

**CARLETON COLLEGE**  
**FINANCIAL STATEMENTS**  
**YEARS ENDED JUNE 30, 2018 AND 2017**

**CARLETON COLLEGE  
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## INDEPENDENT AUDITORS' REPORT

Board of Trustees  
Carleton College  
Northfield, Minnesota

We have audited the accompanying financial statements of Carleton College, which comprise the balance sheets as of June 30, 2018 and 2017, and the related statements of activities and change in net assets, 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.

Board of Directors and Stockholders  
Carleton College

***Opinion***

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Carleton College as of June 30, 2018 and 2017, 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.

*CliftonLarsonAllen LLP*

**CliftonLarsonAllen LLP**

Minneapolis, Minnesota  
September 20, 2018

**CARLETON COLLEGE  
BALANCE SHEETS  
JUNE 30, 2018 AND 2017**

<b>ASSETS</b>	2018	2017
Cash and Cash Equivalents	\$ 17,557,279	\$ 27,115,826
Receivables, Net:		
Contributions	27,426,358	23,973,849
Government	558,933	513,055
Other	3,504,924	1,565,055
Inventories and Prepaid Expenses	1,600,827	3,232,749
Loans to Students	6,253,135	7,262,341
Deposits with Bond Trustee	35,486,845	54,525,462
Trusts Held by Others	13,995,997	12,825,913
Investments	1,045,101,678	977,394,003
Property, Plant, and Equipment, Net of Depreciation	260,948,457	229,261,602
Total Assets	\$ 1,412,434,433	\$ 1,337,669,855
<b>LIABILITIES AND NET ASSETS</b>		
<b>LIABILITIES</b>		
Accounts Payable	\$ 8,168,304	\$ 6,347,646
Accrued Expenses	11,287,756	9,701,592
Deferred Income and Deposits	4,227,338	5,421,008
Obligations Under Split Interest Agreements	21,054,577	21,128,437
Asset Retirement Obligation	2,155,667	1,731,368
Fair Value of Interest Rate Swap	200,702	482,797
Bonds Payable, Net	144,337,492	150,446,229
Refundable Government Grants for Student Loans	3,528,259	4,518,205
Total Liabilities	194,960,095	199,777,282
<b>NET ASSETS</b>		
Without Donor Restriction:		
Operations	42,563,925	35,165,233
Student Loan Funds	3,737,209	3,971,939
Net Investment in Plant	187,965,434	163,284,637
Funds Functioning as Endowment	302,002,851	284,767,498
Total Without Donor Restriction	536,269,419	487,189,307
With Donor Restriction:		
Operations	24,549,699	22,830,211
Student Loan Funds	343,544	337,736
Physical Plant Acquisitions	23,513,532	36,114,793
Endowment	592,230,652	552,540,514
Split-Interest Agreements	40,567,492	38,880,012
Total With Donor Restriction	681,204,919	650,703,266
Total Net Assets	1,217,474,338	1,137,892,573
Total Liabilities and Net Assets	\$ 1,412,434,433	\$ 1,337,669,855

See accompanying Notes to Financial Statements.

**CARLETON COLLEGE**  
**STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS**  
**YEAR ENDED JUNE 30, 2018**

	Without Donor Restriction	With Donor Restriction	Total
<b>OPERATING REVENUES AND OTHER ADDITIONS</b>			
Tuition and Fees	\$ 107,475,760	\$ -	\$ 107,475,760
Room and Board	23,260,034	-	23,260,034
Scholarships	(41,704,240)	-	(41,704,240)
Net Student Fees	89,031,554	-	89,031,554
Private Gifts and Pledges	8,811,404	1,414,101	10,225,505
Government Grants and Contracts	627,725	3,393,688	4,021,413
Net Investment Return	564,253	13,903	578,156
Bookstore, Rents, and Other	4,313,261	676,687	4,989,948
Subtotal Revenue	14,316,643	5,498,379	19,815,022
Investment Return Allocation	-	38,983,500	38,983,500
Net Assets Released from Restrictions	44,001,116	(44,001,116)	-
Total Revenues and Other Additions	147,349,313	480,763	147,830,076
<b>OPERATING EXPENSES</b>			
<b>Program:</b>			
Instruction	62,615,502	-	62,615,502
Research	3,711,124	-	3,711,124
Academic Support	20,449,224	-	20,449,224
Student Services	17,088,799	-	17,088,799
Auxiliary Enterprises	18,756,231	-	18,756,231
Total Program Expenses	122,620,880	-	122,620,880
<b>Institutional Support:</b>			
Management and General	13,142,834	-	13,142,834
Fundraising	6,380,199	-	6,380,199
Total Institutional Support Expenses	19,523,033	-	19,523,033
Total Expenses	142,143,913	-	142,143,913
<b>CHANGE IN NET ASSETS FROM OPERATING ACTIVITY</b>	5,205,400	480,763	5,686,163
<b>NONOPERATING ACTIVITY</b>			
Private Gifts and Pledges	4,779,437	34,372,830	39,152,267
Net Investment Return	(36,994)	3,001,304	2,964,310
Net Realized Gain	18,504,886	32,750,797	51,255,683
Net Unrealized Gain	8,836,512	12,692,702	21,529,214
Realized Gain (Loss) on Disposal	(960,622)	-	(960,622)
Unrealized Gain on Interest Rate SWAP	282,095	-	282,095
Net Change in Value of Split-interest Agreements	-	(1,343,845)	(1,343,845)
Investment Return Allocation	(9,145,913)	(29,837,587)	(38,983,500)
Net Assets Released from Restrictions	21,615,311	(21,615,311)	-
Total Nonoperating Activity	43,874,712	30,020,890	73,895,602
<b>CHANGE IN NET ASSETS</b>	49,080,112	30,501,653	79,581,765
Net Assets - Beginning of Year	487,189,307	650,703,266	1,137,892,573
<b>NET ASSETS - END OF YEAR</b>	<b>\$ 536,269,419</b>	<b>\$ 681,204,919</b>	<b>\$ 1,217,474,338</b>

See accompanying Notes to Financial Statements.

