

MACALESTER COLLEGE



ANNUAL FINANCIAL STATEMENTS
WITH AUDITORS OPINION
FOR YEAR ENDED MAY, 31 1996

4200 Norwest Center
90 South Seventh Street
Minneapolis, MN 55402

Independent Auditors' Report

The Board of Trustees
Macalester College:

We have audited the accompanying statement of financial position of Macalester College (the College) as of May 31, 1996 and the related statements of activities and cash flows 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 and *Government Auditing Standards* issued by the Comptroller General of the United States. 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, 1996, and the changes in its net assets and its cash flows for the year then ended in conformity with generally accepted accounting principles.

In accordance with *Government Auditing Standards*, we have also issued a report dated August 2, 1996 on our consideration of Macalester College's internal control structure and a report dated August 2, 1996 on its compliance with laws and regulations.

As discussed in note 2 to the financial statements, the College adopted the provisions of the Financial Accounting Standards Board's Statements of Financial Accounting Standards (SFAS) No. 116, *Accounting for Contributions Received and Contributions Made*, SFAS No. 117, *Financial Statements of Not-For-Profit Organizations*, and SFAS No. 124, *Accounting for Certain Investments Held by Not-For-Profit Organizations*, during the year.

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 2, 1996



Member Firm of
KPMG International

Macalester College

Statement of Financial Position

May 31, 1996 with comparative figures at May 31, 1995

(in thousands of dollars)

	<u>Operations</u>	<u>Investments</u>	<u>Plant</u>	<u>1996 Total</u>	<u>1995 Total</u>
Assets					
Cash and cash equivalents	\$ 7,364	1,196	10,514	19,074	\$ 17,799
Accrued investment income	2,215	62	47	2,324	2,355
Prepaid expenses	301	-	706	1,007	760
Notes and accounts receivable, net of allowance for doubtful receivables of \$700 (\$636 in 1995)	1,890	3,402	-	5,292	5,234
Pledges receivable	560	1,994	2,021	4,575	-
Long-term investments	-	141,598	-	141,598	124,624
Real estate	-	1,999	-	1,999	4,938
Land, building and equipment, net of accumulated depreciation	-	-	76,254	76,254	62,437
Investments owned by DeWitt Wallace Fund for Macalester College	-	384,175	-	384,175	371,620
Total assets	\$ 12,330	534,426	89,542	636,298	\$ 589,767
Liabilities and net assets					
Accounts payable and accrued expenses	\$ 6,749	2,077	425	9,251	\$ 8,050
Deposits	388	2	-	390	323
Agency deposits	88	-	-	88	214
Government grants refundable	-	3,045	-	3,045	2,941
Bonds and mortgages payable	-	-	34,959	34,959	23,874
Total liabilities	7,225	5,124	35,384	47,733	35,402
Net assets					
Unrestricted					
For operations	2,241	-	-	2,241	2,016
For investment in plant	-	-	5,906	5,906	5,592
For long term investments	-	40,765	-	40,765	37,863
For debt service	-	-	1,034	1,034	880
Net investment in plant	-	-	43,743	43,743	40,561
Unrealized gain on investments	-	12,074	-	12,074	9,349
Total unrestricted	2,241	52,839	50,683	105,763	96,261
Temporarily restricted					
For operations	2,864	-	-	2,864	2,775
For investment in plant	-	-	3,475	3,475	315
For long term investments	-	9,303	-	9,303	8,952
Total temporarily restricted	2,864	9,303	3,475	15,642	12,042
Permanently restricted					
For long term investments	-	349,225	-	349,225	337,146
Unrealized gain on investments	-	117,935	-	117,935	108,916
Total permanently restricted	-	467,160	-	467,160	446,062
Total net assets	5,105	529,302	54,158	588,565	554,365
Total liabilities and net assets	\$ 12,330	534,426	89,542	636,298	\$ 589,767

See accompanying notes to financial statements.

