

# MACALESTER COLLEGE



ANNUAL FINANCIAL STATEMENTS  
WITH AUDITORS OPINION  
FOR YEAR ENDED MAY 31, 2001



VICE PRESIDENT FOR  
ADMINISTRATION & TREASURER  
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**TREASURER'S COMMENTS ON  
FISCAL YEAR 2000/01 FINANCIAL STATEMENTS**

In FY 2000/01 we experienced a decrease of approximately \$31 million in total net assets, as the financial markets took back some of the gains realized in recent years. Total net assets are now roughly where they were two years ago, but well ahead of 1997, prior to the stock market run up. Our diversified endowment portfolio has proven to be relatively durable, with a total return for the 12 months ending June 30, 2001, of approximately -5%.

We continue to invest in our physical assets, with over \$10 million of capital expenditures in fiscal 2001. We also invested a significant amount of accumulated operating surplus in non-capital maintenance of facilities. These investments are reflected both in our reduced cash balances and a temporary elevation of our operating expenses.

Footnote 14 is a brief disclosure of the dissolution of the DeWitt Wallace Fund for Macalester College subsequent to the fiscal year end. Assets of this Fund, on our books for over a decade, will remain intact and unchanged from the dissolution per se. The benefits to the College are in terms of greater security of these assets, full control of their stewardship, and greater potential for full diversification of our endowment, which at May 31 of this year included approximately 13% in Reader's Digest Association, Inc. common stock. The assets formerly within the Fund will support those same core educational programs as funded in the past.

Craig H. Aase  
Vice President for Administration and Treasurer



4200 Wells Fargo Center  
90 South Seventh Street  
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## 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, 2001 and 2000, 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, 2001 and 2000, 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.

In accordance with *Government Auditing Standards*, we have also issued a report dated August 3, 2001 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 3 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**

August 3, 2001



**Macalester College**  
**Statements of Financial Position**  
**May 31, 2001 and 2000**  
(in thousands of dollars)

	<u>Operations</u>	<u>Investments</u>	<u>Plant</u>	<u>2001 Total</u>	<u>2000 Total</u>
<b>ASSETS</b>					
Cash and cash equivalents	\$ 13,364	(5,602)	3,240	11,002	\$ 17,786
Accrued investment income	1,897	34	3	1,934	2,116
Prepaid expenses	321	-	852	1,173	1,179
Notes and accounts receivable, net of allowance for doubtful receivables of \$709 in 2001 and 2000	1,213	4,391	-	5,604	5,906
Contributions receivable, net	1,379	1,597	829	3,805	6,639
Funds for investment in land, buildings and equipment	-	-	10,457	10,457	12,186
Long term investments	5,018	202,371	-	207,389	211,673
Real estate	-	5,381	-	5,381	4,445
Land, buildings and equipment, net of accumulated depreciation	-	-	109,397	109,397	101,915
Beneficial interest in perpetual trust	-	27,648	-	27,648	20,408
Investments owned by DeWitt Wallace Fund for Macalester College, net of TRACES	-	307,515	-	307,515	340,686
<b>Total assets</b>	<b>\$ 23,192</b>	<b>543,335</b>	<b>124,778</b>	<b>691,305</b>	<b>\$ 724,939</b>
<b>LIABILITIES AND NET ASSETS</b>					
<b>Liabilities:</b>					
Accounts payable and accrued expenses	12,096	-	492	12,588	\$ 11,404
Present value of beneficiary payments	-	6,767	-	6,767	9,070
Deposits	290	-	-	290	371
Government grants refundable	-	3,960	-	3,960	3,789
Bonds and mortgages payable	-	-	47,279	47,279	48,770
<b>Total liabilities</b>	<b>12,386</b>	<b>10,727</b>	<b>47,771</b>	<b>70,884</b>	<b>73,404</b>
<b>Net assets:</b>					
<b>Unrestricted:</b>					
For operations	4,303	-	-	4,303	5,192
For investment in plant	-	-	5,713	5,713	4,268
For long term investments	-	83,765	-	83,765	72,029
For debt service	-	-	1,855	1,855	1,317
Net investment in plant	-	-	64,695	64,695	62,753
Unrealized gain on investments	-	7,954	-	7,954	27,323
<b>Total unrestricted</b>	<b>4,303</b>	<b>91,719</b>	<b>72,263</b>	<b>168,285</b>	<b>172,882</b>
<b>Temporarily restricted:</b>					
For operations	6,503	-	-	6,503	6,771
For investment in plant	-	-	4,744	4,744	7,918
For long term investments	-	25,980	-	25,980	39,303
Unrealized gain on investments	-	1,321	-	1,321	20,384
<b>Total temporarily restricted</b>	<b>6,503</b>	<b>27,301</b>	<b>4,744</b>	<b>38,548</b>	<b>74,376</b>
<b>Permanently restricted:</b>					
For long term investments	-	393,575	-	393,575	383,452
Unrealized gain on investments	-	20,013	-	20,013	20,825
<b>Total permanently restricted</b>	<b>-</b>	<b>413,588</b>	<b>-</b>	<b>413,588</b>	<b>404,277</b>
<b>Total net assets</b>	<b>10,806</b>	<b>532,608</b>	<b>77,007</b>	<b>620,421</b>	<b>651,535</b>
<b>Total liabilities and net assets</b>	<b>\$ 23,192</b>	<b>543,335</b>	<b>124,778</b>	<b>691,305</b>	<b>\$ 724,939</b>

