

CARROLL UNIVERSITY

Waukesha, Wisconsin

FINANCIAL STATEMENTS

Including Independent Auditors' Report

June 30, 2010 and 2009

CARROLL UNIVERSITY

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INDEPENDENT AUDITORS' REPORT

To the Board of Trustees
Carroll University
Waukesha, Wisconsin

We have audited the accompanying statements of financial position of Carroll University (the "University") as of June 30, 2010 and 2009 and the related statements of activities and cash flows for the years then ended. These financial statements are the responsibility of the University's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the University's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Carroll University at June 30, 2010 and 2009, and the changes in their net assets and their cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Notes 2 and 3 to the financial statements, Carroll University adopted authoritative guidance on Fair Value Measurements and Endowment Fund Net Asset Classifications and Endowments of Not-for-Profit Organizations: Net Asset Classifications of Funds Subject to an Enacted Version of the Uniform Prudent Management of Institutional Funds Act, and Enhanced Disclosures.

Baker Tilly Virchow Krause, LLP

Madison, Wisconsin
October 11, 2010

CARROLL UNIVERSITY

STATEMENTS OF FINANCIAL POSITION

June 30, 2010 and 2009

ASSETS		
	2010	2009
Cash and cash equivalents	\$ 2,075,383	\$ 1,764,947
Federal loan program cash	632,645	372,251
Accounts receivable, net	2,350,445	1,160,714
Accrued interest receivable	19,503	20,573
Student loans receivable, net	4,015,157	4,268,377
Contributions receivable, net	1,105,325	1,701,935
Contributions receivable from charitable remainder trust	557,788	545,190
Prepaid expenses and other assets	1,034,879	803,331
Investments	51,430,262	46,711,309
Deposits with trustees	760,444	761,996
Investments in real estate, net	-	218,636
Bond issuance costs	183,461	196,689
Land, buildings and equipment, net	53,552,006	48,881,025
Beneficial interest in funds held in trust by others	3,243,568	2,968,892
TOTAL ASSETS	\$ 120,960,866	\$ 110,375,865
LIABILITIES AND NET ASSETS		
LIABILITIES		
Accounts payable	\$ 2,059,927	\$ 1,049,833
Accrued expenses	1,582,164	1,379,254
Deferred revenues	1,059,074	667,563
Liabilities under split interest agreements	1,712,417	1,797,777
Deferred compensation	393,190	280,875
Other liabilities	137,316	90,803
Long-term debt	12,653,386	13,050,509
Obligations under capitalized equipment leases	-	16,523
Asset retirement obligation	2,545,869	2,459,433
U.S. government grants refundable	3,024,392	3,085,154
Total Liabilities	25,167,735	23,877,724
NET ASSETS		
Unrestricted	43,222,482	38,095,264
Temporarily restricted	19,299,072	16,312,244
Permanently restricted	33,271,577	32,090,633
Total Net Assets	95,793,131	86,498,141
TOTAL LIABILITIES AND NET ASSETS	\$ 120,960,866	\$ 110,375,865

See accompanying notes to financial statements.

CARROLL UNIVERSITY

STATEMENTS OF UNRESTRICTED ACTIVITIES

Years Ended June 30, 2010 and 2009

	<u>2010</u>	<u>2009</u>
REVENUES		
Student tuition and fees (net of discounts of \$25,491,543 and \$23,125,027)	\$ 39,289,515	\$ 36,708,808
Auxiliary enterprises	11,113,262	10,005,349
Contributions	1,328,179	708,585
Endowment income	490	443,897
Investment income	425,978	484,752
Other income	167,026	154,454
Total Revenues	<u>52,324,450</u>	<u>48,505,845</u>
Net assets released from restrictions	<u>3,047,606</u>	<u>3,487,516</u>
Total Revenues and Net Assets Released From Restrictions	<u>55,372,056</u>	<u>51,993,361</u>
EXPENSES		
Instruction	16,618,980	15,172,774
Public service	251,339	91,233
Academic support	5,524,072	5,104,280
Student services	8,112,943	6,821,860
Institutional support	9,006,466	7,908,696
Auxiliary enterprises	10,990,383	10,233,802
Total Expenses	<u>50,504,183</u>	<u>45,332,645</u>
Operating revenues and net assets released from restrictions in excess of expenses	<u>4,867,873</u>	<u>6,660,716</u>
NON-OPERATING GAINS (LOSSES)		
Realized gains (losses) on sales of investments	401,707	(1,210,115)
Changes in unrealized (losses) gains on investments	1,807,067	(5,447,191)
Excess withdrawals over income earned under the "total return concept" for pooled endowment investments	<u>-</u>	<u>(239,497)</u>
Net Non-operating Gains (Losses)	<u>2,208,774</u>	<u>(6,896,803)</u>
CHANGE IN UNRESTRICTED NET ASSETS	<u>\$ 7,076,647</u>	<u>\$ (236,087)</u>

See accompanying notes to financial statements.

CARROLL UNIVERSITY

STATEMENTS OF ACTIVITIES
Year Ended June 30, 2010 and 2009

	2010				2009			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
REVENUES, GAINS AND OTHER SUPPORT								
Unrestricted revenues	\$ 52,324,450	\$ -	\$ -	\$ 52,324,450	\$ 48,505,845	\$ -	\$ -	\$ 48,505,845
Restricted contributions	-	1,140,870	1,130,611	2,271,481	-	782,431	656,418	1,438,849
Investment income on endowment	-	116,720	5,776	122,496	-	1,133,598	7,102	1,140,700
Other investment income	-	-	1,344	1,344	-	-	960	960
Federal grants	-	1,612,726	-	1,612,726	-	1,133,792	-	1,133,792
Changes in values of split interest agreements	-	(29,609)	(21,941)	(51,550)	-	(58,056)	(129,448)	(187,504)
Realized gains (losses) on investments	401,707	904,815	-	1,306,522	(1,210,115)	(3,909,986)	-	(5,120,101)
Unrealized gains (losses) on investments	1,807,067	339,483	65,154	2,211,704	(5,447,191)	(587,843)	(80,014)	(6,115,048)
Total Revenues and Gains	54,533,224	4,085,005	1,180,944	59,799,173	41,848,539	(1,506,064)	455,018	40,797,493
Net assets released from restrictions	3,047,606	(3,047,606)	-	-	3,487,516	(3,487,516)	-	-
Total Revenues, Gains and Other Support	57,580,830	1,037,399	1,180,944	59,799,173	45,336,055	(4,993,580)	455,018	40,797,493
EXPENSES AND LOSSES								
Unrestricted expenses	50,504,183	-	-	50,504,183	45,332,645	-	-	45,332,645
Excess withdrawals over income earned under total return concept	-	-	-	-	239,497	342,090	-	581,587
Total Expenses and Losses	50,504,183	-	-	50,504,183	45,572,142	342,090	-	45,914,232
Change in net assets	7,076,647	1,037,399	1,180,944	9,294,990	(236,087)	(5,335,670)	455,018	(5,116,739)
NET ASSETS AT BEGINNING OF YEAR	38,095,264	16,312,244	32,090,633	86,498,141	38,331,351	21,647,914	31,635,615	91,614,880
Endowment reclassification due to law change	(1,949,429)	1,949,429	-	-	-	-	-	-
NET ASSETS AT END OF YEAR	\$ 43,222,482	\$ 19,299,072	\$ 33,271,577	\$ 95,793,131	\$ 38,095,264	\$ 16,312,244	\$ 32,090,633	\$ 86,498,141

