

CARLETON COLLEGE
FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2020 AND 2019

**CARLETON COLLEGE
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YEARS ENDED JUNE 30, 2020 AND 2019**

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INDEPENDENT AUDITORS' REPORT

Board of Trustees
Carleton College
Northfield, Minnesota

We have audited the accompanying financial statements of Carleton College, which comprise the balance sheets as of June 30, 2020 and 2019, and the related statements of activities and change in net assets and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Board of Trustees
Carleton College

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Carleton College as of June 30, 2020 and 2019, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

CliftonLarsonAllen LLP

CliftonLarsonAllen LLP

Minneapolis, Minnesota
September 23, 2020

**CARLETON COLLEGE
BALANCE SHEETS
JUNE 30, 2020 AND 2019**

	2020	2019
ASSETS		
Cash and Cash Equivalents	\$ 15,810,908	\$ 19,075,545
Receivables, Net:		
Contributions	17,581,350	23,832,652
Government	547,610	573,951
Other	1,627,111	1,648,309
Inventories and Prepaid Expenses	2,181,704	3,082,987
Loans to Students	3,880,582	4,956,665
Trusts Held by Others	12,661,664	13,628,939
Investments	1,022,196,052	1,056,174,381
Property, Plant, and Equipment, Net of Depreciation	337,773,179	314,226,628
Total Assets	\$ 1,414,260,160	\$ 1,437,200,057
LIABILITIES AND NET ASSETS		
LIABILITIES		
Accounts Payable	\$ 7,546,152	\$ 8,519,645
Accrued Expenses	12,314,127	11,438,781
Deferred Income and Deposits	6,616,978	4,594,208
Obligations Under Split Interest Agreements	20,093,355	20,765,853
Asset Retirement Obligation	3,115,702	2,227,509
Fair Value of Interest Rate Swap	-	134,718
Bonds Payable, Net	128,569,517	138,619,834
Refundable Government Grants for Student Loans	2,206,259	3,592,920
Total Liabilities	180,462,090	189,893,468
NET ASSETS		
Without Donor Restriction:		
Operations	34,570,201	36,094,557
Student Loan Funds	3,326,667	3,778,154
Net Investment in Plant	246,987,731	200,554,966
Funds Functioning as Endowment	311,619,007	315,804,921
Total Without Donor Restriction	596,503,606	556,232,598
With Donor Restriction:		
Operations	28,197,404	23,176,216
Student Loan Funds	354,027	347,860
Physical Plant Acquisitions	6,335,278	37,188,603
Endowment	565,657,217	591,471,132
Split-Interest Agreements	36,750,538	38,890,180
Total With Donor Restriction	637,294,464	691,073,991
Total Net Assets	1,233,798,070	1,247,306,589
Total Liabilities and Net Assets	\$ 1,414,260,160	\$ 1,437,200,057

See accompanying Notes to Financial Statements.

CARLETON COLLEGE
STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS
YEARS ENDED JUNE 30, 2020 AND 2019

	2020			2019		
	Without Donor Restriction	With Donor Restriction	Total	Without Donor Restriction	With Donor Restriction	Total
OPERATING REVENUES AND OTHER ADDITIONS						
Net Student Fees	\$ 86,130,923	\$ -	\$ 86,130,923	\$ 91,169,706	\$ -	\$ 91,169,706
Private Gifts and Pledges	9,518,899	5,621,128	15,140,027	9,366,228	399,969	9,766,197
Government Grants and Contracts	624,469	4,789,715	5,414,184	618,009	4,207,107	4,825,116
Net Investment Return	3,089,331	94,669	3,184,000	2,987,895	93,492	3,081,387
Bookstore, Rents, and Other	2,351,615	964,804	3,316,419	3,529,911	920,449	4,450,360
Subtotal Revenue	101,715,237	11,470,316	113,185,553	107,671,749	5,621,017	113,292,766
Investment Return Allocation	-	42,814,101	42,814,101	-	40,805,353	40,805,353
Net Assets Released from Restrictions	48,557,669	(48,557,669)	-	47,122,464	(47,122,464)	-
Total Revenues and Other Additions	150,272,906	5,726,748	155,999,654	154,794,213	(696,094)	154,098,119
OPERATING EXPENSES						
Program:						
Instruction	66,431,510	-	66,431,510	63,877,656	-	63,877,656
Research	4,670,355	-	4,670,355	3,823,487	-	3,823,487
Academic Support	21,605,206	-	21,605,206	21,472,227	-	21,472,227
Student Services	16,631,271	-	16,631,271	16,997,052	-	16,997,052
Auxiliary Enterprises	15,240,051	-	15,240,051	18,395,649	-	18,395,649
Total Program Expenses	124,578,393	-	124,578,393	124,566,071	-	124,566,071
Institutional Support:						
Management and General	13,299,955	-	13,299,955	13,851,881	-	13,851,881
Fundraising	6,528,865	-	6,528,865	6,545,891	-	6,545,891
Total Institutional Support Expenses	19,828,820	-	19,828,820	20,397,772	-	20,397,772
Total Expenses	144,407,213	-	144,407,213	144,963,843	-	144,963,843
CHANGE IN NET ASSETS FROM OPERATING ACTIVITY	5,865,693	5,726,748	11,592,441	9,830,370	(696,094)	9,134,276
NONOPERATING ACTIVITY						
Private Gifts and Pledges	4,090,507	27,071,250	31,161,757	2,503,883	28,689,292	31,193,175
Net Investment Return	2,760,301	2,204,220	4,964,521	2,232,891	1,656,986	3,889,877
Net Realized Gain	13,966,832	24,698,010	38,664,842	14,008,403	24,235,252	38,243,655
Net Unrealized Loss	(18,606,976)	(34,958,573)	(53,565,549)	(4,404,745)	(6,855,386)	(11,260,131)
Realized Loss on Disposal	(2,865,734)	-	(2,865,734)	(79,229)	-	(79,229)
Unrealized Gain on Interest Rate SWAP	134,718	-	134,718	65,984	-	65,984
Net Change in Value of Split-interest Agreements	-	(918,625)	(918,625)	-	(1,791,882)	(1,791,882)
Insurance Recoveries and Other Nonoperating Income	137,211	-	137,211	1,241,879	-	1,241,879
Investment Return Allocation	(10,169,080)	(32,645,021)	(42,814,101)	(9,809,258)	(30,996,095)	(40,805,353)
Net Assets Released from Restrictions	44,957,536	(44,957,536)	-	4,373,001	(4,373,001)	-
Total Nonoperating Activity	34,405,315	(59,506,275)	(25,100,960)	10,132,809	10,565,166	20,697,975
CHANGE IN NET ASSETS	40,271,008	(53,779,527)	(13,508,519)	19,963,179	9,869,072	29,832,251
Net Assets - Beginning of Year	556,232,598	691,073,991	1,247,306,589	536,269,419	681,204,919	1,217,474,338
NET ASSETS - END OF YEAR	<u>\$ 596,503,606</u>	<u>\$ 637,294,464</u>	<u>\$ 1,233,798,070</u>	<u>\$ 556,232,598</u>	<u>\$ 691,073,991</u>	<u>\$ 1,247,306,589</u>

