

CARTHAGE COLLEGE

Kenosha, Wisconsin

FINANCIAL STATEMENTS Including Independent Auditors' Report

As of and for the Years Ended June 30, 2015 and 2014

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, 2015 and 2014, 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, 2015 and 2014, 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 2, 2015

CARTHAGE COLLEGE

STATEMENTS OF FINANCIAL POSITION

As of June 30, 2015 and 2014

ASSETS		
	2015	2014
Cash and cash equivalents	\$ 16,073,282	\$ 24,140,906
Student accounts receivable (less allowance for doubtful accounts of \$1,132,000 in 2015 and \$1,041,000 in 2014)	5,413,973	4,829,125
Other receivables	795,824	666,106
Government grants receivable	1,396,858	868,487
Prepaid expenses and other assets	381,429	371,093
Investments (Note 5)	17,944,595	8,649,773
Endowment investments (Note 6)	84,494,050	80,917,984
Deposits	396,942	336,749
Student loans receivable, net (Note 7)	2,281,921	2,172,058
Funds held by others	74,836	99,753
Construction in progress (Note 8)	6,887,838	7,294,168
Property, plant and equipment, net (Note 9)	151,023,372	125,389,316
TOTAL ASSETS	\$ 287,164,920	\$ 255,735,518
LIABILITIES AND NET ASSETS		
LIABILITIES		
Accounts payable and accrued liabilities	\$ 8,008,759	\$ 7,597,448
Deferred revenue	10,782,858	10,386,426
Deposits held in custody for others	482,046	123,733
Annuities payable	1,373,228	1,422,784
Asset retirement obligations (Note 1)	140,762	414,796
Notes payable	759,809	868,309
Capital lease obligations (Note 11)	51,862	258,558
Bonds payable (Note 10)	41,500,000	28,900,000
Government grants refundable (Note 7)	2,705,765	2,693,532
Total Liabilities	65,805,089	52,665,586
NET ASSETS (Note 3)		
Unrestricted	156,700,954	140,332,693
Temporarily restricted	31,429,012	30,420,543
Permanently restricted	33,229,865	32,316,696
Total Net Assets	221,359,831	203,069,932
TOTAL LIABILITIES AND NET ASSETS	\$ 287,164,920	\$ 255,735,518

CARTHAGE COLLEGE

STATEMENTS OF ACTIVITIES For the Years Ended June 30, 2015 and 2014

	2015			2014		
	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	\$ 97,279,214	\$ -	\$ 97,279,214	\$ 93,766,918	\$ -	\$ 93,766,918
Less: Unrestricted scholarships and grants	(46,069,607)	-	(46,069,607)	(41,174,154)	-	(41,174,154)
Endowed scholarships and governmental grants	(1,755,399)	-	(1,755,399)	(1,476,745)	-	(1,476,745)
Net tuition and fees	49,454,208	-	49,454,208	51,116,019	-	51,116,019
Government grants	478,536	-	478,536	365,952	-	365,952
Contributions	1,135,166	-	1,135,166	1,432,502	552	1,433,054
Endowment income	-	347,588	347,588	-	343,710	343,710
Other investment income	54,568	448	55,016	47,358	539	47,897
Gains on investments	37	144,775	144,812	122	2,499,287	2,499,409
Sales and services of educational activities	22,137	-	22,137	43,284	-	43,284
Sales and services of auxiliary enterprises	19,720,417	-	19,720,417	18,941,670	-	18,941,670
Other sources	73,524	24,146	97,670	121,524	16,728	138,252
Matured deferred gifts	10,298	(10,298)	-	2,086	(2,086)	-
Adjustment of actuarial liability for annuities payable	-	(36,251)	(36,251)	-	399,536	399,536
Endowment transfer	388,758	(388,758)	-	368,688	(368,688)	-
	71,337,649	81,650	71,419,299	72,439,205	2,889,578	75,328,783
Net assets released from restrictions - (Note 4)						
Operations	2,260,741	-	2,260,741	1,456,652	-	1,456,652
Capital	10,908,058	-	10,908,058	23,000	-	23,000
Endowment	1,893,882	-	1,893,882	1,652,715	-	1,652,715
Total Operating Revenues, Gains and Other Support	86,400,330	81,650	86,481,980	75,571,572	2,889,578	78,461,150
Expenses						
Program						
Instruction	30,634,694	-	30,634,694	29,746,735	-	29,746,735
Academic support	2,907,795	-	2,907,795	3,379,625	-	3,379,625
Public service	103,473	-	103,473	102,354	-	102,354
Student services	6,727,104	-	6,727,104	6,439,120	-	6,439,120
Auxiliary enterprises	11,898,427	-	11,898,427	11,444,352	-	11,444,352
Support expenses						
Institutional support	17,821,711	20,515	17,842,226	15,512,206	16,597	15,528,803
Allocable expenses						
Operation and maintenance of plant	6,527,521	-	6,527,521	6,278,536	-	6,278,536
Depreciation and accretion	5,546,095	-	5,546,095	5,068,434	-	5,068,434
Interest	925,316	-	925,316	935,698	-	935,698
Less allocated expenses	(12,998,932)	-	(12,998,932)	(12,282,668)	-	(12,282,668)
Total Operating Expenses	70,093,204	20,515	70,113,719	66,624,392	16,597	66,640,989
Change in Unrestricted Net Assets	16,307,126	61,135	16,368,261	8,947,180	2,872,981	11,820,161
Endowment transfer	(2,307,050)	2,307,050	-	(2,074,362)	2,074,362	-
Change in Unrestricted Net Assets after Cash Transfer to Endowment	14,000,076	2,368,185	16,368,261	6,872,818	4,947,343	11,820,161

See accompanying notes to financial statements.

