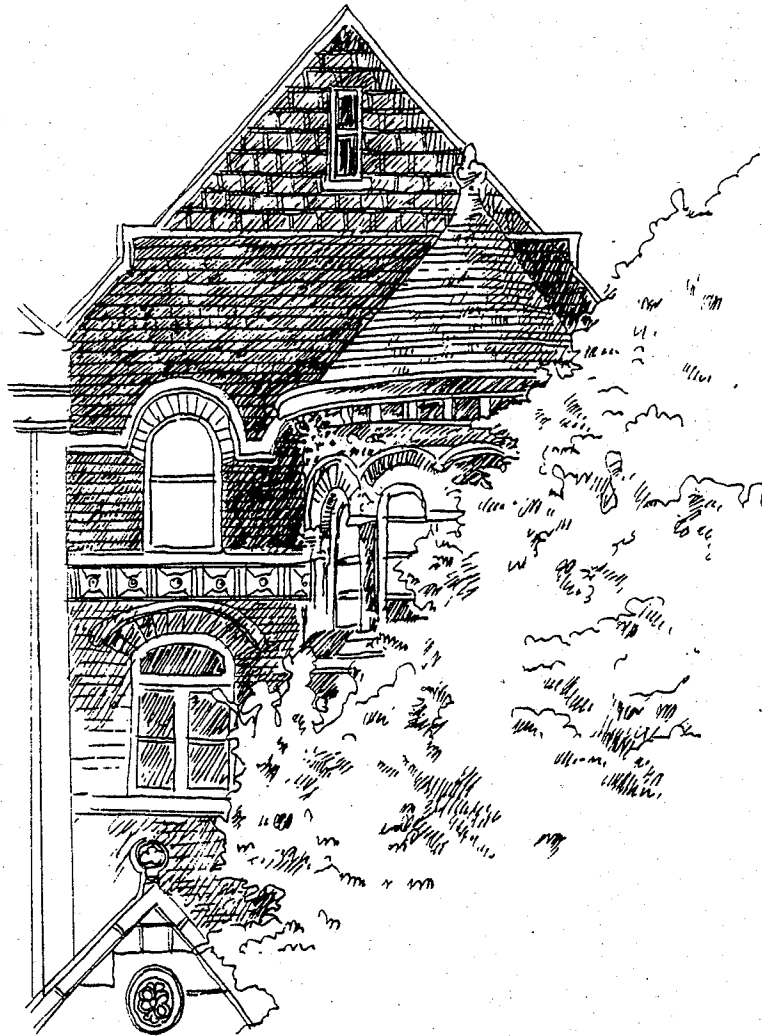


MACALESTER COLLEGE



ANNUAL FINANCIAL STATEMENTS
WITH AUDITORS OPINION
FOR YEAR ENDED MAY 31, 1999



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

TEL: 651-696-6211
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TREASURERS COMMENTS ON FISCAL YEAR 1998/99 FINANCIAL STATEMENTS

There are several extraordinary items embedded in this year's financial statements that deserve additional comment:

The first is a July 1998 sale of \$22.3 million of revenue bonds through the Minnesota Higher Education Facilities Authority. Approximately \$7 million of bond proceeds will be used for partial funding of a new campus center, for which ground was broken this July. (See footnote 12.) The balance of the proceeds were used for an advanced refunding of bonds sold in 1992. This advanced refunding had two results - - a substantial decrease in our annual debt service obligations, and recognition of a \$1.1 million extraordinary loss that resulted from yield limitations placed on the funds escrowed to defease the 1992 bonds. The net economic effect is a significant benefit to the College. This transaction is cited in Footnote 13.