**CARLETON COLLEGE**  
**STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS**  
**YEAR ENDED JUNE 30, 2017**

	Without Donor Restriction	With Donor Restriction	Total
<b>OPERATING REVENUES AND OTHER ADDITIONS</b>			
Tuition and Fees	\$ 103,630,553	\$ -	\$ 103,630,553
Room and Board	22,463,640	-	22,463,640
Scholarships	(40,390,536)	-	(40,390,536)
Net Student Fees	85,703,657	-	85,703,657
Private Gifts and Pledges	8,484,960	9,533,930	18,018,890
Government Grants and Contracts	622,371	4,125,822	4,748,193
Investment Return	360,792	47,521	408,313
Bookstore, Rents, and Other	4,284,808	855,121	5,139,929
Subtotal Revenue	13,752,931	14,562,394	28,315,325
Investment Return Allocation	-	37,094,050	37,094,050
Net Assets Released from Restrictions	43,512,703	(43,530,737)	(18,034)
Total Revenues and Other Additions	142,969,291	8,125,707	151,094,998
<b>OPERATING EXPENSES</b>			
<b>Program:</b>			
Instruction	59,944,375	-	59,944,375
Research	4,192,307	-	4,192,307
Academic Support	19,295,904	-	19,295,904
Student Services	16,692,532	-	16,692,532
Auxiliary Enterprises	17,622,284	-	17,622,284
Total Program Expenses	117,747,402	-	117,747,402
<b>Institutional Support:</b>			
Management and General	14,068,386	-	14,068,386
Fundraising	6,273,636	-	6,273,636
Total Institutional Support Expenses	20,342,022	-	20,342,022
Total Expenses	138,089,424	-	138,089,424
<b>CHANGE IN NET ASSETS FROM OPERATING ACTIVITY</b>	4,879,867	8,125,707	13,005,574
<b>NONOPERATING ACTIVITY</b>			
Private Gifts and Pledges	1,821,409	35,406,226	37,227,635
Interest, Dividends, and Other Income (Net of Fees)	76,251	1,055,634	1,131,885
Net Realized Gain	8,960,387	17,094,496	26,054,883
Net Unrealized Gain	32,590,397	56,531,583	89,121,980
Unrealized Gain on Interest Rate SWAP	478,473	-	478,473
Net Change in Value of Split-interest Agreements	-	(2,453,139)	(2,453,139)
Reclassification of Net Assets	1,339,001	(1,339,001)	-
Investment Return Allocation	(11,322,098)	(25,771,952)	(37,094,050)
Net Assets Released from Restrictions	12,072,906	(12,054,872)	18,034
Total Nonoperating Activity	46,016,726	68,468,975	114,485,701
<b>CHANGE IN NET ASSETS</b>	50,896,593	76,594,682	127,491,275
Net Assets - Beginning of Year	436,292,714	574,108,584	1,010,401,298
<b>NET ASSETS - END OF YEAR</b>	<b>\$ 487,189,307</b>	<b>\$ 650,703,266</b>	<b>\$ 1,137,892,573</b>

See accompanying Notes to Financial Statements.

**CARLETON COLLEGE  
STATEMENTS OF CASH FLOWS  
YEARS ENDED JUNE 30, 2018 AND 2017**

	2018	2017
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Change in Net Assets	\$ 79,581,765	\$ 127,491,275
Adjustments to Reconcile Change in Net Assets to Net Cash		
Provided (Used) by Operating Activities:		
Depreciation, Amortization, and Accretion	11,254,734	10,798,461
Net Realized and Unrealized Gain	(72,784,897)	(114,497,141)
Contributions for Long-Term Investments	(39,152,267)	(22,389,927)
Change in Value of Split-interest Agreements	2,410,279	1,999,697
Change in Value of Trusts Held by Others	(1,170,084)	(2,116,290)
Change in Value of Interest Rate SWAP	(282,095)	(478,473)
Loss on Disposal of Property, Plant, and Equipment	960,622	119,028
Noncash Donations of Property, Plant, and Equipment	422,950	(181,100)
Change in Unamortized Bond Origination Costs and Discount	(393,737)	(202,664)
Change in Asset Retirement Obligation	(150,702)	591,565
Effect of Changes in Operating Assets and Liabilities:		
Receivable, Net - Contributions	(3,452,509)	(9,335,313)
Receivable, Net - Government	(45,878)	110,344
Receivable, Net - Other	(1,939,869)	38,399
Inventories and Prepaid Expenses	1,631,922	(1,527,853)
Loans to Students	1,009,206	1,092,038
Accounts Payable	1,820,658	1,253,490
Accrued Expenses	1,586,164	(911,598)
Deferred Income and Deposits	(1,193,670)	192,492
Refundable Government Grants for Student Loans	(989,946)	(16,421)
Net Cash Used by Operating Activities	(20,877,354)	(7,969,991)
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Purchase of Investments	(28,838,252)	(25,351,399)
Proceeds from Sale of Investments	33,915,474	40,394,353
Proceeds from Property, Plant, and Equipment Insurance Recoveries	54,000	165,165
Acquisition of Property, Plant, and Equipment	(43,804,160)	(42,870,195)
Net Cash Used by Investing Activities	(38,672,938)	(27,662,076)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Changes in Deposits with Bond Trustee	19,038,617	(54,111,278)
Contributions for Long-Term Investments	39,152,267	22,389,927
Payments to Annuitants	(2,484,139)	(2,825,144)
Bond Issue Costs Paid	-	(742,096)
Proceeds from Issuance of Bonds Payable	-	124,900,000
Bond Premium	-	14,277,956
Principal Payments	(5,715,000)	(70,180,000)
Net Cash Provided by Financing Activities	49,991,745	33,709,365
<b>NET DECREASE IN CASH AND CASH EQUIVALENTS</b>	(9,558,547)	(1,922,702)
Cash and Cash Equivalent - Beginning of Year	27,115,826	29,038,528
<b>CASH AND CASH EQUIVALENTS - END OF YEAR</b>	\$ 17,557,279	\$ 27,115,826

See accompanying Notes to Financial Statements.



**CARLETON COLLEGE**  
**STATEMENTS OF CASH FLOWS (CONTINUED)**  
**YEARS ENDED JUNE 30, 2018 AND 2017**

	<u>2018</u>	<u>2017</u>
<b>SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION</b>		
Interest Paid (Net of Capitalized Interest of \$1,979,350)	<u>\$ 5,188,414</u>	<u>\$ 3,388,052</u>
Property, Plant, and Equipment in Accounts Payable	<u>\$ 6,602,304</u>	<u>\$ 4,429,929</u>

*See accompanying Notes to Financial Statements.*

**CARLETON COLLEGE**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2018 AND 2017**

**NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**Organization**

Founded in 1866, Carleton College is a private, co-educational, residential liberal arts college, located in the historic river town of Northfield, Minnesota. Carleton attracts a diverse student body and a distinguished faculty whose priority is teaching with a commitment to the liberal arts. Carleton is a national college enrolling approximately 2,000 students drawn from nearly all 50 states and 35 different countries. Carleton offers a four-year baccalaureate degree, with 33 majors and 31 minors in the arts, humanities, natural sciences/mathematics, and social sciences, preparing its graduates for leadership positions in their communities, countries and the world.

**Basis of Presentation**

The financial statements have been prepared on the accrual basis of accounting in conformity with accounting principles generally accepted in the United States of America (U.S. GAAP).

Net assets and revenues, expenses, gains and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets of the College and changes therein are classified as follows:

Net Assets Without Donor Restriction – Net assets that are not subject to donor-imposed restrictions. Net assets may be designated for specific purposes by action of the board of trustees.

Net Assets With Donor Restrictions – Net assets whose use by the College is subject to donor-imposed restrictions that can be fulfilled by actions of the College pursuant to those restrictions or that expire by the passage of time. Net assets may be subject to donor-imposed restrictions that they be maintained permanently by the College. Generally, the donors of these assets permit the College to use the income earned on related investments for general or specific purposes.

Revenues are reported as increases in net assets without donor restriction unless use of the revenue is restricted by donor-imposed restrictions. Expenses are reported as decreases in net assets without donor restriction. Gains and losses on investment and other assets or liabilities are reported as increases or decreases in net assets without donor restriction unless their use is defined by donor-imposed restrictions.

Net assets with donor restrictions which are met in the current period are reclassified to net assets without donor restriction and reported as net assets released from restrictions.

Periodically donor restrictions related to net assets may be clarified or changed, such changes are reflected as transfers at the time they are identified.

**CARLETON COLLEGE  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2018 AND 2017**

**NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Cash and Cash Equivalents**

Cash and cash equivalents include interest-bearing money market accounts and short-term investments with a maturity at time of purchase of less than three months, except for any such investments managed by external investment managers are classified as investments. The amounts on hand may at times exceed the federally insured limit defined by the FDIC.

