

**CARLETON COLLEGE**  
**FINANCIAL STATEMENTS**  
**YEARS ENDED JUNE 30, 2007 AND 2006**

**CARLETON COLLEGE  
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# LarsonAllen<sup>®</sup> LLP

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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, 2007 and 2006, and the related statements of activities and changes 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, 2007 and 2006, 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.

As discussed in Note 11 to the financial statements, in 2006 the College adopted the provisions of FASB Interpretation No. 47 (FIN-47), *Accounting for Conditional Asset Retirement Obligations*.



LarsonAllen LLP

Minneapolis, Minnesota  
September 13, 2007

**CARLETON COLLEGE  
BALANCE SHEETS  
JUNE 30, 2007 AND 2006**

	2007	2006
<b>ASSETS</b>		
Cash and Cash Equivalents	\$ 9,694,537	\$ 13,129,570
Receivables, Net:		
Pledges	25,594,263	23,725,666
Government	694,935	596,845
Other	688,009	712,660
Inventories, Prepaid Expenses, and Deferred Charges	2,458,749	3,048,200
Loans to Students	7,403,266	7,158,268
Deposits with Bond Trustee	197,657	1,340,944
Securities Lending Collateral	62,736,636	53,860,429
Trusts Held by Others	11,507,697	10,506,455
Investments	761,229,650	649,831,871
Property, Plant, and Equipment, Net of Depreciation	114,486,487	116,693,366
Total Assets	\$ 996,691,886	\$ 880,604,274
<b>LIABILITIES AND NET ASSETS</b>		
Liabilities:		
Accounts Payable	\$ 2,883,773	\$ 2,274,394
Accrued Expenses	5,899,413	5,623,639
Securities Lending Collateral Payable	62,736,636	53,860,429
Deferred Income and Deposits	10,786,386	13,637,956
Annuities Payable	28,598,625	26,235,581
Asset Retirement Obligation	2,141,619	2,037,246
Bonds Payable, Net	65,257,152	67,338,854
Refundable Government Grants for Student Loans	5,651,041	5,620,375
Total Liabilities	183,954,645	176,628,474
Net Assets:		
Unrestricted:		
Operations	2,304,175	2,139,522
Student Loan Funds	3,511,952	3,386,605
Net Investment in Plant	52,385,039	50,349,372
Appreciation on Endowments	411,753,181	331,529,278
Funds Functioning as Endowment	76,057,761	68,010,109
Total Unrestricted Net Assets	546,012,108	455,414,886
Temporarily Restricted:		
Operations	28,012,792	16,981,969
Plant Funds	4,502,334	3,920,923
Appreciation on True Endowments	37,907,390	36,985,323
Funds Functioning as Endowments	20,364,493	22,976,029
Split Interest Funds	19,945,705	19,567,211
Total Temporarily Restricted Net Assets	110,732,714	100,431,455
Permanently Restricted:		
True Endowments	141,501,618	132,317,825
Split Interest Funds	14,490,801	15,811,634
Total Permanently Restricted Net Assets	155,992,419	148,129,459
Total Net Assets	812,737,241	703,975,800
Total Liabilities and Net Assets	\$ 996,691,886	\$ 880,604,274

See accompanying Notes to Financial Statements.

