

Carleton College

Financial Statements

June 30, 2005

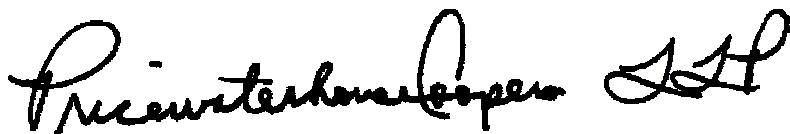
Carleton College
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June 30, 2005

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Report of Independent Auditors

To the Board of Trustees
Carleton College

In our opinion, the accompanying balance sheet and the related statements of activities and changes in net assets, and cash flows present fairly, in all material respects, the financial position of Carleton College (the "College") as of June 30, 2005, and the changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America. 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 audit. The prior year summarized comparative information has been derived from the College's 2004 financial statements, and in our report dated September 10, 2004, we expressed an unqualified opinion on those financial statements. We conducted our audit of these statements 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, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.



September 9, 2005

Carleton College
Balance Sheet
June 30, 2005, with Summarized Financial Information for June 30, 2004

	General Operations	Physical Capital	Financial Capital	2005 Totals	2004 Totals
Assets					
Cash and cash equivalents	\$ 27,162,226	\$ 2,974,691	\$ -	\$ 30,136,917	\$ 9,893,836
Receivables, net					
Pledges	-	-	17,518,992	17,518,992	3,485,602
Government	2,591,214	-	-	2,591,214	4,137,256
Other	1,345,543	-	-	1,345,543	1,214,805
Inventories, prepaid expenses and deferred charges	2,626,245	-	-	2,626,245	1,755,392
Loans to students	6,627,831	-	-	6,627,831	6,364,447
Deposits with bond trustee	-	2,760,120	-	2,760,120	206,667
Investments	6,210,003	-	591,305,221	597,515,224	580,183,374
Property, plant and equipment, net of depreciation	-	116,608,296	-	116,608,296	114,727,020
Total assets	<u>\$ 46,563,062</u>	<u>\$ 122,343,107</u>	<u>\$ 608,824,213</u>	<u>\$ 777,730,382</u>	<u>\$ 721,968,399</u>
Liabilities and Net Assets					
Liabilities					
Accounts payable	\$ 2,123,720	\$ -	\$ -	\$ 2,123,720	\$ 1,843,257
Accrued expenses	6,250,906	-	-	6,250,906	6,523,323
Deferred income and deposits	16,453,011	-	-	16,453,011	12,714,849
Annuities payable	-	-	23,600,459	23,600,459	21,864,563
Bonds payable	-	68,139,867	-	68,139,867	65,088,799
Interfund loans	(1,795,590)	1,795,590	-	-	-
Refundable government grants for student loans	5,266,787	-	-	5,266,787	5,156,146
Total liabilities	<u>28,298,834</u>	<u>69,935,457</u>	<u>23,600,459</u>	<u>121,834,750</u>	<u>113,190,937</u>
Net assets					
Unrestricted					
Operations	1,693,760	-	-	1,693,760	2,343,634
Student loan funds	3,306,746	-	-	3,306,746	3,245,521
Plant funds	-	-	-	-	(261,983)
Net investment in plant	-	50,729,378	-	50,729,378	45,833,584
Appreciation on endowments	-	-	308,063,639	308,063,639	289,988,768
Funds functioning as endowment	-	-	62,694,044	62,694,044	60,742,444
Total unrestricted net assets	<u>5,000,506</u>	<u>50,729,378</u>	<u>370,757,683</u>	<u>426,487,567</u>	<u>401,891,968</u>
Temporarily restricted					
Operations	13,263,722	-	-	13,263,722	15,875,308
Plant funds	-	1,678,272	-	1,678,272	473,782
Appreciation on true endowments	-	-	40,508,982	40,508,982	38,437,988
Funds functioning as endowment	-	-	17,065,248	17,065,248	2,906,266
Split interest funds	-	-	19,360,209	19,360,209	19,538,005
Total temporarily restricted net assets	<u>13,263,722</u>	<u>1,678,272</u>	<u>76,934,439</u>	<u>91,876,433</u>	<u>77,231,349</u>
Permanently restricted					
True endowments	-	-	129,226,229	129,226,229	122,610,388
Split interest fund	-	-	8,305,403	8,305,403	7,043,757
Total permanently restricted net assets	<u>-</u>	<u>-</u>	<u>137,531,632</u>	<u>137,531,632</u>	<u>129,654,145</u>
Total net assets	<u>18,264,228</u>	<u>52,407,650</u>	<u>585,223,754</u>	<u>655,895,632</u>	<u>608,777,462</u>
Total liabilities and net assets	<u>\$ 46,563,062</u>	<u>\$ 122,343,107</u>	<u>\$ 608,824,213</u>	<u>\$ 777,730,382</u>	<u>\$ 721,968,399</u>

