LAWRENCE UNIVERSITY OF WISCONSIN

Appleton, Wisconsin

FINANCIAL STATEMENTS

Including Independent Auditors' Report

As of and for the Years Ended June 30, 2017 and 2016

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 financial statements of Lawrence University of Wisconsin (the "University"), which comprise the statements of financial position as of June 30, 2017 and 2016, and the related statements of activities and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Lawrence University of Wisconsin as of June 30, 2017 and 2016, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Baker Tilly Virchow Krause, LLP

Milwaukee, Wisconsin
October 26, 2017

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LAWRENCE UNIVERSITY OF WISCONSIN

STATEMENTS OF FINANCIAL POSITION
As of June 30, 2017 and 2016

	2017	2016
ASSETS		
Cash and cash equivalents	$ 6,560,152	$ 7,733,979
Restricted cash and cash equivalents	726,882	3,655,395
Receivables:		
Contributions, net of allowance for doubtful accounts of $62,615 and $65,614	20,682,299	17,691,493
Student loans receivable, net of allowance for doubtful loans of $844,000 and $908,000	5,360,860	5,479,453
Students accounts, net of allowance for doubtful accounts of $130,000 and $67,000	279,478	265,344
Government grants	136,415	114,144
Accrued interest	132,338	126,962
Other	65,878	124,473
Inventories	242,518	227,786
Cash surrender value of life insurance and other assets	1,357,473	3,455,810
Investments	320,104,691	285,151,509
Property and equipment, less accumulated depreciation	110,679,310	111,585,593
TOTAL ASSETS	$ 466,328,294	$ 435,611,941
LIABILITIES AND NET ASSETS		
LIABILITIES		
Accounts payable	$ 1,051,474	$ 1,453,991
Accrued liabilities	6,294,348	10,218,547
Deferred income and deposits	1,038,071	1,124,422
Due to student organizations	318,738	384,190
Postretirement obligation	3,162,189	2,944,144
Asset retirement obligation	3,535,002	3,388,642
Annuities payable	1,894,532	1,973,731
Long-term debt, net of unamortized discounts and issue costs	42,807,773	43,722,236
U.S. government grants refundable	1,771,969	1,762,594
Total Liabilities	61,874,096	66,972,497
NET ASSETS		
Unrestricted	101,310,467	95,861,100
Temporarily restricted	76,506,491	58,155,342
Permanently restricted	226,637,240	214,623,002
Total Net Assets	404,454,198	368,639,444
TOTAL LIABILITIES AND NET ASSETS	$ 466,328,294	$ 435,611,941

See accompanying notes to financial statements.

LAWRENCE UNIVERSITY OF WISCONSIN

STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2017

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
OPERATING REVENUES				
Tuition and fees	$ 65,897,978	$ -	$ -	$ 65,897,978
Room and board	13,074,189	-	-	13,074,189
Less: tuition discounts	(36,481,513)	-	-	(36,481,513)
Net Student Revenue	42,490,654	-	-	42,490,654
Auxiliary enterprises	1,820,041	-	-	1,820,041
Investment return designated for current operations	2,320,614	10,500,287	197,900	13,018,801
Government grants	700,846	-	-	700,846
Contribution revenue	4,566,469	-	-	4,566,469
Other income	405,065	296,606	-	701,671
	52,303,689	10,796,893	197,900	63,298,482
Net assets released from restrictions	14,075,422	(14,075,422)	-	-
Total Operating Revenues	66,379,111	(3,278,529)	197,900	63,298,482
OPERATING EXPENSES				
Instruction	20,863,338	-	-	20,863,338
Research	520,361	-	-	520,361
Public service	1,362,295	-	-	1,362,295
Academic support	4,514,852	-	-	4,514,852
Student services	7,122,978	-	-	7,122,978
Institutional administration	14,710,353	-	-	14,710,353
Physical plant operations	6,255,441	-	-	6,255,441
Auxiliary enterprises	4,995,518	-	-	4,995,518
Interest expense	1,325,617	-	-	1,325,617
Depreciation	7,238,907	-	-	7,238,907
Total Operating Expenses	68,909,660	-	-	68,909,660
Operating Revenues in Excess (Deficit) of Operating Expenses	(2,530,549)	(3,278,529)	197,900	(5,611,178)
NONOPERATING INCOME				
Investment return in excess of amounts designated for current operations	6,382,306	15,847,117	110,760	22,340,183
Contributions for long-term purposes	-	5,735,060	11,950,915	17,685,975
Change in beneficial interests in trusts	-	33,606	45,078	78,684
Change in value of split interest agreements	10,888	39,266	(148,547)	(98,393)
Other nonoperating items, net	1,586,722	(25,371)	(141,868)	1,419,483
Total Nonoperating Income	7,979,916	21,629,678	11,816,338	41,425,932
Change in Net Assets	5,449,367	18,351,149	12,014,238	35,814,754
NET ASSETS - Beginning of Year	95,861,100	58,155,342	214,623,002	368,639,444
NET ASSETS - END OF YEAR	$ 101,310,467	$ 76,506,491	$ 226,637,240	$ 404,454,198

See accompanying notes to financial statements.