See accompanying Notes to Financial Statements.

**CARLETON COLLEGE
STATEMENTS OF CASH FLOWS
YEARS ENDED JUNE 30, 2020 AND 2019**

	2020	2019
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in Net Assets	\$ (13,508,519)	\$ 29,832,251
Adjustments to Reconcile Change in Net Assets to Net Cash Used by Operating Activities:		
Depreciation, Amortization, and Accretion	12,323,936	11,245,675
Net Realized and Unrealized Gain	14,900,707	(28,093,845)
Contributions for Long-Term Investments	(31,161,757)	(31,193,175)
Change in Value of Split-interest Agreements	1,847,332	2,193,153
Change in Value of Trusts Held by Others	967,275	367,058
Change in Value of Interest Rate SWAP	(134,718)	(65,984)
Loss on Disposal of Property, Plant, and Equipment	2,865,734	79,229
Noncash Donations of Property, Plant, and Equipment	100,000	1,137,985
Change in Unamortized Bond Origination Costs and Discount	(360,317)	(457,658)
Change in Asset Retirement Obligation	(99,807)	(153,158)
Effect of Changes in Operating Assets and Liabilities:		
Receivable, Net - Contributions	(577,793)	3,429,787
Receivable, Net - Government	26,341	(15,018)
Receivable, Net - Other	21,198	1,856,615
Inventories and Prepaid Expenses	901,283	(1,473,187)
Loans to Students	1,076,083	1,296,470
Accounts Payable	(973,493)	351,341
Accrued Expenses	875,346	151,025
Deferred Income and Deposits	2,022,770	366,870
Refundable Government Grants for Student Loans	(1,386,661)	64,661
Net Cash Used by Operating Activities	(10,275,060)	(9,079,905)
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of Investments	(60,116,051)	(45,455,211)
Proceeds from Sale of Investments	79,193,673	62,476,353
Proceeds from Disposals of Property, Plant, and Equipment	56,025	105,250
Acquisition of Property, Plant, and Equipment	(37,904,246)	(65,621,310)
Net Cash Used by Investing Activities	(18,770,599)	(48,494,918)
CASH FLOWS FROM FINANCING ACTIVITIES		
Changes in Deposits with Bond Trustee	-	35,477,872
Contributions for Long-Term Investments	37,990,852	31,357,094
Payments to Annuitants	(2,519,830)	(2,481,877)
Principal Payments	(9,690,000)	(5,260,000)
Net Cash Provided by Financing Activities	25,781,022	59,093,089
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(3,264,637)	1,518,266
Cash and Cash Equivalent - Beginning of Year	19,075,545	17,557,279
CASH AND CASH EQUIVALENTS - END OF YEAR	\$ 15,810,908	\$ 19,075,545

See accompanying Notes to Financial Statements.

**CARLETON COLLEGE
STATEMENTS OF CASH FLOWS (CONTINUED)
YEARS ENDED JUNE 30, 2020 AND 2019**

SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION	<u>2020</u>	<u>2019</u>
Interest Paid (Net of Capitalized Interest of \$1,932,730 and \$1,979,350 respectively)	<u>\$ 991,883</u>	<u>\$ 3,727,871</u>
Property, Plant, and Equipment in Accounts Payable	<u>\$ 4,886,253</u>	<u>\$ 6,692,146</u>

See accompanying Notes to Financial Statements.

CARLETON COLLEGE
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020 AND 2019

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization

Founded in 1866, Carleton College (the College) is a private, coeducational, residential liberal arts college, located in the historic river town of Northfield, Minnesota. The College attracts a diverse student body and a distinguished faculty whose priority is teaching with a commitment to the liberal arts. The College is a national college enrolling approximately 2,000 students drawn from all 50 states and 35 different countries. The College offers a four-year baccalaureate degree, with 33 majors and 37 minors in the arts, humanities, natural sciences, mathematics, and social sciences, preparing graduates for leadership positions in their communities, countries, and the world.

Basis of Presentation

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

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

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

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

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

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

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

CARLETON COLLEGE
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020 AND 2019

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Basis of Presentation (Continued)

A portion of the College's revenue is derived from cost reimbursable federal and state contracts and grants, which are conditioned upon certain performance requirements and/ or the incurrence of allowable qualifying expenses. Amounts received are recognized as revenue when the College has incurred expenditures in compliance with specific contract or grant provisions. Amounts received prior to incurring qualifying expenditures are reported as refundable advances in the statement of financial position. The College received cost reimbursable grants of \$1,877,867 that have not been recognized at June 30, 2020 because qualifying expenditures have not yet been incurred.

Cash and Cash Equivalents

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

Contributions Receivable

Contributions receivable, including unconditional promises to give, are recognized as revenues in the period received. Conditional promises to give are not recognized until they become unconditional, that is, when the conditions on which they depend are substantially met. Contributions of assets other than cash are recorded at their estimated fair value. Contributions to be received after one year are discounted at an appropriate discount rate commensurate with the risks involved. Amortization of discounts is recorded as additional contribution revenue in accordance with donor-imposed restrictions, if any, on the contributions. Contributions receivable are discounted using U.S. Treasury rates applicable to the year of inception and payment schedule, rates range from .11% to 2.84%, depending on the year of inception. An allowance for uncollectible contributions receivable is provided based upon management's judgment including such factors as prior collection history, type of contribution and nature of fundraising activity. For the years ended June 30, 2020 and 2019, the College had an allowance of \$200,000. The allowance is evaluated annually.

