

MACALESTER COLLEGE



ANNUAL FINANCIAL STATEMENTS
WITH AUDITORS OPINION
FOR YEAR ENDED MAY 31, 2000



VICE PRESIDENT FOR
ADMINISTRATION & TREASURER
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**TREASURERS COMMENTS ON
FISCAL YEAR 1999/2000 FINANCIAL STATEMENTS**

This year our financial statements include a restatement of net assets for fiscal year 1999 to reflect a change in accounting and financial reporting for split-interest agreements, primarily charitable gift annuities, remainder unitrusts, and pooled life income funds. Liabilities are now recorded and reported for the estimated future payments to income beneficiaries. Details on this restatement can be found on page 3 of the footnotes.

The Statement of Cash Flows is prepared in accordance with generally accepted accounting principles. As a result, gifts received for long term financial investments are reported as financing activities, while the outflow from investment of this cash is reported as investing activities, along with cash outflows associated with investment facilities. There is significant activity reported in both areas of activity in the 1999/2000 fiscal year.

With these clarifications, I think you'll find that these financial statements clearly reveal strong operating results, a significant investment in our physical facilities, and a substantial increase in net assets for long term investment. We are pleased to share this evidence of continued financial strength and stability with you.

Craig H. Aase
Vice President for Administration and Treasurer



4200 Wells Fargo Center
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Minneapolis, MN 55402

Independent Auditors' Report

The Board of Trustees
Macalester College:

We have audited the accompanying statements of financial position of Macalester College (the College) as of May 31, 2000 and 1999, 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 auditing standards generally accepted in the United States of America 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, 2000 and 1999, and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in note 2 to the financial statements, the College changed its method of accounting for split-interest agreements to comply with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated July 26, 2000 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. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

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 26, 2000



KPMG LLP, KPMG LLP, a U.S. limited liability partnership, is
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Macalester College

Statements of Financial Position

May 31, 2000 and 1999

(in thousands of dollars)

	<u>Operations</u>	<u>Investments</u>	<u>Plant</u>	<u>2000 Total</u>	<u>1999 Total</u>
ASSETS					
Cash and cash equivalents	\$ 17,536	(2,707)	20,166	34,995	\$ 36,982
Accrued investment income	2,081	32	3	2,116	1,605
Prepaid expenses	298	-	881	1,179	1,165
Notes and accounts receivable, net of allowance for doubtful receivables of \$709 (\$684 in 1999)	1,578	4,328	-	5,906	5,669
Contributions receivable	1,770	2,006	2,863	6,639	6,835
Long term investments	-	206,650	-	206,650	187,990
Real estate	-	4,445	-	4,445	2,748
Land, buildings and equipment, net of accumulated depreciation	-	-	101,915	101,915	95,356
Beneficial interest in perpetual trust	-	20,408	-	20,408	-
Investments owned by DeWitt Wallace Fund for Macalester College, net of TRACES	-	340,686	-	340,686	344,350
Total assets	\$ 23,263	575,848	125,828	724,939	\$ 682,700
LIABILITIES AND NET ASSETS					
Accounts payable and accrued expenses	\$ 10,930	-	474	11,404	\$ 8,317
Present value of beneficiary payments	-	9,070	-	9,070	9,162
Deposits	370	1	-	371	420
Government grants refundable	-	3,789	-	3,789	3,670
Bonds and mortgages payable	-	-	48,770	48,770	50,011
Total liabilities	11,300	12,860	49,244	73,404	71,580
Net assets:					
Unrestricted:					
For operations	5,192	-	-	5,192	4,501
For investment in plant	-	-	4,268	4,268	5,983
For long term investments	-	72,029	-	72,029	60,308
For debt service	-	-	1,317	1,317	483
Net investment in plant	-	-	62,753	62,753	54,954
Unrealized gain on investments	-	26,995	328	27,323	23,329
Total unrestricted	5,192	99,024	68,666	172,882	149,558
Temporarily restricted:					
For operations	6,771	-	-	6,771	5,475
For investment in plant	-	-	7,918	7,918	10,582
For long term investments	-	39,303	-	39,303	27,066
Unrealized gain on investments	-	20,384	-	20,384	35,210
Total temporarily restricted	6,771	59,687	7,918	74,376	78,333
Permanently restricted:					
For long term investments	-	383,452	-	383,452	361,847
Unrealized gain on investments	-	20,825	-	20,825	21,382
Total permanently restricted	-	404,277	-	404,277	383,229
Total net assets	11,963	562,988	76,584	651,535	611,120
Total liabilities and net assets	\$ 23,263	575,848	125,828	724,939	\$ 682,700

See accompanying notes to financial statements.

