

**NORTH CENTRAL COLLEGE**

**FINANCIAL STATEMENTS**

June 30, 2018 and 2017

NORTH CENTRAL COLLEGE

FINANCIAL STATEMENTS

June 30, 2018 and 2017

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## 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 (College), which comprise the statements of financial position as of June 30, 2018 and 2017, 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. 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.

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**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, 2018 and 2017, 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.

  
Crowe LLP

Chicago, Illinois  
October 16, 2018

NORTH CENTRAL COLLEGE  
STATEMENTS OF FINANCIAL POSITION  
June 30, 2018 and 2017

	2018			Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	
<b>ASSETS</b>				
Cash and cash equivalents	\$ 13,434,807	\$ 340,674	\$ 752,642	\$ 14,528,123
Student accounts receivable, net of allowance	2,883,321	-	-	2,883,321
Prepaid expense, other receivables and other assets	2,148,272	350,118	102,117	2,600,507
Pledges receivable, net of allowance	-	2,524,372	1,055,736	3,580,108
Investments	53,733,933	20,227,720	44,213,206	118,174,859
Student loans receivable, net of allowance	5,441,631	-	570,398	6,012,029
Beneficial interest in charitable remainder trusts	-	290,769	-	290,769
Perpetual trust held by a third party	-	-	1,089,959	1,089,959
Land, buildings and equipment, net of accumulated depreciation of \$82,064,958	191,869,249	-	-	191,869,249
<b>Total assets</b>	<b><u>\$ 269,511,213</u></b>	<b><u>\$ 23,733,653</u></b>	<b><u>\$ 47,784,058</u></b>	<b><u>\$ 341,028,924</u></b>
<b>LIABILITIES AND NET ASSETS</b>				
<b>Liabilities</b>				
Accounts payable, accrued liabilities and refundable deposits	\$ 7,773,156	\$ -	\$ -	\$ 7,773,156
Deferred revenue	1,185,222	-	-	1,185,222
Split-interest agreements	-	1,115,428	412,104	1,527,532
Refundable loan funds (Perkins loan)	1,104,596	-	-	1,104,596
Interest rate swap agreement liability	1,037,646	-	-	1,037,646
Other long-term liability	2,124,482	-	-	2,124,482
Bonds and mortgage payable	74,677,344	-	-	74,677,344
<b>Total liabilities</b>	<b>87,902,446</b>	<b>1,115,428</b>	<b>412,104</b>	<b>89,429,978</b>
<b>Net assets</b>				
Current funds	5,020,888	3,331,011	-	8,351,899
Loan funds	4,389,138	-	570,398	4,959,536
Plant funds	117,125,232	1,000,000	-	118,125,232
Quasi-endowment funds	49,489,598	-	-	49,489,598
Endowed earnings funds	5,583,911	11,771,282	-	17,355,193
Endowment funds	-	3,747,820	46,346,516	50,094,336
Split-interest agreement funds	-	2,768,112	455,040	3,223,152
<b>Total net assets</b>	<b><u>181,608,767</u></b>	<b><u>22,618,225</u></b>	<b><u>47,371,954</u></b>	<b><u>251,598,946</u></b>
<b>Total liabilities and net assets</b>	<b><u>\$ 269,511,213</u></b>	<b><u>\$ 23,733,653</u></b>	<b><u>\$ 47,784,058</u></b>	<b><u>\$ 341,028,924</u></b>

(Continued)

NORTH CENTRAL COLLEGE  
STATEMENTS OF FINANCIAL POSITION  
June 30, 2018 and 2017

	2017			Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	
<b>ASSETS</b>				
Cash and cash equivalents	\$ 24,547,071	\$ 462,802	\$ 1,206,441	\$ 26,216,314
Student accounts receivable, net of allowance	2,678,040	-	-	2,678,040
Prepaid expense, other receivables and other assets	5,002,999	463,781	102,793	5,569,573
Pledges receivable, net of allowance	-	10,906,634	1,124,819	12,031,453
Investments	57,459,986	9,529,264	42,888,652	109,877,902
Student loans receivable, net of allowance	5,319,948	-	570,398	5,890,346
Beneficial interest in charitable remainder trusts	-	282,028	-	282,028
Beneficial interest in charitable lead trust	-	34,724	-	34,724
Perpetual trust held by a third party	-	-	1,050,563	1,050,563
Land, buildings and equipment, net of accumulated depreciation of \$74,704,372	<u>189,836,247</u>	<u>-</u>	<u>-</u>	<u>189,836,247</u>
<b>Total assets</b>	<b><u>\$ 284,844,291</u></b>	<b><u>\$ 21,679,233</u></b>	<b><u>\$ 46,943,666</u></b>	<b><u>\$ 353,467,190</u></b>
<b>LIABILITIES AND NET ASSETS</b>				
<b>Liabilities</b>				
Accounts payable, accrued liabilities and refundable deposits	\$ 8,708,669	\$ -	\$ -	\$ 8,708,669
Deferred revenue	629,557	-	-	629,557
Split-interest agreements	-	1,155,046	510,370	1,665,416
Refundable loan funds (Perkins loan)	1,327,462	-	-	1,327,462
Interest rate swap agreement liability	3,781,588	-	-	3,781,588
Other long-term liability	1,469,000	-	-	1,469,000
Bonds and mortgage payable	<u>94,556,952</u>	<u>-</u>	<u>-</u>	<u>94,556,952</u>
<b>Total liabilities</b>	<b>110,473,228</b>	<b>1,155,046</b>	<b>510,370</b>	<b>112,138,644</b>
<b>Net assets</b>				
Current funds	4,346,462	3,301,343	-	7,647,805
Loan funds	4,399,074	-	570,398	4,969,472
Plant funds	114,704,331	1,010,371	-	115,714,702
Quasi-endowment funds	46,228,084	-	-	46,228,084
Endowed earnings funds	4,693,112	10,029,205	-	14,722,317
Endowment funds	-	3,585,985	45,450,060	49,036,045
Split-interest agreement funds	<u>-</u>	<u>2,597,283</u>	<u>412,838</u>	<u>3,010,121</u>
<b>Total net assets</b>	<b><u>174,371,063</u></b>	<b><u>20,524,187</u></b>	<b><u>46,433,296</u></b>	<b><u>241,328,546</u></b>
<b>Total liabilities and net assets</b>	<b><u>\$ 284,844,291</u></b>	<b><u>\$ 21,679,233</u></b>	<b><u>\$ 46,943,666</u></b>	<b><u>\$ 353,467,190</u></b>

