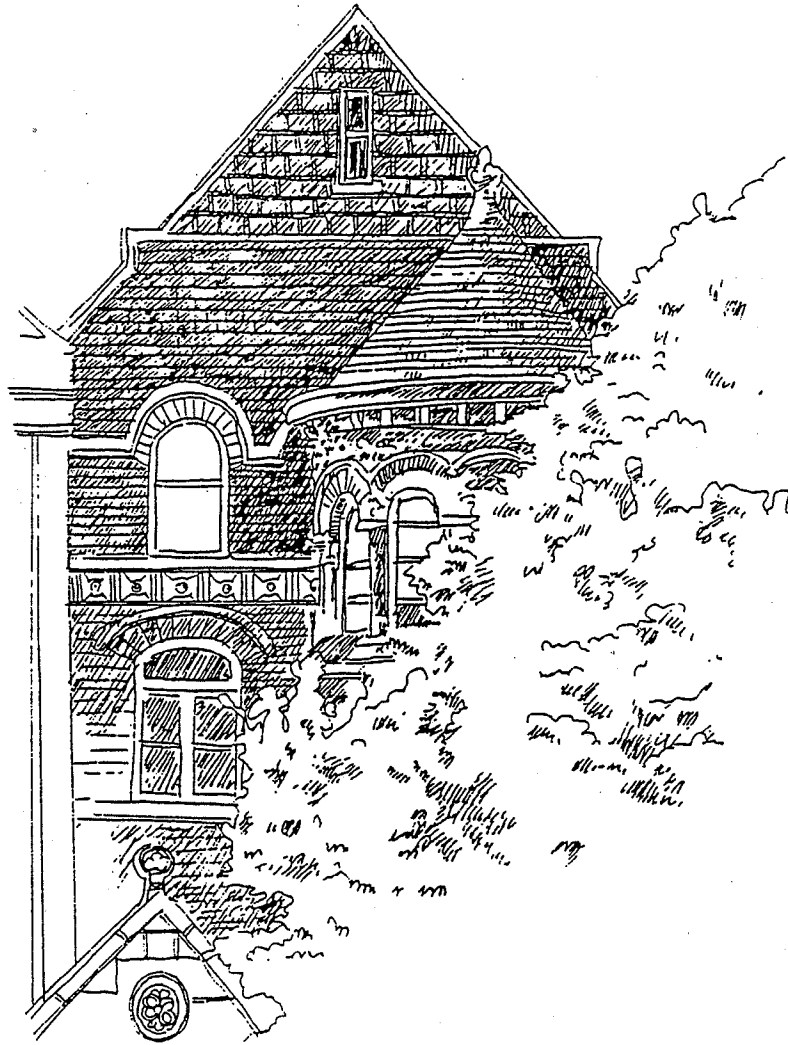


MACALESTER COLLEGE



ANNUAL FINANCIAL STATEMENTS
WITH AUDITORS OPINION
FOR YEAR ENDED MAY 31, 2002



4200 Wells Fargo Center
90 South Seventh Street
Minneapolis, MN 55402

Independent Auditors' Report

The Board of Trustees
Macalester College:

We have audited the accompanying statements of financial position of Macalester College (the College) as of May 31, 2002 and 2001, and the related statements of activities and cash flows for the years then ended. These financial statements are the responsibility of the College's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the College as of May 31, 2002 and 2001, and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated July 26, 2002 on our consideration of the College's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

July 26, 2002

KPMG LLP



Macalester College
Statements of Financial Position
May 31, 2002 and 2001
(in thousands of dollars)