In Footnote 6 of the statements you will see what is for us a new method for determining and reporting endowment payout. As explained there, we are now applying a spending formula to all assets of the Macalester endowment, including shares of Reader's Digest Association Inc. common stock held by the DeWitt Wallace Fund for Macalester College. This has resulted in a decrease of nearly \$5 million in total payout from the prior fiscal year. Despite this decrease in endowment payout we were able to again realize a substantial operating surplus, with approximately \$3.8 million designated for capital improvements. This was largely due to an 8% increase in net tuition revenues and a modest 4% increase in operating expenditures.

Lastly, I should note that Footnote 14 cites a wonderful event that was subsequent to our fiscal year end, the establishment of a \$25 million irrevocable trust for the exclusive benefit of the College. We anticipate that these assets will qualify for inclusion in next year's financial statements, along with the associated revenue stream.

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, 1999 and 1998, 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 the standards applicable to financial audits contained in *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, 1999 and 1998, 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 our report dated July 30, 1999 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 4 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 stated in all material respects in relation to the basic financial statements taken as a whole.

KPMG LLP

July 30, 1999



KPMG LLP, KPMG LLP, a U.S. limited liability partnership, is a member of KPMG International, a Swiss association.

Macalester College

Statement of Financial Position

May 31, 1999 with summarized comparative figures at May 31, 1998

(in thousands of dollars)

	<u>Operations</u>	<u>Investments</u>	<u>Plant</u>	<u>1999 Total</u>	<u>1998 Total</u>
ASSETS					
Cash and cash equivalents	\$ 13,687	549	22,746	36,982	\$ 24,429
Accrued investment income	1,574	29	2	1,605	1,844
Prepaid expenses	256	-	909	1,165	1,154
Notes and accounts receivable, net of allowance for doubtful receivables of \$684 (\$693 in 1998)	1,619	4,050	-	5,669	5,088
Contributions receivable	1,103	2,258	3,474	6,835	2,993
Long term investments	-	187,990	-	187,990	183,181
Real estate	-	2,748	-	2,748	2,640
Land, buildings and equipment, net of accumulated depreciation	-	-	95,356	95,356	97,120
Investments owned by DeWitt Wallace Fund for Macalester College, net of TRACES	-	344,350	-	344,350	322,570
Total assets	\$ 18,239	541,974	122,487	682,700	\$ 641,019
LIABILITIES AND NET ASSETS					
Accounts payable and accrued expenses	\$ 7,843	2,061	474	10,378	\$ 9,593
Deposits	420	-	-	420	379
Government grants refundable	-	3,670	-	3,670	3,440
Bonds and mortgages payable	-	-	50,011	50,011	44,311
Total liabilities	8,263	5,731	50,485	64,479	57,723
Net assets:					
Unrestricted:					
For operations	4,501	-	-	4,501	3,353
For investment in plant	-	-	5,983	5,983	6,329
For long term investments	-	60,308	-	60,308	51,188
For debt service	-	-	483	483	1,408
Net investment in plant	-	-	54,954	54,954	55,362
Unrealized gain on investments	-	23,329	-	23,329	26,496
Total unrestricted	4,501	83,637	61,420	149,558	144,136
Temporarily restricted:					
For operations	5,475	-	-	5,475	4,422
For investment in plant	-	-	10,582	10,582	6,542
For long term investments	-	27,376	-	27,376	18,447
Unrealized gain on investments	-	35,220	-	35,220	22,425
Total temporarily restricted	5,475	62,596	10,582	78,653	51,836
Permanently restricted:					
For long term investments	-	368,921	-	368,921	366,147
Unrealized gain on investments	-	21,089	-	21,089	21,177
Total permanently restricted	-	390,010	-	390,010	387,324
Total net assets	9,976	536,243	72,002	618,221	583,296
Total liabilities and net assets	\$ 18,239	541,974	122,487	682,700	\$ 641,019

See accompanying notes to financial statements.