See accompanying notes to financial statements.

**Macalester College**  
**Statements of Activities**  
**Years ended May 31, 2001 and 2000**  
(in thousands of dollars)

	<u>Operations</u>	<u>Investments</u>	<u>Plant</u>	<u>2001 Total</u>	<u>2000 Total</u>
Changes in unrestricted net assets:					
Revenue:					
Tuition and fees	\$ 37,292	-	-	37,292	\$ 36,244
Less: Student aid and scholarships	(15,085)	-	-	(15,085)	(14,737)
Net tuition and fees	22,207	-	-	22,207	21,507
Federal grants and contracts	960	-	-	960	849
State grants and contracts	119	-	-	119	240
Private gifts and grants	2,732	-	-	2,732	3,535
Sales and service of auxiliary enterprises	7,232	-	-	7,232	6,941
Other sources	491	-	-	491	576
Investment income	1,228	-	709	1,937	1,290
Endowment payout	1,455	-	-	1,455	1,366
Realized and unrealized gains (losses) on investments, net of gains used in endowment payout	(19)	(7,765)	-	(7,784)	15,598
Net assets released from restrictions	22,448	420	3,760	26,628	27,094
Total revenue	<u>58,853</u>	<u>(7,345)</u>	<u>4,469</u>	<u>55,977</u>	<u>78,996</u>
Expenses:					
Instruction	22,325	-	1,726	24,051	22,565
Research	740	-	-	740	656
Public service	575	-	30	605	498
Academic support	5,086	-	403	5,489	4,997
Student services	8,520	-	1,196	9,716	8,997
Institutional support	10,548	-	983	11,531	9,973
Auxiliary enterprises	6,645	349	1,377	8,371	7,905
Administration and other expenses	-	71	-	71	81
Total expenses	<u>54,439</u>	<u>420</u>	<u>5,715</u>	<u>60,574</u>	<u>55,672</u>
Transfers among reporting categories:					
Principal and interest	(3,768)	-	3,768	-	-
Renewals and replacements	(39)	-	39	-	-
Capital improvements	(1,006)	-	1,006	-	-
Long term investments	(490)	460	30	-	-
Total transfers	<u>(5,303)</u>	<u>460</u>	<u>4,843</u>	<u>-</u>	<u>-</u>
Change in unrestricted assets	(889)	(7,305)	3,597	(4,597)	23,324
Unrestricted net assets beginning of year	5,192	99,024	68,666	172,882	149,558
Unrestricted net assets at end of year	<u>\$ 4,303</u>	<u>91,719</u>	<u>72,263</u>	<u>168,285</u>	<u>\$ 172,882</u>

(continued)

See accompanying notes to financial statements.

