

**LAWRENCE UNIVERSITY OF WISCONSIN**  
Appleton, Wisconsin

**FINANCIAL STATEMENTS**

June 30, 2011 and 2010

# LAWRENCE UNIVERSITY OF WISCONSIN

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## INDEPENDENT AUDITORS' REPORT

To the Board of Trustees  
Lawrence University of Wisconsin  
Appleton, Wisconsin

We have audited the accompanying statements of financial position of Lawrence University of Wisconsin (the "University") as of June 30, 2011 and 2010 and the related statements of activities and cash flows for the years then ended. These financial statements are the responsibility of the University's management. 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 of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the University's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Lawrence University of Wisconsin at June 30, 2011 and 2010 and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

*Baker Tilly Virchow Krause, LLP*

Milwaukee, Wisconsin  
October 7, 2011

# LAWRENCE UNIVERSITY OF WISCONSIN

## STATEMENTS OF FINANCIAL POSITION June 30, 2011 and 2010

	2011	2010
<b>ASSETS</b>		
Cash and cash equivalents	\$ 5,904,768	\$ 1,945,681
Receivables		
Students accounts, net of allowance for doubtful accounts of \$218,000 and \$216,000	221,836	179,742
Government grants	54,581	156,979
Accrued interest	144,035	126,506
Contributions, net of allowance for doubtful accounts of \$121,000 and \$60,000	6,312,197	8,930,280
Other	207,820	425,104
Inventories	300,925	260,499
Prepaid expenses and other assets	4,161,934	3,863,918
Student loans receivable, net of allowance for doubtful loans of \$867,000 and \$793,000	5,998,076	5,834,738
Investments	207,904,268	175,851,467
Property and equipment, less accumulated depreciation	111,832,510	113,193,102
<b>TOTAL ASSETS</b>	<b>\$ 343,042,950</b>	<b>\$ 310,768,016</b>
<b>LIABILITIES AND NET ASSETS</b>		
<b>LIABILITIES</b>		
Accounts payable	\$ 1,139,329	\$ 1,589,825
Accrued liabilities	6,747,073	6,475,031
Deferred income and deposits	1,049,643	1,235,949
Due to student organizations	251,536	192,262
Postretirement obligation	2,415,262	2,325,483
Asset retirement obligation	3,945,498	3,750,426
Annuities payable	1,929,579	1,779,313
Long-term debt	41,327,328	46,072,694
U.S. government grants refundable	1,639,836	1,657,620
Total Liabilities	60,445,084	65,078,603
<b>NET ASSETS</b>		
Unrestricted	34,126,898	15,792,322
Temporarily restricted	108,512,737	93,021,051
Permanently restricted	139,958,231	136,876,040
Total Net Assets	282,597,866	245,689,413
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<b>\$ 343,042,950</b>	<b>\$ 310,768,016</b>

See accompanying notes to financial statements.

**LAWRENCE UNIVERSITY OF WISCONSIN**

STATEMENT OF ACTIVITIES  
Year Ended June 30, 2011

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
<b>OPERATING REVENUES</b>				
Tuition and fees	\$ 54,310,532	\$ -	\$ -	\$ 54,310,532
Room and board	6,421,399	-	-	6,421,399
Less: tuition discounts	<u>(22,202,711)</u>	-	-	<u>(22,202,711)</u>
Net Student Revenue	38,529,220	-	-	38,529,220
Auxiliary enterprises	1,608,289	-	-	1,608,289
Investment return designated for current operations	2,466,171	7,196,337	132,492	9,795,000
Government grants	508,844	-	-	508,844
Contribution revenue	2,787,611	-	-	2,787,611
Other income	639,214	34,157	-	673,371
	<u>46,539,349</u>	<u>7,230,494</u>	<u>132,492</u>	<u>53,902,335</u>
Net assets released from restrictions	10,531,630	<u>(10,531,630)</u>	-	-
Total Operating Revenues	<u>57,070,979</u>	<u>(3,301,136)</u>	<u>132,492</u>	<u>53,902,335</u>
<b>OPERATING EXPENSES</b>				
Instruction	17,843,888	-	-	17,843,888
Research	415,637	-	-	415,637
Public service	1,656,843	-	-	1,656,843
Academic support	4,013,997	-	-	4,013,997
Student services	5,172,241	-	-	5,172,241
Institutional administration	11,807,549	-	-	11,807,549
Physical plant operations	5,968,698	-	-	5,968,698
Auxiliary enterprises	597,478	-	-	597,478
Interest expense	2,038,707	-	-	2,038,707
Depreciation	6,736,218	-	-	6,736,218
Total Operating Expenses	<u>56,251,256</u>	<u>-</u>	<u>-</u>	<u>56,251,256</u>
Operating Revenues in Excess of Operating Expenses	<u>819,723</u>	<u>(3,301,136)</u>	<u>132,492</u>	<u>(2,348,921)</u>
<b>NONOPERATING INCOME (LOSS)</b>				
Investment return (deficient) in excess of amounts designated for current operations	17,390,109	12,377,569	(5,563)	29,762,115
Contributions for long-term purposes	-	5,777,103	2,294,599	8,071,702
Change in beneficial interests in trusts	-	583,389	751,913	1,335,302
Change in value of split interest agreements	5,284	45,157	(81,646)	(31,205)
Other nonoperating items, net	119,460	9,604	(9,604)	119,460
Total Nonoperating Income (Loss)	<u>17,514,853</u>	<u>18,792,822</u>	<u>2,949,699</u>	<u>39,257,374</u>
Change in Net Assets	18,334,576	15,491,686	3,082,191	36,908,453
NET ASSETS - Beginning of Year	<u>15,792,322</u>	<u>93,021,051</u>	<u>136,876,040</u>	<u>245,689,413</u>
<b>NET ASSETS - END OF YEAR</b>	<u>\$ 34,126,898</u>	<u>\$ 108,512,737</u>	<u>\$ 139,958,231</u>	<u>\$ 282,597,866</u>

See accompanying notes to financial statements.

