

MACALESTER COLLEGE



ANNUAL FINANCIAL STATEMENTS
WITH AUDITORS' OPINION
FOR THE FISCAL YEAR ENDED MAY 31, 2021



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, 2021 and 2020, 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 audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Board of Trustees
Macalester College

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Macalester College as of May 31, 2021 and 2020, and changes in its net assets, functional expenses, and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The supplementary schedule of financial responsibility calculation is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.



CliftonLarsonAllen LLP

Minneapolis, Minnesota
October 1, 2021

MACALESTER COLLEGE
Statements of Financial Position
May 31, 2021 and 2020
(in thousands of dollars)

	<u>2021</u>	<u>2020</u>
ASSETS		
Cash and cash equivalents	\$ 10,399	\$ 10,417
Restricted cash and cash equivalents	2,070	-
Accrued investment income, prepaid expenses and other assets	6,575	5,312
Notes and accounts receivable	9,833	9,310
Contributions receivable, net	1,947	5,242
Short term investments	41,420	41,309
Long term investments	851,745	676,253
Real estate	16,360	15,755
Land, buildings and equipment, net of accumulated depreciation	206,088	214,607
Beneficial interest in perpetual trust	<u>36,894</u>	<u>29,500</u>
Total assets	<u>\$ 1,183,331</u>	<u>\$ 1,007,705</u>
LIABILITIES AND NET ASSETS		
Liabilities:		
Accounts payable and accrued expenses	\$ 13,927	\$ 12,478
Deferred revenue and deposits	2,788	2,493
Interest rate swap agreement	1,416	2,402
Liabilities under planned giving agreements	8,314	8,279
Government grants refundable	2,645	3,090
Bonds payable	<u>88,511</u>	<u>91,019</u>
Total liabilities	<u>117,601</u>	<u>119,761</u>
Net assets:		
Without donor restrictions		
Operations	25,316	25,317
Investments	75,540	59,512
Plant	<u>118,145</u>	<u>121,349</u>
Total without donor restrictions	<u>219,001</u>	<u>206,178</u>
With donor restrictions		
Operations	12,543	11,892
Investments	833,842	669,547
Plant	<u>344</u>	<u>327</u>
Total with donor restrictions	<u>846,729</u>	<u>681,766</u>
Total net assets	<u>1,065,730</u>	<u>887,944</u>
Total liabilities and net assets	<u>\$ 1,183,331</u>	<u>\$ 1,007,705</u>

See accompanying notes to financial statements.

MACALESTER COLLEGE
Statements of Activities
Years Ended May 31, 2021 and 2020
(in thousands of dollars)

	2021			2020		
	Without Donor Restrictions	With Donor Restrictions	Total	Without Donor Restrictions	With Donor Restrictions	Total
Operating Activities:						
Revenues and other additions:						
Tuition and fees, net of student aid and scholarships of \$64,736 in 2021 and \$58,759 in 2020	\$ 51,935	-	51,935	\$ 54,507	-	54,507
Federal and state grants and contracts	1,104	3,959	5,063	1,194	313	1,507
Private gifts and grants	3,799	2,596	6,395	4,067	1,652	5,719
Sales and service of auxiliary enterprises	8,812	-	8,812	14,290	-	14,290
Other sources	444	91	535	1,153	22	1,175
Net investment return	187	2	189	1,298	23	1,321
Investment return appropriated by the governing board for operations	5,368	34,722	40,090	5,178	34,206	39,384
Net assets released from restrictions	42,001	(42,001)	-	38,161	(38,161)	-
Total operating revenues and other additions	113,650	(631)	113,019	119,848	(1,945)	117,903
Expenses:						
Instruction	44,308	-	44,308	48,425	-	48,425
Research	1,306	-	1,306	1,699	-	1,699
Academic support	11,844	-	11,844	12,533	-	12,533
Student services	21,808	-	21,808	24,458	-	24,458
Auxiliary enterprises	11,200	-	11,200	11,171	-	11,171
Scholarships and fellowships	1,484	-	1,484	27	-	27
Institutional support	25,080	-	25,080	23,995	-	23,995
Total expenses	117,030	-	117,030	122,308	-	122,308
Change in net assets from operating activities	(3,380)	(631)	(4,011)	(2,460)	(1,945)	(4,405)
Non-operating Activities:						
Investment-related:						
Net investment return	19,944	184,957	204,901	123	(24,472)	(24,349)
Investment return appropriated by the governing board for operations	(5,368)	(34,722)	(40,090)	(5,178)	(34,206)	(39,384)
Change in beneficial interest in perpetual trust	-	7,394	7,394	-	(596)	(596)
Change in value of planned giving agreements	361	4,527	4,888	(111)	(136)	(247)
Gift-related:						
Private gifts and grants restricted for long-term investment	9	3,456	3,465	481	8,831	9,312
Private gifts and grants restricted for capital projects	245	9	254	167	9	176
Other:						
Change in value of interest rate swap	985	-	985	(1,444)	-	(1,444)
Net assets released from restrictions	27	(27)	-	31	(31)	-
Change in net assets from non-operating activities	16,203	165,594	181,797	(5,931)	(50,601)	(56,532)
Change in net assets	12,823	164,963	177,786	(8,391)	(52,546)	(60,937)
Net assets beginning of year	206,178	681,766	887,944	214,569	734,312	948,881
Net assets end of year	\$ 219,001	846,729	1,065,730	\$ 206,178	681,766	887,944

