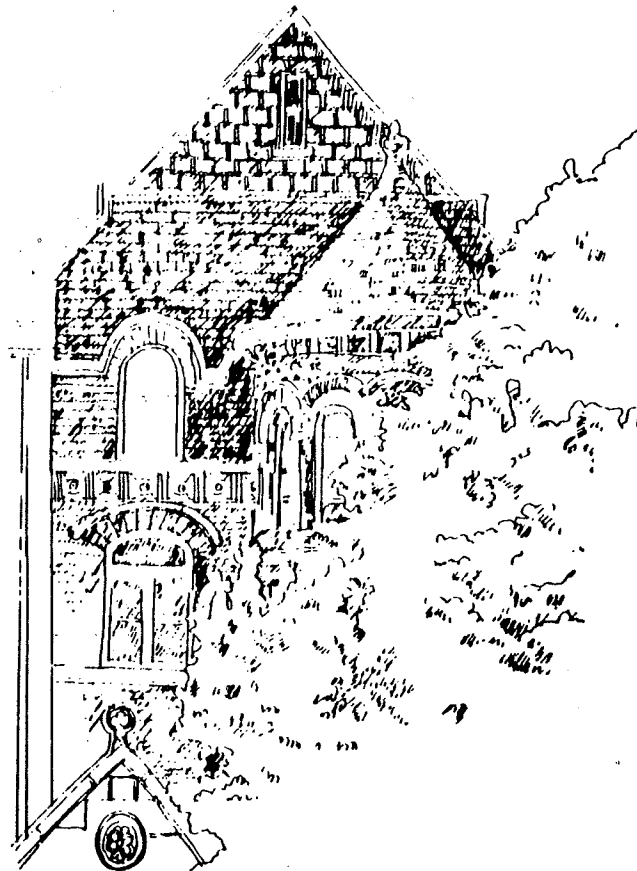


# MACALESTER COLLEGE



**ANNUAL FINANCIAL STATEMENTS  
WITH AUDITORS OPINION  
FOR YEAR ENDED MAY 31, 1994**

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, 1994 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, 1994, 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 LLP*

August 12, 1994



Balance Sheet  
May 31, 1994  
with comparative figures at May 31, 1993

Assets	1994	1993
<b>Current funds:</b>		
Cash and cash equivalents	\$ 6,826,746	11,336,664
Notes and accounts receivable, net of allowance for doubtful receivables of \$176,253 (\$138,600 in 1993)	1,557,945	2,087,937
Accrued investment income	2,096,379	2,159,922
Prepaid expenses	283,282	196,227
Due from plant fund (note 7)	2,299,643	2,682,232
	\$ 13,063,995	18,462,982
<b>Loan funds:</b>		
Cash and cash equivalents	\$ 449,511	185,303
Investment in intermediate cash fund, at cost which approximates market	1,643,541	1,555,617
Notes and accounts receivable, net of allowance for doubtful receivables of \$480,384 (\$458,196 in 1993)	3,141,437	3,119,312
Accrued investment income	15,909	15,068
	\$ 5,250,398	4,875,300
<b>High Winds fund (note 8):</b>		
Real estate contracts & accounts receivable	\$ 120,616	130,479
Real estate, at cost	2,357,452	2,674,043
Due from plant fund	1,340,000	-
Due from other funds	53,753	306,532
	\$ 3,871,821	3,111,054
<b>Endowment and similar funds:</b>		
Cash and cash equivalents	\$ -	50,337
Investments, at cost (note 3)	110,676,733	96,026,471
Accrued investment income	58,161	26,323
Due from other funds	503,416	5,473,188
Net assets owned by DeWitt Wallace Fund for Macalester College (note 3)	262,145,139	262,145,139
	\$ 373,383,449	363,721,458
<b>Plant funds (note 7):</b>		
Cash and cash equivalents	\$ 186,890	122,332
Investments in U.S. Government securities, at cost which approximates market	1,812,591	3,150,607
Investment property	30,000	30,000
Other receivables	43,751	10,815
Debt financing costs	366,002	368,732
Due from other funds	1,268,364	1,029,637
Investment in plant:		
Land and land improvements	1,224,111	1,224,111
Buildings	72,654,943	65,784,201
Furniture and equipment	1,557,229	1,446,692
Accumulated depreciation	(15,954,806)	(14,214,272)
	59,481,477	54,240,732
	\$ 63,189,075	58,952,855

See accompanying notes to financial statements.