**CARLETON COLLEGE  
STATEMENTS OF ACTIVITIES AND CHANGE IN NET ASSETS  
YEARS ENDED JUNE 30, 2007 AND 2006**

	2007			2006				
	Unrestricted	Temporarily Restricted	Permanently Restricted	Totals	Unrestricted	Temporarily Restricted	Permanently Restricted	Totals
<b>REVENUES AND OTHER ADDITIONS</b>								
Tuition and Fees	\$ 67,206,367	-	\$ -	\$ 67,206,367	\$ 63,902,717	-	\$ -	\$ 63,902,717
Room and Board	13,185,561	-	-	13,185,561	11,856,131	-	-	11,856,131
Scholarships	(23,294,991)	-	-	(23,294,991)	(22,115,388)	-	-	(22,115,388)
Net Student Fees	57,096,937	-	-	57,096,937	53,643,460	-	-	53,643,460
Private Gifts and Pledges	12,128,892	11,304,961	6,210,310	29,644,163	14,238,737	12,630,055	1,029,658	27,898,450
Government Reimbursements	790,274	-	-	790,274	710,385	-	-	710,385
Interest and Dividends	3,171,811	7,117,311	-	10,289,122	4,062,806	7,931,826	-	11,994,632
Net Realized Gain	9,498,775	24,661,581	-	34,160,356	10,922,614	29,722,414	-	40,645,028
Net Unrealized Gain (Loss)	22,710,485	51,554,241	-	74,264,726	5,593,031	(5,679,121)	6,742,527	6,656,437
Net Change in Split Interest	-	(2,950,990)	(1,320,833)	(4,271,823)	-	(2,553,305)	(889,572)	(3,442,877)
Bookstore, Rents, and Other	5,285,492	-	-	5,285,492	3,801,064	150,700	-	3,951,764
Subtotal Revenue	110,682,666	91,687,104	4,889,477	207,259,247	92,972,097	42,202,569	6,882,613	142,057,279
Fund Transfers	(758,332)	(2,215,151)	2,973,483	-	73,844	(1,372,428)	1,298,584	-
Net Assets Released from Restrictions	79,170,694	(79,170,694)	-	-	32,789,579	(32,789,579)	-	-
Total Revenues and Other Additions	189,095,028	10,301,259	7,862,960	207,259,247	125,835,520	8,040,562	8,181,197	142,057,279
<b>EXPENSES</b>								
Instruction	41,393,214	-	-	41,393,214	39,794,708	-	-	39,794,708
Academic Support:								
Library	5,110,149	-	-	5,110,149	5,066,786	-	-	5,066,786
Other	5,955,798	-	-	5,955,798	5,896,243	-	-	5,896,243
Student Services	13,301,265	-	-	13,301,265	12,607,579	-	-	12,607,579
Institutional Support:								
Administration	4,713,025	-	-	4,713,025	4,578,363	-	-	4,578,363
External Relations	3,991,372	-	-	3,991,372	3,817,503	-	-	3,817,503
Fund Raising	4,880,167	-	-	4,880,167	4,031,953	-	-	4,031,953
General	4,873,421	-	-	4,873,421	5,168,809	-	-	5,168,809
Auxiliary Enterprises	14,279,395	-	-	14,279,395	13,181,329	-	-	13,181,329
Total Expenses	98,497,806	-	-	98,497,806	94,143,273	-	-	94,143,273
<b>CHANGE IN NET ASSETS BEFORE EFFECT OF CHANGE IN ACCOUNTING PRINCIPLE</b>	90,597,222	10,301,259	7,862,960	108,761,441	31,692,247	8,040,562	8,181,197	47,914,006
Current Year Impact of Change in Accounting Principle	-	-	-	-	(2,033,488)	-	-	(2,033,488)
<b>CHANGE IN NET ASSETS</b>	90,597,222	10,301,259	7,862,960	108,761,441	29,658,759	8,040,562	8,181,197	45,880,518
Net Assets - Beginning of Year	455,414,886	100,431,455	148,129,459	703,975,800	425,756,127	92,390,893	139,948,262	658,095,282
<b>NET ASSETS - END OF YEAR</b>	\$546,012,108	\$110,732,714	\$155,992,419	\$812,737,241	\$455,414,886	\$100,431,455	\$148,129,459	\$703,975,800

See accompanying Notes to Financial Statements.

