



MACALESTER COLLEGE



ANNUAL FINANCIAL STATEMENTS
WITH AUDITORS' OPINION
FOR THE FISCAL YEAR ENDED MAY 31, 2010



KPMG LLP
4200 Wells Fargo Center
90 South Seventh Street
Minneapolis, MN 55402

Independent Auditors' Report

The Board of Trustees
Macalester College:

We have audited the accompanying statements of financial position of Macalester College (the College), as of May 31, 2010 and 2009, and the related statements of activities and cash flows for the years then ended. These financial statements are the responsibility of the College's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America 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 of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the College's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Macalester College as of May 31, 2010 and 2009, and the changes in its net assets and its cash flows for the years then ended, in conformity with U.S. generally accepted accounting principles.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 3, 2010, on our consideration of the College's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

KPMG LLP

Minneapolis, Minnesota
November 3, 2010

MACALESTER COLLEGE
Statements of Financial Position
May 31, 2010 and 2009
(in thousands of dollars)

	<u>Operations</u>	<u>Investments</u>	<u>Plant</u>	<u>2010 Total</u>	<u>2009 Total</u>
ASSETS					
Cash and cash equivalents	\$ 25,523	90	(1,089)	24,524	\$ 11,978
Accrued investment income	103	805	-	908	786
Prepaid expenses	569	-	1,258	1,827	1,846
Notes and accounts receivable, net of allowance for doubtful receivables of \$764 (and \$739 in 2009)	3,238	5,256	-	8,494	6,443
Contributions receivable, net	1,504	1,403	9,543	12,450	16,604
Short term investments	-	-	-	-	1,362
Long term investments	16	589,662	-	589,678	538,808
Receivable for investments with pending settlements	-	-	-	-	1,517
Real estate	-	10,402	-	10,402	10,807
Land, buildings and equipment, net of accumulated depreciation	-	-	167,607	167,607	169,495
Beneficial interest in perpetual trust	-	23,344	-	23,344	21,041
Total assets	\$ 30,953	630,962	177,319	839,234	\$ 780,687
LIABILITIES AND NET ASSETS					
Liabilities:					
Accounts payable and accrued expenses	\$ 9,408	90	754	10,252	\$ 11,420
Deferred revenue	779	22	-	801	678
Deposits	347	4	-	351	291
Interest rate swap agreement	-	-	1,277	1,277	1,094
Liabilities under planned giving agreements	-	7,208	-	7,208	5,780
Government grants refundable	-	4,536	-	4,536	4,513
Asset retirement obligation	-	-	897	897	855
Bonds and mortgages payable	-	-	70,882	70,882	73,723
Total liabilities	10,534	11,860	73,810	96,204	98,354
Net assets:					
Unrestricted	11,752	41,938	91,674	145,364	139,239
Temporarily restricted:					
For operations	8,667	-	-	8,667	10,222
For investment in plant	-	-	11,835	11,835	5,033
For long term investments	-	232,720	-	232,720	187,279
Total temporarily restricted	8,667	232,720	11,835	253,222	202,534
Permanently restricted:					
For long term investments	-	344,444	-	344,444	340,560
Total net assets	20,419	619,102	103,509	743,030	682,333
Total liabilities and net assets	\$ 30,953	630,962	177,319	839,234	\$ 780,687

See accompanying notes to financial statements.

MACALESTER COLLEGE
Statements of Activities
May 31, 2010 and 2009
(in thousands of dollars)

	Operations	Investments	Plant	2010 Total	2009 Total
Changes in unrestricted net assets:					
Revenues and other additions:					
Tuition and fees	\$ 74,097	-	-	74,097	\$ 67,545
Less: Student aid and scholarships	(33,945)	-	-	(33,945)	(29,629)
Net tuition and fees	40,152	-	-	40,152	37,916
Federal grants and contracts	3,463	-	-	3,463	1,201
State grants and contracts	330	-	-	330	156
Private gifts and grants	4,616	18	-	4,634	3,574
Sales and service of auxiliary enterprises	12,950	-	-	12,950	11,981
Other sources	1,040	-	-	1,040	1,031
Investment income	-	-	98	98	663
Endowment payout	3,383	-	-	3,383	3,268
Realized and unrealized gains (losses) on investments, net of gains used in endowment payout	123	4,106	-	4,229	(13,098)
Change in value of planned giving agreements	-	27	-	27	(60)
Change in value of interest rate swap	-	-	(183)	(183)	(796)
Net assets released from restrictions	29,529	-	168	29,697	44,430
Total revenues and other additions	95,586	4,151	83	99,820	90,266
Expenses:					
Program					
Instruction	30,646	-	1,665	32,311	32,606
Research	1,090	-	52	1,142	933
Public service	547	72	111	730	751
Academic support	7,696	-	446	8,142	8,204
Student services	16,321	-	4,690	21,011	19,482
Auxiliary enterprises	6,753	573	1,675	9,001	9,036
Institutional support	16,421	579	1,258	18,258	19,838
Total expenses	79,474	1,224	9,897	90,595	90,850
Transfers among reporting categories	(12,861)	(260)	13,121	-	-
Reclassification of net assets	-	-	(3,100)	(3,100)	(58,664)
Change in unrestricted net assets	3,251	2,667	207	6,125	(59,248)
Unrestricted net assets at beginning of year	8,501	39,271	91,467	139,239	198,487
Unrestricted net assets at end of year	\$ 11,752	41,938	91,674	145,364	\$ 139,239

See accompanying notes to financial statements.

