

LAWRENCE UNIVERSITY OF WISCONSIN

Appleton, Wisconsin

FINANCIAL STATEMENTS

June 30, 2010 and 2009

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, 2010 and 2009 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, 2010 and 2009 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 1 to the financial statements, Lawrence University of Wisconsin adopted the authoritative guidance on Fair Value Measurements in 2009. As discussed in Note 1 to the financial statements, the State of Wisconsin adopted the *Uniform Prudent Management of Institutional Funds Act* effective August 4, 2009 and as a result, the manner in which the University classifies donor-restricted endowment funds changed beginning with the year ended June 30, 2010.

Baker Tilly Virchow Krause, LLP

Milwaukee, Wisconsin
October 19, 2010

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LAWRENCE UNIVERSITY OF WISCONSIN

STATEMENTS OF FINANCIAL POSITION June 30, 2010 and 2009

	2010	2009
ASSETS		
Cash and cash equivalents	\$ 1,945,681	\$ 4,325,809
Receivables		
Students accounts, net of allowance for doubtful accounts of \$216,000 and \$201,000	179,742	123,247
Government grants	156,979	68,221
Accrued interest	126,506	184,714
Contributions, net of allowance for doubtful accounts of \$60,000 and \$74,000	8,930,280	12,008,661
Other	425,104	81,933
Inventories	260,499	307,734
Prepaid expenses and other assets	3,863,918	3,592,642
Student loans receivable, net of allowance for doubtful loans of \$793,000 and \$708,000	5,834,738	5,454,952
Investments	175,851,467	163,985,877
Property and equipment, less accumulated depreciation	113,193,102	112,797,660
TOTAL ASSETS	\$ 310,768,016	\$ 302,931,450
LIABILITIES AND NET ASSETS		
LIABILITIES		
Accounts payable	\$ 1,589,825	\$ 2,365,702
Accrued liabilities	6,475,031	5,743,800
Deferred income and deposits	1,235,949	1,013,584
Due to student organizations	192,262	165,366
Postretirement obligation	2,325,483	2,305,944
Asset retirement obligation	3,750,426	3,586,003
Annuities payable	1,779,313	1,743,035
Long-term debt	46,072,694	48,886,334
U.S. government grants refundable	1,657,620	1,650,415
Total Liabilities	65,078,603	67,460,183
NET ASSETS		
Unrestricted	15,792,322	28,570,270
Temporarily restricted	93,021,051	72,922,679
Permanently restricted	136,876,040	133,978,318
Total Net Assets	245,689,413	235,471,267
TOTAL LIABILITIES AND NET ASSETS	\$ 310,768,016	\$ 302,931,450

See accompanying notes to financial statements.

LAWRENCE UNIVERSITY OF WISCONSIN

STATEMENT OF ACTIVITIES
Year Ended June 30, 2010

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
OPERATING REVENUES				
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>	-	-
Total Operating Revenues	<u>53,932,901</u>	<u>(3,943,547)</u>	140,895	<u>50,130,249</u>
OPERATING EXPENSES				
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>53,872,397</u>
Operating Revenues in Excess of Operating Expenses	<u>60,504</u>	<u>(3,943,547)</u>	140,895	<u>(3,742,148)</u>
NONOPERATING INCOME (LOSS)				
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>
Change in Net Assets from Nonoperating Income (loss) Before Reclassification of Net Assets	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>	-	-
Change in Net Assets	(12,777,948)	20,098,372	2,897,722	10,218,146
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>
NET ASSETS - END OF YEAR	<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

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
	54,301,650	848,710	143,518	55,293,878
Net assets released from restrictions	3,612,020	(3,612,020)	-	-
Total Operating Revenues	57,913,670	(2,763,310)	143,518	55,293,878
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	55,880,895	-	-	55,880,895
Operating Revenues in Excess of Operating Expenses	2,032,775	(2,763,310)	143,518	(587,017)
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)	(56,271,660)	4,662,036	4,711,670	(46,897,954)
Change in Net Assets	(54,238,885)	1,898,726	4,855,188	(47,484,971)
NET ASSETS - Beginning of Year	82,809,155	71,023,953	129,123,130	282,956,238
NET ASSETS - END OF YEAR	\$ 28,570,270	\$ 72,922,679	\$ 133,978,318	\$ 235,471,267

See accompanying notes to financial statements.