**LAWRENCE UNIVERSITY OF WISCONSIN**

STATEMENT OF ACTIVITIES  
Year Ended June 30, 2010

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
<b>OPERATING REVENUES</b>				
Tuition and fees	\$ 49,136,396	\$ -	\$ -	\$ 49,136,396
Room and board	5,648,437	-	-	5,648,437
Less: tuition discounts	<u>(19,688,943)</u>	-	-	<u>(19,688,943)</u>
Net Student Revenue	35,095,890	-	-	35,095,890
Auxiliary enterprises	1,873,233	-	-	1,873,233
Investment return designated for current operations	8,343,527	690,578	140,895	9,175,000
Government grants	1,085,292	-	-	1,085,292
Contribution revenue	2,282,627	-	-	2,282,627
Other income	<u>547,299</u>	<u>70,908</u>	-	<u>618,207</u>
	49,227,868	761,486	140,895	50,130,249
Net assets released from restrictions	<u>4,705,033</u>	<u>(4,705,033)</u>	-	<u>-</u>
Total Operating Revenues	<u>53,932,901</u>	<u>(3,943,547)</u>	<u>140,895</u>	<u>50,130,249</u>
<b>OPERATING EXPENSES</b>				
Instruction	16,983,621	-	-	16,983,621
Research	947,229	-	-	947,229
Public service	1,708,643	-	-	1,708,643
Academic support	3,650,918	-	-	3,650,918
Student services	5,017,269	-	-	5,017,269
Institutional administration	11,085,358	-	-	11,085,358
Physical plant operations	5,586,126	-	-	5,586,126
Auxiliary enterprises	675,014	-	-	675,014
Interest expense	2,174,859	-	-	2,174,859
Depreciation	<u>6,043,360</u>	-	-	<u>6,043,360</u>
Total Operating Expenses	<u>53,872,397</u>	<u>-</u>	<u>-</u>	<u>53,872,397</u>
Operating Revenues in Excess of Operating Expenses	<u>60,504</u>	<u>(3,943,547)</u>	<u>140,895</u>	<u>(3,742,148)</u>
<b>NONOPERATING INCOME (LOSS)</b>				
Investment return in excess of amounts designated for current operations	8,838,672	31,051	112,872	8,982,595
Contributions for long-term purposes	-	3,004,171	2,700,306	5,704,477
Change in beneficial interests in trusts	-	87,253	94,805	182,058
Change in value of split interest agreements	2,928	11,538	(112,204)	(97,738)
Other nonoperating items, net	<u>(772,146)</u>	-	<u>(38,952)</u>	<u>(811,098)</u>
Total Nonoperating Income (Loss)	<u>8,069,454</u>	<u>3,134,013</u>	<u>2,756,827</u>	<u>13,960,294</u>
<b>Change in Net Assets from Nonoperating Income (loss) Before Reclassification of Net Assets</b>	8,129,958	(809,534)	2,897,722	10,218,146
Net asset reclassification due to change in law	<u>(20,907,906)</u>	<u>20,907,906</u>	-	<u>-</u>
<b>Change in Net Assets</b>	<u>(12,777,948)</u>	<u>20,098,372</u>	<u>2,897,722</u>	<u>10,218,146</u>
NET ASSETS - Beginning of Year	<u>28,570,270</u>	<u>72,922,679</u>	<u>133,978,318</u>	<u>235,471,267</u>
<b>NET ASSETS - END OF YEAR</b>	<u>\$ 15,792,322</u>	<u>\$ 93,021,051</u>	<u>\$ 136,876,040</u>	<u>\$ 245,689,413</u>

See accompanying notes to financial statements.

# LAWRENCE UNIVERSITY OF WISCONSIN

## STATEMENTS OF CASH FLOWS Years Ended June 30, 2011 and 2010

	2011	2010
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Change in net assets	\$ 36,908,453	\$ 10,218,146
Adjustments to reconcile change in net assets to net cash flows from operating activities:		
Depreciation and amortization	6,778,042	6,080,489
Asset retirement obligation accretion	195,102	164,423
Bad debts	81,812	110,447
Realized and unrealized (gains) losses on investments	(36,362,832)	(8,982,595)
Change in beneficial interest in trusts	(1,335,302)	(182,059)
Change in split interest agreements	31,205	97,738
Income reinvested	(3,289,331)	(3,582,086)
Investment return restricted for long-term investment	(126,929)	(253,767)
Contributions restricted for long-term purposes	(4,383,231)	(5,782,877)
Actuarial adjustment of annuities payable	184,965	191,681
(Gain)/loss on disposal of fixed assets	(23,504)	-
Loan cancellations and reinstatements	32,510	24,355
Change in certain assets and liabilities:		
Receivables:		
Student accounts	(49,430)	(71,942)
Government grants	102,398	(88,758)
Accrued interest	(17,529)	58,208
Other	217,254	(343,171)
Inventories	(40,426)	47,235
Prepaid expenses and other assets	(349,552)	(291,607)
Accounts payable	(349,935)	(4,229)
Accrued liabilities	272,042	731,231
Deferred income, deposits and funds held for student organizations	(127,032)	249,261
Postretirement obligation	89,779	19,539
Net Cash Flows from Operating Activities	(1,561,471)	(1,590,338)
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Purchases of investments	(32,050,533)	(47,330,024)
Proceeds from sales of investments	37,010,863	48,127,686
Purchases of property and equipment	(5,480,882)	(7,254,092)
Proceeds from sales of property and equipment	23,504	43,642
Disbursements of loans to students	(887,634)	(1,071,926)
Repayments of loans from students	617,310	572,785
Net Cash Flows from Investing Activities	(767,372)	(6,911,929)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Repayment of principal on debt	(4,762,164)	(2,830,438)
Investment return restricted for long-term investment	126,929	253,767
Contributions received restricted for long-term purposes	11,237,566	8,979,735
Changes in U.S. government grants refundable	(17,784)	7,205
Payments to annuitants	(296,617)	(288,130)
Net Cash Flows from Financing Activities	6,287,930	6,122,139
<b>Net Change in Cash and Cash Equivalents</b>	3,959,087	(2,380,128)
CASH AND CASH EQUIVALENTS - Beginning of Year	1,945,681	4,325,809
<b>CASH AND CASH EQUIVALENTS - END OF YEAR</b>	\$ 5,904,768	\$ 1,945,681

See accompanying notes to financial statements.

# LAWRENCE UNIVERSITY OF WISCONSIN

## NOTES TO FINANCIAL STATEMENTS June 30, 2011 and 2010

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### NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES

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Lawrence University of Wisconsin (the "University"), which formally opened in 1847, is an independent, nonsectarian, coeducational institution of higher learning with an enrollment of approximately 1,400 students located in Appleton, Wisconsin. The University, through its undergraduate college and conservatory, educates men and women in the liberal arts and sciences and music. Committed to the development of intellect and talent, the acquisition of knowledge and understanding, and the cultivation of judgment and values, the University prepares students for lives of service, achievement, leadership and personal fulfillment. The accounting policies of the University reflect practices common to universities and conform to accounting principles generally accepted in the United States of America. The more significant accounting policies are summarized below:

**Net Asset Classifications** – For the purposes of financial reporting, the University classifies resources into three net asset categories pursuant to any donor-imposed restrictions and applicable law. Accordingly, the net assets of the University 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 University. Generally, the donors of these assets permit the University 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 University 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, including unconditional promises to give, 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 over time as the long-lived assets are depreciated over their useful lives.

# LAWRENCE UNIVERSITY OF WISCONSIN

## NOTES TO FINANCIAL STATEMENTS June 30, 2011 and 2010

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### NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES (cont.)

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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.

Losses on investments of endowment funds created by a board designation of unrestricted funds are classified as reductions in unrestricted net assets.

Non-operating activities reflect transactions affecting the net assets associated with endowment and capital campaign contributions, gains or losses on investments, change in value of split interest agreements, and other activities of a nonoperating nature.

**Temporarily Restricted Net Assets** – With respect to temporarily restricted net assets, the University has adopted the following accounting policies:

**Reporting as Temporarily Restricted Revenues** – Contributions received with donor-imposed restrictions that are met in the same year as received are either classified as unrestricted net assets immediately or are reported as revenues of the temporarily restricted net asset class depending on the nature of the restriction. Contributions restricted for purposes that the University would normally fulfill are immediately recorded in the unrestricted net asset class. For those contributions recorded as revenues of the temporarily restricted net asset class, a reclassification to unrestricted net assets is made to reflect the expiration of contribution restrictions.

**Release of Restrictions on Net Assets for Acquisition of Land, Buildings and Equipment** – Contributions for property and equipment additions are classified as temporarily restricted net assets and released from restriction as depreciation is recognized.

**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.

**Cash and Cash Equivalents** – The University 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.

# LAWRENCE UNIVERSITY OF WISCONSIN

## NOTES TO FINANCIAL STATEMENTS June 30, 2011 and 2010

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### NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES (cont.)

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**Receivables** – Student accounts receivable are carried at the unpaid balance of the original amount billed to students and student notes receivable are carried at the amount of unpaid principal. Both receivables are less an estimate made for doubtful accounts based on a review of all outstanding amounts. Management determines the allowance for doubtful accounts by identifying troubled accounts and by using historical experience applied to an aging of accounts. Student accounts and loans receivable are written off when deemed uncollectible. Recoveries of student accounts and loans receivable previously written off are recorded when received. Receivables are generally unsecured.