The accompanying notes are an integral part of these financial statements.

Carleton College
Statement of Activities and Change in Net Assets
Year Ended June 30, 2005, with Summarized Financial Information for June 30, 2004

	General Operations		Physical Capital		Financial Capital			2005 Totals	2004 Totals
	Unrestricted	Temporarily Restricted	Unrestricted	Temporarily Restricted	Unrestricted	Temporarily Restricted	Permanently Restricted		
Revenues and other additions									
Tuition and fees	\$ 59,378,173	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 59,378,173	\$ 55,131,371
Room and board	9,366,271	-	-	-	-	-	-	9,366,271	8,641,529
Scholarships	(19,522,411)	-	-	-	-	-	-	(19,522,411)	(17,545,615)
Net student fees	49,222,033	-	-	-	-	-	-	49,222,033	46,227,285
Private gifts and pledges	6,335,588	2,449,032	-	976,834	1,402,082	16,737,641	5,613,873	33,515,050	19,945,091
Government reimbursements	759,377	-	-	-	-	-	-	759,377	758,976
Interest and dividends	104,062	125,812	120,715	-	2,959,326	8,129,338	-	11,439,253	7,521,513
Net realized gain	-	-	-	-	11,303,048	14,030,269	-	25,333,317	58,374,645
Net unrealized gain	48,179	-	(1,464,636)	-	11,237,458	4,122,359	-	13,943,360	16,902,422
Net change in split interest	-	337,058	-	-	-	(3,108,763)	1,261,646	(1,510,059)	(4,505,701)
Bookstore, rents and other	3,524,027	37,663	94,211	-	-	-	-	3,655,901	3,723,416
Subtotal revenue	59,993,266	2,949,565	(1,249,710)	976,834	26,901,914	39,910,844	6,875,519	136,358,232	148,947,647
Fund transfers	-	-	5,212,344	227,656	(5,440,000)	-	-	-	-
Investment returns utilized	6,519,626	17,787,388	-	-	(6,519,626)	(17,787,388)	-	-	-
Net assets released from restrictions	23,333,664	(23,348,539)	-	-	5,084,183	(6,071,276)	1,001,968	-	-
Total revenues and other additions	89,846,556	(2,611,586)	3,962,634	1,204,490	20,026,471	16,052,180	7,877,487	136,358,232	148,947,647
Expenses									
Instruction	29,977,241	-	6,191,307	-	-	-	-	36,168,548	36,233,494
Academic support									
Library	3,826,563	-	124,377	-	-	-	-	3,950,940	4,003,464
Other	5,647,411	-	687,136	-	-	-	-	6,334,547	5,742,688
Student services	8,710,187	-	3,711,730	-	-	-	-	12,421,917	11,838,725
Institutional support									
Administration	4,817,819	-	(98,892)	-	-	-	-	4,718,927	4,170,538
External relations	3,362,664	-	25,828	-	-	-	-	3,388,492	3,099,507
Fund raising	3,860,761	-	65,320	-	-	-	-	3,926,081	3,247,164
General	5,383,847	-	15,817	-	-	-	-	5,399,664	5,038,512
Plant operations	8,845,008	-	(8,845,008)	-	-	-	-	-	-
Debt	3,988,995	-	(3,988,995)	-	-	-	-	-	-
Auxiliary enterprises	12,014,709	-	916,237	-	-	-	-	12,930,946	13,587,926
Total expenses	90,435,205	-	(1,195,143)	-	-	-	-	89,240,062	86,962,018
Change in net assets	(588,649)	(2,611,586)	5,157,777	1,204,490	20,026,471	16,052,180	7,877,487	47,118,170	61,985,629
Net assets									
Beginning of year	5,589,155	15,875,308	45,571,601	473,782	350,731,212	60,882,259	129,654,145	608,777,462	546,791,833
End of year	\$ 5,000,506	\$ 13,263,722	\$ 50,729,378	\$ 1,678,272	\$ 370,757,683	\$ 76,934,439	\$ 137,531,632	\$ 655,895,632	\$ 608,777,462

