

**LAWRENCE UNIVERSITY OF WISCONSIN**

Appleton, Wisconsin

**FINANCIAL STATEMENTS**

Including Independent Auditors' Report

As of and for the Years Ended June 30, 2020 and 2019

# LAWRENCE UNIVERSITY OF WISCONSIN

## TABLE OF CONTENTS As of and for the Years Ended June 30, 2020 and 2019

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Independent Auditors' Report	1
Financial Statements	
Statements of Financial Position	2
Statements of Activities	3 – 4
Statements of Cash Flows	5
Notes to Financial Statements	6 – 36

## 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, 2020 and 2019, 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, 2020 and 2019, 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 US, LLP (formerly known as Baker Tilly Virchow Krause, LLP)  
Milwaukee, Wisconsin  
October 20, 2020

**LAWRENCE UNIVERSITY OF WISCONSIN**

STATEMENTS OF FINANCIAL POSITION  
As of June 30, 2020 and 2019

<b>ASSETS</b>	2020	2019
Cash and cash equivalents	\$ 9,601,223	\$ 5,407,109
Restricted cash and cash equivalents	2,568,096	334,687
Receivables:		
Contributions, net of allowance for doubtful accounts of \$160,636 and \$140,509	18,490,763	17,561,188
Student loans receivable, net of allowance for doubtful loans of \$674,000 and \$879,000	3,234,994	4,222,002
Students accounts, net of allowance for doubtful accounts of \$198,000 and \$150,000	174,079	158,857
Government grants	71,403	47,589
Accrued interest	110,162	110,162
Other	111,169	74,148
Inventories	186,882	201,856
Cash surrender value of life insurance and other assets	2,209,499	1,618,381
Investments	356,016,458	358,009,515
Property and equipment, less accumulated depreciation	<u>105,131,443</u>	<u>106,389,976</u>
<b>TOTAL ASSETS</b>	<b><u>\$ 497,906,171</u></b>	<b><u>\$ 494,135,470</u></b>
<b>LIABILITIES AND NET ASSETS</b>		
<b>LIABILITIES</b>		
Accounts payable	\$ 1,574,018	\$ 907,864
Accrued liabilities	6,960,157	5,988,293
Deferred income and deposits	810,245	931,419
Due to student organizations	497,916	464,340
Line of credit	3,165,035	2,425,674
Postretirement obligation	2,846,541	2,955,017
Asset retirement obligation	3,841,622	3,710,153
Annuities payable	2,102,026	2,171,755
Long-term debt, net of unamortized premium and issue costs	41,236,658	40,508,849
U.S. government grants refundable	<u>1,678,681</u>	<u>1,724,627</u>
Total Liabilities	<u>64,712,899</u>	<u>61,787,991</u>
<b>NET ASSETS</b>		
Without Donor Restrictions		
Undesignated	(19,449,520)	(18,497,234)
Investment in Property and Equipment	63,894,785	65,881,127
Board-Designated Endowment	<u>44,502,029</u>	<u>45,330,032</u>
Total Without Donor Restrictions	88,947,294	92,713,925
With Donor Restrictions		
Perpetual in Nature	253,486,035	244,808,914
Purpose Restrictions	83,265,210	88,203,845
Time Restricted for Future Periods	<u>7,494,733</u>	<u>6,620,795</u>
Total With Donor Restrictions	344,245,978	339,633,554
Total Net Assets	<u>433,193,272</u>	<u>432,347,479</u>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<b><u>\$ 497,906,171</u></b>	<b><u>\$ 494,135,470</u></b>

See accompanying notes to financial statements.

**LAWRENCE UNIVERSITY OF WISCONSIN**

STATEMENT OF ACTIVITIES  
For the Year Ended June 30, 2020

	Without Donor Restrictions	With Donor Restrictions	Total
<b>OPERATING REVENUES</b>			
Tuition, fees, room and board, less tuition discounts of \$40,951,488	\$ 36,259,720	\$ -	\$ 36,259,720
Auxiliary enterprises	1,636,853	-	1,636,853
Investment return designated for current operations	2,871,751	16,312,373	19,184,124
Government grants	1,571,055	-	1,571,055
Contribution revenue	2,990,481	-	2,990,481
Other income	308,035	156,946	464,981
	<u>45,637,895</u>	<u>16,469,319</u>	<u>62,107,214</u>
Net assets released from restrictions	<u>22,371,589</u>	<u>(22,371,589)</u>	<u>-</u>
Total Operating Revenues	<u>68,009,484</u>	<u>(5,902,270)</u>	<u>62,107,214</u>
<b>OPERATING EXPENSES</b>			
Instruction	22,932,836	-	22,932,836
Research	674,912	-	674,912
Public service	847,895	-	847,895
Academic support	3,601,736	-	3,601,736
Student services	11,001,513	-	11,001,513
Institutional administration	13,189,099	-	13,189,099
Physical plant operations	6,271,009	-	6,271,009
Auxiliary enterprises	3,574,884	-	3,574,884
Interest expense	1,404,896	-	1,404,896
Depreciation	7,265,124	-	7,265,124
Total Operating Expenses	<u>70,763,904</u>	<u>-</u>	<u>70,763,904</u>
Operating Revenues in Excess (Deficit) of Operating Expenses	<u>(2,754,420)</u>	<u>(5,902,270)</u>	<u>(8,656,690)</u>
<b>NONOPERATING INCOME (EXPENSE)</b>			
Investment return in excess of amounts designated for current operations	(1,199,787)	(4,397,930)	(5,597,717)
Contributions for long-term purposes	-	15,772,203	15,772,203
Change in beneficial interest in funds held in trust	-	15,186	15,186
Change in value of split interest agreements	(11,781)	(115,173)	(126,954)
Change in value of interest rate swap	(957,204)	-	(957,204)
Other nonoperating items, net	1,156,561	(759,592)	396,969
Total Nonoperating Income (Expense)	<u>(1,012,211)</u>	<u>10,514,694</u>	<u>9,502,483</u>
<b>Change in Net Assets</b>	<u>(3,766,631)</u>	<u>4,612,424</u>	<u>845,793</u>
NET ASSETS - Beginning of Year	<u>92,713,925</u>	<u>339,633,554</u>	<u>432,347,479</u>
<b>NET ASSETS - END OF YEAR</b>	<u>\$ 88,947,294</u>	<u>\$ 344,245,978</u>	<u>\$ 433,193,272</u>

See accompanying notes to financial statements.