See notes to financial statements.

NORTH CENTRAL COLLEGE  
STATEMENTS OF ACTIVITIES  
Years ended June 30, 2018 and 2017

	2018			Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	
<b>Revenues</b>				
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	24,010	768,329	3,223,291
Grants	105,950	749,350	-	855,300
Endowment returns designated for spending	2,502,158	1,623,931	-	4,126,089
<b>Other support</b>				
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	333,628	768,329	75,441,494
<b>Expenses</b>				
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)	333,628	768,329	(3,787,617)
<b>Other changes in net assets</b>				
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	-	141,099	170,329	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 transfers	(31,617)	-	-	(31,617)
Change in net assets	7,237,704	2,094,038	938,658	10,270,400
<b>Net assets</b>				
Beginning of year	174,371,063	20,524,187	46,433,296	241,328,546
End of year	<u>\$ 181,608,767</u>	<u>\$ 22,618,225</u>	<u>\$ 47,371,954</u>	<u>\$ 251,598,946</u>

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NORTH CENTRAL COLLEGE  
STATEMENTS OF ACTIVITIES  
Years ended June 30, 2018 and 2017

	2017			Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	
<b>Revenues</b>				
Tuition and fees	\$ 94,250,512	\$ -	\$ -	\$ 94,250,512
Less financial aid	(46,834,680)	-	-	(46,834,680)
Net tuition and fees	47,415,832	-	-	47,415,832
Community education programs	385,627	-	-	385,627
Contributions	1,002,616	1,494,319	443,946	2,940,881
Grants	20,000	697,755	-	717,755
Endowment returns designated for spending	2,511,194	1,612,010	-	4,123,204
<b>Other support</b>				
Auxiliary enterprises	16,157,703	-	-	16,157,703
Rental	1,376,107	-	-	1,376,107
Other sources	2,372,187	41,488	-	2,413,675
Net assets released from restrictions and changes in donor restrictions	2,718,647	(2,840,647)	122,000	-
Total revenues and other support	73,959,913	1,004,925	565,946	75,530,784
<b>Expenses</b>				
Instruction	28,228,648	-	-	28,228,648
Academic support	7,388,627	-	-	7,388,627
Intercollegiate athletics	5,171,713	-	-	5,171,713
Student services	8,063,475	-	-	8,063,475
Institutional support	13,485,687	-	-	13,485,687
Auxiliary enterprises	14,499,815	-	-	14,499,815
Total expenses	76,837,965	-	-	76,837,965
Change in net assets before other changes	(2,878,052)	1,004,925	565,946	(1,307,181)
<b>Other changes in net assets</b>				
Investment return	3,585,731	2,009,019	-	5,594,750
Unrealized investment gain	5,579,244	3,942,048	-	9,521,292
Endowment returns designated for spending	(2,511,194)	(1,612,010)	-	(4,123,204)
Change in fair value of interest rate swap agreement	4,668,002	-	-	4,668,002
Change in value of split-interest agreements	-	272,587	351,609	624,196
Loss on asset write-offs	(5,655)	(530,000)	-	(535,655)
Contributions - capital	-	8,322,518	-	8,322,518
Net assets released from restrictions - capital	24,495,818	(24,495,818)	-	-
Other expenses	(656,422)	-	-	(656,422)
Change in net assets	32,277,472	(11,086,731)	917,555	22,108,296
<b>Net assets</b>				
Beginning of year	142,093,591	31,610,918	45,515,741	219,220,250
End of year	\$ 174,371,063	\$ 20,524,187	\$ 46,433,296	\$ 241,328,546

See notes to financial statements.



