

MACALESTER COLLEGE



ANNUAL FINANCIAL STATEMENTS
WITH AUDITORS' OPINION
FOR THE FISCAL YEAR ENDED MAY 31, 2018

INDEPENDENT AUDITORS' REPORT

Board of Trustees
Macalester College
St. Paul, Minnesota

We have audited the accompanying financial statements of Macalester College, which comprise the statements of financial position as of May 31, 2018 and 2017, and the related statements of activities and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. 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, 2018 and 2017, 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.

Change in Accounting Principle

As discussed in Note 2 to the financial statements, management has elected to early adopt Accounting Standards Update (ASU) No. 2016-14, *Presentation of Financial Statements for Nonprofit Entities*, ASU No. 2014-09 *Revenue from Contracts with Customers* and ASU No. 2016-02 *Leases*. Our opinion is not modified with respects to these matters.



CliftonLarsonAllen LLP

Minneapolis, Minnesota
October 4, 2018

MACALESTER COLLEGE

Statements of Financial Position

May 31, 2018 and 2017

(in thousands of dollars)

	<u>2018</u>	<u>2017</u>
ASSETS		
Cash and cash equivalents	\$ 18,356	\$ 18,215
Restricted cash and cash equivalents	18,737	742
Accrued investment income and prepaid expenses	1,395	898
Notes and accounts receivable	8,952	8,791
Contributions receivable, net	3,990	2,429
Short term investments	34,387	34,313
Long term investments	755,794	733,420
Real estate	15,473	15,473
Land, buildings and equipment, net of accumulated depreciation	206,882	197,558
Beneficial interest in perpetual trust	32,108	31,383
	<u> </u>	<u> </u>
Total assets	\$ <u>1,096,074</u>	\$ <u>1,043,222</u>
LIABILITIES AND NET ASSETS		
Liabilities:		
Accounts payable and accrued expenses	\$ 17,126	\$ 14,422
Deferred revenue and deposits	1,301	1,345
Interest rate swap agreement	205	966
Liabilities under planned giving agreements	8,857	8,707
Government grants refundable	3,893	4,550
Bonds payable	99,033	79,720
	<u> </u>	<u> </u>
Total liabilities	130,415	109,710
Net assets:		
Without donor restrictions		
Operations	23,290	21,467
Investments	64,002	61,499
Plant	121,823	121,018
	<u> </u>	<u> </u>
Total without donor restrictions	209,115	203,984
With donor restrictions		
Operations	9,704	10,091
Investments	740,563	718,937
Plant	6,277	500
	<u> </u>	<u> </u>
Total with donor restrictions	756,544	729,528
	<u> </u>	<u> </u>
Total net assets	965,659	933,512
	<u> </u>	<u> </u>
Total liabilities and net assets	\$ <u>1,096,074</u>	\$ <u>1,043,222</u>

See accompanying notes to financial statements.

MACALESTER COLLEGE
Statements of Activities
Years Ended May 31, 2018 and 2017
(in thousands of dollars)

	2018			2017		
	Without Donor Restrictions	With Donor Restrictions	Total	Without Donor Restrictions	With Donor Restrictions	Total
Operating Activities:						
Revenues and other additions:						
Tuition and fees	\$ 107,778	-	107,778	\$ 105,206	-	105,206
Less: Student aid and scholarships	(56,707)	-	(56,707)	(53,592)	-	(53,592)
Net tuition and fees	51,071	-	51,071	51,614	-	51,614
Federal grants and contracts	1,642	-	1,642	1,686	-	1,686
State grants and contracts	294	-	294	299	-	299
Private gifts and grants	4,887	3,353	8,240	4,540	5,837	10,377
Sales and service of auxiliary enterprises	16,032	-	16,032	16,020	-	16,020
Other sources	1,182	71	1,253	1,019	75	1,094
Net investment return	362	4	366	216	10	226
Investment return appropriated by the governing board for operations	3,945	33,447	37,392	3,807	32,280	36,087
Gain on disposal of fixed assets	-	-	-	25	-	25
Net assets released from restrictions	37,268	(37,268)	-	36,187	(36,187)	-
Total operating revenues and other additions	116,683	(393)	116,290	115,413	2,015	117,428
Expenses:						
Instruction	43,573	-	43,573	42,922	-	42,922
Research	1,949	-	1,949	2,191	-	2,191
Public service	155	-	155	148	-	148
Academic support	12,818	-	12,818	12,642	-	12,642
Student services	23,351	-	23,351	23,062	-	23,062
Auxiliary enterprises	11,694	-	11,694	11,590	-	11,590
Institutional support	21,949	-	21,949	20,504	-	20,504
Total expenses	115,489	-	115,489	113,059	-	113,059
Change in net assets from operating activities	1,194	(393)	801	2,354	2,015	4,369
Non-operating Activities:						
Investment-related:						
Net investment return	8,353	50,996	59,349	8,538	72,024	80,562
Investment return appropriated by the governing board for operations	(3,945)	(33,447)	(37,392)	(3,807)	(32,280)	(36,087)
Change in beneficial interest in perpetual trust	-	727	727	-	1,572	1,572
Change in value of planned giving agreements	32	440	472	39	277	316
Gift-related:						
Private gifts and grants restricted for long-term investment	22	3,054	3,076	-	2,299	2,299
Private gifts and grants restricted for capital projects	-	5,743	5,743	-	297	297
Other:						
Change in value of interest rate swap	761	-	761	559	-	559
Extinguishment of debt	(1,390)	-	(1,390)	-	-	-
Reclassification of net assets	104	(104)	-	-	-	-
Net assets released from restrictions	-	-	-	101	(101)	-
Change in net assets from non-operating activities	3,937	27,409	31,346	5,430	44,088	49,518
Change in net assets	5,131	27,016	32,147	7,784	46,103	53,887
Net assets beginning of year	203,984	729,528	933,512	196,200	683,425	879,625
Net assets end of year	\$ 209,115	756,544	965,659	\$ 203,984	729,528	933,512

