MACALESTER COLLEGE

ANNUAL FINANCIAL STATEMENTS
WITH AUDITORS' OPINION
FOR THE FISCAL YEAR ENDED MAY 31, 2009

KPMG

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, 2009 and 2008, 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, 2009 and 2008, 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 discussed in notes 2 and 4 to the financial statements, the College adopted Financial Accounting Standards Board (FASB) Statement No. 157, *Fair Value Measurements,* as of June 1, 2008. Additionally, as discussed in notes 2 and 11 to the financial statements, the College adopted FASB Staff Position No. 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*, as of August 1, 2008.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 11, 2009, 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 15, 2009

MACALESTER COLLEGE
Statements of Financial Position
May 31, 2009 and 2008
(in thousands of dollars)

	Operations	Investments	Plant	2009 Total	2008 Total
ASSETS					
Cash and cash equivalents	$ 17,809	1,483	(7,314)	11,978	$ 285
Accrued investment income	136	650	-	786	1,227
Prepaid expenses	513	-	1,333	1,846	2,057
Notes and accounts receivable, net of allowance for doubtful receivables of $739 (and $682 in 2008)	1,310	5,133	-	6,443	6,824
Contributions receivable, net	3,611	1,933	11,060	16,604	14,341
Short term investments	1,362	-	-	1,362	9,419
Long term investments	3,828	534,980	-	538,808	710,282
Receivable for investments with pending settlements	-	1,517	-	1,517	-
Real estate	-	10,807	-	10,807	10,864
Land, buildings and equipment, net of accumulated depreciation	-	-	169,495	169,495	152,561
Beneficial interest in perpetual trust	-	21,041	-	21,041	29,787
Total assets	$ 28,569	577,544	174,574	780,687	$ 937,647
LIABILITIES AND NET ASSETS					
Liabilities:					
Accounts payable and accrued expenses	$ 8,903	115	2,402	11,420	$ 12,310
Deferred revenue	655	23	-	678	773
Deposits	288	3	-	291	300
Interest rate swap agreement	-	-	1,094	1,094	298
Liabilities under planned giving agreements	-	5,780	-	5,780	6,691
Government grants refundable	-	4,513	-	4,513	4,494
Asset retirement obligation	-	-	855	855	846
Bonds and mortgages payable	-	-	73,723	73,723	76,344
Total liabilities	9,846	10,434	78,074	98,354	102,056
Net assets:					
Unrestricted	8,501	39,271	91,467	139,239	198,487
Temporarily restricted:					
For operations	10,222	-	-	10,222	9,889
For investment in plant	-	-	5,033	5,033	16,886
For long term investments	-	187,279	-	187,279	259,453
Total temporarily restricted	10,222	187,279	5,033	202,534	286,228
Permanently restricted:					
For long term investments	-	340,560	-	340,560	350,876
Total net assets	18,723	567,110	96,500	682,333	835,591
Total liabilities and net assets	$ 28,569	577,544	174,574	780,687	$ 937,647

See accompanying notes to financial statements.

MACALESTER COLLEGE

Statements of Activities

May 31, 2009 and 2008

(in thousands of dollars)

	Operations	Investments	Plant	2009 Total	2008 Total
Changes in unrestricted net assets:					
Revenues and other additions:					
Tuition and fees	$ 67,545	-	-	67,545	$ 63,147
Less: Student aid and scholarships	(29,629)	-	-	(29,629)	(28,037)
Net tuition and fees	37,916	-	-	37,916	35,110
Federal grants and contracts	1,201	-	-	1,201	1,449
State grants and contracts	156	-	-	156	131
Private gifts and grants	3,570	4	-	3,574	4,647
Sales and service of auxiliary enterprises	11,966	-	15	11,981	11,648
Other sources	1,031	-	-	1,031	915
Investment income	543	-	120	663	1,293
Endowment payout	3,268	-	-	3,268	3,138
Realized and unrealized gains (losses) on investments, net of gains used in endowment payout	(1,126)	(11,972)	-	(13,098)	3,449
Change in value of planned giving agreements	-	(60)	-	(60)	(64)
Change in value of interest rate swap	-	-	(796)	(796)	(622)
Net assets released from restrictions	26,714	-	17,716	44,430	34,775
Total revenues and other additions	85,239	(12,028)	17,055	90,266	95,869
Expenses:					
Program					
Instruction	30,820	-	1,786	32,606	30,581
Research	926	-	7	933	682
Public service	492	109	150	751	1,260
Academic support	7,810	-	394	8,204	7,460
Student services	15,690	-	3,792	19,482	15,750
Auxiliary enterprises	6,879	542	1,615	9,036	9,645
Institutional support	18,031	566	1,241	19,838	17,746
Total expenses	80,648	1,217	8,985	90,850	83,124
Transfers among reporting categories	(5,553)	(695)	6,248	-	-
Loss on disposal of fixed assets	-	-	-	-	(132)
Reclassification of net assets	-	(58,664)	-	(58,664)	-
Change in unrestricted net assets	(962)	(72,604)	14,318	(59,248)	12,613
Unrestricted net assets beginning of year	9,463	111,875	77,149	198,487	185,874
Unrestricted net assets at end of year	$ 8,501	39,271	91,467	139,239	$ 198,487

