MACALESTER COLLEGE

ANNUAL FINANCIAL STATEMENTS
WITH AUDITORS' OPINION
FOR THE FISCAL YEAR ENDED MAY 31, 2012

CliftonLarsonAllen LLP
www.cliftonlarsonallen.com

CliftonLarsonAllen

INDEPENDENT AUDITORS' REPORT

Board of Trustees
Macalester College
St. Paul, Minnesota

We have audited the accompanying statements of financial position of Macalester College as of May 31, 2012 and 2011, 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. 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 examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes 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, 2012 and 2011, and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

CliftonLarsonAllen LLP

CliftonLarsonAllen LLP

Minneapolis, Minnesota
October 5, 2012

MACALESTER COLLEGE
Statements of Financial Position
May 31, 2012 and 2011
(in thousands of dollars)

	2012	2011
ASSETS		
Cash and cash equivalents	$ 30,445	$ 33,225
Construction account cash and cash equivalents	-	12,984
Accrued investment income	783	831
Prepaid expenses	1,883	1,850
Notes and accounts receivable, net of allowance for doubtful receivables of $889 (and $820 in 2011)	6,300	7,172
Contributions receivable, net	10,853	10,864
Long term investments	616,341	659,229
Real estate	12,722	11,237
Land, buildings and equipment, net of accumulated depreciation	189,765	169,487
Beneficial interest in perpetual trust	24,822	27,134
Total assets	$ 893,914	$ 934,013
LIABILITIES AND NET ASSETS		
Liabilities:		
Accounts payable and accrued expenses	$ 13,857	$ 12,110
Deferred revenue	1,141	998
Deposits	289	244
Interest rate swap agreement	1,639	1,482
Liabilities under planned giving agreements	7,672	8,196
Government grants refundable	4,542	4,545
Asset retirement obligation	785	779
Capital leases	268	371
Bonds and mortgages payable	80,401	83,796
Total liabilities	110,594	112,521
Net assets:		
Unrestricted		
Operations	13,852	11,483
Investments	47,488	51,656
Plant	92,931	91,515
Total unrestricted	154,271	154,654
Temporarily restricted		
Operations	8,899	10,310
Investments	250,533	288,759
Plant	21,336	18,021
Total temporarily restricted	280,768	317,090
Permanently restricted - Investments	348,281	349,748
Total net assets	783,320	821,492
Total liabilities and net assets	$ 893,914	$ 934,013

See accompanying notes to financial statements.

MACALESTER COLLEGE

Statements of Activities

Years ended May 31, 2012 and 2011

(in thousands of dollars)