Macalester College
Statement of Activities
Year ended May 31, 1999 with
summarized comparative figures for the year ended May 31, 1998
(in thousands of dollars)

	Operations	Investments	Plant	1999 Total	1998 Total
Changes in unrestricted net assets:					
Revenue:					
Tuition and fees	\$ 34,123	-	-	34,123	\$ 31,712
Less: Student aid and scholarships	(13,996)	-	-	(13,996)	(13,130)
Net tuition and fees	20,127			20,127	18,582
Federal grants and contracts	911	-	-	911	772
State grants and contracts	149	-	-	149	102
Private gifts and grants	2,818	-	-	2,818	1,851
Sales and service of auxiliary enterprises	6,806	-	-	6,806	6,586
Other sources	579	-	52	631	602
Investment income	700	-	106	806	849
Endowment payout	1,295	-	-	1,295	1,237
Realized and unrealized gains on investments, net of gains used in endowment payout	11	5,965	-	5,976	17,493
Net assets released from restrictions	19,487	1,383	386	21,256	24,951
Total revenue	<u>52,883</u>	<u>7,348</u>	<u>544</u>	<u>60,775</u>	<u>73,025</u>
Expenses:					
Instruction	19,070	-	3,099	22,169	21,361
Research	377	-	-	377	523
Public service	518	-	55	573	534
Academic support	4,220	-	715	4,935	4,572
Student services	7,030	-	1,446	8,476	8,201
Institutional support	7,438	-	1,221	8,659	8,485
Auxiliary enterprises	5,628	280	1,999	7,907	7,696
Administration and other expenses	-	280	-	280	159
Paid to beneficiaries	-	823	-	823	588
Total expenses	<u>44,281</u>	<u>1,383</u>	<u>8,535</u>	<u>54,199</u>	<u>52,119</u>
Transfers among reporting categories:					
Principal and interest	(3,659)	-	3,659	-	-
Renewals and replacements	(39)	-	39	-	-
Capital improvements	(3,768)	-	3,768	-	-
Long term investments	12	(12)	-	-	-
Total transfers	<u>(7,454)</u>	<u>(12)</u>	<u>7,466</u>	<u>-</u>	<u>-</u>
Net change in unrestricted net assets before extraordinary item	1,148	5,953	(525)	6,576	20,906
Extraordinary item-loss from early extinguishment of debt	-	-	(1,154)	(1,154)	-
Net change in unrestricted assets	1,148	5,953	(1,679)	5,422	20,906
Unrestricted net assets beginning of year	3,353	77,684	63,099	144,136	123,230
Unrestricted net assets at end of year	<u>\$ 4,501</u>	<u>83,637</u>	<u>61,420</u>	<u>149,558</u>	<u>\$ 144,136</u>

(continued)

See accompanying notes to financial statements.

Macalester College
Statement of Activities
(in thousands of dollars)
(Continued)

	Operations	Investments	Plant	1999 Total	1998 Total
Changes in temporarily restricted net assets:					
Private gifts and grants	\$ 903	100	4,105	5,108	\$ 4,171
Other sources	58	-	-	58	25
Investment income	239	13	300	552	264
Endowment payout	17,846	-	19	17,865	22,855
Realized and unrealized gains on investments, net of gains used in endowment payout	-	21,644	-	21,644	30,864
Net assets released from restrictions	(19,487)	(33)	(386)	(19,906)	(23,936)
Change in donor restrictions	1,496	-	-	1,496	-
Transfers among reporting categories					
Capital improvements	(2)	-	2	-	-
Net change in temporarily restricted net assets	1,053	21,724	4,040	26,817	34,243
Temporarily restricted net assets beginning of year	4,422	40,872	6,542	51,836	17,593
Temporarily restricted net assets at end of year	<u>\$ 5,475</u>	<u>62,596</u>	<u>10,582</u>	<u>78,653</u>	<u>\$ 51,836</u>
Changes in permanently restricted net assets:					
Private gifts and grants	\$ -	4,122	-	4,122	\$ 1,229
Rental income	-	224	-	224	185
Investment income	-	821	-	821	793
Endowment payout	-	5	-	5	9
Realized and unrealized gains on investments, net of gains used in endowment payout	-	326	-	326	3,196
Interest on loans receivable	-	34	-	34	30
Net assets released from restrictions	-	(1,350)	-	(1,350)	(1,015)
Change in donor restrictions	-	(1,496)	-	(1,496)	-
Net change in permanently restricted net assets	-	2,686	-	2,686	4,427
Permanently restricted net assets at beginning of year	-	387,324	-	387,324	382,897
Permanently restricted net assets at end of year	<u>\$ -</u>	<u>390,010</u>	<u>-</u>	<u>390,010</u>	<u>\$ 387,324</u>
Total net assets beginning of year	\$ 7,775	505,880	69,641	583,296	\$ 523,720
Net change in total net assets	2,201	30,363	2,361	34,925	59,576
Total net assets end of year	\$ 9,976	536,243	72,002	618,221	\$ 583,296