CARTHAGE COLLEGE

STATEMENTS OF ACTIVITIES For the Years Ended June 30, 2015 and 2014

	2015			2014		
	Educational Activities	Investment Activities	Total Activities	Educational Activities	Investment Activities	Total Activities
TEMPORARILY RESTRICTED NET ASSETS						
Government grants	\$ 971,529	\$ -	\$ 971,529	\$ -	\$ -	\$ -
Other grants	533,293	-	533,293	-	-	-
Contributions	11,469,757	82,039	11,551,796	1,417,762	78,327	1,496,089
Endowment income	-	1,520,583	1,520,583	-	1,422,688	1,422,688
Gains on investments	-	623,069	623,069	-	10,106,792	10,106,792
Adjustment of actuarial liability	-	10,403	10,403	-	(193,053)	(193,053)
Matured deferred gifts	63,894	(63,894)	-	-	-	-
Other sources	860,477	-	860,477	604,362	-	604,362
	13,898,950	2,172,200	16,071,150	2,022,124	11,414,754	13,436,878
Net assets released from restrictions - (Note 4)						
Operations	(2,260,741)	-	(2,260,741)	(1,456,652)	-	(1,456,652)
Capital	(10,908,058)	-	(10,908,058)	(23,000)	-	(23,000)
Endowment	-	(1,893,882)	(1,893,882)	-	(1,652,714)	(1,652,714)
Change in Temporarily Restricted Net Assets	730,151	278,318	1,008,469	542,472	9,762,040	10,304,512
PERMANENTLY RESTRICTED NET ASSETS						
Contributions	-	898,521	898,521	-	507,539	507,539
Endowment income	-	18,617	18,617	-	5,940	5,940
Other income	-	749	749	-	10,816	10,816
Other investment income	-	837	837	-	833	833
Gains (losses) on investments	-	(9,797)	(9,797)	-	32,040	32,040
Adjustment of actuarial liability for annuities payable	-	4,242	4,242	-	514,620	514,620
Change in Permanently Restricted Net Assets	-	913,169	913,169	-	1,071,788	1,071,788
CHANGE IN TOTAL NET ASSETS	14,730,227	3,559,672	18,289,899	7,415,290	15,781,171	23,196,461
NET ASSETS - Beginning of Year	119,507,464	83,562,468	203,069,932	112,092,174	67,781,297	179,873,471
NET ASSETS - END OF YEAR	\$ 134,237,691	\$ 87,122,140	\$ 221,359,831	\$ 119,507,464	\$ 83,562,468	\$ 203,069,932

CARTHAGE COLLEGE

STATEMENTS OF CASH FLOWS For the Years Ended June 30, 2015 and 2014

	2015	2014
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ 18,289,899	\$ 23,196,461
Adjustments to reconcile change in net assets to net cash flows from operating activities		
Depreciation and accretion	5,546,095	5,068,434
Asbestos abatement	(302,914)	(182,633)
Amortization of notes payable	(108,500)	(107,791)
Loss on disposal of plant facilities	14,373	-
Actuarial adjustment for annuities payable	161,056	(72,114)
Capitalized interest	(201,703)	-
Loan cancellations and write-offs	7,609	7,822
Contributions restricted for long-term investment and plant	(12,072,727)	(1,313,211)
Interest and dividends restricted for reinvestment	(20,203)	(17,589)
Gains on endowment investments	(770,407)	(12,648,278)
Gains (losses) on investments	27,740	(425,227)
Contribution of non-cash investment	(153,829)	(204,420)
Changes in operating assets and liabilities		
Student accounts receivable	(584,848)	(1,493,081)
Government grants receivable	(528,371)	1,229,431
Other receivables	(129,718)	(37,605)
Prepaid expenses and other assets	(10,336)	253,094
Deposits	(60,193)	(100,244)
Funds held by others	24,917	779
Accounts payable and accrued liabilities	(341,486)	(39,982)
Deferred revenue	396,432	1,586,606
Deposits held in custody for others	358,313	(82,967)
Net Cash Flows from Operating Activities	<u>9,541,199</u>	<u>14,617,485</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of investments	(11,098,877)	(11,075,528)
Sales of investments	1,459,156	12,870,467
Purchases of endowment investments	(7,215,442)	(10,187,091)
Sales of endowment investments	4,409,783	6,349,178
Purchases of property, plant and equipment	(29,804,814)	(5,896,164)
Loans advanced to students	(506,020)	(424,625)
Principal collections on loans to students	388,548	382,895
Net Cash Flows from Investing Activities	<u>(42,367,666)</u>	<u>(7,980,868)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Payments on capital leases	(206,696)	(337,769)
Proceeds on debt issuance	18,320,988	5,764,012
Payments on bonds payable	(5,250,000)	(1,250,000)
Contributions received restricted for long-term investment and plant	12,072,727	1,313,211
Receipts of interest and dividends restricted for reinvestment	20,203	17,589
Payments to annuitants	(210,612)	(251,871)
Increase in government grants refundable	12,233	2,011
Net Cash Flows from Financing Activities	<u>24,758,843</u>	<u>5,257,183</u>
Net Change in Cash and Cash Equivalents	(8,067,624)	11,893,800
CASH AND CASH EQUIVALENTS - Beginning of Year	<u>24,140,906</u>	<u>12,247,106</u>
CASH AND CASH EQUIVALENTS - END OF YEAR	<u>\$ 16,073,282</u>	<u>\$ 24,140,906</u>
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Interest paid, net of capitalized interest of \$201,703 in 2015, none in 2014	\$ 1,017,899	\$ 961,617
NONCASH INVESTING AND FINANCING ACTIVITIES		
Purchase of property, plant, and equipment included in accounts payable	2,149,779	1,396,982
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, 2015 and 2014