Macalester College

Statements of Activities

Years ended May 31, 2000 and 1999

(in thousands of dollars)

	Operations	Investments	Plant	2000 Total	1999 Total
Changes in unrestricted net assets:					
Revenue:					
Tuition and fees	\$ 36,244	-	-	36,244	\$ 34,123
Less: Student aid and scholarships	(14,737)	-	-	(14,737)	(13,996)
Net tuition and fees	21,507	-	-	21,507	20,127
Federal grants and contracts	849	-	-	849	911
State grants and contracts	240	-	-	240	149
Private gifts and grants	3,535	-	-	3,535	2,818
Sales and service of auxiliary enterprises	6,941	-	-	6,941	6,806
Other sources	576	-	-	576	631
Investment income	913	-	377	1,290	806
Endowment payout	1,366	-	-	1,366	1,295
Realized and unrealized gains (losses) on investments, net of gains used in endowment payout	(21)	15,291	328	15,598	5,976
Net assets released from restrictions	19,551	353	7,190	27,094	20,393
Total revenue	<u>55,457</u>	<u>15,644</u>	<u>7,895</u>	<u>78,996</u>	<u>59,912</u>
Expenses:					
Instruction	20,611	-	1,954	22,565	22,169
Research	656	-	-	656	377
Public service	463	-	35	498	573
Academic support	4,533	-	464	4,997	4,935
Student services	7,736	-	1,261	8,997	8,476
Institutional support	8,933	-	1,040	9,973	8,659
Auxiliary enterprises	6,059	271	1,575	7,905	7,907
Administration and other expenses	-	81	-	81	240
Total expenses	<u>48,991</u>	<u>352</u>	<u>6,329</u>	<u>55,672</u>	<u>53,336</u>
Transfers among reporting categories:					
Principal and interest	(3,655)	-	3,655	-	-
Renewals and replacements	(39)	-	39	-	-
Capital improvements	(1,986)	-	1,986	-	-
Long term investments	(95)	95	-	-	-
Total transfers	<u>(5,775)</u>	<u>95</u>	<u>5,680</u>	<u>-</u>	<u>-</u>
Net change in unrestricted net assets before extraordinary item	691	15,387	7,246	23,324	6,576
Extraordinary item-loss from early extinguishment of debt	-	-	-	-	(1,154)
Net change in unrestricted assets	<u>691</u>	<u>15,387</u>	<u>7,246</u>	<u>23,324</u>	<u>5,422</u>
Unrestricted net assets beginning of year, as restated (Note 2)	4,501	83,637	61,420	149,558	144,136
Unrestricted net assets at end of year	<u>\$ 5,192</u>	<u>99,024</u>	<u>68,666</u>	<u>172,882</u>	<u>\$ 149,558</u>

(continued)

See accompanying notes to financial statements.

