

CARTHAGE COLLEGE

Kenosha, Wisconsin

FINANCIAL STATEMENTS Including Independent Auditors' Report

As of and for the Years Ended June 30, 2017 and 2016

CARTHAGE COLLEGE

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INDEPENDENT AUDITORS' REPORT

To the Board of Trustees
Carthage College
Kenosha, Wisconsin

We have audited the accompanying financial statements of Carthage College (the "College"), which comprise the statements of financial position as of June 30, 2017 and 2016, 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.

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Carthage College as of June 30, 2017 and 2016, 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.

Baker Tilly Virchow Krause, LLP

Minneapolis, Minnesota
October 19, 2017

CARTHAGE COLLEGE

STATEMENTS OF FINANCIAL POSITION As of June 30, 2017 and 2016

ASSETS		
	2017	2016
Cash and cash equivalents (Note 2)	\$33,261,217	\$ 8,125,139
Student accounts receivable (less allowance for doubtful accounts of \$1,971,000 in 2017 and \$1,048,000 in 2016)	5,153,400	5,175,012
Other receivables	812,295	634,998
Government grants receivable	683,876	2,834,982
Prepaid expenses and other assets	667,619	494,410
Investments (Note 6)	12,960,269	17,707,843
Endowment investments (Note 7)	106,949,701	85,550,330
Deposits	653,264	547,526
Student loans receivable, net (Note 8)	2,528,246	2,345,890
Funds held by others	63,956	69,159
Construction in progress (Note 9)	1,958,973	194,689
Property, plant and equipment, net (Note 10)	<u>157,055,079</u>	<u>159,207,323</u>
TOTAL ASSETS	<u>\$322,747,895</u>	<u>\$282,887,301</u>
LIABILITIES AND NET ASSETS		
LIABILITIES		
Accounts payable and accrued liabilities	\$6,970,258	\$ 6,759,210
Deferred revenue	2,411,479	8,762,829
Deposits held in custody for others	463,825	528,446
Annuities payable	1,776,539	1,356,041
Asset retirement obligations (Note 1)	184,022	155,142
Notes payable	740,368	885,846
Bonds payable (Note 11)	55,250,000	40,250,000
Government grants refundable (Note 8)	<u>2,467,546</u>	<u>2,472,343</u>
Total Liabilities	<u>70,264,037</u>	<u>61,169,857</u>
NET ASSETS (Note 4)		
Unrestricted	164,588,349	159,187,975
Temporarily restricted	53,559,477	28,454,900
Permanently restricted	<u>34,336,032</u>	<u>34,074,569</u>
Total Net Assets	<u>252,483,858</u>	<u>221,717,444</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$322,747,895</u>	<u>\$282,887,301</u>

CARTHAGE COLLEGE

STATEMENTS OF ACTIVITIES For the Years Ended June 30, 2017 and 2016

	2017			2016		
	Educational Activities	Investment Activities	Total Activities	Educational Activities	Investment Activities	Total Activities
UNRESTRICTED NET ASSETS (Board Controlled)						
Revenues, Gains and Other Support						
Tuition and fees	\$ 108,914,415	\$ -	\$ 108,914,415	\$ 103,549,572	\$ -	\$ 103,549,572
Less: Unrestricted scholarships and grants	(57,357,074)	-	(57,357,074)	(51,077,208)	-	(51,077,208)
Endowed scholarships and governmental grants	(1,999,488)	-	(1,999,488)	(1,934,499)	-	(1,934,499)
Net tuition and fees	49,557,853	-	49,557,853	50,537,865	-	50,537,865
Government grants	428,574	-	428,574	432,209	-	432,209
Contributions	1,569,730	-	1,569,730	1,286,169	30,830	1,316,999
Endowment income	-	430,549	430,549	-	332,186	332,186
Other investment income	205,919	271	206,190	123,842	398	124,240
Gains (losses) on investments	24,010	2,525,804	2,549,814	(4,701)	(318,295)	(322,996)
Sales and services of educational activities	61,705	-	61,705	79,507	-	79,507
Sales and services of auxiliary enterprises	21,294,962	-	21,294,962	20,601,157	-	20,601,157
Other sources	196,396	17,498	213,894	57,263	13,578	70,841
Matured deferred gifts	22,103	(22,103)	-	30,535	(30,535)	-
Adjustment of actuarial liability for annuities payable	-	(31,975)	(31,975)	-	(16,322)	(16,322)
Endowment transfer	677,033	(677,033)	-	497,653	(497,653)	-
	74,038,285	2,243,011	76,281,296	73,641,499	(485,813)	73,155,686
Net assets released from restrictions - (Note 5)						
Operations	2,473,110	-	2,473,110	2,804,420	-	2,804,420
Capital	128,000	-	128,000	1,490,283	-	1,490,283
Endowment	2,357,937	-	2,357,937	2,185,273	-	2,185,273
Total Operating Revenues, Gains and Other Support	78,997,332	2,243,011	81,240,343	80,121,475	(485,813)	79,635,662
Expenses						
Program						
Instruction	33,092,512	-	33,092,512	35,563,504	-	35,563,504
Academic support	2,859,247	-	2,859,247	2,238,696	-	2,238,696
Public service	187,391	-	187,391	170,029	-	170,029
Student services	7,197,149	-	7,197,149	7,545,930	-	7,545,930
Auxiliary enterprises	12,939,132	-	12,939,132	12,960,435	-	12,960,435
Support expenses						
Institutional support	19,545,270	19,268	19,564,538	18,653,506	16,541	18,670,047
Allocable expenses						
Operation and maintenance of plant	6,908,189	-	6,908,189	7,066,377	-	7,066,377
Depreciation and accretion	6,163,414	-	6,163,414	6,073,684	-	6,073,684
Interest	896,309	-	896,309	810,787	-	810,787
Less allocated expenses	(13,967,912)	-	(13,967,912)	(13,950,848)	-	(13,950,848)
Total Operating Expenses	75,820,701	19,268	75,839,969	77,132,100	16,541	77,148,641
Change in Unrestricted Net Assets	3,176,631	2,223,743	5,400,374	2,989,375	(502,354)	2,487,021
Return of Institutional Perkins	-	-	-	39,233	(39,233)	-
Endowment transfer	(3,096,122)	3,096,122	-	(2,768,606)	2,768,606	-
Change in Unrestricted Net Assets after Cash Transfer from Endowmer	80,509	5,319,865	5,400,374	260,002	2,227,019	2,487,021

See accompanying notes to financial statements.

CARTHAGE COLLEGE

STATEMENTS OF ACTIVITIES For the Years Ended June 30, 2017 and 2016

	2017			2016		
	Educational Activities	Investment Activities	Total Activities	Educational Activities	Investment Activities	Total Activities
TEMPORARILY RESTRICTED NET ASSETS						
Contributions	\$ 10,270,619	\$ 6,091,440	\$ 16,362,059	\$ 1,134,077	\$ 3,478	\$ 1,137,555
Governmental grants	1,078,967	-	1,078,967	1,403,588	-	1,403,588
Other grants	-	-	-	219,453	-	219,453
Endowment income	-	1,737,636	1,737,636	-	1,496,845	1,496,845
Gains (losses) on investments	-	10,220,915	10,220,915	-	(1,418,383)	(1,418,383)
Adjustment of actuarial liability	-	(93,353)	(93,353)	-	(91,670)	(91,670)
Matured deferred gifts	(22,112)	22,112	-	-	-	-
Other sources	757,400	-	757,400	758,476	-	758,476
	<u>12,084,874</u>	<u>17,978,750</u>	<u>30,063,624</u>	<u>3,515,594</u>	<u>(9,730)</u>	<u>3,505,864</u>
Net assets released from restrictions - (Note 5)						
Operations	(2,473,110)	-	(2,473,110)	(2,804,420)	-	(2,804,420)
Capital	(128,000)	-	(128,000)	(1,490,283)	-	(1,490,283)
Endowment	-	(2,357,937)	(2,357,937)	-	(2,185,273)	(2,185,273)
	<u>-</u>	<u>(2,357,937)</u>	<u>(2,357,937)</u>	<u>-</u>	<u>(2,185,273)</u>	<u>(2,185,273)</u>
Change in Temporarily Restricted Net Assets	<u>9,483,764</u>	<u>15,620,813</u>	<u>25,104,577</u>	<u>(779,109)</u>	<u>(2,195,003)</u>	<u>(2,974,112)</u>
PERMANENTLY RESTRICTED NET ASSETS						
Contributions	-	324,323	324,323	-	888,775	888,775
Endowment income	-	18,472	18,472	-	18,565	18,565
Other income	-	784	784	-	943	943
Other investment income	-	468	468	-	276	276
Gains (losses) on investments	-	25,575	25,575	-	(18,252)	(18,252)
Adjustment of actuarial liability for annuities payable	-	(108,159)	(108,159)	-	(45,603)	(45,603)
	<u>-</u>	<u>(108,159)</u>	<u>(108,159)</u>	<u>-</u>	<u>(45,603)</u>	<u>(45,603)</u>
Change in Permanently Restricted Net Assets	<u>-</u>	<u>261,463</u>	<u>261,463</u>	<u>-</u>	<u>844,704</u>	<u>844,704</u>
CHANGE IN TOTAL NET ASSETS	<u>9,564,273</u>	<u>21,202,141</u>	<u>30,766,414</u>	<u>(519,107)</u>	<u>876,720</u>	<u>357,613</u>
NET ASSETS - Beginning of Year	<u>133,718,584</u>	<u>87,998,860</u>	<u>221,717,444</u>	<u>134,237,691</u>	<u>87,122,140</u>	<u>221,359,831</u>
NET ASSETS - END OF YEAR	<u>\$ 143,282,857</u>	<u>\$ 109,201,001</u>	<u>\$ 252,483,858</u>	<u>\$ 133,718,584</u>	<u>\$ 87,998,860</u>	<u>\$ 221,717,444</u>