## LAWRENCE UNIVERSITY OF WISCONSIN

### STATEMENT OF ACTIVITIES For the Year Ended June 30, 2019

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
<b>OPERATING REVENUES</b>			
Tuition, fees, room and board, less tuition discounts of \$39,836,177	\$ 39,962,404	\$ -	\$ 39,962,404
Auxiliary enterprises	1,820,629	-	1,820,629
Investment return designated for current operations	2,723,965	14,267,593	16,991,558
Government grants	515,613	-	515,613
Contribution revenue	3,187,946	-	3,187,946
Other income	348,612	195,908	544,520
	<u>48,559,169</u>	<u>14,463,501</u>	<u>63,022,670</u>
Net assets released from restrictions	<u>19,073,362</u>	<u>(19,073,362)</u>	<u>-</u>
Total Operating Revenues	<u>67,632,531</u>	<u>(4,609,861)</u>	<u>63,022,670</u>
<b>OPERATING EXPENSES</b>			
Instruction	23,074,778	-	23,074,778
Research	712,949	-	712,949
Public service	853,935	-	853,935
Academic support	3,367,202	-	3,367,202
Student services	11,126,564	-	11,126,564
Institutional administration	12,831,259	-	12,831,259
Physical plant operations	6,667,756	-	6,667,756
Auxiliary enterprises	4,546,384	-	4,546,384
Interest expense	1,336,440	-	1,336,440
Depreciation	7,429,365	-	7,429,365
Total Operating Expenses	<u>71,946,632</u>	<u>-</u>	<u>71,946,632</u>
Operating Revenues in Excess (Deficit) of Operating Expenses	<u>(4,314,101)</u>	<u>(4,609,861)</u>	<u>(8,923,962)</u>
<b>NONOPERATING INCOME (EXPENSE)</b>			
Investment return in excess of amounts designated for current operations	38,821	2,727,815	2,766,636
Contributions for long-term purposes	-	18,202,531	18,202,531
Change in beneficial interest in funds held in trust	-	(10,671)	(10,671)
Change in value of split interest agreements	(1,039)	(53,592)	(54,631)
Change in value of interest rate swap	(999,942)	-	(999,942)
Other nonoperating items, net	(3,139)	(34)	(3,173)
Total Nonoperating Income (Expense)	<u>(965,299)</u>	<u>20,866,049</u>	<u>19,900,750</u>
<b>Change in Net Assets</b>	<u>(5,279,400)</u>	<u>16,256,188</u>	<u>10,976,788</u>
NET ASSETS - Beginning of Year	<u>97,993,325</u>	<u>323,377,366</u>	<u>421,370,691</u>
<b>NET ASSETS - END OF YEAR</b>	<u>\$ 92,713,925</u>	<u>\$ 339,633,554</u>	<u>\$ 432,347,479</u>

See accompanying notes to financial statements.

**LAWRENCE UNIVERSITY OF WISCONSIN**

STATEMENTS OF CASH FLOWS  
For the Years Ended June 30, 2020 and 2019

	2020	2019
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Change in net assets	\$ 845,793	\$ 10,976,788
Adjustments to reconcile change in net assets to net cash flows from operating activities:		
Depreciation and amortization	7,389,178	7,459,902
(Gain)/loss on sale of fixed assets	(167,290)	-
Asset retirement obligation accretion/abatement	132,306	141,274
Bad debts	(119,442)	43,123
Realized and unrealized (gains) losses on investments	(9,185,594)	(15,367,945)
Change in beneficial interest in funds held in trusts	(15,186)	10,671
Change in cash surrender value of life insurance	(46,825)	(79,378)
Income reinvested	(4,636,336)	(4,519,541)
Investment return restricted for long-term investment	(229,302)	(310,638)
Contributions restricted for long-term purposes	(15,775,517)	(18,218,770)
Actuarial adjustment of annuities payable	137,792	97,977
Loan cancellations and reinstatements	13,262	10,570
Change in certain assets and liabilities:		
Receivables:		
Student accounts	(67,323)	157,464
Contributions	(72,898)	(518,611)
Government grants	(23,814)	137,859
Accrued interest	-	23,493
Other	(37,021)	(14,112)
Inventories	14,974	(4,672)
Other assets	(544,293)	156,547
Accounts payable	310,112	(579,151)
Accrued liabilities	971,864	372,154
Deferred income, deposits and funds held for student organizations	(87,598)	85,008
Postretirement obligation	(108,476)	(98,719)
Net Cash Flows from Operating Activities	(21,301,634)	(20,038,707)
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Purchases of investments	(14,688,196)	(48,982,063)
Proceeds from sales of investments	30,367,213	50,447,796
Proceeds from cash surrender value of life insurance	-	71,078
Proceeds from beneficial interest in funds held in trusts	151,156	-
Purchases of property and equipment	(5,796,823)	(4,418,877)
Proceeds from sale of fixed assets	312,727	-
Disbursements of loans to students	-	500
Repayments of loans from students	1,145,289	945,333
Net Cash Flows from Investing Activities	11,491,366	(1,936,233)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Payments on line of credit	(16,385,123)	(9,882,480)
Proceeds on line of credit	17,124,484	10,168,683
Proceeds from bonds	2,033,755	-
Repayment of principal on debt	(1,430,000)	(1,195,000)
Investment return restricted for long-term investment	229,302	310,638
Contributions received restricted for long-term purposes	14,925,526	20,660,985
Changes in U.S. government grants refundable	(45,946)	25,851
Payments to annuitants	(214,207)	(215,725)
Net Cash Flows from Financing Activities	16,237,791	19,872,952
<b>Net Change in Cash and Cash Equivalents</b>	6,427,523	(2,101,988)
CASH AND CASH EQUIVALENTS AND RESTRICTED CASH AND CASH EQUIVALENTS - Beginning of Year	5,741,796	7,843,784
<b>CASH AND CASH EQUIVALENTS AND RESTRICTED CASH AND CASH EQUIVALENTS - END OF YEAR</b>	<b>\$ 12,169,319</b>	<b>\$ 5,741,796</b>
<b>RECONCILIATION OF CASH AND CASH EQUIVALENTS AND RESTRICTED CASH TO THE STATEMENT OF FINANCIAL POSITION</b>		
Cash and cash equivalents	\$ 9,601,223	\$ 5,407,109
Restricted cash and cash equivalents	2,568,096	334,687
	<b>\$ 12,169,319</b>	<b>\$ 5,741,796</b>

See accompanying notes to financial statements.

# LAWRENCE UNIVERSITY OF WISCONSIN

## NOTES TO FINANCIAL STATEMENTS As of and for the Year Ended June 30, 2020 and 2019

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### NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES

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Lawrence University of Wisconsin (the "University"), which formally opened in 1847, is an independent, nonsectarian, coeducational institution of higher learning with an enrollment of approximately 1,500 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 based on the existence or absence of donor-imposed restrictions. Accordingly, the net assets of the University are classified in the accompanying financial statements and reported as follows:

**Net Assets Without Donor Restrictions** – Net assets that are not subject to donor-imposed stipulations. The governing board has designated, from net assets without donor restrictions, board-designated endowment, and investment in property, plant, and equipment.

**Net Assets With Donor Restrictions** – Net assets subject to donor-imposed stipulations. Some donor-imposed restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. Other donor-imposed restrictions are perpetual in nature where the donor stipulates that resources be maintained in perpetuity. Donor-imposed restrictions are released when a restriction expires, that is, when the stipulated time has elapsed, when the stipulated purpose for which the resource was restricted has been fulfilled, or both.

Revenues from sources other than contributions are generally reported as increases in net assets without donor restrictions. Expenses are reported as decreases in net assets without donor restrictions. Income earned on donor restricted funds is initially classified as net assets with donor restrictions and is reclassified as net assets without donor restrictions when expenses are incurred for their intended purpose.

A portion of the University's revenue is derived from cost-reimbursable grants and contracts, which are conditioned upon certain performance requirements and/or the incurrence of allowable qualifying expenses. Amounts received are recognized as revenue when the University has incurred expenditures in compliance with specific grant or contract provisions and has received payment. Amounts received prior to incurring qualifying expenditures, if any, are reported as refundable advances in the statement of financial position.