Other Receivables and Loans to Students

Receivables are stated at net realizable value. Based on management's experience and analysis of individual accounts past due, the allowance for uncollectible accounts was \$30,000 for the years ended June 30, 2020 and 2019. The allowance is evaluated annually.

Inventories

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

Deposits with Bond Trustee

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

**CARLETON COLLEGE
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020 AND 2019**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Fair Value Measurements

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

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

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

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

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

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

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

Property, Plant, and Equipment

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

		Original Cost 2020
Land	No Depreciation	\$ 3,785,214
Land Improvements	30 Years	1,111,506
Buildings and Building Improvements	20 - 40 Years	391,596,963
Library Books	10 Years	31,777,998
Equipment and Vehicles	3 - 5 Years	58,489,894
Construction in Progress	No Depreciation	38,278,603
Total Original Cost		<u>\$ 525,040,178</u>

**CARLETON COLLEGE
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020 AND 2019**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

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, 2020 and 2019 were \$3,115,702 and \$2,227,509 respectively.

Refundable Government Grants for Student Loans

Funds provided by the United States Government under the Federal Perkins Loan program were loaned to qualified students. Termination of the Federal Perkins Loan Program, requires these funds to be refunded to the government.

Endowment

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

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

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

**CARLETON COLLEGE
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020 AND 2019**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Split-Interest Agreements

The College records three types of split-interest agreements.

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

When the College does not serve as trustee for an irrevocable charitable remainder trust, the College records its beneficial interest in those assets as contribution revenue and funds held in trust by others at the present value of the expected future cash inflows. Such trusts are recorded at the date the College has been notified of the trust's existence and sufficient information regarding the trust has been accumulated to form the basis for a valuation.

Changes in the value of these assets related to the amortization of the discount or revisions in the income beneficiary's life expectancy are recorded as gains or losses with donor restriction. The value of the College's interest in these trusts is included in "Trusts Held by Others" on the balance sheets.

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

Advertising Expense

Advertising expense is expensed as incurred. Advertising expense for the years ended June 30, 2020 and 2019 was \$59,164 and \$95,650, respectively.

Revenue Recognition

Net Student Fee Revenue consisting of tuition, room and board revenue is recognized in the reporting period in which the academic programs are delivered. Programs are delivered in three 10 week terms, Fall (September – November), Winter (January – mid March) and Spring (mid March – mid June). Need-based institutional scholarships are awarded to students to defray the costs of the academic programs, which reduce the amount of revenue recognized. Payments for tuition are due approximately one month prior to the start of classes each term.

CARLETON COLLEGE
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020 AND 2019

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Revenue Recognition (Continued)

In March 2020, Carleton transitioned most students to remote learning during the COVID-19 global pandemic. For students studying remotely, Carleton credited each student account with Spring term room and board charges without modification of financial aid award. These credits are included in Net Student Fee Revenue and amounted to \$7,759,991.

Revenue from Summer Academic Programs, Summer Off-Campus study programs, Fall Global Engagement programs and Tuition Paid in Advance of the next academic year are recognized in the reporting period in which the academic program is delivered. Billing for these programs occurs during registration and revenue is recorded as deferred income until the programs are delivered.

First-year students secure their enrollment by paying a continuing enrollment deposit by May 1 for the following Fall academic term. Deposits are recorded as deferred income until the student graduates, at which time it is refunded to the student. Students who withdraw from the college forfeit their enrollment deposit.

Private Gifts and Pledges are reported as revenues in the period received or pledged at their net realizable value.

Government Grants and Contracts are generally subject to restrictions and are recognized as revenue when the College incurs qualifying expenditures eligible for reimbursements. The expenditure typically results in the release of restrictions imposed by the grant. Indirect cost recovery by the College on U.S. government grants is based on.

Bookstore, Rents and Other exchange contract revenue is recognized as services are rendered or commissions earned.

Measure of Operations

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

The measure of operations includes support for operating activities without donor restriction.

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

CARLETON COLLEGE
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020 AND 2019

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.

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, 2020.

Reclassifications

Certain amounts appearing in the 2019 financial statements have been reclassified to conform with the 2020 presentation. The reclassifications have no effect on reported amounts of total net assets or change in total net assets.

Change in Accounting Principle

The College adopted FASB ASU 2016-12, *Leases* in 2020. Leases are used infrequently to support operations and the implementation of the standard was determined to be immaterial, no assets or liabilities associated with leases have been recorded in the financial statements. Leases will continue to be evaluated on an annual basis and recorded according to the guidance provided in the standard should their use become material.

Risk and Uncertainties

In March 2020, the World Health Organization declared the spread of Coronavirus Disease (COVID-19) a worldwide pandemic. The COVID-19 pandemic is having significant effects on global markets, supply chains, businesses, and communities. Specific to Carleton College, COVID-19 may impact various parts of its 2020 operations and financial results, including, but not limited to, declines in enrollment, loss of auxiliary revenues, additional bad debts, costs for increased use of technology, or potential shortages of personnel. Management believes Carleton College is taking appropriate actions to mitigate the negative impact. However, the full impact of COVID-19 is unknown and cannot be reasonably estimated as these events are still developing subsequent to fiscal year-end.

Subsequent Events

In preparing these financial statements, the College has evaluated events and transactions for potential recognition or disclosure through September 23, 2020, the date the financial statements were available to be issued.

CARLETON COLLEGE
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020 AND 2019

NOTE 2 INVESTMENTS AND FINANCIAL INSTRUMENTS MEASURED AT FAIR VALUE

Basis of Accounting

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

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

Fair Value

As defined in Note 1, 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. NAV is used as a practical expedient to estimate the fair value of the College's interest, 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, 2020, 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 variables such as operating results, comparable earnings multiples, projected cash flows, recent sale prices, and other pertinent information.

