

# MACALESTER COLLEGE



ANNUAL FINANCIAL STATEMENTS  
WITH AUDITORS OPINION  
FOR YEAR ENDED MAY 31, 1993

Certified Public Accountants

4200 Norwest Center  
90 South Seventh Street  
Minneapolis, MN 55402

## Independent Auditors' Report

The Board of Trustees  
Macalester College:

We have audited the accompanying balance sheet of Macalester College (the College) as of May 31, 1993 and the related statements of changes in fund balances and current funds revenues, expenditures and other changes for the year then ended. These financial statements are the responsibility of the College's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the College as of May 31, 1993, and the changes in fund balances and the current funds revenues, expenditures and other changes for the year then ended in conformity with generally accepted accounting principles.

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

*KPMG Peat Marwick*

August 13, 1993



Balance Sheet  
 May 31, 1993  
 with comparative figures at May 31, 1992

Assets	1993	1992
<b>Current funds:</b>		
Cash and cash equivalents	\$ 11,336,664	9,227,983
Investments, at cost which approximates market	0	845,252
Notes and accounts receivable, net of allowance for doubtful receivables of \$138,600 (\$176,428 in 1992)	2,087,937	1,529,951
Accrued investment income	2,159,922	1,755,445
Prepaid expenses	196,227	158,340
Due from plant fund (note 7)	2,682,232	1,579,864
	\$ 18,462,982	15,096,835
<b>Loan funds:</b>		
Cash and cash equivalents	\$ 185,303	108,624
Investment in intermediate cash fund, at cost which approximates market	1,555,617	1,677,211
Notes and accounts receivable, net of allowance for doubtful receivables of \$458,196 (\$428,424 in 1992)	3,119,312	3,005,282
Accrued investment income	15,068	19,160
	\$ 4,875,300	4,810,277
<b>High Winds fund (note 8):</b>		
Real estate contracts & accounts receivable	\$ 130,479	166,861
Real estate, at cost	2,674,043	2,174,063
Due from other funds	306,532	777,071
	\$ 3,111,054	3,117,995
<b>Endowment and similar funds:</b>		
Cash and cash equivalents	\$ 50,337	33,770
Investments, at cost (note 3)	96,026,471	85,227,436
Accrued investment income	26,323	76,642
Due from other funds	5,473,188	3,926,396
Net assets owned by DeWitt Wallace Fund for Macalester College (note 3)	262,145,139	262,145,139
	\$ 363,721,458	351,409,383
<b>Plant funds (note 7):</b>		
Cash and cash equivalents	\$ 122,332	116,797
Investments in U.S. Government securities, at cost which approximates market	3,150,607	1,125,636
Investment property	30,000	30,000
Other receivables	10,815	549
Debt financing costs	368,732	142,180
Due from other funds	1,029,637	112,185
Investment in plant:		
Land and land improvements	1,224,111	1,224,111
Buildings	65,784,201	56,141,573
Furniture and equipment	1,446,692	1,593,186
Accumulated depreciation	(14,214,272)	(12,832,505)
	54,240,732	46,126,365
	\$ 58,952,855	47,653,712

See accompanying notes to financial statements.

