NORTH CENTRAL COLLEGE
Naperville, Illinois

FINANCIAL STATEMENTS AND
SINGLE AUDIT REPORTS
UNDER UNIFORM GUIDANCE
June 30, 2019 and 2018

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CONTENTS

INDEPENDENT AUDITOR'S REPORT

The Board of Trustees
North Central College
Naperville, Illinois

Report on the Financial Statements

We have audited the accompanying financial statements of North Central College (the "College"), which comprise the statements of financial position as of June 30, 2019 and 2018, and the related statements of activities, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the College's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the College's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

(Continued)

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of North Central College as of June 30, 2019 and 2018, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 1 to the financial statements, the College has adopted ASU 2016-14 - *Not-For-Profit Entities (Topic 958): Presentation of Financial Statements of Not-For-Profit Entities.* Our opinion is not modified with respect to this matter.

Other Matter

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The schedule of expenditures of federal awards for the year ended June 30, 2019, as required by Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain other procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards,* we have also issued our report dated October 24, 2019, on our consideration of the College's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the College's internal control over financial reporting and compliance.

Crowe LLP

Crowe LLP

Chicago, Illinois
October 24, 2019

NORTH CENTRAL COLLEGE
STATEMENTS OF FINANCIAL POSITION
June 30, 2019 and 2018

	2019	2018
Assets:		
Cash and cash equivalents	$ 21,360,835	$ 14,528,123
Student accounts receivable, net of allowance	2,910,500	2,883,321
Prepaid expense, other receivables and other assets	2,028,763	2,600,507
Pledges receivable, net of allowance	12,781,333	3,580,108
Investments	115,929,656	118,174,859
Student loans receivable, net of allowance	6,113,885	6,012,029
Beneficial interest in charitable remainder trust	167,483	290,769
Perpetual trust held by a third party	1,092,452	1,089,959
Land, buildings and equipment, net	187,651,537	191,869,249
Total assets	$ 350,036,444	$ 341,028,924
Liabilities and Net Assets:		
Liabilities:		
Accounts payable, accrued liabilities and refundable deposits	$ 8,393,612	$ 7,773,156
Deferred revenue	966,004	1,185,222
Split-interest agreements	1,501,449	1,527,532
Refundable loan funds (Perkins loan)	1,128,509	1,104,596
Interest rate swap agreement liability	4,677,028	1,037,646
Other long-term liabilities	1,646,209	2,124,482
Bonds payable	71,999,535	74,677,344
Total liabilities	90,312,346	89,429,978
Net assets:		
Without donor restrictions	170,112,703	181,608,767
With donor restrictions	89,611,395	69,990,179
Total net assets	259,724,098	251,598,946
Total liabilities and net assets	$ 350,036,444	$ 341,028,924

See notes to financial statements.

NORTH CENTRAL COLLEGE
STATEMENT OF ACTIVITIES
Year ended June 30, 2019

	2019		
	Without Donor Retrictions	With Donor Restrictions	Total
Revenues			
Tuition and fees	$ 102,247,989	$ -	$ 102,247,989
Less financial aid	(53,418,400)	-	(53,418,400)
Net tuition and fees	48,829,589	-	48,829,589
Community education programs	311,057	-	311,057
Contributions	3,299,973	12,019,601	15,319,574
Grants	50,450	1,199,761	1,250,211
Endowment returns designated for spending	2,578,717	1,723,216	4,301,933
Other support			
Auxiliary enterprises	15,895,334	-	15,895,334
Rental	1,540,741	-	1,540,741
Other sources	2,246,764	279,460	2,526,224
Net assets released from restrictions and changes in donor restrictions	3,232,775	(3,232,775)	-
Total revenues and other support	77,985,400	11,989,263	89,974,663
Expenses			
Instruction	29,790,829	-	29,790,829
Academic support	7,700,268	-	7,700,268
Intercollegiate athletics	5,523,012	-	5,523,012
Student services	8,451,535	-	8,451,535
Institutional support	14,608,223	-	14,608,223
Auxiliary enterprises	14,491,086	-	14,491,086
Total expenses	80,564,953	-	80,564,953
Change in net assets before other changes	(2,579,553)	11,989,263	9,409,710
Other changes in net assets			
Investment return	2,585,034	3,454,045	6,039,079
Unrealized investment gain	308,735	450,939	759,674
Endowment returns designated for spending	(2,578,717)	(1,723,216)	(4,301,933)
Change in fair value of interest rate swap agreement	(3,639,382)	-	(3,639,382)
Reclassification of net assets	(5,592,165)	5,592,165	-
Change in value of split-interest agreements	-	9,780	9,780
Loss on asset write-offs	(16)	(331,500)	(331,516)
Contributions - capital	-	179,740	179,740
Change in net assets	(11,496,064)	19,621,216	8,125,152
Net assets			
Beginning of year	181,608,767	69,990,179	251,598,946
End of year	$ 170,112,703	$ 89,611,395	$ 259,724,098

See notes to financial statements.

