

MACALESTER
COLLEGE



ANNUAL FINANCIAL STATEMENTS
WITH AUDITORS OPINION
FOR YEAR ENDED MAY, 31 1997

VICE PRESIDENT FOR ADMINISTRATION AND TREASURER

MACALESTER COLLEGE
1600 GRAND AVENUE
SAINT PAUL, MINNESOTA 55105
612-696-6211

**TREASURER'S COMMENTS
ON FISCAL YEAR 1996/97 FINANCIAL STATEMENTS**

The financial statements that follow reflect an extraordinary financial year for the College. You will see a \$65 million decrease in total net assets, the combined result of a \$105 million decrease in the market value of holdings of The Reader's Digest Association Inc. (RDA) common stock, a substantial operating surplus, and investment gains within the College's diversified endowment. Please see footnote (3) for further information on the DeWitt Wallace Fund for Macalester College and the holdings of RDA stock, as well as footnote (4) regarding long term investments of the College and the DeWitt Wallace Fund for Macalester College. Absent the change in value of the RDA holdings, the College realized a \$40 million increase in net assets for the year. Highlights of this strong financial performance include:

- Diversified and growing revenue streams--
 - Net student revenues of \$24 million, increasing 7% over prior year
 - Private gifts and grants of \$9.5 million, one of the highest totals in College history.
 - Endowment income of \$24.5 million of which \$13.5 million is from a diversified portfolio of investments, the balance from dividends of the RDA.
- A moderate increase in operating expenditures, at \$40.8 million less than 5% over prior year.
- A \$10 million operating surplus, after payment of debt service but before transfers.
- Designation (transfer) of this operating surplus for capital construction purposes.
- A successful sale of \$11 million of revenue bonds, at an average interest rate of 5.4%, with a Aa3 credit rating and a resulting endowment to debt ratio of nearly 10:1.
- Over \$20 million of capital construction in FY97, with the completion of three major projects.
- A diversified endowment of \$282 million, exclusive of the RDA holdings, an increase of \$27 million over prior year.

This combination of strong and diversified revenue streams and conservative operating costs has allowed the College to fund significant capital construction and create substantial cash reserves. The College is well positioned to deal with market value fluctuations of the RDA holdings, as well as the uncertainty of the associated income stream.

Craig H. Aase
Vice President for Administration and Treasurer

MACALESTER
COLLEGE

4200 Norwest Center
90 South Seventh Street
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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, 1997 and 1996, and the related statements of activities and cash flows for the years 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 audits.

We conducted our audits 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 audits provide 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, 1997 and 1996, and the changes in its net assets and its cash flows for the years then ended in conformity with generally accepted accounting principles.

Our audits were made for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary information included in Schedule 1 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

July 25, 1997



Macalester College

Statement of Financial Position

May 31, 1997 with summarized comparative figures at May 31, 1996

(in thousands of dollars)

	Operations	Investments	Plant	1997 Total	1996 Total
Assets					
Cash and cash equivalents	\$ 9,896	2,200	13,150	25,246	\$ 19,074
Accrued investment income	2,111	61	45	2,217	2,324
Prepaid expenses	284	-	933	1,217	1,007
Notes and accounts receivable, net of allowance for doubtful receivables of \$706 (\$700 in 1996)	1,719	3,640	-	5,359	5,292
Pledges receivable	1,194	1,627	1,470	4,291	4,575
Long term investments	-	156,539	-	156,539	141,598
Real estate	-	2,028	-	2,028	1,999
Land, building and equipment, net of accumulated depreciation	-	-	94,962	94,962	76,254
Investments owned by DeWitt Wallace Fund for Macalester College	-	291,735	-	291,735	384,175
Total assets	\$ 15,204	457,830	110,560	583,594	\$ 636,298
Liabilities and net assets					
Accounts payable and accrued expenses	\$ 8,418	2,030	472	10,920	\$ 9,251
Deposits	304	2	-	306	390
Agency deposits	209	-	-	209	88
Government grants refundable	-	3,164	-	3,164	3,045
Bonds and mortgages payable	-	-	45,275	45,275	34,959
Total liabilities	8,931	5,196	45,747	59,874	47,733
Net assets					
Unrestricted					
For operations	3,140	-	-	3,140	2,241
For investment in plant	-	-	4,618	4,618	5,906
For long term investments	-	43,579	-	43,579	40,765
For debt service	-	-	1,188	1,188	1,034
Net investment in plant	-	-	54,109	54,109	43,743
Unrealized gain on investments	-	16,596	-	16,596	12,074
Total unrestricted	3,140	60,175	59,915	123,230	105,763
Temporarily restricted					
For operations	3,133	-	-	3,133	2,864
For investment in plant	-	-	4,898	4,898	3,475
For long term investments	-	9,562	-	9,562	9,303
Total temporarily restricted	3,133	9,562	4,898	17,593	15,642
Permanently restricted					
For long term investments	-	358,308	-	358,308	349,225
Unrealized gain on investments	-	24,589	-	24,589	117,935
Total permanently restricted	-	382,897	-	382,897	467,160
Total net assets	6,273	452,634	64,813	523,720	588,565
Total liabilities and net assets	\$ 15,204	457,830	110,560	583,594	\$ 636,298

