

# MACALESTER COLLEGE



*ANNUAL FINANCIAL STATEMENTS  
WITH AUDITORS OPINION  
FOR YEAR ENDED MAY 31, 1995*

4200 Norwest Center  
90 South Seventh Street  
Minneapolis, MN 55402

### **Independent Auditors' Report**

**The Board of Trustees  
Macalester College:**

We have audited the accompanying balance sheet of Macalester College (the College) as of May 31, 1995 and the related statements of changes in fund balances and current funds revenues, expenditures and other changes for the year then ended. These financial statements are the responsibility of the College's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the College as of May 31, 1995, and the changes in fund balances and the current funds revenues, expenditures and other changes for the year then ended in conformity with generally accepted accounting principles.

Our audit was made for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary information included in Schedules 1 through 5 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly presented in all material respects in relation to the basic financial statements taken as a whole.

*KPMG Peat Marwick LLP*

August 11, 1995



Balance Sheet  
 May 31, 1995  
 with comparative figures at May 31, 1994

Assets	1995	1994
<b>Current funds:</b>		
Cash and cash equivalents	\$ 15,555,238	6,826,746
Notes and accounts receivable, net of allowance for doubtful receivables of \$155,766 (\$176,253 in 1994)	1,889,168	1,557,945
Accrued investment income	2,232,196	2,096,379
Prepaid expenses	260,057	283,282
Due from plant fund (note 7)	0	2,299,643
<b>Total Current funds</b>	<b>\$ 19,936,659</b>	<b>13,063,995</b>
<b>Loan funds:</b>		
Cash and cash equivalents	\$ 234,288	449,511
Investment in intermediate cash fund, at cost which approximates market	1,754,964	1,643,541
Notes and accounts receivable, net of allowance for doubtful receivables of \$480,384 in 1995 and 1994	3,228,270	3,141,437
Accrued investment income	22,802	15,909
Due from other funds	63,157	0
<b>Total Loan funds</b>	<b>\$ 5,303,481</b>	<b>5,250,398</b>
<b>High Winds fund (note 8):</b>		
Real estate contracts & accounts receivable	\$ 116,291	120,616
Real estate, at cost	2,532,805	2,357,452
Due from plant fund	0	1,340,000
Due from other funds	1,125,174	53,753
<b>Total High Winds fund</b>	<b>\$ 3,774,270</b>	<b>3,871,821</b>
<b>Endowment and similar funds:</b>		
Investments, at cost (note 3)	\$ 116,484,619	110,676,733
Accrued investment income	56,457	58,161
Due from other funds	168,268	503,416
Net assets owned by DeWitt Wallace Fund for Macalester College, at cost (note 3)	262,145,139	262,145,139
<b>Total Endowment and similar funds</b>	<b>\$ 378,854,483</b>	<b>373,383,449</b>
<b>Plant funds (note 7):</b>		
Cash and cash equivalents	\$ 251,482	186,890
Investments in U.S. Government securities, at cost which approximates market	1,757,580	1,812,591
Investment property	0	30,000
Other receivables	43,516	43,751
Debt financing costs	500,511	366,002
Due from other funds	6,507,730	1,268,364
Investment in plant:		
Land and land improvements	1,224,111	1,224,111
Buildings	77,007,556	72,654,943
Furniture and equipment	1,906,590	1,557,229
Accumulated depreciation	(17,701,039)	(15,954,806)
<b>Total net investment in plant</b>	<b>62,437,218</b>	<b>59,481,477</b>
<b>Total Plant funds</b>	<b>\$ 71,498,037</b>	<b>63,189,075</b>

See accompanying notes to financial statements.

