MACALESTER COLLEGE

ANNUAL FINANCIAL STATEMENTS
WITH AUDITORS OPINION
FOR YEAR ENDED MAY 31, 2006

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

The Board of Trustees
Macalester College:

We have audited the accompanying statements of financial position of Macalester College (the College), as of May 31, 2006 and 2005, 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 the College as of May 31, 2006 and 2005, 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.

As described in note 13, the College implemented Financial Accounting Standards Board Interpretation No. 47, *Accounting for Conditional Asset Retirement Obligations* (FIN 47), as of June 1, 2005.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 29, 2006, 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 29, 2006

MACALESTER COLLEGE
Statements of Financial Position
May 31, 2006 and 2005
(in thousands of dollars)

	Operations	Investments	Plant	2006 Total	2005 Total
ASSETS					
Cash and cash equivalents	$ 9,350	4,646	12,642	26,638	$ 19,252
Collateral on loaned securities	-	73,737	-	73,737	82,508
Accrued investment income	1,018	26	-	1,044	1,273
Prepaid expenses	583	-	783	1,366	1,240
Notes and accounts receivable, net of allowance for doubtful receivables of $ 721 (and $939 in 2005)	1,527	4,714	-	6,241	6,828
Contributions receivable, net	4,019	1,827	8,105	13,951	4,288
Interest rate swap agreement	-	-	524	524	-
Long term investments	9,851	566,416	-	576,267	513,597
Real estate	-	9,764	-	9,764	7,098
Land, buildings and equipment, net of accumulated depreciation	-	-	120,832	120,832	121,917
Beneficial interest in perpetual trust	-	28,466	-	28,466	27,696
Total assets	$ 26,348	689,596	142,886	858,830	$ 785,697
LIABILITIES AND NET ASSETS					
Liabilities:					
Accounts payable and accrued expenses	$ 9,489	52	956	10,497	$ 10,171
Collateral on loaned securities	-	73,737	-	73,737	82,508
Deferred revenue	213	-	-	213	374
Deposits	227	18	-	245	270
Interest rate swap agreement	-	-	-	-	447
Liabilities under planned giving agreements	-	5,875	-	5,875	5,692
Government grants refundable	-	4,462	-	4,462	4,449
Asset retirement obligation			866	866	
Bonds and mortgages payable	-	-	57,879	57,879	56,752
Total liabilities	9,929	84,144	59,701	153,774	160,663
Net assets:					
Unrestricted:					
For operations	3,435	-	-	3,435	4,823
For long term investments	-	47,134	-	47,134	42,031
For endowment payout	-	52,066	-	52,066	41,896
Net investment in plant	-	-	67,530	67,530	68,396
Total unrestricted	3,435	99,200	67,530	170,165	157,146
Temporarily restricted:					
For operations	12,984	-	-	12,984	7,894
For investment in plant	-	-	15,655	15,655	4,519
For long term investments	-	158,547	-	158,547	113,739
Total temporarily restricted	12,984	158,547	15,655	187,186	126,152
Permanently restricted:					
For long term investments	-	347,705	-	347,705	341,736
Total net assets	16,419	605,452	83,185	705,056	625,034
Total liabilities and net assets	$ 26,348	689,596	142,886	858,830	$ 785,697

See accompanying notes to financial statements.

MACALESTER COLLEGE
Statements of Activities
May 31, 2006 and 2005
(in thousands of dollars)

