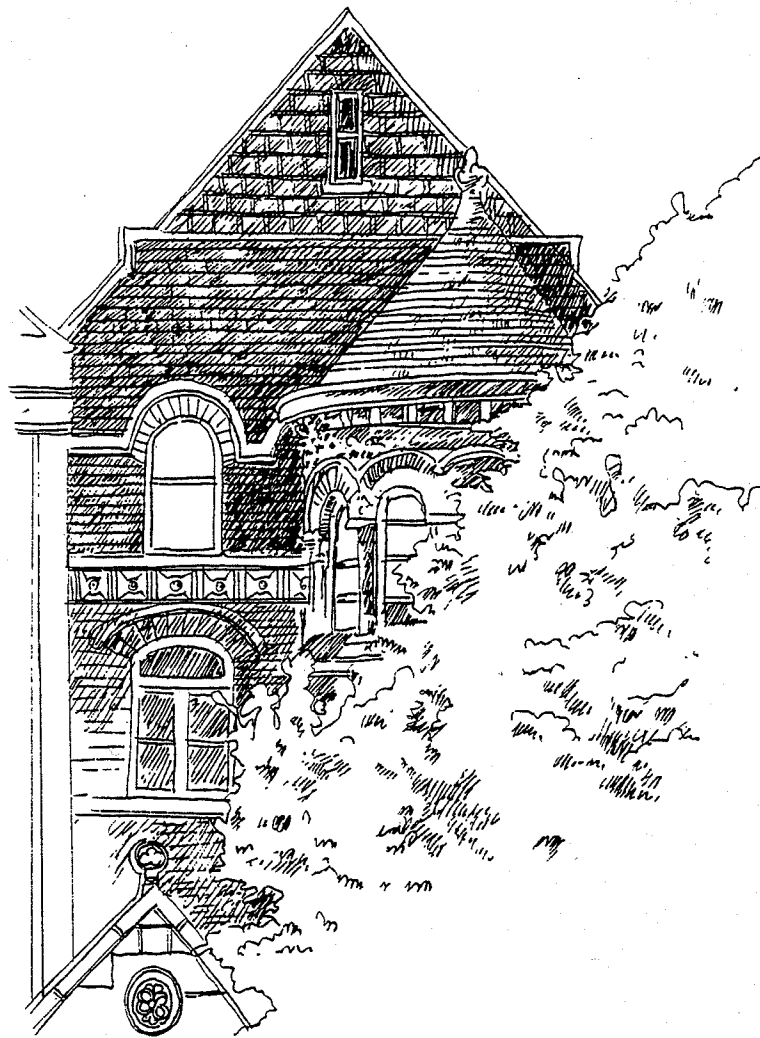


MACALESTER COLLEGE



ANNUAL FINANCIAL STATEMENTS
WITH AUDITORS OPINION
FOR YEAR ENDED MAY 31, 1998



VICE PRESIDENT FOR
 ADMINISTRATION & TREASURER
 1600 GRAND AVENUE
 SAINT PAUL, MINNESOTA 55105-1899

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**TREASURER'S COMMENTS
 ON FISCAL YEAR 1997/98 FINANCIAL STATEMENTS**

The financial statements that follow reflect the accounting treatment for a February 10, 1998 transaction in which the DeWitt Wallace Fund for Macalester College (DWFMC) offered Trust Automatic Common Exchange Securities (TRACES) in a public offering registered with the Securities Exchange Commission. Throughout this year's financial statements, notes to the statements and Schedule 1, you will find references to this TRACES transaction.

The economics of the transaction are that DWFMC received net proceeds of \$59,276K and agreed to deliver a maximum of 3,425K shares of its Reader's Digest Association, Inc. (RDA) common stock holdings on February 15, 2001. The number of shares to be delivered will depend on the market value of the stock on the date of delivery. If the market value of the stock is the same or lower than it was on the date of the initial transaction, DWFMC will deliver 3,425K shares. If the price is in excess of the market value on the date of the initial transaction, DWFMC benefits from a portion of the price increase and will as a result deliver less than 3,425K shares.

