

LAWRENCE UNIVERSITY OF WISCONSIN

Appleton, Wisconsin

FINANCIAL STATEMENTS

June 30, 2009 and 2008

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, 2009 and 2008 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, 2009 and 2008 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.

As described in Note 2 to the financial statements, Lawrence University of Wisconsin adopted the provisions of FASB Statement No. 157, Fair Value Measurements and FASB Statement No. 159, The Fair Value Option for Financial Assets and Financial Liabilities - Including an Amendment of FASB Statement No. 115, as of July 1, 2008. As described in Note 16 to the financial statements, Lawrence University of Wisconsin adopted the reporting provisions of FASB Staff Position FSP 117-1, 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 the year ended June 30, 2009.

Baker Tilly Virchow Krause, LLP

Milwaukee, Wisconsin
October 12, 2009

LAWRENCE UNIVERSITY OF WISCONSIN

STATEMENTS OF FINANCIAL POSITION June 30, 2009 and 2008

	2009	2008
ASSETS		
Cash and cash equivalents	\$ 4,325,809	\$ 23,618,111
Receivables		
Students accounts, net of allowance for doubtful accounts of \$201,000 and \$215,000	123,247	341,819
Government grants	68,221	400,533
Accrued interest	184,714	997,614
Contributions, net of allowance for doubtful accounts of \$74,000 and \$80,000	12,008,661	15,150,592
Other	81,933	105,415
Inventories	307,734	225,890
Prepaid expenses and other assets	3,592,642	3,585,578
Student loans receivable, net of allowance for doubtful loans of \$708,000 and \$320,000	5,454,952	4,952,689
Investments	163,985,877	213,523,267
Property and equipment, less accumulated depreciation	112,797,660	98,220,910
TOTAL ASSETS	\$ 302,931,450	\$ 361,122,418
LIABILITIES AND NET ASSETS		
LIABILITIES		
Accounts payable	\$ 2,365,702	\$ 3,123,180
Accrued liabilities	5,743,800	5,554,657
Deferred income and deposits	1,013,584	1,154,531
Due to student organizations	165,366	151,622
Line of credit	-	6,399,711
Postretirement obligation	2,305,944	2,180,577
Asset retirement obligation	3,586,003	3,027,796
Annuities payable	1,743,035	1,862,218
Long-term debt	48,886,334	52,784,942
U.S. government grants refundable	1,650,415	1,926,946
Total Liabilities	67,460,183	78,166,180
NET ASSETS		
Unrestricted	28,570,270	82,809,155
Temporarily restricted	72,922,679	71,023,953
Permanently restricted	133,978,318	129,123,130
Total Net Assets	235,471,267	282,956,238
TOTAL LIABILITIES AND NET ASSETS	\$ 302,931,450	\$ 361,122,418

See accompanying notes to financial statements.

LAWRENCE UNIVERSITY OF WISCONSIN

STATEMENT OF ACTIVITIES
Year Ended June 30, 2009

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
OPERATING REVENUES				
Tuition and fees	\$ 47,678,995	\$ -	\$ -	\$ 47,678,995
Room and board	8,717,807	-	-	8,717,807
Less: tuition discounts	(19,196,790)	-	-	(19,196,790)
Net Student Revenue	37,200,012	-	-	37,200,012
Auxiliary enterprises	2,274,170	-	-	2,274,170
Investment return designated for current operations	10,198,387	808,095	143,518	11,150,000
Government grants	978,373	11,000	-	989,373
Contribution revenue	2,999,368	-	-	2,999,368
Other income	651,340	29,615	-	680,955
	<u>54,301,650</u>	<u>848,710</u>	<u>143,518</u>	<u>55,293,878</u>
Net assets released from restrictions	3,612,020	(3,612,020)	-	-
Total Operating Revenues	<u>57,913,670</u>	<u>(2,763,310)</u>	<u>143,518</u>	<u>55,293,878</u>
OPERATING EXPENSES				
Instruction	16,401,516	-	-	16,401,516
Research	635,066	-	-	635,066
Public service	1,762,746	-	-	1,762,746
Academic support	3,782,863	-	-	3,782,863
Student services	4,939,708	-	-	4,939,708
Institutional administration	10,491,447	-	-	10,491,447
Physical plant operations	6,004,264	-	-	6,004,264
Auxiliary enterprises	3,826,050	-	-	3,826,050
Interest expense	2,547,411	-	-	2,547,411
Depreciation	5,489,824	-	-	5,489,824
Total Operating Expenses	<u>55,880,895</u>	<u>-</u>	<u>-</u>	<u>55,880,895</u>
Operating Revenues in Excess of Operating Expenses	<u>2,032,775</u>	<u>(2,763,310)</u>	<u>143,518</u>	<u>(587,017)</u>
NONOPERATING INCOME (LOSS)				
Investment return (deficient) in excess of amounts designated for current operations	(55,776,592)	6,933	(33,537)	(55,803,196)
Contributions for long-term purposes	-	5,001,432	5,301,420	10,302,852
Change in beneficial interests in trusts	-	(338,071)	(460,882)	(798,953)
Change in value of split interest agreements	10,924	(8,258)	(95,331)	(92,665)
Other nonoperating items, net	(505,992)	-	-	(505,992)
Total Nonoperating Income (Loss)	<u>(56,271,660)</u>	<u>4,662,036</u>	<u>4,711,670</u>	<u>(46,897,954)</u>
Change in Net Assets	(54,238,885)	1,898,726	4,855,188	(47,484,971)
NET ASSETS - Beginning of Year	<u>82,809,155</u>	<u>71,023,953</u>	<u>129,123,130</u>	<u>282,956,238</u>
NET ASSETS - END OF YEAR	<u>\$ 28,570,270</u>	<u>\$ 72,922,679</u>	<u>\$ 133,978,318</u>	<u>\$ 235,471,267</u>

