MACALESTER COLLEGE

ANNUAL FINANCIAL STATEMENTS
WITH AUDITORS' OPINION
FOR THE FISCAL YEAR ENDED MAY 31, 2008

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, 2008 and 2007, 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, 2008 and 2007, 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 December 4, 2008, 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
December 4, 2008

MACALESTER COLLEGE
Statements of Financial Position
May 31, 2008 and 2007
(in thousands of dollars)

	Operations	Investments	Plant	2008 Total	2007 Total
ASSETS					
Cash and cash equivalents	$ 2,527	(11,507)	13,561	4,581	$ 13,900
Restricted cash and cash equivalents	-	-	-	-	22,652
Collateral on loaned securities	-	-	-	-	84,193
Accrued investment income	204	1,023	-	1,227	1,703
Prepaid expenses	651	-	1,406	2,057	2,352
Notes and accounts receivable, net of allowance for doubtful receivables of $682 (and $701 in 2007)	1,852	4,955	17	6,824	6,108
Contributions receivable, net	4,234	1,928	8,179	14,341	15,777
Interest rate swap agreement	-	-	-	-	324
Short term investments	9,419	-	-	9,419	20,252
Long term investments	9,508	696,478	-	705,986	669,177
Real estate	-	10,864	-	10,864	10,864
Land, buildings and equipment, net of accumulated depreciation	-	-	152,561	152,561	121,596
Beneficial interest in perpetual trust	-	29,787	-	29,787	31,826
Total assets	$ 28,395	733,528	175,724	937,647	$ 1,000,724
LIABILITIES AND NET ASSETS					
Liabilities:					
Accounts payable and accrued expenses	$ 8,007	102	4,201	12,310	$ 10,604
Collateral on loaned securities	-	-	-	-	84,193
Deferred revenue	757	16	-	773	671
Deposits	279	21	-	300	63
Interest rate swap agreement	-	-	298	298	-
Liabilities under planned giving agreements	-	6,691	-	6,691	6,846
Government grants refundable	-	4,494	-	4,494	4,489
Asset retirement obligation	-	-	846	846	807
Bonds and mortgages payable	-	-	76,344	76,344	78,733
Total liabilities	9,043	11,324	81,689	102,056	186,406
Net assets:					
Unrestricted	9,463	111,875	77,149	198,487	185,874
Temporarily restricted:					
For operations	9,889	-	-	9,889	8,804
For investment in plant	-	-	16,886	16,886	18,886
For long term investments	-	259,453	-	259,453	248,762
Total temporarily restricted	9,889	259,453	16,886	286,228	276,452
Permanently restricted:					
For long term investments	-	350,876	-	350,876	351,992
Total net assets	19,352	722,204	94,035	835,591	814,318
Total liabilities and net assets	$ 28,395	733,528	175,724	937,647	$ 1,000,724

See accompanying notes to financial statements.

MACALESTER COLLEGE
Statements of Activities
May 31, 2008 and 2007
(in thousands of dollars)

	Operations	Investments	Plant	2008 Total	2007 Total
Changes in unrestricted net assets:					
Revenues and other additions:					
Tuition and fees	$ 63,147	-	-	63,147	$ 58,696
Less: Student aid and scholarships	(28,037)	-	-	(28,037)	(25,618)
Net tuition and fees	35,110	-	-	35,110	33,078
Federal grants and contracts	1,449	-	-	1,449	1,020
State grants and contracts	131	-	-	131	50
Private gifts and grants	4,637	10	-	4,647	4,061
Sales and service of auxiliary enterprises	11,648	-	-	11,648	10,437
Other sources	915	-	-	915	740
Investment income	776	-	517	1,293	1,745
Endowment payout	3,138	-	-	3,138	3,232
Realized and unrealized gains on:					
Investments, net of gains used in endowment payout	(397)	3,846	-	3,449	12,208
Change in value of planned giving agreements	-	(64)	-	(64)	93
Change in value of interest rate swap	-	-	(622)	(622)	(200)
Net assets released from restrictions	24,378	-	10,397	34,775	27,212
Total revenues and other additions	81,785	3,792	10,292	95,869	93,676
Expenses:					
Program					
Instruction	28,966	-	1,615	30,581	28,953
Research	680	-	2	682	928
Public service	997	103	160	1,260	534
Academic support	7,105	-	355	7,460	7,055
Student services	13,395	-	2,355	15,750	15,015
Auxiliary enterprises	7,244	527	1,874	9,645	9,608
Institutional support	16,112	562	1,072	17,746	15,353
Total expenses	74,499	1,192	7,433	83,124	77,446
Transfers among reporting categories	(5,657)	(736)	6,393	-	-
Loss on disposal of fixed assets	-	-	(132)	(132)	(2,333)
Reclassification of net assets	-	-	-	-	1,812
Change in unrestricted net assets	1,629	1,864	9,120	12,613	15,709
Unrestricted net assets beginning of year	7,834	110,011	68,029	185,874	170,165
Unrestricted net assets at end of year	$ 9,463	111,875	77,149	198,487	$ 185,874

See accompanying notes to financial statements.

