MACALESTER COLLEGE

ANNUAL FINANCIAL STATEMENTS
WITH AUDITORS' OPINION
FOR THE FISCAL YEAR ENDED MAY 31, 2013

INDEPENDENT AUDITORS' REPORT

Board of Trustees
Macalester College
St. Paul, Minnesota

We have audited the accompanying financial statements of Macalester College, which comprise the statements of financial position as of May 31, 2013 and 2012, and the related statements of activities and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

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, 2013 and 2012, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

CliftonLarsonAllen LLP

CliftonLarsonAllen LLP

Minneapolis, Minnesota
October 3, 2013

INDEPENDENT AUDITORS' REPORT

Board of Trustees
Macalester College
St. Paul, Minnesota

Report on the Financial Statements

We have audited the accompanying financial statements of Macalester College, Macalester College, which comprise the statements of financial position as of May 31, 2013 and 2012, and the related statements of activities and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit 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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

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, 2013 and 2012, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The schedule of expenditures of federal awards, as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, is also presented for purposes of additional analysis and is not a required part of the basic financial statements. The schedule of expenditures of federal awards is the responsibility of management and was derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated October 3, 2013, on our consideration of Macalester 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 result of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Macalester College's internal control over financial reporting and compliance.

CliftonLarsonAllen LLP

CliftonLarsonAllen LLP

Minneapolis, Minnesota
October 3, 2013

MACALESTER COLLEGE
Statements of Financial Position
May 31, 2013 and 2012
(in thousands of dollars)

	2013	2012
ASSETS		
Cash and cash equivalents	$ 27,289	$ 30,445
Construction account cash and cash equivalents	15,022	-
Accrued investment income	264	783
Prepaid expenses	1,716	1,883
Notes and accounts receivable, net of allowance for doubtful receivables of $918 (and $889 in 2012)	6,337	6,300
Contributions receivable, net	7,976	10,853
Long term investments	683,818	616,341
Real estate	12,722	12,722
Land, buildings and equipment, net of accumulated depreciation	197,253	189,765
Beneficial interest in perpetual trust	28,525	24,822
Total assets	$ 980,922	$ 893,914
LIABILITIES AND NET ASSETS		
Liabilities:		
Accounts payable and accrued expenses	$ 14,540	$ 13,857
Deferred revenue	1,231	1,141
Deposits	324	289
Interest rate swap agreement	1,284	1,639
Liabilities under planned giving agreements	8,379	7,672
Government grants refundable	4,525	4,542
Asset retirement obligation	236	785
Capital leases	156	268
Bonds and mortgages payable	91,744	80,401
Total liabilities	122,419	110,594
Net assets:		
Unrestricted		
Operations	14,208	13,852
Investments	53,488	47,488
Plant	112,391	92,931
Total unrestricted	180,087	154,271
Temporarily restricted		
Operations	9,372	8,899
Investments	309,594	250,533
Plant	5,543	21,336
Total temporarily restricted	324,509	280,768
Permanently restricted - Investments	353,907	348,281
Total net assets	858,503	783,320
Total liabilities and net assets	$ 980,922	$ 893,914

See accompanying notes to financial statements.

MACALESTER COLLEGE

Statements of Activities

Years ended May 31, 2013 and 2012

(in thousands of dollars)