<u>Liabilities and Fund Balances</u>	<u>1993</u>	<u>1992</u>
<b>Current funds:</b>		
Accounts payable and accrued expenses	\$ 6,310,625	5,378,192
Student deposits	237,662	266,860
Due to other funds	6,703,931	4,501,111
<b>Funds balances:</b>		
<b>Unrestricted:</b>		
Undesignated	100,523	49,096
Designated	1,203,813	1,203,813
<b>Restricted</b>	3,906,428	3,697,763
Total fund balances	<u>5,210,764</u>	<u>4,950,672</u>
Total current funds	<u>\$ 18,462,982</u>	<u>15,096,835</u>
<b>Loan funds:</b>		
Due to other funds	\$ 105,426	314,541
<b>Fund balances - restricted:</b>		
U.S. Government grants refundable	2,375,363	2,223,545
College funds	2,394,511	2,272,191
Total fund balances	<u>4,769,874</u>	<u>4,495,736</u>
Total loan funds	<u>\$ 4,875,300</u>	<u>4,810,277</u>
<b>High Winds fund (note 8):</b>		
Rental deposits	\$ 9,923	14,105
Fund balance - restricted	3,101,131	3,103,890
Total High Winds fund	<u>\$ 3,111,054</u>	<u>3,117,995</u>
<b>Endowment and similar funds:</b>		
Contracts & Other Payables	\$ 375,600	998,032
<b>Fund balances of:</b>		
DeWitt Wallace Fund for Macalester College (note 2)	262,145,139	262,145,139
<b>Macalester College:</b>		
Endowment and term endowment	70,344,525	65,500,164
<b>Quasi-endowment:</b>		
Unrestricted	16,618,740	9,015,003
Restricted	7,583,665	8,788,337
Annuity	808,948	439,927
Life Income	5,844,841	4,522,781
Subtotal-Macalester College	<u>101,200,719</u>	<u>88,266,212</u>
Total combined fund balances	<u>363,345,858</u>	<u>350,411,351</u>
Total endowment and similar funds	<u>\$ 363,721,458</u>	<u>351,409,383</u>
<b>Plant funds (note 7):</b>		
Accounts payable and accrued expenses	\$ 12,500	0
Due to current funds	2,682,232	1,579,864
Bonds, mortgages and note payable	17,512,303	6,864,167
Accrued interest payable	251,342	106,671
<b>Fund balances:</b>		
Unrestricted - unexpended	775,467	2,588,403
<b>Restricted - unexpended:</b>		
Donor	285,777	1,285,150
Debt reserve	649,106	504,995
Net investment in plant	36,784,128	34,724,462
Total fund balances	<u>38,494,478</u>	<u>39,103,010</u>
Total plant funds	<u>\$ 58,952,855</u>	<u>47,653,712</u>

Statement of Changes in Fund Balances  
Year ended May 31, 1993

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

	Unrestricted		Restricted	Loan Funds	High Winds Fund
	Undesignated	Designated			
Revenue and other additions:					
Unrestricted current fund revenues \$	32,674,209	-	-	-	-
Federal grants and contracts - restricted	-	-	1,771,214	157,267	-
State grants and contracts	-	-	55,618	-	-
Private gifts, grants and contracts - restricted	-	-	1,366,782	20	-
Endowment income - restricted	-	-	16,433,031	2,376	-
Sales and service of auxiliary enterprises - restricted	-	-	-	-	408,512
Other sources	-	-	332,927	1,114	-
Investment income - restricted	-	-	42,809	134,458	17,760
Realized gains (losses) on investments - restricted	-	-	-	2,354	-
Interest on loans receivable - restricted	-	-	-	79,171	11,697
Expended for plant facilities (including \$207,894 charged to current funds)	-	-	-	-	-
Retirement of indebtedness	-	-	-	-	-
Total revenues and other additions	\$ 32,674,209	0	20,010,487	376,760	437,969
Expenditures and other deductions:					
Educational and general	\$ 19,043,191	-	18,489,162	-	-
Auxiliary enterprises	3,785,134	-	48,400	-	440,728
Loan cancellations	-	-	-	8,528	-
Administrative and collection costs	-	-	-	94,094	-
Expended for plant facilities	-	-	-	-	-
Depreciation expense	-	-	-	-	-
Paid to beneficiaries	-	-	-	-	-
Matured life income and annuity	-	-	-	-	-
Interest on indebtedness	-	-	-	-	-
Retirement of indebtedness	-	-	-	-	-
Total expenditures and other deductions	\$ 22,828,325	0	18,537,562	102,622	440,728
Transfer among funds - additions (deductions):					
Mandatory:					
To endowment	\$ -	-	(59,897)	-	-
To plant:					
Principal and interest	(1,234,612)	-	-	-	-
Capital improvements	-	-	(345,455)	-	-
Renewals and replacements	(38,802)	-	-	-	-
Nonmandatory:					
Gift Reclassification	(115,000)	-	115,000	-	-
Capital improvements	(1,025,264)	-	-	-	-
To quasi-endowment (note 5)	(7,380,779)	-	(973,908)	-	-
Total transfers	\$ (9,794,457)	0	(1,264,260)	0	0
Net increase (decrease) for the year	\$ 51,427	0	208,665	274,138	(2,759)
Fund balances at beginning of year	\$ 49,096	1,203,813	3,697,763	4,495,736	3,103,890
Fund balances at end of year	\$ 100,523	1,203,813	3,906,428	4,769,874	3,101,131

See accompanying notes to financial statements.

