MACALESTER COLLEGE

ANNUAL FINANCIAL STATEMENTS
WITH AUDITORS' OPINION
FOR THE FISCAL YEAR ENDED MAY 31, 2014

CliftonLarsonAllen LLP
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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, 2014 and 2013, 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.

Board of Trustees
Macalester College

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, 2014 and 2013, 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 2, 2014

MACALESTER COLLEGE
Statements of Financial Position
May 31, 2014 and 2013
(in thousands of dollars)

	2014	2013
ASSETS		
Cash and cash equivalents	$ 35,470	$ 27,289
Construction account cash and cash equivalents	-	15,022
Accrued investment income	274	264
Prepaid expenses	1,674	1,716
Notes and accounts receivable, net of allowance for doubtful receivables of $967 (and $919 in 2013)	8,835	6,337
Contributions receivable, net	4,847	7,976
Long term investments	734,207	683,818
Real estate	14,559	12,722
Land, buildings and equipment, net of accumulated depreciation	207,278	197,253
Beneficial interest in perpetual trust	31,307	28,525
Total assets	$ 1,038,451	$ 980,922
LIABILITIES AND NET ASSETS		
Liabilities:		
Accounts payable and accrued expenses	$ 11,577	$ 14,932
Deferred revenue	1,069	1,231
Deposits	256	324
Interest rate swap agreement	893	1,284
Liabilities under planned giving agreements	8,664	8,379
Government grants refundable	4,525	4,525
Bonds and mortgages payable	87,252	91,744
Total liabilities	114,236	122,419
Net assets:		
Unrestricted:		
Operations	13,165	14,208
Investments	58,297	53,488
Plant	121,687	112,391
Total unrestricted	193,149	180,087
Temporarily restricted:		
Operations	10,712	9,372
Investments	358,789	309,594
Plant	208	5,543
Total temporarily restricted	369,709	324,509
Permanently restricted - Investments	361,357	353,907
Total net assets	924,215	858,503
Total liabilities and net assets	$ 1,038,451	$ 980,922

See accompanying notes to financial statements.

MACALESTER COLLEGE

Statements of Activities
Years ended May 31, 2014 and 2013
(in thousands of dollars)

	2014				2013			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Operating Activities:								
Revenues and other additions:								
Tuition and fees	$ 90,305	-	-	90,305	$ 87,520	-	-	87,520
Less: Student aid and scholarships	(44,822)	-	-	(44,822)	(44,574)	-	-	(44,574)
Net tuition and fees	45,483	-	-	45,483	42,946	-	-	42,946
Federal grants and contracts	1,672	-	-	1,672	1,756	-	-	1,756
State grants and contracts	208	-	-	208	244	-	-	244
Private gifts and grants	3,603	5,053	-	8,656	4,336	2,123	-	6,459
Sales and service of auxiliary enterprises	14,996	-	-	14,996	14,090	-	-	14,090
Other sources	1,171	46	-	1,217	1,177	54	-	1,231
Endowment payout	3,286	27,531	-	30,817	3,337	27,742	-	31,079
Realized and unrealized gains on investments	177	-	-	177	2	-	-	2
Loss on disposal of fixed assets	(246)	-	-	(246)	(102)	-	-	(102)
Net assets released from restrictions	31,419	(31,419)	-	-	30,989	(30,989)	-	-
Total operating revenues and other additions	101,769	1,211	-	102,980	98,775	(1,070)	-	97,705
Expenses:								
Program								
Instruction	38,708	-	-	38,708	36,237	-	-	36,237
Research	2,036	-	-	2,036	1,844	-	-	1,844
Public service	276	-	-	276	466	-	-	466
Academic support	10,818	-	-	10,818	10,623	-	-	10,623
Student services	20,386	-	-	20,386	20,043	-	-	20,043
Auxiliary enterprises	10,746	-	-	10,746	10,296	-	-	10,296
Institutional support	19,226	-	-	19,226	19,840	-	-	19,840
Total expenses	102,196	-	-	102,196	99,349	-	-	99,349
Change in net assets from operating activities	(427)	1,211	-	784	(574)	(1,070)	-	(1,644)
Non-operating Activities:								
Investment-related:								
Realized and unrealized gains on investments	$ 9,350	75,271	2,109	86,730	$ 10,670	87,132	124	97,926
Investment income	327	-	-	327	122	-	-	122
Endowment payout for operations	(3,286)	(27,531)	-	(30,817)	(3,337)	(27,742)	-	(31,079)
Change in beneficial interest in perpetual trust	-	-	2,782	2,782	-	-	3,703	3,703
Change in value of planned giving agreements	28	425	435	888	39	563	631	1,233
Gift-related:								
Private gifts and grants restricted for long-term investment	33	1,187	2,124	3,344	557	667	1,168	2,392
Private gifts and grants restricted for capital projects	446	837	-	1,283	75	2,100	-	2,175
Other:								
Change in value of interest rate swap	391	-	-	391	355	-	-	355
Net assets released from restrictions	6,200	(6,200)	-	-	17,909	(17,909)	-	-
Change in net assets from non-operating activities	13,489	43,989	7,450	64,928	26,390	44,811	5,626	76,827
Change in net assets	13,062	45,200	7,450	65,712	25,816	43,741	5,626	75,183
Net assets beginning of year	180,087	324,509	353,907	858,503	154,271	280,768	348,281	783,320
Net assets end of year	$ 193,149	369,709	361,357	924,215	$ 180,087	324,509	353,907	858,503