	Operations	Investments	Plant	2002 Total	2001 Total
ASSETS					
Cash and cash equivalents	\$ 11,110	(4,677)	2,155	8,588	\$ 11,002
Accrued investment income	1,610	30	-	1,640	1,934
Prepaid expenses	331	-	805	1,136	1,173
Notes and accounts receivable, net of allowance for doubtful receivables of \$723 (and \$709 in 2001)	1,416	4,334	-	5,750	5,604
Contributions receivable, net	2,491	1,412	621	4,524	3,805
Funds for investment in land, buildings and equipment	-	-	2,804	2,804	10,457
Long term investments	5,008	462,778	-	467,786	207,389
Real estate	-	6,051	-	6,051	5,381
Land, buildings and equipment, net of accumulated depreciation	-	-	115,419	115,419	109,397
Beneficial interest in perpetual trust	-	26,299	-	26,299	27,648
Investments owned by DeWitt Wallace Fund for Macalester College	-	-	-	-	307,515
Total assets	\$ 21,966	496,227	121,804	639,997	\$ 691,305
LIABILITIES AND NET ASSETS					
Liabilities:					
Accounts payable and accrued expenses	7,689	-	470	8,159	\$ 10,845
Present value of beneficiary payments	-	6,761	-	6,761	6,767
Deferred revenue	2,909	-	-	2,909	1,743
Deposits	219	-	-	219	290
Government grants refundable	-	4,110	-	4,110	3,960
Bonds and mortgages payable	-	-	45,817	45,817	47,279
Total liabilities	10,817	10,871	46,287	67,975	70,884
Net assets:					
Unrestricted:					
For operations	4,819	-	-	4,819	4,303
For investment in plant	-	-	1,971	1,971	5,713
For long term investments	-	30,224	-	30,224	31,558
For endowment payout	-	35,273	-	35,273	40,902
For debt service	-	-	1,874	1,874	1,855
Net investment in plant	-	-	70,839	70,839	64,695
Total unrestricted	4,819	65,497	74,684	145,000	149,026
Temporarily restricted:					
For operations	6,330	-	-	6,330	6,503
For investment in plant	-	-	833	833	4,744
For long term investments	-	76,986	-	76,986	46,555
Total temporarily restricted	6,330	76,986	833	84,149	57,802
Permanently restricted:					
For long term investments	-	342,873	-	342,873	413,593
Total net assets	11,149	485,356	75,517	572,022	620,421
Total liabilities and net assets	\$ 21,966	496,227	121,804	639,997	\$ 691,305

See accompanying notes to financial statements.

Macalester College
Statements of Activities
Years ended May 31, 2002 and 2001
(in thousands of dollars)

	Operations	Investments	Plant	2002 Total	2001 Total
Changes in unrestricted net assets:					
Revenue:					
Tuition and fees	\$ 39,668	-	-	39,668	\$ 37,292
Less: Student aid and scholarships	(16,381)	-	-	(16,381)	(15,085)
Net tuition and fees	23,287	-	-	23,287	22,207
Federal grants and contracts	1,161	-	-	1,161	960
State grants and contracts	130	-	-	130	119
Private gifts and grants	3,662	-	-	3,662	2,732
Sales and service of auxiliary enterprises	8,184	-	-	8,184	7,232
Other sources	516	-	185	701	491
Investment income	605	-	17	622	1,937
Endowment payout	1,551	-	-	1,551	1,455
Realized and unrealized losses on investments, net of gains used in endowment payout	(15)	(7,975)	-	(7,990)	(6,617)
Net assets released from restrictions	24,293	622	4,501	29,416	26,628
Total revenue	63,374	(7,353)	4,703	60,724	57,144
Expenses:					
Instruction	22,410	-	1,680	24,090	24,051
Research	823	-	-	823	740
Public service	565	-	31	596	605
Academic support	5,526	-	415	5,941	5,489
Student services	9,734	-	1,672	11,406	9,716
Institutional support	11,233	-	981	12,214	11,531
Auxiliary enterprises	7,357	470	1,701	9,528	8,371
Administration and other expenses	-	152	-	152	71
Total expenses	57,648	622	6,480	64,750	60,574
Transfers among reporting categories:					
Principal and interest	(3,899)	-	3,899	-	-
Renewals and replacements	(9)	-	9	-	-
Capital improvements	(290)	-	290	-	-
Long term investments	(1,012)	1,012	-	-	-
Total transfers	(5,210)	1,012	4,198	-	-
Change in unrestricted assets	516	(6,963)	2,421	(4,026)	(3,430)
Unrestricted net assets beginning of year, restated	4,303	72,460	72,263	149,026	152,456
Unrestricted net assets at end of year	\$ 4,819	65,497	74,684	145,000	\$ 149,026

(continued)

See accompanying notes to financial statements.