CARLETON COLLEGE
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020 AND 2019

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

Fair Value (Continued)

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

	2020				
	NAV Practical Expedient	Level 1	Level 2	Level 3	Total
Investments:					
Cash and Cash Equivalents	\$ -	\$ 89,751,745	\$ -	\$ -	\$ 89,751,745
Fixed Income	-	59,848,321	-	-	59,848,321
Public Equities	153,513,906	157,512,800	-	-	311,026,706
Private Equity	152,933,674	-	-	-	152,933,674
Hedge Funds	236,226,562	-	-	-	236,226,562
Real Estate and Other Real Assets	114,849,754	-	-	760,313	115,610,067
Planned Gift Agreements and Other	-	1,468,833	55,330,144	-	56,798,977
Total Investments	657,523,896	308,581,699	55,330,144	760,313	1,022,196,052
Trusts Held by Others	-	-	-	12,661,664	12,661,664
Total	<u>\$ 657,523,896</u>	<u>\$ 308,581,699</u>	<u>\$ 55,330,144</u>	<u>\$ 13,421,977</u>	<u>\$ 1,034,857,716</u>

	2019				
	NAV Practical Expedient	Level 1	Level 2	Level 3	Total
Investments:					
Cash and Cash Equivalents	\$ -	\$ 150,366,609	\$ -	\$ -	\$ 150,366,609
Fixed Income	-	62,003,782	-	-	62,003,782
Public Equities	139,151,743	140,665,139	-	-	279,816,882
Private Equity	151,141,739	-	-	-	151,141,739
Hedge Funds	225,884,994	-	-	-	225,884,994
Real Estate and Other Real Assets	126,086,499	-	-	750,000	126,836,499
Planned Gift Agreements and Other	466,155	1,754,032	57,903,689	-	60,123,876
Total Investments	642,731,130	354,789,562	57,903,689	750,000	1,056,174,381
Trusts Held by Others	-	-	-	13,628,939	13,628,939
Total	<u>\$ 642,731,130</u>	<u>\$ 354,789,562</u>	<u>\$ 57,903,689</u>	<u>\$ 14,378,939</u>	<u>\$ 1,069,803,320</u>

Carleton terminated the Interest Rate Swap liability on March 17, 2020. Liabilities measured at fair value on a recurring basis as of June 30:

	2020			
	Level 1	Level 2	Level 3	Total
Interest Rate Swap	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

	2019			
	Level 1	Level 2	Level 3	Total
Interest Rate Swap	<u>\$ -</u>	<u>\$ 134,718</u>	<u>\$ -</u>	<u>\$ 134,718</u>

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

**CARLETON COLLEGE
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020 AND 2019**

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

Fair Value (Continued)

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

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

Level 3 assets are as follows:

	Real Estate and Other Real Assets	Trusts Held by Others	Total Investments
Balance as of June 30, 2019	\$ 750,000	\$ 13,628,939	\$ 14,378,939
Realized Gain	-	69,348	69,348
Unrealized Gain	-	(707,730)	(707,730)
Investment Income	10,313	228,413	238,726
New Investments and Capital Calls	-	-	-
Redemptions	-	(557,306)	(557,306)
Balance as of June 30, 2020	<u>\$ 760,313</u>	<u>\$ 12,661,664</u>	<u>\$ 13,421,977</u>

	Real Estate and Other Real Assets	Trusts Held by Others	Total Investments
Balance as of June 30, 2018	\$ 750,000	\$ 13,995,997	\$ 14,745,997
Realized Gain	-	134,667	134,667
Unrealized Gain	-	341,899	341,899
Investment Income	-	207,602	207,602
New Investments and Capital Calls	-	1,721,136	1,721,136
Redemptions	-	(2,772,362)	(2,772,362)
Balance as of June 30, 2019	<u>\$ 750,000</u>	<u>\$ 13,628,939</u>	<u>\$ 14,378,939</u>

Liquidity

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

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

**CARLETON COLLEGE
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020 AND 2019**

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

Liquidity (Continued)

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

	<u>2020</u>	<u>2019</u>
Cash and Cash Equivalents	\$ 15,810,908	\$ 19,075,545
Contributions for General Expenditures Due in One Year or Less	7,179,311	1,278,683
Grants Receivable	547,610	573,951
Accounts Receivable, Net	1,627,111	1,648,309
Investments	59,848,321	62,033,782
Investment Return Allocation Authorized	44,828,356	42,524,141
Total	<u><u>\$ 129,841,617</u></u>	<u><u>\$ 127,134,411</u></u>

Investment liquidity, as of June 30, 2020 and 2019, is aggregated in the tables below based on redemption or sale period:

<u>Balances as of June 30, 2020</u>	<u>Daily</u>	<u>Monthly</u>	<u>Quarterly</u>	<u>Semi-Annually</u>	<u>Annual</u>	<u>Illiquid</u>	<u>Total</u>
Cash and Cash Equivalents	\$ 89,751,745	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 89,751,745
Fixed Income	59,848,321	-	-	-	-	-	59,848,321
Public Equities	157,515,263	42,659,115	-	18,855,925	40,906,207	51,090,196	311,026,706
Private Equity	-	-	-	-	-	152,933,674	152,933,674
Hedge Funds	-	16,979,616	94,486,152	70,521,369	27,713,376	26,526,049	236,226,562
Real Estate and Other Real Assets	-	-	-	-	-	115,610,067	115,610,067
Planned Gift Agreements and Other	-	-	-	-	-	56,798,977	56,798,977
Total Investments	<u><u>\$ 307,115,329</u></u>	<u><u>\$ 59,638,731</u></u>	<u><u>\$ 94,486,152</u></u>	<u><u>\$ 89,377,294</u></u>	<u><u>\$ 68,619,583</u></u>	<u><u>\$ 402,958,963</u></u>	<u><u>\$ 1,022,196,052</u></u>