CARTHAGE COLLEGE

STATEMENTS OF CASH FLOWS For the Years Ended June 30, 2017 and 2016

	2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ 30,766,414	\$ 357,613
Adjustments to reconcile change in net assets to net cash flows from operating activities		
Depreciation and accretion	6,163,414	6,073,684
Asbestos abatement	-	(14,500)
Amortization of notes payable	(145,478)	(138,963)
Actuarial adjustment for annuities payable	631,281	191,695
(Increase) decrease in allowance for student accounts receivable	(923,000)	84,000
Loan cancellations and write-offs	6,990	9,523
Contributions restricted for long-term investment and plant	(6,751,207)	(1,348,015)
Interest and dividends restricted for reinvestment	(19,725)	(19,784)
(Gain) loss on endowment investments	(12,784,324)	1,742,329
Loss on investments	(307,702)	67,562
Contribution of non-cash investment	(5,117,951)	(171,030)
Contribution of non-cash property, plant and equipment	(48,000)	-
Changes in operating assets and liabilities		
Student accounts receivable	944,612	154,961
Government grants receivable	2,151,106	(1,438,124)
Other receivables	(177,297)	160,826
Prepaid expenses and other assets	(173,209)	(112,981)
Deposits	(105,738)	(150,584)
Funds held by others	5,203	5,677
Accounts payable and accrued liabilities	(577,744)	679,816
Deferred revenue	(6,351,350)	(2,020,029)
Deposits held in custody for others	(64,621)	46,400
Net Cash Flows from Operating Activities	<u>7,121,674</u>	<u>4,160,076</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of investments	(9,784,046)	(4,456,490)
Sales of investments	19,957,273	4,796,710
Purchases of endowment investments	(24,100,083)	(2,859,213)
Sales of endowment investments	15,485,036	60,604
Purchases of property, plant and equipment	(4,908,324)	(9,192,446)
Capitalized interest	-	(273,983)
Loans advanced to students	(661,093)	(476,280)
Principal collections on loans to students	471,747	402,788
Net Cash Flows from Investing Activities	<u>(3,539,490)</u>	<u>(11,998,310)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Payments on capital leases	(1,458)	(50,404)
Funds received from debt issued	21,250,000	265,000
Payments on bonds payable	(6,250,000)	(1,250,000)
Contributions received restricted for long-term investment and plant	6,751,207	1,348,015
Receipts of interest and dividends restricted for reinvestment	19,725	19,784
Payments to annuitants	(210,783)	(208,882)
Increase (decrease) in government grants refundable	(4,797)	(233,422)
Net Cash Flows from Financing Activities	<u>21,553,894</u>	<u>(109,909)</u>
Net Change in Cash and Cash Equivalents	25,136,078	(7,948,143)
CASH AND CASH EQUIVALENTS - Beginning of Year	<u>8,125,139</u>	<u>16,073,282</u>
CASH AND CASH EQUIVALENTS - END OF YEAR	<u>\$ 33,261,217</u>	<u>\$ 8,125,139</u>
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Interest paid, net of capitalized interest of \$0 in 2017 and \$273,983 in 2016	\$ 892,319	\$ 801,762
Purchase of property, plant, and equipment included in accounts payable	1,009,206	218,456
Bond principal balance paid through refinancing of long-term debt	21,250,000	-
Donated land	48,000	-
See accompanying notes to financial statements.		

CARTHAGE COLLEGE

NOTES TO FINANCIAL STATEMENTS As of and for the Years Ended June 30, 2017 and 2016

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES

Carthage College ("the College") is a four-year liberal arts college affiliated with the Evangelical Lutheran Church in America. The accounting policies of the College reflect practices common to colleges and universities and conform to generally accepted accounting principles. The more significant accounting policies are summarized below:

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

Permanently Restricted Net Assets - Net assets subject to donor-imposed stipulations that they 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 related investments for general or specific purposes.

Temporarily Restricted Net Assets - Net assets subject to donor-imposed stipulations that will be met by action of the College and/or the passage of time.

Unrestricted Net Assets - Net assets not subject to donor-imposed stipulations.

Revenues from sources other than contributions are generally reported as increases in unrestricted net assets. Expenses are reported as decreases in unrestricted net assets. Income earned on donor restricted funds is initially classified as temporarily restricted net assets and is reclassified as unrestricted net assets when expenses are incurred for their intended purpose.

Contributions are recognized as revenues in the period received and are reported as increases in the appropriate categories of net assets in accordance with donor restrictions. Expirations of temporary restrictions on net assets (i.e., the donor-stipulated purpose has been fulfilled and/or the stipulated time period has elapsed) are reported as reclassifications between the applicable classes of net assets. Conditional promises to give are not recognized until they become unconditional, that is, when the conditions on which they depend are substantially met.

Contributions of property and equipment without donor stipulations concerning the use of such long-lived assets are reported as unrestricted revenues. Contributions of cash or other assets to be used to acquire property and equipment are reported as temporarily restricted revenues; the restrictions are considered to be released at the time such long-lived assets are placed in service.

In the absence of donor stipulations or law to the contrary, losses on the investments of a donor-restricted endowment fund reduce temporarily restricted net assets to the extent that donor-imposed temporary restrictions on net appreciation of the fund have not been met before the loss occurs. Any remaining loss reduces unrestricted net assets. If losses reduce the assets of a donor-restricted endowment fund below the level required by the donor stipulations or law, gains that restore the fair value of the assets of the endowment fund to the required level are classified as increases in unrestricted net assets.

Gains and losses on investments of endowment funds created by a board designation of unrestricted funds are classified as changes in unrestricted net assets.

Tuition and Fees and Auxiliary Revenues - Tuition revenue is recognized in the period the classes are provided. Revenue from auxiliary enterprises is recognized when goods or services are provided. Financial assistance in the form of scholarships and grants that cover a portion of tuition, living and other costs is reflected as a reduction of tuition and fees revenues.

CARTHAGE COLLEGE

NOTES TO FINANCIAL STATEMENTS As of and for the Years Ended June 30, 2017 and 2016

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (cont.)

Cash and Cash Equivalents - The College considers all highly liquid investments, except for those held for long-term investment, with a maturity of three months or less when purchased to be cash equivalents.

Receivables - Student accounts receivable are carried at the unpaid balance of the original amount billed to students. Receivables are less an estimate made for doubtful accounts based on a review of all outstanding amounts. The College does not charge interest on student accounts if payments are received as scheduled. However, the College will charge a fee for late receipt of a scheduled payment equal to 1% per month of the past due balance. Management determines the allowance for doubtful accounts by identifying troubled accounts and by using historical experience applied to an aging of accounts. Student accounts receivable are written-off when deemed uncollectible. Recoveries of student accounts receivable previously written-off are recorded when received. Receivables are generally unsecured.