**CARLETON COLLEGE  
STATEMENTS OF CASH FLOWS  
YEARS ENDED JUNE 30, 2007 AND 2006**

	2007	2006
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Change in Net Assets	\$ 108,761,441	\$ 45,880,518
Adjustments to Reconcile Change in Net Assets to Net Cash Used by Operating Activities:		
Cumulative Effect from Change in Accounting Principle	-	2,033,488
Depreciation and Amortization	7,112,615	7,111,568
Net Realized and Unrealized Gain on Investments	(108,425,082)	(47,301,465)
Private Gifts for Long-Term Investments	(12,330,425)	(11,848,036)
Change in Value of Trusts Held by Others	(1,001,242)	(736,711)
Change in Value of Interest Rate Swaps	155,382	(2,168,166)
Loss on Disposal of Property, Plant and Equipment	155,823	-
Non Cash Donations of Property, Plant and Equipment	(159,500)	-
Change in Unamortized Bond Discount	238,298	413,987
Changes in Operating Assets and Liabilities:		
Receivable, Net - Pledges	(1,868,597)	(6,206,674)
Receivable, Net - Government	(98,090)	1,994,369
Receivable, Net - Other	24,651	1,593,452
Inventories, Prepaid Expenses, and Deferred Charges	434,069	35,683
Loans to Students	(244,998)	(530,437)
Accounts Payable	609,379	150,674
Accrued Expenses	275,774	(627,267)
Deferred Income and Deposits	(2,851,570)	(1,104,527)
Refundable Government Grants for Student Loans	30,666	353,588
Net Cash Used by Operating Activities	(9,181,406)	(10,955,956)
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Purchase of Investments	(192,284,880)	(299,028,478)
Proceeds from Sale of Investments	189,312,183	287,174,642
Acquisition of Property, Plant, and Equipment	(4,797,686)	(8,884,889)
Net Cash Used by Investing Activities	(7,770,383)	(20,738,725)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Changes in Deposits with Bond Trustee	1,143,287	1,419,176
Proceeds from Private Gifts for Long-Term Investment	12,330,425	11,848,036
Changes in Annuities Payable	2,363,044	2,635,122
Principal Payments	(2,320,000)	(1,215,000)
Net Cash Provided by Financing Activities	13,516,756	14,687,334
<b>NET DECREASE IN CASH AND CASH EQUIVALENTS</b>	(3,435,033)	(17,007,347)
Cash and Cash Equivalent - Beginning of Year	13,129,570	30,136,917
<b>CASH AND CASH EQUIVALENTS - END OF YEAR</b>	\$ 9,694,537	\$ 13,129,570
<b>SUPPLEMENTAL INFORMATION</b>		
Cash Paid for Interest	\$ 2,778,546	\$ 2,866,172
Fixed Assets in Accounts Payable	\$ 211,333	\$ 591,520

See accompanying Notes to Financial Statements.

**CARLETON COLLEGE**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2007 AND 2006**

**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 first priority is teaching, and a continued commitment to the liberal arts. Carleton is a national college enrolling approximately 1,900 students drawn from all 50 states and 39 different countries. Carleton offers a four-year baccalaureate degree in 33 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 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.

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.

**CARLETON COLLEGE  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2007 AND 2006**

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

**Basis of Presentation (Continued)**

Conditional promises to give are not recognized until they become unconditional, that is, when the conditions on which they depend are substantially met. In March 2007, the College received a conditional promise to give \$1.5 million as permanent endowment if it is matched on a one-to-one basis within four years. As of June 30, 2007, no matching gifts had yet been designated for this match.

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, 2007 and 2006, all contributions receivable were considered collectible and no allowance has been recorded.

**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.

**Receivables**

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 no allowance for uncollectibility for the years ended June 30, 2007 and 2006 was necessary. The need for an allowance is evaluated annually.

**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.

**CARLETON COLLEGE  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2007 AND 2006**

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

**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 assets 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.

**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, 2007 and 2006, deferred revenue consists primarily of unearned tuition and student deposits.

**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.

**Split-Interest Agreements**

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.

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 a financial capital gains or losses of either temporarily or permanently restricted net assets. The value of the College's interest in these trusts are included in trusts held by others on the balance sheet.

**CARLETON COLLEGE  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2007 AND 2006**

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

**Split-Interest Agreements (Continued)**

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 these trusts are included in trusts held by others on the balance sheet.

**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 those estimates.

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.

**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.

**Advertising Expense**

Advertising expense is expensed as incurred. Advertising expense for the years ended June 30, 2007 and 2006 was \$98,519 and \$64,536, respectively.

**Reclassifications**

Certain amounts for the year ended June 30, 2006, have been reclassified to conform with the presentation of the June 30, 2007 amounts. The reclassifications have no effect on net assets for the year ended June 30, 2006.