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

	Operations	Investments	Plant	2001 Total	2000 Total
<b>Changes in temporarily restricted net assets:</b>					
Private gifts and grants	\$ 598	115	564	1,277	\$ 5,309
Other sources	28	-	-	28	66
Investment income	154	-	-	154	575
Endowment payout	18,275	-	22	18,297	16,468
Realized and unrealized losses on investments, net of gains used in endowment payout	-	(32,552)	-	(32,552)	(2,616)
Change in value of split interest agreements	-	51	-	51	9
Net assets released from restrictions	(22,448)	-	(3,760)	(26,208)	(26,741)
Change in donor restrictions	3,125	-	-	3,125	2,973
<b>Change in temporarily restricted net assets</b>	<b>(268)</b>	<b>(32,386)</b>	<b>(3,174)</b>	<b>(35,828)</b>	<b>(3,957)</b>
Temporarily restricted net assets beginning of year	6,771	59,687	7,918	74,376	78,333
Temporarily restricted net assets at end of year	<u>\$ 6,503</u>	<u>27,301</u>	<u>4,744</u>	<u>38,548</u>	<u>\$ 74,376</u>
<b>Changes in permanently restricted net assets:</b>					
Private gifts and grants	\$ -	9,456	-	9,456	\$ 22,049
Rental income	-	333	-	333	224
Investment income	-	1,282	-	1,282	1,259
Endowment payout	-	5	-	5	4
Realized and unrealized gains on investments, net of gains used in endowment payout	-	372	-	372	429
Interest on loans receivable	-	30	-	30	32
Change in value of beneficial interest in perpetual trust	-	(1,254)	-	(1,254)	408
Change in value of split interest agreements	-	2,633	-	2,633	(31)
Net assets released from restrictions	-	(421)	-	(421)	(353)
Change in donor restrictions	-	(3,125)	-	(3,125)	(2,973)
<b>Net change in permanently restricted net assets</b>	<b>-</b>	<b>9,311</b>	<b>-</b>	<b>9,311</b>	<b>21,048</b>
Permanently restricted net assets at beginning of year	-	404,277	-	404,277	383,229
Permanently restricted net assets at end of year	<u>\$ -</u>	<u>413,588</u>	<u>-</u>	<u>413,588</u>	<u>\$ 404,277</u>
<b>Total net assets beginning of year</b>	<b>\$ 11,963</b>	<b>562,988</b>	<b>76,584</b>	<b>651,535</b>	<b>\$ 611,120</b>
<b>Change in total net assets</b>	<b>(1,157)</b>	<b>(30,380)</b>	<b>423</b>	<b>(31,114)</b>	<b>40,415</b>
<b>Total net assets end of year</b>	<b>\$ 10,806</b>	<b>532,608</b>	<b>77,007</b>	<b>620,421</b>	<b>\$ 651,535</b>

See accompanying notes to financial statements.

**Macalester College**  
**Statements of Cash Flows**  
**Years ended May 31, 2001 and 2000**  
(in thousands of dollars)

	<u>2001</u>	<u>2000</u>
Cash flows from operating activities:		
Change in total net assets	\$ (31,114)	40,415
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	3,040	3,002
Realized (gain) loss on sale of investments	720	(24,799)
Unrealized loss on investments	39,244	11,388
Private gifts, grants and other income restricted for long term investment	(7,558)	(20,414)
(Increase) decrease in accrued investment income	182	(511)
(Increase) decrease in prepaid expenses	6	(14)
(Increase) decrease in notes and accounts receivable	302	(237)
Increase in contributions receivable	2,834	196
Increase in accounts payable and accrued expenses	1,184	3,087
Decrease in present value of beneficiary payments	(2,303)	(92)
Decrease in deposits	(81)	(49)
Net cash provided by operating activities	<u>6,456</u>	<u>11,972</u>
Cash flows from investing activities:		
Proceeds from sale of investments	274,171	169,119
Purchase of investments	(282,599)	(191,171)
Purchase of real estate	(1,003)	(1,638)
Purchase of land, building and equipment	(10,522)	(9,561)
Net cash used in investing activities	<u>(19,953)</u>	<u>(33,251)</u>
Cash flows from financing activities:		
Principal payments on bonds payable	(1,491)	(1,241)
Increase in government grant refundable	171	119
Decrease in funds for investment in land, buildings, and equipment	1,729	4,379
Change in value of beneficial interest in perpetual trust	(1,254)	-
Private gifts, grants and other income restricted for long term investment	7,558	20,414
Net cash provided by financing activities	<u>6,713</u>	<u>23,671</u>
Increase (decrease) in cash and cash equivalents	(6,784)	2,392
Cash and cash equivalents at beginning of the year	17,786	15,394
Cash and cash equivalents at end of the year	<u>\$ 11,002</u>	<u>17,786</u>
Supplemental disclosure - cash paid for interest	<u>\$ 2,345</u>	<u>2,414</u>

See accompanying notes to financial statements.