Physical Plant and Equipment - Physical plant assets are stated at cost at the date of acquisition less accumulated depreciation. The College depreciates its assets on the straight-line basis over the estimated useful lives of the assets, which range from 5 to 60 years. The College capitalizes equipment additions of \$1,000 or more. Normal repair and maintenance expenses are charged to operations as incurred.

Impairment of Long-Lived Assets - The College reviews long-lived assets, including property and equipment and intangible assets, for impairment whenever events or changes in business circumstances indicate that the carrying amount of an asset may not be fully recoverable. An impairment loss would be recognized when the estimated future cash flows from the use of the asset are less than the carrying amount of that asset. To date, there have been no such losses recorded.

Deferred Revenue - Certain revenue related to education programs is deferred and recognized as revenue in the same period expenses are recognized. Students are generally billed for courses prior to the start of the course.

Asset Retirement Obligations - The College recognizes the fair value of a liability for legal obligations associated with asset retirements in the period in which it is incurred, if a reasonable estimate of the fair value of the obligation can be made. When the liability is initially recorded, the cost of the retirement obligation is capitalized by increasing the carrying value of the related asset. Over time, the liability is accreted to its present value each year and the capitalized cost associated with the retirement obligation is depreciated over the useful life of the related asset. Upon settlement of the obligation, any difference between the cost to settle the asset retirement obligation and the liability recorded is recognized as a gain or loss in the statement of activities. The College reviews its estimates annually and adjusts the recorded liability as needed.

Substantially all of the College's asset retirement obligations relate to estimated costs to remove asbestos from campus facilities. The estimate of the losses that are probable for asbestos removal was calculated using the expected cash flow approach and based on an inventory of the College's long-lived assets combined with an estimate of the current market prices to remove the asbestos. The College utilized a credit-adjusted risk-free rate to discount the asset retirement obligation.

CARTHAGE COLLEGE

NOTES TO FINANCIAL STATEMENTS As of and for the Years Ended June 30, 2017 and 2016

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (cont.)

Changes in the accrual for asset retirement obligations during the years ended June 30, 2017 and 2016 are as follows:

	<u>2017</u>	<u>2016</u>
Balance, Beginning of the year	\$ 155,142	\$ 140,762
Abatements	-	(14,500)
Accretion expense	<u>28,880</u>	<u>28,880</u>
Balance, End of the year	<u>\$ 184,022</u>	<u>\$ 155,142</u>

Notes Payable - The College received a cash contribution by a third party vendor relating to various capital additions. This amount is being recognized as revenue over the life of the contract.

Government Grants Refundable - Funds provided by the United States Government under the Federal Perkins Loan Program are loaned to qualified students and may be reloaned after collections. These funds are ultimately refundable to the government and are included as liabilities in the statements of financial position. Revenues from other government grants are recognized as they are earned in accordance with the agreement. Any funding received before it is earned is recorded as a refundable advance. Expenses incurred before cash is received are recorded as receivables.

Unemployment Compensation - Educational institutions in certain states have the option of paying state unemployment tax at the rate in effect for the year on the applicable compensation of all employees or paying unemployment claims as they arise. The College has elected the latter. The State of Wisconsin requires the College to have a letter of credit which is based on the number of employees and salaries paid. The required letter of credit was \$318,934 at both June 30, 2017 and 2016. No payments were made under this letter of credit for either of the years ended June 30, 2017 and 2016.

Grants to Specified Students - Amounts received from state and federal agencies designated for the benefit of specified students are considered agency transactions and, therefore, are not reflected as revenues and expenses of the College.

Income Tax Status - The Internal Revenue Service has determined the College is exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code. Accordingly, the College is not subject to federal income taxes except to the extent it derives income from certain activities not substantially related to its tax-exempt purposes (unrelated trade or business activities). The University is also exempt from state income tax. At June 30, 2017 and 2016, the College had no obligation for unrelated business income tax.

The College follows the accounting standards for contingencies in evaluating uncertain tax positions. This guidance prescribes recognition threshold principles for the financial statement recognition of tax positions taken or expected to be taken on a tax return that are not certain to be realized. No liability has been recognized by the College for uncertain tax positions as of June 30, 2017 and 2016. The College's tax returns are subject to review and examination by federal and state authorities.

Use of Estimates - The preparation of financial statements in conformity with generally accepted accounting principles 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.

CARTHAGE COLLEGE

NOTES TO FINANCIAL STATEMENTS As of and for the Years Ended June 30, 2017 and 2016

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (cont.)

Pledges - All pledge documents used by the College include the notation that pledged amounts are not considered by the College to be an enforceable obligation. Accordingly, all pledges are regarded as expressions of intent to contribute, rather than promises to pay, and therefore are not recorded as assets.

Fund-Raising Expenses - Fund-raising expenses totaled approximately \$1,415,000 and \$1,617,000 for the years ended June 30, 2017 and 2016, respectively.

Advertising Costs - Advertising costs are expensed as incurred.

Functional Allocation of Expenses - The costs of providing the various programs and other activities have been summarized on a functional basis in the statement of activities. Accordingly, certain expenses have been allocated among the programs and supporting services benefited.

Reclassifications - Certain amounts appearing in the 2016 financial statements have been reclassified to conform with the 2017 presentation. The reclassifications have no effect on reported amounts of total net assets or change in total net assets.

New Accounting Pronouncements - In May 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2014-09, *Revenue from Contracts with Customers*. This new accounting guidance outlines a single comprehensive model for entities to use in accounting for revenue from contracts with customers. The ASU is effective for fiscal years beginning after December 15, 2018 (fiscal year 2020). Early application is permitted for all entities for fiscal years beginning after December 15, 2016. The College is assessing the impact this new standard will have on its financial statements.

In February 2016, FASB issued ASU No. 2016-02, *Leases*. ASU No. 2016-02 was issued to increase transparency and comparability among entities. Lessees will need to recognize nearly all lease transactions (other than leases that meet the definition of a short-term lease) on the statement of financial position as a lease liability and a right-of-use asset (as defined). Lessor accounting under the new guidance will be similar to the current model. The ASU is effective for fiscal years beginning after December 15, 2019 (fiscal year 2021). Early application is permitted for all entities. Upon adoption, lessees and lessors will be required to recognize and measure leases at the beginning of the earliest period presented using a modified retrospective approach, which includes a number of optional practical expedients that entities may elect to apply. The College is assessing the impact this standard will have on its financial statements.

In August 2016, FASB issued ASU 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*. The new guidance improves and simplifies the current net asset classification requirements and information presented in financial statements and notes that is useful in assessing a not-for-profit's liquidity, financial performance and cash flows. ASU 2016-14 is effective for fiscal years beginning after December 15, 2017 (fiscal year 2019), with early adoption permitted. ASU 2016-14 is to be applied retroactively with transition provisions. The College is assessing the impact this standard will have on its financial statements.

CARTHAGE COLLEGE

NOTES TO FINANCIAL STATEMENTS As of and for the Years Ended June 30, 2017 and 2016

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (cont.)

New Accounting Pronouncements (continued) - In November 2016, the FASB issued ASU 2016-18, *Statement of Cash Flows (Topic 230): Restricted Cash*. The amendments in this update require that a statement of cash flows explain the change during the period in the total of cash, cash equivalents, and amounts generally described as restricted cash or restricted cash equivalents. Amounts generally described as restricted cash and restricted cash equivalents should be included with cash and cash equivalents when reconciling the beginning-of-period and end-of-period amounts shown on the combining statement of cash flows. ASU 2016-18 is effective for non-public entities for fiscal years beginning after December 15, 2018 (fiscal year 2020), with early adoption permitted. ASU 2016-18 is to be applied retroactively with transition provisions. The College is assessing the impact this standard will have on its financial statements.