Liabilities and Fund Balances	1995	1994
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<b>Current funds:</b>		
Accounts payable and accrued expenses	\$ 6,957,079	6,002,073
Student deposits	319,825	236,934
Due to other funds	7,864,329	1,591,679
<b>Funds balances:</b>		
<b>Unrestricted:</b>		
Undesignated	490,320	228,301
Designated	0	1,203,813
<b>Restricted</b>	4,305,106	3,801,195
Total fund balances	4,795,426	5,233,309
Total Current funds	\$ 19,936,659	13,063,995
	=====	=====
<b>Loan funds:</b>		
Due to other funds	\$ 0	233,854
<b>Fund balances - restricted:</b>		
U.S. Government grants refundable	2,657,549	2,505,695
College funds	2,645,932	2,510,849
Total fund balances	5,303,481	5,016,544
	-----	-----
Total Loan funds	\$ 5,303,481	5,250,398
	=====	=====
<b>High Winds fund (note 8):</b>		
Accounts payable and accrued expenses	\$ 8,428	0
Rental deposits	3,485	4,215
Fund balance - restricted	3,762,357	3,867,606
Total High Winds fund	\$ 3,774,270	3,871,821
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	=====	=====
<b>Endowment and similar funds:</b>		
Contracts and other payables	\$ 1,017,656	831,527
<b>Fund balances:</b>		
DeWitt Wallace Fund for Macalester College (note 2)	262,145,139	262,145,139
<b>Macalester College:</b>		
Endowment and term endowment	80,903,614	77,847,511
<b>Quasi-endowment:</b>		
Unrestricted	19,214,232	17,835,430
Restricted	8,715,051	8,055,282
Annuity	940,562	839,769
Life Income	5,918,229	5,828,791
Subtotal-Macalester College	115,691,688	110,406,783
Total combined fund balances	377,836,827	372,551,922
Total Endowment and similar funds	\$ 378,854,483	373,383,449
	=====	=====
<b>Plant funds (note 7):</b>		
Due to current funds	\$ 0	2,299,643
Due to High Winds fund	0	1,340,000
Bonds, mortgages and note payable	23,874,037	17,363,933
Accrued interest payable	276,157	251,342
<b>Fund balances:</b>		
Unrestricted - unexpended	5,592,045	4,744,251
<b>Restricted - unexpended:</b>		
Donor	314,824	104,597
Debt reserve	879,792	712,599
Net investment in plant	40,561,182	36,372,710
Total fund balances	47,347,843	41,934,157
	-----	-----
Total Plant funds	\$ 71,498,037	63,189,075
	=====	=====

Statement of Changes in Fund Balances  
Year ended May 31, 1995

-----Current Funds-----

	Unrestricted Undesignated	Designated	Restricted	Loan Funds	High Winds Fund
Revenue and other additions:					
Unrestricted current fund revenues \$	35,628,798	-	-	-	-
Federal grants and contracts - restricted	-	-	1,875,971	156,513	-
State grants and contracts	-	-	644,868	-	-
Private gifts, grants and contracts - restricted	-	-	848,010	-	-
Endowment income - restricted	-	-	20,215,337	4,195	-
Sales and service of auxiliary enterprises - restricted	-	-	3,944	-	377,588
Other sources	-	-	356,152	5,103	9,217
Investment income - restricted	-	-	52,126	128,203	82,500
Realized gains on investments - restricted	-	-	-	-	-
Interest on loans receivable - restricted	-	-	-	88,313	8,164
Expended for plant facilities (including \$90,513 charged to current funds)	-	-	-	-	-
Retirement of indebtedness	-	-	-	-	-
<b>Total revenues and other additions</b>	<b>35,628,798</b>	<b>0</b>	<b>23,996,408</b>	<b>382,327</b>	<b>477,469</b>
Expenditures and other deductions:					
Educational and general	21,998,008	-	22,777,984	-	-
Auxiliary enterprises	4,125,347	-	13,617	-	582,718
Loan cancellations	-	-	-	22,175	-
Administrative and collection costs	-	-	-	73,215	-
Expended for plant facilities	-	-	-	-	-
Depreciation expense	-	-	-	-	-
Paid to beneficiaries	-	-	-	-	-
Matured annuity funds	-	-	-	-	-
Interest on indebtedness	-	-	-	-	-
Retirement of indebtedness	-	-	-	-	-
<b>Total expenditures and other deductions</b>	<b>26,123,355</b>	<b>0</b>	<b>22,791,601</b>	<b>95,390</b>	<b>582,718</b>
Transfers among funds - additions (deductions):					
Mandatory:					
To plant:					
Principal and interest	(1,094,006)	-	-	-	-
Renewals and replacements	(38,802)	-	-	-	-
To endowment:	-	-	(41,127)	-	-
Nonmandatory:					
Capital improvements	(8,006,852)	-	-	-	-
To quasi-endowment (notes 1 & 5)	(103,764)	(1,203,813)	(659,769)	-	-
<b>Total transfers</b>	<b>(9,243,424)</b>	<b>(1,203,813)</b>	<b>(700,896)</b>	<b>0</b>	<b>0</b>
Net increase (decrease) for the year	262,019	(1,203,813)	503,911	286,937	(105,249)
Fund balances at beginning of year	228,301	1,203,813	3,801,195	5,016,544	3,867,606
Fund balances at end of year	\$ 490,320	0	4,305,106	5,303,481	3,762,357

See accompanying notes to financial statements.

