

**CARLETON COLLEGE**  
**FINANCIAL STATEMENTS**  
**YEARS ENDED JUNE 30, 2010 AND 2009**

**CARLETON COLLEGE  
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## INDEPENDENT AUDITORS' REPORT

Board of Trustees  
Carleton College  
Northfield, Minnesota

We have audited the accompanying balance sheets of Carleton College (the College) as of June 30, 2010 and 2009, and the related statements of activities and change in net assets, and cash flows for the years then ended. These financial statements are the responsibility of the College'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 examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes 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 Carleton College as of June 30, 2010 and 2009, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

*LarsonAllen LLP*  
**LarsonAllen LLP**

Minneapolis, Minnesota  
September 21, 2010

**CARLETON COLLEGE  
BALANCE SHEETS  
JUNE 30, 2010 AND 2009**

<b>ASSETS</b>	2010	2009
Cash and Cash Equivalents	\$ 55,078,144	\$ 22,045,473
Receivables, Net:		
Pledges	41,073,523	29,847,411
Government	859,414	531,086
Other	802,278	1,319,095
Inventories, Prepaid Expenses, and Deferred Charges	2,731,636	2,188,381
Loans to Students	8,412,078	8,114,877
Deposits with Bond Trustee	27,618,541	10,743,179
Trusts Held by Others	8,226,412	7,747,136
Investments	617,591,249	585,230,042
Property, Plant, and Equipment, Net of Depreciation	145,460,287	140,553,280
Total Assets	\$ 907,853,562	\$ 808,319,960
<b>LIABILITIES AND NET ASSETS</b>		
<b>LIABILITIES</b>		
Accounts Payable	\$ 3,296,803	\$ 7,326,223
Accrued Expenses	8,043,888	7,347,982
Deferred Income and Deposits	6,427,087	6,869,733
Annuities Payable	21,789,048	21,506,745
Asset Retirement Obligation	2,402,574	2,335,788
Fair Value of Interest Rate SWAP	2,777,653	2,136,585
Bonds Payable, Net	122,693,505	92,393,241
Refundable Government Grants for Student Loans	5,402,665	5,459,694
Total Liabilities	172,833,223	145,375,991
<b>NET ASSETS</b>		
Unrestricted:		
Operations	13,868,738	2,786,262
Student Loan Funds	3,525,656	3,467,207
Net Investment in Plant	62,824,327	58,631,854
Funds Functioning as Endowment	169,655,115	147,849,817
Total Unrestricted Net Assets	249,873,836	212,735,140
Temporarily Restricted:		
Operations	20,586,063	22,940,671
Plant Funds	25,752,372	9,864,074
Funds Functioning as Endowments	248,956,732	236,816,104
Split Interest Funds	15,131,945	14,772,597
Total Temporarily Restricted Net Assets	310,427,112	284,393,446
Permanently Restricted:		
True Endowments	163,958,346	156,056,379
Split Interest Funds	10,761,045	9,759,004
Total Permanently Restricted Net Assets	174,719,391	165,815,383
Total Net Assets	735,020,339	662,943,969
Total Liabilities and Net Assets	\$ 907,853,562	\$ 808,319,960

See accompanying Notes to Financial Statements.

**CARLETON COLLEGE**  
**STATEMENTS OF ACTIVITIES AND CHANGE IN NET ASSETS**  
**YEARS ENDED JUNE 30, 2010 AND 2009**

	2010				2009			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Totals	Unrestricted	Temporarily Restricted	Permanently Restricted	Totals
<b>REVENUES AND OTHER ADDITIONS</b>								
Tuition and Fees	\$ 78,925,879	\$ -	\$ -	\$ 78,925,879	\$ 75,255,365	\$ -	\$ -	\$ 75,255,365
Room and Board	17,076,771	-	-	17,076,771	15,308,158	-	-	15,308,158
Scholarships	(28,022,026)	-	-	(28,022,026)	(26,314,046)	-	-	(26,314,046)
Net Student Fees	67,980,624	-	-	67,980,624	64,249,477	-	-	64,249,477
Private Gifts and Pledges	19,653,183	19,858,607	6,960,128	46,471,918	15,418,692	4,145,445	4,777,558	24,341,695
Loss on Long-Term Gifts and Pledges	-	-	(279,900)	(279,900)	-	(2,107,783)	(288,672)	(2,396,455)
Government Grants and Contracts	620,987	2,132,123	-	2,753,110	639,831	2,135,845	-	2,775,676
Interest and Dividends	1,258,444	2,109,485	-	3,367,929	2,107,687	2,796,375	-	4,904,062
Net Realized Gain (Loss)	1,927,806	4,000,520	-	5,928,326	(1,463,459)	1,721,927	-	258,468
Net Unrealized Gain (Loss)	17,230,267	39,540,757	-	56,771,024	(48,278,257)	(77,031,632)	-	(125,309,889)
Unrealized Loss on Interest Rate SWAP	(641,068)	-	-	(641,068)	(1,122,758)	-	-	(1,122,758)
Net Change in Annuity & Life Income Funds	-	(3,944,099)	1,002,041	(2,942,058)	(897,821)	4,847,916	(2,250,805)	1,699,290
Bookstore, Rents and Other	4,208,758	-	-	4,208,758	3,894,869	-	-	3,894,869
Subtotal Revenue	112,239,001	63,697,393	7,682,269	183,618,663	34,548,261	(63,491,907)	2,238,081	(26,705,565)
Fund Transfers	6,547,505	(7,769,244)	1,221,739	-	(14,414,223)	10,787,592	3,626,631	-
Net Assets Released from Restrictions	29,894,483	(29,894,483)	-	-	37,009,025	(37,009,025)	-	-
Total Revenues and Other Additions	148,680,989	26,033,666	8,904,008	183,618,663	57,143,063	(89,713,340)	5,864,712	(26,705,565)
<b>EXPENSES</b>								
Instruction	48,152,212	-	-	48,152,212	46,213,823	-	-	46,213,823
Research	1,861,213	-	-	1,861,213	2,115,036	-	-	2,115,036
Academic Support:								
Library	5,730,705	-	-	5,730,705	6,080,881	-	-	6,080,881
Other	7,461,918	-	-	7,461,918	7,375,121	-	-	7,375,121
Student Services	15,601,626	-	-	15,601,626	14,841,382	-	-	14,841,382
Institutional Support:								
Administration	5,123,767	-	-	5,123,767	5,289,289	-	-	5,289,289
External Relations	3,865,314	-	-	3,865,314	3,985,990	-	-	3,985,990
Fund Raising	4,025,840	-	-	4,025,840	4,728,859	-	-	4,728,859
General	5,253,926	-	-	5,253,926	5,256,080	-	-	5,256,080
Auxiliary Enterprises	14,465,772	-	-	14,465,772	13,992,729	-	-	13,992,729
Total Expenses	111,542,293	-	-	111,542,293	107,764,154	-	-	109,879,190
<b>CHANGE IN NET ASSETS</b>	37,138,696	26,033,666	8,904,008	72,076,370	(52,736,127)	(89,713,340)	5,864,712	(136,584,755)
Reclassification - Adoption of UPMIFA and FSP 117-1	-	-	-	-	(241,115,124)	241,115,124	-	-
Net Assets - Beginning of Year	212,735,140	284,393,446	165,815,383	662,943,969	506,586,391	132,991,662	159,950,671	799,528,724
<b>NET ASSETS - END OF YEAR</b>	<u>\$ 249,873,836</u>	<u>\$ 310,427,112</u>	<u>\$ 174,719,391</u>	<u>\$ 735,020,339</u>	<u>\$ 212,735,140</u>	<u>\$ 284,393,446</u>	<u>\$ 165,815,383</u>	<u>\$ 662,943,969</u>