See accompanying notes to financial statements.

CARROLL UNIVERSITY

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

	2010	2009
CASH FLOWS FROM OPERATING ACTIVITIES		
Changes in net assets	\$ 9,294,990	\$ (5,116,739)
Adjustments to reconcile changes in net assets to net cash provided by operating activities		
Depreciation and amortization	3,265,977	2,860,163
Actuarial loss on split interest agreements	51,550	187,504
Amortization of bond issuance costs	13,227	35,618
Contributions restricted for long-term investment	(1,130,611)	(656,418)
Interest and dividends restricted for reinvestment	(7,120)	(8,062)
Realized (gains) losses on sale of investments, net	(1,460,823)	5,120,101
Unrealized gains (losses) on investments	(2,027,118)	6,115,048
Changes in operating assets and liabilities:		
Accounts receivable	(1,189,731)	(40,095)
Accrued interest receivable	1,070	23,573
Prepaid expenses and other assets	(231,548)	(190,432)
Contributions receivable	529,666	188,460
Contributions receivable from charitable remainder trusts	(12,598)	(142,686)
Student loans receivable	88,715	86,260
Accounts payable	897,653	(353,280)
Accrued expenses	202,910	(580,381)
Deferred revenues	391,511	164,617
Liabilities under split interest agreements	(136,910)	(300,719)
Asset retirement obligation	86,436	79,527
Other assets and liabilities	158,828	12,479
Net Cash Provided by Operating Activities	8,786,074	7,484,538
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sale of investments	77,536,573	75,687,382
Purchase of investments	(78,823,624)	(77,766,304)
Purchase of land, building and equipment	(7,819,450)	(3,478,189)
Loans issued to students	(332,294)	(462,652)
Repayments received on loans to students	496,799	411,911
Net Cash Flows From Investing Activities	(8,941,996)	(5,607,852)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from contributions restricted for investment in endowment	1,197,555	656,418
Interest and dividends restricted for reinvestment	7,120	8,062
Deposits with bond trustees, net	1,552	1,219,140
Payments on long-term debt and capital lease obligations	(418,713)	(2,534,263)
Decrease in U.S. government grants refundable	(60,762)	(5,031)
Net Cash Flows From Financing Activities	726,752	(655,674)
Net Change In Cash and Cash Equivalents	570,830	1,221,012
CASH AND CASH EQUIVALENTS - Beginning of Year	2,137,198	916,186
CASH AND CASH EQUIVALENTS - END OF YEAR	\$ 2,708,028	\$ 2,137,198
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Cash paid during the year for interest	\$ 703,618	\$ 811,308
Accounts payable for land, buildings and equipment	\$ 112,441	\$ -
RECONCILIATION OF CASH AND CASH EQUIVALENTS TO THE STATEMENT OF FINANCIAL POSITION		
Cash and cash equivalents	\$ 2,075,383	\$ 1,764,947
Federal loan program cash	632,645	372,251
CASH AND CASH EQUIVALENTS - END OF YEAR	\$ 2,708,028	\$ 2,137,198

See accompanying notes to financial statements.

CARROLL UNIVERSITY

NOTES TO FINANCIAL STATEMENTS June 30, 2010 and 2009

NOTE 1 – NATURE OF ACTIVITIES AND SIGNIFICANT ACCOUNTING POLICIES

Carroll University (the "University") is a non-profit, nonstock, private institution of higher education whose mission is to provide a superior educational opportunity for its students grounded in the liberal arts tradition and focused on career preparation and lifelong learning. The University is accredited by the North Central Association of Colleges and Secondary Schools and offers bachelor's and master's degree programs in various fields of study. The University is governed by a self-perpetuating Board of Trustees comprised of leaders from business, industry and other professions.

A summary of the significant accounting policies consistently applied in the preparation of the accompanying financial statements follows.

Basis of Presentation

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:

Unrestricted Net Assets - Net assets not subject to donor-imposed stipulations.

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. Contributions and investment income received with donor-imposed restrictions that are met in the same year as received are reported as revenues of the temporary restricted net asset class, and a reclassification to unrestricted net assets is made to reflect the expiration of such restrictions.

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.

Revenues are reported as increases in unrestricted net assets, unless use of the related assets is limited by donor-imposed restrictions. Expenses are reported as decreases in unrestricted net assets. Gains and losses on investments are reported as increases or decreases in unrestricted net assets unless their use is restricted by explicit donor stipulations or by law. Expirations of temporary restrictions recognized on net assets (i.e., the donor-stipulated purpose has been fulfilled and/or the stipulated time period has elapsed) are reported as reclassifications. Gifts used to acquire long-lived assets are considered to be released over the estimated useful lives of the assets using the University's depreciation policies.

CARROLL UNIVERSITY

NOTES TO FINANCIAL STATEMENTS June 30, 2010 and 2009

NOTE 1 – NATURE OF ACTIVITIES AND SIGNIFICANT ACCOUNTING POLICIES (cont.)

