

# MACALESTER COLLEGE



ANNUAL FINANCIAL STATEMENTS  
WITH AUDITORS' OPINION  
FOR THE FISCAL YEAR ENDED MAY 31, 2019



## 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, 2019 and 2018, and the related statements of activities, functional expenses 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, 2019 and 2018, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

*CliftonLarsonAllen LLP*

**CliftonLarsonAllen LLP**

Minneapolis, Minnesota  
October 3, 2019

**MACALESTER COLLEGE**  
 Statements of Financial Position  
 May 31, 2019 and 2018  
 (in thousands of dollars)

	<u>2019</u>	<u>2018</u>
<b>ASSETS</b>		
Cash and cash equivalents	\$ 10,495	\$ 18,356
Restricted cash and cash equivalents	-	18,737
Accrued investment income, prepaid expenses and other assets	5,538	1,395
Notes and accounts receivable	8,986	8,952
Contributions receivable, net	3,124	3,990
Short term investments	44,174	34,387
Long term investments	735,366	755,794
Real estate	15,473	15,473
Land, buildings and equipment, net of accumulated depreciation	220,863	206,882
Beneficial interest in perpetual trust	<u>30,096</u>	<u>32,108</u>
Total assets	<u>\$ 1,074,115</u>	<u>\$ 1,096,074</u>
<b>LIABILITIES AND NET ASSETS</b>		
Liabilities:		
Accounts payable and accrued expenses	\$ 15,511	\$ 17,126
Deferred revenue and deposits	1,336	1,301
Interest rate swap agreement	958	205
Liabilities under planned giving agreements	8,417	8,857
Government grants refundable	3,893	3,893
Bonds payable	<u>95,119</u>	<u>99,033</u>
Total liabilities	<u>125,234</u>	<u>130,415</u>
Net assets:		
Without donor restrictions		
Operations	25,533	23,290
Investments	63,350	64,002
Plant	<u>125,686</u>	<u>121,823</u>
Total without donor restrictions	<u>214,569</u>	<u>209,115</u>
With donor restrictions		
Operations	13,673	9,704
Investments	720,325	740,563
Plant	<u>314</u>	<u>6,277</u>
Total with donor restrictions	<u>734,312</u>	<u>756,544</u>
Total net assets	<u>948,881</u>	<u>965,659</u>
Total liabilities and net assets	<u>\$ 1,074,115</u>	<u>\$ 1,096,074</u>

See accompanying notes to financial statements.

**MACALESTER COLLEGE**  
**Statements of Activities**  
**Years Ended May 31, 2019 and 2018**  
(in thousands of dollars)