LAWRENCE UNIVERSITY OF WISCONSIN

STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2016

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
OPERATING REVENUES				
Tuition and fees	$ 65,875,562	$ -	$ -	$ 65,875,562
Room and board	13,039,985	-	-	13,039,985
Less: tuition discounts	(35,425,085)	-	-	(35,425,085)
Net Student Revenue	43,490,462	-	-	43,490,462
Auxiliary enterprises	1,930,614	-	-	1,930,614
Investment return designated for current operations	2,312,420	10,024,255	200,738	12,537,413
Government grants	624,275	9,585	-	633,860
Contribution revenue	4,732,680	-	-	4,732,680
Other income	426,451	76,262	-	502,713
	53,516,902	10,110,102	200,738	63,827,742
Net assets released from restrictions	17,556,824	(17,549,831)	(6,993)	-
Total Operating Revenues	71,073,726	(7,439,729)	193,745	63,827,742
OPERATING EXPENSES				
Instruction	19,622,235	-	-	19,622,235
Research	725,678	-	-	725,678
Public service	1,370,832	-	-	1,370,832
Academic support	4,435,395	-	-	4,435,395
Student services	6,596,302	-	-	6,596,302
Institutional administration	14,825,059	-	-	14,825,059
Physical plant operations	6,338,091	-	-	6,338,091
Auxiliary enterprises	5,218,632	-	-	5,218,632
Interest expense	1,321,564	-	-	1,321,564
Depreciation	7,130,875	-	-	7,130,875
Total Operating Expenses	67,584,663	-	-	67,584,663
Operating Revenues in Excess (Deficit) of Operating Expenses	3,489,063	(7,439,729)	193,745	(3,756,921)
NONOPERATING INCOME (LOSS)				
Investment return (deficit) in excess of amounts designated for current operations	(4,066,140)	(7,219,289)	70,246	(11,215,183)
Contributions for long-term purposes	-	4,076,084	14,645,175	18,721,259
Change in beneficial interests in trusts	-	7,439	(49,367)	(41,928)
Change in value of split interest agreements	(46,791)	3,780	569,471	526,460
Other nonoperating items, net	(1,227,688)	(1,200)	(1,240,854)	(2,469,742)
Total Nonoperating Income (Loss)	(5,340,619)	(3,133,186)	13,994,671	5,520,866
Change in Net Assets	(1,851,556)	(10,572,915)	14,188,416	1,763,945
NET ASSETS - Beginning of Year	97,712,656	68,728,257	200,434,586	366,875,499
NET ASSETS - END OF YEAR	$ 95,861,100	$ 58,155,342	$ 214,623,002	$ 368,639,444

See accompanying notes to financial statements.

LAWRENCE UNIVERSITY OF WISCONSIN

STATEMENTS OF CASH FLOWS
For the Years Ended June 30, 2017 and 2016

	2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	$ 35,814,754	$ 1,763,945
Adjustments to reconcile change in net assets to net cash flows from operating activities:		
Depreciation and amortization	7,269,445	7,161,413
(Gain)/loss on sale of fixed assets	60,000	(41,400)
Asset retirement obligation accretion/abatement	147,239	(31,740)
Bad debts	115,611	(10,872)
Noncash contributions	(235,000)	(225,000)
Realized and unrealized (gains) losses on investments	(34,631,850)	237,739
Change in beneficial interest in trusts	(95,736)	61,247
Change in split interest agreements	2,063,011	(539,887)
Income reinvested	(879,487)	(1,681,602)
Investment return restricted for long-term investment	(308,660)	(270,984)
Contributions restricted for long-term purposes	(17,478,651)	(18,889,188)
Actuarial adjustment of annuities payable	113,546	(60,594)
Loan cancellations and reinstatements	33,797	31,069
Change in certain assets and liabilities:		
Receivables:		
Student accounts	(89,631)	(112,093)
Contributions	(151,790)	133,858
Government grants	(22,271)	50,265
Accrued interest	(5,376)	(6,437)
Other	(6,857)	57,256
Inventories	(14,732)	23,699
Cash surrender value of life insurance and other assets	35,326	(8,301)
Accounts payable	(609,536)	(70,565)
Accrued liabilities	(3,924,199)	2,832,361
Deferred income, deposits and funds held for student organizations	(86,351)	111,616
Postretirement obligation	218,045	89,706
Net Cash Flows from Operating Activities	(12,669,353)	(9,394,489)
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of investments	(21,782,417)	(30,463,645)
Proceeds from sales of investments	22,436,307	18,755,998
Purchases of property and equipment	(6,116,484)	(11,068,918)
Proceeds from sale of fixed assets	165,000	55,000
Disbursements of loans to students	(795,356)	(834,426)
Repayments of loans from students	840,038	863,515
Net Cash Flows from Investing Activities	(5,252,912)	(22,692,476)
CASH FLOWS FROM FINANCING ACTIVITIES		
Payments on line of credit	(13,703,212)	(24,385,562)
Proceeds on line of credit	13,703,212	24,385,562
Proceeds from bonds	-	10,000,000
Repayment of principal on debt	(945,000)	(925,000)
Investment return restricted for long-term investment	308,660	270,984
Contributions received restricted for long-term purposes	14,672,215	22,422,207
Changes in U.S. government grants refundable	9,375	13,326
Payments to annuitants	(225,325)	(254,502)
Net Cash Flows from Financing Activities	13,819,925	31,527,015
Net Change in Cash and Cash Equivalents	(4,102,340)	(559,950)
CASH AND CASH EQUIVALENTS - Beginning of Year	11,389,374	11,949,324
CASH AND CASH EQUIVALENTS - END OF YEAR	$ 7,287,034	$ 11,389,374

See accompanying notes to financial statements.