-----Endowment Funds-----					-----Plant Funds-----			
True and Term	Quasi	DeWitt Wallace Fund for Macalester College	Annuity Funds	Life Income Funds	Unexpended Unrestricted	Unexpended Restricted	Net Investment In Plant	
-	-	-	-	-	-	-	-	
-	-	-	-	-	-	-	-	
1,925,698	-	-	130,107	-	-	437,836	-	
-	-	-	-	-	-	14,912	-	
-	-	-	-	-	-	-	-	
-	-	-	55,242	341,201	331,255	-	-	
-	-	-	-	-	-	204,576	-	
832,206	322	-	293,282	1,379,397	-	105,463	-	
-	-	-	-	-	-	-	-	
-	-	-	-	-	-	-	3,144,131	
-	-	-	-	-	-	-	484,159	
2,757,904	322	0	478,631	1,720,598	331,255	762,787	3,628,290	
-	-	-	-	-	-	-	-	
-	-	-	-	-	-	-	-	
-	-	-	-	33,919	83,160	150,775	-	
-	-	-	-	-	2,484,924	1,836,992	-	
-	-	-	-	-	-	-	1,568,624	
-	-	-	109,610	315,334	-	-	-	
-	-	-	-	49,285	-	-	-	
-	-	-	-	-	93,812	1,141,935	-	
-	-	-	-	-	397,295	146,864	-	
0	0	0	109,610	398,538	3,059,191	3,276,566	1,568,624	
1,929,613	(1,869,716)	-	-	-	-	-	-	
-	-	-	-	-	-	1,234,612	-	
-	-	-	-	-	-	345,455	-	
-	-	-	-	-	-	38,802	-	
-	-	-	-	-	-	-	-	
156,844	8,268,459	-	-	-	915,000	110,264	-	
-	-	-	-	-	-	(70,616)	-	
2,086,457	6,398,743	0	0	0	915,000	1,658,517	0	
4,844,361	6,399,065	0	369,021	1,322,060	(1,812,936)	(855,262)	2,059,666	
65,500,164	17,803,340	262,145,139	439,927	4,522,781	2,588,403	1,790,145	34,724,462	
70,344,525	24,202,405	262,145,139	808,948	5,844,841	775,467	934,883	36,784,128	

Statement of Current Funds Revenues, Expenditures and Other Changes  
Year ended May 31, 1993  
with comparative figures for the year ended May 31, 1992