See accompanying notes to financial statements.

MACALESTER COLLEGE
Statements of Cash Flows
Years ended May 31, 2014 and 2013
(in thousands of dollars)

	2014	2013
Cash flows from operating activities:		
Change in total net assets	$ 65,712	$ 75,183
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	8,297	7,050
Realized and unrealized gain on investments	(70,111)	(87,634)
Loss on disposal of fixed assets	246	102
Unrealized gain on interest rate swap	(391)	(355)
Private gifts and other income restricted for long term investments	(4,148)	(3,935)
Noncash contributions of marketable securities	(287)	(243)
Adjustment of actuarial liabilities for planned giving agreements	1,116	1,486
Change in value of beneficial interest in perpetual trust	(2,782)	(3,703)
Endowment payout	29,500	30,100
Change in assets and liabilities:		
Accrued investment income	(10)	519
Prepaid expenses	42	167
Notes and accounts receivable	(2,498)	(37)
Contributions receivable	762	816
Accounts payable and accrued expenses	(888)	3
Deferred revenue	(162)	90
Deposits	(68)	35
Net cash provided by operating activities	24,330	19,644
Cash flows from investing activities:		
Proceeds from sale of investments	98,811	141,969
Proceeds from sale of investments used for endowment payout	(29,500)	(30,100)
Purchase of investments	(80,026)	(120,427)
Purchase of land, building and equipment	(21,132)	(14,640)
Loss on disposal of equipment	(246)	(102)
Net cash used in investing activities	(32,093)	(23,300)
Cash flows from financing activities:		
Proceeds from issuance of bonds payable	3,995	14,730
Withdrawals from (deposits to) construction account, net	15,022	(15,022)
Bond premium from issuance of bonds payable	-	436
Principal payments on bonds payable	(8,144)	(3,702)
Payments made to beneficiaries of planned giving agreements	(831)	(779)
Change in government grant refundable	-	(17)
Noncash contributions of marketable securities	(613)	(1,142)
Private gifts, grants and other income restricted for long term investment	6,515	5,996
Net cash provided by (used in) financing activities	15,944	500
Increase (decrease) in cash and cash equivalents	8,181	(3,156)
Cash and cash equivalents at beginning of the year	27,289	30,445
Cash and cash equivalents at end of the year	$ 35,470	$ 27,289
Supplemental disclosure - cash paid for interest, including interest capitalized of $246 and $280, respectively	$ 3,425	$ 3,288
Noncash investing and financing activities:		
Purchases of land, building and equipment funded by accounts payable	$ 128	2,595

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 are 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.

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 2010 through 2012.

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 $86,210 and $90,359 at May 31, 2014 and 2013, respectively, and the fair value was approximately $90,289 and $94,723, 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 2.3% 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 $1,625 and $3,476 at May 31, 2014 and 2013, respectively. The College has a conflict of interest policy in place that is reviewed by each Board member and Officer annually.