The accompanying notes are an integral part of these financial statements.

Carleton College
Statement of Cash Flows
Years Ended June 30, 2005 and 2004

	2005	2004
Cash flows from operating activities		
Change in net assets	\$ 47,118,170	\$ 61,985,629
Adjustments to reconcile change in net assets to net cash used in operating activities		
Depreciation	6,554,420	6,259,617
Net realized and unrealized gain on investments	(39,276,679)	(75,277,067)
Private gifts for long-term investments	(24,730,430)	(12,225,626)
Bond discount amortized	15,862	15,862
Changes in operating assets and liabilities		
Receivable, net - pledges	(14,033,390)	869,646
Receivable, net - government	1,546,042	(203,749)
Receivable, net - other	(130,738)	(398,984)
Inventories, prepaid expenses and deferred charges	(870,853)	92,145
Loans to students	(263,384)	14,156
Accounts payable	280,463	(720,033)
Accrued expenses	(272,417)	630,318
Deferred income and deposits	3,738,162	2,412,605
Annuities payable	1,735,896	3,735,832
Refundable government grants for student loans	110,641	22,027
Net cash used in operating activities	<u>(18,478,235)</u>	<u>(12,787,622)</u>
Cash flows from investing activities		
Purchase of investments	(359,743,184)	(727,378,259)
Proceeds from sale of investments	381,688,013	740,047,440
Acquisition of property, plant and equipment	<u>(8,435,696)</u>	<u>(6,798,116)</u>
Net cash provided by investing activities	<u>13,509,133</u>	<u>5,871,065</u>
Cash flows from financing activities		
Changes in deposits with bond trustee	(3,288,247)	(3,388)
Proceeds from private gifts for long-term investment	24,730,430	12,225,626
Proceeds from bond issue	31,460,000	-
Principal payments	<u>(27,690,000)</u>	<u>(975,000)</u>
Net cash provided by financing activities	<u>25,212,183</u>	<u>11,247,238</u>
Net increase in cash and cash equivalents	20,243,081	4,330,681
Cash and cash equivalents		
Beginning of the year	<u>9,893,836</u>	<u>5,563,155</u>
End of the year	<u>\$ 30,136,917</u>	<u>\$ 9,893,836</u>

Supplemental disclosure of cash flow information

The College paid \$2,968,995 and \$2,385,326 in interest during fiscal years 2005 and 2004, respectively.

As of June 30, 2005 and 2004, the College had \$314,841 and \$400,284, respectively, of acquisitions of land, building and equipment in both property, plant and equipment, and accounts payable.

The accompanying notes are an integral part of these financial statements.

Carleton College
Notes to Financial Statements
June 30, 2005

1. Summary of Significant Accounting Policies

Accrual Basis

The financial statements of Carleton College (the "College") have been prepared on the accrual basis of accounting.

Basis of Presentation

The financial statements include certain prior year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the organization's financial statements for the year ended June 30, 2004, from which the summarized information was derived.

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 and within those classifications the College has chosen to reflect three categories: general operations, physical capital, and financial capital. Further explanation is as follows:

- Unrestricted - Net assets that are not subject to donor-imposed stipulations. 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 stipulations that can be fulfilled by actions of the College pursuant to those stipulations or that expire by the passage of time.
- Permanently restricted - Net assets subject to donor-imposed stipulations 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.
- Operations - Net assets arising from the annual, recurring flow of revenue and expenses. Operations reflect the annual operating budget and include gifts and the income from endowed funds that support operations.
- Physical plant - Net assets arising from gifts for building projects, funds internally designated for physical plant maintenance, and plant debt service, and the accumulated investment in physical assets, net of depreciation and borrowed funds.
- Financial capital - Net assets arising from gifts and the related gains on investments that are held as endowment and the split interest gifts and their related gains.