See accompanying notes to financial statements.

Macalester College
Statement of Activities
Year ended May 31, 1997 with
summarized comparative figures for the year ended May 31, 1996
(in thousands of dollars)

	Operations	Investments	Plant	1997 Total	1996 Total
Changes in unrestricted net assets:					
Revenue:					
Tuition and fees	\$ 30,533	-	-	30,533	\$ 28,500
Less: Student aid and scholarship	(12,748)	-	-	(12,748)	(11,602)
Net tuition and fees	17,785	-	-	17,785	16,898
Federal grants and contracts	664	-	-	664	937
State grants and contracts	57	-	-	57	38
Private gifts and grants	4,627	-	-	4,627	1,633
Endowment income	1,185	-	-	1,185	1,212
Sales and service of auxiliary enterprises	6,290	-	-	6,290	5,584
Other sources	415	-	4	419	517
Investment income	363	-	127	490	598
Realized gains on investments	23	3,592	-	3,615	2,067
Unrealized gains on investments	-	4,522	-	4,522	2,726
Net assets released from restrictions	22,929	937	1,765	25,631	23,989
Total revenue	54,338	9,051	1,896	65,285	56,199
Expenses:					
Instruction	15,624	-	1,054	16,678	15,474
Research	663	-	-	663	735
Public service	388	-	23	411	389
Academic support	3,316	-	285	3,601	3,668
Student services	6,342	-	881	7,223	6,915
Institutional support	6,645	-	938	7,583	7,348
Operation and maintenance of plant	3,113	-	2,360	5,473	5,743
Auxiliary enterprises	4,676	292	573	5,541	5,194
Administration and other expenses	-	53	-	53	96
Paid to beneficiaries	-	592	-	592	1,687
Total expenses	40,767	937	6,114	47,818	47,249
Transfers among reporting categories:					
Principal and interest	(2,535)	-	2,535	-	-
Renewals and replacements	(39)	-	39	-	-
Capital improvements	(10,886)	-	10,886	-	-
Long term investments	788	(778)	(10)	-	-
Total transfers	(12,672)	(778)	13,450	-	-
Increase in unrestricted net assets before cumulative effect of change in accounting principles	899	7,336	9,232	17,467	8,950
Cumulative effect of change in accounting principles	-	-	-	-	552
Increase in unrestricted net assets	899	7,336	9,232	17,467	9,502
Unrestricted net assets beginning of year	2,241	52,839	50,683	105,763	96,261
Unrestricted net assets at end of year	\$ 3,140	60,175	59,915	\$ 123,230	105,763

(continued)

See accompanying notes to financial statements.

Macalester College
Statement of Activities
(in thousands of dollars)