See accompanying notes to financial statements.

(continued)

MACALESTER COLLEGE
Statements of Activities
May 31, 2009 and 2008
(in thousands of dollars)

	Operations	Investments	Plant	2009 Total	2008 Total
Changes in temporarily restricted net assets:					
Private gifts	$ 1,021	6,350	5,823	13,194	$ 11,065
Other sources	34	-	-	34	38
Investment income	5	-	-	5	15
Endowment payout	26,191	-	28	26,219	23,532
Realized and unrealized gains (losses) on investments, net of gains used in endowment payout	-	(136,221)	-	(136,221)	10,148
Change in value of planned giving agreements	-	(1,159)	-	(1,159)	(247)
Net assets released from restrictions	(26,714)	-	(17,716)	(44,430)	(34,775)
Transfers among reporting categories	(204)	192	12	-	-
Reclassification of net assets	-	58,664	-	58,664	-
Change in temporarily restricted net assets	333	(72,174)	(11,853)	(83,694)	9,776
Temporarily restricted net assets beginning of year	9,889	259,453	16,886	286,228	276,452
Temporarily restricted net assets at end of year	$ 10,222	187,279	5,033	202,534	$ 286,228
Changes in permanently restricted net assets:					
Private gifts	$ -	56	-	56	$ 684
Realized and unrealized gains (losses) on investments, net of gains used in endowment payout	-	(55)	-	(55)	244
Change in value of beneficial interest in perpetual trust	-	(8,747)	-	(8,747)	(2,039)
Change in value of planned giving agreements	-	(1,570)	-	(1,570)	(5)
Change in permanently restricted net assets	-	(10,316)	-	(10,316)	(1,116)
Permanently restricted net assets at beginning of year	-	350,876	-	350,876	351,992
Permanently restricted net assets at end of year	$ -	340,560	-	340,560	$ 350,876
Total net assets beginning of year	$ 19,352	722,204	94,035	835,591	$ 814,318
Change in total net assets	(629)	(155,094)	2,465	(153,258)	21,273
Total net assets end of year	$ 18,723	567,110	96,500	682,333	$ 835,591

See accompanying notes to financial statements.

MACALESTER COLLEGE
Statements of Cash Flows
May 31, 2009 and 2008
(in thousands of dollars)