The accounting treatment for this transaction is relatively complex. For accounting purposes this is a future sale. As a result, we have both the TRACES net proceeds and all 5,957K shares of RDA common stock held by DWFMC on the statement of financial position. This accounting treatment also requires that we calculate the estimated market value of the liability for the shares to be delivered in 2001, and net this amount from the RDA Common stock market value on the financial statements.

The difference between the gross and net TRACES proceeds was capitalized and will be amortized over the contract period. The unamortized amount is netted against the estimated market value of the liability on the date of delivery. Putting numbers to these definitions results in the following:

Market Value of RDA common stock held by DWFMC	\$169,783
TRACES Liability	<u>(65,923)</u>
Market Value of RDA common stock, held by DWFMC, net of TRACES	<u>\$103,860</u>

Notes 3 and 4 to the financial statements includes a description of the TRACES transaction and a summary of the accounting treatment.

This event was a significant step towards full diversification of the financial resources supporting the College. As footnote 4 reveals, the market value of RDA common stock, net of the TRACES liability, is approximately 20% of total long term investments of \$506 million. Coupled with the strong performance of the balance of the investment portfolio and a substantial operating surplus designated for capital construction, 1997/98 was another year of very positive financial performance for Macalester.

Craig H. Aase
 Vice President for Administration
 and Treasurer

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, 1998 and 1997, 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 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 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, 1998 and 1997, and the changes in its net assets and its cash flows for the years then ended in conformity with generally accepted accounting principles.

In accordance with *Government Auditing Standards*, we have also issued a separate report dated July 31, 1998, on our consideration of the College's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grants.

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 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

July 31, 1998



Macalester College

Statement of Financial Position

May 31, 1998 with summarized comparative figures at May 31, 1997

(in thousands of dollars)

	Operations	Investments	Plant	1998 Total	1997 Total
ASSETS					
Cash and cash equivalents	\$ 11,167	(1,362)	14,624	24,429	\$ 25,246
Accrued investment income	1,777	30	37	1,844	2,217
Prepaid expenses	241	-	913	1,154	1,217
Notes and accounts receivable, net of allowance for doubtful receivables of \$693 (\$706 in 1997)	1,239	3,849	-	5,088	5,359
Pledges receivable	881	384	1,728	2,993	4,291
Long term investments	-	183,181	-	183,181	156,539
Real estate	-	2,640	-	2,640	2,028
Land, building and equipment, net of accumulated depreciation	-	-	97,120	97,120	94,962
Investments owned by DeWitt Wallace Fund for Macalester College, net of TRACES	-	322,570	-	322,570	291,735
Total assets	\$ 15,305	511,292	114,422	641,019	\$ 583,594
LIABILITIES AND NET ASSETS					
Accounts payable and accrued expenses	\$ 7,153	1,970	470	9,593	\$ 10,920
Deposits	375	2	-	377	306
Agency deposits	2	-	-	2	209
Government grants refundable	-	3,440	-	3,440	3,164
Bonds and mortgages payable	-	-	44,311	44,311	45,275
Total liabilities	7,530	5,412	44,781	57,723	59,874
Net assets:					
Unrestricted:					
For operations	3,353	-	-	3,353	3,140
For investment in plant	-	-	6,329	6,329	4,618
For long term investments	-	51,188	-	51,188	43,579
For debt service	-	-	1,408	1,408	1,188
Net investment in plant	-	-	55,362	55,362	54,109
Unrealized gain on investments	-	26,496	-	26,496	16,596
Total unrestricted	3,353	77,684	63,099	144,136	123,230
Temporarily restricted:					
For operations	4,422	-	-	4,422	3,133
For investment in plant	-	-	6,542	6,542	4,898
For long term investments	-	18,447	-	18,447	9,562
Unrealized gain on investments	-	22,425	-	22,425	-
Total temporarily restricted	4,422	40,872	6,542	51,836	17,593
Permanently restricted:					
For long term investments	-	366,147	-	366,147	358,308
Unrealized gain on investments	-	21,177	-	21,177	24,589
Total permanently restricted	-	387,324	-	387,324	382,897
Total net assets	7,775	505,880	69,641	583,296	523,720
Total liabilities and net assets	\$ 15,305	511,292	114,422	641,019	\$ 583,594

See accompanying notes to financial statements.