Macalester College

Statement of Activities

Year ended May 31, 1996 with

comparative figures at May 31, 1995

(in thousands of dollars)

	Operations	Investments	Plant	1996 Total	1995 Total
Changes in unrestricted net assets:					
Revenue:					
Tuition and fees	\$ 28,500	-	-	28,500	\$ 27,504
Less: Student Aid and Scholarship	(11,602)	-	-	(11,602)	(10,914)
Net tuition and fees	16,898	-	-	16,898	16,590
Federal grants and contracts	937	-	-	937	1,184
State grants and contracts	38	-	-	38	23
Private gifts and grants	1,633	-	-	1,633	1,545
Endowment income	1,212	-	-	1,212	1,131
Sales and service of auxiliary enterprises	5,584	-	-	5,584	5,172
Other sources	497	-	20	517	465
Investment income	361	-	237	598	491
Realized gains on investments	(5)	2,072	-	2,067	732
Unrealized gains on investments	-	2,726	-	2,726	2,404
Net assets released from restrictions	22,010	1,940	39	23,989	22,195
Total revenue	49,165	6,738	296	56,199	51,932
Expenses:					
Instruction	14,730	-	744	15,474	14,372
Research	735	-	-	735	546
Public service	366	-	23	389	308
Academic support	3,385	-	283	3,668	3,431
Student services	6,026	-	889	6,915	6,298
Institutional support	6,429	-	919	7,348	7,030
Operation and maintenance of plant	2,853	-	2,890	5,743	4,798
Auxiliary enterprises	4,419	212	563	5,194	5,211
Administration and other expenses	-	41	54	95	127
Paid to beneficiaries	-	1,687	-	1,687	689
Total expenses	38,943	1,940	6,365	47,248	42,810
Transfers among reporting categories:					
Principal and interest	(1,822)	-	1,822	-	-
Renewals and replacements	(39)	-	39	-	-
Capital improvements	(7,940)	-	7,940	-	-
Long-term investments	(748)	830	(82)	-	-
Total transfers	(10,549)	830	9,719	-	-
Increase in unrestricted net assets before cumulative effect of change in accounting principles					
	(327)	5,627	3,650	8,951	9,122
Cumulative effect of change in accounting principles					
	552	-	-	552	-
Increase in unrestricted net assets					
	225	5,627	3,650	9,503	9,122
Unrestricted net assets beginning of year					
	2,016	47,212	47,033	96,261	87,139
Unrestricted net assets at end of year					
	\$ 2,241	52,839	50,683	105,764	\$ 96,261

(continued)

See accompanying notes to financial statements.

Macalester College
Statement of Activities
(in thousands of dollars)

	Operations	Investments	Plant	1996 Total	1995 Total
Changes in temporarily restricted net assets:					
Federal grants and contracts	\$ -	-	500	500	\$ -
Private gifts and grants	545	-	1,717	2,262	1,935
Endowment income	21,837	-	19	21,856	20,192
Other sources	4	-	-	4	10
Investment income	51	-	-	51	46
Net assets released from restrictions	(22,010)	-	(39)	(22,049)	(20,888)
Transfers among reporting categories	(351)	351	-	-	-
Net change in temporarily restricted net assets before cumulative effect of change in accounting principles	76	351	2,197	2,624	1,295
Cumulative effect of change in accounting principles	13	-	963	976	-
Net change in temporarily restricted net assets	89	351	3,160	3,600	1,295
Temporarily restricted net assets beginning of year	2,775	8,952	315	12,042	10,747
Temporarily restricted net assets at end of year	\$ 2,864	9,303	3,475	15,642	\$ 12,042
Changes in permanently restricted net assets:					
Private gifts and grants	\$ -	4,610	-	4,610	\$ 578
Endowment income	-	846	-	846	545
Sales and service of auxiliary enterprises	-	199	-	199	365
Other sources	-	8	-	8	10
Investment income	-	880	-	880	690
Realized gains on investments	-	7,448	-	7,448	1,628
Unrealized gains on investments	-	9,020	-	9,020	6,881
Interest on loans receivable	-	27	-	27	31
Net assets released from restrictions	-	(1,940)	-	(1,940)	(1,307)
Net change in permanently restricted net assets	0	21,098	0	21,098	9,421
Permanently restricted net assets beginning of year	0	446,062	0	446,062	436,641
Permanently restricted net assets at end of year	\$ 0	467,160	0	467,160	\$ 446,062

See accompanying notes to financial statements.