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, 2015 and 2014

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 \$838,495 and \$935,679 as of June 30, 2015 and 2014, 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 University'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, 2015 and 2014 are as follows:

	2015	2014
Balance, Beginning of the year	\$ 414,796	\$ 568,549
Abatements	(302,914)	(182,633)
Accretion expense	28,880	28,880
Balance, End of the year	<u>\$ 140,762</u>	<u>\$ 414,796</u>

CARTHAGE COLLEGE

NOTES TO FINANCIAL STATEMENTS As of and for the Years Ended June 30, 2015 and 2014

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 \$275,723 at June 30, 2015 and 2014. No payments were made under this letter of credit for either of the years ended June 30, 2015 and 2014.

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, 2015 and 2014. The College's tax returns are subject to review and examination by federal and state authorities. The tax returns for fiscal years 2012 and thereafter are open to examination by federal authorities. The tax returns for fiscal years 2011 and thereafter are open to examination by State of Wisconsin tax 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 \$1,629,000 and \$1,954,000 for the years ended June 30, 2015 and 2014, 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, 2015 and 2014

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (cont.)

Reclassifications - Certain amounts appearing in the 2014 financial statements have been reclassified to conform with the 2015 presentation. The reclassifications have no effect on reported amounts of total net assets or change in total net assets.

NOTE 2 - FAIR VALUE MEASUREMENTS

Financial Instruments - The carrying amounts of cash and cash equivalents, accounts receivable and other receivables, deposits, accounts payable and deposits held in custody for others are reasonable estimates of fair value due to the short-term maturity of these financial instruments.

A reasonable estimate of the fair value of the receivables from students under government loan programs and grants refundable to the government for student loans could not be made because the notes receivable are not saleable and can only be assigned to the U.S. Government or its designee. The fair value of receivables under institutional loan programs approximates carrying value.

The carrying amounts of the actuarial liability for trusts and annuities payable are based on life expectancies, quoted market prices, and the present value discount included in the carrying amount. The estimated fair value of long-term debt approximates \$42,300,000 and \$29,200,000 at June 30, 2015 and 2014, respectively. The fair value of variable rate long-term debt is assumed to approximate carrying value based on the nature of that obligation and would be classified as a level 2 liability.

Certificates of deposit, preferred stocks and other investments are carried at cost.

Contributions of assets other than cash are recorded at their estimated fair value at the date of the gift. Estimates of fair value involve assumptions and estimation methods that are uncertain and, therefore, the estimates could differ from actual results.

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.

CARTHAGE COLLEGE

NOTES TO FINANCIAL STATEMENTS As of and for the Years Ended June 30, 2015 and 2014

NOTE 2 - FAIR VALUE MEASUREMENTS (cont.)

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, 2015 and 2014.

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, 2015 based on the three-tier hierarchy:

	<u>Total</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
ASSETS				
Short-term investments	\$ 67,722	\$ -	\$ 67,722	\$ -
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	<u>74,836</u>		-	<u>74,836</u>
Total	<u><u>\$ 88,737,857</u></u>	<u><u>\$ 88,595,299</u></u>	<u><u>\$ 67,722</u></u>	<u><u>\$ 74,836</u></u>

CARTHAGE COLLEGE

NOTES TO FINANCIAL STATEMENTS As of and for the Years Ended June 30, 2015 and 2014

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, 2014 based on the three-tier hierarchy:

	Total	Level 1	Level 2	Level 3
ASSETS				
Short-term investments	\$ 486,273	\$ -	\$ 486,273	\$ -
Government obligations	25,047	25,047	-	-
Mutual funds - equity			-	-
Domestic	47,568,154	47,568,154	-	-
Foreign	24,640,051	24,640,051	-	-
Real estate	4,006,238	4,006,238	-	-
Mutual funds - fixed income				
Domestic	9,116,418	9,116,418	-	-
Funds held by others	99,753		-	99,753
Total	\$ 85,941,934	\$ 85,355,908	\$ 486,273	\$ 99,753

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:

	Balance June 30, 2014	Realized and unrealized losses	Additions	Dispositions	Balance June 30, 2015
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)

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, 2014:

	Balance June 30, 2013	Realized and unrealized losses	Additions	Dispositions	Balance June 30, 2014
Assets					
Funds held by others	\$ 100,532	\$ (7,201)	\$ 6,422	\$ -	\$ 99,753

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, 2014.

