MACALESTER COLLEGE

ANNUAL FINANCIAL STATEMENTS
WITH AUDITORS' OPINION
FOR THE FISCAL YEAR ENDED MAY 31, 2016

CliftonLarsonAllen

CliftonLarsonAllen LLP
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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, which comprise the statements of financial position as of May 31, 2016 and 2015, 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, 2016 and 2015, 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

Minneapolis, Minnesota
October 6, 2016

MACALESTER COLLEGE
Statements of Financial Position
May 31, 2016 and 2015
(in thousands of dollars)

	2016	2015
ASSETS		
Cash and cash equivalents	$ 20,636	$ 16,105
Restricted cash and cash equivalents	5,671	-
Accrued investment income	518	448
Prepaid expenses	435	311
Notes and accounts receivable, net of allowance for doubtful receivables of $953 (and $950 in 2015)	8,542	8,601
Contributions receivable, net	1,536	2,799
Short term investments	25,507	22,715
Long term investments	686,040	761,275
Real estate	15,567	15,639
Land, buildings and equipment, net of accumulated depreciation	200,379	205,502
Beneficial interest in perpetual trust	29,810	31,982
Total assets	$ 994,641	$ 1,065,377
LIABILITIES AND NET ASSETS		
Liabilities:		
Accounts payable and accrued expenses	$ 12,774	$ 12,666
Deferred revenue	1,211	1,109
Deposits	386	294
Interest rate swap agreement	1,526	451
Liabilities under planned giving agreements	7,696	8,374
Government grants refundable	4,424	4,515
Bonds and mortgages payable	86,999	83,648
Total liabilities	115,016	111,057
Net assets:		
Unrestricted		
Operations	21,898	14,778
Investments	55,589	61,145
Plant	118,713	123,606
Total unrestricted	196,200	199,529
Temporarily restricted		
Operations	8,075	9,950
Investments	313,746	382,060
Plant	271	239
Total temporarily restricted	322,092	392,249
Permanently restricted - Investments	361,333	362,542
Total net assets	879,625	954,320
Total liabilities and net assets	$ 994,641	$ 1,065,377

See accompanying notes to financial statements.

MACALESTER COLLEGE

Statements of Activities

Years Ended May 31, 2016 and 2015

(in thousands of dollars)

	2016				2015			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Operating Activities:								
Revenues and other additions:								
Tuition and fees	$ 102,722	-	-	102,722	$ 94,616	-	-	94,616
Less: Student aid and scholarships	(52,097)	-	-	(52,097)	(47,674)	-	-	(47,674)
Net tuition and fees	50,625	-	-	50,625	46,942	-	-	46,942
Federal grants and contracts	1,562	-	-	1,562	1,561	-	-	1,561
State grants and contracts	257	-	-	257	134	-	-	134
Private gifts and grants	4,029	2,457	-	6,486	5,409	3,778	-	9,187
Sales and service of auxiliary enterprises	15,995	-	-	15,995	15,178	-	-	15,178
Other sources	1,127	51	-	1,178	1,038	44	-	1,082
Investment income	223	12	-	235	197	3	-	200
Endowment payout	3,641	31,118	-	34,759	3,438	29,224	-	32,662
Realized and unrealized gains (losses) on investments	(111)	-	-	(111)	(140)	-	-	(140)
Loss on disposal of fixed assets	(8)	-	-	(8)	(22)	-	-	(22)
Net assets released from restrictions	35,512	(35,512)	-	-	33,811	(33,811)	-	-
Total operating revenues and other additions	112,852	(1,874)	-	110,978	107,546	(762)	-	106,784
Expenses:								
Program								
Instruction	42,584	-	-	42,584	40,822	-	-	40,822
Research	1,996	-	-	1,996	1,873	-	-	1,873
Public service	168	-	-	168	256	-	-	256
Academic support	12,410	-	-	12,410	11,638	-	-	11,638
Student services	22,499	-	-	22,499	21,306	-	-	21,306
Auxiliary enterprises	11,524	-	-	11,524	11,015	-	-	11,015
Institutional support	20,422	-	-	20,422	19,003	-	-	19,003
Total expenses	111,603	-	-	111,603	105,913	-	-	105,913
Change in net assets from operating activities	1,249	(1,874)	-	(625)	1,633	(762)	-	871
Non-operating Activities:								
Investment-related:								
Realized and unrealized gains (losses) on investments	$ (579)	(38,489)	1,145	(37,923)	$ 7,198	51,243	292	58,733
Investment income	437	-	-	437	48	-	-	48
Endowment payout for operations	(3,641)	(31,118)	-	(34,759)	(3,438)	(29,224)	-	(32,662)
Change in beneficial interest in perpetual trust	-	-	(2,172)	(2,172)	-	-	676	676
Change in value of planned giving agreements	(30)	(223)	(320)	(573)	-	118	80	198
Gift-related:								
Private gifts and grants restricted for long-term investment	42	1,565	138	1,745	194	1,207	137	1,538
Private gifts and grants restricted for capital projects	220	30	-	250	255	6	-	261
Other:								
Change in value of interest rate swap	(1,075)	-	-	(1,075)	442	-	-	442
Net assets released from restrictions	48	(48)	-	-	48	(48)	-	-
Change in net assets from non-operating activities	(4,578)	(68,283)	(1,209)	(74,070)	4,747	23,302	1,185	29,234
Change in net assets	(3,329)	(70,157)	(1,209)	(74,695)	6,380	22,540	1,185	30,105
Net assets beginning of year	199,529	392,249	362,542	954,320	193,149	369,709	361,357	924,215
Net assets end of year	$ 196,200	322,092	361,333	879,625	$ 199,529	392,249	362,542	954,320