NORTH CENTRAL COLLEGE  
STATEMENTS OF CASH FLOWS  
Years ended June 30, 2018 and 2017

	2018	2017
Cash flows from operating activities		
Change in net assets	\$ 10,270,400	\$ 22,108,296
Adjustments to reconcile change in net assets to net cash provided by operating activities		
Change in pledge discount	(13,233)	5,580
Loss on asset writeoffs	525	5,655
Allowance for doubtful accounts	(189,790)	221,656
Change in value of remainder and lead trusts	25,983	(4,643)
Change in fair value of interest rate swap agreements	(2,743,942)	(4,668,002)
Change in amounts payable under split-interest agreement	(137,884)	(77,296)
Realized and unrealized gain on marketable securities	(6,304,355)	(12,005,888)
Realized gains on other investments	(772,840)	(943,405)
Depreciation and amortization	7,527,759	6,935,292
Contributions restricted for permanent investment	(768,329)	(443,946)
Investment income earned from permanent investment	(52,590)	-
Contributions received for construction in progress	(14,041,024)	(8,779,122)
Changes in operating assets and liabilities		
Student accounts receivable	(226,213)	493,213
Prepaid expenses, other receivables and other assets	3,624,548	(360,608)
Perpetual trust held by third party	(39,396)	(88,529)
Pledges receivable	8,681,279	(6,278,788)
Student loan receivable	(127,662)	(220,049)
Accounts payable, accrued liabilities, and refundable deposits	869,503	(1,533,440)
Deferred revenue	555,665	(418,977)
Refundable loan funds	(222,866)	14,416
Net cash from operating activities	5,915,538	(6,038,585)
Cash flows from investing activities		
Purchases of land, buildings, and equipment	(11,348,592)	(33,527,788)
Change in deposits held by bond trustee	-	251,188
Purchases of investments	(12,389,686)	(24,291,824)
Proceeds from sales of investments	11,169,924	26,636,335
Net cash from investing activities	(12,568,354)	(30,932,089)
Cash flows from financing activities		
Proceeds from contributions restricted for investment in endowment	768,329	443,946
Investment income earned from permanent investment	52,590	-
Contributions received for construction in progress	14,041,024	8,779,122
Proceeds on bond issuance	-	30,000,000
Repayment of bonds	(19,897,318)	(718,000)
Net cash from financing activities	(5,035,375)	38,505,068
Net change in cash and cash equivalents	(11,688,191)	1,534,394
Cash and cash equivalents at beginning of year	26,216,314	24,681,920
Cash and cash equivalents at end of year	\$ 14,528,123	\$ 26,216,314
Supplemental disclosures of cash flow information		
Cash paid during the year for interest	\$ 2,226,715	\$ 2,025,852
Supplemental disclosures of noncash investing and financing activities		
Construction in progress included in accounts payable	\$ 1,805,016	\$ 477,151

See notes to financial statements.

NORTH CENTRAL COLLEGE  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2018 and 2017

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

Founded in 1861, North Central College (the College) is an independent, comprehensive college of the liberal arts and sciences that offers 66 undergraduate majors and graduate programming in five areas. The College is committed to academic excellence, a climate that emphasizes leadership, ethics, values and service, a curriculum that balances job-related knowledge with a liberal arts foundation, and a caring environment with small classes. The College enrolled 2,632 full-time undergraduates, 69 full-time graduate students, 137 part-time undergraduates, and 127 part-time graduate students (Fall Term 2018).

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 three classes: permanently restricted, temporarily restricted or unrestricted.

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:

Unrestricted net assets are not subject to donor-imposed stipulations. Unrestricted net assets may be designated for specific purposes by actions of the Board of Trustees or may otherwise be limited by contractual agreements with outside parties.

Temporarily restricted net assets 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.

Permanently restricted net assets 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 unrestricted net assets unless use of the related assets is limited by donor-imposed restrictions. Expenses are reported as decreases in unrestricted net assets. Gains and losses on investments and other assets or liabilities are reported as increases or decreases in unrestricted net assets 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).

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

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(Continued)

NORTH CENTRAL COLLEGE  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2018 and 2017

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

Fund Accounting: 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 unrestricted, temporarily restricted or permanently restricted net assets in accordance with accounting guidance.

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 in marketable equity and debt securities are stated principally at published market quotations. Real estate holdings are stated at cost at date of acquisition or the appraised value at the time of donation, less accumulated depreciation. Investments in certificates of deposit are stated at cost, which approximates fair value. Investments in hedge funds are recorded at fair value. Investments in real estate funds and real estate holdings are recorded at cost unless the investment or the underlying assets are deemed to be permanently impaired, at which time the asset would be adjusted down to fair value. Based on this methodology, this adjusted value would become the new cost basis. Venture capital is recorded at original cost, less distributions. The College elected this method in order to avoid large write offs if the original cost is not recouped. Once the full cost is recovered, the College will then recognize each distribution as a gain.

Investments are exposed to various risks, such as interest rate, market and credit. Due to the level of risk associated with investments, it is at least reasonably possible that changes in risk in the near term would materially affect the amounts reported in the statements of financial position.

Dividends and interest earned on investments are recorded on the accrual basis.