	2012				2011			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Operating Activities:								
Revenues and other additions:								
Tuition and fees	$ 82,333	-	-	82,333	$ 78,676	-	-	78,676
Less: Student aid and scholarships	(39,854)	-	-	(39,854)	(37,819)	-	-	(37,819)
Net tuition and fees	42,479	-	-	42,479	40,857	-	-	40,857
Federal grants and contracts	2,136	-	-	2,136	2,398	-	-	2,398
State grants and contracts	464	-	-	464	230	-	-	230
Private gifts and grants	3,212	2,116	-	5,328	3,339	2,947	-	6,286
Sales and service of auxiliary enterprises	13,387	-	-	13,387	13,611	-	-	13,611
Other sources	1,128	51	-	1,179	1,013	43	-	1,056
Endowment payout	3,440	28,183	-	31,623	3,402	28,285	-	31,687
Realized and unrealized (losses) gains on investments	(7)	-	-	(7)	9	-	-	9
Gain (loss) on disposal of fixed assets	81	-	-	81	(1,441)	-	-	(1,441)
Net assets released from restrictions	34,142	(34,142)	-	-	33,514	(33,514)	-	-
Total operating revenues and other additions	100,462	(3,792)	-	96,670	96,932	(2,239)	-	94,693
Expenses:								
Program								
Instruction	35,010	-	-	35,010	32,234	-	-	32,234
Research	2,108	-	-	2,108	1,506	-	-	1,506
Public service	1,014	-	-	1,014	902	-	-	902
Academic support	10,803	-	-	10,803	11,072	-	-	11,072
Student services	19,497	-	-	19,497	19,382	-	-	19,382
Auxiliary enterprises	10,355	-	-	10,355	9,932	-	-	9,932
Institutional support	19,654	-	-	19,654	19,038	-	-	19,038
Total expenses	98,441	-	-	98,441	94,066	-	-	94,066
Change in net assets from operating activities	2,021	(3,792)	-	(1,771)	2,866	(2,239)	-	627
Nonoperating Activities:								
Investment-related:								
Realized and unrealized gains (losses) on investments	$ 1,586	(10,904)	219	(9,099)	$ 13,823	84,788	357	98,968
Less: Endowment payout for operations	(3,440)	(28,183)	-	(31,623)	(3,402)	(28,285)	-	(31,687)
Net realized and unrealized (losses) gains	(1,854)	(39,087)	219	(40,722)	10,421	56,503	357	67,281
Investment income	108	-	-	108	108	-	-	108
Change in beneficial interest in perpetual trust	-	-	(2,313)	(2,313)	-	-	3,790	3,790
Change in value of planned giving agreements	(44)	(270)	(381)	(695)	24	557	785	1,366
Gift-related:								
Private gifts and grants restricted for long-term investment	51	3,372	667	4,090	19	950	512	1,481
Private gifts and grants restricted for capital projects	231	4,221	-	4,452	376	6,303	-	6,679
Other:								
Change in value of interest rate swap	(157)	-	-	(157)	(205)	-	-	(205)
Net assets released from restrictions	425	(425)	-	-	(1,654)	1,794	(140)	-
Total nonoperating revenues and other additions	(1,240)	(32,189)	(1,808)	(35,237)	9,089	66,107	5,304	80,500
Reclassification of net assets	-	(341)	341	-	-	-	-	-
Transfer of assets to outside entity	(1,164)	-	-	(1,164)	-	-	-	-
Effect of change in accounting treatment	-	-	-	-	(2,665)	-	-	(2,665)
Change in net assets from nonoperating activities	(2,404)	(32,530)	(1,467)	(36,401)	6,424	66,107	5,304	77,835
Change in net assets	(383)	(36,322)	(1,467)	(38,172)	9,290	63,868	5,304	78,462
Net assets beginning of year	154,654	317,090	349,748	821,492	145,364	253,222	344,444	743,030
Net assets end of year	$ 154,271	280,768	348,281	783,320	$ 154,654	317,090	349,748	821,492

See accompanying notes to financial statements.

MACALESTER COLLEGE
Statements of Cash Flows
Years ended May 31, 2012 and 2011
(in thousands of dollars)

	2012	2011
Cash flows from operating activities:		
Change in total net assets	$ (38,172)	$ 78,462
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	7,424	6,828
Realized and unrealized loss (gain) on investments	24,712	(90,423)
(Gain) loss on disposal of fixed assets	(81)	1,441
Unrealized loss on interest rate swap	157	205
Private gifts and other income restricted for long term investments	(8,261)	(7,765)
Noncash contributions of marketable securities	(3,123)	(2,723)
Adjustment of actuarial liabilities for planned giving agreements	253	1,721
Endowment payout	29,500	28,700
Change in assets and liabilities:		
Accrued investment income	48	77
Prepaid expenses	(33)	(23)
Notes and accounts receivable	872	1,322
Contributions receivable	(720)	(537)
Accounts payable and accrued expenses	1,234	694
Deferred revenue	143	197
Deposits	45	(107)
Net cash provided by operating activities	13,998	18,069
Cash flows from investing activities:		
Proceeds from sale of investments	126,960	93,355
Proceeds from sale of investments used for endowment payout	(29,500)	(28,700)
Purchase of investments	(107,146)	(70,595)
Purchase of land, building and equipment	(27,291)	(9,210)
Proceeds from sale of equipment	81	-
Net cash used in investing activities	(36,896)	(15,150)
Cash flows from financing activities:		
Proceeds from issuance of bonds payable	-	16,000
Withdrawals from (deposits to) construction account, net	12,984	(12,984)
Bond premium from issuance of bonds payable	-	249
Principal payments on bonds payable	(3,287)	(3,228)
Change in capital leases, net	(103)	371
Payments made to beneficiaries of planned giving agreements	(777)	(733)
Change in government grant refundable	(3)	9
Change in value of beneficial interest in perpetual trust	2,312	(3,790)
Private gifts, grants and other income restricted for long term investment	8,992	9,888
Net cash provided by financing activities	20,118	5,782
(Decrease) increase in cash and cash equivalents	(2,780)	8,701
Cash and cash equivalents at beginning of the year	33,225	24,524
Cash and cash equivalents at end of the year	$ 30,445	$ 33,225
Supplemental disclosure - cash paid for interest, including interest capitalized of $723 and $328, respectively	$ 3,253	$ 3,022
Noncash investing and financing activities:		
Purchases of land, building and equipment funded by accounts payable	$ 1,225	1,370

