

CARLETON COLLEGE
FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2017 AND 2016

**CARLETON COLLEGE
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YEARS ENDED JUNE 30, 2017 AND 2016**

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INDEPENDENT AUDITORS' REPORT

Board of Trustees
Carleton College
Northfield, Minnesota

Report on the Financial Statements

We have audited the accompanying financial statements of Carleton College, which comprise the balance sheets as of June 30, 2017 and 2016, and the related statements of activities and change in net assets, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.


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, 2017 and 2016, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Other Information

Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The expanded balance sheets and the expanded statements of activities and change in net assets, which are the responsibility of management, are presented for purposes of additional analysis and are not a required part of the financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the financial statements and, accordingly we do not express an opinion or provide any assurance on it.



CliftonLarsonAllen LLP

Minneapolis, Minnesota
October 27, 2017

**CARLETON COLLEGE
BALANCE SHEETS
JUNE 30, 2017 AND 2016**

	2017	2016
ASSETS		
Cash and Cash Equivalents	\$ 27,109,826	\$ 29,038,528
Receivables, Net:		
Contributions	23,973,849	14,638,536
Government	513,055	623,399
Other	1,565,055	1,603,454
Inventories and Prepaid Expenses	3,232,749	1,704,896
Loans to Students	7,262,341	8,354,379
Deposits with Bond Trustee	54,525,462	414,184
Trusts Held by Others	12,825,913	10,709,623
Investments	977,394,003	877,939,816
Property, Plant, and Equipment, Net of Depreciation	229,261,602	197,292,961
Total Assets	\$ 1,337,663,855	\$ 1,142,319,776
LIABILITIES AND NET ASSETS		
LIABILITIES		
Accounts Payable	\$ 6,347,646	\$ 5,094,156
Accrued Expenses	9,701,592	10,613,190
Deferred Income and Deposits	5,421,008	5,228,516
Annuities Payable	21,128,437	21,953,884
Asset Retirement Obligation	1,731,368	1,139,803
Fair Value of Interest Rate SWAP	482,797	961,270
Bonds Payable, Net	150,446,229	82,393,033
Refundable Government Grants for Student Loans	4,512,205	4,534,626
Total Liabilities	199,771,282	131,918,478
NET ASSETS		
Unrestricted:		
Operations	35,165,236	34,044,818
Student Loan Funds	4,309,675	4,271,776
Net Investment in Plant	163,284,637	154,069,439
Funds Functioning as Endowment	283,090,758	243,906,681
Total Unrestricted Net Assets	485,850,306	436,292,714
Temporarily Restricted:		
Operations	22,830,208	22,061,186
Plant Funds	36,114,793	21,765,801
Funds Functioning as Endowments	337,666,975	298,020,320
Split Interest Funds	27,290,382	23,834,904
Total Temporarily Restricted Net Assets	423,902,358	365,682,211
Permanently Restricted:		
True Endowments	216,550,279	197,695,546
Split Interest Funds	11,589,630	10,730,827
Total Permanently Restricted Net Assets	228,139,909	208,426,373
Total Net Assets	1,137,892,573	1,010,401,298
Total Liabilities and Net Assets	\$ 1,337,663,855	\$ 1,142,319,776

See accompanying Notes to Financial Statements.

CARLETON COLLEGE
STATEMENTS OF ACTIVITIES AND CHANGE IN NET ASSETS
YEARS ENDED JUNE 30, 2017 AND 2016

	2017				2016			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Totals	Unrestricted	Temporarily Restricted	Permanently Restricted	Totals
REVENUES AND OTHER ADDITIONS								
Tuition and Fees	\$ 103,630,553	\$ -	\$ -	\$ 103,630,553	\$ 98,440,111	\$ -	\$ -	\$ 98,440,111
Room and Board	22,463,640	-	-	22,463,640	21,165,735	-	-	21,165,735
Scholarships	(40,390,536)	-	-	(40,390,536)	(36,927,917)	-	-	(36,927,917)
Net Student Fees	85,703,657	-	-	85,703,657	82,677,929	-	-	82,677,929
Private Gifts and Pledges	10,306,369	26,329,138	18,611,018	55,246,525	9,828,932	21,991,843	4,372,790	36,193,565
Government Grants and Contracts	622,371	4,125,822	-	4,748,193	615,280	3,783,312	-	4,398,592
Interest and Dividends (Net Fees)	844,443	1,055,950	-	1,900,393	337,168	(39,088)	-	298,080
Net Realized Gain	8,616,114	17,141,701	-	25,757,815	13,540,442	27,531,248	-	41,071,690
Net Unrealized Gain (Loss)	32,207,743	56,531,583	-	88,739,326	(19,201,008)	(38,576,451)	-	(57,777,459)
Unrealized Gain on Interest Rate SWAP	478,473	-	-	478,473	236,420	-	-	236,420
Net Change in Annuity & Life Income Funds	-	(3,311,942)	858,803	(2,453,139)	-	536,416	(985,512)	(449,096)
Bookstore, Rents and Other	4,604,335	855,121	-	5,459,456	4,555,073	744,760	-	5,299,833
Subtotal Revenue	143,383,505	102,727,373	19,469,821	265,580,699	92,590,236	15,972,040	3,387,278	111,949,554
Fund Transfers	11,732,256	(11,975,971)	243,715	-	(2,428,349)	(297,128)	2,725,477	-
Net Assets Released from Restrictions	32,531,255	(32,531,255)	-	-	33,395,581	(33,395,581)	-	-
Total Revenues and Other Additions	187,647,016	58,220,147	19,713,536	265,580,699	123,557,468	(17,720,669)	6,112,755	111,949,554
EXPENSES								
Instruction	59,944,375	-	-	59,944,375	57,304,177	-	-	57,304,177
Research	4,192,307	-	-	4,192,307	3,868,598	-	-	3,868,598
Academic Support:								
Library	6,334,233	-	-	6,334,233	6,308,631	-	-	6,308,631
Other	12,961,671	-	-	12,961,671	12,410,154	-	-	12,410,154
Student Services	16,692,532	-	-	16,692,532	16,007,123	-	-	16,007,123
Institutional Support:								
Administration	6,389,641	-	-	6,389,641	6,758,876	-	-	6,758,876
External Relations	4,090,667	-	-	4,090,667	4,129,560	-	-	4,129,560
Fund Raising	6,273,636	-	-	6,273,636	5,524,262	-	-	5,524,262
General	3,588,078	-	-	3,588,078	3,846,216	-	-	3,846,216
Auxiliary Enterprises	17,622,284	-	-	17,622,284	17,457,981	-	-	17,457,981
Total Expenses	138,089,424	-	-	138,089,424	133,615,578	-	-	133,615,578
CHANGE IN NET ASSETS	49,557,592	58,220,147	19,713,536	127,491,275	(10,058,110)	(17,720,669)	6,112,755	(21,666,024)
Net Assets - Beginning of Year	436,292,714	365,682,211	208,426,373	1,010,401,298	446,350,824	383,402,880	202,313,618	1,032,067,322
NET ASSETS - END OF YEAR	<u>\$ 485,850,306</u>	<u>\$ 423,902,358</u>	<u>\$ 228,139,909</u>	<u>\$ 1,137,892,573</u>	<u>\$ 436,292,714</u>	<u>\$ 365,682,211</u>	<u>\$ 208,426,373</u>	<u>\$ 1,010,401,298</u>