Contributions and Grant Income

Contributions, including unconditional promises to give, are recognized as revenues in the period received. Contributions of exhaustible long-lived assets, or of cash or other assets to be used to acquire them, without donor stipulations concerning the use of such long-lived assets, are reported as revenues of the temporarily restricted net asset class; the restrictions are considered to be released over the estimated useful lives of the long-lived assets using the University's depreciation policies. Contributions of assets other than cash are recorded at their estimated fair value at the date of gift, except that contributions of works of art, historical treasures, and similar assets held as part of collections are not capitalized. Allowance is made for doubtful contributions receivable based upon management's judgment of past collection experience and other relevant factors.

Revenue from other grants and contract agreements is recognized as it is earned through expenditure in accordance with the agreement.

Promises to Give

Unconditional promises to give that are expected to be collected within one year are recorded at net realizable value. Unconditional promises to give that are expected to be collected in future years are recorded at the present value of their estimated future cash flows. The discounts on those amounts are computed using risk-free interest rates applicable to the years in which the promises are received. Amortization of the discounts is included in contribution revenue. Conditional promises to give are not included as support until the conditions are substantially met.

Split Interest Agreements and Perpetual Trust

The University's split interest agreements with donors consist of irrevocable charitable remainder trusts, charitable gift annuities and life income contracts for which the University is either the remainder beneficiary or both the trustee and remainder beneficiary.

Assets held in trust for which the University serves as trustee are included in investments. In addition, the present value of the estimated future payments to be made to the donors and/or other beneficiaries is included in liabilities. Discount rates of 2.80% to 6.00% are used to calculate the present value of the split interest agreement liabilities. The liabilities are adjusted during the term of the trusts for changes in the value of the assets, accretion of the discount and other changes in the estimate of future benefits.

Assets held in trust for which the University does not serve as trustee are not reported as investments in the financial statements. However, contribution revenues and a receivable are recognized at the date the trusts are established for the present value of the estimated future payments to be received.

Cash and Cash Equivalents

Cash equivalents consist of short-term highly liquid instruments purchased with an original maturity date of three months or less. Such investments are valued at cost, which approximates market.

The University at times has cash and cash equivalents in excess of federally insured limits. At June 30, 2010 and 2009, the University had deposits of approximately \$2,122,000 and \$1,395,000, respectively, in excess of the federally insured limit of \$250,000 for interest bearing accounts, respectively. For substantially all non-interest bearing accounts, there was no insurance limit for the years ending June 30, 2010 and 2009, respectively.

CARROLL UNIVERSITY

NOTES TO FINANCIAL STATEMENTS June 30, 2010 and 2009

NOTE 1 – NATURE OF ACTIVITIES AND SIGNIFICANT ACCOUNTING POLICIES (cont.)

Receivables

Student accounts receivable are carried at the unpaid balance of the original amount billed to students and student notes receivables 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.

Bond Issuance Costs

Costs associated with the issuance of the 2001 and 2006 Wisconsin Health and Education Facilities Authority (WHEFA) Revenue Bonds, including underwriter's discount and bond issue expense, were capitalized in fiscal years 2002 and 2006 and are being amortized on a straight-line basis over 238 and 245 months, respectively, which are the terms of the bonds.

Amortization expense for the bond costs for 2010 and 2009 were \$13,227 and \$35,618, respectively. At June 30, 2010 and 2009, accumulated amortization was \$193,143 and \$206,370.

Deferred Revenue

Certain revenues related to 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.

Land, Buildings and Equipment

Plant assets consisting of land, buildings, equipment and library books are stated at cost, or, if contributed, at fair market value at the date of gift. Expenditures for additions and improvements are capitalized while replacements, maintenance and repairs which do not improve the useful lives of the assets are expensed as incurred. Depreciation on physical plant and equipment is recorded on the straight-line basis over the estimated useful life of the asset as follows:

	<u>Years</u>
Buildings	45
Land improvements	20
Equipment	5-20
Library materials	5

CARROLL UNIVERSITY

NOTES TO FINANCIAL STATEMENTS June 30, 2010 and 2009

NOTE 1 – NATURE OF ACTIVITIES AND SIGNIFICANT ACCOUNTING POLICIES (cont.)

Beneficial Interest in Funds Held in Trust by Others

The University is an income beneficiary of various irrevocable trusts. The University has recognized its interest in the estimated future cash flows as permanently restricted net assets based on the fair market value of the assets held in the trusts.

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. At June 30, 2010 and 2009, the University had \$632,645 and \$372,251, respectively, in cash restricted for use in Federal Loan Programs.

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 revenue.

Contributed Services

Contributed services are reported in the financial statements at fair value for voluntary donations of services when those services (1) create or enhance nonfinancial assets; or (2) require specialized skills, are provided by individuals possessing those skills and would typically need to be purchased if not provided by donation.

Income Taxes

The University has received a determination letter from the Internal Revenue Service indicating that it is a tax-exempt organization as provided for in Section 501(c)3 of the Internal Revenue Code and is exempt from federal and state income taxes, except for taxes pertaining to unrelated business income. No provision has been made for income taxes in the accompanying financial statements because the University does not have a significant amount of unrelated business income.

In accordance with the accounting standard on Accounting for Uncertainty in Income Taxes, the University addresses the determination of whether tax benefits claimed on a tax return should be recorded in the financial statements. Under this guidance, the University may recognize the tax benefit from an uncertain tax position only if it is more likely than not that the tax position will be sustained on examination by taxing authorities, based on the technical merit of the position. Examples of tax positions include the tax-exempt status of the University and various positions related to the potential sources of unrelated business taxable income. There were no significant unrecognized tax benefits identified or recorded as liabilities during the fiscal year 2010. Open tax years subject to examination by the U.S. and state taxing authorities are for the years 2007 to 2009, which statutes expire in 2010 to 2013, respectively.

CARROLL UNIVERSITY

NOTES TO FINANCIAL STATEMENTS June 30, 2010 and 2009

NOTE 1 – NATURE OF ACTIVITIES AND SIGNIFICANT ACCOUNTING POLICIES (cont.)

Asset Retirement Obligation

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 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.

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

The University recorded a liability of \$2,545,869 at June 30, 2010 and \$2,459,433 at June 30, 2009. Assets with retirement obligation for asbestos abatement had a net book value of \$118,845 and \$137,594 at June 30, 2010 and 2009, respectively, and are included in land, buildings and equipment.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America require 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.

Concentration 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. The University places substantially all of its cash and liquid investments with a variety of financial institutions and limits the amount of credit exposure to any one financial institution; however, cash balances periodically exceed federally insured limits. Investments 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.