NORTH CENTRAL COLLEGE
STATEMENT OF ACTIVITIES
Year ended June 30, 2018

	2018		
	Without Donor Restrictions	With Donor Restrictions	Total
Revenues			
Tuition and fees	$ 98,446,279	$ -	$ 98,446,279
Less financial aid	(51,000,787)	-	(51,000,787)
Net tuition and fees	47,445,492	-	47,445,492
Community education programs	323,076	-	323,076
Contributions	2,430,952	792,339	3,223,291
Grants	105,950	749,350	855,300
Endowment returns designated for spending	2,502,158	1,623,931	4,126,089
Other support			
Auxiliary enterprises	15,765,492	-	15,765,492
Rental	1,442,805	-	1,442,805
Other sources	2,148,041	111,908	2,259,949
Net assets released from restrictions and changes in donor restrictions	2,175,571	(2,175,571)	-
Total revenues and other support	74,339,537	1,101,957	75,441,494
Expenses			
Instruction	29,758,073	-	29,758,073
Academic support	7,589,499	-	7,589,499
Intercollegiate athletics	5,447,894	-	5,447,894
Student services	8,427,037	-	8,427,037
Institutional support	13,463,699	-	13,463,699
Auxiliary enterprises	14,542,909	-	14,542,909
Total expenses	79,229,111	-	79,229,111
Change in net assets before other changes	(4,889,574)	1,101,957	(3,787,617)
Other changes in net assets			
Investment return	3,866,549	2,418,754	6,285,303
Unrealized investment gain	1,897,909	1,238,456	3,136,365
Endowment returns designated for spending	(2,502,158)	(1,623,931)	(4,126,089)
Change in fair value of interest rate swap agreement	2,743,942	-	2,743,942
Change in value of split-interest agreements	-	311,428	311,428
Loss on asset write-offs	(525)	(16,350)	(16,875)
Contributions - capital	-	5,755,560	5,755,560
Net assets released from restrictions - capital	6,153,178	(6,153,178)	-
Other expenses	(31,617)	-	(31,617)
Change in net assets	7,237,704	3,032,696	10,270,400
Net assets			
Beginning of year	174,371,063	66,957,483	241,328,546
End of year	$ 181,608,767	$ 69,990,179	$ 251,598,946

See notes to financial statements.

NORTH CENTRAL COLLEGE
STATEMENTS OF CASH FLOWS
Years ended June 30, 2019 and 2018

	2019	2018
Cash flows from operating activities		
Change in net assets	$ 8,125,152	$ 10,270,400
Adjustments to reconcile change in net assets to net cash from operating activities		
Change in pledge discount	14,330	(13,233)
Loss on asset writeoffs	16	525
Allowance for doubtful accounts	(17,140)	(189,790)
Change in value of remainder and lead trusts	123,286	25,983
Change in fair value of interest rate swap agreements	3,639,382	(2,743,942)
Change in amounts payable under split-interest agreement	(26,083)	(137,884)
Realized and unrealized gain on marketable securities	(4,079,092)	(6,304,355)
Realized gains on other investments	(136,205)	(772,840)
Depreciaton and amortization	7,331,579	7,527,759
Contributions restricted for permanent investment	(439,440)	(768,329)
Investment income earned from permanent investment	(52,264)	(52,590)
Contributions received for construction in progress	(179,740)	(14,041,024)
Changes in operating assets and liabilities		
Student accounts receivable	225,890	(226,213)
Prepaid expenses, other receivables and other assets	93,471	3,624,548
Perpetual trust held by third party	(2,493)	(39,396)
Pledges receivable	(9,451,484)	8,681,279
Student loan receivable	(101,856)	(127,662)
Accounts payable, accrued liabilities, and refundable deposits	849,060	869,503
Deferred revenue	(219,218)	555,665
Refundable loan funds	23,913	(222,866)
Net cash from operating activities	5,721,064	5,915,538
Cash flows from investing activities		
Purchases of land, buildings, and equipment	(3,324,776)	(11,348,592)
Purchases of investments	(24,155,457)	(12,389,686)
Proceeds from sales of investments	30,615,957	11,169,924
Net cash from investing activities	3,135,724	(12,568,354)
Cash flows from financing activities		
Proceeds from contributions restricted for investment in endowment	439,440	768,329
Investment income earned from permanent investment	52,264	52,590
Contributions received for construction in progress	179,740	14,041,024
Repayment of bonds	(2,695,520)	(19,897,318)
Net cash from financing activities	(2,024,076)	(5,035,375)
Net change in cash and cash equivalents	6,832,712	(11,688,191)
Cash and cash equivalents at beginning of year	14,528,123	26,216,314
Cash and cash equivalents at end of year	$ 21,360,835	$ 14,528,123
Supplemental disclosures of cash flow information		
Cash paid during the year for interest	$ 2,119,645	$ 2,226,715
Supplemental disclosures of noncash investing and financing activities		
Construction in progress included in accounts payable	$ 228,604	$ 1,805,016

See notes to financial statements.