-----Endowment Funds-----					-----Plant Funds-----			
True and Term	Quasi	DeWitt Wallace Fund for Macalester College	Annuity Funds	Life Income Funds	Unexpended Unrestricted	Restricted	Net Investment In Plant	
-	-	-	-	-	-	-	-	
-	-	-	-	-	-	-	-	
144,152	-	-	333,565	100,223	-	1,169,052	224,100	
500,000	-	-	-	-	-	17,726	-	
-	-	-	-	-	-	-	-	
-	-	-	92,658	392,284	8,579	500	-	
-	-	-	-	-	-	126,580	-	
2,370,824	-	-	-	176	-	-	-	
-	-	-	-	-	-	-	-	
-	-	-	-	-	-	-	2,128,065	
-	-	-	-	-	-	-	3,677,539	
3,014,976	0	0	426,223	492,683	8,579	1,313,858	6,029,704	
-	-	-	-	-	-	-	-	
-	-	-	-	-	-	-	-	
-	-	-	-	26,378	75,138	-	-	
-	-	-	-	-	3,175,506	905,825	-	
-	-	-	-	-	-	-	1,841,232	
-	-	-	312,718	376,867	-	-	-	
-	-	-	12,712	-	-	-	-	
-	-	-	-	-	116,220	1,215,430	-	
-	-	-	-	-	3,527,643	149,896	-	
0	0	0	325,430	403,245	6,894,507	2,271,151	1,841,232	
-	-	-	-	-	-	1,094,006	-	
-	-	-	-	-	-	38,802	-	
41,127	-	-	-	-	-	-	-	
-	-	-	-	-	7,733,722	273,130	-	
0	2,038,571	-	-	-	-	(71,225)	-	
41,127	2,038,571	0	0	0	7,733,722	1,334,713	0	
3,056,103	2,038,571	0	100,793	89,438	847,794	377,420	4,188,472	
77,847,511	25,890,712	262,145,139	839,769	5,828,791	4,744,251	817,196	36,372,710	
80,903,614	27,929,283	262,145,139	940,562	5,918,229	5,592,045	1,194,616	40,561,182	

Statement of Current Funds Revenues, Expenditures and Other Changes  
Year ended May 31, 1995  
with comparative figures for the year ended May 31, 1994

	1995			Total	1994 Total
	Unrestricted Undesignated	Unrestricted Designated	Restricted		
<b>Revenues:</b>					
Tuition and fees (note 7)	\$ 27,503,695	-	127,470	27,631,165	26,433,352
Federal grants and contracts	-	-	1,527,071	1,527,071	1,604,673
State grants and contracts	-	-	644,868	644,868	688,847
Private gifts, grants and contracts	1,238,885	-	944,884	2,183,769	2,539,815
Endowment income	1,131,176	-	19,303,682	20,434,858	18,200,322
Investment income	358,640	-	52,126	410,766	351,912
Realized net gains (losses) on investments	(11,139)	-	-	(11,139)	(10,714)
Sales and services of auxiliary enterprises	5,168,038	-	3,944	5,171,982	4,949,001
Other sources	226,791	-	228,683	455,474	372,227
Matured life income	12,712	-	-	12,712	-
<b>Total revenues</b>	<b>35,628,798</b>	<b>-</b>	<b>22,832,728</b>	<b>58,461,526</b>	<b>55,129,435</b>
<b>Expenditures and mandatory transfers:</b>					
<b>Educational and general:</b>					
Instruction	4,456,288	-	9,815,464	14,271,752	13,836,011
Research	-	-	546,400	546,400	527,482
Public service	218,339	-	67,054	285,393	291,261
Academic support	2,376,344	-	784,699	3,161,043	2,837,690
Student services	4,130,950	-	1,354,487	5,485,437	5,191,756
Institutional support	5,705,224	-	411,987	6,117,211	6,064,888
Operation and maintenance of plant	2,595,350	-	89,022	2,684,372	2,692,066
Student aid, scholarships and prizes	2,515,513	-	9,708,871	12,224,384	11,049,006
<b>Educational and general expenditures</b>	<b>21,998,008</b>	<b>-</b>	<b>22,777,984</b>	<b>44,775,992</b>	<b>42,490,160</b>
<b>Mandatory transfers for:</b>					
Endowment	-	-	41,127	41,127	-
Principal and interest	890,595	-	-	890,595	776,979
<b>Total educational and general</b>	<b>22,888,603</b>	<b>-</b>	<b>22,819,111</b>	<b>45,707,714</b>	<b>43,267,139</b>
<b>Auxiliary enterprises:</b>					
Expenditures	4,125,347	-	13,617	4,138,964	4,029,348
<b>Mandatory transfer for:</b>					
Principal and interest	203,411	-	-	203,411	206,652
Renewals and replacements	38,802	-	-	38,802	38,802
<b>Total auxiliary enterprises</b>	<b>4,367,560</b>	<b>-</b>	<b>13,617</b>	<b>4,381,177</b>	<b>4,274,802</b>
<b>Total expenditures &amp; mandatory transfers</b>	<b>27,256,163</b>	<b>-</b>	<b>22,832,728</b>	<b>50,088,891</b>	<b>47,541,941</b>
<b>Other transfers and additions (deductions):</b>					
Excess of restricted additions over expenditures	-	-	1,163,680	1,163,680	366,384
Transfers to plant funds	(8,006,852)	-	-	(8,006,852)	(7,098,204)
Transfers to quasi-endowment funds	(103,764)	(1,203,813)	(659,769)	(1,967,346)	(833,129)
<b>Net increase (decrease) in fund balance</b>	<b>\$ 262,019</b>	<b>(1,203,813)</b>	<b>503,911</b>	<b>(437,883)</b>	<b>22,545</b>

See accompanying notes to financial statements.