After a student is no longer enrolled in an institution of higher education and after a grace period, interest is charged on Perkins student loans receivable and is recognized as it is charged. Perkins student loans receivable are considered to be past due if a payment is not made within 30 days of the payment due date, at which time, late fees are charged and recognized. The 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.

**Inventories** – Inventories are valued at the lower of cost or market and consist primarily of janitorial, food service and office supplies.

**Property and Equipment** – Property and equipment is stated at cost less accumulated depreciation. The University depreciates its assets on the straight-line basis over estimated useful lives as follows: buildings 30 to 40 years, land improvements 20 years and equipment 3 to 20 years. The University has a policy of capitalizing all items \$1,000 or more or any group of items totaling \$2,500 or more. Normal repair and maintenance expenses are charged to operations as incurred.

**Art and Other Collections** – The University does not assign or record a value for art and other collections received as gifts. Accordingly, the value of certain art and other collections has been excluded from the statements of financial position. All art and other collections are insured at a value of approximately \$8,900,000 as of June 30, 2011 and 2010.

**Deferred Revenue** – Certain revenue related to summer 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** – Asset retirement obligations are estimated costs and obligations associated with the retirement of long-lived assets. These liabilities were initially recorded at fair value and the related asset retirement costs were recorded as decreases in unrestricted net assets. Asset retirement costs are subsequently accreted over the useful lives of the related assets. At June 30, 2011 and 2010, the asset retirement obligations are estimated to be approximately \$3,945,498 and \$3,750,426, respectively.

# LAWRENCE UNIVERSITY OF WISCONSIN

## NOTES TO FINANCIAL STATEMENTS

June 30, 2011 and 2010

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### NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES (cont.)

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The estimate of the losses that are probable from environmental remediation liabilities for asbestos removal was calculated using the expected cash flow approach and based on an inventory of the University's long-lived assets combined with an estimate of the current market prices to remove the asbestos. The University utilized a credit-adjusted risk-free rate to discount the asset retirement obligation. It is reasonably possible that changes in this estimate could occur and that actual results could differ from this estimate and could have a significant effect on the financial statements.

**Self-Funded Insurance** – The University maintains a self-funded health plan. Specific and aggregate stop loss coverage on the health plan is provided to limit the ultimate exposure of the University. A liability is provided for claims incurred but not reported. Management reviews this accrual on an on-going basis and believes it is adequate to cover such claims. The liability for self-funded insurance claims incurred but not reported is shown in accrued liabilities on the statement of financial position.

**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 University. The amount of such grants totaled \$688,810 and \$1,539,354, respectively, during the year ended June 30, 2011 and \$718,518 and \$1,424,457, respectively during the year ended June 30, 2010.

**U.S. 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.

**Income Tax Status** – The Internal Revenue Service has determined that the University is exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code. The University is also exempt from state income taxes. However, any unrelated business income may be subject to taxation.

In accordance with the accounting standard on *Accounting for Uncertainty in Income Taxes*, the University addresses the determination of whether tax benefits claimed on a tax return should be recorded in the financial statements. Under this guidance, the University may recognize the tax benefit from an uncertain tax position only if it is more likely than not that the tax position will be sustained on examination by taxing authorities, based on the technical merit of the position. Examples of tax positions include the tax-exempt status of the University and various positions related to the potential sources of unrelated business taxable income. There were no significant unrecognized tax benefits identified or recorded as liabilities during fiscal year 2011. Open tax years subject to examination by the U.S. and state taxing authorities are for the years 2007 to 2010, which statutes expire in 2011 to 2014, respectively.

# LAWRENCE UNIVERSITY OF WISCONSIN

## NOTES TO FINANCIAL STATEMENTS June 30, 2011 and 2010

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### NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES (cont.)

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**Use of Estimates** – The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America 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.

**Interest Rate Exchange Agreements** – The University uses interest rate exchange agreements as part of its risk management strategy to manage exposure to fluctuations in interest rates and to manage the overall cost of its debt. The interest rate exchange agreements were not entered into for trading or speculative purposes. The interest rate exchange agreements are recognized as either an asset or liability on the statement of financial position and are measured at fair value. Because the interest rate exchange agreements are often held for the life of the strategy, they may reflect significant unrealized gains or losses depending on the change in value since the inception of the contracts. All unrealized and realized gains and losses from the interest rate exchange agreements are reflected in the statements of activities.

**Fair Value of Financial Instruments** – The carrying amounts of cash and cash equivalents, accounts receivable and other receivables, amounts held for others, accounts payable and accrued liabilities, deferred income and deposits are reasonable estimates of fair value due to the short-term maturity of these financial instruments.

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

The carrying amounts of long-term debt approximate fair value because these financial instruments bear interest at rates which approximate current market rates for notes with similar maturities and credit quality.

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

Other investments are carried at cost. The fair values for investments and other financial instruments recorded at fair value on a recurring basis are included in Note 2.

**Fund Raising and Advertising Expenses** – For the years ended June 30, 2011 and 2010, fund raising expenses totaled \$2,495,520 and \$2,393,367, respectively. Advertising expenses totaled \$122,352 and \$139,568, respectively. The University expenses advertising costs at the time incurred.

**Functional Allocation of Expenses** – The costs of providing the various programs and other activities have been summarized on a functional basis as shown in Note 17.

# LAWRENCE UNIVERSITY OF WISCONSIN

## NOTES TO FINANCIAL STATEMENTS June 30, 2011 and 2010

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### NOTE 2 – FAIR VALUE MEASUREMENTS

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The College follows the FASB guidance on fair value measurements. Fair value is defined in the 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 is 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. The three levels are defined as follows:

- Level 1 – Inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities.
- 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 inputs that are derived principally from or corroborated by observable market data.
- Level 3 – Inputs are unobservable for the asset or liability. Unobservable inputs reflect the reporting entity's own assumptions about the assumptions that market participants would use in pricing the asset or liability developed based on the best information available in the circumstances.

A financial instrument's categorization within the valuation hierarchy is based upon the lowest level of input that is significant to the fair value measurement.

# LAWRENCE UNIVERSITY OF WISCONSIN

## NOTES TO FINANCIAL STATEMENTS June 30, 2011 and 2010

### NOTE 2 – FAIR VALUE MEASUREMENTS (cont.)

The following table presents financial instruments that are measured at fair value on a recurring basis by the fair value hierarchy as of June 30, 2011:

	Total	Level 1	Level 2	Level 3
<b>ASSETS</b>				
Short - term investments	\$ 912,798	\$ -	\$ 912,798	\$ -
Equity securities	131,194,459	131,194,459	-	-
Hedge fund	7,977,081	-	7,977,081	-
Fixed income securities	35,283,124	-	35,283,124	-
Private equity funds	13,085,486	-	-	13,085,486
Real estate funds	16,843,156	-	16,843,156	-
Beneficial interest in funds held in trust	2,608,164	-	-	2,608,164
Total	<u>\$ 207,904,268</u>	<u>\$ 131,194,459</u>	<u>\$ 61,016,159</u>	<u>\$ 15,693,650</u>
<b>LIABILITIES</b>				
Interest rate exchange agreements	<u>\$ 1,561,664</u>	<u>\$ -</u>	<u>\$ 1,561,664</u>	<u>\$ -</u>

The following table presents financial instruments that are measured at fair value on a recurring basis by the fair value hierarchy as of June 30, 2010:

	Total	Level 1	Level 2	Level 3
<b>ASSETS</b>				
Short - term investments	\$ 910,014	\$ -	\$ 910,014	\$ -
Equity securities	110,892,762	110,892,762	-	-
Lawrence Corporation Ownership	798,348	798,348	-	-
Hedge fund	10,089,864	-	10,089,864	-
Fixed income securities	23,288,762	-	23,288,762	-
Private equity funds	9,658,257	-	-	9,658,257
Real estate funds	14,936,192	-	14,936,192	-
Beneficial interest in funds held in trust	5,277,268	-	-	5,277,268
Total	<u>\$ 175,851,467</u>	<u>\$ 111,691,110</u>	<u>\$ 49,224,832</u>	<u>\$ 14,935,525</u>
<b>LIABILITIES</b>				
Interest rate exchange agreements	<u>\$ 1,681,124</u>	<u>\$ -</u>	<u>\$ 1,681,124</u>	<u>\$ -</u>

The following methods and assumptions were used to estimate the fair value for each class of financial instrument measured at fair value:

**Short-term investments** – The fair value of short-term investments, consisting primarily of money market funds, is classified as Level 2 as these funds are not traded on a regular basis.