Macalester College
Statements of Activities
(in thousands of dollars)
(Continued)

	Operations	Investments	Plant	2002 Total	2001 Total
Changes in temporarily restricted net assets:					
Private gifts	\$ 981	46	566	1,593	\$ 1,277
Other sources	97	-	-	97	28
Investment income	82	-	-	82	154
Endowment payout	20,009	-	24	20,033	18,297
Realized and unrealized losses on investments, net of gains used in endowment payout	-	(40,227)	-	(40,227)	(33,704)
Change in value of split interest agreements	-	2	-	2	51
Net assets released from restrictions	(24,293)	-	(4,501)	(28,794)	(26,208)
Change in donor restrictions	2,951	70,610	-	73,561	3,125
Change in temporarily restricted net assets	(173)	30,431	(3,911)	26,347	(36,980)
Temporarily restricted net assets beginning of year, restated	6,503	46,555	4,744	57,802	94,782
Temporarily restricted net assets at end of year	\$ 6,330	76,986	833	84,149	\$ 57,802
Changes in permanently restricted net assets:					
Private gifts	\$ -	3,450	-	3,450	\$ 9,456
Rental income	-	442	-	442	333
Investment income	-	888	-	888	1,282
Endowment payout	-	6	-	6	5
Realized and unrealized gains on investments, net of gains used in endowment payout	-	11	-	11	357
Interest on loans receivable	-	34	-	34	30
Change in value of beneficial interest in perpetual trust	-	(1,350)	-	(1,350)	(1,254)
Change in value of split interest agreements	-	(18)	-	(18)	2,633
Net assets released from restrictions	-	(622)	-	(622)	(421)
Change in donor restrictions	-	(73,561)	-	(73,561)	(3,125)
Net change in permanently restricted net assets	-	(70,720)	-	(70,720)	9,296
Permanently restricted net assets at beginning of year, restated	-	413,593	-	413,593	404,297
Permanently restricted net assets at end of year	\$ -	342,873	-	342,873	\$ 413,593
Total net assets beginning of year, restated	\$ 10,806	532,608	77,007	620,421	\$ 651,535
Change in total net assets	343	(47,252)	(1,490)	(48,399)	(31,114)
Total net assets end of year	\$ 11,149	485,356	75,517	572,022	\$ 620,421

See accompanying notes to financial statements.

Macalester College
Statements of Cash Flows
Years ended May 31, 2002 and 2001
(in thousands of dollars)

	<u>2002</u>	<u>2001</u>
Cash flows from operating activities:		
Change in total net assets	\$ (48,399)	(31,114)
Adjustments to reconcile change in net assets to net cash (used in) provided by operating activities:		
Depreciation and amortization	3,747	3,040
Realized and unrealized losses on investments	48,206	39,964
Private gifts and other income restricted for long term investments	(2,830)	(7,558)
Decrease in accrued investment income	294	182
Decrease in prepaid expenses	37	6
(Increase) decrease in notes and accounts receivable	(146)	302
(Increase) decrease in contributions receivable	(719)	2,834
Decrease in accounts payable and accrued expenses	(2,686)	(559)
Decrease in present value of beneficiary payments	(6)	(2,303)
Increase in deferred revenue	1,166	1,743
Decrease in deposits	(71)	(81)
Net cash (used in) provided by operating activities	<u>(1,407)</u>	<u>6,456</u>
Cash flows from investing activities:		
Proceeds from sale of investments	168,481	274,171
Purchase of investments	(169,766)	(285,107)
Purchase of real estate	(473)	(1,003)
Purchase of land, building and equipment	<u>(9,769)</u>	<u>(10,522)</u>
Net cash used in investing activities	<u>(11,527)</u>	<u>(22,461)</u>
Cash flows from financing activities:		
Principal payments on bonds payable	(1,462)	(1,491)
Increase in government grant refundable	150	171
Decrease in funds for investment in land, buildings, and equipment	7,653	1,729
Change in value of beneficial interest in perpetual trust	1,349	1,254
Private gifts, grants and other income restricted for long term investment	<u>2,830</u>	<u>7,558</u>
Net cash provided by financing activities	<u>10,520</u>	<u>9,221</u>
Decrease in cash and cash equivalents	(2,414)	(6,784)
Cash and cash equivalents at beginning of the year	11,002	17,786
Cash and cash equivalents at end of the year	<u>\$ 8,588</u>	<u>11,002</u>
Supplemental disclosure - cash paid for interest	<u>\$ 2,138</u>	<u>2,345</u>

See accompanying notes to financial statements.