	2009	2008
Cash flows from operating activities:		
Change in total net assets	$ (153,258)	$ 21,273
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Depreciation and amortization	6,384	5,183
Realized and unrealized loss (gain) on investments	135,601	(25,154)
Loss on disposal of fixed assets	-	132
Unrealized loss on interest rate swap	796	622
Private gifts and other income restricted for long term investments	(5,879)	(9,056)
Adjustment of actuarial liabilities for planned giving agreements	(236)	580
Change in assets and liabilities:		
Accrued investment income	441	476
Prepaid expenses	211	295
Notes and accounts receivable	381	(716)
Contributions receivable	623	(295)
Receivable for investments with settlements pending	(1,517)	-
Accounts payable and accrued expenses	849	(163)
Deferred revenue	(95)	102
Deposits	(9)	237
Net cash used in operating activities	(15,708)	(6,484)
Cash flows from investing activities:		
Proceeds from sale of investments	210,318	203,691
Purchase of investments	(166,331)	(196,973)
Purchase of land, building and equipment	(25,145)	(34,469)
Net cash provided by (used in) investing activities	18,842	(27,751)
Cash flows from financing activities:		
Principal payments on bonds payable	(2,524)	(2,292)
Payments made to beneficiaries of planned giving agreements	(675)	(735)
Increase in government grant refundable	19	5
Change in value of beneficial interest in perpetual trust	8,746	2,039
Private gifts, grants and other income restricted for long term investment	2,993	10,787
Net cash provided by financing activities	8,559	9,804
Increase (decrease) in cash and cash equivalents	11,693	(24,431)
Cash and cash equivalents at beginning of the year	285	24,716
Cash and cash equivalents at end of the year	$ 11,978	$ 285
Supplemental disclosure - cash paid for interest, including interest capitalized of $409 and $982 in 2009 and 2008, respectively	$ 2,984	$ 3,171
Noncash investing and financing activities:		
Purchases of land, building and equipment funded by accounts payable	$ 1,823	3,562

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.

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. At the date of adoption of FIN 48 and as of May 31, 2009 and 2008, the College has recorded no liabilities for uncertain tax provisions.

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 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 grants refundable to government for student loans could not be made because they are not saleable and can only be assigned to the U.S. 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 $72,247 and $74,742 at May 31, 2009 and 2008, respectively, and the fair value was approximately $73,484 and $75,363, 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 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. 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 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.

New Accounting Pronouncements

In September 2006, the Financial Accounting Standards Board (FASB) issued SFAS No. 157, *Fair Value Measurements*, which establishes a framework for reporting fair value and expands disclosures about fair value measurements. The College adopted SFAS 157 in fiscal 2009 and has made the required disclosures.

In February 2007, the FASB issued SFAS No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities Including an Amendment of FASB Statement No. 115*, which permits an entity to elect fair value as the initial and subsequent measurement attribute for eligible financial assets and liabilities. Entities electing the fair value option are required to recognize changes in fair value in the statement of activities. The adoption of SFAS No. 159 in fiscal 2009 had no impact on the College's financial statements.

Effective August 1, 2008, the College adopted the provisions of FASB Staff Position No. 117-1 (FSP 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*. FSP 117-1 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 (UPMIFA) and also requires disclosures about donor-restricted endowment funds and board-designated endowment funds. The College made the required disclosures and reported the resulting net asset reclassification as a separate line item within the Statement of Activities.

Reclassifications

Certain 2008 amounts have been reclassified to conform to the 2009 presentation.

(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 $11,481 and $16,991 as of May 31, 2009 and 2008, respectively. The allocations shown at fair value are as follows:

	2009	2008
Long term investments of Macalester College:		
Cash and cash equivalents	$ 35,143	$ 15,924
Publicly traded securities:		
Domestic equity	15,857	38,480
Domestic equity held in collective trusts	94	8,339
Foreign equity held in collective trusts	89,495	157,974
Fixed income	69,642	88,004
Fixed income held in collective trusts	5,128	12,862
Futures	7,628	2,991
Mutual funds	39,884	3,807
Alternative strategies in illiquid structures:		
Domestic equities	68,164	134,857
Private equities	64,509	74,960
Absolute return	75,925	91,799
Real estate	35,291	41,830
Natural resources	32,048	38,455
Total fair value	$538,808	$710,282
Total cost	$563,814	$594,941

4) Fair Value Measurements

As of June 1, 2008, the College adopted SFAS No. 157, 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 SFAS No. 157 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.