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.

<u>Basis of Presentation</u>: 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.

<u>Classification of Net Assets</u>: 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.

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.

Revenues are reported as increases in net assets without donor restrictions unless use of the related assets is limited by donor-imposed restrictions. Expenses are reported as decreases in net assets without donor restrictions. Gains and losses on investments and other assets or liabilities are reported as increases or decreases in net assets without donor restrictions unless their use is restricted by explicit donor stipulations or by law. Expirations of donor-imposed stipulations that simultaneously increase one class of net assets and decrease another are reported as a reclassification between applicable classes of net assets (assets released from restriction).

<u>Revenue Recognition</u>: Tuition revenue is recognized as earned by providing instruction. Revenue from auxiliary enterprises is recognized when goods or services are provided.

<u>Fund Accounting</u>: In order to ensure observance of limitations and restrictions placed on the use of the resources available to the College, the accounts of the College are maintained in accordance with the principles of fund accounting. This is the method by which resources for various purposes are classified for accounting and reporting purposes into funds that are in accordance with activities or objectives specified. Separate accounts are maintained for each fund; however, in the accompanying financial statements, the various funds are grouped into net assets without donor restrictions and with donor restrictions in accordance with accounting guidance.

(Continued)

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

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.

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 other than real estate and private equity are stated at fair value. Real estate and private equity are stated at the lower of cost or fair market value. The fair value of publicly traded securities is based upon quoted market prices or net asset values. 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.

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 40 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.

(Continued)

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

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 next fiscal year. 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, and (3) advanced payments for study abroad programs starting on or after July 1.

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 $1,092,452 and $1,089,959 at June 30, 2019 and 2018, 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 $167,483 and $290,769 at June 30, 2019 and 2018, 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 $4,566,280 and $4,459,417 at June 30, 2019 and 2018, 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 2.8% and 3.4% in 2019 and 2018, respectively.

The liabilities for these trusts and annuities are included in split-interest agreements on the statements of financial position. The split-interest agreement liability with donor restrictions of $1,096,097 and $1,115,428 at June 30, 2019 and 2018, respectively, is classified as such because it is only restricted by time. The split-interest agreement liability with donor restrictions of $405,352 and $412,104 at June 30, 2019 and 2018, respectively, is classified as such because the remaining balance is to be transferred to a permanent endowment after the trust or annuity is terminated.

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.

(Continued)

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

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 are recorded when conditions are substantially met.

Auxiliary Enterprises: The College's auxiliary enterprises exist primarily to furnish goods and services to students, faculty and staff. Managed as essentially self-supporting activities, the College's auxiliary enterprises consist of residence halls, dining halls, the activities center and the College bookstore. Auxiliary enterprise revenues and expenses are reported in the accompanying statements of activities in net assets without donor restrictions.

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% in 2019 and 2018.

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.

(Continued)

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

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.
>
> 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 agreement qualifies 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-provided 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.

<u>Recent Accounting Guidance</u>: In May 2014, the FASB issued Accounting Standards Update (ASU) 2014-09, *Revenue from Contracts with Customers: Topic 606*. This ASU affects any entity that either enters into contracts with customers to transfer goods or services or enters into contracts for the transfer of nonfinancial assets unless those contracts are within the scope of other standards (e.g., insurance contracts or lease contracts). This ASU will supersede the revenue recognition requirements in Topic 605, *Revenue Recognition*, and most industry-specific guidance. The core principle of the guidance is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The new standard is effective for the College in the fiscal year ending June 30, 2020. The College has not yet implemented this ASU and is in the process of assessing the effect on the College's financial statements.

In February 2016, the FASB issued ASU 2016-02, *Leases*. This ASU affects any entity that enters into a lease, with some specified scope exemptions. The main difference between previous generally accepted accounting principles (GAAP) and this ASU is the recognition of lease assets and lease liabilities by lessees for those leases classified as operating leases under previous GAAP. The new standard is effective for the College in the fiscal year ending June 30, 2021. The College has not yet implemented this ASU and is in the process of assessing the effect on the College's financial statements.

(Continued)

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

In June 2018, the FASB issued (ASU) 2018-08, *Not-for-Profit Entities (Topic 958): Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made.* This ASU provides a more robust framework for determining whether a transaction should be accounted for as a contribution or an exchange transaction. The guidance also helps determine whether a contribution is conditional and better distinguishes a donor-imposed condition from a donor-imposed restriction. The new standard is effective for the College in the fiscal year ending June 30, 2020. The College has not yet implemented this ASU and is in the process of assessing the effect on the College's financial statements.