# MACALESTER COLLEGE

## Notes to Financial Statements

May 31, 1995

### (1) Summary of Significant Accounting Policies

The financial statements are presented in accordance with generally accepted accounting principles. The more significant accounting policies are summarized below.

#### Accrual Basis

The financial statements of Macalester College (the College) are prepared on the accrual basis. The statement of current funds revenues, expenditures and other changes is a statement of financial activities of current funds relating to the current reporting period. It does not purport to present the results of operations or the net income or loss for the period as would a statement of income or a statement of revenues and expenses.

To the extent that current funds are used to finance plant assets, the amounts so provided are accounted for as (1) expenditures, in the case of normal replacement of movable equipment; (2) mandatory transfers, in the case of required provisions for principal and interest on indebtedness and renewals and replacements of plant; and (3) transfers of a nonmandatory nature, in other cases.

#### Fund Accounting

In order to ensure observance of limitations and restrictions placed on the use of the resources available to the College, the accounts of the College are maintained in accordance with the principles of "fund accounting." This is the procedure by which resources for various purposes are classified for accounting and reporting purposes into funds that are in accordance with activities or objectives specified. Separate accounts are maintained for each fund. Accordingly, all financial transactions have been recorded and reported by fund group.

Within each fund group, fund balances restricted by outside sources are so indicated and are distinguished from unrestricted funds allocated for specific purposes by action of the governing board. Externally restricted funds may only be utilized in accordance with the purposes established by the source of such funds and are in contrast with unrestricted funds over which the governing board retains full control to use in achieving any of its institutional purposes.

Endowment funds are subject to the restrictions of gift instruments requiring in perpetuity that the principal be invested and the income only be utilized. Term endowment funds are similar to endowment funds except that, upon the passage of a stated period of time, or the happening of a particular event, all or a part of the principal may be expended. Quasi-endowment funds have been established by the governing board for the same purpose as endowment funds; however, any portion of quasi-endowment funds may be utilized.

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## MACALESTER COLLEGE

## Notes to Financial Statements, Continued

(1) Summary of Significant Accounting Policies, ContinuedFund Accounting, Continued

All gains and losses arising from the sale, collection or other disposition of investments and other noncash assets are accounted for in the fund which owns such assets. Ordinary income derived from investments, receivables and the like is accounted for in the fund owning such assets, except for the income derived from investments of endowment funds, which income is accounted for in the fund to which it is restricted or, if unrestricted, as revenues in unrestricted current funds.

Other unrestricted revenue is accounted for in the unrestricted current fund. Restricted gifts, grants, appropriations, endowment income and other restricted resources are accounted for in the appropriate restricted funds. Restricted current funds are reported as revenues and expenditures when expended for current operating purposes. Pledges are not reflected in the financial statements until the assets are actually received, which is consistent with common practice. Pell grants are reflected as a current restricted fund.

Designated Fund

In 1985 the Board of Trustees of the College designated \$1,203,813 of current unrestricted funds as an income stabilization fund, intended to provide a spending reserve for future time periods. By Board of Trustees' action, these funds have been transferred to quasi-endowment fund balance, where they will perform the same function.

Investment in Plant

Land, buildings and equipment are stated at cost at date of acquisition or fair market value at date of gift.

Accounting for Depreciation & Amortization

The College depreciates on a straight-line basis with no salvage value. Buildings and improvements are depreciated over a 40 year life (existing buildings over 40 years plus age of building at May 31, 1990) and equipment over a 5 year life.

The College amortizes on a straight-line basis costs incurred for debt issues, discounts or premiums on bonds purchased as investments and discounts or premiums on bonds issued by the College. Amortization is calculated over the life of the bonds.

Federal Income Taxes

The College is exempt from Federal income tax under Section 501(c)(3) of the Internal Revenue Code.

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## MACALESTER COLLEGE

## Notes to Financial Statements, Continued

(1) Summary of Significant Accounting Policies, ContinuedAccounting for Contributions and Financial Statement Display

In June 1993, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 116, *Accounting for Contributions Received and Contributions Made* (SFAS 116), and Statement of Financial Accounting Standards No. 117, *Financial Statements of Not-for-Profit Organizations* (SFAS 117).

SFAS 116 establishes standards of accounting for contributions and applies to all entities that receive or make contributions. SFAS 116 requires contributions received and unconditional promises to give to be recognized as revenue in the period received at their fair values. Conditional promises to give are to be recognized when they become unconditional; that is, when the conditions are substantially met.