NOTE 2 - CASH AND CASH EQUIVALENTS

Cash and cash equivalents held by the College for the years ended June 30, 2017 and 2016 are as follows:

	2017	2016	Restriction
Operating cash	\$ 11,424,136	\$ 6,595,740	Unrestricted
Alternative loan cash	94,073	352,790	Restricted
Perkins loan cash	383,286	751,694	Restricted
Institutional loan cash	492,397	424,915	Restricted
Cash balances, end of year	<u>12,393,892</u>	<u>8,125,139</u>	
Johnson Trust investments	657,005	-	Restricted
U.S. Bank investments	20,210,320	-	Restricted for construction
Cash equivalent balances, end of year	<u>20,867,325</u>	<u>-</u>	
Total cash and cash equivalents, end of year	<u>\$ 33,261,217</u>	<u>\$ 8,125,139</u>	
Unrestricted cash and cash equivalents	\$ 11,424,136	\$ 6,595,740	
Restricted cash and cash equivalents	<u>21,837,081</u>	<u>1,529,399</u>	
Total cash and cash equivalents, end of year	<u>\$ 33,261,217</u>	<u>\$ 8,125,139</u>	

CARTHAGE COLLEGE

NOTES TO FINANCIAL STATEMENTS As of and for the Years Ended June 30, 2017 and 2016

NOTE 3 - FAIR VALUE MEASUREMENTS

Fair Value Hierarchy - Fair value is defined in the accounting guidance as the exchange price that would be received to sell an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the assets or liability in an orderly transaction between market participants at the measurement date. Under this guidance, a three-level hierarchy is used for fair value measurements which are based on the transparency of information, such as the pricing source, used in the valuation of an asset or liability as of the measurement date.

Financial instruments measured and reported at fair value are classified and disclosed in one of the following three categories.

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

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

Level 3 - Inputs are unobservable for the asset or liability. Unobservable inputs reflect the assumptions that market participants would use in pricing the asset or liability (including assumptions about risk) using the best information available in the circumstances, which may include using the reporting entity's own data.

Valuation Techniques and Inputs

Level 1 - Level 1 assets include:

- > Government obligations (consisting of U.S. Treasury securities), corporate obligations, and mutual funds for which quoted prices are readily available or that trade with sufficient frequency and volume to enable the College to obtain pricing information on an ongoing basis.

Level 2 - Level 2 assets include:

- > Short term investments (consisting primarily of money market funds) for which quoted prices are not readily available. The fair values are estimated using Level 2 inputs based on multiple sources of information, which may include market data and/or quoted market prices from either markets that are not active or are for the same or similar assets in active markets.

Level 3 - Level 3 assets include:

- > Funds held by others consisting of the College's beneficial interest in irrevocable split interest agreements held or controlled by a third party for which quoted prices are not readily available. The fair values are estimated using an income approach by calculating the present value of the future distributions expected to be received over the term of the agreements based on a combination of Level 2 inputs (interest rates and yield curves) and significant unobservable inputs (entity specific estimates of cash flows).

There have been no changes in the techniques and inputs used as of June 30, 2017 and 2016.

In certain cases, the inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such cases, the level in the fair value hierarchy within which the fair value measurement in its entirety falls has been determined based on the lowest level input that is significant to the fair value measurement in its entirety. The assessment of the significance of a particular input to the fair value measurement in its entirety requires judgment and considers factors specific to the asset or liability.

CARTHAGE COLLEGE

NOTES TO FINANCIAL STATEMENTS As of and for the Years Ended June 30, 2017 and 2016

NOTE 3 - FAIR VALUE MEASUREMENTS (cont.)

The following table presents information about the College's assets measured at fair value on a recurring basis as of June 30, 2017 based on the three-tier hierarchy:

	Total	Level 1	Level 2	Level 3
ASSETS				
Short-term investments	\$ 662,311	\$ -	\$ 662,311	\$ -
Government obligations	3,099,133	3,099,133	-	-
Corporate obligations	5,322,307	5,322,307		
Mutual funds - equity				
Domestic	65,071,461	65,071,461	-	-
Foreign	28,741,478	28,741,478	-	-
Real estate	5,181,960	5,181,960	-	-
Mutual funds - fixed income				
Domestic	31,920,937	31,920,937	-	-
Funds held by others	63,956	-	-	63,956
Total	140,063,543	\$ 139,337,276	\$ 662,311	\$ 63,956

Financial assets not measured at fair value included in statement of financial position amounts:

Certificates of deposit	592,058
Other assets	185,650
	<u>\$ 140,841,251</u>

Per Statement of Financial Position

Categorized as cash and cash equivalents (Note 2)	\$ 20,867,325
Investments	12,960,269
Endowment investments	106,949,701
Funds held by others	63,956
	<u>\$ 140,841,251</u>

The following table presents a reconciliation of the statement of financial position amounts for assets measured at fair value on a recurring basis using significant unobservable inputs (level 3) for the year ended June 30, 2017:

	Balance June 30, 2016	Realized and unrealized losses	Additions	Dispositions	Balance June 30, 2017
Assets					
Funds held by others	\$ 69,159	\$ (5,203)	\$	\$	\$ 63,956

The amount of total losses for the period included in change in net assets attributable to the change in unrealized losses relating to assets measured at fair value still held at June 30, 2017.

\$ (5,203)

CARTHAGE COLLEGE

NOTES TO FINANCIAL STATEMENTS As of and for the Years Ended June 30, 2017 and 2016

NOTE 3 - FAIR VALUE MEASUREMENTS (cont.)

The following table presents information about the College's assets measured at fair value on a recurring basis as of June 30, 2016 based on the three-tier hierarchy:

	Total	Level 1	Level 2	Level 3
ASSETS				
Short-term investments	\$ 8,788	\$ -	\$ 8,788	\$ -
Government obligations	30,189	30,189	-	-
Mutual funds - equity			-	-
Domestic	59,738,405	59,738,405	-	-
Foreign	13,676,572	13,676,572	-	-
Real estate	5,232,023	5,232,023	-	-
Mutual funds - fixed income				
Domestic	10,678,984	10,678,984	-	-
Funds held by others	69,159	-	-	69,159
Total	89,434,120	\$ 89,356,173	\$ 8,788	\$ 69,159

Financial assets not measured at fair value included in statement of financial position amounts:

Certificates of deposit	13,707,562
Other assets	185,650
	<u>\$ 103,327,332</u>

Per Statement of Financial Position

Investments	\$ 17,707,843
Endowment investments	85,550,330
Funds held by others	69,159
	<u>\$ 103,327,332</u>

The following table presents a reconciliation of the statement of financial position amounts for assets measured at fair value on a recurring basis using significant unobservable inputs (level 3) for the year ended June 30, 2016:

	Balance June 30, 2015	Realized and unrealized losses	Additions	Dispositions	Balance June 30, 2016
Assets					
Funds held by others	\$ 74,836	\$ (5,677)	\$ -	\$ -	\$ 69,159

The amount of total losses for the period included in change in net assets attributable to the change in unrealized losses relating to assets measured at fair value still held at June 30, 2016.

\$ (5,677)

CARTHAGE COLLEGE

NOTES TO FINANCIAL STATEMENTS As of and for the Years Ended June 30, 2017 and 2016

NOTE 4 - RESTRICTIONS AND LIMITATIONS ON NET ASSET BALANCES

The College's unrestricted net assets were allocated as follows at June 30, 2017 and 2016:

	<u>2017</u>	<u>2016</u>
Operations and investment in plant	\$ 131,429,918	\$ 131,349,409
Student loan funds	455,665	457,164
Endowment funds	32,331,784	26,956,342
Annuity, life, income and similar funds	<u>370,982</u>	<u>425,060</u>
Totals	<u>\$ 164,588,349</u>	<u>\$ 159,187,975</u>

Temporarily restricted net assets consist of the following at June 30, 2017 and 2016:

Gifts and other unexpended revenues and gains available for:		
Scholarships, instruction and other support	\$ 10,715,798	\$ 1,433,528
Acquisition of land, buildings and equipment	<u>1,137,142</u>	<u>935,647</u>
	11,852,940	2,369,175
Endowment funds	40,972,306	25,371,692
Annuity, life, income, and similar fund	<u>734,231</u>	<u>714,033</u>
Totals	<u>\$ 53,559,477</u>	<u>\$ 28,454,900</u>

Permanently restricted net assets consist of the following at June 30, 2017 and 2016:

Endowment funds	\$ 33,470,557	\$ 33,111,712
Student loan funds	513,787	500,505
Annuity, life income and similar funds	<u>351,688</u>	<u>462,352</u>
Totals	<u>\$ 34,336,032</u>	<u>\$ 34,074,569</u>

CARTHAGE COLLEGE

NOTES TO FINANCIAL STATEMENTS As of and for the Years Ended June 30, 2017 and 2016

NOTE 5 - NET ASSETS RELEASED FROM RESTRICTIONS

Net assets released from temporary donor restrictions during the years ended June 30, 2017 and 2016 by incurring expenses satisfying the restricted purposes or by occurrence of events specified by the donors were as follows:

	<u>2017</u>	<u>2016</u>
Acquisition of land, buildings and equipment	\$ 128,000	\$ 1,490,283
Scholarships, instruction and other support	<u>4,831,047</u>	<u>4,989,693</u>
Totals	<u>\$ 4,959,047</u>	<u>\$ 6,479,976</u>

These net assets were reclassified to unrestricted net assets as follows:

Operations	\$ 2,473,110	\$ 2,804,420
Capital	128,000	1,490,283
Endowment	<u>2,357,937</u>	<u>2,185,273</u>
Totals	<u>\$ 4,959,047</u>	<u>\$ 6,479,976</u>

NOTE 6 - INVESTMENTS

The following summarizes the College's investments, which are recorded at fair value unless otherwise noted, at June 30, 2017 and 2016:

	<u>2017</u>	<u>2016</u>
Certificates of deposit (at cost)	\$ 592,058	\$ 13,707,562
Money market accounts	4,950	8,787
Mutual funds	3,863,071	3,882,555
Corporate obligations	5,322,307	-
Government obligations	3,099,133	30,189
Real estate	<u>78,750</u>	<u>78,750</u>
Totals	<u>\$ 12,960,269</u>	<u>\$ 17,707,843</u>

Included above are investment assets of \$592,058 and \$589,987 restricted for construction purposes as of June 30, 2017 and 2016, respectively.

Investment income includes \$2,549,813 of unrealized unrestricted gains as of June 30, 2017 and \$322,996 of unrealized unrestricted losses as of June 30, 2016.

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

CARTHAGE COLLEGE

NOTES TO FINANCIAL STATEMENTS As of and for the Years Ended June 30, 2017 and 2016

NOTE 7 - ENDOWMENT

The College's endowment consists of 271 individual funds established for a variety of purposes. Its endowment includes both donor-restricted endowment funds and funds designated by the governing board to function as endowments. As required by generally accepted accounting principles ("GAAP"), net assets associated with endowment funds, including funds designated by the governing board to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

Interpretation of Relevant Law - The College's governing board has interpreted the Wisconsin enacted version of Uniform Prudent Management of Institutional Funds Act (UPMIFA) as allowing the College to appropriate for expenditure or accumulate so much of an endowment fund as the College determines is prudent for the uses, benefits, purposes and duration for which the endowment fund is established, subject to the intent of the donor as expressed in the gift instrument. Unless stated otherwise in the gift instrument, the assets in an endowment fund shall be donor-restricted assets until appropriated for expenditure by the Board of Trustees. See Note 1 for further information on net asset classifications.

The remaining portion of the donor-restricted endowment fund that is not classified as permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the College in a manner consistent with the standard of prudence prescribed by UPMIFA. In accordance with UPMIFA, the College considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

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

Endowment net asset composition by type of fund consists of the following as of June 30, 2017:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Donor-restricted endowment funds	\$	\$ 40,972,306	\$ 33,470,557	\$ 74,442,863
Board-designated endowment funds	<u>32,331,784</u>			<u>32,331,784</u>
Total endowment net assets	<u>\$ 32,331,784</u>	<u>\$ 40,972,306</u>	<u>\$ 33,470,557</u>	<u>\$ 106,774,647</u>

Endowment net asset composition by type of fund consists of the following as of June 30, 2016:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Donor-restricted endowment funds	\$ -	\$ 25,371,692	\$ 33,111,712	\$ 58,483,404
Board-designated endowment funds	<u>26,956,342</u>	<u>-</u>	<u>-</u>	<u>26,956,342</u>
Total endowment net assets	<u>\$ 26,956,342</u>	<u>\$ 25,371,692</u>	<u>\$ 33,111,712</u>	<u>\$ 85,439,746</u>

CARTHAGE COLLEGE

NOTES TO FINANCIAL STATEMENTS As of and for the Years Ended June 30, 2017 and 2016

NOTE 7 - ENDOWMENT (cont.)

Changes in endowment net assets for the year ended June 30, 2017 are as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, June 30, 2016	\$ 26,956,342	\$ 25,371,692	\$ 33,111,712	\$ 85,439,746
Transfer from operations to board designated	3,047,000	-	-	3,047,000
	<u>30,003,342</u>	<u>25,371,692</u>	<u>33,111,712</u>	<u>88,486,746</u>
Investment return:				
Investment income	430,549	1,737,636	6,442	2,174,627
Net appreciation - realized and unrealized	2,525,804	10,220,915	37,606	12,784,325
Total investment return	2,956,353	11,958,551	44,048	14,958,952
Contributions	-	6,000,000	312,494	6,312,494
Matured deferred gift funds				
Appropriation of endowment assets for expenditure	(677,033)	(2,357,937)	(12,030)	(3,047,000)
Matured deferred gifts	-	-	14,333	14,333
Transfer from restricted current fund	49,122	-	-	49,122
	<u>49,122</u>	<u>-</u>	<u>-</u>	<u>49,122</u>
Endowment net assets, June 30, 2017	<u>\$ 32,331,784</u>	<u>\$ 40,972,306</u>	<u>\$ 33,470,557</u>	<u>\$ 106,774,647</u>

Changes in endowment net assets for the year ended June 30, 2016 are as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, June 30, 2015	\$ 24,671,498	\$ 27,478,503	\$ 32,240,972	\$ 84,390,973
Transfer from operations to board designated	2,695,526	-	-	2,695,526
	<u>27,367,024</u>	<u>27,478,503</u>	<u>32,240,972</u>	<u>87,086,499</u>
Investment return:				
Investment income	332,186	1,496,845	5,965	1,834,996
Net depreciation - realized and unrealized	(318,295)	(1,418,383)	(5,651)	(1,742,329)
Total investment return	13,891	78,462	314	92,667
Contributions	-	-	876,150	876,150
Matured deferred gift funds	-	-	6,876	6,876
Appropriation of endowment assets for expenditure	(497,653)	(2,185,273)	(12,600)	(2,695,526)
Transfer from restricted current fund	73,080	-	-	73,080
	<u>73,080</u>	<u>-</u>	<u>-</u>	<u>73,080</u>
Endowment net assets, June 30, 2016	<u>\$ 26,956,342</u>	<u>\$ 25,371,692</u>	<u>\$ 33,111,712</u>	<u>\$ 85,439,746</u>

Funds with Deficiencies - From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor requires the College to retain as a fund of perpetual duration. There were no deficiencies of this nature that are reported as unrestricted net assets as of June 30, 2017 and 2016.

CARTHAGE COLLEGE

NOTES TO FINANCIAL STATEMENTS As of and for the Years Ended June 30, 2017 and 2016

NOTE 7 - ENDOWMENT (cont.)

Return Objectives and Risk Parameters - The College had adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of the endowment assets. Endowment assets include those assets of donor-restricted funds that the College must hold in perpetuity or for a donor-specified period(s) as well as board-designated funds. Under this policy, as approved by the governing board, the endowment assets are invested in a manner that is intended to produce results that exceed the spending rate plus inflation while assuming a moderate level of investment risk. The College expects its endowment funds, over time, to provide an average nominal rate of return of approximately 9% annually. Actual returns in any year may vary from this amount.

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

Spending Policy and How Investment Objectives Relate to Spending Policy - For both of the years ended June 30, 2017 and 2016, the College appropriated for distribution 4.5% of its endowment fund's average fair value over the prior 20 quarters through the calendar year-end preceding the fiscal year in which the distribution is planned. In establishing this policy, the College considered the long-term expected return on its endowment. Accordingly, over the long term, the College expects the current spending policy to allow its endowment to grow at an average real rate of 4.5% annually. This is consistent with the College's objective to maintain the purchasing power of the endowment assets held in perpetuity or for a specified term as well as to provide additional real growth through new gifts and investment return.

Endowment Investments - The following summarizes the College's endowment investments, which are recorded at fair value unless otherwise noted, at June 30, 2017 and 2016:

	2017	2016
Mutual funds	\$ 106,842,801	\$ 85,443,430
Preferred stocks (at cost)	100,000	100,000
Other investments (at cost)	6,900	6,900
Endowment investments	106,949,701	85,550,330
Note to operations	6,596	44,874
Cash held by operations	16,197	40,807
Total	<u>\$ 106,972,494</u>	<u>\$ 85,636,011</u>

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

Investment income is shown net of investment fees of \$64,031 and \$60,604 for the years ended June 30, 2017 and 2016, respectively.