MACALESTER COLLEGE

Notes to Financial Statements

May 31, 2002 and 2001

(in thousands of dollars)

1) Background and Organization

Macalester College (the College) is a highly selective, four year, coeducational, private liberal arts college. Founded in 1874, the College is located in the urban setting of Saint Paul, Minnesota, and is affiliated with the Presbyterian Church (USA). The College offers a liberal arts program leading to a Bachelor of Arts degree 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 absences of donor-imposed restrictions. Accordingly, net assets and changes therein are classified as follows:

Permanently restricted net assets--Net assets subject to donor imposed stipulations that they be maintained permanently by the College. Generally the donor of these assets permits the College to use all or part of the income earned and capital gains, if any, on related investments for general or specific purposes.

Temporarily restricted net assets--Net assets subject to donor imposed stipulations that restrict their use to a specific purpose and/or the passage of time.

Unrestricted net assets--Net assets not subject to donor imposed stipulations. Certain of these amounts have been designated by the board for investment purposes as indicated in the presentation.

Revenues are reported as increases in unrestricted net assets unless use of the related assets is limited by donor imposed restrictions. Donor restricted contributions whose restrictions are met in the same year as the gift is made are reported as temporarily restricted contributions in the current year. Expirations of temporary restrictions on net assets, that is, the donor imposed stipulated purpose has been accomplished and/or the stipulated time

(Continued)

MACALESTER COLLEGE

Notes to Financial Statements

May 31, 2002 and 2001

(in thousands of dollars)

period has elapsed, are reported as net assets released from restrictions. Expenses are reported as decreases in unrestricted net assets. Gains and losses on investments and other assets or 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 an appropriate discount rate commensurate with the risks involved. Amortization of discount is recorded as additional contribution revenue in accordance with donor imposed restrictions, if any, on the contributions.

Dividends, interest, and net gains or losses, both realized and unrealized, on investments are reported as follows:

- as increases or decreases in permanently restricted net assets if the terms of the gift or the College's interpretation of relevant state law require that they be added to the principal of a permanent endowment asset;
- as increases in temporarily restricted net assets if the terms of the gift impose restrictions on the use of the income; and
- as increases in unrestricted net assets in all other cases.

Cash and Cash Equivalents

Cash and cash equivalents include interest bearing money market accounts and short-term investments with an original maturity of less than three months, except those held for investment purposes.

Land, Buildings and Equipment

Constructed and purchased property and equipment are carried at cost. Land, buildings and equipment donated to the College are stated at fair value at date of donation. Long-lived assets, with the exception of land and artwork, are depreciated using the straight-line method over their estimated useful lives.

Bond Issue Costs

Bond issue costs are amortized using the straight-line method over the life of the associated bond issue.

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MACALESTER COLLEGE

Notes to Financial Statements

May 31, 2002 and 2001

(in thousands of dollars)

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.

Fair Value of Financial Instruments

The carrying amounts of cash and cash equivalents, notes and accounts receivable, accounts payable and accrued expenses, and deposits approximate fair value because of the short maturity of these financial instruments. Contributions receivable and annuity contracts payable are recorded at fair value using appropriate discount rates. Long term investments are carried at fair value, based upon values provided by external investment managers or quoted market values. In the limited cases where such values are not available, carrying value is used as an estimate of market value.

A reasonable estimate of the fair value of the receivables from students under government loan programs and grants refundable to government for student loans could not be made because the notes receivable are not saleable and can only be assigned to the U. S. government or its designees. The fair value of receivables from students under College loan programs approximates carrying value.

The carrying amount of bonds and mortgages payable approximates fair value because these financial instruments bear interest at rates that approximate current market rates for debt with similar maturities and credit quality.

Split Interest Agreements

The College's split interest 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. 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.

(Continued)

MACALESTER COLLEGE

Notes to Financial Statements

May 31, 2002 and 2001

(in thousands of dollars)

The College is also the beneficiary of a perpetual trust held and administered by others. The estimated fair value of the assets were recognized as assets and revenue at 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 accounting principles generally accepted in the United States of America 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 revenue and expenses during the reporting period. Actual results could differ from these estimates.

Reclassifications

Certain 2001 amounts have been reclassified to conform to the 2002 presentation.