# LAWRENCE UNIVERSITY OF WISCONSIN

## NOTES TO FINANCIAL STATEMENTS As of and for the Year Ended June 30, 2020 and 2019

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

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The Coronavirus Aid, Relief, and Economics Security (CARES) Act provided budgetary relief to higher education institutions through the Higher Education Emergency Relief Fund (HEERF). Each institution received one grant comprised of two parts. Under the legislation, no less than 50% of the grant was to be used for direct emergency aid to students. The remaining portion of the grant was to be used by institutions to cover any costs associated with significant changes to the delivery of instruction due to the coronavirus. The University was awarded \$1,157,626 of relief and received and recognized \$1,111,592 of HEERF funds as government grants revenue as of June 30, 2020. The \$555,796 student relief portion of the grant was expended and reported as student services expenses and the \$555,796 institutional portion of the grant was expended on room and board refunds, reducing room and board operating revenues. As restrictions were met in the same period, these grants were reported as changes in net assets without donor restrictions. The University will receive and recognize the remaining portion of the award or \$46,034 during its next fiscal year.

Unconditional contributions, including promises to give, are recognized as revenues in the period received and are reported as increases in the appropriate category of net assets in accordance with donor restrictions. Expirations of donor restrictions on net assets (i.e., the donor stipulated purpose as 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 – that is, those with a measurable performance or other barrier and right of return – are not recognized until they become unconditional, that is, when the conditions on which they intend are 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 restrictions concerning the use of such long-lived assets are reported as revenue of the net assets without donor restrictions. Contributions of cash or other assets to be used to acquire property and equipment are reported as revenue of the net assets with donor restrictions; the restrictions are considered to be released when the property or equipment purchased with the restricted gifts is placed in service.

Gains and losses on investments of endowment funds created by a board designation are included in changes in net assets without donor restrictions.

***Tuition and Fees and Auxiliary Revenues*** – Tuition and fee revenue is recognized in the fiscal year in which the academic programs are delivered. Institutional scholarships awarded to students reduce the amount of revenue recognized. In addition, students who adjust their course load or withdraw completely approximately within the first six weeks of the term may receive a partial refund in accordance with the University's refund policy. Refunds issued reduce the amount of revenue recognized. Services are billed July 15 for the Fall term, November 15 for the Winter term and March 15 for the Spring term. Payments and payment plan arrangements are due by the 15<sup>th</sup> of the following month. The University applies the practical expedient as allowed for within the accounting standards and, therefore, does not disclose information about remaining performance obligations that have original expected durations of one year or less. All remaining performance obligations will be satisfied in connection with the completion of the 2020/2021 academic year. The University determines the transaction price based on standard charges for goods and services provided, reduced by discounts relating to institutional scholarships, both funded and unfunded, in accordance with the University's policies.

# LAWRENCE UNIVERSITY OF WISCONSIN

## NOTES TO FINANCIAL STATEMENTS As of and for the Year Ended June 30, 2020 and 2019

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

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**Tuition and Fees and Auxiliary Revenues** (cont.) – The University also provides auxiliary services, such as residence and food services. Revenue from these services is recognized in the fiscal year in which the goods and services are provided. Students that withdraw from the University within approximately the first six weeks of the term may receive a partial refund in accordance with the University's refund policy. Refunds issued reduce the amount of revenue recognized.

**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 for capital projects funded by the Series 2020 Bond.

**Receivables, Net** – 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.

Interest is charged on student accounts receivable that are past due and is recognized as it is charged. A student account receivable is considered to be past due if any portion of the receivable balance is outstanding on the 1<sup>st</sup> of the month after it is 30 days past due. 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, Net** – 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 \$9,255,000 and \$9,195,000 as of June 30, 2020 and 2019, 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.

# LAWRENCE UNIVERSITY OF WISCONSIN

## NOTES TO FINANCIAL STATEMENTS As of and for the Year Ended June 30, 2020 and 2019

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

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**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 net assets without donor restrictions. 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, 2020 and 2019 are as follows:

	<u>2020</u>	<u>2019</u>
Balance, Beginning of the year	\$ 3,710,153	\$ 3,569,758
Accretion expense	162,799	179,155
Reduction in liability due to renovations	<u>(31,330)</u>	<u>(38,760)</u>
Balance, End of the year	<u>\$ 3,841,622</u>	<u>\$ 3,710,153</u>

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 \$503,597 and \$1,897,684, respectively, during the year ended June 30, 2020 and \$556,956 and \$1,811,937, respectively, during the year ended June 30, 2019.

**U.S. Government Grants Refundable** – Funds provided by the United States Government under the Federal Perkins Loan Program were loaned to qualified students. 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. 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).

# LAWRENCE UNIVERSITY OF WISCONSIN

## NOTES TO FINANCIAL STATEMENTS As of and for the Year Ended June 30, 2020 and 2019

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

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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, 2020 and 2019. 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.

**Advertising Expenses** – For the years ended June 30, 2020 and 2019, advertising expenses totaled \$200,448 and \$385,449, 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.

**Measure of Operations** – In its Statements of Activities, the University includes in its definition of operations all revenues and expenses that are an integral part of its programs and supporting activities including net assets released from donor restrictions to support operating expenditures, as well as investment return appropriated by the Board of Trustees for operations. Non-operating activity consists primarily of investment return greater (less) than amounts designated for current operations, contributions restricted for long-term investment and capital projects, change in beneficial interests in trusts, change in value of split interest agreements, and the changes in fair value of the interest rate swap.

**Change in Accounting Principle** – For the year ended June, 2020, the University adopted ASU No. 2018-08, *Not-for-Profit Entities (Topic 958): Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made* ("ASU No. 2018-08"). The new guidance is intended to clarify and improve accounting guidance for contributions received and contributions made. The amendments in this ASU assist entities in (1) evaluating whether transactions should be accounted for as contributions (nonreciprocal transactions) or as exchange (reciprocal) transactions subject to other guidance and (2) determining whether a contribution is conditional. Adopting ASU No. 2018-08 following the modified prospective method did not have a significant impact on the financial statements of the University.

# LAWRENCE UNIVERSITY OF WISCONSIN

## NOTES TO FINANCIAL STATEMENTS As of and for the Year Ended June 30, 2020 and 2019

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### **NOTE 2 – FAIR VALUE MEASUREMENTS**

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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.

- 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.

# LAWRENCE UNIVERSITY OF WISCONSIN

## NOTES TO FINANCIAL STATEMENTS As of and for the Year Ended June 30, 2020 and 2019

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

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. There have been no changes in the techniques and inputs used at June 30, 2020 and 2019.

The following table summarized financial instruments measured at fair value on a recurring basis by the fair value hierarchy as of June 30, 2020:

	Total	Level 1	Level 2	Level 3
<b>ASSETS</b>				
Short-term investments	\$ 384,204	\$ 384,204	\$ -	\$ -
Equity securities				
Domestic	86,573,650	86,573,650	-	-
Foreign	44,964,815	44,964,815	-	-
Fixed income securities				
Domestic	38,360,727	31,087,473	7,273,254	-
Foreign	1,031,153	-	1,031,153	-
Beneficial interest in funds held in trust	3,041,584	-	-	3,041,584
Subtotal assets by valuation hierarchy	174,356,133	\$ 163,010,142	\$ 8,304,407	\$ 3,041,584
Investments measured using NAV				
Alternative investments				
Hedge fund	86,362,913			
Private equity funds	61,233,026			
Real estate funds	25,864,266			
Insurance linked securities	8,200,120			
Subtotal assets by NAV	181,660,325			
Total assets at fair value	\$ 356,016,458			
<b>LIABILITIES</b>				
Interest rate exchange agreements	\$ (1,805,963)	\$ -	\$ (1,805,963)	\$ -