Advertising Expense

Advertising expenses are expensed in the period incurred. Total advertising expense was approximately \$54,450 and \$40,000 for the years ended June 30, 2010 and 2009, respectively.

CARROLL UNIVERSITY

NOTES TO FINANCIAL STATEMENTS June 30, 2010 and 2009

NOTE 1 – NATURE OF ACTIVITIES AND SIGNIFICANT ACCOUNTING POLICIES (cont.)

Fair Value of Financial Instruments

The carrying amounts of cash and cash equivalents, accounts receivable, other receivables and accounts payable approximate fair value because of the short term maturity of these financial instruments. The carrying amounts of contributions receivable are recorded using the applicable discount rates in effect at the date of the gifts.

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

The carrying amounts of liabilities under split interest agreements are based on life expectancies, quoted market prices, and the applicable discount rates in effect at the time the agreements were received by the University. The carrying amount of long-term debt approximates fair value because these financial instruments bear interest at rates which approximate current market rates for notes with similar maturities and credit quality.

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

Estimates of fair value involve assumptions and estimation methods that are uncertain and, therefore, the estimates could differ from actual results.

Investments in real estate and other investments are carried at cost.

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

Functional Allocation of Expenses

The costs of providing the various programs and other activities have been summarized on a functional basis in the statement of activities. Accordingly, certain expenses have been allocated among the programs and supporting services benefited.

Recent Accounting Pronouncements

The University adopted the provisions of Financial Accounting Standards Board (FASB) ASC Topics 958-205-45, 958-205-50 and 958-205-55 (formerly FASB Staff Position FSP 117-1, *Endowments of Not-for-Profit Organizations: Net Asset Classifications of Funds Subject to an Enacted Version of the Uniform Prudent Management of Institutional Funds Act, and Enhanced Disclosures*) for the year ended June 30, 2009. The Topics provide guidance on classifying net assets associated with donor-restricted endowment funds held by organizations that are subject to an enacted version of Uniform Prudent Management of Institutional Funds Act (UPMIFA). The Topics also require enhanced disclosures for all not-for-profit organizations, not just those subject to UPMIFA. The State of Wisconsin adopted UPMIFA effective July 2009. As a result of adopting the provisions of the Topics, the University reclassified \$1,949,429 of unrestricted net assets for amounts of accumulated net gains in existence at July 1, 2009 that had not yet been appropriated for spending by the University's governing board.

CARROLL UNIVERSITY

NOTES TO FINANCIAL STATEMENTS June 30, 2010 and 2009

NOTE 1 – NATURE OF ACTIVITIES AND SIGNIFICANT ACCOUNTING POLICIES (cont.)

Recent Accounting Pronouncements (cont.)

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

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

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

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

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

NOTE 2 – FAIR VALUE MEASUREMENTS

The University follows the FASB guidance on fair value measurements. Fair value is defined in the guidance as the exchange price that would be received to sell an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the assets or liabilities in an orderly transaction between market participants at the measurement date. Under this guidance, a three-level hierarchy is used for fair value measurements 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.

CARROLL UNIVERSITY

NOTES TO FINANCIAL STATEMENTS June 30, 2010 and 2009

NOTE 2 – FAIR VALUE MEASUREMENTS (cont.)

The three levels are defined as follows:

Level 1 - Inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities.

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

Level 3 - Inputs are unobservable for the asset or liability. Unobservable inputs reflect the reporting entity's own assumptions about the assumptions that market participants would use in pricing the asset or liability developed based on the best information available in the circumstances.

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

The following table presents financial instruments that are measured at fair value on a recurring basis by the fair value hierarchy as of June 30, 2010 and 2009:

	2010			
	Total	Level 1	Level 2	Level 3
ASSETS				
Short-term investments	\$ 19,409,041	\$ 19,409,041	\$ -	\$ -
U.S. Government securities	1,676,576	1,676,576	-	-
Mutual funds	30,227,592	30,227,592	-	-
Alternative investments	724,297	-	-	724,297
Beneficial interest in perpetual trusts	153,200	-	-	153,200
Beneficial interest in funds held in trust by others	3,243,568	-	-	3,243,568
Totals	\$ 55,434,274	\$ 51,313,209	\$ -	\$ 4,121,065
	2009			
	Total	Level 1	Level 2	Level 3
ASSETS				
Short-term investments	\$ 22,094,916	\$ 22,094,916	\$ -	\$ -
U.S. Government securities	1,676,571	1,676,571	-	-
Mutual funds	23,556,146	23,556,146	-	-
Beneficial interest in perpetual trusts	145,672	-	-	145,672
Beneficial interest in funds held in trust by others	2,968,892	-	-	2,968,892
Totals	\$ 50,442,197	\$ 47,327,633	\$ -	\$ 3,114,564

CARROLL UNIVERSITY

NOTES TO FINANCIAL STATEMENTS June 30, 2010 and 2009

NOTE 2 – FAIR VALUE MEASUREMENTS (cont.)

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

Short-term investments - The fair value of short-term investments, consisting primarily of money market funds, is classified as Level 1 as these funds are traded on a regular basis.

U.S. Government securities - Investments in U.S. Government securities are comprised of U.S. Treasury notes, mortgage backed securities, municipal bonds and corporate bonds and notes. U.S. Treasury notes are classified as Level 1 if they trade with sufficient frequency and volume to enable the University to obtain pricing information on an ongoing basis.

Mutual funds - Mutual funds are classified as Level 1 if they are traded in an active market for which closing prices are readily available.

Alternative investments - Investments in private equity funds and real estate funds, for which there is no readily determinable fair value are classified as level 3 as the valuation is based on significant unobservable inputs. In cases where the investee has provided its investors with a net asset value per share that has been calculated in accordance with the AICPA Audit and Accounting Guide, Investment Companies.

Beneficial interest in perpetual trusts - The University's beneficial interest in perpetual 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.

Beneficial interest in funds held in trust by others - The University's beneficial interest in irrevocable split interest agreements held or controlled 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). The fair values are measured at the present value of the future distributions the University expects to receive over the term of the agreements.

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.

CARROLL UNIVERSITY

NOTES TO FINANCIAL STATEMENTS

June 30, 2010 and 2009

NOTE 2 – FAIR VALUE MEASUREMENTS (cont.)