See accompanying notes to financial statements.

MACALESTER COLLEGE
Statements of Cash Flows
Years Ended May 31, 2018 and 2017
(in thousands of dollars)

	<u>2018</u>	<u>2017</u>
Cash flows from operating activities:		
Change in total net assets	\$ 32,147	\$ 53,887
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	8,801	9,104
Realized and unrealized gain on investments	(43,103)	(68,392)
Gain on disposal of fixed assets	-	(25)
Unrealized gain on interest rate swap	(761)	(560)
Private gifts and other income restricted for long term investments	(8,797)	(2,596)
Noncash contributions of marketable securities	(509)	(232)
Adjustment of actuarial liabilities for planned giving agreements	1,012	1,834
Change in value of beneficial interest in perpetual trust	(725)	(1,573)
Endowment payout	32,900	32,350
Change in assets and liabilities:		
Accrued investment income and prepaids	(497)	55
Notes and accounts receivable	(161)	(249)
Contributions receivable	(760)	(1,131)
Accounts payable and accrued expenses	498	1,443
Deferred revenue and deposits	(44)	(252)
Net cash provided by operating activities	<u>20,001</u>	<u>23,663</u>
Cash flows from investing activities:		
Proceeds from sale of investments	160,122	169,760
Proceeds from sale of investments used for endowment payout	(32,900)	(32,350)
Purchase of investments	(135,607)	(153,010)
Purchase of land, building and equipment	(16,449)	(6,252)
Gain on disposal of equipment	-	25
Net cash used in investing activities	<u>(24,834)</u>	<u>(21,827)</u>
Cash flows from financing activities:		
Proceeds from issuance of bonds payable	40,315	-
Bond premium from issuance of bonds payable	3,205	-
Principal payments on bonds payable	(23,677)	(7,105)
Payments made to beneficiaries of planned giving agreements	(862)	(823)
Change in government grant refundable	(657)	126
Noncash contributions of marketable securities	(3,351)	(250)
Private gifts, grants and other income restricted for long term investment	7,996	2,834
Net cash provided by (used in) financing activities	<u>22,969</u>	<u>(5,218)</u>
Increase (decrease) in cash and cash equivalents	18,136	(3,382)
Cash, restricted cash, and cash equivalents at beginning of the year	18,957	22,339
Cash, restricted cash, and cash equivalents at end of the year	<u>\$ 37,093</u>	<u>\$ 18,957</u>
Supplemental disclosure - cash paid for interest, including interest capitalized of \$896 and \$0, respectively	<u>\$ 2,794</u>	<u>\$ 3,628</u>
Noncash investing and financing activities:		
Purchases of land, building and equipment funded by accounts payable	<u>\$ 2,650</u>	<u>444</u>

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:

Net assets with donor restrictions -- Net assets subject to donor-imposed stipulations that: a) restrict their use to a specific purpose and/or the passage of time; or b) require that they be maintained in perpetuity 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.

Net assets without donor restrictions -- 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 *net assets without donor restrictions* unless use of the related assets is limited by donor-imposed restrictions. Donor-restricted contributions whose restrictions are met in the same year the gift is made are reported as contributions *with donor restrictions* and releases in the current year. Expirations of donor-imposed 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 *net assets without donor restrictions*. Gains and losses on assets and liabilities are reported as increases or decreases in *net assets without donor restrictions* 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 interest rate swaps, and long term investment income, net of amounts distributed to support the operations in accordance with the Board-approved endowment spending policy.