(continued)

MACALESTER COLLEGE
Statements of Activities
May 31, 2008 and 2007
(in thousands of dollars)

	Operations	Investments	Plant	2008 Total	2007 Total
Changes in temporarily restricted net assets:					
Private gifts	$ 2,104	589	8,372	11,065	$ 14,148
Other sources	38	-	-	38	99
Investment income	15	-	-	15	128
Endowment payout	23,507	-	25	23,532	21,919
Realized and unrealized gains on investments, net of gains used in endowment payout	-	10,148	-	10,148	80,959
Change in value of planned giving agreements	-	(247)	-	(247)	448
Net assets released from restrictions	(24,378)	-	(10,397)	(34,775)	(27,212)
Transfers among reporting categories	(201)	201	-	-	-
Reclassification of net assets			-	-	(1,223)
Change in temporarily restricted net assets	1,085	10,691	(2,000)	9,776	89,266
Temporarily restricted net assets beginning of year	8,804	248,762	18,886	276,452	187,186
Temporarily restricted net assets at end of year	$ 9,889	259,453	16,886	286,228	$ 276,452
Changes in permanently restricted net assets:					
Private gifts	$ -	684	-	684	$ 262
Realized and unrealized gains on investments, net of gains used in endowment payout	-	244	-	244	762
Change in value of beneficial interest in perpetual trust	-	(2,039)	-	(2,039)	3,360
Change in value of planned giving agreements	-	(5)	-	(5)	492
Reclassification of net assets	-	-	-	-	(589)
Change in permanently restricted net assets	-	(1,116)	-	(1,116)	4,287
Permanently restricted net assets at beginning of year	-	351,992	-	351,992	347,705
Permanently restricted net assets at end of year	$ -	350,876	-	350,876	$ 351,992
Total net assets beginning of year	$ 16,638	710,765	86,915	814,318	$ 705,056
Change in total net assets	2,714	11,439	7,120	21,273	109,262
Total net assets end of year	$ 19,352	722,204	94,035	835,591	$ 814,318

See accompanying notes to financial statements.

MACALESTER COLLEGE
Statements of Cash Flows
May 31, 2008 and 2007
(in thousands of dollars)

	2008	2007
Cash flows from operating activities:		
Change in total net assets	$ 21,273	$ 109,262
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Depreciation and amortization	5,183	4,335
Realized and unrealized gain on investments	(25,154)	(93,070)
Loss on disposal of fixed assets	132	2,333
Unrealized loss on interest rate swap	622	200
Private gifts and other income restricted for long term investments	(9,056)	(7,576)
Adjustment of actuarial liabilities for planned giving agreements	580	1,635
Change in assets and liabilities		
Accrued investment income	476	(659)
Prepaid expenses	295	(986)
Notes and accounts receivable	(716)	133
Contributions receivable	(295)	107
Accounts payable and accrued expenses	(163)	(1,586)
Deferred revenue	102	458
Deposits	237	(182)
Net cash (used in) provided by operating activities	(6,484)	14,404
Cash flows from investing activities:		
Proceeds from sale of investments	203,691	220,760
Purchase of investments	(204,513)	(227,752)
Purchase of land, building and equipment	(34,469)	(5,872)
Net cash used in investing activities	(35,291)	(12,864)
Cash flows from financing activities:		
Proceeds from issuance of bond payable, net	-	40,081
Principal payments on bonds payable, including extinguishment of debt	(2,292)	(19,153)
Payments made to beneficiaries of planned giving agreements	(735)	(664)
Increase in government grant refundable	5	27
Change in value of beneficial interest in perpetual trust	2,039	(3,360)
Private gifts, grants and other income restricted for long term investment	10,787	5,643
Net cash provided by financing activities	9,804	22,574
(Decrease) increase in cash and cash equivalents	(31,971)	24,114
Cash and cash equivalents at beginning of the year	36,552	12,438
Cash and cash equivalents at end of the year	$ 4,581	$ 36,552
Cash and cash equivalents	$ 4,581	$ 13,900
Restricted cash and cash equivalents	-	22,652
Total cash and cash equivalents	$ 4,581	$ 36,552
Supplemental disclosure - cash paid for interest, including interest capitalized of $982	$ 3,171	$ 2,449
Noncash investing and financing activities:		
Purchases of land, building and equipment funded by accounts payable	$ 1,869	1,693

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 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.