	Operations	Investments	Plant	1997 Total	1996 Total
Changes in temporarily restricted net assets:					
Federal grants and contracts	\$ -	-	-	-	\$ 500
Private gifts and grants	386	-	3,155	3,541	2,262
Endowment income	22,915	-	19	22,934	21,856
Other sources	4	-	-	4	4
Investment income	166	-	-	166	51
Net assets released from restrictions	(22,929)	-	(1,765)	(24,694)	(22,049)
Transfers among reporting categories	(273)	259	14	-	-
Net change in temporarily restricted net assets before cumulative effect of change in accounting principles	269	259	1,423	1,951	2,624
Cumulative effect of change in accounting principles	-	-	-	-	976
Net change in temporarily restricted net assets	269	259	1,423	1,951	3,600
Temporarily restricted net assets beginning of year	2,864	9,303	3,475	15,642	12,042
Temporarily restricted net assets at end of year	<u>\$ 3,133</u>	<u>9,562</u>	<u>4,898</u>	<u>17,593</u>	<u>\$ 15,642</u>
Changes in permanently restricted net assets:					
Private gifts and grants	\$ -	1,393	-	1,393	\$ 4,610
Endowment income	-	382	-	382	846
Sales and service of auxiliary enterprises	-	184	-	184	199
Other sources	-	1	-	1	8
Investment income	-	919	-	919	880
Realized gains on investments	-	7,113	-	7,113	7,448
Unrealized gains (losses) on investments	-	(93,347)	-	(93,347)	9,020
Interest on loans receivable	-	29	-	29	27
Net assets released from restrictions	-	(937)	-	(937)	(1,940)
Net change in permanently restricted net assets	-	(84,263)	-	(84,263)	21,098
Permanently restricted net assets beginning of year	-	467,160	-	467,160	446,062
Permanently restricted net assets at end of year	<u>\$ -</u>	<u>382,897</u>	<u>-</u>	<u>382,897</u>	<u>\$ 467,160</u>

See accompanying notes to financial statements.

Macalester College

Statement of Cash Flows

May 31, 1997 with comparative figures for the year ended May 31, 1996

(in thousands of dollars)

	Total 1997	Total 1996
Cash flows from operating activities		
Change in total net assets	\$ (64,845)	34,200
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	2,067	2,011
Realized gain on sale of investments	(10,705)	(8,204)
Unrealized (gain) loss on investments	88,825	(11,746)
Net gain on sale of real estate	-	(1,316)
Net gain on sale of land, building and equipment	(4)	-
(Increase) decrease in payable to annuity and life income beneficiaries	47	(1,059)
Private gifts, grants and other income restricted for long term investment	(2,338)	(2,637)
Decrease in accrued investment income	107	31
(Increase) decrease in prepaid expenses	17	(87)
Increase notes and accounts receivable	(67)	(58)
(Increase) decrease in pledges receivable	284	(4,575)
Increase in accounts payable and accrued expenses	1,669	1,201
Increase (decrease) in deposits	(84)	67
Increase (decrease) in agency deposits	121	(126)
Net cash provided by operating activities	<u>15,094</u>	<u>7,702</u>
Cash flows from investing activities:		
Proceeds from sale of investments	129,332	85,930
Proceeds from sale of land, building and equipment	4	-
Purchase of investments	(129,950)	(94,235)
Purchase of real estate	(79)	(64)
Purchase of land, building and equipment	(20,728)	(12,783)
Net cash used in investing activities	<u>(21,421)</u>	<u>(21,152)</u>
Cash flows from financing activities:		
Proceeds from issuance of bond payable	11,000	11,245
Principal payments on bonds payable	(684)	(160)
Payment of financing costs	(227)	(160)
Increase in government grant refundable	119	104
Increase (decrease) in payable to annuity and life income beneficiaries	(47)	1,059
Private gifts, grants and other income restricted for long term investment	2,338	2,637
Net cash provided by financing activities	<u>12,499</u>	<u>14,725</u>
Net increase in cash and cash equivalents	6,172	1,275
Cash and cash equivalents at beginning of the year	19,074	17,799
Cash and cash equivalents at end of the year	<u>\$ 25,246</u>	<u>19,074</u>
Supplemental disclosure - cash paid for interest	<u>\$ 1,805</u>	<u>1,430</u>

See accompanying notes to financial statements.

MACALESTER COLLEGE

Notes to Financial Statements

May 31, 1997

(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

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 as required by Statement of Financial Accounting Standards 116 and 117. 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.

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.

(Continued)

MACALESTER COLLEGE

Notes to Financial Statements

(in thousands of dollars)

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 or losses, both realized and unrealized, on investments of endowment and similar funds are reported as follows:

- as increases or decreases 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.

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.

(Continued)

MACALESTER COLLEGE

Notes to Financial Statements

(in thousands of dollars)

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 external investment managers or quoted market values. In the limited cases where such values are not available, carrying value is used as an estimate of market value.