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 1,500 students located in Appleton, Wisconsin. The University, through its undergraduate University 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. For restrictions that are met in the same year as received contributions 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. 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 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.

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 when the property or equipment purchased with the restricted gifts is placed in service.

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.

Gains and losses on investments of endowment funds created by a board designation of unrestricted funds are included in changes 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 non-operating 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 assets are capitalized.

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.

NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES (cont.)

Cash and Cash Equivalents and Restricted 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. Certain cash held by the University is restricted for the Federal Perkins Loan Fund and in 2016, included $2,857,285 of bond proceeds that were not spent on construction projects by year-end.

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

After a student is no longer enrolled in an institution of higher education and after a grace period, interest is charged on Perkins student loans receivable and is recognized as it is charged. Perkins student loans receivable are considered to be past due if a payment is not made within 30 days of the payment due date, at which time, late fees are charged and recognized. The Perkins Loan Program receivables may be assigned to the U.S. Department of Education. Students may be granted a deferment, forbearance or cancellation of their student loan receivable based on eligibility requirements defined by the U.S. Department of Education.

Inventories – Inventories are valued at the lower of cost or market and consist primarily of janitorial, logo store merchandise and art 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/library books 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 $8,450,000 and $7,900,000 as of June 30, 2017 and 2016, respectively.

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.

NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES (cont.)

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. Changes in the accrual for asset retirement obligations, which is included in the liabilities on the statement of financial position, during the years ended June 30, 2017 and 2016 are as follows:

	2017	2016
Balance, Beginning of the year	$ 3,388,642	$ 3,421,400
Accretion expense	155,320	40,422
Reduction in liability due to renovations	(8,960)	(73,180)
Balance, End of the year	$ 3,535,002	$ 3,388,642

The estimate of the losses that are probable for asbestos removal was calculated using the expected cash flow approach and based on an inventory of the 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.

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 $549,565 and $1,630,879, respectively, during the year ended June 30, 2017 and $598,641 and $1,505,000, respectively, during the year ended June 30, 2016.

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.

NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES (cont.)

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. Accordingly, the University is not subject to Federal income taxes except to the extent it derives income from certain activities not substantially related to its tax exempt purpose (unrelated trade or business activities).

The University follows the accounting standards for contingencies in evaluating uncertain tax positions. This guidance prescribes recognition threshold principles for the financial statement recognition of tax positions taken or expected to be taken on a tax return that are not certain to be realized. No liability has been recognized by the University for uncertain tax positions as of June 30, 2017 and 2016. The University's tax returns are subject to review and examination by federal and state authorities.

Use of Estimates – The preparation of financial statements in conformity with 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 in interest expense.

NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES (cont.)

Fund Raising and Advertising Expenses – For the years ended June 30, 2017 and 2016, fund raising expenses totaled $3,050,818 and $2,980,011, respectively. Advertising expenses totaled $204,856 and $237,037, 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 18.

NOTE 2 – FAIR VALUE MEASUREMENTS

In January 2016, FASB issued ASU 2016-01, *Financial Instruments - Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities.* This new guidance is intended to improve the recognition and measurement of financial instruments and eliminates the requirement to disclose the fair value of financial instruments measured at amortized cost for Universities that are not public business entities. For non-public business entities, ASU 2016-01 is effective for fiscal years beginning after December 15, 2018 (fiscal year 2020), with early adoption permitted for fiscal years beginning after December 15, 2017. However, the new guidance permits entities that are not public business entities to adopt upon issuance the provision that eliminates the requirement to disclose the fair value of financial instruments measured at amortized cost. The University elected to adopt that provision during the year ended June 30, 2017. The adoption of the standard did not have an impact on the University's statement of financial position or results of operations.

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

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

NOTE 2 – FAIR VALUE MEASUREMENTS (cont.)

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

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

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

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. 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.

In May 2015, FASB issued ASU 2015-07, *Disclosures for Investments in Certain Entities That Calculate Net Asset Value per Share (or Its Equivalent)*. Under the new guidance, investments measured at net asset value, as a practical expedient for fair value, are excluded from the fair value hierarchy disclosure requirements. ASU 2015-07 is effective for fiscal years beginning after December 15, 2016 (fiscal year 2018) with early adoption permitted. The University elected to adopt the guidance in fiscal 2017. For non-public business entities, ASU 2015-07 is to be applied retrospectively, and as a result, the guidance was retrospectively applied to fiscal year 2016. The adoption of the standard did not have a significant impact on the University's statement of financial position or results of operations.

Except for the adoption of ASU 2015-07, there have been no changes in the techniques and inputs used at June 30, 2017 and 2016.

NOTE 2 – FAIR VALUE MEASUREMENTS (cont.)

The following table summarized financial instruments measured at fair value on a recurring basis by the fair value hierarchy as of June 30, 2017:

	Total	Level 1	Level 2	Level 3
ASSETS				
Short-term investments	$ 424,421	$ 424,421	$ -	$ -
Equity securities				
Domestic	88,795,501	88,795,501	-	-
Foreign	86,719,053	86,719,053	-	-
Fixed income securities				
Domestic	32,731,615	24,329,283	8,402,332	-
Foreign	711,043	-	711,043	-
Beneficial interest in funds held in trust	2,817,058	-	-	2,817,058
Subtotal assets by valuation hierarchy	212,198,691	$ 200,268,258	$ 9,113,375	$ 2,817,058
Investments measured using NAV				
Alternative investments				
Hedge fund	50,274,615			
Private equity funds	30,899,772			
Real estate funds	26,731,613			
Subtotal assets by NAV	107,906,000			
Total assets at fair value	$ 320,104,691			
LIABILITIES				
Interest rate exchange agreements	$ 702,528	$ -	$ 702,528	$ -

NOTE 2 – FAIR VALUE MEASUREMENTS (cont.)

