

CARTHAGE COLLEGE

Kenosha, Wisconsin

FINANCIAL STATEMENTS Including Independent Auditors' Report

As of and for the Years Ended June 30, 2018 and 2017

CARTHAGE COLLEGE

TABLE OF CONTENTS

Independent Auditors' Report	1 - 2
Statements of Financial Position	3
Statements of Activities	4 - 5
Statements of Cash Flows	6
Notes to Financial Statements	7 - 26
Independent Auditors' Report on Supplementary Information	27
Schedule 1 - Unrestricted Operating Revenues, Gains and Other Support	28 - 29
Schedule 2 - Unrestricted Operating Expenses	30 - 33

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, 2018 and 2017, and the related statements of activities and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

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, 2018 and 2017, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Baker Tilly Virchow Krause, LLP

Minneapolis, Minnesota
October 12, 2018

CARTHAGE COLLEGE

STATEMENTS OF FINANCIAL POSITION As of June 30, 2018 and 2017

	<u>2018</u>	<u>2017</u>
ASSETS		
Cash and cash equivalents (Note 2)	\$ 11,824,134	\$ 33,261,217
Student accounts receivable (less allowance for doubtful accounts of \$3,800,000 in 2018 and \$1,971,000 in 2017)	3,653,702	5,153,400
Other receivables	313,355	812,295
Government grants receivable	674,482	683,876
Prepaid expenses and other assets	1,431,279	667,619
Interest rate swap asset (Note 12)	295,311	-
Investments (Note 6)	9,258,554	12,960,269
Endowment investments (Note 7)	119,411,719	106,949,701
Deposits	112,975	653,264
Student loans receivable, net (Note 8)	2,462,567	2,528,246
Funds held by others	65,087	63,956
Construction in progress (Note 9)	20,336,484	1,958,973
Property, plant and equipment, net (Note 10)	<u>155,300,115</u>	<u>157,055,079</u>
TOTAL ASSETS	<u>\$ 325,139,764</u>	<u>\$ 322,747,895</u>
LIABILITIES AND NET ASSETS		
LIABILITIES		
Accounts payable and accrued liabilities	\$ 7,323,505	\$ 6,970,258
Deferred revenue	3,104,362	2,411,479
Deposits held in custody for others	442,831	463,825
Annuities payable	1,712,072	1,776,539
Asset retirement obligations (Note 1)	212,902	184,022
Obligation under capital lease (Note 13)	332,363	-
Notes payable	605,143	740,368
Bonds payable (Note 11)	52,250,000	55,250,000
Government grants refundable (Note 8)	<u>2,457,481</u>	<u>2,467,546</u>
Total Liabilities	<u>68,440,659</u>	<u>70,264,037</u>
NET ASSETS (Note 4)		
Unrestricted	163,168,610	165,418,615
Temporarily restricted	58,635,029	52,729,211
Permanently restricted	<u>34,895,466</u>	<u>34,336,032</u>
Total Net Assets	<u>256,699,105</u>	<u>252,483,858</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 325,139,764</u>	<u>\$ 322,747,895</u>

CARTHAGE COLLEGE

STATEMENTS OF ACTIVITIES For the Years Ended June 30, 2018 and 2017

	2018			2017		
	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	\$ 110,359,171	\$ -	\$ 110,359,171	\$ 108,579,415	\$ -	\$ 108,579,415
Less: Unrestricted scholarships and grants	(61,853,397)	-	(61,853,397)	(57,357,074)	-	(57,357,074)
Endowed scholarships and governmental grants	(2,025,152)	-	(2,025,152)	(1,999,488)	-	(1,999,488)
Net tuition and fees	46,480,622	-	46,480,622	49,222,853	-	49,222,853
Government grants	461,643	-	461,643	428,574	-	428,574
Contributions	888,611	-	888,611	1,569,730	-	1,569,730
Endowment income	-	465,410	465,410	-	430,549	430,549
Other investment income	413,942	11,027	424,969	318,108	271	318,379
Gain on interest rate swap	276,861	-	276,861	-	-	-
Gains on investments	650,987	1,954,021	2,605,008	742,087	2,525,804	3,267,891
Sales and services of educational activities	-	-	-	61,705	-	61,705
Sales and services of auxiliary enterprises	24,898,706	-	24,898,706	23,860,764	-	23,860,764
Other sources	1,283,628	-	1,283,628	796,853	17,498	814,351
Matured deferred gifts	38,723	(38,723)	-	22,103	(22,103)	-
Adjustment of actuarial liability for annuities payable	-	10,716	10,716	-	(31,975)	(31,975)
Appropriation of endowment assets for expenditure	835,134	(835,134)	-	677,033	(677,033)	-
	76,228,857	1,567,317	77,796,174	77,699,810	2,243,011	79,942,821
Net assets released from restrictions - (Note 5)						
Operations	2,682,937	-	2,682,937	1,843,816	-	1,843,816
Capital	261,488	-	261,488	128,000	-	128,000
Endowment	2,539,486	-	2,539,486	2,357,937	-	2,357,937
Total Operating Revenues, Gains and Other Support	81,712,768	1,567,317	83,280,085	82,029,563	2,243,011	84,272,574
Expenses						
Program						
Instruction	32,011,775	-	32,011,775	27,371,178	-	27,371,178
Academic support	5,252,119	-	5,252,119	5,275,347	-	5,275,347
Public service	160,035	-	160,035	187,391	-	187,391
Student services	13,234,778	-	13,234,778	12,557,463	-	12,557,463
Auxiliary enterprises	17,798,786	-	17,798,786	15,476,097	-	15,476,097
Support expenses						
Institutional support	17,051,931	20,666	17,072,597	17,155,190	19,268	17,174,458
Allocable expenses						
Operation and maintenance of plant	7,216,658	-	7,216,658	6,908,189	-	6,908,189
Depreciation and accretion	6,969,722	-	6,969,722	6,163,414	-	6,163,414
Interest	934,145	-	934,145	896,309	-	896,309
Less allocated expenses	(15,120,525)	-	(15,120,525)	(13,967,912)	-	(13,967,912)
Total Operating Expenses	85,509,424	20,666	85,530,090	78,022,666	19,268	78,041,934
Change in Unrestricted Net Assets	(3,796,656)	1,546,651	(2,250,005)	4,006,897	2,223,743	6,230,640
Endowment transfer	(630,318)	630,318	-	(3,096,122)	3,096,122	-
Change in Unrestricted Net Assets after Cash Transfer from Endowmer	(4,426,974)	2,176,969	(2,250,005)	910,775	5,319,865	6,230,640

See accompanying notes to financial statements.