See accompanying Notes to Financial Statements.

**CARLETON COLLEGE**  
**STATEMENTS OF CASH FLOWS**  
**YEARS ENDED JUNE 30, 2010 AND 2009**

	2010	2009
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Change in Net Assets	\$ 72,076,370	\$ (136,584,755)
Adjustments to Reconcile Change in Net Assets to Net Cash Used by Operating Activities:		
Depreciation, Amortization and Accretion	8,177,424	7,536,580
Net Realized and Unrealized (Gain) Loss on Investments	(62,699,350)	126,174,179
Private Gifts for Long-Term Investments	(15,386,149)	(12,891,011)
Change in Value of Annuities and Life Income Trusts	3,134,944	(631,003)
Change in Value of Trusts Held by Others	(479,276)	2,022,005
Change in Value of Interest Rate SWAP	641,068	1,122,758
Loss on Disposal of Property, Plant and Equipment	60,676	658,293
Noncash Donations of Property, Plant and Equipment	(90,000)	(89,900)
Change in Unamortized Bond Discount	(46,841)	(351,759)
Changes in Operating Assets and Liabilities:		
Receivable, Net - Pledges	(11,226,112)	(515,956)
Receivable, Net - Government	(328,328)	346,233
Receivable, Net - Other	516,817	(102,488)
Inventories, Prepaid Expenses, and Deferred Charges	(207,984)	(232,525)
Loans to Students	(297,201)	(843,866)
Accounts Payable	(4,029,420)	2,464,844
Accrued Expenses	695,906	1,453,909
Deferred Income and Deposits	(442,646)	(330,034)
Refundable Government Grants for Student Loans	(57,029)	(89,790)
Net Cash Used by Operating Activities	(9,987,131)	(10,974,925)
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Purchase of Investments	(152,029,228)	(170,308,568)
Proceeds from Sale of Investments	182,367,371	201,201,061
Proceeds from Sale of Property, Plant, and Equipment	520,115	112,818
Acquisition of Property, Plant, and Equipment	(13,508,436)	(30,836,750)
Net Cash Provided by Investing Activities	17,349,822	168,561
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Changes in Deposits with Bond Trustee	(16,875,362)	(10,672,137)
Proceeds from Private Gifts for Long-Term Investment	15,386,149	12,891,011
Payments to Annuitants	(2,852,641)	(3,440,990)
Bond Issue Costs Paid	(335,271)	(90,639)
Proceeds from Issuance of Bonds Payable	30,445,000	29,665,000
Bond Premium	1,507,105	-
Principal Payments	(1,605,000)	(1,260,000)
Net Cash Provided by Financing Activities	25,669,980	27,182,884
<b>NET INCREASE IN CASH AND CASH EQUIVALENTS</b>	33,032,671	16,376,520
Cash and Cash Equivalent - Beginning of Year	22,045,473	5,668,953
<b>CASH AND CASH EQUIVALENTS - END OF YEAR</b>	\$ 55,078,144	\$ 22,045,473
<b>SUPPLEMENTAL INFORMATION</b>		
Interest Paid, net of interest capitalized	\$ 2,038,493	\$ 1,570,516
Property, Plant and Equipment in Accounts Payable	\$ 1,130,900	\$ 4,994,136

See accompanying Notes to Financial Statements.

**CARLETON COLLEGE**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2010 AND 2009**

**NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**Organization**

Founded in 1866, Carleton College is a co-educational, residential liberal arts college, located in 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 1,950 students drawn from 49 states and 45 different countries. Carleton offers a four-year baccalaureate degree in 37 majors preparing its graduates for leadership positions in their communities, countries and the world.

**Accrual Basis**

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

**Basis of Presentation**

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 and reported as unrestricted, temporarily restricted, or permanently restricted. Further explanation is as follows:

Unrestricted – Net assets that are not subject to donor-imposed restrictions. Unrestricted net assets may be designated for specific purposes by action of the board of trustees.

Temporarily Restricted – 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.

Permanently Restricted – Net assets subject to donor-imposed restrictions that they be maintained permanently by the College. Generally, the donors of these assets permit the College to use all of, 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 revenue is restricted by donor-imposed restrictions. Expenses are reported as decreases in unrestricted net assets. Gains and losses on investment and other assets or liabilities are reported as increases or decreases in unrestricted net assets unless their use is restricted by explicit donor stipulation.

Temporarily restricted net assets for which donor-imposed restrictions are met in the current period are reclassified to unrestricted net assets 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 fund transfers at the time they are identified.

Contributions, 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.

**CARLETON COLLEGE  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2010 AND 2009**

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

**Basis of Presentation (Continued)**

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. 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, 2010 and 2009, the College had an allowance of \$890,000 and \$610,000, respectively.

**Cash and Cash Equivalents**

Cash and cash equivalents include interest-bearing money market accounts and short-term investments with an original maturity of less than three months. The amounts on hand may at times exceed federally insured limits.

**Pledges Receivable**

Pledges Receivable include pledges that are recorded at their present value using discount rates ranging from approximately .61% to 6.52% depending on the year of inception. An allowance is made for potentially uncollectible contributions based upon management's past collection experience and other relevant factors.

**Other Receivables and Loans to Students**

Receivables are stated at net realizable value. The College has a long tradition of successful collection. Based on management's experience and analysis of individual accounts past due, the allowance for uncollectibility was \$189,900 and \$190,000 for the years ended June 30, 2010 and 2009, respectively. The need for an allowance is evaluated annually.

**Investments**

Investments in publicly traded securities are stated at quoted market value. Other investments, for which no such quoted market values or valuations are readily available, are carried at fair value as estimated by management using values provided by external investment managers. Changes in quoted market value are recorded as unrealized gains or losses in the period of change.

Investments are exposed to various risks such as interest rate, market and credit risks. Due to the level of risk associated with certain investments, it is at least reasonably possible that changes in the values will occur in the near term and that such changes could materially affect the financial statements.