	2019			2018		
	Without Donor Restrictions	With Donor Restrictions	Total	Without Donor Restrictions	With Donor Restrictions	Total
<b>Operating Activities:</b>						
Revenues and other additions:						
Tuition and fees, net of student aid and scholarships of \$59,042 in 2019 and \$56,707 in 2018	\$ 55,142	-	55,142	\$ 51,071	-	51,071
Federal grants and contracts	1,477	-	1,477	1,642	-	1,642
State grants and contracts	170	-	170	294	-	294
Private gifts and grants	4,735	7,904	12,639	4,887	3,353	8,240
Sales and service of auxiliary enterprises	17,409	-	17,409	16,032	-	16,032
Other sources	1,277	59	1,336	1,182	71	1,253
Net investment return	1,088	17	1,105	362	4	366
Investment return appropriated by the governing board for operations	4,033	33,783	37,816	3,945	33,447	37,392
Net assets released from restrictions	37,794	(37,794)	-	37,268	(37,268)	-
Total operating revenues and other additions	123,125	3,969	127,094	116,683	(393)	116,290
Expenses:						
Instruction	46,775	-	46,775	43,573	-	43,573
Research	1,822	-	1,822	1,949	-	1,949
Public service	205	-	205	155	-	155
Academic support	12,992	-	12,992	12,818	-	12,818
Student services	24,981	-	24,981	23,351	-	23,351
Auxiliary enterprises	11,817	-	11,817	11,694	-	11,694
Institutional support	23,872	-	23,872	21,949	-	21,949
Total expenses	122,464	-	122,464	115,489	-	115,489
<b>Change in net assets from operating activities</b>	<b>661</b>	<b>3,969</b>	<b>4,630</b>	<b>1,194</b>	<b>(393)</b>	<b>801</b>
<b>Non-operating Activities:</b>						
Investment-related:						
Net investment return	2,593	14,254	16,847	8,353	50,996	59,349
Investment return appropriated by the governing board for operations	(4,033)	(33,783)	(37,816)	(3,945)	(33,447)	(37,392)
Change in beneficial interest in perpetual trust	-	(2,012)	(2,012)	-	727	727
Change in value of planned giving agreements	(10)	(194)	(204)	32	440	472
Gift-related:						
Private gifts and grants restricted for long-term investment	23	1,532	1,555	22	3,054	3,076
Private gifts and grants restricted for capital projects	-	975	975	-	5,743	5,743
Other:						
Change in value of interest rate swap	(753)	-	(753)	761	-	761
Extinguishment of debt	-	-	-	(1,390)	-	(1,390)
Reclassification of net assets	-	-	-	104	(104)	-
Net assets released from restrictions	6,973	(6,973)	-	-	-	-
<b>Change in net assets from non-operating activities</b>	<b>4,793</b>	<b>(26,201)</b>	<b>(21,408)</b>	<b>3,937</b>	<b>27,409</b>	<b>31,346</b>
<b>Change in net assets</b>	<b>5,454</b>	<b>(22,232)</b>	<b>(16,778)</b>	<b>5,131</b>	<b>27,016</b>	<b>32,147</b>
<b>Net assets beginning of year</b>	<b>209,115</b>	<b>756,544</b>	<b>965,659</b>	<b>203,984</b>	<b>729,528</b>	<b>933,512</b>
<b>Net assets end of year</b>	<b>\$ 214,569</b>	<b>734,312</b>	<b>948,881</b>	<b>\$ 209,115</b>	<b>756,544</b>	<b>965,659</b>

See accompanying notes to financial statements.



**MACALESTER COLLEGE**  
**Statements of Cash Flows**  
**Years Ended May 31, 2019 and 2018**  
(in thousands of dollars)

	<u>2019</u>	<u>2018</u>
Cash flows from operating activities:		
Change in total net assets	\$ (16,778)	\$ 32,147
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	9,509	8,801
Realized and unrealized gain on investments	(5,524)	(43,103)
Unrealized loss (gain) on interest rate swap	753	(761)
Private gifts and other income restricted for long term investments	(2,507)	(8,797)
Noncash contributions of marketable securities	(456)	(509)
Adjustment of actuarial liabilities for planned giving agreements	458	1,012
Change in value of beneficial interest in perpetual trust	2,012	(725)
Endowment payout	34,400	32,900
Change in assets and liabilities:		
Accrued investment income, prepaid expenses and other assets	(4,143)	(497)
Notes and accounts receivable	(34)	(161)
Contributions receivable	440	(760)
Accounts payable and accrued expenses	330	498
Deferred revenue and deposits	35	(44)
Net cash provided by operating activities	<u>18,495</u>	<u>20,001</u>
Cash flows from investing activities:		
Proceeds from sale of investments	196,802	160,122
Proceeds from sale of investments used for endowment payout	(34,400)	(32,900)
Purchase of investments	(179,923)	(135,607)
Purchase of land, building and equipment	(25,686)	(16,449)
Net cash used in investing activities	<u>(43,207)</u>	<u>(24,834)</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	(3,663)	(23,677)
Payments made to beneficiaries of planned giving agreements	(898)	(862)
Change in government grant refundable	-	(657)
Noncash contributions of marketable securities	(258)	(3,351)
Private gifts, grants and other income restricted for long term investment	2,933	7,996
Net cash provided by (used in) financing activities	<u>(1,886)</u>	<u>22,969</u>
Increase (decrease) in cash and cash equivalents	(26,598)	18,136
Cash, restricted cash, and cash equivalents at beginning of the year	37,093	18,957
Cash, restricted cash, and cash equivalents at end of the year	<u>\$ 10,495</u>	<u>\$ 37,093</u>
Supplemental disclosure - cash paid for interest, including interest capitalized of \$966 and \$896, respectively	<u>\$ 3,297</u>	<u>\$ 2,794</u>
Noncash investing and financing activities:		
Purchases of land, building and equipment funded by accounts payable	<u>\$ 705</u>	<u>\$ 2,650</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 and building improvements 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 15<sup>th</sup> for the Fall semester and January 15<sup>th</sup> 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 2,100 students. Approximately 16% of the students are non-U.S. residents. Approximately 15% 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, 2018	Refunds issued	Revenue recognized included in May 31, 2018 balance	Cash received in advance of performance	Balance at May 31, 2019
\$ 1,040	\$ -	\$ 1,040	\$ 971	\$ 971