See accompanying Notes to Financial Statements.

**CARLETON COLLEGE
STATEMENTS OF CASH FLOWS
YEARS ENDED JUNE 30, 2017 AND 2016**

	2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in Net Assets	\$ 127,491,275	\$ (21,666,024)
Adjustments to Reconcile Change in Net Assets to Net Cash Used by Operating Activities:		
Depreciation, Amortization and Accretion	10,798,461	10,861,109
Net Realized and Unrealized (Gain) Loss	(114,497,141)	16,705,769
Private Gifts for Long-Term Investments	(22,389,927)	(5,544,427)
Change in Value of Annuities and Life Income Trusts	1,999,697	1,061,089
Change in Value of Trusts Held by Others	(2,116,290)	1,097,290
Change in Value of Interest Rate SWAP	(478,473)	(236,420)
Loss on Disposal of Property, Plant and Equipment	119,028	316,105
Noncash Donations of Property, Plant and Equipment	(181,100)	(109,000)
Change in Unamortized Bond Origination Costs and Discount	(202,664)	130,232
Change in Asset Retirement Obligation	591,565	30,175
Effect of Changes in Operating Assets and Liabilities:		
Receivable, Net - Contributions	(9,335,313)	(10,927,261)
Receivable, Net - Government	110,344	7,078
Receivable, Net - Other	38,399	(402,763)
Inventories and Prepaid Expenses	(1,527,853)	1,058,599
Loans to Students	1,092,038	(318,941)
Accounts Payable	1,253,490	1,375,636
Accrued Expenses	(911,598)	1,633,867
Deferred Income and Deposits	192,492	644,302
Refundable Government Grants for Student Loans	(22,421)	(377,484)
Net Cash Used by Operating Activities	(7,975,991)	(4,661,069)
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of Investments	(25,351,399)	(35,601,788)
Proceeds from Sale of Investments	40,394,353	46,661,347
Proceeds from Property, Plant, and Equipment Insurance Recoveries	165,165	14,935
Acquisition of Property, Plant, and Equipment	(42,870,195)	(17,636,225)
Net Cash Used by Investing Activities	(27,662,076)	(6,561,731)
CASH FLOWS FROM FINANCING ACTIVITIES		
Changes in Deposits with Bond Trustee	(54,111,278)	12,666
Proceeds from Private Gifts for Long-Term Investment	22,389,927	5,544,427
Payments to Annuitants	(2,825,144)	(2,825,144)
Bond Issue Costs Paid	(742,096)	-
Proceeds from Issuance of Bonds Payable	124,900,000	-
Proceeds from Bond Premium	14,277,956	-
Principal Payments	(70,180,000)	(3,995,710)
Net Cash Provided (Used) by Financing Activities	33,709,365	(1,263,761)
NET CHANGE IN CASH AND CASH EQUIVALENTS	(1,928,702)	(12,486,561)
Cash and Cash Equivalent - Beginning of Year	29,038,528	41,525,089
CASH AND CASH EQUIVALENTS - END OF YEAR	\$ 27,109,826	\$ 29,038,528
SUPPLEMENTAL INFORMATION		
Interest Paid	\$ 3,388,052	\$ 2,693,156
Property, Plant and Equipment in Accounts Payable	\$ 4,429,929	\$ 3,210,838

See accompanying Notes to Financial Statements.

**CARLETON COLLEGE
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017 AND 2016**

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 2,000 students drawn from nearly all 50 states and 35 different countries. Carleton offers a four-year baccalaureate degree, with 32 majors in the arts, humanities, natural sciences/mathematics, and social sciences, preparing its graduates for leadership positions in their communities, countries and the world.

Basis of Presentation

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

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

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.

**CARLETON COLLEGE
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017 AND 2016**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Basis of Presentation (Continued)

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.

Cash and Cash Equivalents

Cash and cash equivalents include interest-bearing money market accounts and short-term investments with a maturity at time of purchase of less than three months. The amounts on hand may at times exceed the federally insured limit defined by the FDIC.

Contributions Receivable

Contributions receivable include pledges that are recorded at their present value using discount rates ranging from approximately .11% to 2.54% depending on the year of pledge inception. An allowance for uncollectible contributions receivable is provided based upon management's judgment including such factors as prior collection history, type of contribution and nature of fundraising activity. For the years ended June 30, 2017 and 2016, the College had an allowance of \$200,000.

Other Receivables and Loans to Students

Receivables are stated at net realizable value. Based on management's experience and analysis of individual accounts past due, the allowance for uncollectible accounts was \$185,000 for the years ended June 30, 2017 and 2016. The allowance is evaluated annually.

Inventories

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

Deposits with Bond Trustee

Deposits with bond trustee include amounts restricted for bond principal and interest payments and amounts restricted for current and future construction projects.

Fair Value Measurements

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

**CARLETON COLLEGE
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017 AND 2016**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Fair Value Measurements (Continued)

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

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

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

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

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

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

Property, Plant, and Equipment

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

		Original Cost 2017
Land	No Depreciation	\$ 3,785,213
Land Improvements	30 Years	826,358
Buildings and Building Improvements	20 - 40 Years	268,924,599
Library Books	10 Years	35,454,540
Equipment and Vehicles	3 - 5 Years	55,013,116
Construction in Progress	No Depreciation	39,909,292
Total Original Cost		<u>\$ 403,913,118</u>

Deferred Income and Deposits

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

**CARLETON COLLEGE
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017 AND 2016**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Asset Retirement Obligation

Financial accounting standards require the College to accrue for the present value of future estimated costs to remediate asbestos environmental hazards related to property owned by the College. The College has estimated the cost of potential obligations and applied a future value rate assumption of 3% and a present value risk-free rate of 5% to determine the potential liability. Conditional asset retirement obligations reported within liabilities in the balance sheets as of June 30, 2017 and 2016 were \$1,731,368 and \$1,139,803, respectively.