**Contributions Receivable**

Contributions receivable, including unconditional promises to give, are recognized as revenues in the period received. Conditional promises to give are not recognized until they become unconditional, that is, when the conditions on which they depend are substantially met. Contributions of assets other than cash are recorded at their estimated fair value. Contributions to be received after one year are discounted at an appropriate discount rate commensurate with the risks involved. Amortization of discounts is recorded as additional contribution revenue in accordance with donor-imposed restrictions, if any, on the contributions. Contributions receivable are using discount rates ranging from approximately .11% to 2.85%, depending on the year of inception. An allowance for uncollectible contributions receivable is provided based upon management's judgment including such factors as prior collection history, type of contribution and nature of fundraising activity. For the years ended June 30, 2018 and 2017, the College had an allowance of \$200,000.

**Other Receivables and Loans to Students**

Receivables are stated at net realizable value. Based on management's experience and analysis of individual accounts past due, the allowance for uncollectible accounts was \$30,000 for the years ended June 30, 2018 and 2017. The allowance is evaluated annually.

**Inventories**

Inventories consist primarily of print center paper supplies, facility storeroom supplies and steam plant fuel oil reserves for the back-up generators. Inventories are stated at the lower of cost or market, determined by the first-in, first-out method.

**Deposits with Bond Trustee**

Deposits with bond trustee include bond proceeds held in escrow during the period of construction and amounts deposited for bond principal and interest payments.

**Fair Value Measurements**

The College reports investments; trusts held by others and swap at estimated fair value. Fair value represents the price that would be received upon the sale of an asset or paid upon the transfer of a liability in an orderly transaction between market participants as of the measurement date.

**CARLETON COLLEGE  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2018 AND 2017**

**NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Fair Value Measurements (Continued)**

Most of the College's investments are held through limited partnerships and commingled funds for which fair value is estimated using net asset values (NAVs) reported by fund managers as a practical expedient for fair value measurements. U.S. GAAP allows such NAV measured investments to be excluded from the categories in the fair value hierarchy.

U.S. GAAP establishes a fair value hierarchy that prioritizes the inputs used to measure fair value into three levels:

*Level 1* – Quoted prices (unadjusted) in active markets that are accessible at the measurement date for assets or liabilities.

*Level 2* – Observable prices that are based on inputs not quoted in active markets, but corroborated by market data.

*Level 3* – Unobservable inputs that are used when little or no market data is available.

The fair value hierarchy gives highest priority to Level 1 inputs and lowest priority to Level 3 inputs. In determining fair value, the College utilizes valuation techniques that maximize the use of observable inputs and minimize the use of unobservable inputs to the extent possible.

**Property, Plant, and Equipment**

Property, plant, and equipment are stated at cost less accumulated depreciation. The College capitalizes equipment expenditures greater than \$10,000, building expenditures greater than \$150,000. Depreciation is computed on the straight-line/half year method over the estimated useful lives of the assets:

		Original Cost 2018
Land	No Depreciation	\$ 3,785,213
Land Improvements	30 Years	843,255
Buildings and Building Improvements	20 - 40 Years	304,348,867
Library Books	10 Years	33,396,442
Equipment and Vehicles	3 - 5 Years	56,628,314
Construction in Progress	No Depreciation	41,915,679
Total Original Cost		<u>\$ 440,917,770</u>

**Deferred Income and Deposits**

The College records cash received for future services as deferred revenue. This revenue is recognized when services are provided. Deferred revenue consists primarily of unearned tuition.

**CARLETON COLLEGE  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2018 AND 2017**

**NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Asset Retirement Obligation**

Financial accounting standards require the College to accrue for the present value of future estimated costs to remediate asbestos environmental hazards related to property owned by the College. The College has estimated the cost of potential obligations and applied a future value rate assumption of 3% and a present value risk-free rate of 5% to determine the potential liability. Conditional asset retirement obligations reported within liabilities in the balance sheets as of June 30, 2018 and 2017 were \$2,155,667 and \$1,731,368, respectively.

**Refundable Government Grants for Student Loans**

Funds provided by the United States Government under the Federal Perkins Loan program are loaned to qualified students and may be re-loaned after collection. If the College were to terminate the Federal Perkins Loan Program, these funds would be refundable to the government and, therefore, are included in other long-term liabilities.

**Endowment**

The Carleton board of trustees has interpreted the Uniform Prudent Management of Institutional Funds Act (UPMIFA) as requiring the preservation of the original gifts as of the gift date of the donor-restricted endowment funds absent explicit donor stipulation to the contrary. As a result of this interpretation, the College classifies as perpetually restricted net assets, (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment.

Endowment funds include donor restricted net assets and funds designated by the board of trustees for long-term support of the College including, including any accumulated income and appreciation thereon. Purpose restricted endowment net assets include accumulated appreciation on donor-restricted endowment funds, as well as donor-restricted, spendable gifts designated for long-term support of the College. Perpetual restricted endowment net assets include those funds designated by donors to be invested in perpetuity to provide a permanent source of income.

The College has established an endowment spending policy used to determine an annual spending dividend. Total spending is equal to 70% of prior year spending increased by 2%; plus 30% of 4.95% of the 12 quarter average market value of the endowment unit value for the period ending June 30 of the year, one year prior to the start of the fiscal year; banded by not more than 5.75% or less than 3.75% of the market value of the endowment for the period ending June 30 prior to the start of the fiscal year.

**CARLETON COLLEGE  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2018 AND 2017**

**NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Split-Interest Agreements**

The College records three types of split-interest agreements.

When the College serves as trustee, annuities payable represent the College's liability under annuity contracts with donors and irrevocable charitable remainder trusts. Specific contract terms vary by donor. The liability is established at the time of the contribution using life expectancy actuarial tables and discount rates and is revalued annually; referencing the 2000CM life expectancy tables. Actual gains and losses resulting from the annual revaluation of annuity obligations are reflected as with donor restriction, consistent with the method used to initially record the contributions. The basis used to recognize the asset is fair value.

When the College does not serve as trustee for an irrevocable charitable remainder trust, the College records its beneficial interest in those assets as contribution revenue and funds held in trust by others at the present value of the expected future cash inflows. Such trusts are recorded at the date the College has been notified of the trust's existence and sufficient information regarding the trust has been accumulated to form the basis for a valuation. Changes in the value of these assets related to the amortization of the discount or revisions in the income beneficiary's life expectancy are recorded as gains or losses with donor restriction. The value of the College's interest in these trusts is included in Trusts Held by Others on the balance sheets.

The College is also the beneficiary of certain perpetual trusts held and administered by others. The present value of the estimated future cash receipts from the trust are recognized as contribution revenue and funds held in trust by others at the date the College is notified of the establishment of the trust and sufficient information regarding the value of the trust has been provided to the College. Annual distributions from the trusts are recorded as investment income in the period they are received. Changes in fair value of the trusts are recorded as financial capital gains or losses with donor restriction. The value of the College's interest in the trusts is included in Trusts Held by Others on the balance sheets.

**Advertising Expense**

Advertising expense is expensed as incurred. Advertising expense for the years ended June 30, 2018 and 2017 was \$84,258 and \$88,877, respectively.

**Measure of Operations**

The College reports a change in net assets from operating activities including all operating revenue and expense that are an integral part of its programs and supporting activities including net asset released from donor restrictions to support operating expenditures, as well as investment returns allocated by the board of trustees to support operations as established by the endowment spending policy.