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.

Short Term Investments

Short term investments consist of CommonFund Short Term Investment Fund holdings.

Restricted Cash and Cash Equivalents

Restricted cash and cash equivalents consist of unspent bond proceeds whose use is restricted for construction of a new athletics and recreation center.

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. 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.

Impairment of Long-Lived Assets

SFAS No. 144, *Accounting for the Impairment of Long-Lived Assets*, provides a single accounting model for long-lived assets to be disposed of. During fiscal 2007, certain of the College's long-lived assets were demolished. Accordingly, the College reported a loss on disposal of $2,333 in the statement of activities.

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.

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.

On June 1, 2007, the College adopted Financial Accounting Standards Board (FASB) Interpretation No. 48, *Accounting for Uncertainty in Income Taxes – an interpretation of FASB Statement 109* (FIN 48). This interpretation clarifies the accounting for uncertainty in tax positions recognized in accordance with FASB Statement 109, *Accounting for Uncertainty in Income Taxes*. This interpretation also provides guidance on when the tax positions are recognized in an entity's financial statements and how the values of these positions are determined. The adoption of FIN 48 had no impact on the financial statements.

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 values. 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. 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 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 was $74,742 and $77,008 at May 31, 2008 and 2007, respectively, and the fair value was approximately $75,363 and $77,578, respectively. The carrying value approximates the fair value of the Series 1994 and 2003 bonds as the interest rate varies weekly. Because the variance between the carrying value and the fair value is immaterial, the College records the value of the outstanding debt at carrying value.

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 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. 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 was recognized as assets and revenue as of the date the College was notified of the establishment of the trust. Distributions from the trust are recorded as investment income.

(in thousands of dollars)

Use of Estimates

The preparation of financial statements in conformity with U.S. 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.

Reclassification

Certain 2007 amounts have been reclassified to conform to the 2008 presentation.

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 $16,991 and $18,748 as of May 31, 2008 and 2007, respectively. The allocations shown at fair value are as follows:

	2008	2007
Long term investments of Macalester College:		
Publicly traded securities:		
Domestic equity	$ 39,682	$ 46,307
Domestic equity held in collective trusts	8,339	15,135
Foreign equity held in collective trusts	157,974	173,517
Fixed income	88,782	78,616
Fixed income held in collective trusts	12,862	13,215
Futures held in collective trusts	12,609	-
Mutual funds held in collective trusts	3,807	-
Alternative strategies in illiquid structures:		
Domestic equities	134,857	128,416
Private equities	74,960	63,735
Absolute return	91,799	80,425
Real estate	41,830	36,655
Natural resources	38,455	27,001
Other	30	6,155
Total fair value	$705,986	$669,177
Total cost	$590,645	$528,416

Included in the fair value of other stocks was $6,097, relating to 92,693 shares of the not publicly traded Reader's Digest Association, Inc. preferred stock at May 31, 2007. The College agreed not to sell such shares of stock without first offering the shares to Reader's Digest Association, Inc. During the fiscal year ended May 31, 2008, the College sold these shares for net proceeds of $5,402.

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, 2008 and 2007, investments totaling $110,891 and $124,814, respectively, included limited use of forward currency contracts, and investments totaling $239,265 and $208,841, respectively, included other derivative instruments.

The College participates in a securities lending program, whereby securities owned by the College and included and reported on the accompanying statements of financial position in the College's investments are loaned to other institutions. As of May 31, 2008, no securities were loaned. As of May 31, 2007, the College had loaned certain securities, returnable on demand, with a fair value of $82,447 to several financial institutions that had deposited collateral with respect to such securities of $84,193. The College receives income on the invested collateral and also continues to receive interest and dividends from securities on loan. These transactions have been accounted for as a non-cash investing activities for purposes of the accompanying statements of cash flows.

4) Funds Held in Trust by Others

The College's beneficial interest in the fair value of assets in a perpetual trust was $29,787 and $31,826 as of May 31, 2008 and 2007, respectively. For the years ended May 31, 2008 and 2007, the College received $1,339 and $1,337 from this trust, respectively.

The College is the income beneficiary of a revocable trust with an estimated value of $13,118 and $15,422 as of May 31, 2008 and 2007, respectively, which is controlled by independent trustees. For the year ended May 31, 2008 and 2007, the College received $728 and $508 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 2008 and 2007 of 5.1% was 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.