Macalester College
Statement of Cash Flows
May 31, 1996
(in thousands of dollars)

Cash flows from operating activities	
Change in total net assets	\$ 34,200
Adjustments to reconcile change in net assets to net cash provided by operating activities:	
Depreciation	2,011
Realized gain on sale of investments	(8,204)
Unrealized gain on sale of investments	(11,746)
Net gain on sale of real estate	(1,316)
Increase in payable to annuity and life income beneficiaries	(1,059)
Private gifts, grants and other income restricted for long term investment	(2,637)
Decrease in accrued investment income	31
Increase in prepaid expenses	(87)
Increase in notes and accounts receivable	(58)
Increase in pledges receivable	(4,575)
Increase in accounts payable and accrued expenses	1,201
Increase in deposits	67
Decrease in agency deposits	(126)
Net cash provided by operating activities	<u>7,702</u>
Cash flows from investing activities:	
Proceeds from sale of investments	85,930
Purchase of investments	(94,235)
Purchase of real estate	(64)
Purchase of land, building and equipment	(12,783)
Net cash used in investing activities	<u>(21,152)</u>
Cash flows from financing activities:	
Proceeds from issuance of bond payable	11,245
Principal payments on bonds payable	(160)
Payment of financing costs	(160)
Increase in government grant refundable	104
Increase in payable to annuity and life income beneficiaries	1,059
Private gifts, grants and other income restricted for long term investment	2,637
Net cash provided by financing activities	<u>14,725</u>
Net increase in cash and cash equivalents	1,275
Cash and cash equivalents at beginning of the year	17,799
Cash and cash equivalents at end of the year	<u>\$ 19,074</u>
Supplemental disclosure - cash paid for interest	<u>\$ 1,430</u>

See accompanying notes to financial statements.

MACALESTER COLLEGE

Notes to Financial Statements

May 31, 1996

(in thousands of dollars)

1) Background and Organization

Macalester College (the College) is a highly selective, four year, coeducational, private liberal arts college. Founded in 1874, the College is located in the urban setting of Saint Paul, Minnesota, and is affiliated with the Presbyterian Church (USA). The College offers a variety of four year programs leading to a Bachelor of Arts degree and is accredited by the North Central Association of Colleges and Secondary Schools and the National Council for Accreditation of Teacher Education.

2) Summary of Significant Accounting Policies

Basis of Presentation

During fiscal year 1996, the College adopted Statement of Financial Accounting Standards No. 116, *Accounting for Contributions Received and Contributions Made* (SFAS 116), Statement of Financial Accounting Standards No. 117, *Financial Statements of Not-for-Profit Organizations* (SFAS 117) and Statement of Financial Accounting Standards No. 124, *Accounting for Certain Investments Held by Not-for-Profit Organizations* (SFAS 124). SFAS 116 generally requires that contributions received, including unconditional promises to give, be recognized as increases in net assets in the period received at their fair values. SFAS 117 requires that the College display its activities and net assets into three classes as follows: unrestricted, temporarily restricted and permanently restricted. Additionally, it is required to present a statement of cash flows. SFAS 124 requires that the College report investments on a current market basis. The College adopted SFAS 117 and SFAS 124 effective June 1, 1995, and restated its originally reported fiscal year 1995 financial statements to conform to the new standards. The College prospectively adopted the provisions of SFAS 116, which is shown as a cumulative effect of change in accounting principles.

The accompanying financial statements, which are presented on the accrual basis of accounting, have been prepared to focus on the College as a whole and to present balances and transactions according to the existence or absence of donor imposed restrictions. Accordingly, net assets and changes therein are classified as follows:

Permanently restricted net assets--Net assets subject to donor imposed stipulations that they be maintained permanently 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.

Temporarily restricted net assets--Net assets subject to donor imposed stipulations that restrict their use to a specific purpose and/or the passage of time.

Unrestricted net assets--Net assets not subject to donor imposed stipulations. Certain of these amounts have been designated by the board for endowment.

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MACALESTER COLLEGE

Notes to Financial Statements

(in thousands of dollars)

Revenues are reported as increases in unrestricted net assets unless use of the related assets is limited by donor imposed restrictions. Donor restricted contributions whose restrictions are met in the same year as the gift is made are reported as temporarily restricted contributions in the current year. Expirations of temporary 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 reclassifications between the applicable classes of net assets. Expenses are reported as decreases in unrestricted net assets. Gains and losses on investments and other assets or liabilities are reported as increases or decreases in unrestricted net assets unless their use is restricted by explicit donor stipulations.