# LAWRENCE UNIVERSITY OF WISCONSIN

## NOTES TO FINANCIAL STATEMENTS June 30, 2011 and 2010

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### NOTE 2 – FAIR VALUE MEASUREMENTS (cont.)

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**Equity securities** – Investments in equity securities are measured at fair value using quoted market prices. They are classified as Level 1 as they are traded in an active market for which closing stock prices are readily available.

**Lawrence Corporation Ownership** – Ownership in Lawrence Corporation is classified as Level 1 as it has pricing which is readily available.

**Fixed income securities** – Investments in fixed income securities are comprised of mortgage backed securities, municipal bonds and corporate bonds and notes. The fixed income securities are classified as Level 2 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.

**Alternative investments** – Investments in private equity funds and real estate funds, for which there is no readily determinable fair value are classified as level 3 as the valuation is based on significant unobservable inputs. In cases where the investee has provided its investors with a net asset value per share that has been calculated in accordance with the AICPA Audit and Accounting Guide, *Investment Companies*, the University has estimated its fair value by using the net asset value provided by the investee as of March 31, adjusted for cash receipts, cash disbursements, significant known valuation changes in market values of publicly held securities contained in the portfolio and security distributions through June 30.

**Real Estate and Hedge Funds** – Investments in hedge and real estate funds are classified as Level 2 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. In cases where the investee has provided its investors with a new asset value per share that has been calculated in accordance with the AICPA Audit and Accounting Guide, *Investment Companies*, the University has estimated its fair value by using the net asset value provided by the investee as of June 30.

**Beneficial interest in trusts** – The University's beneficial interest in trusts administered by a third party are classified as Level 3 as the fair values are based on a combination of Level 2 inputs (interest rates and yield curves) and significant unobservable inputs (entity specific estimates of cash flows). Since the University has an irrevocable right to receive the income earned from the trust's assets, the fair value of the University's beneficial interest is estimated to approximate the fair value of the trusts' assets.

**Interest rate exchange agreements** – Interest rate exchange agreements are classified as Level 2 as the fair value is based on observable inputs to a valuation model (interest rates, credit spreads, etc.) which take into account the present value of the estimated future cash flows and credit valuation adjustments.

While the University believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different estimate of fair value at the reporting date.

# LAWRENCE UNIVERSITY OF WISCONSIN

## NOTES TO FINANCIAL STATEMENTS June 30, 2011 and 2010

### NOTE 2 – FAIR VALUE MEASUREMENTS (cont.)

The following table presents a reconciliation of financial instruments measured at fair value on a recurring basis using significant unobservable inputs (level 3) for the year ended June 30, 2011:

	Balances June 30, 2010	Net Realized and Unrealized Gains (Losses) Included in Change in Net Assets	Purchases, Sales, Issuances and Settlement, Net	Net Transfers In (Out) of Level 3	Balances June 30, 2011
<b>Assets</b>					
Private equity funds	\$ 9,658,257	\$ 848,503	\$ 2,578,726	\$ -	\$ 13,085,486
Beneficial interest in funds held in trust	5,277,268	1,335,212	(4,004,316)	-	2,608,164
<b>Totals</b>	<b>\$ 14,935,525</b>	<b>\$ 2,183,715</b>	<b>\$ (1,425,590)</b>	<b>\$ -</b>	<b>\$ 15,693,650</b>

The amount of total gains (losses) for the period included in change in net assets attributable to the change in unrealized gains or losses relating to financial instruments still held at June 30, 2011 \$ 1,184,483

The following table presents a reconciliation of financial instruments measured at fair value on a recurring basis using significant unobservable inputs (level 3) for the year ended June 30, 2010:

	Balances June 30, 2009	Net Realized and Unrealized Gains (Losses) Included in Change in Net Assets	Purchases, Sales, Issuances and Settlement, Net	Net Transfers In (Out) of Level 3	Balances June 30, 2010
<b>Assets</b>					
Private equity funds	\$ 6,930,522	\$ 473,306	\$ 2,254,429	\$ -	\$ 9,658,257
Beneficial interest in funds held in trust	5,090,679	186,589	-	-	5,277,268
<b>Totals</b>	<b>\$ 12,021,201</b>	<b>\$ 659,895</b>	<b>\$ 2,254,429</b>	<b>\$ -</b>	<b>\$ 14,935,525</b>

The amount of total gains (losses) for the period included in change in net assets attributable to the change in unrealized gains or losses relating to financial instruments still held at June 30, 2010 \$ 276,299

# LAWRENCE UNIVERSITY OF WISCONSIN

## NOTES TO FINANCIAL STATEMENTS June 30, 2011 and 2010

### NOTE 2 – FAIR VALUE MEASUREMENTS (cont.)

The fair value of certain funds has been estimated using the Net Asset Value (“NAV”) as reported by the management of the fund. FASB guidance allows for the use of the NAV as a “practical expedient” estimating the fair value of alternative investments. NAV reported by each alternative investment fund is used as a practical expedient to estimate the fair value of the University’s interest in the fund. Investments are categorized as Level 2 instruments when the University has the ability to redeem its investment in the entity at the NAV per share in the near term. If the University does not know when it will have the ability to redeem its investment or it does not have the ability to redeem its investment at NAV per share in the near term, the investments are categorized as Level 3 instruments. The University generally considers a redemption period of 90 days or less to be considered near term.

The following table lists the investments in alternative investments by major category:

	Private Equity Funds	Real Estate Funds	Hedge Funds
Fair Value as of June 30, 2011	\$13,085,486	\$16,843,156	\$7,977,081
Significant Investment Strategy	Venture, Buyout, and Distressed in the US and international	Core and some value added, primarily in the US	Long/short stocks, convertible arbitrage, volatility arbitrage, distressed credit, relative value fixed income
Remaining Life	1 to 13 years	-	-
Dollar Amount of Unfunded Commitments as of June 30, 2011	\$10,023,000	\$ -	\$ -
Timing to Draw Down Commitments	1 to 13 years	1 to 10 years	N.A.
Redemption Terms	N.A.	30 day notice for core	60 days notice
Redemption Restrictions	N.A.	Value added real estate is closed end fund	N.A.
Redemption Restrictions in Place at Year End	N.A.	N.A.	N.A.