<u>Liabilities and Fund Balances</u>	<u>1994</u>	<u>1993</u>
<b>Current funds:</b>		
Accounts payable and accrued expenses	\$ 6,002,073	6,310,625
Student deposits	236,934	237,662
Due to other funds	1,591,679	6,703,931
Funds balances:		
Unrestricted:		
Undesignated	228,301	100,523
Designated	1,203,813	1,203,813
Restricted	3,801,195	3,906,428
Total fund balances	<u>5,233,309</u>	<u>5,210,764</u>
Total Current funds	<u>\$ 13,063,995</u>	<u>18,462,982</u>
<b>Loan funds:</b>		
Due to other funds	\$ 233,854	105,426
Fund balances - restricted:		
U.S. Government grants refundable	2,505,695	2,375,363
College funds	2,510,849	2,394,511
Total fund balances	<u>5,016,544</u>	<u>4,769,874</u>
Total Loan funds	<u>\$ 5,250,398</u>	<u>4,875,300</u>
<b>High Winds fund (note 8):</b>		
Rental deposits	\$ 4,215	9,923
Fund balance - restricted	3,867,606	3,101,131
Total High Winds fund	<u>\$ 3,871,821</u>	<u>3,111,054</u>
<b>Endowment and similar funds:</b>		
Contracts and other payables	\$ 831,527	375,600
Fund balances:		
DeWitt Wallace Fund for Macalester College (note 2)	262,145,139	262,145,139
Macalester College:		
Endowment and term endowment	77,847,511	70,344,525
Quasi-endowment:		
Unrestricted	17,835,430	16,618,740
Restricted	8,055,282	7,583,665
Annuity	839,769	808,948
Life Income	5,828,791	5,844,841
Subtotal-Macalester College	<u>110,406,783</u>	<u>101,200,719</u>
Total combined fund balances	<u>372,551,922</u>	<u>363,345,858</u>
Total Endowment and similar funds	<u>\$ 373,383,449</u>	<u>363,721,458</u>
<b>Plant funds (note 7):</b>		
Accounts payable and accrued expenses	\$ -	12,500
Due to current funds	2,299,643	2,682,232
Due to High Winds fund	1,340,000	-
Bonds, mortgages and note payable	17,363,933	17,512,303
Accrued interest payable	251,342	251,342
Fund balances:		
Unrestricted - unexpended	4,744,251	775,467
Restricted - unexpended:		
Donor	104,597	285,777
Debt reserve	712,599	649,106
Net investment in plant	36,372,710	36,784,128
Total fund balances	<u>41,934,157</u>	<u>38,494,478</u>
Total Plant funds	<u>\$ 63,189,075</u>	<u>58,952,855</u>