	2013				2012			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Operating Activities:								
Revenues and other additions:								
Tuition and fees	$ 87,520	-	-	87,520	$ 82,333	-	-	82,333
Less: Student aid and scholarships	(44,574)	-	-	(44,574)	(39,854)	-	-	(39,854)
Net tuition and fees	42,946	-	-	42,946	42,479	-	-	42,479
Federal grants and contracts	1,756	-	-	1,756	2,136	-	-	2,136
State grants and contracts	244	-	-	244	464	-	-	464
Private gifts and grants	4,336	2,123	-	6,459	3,212	2,116	-	5,328
Sales and service of auxiliary enterprises	14,090	-	-	14,090	13,387	-	-	13,387
Other sources	1,177	54	-	1,231	1,128	51	-	1,179
Endowment payout	3,337	27,742	-	31,079	3,440	28,183	-	31,623
Realized and unrealized (losses) gains on investments	2	-	-	2	(7)	-	-	(7)
Gain (loss) on disposal of fixed assets	(102)	-	-	(102)	81	-	-	81
Net assets released from restrictions	30,989	(30,989)	-	-	34,142	(34,142)	-	-
Total operating revenues and other additions	98,775	(1,070)	-	97,705	100,462	(3,792)	-	96,670
Expenses:								
Program								
Instruction	36,237	-	-	36,237	35,010	-	-	35,010
Research	1,844	-	-	1,844	2,108	-	-	2,108
Public service	466	-	-	466	1,014	-	-	1,014
Academic support	10,623	-	-	10,623	10,803	-	-	10,803
Student services	20,043	-	-	20,043	19,497	-	-	19,497
Auxiliary enterprises	10,296	-	-	10,296	10,355	-	-	10,355
Institutional support	19,840	-	-	19,840	19,654	-	-	19,654
Total expenses	99,349	-	-	99,349	98,441	-	-	98,441
Change in net assets from operating activities	(574)	(1,070)	-	(1,644)	2,021	(3,792)	-	(1,771)
Non-operating Activities:								
Investment-related:								
Realized and unrealized gains (losses) on investments	$ 10,670	87,132	124	97,926	$ 1,586	(10,904)	219	(9,099)
Investment income	122	-	-	122	108	-	-	108
Endowment payout for operations	(3,337)	(27,742)	-	(31,079)	(3,440)	(28,183)	-	(31,623)
Change in beneficial interest in perpetual trust	-	-	3,703	3,703	-	-	(2,313)	(2,313)
Change in value of planned giving agreements	39	563	631	1,233	(44)	(270)	(381)	(695)
Gift-related:								
Private gifts and grants restricted for long-term investment	557	667	1,168	2,392	51	3,372	667	4,090
Private gifts and grants restricted for capital projects	75	2,100	-	2,175	231	4,221	-	4,452
Other:								
Change in value of interest rate swap	355	-	-	355	(157)	-	-	(157)
Net assets released from restrictions	17,909	(17,909)	-	-	425	(425)	-	-
Total non-operating revenues and other additions	26,390	44,811	5,626	76,827	(1,240)	(32,189)	(1,808)	(35,237)
Reclassification of net assets	-	-	-	-	-	(341)	341	-
Transfer of assets to outside entity	-	-	-	-	(1,164)	-	-	(1,164)
Change in net assets from non-operating activities	26,390	44,811	5,626	76,827	(2,404)	(32,530)	(1,467)	(36,401)
Change in net assets	25,816	43,741	5,626	75,183	(383)	(36,322)	(1,467)	(38,172)
Net assets beginning of year	154,271	280,768	348,281	783,320	154,654	317,090	349,748	821,492
Net assets end of year	$ 180,087	324,509	353,907	858,503	$ 154,271	280,768	348,281	783,320

See accompanying notes to financial statements.

MACALESTER COLLEGE
Statements of Cash Flows
Years ended May 31, 2013 and 2012
(in thousands of dollars)