**Property, Plant and Equipment**

Property, plant and equipment are stated at cost less accumulated depreciation. Depreciation is computed on the straight-line method over the estimated useful lives of the assets (3 to 40 years). Arts and antiques are maintained as collectables and accordingly, are not depreciated.

**CARLETON COLLEGE**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2010 AND 2009**

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

**Inventories**

Inventories consist primarily of print center supplies, bookstore books and merchandise as well as steam plant fuel oil reserves. Inventories are stated at the lower of cost, determined by the first-in, first-out method, or market.

**Deposits with Bond Trustee**

Deposits with bond trustee include amounts restricted for construction of various current and future plant projects.

**Deferred Income and Deposits**

The College records cash received for future services as deferred revenue. This revenue is recognized when services are provided. At June 30, 2010 and 2009, deferred revenue consists primarily of unearned tuition and student deposits.

**Planned Gift Split-Interest Agreements**

Annuities payable represent the College's liability under annuity contracts with donors and irrevocable charitable remainder trusts for which the College serves as trustee. 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 temporarily or permanently restricted, consistent with the method used to initially record the contributions. The basis used to recognize the asset is fair value.

For those irrevocable charitable remainder trusts for which the College does not serve as trustee, 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 an accrual. 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 of either temporarily or permanently restricted net assets. The value of the College's interest in these trusts is included in trusts held by others on the balance sheet.

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 trust has been obtained by 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 of permanently restricted net assets. The value of the College's interest in the trusts is included in trusts held by others on the balance sheet.

**CARLETON COLLEGE  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2010 AND 2009**

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

**Advertising Expense**

Advertising expense is expensed as incurred. Advertising expense for the years ended June 30, 2010 and 2009 was \$102,131 and \$93,704, respectively.

**Asset Retirement Obligation**

The College is required to accrue for the present value of future estimated costs to remediate environmental hazards related to property they own and the College has estimated the cost of potential obligations to remove asbestos. The College used 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 included within liabilities in the balance sheets of June 30, 2010 and 2009 were \$2,402,574 and \$2,335,788, respectively.

**Income Taxes**

The College qualifies as a tax-exempt nonprofit organization under Section 501(c)(3) of the Internal Revenue Code 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 Internal Revenue Code. The College has no obligation for unrelated business income tax. Accordingly, no provisions for federal or state income taxes are required.

The College adopted the income tax standard for uncertain tax positions on January 1, 2009. As a result of the implementation, the College evaluated its tax positions and determined it has no uncertain tax positions as of June 30, 2010. The College's 2007 through 2010 tax years are open for examination by federal and state taxing authorities.

**Use of Estimates**

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

**Functional Expenses**

Expenses are directly coded to programs or support services whenever possible. Expenses which are not directly identifiable by program or support service are allocated based on the best estimates of management.

**CARLETON COLLEGE**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2010 AND 2009**

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

**Refundable Government Grants for Student Loans**

Funds provided by the United States Government under the Federal Perkins Loan program are loaned to qualified student and may be reloaned 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.

**Fair Value Measurements**

The Company categorizes its assets and liabilities measured at fair value into a three-level hierarchy based on the priority of the inputs to the valuation technique used to determine fair value. The fair value hierarchy gives the highest priority to quoted prices in active markets for identical assets or liabilities (Level I) and the lowest priority to unobservable inputs (Level III). If the inputs used in the determination of the fair value measurement fall within different levels of the hierarchy, the categorization is based on the lowest level input that is significant to the fair value measurement. Assets and liabilities valued at fair value are categorized based on the inputs to the valuation techniques as follows:

*Level 1* – Financial assets and liabilities with values based on unadjusted quoted prices in active markets for identical assets that the College is able to access on the date of valuation. Level 1 investments include common stocks and bonds publicly listed on market exchanges with daily prices and trading activity, listed derivatives, most U.S. Government and agency securities and mutual funds with daily NAV reporting.

*Level 2* – Financial assets and liabilities with values based on quoted broker prices in markets, less active than Level 1, but with activity within a reasonable time period around the valuation date or where significantly all inputs are observable, either directly or indirectly. Level 2 investments include thinly traded securities and private investments in publicly traded companies and commingled funds with documented transactions on the reporting date at an established NAV.

*Level 3* – Financial assets and liabilities with unobservable inputs, in illiquid markets that rely on assumptions and estimates about pricing derived from available information. Level 3 investments include private equity, private real estate partnerships, and other illiquid securities with little if any regular market activity.

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 College values certain investment holdings at fair value using their net asset value and has the ability to redeem its investment with the investee at net asset value per share (or its equivalent) at the measurement date. The College previously classified its investments that calculate net asset value per share as a Level 3 fair value measurement, and reclassified these investments as a Level 2 fair value measurement during 2010, resulting in a transfer out of \$88,189,255.

**CARLETON COLLEGE**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2010 AND 2009**

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

**Fair Value Measurements (Continued)**

Fair value measurements of investments in certain entities that calculate net asset value per share (or its equivalent) as of June 30, 2010:

<u>Investment Category</u>	<u>NAV</u>	<u>Unfunded Commitments</u>	<u>Redemption Frequency</u>	<u>Redemption Notice Period</u>
Fixed Income	\$ 38,148,497	-	Monthly	10 days
Hedge Funds: Multi Strategy	13,885,356	-	Quarterly	65 days
Hedge Funds: Long/Short Credit	19,471,098	-	Monthly	90 days
Hedge Funds Macro	16,684,304	-	Quarterly	90 days

Fixed Income investments include global sovereign debt. The fair value of the investment in this category is based on quoted market prices for the underlying securities which comprise the net asset value of the collective fund. The funds provide full disclosure of the underlying holdings, whereby the College is able to verify its account balances.

Multi-Strategy Hedge Funds allocate capital across a several discrete strategies based upon their judgment of the relative attractiveness of each strategy. Strategies could include but are not limited to: equities, distressed and performing debt, merger arbitrage, and capital structure arbitrage. The fair value of the fund of hedge funds in this category has been estimated using the net asset value per share of the investments.

Long/short credit Hedge Funds primarily invest in distressed and performing debt, but hedge their long positions to varying degrees by shorting credit securities believed to be overvalued.

Hedge Macro funds invest long and short across a number of asset classes including equities, derivatives, debt, currencies, and commodities. Macro funds invest based on a top down view of the worldwide economy.

The Company uses fair value measurements to record fair value adjustments to certain assets and liabilities and to determine fair value disclosures. For additional information on how the Company measures fair value refer to Note 2 – Investments and Financial instruments measured at fair value.