	Operations	Investments	Plant	2006 Total	2005 Total
Changes in unrestricted net assets:					
Revenues and other additions:					
Tuition and fees	$ 52,271	-	-	52,271	$ 48,835
Less: Student aid and scholarships	(23,604)	-	-	(23,604)	(21,650)
Net tuition and fees	28,667	-	-	28,667	27,185
Federal grants and contracts	1,383	-	-	1,383	1,380
State grants and contracts	55	-	-	55	57
Private gifts and grants	4,198	-	-	4,198	4,365
Sales and service of auxiliary enterprises	10,913	-	-	10,913	10,480
Sale of fixed assets/other sources	789	-	-	789	582
Investment income	1,121	-	83	1,204	728
Endowment payout	2,056	-	-	2,056	2,043
Realized and unrealized gains (losses) on:					
Investments, net of gains used in endowment payout	(117)	15,564	-	15,447	9,100
Change in value of planned giving agreements	-	5	-	5	(3)
Change in value of interest rate swap	-	-	971	971	(742)
Changes in donor restrictions	-	-	-	-	1,293
Net assets released from restrictions	22,811	-	703	23,514	22,953
Total revenues and other additions	71,876	15,569	1,757	89,202	79,421
Expenses:					
Instruction	26,731	-	1,465	28,196	26,425
Research	1,295	-	-	1,295	977
Public service	474	-	42	516	381
Academic support	6,438	-	370	6,808	6,355
Student services	11,766	-	2,198	13,964	13,085
Institutional support	13,000	-	1,047	14,047	12,775
Auxiliary enterprises	7,901	501	2,002	10,404	10,747
Administration and other expenses	-	214	-	214	165
Total expenses	67,605	715	7,124	75,444	70,910
Transfers among reporting categories:					
Principal and interest	(4,439)	-	4,439	-	-
Capital improvements	(1,034)	-	1,034	-	-
Long term investments	(186)	419	(233)	-	-
Total transfers	(5,659)	419	5,240	-	-
Change in unrestricted net assets before extraordinary loss and cumulative effect of change in accounting principle	(1,388)	15,273	(127)	13,758	8,511
Extraordinary loss on extinguishment of debt	-	-	-	-	(417)
Cumulative effect of a change in accounting principle	-	-	(739)	(739)	-
Change in unrestricted net assets	(1,388)	15,273	(866)	13,019	8,094
Unrestricted net assets beginning of year	4,823	83,927	68,396	157,146	149,052
Unrestricted net assets at end of year	$ 3,435	99,200	67,530	170,165	$ 157,146

See accompanying notes to financial statements.

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MACALESTER COLLEGE
Statements of Activities
May 31, 2006 and 2005
(in thousands of dollars)

	Operations	Investments	Plant	2006 Total	2005 Total
Changes in temporarily restricted net assets:					
Private gifts	$ 6,175	1,018	11,807	19,000	$ 7,726
Other sources	12	-	-	12	37
Investment income	69	-	-	69	26
Endowment payout	21,889	-	23	21,912	22,223
Realized and unrealized gains (losses) on investments, net of gains used in endowment payout	-	43,308	-	43,308	24,178
Change in value of planned giving agreements	-	189	-	189	39
Net assets released from restrictions	(22,811)	-	(703)	(23,514)	(22,953)
Transfers among reporting categories	(244)	235	9	-	-
Change in donor restrictions	-	58	-	58	1,736
Change in temporarily restricted net assets	5,090	44,808	11,136	61,034	33,012
Temporarily restricted net assets beginning of year	7,894	113,739	4,519	126,152	93,140
Temporarily restricted net assets at end of year	$ 12,984	158,547	15,655	187,186	$ 126,152
Changes in permanently restricted net assets:					
Private gifts	$ -	1,518	-	1,518	$ 310
Realized and unrealized gains (losses) on investments, net of gains used in endowment payout	-	3,429	-	3,429	725
Change in value of beneficial interest in perpetual trust	-	769	-	769	901
Change in value of planned giving agreements	-	311	-	311	564
Change in donor restrictions	-	(58)	-	(58)	(3,029)
Net change in permanently restricted net assets	-	5,969	-	5,969	(529)
Permanently restricted net assets at beginning of year	-	341,736	-	341,736	342,265
Permanently restricted net assets at end of year	$ -	347,705	-	347,705	$ 341,736
Total net assets beginning of year	$ 12,717	539,402	72,915	625,034	$ 584,457
Change in total net assets	3,702	66,050	10,270	80,022	40,577
Total net assets end of year	$ 16,419	605,452	83,185	705,056	$ 625,034

See accompanying notes to financial statements.

MACALESTER COLLEGE
Statements of Cash Flows
May 31, 2006 and 2005
(in thousands of dollars)