All interfund balances have been eliminated in the financial statements.

CARTHAGE COLLEGE

NOTES TO FINANCIAL STATEMENTS As of and for the Years Ended June 30, 2017 and 2016

NOTE 8 - CREDIT QUALITY OF STUDENT LOAN RECEIVABLES

The College issues uncollateralized loans to students based on financial need. Student loans are funded through Federal government loan programs or institutional resources. 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. At both June 30, 2017 and 2016, student loans represented approximately 1.0% of total assets.

At June 30, student loans consisted of the following:

	2017	2016
Perkins Federal government programs	\$ 3,043,590	\$ 2,857,373
Institutional programs	49,656	53,517
	<u>3,093,246</u>	<u>2,910,890</u>
Less allowance for doubtful accounts		
Beginning of year	(565,000)	(565,000)
Increases/Decreases	-	-
End of year	<u>(565,000)</u>	<u>(565,000)</u>
Student loans receivable, net	<u>\$ 2,528,246</u>	<u>\$ 2,345,890</u>

Funds advanced by the Federal government of \$2,467,546 and \$2,472,343 at June 30, 2017 and 2016, respectively, are ultimately refundable to the government and are classified as liabilities in the statement of financial position.

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

At June 30, 2017 and 2016, the following amounts were past due under student loan programs:

June 30	Amounts Past Due			
	1-60 days	60-90 days	90+ days	Total
2017	\$ 2,030	\$ 2,967	\$ 734,755	\$ 739,752
2016	8,640	4,924	630,662	644,226

CARTHAGE COLLEGE

NOTES TO FINANCIAL STATEMENTS As of and for the Years Ended June 30, 2017 and 2016

NOTE 9 - CONSTRUCTION IN PROGRESS

The College has ongoing construction projects. The cost of these projects incurred is included in the statements of financial position as construction in progress. Retainages are included in accounts payable.

At June 30, 2017, the following construction projects were in progress:

	Costs to Date	Estimated Total Cost	Funding Plan
The Tower Residence Hall	\$ 1,161,362	\$ 23,928,000	Bonds and gifts
Keller Field Track	<u>797,611</u>	<u>2,132,000</u>	Operations
Totals	<u>\$ 1,958,973</u>		

The College signed a contract for construction of The Tower Residence Hall in February 2017, with maximum guaranteed pricing determined in July 2017. The contract cost is included in the estimated total costs above.

NOTE 10 - PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment consisted of the following at June 30, 2017 and 2016:

	2017	2016
Land	\$ 763,535	\$ 715,535
Land improvements	15,640,977	14,530,610
Buildings and improvements	160,394,024	160,135,576
Equipment	62,325,724	59,922,579
Library books and nondepreciable assets	<u>1,835,952</u>	<u>1,916,543</u>
	240,960,212	237,220,843
Less: Accumulated depreciation	<u>(83,905,133)</u>	<u>(78,013,520)</u>
Totals	<u>\$ 157,055,079</u>	<u>\$ 159,207,323</u>

CARTHAGE COLLEGE

NOTES TO FINANCIAL STATEMENTS As of and for the Years Ended June 30, 2017 and 2016

NOTE 11 - BONDS PAYABLE

Bonds payable at June 30, 2017 and 2016 consisted of the following:

	2017	2016
Wisconsin Health and Educational Facilities Authority Revenue Bonds, Series D is payable in annual installments of \$1,250,000 from May 1, 2017 through 2019. Interest is payable on a semi-annual basis in May and November and accrues daily on the outstanding principal amount. Interest on the Series D bonds is determined based on a fixed rate of 5.95%.	\$ 2,500,000	\$ 3,750,000
Wisconsin Health and Educational Facilities Authority Revenue Bonds, Series 2012 was payable on June 1, 2029. Interest is payable on a semi-annual basis in June and December and accrued daily on the outstanding principal amount. The interest rate was set at 2.05% through May 2017.	-	6,250,000
Wisconsin Health and Educational Facilities Authority Revenue Bonds, Series 2013A, had a tender date of December 31, 2017. Interest was payable monthly. The interest rate was set at 1.66%.	-	3,075,000
Wisconsin Health and Educational Facilities Authority Revenue Bonds, Series 2013B, had a tender date of December 31, 2017. Interest was payable monthly. The interest rate was set at 1.72%.	-	3,075,000
Wisconsin Health and Educational Facilities Authority Revenue Bonds, Series 2013C, had a tender date of December 31, 2017. Interest was payable monthly. The interest rate was set at 1.78%.	-	6,150,000
Wisconsin Health and Educational Facilities Authority Revenue Bonds, Series 2013D, had a tender date of December 31, 2017. Interest was payable monthly. The interest rate was set at 1.86%.	-	6,150,000
Wisconsin Health and Educational Facilities Authority Revenue Bonds, Series 2013E, had a tender date of December 31, 2017. Interest was payable monthly. The interest rate was set at 1.93%.	-	1,550,000
Wisconsin Health and Educational Facilities Authority Revenue Refunding Bonds, Series 2015, has a tender date of April 30, 2025. Interest is payable monthly. The interest rate is set at 2.46%.	10,250,000	10,250,000
Wisconsin Health and Educational Facilities Authority Revenue Bonds, Series 2017A, has a tender date of June 21, 2027. Interest is payable monthly. The interest rate is set at 2.354%.	21,250,000	-
Wisconsin Health and Educational Facilities Authority Revenue Refunding Bonds, Series 2017B, has a tender date of June 21, 2027. Interest is payable monthly. The interest rate is variable with an initial rate of 1.585%.	15,000,000	-
Wisconsin Health and Educational Facilities Authority Revenue Refunding Bonds, Series 2017C, has a tender date of June 21, 2020. Interest is payable monthly. The interest rate is variable with an initial rate of 1.285%.	6,250,000	-
Totals	<u>\$ 55,250,000</u>	<u>\$ 40,250,000</u>

CARTHAGE COLLEGE

NOTES TO FINANCIAL STATEMENTS As of and for the Years Ended June 30, 2017 and 2016

NOTE 11 - BONDS PAYABLE (cont.)

On May 5, 1999, the Wisconsin Health and Educational Facilities Authority issued \$25,000,000 of tax-exempt revenue bonds on behalf of Carthage College to Morgan Guaranty Trust Company of New York. These bonds are unsecured and were issued for the purposes of renovating and equipping the College's facilities and to repay the 1988 series bonds.

On June 1, 2012, the Wisconsin Health and Educational Facilities Authority issued \$6,250,000 of tax-exempt revenue bonds on behalf of Carthage College to JPMorgan Chase Bank. These bonds were unsecured and were issued to refinance \$6,250,000 of the 1999 series bonds.

On November 14, 2013, the Wisconsin Health and Educational Facilities Authority issued \$20,000,000 of tax-exempt revenue bonds on behalf of Carthage College to PNC Bank, National Corporation. These bonds were unsecured and used to finance the renovation and construction of the David A. Straz Center for the Sciences.

- Draw 1 - \$3,075,000 by March 30, 2014, 1.66%
- Draw 2 - \$3,075,000 by June 30, 2014, 1.72%
- Draw 3 - \$6,150,000 by September 30, 2014, 1.78%
- Draw 4 - \$6,150,000 by December 30, 2014, 1.86%
- Draw 5 - \$1,550,000 by March 30, 2015, 1.93%

On April 30, 2015, the Wisconsin Health and Educational Facilities Authority issued \$10,250,000 of tax-exempt revenue bonds on behalf of Carthage College to BMO Harris Bank N.A. These bonds are unsecured and were issued to redeem \$4,000,000 of the 1995 series bonds and refinance \$6,250,000 of the 1999 series A bonds.

On June 21, 2017, the Wisconsin Health and Educational Facilities Authority issued \$21,250,000 of tax-exempt revenue bonds on behalf of Carthage College to BMO Harris Bank N.A. These bonds are unsecured and were issued for the purpose of financing construction of The Tower Residence Hall.

On June 21, 2017, the Wisconsin Health and Educational Facilities Authority issued \$15,000,000 of tax-exempt revenue bonds on behalf of Carthage College to BMO Harris Bank N.A. These bonds are unsecured and were issued to refinance the remaining outstanding balance of the 2013 series revenue bond issues.

On June 21, 2017, the Wisconsin Health and Educational Facilities Authority issued \$6,250,000 of tax-exempt revenue bonds on behalf of Carthage College to BMO Harris Bank N.A. These bonds are unsecured and were issued to refinance the remaining outstanding balance of the 2012 revenue bonds.