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. 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. The balances are insured by the Federal Deposit Insurance Corporation up to certain limits. At times, cash in the bank may exceed FDIC insurable limits.

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.

Long Term Investments

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

Real Estate

Purchased real estate investments are initially recorded at cost in the year they are acquired. In subsequent years, the properties are valued based on an appraisal and/or a market analysis. Real estate investments that have been received as contributions are valued at their estimated fair value at the date the properties were donated, as determined by professional appraisals.

Land, Buildings and Equipment

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

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

Bond Issue Costs

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

Asset Retirement Obligation

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

Revenue Recognition

Net tuition and fees and auxiliary revenues are recognized as revenue in the period in which the services are rendered.

Tax Status

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

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

The College’s tax returns are open to examination for the years 2008 through 2010.

Fair Value of Financial Instruments

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

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

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

The estimated fair value of the College's revenue bonds was calculated by discounting future cash flows through estimated maturity using the borrowing rate currently available to the College for debt of similar original maturity. The carrying value of the College bonds was $79,330 and $82,618 at May 31, 2012 and 2011, respectively, and the fair value was approximately $85,023 and $85,832, 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

The College measures derivative instruments, including derivative instruments embedded in other contracts, at fair value and reports them 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 1.5% to 7.0%. The obligation is adjusted during the term of the agreement for changes in the value of the assets, amortization of the discount and other changes in the estimates of future benefits.

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

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

Use of Estimates

The preparation of financial statements in conformity with US generally accepted accounting principles (GAAP) requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from these estimates.

Related Party

Pledges from certain Board of Trustees members and Officers are included in the financial statements. The pledges outstanding totaled $3,814 and $4,244 at May 31, 2012 and 2011, respectively. The College has a conflict of interest policy in place that is reviewed by each Board member and Officer annually.

Reclassifications

Certain 2011 amounts have been reclassified to conform to the 2012 presentation.

(in thousands of dollars)

3) Student Loans Receivable

The College issues uncollateralized loans to students based on financial need. Student loans are funded through federal government loan programs or institutional resources. Allowances for doubtful accounts are established based on prior collection experience and current economic factors, which, in management's judgment, could influence the ability of loan recipients to repay the amounts per the loan terms. At May 31, 2012 and 2011, student loans represented less than 1% of total assets.

Student loans receivable consist of the following:

	2012	2011
Federal government programs	$ 4,699	$ 4,748
Institutional programs	1,553	1,244
Student loans receivable, gross	6,252	5,992
Less: allowance for doubtful accounts:		
Beginning of year	(788)	(738)
Increases	(65)	(50)
Write-offs	-	-
End of year	(853)	(788)
Student loans receivable, net	$ 5,399	$ 5,204

Student loans receivable are included in notes and accounts receivable on the statement of financial position. Also included in notes and accounts receivable are other receivables of the College, including receivables for students' accounts, rent, federal student aid, and grants. These other receivables total $901 and $1,968 as of May 31, 2012 and 2011, respectively. Allowances related to these other receivables total $36 and $32 as of May 31, 2012 and 2011, respectively.

Funds advanced by the federal government of $4,542 and $4,545 at May 31, 2012 and 2011, respectively, are ultimately refundable to the government and are classified as liabilities on the statements of financial position.