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 investments 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 assets released from restrictions.

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. 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.

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.

Investments

Investments are stated at quoted market value or the value provided by an external investment manager. Changes in quoted market value are recorded as unrealized gains or losses in the period of change.

Endowment and board-designated funds are invested on the basis of a total return policy to provide income and to realize appreciation in investment values. Under this policy, a portion of realized and unrealized gains accumulated, in addition to accumulated net investment income, are used to support operations. Any such gains used to support operations are utilized in accordance with the same restrictions, if any, imposed by donors on the use of income earned by the endowment and similar funds.

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). Expenditures for new construction, interest on construction, major renewals and replacements and equipment costing over \$10,000 are capitalized. The capitalized interest is recorded as part of the asset to which it relates and is amortized over the assets' estimated useful life.

Inventories

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

Gift Annuity Contracts

Annuities payable represent the College's liability under annuity contracts with donors. 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. 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.

Carleton College
Notes to Financial Statements
June 30, 2005

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.

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 these estimates.

Risks and Uncertainties

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.

Concentration of Credit Risk

Financial instruments, which potentially subject the College to concentrations of credit risk, consist primarily of cash accounts. Cash accounts are generally held in federally insured banks. As of June 30, 2005, the College exceeds the FDIC limit by \$2,218,172.

2. Investments

The investments include funds traditionally considered the endowment of the College as well as assets of deferred gifts, funds designated for debt service and funds temporarily restricted for building projects.

Allocations at market value are as follows:

	2005	2004
Permanent endowment	\$ 128,772,485	\$ 122,031,052
Gains related to permanent endowment	246,027,255	229,577,003
Funds functioning as endowment	62,694,044	60,742,444
Gains related to funds functioning as endowment	102,545,367	98,849,753
	<u>540,039,151</u>	<u>511,200,252</u>
Split-interest agreements	51,329,263	48,446,324
Other invested assets	6,146,810	20,536,798
	<u>\$ 597,515,224</u>	<u>\$ 580,183,374</u>
Total investments		

Carleton College
Notes to Financial Statements
June 30, 2005

The assets of the investments include:

	June 30, 2005		June 30, 2004	
	Cost	Market Value	Cost	Market Value
Cash and short-term investments	\$ 40,511,529	\$ 40,470,176	\$ 34,848,354	\$ 35,138,833
Bonds	82,502,123	85,494,996	108,298,993	113,135,166
Marketable equity securities	228,062,802	293,994,801	232,963,608	289,554,225
Private capital	135,629,734	138,729,189	114,532,749	111,394,573
Other	34,108,799	38,826,062	28,228,379	30,960,577
	<u>\$ 520,814,987</u>	<u>\$ 597,515,224</u>	<u>\$ 518,872,083</u>	<u>\$ 580,183,374</u>

The majority of the investment assets are pooled on a market value basis with each individual fund subscribing to or disposing of shares on the basis of the market value per share at the beginning of the calendar quarter within which the transaction takes place. At June 30, 2005, the endowment and similar funds owned 37,689,223 shares and the annuity and life income funds owned 1,241,520 shares, each share having a market value of approximately \$14.0952. At June 30, 2004, the endowment and similar funds owned 37,343,069 shares and the annuity and life income funds owned 1,263,014 shares, each share having a market value of approximately \$13.4720. In addition, included in investments is \$8,827,443 and \$7,984,261 of separately invested endowment funds, \$34,069,853 and \$31,560,949 of split-interest agreement gifts primarily comprised of annuities, charitable remainder trusts and pooled income funds, and \$6,146,810 and \$20,536,797 of other invested assets at June 30, 2005 and 2004, respectively.

The majority of private capital investments are carried at the estimated fair value provided by the general partners of these investment partnerships or funds, 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, 2005 and 2004. Because private capital investments are not publicly traded and are expected to be held for several years, the estimated value is subject to uncertainty.