The bonds issued under the Wisconsin Health and Educational Facilities Authority also are subject to various restrictive covenants which include the requirement that the College maintain a certain level of liquid assets and meet debt service coverage ratios.

CARTHAGE COLLEGE

NOTES TO FINANCIAL STATEMENTS As of and for the Years Ended June 30, 2017 and 2016

NOTE 11 - BONDS PAYABLE (cont.)

Certain of the bonds payable are due on demand, but if no demand is made, scheduled maturities of the bonds payable for the five years subsequent to June 30, 2017 are:

<u>Year</u>	<u>Principal</u>
2018	\$ 1,250,000
2019	2,190,000
2020	2,005,000
2021	2,045,000
2022	2,085,000
Thereafter	<u>45,675,000</u>
	<u>\$ 55,250,000</u>

NOTE 12 - RETIREMENT PLANS

The College has certain defined contribution retirement plans for substantially all personnel. Contributions for these employees are based on a percentage of annual compensation. The cost of the retirement plans is paid currently and approximated \$2,315,000 and \$2,241,000 for the years ended June 30, 2017 and 2016, respectively.

NOTE 13 - CONCENTRATIONS OF CREDIT RISK

Financial instruments that potentially subject the College to concentrations of credit risk consist principally of cash and cash equivalents, short-term investments, marketable securities, other investments and accounts and notes receivable. Cash and cash equivalents in excess of federally insured limits are subject to the usual risks of balances in excess of those limits. The majority of the College's cash and cash equivalents are on deposit with a single bank. Marketable securities, consisting of both debt and equity instruments, are generally placed in a variety of managed funds administered by different investment managers in order to limit credit risk. Student notes and receivables and other receivables are due from a variety of sources concentrated primarily in the Midwestern United States. In addition, the College's students receive a substantial amount of support from state and federal student financial assistance programs which are subject to audit by governmental agencies. A significant reduction in the level of this support, if this were to occur, could have had an adverse effect on the College's programs and activities.

CARTHAGE COLLEGE

NOTES TO FINANCIAL STATEMENTS As of and for the Years Ended June 30, 2017 and 2016

NOTE 14 - DEFERRED GIFT AGREEMENTS

The College has arrangements with donors classified as charitable remainder trusts, charitable annuity trusts, charitable gift annuities and pooled life income funds. In general, under these arrangements the College receives a gift from a donor in which it has a remainder interest and agrees to pay the donor stipulated amounts over the life of the donor. The arrangement may cover one or more lives. The College invests and administers the related assets and makes distributions to the beneficiaries as required. When the agreement reaches the end of its term, remaining assets are retained by the College as unrestricted, temporarily restricted or permanently restricted net assets, or in some instances, distributed to third-party beneficiaries.

When a gift is received under one of these arrangements, it is split into the amount representing the actuarial present value of future distributions back to the donor and the remaining gift value to be retained for the benefit of the College or third-party beneficiaries. The actuarial liability is adjusted annually using actuarial tables appropriate for the type of arrangement, number of lives covered and age of the donor. The College uses the applicable IRS interest rate in making the calculations.

Investment assets held by the College under deferred gift agreements totaled \$3,187,280 and \$2,903,768 at June 30, 2017 and 2016, respectively, and are included in investments on the statements of financial position. New gifts received for the years ended June 30, 2017 and 2016 were \$103,268 and \$46,932, respectively.

NOTE 15 - MEDICAL BENEFIT PLAN

The College provides medical benefits through a consortium plan which is available to all employees of the College for certain medical expenses. Estimates for claims incurred, but not reported, have been accrued by the College. The total expense for this plan was \$3,333,891 and \$3,963,112 for fiscal years 2017 and 2016, respectively.

NOTE 16 - CHANGE IN UNRESTRICTED NET ASSETS BEFORE DEPRECIATION AND ACCRETION

The following is an analysis of the increase in unrestricted net assets before depreciation expense for the years ended June 30, 2017 and 2016:

	2017	2016
Revenues, gains and other support from total activities	\$ 81,240,343	\$ 79,635,662
Expenses and losses (excluding depreciation and accretion) from total activities	<u>(69,676,555)</u>	<u>(71,074,957)</u>
Change in Unrestricted Net Assets Before Depreciation and Accretion	<u>\$ 11,563,788</u>	<u>\$ 8,560,705</u>

NOTE 17 - LINE-OF-CREDIT AGREEMENT

In October 2016, the College entered into an unsecured line of credit totaling \$10,000,000 for operating purposes. The agreement expires in October 2017, and is payable on demand. As of June 30, 2016, the College had a \$4,000,000 unsecured line of credit that expired in October 2016. Both agreements stated an interest rate of 1.9% over the 30-day LIBOR. At June 30, 2017 and 2016, the College had no borrowings outstanding under these agreements.

CARTHAGE COLLEGE

NOTES TO FINANCIAL STATEMENTS As of and for the Years Ended June 30, 2017 and 2016

NOTE 18 - RELATED PARTY TRANSACTIONS

Gifts from board members and officers totaled \$536,705 and \$447,427 for the years ended June 30, 2017 and 2016, respectively.

NOTE 19 - SUBSEQUENT EVENTS

The College has evaluated subsequent events through October 19, 2017 which is the date that the financial statements were approved and available to be issued.

INDEPENDENT AUDITORS' REPORT ON SUPPLEMENTARY INFORMATION

To the Board of Trustees
Carthage College
Kenosha, Wisconsin

We have audited the financial statements of Carthage College (the "College") as of and for the years ended June 30, 2017 and 2016 and have issued our report thereon dated October 19, 2017, which contained an unmodified opinion on those financial statements. Our audits were performed for the purpose of forming an opinion on the financial statements as a whole. Schedules 1 and 2 are presented for purposes of additional analysis and are 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 additional 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.

Baker Tilly Virchow Krause, LLP

Minneapolis, Minnesota
October 19, 2017

CARTHAGE COLLEGE*Schedule 1***UNRESTRICTED OPERATING REVENUES, GAINS AND OTHER SUPPORT**
For the Years Ended June 30, 2017 and 2016

	<u>2017</u>	<u>2016</u>
TUITION AND FEES		
Academic year	\$ 104,333,303	\$ 98,677,803
Summer school	332,390	222,100
Adult education	3,490,397	4,026,359
Student fees	695,311	553,635
Entrance fees	40,952	47,990
Transcripts	22,062	21,685
Total Tuition and Fees	<u>108,914,415</u>	<u>103,549,572</u>
Less: Scholarships and grants		
Unrestricted scholarships and grants	(57,357,074)	(51,077,208)
Endowed scholarships and government grants	(1,999,488)	(1,934,499)
	<u>(59,356,562)</u>	<u>(53,011,707)</u>
Net Tuition and Fees	<u>49,557,853</u>	<u>50,537,865</u>
GOVERNMENT GRANTS		
Federal work-study program	268,971	253,453
Pell grants administrative cost allowance	8,100	470
Federal supplemental educational opportunity grants	151,503	178,286
Total Government Grants	<u>428,574</u>	<u>432,209</u>
CONTRIBUTIONS		
Gifts for completed construction	288,836	-
Other contributions	1,280,894	1,316,999
Total Contributions	<u>1,569,730</u>	<u>1,316,999</u>
ENDOWMENT INCOME	<u>430,549</u>	<u>332,186</u>
OTHER INVESTMENT INCOME	<u>206,190</u>	<u>124,240</u>
GAINS (LOSSES) ON INVESTMENTS	<u>2,549,814</u>	<u>(322,996)</u>
SALES AND SERVICES OF EDUCATIONAL ACTIVITIES	<u>61,705</u>	<u>79,507</u>
SALES AND SERVICES OF AUXILIARY ENTERPRISES		
Residency	19,119,884	18,448,947
College store	189,850	202,047
Conferences and workshops	1,419,631	1,464,539
College center	565,597	485,624
Total Sales and Services of Auxiliary Enterprises	<u>21,294,962</u>	<u>20,601,157</u>

CARTHAGE COLLEGE*Schedule 1***UNRESTRICTED OPERATING REVENUES, GAINS AND OTHER SUPPORT**
For the Years Ended June 30, 2017 and 2016