The balance of deferred revenue at May 31, 2019 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, 2019 and 2018 totaled \$1,593 and \$1,591, 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 \$872 and \$2,425 at May 31, 2019 and 2018, respectively. The College has a conflict of interest policy in place that is reviewed by each Board member and Officer annually.

***Change in Accounting Principle***

The College adopted the Financial Accounting Standards Board (FASB) Accounting Standards Update (ASU) 2018-08, Not-For-Profit Entities (Topic 958): Clarifying the Scope and Accounting Guidance for Contributions Received and Contributions Made. Accordingly, the accounting change has been applied prospectively to the year ended May 31, 2019 and years going forward and had no impact on net assets as previously reported.

**MACALESTER COLLEGE**  
Notes to Financial Statements  
May 31, 2019 and 2018  
(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, 2019 and 2018, student loans represented less than 1% of total assets.

Student loans receivable consist of the following:

	<u>2019</u>	<u>2018</u>
Federal government programs	\$ 3,285	\$ 3,920
Institutional programs	<u>6,010</u>	<u>5,241</u>
Student loans receivable, gross	<u>9,295</u>	<u>9,161</u>
Less: allowance for doubtful accounts:		
Beginning of year	(842)	(850)
Increases	(164)	-
Write-offs	<u>4</u>	<u>8</u>
End of year	<u>(1,002)</u>	<u>(842)</u>
Student loans receivable, net	<u>\$ 8,293</u>	<u>\$ 8,319</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 \$693 and \$633 as of May 31, 2019 and 2018, respectively.

Funds advanced by the federal government of \$3,893 at May 31, 2019 and 2018, are ultimately refundable to the government and are classified as liabilities on the statements of financial position.

At May 31, 2019 and 2018, the following amounts were past due under student loan programs:

	<u>2019</u>	<u>2018</u>
0 - 9 months past due	\$ 377	\$ 309
10 months - 2 years past due	437	261
3 - 4 years past due	261	353
5 years or longer past due	<u>630</u>	<u>569</u>
Total past due	<u>\$ 1,705</u>	<u>\$ 1,492</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, 2019 and 2018:

Short term investments:

	<u>2019</u>	<u>2018</u>
Fixed income – Treasuries – fair value	\$ <u>44,174</u>	\$ <u>34,387</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 \$15,886 and \$16,598 as of May 31, 2019 and 2018, respectively. The allocations shown at fair value are as follows:

**MACALESTER COLLEGE**  
Notes to Financial Statements  
May 31, 2019 and 2018  
(in thousands of dollars)

	2019				<u>Total</u>
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>No Level</u>	
<b>Financial Assets:</b>					
<u>Short term investments:</u>					
Fixed income - Treasuries	\$ <u>44,174</u>	\$ <u>-</u>	\$ <u>-</u>	\$ <u>-</u>	\$ <u>44,174</u>
<u>Long term investments:</u>					
Cash and short term investments	\$ 2,351	-	\$ -	\$ -	\$ 2,351
Publicly traded securities:					
Domestic equities	53,104	-	-	-	53,104
Domestic equities held in collective trusts measured at net asset value	-	-	-	15,248	15,248
Foreign equities held in collective trusts measured at net asset value	-	-	-	112,437	112,437
Fixed income – TIPS and Treasuries	95,892	25	-	-	95,917
Futures	4,426	-	-	-	4,426
Mutual funds	108,380	-	-	-	108,380
Liquid alternative investments	-	12,306	-	-	12,306
Alternative strategies in illiquid structures measured at net asset value:					
Domestic equities	-	-	-	132,562	132,562
Private equities	-	-	-	86,355	86,355
Hedge funds	-	-	-	44,949	44,949
Real estate	-	-	-	22,088	22,088
Natural resources	-	-	-	45,243	45,243
Total long term investments	\$ <u>264,153</u>	\$ <u>12,331</u>	\$ <u>-</u>	\$ <u>458,882</u>	\$ <u>735,366</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>30,096</u>	\$ <u>-</u>	\$ <u>30,096</u>
<b>Financial Liabilities:</b>					
Interest rate swap agreement	\$ <u>-</u>	\$ <u>958</u>	\$ <u>-</u>	\$ <u>-</u>	\$ <u>958</u>