Statement of Changes in Fund Balances  
Year ended May 31, 1994

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

	Unrestricted Undesignated	Designated	Restricted	Loan Funds	High Winds Fund
Revenue and other additions:					
Unrestricted current fund revenues \$	34,170,199	-	-	-	-
Federal grants and contracts - restricted	-	-	1,371,240	157,416	-
State grants and contracts	-	-	688,847	-	-
Private gifts, grants and contracts - restricted	-	-	835,193	-	-
Endowment income - restricted	-	-	18,082,246	3,288	-
Sales and service of auxiliary enterprises - restricted	-	-	7,475	-	375,417
Other sources	-	-	298,204	4,561	4,175
Investment income - restricted	-	-	42,415	94,346	64,665
Realized gains on investments - restricted	-	-	-	-	808,289
Interest on loans receivable - restricted	-	-	-	89,650	9,840
Expended for plant facilities (including \$42,288 charged to current funds)	-	-	-	-	-
Retirement of indebtedness - Matured annuity funds	-	-	-	-	-
<b>Total revenues and other additions</b>	<b>\$ 34,170,199</b>	<b>0</b>	<b>21,325,620</b>	<b>349,261</b>	<b>1,262,386</b>
Expenditures and other deductions:					
Educational and general	\$ 21,621,914	-	20,868,246	-	-
Auxiliary enterprises	3,938,358	-	90,990	-	495,911
Loan cancellations	-	-	-	5,972	-
Administrative and collection costs	-	-	-	96,619	-
Expended for plant facilities	-	-	-	-	-
Depreciation expense	-	-	-	-	-
Paid to beneficiaries	-	-	-	-	-
Matured annuity funds	-	-	-	-	-
Interest on indebtedness	-	-	-	-	-
Retirement of indebtedness	-	-	-	-	-
<b>Total expenditures and other deductions</b>	<b>\$ 25,560,272</b>	<b>0</b>	<b>20,959,236</b>	<b>102,591</b>	<b>495,911</b>
Transfers among funds - additions (deductions):					
Mandatory:					
To plant:					
Principal and interest	\$ (983,631)	-	-	-	-
Renewals and replacements	(38,802)	-	-	-	-
Nonmandatory:					
Capital improvements	(7,098,204)	-	-	-	-
To quasi-endowment (note 5)	(361,512)	-	(471,617)	-	-
<b>Total transfers</b>	<b>\$ (8,482,149)</b>	<b>0</b>	<b>(471,617)</b>	<b>0</b>	<b>0</b>
Net increase (decrease) for the year	\$ 127,778	0	(105,233)	246,670	766,475
Fund balances at beginning of year	\$ 100,523	1,203,813	3,906,428	4,769,874	3,101,131
<b>Fund balances at end of year</b>	<b>\$ 228,301</b>	<b>1,203,813</b>	<b>3,801,195</b>	<b>5,016,544</b>	<b>3,867,606</b>

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	Restricted	Net Investment In Plant
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
313,891	-	-	463,556	-	-	164,614	-
890,000	-	-	-	-	-	16,595	-
-	-	-	-	-	-	-	-
-	-	-	69,017	409,490	505	17,200	-
-	-	-	-	-	-	156,780	-
6,264,662	846,416	-	7,661	10,155	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	884,156
8,032	-	-	-	-	-	-	444,960
-----							
7,476,585	846,416	0	540,234	419,645	505	355,189	1,329,116
-----							
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	41,698	35,360	-	-
-	-	-	-	-	2,570,802	344,427	-
-	-	-	-	-	-	-	1,740,534
-	-	-	501,381	393,997	-	-	-
-	-	-	8,032	-	-	-	-
-	-	-	-	-	165,471	967,349	-
-	-	-	-	-	358,292	148,370	-
-----							
0	0	0	509,413	435,695	3,129,925	1,460,146	1,740,534
-----							
-	-	-	-	-	-	983,631	-
-	-	-	-	-	-	38,802	-
-	-	-	-	-	7,098,204	-	-
26,401	841,891	-	-	-	-	(35,163)	-
-----							
26,401	841,891	0	0	0	7,098,204	987,270	0
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7,502,986	1,688,307	0	30,821	(16,050)	3,968,784	(117,687)	(411,418)
70,344,525	24,202,405	262,145,139	808,948	5,844,841	775,467	934,883	36,784,128
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77,847,511	25,890,712	262,145,139	839,769	5,828,791	4,744,251	817,196	36,372,710
=====							

Statement of Current Funds Revenues, Expenditures and Other Changes  
Year ended May 31, 1994  
with comparative figures for the year ended May 31, 1993