MACALESTER COLLEGE
Statements of Activities
May 31, 2010 and 2009
(in thousands of dollars)

	Operations	Investments	Plant	2010 Total	2009 Total
Changes in temporarily restricted net assets:					
Private gifts	\$ 1,710	1,944	2,017	5,671	\$ 13,194
Other sources	36	-	-	36	34
Investment income	-	-	-	-	5
Endowment payout	28,132	-	29	28,161	26,219
Realized and unrealized gains (losses) on investments, net of gains used in endowment payout	-	42,721	-	42,721	(136,221)
Change in value of planned giving agreements	-	526	-	526	(1,159)
Net assets released from restrictions	(29,529)	-	(168)	(29,697)	(44,430)
Transfers among reporting categories	(1,904)	80	1,824	-	-
Reclassification of net assets	-	170	3,100	3,270	58,664
Change in temporarily restricted net assets	(1,555)	45,441	6,802	50,688	(83,694)
Temporarily restricted net assets at beginning of year	10,222	187,279	5,033	202,534	286,228
Temporarily restricted net assets at end of year	\$ 8,667	232,720	11,835	253,222	\$ 202,534
Changes in permanently restricted net assets:					
Private gifts	\$ -	389	-	389	\$ 56
Realized and unrealized gains (losses) on investments, net of gains used in endowment payout	-	411	-	411	(55)
Change in value of beneficial interest in perpetual trust	-	2,303	-	2,303	(8,747)
Change in value of planned giving agreements	-	951	-	951	(1,570)
Reclassification of net assets	-	(170)	-	(170)	-
Change in permanently restricted net assets	-	3,884	-	3,884	(10,316)
Permanently restricted net assets at beginning of year	-	340,560	-	340,560	350,876
Permanently restricted net assets at end of year	\$ -	344,444	-	344,444	\$ 340,560
Total net assets at beginning of year	\$ 18,723	567,110	96,500	682,333	\$ 835,591
Change in total net assets	1,696	51,992	7,009	60,697	(153,258)
Total net assets at end of year	\$ 20,419	619,102	103,509	743,030	\$ 682,333

See accompanying notes to financial statements.

MACALESTER COLLEGE
Statements of Cash Flows
May 31, 2010 and 2009
(in thousands of dollars)

	<u>2010</u>	<u>2009</u>
Cash flows from operating activities:		
Change in total net assets	\$ 60,697	\$ (153,258)
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Depreciation and amortization	7,098	6,384
Realized and unrealized (gain) loss on investments	(74,327)	135,601
Unrealized loss on interest rate swap	183	796
Private gifts and other income restricted for long term investments	(2,406)	(5,879)
Adjustment of actuarial liabilities for planned giving agreements	2,026	(236)
Change in assets and liabilities:		
Accrued investment income	(122)	441
Prepaid expenses	19	211
Notes and accounts receivable	(2,051)	381
Contributions receivable	2,106	623
Receivable for investments with settlements pending	1,517	(1,517)
Accounts payable and accrued expenses	449	849
Deferred revenue	123	(95)
Deposits	60	(9)
Net cash used in operating activities	<u>(4,628)</u>	<u>(15,708)</u>
Cash flows from investing activities:		
Proceeds from sale of investments	100,036	210,318
Purchase of investments	(74,812)	(166,331)
Purchase of land, building and equipment	<u>(6,882)</u>	<u>(25,145)</u>
Net cash provided by investing activities	<u>18,342</u>	<u>18,842</u>
Cash flows from financing activities:		
Principal payments on bonds payable	(2,744)	(2,524)
Payments made to beneficiaries of planned giving agreements	(598)	(675)
Increase in government grant refundable	23	19
Change in value of beneficial interest in perpetual trust	(2,303)	8,746
Private gifts, grants and other income restricted for long term investment	<u>4,454</u>	<u>2,993</u>
Net cash (used in) provided by financing activities	<u>(1,168)</u>	<u>8,559</u>
Increase in cash and cash equivalents	12,546	11,693
Cash and cash equivalents at beginning of the year	<u>11,978</u>	<u>285</u>
Cash and cash equivalents at end of the year	<u>\$ 24,524</u>	<u>\$ 11,978</u>
Supplemental disclosure - cash paid for interest, including interest capitalized of \$409 in 2009	<u>\$ 2,769</u>	<u>\$ 2,984</u>
Noncash investing and financing activities:		
Purchases of land, building and equipment funded by accounts payable	<u>\$ 206</u>	<u>1,823</u>

See accompanying notes to financial statements.

1) Background and Organization

Macalester College (the College or Macalester) is a four year, coeducational, private liberal arts college. Founded in 1874, the College is located in the urban setting of Saint Paul, Minnesota, and is affiliated with the Presbyterian Church (USA). The College offers a liberal arts program and is accredited by the North Central Association of Colleges and Secondary Schools.

2) Summary of Significant Accounting Policies

Basis of Presentation

The accompanying financial statements are presented on the accrual basis of accounting. To ensure the observance of limitations and restrictions placed on the use of available resources, the College maintains its accounts in accordance with the principles and practices of fund accounting. Fund accounting is the procedure by which resources for various purposes are classified for accounting purposes into funds that are maintained in accordance with activities or objectives of the College. For external reporting purposes, however, the College's financial statements have been prepared to focus on the organization as a whole and to present balances and transactions classified in accordance with the existence or absence of donor-imposed restrictions. Accordingly, net assets and changes therein are classified as follows:

Permanently restricted net assets -- Net assets subject to donor imposed stipulations that they be maintained permanently by the College. Generally the donor of these assets permits the College to use all or part of the income earned and capital gains, if any, on related investments for general or specific purposes.

Temporarily restricted net assets -- Net assets subject to donor imposed stipulations that restrict their use to a specific purpose and/or the passage of time.

Unrestricted net assets -- Net assets not subject to donor imposed stipulations. Certain of these amounts have been designated by the board for investment purposes as indicated in the presentation.

Revenues are reported as increases in unrestricted net assets unless use of the related assets is limited by donor imposed restrictions. Donor restricted contributions whose restrictions are met in the same year as the gift is made are reported as temporarily restricted contributions in the current year. Expirations of temporary restrictions on net assets, that is, the donor imposed stipulated purpose has been accomplished and/or the stipulated time period has elapsed, are reported as net assets released from restrictions. Expenses are reported as decreases in unrestricted net assets. Gains and losses on assets and liabilities are reported as increases or decreases in unrestricted net assets unless their use is restricted by explicit donor stipulations.

Contributions, including unconditional promises to give, are recognized as revenue in the period received and reported in their appropriate net asset group, subject to the existence or absence of donor imposed stipulations. Conditional promises to give are not recognized until 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 a discount rate consistent with the general principles for present value measurement. Amortization of discount 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 an original maturity of less than three months, except those held for investment purposes.

Notes and Accounts Receivable

Notes and accounts receivable include grants receivable, student loan receivables, student accounts receivable and various other receivables. An allowance for doubtful accounts is recorded annually based on historical experience and management's evaluation of receivables at the end of each year. Bad debts are written off when deemed uncollectible. Receivables are generally unsecured.