**CARLETON COLLEGE  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2018 AND 2017**

**NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Measure of Operations (Continued)**

The measure of operations includes support for operating activities without donor restriction and with donor restrictions that are not long-term in nature.

The measure of operations excludes support for nonoperating activities including investment returns in excess of amounts allocated to support current operations, changes in the market value of trusts held by others, changes in the fair value of planned giving agreements, private gifts and grants restricted for long-term investment and capital projects and changes in the fair value of the interest rate swap.

**Use of Estimates**

The preparation of financial statements in accordance with U.S. GAAP 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.

**Income Taxes**

The College qualifies as a tax-exempt nonprofit organization under Section 501(c)(3) of the Internal Revenue Code (IRC) and similar statutes of Minnesota law. The College is subject to federal income tax only on net unrelated business income under the provisions of Section 501(c)(3) of the IRC. The College has evaluated its tax positions and determined it has no uncertain tax positions and has recorded no obligation for unrelated business income tax. No provisions for federal or state income taxes are required as of June 30, 2018.

**Reclassifications**

Certain amounts appearing in the 2017 financial statements have been reclassified to conform with the 2018 presentation. The reclassifications have no effect on reported amounts of total net assets or change in total net assets.

**Change in Accounting Principle**

The College has adopted the accounting guidance in Financial Accounting Standards Board (FASB) Accounting Standards Update (ASU) 2016-04, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities* in 2018. These changes were applied retroactively to ensure comparability with the prior year. The update changes presentation and disclosure requirement for nonprofit entities to provide more relevant information about their resources (and the changes in those resources) to donors, granters, creditors, and other users. These include qualitative and quantitative requirements in the following areas: net asset classes, investment return, expenses, and liquidity.

**CARLETON COLLEGE**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2018 AND 2017**

**NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Subsequent Events**

In preparing these financial statements, the College has evaluated events and transactions for potential recognition or disclosure through September 20, 2018, the date the financial statements were available to be issued.

**NOTE 2 INVESTMENTS AND FINANCIAL INSTRUMENTS MEASURED AT FAIR VALUE**

**Basis of Accounting**

Investments include endowment, charitable gift annuities, pooled life income funds, and unrestricted operating investments. Investments are reported at estimated fair value. If an investment is held directly by the College and an active market with quoted prices exists, the market price of an identical security is used as reported fair value.

The majority of the College's investments are in shares or units of institutional commingled funds and investment partnerships invested in equity, fixed income, hedge funds, private equity, or real asset strategies. Hedge fund strategies involve funds whose managers have the authority to invest in various asset classes at their discretion, including the ability to invest long and short. Funds with hedge strategies generally hold securities for other financial instruments for which a ready market exists and may include stocks, bonds, put or call options, swaps, currency hedges and other instruments, and are valued by the investment manager accordingly. Private equity funds employ buyout, venture capital, and distressed credit strategies. Real asset and natural resource funds generally hold interest in private real estate, oil and gas partnerships, alternate energy partnerships, and mineral holdings.

**Fair Value**

The College's interest in commingled investment funds are generally reported at the net asset value (NAV) reported by the fund managers and assessed as reasonable by the College, which is used as a practical expedient to estimate the fair value of the College's interest therein, in the absence of readily determinable fair value, unless it is probable that all or a portion of the investment will be sold for an amount different from NAV. As of June 30, 2018, the College had no plans or intentions to sell investments at amounts different from NAV.

These NAV measurement adhere to fair value accounting as required by ASC 820, *Fair Value Measurements and Disclosures*, however, because of inherent uncertainties in valuation assumption, the estimated fair value for alternative investments such as private equity and private real estate may differ significantly from value that would have been used had a ready market existed. The valuations are determined by the fund managers and generally consider variable such as operating results, comparable earnings multiples, projected cash flows, recent sales prices, and other pertinent information.



**CARLETON COLLEGE**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2018 AND 2017**

**NOTE 2 INVESTMENTS AND FINANCIAL INSTRUMENTS MEASURED AT FAIR VALUE  
(CONTINUED)**

**Fair Value (Continued)**

The following tables summarize the College's investments by category and as applicable in their fair value hierarchy as of June 30:

	2018				Total
	NAV Practical Expedient	Level 1	Level 2	Level 3	
Investments:					
Cash and Cash Equivalents	\$ -	\$ 86,869,275	\$ -	\$ -	\$ 86,869,275
Fixed Income	-	59,591,559	-	-	59,591,559
Public Equities	150,652,325	176,413,182	-	-	327,065,507
Private Equity	139,988,764	-	-	-	139,988,764
Hedge Funds	246,682,720	-	-	-	246,682,720
Real Estate and Other Real Assets	123,914,414	-	-	750,000	124,664,414
Planned Gift Agreements and Other	469,276	1,744,502	58,025,661	-	60,239,439
Total Investments	661,707,499	324,618,518	58,025,661	750,000	1,045,101,678
Trusts Held by Others	-	-	-	13,995,997	13,995,997
Total	<u>\$ 661,707,499</u>	<u>\$ 324,618,518</u>	<u>\$ 58,025,661</u>	<u>\$ 14,745,997</u>	<u>\$ 1,059,097,675</u>

  

	2017				Total
	NAV Practical Expedient	Level 1	Level 2	Level 3	
Investments:					
Cash and Cash Equivalents	\$ -	\$ 17,073,257	\$ -	\$ -	\$ 17,073,257
Fixed Income	-	56,376,472	-	-	56,376,472
Public Equities	187,669,087	182,373,141	-	-	370,042,228
Private Equity	130,403,276	-	-	-	130,403,276
Hedge Funds	238,045,297	-	-	-	238,045,297
Real Estate and Other Real Assets	104,792,685	-	-	750,000	105,542,685
Planned Gift Agreements and Other	444,490	1,802,606	57,663,692	-	59,910,788
Total Investments	661,354,835	257,625,476	57,663,692	750,000	977,394,003
Trusts Held by Others	-	-	-	12,825,913	12,825,913
Total	<u>\$ 661,354,835</u>	<u>\$ 257,625,476</u>	<u>\$ 57,663,692</u>	<u>\$ 13,575,913</u>	<u>\$ 990,219,916</u>

Liabilities measured at fair value on a recurring basis as of June 30:

	2018			
	Level 1	Level 2	Level 3	Total
Interest Rate Swap	<u>\$ -</u>	<u>\$ 200,702</u>	<u>\$ -</u>	<u>\$ 200,702</u>

  

	2017			
	Level 1	Level 2	Level 3	Total
Interest Rate Swap	<u>\$ -</u>	<u>\$ 482,797</u>	<u>\$ -</u>	<u>\$ 482,797</u>

Interest rate swap agreements are classified as Level 2 as they are valued based on active market inputs. The College has the right to terminate the swap agreement at any time, at a commercially reasonable amount at the measurement date.

**CARLETON COLLEGE  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2018 AND 2017**

**NOTE 2 INVESTMENTS AND FINANCIAL INSTRUMENTS MEASURED AT FAIR VALUE  
(CONTINUED)**

**Fair Value (Continued)**

Trusts held by others are valued at the present value of the future distributions expected to be received by the College over the term of the agreement; essentially equivalent to the market value of the College share of the trust as provided by the trust administrator.

The following tables are a roll forward of the balance sheet amounts for financial instruments classified by the College within Level 3 of the fair value hierarchy defined above.

