

Carthage College

Financial Statements and
Supplementary Information

June 30, 2020 and 2019

Carthage College

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June 30, 2020 and 2019

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Independent Auditors' Report

To the Board of Trustees and Management of
Carthage College

We have audited the accompanying financial statements of Carthage College (the College), which comprise the statements of financial position as of June 30, 2020 and 2019, 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, 2020 and 2019, 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 US, LLP

Baker Tilly US, LLP (formerly known as Backer Tilly Virchow Krause, LLP)
Minneapolis, Minnesota
October 30, 2020

Carthage College

Statements of Financial Position

June 30, 2020 and 2019

	2020	2019
Assets		
Cash and cash equivalents (Note 2)	\$ 7,099,348	\$ 11,853,703
Student accounts receivable (less allowance for doubtful accounts of \$3,800,000 in 2020 and 2019)	4,505,799	3,213,983
Other receivables	149,417	315,915
Government grants receivable	1,847,778	1,167,154
Prepaid expenses and other assets	1,302,714	741,958
Interest rate swap asset (Note 13)	-	258,374
Investments (Note 7)	3,698,260	4,483,778
Endowment investments (Note 8)	123,170,114	123,209,201
Student loans receivable, net (Note 9)	1,794,401	2,131,864
Funds held by others	47,152	54,094
Construction in progress (Note 10)	9,799	1,053,003
Property, plant and equipment, net (Note 11)	180,691,991	175,606,046
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Total assets	\$ 324,316,773	\$ 324,089,073
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Liabilities and Net Assets		
Liabilities		
Accounts payable and accrued liabilities	\$ 7,335,300	\$ 5,691,748
Deferred revenue	9,699,495	6,179,185
Deposits held in custody for others	961,274	749,921
Annuities payable	1,417,097	1,550,687
Interest rate swap liability (Note 13)	806,434	-
Asset retirement obligations (Note 1)	270,663	241,782
Obligation under capital lease (Note 14)	77,335	207,483
Refundable advance	364,872	470,143
Bonds payable (Note 12)	48,055,000	50,060,000
Government grants refundable (Note 9)	1,874,601	2,456,509
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Total liabilities	70,862,071	67,607,458
	<hr/>	<hr/>
Net Assets (Note 5)		
Without donor restrictions	158,655,303	160,079,847
With donor restrictions	94,799,399	96,401,768
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Total net assets	253,454,702	256,481,615
	<hr/>	<hr/>
Total liabilities and net assets	\$ 324,316,773	\$ 324,089,073
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See notes to financial statements.

Carthage College

Statements of Activities

Years Ended June 30, 2020 and June 30, 2019

	2020			2019		
	Educational Activities	Investment Activities	Total Activities	Educational Activities	Investment Activities	Total Activities
Net Assets Without Donor Restrictions (Board Controlled)						
Revenues, Gains and Other Support						
Tuition and fees	\$ 115,623,077	\$ -	\$ 115,623,077	\$ 115,361,265	\$ -	\$ 115,361,265
Less scholarships and grants	(68,215,899)	-	(68,215,899)	(65,719,587)	-	(65,719,587)
Endowed scholarships and governmental grants	(3,145,736)	-	(3,145,736)	(2,942,513)	-	(2,942,513)
Net tuition and fees	44,261,442	-	44,261,442	46,699,165	-	46,699,165
Government grants	-	-	-	613,911	-	613,911
Contributions	761,615	-	761,615	1,043,154	-	1,043,154
Endowment income	-	472,876	472,876	-	577,011	577,011
Other investment income	62,857	266,372	329,229	79,350	351,690	431,040
Loss on interest rate swap	(1,064,808)	-	(1,064,808)	(36,937)	-	(36,937)
Realized gains (losses) gains on investments	(1,165)	389,977	388,812	(21,097)	70,289	49,192
Unrealized gains (losses) on investments	(1,351)	(385,368)	(386,719)	1,022	824,246	825,268
Sales and services of auxiliary enterprises	18,182,925	-	18,182,925	22,806,626	-	22,806,626
Other sources	530,270	15,508	545,778	446,328	15,575	461,903
Matured deferred gifts	35,088	(35,088)	-	1,898	(1,898)	-
Adjustment of actuarial liability for annuities payable	-	894	894	-	(140,824)	(140,824)
Appropriation of endowment assets for expenditure	1,168,503	(1,168,503)	-	1,084,969	(1,084,969)	-
Total revenues, gains and other support before release from restrictions	63,935,376	(443,332)	63,492,044	72,718,389	611,120	73,329,509
Net Assets Released From Restrictions - (Note 6)						
Operations	2,243,668	-	2,243,668	1,526,047	(236,403)	1,289,644
Grants	5,029,763	-	5,029,763	1,982,605	-	1,982,605
Capital	2,225,825	-	2,225,825	1,049,890	-	1,049,890
Endowment	3,844,009	-	3,844,009	3,544,108	-	3,544,108
Total revenues, gains, other support and release from restrictions	77,278,641	(443,332)	76,835,309	80,821,039	374,717	81,195,756
Expenses						
Program:						
Instruction	32,548,825	-	32,548,825	33,326,586	-	33,326,586
Academic support	5,734,129	-	5,734,129	5,990,756	-	5,990,756
Public service	184,922	-	184,922	129,783	-	129,783
Student services	15,147,211	-	15,147,211	13,868,199	-	13,868,199
Auxiliary enterprises	7,461,478	-	7,461,478	10,376,844	-	10,376,844
Support expenses:						
Institutional support	17,164,921	18,367	17,183,288	20,576,061	16,290	20,592,351
Allocable expenses:						
Operation and maintenance of plant	8,554,859	-	8,554,859	8,101,581	-	8,101,581
Depreciation and accretion	6,763,128	-	6,763,128	6,706,753	-	6,706,753
Interest	1,417,464	-	1,417,464	1,459,029	-	1,459,029
Loan Fund Matching	(123,006)	123,006	-	-	-	-
Less allocated expenses	(16,735,451)	-	(16,735,451)	(16,267,363)	-	(16,267,363)
Total operating expenses	78,118,480	141,373	78,259,853	84,268,229	16,290	84,284,519

See notes to financial statements.