SFAS 117 establishes standards for reporting information in financial statements issued by not-for-profit organizations and requires that all not-for-profit organizations provide a statement of financial position, a statement of activities, and a statement of cash flows that focus on the entity as a whole. Amounts related to an organization's financial position and activities are to be reported in three classes of net assets - permanently restricted, temporarily restricted, and unrestricted.

SFAS 116 and SFAS 117 will be effective for the College's year ending May 31, 1996. The College is in the process of determining the impact of SFAS 116 and SFAS 117 on the presentation of its fiscal year 1996 financial statements.

(2) DeWitt Wallace Fund for Macalester College

The DeWitt Wallace Fund for Macalester College (the Fund) was established for the benefit of the College in 1980. It is governed by an independent Board of Directors, two of whom are representatives of the Reader's Digest Association, Inc., two of whom are the representatives of the College, and two of whom are independent directors. It is a separate New York Not-for-Profit Corporation which has been classified by the Internal Revenue Service as a supporting organization under Section 509(a)(3) and recognized as tax exempt under Section 501(c)(3).

As of May 31, 1995, the market value of the net assets of the Fund was approximately at \$376,238,703 (\$371,619,602 principal investments, \$67,226 principal cash, and \$4,551,875 of undistributed income). Income from the Fund is granted annually to support College programs as may be agreed upon by the College and the Directors of the Fund. Grants made by the Fund to the College from 1982 to 1995 total \$75,200,059. This sum includes a grant of \$15,295,000 for the fiscal year ended May 31, 1995.

(Continued)

## MACALESTER COLLEGE

## Notes to Financial Statements, Continued

(2) DeWitt Wallace Fund for Macalester College, Continued

As of May 31, 1995, \$123,646,573 (at current market value) of the Fund's assets were invested in the College's pooled endowment fund. This represented 8,176,982 unitized shares of the pooled endowment fund. The College acts as an investment manager for these assets of the Fund pursuant to an agreement dated May 24, 1990.

(3) Investments - Endowments and Similar Funds (including the DeWitt Wallace Fund for Macalester College)

Investments are stated at cost, adjusted where appropriate for amortization of premiums and accrual of discounts. Investments received by gift are stated at market value at the date of acquisition. Quoted market values of investments of the endowment and similar funds at May 31, 1995 (with comparative values at May 31, 1994) were as follows:

	<u>1995</u>	<u>1994</u>
Macalester College (at market)		
Cash equivalents	\$ 7,501,002	7,148,684
Common stocks	85,558,146	77,990,910
Preferred stocks	5,175,986	7,241,193
Corporate bonds	34,695,695	33,169,374
U.S. Government obligations	98,046,367	95,115,869
Real estate, private equity, other	<u>15,702,805</u>	<u>12,047,843</u>
Subtotal market	246,680,001	232,713,873
Less units of Macalester endowment held by DeWitt Wallace Fund for Macalester College	<u>(123,646,573)</u>	<u>(118,390,769)</u>
Total market	<u>\$123,033,428</u>	<u>114,323,104</u>
Total cost	<u>\$116,484,619</u>	<u>110,676,733</u>
DeWitt Wallace Fund for Macalester College (at market)		
Common stock	\$247,973,029	247,228,365
Units in the Macalester College endowment	<u>123,646,573</u>	<u>118,390,769</u>
Total market	<u>\$371,619,602</u>	<u>365,619,134</u>
Total cost	<u>\$262,145,139</u>	<u>262,145,139</u>

(Continued)

## MACALESTER COLLEGE

## Notes to Financial Statements, Continued

(3) Investments - Endowments and Similar Funds (including the DeWitt Wallace Fund for Macalester College), Continued

Included in the market value of preferred stocks at May 31, 1995, is \$5,175,986 relating to 88,684 shares of The Reader's Digest Association, Inc. preferred stock which is not publicly traded. Additionally, the College has agreed not to sell such shares of stock without first offering the shares to The Reader's Digest Association, Inc.

Included in the market value of common stocks of the DeWitt Wallace Fund for Macalester College at May 31, 1995, is \$247,973,029 relating to 5,957,310 non-voting shares of The Reader's Digest Association, Inc.

(4) Funds Held in Trust by Others

The College is the income beneficiary of a trust with an estimated value of \$9,310,000 which is controlled by independent trustees. For the year ended May 31, 1995, the College received \$318,679 from this trust. Assets held in trust by others, with the College as income beneficiary or remainderman, do not appear on the financial statements of the College, until such time as the remainder interest is realized.

(5) Valuation and Performance of Endowments and Quasi-Endowment Funds, Including the DeWitt Wallace Fund for Macalester College

The majority of the assets of the endowment funds have been placed in an investment pool, on a market 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.