**CARLETON COLLEGE**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2010 AND 2009**

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

**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 permanently 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, 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 market value of endowment investments, excluding contributions receivables to the endowment, was \$563,438,740 as of June 30, 2010 and \$517,309,619 as of June 30, 2009. Endowment funds include unrestricted, temporarily restricted and permanently restricted net assets. Endowment net assets classified as unrestricted include funds designated by the Board of Trustees for the long-term support of the College, including any accumulated income and appreciation thereon. Temporarily 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. Permanently 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 90% of prior year spending increased by 4%; plus 10% of 5% of the 12 quarter average market value of the endowment as of the prior September 30; banded by not more than 5.75% or less than 3.75% of the market value of the endowment for the period ending September 30 prior to the start of the fiscal year.

**Reclassifications**

Certain amounts appearing in the 2009 financial statements have been reclassified to conform with the 2010 presentation. The reclassifications have no effect on reported amounts of total net assets or change in total net assets.

**Subsequent Events**

In preparing these financial statements, the College has evaluated events and transactions for potential recognition or disclosure through September 21, 2010, the date the financial statements were available to be issued.

**CARLETON COLLEGE**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2010 AND 2009**

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

The following tables present investments and financial instruments carried at fair value as of by the valuation hierarchy defined in Note 1 as of June 30, 2010 and 2009:

	2010			Total
	Level 1	Level 2	Level 3	
Investments:				
Cash and Cash Equivalents	\$ 28,076,905	\$ -	\$ -	\$ 28,076,905
Fixed Income	-	38,148,497	-	38,148,497
Public Equities	122,126,377	-	47,553,575	169,679,952
Hedge Funds	-	50,040,758	145,417,720	195,458,478
Private Equity	-	-	107,091,047	107,091,047
Real Estate and Other Real Assets	-	-	29,150,029	29,150,029
Planned Gift Agreements and Other	3,084,961	2,485,803	44,415,577	49,986,341
Total Investments	153,288,243	90,675,058	373,627,948	617,591,249
Trusts Held by Others	-	-	8,226,412	8,226,412
Total	<u>\$ 153,288,243</u>	<u>\$ 90,675,058</u>	<u>\$ 381,854,360</u>	<u>\$ 625,817,661</u>

	2009			Total
	Level 1	Level 2	Level 3	
Investments:				
Cash and Cash Equivalents	\$ 37,814,489	\$ -	\$ -	\$ 37,814,489
Fixed Income	-	-	38,221,339	38,221,339
Equities	105,824,701	-	39,715,045	145,539,746
Private Equity	-	-	91,499,467	91,499,467
Hedge Funds	-	-	199,422,516	199,422,516
Real Estate and Other Real Assets	-	-	24,715,093	24,715,093
Planned Gift Agreements and Other	2,747,044	2,445,695	42,824,653	48,017,392
Total Investments	146,386,234	2,445,695	436,398,113	585,230,042
Trusts Held by Others	-	-	7,747,136	7,747,136
Total	<u>\$ 146,386,234</u>	<u>\$ 2,445,695</u>	<u>\$ 444,145,249</u>	<u>\$ 592,977,178</u>

Liabilities measured at fair value on a recurring basis as of June 30, 2009 and 2010:

	2010			Total
	Level 1	Level 2	Level 3	
Interest Rate Swap	\$ -	\$ 2,777,653	\$ -	\$ 2,777,653

  

	2009			Total
	Level 1	Level 2	Level 3	
Interest Rate Swap	\$ -	\$ 2,136,585	\$ -	\$ 2,136,585

Fair value for Level 1 is based upon quoted prices in active markets that the College has the ability to access for identical assets and liabilities. Market price data is generally obtained from exchange or dealer markets. The College does not adjust the quoted price for such assets and liabilities.

**CARLETON COLLEGE**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2010 AND 2009**

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

Fair value for Level 2 is based on quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active, and model - based valuation techniques for which all significant assumptions are observable in the market or can be corroborated by observable market data for substantially the full term of the assets. In addition, commingled funds with documented transactions on the reporting date at an established NAV are characterized as Level 2. In puts are obtained from various sources including market participants, dealers, and brokers.

Fair value for Level 3 is based on valuation techniques that use significant inputs that are unobservable as they trade infrequently or not at all.

Investments included in Level 3 primarily consist of the College's ownership in alternative investments (principally limited partnership interest in hedge, private equity, real estate, and other similar funds). The value of certain alternative investments represents the ownership interest in the net asset value (NAV) of the respective partnership. As of June 30, 2010, 59% of the investments held by Level 3 partnerships consisted of marketable securities with readily determinable fair values. The fair values (NAV) of the securities held by limited partnership that do not have readily determinable fair values are determined by the general partner and are based on appraisals, or other estimates that require varying degrees of judgment. If no public market exists for the investment securities, the fair value is determined by the general partner taking into consideration, among other things, the cost of the securities, process of recent significant placements of securities of the same issuer, and subsequent developments concerning the companies to which the securities relate. The College has performed due diligence around these investments to ensure NAV is an appropriate measure of fair value as of June 30, 2010.

The majority of private capital investments are carried at the estimated fair value provided by the general partners of these investment partnerships or funds as of March 31, 2010 and 2009, adjusted for cash and securities distributions as well as capital calls. The College believes that the carrying amount of its private capital investments is a reasonable estimate of fair value as of June 30, 2010 and 2009. Because private capital investments are not publicly traded and are expected to be held for several years, the estimated value is subject to uncertainty.

Interest rate swap agreements are classified as Level 2 as the College has the right to terminate the swap agreement at any time, at a commercially reasonable amount at the measurement date.

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.

**CARLETON COLLEGE**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2010 AND 2009**

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

The methods described above may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, while the College 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.

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:

	Fixed Income	Public Equities	Private Equity	Hedge Funds	Real Estate and Other Real Assets	Planned Gift Agreements and Other	Total Investments	Trusts Held by Others	Total
Balances as of July 1, 2008	\$ 66,120,280	\$ 15,567,067	\$ 99,657,691	\$ 235,756,489	\$ 33,000,656	\$ 63,775,385	\$ 513,877,568	\$ 9,769,141	\$ 523,646,709
Realized Gain/(Losses)	(1,263,229)	(1,133,371)	3,290,229	10,092,489	603,538	(910,426)	10,679,230	(307,780)	10,371,450
Unrealized Gain/(Losses)	1,270,211	5,357,488	(19,985,193)	(39,797,797)	(13,948,519)	(11,957,135)	(79,060,945)	(154,152)	(79,215,097)
Investment Income	(153,124)	9,307	1,201,612	(301,935)	692,275	-	1,448,135	-	1,448,135
New Investments and Capital Calls	-	30,014,289	15,396,819	50,000,000	6,963,078	-	102,374,186	-	102,374,186
Redemptions	(27,752,799)	(10,099,735)	(8,061,691)	(56,326,730)	(2,595,935)	(8,083,171)	(112,920,061)	(1,560,073)	(114,480,134)
Balances as of June 30, 2009	\$ 38,221,339	\$ 39,715,045	\$ 91,499,467	\$ 199,422,516	\$ 24,715,093	\$ 42,824,653	\$ 436,398,113	\$ 7,747,136	\$ 444,145,249