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

	Operations	Investments	Plant	2000 Total	1999 Total
Changes in temporarily restricted net assets:					
Private gifts and grants	\$ 1,295	52	3,962	5,309	\$ 5,044
Other sources	66	-	-	66	58
Investment income	75	-	500	575	539
Endowment payout	16,447	-	21	16,468	17,865
Realized and unrealized gains (losses) on investments, net of gains used in endowment payout	-	(2,616)	-	(2,616)	21,638
Change in value of split interest agreements	-	9	-	9	11
Net assets released from restrictions	(19,551)	-	(7,190)	(26,741)	(19,873)
Change in donor restrictions	2,973	-	-	2,973	1,496
Transfers among reporting categories					
Capital improvements	(9)	(34)	43	-	-
Net change in temporarily restricted net assets	1,296	(2,589)	(2,664)	(3,957)	26,778
Temporarily restricted net assets beginning of year, as restated (Note 2)	5,475	62,276	10,582	78,333	51,555
Temporarily restricted net assets at end of year	<u>\$ 6,771</u>	<u>59,687</u>	<u>7,918</u>	<u>74,376</u>	<u>\$ 78,333</u>
Changes in permanently restricted net assets:					
Private gifts and grants	\$ -	22,049	-	22,049	\$ 3,590
Rental income	-	224	-	224	224
Investment income	-	1,259	-	1,259	415
Endowment payout	-	4	-	4	5
Realized and unrealized gains on investments, net of gains used in endowment payout	-	429	-	429	316
Interest on loans receivable	-	32	-	32	34
Change in value of beneficial interest in perpetual trust	-	408	-	408	-
Change in value of split interest agreements	-	(31)	-	(31)	(23)
Net assets released from restrictions	-	(353)	-	(353)	(520)
Change in donor restrictions	-	(2,973)	-	(2,973)	(1,496)
Net change in permanently restricted net assets	-	21,048	-	21,048	2,545
Permanently restricted net assets at beginning of year, as restated (Note 2)	-	383,229	-	383,229	380,684
Permanently restricted net assets at end of year	<u>\$ -</u>	<u>404,277</u>	<u>-</u>	<u>404,277</u>	<u>\$ 383,229</u>
Total net assets beginning of year, as restated (Note 2)	\$ 9,976	529,142	72,002	611,120	\$ 576,375
Net change in total net assets	1,987	33,846	4,582	40,415	34,745
Total net assets end of year	\$ 11,963	562,988	76,584	651,535	\$ 611,120

See accompanying notes to financial statements.

Macalester College
Statements of Cash Flows
Years ended May 31, 2000 and 1999
(in thousands of dollars)

	<u>2000</u>	<u>1999</u>
Cash flows from operating activities:		
Change in total net assets	\$ 40,415	34,745
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	3,002	2,950
Realized gain on sale of investments	(24,799)	(22,735)
Unrealized (gain) loss on investments	11,388	(9,545)
Loss from early extinguishment of debt	-	1,154
Private gifts, grants and other income restricted for long term investment	(20,414)	(1,504)
(Increase) decrease in accrued investment income	(511)	239
Increase in prepaid expenses	(14)	(11)
Increase notes and accounts receivable	(237)	(581)
(Increase) decrease in contributions receivable	196	(3,842)
Increase in accounts payable and accrued expenses	3,087	694
Increase (decrease) in present value of beneficiary payments	(92)	271
Increase (decrease) in deposits	(49)	41
Net cash provided by operating activities	<u>11,972</u>	<u>1,876</u>
Cash flows from investing activities:		
Proceeds from sale of investments	169,119	96,378
Purchase of investments	(191,171)	(90,687)
Purchase of real estate	(1,638)	(108)
Purchase of land, building and equipment	(9,561)	(1,186)
Net cash provided (used) in investing activities	<u>(33,251)</u>	<u>4,397</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	(1,241)	(1,355)
Increase in government grant refundable	119	230
Private gifts, grants and other income restricted for long term investment	20,414	1,504
Net cash provided by financing activities	<u>19,292</u>	<u>6,280</u>
Net increase (decrease) in cash and cash equivalents	(1,987)	12,553
Cash and cash equivalents at beginning of the year	36,982	24,429
Cash and cash equivalents at end of the year	<u>\$ 34,995</u>	<u>36,982</u>
Supplemental disclosure - cash paid for interest	<u>\$ 2,414</u>	<u>2,057</u>

See accompanying notes to financial statements.

MACALESTER COLLEGE

Notes to Financial Statements

May 31, 2000 and 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 revenue 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 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.