# LAWRENCE UNIVERSITY OF WISCONSIN

## NOTES TO FINANCIAL STATEMENTS As of and for the Year Ended June 30, 2020 and 2019

### 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, 2019:

	Total	Level 1	Level 2	Level 3
<b>ASSETS</b>				
Short-term investments	\$ 379,951	\$ 379,951	\$ -	\$ -
Equity securities				
Domestic	83,410,110	83,410,110	-	-
Foreign	58,370,033	58,370,033	-	-
Fixed income securities				
Domestic	37,226,499	29,806,041	7,420,458	-
Foreign	945,112	-	945,112	-
Beneficial interest in funds held in trust	3,177,554	-	-	3,177,554
	<u>183,509,259</u>	<u>\$ 171,966,135</u>	<u>\$ 8,365,570</u>	<u>\$ 3,177,554</u>
Subtotal assets by valuation hierarchy				
Investments measured using NAV				
Alternative investments				
Hedge fund	84,122,756			
Private equity funds	51,341,440			
Real estate funds	30,967,378			
Insurance linked securities	8,068,682			
Subtotal assets by NAV	<u>174,500,256</u>			
Total assets at fair value	<u>\$ 358,009,515</u>			
<b>LIABILITIES</b>				
Interest rate exchange agreements	\$ (848,759)	\$ -	\$ (848,759)	\$ -

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 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.

# LAWRENCE UNIVERSITY OF WISCONSIN

## NOTES TO FINANCIAL STATEMENTS As of and for the Year Ended June 30, 2020 and 2019

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

**Beneficial interest in funds held in trust** – The University's beneficial interest in funds held in trust administered by third parties 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 or is an irrevocable beneficiary of the trust's remainder at death, 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, 2020:

	Balances June 30, 2019	Net Realized and Unrealized Gains (Losses) Included in Change in Net Assets	Purchases	Sales	Transfers	Balances June 30, 2020
Beneficial interest in funds held in trust	\$ 3,177,554	\$ 15,186	\$ -	\$ (151,156)	\$ -	\$ 3,041,584

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, 2020:

\$ 15,186

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, 2019:

	Balances June 30, 2018	Net Realized and Unrealized Gains (Losses) Included in Change in Net Assets	Purchases	Sales	Net transfers in (out) of Level 3	Balances June 30, 2019
Beneficial interest in funds held in trust	\$ 3,188,225	\$ (10,671)	\$ -	\$ -	\$ -	\$ 3,177,554

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, 2019:

\$ (10,671)



# LAWRENCE UNIVERSITY OF WISCONSIN

## NOTES TO FINANCIAL STATEMENTS As of and for the Year Ended June 30, 2020 and 2019

### 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	Insurance Linked Securities
Fair Value as of June 30, 2020	\$61,233,026	\$25,864,266	\$86,362,913	\$8,200,120
Fair Value as of June 30, 2019	\$51,341,440	\$30,967,378	\$84,122,755	\$8,068,682
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	Invests primarily in assets which carry exposure to insurance risk, in particular, insurance linked securities
Remaining Life	1 to 13 years	1 to 10 years	N.A.	N.A.
Dollar Amount of Unfunded Commitments as of June 30, 2020	\$45,600,485	\$0	\$0	\$0
Timing to Draw Down Commitments	1 to 13 years	1 to 5 years	N.A.	NA
Redemption Terms	N.A.	30 day notice for core	60-90 days notice	180 days notice; 1st day in March and 1st day in September in each fiscal year
Redemption Restrictions	N.A.	Value added real estate is closed end fund	N.A.	N.A.
Redemption Restrictions in Place at Year End	N.A.	N.A.	N.A.	N.A.

# LAWRENCE UNIVERSITY OF WISCONSIN

## NOTES TO FINANCIAL STATEMENTS As of and for the Year Ended June 30, 2020 and 2019

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### NOTE 3 – NET ASSETS

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The University's net assets with donor restrictions are comprised of the following at June 30:

	<u>2020</u>	<u>2019</u>
Donor Restricted Net Assets Not Invested in Perpetuity		
Restricted for capital additions	\$ 3,462,754	\$ 4,071,864
Restricted to future periods	7,494,733	6,620,795
Split-interest agreements, net	2,006,904	2,296,959
Restricted for other donor designated purposes	77,991,793	81,858,977
Underwater endowment	<u>(196,241)</u>	<u>(23,955)</u>
Subtotal	<u>90,759,943</u>	<u>94,824,640</u>
Donor Restricted Net Assets Invested in Perpetuity, the Income from which is Expended for:		
Faculty chairs	38,785,990	37,388,052
Scholarships	133,432,181	129,462,645
Other donor imposed restrictions	62,210,981	58,445,219
General operations	<u>8,061,250</u>	<u>7,675,608</u>
	242,490,402	232,971,524
Contributions receivable, net	7,698,685	8,610,076
Split-interest agreements, net	<u>3,296,948</u>	<u>3,227,314</u>
Subtotal	<u>253,486,035</u>	<u>244,808,914</u>
Total Donor Restricted Net Assets	<u>\$ 344,245,978</u>	<u>\$ 339,633,554</u>

# LAWRENCE UNIVERSITY OF WISCONSIN

## NOTES TO FINANCIAL STATEMENTS As of and for the Year Ended June 30, 2020 and 2019

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### NOTE 4 – NET ASSETS RELEASED FROM RESTRICTIONS

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Net assets were released from donor restrictions during the years ended June 30, 2020 and 2019 by incurring expenses satisfying the restricted purposes or by occurrence of other events specified by donors.

	<u>2020</u>	<u>2019</u>
Purpose restrictions accomplished:		
Funded endowment restrictions	\$ 986,573	\$ 1,293,780
Other donor imposed restrictions	2,484,531	3,181,128
Investment return designated for current purposes	14,192,129	12,481,580
Gift-funded capital additions	<u>2,990,139</u>	<u>544,617</u>
	20,653,372	17,501,105
Unrestricted pledge payments received	<u>1,718,217</u>	<u>1,572,257</u>
Totals	<u>\$ 22,371,589</u>	<u>\$ 19,073,362</u>

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### NOTE 5 – CONTRIBUTIONS RECEIVABLE, NET

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

	<u>2020</u>	<u>2019</u>
Contributions receivable expected to be collected in:		
Less than One Year	\$ 9,014,597	\$ 9,250,603
One Year to Five Years	9,498,112	7,922,872
Over Five Years	<u>607,661</u>	<u>1,166,516</u>
Gross unconditional promises to give	19,120,370	18,339,991
Less:		
Discount to net present value	(468,971)	(638,294)
Allowance for uncollectible promises	<u>(160,636)</u>	<u>(140,509)</u>
Net Unconditional Promises to Give	<u>\$ 18,490,763</u>	<u>\$ 17,561,188</u>

Contributions due in more than one year were discounted at interest rates ranging from 0.6% to 3.4%.

Conditional contributions of \$630,000 and \$840,000 were not recorded as of June 30, 2020 and 2019, respectively. The contributions will be recognized as revenue when the conditions are met.