# LAWRENCE UNIVERSITY OF WISCONSIN

## NOTES TO FINANCIAL STATEMENTS June 30, 2011 and 2010

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### NOTE 3 – NET ASSETS

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Temporarily restricted net assets are comprised of the following at June 30:

	<u>2011</u>	<u>2010</u>
Restricted for capital additions	\$ 66,330,986	\$ 62,331,540
Restricted for other donor designated purposes	38,153,030	24,578,866
Restricted to future periods	2,424,786	3,334,025
Split-interest agreements, net	<u>1,603,935</u>	<u>2,776,620</u>
Totals	<u>\$ 108,512,737</u>	<u>\$ 93,021,051</u>

Permanently restricted net assets are comprised of the following:

	<u>2011</u>	<u>2010</u>
Endowment investments, the income from which is expendable to support:		
Faculty chairs	\$ 26,796,760	\$ 26,396,760
Scholarships	64,405,936	61,697,019
Other donor imposed restrictions	35,411,830	34,810,921
General operations	<u>6,858,132</u>	<u>5,686,209</u>
	133,472,658	128,590,909
Contributions receivable, net	1,577,339	2,006,621
Split-interest agreements, net	<u>4,908,234</u>	<u>6,278,510</u>
Totals	<u>\$ 139,958,231</u>	<u>\$ 136,876,040</u>

The endowment balance disclosed above consists of investments, interfund balance (eliminated in the financial statements), and permanently restricted contributions receivable and trust interests.

# LAWRENCE UNIVERSITY OF WISCONSIN

## NOTES TO FINANCIAL STATEMENTS June 30, 2011 and 2010

### NOTE 4 – NET ASSETS RELEASED FROM RESTRICTIONS

Net assets were released from donor restrictions during the years ended June 30, 2011 and 2010 by incurring expenses satisfying the restricted purposes or by occurrence of other events specified by donors.

	2011	2010
Purpose restrictions accomplished:		
Funded endowment tuition discounts	\$ 636,052	\$ 672,909
Lawrence Fellows	83,615	632,911
Posse Program	-	500,000
Other donor imposed restrictions	667,145	601,241
Investment return designated for current purposes	6,432,558	-
Depreciation based releases	1,574,570	1,154,732
	9,393,940	3,561,793
Unrestricted pledge payments received	1,137,690	1,143,240
	<u>\$ 10,531,630</u>	<u>\$ 4,705,033</u>

These assets were reclassified to unrestricted net assets.

### NOTE 5 – CONTRIBUTIONS RECEIVABLE

Contributions receivable include the following unconditional promises to give at June 30:

	2011	2010
Temporarily restricted - operations	\$ 3,506,690	\$ 4,298,022
Temporarily restricted - capital projects	1,512,894	2,752,227
Permanently restricted - endowment	1,643,090	2,205,269
Gross unconditional promises to give	6,662,674	9,255,518
Less:		
Discount to net present value	(229,084)	(265,405)
Allowance for uncollectible promises	(121,393)	(59,833)
Net Unconditional Promises to Give	<u>\$ 6,312,197</u>	<u>\$ 8,930,280</u>

At June 30, 2011, contributions receivable of \$3,202,622 are due in less than one year and \$3,460,052 are due in one to five years. Contributions due in one to five years were discounted at interest rates ranging from 2.4% to 5.6%. Contributions due in less than one year were not discounted.

# LAWRENCE UNIVERSITY OF WISCONSIN

## NOTES TO FINANCIAL STATEMENTS June 30, 2011 and 2010

### NOTE 6 – STUDENT LOANS RECEIVABLE

The University 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.

Student loans are comprised of the following as of June 30:

	2011	2010
Student loans:		
Lawrence University Loans	\$ 1,167,033	\$ 1,008,789
Perkins Student Loans	5,698,043	5,618,473
	6,865,076	6,627,262
Less: Allowance for uncollectible accounts		
Beginning of year	(792,524)	(708,000)
Increases	(77,310)	(95,000)
Write-offs	2,834	10,476
End of year	(867,000)	(792,524)
Student Loans Receivable, Net	\$ 5,998,076	\$ 5,834,738

Funds advanced by the Federal government of \$2,472,968 at June 30, 2011 and 2010 are ultimately refundable to the government and are classified as liabilities in the statement of financial position.

At June 30, 2011 and 2010, the following amounts were past due under student loan programs:

	1-60 days past due	60-90 days past due	90+ days past due	Total past due
June 30, 2011	\$ 3,872	\$ 2,391	\$ 365,744	\$ 372,007
2010	\$ 3,287	\$ 2,002	\$ 354,860	\$ 360,149

### NOTE 7 – INVESTMENTS

Investments are stated at market value and consist of the following:

	2011	2010
Cash and short-term investments	\$ 497,606	\$ 497,600
Certificates of deposits	415,192	412,414
Fixed income securities	35,283,124	23,288,762
Common stocks	131,194,459	110,892,762
Lawrence Corporation Ownership	-	798,348
Alternative investments	37,905,723	34,684,313
Beneficial interests in trusts	2,608,164	5,277,268
Total Investments	\$ 207,904,268	\$ 175,851,467

# LAWRENCE UNIVERSITY OF WISCONSIN

## NOTES TO FINANCIAL STATEMENTS June 30, 2011 and 2010

### NOTE 7 – INVESTMENTS (cont.)

Investment returns are comprised of the following for the years ended June 30:

	2011			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Dividends and interest	\$ -	\$ 3,735,151	\$ -	\$ 3,735,151
Net realized and unrealized gains	<u>19,856,280</u>	<u>15,838,755</u>	<u>126,929</u>	<u>35,821,964</u>
Return on investments	19,856,280	19,573,906	126,929	39,557,115
Investment return designated for current operations	<u>(2,466,171)</u>	<u>(7,196,337)</u>	<u>(132,492)</u>	<u>(9,795,000)</u>
Investment return in excess (deficient) of amounts designated for current operations	<u>\$ 17,390,109</u>	<u>\$ 12,377,569</u>	<u>\$ (5,563)</u>	<u>\$ 29,762,115</u>
	2010			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Dividends and interest	\$ 3,582,086	\$ -	\$ -	\$ 3,582,086
Net realized and unrealized gains	<u>13,600,113</u>	<u>721,629</u>	<u>253,767</u>	<u>14,575,509</u>
Return on investments	17,182,199	721,629	253,767	18,157,595
Investment return designated for current operations	<u>(8,343,527)</u>	<u>(690,578)</u>	<u>(140,895)</u>	<u>(9,175,000)</u>
Investment return in excess of amounts designated for current operations	<u>\$ 8,838,672</u>	<u>\$ 31,051</u>	<u>\$ 112,872</u>	<u>\$ 8,982,595</u>

Investment fees of \$716,000 for 2011 and 2010 are included in the above investment income.

# LAWRENCE UNIVERSITY OF WISCONSIN

## NOTES TO FINANCIAL STATEMENTS June 30, 2011 and 2010

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### NOTE 8 – PROPERTY AND EQUIPMENT

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Property and equipment consists of the following at June 30:

	<u>2011</u>	<u>2010</u>
Land and land improvements	\$ 7,780,232	\$ 7,621,856
Buildings	157,509,336	155,290,203
Equipment	54,752,905	51,779,263
Construction in progress	<u>153,579</u>	<u>379,530</u>
	220,196,052	215,070,852
Less: Accumulated depreciation	<u>(108,363,542)</u>	<u>(101,877,750)</u>
Totals	<u>\$ 111,832,510</u>	<u>\$ 113,193,102</u>

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### NOTE 9 – LINE OF CREDIT

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The University has a 12-month revolving unsecured line of credit with a bank under which it may borrow up to \$10,000,000 (for general operating purposes). At June 30, 2011, there were no borrowings on the line of credit. The line of credit accrues interest at a variable rate which was 3.25% at June 30, 2011.