The following table presents a reconciliation of the statement of financial position amounts for financial instruments measured at fair value on a recurring basis using significant unobservable inputs (level 3) as of June 30, 2010 and 2009:

	Balances June 30, 2009	Net realized and unrealized gain (losses) included in change in net assets	Purchases, sales, issuances and settlement, net	Net transfers in (out) of Level 3	Balances June 30, 2010
Beneficial interest in perpetual trusts	\$ 145,672	\$ 7,528	\$ -	\$ -	\$ 153,200
Beneficial interest in funds held in trust by others	2,968,892	274,676	-	-	3,243,568
Alternative investments	-	(25,703)	750,000	-	724,297
	<u>\$ 3,114,564</u>	<u>\$ 256,501</u>	<u>\$ 750,000</u>	<u>\$ -</u>	<u>\$ 4,121,065</u>

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

\$ 256,501

	Balances June 30, 2008	Net realized and unrealized gain (losses) included in change in net assets	Purchases, sales, issuances and settlement, net	Net transfers in (out) of Level 3	Balances June 30, 2009
Beneficial interest in perpetual trusts	\$ 139,129	\$ 6,543	\$ -	\$ -	\$ 145,672
Beneficial interest in funds held in trust by others	3,715,867	(746,975)	-	-	2,968,892
	<u>\$ 3,854,996</u>	<u>\$ (740,432)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 3,114,564</u>

The amount of total gains or losses for the period included in change in net assets attributable to the changes in unrealized gains or losses relating to financial instruments still held at June 30, 2009

\$ (740,432)

CARROLL UNIVERSITY

NOTES TO FINANCIAL STATEMENTS

June 30, 2010 and 2009

NOTE 2 – FAIR VALUE MEASUREMENTS (cont.)

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

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

Asset Class	<u>Fair Value</u> June 30, 2010	<u>Unfunded</u> <u>Commitments</u>	<u>Redemption</u> <u>Frequency</u>	<u>Redemption</u> <u>Notice Period</u>
Hedge funds	\$ 344,060	\$ -	Monthly	10 days
Hedge funds	330,237	-	Quarterly	65 days
Private equity funds	<u>50,000</u>	<u>450,000</u>	Not Eligible	N/A
 Totals	 <u>\$ 724,297</u>	 <u>\$ 450,000</u>		

Hedge funds - This category includes investments in hedge funds that invest both long and short primarily in U.S. common stocks. Management of the hedge funds has the ability to shift investments from value to growth strategies, from small to large capitalization stocks, and from a net long position to a net short position. The fair values of the investments in this category have been estimated using the net asset value per share of the investments.

Private equity funds - This category includes several private equity funds that invest primarily in foreign technology companies. These investments can never be redeemed with the funds. Instead, the nature of the investments in this category is that distributions are received through the liquidation of the underlying assets of the fund.

CARROLL UNIVERSITY

NOTES TO FINANCIAL STATEMENTS June 30, 2010 and 2009

NOTE 3 – ENDOWMENT

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

The University's endowment consists of approximately 270 individual funds established for a variety of purposes. As required by GAAP, net assets associated with endowment funds, are classified and reported based on the existence or absence of donor-imposed restrictions.

The allocation of investment income earned on endowment investments is based on the total return concept. Under the total return concept, the University utilizes a 5% spending rate based on a three-year average investment balance determined on a market value basis. If the traditional yield average (interest and dividend income) is not sufficient to support the 5% spending rate, the balance is allocated from unrealized and realized gain of the endowment investments. The difference between the actual yield on investments and the 5% spending rate is reported as non-operating revenue or expense. For the fiscal years ending June 30, 2010 and 2009, the University elected a spending rate of 5% of the average previous three years' endowment market value. However, no draw was taken for the year ended June 30, 2010.

Interpretation of Relevant Law - The University's governing board has interpreted the Uniform Management of Institutional Funds Act (UMIFA) as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the University classifies as permanently restricted net assets (a) the original value of the gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund.

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 purpose 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; and
7. The investment policies of the University.

CARROLL UNIVERSITY

NOTES TO FINANCIAL STATEMENTS June 30, 2010 and 2009

NOTE 3 – ENDOWMENT (cont.)

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

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds	\$ (2,391,540)	\$ 4,142,924	\$ 30,945,845	\$ 32,697,229
Total Endowment Net Assets	\$ (2,391,540)	\$ 4,142,924	\$ 30,945,845	\$ 32,697,229

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

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds	\$ (2,227,266)	\$ 1,121,143	\$ 29,748,291	\$ 28,642,168
Total Endowment Net Assets	\$ (2,227,266)	\$ 1,121,143	\$ 29,748,291	\$ 28,642,168

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

	Unrestricted	Temporary Restricted	Permanently Restricted	Total
Endowment net assets, June 30, 2009	\$ (2,227,266)	\$ 1,121,143	\$ 29,748,291	\$ 28,642,168
Net asset classification based on change in law	(1,949,429)	1,949,429	-	-
Endowment net assets after reclassification	(4,176,695)	3,070,572	29,748,291	28,642,168
Investment Return				
Net appreciation - realized and unrealized	1,785,155	1,072,352	-	2,857,507
Contributions	-	-	1,197,554	1,197,554
Endowment Net Assets, June 30, 2010	\$ (2,391,540)	\$ 4,142,924	\$ 30,945,845	\$ 32,697,229

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

	Unrestricted	Temporary Restricted	Permanently Restricted	Total
Endowment net assets, June 30, 2008	\$ 4,024,525	\$ 6,647,514	\$ 29,085,058	\$ 39,757,097
Investment Return				
Net depreciation - realized and unrealized	(6,012,294)	(5,184,280)	-	(11,196,574)
Total Investment Return	(6,012,294)	(5,184,280)	-	(11,196,574)
Contributions	-	-	663,233	663,233
Appropriation of endowment assets for expenditure	(239,497)	(342,091)	-	(581,588)
Endowment Net Assets, June 30, 2009	\$ (2,227,266)	\$ 1,121,143	\$ 29,748,291	\$ 28,642,168

CARROLL UNIVERSITY

NOTES TO FINANCIAL STATEMENTS June 30, 2010 and 2009

NOTE 3 – 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 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 \$2,391,540 and \$4,176,695 as of June 30, 2010 and 2009, respectively. These deficiencies resulted from unfavorable market fluctuations that occurred 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 results that exceed an annual net rate of return at least equal to the amount of the spending rate plus the rate of inflation while assuming a moderate level of investment risk. The University expects its endowment funds, over time, to provide an average annual rate of approximately 8% annually. Actual returns in any year may vary from this amount.