Adoption of New Accounting Standards: In 2019 the College adopted ASU No. 2016-14—*Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*. The standard is intended to improve net asset classification requirements and the information presented in the financial statements and notes about a Not-for-Profit's liquidity, financial performance, and cash flows. The standard requires the College to reclassify its net assets from three categories (i.e., unrestricted, temporarily restricted, and permanently restricted) into two categories: net assets without donor restrictions and net assets with donor restrictions. It also requires recognition of underwater endowment funds as a reduction of net assets with donor restrictions. In addition, the guidance requires enhanced disclosures about governing board designations; composition of net assets with donor restrictions; the College's liquidity and expenses by both their natural and functional classification. The College implemented this ASU for the year ended June 30, 2019. This ASU has been applied retrospectively to all periods presented, except for the liquidity and availability disclosure and the schedule of functional expenses by natural classification, as permitted.

NOTE 2 - ALLOWANCE FOR DOUBTFUL ACCOUNTS

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

	2019	2018
Student accounts receivable allowance for doubtful accounts		
Beginning balance	$ 2,185,925	$ 2,164,993
Bad debt expense	208,841	206,158
Accounts written off	(461,910)	(185,226)
Ending balance	$ 1,932,856	$ 2,185,925
Student loan receivables allowance for doubtful accounts		
Beginning balance	$ 331,860	$ 325,881
Bad debt expense	-	5,979
Ending balance	$ 331,860	$ 331,860
Pledges receivable allowance for doubtful accounts		
Beginning balance	$ 91,798	$ 308,499
Allowance adjustment for pledges	567,429	(200,351)
Pledges written off	(331,500)	(16,350)
Ending balance	$ 327,727	$ 91,798

(Continued)

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 0.11% to 2.34%.

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:

	2019	2018
In one year or less	$ 11,761,387	$ 1,904,586
Between two years and five years	1,372,489	1,806,466
	13,133,876	3,711,052
Less discount	(24,816)	(39,146)
Less allowance for doubtful accounts	(327,727)	(91,798)
Total	$ 12,781,333	$ 3,580,108

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, 2019 and 2018, student loans represented 1.7% and 1.8%, respectively, of total assets.

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

	2019	2018
Federal government programs (Perkins)	$ 1,052,458	$ 1,311,748
Institutional programs (Roller & Legacy)	5,393,287	5,032,141
	6,445,745	6,343,889
Less allowance for uncollectible accounts	(331,860)	(331,860)
Student loans receivable, net	$ 6,113,885	$ 6,012,029

(Continued)

NOTE 4 - STUDENT LOANS RECEIVABLE/LOAN FUNDS (Continued)

The College participates in the Perkins federal revolving loan program. The federal Perkins loan program expired in 2017 with final disbursements permitted through June 30, 2018. Funds advanced by the federal government of $1,128,509 and $1,104,596 at June 30, 2019 and 2018, 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. Amounts due under the Perkins loan program are guaranteed by the government.

NOTE 5 - INVESTMENTS AND FAIR VALUE OF FINANCIAL INSTRUMENTS

Investments consist of the following as of June 30:

	2019		2018	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Marketable securities				
Corporate bonds	$ 17,766,857	$ 17,766,857	$ 14,861,775	$ 14,861,775
Government & agency obligations	2,160,630	2,160,630	2,309,461	2,309,461
Equities				
Commodities	-	-	3,557,325	3,557,325
Common stock	8,769,765	8,769,765	9,525,795	9,525,795
Mutual funds	68,523,065	68,523,065	70,815,181	70,815,181
Total marketable securities	97,220,317	97,220,317	101,069,537	101,069,537
Other investments				
Hedge funds	18,013,214	18,013,214	15,928,990	15,928,990
Real estate fund	690,195	693,245	1,170,402	3,483,123
Real estate holdings	5,930	5,930	5,930	5,930
Private equity	-	228,070	-	772,840
Total other investments	18,709,339	18,940,459	17,105,322	20,190,883
	$ 115,929,656	$ 116,160,776	$ 118,174,859	$ 121,260,420

(Continued)

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

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

	2019	2018
Operating investment return		
Dividends and interest income	$ 2,583,456	$ 2,344,473
Realized gain on marketable securities	3,319,418	3,167,990
Realized gain on other investments	136,205	772,840
Total operating investment return	6,039,079	6,285,303
Non-operating investment return		
Unrealized gain on marketable securities	759,674	3,136,365
Total non-operating investment return	759,674	3,136,365
Total	$ 6,798,753	$ 9,421,668

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

	Fair Value	Unfunded Commitments	Redemption Frequency	Redemption Notice
2019				
Real estate fund (a)	$ 693,245	$ -	Quarterly	45 days
Private equity (b)	228,070	3,000,000	N/A	N/A
Hedge funds (c)	18,013,214	-	Monthly-Annually	0-90 days
Total	$ 18,934,529	$ 3,000,000		
2018				
Real estate fund (a)	$ 3,483,123	$ -	Quarterly	90 days
Private equity (b)	772,840	385,000	N/A	N/A
Hedge funds (c)	15,928,990	-	Monthly-Annually	0-90 days
Total	$ 20,184,953	$ 385,000		

a) Real estate consists of limited liability real estate partnerships. 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.