3) Restatement of Prior Year Financial Information

During fiscal year 2002, the College changed its classification of certain net assets to reflect the purpose restrictions associated with those net assets. The following summarizes the differences between the June 1, 2000, net assets as previously reported and the June 1, 2000, net assets reported herein:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Net assets as previously reported at May 31, 2000	\$172,882	\$ 74,376	\$404,277	\$651,535
Realized and unrealized gains	<u>(20,426)</u>	<u>20,406</u>	<u>20</u>	<u>-</u>
Restated net assets at May 31, 2000	<u>\$152,456</u>	<u>\$ 94,782</u>	<u>\$404,297</u>	<u>\$651,535</u>

(Continued)

MACALESTER COLLEGE

Notes to Financial Statements

May 31, 2002 and 2001

(in thousands of dollars)

4) 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. Through July 11, 2001, it was governed by an independent Board of Directors; two of whom were representatives of the DeWitt Wallace-Reader's Digest Fund, the Lila Wallace-Reader's Digest Fund or The Reader's Digest Association, Inc. (RDA); two of whom were representatives of the College; and two of whom were independent directors. The Fund was a separate New York Not-for-Profit Corporation, which had 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, 2001, the market value of the Fund's assets was \$307,515, consisting of common stock and units of the Macalester College endowment. The common stock of the Fund consists of shares of The Reader's Digest Association, Inc.

The Fund made annual grants to support College programs as agreed upon by the College and the Fund. Grants made by the Fund to the College from 1982 to 2001 totaled \$169,640. This sum includes grants of \$14,850 for the fiscal year ended May 31, 2001.

As of May 31, 2001, \$238,973 (at fair value) of the Fund's assets were invested in the College's pooled endowment fund. This represented 11,447,903 unitized shares of the pooled endowment fund. The College acted as an investment manager for these assets of the Fund pursuant to an agreement dated May 24, 1990.

5) Dissolution of The DeWitt Wallace Fund for Macalester College

On July 11, 2001, the Fund was dissolved and the assets were legally transferred to the College pursuant to agreement between the College and the Fund. Previous to the transfer of assets, the College reported its beneficial interest in the assets of the Fund as an asset of the College. The agreement dissolving the Fund and transferring the assets to the College allows for a portion of the assets to be expended under specific terms and conditions. The portion of the assets that can be expended are temporarily restricted, resulting in a change in the character of the net assets and a release of permanently restricted net assets. The net assets released are presented in the Statement of Activities as a change in donor restrictions.

(Continued)

MACALESTER COLLEGE

Notes to Financial Statements

May 31, 2002 and 2001

(in thousands of dollars)

6) Long Term Investments

The long term investments include funds traditionally considered the endowment of the College as well as assets of funds for annuity and life income and loan funds. The allocations shown at fair value are as follows:

	<u>2002</u>	<u>2001</u>
Long term investments of Macalester College:		
Cash equivalents	\$ 7,661	\$ 6,533
Common stocks	187,177	137,182
International equity	87,440	67,540
Preferred stock	5,203	7,148
Corporate bonds	14,529	27,090
U.S. Government obligations	101,684	108,332
Real estate, private equity, other	<u>64,092</u>	<u>92,537</u>
Subtotal fair value	<u>\$467,786</u>	<u>\$446,362</u>
Less value of units of Macalester endowment owned by DeWitt Wallace Fund for Macalester College	<u>-</u>	<u>(238,973)</u>
Total	<u>\$467,786</u>	<u>\$207,389</u>
Long term investments of DeWitt Wallace Fund for Macalester College		
Common stock	\$ -	\$ 68,542
Value of units in the Macalester College endowment	<u>-</u>	<u>238,973</u>
Total	<u>\$ -</u>	<u>\$307,515</u>
Fair value of long term investments of Macalester College and long term investments of DeWitt Wallace Fund for Macalester College	<u>\$467,786</u>	<u>\$514,904</u>
Total cost	<u>\$470,523</u>	<u>\$480,738</u>

(Continued)

MACALESTER COLLEGE

Notes to Financial Statements

May 31, 2002 and 2001

(in thousands of dollars)

Included in the fair value of preferred stocks is \$5,202 and \$5,189 at May 31, 2002 and 2001, respectively, relating to 89,685 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. As of May 31, 2002 and 2001, the fair value of endowments funded in part or fully by DeWitt Wallace are \$355,036 and \$397,166.