	Fixed Income	Public Equities	Private Equity	Hedge Funds	Real Estate and Other Real Assets	Planned Gift Agreements and Other	Total Investments	Trusts Held by Others	Total
Balances as of July 1, 2009	\$ 38,221,339	\$ 39,715,045	\$ 91,499,467	\$ 199,422,516	\$ 24,715,093	\$ 42,824,653	\$ 436,398,113	\$ 7,747,136	\$ 444,145,249
Realized Gain/(Losses)	13,362	-	2,283,819	(4,356,486)	2,704,079	517,262	1,162,036	(40,467)	1,121,569
Unrealized Gain/(Losses)	2,047,360	7,838,530	5,706,662	27,614,678	(2,840,056)	4,898,010	45,265,184	573,326	45,838,510
Investment Income	(147,179)	-	440,621	(37,087)	307,371	1,301,035	1,864,761	127,497	1,992,258
New Investments and Capital Calls	10,000,000	-	12,430,540	-	9,801,512	458,783	32,690,835	-	32,690,835
Redemptions	(11,986,385)	-	(5,270,062)	(27,185,143)	(5,537,970)	(5,584,166)	(55,563,726)	(181,080)	(55,744,806)
Balances as of June 30, 2010	38,148,497	47,553,575	107,091,047	195,458,478	29,150,029	44,415,577	461,817,203	8,226,412	470,043,615
Reclassified to Level 2	(38,148,497)	-	-	(50,040,758)	-	-	(88,189,255)	-	(88,189,255)
Balances as of June 30, 2010	\$ -	\$ 47,553,575	\$ 107,091,047	\$ 145,417,720	\$ 29,150,029	\$ 44,415,577	\$ 373,627,948	\$ 8,226,412	\$ 381,854,360

All net realized and unrealized gains (losses) in the table above are reflected in the accompanying statement of activities and change in net assets. Net unrealized gains (losses) relate to those financial instruments held by the College at June 30, 2010.

At June 30, 2010 and 2009, the College had outstanding commitments of \$94,430,764 and \$102,248,634, 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, draw downs on outstanding commitments have been funded by distributions from the private capital portfolio, as well as cash and other liquid investments.

At June 30, 2010 and 2009, the College had \$16,335,719 and \$12,758,817, 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.

**CARLETON COLLEGE**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2010 AND 2009**

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

The College holds mortgages on residences of eligible faculty and staff members that amounted to \$1,075,538 and \$1,035,429 as of June 30, 2010 and 2009, respectively. The average interest rate on the mortgages for the years ended June 30, 2010 and 2009 was 5.07%.

Investment expense totaled \$2,531,383 and \$3,222,031 for the years ended June 30, 2010 and 2009, respectively, and is netted with investment income.

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

Property, plant, and equipment as of June 30, 2010 and 2009 are as follows:

	<u>2010</u>	<u>2009</u>
Land and Real Estate Improvements	\$ 3,561,609	\$ 3,327,478
Buildings	177,941,134	145,887,280
Equipment and Books	83,379,259	75,484,354
Construction in Progress	<u>7,025,449</u>	<u>35,104,059</u>
	271,907,451	259,803,171
Less: Accumulated Depreciation	<u>(126,447,164)</u>	<u>(119,249,891)</u>
Total	<u>\$ 145,460,287</u>	<u>\$ 140,553,280</u>

Interest costs totaling \$224,624 and \$541,892 were capitalized as of June 30, 2010 and 2009, respectively.

Total depreciation expense as of June 30, 2010 and 2009 was \$8,110,638 and \$7,441,589, respectively.

The College has capitalized collections received of \$90,000 and \$89,900 for the years ended June 30, 2010 and 2009, respectively. These collection items are valued at fair market value at the date of donation and are not depreciated.

**CARLETON COLLEGE**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2010 AND 2009**

**NOTE 4 BONDS PAYABLE**

Bonds payable at June 30, 2010 and 2009 are as follows:

	<u>2010</u>	<u>2009</u>
Minnesota Higher Education Facilities Authority (MHEFA)		
Variable and Fixed Rate Demand Revenue Bonds		
Series 3L1 and 3L2	\$ 10,300,000	\$ 10,300,000
Revenue Bonds Series 5G	23,000,000	23,000,000
Revenue Bonds Series 6D	28,465,000	29,780,000
Revenue Bonds Series 6T	19,665,000	19,665,000
Revenue Bonds Series 6Y	9,710,000	10,000,000
Revenue Bonds Series 7D	<u>30,455,000</u>	<u>-</u>
	121,595,000	92,745,000
Unamortized Premium (Discount)	<u>1,098,505</u>	<u>(351,759)</u>
Total Net	<u>\$ 122,693,505</u>	<u>\$ 92,393,241</u>

On October 1, 1992, the Minnesota Higher Education Facilities Authority (MHEFA) issued Series 3-L2 Variable Rate Demand Revenue Bonds (the "Bonds") in the amount of \$10,300,000 for the College. The Bonds mature November 1, 2012. The interest rate on the Bonds ranged from 0.12% to .34% during the fiscal year 2010 with an average rate of .23% for the year. Proceeds from the Bonds were used to finance academic building improvements.

On June 8, 2000, the Minnesota Higher Education Facilities Authority (MHEFA) issued Series 5-G Variable Rate Demand Revenue Bonds (the Bonds) in the amount of \$23,000,000 for the College. The Bonds mature June 30, 2030. The interest rate on the Bonds ranged from 0.11% to .34% during the fiscal year 2010 with an average rate of .23% for the year. Proceeds from the Bonds were used to finance a new language and dining center; and for student resident housing improvements.

On April 1, 2005, Minnesota Higher Education Facilities Authority (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 ranged from 0.09% to .35% during the fiscal year 2010 with an average rate of .22% for the year. 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 December 1, 2008, the Minnesota Higher Education Facilities Authority (MHEFA) issued Series 6-T Fixed Rate Revenue Bonds (the "Bonds") in the amount of \$19,665,000 for the College. The bonds include serial maturities through 2018 and term bonds maturing in 2023 and 2028. Annual principal payments for the serial maturities gradually increase. The bonds are subject to optional redemption beginning on January 1, 2018. Interest rates range from 2.33% to 5.22% for a true interest cost of 5.11%. Proceeds from the Bonds were used to finance new student housing and utility infrastructure improvements.