\$ (7,201)

CARTHAGE COLLEGE

NOTES TO FINANCIAL STATEMENTS As of and for the Years Ended June 30, 2015 and 2014

NOTE 3 - RESTRICTIONS AND LIMITATIONS ON NET ASSET BALANCES

The College's unrestricted net assets were allocated as follows at June 30, 2015 and 2014:

	<u>2015</u>	<u>2014</u>
Operations and investment in plant	\$ 131,089,407	\$ 117,089,330
Student loan funds	498,962	494,884
Endowment funds	24,671,498	22,260,843
Annuity, life, income and similar funds	441,087	487,636
Totals	<u>\$ 156,700,954</u>	<u>\$ 140,332,693</u>

Temporarily restricted net assets consist of the following at June 30, 2015 and 2014:

Gifts and other unexpended revenues and gains available for:		
Scholarships, instruction and other support	\$ 1,174,949	\$ 704,671
Acquisition of land, buildings and equipment	<u>1,973,335</u>	<u>1,713,463</u>
	3,148,284	2,418,134
Endowment funds	27,478,503	27,228,733
Annuity, life, income, and similar fund	<u>802,225</u>	<u>773,676</u>
Totals	<u>\$ 31,429,012</u>	<u>\$ 30,420,543</u>

Permanently restricted net assets consist of the following at June 30, 2015 and 2014:

Endowment funds	\$ 32,240,972	\$ 31,323,646
Student loan funds	486,687	472,741
Annuity, life income and similar funds	<u>502,206</u>	<u>520,309</u>
Totals	<u>\$ 33,229,865</u>	<u>\$ 32,316,696</u>

CARTHAGE COLLEGE

NOTES TO FINANCIAL STATEMENTS As of and for the Years Ended June 30, 2015 and 2014

NOTE 4 - NET ASSETS RELEASED FROM RESTRICTIONS

Net assets released from temporary donor restrictions during the years ended June 30, 2015 and 2014 by incurring expenses satisfying the restricted purposes or by occurrence of events specified by the donors were as follows:

	2015	2014
Acquisition of land, buildings and equipment	\$ 10,908,058	\$ 23,000
Scholarships, instruction and other support	4,154,623	3,109,367
Totals	<u>\$ 15,062,681</u>	<u>\$ 3,132,367</u>

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

Operations	\$ 2,260,741	\$ 1,456,652
Capital	10,908,058	23,000
Endowment	1,893,882	1,652,715
Totals	<u>\$ 15,062,681</u>	<u>\$ 3,132,367</u>

NOTE 5 - INVESTMENTS

The following summarizes the College's investments, which are recorded at fair value unless otherwise noted, at June 30, 2015 and 2014:

	2015	2014
Certificates of deposit (at cost)	\$ 13,598,430	\$ 3,585,587
Money market accounts	59,266	519,362
Mutual funds	4,183,112	4,519,777
Government obligations	25,037	25,047
Real estate fund	78,750	-
Totals	<u>\$ 17,944,595</u>	<u>\$ 8,649,773</u>

Included above are investment assets of \$587,929 and \$1,056,575 restricted for construction purposes as of June 30, 2015 and 2014, respectively. This includes \$470,988 of unspent bond proceeds in 2014.

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, 2015 and 2014

NOTE 6 - ENDOWMENT

The College's endowment consists of 283 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, 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>

Endowment net asset composition by type of fund consists of the following as of June 30, 2014:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Donor-restricted endowment funds	\$ -	\$ 27,228,733	\$ 31,323,646	\$ 58,552,379
Board-designated endowment funds	<u>22,260,843</u>	<u>-</u>	<u>-</u>	<u>22,260,843</u>
Total endowment net assets	<u>\$ 22,260,843</u>	<u>\$ 27,228,733</u>	<u>\$ 31,323,646</u>	<u>\$ 80,813,222</u>

CARTHAGE COLLEGE

NOTES TO FINANCIAL STATEMENTS As of and for the Years Ended June 30, 2015 and 2014

NOTE 6 - ENDOWMENT (cont.)