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 saleable 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.

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.

Summarized Comparative Information

The financial statements include certain prior-year summarized comparative information in total. Accordingly, such information should be read in conjunction with the College's fiscal year 1996 financial statements, from which the summarized information was derived.

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).

(Continued)

MACALESTER COLLEGE

Notes to Financial Statements

(in thousands of dollars)

As of May 31, 1997, the market value of the net assets of the Fund was approximately \$296,371 (\$291,735 principal investments and \$4,636 of undistributed income). The principal investments are common stock and units of the Macalester College endowment. The common stock of the Fund consists of shares of The Reader's Digest Association, Inc.

The Fund makes annual grants to support College programs as may be agreed upon by the College and the Fund. Grants made by the Fund to the College from 1982 to 1997 total \$110,120. This sum includes a grant of \$17,620 for fiscal year ended May 31, 1997. In July 1997, The Reader's Digest Association, Inc. announced a reduction in its quarterly dividend. As a result, the income available for grants from the Fund will decrease by approximately \$4,000 during the fiscal year ended May 31, 1998. The Fund, in collaboration with the College, has the ability to consider other funds available for grants, including accumulated appreciation in the Fund's assets and reserve funds previously established by the Fund at Macalester College.

As of May 31, 1997, \$144,292 (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.

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>1997</u>	<u>1996</u>
Macalester College (at market)		
Cash equivalents	\$ 4,811	\$ 7,837
Common stocks	99,409	86,628
International equity	31,063	18,960
Preferred stock	5,885	5,706
Corporate bonds	28,929	28,400
U.S. Government obligations	105,376	102,831
Real estate, private equity, other	<u>25,358</u>	<u>22,970</u>
Subtotal market	\$300,831	\$273,332
Less value of units of Macalester endowment owned by DeWitt Wallace Fund for Macalester College	<u>(144,292)</u>	<u>(131,734)</u>
Total market	<u>\$156,539</u>	<u>\$141,598</u>

(Continued)

MACALESTER COLLEGE

Notes to Financial Statements

(in thousands of dollars)

DeWitt Wallace Fund for Macalester College (at market)		
Common stock	\$147,443	\$252,441
Value of units in the Macalester College endowment	<u>144,292</u>	<u>131,734</u>
Total market	<u>\$291,735</u>	<u>\$384,175</u>
Total market of long term investments	<u>\$448,274</u>	<u>\$525,773</u>
Total cost	<u>\$408,217</u>	<u>\$396,894</u>

Included in the market value of preferred stocks at May 31, 1997, is \$5,885 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 \$10,765 which is controlled by independent trustees. For the year ended May 31, 1997, the College received \$278 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.

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, 1997, 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.

(Continued)

MACALESTER COLLEGE

Notes to Financial Statements

(in thousands of dollars)

Earnings of \$320 in excess of the spending rate for the year ended May 31, 1997 (\$47 of unrestricted funds and \$273 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 1996/97 grant was \$323, 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, 1997:

Unconditional promises expected to be collected in:	
Less than one year	\$ 925
One year to five years	3,792
Greater than five years	0
Less: Discount to present value	<u>(426)</u>
	<u>\$ 4,291</u>

8) Land, Building and Equipment

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

	<u>1997</u>	<u>1996</u>
Land and land improvements	\$ 1,414	\$ 1,414
Buildings	81,010	80,690
Equipment	2,599	2,032
Construction in progress	<u>31,545</u>	<u>11,720</u>
	\$116,568	\$95,856
Less: Accumulated depreciation	<u>(21,606)</u>	<u>(19,602)</u>
	<u>\$ 94,962</u>	<u>\$76,254</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>1997</u>	<u>1996</u>
Macalester College Dormitory Bonds of 1956, 2-3/4%, final series due November 1, 1996 (original amount \$800)	\$ 0	\$ 24
Macalester College Dormitory Bonds of 1962, 3-3/8%, final series due May 1, 2002 (original amount \$2,850)	610	720
College Housing Program Mortgages at 3%, due in semi- annual installments of \$19,022 including interest, through 2020 (original amount \$880)	620	640
Minnesota Higher Education Facilities Authority Mortgage Revenue Bonds of 1992, 6.33% average, final series due 2022 (original amount \$15,670)	15,485	15,670
Minnesota Higher Education Facilities Authority variable rate demand revenue bond of 1994, weekly maturity and rate reset, 3.55% 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)	10,900	11,245
Minnesota Higher Education Facilities Authority Revenue Bond of 1997, 5.41% average, final series due 2017 (original amount \$11,000)	<u>11,000</u>	<u>0</u>
	<u>\$ 45,275</u>	<u>\$ 34,959</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 original acquisition costs and improvements of such pledged facilities approximated \$9,646 at May 31, 1997 and 1996) 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 \$375 and \$452 at May 31, 1997 and 1996, respectively. The 1962 indenture also requires the College to transfer \$30 annually to a repair and replacement reserve.