Carthage College

Statements of Activities

Years Ended June 30, 2020 and June 30, 2019

	2020			2019		
	Educational Activities	Investment Activities	Total Activities	Educational Activities	Investment Activities	Total Activities
Change in Net Assets Without Donor Restrictions after Transfer to Endowment	(839,839)	(584,705)	(1,424,544)	(3,447,190)	358,427	(3,088,763)
Endowment transfer	-	-	-	(90,000)	90,000	-
Change in Net Assets Without Donor Restrictions	(839,839)	(584,705)	(1,424,544)	(3,537,190)	448,427	(3,088,763)
Net Assets With Donor Restrictions						
Contributions	\$ 1,363,303	\$ 1,312,390	\$ 2,675,693	\$ 1,675,394	\$ 799,939	\$ 2,475,333
Governmental grants	5,057,007	-	5,057,007	2,131,301	-	2,131,301
Endowment income	33,096	1,935,346	1,968,442	-	2,391,576	2,391,576
Realized gains on investments	-	1,607,398	1,607,398	-	203,891	203,891
Unrealized gains on investments	-	(11,248)	(11,248)	-	2,466,051	2,466,051
Adjustment of actuarial liability	-	85,138	85,138	-	300,224	300,224
Matured deferred gifts	142,100	(142,100)	-	193,521	(193,521)	-
Other income	-	-	-	-	3,166	3,166
Other investment income	-	2,258	2,258	-	598	598
Other sources	330,863	25,345	356,208	765,380	-	765,380
Change in net assets with donor restrictions before release from restrictions	6,926,369	4,814,527	11,740,896	4,765,596	5,971,924	10,737,520
Net Assets Released From Restrictions - (Note 6)						
Operations	(2,243,668)	-	(2,243,668)	(1,289,644)	-	(1,289,644)
Grants	(5,029,763)	-	(5,029,763)	(1,982,605)	-	(1,982,605)
Capital	(2,225,825)	-	(2,225,825)	(1,049,890)	-	(1,049,890)
Endowment	33,096	(3,877,105)	(3,844,009)	-	(3,544,108)	(3,544,108)
Change in Net Assets with Donor Restrictions	(2,539,791)	937,422	(1,602,369)	443,457	2,427,816	2,871,273
Change in TOTAL NET ASSETS	(3,379,630)	352,717	(3,026,913)	(3,093,733)	2,876,243	(217,490)
NET ASSETS - Beginning of Year	135,539,682	120,941,933	256,481,615	138,633,415	118,065,690	256,699,105
NET ASSETS - End of Year	\$ 132,160,052	\$ 121,294,650	\$ 253,454,702	\$ 135,539,682	\$ 120,941,933	\$ 256,481,615

See notes to financial statements.

Carthage College

Statements of Cash Flows
June 30, 2020 and 2019

	<u>2020</u>	<u>2019</u>
Cash Flows From Operating Activities		
Change in net assets	\$ (3,026,913)	\$ (217,490)
Adjustments to reconcile change in net assets to net cash flows from operating activities:		
Depreciation and accretion	6,763,128	6,706,753
Amortization of refundable advance	(105,271)	(135,000)
Loss on disposal of plant facilities	1,265	-
Actuarial adjustment for annuities payable	54,650	38,672
Loan cancellations and write-offs	6,325	3,620
Contributions restricted for long-term investment and plant	(1,316,935)	(1,761,163)
Interest and dividends restricted for reinvestment	(35,045)	(29,013)
Gain on endowment investments	(2,504,674)	(3,246,115)
Loss (gain) on investments	852,631	(298,287)
Loss on interest rate swap	1,064,808	36,937
Contribution of noncash investment	(342,352)	-
Contribution of noncash property, plant and equipment	-	(55,200)
Changes in operating assets and liabilities:		
Student accounts receivable	(1,291,816)	439,719
Government grants receivable	(680,624)	(492,672)
Other receivables	166,498	(2,560)
Prepaid expenses and other assets	(560,756)	689,321
Deposits	-	112,975
Funds held by others	6,942	10,993
Accounts payable and accrued liabilities	(920,276)	(1,100,087)
Deferred revenue	3,520,310	4,233,367
Deposits held in custody for others	211,353	307,090
Net cash flows from operating activities	<u>1,863,248</u>	<u>5,241,860</u>
Cash Flows From Investing Activities		
Purchases of investments	(4,295,867)	(6,009,951)
Sales of investments	5,469,459	10,985,063
Purchases of endowment investments	(21,139,278)	(10,201,290)
Sales of endowment investments	22,784,686	9,747,874
Proceeds from sale of fixed assets	29,325	650
Purchases of property, plant and equipment	(8,243,750)	(9,335,987)
Principal collections on loans to students	331,138	327,083
Net cash flows from investing activities	<u>(5,064,287)</u>	<u>(4,486,558)</u>
Cash Flows From Financing Activities		
Payments on capital leases	(130,148)	(124,880)
Payments on bonds payable	(2,005,000)	(2,190,000)
Contributions received restricted for long-term investment and plant	1,316,935	1,761,163
Receipts of interest and dividends restricted for reinvestment	35,045	29,013
Payments to annuitants	(188,240)	(200,057)
Decrease in government grants refundable	(581,908)	(972)
Net cash flows from financing activities	<u>(1,553,316)</u>	<u>(725,733)</u>
Net change in cash and cash equivalents	(4,754,355)	29,569
Cash and Cash Equivalents, Beginning	<u>11,853,703</u>	<u>11,824,134</u>
Cash and Cash Equivalents, Ending	<u>\$ 7,099,348</u>	<u>\$ 11,853,703</u>
Supplemental Disclosure of Noncash Investing and Financing Activities		
Interest paid, net of capitalized interest of \$105,633 in 2019	\$ 1,417,464	\$ 1,459,028
Purchase of property, plant and equipment included in accounts payable	2,912,123	348,295
Donated property, plant and equipment	-	55,200

See notes to financial statements.

Carthage College

Notes to Financial Statements

June 30, 2020 and 2019

1. Significant Accounting Policies

Carthage College (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 Assets

Net Asset Classifications - For the purposes of financial reporting, the College classifies resources into two 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:

With Donor Restrictions - Net assets subject to donor-imposed stipulations that will be met by action of the College and/or the passage of time or maintained permanently by the College. Generally, the donors of assets held in perpetuity, permit the College to use all or part of the income earned on related investments for general or specific purposes.

Without Donor Restrictions - Net assets not subject to donor-imposed stipulations. The Board of Trustees has discretion over these funds. Board-designated funds are included in the endowment without donor restrictions (Note 8).

Revenues from sources other than contributions are generally reported as increases in net assets without donor restrictions. Expenses are reported as decreases in net assets without donor restrictions. Income earned on donor-restricted funds is initially classified as net assets with donor restrictions and is reclassified as net assets without donor restrictions when expenses are incurred for their intended purpose.

Unconditional 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 donor 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 – that is, those with a measurable performance or other barrier and a right of return – are not recognized until they become unconditional, that is, when the conditions on which they depend are met. The College has conditional grants of \$3,300,000 outstanding at June 30, 2020, which will be recognized as revenue when qualifying expenses are incurred.

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

Gains and losses on investments of endowment funds created by a board designation of funds are classified as changes in net assets without donor restrictions.

Gains and losses on investments of endowment funds created by donor-restricted funds are classified as changes in net assets with donor restrictions.

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 and fees is reflected as a reduction of tuition and fees revenues.

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.

Investments

Investments in publicly traded securities are stated at fair value based on quoted market prices from national security exchanges. Other investments, for which quoted prices are not available, are stated at fair value as estimated by management using values provided by external investment managers or general partners. Other assets including money market funds, deposit accounts and certificates of deposit are included in investments and are recorded at fair value, which approximates cost.