Strategies Employed for Achieving Objectives - To satisfy its long-term rate-of-return objectives, the University relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The University targets a diversified asset allocation that places a greater emphasis on equity-based investments to achieve its long-term return objectives within prudent risk constraints.

Spending Policy and How the Investment Objectives Relate to Spending Policy - The University has a policy of appropriating for distribution each year 5% of its endowment fund's average fair value over the prior 12 quarters through the calendar year-end preceding the fiscal year in which the distribution is planned. In establishing this policy, the University considered the long-term expected return on its endowment. Accordingly, over the long term, the University expects the current spending policy to allow its endowment to grow at an average of 3% annually. This is consistent with the University's objective to maintain the purchasing power of the endowment assets held in perpetuity or for a specified term as well as to provide additional real growth through new gifts and investment return.

CARROLL UNIVERSITY

NOTES TO FINANCIAL STATEMENTS June 30, 2010 and 2009

NOTE 4 – ACCOUNTS RECEIVABLE

Accounts receivable consist of the following at June 30:

	2010	2009
Tuition and fees	\$ 1,934,911	\$ 952,856
Grants	369,342	157,455
Petroleum Environmental Cleanup Fund Aid	18,544	23,714
Rental of facilities and properties	232,944	183,269
Other	67,397	47,334
	2,623,138	1,364,628
Less: Allowance for doubtful accounts	(272,693)	(203,914)
 Net Accounts Receivable	 \$ 2,350,445	 \$ 1,160,714

NOTE 5 – INVESTMENTS

Investments consist of the following at June 30:

	2010		2009	
	Cost	Market Value	Cost	Market Value
U.S. Government securities	\$ 1,660,779	\$ 1,676,576	\$ 1,591,254	\$ 1,676,571
Money market funds	1,527,552	1,527,552	5,135,502	5,135,502
Bond mutual funds	2,930,892	3,075,815	1,525,849	1,545,700
Equity mutual funds	28,022,648	27,151,777	25,011,290	22,010,446
Pooled investments funds	16,703,556	16,703,556	15,892,243	15,892,243
Cash surrender value of life insurance *	153,200	153,200	145,672	145,672
Alternative investments	700,000	724,297	-	-
Other investments	417,490	417,490	305,175	305,175
	52,116,117	51,430,262	49,606,985	46,711,309
Deposits with trustees	760,444	760,444	761,996	761,996
Beneficial interest in funds held in trust by others	3,165,898	3,243,568	3,252,993	2,968,892
 Total Investments	 \$ 56,042,459	 \$ 55,434,274	 \$ 53,621,974	 \$ 50,442,197

* Face value of \$623,753 and \$389,851 at June 30, 2010 and 2009, respectively.

CARROLL UNIVERSITY

NOTES TO FINANCIAL STATEMENTS June 30, 2010 and 2009

NOTE 5 – INVESTMENTS (cont.)

The University's return on investments as reported in the financial statements for the years ended June 30, 2010 and 2009 is summarized as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Year ended June 30, 2010:				
Endowment income	\$ 490	\$ 116,720	\$ -	\$ 117,210
Endowment investment income required to be reinvested	-	-	5,776	5,776
Other investment income	425,978	-	1,344	427,322
Total interest and dividends	426,468	116,720	7,120	550,308
Realized gains, net	401,707	904,815	-	1,306,522
Unrealized gains, net	1,807,067	339,483	65,154	2,211,704
Total Investment Gain	\$ 2,635,242	\$ 1,361,018	\$ 72,274	\$ 4,068,534

CARROLL UNIVERSITY

NOTES TO FINANCIAL STATEMENTS June 30, 2010 and 2009

NOTE 5 – INVESTMENTS (cont.)

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Year ended June 30, 2009:				
Endowment income	\$ 443,897	\$ 1,133,598	\$ -	\$ 1,577,495
Excess of withdrawals over income under total return concept	<u>(239,497)</u>	<u>(342,090)</u>	<u>-</u>	<u>(581,587)</u>
Interest and dividends on pooled endowments	204,400	791,508	-	995,908
Endowment investment income required to be reinvested	-	-	7,102	7,102
Other investment income	<u>484,752</u>	<u>-</u>	<u>960</u>	<u>485,712</u>
Total interest and dividends	689,152	791,508	8,062	1,488,722
Realized losses, net	(1,210,115)	(3,909,986)	-	(5,120,101)
Unrealized losses, net	<u>(5,447,191)</u>	<u>(587,843)</u>	<u>(80,014)</u>	<u>(6,115,048)</u>
Total Investment Loss	<u>\$ (5,968,154)</u>	<u>\$ (3,706,321)</u>	<u>\$ (71,952)</u>	<u>\$ (9,746,427)</u>

Investment management fees paid by the University are recorded as expenses. Investment management fees paid by the funds and trusts are netted against investment income and total \$265,242 and \$226,040 at June 30, 2010 and 2009, respectively.

The University's investments are exposed to various risks, such as interest rate, market and credit risks. Due to the level of risk associated with certain investments and the level of uncertainty related to changes in the values of investments, it is at least reasonably possible that changes in risk in the near term would materially affect the University's investment holdings.

CARROLL UNIVERSITY

NOTES TO FINANCIAL STATEMENTS June 30, 2010 and 2009

NOTE 6 – CONTRIBUTION RECEIVABLE

Contributions receivable consist primarily of donor pledges for facility construction and renovation, pledges for the annual campaign and pledges for the endowment. The University periodically receives contributions from board members. Net contributions receivable are summarized as follows:

	<u>2010</u>	<u>2009</u>
Total contributions receivable	\$ 1,476,650	\$ 1,804,381
Less: Discount	<u>(39,695)</u>	<u>(83,740)</u>
Present value of contributions receivable	1,436,955	1,720,641
Less: Allowance for uncollectible contributions receivable	<u>(331,630)</u>	<u>(18,706)</u>
 Net Contributions Receivable	 <u>\$ 1,105,325</u>	 <u>\$ 1,701,935</u>

Payments on pledges receivable at June 30, 2010 are expected to be received as follows:

2011	\$ 907,868
2012	248,132
2013	130,450
2014	120,200
2015	<u>70,000</u>
 Total	 <u>\$ 1,476,650</u>

Fundraising expenses of \$1,122,432 and \$754,008 were incurred for the years ended June 30, 2010 and 2009, respectively.