<u>Balances as of June 30, 2019</u>	<u>Daily</u>	<u>Monthly</u>	<u>Quarterly</u>	<u>Semi-Annually</u>	<u>Annual</u>	<u>Illiquid</u>	<u>Total</u>
Cash and Cash Equivalents	\$ 150,366,609	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 150,366,609
Fixed Income	62,003,782	-	-	-	-	-	62,003,782
Public Equities	158,107,019	-	-	22,788,651	53,922,072	44,999,140	279,816,882
Private Equity	-	-	-	-	-	151,141,739	151,141,739
Hedge Funds	-	-	63,211,534	87,384,428	32,714,476	42,574,556	225,884,994
Real Estate and Other Real Assets	-	-	-	-	-	126,086,499	126,086,499
Planned Gift Agreements and Other	-	-	-	-	-	60,873,876	60,873,876
Total Investments	<u><u>\$ 370,477,410</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 63,211,534</u></u>	<u><u>\$ 110,173,079</u></u>	<u><u>\$ 86,636,548</u></u>	<u><u>\$ 425,675,810</u></u>	<u><u>\$ 1,056,174,381</u></u>

**CARLETON COLLEGE
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020 AND 2019**

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

Liquidity (Continued)

At June 30, 2020 and 2019, the College had outstanding commitments of \$143,750,562 and \$179,978,932, respectively, to private capital investments that have not yet been drawn down by the general partners of these funds. Typically, committed capital is drawn down and invested over a several year period. In the past, drawdowns on outstanding commitments have been funded by distributions from the private capital portfolio, as well as cash and other liquid investments.

At June 30, 2020 and 2019, the College had \$26,613,532 and \$21,114,606, 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 \$557,648 and \$924,897 as of June 30, 2020 and 2019, respectively. The average interest rate on the mortgages for the years ended June 30, 2020 and 2019 was 5.15%.

NOTE 3 PROPERTY, PLANT, AND EQUIPMENT

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

	<u>2020</u>	<u>2019</u>
Land	\$ 3,785,214	\$ 3,785,214
Land Improvements	1,111,506	843,255
Buildings and Building Improvements	391,596,963	304,995,384
Library Books	31,777,998	32,468,176
Equipment and Vehicles	58,489,894	58,739,353
Construction in Progress:		
Residence Hall Renovations	2,609,681	1,868,709
Academic Building Renovations	381,806	74,049,491
Utility Master Plan	35,051,941	24,272,064
Other	235,175	283,311
Total	<u>525,040,178</u>	<u>501,304,957</u>
Less: Accumulated Depreciation	<u>(187,266,999)</u>	<u>(187,078,329)</u>
Property, Plant, and Equipment, Net	<u>\$ 337,773,179</u>	<u>\$ 314,226,628</u>

**CARLETON COLLEGE
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020 AND 2019**

NOTE 3 PROPERTY, PLANT, AND EQUIPMENT (CONTINUED)

Total depreciation expense as of June 30, 2020 and 2019 was \$12,323,936 and \$11,245,675, respectively.

The College has capitalized collections received of \$100,000 and \$1,137,958 for the years ended June 30, 2020 and 2019, respectively. These collection items are valued at fair market value at the date of donation and are not depreciated.

NOTE 4 BONDS PAYABLE

Bonds payable at June 30, 2020 and 2019 consisted of the following bonds issued by the Minnesota Higher Education Facility Authority (MHEFA) on behalf of the College:

	2020	2019
Revenue Bonds, Series 6D	\$ -	\$ 6,215,000
Revenue Bonds, Series 2017	116,370,000	119,875,000
Bonds Payable	116,370,000	126,090,000
Less: Unamortized Origination Costs	(601,406)	(763,433)
Plus: Unamortized Premium	12,800,923	13,293,267
Bonds Payable, Net	\$ 128,569,517	\$ 138,619,834

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 Bonds were paid in full with an advance prepayment on April 1, 2020. The interest rate on the Bonds, adjusted weekly, ranged from 0.84% to 5.85% during the fiscal year 2020 with an average rate of 1.43%. Proceeds of approximately \$28,000,000 were used to retire the Series 3-L1 and retired identified Series 4-N bonds upon maturity. The remaining proceeds were used to finance new student housing and real estate acquisitions near the College campus for purposes related to the educational mission of the College.

On May 24, 2017, MHEFA issued Series 2017 Fixed Rate Revenue and Refunding Bonds (the Bonds) in the amount of \$124,900,000 for the College. The Bonds include serial maturities in 2018 through 2042, term bonds maturing in 2044 and 2047. The 2044 term bond has mandatory principal redemptions in 2043 – 2044 (final maturity) and the 2047 term bond has mandatory principal redemptions in 2045 – 2047 (final maturity). The Bonds are subject to 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.

**CARLETON COLLEGE
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020 AND 2019**

NOTE 4 BONDS PAYABLE (CONTINUED)

The scheduled maturities of debt in each of the five years subsequent to June 30, 2020 are as follows:

<u>Year Ending June 30,</u>	<u>Amount</u>
2021	\$ 3,645,000
2022	3,830,000
2023	5,440,000
2024	5,705,000
2025	5,985,000
Thereafter	91,765,000
Total	<u>\$ 116,370,000</u>

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

Interest Rate Swaps

On March 31, 2005, the College entered into an interest rate swap agreement with Morgan Stanley Capital Services Inc. The College terminated this agreement on March 17, 2020, at the commercially determined amount of \$110,000. Under the terms of the swap agreement, the College paid a fixed rate of 3.53% and receive a variable rate of 68% of LIBOR. The current notional amount of the agreement, \$3,180,000, declines annually with each principal payment of MHEFA Series 6D variable rate bonds. On June 30, 2019, the fair value of swap agreement liability was \$134,718.

The College terminated the interest rate swap agreement on March 17, 2020. The interest rate swap agreement was recognized as a liability on the balance sheets as measured by its fair value. All Unrealized and Realized Gains and Losses from the interest rate swap agreements are reflected in nonoperating activity on the statement of activities and change in net assets.

Standby Bond Purchase Agreements

The College terminated the standby bond purchase agreement that provided liquidity support for the Series 6D variable rate bonds, on April 1, 2020, at the time the Series 6D bonds were paid in full.