**MACALESTER COLLEGE**  
Notes to Financial Statements  
May 31, 2019 and 2018  
(in thousands of dollars)

	2018				
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>No Level</u>	<u>Total</u>
<b>Financial Assets:</b>					
<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>
<b>Financial Liabilities:</b>					
Interest rate swap agreement	\$ <u>-</u>	\$ <u>205</u>	\$ <u>-</u>	\$ <u>-</u>	\$ <u>205</u>

**MACALESTER COLLEGE**  
Notes to Financial Statements  
May 31, 2019 and 2018  
(in thousands of dollars)

---

The following tables are roll-forwards of the Level 3 financial assets during the fiscal years ended May 31, 2019 and 2018:

Beneficial Interest in Perpetual Trust		
	<u>2019</u>	<u>2018</u>
Beginning balance	\$ 32,108	\$ 31,383
Net investment return	(1,072)	2,083
Purchases	744	672
Sales	<u>(1,684)</u>	<u>(2,030)</u>
Ending balance	<u>\$ 30,096</u>	<u>\$ 32,108</u>

High Winds Real Estate*		
Beginning and ending balance in both years shown	\$ <u>15,473</u>	\$ <u>15,473</u>

\* Real estate values are based on independent appraisals.

At May 31, 2019, the College had \$331,197 of long term investments, \$15,248 of domestic equities held in collective trusts, and \$112,437 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.

**MACALESTER COLLEGE**  
Notes to Financial Statements  
May 31, 2019 and 2018  
(in thousands of dollars)

At May 31, 2019 and 2018, the College's alternative investments had strategies and redemption terms as summarized in the tables below:

2019				
Investment Category	Fair Value	Unfunded Commitments	Redemption Frequency*	Notice Period (in Days)*
Foreign equity held in collective trusts (a)	\$ 112,437	None	Monthly	30 days
Domestic equities held in collective trusts (b)	15,248	None	Monthly	30 days
Domestic equities - alternative structures (c)	132,562	None	Quarterly	60 days
Hedge funds (d)	44,949	None	Monthly - Annual	30 - 90 days
Private investments (e)	153,686	\$ 137,905	Not applicable	Not applicable
Totals	\$ 458,882	\$ 137,905		

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		

\* 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, 2019 and 2018, the College held a short position in non-US developed market currency futures of \$120,546 and \$119,682, respectively.

The College periodically uses asset class futures contracts to manage exposures to various asset classes. As of May 31, 2019, the College held a short position of \$5,635 in non-US developed market equities and a long position of \$9,446 in two-year US Treasury futures. 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.

## **5) Funds Held in Trust by Others**

The College's beneficial interest in the fair value of assets in a perpetual trust was \$30,096 and \$32,108 as of May 31, 2019 and 2018, respectively. For the years ended May 31, 2019 and 2018, the College received \$1,552 and \$1,885 from this trust, respectively.

The College is the income beneficiary of a revocable trust with an estimated value of \$10,299 and \$10,357 as of May 31, 2019 and 2018, respectively, which is controlled by independent trustees. For the years ended May 31, 2019 and 2018, the College received \$426 and \$429 from this trust, respectively. These assets are not recorded on the financial statements of the College.

**MACALESTER COLLEGE**  
Notes to Financial Statements  
May 31, 2019 and 2018  
(in thousands of dollars)

---

**6) Contributions Receivable**

Contributions receivable consists of the following:

	<u>2019</u>	<u>2018</u>
Unconditional promises expected to be collected in:		
Less than one year	\$ 1,677	\$ 1,494
One year to five years	1,505	2,644
More than five years	20	35
Less: Discount to present value (1.3% - 5.0%)	<u>(78)</u>	<u>(183)</u>
	<u>\$ 3,124</u>	<u>\$ 3,990</u>