# LAWRENCE UNIVERSITY OF WISCONSIN

## NOTES TO FINANCIAL STATEMENTS June 30, 2011 and 2010

### NOTE 10 – LONG-TERM DEBT

The University has the following long-term debt outstanding at June 30:

<b>Wisconsin Health and Educational Facilities Authority, Revenue Bonds</b>	2011	2010
<p>Series 2009 - variable rate (currently 0.09%). The University restructured its variable rate debt. The series 2009 bonds are a variable rate demand bonds and can be called. The bonds are backed by a letter of credit from Chase Bank. The University entered into three new interest rate exchange agreements and still has the original interest rate exchange agreement in place from the Series 2002 bond. In total, the University has entered into an interest rate exchange agreement to fix the rate of interest on \$21 million of this debt. Under the agreement, the University either pays additional interest or receives an interest credit depending on the relationship between the variable rate and the fixed rate. See footnote 16 for details regarding statement of financial position and statement of activities impact related to these agreements. The interest rate exchange agreements have the following rates and maturities:</p> <ul style="list-style-type: none"> <li>\$3 million maturing in 2012 at 2.18%,</li> <li>\$5 million maturing in 2014 at 2.79%,</li> <li>\$7 million maturing in 2016 at 3.04%,</li> <li>\$6 million maturing in 2017 at 4.3%.</li> </ul>	<p>\$ 27,945,000</p>	<p>\$ 28,705,000</p>
<p>Series 1998 - fixed rate (ranging from 3.8% to 5.125%), unsecured, payable in annual installments, maturing on October 15, 2011.</p>	<p>861,899</p>	<p>1,676,899</p>
<p>Series 1998 - 5.00% fixed rate, unsecured, payable in full on October 15, 2013.</p>	<p>1,845,000</p>	<p>1,845,000</p>
<p>Series 1998 - 5.125% fixed rate, unsecured, payable in full on October 15, 2018.</p>	<p>4,665,000</p>	<p>4,665,000</p>
<p>Series 1998 - 5.125% fixed rate, unsecured, payable in full on April 15, 2028.</p>	<p>5,235,000</p>	<p>5,235,000</p>
<p>Series 2007 - 4.25% fixed rate, unsecured, payable in full on August 1, 2014.</p>	<p>1,022,267</p>	<p>4,157,431</p>

# LAWRENCE UNIVERSITY OF WISCONSIN

## NOTES TO FINANCIAL STATEMENTS June 30, 2011 and 2010

### NOTE 10 – LONG-TERM DEBT (cont.)

	2011	2010
<b>U.S. Department of Housing and Urban Development</b>		
Auxiliary Facilities Construction and Refunding Bonds, secured by a pledge of first mortgages on the facilities and of certain revenues from the facilities for creation of repair and maintenance reserves:		
Series 1966D, 3% fixed rate, maturing on April 1, 2012	\$ 32,000	\$ 62,000
Series 1966E, 3% fixed rate, maturing on April 1, 2013	22,000	44,000
	41,628,166	46,390,330
Less: Bond discounts	(300,838)	(317,636)
Totals	\$ 41,327,328	\$ 46,072,694

The Series 2009 Revenue Bonds have restrictive financial covenants. The University is in compliance with these covenants as of June 30, 2011.

Maturities of long-term debt are as follows:

2012	\$ 2,746,267
2013	860,000
2014	2,765,000
2015	975,000
2016	1,035,000
Thereafter	33,246,899
	\$ 41,628,166

For the years ended June 30, 2011 and 2010, interest expense on long-term debt approximated \$1,896,000 and \$2,131,000, respectively. There was no capitalized interest in 2011 or 2010.

# LAWRENCE UNIVERSITY OF WISCONSIN

## NOTES TO FINANCIAL STATEMENTS June 30, 2011 and 2010

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### NOTE 11 – EXECUTIVE RETIREMENT PLAN

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The University is providing a retired executive with monthly cash payments of approximately \$7,500. These monthly payments started when the executive retired in June 2004 and will continue until June 30, 2022. The payments are discounted at a rate of 5.5% for 2011 and 2010. The present value of these payments at June 30, 2011 and 2010 was \$719,265 and \$766,014, respectively, and are included in accrued liabilities on the statements of financial position. Payments during the years ended June 30, 2011 and 2010 were \$88,880, and retirement expense was \$42,131 and \$44,568, respectively.

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### NOTE 12 – POSTRETIREMENT HEALTH AND LIFE BENEFITS

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The University provides retired employees over 65 and their respective spouses, if applicable, with monthly cash payments, which are to be utilized toward the payment of postretirement health benefits. Retirees and spouses under age 65 continue to participate in the University's health plan on a cost-sharing basis.

The following table shows the reconciliation of the accrued postretirement cost for the fiscal years ending June 30:

	<u>2011</u>	<u>2010</u>
Accrued postretirement benefit cost at July 1	\$ (2,325,483)	\$ (2,305,944)
Net periodic postretirement benefit cost	(223,871)	(164,689)
Actual retiree benefit payments	<u>134,092</u>	<u>145,150</u>
Accrued postretirement benefit cost at June 30	<u>\$ (2,415,262)</u>	<u>\$ (2,325,483)</u>

Benefits expected to be paid for each of the five years subsequent to June 30, 2011 are estimated to be \$90,077, \$102,967, \$112,709, \$123,091 and \$127,426, respectively. Benefits expected to be paid 2017 through 2021 are estimated to be \$685,985. Contributions from the University expected to be paid to the plan for the year ended June 30, 2012 are estimated to be \$232,866.

# LAWRENCE UNIVERSITY OF WISCONSIN

## NOTES TO FINANCIAL STATEMENTS June 30, 2011 and 2010

### **NOTE 12 – POSTRETIREMENT HEALTH AND LIFE BENEFITS (cont.)**

The following table shows the reconciliation of the funded status to the accrued postretirement benefit cost as of June 30:

	2011	2010
Accumulated postretirement benefit obligation (APBO):		
(a) Retirees	\$ (708,404)	\$ (648,296)
(b) Active employees eligible to retire	(588,107)	(598,903)
(c) Active employees not eligible to retire	(811,243)	(764,451)
(d) Total APBO	(2,107,754)	(2,011,650)
 Fair value of plan assets	 -	 -
 Unfunded status	 (2,107,754)	 (2,011,650)
 Unrecognized prior service cost	 1,324	 4,578
 Unrecognized net gain	 (308,832)	 (318,411)
 Accrued Postretirement Benefit Cost	 \$ (2,415,262)	 \$ (2,325,483)

The June 30, 2011 APBO is based on June 30, 2011 participant data. For 2011 and 2010, the weighted average discount rate used in determining the actuarial present value of the projected benefit obligation was 5.0% and 5.25%, respectively. The assumed health care trend rate was 12% for fiscal year 2011 and gradually declines to 6% in the year 2023.

The effect of a 1.0% increase in each future health care trend rate would change the APBO by approximately \$261,127 or 12.4%. The effect of a 1.0% decrease in each future health care trend rate would change the APBO by approximately (\$217,671) or (10.3%).

# LAWRENCE UNIVERSITY OF WISCONSIN

## NOTES TO FINANCIAL STATEMENTS June 30, 2011 and 2010

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### NOTE 12 – POSTRETIREMENT HEALTH AND LIFE BENEFITS (cont.)

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The following table shows the components of the net periodic postretirement benefit cost (NPPBC):

	<u>2011</u>	<u>2010</u>
Service cost	\$ 126,937	\$ 86,233
Interest cost	100,059	96,465
Net amortization and deferrals	<u>(3,125)</u>	<u>(18,009)</u>
 Net Periodic Postretirement Benefit Cost	 <u>\$ 223,871</u>	 <u>\$ 164,689</u>

The above 2011 service cost and interest cost are based on June 30, 2011 participant data. For 2011 and 2010, the weighted average discount rate used in determining the actuarial present value of the projected benefit obligation was 5.0% and 5.25%, respectively. The assumed health care trend rate was 12% for fiscal year 2011 and gradually declines to 6% in the year 2023.