See accompanying notes to financial statements.

LAWRENCE UNIVERSITY OF WISCONSIN

STATEMENT OF ACTIVITIES
Year Ended June 30, 2008

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
OPERATING REVENUES				
Tuition and fees	\$ 42,551,584	\$ -	\$ -	\$ 42,551,584
Room and board	7,936,254	-	-	7,936,254
Less: tuition discounts	(16,791,486)	-	-	(16,791,486)
Net Student Revenue	33,696,352	-	-	33,696,352
Auxiliary enterprises	2,220,127	-	-	2,220,127
Investment return designated for current operations	10,163,622	673,324	163,054	11,000,000
Government grants	744,089	-	-	744,089
Contribution revenue	2,445,797	-	-	2,445,797
Other income	1,269,229	-	-	1,269,229
	50,539,216	673,324	163,054	51,375,594
Net assets released from restrictions	3,644,387	(3,644,387)	-	-
Total Operating Revenues	54,183,603	(2,971,063)	163,054	51,375,594
OPERATING EXPENSES				
Instruction	16,792,702	-	-	16,792,702
Research	421,759	-	-	421,759
Public service	1,732,440	-	-	1,732,440
Academic support	3,830,598	-	-	3,830,598
Student services	4,682,399	-	-	4,682,399
Institutional administration	9,268,065	-	-	9,268,065
Physical plant operations	6,375,630	-	-	6,375,630
Auxiliary enterprises	3,744,298	-	-	3,744,298
Interest expense	2,636,698	-	-	2,636,698
Depreciation	5,309,446	-	-	5,309,446
Total Operating Expenses	54,794,035	-	-	54,794,035
Operating Revenues in Excess of Operating Expenses	(610,432)	(2,971,063)	163,054	(3,418,441)
NONOPERATING INCOME (LOSS)				
Investment return (deficient) in excess of amounts designated for current operations	(25,614,553)	40,004	29,574	(25,544,975)
Contributions for long-term purposes	-	6,495,090	11,205,013	17,700,103
Decrease in beneficial interests in trusts	(65,092)	(42,970)	(260,101)	(368,163)
Change in value of split interest agreements	88,340	11,878	29,575	129,793
Other nonoperating items, net	(254,286)	-	66,969	(187,317)
Total Nonoperating Income (Loss)	(25,845,591)	6,504,002	11,071,030	(8,270,559)
Change in Net Assets	(26,456,023)	3,532,939	11,234,084	(11,689,000)
NET ASSETS - Beginning of Year	109,265,178	67,491,014	117,889,046	294,645,238
NET ASSETS - END OF YEAR	\$ 82,809,155	\$ 71,023,953	\$ 129,123,130	\$ 282,956,238

See accompanying notes to financial statements.