	1993			Total	1992 Total
	Unrestricted Undesignated	Designated	Restricted		
<b>Revenues:</b>					
Tuition and fees (note 7)	\$ 24,516,708	-	101,168	24,617,876	23,576,388
Federal grants and contracts	-	-	1,856,506	1,856,506	1,363,001
State grants and contracts	-	-	55,618	55,618	50,759
Private gifts, grants and contracts	1,690,528	-	1,281,698	2,972,226	3,369,861
Endowment income	621,239	-	15,365,250	15,986,489	12,876,886
Investment income	274,004	-	42,809	316,813	448,552
Realized net gains (losses) on investments	419,935	-	-	419,935	(2,839)
Sales and services of auxiliary enterprises	4,870,949	-	8,106	4,879,055	4,902,886
Other sources	231,561	-	231,759	463,320	381,453
Matured life income	49,285	-	-	49,285	25,921
<b>Total revenues</b>	<b>32,674,209</b>	<b>-</b>	<b>18,942,914</b>	<b>51,617,123</b>	<b>46,992,868</b>
<b>Expenditures and mandatory transfers:</b>					
<b>Educational and general:</b>					
Instruction	4,930,509	-	7,797,296	12,727,805	12,035,747
Research	-	-	541,724	541,724	482,644
Public service	164,814	-	67,520	232,334	251,940
Academic support	1,708,298	-	786,220	2,494,518	2,311,735
Student services	3,493,243	-	1,151,988	4,645,231	4,368,447
Institutional support	4,791,474	-	428,120	5,219,594	4,774,725
Operation and maintenance of plant	2,446,988	-	122,266	2,569,254	2,343,899
Student aid, scholarships and prizes	1,507,865	-	7,594,028	9,101,893	7,662,669
<b>Educational and general expenditures</b>	<b>19,043,191</b>	<b>-</b>	<b>18,489,162</b>	<b>37,532,353</b>	<b>34,231,806</b>
<b>Mandatory transfers for:</b>					
Endowment	-	-	59,897	59,897	36,543
Principal and interest	1,027,449	-	-	1,027,449	446,938
Plant fund	-	-	345,455	345,455	-
<b>Total educational and general</b>	<b>20,070,640</b>	<b>-</b>	<b>18,894,514</b>	<b>38,965,154</b>	<b>34,715,287</b>
<b>Auxiliary enterprises:</b>					
Expenditures	3,785,134	-	48,400	3,833,534	3,921,438
<b>Mandatory transfer for:</b>					
Principal and interest	207,163	-	-	207,163	200,328
Renewals and replacements	38,802	-	-	38,802	38,802
<b>Total auxiliary enterprises</b>	<b>4,031,099</b>	<b>-</b>	<b>48,400</b>	<b>4,079,499</b>	<b>4,160,568</b>
<b>Total expenditures &amp; mandatory transfers</b>	<b>24,101,739</b>	<b>-</b>	<b>18,942,914</b>	<b>43,044,653</b>	<b>38,875,855</b>
<b>Other transfers and additions (deductions):</b>					
Excess of restricted additions over expenditures	-	-	1,067,573	1,067,573	3,135,017
Transfer to current restricted	(115,000)	-	115,000	0	-
Transfers to plant funds	(1,025,264)	-	-	(1,025,264)	(7,004,638)
Transfers to quasi-endowment funds	(7,380,779)	-	(973,908)	(8,354,687)	(3,877,547)
<b>Net increase in fund balance</b>	<b>\$ 51,427</b>	<b>0</b>	<b>208,665</b>	<b>260,092</b>	<b>369,845</b>

See accompanying notes to financial statements.

# MACALESTER COLLEGE

## Notes to Financial Statements

May 31, 1993

### (1) Summary of Significant Accounting Policies

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

#### Accrual Basis

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

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

#### Fund Accounting

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

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

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

(Continued)



## MACALESTER COLLEGE

## Notes to Financial Statements, Continued

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

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

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

Designated Fund

The Board of Trustees of the College has designated \$1,203,813 of current unrestricted funds as an income stabilization fund which is intended to provide a spending reserve for future time periods.

Investment in Plant

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

Accounting for Depreciation

The College has adopted the provisions of Statement of Financial Accounting Standards no. 93 (SFAS no. 93), Recognition of Depreciation by Not-for-Profit Organizations, which requires the recording of depreciation of long-lived tangible assets.

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

(Continued)

## MACALESTER COLLEGE

## Notes to Financial Statements, Continued

(1) Summary of Significant Accounting Policies, ContinuedFederal Income Taxes

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

(2) DeWitt Wallace Fund for Macalester College

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

As of May 31, 1993, the market value of the net assets of the Fund was estimated at \$347,953,036 (\$374,392,590 principal, and \$3,560,446 of undistributed income). Income from the Fund is paid over annually to support College programs as may be agreed upon by the College and the Directors of the Fund. Grants made by the Fund to the College from 1982 to 1993 total \$45,785,059. This sum includes a grant of \$15,369,535 for the fiscal year ended May 31, 1993.

As of May 31, 1993, \$118,228,260 (at current market value) of the Fund's assets were invested in the College's pooled endowment fund. This represented 8,176,982 unitized shares of the pooled endowment fund. The College acts as an investment manager for these assets of the Fund pursuant to an agreement dated May 24, 1990.