Cash and Cash Equivalents

Cash and cash equivalents include interest bearing money market accounts. 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. They include interest bearing money market accounts, short term investments with an original maturity of less than three months, and government-backed debt securities. Certain amounts are insured by the Federal Deposit Insurance Corporation (FDIC) up to certain limits. At times, bank balances 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 that may be used for the daily operations of the College.

Long Term Investments

Long term investments include the endowment pool, non-pooled endowment, and investments related to split interest agreements.

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.

Revenue Recognition and Disaggregation of Revenue

The College provides academic instruction toward baccalaureate degrees. Tuition and fee revenue is recognized in the fiscal year in which the academic programs are delivered. Institutional scholarships awarded to students reduce the amount of revenue recognized. In addition, students who adjust their course load or withdraw completely within the first 33 class days of the semester may receive a partial refund in accordance with the College's refund policy. Refunds issued reduce the amount of revenue recognized. Payments for services are due August 15th for the Fall semester and January 15th for the Spring semester.

The College also provides auxiliary services, such as residence and food services. Revenue from these services is recognized in the fiscal year in which the goods and services are provided. Students that withdraw from the College within the first 33 class days of the semester may receive a partial refund in accordance with the College's refund policy. Refunds issued reduce the amount of revenue recognized.

The College serves approximately 2,000 students. Approximately 16% of the students are non-U.S. residents. Approximately 14% of the students are residents of Minnesota. The remaining students are U.S. residents from states other than Minnesota.

Deferred Revenue

Deferred revenue represents payments received prior to the start of the academic term. The following table depicts activities for deferred revenue related to tuition, fees and auxiliary services.

Balance at May 31, 2017	Refunds issued	Revenue recognized included in May 31, 2017 balance	Cash received in advance of performance	Balance at May 31, 2018
\$ 1,092	\$ -	\$ 1,092	\$ 1,040	\$ 1,040

The balance of deferred revenue at May 31, 2018 less any refunds will be recognized as revenue over the academic term as services are rendered. The College applies the practical expedient in paragraph 606-10-50-14 and does not disclose information about remaining performance obligations that have original expected durations of one year or less. The College anticipates that students enrolled for the Fall semester will continue their studies in the Spring semester, and that students who receive their baccalaureate degree in December or May will be replaced by an equivalent number of new enrollees.

Expenses

The financial statements report expenses that are attributable to both program and supporting functions. These expenses require allocation on a reasonable basis that is consistently applied. Therefore, operation and maintenance expenses are allocated based on depreciation expense, and interest expense is allocated based on the program and/or supporting function that benefit from the related debt issuances.

Measure of Operations

The College's change in net assets from operating activities includes all operating revenues and expenses that are an integral part of its programs and supporting activities, including net assets released from donor restrictions to support operating expenditures, as well as investment return appropriated by the Board of Trustees for operations.

The measure of operations includes support for operating activities from both donor-restricted net assets and net assets without donor restrictions designated for long-term investment according to the College's spending policy, which is detailed in the Endowment Funds footnote.

The measure of operations excludes endowment support for non-operating activities, investment return in excess (less than) amounts made available for current support, changes in market value of beneficial interest in perpetual trusts, changes in the fair value of planned giving agreements, private gifts and grants restricted for long-term investment and capital projects, and changes in fair value of the interest rate swap.

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. Liabilities under planned giving agreements attributable to annuities as of May 31, 2018 and 2017 totaled \$1,591 and \$1,635, respectively.

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 \$2,425 and \$1,719 at May 31, 2018 and 2017, respectively. The College has a conflict of interest policy in place that is reviewed by each Board member and Officer annually.

Reclassifications

Certain 2017 amounts have been reclassified to conform to the 2018 presentation. There were no changes to net assets or changes in net assets as previously reported.

Change in Accounting Principle

The College adopted FASB 2016-14 (Nonprofit Financial Statements) in 2018. These changes were applied retrospectively to ensure comparability with the prior year presented therein.

The College adopted FASB 2014-09 (Revenue from Contracts with Customers) in 2018. These changes were applied using a modified approach to fiscal year 2018.

The College adopted FASB 2016-02 (Leases) in 2018. These changes were applied using a modified approach to fiscal year 2018.

MACALESTER COLLEGE
Notes to Financial Statements
May 31, 2018 and 2017
(in thousands of dollars)

3) Student Loans Receivable

The College issues uncollateralized loans to students based on financial need. Student loans are funded through federal government loan programs or institutional resources. Allowances for doubtful accounts are established based on prior collection experience and current economic factors, which, in management's judgment, could influence the ability of loan recipients to repay the amounts per the loan terms. At May 31, 2018 and 2017, student loans represented less than 1% of total assets.