**CARLETON COLLEGE**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2007 AND 2006**

**NOTE 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:

	2007	2006
Permanent Endowment	\$ 137,781,624	\$ 131,835,453
Gains Related to Permanent Endowment	312,548,763	260,769,234
Funds Functioning as Endowment	76,057,761	67,996,727
Gains Related to Funds Functioning as Endowment	137,111,820	111,353,624
	<u>663,499,968</u>	<u>571,955,038</u>
Operating Funds	37,909,187	10,017,654
Split-Interest Agreements	51,527,434	51,255,503
Other Invested Assets	8,293,061	16,603,676
Total Investments	<u>\$ 761,229,650</u>	<u>\$ 649,831,871</u>

The assets of the investments for the years ended June 30, 2007 and 2006 include:

	2007		2006	
	Cost	Market Value	Cost	Market Value
Cash and Short-Term Investments	\$ 9,477,109	\$ 9,477,109	\$ 9,916,171	\$ 9,874,928
Bonds	81,378,962	80,504,314	103,294,865	102,073,342
Marketable Equity Securities	241,841,145	349,057,042	241,722,979	306,476,762
Private Capital and Marketable Alternatives	220,866,410	255,826,319	168,287,598	178,668,314
Split Interest Agreements and Other	53,123,784	66,364,866	46,823,902	52,738,525
Total	<u>\$ 606,687,410</u>	<u>\$ 761,229,650</u>	<u>\$ 570,045,515</u>	<u>\$ 649,831,871</u>

The College pools most of its investments in a unitized account 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.

The College utilized a "total return" approach to managing the investment pool. This emphasizes total return, which consists of current yield (primarily interest and dividends) as well as the net appreciation in the market value of pooled investments.

The College has established a spending rate expressed as a percentage of the beginning of the year market value of the investment pool. This rate is evaluated by the College on an annual basis. The spending rate is allocated to pool participants, with the difference between the spending rate and current yield (which typically is lower than the spending rate) recorded as investment returns utilized.

**CARLETON COLLEGE  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2007 AND 2006**

**NOTE 2 INVESTMENTS (CONTINUED)**

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, 2007 and 2006, 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, 2007 and 2006. 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, 2007 and 2006, the College had outstanding commitments of \$83,522,285 and \$73,279,333, 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.

At June 30, 2007 and 2006, the College had \$6,868,858 and \$4,984,668, respectively, invested with hedge fund investments which utilized side pockets within their portfolio of investments. Side pockets are separate accounts used by hedge funds to hold illiquid, difficult to value private equity investments.

In 2005, the College began participating in a securities lending program that is designed to enhance return on certain asset holdings. The minimum collateral the College requires by contract on this program is 102 percent of the market value of the security loaned. During 2006, the College received cash and U.S. government debt as collateral on deposit for securities loaned to brokers and dealers. At June 30, 2007 and 2006, the College held \$62,736,636 and \$53,860,429, respectively, of collateral which is presented as an asset and related liability on the Balance Sheet. All rights to this collateral, of a secured party under applicable law, are available to the College in the case of a borrower's failure to deliver securities for any reason in the time specified by the applicable securities loan agreement. The securities temporarily on loan are included in the investments of the College with estimated fair market values as of June 30, 2007 and 2006 of \$61,131,370 and \$52,559,897, respectively.

The College holds mortgages on residences of eligible faculty and staff members that amounted to \$1,332,797 and \$1,314,027 as of June 30, 2007 and 2006, respectively. The average interest rate on the mortgages for the years ended June 30, 2007 and 2006 was 5.20 percent and 5.23 percent, respectively.

Investment expense totaled \$2,842,307 and \$2,219,498 for the years ended June 30, 2007 and 2006, respectively, and is netted with investment income.

**CARLETON COLLEGE  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2007 AND 2006**

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

Property, plant, and equipment as of June 30, 2007 and 2006 are as follows:

	<u>2007</u>	<u>2006</u>
Land and Real Estate Improvements	\$ 3,327,478	\$ 3,327,478
Buildings	146,475,869	145,813,605
Equipment and Books	71,726,991	68,200,027
Construction in Progress	310,143	305,135
	<u>221,840,481</u>	<u>217,646,245</u>
Less: Accumulated Depreciation	<u>(107,353,994)</u>	<u>(100,952,879)</u>
Total	<u>\$ 114,486,487</u>	<u>\$ 116,693,366</u>

The College has capitalized collections received during the year ended June 30, 2007 totaling \$159,500. These collection items are valued at fair market value at the date of donation and are not depreciated.