CARLETON COLLEGE
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020 AND 2019

NOTE 5 RESTRICTIONS AND LIMITATION ON NET ASSET BALANCES

Net asset with donor restriction are available for the following purposes as of June 30, 2020:

Donor-Restricted Net Assets not Invested in Perpetuity:	2020	2019
Program Support	\$ 25,193,951	\$ 19,922,806
Advances for Grants and Contracts	3,003,453	3,253,410
Henry Strong Loan Fund	354,027	347,860
Physical Plant Acquisitions	6,335,278	37,188,603
Accumulated Earnings from Endowment Funds subject to Donor Restrictions	296,954,759	336,382,620
Underwater Endowment	(4,968,099)	(1,304,239)
Split-Interest Agreements	24,201,308	27,736,433
Total Donor-Restricted Net Assets not Invested in Perpetuity	351,074,677	423,527,493
Donor-Restricted Net Assets Invested in Perpetuity:		
Endowment	273,670,557	256,392,751
Split-Interest Agreements	12,549,230	11,153,747
Total Donor-Restricted Net Assets Invested in Perpetuity	286,219,787	267,546,498
Total Net Assets with Donor Restrictions	\$ 637,294,464	\$ 691,073,991

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

Release of Restrictions:	2020	2019
Operating:		
Scholarship Support	\$ 11,871,247	\$ 11,595,435
Other Instructional Support	10,683,448	9,984,024
Operating Budget Support	26,002,974	25,543,005
Total Operating Net Assets Released from Restriction	48,557,669	47,122,464
Nonoperating:		
Plant Construction	40,453,080	2,824,384
Change in Underwater Endowment	3,663,860	438,897
Change in Donor Designation	(205,157)	(35,941)
Matured Split Interest Agreements	1,045,753	1,145,661
Total Nonoperating Net Assets Released from Restriction	44,957,536	4,373,001
Total Net Assets Released from Restriction	\$ 93,515,205	\$ 51,495,465

CARLETON COLLEGE
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020 AND 2019

NOTE 6 ENDOWMENTS

The College endowment consists of approximately 738 individual donor restricted endowment funds and 145 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 \$868,895,391 and \$892,352,800 as of June 30, 2020 and 2019, respectively.

The annual endowment spending appropriation is approved by the board of trustees as part of the annual operating budget, in advance of the fiscal year to which it will apply. Endowment spending is defined as a per share dividend to be paid to endowment accounts based upon the number of shares held by each.

The annual spending in any fiscal year is calculated as follows: 70% of the allowable spending in the previous fiscal year, increased by 2%; plus 30% of the long-term spending rate of 4.95% applied to the 12 quarter market value average of the endowment unit value for the period ending June 30 of the year, one year prior to the start of the fiscal year. The allowable spending dividend in a fiscal year is limited to not more than 5.75% or not less than 3.75% of the market value of the endowment unit value for the period ending June 30 of the year, one year prior to the start of the fiscal year.

Endowment net asset composition by type of fund as of June 30, 2020:

	Without Donor- Restriction	With Donor Restriction		Total With Donor Restriction	Total
		Purpose	Perpetual		
Donor-Restricted Endowment Funds	\$ -	\$ 296,361,540	\$ 265,482,943	\$ 561,844,483	\$ 561,844,483
Underwater Endowment Funds	-	(4,968,099)	-	(4,968,099)	(4,968,099)
Board-Designated Endowment Funds	311,819,007	-	-	-	311,819,007
Subtotal Endowment Funds	311,819,007	291,393,441	265,482,943	556,876,384	868,695,391
Contributions Receivable	(200,000)	593,219	8,187,614	8,780,833	8,580,833
Total Endowment Funds	\$ 311,619,007	\$ 291,986,660	\$ 273,670,557	\$ 565,657,217	\$ 877,276,224

CARLETON COLLEGE
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020 AND 2019

NOTE 6 ENDOWMENTS (CONTINUED)

Changes in endowment net assets for the year ended June 30, 2020:

	Without Donor- Restriction	With Donor Restriction		Total With Donor Restriction	Total
		Purpose	Perpetual		
Endowment Fund Balance - June 30, 2019	\$ 315,804,921	\$ 335,078,381	\$ 256,392,751	\$ 591,471,132	\$ 907,276,053
Net Contributions	3,990,507	216,776	16,834,115	17,050,891	21,041,398
Investment Return	(3,276,650)	(6,999,616)		(6,999,616)	(10,276,266)
Appropriations	(10,169,080)	(32,645,021)		(32,645,021)	(42,814,101)
Other Changes:					
Transfers of Matured Deferred Gifts to Endowment Funds	201,839	-	349,864	349,864	551,703
Change in Underwater Endowments	3,663,860	(3,663,860)	-	(3,663,860)	-
Board Designated Quassi Endowment	1,300,000	-	-	-	1,300,000
Donor Directed Gift Modifications	103,610	-	93,827	93,827	197,437
Total Other Changes	5,269,309	(3,663,860)	443,691	(3,220,169)	2,049,140
Endowment Fund Balance - June 30, 2020	\$ 311,619,007	\$ 291,986,660	\$ 273,670,557	\$ 565,657,217	\$ 877,276,224

Endowment net asset composition by type of fund as of June 30, 2019:

	Without Donor- Restriction	With Donor Restriction		Total With Donor Restriction	Total
		Purpose	Perpetual		
Donor-Restricted Endowment Funds	\$ -	\$ 336,006,177	\$ 241,645,941	\$ 577,652,118	\$ 577,652,118
Underwater Endowment Funds	-	(1,304,239)	-	(1,304,239)	(1,304,239)
Board-Designated Endowment Funds	316,004,921	-	-	-	316,004,921
Subtotal Endowment Funds	316,004,921	334,701,938	241,645,941	576,347,879	892,352,800
Contributions Receivable	(200,000)	376,443	14,746,810	15,123,253	14,923,253
Total Endowment Funds	\$ 315,804,921	\$ 335,078,381	\$ 256,392,751	\$ 591,471,132	\$ 907,276,053

CARLETON COLLEGE
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020 AND 2019

NOTE 6 ENDOWMENTS (CONTINUED)

Changes in endowment net assets for the year ended June 30, 2019:

	Without Donor- Restriction	With Donor Restriction		Total With Donor Restriction	Total
		Purpose	Perpetual		
Endowment Fund Balance - June 30, 2018	\$ 302,002,851	\$ 351,199,980	\$ 241,030,672	\$ 592,230,652	\$ 894,233,503
Net Contributions	1,359,845	(374,247)	13,087,944	12,713,697	14,073,542
Investment Return	8,657,408	16,552,982	(438,897)	16,114,085	24,771,493
Appropriations	(9,809,258)	(30,996,095)	-	(30,996,095)	(40,805,353)
Other Changes:					
Transfers of Matured Deferred Gifts to Endowment Funds	13,676,402	-	921,308	921,308	14,597,710
Donor Directed Gift Modifications	(82,327)	(1,304,239)	1,791,724	487,485	405,158
Total Other Changes	13,594,075	(1,304,239)	2,713,032	1,408,793	15,002,868
Endowment Fund Balance - June 30, 2019	\$ 315,804,921	\$ 335,078,381	\$ 256,392,751	\$ 591,471,132	\$ 907,276,053

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the value of the initial and subsequent donor gift amounts (underwater). As of June 30, 2020, funds with original gift values of \$94,344,337, fair values of \$89,376,238, and deficits of \$4,968,099 were reported in net assets with donor restrictions. As of June 30, 2019, funds with original gift values of \$25,800,041 and fair values of \$24,495,802, and deficiencies of \$1,304,239 were reported in net assets with donor restriction. These deficits, which the College believes are temporary, resulted from unfavorable market fluctuations. Continued spending appropriations are deemed prudent.

NOTE 7 RETIREMENT PLAN

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

Expenses for the College's share of the contributions were \$5,967,799 and \$5,814,872 in 2020 and 2019, respectively.

CARLETON COLLEGE
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020 AND 2019

NOTE 8 CONTRIBUTIONS RECEIVABLE

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

Contributions receivable are summarized as follows at June 30:

	2020	2019
Unconditional Promises Expected to be Collected in:		
Less than One Year	\$ 7,179,311	\$ 7,962,299
One Year to Five Years	10,338,689	16,167,466
Over Five Years	523,977	670,922
Gross Pledges Receivable	18,041,977	24,800,687
Less: Present Value Discount	(260,627)	(768,035)
Less: Allowance for Uncollectible Pledges	(200,000)	(200,000)
Pledges Receivable, Net	\$ 17,581,350	\$ 23,832,652

Contributions receivable from board members and employees totaled \$5,055,027 and \$13,190,201 at June 30, 2020 and 2019, respectively.

At June 30, 2020 and 2019, approximately 12.2% and 28.2% gross contributions receivable, respectively, were attributed to one contributor.

NOTE 9 CREDIT QUALITY OF STUDENT NOTES RECEIVABLE

The College issues uncollateralized loans to students based on financial need. Student loans are funded through federal government loan programs or institutional resources. Allowances for doubtful accounts are established based on prior collection experience and current economic factors which, in management's judgment, could influence the ability of loan recipients to repay the amounts per the loan terms. At June 30, 2020 and 2019, student loans represented less than 1% of total assets.

At June 30, student loans consisted of the following:

	2020	2019
Federal Government Programs	\$ 3,228,800	\$ 4,249,317
Henry Strong Loan Program	140,801	149,689
Institutional Loan Programs	665,981	712,659
Subtotal, Gross	4,035,582	5,111,665
Less: Allowance for Doubtful Accounts	(155,000)	(155,000)
Student Loans Receivable, Net	\$ 3,880,582	\$ 4,956,665

**CARLETON COLLEGE
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020 AND 2019**

NOTE 9 CREDIT QUALITY OF STUDENT NOTES RECEIVABLE (CONTINUED)

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

	<u>2020</u>	<u>2019</u>
Current Loan Receivables	\$ 3,723,174	\$ 4,671,334
Past Due Loan Receivables:		
0 - 240 Days Past Due	82,235	185,438
240 Days - 2 Years Past Due	73,542	149,261
2 - 5 Years Past Due	109,528	52,002
5+ Years Past Due	47,103	53,630
Total Past Due	<u>312,408</u>	<u>440,331</u>
Total Student Loan Receivables, Gross	<u>\$ 4,035,582</u>	<u>\$ 5,111,665</u>

Funds advanced by the federal government of \$2,206,259 and \$3,592,920 at June 30, 2020 and 2019, respectively, are ultimately refundable to the government and are classified as liabilities on the balance sheets.

As of June 30, 2020 and 2019, the Perkins Cohort Default rate was 1.250% and 5.982%, respectively.

NOTE 10 COMMITMENTS AND CONTINGENCIES

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

During the year, the College entered into various contracts for construction of new academic buildings and other infrastructure improvements. As of June 30, 2020 and 2019, the remaining commitment on these contracts totaled \$18,578,135 and \$39,221,103, respectively.

**CARLETON COLLEGE
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020 AND 2019**

NOTE 11 SELF-INSURED MEDICAL BENEFITS AND WORKERS' COMPENSATION

The College provides medical benefits through a self-insured plan, which is available to all employees of the College who meet eligibility requirements. Accrued expenses include an incurred but not reported reserve of \$622,116 and \$940,515 as of June 30, 2020 and 2019, respectively, 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 years ended December 31, 2019 and 2018, the College was self-insured with an aggregate stop-loss of \$10,890,546 and \$9,737,012, respectively. As of June 30, 2020, and 2019 the College had net assets without donor restrictions of \$4,740,847 and \$2,573,673, respectively, designated for health insurance benefits, which consist of the cumulative amount of College and employee contributions toward health premiums have exceeded expenses over the life of the plan.

The College is self-insured for workers' compensation. As of June 30, 2020 and 2019, the College has recorded a liability of \$100,000 and \$150,000, respectively, for claims incurred but not yet reported. The Workers' Compensation Reinsurance Association (WCRA) provides stop-loss coverage for aggregate claims in excess of \$500,000. The College has established a workers' compensation reserve as required by WCRA, which is included in Investments on the balance sheets, of \$676,030 and \$963,207 as of June 30, 2020 and 2019, respectively.