	<u>2017</u>	<u>2016</u>
OTHER SOURCES		
Interest on loans receivable	\$ 5,963	\$ 7,537
Service cancellation recoveries	11,535	6,041
Miscellaneous	<u>196,396</u>	<u>57,263</u>
Total Other Sources	<u>213,894</u>	<u>70,841</u>
 ADJUSTMENT OF ACTUARIAL LIABILITY FOR ANNUITIES PAYABLE	 <u>(31,975)</u>	 <u>(16,322)</u>
 NET ASSETS RELEASED FROM RESTRICTIONS		
Operations	2,473,110	2,804,420
Capital	128,000	1,490,283
Endowment	<u>2,357,937</u>	<u>2,185,273</u>
Total Net Assets Released From Restrictions	<u>4,959,047</u>	<u>6,479,976</u>
 UNRESTRICTED OPERATING REVENUES, GAINS AND OTHER SUPPORT	 <u>\$ 81,240,343</u>	 <u>\$ 79,635,662</u>

CARTHAGE COLLEGE*Schedule 2***UNRESTRICTED OPERATING EXPENSES**
For the Years Ended June 30, 2017 and 2016

	<u>2017</u>	<u>2016</u>
PROGRAM EXPENSES		
Instruction		
Academic Divisions		
Humanities and fine arts	\$ 6,387,017	\$ 7,012,222
Natural and social sciences	6,859,657	7,784,288
Professional Studies	3,415,486	3,288,899
Academic Programs and Other Instructional Expenses		
Adult education	599,148	577,606
Graduate education	162,355	146,163
Paralegal program	6,568	21,217
Summer school	58,874	84,479
January interim	1,138,720	1,157,568
Other instructional expenses	368,615	437,095
Fringe benefits allocated	5,693,782	6,267,090
Allocation of depreciation and accretion	1,705,115	1,774,311
Allocation of operation and maintenance of plant	<u>990,961</u>	<u>1,053,962</u>
	<u>27,386,298</u>	<u>29,604,900</u>
Organized activities relating to academic divisions and programs		
Athletics	4,242,971	4,391,771
Musical organizations	10,900	27,213
Fringe benefits allocated	843,194	924,615
Allocation of depreciation and accretion	385,252	385,822
Allocation of operation and maintenance of plant	<u>223,897</u>	<u>229,183</u>
	<u>5,706,214</u>	<u>5,958,604</u>
Total Instruction	<u>33,092,512</u>	<u>35,563,504</u>
Academic Support		
Library	997,100	983,197
Academic computing	1,055,011	447,150
Other academic support	1,727	-
Fringe benefits allocated	514,278	474,652
Allocation of depreciation and accretion	184,124	209,344
Allocation of operation and maintenance of plant	<u>107,007</u>	<u>124,353</u>
Total Academic Support	<u>2,859,247</u>	<u>2,238,696</u>

CARTHAGE COLLEGE*Schedule 2***UNRESTRICTED OPERATING EXPENSES**
For the Years Ended June 30, 2017 and 2016

	2017	2016
PROGRAM EXPENSES (cont.)		
Public Service	\$ 187,391	\$ 170,029
Student Services		
Admissions	2,066,107	2,047,957
Registrar	290,523	296,394
Student financial planning	431,558	432,392
Health service	82,053	118,537
Student support	346,294	349,507
Advising and placement	838,670	892,388
Student activities	418,663	525,201
Dean of the chapel	79,183	92,379
Dean of students	771,657	807,880
Fringe benefits allocated	1,106,981	1,205,730
Allocation of depreciation and accretion	484,110	487,804
Allocation of operation and maintenance of plant	281,350	289,761
Total Student Services	7,197,149	7,545,930
Auxiliary Enterprises		
Residency	9,119,611	9,339,711
College store	18	-
College center	1,599,920	1,617,685
Conferences and workshops	360,595	326,911
Dormitory General	214,150	133,577
TARC	415,436	357,630
Interest allocated	88,899	78,886
Fringe benefits allocated	143,958	147,178
Allocation of depreciation and accretion	630,258	601,537
Allocation of operation and maintenance of plant	366,287	357,320
Total Auxiliary Enterprises	12,939,132	12,960,435
SUPPORT EXPENSES		
Institutional Support		
General Administration		
Board of trustees	183,263	67,914
Strategic Initiatives	100,018	133,727
President	2,056,773	2,212,269
Provost	1,945,513	777,810
Business office	1,073,261	846,875
Infrastructure and systems	444,567	990,906
Administrative services	441,433	448,867
Fringe benefits allocated	1,864,288	1,451,404
Allocation of depreciation and accretion	560,420	388,605
Allocation of operation and maintenance of plant	325,699	230,836
Total General Administration	8,995,235	7,549,213

CARTHAGE COLLEGE*Schedule 2***UNRESTRICTED OPERATING EXPENSES**
For the Years Ended June 30, 2017 and 2016

	<u>2017</u>	<u>2016</u>
SUPPORT EXPENSES (cont.)		
Institutional Support (cont.)		
Public Relations and Development		
Alumni	\$ 191,074	\$ 133,329
Development	1,137,992	1,293,238
Planned giving	28,326	31,548
Capital campaign	22,850	133,479
Public relations	1,105,129	1,139,954
Church relations	30,129	38,452
Miscellaneous support	262	1,040
Celebrations	310,317	311,576
Fringe benefits allocated	512,969	544,626
Allocation of depreciation and accretion	253,713	266,872
Allocation of operation and maintenance of plant	147,450	158,525
Total Public Relations and Development	<u>3,740,211</u>	<u>4,052,639</u>
General Institutional		
Dues and subscriptions	201,602	144,165
Campus security	878,343	864,005
Collection costs	114,198	70,323
Bad debts	925,025	1,137,388
Insurance	757,952	750,349
Audit and legal	195,333	169,830
Staff recruitment	105,122	172,251
Taxes	33,211	29,569
Telecommunications	290,145	382,124
Employer FICA	2,068,767	2,153,664
Pension	2,314,975	2,241,494
Educational assistance	3,696,515	3,427,651
Health insurance	3,333,891	3,963,112
Life and disability	90,100	123,922
Student insurance	376,795	370,184
Interest	807,410	731,901
Loan cancellations and write-offs	1,394	1,192
Administrative and collection costs	17,843	15,328
Miscellaneous	668,986	755,628
Fringe benefits allocated	(11,263,397)	(11,673,008)
Allocation of depreciation and accretion	1,440,073	1,444,182
Allocation of operation and maintenance of plant	836,927	857,861
Total General Institutional	<u>7,891,210</u>	<u>8,133,115</u>
Total Institutional Support Before		
Allocation to Auxiliary Enterprises	20,626,656	19,734,967
Expenses allocated to auxiliary enterprises	<u>(1,062,118)</u>	<u>(1,064,920)</u>
Total Institutional Support	<u>19,564,538</u>	<u>18,670,047</u>

CARTHAGE COLLEGE*Schedule 2***UNRESTRICTED OPERATING EXPENSES**
For the Years Ended June 30, 2017 and 2016

	<u>2017</u>	<u>2016</u>
ALLOCABLE EXPENSES		
Operation and Maintenance of Plant		
Operation of Buildings	\$ 2,894,794	\$ 2,990,419
Maintenance of Buildings	1,113,905	1,225,570
Grounds	355,240	259,351
Environmental Services	1,361,902	1,389,433
Student Parking Shuttle	78,477	94,055
Fringe benefits allocated	583,521	592,342
Allocation of depreciation and accretion	<u>520,350</u>	<u>515,207</u>
Total Operation and Maintenance of Plant Before		
Allocation to Auxiliary Enterprises and Other Programs	6,908,189	7,066,377
Expenses allocated to auxiliary enterprises	(3,628,610)	(3,764,575)
Allocation of operation and maintenance of plant	<u>(3,279,579)</u>	<u>(3,301,802)</u>
Total Operation and Maintenance of Plant	<u>-</u>	<u>-</u>
 Depreciation and Accretion	 6,163,414	 6,073,684
Allocation to other programs	<u>(6,163,414)</u>	<u>(6,073,684)</u>
Total Depreciation and Accretion	<u>-</u>	<u>-</u>
 Interest	 896,309	 810,787
Allocation to other programs	<u>(896,309)</u>	<u>(810,787)</u>
Total Interest	<u>-</u>	<u>-</u>
 TOTAL UNRESTRICTED OPERATING EXPENSES	 <u>\$ 75,839,969</u>	 <u>\$ 77,148,641</u>