See accompanying notes to financial statements.

MACALESTER COLLEGE
Statements of Cash Flows
Years Ended May 31, 2021 and 2020
(in thousands of dollars)

	<u>2021</u>	<u>2020</u>
Cash flows from operating activities:		
Change in total net assets	\$ 177,786	\$ (60,937)
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	9,909	10,144
Realized and unrealized loss (gain) on investments	(196,541)	37,437
Unrealized loss (gain) on interest rate swap	(985)	1,444
Private gifts and other income restricted for long term investments	(3,465)	(8,840)
Adjustment of actuarial liabilities for planned giving agreements	940	751
Change in value of beneficial interest in perpetual trust	(7,394)	596
Endowment payout	28,100	31,475
Change in assets and liabilities:		
Accrued investment income, prepaid expenses and other assets	(1,263)	226
Notes and accounts receivable	(523)	(324)
Contributions receivable	542	309
Accounts payable and accrued expenses	1,372	(2,350)
Deferred revenue and deposits	295	1,157
Net cash provided by operating activities	<u>8,773</u>	<u>11,088</u>
Cash flows from investing activities:		
Proceeds from sale of investments	286,613	294,243
Proceeds from sale of investments used for endowment payout	(28,100)	(31,475)
Purchase of investments	(266,280)	(269,984)
Purchase of land, building and equipment	(1,960)	(4,822)
Net cash used in investing activities	<u>(9,727)</u>	<u>(12,038)</u>
Cash flows from financing activities:		
Proceeds from issuance of bonds payable	12,870	-
Bond premium from issuance of bonds payable	2,059	-
Principal payments on bonds payable	(16,791)	(3,849)
Payments made to beneficiaries of planned giving agreements	(905)	(889)
Change in government grant refundable	(445)	(803)
Private gifts, grants and other income restricted for long term investment	6,218	6,413
Net cash provided by financing activities	<u>3,006</u>	<u>872</u>
Increase (decrease) in cash and cash equivalents	2,052	(78)
Cash, restricted cash, and cash equivalents at beginning of the year	10,417	10,495
Cash, restricted cash, and cash equivalents at end of the year	<u>\$ 12,469</u>	<u>\$ 10,417</u>
Supplemental disclosure - cash paid for interest	<u>\$ 3,056</u>	<u>\$ 3,221</u>
Noncash investing and financing activities:		
Purchases of land, building and equipment funded by accounts payable	<u>\$ 99</u>	<u>\$ 22</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.

MACALESTER COLLEGE
Notes to Financial Statements
May 31, 2021 and 2020
(in thousands of dollars)

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.

A portion of the College's revenue is derived from cost reimbursable federal and state contracts and grants, which are conditioned upon certain performance requirements and/or the incurrence of allowable qualifying expenses. Amounts received are recognized as revenue when the College has incurred expenditures in compliance with specific contract or grant provisions. Amounts received prior to incurring qualifying expenditures are reported as refundable advances in the statement of financial position. The College received cost reimbursable grants of \$5,789 that have not been recognized at May 31, 2021 because qualifying expenditures have not yet been incurred.

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.

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.

Collections

The College does not deaccession artwork from the collections often. If the opportunity arises, the policy is to discuss the use of proceeds for deaccessioned items with the Board of Trustees based on discretion and dollar amount.

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.