The following table presents financial instruments that are measured at fair value on a recurring basis by he fair value hierarchy as of June 30, 2016:

	Total	Level 1	Level 2	Level 3
ASSETS				
Short-term investments	$ 422,106	$ 422,106	$ -	$ -
Equity securities				
Domestic	75,418,071	75,418,071	-	-
Foreign	71,635,218	71,635,218	-	-
Fixed income securities				
Domestic	32,357,945	24,471,032	7,886,913	-
Foreign	673,466	-	673,466	-
Beneficial interest in funds held in trust	2,738,373	-	-	2,738,373
Subtotal assets by valuation hierarchy	183,245,179	$ 171,946,427	$ 8,560,379	$ 2,738,373
Investments measured using NAV				
Alternative investments				
Hedge fund	49,267,363			
Private equity funds	26,010,640			
Real estate funds	26,628,327			
Subtotal assets by NAV	101,906,330			
Total assets at fair value	$ 285,151,509			
LIABILITIES				
Interest rate exchange agreements	$ 2,198,499	$ -	$ 2,198,499	$ -

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 of a 12 month certificate of deposit is classified as Level 1 as these funds are not traded on a regular basis.

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 prices are readily available.

Fixed income securities – Investments in fixed income securities are comprised of government and municipal bonds and notes, corporate bonds and assets, mortgage backed securities, and floating rate bank loans. The majority of the fixed income securities are classified as Level 1 as the underlying securities are traded in an active market for which closing prices are readily available. Some of the fixed income securities are Level 2 since fair value is 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.

NOTE 2 – FAIR VALUE MEASUREMENTS (cont.)

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.

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

	Balances June 30, 2016	Net Realized and Unrealized Gains (Losses) Included in Change in Net Assets	Purchases	Sales	Net transfers in (out) of Level 3	Balances June 30, 2017
Beneficial interest in funds in held trust	$ 2,738,373	$ 78,685	$ -	$ -	$ -	$ 2,817,058
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, 2017:						$ 78,685

The following table presents a reconciliation of statement of financial position amounts for financial instruments measured at fair value on a recurring basis using significant unobservable inputs (Level 3) for the year ended June 30, 2016:

	Balances June 30, 2015	Net Realized and Unrealized Gains (Losses) Included in Change in Net Assets	Purchases	Sales	Transfers	Balances June 30, 2016
Beneficial interest in funds in held trust	$ 2,780,301	$ (41,928)	$ -	$ -	$ -	$ 2,738,373
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, 2016:						$ (41,928)

NOTE 2 – FAIR VALUE MEASUREMENTS (cont.)

The University's interests in many of its partnership investments represent commitments that are not subject to redemption; instead the University is a limited partner in funds that invest in private companies or properties, or pursue specific investment strategies. The nature of these investments is that distributions are received through the liquidation of the underlying assets of the partnership. The "NAV" reported by each fund is used as a "practical expedient" to estimate the fair value of the University's interest therein, unless management has deemed the "NAV" to be an inappropriate representation of the fair value under the University's valuation policy.

A summary of the significant categories of such investments and their attributes is as follows:

	Private Equity Funds	Real Estate Funds	Hedge Funds
Fair Value as of June 30, 2017	$ 30,899,772	$ 26,731,613	$ 50,274,615
Fair Value as of June 30, 2016	$ 26,010,640	$ 26,628,327	$ 49,267,363
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, special situations, global macro, commodities
Remaining Life	1 to 13 years	1 to 10 years	N.A.
Dollar Amount of Unfunded Commitments as of June 30, 2017	$15,156,148	$ -	$ -
Timing to Draw Down Commitments	1 to 13 years	1 to 5 years	N.A.
Redemption Terms	N.A.	30 day notice for core	60-90 days notice
Redemption Restrictions	N.A.	Value added real estate is closed end fund	N.A.

NOTE 3 – NET ASSETS

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

	2017	2016
Restricted for capital additions	$ 2,040,656	$ 892,328
Restricted to future periods	4,483,694	3,375,138
Split-interest agreements, net	2,203,810	2,012,396
Restricted for other donor designated purposes	67,778,331	51,875,480
Totals	$ 76,506,491	$ 58,155,342

Permanently restricted net assets are comprised of the following:

	2017	2016
Endowment investments, the income from which is expendable to support:		
Faculty chairs	$ 29,678,870	$ 28,320,547
Scholarships	118,109,189	111,324,672
Other donor imposed restrictions	53,924,896	50,817,782
General operations	7,488,411	7,416,384
	209,201,366	197,879,385
Contributions receivable, net	14,481,283	11,330,706
Split-interest agreements, net	2,954,591	5,412,911
Totals	$ 226,637,240	$ 214,623,002

The endowment balance disclosed above consists of investments and permanently restricted contributions receivable and trust interests.

NOTE 4 – NET ASSETS RELEASED FROM RESTRICTIONS

Net assets were released from donor restrictions during the years ended June 30, 2017 and 2016 by incurring expenses satisfying the restricted purposes or by occurrence of other events specified by donors.