Certain of the College's external investment managers are authorized to use specified derivative contracts in managing the assets under their control, subject to restrictions and limitations adopted by the College. From time to time, the managers may enter into forward currency contracts to hedge currency risk on investments in foreign securities and other future contracts to adjust asset allocation efficiently. Changes in the fair value of the derivative contracts are included in endowment gains and losses and are not significant in 2002 and 2001.

7) Funds Held in Trust by Others

The College's beneficial interest in the fair value of assets in a perpetual trust is \$26,299 and \$27,648 as of May 31, 2002 and 2001, respectively. For the years ended May 31, 2002 and 2001, the College received \$1,032 and \$944 from this trust, respectively.

The College is the income beneficiary of a revocable trust with an estimated value of \$12,663 and \$12,117 as of May 31, 2002 and 2001, respectively, which is controlled by independent trustees. For the year ended May 31, 2002 and 2001, the College received \$411 and \$408 from this trust, respectively. These assets are not recorded on the financial statements of the College.

8) Valuation and Performance of Long Term Investment Funds

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.

Endowment investment and spending is based on a total return policy. The Board of Trustees sets a spending rate which is used to establish the endowment payout. A spending rate of 5.0% is applied to a sixteen-quarter average of investment fair value. If yield (interest and dividend income) is not sufficient to support the resulting payout, the balance is allocated from gains of the endowment assets. Beginning June 1, 1998, the formula-based spending was extended to the RDA common stock and the payout was supplemented by an amount equivalent to investment expenses.

(Continued)

MACALESTER COLLEGE

Notes to Financial Statements

May 31, 2002 and 2001

(in thousands of dollars)

The College's endowment payout on pooled and non-pooled assets, as reported in the financial statements is as follows:

Year ended May 31, 2002	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment yield (net of investment expenses of \$1,154)	\$ 1,027	\$ 10,664	\$ 3	\$ 11,694
Gains used in endowment payout	<u>524</u>	<u>9,369</u>	<u>3</u>	<u>9,896</u>
Endowment payout	<u>\$ 1,551</u>	<u>\$ 20,033</u>	<u>\$ 6</u>	<u>\$ 21,590</u>
Year ended May 31, 2001	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment yield (net of investment expenses of \$1,050)	\$ 1,127	\$ 12,090	\$ 3	\$ 13,220
Gains used in endowment payout	<u>328</u>	<u>6,207</u>	<u>2</u>	<u>6,537</u>
Endowment payout	<u>\$ 1,455</u>	<u>\$ 18,297</u>	<u>\$ 5</u>	<u>\$ 19,757</u>

9) Contributions Receivable

Contributions receivable consisted of the following:

	<u>2002</u>	<u>2001</u>
Unconditional promises expected to be collected in:		
Less than one year	\$ 1,917	\$ 1,443
One year to five years	2,470	2,143
Greater than five years	572	687
Less: Discount to present value (5%)	<u>(435)</u>	<u>(468)</u>
	<u>\$ 4,524</u>	<u>\$ 3,805</u>

(Continued)

MACALESTER COLLEGE

Notes to Financial Statements

May 31, 2002 and 2001

(in thousands of dollars)

10) Land, Building and Equipment

The following is a summary of the College's property and equipment:

	<u>2002</u>	<u>2001</u>
Land and land improvements	\$ 1,414	\$ 1,414
Buildings	146,901	136,398
Equipment	3,964	3,611
Construction in progress	<u>347</u>	<u>1,483</u>
	152,626	142,906
Less: Accumulated depreciation	<u>(37,207)</u>	<u>(33,509)</u>
	<u>\$115,419</u>	<u>\$109,397</u>

11) Bonds and Mortgages Payable

Bonds and mortgages payable consist of the following:

	<u>2002</u>	<u>2001</u>
Macalester College Dormitory Bonds of 1962, 3-3/8%, final series due May 1, 2002 (original amount \$2,850)	\$ -	130
College Housing Program Mortgages at 3%, due in semi- annual installments through 2020 (original amount \$880)	517	539
Minnesota Higher Education Facilities Authority variable rate demand revenue bonds of 1994, weekly maturity and rate reset, 1.82% average for current fiscal year, total principal due 2024 (original amount \$6,660)	6,660	6,660
Minnesota Higher Education Facilities Authority Revenue Bonds of 1995, 5.48% average, final series due 2016 (original amount \$11,245)	8,950	9,380
Minnesota Higher Education Facilities Authority Revenue Bonds of 1997, 5.41% average, final series due 2017 (original amount \$11,000)	9,225	9,625
Minnesota Higher Education Facilities Authority Revenue Bonds of 1998, 4.94% average, final series due 2022 (original amount \$22,345)	<u>20,465</u>	<u>20,945</u>
	<u>\$ 45,817</u>	<u>\$ 47,279</u>