Macalester College

Statement of Activities

Year ended May 31, 1998 with

summarized comparative figures for the year ended May 31, 1997

(in thousands of dollars)

	Operations	Investments	Plant	1998 Total	1997 Total
Changes in unrestricted net assets:					
Revenue:					
Tuition and fees	\$ 31,712	-	-	31,712	\$ 30,533
Less: Student aid and scholarship	(13,130)	-	-	(13,130)	(12,748)
Net tuition and fees	18,582	-	-	18,582	17,785
Federal grants and contracts	772	-	-	772	664
State grants and contracts	102	-	-	102	57
Private gifts and grants	1,851	-	-	1,851	4,627
Endowment income	448	-	-	448	1,185
Sales and service of auxiliary enterprises	6,586	-	-	6,586	6,290
Other sources	563	-	39	602	419
Investment income	580	-	269	849	490
Realized gains (losses) on investments	(36)	8,417	-	8,381	3,615
Unrealized gains on investments	-	9,901	-	9,901	4,522
Net assets released from restrictions	22,757	1,033	1,161	24,951	25,631
Total revenue	<u>52,205</u>	<u>19,351</u>	<u>1,469</u>	<u>73,025</u>	<u>65,285</u>
Expenses:					
Instruction	18,430	-	2,931	21,361	18,022
Research	523	-	-	523	663
Public service	482	-	52	534	478
Academic support	3,916	-	656	4,572	4,418
Student services	6,918	-	1,283	8,201	8,136
Institutional support	7,176	-	1,309	8,485	8,398
Auxiliary enterprises	5,561	287	1,848	7,696	7,058
Administration and other expenses	-	159	-	159	53
Paid to beneficiaries	-	588	-	588	592
Total expenses	<u>43,006</u>	<u>1,034</u>	<u>8,079</u>	<u>52,119</u>	<u>47,818</u>
Transfers among reporting categories:					
Endowment gains used in operations	789	(789)	-	-	-
Principal and interest	(3,278)	-	3,278	-	-
Renewals and replacements	(39)	-	39	-	-
Capital improvements	(6,487)	-	6,487	-	-
Long term investments	29	(19)	(10)	-	-
Total transfers	<u>(8,986)</u>	<u>(808)</u>	<u>9,794</u>	<u>-</u>	<u>-</u>
Net change in unrestricted net assets	213	17,509	3,184	20,906	17,467
Unrestricted net assets beginning of year	3,140	60,175	59,915	123,230	105,763
Unrestricted net assets at end of year	<u>\$ 3,353</u>	<u>77,684</u>	<u>63,099</u>	<u>144,136</u>	<u>\$ 123,230</u>

(continued)

See accompanying notes to financial statements.

Macalester College
Statement of Activities
(in thousands of dollars)

	<u>Operations</u>	<u>Investments</u>	<u>Plant</u>	<u>1998 Total</u>	<u>1997 Total</u>
Changes in temporarily restricted net assets:					
Private gifts and grants	\$ 1,047	464	2,660	4,171	\$ 3,541
Endowment income	21,959	-	19	21,978	22,934
Other sources	25	-	-	25	4
Investment income	138	7	119	264	166
Realized gains on investments		9,316	-	9,316	-
Unrealized gains on investments		22,425	-	22,425	-
Net assets released from restrictions	(22,757)	(25)	(1,154)	(23,936)	(24,694)
Transfers among reporting categories					
Endowment gains used in operations per donor agreement	877	(877)	-	-	-
Net change in temporarily restricted net assets	1,289	31,310	1,644	34,243	1,951
Temporarily restricted net assets beginning of year	3,133	9,562	4,898	17,593	15,642
Temporarily restricted net assets at end of year	<u>\$ 4,422</u>	<u>40,872</u>	<u>6,542</u>	<u>51,836</u>	<u>\$ 17,593</u>
Changes in permanently restricted net assets:					
Private gifts and grants	\$ -	1,229	-	1,229	\$ 1,393
Endowment income	-	9	-	9	382
Sales and service of auxiliary enterprises	-	184	-	184	184
Other sources	-	1	-	1	1
Investment income	-	793	-	793	919
Realized gains on investments	-	6,609	-	6,609	7,113
Unrealized losses on investments	-	(3,413)	-	(3,413)	(93,347)
Interest on loans receivable	-	30	-	30	29
Net assets released from restrictions	-	(1,008)	(7)	(1,015)	(937)
Transfer among reporting categories:					
Change in donor restrictions	-	(7)	7	-	-
Net change in permanently restricted net assets	-	4,427	-	4,427	(84,263)
Permanently restricted net assets at beginning of year	-	382,897	-	382,897	467,160
Permanently restricted net assets at end of year	<u>\$ -</u>	<u>387,324</u>	<u>-</u>	<u>387,324</u>	<u>\$ 382,897</u>

