

CARTHAGE COLLEGE

Kenosha, Wisconsin

FINANCIAL STATEMENTS Including Independent Auditors' Report

As of and for the Years Ended June 30, 2016 and 2015

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, 2016 and 2015, 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, 2016 and 2015, 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 Vichow Krause, LLP

Minneapolis, Minnesota
October 21, 2016

CARTHAGE COLLEGE

STATEMENTS OF FINANCIAL POSITION As of June 30, 2016 and 2015

ASSETS		
	2016	2015
Cash and cash equivalents	\$ 8,125,139	\$ 16,073,282
Student accounts receivable (less allowance for doubtful accounts of \$1,048,000 in 2016 and \$1,132,000 in 2015)	5,175,012	5,413,973
Other receivables	634,998	795,824
Government grants receivable	2,834,982	1,396,858
Prepaid expenses and other assets	494,410	381,429
Investments (Note 5)	17,707,843	17,944,595
Endowment investments (Note 6)	85,550,330	84,494,050
Deposits	547,526	396,942
Student loans receivable, net (Note 7)	2,345,890	2,281,921
Funds held by others	69,159	74,836
Construction in progress (Note 8)	194,689	6,887,838
Property, plant and equipment, net (Note 9)	<u>159,207,323</u>	<u>151,023,372</u>
TOTAL ASSETS	<u>\$282,887,301</u>	<u>\$287,164,920</u>
LIABILITIES AND NET ASSETS		
LIABILITIES		
Accounts payable and accrued liabilities	\$ 6,757,752	\$ 8,008,759
Deferred revenue	8,762,829	10,782,858
Deposits held in custody for others	528,446	482,046
Annuities payable	1,356,041	1,373,228
Asset retirement obligations (Note 1)	155,142	140,762
Notes payable	885,846	759,809
Capital lease obligations (Note 11)	1,458	51,862
Bonds payable (Note 10)	40,250,000	41,500,000
Government grants refundable (Note 7)	<u>2,472,343</u>	<u>2,705,765</u>
Total Liabilities	<u>61,169,857</u>	<u>65,805,089</u>
NET ASSETS (Note 3)		
Unrestricted	159,187,975	156,700,954
Temporarily restricted	28,454,900	31,429,012
Permanently restricted	<u>34,074,569</u>	<u>33,229,865</u>
Total Net Assets	<u>221,717,444</u>	<u>221,359,831</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$282,887,301</u>	<u>\$287,164,920</u>

CARTHAGE COLLEGE

STATEMENTS OF ACTIVITIES For the Years Ended June 30, 2016 and 2015

	2016			2015		
	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	\$ 103,549,572	\$ -	\$ 103,549,572	\$ 97,279,214	\$ -	\$ 97,279,214
Less: Unrestricted scholarships and grants	(51,077,208)	-	(51,077,208)	(46,069,607)	-	(46,069,607)
Endowed scholarships and governmental grants	(1,934,499)	-	(1,934,499)	(1,755,399)	-	(1,755,399)
Net tuition and fees	50,537,865	-	50,537,865	49,454,208	-	49,454,208
Government grants	432,209	-	432,209	478,536	-	478,536
Contributions	1,286,169	30,830	1,316,999	1,135,166	-	1,135,166
Endowment income	-	332,186	332,186	-	347,588	347,588
Other investment income	123,842	398	124,240	54,568	448	55,016
Gains (losses) on investments	(4,701)	(318,295)	(322,996)	37	144,775	144,812
Sales and services of educational activities	79,507	-	79,507	22,137	-	22,137
Sales and services of auxiliary enterprises	20,601,157	-	20,601,157	19,720,417	-	19,720,417
Other sources	57,263	13,578	70,841	73,524	24,146	97,670
Matured deferred gifts	30,535	(30,535)	-	10,298	(10,298)	-
Adjustment of actuarial liability for annuities payable	-	(16,322)	(16,322)	-	(36,251)	(36,251)
Endowment transfer	497,653	(497,653)	-	388,758	(388,758)	-
	73,641,499	(485,813)	73,155,686	71,337,649	81,650	71,419,299
Net assets released from restrictions - (Note 4)						
Operations	2,804,420	-	2,804,420	2,260,741	-	2,260,741
Capital	1,490,283	-	1,490,283	10,908,058	-	10,908,058
Endowment	2,185,273	-	2,185,273	1,893,882	-	1,893,882
Total Operating Revenues, Gains and Other Support	80,121,475	(485,813)	79,635,662	86,400,330	81,650	86,481,980
Expenses						
Program						
Instruction	35,563,504	-	35,563,504	30,634,694	-	30,634,694
Academic support	3,229,602	-	3,229,602	2,907,795	-	2,907,795
Public service	170,029	-	170,029	103,473	-	103,473
Student services	7,545,930	-	7,545,930	6,727,104	-	6,727,104
Auxiliary enterprises	12,960,435	-	12,960,435	11,898,427	-	11,898,427
Support expenses						
Institutional support	17,662,600	16,541	17,679,141	17,821,711	20,515	17,842,226
Allocable expenses						
Operation and maintenance of plant	7,066,377	-	7,066,377	6,527,521	-	6,527,521
Depreciation and accretion	6,073,684	-	6,073,684	5,546,095	-	5,546,095
Interest	810,787	-	810,787	925,316	-	925,316
Less allocated expenses	(13,950,848)	-	(13,950,848)	(12,998,932)	-	(12,998,932)
Total Operating Expenses	77,132,100	16,541	77,148,641	70,093,204	20,515	70,113,719
Change in Unrestricted Net Assets	2,989,375	(502,354)	2,487,021	16,307,126	61,135	16,368,261
Return of Institutional Perkins	39,233	(39,233)	-	-	-	-
Endowment transfer	(2,768,606)	2,768,606	-	(2,307,050)	2,307,050	-
Change in Unrestricted Net Assets after Cash Transfer to Endowment	260,002	2,227,019	2,487,021	14,000,076	2,368,185	16,368,261

See accompanying notes to financial statements.