# MACALESTER COLLEGE

Notes to Financial Statements

May 31, 2001 and 2000

(in thousands of dollars)

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## 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.

## 2) Summary of Significant Accounting Policies

### *Basis of Presentation*

The accompanying financial statements are presented on the accrual basis of accounting. To ensure the observance of limitations and restrictions placed on the use of available resources, the College maintains its accounts in accordance with the principles and practices of fund accounting. Fund accounting is the procedure by which resources for various purposes are classified for accounting purposes into funds that are maintained in accordance with activities or objectives of the College. For external reporting purposes, however, the College's financial statements have been prepared to focus on the organization as a whole and to present balances and transactions classified in accordance with the existence or absences 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

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## MACALESTER COLLEGE

### Notes to Financial Statements

May 31, 2001 and 2000

(in thousands of dollars)

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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.

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 one year 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, except those held for investment purposes.

#### ***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 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.

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## **MACALESTER COLLEGE**

### Notes to Financial Statements

May 31, 2001 and 2000

(in thousands of dollars)

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#### ***Tax Status***

The College has received a determination letter from the Internal Revenue Service indicating it 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. No provision has been made for income taxes in the accompanying financial statements as the College has had no significant unrelated business income.

#### ***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 Agreements***

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.

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# MACALESTER COLLEGE

Notes to Financial Statements

May 31, 2001 and 2000

(in thousands of dollars)

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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 accounting principles generally accepted in the United States of America 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 2000 amounts have been reclassified to conform to the 2001 presentation.

### **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, were amortized on a straight line basis over the contract period. The liability to the Trust was adjusted based on the year end market value of the RDA stock and presented in the financial statements, net of the unamortized discount, as a reduction of the net assets of the Fund. At May 31, 2000, the value of the liability, net of the unamortized discount, was \$95,945.

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# MACALESTER COLLEGE

## Notes to Financial Statements

May 31, 2001 and 2000

(in thousands of dollars)

On February 15, 2001, the Fund delivered 2,978,775 shares of Class A non-voting common stock of Reader's Digest Association, Inc. to the owners of TRACES shares in settlement of liability to the Trust.

As of May 31, 2001, the market value of the Fund's assets was \$307,515, 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 2001 total \$169,640. This sum includes grants of \$14,850 and \$13,500 for fiscal years ended May 31, 2001 and 2000.

As of May 31, 2001, \$238,973 (at fair value) of the Fund's assets were invested in the College's pooled endowment fund. This represented 11,447,903 unitized shares of the pooled endowment fund. The College acts as an investment manager for these assets of the Fund pursuant to an agreement dated May 24, 1990.

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

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

	<u>2001</u>	<u>2000</u>
Long term investments of Macalester College:		
Cash equivalents	\$ 6,533	\$ 5,665
Common stocks	137,182	153,227
International equity	67,540	79,327
Preferred stock	7,148	5,189
Corporate bonds	27,090	24,686
U.S. Government obligations	108,332	98,373
Real estate, private equity, other	<u>92,537</u>	<u>101,442</u>
Subtotal fair value	\$446,362	\$467,909
Less value of units of Macalester endowment owned by DeWitt Wallace Fund for Macalester College	<u>(238,973)</u>	<u>(256,236)</u>
Total	<u>\$207,389</u>	<u>\$211,673</u>

(Continued)

## MACALESTER COLLEGE

### Notes to Financial Statements

May 31, 2001 and 2000

(in thousands of dollars)

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Long term investments of DeWitt Wallace Fund for Macalester College		
Common stock	\$ 68,542	\$180,395
TRACES liability	-	(95,945)
Value of units in the Macalester College endowment	<u>238,973</u>	<u>256,236</u>
Total	<u>\$307,515</u>	<u>\$340,686</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>\$514,904</u>	<u>\$552,359</u>
Total cost, net of TRACES	<u>\$480,738</u>	<u>\$480,538</u>

Included in the fair value of preferred stocks is \$5,128 and \$5,189 at May 31, 2001 and 2000, respectively, relating to 89,685 shares of the Reader's Digest Association, Inc. preferred stock which is not publicly traded. Additionally, the College has agreed not to sell such shares of stock without first offering the shares to The Reader's Digest Association, Inc.