The effect of a 1.0% increase in each future health care trend rate would change the combined service cost and interest cost by approximately \$40,391 or 18.0%. The effect of a 1.0% decrease in each future health care trend rate would change the combined service cost and interest cost by approximately (\$33,091) or (14.8%).

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### NOTE 13 – RETIREMENT PLAN

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Employees working 20 hours or more per week and who have been employed for one year are eligible to participate in individual annuity retirement programs provided through Teachers Insurance Annuity Association and the University Retirement Equities Fund and/or Fidelity Investments Tax-Exempt Services Company. Annuities are purchased through employer and employee contributions determined on the same fixed percentages of salary for all employees. All participants are always 100% vested in their individual account balances.

Total retirement expense for the years ended June 30, 2011 and 2010 was approximately \$1,466,000 and \$1,023,000, respectively. The University suspended the employer match contribution on salary amounts over \$40,000 during the fiscal year ending June 30, 2010. The employer match was reinstated effective July 1, 2010.

# LAWRENCE UNIVERSITY OF WISCONSIN

## NOTES TO FINANCIAL STATEMENTS June 30, 2011 and 2010

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### NOTE 14 – DEFERRED GIFT AGREEMENTS

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The University has arrangements with donors classified as charitable lead trusts, charitable remainder trusts, charitable gift annuities and pooled life income funds. In general, under these arrangements the University 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 University 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 University 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 University 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 and sex characteristics of the donor.

During the years ended June 30, 2011 and 2010, the University received gift income of approximately \$286,000 and \$64,000, respectively, relating to deferred gift agreements. Total assets held by the University under deferred gift agreements and liabilities related to these agreements totaled approximately \$10,136,000 and \$1,930,000, respectively, at June 30, 2011 and \$12,193,000 and \$1,779,000, respectively, at June 30, 2010.

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### NOTE 15 – ENDOWMENT

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Effective June 1, 2008, the University adopted portions of the provisions of the authoritative guidance, *Endowments of Not-for-Profit Organizations: Net Asset Classifications of Funds Subject to an Enacted Version of the Uniform Prudent Management of Institutional Funds Act, and Enhanced Disclosures for all Endowment Funds*. The FSP provides guidance on classifying net assets associated with donor-restricted endowment funds held by organizations that are subject to an enacted version of Uniform Prudent Management of Institutional Funds Act (UPMIFA). A key component of the FSP is a requirement to classify the portion of a donor-restricted endowment fund that is not classified as permanently restricted net assets as temporarily restricted net assets until appropriated for expenditure. Another key component of the FSP is a requirement for expanded disclosures about all endowment funds. Since the State of Wisconsin adopted a version of UPMIFA effective during the University's June 30, 2010 fiscal year, the University is to comply with the additional disclosures requirement as of June 30, 2009, whereas the reclassification of net assets took effect for the fiscal year ending June 30, 2010.

The University's endowment consists of approximately 750 individual funds established for a variety of purposes. Its endowment includes both donor-restricted endowment funds and funds designated by the governing board to function as endowments. As required by 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.

# LAWRENCE UNIVERSITY OF WISCONSIN

## NOTES TO FINANCIAL STATEMENTS June 30, 2011 and 2010

### NOTE 15 – ENDOWMENT (cont.)

Endowment net asset composition by type of fund consists of the following as of June 30, 2011:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds	\$ (5,380,583)	\$ 33,358,760	\$ 133,472,658	\$ 161,450,835
Board-designated endowment funds	53,199,966	-	-	53,199,966
<b>Total Endowment Net Assets</b>	<b>\$ 47,819,383</b>	<b>\$ 33,358,760</b>	<b>\$ 133,472,658</b>	<b>\$ 214,650,801</b>

Endowment net asset composition by type of fund consists of the following as of June 30, 2010:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds	\$ (15,015,770)	\$ 20,907,906	\$ 128,590,909	\$ 134,483,045
Board-designated endowment funds	45,774,544	-	-	45,774,544
<b>Total Endowment Net Assets</b>	<b>\$ 30,758,774</b>	<b>\$ 20,907,906</b>	<b>\$ 128,590,909</b>	<b>\$ 180,257,589</b>

Changes in endowment net assets for the year ended June 30, 2011 are as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, June 30, 2010	\$ 30,758,774	\$ 20,907,906	\$ 128,590,909	\$ 180,257,589
Investment return:				
Investment income	-	3,735,151	-	3,735,151
Net appreciation (depreciation) - realized and unrealized	19,526,780	15,912,040	132,492	35,571,312
<b>Total investment return</b>	<b>19,526,780</b>	<b>19,647,191</b>	<b>132,492</b>	<b>39,306,463</b>
Contributions	-	-	2,806,749	2,806,749
Liquidation of split interest agreement to endowment	-	-	2,075,000	2,075,000
Appropriation of endowment assets for expenditure	(2,466,171)	(7,196,337)	(132,492)	(9,795,000)
<b>Endowment Net Assets, June 30, 2011</b>	<b>\$ 47,819,383</b>	<b>\$ 33,358,760</b>	<b>\$ 133,472,658</b>	<b>\$ 214,650,801</b>

# LAWRENCE UNIVERSITY OF WISCONSIN

## NOTES TO FINANCIAL STATEMENTS June 30, 2011 and 2010

### NOTE 15 – ENDOWMENT (cont.)

Changes in endowment net assets for the year ended June 30, 2010 are as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, June 30, 2009	\$ 43,206,972	\$ -	\$ 125,290,308	\$ 168,497,280
Investment return:				
Investment income	3,582,086	-	-	3,582,086
Net appreciation (depreciation) - realized and unrealized	13,221,149	690,578	140,895	14,052,622
Total investment return	16,803,235	690,578	140,895	17,634,708
Contributions	-	-	3,300,601	3,300,601
Appropriation of endowment assets for expenditure	(8,343,527)	(690,578)	(140,895)	(9,175,000)
Other changes:				
Net asset reclassification based on change in State of Wisconsin Law	(20,907,906)	20,907,906	-	-
Endowment Net Assets, June 30, 2010	<u>\$ 30,758,774</u>	<u>\$ 20,907,906</u>	<u>\$ 128,590,909</u>	<u>\$ 180,257,589</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 or UPMIFA requires the University to retain as a fund of perpetual duration. In accordance with GAAP, deficiencies of this nature that are reported in unrestricted net assets were \$5,380,583 and \$15,015,770 as of June 30, 2011 and 2010, respectively. These deficiencies resulted from unfavorable market fluctuations that occurred shortly after the investment of new permanently restricted contributions and continued appropriation for certain programs that was deemed prudent by the governing board. Subsequent gains that restore the fair value of the assets of the endowment fund to the required level will be classified as an increase in unrestricted net assets.

**Return Objectives and Risk Parameters** – The University has 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 University 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 a real rate of return over inflation sufficient to support, in perpetuity, the mission of the University. It is particularly important to preserve the value of the assets in real terms to enable the Endowment to maintain the purchase power of its support of the University without eroding the real, long-term value of the corpus of the Endowment.

**Strategies Employed for Achieving Objectives** – The University's investment strategy incorporates a diversified asset allocation approach and maintains, within defined limits, exposure to the world equity, fixed-income, commodities, real estate and private equity markets. This strategy provides the University with a long-term asset mix that is intended to meet the University's long-term return goals with the appropriate level of risk.

# LAWRENCE UNIVERSITY OF WISCONSIN

## NOTES TO FINANCIAL STATEMENTS

June 30, 2011 and 2010

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### NOTE 15 – ENDOWMENT (cont.)

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The alternative investments were entered into to diversify the University's portfolio, to provide predictability in overall earnings and to provide market neutral holdings. The University's management, the investment committee of the Board of Trustees and the University's external investment consultants review reports provided by the general partners, and the University's external investment consultants attend meetings of the various general partners in order to evaluate the risk associated with these investments. In addition, the University monitors its portfolio mix to ensure that it is in accordance with Board policy.