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 percent 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.

Property, 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's capitalization threshold is \$5,000. Normal repair and maintenance expenses are charged to operations as incurred.

Impairment of Long-Lived Assets

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

Deferred Revenue

Certain revenue related to education programs is deferred and recognized as revenue in the same period services are performed. Students are generally billed for courses prior to the start of the course. Deferred revenue also includes advances on conditional grants whose restrictions have not yet been met.

Carthage College

Notes to Financial Statements

June 30, 2020 and 2019

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 obligations.

Changes in the accrual for asset retirement obligations during the years ended June 30, 2020 and 2019 are as follows:

	<u>2020</u>	<u>2019</u>
Balance, beginning of the year	\$ 241,782	\$ 212,902
Accretion expense	<u>28,881</u>	<u>28,880</u>
Balance, end of the year	<u>\$ 270,663</u>	<u>\$ 241,782</u>

Refundable Advance

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 were loaned to qualified students. 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 \$332,239 at June 30, 2020 and 2019. The letter of credit has an interest rate of 4.33% percent and matures December 31, 2021. No payments were made under this letter of credit for either of the years ended June 30, 2020 and 2019.

Carthage College

Notes to Financial Statements

June 30, 2020 and 2019

Grants to Specified Students

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

Income Tax Status

The Internal Revenue Service has determined the College is exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code. Accordingly, the College is not subject to federal income taxes except to the extent it derives income from certain activities not substantially related to its tax-exempt purposes (unrelated trade or business activities). The College is also exempt from state income tax. At June 30, 2020 and 2019, the College had no obligation for unrelated business income tax.

The College follows the accounting standards for contingencies in evaluating uncertain tax positions. This guidance prescribes recognition threshold principles for the financial statement recognition of tax positions taken or expected to be taken on a tax return that are not certain to be realized. No liability has been recognized by the College for uncertain tax positions as of June 30, 2020 and 2019. 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 \$1,826,000 and \$1,985,000 for the years ended June 30, 2020 and 2019, 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 statements of activities. Accordingly, certain expenses have been allocated among the programs and supporting services benefited.

Reclassifications

Certain amounts appearing in the 2019 financial statements have been reclassified to conform with the 2020 presentation. The reclassifications have no effect on reported amounts of total assets, total net assets or change in total net assets.

Carthage College

Notes to Financial Statements

June 30, 2020 and 2019

New Accounting Pronouncements Not Yet Effective

In May 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2014-09, *Revenue From Contracts With Customers*. This 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, 2019 (fiscal year 2021). The College is assessing the impact this new standard will have on its financial statements.

In February 2016, the 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, 2021 (fiscal year 2023). 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.

New Accounting Pronouncement Adopted in Current Year

In 2020, the College adopted ASU No. 2018-08, *Not-for-Profit Entities (Topic 958), Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. The new guidance is intended to clarify and improve accounting guidance for contributions received and contributions made. The amendments in this ASU should assist entities in (1) evaluating whether transactions should be accounted for as contributions (nonreciprocal transactions) or as exchange (reciprocal) transactions subject to other guidance and (2) determining whether a contribution is conditional. Adopting ASU No. 2018-08 following the modified prospective basis did not have a significant impact on the financial statements of the College.

2. Cash and Cash Equivalents

Cash and cash equivalents held by the College for the years ended June 30, 2020 and 2019 are as follows:

	<u>2020</u>	<u>2019</u>	<u>Restriction</u>
Operating cash	\$ 4,506,441	\$ 7,551,908	Without donor restrictions
Alternative loan cash	45,652	43,072	Donor restricted
Perkins loan cash	392,718	696,668	Donor restricted
Institutional loan cash	<u>552,113</u>	<u>512,571</u>	Donor restricted
Cash balances	<u>5,496,924</u>	<u>8,804,219</u>	
Johnson Trust investments	1,602,424	3,049,484	Donor restricted
Total cash and cash equivalents	<u>\$ 7,099,348</u>	<u>\$ 11,853,703</u>	
Cash and cash equivalents without donor restrictions	\$ 4,506,441	\$ 7,551,908	
Cash and cash equivalents with donor restrictions	<u>2,592,907</u>	<u>4,301,795</u>	
Total cash and cash equivalents	<u>\$ 7,099,348</u>	<u>\$ 11,853,703</u>	

3. Fair Value Measurements

Fair Value Hierarchy

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

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

- Level 1 - Inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the reporting entity can access at the measurement date.
- Level 2 - Inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly. This includes quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in markets that are not active, inputs other than quoted prices that are observable for the asset or liability, or market-corroborated inputs.
- Level 3 - Inputs are unobservable for the asset or liability. Unobservable inputs reflect the assumptions that market participants would use in pricing the asset or liability (including assumptions about risk) using the best information available in the circumstances, which may include using the reporting entity's own data.

Valuation Techniques and Inputs

Level 1 - Level 1 assets include:

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

Level 2 - Level 2 assets include:

- > An interest rate swap asset as the fair value is based on observable inputs to a valuation model, which take into account the present value of the estimated future cash flows and credit value adjustments.

Level 2 - Level 2 liabilities include:

- > An interest rate swap liability as the fair value is based on observable inputs to a valuation model, which take into account the present value of the estimated future cash flows and credit value adjustments.

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).

Carthage College

Notes to Financial Statements

June 30, 2020 and 2019

There have been no changes in the techniques and inputs used as of June 30, 2020 and 2019.

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, 2020 based on the three-tier hierarchy:

	<u>Total</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Assets:				
Mutual funds, equity:				
Domestic	\$ 64,721,392	\$ 64,721,392	\$ -	\$ -
Foreign	38,340,987	38,340,987	-	-
Real estate	5,246,027	5,246,027	-	-
Mutual funds, fixed income:				
Domestic	12,290,035	12,290,035	-	-
Funds held by others	47,152	-	-	47,152
Liabilities:				
Interest rate swap liability			(806,434)	
Total assets (liability) measured at fair value	119,839,159	<u>\$ 120,598,441</u>	<u>\$ (806,434)</u>	<u>\$ 47,152</u>
Financial assets not measured at fair value included in statement of financial position amounts:				
Money market funds	5,479,714			
Certificates of deposit	604,570			
Other assets	185,649			
	<u>\$ 126,109,092</u>			
Per Statement of Financial Position:				
Interest rate swap liability	\$ (806,434)			
Investments	3,698,260			
Endowment investments	123,170,114			
Funds held by others	47,152			
	<u>\$ 126,109,092</u>			

Carthage College

Notes to Financial Statements

June 30, 2020 and 2019

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, 2020:

	<u>Balance June 30, 2019</u>	<u>Unrealized Losses</u>	<u>Additions</u>	<u>Dispositions</u>	<u>Balance June 30, 2020</u>
Assets:					
Funds held by others	\$ 54,094	\$ (6,942)	\$ -	\$ -	\$ 47,152

The following table presents information about the College's assets measured at fair value on a recurring basis as of June 30, 2019 based on the three-tier hierarchy:

	<u>Total</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Assets:				
Government obligations	\$ 179,835	\$ 179,835	\$ -	\$ -
Corporate obligations	349,913	349,913	-	-
Interest rate swap asset	258,374	-	258,374	-
Mutual funds, equity:				
Domestic	65,608,319	65,608,319	-	-
Foreign	37,902,312	37,902,312	-	-
Real estate	6,062,049	6,062,049	-	-
Mutual funds, fixed income:				
Domestic	14,269,204	14,269,204	-	-
Funds held by others	54,094	-	-	54,094
 Total assets measured at fair value	 124,684,100	 <u>\$ 124,371,632</u>	 <u>\$ 258,374</u>	 <u>\$ 54,094</u>
 Financial assets not measured at fair value included in statement of financial position amounts:				
Money market funds	2,537,704			
Certificate of deposit	597,992			
Other assets	185,651			
	<u>\$ 128,005,447</u>			
 Per Statement of Financial Position:				
Interest rate swap asset	\$ 258,374			
Investments	4,483,778			
Endowment investments	123,209,201			
Funds held by others	54,094			
	<u>\$ 128,005,447</u>			

Carthage College

Notes to Financial Statements

June 30, 2020 and 2019

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, 2019:

	<u>Balance June 30, 2018</u>	<u>Unrealized Losses</u>	<u>Additions</u>	<u>Dispositions</u>	<u>Balance June 30, 2019</u>
Assets:					
Funds held by others	\$ 65,087	\$ (9,095)	\$ -	\$ (1,898)	\$ 54,094

4. Liquidity and Availability

The following reflects the College's financial assets as of the statement of financial position date, reduced by amounts not available for general use because of contractual or donor-imposed restrictions within one year of the statement of financial position date. Amounts not available include amounts set aside for long-term investment in the board-designated endowments that could be drawn upon if the governing board approves that action. However, amounts already appropriated from either the donor-restricted endowment or board designated endowment for general expenditures within one year of the statement of financial position date have not been subtracted as unavailable.

	<u>2020</u>	<u>2019</u>
Financial assets, at year-end	\$ 140,470,716	\$ 144,243,734
Less those unavailable for general expenditures within one year, due to:		
Contractual or donor-imposed restrictions:		
Donor restricted and Tarble endowment (Note 8)	(90,094,687)	(89,131,946)
Cash restricted by donors (Note 2)	(2,592,909)	(4,301,795)
Investments restricted by donors for plant (Note 7)	(604,570)	(597,992)
Government grants receivable, restricted by Federal regulations	(230,121)	(237,486)
Deferred gift annuity investments (Note 17)	(2,747,765)	(2,981,844)
Other donor restricted assets	(7,262,730)	(8,457,793)
Board designations:		
Endowment funds (Note 8)	(34,483,771)	(34,786,572)
Amounts set aside for Tarble Aspire Center capital projects	-	(2,200,000)
Amounts set aside for Tarble Aspire Center launch expenses	-	(350,000)
Amounts designated as 5.5% spending rate, general	5,428,284	5,062,784
Amounts designated as 5.5% spending rate, Tarble	726,265	877,220
Financial assets available to meet cash needs for general expenditures within one year	<u>\$ 8,608,712</u>	<u>\$ 7,138,310</u>

The College seeks to maintain financial assets on hand to meet 60 - 90 days of normal operating expenses, which is approximately \$21 million. Due to the majority of tuition dollars coming in the fall and spring, the liquidity reported above at June 30 is lower than at most other times during the year. The College has available \$34.5 million in Board designated funds that are available to cover operating expenses upon Board approval, if needed. In addition, the College has a line of credit with an available balance of \$10 million at June 30, 2020.

Carthage College

Notes to Financial Statements
June 30, 2020 and 2019

5. Restrictions and Limitations on Net Asset Balances

Net assets were allocated as follows at June 30, 2020 and 2019:

	<u>2020</u>	<u>2019</u>
Net assets without donor restrictions:		
Operations and investment in plant	\$ 123,680,811	\$ 124,643,265
Student loan funds	327,424	452,519
Endowment funds	34,483,771	34,786,572
Annuity, life, income and similar funds	163,297	197,491
	<u>158,655,303</u>	<u>160,079,847</u>
Net assets with donor restrictions:		
Purpose and time restricted		
Gifts and other unexpended revenues and gains available for:		
Scholarships, instruction and other support	1,153,017	3,831,654
Acquisition of land, buildings and equipment	1,783,010	1,644,184
	<u>2,936,027</u>	<u>5,475,838</u>
Tarble Aspire Center, endowment	12,422,714	12,422,714
Endowment funds, accumulated earnings	41,516,190	41,858,213
Annuity, life, income and similar fund	860,790	901,742
	<u>57,735,721</u>	<u>60,658,507</u>
Held in perpetuity:		
Endowment funds	36,155,783	34,851,019
Student loan funds	574,749	547,126
Annuity, life income and similar funds	333,146	345,116
	<u>37,063,678</u>	<u>35,743,261</u>
Total net assets with donor restrictions- held in perpetuity	<u>37,063,678</u>	<u>35,743,261</u>
Total net assets with donor restrictions	<u>94,799,399</u>	<u>96,401,768</u>
Total net assets	<u>\$ 253,454,702</u>	<u>\$ 256,481,615</u>

Carthage College

Notes to Financial Statements

June 30, 2020 and 2019

6. Net Assets Released From Restrictions

Net assets released from donor restrictions during the years ended June 30, 2020 and 2019 by incurring expenses satisfying the restricted purposes or by occurrence of events specified by the donors were as follows:

	<u>2020</u>	<u>2019</u>
Acquisition of land, buildings and equipment	\$ 2,225,825	\$ 1,049,890
Scholarships, instruction and other support	10,555,095	6,816,357
Total	<u>\$ 12,780,920</u>	<u>\$ 7,866,247</u>

These net assets were reclassified to net assets without donor restrictions as follows:

Operations	\$ 2,243,668	\$ 1,289,644
Grants	4,467,418	1,982,605
Capital	2,225,825	1,049,890
Endowment	3,844,009	3,544,108
Total	<u>\$ 12,780,920</u>	<u>\$ 7,866,247</u>

7. Investments

The following summarizes the College's investments, which are recorded at fair value unless otherwise noted, at June 30, 2020 and 2019:

	<u>2020</u>	<u>2019</u>
Certificates of deposit (at cost)	\$ 604,570	\$ 597,992
Money market accounts (at cost)	50,690	44,290
Mutual funds	2,964,250	3,232,999
Corporate obligations	-	349,912
Government obligations	-	179,835
Real estate	78,750	78,750
Total	<u>\$ 3,698,260</u>	<u>\$ 4,483,778</u>

Included above are investment assets of \$604,570 and \$597,992 donor restricted for plant as of June 30, 2020 and 2019, respectively.