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

Investments are stated at cost, adjusted where appropriate for amortization of premiums and accrual of discounts. Investments received by gift are stated at market value at the date of acquisition. Quoted market values of investments of the endowment and similar funds at May 31, 1993 (with comparative values at May 31, 1992) were as follows:

(Continued)

## MACALESTER COLLEGE

## Notes to Financial Statements, Continued

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

	<u>1993</u>	<u>1992</u>
Macalester College (at market)		
Cash equivalents	\$ 11,935,006	30,038,974
Common stocks	73,546,652	48,615,324
Preferred stocks	6,079,770	4,374,899
Corporate bonds	34,566,953	32,159,977
U.S. Government obligations	100,654,839	86,286,454
Other	<u>3,465,236</u>	<u>1,474,142</u>
Subtotal market	230,248,456	202,949,770
Less units of Macalester endowment held by DeWitt Wallace Fund for Macalester College	<u>(118,228,260)</u>	<u>(113,320,112)</u>
Total market	<u>\$112,020,196</u>	<u>89,629,658</u>
Total cost	<u>\$ 96,026,471</u>	<u>85,227,436</u>
DeWitt Wallace Fund for Macalester College (at market)		
Common stock	\$255,047,334	282,227,561
Units in the Macalester College endowment	<u>118,228,260</u>	<u>113,320,112</u>
Total market	<u>\$373,275,594</u>	<u>395,547,673</u>
Total cost	<u>\$262,145,139</u>	<u>262,145,139</u>

Included in the market value of preferred stocks at May 31, 1993, is \$6,079,770 relating to 87,659 shares of The Reader's Digest Association, Inc. preferred stock which is not publicly traded. Additionally, the College has agreed not to sell such shares of stock without first offering the shares to The Reader's Digest Association, Inc.

Included in the market value of common stocks of the DeWitt Wallace Fund for Macalester College at May 31, 1993, is \$255,047,334 relating to 5,957,310 non-voting shares of The Reader's Digest Association, Inc.

(Continued)

## MACALESTER COLLEGE

## Notes to Financial Statements, Continued

(4) Funds Held in Trust by Others

The College is the income beneficiary of a trust with an estimated value of \$9,551,457 which is controlled by independent trustees. For the year ended May 31, 1993, the College received \$219,687 from this trust. Assets held in trust by others, with the College as income beneficiary or remainderman, do not appear on the financial statements of the College, until such time as the remainder interest is realized.

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

The majority of the assets of the endowment funds have been placed in an investment pool, on a market value basis, with each individual fund within the pool subscribing to or disposing of units on the basis of the market value per unit at the beginning of the month within which the transaction takes place.

Since 1983, the College has followed an endowment spending policy that requires endowment income over a predetermined level (excess endowment earnings) to be transferred to quasi-endowment fund balance. Each year the Board of Trustees sets a spending rate which is used to allocate endowment income under the terms of the endowments. For the year ended May 31, 1993, a spending rate approximating 5.58% was used based upon a sixteen-quarter moving average of investment market value. Endowment income is shown at actual earnings on the Statement of Changes in Fund Balances.

During the current fiscal year a change was made in accounting for the pooled endowment fund. All excess endowment earnings transferred to quasi-endowment since inception were unitized and are full participants in the pool. This resulted in a restatement of the per unit value on Schedule 1.

Earnings of \$607,083 in excess of the spending rate for the year ended May 31, 1992, and reflected in the quasi-endowment ending fund balance for that same year, were restated from beginning fund balance to private gifts and grants of the current fiscal year. This excess income relates to the DeWitt Wallace Fund for Macalester College. Consistent with policy and procedures implemented in the current fiscal year, excess income of the Fund's participation in the pooled endowment is granted annually to the College. The 1992/93 grant included the \$607,083 previously reported as transferred to quasi-endowment.

Earnings of \$997,843 in excess of the spending rate for the year ended May 31, 1993 (\$23,935 of unrestricted funds and \$973,908 of restricted funds) have been transferred from current funds to quasi-endowment.

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

(Continued)

## MACALESTER COLLEGE

## Notes to Financial Statements, Continued

(6) Pledges

At May 31, 1993, the College had pledges outstanding from individuals, corporations and foundations totalling approximately \$1,108,510. These gifts will be reflected in the financial statements of the College when received.