LAWRENCE UNIVERSITY OF WISCONSIN

STATEMENTS OF CASH FLOWS Years Ended June 30, 2010 and 2009

	2010	2009
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ 10,218,146	\$ (47,484,971)
Adjustments to reconcile change in net assets to net cash flows from operating activities:		
Depreciation and amortization	6,080,489	5,671,111
Asset retirement obligation accretion	164,423	558,207
Bad debts	110,447	251,889
Realized and unrealized (gains) losses on investments	(8,982,595)	55,025,242
Change in beneficial interest in trusts	(182,059)	798,953
Change in split interest agreements	97,738	92,665
Income reinvested	(3,582,086)	(3,914,426)
Investment return restricted for long-term investment	(253,767)	(109,981)
Contributions restricted for long-term purposes	(5,782,877)	(9,944,259)
Actuarial adjustment of annuities payable	191,681	114,228
Loan cancellations and reinstatements	24,355	11,346
Change in certain assets and liabilities:		
Receivables:		
Student accounts	(71,942)	216,963
Government grants	(88,758)	332,312
Accrued interest	58,208	812,900
Other	(343,171)	23,482
Inventories	47,235	(81,844)
Prepaid expenses and other assets	(291,607)	(171,553)
Accounts payable	(4,229)	219,517
Accrued liabilities	731,231	189,143
Deferred income, deposits and funds held for student organizations	249,261	(127,203)
Postretirement obligation	19,539	125,367
Net Cash Flows from Operating Activities	(1,590,338)	2,609,088
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of investments	(47,330,024)	(17,599,782)
Proceeds from sales of investments	48,127,686	14,757,233
Purchases of property and equipment	(7,254,092)	(21,044,169)
Proceeds from sales of property and equipment	43,642	600
Disbursements of loans to students	(1,071,926)	(1,408,502)
Repayments of loans from students	572,785	375,613
Net Cash Flows from Investing Activities	(6,911,929)	(24,919,007)
CASH FLOWS FROM FINANCING ACTIVITIES		
Net payments on line of credit	-	(6,399,711)
Repayment of principal on debt	(2,830,438)	(3,915,406)
Investment return restricted for long-term investment	253,767	109,981
Contributions received restricted for long-term purposes	8,979,735	13,505,962
Changes in U.S. government grants refundable	7,205	(7,531)
Payments to annuitants	(288,130)	(275,678)
Net Cash Flows from Financing Activities	6,122,139	3,017,617
Net Change in Cash and Cash Equivalents	(2,380,128)	(19,292,302)
CASH AND CASH EQUIVALENTS - Beginning of Year	4,325,809	23,618,111
CASH AND CASH EQUIVALENTS - END OF YEAR	\$ 1,945,681	\$ 4,325,809

See accompanying notes to financial statements.

LAWRENCE UNIVERSITY OF WISCONSIN

NOTES TO FINANCIAL STATEMENTS June 30, 2010 and 2009

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 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, 2010 and 2009

NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES (cont.)

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, 2010 and 2009

NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES (cont.)

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.

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, 2010 and 2009.

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, 2010 and 2009, the asset retirement obligations are estimated to be approximately \$3,750,426 and \$3,586,003, respectively.

LAWRENCE UNIVERSITY OF WISCONSIN

NOTES TO FINANCIAL STATEMENTS June 30, 2010 and 2009

NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES (cont.)

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 \$718,518 and \$1,424,457, respectively, during the year ended June 30, 2010 and \$751,166 and \$909,242, respectively during the year ended June 30, 2009.

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 2010. Open tax years subject to examination by the U.S. and state taxing authorities are for the years 2006 to 2009, which statutes expire in 2010 to 2013, respectively.

LAWRENCE UNIVERSITY OF WISCONSIN

NOTES TO FINANCIAL STATEMENTS

June 30, 2010 and 2009

NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES (cont.)

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, 2010 and 2009, fund raising expenses totaled \$2,393,367 and \$2,634,533, respectively. Advertising expenses totaled \$139,568 and \$144,129, 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, 2010 and 2009

NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES (cont.)

Recent Accounting Pronouncements – The University adopted the provisions of Financial Accounting Standards Board (FASB) ASC Topics 958-205-45, 958-205-50 and 958-205-55 (formerly 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. The Topics provide 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). The Topics also require enhanced disclosures for all not-for-profit organizations, not just those subject to UPMIFA. The State of Wisconsin adopted UPMIFA effective August 4, 2009. As a result of adopting the provisions of UPMIFA, the University reclassified \$20,908,000 of unrestricted net assets into temporarily restricted net assets. This represented the amount of accumulated net gains in existence at July 1, 2009 that had not yet been appropriated for spending by the University's governing board. See Note 15 for these additional disclosures.