	2017	2016
Purpose restrictions accomplished:		
Funded endowment restrictions	$ 899,942	$ 749,043
Other donor imposed restrictions	2,435,453	2,168,132
Investment return designated for current purposes	9,311,372	8,772,058
Gift-funded capital additions	750,207	4,586,773
	13,396,974	16,276,006
Unrestricted pledge payments received	678,448	1,280,818
Totals	$ 14,075,422	$ 17,556,824

These assets were reclassified to unrestricted net assets.

NOTE 5 – CONTRIBUTIONS RECEIVABLE, NET

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

	2017	2016
Unrestricted	$ 1,353,401	$ 1,857,795
Temporarily restricted - operations	3,092,352	4,721,041
Temporarily restricted - capital projects	2,000,000	-
Permanently restricted - endowment	15,022,843	11,658,203
Gross unconditional promises to give	21,468,596	18,237,039
Less:		
Discount to net present value	(723,682)	(479,932)
Allowance for uncollectible promises	(62,615)	(65,614)
Net Unconditional Promises to Give	$ 20,682,299	$ 17,691,493

At June 30, 2017, contributions receivable of $5,916,378 are due in less than one year and $14,454,236 are due in one to five years and $1,097,982 is due in more than five years. Contributions due in more than one year were discounted at interest rates ranging from 1.2% to 2.4%. Contributions due in less than one year were not discounted.

NOTE 6 – STUDENT LOANS RECEIVABLE, NET

The University issues uncollateralized loans to students based on financial need. New student loans are funded through the Federal Perkins government loan program. Lawrence University no longer funds new student loans through institutional resources. Allowances for doubtful accounts are established based on prior collection experience and current economic factors which, in management's judgment, could influence the ability of loan recipients to repay the amounts per the loan terms.

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

	2017	2016
Student loans:		
Lawrence University Loans	$ 556,275	$ 733,469
Perkins Student Loans	5,648,585	5,653,984
	6,204,860	6,387,453
Less: Allowance for uncollectible accounts		
Beginning of year	(908,000)	(928,000)
Write-offs	64,000	20,000
End of year	(844,000)	(908,000)
Student Loans Receivable, Net	$ 5,360,860	$ 5,479,453

Funds advanced by the Federal government of $2,472,968 at June 30, 2017 and 2016 are ultimately refundable to the government and are classified as liabilities in the statement of financial position.

At June 30, 2017 and 2016, the following amounts were past due under student loan programs:

June 30,	1-60 days past due	60-90 days past due	90+ days past due	Total past due
2017	$ 5,380	$ 943	$ 560,028	$ 566,351
2016	$ 3,694	$ 944	$ 524,490	$ 529,128

NOTE 7 – INVESTMENTS

Investments are stated at market value and consist of the following at June 30:

	2017	2016
Cash	$ 1,439	$ 1,439
Certificates of deposits	422,982	420,667
Equity securities		
Domestic	88,795,501	75,418,071
Foreign	86,719,053	71,635,218
Fixed income securities		
Domestic	32,731,615	32,357,945
Foreign	711,043	673,466
Alternative investments	107,906,000	101,906,330
Beneficial interests in trusts	2,817,058	2,738,373
Total Investments	$ 320,104,691	$ 285,151,509

NOTE 7 – INVESTMENTS (cont.)

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

	2017			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Dividends and interest	$ -	$ 1,027,506	$ -	$ 1,027,506
Net realized and unrealized gains	8,702,920	25,319,898	308,660	34,331,478
Return on investments	8,702,920	26,347,404	308,660	35,358,984
Investment return designated for current operations	(2,320,614)	(10,500,287)	(197,900)	(13,018,801)
Investment return in excess of amounts designated for current operations	$ 6,382,306	$ 15,847,117	$ 110,760	$ 22,340,183

	2016			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Dividends and interest	$ -	$ 1,853,574	$ -	$ 1,853,574
Net realized and unrealized gains (losses)	(1,753,720)	951,392	270,984	(531,344)
Return on investments	(1,753,720)	2,804,966	270,984	1,322,230
Investment return designated for current operations	(2,312,420)	(10,024,255)	(200,738)	(12,537,413)
Investment return in excess (deficit) of amounts designated for current operations	$ (4,066,140)	$ (7,219,289)	$ 70,246	$ (11,215,183)

Investment fees of $414,546 and $446,300 for 2017 and 2016, respectively, are included in the above investment income.

NOTE 8 – PROPERTY AND EQUIPMENT, NET

Property and equipment consists of the following at June 30:

	2017	2016
Land and land improvements	$ 10,812,440	$ 10,277,228
Buildings	179,139,883	170,693,012
Equipment/Library Books	68,863,301	66,390,525
Construction in progress	321,061	5,511,858
	259,136,685	252,872,623
Less: Accumulated depreciation	(148,457,375)	(141,287,030)
Totals	$ 110,679,310	$ 111,585,593

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, 2017, there were no outstanding borrowings on the line of credit. The line of credit accrues interest at a variable rate which was 4.25% and 3.50% at June 30, 2017 and June 30, 2016, respectively.