Contributions, including unconditional promises to give, are recognized as revenues 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 they become unconditional, that is, when 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 the balance sheet date are discounted at an appropriate discount rate commensurate with the risks involved. Amortization of discount is recorded as additional contribution revenue in accordance with donor imposed restriction, if any, on the contributions.

Dividends, interest, and net gains, both realized and unrealized, on investments of endowment and similar funds are reported as follows:

- as increases in permanently restricted net assets if the terms of the gift or the College's interpretation of relevant state law require that they be added to the principal of a permanent endowment fund;
- as increases in temporarily restricted net assets if the terms of the gift impose restrictions on the use of the income; and
- as increases in unrestricted net assets in all other cases.

Restatement of Prior Year Financial Information

The following summarizes the differences between June 1, 1994, fund balances as previously reported and the June 1, 1994, net assets reported herein:

Fund balances as previously reported at June 1, 1994	\$428,603
Government grants refundable - Perkins Loan Fund	(2,778)
Agency deposits	(276)
Unrealized gain on long-term investments	<u>108,978</u>
Restated net asset balance at June 1, 1994	<u>\$534,527</u>

(Continued)

MACALESTER COLLEGE

Notes to Financial Statements

(in thousands of dollars)

Cash and Cash Equivalents

Cash and cash equivalents include interest bearing money market accounts and short-term investments with an original maturity of less than three months.

Land Buildings and Equipment

Constructed and purchased property and equipment are carried at cost. Land, buildings and equipment donated to the College are stated at fair market value at date of donation. Long-lived assets, with the exception of land and artwork, are depreciated using the straight-line method over the estimated useful lives.

Bond Issue Costs

Bond issue costs are amortized using the straight-line method over the life of the associated bond issue.

Tax Status

The College 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.

Fair Value of Financial Instruments

The carrying amounts of cash and cash equivalents, accounts receivable, accounts payable and accrued expenses, and deposits approximate fair value because of the short maturity of these financial instruments. Pledges receivable and annuity contracts payable are recorded at fair value using appropriate discount rates. Long-term investments are carried at fair value, based upon values provided by an external investment manager or quoted market values.

A reasonable estimate of the fair value of the receivables from students under government loan programs and grants refundable to government for student loans could not be made because the notes receivable are not salable and can only be assigned to the U. S. government or its designees. The fair value of receivables from students under College loan programs approximates carrying value.

The carrying amount of bonds and mortgages payable approximates fair value.

Prior-year Comparative Information

The financial statements include certain prior-year comparative information. This comparative information has been restated to reflect the effects of the implementation of SFAS 117 and 124. Such information does not include a statement of cash flows to constitute a presentation in conformity with generally accepted accounting principles.

(Continued)

MACALESTER COLLEGE

Notes to Financial Statements

(in thousands of dollars)

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles 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.

3) 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 DeWitt Wallace-Reader's Digest Fund, the Lila Wallace-Reader's Digest Fund or The Reader's Digest Association, Inc., two of whom are 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, 1996, the market value of the net assets of the Fund was approximately \$388,827 (\$384,175 principal investments and \$4,652 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 1996 total \$92,500. This sum includes a grant of \$17,300 for fiscal year ended May 31, 1996.

As of May 31, 1996, \$131,734 (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 date May 24, 1990.

4) Long-term Investments, Including Those Assets Owned by The DeWitt Wallace Fund for Macalester College

The long-term investments include funds traditionally considered the endowment of the College as well as assets of funds for annuity and life income and loan funds. The allocations shown at market values are as follows:

	<u>1996</u>	<u>1995</u>
Macalester College (at market)		
Cash equivalents	\$ 7,837	\$ 7,501
Common stocks	86,628	68,768
International equity	18,960	16,790
Preferred stock	5,706	5,176
Corporate bonds	28,400	34,696
U.S. Government obligations	102,831	98,046
Real estate, private equity, other	<u>22,970</u>	<u>17,294</u>
Subtotal market	<u>\$273,332</u>	<u>\$248,271</u>