CARTHAGE COLLEGE

STATEMENTS OF ACTIVITIES For the Years Ended June 30, 2018 and 2017

	2018			2017		
	Educational Activities	Investment Activities	Total Activities	Educational Activities	Investment Activities	Total Activities
TEMPORARILY RESTRICTED NET ASSETS						
Contributions	\$ 1,022,676	\$ 64,521	\$ 1,087,197	\$ 10,270,619	\$ 6,091,440	\$ 16,362,059
Governmental grants	1,398,974	-	1,398,974	1,078,967	-	1,078,967
Other grants	118,357	-	118,357	-	-	-
Endowment income	-	1,696,220	1,696,220	-	1,625,447	1,625,447
Gains on investments	-	7,061,426	7,061,426	-	9,502,838	9,502,838
Adjustment of actuarial liability	-	37,839	37,839	-	(93,353)	(93,353)
Matured deferred gifts	16,855	(16,855)	-	(22,112)	22,112	-
Other sources	(10,284)	-	(10,284)	128,106	-	128,106
	<u>2,546,578</u>	<u>8,843,151</u>	<u>11,389,729</u>	<u>11,455,580</u>	<u>17,148,484</u>	<u>28,604,064</u>
Net assets released from restrictions - (Note 5)						
Operations	(2,682,937)	-	(2,682,937)	(1,843,816)	-	(1,843,816)
Capital	(261,488)	-	(261,488)	(128,000)	-	(128,000)
Endowment	-	(2,539,486)	(2,539,486)	-	(2,357,937)	(2,357,937)
	<u>(397,847)</u>	<u>6,303,665</u>	<u>5,905,818</u>	<u>9,483,764</u>	<u>14,790,547</u>	<u>24,274,311</u>
PERMANENTLY RESTRICTED NET ASSETS						
Contributions	-	446,875	446,875	-	324,323	324,323
Endowment income	-	18,620	18,620	-	18,472	18,472
Other income	-	16	16	-	784	784
Other investment income	-	1,636	1,636	-	468	468
Gains on investments	-	16,508	16,508	-	25,575	25,575
Adjustment of actuarial liability for annuities payable	-	75,779	75,779	-	-	-
Endowment transfer	-	-	-	-	(108,159)	(108,159)
	<u>-</u>	<u>559,434</u>	<u>559,434</u>	<u>-</u>	<u>261,463</u>	<u>261,463</u>
CHANGE IN TOTAL NET ASSETS						
	(4,824,821)	9,040,068	4,215,247	10,394,539	20,371,875	30,766,414
NET ASSETS - Beginning of Year	<u>144,113,123</u>	<u>108,370,735</u>	<u>252,483,858</u>	<u>133,718,584</u>	<u>87,998,860</u>	<u>221,717,444</u>
NET ASSETS - END OF YEAR	<u>\$ 139,288,302</u>	<u>\$ 117,410,803</u>	<u>\$ 256,699,105</u>	<u>\$ 144,113,123</u>	<u>\$ 108,370,735</u>	<u>\$ 252,483,858</u>

CARTHAGE COLLEGE

STATEMENTS OF CASH FLOWS
For the Years Ended June 30, 2018 and 2017

	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ 4,215,247	\$ 30,766,414
Adjustments to reconcile change in net assets to net cash flows from operating activities		
Depreciation and accretion	6,969,722	6,163,414
Amortization of notes payable	(135,225)	(145,478)
Actuarial adjustment for annuities payable	141,606	631,281
(Increase) decrease in allowance for student accounts receivable	(1,829,000)	(923,000)
Loan cancellations and write-offs	7,638	6,990
Contributions restricted for long-term investment and plant	(875,727)	(6,751,207)
Interest and dividends restricted for reinvestment	(20,272)	(19,725)
Gain on endowment investments	(9,043,793)	(12,784,324)
Gain on investments	(734,397)	(307,702)
Gain on interest rate swap	(276,861)	-
Contribution of non-cash investment	(333,362)	(5,117,951)
Contribution of non-cash property, plant and equipment	(30,000)	(48,000)
Changes in operating assets and liabilities		
Student accounts receivable	3,328,698	944,612
Government grants receivable	9,394	2,151,106
Other receivables	498,940	(177,297)
Prepaid expenses and other assets	(763,660)	(173,209)
Deposits	540,289	(105,738)
Funds held by others	(1,131)	5,203
Accounts payable and accrued liabilities	(676,056)	(577,744)
Deferred revenue	692,883	(6,351,350)
Deposits held in custody for others	(20,994)	(64,621)
Net Cash Flows from Operating Activities	1,663,939	7,121,674
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of investments	(3,955,197)	(9,784,046)
Sales of investments	8,112,209	19,957,273
Purchases of endowment investments	(9,489,529)	(24,100,083)
Sales of endowment investments	6,665,315	15,485,036
Proceeds from sale of fixed assets	11,576	-
Purchases of property, plant and equipment	(22,073,271)	(4,908,324)
Loans advanced to students	(343,854)	(661,093)
Principal collections on loans to students	401,895	471,747
Net Cash Flows from Investing Activities	(20,670,856)	(3,539,490)
CASH FLOWS FROM FINANCING ACTIVITIES		
Payments on capital leases	(110,027)	(1,458)
Funds received from debt issued	-	21,250,000
Payments on bonds payable	(3,000,000)	(6,250,000)
Contributions received restricted for long-term investment and plant	875,727	6,751,207
Receipts of interest and dividends restricted for reinvestment	20,272	19,725
Payments to annuitants	(206,073)	(210,783)
Increase (decrease) in government grants refundable	(10,065)	(4,797)
Net Cash Flows from Financing Activities	(2,430,166)	21,553,894
Net Change in Cash and Cash Equivalents	(21,437,083)	25,136,078
CASH AND CASH EQUIVALENTS - Beginning of Year	33,261,217	8,125,139
CASH AND CASH EQUIVALENTS - END OF YEAR	\$ 11,824,134	\$ 33,261,217
SUPPLEMENTAL DISCLOSURE OF NON-CASH INVESTING AND FINANCING ACTIVITIES		
Interest paid, net of capitalized interest of \$537,547 in 2018 and \$0 in 2017	\$ 967,206	\$ 892,319
Purchase of property, plant, and equipment included in accounts payable	2,038,509	1,009,206
Property, plant, and equipment acquired by capital lease	442,390	-
Bond principal balance paid through refinancing of long-term debt	-	21,250,000
Donated property, plant and equipment	30,000	48,000