Carthage College

Notes to Financial Statements

June 30, 2020 and 2019

8. Endowment

The College's endowment consists of 343 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. In 2018, any accounts containing board-designated funds were separated out into new accounts, segregating them from donor designated funds. 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.

Donor-restricted endowment funds are included in net assets with donor restrictions 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, 2020:

	Without Donor Restrictions	With Donor Restrictions			Total Funds June 30, 2020
		Original Gift	Accumulated Gains	Total	
Board-designated endowment funds	\$ 34,483,771	\$ -	\$ -	\$ -	\$ 34,483,771
Table endowment	-	12,422,714	-	12,422,714	12,422,714
Donor-restricted endowment funds	-	36,155,783	41,516,190	77,671,973	77,671,973
Total endowment net assets	<u>\$ 34,483,771</u>	<u>\$ 48,578,497</u>	<u>\$ 41,516,190</u>	<u>\$ 90,094,687</u>	<u>\$ 124,578,458</u>

Carthage College

Notes to Financial Statements

June 30, 2020 and 2019

Endowment net asset composition by type of fund consists of the following as of June 30, 2019:

	Without Donor Restrictions	With Donor Restrictions		Total	Total Funds June 30, 2019
		Original Gift	Accumulated Gains		
Board-designated endowment funds	\$ 34,786,572	\$ -	\$ -	\$ -	\$ 34,786,572
Tarble endowment	-	12,422,714	-	12,422,714	12,422,714
Donor-restricted endowment funds	-	34,851,019	41,858,213	76,709,232	76,709,232
Total endowment net assets	<u>\$ 34,786,572</u>	<u>\$ 47,273,733</u>	<u>\$ 41,858,213</u>	<u>\$ 89,131,946</u>	<u>\$ 123,918,518</u>

Changes in endowment net assets for the year ended June 30, 2020 are as follows:

	Without Donor Restrictions	With Donor Restrictions	Total
Endowment net assets, June 30, 2019	\$ 34,786,572	\$ 89,131,946	\$ 123,918,518
Investment return	865,702	3,548,671	4,414,373
Contributions	-	1,308,351	1,308,351
Appropriation of endowment assets for expenditure	(1,168,503)	(3,894,281)	(5,062,784)
Endowment net assets, June 30, 2020	<u>\$ 34,483,771</u>	<u>\$ 90,094,687</u>	<u>\$ 124,578,458</u>

Changes in endowment net assets for the year ended June 30, 2019 are as follows:

	Without Donor Restrictions	With Donor Restrictions	Total
Endowment net assets, June 30, 2018	\$ 34,546,399	\$ 74,433,737	\$ 108,980,136
Investment return	1,235,142	5,061,518	6,296,660
Contributions	-	774,168	774,168
Appropriation of endowment assets for expenditure	(1,084,969)	(3,560,191)	(4,645,160)
Other changes: Transfer from restricted funds	90,000	12,422,714	12,512,714
Endowment net assets, June 30, 2019	<u>\$ 34,786,572</u>	<u>\$ 89,131,946</u>	<u>\$ 123,918,518</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 as of June 30, 2020 and 2019.

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 percent 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 the years ended June 30, 2020 and 2019, the College appropriated for distribution 5.5 percent 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 6.0 percent 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.

In 2016, the College received a \$15 million contribution from the Tarble Foundation which was restricted by the donor for the purpose of supporting the Aspire (Career) Center. Due to the limited documentation available regarding the restrictions placed on the funds, the Board of Trustees designated \$12 million of the original gift to the endowment to support annual operating expenses of the Aspire Center. The resolution by the Board was approved in May 2019, at which time the College transferred the \$12 million into the endowment as net assets with donor restrictions – purpose and time restricted. The College applied the annual spending rate to these funds.

Carthage College

Notes to Financial Statements

June 30, 2020 and 2019

Endowment Investments

The following summarizes the College's endowment investments, which are recorded at fair value unless otherwise noted, and a reconciliation to endowment net assets at June 30, 2020 and 2019:

	<u>2020</u>	<u>2019</u>
Mutual funds	\$ 123,063,214	\$ 123,102,301
Preferred stocks (at cost)	100,000	100,000
Other investments (at cost)	<u>6,900</u>	<u>6,900</u>
Endowment investments	<u>123,170,114</u>	<u>123,209,201</u>
Due (to) from operations	<u>1,408,344</u>	<u>709,317</u>
Total endowment net assets	<u>\$ 124,578,458</u>	<u>\$ 123,918,518</u>

All interfund balances have been eliminated in the financial statements.

9. 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, 2020 and 2019, student loans represented approximately 1 percent of total assets.

At June 30, student loans consisted of the following:

	<u>2020</u>	<u>2019</u>
Perkins Federal government programs	\$ 2,313,902	\$ 2,649,816
Institutional programs	<u>45,499</u>	<u>47,048</u>
	<u>2,359,401</u>	<u>2,696,864</u>
Less allowance for doubtful accounts:		
Beginning of year	(565,000)	(565,000)
Increases/Decreases	<u>-</u>	<u>-</u>
End of year	<u>(565,000)</u>	<u>(565,000)</u>
Student loans receivable, net	<u>\$ 1,794,401</u>	<u>\$ 2,131,864</u>

Funds advanced by the Federal government of \$1,874,601 and \$2,456,509 at June 30, 2020 and 2019, respectively, are ultimately refundable to the government and are classified as liabilities in the statements of financial position.

Carthage College

Notes to Financial Statements

June 30, 2020 and 2019

The Extension Act amended section 461 of the Higher Education Act to end the College's authority to make new Perkins Loans after June 30, 2018. The College is not required to assign the outstanding Perkins Loans to the Department of Education or liquidate their Perkins Loan Funds due to the wind-down of the Perkins Loan Program. However, the College may choose to liquidate at any time in the future. As of June 30, 2020, the College continues to service the Perkins Loan Program. As of June 30, 2020, the College continues to service the Perkins Loan Program. During the year ended June 30, 2020, the College returned to the government \$575,642 in excess cash, returned \$105,356 to the institution and recognized \$17,650 in reimbursement for cancellations.