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	(388,758)	(1,893,882)	(12,360)	(2,295,000)
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>

Changes in endowment net assets for the year ended June 30, 2014 are as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, June 30, 2013	\$ 17,712,172	\$ 17,351,967	\$ 29,376,082	\$ 64,440,221
Transfer from operations to board designated	<u>2,031,562</u>	<u>-</u>	<u>-</u>	<u>2,031,562</u>
	19,743,734	17,351,967	29,376,082	66,471,783
Investment return:				
Investment income	343,710	1,422,688	5,940	1,772,338
Net appreciation - realized and unrealized	<u>2,499,287</u>	<u>10,106,792</u>	<u>42,200</u>	<u>12,648,279</u>
Total investment return	2,842,997	11,529,480	48,140	14,420,617
Contributions	-	-	435,810	435,810
Matured deferred gift funds	-	-	1,473,774	1,473,774
Appropriation of endowment assets for expenditure	(368,688)	(1,652,714)	(10,160)	(2,031,562)
Transfer from restricted current fund	<u>42,800</u>	<u>-</u>	<u>-</u>	<u>42,800</u>
Endowment net assets, June 30, 2014	<u><u>\$ 22,260,843</u></u>	<u><u>\$ 27,228,733</u></u>	<u><u>\$ 31,323,646</u></u>	<u><u>\$ 80,813,222</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, 2015 and 2014.

CARTHAGE COLLEGE

NOTES TO FINANCIAL STATEMENTS As of and for the Years Ended June 30, 2015 and 2014

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, 2015 and 2014, 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, 2015 and 2014:

	2015	2014
Mutual funds	\$ 84,387,150	\$ 80,811,084
Preferred stocks (at cost)	100,000	100,000
Other investments (at cost)	6,900	6,900
Endowment investments	84,494,050	80,917,984
Note to operations	81,017	115,146
Cash held by operations	8,456	(33,089)
Total	<u>\$ 84,583,523</u>	<u>\$ 81,000,041</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 \$60,481 and \$57,430 for the years ended June 30, 2015 and 2014, 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, 2015 and 2014

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, 2015 and 2014, student loans represented approximately 1.0% of total assets.

At June 30, student loans consisted of the following:

	2015	2014
Perkins Federal government programs	\$ 2,791,067	\$ 2,677,534
Institutional programs	55,854	59,524
	<u>2,846,921</u>	<u>2,737,058</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>\$ 2,281,921</u>	<u>\$ 2,172,058</u>

Funds advanced by the Federal government of \$2,705,765 and \$2,693,532 at June 30, 2015 and 2014, 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, 2015 and 2014, the following amounts were past due under student loan programs:

June 30	Amounts Past Due			
	1-60 days	60-90 days	90+ days	Total
2015	\$ 1,217	\$ 1,370	\$ 600,401	\$ 602,988
2014	1,130	2,943	641,218	645,291

The Federal Perkins Loan Program expired September 30, 2015. The Department of Education (ED) issued guidance in January 2015 (Dear Colleague Letter GEN-15-03) which addressed the grandfathering of Perkins loans for students who received loans prior to June 30, 2015. According to the guidance issued by ED, if these students meet certain conditions, they will still be able to receive Perkins loans until 2020 to allow them to "continue or complete their courses of study." However, Perkins loans may not be made to "new borrowers" for whom the first disbursement of a Federal Perkins loan will occur on or after October 1, 2015. Other issues, including the settlement of school revolving funds and outstanding loan portfolios, still need to be addressed. The College is monitoring this issue and is currently assessing the impact on its financial statements.

CARTHAGE COLLEGE

NOTES TO FINANCIAL STATEMENTS As of and for the Years Ended June 30, 2015 and 2014

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, 2015, the following construction projects were in progress:

	Costs to Date	Estimated Total Cost	Funding Plan
Science Center	\$ 6,527,058	\$ 42,784,000	New debt issue, gifts and operations
Other	<u>360,780</u>		Operations
Totals	<u>\$ 6,887,838</u>		

The estimated total cost of the Science Center above includes \$29,700,000 of costs already capitalized.

NOTE 9 - PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment consisted of the following at June 30, 2015 and 2014:

	2015	2014
Land	\$ 631,935	\$ 631,935
Land improvements	14,530,610	14,349,111
Buildings and improvements	152,031,685	126,902,506
Equipment	53,962,805	48,219,948
Library books and nondepreciable assets	<u>1,974,825</u>	<u>2,043,242</u>
	223,131,860	192,146,742
Less: Accumulated depreciation	<u>(72,108,488)</u>	<u>(66,757,426)</u>
Totals	<u>\$ 151,023,372</u>	<u>\$ 125,389,316</u>

CARTHAGE COLLEGE

NOTES TO FINANCIAL STATEMENTS As of and for the Years Ended June 30, 2015 and 2014

NOTE 10 - BONDS PAYABLE

Bonds payable at June 30, 2015 and 2014 consisted of the following:

	<u>2015</u>	<u>2014</u>
Wisconsin Health and Educational Facilities Authority Revenue Bonds, Series 1995 was payable on demand, but no later than March 1, 2015. The bonds were redeemed through the issuance of the Series 2015 Bonds during fiscal 2015.	\$ -	\$ 4,000,000
Wisconsin Health and Educational Facilities Authority Revenue Bonds, Series 1999A and D; Series A was refunded by the Series 2015 Bonds during fiscal 2015; and Series D is payable in annual installments of \$1,250,000 from May 1, 2016 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 A bonds is determined based on a variable rate and the Series D bonds on a fixed rate. The combined interest rate at June 30, 2015 was 5.31%.	5,000,000	12,500,000
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	-
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	-
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	-
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	-
Totals	<u>\$ 41,500,000</u>	<u>\$ 28,900,000</u>

CARTHAGE COLLEGE

NOTES TO FINANCIAL STATEMENTS As of and for the Years Ended June 30, 2015 and 2014

NOTE 10 - BONDS PAYABLE (cont.)