Reclassifications

Certain 2013 amounts have been reclassified to conform to the 2014 presentation. There were no changes to net assets or changes in net assets as previously reported.

(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, 2014 and 2013, student loans represented less than 1% of total assets.

Student loans receivable consist of the following:

	2014	2013
Federal government programs	$ 4,639	$ 4,646
Institutional programs	2,319	1,898
Student loans receivable, gross	6,958	6,544
Less: allowance for doubtful accounts:		
Beginning of year	(883)	(853)
Increases	(48)	(49)
Write-offs	-	19
End of year	(931)	(883)
Student loans receivable, net	$ 6,027	$ 5,661

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 $2,808 and $676 as of May 31, 2014 and 2013, respectively. Allowances related to these other receivables total $36 as of May 31, 2014 and 2013.

Funds advanced by the federal government of $4,525 at May 31, 2014 and 2013, are ultimately refundable to the government and are classified as liabilities on the statements of financial position.

At May 31, 2014 and 2013, the following amounts were past due under student loan programs:

	2014	2013
1 - 240 days past due	$ 313	$ 303
240 days - 2 years past due	178	126
2 years - 5 years past due	136	119
Over 5 years past due	424	393
Total past due	$ 1,051	$ 941

(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 $15,965 and $18,008 as of May 31, 2014 and 2013, respectively. The allocations shown at fair value are as follows:

	2014	2013
Long term investments:		
Cash and cash equivalents	$ 37,690	$ 42,005
Publicly traded securities:		
Domestic equities	74,815	39,988
Foreign equities held in collective trusts	107,823	113,640
Fixed income – TIPS and Treasuries	89,634	89,175
Futures	2,821	141
Mutual funds	47,136	45,138
Alternative strategies in illiquid structures:		
Domestic equities	104,631	85,770
Private equities	106,534	95,688
Hedge funds	69,136	71,269
Real estate	28,914	35,040
Natural resources	65,073	65,964
Total fair value	$ 734,207	$ 683,818
Total cost	$ 577,655	$ 570,040

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, 2014 and 2013:

	2014			
	Level 1	Level 2	Level 3	Total
Financial Assets:				
Long term investments:				
Cash and short term investments	$ 37,690	$ -	$ -	$ 37,690
Publicly traded securities:				
Domestic equities	74,815	-	-	74,815
Foreign equities held in collective trusts	-	107,823	-	107,823
Fixed income – TIPS and Treasuries	84,889	4,745	-	89,634
Futures	2,821	-	-	2,821
Mutual funds	47,136	-	-	47,136
Alternative strategies in illiquid structures:				
Domestic equities	-	-	104,631	104,631
Private equities	-	-	106,534	106,534
Hedge funds	-	-	69,136	69,136
Real estate	-	-	28,914	28,914
Natural resources	-	-	65,073	65,073
Total long term investments	$ 247,351	$ 112,568	$ 374,288	$ 734,207
High Winds real estate	$ -	$ -	$ 14,559	$ 14,559
Beneficial interest in perpetual trust	$ -	$ -	$ 31,307	$ 31,307
Financial Liabilities:				
Interest rate swap agreement	$ -	$ 893	$ -	$ 893

(in thousands of dollars)

	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)

The following tables are roll-forwards of the Level 3 financial assets during the fiscal years ended May 31, 2014 and 2013:

Long Term Investments - 2014

	Domestic Equities	Private Equities	Hedge Funds	Real Estate	Natural Resources	Total
Beginning balance	$ 85,770	$ 95,688	$ 71,269	$ 35,040	$ 65,964	$ 353,731
Gains (losses):						
Unrealized, net	18,861	11,849	3,255	(1,846)	(1,269)	30,850
Realized, net	-	2,773	2,895	326	6,082	12,076
Purchases, issuances, sales and settlements:						
Purchases	-	15,518	38	4,039	11,935	31,530
Issuances	-	-	-	-	-	-
Sales	-	(19,294)	(8,321)	(8,645)	(17,639)	(53,899)
Settlements	-	-	-	-	-	-
Ending balance at May 31, 2014	$ 104,631	$ 106,534	$ 69,136	$ 28,914	$ 65,073	$ 374,288

Beneficial Interest in Perpetual Trust – 2014

Beginning balance	$ 28,525
Gains (losses):	
Unrealized gain (loss), net	759
Realized gain, net	2,768
Purchases, issuances, sales and settlements:	
Purchases	604
Sales	(1,349)
Ending balance at May 31, 2014	$ 31,307

High Winds Real Estate – 2014*

Beginning balance	$ 12,722
Sale of building	(835)
Purchase of building	440
Acquisition of parking lot	171
Increase in market value from appraisals	2,061
Ending balance at May 31, 2014	$ 14,559

* Real estate values are based on independent appraisals.