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

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, government, 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].

Real estate limited liability partnership and private equity are recorded at cost, unless the asset is deemed permanently impaired, at which time the asset would be permanently adjusted down to fair value.

Hedge funds are recorded at fair value using NAV as a practical expedient. The investment objective of the hedge funds is to seek above-average returns in all market environments. 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 quarterly liquidity.

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].

(Continued)

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

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

	2019				
	Level 1	Level 2	Level 3	NAV	Total
Assets					
Investments					
Corporate bonds	$ -	$ 17,766,857	$ -	$ -	$ 17,766,857
Government & agency obligations	-	2,160,630	-	-	2,160,630
Common stock	8,769,765	-	-	-	8,769,765
Mutual funds	68,523,065	-	-	-	68,523,065
Hedge funds	-	-	-	18,013,214	18,013,214
Charitable remainder trusts	-	-	167,483	-	167,483
Perpetual trusts	-	-	1,092,452	-	1,092,452
Total assets at fair value	$ 77,292,830	$ 19,927,487	$ 1,259,935	$ 18,013,214	$116,493,466
Liabilities					
Interest rate swap	$ -	$ 4,677,028	$ -	$ -	$ 4,677,028

	2018				
	Level 1	Level 2	Level 3	NAV	Total
Assets					
Investments					
Corporate bonds	$ -	$ 14,861,775	$ -	$ -	$ 14,861,775
Government & agency obligations	-	2,309,461	-	-	2,309,461
Commodities	3,557,325	-	-	-	3,557,325
Common stock	9,525,795	-	-	-	9,525,795
Mutual funds	70,815,181	-	-	-	70,815,181
Hedge funds	-	-	-	15,928,990	15,928,990
Charitable remainder trusts	-	-	290,769	-	290,769
Perpetual trusts	-	-	1,089,959	-	1,089,959
Total assets at fair value	$ 83,898,301	$ 17,171,236	$ 1,380,728	$ 15,928,990	$118,379,255
Liabilities					
Interest rate swap	$ -	$ 1,037,646	$ -	$ -	$ 1,037,646

(Continued)

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 Trusts	Charitable Remainder Trusts	Charitable Lead Trusts	Total
Balance as of June 30, 2017	$ 1,050,563	$ 282,028	$ 34,724	$ 1,367,315
Unrealized gains (losses)	39,396	8,741	(34,724)	13,413
Balance as of June 30, 2018	1,089,959	290,769	-	1,380,728
Unrealized gains (losses)	2,493	(123,286)	-	(120,793)
Balance as of June 30, 2019	$ 1,092,452	$ 167,483	$ -	$ 1,259,935

NOTE 6 - ENDOWMENT

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 $42,926,228 and $46,346,516 in original donor-restricted endowment funds classified as net assets with donor restrictions at June 30, 2019, and 2018, 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 2019 and 2018.

(Continued)

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, 2019 and 2018, 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.

During 2019 and 2018, the College had the following endowment-related activities:

	Without Donor Restrictions	With Donor Restrictions	Total
2019			
Donor endowment funds	$ -	$ 69,642,658	$ 69,642,658
Board-designated funds	49,558,804	-	49,558,804
Total funds	$ 49,558,804	$ 69,642,658	$ 119,201,462
2018			
Donor endowment funds	$ -	$ 61,865,618	$ 61,865,618
Board-designated funds	55,073,509	-	55,073,509
Total funds	$ 55,073,509	$ 61,865,618	$ 116,939,127

(Continued)

NOTE 6 - ENDOWMENT (Continued)

During the fiscal years ended June 30, 2019 and 2018, changes in endowment net assets consisted of the following:

	2019		
	Without Donor Restrictions	With Donor Restrictions	Total
Net assets, beginning of year	$ 55,073,509	$ 61,865,618	$ 116,939,127
Contributions received	-	439,440	439,440
Contributions to Board-designated endowment funds	106,615	-	106,615
Investment return			
Investment income and fees	1,118,318	1,440,879	2,559,197
Realized gains	1,432,752	2,013,264	3,446,016
Total investment return	2,551,070	3,454,143	6,005,213
Appropriation of endowment assets for expenditure	(2,578,717)	(1,723,216)	(4,301,933)
Unrealized investment gain	294,666	450,939	745,605
Transfer of net assets and other changes	(5,888,339)	5,155,734	(732,605)
Net assets, end of year	$ 49,558,804	$ 69,642,658	$ 119,201,462