See accompanying notes to financial statements.

Macalester College**Statement of Cash Flows**

May 31, 1999 with comparative figures for the year ended May 31, 1998

(in thousands of dollars)

	Total 1999	Total 1998
Cash flows from operating activities:		
Change in total net assets	\$ 34,925	59,576
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	2,950	3,018
Realized gain on sale of investments	(22,735)	(24,306)
Unrealized gain on investments	(9,545)	(28,913)
Loss from early extinguishment of debt	1,154	-
Private gifts, grants and other income restricted for long term investment	(1,504)	(1,218)
Decrease in accrued investment income	239	373
(Increase) decrease in prepaid expenses	(11)	17
(Increase) decrease notes and accounts receivable	(581)	271
(Increase) decrease in contributions receivable	(3,842)	1,298
Increase (decrease) in accounts payable and accrued expenses	785	(1,327)
Increase (decrease) in deposits	41	(136)
Net cash provided by operating activities	<u>1,876</u>	<u>8,653</u>
Cash flows from investing activities:		
Proceeds from sale of investments	96,378	184,239
Net proceeds from TRACES transaction	-	55,000
Purchase of investments	(90,687)	(243,550)
Purchase of real estate	(108)	(607)
Purchase of land, building and equipment	(1,186)	(5,082)
Net cash provided (used) in investing activities	<u>4,397</u>	<u>(10,000)</u>
Cash flows from financing activities:		
Proceeds from issuance of bond payable	22,345	-
Refunding in advance on 1992 bond issue	(16,444)	-
Principal payments on bonds payable	(1,355)	(964)
Increase in government grant refundable	230	276
Private gifts, grants and other income restricted for long term investment	1,504	1,218
Net cash provided by financing activities	<u>6,280</u>	<u>530</u>
Net increase (decrease) in cash and cash equivalents	12,553	(817)
Cash and cash equivalents at beginning of the year	24,429	25,246
Cash and cash equivalents at end of the year	<u>\$ 36,982</u>	<u>24,429</u>
Supplemental disclosure - cash paid for interest	<u>\$ 2,057</u>	<u>2,316</u>

See accompanying notes to financial statements.

MACALESTER COLLEGE

Notes to Financial Statements

May 31, 1999

(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. 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 investment purposes as indicated in the presentation.

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 net assets released from restrictions. 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 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 their 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, notes and accounts receivable, accounts payable and accrued expenses, and deposits approximate fair value because of the short maturity of these financial instruments. Contributions 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 1998 financial statements, from which the summarized information was derived.

Reclassifications

Certain 1998 amounts have been reclassified to conform to the 1999 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. The Fund 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, 1999 and 1998, the value of the liability, net of the unamortized discount, was \$97,153 and \$65,923, respectively.

As of May 31, 1999, the market value of the net assets of the Fund was approximately \$346,917 (\$344,350 principal investments and \$2,567 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 1999 total \$141,290. This sum includes a grant of \$13,900 for fiscal year ended May 31, 1999.