# LAWRENCE UNIVERSITY OF WISCONSIN

## NOTES TO FINANCIAL STATEMENTS

As of and for the Year Ended June 30, 2020 and 2019

### **NOTE 6 – STUDENT LOANS RECEIVABLE, NET**

The University issued uncollateralized loans to students based on financial need through the Federal Perkins government loan program. This program ended on September 30, 2017. Lawrence University also 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:

	2020	2019
Student loans:		
Lawrence University Loans	\$ 176,508	\$ 335,820
Perkins Student Loans	<u>3,732,486</u>	<u>4,765,182</u>
	3,908,994	5,101,002
Less: Allowance for uncollectible accounts		
Beginning of year	(879,000)	(847,000)
Write-offs/(Recoveries)	<u>205,000</u>	<u>(32,000)</u>
End of year	<u>(674,000)</u>	<u>(879,000)</u>
Student Loans Receivable, Net	<u>\$ 3,234,994</u>	<u>\$ 4,222,002</u>

Funds advanced by the Federal government of \$2,181,472 and \$2,472,968 at June 30, 2020 and 2019, respectively, are ultimately refundable to the government and are classified as liabilities in the statement of financial position. During the year ended June 30, 2020, the University refunded \$291,496 as directed to the Federal government.

The aging of the student loan portfolio by classes of loans as of June 30, 2020 and 2019 is presented as follows:

		2020						
Classes of Loans	Not in Repayment	Current Balance	Less than 240 Days Past Due	240 Days to 2 Years Past Due	2 Years to 5 Years Past Due	More than 5 Years Past Due	Total	
Federal Perkins Loans	\$ 1,160,208	\$ 1,752,489	\$ 188,661	\$ 158,532	\$ 209,194	\$ 263,402	3,732,486	
Lawrence University Loans	57,616	87,058	-	-	31,834	-	176,508	
							<u>\$ 3,908,994</u>	
		2019						
Classes of Loans	Not in Repayment	Current Balance	Less than 240 Days Past Due	240 Days to 2 Years Past Due	2 Years to 5 Years Past Due	More than 5 Years Past Due	Total	
Federal Perkins Loans	\$ 1,645,923	\$ 1,883,340	\$ 552,023	\$ 228,895	\$ 169,409	\$ 285,592	4,765,182	
Lawrence University Loans	28,021	194,042	23,712	10,155	79,890	-	335,820	
							<u>\$ 5,101,002</u>	

# LAWRENCE UNIVERSITY OF WISCONSIN

## NOTES TO FINANCIAL STATEMENTS As of and for the Year Ended June 30, 2020 and 2019

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### NOTE 7 – INVESTMENTS

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

	<u>2020</u>	<u>2019</u>
Cash and short-term investments	\$ 1,439	\$ 1,439
Certificates of deposits	382,765	378,512
Equity securities		
Domestic	86,573,650	83,410,110
Foreign	44,964,815	58,370,033
Fixed income securities		
Domestic	38,360,727	37,226,499
Foreign	1,031,153	945,112
Alternative investments	181,660,325	174,500,256
Beneficial interest in funds held in trust	<u>3,041,584</u>	<u>3,177,554</u>
 Total Investments	 <u>\$ 356,016,458</u>	 <u>\$ 358,009,515</u>

# LAWRENCE UNIVERSITY OF WISCONSIN

## NOTES TO FINANCIAL STATEMENTS As of and for the Year Ended June 30, 2020 and 2019

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### NOTE 8 – PROPERTY AND EQUIPMENT, NET

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Property and equipment consists of the following at June 30:

	<u>2020</u>	<u>2019</u>
Land and land improvements	\$ 12,786,701	\$ 11,639,757
Buildings	186,141,762	183,628,587
Equipment/Library Books	74,143,092	72,277,999
Construction in progress	<u>1,349,366</u>	<u>1,194,880</u>
	274,420,921	268,741,223
Less: Accumulated depreciation	<u>(169,289,478)</u>	<u>(162,351,247)</u>
Totals	<u>\$ 105,131,443</u>	<u>\$ 106,389,976</u>

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### NOTE 9 – LINE OF CREDIT

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The University has a 12-month revolving unsecured line of credit with a bank under which it may borrow up to \$8,000,000 (for general operating purposes). At June 30, 2020 and 2019, outstanding borrowings on the line of credit were \$3,165,035 and \$2,425,674, respectively. The line of credit accrues interest at a variable rate which was 3.25% and 5.50% at June 30, 2020 and June 30, 2019, respectively.

# LAWRENCE UNIVERSITY OF WISCONSIN

## NOTES TO FINANCIAL STATEMENTS As of and for the Year Ended June 30, 2020 and 2019

### **NOTE 10 – LONG-TERM DEBT, NET**

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

<b><u>Wisconsin Health and Educational Facilities Authority, Revenue Bonds</u></b>	2020	2019
<b>Series 2020</b> - fixed rate (ranging from 2.0% to 4.0%), unsecured, payable in annual installments, maturing on February 1, 2045	\$ 14,850,000	\$ -
<b>Series 2014</b> - variable rate (currently 1.0864%). The series 2014 bonds are variable rate direct purchase bonds and can be called and mature in 2040. The bonds were purchased by DNT Asset Trust (JPMorgan Chase Bank). The University has one interest rate exchange agreement in place during the year ended June 30, 2020. Under the agreement, the University either pays additional interest or receives an interest credit depending on the relationship between the variable rate and the fixed rate. See footnote 17 for details regarding statement of financial position and statement of activities impact related to this agreement. The interest rate exchange agreement has the following rate and maturity:		
\$25.505 million maturing November 1, 2024 at 1.79%,	25,505,000	35,505,000
<b>Series 2012</b> - fixed rate (ranging from 1.4% to 3.5%), unsecured, payable in annual installments, maturing on February 1, 2023. Advance refunded into Series 2020 bond	-	<u>5,225,000</u>
	40,355,000	40,730,000
Plus: Unamortized bond premium - Series 2020	1,189,020	-
Less: Unamortized bond issuance costs	<u>(307,362)</u>	<u>(221,151)</u>
Totals	<u>\$ 41,236,658</u>	<u>\$ 40,508,849</u>

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

# LAWRENCE UNIVERSITY OF WISCONSIN

## NOTES TO FINANCIAL STATEMENTS As of and for the Year Ended June 30, 2020 and 2019

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### **NOTE 10 – LONG-TERM DEBT, NET (cont.)**

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The Series 2020, 2014 and 2012 Revenue Bonds have restrictive financial covenants. The University is in compliance with these covenants as of June 30, 2020 and 2019.

Maturities of long-term debt are as follows:

2021	\$	1,275,000
2022		1,120,000
2023		1,165,000
2024		1,215,000
2025		1,250,000
Thereafter		<u>34,330,000</u>
		<u>\$ 40,355,000</u>

For the years ended June 30, 2020 and 2019, interest expense on long-term debt approximated \$1,247,600 and \$1,275,500, respectively. There was no capitalized interest in 2020 or 2019.

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### **NOTE 11 – EXECUTIVE RETIREMENT PLAN**

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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 3.09% for 2020 and 3.87% for 2019. The present value of these payments at June 30, 2020 and 2019 was \$169,848 and \$247,260, respectively, and are included in accrued liabilities on the statements of financial position. Payments during the years ended June 30, 2020 and 2019 were \$88,880, and retirement expense was \$11,468 and \$8,745, respectively.



# LAWRENCE UNIVERSITY OF WISCONSIN

## NOTES TO FINANCIAL STATEMENTS As of and for the Year Ended June 30, 2020 and 2019

### **NOTE 12 – POSTRETIREMENT OBLIGATION (cont.)**

The University allows retired employees under age 65 and their spouses 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:

	2020	2019
Accrued postretirement benefit cost at July 1	\$ (2,955,017)	\$ (3,053,736)
Net periodic postretirement benefit cost	39,658	45,825
Actual retiree benefit payments	68,818	52,894
Accrued postretirement benefit cost at June 30	\$ (2,846,541)	\$ (2,955,017)

Benefits expected to be paid for each of the five years subsequent to June 30, 2020 are estimated to be \$155,334, \$153,960, \$157,383, \$126,232 and \$117,404, respectively. Benefits expected to be paid 2026 through 2030 are estimated to be \$590,797. Contributions from the University expected to be paid to the plan for the year ended June 30, 2021 are estimated to be \$(96,733).