**7) Land, Buildings and Equipment**

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

	<u>2019</u>	<u>2018</u>
Land and land improvements	\$ 4,362	\$ 4,362
Buildings and building improvements	340,186	304,731
Equipment	16,455	15,660
Construction in progress	<u>112</u>	<u>13,230</u>
	361,115	337,983
Less: Accumulated depreciation	<u>(140,252)</u>	<u>(131,101)</u>
	<u>\$ 220,863</u>	<u>\$ 206,882</u>

**8) Bonds and Mortgages Payable**

Bonds and mortgages payable consist of the following:

	<u>2019</u>	<u>2018</u>
Minnesota Higher Education Facilities Authority variable rate demand revenue bonds of 1994, weekly maturity and rate reset, 1.58% 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, 1.58% average for current fiscal year	15,300	15,300
Minnesota Higher Education Facilities Authority revenue bonds of 2012, final series due 2043	13,445	13,825
Minnesota Higher Education Facilities Authority revenue bonds of 2015, final series due 2032	19,780	21,545
Minnesota Higher Education Facilities Authority revenue bonds of 2018, final series due 2048	<u>35,650</u>	<u>37,210</u>
	90,835	94,540

**MACALESTER COLLEGE**  
Notes to Financial Statements  
May 31, 2019 and 2018  
(in thousands of dollars)

---

	<u>2019</u>	<u>2018</u>
Plus: Unamortized bond premium	5,021	5,273
Less: Unamortized bond issuance costs	<u>(737)</u>	<u>(780)</u>
	<u>\$ 95,119</u>	<u>\$ 99,033</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 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.

In October of 2018, \$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, 2019 and 2018, the estimated fair value of the swap contract was \$(958) and \$(205), 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, 2019 and 2018 are interest rate swap gains (losses) of \$(753) and \$761, respectively.

**MACALESTER COLLEGE**  
Notes to Financial Statements  
May 31, 2019 and 2018  
(in thousands of dollars)

---

Annual debt commitments (principal) at May 31, 2019, are as follows:

<u>Fiscal Year Ending May 31,</u>	<u>Amount</u>
2020	\$ 3,890
2021	4,150
2022	4,420
2023	3,075
2024	9,835
After 2024	<u>65,465</u>
	<u>\$ 90,835</u>

Total interest expensed on debt aggregated \$3,314 and \$3,102 during the years ended May 31, 2019 and 2018, respectively.

**9) Restrictions and Limitations on Net Asset Balances**

The Board has designated, from *net assets without donor restrictions* of \$214,569 and \$209,115 at May 31, 2019 and 2018, respectively, net assets for quasi endowment in the amount of \$60,672 and \$61,821 at May 31, 2019 and 2018, 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, 2019 and 2018:

	<u>2019</u>	<u>2018</u>
<u>Perpetual in nature:</u>		
Endowment funds for:		
Scholarships	\$ 33,901	\$ 33,673
Prizes and awards	301	299
Library support	3,094	3,094
Program support	243,520	243,498
Faculty support	25,535	25,538
Research	<u>2,059</u>	<u>2,058</u>
	308,410	308,160
Beneficial interest in outside managed trusts restricted for scholarships	30,178	32,247
High Winds Fund	19,294	18,410
Loan funds	3,607	3,661
Split interest agreements for scholarships and program support	<u>3,361</u>	<u>3,551</u>
Total perpetual in nature	<u>364,850</u>	<u>366,029</u>

**MACALESTER COLLEGE**  
Notes to Financial Statements  
May 31, 2019 and 2018  
(in thousands of dollars)

---

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	\$ 52,533	\$ 53,822
Prizes and awards	496	506
Library support	3,400	3,607
Program support	253,284	269,019
Faculty support	37,492	38,998
Research	<u>3,972</u>	<u>3,896</u>
	351,177	369,848
Gifts and other unexpended revenues and gains available for:		
Scholarships	222	252
Prizes and awards	148	142
Library support	18	29
Program support	2,004	2,113
Faculty support	890	1,141
Research	308	290
Contributions receivable and trust available for scholarships, program support and operations	6,493	3,373
Contributions receivable for plant	-	581
Split interest agreements for scholarships, program support and operations	3,870	3,964
Private grants	2,059	1,668
Plant projects	313	5,696
Other	<u>1,960</u>	<u>1,418</u>
Total purpose restricted	<u>369,462</u>	<u>390,515</u>
Total net assets with donor restrictions	\$ <u>734,312</u>	\$ <u>756,544</u>