#### 5) Funds Held in Trust by Others

The College's beneficial interest in the fair value of assets in a perpetual trust is \$27,648 and \$20,408 as of May 31, 2001 and 2000, respectively. This trust was created and recorded as a beneficial interest in a perpetual trust in fiscal year 2000. For the years ended May 31, 2001 and 2000, the College received \$944 and \$813 from this trust, respectively.

The College is the income beneficiary of a revocable trust with an estimated value of \$9,717 and \$11,377 as of May 31, 2001 and 2000, respectively, which is controlled by independent trustees. For the year ended May 31, 2001 and 2000, the College received \$408 and \$400 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.

(Continued)

# MACALESTER COLLEGE

## Notes to Financial Statements

May 31, 2001 and 2000

(in thousands of dollars)

Endowment investment and spending is 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, 2001	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment yield (net of investment expenses of \$1,050)	\$ 1,127	\$12,090	\$ 3	\$13,220
Gains used in endowment payout	<u>328</u>	<u>6,207</u>	<u>2</u>	<u>6,537</u>
Endowment payout	<u>\$ 1,455</u>	<u>\$18,297</u>	<u>\$ 5</u>	<u>\$19,757</u>
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>

### 7) Contributions Receivable

Contributions receivable consisted of the following:

	<u>2001</u>	<u>2000</u>
Unconditional promises expected to be collected in:		
Less than one year	\$ 1,443	\$ 3,407
One year to five years	2,143	2,961
Greater than five years	687	887
Less: Discount to present value (5%)	<u>(468)</u>	<u>(616)</u>
	<u>\$ 3,805</u>	<u>\$ 6,639</u>

(Continued)

# MACALESTER COLLEGE

## Notes to Financial Statements

May 31, 2001 and 2000

(in thousands of dollars)

### 8) Land, Building and Equipment

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

	<u>2001</u>	<u>2000</u>
Land and land improvements	\$ 1,414	\$ 1,414
Buildings	136,398	117,170
Equipment	3,611	3,336
Construction in progress	<u>1,483</u>	<u>10,464</u>
	142,906	132,384
Less: Accumulated depreciation	<u>(33,509)</u>	<u>(30,469)</u>
	<u>\$109,397</u>	<u>\$101,915</u>

### 9) Bonds and Mortgages Payable

Bonds and mortgages payable consist of the following:

	<u>2001</u>	<u>2000</u>
Macalester College Dormitory Bonds of 1962, 3-3/8%, final series due May 1, 2002 (original amount \$2,850)	\$ 130	260
College Housing Program Mortgages at 3%, due in semi-annual installments through 2020 (original amount \$880)	539	560
Minnesota Higher Education Facilities Authority variable rate demand revenue bonds of 1994, weekly maturity and rate reset, 3.90% 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)	9,380	9,880
Minnesota Higher Education Facilities Authority Revenue Bonds of 1997, 5.41% average, final series due 2017 (original amount \$11,000)	9,625	10,005
Minnesota Higher Education Facilities Authority Revenue Bonds of 1998, 4.94% average, final series due 2022 (original amount \$22,345)	<u>20,945</u>	<u>21,405</u>
	<u>\$ 47,279</u>	<u>\$ 48,770</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

(Continued)

## MACALESTER COLLEGE

### Notes to Financial Statements

May 31, 2001 and 2000

(in thousands of dollars)

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facilities approximated \$9,646 at May 31, 2001 and 2000) 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 \$279 and \$374 at May 31, 2001 and 2000, 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 U. S. 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 at May 31, 2001 and 2000, and by pledges of gross stadium and tuition revenues.

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.

(Continued)



## MACALESTER COLLEGE

### Notes to Financial Statements

May 31, 2001 and 2000

(in thousands of dollars)

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Annual debt commitments (principal) at May 31, 2001, are as follows:

<u>Fiscal year ending May 31.</u>	<u>Amount</u>
2002	1,462
2003	1,528
2004	1,608
2005	1,680
2006	1,755
after 2006	<u>39,246</u>
	<u>\$ 47,279</u>

Total interest costs on debt aggregated \$2,369 and \$2,414 during the year ended May 31, 2001 and 2000, 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, 2001, 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 defined contribution 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, 2001 and 2000, was approximately \$180 and \$185, respectively.