Refundable Government Grants for Student Loans

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

Endowment

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

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 70% of prior year spending increased by 2%; plus 30% of 4.95% of the 12 quarter average market value of the endowment unit value for the period ending June 30 of the year, one year prior to the start of the fiscal year (as of June 30, 2015 for the fiscal year 2017); banded by not more than 5.75% or less than 3.75% of the market value of the endowment for the period ending June 30 prior to the start of the fiscal year.

Planned Gift Split-Interest Agreements

The College records three types of planned gift split-interest agreements.

**CARLETON COLLEGE
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017 AND 2016**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Planned Gift Split-Interest Agreements (continued)

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

When the College does not serve as trustee for an irrevocable charitable remainder trust, the College records its beneficial interest in those assets as contribution revenue and funds held in trust by others at the present value of the expected future cash inflows. Such trusts are recorded at the date the College has been notified of the trust's existence and sufficient information regarding the trust has been accumulated to form the basis for a valuation. Changes in the value of these assets related to the amortization of the discount or revisions in the income beneficiary's life expectancy are recorded as gains or losses 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 value of the trust has been provided to the College. Annual distributions from the trusts are recorded as investment income in the period they are received. Changes in fair value of the trusts are recorded as financial capital gains or losses 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.

Advertising Expense

Advertising expense is expensed as incurred. Advertising expense for the years ended June 30, 2017 and 2016 was \$88,877 and \$78,615, respectively.

Income Taxes

The College qualifies as a tax-exempt nonprofit organization under Section 501(c)(3) of the Internal Revenue Code (IRC) and similar statutes of Minnesota law. The College is subject to federal income tax only on net unrelated business income under the provisions of Section 501(c)(3) of the IRC. The College has evaluated its tax positions and determined it has no uncertain tax positions and has recorded no obligation for unrelated business income tax. No provisions for federal or state income taxes are required as of June 30, 2017.

Reclassifications

Certain amounts appearing in the 2016 financial statements have been reclassified to conform with the 2017 presentation. The reclassifications have no effect on reported amounts of total net assets or change in total net assets.

**CARLETON COLLEGE
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017 AND 2016**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Use of Estimates

The preparation of financial statements in accordance with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Functional Expenses

The College reports expenditures in categories reflecting core operational objectives for higher education as defined by Integrated Postsecondary Education Data System (IPEDS). During the year expenses are directly coded to program (instruction, research, academic support, student services, and auxiliary enterprises) or support services (institutional support) whenever possible. Expenses which are not directly identifiable by program or support service are allocated based on the best estimates of management.

Subsequent Events

In preparing these financial statements, the College has evaluated events and transactions for potential recognition or disclosure through October 27, 2017, the date the financial statements were available to be issued.

NOTE 2 INVESTMENTS AND FINANCIAL INSTRUMENTS MEASURED AT FAIR VALUE

Basis of Reporting

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

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

CARLETON COLLEGE
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017 AND 2016

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

Basis of Reporting (Continued)

The College's interest in commingled investment funds are generally reported at the net asset value (NAV) reported by the fund managers and assessed as reasonable by the College, which is used as a practical expedient to estimate the fair value of the College's interest therein, in the absence of readily determinable fair value, unless it is probable that all or a portion of the investment will be sold for an amount different from NAV. As of June 30, 2017, the College had no plans or intentions to sell investments at amounts different from NAV.

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

The following tables summarize the College's investments by category and as applicable in their fair value hierarchy as of June 30, 2017 and 2016:

	Investments at Fair Value as of June 30, 2017				
	NAV Practical Expedient	Level 1	Level 2	Level 3	Total
Investments:					
Cash and Cash Equivalents	\$ -	\$ 17,073,257	\$ -	\$ -	\$ 17,073,257
Fixed Income	-	56,376,472	-	-	56,376,472
Public Equities	187,669,087	182,378,294	-	-	370,047,381
Private Equity	130,403,276	-	-	-	130,403,276
Hedge Funds	238,045,297	-	-	-	238,045,297
Real Estate and Other Real Assets	104,792,685	-	-	750,000	105,542,685
Planned Gift Agreements and Other	444,490	1,802,606	57,658,539	-	59,905,635
Total Investments	<u>661,354,835</u>	<u>257,630,629</u>	<u>57,658,539</u>	<u>750,000</u>	<u>977,394,003</u>
Trusts Held by Others		-	-	12,825,913	12,825,913
Total	<u>\$ 661,354,835</u>	<u>\$ 257,630,629</u>	<u>\$ 57,658,539</u>	<u>\$ 13,575,913</u>	<u>\$ 990,219,916</u>

	Investments at Fair Value as of June 30, 2016				
	NAV Practical Expedient	Level 1	Level 2	Level 3	Total
Investments:					
Cash and Cash Equivalents	\$ -	\$ 3,995,453	\$ -	\$ -	\$ 3,995,453
Fixed Income	-	56,148,425	-	-	56,148,425
Public Equities	145,474,664	169,654,989	-	-	315,129,653
Private Equity	129,749,195	-	-	-	129,749,195
Hedge Funds	223,150,696	-	-	-	223,150,696
Real Estate and Other Real Assets	93,266,805	-	-	-	93,266,805
Planned Gift Agreements and Other	339,985	1,807,167	54,352,437	-	56,499,589
Total Investments	<u>591,981,345</u>	<u>231,606,034</u>	<u>54,352,437</u>	<u>-</u>	<u>877,939,816</u>
Trusts Held by Others		-	-	10,709,623	10,709,623
Total	<u>\$ 591,981,345</u>	<u>\$ 231,606,034</u>	<u>\$ 54,352,437</u>	<u>\$ 10,709,623</u>	<u>\$ 888,649,439</u>

CARLETON COLLEGE
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017 AND 2016

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

Basis of Reporting (Continued)

Liabilities measured at fair value on a recurring basis as of June 30, 2017 and 2016:

	Investments at Fair Value as of June 30, 2017			
	Level 1	Level 2	Level 3	Total
Interest Rate Swap	\$ -	\$ 482,797	\$ -	\$ 482,797