	1994			Total	1993 Total
	Unrestricted Undesignated	Unrestricted Designated	Restricted		
<b>Revenues:</b>					
Tuition and fees (note 7)	\$ 26,303,292	-	130,060	26,433,352	24,617,876
Federal grants and contracts	-	-	1,604,673	1,604,673	1,856,506
State grants and contracts	-	-	688,847	688,847	680,476
Private gifts, grants and contracts	1,484,167	-	1,055,648	2,539,815	2,972,226
Endowment income	938,348	-	17,261,974	18,200,322	15,986,489
Investment income	309,497	-	42,415	351,912	316,813
Realized net gains (losses) on investments	(10,714)	-	-	(10,714)	419,935
Sales and services of auxiliary enterprises	4,941,526	-	7,475	4,949,001	4,879,055
Other sources	204,083	-	168,144	372,227	463,320
Matured life income	-	-	-	-	49,285
<b>Total revenues</b>	<b>34,170,199</b>	<b>-</b>	<b>20,959,236</b>	<b>55,129,435</b>	<b>52,241,981</b>
<b>Expenditures and mandatory transfers:</b>					
<b>Educational and general:</b>					
Instruction	5,583,719	-	8,252,292	13,836,011	12,727,805
Research	-	-	527,482	527,482	541,724
Public service	207,399	-	83,862	291,261	232,334
Academic support	2,116,361	-	721,329	2,837,690	2,494,518
Student services	3,836,261	-	1,355,495	5,191,756	4,645,231
Institutional support	5,656,488	-	408,400	6,064,888	5,219,594
Operation and maintenance of plant	2,605,785	-	86,281	2,692,066	2,569,254
Student aid, scholarships and prizes	1,615,901	-	9,433,105	11,049,006	9,726,751
<b>Educational and general expenditures</b>	<b>21,621,914</b>	<b>-</b>	<b>20,868,246</b>	<b>42,490,160</b>	<b>38,157,211</b>
<b>Mandatory transfers for:</b>					
Endowment	-	-	-	-	59,897
Principal and interest	776,979	-	-	776,979	1,027,449
Plant fund	-	-	-	-	345,455
<b>Total educational and general</b>	<b>22,398,893</b>	<b>-</b>	<b>20,868,246</b>	<b>43,267,139</b>	<b>39,590,012</b>
<b>Auxiliary enterprises:</b>					
Expenditures	3,938,358	-	90,990	4,029,348	3,833,534
Mandatory transfer for:					
Principal and interest	206,652	-	-	206,652	207,163
Renewals and replacements	38,802	-	-	38,802	38,802
<b>Total auxiliary enterprises</b>	<b>4,183,812</b>	<b>-</b>	<b>90,990</b>	<b>4,274,802</b>	<b>4,079,499</b>
<b>Total expenditures &amp; mandatory transfers</b>	<b>26,582,705</b>	<b>-</b>	<b>20,959,236</b>	<b>47,541,941</b>	<b>43,669,511</b>
<b>Other transfers and additions (deductions):</b>					
Excess of restricted additions over expenditures	-	-	366,384	366,384	1,067,573
Transfers to plant funds	(7,098,204)	-	-	(7,098,204)	(1,025,264)
Transfers to quasi-endowment funds	(361,512)	-	(471,617)	(833,129)	(8,354,687)
<b>Net increase (decrease) in fund balance</b>	<b>\$ 127,778</b>	<b>0</b>	<b>(105,233)</b>	<b>22,545</b>	<b>260,092</b>

See accompanying notes to financial statements.

# MACALESTER COLLEGE

## Notes to Financial Statements

May 31, 1994

### (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.

Reclassification

Certain amounts in the 1993 financial statements have been reclassified to conform to the 1994 presentation. These changes had no effect on fund balances.