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(Continued)

NORTH CENTRAL COLLEGE  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2018 and 2017

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

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 three to 20 years.

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 \$1,089,959 and \$1,050,563 at June 30, 2018 and 2017, 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 temporarily restricted trusts totaled \$290,769 and \$282,028 at June 30, 2018 and 2017, respectively.

Beneficial Interest in Charitable Lead Trust Held by Third Parties: The College was a beneficiary of a lead trust held and controlled by an independent trustee. The beneficial interest was measured at the present value of the expected cash flows to be received by the College over the term of the trust agreement. Upon termination of the trust, the remaining assets were to be paid to the beneficiaries of the donor's estate. The beneficial interest in the trust totaled \$0 and \$34,724 at June 30, 2018 and 2017, 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 \$4,459,417 and \$4,393,509 at June 30, 2018 and 2017, 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 3.4% and 2.4% in 2018 and 2017, respectively.

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NORTH CENTRAL COLLEGE  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2018 and 2017

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

The liabilities for these trusts and annuities are included in split-interest agreements on the statements of financial position. The temporarily restricted split-interest agreement liability of \$1,115,428 and \$1,155,046 at June 30, 2018 and 2017, respectively, is classified as such because it is only restricted by time. The permanently restricted split-interest agreement liability of \$412,104 and \$510,370 at June 30, 2018 and 2017, 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.

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 unrestricted net assets.

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 4.0% in 2018 and 2017.

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.

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(Continued)

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

**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.

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.

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(Continued)

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

Recent Accounting Guidance: In May 2014, the FASB issued 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 amendments in this ASU are effective retrospectively for fiscal years beginning after December 15, 2018. The College has not yet implemented this ASU and is in the process of assessing the effect on the College's financial statements.

In August 2016, the FASB issued ASU 2016-14, *Not-for-Profit Entities: Topic 958*. The amendments in this Update affect not-for-profit entities (NFPs) and the users of their general purpose financial statements. The amendments in this Update make certain improvements to the current net asset classification requirements and the information presented in financial statements and notes about a NFP's liquidity, financial performance, and cash flows. The amendments in the ASU are effective for annual financial statements issued for fiscal years beginning after December 15, 2017, and for interim periods within fiscal years beginning after December 15, 2018. The College is in the process of assessing the effect on the College's financial statement presentation and disclosure.

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(Continued)

NORTH CENTRAL COLLEGE  
 NOTES TO FINANCIAL STATEMENTS  
 June 30, 2018 and 2017

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**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>2018</u>	<u>2017</u>
Student accounts receivable allowance for doubtful accounts		
Beginning balance	\$ 2,164,993	\$ 2,085,575
Bad debt expense	206,158	335,000
Accounts written off	<u>(185,226)</u>	<u>(255,582)</u>
Ending balance	<u>\$ 2,185,925</u>	<u>\$ 2,164,993</u>
Student loan receivables allowance for doubtful accounts		
Beginning balance	\$ 325,881	\$ 340,473
Bad debt expense	<u>5,979</u>	<u>(14,592)</u>
Ending balance	<u>\$ 331,860</u>	<u>\$ 325,881</u>
Pledges receivable allowance for doubtful accounts		
Beginning balance	\$ 308,499	\$ 151,669
Allowance adjustment for pledges	(200,351)	686,830
Pledges written off	<u>(16,350)</u>	<u>(530,000)</u>
Ending balance	<u>\$ 91,798</u>	<u>\$ 308,499</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 0.11% to 4.37%.

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.

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(Continued)



NORTH CENTRAL COLLEGE  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2018 and 2017

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**NOTE 3 - PLEDGES RECEIVABLE (Continued)**

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

	<u>2018</u>	<u>2017</u>
In one year or less	\$ 1,904,586	\$ 9,539,935
Between two years and five years	<u>1,806,466</u>	<u>2,825,930</u>
	3,711,052	12,365,865
Less discount	(39,146)	(25,913)
Less allowance for doubtful accounts	<u>(91,798)</u>	<u>(308,499)</u>
 Total	 <u>\$ 3,580,108</u>	 <u>\$12,031,453</u>

**NOTE 4 - STUDENT LOANS RECEIVABLE/LOAN FUNDS**

Loans receivable consist of student financial aid granted through Perkins and Roller/Legacy loan programs. The Perkins loans are guaranteed by the federal government, bear interest of 5.0% and are payable over 10 years upon graduation. The interest-free Roller 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. In 2016, the Legacy loan program was started. This is an NCC funded program that assesses an interest rate at 5% and is repayable over 10 years. At June 30, 2018 and 2017, student loans represented 1.8% and 1.7%, respectively, of total assets.