As of May 31, 1999, \$223,316 (at fair value) of the Fund's assets were invested in the College's pooled endowment fund. This represented 10,923,188 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 fair value are as follows:

	<u>1999</u>	<u>1998</u>
Long term investments of Macalester College		
Cash equivalents	\$ 1,720	\$ 6,553
Common stocks	149,203	140,565
International equity	76,630	77,316
Preferred stock	4,973	5,798
Corporate bonds	25,863	27,198
U.S. Government obligations	82,413	83,412
Real estate, private equity, other	<u>70,504</u>	<u>61,049</u>
Subtotal fair value	<u>\$411,306</u>	<u>\$401,891</u>
Less value of units of Macalester endowment owned by DeWitt Wallace Fund for Macalester College	<u>(223,316)</u>	<u>(218,710)</u>
Total	<u>\$187,990</u>	<u>\$183,181</u>
Long term investments of DeWitt Wallace Fund for Macalester College		
Common stock	\$218,187	\$169,783
TRACES liability	(97,153)	(65,923)
Value of units in the Macalester College endowment	<u>223,316</u>	<u>218,710</u>
Total	<u>\$344,350</u>	<u>\$322,570</u>
Fair value of long term investments of Macalester College and long term investments of DeWitt Wallace Fund for Macalester College, net of TRACES	<u>\$532,340</u>	<u>\$505,751</u>
Total cost, net of TRACES	<u>\$453,877</u>	<u>\$436,835</u>

Included in the fair value of preferred stocks at May 31, 1999, is \$4,973 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 \$13,229 which is controlled by independent trustees. For the year ended May 31, 1999, the College received \$395 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 fair 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.

From 1983 to 1997, the College followed an endowment spending policy that required endowment income over a predetermined payout level (excess endowment earnings) to be transferred to quasi-endowment where it was unitized.

Since June 1, 1997, endowment investment and spending has been based on a total return policy. The Board of Trustees sets a spending rate which is used to establish the endowment payout. A spending rate of 5.0% is applied to a sixteen-quarter average of investment fair value. If yield (interest and dividend income) is not sufficient to support the resulting payout, the balance is allocated from gains of the endowment assets. Beginning June 1, 1998, the payout was supplemented by an amount equivalent to investment expenses. Since June 1, 1998, the formula-based spending was extended to the RDA common stock.

The College's endowment payout on pooled and non-pooled assets, as reported in the financial statements is as follows:

Year ended May 31, 1999	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment yield (net of investment expenses of \$922)	\$ 1,038	\$ 13,794	\$ 4	\$ 14,836
Gains used in endowment payout	257	4,071	1	4,329
Endowment payout	<u>\$ 1,295</u>	<u>\$ 17,865</u>	<u>\$ 5</u>	<u>\$ 19,165</u>

(Continued)

MACALESTER COLLEGE

Notes to Financial Statements

(in thousands of dollars)

Year ended May 31, 1998	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment yield	\$ 448	\$ 21,978	\$ 9	\$ 22,435
Gains used in endowment payout	<u>789</u>	<u>877</u>	<u>-</u>	<u>1,666</u>
Endowment payout	<u>\$ 1,237</u>	<u>\$ 22,855</u>	<u>\$ 9</u>	<u>\$ 24,101</u>

7) Contributions Receivable

Contributions receivable consisted of the following:

	<u>1999</u>	<u>1998</u>
Unconditional promises expected to be collected in:		
Less than one year	\$ 1,351	\$ 1,032
One year to five years	5,310	2,160
Greater than five years	957	0
Less: Discount to present value (5%)	<u>(783)</u>	<u>(199)</u>
	<u>\$ 6,835</u>	<u>\$ 2,993</u>