NOTE 12 NET STUDENT FEES

The College reports Net Student Fees reflecting the comprehensive fee nature of a residential campus. Carleton meets the demonstrated financial need of all admitted students with scholarship awards funded by donor restricted gifts from individuals, grants, endowment spending or from income without donor restriction.

In response to the COVID-19 global pandemic in Spring 2020, Carleton credited student accounts with Spring Term room and board charges without modification to financial aid awards for all students leaving campus to complete the term with remote learning and instruction. Fiscal year 2020, Net Student Fee Revenue reflects these room and board refunds of \$7,759,991.

	<u>2020</u>	<u>2019</u>
Tuition and Fees	\$ 115,746,003	\$ 111,100,045
Room and Board	17,562,472	23,983,218
Less: Scholarships		
Funded by Restricted Gifts	531,136	593,044
Funded by Grants	123,120	111,780
Funded by Endowment Spending	11,216,991	10,890,611
Funded by Operations	<u>35,306,305</u>	<u>32,318,122</u>
Total Scholarships	<u>47,177,552</u>	<u>43,913,557</u>
Net Student Fees	<u>\$ 86,130,923</u>	<u>\$ 91,169,706</u>

CARLETON COLLEGE
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020 AND 2019

NOTE 13 DEFERRED INCOME AND DEPOSITS

The College reports Deferred Income for tuition and registration fees paid in advance of academic programs scheduled in the next fiscal year. Deposits include continuing enrollment deposits for students, employee rental deposits, deposits to the campus card program, and deposits for agency programs for which the college provides fiduciary services.

	Continuing Enrollment Deposits	Tuition Paid for Next Year	Summer Academic Programs	Other Deposits	Total
Balance at June 30, 2019	\$ 516,361	\$ 3,064,942	\$ 556,225	\$ 456,680	\$ 4,594,208
Revenue Recognized, Forfeited Payments Received for Future Performance Obligations	(170,755)	(3,064,942)	(989,230)	(1,225,647)	(5,450,574)
	<u>158,582</u>	<u>5,671,341</u>	<u>440,005</u>	<u>1,203,416</u>	<u>7,473,344</u>
Balance at June 30, 2020	<u>\$ 504,188</u>	<u>\$ 5,671,341</u>	<u>\$ 7,000</u>	<u>\$ 434,449</u>	<u>\$ 6,616,978</u>
Balance at June 30 2018	\$ 520,240	\$ 2,412,724	\$ 732,135	\$ 562,239	\$ 4,227,338
Revenue Recognized, Forfeited Payments Received for Future Performance Obligations	(181,137)	(2,523,911)	(732,135)	(1,861,917)	(5,299,100)
	<u>177,258</u>	<u>3,176,129</u>	<u>556,225</u>	<u>1,756,358</u>	<u>5,665,970</u>
Balance at June 30, 2019	<u>\$ 516,361</u>	<u>\$ 3,064,942</u>	<u>\$ 556,225</u>	<u>\$ 456,680</u>	<u>\$ 4,594,208</u>

NOTE 14 EXPENSES BY FUNCTION AND NATURAL CLASSIFICATION

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

Expenses are categorized on a functional expenses as follows:

- **Instruction** includes expenses for all activities that are part of the instructional program.
- **Research** includes expenses for activities specifically organized to produce research, whether funded by a federal grant or foundation or directly supported by the college or by an organizational unit.
- **Academic Support** includes expenses for all activities that directly support the instructional programs of the college such as the library and technology services.
- **Student services** are considered programmatic and include activities that contribute to student emotional and physical well-being and intellectual, cultural, and social development outside the formal instructional program.

CARLETON COLLEGE
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020 AND 2019

NOTE 14 EXPENSES BY FUNCTION AND NATURAL CLASSIFICATION (CONTINUED)

- **Auxiliary** include expenses relating to the operation of the auxiliary activities such as housing, dining services, printing and mailing, parking and transportation.
- **Support Activities** include centralized management and administrative support services such as executive management, fiscal operations, general administration, and fundraising activities.

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

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

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

Expenses reported by function on the statement of activities and changes in net assets are summarized by natural classification for the years ended June 30, 2020 and 2019, respectively:

	Program Activities	Support Activities	Total
EXPENSES			
Salaries and Wages	\$ 51,907,674	\$ 11,032,785	\$ 62,940,459
Employee Benefits	18,350,976	3,543,928	21,894,904
Student Employment	3,535,219	196,819	3,732,038
Professional Services	1,861,241	1,053,134	2,914,375
Supplies	3,922,529	944,549	4,867,078
Equipment	4,361,094	(36,813)	4,324,281
Building Maintenance	2,171,107	1,091,803	3,262,910
Utilities	2,144,314	(104,592)	2,039,722
Interest Expense	4,552,503	-	4,552,503
Depreciation	12,197,018	126,918	12,323,936
Dining Services	6,329,307	-	6,329,307
Travel	6,479,630	652,864	7,132,494
Other	6,765,781	1,327,425	8,093,206
Total Expenses	<u>\$ 124,578,393</u>	<u>\$ 19,828,820</u>	<u>\$ 144,407,213</u>

**CARLETON COLLEGE
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020 AND 2019**

NOTE 14 EXPENSES BY FUNCTION AND NATURAL CLASSIFICATION (CONTINUED)

EXPENSES	<u>Program Activities</u>	<u>Support Activities</u>	<u>Total</u>
Salaries and Wages	\$ 50,035,794	\$ 10,508,397	\$ 60,544,191
Employee Benefits	17,435,471	3,167,071	20,602,542
Student Employment	3,726,249	290,863	4,017,112
Professional Services	2,446,585	1,318,737	3,765,322
Supplies	3,707,198	912,705	4,619,903
Equipment	4,432,833	(13,169)	4,419,664
Building Maintenance	3,579,788	1,189,174	4,768,962
Utilities	2,597,749	(43,444)	2,554,305
Interest Expense	5,660,601	-	5,660,601
Depreciation	11,001,847	243,828	11,245,675
Dining Services	8,012,494	-	8,012,494
Travel	7,886,450	633,503	8,519,953
Other	4,043,012	2,190,107	6,233,119
Total Expenses	<u>\$ 124,566,071</u>	<u>\$ 20,397,772</u>	<u>\$ 144,963,843</u>