Since 1983, the College has followed an endowment spending policy that requires endowment income over a predetermined level (excess endowment earnings) to be transferred to quasi-endowment fund balance. Each year the Board of Trustees sets a spending rate which is used to allocate endowment income under the terms of the endowments. For the year ended May 31, 1995, a spending rate approximating 5.58% was used based upon a sixteen-quarter moving average of investment market value. Endowment income in excess of the spending rate is transferred to quasi-endowment, where it is unitized. Endowment income is shown at actual earnings on the Statement of Changes in Fund Balances.

Earnings of \$763,533 in excess of the spending rate for the year ended May 31, 1995 (\$103,764 of unrestricted funds and \$659,769 of restricted funds) have been transferred from current funds to quasi-endowment.

Excess income of the DeWitt Wallace Fund's participation in the pooled endowment is granted annually to the College. The 1994/95 grant was \$500,000, reported as endowment income in the True and Term Endowment Fund Group.

Additional information pertaining to market values and earnings of the pooled endowment funds is included in Schedule 1.

(Continued)

## MACALESTER COLLEGE

## Notes to Financial Statements, Continued

(6) Pledges

At May 31, 1995, the College had pledges outstanding from individuals, corporations and foundations totalling approximately \$1,781,308. Under current accounting standards these gifts will be reflected in the financial statements of the College when received (see note 1).

(7) Plant Funds

Bonds, mortgages and notes payable of the plant funds at May 31, 1995 consist of the following:

Macalester College Dormitory Bonds of 1956 2-3/4%, final series due November 1, 1996 (original amount \$800,000)	\$ 56,000
Macalester College Dormitory Bonds of 1962 3-3/8%, final series due May 1, 2002 (original amount \$2,850,000)	830,000
College Housing Program Mortgages at 3%, due in semi-annual installments of \$19,022 including interest, through 2020 (original amount \$880,200)	658,037
Minnesota Higher Education Facilities Authority Mortgage Revenue Bonds of 1992, 6.33% average, final series due 2022 (original amount \$15,670,000)	15,670,000
Minnesota Higher Education Facilities Authority variable rate demand revenue bond of 1994, weekly maturity and rate reset, 3.81% average for current fiscal year, total principal due 2024 (original amount \$6,660,000)	<u>6,660,000</u> <u>\$23,874,037</u>

To secure the required annual principal and interest payments on the 1962 bonds, the College has: (a) granted a mortgage lien and pledged the revenue from certain dormitories and dining room facilities (the aggregate carrying value of such pledged facilities approximated \$4,347,000 at May 31, 1995) and (b) met the sinking fund requirements of the bond indentures by depositing with a trustee certain Wallace Endowment Fund securities having a carrying value of \$453,751. The 1962 indenture also requires the College to transfer \$30,000 annually to a repair and replacement reserve.

(Continued)

## MACALESTER COLLEGE

## Notes to Financial Statements, Continued

(7) Plant Funds, Continued

The College is involved in the College Housing Program of the Department of Housing and Urban Development. The funds received under this program have been used to rehabilitate student dormitories and dining areas. The mortgages under this program are secured by a lien on the College's stadium carried at approximately \$652,000 and by pledges of gross stadium and tuition revenues.

In June of 1992, \$15,670,000 of revenue bonds were issued on behalf of the College by the Minnesota Higher Education Facilities Authority (MHEFA). The average maturity of the issued bonds was 21 years, at an average rate of 6.33%. The bonds were secured by a pledge by MHEFA and a reserve account of \$1,300,120, funded by bond sale proceeds.

The balance of the proceeds, net of issuance costs and issuance discounts of \$372,513, were used to retire the balance of MHEFA Revenue Bonds of 1985, and to finance campus improvements totaling \$9,738,169.

In September of 1994, \$6,660,000 of variable rate demand revenue bonds were issued on behalf of the College by MHEFA. The bonds were initially issued with a weekly maturity and rate reset, but longer maturities as well as a fixed rate are optional.

Proceeds of the issue were used to finance various campus improvements and an athletic field expansion. Loan repayments associated with the bonds will be general obligations of the College, with interest payable monthly (semi-annual if converted to fixed), and principal payable at maturity, on March 1, 2024.

Annual debt commitments (principal) at May 31, 1995, are as follows:

<u>Fiscal year ending May 31.</u>	<u>Amount</u>
1996	160,437
1997	337,994
1998	324,568
1999	335,158
2000	350,768
after 2000	<u>22,365,112</u>
	<u>\$23,874,037</u>

Over the past eight years the Plant fund had borrowed funds totaling \$3,101,236 from Current funds to finance renovations and equipment acquisitions. These interfund loans bore interest at a rate equivalent to the average Current funds investment rate. Interest expense, as well as annual principal repayments, are recognized in the Plant fund. The principal balance on May 31, 1995 is \$ 0. All Current fund borrowings were paid in full as of December 31, 1994.