(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 table summarizes 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, 2009:

	Level 1	Level 2	Level 3	Total
Financial Assets:				
Short-term investments:				
CommonFund Short Term Investment Fund	$ -	$ 1,362	$ -	$ 1,362
Long-term investments:				
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	-	-	64,509	64,509
Absolute return	-	-	75,925	75,925
Real estate	-	-	35,291	35,291
Natural resources	-	-	32,048	32,048
Total long-term investments	$ 98,512	$ 159,231	$ 281,065	$ 538,808
Beneficial interest in perpetual trust	$ -	$ 21,041	$ -	$ 21,041
Financial Liabilities:				
Interest rate swap agreement	$ -	$ 1,094	$ -	$ 1,094

(in thousands of dollars)

The following table is a roll-forward of the Level 3 financial assets during the fiscal year ended May 31, 2009:

	Fixed Income	Domestic Equities	Private Equities	Absolute Return	Real Estate	Natural Resources	Total
Beginning balance at June 1, 2008	$ 12,862	$ 125,600	$ 74,960	$ 91,799	$ 41,830	$ 38,455	$ 385,506
Unrealized gains (losses), net	(7,734)	(34,517)	(19,420)	(5,174)	(9,005)	(13,268)	(89,118)
Realized gains (losses), net	-	-	2,987	90	212	868	4,157
Purchases, sales, issuances and settlements, net	-	(22,919)	5,982	(10,790)	2,254	5,993	(19,480)
Ending balance at May 31, 2009	$ 5,128	$ 68,164	$ 64,509	$ 75,925	$ 35,291	$ 32,048	$ 281,065
Net unrealized gains (losses) included in change in net assets for the period relating to investments held at May 31, 2009	$ (7,734)	$ (34,517)	$ (19,420)	$ (5,174)	$ (9,005)	$ (13,268)	$ (89,118)

The College has $281,065 of alternative investment funds that are reported at fair value and has concluded that the net asset value reported by the underlying fund approximates the fair value of the investment and serves as the practical expedient for fair value. Such investments are redeemable with the fund at net asset value under the original terms of the partnership agreements and/or subscription agreements and operations of the underlying funds. However, it is possible that these redemption rights may be restricted or eliminated by the funds in the future in accordance with the underlying fund agreements.

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.

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, 2009 and 2008, investments totaling $62,116 and $110,891, respectively, included limited use of forward currency contracts, and investments totaling $175,838 and $239,265, respectively, included other derivative instruments.

(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 $21,041 and $29,787 as of May 31, 2009 and 2008, respectively. For the years ended May 31, 2009 and 2008, the College received $1,396 and $1,339 from this trust, respectively.

The College is the income beneficiary of a revocable trust with an estimated value of $8,766 and $13,118 as of May 31, 2009 and 2008, respectively, which is controlled by independent trustees. For the year ended May 31, 2009 and 2008, the College received $614 and $728 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:

	2009	2008
Unconditional promises expected to be collected in:		
Less than one year	$ 6,227	$ 4,512
One year to five years	11,267	9,885
Greater than five years	35	1,105
Less: Discount to present value (3.46% - 5.00%)	(925)	(1,161)
	$ 16,604	$ 14,341

7) Land, Buildings and Equipment

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

	2009	2008
Land and land improvements	$ 1,414	$ 1,414
Buildings and building improvements	220,731	161,280
Equipment	9,301	8,220
Construction in progress	3,241	40,829
	234,687	211,743
Less: Accumulated depreciation	(65,192)	(59,182)
	$169,495	$152,561

8) Revolving Loan Agreement

In December 2008, the College obtained an unsecured revolving loan agreement for operating purposes from a bank in the amount of $5,000 through February 2010. Interest on the loan agreement is at the one-month LIBOR rate plus 2.4%. There were no amounts outstanding under this revolving loan agreement at May 31, 2009.

(in thousands of dollars)

9) Bonds and Mortgages Payable

Bonds and mortgages payable consist of the following:

	2009	2008
College Housing Program Mortgages at 3%, due in semi-annual installments through 2020 (original amount $880)	$ 342	$ 370
Minnesota Higher Education Facilities Authority (MHEFA) variable rate demand revenue bonds of 1994, weekly maturity and rate reset, 1.43% 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, 1.43% 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)	10,685	11,850
Minnesota Higher Education Facilities Authority Revenue notes of 2005, 4.08% average, final series due 2014 (original amount $3,000)	1,962	2,272
Minnesota Higher Education Facilities Authority Revenue Bonds of 2008, 4.42% average, final series due 2032 (original amount $39,490)	37,640	38,660
	72,589	75,112
Plus: Unamortized bond premium	1,134	1,232
	$ 73,723	$ 76,344

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, 2009 and 2008, 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 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.