MACALESTER COLLEGE
Notes to Financial Statements
May 31, 2021 and 2020
(in thousands of dollars)

The following table shows the College's tuition revenue disaggregated according to the timing of the transfer of goods or service and by source, as of the year ended May 31, 2021 and 2020:

	<u>2021</u>	<u>2020</u>
Revenue recognized over time:		
Tuition and fees	\$ 51,935	\$ 54,507

The College also provides auxiliary services, such as residence and dining 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. During the year ended May 31, 2020, as part of the College's response to COVID-19, most students received a partial refund of their residence and dining charges.

The following table shows the College's auxiliary revenues disaggregated according to the timing of transfer of goods or service and by source, as of the year ended May 31, 2021 and 2020:

	<u>2021</u>	<u>2020</u>
Revenue recognized over time:		
Residence	\$ 4,532	\$ 7,604
Dining	3,885	5,789
Other	<u>395</u>	<u>897</u>
Total auxiliary revenues	<u>\$ 8,812</u>	<u>\$ 14,290</u>

The College serves approximately 2,000 students. Approximately 16% of the students are non-U.S. residents. Approximately 16% 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, 2020	Refunds issued	Revenue recognized included in May 31, 2020 balance	Cash received in advance of performance	Balance at May 31, 2021
\$ 2,324	\$ -	\$ 2,324	\$ 1,645	\$ 1,645

The balance of deferred revenue at May 31, 2021 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, 2021 and 2020 totaled \$972 and \$1,877, 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 \$730 and \$3,533 at May 31, 2021 and 2020, 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

Financial Accounting Standard Board (FASB) issued Accounting Standards Update (ASU) 2018-13 Fair Value Measurement (Topic 820): Disclosure Framework – Changes to the Disclosure Requirements for Fair Value Measurement. The ASU removes and modifies disclosure requirements retrospectively for non-public entities. The ASU is effective for fiscal years beginning after December 15, 2019 with early adoption permitted. Management has elected to early adopt the ASU. The College has adopted this standard retrospectively.

In March 2019, FASB issued ASU 2019-03, Updating the Definition of Collections (Topic 958). The standard improves the definition of collections in Master Glossary by realigning it with the definition used in the American Alliance of Museums Code of Ethics for Museums. Under the standard, an additional disclosure is included in the financial statements. The College has adopted this standard retrospectively.

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, 2021 and 2020, student loans represented less than 1% of total assets.

Student loans receivable consist of the following:

	<u>2021</u>	<u>2020</u>
Federal government programs	\$ 2,295	\$ 2,788
Institutional programs	<u>6,914</u>	<u>6,512</u>
Student loans receivable, gross	<u>9,209</u>	<u>9,300</u>
Less: allowance for doubtful accounts:		
Beginning of year	(1,082)	(1,002)
Changes	<u>12</u>	<u>(80)</u>
End of year	<u>(1,070)</u>	<u>(1,082)</u>
Student loans receivable, net	<u>\$ 8,139</u>	<u>\$ 8,218</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 \$1,121 and \$1,092 as of May 31, 2021 and 2020, respectively.

Funds advanced by the federal government of \$2,645 and \$3,090 at May 31, 2021 and 2020, respectively, are ultimately refundable to the government and are classified as liabilities on the statements of financial position.

MACALESTER COLLEGE
Notes to Financial Statements
May 31, 2021 and 2020
(in thousands of dollars)

At May 31, 2021 and 2020, the following amounts were past due under student loan programs:

	<u>2021</u>	<u>2020</u>
0 - 9 months past due	\$ 262	\$ 324
10 months - 2 years past due	444	377
3 - 4 years past due	281	230
5 years or longer past due	<u>789</u>	<u>726</u>
Total past due	<u>\$ 1,776</u>	<u>\$ 1,657</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, 2021 and 2020:

Short term investments:

	<u>2021</u>	<u>2020</u>
Fixed income – Treasuries – fair value	<u>\$ 41,420</u>	<u>\$ 41,309</u>

MACALESTER COLLEGE
Notes to Financial Statements
May 31, 2021 and 2020
(in thousands of dollars)

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 \$17,373 and \$15,604 as of May 31, 2021 and 2020, respectively. The allocations shown at fair value are as follows:

	2021				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>41,420</u>	\$ <u>-</u>	\$ <u>-</u>	\$ <u>-</u>	\$ <u>41,420</u>
<u>Long term investments:</u>					
Cash and short term investments	\$ 3,193	-	\$ -	\$ -	\$ 3,193
Publicly traded securities:					
Domestic equities	67,097	-	-	-	67,097
Domestic equities held in collective trusts measured at net asset value	-	-	-	15,166	15,166
Foreign equities held in collective trusts measured at net asset value	-	-	-	117,565	117,565
Fixed income – TIPS and Treasuries	10,003	-	-	-	10,003
Futures	4,734	-	-	-	4,734
Mutual funds	112,984	-	-	-	112,984
Liquid alternative investments	-	93,974	-	-	93,974
Alternative strategies in illiquid structures measured at net asset value:					
Domestic equities	-	-	-	123,714	123,714
Private equities	-	-	-	127,347	127,347
Hedge funds	-	-	-	102,012	102,012
Real estate	-	-	-	29,321	29,321
Natural resources	-	-	-	44,635	44,635
Total long term investments	\$ <u>198,011</u>	\$ <u>93,974</u>	\$ <u>-</u>	\$ <u>559,760</u>	\$ <u>851,745</u>
High Winds real estate	\$ <u>-</u>	\$ <u>-</u>	\$ <u>16,360</u>	\$ <u>-</u>	\$ <u>16,360</u>
Beneficial interest in perpetual trust	\$ <u>-</u>	\$ <u>-</u>	\$ <u>36,894</u>	\$ <u>-</u>	\$ <u>36,894</u>
Financial Liabilities:					
Interest rate swap agreement	\$ <u>-</u>	\$ <u>1,416</u>	\$ <u>-</u>	\$ <u>-</u>	\$ <u>1,416</u>

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	2020				Total
	Level 1	Level 2	Level 3	No Level	
Financial Assets:					
<u>Short term investments:</u>					
Fixed income - Treasuries	\$ 41,309	\$ -	\$ -	\$ -	\$ 41,309
<u>Long term investments:</u>					
Cash and short term investments	\$ 3,482	-	\$ -	\$ -	\$ 3,482
Publicly traded securities:					
Domestic equities	49,305	-	-	-	49,305
Domestic equities held in collective trusts measured at net asset value	-	-	-	12,448	12,448
Foreign equities held in collective trusts measured at net asset value	-	-	-	85,682	85,682
Fixed income – TIPS and Treasuries	46,916	-	-	-	46,916
Futures	5,430	-	-	-	5,430
Mutual funds	84,884	-	-	-	84,884
Liquid alternative investments	-	47,606	-	-	47,606
Alternative strategies in illiquid structures measured at net asset value:					
Domestic equities	-	-	-	97,948	97,948
Private equities	-	-	-	93,332	93,332
Hedge funds	-	-	-	89,434	89,434
Real estate	-	-	-	25,985	25,985
Natural resources	-	-	-	33,801	33,801
Total long term investments	<u>\$ 190,017</u>	<u>\$ 47,606</u>	<u>\$ -</u>	<u>\$ 438,630</u>	<u>\$ 676,253</u>
High Winds real estate	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 15,755</u>	<u>\$ -</u>	<u>\$ 15,755</u>
Beneficial interest in perpetual trust	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 29,500</u>	<u>\$ -</u>	<u>\$ 29,500</u>
Financial Liabilities:					
Interest rate swap agreement	<u>\$ -</u>	<u>\$ 2,402</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,402</u>

Instrument	Fair Value – 2021	Fair Value – 2020	Principal Valuation Technique	Unobservable Inputs
Beneficial Interest in Perpetual Trust	\$ 36,894	\$ 29,500	FMV of Trust Investments	Time Period of Trust
High Winds Real Estate	\$ 16,360	\$ 15,755	Independent Appraisals	Real Estate Values

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The value of Beneficial Interest in Perpetual Trust represents an irrevocable right to receive distributions in perpetuity from a trust that is managed by a third party. The College has limited variance power over the trust's portfolio.

At May 31, 2021, the College had \$427,029 of long term investments, \$15,166 of domestic equities held in collective trusts, and \$117,565 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.