CARTHAGE COLLEGE

STATEMENTS OF ACTIVITIES For the Years Ended June 30, 2016 and 2015

	2016			2015		
	Educational Activities	Investment Activities	Total Activities	Educational Activities	Investment Activities	Total Activities
TEMPORARILY RESTRICTED NET ASSETS						
Contributions	\$ 1,134,077	\$ 3,478	\$ 1,137,555	\$ 11,469,757	\$ 82,039	\$ 11,551,796
Governmental grants	1,403,588	-	1,403,588	971,529	-	971,529
Other grants	219,453	-	219,453	533,293	-	533,293
Endowment income	-	1,496,845	1,496,845	-	1,520,583	1,520,583
Gains (losses) on investments	-	(1,418,383)	(1,418,383)	-	623,069	623,069
Adjustment of actuarial liability	-	(91,670)	(91,670)	-	10,403	10,403
Matured deferred gifts	-	-	-	63,894	(63,894)	-
Other sources	758,476	-	758,476	860,477	-	860,477
	<u>3,515,594</u>	<u>(9,730)</u>	<u>3,505,864</u>	<u>13,898,950</u>	<u>2,172,200</u>	<u>16,071,150</u>
Net assets released from restrictions - (Note 4)						
Operations	(2,804,420)	-	(2,804,420)	(2,260,741)	-	(2,260,741)
Capital	(1,490,283)	-	(1,490,283)	(10,908,058)	-	(10,908,058)
Endowment	-	(2,185,273)	(2,185,273)	-	(1,893,882)	(1,893,882)
	<u>(779,109)</u>	<u>(2,195,003)</u>	<u>(2,974,112)</u>	<u>730,151</u>	<u>278,318</u>	<u>1,008,469</u>
Change in Temporarily Restricted Net Assets						
	<u>(779,109)</u>	<u>(2,195,003)</u>	<u>(2,974,112)</u>	<u>730,151</u>	<u>278,318</u>	<u>1,008,469</u>
PERMANENTLY RESTRICTED NET ASSETS						
Contributions	-	888,775	888,775	-	898,521	898,521
Endowment income	-	18,565	18,565	-	18,617	18,617
Other income	-	943	943	-	749	749
Other investment income	-	276	276	-	837	837
Losses on investments	-	(18,252)	(18,252)	-	(9,797)	(9,797)
Adjustment of actuarial liability for annuities payable	-	(45,603)	(45,603)	-	4,242	4,242
	<u>-</u>	<u>(45,603)</u>	<u>(45,603)</u>	<u>-</u>	<u>4,242</u>	<u>4,242</u>
Change in Permanently Restricted Net Assets						
	<u>-</u>	<u>844,704</u>	<u>844,704</u>	<u>-</u>	<u>913,169</u>	<u>913,169</u>
CHANGE IN TOTAL NET ASSETS						
	<u>(519,107)</u>	<u>876,720</u>	<u>357,613</u>	<u>14,730,227</u>	<u>3,559,672</u>	<u>18,289,899</u>
NET ASSETS - Beginning of Year	<u>134,237,691</u>	<u>87,122,140</u>	<u>221,359,831</u>	<u>119,507,464</u>	<u>83,562,468</u>	<u>203,069,932</u>
NET ASSETS - END 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>