At May 31, 2012 and 2011, the following amounts were past due under student loan programs:

	2012	2011
1 - 240 days past due	$ 202	$ 171
240 days - 2 years past due	108	42
2 years - 5 years past due	83	81
Over 5 years past due	418	405
Total past due	$ 811	$ 699

(in thousands of dollars)

4) Long Term Investments

Long term investments include funds traditionally considered the endowment of the College as well as assets of funds for planned giving agreements and loan funds totaling $16,095 and $17,336 as of May 31, 2012 and 2011, respectively. The allocations shown at fair value are as follows:

	2012	2011
Long term investments:		
Cash and cash equivalents	$ 46,536	$ 27,007
Publicly traded securities:		
Domestic equities	20,031	22,307
Foreign equities held in collective trusts	83,640	109,325
Fixed income – TIPS and Treasuries	87,395	85,735
Futures	5,358	4,260
Mutual funds	38,606	54,613
Alternative strategies in illiquid structures:		
Domestic equities	73,070	102,990
Private equities	102,194	101,865
Hedge funds	60,693	64,565
Real estate	34,954	34,545
Natural resources	63,864	52,017
Total fair value	$ 616,341	$ 659,229
Total cost	$ 554,014	$ 550,938

5) Fair Value Measurements

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

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

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

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

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

(in thousands of dollars)

The following tables summarize the College's fair value hierarchy for those assets and liabilities that were measured at fair value on a recurring basis as of May 31, 2012 and 2011:

	2012			
	Level 1	Level 2	Level 3	Total
Financial Assets:				
Long term investments:				
Cash and short term investments	$ 46,536	$ -	$ -	$ 46,536
Publicly traded securities:				
Domestic equities	20,031	-	-	20,031
Foreign equities held in collective trusts	-	83,640	-	83,640
Fixed income – TIPS and Treasuries	83,320	4,075	-	87,395
Futures	5,358	-	-	5,358
Mutual funds	38,606	-	-	38,606
Alternative strategies in illiquid structures:				
Domestic equities	-	-	73,070	73,070
Private equities	-	-	102,194	102,194
Hedge funds	-	-	60,693	60,693
Real estate	-	-	34,954	34,954
Natural resources	-	-	63,864	63,864
Total long term investments	$ 193,851	$ 87,715	$ 334,775	$ 616,341
High Winds real estate	$ -	$ -	$ 12,722	$ 12,722
Beneficial interest in perpetual trust	$ -	$ -	$ 24,822	$ 24,822
Financial Liabilities:				
Interest rate swap agreement	$ -	$ 1,639	$ -	$ 1,639

(in thousands of dollars)

	2011			
	Level 1	Level 2	Level 3	Total
Financial Assets:				
Long term investments:				
Cash and short term investments	$ 27,007	$ -	$ -	$ 27,007
Publicly traded securities:				
Domestic equities	22,307	-	-	22,307
Foreign equities held in collective trusts	-	109,325	-	109,325
Fixed income – TIPS and Treasuries	81,474	4,261	-	85,735
Futures	4,260	-	-	4,260
Mutual funds	54,613	-	-	54,613
Alternative strategies in illiquid structures:				
Domestic equities	-	-	102,990	102,990
Private equities	-	-	101,865	101,865
Hedge funds	-	-	64,565	64,565
Real estate	-	-	34,545	34,545
Natural resources	-	-	52,017	52,017
Total long term investments	$ 189,661	$ 113,586	$ 355,982	$ 659,229
High Winds real estate	$ -	$ -	$ 11,237	$ 11,237
Beneficial interest in perpetual trust	$ -	$ -	$ 27,134	$ 27,134
Financial Liabilities:				
Interest rate swap agreement	$ -	$ 1,482	$ -	$ 1,482

(in thousands of dollars)

The following tables are roll-forwards of the Level 3 financial assets during the fiscal years ended May 31, 2012 and 2011:

	Long Term Investments 2012					
	Domestic Equities	Private Equities	Hedge Funds	Real Estate	Natural Resources	Total
Beginning balance	$ 102,990	$ 101,865	$ 64,565	$ 34,545	$ 52,017	$ 355,982
Gains (losses):						
Unrealized, net	3,724	(5,564)	(2,580)	(618)	1,457	(3,581)
Realized, net	-	4,001	577	610	2,904	8,092
Purchases, issuances, sales and settlements:						
Purchases	-	13,813	319	4,670	16,118	34,920
Issuances	-	-	-	-	-	-
Sales	(33,644)	(11,921)	(2,188)	(4,253)	(8,632)	(60,638)
Settlements	-	-	-	-	-	-
Ending balance at May 31, 2012	$ 73,070	$ 102,194	$ 60,693	$ 34,954	$ 63,864	$ 334,775
Net unrealized gains (losses) included in change in net assets for the period relating to investments held at May 31, 2012	$ 3,724	$ (5,564)	$ (2,580)	$ (618)	$ 1,457	$ (3,581)

Beneficial Interest in Perpetual Trust – 2012	
Beginning balance	$ 27,134
Gains (losses):	
Unrealized gain (loss), net	(2,336)
Realized gain, net	806
Purchases, issuances, sales and settlements:	
Purchases	1,983
Sales	(2,765)
Ending balance at May 31, 2012	$ 24,822
Net unrealized gains (losses) included in change in net assets for the period relating to investments held at May 31, 2012	$ (2,336)

(in thousands of dollars)

	Long Term Investments – 2011					
	Domestic Equities	Private Equities	Hedge Funds	Real Estate	Natural Resources	Total
Beginning balance	$ 87,106	$ 83,335	$ 68,428	$ 29,829	$ 39,524	$ 308,222
Gains (losses):						
Unrealized, net	23,884	9,814	4,564	(523)	5,828	43,567
Realized, net	-	4,779	1,888	1,448	2,056	10,171
Purchases, sales, issuances and settlements, net	(8,000)	3,937	(10,315)	3,791	4,609	(5,978)
Ending balance at May 31, 2011	$ 102,990	$ 101,865	$ 64,565	$ 34,545	$ 52,017	$ 355,982
Net unrealized losses included in change in net assets for the period relating to investments held at May 31, 2011	$ 23,844	$ 9,814	$ 4,564	$ (523)	$ 5,828	$ 43,567

Beneficial Interest in Perpetual Trust - 2011	
Beginning balance	$ 23,344
Unrealized gain (loss), net	2,306
Realized gain, net	2,408
Purchases, sales, issuances and settlements, net	(897)
Ending balance at May 31, 2011	$ 27,134
Net unrealized gains (losses) included in change in net assets for the period relating to investments held at May 31, 2011	$ 2,306

High Winds real estate is also a Level 3 asset. The change in value from May 31, 2011 to May 31, 2012 resulted from the purchase and renovation of two buildings for $1,485. The change in value from May 31, 2010 to May 31, 2011 resulted from the purchase and renovation of a building for $835. Real estate values are based on independent appraisals.

At May 31, 2012, the College had $334,775 of Level 3 long term investments and $83,640 of Level 2 foreign equity held in collective trusts that are reported at fair value and has concluded that the net asset value (NAV) reported by the underlying fund approximates the fair value of the investments and serves as the practical expedient for fair value.

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

(in thousands of dollars)

At May 31, 2012 and 2011, the College's alternative investments had strategies and redemption terms as summarized in the tables below:

2012				
Investment Category	Fair Value	Unfunded Commitments	Redemption Frequency*	Notice Period (in Days)*
Foreign equity held in collective trusts (a)	$ 83,640	None	Monthly	30 days
Domestic equities - alternative structures (b)	73,070	None	Quarterly	60 days
Hedge funds (c)	60,693	None	Monthly - Annual	30 - 90 days
Private investments (d)	201,012	$ 64,508	Not applicable	Not applicable
Totals	$ 418,415	$ 64,508		

2011				
Investment Category	Fair Value	Unfunded Commitments	Redemption Frequency*	Notice Period (in Days)*
Foreign equity held in collective trusts (a)	$ 109,325	None	Monthly	30 days
Domestic equities - alternative structures (b)	102,990	None	Quarterly	30 - 60 days
Hedge funds (c)	64,565	None	Monthly - Annual	30 - 90 days
Private investments (d)	188,427	$ 83,810	Not applicable	Not applicable
Totals	$ 465,307	$ 83,810		

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

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

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

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

At May 31, 2012, the College had no funds invested in a fund for which a lock-up period exists.