On February 23, 1995, the Wisconsin Health and Educational Facilities Authority issued \$4,000,000 of tax-exempt revenue bonds on behalf of Carthage College to Morgan Guaranty Trust Company of New York. These bonds were issued for the purposes of refinancing certain debt and for renovating, remodeling and equipping the College's educational facilities and certain dormitories. The Series 1995 bonds were paid off during fiscal 2015.

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, 2015 are:

<u>Year</u>	<u>Principal</u>
2016	\$ 1,250,000
2017	1,250,000
2018	21,250,000
2019	1,250,000
2020	1,025,000
Thereafter	15,475,000
	<u>\$ 41,500,000</u>

CARTHAGE COLLEGE

NOTES TO FINANCIAL STATEMENTS As of and for the Years Ended June 30, 2015 and 2014

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, 2015, 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 \$16,512 over the next two years. Amortization expense for each of the years ended June 30, 2015 and 2014 on these capital assets totaled \$266,012 and is included in depreciation expense. Accumulated amortization totaled \$1,348,037 and \$1,082,025 as of June 30, 2015 and 2014, 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 2015. Amortization expense for each of the years ended June 30, 2015 and 2014 totaled \$11,270 and is included in depreciation expense. Accumulated amortization totaled \$39,445 and \$28,175 as of June 30, 2015 and 2014, respectively.

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

Year Ending June 30	Principal	Interest	Total
2016	\$ 50,404	\$ 5,555	\$ 55,959
2017	1,458	190	1,648
Total	<u>\$ 51,862</u>	<u>\$ 5,745</u>	<u>\$ 57,607</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 \$2,111,000 and \$1,972,000 for the years ended June 30, 2015 and 2014, 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, 2015 and 2014

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 \$2,944,583 and \$2,970,461 at June 30, 2015 and 2014, respectively, and are included in investments on the statements of financial position. New gifts received for the years ended June 30, 2015 and 2014 were \$96,743 and \$150,609, 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 \$3,069,100 and \$2,719,400 for fiscal years 2015 and 2014, 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, 2015 and 2014:

	2015	2014
Revenues, gains and other support from total activities	\$ 86,481,980	\$ 78,461,150
Expenses and losses (excluding depreciation and accretion) from total activities	<u>(64,567,624)</u>	<u>(61,572,555)</u>
Change in Unrestricted Net Assets Before Depreciation and Accretion	<u>\$ 21,914,356</u>	<u>\$ 16,888,595</u>

NOTE 17 - LINE-OF-CREDIT AGREEMENT

The College has an unsecured line of credit totaling \$10,000,000 for operating purposes. The agreement expires in October 2015, and is payable on demand and has an interest rate of 1.9% over the 30-day LIBOR. At June 30, 2015 and 2014, the College had no borrowings outstanding under this agreement.

CARTHAGE COLLEGE

NOTES TO FINANCIAL STATEMENTS As of and for the Years Ended June 30, 2015 and 2014

NOTE 18 - RELATED PARTY TRANSACTIONS

Gifts from board members and officers totaled \$822,537 and \$732,921 for the years ended June 30, 2015 and 2014, respectively.

NOTE 19 - SUBSEQUENT EVENTS

The College has evaluated subsequent events through October 2, 2015 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, 2015 and 2014 and have issued our report thereon dated October 2, 2015, 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 2, 2015

CARTHAGE COLLEGE*Schedule 1*

UNRESTRICTED OPERATING REVENUES, GAINS AND OTHER SUPPORT
For the Years Ended June 30, 2015 and 2014