At May 31, 2021 and 2020, the College's alternative investments had strategies and redemption terms as summarized in the tables below:

2021				
Investment Category	Fair Value	Unfunded Commitments	Redemption Frequency*	Notice Period (in Days)*
Foreign equity held in collective trusts (a)	\$ 117,565	None	Monthly	30 days
Domestic equities held in collective trusts (b)	15,166	None	Monthly	30 days
Domestic equities - alternative structures (c)	123,714	None	Quarterly	60 days
Hedge funds (d)	102,012	None	Monthly - Annual	30 - 90 days
Private investments (e)	201,303	\$ 165,258	Not applicable	Not applicable
Totals	\$ 559,760	\$ 165,258		

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2020				
Investment Category	Fair Value	Unfunded Commitments	Redemption Frequency*	Notice Period (in Days)*
Foreign equity held in collective trusts (a)	\$ 85,682	None	Monthly	30 days
Domestic equities held in collective trusts (b)	12,448	None	Monthly	30 days
Domestic equities - alternative structures (c)	97,948	None	Quarterly	60 days
Hedge funds (d)	89,434	None	Monthly - Annual	30 - 90 days
Private investments (e)	153,118	\$ 130,526	Not applicable	Not applicable
Totals	\$ 438,630	\$ 130,526		

* 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.

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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, 2021 and 2020, the College held a short position in non-US developed market currency futures of \$118,354 and \$87,890, respectively.

The College periodically uses asset class futures contracts to manage exposures to various asset classes. As of May 31, 2021, the College held a short position of \$18,462 in non-US developed market equities and a long position of \$21,770 in two-year US Treasury futures. As of May 31, 2020, the College held a short position of \$12,079 in non-US developed market equities and a long position of \$16,563 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 \$36,894 and \$29,500 as of May 31, 2021 and 2020, respectively. For the years ended May 31, 2021 and 2020, the College received \$1,549 and \$1,524 from this trust, respectively.

The College is the income beneficiary of a revocable trust with an estimated value of \$12,235 and \$9,265 as of May 31, 2021 and 2020, respectively, which is controlled by independent trustees. For the years ended May 31, 2021 and 2020, the College received \$427 and \$428 from this trust, respectively. These assets are not recorded on the financial statements of the College.

6) Contributions Receivable

Contributions receivable consists of the following:

	<u>2021</u>	<u>2020</u>
Unconditional promises expected to be collected in:		
Less than one year	\$ 1,153	\$ 3,903
One year to five years	773	1,385
More than five years	50	15
Less: Discount to present value (1% - 3%)	<u>(29)</u>	<u>(61)</u>
	<u>\$ 1,947</u>	<u>\$ 5,242</u>

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7) Land, Buildings and Equipment

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

	<u>2021</u>	<u>2020</u>
Land and land improvements	\$ 4,362	\$ 4,362
Buildings and building improvements	343,537	342,472
Equipment	16,759	16,493
Construction in progress	<u>372</u>	<u>388</u>
	365,030	363,715
Less: Accumulated depreciation	<u>(158,942)</u>	<u>(149,108)</u>
	<u>\$ 206,088</u>	<u>\$ 214,607</u>

8) Bonds and Mortgages Payable

Bonds and mortgages payable consist of the following:

	<u>2021</u>	<u>2020</u>
Minnesota Higher Education Facilities Authority variable rate demand revenue bonds of 1994, weekly maturity and rate reset, 0.20% 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, 0.20% average for current fiscal year	15,300	15,300
Minnesota Higher Education Facilities Authority revenue bonds of 2012, final series due 2043, paid in full	-	13,055
Minnesota Higher Education Facilities Authority revenue bonds of 2015, final series due 2032	16,125	18,000
Minnesota Higher Education Facilities Authority revenue bonds of 2017, final series due 2048	32,055	33,930
Minnesota Higher Education Facilities Authority revenue bonds of 2021, final series due 2043	<u>12,870</u>	<u>-</u>
	83,010	86,945
Plus: Unamortized bond premium	6,182	4,769
Less: Unamortized bond issuance costs	<u>(681)</u>	<u>(695)</u>
	<u>\$ 88,511</u>	<u>\$ 91,019</u>

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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. These bonds were retired

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 2.88%. \$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 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 funded the construction of a new building that houses the theater and dance programs, as well as new multiuse classrooms.

In April of 2021, \$12,870 of revenue bonds were issued on behalf of the College by MHEFA. The average interest rate of the bonds is 2.04%. \$11,085 of the proceeds were used to repay the 2012 issue. The remaining \$1,785 will fund the replacement roofs on several campus buildings.

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, 2021 and 2020, the estimated fair value of the swap contract was \$(1,416) and \$(2,402), respectively.

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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, 2021 and 2020 are an interest rate swap gain of \$985 and an interest rate swap loss of \$1,444, respectively.

Annual debt commitments (principal) at May 31, 2021, are as follows:

<u>Fiscal Year Ending May 31,</u>	<u>Amount</u>
2022	\$ 4,450
2023	3,045
2024	9,805
2025	3,295
2026	2,855
After 2026	<u>59,560</u>
	<u>\$ 83,010</u>

Total interest expensed on debt aggregated \$3,062 and \$3,150 during the years ended May 31, 2021 and 2020, respectively.