(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, 2008	Unrestricted	Temporarily Restricted	Total
Endowment yield (net of investment expenses of $1,627)	$ 911	$ 14,509	$ 15,420
Gains used in endowment payout	2,227	9,023	11,250
Endowment payout	$ 3,138	$ 23,532	$ 26,670

Year ended May 31, 2007	Unrestricted	Temporarily Restricted	Total
Endowment yield (net of investment expenses of $1,517)	$ 2,103	$ 13,641	$ 15,744
Gains used in endowment payout	1,129	8,278	9,407
Endowment payout	$ 3,232	$ 21,919	$ 25,151

6) Contributions Receivable

Contributions receivable consists of the following:

	2008	2007
Unconditional promises expected to be collected in:		
Less than one year	$ 4,512	$ 4,163
One year to five years	9,885	12,416
Greater than five years	1,105	182
Less: Discount to present value (4% - 5%)	(1,161)	(984)
	$ 14,341	$ 15,777

7) Land, Buildings and Equipment

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

	2008	2007
Land and land improvements	$ 1,414	$ 1,414
Buildings and building improvements	161,280	161,252
Equipment	8,220	4,885
Construction in progress	40,829	8,726
	211,743	176,277
Less: Accumulated depreciation	(59,182)	(54,681)
	$152,561	$121,596

(in thousands of dollars)

8) Bonds and Mortgages Payable

Bonds and mortgages payable consist of the following:

	2008	2007
College Housing Program Mortgages at 3%, due in semi-annual installments through 2020 (original amount $880)	$ 370	$ 396
Minnesota Higher Education Facilities Authority (MHEFA) variable rate demand revenue bonds of 1994, weekly maturity and rate reset, 3.08% 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, 3.10% 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)	11,850	12,985
Minnesota Higher Education Facilities Authority Revenue notes of 2005, 4.08% average, final series due 2014 (original amount $3,000)	2,272	2,573
Minnesota Higher Education Facilities Authority Revenue Bonds of 2007, 4.42% average, final series due 2032 (original amount $39,490)	38,660	39,490
	75,112	77,404
Plus: Unamortized bond premium	1,232	1,329
	$ 76,344	$ 78,733

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 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, 2008 and 2007, 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.

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 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 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 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, 2008 and 2007, the estimated market value of the swap contract was $(298) and $324, respectively.

(in thousands of dollars)

Annual debt commitments (principal) at May 31, 2008, are as follows:

Fiscal year ending May 31,	Amount
2009	$ 2,524
2010	2,743
2011	2,942
2012	3,177
2013	3,492
After 2013	60,234
	$ 75,112

Total interest expensed and capitalized on debt aggregated $3,114 and $2,656 during the years ended May 31, 2008 and 2007, respectively.

9) Restrictions and Limitations on Net Asset Balances

Temporarily restricted net assets are available for the following purposes at May 31, 2008 and 2007:

	2008	2007
Gifts and other unexpended revenues and gains available for:		
Scholarships	$ 34,841	$ 31,237
Prizes and awards	419	397
Library support	2,542	2,455
Program support	195,811	188,664
Faculty support	25,807	24,106
Research	1,480	1,471
Contributions receivable for plant projects	8,179	9,064
Contributions receivable for scholarships, program support and operations	5,071	5,548
Split interest agreements for scholarships, program support and operations	2,734	3,040
Plant projects	8,707	9,822
Other	637	648
	$286,228	$276,452

(in thousands of dollars)

Permanently restricted net assets and the purposes the income is expendable to support are as follows at May 31, 2008 and 2007:

	2008	2007
Endowment funds for:		
Scholarships	$ 60,514	$ 60,484
Prizes and awards	279	279
Library support	3,084	3,084
Program support	242,236	242,268
Faculty support	22,332	22,236
Research	883	880
Contributions receivable for scholarships and program support	587	587
High Winds Fund	11,899	11,531
Loan funds	4,030	3,995
Split interest agreements for scholarships and program support	5,032	6,474
World Press Institute	-	174
	$350,876	$351,992

10) 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, 2008, the High Winds Fund owned ten properties surrounding the College campus. The total value of the assets of the Fund as of May 31, 2008 and 2007 was $14,806 and $14,401, respectively.

11) 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. Total benefit expense for the years ended May 31, 2008 and 2007 was $3,091 and $2,912, respectively.

12) Fundraising Expenses

Fundraising expenses for the College totaled $6,037 and $5,651 for the years ended May 31, 2008 and 2007, respectively.