(Continued)

MACALESTER COLLEGE

Notes to Financial Statements

May 31, 2002 and 2001

(in thousands of dollars)

To secure the required annual principal and interest payments on the 1962 bonds, the College had: (a) granted a mortgage lien and pledged the revenue from certain dormitories and dining room facilities (the original acquisition costs and improvements of such pledged facilities approximated \$9,646 at May 31, 2001) 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 \$279 at May 31, 2001. The 1962 indenture also required the College to transfer \$30 annually to a repair and replacement reserve. The 1962 bonds were retired during the year ended May 31, 2002.

The College is involved in the College Housing Program of the U. S. 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 original acquisition cost and improvements of \$781 at May 31, 2002 and 2001, and by pledges of gross stadium and tuition revenues.

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 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.

In November of 1995, \$11,245 of revenue bonds were issued on behalf of the College by MHEFA. The average maturity of the issued bonds was 12.4 years, at an average rate of 5.48%. The bonds were secured by a pledge by MHEFA. Proceeds of the issue were used to finance renovation and expansion of the Olin/Rice Halls Science Facility.

In May of 1997, \$11,000 of revenue bonds were issued on behalf of the College by MHEFA. The average maturity of the issued bonds was 12.05 years, at an average rate of 5.41%. Proceeds of this issue were used to finance campus improvements.

In July of 1998, \$22,330 of revenue bonds were issued on behalf of the College by MHEFA. The average maturity of the issued bonds is 14.59 years at an average rate of 4.94%. A portion of the proceeds were used, together with other funds of the College, for construction of a new campus center. The remaining portion was used for refunding in advance the 1992 bond issue.

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MACALESTER COLLEGE

Notes to Financial Statements

May 31, 2002 and 2001

(in thousands of dollars)

Annual debt commitments (principal) at May 31, 2002, are as follows:

<u>Fiscal year ending May 31,</u>	<u>Amount</u>
2003	1,528
2004	1,608
2005	1,680
2006	1,755
2007	1,841
after 2007	<u>37,405</u>
	<u>\$ 45,817</u>

Total interest costs on debt aggregated \$2,160 and \$2,369 during the year ended May 31, 2002 and 2001, respectively.

12) High Winds Fund

Included in the permanently restricted net assets are funds of High Winds. 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, 2002, the High Winds Fund owned nine properties surrounding the College campus.

13) Retirement Plan

The College provides retirement benefits to substantially all employees. Certain academic and non academic personnel are covered under defined contribution plans with Teachers Insurance and Annuity Association and College Retirement Equities Fund, and Vanguard Fiduciary Trust Company. A plan covering union employees is funded by deposits with trustees based on a fixed rate of contribution per hour worked. The College has no liability for these pension plans once deposits are made to the administrators. 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, 2002 and 2001, was approximately \$168 and \$180, respectively.

Total benefit expense for the year ended May 31, 2002, was \$2,128 including \$22 paid under the unfunded supplemental plan and for the year ended May 31, 2001, was \$1,978 including \$25 paid under the unfunded supplemental plan.

(Continued)

MACALESTER COLLEGE
Notes to Financial Statements
May 31, 2002 and 2001
(in thousands of dollars)

14) Functional Expenses

Expenses are reported in the College's financial statements in categories recommended by the National Association of College and University Business Officers and are classified among program and supporting services as follows:

	<u>2002</u>	<u>2001</u>
Program - Student instruction and services	\$ 54,138	\$ 51,353
Management and general	6,820	5,934
Fundraising	<u>3,792</u>	<u>3,287</u>
	<u>\$ 64,750</u>	<u>\$ 60,574</u>

15) Commitments

The College has outstanding construction contracts totaling approximately \$6,040 at May 31, 2002. Completion is estimated for Summer 2002. The College is committed as of May 31, 2002 to invest approximately \$43,371 in certain limited partnerships for long term investment purposes.