Split Interest Agreement

During in fiscal year 2000, the College changed its accounting and financial reporting for split-interest agreements to comply with generally accepted accounting principles. This change qualifies for reporting as a prior-period adjustment. Accordingly, the College has restated beginning net assets for fiscal year 1999 for the effects of the correction as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Net assets as previously reported at June 1, 1998	\$144,136	\$ 51,836	\$387,324	\$583,296
For long term investments	-	(261)	(6,237)	(6,498)
Unrealized gains on investments	<u>-</u>	<u>(20)</u>	<u>(403)</u>	<u>(423)</u>
Restated net assets at June 1, 1998	<u>\$144,136</u>	<u>\$ 51,555</u>	<u>\$380,684</u>	<u>\$576,375</u>

(Continued)

MACALESTER COLLEGE

Notes to Financial Statements

(in thousands of dollars)

The College has also made corresponding adjustments to amounts previously reported in the fiscal 1999 financial statements for the change in accounting and financial reporting for split-interest agreements. As a result, the net increase in total net assets during fiscal 1999 was reduced by \$180, from \$34,925 to \$34,745.

The College's split interest agreements consist primarily of charitable gift annuities, charitable remainder unitrust contracts and pooled life income funds. For those trusts for which the College is the trustee, the assets are reported as long-term investments at their fair value. Contribution revenue is recognized at the dates the trusts are established after recording a liability for the present value of the estimated future payments to be made to the beneficiaries. The obligation is adjusted during the term of the agreement for changes in the value of the assets, amortization of the discount and other changes in the estimates of future benefits.

For those irrevocable trusts for which the College does not serve as trustee, contribution revenue and a receivable are recognized at the date the trust is established for the present value of the estimated future payments to be received.

The College is also the beneficiary of a perpetual trust held and administered by others. The estimated fair value of the assets were recognized as assets and revenue at the date the College was notified of the establishment of the trust. Distributions from the trust are recorded as investment income.

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 revenue and expenses during the reporting period. Actual results could differ from these estimates.

Reclassifications

Certain 1999 amounts have been reclassified to conform to the 2000 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. (RDA); 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, 2000 and 1999, the value of the liability, net of the unamortized discount, was \$95,945 and \$97,153, respectively.

As of May 31, 2000, the market value of the Fund's assets was \$340,686, consisting of 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 2000 total \$154,790. This sum includes a grant of \$13,500 for fiscal year ended May 31, 2000.

As of May 31, 2000, \$256,236 (at fair value) of the Fund's assets were invested in the College's pooled endowment fund. This represented 11,585,805 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>2000</u>	<u>1999</u>
Long term investments of Macalester College		
Cash equivalents	\$ 5,665	\$ 1,720
Common stocks	153,227	149,203
International equity	79,327	76,630
Preferred stock	5,189	4,973
Corporate bonds	24,686	25,863
U.S. Government obligations	98,373	82,413
Real estate, private equity, other	<u>96,419</u>	<u>70,504</u>
Subtotal fair value	\$462,886	\$411,306
Less value of units of Macalester endowment owned by DeWitt Wallace Fund for Macalester College	<u>(256,236)</u>	<u>(223,316)</u>
Total	<u>\$206,650</u>	<u>\$187,990</u>
Long term investments of DeWitt Wallace Fund for Macalester College		
Common stock	\$180,395	\$218,187
TRACES liability	(95,945)	(97,153)
Value of units in the Macalester College endowment	<u>256,236</u>	<u>223,316</u>
Total	<u>\$340,686</u>	<u>\$344,350</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>\$547,336</u>	<u>\$532,340</u>
Total cost, net of TRACES	<u>\$480,533</u>	<u>\$453,877</u>

Included in the fair value of preferred stocks at May 31, 2000, is \$5,189 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's beneficial interest in the fair market of assets in a perpetual trust is \$20,408 as of May 31, 2000. This trust was created and recorded as a beneficial interest in a perpetual trust in fiscal year 2000. For the year ended May 31, 2000, the College received \$813 from this trust.

The College is the income beneficiary of a revocable trust with an estimated value of \$11,377 and \$13,229 as of May 31, 2000 and 1999, respectively, which is controlled by independent trustees. For the year ended May 31, 2000 and 1999, the College received \$400 and \$395 from this trust, respectively. These assets are not recorded 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 formula-based spending was extended to the RDA common stock and the payout was supplemented by an amount equivalent to investment expenses.