	<u>2018</u>	<u>2017</u>
Federal government programs (Perkins)	\$ 1,311,748	\$ 1,384,620
Institutional programs (Roller & Legacy)	<u>5,032,141</u>	<u>4,831,607</u>
	6,343,889	6,216,227
Less allowance for uncollectible accounts	<u>(331,860)</u>	<u>(325,881)</u>
 Student loans receivable, net	 <u>\$ 6,012,029</u>	 <u>\$ 5,890,346</u>

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(Continued)

NORTH CENTRAL COLLEGE  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2018 and 2017

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

At June 30, 2018 and 2017, the following amounts were past due under the Perkins student loan program:

<u>June 30,</u>	<u>9 Months Past Due (Not Defaulted)</u>	<u>9 Months - 2 Years Past Due (Defaulted)</u>	<u>2 Years 5 Years Past Due (Defaulted)</u>	<u>More Than 5 Years Past Due (Defaulted)</u>	<u>Total Past Due</u>
2018	\$ 52,975	\$ 64,330	\$ 67,443	\$ 86,724	\$271,472
2017	\$ 66,657	\$ 49,177	\$ 65,469	\$ 82,949	\$264,252

The College participates in the Perkins federal revolving loan program. The availability of funds for loans under the program is dependent on reimbursements to the pool from repayments on outstanding loans. Funds advanced by the federal government of \$1,104,596 and \$1,327,462 at June 30, 2018 and 2017, 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.

At June 30, 2018 and 2017, the following amounts were past due under the Roller and Legacy student loan program:

<u>June 30,</u>	<u>Over 90 Days Delinquent</u>	<u>In Collections</u>	<u>Total Past Due</u>
2018	\$ 441,631	\$ 72,433	\$ 514,064
2017	\$ 422,966	\$ 16,712	\$ 439,678

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.

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(Continued)

NORTH CENTRAL COLLEGE  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2018 and 2017

**NOTE 5 - INVESTMENTS AND FAIR VALUE OF FINANCIAL INSTRUMENTS**

Investments have been allocated to the net asset classifications for presentation in the statements of financial position. Investments consist of the following as of June 30:

	2018		2017	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Marketable securities				
Corporate bonds	\$ 14,861,775	\$ 14,861,775	\$ 16,709,602	\$ 16,709,602
Government & agency obligations	2,309,461	2,309,461	2,174,531	2,174,531
Equities				
Commodities	3,557,325	3,557,325	2,983,933	2,983,933
Common stock	9,525,795	9,525,795	8,942,432	8,942,432
Mutual funds	70,815,181	70,815,181	67,307,882	67,307,882
Total marketable securities	101,069,537	101,069,537	98,118,380	98,118,380
Other investments				
Hedge funds	15,928,990	15,928,990	10,463,342	10,463,342
Real estate fund	1,170,402	3,483,123	1,189,876	3,270,342
Real estate holdings	5,930	5,930	5,930	5,930
Venture capital	-	772,840	100,374	1,043,780
Total other investments	17,105,322	20,190,883	11,759,522	14,783,394
	\$ 118,174,859	\$ 121,260,420	\$ 109,877,902	\$ 112,901,774

(Continued)

NORTH CENTRAL COLLEGE  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2018 and 2017

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

The College held investment positions in various other investment instruments recorded at the lower of cost or fair value in the amount of \$1,176,332 and \$1,296,180 at June 30, 2018 and 2017, respectively. The fair value of these assets was \$4,261,893 and \$4,320,052 at June 30, 2018 and 2017, respectively.

Other investments, at fair value, represent 16.65% and 13.09% of total investments in 2018 and 2017, respectively. Other investments, at fair value, represent 5.92% and 4.18% of total assets in 2018 and 2017, respectively. The hedge fund holdings are recorded at fair value. The College elected the fair value option for the hedge funds as it expects fair value information to be easily accessible. The real estate fund and real estate holdings are recorded at cost. Venture capital is recorded at original cost, less distributions. The College elected this method in order to avoid large write offs if the original cost is not recouped. Once the full cost is recovered, the College will then recognize each distribution as a gain. In the absence of readily determinable fair values (i.e., the fund or instrument itself is not listed on a published exchange, but the underlying assets may be), management has determined through analytical research that the underlying assets are not impaired. Management's confidence in the value of each investment within this category is based on review of audited financial statements and, when possible, other information available from independent third parties. In addition, information provided by the fund managers, the general partners and research performed by the College's investment advisers and accounting staff has been used to satisfy management that neither the investment nor the underlying assets are impaired. Investments in such funds do carry certain risks including lack of regulatory oversight.

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

	<u>2018</u>	<u>2017</u>
Operating investment return		
Dividends and interest income	\$ 2,344,473	\$ 2,166,749
Realized gain on marketable securities	3,167,990	2,484,596
Realized gain on other investments	<u>772,840</u>	<u>943,405</u>
Total operating investment return	6,285,303	5,594,750
Non-operating investment return		
Unrealized gain on marketable securities	<u>3,136,365</u>	<u>9,521,292</u>
Total non-operating investment return	<u>3,136,365</u>	<u>9,521,292</u>
Total	<u>\$ 9,421,668</u>	<u>\$ 15,116,042</u>

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(Continued)

NORTH CENTRAL COLLEGE  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2018 and 2017