(Continued)

NOTE 6 - ENDOWMENT (Continued)

	2018		
	Without Donor Restrictions	With Donor Restrictions	Total
Net assets, beginning of year	$ 50,921,196	$ 59,065,250	$ 109,986,446
Contributions received	-	768,329	768,329
Contributions to Board-designated endowment funds	995,584	-	995,584
Investment return			
Investment income and fees	1,403,568	932,663	2,336,231
Realized gains	2,387,292	1,501,562	3,888,854
Total investment return	3,790,860	2,434,225	6,225,085
Appropriation of endowment assets for expenditure	(2,502,158)	(1,623,931)	(4,126,089)
Unrealized investment gain	1,917,592	1,238,456	3,156,048
Transfer of net assets and other changes	(49,565)	(16,711)	(66,276)
Net assets, end of year	$ 55,073,509	$ 61,865,618	$ 116,939,127

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:

	2019	2018
Land and improvements	$ 8,834,544	$ 8,834,544
Buildings and improvements	237,980,569	228,466,473
Equipment	27,204,155	26,524,255
Construction in progress	2,772,855	10,108,935
	276,792,123	273,934,207
Less accumulated depreciation	(89,140,586)	(82,064,958)
Total	$ 187,651,537	$ 191,869,249

(Continued)

NOTE 8 - SHORT-TERM BORROWINGS

At June 30, 2019, the College had available a $5,000,000 line of credit with a financial institution that bears interest at London Interbank Offered Rate (LIBOR) plus 60 basis points at the date of draw or prime commercial rate (whichever is lower). There were no borrowings at June 30, 2019 and 2018. The line of credit will expire on March 30, 2020. It is renewable at the option of the lender. The College plans to renew the line of credit with the lender.

NOTE 9 - BONDS PAYABLE

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

	2019	2018
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.	29,288,000	30,052,000
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.	9,088,162	11,019,682
	72,329,162	75,024,682
Unamortized bond issuance costs	(329,627)	(347,338)
Total bonds payable	$ 71,999,535	$ 74,677,344

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 average rate for the Series 2014A bonds was 2.65% in 2019 and 2.07% in 2018. The interest rate swap agreement on the 2014A Series increased the rate by 0.07% in 2019 and 0.66% in 2018, bringing the effective interest rate on the 2014A issue to an annual rate of 2.72% for 2019 and 2.73% for 2018.

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 average rate for the Series 2014B bonds was 2.48% in 2019 and 1.86% in 2018. The interest rate swap agreement on the 2014B Series increased the rate by 0.74% in 2019 and 1.35% in 2018, bringing the effective interest rate on the 2014B issue to an annual rate of 3.22% for 2019 and 3.21% in 2018.

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. A quarterly commitment fee based on the average amount of unutilized funds is also payable. The average rate for the 2015 bonds (including the commitment fee) was 2.66% for 2019 and 1.53% in 2018.

(Continued)

NOTE 9 - BONDS PAYABLE (Continued)

During the fiscal years ended June 30, 2019 and 2018, the College incurred interest in the amount of $2,160,742 and $2,226,715, respectively, including $0 and $111,354 of capitalized interest for the years ending June 30, 2019 and 2018, respectively. The capitalized interest reduced the total interest expense on the accompanying statements of activities, deferring these costs over the life of the capital assets.

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, 2019 and 2018 except for the June 30, 2019, debt service coverage ratio requirement on one of the bond issuances. Subsequent to June 30, 2019, the College obtained a waiver of this covenant requirement.

Maturities on bonds payable for each of the upcoming fiscal years ending June 30 are as follows:

2020	$ 788,000
2021	812,000
2022	838,000
2023	864,000
2024	4,245,000
Thereafter	64,782,162
Total	$ 72,329,162

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, 2019 and 2018, the fair value of the interest rate swaps were as follows:

Notional Amount	Interest Rate	Maturity Date	Fair Value June 30, 2019
$ 33,953,000	2.72%	December 2024	$ (1,008,147)
$ 29,288,000	3.22%	June 2044	(3,668,881)
			$ (4,677,028)

Notional Amount	Interest Rate	Maturity Date	Fair Value June 30, 2018
$ 33,953,000	2.73%	December 2024	$ 421,603
$ 30,052,000	3.21%	June 2044	(1,459,249)
			$ (1,037,646)

The fair value of these interest rate swap agreements resulted in an unrealized loss of $3,639,382 in 2019 and an unrealized gain of $2,743,942 in 2018 based on a yield curve and projected interest rates through the maturity of the instruments.