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

Year ended May 31, 2000	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment yield (net of investment expenses of \$1,003)	\$ 1,137	\$ 12,261	\$ 3	\$ 13,401
Gains used in endowment payout	<u>229</u>	<u>4,207</u>	<u>1</u>	<u>4,437</u>
Endowment payout	<u>\$ 1,366</u>	<u>\$ 16,468</u>	<u>\$ 4</u>	<u>\$ 17,838</u>

(Continued)

MACALESTER COLLEGE

Notes to Financial Statements

(in thousands of dollars)

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	<u>257</u>	<u>4,071</u>	<u>1</u>	<u>4,329</u>
Endowment payout	<u>\$ 1,295</u>	<u>\$ 17,865</u>	<u>\$ 5</u>	<u>\$ 19,165</u>

7) Contributions Receivable

Contributions receivable consisted of the following:

	<u>2000</u>	<u>1999</u>
Unconditional promises expected to be collected in:		
Less than one year	\$ 3,407	\$ 1,351
One year to five years	2,961	5,310
Greater than five years	887	957
Less: Discount to present value (5%)	<u>(616)</u>	<u>(783)</u>
	<u>\$ 6,639</u>	<u>\$ 6,835</u>

8) Land, Building and Equipment

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

	<u>2000</u>	<u>1999</u>
Land and land improvements	\$ 1,414	\$ 1,414
Buildings	117,170	116,331
Equipment	3,336	2,946
Construction in progress	<u>10,464</u>	<u>2,145</u>
	\$132,384	\$122,836
Less: Accumulated depreciation	<u>(30,469)</u>	<u>(27,480)</u>
	<u>\$ 101,915</u>	<u>\$ 95,356</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>2000</u>	<u>1999</u>
Macalester College Dormitory Bonds of 1962, 3-3/8%, final series due May 1, 2002 (original amount \$2,850)	\$ 260	380
College Housing Program Mortgages at 3%, due in semi-annual installments through 2020 (original amount \$880)	560	581
Minnesota Higher Education Facilities Authority variable rate demand revenue bonds of 1994, weekly maturity and rate reset, 3.65% 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)	9,880	10,165
Minnesota Higher Education Facilities Authority Revenue Bonds of 1997, 5.41% average, final series due 2017 (original amount \$11,000)	10,005	10,370
Minnesota Higher Education Facilities Authority Revenue Bonds of 1998, 4.94% average, final series due 2022 (original amount \$22,345)	21,405	21,855
	<u>\$ 48,770</u>	<u>\$ 50,011</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, 2000 and 1999) 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, 2000 and 1999, 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 \$781 and \$652 at May 31, 2000 and 1999, respectively, and by pledges of gross stadium and tuition revenues.

(Continued)

MACALESTER COLLEGE

Notes to Financial Statements

(in thousands of dollars)

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 Olin/Rice 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).

Annual debt commitments (principal) at May 31, 2000, are as follows:

<u>Fiscal year ending May 31.</u>	<u>Amount</u>
2001	1,491
2002	1,462
2003	1,528
2004	1,608
2005	1,680
after 2005	<u>41,001</u>
	<u>\$ 48,770</u>

Total interest costs on debt aggregated \$2,414 and \$2,304 during the year ended May 31, 2000 and 1999, 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, 2000, the High Winds Fund owned nine properties surrounding the College campus.

11) Retirement Plan

The College provides retirement 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, 2000 and 1999, was approximately \$185 and \$193, respectively.

Total pension expense for the year ended May 31, 2000, was \$1,873 including \$25 paid under the unfunded supplemental plan and for the year ended May 31, 1999, was \$1,829 including \$33 paid under the unfunded supplemental plan.