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

	2020	2019
Accumulated postretirement benefit obligation (APBO):		
(a) Retirees	\$ (762,927)	\$ (633,402)
(b) Active employees eligible to retire	(553,862)	(528,924)
(c) Active employees not eligible to retire	(585,058)	(790,457)
(d) Total APBO	(1,901,847)	(1,952,783)
Fair value of plan assets	-	-
Unfunded status	(1,901,847)	(1,952,783)
Prior service cost	(487,654)	(662,440)
Unrecognized net gain (loss)	(457,040)	(339,794)
Accrued Postretirement Benefit Obligation	\$ (2,846,541)	\$ (2,955,017)

# LAWRENCE UNIVERSITY OF WISCONSIN

## NOTES TO FINANCIAL STATEMENTS As of and for the Year Ended June 30, 2020 and 2019

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### NOTE 12 – POSTRETIREMENT OBLIGATION (cont.)

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The June 30, 2020 APBO is based on June 30, 2020 participant data. For 2020 and 2019, the weighted average discount rate used in determining the actuarial present value of the projected benefit obligation was 2.08% and 3.09%, respectively. The assumed health care trend rate was 9% for fiscal year 2020 and gradually declines to 5% in the year 2031.

The effect of a 1.0% increase in each future health care trend rate would change the APBO by approximately \$151,431 or 8.0%. The effect of a 1.0% decrease in each future health care trend rate would change the APBO by approximately \$(133,998) or 7.0%.

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

	<u>2020</u>	<u>2019</u>
Service cost	\$ 91,456	\$ 77,926
Interest cost	58,270	68,368
Amortization of Prior Service Cost	(174,786)	(174,786)
Amortization of loss	<u>(14,598)</u>	<u>(17,333)</u>
Net Periodic Postretirement Benefit Cost	<u>\$ (39,658)</u>	<u>\$ (45,825)</u>

The above 2020 service cost and interest cost are based on June 30, 2020 participant data. For 2020 and 2019, the weighted average discount rate used in determining the actuarial present value of the projected benefit obligation was 2.08% and 3.09%, respectively. The assumed health care trend rate was 9% for fiscal year 2020 and gradually declines to 5% in the year 2031.

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 \$20,352 or 13.6%. 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 \$(17,429) or (11.6%).

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### NOTE 13 – 403(b) RETIREMENT PLAN

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The University participates in the Wisconsin Association of Independent Colleges and Universities (WAICU) Retirement Readiness Plan, a multi-employer retirement plan. Employees are immediately eligible to participate in the plan. After two years of service, employees are required to participate in the plan and to contribute 4% of their salary to the plan. The University will match employee contributions at 8% 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, 2020 and 2019 was approximately \$2,358,000 and \$2,163,000, respectively.

# LAWRENCE UNIVERSITY OF WISCONSIN

## NOTES TO FINANCIAL STATEMENTS As of and for the Year Ended June 30, 2020 and 2019

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### **NOTE 14 – DEFERRED COMPENSATION PLAN**

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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, 2020 and 2019. At June 30, 2020 and 2019, the deferred compensation liability was \$269,651 and \$235,338, respectively. A liability representing the amount owed under this plan is included in the accrued liabilities line on the statements of financial position.

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### **NOTE 15 – DEFERRED GIFT AGREEMENTS**

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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 with certain arrangements 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 for its charitable gift annuities and makes distributions to the beneficiaries as required. When the various agreements reaches the end of its term, the remaining assets retained by the University are shown as net assets with or without donor restrictions.

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. 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, 2020 and 2019, the University received gift income of approximately \$3,300 and \$16,250, respectively, relating to deferred gift agreements. Total assets held by the University under deferred gift agreements and liabilities related to these agreements totaled approximately \$6,852,000 and \$2,102,000, respectively, at June 30, 2020 and \$6,965,000 and \$2,172,000, respectively, at June 30, 2019.

# LAWRENCE UNIVERSITY OF WISCONSIN

## NOTES TO FINANCIAL STATEMENTS As of and for the Year Ended June 30, 2020 and 2019

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### NOTE 16 – ENDOWMENT

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The University's endowment consists of approximately 900 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.

Endowment net asset composition by type of fund consists of the following as of June 30, 2020:

	Without Donor Restrictions	With Donor Restrictions	Total
Donor-restricted endowment funds	\$ -	\$ 316,577,881	\$ 316,577,881
Board-designated endowment funds	44,502,029	-	44,502,029
Total Endowment Net Assets	<u>\$44,502,029</u>	<u>\$ 316,577,881</u>	<u>\$ 361,079,910</u>

Endowment net asset composition by type of fund consists of the following as of June 30, 2019:

	Without Donor Restrictions	With Donor Restrictions	Total
Donor-restricted endowment funds	\$ -	\$ 311,627,627	\$ 311,627,627
Board-designated endowment funds	45,330,032	-	45,330,032
Total Endowment Net Assets	<u>\$45,330,032</u>	<u>\$ 311,627,627</u>	<u>\$ 356,957,659</u>

**LAWRENCE UNIVERSITY OF WISCONSIN**

NOTES TO FINANCIAL STATEMENTS  
As of and for the Year Ended June 30, 2020 and 2019

**NOTE 16 – ENDOWMENT (cont.)**

Changes in endowment net assets for the year ended June 30, 2020 are as follows:

	Without Donor Restrictions	With Donor Restrictions	Total
Endowment net assets, June 30, 2019	\$ 45,330,032	\$ 311,627,627	\$ 356,957,659
Investment return:			
Investment income	-	4,795,459	4,795,459
Net appreciation (depreciation) - realized and unrealized	1,617,915	6,948,143	8,566,058
Total investment return	1,617,915	11,743,602	13,361,517
Contributions	425,833	9,519,025	9,944,858
Appropriation of endowment assets for expenditure	(2,871,751)	(16,312,373)	(19,184,124)
Endowment Net Assets, June 30, 2020	<u>\$ 44,502,029</u>	<u>\$ 316,577,881</u>	<u>\$ 361,079,910</u>

Changes in endowment net assets for the year ended June 30, 2019 are as follows:

	Without Donor Restrictions	With Donor Restrictions	Total
Endowment net assets, June 30, 2018	\$ 45,467,309	\$ 294,363,856	\$ 339,831,165
Investment return:			
Investment income	-	4,498,484	4,498,484
Net appreciation (depreciation) - realized and unrealized	2,524,862	12,383,804	14,908,666
Total investment return	2,524,862	16,882,288	19,407,150
Contributions	61,826	14,635,863	14,697,689
Liquidation of split interest agreements to endowment	-	13,213	13,213
Appropriation of endowment assets for expenditure	(2,723,965)	(14,267,593)	(16,991,558)
Endowment Net Assets, June 30, 2019	<u>\$ 45,330,032</u>	<u>\$ 311,627,627</u>	<u>\$ 356,957,659</u>

# LAWRENCE UNIVERSITY OF WISCONSIN

## NOTES TO FINANCIAL STATEMENTS As of and for the Year Ended June 30, 2020 and 2019

### NOTE 16 – ENDOWMENT (cont.)

**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 Uniform Prudent Management of Institutional Funds Act (UPMIFA) requires the University to retain as a fund of perpetual duration. Deficiencies of this nature were \$196,241 and \$23,955 as of June 30, 2020 and 2019, respectively. These deficiencies resulted from unfavorable market fluctuations that occurred shortly after the investment of new donor restricted contributions and continued appropriation for certain programs that was deemed prudent by the governing board.