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

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

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

As of May 31, 2012, the College had exposure to $41,978 of long positions in equity index futures, no short positions in equity index futures, and $104,143 in short positions in currency futures. As of May 31, 2011, the College had exposure to $22,244 of long positions in equity index futures, $8,812 of short positions in equity index futures, and $120,829 in short positions in currency futures. The College's derivative portfolio consists of contracts with maturities of 90 days or less and is adjusted as the exposures of the underlying portfolio change. The contracts are sold prior to contract maturity.

6) Funds Held in Trust by Others

The College's beneficial interest in the fair value of assets in a perpetual trust was $24,822 and $27,134 as of May 31, 2012 and 2011, respectively. For the years ended May 31, 2012 and 2011, the College received $1,269 and $1,344 from this trust, respectively.

The College is the income beneficiary of a revocable trust with an estimated value of $10,049 and $10,397 as of May 31, 2012 and 2011, respectively, which is controlled by independent trustees. For the years ended May 31, 2012 and 2011, the College received $541 and $600 from this trust, respectively. These assets are not recorded on the financial statements of the College.

(in thousands of dollars)

7) Contributions Receivable

Contributions receivable consists of the following:

	2012	2011
Unconditional promises expected to be collected in:		
Less than one year	$ 5,117	$ 3,295
One year to five years	5,983	7,973
Greater than five years	75	130
Less: Discount to present value (1.5% - 5.0%)	(322)	(534)
	$ 10,853	$ 10,864

8) Land, Buildings and Equipment

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

	2012	2011
Land and land improvements	$ 1,614	$ 1,614
Buildings and building improvements	223,311	219,820
Equipment	11,988	11,420
Construction in progress	34,677	11,730
	271,590	244,584
Less: Accumulated depreciation	(81,825)	(75,097)
	$ 189,765	$ 169,487

9) Revolving Loan Agreement

In February 2010, the College extended an already-existing unsecured revolving loan agreement for operating purposes from a bank in the amount of $5,000 through April 2011. The agreement was not extended after it expired. Interest on the loan agreement was at the one-month LIBOR rate plus 2%.

(in thousands of dollars)

10) Bonds and Mortgages Payable

Bonds and mortgages payable consist of the following:

	2012	2011
Minnesota Higher Education Facilities Authority (MHEFA) variable rate demand revenue bonds of 1994, weekly maturity and rate reset, 0.21% average for current fiscal year, total principal due 2024 (original amount $6,660)	$ 6,660	$ 6,660
Minnesota Higher Education Facilities Authority variable rate demand revenue bonds of 2003, weekly rate reset as well as a weekly tender option, 0.20% 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)	6,850	8,180
Minnesota Higher Education Facilities Authority revenue notes of 2005, 4.08% average, final series due 2014 (original amount $3,000)	945	1,298
Minnesota Higher Education Facilities Authority revenue bonds of 2007, 4.42% average, final series due 2032 (original amount $39,490)	33,715	35,180
Minnesota Higher Education Facilities Authority revenue bonds of 2010, 4.76% average, final series due 2035 (original amount $16,000)	15,860	16,000
	79,330	82,618
Plus: Unamortized bond premium	1,071	1,178
	$ 80,401	$ 83,796

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

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 interest rate of the bonds is 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 interest rate of the bonds is 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 interest rate of the bonds is 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 December of 2010, $16,000 of revenue bonds were issued on behalf of the College by MHEFA. The average interest rate of the bonds is 4.76%. Proceeds of this issue were used to partially fund the renovation of the Janet Wallace Fine Arts building.

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 three-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, 2012 and 2011, the estimated fair value of the swap contract was $(1,639) and $(1,482), respectively. In the statements of activities, net gains or losses from the interest rate swap agreement result from fluctuations in the variable interest rate to which the swap is tied. Included in the statements of activities for the years ended May 31, 2012 and 2011 are interest rate swap losses of $157 and $206, respectively.