CARROLL UNIVERSITY

NOTES TO FINANCIAL STATEMENTS June 30, 2010 and 2009

NOTE 7 – STUDENT LOANS RECEIVABLE

The following schedule summarizes student loans receivable, by program, at June 30:

	<u>2010</u>	<u>2009</u>
U.S. Government loans:		
Federal Perkins Loan Program	\$ 3,862,950	\$ 4,033,237
John Alexander loans	114,367	119,695
Loan payments receivable from service agency	<u>37,840</u>	<u>115,445</u>
 Total Loans Outstanding	 4,015,157	 4,268,377
 Less: Allowance for doubtful loans	 <u>-</u>	 <u>-</u>
 Net Loans Receivable	 <u>\$ 4,015,157</u>	 <u>\$ 4,268,377</u>

Of the amounts outstanding at June 30, 2010 and 2009, \$3,024,392 and \$3,085,154, respectively, represent refundable advances from the U.S. Government under the Federal Perkins Loan Program.

NOTE 8 – LAND, BUILDINGS AND EQUIPMENT

Land, buildings and equipment are comprised of the following assets at June 30:

	<u>2010</u>	<u>2009</u>
Land and land improvements	\$ 10,172,891	\$ 9,484,999
Buildings	61,046,585	57,176,092
Equipment and furnishings	16,965,005	16,591,346
Library books	8,229,911	8,000,877
Construction in progress	<u>2,983,303</u>	<u>411,994</u>
	99,397,695	91,665,308
Less: Accumulated depreciation	<u>(45,845,689)</u>	<u>(42,784,283)</u>
 Totals	 <u>\$ 53,552,006</u>	 <u>\$ 48,881,025</u>

The University disposed of all investments in real estate as of June, 30, 2010. The University had investments in real estate of \$218,636 as of June 30, 2009, representing properties owned and leased. Rental income from leased properties totaled \$24,782 and \$44,486 for the years ended June 30, 2010 and 2009, respectively.

CARROLL UNIVERSITY

NOTES TO FINANCIAL STATEMENTS June 30, 2010 and 2009

NOTE 9 – DEPOSITS WITH TRUSTEES

Trust indentures for the 1965 and 1968 Dormitory Bonds and the 2001 and 2006 WHEFA Bonds require the University to make deposits with the bond trustees of an amount sufficient to meet the next immediate interest payments and one-half of the principal payment due in the next twelve months. In addition, deposits with the bond trustees for certain repair and replacement and construction reserve are required by the trust indentures for the 1965 and 1968 Dormitory Bonds and 2006 WHEFA Bonds. The sinking fund, repair and replacement and construction reserves deposited with bond trustees at June 30, 2010 and 2009 are as follows:

		2010		
		Repair and Replacement		
		Sinking Fund	Reserve	Total
Dormitory bonds of:				
1965	\$	91,000	\$ 73,899	\$ 164,899
1968		36,700	62,045	98,745
WHEFA bonds of 2006		496,800	-	496,800
	\$	624,500	\$ 135,944	\$ 760,444
		2009		
		Repair and Replacement		
		Sinking Fund	Reserve	Total
Dormitory bonds of:				
1965	\$	91,399	\$ 73,899	\$ 165,298
1968		36,900	62,043	98,943
WHEFA bonds of 2006		497,755	-	497,755
	\$	626,054	\$ 135,942	\$ 761,996

CARROLL UNIVERSITY

NOTES TO FINANCIAL STATEMENTS June 30, 2010 and 2009

NOTE 10 – LONG-TERM DEBT

The University's outstanding debt is comprised of the following as of June 30. Total interest expense for years ended June 30, 2010 and 2009 was \$705,593 and \$781,951, respectively.

Payable to	Interest rate	Due date	2010	2009
U.S. Government, Dormitory First Mortgage Serial Bonds of 1965, Series B	3.75%	Annual installments on March 1 of each year through 2015, in amounts ranging from \$6,000 to \$34,000.	\$ 162,000	\$ 192,000
U.S. Government, Dormitory First Mortgage Serial Bonds of 1968	3.00%	Annual installments on March 1 of each year through 2018, in amounts ranging from \$8,000 to \$34,000.	224,000	252,000
Wisconsin Health and Education Facilities Authority, Revenue Bonds, Series 2001, net of \$50,841 and \$56,139 original issue discount as of June 30, 2010 and 2009, respectively	6.125% to 6.25%	Annual installments on October 1 of each year beginning in 2010 through 2021, in amounts ranging from \$275,000 to \$530,000	4,639,159	4,633,861
Wisconsin Health and Education Facilities Authority, Revenue Bonds, Series 2006, net of \$16,750 and \$17,779 original issue discount as of June 30, 2010 and 2009, respectively	4.00% to 5.25%	Annual installments on October 1 of each year through 2026, in amounts ranging from \$80,000 to \$475,000.	5,621,750	5,837,779
Waukesha State Bank	5.69%	Monthly installments of \$7,228 with a final payment in September 2010.	702,740	749,595
First Federal Savings Bank of Wisconsin	4.50% to 5.25% through July 2008 and 6.00 % thereafter	Monthly installments of \$3,163 through September 2006, \$3,369 through July 2008 and \$3,546 thereafter with a final payment in August 2013.	383,097	401,726
Mortgage payable, net of \$8,000 and \$8,800 financing fee as of June 30, 2010 and 2009, respectively	6.00%	Monthly installments of \$10,126 through September 2020	<u>920,640</u>	<u>983,548</u>
Total Debt Outstanding			<u>\$ 12,653,386</u>	<u>\$ 13,050,509</u>

CARROLL UNIVERSITY

NOTES TO FINANCIAL STATEMENTS June 30, 2010 and 2009

NOTE 10 – LONG-TERM DEBT (cont.)

The Dormitory Bonds are collateralized by first mortgages on the facilities and by pledges of the net revenues derived from the operations of the facilities.

The WHEFA bond agreements require the establishment and maintenance of certain funds under the control of the bond trustee (note 9). The bond agreements also contain various covenants and restrictions including an annual debt service requirement and provision limiting the amount of additional debt which may be incurred. The University was in compliance with these debt covenants as of June 30, 2010 and 2009.

The Waukesha State Bank Note Payable is collateralized by all equipment owned, other than leased assets.