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

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

	<u>Fair Value</u>	<u>Unfunded Commitments</u>	<u>Redemption Frequency</u>	<u>Redemption Notice</u>
<u>2018</u>				
Real estate fund (a)	\$ 3,483,123	\$ -	Quarterly	90 days
Venture capital (b)	772,840	385,000	(b)	N/A
Hedge Funds (c)	<u>15,928,990</u>	<u>-</u>	(c)	N/A
Total	<u>\$20,184,953</u>	<u>\$ 385,000</u>		
<u>2017</u>				
Real estate fund (a)	\$ 3,270,342	\$ -	Quarterly	90 days
Venture capital (b)	1,043,780	385,000	(b)	N/A
Hedge Funds (c)	<u>10,463,342</u>	<u>-</u>	(c)	N/A
Total	<u>\$14,777,464</u>	<u>\$ 385,000</u>		

- a) The College's real estate fund is an open-end fund that combines private real estate direct investment, mezzanine funds, private real estate funds and Real Estate Investment Trusts (REITs). The real estate fund includes 69% private investments and 31% public securities (REITs). REITs are used for liquidity purposes as well as for diversification. Redemption can occur at the end of each calendar quarter with 90 days' written notice.
- b) The venture capital is a diversified fund of funds private equity portfolio that invests in three different strategies: buyout, venture and international. The underlying funds are diversified across investment stage, industries, geographic regions and fund size. These investments are subject to certain redemption restrictions.
- 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 hedge funds provide quarterly liquidity.

(Continued)

NORTH CENTRAL COLLEGE  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2018 and 2017

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

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 large cap and alternative private equities 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 and venture capital are recorded at cost, unless the asset is deemed to be permanently impaired, at which time the asset would be permanently adjusted down to market value.

Hedge funds are recorded at fair value. The investment objective of these 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].

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(Continued)

NORTH CENTRAL COLLEGE  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2018 and 2017

**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:

	2018				
	Level 1	Level 2	Level 3	NAV	Total
<b>Assets</b>					
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
Perpetual trusts	-	-	1,089,959	-	1,089,959
Charitable remainder trusts	-	-	290,769	-	290,769
	<u>                    </u>	<u>                    </u>	<u>                    </u>	<u>                    </u>	<u>                    </u>
Total assets at fair value	<u>\$ 83,898,301</u>	<u>\$ 17,171,236</u>	<u>\$ 1,380,728</u>	<u>\$ 15,928,990</u>	<u>\$ 118,379,255</u>
<b>Liabilities</b>					
Interest rate swap	<u>\$ -</u>	<u>\$ 1,037,646</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,037,646</u>
	2017				
	Level 1	Level 2	Level 3	NAV	Total
<b>Assets</b>					
Investments					
Corporate bonds	\$ -	\$ 16,709,602	\$ -	\$ -	\$ 16,709,602
Government & agency obligations	-	2,174,531	-	-	2,174,531
Commodities	2,983,933	-	-	-	2,983,933
Common stock	8,942,432	-	-	-	8,942,432
Mutual funds	67,307,882	-	-	-	67,307,882
Hedge funds	-	-	-	10,463,342	10,463,342
Perpetual trusts	-	-	1,050,563	-	1,050,563
Charitable remainder trusts	-	-	282,028	-	282,028
Charitable lead trusts	-	-	34,724	-	34,724
	<u>                    </u>	<u>                    </u>	<u>                    </u>	<u>                    </u>	<u>                    </u>
Total assets at fair value	<u>\$ 79,234,247</u>	<u>\$ 18,884,133</u>	<u>\$ 1,367,315</u>	<u>\$ 10,463,342</u>	<u>\$ 109,949,037</u>
<b>Liabilities</b>					
Interest rate swap	<u>\$ -</u>	<u>\$ 3,781,588</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 3,781,588</u>

(Continued)

NORTH CENTRAL COLLEGE  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2018 and 2017

**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, 2016	\$ 962,034	\$ 266,299	\$ 45,810	\$ 1,274,143
Unrealized gains (losses)	<u>88,529</u>	<u>15,729</u>	<u>(11,086)</u>	<u>93,172</u>
Balance as of June 30, 2017	1,050,563	282,028	34,724	1,367,315
Unrealized gains (losses)	<u>39,396</u>	<u>8,741</u>	<u>(34,724)</u>	<u>13,413</u>
Balance as of June 30, 2018	<u>\$ 1,089,959</u>	<u>\$ 290,769</u>	<u>\$ -</u>	<u>\$ 1,380,728</u>

**NOTE 6 - ENDOWMENT**

Permanently restricted net assets 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 \$46,346,516 and \$45,450,060 in original donor-restricted endowment funds classified as permanently restricted net assets at June 30, 2018, and 2017, 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 permanently restricted net assets (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 that is not classified in permanently restricted net assets is classified as temporarily restricted net assets, 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 2018 and 2017.