**CARLETON COLLEGE  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2010 AND 2009**

**NOTE 4 BONDS PAYABLE (CONTINUED)**

On June 25, 2009, the Minnesota Higher Education Facilities Authority (MHEFA) issued Series 6-Y Variable Rate Revenue Notes (the Notes) in the amount of \$10,000,000 for the College. The notes have an interest rate of 3.20% that will reset on June 24, 2014. They have a final maturity of June 24, 2019 with a provision for optional redemption prior to maturity. Proceeds from the Bonds were used to finance the completion of new student housing and other existing building improvements.

On June 29, 2010, the Minnesota Higher Education Facilities authority (MHEFA) issued Series 7-D Fixed Rate Revenue Bonds (the Bonds) in the amount of \$30,455,000 for the College. The bonds include serial maturities through 2021 and term bonds maturing in 2030 and 2040. Annual principal payments for the serial maturities gradually increase. The bonds are subject to optional redemption beginning on March 1, 2019. Interest rates range from 1.50% to 5.00% for a true interest cost of 4.504%. Proceeds from the Bonds were used to finance construction and renovation of the Carleton Arts Union.

The agreements contain various covenants regarding submission of financial statements and budgets; notice of intent to issue additional debt; maintaining a positive change in unrestricted net assets adjusted for certain items, for at least two of the preceding three fiscal years, and meeting certain debt coverage financial ratios.

The maturities of debt in each of the five years subsequent to June 30, 2010 are as follows:

<u>Year</u>	<u>Amount</u>
2011	\$ 1,745,000
2012	2,410,000
2013	13,860,000
2014	3,645,000
2015	3,745,000
Thereafter	96,190,000
Total	<u>\$ 121,595,000</u>

**Interest Rate Swaps**

The College uses interest rate swap agreements as part of its risk management strategy to manage exposure to fluctuations in interest rates and to manage the overall cost of its debt. The interest rate swap agreements are not entered into for trading or speculative purposes. The interest rate swap agreements are recognized as either assets or liabilities on the balance sheets and are measured at fair value. The interest rate swap agreements are often held for the life of the strategy, but may reflect significant interim unrealized gains or losses depending on the change in value since the inception of the contract. All unrealized and realized gains and losses from the interest rate swap agreements are reflected in the statement of activities and change in net assets.

**CARLETON COLLEGE**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2010 AND 2009**

**NOTE 4 BONDS PAYABLE (CONTINUED)**

On March 31, 2005, the College entered into an interest rate swap agreement with Morgan Stanley Capital Services Inc. effective April 13, 2005, terminating April 1, 2022, under the terms of the swap agreement, the College will pay a fixed rate of 3.53% and receives a variable rate of 68% of LIBOR. The notional amount of the agreement, \$25,430,000, declines annually with each principal payment of MHEFA Series 6D variable rate bonds. At June 30, 2010 and 2009, the fair value of swap agreement liability was \$2,777,653 and \$2,136,585, 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.

**NOTE 5 ENDOWMENTS**

The College endowment consists of approximately 559 individual donor restricted endowment funds and 124 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 calendar quarter within which the transaction takes place.

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

	2010			Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	
Donor Restricted Endowment Funds	\$ (9,492,488)	\$ 232,144,578	\$ 163,958,346	\$ 386,610,436
Board Designated Endowment Funds	179,147,603	16,812,154	-	195,959,757
Total Endowment Funds	<u>\$ 169,655,115</u>	<u>\$ 248,956,732</u>	<u>\$ 163,958,346</u>	<u>\$ 582,570,193</u>

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

	2010			Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	
Endowment Fund Balance, June 30, 2009	\$ 147,849,817	\$ 236,816,104	\$ 156,056,379	\$ 540,722,300
Net Contributions	12,206,958	(3,645,823)	6,680,228	15,241,363
Investment Return	17,360,027	39,045,148	-	56,405,175
Appropriations	(9,777,088)	(21,668,917)	-	(31,446,005)
Other Changes:				
Transfers of Matured Deferred Gifts to Endowment Funds	1,412,863	-	1,026,085	2,438,948
Donor Directed Gift Modifications	(320,089)	-	195,654	(124,435)
Campaign Spending	(667,153)	-	-	(667,153)
Transfers from Temporarily Restricted Due to Change in Underwater Funds	1,589,780	(1,589,780)	-	-
Total Other Changes	<u>2,015,401</u>	<u>(1,589,780)</u>	<u>1,221,739</u>	<u>1,647,360</u>
Endowment Fund Balance, June 30, 2010	<u>\$ 169,655,115</u>	<u>\$ 248,956,732</u>	<u>\$ 163,958,346</u>	<u>\$ 582,570,193</u>

**CARLETON COLLEGE**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2010 AND 2009**

**NOTE 5 ENDOWMENTS (CONTINUED)**

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

	2009			Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	
Donor Restricted Endowment Funds	\$ (11,082,269)	\$ 218,012,759	\$ 156,056,379	\$ 362,986,869
Board Designated Endowment Funds	158,932,086	18,803,345	-	177,735,431
Total Endowment Funds	<u>\$ 147,849,817</u>	<u>\$ 236,816,104</u>	<u>\$ 156,056,379</u>	<u>\$ 540,722,300</u>

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

	2009			Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	
Endowment Fund Balance, June 30, 2008	\$ 441,526,263	\$ 81,044,298	\$ 147,940,862	\$ 670,511,423
Net Contributions	5,514,586	242,030	4,296,782	10,053,398
Investment Return	(32,699,386)	(73,025,739)	-	(105,725,125)
Appropriations	(20,857,063)	(12,559,609)	-	(33,416,672)
Other Changes:				
Transfers of Matured Deferred Gifts to Endowment Funds	235,906	-	259,192	495,098
Donor Directed Gift Modifications	(4,341,131)	-	3,559,543	-
Campaign Spending	(414,234)	-	-	-
Transfers to Temporarily Restricted Due to Adoption of UPMIFA and FSP 117-1	(241,115,124)	241,115,124	-	-
Total Other Changes	<u>(245,634,583)</u>	<u>241,115,124</u>	<u>3,818,735</u>	<u>(700,724)</u>
Endowment Fund Balance, June 30, 2009	<u>\$ 147,849,817</u>	<u>\$ 236,816,104</u>	<u>\$ 156,056,379</u>	<u>\$ 540,722,300</u>

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 (deficit). When donor endowment deficits exist, they are classified as a reduction of unrestricted net assets. Deficits of this nature reported in unrestricted net assets were \$9,492,489 and \$11,082,269 as of June 30, 2010 and 2009, respectively. These deficits resulted from unfavorable market fluctuations that occurred shortly after the investment of newly established endowments, and authorized appropriation was deemed prudent.

**NOTE 6 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.

**CARLETON COLLEGE  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2010 AND 2009**

**NOTE 6 RETIREMENT PLAN (CONTINUED)**

Expenses for the College's share of the contributions were \$4,211,456 and \$5,137,344 in 2010 and 2009, respectively.