See accompanying notes to financial statements.

Macalester College**Statement of Cash Flows**

May 31, 1998 with comparative figures for the year ended May 31, 1997

(in thousands of dollars)

	<u>Total 1998</u>	<u>Total 1997</u>
Cash flows from operating activities:		
Change in total net assets	\$ 59,576	(64,845)
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	3,018	2,067
Realized gain on sale of investments	(24,306)	(10,705)
Unrealized (gain) loss on investments	(28,913)	88,825
Net gain on sale of land, building and equipment	-	(4)
Decrease in payable to annuity and life income beneficiaries	59	47
Private gifts, grants and other income restricted for long term investment	(1,218)	(2,338)
Decrease in accrued investment income	373	107
Decrease in prepaid expenses	43	17
(Increase) decrease notes and accounts receivable	271	(67)
Decrease in pledges receivable	1,298	284
Increase (decrease) in accounts payable and accrued expenses	(1,327)	1,669
Increase (decrease) in deposits	71	(84)
Increase (decrease) in agency deposits	(207)	121
Net cash provided by operating activities	<u>8,738</u>	<u>15,094</u>
Cash flows from investing activities:		
Proceeds from sale of investments	184,239	129,332
Net proceeds from TRACES transaction	55,000	-
Proceeds from sale of land, building and equipment	-	4
Purchase of investments	(243,550)	(129,950)
Purchase of real estate	(607)	(79)
Purchase of land, building and equipment	(5,082)	(20,728)
Net cash used in investing activities	<u>(10,000)</u>	<u>(21,421)</u>
Cash flows from financing activities:		
Proceeds from issuance of bond payable	-	11,000
Principal payments on bonds payable	(964)	(684)
Payment of financing costs	(26)	(227)
Increase in government grant refundable	276	119
Decrease in payable to annuity and life income beneficiaries	(59)	(47)
Private gifts, grants and other income restricted for long term investment	1,218	2,338
Net cash provided by financing activities	<u>445</u>	<u>12,499</u>
Net increase in cash and cash equivalents	(817)	6,172
Cash and cash equivalents at beginning of the year	25,246	19,074
Cash and cash equivalents at end of the year	<u>\$ 24,429</u>	<u>25,246</u>
Supplemental disclosure - cash paid for interest	<u>\$ 2,316</u>	<u>1,805</u>

See accompanying notes to financial statements.

MACALESTER COLLEGE

Notes to Financial Statements

May 31, 1998

(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 restrictions, if any, on the contributions.

Dividends, interest, and net gains or losses, both realized and unrealized, on investments of endowment and similar assets 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 asset;
- 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 1997 financial statements, from which the summarized information was derived.

Reclassification

Certain 1997 amounts have been reclassified to conform to the 1998 presentation.

(Continued)

MACALESTER COLLEGE

Notes to Financial Statements

(in thousands of dollars)

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).

On February 10, 1998, the Fund entered into a contract with Reader's Digest Automatic Common Exchange Security Trust (the Trust) which offered Trust Automatic Common Exchange Securities (TRACES) in a public offering registered with the Securities Exchange Commission. On February 13, 1998, the Fund recorded \$59,276 from the Trust and agreed to deliver up to 3,425,454 shares of its Class A non-voting common stock of Reader's Digest Association, Inc. on February 15, 2001 to the owners of TRACES shares on that date. On February 10, 1998, the market value of the number of shares to be delivered to the Trust on February 15, 2001 was \$80,284. The difference between the proceeds received under the contract and the market value of the liability, representing a discount on the share price, is being amortized on a straight line basis over the contract period. The liability to the Trust has been adjusted based on the year end market value of the RDA stock and is presented in the financial statements, net of the unamortized discount, as a reduction of the net assets of the Fund. At May 31, 1998, the value of the liability, net of the unamortized discount, was \$65,923.