	2015	2014
TUITION AND FEES		
Academic year	\$ 92,340,905	\$ 88,552,382
Summer school	245,765	313,332
Adult education	4,077,661	4,365,175
Student fees	532,422	457,535
Entrance fees	61,344	58,130
Transcripts	21,117	20,364
Total Tuition and Fees	<u>97,279,214</u>	<u>93,766,918</u>
Less: Scholarships and grants		
Unrestricted scholarships and grants	(46,069,607)	(41,174,154)
Endowed scholarships and government grants	<u>(1,755,399)</u>	<u>(1,476,745)</u>
	<u>(47,825,006)</u>	<u>(42,650,899)</u>
Net Tuition and Fees	<u>49,454,208</u>	<u>51,116,019</u>
GOVERNMENT GRANTS		
Federal work-study program	253,690	211,987
Pell grants administrative cost allowance	4,145	4,996
Federal supplemental educational opportunity grants	<u>220,701</u>	<u>148,969</u>
Total Government Grants	<u>478,536</u>	<u>365,952</u>
CONTRIBUTIONS		
Evangelical Lutheran Church in America	5,000	37,600
Other contributions	<u>1,130,166</u>	<u>1,395,454</u>
Total Contributions	<u>1,135,166</u>	<u>1,433,054</u>
ENDOWMENT INCOME	<u>347,588</u>	<u>343,710</u>
OTHER INVESTMENT INCOME	<u>55,016</u>	<u>47,897</u>
GAINS ON INVESTMENTS	<u>144,812</u>	<u>2,499,409</u>
SALES AND SERVICES OF EDUCATIONAL ACTIVITIES	<u>22,137</u>	<u>43,284</u>
SALES AND SERVICES OF AUXILIARY ENTERPRISES		
Residency	17,448,413	16,714,755
College store	193,087	186,144
Conferences and workshops	1,606,029	1,511,032
College center	<u>472,888</u>	<u>529,739</u>
Total Sales and Services of Auxiliary Enterprises	<u>19,720,417</u>	<u>18,941,670</u>

CARTHAGE COLLEGE*Schedule 1***UNRESTRICTED OPERATING REVENUES, GAINS AND OTHER SUPPORT**
For the Years Ended June 30, 2015 and 2014

	<u>2015</u>	<u>2014</u>
OTHER SOURCES		
Interest on loans receivable	\$ 8,553	\$ 8,617
Service cancellation recoveries	15,592	8,111
Miscellaneous	<u>73,525</u>	<u>121,524</u>
Total Other Sources	<u>97,670</u>	<u>138,252</u>
ADJUSTMENT OF ACTUARIAL LIABILITY FOR ANNUITIES PAYABLE	<u>(36,251)</u>	<u>399,536</u>
NET ASSETS RELEASED FROM RESTRICTIONS		
Operations	2,260,741	1,456,652
Capital	10,908,058	23,000
Endowment	<u>1,893,882</u>	<u>1,652,715</u>
Total Net Assets Released From Restrictions	<u>15,062,681</u>	<u>3,132,367</u>
UNRESTRICTED OPERATING REVENUES, GAINS AND OTHER SUPPORT	<u>\$ 86,481,980</u>	<u>\$ 78,461,150</u>

CARTHAGE COLLEGE*Schedule 2***UNRESTRICTED OPERATING EXPENSES**
For the Years Ended June 30, 2015 and 2014

	<u>2015</u>	<u>2014</u>
PROGRAM EXPENSES		
Instruction		
Academic Divisions		
Humanities	\$ 3,511,250	\$ 3,531,575
Social science	3,524,061	3,139,608
Natural science	4,350,605	3,386,997
Education	1,077,516	1,046,790
Fine arts	2,910,179	3,048,743
Academic Programs and Other Instructional Expenses		
Adult education	931,983	1,014,942
Graduate education	157,416	270,716
Paralegal program	10,609	22,698
Summer school	108,144	48,740
January interim	883,095	1,195,545
Other instructional expenses	485,084	451,399
Fringe benefits allocated	5,071,776	4,712,456
Allocation of depreciation and accretion	1,339,043	1,434,809
Allocation of operation and maintenance of plant	787,628	996,246
	<u>25,148,389</u>	<u>24,301,264</u>
Organized activities relating to academic divisions and programs		
Athletics	4,150,016	4,048,835
Musical organizations	49,520	81,127
Fringe benefits allocated	786,919	726,397
Allocation of depreciation and accretion	314,727	347,694
Allocation of operation and maintenance of plant	185,123	241,418
	<u>5,486,305</u>	<u>5,445,471</u>
Total Instruction	<u>30,634,694</u>	<u>29,746,735</u>
Academic Support		
Library		
Salaries	861,295	1,147,329
Student help	165,147	292,495
Books, periodicals and other expenses	386,872	328,480
Academic computing	808,065	704,442
Other academic support	3,113	46,500
Fringe benefits allocated	418,336	501,600
Allocation of depreciation and accretion	166,835	211,751
Allocation of operation and maintenance of plant	98,132	147,028
Total Academic Support	<u>2,907,795</u>	<u>3,379,625</u>

CARTHAGE COLLEGE*Schedule 2***UNRESTRICTED OPERATING EXPENSES**
For the Years Ended June 30, 2015 and 2014