Student loans receivable consist of the following:

	<u>2018</u>	<u>2017</u>
Federal government programs	\$ 3,920	\$ 4,208
Institutional programs	<u>5,241</u>	<u>4,358</u>
Student loans receivable, gross	<u>9,161</u>	<u>8,566</u>
Less: allowance for doubtful accounts:		
Beginning of year	(850)	(930)
Increases	-	80
Write-offs	<u>8</u>	<u>-</u>
End of year	<u>(842)</u>	<u>(850)</u>
Student loans receivable, net	<u>\$ 8,319</u>	<u>\$ 7,716</u>

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 \$633 and \$1,075 as of May 31, 2018 and 2017, respectively.

Funds advanced by the federal government of \$3,893 and \$4,550 at May 31, 2018 and 2017, respectively, are ultimately refundable to the government and are classified as liabilities on the statements of financial position.

At May 31, 2018 and 2017, the following amounts were past due under student loan programs:

	<u>2018</u>	<u>2017</u>
1 - 240 days past due	\$ 309	\$ 299
240 days - 2 years past due	261	318
2 years - 5 years past due	353	317
Over 5 years past due	<u>569</u>	<u>512</u>
Total past due	<u>\$ 1,492</u>	<u>\$ 1,446</u>

4) Investments and Fair Value Measurements

The College applies the provisions of ASC No. 820, which established a three-level fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy under ASC No. 820 are described below:

- Level 1 Unadjusted quoted prices in active markets that are accessible at the measurement date for identical, unrestricted assets or liabilities.

- Level 2 Pricing inputs other than identical quoted prices in active markets that are observable for the financial instrument, such as similar instruments, interest rates, and yield curves that are observable at commonly quoted intervals.

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

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

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, 2018 and 2017:

Short term investments:

	<u>2018</u>	<u>2017</u>
Fixed income – Treasuries – fair value	\$ <u>34,387</u>	\$ <u>34,313</u>

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 \$16,598 and \$15,970 as of May 31, 2018 and 2017, respectively. The allocations shown at fair value are as follows:

MACALESTER COLLEGE
Notes to Financial Statements
May 31, 2018 and 2017
(in thousands of dollars)

	2018				Total
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>No Level</u>	
Financial Assets:					
<u>Short term investments:</u>					
Fixed income - Treasuries	\$ <u>34,387</u>	\$ <u>-</u>	\$ <u>-</u>	\$ <u>-</u>	\$ <u>34,387</u>
<u>Long term investments:</u>					
Cash and short term investments	\$ 2,963	-	\$ -	\$ -	\$ 2,963
Publicly traded securities:					
Domestic equities	65,876	-	-	-	65,876
Domestic equities held in collective trusts measured at net asset value	-	-	-	17,512	17,512
Foreign equities held in collective trusts measured at net asset value	-	-	-	121,890	121,890
Fixed income – TIPS and Treasuries	73,478	63	-	-	73,541
Futures	5,833	-	-	-	5,833
Mutual funds	109,596	-	-	-	109,596
Liquid alternative investments	-	26,997	-	-	26,997
Alternative strategies in illiquid structures measured at net asset value:					
Domestic equities	-	-	-	125,222	125,222
Private equities	-	-	-	82,960	82,960
Hedge funds	-	-	-	59,207	59,207
Real estate	-	-	-	19,128	19,128
Natural resources	-	-	-	45,069	45,069
Total long term investments	\$ <u>257,746</u>	\$ <u>27,060</u>	\$ <u>-</u>	\$ <u>470,988</u>	\$ <u>755,794</u>
High Winds real estate	\$ <u>-</u>	\$ <u>-</u>	\$ <u>15,473</u>	\$ <u>-</u>	\$ <u>15,473</u>
Beneficial interest in perpetual trust	\$ <u>-</u>	\$ <u>-</u>	\$ <u>32,108</u>	\$ <u>-</u>	\$ <u>32,108</u>
Financial Liabilities:					
Interest rate swap agreement	\$ <u>-</u>	\$ <u>205</u>	\$ <u>-</u>	\$ <u>-</u>	\$ <u>205</u>

MACALESTER COLLEGE
Notes to Financial Statements
May 31, 2018 and 2017
(in thousands of dollars)