Level 3 assets are as follows:

	Real Estate and Other Real Assets	Trusts Held by Others	Total Investments
Balance as of June 30, 2017	\$ 750,000	\$ 12,825,913	\$ 13,575,913
Realized Gain	-	113,218	113,218
Unrealized Loss	-	160,023	160,023
Investment Income	-	200,333	200,333
New Investments and Capital Calls	-	2,244,287	2,244,287
Redemptions	-	(1,547,777)	(1,547,777)
Balance as of June 30, 2018	<u>\$ 750,000</u>	<u>\$ 13,995,997</u>	<u>\$ 14,745,997</u>

	Real Estate and Other Real Assets	Trusts Held by Others	Total Investments
Balance as of June 30, 2016	\$ -	\$ 10,709,623	\$ 10,709,623
Realized Gain	-	84,103	84,103
Unrealized Gain	-	811,371	811,371
Investment Income	-	233,515	233,515
New Investments and Capital Calls	750,000	1,542,872	2,292,872
Redemptions	-	(555,571)	(555,571)
Balance as of June 30, 2017	<u>\$ 750,000</u>	<u>\$ 12,825,913</u>	<u>\$ 13,575,913</u>

**CARLETON COLLEGE  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2018 AND 2017**

**NOTE 2 INVESTMENTS AND FINANCIAL INSTRUMENTS MEASURED AT FAIR VALUE  
(CONTINUED)**

**Liquidity**

The College routinely monitors liquidity required to meet its operating needs and other contractual commitments. The College considers all expenditure related to its ongoing activities of teaching, research, and public service as well as the conduct of services undertaken to support general institutional expenditures. Student loans receivables are not included in the analysis of liquidity as principal and interest on student loans are used solely to make new loans.

In addition to financial assets available to meet general expenditures, the College operates with a balanced operating budget and anticipates collecting sufficient revenue to cover general expenditures not covered by donor-restricted resources.

For purposes of analyzing resources, the College considers various sources of liquidity including cash and cash equivalents and investments. As of June 30, 2018, the following financial assets could readily be made available within one year of the balance sheet date to meet general expenditures:

Cash and Cash Equivalents	\$ 17,557,279
Contributions for General Expenditures Due in One Year or Less	1,278,683
Grants Receivable	558,933
Accounts Receivable, Net	3,504,924
Investments	59,591,559
Investment Return Allocation Authorized	40,469,044
Total	<u><u>\$ 122,960,422</u></u>

In addition to financial assets available to meet general expenditures within one year, the following amounts are expected to be released from donor-restricted financial assets over the next 12 months to meet expected construction costs:

Deposits with Bond Trustee	\$ 35,476,889
Net Assets Restricted for Construction Costs	15,938,369
Total	<u><u>\$ 51,415,258</u></u>

**CARLETON COLLEGE**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2018 AND 2017**

**NOTE 2 INVESTMENTS AND FINANCIAL INSTRUMENTS MEASURED AT FAIR VALUE  
(CONTINUED)**

Investment liquidity, as of June 30, is aggregated in the tables below based on redemption or sale period:

<u>Balances as of June 30, 2018</u>	Dailey	Monthly	Quarterly	Semi-Annually	Annual or Longer	Illiquid	Total
Cash and Cash Equivalents	\$ 86,869,275	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 86,869,275
Fixed Income	59,591,559	-	-	-	-	-	59,591,559
Public Equities	149,659,690	45,266,289	39,526,724	-	92,612,804	-	327,065,507
Private Equity	-	-	-	-	-	139,988,764	139,988,764
Hedge Funds	-	-	108,423,492	81,014,425	57,009,056	235,749	246,682,722
Real Estate and Other Real Assets	-	-	-	-	-	124,664,411	124,664,411
Planned Gift Agreements and Other	-	-	-	-	-	60,239,440	60,239,440
Total Investments	<u>\$ 296,120,524</u>	<u>\$ 45,266,289</u>	<u>\$ 147,950,216</u>	<u>\$ 81,014,425</u>	<u>\$ 149,621,860</u>	<u>\$ 325,128,364</u>	<u>\$ 1,045,101,678</u>

<u>Balances as of June 30, 2017</u>	Dailey	Monthly	Quarterly	Semi-Annually	Annual or Longer	Illiquid	Total
Cash and Cash Equivalents	\$ 17,073,257	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 17,073,257
Fixed Income	56,376,472	-	-	-	-	-	56,376,472
Public Equities	157,852,751	43,640,917	33,577,770	-	134,975,941	-	370,047,376
Private Equity	-	-	-	-	-	130,403,276	130,403,276
Hedge Funds	-	-	103,309,446	80,054,235	54,259,418	422,198	238,045,297
Real Estate and Other Real Assets	-	-	-	-	-	105,542,685	105,542,685
Planned Gift Agreements and Other	-	-	-	-	-	59,905,635	59,905,635
Total Investments	<u>\$ 231,302,480</u>	<u>\$ 43,640,917</u>	<u>\$ 136,887,216</u>	<u>\$ 80,054,235</u>	<u>\$ 189,235,359</u>	<u>\$ 296,273,794</u>	<u>\$ 977,393,998</u>

At June 30, 2018 and 2017, the College had outstanding commitments of \$133,728,227 and \$131,714,017, respectively, to private capital investments that have not yet been drawn down by the general partners of these funds. Typically, committed capital is drawn down and invested over a several year period. In the past, drawdowns on outstanding commitments have been funded by distributions from the private capital portfolio, as well as cash and other liquid investments.

At June 30, 2018 and 2017, the College had \$23,301,438 and \$19,915,346, respectively, invested with hedge fund investments which utilized side pockets within their portfolio of investments. Side pockets are segregated accounts used by hedge funds to hold illiquid investments.

The College holds mortgages on residences of eligible faculty and staff members that amounted to \$873,279 and \$958,709 as of June 30, 2018 and 2017, respectively. The average interest rate on the mortgages for the years ended June 30, 2018 and 2017 was 5.15%.

The carrying amounts of cash and cash equivalents and pledges receivable approximate fair value because of the short maturity of these financial instruments.

The carrying amount of bonds payable approximates fair value because these financial instruments bear interest at rates which approximate current market rates for bonds with similar maturities and credit quality.

**CARLETON COLLEGE  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2018 AND 2017**

**NOTE 3 PROPERTY, PLANT, AND EQUIPMENT**

Property, plant, and equipment as of June 30 are as follows:

	<u>2018</u>	<u>2017</u>
Land	\$ 3,785,214	\$ 3,785,213
Land Improvements	843,255	826,358
Buildings and Building Improvements	304,348,867	268,924,599
Library Books	33,396,442	35,454,540
Equipment and Vehicles	56,628,314	55,013,116
Construction in Progress:		
Residence Hall Renovations	1,217,865	721,437
Academic Building Renovations	28,088,023	36,362,075
Utility Master Plan	12,480,658	2,232,758
Other	129,132	593,022
Total	<u>440,917,770</u>	<u>403,913,118</u>
Less: Accumulated Depreciation	<u>(179,969,313)</u>	<u>(174,651,516)</u>
Property, Plant, and Equipment, Net	<u>\$ 260,948,457</u>	<u>\$ 229,261,602</u>

Total depreciation expense as of June 30, 2018 and 2017 was \$11,254,734 and \$10,798,461, respectively.

The College has capitalized collections received of \$422,950 and \$181,100 for the years ended June 30, 2018 and 2017, respectively. These collection items are valued at fair market value at the date of donation and are not depreciated.