The University adopted the provisions of FASB ASC Topic 820 (formerly FAS No. 157, *Fair Value Measurements and Disclosures*) effective July 1, 2008. The Topic defines fair value, establishes a framework for measuring fair value and requires enhanced disclosures about fair value measures that are required under other accounting pronouncements, but did not change existing guidance as to whether or not a financial instrument is carried at fair value.

The University's adoption of ASC Topic 820 in fiscal year 2009, with respect to financial assets and liabilities measured at fair value on a recurring basis, resulted in increased disclosures in the financial statements about fair value measurements. The University's adoption in fiscal year 2010 of the provisions of this Topic with respect to nonrecurring fair value measurements of nonfinancial assets and liabilities, did not have a material impact on the University's financial statements.

Additionally, from time to time, the University may be required to measure certain assets and liabilities at fair value on a nonrecurring basis in accordance with U.S. generally accepted accounting principles. These adjustments to fair value would usually result from the application of the lower-of-cost-or-market accounting or write-down of individual assets. The University did not measure any assets or liabilities at fair value on a nonrecurring basis during the years ended June 30, 2010 or 2009.

The University also adopted the provisions of FASB ASC Topic 825 (formerly FAS No. 159, *The Fair Value Option for Financial Assets and Liabilities, including an amendment of FASB Statement No. 115*) effective July 1, 2008. ASC Topic 825 provides, among other things, an option to elect fair value as an alternative measurement for selected financial assets and liabilities not previously recorded at fair value. The University did not elect fair value accounting for any assets or liabilities that were not currently required to be measured at fair value.

In September 2009, the FASB issued ASU No. 2009-12, *Investment in Certain Entities That Calculate Net Asset Value per Share* (ASU 2009-12). ASU 2009-12 (formerly FAS No. 157-g) amends former FASB Statement No. 157, *Fair Value Measurements*, adds disclosures, and provides guidance for estimating fair value of investments in investment companies that calculate net asset value per share, allowing the Net Asset Value per Share (NAV) to be used as a practical expedient for fair value where investment companies follow the American Institute of Certified

LAWRENCE UNIVERSITY OF WISCONSIN

NOTES TO FINANCIAL STATEMENTS June 30, 2010 and 2009

NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES (cont.)

Public Accountants (AICPA) Guide in arriving at their reported NAV. The University adopted ASU 2009-12 effective July 1, 2009. See Note 2 for these additional disclosures.

In March 2008, the FASB issued ASC Topic 815-10-50 (formerly FAS No. 161, *Disclosures about Derivative Instruments and Hedging Activities - an amendment of FASB Statement No. 133*). This guidance requires enhanced disclosures to provide additional information regarding the accounting treatment for derivatives and hedging activities, the reasons the University invests using derivative instruments and the effect derivatives have on the University's financial statements. It also requires qualitative disclosures about the objectives and strategies for using derivative instruments, quantitative disclosures about the fair value of, and gains and losses on, derivative instruments, as well as disclosures about credit-risk related contingent features in derivative agreements. The University adopted ASC 815-10-50 effective July 1, 2009. See Note 16 for these additional disclosures.

In January 2010, the FASB issued ASU No. 2010-06, *Improving Disclosures about Fair Value Measurements*. This amends ASC 820 (formerly FAS 157-4) to require additional disclosures. The guidance requires entities to disclose transfers of assets in and out of Levels 1 and 2 of the fair value hierarchy, and the reasons for those transfers. ASU 2010-06 is effective for fiscal year 2011. In addition, the guidance requires separate presentation of purchases and sales in the Level 3 asset reconciliation; which is effective for fiscal year 2012. The adoption of this guidance is not expected to have a material impact on the University's financial statements.

NOTE 2 – FAIR VALUE MEASUREMENTS

Effective July 1, 2008, the University adopted the authoritative guidance, *Fair Value Measurements*, which defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date and establishes a framework for measuring fair value. The guidance establishes a three-level hierarchy for fair value measurements based upon the transparency of inputs to the valuation of the asset or liability as of the measurement date. The guidance expands disclosures about instruments measured at fair value. The guidance applies to other accounting pronouncements that require or permit fair value measurements and, according, the guidance does not require any new fair value measurements.

Subsequent to the issuance of this guidance, the FASB issued additional Financial Staff Positions (FSP) which provides implementation guidance related to fair value measurements. The University has adopted the applicable FSPs as appropriate during fiscal year 2009.

Effective July 1, 2008, the University adopted authoritative guidance, *The Fair Value Option for Financial Assets and Liabilities, including an amendment of FASB Statement No. 115*, which among other things, provides an option to elect fair value as an alternative measurement for selected financial assets and liabilities not previously recorded at fair value. The University did not elect fair value accounting for any asset or liability that is not currently required to be measured at fair value.