At June 30, 2005, the College had outstanding commitments of \$48,162,143 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.

3. Investment Income

The College utilizes the total return method of accounting for income from its investments. Under this method, a spending rate per share is established which is considered to be a prudent use of the return on investments, consisting of both yield (dividends and interest) and realized and unrealized appreciation. Each year, the spending rate per share is increased by 4.5% from the previous year, independent of the market value changes in investments. Due to the market value decline the Board of Trustees approved a variance over a three-year period to return to a level of 4.5% of current market value. For the year ended June 30, 2005, the spending amount per share was \$0.6448, down from \$0.6710 as of June 30, 2004.

Carleton College
Notes to Financial Statements
June 30, 2005

Investment expense totaled \$2,617,143 and \$3,080,270 for the years ended June 30, 2005 and 2004, respectively, and is netted with investment income.

4. Property, Plant and Equipment

Property, plant and equipment as of June 30, 2005 and 2004, are as follows:

	2005	2004
Land and real estate improvements	\$ 3,010,324	\$ 3,010,324
Buildings	143,074,356	139,076,393
Equipment and books	64,111,996	59,674,264
	<u>210,196,676</u>	<u>201,760,981</u>
Less: Accumulated depreciation	(93,588,380)	(87,033,961)
	<u>\$ 116,608,296</u>	<u>\$ 114,727,020</u>

5. Bonds Payable

Bonds payable at June 30, 2005 and 2004, are as follows:

	2005	2004
Minnesota Higher Education Facilities Authority (MHEFA)		
First Mortgage Revenue Bond Series T	\$ 1,305,000	\$ 1,425,000
Variable and Fixed Rate Demand Revenue Bonds		
Series 3L1 and 3L2	10,300,000	20,300,000
Revenue bonds Series 4N	3,000,000	20,570,000
Revenue bonds Series 5G	23,000,000	23,000,000
Revenue bonds Series 6D	31,460,000	-
	<u>69,065,000</u>	<u>65,295,000</u>
Less: Unamortized discount	(925,133)	(206,201)
	<u>\$ 68,139,867</u>	<u>\$ 65,088,799</u>

The Series T bonds bear interest at 5.625% per annum payable semi-annually, and mature March 1, 2007. The financing was structured through leases with MHEFA under the terms of which the College has an option to purchase the facilities at the termination of the leases for \$500. The transactions have been accounted for as capitalized leases with the related assets and liabilities being reflected in the statement of financial position. The Series T bonds are collateralized by a first mortgage on the facilities for which the funds were used and first liens and pledge of the net revenues derived from the operations of these facilities.

The Series 3-L2, in the amount of \$10,300,000, bears a variable rate of interest and matures November 1, 2012. The interest rate was 2.15% and 0.92% at June 30, 2005 and 2004, respectively. The proceeds from these bonds were used to finance construction projects. These bonds require the College to comply with various covenants, including maintaining a positive change in unrestricted net assets for at least two of the preceding three fiscal years.

Carleton College
Notes to Financial Statements
June 30, 2005

Revenue Bonds, Series 4N, bear interest at a fixed rate of interest ranging from 5.0% to 5.5%. Principal and interest is payable semi-annually. The Series 4N mature November 1, 2018. The proceeds from these bonds were used to finance construction projects. These bonds require the College to comply with various covenants, including specifying a maximum amount of bonds outstanding of \$150,000,000.

Revenue Bonds, Series 5G, bear interest at a variable rate, with interest payable monthly. The interest rate was 2.15% and 0.92% at June 30, 2005 and 2004, respectively. The interest rate on these bonds may be converted to a fixed rate at the direction of the College, at which time interest will be payable semi-annually. Interest and principal payments are required to be deposited to a Bond and Interest Sinking fund as they become due. This bond requires the College to comply with various covenants, including maintaining a positive change in unrestricted net assets, adjusted for certain items, for at least two of the preceding three fiscal years.