Short Term Investments

Short term investments consist of investments held in short term funds that may be used for the daily operations of the College.

Long Term Investments

Long term investments include the endowment pool, investments related to split interest agreements, loan fund investments, and intermediate term funds.

Land, Buildings and Equipment

Constructed and purchased property and equipment are carried at cost. Land, buildings and equipment donated to the College are stated at fair value at date of donation. Long-lived assets, with the exception of land and artwork, are depreciated using the straight-line method over their estimated useful lives. Useful lives for equipment range from 3 to 6 years. Useful lives for the majority of the buildings and improvements range from 20 to 40 years.

Interest is capitalized in connection with the construction of facilities. The capitalized interest is recorded as part of the asset to which it relates and is amortized over the asset's useful life.

Bond Issue Costs

Bond issue costs are amortized using the straight-line method over the life of the associated bond issue. Bond issue costs are reported as prepaid expenses on the statements of financial position.

Asset Retirement Obligation

The College accrues for costs related to legal obligations to perform certain activities in connection with the retirement, disposal, or abandonment of assets. The obligation to perform asset retirement activity is not conditional even though the timing or method may be conditional. The College has identified asbestos abatement as an asset retirement obligation. Asbestos abatement costs were estimated using site surveys and per square foot or per linear foot costs. The College has recorded a liability and an increase to the associated assets. The assets are depreciated over their remaining useful lives. Annually, the asset retirement obligation is adjusted for accretion and payments made, if any.

Tax Status

The College has received a determination letter from the Internal Revenue Service indicating it is a tax-exempt organization as described in Section 501(c)(3) of the Internal Revenue Code and is subject to federal income tax only on net unrelated business income. No provision has been made for income taxes in the accompanying financial statements as the College has had no significant unrelated business income.

The College's accounting policy provides that a tax expense/benefit from an uncertain tax position may be recognized when it is more likely than not that the position will be sustained upon examination, including resolutions of any related appeals or litigation processes, based on technical merits. The College has no uncertain tax positions resulting in an accrual of tax expense or benefit.

Fair Value of Financial Instruments

The carrying amounts of cash and cash equivalents, accrued investment income, notes and accounts receivable, accounts payable and accrued expenses, deposits, and deferred revenue approximate fair value because of the short maturity of these financial instruments. Contributions receivable are recorded at the present value of estimated future cash flows using discount rates consistent with the general principles of present value measurement, which approximate fair value.

Short and long term investments in securities traded on national or international securities exchanges are carried at fair value, based upon values provided by external investment managers or quoted market values. Fair values for certain investments held in alternative structures including partnerships, commingled funds, and limited liability corporations are stated at net asset value as a practical expedient to estimated fair value. The estimated values may differ from the values that would have been used had ready markets for the investments existed, and the differences could be significantly higher or lower for any specific holding. Real estate is reported at estimated fair value based on knowledge of local market conditions and periodic independent appraisal. The beneficial interest in perpetual trust is reported at fair value of the trust assets.

An estimate of the fair value of the grants refundable to government for student loans could not be made because they are not saleable and can only be assigned to the US government or its designees.

The estimated fair value of the College's revenue bonds was calculated by discounting future cash flows through estimated maturity using the borrowing rate currently available to the College for debt of similar original maturity. The carrying value of the College bonds was \$69,531 and \$72,247 at May 31, 2010 and 2009, respectively, and the fair value was approximately \$72,342 and \$73,484, respectively. The carrying value approximates the fair value of the Series 1994 and 2003 bonds as the interest rate varies weekly. The College records the value of the outstanding debt at carrying value.

Derivative Financial Instruments

In accordance with Accounting Standards Codification (ASC) 815, *Accounting for Derivative Instruments and Hedging Activities*, Macalester accounts for derivative instruments, including derivative instruments embedded in other contracts. ASC No. 815 requires that derivative instruments be measured at fair value and reported as assets or liabilities in the statements of financial position. Changes in the fair value of derivatives during the year are reported in the statements of activities. Macalester's interest rate swap agreement is considered a derivative financial instrument and has been reported in the statements of financial position at fair value. The change in the fair value of the agreement during the year is reported in the statements of activities. The net cash received or paid under the terms of the interest rate swap agreement over its term is reported as a component of interest expense.

Planned Giving Agreements

The College's planned giving agreements consist primarily of charitable gift annuities, charitable remainder unitrust contracts and pooled life income funds. For those trusts for which the College is the trustee, the assets are reported as long-term investments at their fair value. Contribution revenue is recognized at the dates the trusts are established after recording a liability for the present value of the estimated future payments to be made to the beneficiaries using discount rates and assumptions established upon initial recognition of the liability and the use of the appropriate mortality tables. Discount rates range from 3% to 7%. The obligation is adjusted during the term of the agreement for changes in the value of the assets, amortization of the discount and other changes in the estimates of future benefits.

For those irrevocable trusts for which the College does not serve as trustee, contribution revenue and a receivable are recognized at the date the trust is established for the present value of the estimated future payments to be received.

The College is also the beneficiary of a perpetual trust held and administered by others. The estimated fair value of the trust was recognized as an asset and as revenue on the date the College was notified of the establishment of the trust. Distributions from the trust are recorded as investment income.

Use of Estimates

The preparation of financial statements in conformity with US generally accepted accounting principles (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 these estimates.

New Accounting Pronouncements

In May 2009, the Financial Accounting Standards Board (FASB) issued new standards which establish the accounting for and disclosure of events that occur after the Statement of Financial Position date but before financial statements are issued. The College adopted the standard as of May 31, 2010. In particular, the new standards set forth:

- the period after the Statement of Financial Position date during which management of a reporting entity should evaluate events or transactions that may occur for potential recognition or disclosure in the financial statements (through the date that the financial statements are issued or are available to be issued);
- the circumstances under which an entity should recognize events or transactions occurring after the Statement of Financial Position date in its financial statements; and
- the disclosures that an entity should make about events or transactions that occurred after the Statement of Financial Position date.