	2015	2014
PROGRAM EXPENSES (cont.)		
Public Service	\$ 103,473	\$ 102,354
Student Services		
Admissions	1,958,975	1,849,590
Registrar	282,910	300,530
Student financial planning	377,014	369,629
Health service	44,006	32,945
Student support	377,061	260,721
Advising and placement	818,077	807,388
Student activities	478,642	492,646
Dean of the chapel	90,187	75,969
Dean of students	732,784	752,360
Fringe benefits allocated	957,876	798,445
Allocation of depreciation and accretion	383,813	412,489
Allocation of operation and maintenance of plant	225,759	286,408
Total Student Services	6,727,104	6,439,120
Auxiliary Enterprises		
Residency	8,710,921	8,293,894
College center	1,480,512	1,436,801
Conferences and workshops	420,982	340,509
TARC	371,374	373,907
Interest allocated	19,088	9,369
Fringe benefits allocated	123,771	109,401
Allocation of depreciation and accretion	485,945	519,654
Allocation of operation and maintenance of plant	285,834	360,817
Total Auxiliary Enterprises	11,898,427	11,444,352
SUPPORT EXPENSES		
Institutional Support		
General Administration		
Board of trustees	80,936	121,442
Strategic initiatives	101,670	21,830
President	2,167,161	2,146,612
Provost	1,222,103	1,019,702
Business office	854,442	791,968
Administrative services	416,861	179,898
Fringe benefits allocated	1,473,643	1,195,789
Allocation of depreciation and accretion	361,268	359,111
Allocation of operation and maintenance of plant	212,499	249,345
Total General Administration	6,890,583	6,085,697

CARTHAGE COLLEGE

Schedule 2

UNRESTRICTED OPERATING EXPENSES For the Years Ended June 30, 2015 and 2014

	2015	2014
SUPPORT EXPENSES (cont.)		
Institutional Support (cont.)		
Public Relations and Development		
Alumni	\$ 268,390	\$ 210,365
Development	1,232,447	1,434,317
Planned giving	21,819	24,958
Capital campaign	38,690	138,948
Public relations	1,079,539	1,121,016
Church relations	53,152	27,871
Miscellaneous support	13,910	139,676
Celebrations	387,476	301,081
Fringe benefits allocated	437,365	442,759
Allocation of depreciation and accretion	230,558	283,984
Allocation of operation and maintenance of plant	135,615	197,182
Total Public Relations and Development	<u>3,898,961</u>	<u>4,322,157</u>
General Institutional		
Dues and subscriptions	148,719	137,081
Campus security	983,272	929,090
Collection costs	72,395	66,983
College catalog	5,056	4,763
Bad debts	400,051	380,670
Insurance	724,408	675,644
Audit and legal	248,807	225,891
Consulting fees	-	1,200
Staff recruitment	121,008	50,193
Taxes	29,596	28,427
Telecommunications	375,326	136,678
Employer FICA	2,006,797	1,960,701
Pension	2,110,567	1,972,038
Educational assistance	2,774,392	2,409,349
Health insurance	3,069,093	2,719,391
Life and disability	115,484	130,513
Student insurance	330,698	315,312
Interest	906,228	926,329
Loan cancellations and write-offs	1,982	1,925
Administrative and collection costs	18,533	14,672
Miscellaneous	421,676	379,620
Fringe benefits allocated	(9,793,913)	(8,967,092)
Allocation of depreciation and accretion	1,848,031	1,052,245
Allocation of operation and maintenance of plant	1,087,015	730,617
Total General Institutional	<u>8,005,221</u>	<u>6,282,240</u>
Total Institutional Support Before		
Allocation to Auxiliary Enterprises	18,794,765	16,690,094
Expenses allocated to auxiliary enterprises	(952,539)	(1,161,291)
Total Institutional Support	<u>17,842,226</u>	<u>15,528,803</u>

CARTHAGE COLLEGE*Schedule 2***UNRESTRICTED OPERATING EXPENSES**
For the Years Ended June 30, 2015 and 2014

	<u>2015</u>	<u>2014</u>
ALLOCABLE EXPENSES		
Operation and Maintenance of Plant		
Operation of Buildings and Environmental Services		
Salaries	\$ 880,221	\$ 875,382
Environmental services	343,014	307,646
Contract cleaning	120,016	76,373
Utilities	2,150,504	2,168,939
Other	670,537	583,333
Maintenance of Buildings		
Salaries	591,033	565,110
Plumbing	41,668	46,882
Mechanical	230,966	218,037
Painting	61,290	32,294
Electrical	57,430	49,232
Carpentry	5,062	7,930
Glass	16,276	1,993
Campus houses	47,272	16,909
Supplies and other	103,590	101,567
Grounds		
Supplies and other	268,538	299,967
Fringe benefits allocated	524,228	480,245
Allocation of depreciation and accretion	415,876	446,697
Total Operation and Maintenance of Plant Before		
Allocation to Auxiliary Enterprises and Other Programs	6,527,521	6,278,536
Expenses allocated to auxiliary enterprises	(3,509,916)	(3,069,475)
Allocation of operation and maintenance of plant	(3,017,605)	(3,209,061)
Total Operation and Maintenance of Plant	<u>-</u>	<u>-</u>
Depreciation and Accretion	5,546,095	5,068,434
Allocation to other programs	(5,546,095)	(5,068,434)
Total Depreciation and Accretion	<u>-</u>	<u>-</u>
Interest	925,316	935,698
Allocation to other programs	(925,316)	(935,698)
Total Interest	<u>-</u>	<u>-</u>
TOTAL UNRESTRICTED OPERATING EXPENSES	<u>\$ 70,113,719</u>	<u>\$ 66,640,989</u>