See accompanying notes to financial statements.

CARTHAGE COLLEGE

NOTES TO FINANCIAL STATEMENTS As of and for the Years Ended June 30, 2018 and 2017

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, 2018 and 2017

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (cont.)

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

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

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

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

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

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

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

Changes in the accrual for asset retirement obligations during the years ended June 30, 2018 and 2017 are as follows:

	2018	2017
Balance, Beginning of the year	\$ 184,022	\$ 155,142
Accretion expense	28,880	28,880
Balance, End of the year	<u>\$ 212,902</u>	<u>\$ 184,022</u>

CARTHAGE COLLEGE

NOTES TO FINANCIAL STATEMENTS As of and for the Years Ended June 30, 2018 and 2017

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 \$332,239 and \$318,934 at June 30, 2018 and 2017, respectively. No payments were made under this letter of credit for either of the years ended June 30, 2018 and 2017.

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, 2018 and 2017, 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, 2018 and 2017. 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 \$1,899,000 and \$1,415,000 for the years ended June 30, 2018 and 2017, 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, 2018 and 2017

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (cont.)

Reclassifications - Certain amounts appearing in the 2017 financial statements have been reclassified to conform with the 2018 presentation. The reclassifications have no effect on reported amounts of total assets, total net assets or change in total net assets.

The College reclassified \$830,266 of 2017 investment income and unrealized gains related to a \$6,000,000 gift which is pending designation by the board as an endowment. The reclassification resulted in an increase in unrestricted net assets and change in unrestricted net assets of \$830,266 and a corresponding decrease in temporary restricted net assets and change in temporarily restricted net assets as of and for the year ended June 30, 2017.

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

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

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

CARTHAGE COLLEGE

NOTES TO FINANCIAL STATEMENTS As of and for the Years Ended June 30, 2018 and 2017

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (cont.)

New Accounting Pronouncements (continued) - During June 2018, the FASB issued ASU 2018-08, *Not-for-Profit Entities (Topic 958): Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. The 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. Not-for-profit entities that do not have conduit debt should apply the amendments for fiscal years beginning after December 15, 2019 (fiscal year 2021). The College is currently assessing the impact this standard will have on its financial statements.

NOTE 2 - CASH AND CASH EQUIVALENTS

Cash and cash equivalents held by the College for the years ended June 30, 2018 and 2017 are as follows:

	2018	2017	Restriction
Operating cash	\$ 3,006,634	\$ 11,424,136	Unrestricted
Alternative loan cash	273,827	94,073	Restricted
Perkins loan cash	368,156	383,286	Restricted
Institutional loan cash	506,314	492,397	Restricted
Cash balances, end of year	<u>\$ 4,154,931</u>	<u>12,393,892</u>	
Johnson Trust investments	1,262,045	657,005	Restricted
U.S. Bank investments	6,407,158	20,210,320	Restricted for construction
Cash equivalent balances, end of year	<u>7,669,203</u>	<u>20,867,325</u>	
Total cash and cash equivalents, end of year	<u>\$ 11,824,134</u>	<u>\$ 33,261,217</u>	
Unrestricted cash and cash equivalents	\$ 3,006,634	\$ 11,424,136	
Restricted cash and cash equivalents	8,817,500	21,837,081	
Total cash and cash equivalents, end of year	<u>\$ 11,824,134</u>	<u>\$ 33,261,217</u>	

NOTE 3 - FAIR VALUE MEASUREMENTS

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

CARTHAGE COLLEGE

NOTES TO FINANCIAL STATEMENTS As of and for the Years Ended June 30, 2018 and 2017

NOTE 3 - FAIR VALUE MEASUREMENTS (cont.)

Fair Value Hierarchy (continued) - Financial instruments measured and reported at fair value are classified and disclosed in one of the following three categories.

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

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

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

Valuation Techniques and Inputs

Level 1 - Level 1 assets include:

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

Level 2 - Level 2 assets include:

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

There have been no changes in the techniques and inputs used as of June 30, 2018 and 2017.

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

CARTHAGE COLLEGE

NOTES TO FINANCIAL STATEMENTS As of and for the Years Ended June 30, 2018 and 2017

NOTE 3 - FAIR VALUE MEASUREMENTS (cont.)