(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, 1994, the market value of the net assets of the Fund was approximately at \$369,552,000 (\$365,619,000 principal, and \$3,933,000 of undistributed income). Income from the Fund is granted 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 1994 total \$59,905,059. This sum includes a grant of \$14,120,000 for the fiscal year ended May 31, 1994.

As of May 31, 1994, \$118,390,769 (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, 1994 (with comparative values at May 31, 1993) 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>1994</u>	<u>1993</u>
Macalester College (at market)		
Cash equivalents	\$ 7,148,684	11,935,006
Common stocks	77,990,910	73,546,652
Preferred stocks	7,241,193	6,079,770
Corporate bonds	33,169,374	34,566,953
U.S. Government obligations	95,115,869	100,654,839
Real estate, private equity, other	<u>12,047,843</u>	<u>3,465,236</u>
Subtotal market	232,713,873	230,248,456
Less units of Macalester endowment held by DeWitt Wallace Fund for Macalester College	<u>(118,390,769)</u>	<u>(118,228,260)</u>
Total market	<u>\$114,323,104</u>	<u>112,020,196</u>
Total cost	<u>\$110,676,733</u>	<u>96,026,471</u>
DeWitt Wallace Fund for Macalester College (at market)		
Common stock	\$247,228,365	255,047,334
Units in the Macalester College endowment	<u>118,390,769</u>	<u>118,228,260</u>
Total market	<u>\$365,619,134</u>	<u>373,275,594</u>
Total cost	<u>\$262,145,139</u>	<u>262,145,139</u>

Included in the market value of preferred stocks at May 31, 1994, is \$7,241,193 relating to 88,684 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, 1994, is \$247,228,365 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 \$8,872,000 which is controlled by independent trustees. For the year ended May 31, 1994, the College received \$190,503 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, 1994, a spending rate approximating 5.58% was used based upon a sixteen-quarter moving average of investment market value. Endowment income in excess of the spending rate is transferred to quasi-endowment, where it is unitized. Endowment income is shown at actual earnings on the Statement of Changes in Fund Balances.

Earnings of \$530,728 in excess of the spending rate for the year ended May 31, 1994 (\$59,111 of unrestricted funds and \$471,617 of restricted funds) have been transferred from current funds to quasi-endowment.

Excess income of the DeWitt Wallace Fund's participation in the pooled endowment is granted annually to the College. The 1993/94 grant was \$890,000, reported as endowment income in the True and Term Endowment Fund Group.

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

(6) Pledges

At May 31, 1994, the College had pledges outstanding from individuals, corporations and foundations totalling approximately \$857,487. These gifts will be reflected in the financial statements of the College when received.

(Continued)

## MACALESTER COLLEGE

## Notes to Financial Statements, Continued

(7) Plant Funds

Bonds, mortgages and notes payable of the plant funds at May 31, 1994 consist of the following:

Macalester College Dormitory Bonds of 1956 2-3/4%, final series due November 1, 1996 (original amount \$800,000)	\$ 88,000
Macalester College Dormitory Bonds of 1962 3-3/8%, final series due May 1, 2002 (original amount \$2,850,000)	930,000
College Housing Program Mortgages at 3%, due in semi-annual installments of \$19,022 including interest, through 2020 (original amount \$880,200)	675,933
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>\$17,363,933</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, 1994) 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 \$445,115. 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.

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.

(Continued)

## MACALESTER COLLEGE

## Notes to Financial Statements, Continued

(7) Plant Funds, Continued

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 \$9,738,169.

As of May 31, 1994, capital expenditures financed by this debt issue totaling \$9,668,251 had been made.

Annual debt commitments (principal) at May 31, 1994, are as follows:

<u>Fiscal year ending May 31.</u>	<u>Amount</u>
1995	149,895
1996	160,437
1997	337,994
1998	324,568
1999	335,158
after 1999	<u>16,055,881</u>
	<u>\$17,363,933</u>

In September of 1994, \$6,660,000 of variable rate demand revenue bonds will be issued on behalf of the College, by the Minnesota Higher Education Facilities Authority (MHEFA). The bonds will be initially issued with a weekly maturity and rate reset, but longer maturities as well as a fixed rate are optional.