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, 2020 and 2019, the following amounts were past due under student loan programs:

	Amounts Past Due			
	1-60 days	60-90 days	90+ days	Total
June 30, 2020	\$ 818	\$ 3,092	\$ 794,986	\$ 798,896
June 30, 2019	1,197	3,047	777,761	782,005

10. 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, 2020, the following construction projects were in progress:

	Costs to Date	Estimated Total Costs	Funding Plan
Various deferred maintenance	\$ 9,799	\$ -	Operations
Total	\$ 9,799	\$ -	

Carthage College

Notes to Financial Statements

June 30, 2020 and 2019

11. Property, Plant and Equipment, Net

Property, plant and equipment consisted of the following at June 30, 2020 and 2019:

	<u>2020</u>	<u>2019</u>
Land	\$ 763,535	\$ 763,535
Land improvements	19,901,714	18,823,871
Buildings and improvements	192,157,164	183,632,357
Equipment	47,031,000	45,050,420
Library books and nondepreciable assets	1,849,127	1,780,219
	<u>261,702,540</u>	<u>250,050,402</u>
Less accumulated depreciation	<u>(81,010,549)</u>	<u>(74,444,356)</u>
Total	<u>\$ 180,691,991</u>	<u>\$ 175,606,046</u>

12. Bonds Payable

Bonds payable at June 30, 2020 and 2019 consisted of the following:

	<u>2020</u>	<u>2019</u>
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 variable based on a LIBOR adjusted rate and was 2.99 % at June 30, 2020 and 2019.	\$ 9,225,000	\$ 10,250,000
Wisconsin Health and Educational Facilities Authority Revenue Bonds, Series 2017A, has a tender date of June 21, 2027. Interest is payable monthly. The interest rate is variable based on a LIBOR adjusted rate and was 2.861% at June 30, 2020 and 2019.	20,435,000	20,850,000
Wisconsin Health and Educational Facilities Authority Revenue Refunding Bonds, Series 2017B, has a tender date of June 21, 2027. Interest is payable monthly. The interest rate is variable based on a LIBOR adjusted rate and was 1.18 % and 3.07% and June 30, 2020 and 2019, respectively. There is an interest rate swap agreement in place to convert effectively to a fixed rate (Note 13)	13,895,000	14,460,000
Wisconsin Health and Educational Facilities Authority Revenue Refunding Bonds, Series 2017C, were refinanced in 2020 and the tender date changed to May 1, 2029. Interest is payable monthly. The interest rate is variable based on a LIBOR adjusted rate and was 1.90 % and 2.71% at June 30, 2020 and 2019, respectively.	4,500,000	4,500,000
Total	<u>\$ 48,055,000</u>	<u>\$ 50,060,000</u>

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.

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Notes to Financial Statements

June 30, 2020 and 2019

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

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

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

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

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, 2020 are:

	<u>Principal</u>
Years ending June 30:	
2021	\$ 2,495,000
2022	2,550,000
2023	2,605,000
2024	2,660,000
2025	2,715,000
Thereafter	<u>35,030,000</u>
Total	<u>\$ 48,055,000</u>

13. Interest Rate-Swap

In June 2017, the Wisconsin Health and Educational Facilities Authority issued \$15,000,000 of tax-exempt revenue bonds on behalf of Carthage College to BMO Harris Bank N.A. Interest rate on the bonds is variable, with an initial rate of 1.585 percent. The College swapped 100 percent of its variable rate cash flow exposure on this bond series for fixed rate cash flows by entering into receive-variable, pay-fixed interest rate swap. Under the interest rate swap, the College receives variable-rate interest rate payments and makes fixed interest rate payments, thereby creating substantially fixed interest rate payments on the related debt obligation.

In November 2017, the College novated a 10-year swap to PNC Bank, at an annual fixed rate of 1.557 percent. The notional amount at June 30, 2020 and 2019 was equal to \$12,395,000 and \$14,460,000, respectively. The College's variable rate receipts are tied to a percentage of one-month LIBOR. Any unpaid principal payments not paid as anticipated would be subject to the variable interest rate in place at that time. If payments exceed this schedule or the loan is paid off, this swap is allowed to be applied to another debt issue.

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Notes to Financial Statements

June 30, 2020 and 2019

Derivative instruments are reported in the statements of financial position at fair value as of June 30, 2020 and 2019 as follows:

Derivatives Not Designated as Hedging Instruments	Statements of Financial Position Location	Derivative	
		Fair Value	
		2020	2019
Interest rate swap	Interest rate swap (liability)/asset	\$ (806,434)	\$ 258,374

The effect of derivative instruments is reported in the statements of activities as follows:

Derivatives Not Designated as Hedging Instruments	Location of Loss on Derivatives Recognized in the Statements of Activities	Amount of Gain on Derivatives Recognized in the Statements of Activities	
		2020	2019
		Interest rate swap	Loss on interest rate swap

Providing the College holds the swaps to maturity, the value of the derivative will be zero. These swapping transactions can be terminated at market rates at any time during the term of the swap.

14. Capital Lease Obligations

During fiscal 2018, the college entered into a master lease agreement for personal property, including computer equipment and software totaling \$442,390. There are two separate sub-schedules under this master lease agreement beginning August and September 2017. These leases have monthly payments of \$5,715 and \$5,648 for a period of 36 and 48 months, respectively. Amortization expense for the year ended June 30, 2020 and 2019 was \$64,478 and \$128,956, respectively and is included in depreciation expense. Accumulated amortization totaled \$320,151 and \$255,673 on these assets as of June 30, 2020 and 2019, respectively.

Future minimum lease payments under these leases are as follows:

	Principal	Interest	Total
Years ending June 30:			
2021	\$ 71,707	\$ 1,784	\$ 73,491
2022	5,628	20	5,648
Total	\$ 77,335	\$ 1,804	\$ 79,139

Carthage College

Notes to Financial Statements

June 30, 2020 and 2019

15. 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 \$1,836,000 and \$2,583,000 for the years ended June 30, 2020 and 2019, respectively. The College paused contributions to the plan beginning May 1, 2020.

16. 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. At June 30, 2020, the College's had approximately 97 percent of the total investments with custodian and 54 percent in two individual investments. 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 an adverse effect on the College's programs and activities.

17. 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 net assets with or without donor restrictions or 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 \$2,747,765 and \$2,981,844 at June 30, 2020 and 2019, respectively, and are included in investments on the statements of financial position. New gifts received for the years ended June 30, 2020 and 2019 were \$43,191 and \$25,771, respectively.

Carthage College

Notes to Financial Statements

June 30, 2020 and 2019

18. Change in Net Assets Without Donor Restrictions Before Depreciation and Accretion

The following is an analysis of the increase in net assets without donor restrictions before depreciation expense and accretion for the years ended June 30, 2020 and 2019:

	<u>2020</u>	<u>2019</u>
Revenues, gains and other support from total activities	\$ 76,835,309	\$ 81,195,756
Expenses and losses (excluding depreciation and accretion) from total activities	<u>(71,496,725)</u>	<u>(77,577,766)</u>
Change in net assets without donor restrictions before depreciation and accretion	<u>\$ 5,338,584</u>	<u>\$ 3,617,990</u>

19. Line-of-Credit Agreement

In November 2019, the College renewed an unsecured line of credit totaling \$10,000,000 for operating purposes. This agreement expires in November 2020, and is payable on demand. Subsequent to year end, the line of credit was extended through November 30, 2021. The agreement has a stated interest rate of 1.9 percent over the 30-day LIBOR. At June 30, 2020 and 2019, the College had no borrowings outstanding under this agreement.

20. Related-Party Transactions

Gifts from board members and officers totaled \$409,083 and \$544,226 for the years ended June 30, 2020 and 2019, respectively.

21. Commitments and Contingencies

In order to participate in the various Federal Title IV financial aid programs, the U.S. Department of Education requires private nonprofit institutions to demonstrate financial responsibility by meeting certain ratio requirements.