**NOTE 4 BONDS PAYABLE**

Bonds payable at June 30, 2007 and 2006 are as follows:

	<u>2007</u>	<u>2006</u>
Minnesota Higher Education Facilities Authority (MHEFA):		
First Mortgage Revenue Bond Series T	\$ -	\$ 1,185,000
Variable and Fixed Rate Demand Revenue Bonds Series 3L1 and 3L2	10,300,000	10,300,000
Revenue Bonds Series 4N	1,055,000	2,055,000
Revenue Bonds Series 5G	23,000,000	23,000,000
Revenue Bonds Series 6D	31,175,000	31,310,000
	<u>65,530,000</u>	<u>67,850,000</u>
Less: Unamortized Discount	<u>(272,848)</u>	<u>(511,146)</u>
Total	<u>\$ 65,257,152</u>	<u>\$ 67,338,854</u>

The Series T bonds bear interest at 5.625 percent 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 balance sheet. The Series T bonds are collateralized by the 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. All such mortgages on the facilities have been released as of June 30, 2007.

**CARLETON COLLEGE**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2007 AND 2006**

**NOTE 4 BONDS PAYABLE (CONTINUED)**

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 3.58 percent and 3.82 percent at June 30, 2007 and 2006, 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.

Revenue Bonds, Series 4N, bear interest at a fixed rate of interest ranging from 5.0 percent to 5.5 percent. 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 3.58 percent and 3.82 percent at June 30, 2007 and 2006, 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 contained a sinking fund requirement of \$120,000 per year through 2006. The College was also required to maintain a debt service reserve account for Series T bonds with qualified reserve investments having market values equal at least to 110 percent of the principal amount of the bonds outstanding less any balances in the sinking funds. Such investments, whose market value aggregates \$1,430,598 at June 30, 2006, were released from reserve following the final payment of the Series T debt in May 2007.

**CARLETON COLLEGE  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2007 AND 2006**

**NOTE 4 BONDS PAYABLE (CONTINUED)**

The maturities of debt in each of the five years subsequent to June 30, 2007 are as follows:

<u>Year</u>	<u>Amount</u>
2008	\$ 1,190,000
2009	1,260,000
2010	1,315,000
2011	1,375,000
2012	1,435,000
Thereafter	<u>58,955,000</u>
Total	<u><u>\$ 65,530,000</u></u>

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 percent and 4.12 percent, respectively. At June 30, 2007 and 2006, the fair value of swap agreement liability was \$74,974 and \$104,337, respectively.

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 original amount of MHEFA Series 6D variable rate bonds. At June 30, 2007 and 2006, the fair value of swap agreement asset was \$377,230 and \$561,975, respectively.

**NOTE 5 RETIREMENT PLAN**

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

Expenses for the College's share of the contributions were \$4,668,416 and \$4,440,119 in 2007 and 2006, respectively.

**CARLETON COLLEGE  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2007 AND 2006**

**NOTE 6 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, 2007 and 2006:

	2007	2006
Unconditional Promises Expected to be Collected in:		
Less than One Year	\$ 4,452,052	\$ 2,313,557
One Year to Five Years	22,769,783	24,198,416
Over Five Years	1,146,850	197,404
Gross Pledges Receivable	28,368,685	26,709,377
Less: Present Value Discount	(2,774,422)	(2,983,711)
Pledges Receivable, Net	\$ 25,594,263	\$ 23,725,666

Pledges receivable from Board members and employees totaled \$20,995,136 and \$20,858,558 at June 30, 2007 and 2006, respectively.

At June 30, 2007, approximately 31 percent of the pledges receivable balance was attributed to two contributors. At June 30, 2006, approximately 56 percent of the pledges receivable balance was attributed to three contributors.

**NOTE 7 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.

**NOTE 8 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.

**CARLETON COLLEGE**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2007 AND 2006**

**NOTE 9 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>2007</u>	<u>2006</u>
Salaries and Wages	\$ 39,696,129	\$ 38,259,348
Employee Benefits	13,756,842	13,474,705
Student Employment	3,433,367	3,411,684
Supplies	4,522,509	4,236,901
Equipment	5,512,116	3,707,011
Utilities and Buildings	5,588,960	6,671,076
Debt Service	2,920,661	2,694,372
Depreciation	7,008,242	7,111,568
Food Service	5,001,048	4,682,490
Travel	2,882,828	2,528,095
Other	8,175,104	7,366,023
Total	<u>\$ 98,497,806</u>	<u>\$ 94,143,273</u>

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

The College is self insured for workers' compensation. As of June 30, 2007, the College has recorded a liability of \$88,481 for claims incurred but not yet reported. Stop-loss insurance has been obtained for aggregate claims in excess of \$2,000,000 and \$390,000 per occurrence.