As of June 30, 2011 and 2010 the University has commitments to make further investments in several of its alternative investments totaling approximately \$10,023,000 and \$12,094,000, respectively.

**Spending Policy and How the Investment Objectives Relate to Spending Policy** – The University provides endowment income for general institutional purposes through the application of a budgeted endowment income plan. This plan provides the University with a rational and systematic means of determining the portion of investment income available to support current operations. The long-term endowment payout goal stipulated in the Statement of Investment Policy adopted in January, 2008 is computed by applying a formula of 5% of the 12-quarter moving average market value of invested endowment assets as of December 31 each year. The budgeted payout percentage is approved annually by the Board of Trustees and is used to compute the investment return designated for current operations; the difference between total return and return designated for current operations is reflected as a nonoperating change in net assets. In 2011 and 2010, the Board of Trustees approved the endowment payout of \$9,795,000 and \$9,175,000, respectively.

**Interpretation of Relevant Law** – The University's governing board has interpreted the Wisconsin enacted version of Uniform Prudent Management of Institutional Funds Act (UPMIFA) as allowing the University to appropriate for expenditure or accumulate so much of an endowment fund as the University 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 University in a manner consistent with the standard of prudence prescribed by UPMIFA. In accordance with UPMIFA, the University 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 University 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 University
7. The investment policies of the University

# LAWRENCE UNIVERSITY OF WISCONSIN

## NOTES TO FINANCIAL STATEMENTS June 30, 2011 and 2010

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### NOTE 16 – DERIVATIVE INSTRUMENTS

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The University uses interest rate exchange agreements as part of its risk management strategy to manage exposure to fluctuations in interest rates and to manage the overall cost of its debt. Interest rate exchange agreements are used to manage identified and approved exposures and are not used for speculative purposes. The interest rate exchange agreements are recognized as either assets or liabilities on the statements of financial position and are measured at fair value. Interest rate exchange agreements are often held for the life of the strategy, but may reflect significant interim unrealized gains or losses depending on the change in value since the inception of the contract. All unrealized and realized gains and losses from the interest rate exchange agreements are reflected in the statements of activities.

Interest rate exchange agreements between the University and a third party (counterparty) provide for periodic exchange of payments between the parties based on changes in a defined index and a fixed rate and include counterparty credit risk. Counterparty credit risk is the risk that contractual obligations of the counterparties will not be fulfilled. Concentrations of credit risk relate to groups of counterparties that have similar economic or industry characteristics that would cause their ability to meet contractual obligations to be similarly affected by changes in economic or other conditions. Counterparty credit risk is managed by requiring high credit standards for the University's counterparties. The counterparties to these contracts are financial institutions that carry investment-grade credit ratings. The interest rate exchange agreements contain collateral provisions applicable to both parties to mitigate credit risk. The University does not anticipate non-performance by its counterparties.

# LAWRENCE UNIVERSITY OF WISCONSIN

## NOTES TO FINANCIAL STATEMENTS June 30, 2011 and 2010

### NOTE 16 – DERIVATIVE INSTRUMENTS (cont.)

In fiscal 2011, the University paid \$622,092 more than it received in interest under the swap agreements. In fiscal 2010, the University paid \$615,083 more than it received in interest under the swap agreements. The difference between interest received and interest paid under the swap agreements is recorded as interest expense in the statements of activities.

The following is a summary of the outstanding positions under these interest rate exchange agreements as of June 30, 2011:

Instrument Type	National Amount	Maturity Date	Rate Paid	Rate Received
Floating to fixed rate swap	\$ 3,000,000	March 1, 2012	2.18%	WKL-USD-SIFMA Municipal Swap Index
Floating to fixed rate swap	\$ 5,000,000	March 1, 2014	2.79%	WKL-USD-SIFMA Municipal Swap Index
Floating to fixed rate swap	\$ 7,000,000	March 1, 2016	3.04%	WKL-USD-SIFMA Municipal Swap Index
Floating to fixed rate swap	\$ 6,000,000	August 14, 2017	4.30%	WKL-USD-SIFMA Municipal Swap Index

Derivative instruments are reported in the statements of financial position at fair value as of June 30, 2011 and 2010 as follows:

Derivatives Not Designated as Hedging Instruments	Statement of Financial Position Location	Liabilities Derivative	
		Fair Value	
		2011	2010
Interest rate swap	Accrued Liabilities	\$ 1,561,664	\$ 1,681,124

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

Derivatives Not Designated as Hedging Instruments	Location of Gain (Loss) on Derivatives Recognized in the Statement of Changes in Net Assets	Amount of Gain (Loss) on Derivatives Recognized in the Statement of Changes in Net Assets	
		2011	
		2011	2010
Interest rate swap	Other Nonoperating Items	\$ 119,460	\$ (772,146)

# LAWRENCE UNIVERSITY OF WISCONSIN

## NOTES TO FINANCIAL STATEMENTS June 30, 2011 and 2010

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### NOTE 17 – FUNCTIONAL CLASSIFICATION OF EXPENSES

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Expenses by function for the years ended June 30 were as follows:

	<u>2011</u>	<u>2010</u>
Program Expenses		
Instruction	\$ 23,337,677	\$ 22,281,638
Research	415,637	947,229
Public service	1,818,851	1,856,938
Academic support	4,967,571	4,523,775
Student services	6,874,446	6,575,388
Auxiliary expenses	<u>6,229,231</u>	<u>5,848,050</u>
	43,643,413	42,033,018
Support Expenses		
Institutional administration	<u>12,607,843</u>	<u>11,839,379</u>
Totals	<u>\$ 56,251,256</u>	<u>\$ 53,872,397</u>

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### NOTE 18 – SUPPLEMENTAL CASH FLOW INFORMATION

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	<u>2011</u>	<u>2010</u>
Cash paid for interest	\$ 2,010,988	\$ 2,132,491
Property and equipment financed with accounts payable	360,386	460,947

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### NOTE 19 – RELATED PARTY

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The University had an investment of \$798,000 at June 30, 2010, in United Educators, a professional liability insurance company. This investment was liquidated in 2011. In addition, the University paid premiums to United Educators of \$71,452 and \$69,573 during the year ended June 30, 2011 and 2010, respectively, for Educators Legal Liability and Employee Benefits Liability insurance.

The University received \$2.4 million and \$3.0 million of gifts and contributions during fiscal years 2011 and 2010, respectively, from board of trustee members and employees. As of June 30, 2011 and 2010, \$2.9 million and \$3.8 million, respectively, were recorded as receivables.

# LAWRENCE UNIVERSITY OF WISCONSIN

## NOTES TO FINANCIAL STATEMENTS June 30, 2011 and 2010

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### **NOTE 20 – CONCENTRATIONS OF CREDIT RISK**

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Financial instruments that potentially subject the University to concentrations of credit risk consist principally of cash and cash equivalents, short-term investments, marketable securities and other investments and accounts receivable and notes. The University places substantially all of its cash and liquid investments with high-quality financial institutions and limits the amount of credit exposure to any one financial institution; however, cash balances periodically exceed federally insured limits. 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 University'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 University's programs and activities.

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### **NOTE 21 – LETTER OF CREDIT**

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In 2009, the University issued \$29.81 million of Variable Rate Demand Revenue Refunding Bonds. The University continues to have a bank letter of credit which expires on December 31, 2013 that was issued to pay principal and accrued interest on this bond issue. On December 3, 2010, the University revised its letter of credit to \$29.03 million.

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### **NOTE 22 – SUBSEQUENT EVENTS**

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The University has evaluated subsequent events through October 7, 2011, which is the date that the financial statements were issued.