(in thousands of dollars)

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	622
Sales	(1,334)
Ending balance at May 31, 2014	$ 28,525

High Winds Real Estate – 2013*	
Beginning and ending balance	$ 12,722

* Real estate values are based on independent appraisals.

At May 31, 2014, the College had $374,288 of Level 3 long term investments and $107,823 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, 2014 and 2013, the College's alternative investments had strategies and redemption terms as summarized in the tables below:

2014				
Investment Category	Fair Value	Unfunded Commitments	Redemption Frequency*	Notice Period (in Days)*
Foreign equity held in collective trusts (a)	$ 107,823	None	Monthly	30 days
Domestic equities - alternative structures (b)	104,631	None	Quarterly	60 days
Hedge funds (c)	69,136	None	Monthly - Annual	30 - 90 days
Private investments (d)	200,521	$ 39,763	Not applicable	Not applicable
Totals	$ 482,111	$ 39,763		

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		

*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, 2014, the College had exposure to $18,085 of long positions in equity index futures and $108,982 of short positions in currency futures. As of May 31, 2013, the College had exposure to $36,866 of long positions in equity index futures, $16,003 of short positions in equity index futures, and $96,117 of 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 $31,307 and $28,525 as of May 31, 2014 and 2013, respectively. For the years ended May 31, 2014 and 2013, the College received $1,226 and $1,206 from this trust, respectively.

The College is the income beneficiary of a revocable trust with an estimated value of $10,616 and $10,235 as of May 31, 2014 and 2013, respectively, which is controlled by independent trustees. For the years ended May 31, 2014 and 2013, the College received $455 and $497 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:

	2014	2013
Unconditional promises expected to be collected in:		
Less than one year	$ 2,990	$ 4,065
One year to five years	1,917	4,090
Greater than five years	-	25
Less: Discount to present value (2.3% - 5.0%)	(60)	(204)
	$ 4,847	$ 7,976

8) Land, Buildings and Equipment

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

	2014	2013
Land and land improvements	$ 1,741	$ 1,614
Buildings and building improvements	288,873	262,285
Equipment	13,681	13,805
Construction in progress	233	8,883
	304,528	286,587
Less: Accumulated depreciation	(97,250)	(89,334)
	$ 207,278	$ 197,253

9) Bonds and Mortgages Payable

Bonds and mortgages payable consist of the following:

	2014	2013
Minnesota Higher Education Facilities Authority (MHEFA) variable rate demand revenue bonds of 1994, weekly maturity and rate reset, 0.12% 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, 0.12% 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, paid in full during the fiscal year ended May 31, 2014 (original amount $14,995)	-	5,455
Minnesota Higher Education Facilities Authority revenue notes of 2005, 4.08% average, paid in full during the fiscal year ended May 31, 2014 (original amount $3,000)	-	579

(in thousands of dollars)

	2014	2013
Minnesota Higher Education Facilities Authority revenue bonds of 2007, 4.42% average, final series due 2032 (original amount $39,490)	$30,245	$32,015
Minnesota Higher Education Facilities Authority revenue bonds of 2010, 4.60% average, final series due 2035 (original amount $16,000)	15,280	15,620
Minnesota Higher Education Facilities Authority revenue bonds of 2013, 3.28% average, final series due 2043 (original amount $14,730)	14,730	14,730
Minnesota Higher Education Facilities Authority revenue bonds of 2014, 1.60% average, final series due 2017 (original amount $3,995)	3,995	-
	86,210	90,359
Plus: Unamortized bond premium	1,042	1,385
	$ 87,252	$ 91,744

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 was 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 was 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 February of 2014, $3,995 of revenue bonds were issued on behalf of the College by MHEFA. The average interest rate of the bonds is 1.60%. Proceeds of this issue were used to repay the 2004 issue.