12) Functional Expenses

Expenses are reported in the College's financial statements in categories recommended by the National Association of College and University Business Officers and are classified among program and supporting services as follows:

	<u>2000</u>	<u>1999</u>
Program - Student instruction and services	\$45,945	\$44,017
Management and general	6,372	6,105
Fundraising	<u>3,355</u>	<u>3,214</u>
	<u>\$55,672</u>	<u>\$53,336</u>

(Continued)

MACALESTER COLLEGE

Notes to Financial Statements

(in thousands of dollars)

13) Commitments and Contingencies

The College has outstanding construction contracts totaling approximately \$6,692 at May 31, 2000. Completion is estimated for January, 2001. The College is committed as of May 31, 2000 to invest approximately \$32,049 in certain limited partnership's for long term investment purposes.

14) 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.

MACALESTER COLLEGE
 Revenue and Expenditures of Certain Dormitories and Dining Facilities (1)
 Year Ended May 31, 2000

Schedule 1

	1962 Dormitory Bonds				Total
	Doty	Dupre	Kirk	Dining	
Operating revenue (2)	\$ <u>465,644</u>	<u>762,450</u>	<u>439,530</u>	<u>3,044,310</u>	<u>4,711,934</u>
Operating expenditures (3):					
Direct charges for repair & maintenance	36,343	41,821	35,460	32,287	145,910
Contract food services	-	-	-	1,979,363	1,979,363
Allocated expenditures for salaries & staff benefits (4)	85,457	115,618	70,376	-	271,450
Allocated expenditures for materials, supplies and other services (4)	182,067	255,876	157,791	109,240	704,974
Total expenditures	<u>303,866</u>	<u>413,314</u>	<u>263,627</u>	<u>2,120,890</u>	<u>3,101,698</u>
Excess of revenue over expenditures	\$ <u>161,778</u>	<u>349,136</u>	<u>175,903</u>	<u>923,420</u>	<u>1,610,236</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, 2000

	1962 Dormitory Bonds		
	Revenue Fund Account	Bond and Interest Sinking Fund Account	Repair and Replacement Reserve Account
Balance at May 31, 1999	-	294,484	695,907
Revenue:			
Operating revenue (Schedule 1)	4,711,934	-	-
Investment income	-	19,081	33,936
Total revenue	4,711,934	19,081	33,936
Expenditures:			
Operating expenditures (Schedule 1)	3,101,698	-	-
Withdrawal for building repair	-	-	-
Debt Service:			
Principal	-	120,000	-
Interest	-	12,825	-
Total expenditures	3,101,698	132,825	0
Transfers:			
From revenue fund accounts to sinking fund account	(132,825)	132,825	-
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	(1,447,411)	(19,081)	-
Liquidation of reserve account upon repayment of bond	-	-	-
Total transfers	(1,610,236)	113,744	30,000
Balance at May 31, 2000*	-	294,484	759,843

*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, 2000, 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, 2000

	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, 1999	-	5,338	35,230	-	18,439	85,760
Revenue:						
Operating revenue	65,532	-	-	33,739,150	-	-
Total revenue	<u>65,532</u>	<u>-</u>	<u>-</u>	<u>33,739,150</u>	<u>-</u>	<u>-</u>
Expenditures:						
Operating expenditures	34,872	-	-	-	-	-
Debt Service:						
Principal	-	4,729	-	-	16,043	-
Interest	-	3,811	-	-	13,461	-
Total expenditures	<u>34,872</u>	<u>8,540</u>	<u>-</u>	<u>-</u>	<u>29,504</u>	<u>-</u>
Transfers:						
From revenue fund accounts to debt service accounts	(8,540)	8,540	-	(29,504)	29,504	-
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	(20,138)	-	-	(33,702,826)	-	-
Total transfers	<u>(30,660)</u>	<u>8,540</u>	<u>1,982</u>	<u>(33,739,150)</u>	<u>29,504</u>	<u>6,820</u>
Balance at May 31, 2000	<u>-</u>	<u>5,338</u>	<u>37,212</u>	<u>-</u>	<u>18,439</u>	<u>92,580</u>

See accompanying independent auditors' report.

MACALESTER COLLEGE

Insurance Coverage

Year ended May 31, 2000

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, 2000.

See accompanying independent auditors' report.