MACALESTER COLLEGE
Notes to Financial Statements
May 31, 2010 and 2009
(in thousands of dollars)

In June 2009, the FASB established the FASB Accounting Standards Codification (Codification), which officially commenced July 1, 2009, to become the source of authoritative US GAAP recognized by the FASB to be applied by nongovernmental entities. All other accounting literature excluded from the Codification will be considered nonauthoritative. The College adopted this standard on May 31, 2010. All references to authoritative accounting literature are now referenced in accordance with the Codification.

Effective May 31, 2010, the College adopted Accounting Standards Update No. 2009-12, *Investments in Certain Entities That Calculate Net Asset Value per Share (or Its Equivalent)* ("ASU 2009-12"). ASU 2009-12 provides amendments to ASC 820 and permits, as a practical expedient, a reporting entity to estimate the fair value of an investment that is within the scope of ASU 2009-12 using the net asset value ("NAV") per share (or its equivalent) of the investment if the NAV is calculated in a manner consistent with the measurement principles of ASC 946 as of the reporting entity's measurement date. ASU 2009-12 also requires disclosures regarding the attributes of investments within its scope, such as the nature of any restrictions on the investor's ability to redeem its investments at the measurement date, any unfunded capital commitments, and the investment strategies of the investees.

Reclassifications

Certain 2009 amounts have been reclassified to conform to the 2010 presentation.

MACALESTER COLLEGE
Notes to Financial Statements
May 31, 2010 and 2009
(in thousands of dollars)

3) Long Term Investments

Long term investments include funds traditionally considered the endowment of the College as well as assets of funds for planned giving agreements and loan funds totaling \$15,109 and \$11,481 as of May 31, 2010 and 2009, respectively. The allocations shown at fair value are as follows:

	<u>2010</u>	<u>2009</u>
Long term investments:		
Cash and cash equivalents	\$ 41,897	\$ 35,143
Publicly traded securities:		
Domestic equity	19,851	15,857
Domestic equity held in collective trusts	-	94
Foreign equity held in collective trusts	86,348	89,495
Fixed income	83,282	69,642
Fixed income held in collective trusts	-	5,128
Futures	6,704	7,628
Mutual funds	43,374	39,884
Alternative strategies in illiquid structures:		
Domestic equities	87,106	68,164
Private equities	83,335	72,614
Hedge funds	68,428	67,820
Real estate	29,829	35,291
Natural resources	<u>39,524</u>	<u>32,048</u>
Total fair value	<u>\$ 589,678</u>	<u>\$ 538,808</u>
Total cost	<u>\$ 561,334</u>	<u>\$ 563,814</u>

4) Fair Value Measurements

The College applies the provisions of ASC No. 820, which established a three-level fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy under ASC No. 820 are described below:

- Level 1 Unadjusted quoted prices in active markets that are accessible at the measurement date for identical, unrestricted assets or liabilities.

- Level 2 Pricing inputs other than identical quoted prices in active markets that are observable for the financial instrument, such as similar instruments, interest rates, and yield curves that are observable at commonly quoted intervals.

- Level 3 Prices or valuations that require inputs that are both significant to the fair value measurement and unobservable. Level 3 inputs include situations where there is little, if any, market activity for the financial instrument.

MACALESTER COLLEGE
Notes to Financial Statements
May 31, 2010 and 2009
(in thousands of dollars)

The inputs or methodology used for valuing securities are not necessarily an indication of the risk associated with investing in those securities.

The following tables summarize the College's fair value hierarchy for those assets and liabilities that were measured at fair value on a recurring basis as of May 31, 2010 and 2009:

	2010			
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Financial Assets:				
<u>Long-term investments:</u>				
Cash and short-term investments	\$ 41,897	-	-	\$ 41,897
Publicly traded securities:				
Domestic equity	19,851	-	-	19,851
Foreign equity held in collective trusts		86,348	-	86,348
Fixed income	-	83,282	-	83,282
Futures	6,704	-	-	6,704
Mutual funds	43,374	-	-	43,374
Alternative strategies in illiquid structures:				
Domestic equities	-	-	87,106	87,106
Private equities	-	-	83,335	83,335
Hedge funds	-	-	68,428	68,428
Real estate	-	-	29,829	29,829
Natural resources	-	-	39,524	39,524
Total long-term investments	<u>\$ 111,826</u>	<u>\$ 169,630</u>	<u>\$ 308,222</u>	<u>\$ 589,678</u>
Beneficial interest in perpetual trust	<u>\$ -</u>	<u>\$ 23,344</u>	<u>\$ -</u>	<u>\$ 23,344</u>
Financial Liabilities:				
Interest rate swap agreement	<u>\$ -</u>	<u>\$ 1,277</u>	<u>\$ -</u>	<u>\$ 1,277</u>

MACALESTER COLLEGE
Notes to Financial Statements
May 31, 2010 and 2009
(in thousands of dollars)

	2009			
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Financial Assets:				
<u>Short term investments:</u>				
CommonFund Short Term Investment Fund	\$ -	\$ 1,362	\$ -	\$ 1,362
<u>Long term investments:</u>				
Cash and short-term investments	\$ 35,143	-	-	\$ 35,143
Publicly traded securities:				
Domestic equity	15,857	94	-	15,951
Foreign equity held in collective trusts		89,495	-	89,495
Fixed income	-	69,642	5,128	74,770
Futures	7,628	-	-	7,628
Mutual funds	39,884	-	-	39,884
Alternative strategies in illiquid structures:				
Domestic equities	-	-	68,164	68,164
Private equities	-	-	72,614	72,614
Hedge funds	-	-	67,820	67,820
Real estate	-	-	35,291	35,291
Natural resources	-	-	32,048	32,048
Total long-term investments	<u>\$ 98,512</u>	<u>\$ 159,231</u>	<u>\$ 281,065</u>	<u>\$ 538,808</u>
Beneficial interest in perpetual trust	<u>\$ -</u>	<u>\$ 21,041</u>	<u>\$ -</u>	<u>\$ 21,041</u>
Financial Liabilities:				
Interest rate swap agreement	<u>\$ -</u>	<u>\$ 1,094</u>	<u>\$ -</u>	<u>\$ 1,094</u>

MACALESTER COLLEGE
Notes to Financial Statements
May 31, 2010 and 2009
(in thousands of dollars)

The following tables are roll-forwards of the Level 3 financial assets during the fiscal years ended May 31, 2010 and 2009:

	2010						
	<u>Fixed Income</u>	<u>Domestic Equities</u>	<u>Private Equities</u>	<u>Hedge Funds</u>	<u>Real Estate</u>	<u>Natural Resource</u>	<u>Total</u>
Beginning balance	\$ 5,128	\$ 68,164	\$ 72,614	\$ 67,820	\$ 35,291	\$ 32,048	\$ 281,065
Unreal. gain (loss), net	-	18,942	5,093	9,032	(6,666)	344	26,745
Real. gain, net	57	-	2,278	3,145	-	755	6,235
Purchases, sales, issuances and settlements, net	<u>(5,185)</u>	<u>-</u>	<u>3,350</u>	<u>(11,569)</u>	<u>1,204</u>	<u>6,377</u>	<u>(5,823)</u>
Ending balance at May 31, 2010	<u>\$ -</u>	<u>\$ 87,106</u>	<u>\$ 83,335</u>	<u>\$ 68,428</u>	<u>\$ 29,829</u>	<u>\$ 39,524</u>	<u>\$ 308,222</u>
Net unrealized gains (losses) included in change in net assets for the period relating to investments held at May 31, 2010	<u>\$ -</u>	<u>\$ 18,942</u>	<u>\$ 5,093</u>	<u>\$ 9,032</u>	<u>\$ (6,666)</u>	<u>\$ 344</u>	<u>\$ 26,745</u>
	2009						
	<u>Fixed Income</u>	<u>Domestic Equities</u>	<u>Private Equities</u>	<u>Hedge Funds</u>	<u>Real Estate</u>	<u>Natural Resource</u>	<u>Total</u>
Beginning balance	\$ 12,862	\$ 125,600	\$ 80,112	\$ 86,647	\$ 41,830	\$ 38,455	\$ 385,506
Unreal. loss, net	(7,734)	(34,517)	(19,466)	(5,128)	(9,005)	(13,268)	(89,118)
Real. gain, net	-	-	2,987	90	212	868	4,157
Purchases, sales, issuances and settlements, net	<u>-</u>	<u>(22,919)</u>	<u>8,981</u>	<u>(13,789)</u>	<u>2,254</u>	<u>5,993</u>	<u>(19,480)</u>
Ending balance at May 31, 2009	<u>\$ 5,128</u>	<u>\$ 68,164</u>	<u>\$ 72,614</u>	<u>\$ 67,820</u>	<u>\$ 35,291</u>	<u>\$ 32,048</u>	<u>\$ 281,065</u>
Net unrealized losses included in change in net assets for the period relating to investments held at May 31, 2009	<u>\$ (7,734)</u>	<u>\$ (34,517)</u>	<u>\$ (19,466)</u>	<u>\$ (5,128)</u>	<u>\$ (9,005)</u>	<u>\$ (13,268)</u>	<u>\$ (89,118)</u>

At May 31, 2010, the College had \$308,222 of Level 3 assets and \$86,348 of foreign equity held in collective trusts that are reported at fair value and has concluded that the net asset value (NAV) reported by the underlying fund approximates the fair value of the investments and serves as the practical expedient for fair value.

MACALESTER COLLEGE
Notes to Financial Statements
May 31, 2010 and 2009
(in thousands of dollars)

Due to the nature of the investments held by the funds, changes in market conditions and economic environment may significantly impact the net asset value of the funds, and consequently, the fair value of the College's interests in the funds. Although a secondary market exists for these investments, it is not active and individual transactions are typically not observable. When transactions occur in this limited secondary market, they may occur at discounts to the reported net asset value. It is, therefore, reasonably possible that if the College was to sell these investments in the secondary market, a buyer may require a discount to the reported net asset value, and the discount could be significant. The College has no plans to sell any of these assets on the secondary market.

The College's alternative investments have strategies and redemption terms as summarized in the table below:

Investment Category	Fair Value	Unfunded Commitments	Redemption Frequency*	Notice Period (in Days)*
Foreign equity held in collective trusts (a)	\$ 86,348	None	Monthly	30 days
Domestic equities - alternative structures (b)	87,106	None	Quarterly	30 - 60 days
Hedge funds (c)	68,428	None	Monthly - Annual	30 - 90 days
Private investments (d)	152,688	\$ 106,003	Not applicable	Not applicable
Totals	\$ 394,570	\$ 106,003		

*The information summarized in the table above represents the general terms for the specified asset class. Individual investment funds may have terms that are more or less restrictive than those terms indicated for the asset class as a whole. In addition, most investment funds have the flexibility, as provided for in their constituent documents, to modify and waive such terms.

Foreign equity held in collective trusts (a) are actively managed investment funds focused on the equity markets of non-US developed market countries. These funds have the ability to invest a portion of the funds in equities of emerging market countries. The fair values of these investments have been estimated using NAV.

Domestic equities - alternative structures (b) are actively managed and designed to give the College exposure to the movements of the US equity market. The fair values of these investments have been estimated using NAV.

Hedge funds (c) consist of funds in which the College has invested to potentially benefit from the skill of fund managers or to access unconventional assets. Typically, the underlying investments in these funds are publicly traded.

At May 31, 2010, the College had \$5,520 invested in a fund for which a lock-up period exists. This lock-up period will expire on February 1, 2011, at which time the College will have monthly redemption rights with 30 days notice.

MACALESTER COLLEGE
Notes to Financial Statements
May 31, 2010 and 2009
(in thousands of dollars)

The College's hedge fund investments have redemption terms as summarized in the following table:

	<u>Fair Value</u>	<u>Fair Value in Lock-up Period</u>
Hedge fund strategies	\$ 68,428	\$ 5,520
0-30 days notice	\$ 5,520	
31-60 days notice	25,636	
61-90 days notice	<u>37,272</u>	
Total	<u>\$ 68,428</u>	
Monthly redemption	\$ 5,520	
Quarterly redemption	8,127	
Annual redemption	<u>54,781</u>	
Total	<u>\$ 68,428</u>	

Private investments (d) include a variety of investment strategies, including buyout, distressed debt, energy, real estate, timber and venture capital. These investments are of a long-term nature and generally serve to drive the returns of the portfolio or to hedge inflation. The College receives proceeds from these funds as the holdings of the funds produce income or are sold. The College invests in funds with a life of 5 to 15 years, and does not have redemption rights.