CARTHAGE COLLEGE

STATEMENTS OF CASH FLOWS For the Years Ended June 30, 2016 and 2015

	2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ 357,613	\$ 18,289,899
Adjustments to reconcile change in net assets to net cash flows from operating activities		
Depreciation and accretion	6,073,684	5,546,095
Asbestos abatement	(14,500)	(302,914)
Amortization of notes payable	(138,963)	(108,500)
Loss on disposal of plant facilities	-	14,373
Actuarial adjustment for annuities payable	191,695	161,056
Decrease in allowance for student accounts receivable	84,000	-
Loan cancellations and write-offs	9,523	7,609
Contributions restricted for long-term investment and plant	(1,348,015)	(12,072,727)
Interest and dividends restricted for reinvestment	(19,784)	(20,203)
(Gain) loss on endowment investments	1,742,329	(770,407)
Loss on investments	67,562	27,740
Contribution of non-cash investment	(171,030)	(153,829)
Changes in operating assets and liabilities		
Student accounts receivable	154,961	(584,848)
Government grants receivable	(1,438,124)	(528,371)
Other receivables	160,826	(129,718)
Prepaid expenses and other assets	(112,981)	(10,336)
Deposits	(150,584)	(60,193)
Funds held by others	5,677	24,917
Accounts payable and accrued liabilities	679,816	(341,486)
Deferred revenue	(2,020,029)	396,432
Deposits held in custody for others	46,400	358,313
Net Cash Flows from Operating Activities	<u>4,160,076</u>	<u>9,742,902</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of investments	(4,456,490)	(11,098,877)
Sales of investments	4,796,710	1,459,156
Purchases of endowment investments	(2,859,213)	(7,215,442)
Sales of endowment investments	60,604	4,409,783
Purchases of property, plant and equipment	(9,192,446)	(29,804,814)
Capitalized interest	(273,983)	(201,703)
Loans advanced to students	(476,280)	(506,020)
Principal collections on loans to students	402,788	388,548
Net Cash Flows from Investing Activities	<u>(11,998,310)</u>	<u>(42,569,369)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Payments on capital leases	(50,404)	(206,696)
Funds received from debt issued	265,000	18,320,988
Payments on bonds payable	(1,250,000)	(5,250,000)
Contributions received restricted for long-term investment and plant	1,348,015	12,072,727
Receipts of interest and dividends restricted for reinvestment	19,784	20,203
Payments to annuitants	(208,882)	(210,612)
Increase (decrease) in government grants refundable	(233,422)	12,233
Net Cash Flows from Financing Activities	<u>(109,909)</u>	<u>24,758,843</u>
Net Change in Cash and Cash Equivalents	(7,948,143)	(8,067,624)
CASH AND CASH EQUIVALENTS - Beginning of Year	<u>16,073,282</u>	<u>24,140,906</u>
CASH AND CASH EQUIVALENTS - END OF YEAR	<u>\$ 8,125,139</u>	<u>\$ 16,073,282</u>
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Interest paid, net of capitalized interest of \$273,983 in 2016 and \$201,703 in 2015	\$ 801,762	\$ 1,017,899
Purchase of property, plant, and equipment included in accounts payable	218,456	2,149,779
Bond principal balance paid through refinancing of long-term debt	-	6,250,000

See accompanying notes to financial statements.

CARTHAGE COLLEGE

NOTES TO FINANCIAL STATEMENTS As of and for the Years Ended June 30, 2016 and 2015

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, 2016 and 2015

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. Cash held by the College restricted for the Perkins Loan Fund was \$751,694 and \$838,495 as of June 30, 2016 and 2015, respectively.

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.

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.

Changes in the accrual for asset retirement obligations during the years ended June 30, 2016 and 2015 are as follows:

	2016	2015
Balance, Beginning of the year	\$ 140,762	\$ 414,796
Abatements	(14,500)	(302,914)
Accretion expense	28,880	28,880
Balance, End of the year	<u>\$ 155,142</u>	<u>\$ 140,762</u>

CARTHAGE COLLEGE

NOTES TO FINANCIAL STATEMENTS As of and for the Years Ended June 30, 2016 and 2015

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (cont.)

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 and \$275,723 at June 30, 2016 and 2015, respectively. No payments were made under this letter of credit for either of the years ended June 30, 2016 and 2015.

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. The College is also exempt from state income taxes. However, any unrelated business income may be subject to taxation.

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, 2016 and 2015. 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.

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 \$1,617,000 and \$1,629,000 for the years ended June 30, 2016 and 2015, 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.

CARTHAGE COLLEGE

NOTES TO FINANCIAL STATEMENTS As of and for the Years Ended June 30, 2016 and 2015

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (cont.)

Reclassifications - Certain amounts appearing in the 2015 financial statements have been reclassified to conform with the 2016 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. 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 January 2016, FASB issued ASU 2016-01, *Financial Instruments - Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities*. This new guidance is intended to improve the recognition and measurement of financial instruments and eliminates the requirement to disclose the fair value of financial instruments measured at amortized cost for Institutions that are not public business entities. For non-public business entities, ASU 2016-01 is effective for fiscal years beginning after December 15, 2018, with early adoption permitted for fiscal years beginning after December 15, 2017. However, the new guidance permits entities that are not public business entities to adopt upon issuance the provision that eliminates the requirement to disclose the fair value of financial instruments measured at amortized cost. The College elected to adopt this provision in fiscal 2016. ASU 2016-01 is to be applied by means of a cumulative-effect adjustment to the statement of financial position as of the beginning of the fiscal year of adoption. The amendments related to equity securities without readily determinable fair values (including disclosure requirements) should be applied prospectively to equity investments that exist as of the date of adoption of ASU 2016-01. The College is assessing the impact the remainder of this 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. 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, 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, 2016 and 2015

NOTE 2 - 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) 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, 2016 and 2015.

CARTHAGE COLLEGE

NOTES TO FINANCIAL STATEMENTS As of and for the Years Ended June 30, 2016 and 2015

NOTE 2 - FAIR VALUE MEASUREMENTS (cont.)

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.