	Investments at Fair Value as of June 30, 2016			
	Level 1	Level 2	Level 3	Total
Interest Rate Swap	\$ -	\$ 961,270	\$ -	\$ 961,270

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

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

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

Level 3 assets are as follows:

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

	Real Estate and Other		
	Real Assets	Trusts Held by Others	Total Investments
	Balances as of June 30, 2015	\$ -	\$ 11,806,913
Realized Gain	-	15,009	15,009
Unrealized Gain (Loss)	-	(172,791)	(172,791)
Investment Income (Loss)	-	313,900	313,900
New Investments and Capital Calls	-	-	-
Redemptions	-	(1,253,408)	(1,253,408)
Balances as of June 30, 2016	\$ -	\$ 10,709,623	\$ 10,709,623

CARLETON COLLEGE
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017 AND 2016

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

Liquidity

Investment liquidity as of June 30, 2017 and 2016 is aggregated in the tables below based on redemption or sale period:

Balances as of June 30, 2017	Daily	Monthly	Quarterly	Semi-Annually	Annual or Longer	Illiquid	Total
Cash and Cash Equivalents	\$ 17,073,257	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 17,073,257
Fixed Income	56,376,472	-	-	-	-	-	56,376,472
Public Equities	157,852,748	43,640,917	33,577,770	-	134,975,941	-	370,047,376
Private Equity	-	-	-	-	-	130,403,276	130,403,276
Hedge Funds	-	-	103,309,446	80,054,235	54,259,418	422,198	238,045,297
Real Estate and Other Real Assets	-	-	-	-	-	105,542,685	105,542,685
Planned Gift Agreements and Other	-	-	-	-	-	59,905,635	59,905,635
Total Investments	\$ 231,302,477	\$ 43,640,917	\$ 136,887,216	\$ 80,054,235	\$ 189,235,359	\$ 296,273,794	\$ 977,393,998

Balances as of June 30, 2016	Daily	Monthly	Quarterly	Semi-Annually	Annual or Longer	Illiquid	Total
Cash and Cash Equivalents	\$ 3,995,453	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 3,995,453
Fixed Income	56,148,425	-	-	-	-	-	56,148,425
Public Equities	163,688,169	20,885,850	27,633,362	-	102,922,273	-	315,129,654
Private Equity	-	-	-	-	-	129,293,051	129,293,051
Hedge Funds	-	-	100,954,184	74,344,924	46,855,493	996,094	223,150,695
Real Estate and Other Real Assets	-	-	-	-	-	93,722,950	93,722,950
Planned Gift Agreements and Other	-	-	-	-	-	56,499,589	56,499,589
Total Investments	\$ 223,832,047	\$ 20,885,850	\$ 128,587,546	\$ 74,344,924	\$ 149,777,766	\$ 280,511,684	\$ 877,939,817

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, 2017 and 2016.

At June 30, 2017 and 2016, the College had outstanding commitments of \$131,714,017 and \$154,515,592, 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, 2017 and 2016, the College had \$19,915,346 and \$24,243,227, respectively, invested with hedge fund investments which utilized side pockets within their portfolio of investments. Side pockets are segregated accounts used by hedge funds to hold illiquid investments.

The College holds mortgages on residences of eligible faculty and staff members that amounted to \$958,709 and \$985,709 as of June 30, 2017 and 2016, respectively. The average interest rate on the mortgages for the years ended June 30, 2017 and 2016 was 5.15%.

**CARLETON COLLEGE
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017 AND 2016**

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

Liquidity (Continued)

Investment expense totaled \$8,180,271 and \$7,729,406 for the years ended June 30, 2017 and 2016, respectively, and is netted with investment income.

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

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

NOTE 3 PROPERTY, PLANT, AND EQUIPMENT

Property, plant, and equipment as of June 30, 2017 and 2016 are as follows:

	<u>2017</u>	<u>2016</u>
Land	\$ 3,785,213	\$ 3,785,213
Land Improvements	826,358	827,340
Buildings and Building Improvements	268,924,599	260,418,758
Library Books	35,454,540	34,991,527
Equipment and Vehicles	55,013,116	54,110,655
Construction in Progress:		
Residence Hall Renovations	721,437	1,993,808
Academic Building Renovations	36,362,075	7,088,037
Utility Master Plan	2,232,758	-
Other	593,022	407,915
	<u>403,913,118</u>	<u>363,623,253</u>
Less: Accumulated Depreciation	<u>(174,651,516)</u>	<u>(166,330,292)</u>
Total	<u>\$ 229,261,602</u>	<u>\$ 197,292,961</u>

Total depreciation expense as of June 30, 2017 and 2016 was \$10,798,461 and \$10,861,109, respectively.

The College has capitalized collections received of \$181,100 and \$109,000 for the years ended June 30, 2017 and 2016, 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, 2017 AND 2016**

NOTE 4 BONDS PAYABLE

Bonds payable at June 30, 2017 and 2016 consisted of the following bonds issued by the Minnesota Higher Education Facility Authority (MHEFA) on behalf of the College:

	2017	2016
Revenue Bonds, Series 5-G	\$ -	\$ 23,000,000
Revenue Bonds, Series 6D	12,165,000	15,005,000
Revenue Bonds, Series 6T	-	16,950,000
Revenue Bonds, Series 7D	-	27,390,000
Revenue Bonds, Series 2017	124,900,000	-
Bonds Payable	137,065,000	82,345,000
Less: Unamortized Origination Costs	(896,727)	(709,421)
Plus: Unamortized Premium	14,277,956	757,454
Bonds Payable, Net	\$ 150,446,229	\$ 82,393,033

On June 8, 2000, MHEFA Series 5-G Variable Rate Demand Revenue Bonds (the Bonds) were issued in the amount of \$23,000,000 originally scheduled to mature in 2030. On May 24, 2017, the Series 5-G was refunded and retired with proceeds from MHEFA Series 2017 Revenue Bonds. The interest rate on the Bonds prior to refunding, adjusted weekly, ranged from .47% to .96% during the fiscal year 2017 with an average rate of .72%. Original proceeds from the Bonds were used to finance a new language and dining center and for student resident housing improvements.