NOTE 10 – LONG-TERM DEBT, NET

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

Wisconsin Health and Educational Facilities Authority, Revenue Bonds	2017	2016
Series 2014 - variable rate (currently 1.584340%). The series 2014 bonds are variable rate direct purchase bonds and can be called. The bonds were purchased by DNT Asset Trust (JPMorgan Chase Bank). The University had two interest rate exchange agreements in place during the year ended June 30, 2017 (See Note 17). These agreements fix the rate on $25.505 million of this debt. Under these agreements, the University either pays additional interest or receives an interest credit depending on the relationship between the variable rate and the fixed rate. See footnote 17 for details regarding statement of financial position and statement of activities impact related to these agreements. The interest rate exchange agreements have the following rates and maturities:		
$6 million maturing August 13, 2017 at 4.307%.		
$19.505 million maturing November 1, 2024 at 1.79%,	$ 35,505,000	$ 35,505,000
Series 2012 - fixed rate (ranging from 1.4% to 3.5%), unsecured, payable in annual installments, maturing on February 1, 2023.	7,585,000	8,530,000
	43,090,000	44,035,000
Less: Unamortized bond discounts and bond issuance costs	(282,227)	(312,764)
Totals	$ 42,807,773	$ 43,722,236

Costs associated with outstanding debt are deferred and amortized on a straight-line basis over the term of the loan.

The University adopted ASU 2015-03, *Interest – Imputation of Interest (Subtopic 835-30): Simplifying the Presentation of Debt Issuance Costs*, during the year ended June 30, 2017. Under the new guidance, debt issuance costs related to a recognized debt liability are presented as a direct reduction to the carrying amount of that debt liability. As required by the new guidance, the amendments were applied retroactively to the year ended June 30, 2016.

NOTE 10 – LONG-TERM DEBT, NET (cont.)

The Series 2012 and 2014 Revenue Bonds have restrictive financial covenants. The University is in compliance with these covenants as of June 30, 2017 and 2016.

Maturities of long-term debt are as follows:

2018	$ 1,165,000
2019	1,195,000
2020	1,430,000
2021	1,475,000
2022	1,520,000
Thereafter	36,305,000
	$ 43,090,000

For the years ended June 30, 2017 and 2016, interest expense on long-term debt approximated $1,220,000 and $1,227,000, respectively. There was no capitalized interest in 2017 or 2016.

NOTE 11 – EXECUTIVE RETIREMENT PLAN

The University is providing the estate of 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 3.26% for 2017 and 4.15% for 2016. The present value of these payments at June 30, 2017 and 2016 was $404,040 and $463,655, respectively, and are included in accrued liabilities on the statements of financial position. Payments during the years ended June 30, 2017 and 2016 were $88,880, and retirement expense was $29,265 and $20,056, respectively.

NOTE 12 – POSTRETIREMENT OBLIGATION

During the year ended June 30, 2016 and through December 31, 2016, the University provided retired employees over 65 and their respective spouses, if applicable, with monthly cash payments, which were to be utilized toward the payment of postretirement health benefits. Beginning January 1, 2017, upon reaching age 65, all group medical coverage ceases for the retiree and their spouse.

NOTE 12 – POSTRETIREMENT OBLIGATION (cont.)

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

	2017	2016
Accrued postretirement benefit cost at July 1	$ (2,944,144)	$ (2,854,438)
Net periodic postretirement benefit cost	(257,967)	(258,033)
Actual retiree benefit payments	39,922	168,327
Accrued postretirement benefit cost at June 30	$ (3,162,189)	$ (2,944,144)

Benefits expected to be paid for each of the five years subsequent to June 30, 2017 are estimated to be $97,164, $100,369, $141,484, $145,718 and $142,306, respectively. Benefits expected to be paid 2023 through 2027 are estimated to be $726,837. Contributions from the University expected to be paid to the plan for the year ended June 30, 2018 are estimated to be $(37,318).

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

	2017	2016
Accumulated postretirement benefit obligation (APBO):		
(a) Retirees	$ (684,859)	$ (775,737)
(b) Active employees eligible to retire	(570,326)	(1,280,085)
(c) Active employees not eligible to retire	(648,135)	(1,240,198)
(d) Total APBO	(1,903,320)	(3,296,020)
Fair value of plan assets	-	-
Unfunded status	(1,903,320)	(3,296,020)
Prior service cost	(1,012,012)	-
Unrecognized net gain (loss)	(246,857)	351,876
Accrued Postretirement Benefit Obligation	$ (3,162,189)	$ (2,944,144)

The June 30, 2017 APBO is based on June 30, 2017 participant data. For 2017 and 2016, the weighted average discount rate used in determining the actuarial present value of the projected benefit obligation was 3.38% and 3.26%, respectively. The assumed health care trend rate was 10% for fiscal year 2017 and gradually declines to 5% in the year 2028.

The effect of a 1.0% increase in each future health care trend rate would change the APBO by approximately $164,533 or 8.6%. The effect of a 1.0% decrease in each future health care trend rate would change the APBO by approximately ($145,734) or (7.7%).

NOTE 12 – POSTRETIREMENT OBLIGATION (cont.)

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

	2017	2016
Service cost	$ 150,653	$ 137,972
Interest cost	105,612	120,061
Amortization of loss	1,702	-
Net Periodic Postretirement Benefit Cost	$ 257,967	$ 258,033

The above 2017 service cost and interest cost are based on June 30, 2017 participant data. For 2017 and 2016, the weighted average discount rate used in determining the actuarial present value of the projected benefit obligation was 3.38% and 3.26%, respectively. The assumed health care trend rate was 10% for fiscal year 2017 and gradually declines to 5% in the year 2028.

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 $44,986 or 17.6%. 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 ($36,528) or (14.3%).