LAWRENCE UNIVERSITY OF WISCONSIN

NOTES TO FINANCIAL STATEMENTS June 30, 2010 and 2009

NOTE 2 – FAIR VALUE MEASUREMENTS (cont.)

As noted above, the authoritative guidance establishes a three-level valuation hierarchy for disclosure of fair value measurements. The valuation hierarchy is based upon the transparency of inputs to 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, 2010 and 2009

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, 2010:

	Total	Level 1	Level 2	Level 3
ASSETS				
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>
LIABILITIES				
Interest rate exchange agreements	<u>\$ 1,681,124</u>	<u>\$ -</u>	<u>\$ 1,681,124</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, 2009:

	Total	Level 1	Level 2	Level 3
ASSETS				
Short - term investments	\$ 908,463	\$ -	\$ 908,463	\$ -
Equity securities	106,654,799	106,654,799	-	-
Lawrence Corporation Ownership	975,971	975,971	-	-
Hedge fund	9,116,760	-	9,116,760	-
Fixed income securities	17,760,641	-	17,760,641	-
Private equity funds	6,930,522	-	-	6,930,522
Real estate funds	16,548,042	-	16,548,042	-
Beneficial interest in funds held in trust	5,090,679	-	-	5,090,679
Total	<u>\$ 163,985,877</u>	<u>\$ 107,630,770</u>	<u>\$ 44,333,906</u>	<u>\$ 12,021,201</u>
LIABILITIES				
Interest rate exchange agreements	<u>\$ 908,978</u>	<u>\$ -</u>	<u>\$ 908,978</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, 2010 and 2009

NOTE 2 – FAIR VALUE MEASUREMENTS (cont.)

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 market's 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, 2010 and 2009

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, 2010:

	<u>Balances June 30,</u> <u>2009</u>	<u>Net Realized</u> <u>and Unrealized</u> <u>Gains (Losses)</u> <u>Included in</u> <u>Change in Net</u> <u>Assets</u>	<u>Purchases,</u> <u>Sales,</u> <u>Issuances and</u> <u>Settlement, Net</u>	<u>Net</u> <u>Transfers</u> <u>In (Out) of</u> <u>Level 3</u>	<u>Balances June</u> <u>30, 2010</u>
Assets					
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
Totals	<u>\$ 12,021,201</u>	<u>\$ 659,895</u>	<u>\$ 2,254,429</u>	<u>\$ -</u>	<u>\$ 14,935,525</u>

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

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, 2009:

	<u>Balances June</u> <u>30, 2008</u>	<u>Net Realized</u> <u>and Unrealized</u> <u>Gains (Losses)</u> <u>Included in</u> <u>Change in Net</u> <u>Assets</u>	<u>Purchases,</u> <u>Sales,</u> <u>Issuances and</u> <u>Settlement, Net</u>	<u>Net</u> <u>Transfers</u> <u>In (Out) of</u> <u>Level 3</u>	<u>Balances June</u> <u>30, 2009</u>
Assets					
Private equity funds	\$ 5,542,432	\$ (1,713,957)	\$ 3,102,047	\$ -	\$ 6,930,522
Beneficial interest in funds held in trust	5,996,465	(905,786)	-	-	5,090,679
Totals	<u>\$ 11,538,897</u>	<u>\$ (2,619,743)</u>	<u>\$ 3,102,047</u>	<u>\$ -</u>	<u>\$ 12,021,201</u>

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, 2009

\$ (1,356,586)

LAWRENCE UNIVERSITY OF WISCONSIN

NOTES TO FINANCIAL STATEMENTS June 30, 2010 and 2009

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, 2010	\$9,658,257	\$14,936,192	\$10,089,864
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, 2010	\$12,093,730	\$ -	\$ -
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, 2010 and 2009

NOTE 3 – NET ASSETS

Temporarily restricted net assets are comprised of the following at June 30, 2010 and 2009:

	<u>2010</u>	<u>2009</u>
Restricted for capital additions	\$ 62,331,540	\$ 61,052,793
Restricted for other donor designated purposes	24,578,866	5,953,843
Restricted to future periods	3,334,025	3,275,200
Split-interest agreements, net	<u>2,776,620</u>	<u>2,640,843</u>
Totals	<u>\$ 93,021,051</u>	<u>\$ 72,922,679</u>

Permanently restricted net assets are comprised of the following:

	<u>2010</u>	<u>2009</u>
Endowment investments, the income from which is expendable to support:		
Faculty chairs	\$ 26,396,760	\$ 26,124,739
Scholarships	61,697,019	59,086,144
Other donor imposed restrictions	34,810,921	34,421,305
General operations	<u>5,686,209</u>	<u>5,658,120</u>
	128,590,909	125,290,308
Contributions receivable, net	2,006,621	2,524,087
Split-interest agreements, net	<u>6,278,510</u>	<u>6,163,923</u>
Totals	<u>\$ 136,876,040</u>	<u>\$ 133,978,318</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, 2010 and 2009

NOTE 4 – NET ASSETS RELEASED FROM RESTRICTIONS

Net assets were released from donor restrictions during the years ended June 30, 2010 and 2009 by incurring expenses satisfying the restricted purposes or by occurrence of other events specified by donors.

	<u>2010</u>	<u>2009</u>
Purpose restrictions accomplished:		
Funded endowment tuition discounts	\$ 672,909	\$ 718,525
Lawrence Fellows	632,911	382,802
Posse Program	500,000	-
Other donor imposed restrictions	601,241	706,722
Depreciation based releases	<u>1,154,732</u>	<u>689,475</u>
	3,561,793	2,497,524
Unrestricted pledge payments received	<u>1,143,240</u>	<u>1,114,496</u>
Totals	<u>\$ 4,705,033</u>	<u>\$ 3,612,020</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, 2010 and 2009:

	<u>2010</u>	<u>2009</u>
Temporarily restricted - operations	\$ 4,298,022	\$ 4,735,192
Temporarily restricted - capital projects	2,752,227	5,280,987
Permanently restricted - endowment	<u>2,205,269</u>	<u>2,577,268</u>
Gross unconditional promises to give	9,255,518	12,593,447
Less:		
Discount to net present value	(265,405)	(511,038)
Allowance for uncollectible promises	<u>(59,833)</u>	<u>(73,748)</u>
Net Unconditional Promises to Give	<u>\$ 8,930,280</u>	<u>\$ 12,008,661</u>

At June 30, 2010, contributions receivable of \$5,226,804 are due in less than one year and \$4,028,714 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, 2010 and 2009

NOTE 6 – STUDENT LOANS RECEIVABLE

Student loans are comprised of the following as of June 30, 2010 and 2009:

	<u>2010</u>	<u>2009</u>
Student loans:		
Lawrence University Loans	\$ 1,008,789	\$ 762,514
Perkins Student Loans	<u>5,618,473</u>	<u>5,400,438</u>
	6,627,262	6,162,952
Less: Allowance for uncollectible accounts	<u>(792,524)</u>	<u>(708,000)</u>
 Student Loans Receivable, Net	 <u>\$ 5,834,738</u>	 <u>\$ 5,454,952</u>

NOTE 7 – INVESTMENTS

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

	<u>2010</u>	<u>2009</u>
Cash and short-term investments	\$ 497,600	\$ 497,600
Certificates of deposits	412,414	410,863
Fixed income securities	23,288,762	17,760,641
Common stocks	110,892,762	106,654,749
Lawrence Corporation Ownership	798,348	975,971
Alternative investments	34,684,313	32,595,374
Beneficial interests in trusts	<u>5,277,268</u>	<u>5,090,679</u>
 Total Investments	 <u>\$ 175,851,467</u>	 <u>\$ 163,985,877</u>

LAWRENCE UNIVERSITY OF WISCONSIN

NOTES TO FINANCIAL STATEMENTS

June 30, 2010 and 2009

NOTE 7 – INVESTMENTS (cont.)

Investment returns are comprised of the following for the years ended June 30, 2010 and 2009:

	2010			Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	
Dividends and interest	\$ 3,582,086	\$ -	\$ -	\$ 3,582,086
Net realized and unrealized gains	13,600,113	721,629	253,767	14,575,509
Return on investments	17,182,199	721,629	253,767	18,157,595
Investment return designated for current operations	(8,343,527)	(690,578)	(140,895)	(9,175,000)
Investment return in excess of amounts designated for current operations	\$ 8,838,672	\$ 31,051	\$ 112,872	\$ 8,982,595
	2009			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Dividends and interest	\$ 3,914,426	\$ -	\$ -	\$ 3,914,426
Net realized and unrealized gains (losses)	(49,492,631)	815,028	109,981	(48,567,622)
Return on investments	(45,578,205)	815,028	109,981	(44,653,196)
Investment return designated for current operations	(10,198,387)	(808,095)	(143,518)	(11,150,000)
Investment return (deficient) in excess of amounts designated for current operations	\$ (55,776,592)	\$ 6,933	\$ (33,537)	\$ (55,803,196)

Investment fees of \$716,000 and \$788,000 for 2010 and 2009, respectively are included in the above investment income.