	Without Donor Restrictions	With Donor Restrictions		Total	Total Funds June 30, 2020
		Original Gift	Accumulated Gain (losses)		
Board-designated endowment funds	\$ 44,502,029	\$ -	\$ -	\$ -	\$ 44,502,029
Donor-restricted endowment funds:					
Underwater funds	-	20,276,583	(196,241)	20,080,342	20,080,342
Other funds	-	222,213,819	74,283,720	296,497,539	296,497,539
<b>Total Endowment Net Assets</b>	<b>\$ 44,502,029</b>	<b>\$ 242,490,402</b>	<b>\$ 74,087,479</b>	<b>\$ 316,577,881</b>	<b>\$ 361,079,910</b>

	Without Donor Restrictions	With Donor Restrictions		Total	Total Funds June 30, 2019
		Original Gift	Accumulated Gain (losses)		
Board-designated endowment funds	\$ 45,330,032	\$ -	\$ -	\$ -	\$ 45,330,032
Donor-restricted endowment funds:					
Underwater funds	-	4,039,031	(23,955)	4,015,076	4,015,076
Other funds	-	228,932,494	78,680,057	307,612,551	307,612,551
<b>Total Endowment Net Assets</b>	<b>\$ 45,330,032</b>	<b>\$ 232,971,525</b>	<b>\$ 78,656,102</b>	<b>\$ 311,627,627</b>	<b>\$ 356,957,659</b>

**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 As of and for the Year Ended June 30, 2020 and 2019

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### NOTE 16 – ENDOWMENT (cont.)

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

**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 2020 and 2019, the Board of Trustees approved the endowment payout of \$19,184,124 and \$16,991,558, respectively.

**Interpretation of Relevant Law** – The University's governing board has interpreted the Wisconsin enacted version of 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, when reviewing donor-restricted endowment funds, the University considers a fund to be underwater if the fair value of the fund is less than the sum of: a) the original value of initial and subsequent gift amounts donated to the fund; and b) any accumulations to the fund that are required to be maintained in perpetuity in accordance with the direction of the applicable donor gift instrument. The University has interpreted UPMIFA to permit spending from underwater funds in accordance with the prudent measures required under the law.

Additionally, 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

As of and for the Year Ended June 30, 2020 and 2019

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### **NOTE 17 – DERIVATIVE INSTRUMENTS**

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The University uses interest rate exchange agreements as part of its risk management strategy to manage exposure to fluctuations in interest rates and to manage the overall cost of its debt (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.



# LAWRENCE UNIVERSITY OF WISCONSIN

## NOTES TO FINANCIAL STATEMENTS As of and for the Year Ended June 30, 2020 and 2019

### NOTE 17 – DERIVATIVE INSTRUMENTS (cont.)

In fiscal 2020, the University paid \$179,690 more than it received in interest under the swap agreements. In fiscal 2019, the University paid \$44,300 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, 2020:

Instrument Type	Notional Amount	Maturity Date	Rate Paid	Rate Received
Floating to fixed rate swap	\$ 25,505,000	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, 2020 and 2019 as follows:

Derivatives Not Designated as Hedging Instruments	Statement of Financial Position Location	Liabilities Derivative	
		Fair Value	
		2020	2019
Interest rate swap	Accrued Liabilities	<u>\$ 1,805,963</u>	<u>\$ 848,759</u>

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 Activities	Amount of Gain (Loss) on Derivatives Recognized in the Statement of Activities	
		2020	2019
Interest rate swap	Other Non-operating Items	<u>\$ (957,204)</u>	<u>\$ (999,942)</u>

# LAWRENCE UNIVERSITY OF WISCONSIN

## NOTES TO FINANCIAL STATEMENTS As of and for the Year Ended June 30, 2020 and 2019

### NOTE 18 – FUNCTIONAL CLASSIFICATION OF EXPENSES

The costs of program and supporting services activities have been summarized on a functional basis in the statement of activities. The University reports expenditures in categories reflecting core operational objectives for higher education as defined by Integrated Post Secondary Education Data System (IPEDS). The financial statements report certain categories of expenses that are attributable to one or more program or supporting functions of the University. These expenses include depreciation, interest, facilities operations and maintenance. Depreciation and facilities operations and maintenance were allocated based on square footage and interest is allocated based on usage of proceeds borrowed.

	2020			Total
	Program Activities	Support		
		Institutional Support	Institutional Fundraising	
Salaries and benefits	\$ 34,384,865	\$ 6,945,198	\$ 2,740,689	\$ 44,070,752
Fees for outside services	839,383	607,504	17,507	1,464,394
Advertising and promotion	41,382	167,223	690	209,295
Office expenses	1,175,974	169,653	8,433	1,354,060
Information technology	-	810,391	-	810,391
Dining	3,433,437	-	-	3,433,437
Occupancy	1,865,975	191,197	-	2,057,172
Repairs and maintenance	1,620,101	57,853	8,637	1,686,591
Travel and conferences	1,360,505	66,628	205,405	1,632,538
Interest	1,298,692	106,204	-	1,404,896
Depreciation	6,960,808	304,316	-	7,265,124
Insurance	425	681,541	-	681,966
Off campus expenses	1,602,261	-	-	1,602,261
Student grants	674,099	-	-	674,099
Miscellaneous	1,643,703	674,368	98,857	2,416,928
	\$ 56,901,610	\$ 10,782,076	\$ 3,080,218	\$ 70,763,904

  

	2019			Total
	Program Activities	Support		
		Institutional Support	Institutional Fundraising	
Salaries and benefits	\$ 34,148,331	\$ 6,336,988	\$ 2,784,767	\$ 43,270,086
Fees for outside services	1,202,779	590,847	60,471	1,854,097
Advertising and promotion	325,642	83,561	1,665	410,868
Office expenses	1,174,835	204,914	10,091	1,389,840
Information technology	20,917	851,955	-	872,872
Dining	4,552,987	-	-	4,552,987
Occupancy	1,994,685	231,499	-	2,226,184
Repairs and maintenance	1,654,146	84,835	17,834	1,756,815
Travel and conferences	1,975,531	141,866	345,613	2,463,010
Interest	1,305,429	31,011	-	1,336,440
Depreciation	7,065,689	363,676	-	7,429,365
Insurance	2,812	634,645	-	637,457
Off campus expenses	1,189,352	-	-	1,189,352
Miscellaneous	1,781,156	664,308	111,795	2,557,259
	\$ 58,394,291	\$ 10,220,105	\$ 3,332,236	\$ 71,946,632

# LAWRENCE UNIVERSITY OF WISCONSIN

## NOTES TO FINANCIAL STATEMENTS As of and for the Year Ended June 30, 2020 and 2019

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

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	2020	2019
Supplemental Cash Flow Information		
Cash paid for interest	\$ 1,182,415	\$ 1,300,007
Property and equipment financed with accounts payable	356,042	111,788
Noncash Investing and Financing Information		
Revenue bonds issued for refunding	12,850,000	-
Net original issue premium	1,205,088	-
Principal retired with refunding	(13,795,000)	-
Issuance costs on debt issued	(226,333)	-

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### **NOTE 20 – RELATED PARTY TRANSACTIONS**

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The University received \$1.4 million and \$1.055 million of gifts and contributions during fiscal years 2020 and 2019, respectively, from board of trustee members and employees. As of June 30, 2020 and 2019, \$4.554 million and \$4.966 million of contributions, respectively, were recorded as receivables.