	2013	2012
Cash flows from operating activities:		
Change in total net assets	$ 75,183	$ (38,172)
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	7,050	7,424
Realized and unrealized loss (gain) on investments	(87,634)	24,712
(Gain) loss on disposal of fixed assets	102	(81)
Unrealized loss (gain) on interest rate swap	(355)	157
Private gifts and other income restricted for long term investments	(3,935)	(8,261)
Noncash contributions of marketable securities	(243)	(232)
Adjustment of actuarial liabilities for planned giving agreements	1,486	253
Endowment payout	30,100	29,500
Change in assets and liabilities:		
Accrued investment income	519	48
Prepaid expenses	167	(33)
Notes and accounts receivable	(37)	872
Contributions receivable	816	(720)
Accounts payable and accrued expenses	115	1,234
Deferred revenue	90	143
Deposits	35	45
Net cash provided by operating activities	23,459	16,889
Cash flows from investing activities:		
Proceeds from sale of investments	141,969	126,960
Proceeds from sale of investments used for endowment payout	(30,100)	(29,500)
Purchase of investments	(120,427)	(107,146)
Purchase of land, building and equipment	(14,640)	(27,291)
Proceeds from sale (loss on disposal) of equipment	(102)	81
Net cash used in investing activities	(23,300)	(36,896)
Cash flows from financing activities:		
Proceeds from issuance of bonds payable	14,730	-
Withdrawals from (deposits to) construction account, net	(15,022)	12,984
Bond premium from issuance of bonds payable	436	-
Principal payments on bonds payable	(3,702)	(3,287)
Change in capital leases, net	(112)	(103)
Payments made to beneficiaries of planned giving agreements	(779)	(777)
Change in government grant refundable	(17)	(3)
Change in value of beneficial interest in perpetual trust	(3,703)	2,312
Noncash contributions of marketable securities	(1,142)	(2,891)
Private gifts, grants and other income restricted for long term investment	5,996	8,992
Net cash provided by (used in) financing activities	(3,315)	17,227
Decrease in cash and cash equivalents	(3,156)	(2,780)
Cash and cash equivalents at beginning of the year	30,445	33,225
Cash and cash equivalents at end of the year	$ 27,289	$ 30,445
Supplemental disclosure - cash paid for interest, including interest capitalized of $280 and $723, respectively	$ 3,288	$ 3,253
Noncash investing and financing activities:		
Purchases of land, building and equipment funded by accounts payable	$ 2,595	2,027

See accompanying notes to financial statements.

1) Background and Organization

Macalester College (the College or Macalester) is a four-year, coeducational, residential, private liberal arts college. Founded in 1874, the College is located in the urban setting of Saint Paul, Minnesota 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.

Operating results in the statements of activities reflect all transactions increasing and decreasing net assets except those that the College defines as non-operating. Non-operating activity includes contributions added to endowments, contributions supporting major capital purchases, contributions and other activity related to annuity and other trust agreements, changes in the value of the interest rate swap, and endowment income and gains and losses, net of amounts distributed to support the operations in accordance with the Board-approved spending policy.

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 2009 through 2011.

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, and accordingly, is classified as using Level 3 input. The carrying value of the College bonds was $90,359 and $79,330 at May 31, 2013 and 2012, respectively, and the fair value was approximately $94,723 and $85,023, 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 1.3% 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 $3,476 and $3,814 at May 31, 2013 and 2012, respectively. The College has a conflict of interest policy in place that is reviewed by each Board member and Officer annually.

Reclassifications

Certain 2012 amounts have been reclassified to conform to the 2013 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, 2013 and 2012, student loans represented less than 1% of total assets.

Student loans receivable consist of the following:

	2013	2012
Federal government programs	$ 4,646	$ 4,699
Institutional programs	1,898	1,553
Student loans receivable, gross	6,544	6,252
Less: allowance for doubtful accounts:		
Beginning of year	(853)	(788)
Increases	(49)	(65)
Write-offs	19	-
End of year	(883)	(853)
Student loans receivable, net	$ 5,661	$ 5,399

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 $676 and $901 as of May 31, 2013 and 2012, respectively. Allowances related to these other receivables total $36 as of May 31, 2013 and 2012.

Funds advanced by the federal government of $4,525 and $4,542 at May 31, 2013 and 2012, respectively, are ultimately refundable to the government and are classified as liabilities on the statements of financial position.