The following table presents information about the College's assets measured at fair value on a recurring basis as of June 30, 2018 based on the three-tier hierarchy:

	Total	Level 1	Level 2	Level 3
ASSETS				
Short-term investments	\$ 7,697,050	\$ -	\$ 7,697,050	\$ -
Government obligations	3,425,514	3,425,514	-	-
Corporate obligations	1,722,477	1,722,477		
Interest rate swap	295,311		295,311	
Mutual funds - equity				
Domestic	67,494,894	67,494,894	-	-
Foreign	38,096,005	38,096,005	-	-
Real estate	5,323,440	5,323,440	-	-
Mutual funds - fixed income				
Domestic	11,800,020	11,800,020	-	-
Funds held by others	65,087	-	-	65,087
Total	135,919,798	\$ 127,862,350	\$ 7,992,361	\$ 65,087

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

Certificates of deposit	594,426
Other assets	185,650
	\$ 136,699,874

Per Statement of Financial Position

Categorized as cash and cash equivalents (Note 2)		7,669,203
Interest rate swap		295,311
Investments		9,258,554
Endowment investments		119,411,719
Funds held by others		65,087
		\$ 136,699,874

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, 2018:

	Balance June 30, 2017	Realized and unrealized gains	Additions	Dispositions	Balance June 30, 2018
Assets					
Funds held by others	\$ 63,956	\$ 1,131	\$ -	\$ -	\$ 65,087

The amount of total gains 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, 2018.

\$ 1,131

CARTHAGE COLLEGE

NOTES TO FINANCIAL STATEMENTS As of and for the Years Ended June 30, 2018 and 2017

NOTE 3 - FAIR VALUE MEASUREMENTS (cont.)

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

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

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

Certificates of deposit	592,058
Other assets	185,650
	\$ 140,841,251

Per Statement of Financial Position

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

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

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

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

\$ (5,203)

CARTHAGE COLLEGE

NOTES TO FINANCIAL STATEMENTS As of and for the Years Ended June 30, 2018 and 2017

NOTE 4 - RESTRICTIONS AND LIMITATIONS ON NET ASSET BALANCES

The College's unrestricted net assets were allocated as follows at June 30, 2018 and 2017:

	<u>2018</u>	<u>2017</u>
Operations and investment in plant	\$ 127,829,689	\$ 132,260,184
Student loan funds	452,309	455,665
Endowment funds	34,546,399	32,331,784
Annuity, life, income and similar funds	<u>340,213</u>	<u>370,982</u>
Totals	<u>\$ 163,168,610</u>	<u>\$ 165,418,615</u>

Temporarily restricted net assets consist of the following at June 30, 2018 and 2017:

Gifts and other unexpended revenues and gains available for:		
Scholarships, instruction and other support	\$ 9,983,623	\$ 10,715,798
Acquisition of land, buildings and equipment	<u>1,471,472</u>	<u>1,137,142</u>
	11,455,095	11,852,940
Donor gift pending board-designated endowment	6,000,000	6,000,000
Endowment funds	40,360,200	34,142,040
Annuity, life, income, and similar fund	<u>819,734</u>	<u>734,231</u>
Totals	<u>\$ 58,635,029</u>	<u>\$ 52,729,211</u>

Permanently restricted net assets consist of the following at June 30, 2018 and 2017:

Endowment funds	\$ 34,073,537	\$ 33,470,557
Student loan funds	527,279	513,787
Annuity, life income and similar funds	<u>294,650</u>	<u>351,688</u>
Totals	<u>\$ 34,895,466</u>	<u>\$ 34,336,032</u>

CARTHAGE COLLEGE

NOTES TO FINANCIAL STATEMENTS As of and for the Years Ended June 30, 2018 and 2017

NOTE 5 - NET ASSETS RELEASED FROM RESTRICTIONS

Net assets released from temporary donor restrictions during the years ended June 30, 2018 and 2017 by incurring expenses satisfying the restricted purposes or by occurrence of events specified by the donors were as follows:

	<u>2018</u>	<u>2017</u>
Acquisition of land, buildings and equipment	\$ 261,488	\$ 128,000
Scholarships, instruction and other support	<u>5,222,423</u>	<u>4,201,753</u>
Totals	<u>\$ 5,483,911</u>	<u>\$ 4,329,753</u>

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

Operations	\$ 2,682,937	\$ 1,843,816
Capital	261,488	128,000
Endowment	<u>2,539,486</u>	<u>2,357,937</u>
Totals	<u>\$ 5,483,911</u>	<u>\$ 4,329,753</u>

NOTE 6 - INVESTMENTS

The following summarizes the College's investments, which are recorded at fair value unless otherwise noted, at June 30, 2018 and 2017:

	<u>2018</u>	<u>2017</u>
Certificates of deposit (at cost)	\$ 594,426	\$ 592,058
Money market accounts	27,847	4,950
Mutual funds	3,409,540	3,863,071
Corporate obligations	1,722,477	5,322,307
Government obligations	3,425,514	3,099,133
Real estate	<u>78,750</u>	<u>78,750</u>
Totals	<u>\$ 9,258,554</u>	<u>\$ 12,960,269</u>

Included above are investment assets of \$594,426 and \$592,058 restricted for construction purposes as of June 30, 2018 and 2017, respectively.

Investment income includes \$2,881,869 and \$3,267,891 of unrealized unrestricted gains as of June 30, 2018 and 2017, respectively.

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

CARTHAGE COLLEGE

NOTES TO FINANCIAL STATEMENTS As of and for the Years Ended June 30, 2018 and 2017

NOTE 7 - ENDOWMENT

The College's endowment consists of 323 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.

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, 2018:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds	\$ -	\$ 40,360,200	\$ 34,073,537	\$ 74,433,737
Board-designated endowment funds	34,546,399	-	-	34,546,399
Total endowment net assets	<u>\$ 34,546,399</u>	<u>\$ 40,360,200</u>	<u>\$ 34,073,537</u>	<u>\$ 108,980,136</u>

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

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds	\$ -	\$ 34,142,040	\$ 33,470,557	\$ 67,612,597
Board-designated endowment funds	32,331,784	-	-	32,331,784
Total endowment net assets	<u>\$ 32,331,784</u>	<u>\$ 34,142,040</u>	<u>\$ 33,470,557</u>	<u>\$ 99,944,381</u>

CARTHAGE COLLEGE

NOTES TO FINANCIAL STATEMENTS As of and for the Years Ended June 30, 2018 and 2017

NOTE 7 - ENDOWMENT (cont.)