8) Land, Building and Equipment

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

	<u>1999</u>	<u>1998</u>
Land and land improvements	\$ 1,414	\$ 1,414
Buildings	116,331	115,714
Equipment	2,946	2,725
Construction in progress	<u>2,145</u>	<u>1,797</u>
	\$122,836	\$121,650
Less: Accumulated depreciation	<u>(27,480)</u>	<u>(24,530)</u>
	<u>\$ 95,356</u>	<u>\$ 97,120</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>1999</u>	<u>1998</u>
Macalester College Dormitory Bonds of 1962, 3-3/8%, final series due May 1, 2002 (original amount \$2,850)	\$ 380	500
College Housing Program Mortgages at 3%, due in semi-annual installments through 2020 (original amount \$880)	581	601
Minnesota Higher Education Facilities Authority Mortgage Revenue Bonds of 1992, 6.33% average, final series due 2022 (original amount \$15,670)	0	15,290
Minnesota Higher Education Facilities Authority variable rate demand revenue bonds of 1994, weekly maturity and rate reset, 3.24% average for current fiscal year, total principal due 2024 (original amount \$6,660)	6,660	6,660
Minnesota Higher Education Facilities Authority Revenue Bonds of 1995, 5.48% average, final series due 2016 (original amount \$11,245)	10,165	10,540
Minnesota Higher Education Facilities Authority Revenue Bonds of 1997, 5.41% average, final series due 2017 (original amount \$11,000)	10,370	10,720
Minnesota Higher Education Facilities Authority Revenue Bonds of 1998, 4.94% average, final series due 2022 (original amount \$22,345)	<u>21,855</u>	<u>0</u>
	<u>\$ 50,011</u>	<u>\$ 44,311</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, 1999 and 1998) 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 at May 31, 1999 and 1998, 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, 1999 and 1998, 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. These bonds were refunded in advance during fiscal year 1999. (See footnote 13).

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.

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%. A portion of the proceeds will be used, together with other funds of the College, for construction of a new campus center. The remaining portion was used for refunding in advance the 1992 bond issue. (See footnote 13).

(Continued)

MACALESTER COLLEGE

Notes to Financial Statements

(in thousands of dollars)

Annual debt commitments (principal) at May 31, 1999, are as follows:

<u>Fiscal year ending May 31.</u>	<u>Amount</u>
2000	1,241
2001	1,491
2002	1,462
2003	1,528
2004	1,608
after 2004	<u>42,681</u>
	<u>\$ 50,011</u>

Total interest costs on debt aggregated \$2,304 and \$2,313 during the year ended May 31, 1999 and 1998, 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, 1999, 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, and Vanguard Fiduciary Trust Company. 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, 1999 and 1998, was approximately \$193 and \$258, respectively.

Total pension expense for the year ended May 31, 1999, was \$1,829 including \$33 paid under the unfunded supplemental plan and for the year ended May 31, 1998, was \$1,758 including \$37 paid under the unfunded supplemental plan.

(Continued)

MACALESTER COLLEGE

Notes to Financial Statements

(in thousands of dollars)

12) Commitments and Contingencies

The College has a construction contract for a new campus center totaling approximately \$13,000 at May 31, 1999. Funding for this commitment has been provided by debt issuance and capital fund raising.

13) Extraordinary Item

In July of 1998, the 1992 revenue bonds were refunded in advance with a portion of the 1998 bonds proceeds. From the 1998 proceeds \$15,200, net of issuance costs and discounts of \$253, was placed in escrow to refund in advance the balance of the 1992 bonds, along with \$1,397 from the 1992 bond reserve and sinking fund. This resulted in recognition of an extraordinary loss from extinguishment of debt of \$1,154.

14) Subsequent Event

In July of 1999, an irrevocable trust was established for the exclusive benefit of Macalester College, with assets of approximately \$25 million. This trust is controlled by independent trustees, who are required by the trust agreement to distribute at least annually to the College the net income of the trust. The fiscal year 1999 financial statements do not reflect the College's beneficial interest in the trust.