The College is self insured for workers' compensation. As of June 30, 2007 and 2006, the College has recorded a liability of \$256,258 and \$196,258, respectively, for claims incurred but not yet reported. Stop-loss insurance has been obtained for aggregate claims in excess of \$2,000,000 and \$390,000 per occurrence.

**NOTE 11 CHANGE IN ACCOUNTING POLICY – ENVIRONMENTAL REMEDIATION**

In 2005, the Financial Accounting Standards Board (FASB) issued FASB Interpretation No. 47, *Accounting for Conditional Asset Retirement Obligations* (FIN 47) which was effective for the College as of and for the year ended June 30, 2006. FIN 47 was issued to provide clarity surrounding the recognition of conditional asset retirement obligations, as referred to in FASB Statement No. 143, *Accounting for Asset Retirement Obligations*. FIN 47 defines a conditional asset retirement obligation as a legal obligation to perform an asset retirement activity in which the timing and/or settlement are conditional on a future event that may or may not be within the control of the entity. Uncertainty with respect to the timing and/or method of settlement of the asset retirement obligation, does not defer recognition of a liability. The obligation to perform the asset retirement activity is unconditional, and

**CARLETON COLLEGE**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2007 AND 2006**

**NOTE 11 CHANGE IN ACCOUNTING POLICY – ENVIRONMENTAL REMEDIATION (CONTINUED)**

accordingly, a liability should be recognized. FIN 47 also provides guidance with respect to the criteria to be used to determine whether sufficient information exists to reasonably estimate the fair value of an asset retirement obligation. Based on the guidance in FIN 47, management of the College determined that sufficient information was available to reasonably estimate the fair value of known asset retirement obligations.

FIN 47 requires the initial application of the interpretation to be recognized as a cumulative effect of a change in accounting principle. Specifically, FIN 47 requires the recognition, as a cumulative effect, the cumulative accretion and accumulated depreciation for the time period from the date the liability would have been recognized had the provisions for the interpretation been in effect when the liability was incurred to the date of adoption of this Interpretation. The College owns several buildings on campus that contain asbestos in various forms which lead to the current obligation.

Upon initial application of FIN 47, the College estimated the cost of any potential obligation to remove asbestos. The College used a future value rate assumption of 3% and a present value risk-free rate of 5 percent to determine the potential liability. The College recognized \$2,033,488 as the cumulative effect of a change in accounting principle in the statement of operations as of June 30, 2006. Conditional asset retirement obligations included within liabilities in the balance sheet of June 30, 2007 and 2006, were \$2,141,619 and \$2,037,046, respectively.

**NOTE 12 OBLIGATIONS UNDER OPERATING LEASES**

At June 30, 2007, the College had lease agreements for various office equipment. The total of the future minimum rental payments required under the terms of the various leases were as follows:

<u>Year</u>	<u>Amount</u>
2008	\$ 33,415
2009	32,767
Total	<u>\$ 66,182</u>

Lease expense for the years ended June 30, 2007 and 2006 was \$111,591.



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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, 2007 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 18 and 19 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

Minneapolis, Minnesota  
September 13, 2007



**CARLETON COLLEGE**  
**EXPANDED BALANCE SHEET**  
**JUNE 30, 2007**  
**WITH SUMMARIZED TOTALS AS OF JUNE 30, 2006**  
**(SEE INDEPENDENT AUDITORS' REPORT ON SUPPLEMENTARY INFORMATION)**