**NOTE 4 BONDS PAYABLE**

Bonds payable at June 30 consisted of the following bonds issued by the Minnesota Higher Education Facility Authority (MHEFA) on behalf of the College:

	<u>2018</u>	<u>2017</u>
Revenue Bonds, Series 6D	\$ 9,235,000	\$ 12,165,000
Revenue Bonds, Series 2017	122,115,000	124,900,000
Bonds Payable	<u>131,350,000</u>	<u>137,065,000</u>
Less: Unamortized Origination Costs	(798,120)	(896,727)
Plus: Unamortized Premium	13,785,612	14,277,956
Bonds Payable, Net	<u>\$ 144,337,492</u>	<u>\$ 150,446,229</u>

**CARLETON COLLEGE  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2018 AND 2017**

**NOTE 4 BONDS PAYABLE (CONTINUED)**

On April 1, 2005, MHEFA issued Series 6-D Variable Rate Demand Revenue Bonds (the Bonds) in the amount of \$31,460,000 for the College. The Bonds mature April 1, 2035. The interest rate on the Bonds, adjusted weekly, ranged from 0.76% to 1.83% during the fiscal year 2018 with an average rate of 1.16%. Proceeds of approximately \$28,000,000 were used to retire the Series 3-L1 and retire identified Series 4-N bonds upon maturity. The remaining proceeds were used to finance new student housing and real estate acquisitions near the College campus for purposes related to the educational mission of the College.

On May 24, 2017, MHEFA issued Series 2017 Fixed Rate Revenue and Refunding Bonds (the Bonds) in the amount of \$124,900,000 for the College. The Bonds include serial maturities in 2018 through 2042, term bonds maturing in 2044 and 2047. The 2044 term bond has mandatory principal redemptions in 2043 – 2044 (final maturity) and the 2047 term bond has mandatory principal redemptions in 2045 – 2047 (final maturity). The Bonds are subject optional redemption beginning March 1, 2027. Coupon rates range from 3.00% to 5.00% with a combination of premium bonds and one par bond. Yields range from .86% to 3.75%. The Bonds have a true interest cost (TIC) of 3.29%. Proceeds were used to refund the Series 5-G, and advance refund the Series 6-T and Series 7-D. New money proceeds of \$70,000,000 were used to finance construction and renovation of the Science Complex, redesign the campus utility infrastructure, and construct a music and performance addition to the Weitz Center for Creativity.

The scheduled maturities of debt in each of the five years subsequent to June 30, 2018 are as follows:

<u>Year Ending June 30,</u>	<u>Amount</u>
2019	\$ 5,260,000
2020	4,565,000
2021	4,705,000
2022	4,890,000
2023	5,440,000
Thereafter	<u>106,490,000</u>
Total	<u>\$ 131,350,000</u>

The bond agreements contain various covenants regarding submission of financial statements and budgets; notice of intent to issue additional debt; and require certain debt coverage financial ratios.

**CARLETON COLLEGE**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2018 AND 2017**

**NOTE 4 BONDS PAYABLE (CONTINUED)**

**Interest Rate Swaps**

The College uses one interest rate swap agreement 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 swap agreement is not entered into for trading or speculative purposes. The interest rate swap agreement is recognized as a liability on the balance sheets and as measured by its fair value. The college expects to hold the interest rate swap agreement for the life of the strategy, and reflects 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 swap agreements are reflected in the statements of activities and change in net assets.

On March 31, 2005, the College entered into an interest rate swap agreement with Morgan Stanley Capital Services Inc. terminating April 1, 2022; under the terms of the swap agreement, the College will pay a fixed rate of 3.53% and receive a variable rate of 68% of LIBOR. The current notional amount of the agreement, \$6,200,000, declines annually with each principal payment of MHEFA Series 6D variable rate bonds. At June 30, 2018 and 2017, the fair value of swap agreement liability was \$200,702 and \$482,797, respectively.

The College has the right to terminate the swap agreement at any time, at its sole discretion, at a commercially reasonable amount. Morgan Stanley can only terminate when there has been an event of default by the College or if the College debt is rated lower than Baa3. The termination at such time will be at the then commercially reasonable amount.

**Standby Bond Purchase Agreements**

The College has a standby bond purchase agreement to provide liquidity support for the Series 6D variable rate bonds, which are remarketed weekly. In the event some or all of the bonds were tendered and not remarketed, the facility provides for the purchase of the unremarketed bonds by the bank. Any funds provided by this liquidity facility would be payable to the bank by the College. The College pays an annual commitment fee of .45% on the Series 6D agreements which expire April 30, 2020. There have been no bonds purchased by the bank under the agreements as of June 30, 2018. If the standby bond purchase agreements are not extended, and the Series 6D are not refinanced by April 30, 2020, the balance outstanding on the bonds would become due and payable.

**CARLETON COLLEGE**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2018 AND 2017**

**NOTE 5 RESTRICTIONS AND LIMITATION ON NET ASSET BALANCES**

The board has designated \$302,002,851 and \$283,090,755 of net assets without donor restriction as funds functioning as endowment as of June 30, 2018 and 2017, respectively.

Net asset with donor restriction are available for the following purposes as of June 30, 2018:

Donor-Restricted Net Assets not Invested in Perpetuity:	
Program Support	\$ 21,663,859
Advances for Grants and Contracts	2,885,840
Henry Strong Loan Fund	343,544
Physical Plant Acquisitions	23,513,532
Accumulated Earnings from Endowment Funds subject to Donor Restrictions	351,199,980
Split-Interest Agreements	<u>28,971,930</u>
Total Donor-Restricted Net Assets not Invested in Perpetuity	428,578,685
Donor-Restricted Net Assets Invested in Perpetuity:	
Endowment	241,896,014
Underwater Endowment	(865,342)
Split-Interest Agreements	<u>11,595,562</u>
Total Donor-Restricted Net Assets Invested in Perpetuity	<u>252,626,234</u>
Total Net Assets with Donor Restrictions	<u><u>\$ 681,204,919</u></u>

Net assets were released from donor restrictions as expenses were incurred satisfying the restricted purposes or by the passage of time or the occurrence of other events specified by donors as follows for the year ended June 30, 2018:

Release of Restrictions:	
Operating:	
Scholarship Support	\$ 10,515,828
AAF Support	96,188
Other Instructional Support	9,338,796
Operating Budget Support	<u>24,050,304</u>
Total Operating Net Assets Released from Restriction	44,001,116
Nonoperating:	
Plant Construction	20,613,985
Matured Split Interest Agreements	982,882
Student Loans	<u>18,444</u>
Total Nonoperating Net Assets Released from Restriction	<u>21,615,311</u>
Total Net Assets Released from Restriction	<u><u>\$ 65,616,427</u></u>



**CARLETON COLLEGE**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2018 AND 2017**

**NOTE 6 ENDOWMENTS**

The College endowment consists of approximately 713 individual donor restricted endowment funds and 142 board-designated endowment funds. The College pools these investments in a unitized pool similar to an open-ended mutual fund. Funds added or withdrawn from the pool are recorded at their share of the market value per share at the beginning of the month within which the transaction takes place.

The market value of the endowment reported in the financial statements includes the present value of pledges receivable. The market value of endowment investments, excluding contributions receivables to the endowment, was \$878,493,998 and \$828,168,145 as of June 30, 2018 and 2017, respectively.