	2017				<u>Total</u>
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>No Level</u>	
Financial Assets:					
<u>Short term investments:</u>					
Fixed income - Treasuries	\$ <u>34,313</u>	\$ <u>-</u>	\$ <u>-</u>	\$ <u>-</u>	\$ <u>34,313</u>
<u>Long term investments:</u>					
Cash and short term investments	\$ 1,946	-	\$ -	\$ -	\$ 1,946
Publicly traded securities:					
Domestic equities	53,418	-	-	-	53,418
Domestic equities held in collective trusts measured at net asset value	-	-	-	15,000	15,000
Foreign equities held in collective trusts measured at net asset value	-	-	-	116,311	116,311
Fixed income – TIPS and Treasuries	92,653	68	-	-	92,721
Futures	4,282	-	-	-	4,282
Mutual funds	103,215	-	-	-	103,215
Liquid alternative investments	-	43,809	-	-	43,809
Alternative strategies in illiquid structures measured at net asset value:					
Domestic equities	-	-	-	109,338	109,338
Private equities	-	-	-	85,790	85,790
Hedge funds	-	-	-	51,810	51,810
Real estate	-	-	-	12,392	12,392
Natural resources	-	-	-	43,388	43,388
Total long term investments	\$ <u>255,514</u>	\$ <u>43,877</u>	\$ <u>-</u>	\$ <u>434,029</u>	\$ <u>733,420</u>
High Winds real estate	\$ <u>-</u>	\$ <u>-</u>	\$ <u>15,473</u>	\$ <u>-</u>	\$ <u>15,473</u>
Beneficial interest in perpetual trust	\$ <u>-</u>	\$ <u>-</u>	\$ <u>31,383</u>	\$ <u>-</u>	\$ <u>31,383</u>
Financial Liabilities:					
Interest rate swap agreement	\$ <u>-</u>	\$ <u>966</u>	\$ <u>-</u>	\$ <u>-</u>	\$ <u>966</u>

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The following tables are roll-forwards of the Level 3 financial assets during the fiscal years ended May 31, 2018 and 2017:

Beneficial Interest in Perpetual Trust		
	<u>2018</u>	<u>2017</u>
Beginning balance	\$ 31,383	\$ 29,810
Net investment return	2,083	2,583
Purchases	672	1,627
Sales	<u>(2,030)</u>	<u>(2,637)</u>
Ending balance	<u>\$ 32,108</u>	<u>\$ 31,383</u>

High Winds Real Estate*		
Beginning balance	\$ 15,473	\$ 15,567
Property value adjustment	<u>-</u>	<u>(94)</u>
Ending balance	<u>\$ 15,473</u>	<u>\$ 15,473</u>

* Real estate values are based on independent appraisals.

At May 31, 2018, the College had \$331,586 of long term investments, \$17,512 of domestic equities held in collective trusts, and \$121,890 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.

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At May 31, 2018 and 2017, the College's alternative investments had strategies and redemption terms as summarized in the tables below:

2018				
Investment Category	Fair Value	Unfunded Commitments	Redemption Frequency*	Notice Period (in Days)*
Foreign equity held in collective trusts (a)	\$ 121,890	None	Monthly	30 days
Domestic equities held in collective trusts (b)	17,512	None	Monthly	30 days
Domestic equities - alternative structures (c)	125,222	None	Quarterly	60 days
Hedge funds (d)	59,207	None	Monthly - Annual	30 - 90 days
Private investments (e)	147,157	\$ 99,735	Not applicable	Not applicable
Totals	\$ 470,988	\$ 99,735		

2017				
Investment Category	Fair Value	Unfunded Commitments	Redemption Frequency*	Notice Period (in Days)*
Foreign equity held in collective trusts (a)	\$ 116,311	None	Monthly	30 days
Domestic equities held in collective trusts (b)	15,000	None	Monthly	30 days
Domestic equities - alternative structures (c)	109,338	None	Quarterly	60 days
Hedge funds (d)	51,810	None	Monthly – Annual	30 – 90 days
Private investments (e)	141,570	\$ 91,719	Not applicable	Not applicable
Totals	\$ 434,029	\$ 91,719		

* 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.

- a. Foreign equities held in collective trusts 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.
- b. Domestic equities held in collective trusts are actively managed investment funds focused on US equity markets. The unobservable inputs used to determine the fair values of these investments have been estimated using NAV.
- c. Domestic equities - alternative structures 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.

- d. Hedge funds 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.
- e. Private investments 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, net investment return reflects changes in exchange rates, as well as changes in the market value of investments.

The College hedges the foreign currency risks of the non-US developed markets public 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 investment return includes gains or losses from the use of derivatives for hedging and rebalancing activities. As of May 31, 2018 and 2017, the College held a short position in non-US developed market currency futures of \$119,682 and \$123,575, respectively.

The College periodically uses asset class futures contracts to manage exposures to various asset classes. As of May 31, 2018, the College held a short position of \$16,095 in non-US developed market equities and a long position of \$22,709 in two-year US Treasury futures. As of May 31, 2017, the College did not hold any positions in asset class futures contracts.

5) Funds Held in Trust by Others

The College's beneficial interest in the fair value of assets in a perpetual trust was \$32,108 and \$31,383 as of May 31, 2018 and 2017, respectively. For the years ended May 31, 2018 and 2017, the College received \$1,885 and \$1,451 from this trust, respectively.