At May 31, 2013 and 2012, the following amounts were past due under student loan programs:

	2013	2012
1 - 240 days past due	$ 303	$ 202
240 days - 2 years past due	126	108
2 years - 5 years past due	119	83
Over 5 years past due	393	418
Total past due	$ 941	$ 811

(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 $18,008 and $16,095 as of May 31, 2013 and 2012, respectively. The allocations shown at fair value are as follows:

	2013	2012
Long term investments:		
Cash and cash equivalents	$ 42,005	$ 46,536
Publicly traded securities:		
Domestic equities	39,988	20,031
Foreign equities held in collective trusts	113,640	83,640
Fixed income – TIPS and Treasuries	89,175	87,395
Futures	141	5,358
Mutual funds	45,138	38,606
Alternative strategies in illiquid structures:		
Domestic equities	85,770	73,070
Private equities	95,688	102,194
Hedge funds	71,269	60,693
Real estate	35,040	34,954
Natural resources	65,964	63,864
Total fair value	$ 683,818	$ 616,341
Total cost	$ 570,040	$ 554,014

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, 2013 and 2012:

	2013			
	Level 1	Level 2	Level 3	Total
Financial Assets:				
Long term investments:				
Cash and short term investments	$ 42,005	$ -	$ -	$ 42,005
Publicly traded securities:				
Domestic equities	39,988	-	-	39,988
Foreign equities held in collective trusts	-	113,640	-	113,640
Fixed income – TIPS and Treasuries	84,761	4,414	-	89,175
Futures	141	-	-	141
Mutual funds	45,138	-	-	45,138
Alternative strategies in illiquid structures:				
Domestic equities	-	-	85,770	85,770
Private equities	-	-	95,688	95,688
Hedge funds	-	-	71,269	71,269
Real estate	-	-	35,040	35,040
Natural resources	-	-	65,964	65,964
Total long term investments	$ 212,033	$ 118,054	$ 353,731	$ 683,818
High Winds real estate	$ -	$ -	$ 12,722	$ 12,722
Beneficial interest in perpetual trust	$ -	$ -	$ 28,525	$ 28,525
Financial Liabilities:				
Interest rate swap agreement	$ -	$ 1,284	$ -	$ 1,284

(in thousands of dollars)

	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)

The following tables are roll-forwards of the Level 3 financial assets during the fiscal years ended May 31, 2013 and 2012:

	Long Term Investments 2013					
	Domestic Equities	Private Equities	Hedge Funds	Real Estate	Natural Resources	Total
Beginning balance	$ 73,070	$ 102,194	$ 60,693	$ 34,954	$ 63,864	$ 334,775
Gains (losses):						
Unrealized, net	18,154	(1,148)	11,280	188	(3,137)	25,337
Realized, net	2,517	5,379	375	46	4,750	13,067
Purchases, issuances, sales and settlements:						
Purchases	-	8,795	2,192	2,529	9,684	23,200
Issuances	-	-	-	-	-	-
Sales	(7,971)	(19,532)	(3,271)	(2,677)	(9,197)	(42,648)
Settlements	-	-	-	-	-	-
Ending balance at May 31, 2013	$ 85,770	$ 95,688	$ 71,269	$ 35,040	$ 65,964	$ 353,731

	Beneficial Interest in Perpetual Trust – 2013
Beginning balance	$ 24,822
Gains (losses):	
Unrealized gain (loss), net	2,966
Realized gain, net	1,449
Purchases, issuances, sales and settlements:	
Purchases	931
Sales	(1,643)
Ending balance at May 31, 2013	$ 28,525

(in thousands of dollars)

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

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

High Winds real estate is also a Level 3 asset. There was no change in value from May 31, 2012 to May 31, 2013. The change in value from May 31, 2011 to May 31, 2012 resulted from the purchase and renovation of two buildings for $1,485. Real estate values are based on independent appraisals.

At May 31, 2013, the College had $353,731 of Level 3 long term investments and $113,640 of Level 2 foreign equity held in collective trusts. These investments are reported at fair value. The College 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, 2013 and 2012, the College's alternative investments had strategies and redemption terms as summarized in the tables below:

2013				
Investment Category	Fair Value	Unfunded Commitments	Redemption Frequency*	Notice Period (in Days)*
Foreign equity held in collective trusts (a)	$ 113,640	None	Monthly	30 days
Domestic equities - alternative structures (b)	85,770	None	Quarterly	60 days
Hedge funds (c)	71,269	None	Monthly - Annual	30 - 90 days
Private investments (d)	196,692	$51,806	Not applicable	Not applicable
Totals	$ 467,371	$51,806		

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		

*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 unobservable inputs used to determine 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 unobservable inputs used to determine 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.