During the year ended May 31, 1994, the Plant fund purchased property from the High Winds fund for an expansion of campus athletic fields. An interfund debt was established, and paid off during the current year (see note 8).

Total interest costs on plant funds debt aggregated \$1,331,650 (\$116,220 due to interfund borrowing) during the year ended May 31, 1995.

(Continued)

## MACALESTER COLLEGE

## Notes to Financial Statements, Continued

(8) High Winds Fund

The High Winds 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, 1995, the High Winds fund owned 37 properties surrounding the College campus. Subsequent to year end, the High Winds fund sold 28 properties to the Plant fund for \$3,075,000. This sale will be reflected in the financial statements for the year ending May 31, 1996.

During the year ended May 31, 1994, 19 properties were sold to the Plant fund. An interfund debt was established and was interest bearing (\$1,080,000 at 7% and \$260,000 at 8%). During the current year this interfund debt was paid off.

During the year ended May 31, 1995, the High Winds fund charged Current fund approximately \$116,600 for use of High Winds property.

(9) Pension Plans

The College provides pension benefits to substantially all employees. Certain academic and non-academic personnel are covered under contributory plans with Teachers Insurance and Annuity Association and College Retirement Equities Fund. 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. The College has an unfunded pension plan which supplements retirement benefits of certain professional and staff employees not fully covered by other plans. The unfunded liability under the supplemental plan at May 31, 1995 was approximately \$293,570.

Total pension expense for the year ended May 31, 1995 was \$1,417,185 including \$37,369 paid under the unfunded supplemental plan.

(10) Disclosures About Fair Value of Financial Instruments

The following methods and assumptions were used to estimate the fair value of each class of financial instruments for which it is practical to estimate that value:

Cash and cash equivalents

The carrying amount approximates fair value because of the short maturity of those instruments.

Accounts receivable and accounts payable

The carrying amount approximates fair value because of the short maturity of those instruments.

Long-term debt

It is not practical to estimate the fair value of other long-term debt as current borrowing rates, market assessments and credit risk analysis are not readily available.

Endowment Investment Performance \*  
Year Ended May 31, 1995

	Pooled Funds		Nonpooled Funds		Total Endowment Funds	
	Market	Cost	Market	Cost	Market	Cost
Net assets at May 31, 1995:						
Common stock	\$ 79,613,446	67,062,154	247,993,509	157,137,893	327,606,955	224,200,047
Preferred stocks	5,175,986	4,497,895	-	-	5,175,986	4,497,895
Corporate bonds	31,611,236	28,894,381	-	-	31,611,236	28,894,381
U.S. Government obligations	97,004,508	90,716,834	57,827	54,965	97,062,335	90,771,799
Real estate	5,799,430	5,882,080	-	-	5,799,430	5,882,080
Other (including uninvested cash)	17,171,244	16,732,683	-	-	17,171,244	16,732,683
	<u>236,375,850</u>	<u>213,786,027</u>	<u>248,051,336</u>	<u>157,192,858</u>	<u>484,427,186</u>	<u>370,978,885</u>
Net assets at May 31, 1994	<u>223,637,096</u>		<u>247,300,705</u>		<u>470,937,801</u>	
Increase in net assets	12,738,754		750,631		13,489,385	
Less:						
Initial market value of additions	2,723,850		0		2,723,850	
Net gains for year	<u>\$ 10,014,904</u>		<u>750,631</u>		<u>10,765,535</u>	
Net gains for the year consist of:						
Realized net gains	\$ 2,370,824		0		2,370,824	
Unrealized net gains	7,644,080		750,631		8,394,711	
Total net gains for year	<u>\$ 10,014,904</u>		<u>750,631</u>		<u>10,765,535</u>	
Pooled investments:						
Market value per unit, including excess endowment earnings funds:						
May 31, 1995	\$ 15.12					
May 31, 1994	14.47					
Net gain per unit	\$ 0.65					
Percent gain per unit	4.44%					
Total earnings, exclusive of gains	<u>\$ 13,146,636</u>					
Total earnings per current year average units outstanding	<u>\$ 0.85</u>					
Total earnings as a percent of average current market values	<u>5.78%</u>					
Total performance for year	<u>10.22%</u>					

\* - Including the DeWitt Wallace Fund for Macalester College (note 2)

See accompanying independent auditors' report.