As of May 31, 1998, the market value of the net assets of the Fund was approximately \$326,332 (\$322,570 principal investments and \$3,762 of undistributed principal and 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 1998 total \$127,390. This sum includes a grant of \$17,270 for fiscal year ended May 31, 1998.

As of May 31, 1998, \$218,710 (at current market value) of the Fund's assets were invested in the College's pooled endowment fund. This represented 11,002,283 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.

(Continued)

MACALESTER COLLEGE

Notes to Financial Statements

(in thousands of dollars)

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>1998</u>	<u>1997</u>
Macalester College (at market)		
Cash equivalents	\$ 6,553	\$ 4,811
Common stocks	140,565	99,409
International equity	77,316	31,063
Preferred stock	5,798	5,885
Corporate bonds	27,198	28,929
U.S. Government obligations	83,412	105,376
Real estate, private equity, other	<u>61,049</u>	<u>25,358</u>
Subtotal market	<u>\$401,891</u>	<u>\$300,831</u>
Less value of units of Macalester endowment owned by DeWitt Wallace Fund for Macalester College	<u>(218,710)</u>	<u>(144,292)</u>
Total market	<u>\$183,181</u>	<u>\$156,539</u>
DeWitt Wallace Fund for Macalester College (at market)		
Common stock	\$169,783	\$147,443
TRACES liability	(65,923)	-
Value of units in the Macalester College endowment	<u>218,710</u>	<u>144,292</u>
Total market	<u>\$322,570</u>	<u>\$291,735</u>
Total market of long term investments	<u>\$505,751</u>	<u>\$448,274</u>
Total cost, net of TRACES	<u>\$436,835</u>	<u>\$408,217</u>

Included in the market value of preferred stocks at May 31, 1998, is \$5,798 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.

(Continued)

MACALESTER COLLEGE

Notes to Financial Statements

(in thousands of dollars)

5) Funds Held in Trust by Others

The College is the income beneficiary of a trust with an estimated value of \$11,486 which is controlled by independent trustees. For the year ended May 31, 1998, the College received \$316 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 followed an endowment spending policy that required endowment income over a predetermined level (excess endowment earnings) to be transferred to quasi-endowment. Beginning June 1, 1997, the College is allocating investment income from endowment investments based on a total return concept.

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, 1998, a spending rate approximating 5.4% as used based upon a sixteen-quarter moving average of investment market value. Prior to June 1, 1997, endowment income in excess of the spending rate was transferred to quasi-endowment, where it was unitized. Under the total return concept, if yield (interest and dividend income) is not sufficient to support the spending rate the balance is allocated from gains of the endowment assets. The difference between the traditional yield and the spending rate is reported as endowment gains used in operations.

7) Pledges Receivable

Pledges receivable consisted of the following:

	<u>1998</u>	<u>1997</u>
Unconditional promises expected to be collected in:		
Less than one year	\$ 1,032	\$ 925
One year to five years	2,160	3,792
Less: Discount to present value (5%)	<u>(199)</u>	<u>(426)</u>
	<u>\$ 2,993</u>	<u>\$ 4,291</u>

(Continued)

MACALESTER COLLEGE

Notes to Financial Statements

(in thousands of dollars)

8) Land, Building and Equipment

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

	<u>1998</u>	<u>1997</u>
Land and land improvements	\$ 1,414	\$ 1,414
Buildings	115,714	81,010
Equipment	2,725	2,599
Construction in progress	<u>1,797</u>	<u>31,545</u>
	\$121,650	\$116,568
Less: Accumulated depreciation	<u>(24,530)</u>	<u>(21,606)</u>
	<u>\$ 97,120</u>	<u>\$ 94,962</u>

9) Bonds and Mortgages Payable

Bonds and mortgages payable consist of the following:

	<u>1998</u>	<u>1997</u>
Macalester College Dormitory Bonds of 1962, 3-3/8%, final series due May 1, 2002 (original amount \$2,850)	\$ 500	610
College Housing Program Mortgages at 3%, due in semi-annual installments of \$19,022 including interest, through 2020 (original amount \$880)	601	620
Minnesota Higher Education Facilities Authority Mortgage Revenue Bonds of 1992, 6.33% average, final series due 2022 (original amount \$15,670)	15,290	15,485
Minnesota Higher Education Facilities Authority variable rate demand revenue bond of 1994, weekly maturity and rate reset, 3.70% 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)	10,540	10,900
Minnesota Higher Education Facilities Authority Revenue Bond of 1997, 5.41% average, final series due 2017 (original amount \$11,000)	<u>10,720</u>	<u>11,000</u>
	<u>\$ 44,311</u>	<u>\$ 45,275</u>

(Continued)

MACALESTER COLLEGE

Notes to Financial Statements

(in thousands of dollars)

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, 1998 and 1997) 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 \$374 and \$375 at May 31, 1998 and 1997, 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 original acquisition cost and improvements of \$652 at May 31, 1998 and 1997, 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.

(Continued)

MACALESTER COLLEGE

Notes to Financial Statements

(in thousands of dollars)

Annual debt commitments (principal) at May 31, 1998, are as follows:

<u>Fiscal year ending May 31.</u>	<u>Amount</u>
1999	1,060
2000	1,001
2001	1,246
2002	1,217
2003	1,273
after 2003	<u>38,514</u>
	<u>\$ 44,311</u>

Total interest costs on plant funds debt aggregated \$2,313 and \$1,852 during the year ended May 31, 1998 and 1997, 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 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, 1998, 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, 1998 and 1997, was approximately \$258 and \$271, respectively.

Total pension expense for the year ended May 31, 1998, was \$1,758 including \$37 paid under the unfunded supplemental plan and for the year ended May 31, 1997, was \$1,591 including \$37 paid under the unfunded supplemental plan.

(Continued)

MACALESTER COLLEGE

Notes to Financial Statements

(in thousands of dollars)

12) Subsequent Event

In July of 1998, \$22,330 of revenue bonds were issued on behalf of the College by MHEFA. The average maturity of the issued bonds is 14.59 years at an average rate of 4.94%. Proceeds will be used, together with other funds of the College, for construction of a new campus center and for refunding in advance the 1992 bond issue.

MACALESTER COLLEGE

Schedule 1

Endowment Investment Performance*

Year Ended May 31, 1998

(in thousands of dollars except per unit value)

	Pooled Funds		Nonpooled Funds		Total Endowment Funds	
	Market	Cost	Market	Cost	Market	Cost
Net investments at May 31, 1998:						
Common stock	\$ 206,083	155,519	84,880 **	78,579 **	290,963	234,098
Preferred stocks	5,798	4,565	-	-	5,798	4,565
Corporate bonds	23,322	20,767	-	-	23,322	20,767
U.S. Government obligations	82,186	74,228	74	66	82,260	74,294
Real estate	20,347	20,137	-	-	20,347	20,137
Other (including uninvested cash)	38,937	35,585	-	-	38,937	35,585
	<u>\$ 376,673</u>	<u>310,801</u>	<u>84,954</u>	<u>78,645</u>	<u>461,627</u>	<u>389,446</u>
Net investments at May 31, 1997	282,121		147,540		429,661	
Increase (decrease) in net investments	\$ 94,552		(62,586)		31,966	
Less:						
Initial market value of additions	(57,572)		-		(57,572)	
Plus:						
TRACES shares	-		84,933		84,933	
Net gains for year	<u>\$ 36,980</u>		<u>22,347</u>		<u>59,327</u>	
Net gains for the year consist of:						
Realized net gains	\$ 16,099		-		16,099	
Unrealized net gains	20,881		22,347		43,228	
Total net gains for year	<u>\$ 36,980</u>		<u>22,347</u>		<u>59,327</u>	
Pooled investments:						
Market value per unit, including excess endowment earnings funds:						
May 31, 1998	\$ 19.88					
May 31, 1997	17.65					
Net gain per unit	\$ 2.23					
Percent gain per unit	<u>12.63%</u>					
Total spending	<u>\$ 13,162</u>					
Total earnings per current year average units outstanding	\$ 0.78					
Total earnings as a percent of average current market values	<u>4.09%</u>					
Total performance for year	<u>16.72%</u>					

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

** - Net of TRACES shares

See accompanying independent auditors' report.