Proceeds of the issue will be used to finance various campus improvements and an athletic field expansion. Loan repayments associated with the bonds will be general obligations of the College, with interest payable monthly (semi-annual if converted to fixed), and principal payable at maturity, on March 1, 2024.

Over the past seven years the Plant fund has borrowed funds totaling \$3,101,236 from Current funds to finance renovations and equipment acquisitions. These interfund loans bear interest at a rate equivalent to the average Current funds investment rate. Interest expense, as well as annual principal repayments, are recognized in the Plant fund. The principal balance on May 31, 1994 is \$2,299,643. In addition to the above interfund loan, 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.

During the year ended May 31, 1994, the Plant fund purchased property from the High Winds fund at a total cost of \$1,548,500, for an expansion of campus athletic fields. An interfund debt of \$1,340,000 was established, and is payable on September 15, 1996 (see note 8).

Total interest costs on plant funds debt aggregated \$1,132,820 (\$167,504 due to interfund borrowing) during the year ended May 31, 1994.

(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 37 properties surrounding the College campus.

During the year ended May 31, 1994, 20 properties were sold to the Plant fund, for a total of \$1,548,500, with \$1,340,000 payable on September 15, 1996. This amount appears as an interfund debt, and is interest bearing (\$1,080,000 at 7% and \$260,000 at 8%). The High Winds fund realized a gain of \$808,289 on this transaction.

During the year ended May 31, 1994, the High Winds fund charged current funds approximately \$100,805 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, 1994 was approximately \$202,621.

Total pension expense for the year ended May 31, 1994 was \$1,334,908 including \$37,369 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, 1994

	Pooled Funds		Nonpooled Funds		Total Endowment Funds	
	Market	Cost	Market	Cost	Market	Cost
<b>Net assets at May 31, 1994:</b>						
Common stock	\$ 72,922,305	64,390,220	247,246,762	157,137,893	320,169,067	221,528,113
Preferred stocks	7,241,193	4,497,895	-	-	7,241,193	4,497,895
Corporate bonds	30,336,870	29,061,719	-	-	30,336,870	29,061,719
U.S. Government obligations	94,031,708	91,733,567	53,943	54,245	94,085,651	91,787,812
Real estate	3,352,000	3,482,080	-	-	3,352,000	3,482,080
Other (including uninvested cash)	15,753,020	15,526,592	-	-	15,753,020	15,526,592
	223,637,096	208,692,073	247,300,705	157,192,138	470,937,801	365,884,211
<b>Net assets at May 31, 1993</b>	217,335,758		259,020,218		476,355,976	
<b>Increase (decrease) in net assets</b>	6,301,338		(11,719,513)		(5,418,175)	
<b>Less:</b>						
Initial market value of additions	6,166,377		(4,086,162)		2,080,215	
<b>Net gains (losses) for year</b>	\$ 134,961		(7,633,351)		(7,498,390)	
<b>Net gains (losses) for the year consist of:</b>						
Realized net gains	\$ 6,264,662		846,416		7,111,078	
Unrealized net gains (losses)	(6,129,701)		(8,479,767)		(14,609,468)	
<b>Total net gains (losses) for year</b>	\$ 134,961		(7,633,351)		(7,498,390)	
<b>Pooled investments:</b>						
Market value per unit, including excess endowment earnings funds:						
May 31, 1994	\$ 14.47					
May 31, 1993	14.45					
<b>Net gain per unit</b>	\$ 0.02					
<b>Percent gain per unit</b>	0.14%					
<b>Total earnings, exclusive of gains</b>	\$ 11,810,338					
<b>Total earnings per current year average units outstanding</b>	\$ 0.77					
<b>Total earnings as a percent of average current market values</b>	5.21%					
<b>Total performance for year</b>	5.35%					