(in thousands of dollars)

Annual debt commitments (principal) at May 31, 2012, are as follows:

Fiscal year ending May 31,	Amount
2013	$ 3,701
2014	3,952
2015	4,032
2016	4,020
2017	3,340
After 2017	60,285
	$ 79,330

Total interest expensed on debt aggregated $3,201 and $2,962 during the years ended May 31, 2012 and 2011, respectively.

11) Restrictions and Limitations on Net Asset Balances

Temporarily restricted net assets are available for the following purposes at May 31, 2012 and 2011:

	2012	2011
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	$ 34,862	$ 39,967
Prizes and awards	354	388
Library support	2,478	2,887
Program support	179,381	210,594
Faculty support	27,746	28,583
Research	2,678	2,828
	247,499	285,247
Gifts and other unexpended revenues and gains available for:		
Scholarships	394	570
Prizes and awards	143	137
Library support	20	30
Program support	2,106	2,304
Faculty support	1,695	1,853
Research	175	163
Contributions receivable for plant projects	4,798	3,866
Contributions receivable for scholarships, program support and operations	3,106	2,662
Split interest agreements for scholarships, program support and operations	2,688	2,876
Private grants	1,248	3,008
Plant projects	16,538	14,155
Other	358	219
	$ 280,768	$ 317,090

(in thousands of dollars)

Permanently restricted net assets and the purposes the income is expendable to support are as follows at May 31, 2012 and 2011:

	2012	2011
Endowment funds for:		
Scholarships	$ 31,813	$ 31,495
Prizes and awards	297	297
Library support	3,079	3,079
Program support	243,366	242,538
Faculty support	22,806	22,713
Research	2,060	2,060
	303,421	302,182
Beneficial interest in outside managed trusts restricted for scholarships	24,651	27,054
Contributions receivable for scholarships and program support	130	164
High Winds Fund	13,451	13,179
Loan funds	3,685	3,628
Split interest agreements for scholarships and program support	2,943	3,541
	$ 348,281	$ 349,748

12) Endowment Funds

Overview

The College's endowment consists of 593 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 GAAP, net assets associated with endowment funds, including funds designated by the Board of Trustees to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

Interpretation of Relevant Law

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

(in thousands of dollars)

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

Endowment Funds Restrictions and Designations

The College's endowment net assets were classified as follows at May 31, 2012 and 2011:

	2012			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds	$ (188)	$ 247,499	$ 303,421	$ 550,732
Board-designated endowment funds	46,942	-	-	46,942
Total funds	$ 46,754	$ 247,499	$ 303,421	$ 597,674

	2011			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds	$ -	$ 285,247	$ 302,182	$ 587,429
Board-designated endowment funds	51,021	-	-	51,021
Total funds	$ 51,021	$ 285,247	$ 302,182	$ 638,450

Included in temporarily restricted endowment net assets at May 31, 2012 and 2011 is $46,758 and $47,866, respectively, of gift corpus temporarily restricted by donors but managed by the College as endowment funds.

(in thousands of dollars)

The College's endowment net assets changed as follows for the years ended May 31, 2012 and 2011:

	2012			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beg. of year	$ 51,021	$ 285,247	$ 302,182	$ 638,450
Investment return:				
Investment income	2,896	10,331	-	13,227
Realized and unrealized gains (losses)	562	(24,285)	-	(23,723)
Total investment return	3,458	(13,954)	-	(10,496)
Fees and other expenses	(490)	(1,747)	-	(2,237)
Contributions	-	3,567	662	4,229
Other transfers in (out)	-	(1,867)	236	(1,631)
Amounts appropriated for expenditure	(7,235)	(23,406)	-	(30,641)
Net asset reclassifications	-	(341)	341	-
Endowment net assets, end of year	$ 46,754	$ 247,499	$ 303,421	$ 597,674