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

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>

CARTHAGE COLLEGE

NOTES TO FINANCIAL STATEMENTS As of and for the Years Ended June 30, 2016 and 2015

NOTE 2 - 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, 2015 based on the three-tier hierarchy:

	Total	Level 1	Level 2	Level 3
ASSETS				
Short-term investments	\$ 59,267	\$ -	\$ 59,267	\$ -
Government obligations	25,037	25,037	-	-
Mutual funds - equity			-	-
Domestic	49,847,233	49,847,233	-	-
Foreign	24,202,243	24,202,243	-	-
Real estate	4,244,928	4,244,928	-	-
Mutual funds - fixed income				
Domestic	10,275,858	10,275,858	-	-
Funds held by others	74,836		-	74,836
Total	88,729,402	<u>\$ 88,595,299</u>	<u>\$ 59,267</u>	<u>\$ 74,836</u>

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

Certificates of deposit	13,598,429
Other assets	185,650
	<u>\$ 102,513,481</u>

Per Statement of Financial Position

Investments	\$ 17,944,595
Endowment investments	84,494,050
Funds held by others	74,836
	<u>\$ 102,513,481</u>

CARTHAGE COLLEGE

NOTES TO FINANCIAL STATEMENTS As of and for the Years Ended June 30, 2016 and 2015

NOTE 2 - FAIR VALUE MEASUREMENTS (cont.)

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:

	<u>Balance June 30, 2015</u>	<u>Realized and unrealized losses</u>	<u>Additions</u>	<u>Dispositions</u>	<u>Balance June 30, 2016</u>
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)

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, 2015:

	<u>Balance June 30, 2014</u>	<u>Realized and unrealized losses</u>	<u>Additions</u>	<u>Dispositions</u>	<u>Balance June 30, 2015</u>
Assets					
Funds held by others	\$ 99,753	\$ (771)	\$ 8,609	\$ (32,755)	\$ 74,836

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, 2015.

\$ (771)

CARTHAGE COLLEGE

NOTES TO FINANCIAL STATEMENTS As of and for the Years Ended June 30, 2016 and 2015

NOTE 3 - RESTRICTIONS AND LIMITATIONS ON NET ASSET BALANCES

The College's unrestricted net assets were allocated as follows at June 30, 2016 and 2015:

	<u>2016</u>	<u>2015</u>
Operations and investment in plant	\$ 131,349,409	\$ 131,089,407
Student loan funds	457,164	498,962
Endowment funds	26,956,342	24,671,498
Annuity, life, income and similar funds	<u>425,060</u>	<u>441,087</u>
Totals	<u>\$ 159,187,975</u>	<u>\$ 156,700,954</u>

Temporarily restricted net assets consist of the following at June 30, 2016 and 2015:

Gifts and other unexpended revenues and gains available for:		
Scholarships, instruction and other support	\$ 1,433,528	\$ 1,174,949
Acquisition of land, buildings and equipment	<u>935,647</u>	<u>1,973,335</u>
	2,369,175	3,148,284
Endowment funds	25,371,692	27,478,503
Annuity, life, income, and similar fund	<u>714,033</u>	<u>802,225</u>
Totals	<u>\$ 28,454,900</u>	<u>\$ 31,429,012</u>

Permanently restricted net assets consist of the following at June 30, 2016 and 2015:

Endowment funds	\$ 33,111,712	\$ 32,240,972
Student loan funds	500,505	486,687
Annuity, life income and similar funds	<u>462,352</u>	<u>502,206</u>
Totals	<u>\$ 34,074,569</u>	<u>\$ 33,229,865</u>

CARTHAGE COLLEGE

NOTES TO FINANCIAL STATEMENTS As of and for the Years Ended June 30, 2016 and 2015

NOTE 4 - NET ASSETS RELEASED FROM RESTRICTIONS

Net assets released from temporary donor restrictions during the years ended June 30, 2016 and 2015 by incurring expenses satisfying the restricted purposes or by occurrence of events specified by the donors were as follows:

	2016	2015
Acquisition of land, buildings and equipment	\$ 1,490,283	\$ 10,908,058
Scholarships, instruction and other support	4,989,693	4,154,623
Totals	<u>\$ 6,479,976</u>	<u>\$ 15,062,681</u>

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

Operations	\$ 2,804,420	\$ 2,260,741
Capital	1,490,283	10,908,058
Endowment	2,185,273	1,893,882
Totals	<u>\$ 6,479,976</u>	<u>\$ 15,062,681</u>

NOTE 5 - INVESTMENTS

The following summarizes the College's investments, which are recorded at fair value unless otherwise noted, at June 30, 2016 and 2015:

	2016	2015
Certificates of deposit (at cost)	\$ 13,707,562	\$ 13,598,430
Money market accounts	8,787	59,266
Mutual funds	3,882,555	4,183,112
Government obligations	30,189	25,037
Real estate	78,750	78,750
Totals	<u>\$ 17,707,843</u>	<u>\$ 17,944,595</u>

Included above are investment assets of \$589,987 and \$587,929 restricted for construction purposes as of June 30, 2016 and 2015, respectively.

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, 2016 and 2015

NOTE 6 - 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, 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>

Endowment net asset composition by type of fund consists of the following as of June 30, 2015:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Donor-restricted endowment funds	\$ -	\$ 27,478,503	\$ 32,240,972	\$ 59,719,475
Board-designated endowment funds	<u>24,671,498</u>	<u>-</u>	<u>-</u>	<u>24,671,498</u>
Total endowment net assets	<u>\$ 24,671,498</u>	<u>\$ 27,478,503</u>	<u>\$ 32,240,972</u>	<u>\$ 84,390,973</u>

CARTHAGE COLLEGE

NOTES TO FINANCIAL STATEMENTS As of and for the Years Ended June 30, 2016 and 2015

NOTE 6 - ENDOWMENT (cont.)