\* - 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, 1994

	1956 Dormitory Bonds					1962 Dormitory Bonds				
	Bigelow	Dayton	Turck	Wallace	Total	Doty	Dupre	Kirk	Dining	Total
Operating revenue (2)	\$ 244,530	243,360	293,670	299,520	1,081,080	338,130	592,084	334,620	2,066,355	3,331,189
Operating expenditures (3);										
Direct charges for repair & maintenance	10,265	11,064	25,349	43,235	89,913	36,236	73,123	21,382	38,246	168,987
Contract food services	-	-	-	-	-	-	-	-	1,374,093	1,374,093
Allocated expenditures for salaries & staff benefits (4)	56,832	30,602	39,345	65,576	192,355	74,319	100,549	61,204	-	236,072
Allocated expenditures for materials, supplies and & other services (4)	121,374	60,687	80,916	142,335	405,312	151,717	213,137	131,488	91,030	587,372
Total expenditures	188,471	102,353	145,610	251,146	687,580	262,272	386,809	214,074	1,503,369	2,366,524
Excess of revenue over expenditures	\$ 56,059	141,007	148,060	48,374	393,500	75,858	205,275	120,546	562,986	964,665

- (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, 1994

	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, 1993	\$ -	77,220	\$ -	294,484	471,008
Revenue:					
Operating revenue (Schedule 2)	1,081,080	-	3,331,189	-	-
Investment income	-	4,750	-	23,264	25,757
Total revenue	1,081,080	4,750	3,331,189	23,264	25,757
Expenditures:					
Repair and replacement expenditures	-	-	-	-	-
Operating expenditures (Schedule 2)	687,580	-	2,366,524	-	-
Debt Service:					
Principal	-	31,000	-	100,000	-
Interest	-	2,846	-	34,763	-
Total expenditures	687,580	33,846	2,366,524	134,763	-
Transfers:					
From revenue fund accounts to sinking fund accounts	(33,846)	33,846	(134,763)	134,763	-
From revenue fund account to repair and replacement reserve account	-	-	-	-	30,000
To current unrestricted fund from revenue fund accounts and sinking fund accounts	(359,654)	(4,750)	(829,902)	(23,264)	-
Total transfers	(393,500)	29,096	(964,665)	111,499	30,000
Balance at May 31, 1994*	\$ -	77,220	\$ -	294,484	526,765

\*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, 1994 was \$445,115.

See accompanying auditors' report.

Analysis of Revenue Fund Accounts, Debt Service Accounts  
and Repair and Replacement Reserve Accounts  
Year Ended May 31, 1994

	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, 1993	\$ -	5,338	23,338	-	18,439	44,840
Revenue:						
Operating revenue	53,260	-	-	25,865,603	-	-
Investment income	-	-	-	-	-	-
<b>Total revenue</b>	<b>53,260</b>	<b>-</b>	<b>-</b>	<b>25,865,603</b>	<b>-</b>	<b>-</b>
Expenditures:						
Repair and replacement expenditures	-	-	-	-	-	-
Operating expenditures	36,196	-	-	-	-	-
Debt Service:						
Principal	-	3,955	-	-	13,415	-
Interest	-	4,585	-	-	16,088	-
<b>Total expenditures</b>	<b>36,196</b>	<b>8,540</b>	<b>-</b>	<b>-</b>	<b>29,503</b>	<b>-</b>
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	(6,542)	-	-	(25,829,280)	-	-
From repair & replacement reserve to debt service reserve	-	-	-	-	-	-
<b>Total transfers</b>	<b>(17,064)</b>	<b>8,540</b>	<b>1,982</b>	<b>(25,865,603)</b>	<b>29,503</b>	<b>6,820</b>
Balance at May 31, 1994	\$ -	5,338	25,320	-	18,439	51,660

See accompanying auditors' report.

## MACALESTER COLLEGE

### Insurance Coverage

Year ended May 31, 1994

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, 1994.

See accompanying auditors' report.