The annual endowment spending appropriation is approved by the board of trustees as part of the annual operating budget, in advance of the fiscal year to which it will apply. Endowment spending is defined as a per share dividend to be paid to endowment accounts based upon the number of shares held by each. The annual spending in any fiscal year is calculated as follows: 70% of the allowable spending in the previous fiscal year, increased by 2%; plus 30% of the long-term spending rate of 4.95% applied to the 12 quarter market value average of the endowment unit value for the period ending June 30 of the year, one year prior to the start of the fiscal year. The allowable spending dividend in a fiscal year is limited to not more than 5.75% or not less than 3.75% of the market value of the endowment unit value for the period ending June 30 of the year, one year prior to the start of the fiscal year.

Endowment net asset composition by type of fund as of June 30, 2018:

	Without Donor- Restriction	With Donor Restriction		Total With Donor Restriction	Total
		Purpose	Perpetual		
Donor-Restricted Endowment Funds	\$ -	\$ 350,449,290	\$ 226,707,199	\$ 577,156,489	\$ 577,156,489
Underwater Endowment Funds	-	-	(865,342)	(865,342)	(865,342)
Board-Designated Endowment Funds	302,202,851	-	-	-	302,202,851
Subtotal Endowment Funds	302,202,851	350,449,290	225,841,857	576,291,147	878,493,998
Contributions Receivable	(200,000)	750,690	15,188,815	15,939,505	15,739,505
Total Endowment Funds	\$ 302,002,851	\$ 351,199,980	\$ 241,030,672	\$ 592,230,652	\$ 894,233,503

**CARLETON COLLEGE**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2018 AND 2017**

**NOTE 6 ENDOWMENTS (CONTINUED)**

Changes in endowment net assets for the year ended June 30, 2018:

	Without Donor- Restriction	With Donor Restriction		Total With Donor Restriction	Total
		Purpose	Perpetual		
Endowment Fund Balance - June 30, 2017	\$ 284,767,498	\$ 337,666,975	\$ 214,873,539	\$ 552,540,514	\$ 837,308,012
Net Contributions	4,356,487	61,249	23,344,368	23,405,617	27,762,104
Investment Return	22,024,779	43,309,343	811,398	44,120,741	66,145,520
Appropriations	(9,145,913)	(29,837,587)	-	(29,837,587)	(38,983,500)
Other Changes:					
Transfers of Matured Deferred					
Gifts to Endowment Funds	-	-	1,904,952	1,904,952	1,904,952
Donor Directed Gift Modifications	-	-	96,415	96,415	96,415
Total Other Changes	-	-	2,001,367	2,001,367	2,001,367
Endowment Fund Balance - June 30, 2018	<u>\$ 302,002,851</u>	<u>\$ 351,199,980</u>	<u>\$ 241,030,672</u>	<u>\$ 592,230,652</u>	<u>\$ 894,233,503</u>

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

	Without Donor- Restriction	With Donor Restriction		Total With Donor Restriction	Total
		Purpose	Perpetual		
Donor-Restricted Endowment Funds	\$ -	\$ 336,977,534	\$ 207,899,853	\$ 544,877,387	\$ 544,877,387
Underwater Endowment Funds	-	-	(1,676,740)	(1,676,740)	(1,676,740)
Board-Designated Endowment Funds	284,967,498	-	-	-	284,967,498
Subtotal Endowment Funds	284,967,498	336,977,534	206,223,113	543,200,647	828,168,145
Contributions Receivable	(200,000)	689,441	8,650,426	9,339,867	9,139,867
Total Endowment Funds	<u>\$ 284,767,498</u>	<u>\$ 337,666,975</u>	<u>\$ 214,873,539</u>	<u>\$ 552,540,514</u>	<u>\$ 837,308,012</u>

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

	Without Donor- Restriction	With Donor Restriction		Total With Donor Restriction	Total
		Purpose	Perpetual		
Endowment Fund Balance - June 30, 2016	\$ 243,906,681	\$ 298,020,320	\$ 197,695,546	\$ 495,715,866	\$ 739,622,547
Net Contributions	1,640,310	311,685	18,611,018	18,922,703	20,563,013
Investment Return	36,743,442	68,744,751	(1,676,740)	67,068,011	103,811,453
Appropriations	(11,322,098)	(25,771,951)	-	(25,771,951)	(37,094,049)
Other Changes:					
Transfers of Matured Deferred					
Gifts to Endowment Funds	10,161,333	-	243,715	243,715	10,405,048
Donor Directed Gift Modifications	3,637,830	(3,637,830)	-	(3,637,830)	-
Total Other Changes	13,799,163	(3,637,830)	243,715	(3,394,115)	10,405,048
Endowment Fund Balance - June 30, 2017	<u>\$ 284,767,498</u>	<u>\$ 337,666,975</u>	<u>\$ 214,873,539</u>	<u>\$ 552,540,514</u>	<u>\$ 837,308,012</u>

**CARLETON COLLEGE  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2018 AND 2017**

**NOTE 6 ENDOWMENTS (CONTINUED)**

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the value of the initial and subsequent donor gift amounts (underwater). As of June 30, 2018, funds with original gift values of \$12,564,743, fair values of \$11,699,401, and deficits of \$865,342 were reported in net assets with donor restrictions. As of June 30, 2017, funds with original gift values of \$11,754,384 and fair values of \$10,077,644, and deficiencies of \$1,676,740 were reported in net assets with donor restriction. These deficits, which the College believes are temporary, resulted from unfavorable market fluctuations. Continued spending appropriations are deemed prudent.

**NOTE 7 RETIREMENT PLAN**

Retirement benefits for substantially all full-time nonunion employees are individually funded and vested under a defined contribution program with the Teachers Insurance and Annuity Association and the College Retirement Equities Fund (TIAA and CREF). Under this agreement, the College and plan participants contribute to individual employee TIAA-CREF retirement accounts which fund individual retirement benefits.

Expenses for the College's share of the contributions were \$5,595,736 and \$5,422,413 in 2018 and 2017, respectively.

**NOTE 8 CONTRIBUTIONS RECEIVABLE**

Unconditional promises to give are included in the financial statements as contributions receivable and revenue in the appropriate net asset category.

Contributions receivable are summarized as follows at June 30:

	2018	2017
Unconditional Promises Expected to be Collected in:		
Less than One Year	\$ 4,686,270	\$ 4,013,277
One Year to Five Years	23,424,554	20,337,854
Over Five Years	810,018	932,281
Gross Pledges Receivable	28,920,842	25,283,412
Less: Present Value Discount	(1,294,484)	(1,109,563)
Less: Allowance for Uncollectible Pledges	(200,000)	(200,000)
Pledges Receivable, Net	\$ 27,426,358	\$ 23,973,849

Contributions receivable from board members and employees totaled \$14,548,502 and \$10,031,171 at June 30, 2018 and 2017, respectively.

At June 30, 2018 and 2017, approximately 16% and 12% gross contributions receivable, respectively, were attributed to one contributor.

**CARLETON COLLEGE**  
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**NOTE 9 CREDIT QUALITY OF STUDENT NOTES RECEIVABLE**

The College issues uncollateralized loans to students based on financial need. Student loans are funded through federal government loan programs or 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. At June 30, 2018 and 2017, student loans represented less than 1% of total assets.