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	<u>2,695,526</u>	<u>-</u>	<u>-</u>	<u>2,695,526</u>
	27,367,024	27,478,503	32,240,972	87,086,499
Investment return:				
Investment income	332,186	1,496,845	5,965	1,834,996
Net depreciation - realized and unrealized	<u>(318,295)</u>	<u>(1,418,383)</u>	<u>(5,651)</u>	<u>(1,742,329)</u>
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	<u>(497,653)</u>	<u>(2,185,273)</u>	<u>(12,600)</u>	<u>(2,695,526)</u>
Transfer from restricted current fund	<u>73,080</u>	<u>-</u>	<u>-</u>	<u>73,080</u>
Endowment net assets, June 30, 2016	<u><u>\$ 26,956,342</u></u>	<u><u>\$ 25,371,692</u></u>	<u><u>\$ 33,111,712</u></u>	<u><u>\$ 85,439,746</u></u>

Changes in endowment net assets for the year ended June 30, 2015 are as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, June 30, 2014	\$ 22,260,843	\$ 27,228,733	\$ 31,323,646	\$ 80,813,222
Transfer from operations to board designated	<u>2,295,000</u>	<u>-</u>	<u>-</u>	<u>2,295,000</u>
	24,555,843	27,228,733	31,323,646	83,108,222
Investment return:				
Investment income	347,588	1,520,583	6,256	1,874,427
Net appreciation - realized and unrealized	<u>144,775</u>	<u>623,069</u>	<u>2,563</u>	<u>770,407</u>
Total investment return	492,363	2,143,652	8,819	2,644,834
Contributions	-	-	883,820	883,820
Matured deferred gift funds	-	-	37,047	37,047
Appropriation of endowment assets for expenditure	<u>(388,758)</u>	<u>(1,893,882)</u>	<u>(12,360)</u>	<u>(2,295,000)</u>
Transfer from restricted current fund	<u>12,050</u>	<u>-</u>	<u>-</u>	<u>12,050</u>
Endowment net assets, June 30, 2015	<u><u>\$ 24,671,498</u></u>	<u><u>\$ 27,478,503</u></u>	<u><u>\$ 32,240,972</u></u>	<u><u>\$ 84,390,973</u></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, 2016 and 2015.

CARTHAGE COLLEGE

NOTES TO FINANCIAL STATEMENTS As of and for the Years Ended June 30, 2016 and 2015

NOTE 6 - 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, 2016 and 2015, 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, 2016 and 2015:

	2016	2015
Mutual funds	\$ 85,443,430	\$ 84,387,150
Preferred stocks (at cost)	100,000	100,000
Other investments (at cost)	6,900	6,900
Endowment investments	85,550,330	84,494,050
Note to operations	44,874	81,017
Cash held by operations	40,807	8,456
Total	<u>\$ 85,636,011</u>	<u>\$ 84,583,523</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 \$60,604 and \$60,481 for the years ended June 30, 2016 and 2015, 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, 2016 and 2015

NOTE 7 - 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, 2016 and 2015, student loans represented approximately 1.0% of total assets.

At June 30, student loans consisted of the following:

	2016	2015
Perkins Federal government programs	\$ 2,857,373	\$ 2,791,067
Institutional programs	53,517	55,854
	<u>2,910,890</u>	<u>2,846,921</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>\$ 2,345,890</u>	<u>\$ 2,281,921</u>

Funds advanced by the Federal government of \$2,472,343 and \$2,705,765 at June 30, 2016 and 2015, 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, 2016 and 2015, the following amounts were past due under student loan programs:

June 30	Amounts Past Due			
	1-60 days	60-90 days	90+ days	Total
2016	\$ 8,640	\$ 4,924	\$ 630,662	\$ 644,226
2015	1,217	1,370	600,401	602,988

CARTHAGE COLLEGE

NOTES TO FINANCIAL STATEMENTS As of and for the Years Ended June 30, 2016 and 2015

NOTE 8 - 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, 2016, the following construction projects were in progress:

	Costs to Date	Estimated Total Cost	Funding Plan
Science Center	\$ 115,177	\$ 1,600,000	Gifts and operations
Other	<u>79,512</u>	N/A	Operations
Totals	<u>\$ 194,689</u>		

NOTE 9 - PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment consisted of the following at June 30, 2016 and 2015:

	2016	2015
Land	\$ 715,535	\$ 631,935
Land improvements	14,530,610	14,530,610
Buildings and improvements	160,135,576	152,031,685
Equipment	59,922,579	53,962,805
Library books and nondepreciable assets	<u>1,916,543</u>	<u>1,974,825</u>
	237,220,843	223,131,860
Less: Accumulated depreciation	<u>(78,013,520)</u>	<u>(72,108,488)</u>
Totals	<u>\$ 159,207,323</u>	<u>\$ 151,023,372</u>

CARTHAGE COLLEGE

NOTES TO FINANCIAL STATEMENTS As of and for the Years Ended June 30, 2016 and 2015

NOTE 10 - BONDS PAYABLE

Bonds payable at June 30, 2016 and 2015 consisted of the following:

	<u>2016</u>	<u>2015</u>
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. The interest rate at June 30, 2016 and 2015 was 5.95% and 5.31%, respectively.	\$ 3,750,000	\$ 5,000,000
Wisconsin Health and Educational Facilities Authority Revenue Bonds, Series 2012 is payable on June 1, 2029. Interest is payable on a semi-annual basis in June and December and accrues daily on the outstanding principal amount. The interest rate is set at 2.05% through May 2017, at which time it will be adjusted.	6,250,000	6,250,000
Wisconsin Health and Educational Facilities Authority Revenue Bonds, Series 2013A, has a tender date of December 31, 2017. Interest is payable monthly. The interest rate is set at 1.66%.	3,075,000	3,075,000
Wisconsin Health and Educational Facilities Authority Revenue Bonds, Series 2013B, has a tender date of December 31, 2017. Interest is payable monthly. The interest rate is set at 1.72%.	3,075,000	3,075,000
Wisconsin Health and Educational Facilities Authority Revenue Bonds, Series 2013C, has a tender date of December 31, 2017. Interest is payable monthly. The interest rate is set at 1.78%.	6,150,000	6,150,000
Wisconsin Health and Educational Facilities Authority Revenue Bonds, Series 2013D, has a tender date of December 31, 2017. Interest is payable monthly. The interest rate is set at 1.86%.	6,150,000	6,150,000
Wisconsin Health and Educational Facilities Authority Revenue Bonds, Series 2013E, has a tender date of December 31, 2017. Interest is payable monthly. The interest rate is set at 1.93%.	1,550,000	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%.	<u>10,250,000</u>	<u>10,250,000</u>
Totals	<u>\$ 40,250,000</u>	<u>\$ 41,500,000</u>

CARTHAGE COLLEGE

NOTES TO FINANCIAL STATEMENTS As of and for the Years Ended June 30, 2016 and 2015

NOTE 10 - 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 are 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 are 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.

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.

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, 2016 are:

<u>Year</u>	<u>Principal</u>
2017	\$ 1,250,000
2018	21,250,000
2019	1,250,000
2020	1,025,000
2021	1,025,000
Thereafter	14,450,000
	<u>\$ 40,250,000</u>

CARTHAGE COLLEGE

NOTES TO FINANCIAL STATEMENTS As of and for the Years Ended June 30, 2016 and 2015

NOTE 11 - CAPITAL LEASE OBLIGATIONS

In July 2009, the College entered into a master lease agreement for personal property, including equipment and software. At June 30, 2016, ten separate sub-leases existed under the master lease agreement. The sub-leases are for property totaling \$1,576,000. The sub-leases, which were issued over a period of 5 years, required semi-annual payments over a period of sixty months and have payments remaining of \$1,648 over the next year. Amortization expense for the years ended June 30, 2016 and 2015 on these capital assets totaled \$227,963 and \$266,012, respectively, and is included in depreciation expense. Accumulated amortization totaled \$1,576,000 and \$1,348,037 as of June 30, 2016 and 2015, respectively.

In September 2011, the College entered into a lease agreement for instructional equipment with a cost of \$112,710. The lease requires annual payments of \$24,681 on October 1 through 2016. Amortization expense for each of the years ended June 30, 2016 and 2015 totaled \$11,270 and is included in depreciation expense. Accumulated amortization totaled \$50,715 and \$39,445 as of June 30, 2016 and 2015, respectively.

Future minimum lease payments under these sub-leases are as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
Year Ending June 30 2017	<u>\$ 1,458</u>	<u>\$ 190</u>	<u>\$ 1,648</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 \$2,241,000 and \$2,111,000 for the years ended June 30, 2016 and 2015, 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, 2016 and 2015

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 \$2,903,768 and \$2,944,583 at June 30, 2016 and 2015, respectively, and are included in investments on the statements of financial position. New gifts received for the years ended June 30, 2016 and 2015 were \$46,932 and \$96,743, 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 \$3,963,112 and \$3,069,100 for fiscal years 2016 and 2015, 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, 2016 and 2015:

	2016	2015
Revenues, gains and other support from total activities	\$ 79,635,662	\$ 86,481,980
Expenses and losses (excluding depreciation and accretion) from total activities	<u>(71,074,957)</u>	<u>(64,567,624)</u>
Change in Unrestricted Net Assets Before Depreciation and Accretion	<u>\$ 8,560,705</u>	<u>\$ 21,914,356</u>

NOTE 17 - LINE-OF-CREDIT AGREEMENT

The College has an unsecured line of credit totaling \$4,000,000 for operating purposes. The agreement expires in October 2016, and is payable on demand and has an interest rate of 1.9% over the 30-day LIBOR. At June 30, 2016 and 2015, the College had no borrowings outstanding under this agreement.

CARTHAGE COLLEGE

NOTES TO FINANCIAL STATEMENTS As of and for the Years Ended June 30, 2016 and 2015

NOTE 18 - RELATED PARTY TRANSACTIONS

Gifts from board members and officers totaled \$447,427 and \$822,537 for the years ended June 30, 2016 and 2015, respectively.