Changes in endowment net assets for the year ended June 30, 2018 are as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, June 30, 2017	\$ 32,331,784	\$ 34,142,040	\$ 33,470,557	\$ 99,944,381
Transfer from operations to board designated	586,459	-	-	586,459
	32,918,243	34,142,040	33,470,557	100,530,840
Investment return:				
Investment income	465,410	1,696,220	6,781	2,168,411
Net appreciation - realized and unrealized	1,954,021	7,061,426	28,346	9,043,793
Total investment return	2,419,431	8,757,646	35,127	11,212,204
Contributions	-	-	435,500	435,500
Matured deferred gifts	-	-	144,192	144,192
Appropriation of endowment assets for expenditure	(835,134)	(2,539,486)	(11,839)	(3,386,459)
Transfer from restricted current fund	43,859	-	-	43,859
	(835,134)	(2,539,486)	(11,839)	(3,386,459)
Endowment net assets, June 30, 2018	\$ 34,546,399	\$ 40,360,200	\$ 34,073,537	\$ 108,980,136

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

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, June 30, 2016	\$ 26,956,342	\$ 25,371,692	\$ 33,111,712	\$ 85,439,746
Transfer from operations to board designated	3,047,000	-	-	3,047,000
	30,003,342	25,371,692	33,111,712	88,486,746
Investment return:				
Investment income	430,549	1,625,447	6,442	2,062,438
Net appreciation - realized and unrealized	2,525,804	9,502,838	37,606	12,066,248
Total investment return	2,956,353	11,128,285	44,048	14,128,686
Contributions	-	-	312,494	312,494
Matured deferred gifts	-	-	14,333	14,333
Appropriation of endowment assets for expenditure	(677,033)	(2,357,937)	(12,030)	(3,047,000)
Transfer from restricted current fund	49,122	-	-	49,122
	(677,033)	(2,357,937)	(12,030)	(3,047,000)
Endowment net assets, June 30, 2017	\$ 32,331,784	\$ 34,142,040	\$ 33,470,557	\$ 99,944,381

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, 2018 and 2017.

CARTHAGE COLLEGE

NOTES TO FINANCIAL STATEMENTS As of and for the Years Ended June 30, 2018 and 2017

NOTE 7 - ENDOWMENT (cont.)

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

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

Spending Policy and How Investment Objectives Relate to Spending Policy - For both of the years ended June 30, 2018 and 2017, 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, and a reconciliation to endowment net assets at June 30, 2018 and 2017:

	2018	2017
Mutual funds	\$ 119,304,819	\$ 106,842,801
Preferred stocks (at cost)	100,000	100,000
Other investments (at cost)	6,900	6,900
Endowment investments	119,411,719	106,949,701
Note to operations	-	6,596
Donor gift pending board designated endowment	(6,000,000)	(6,000,000)
Unrestricted income on pending endowment	(1,566,368)	(830,266)
Due (to) from operations - endowment draw	(2,800,003)	-
Due (to) from operations	(65,212)	(181,650)
Total endowment net assets	\$ 108,980,136	\$ 99,944,381

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.

CARTHAGE COLLEGE

NOTES TO FINANCIAL STATEMENTS As of and for the Years Ended June 30, 2018 and 2017

NOTE 7 - ENDOWMENT (cont.)

Investment income is shown net of investment fees of \$68,671 and \$64,031 for the years ended June 30, 2018 and 2017, respectively.

All interfund balances have been eliminated in the financial statements.

NOTE 8 - CREDIT QUALITY OF STUDENT LOAN RECEIVABLES

The College issues uncollateralized loans to students based on financial need. Student loans are funded through Federal government loan programs or institutional resources. Allowances for doubtful accounts are established based on prior collection experience and current economic factors which, in management's judgment, could influence the ability of loan recipients to repay the amounts per the loan terms. At both June 30, 2018 and 2017, student loans represented approximately 1.0% of total assets.

At June 30, student loans consisted of the following:

	2018	2017
Perkins Federal government programs	\$ 2,978,355	\$ 3,043,590
Institutional programs	49,212	49,656
	3,027,567	3,093,246
Less allowance for doubtful accounts		
Beginning of year	(565,000)	(565,000)
Increases/Decreases	-	-
End of year	(565,000)	(565,000)
Student loans receivable, net	\$ 2,462,567	\$ 2,528,246

Funds advanced by the Federal government of \$2,457,481 and \$2,467,546 at June 30, 2018 and 2017, 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, 2018 and 2017, the following amounts were past due under student loan programs:

June 30	Amounts Past Due			
	1-60 days	60-90 days	90+ days	Total
2018	\$ 1,312	\$ 3,495	\$ 761,946	\$ 766,753
2017	2,030	2,967	734,755	739,752

CARTHAGE COLLEGE

NOTES TO FINANCIAL STATEMENTS As of and for the Years Ended June 30, 2018 and 2017

NOTE 9 - CONSTRUCTION IN PROGRESS

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

At June 30, 2018, the following construction projects were in progress:

	<u>Costs to Date</u>	<u>Estimated Total Cost</u>	<u>Funding Plan</u>
The Tower Residence Hall	\$ 20,154,575	\$ 23,928,000	Bonds and gifts
Lot R Expansion	57,742	475,000	Operations
JAC Chapel Roof	<u>124,167</u>	<u>440,000</u>	Operations
Totals	<u>\$ 20,336,484</u>	<u>\$ 24,843,000</u>	

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

NOTE 10 - PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment consisted of the following at June 30, 2018 and 2017:

	<u>2018</u>	<u>2017</u>
Land	\$ 763,535	\$ 763,535
Land improvements	18,439,956	15,640,977
Buildings and improvements	159,636,128	160,394,024
Equipment	42,508,071	62,325,724
Library books and nondepreciable assets	<u>1,874,405</u>	<u>1,835,952</u>
	223,222,095	240,960,212
Less: Accumulated depreciation	<u>(67,921,980)</u>	<u>(83,905,133)</u>
Totals	<u>\$ 155,300,115</u>	<u>\$ 157,055,079</u>

CARTHAGE COLLEGE

NOTES TO FINANCIAL STATEMENTS As of and for the Years Ended June 30, 2018 and 2017

NOTE 11 - BONDS PAYABLE

Bonds payable at June 30, 2018 and 2017 consisted of the following:

	2018	2017
Wisconsin Health and Educational Facilities Authority Revenue Bonds, Series D is payable in annual installments of \$1,250,000 from May 1, 2017 through 2019. Interest is payable on a semi-annual basis in May and November and accrues daily on the outstanding principal amount. Interest on the Series D bonds is determined based on a fixed rate of 5.95%.	\$ 1,250,000	\$ 2,500,000
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 variable based on a LIBOR adjusted rate and was 2.99% and 2.46% at June 30, 2018 and 2017, respectively.	10,250,000	10,250,000
Wisconsin Health and Educational Facilities Authority Revenue Bonds, Series 2017A, has a tender date of June 21, 2027. Interest is payable monthly. The interest rate is variable based on a LIBOR adjusted rate and was 2.861% and 2.354% at June 30, 2018 and 2017, respectively.	21,250,000	21,250,000
Wisconsin Health and Educational Facilities Authority Revenue Refunding Bonds, Series 2017B, has a tender date of June 21, 2027. Interest is payable monthly. The interest rate is variable based on a LIBOR adjusted rate and was 2.72% and 1.585% at June 30, 2018 and 2017, respectively. There is an interest rate swap agreement in place to convert effectively to a fixed rate (Note 12)	15,000,000	15,000,000
Wisconsin Health and Educational Facilities Authority Revenue Refunding Bonds, Series 2017C, has a tender date of June 21, 2020. Interest is payable monthly. The interest rate is variable based on a LIBOR adjusted rate and was 2.355% and 1.285% at June 30, 2018 and 2017, respectively.	4,500,000	6,250,000
Totals	\$ 52,250,000	\$ 55,250,000

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

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

CARTHAGE COLLEGE

NOTES TO FINANCIAL STATEMENTS As of and for the Years Ended June 30, 2018 and 2017

NOTE 11 - BONDS PAYABLE (cont.)

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, 2018 are:

<u>Year</u>	<u>Principal</u>
2019	\$ 2,190,000
2020	2,005,000
2021	2,045,000
2022	2,085,000
2023	2,130,000
Thereafter	<u>41,795,000</u>
	<u>\$ 52,250,000</u>

NOTE 12 - 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%. The College swapped 100% 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%. The notional amount at June 30, 2018 was equal to \$15,000,000. The College's variable rate receipts are tied to a percentage of one-month LIBOR. Over the ten years, it is anticipated that additional biannual principal payments of \$1,500,000 are made beginning in 2020, bringing the notional amount down to \$6,000,000 by 2026. 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.

CARTHAGE COLLEGE

NOTES TO FINANCIAL STATEMENTS As of and for the Years Ended June 30, 2018 and 2017

NOTE 12 - INTEREST RATE SWAP (cont.)

Derivative instruments are reported in the statements of financial position at fair value as of June 30, 2018 and 2017 as follows:

Derivatives Not Designated as Hedging Instruments	Statement of Financial Position Location	Derivative	
		Fair Value	
		2018	2017
Interest rate swap	Interest rate swap asset	\$ 295,311	\$ -

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

Derivatives Not Designated as Hedging Instruments	Location of Gain on Derivatives Recognized in the Statement of Changes in Net Assets	Amount of Gain on Derivatives Recognized in the Statement of Changes in Net Assets	
		2018	
		2018	2017
Interest rate swap	Gain on interest rate swap	\$ 276,861	\$ -

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.

NOTE 13 - 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, 2018 was \$126,717 and is included in depreciation expense. Accumulated amortization totaled \$126,717 on these assets as of June 30, 2018.

Future minimum lease payments under these leases are as follows:

Year Ending June 30	Principal	Interest	Total
2019	\$ 124,880	\$ 11,473	\$ 136,353
2020	130,148	6,205	136,353
2021	71,707	1,784	73,491
2022	5,628	20	5,648
	<u>\$ 332,363</u>	<u>\$ 19,482</u>	<u>\$ 351,845</u>

NOTE 14 - 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 \$2,294,000 and \$2,315,000 for the years ended June 30, 2018 and 2017, respectively.

CARTHAGE COLLEGE

NOTES TO FINANCIAL STATEMENTS As of and for the Years Ended June 30, 2018 and 2017

NOTE 15 - 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.

NOTE 16 - DEFERRED GIFT AGREEMENTS

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

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

Investment assets held by the College under deferred gift agreements totaled \$3,193,603 and \$3,187,280 at June 30, 2018 and 2017, respectively, and are included in investments on the statements of financial position. New gifts received for the years ended June 30, 2018 and 2017 were \$75,897 and \$103,268, respectively.

NOTE 17 - MEDICAL BENEFIT PLAN

Through December 2017, the College provided medical benefits through a consortium plan which was available to all employees of the College for certain medical expenses. Estimates for claims incurred, but not reported, have been accrued by the College. These amounts are offset by a required reserve amount, which is expected to be refunded back to the college in first quarter of new fiscal year.

The College moved to a traditional health insurance plan as of January 1, 2018 covering medical, dental and vision expenses. Combined total expenses for both of these plans was \$2,963,447 and \$3,333,891 for fiscal years 2018 and 2017, respectively.