In January 2007, two Voluntary Employee Benefit Account (VEBA) trusts were established. The Employer Contribution VEBA Trust (funded solely by employer pre-tax contributions) and Employee After-Tax-Contributions VEBA Trust (funded solely by employee after tax contributions) were established to provide eligible retired employees and their eligible spouses and dependents with access to certain insured and/or self-insured health benefits. The trusts are exempt from taxation to the extent permitted under section 501(c)(9) and 512 of the Internal Revenue Code of 1986.

The College contributed \$93,418 and \$191,857 to the Employer Contribution VEBA Trust during the fiscal years ended June 30, 2010 and 2009, respectively. The trusts were terminated on December 31, 2009. There is no future payment liability associated with this plan.

**NOTE 7 PLEDGES RECEIVABLE**

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

Pledges receivable are summarized as follows at June 30, 2010 and 2009:

	2010	2009
Unconditional Promises Expected to be Collected in:		
Less than One Year	\$ 12,698,689	\$ 16,382,145
One Year to Five Years	30,062,152	14,402,454
Over Five Years	1,811,158	1,615,543
Gross Pledges Receivable	44,571,999	32,400,142
Less: Present Value Discount	(2,608,476)	(1,942,631)
Less: Allowance for Uncollectible Pledges	(890,000)	(610,100)
Pledges Receivable, Net	\$ 41,073,523	\$ 29,847,411

Pledges receivable from Board members and employees totaled \$32,428,153 and \$20,331,428 at June 30, 2010 and 2009, respectively.

At June 30, 2010 and 2009, approximately 32% and 12% of gross pledges receivable were attributed to one contributor, respectively.

**CARLETON COLLEGE**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2010 AND 2009**

**NOTE 8 FAIR VALUE OF OTHER FINANCIAL INSTRUMENTS**

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

Student loans receivable consist primarily of loans made to students under U.S. government loan programs. The loans are stated at net realizable value in the accompanying statements. It is not practicable to estimate the fair value of these receivables since they contain federally-mandated interest rates and repayment terms subject to significant restrictions as to their transfer and disposition.

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.

**NOTE 9 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 residence hall buildings and other infrastructure improvements. As of June 30, 2010 and 2009, the remaining commitment on these contracts totaled approximately \$5,736,314 and \$10,067,760, respectively. The projects are being funded with contributions and debt financing.

**NOTE 10 SELF-INSURED WORKERS' COMPENSATION**

The College is self insured for workers' compensation. As of June 30, 2010 and 2009, the College has recorded a liability of \$367,000 and \$312,000, 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.

**CARLETON COLLEGE  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2010 AND 2009**

**NOTE 11 EXPENSES BY OBJECT**

The expenses reported by function on the statement of activities and changes in net assets are summarized by object as follows:

	<u>2010</u>	<u>2009</u>
Salaries and Wages	\$ 44,862,012	\$ 45,547,419
Employee Benefits	15,651,813	15,798,353
Student Employment	3,734,210	3,617,611
Professional Services	3,023,913	1,552,813
Supplies	4,655,662	5,389,533
Equipment	5,353,427	5,678,954
Utilities and Buildings	6,756,534	5,456,491
Interest Expense	2,038,493	2,084,315
Depreciation	8,177,424	7,441,589
Food Service	6,203,934	5,432,813
Travel	4,673,439	4,943,604
Other	6,411,433	6,935,695
Total	<u>\$ 111,542,293</u>	<u>\$ 109,879,190</u>

Other expense is comprised primarily of insurance, membership fees, meetings and entertainment and other miscellaneous.

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## INDEPENDENT AUDITORS' REPORT ON SUPPLEMENTARY INFORMATION

Board of Trustees  
Carleton College  
Northfield, Minnesota

Our report on our audit of the basic financial statements of Carleton College for the year ended June 30, 2010 appears on page 1. This audit was made for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary information on pages 24 and 25 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has not been subjected to the auditing procedures applied in our audit of the basic financial statements and, accordingly, we express no opinion on it.

*LarsonAllen LLP*  
**LarsonAllen LLP**

Minneapolis, Minnesota  
September 21, 2010

**CARLETON COLLEGE**  
**EXPANDED BALANCE SHEET**  
**JUNE 30, 2010**  
**WITH SUMMARIZED TOTALS AS OF JUNE 30, 2009**  
**(SEE INDEPENDENT AUDITORS' REPORT ON SUPPLEMENTARY INFORMATION)**

<b>ASSETS</b>	General Operations	Physical Capital	Financial Capital	2010 Totals	2009 Totals
Cash and Cash Equivalents	\$ 15,763,994	\$ 26,536,751	\$ 12,777,399	\$ 55,078,144	\$ 22,045,473
Receivables, Net:					
Pledges	19,210,341	17,487,333	4,375,849	41,073,523	29,847,411
Government	859,414	-	-	859,414	531,086
Other	802,278	-	-	802,278	1,319,095
Inventories, Prepaid Expenses and Deferred Charges	1,779,340	952,296	-	2,731,636	2,188,381
Loans to Students	-	-	8,412,078	8,412,078	8,114,877
Deposits with Bond Trustee	-	27,618,541	-	27,618,541	10,743,179
Trusts Held by Others	-	-	8,226,412	8,226,412	7,747,136
Investments	12,060,854	-	605,530,395	617,591,249	585,230,042
Property, Plant and Equipment, Net of Depreciation	-	145,460,287	-	145,460,287	140,553,280
Total Assets	<u>\$ 50,476,221</u>	<u>\$ 218,055,208</u>	<u>\$ 639,322,133</u>	<u>\$ 907,853,562</u>	<u>\$ 808,319,960</u>
<b>LIABILITIES AND NET ASSETS</b>					
Liabilities:					
Accounts Payable	\$ 2,165,903	\$ 1,130,900	\$ -	\$ 3,296,803	\$ 7,326,223
Accrued Expenses	7,570,011	473,877	-	8,043,888	7,347,982
Deferred Income and Deposits	6,427,087	-	-	6,427,087	6,869,733
Annuities Payable	-	-	21,789,048	21,789,048	21,506,745
Asset Retirement Obligation	-	2,402,574	-	2,402,574	2,335,788
Fair Value of Interest Rate SWAP	-	2,777,653	-	2,777,653	2,136,585
Bonds Payable, Net	-	122,693,505	-	122,693,505	92,393,241
Refundable Government Grants for Student Loans	5,402,665	-	-	5,402,665	5,459,694
Total Liabilities	<u>21,565,666</u>	<u>129,478,509</u>	<u>21,789,048</u>	<u>172,833,223</u>	<u>145,375,991</u>
Net Assets:					
Unrestricted:					
Operations	8,324,492	-	5,544,246	13,868,738	2,786,262
Student Loan Funds	-	-	3,525,656	3,525,656	3,467,207
Net Investment in Plant	-	62,824,327	-	62,824,327	58,631,854
Funds Functioning as Endowment	-	-	169,655,115	169,655,115	147,849,817
Total Unrestricted Net Assets	<u>8,324,492</u>	<u>62,824,327</u>	<u>178,725,017</u>	<u>249,873,836</u>	<u>212,735,140</u>
Temporarily Restricted:					
Operations	20,586,063	-	-	20,586,063	22,940,671
Plant Funds	-	25,752,372	-	25,752,372	9,864,074
Funds Functioning as Endowments	-	-	248,956,732	248,956,732	236,816,104
Split Interest Funds	-	-	15,131,945	15,131,945	14,772,597
Total Temporarily Restricted Net Assets	<u>20,586,063</u>	<u>25,752,372</u>	<u>264,088,677</u>	<u>310,427,112</u>	<u>284,393,446</u>
Permanently Restricted:					
True Endowments	-	-	163,958,346	163,958,346	156,056,379
Split Interest Funds	-	-	10,761,045	10,761,045	9,759,004
Total Permanently Restricted Net Assets	<u>-</u>	<u>-</u>	<u>174,719,391</u>	<u>174,719,391</u>	<u>165,815,383</u>
Total Net Assets	<u>28,910,555</u>	<u>88,576,699</u>	<u>617,533,085</u>	<u>735,020,339</u>	<u>662,943,969</u>
Total Liabilities and Net Assets	<u>\$ 50,476,221</u>	<u>\$ 218,055,208</u>	<u>\$ 639,322,133</u>	<u>\$ 907,853,562</u>	<u>\$ 808,319,960</u>