NOTE 19 - SUBSEQUENT EVENTS

The College has evaluated subsequent events through October 21, 2016 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, 2016 and 2015 and have issued our report thereon dated October 21, 2016, 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 21, 2016

CARTHAGE COLLEGE*Schedule 1***UNRESTRICTED OPERATING REVENUES, GAINS AND OTHER SUPPORT**
For the Years Ended June 30, 2016 and 2015

	2016	2015
TUITION AND FEES		
Academic year	\$ 98,677,803	\$ 92,340,905
Summer school	222,100	245,765
Adult education	4,026,359	4,077,661
Student fees	553,635	532,422
Entrance fees	47,990	61,344
Transcripts	21,685	21,117
Total Tuition and Fees	103,549,572	97,279,214
Less: Scholarships and grants		
Unrestricted scholarships and grants	(51,077,208)	(46,069,607)
Endowed scholarships and government grants	(1,934,499)	(1,755,399)
	(53,011,707)	(47,825,006)
Net Tuition and Fees	50,537,865	49,454,208
GOVERNMENT GRANTS		
Federal work-study program	253,453	253,690
Pell grants administrative cost allowance	470	4,145
Federal supplemental educational opportunity grants	178,286	220,701
Total Government Grants	432,209	478,536
CONTRIBUTIONS		
Evangelical Lutheran Church in America	-	5,000
Other contributions	1,316,999	1,130,166
Total Contributions	1,316,999	1,135,166
ENDOWMENT INCOME	332,186	347,588
OTHER INVESTMENT INCOME	124,240	55,016
GAINS (LOSSES) ON INVESTMENTS	(322,996)	144,812
SALES AND SERVICES OF EDUCATIONAL ACTIVITIES	79,507	22,137
SALES AND SERVICES OF AUXILIARY ENTERPRISES		
Residency	18,448,947	17,448,413
College store	202,047	193,087
Conferences and workshops	1,464,539	1,606,029
College center	485,624	472,888
Total Sales and Services of Auxiliary Enterprises	20,601,157	19,720,417

CARTHAGE COLLEGE*Schedule 1***UNRESTRICTED OPERATING REVENUES, GAINS AND OTHER SUPPORT**
For the Years Ended June 30, 2016 and 2015

	<u>2016</u>	<u>2015</u>
OTHER SOURCES		
Interest on loans receivable	\$ 7,537	\$ 8,553
Service cancellation recoveries	6,041	15,592
Miscellaneous	<u>57,263</u>	<u>73,525</u>
Total Other Sources	<u>70,841</u>	<u>97,670</u>
 ADJUSTMENT OF ACTUARIAL LIABILITY FOR ANNUITIES PAYABLE		
	<u>(16,322)</u>	<u>(36,251)</u>
 NET ASSETS RELEASED FROM RESTRICTIONS		
Operations	2,804,420	2,260,741
Capital	1,490,283	10,908,058
Endowment	<u>2,185,273</u>	<u>1,893,882</u>
Total Net Assets Released From Restrictions	<u>6,479,976</u>	<u>15,062,681</u>
 UNRESTRICTED OPERATING REVENUES, GAINS AND OTHER SUPPORT	 <u>\$ 79,635,662</u>	 <u>\$ 86,481,980</u>

CARTHAGE COLLEGE*Schedule 2***UNRESTRICTED OPERATING EXPENSES**
For the Years Ended June 30, 2016 and 2015

	<u>2016</u>	<u>2015</u>
PROGRAM EXPENSES		
Instruction		
Academic Divisions		
Humanities and fine arts	\$ 7,012,222	\$ 6,421,429
Natural and social sciences	7,784,288	6,305,444
Professional Studies	3,288,899	2,646,738
Academic Programs and Other Instructional Expenses		
Adult education	577,606	931,983
Graduate education	146,163	157,416
Paralegal program	21,217	10,609
Summer school	84,479	108,144
January interim	1,157,568	883,095
Other instructional expenses	437,095	485,084
Fringe benefits allocated	6,267,090	5,071,776
Allocation of depreciation and accretion	1,774,311	1,339,043
Allocation of operation and maintenance of plant	<u>1,053,962</u>	<u>787,628</u>
	<u>29,604,900</u>	<u>25,148,389</u>
Organized activities relating to academic divisions and programs		
Athletics	4,391,771	4,150,016
Musical organizations	27,213	49,520
Fringe benefits allocated	924,615	786,919
Allocation of depreciation and accretion	385,822	314,727
Allocation of operation and maintenance of plant	<u>229,183</u>	<u>185,123</u>
	<u>5,958,604</u>	<u>5,486,305</u>
Total Instruction	<u>35,563,504</u>	<u>30,634,694</u>
Academic Support		
Library		
Salaries	891,072	861,295
Student help	180,793	165,147
Books, periodicals and other expenses	902,238	386,872
Academic computing	447,150	808,065
Other academic support	-	3,113
Fringe benefits allocated	474,652	418,336
Allocation of depreciation and accretion	209,344	166,835
Allocation of operation and maintenance of plant	<u>124,353</u>	<u>98,132</u>
Total Academic Support	<u>3,229,602</u>	<u>2,907,795</u>

CARTHAGE COLLEGE*Schedule 2***UNRESTRICTED OPERATING EXPENSES**
For the Years Ended June 30, 2016 and 2015