9) Restrictions and Limitations on Net Asset Balances

The Board has designated, from *net assets without donor restrictions* of \$219,001 and \$206,178 at May 31, 2021 and 2020, respectively, net assets for quasi endowment in the amount of \$72,302 and \$56,682 at May 31, 2021 and 2020, 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, 2021 and 2020:

	<u>2021</u>	<u>2020</u>
<u>Perpetual in nature:</u>		
Endowment funds for:		
Scholarships	\$ 34,133	\$ 34,068
Prizes and awards	305	302
Library support	3,097	3,095
Program support	243,855	243,681
Faculty support	27,275	25,549
Research	<u>2,068</u>	<u>2,064</u>
	310,733	308,759
Beneficial interest in outside managed trusts restricted for scholarships	37,253	29,654
High Winds Fund	20,792	20,182
Loan funds	3,606	3,525
Split interest agreements for scholarships and program support	<u>3,415</u>	<u>3,252</u>
Total perpetual in nature	<u>375,799</u>	<u>365,372</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	\$ 66,474	\$ 47,465
Prizes and awards	630	480
Library support	4,267	2,797
Program support	323,935	207,035
Faculty support	52,787	35,923
Research	<u>4,732</u>	<u>3,667</u>
	452,825	297,367

Gifts and other unexpended revenues and gains available for:

Scholarships	305	283
Prizes and awards	125	123
Library support	33	18
Program support	2,870	2,057
Faculty support	664	712
Research	270	291

Contributions receivable and trust available for scholarships, program support and operations

Split interest agreements for scholarships, program support and operations

Private grants

Plant projects

Other

Total purpose restricted

Total net assets with donor restrictions

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, 2021 and 2020:

	<u>2021</u>	<u>2020</u>
Purpose restrictions accomplished:		
Operating:		
Scholarships	\$ 30,395	\$ 29,347
Faculty support	4,691	4,657
Various programming	2,605	3,216
Federal pandemic aid	3,626	-
Grant expenditures	<u>684</u>	<u>941</u>
Total - operating	42,001	38,161
Non-operating:		
Plant purchases	<u>27</u>	<u>31</u>
Total restrictions released	<u>\$ 42,028</u>	<u>\$ 38,192</u>

10) Endowment Funds

Overview

The College's endowment consists of 647 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, 2021 and 2020:

	2021		
	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Board-designated endowment funds	\$ 72,302	\$ -	\$ 72,302
Donor-restricted endowment funds:			
Original donor-restricted gift amounts and amounts required to be maintained in perpetuity by donor	-	310,733	310,733
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>-</u>	<u>452,825</u>	<u>452,825</u>
Total funds	<u>\$ 72,302</u>	<u>\$ 763,558</u>	<u>\$ 835,860</u>
	2020		
	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Board-designated endowment funds	\$ 56,682	\$ -	\$ 56,682
Donor-restricted endowment funds:			
Original donor-restricted gift amounts and amounts required to be maintained in perpetuity by donor	-	308,759	308,759
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>-</u>	<u>297,367</u>	<u>297,367</u>
Total funds	<u>\$ 56,682</u>	<u>\$ 606,126</u>	<u>\$ 662,808</u>

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The College's endowment net assets changed as follows for the years ended May 31, 2021 and 2020:

	2021		
	Without Donor Restrictions	With Donor Restrictions	<u>Total</u>
Endowment net assets, beg. of year	\$ 56,682	\$ 606,126	\$ 662,808
Net investment return	26,116	174,375	200,491
Contributions	1	6,053	6,054
Other transfers in (out)	1,741	1,913	3,654
Amounts appropriated for expenditure	<u>(12,238)</u>	<u>(24,909)</u>	<u>(37,147)</u>
Endowment net assets, end of year	<u>\$ 72,302</u>	<u>\$ 763,558</u>	<u>\$ 835,860</u>
	2020		
	Without Donor Restrictions	With Donor Restrictions	<u>Total</u>
Endowment net assets, beg. of year	\$ 60,672	\$ 659,587	\$ 720,259
Net investment return	2,982	(31,616)	(28,634)
Contributions	252	6,128	6,380
Other transfers in (out)	1,168	181	1,349
Amounts appropriated for expenditure	<u>(8,392)</u>	<u>(28,154)</u>	<u>(36,546)</u>
Endowment net assets, end of year	<u>\$ 56,682</u>	<u>\$ 606,126</u>	<u>\$ 662,808</u>

Underwater Endowment Funds

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the value of the initial and subsequent donor gift amounts (underwater). As of May 31, 2021, none of the College's endowment funds were underwater. As of May 31, 2020, funds with original gift values of \$18,189, fair values of \$16,759, and deficits of \$1,430 were reported in net assets with donor restrictions. These deficits, which the College believes are temporary, resulted from unfavorable market fluctuations. Continued spending appropriations are deemed prudent.