The College is the income beneficiary of a revocable trust with an estimated value of \$10,357 and \$9,872 as of May 31, 2018 and 2017, respectively, which is controlled by independent trustees. For the years ended May 31, 2018 and 2017, the College received \$429 and \$425 from this trust, respectively. These assets are not recorded on the financial statements of the College.

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6) Contributions Receivable

Contributions receivable consists of the following:

	<u>2018</u>	<u>2017</u>
Unconditional promises expected to be collected in:		
Less than one year	\$ 1,494	\$ 1,123
One year to five years	2,644	1,334
More than five years	35	30
Less: Discount to present value (1.3% - 5.0%)	<u>(183)</u>	<u>(58)</u>
	<u>\$ 3,990</u>	<u>\$ 2,429</u>

7) Land, Buildings and Equipment

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

	<u>2018</u>	<u>2017</u>
Land and land improvements	\$ 4,362	\$ 2,157
Buildings and building improvements	304,731	301,708
Equipment	15,660	15,125
Construction in progress	<u>13,230</u>	<u>1,400</u>
	337,983	320,390
Less: Accumulated depreciation	<u>(131,101)</u>	<u>(122,832)</u>
	<u>\$ 206,882</u>	<u>\$ 197,558</u>

8) Bonds and Mortgages Payable

Bonds and mortgages payable consist of the following:

	<u>2018</u>	<u>2017</u>
Minnesota Higher Education Facilities Authority variable rate demand revenue bonds of 1994, weekly maturity and rate reset, 1.15% average for current fiscal year	\$ 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, 1.15% average for current fiscal year	15,300	15,300
Minnesota Higher Education Facilities Authority revenue bonds of 2007, paid in full	-	5,905
Minnesota Higher Education Facilities Authority revenue bonds of 2010, paid in full	-	13,865
Minnesota Higher Education Facilities Authority revenue bonds of 2012, final series due 2043	13,825	14,190

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	<u>2018</u>	<u>2017</u>
Minnesota Higher Education Facilities Authority revenue bonds of 2015, final series due 2032	21,545	21,985
Minnesota Higher Education Facilities Authority revenue bonds of 2017, final series due 2048	<u>37,210</u>	<u>-</u>
	94,540	77,905
Plus: Unamortized bond premium	5,273	2,599
Less: Unamortized bond issuance costs	<u>(780)</u>	<u>(784)</u>
	<u>\$ 99,033</u>	<u>\$ 79,720</u>

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 was 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 was 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 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 were used to partially repay the 2007 issue, while the remaining \$4,105 was used for various campus projects.

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In October of 2017, \$40,315 of revenue bonds were issued on behalf of the College by MHEFA. The average interest rate of the bonds is 3.10%. \$13,865 of the proceeds were used to repay the 2010 issue. \$5,905 of the proceeds were used to repay the 2007 issue. The remaining \$20,545 will fund the construction of a new building that will house the theater and dance programs, as well as new multiuse classrooms.

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, 2018 and 2017, the estimated fair value of the swap contract was \$(205) and \$(966), respectively.

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, 2018 and 2017 are interest rate swap gains of \$761 and \$559, respectively.

Annual debt commitments (principal) at May 31, 2018, are as follows:

<u>Fiscal Year Ending May 31,</u>	<u>Amount</u>
2019	\$ 3,705
2020	3,890
2021	4,150
2022	4,420
2023	3,075
After 2023	<u>75,300</u>
	<u>\$ 94,540</u>

Total interest expensed on debt aggregated \$3,102 and \$3,597 during the years ended May 31, 2018 and 2017, respectively.

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9) Restrictions and Limitations on Net Asset Balances

The Board has designated, from *net assets without donor restrictions* of \$209,115 and \$203,984 at May 31, 2018 and 2017, respectively, net assets for quasi endowment in the amount of \$61,821 and \$59,968 at May 31, 2018 and 2017, respectively. Per Board policy, bequests received without donor restrictions are designated for long term investment (quasi-endowment), unless otherwise designated by the Board.

Net assets with donor restrictions are available for the following purposes at May 31, 2018 and 2017:

	<u>2018</u>	<u>2017</u>
<u>Perpetual in nature:</u>		
Endowment funds for:		
Scholarships	\$ 33,673	\$ 33,540
Prizes and awards	299	298
Library support	3,094	3,094
Program support	243,498	243,472
Faculty support	25,538	25,505
Research	<u>2,058</u>	<u>2,057</u>
	308,160	307,966
Beneficial interest in outside managed trusts restricted for scholarships	32,247	31,511
High Winds Fund	18,410	17,688
Loan funds	3,661	3,672
Split interest agreements for scholarships and program support	<u>3,551</u>	<u>3,375</u>
Total perpetual in nature	<u>366,029</u>	<u>364,212</u>

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Purpose restricted:

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	\$ 53,822	\$ 50,825
Prizes and awards	506	487
Library support	3,607	3,442
Program support	269,019	254,884
Faculty support	38,998	37,586
Research	<u>3,896</u>	<u>3,704</u>
	369,848	350,928