NOTE 13 – 403(b) RETIREMENT PLAN

Employees are immediately eligible to participate in the University's 403(b) plan. After two years of service, employees are required to participate in the plan and to contribute 4% of their salary to the 403(b) plan. The University will match employee contributions at 8% of the first $70,000 of salary after one year of service if they contribute at least 4%. A year of service is equal to working 1,000 or more hours a year. All participants are always 100% vested in the portion of their account balances that were contributed by them and after three years are 100% vested in the portion of their account balance that was contributed by the University.

Total retirement expense for the years ended June 30, 2017 and 2016 was approximately $2,063,000 and $2,004,000, respectively.

NOTE 14 – DEFERRED COMPENSATION PLAN

The University started a discretionary deferred compensation plan in July 2013 designed to promote the retention of a key management employee. Under the terms of the plan, a fixed liability, as defined in the plan, is accrued by the University at the end of each calendar year. The accrual and related interest vest over a period defined in the plan document and payment is contingent upon the participant's employment with the University at the end of the vesting period. Expense recorded for the plan was $30,000 in each of the years ended June 30, 2017 and 2016. At June 30, 2017 and 2016, the deferred compensation liability was $142,844 and $96,766, respectively. A liability representing the amount owed under this plan is included in the accrued liabilities line on the statements of financial position.

NOTE 15 – DEFERRED GIFT AGREEMENTS

The University has arrangements with donors classified as charitable lead trusts, charitable remainder trusts, and charitable gift annuities. 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, 2017 and 2016, the University received gift income of approximately $28,000 and $168,000, respectively, relating to deferred gift agreements. Total assets held by the University under deferred gift agreements and liabilities related to these agreements totaled approximately $7,435,000 and $1,895,000, respectively, at June 30, 2017 and $7,112,000 and $1,974,000, respectively, at June 30, 2016.

NOTE 16 – ENDOWMENT

The University's endowment consists of approximately 895 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.

The following tables exclude contributions receivable and therefore there will be a variance between permanently restricted net assets shown on the statement of activities and the tables.

NOTE 16 – ENDOWMENT (cont.)

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

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds	$ (460,697)	$63,775,413	$ 209,201,366	$ 272,516,082
Board-designated endowment funds	45,688,098	-	-	45,688,098
Total Endowment Net Assets	$45,227,401	$63,775,413	$ 209,201,366	$ 318,204,180

Endowment net asset composition by type of fund consists of the following as of June 30, 2016:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds	$ (2,788,041)	$46,943,391	$ 197,879,385	$ 242,034,735
Board-designated endowment funds	41,441,064	-	-	41,441,064
Total Endowment Net Assets	$38,653,023	$46,943,391	$ 197,879,385	$ 283,475,799

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

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, June 30, 2016	$38,653,023	$46,943,391	$ 197,879,385	$ 283,475,799
Investment return:				
Investment income	-	1,027,506	-	1,027,506
Net appreciation - realized and unrealized	8,475,954	26,304,803	197,900	34,978,657
Total investment return	8,475,954	27,332,309	197,900	36,006,163
Contributions	419,038	-	9,159,407	9,578,445
Liquidation of split interest agreements to endowment	-	-	56,251	56,251
Liquidation of life insurance to endowment	-	-	2,106,323	2,106,323
Appropriation of endowment assets for expenditure	(2,320,614)	(10,500,287)	(197,900)	(13,018,801)
Endowment Net Assets, June 30, 2017	$45,227,401	$63,775,413	$ 209,201,366	$ 318,204,180

NOTE 16 – ENDOWMENT (cont.)

Changes in endowment net assets for the year ended June 30, 2016 are as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, June 30, 2015	$41,183,718	$54,195,691	$180,068,109	$275,447,518
Investment return:				
Investment income	-	1,855,338	-	1,855,338
Net appreciation (depreciation) - realized and unrealized	(1,743,745)	916,617	200,738	(626,390)
Total investment return	(1,743,745)	2,771,955	200,738	1,228,948
Contributions	1,500,100	-	18,633,115	20,133,215
Return of original contributions	25,370	-	(1,242,053)	(1,216,683)
Liquidation of split interest agreements to endowment	-	-	420,214	420,214
Liquidation of life insurance to endowment	-	-	-	-
Appropriation of endowment assets for expenditure	(2,312,420)	(10,024,255)	(200,738)	(12,537,413)
Endowment Net Assets, June 30, 2016	$38,653,023	$46,943,391	$197,879,385	$283,475,799

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 $460,697 and $2,788,041 as of June 30, 2017 and 2016, 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.

NOTE 16 – 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.

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 non-operating change in net assets. In 2017 and 2016, the Board of Trustees approved the endowment payout of $13,018,801 and $12,537,413, respectively.

Interpretation of Relevant Law – The University's governing board has interpreted the Wisconsin enacted version of Uniform Prudent Management of Institutional Funds Act (UPMIFA) as allowing the University to appropriate for expenditure or accumulate so much of an endowment fund as the University determines is prudent for the uses, benefits, purposes and duration for which the endowment fund is established, subject to the intent of the donor as expressed in the gift instrument. Unless stated otherwise in the gift instrument, the assets in an endowment fund shall be donor-restricted assets until appropriated for expenditure by the Board of Trustees. See Note 1 for further information on net asset classifications.