	2011			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beg. of year	$ 41,358	$ 229,692	$ 301,410	$ 572,460
Investment return:				
Investment income	1,866	7,159	-	9,025
Realized and unrealized gains	13,626	74,573	-	88,199
Total investment return	15,492	81,732	-	97,224
Fees and other expenses	(401)	(1,539)	-	(1,940)
Contributions	-	1,021	181	1,202
Other transfers in (out)	759	(1,941)	591	(591)
Amounts appropriated for expenditure	(6,187)	(23,718)	-	(29,905)
Endowment net assets, end of year	$ 51,021	$ 285,247	$ 302,182	$ 638,450

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 totaled $188 as of May 31, 2012. There were no such deficiencies as of May 31, 2011. These deficiencies result when unfavorable market fluctuations occur shortly after new permanently restricted contributions are invested, and appropriations for certain programs that were deemed prudent by the Board of Trustees continue. Subsequent gains that restore the fair value of the assets of the endowment funds to the required level are classified as an increase in unrestricted net assets.

Return Objectives and Risk Parameters

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

Strategies Employed for Achieving Objectives

To satisfy its long term rate-of-return objectives, the College relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The College targets a diversified asset allocation that places emphasis in three broad categories - economic growth, real assets, and safety and liquidity - in a 65-20-15 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 trailing average of investment fair value. This percentage for 2012 and 2011 was 5.1% and 5.0%, respectively. 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. If yield (interest and dividend income) is not sufficient to support the calculated spending, the balance is allocated from gains of the endowment assets.

13) 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, 2012, the High Winds Fund owned 14 properties surrounding the College campus. The total value of the assets of the Fund, net of liabilities, as of May 31, 2012 and 2011 was $15,837 and $15,895, respectively. In addition to real estate with a market value of $12,722 and $11,237 as of May 31, 2012 and 2011, respectively, the High Winds fund holds cash, investments, and receivables, net of liabilities, of $3,115 and $4,658 at May 31, 2012 and 2011, respectively.

14) Employee Benefits

Retirement Plans

The College provides retirement benefits to substantially all employees. Certain academic and non academic personnel are covered under defined contribution plans with Teachers Insurance and Annuity Association and College Retirement Equities Fund, and Vanguard Fiduciary Trust Company. A plan covering union employees is funded by deposits with trustees based on a fixed rate of contribution per hour worked. The College has no liability for these pension plans once deposits are made to the administrators. Total benefit expense for the years ended May 31, 2012 and 2011 was $3,826 and $3,717, respectively.

Health Benefit Plan

On January 1, 2012, the College adopted the Macalester College Medical Benefit Plan (the Plan) to provide comprehensive health benefits for covered employees and their covered dependents, as defined in the Plan agreement. This plan is self-insured and, as such, the College pays the benefits as claims for benefits and associated expenses are incurred subject to stop-loss limits of $100,000 per claimant. There is also an aggregate stop-loss limit of 125% of expected claims, which is recalculated quarterly based on plan enrollment. For the year ended May 31, 2012, the aggregate stop-loss amount was $5,136. The employees are required to contribute to the cost of coverage under the Plan. The liability is reported as a component of accounts payable and accrued expenses on the statement of financial position.

15) Fundraising Expenses

Fundraising expenses for the College totaled $4,998 and $4,541 for the years ended May 31, 2012 and 2011, respectively.

16) Commitments

In December 2010, the College entered into a contract with a local construction company to renovate the Janet Wallace Fine Arts Center. The contract is primarily for labor. The total outstanding contract commitment at May 31, 2012 was $2,987. No formal contract exists for the majority of the materials required to complete the project. Construction on the project began in January 2011 and is expected to be completed in the summer of 2012 for a total estimated cost of $39,800.

The College is subject to certain claims arising out of the ordinary course of business. Although it is not possible to predict the outcome of these claims, management believes they will not have a material effect on the financial condition of the College.

17) Subsequent Event

In connection with the preparation of the financial statements, the College has evaluated subsequent events after the statement of financial position date of May 31, 2012 through October 5, 2012, which is the date the financial statements were available to be issued.

In October 2012, the College’s Board of Trustees approved the renovation, expansion and upgrade of the Studio Art building and the central heating plant. The total estimated project cost is $26,000. Construction is expected to begin in 2013.