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 70-18-12 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. 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, 2021, the High Winds Fund owned 17 properties surrounding the College campus. The total value of the assets of the Fund, net of liabilities, as of May 31, 2021 and 2020 was \$24,159 and \$22,887, respectively. In addition to real estate with a market value of \$16,360 as of May 31, 2021 and \$15,755 as of 2020, the High Winds fund holds cash, investments, and receivables, net of liabilities, of \$7,799 and \$7,132 at May 31, 2021 and 2020, 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 \$1,482 and \$1,529 during the years ended May 31, 2021 and 2020, 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 2025. 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, 2021 for each of the next five years and in aggregate are:

<u>Fiscal Year Ending May 31,</u>	<u>Amount</u>
2022	\$ 661
2023	606
2024	440
2025	238
2026	-
	<u>\$ 1,945</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, 2021 and 2020, the following assets could be made readily available within one year to meet general expenditures:

	<u>2021</u>	<u>2020</u>
Cash and cash equivalents	\$ 2,678	\$ 2,045
Restricted cash and cash equivalents	2,070	-
Accrued investment income	284	310
Notes and accounts receivable	893	848
Contributions receivable	385	927
Short term investments	41,420	41,309
Endowment spending rate appropriations	<u>38,638</u>	<u>38,260</u>
	<u>\$ 86,368</u>	<u>\$ 83,699</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 \$72,302 and \$56,682 at May 31, 2021 and 2020, 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, 2021 and 2020 was \$5,245 and \$4,876, 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 2021 and 2020. 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, 2021 and 2020, the aggregate stop-loss amount was \$7,022 and \$6,879, 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, 2021 and 2020 is reported as a component of accounts payable and accrued expenses on the statements of financial position.

15) Fundraising Expenses

Fundraising expenses for the College totaled \$4,480 and \$5,474 for the years ended May 31, 2021 and 2020, 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 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, 2021 through October 1, 2021, which is the date the financial statements were available to be issued.

18) Supplemental Disclosures – U.S. Department of Education

The Department of Education issued regulations on February 23, 2019 that became effective on July 1, 2020 regarding additional disclosures deemed necessary to calculate certain ratios for determining sufficient financial responsibility under Title IV.

MACALESTER COLLEGE
Notes to Financial Statements
May 31, 2021 and 2020
(in thousands of dollars)

Net Assets

1	Net assets with donor restrictions: restricted in perpetuity	\$	375,799
2	Other net assets with donor restrictions (not restricted in perpetuity):		
a.	Annuities with donor restrictions	\$	4,933
b.	Term endowments		-
c.	Life income funds (trusts)		-
d.	Total annuities, term endowments, and life income funds with donor restrictions	\$	<u>4,933</u>

Property, Plant, and Equipment, net

3	Pre-implementation property, plant, and equipment, net		
a.	Ending balance of last financial statements submitted to and accepted by the Department of Education (May 31, 2020, financial statement)	\$	214,607
b.	Reclassify capital lease assets previously included in PPE, net prior to the implementation of ASU 2016-02 leases standard		-
c.	Less subsequent depreciation and disposals (net of accumulated depreciation)		<u>(9,834)</u>
d.	Balance pre-implementation property, plant, and equipment, net		204,773
4	Debt financed post-implementation property, plant, and equipment, net		
	Long-lived assets acquired with debt subsequent to May 31, 2020:		
a.	Equipment		-
b.	Land improvements		-
c.	Building		<u>44</u>
d.	Total property, plant, and equipment, net acquired with debt exceeding 12 months		44
5	Construction in progress - acquired subsequent to May 31, 2020		(16)
6	Post-implementation property, plant, and equipment, net, acquired without debt:		
a.	Long-lived assets acquired without use of debt subsequent to May 31, 2020		1,287
7	Total Property, Plant, and Equipment, net - May 31, 2021	\$	<u>206,088</u>