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, 2013, the College had exposure to $36,866 of long positions in equity index futures, $16,003 short positions in equity index futures, and $96,117 in short positions in currency futures. As of May 31, 2012, the College had exposure to $41,978 of long positions in equity index futures, and $104,143 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 $28,525 and $24,822 as of May 31, 2013 and 2012, respectively. For the years ended May 31, 2013 and 2012, the College received $1,206 and $1,269 from this trust, respectively.

The College is the income beneficiary of a revocable trust with an estimated value of $10,235 and $10,049 as of May 31, 2013 and 2012, respectively, which is controlled by independent trustees. For the years ended May 31, 2013 and 2012, the College received $497 and $541 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:

	2013	2012
Unconditional promises expected to be collected in:		
Less than one year	$ 4,065	$ 5,117
One year to five years	4,090	5,983
Greater than five years	25	75
Less: Discount to present value (1.3% - 5.0%)	(204)	(322)
	$ 7,976	$ 10,853

8) Land, Buildings and Equipment

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

	2013	2012
Land and land improvements	$ 1,614	$ 1,614
Buildings and building improvements	262,285	223,311
Equipment	13,805	11,988
Construction in progress	8,883	34,677
	286,587	271,590
Less: Accumulated depreciation	(89,334)	(81,825)
	$ 197,253	$ 189,765

9) Bonds and Mortgages Payable

Bonds and mortgages payable consist of the following:

	2013	2012
Minnesota Higher Education Facilities Authority (MHEFA) variable rate demand revenue bonds of 1994, weekly maturity and rate reset, 0.18% 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, 0.18% 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)	5,455	6,850
Minnesota Higher Education Facilities Authority revenue notes of 2005, 4.08% average, final series due 2014 (original amount $3,000)	579	945

(in thousands of dollars)

	2013	2012
Minnesota Higher Education Facilities Authority revenue bonds of 2007, 4.42% average, final series due 2032 (original amount $39,490)	32,015	33,715
Minnesota Higher Education Facilities Authority revenue bonds of 2010, 4.60% average, final series due 2035 (original amount $16,000)	15,620	15,860
Minnesota Higher Education Facilities Authority revenue bonds of 2012, 3.28% average, final series due 2043 (original amount $14,730)	14,730	-
	90,359	79,330
Plus: Unamortized bond premium	1,385	1,071
	$ 91,744	$ 80,401

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 thousands of dollars)

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 4.60%. Proceeds of this issue were used to partially fund the renovation of the Janet Wallace Fine Arts building.

In November of 2012, $14,730 of revenue bonds were issued on behalf of the College by MHEFA. The average interest rate of the bonds is 3.28%. Proceeds of this issue were used to partially fund the renovation of the Studio Art portion of the Janet Wallace Fine Arts building and replace boilers in the sub-basement of the 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, 2013 and 2012, the estimated fair value of the swap contract was $(1,284) and $(1,639), 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, 2013 and 2012 are interest rate swap gains (losses) of $355 and $(157), respectively.

Annual debt commitments (principal) at May 31, 2013, are as follows:

Fiscal year ending May 31,	Amount
2014	$ 3,952
2015	4,122
2016	4,200
2017	3,610
2018	2,960
After 2018	71,515
	$ 90,359

Total interest expensed on debt aggregated $3,243 and $3,201 during the years ended May 31, 2013 and 2012, 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, 2013 and 2012:

	2013	2012
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	$ 40,413	$ 34,862
Prizes and awards	415	354
Library support	3,068	2,478
Program support	226,254	179,381
Faculty support	32,701	27,746
Research	3,179	2,678
	306,030	247,499
Gifts and other unexpended revenues and gains available for:		
Scholarships	354	394
Prizes and awards	143	143
Library support	11	20
Program support	2,287	2,106
Faculty support	1,765	1,695
Research	188	175
Contributions receivable for plant projects	3,474	4,798
Contributions receivable for scholarships, program support and operations	2,162	3,106
Split interest agreements for scholarships, program support and operations	3,385	2,688
Private grants	2,459	1,248
Plant projects	2,069	16,538
Other	182	358
	$ 324,509	$ 280,768

(in thousands of dollars)

Permanently restricted net assets and the purposes the income is expendable to support are as follows at May 31, 2013 and 2012:

	2013	2012
Endowment funds for:		
Scholarships	$ 32,381	$ 31,813
Prizes and awards	297	297
Library support	3,077	3,079
Program support	243,451	243,366
Faculty support	23,422	22,806
Research	2,060	2,060
	304,688	303,421
Beneficial interest in outside managed trusts restricted for scholarships	28,303	24,651
Contributions receivable for scholarships and program support	123	130
High Winds Fund	13,582	13,451
Loan funds	3,759	3,685
Split interest agreements for scholarships and program support	3,452	2,943
	$ 353,907	$ 348,281

11) Endowment Funds

Overview

The College's endowment consists of 590 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, 2013 and 2012:

	2013			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds	$ -	$ 306,030	$ 304,688	$ 610,718
Board-designated endowment funds	52,608	-	-	52,608
Total funds	$ 52,608	$ 306,030	$ 304,688	$ 663,326

	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

Included in temporarily restricted endowment net assets at May 31, 2013 and 2012 is $50,332 and $46,758, 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, 2013 and 2012:

	2013			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beg. of year	$ 46,754	$ 247,499	$ 303,421	$ 597,674
Investment return:				
Investment income	2,516	8,715	-	11,231
Realized and unrealized gains (losses)	10,012	75,602	-	85,614
Total investment return	12,528	84,317	-	96,845
Fees and other expenses	(589)	(2,041)	-	(2,630)
Contributions	550	660	1,138	2,348
Other transfers in (out)	-	(1,480)	129	(1,351)
Amounts appropriated for expenditure	(6,635)	(22,925)	-	(29,560)
Endowment net assets, end of year	$ 52,608	$ 306,030	$ 304,688	$ 663,326

	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

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. There were no deficiencies of this nature as of May 31, 2013. Deficiencies of this nature that are reported in unrestricted net assets totaled $188 as of May 31, 2012. 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 2013 and 2012 was 5.0% and 5.1%, 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 on 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, 2013, 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, 2013 and 2012 was $16,538 and $15,837, respectively. In addition to real estate with a market value of $12,722 and $12,722 as of May 31, 2013 and 2012, respectively, the High Winds fund holds cash, investments, and receivables, net of liabilities, of $3,716 and $3,115 at May 31, 2013 and 2012, respectively.

13) 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 (TIAA-CREF), 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, 2013 and 2012 was $3,862 and $3,826, 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 years ended May 31, 2013 and 2012, the aggregate stop-loss amount was $5,182 and $5,127, respectively. The employees are required to contribute to the cost of coverage under the Plan. A liability for claims reported but not yet paid as of May 31, 2013 and 2012 is reported as a component of accounts payable and accrued expenses on the statements of financial position.

14) Fundraising Expenses

Fundraising expenses for the College totaled $4,711 and $4,998 for the years ended May 31, 2013 and 2012, respectively.

15) Commitments

In December 2012, the College entered into a contract with a local construction company to renovate a portion of the Studio Art portion of the Janet Wallace Fine Arts building and replace boilers in the sub-basement of the building. The contract is primarily for labor. The total outstanding contract commitment at May 31, 2013 was $8,966. No formal contract exists for the majority of the materials required to complete the project. Construction on the project began in December 2012 and is expected to be completed in the January 2014 for a total estimated cost of $26,500.

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.

16) 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, 2013 through October 3, 2013, which is the date the financial statements were available to be issued.