At June 30, student loans consisted of the following:

	2018	2017
Federal Government Programs	\$ 5,477,431	\$ 6,508,799
Henry Strong Loan Program	160,692	165,587
Institutional Loan Programs	770,012	742,955
Subtotal, Gross	<u>6,408,135</u>	<u>7,417,341</u>
Less: Allowance for Doubtful Accounts:		
Beginning of Year	(155,000)	(155,000)
Decreases to Allowance	-	-
End of Year	<u>(155,000)</u>	<u>(155,000)</u>
Student Loans Receivable, Net	<u>\$ 6,253,135</u>	<u>\$ 7,262,341</u>

At June 30, the past due and current amounts under student loan programs were as follows:

	2018	2017
Current Loan Receivables	\$ 5,620,711	\$ 6,978,854
Past Due Loan Receivables:		
0 - 240 Days Past Due	614,252	301,870
240 Days - 2 Years Past Due	69,974	22,058
2 - 5 Years Past Due	10,770	14,156
5+ Years Past Due	92,428	100,403
Total Past Due	<u>787,424</u>	<u>438,487</u>
Total Student Loan Receivables, Gross	<u>\$ 6,408,135</u>	<u>\$ 7,417,341</u>

Funds advanced by the federal government of \$3,528,259 and \$4,512,205 at June 30, 2018 and 2017, respectively, are ultimately refundable to the government and are classified as liabilities on the balance sheets.

As of June 30, 2018 and 2017, the Perkins Cohort Default rate was 1.086% and .83%, respectively.

**CARLETON COLLEGE**  
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**NOTE 10 COMMITMENTS AND CONTINGENCIES**

The College is involved in various legal actions arising in the normal course of activities and is subject to periodic audits and inquiries by various regulatory agencies. Although the ultimate outcome of such matters is not determinable at this time, management believes that the resolution of these pending matters will not have a materially adverse effect on the College's financial statements.

During the year, the College entered into various contracts for construction of new academic buildings and other infrastructure improvements. As of June 30, 2018 and 2017, the remaining commitment on these contracts totaled \$77,092,748 and \$17,981,704, respectively.

**NOTE 11 SELF-INSURED MEDICAL BENEFITS AND WORKERS' COMPENSATION**

The College provides medical benefits through a self-insured plan, which is available to all employees of the College who meet eligibility requirements for medical benefits. Accrued expenses include an incurred but not reported reserve of \$1,050,000 as of June 30, 2018, an estimate of amounts due and payable on existing claims for which the College is self-insured and which are expected to be settled currently. For the plan year ended December 31, 2017, the College is self-insured with an aggregate stop-loss of \$9,847,547. As of June 30, 2018, the College had unrestricted net assets of \$1,178,089 designated for health insurance benefits, which consist of the cumulative amount of College and employee contributions toward health premiums have exceeded expenses over the life of the plan.

The College is self-insured for workers' compensation. As of June 30, 2018 and 2017, the College has recorded a liability of \$175,000 and \$50,000, respectively, for claims incurred but not yet reported. The Workers' Compensation Reinsurance Association (WCRA) provides stop-loss coverage for aggregate claims in excess of \$450,000. The College has established a workers' compensation reserve as required by WCRA, which is included in Investments on the balance sheets, of \$949,488 and \$1,010,515 as of June 30, 2018 and 2017, respectively.

**CARLETON COLLEGE**  
**NOTES TO FINANCIAL STATEMENTS**  
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**NOTE 12 EXPENSES BY FUNCTION AND NATURAL CLASSIFICATION**

The College reports expenditures in categories reflecting core operational objectives for higher education as defined by Integrated Postsecondary Education Data System (IPEDS). During the year expenses are directly coded to program activities (instruction, research, academic support, student services, and auxiliary enterprises) or support services (institutional management and fundraising) whenever possible. Expenses which are not directly identifiable by program or support service including operation and maintenance of plant expenses are allocated based on depreciation expense, interest expense is allocated based on the programs and/or supporting functions that directly benefit from the related debt issuance.

Expenses are categorized on a functional expenses as follows:

- **Instruction** includes expenses for all activities that are part of the instructional program.
- **Research** includes expenses for activities specifically organized to produce research, whether funded by a federal grant or foundation or directly supported by the college or by an organizational unit.
- **Academic Support** includes expenses for all activities that directly support the instructional programs of the college such as the library and technology services.
- **Student services** are considered programmatic and include activities that contribute to student emotional and physical well-being and intellectual, cultural and social development outside the formal instructional program.
- **Auxiliary** include expenses relating to the operation of the auxiliary activities such as housing, dining services, printing and mailing, parking and transportation.
- **Support Activities** include centralized management and administrative support services such as executive management, fiscal operations, general administration, and fundraising activities.

Expenses associated with the operation and maintenance of plant, depreciation and interest expense are allocated across all functional expense categories as follows:

- **Depreciation** expenses for buildings and equipment are allocated based on the use of the building.
- **Plant Operation and Maintenance** expenses for the administration, supervision, operation, maintenance, preservation, and protection of the institutions physical plant follow depreciation allocations.
- **Interest Expense** is allocated based on the use of space benefiting from the original debt issue.

Program activity expense reflects the major activities of the institution for instruction, research, academic support, student services, and auxiliary enterprises. Support activities include institutional management and fundraising.

**CARLETON COLLEGE  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2018 AND 2017**

**NOTE 13 EXPENSES BY FUNCTION AND NATURAL CLASSIFICATION (CONTINUED)**

Expenses reported by function on the statement of activities and changes in net assets are summarized by natural classification for the year ended June 30, 2018:

<b>EXPENSES</b>	Program Activities	Support Activities	Total
Salaries and Wages	\$ 49,416,632	\$ 10,056,185	\$ 59,472,817
Employee Benefits	17,050,386	3,122,512	20,172,898
Student Employment	3,856,872	285,701	4,142,573
Professional Services	2,885,228	1,157,337	4,042,565
Supplies	3,613,044	692,839	4,305,883
Equipment	4,351,797	(144,071)	4,207,726
Building Maintenance	2,118,933	1,542,942	3,661,875
Utilities	2,555,175	(43,530)	2,511,645
Interest Expense	5,188,414	-	5,188,414
Depreciation	10,964,871	289,863	11,254,734
Dining Services	7,810,900	-	7,810,900
Travel	7,102,550	593,957	7,696,507
Other	5,706,078	1,969,298	7,675,376
Total Expenses	<u>\$ 122,620,880</u>	<u>\$ 19,523,033</u>	<u>\$ 142,143,913</u>

Expenses reported by function on the statement of activities and changes in net assets are summarized by natural classification for the year ended June 30, 2017:

<b>EXPENSES</b>	Program Activities	Support Activities	Total
Salaries and Wages	\$ 45,931,010	\$ 11,508,807	\$ 57,439,817
Employee Benefits	16,665,689	3,120,744	19,786,433
Student Employment	3,620,498	361,215	3,981,713
Professional Services	4,324,371	1,253,488	5,577,859
Supplies	3,308,880	822,999	4,131,879
Equipment	2,380,674	7,675	2,388,349
Building Maintenance	4,131,376	298,160	4,429,536
Utilities	2,454,845	-	2,454,845
Interest Expense	3,388,052	-	3,388,052
Depreciation	10,478,153	320,308	10,798,461
Dining Services	7,615,353	-	7,615,353
Travel	7,739,962	727,958	8,467,920
Other	5,708,539	1,920,668	7,629,207
Total Expenses	<u>\$ 117,747,402</u>	<u>\$ 20,342,022</u>	<u>\$ 138,089,424</u>