LAWRENCE UNIVERSITY OF WISCONSIN

STATEMENTS OF CASH FLOWS Years Ended June 30, 2009 and 2008

	2009	2008
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ (47,484,971)	\$ (11,689,000)
Adjustments to reconcile change in net assets to net cash flows from operating activities:		
Depreciation and amortization	5,671,111	5,346,575
Asset retirement obligation accretion	558,207	(292,391)
Bad debts	251,889	20,000
Realized and unrealized losses on investments	55,025,242	18,542,507
Change in beneficial interest in trusts	798,953	368,163
Change in split interest agreements	92,665	(129,793)
Income reinvested	(3,914,426)	(3,752,399)
Investment return restricted for long-term investment	(109,981)	(192,628)
Contributions restricted for long-term purposes	(9,944,259)	(18,136,400)
Actuarial adjustment of annuities payable	114,228	(11,248)
Loan cancellations and reinstatements	11,346	28,644
Change in certain assets and liabilities:		
Receivables:		
Student accounts	216,963	(251,068)
Government grants	332,312	(239,692)
Accrued interest	812,900	(539,217)
Other	23,482	68,279
Inventories	(81,844)	65,311
Prepaid expenses and other assets	(171,553)	(306,891)
Accounts payable	219,517	(1,243,853)
Accrued liabilities	189,143	1,142,042
Deferred income, deposits and funds held for student organizations	(127,203)	509,644
Postretirement obligation	125,367	103,329
Net Cash Flows from Operating Activities	2,609,088	(10,590,086)
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of investments	(17,599,782)	(120,818,932)
Proceeds from sales of investments	14,757,233	132,668,554
Purchases of property and equipment	(21,044,169)	(15,292,659)
Proceeds from sales of property and equipment	600	-
Disbursements of loans to students	(1,408,502)	(974,489)
Repayments of loans from students	375,613	452,617
Net Cash Flows from Investing Activities	(24,919,007)	(3,964,909)
CASH FLOWS FROM FINANCING ACTIVITIES		
Net proceeds (payments) from line of credit	(6,399,711)	1,031,711
Proceeds from debt	-	9,000,000
Repayment of principal on debt	(3,915,406)	(1,967,868)
Investment return restricted for long-term investment	109,981	192,628
Contributions received restricted for long-term purposes	13,505,962	29,521,937
Changes in U.S. government grants refundable	(7,531)	(44,659)
Payments to annuitants	(275,678)	(260,730)
Net Cash Flows from Financing Activities	3,017,617	37,473,019
Net Change in Cash and Cash Equivalents	(19,292,302)	22,918,024
CASH AND CASH EQUIVALENTS - Beginning of Year	23,618,111	700,087
CASH AND CASH EQUIVALENTS - END OF YEAR	\$ 4,325,809	\$ 23,618,111

See accompanying notes to financial statements.

LAWRENCE UNIVERSITY OF WISCONSIN

NOTES TO FINANCIAL STATEMENTS June 30, 2009 and 2008

NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES

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 colleges and conform to accounting principles generally accepted in the United States of America. The more significant accounting policies are summarized below:

General – These financial statements, which are presented on the accrual basis of accounting, have been prepared to focus on the University as a whole and to present balances and transactions according to the existence or absence of donor-imposed restrictions. This has been accomplished by classification of account balances and transactions into three classes of net assets—permanently restricted, temporarily restricted or unrestricted, as follows:

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 are reported as increases in unrestricted net assets unless use of the related assets is limited by donor-imposed restrictions. Expenses are reported as decreases in unrestricted net assets. Gains and losses on investments and other assets or liabilities are reported as increases or decreases in unrestricted net assets unless their use is restricted by explicit donor stipulation or by law. 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.

Contributions of assets other than cash are recorded at their estimated fair value at the date of gift.

Income and net gains on investments of endowment and similar funds are reported as follows:

- > as increases in permanently restricted net assets if the terms of the gift require that they be added to the principal of a permanent endowment fund;
- > as increases in temporarily restricted net assets if the terms of the gift impose restrictions on the use of the income;
- > as increases in unrestricted net assets in all other cases.

LAWRENCE UNIVERSITY OF WISCONSIN

NOTES TO FINANCIAL STATEMENTS June 30, 2009 and 2008

NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES (cont.)

Losses from investments on permanently restricted endowment funds are reported as reductions in temporarily restricted assets to the extent of prior accumulated earnings reported as such, if any, with the remaining net losses reported as reductions in the unrestricted quasi endowment funds.

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.

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.

Receivables – Student account 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.

LAWRENCE UNIVERSITY OF WISCONSIN

NOTES TO FINANCIAL STATEMENTS

June 30, 2009 and 2008

NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES (cont.)

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, 2009 and 2008.

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, 2009 and 2008, the asset retirement obligations are estimated to be approximately \$3,586,003 and \$3,027,796, respectively.

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.

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 \$751,166 and \$909,242, respectively, during the year ended June 30, 2009 and \$806,681 and \$764,224, respectively during the year ended June 30, 2008.

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.