(Continued)

MACALESTER COLLEGE

Notes to Financial Statements

(in thousands of dollars)

Less units of Macalester endowment owned by DeWitt Wallace Fund for Macalester College	<u>(131,734)</u>	<u>(123,647)</u>
Total market	<u>\$141,598</u>	<u>\$124,624</u>
DeWitt Wallace Fund for Macalester College (at market)		
Common stock	\$252,441	\$247,973
Units in the Macalester College endowment	<u>131,734</u>	<u>123,647</u>
Total market	<u>\$384,175</u>	<u>\$371,620</u>
Total market of long-term investments	<u>\$525,773</u>	<u>\$496,244</u>
Total cost	<u>\$396,894</u>	<u>\$380,000</u>

Included in the market value of preferred stocks at May 31, 1996, is \$5,176 relating to 89,685 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.

5) Funds Held in Trust by Others

The College is the income beneficiary of a trust with an estimated value of \$9,944 which is controlled by independent trustees. For the year ended May 31, 1996, the College received \$346 from this trust. These assets do not appear on the financial statements of the College.

6) Valuation and Performance of Long-term Investment Funds, Including Those Assets Owned by 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. Quasi-endowment are funds designated by the Board of Trustees action to function as endowment.

(Continued)

MACALESTER COLLEGE

Notes to Financial Statements

(in thousands of dollars)

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, 1996, 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 Activities.

Earnings of \$407 in excess of the spending rate for the year ended May 31, 1996 (\$56 of unrestricted funds and \$351 of temporarily restricted funds) have been transferred from operating funds to quasi-endowment.

Excess income of the DeWitt Wallace Fund's participation in the pooled endowment is granted annually to the College. The 1995/96 grant was \$800, reported as endowment income in the activity of permanently restricted net assets.

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

7) Pledges Receivable

Pledges receivable consisted of the following at May 31, 1996:

Unconditional promises expected to be collected in:

Less than one year	\$ 742
One year to five years	4,427
Greater than five years	20
Less: Discount to present value	(614)
	<u>\$ 4,575</u>

8) Land, Building and Equipment

The following is a summary of the College's property and equipment::

	1996	1995
Land and land improvements	\$ 1,414	\$ 1,224
Buildings	80,690	77,007
Equipment	2,032	1,907
Construction in progress	11,720	-
	<u>\$95,856</u>	<u>\$80,138</u>
Less: Accumulated depreciation	(19,602)	(17,701)
	<u>\$76,254</u>	<u>\$62,437</u>

(Continued)

MACALESTER COLLEGE

Notes to Financial Statements

(in thousands of dollars)

9) Bonds and Mortgages Payable

Bonds and mortgages payable consist of the following:

	<u>1996</u>	<u>1995</u>
Macalester College Dormitory Bonds of 1956, 2-3/4%, final series due November 1, 1996 (original amount \$800)	\$ 24	\$ 56
Macalester College Dormitory Bonds of 1962, 3-3/8%, final series due May 1, 2002 (original amount \$2,850)	720	830
College Housing Program Mortgages at 3%, due in semi- annual installments of \$19,022 including interest, through 2020 (original amount \$880)	640	658
Minnesota Higher Education Facilities Authority Mortgage Revenue Bonds of 1992, 6.33% average, final series due 2022 (original amount \$15,670)	15,670	15,670
Minnesota Higher Education Facilities Authority variable rate demand revenue bond of 1994, weekly maturity and rate reset, 3.81% average for current fiscal year, total principal due 2024 (original amount \$6,660)	6,660	6,660
Minnesota Higher Education Facilities Authority Revenue Bond of 1995, 5.48% average, final series due 2016 (original amount \$11,245)	<u>11,245</u>	<u>---</u>
	<u>\$ 34,959</u>	<u>\$23,874</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 at May 31, 1996 and 1995) 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 \$452 and \$453 at May 31, 1996 and 1995, respectively. The 1962 indenture also requires the College to transfer \$30 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 at May 31, 1996 and 1995, and by pledges of gross stadium and tuition revenues.

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MACALESTER COLLEGE

Notes to Financial Statements

(in thousands of dollars)

In June of 1992, \$15,670 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, funded by bond sale proceeds.