MACALESTER COLLEGE
 Revenue and Expenditures of Certain Dormitories and Dining Facilities (1)
 Year Ended May 31, 1998

Schedule 2

	1962 Dormitory Bonds				
	Doty	Dupre	Kirk	Dining	Total
Operating revenue (2)	\$ <u>458,294</u>	<u>693,720</u>	<u>400,440</u>	<u>2,780,376</u>	<u>4,332,830</u>
Operating expenditures (3):					
Direct charges for repair & maintenance	36,603	48,222	23,653	38,078	146,556
Contract food services	-	-	-	1,894,913	1,894,913
Allocated expenditures for salaries & staff benefits (4)	86,449	116,961	71,194	-	274,604
Allocated expenditures for materials, supplies and other services (4)	172,726	242,773	149,695	103,635	668,829
Total expenditures	<u>295,778</u>	<u>407,956</u>	<u>244,542</u>	<u>2,036,626</u>	<u>2,984,902</u>
Excess of revenue over expenditures	\$ <u>162,516</u>	<u>285,764</u>	<u>155,898</u>	<u>743,750</u>	<u>1,347,928</u>

(1) Includes all dormitories and dining facilities financed by the 1962 dormitory bond; bond issue 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, 1998**

	1962 Dormitory Bonds		
	Revenue Fund Account	Bond and Interest Sinking Fund Account	Repair and Replacement Reserve Account
Balance at May 31, 1997	-	294,484	711,088
Revenue:			
Operating revenue (Schedule 2)	4,332,830	-	-
Investment income	-	22,501	38,433
Total revenue	<u>4,332,830</u>	<u>22,501</u>	<u>38,433</u>
Expenditures:			
Operating expenditures (Schedule 2)	2,984,902	-	-
Debt Service:			
Principal	-	110,000	-
Interest	-	20,588	-
Total expenditures	<u>2,984,902</u>	<u>130,588</u>	<u>-</u>
Transfers:			
From revenue fund accounts to sinking fund accounts	(130,588)	130,588	-
From revenue fund account to repair and replacement reserve account	(30,000)	-	30,000
To current unrestricted fund from revenue fund accounts and sinking fund accounts	(1,187,340)	(22,501)	-
Liquidation of reserve account upon repayment of bond	-	-	-
Total transfers	<u>(1,347,928)</u>	<u>108,087</u>	<u>30,000</u>
Balance at May 31, 1998*	<u>-</u>	<u>294,484</u>	<u>779,521</u>

*Based upon original cost of investments in the bond and interest sinking fund account, the College's carrying value of the 1962 Dormitory Bonds sinking fund at May 31, 1998, was \$375,000.

See accompanying independent auditors' report.

MACALESTER COLLEGE

Schedule 4

Analysis of Revenue Fund Accounts, Bond and Interest Sinking Fund Account
and Repair and Replacement Reserve Account
Year Ended May 31, 1998

	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, 1997	-	5,338	31,266	-	18,439	72,120
Revenue:						
Operating revenue	58,294	-	-	29,466,078	-	-
Investment income	-	-	-	-	-	-
Total revenue	58,294	-	-	29,466,078	-	-
Expenditures:						
Operating expenditures	44,201	-	-	-	-	-
Debt Service:						
Principal	-	4,456	-	-	15,112	-
Interest	-	4,084	-	-	14,391	-
Total expenditures	44,201	8,540	-	-	29,503	-
Transfers:						
From revenue fund accounts to sinking fund 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	(3,571)	-	-	(29,429,755)	-	-
From repair and replacement reserve to debt service reserve	-	-	-	-	-	-
Total transfers	(14,093)	8,540	1,982	(29,466,078)	29,503	6,820
Balance at May 31, 1998	-	5,338	33,248	-	18,439	78,940

See accompanying independent auditors' report.

MACALESTER COLLEGE

Insurance Coverage

Year ended May 31, 1998

Pursuant to covenants in the 1962 dormitory bond indenture 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, 1998.

See accompanying independent auditors' report.