		2006	2005
Cash flows from operating activities:			
Change in total net assets	$	80,022	40,577
Adjustments to reconcile change in net assets to net cash provided by operating activities:			
Depreciation and amortization		4,334	4,305
Cumulative effect of change in accounting principle		739	-
Realized and unrealized gains on investments		(61,884)	(33,870)
Extraordinary loss on extinguishment of debt		-	417
Unrealized (gain) loss on interest rate swap		(971)	742
Private gifts and other income restricted for long term investments		(1,518)	(310)
Adjustment of actuarial liabilities for planned giving agreements		817	449
Change in assets and liabilities			
Accrued investment income		229	218
Prepaid expenses		(126)	98
Notes and accounts receivable		587	132
Contributions receivable		(9,663)	(2,203)
Accounts payable and accrued expenses		326	997
Deferred revenue		(161)	(969)
Deposits		(25)	16
Net cash provided by operating activities		12,706	10,599
Cash flows from investing activities:			
Proceeds from sale of investments		312,058	152,469
Purchase of investments		(315,510)	(150,857)
Purchase of land, building and equipment		(3,122)	(3,976)
Net cash used in investing activities		(6,574)	(2,364)
Cash flows from financing activities:			
Proceeds from issuance of bond payable, net		3,000	14,995
Principal payments on bonds payable, including extinguishment of debt		(1,873)	(16,641)
Payments made to beneficiaries of planned giving agreements		(634)	(621)
Increase in government grant refundable		13	117
Change in value of beneficial interest in perpetual trust		(770)	(901)
Private gifts, grants and other income restricted for long term investment		1,518	310
Net cash provided by (used in) financing activities		1,254	(2,741)
Increase in cash and cash equivalents		7,386	5,494
Cash and cash equivalents at beginning of the year		19,252	13,758
Cash and cash equivalents at end of the year	$	26,638	19,252
Supplemental disclosure - cash paid for interest	$	2,432	2,473

See accompanying notes to financial statements.

1) Background and Organization

Macalester College (the College) is a highly selective, 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 leading to a Bachelor of Arts degree 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 investments and other assets or liabilities are reported as increases or decreases in unrestricted net assets unless their use is restricted by explicit donor stipulations.

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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 an appropriate discount rate commensurate with the risks involved. Amortization of discount is recorded as additional contribution revenue in accordance with donor imposed restrictions, if any, on the contributions.

Dividends, interest, and net gains or losses, both realized and unrealized, on investments are reported as follows:

- as increases or decreases in permanently restricted net assets if the terms of the gift or the College's interpretation of relevant state law require that they be added to the principal of a permanent endowment asset;
- as increases in temporarily restricted net assets if the terms of the gift impose restrictions on the use of the income; and
- as increases in unrestricted net assets in all other cases.

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.

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.

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 prepaids on the Statement of Financial Position.

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.

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Fair Value of Financial Instruments

The carrying amounts of cash and cash equivalents, 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 and planned giving agreement liabilities are recorded at fair value using appropriate discount rates.

Long term investments and funds for investment, buildings and equipment 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 prices. The collateral on loaned securities is reported at fair value based on quoted market prices of the underlying investments. Fair values for certain investments held in alternative structures including partnerships, commingled funds, and limited liability corporations are estimated by the respective investment managers as market values are not readily determinable. These valuations generally reflect discounts for illiquidity and consider variables such as financial performance of investments, recent sales prices of investments and other pertinent information. 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. The beneficial interest in perpetual trust is reported at fair value of the trust assets.

An estimate of the fair value of the receivables from students under government loan programs and grants refundable to government for student loans could not be made because the notes receivable are not saleable and can only be assigned to the U. S. government or its designees. The fair value of receivables from students under College loan programs approximates carrying value.

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 is $56,645 and $55,420 at May 31, 2006 and 2005, respectively, and the fair value was approximately $57,224 and $56,789. The carrying value approximates the fair value of the Series 1994 and 2003 bonds as the interest rate varies weekly.

Derivative Financial Instruments

In accordance with Statement of Financial Accounting Standards (SFAS) No. 133, *Accounting for Derivative Instruments and Hedging Activities*, Macalester accounts for derivative instruments, including derivative instruments embedded in other contracts. SFAS No. 133 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 statement 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.

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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. 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 assets were recognized as assets and revenue at 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 U.S. generally accepted accounting 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 revenue and expenses during the reporting period. Actual results could differ from these estimates.

Reclassification

Certain 2005 amounts have been reclassified to conform to the 2006 presentation.

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(in thousands of dollars)

3) Long Term Investments

The 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 $16,863 and $15,585 as of May 31, 2006 and 2005, respectively. The allocations shown at fair value are as follows:

	2006	2005
Long term investments of Macalester College:		
Publicly traded securities:		
Domestic Equity, with $30,930 and $36,674 held in collective trusts	$ 74,722	$131,545
Foreign Equity held in collective trusts	130,299	120,160
Fixed Income	90,493	93,232
Alternative strategies in illiquid structures:		
Domestic Equities	126,928	59,177
Private Equities	42,961	29,461
Absolute Return	48,791	42,937
Real Estate	34,177	20,687
Natural Resources	22,083	10,362
Other	5,813	6,036
Total fair value	$576,267	$513,597
Total cost	$497,981	$450,437

Included in the fair value of other stocks is $5,706 and $5,892, relating to 91,697 and 90,710 shares of the not publicly traded Reader's Digest Association, Inc. preferred stock at May 31, 2006 and 2005, respectively. Additionally, the College has agreed not to sell such shares of stock without first offering the shares to the Reader's Digest Association, Inc. As of May 31, 2006 and 2005, the fair value of endowments funded in part or fully by DeWitt Wallace is $426,290 and $383,725.