See accompanying notes to financial statements.

MACALESTER COLLEGE
Statements of Cash Flows
Years Ended May 31, 2016 and 2015
(in thousands of dollars)

	2016	2015
Cash flows from operating activities:		
Change in total net assets	$ (74,695)	$ 30,105
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	8,727	8,969
Realized and unrealized loss (gain) on investments	51,202	(46,072)
Loss on disposal of fixed assets	8	22
Unrealized loss (gain) on interest rate swap	1,075	(442)
Private gifts and other income restricted for long term investments	(1,733)	(1,350)
Noncash contributions of marketable securities	(149)	(143)
Adjustment of actuarial liabilities for planned giving agreements	159	581
Change in value of beneficial interest in perpetual trust	2,172	(675)
Endowment payout	31,400	28,500
Change in assets and liabilities:		
Accrued investment income	(70)	(174)
Prepaid expenses	(124)	110
Notes and accounts receivable	59	234
Contributions receivable	307	364
Accounts payable and accrued expenses	(131)	1,217
Deferred revenue	102	40
Deposits	92	38
Net cash provided by operating activities	18,401	21,324
Cash flows from investing activities:		
Proceeds from sale of investments	301,159	183,067
Proceeds from sale of investments used for endowment payout	(31,400)	(28,500)
Purchase of investments	(279,251)	(187,336)
Purchase of land, building and equipment	(3,800)	(7,368)
Loss on disposal of equipment	(8)	(22)
Net cash used in investing activities	(13,300)	(40,159)
Cash flows from financing activities:		
Proceeds from issuance of bonds payable	22,660	-
Deposits to construction account, net	(4,993)	-
Deposits to debt escrow, net	(678)	-
Bond premium from issuance of bonds payable	2,217	-
Principal payments on bonds payable	(21,091)	(2,304)
Payments made to beneficiaries of planned giving agreements	(837)	(871)
Change in government grant refundable	(91)	(10)
Noncash contributions of marketable securities	(446)	(379)
Private gifts, grants and other income restricted for long term investment	2,689	3,034
Net cash used in financing activities	(570)	(530)
Increase (decrease) in cash and cash equivalents	4,531	(19,365)
Cash and cash equivalents at beginning of the year	16,105	35,470
Cash and cash equivalents at end of the year	$ 20,636	$ 16,105
Supplemental disclosure - cash paid for interest, including interest capitalized of $144 and $0, respectively	$ 3,924	$ 3,185
Noncash investing and financing activities:		
Purchases of land, building and equipment funded by accounts payable	$ 239	-

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 and releases 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. 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.

Restricted Cash and Cash Equivalents

Restricted cash and cash equivalents are restricted for construction and debt escrow. They include interest bearing money market accounts and short term investments with an original maturity of less than three months. 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.

Short Term Investments

Short term investments consist of investments held in short-term funds with original maturities exceeding three months that may be used for the daily operations of the College.