ASSETS	General Operations	Physical Capital	Financial Capital	2007 Totals	2006 Totals
Cash and Cash Equivalents	\$ 9,694,537	\$ -	\$ -	\$ 9,694,537	\$ 13,129,570
Receivables, Net:					
Pledges	4,802,723	1,391,231	19,400,309	25,594,263	23,725,666
Government	694,935	-	-	694,935	596,845
Other	688,009	-	-	688,009	712,660
Inventories, Prepaid Expenses and Deferred Charges	2,458,749	-	-	2,458,749	3,048,200
Loans to Students	7,403,266	-	-	7,403,266	7,158,268
Deposits with Bond Trustee	-	197,657	-	197,657	1,340,944
Securities Lending Collateral	-	-	62,736,636	62,736,636	53,860,429
Trusts Held by Others	-	-	11,507,697	11,507,697	10,506,455
Investments	33,307,313	8,210,769	719,711,568	761,229,650	649,831,871
Property, Plant and Equipment, Net of Depreciation	-	114,486,487	-	114,486,487	116,693,366
<b>Total Assets</b>	<b>\$ 59,049,532</b>	<b>\$ 124,286,144</b>	<b>\$ 813,356,210</b>	<b>\$ 996,691,886</b>	<b>\$ 880,604,274</b>
<b>LIABILITIES AND NET ASSETS</b>					
Liabilities:					
Accounts Payable	\$ 2,883,773	\$ -	\$ -	\$ 2,883,773	\$ 2,274,394
Accrued Expenses	5,899,413	-	-	5,899,413	5,623,639
Securities Lending Collateral Payable	-	-	62,736,636	62,736,636	53,860,429
Deferred Income and Deposits	10,786,386	-	-	10,786,386	13,637,956
Annuities Payable	-	-	28,598,625	28,598,625	26,235,581
Asset Retirement Obligation	-	2,141,619	-	2,141,619	2,037,246
Bonds Payable, Net	-	65,257,152	-	65,257,152	67,338,854
Refundable Government Grants for Student Loans	5,651,041	-	-	5,651,041	5,620,375
<b>Total Liabilities</b>	<b>25,220,613</b>	<b>67,398,771</b>	<b>91,335,261</b>	<b>183,954,645</b>	<b>176,628,474</b>
Net Assets:					
Unrestricted:					
Operations	2,304,175	-	-	2,304,175	2,139,522
Student Loan Funds	3,511,952	-	-	3,511,952	3,386,605
Net Investment in Plant	-	52,385,039	-	52,385,039	50,349,372
Appreciation on Endowments	-	-	411,753,181	411,753,181	331,529,278
Funds Functioning as Endowment	-	-	76,057,761	76,057,761	68,010,109
<b>Total Unrestricted Net Assets</b>	<b>5,816,127</b>	<b>52,385,039</b>	<b>487,810,942</b>	<b>546,012,108</b>	<b>455,414,886</b>
Temporarily Restricted:					
Operations	28,012,792	-	-	28,012,792	16,981,969
Plant Funds	-	4,502,334	-	4,502,334	3,920,923
Appreciation on True Endowments	-	-	37,907,390	37,907,390	36,985,323
Funds Functioning as Endowments	-	-	20,364,493	20,364,493	22,976,029
Split Interest Funds	-	-	19,945,705	19,945,705	19,567,211
<b>Total Temporarily Restricted Net Assets</b>	<b>28,012,792</b>	<b>4,502,334</b>	<b>78,217,588</b>	<b>110,732,714</b>	<b>100,431,455</b>
Permanently Restricted:					
True Endowments	-	-	141,501,618	141,501,618	132,317,825
Split Interest Funds	-	-	14,490,801	14,490,801	15,811,634
<b>Total Permanently Restricted Net Assets</b>	<b>-</b>	<b>-</b>	<b>155,992,419</b>	<b>155,992,419</b>	<b>148,129,459</b>
<b>Total Net Assets</b>	<b>33,828,919</b>	<b>56,887,373</b>	<b>722,020,949</b>	<b>812,737,241</b>	<b>703,975,800</b>
<b>Total Liabilities and Net Assets</b>	<b>\$ 59,049,532</b>	<b>\$ 124,286,144</b>	<b>\$ 813,356,210</b>	<b>\$ 996,691,886</b>	<b>\$ 880,604,274</b>

**CARLETON COLLEGE**  
**EXPANDED STATEMENT OF ACTIVITIES AND CHANGE IN NET ASSETS**  
**YEAR ENDED JUNE 30, 2007**  
**WITH SUMMARIZED TOTALS FOR THE YEAR ENDED JUNE 30, 2006**  
**(SEE INDEPENDENT AUDITORS' REPORT ON SUPPLEMENTARY INFORMATION)**