(7) Plant Funds

Bonds, mortgages and notes payable of the plant funds at May 31, 1993 consist of the following:

Macalester College Dormitory Bonds of 1956 2-3/4%, final series due November 1, 1996 (original amount \$800,000)	\$ 119,000
Macalester College Dormitory Bonds of 1962 3-3/8%, final series due May 1, 2002 (original amount \$2,850,000)	1,030,000
College Housing Program Mortgages at 3%, due in semi-annual installments of \$19,022 including interest, through 2020 (original amount \$880,200)	693,303
Minnesota Higher Education Facilities Authority Mortgage Revenue Bonds of 1992, 6.33% average, final series due 2022 (original amount \$15,670,000)	<u>15,670,000</u> <u>\$17,512,303</u>

To secure the required annual principal and interest payments on the 1962 bonds, the College has: (a) granted a mortgage lien and pledged the revenue from certain dormitories and dining room facilities (the aggregate carrying value of such pledged facilities approximated \$4,347,000 at May 31, 1993) and (b) met the sinking fund requirements of the bond indentures by depositing with a trustee certain Wallace Endowment Fund securities having a carrying value of \$469,444. The 1962 indenture also requires the College to transfer \$30,000 annually to a repair and replacement reserve.

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

(Continued)

## MACALESTER COLLEGE

## Notes to Financial Statements, Continued

(7) Plant Funds, Continued

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

The balance of the proceeds, net of issuance costs and issuance discounts of \$372,513, were used to retire the balance of MHEFA Revenue Bonds of 1985, and to finance campus improvements totaling \$9,650,000.

As of May 31, 1993, capital expenditures financed by this debt issue totaling \$9,052,551 had been made.

Annual debt commitments (principal) at May 31, 1993, are as follows:

<u>Fiscal year ending May 31.</u>	<u>Amount</u>
1994	148,371
1995	149,895
1996	160,437
1997	337,994
1998	324,568
after 1998	<u>16,391,038</u>
	<u>\$17,512,303</u>

During the year ended May 31, 1987, the Plant Fund borrowed \$1,067,699 from Current Funds to finance renovations associated with the vacation of East Old Main. The interfund loan bears an interest rate equivalent to the average current funds investment income rate, and is interim financing until permanent funding is received. The balance as of May 31, 1993 is \$944,695. A second interfund loan was made during the year ended May 31, 1988 from Current Funds to Plant Fund, for interim financing of Old Main renovations. The loan is non-interest bearing, with a May 31, 1993 balance of \$13,316. A third interfund loan was made during the years ended May 31, 1989 and 1990, again from Current Funds to Plant Fund, for interim financing of administrative computing equipment and software acquisitions. The loan is in the amount of \$194,221 and bears an interest rate equivalent to the average current funds investment income rate. A fourth interfund loan of \$1,530,000 was made during the year ended May 31, 1993. It bears an interest rate equivalent to the average current funds investment income rate. In addition to the above interfund loans, certain Plant Fund construction projects carried negative cash balances on an interim basis. Interest costs were assessed, and the corresponding income recognized in the Current Fund.

Total interest costs on plant funds debt aggregated \$1,235,747 (\$93,812 due to interfund borrowing) during the year ended May 31, 1993.

(continued)

## MACALESTER COLLEGE

## Notes to Financial Statements, Continued

(8) High Winds Fund

The High Winds fund is subject to the provisions of an agreement between the College and a major benefactor which provides, among other things, for physical segregation and administration of such funds in accordance with the provisions of such agreement. The purpose of the High Winds fund is to maintain and improve the beauty, serenity and security of the area surrounding the College campus. The High Winds fund owns 55 properties surrounding the College campus.

During the year ended May 31, 1993, the High Winds fund charged current funds approximately \$116,000 for use of High Winds property.

(9) Pension Plans

The College provides pension benefits to substantially all employees. Certain academic and non-academic personnel are covered under contributory plans with Teachers Insurance and Annuity Association and College Retirement Equities Fund. A plan covering union employees is funded by deposits with trustees based on a fixed rate of contribution per hour worked. The College has no liability for these pension plans once deposits are made to the administrators. The College has an unfunded pension plan which supplements retirement benefits of certain professional and staff employees not fully covered by other plans. The unfunded liability under the supplemental plan at May 31, 1993 was approximately \$233,557.