LAWRENCE UNIVERSITY OF WISCONSIN

NOTES TO FINANCIAL STATEMENTS June 30, 2010 and 2009

NOTE 8 – PROPERTY AND EQUIPMENT

Property and equipment consists of the following at June 30, 2010 and 2009:

	<u>2010</u>	<u>2009</u>
Land and land improvements	\$ 7,621,856	\$ 6,477,987
Buildings	155,290,203	123,082,863
Equipment	51,779,263	48,755,783
Construction in progress	<u>379,530</u>	<u>30,690,725</u>
	215,070,852	209,007,358
Less: Accumulated depreciation	<u>(101,877,750)</u>	<u>(96,209,698)</u>
Totals	<u>\$ 113,193,102</u>	<u>\$ 112,797,660</u>

NOTE 9 – LINE OF CREDIT

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, 2010, 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, 2010.

LAWRENCE UNIVERSITY OF WISCONSIN

NOTES TO FINANCIAL STATEMENTS June 30, 2010 and 2009

NOTE 10 – LONG-TERM DEBT

The University has the following long-term debt outstanding at June 30, 2010 and 2009:

Wisconsin Health and Educational Facilities Authority, Revenue Bonds	2010	2009
<p>Series 2009 - variable rate (currently 0.32%). 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. At June 30, 2010 and 2009, the University recorded a liability of \$1,681,124 and \$908,978, respectively, in accrued liabilities on the statements of financial position relating to the interest rate exchange agreement. During the years ended June 30, 2010 and 2009, the University included losses of \$772,146 and \$505,992, respectively, in nonoperating sections of the statements of activities. The interest rate exchange agreements have the following rates and maturities:</p> <ul style="list-style-type: none"> \$3 million maturing in 2012 at 2.18%, \$5 million maturing in 2014 at 2.79%, \$7 million maturing in 2016 at 3.04%, \$6 million maturing in 2017 at 4.3%. 	<p>\$ 28,705,000</p>	<p>\$ 29,420,000</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>1,676,899</p>	<p>2,461,899</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>4,157,431</p>	<p>5,436,869</p>

LAWRENCE UNIVERSITY OF WISCONSIN

NOTES TO FINANCIAL STATEMENTS

June 30, 2010 and 2009

NOTE 10 – LONG-TERM DEBT (cont.)

	2010	2009
U.S. Department of Housing and Urban Development		
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	\$ 62,000	\$ 92,000
Series 1966E, 3% fixed rate, maturing on April 1, 2013	44,000	65,000
	46,390,330	49,220,768
Less: Bond discounts	(317,636)	(334,434)
Totals	\$ 46,072,694	\$ 48,886,334

The Series 2009 Revenue Bonds have restrictive financial covenants. The University violated the ratio of funded debt to the sum of fund debt and unrestricted net assets. The University obtained a waiver associated with this covenant violation as of June 30, 2010.

Maturities of long-term debt are as follows:

2011	\$ 2,963,206
2012	3,117,599
2013	2,287,626
2014	2,765,000
2015	975,000
Thereafter	34,281,899
	\$ 46,390,330

For the years ended June 30, 2010 and 2009, interest expense on long-term debt approximated \$2,131,000 and \$2,054,000, respectively. In 2009, interest costs of \$88,751 were capitalized related to capital projects. There was no capitalized interest in 2010.

LAWRENCE UNIVERSITY OF WISCONSIN

NOTES TO FINANCIAL STATEMENTS June 30, 2010 and 2009

NOTE 11 – EXECUTIVE RETIREMENT PLAN

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 2010 and 2009. The present value of these payments at June 30, 2010 and 2009 was \$766,014 and \$810,326, respectively, and are included in accrued liabilities on the statements of financial position. Payments during the years ended June 30, 2010 and 2009 were \$88,880, and retirement expense was \$44,568 and \$46,878, respectively.

NOTE 12 – POSTRETIREMENT HEALTH AND LIFE BENEFITS

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, 2010 and 2009:

	<u>2010</u>	<u>2009</u>
Accrued postretirement benefit cost at July 1	\$ (2,305,944)	\$ (2,180,577)
Net periodic postretirement benefit cost	(164,689)	(242,089)
Actual retiree benefit payments	<u>145,150</u>	<u>116,722</u>
Accrued postretirement benefit cost at June 30	<u>\$ (2,325,483)</u>	<u>\$ (2,305,944)</u>

Benefits expected to be paid for each of the five years subsequent to June 30, 2010 are estimated to be \$100,990, \$87,530, \$107,020, \$121,540 and \$134,110, respectively. Benefits expected to be paid 2016 through 2020 are estimated to be \$699,810. Contributions from the University expected to be paid to the plan for the year ended June 30, 2011 are estimated to be \$223,870.

