107,567 | \$ 2,695,293 | \$ 4,007,582 | \$ 4,657,183 | \$ 1,726,894 | \$ 35,126,648 |
| Benefits | 3,762,157 | 654,236 | 574,254 | 753,828 | 2,472,357 | 372,681 | 8,589,513 |
| Depreciation and amortization | 2,930,142 | 365,399 | 509,736 | 712,902 | 341,460 | 2,918,637 | 7,778,276 |
| Operations and maintenance | 2,235,357 | 278,756 | 388,869 | 543,861 | 260,494 | 2,226,578 | 5,933,915 |
| Interest expense | 925,150 | 115,369 | 160,942 | 225,089 | 107,811 | 921,518 | 2,455,879 |
| Auxiliary enterprise | - | - | - | - | - | 5,885,084 | 5,885,084 |
| General | 1,477,931 | 1,916,486 | 1,944,555 | 4,684,711 | 5,228,028 | 1,922,379 | 17,174,090 |
| Professional and contracted services | <u>334,488</u> | <u>158,143</u> | <u>149,617</u> | <u>991,151</u> | <u>1,071,976</u> | <u>561,118</u> | <u>3,266,493</u> |
| Total | \$ <u>30,597,354</u> | \$ <u>6,595,956</u> | \$ <u>6,423,266</u> | \$ <u>11,919,124</u> | \$ <u>14,139,309</u> | \$ <u>16,534,889</u> | \$ <u>86,209,898</u> |

(Continued)

NORTH CENTRAL COLLEGE
NOTES TO FINANCIAL STATEMENTS
June 30, 2023 and 2022

NOTE 19 - LIQUIDITY AND AVAILABILITY

As part of the College's liquidity management, the College plans and implements its annual budget within its anticipated revenue projections to ensure sufficient financial resources are available to fund general obligations, including expenditures and liabilities, as they come due. Additionally, the College has \$52,158,552 in funds designated by the board as endowments. Although the College does not intend to spend from board-designated endowment funds, other than amounts appropriated for general expenditures approved as part of the spending policy, funds could be made available if necessary.

The College's financial assets available within one year of the statement of financial position date for general expenditures are as follows:

| | <u>2023</u> | <u>2022</u> |
|---|--------------------------|--------------------------|
| Cash and cash equivalents | \$ 23,188,302 | \$ 17,820,979 |
| Student accounts receivable, net of allowance | 1,778,081 | 1,887,357 |
| Other receivables | <u>1,076,060</u> | <u>1,358,638</u> |
| Total | <u>\$ 26,042,443</u> | <u>\$ 21,066,974</u> |

Income from donor-restricted endowment funds is restricted for specific purposes, with the exception of the amounts designated for general use. To help manage unanticipated liquidity needs, North Central College could draw upon a committed line of credit of \$5 million.

NOTE 20 - SUBSEQUENT EVENTS

Subsequent events are events or transactions that occur after the statement of financial position date but before financial statements are issued. These events and transactions either provide additional evidence about conditions that existed at the date of the statement of financial position, including the estimates inherent in the process of preparing financial statements (that is, recognized subsequent events), or provide evidence about conditions that did not exist at the date of the balance sheet but arose after that date (that is, unrecognized subsequent events). The College has evaluated subsequent events through October 30, 2023, which was the date that these financial statements were available to be issued.