On April 1, 2005, MHEFA issued Series 6-D Variable Rate Demand Revenue Bonds (the Bonds) in the amount of \$31,460,000 for the College. The Bonds mature April 1, 2035. The interest rate on the Bonds, adjusted weekly, ranged from .47% to .96% during the fiscal year 2017 with an average rate of .73%. 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, MHEFA Series 6-T Fixed Rate Revenue Bonds (the Bonds) were issued in the amount of \$19,665,000 with serial maturities through 2018 and term bonds maturing in 2023 and 2028. On May 24, 2017, the Series 6-T was advance refunded and retired with proceeds from the MHEFA Series 2017 Revenue Bonds. Interest rates formerly ranged from 3.00% to 5.00%. Original proceeds from the Bonds were used to finance new student housing and utility infrastructure improvements.

On June 29, 2010, MHEFA Series 7-D Fixed Rate Revenue Bonds (the Bonds) were issued in the amount of \$30,455,000 with serial maturities through 2021 and term bonds maturing in 2030 and 2040. On May 24, 2017, the Series 7-D was advanced refunded and retired with proceeds from the MHEFA Series 2017 Revenue Bonds. Interest rates formerly ranged from 1.50% to 5.00%. Originally proceeds from the Bonds were used to finance construction and renovation of the Weitz Center for Creativity.

**CARLETON COLLEGE
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017 AND 2016**

NOTE 4 BONDS PAYABLE (CONTINUED)

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

The scheduled maturities of debt in each of the five years subsequent to June 30, 2017 are as follows:

<u>Year Ending June 30,</u>	<u>Amount</u>
2018	\$ 5,715,000
2019	5,260,000
2020	4,565,000
2021	4,705,000
2022	4,890,000
Thereafter	111,930,000
Total	<u><u>\$ 137,065,000</u></u>

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

Interest Rate Swaps

The College uses one interest rate swap agreement as part of its risk management strategy to manage exposure to fluctuations in interest rates and to manage the overall cost of its debt. The interest rate swap agreement is not entered into for trading or speculative purposes. The interest rate swap agreement is recognized as a liability on the balance sheets and as measured by its fair value. The college expects to hold the interest rate swap agreement for the life of the strategy, and reflects interim unrealized gains or losses depending on the change in value since the inception of the contract. All unrealized and realized gains and losses from the interest rate swap agreements are reflected in the statements of activities and change in net assets.

On March 31, 2005, the College entered into an interest rate swap agreement with Morgan Stanley Capital Services Inc. terminating April 1, 2022, under the terms of the swap agreement, the College will pay a fixed rate of 3.53% and receive a variable rate of 68% of LIBOR. The current notional amount of the agreement, \$9,130,000, declines annually with each principal payment of MHEFA Series 6D variable rate bonds. At June 30, 2017 and 2016, the fair value of swap agreement liability was \$482,797 and \$961,270, respectively.

**CARLETON COLLEGE
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017 AND 2016**

NOTE 4 BONDS PAYABLE (CONTINUED)

Interest Rate Swaps (Continued)

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

Standby Bond Purchase Agreements

The College has a standby bond purchase agreement to provide liquidity support for the Series 6D variable rate bonds, which are remarketed weekly. In the event some or all of the bonds were tendered and not remarketed, the facility provides for the purchase of the unremarketed bonds by the bank. Any funds provided by this liquidity facility would be payable to the bank by the College. The College pays an annual commitment fee of .45% on the Series 6D agreements which expire April 30, 2020. There have been no bonds purchased by the bank under the agreements as of June 30, 2017. If the standby bond purchase agreements are not extended, and the Series 6D are not re-financed by April 30, 2020, the balance outstanding on the bonds would become due and payable.

NOTE 5 ENDOWMENTS

The College endowment consists of approximately 680 individual donor restricted endowment funds and 139 board-designated endowment funds. The College pools these investments in a unitized pool similar to an open-ended mutual fund. Funds added or withdrawn from the pool are recorded at their share of the market value per share at the beginning of the month within which the transaction takes place.

The market value of the endowment reported in the financial statements includes the present value of pledges receivable. The market value of endowment investments, excluding contributions receivables to the endowment, was \$828,168,145 and \$738,135,607 as of June 30, 2017 and 2016, respectively.

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

	2017			Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	
Donor Restricted Endowment Funds	\$ (1,676,740)	\$ 336,977,534	\$ 207,899,853	\$ 543,200,647
Board Designated Endowment Funds	284,967,498	-	-	284,967,498
Subtotal Endowment Funds	283,290,758	336,977,534	207,899,853	828,168,145
Contributions Receivable	(200,000)	689,441	8,650,426	9,139,867
Total Endowment Funds	<u>\$ 283,090,758</u>	<u>\$ 337,666,975</u>	<u>\$ 216,550,279</u>	<u>\$ 837,308,012</u>

CARLETON COLLEGE
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017 AND 2016

NOTE 5 ENDOWMENTS (CONTINUED)

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

	2017			Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	
Endowment Fund Balance, June 30, 2016	\$ 243,906,681	\$ 298,020,320	\$ 197,695,546	\$ 739,622,547
Net Contributions	1,640,310	311,685	18,611,018	20,563,013
Investment Return	35,066,702	68,744,751	-	103,811,453
Appropriations	(11,322,098)	(25,771,951)	-	(37,094,049)
Other Changes:				
Transfers of Matured Deferred Gifts to Endowment Funds	10,161,333	-	-	10,161,333
Donor Directed Gift Modifications	-	-	243,715	243,715
Change in Underwater Funds	3,637,830	(3,637,830)	-	-
Total Other Changes	<u>13,799,163</u>	<u>(3,637,830)</u>	<u>243,715</u>	<u>10,405,048</u>
Endowment Fund Balance, June 30, 2017	<u>\$ 283,090,758</u>	<u>\$ 337,666,975</u>	<u>\$ 216,550,279</u>	<u>\$ 837,308,012</u>

The assets under management by the investment office Endowment net asset composition by type of fund as of June 30, 2016:

	2016			Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	
Donor Restricted Endowment Funds	\$ (5,314,570)	\$ 297,879,125	\$ 196,149,801	\$ 488,714,356
Board Designated Endowment Funds	249,421,251	-	-	249,421,251
Subtotal Endowment Funds	244,106,681	297,879,125	196,149,801	738,135,607
Contributions Receivable	(200,000)	141,195	1,545,745	1,486,940
Total Endowment Funds	<u>\$ 243,906,681</u>	<u>\$ 298,020,320</u>	<u>\$ 197,695,546</u>	<u>\$ 739,622,547</u>

**CARLETON COLLEGE
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017 AND 2016**

NOTE 5 ENDOWMENTS (CONTINUED)