	General Operations		Physical Capital		Financial Capital		2007 Totals	2006 Totals	
	Unrestricted	Temporarily Restricted	Unrestricted	Temporarily Restricted	Unrestricted	Temporarily Restricted			Permanently Restricted
<b>REVENUES AND OTHER ADDITIONS</b>									
Tuition and Fees	\$ 67,206,367	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 67,206,367	\$ 63,902,717	
Room and Board	13,185,561	-	-	-	-	-	13,185,561	11,856,131	
Scholarships	(23,294,991)	-	-	-	-	-	(23,294,991)	(22,115,388)	
Net Student Fees	57,096,937	-	-	-	-	-	57,096,937	53,643,460	
Private Gifts and Pledges	7,366,355	9,897,592	159,500	353,514	4,603,037	1,053,855	29,644,163	27,898,450	
Government Reimbursements	790,274	-	-	-	-	-	790,274	710,385	
Interest and Dividends	831,560	502,949	43,069	-	2,297,182	6,614,362	10,289,122	11,994,632	
Net Realized Gain (Loss)	1,005,276	-	(155,810)	-	8,649,309	24,661,581	34,160,356	40,645,028	
Net Unrealized Gain (Loss)	1,976,762	-	(155,382)	-	20,889,105	51,554,241	74,264,726	6,656,437	
Net Change in Split Interest	-	-	-	-	-	(2,950,990)	(4,271,823)	(3,442,877)	
Bookstore, Rents and Other	4,402,012	-	883,480	-	-	-	5,285,492	3,951,764	
Subtotal Revenue	73,469,176	10,400,541	774,857	353,514	36,438,633	80,933,049	207,259,247	142,057,279	
Fund Transfers	(9,660,838)	1,416,278	9,296,371	397,298	(393,865)	(4,028,727)	2,973,483	-	
Investment Returns Utilized	-	25,988,510	-	-	52,226,787	(79,215,297)	-	-	
Net Assets Released from Restrictions	26,943,907	(26,774,506)	-	(169,401)	-	-	-	-	
Total Revenues and Other Additions	90,752,245	11,030,823	10,071,228	581,411	88,271,555	(1,310,975)	207,259,247	142,057,279	
<b>EXPENSES</b>									
Instruction	33,361,496	-	8,031,718	-	-	-	41,393,214	39,794,708	
Academic Support:									
Library	4,284,052	-	826,097	-	-	-	5,110,149	5,066,786	
Other	5,784,727	-	171,071	-	-	-	5,955,798	5,896,243	
Student Services	9,711,169	-	3,590,086	-	-	-	13,301,265	12,607,579	
Institutional Support:									
Administration	4,567,763	-	145,262	-	-	-	4,713,025	4,576,363	
External Relations	3,970,652	-	20,720	-	-	-	3,991,372	3,817,503	
Fund Raising	4,816,614	-	63,553	-	-	-	4,880,167	4,031,953	
General	4,748,248	-	125,173	-	-	-	4,873,421	5,168,809	
Plant Operations	10,554,772	-	(10,554,772)	-	-	-	-	-	
Auxiliary Enterprises	8,662,752	-	5,616,643	-	-	-	14,279,395	13,181,329	
Total Expenses	90,462,245	-	8,035,561	-	-	-	98,497,806	94,143,273	
CHANGE IN NET ASSETS BEFORE EFFECT OF CHANGE IN ACCOUNTING PRINCIPLE	290,000	11,030,823	2,035,667	581,411	88,271,555	(1,310,975)	108,761,441	47,914,006	
Current Year Impact of Change in Accounting Principle	-	-	-	-	-	-	-	(2,033,486)	
<b>CHANGE IN NET ASSETS</b>	290,000	11,030,823	2,035,667	581,411	88,271,555	(1,310,975)	108,761,441	45,880,518	
Net Assets - Beginning of Year	5,526,127	16,981,969	50,349,372	3,920,923	399,539,387	79,528,563	703,975,800	658,095,282	
<b>NET ASSETS - END OF YEAR</b>	\$ 5,816,127	\$ 28,012,792	\$ 52,385,039	\$ 4,502,334	\$ 487,810,942	\$ 78,217,588	\$ 812,737,241	\$ 703,975,800	