(Continued)

NOTE 10 - NET ASSETS WITH DONOR RESTRICTIONS

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

	2019	2018
Educational and general operations	$ 48,667,982	$ 30,339,502
Scholarships	29,990,554	26,649,755
Physical plant expenditures	7,150,148	9,207,372
Payments to split-interest agreement recipients	3,232,313	3,223,152
Student loan funds	570,398	570,398
	$ 89,611,395	$ 69,990,179

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:

	2019	2018
Instruction	$ 924,590	$ 538,682
Academic support	175,845	212,249
Intercollegiate athletics	325,148	259,193
Student services	50,086	42,189
Private scholarships and fellowships	1,116,883	1,165,016
Operations and maintenance	241,496	6,575
Institutional support	398,727	(48,333)
Fixed-asset additions	-	6,153,178
	3,232,775	8,328,749
Loss on asset write offs	331,500	16,350
Total	$ 3,564,275	$ 8,345,099

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 2019 and 2018, $2,729,630 and $2,729,175, respectively, was deposited into individual employee retirement accounts from College resources without donor restrictions.

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 $282,586 and $334,562 at June 30, 2019 and 2018, 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 investment securities and are available to general creditors.

(Continued)

NOTE 13 - FUND-RAISING COSTS

Fund-raising costs incurred by the College in 2019 and 2018 totaled $2,350,535 and $2,411,610, respectively. These costs related primarily to planned giving, annual fund, institutional advancement, corporate relations and the capital campaign.

NOTE 14 - OPERATING LEASES

The College maintains certain operating leases. Future minimum lease payments are as follows:

2020	$ 182,414
2021	91,849
2022	37,247
2023	31,576
2024	13,000
Thereafter	68,250
	$ 424,336

Rental expense for operating leases during 2019 and 2018 totaled $349,670 and $719,481, respectively.

NOTE 15 - 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 16 - 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.

(Continued)

NOTE 17 - 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, 2019 and 2018, the College purchased products or services worth $566,483 and $724,752, 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.

NOTE 18 - HEALTH PLAN – SELF INSURANCE COMMITMENT

The College provides a self-insured health insurance plan for its employee's medical and pharmaceutical claims, whereby Blue Cross Blue Shield 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 $95,000 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, 2019 and 2018 was $1,372,113 and $1,201,124, respectively. Employee health insurance expense, under the self-insurance plan, totaled $2,237,014 and $2,534,171 for the years ended June 30, 2019 and 2018, respectively.

NOTE 19 - FUNCTIONAL EXPENSE

The table below presents these functional expenses by their natural classification for the year ended June 30, 2019.

	2019							
Category	Instruction	Academic Support	Intercollegiate Athletics	Student Services	Institutional Support	Auxiliary	General	2018 Total
Salary	$ 17,430,643	$ 3,799,340	$ 2,397,165	$ 3,522,991	$ 5,230,668	$ 1,702,228	$ 34,083,035	$ 33,898,423
Benefits	3,904,877	870,053	549,587	820,853	3,167,212	401,092	9,713,674	9,964,586
Depreciation & amortization	2,761,867	344,414	480,462	671,961	321,851	2,751,024	7,331,579	7,527,759
Operations & maintenance	2,240,305	802,484	397,770	541,356	695,999	3,517,329	8,195,243	8,712,606
Interest expense	798,488	99,574	138,907	194,272	93,051	795,353	2,119,645	2,226,715
Auxiliary enterprise	-	-	-	-	-	4,225,305	4,225,305	4,348,139
General	1,923,843	1,123,178	1,388,424	1,367,869	3,870,765	520,802	10,194,881	9,026,322
Professional & contracted services	730,806	661,225	170,697	1,332,233	1,228,677	577,953	4,701,591	3,524,561
Total	$ 29,790,829	$ 7,700,268	$ 5,523,012	$ 8,451,535	$ 14,608,223	$ 14,491,086	$ 80,564,953	$ 79,229,111

Expenses associated with property primarily depreciation, interest, facilities operations and maintenance expenses are allocated primarily on the basis of square footage.

NOTE 20 - 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 $49,558,805 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. For fiscal year 2020, the Board of Trustees has authorized a distribution from the unrestricted endowment funds of approximately $2,800,000 to support operations.

(Continued)

NOTE 20 - LIQUIDITY AND AVAILABILITY (Continued)

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

Cash and cash equivalents	$ 11,690,079
Student accounts receivable, net of allowance	2,910,500
Other receivables	166,056
Total	$ 14,766,635

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 21 - SUBSEQUENT EVENTS

The College evaluated its June 30, 2019, financial statements for subsequent events through October 24, 2019, the date financial statements were available to be issued.