Changes in endowment net assets for the year ended June 30, 2016:

	2016			Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	
Endowment Fund Balance, June 30, 2015	\$ 264,643,263	\$ 329,449,818	\$ 190,597,279	\$ 784,690,360
Net Contributions	1,083,781	-	4,372,790	5,456,571
Investment Return	(5,591,616)	(10,775,744)	-	(16,367,360)
Appropriations	(11,204,595)	(25,069,214)	-	(36,273,809)
Other Changes:				
Transfers of Matured Deferred Gifts to Endowment Funds	72,527	-	1,485,063	1,557,590
Donor Directed Gift Modifications	(681,219)	-	1,240,414	559,195
Recovery of Underwater Funds	(4,415,460)	4,415,460	-	-
Total Other Changes	<u>(5,024,152)</u>	<u>4,415,460</u>	<u>2,725,477</u>	<u>2,116,785</u>
Endowment Fund Balance, June 30, 2016	<u>\$ 243,906,681</u>	<u>\$ 298,020,320</u>	<u>\$ 197,695,546</u>	<u>\$ 739,622,547</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 \$1,676,740 and \$5,314,570 as of June 30, 2017 and 2016, 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.

Expenses for the College's share of the contributions were \$5,422,413 and \$5,189,906 in 2017 and 2016, respectively.

**CARLETON COLLEGE
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017 AND 2016**

NOTE 7 CONTRIBUTIONS RECEIVABLE

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

Contributions receivable are summarized as follows at June 30, 2017 and 2016:

	2017	2016
Unconditional Promises Expected to be Collected in:		
Less than One Year	\$ 4,013,277	\$ 2,253,384
One Year to Five Years	20,059,268	12,169,952
Over Five Years	1,210,867	923,456
Gross Pledges Receivable	25,283,412	15,346,792
Less: Present Value Discount	(1,109,563)	(508,256)
Less: Allowance for Uncollectible Pledges	(200,000)	(200,000)
Pledges Receivable, Net	\$ 23,973,849	\$ 14,638,536

Contributions receivable from board members and employees totaled \$10,031,171 and \$11,869,810 at June 30, 2017 and 2016, respectively.

At June 30, 2017 and 2016, approximately 12% and 26% gross contributions receivable, respectively, were attributed to one contributor.

NOTE 8 CREDIT QUALITY OF STUDENT NOTES RECEIVABLE

The College issues uncollateralized loans to students based on financial need. Student loans are funded through Federal government loan programs or institutional resources. Allowances for doubtful accounts are established based on prior collection experience and current economic factors which, in management's judgment, could influence the ability of loan recipients to repay the amounts per the loan terms. At June 30, 2017 and 2016, student loans represented approximately 0.54% and 0.73%, respectively, of total assets.

At June 30, student loans consisted of the following:

	2017	2016
Federal Government Programs	\$ 6,508,799	\$ 7,611,685
Henry Strong Loan Program	165,587	184,635
Institutional Loan Programs	742,955	713,059
Subtotal, Gross	7,417,341	8,509,379
Less Allowance for Doubtful Accounts:		
Beginning of Year	(155,000)	(155,000)
Changes to Allowance	-	-
End of Year	(155,000)	(155,000)
Student Loans Receivable, Net	\$ 7,262,341	\$ 8,354,379

Funds advanced by the Federal government of \$4,512,205 and \$4,534,626 at June 30, 2017 and 2016, respectively, are ultimately refundable to the government and are classified as liabilities on the balance sheets.

**CARLETON COLLEGE
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017 AND 2016**

NOTE 8 CREDIT QUALITY OF STUDENT NOTES RECEIVABLE (CONTINUED)

At June 30, 2017 and 2016, the past due and current amounts under student loan programs were as follows:

	<u>2017</u>	<u>2016</u>
Current Loan Receivables	\$ 6,978,854	\$ 7,864,559
Past Due Loan Receivables:		
0-240 Days Past Due	301,870	480,443
240 Days - 2 Years Past Due	22,058	17,667
2-5 Years Past Due	14,156	100,216
5+ Years Past Due	100,403	46,494
Total Past Due	<u>438,487</u>	<u>644,820</u>
Total Student Loan Receivables, Gross	<u>\$ 7,417,341</u>	<u>\$ 8,509,379</u>

As of June 30, 2017 and 2016, the Perkins Cohort Default rate was .83% and 1.78%, respectively.

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 academic buildings and other infrastructure improvements. As of June 30, 2017 and 2016, the remaining commitment on these contracts totaled \$17,981,704 and \$38,132,969, respectively.

NOTE 10 SELF-INSURED MEDICAL BENEFITS AND WORKERS' COMPENSATION

The College provides medical benefits through a self-insured plan, which is available to all employees of the College who meet eligibility requirements for medical benefits. Accrued expenses include an incurred but not reported reserve of \$1,025,000 as of June 30, 2017, an estimate of amounts due and payable on existing claims for which the College is self-insured and which are expected to be settled currently. For the plan year ended December 31, 2017, the College is self-insured with an aggregate stop loss of \$9,185,860. As of June 30, 2017, the College had unrestricted net assets of \$821,552 designated for health insurance benefits, which consist of the cumulative amount of College and employee contributions toward health premiums have exceeded expenses over the life of the plan.

**CARLETON COLLEGE
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017 AND 2016**

**NOTE 10 SELF-INSURED MEDICAL BENEFITS AND WORKERS' COMPENSATION
(CONTINUED)**

The College is self-insured for workers' compensation. As of June 30, 2017 and 2016, the College has recorded a liability of \$50,000 and \$125,000, respectively, for claims incurred but not yet reported. The Workers' Compensation Reinsurance Association (WCRA) provides stop-loss coverage for aggregate claims in excess of \$450,000. The College has established a workers' compensation reserve as required by WCRA, which is included in Investments on the balance sheets, of \$1,010,515 and \$1,005,025 as of June 30, 2017 and 2016, respectively.