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, 2019 and 2018:

	<u>2019</u>	<u>2018</u>
Purpose restrictions accomplished:		
Operating:		
Scholarships	\$ 28,995	\$ 28,720
Faculty support	4,615	4,510
Various programming	3,232	2,664
Grant expenditures	<u>952</u>	<u>1,374</u>
Total - operating	37,794	37,268
Non-operating:		
Plant purchases	<u>6,973</u>	<u>-</u>
Total restrictions released	\$ <u>44,767</u>	\$ <u>37,268</u>

## **10) Endowment Funds**

### **Overview**

The College's endowment consists of 637 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.

**MACALESTER COLLEGE**  
Notes to Financial Statements  
May 31, 2019 and 2018  
(in thousands of dollars)

---

***Endowment Funds Restrictions and Designations***

The College's endowment net assets were classified as follows at May 31, 2019 and 2018:

	2019		
	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Board-designated endowment funds	\$ 60,672	\$ -	\$ 60,672
Donor-restricted endowment funds:			
Original donor-restricted gift amounts and amounts required to be maintained in perpetuity by donor	-	308,410	308,410
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>351,177</u>	<u>351,177</u>
Total funds	<u>\$ 60,672</u>	<u>\$ 659,587</u>	<u>\$ 720,259</u>
	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>

**MACALESTER COLLEGE**  
Notes to Financial Statements  
May 31, 2019 and 2018  
(in thousands of dollars)

---

The College's endowment net assets changed as follows for the years ended May 31, 2019 and 2018:

	<u>2019</u>		
	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Endowment net assets, beg. of year	\$ 61,821	\$ 678,008	\$ 739,829
Net investment return	6,461	7,355	13,816
Contributions	-	1,829	1,829
Other transfers in (out)	697	115	812
Amounts appropriated for expenditure	<u>(8,307)</u>	<u>(27,720)</u>	<u>(36,027)</u>
Endowment net assets, end of year	<u>\$ 60,672</u>	<u>\$ 659,587</u>	<u>\$ 720,259</u>
	<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>

***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, 2019 and 2018, 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***

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 2019 and 2018, 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, 2019, 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, 2019 and 2018 was \$22,299 and \$21,473, respectively. In addition to real estate with a market value of \$15,473 as of May 31, 2019 and 2018, the High Winds fund holds cash, investments, and receivables, net of liabilities, of \$6,826 and \$6,000 at May 31, 2019 and 2018, respectively.

**12) Lease Revenue**

The College is the lessor of both commercial and residential properties under various operating leases. 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 \$1,618 and \$1,548 during the years ended May 31, 2019 and 2018, 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, 2019 for each of the next five years and in aggregate are:

<u>Fiscal Year Ending May 31,</u>	<u>Amount</u>
2019	\$ 921
2020	715
2021	409
2022	354
2023	188
After 2023	4
	<u>\$ 2,591</u>

**MACALESTER COLLEGE**  
Notes to Financial Statements  
May 31, 2019 and 2018  
(in thousands of dollars)

---

**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, 2019 and 2018, the following assets could be made readily available within one year to meet general expenditures:

	<u>2019</u>	<u>2018</u>
Cash and cash equivalents	\$ 2,434	\$ 9,215
Restricted cash	-	18,737
Accrued investment income	239	205
Notes and accounts receivable	543	472
Contributions receivable	1,314	724
Short term investments	44,174	34,387
Endowment spending rate appropriations	<u>37,845</u>	<u>37,367</u>
	<u>\$ 86,549</u>	<u>\$ 101,107</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 \$60,672 and \$61,821 at May 31, 2019 and 2018, 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, 2019 and 2018 was \$4,744 and \$4,557, 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 2019 and 2018. 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, 2019 and 2018, the aggregate stop-loss amount was \$6,776 and \$6,495, 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, 2019 and 2018 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 \$6,086 and \$5,768 for the years ended May 31, 2019 and 2018, respectively. Fundraising expenses are included in Management and General expenses on the Schedule of 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.

**17) Subsequent Events**

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, 2019 through October 3, 2019, which is the date the financial statements were available to be issued.