Total pension expense for the year ended May 31, 1993 was \$1,186,056 including \$37,254 paid under the unfunded supplemental plan.

(10) Disclosures About Fair Value of Financial Instruments

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

**Cash and cash equivalents**

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

**Accounts receivable and accounts payable**

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

**Long-term debt**

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

Endowment Investment Performance \*  
Year Ended May 31, 1993

	Pooled Funds		Nonpooled Funds		Total Endowment Funds	
	Market	Cost	Market	Cost	Market	Cost
<b>Net assets at May 31, 1993:</b>						
Common stock	\$ 68,095,972	58,989,583	255,066,339	157,137,158	323,162,311	216,126,741
Preferred stocks	6,079,770	4,417,296	0	0	6,079,770	4,417,296
Corporate bonds	32,110,825	29,457,022	0	0	32,110,825	29,457,022
U.S. Government obligations	95,641,331	88,107,053	3,953,879	3,271,433	99,595,210	91,378,486
Real estate	1,156,253	1,268,000	0	0	1,156,253	1,268,000
Other (including uninvested cash)	14,251,607	14,044,624	0	0	14,251,607	14,044,624
	<u>217,335,758</u>	<u>196,283,578</u>	<u>259,020,218</u>	<u>160,408,591</u>	<u>476,355,976</u>	<u>356,692,169</u>
<b>Net assets at May 31, 1992</b>	<u>194,326,189</u>		<u>285,915,798</u>		<u>480,241,987</u>	
Increase (decrease) in net assets	23,009,569		(26,895,580)		(3,886,011)	
<b>Less:</b>						
Initial market value of additions	10,801,658		0		10,801,658	
Net gains (losses) for year	<u>\$ 12,207,911</u>		<u>(26,895,580)</u>		<u>(14,687,669)</u>	
<b>Net gains for the year consist of:</b>						
Realized net gains	\$ 831,884		322		832,206	
Unrealized net gains (losses)	11,376,027		(26,895,902)		(15,519,875)	
Total net gains (losses) for year	<u>\$ 12,207,911</u>		<u>(26,895,580)</u>		<u>(14,687,669)</u>	
<b>Pooled investments:</b>						
Market value per unit, including excess endowment earnings funds:						
May 31, 1993	\$ 14.45					
May 31, 1992	\$ 13.54					
Net gain per unit	\$ 0.91					
Percent gain per unit	6.76%					
<b>Total earnings, exclusive of gains</b>	<u>\$ 11,507,466</u>					
Total earnings per current year average units outstanding	\$ 0.79					
Total earnings as a percent of average current market values	5.63%					
<b>Total performance for year</b>	<u>12.39%</u>					

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

See accompanying auditors' report.



Revenue and Expenditures of Certain Dormitories and Dining Facilities (1)  
Year Ended May 31, 1993

	1956 Dormitory Bonds					1962 Dormitory Bonds				
	Bigelow	Dayton	Turck	Wallace	Total	Doty	Dupre	Kirk	Dining	Total
Operating revenue (2)	\$ 237,398	235,210	276,782	280,064	1,029,454	328,200	579,778	313,978	2,065,530	3,287,486
Operating expenditures (3);										
Direct charges for repair & maintenance	10,499	14,457	18,984	20,565	64,505	39,949	45,572	28,002	28,551	142,074
Contract food services	-	-	-	-	-	-	-	-	1,298,272	1,298,272
Allocated expenditures for salaries & staff benefits (4)	54,939	29,582	38,035	63,391	185,947	71,843	97,200	59,165	-	228,208
Allocated expenditures for materials, supplies and & other services (4)	119,299	59,650	79,533	139,915	398,397	149,124	209,507	129,241	89,474	577,346
Total expenditures	184,737	103,689	136,552	223,871	648,849	260,916	352,279	216,408	1,416,297	2,245,900
Excess of revenue over expenditures	\$ 52,661	131,521	140,230	56,193	380,605	67,284	227,499	97,570	649,233	1,041,586

- (1) Includes all dormitories and dining facilities financed by the 1956 and 1962 dormitory bonds, both bond issues being between Macalester College and the United States Housing and Home Finance Administrator.
- (2) Operating revenue of the individual dormitories is determined by multiplying the average number of occupants by the per student rental charge.
- (3) Does not include depreciation expense.
- (4) Expenditures are allocated on a square footage basis.