Gifts and other unexpended revenues and gains available for:

Scholarships	252	317
Prizes and awards	142	147
Library support	29	24
Program support	2,113	2,328
Faculty support	1,141	1,369
Research	290	237

Contributions receivable for scholarships, program support and operations	3,373	2,002
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Contributions receivable for plant	581	192
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Split interest agreements for scholarships, program support and operations	3,964	3,689
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Private grants	1,668	1,859
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Plant projects	5,696	307
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Other	<u>1,418</u>	<u>1,917</u>
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Total purpose restricted	<u>390,515</u>	<u>365,316</u>
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Total net assets with donor restrictions	\$ <u>756,544</u>	\$ <u>729,528</u>
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Net assets were released from donor restrictions by incurring expenses satisfying the restricted purposes or by the passage of time or the occurrence of other events specified by donors as follows for the years ended May 31, 2018 and 2017:

	<u>2018</u>	<u>2017</u>
Purpose restrictions accomplished:		
Operating:		
Scholarships	\$ 28,720	\$ 27,521
Faculty support	4,510	4,263
Various programming	2,664	2,895
Grant expenditures	<u>1,374</u>	<u>1,508</u>
Total - operating	37,268	36,187
Non-operating:		
Plant purchases	<u>-</u>	<u>101</u>
Total restrictions released	\$ <u>37,268</u>	\$ <u>36,288</u>

10) Endowment Funds

Overview

The College's endowment consists of 622 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 is subject to the Uniform Prudent Management of Institutional Funds Act (UPMIFA) and, thus, classifies amounts in its donor-restricted endowment funds as *net assets with donor restrictions* because those net assets are time restricted until the Board appropriates such amounts for expenditure. Most of those net assets also are subject to purpose restrictions that must be met before reclassifying those net assets to *net assets without donor restrictions*. The Board has interpreted UPMIFA as not requiring the maintenance of purchasing power of the original gift amount contributed to an endowment fund, unless a donor stipulates the contrary. As a result of this interpretation, when reviewing its donor-restricted endowment funds, the College considers a fund to be underwater if the fair value of the fund is less than the sum of: a) the original value of initial and subsequent gift amounts donated to the fund; and b) any accumulations to the fund that are required to be maintained in perpetuity in accordance with the direction of the applicable donor gift instrument. The College has interpreted UPMIFA to permit spending from underwater funds in accordance with the prudent measures required under the law.

Additionally, 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.

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Endowment Funds Restrictions and Designations

The College's endowment net assets were classified as follows at May 31, 2018 and 2017:

	2018		
	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Board-designated endowment funds	\$ 61,821	\$ -	\$ 61,821
Donor-restricted endowment funds:			
Original donor-restricted gift amounts and amounts required to be maintained in perpetuity by donor		308,160	308,160
Original donor-restricted gift amounts not required to be maintained in perpetuity by the donor but managed by the College as endowment funds, including accumulated investment gains	-	<u>369,848</u>	<u>369,848</u>
Total funds	<u>\$ 61,821</u>	<u>\$ 678,008</u>	<u>\$ 739,829</u>
	2017		
	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Board-designated endowment funds	\$ 59,968	\$ -	\$ 59,968
Donor-restricted endowment funds:			
Original donor-restricted gift amounts and amounts required to be maintained in perpetuity by donor		307,966	307,966
Original donor-restricted gift amounts not required to be maintained in perpetuity by the donor but managed by the College as endowment funds, including accumulated investment gains	-	<u>350,928</u>	<u>350,928</u>
Total funds	<u>\$ 59,968</u>	<u>\$ 658,894</u>	<u>\$ 718,862</u>

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The College's endowment net assets changed as follows for the years ended May 31, 2018 and 2017:

	<u>2018</u>		
	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Endowment net assets, beg. of year	\$ 59,968	\$ 658,894	\$ 718,862
Net investment return	9,625	43,807	53,432
Contributions	-	2,432	2,432
Other transfers in (out)	351	15	366
Amounts appropriated for expenditure	<u>(8,123)</u>	<u>(27,140)</u>	<u>(35,263)</u>
Endowment net assets, end of year	<u>\$ 61,821</u>	<u>\$ 678,008</u>	<u>\$ 739,829</u>
	<u>2017</u>		
	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Endowment net assets, beg. of year	\$ 54,503	\$ 617,633	\$ 672,136
Net investment return	12,198	65,228	77,426
Contributions	-	2,434	2,434
Other transfers in (out)	1,145	111	1,256
Amounts appropriated for expenditure	<u>(7,878)</u>	<u>(26,512)</u>	<u>(34,390)</u>
Endowment net assets, end of year	<u>\$ 59,968</u>	<u>\$ 658,894</u>	<u>\$ 718,862</u>

Underwater Endowment Funds

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. As of May 31, 2018 and 2017, no deficiencies of this nature existed.