(Continued)



NORTH CENTRAL COLLEGE  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2018 and 2017

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**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, 2018 and 2017, 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 2018 and 2017, the College had the following endowment-related activities:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
<u>2018</u>				
Donor endowment funds	\$ -	\$15,519,102	\$46,346,516	\$ 61,865,618
Board-designated funds	<u>55,073,509</u>	<u>-</u>	<u>-</u>	<u>55,073,509</u>
 Total funds	 <u>\$55,073,509</u>	 <u>\$15,519,102</u>	 <u>\$46,346,516</u>	 <u>\$ 116,939,127</u>
 <u>2017</u>				
Donor endowment funds	\$ -	\$13,615,190	\$45,450,060	\$ 59,065,250
Board-designated funds	<u>50,921,196</u>	<u>-</u>	<u>-</u>	<u>50,921,196</u>
 Total funds	 <u>\$50,921,196</u>	 <u>\$13,615,190</u>	 <u>\$45,450,060</u>	 <u>\$ 109,986,446</u>

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(Continued)

NORTH CENTRAL COLLEGE  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2018 and 2017

**NOTE 6 - ENDOWMENT** (Continued)

During the fiscal years ended June 30, 2018 and 2017, changes in endowment net assets consisted of the following:

	2018			<u>Total</u>
	<u>Unrestricted</u>	Temporarily <u>Restricted</u>	Permanently <u>Restricted</u>	
Net assets, beginning of year	\$ 50,921,196	\$ 13,615,190	\$ 45,450,060	\$ 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	<u>2,387,292</u>	<u>1,501,562</u>	-	<u>3,888,854</u>
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	<u>(49,565)</u>	<u>(144,838)</u>	<u>128,127</u>	<u>(66,276)</u>
Net assets, end of year	<u>\$ 55,073,509</u>	<u>\$ 15,519,102</u>	<u>\$ 46,346,516</u>	<u>\$ 116,939,127</u>

(Continued)

NORTH CENTRAL COLLEGE  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2018 and 2017

**NOTE 6 - ENDOWMENT (Continued)**

	2017			<u>Total</u>
	<u>Unrestricted</u>	Temporarily <u>Restricted</u>	Permanently <u>Restricted</u>	
Net assets, beginning of year	\$ 44,366,571	\$ 9,810,566	\$ 44,544,289	\$ 98,721,426
Contributions received	-	-	443,946	443,946
Contributions to Board- designated endowment funds	69,247	-	-	69,247
Investment return				
Investment income and fees	1,291,122	865,505	-	2,156,627
Realized gains	<u>2,157,736</u>	<u>1,141,390</u>	-	<u>3,299,126</u>
Total investment return	3,448,858	2,006,895	-	5,455,753
Appropriation of endowment assets for expenditure	(2,511,194)	(1,612,010)	-	(4,123,204)
Unrealized investment gain	5,657,277	3,942,048	-	9,599,325
Transfer of net assets and other changes	<u>(109,563)</u>	<u>(532,309)</u>	<u>461,825</u>	<u>(180,047)</u>
Net assets, end of year	<u>\$ 50,921,196</u>	<u>\$ 13,615,190</u>	<u>\$ 45,450,060</u>	<u>\$ 109,986,446</u>

Transfers of unrestricted and temporarily restricted net assets and other changes consisted of the Board designation of unrestricted funds and other charges.

	<u>2018</u>	<u>2017</u>
Transfer from split-interest agreement net asset funds	\$ 88,731	\$ 251,296
Net assets released from restricted net asset funds	-	\$ 122,000
Change in value of permanently restricted perpetual trust held by third parties	<u>39,396</u>	<u>88,529</u>
Total	<u>\$ 128,127</u>	<u>\$ 461,825</u>

(Continued)

NORTH CENTRAL COLLEGE  
NOTES TO FINANCIAL STATEMENTS  
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**NOTE 7 - LAND, BUILDINGS AND EQUIPMENT**

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

	<u>2018</u>	<u>2017</u>
Land and improvements	\$ 8,834,544	\$ 8,834,544
Buildings and improvements	228,466,473	226,486,733
Equipment	26,524,255	26,173,943
Construction in progress	<u>10,108,935</u>	<u>3,045,399</u>
	273,934,207	264,540,619
Less accumulated depreciation	<u>(82,064,958)</u>	<u>(74,704,372)</u>
Total	<u>\$ 191,869,249</u>	<u>\$ 189,836,247</u>

**NOTE 8 - SHORT-TERM BORROWINGS**

At June 30, 2018, the College has 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, 2018 and 2017. The line of credit will expire on March 30, 2019. 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:

	<u>2018</u>	<u>2017</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.	30,052,000	30,792,000
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.	<u>11,019,682</u>	<u>30,177,000</u>
	75,024,682	94,922,000
Unamortized bond issuance costs	<u>(347,338)</u>	<u>(365,048)</u>
Total bonds payable	<u>\$ 74,677,344</u>	<u>\$ 94,556,952</u>

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(Continued)

NORTH CENTRAL COLLEGE  
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**NOTE 9 - BONDS PAYABLE** (Continued)

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 2.07% in 2018 and 1.52% in 2017. The interest rate swap agreement on the 2014A Series increased the rate by 0.66% in 2018 and 1.24% in 2017, bringing the effective interest rate on the 2014A issue to an annual rate of 2.73% for 2018 and 2.76% for 2017.

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 1.86% in 2018 and 1.28% in 2017. The interest rate swap agreement on the 2014B Series increased the rate by 1.35% in 2018 and 1.93% in 2017, bringing the effective interest rate on the 2014B issue to an annual rate of 3.21% for 2018 and 3.21% in 2017.