(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, 2009 and 2008, the estimated market value of the swap contract was $(1,094) and $(298), respectively.

Annual debt commitments (principal) at May 31, 2009, are as follows:

Fiscal year ending May 31,	Amount
2010	$ 2,743
2011	2,942
2012	3,177
2013	3,492
2014	3,643
After 2014	56,592
	$ 72,589

Total interest expensed and capitalized on debt aggregated $2,922 and $3,114 during the years ended May 31, 2009 and 2008, respectively.

(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, 2009 and 2008:

	2009	2008
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	$ 28,772	$ -
Prizes and awards	166	-
Library support	1,850	-
Program support	131,550	-
Faculty support	20,362	-
Research	1,996	-
	184,696	-
Gifts and other unexpended revenues and gains available for:		
Scholarships	2,503	34,841
Prizes and awards	203	419
Library support	93	2,542
Program support	1,747	195,811
Faculty support	1,358	25,807
Research	151	1,480
Contributions receivable for plant projects	1,453	8,179
Contributions receivable for scholarships, program support and operations	4,601	5,071
Split interest agreements for scholarships, program support and operations	1,564	2,734
Plant projects	3,580	8,707
Other	585	637
	$202,534	$286,228

As disclosed in Note 2 to the financial statements, the College adopted FSP 117-1 effective August 1, 2008. Accordingly, the foregoing disclosure of restrictions associated with temporarily restricted net assets for fiscal 2008 was not affected.

(in thousands of dollars)

Permanently restricted net assets and the purposes the income is expendable to support are as follows at May 31, 2009 and 2008:

	2009	2008
Endowment funds for:		
Scholarships	$ 29,504	$ 30,555
Prizes and awards	279	279
Library support	3,084	3,084
Program support	241,967	242,236
Faculty support	22,527	22,332
Research	2,176	883
	299,537	299,369
Beneficial interest in outside managed trusts restricted for scholarships	21,148	29,959
Contributions receivable for scholarships and program support	515	587
High Winds Fund	12,259	11,899
Loan funds	3,679	4,030
Split interest agreements for scholarships and program support	3,422	5,032
	$340,560	$350,876

11) Endowment Funds

Overview

The College's endowment consists of 564 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 U.S. 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.

(in thousands of dollars)

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.

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, 2009:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds	$ (1,570)	$ 184,696	$ 299,537	$ 482,663
Board-designated endowment funds	40,491	-	-	40,491
Total funds	$ 38,921	$ 184,696	$ 299,537	$ 523,154

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

(in thousands of dollars)

The College's endowment net assets changed as follows for the year ended May 31, 2009:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beg. of year	$ 111,555	$ 256,308	$ 299,369	$ 667,232
Net asset reclass based on law change	(58,664)	58,664	-	-
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 losses	(8,702)	(120,874)	-	(129,576)
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	(6,889)	(21,402)	-	(28,291)
Endowment net assets, end of year	$ 38,921	$ 184,696	$ 299,537	$ 523,154

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 $1,570 as of May 31, 2009. 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. There were no such deficiencies as of May 31, 2008.

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 2009 and 2008 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, 2009, the High Winds Fund owned ten properties surrounding the College campus. The total value of the assets of the Fund as of May 31, 2009 and 2008 was $14,569 and $14,806, respectively.

13) 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, 2009 and 2008 was $3,307 and $3,091, respectively.

14) Fundraising Expenses

Fundraising expenses for the College totaled $7,088 and $6,037 for the years ended May 31, 2009 and 2008, respectively.

15) Commitments

The College is committed as of May 31, 2009 to invest approximately $103,594 in certain limited partnerships for long term investment purposes.

16) Asset Retirement Obligations

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, 2009 and 2008, depreciation expense of $3 and $6, respectively, was recorded on the FIN 47 asset and accretion expense of $41 and $40, respectively, was recognized pertaining to the asset retirement obligation.

17) Subsequent Event

In October 2009, the College entered into a contract for $2,750 with a local architect firm to design the renovation of the Fine and Performing Arts Center on campus. The project is likely to occur in two phases. The planning process for the first phase is designed to allow a construction start date in late 2010 with a completion date in mid-2012. Timing is dependent on fundraising activities related to the project.