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### **NOTE 21 – CONCENTRATIONS OF CREDIT RISK**

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Financial instruments that potentially subject the University to concentrations of credit risk consist principally of cash and cash equivalents, short-term investments, marketable securities and other investments and accounts receivable and notes. The University places substantially all of its cash and liquid investments with high-quality financial institutions and limits the amount of credit exposure to any one financial institution; however, cash balances periodically exceed federally insured limits. Marketable securities, consisting of both debt and equity instruments, are generally placed in a variety of managed funds administered by different investment managers in order to limit credit risk. Student notes and receivables and other receivables are due from a variety of sources concentrated primarily in the Midwestern United States. In addition, the University's students receive a substantial amount of support from state and federal student financial assistance programs which are subject to audit by governmental agencies. A significant reduction in the level of this support, if this were to occur, could have an adverse effect on the University's programs and activities.

# LAWRENCE UNIVERSITY OF WISCONSIN

## NOTES TO FINANCIAL STATEMENTS As of and for the Year Ended June 30, 2020 and 2019

### NOTE 22 – AVAILABLE RESOURCES AND LIQUIDITY

The University regularly monitors liquidity required to meet its operating needs and other contractual commitments, while also striving to maximize the investment of its available funds. For purposes of analyzing resources available to meet operating needs over a 12-month period, the University considers all expenditures related to its ongoing activities of teaching, research, and public service as well as the conduct of services undertaken to support those activities to be general expenditures. Student Perkins loans receivable are not included in the analysis as principal and interest on these loans are primarily restricted for the Perkins loan program and not available to meet current operating needs.

In addition to financial assets available to meet general expenditures, the University operates with an operating budget that anticipates collecting sufficient tuition, fees, and other revenue to cover general expenditures not covered by donor-restricted resources. The University has various sources of liquidity at its disposal, including cash and cash equivalents, marketable equity and fixed income securities, and a line of credit (Note 9).

As of June 30, 2020 and 2019, the following table shows the total financial assets held by the University that could readily be made available within one year to meet general expenditures:

	2020	2019
Cash and cash equivalents	\$ 9,601,223	\$ 5,407,109
Less: Cash managed with the endowment	(9,224,436)	(4,648,642)
Student accounts receivable, net	174,079	158,857
Government grants receivable	71,403	47,589
Expected collections of student loans receivable	60,000	60,000
Other prepaid assets	707,024	162,731
Investments - certificate of deposit	382,765	378,512
Current portion of contributions receivable for operations	3,797,872	3,729,522
Available Board-designated endowment funds, if necessary	22,078,045	23,641,951
Endowment spending policy draw less expected amount to be reinvested	16,748,001	15,522,873
Additional endowment draw above spending policy approved at time of issuance	2,891,250	4,061,000
	<u>\$ 47,287,226</u>	<u>\$ 48,521,502</u>
 <u>Available Board-designated endowment funds</u>		
Balance June 30,	\$ 44,502,029	\$ 45,330,032
Undesignated net assets without donor restrictions	(19,449,520)	(18,497,234)
Approximate endowment payout for operations	(2,974,464)	(3,190,847)
Remaining Board-designated endowment funds	<u>\$ 22,078,045</u>	<u>\$ 23,641,951</u>

The Board-designated endowment is subject to an annual spending rate as described in the Endowment Funds footnote (Note 16). Although the University does not intend to spend from the gift corpus of these funds, these amounts could be made available if deemed necessary.

The University may request additional special endowment draws to be approved by the Board of Trustees during the next twelve months to manage liquidity needs.

# LAWRENCE UNIVERSITY OF WISCONSIN

## NOTES TO FINANCIAL STATEMENTS As of and for the Year Ended June 30, 2020 and 2019

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### **NOTE 23 – RECLASSIFICATIONS**

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For comparability, certain 2019 amounts have been reclassified to conform to classification adopted in 2020. The reclassifications have no effect on reported amounts of total net assets or change in total net assets.

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### **NOTE 24 – CONTINGENT PAYMENT PERFORMANCE CONTRACT**

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On May 29, 2020, the University entered into a contingent payment performance contract with Johnson Controls, Inc. The contract provides for approximately \$5.5 million of energy efficiency improvements on campus in a cash neutral manner for which the contract pays up front for the equipment and labor to complete such improvements that will be repaid by the University over the next 20 years through energy savings and reduced or avoided repair, maintenance and replacement costs. The improvements are expected to be completed during the fiscal year ended June 30, 2021 with the first payment due April 2021.

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### **NOTE 25 – SUBSEQUENT EVENTS**

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The University has evaluated subsequent events through October 20, 2020, which is the date that the financial statements were issued.

The coronavirus pandemic will have material financial effects on the operations of the University for the fiscal year ending June 30, 2021. The University waived its residency requirement for the Fall term and redesigned more than 70 percent of its courses to be offered online and available to both on-campus and remote students. As a result, approximately 40 percent of students chose to live off-campus for Fall Term and continue their education in distance mode. Lawrence anticipates approximately a \$7.5 million reduction in net student revenue if subsequent terms residency rates are similar to the Fall term. The University also expects an estimated auxiliary enterprises operating revenue reduction of \$1 million for the year. The University will incur costs for coronavirus testing and health and safety measures, not expected to exceed \$3 million. Management has identified cost savings measures of approximately \$7 million to offset the loss of revenue and anticipated testing and health and safety costs, and will continue to seek additional savings and efficiencies throughout the year. In addition, the University expects to receive approximately \$500 thousand in federal CARES Act relief funds in fiscal year 2021 through the State of Wisconsin. The Board of Trustees has authorized a special endowment draw of \$2.5 million through September 30, 2020 and anticipates additional endowment distributions may be necessary during the fiscal year to ensure adequate cash flow and liquidity debt covenants are met.

# LAWRENCE UNIVERSITY OF WISCONSIN

## NOTES TO FINANCIAL STATEMENTS As of and for the Year Ended June 30, 2020 and 2019

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### **NOTE 26 – NEW PRONOUNCEMENT NOT YET EFFECTIVE**

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In August 2018, Financial Accounting Standards Board (“FASB”) issued ASU No. 2018-13, *Fair Value Measurement (Topic 820): Disclosure Framework – Changes to the Disclosure Requirements for Fair Value Measurement* (“ASU No. 2018-13”). The new guidance modifies the disclosure requirements for fair value measurements in Topic 820, Fair Value Measurement. The amendments are based on the concepts in the FASB Concepts Statement, Conceptual Framework for Financial Reporting – Chapter 8: Notes to Financial Statements, which the Board finalized on August 28, 2018. ASU No. 2018-13 is effective for annual periods and interim periods within those annual periods beginning after December 15, 2019 (2020).

In February 2016, FASB issued ASU No. 2016-02, *Leases (Topic 842)* that amends the treatment for leases. The new accounting model for leases capitalizes all leases greater than twelve months, both capital and operating, as assets and liabilities on the statement of financial position. Organizations that have not yet adopted will be required to apply the standard for annual periods beginning after December 15, 2021 (2022). Early adoption is permitted.

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