SUPPLEMENTAL INFORMATION

NORTH CENTRAL COLLEGE
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Year ended June 30, 2019

Federal Grantor/Pass-Through Grantor/Program Title	Federal CFDA Number	Disbursements/ Expenditures
U.S. Department of Education		
Student Financial Assistance Programs:		
Federal Pell Grant Program	84.063	$ 3,311,643
Federal Perkins Loan Program	84.038	1,311,748
Federal Supplemental Educational Opportunity Grant	84.007	205,285
Federal Work-Study Program	84.033	300,000
Federal Direct Student Loans	84.268	19,936,309
Teacher Education Assistance for College and Higher Education Grants (TEACH Grants)	84.379	14,960
Total Student Financial Assistance Cluster		25,079,945
Office of Innovation and Improvement – School Leadership	84.363A	23,923
Office of Postsecondary Education – Undergraduate International Studies and Foreign Language Programs	84.016A	9,314
Supporting Effective Educator Development Grant Program	84.423A	189,085
Office of Innovation and Improvement-Education Innovation and Research	84.411C	7,088
Office of Elementary and Secondary Education – Mathematics and Science Partnerships	84.366B	14,987
Total U.S. Department of Education		25,324,342
U.S. Department of Defense		
National Security Agency – Language Grant Program	12.900	112,500
Total expenditures of federal awards		$ 25,436,842

See accompanying notes to schedule of expenditures of federal awards.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation: The accompanying schedule of expenditures of federal awards (the "Schedule") includes the federal award activity of North Central College (the "College") under programs of the federal government for the year ended June 30, 2019. The information in this Schedule is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement. The College has elected not to use the 10-percent de minimis indirect cost rate allowed under the Uniform Guidance. If applicable, negative amounts shown on the Schedule represent adjustments or credits made in the normal course of business to amounts reported as expenditures in prior years. Because the Schedule presents only a selected portion of the operations of the College, it is not intended to and does not present the financial position, changes in net assets, or cash flows of the College.

NOTE 2 - FEDERAL STUDENT LOAN PROGRAM

During the fiscal year ended June 30, 2019, students and their parents were awarded $19,936,309 in federally guaranteed loans under the Federal Direct Student Loan Programs (which includes Stafford Loans and Parent Loans for Undergraduate Students).

The College is responsible only for the performance of certain administrative duties with respect to the federally guaranteed student loan programs, and accordingly, balances and transactions relating to these loan programs are not included in the College's basic financial statements. Therefore, it is not practicable to determine the balance of loans outstanding to students and former students of the College at June 30, 2019.

The College administers the Federal Perkins Loan Program and the balances and transactions relating to these programs are included in the College's basic financial statements. There were no loans made by the College to eligible students under the Federal Perkins Loan Program during the year ended June 30, 2019. The Federal Perkins loans balance net of allowance at June 30, 2019, was $977,127.

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

The Board of Trustees
North Central College
Naperville, Illinois

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of North Central College (the "College"), which comprise the statement of financial position as of June 30, 2019, and the related statements of activities and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated October 24, 2019.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the College's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the College's internal control. Accordingly, we do not express an opinion on the effectiveness of the College's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the College's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

(Continued)

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the College's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of internal control over financial reporting or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the College's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Crowe LLP

Crowe LLP

Chicago, Illinois
October 24, 2019

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM AND REPORT ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY UNIFORM GUIDANCE

The Board of Trustees
North Central College
Naperville, Illinois

Report on Compliance for Each Major Federal Program

We have audited North Central College's (the "College") compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the College's major federal programs for the year ended June 30, 2019. The College's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the College's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the College's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the College's compliance.

(Continued)

Opinion on Each Major Federal Program

In our opinion, the College complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2019.

Report on Internal Control Over Compliance

Management of the College is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the College's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the College's internal control over compliance.

A *deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Crowe LLP

Crowe LLP

Chicago, Illinois
October 24, 2019

Financial Statements

Type of auditors' report issued	Unmodified			
Internal control over financial reporting:				
Material weakness(es) identified?		Yes	X	No
Significant deficiency identified not considered to be material weakness(es)?		Yes	X	None Reported
Noncompliance material to financial statements noted?		Yes	X	None Reported

Federal Awards

Internal control over major federal programs:				
Material weakness(es) identified?		Yes	X	No
Significant deficiency(ies) identified not considered to be material weakness(es)?		Yes	X	None Reported
Type of auditors' report issued on compliance for major programs	Unmodified			
Any audit findings disclosed that are required to be reported in accordance with 2CFR200.516(a)?		Yes	X	None Reported

Identification of major programs:

CFDA Number (s)	Name of Federal Program or Cluster Number
	Total Federal Student Aid Cluster (consisting of):
84.063	Federal Pell Grant Program
84.038	Federal Perkins Loan Program
84.007	Federal Supplemental Educational Opportunity Grants
84.033	Federal Work-Study Program
84.268	Federal Direct Student Loans
84.379	Teacher Education Assistance for College and Higher Education Grants

Dollar threshold used to distinguish between Type A and Type B programs	$ 750,000			
Auditee qualified as low-risk auditee?	X	Yes		No

(Continued)

PART II – FINANCIAL STATEMENT FINDINGS

None

PART III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

None