NOTE 11 EXPENSES BY NATURAL CLASSIFICATION

The expenses reported by function on the statements of activities and changes in net assets are summarized by natural classification as follows:

	<u>2017</u>	<u>2016</u>
Salaries and Wages	\$ 57,439,817	\$ 55,410,592
Employee Benefits	19,786,433	19,778,016
Student Employment	3,981,714	3,869,434
Professional Services	5,577,860	4,742,395
Supplies	4,269,819	4,405,212
Equipment	2,250,410	1,981,767
Building Maintenance	4,472,493	4,696,120
Utilities	2,411,888	2,211,688
Interest Expense	3,388,052	2,693,156
Depreciation	10,798,461	10,861,109
Food Service	7,615,353	7,269,174
Travel	8,467,920	7,831,609
Other	7,629,204	7,865,306
Total	<u>\$ 138,089,424</u>	<u>\$ 133,615,578</u>

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

CARLETON COLLEGE
EXPANDED BALANCE SHEET
JUNE 30, 2017
(WITH SUMMARIZED TOTALS AS OF JUNE 30, 2016)
(SEE INDEPENDENT AUDITORS' REPORT)

ASSETS	General Operations	Physical Capital	Financial Capital	2017 Totals	2016 Totals
Cash and Cash Equivalents	\$ (18,581,979)	\$ 61,265,431	\$ (15,573,626)	\$ 27,109,826	\$ 29,038,528
Receivables, Net:					
Contributions	2,954,009	11,879,973	9,139,867	23,973,849	14,638,536
Government	513,055	-	-	513,055	623,399
Other	1,565,055	-	-	1,565,055	1,603,454
Inventories and Prepaid Expenses	3,232,749	-	-	3,232,749	1,704,896
Loans to Students	-	-	7,262,341	7,262,341	8,354,379
Deposits with Bond Trustee	-	54,525,462	-	54,525,462	414,184
Trusts Held by Others	-	-	12,825,913	12,825,913	10,709,623
Investments	56,376,472	-	921,017,531	977,394,003	877,939,816
Property, Plant and Equipment, Net of Depreciation	-	229,261,602	-	229,261,602	197,292,961
Total Assets	\$ 46,059,361	\$ 356,932,468	\$ 934,672,026	\$ 1,337,663,855	\$ 1,142,319,776
LIABILITIES AND NET ASSETS					
LIABILITIES					
Accounts Payable	\$ 1,917,717	\$ 4,429,929	\$ -	\$ 6,347,646	\$ 5,094,156
Accrued Expenses	8,233,877	442,715	1,025,000	9,701,592	10,613,190
Deferred Income and Deposits	5,421,008	-	-	5,421,008	5,228,516
Annuities Payable	-	-	21,128,437	21,128,437	21,953,884
Asset Retirement Obligation	-	1,731,368	-	1,731,368	1,139,803
Fair Value of Interest Rate SWAP	-	482,797	-	482,797	961,270
Bonds Payable, Net	-	150,446,229	-	150,446,229	82,393,033
Refundable Government Grants for Student Loans	-	-	4,512,205	4,512,205	4,534,626
Total Liabilities	15,572,602	157,533,038	26,665,642	199,771,282	131,918,478
NET ASSETS					
Unrestricted:					
Operations	7,656,551	-	27,508,685	35,165,236	34,044,818
Student Loan Funds	-	-	4,309,675	4,309,675	4,271,776
Net Investment in Plant	-	163,284,637	-	163,284,637	154,069,439
Funds Functioning as Endowment	-	-	283,090,758	283,090,758	243,906,681
Total Unrestricted Net Assets	7,656,551	163,284,637	314,909,118	485,850,306	436,292,714
Temporarily Restricted:					
Operations	22,830,208	-	-	22,830,208	22,061,186
Plant Funds	-	36,114,793	-	36,114,793	21,765,801
Funds Functioning as Endowments	-	-	337,666,975	337,666,975	298,020,320
Split Interest Funds	-	-	27,290,382	27,290,382	23,834,904
Total Temporarily Restricted Net Assets	22,830,208	36,114,793	364,957,357	423,902,358	365,682,211
Permanently Restricted:					
True Endowments	-	-	216,550,279	216,550,279	197,695,546
Split Interest Funds	-	-	11,589,630	11,589,630	10,730,827
Total Permanently Restricted Net Assets	-	-	228,139,909	228,139,909	208,426,373
Total Net Assets	30,486,759	199,399,430	908,006,384	1,137,892,573	1,010,401,298
Total Liabilities and Net Assets	\$ 46,059,361	\$ 356,932,468	\$ 934,672,026	\$ 1,337,663,855	\$ 1,142,319,776

CARLETON COLLEGE
EXPANDED STATEMENT OF ACTIVITIES AND CHANGE IN NET ASSETS
YEAR ENDED JUNE 30, 2017
(SEE INDEPENDENT AUDITORS' REPORT)

	General Operations		Physical Capital		Financial Capital			2017 Totals
	Unrestricted	Temporarily Restricted	Unrestricted	Temporarily Restricted	Unrestricted	Temporarily Restricted	Permanently Restricted	
REVENUES AND OTHER ADDITIONS								
Tuition and Fees	\$ 103,630,553	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 103,630,553
Room and Board	22,463,640	-	-	-	-	-	-	22,463,640
Scholarships	(40,390,536)	-	-	-	-	-	-	(40,390,536)
Net Student Fees	85,703,657	-	-	-	-	-	-	85,703,657
Private Gifts and Pledges	8,484,960	9,533,930	181,100	14,656,608	1,640,309	2,138,600	18,611,018	55,246,525
Government Reimbursements	622,371	4,125,822	-	-	-	-	-	4,748,193
Interest and Dividends (Net Fees)	1,087,719	316	1,566	-	(244,842)	1,055,634	-	1,900,393
Net Realized Gain (Loss)	(344,273)	47,205	(157,114)	-	9,117,501	17,094,496	-	25,757,815
Net Unrealized Gain (Loss)	(382,854)	-	-	-	32,590,397	56,531,583	-	88,739,326
Unrealized Gain on Interest Rate SWAP	-	-	478,473	-	-	-	-	478,473
Net Change in Annuity and Life Income Funds	-	-	-	-	-	(3,311,942)	858,803	(2,453,139)
Bookstore, Rents and Other	4,284,808	855,121	319,527	-	-	-	-	5,459,456
Subtotal Revenue	99,456,588	14,562,394	823,552	14,656,608	43,103,365	73,508,371	19,469,821	265,580,699
Fund Transfers	(16,568,066)	(7,356,685)	16,590,960	15,000	11,709,362	(4,634,286)	243,715	-
Investment Return Allocation		37,094,050	-	-	(11,322,098)	(25,771,952)	-	-
Net Assets Released from Restrictions	43,512,703	(43,530,737)	322,636	(322,616)	18,014	-	-	-
Total Revenues and Other Additions	126,401,225	769,022	17,737,148	14,348,992	43,508,643	43,102,133	19,713,536	265,580,699
EXPENSES								
Instruction	47,375,984	-	12,568,391	-	-	-	-	59,944,375
Research	4,192,307	-	-	-	-	-	-	4,192,307
Academic Support:								
Library	5,360,920	-	973,313	-	-	-	-	6,334,233
Other	11,699,852	-	1,261,819	-	-	-	-	12,961,671
Student Services	14,146,020	-	2,546,512	-	-	-	-	16,692,532
Institutional Support:								
Administration	5,877,076	-	512,565	-	-	-	-	6,389,641
External Relations	4,056,961	-	33,706	-	-	-	-	4,090,667
Fund Raising	6,273,636	-	-	-	-	-	-	6,273,636
General	3,546,930	-	41,148	-	-	-	-	3,588,078
Plant Operations	13,046,870	-	(13,046,870)	-	-	-	-	-
Auxiliary Enterprises	9,006,148	-	8,616,136	-	-	-	-	17,622,284
	124,582,704	-	13,506,720	-	-	-	-	138,089,424
CHANGE IN OPERATING NET ASSETS	1,818,521	769,022	4,230,428	14,348,992	43,508,643	43,102,133	19,713,536	127,491,275
Prior Year Operating Surplus Transfer	(5,715,000)	-	4,984,770	-	730,230	-	-	-
CHANGE IN NET ASSETS	(3,896,479)	769,022	9,215,198	14,348,992	44,238,873	43,102,133	19,713,536	127,491,275
Net Assets - Beginning of Year	11,553,030	22,061,186	154,069,439	21,765,801	270,670,245	321,855,224	208,426,373	1,010,401,298
NET ASSETS - END OF YEAR	<u>\$ 7,656,551</u>	<u>\$ 22,830,208</u>	<u>\$ 163,284,637</u>	<u>\$ 36,114,793</u>	<u>\$ 314,909,118</u>	<u>\$ 364,957,357</u>	<u>\$ 228,139,909</u>	<u>\$ 1,137,892,573</u>