The mortgage payable has a penalty clause for prepayments. The University is charged 3% on prepaid amounts through September 19, 2008 and 2% for the period thereafter. No prepayment charges will be incurred after September 19, 2010.

The aggregate future maturities of principal are as follows:

	<u>2010</u>
2011	\$ 1,338,427
2012	675,099
2013	705,846
2014	723,785
2015	1,076,895
Thereafter	<u>8,133,334</u>
Total	<u>\$ 12,653,386</u>

CARROLL UNIVERSITY

NOTES TO FINANCIAL STATEMENTS June 30, 2010 and 2009

NOTE 11 – LEASES

The University has no capital leases outstanding as of June 30, 2010. The University in the prior year did have one final year of obligation for a capital lease for computers and equipment that expired during the current fiscal year. The gross amount of that capital lease was \$386,760.

The University also has several noncancelable operating leases for transportation and office equipment that expire over the next five years. Rental expense for operating leases during 2010 and 2009 was approximately \$1,800,957 and \$1,582,000, respectively.

Future minimum lease payments under noncancelable operating leases (with initial or remaining lease terms in excess of one year) are as follows as of June 30:

Years ending June 30,	Operating Leases
2011	\$ 1,952,842
2012	2,624,853
2013	2,479,469
2014	2,515,949
2015	2,516,838
Thereafter	<u>18,436,599</u>
Total	<u>\$ 30,526,550</u>

NOTE 12 – NET ASSETS

Unrestricted net assets have been designated for specific purposes by the Board of Trustees and are summarized as follows as of June 30:

	2010	2009
Net investment in land, buildings and equipment	\$ 30,164,339	\$ 24,783,694
Endowment	(2,664,223)	(2,227,265)
Federal loan programs	1,363,866	1,346,676
Funds designated by Board of Trustees for debt payments	624,506	626,053
Funds designated by Board of Trustees for facility financing	<u>13,733,994</u>	<u>13,566,106</u>
Totals	<u>\$ 43,222,482</u>	<u>\$ 38,095,264</u>

CARROLL UNIVERSITY

NOTES TO FINANCIAL STATEMENTS June 30, 2010 and 2009

NOTE 12 – NET ASSETS (cont.)

Donor restrictions of temporarily restricted net assets are summarized as follows at June 30:

	<u>2010</u>	<u>2009</u>
Land, buildings and equipment	\$ 11,730,414	\$ 11,656,129
Scholarship funds	1,252,351	1,254,544
Instruction and academic department funds	1,009,147	857,202
Student services	468,804	331,738
Institutional support	439,010	660,565
Split interest annuity agreements	1,614,226	1,552,066
Time restriction	<u>2,785,120</u>	<u>-</u>
	<u>\$ 19,299,072</u>	<u>\$ 16,312,244</u>

As discussed in Note 1, the University releases contributions restricted for long-lived assets over the estimated useful life of the asset in accordance with the University's depreciation policy. Had the University elected to release net assets when the asset was placed in service, net assets of approximately \$10,976,000 and \$11,493,000 classified as temporarily restricted would be classified as unrestricted at June 30, 2010 and 2009, respectively.

Permanently restricted net assets consist of the following as of June 30:

	<u>2010</u>	<u>2009</u>
Investments (perpetual endowment)	\$ 27,702,278	\$ 26,779,399
Beneficial interest in funds held in trust by others	3,243,568	2,968,892
Contributions receivable	167,633	234,577
Split interest annuity agreements	1,933,502	1,890,289
Donor restricted revolving loan funds	<u>224,596</u>	<u>217,476</u>
	<u>\$ 33,271,577</u>	<u>\$ 32,090,633</u>

NOTE 13 – EMPLOYEE BENEFIT PLAN

All full-time employees and part-time employees who work at least 1,000 hours with one year of service are eligible to participate in the University's defined contribution plan administered by Teachers Insurance and Annuity Association College Retirement Equities Fund (TIAA-CREF). All benefits under this plan are provided solely through individually owned, fully funded annuity contracts. The University contributes 5% of participants' salaries and matches a portion of any participant contributions. Expenses related to this plan were approximately \$1,521,000 and \$1,416,000 for the years ended June 30, 2010 and 2009, respectively.

CARROLL UNIVERSITY

NOTES TO FINANCIAL STATEMENTS June 30, 2010 and 2009

NOTE 14 – DEFERRED COMPENSATION PLAN

The University started a discretionary deferred compensation plan in September 2006 designed to promote the retention of key management employees. Under the terms of the plan, a fixed liability, as defined in the plan, is accrued by the University at the end of each year. The accruals 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 \$35,000 for each of the years ended June 30, 2010 and 2009, respectively. At June 30, 2010 and 2009, the deferred compensation liability was \$157,772 and \$83,893, respectively. A liability representing the amount owed under these plans is included in the deferred compensation line on the statements of financial position.

NOTE 15 – LETTER OF CREDIT

The University is self-insured for unemployment compensation claims. As a result, the University has a \$228,251 bank letter of credit which expires on December 31, 2013 that was issued in favor of the Treasurer of the Wisconsin Unemployment Reserve Fund in order to assure the payment of unemployment compensation. Unemployment compensation claims of \$78,251 and \$42,823 were paid by the University during the years ended June 30, 2010 and 2009, respectively.

NOTE 16 – CONTRACTUAL AGREEMENTS

The University has a contractual agreement for facilities management with a third party service provider which expires July 1, 2017. Payments under the contract vary based on volume. In the event of early termination of the contract, the University would be responsible for certain start up expenses and capital improvements.

NOTE 17 – COMMITMENTS AND CONTINGENCIES

The University is engaged in various matters of litigation in the ordinary course of business. Amounts are established by management to cover estimated losses and related expenses associated with these matters. It is the opinion of management that the ultimate resolution of these matters will not have a material effect on the University's financial position or results of operations.

NOTE 18 – RELATED PARTIES

The University received a total of \$428,501 and \$464,765 in gifts and contributions from board of trustee members and employees during the years ended June 30, 2010 and 2009, respectively. The receivable balance outstanding was \$533,161 and \$622,373 as of June 30, 2010 and 2009.

NOTE 19 – SUBSEQUENT EVENTS

The University has evaluated subsequent events through October 11, 2010, which is the date that the financial statements were approved and issued. On September 27, 2010, the University purchased a 2,500 square foot building in Waukesha for \$180,000.