The balance of the proceeds, net of issuance costs and issuance discounts of \$372, were used to retire the balance of MHEFA Revenue Bonds of 1985, and to finance campus improvements totaling \$9,738.

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 as well as a fixed rate are optional.

Proceeds of the issue were 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.

In November of 1995, \$11,245 of revenue bonds were issued on behalf of the College by MHEFA. The average maturity of the issued bonds was 12.4 years, at an average rate of 5.48%. The bonds were secured by a pledge by MHEFA.

Proceeds of the issue were used to finance renovation and expansion of the Rice/Olin Halls Science Facility.

Annual debt commitments (principal) at May 31, 1996, are as follows:

<u>Fiscal year ending May 31,</u>	<u>Amount</u>
1997	683
1998	685
1999	710
2000	636
2001	866
after 2001	<u>31,379</u>
	<u>\$34,959</u>

Total interest costs on plant funds debt aggregated \$1,579 and \$1,332 during the year ended May 31, 1996 and 1995, respectively.

(10) High Winds Fund

Included in the permanently restricted net assets are funds of High Winds. The High Winds Fund is subject to the provisions of an agreement between the College and a major

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MACALESTER COLLEGE

Notes to Financial Statements

(in thousands of dollars)

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. As of May 31, 1996, the High Winds Fund owned nine properties surrounding the College campus.

11) Retirement Plan

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, Vanguard Fiduciary Trust Company and Fortis Investors, Inc. 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, 1996 and 1995, was approximately \$273 and \$294, respectively.

Total pension expense for the year ended May 31, 1996, was \$1,458 including \$36 paid under the unfunded supplemental plan and for the year ended May 31, 1995, was \$1,417 including \$37 paid under the unfunded supplemental plan.

MACALESTER COLLEGE

Endowment Investment Performance*

Year Ended May 31, 1996

(in thousands of dollars except per unit value)

Schedule 1

	Pooled Funds		Nonpooled Funds		Total Endowment Funds	
	Market	Cost	Market	Cost	Market	Cost
Net assets at May 31, 1996:						
Common stock	\$ 97,526	72,683	252,466	157,140	349,992	229,823
Preferred stocks	5,706	4,565	-	-	5,706	4,565
Corporate bonds	25,067	24,052	-	-	25,067	24,052
U.S. Government obligations	101,930	98,644	66	66	101,996	98,710
Real estate	5,737	5,750	-	-	5,737	5,750
Other (including uninvested cash)	19,324	18,511	-	-	19,324	18,511
	<u>\$ 255,290</u>	<u>224,205</u>	<u>252,532</u>	<u>157,206</u>	<u>507,822</u>	<u>381,411</u>
Net assets at May 31, 1995	236,376		248,051		484,427	
Increase in net assets	\$ 18,914		4,481		23,395	
Less:						
Initial market value of additions	3,419		12		3,431	
Net gains for year	<u>\$ 15,495</u>		<u>4,469</u>		<u>19,964</u>	
Net gains for the year consist of:						
Realized net gains	\$ 7,001		0		7,001	
Unrealized net gains	8,494		4,469		12,963	
Total net gains for year	<u>\$ 15,495</u>		<u>4,469</u>		<u>19,964</u>	
Pooled investments:						
Market value per unit, including excess endowment earnings funds:						
May 31, 1996	\$ 16.11					
May 31, 1995	15.12					
Net gain per unit	\$ 0.99					
Percent gain per unit	<u>6.54%</u>					
Total earnings, exclusive of gains	<u>\$ 13,062</u>					
Total earnings per current year average units outstanding	<u>\$ 0.83</u>					
Total earnings as a percent of average current market values	<u>5.25%</u>					
Total performance for year	<u>11.79%</u>					

* - Including the DeWitt Wallace Fund for Macalester College (note 3)

See accompanying independent auditors' report.