During fiscal year 2005, the College borrowed \$31,460,000 in order to effect legal defeasement of the College's Series 3L-1 and a portion of the College's Series 4N debt. The College placed the majority of the proceeds of this borrowing along with the funds from existing bond reserves and additional borrowings into an escrow account to service the Series 3L-1 and Series 4N principal and interest until maturity. The escrow account is to be invested in direct obligations of the United States of America or other permitted investments that are expected to mature at such times and in such amounts sufficient to retire all the Series 3L1 bonds identified Series 4N bonds upon maturity. The College estimates that the amounts on deposit will be sufficient to cover the debt service on these bonds and that defeasement will result in lower overall debt service payments to the College.

The College has deposited \$30,000 for Series T bonds in general bond reserve accounts of the MHEFA for the purpose of collateralizing the College's bonds issued by MHEFA. The Series T issue contains a sinking fund requirement of \$120,000 per year continuing through 2006. The College must also maintain a debt service reserve account for Series T bonds with qualified reserve investments having market values equal at least to 110% of the principal amount of the bonds outstanding less any balances in the sinking funds. Such investments, whose market value aggregates \$1,752,427 and \$1,707,634 at June 30, 2005 and 2004, respectively, have been recorded as unrestricted investments of the College.

The maturities of debt in each of the five years subsequent to June 30, 2005, are as follows:

2006	\$ 1,215,000
2007	2,320,000
2008	1,190,000
2009	1,260,000
2010	1,315,000
Thereafter	61,765,000
	<u>\$ 69,065,000</u>

Carleton College
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Effective for ten years commencing on July 1, 1998 and October 1, 1998, the College entered into two interest rate swap agreements with Wells Fargo Bank Minnesota (the "Bank") under which the College makes payment to the Bank whenever the floating PSA Municipal Swap Index (the "Index") lies below the agreed-upon fixed interest rate and the Bank pays the College if ever the Index lies ahead the fixed rate. The notional amount of each agreement is \$5,150,000, corresponding, in total, to the \$10,300,000 outstanding MHEFA Series 3L-2 variable rate bonds. Fixed rates are 4.47% and 4.12%, respectively, and the all-in interest rates of the College are expected to average 4.32% and 3.97% assuming that "spread" between the interest rate paid on the MHEFA bonds continue to average 15 basis points less than the Index.

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 which the College makes payment to Morgan Stanley whenever the floating BMA rate (effective until November 1, 2007) or floating rate 68% of USD-LIBOR-BBA (effective November 1, 2007 until termination) lies below the agreed-upon fixed interest rate of 3.53% and Morgan Stanley pays the College if the floating lies above the fixed rate. The notional amount of the agreement, \$31,460,000 corresponds to the outstanding MHEFA Series 6D variable rate bonds.

6. Retirement Plan

Substantially all nonunion employees of the College participate in an arrangement whereby the individuals and the College contribute to individual employee TIAA-CREF retirement accounts which fund individual retirement benefits.

Expenses for the College's share of the contributions were \$4,296,826 and \$4,086,403 in 2005 and 2004, respectively.

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, 2005 and 2004:

	2005	2004
Unconditional promises expected to be collected in		
Less than one year	\$ 1,545,542	\$ 1,381,630
One year to five years	20,523,143	2,504,840
Over five years	389,377	414,403
Less: Discount	(4,939,070)	(815,271)
	<u>\$ 17,518,992</u>	<u>\$ 3,485,602</u>

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8. Fair Value of 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. The carrying values of investments, which are the fair value, are based upon values provided by an external investment manager or quoted market values.

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.

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.

10. Expenses by Object

The expenses reported by function on the Statement of Activities and Changes in Net Assets are summarized by object as follows:

	General Operations Unrestricted	Physical Capital Unrestricted	Total
Salaries and wages	\$ 39,763,288	\$ -	\$ 39,763,288
Employee benefits	12,409,731	-	12,409,731
Supplies and equipment	10,255,762	(4,031,014)	6,224,748
Utilities and buildings	9,399,121	(2,698,549)	6,700,572
Debt service	3,988,995	(1,020,000)	2,968,995
Depreciation	-	6,554,420	6,554,420
Food service	4,550,186	-	4,550,186
Travel	2,390,683	-	2,390,683
Other	7,677,439	-	7,677,439
	<u>\$ 90,435,205</u>	<u>\$ (1,195,143)</u>	<u>\$ 89,240,062</u>