CARLETON COLLEGE
EXPANDED STATEMENT OF ACTIVITIES AND CHANGE IN NET ASSETS
YEAR ENDED JUNE 30, 2016
(SEE INDEPENDENT AUDITORS' REPORT)

	General Operations		Physical Capital		Financial Capital			2016 Totals
	Unrestricted	Temporarily Restricted	Unrestricted	Temporarily Restricted	Unrestricted	Temporarily Restricted	Permanently Restricted	
REVENUES AND OTHER ADDITIONS								
Tuition and Fees	\$ 98,440,111	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 98,440,111
Room and Board	21,165,735	-	-	-	-	-	-	21,165,735
Scholarships	(36,927,917)	-	-	-	-	-	-	(36,927,917)
Net Student Fees	82,677,929	-	-	-	-	-	-	82,677,929
Private Gifts and Pledges	8,636,150	5,970,193	109,000	15,933,795	1,083,782	87,855	4,372,790	36,193,565
Government Reimbursements	615,280	3,783,312	-	-	-	-	-	4,398,592
Interest and Dividends (Net Fees)	779,521	4,264	-	-	(442,353)	(43,352)	-	298,080
Net Realized Gain (Loss)	(137,822)	-	(316,105)	-	13,994,369	27,531,248	-	41,071,690
Net Unrealized Gain (Loss)	294,419	-	-	-	(19,495,427)	(38,576,451)	-	(57,777,459)
Unrealized Gain on Interest Rate SWAP	-	-	236,420	-	-	-	-	236,420
Net Change in Annuity and Life Income Funds	-	-	-	-	-	536,416	(985,512)	(449,096)
Bookstore, Rents and Other	4,424,732	744,760	130,341	-	-	-	-	5,299,833
Subtotal Revenue	97,290,209	10,502,529	159,656	15,933,795	(4,859,629)	(10,464,284)	3,387,278	111,949,554
Fund Transfers	(16,841,750)	(9,676,884)	15,547,755	6,800,413	(1,134,354)	2,579,343	2,725,477	-
Investment Return Allocation	-	36,273,809	-	-	(11,204,595)	(25,069,214)	-	-
Net Assets Released from Restrictions	43,106,583	(43,074,092)	1,476,024	(1,526,084)	17,569	-	-	-
Total Revenues and Other Additions	123,555,042	(5,974,638)	17,183,435	21,208,124	(17,181,009)	(32,954,155)	6,112,755	111,949,554
EXPENSES								
Instruction	45,906,405	-	11,397,772	-	-	-	-	57,304,177
Research	3,868,598	-	-	-	-	-	-	3,868,598
Academic Support:								
Library	5,280,414	-	1,028,217	-	-	-	-	6,308,631
Other	11,225,283	-	1,184,871	-	-	-	-	12,410,154
Student Services	13,418,818	-	2,588,305	-	-	-	-	16,007,123
Institutional Support:								
Administration	6,171,579	-	587,297	-	-	-	-	6,758,876
External Relations	4,099,669	-	29,891	-	-	-	-	4,129,560
Fund Raising	5,524,262	-	-	-	-	-	-	5,524,262
General	3,791,461	-	54,755	-	-	-	-	3,846,216
Plant Operations	13,244,738	-	(13,244,738)	-	-	-	-	-
Auxiliary Enterprises	8,835,020	-	8,622,961	-	-	-	-	17,457,981
Total Expenses	121,366,247	-	12,249,331	-	-	-	-	133,615,578
CHANGE IN NET OPERATING ASSETS	2,188,795	(5,974,638)	4,934,104	21,208,124	(17,181,009)	(32,954,155)	6,112,755	(21,666,024)
Prior Year Operating Surplus Transfer	(8,324,000)	-	6,124,000	-	2,200,000	-	-	-
Change In Net Assets	(6,135,205)	(5,974,638)	11,058,104	21,208,124	(14,981,009)	(32,954,155)	6,112,755	(21,666,024)
Net Assets - Beginning of Year	17,688,235	28,035,824	143,011,335	557,677	285,651,254	354,809,379	202,313,618	1,032,067,322
NET ASSETS - END OF YEAR	<u>\$ 11,553,030</u>	<u>\$ 22,061,186</u>	<u>\$ 154,069,439</u>	<u>\$ 21,765,801</u>	<u>\$ 270,670,245</u>	<u>\$ 321,855,224</u>	<u>\$ 208,426,373</u>	<u>\$ 1,010,401,298</u>