The remaining portion of the donor-restricted endowment fund that is not classified as permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the University in a manner consistent with the standard of prudence prescribed by UPMIFA. In accordance with UPMIFA, the University considers the following factors in making a determination to appropriate or accumulate donor – restricted endowment funds:

1. The duration and preservation of the fund
2. The purposes of the University and the donor-restricted endowment fund
3. General economic conditions
4. The possible effect of inflation and deflation
5. The expected total return from income and the appreciation of investments
6. Other resources of the University
7. The investment policies of the University

NOTE 17 – 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 (See Note 10). 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.

NOTE 17 – DERIVATIVE INSTRUMENTS (cont.)

In fiscal 2017, the University paid $485,584 more than it received in interest under the swap agreements. In fiscal 2016, the University paid $611,957 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, 2017:

Instrument Type	Notional Amount	Maturity Date	Rate Paid	Rate Received
Floating to fixed rate swap	$ 6,000,000	August 13, 2017	4.307%	IM-USD-LIBOR-BBA
Floating to fixed rate swap	$ 19,505,000	November 1, 2024	1.79%	IM-USD-LIBOR-BBA

Derivative instruments are reported in the statements of financial position at fair value as of June 30, 2017 and 2016 as follows:

	Liabilities Derivative		
Derivatives Not Designated as Hedging Instruments	Statement of Financial Position Location	Fair Value	
		2017	2016
Interest rate swap	Accrued Liabilities	$ 702,529	$ 2,198,499

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 Deratives Recognized in the Statement of Changes in Net Assets	Amount of Gain (Loss) on Derivatives Recognized in the Statement of Changes in Net Assets	
		2017	2016
Interest rate swap	Other Non-operating Items	$ 1,495,971	$ (1,238,870)

NOTE 18 – FUNCTIONAL CLASSIFICATION OF EXPENSES

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

	2017	2016
Program Expenses		
Instruction	$ 25,293,996	$ 24,100,693
Research	520,361	725,678
Public service	1,823,730	1,646,394
Academic support	5,426,318	5,342,428
Student services	9,648,467	9,052,529
Auxiliary expenses	10,563,844	10,910,981
	53,276,716	51,778,703
Support Expenses		
Institutional administration	15,632,944	15,805,960
Totals	$ 68,909,660	$ 67,584,663

NOTE 19 – SUPPLEMENTAL CASH FLOW & NONCASH INVESTING AND FINANCING INFORMATION

	2017	2016
Supplemental Cash Flow Information		
Cash paid for interest	$ 1,263,056	$ 1,245,807
Property and equipment financed with accounts payable	207,019	465,305
Noncash Investing and Financing Information		
Noncash donation of land	235,000	225,000

NOTE 20 – RELATED PARTY TRANSACTIONS

The University received $5.96 million and $812 thousand of gifts and contributions during fiscal years 2017 and 2016, respectively, from board of trustee members and employees. As of June 30, 2017 and 2016, $6.25 million and $1.05 million of contributions, respectively, were recorded as receivables.

In addition, the University has contracted for services with the Boldt Company (a company with relations to a Lawrence University Board of Trustee member) for the renovation of Colman Hall. The Boldt Company contract is for $5.7 million of the total $6.7 million cost of the Colman Hall renovation. All $5.7 million has been paid to Boldt as of June 30, 2017.

NOTE 21 – 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 22 – RECLASSIFICATIONS

For comparability, certain 2016 amounts have been reclassified to conform to classification adopted in 2017. The reclassifications have no effect on reported amounts of net assets or change in net assets.

NOTE 23 – SUBSEQUENT EVENTS

The University has evaluated subsequent events through October 26, 2017, which is the date that the financial statements were issued.

NOTE 24 – NEW PRONOUNCEMENTS NOT YET EFFECTIVE

In May 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2014-09, *Revenue from Contracts with Customers.* This new accounting guidance outlines a single comprehensive model for entities to use in accounting for revenue from contracts with customers. ASU No. 2014-09 is effective for fiscal years beginning after December 15, 2017 (fiscal year 2019). Early application is permitted for fiscal years beginning after December 15, 2016.

In February 2016, FASB issued ASU No. 2016-02, *Leases.* ASU No. 2016-02 was issued to increase transparency and comparability among entities. Lessees will need to recognize nearly all lease transactions (other than leases that meet the definition of a short-term lease) on the statement of financial position as a lease liability and a right-of-use asset (as defined). Lessor accounting under the new guidance will be similar to the current model. ASU No. 2016-02 is effective for fiscal years beginning after December 15, 2018 (fiscal year 2020). Early application is permitted. Upon adoption, lessees and lessors will be required to recognize and measure leases at the beginning of the earliest period presented using a modified retrospective approach, which includes a number of optional practical expedients that entities may elect to apply.

NOTE 24 – NEW PRONOUNCEMENTS NOT YET EFFECTIVE (cont.)

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

In November 2016, FASB issued ASU 2016-18, *Statement of Cash Flows (Topic 230): Restricted Cash.* The amendments in this update require that a statement of cash flows explain the change during the period in the total of cash, cash equivalents and amounts generally described as restricted cash or restricted cash equivalents. Amounts generally described as restricted cash and restricted cash equivalents should be included with cash and cash equivalents when reconciling the beginning-of-period and end-of-period amounts shown on the combining statement of cash flows. ASU 2016-18 is effective for non-public entities for fiscal years beginning after December 15, 2018 (fiscal year 2020), with early adoption permitted. ASU 2016-18 is to be applied retroactively with transition provisions.

The University is currently evaluating the impact these standards will have on its financial statements.