In direct connection with the variable rate demand revenue bonds issued in 2003, the College entered into an interest rate swap agreement that obligates it to pay a fixed rate of 3.33% annually to the counterparty in exchange for the receipt of a floating payment equal to 67% of the 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, 2014 and 2013, the estimated fair value of the swap contract was $(893) and $(1,284), 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, 2014 and 2013 are interest rate swap gains of $391 and $355, respectively.

Annual debt commitments (principal) at May 31, 2014, are as follows:

Fiscal year ending May 31,	Amount
2015	$ 2,385
2016	2,585
2017	6,765
2018	2,960
2019	3,095
After 2020	68,420
	$ 86,210

Total interest expensed on debt aggregated $3,344 and $3,243 during the years ended May 31, 2014 and 2013, 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, 2014 and 2013:

	2014	2013
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	$ 46,809	$ 40,413
Prizes and awards	462	415
Library support	3,535	3,068
Program support	263,336	226,254
Faculty support	37,353	32,701
Research	3,574	3,179
	355,069	306,030
Gifts and other unexpended revenues and gains available for:		
Scholarships	455	354
Prizes and awards	144	143
Library support	15	11
Program support	2,270	2,287
Faculty support	1,695	1,765
Research	221	188
Contributions receivable for plant projects	-	3,474
Contributions receivable for scholarships, program support and operations	1,223	2,162
Split interest agreements for scholarships, program support and operations	3,740	3,385
Private grants	4,100	2,459
Plant projects	208	2,069
Other	569	182
	$ 369,709	$ 324,509

(in thousands of dollars)

Permanently restricted net assets and the purposes the income is expendable to support are as follows at May 31, 2014 and 2013:

	2014	2013
Endowment funds for:		
Scholarships	$ 32,786	$ 32,381
Prizes and awards	297	297
Library support	3,077	3,077
Program support	243,457	243,451
Faculty support	24,427	23,422
Research	2,060	2,060
	306,104	304,688
Beneficial interest in outside managed trusts restricted for scholarships	31,002	28,303
Contributions receivable for scholarships and program support	929	123
High Winds Fund	15,729	13,582
Loan funds	3,803	3,759
Split interest agreements for scholarships and program support	3,790	3,452
	$ 361,357	$ 353,907

11) Endowment Funds

Overview

The College's endowment consists of 591 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, 2014 and 2013:

	2014			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds	$ -	$ 355,069	$ 306,104	$ 661,173
Board-designated endowment funds	57,270	-	-	57,270
Total funds	$ 57,270	$ 355,069	$ 306,104	$ 718,443

	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

Included in temporarily restricted endowment net assets at May 31, 2014 and 2013 is $56,597 and $50,332, 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, 2014 and 2013:

2014	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beg. of year	$ 52,608	$ 306,030	$ 304,688	$ 663,326
Investment return:				
Investment income	3,362	11,519	-	14,881
Realized and unrealized gains	7,949	60,779	-	68,728
Total investment return	11,311	72,298	-	83,609
Fees and other expenses	(559)	(1,915)	-	(2,474)
Contributions	-	1,331	1,316	2,647
Other transfers in (out)	530	-	100	630
Amounts appropriated for expenditure	(6,620)	(22,675)	-	(29,295)
Endowment net assets, end of year	$ 57,270	$ 355,069	$ 306,104	$ 718,443

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	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

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, 2014 and 2013. 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 2014 and 2013 was 5%. 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, 2014, 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, 2014 and 2013 was $18,777 and $16,435, respectively. In addition to real estate with a market value of $14,559 and $12,722 as of May 31, 2014 and 2013, respectively, the High Winds fund holds cash, investments, and receivables, net of liabilities, of $4,218 and $3,713 at May 31, 2014 and 2013, 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, 2014 and 2013 was $3,946 and $3,862, 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 $110 per claimant for calendar 2014 and $100 per claimant for calendar 2013. 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, 2014 and 2013, the aggregate stop-loss amount was $5,190 and $5,182, 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, 2014 and 2013 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 $4,442 and $4,674 for the years ended May 31, 2014 and 2013, respectively.

15) Commitments

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, 2014 through October 2, 2014, which is the date the financial statements were available to be issued.