	2016	2015
PROGRAM EXPENSES (cont.)		
Public Service	\$ 170,029	\$ 103,473
Student Services		
Admissions	2,047,957	1,958,975
Registrar	296,394	282,910
Student financial planning	432,392	377,014
Health service	118,537	44,006
Student support	425,254	377,061
Advising and placement	816,641	818,077
Student activities	525,201	478,642
Dean of the chapel	92,379	90,187
Dean of students	807,880	732,784
Fringe benefits allocated	1,205,730	957,876
Allocation of depreciation and accretion	487,804	383,813
Allocation of operation and maintenance of plant	289,761	225,759
Total Student Services	7,545,930	6,727,104
Auxiliary Enterprises		
Residency	9,473,288	8,710,921
College center	1,617,685	1,480,512
Conferences and workshops	326,911	420,982
TARC	357,630	371,374
Interest allocated	78,886	19,088
Fringe benefits allocated	147,178	123,771
Allocation of depreciation and accretion	601,537	485,945
Allocation of operation and maintenance of plant	357,320	285,834
Total Auxiliary Enterprises	12,960,435	11,898,427
SUPPORT EXPENSES		
Institutional Support		
General Administration		
Board of trustees	67,914	80,936
Strategic Initiatives	133,727	101,670
President	2,212,269	2,167,161
Provost	777,810	1,222,103
Business office	846,875	854,442
Administrative services	448,867	416,861
Fringe benefits allocated	1,451,404	1,473,643
Allocation of depreciation and accretion	388,605	361,268
Allocation of operation and maintenance of plant	230,836	212,499
Total General Administration	6,558,307	6,890,583

CARTHAGE COLLEGE

Schedule 2

UNRESTRICTED OPERATING EXPENSES For the Years Ended June 30, 2016 and 2015

	2016	2015
SUPPORT EXPENSES (cont.)		
Institutional Support (cont.)		
Public Relations and Development		
Alumni	\$ 133,329	\$ 268,390
Development	1,293,238	1,232,447
Planned giving	31,548	21,819
Capital Campaign	133,479	38,690
Public relations	1,139,954	1,079,539
Church relations	38,452	53,152
Miscellaneous support	1,040	13,910
Celebrations	311,576	387,476
Fringe benefits allocated	544,626	437,365
Allocation of depreciation and accretion	266,872	230,558
Allocation of operation and maintenance of plant	158,525	135,615
Total Public Relations and Development	<u>4,052,639</u>	<u>3,898,961</u>
General Institutional		
Dues and subscriptions	144,165	148,719
Campus security	864,005	983,272
Collection costs	70,323	72,395
College catalog	-	5,056
Bad debts	1,137,388	400,051
Insurance	750,349	724,408
Audit and legal	169,830	248,807
Staff recruitment	172,251	121,008
Taxes	29,569	29,596
Telecommunications	382,124	375,326
Employer FICA	2,153,664	2,006,797
Pension	2,241,494	2,110,567
Educational assistance	3,427,651	2,774,392
Health insurance	3,963,112	3,069,093
Life and disability	123,922	115,484
Student insurance	370,184	330,698
Interest	731,901	906,228
Loan cancellations and write-offs	1,192	1,982
Administrative and collection costs	15,328	18,533
Miscellaneous	755,628	421,676
Fringe benefits allocated	(11,673,008)	(9,793,913)
Allocation of depreciation and accretion	1,444,182	1,848,031
Allocation of operation and maintenance of plant	857,861	1,087,015
Total General Institutional	<u>8,133,115</u>	<u>8,005,221</u>
Total Institutional Support Before		
Allocation to Auxiliary Enterprises	18,744,061	18,794,765
Expenses allocated to auxiliary enterprises	<u>(1,064,920)</u>	<u>(952,539)</u>
Total Institutional Support	<u>17,679,141</u>	<u>17,842,226</u>

CARTHAGE COLLEGE*Schedule 2***UNRESTRICTED OPERATING EXPENSES**
For the Years Ended June 30, 2016 and 2015

	<u>2016</u>	<u>2015</u>
ALLOCABLE EXPENSES		
Operation and Maintenance of Plant		
Operation of Buildings and Environmental Services		
Salaries	\$ 898,799	\$ 880,221
Environmental services	331,912	343,014
Contract cleaning	127,245	120,016
Utilities	2,299,514	2,150,504
Other	722,382	670,537
Maintenance of Buildings		
Salaries	612,827	591,033
Plumbing	42,021	41,668
Mechanical	354,474	230,966
Painting	121,133	61,290
Electrical	54,579	57,430
Carpentry	6,395	5,062
Glass	9,023	16,276
Campus houses	10,986	47,272
Supplies and other	108,186	103,590
Grounds		
Supplies and other	259,352	268,538
Fringe benefits allocated	592,342	524,228
Allocation of depreciation and accretion	<u>515,207</u>	<u>415,876</u>
Total Operation and Maintenance of Plant Before		
Allocation to Auxiliary Enterprises and Other Programs	7,066,377	6,527,521
Expenses allocated to auxiliary enterprises	(3,764,575)	(3,509,916)
Allocation of operation and maintenance of plant	<u>(3,301,802)</u>	<u>(3,017,605)</u>
Total Operation and Maintenance of Plant	<u>-</u>	<u>-</u>
Depreciation and Accretion	6,073,684	5,546,095
Allocation to other programs	<u>(6,073,684)</u>	<u>(5,546,095)</u>
Total Depreciation and Accretion	<u>-</u>	<u>-</u>
Interest	810,787	925,316
Allocation to other programs	<u>(810,787)</u>	<u>(925,316)</u>
Total Interest	<u>-</u>	<u>-</u>
TOTAL UNRESTRICTED OPERATING EXPENSES	<u><u>\$ 77,148,641</u></u>	<u><u>\$ 70,113,719</u></u>