Securities denominated in foreign currencies are translated into US dollars at the closing rate of exchange. Foreign currency amounts related to the purchase or sale of securities and income and expenses are translated at the exchange rate on the transaction date. For financial reporting purposes, the realized and unrealized gain (loss) on investments reflects changes in exchange rates, as well as changes in the market value of investments.

The College employs an external service provider to assist in hedging the foreign currency risks of the portfolio and to manage the College's equity and fixed income exposures close to policy targets. On the College's behalf, this service provider has entered into foreign currency exchange contracts and other futures contracts. These derivatives are marked to market daily and exchange traded. In the Statements of Activities, net realized and unrealized gains or losses on investments include gains or losses from the use of derivatives for hedging or rebalancing activities.

As of May 31, 2010, the College had exposure to \$39,298 of equity index futures and \$108,934 in short positions in currency futures. As of May 31, 2009, the college had exposure to \$38,365 of equity index futures, and \$97,463 in short positions in currency futures. The College's derivative portfolio consists of contracts with maturities of 90 days or less and is adjusted as the exposures of the underlying portfolio change. The contracts are sold prior to contract maturity.

MACALESTER COLLEGE
Notes to Financial Statements
May 31, 2010 and 2009
(in thousands of dollars)

5) Funds Held in Trust by Others

The College's beneficial interest in the fair value of assets in a perpetual trust was \$23,344 and \$21,041 as of May 31, 2010 and 2009, respectively. For the years ended May 31, 2010 and 2009, the College received \$1,423 and \$1,396 from this trust, respectively.

The College is the income beneficiary of a revocable trust with an estimated value of \$9,444 and \$8,766 as of May 31, 2010 and 2009, respectively, which is controlled by independent trustees. For the year ended May 31, 2010 and 2009, the College received \$607 and \$614 from this trust, respectively. These assets are not recorded on the financial statements of the College.

6) Contributions Receivable

Contributions receivable consists of the following:

	<u>2010</u>	<u>2009</u>
Unconditional promises expected to be collected in:		
Less than one year	\$ 5,714	\$ 6,227
One year to five years	7,080	11,267
Greater than five years	190	35
Less: Discount to present value (3% - 5%)	<u>(534)</u>	<u>(925)</u>
	<u>\$ 12,450</u>	<u>\$ 16,604</u>

7) Land, Buildings and Equipment

The following is a summary of the College's land, buildings and equipment:

	<u>2010</u>	<u>2009</u>
Land and land improvements	\$ 1,414	\$ 1,414
Buildings and building improvements	223,308	220,731
Equipment	10,126	9,301
Construction in progress	<u>4,869</u>	<u>3,241</u>
	239,717	234,687
Less: Accumulated depreciation	<u>(72,110)</u>	<u>(65,192)</u>
	<u>\$ 167,607</u>	<u>\$ 169,495</u>

8) Revolving Loan Agreement

In February 2010, the College extended an already-existing unsecured revolving loan agreement for operating purposes from a bank in the amount of \$5,000 through April 2011. Interest on the loan agreement is at the one-month LIBOR rate plus 2%. There were no amounts outstanding under this revolving loan agreement at May 31, 2010.

MACALESTER COLLEGE
Notes to Financial Statements
May 31, 2010 and 2009
(in thousands of dollars)

9) Bonds and Mortgages Payable

Bonds and mortgages payable consist of the following:

	<u>2010</u>	<u>2009</u>
College Housing Program Mortgages at 3%, due in semi-annual installments through 2020 (original amount \$880)	\$ 314	\$ 342
Minnesota Higher Education Facilities Authority (MHEFA) variable rate demand revenue bonds of 1994, weekly maturity and rate reset, 0.27% average for current fiscal year, total principal due 2024 (original amount \$6,660)	6,660	6,660
Minnesota Higher Education Facilities Authority variable rate demand revenue bonds of 2003, weekly rate reset as well as a weekly tender option, 0.26% average for current fiscal year, total principal due 2033 (original amount \$15,300)	15,300	15,300
Minnesota Higher Education Facilities Authority Revenue Bonds of 2004, 4.73% average, final series due 2017 (original amount \$14,995)	9,460	10,685
Minnesota Higher Education Facilities Authority Revenue notes of 2005, 4.08% average, final series due 2014 (original amount \$3,000)	1,636	1,962
Minnesota Higher Education Facilities Authority Revenue Bonds of 2007, 4.42% average, final series due 2032 (original amount \$39,490)	<u>36,475</u>	<u>37,640</u>
	69,845	72,589
Plus: Unamortized bond premium	<u>1,037</u>	<u>1,134</u>
	<u>\$ 70,882</u>	<u>\$ 73,723</u>

The College is involved in the College Housing Program of the US Department of Housing and Urban Development. The funds received under this program were used to rehabilitate student dormitories and dining areas. The mortgages under this program are secured by a lien on the College's stadium carried at original acquisition cost and improvements of \$781 at May 31, 2010 and 2009, and by pledges of gross stadium and tuition revenues.

In September of 1994, \$6,660 of variable rate demand revenue bonds were issued on behalf of the College by MHEFA. The bonds were initially issued with a weekly maturity and rate reset, but longer maturities are optional as well as a fixed rate. Proceeds of the issue were used to finance various campus improvements and an athletic field expansion. Loan repayments associated with the bonds are general obligations of the College, with interest payable monthly (semi-annual if converted to fixed), and principal payable at maturity, on March 1, 2024.

MACALESTER COLLEGE
Notes to Financial Statements
May 31, 2010 and 2009
(in thousands of dollars)

In February of 2003, \$15,300 of variable rate demand revenue bonds were issued on behalf of the College by MHEFA. The bonds were issued with a weekly rate reset, as well as a weekly tender option. In the event of a tender and unsuccessful remarketing, self liquidity is provided through treasury securities held as long term investments. Proceeds of the issue were used to finance various dormitory improvements. Loan repayments associated with the bonds are general obligations of the College, with interest payable monthly and principal payable at maturity, on March 1, 2033.

In December of 2004, \$14,995 of revenue bonds were issued on behalf of the College by MHEFA. The average maturity of the issued bonds is 7.04 years, at an average rate of 4.73%. Proceeds of this issue were used to fund the March 1, 2005 redemption of the MHEFA Bonds of 1995, to secure the release of the obligation under the MHEFA Bonds of 1997, and to pay certain issuance costs.