(Continued)

MACALESTER COLLEGE

Notes to Financial Statements

(in thousands of dollars)

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 original acquisition cost and improvements of \$652 at May 31, 1997 and 1996, and by pledges of gross stadium and tuition revenues.

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.

In May of 1997, \$11,000 of revenue bonds were issued on behalf of the College by MHEFA. The average maturity of the issued bonds was 12.05 years, at an average rate of 5.41%. Proceeds of this issue were used to finance campus improvements.

Annual debt commitments (principal) at May 31, 1997, are as follows:

<u>Fiscal year ending May 31,</u>	<u>Amount</u>
1998	965
1999	1,060
2000	1,001
2001	1,246
2002	1,217
after 2002	<u>39,786</u>
	<u>\$ 45,275</u>

Total interest costs on plant funds debt aggregated \$1,852 and \$1,579 during the year ended May 31, 1997 and 1996, respectively.

(Continued)

MACALESTER COLLEGE

Notes to Financial Statements

(in thousands of dollars)

(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 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, 1997, 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, 1997 and 1996, was approximately \$271 and \$273, respectively.

Total pension expense for the year ended May 31, 1997, was \$1,591 including \$37 paid under the unfunded supplemental plan and for the year ended May 31, 1996, was \$1,458 including \$36 paid under the unfunded supplemental plan.

MACALESTER COLLEGE

Schedule 1

Endowment Investment Performance*

Year Ended May 31, 1997

(in thousands of dollars except per unit value)

	Pooled Funds		Nonpooled Funds		Total Endowment Funds	
	Market	Cost	Market	Cost	Market	Cost
Net assets at May 31, 1997:						
Common stock	\$ 119,098	82,614	147,473	157,144	266,571	239,758
Preferred stocks	5,885	4,565	-	-	5,885	4,565
Corporate bonds	24,906	23,362	-	-	24,906	23,362
U.S. Government obligations	103,890	99,725	67	66	103,957	99,791
Real estate	11,366	11,197	-	-	11,366	11,197
Other (including uninvested cash)	16,976	15,666	-	-	16,976	15,666
	<u>\$ 282,121</u>	<u>237,129</u>	<u>147,540</u>	<u>157,210</u>	<u>429,661</u>	<u>394,339</u>
Net assets at May 31, 1996	<u>255,290</u>		<u>252,532</u>		<u>507,822</u>	
Increase (decrease) in net assets	\$ 26,831		(104,992)		(78,161)	
Less:						
Initial market value of additions	<u>2,380</u>		<u>0</u>		<u>2,380</u>	
Net gains (loss) for year	<u>\$ 24,451</u>		<u>(104,992)</u>		<u>(80,541)</u>	
Net gains for the year consist of:						
Realized net gains	\$ 10,544		4		10,548	
Unrealized net gains (loss)	<u>13,907</u>		<u>(104,996)</u>		<u>(91,089)</u>	
Total net gains (loss) for year	<u>\$ 24,451</u>		<u>(104,992)</u>		<u>(80,541)</u>	
Pooled investments:						
Market value per unit, including excess endowment earnings funds:						
May 31, 1997	\$ 17.65					
May 31, 1996	<u>16.11</u>					
Net gain per unit	\$ 1.54					
Percent gain per unit	<u>9.53%</u>					
Total earnings, exclusive of gains	<u>\$ 13,536</u>					
Total earnings per current year average units outstanding	<u>\$ 0.85</u>					
Total earnings as a percent of average current market values	<u>5.01%</u>					
Total performance for year	<u>14.54%</u>					

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

See accompanying independent auditors' report.