Long Term Investments

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

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

Equipment with a cost of $10,000 or greater and buildings with a cost of $100,000 or greater are capitalized by the College. 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 a reduction of bonds and mortgages payable on the statements of financial position. This was a change in accounting policy during the year ended May 31, 2015.

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.

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 $212 and $727 at May 31, 2016 and 2015, respectively. The College has a conflict of interest policy in place that is reviewed by each Board member and Officer annually.

(in thousands of dollars)

Reclassifications

Certain 2015 amounts have been reclassified to conform to the 2016 presentation. There were no changes to net assets or changes in net assets as previously reported.

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, 2016 and 2015, student loans represented less than 1% of total assets.

Student loans receivable consist of the following:

	2016	2015
Federal government programs	$ 4,537	$ 4,602
Institutional programs	3,649	3,001
Student loans receivable, gross	8,186	7,603
Less: allowance for doubtful accounts:		
Beginning of year	(930)	(931)
Increases	-	-
Write-offs	-	1
End of year	(930)	(930)
Student loans receivable, net	$ 7,256	$ 6,673

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 $1,286 and $1,928 as of May 31, 2016 and 2015, respectively. Allowances related to these other receivables total $23 and $20 as of May 31, 2016 and 2015, respectively.

Funds advanced by the federal government of $4,424 and $4,515 at May 31, 2016 and 2015, respectively, are ultimately refundable to the government and are classified as liabilities on the statements of financial position.

At May 31, 2016 and 2015, the following amounts were past due under student loan programs:

	2016	2015
1 - 240 days past due	$ 278	$ 414
240 days - 2 years past due	194	180
2 years - 5 years past due	182	167
Over 5 years past due	461	425
Total past due	$ 1,115	$ 1,186

(in thousands of dollars)

4) Investments

Short term investments:

	2016	2015
Fixed income – Treasuries – fair value	$ 25,507	$ 22,715

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 totaling $14,205 and $15,897 as of May 31, 2016 and 2015, respectively. The allocations shown at fair value are as follows:

	2016	2015
Cash and cash equivalents	$ 1,785	$ 19,658
Publicly traded securities:		
Domestic equities	54,050	60,192
Foreign equities held in collective trusts	96,400	110,734
Fixed income – TIPS and Treasuries	88,554	94,609
Futures	5,236	2,868
Mutual funds	87,275	69,307
Liquid alternative investments	52,702	41,935
Alternative strategies in illiquid structures:		
Domestic equities	92,173	121,509
Private equities	82,273	96,161
Hedge funds	61,385	64,936
Real estate	17,977	31,163
Natural resources	46,230	48,203
Total fair value	$ 686,040	$ 761,275
Total cost	$ 598,608	$ 603,553

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.

(in thousands of dollars)

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

In 2015, the College adopted ASU No. 2015-07 which removes the requirement to categorize within the fair value hierarchy all investments for which fair value is measured using the net asset value per share expedient. This has been applied retrospectively.

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

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, 2016 and 2015:

	2016				
	Level 1	Level 2	Level 3	No Level	Total
Financial Assets:					
Short term investments:					
Fixed income - Treasuries	$ 25,507	$ -	$ -	$ -	$ 25,507
Long term investments:					
Cash and short term investments	$ 1,785	-	$ -	$ -	$ 1,785
Publicly traded securities:					
Domestic equities	54,050	-	-	-	54,050
Foreign equities held in collective trusts measured at net asset value	-	-	-	96,400	96,400
Fixed income – TIPS and Treasuries	88,483	71	-	-	88,554
Futures	5,236	-	-	-	5,236
Mutual funds	87,275	-	-	-	87,275
Liquid alternative investments	-	52,702	-	-	52,702
Alternative strategies in illiquid structures measured at net asset value:					
Domestic equities	-	-	-	92,173	92,173
Private equities	-	-	-	82,273	82,273
Hedge funds	-	-	-	61,385	61,385
Real estate	-	-	-	17,977	17,977
Natural resources	-	-	-	46,230	46,230
Total long term investments	$ 236,829	$ 52,773	$ -	$ 396,438	$ 686,040
High Winds real estate	$ -	$ -	$ 15,567	$ -	$ 15,567
Beneficial interest in perpetual trust	$ -	$ -	$ 29,810	$ -	$ 29,810
Financial Liabilities:					
Interest rate swap agreement	$ -	$ 1,526	$ -	$ -	$ 1,526