MACALESTER COLLEGE
 Revenue and Expenditures of Certain Dormitories and Dining Facilities (1)
 Year Ended May 31, 1999

Schedule 1

	1962 Dormitory Bonds				
	Doty	Dupre	Kirk	Dining	Total
Operating revenue (2)	\$ <u>440,736</u>	<u>713,178</u>	<u>412,510</u>	<u>2,780,376</u>	<u>4,346,799</u>
Operating expenditures (3):					
Direct charges for repair & maintenance	38,779	42,764	23,653	45,909	151,105
Contract food services	-	-	-	2,040,399	2,040,399
Allocated expenditures for salaries & staff benefits (4)	84,256	113,993	69,387	-	267,636
Allocated expenditures for materials, supplies and other services (4)	176,662	248,284	153,107	105,997	684,049
Total expenditures	<u>299,697</u>	<u>405,041</u>	<u>246,147</u>	<u>2,192,306</u>	<u>3,143,190</u>
Excess of revenue over expenditures	\$ <u>141,039</u>	<u>308,137</u>	<u>166,363</u>	<u>588,070</u>	<u>1,203,609</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 2

**Analysis of Revenue Fund Accounts, Bond and Interest Sinking Fund Account
and Repair and Replacement Reserve Account
Year Ended May 31, 1999**

	1962 Dormitory Bonds		
	Revenue Fund Account	Bond and Interest Sinking Fund Account	Repair and Replacement Reserve Account
Balance at May 31, 1998	-	294,484	779,521
Revenue:			
Operating revenue (Schedule 1)	4,346,799	-	-
Investment income	-	18,705	33,888
Total revenue	<u>4,346,799</u>	<u>18,705</u>	<u>33,888</u>
Expenditures:			
Operating expenditures (Schedule 1)	3,143,190	-	-
Withdrawal for building repair	-	-	147,502
Debt Service:			
Principal	-	120,000	-
Interest	-	16,875	-
Total expenditures	<u>3,143,190</u>	<u>136,875</u>	<u>147,502</u>
Transfers:			
From revenue fund accounts to sinking fund account	(136,875)	136,875	-
From revenue fund account to repair and replacement reserve account	(30,000)	-	30,000
To current unrestricted fund from revenue fund account and sinking fund account	(1,036,734)	(18,705)	-
Liquidation of reserve account upon repayment of bond	-	-	-
Total transfers	<u>(1,203,609)</u>	<u>118,170</u>	<u>30,000</u>
Balance at May 31, 1999*	<u>-</u>	<u>294,484</u>	<u>695,907</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, 1999, was \$374,000.

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, 1999

	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, 1998	-	5,338	33,248	-	18,439	78,940
Revenue:						
Operating revenue	60,195	-	-	31,591,213	-	-
Total revenue	<u>60,195</u>	<u>-</u>	<u>-</u>	<u>31,591,213</u>	<u>-</u>	<u>-</u>
Expenditures:						
Operating expenditures	36,633	-	-	-	-	-
Debt Service:						
Principal	-	4,591	-	-	15,569	-
Interest	-	3,949	-	-	13,934	-
Total expenditures	<u>36,633</u>	<u>8,540</u>	<u>-</u>	<u>-</u>	<u>29,503</u>	<u>-</u>
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	(13,040)	-	-	(31,554,890)	-	-
Total transfers	<u>(23,562)</u>	<u>8,540</u>	<u>1,982</u>	<u>(31,591,213)</u>	<u>29,503</u>	<u>6,820</u>
Balance at May 31, 1999	<u>-</u>	<u>5,338</u>	<u>35,230</u>	<u>-</u>	<u>18,439</u>	<u>85,760</u>

See accompanying independent auditors' report.

MACALESTER COLLEGE

Insurance Coverage

Year ended May 31, 1999

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, 1999.

See accompanying independent auditors' report.