LAWRENCE UNIVERSITY OF WISCONSIN

NOTES TO FINANCIAL STATEMENTS June 30, 2010 and 2009

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:

	2010	2009
Accumulated postretirement benefit obligation (APBO):		
(a) Retirees	\$ (648,296)	\$ (701,397)
(b) Active employees eligible to retire	(598,903)	(454,399)
(c) Active employees not eligible to retire	(764,451)	(580,763)
(d) Total APBO	(2,011,650)	(1,736,559)
 Fair value of plan assets	 -	 -
 Unfunded status	 (2,011,650)	 (1,736,559)
 Unrecognized prior service cost	 4,578	 7,832
 Unrecognized net gain	 (318,411)	 (577,217)
 Accrued Postretirement Benefit Cost	 \$ (2,325,483)	 \$ (2,305,944)

The June 30, 2010 APBO is based on June 30, 2010 participant data. For 2010 and 2009, the weighted average discount rate used in determining the actuarial present value of the projected benefit obligation was 5.25% and 6.00%, respectively. The assumed health care trend rate was 12% for fiscal year 2010 and gradually declines to 6% in the year 2022.

The effect of a 1.0% increase in each future health care trend rate would change the APBO by approximately \$250,500 or 12.5%. The effect of a 1.0% decrease in each future health care trend rate would change the APBO by approximately (\$209,380) or (10.4%).

LAWRENCE UNIVERSITY OF WISCONSIN

NOTES TO FINANCIAL STATEMENTS June 30, 2010 and 2009

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

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

	<u>2010</u>	<u>2009</u>
Service cost	\$ 86,233	\$ 134,012
Interest cost	96,465	120,598
Net amortization and deferrals	<u>(18,009)</u>	<u>(12,521)</u>
 Net Periodic Postretirement Benefit Cost	 <u>\$ 164,689</u>	 <u>\$ 242,089</u>

The above 2010 service cost and interest cost are based on June 30, 2010 participant data. For 2010 and 2009, the weighted average discount rate used in determining the actuarial present value of the projected benefit obligation was 5.25% and 6.00%, respectively. The assumed health care trend rate was 12% for fiscal year 2010 and gradually declines to 6% in the year 2022.

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 \$30,230 or 18.4%. 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 (\$24,660) or (15.0%).

NOTE 13 – RETIREMENT PLAN

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, 2010 and 2009 was approximately \$1,023,000 and \$1,476,000, 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, 2010 and 2009

NOTE 14 – DEFERRED GIFT AGREEMENTS

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, 2010 and 2009, the University received gift income of approximately \$64,000 and \$19,000, respectively, relating to deferred gift agreements. Total assets held by the University under deferred gift agreements and liabilities related to these agreements totaled approximately \$12,193,000 and \$1,779,000, respectively, at June 30, 2010 and \$11,576,000 and \$1,745,000, respectively, at June 30, 2009.

NOTE 15 – ENDOWMENT

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, 2010 and 2009

NOTE 15 – ENDOWMENT (cont.)

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
Total Endowment Net Assets	\$ 30,758,774	\$ 20,907,906	\$ 128,590,909	\$ 180,257,589

Endowment net asset composition by type of fund consists of the following as of June 30, 2009:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds	\$ (6,504,463)	\$ -	\$ 125,290,308	\$ 118,785,845
Board-designated endowment funds	49,711,435	-	-	49,711,435
Total Endowment Net Assets	\$ 43,206,972	\$ -	\$ 125,290,308	\$ 168,497,280

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	741,189	14,652,916
Total investment return	16,803,235	690,578	741,189	18,235,002
Contributions	-	-	2,700,307	2,700,307
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	\$ 30,758,774	\$ 20,907,906	\$ 128,590,909	\$ 180,257,589

LAWRENCE UNIVERSITY OF WISCONSIN

NOTES TO FINANCIAL STATEMENTS June 30, 2010 and 2009

NOTE 15 – ENDOWMENT (cont.)