(in thousands of dollars)

	2015				
	Level 1	Level 2	Level 3	No Level	Total
Financial Assets:					
Short term investments:					
Fixed income - Treasuries	$ 22,715	$ -	$ -	$ -	$ 22,715
Long term investments:					
Cash and short term investments	$ 19,658	-	$ -	$ -	$ 19,658
Publicly traded securities:					
Domestic equities	60,192	-	-	-	60,192
Foreign equities held in collective trusts measured at net asset value	-	-	-	110,734	110,734
Fixed income – TIPS and Treasuries	89,945	4,664	-	-	94,609
Futures	2,868	-	-	-	2,868
Mutual funds	69,307	-	-	-	69,307
Liquid alternative investments	-	41,935	-	-	41,935
Alternative strategies in illiquid structures measured at net asset value:					
Domestic equities	-	-	-	121,509	121,509
Private equities	-	-	-	96,161	96,161
Hedge funds	-	-	-	64,936	64,936
Real estate	-	-	-	31,163	31,163
Natural resources	-	-	-	48,203	48,203
Total long term investments	$ 241,970	$ 46,599	$ -	$ 472,706	$ 761,275
High Winds real estate	$ -	$ -	$ 15,639	$ -	$ 15,639
Beneficial interest in perpetual trust	$ -	$ -	$ 31,982	$ -	$ 31,982
Financial Liabilities:					
Interest rate swap agreement	$ -	$ 451	$ -	$ -	$ 451

The following tables are roll-forwards of the Level 3 financial assets during the fiscal years ended May 31, 2016 and 2015:

	Beneficial Interest in Perpetual Trust – 2016
Beginning balance	$ 31,982
Gains (losses):	
Unrealized loss, net	(1,880)
Realized gain, net	761
Purchases, issuances, sales and settlements:	
Purchases	667
Sales	(1,720)
Ending balance at May 31, 2016	$ 29,810

(in thousands of dollars)

	High Winds Real Estate – 2016*
Beginning balance	$ 15,639
Sale of property	(552)
Increase in property market value	480
Ending balance at May 31, 2016	$ 15,567

* Real estate values are based on independent appraisals.

	Beneficial Interest in Perpetual Trust – 2015
Beginning balance	$ 31,307
Gains (losses):	
Unrealized gain, net	(307)
Realized gain, net	1,698
Purchases, issuances, sales and settlements:	
Purchases	749
Sales	(1,465)
Ending balance at May 31, 2015	$ 31,982

	High Winds Real Estate – 2015*
Beginning balance	$ 14,559
Purchase of property	1,080
Ending balance at May 31, 2015	$ 15,639

* Real estate values are based on independent appraisals.

At May 31, 2016, the College had $300,038 of long term investments and $96,400 of 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, 2016 and 2015, the College's alternative investments had strategies and redemption terms as summarized in the tables below:

2016				
Investment Category	Fair Value	Unfunded Commitments	Redemption Frequency*	Notice Period (in Days)*
Foreign equity held in collective trusts (a)	$ 96,400	None	Monthly	30 days
Domestic equities - alternative structures (b)	92,173	None	Quarterly	60 days
Hedge funds (c)	61,385	None	Monthly - Annual	30 - 90 days
Private investments (d)	146,480	$61,893	Not applicable	Not applicable
Totals	$ 396,438	$61,893		

2015				
Investment Category	Fair Value	Unfunded Commitments	Redemption Frequency*	Notice Period (in Days)*
Foreign equity held in collective trusts (a)	$ 110,734	None	Monthly	30 days
Domestic equities - alternative structures (b)	121,509	None	Quarterly	60 days
Hedge funds (c)	64,936	None	Monthly - Annual	30 - 90 days
Private investments (d)	175,527	$52,607	Not applicable	Not applicable
Totals	$ 472,706	$52,607		

* 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 hedges the foreign currency risks of the public developed markets international equity portfolio by entering into foreign currency exchange 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 and rebalancing activities.

As of May 31, 2016, the College had exposure to $103,586 short positions in currency futures. As of May 31, 2015, the College had exposure to $112,070 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 $29,810 and $31,982 as of May 31, 2016 and 2015, respectively. For the years ended May 31, 2016 and 2015, the College received $1,517 and $1,309 from this trust, respectively.