CARTHAGE COLLEGE

NOTES TO FINANCIAL STATEMENTS As of and for the Years Ended June 30, 2018 and 2017

NOTE 18 - 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, 2018 and 2017:

	<u>2018</u>	<u>2017</u>
Revenues, gains and other support from total activities	\$ 83,280,085	\$ 84,272,574
Expenses and losses (excluding depreciation and accretion) from total activities	<u>(78,560,368)</u>	<u>(71,878,520)</u>
Change in Unrestricted Net Assets Before Depreciation and Accretion	<u>\$ 4,719,717</u>	<u>\$ 12,394,054</u>

NOTE 19 - LINE-OF-CREDIT AGREEMENT

In November 2017, the College renewed an unsecured line of credit totaling \$10,000,000 for operating purposes. This agreement expires in November 2018, and is payable on demand. The agreement has a stated interest rate of 1.9% over the 30-day LIBOR. At June 30, 2018 and 2017, the College had no borrowings outstanding under this agreement.

NOTE 20 - RELATED PARTY TRANSACTIONS

Gifts from board members and officers totaled \$711,051 and \$536,705 for the years ended June 30, 2018 and 2017, respectively.

NOTE 21 - SUBSEQUENT EVENTS

The College has evaluated subsequent events through October 12, 2018 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, 2018 and 2017 and have issued our report thereon dated October 12, 2018, 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 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 12, 2018

CARTHAGE COLLEGE

Schedule 1

UNRESTRICTED OPERATING REVENUES, GAINS AND OTHER SUPPORT
For the Years Ended June 30, 2018 and 2017

	<u>2018</u>	<u>2017</u>
TUITION AND FEES		
Academic year	\$ 105,714,685	\$ 103,998,303
Adult education	1,473,869	1,828,864
Graduate programs	2,516,400	1,993,923
Student fees	602,724	695,311
Entrance fees	34,228	40,952
Transcripts	17,265	22,062
Total Tuition and Fees	<u>110,359,171</u>	<u>108,579,415</u>
Less: Scholarships and grants		
Unrestricted scholarships and grants	(61,853,397)	(57,357,074)
Endowed scholarships and government grants	(2,025,152)	(1,999,488)
	<u>(63,878,549)</u>	<u>(59,356,562)</u>
Net Tuition and Fees	<u>46,480,622</u>	<u>49,222,853</u>
GOVERNMENT GRANTS		
Federal work-study program	288,633	268,971
Pell grants administrative cost allowance	4,155	8,100
Federal supplemental educational opportunity grants	168,855	151,503
Total Government Grants	<u>461,643</u>	<u>428,574</u>
CONTRIBUTIONS		
Gifts for completed construction	212,720	288,836
Other contributions	675,891	1,280,894
Total Contributions	<u>888,611</u>	<u>1,569,730</u>
ENDOWMENT INCOME	<u>465,410</u>	<u>430,549</u>
OTHER INVESTMENT INCOME	<u>424,969</u>	<u>318,379</u>
GAIN ON INTEREST RATE SWAP	<u>276,861</u>	<u>-</u>
GAINS ON INVESTMENTS	<u>2,605,008</u>	<u>3,267,891</u>
SALES AND SERVICES OF EDUCATIONAL ACTIVITIES	<u>-</u>	<u>61,705</u>
SALES AND SERVICES OF AUXILIARY ENTERPRISES		
Athletic camps and services	151,613	243,790
Residency	19,772,025	19,119,884
College store	179,492	189,850
Commissions	2,818,437	2,187,012
Conferences and workshops	1,454,065	1,554,631
College center	523,074	565,597
Total Sales and Services of Auxiliary Enterprises	<u>24,898,706</u>	<u>23,860,764</u>

CARTHAGE COLLEGE

Schedule 1

UNRESTRICTED OPERATING REVENUES, GAINS AND OTHER SUPPORT
For the Years Ended June 30, 2018 and 2017

	<u>2018</u>	<u>2017</u>
OTHER SOURCES		
Athletics fundraising	\$ 763,891	\$ 600,457
Interest on loans receivable	6,313	5,963
Service cancellation recoveries	10,742	11,535
Miscellaneous	<u>502,682</u>	<u>196,396</u>
Total Other Sources	<u>1,283,628</u>	<u>814,351</u>
ADJUSTMENT OF ACTUARIAL LIABILITY FOR ANNUITIES PAYABLE	<u>10,716</u>	<u>(31,975)</u>
NET ASSETS RELEASED FROM RESTRICTIONS		
Operations	2,682,937	1,843,816
Capital	261,488	128,000
Endowment	<u>2,539,486</u>	<u>2,357,937</u>
Total Net Assets Released From Restrictions	<u>5,483,911</u>	<u>4,329,753</u>
UNRESTRICTED OPERATING REVENUES, GAINS AND OTHER SUPPORT	<u>\$ 83,280,085</u>	<u>\$ 84,272,574</u>

CARTHAGE COLLEGE

Schedule 2

UNRESTRICTED OPERATING EXPENSES For the Years Ended June 30, 2018 and 2017

	2018	2017
PROGRAM EXPENSES		
Instruction		
Academic Divisions		
Humanities and fine arts	\$ 7,566,313	\$ 6,387,017
Natural and social sciences	8,219,392	6,859,657
Professional studies	3,916,289	3,415,486
Academic Programs and Other Instructional Expenses		
Adult education	404,311	599,148
Graduate education	325,945	162,355
Paralegal program	10,613	6,568
Summer school	18,029	58,874
January interim	1,384,339	1,138,720
Musical organizations	1,410	10,900
Other instructional expenses	663,563	342,595
Fringe benefits allocated	5,910,218	5,693,782
Allocation of depreciation and accretion	2,233,726	1,705,115
Allocation of operation and maintenance of plant	1,357,627	990,961
Total Instruction	32,011,775	27,371,178
Academic Support		
Library	1,054,432	997,100
Provost	1,610,069	1,945,513
Infrastructure and systems	1,009,162	444,567
Academic computing	775,891	1,055,011
Other academic support	101,400	27,747
Fringe benefits allocated	390,471	514,278
Allocation of depreciation and accretion	196,755	184,124
Allocation of operation and maintenance of plant	113,939	107,007
Total Academic Support	5,252,119	5,275,347