Revenue and Expenditures of Certain Dormitories and Dining Facilities (1)  
Year Ended May 31, 1995

	1956 Dormitory Bonds					1962 Dormitory Bonds				
	Bigelow	Dayton	Turck	Wallace	Total	Doty	Dupre	Kirk	Dining	Total
Operating revenue (2)	\$ 265,360	265,360	317,440	327,360	1,175,520	361,498	626,200	358,360	2,341,705	3,687,763
Operating expenditures (3);										
Direct charges for repair & maintenance	22,390	22,984	20,373	16,899	82,646	52,383	41,648	13,741	37,725	145,497
Contract food services	-	-	-	-	-	-	-	-	1,463,074	1,463,074
Allocated expenditures for salaries & staff benefits (4)	56,854	30,614	39,360	65,601	192,429	74,347	100,588	61,227	-	236,162
Allocated expenditures for materials, supplies and & other services (4)	133,519	66,759	89,012	156,588	445,878	166,898	234,474	144,645	100,139	646,156
Total expenditures	212,763	120,357	148,745	239,088	720,953	293,628	376,710	219,613	1,600,938	2,490,889
Excess of revenue over expenditures	\$ 52,597	145,003	168,695	88,272	454,567	67,870	249,490	138,747	740,767	1,196,874

(1) Includes all dormitories and dining facilities financed by the 1956 and 1962 dormitory bonds, both bond issues being between Macalester College and the United States Housing and Home Finance Administrator.

(2) Operating revenue of the individual dormitories is determined by multiplying the average number of occupants by the per student rental charge.

(3) Does not include depreciation expense.

(4) Expenditures are allocated on a square footage basis.

See accompanying independent auditors' report.

Analysis of Revenue Fund Accounts, Bond and Interest Sinking Fund Account  
and Repair and Replacement Reserve Account  
Year Ended May 31, 1995

	1956 Dormitory Bonds		1962 Dormitory Bonds		
	Revenue Fund Account	Bond and Interest Sinking Fund Account	Revenue Fund Account	Bond and Interest Sinking Fund Account	Repair and Replacement Reserve Account
Balance at May 31, 1994	\$ -	77,220	\$ -	294,484	526,765
Revenue:					
Operating revenue (Schedule 2)	1,175,520	-	3,687,763	-	-
Investment income	-	4,732	-	22,442	25,757
Total revenue	1,175,520	4,732	3,687,763	22,442	25,757
Expenditures:					
Repair and replacement expenditures	-	-	-	-	-
Operating expenditures (Schedule 2)	720,953	-	2,490,889	-	-
Debt Service:					
Principal	-	32,000	-	100,000	-
Interest	-	1,980	-	31,388	-
Total expenditures	720,953	33,980	2,490,889	131,388	-
Transfers:					
From revenue fund accounts to sinking fund accounts	(33,980)	33,980	(131,388)	131,388	-
From revenue fund account to repair and replacement reserve account	-	-	-	-	30,000
To current unrestricted fund from revenue fund accounts and sinking fund accounts	(420,587)	(4,732)	(1,065,486)	(22,442)	-
Total transfers	(454,567)	29,248	(1,196,874)	108,946	30,000
Balance at May 31, 1995*	\$ -	77,220	\$ -	294,484	582,522

\*Based upon original cost of investments in the bond and interest sinking fund accounts, the College's carrying value of these two sinking fund accounts at May 31, 1995 was \$453,751.

See accompanying independent auditors' report.

Analysis of Revenue Fund Accounts, Debt Service Accounts  
and Repair and Replacement Reserve Accounts  
Year Ended May 31, 1995

	CHMN 112 Mortgage			CHMN 122 Mortgage		
	Revenue Fund Account	Debt Service Account	Repair and Replacement Reserve Account	Revenue Fund Account	Debt Service Account	Repair and Replacement Reserve Account
Balance at May 31, 1994	\$ -	5,338	25,320	-	18,439	51,660
Revenue:						
Operating revenue	50,402	-	-	25,473,792	-	-
Investment income	-	-	-	-	-	-
Total revenue	50,402	-	-	25,473,792	-	-
Expenditures:						
Repair and replacement expenditures	-	-	-	-	-	-
Operating expenditures	46,680	-	-	-	-	-
Debt Service:						
Principal	-	4,075	-	-	13,821	-
Interest	-	4,465	-	-	15,683	-
Total expenditures	46,680	8,540	-	-	29,504	-
Transfers:						
From revenue fund accounts to debt service accounts	(8,540)	8,540	-	(29,504)	29,504	-
From revenue fund account to repair and replacement reserve account	(1,982)	-	1,982	(6,820)	-	6,820
To current unrestricted fund from revenue fund accounts	6,800	-	-	(25,437,468)	-	-
From repair & replacement reserve to debt service reserve	-	-	-	-	-	-
Total transfers	(3,722)	8,540	1,982	(25,473,792)	29,504	6,820
Balance at May 31, 1995	\$ -	5,338	27,302	-	18,439	58,480

See accompanying independent auditors' report.

## MACALESTER COLLEGE

### Insurance Coverage

Year ended May 31, 1995

Pursuant to covenants in the 1956 and 1962 dormitory bond indentures and the College Housing Program mortgages payable, the College is required to maintain minimum levels of insurance coverage on certain dormitories and dining facilities. These minimum levels of insurance coverage were maintained during the year ended May 31, 1995.

See accompanying independent auditors' report.