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, 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

As of June 1, 2017, the College adopted a blended endowment draw policy. Half of the allowable spending in the previous fiscal year is increased by 2%, and that amount represents one half of the current fiscal year endowment draw. The other half of the draw is computed as 5% of a trailing a 16-quarter average market value of long-term investments. The amount to be spent is constrained by a test to ensure the formula does not create a spending amount that is too large or too small relative to the current endowment size. For 2018 and 2017, the distribution was 5% of its endowment funds' sixteen-quarter trailing average of investment fair value. 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.

The College has a policy that permits applying its regular spending policy to underwater endowment funds, unless otherwise precluded by donor intent or relevant laws and regulations.

11) High Winds Fund

Included in *net assets with donor restrictions* 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. 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, 2018, the High Winds Fund owned 14 properties surrounding the College campus. The total value of the assets of the Fund, net of liabilities, as of May 31, 2018 and 2017 was \$21,473 and \$20,696, respectively. In addition to real estate with a market value of \$15,473 as of May 31, 2018 and 2017, the High Winds fund holds cash, investments, and receivables, net of liabilities, of \$6,000 and \$5,223 at May 31, 2018 and 2017, respectively.

12) Lease Revenue

The College is the lessor of both commercial and residential real estate rental property. Initial lease terms generally range from one year to five years. Leases provide for fixed monthly payments and in certain cases, provide for future rent escalations. The college determines if an arrangement is a lease at inception. The College has no sales-type or direct financing leases. All leases are considered operating leases and have been recorded in the financial statements as such. The College has lease agreements with lease and non-lease components, which are generally accounted for separately. Properties that were purchased by the High Winds Fund are shown as real estate on the statement of financial position, whereas properties purchased with general College funds are shown as land buildings and equipment, net of accumulated depreciation on the statement of financial position.

Lease revenue totaled \$1,548 and \$1,456 during the years ended May 31, 2018 and 2017, respectively. Leases terminate at the end of the stated lease term or under certain circumstances noted in the lease agreements. Most residential leases are for a single year. The longest commercial lease terminates in 2024. Certain leases provide an option to extend the lease for one additional lease term with the same terms as the original lease.

Minimum future lease revenue to be received on non-cancelable agreements as of May 31, 2018 for each of the next five years and in aggregate are:

<u>Fiscal Year Ending May 31,</u>	<u>Amount</u>
2019	\$ 497
2020	254
2021	85
2022	85
2023	85
After 2023	51
	<u>\$ 1,057</u>

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13) Liquidity

The College regularly monitors liquidity required to meet its operating needs and other contractual commitments, while also striving to maximize the investment of its available funds. As of May 31, 2018, the following assets could be made readily available within one year to meet general expenditures:

	<u>2018</u>	<u>2017</u>
Cash and cash equivalents	\$ 9,215	\$ 8,359
Restricted cash	18,737	742
Accrued investment income	205	185
Notes and accounts receivable	472	889
Contributions receivable	724	588
Short term investments	34,387	34,313
Endowment spending rate appropriations	<u>37,367</u>	<u>36,593</u>
	<u>\$ 101,107</u>	<u>\$ 81,669</u>

The majority of the College's liquidity is provided by cash and cash equivalents and short-duration U.S. treasuries. Principal and interest on student loans are not included above, as those amounts are used solely for new loans and are, therefore, not available to meet current operating needs. Based on historical experience, only the portion of contributions receivable due within one year are considered liquid.

Board-designated endowment in the amount of \$61,821 and \$59,968 at May 31, 2018 and 2017, respectively, is subject to an annual spending rate as described in Endowment Funds footnote. Although the College does not intend to spend from the gift corpus of these funds, these amounts could be made available if deemed necessary.

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 (TIAA), 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, 2018 and 2017 was \$4,557 and \$4,400, 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 2018 and 2017. 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, 2018 and 2017, the aggregate stop-loss amount was \$6,495 and \$6,443, 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, 2018 and 2017 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 \$5,768 and \$5,270 for the years ended May 31, 2018 and 2017, respectively. Fundraising expenses are included in Management and General on the Statements of Functional Expenses.

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.

In October 2017, the College entered into two contracts with a local construction company to raze the existing theater and dance building and replace it with a new theater and dance building, including new multi-use classrooms. One contract is primarily for labor, while the other allows the construction company to purchase materials on behalf of the college. The total outstanding contract commitment at May 31, 2018 was \$18,374. Work on the project began in November 2017 and is expected to be completed in February of 2019 for a total estimated cost of \$32,000.

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, 2018 through October 4, 2018, which is the date the financial statements were available to be issued.