See accompanying auditors' report.

Analysis of Revenue Fund Accounts, Bond and Interest Sinking Fund Account  
and Repair and Replacement Reserve Account  
Year Ended May 31, 1993

	1956 Dormitory Bonds		1962 Dormitory Bonds		
	Revenue Fund Account	Bond and Interest Sinking Fund Account	Revenue Fund Account	Bond and Interest Sinking Fund Account	Repair and Replacement Reserve Account
Balance at May 31, 1992	\$ -	77,220	\$ -	294,484	421,244
Revenue:					
Operating revenue (Schedule 2)	1,029,454	-	3,287,486	-	-
Investment income	-	3,013	-	15,167	19,764
Total revenue	1,029,454	3,013	3,287,486	15,167	19,764
Expenditures:					
Repair and replacement expenditures	-	-	-	-	-
Operating expenditures (Schedule 2)	648,849	-	2,245,900	-	-
Debt Service:					
Principal	-	30,000	-	100,000	-
Interest	-	3,685	-	38,138	-
Total expenditures	648,849	33,685	2,245,900	138,138	-
Transfers:					
From revenue fund accounts to sinking fund accounts	(33,685)	33,685	(138,138)	138,138	-
From revenue fund account to repair and replacement reserve account	-	-	0	-	30,000
To current unrestricted fund from revenue fund accounts and sinking fund accounts	(346,920)	(3,013)	(903,448)	(15,167)	-
Total transfers	(380,605)	30,672	(1,041,586)	122,971	30,000
Balance at May 31, 1993*	\$ -	77,220	\$ -	294,484	471,008

\*Based upon original cost of investments in the bond and interest sinking fund accounts, the College's carrying value of these two sinking fund accounts at May 31, 1993 was \$469,261.

See accompanying auditors' report.

Analysis of Revenue Fund Accounts, Debt Service Accounts  
and Repair and Replacement Reserve Accounts  
Year Ended May 31, 1993

	CHMN 112 Mortgage			CHMN 122 Mortgage		
	Revenue Fund Account	Debt Service Account	Repair and Replacement Reserve Account	Revenue Fund Account	Debt Service Account	Repair and Replacement Reserve Account
Balance at May 31, 1992	\$ -	5,338	21,356	-	18,439	38,020
Revenue:						
Operating revenue	53,686	-	-	24,039,392	-	-
Investment income	-	-	-	-	-	-
Total revenue	53,686	-	-	24,039,392	-	-
Expenditures:						
Repair and replacement expenditures	-	-	-	-	-	-
Operating expenditures	32,763	-	-	-	-	-
Debt Service:						
Principal	-	3,839	-	-	13,024	-
Interest	-	4,701	-	-	16,479	-
Total expenditures	32,763	8,540	-	-	29,503	-
Transfers:						
From revenue fund accounts to debt service accounts	(8,540)	8,540	-	(29,503)	29,503	-
From revenue fund account to repair and replacement reserve account	(1,982)	-	1,982	(6,820)	-	6,820
To current unrestricted fund from revenue fund accounts	(10,401)	-	-	(24,003,069)	-	-
From repair & replacement reserve to debt service reserve	-	-	-	-	-	-
Total transfers	(20,923)	8,540	1,982	(24,039,392)	29,503	6,820
Balance at May 31, 1993	\$ -	5,338	23,338	-	18,439	44,840

See accompanying auditors' report.

## MACALESTER COLLEGE

### Insurance Coverage

Year ended May 31, 1993

Pursuant to covenants in the 1956 and 1962 dormitory bond indentures and the College Housing Program mortgages payable, the College is required to maintain minimum levels of insurance coverage on certain dormitories and dining facilities. These minimum levels of insurance coverage were maintained during the year ended May 31, 1993.

See accompanying auditors' report.