The College is contingently liable in connection with claims and contracts, including those currently in litigation arising in the normal course of its activities. In the opinion of management, the results of these matters will not have a significant impact on the financial statements.

Carthage College

Notes to Financial Statements

June 30, 2020 and 2019

22. Expenses by Nature and Function

The financial statements report certain categories of expenses that are attributable to one or more program or supporting functions of the College. These expenses include depreciation and accretion, interest and facilities operations and maintenance. Depreciation and accretion is allocated based on total expense distribution. Interest is allocated based on the purpose of the bonds and usage of space. Operations and maintenance is allocated based on the percentage of actual expense for the year.

Expenses for the year ended June 30, 2020, are as follows:

	Instruction and Academic Support	Student Services	Public Service	Auxiliaries	Administrative Support	Operations and Maintenance	Fundraising	Total Expenses
Salaries and wages	\$ 19,289,916	\$ 5,216,482	\$ -	\$ 249,629	\$ 3,931,312	\$ 1,727,180	\$ 976,118	\$ 31,390,637
Employee benefits	6,068,777	1,859,488	-	70,405	2,584,462	761,446	381,563	11,726,141
Services, supplies and other	5,679,301	5,423,312	184,922	4,993,936	4,953,662	1,619,032	40,515	22,894,680
Utilities, minor equipment and repairs	6,799	39,742	-	204,396	115,214	3,697,632	4,020	4,067,803
Depreciation and accretion	2,987,772	1,076,609	-	530,428	1,243,971	749,569	174,779	6,763,128
Interest	-	-	-	658,100	759,364	-	-	1,417,464
Operation and maintenance	4,250,389	1,531,578	-	754,584	1,769,667	(8,554,859)	248,641	-
Total expenses	\$ 38,282,954	\$ 15,147,211	\$ 184,922	\$ 7,461,478	\$ 17,183,288	\$ -	\$ 1,825,636	\$ 78,259,853

Expenses for the year ended June 30, 2019, are as follows:

	Instruction and Academic Support	Student Services	Public Service	Auxiliaries	Administrative Support	Operations and Maintenance	Fundraising	Total Expenses
Salaries and wages	\$ 21,099,037	\$ 5,687,877	\$ -	\$ 1,905,888	\$ 3,249,574	\$ 1,936,837	\$ 1,016,266	\$ 34,895,479
Employee benefits	5,610,769	1,958,420	-	540,650	3,367,399	628,042	338,092	12,443,372
Services, supplies and other	5,646,700	3,761,680	129,783	5,369,566	7,431,406	2,719,184	579,603	25,637,922
Utilities, minor equipment and repairs	457,689	90,086	-	288,962	92,549	2,161,354	51,324	3,141,964
Depreciation and accretion	2,901,130	1,013,323	-	714,739	1,421,397	656,164	-	6,706,753
Interest	-	-	-	600,022	859,007	-	-	1,459,029
Operation and maintenance	3,602,017	1,356,813	-	957,017	2,185,734	(8,101,581)	-	-
Total expenses	\$ 39,317,342	\$ 13,868,199	\$ 129,783	\$ 10,376,844	\$ 18,607,066	\$ -	\$ 1,985,285	\$ 84,284,519

23. CARES Act

The Coronavirus Aid, Relief, and Economics Security (CARES) Act provided budgetary relief to higher education institutions. Congress set aside approximately \$14.25 billion of the \$30.75 billion allotted to the Education Stabilization Fund through the Higher Education Emergency Relief Fund (HEERF). Each institution received one grant comprised of two parts. Under the legislation, no less than 50% of the full grant was to be used for direct emergency aid to students. The remaining portion of the full grant was to be used by institutions to cover any costs associated with significant changes to the delivery of instruction due to the coronavirus. Institutions were given one calendar year from the date of award in their HEERF Grant Award Notification to complete the performance of their HEERF grant.

In fiscal year 2020, the College received \$1,334,248 of HEERF funding for the institutional component, and \$1,334,248 for the student relief component. Institutions may recognize the institutional portion of the grant to the extent the grant was expended on student relief as of June 30, 2020. June 30, 2020, the entire student relief portion of the grant was disbursed to students and recognized as government grant revenue, and accordingly institutional support expense (grants to students for unanticipated costs). The entire institutional portion of the grant was recognized as government grant revenue. As restrictions were met in the same period, these grants were reported as changes in net assets with donor restrictions and net assets released from restrictions.

24. Subsequent Events

The College has evaluated subsequent events through October 30, 2020, 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 and Management of
Carthage College

We have audited the financial statements of Carthage College (the College) as of and for the years ended June 30, 2020 and 2019 and have issued our report thereon dated October 30, 2020, which contained an unmodified opinion on those financial statements. Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. Schedules 1 and 2 is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain 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 US, LLP

Baker Tilly US, LLP (formerly known as Backer Tilly Virchow Krause, LLP)
Minneapolis, Minnesota
October 30, 2020

Carthage College

Statement of Revenues, Gains and Other Support Without Donor Restrictions - Schedule 1
Years Ended June 30, 2020 and 2019

	2020	2019
Tuition and Fees		
Academic year	\$ 112,175,038	\$ 111,571,642
Adult education	1,059,555	1,020,770
Graduate programs	1,833,690	2,252,553
Student fees	554,794	516,300
	<u>115,623,077</u>	<u>115,361,265</u>
Total tuition and fees		
	115,623,077	115,361,265
Less Scholarships and grants:		
Scholarships and grants, without donor restrictions	(68,215,899)	(65,719,587)
Endowed scholarships and government grants	(3,145,736)	(2,942,513)
	<u>(71,361,635)</u>	<u>(68,662,100)</u>
Total scholarships and grants		
	(71,361,635)	(68,662,100)
Net tuition and fees	<u>44,261,442</u>	<u>46,699,165</u>
Government Grants		
Federal work-study program	354,183	386,655
Pell grants administrative cost allowance	4,070	4,135
Federal supplemental educational opportunity grants	204,092	223,121
	<u>562,345</u>	<u>613,911</u>
Total government grants		
	562,345	613,911
Contributions		
Gifts for completed construction	223,592	136,307
Other contributions	538,023	906,847
	<u>761,615</u>	<u>1,043,154</u>
Total contributions		
	761,615	1,043,154
Endowment Income	<u>472,876</u>	<u>577,011</u>
Other Investment Income	<u>329,229</u>	<u>431,040</u>
Loss on Interest Rate Swap	<u>(1,064,808)</u>	<u>(36,937)</u>
Gains on Investments	<u>2,093</u>	<u>874,460</u>
Sales and Services of Auxiliary Enterprises		
Residency	21,675,618	20,906,514
Residency Refunds-COVID 19	(4,386,230)	-
College store	146,138	160,949
Commissions and Other Auxiliary Income	152,980	371,789
Conferences and workshops	594,419	1,367,374
	<u>18,182,925</u>	<u>22,806,626</u>
Total sales and services of auxiliary enterprises		
	18,182,925	22,806,626