In July of 2005, \$3,000 of revenue notes were issued on behalf of the College by MHEFA. The average maturity of the issued notes is 5.02 years at an average rate of 4.08%. Proceeds of this issue were used for the acquisition and installation of a replacement administrative computing system, which included new hardware, software licenses, and costs of converting data, training and testing.

In March of 2007, \$39,490 of revenue bonds were issued on behalf of the College by MHEFA. The average maturity of the issued bonds is 13.03 years, at an average rate of 4.42%. A portion of the proceeds were used, together with other funds of the College, for construction of a new athletics and recreation center. The remaining portion was used to repay the 1998 bond issue.

In direct connection with the variable rate demand revenue bonds issued in 2003, the College entered into an interest rate swap agreement that obligates it to pay a fixed rate of 3.33% annually to the counterparty in exchange for the receipt of a floating payment equal to 67% of the 3-month London Interbank offered rate (LIBOR). The net difference between the amounts paid to and received from the counterparty is recorded as interest expense. Payments under the swap contract are based on a notional amount of \$15,000. The contract expires on May 31, 2016. As of May 31, 2010 and 2009, the estimated fair value of the swap contract was \$(1,277) and \$(1,094), respectively. In the Statements of Activities, net gains or losses from the interest rate swap agreement result from fluctuations in the variable interest rate to which the swap is tied. Included in the Statements of Activities for the years ended May 31, 2010 and 2009 are interest rate swap losses of \$183 and \$796, respectively.

MACALESTER COLLEGE
Notes to Financial Statements
May 31, 2010 and 2009
(in thousands of dollars)

Annual debt commitments (principal) at May 31, 2010, are as follows:

<u>Fiscal year ending May 31,</u>	<u>Amount</u>
2011	\$ 2,942
2012	3,177
2013	3,492
2014	3,643
2015	3,625
After 2015	<u>52,966</u>
	<u>\$ 69,845</u>

Total interest expensed on debt aggregated \$2,738 during the year ended May 31, 2010.
Total interest expensed and capitalized on debt aggregated \$2,922 during the year ended
May 31, 2009.

MACALESTER COLLEGE
Notes to Financial Statements
May 31, 2010 and 2009
(in thousands of dollars)

10) Restrictions and Limitations on Net Asset Balances

Temporarily restricted net assets are available for the following purposes at May 31, 2010 and 2009:

	<u>2010</u>	<u>2009</u>
The portion of unexpended investment return generated from donor-restricted endowment funds subject to the Uniform Prudent Management of Institutional Funds Act (UPMIFA) consists of:		
Scholarships	\$ 35,496	\$ 28,772
Prizes and awards	215	166
Library support	2,334	1,850
Program support	165,293	131,550
Faculty support	23,941	20,362
Research	<u>2,413</u>	<u>1,996</u>
	229,692	184,696
Gifts and other unexpended revenues and gains available for:		
Scholarships	2,405	2,503
Prizes and awards	221	203
Library support	58	93
Program support	2,110	1,747
Faculty support	1,828	1,358
Research	153	151
Contributions receivable for plant projects	3,556	1,453
Contributions receivable for scholarships, program support and operations	2,195	4,601
Split interest agreements for scholarships, program support and operations	2,319	1,564
Plant projects	8,279	3,580
Other	<u>406</u>	<u>585</u>
	<u>\$ 253,222</u>	<u>\$ 202,534</u>

MACALESTER COLLEGE
Notes to Financial Statements
May 31, 2010 and 2009
(in thousands of dollars)

Permanently restricted net assets and the purposes the income is expendable to support are as follows at May 31, 2010 and 2009:

	<u>2010</u>	<u>2009</u>
Endowment funds for:		
Scholarships	\$ 31,247	\$ 29,504
Prizes and awards	279	279
Library support	3,107	3,084
Program support	242,098	241,967
Faculty support	22,618	22,527
Research	<u>2,061</u>	<u>2,176</u>
	301,410	299,537
Beneficial interest in outside managed trusts restricted for scholarships	23,342	21,148
Contributions receivable for scholarships and program support	364	515
High Winds Fund	12,739	12,259
Loan funds	3,629	3,679
Split interest agreements for scholarships and program support	<u>2,960</u>	<u>3,422</u>
	<u>\$ 344,444</u>	<u>\$ 340,560</u>

11) Endowment Funds

Overview

The College's endowment consists of 563 individual funds established for a variety of purposes. Its endowment includes both donor-restricted endowment funds and funds designated by the Board of Trustees to function as endowments. As required by US generally accepted accounting principles (GAAP), net assets associated with endowment funds, including funds designated by the Board of Trustees to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

Interpretation of Relevant Law

The College's Board of Trustees has interpreted the Uniform Prudent Management of Institutional Funds Act (UPMIFA) as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the College classifies the following as permanently restricted net assets: a) the original value of gifts donated to the permanent endowment; b) the original value of subsequent gifts to the permanent endowment; and c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the College in a manner consistent with the standard of prudence prescribed by UPMIFA.

MACALESTER COLLEGE
Notes to Financial Statements
May 31, 2010 and 2009
(in thousands of dollars)

In accordance with UPMIFA, the College considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds: a) the duration and preservation of the funds; b) the purposes of the College and the donor-restricted endowment funds; c) general economic conditions; d) the possible effect of inflation and deflation; e) the expected total return from income and the appreciation of investments; f) other resources of the College; and g) the investment policies of the College.

Endowment Funds Restrictions and Designations

The College's endowment net assets were classified as follows at May 31, 2010 and 2009:

	2010			
	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Donor-restricted endowment funds	\$ (485)	\$ 229,692	\$ 301,410	\$ 530,617
Board-designated endowment funds	<u>41,843</u>	<u>-</u>	<u>-</u>	<u>41,843</u>
Total funds	<u>\$ 41,358</u>	<u>\$ 229,692</u>	<u>\$ 301,410</u>	<u>\$ 572,460</u>
	2009			
	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Donor-restricted endowment funds	\$ (1,570)	\$ 184,696	\$ 299,537	\$ 482,663
Board-designated endowment funds	<u>40,491</u>	<u>-</u>	<u>-</u>	<u>40,491</u>
Total funds	<u>\$ 38,921</u>	<u>\$ 184,696</u>	<u>\$ 299,537</u>	<u>\$ 523,154</u>

Included in temporarily restricted endowment net assets at May 31, 2010 and 2009 is \$44,671 and \$37,751, respectively, of funds that have been temporarily restricted by donors but are being managed by the College as endowment funds.