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 1.53% for 2018 and 0.88% in 2017.

During the fiscal years ended June 30, 2018 and 2017, the College incurred interest in the amount of \$2,226,715 and \$2,025,852, respectively, including \$111,354 and \$166,304 of capitalized interest for the years ending June 30, 2018 and 2017, 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, 2018.

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

2019	\$ 764,000
2020	788,000
2021	812,000
2022	838,000
2023	1,824,682
Thereafter	<u>69,998,000</u>
Total	<u>\$75,024,682</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.

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(Continued)

NORTH CENTRAL COLLEGE  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2018 and 2017

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**NOTE 9 - BONDS PAYABLE** (Continued)

At June 30, 2018 and 2017, 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</u> <u>June 30, 2018</u>
\$33,953,000	2.73%	December 2024	\$ 421,603
30,052,000	3.21%	June 2044	<u>(1,459,249)</u>
			<u>\$(1,037,646)</u>
<u>Notional Amount</u>	<u>Interest Rate</u>	<u>Maturity Date</u>	<u>Fair Value</u> <u>June 30, 2017</u>
\$ 33,953,000	2.76%	December 2024	\$ (740,751)
30,792,000	3.21%	June 2044	<u>(3,040,837)</u>
			<u>\$(3,781,588)</u>

The fair value of these interest rate swap agreements resulted in an unrealized gain of \$2,743,942 in 2018 and an unrealized gain of \$4,668,002 in 2017 based on a yield curve and projected interest rates through the maturity of the instruments.

**NOTE 10 - RESTRICTED NET ASSETS**

Temporarily restricted net assets consist of the following as of June 30:

	<u>2018</u>	<u>2017</u>
Educational and general operations	\$ 8,435,096	\$ 7,624,412
Scholarships	6,667,197	5,706,136
Physical plant expenditures	4,747,820	4,596,356
Split-interest agreements	<u>2,768,112</u>	<u>2,597,283</u>
Total	<u>\$ 22,618,225</u>	<u>\$ 20,524,187</u>

Permanently restricted net assets consist of the following as of June 30:

	<u>2018</u>	<u>2017</u>
Educational and general operations	\$ 21,904,406	\$ 21,556,380
Physical plant expenditures	4,459,552	4,459,552
Scholarships	19,982,558	19,434,128
Student loan funds	570,398	570,398
Split-interest agreements	<u>455,040</u>	<u>412,838</u>
Total	<u>\$ 47,371,954</u>	<u>\$ 46,433,296</u>

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(Continued)

NORTH CENTRAL COLLEGE  
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June 30, 2018 and 2017

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**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>2018</u>	<u>2017</u>
Instruction	\$ 538,682	\$ 586,360
Academic support	212,249	178,104
Intercollegiate athletics	259,193	292,062
Student services	42,189	118,941
Private scholarships and fellowships	1,165,016	1,182,120
Operations and maintenance	6,575	59,517
Institutional support	(48,333)	301,543
Fixed-asset additions	<u>6,153,178</u>	<u>24,495,818</u>
	8,328,749	27,214,465
Loss on asset write offs	<u>16,350</u>	<u>530,000</u>
Total	<u>\$ 8,345,099</u>	<u>\$ 27,744,465</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 2018 and 2017, \$2,729,175 and \$2,636,337, respectively, was deposited into individual employee retirement accounts from unrestricted College resources.

The College established a 457(b) deferred compensation plan effective November 1, 2013 and a 457(f) plan effective July 1, 2016 with a few key employees. The liabilities for these plans totaled \$334,562 and \$231,300 at June 30, 2018 and 2017, 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.

**NOTE 13 - FUND-RAISING COSTS**

Fund-raising costs incurred by the College in 2018 and 2017 totaled \$2,411,610 and \$2,389,173, respectively. These costs related primarily to planned giving, annual fund, institutional advancement, corporate relations and the capital campaign.

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(Continued)

NORTH CENTRAL COLLEGE  
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**NOTE 14 - OPERATING LEASES**

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

2019	\$ 280,757
2020	158,843
2021	67,601
2022	13,000
2023	13,000
Thereafter	<u>68,250</u>
	<u>\$ 601,451</u>

Rental expense for operating leases during 2018 and 2017 totaled \$719,481 and \$1,395,818, 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.

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(Continued)



NORTH CENTRAL COLLEGE  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2018 and 2017

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**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, 2018 and 2017, the College purchased products or services worth \$724,752 and \$2,368,620, 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.

Aggregate donations to the College from members of the Board of Trustees were received in the amount of \$1,089,698 and \$8,243,327 for the fiscal years ended June 30, 2018 and 2017, respectively.

**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, 2018 and 2017 was \$1,201,124 and \$762,748, respectively. Employee health insurance expense, under the self-insurance plan, totaled approximately \$2,534,171 and \$2,334,640 for the years ended June 30, 2018 and 2017, respectively.

**NOTE 19 - SUBSEQUENT EVENTS**

The College evaluated its June 30, 2018, financial statements for subsequent events through October 16, 2018, the date financial statements were available to be issued.