**CARLETON COLLEGE**  
**EXPANDED STATEMENT OF ACTIVITIES AND CHANGE IN NET ASSETS**  
**YEAR ENDED JUNE 30, 2010**  
**WITH SUMMARIZED TOTALS FOR THE YEAR ENDED JUNE 30, 2009**  
**(SEE INDEPENDENT AUDITORS' REPORT ON SUPPLEMENTARY INFORMATION)**

	General Operations		Physical Capital		Financial Capital			2010 Totals	2009 Totals
	Unrestricted	Temporarily Restricted	Unrestricted	Temporarily Restricted	Unrestricted	Temporarily Restricted	Permanently Restricted		
<b>REVENUES AND OTHER ADDITIONS</b>									
Tuition and Fees	\$ 78,925,879	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 78,925,879	\$ 75,255,365
Room and Board	17,076,771	-	-	-	-	-	-	17,076,771	15,308,158
Scholarships	(28,022,026)	-	-	-	-	-	-	(28,022,026)	(26,314,046)
Net Student Fees	67,980,624	-	-	-	-	-	-	67,980,624	64,249,477
Private Gifts and Pledges	7,351,225	4,112,232	90,000	19,252,412	12,211,958	(3,506,037)	6,960,128	46,471,918	24,341,695
Loss on Long-Term Gifts and Pledges	-	-	-	-	-	-	(279,900)	(279,900)	(2,396,455)
Government Reimbursements	620,987	2,132,123	-	-	-	-	-	2,753,110	2,775,676
Interest and Dividends	744,937	-	864	39	512,643	2,109,446	-	3,367,929	4,904,062
Net Realized Gain (Loss)	590,881	-	(60,676)	-	1,397,601	4,000,520	-	5,928,326	258,468
Net Unrealized Gain (Loss)	(17,276)	-	-	-	17,247,543	39,540,757	-	56,771,024	(125,309,889)
Unrealized Loss on Interest Rate SWAP	-	-	(641,068)	-	-	-	-	(641,068)	(1,122,758)
Net Change in Annuity and Life Income Funds	-	-	-	-	-	(3,944,099)	1,002,041	(2,942,058)	1,699,290
Bookstore, Rents and Other	3,955,262	-	173,481	-	80,015	-	-	4,208,758	3,894,869
Subtotal Revenue	81,226,640	6,244,355	(437,399)	19,252,451	31,449,760	38,200,587	7,682,269	183,618,663	(26,705,565)
Fund Transfers	(14,724,978)	(2,906,126)	13,873,462	(831,424)	7,399,021	(4,031,694)	1,221,739	-	-
Investment Return Allocation	-	31,446,005	-	-	(9,777,088)	(21,668,917)	-	-	-
Net Assets Released from Restrictions	37,121,312	(37,138,842)	2,532,729	(2,532,729)	17,530	-	-	-	-
Total Revenues and Other Additions	103,622,974	(2,354,608)	15,968,792	15,888,298	29,089,223	12,499,976	8,904,008	183,618,663	(26,705,565)
<b>EXPENSES</b>									
Instruction	37,569,205	-	10,583,007	-	-	-	-	48,152,212	46,213,823
Research	1,861,213	-	-	-	-	-	-	1,861,213	2,115,036
Academic Support:									
Library	4,448,606	-	1,282,099	-	-	-	-	5,730,705	6,080,881
Other	6,721,859	-	740,059	-	-	-	-	7,461,918	7,375,121
Student Services	10,686,802	-	4,914,824	-	-	-	-	15,601,626	14,841,382
Institutional Support:									
Administration	4,940,641	-	183,126	-	-	-	-	5,123,767	5,289,289
External Relations	3,743,694	-	121,620	-	-	-	-	3,865,314	3,985,990
Fund Raising	4,100,840	-	(75,000)	-	-	-	-	4,025,840	4,728,859
General	5,029,121	-	224,805	-	-	-	-	5,253,926	5,256,080
Plant Operations	11,199,257	-	(11,199,257)	-	-	-	-	-	-
Auxiliary Enterprises	9,464,736	-	5,001,036	-	-	-	-	14,465,772	13,992,729
Total Expenses	99,765,974	-	11,776,319	-	-	-	-	111,542,293	109,879,190
<b>CHANGE IN NET ASSETS</b>	3,857,000	(2,354,608)	4,192,473	15,888,298	29,089,223	12,499,976	8,904,008	72,076,370	(136,584,755)
Reclassification - Unrestricted Loan Funds	-	-	-	-	-	-	-	-	-
Net Assets - Beginning of Year	4,467,492	22,940,671	58,631,854	9,864,074	149,635,794	251,588,701	165,815,383	662,943,969	799,528,724
<b>NET ASSETS - END OF YEAR</b>	<u>\$ 8,324,492</u>	<u>\$ 20,586,063</u>	<u>\$ 62,824,327</u>	<u>\$ 25,752,372</u>	<u>\$ 178,725,017</u>	<u>\$ 264,088,677</u>	<u>\$ 174,719,391</u>	<u>\$ 735,020,339</u>	<u>\$ 662,943,969</u>