MACALESTER COLLEGE
Notes to Financial Statements
May 31, 2010 and 2009
(in thousands of dollars)

*The College's endowment net assets changed as follows for the years ended
May 31, 2010 and 2009:*

	2010			
	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets, beg. of year	\$ 38,921	184,696	\$ 299,537	\$ 523,154
Investment return:				
Investment income	1,630	5,773	-	7,403
Realized and unrealized gains	<u>8,099</u>	<u>61,512</u>	<u>-</u>	<u>69,611</u>
Total investment return	9,729	67,285	-	77,014
Fees and other expenses	(407)	(1,439)	-	(1,846)
Contributions	-	2,095	569	2,664
Split interest agreement maturities	-	-	1,474	1,474
Amounts appropriated for expenditure	(6,885)	(23,115)	-	(30,000)
Reclassification of net assets	<u>-</u>	<u>170</u>	<u>(170)</u>	<u>-</u>
Endowment net assets, end of year	<u>\$ 41,358</u>	<u>\$ 229,692</u>	<u>\$ 301,410</u>	<u>\$ 572,460</u>
	2009			
	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets, beg. of year	\$ 111,555	256,308	\$ 299,369	\$ 667,232
Net asset reclass based on law change	<u>(58,664)</u>	<u>58,664</u>	<u>-</u>	<u>-</u>
Endowment net assets, beg. of year after reclassification	52,891	314,972	299,369	667,232
Investment return:				
Investment income	2,036	7,031	-	9,067
Realized and unrealized gains	<u>(8,702)</u>	<u>(120,874)</u>	<u>-</u>	<u>(129,576)</u>
Total investment return	(6,666)	(113,843)	-	(120,509)
Fees and other expenses	(415)	(1,431)	-	(1,846)
Contributions	-	6,400	56	6,456
Split interest agreement maturities	-	-	112	112
Amounts appropriated for expenditure	<u>(6,889)</u>	<u>(21,402)</u>	<u>-</u>	<u>(28,291)</u>
Endowment net assets, end of year	<u>\$ 38,921</u>	<u>\$ 184,696</u>	<u>\$ 299,537</u>	<u>\$ 523,154</u>

Funds with Deficiencies

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor or UPMIFA requires the College to retain as a fund of perpetual duration. Deficiencies of this nature that are reported in unrestricted net assets were \$485 and \$1,570 as of May 31, 2010 and 2009, respectively. These deficiencies resulted from unfavorable market fluctuations that occurred shortly after the investment of new permanently restricted contributions and continued appropriations for certain programs that were deemed prudent by the Board of Trustees. Subsequent gains that restore the fair value of the assets of the endowment funds to the required level will be classified as an increase in unrestricted net assets.

Return Objectives and Risk Parameters

The College has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of the endowment assets. Endowment assets include those assets of donor-restricted funds that the organization must hold in perpetuity or for a donor-specified period, as well as board-designated funds. Under this policy, as approved by the Board of Trustees, the endowment assets are invested in a manner that is intended to produce results that exceed endowment spending plus inflation with real growth as a secondary goal. The College expects its endowment funds, over three to five years, to provide an average annual real rate of return of approximately 6.5% annually. Actual returns in any given year may vary from this amount.

Strategies Employed for Achieving Objectives

To satisfy its long-term rate-of-return objectives, the College relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The College targets a diversified asset allocation that places emphasis on investments in equities, alternative assets, and fixed income assets in a 45-40-15 percent ratio to achieve its long-term return objectives within prudent risk constraints.

The majority of the assets of the endowment funds have been placed in an investment pool, on a fair value basis, with each individual fund within the pool subscribing to or disposing of units on the basis of the market value per unit at the beginning of the month within which the transaction takes place.

Spending Policy and How the Investment Objectives Relate to Spending Policy

The College has a policy of appropriating for distribution each year a percentage of its endowment funds' sixteen-quarter average of investment fair value. This percentage for 2010 and 2009 was 5.1%. In establishing this policy, the College considered the expected return on its endowment. Accordingly, the College expects the current spending policy to allow its endowment to maintain its purchasing power by growing at a rate equal to planned payouts. Additional real growth will be provided through new gifts and any excess investment returns. The spending is supplemented by an amount equivalent to the investment expenses. If yield (interest and dividend income) is not sufficient to support the calculated spending, the balance is allocated from gains of the endowment assets.

12) High Winds Fund

Included in the permanently restricted net assets are resources related to the High Winds Fund. The Fund is subject to the provisions of an agreement between the College and a major benefactor which provides, among other things, for physical segregation and administration of such funds in accordance with the provisions of such agreement. The purpose of the High Winds Fund is to maintain and improve the beauty, serenity and security of the area surrounding the College campus. As of May 31, 2010, the High Winds Fund owned 13 properties surrounding the College campus. The total value of the assets of the Fund as of May 31, 2010 and 2009 was \$15,209 and \$14,569, respectively.

13) Retirement Plans

The College provides retirement benefits to substantially all employees. Certain academic and non academic personnel are covered under defined contribution plans with Teachers Insurance and Annuity Association and College Retirement Equities Fund, and Vanguard Fiduciary Trust Company. A plan covering union employees is funded by deposits with trustees based on a fixed rate of contribution per hour worked. The College has no liability for these pension plans once deposits are made to the administrators. Total benefit expense for the years ended May 31, 2010 and 2009 was \$3,502 and \$3,307, respectively.

14) Fundraising Expenses

Fundraising expenses for the College totaled \$4,837 and \$5,643 for the years ended May 31, 2010 and 2009, respectively.

15) Subsequent Event

In connection with the preparation of the financial statements and in accordance with the recently issued ASC Topic 855, *Subsequent Events*, the College has evaluated subsequent events after the Statement of Financial Position date of May 31, 2010 through November 3, 2010, which is the date the financial statements were available to be issued and determined there were no additional items to disclose.