MACALESTER COLLEGE
 Revenue and Expenditures of Certain Dormitories and Dining Facilities(1)
 Year Ended May 31, 1996

Schedule 2

	1956 Dormitory Bonds					1962 Dormitory Bonds				
	Bigelow	Dayton	Turck	Wallace	Total	Doty	Dupre	Kirk	Dining	Total
Operating revenue (2) \$	<u>268,840</u>	<u>279,180</u>	<u>346,390</u>	<u>334,758</u>	<u>1,229,168</u>	<u>395,217</u>	<u>647,543</u>	<u>368,362</u>	<u>2,451,689</u>	<u>3,862,811</u>
Operating expenditures (3):										
Direct charges for repair & maintenance	14,834	21,839	27,477	42,493	106,643	31,306	44,090	18,925	47,552	141,873
Contract food services	-	-	-	-	-	-	-	-	1,611,761	1,611,761
Allocated expenditures for salaries & staff benefits (4)	59,456	32,015	41,162	68,604	201,237	77,751	105,192	64,030	-	246,973
Allocated expenditures for materials, supplies and & other services (4)	<u>140,051</u>	<u>70,026</u>	<u>93,368</u>	<u>164,225</u>	<u>467,670</u>	<u>175,064</u>	<u>245,922</u>	<u>151,722</u>	<u>105,038</u>	<u>677,746</u>
Total expenditures	<u>214,341</u>	<u>123,880</u>	<u>162,007</u>	<u>275,322</u>	<u>775,550</u>	<u>284,121</u>	<u>395,204</u>	<u>234,677</u>	<u>1,764,351</u>	<u>2,678,353</u>
Excess of revenue over expenditures \$	<u>54,499</u>	<u>155,300</u>	<u>184,383</u>	<u>59,436</u>	<u>453,618</u>	<u>111,096</u>	<u>252,339</u>	<u>133,685</u>	<u>687,338</u>	<u>1,184,458</u>

(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 independent auditors' report.

MACALESTER COLLEGE

Schedule 3

Analysis of Revenue Fund Accounts, Bond and Interest Sinking Fund Account
and Repair and Replacement Reserve Account
Year Ended May 31, 1996

	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, 1995	-	77,220	-	294,484	582,522
Revenue:					
Operating revenue (Schedule 2)	1,229,168	-	3,862,811	-	-
Investment income	-	4,788	-	23,895	35,957
Total revenue	1,229,168	4,788	3,862,811	23,895	35,957
Expenditures:					
Operating expenditures (Schedule 2)	775,550	-	2,678,353	-	-
Debt Service:					
Principal	-	32,000	-	110,000	-
Interest	-	1,100	-	28,013	-
Total expenditures	775,550	33,100	2,678,353	138,013	-
Transfers:					
From revenue fund accounts to sinking fund accounts	(33,100)	33,100	(138,013)	138,013	-
From revenue fund account to repair and replacement reserve account	-	-	-	-	30,000
To current unrestricted fund from revenue fund accounts and sinking fund accounts	(420,518)	(4,788)	(1,046,445)	(23,895)	-
Total transfers	(453,618)	28,312	(1,184,458)	114,118	30,000
Balance at May 31, 1996*	-	77,220	-	294,484	648,479

*Based upon original cost of investments in the bond and interest sinking fund accounts, the College's carrying value of these two sinking fund at May 31, 1996, was \$452,193.

See accompanying independent auditors' report.

MACALESTER COLLEGE

Analysis of Revenue Fund Accounts, Debt Service Accounts
and Repair and Replacement Reserve Accounts
Year Ended May 31, 1996

Schedule 4

	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, 1995	\$ -	5,338	27,302	-	18,439	58,480
Revenue:						
Operating revenue	59,528	-	-	26,511,175	-	-
Investment income	-	-	-	-	-	-
Total revenue	59,528	-	-	26,511,175	-	-
Expenditures:						
Operating expenditures	42,756	-	-	-	-	-
Debt service:						
Principal	-	4,198	-	-	14,238	-
Interest	-	4,342	-	-	15,265	-
Total expenditures	42,756	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	6,250	-	-	26,474,852	-	-
From repair and replacement reserve to debt service reserve	-	-	-	-	-	-
Total transfers	16,772	8,540	1,982	26,511,175	29,503	6,820
Balance at May 31, 1996	-	5,338	29,284	-	18,439	65,300

See accompanying independent auditors' report.

MACALESTER COLLEGE

Insurance Coverage

Year ended May 31, 1995

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, 1996.

See accompanying independent auditors' report.