Carthage CollegeStatement of Revenues, Gains and Other Support Without Donor Restrictions - Schedule 1
Years Ended June 30, 2020 and 2019

	<u>2020</u>	<u>2019</u>
Other Sources		
Interest on loans receivable	\$ 6,010	\$ 6,934
Service cancellation recoveries	9,498	8,641
Miscellaneous	530,270	446,328
	<u>545,778</u>	<u>461,903</u>
Adjustment of Actuarial Liability for Annuities Payable	<u>894</u>	<u>(140,824)</u>
Net Assets Released From Restrictions		
Operations	2,243,668	1,289,644
Grants	4,467,418	1,982,605
Capital	2,225,825	1,049,890
Endowment	3,844,009	3,544,108
	<u>12,780,920</u>	<u>7,866,247</u>
Revenues, gains and other support without donor restrictions	<u>\$ 76,835,309</u>	<u>\$ 81,195,756</u>

Carthage CollegeStatement of Expenses - Schedule 2
Years Ended June 30, 2020 and 2019

	<u>2020</u>	<u>2019</u>
Program Expenses		
Instruction:		
Academic divisions:		
Humanities and fine arts	\$ 9,191,978	\$ 9,475,215
Natural and social sciences	9,938,313	10,647,246
Professional studies	5,570,396	5,209,162
Academic programs and other instructional expenses:		
Adult education	218,917	496,120
Graduate education	174,433	189,774
January interim	1,007,508	1,140,210
Other instructional expenses	291,377	455,322
Allocation of depreciation and accretion	2,541,037	2,442,753
Allocation of operation and maintenance of plant	3,614,866	3,270,784
	<u>32,548,825</u>	<u>33,326,586</u>
Academic support:		
Library	1,083,875	1,155,533
Provost	1,366,023	1,411,830
Infrastructure and systems	1,294,430	1,410,057
Media & Learning Systems	695,961	868,741
Other academic support	211,582	354,985
Allocation of depreciation and accretion	446,735	458,377
Allocation of operation and maintenance of plant	635,523	331,233
	<u>5,734,129</u>	<u>5,990,756</u>
Public service	<u>184,922</u>	<u>129,783</u>
Student services:		
Admissions	2,590,596	2,631,800
Athletics	4,824,623	5,055,171
Athletic recruiting	132,940	165,752
Registrar	317,286	370,498
Student financial planning	444,581	471,121
Health service	272,883	279,310
Student support	507,144	610,983
Advising and placement	1,426,114	1,166,753
Student Involvement	187,136	224,881
Center for Faith & Spirituality	168,263	183,364
Dean of students	333,210	338,430
Emergency grants to students	1,334,248	-
Allocation of depreciation and accretion	1,076,609	1,013,323
Allocation of operation and maintenance of plant	1,531,578	1,356,813
	<u>15,147,211</u>	<u>13,868,199</u>

Carthage CollegeStatement of Expenses - Schedule 2
Years Ended June 30, 2020 and 2019

	<u>2020</u>	<u>2019</u>
Program Expenses (cont.)		
Auxiliary enterprises:		
Residency	\$ 4,554,608	\$ 6,371,933
College center	313,151	461,393
Athletic camps	-	103,509
Conferences and workshops	264,359	639,153
Dormitory, general	127,004	174,782
TARC	259,244	354,296
Interest allocated	658,100	600,022
Allocation of depreciation and accretion	530,428	714,739
Allocation of operation and maintenance of plant	754,584	957,017
	<hr/>	<hr/>
Total auxiliary enterprises	7,461,478	10,376,844
	<hr/>	<hr/>
Support Expenses		
Institutional support:		
General administration:		
Board of trustees	21,917	64,908
Strategic initiatives	-	221
President	2,224,897	2,340,565
Business office	1,837,643	1,790,645
Human resources	348,804	420,423
Administrative services	191,213	228,867
Allocation of depreciation and accretion	572,764	427,530
Allocation of operation and maintenance of plant	814,812	572,451
	<hr/>	<hr/>
Total general administration	6,012,050	5,845,610
	<hr/>	<hr/>
Institutional support:		
Public relations and development:		
Alumni	122,430	176,211
Development	1,620,950	1,726,072
Planned giving	42,436	52,534
Capital campaign	39,820	29,909
Public relations	1,468,298	1,810,223
Church relations	13,246	21,131
Celebrations	173,009	390,485
Allocation of depreciation and accretion	342,706	370,724
Allocation of operation and maintenance of plant	487,531	496,390
	<hr/>	<hr/>
Total public relations and development	4,310,426	5,073,679
	<hr/>	<hr/>

Carthage CollegeStatement of Expenses - Schedule 2
Years Ended June 30, 2020 and 2019

	<u>2020</u>	<u>2019</u>
Support Expenses (cont.)		
General institutional:		
Dues and subscriptions	\$ 124,071	\$ 123,637
Campus security	932,652	985,071
Collection costs	138,955	134,401
Bad debts	400,000	391,184
Insurance	543,740	925,130
Audit and legal	132,975	311,494
Taxes	27,155	34,837
Telecommunications	620,109	705,088
Pension	-	78,103
Educational assistance	1,273,160	2,350,771
Life and disability	-	5,693
Student insurance	393,885	406,805
Interest	759,364	859,007
Loan cancellations and write-offs	1,580	516
Administrative and collection costs	16,786	15,760
Miscellaneous	277,134	605,529
Allocation of depreciation and accretion	503,281	623,143
Allocation of operation and maintenance of plant	715,965	1,116,893
	<u>6,860,812</u>	<u>9,673,062</u>
Total general institutional		
	6,860,812	9,673,062
	<u>17,183,288</u>	<u>20,592,351</u>
Total institutional support		
	17,183,288	20,592,351
Allocable Expenses		
Operation and maintenance of plant:		
Operation of buildings	\$ 2,245,888	\$ 2,431,243
Maintenance of buildings	2,751,916	2,479,045
Grounds	389,413	110,631
General capital	12,168	319,262
Environmental services	2,196,687	1,916,014
Student parking shuttle	121,138	81,093
Public safety	88,081	108,129
Allocation of depreciation and accretion	749,568	656,164
	<u>8,554,859</u>	<u>8,101,581</u>
Total operation and maintenance of plant		
	8,554,859	8,101,581
Allocation of operation and maintenance of plant	<u>(8,554,859)</u>	<u>(8,101,581)</u>
	-	-
Total operation and maintenance of plant		
	-	-
Depreciation and accretion	6,763,128	6,706,753
Allocation to other programs	<u>(6,763,128)</u>	<u>(6,706,753)</u>
	-	-
Total depreciation and accretion		
	-	-
Interest	1,417,464	1,459,029
Allocation to other programs	<u>(1,417,464)</u>	<u>(1,459,029)</u>
	-	-
Total interest		
	-	-
Total unrestricted expenses	<u>\$ 78,259,853</u>	<u>\$ 84,284,519</u>