CARTHAGE COLLEGE

Schedule 2

UNRESTRICTED OPERATING EXPENSES
For the Years Ended June 30, 2018 and 2017

	2018	2017
PROGRAM EXPENSES (cont.)		
Public Service	\$ 160,035	\$ 187,391
Student Services		
Admissions	2,151,026	2,066,107
Athletics	4,659,096	4,242,971
Registrar	258,115	290,523
Student financial planning	460,089	431,558
Health service	189,636	82,053
Student support	432,053	346,294
Advising and placement	993,788	838,670
Student activities	170,634	83,663
Dean of the chapel	155,194	79,183
Dean of students	376,063	771,657
Fringe benefits allocated	1,902,537	1,950,175
Allocation of depreciation and accretion	923,801	869,362
Allocation of operation and maintenance of plant	562,746	505,247
Total Student Services	13,234,778	12,557,463
Auxiliary Enterprises		
Residency	9,408,600	8,165,843
College store	11,686	18
College center	1,706,889	1,599,920
Athletic camps	189,924	-
Conferences and workshops	335,716	360,595
Dormitory - general	3,739,154	3,704,883
TARC	389,261	415,436
Interest allocated	331,244	88,899
Fringe benefits allocated	87,850	143,958
Allocation of depreciation and accretion	852,348	630,258
Allocation of operation and maintenance of plant	746,114	366,287
Total Auxiliary Enterprises	17,798,786	15,476,097
SUPPORT EXPENSES		
Institutional Support		
General Administration		
Board of trustees	335,650	183,263
Strategic initiatives	15,409	100,018
President	1,946,897	2,056,773
Business office	1,710,806	1,073,261
Administrative services	169,040	441,433
Fringe benefits allocated	1,832,190	1,864,288
Allocation of depreciation and accretion	241,733	560,420
Allocation of operation and maintenance of plant	143,141	325,699
Total General Administration	6,394,866	6,605,155

CARTHAGE COLLEGE

Schedule 2

UNRESTRICTED OPERATING EXPENSES For the Years Ended June 30, 2018 and 2017

	2018	2017
SUPPORT EXPENSES (cont.)		
Institutional Support (cont.)		
Public Relations and Development		
Alumni	\$ 154,527	\$ 191,074
Development	1,354,630	1,137,992
Planned giving	39,843	28,326
Capital campaign	40,742	22,850
Public relations	1,258,241	1,105,129
Church relations	27,951	30,129
Miscellaneous support	-	262
Celebrations	306,352	310,317
Fringe benefits allocated	538,481	512,969
Allocation of depreciation and accretion	184,131	253,713
Allocation of operation and maintenance of plant	109,032	147,450
Total Public Relations and Development	4,013,930	3,740,211
General Institutional		
Dues and subscriptions	145,491	201,602
Campus security	991,726	878,343
Collection costs	178,706	114,198
Bad debts	1,769,306	925,025
Insurance	756,393	757,952
Audit and legal	181,233	195,333
Staff recruitment	13,666	105,122
Taxes	33,631	33,211
Telecommunications	463,717	290,145
Employer FICA and SUTA	2,253,799	2,068,767
Pension	2,293,513	2,314,975
Educational assistance	3,764,058	3,696,515
Health insurance	2,963,447	3,333,891
Life and disability	214,050	90,100
Student insurance	417,213	376,795
Interest	602,901	807,410
Loan cancellations and write-offs	1,901	1,394
Administrative and collection costs	18,765	17,843
Miscellaneous	428,285	668,986
Fringe benefits allocated	(11,588,490)	(11,263,397)
Allocation of depreciation and accretion	1,012,100	1,440,073
Allocation of operation and maintenance of plant	599,309	836,927
Total General Institutional	7,514,720	7,891,210
Total Institutional Support Before		
Allocation to Auxiliary Enterprises	17,923,516	18,236,576
Expenses allocated to auxiliary enterprises	(850,919)	(1,062,118)
Total Institutional Support	17,072,597	17,174,458

CARTHAGE COLLEGE

Schedule 2

UNRESTRICTED OPERATING EXPENSES For the Years Ended June 30, 2018 and 2017

	2018	2017
ALLOCABLE EXPENSES		
Operation and Maintenance of Plant		
Operation of buildings	\$ 2,471,317	\$ 2,894,794
Maintenance of buildings	1,925,940	1,113,905
Grounds	244,627	355,240
Environmental services	1,330,258	1,361,902
Student parking shuttle	88,241	78,477
Fringe benefits allocated	563,412	583,521
Allocation of depreciation and accretion	<u>592,863</u>	<u>520,350</u>
Total Operation and Maintenance of Plant Before		
Allocation to Auxiliary Enterprises and Other Programs	7,216,658	6,908,189
Expenses allocated to auxiliary enterprises	(3,584,749)	(3,628,610)
Allocation of operation and maintenance of plant	<u>(3,631,909)</u>	<u>(3,279,579)</u>
Total Operation and Maintenance of Plant	<u>-</u>	<u>-</u>
 Depreciation and Accretion	 6,969,722	 6,163,414
Allocation to other programs	<u>(6,969,722)</u>	<u>(6,163,414)</u>
Total Depreciation and Accretion	<u>-</u>	<u>-</u>
 Interest	 934,145	 896,309
Allocation to other programs	<u>(934,145)</u>	<u>(896,309)</u>
Total Interest	<u>-</u>	<u>-</u>
 TOTAL UNRESTRICTED OPERATING EXPENSES	 <u>\$ 85,530,090</u>	 <u>\$ 78,041,934</u>