13) Commitments

On December 1, 2006, the College entered into a labor-only contract with a local construction company to construct an athletic and recreation facility on campus. The total outstanding contract commitment at May 31, 2008 was $3,792. Construction on the project began in early January 2007 and is expected to be completed in the summer of 2008 for a total estimated cost of $37,000.

The College is committed as of May 31, 2008 to invest approximately $78,887 in certain limited partnerships for long term investment purposes.

14) 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. For the year ended May 31, 2008 and 2007, depreciation expense of $6 and $3, respectively, was recorded on the FIN 47 asset and accretion expense of $40 and $38, respectively, was recognized pertaining to the asset retirement obligation.

15) New Accounting Pronouncements

In September 2006, the Financial Accounting Standards Board (FASB) issued SFAS No. 157, *Fair Value Measurements* (SFAS 157). SFAS 157 provides enhanced guidance for using fair value to measure assets and liabilities. SFAS 157 provides a common definition of fair value and establishes a framework to make the measurement of fair value in U.S. generally accepted accounting principles more consistent and comparable. SFAS 157 also requires expanded disclosures to provide information about the extent to which fair value is used to measure assets and liabilities, the methods and assumptions used to measure fair value, and the effect of fair value measures on change in net assets. SFAS 157 is effective for the College beginning June 1, 2008. The College is evaluating the adoption of SFAS 157 and the impact on the financial statements.

In February 2007, the FASB issued SFAS 159, *the Fair Value Option for Financial Assets and Financial Liabilities Including an Amendment of FASB Statement No. 115*. SFAS 159 permits entities to choose to measure many financial instruments and certain other items at fair value that are not currently required to be measured at fair value, with unrealized gains and losses related to these financial instruments reported in unrealized gains and losses at each subsequent reporting date. SFAS 159 is effective for the College beginning June 1, 2008. The College is evaluating the adoption of SFAS 159 and the impact on the financial statements.

In August 2008, the FASB issued FASB Staff Position No. FAS 117-1, *Endowments of Not-for-Profit Organizations: Net Asset Classification of Funds Subject to an Enacted Version of the Uniform Prudent Management of Institutional Funds Act, and Enhanced Disclosures for All Endowment Funds* (the FSP). The FSP provides guidance on the net asset classification of donor-restricted endowment funds for a not-for-profit organization that is subject to an enacted version of the Uniform Prudent Management of Institutional Funds Act of 2006 (UPMIFA). Effective August 1, 2008, the State of Minnesota enacted the UPMIFA, the provisions of which apply to funds existing on or established after that date. A key component of the FSP is a requirement to classify the portion of investment return from donor-restricted endowment funds that is not classified as permanently restricted net assets as temporarily restricted net assets until appropriated for expenditure. The College will adopt the FSP for the year ending May 31, 2009, which will require the May 31, 2008 financial statements to be retrospectively adjusted to reflect reclassification from unrestricted net assets to temporarily restricted net assets of approximately $59,000. The FSP also requires expanded disclosures for all endowment funds.

16) Subsequent Events

The College holds an ownership interest in the CommonFund Short Term Investment Fund (the Short Term Fund). As of May 31, 2008, the carrying value of the College's interest was $9,419. On September 29, 2008, the College was notified that the trustee for the Short Term Fund, Wachovia Bank, N.A., decided to initiate the termination of the Short Term Fund and establish procedures for an orderly liquidation and distribution of the Short Term Fund's assets and resign as trustee. As a result of this action, liquidity of the Short Term Fund has been restricted. As of November 30, 2008, cumulative liquidity available to the College was equal to approximately 65% of balances held in the Short Term Fund on that date. As of September 29, 2008, the College held $7,624 in the Short Term Fund, and has subsequently received $4,961 in redemptions through November 30, 2008. Management anticipates that additional liquidity will be available over time as the underlying securities and deposits held by the Short Term Fund mature. Management has analyzed this event and considered its effect on operations and cash flows and does not expect that it will have a material adverse effect on the College's liquidity.

The College holds an ownership interest in the CommonFund Intermediate Term Fund (the Intermediate Fund). As of May 31, 2008, the carrying value of the College's interest was $12,862. On September 30, 2008, the College was notified that the CommonFund had restricted the liquidity of the Intermediate Fund. As of November 30, 2008, cumulative liquidity available to the College was equal to approximately 41% of the College's balance held in the Intermediate Fund on that date. As of September 30, 2008, the College held approximately $8,524 in the Intermediate Fund. It is anticipated that additional liquidity will be available in the summer of 2009 as the underlying securities and deposits held by the Intermediate Fund mature. Management has analyzed this event and considered its effect on the College's operations and cash flows and does not expect that it will have a material adverse effect on the College's liquidity.