The College is the income beneficiary of a revocable trust with an estimated value of $9,381 and $10,437 as of May 31, 2016 and 2015, respectively, which is controlled by independent trustees. For the years ended May 31, 2016 and 2015, the College received $412 and $426 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:

	2016	2015
Unconditional promises expected to be collected in:		
Less than one year	$ 1,026	$ 1,755
One year to five years	525	1,104
Less: Discount to present value (2.0% - 5.0%)	(15)	(60)
	$ 1,536	$ 2,799

8) Land, Buildings and Equipment

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

	2016	2015
Land and land improvements	$ 2,157	$ 2,157
Buildings and building improvements	296,803	294,124
Equipment	14,969	14,489
Construction in progress	804	619
	314,733	311,389
Less: Accumulated depreciation	(114,354)	(105,887)
	$ 200,379	$ 205,502

(in thousands of dollars)

9) Bonds and Mortgages Payable

Bonds and mortgages payable consist of the following:

	2016	2015
Minnesota Higher Education Facilities Authority (MHEFA) variable rate demand revenue bonds of 1994, weekly maturity and rate reset, 0.14% 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, 0.15% 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 2007, 4.42% average, final series due 2022 (original amount $39,490)	7,910	28,390
Minnesota Higher Education Facilities Authority revenue bonds of 2010, 4.60% average, final series due 2035 (original amount $16,000)	14,360	14,840
Minnesota Higher Education Facilities Authority revenue bonds of 2012, 3.28% average, final series due 2043 (original amount $14,730)	14,460	14,640
Minnesota Higher Education Facilities Authority revenue bonds of 2015, 1.60% average, final series due 2017 (original amount $3,995)	3,995	3,995
Minnesota Higher Education Facilities Authority revenue bonds of 2015, 4.08% average, final series due 2032 (original amount $22,660)	22,415	-
	85,100	83,825
Plus: Unamortized bond premium	2,773	994
Less: Unamortized bond issuance costs	(874)	(1,171)
	$ 86,999	$ 83,648

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 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 2015, $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 October of 2015, $22,660 of revenue bonds were issued on behalf of the College by MHEFA. The average interest rate of the bonds is 4.08%. $18,555 of the proceeds of this issue were used to partially repay the 2007 issue, while the remaining $4,105 was used for various campus projects.

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 expired on May 31, 2016. As of May 31, 2015, the estimated fair value of the swap contract was $(451).

(in thousands of dollars)

On July 1, 2015, 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 2.07% annually to the counterparty in exchange for the receipt of a floating payment equal to 67% of LIBOR. The contract expires March 1, 2030. 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 $15,300. As of May 31, 2016, the estimated fair value of the swap contract was $(1,526).

In the statements of activities, net gains or losses from the interest rate swap agreements result from fluctuations in the variable interest rate to which the swaps are tied. Included in the statements of activities for the years ended May 31, 2016 and 2015 are interest rate swap gains (losses) of $(1,075) and $442, respectively.

Annual debt commitments (principal) at May 31, 2016, are as follows:

Fiscal Year Ending May 31,	Amount
2017	$ 7,195
2018	3,400
2019	3,560
2020	3,655
2021	3,835
After 2021	63,455
	$ 85,100

Total interest expensed on debt aggregated $3,932 and $3,166 during the years ended May 31, 2016 and 2015, 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, 2016 and 2015:

	2016	2015
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	$ 44,446	$ 50,345
Prizes and awards	421	484
Library support	3,056	3,816
Program support	224,439	279,832
Faculty support	34,269	39,920
Research	3,337	3,772
	309,968	378,169
Gifts and other unexpended revenues and gains available for:		
Scholarships	374	429
Prizes and awards	143	143
Library support	18	16
Program support	2,299	2,307
Faculty support	1,437	1,527
Research	260	261
Contributions receivable for scholarships, program support and operations	826	948
Split interest agreements for scholarships, program support and operations	3,593	3,815
Private grants	2,630	4,151
Plant projects	274	239
Other	270	244
	$ 322,092	$ 392,249

(in thousands of dollars)

Permanently restricted net assets and the purposes the income is expendable to support are as follows at May 31, 2016 and 2015:

	2016	2015
Endowment funds for:		
Scholarships	$ 33,703	$ 33,192
Prizes and awards	298	297
Library support	3,093	3,095
Program support	243,353	243,358
Faculty support	25,352	25,220
Research	2,058	2,059
	307,857	307,221
Beneficial interest in outside managed trusts restricted for scholarships	29,324	31,588
Contributions receivable for scholarships and program support	77	230
High Winds Fund	17,004	16,041
Loan funds	3,915	3,635
Split interest agreements for scholarships and program support	3,156	3,827
	$ 361,333	$ 362,542

11) Endowment Funds

Overview

The College's endowment consists of 610 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, 2016 and 2015:

	2016			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds	$ (192)	$ 309,968	$ 307,857	$ 617,633
Board-designated endowment funds	54,503	-	-	54,503
Total funds	$ 54,311	$ 309,968	$ 307,857	$ 672,136

	2015			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds	$ -	$ 378,169	$ 307,221	$ 685,390
Board-designated endowment funds	60,001	-	-	60,001
Total funds	$ 60,001	$ 378,169	$ 307,221	$ 745,391

Included in temporarily restricted endowment net assets at May 31, 2016 and 2015 is $57,029 and $60,816, 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, 2016 and 2015:

	2016			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beg. of year	$ 60,001	$ 378,169	$ 307,221	$ 745,391
Investment return:				
Investment income	2,229	7,540	-	9,769
Realized and unrealized gains (losses)	(389)	(49,617)	-	(50,006)
Total investment return	1,840	(42,077)	-	(40,237)
Fees and other expenses	(617)	(2,088)	-	(2,705)
Contributions	42	1,379	266	1,687
Other transfers in (out)	574	57	370	1,001
Amounts appropriated for expenditure	(7,529)	(25,472)	-	(33,001)
Endowment net assets, end of year	$ 54,311	$ 309,968	$ 307,857	$ 672,136

	2015			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beg. of year	$ 57,270	$ 355,069	$ 306,104	$ 718,443
Investment return:				
Investment income	2,564	8,731	-	11,295
Realized and unrealized gains (losses)	6,929	39,087	-	46,016
Total investment return	9,493	47,818	-	57,311
Fees and other expenses	(529)	(1,802)	-	(2,331)
Contributions	175	1,119	1,069	2,363
Other transfers in (out)	651	-	48	699
Amounts appropriated for expenditure	(7,059)	(24,035)	-	(31,094)
Endowment net assets, end of year	$ 60,001	$ 378,169	$ 307,221	$ 745,391

Funds with Deficiencies

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor or UPMIFA requires the College to retain as a fund of perpetual duration. Deficiencies of this nature that are reported in unrestricted net assets totaled $192 as of May 31, 2016. There were no deficiencies of this nature as of May 31, 2015. 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 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 2016 and 2015 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.

(in thousands of dollars)

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, 2016, the High Winds Fund owned 13 properties surrounding the College campus. The total value of the assets of the Fund, net of liabilities, as of May 31, 2016 and 2015 was $19,814 and $19,215, respectively. In addition to real estate with a market value of $15,567 and $15,639 as of May 31, 2016 and 2015, respectively, the High Winds fund holds cash, investments, and receivables, net of liabilities, of $4,247 and $3,576 at May 31, 2016 and 2015, respectively.

13) Leases Receivable

The College is the lessor of commercial space under various operating leases. Minimum future rental revenue to be received on non-cancelable agreements as of May 31, 2016 for each of the next five years and in aggregate are:

Fiscal Year Ending May 31,	Amount
2017	$ 979
2018	906
2019	414
2020	292
2021	85
After 2021	222
	$ 2,898

14) Employee Benefits

Retirement Plans

The College provides retirement benefits to substantially all employees. Certain academic and non-academic personnel are covered under defined contribution plans with Teachers Insurance and Annuity Association and College Retirement Equities Fund (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, 2016 and 2015 was $4,194 and $4,124, 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 2016 and 2015. 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, 2016 and 2015, the aggregate stop-loss amount was $6115 and $5,374, 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, 2016 and 2015 is reported as a component of accounts payable and accrued expenses on the statements of financial position.

15) Fundraising Expenses

Fundraising expenses for the College totaled $4,872 and $4,494 for the years ended May 31, 2016 and 2015, respectively.

16) 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.

17) Subsequent Event

In connection with the preparation of the financial statements, the College has evaluated subsequent events after the statement of financial position date of May 31, 2016 through October 6, 2016, which is the date the financial statements were available to be issued.