Certain of the College's external investment managers are authorized to use derivative contracts in managing the assets under their control. From time to time, managers may enter into forward currency contracts to hedge currency risk on investments in foreign securities and other future contracts to adjust asset allocation efficiently. Changes in the fair value of the derivative contracts are included in endowment gains and losses. As of May 31, 2006 and 2005, investments totaling $282,579 and $222,274, respectively, included limited use of forward currency contracts, and investments totaling $106,860 and $120,160, respectively, included other derivative instruments.

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The College participates in a securities lending program, whereby securities owned by the College and included and reported on the accompanying statement of financial position in the College's investments are loaned to other institutions. As of May 31, 2006 and 2005, the College had loaned certain securities, returnable on demand, with a fair value of $72,291 and $80,912, respectively, to several financial institutions that have deposited collateral with respect to such securities of $73,737 and $82,508, respectively. The College receives income on the invested collateral and also continues to receive interest and dividends from securities on loan. This transaction has been accounted for as a non-cash investing activity for purposes of the accompanying statement of cash flow.

4) Funds Held in Trust by Others

The College's beneficial interest in the fair value of assets in a perpetual trust is $28,466 and $27,696 as of May 31, 2006 and 2005, respectively. For the years ended May 31, 2006 and 2005, the College received $1,224 and $1,057 from this trust, respectively.

The College is the income beneficiary of a revocable trust with an estimated value of $13,483 and $13,054 as of May 31, 2006 and 2005, respectively, which is controlled by independent trustees. For the year ended May 31, 2006 and 2005, the College received $303 and $304 from this trust, respectively. These assets are not recorded on the financial statements of the College.

5) Valuation and Performance of Long Term Investment Funds

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.

Endowment investment and spending for the pooled investments is based on a total return policy. The Board of Trustees sets a spending rate which is used to establish the endowment payout. A spending rate for 2006 and 2005 of 5.0% is applied to a sixteen-quarter average of investment fair value. The payout is supplemented by an amount equivalent to the investment expenses. If yield (interest and dividend income) is not sufficient to support the calculated payout, the balance is allocated from gains of the endowment assets. As of May 31, 2006 certain individual endowed funds had gain deficiencies totaling $10 and did not have gains available to supplement yield. The gain deficiencies have been offset by an allocation from unrestricted net assets within the investment pool. As the market value of endowed funds with gain deficiencies increases, the allocation will reverse.

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(in thousands of dollars)

The College's endowment payout on pooled and non-pooled assets as reported in the financial statements is as follows:

Year ended May 31, 2006	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment yield (net of investment expenses of $1,653)	$1,198	$11,745	$ 54	$12,997
Gains used in endowment payout	858	10,167	52	11,076
Endowment payout	$2,056	$21,912	$ 105	$24,073

Year ended May 31, 2005	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment yield (net of investment expenses of $1,659)	$1,045	$10,016	$ 46	$11,107
Gains used in endowment payout	998	12,207	62	13,267
Endowment payout	$2,043	$22,223	$ 108	$24,374

6) Contributions Receivable

Contributions receivable consists of the following:

	2006	2005
Unconditional promises expected to be collected in:		
Less than one year	$ 3,588	$ 1,541
One year to five years	11,412	2,886
Greater than five years	267	257
Less: Discount to present value (5%)	(1,316)	(396)
	$13,951	$ 4,288

7) Land, Building and Equipment

The following is a summary of the College's property and equipment:

	2006	2005
Land and land improvements	$ 1,414	$ 1,414
Buildings and building improvements	164,864	163,938
Equipment	4,817	4,258
Construction in progress	2,548	700
	173,643	170,310
Less: Accumulated depreciation	(52,811)	(48,393)
	$120,832	$121,917

(Continued)

(in thousands of dollars)

8) Bonds and Mortgages Payable

Bonds and mortgages payable consist of the following:

	2006	2005
College Housing Program Mortgages at 3%, due in semi-annual installments through 2020 (original amount $880)	422	446
Minnesota Higher Education Facilities Authority (MHEFA) variable rate demand revenue bonds of 1994, weekly maturity and rate reset, 2.89% average for current fiscal year, total principal due 2024 (original amount $6,660)	6,660	6,660
Minnesota Higher Education Facilities Authority Revenue Bonds of 1998, 4.94% average, final series due 2022 (original amount $22,345)	17,740	18,465
Minnesota Higher Education Facilities Authority variable rate demand revenue bonds of 2003, weekly rate reset as well as a weekly tender option, 2.89% 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)	14,085	14,995
Minnesota Higher Education Facilities Authority Revenue notes of 2005, 4.08% average, final series due 2014 (original amount $3,000)	2,860	–
	57,067	55,866
Plus unamortized bond premium	812	886
	$57,879	$56,752

The College is involved in the College Housing Program of the U. S. Department of Housing and Urban Development. The funds received under this program have been 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, 2006 and 2005, 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 as well as a fixed rate are optional. Proceeds of the issue were used to finance various campus improvements and an athletic field expansion. Loan repayments associated with the bonds will be general obligations of the College, with interest payable monthly (semi-annual if converted to fixed), and principal payable at maturity, on March 1, 2024.

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(in thousands of dollars)

In July of 1998, $22,345 of revenue bonds were issued on behalf of the College by MHEFA. The average maturity of the issued bonds is 14.59 years at an average rate of 4.94%. A portion of the proceeds were used, together with other funds of the College, for construction of a new campus center. The remaining portion was used for refunding in advance the 1992 bond issue.

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 are being used to finance various dormitory improvements. Loan repayments associated with the bonds will be 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 are to be used for the acquisition and installation of a replacement administrative computing system to include new hardware, software licenses, and costs of converting data, training and testing.

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 30 day 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, 2006, the estimated market value of the swap contract was $524.

Annual debt commitments (principal) at May 31, 2006, are as follows:

Fiscal year ending May 31,	Amount
2007	2,173
2008	2,256
2009	2,329
2010	2,443
2011	2,552
after 2011	45,314
	$57,067

Total interest costs on debt aggregated $2,306 and $2,716 during the year ended May 31, 2006 and 2005, respectively.

(Continued)

(in thousands of dollars)

9) 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, 2006, the High Winds Fund owned nine properties surrounding the College campus. The total value of the assets of the Fund as of May 31, 2006 and 2005 is $13,294 and $10,010, respectively.

10) Retirement Plan

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. The College has an unfunded pension plan which supplements retirement benefits of certain professional and staff employees not fully covered by other plans. The unfunded liability under the supplemental plan at May 31, 2006 and 2005 was approximately $141 and $173, respectively.

Total benefit expense for the year ended May 31, 2006, was $2,556 including $20 paid under the unfunded supplemental plan and for the year ended May 31, 2005, was $2,465 including $20 paid under the unfunded supplemental plan.

11) Functional Expenses

Expenses are reported in the College's financial statements in categories recommended by the National Association of College and University Business Officers and are classified among program and supporting services as follows:

	2006	2005
Program - Student instruction and services	$64,723	$60,808
Management and general	6,787	6,753
Fundraising	3,934	3,349
	$75,444	$70,910

(Continued)

12) Commitments

On May 26, 2005 the College entered into a contract to purchase and install administrative computing software with Sungard SCT Corporation. The contract calls for the College to purchase hardware, software licenses, and consulting, conversion, and training services over a three year period. The College evaluated the vendor's products and negotiated its contract in conjunction with three other local private colleges. The installation of the new software will be executed in collaboration with these three colleges.

The College is committed as of May 31, 2006 to invest approximately $78,936 in certain limited partnerships for long term investment purposes.

13) Asset Retirement Obligations

In March 2005, the Financial Accounting Standards Board issued Interpretation No. 47, *Accounting for Conditional Asset Retirement Obligations* (FIN 47). Under FIN 47, the College must accrue for costs related to legal obligations to perform certain activities in connection with the retirement, disposal, or abandonment of assets. The obligation to perform the 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.

FIN 47 requires that the estimate be recorded as a liability and as an increase to the associated assets. The assets are depreciated over their remaining useful lives. The estimated carrying value of such assets, net of accumulated depreciation, at June 1, 2005 was $85 and the asset retirement obligation was $824. Accordingly, the cumulative effect of change in accounting principle as of June 1, 2005 was $739. For the year ended May 31, 2006, depreciation expense of $3 was recorded on the FIN 47 asset and accretion expense of $42 was recognized pertaining to the asset retirement obligation.