Debt to be excluded from expendable net assets

8	Pre-implementation debt:		
a.	Ending balance of last financial statements submitted to the Department of Education (May 31, 2020):	\$	86,945
b.	Reclassify capital leases previously included in long-term debt prior to the implementation of ASU 2016-02 leases standard.		-
c.	Less subsequent debt repayments		<u>(4,150)</u>
d.	Balance Pre-implementation Debt		82,795
9	Allowable post-implementation debt used for capitalized long-lived assets:		
a.	Equipment - all capitalized		-
b.	Land improvements		-
c.	Buildings		<u>171</u>
d.	Balance Post-implementation Debt		171
10	Construction in progress (CIP) financed with debt or line of credit		44
11	Long-term debt not for the purchase of property, plant, and equipment or liability greater than assets value		-
		\$	<u>83,010</u>
12	Terms of current year debt and line of credit for PPE additions:		

	Issue Date	Maturity Date	Nature of Capitalized Amounts	Amount Capitalized
a.	Apr 28, 2021	May 21, 2043	CIP	\$ 44
		22-year term (from original maturity)		

Unsecured related-party receivables

19	Secured related-party receivables	\$	-
20	Unsecured related party receivables		730
21	Total secured and unsecured related-party receivables	\$	<u>730</u>

MACALESTER COLLEGE
Notes to Financial Statements
May 31, 2021 and 2020
(in thousands of dollars)

Supplemental Schedule - Financial Responsibility Calculation Supplemental Components

Primary Reserve Ratio:		Expendable Net Assets:	
1	Statement of Financial Position (SFP)	Net assets without donor restrictions	\$ 219,001
2	SFP	Net assets with donor restrictions	846,729
3	SFP or Supplemental Disclosure (SD) Line 1	Net assets restricted in perpetuity	375,799
4	SD Line 20	Unsecured related-party receivable	730
5	SD Line 2d	Donor restricted annuities, term endowments, life income funds	4,933
6	SD Line 3d	Property, plant, and equipment pre-implementation	204,773
7	SD Line 4d	Property, plant, and equipment post-implementation with outstanding debt for original purchase	-
8	SD Line 5	Construction in progress purchased with long-term debt	(16)
9	SD Line 14	Lease right-of-use asset, pre-implementation (grandfather of leases option not chosen)	-
10	SD Line 15	Lease right-of-use asset, post-implementation	-
11	SFP	Intangible assets	-
12	SFP	Post-employment and pension liabilities	-
13	SD Line 8d	Long-term debt - for long-term purposes pre-implementation	82,795
14	SD Line 9d	Long-term debt - for long-term purposes post-implementation	-
15	SD Line 10	Line of credit for construction in progress	-
16	SD Line 17	Pre-implementation right-of-use asset liability	-
17	SD Line 18	Post-implementation right-of-use asset liability	-
		Total Expenses and Losses:	
18	Statement of Activities (SOA)	Total expenses (operating and nonoperating) without donor restrictions	117,030
19	SOA	Nonservice component of pension/postemployment (nonoperating) cost, (if loss)	-
20	SD Line 22	Sale of fixed assets (if loss)	-
21	SOA	Change in value of interest-rate swap agreements (if loss)	-
Equity Ratio:		Modified Net Assets:	
22	SFP	Net assets without donor restrictions	\$ 219,001
23	SFP	Net assets with donor restrictions	846,729
24	SFP	Intangible assets	-
25	SD Line 20	Unsecured related-party receivables	730
		Modified Assets:	
26	SFP	Total assets	1,182,758
27	SD Line 14	Lease right-of-use asset pre-implementation	-
28	SFP	Intangible assets	-
29	SD Line 20	Unsecured related-party receivables	730
Net Income Ratio:		Change in Net Assets Without Donor Restrictions	
30	SOA		\$ 12,823
		Total Revenues and Gains:	
31	SOA	Total operating revenue (including net assets released from restrictions)	111,856
32	SOA	Investments gain, net (aggregate operating and nonoperating interest, dividends, realized and unrealized gains)	212,484
33	SOA	Nonservice component of pension/postemployment (nonoperating) cost (if gain)	-
34	SOA	Pension-related changes other than net periodic pension costs (if gain)	-
35	SOA	Change in value of annuity agreement (typically in nonoperating)	4,888
36	SOA	Change in value of interest-rate swap agreements (if gain)	985
37	SD Line 25	Sale of fixed assets (if gain)	-
38	SOA	Other gains	3,465