Changes in endowment net assets for the year ended June 30, 2009 are as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, June 30, 2008	\$ 98,473,951	\$ -	\$ 117,991,695	\$ 216,465,646
Investment return:				
Investment income	3,914,426	-	-	3,914,426
Net appreciation (depreciation) - realized and unrealized	(48,983,018)	808,095	2,140,711	(46,034,212)
Total investment return	(45,068,592)	808,095	2,140,711	(42,119,786)
Contributions	-	-	5,301,420	5,301,420
Appropriation of endowment assets for expenditure	(10,198,387)	(808,095)	(143,518)	(11,150,000)
Endowment Net Assets, June 30, 2009	<u>\$ 43,206,972</u>	<u>\$ -</u>	<u>\$ 125,290,308</u>	<u>\$ 168,497,280</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 \$15,015,770 and \$16,561,882 as of June 30, 2010 and 2009, 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, 2010 and 2009

NOTE 15 – ENDOWMENT (cont.)

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, 2010 and 2009 the University has commitments to make further investments in several of its alternative investments totaling approximately \$12,094,000 and \$15,770,000, 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 2010 and 2009, the Board of Trustees approved the endowment payout of \$9,175,000 and \$11,150,000, 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. As a result of this interpretation, the University has not changed the way permanently restricted net assets are classified. 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, 2010 and 2009

NOTE 16 – DERIVATIVE INSTRUMENTS

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, 2010 and 2009

NOTE 16 – DERIVATIVE INSTRUMENTS (cont.)

In fiscal 2010, the University paid \$373,316 more than it received in interest under the swap agreements. In fiscal 2009, the University paid \$79,401 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, 2010:

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, 2010 and 2009 as follows:

Derivatives Not Designated as Hedging Instruments	Statement of Financial Position Location	Liabilities Derivative	
		Fair Value	
		2010	2009
Interest rate swap	Accrued Liabilities	\$ 1,681,124	\$ 908,978

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	
		2010	
		2010	2009
Interest rate swap	Other Nonoperating Items	\$ (772,146)	\$ (505,992)

LAWRENCE UNIVERSITY OF WISCONSIN

NOTES TO FINANCIAL STATEMENTS

June 30, 2010 and 2009

NOTE 17 – FUNCTIONAL CLASSIFICATION OF EXPENSES

Expenses by function for the years ended June 30, 2010 and 2009 were as follows:

	<u>2010</u>	<u>2009</u>
Program Expenses		
Instruction	\$ 22,281,638	\$ 21,823,539
Research	947,229	635,066
Public service	1,856,938	1,909,314
Academic support	4,523,775	4,645,558
Student services	6,575,388	6,479,686
Auxiliary expenses	<u>5,848,050</u>	<u>9,150,293</u>
	42,033,018	44,643,456
Support Expenses		
Institutional administration	<u>11,839,379</u>	<u>11,237,439</u>
Totals	<u>\$ 53,872,397</u>	<u>\$ 55,880,895</u>

NOTE 18 – SUPPLEMENTAL CASH FLOW INFORMATION

	<u>2010</u>	<u>2009</u>
Cash paid for interest	\$ 2,132,491	\$ 2,259,960
Property and equipment financed with accounts payable	460,947	1,232,595
Debt proceeds deposited directly to escrow accounts to pay down debt	-	29,568,960

NOTE 19 – RELATED PARTY

The University has an investment of approximately \$798,000 and \$976,000 at June 30, 2010 and 2009, respectively, in United Educators, a professional liability insurance company. This investment is being liquidated over the next 6 years. In addition, the University paid premiums to United Educators of \$69,573 during each of the years ended June 30, 2010 and 2009 for Educators Legal Liability and Employee Benefits Liability insurance.

The University received \$3.0 million and \$4.6 million of gifts and contributions during fiscal years 2010 and 2009, respectively, from board of trustee members and employees. As of June 30, 2010 and 2009, \$3.8 million and \$4.8 million, respectively, were recorded as receivables.

LAWRENCE UNIVERSITY OF WISCONSIN

NOTES TO FINANCIAL STATEMENTS

June 30, 2010 and 2009

NOTE 20 – CONCENTRATIONS OF CREDIT RISK

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.

NOTE 21 – LETTER OF CREDIT

In 2009, the University issued \$29.81 million of Variable Rate Demand Revenue Refunding Bonds. As a result, the University has a bank letter of credit which expires on February 26, 2012 that was issued to pay principal and accrued interest on this bond issue.

NOTE 22 – SUBSEQUENT EVENTS

The University has evaluated subsequent events through October 19, 2010, which is the date that the financial statements were approved and available to be issued.

On July 28, 2010, there was an additional \$1,800,000 of principal paid on the current outstanding balance of the 2007 Wisconsin Health and Educational Facilities Authority Revenue Bonds. This payment was made with current cash on hand.