Total benefit expense for the year ended May 31, 2001, was \$1,978 including \$25 paid under the unfunded supplemental plan and for the year ended May 31, 2000, was \$1,873 including \$25 paid under the unfunded supplemental plan.

(Continued)

# MACALESTER COLLEGE

## Notes to Financial Statements

May 31, 2001 and 2000

(in thousands of dollars)

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### 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>2001</u>	<u>2000</u>
Program - Student instruction and services	\$ 51,353	\$45,945
Management and general	5,934	6,372
Fundraising	<u>3,287</u>	<u>3,355</u>
	<u>\$ 60,574</u>	<u>\$55,672</u>

### 13) Commitments and Contingencies

The College has outstanding construction contracts totaling approximately \$6,508 at May 31, 2001. Completion is estimated for January, 2002. The College is committed as of May 31, 2001 to invest approximately \$29,194 in certain limited partnership's for long term investment purposes.

### 14) Subsequent Event

Subsequent to year end, the DeWitt Wallace Fund for Macalester College (the Fund) was dissolved and the assets of the Fund were legally transferred to the College pursuant to an agreement between the College and the Fund. The assets of the Fund continue to be reported as investments owned by the DeWitt Wallace Fund for Macalester College in the Statement of Financial Position as of May 31, 2001. The financial statements of the College have not been adjusted to reflect the effects of the transfer as of and for the year ended May 31, 2001.

MACALESTER COLLEGE  
 Revenue and Expenditures of Certain Dormitories and Dining Facilities (1)  
 Year Ended May 31, 2001

Schedule 1

	1962 Dormitory Bonds				Total
	Doty	Dupre	Kirk	Dining	
Operating revenue (2)	\$ <u>507,061</u>	<u>785,400</u>	<u>434,280</u>	<u>1,616,252</u>	<u>3,342,993</u>
Operating expenditures (3):					
Direct charges for repair & maintenance	31,037	41,477	29,975	22,617	125,106
Contract food services	-	-	-	1,008,090	1,008,090
Allocated expenditures for salaries & staff benefits (4)	80,112	108,387	65,975	-	254,474
Allocated expenditures for materials, supplies and other services (4)	<u>177,696</u>	<u>249,657</u>	<u>154,003</u>	<u>106,617</u>	<u>687,973</u>
Total expenditures	<u>288,845</u>	<u>399,521</u>	<u>249,953</u>	<u>1,137,324</u>	<u>2,075,643</u>
Excess of revenue over expenditures	\$ <u><u>218,216</u></u>	<u><u>385,879</u></u>	<u><u>184,327</u></u>	<u><u>478,928</u></u>	<u><u>1,267,350</u></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, 2001

	1962 Dormitory Bonds		
	Revenue Fund Account	Bond and Interest Sinking Fund Account	Repair and Replacement Reserve Account
Balance at May 31, 2000	-	294,484	759,843
Revenue:			
Operating revenue (Schedule 1)	3,342,993	-	-
Investment income	-	20,601	41,396
<b>Total revenue</b>	<b>3,342,993</b>	<b>20,601</b>	<b>41,396</b>
Expenditures:			
Operating expenditures (Schedule 1)	2,075,643	-	-
Withdrawal for building repair	-	-	-
Debt Service:			
Principal	-	130,000	-
Interest	-	8,775	-
<b>Total expenditures</b>	<b>2,075,643</b>	<b>138,775</b>	<b>-</b>
Transfers:			
From revenue fund accounts to sinking fund account	(138,775)	138,775	-
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	(1,098,575)	(20,601)	-
Liquidation of reserve account upon repayment of bond	-	-	-
<b>Total transfers</b>	<b>(1,267,350)</b>	<b>118,174</b>	<b>30,000</b>
Balance at May 31, 2001*	-	294,484	831,239

\*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, 2001, was \$278,581.

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, 2001

	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, 2000	-	5,338	37,212	-	18,439	92,580
Revenue:						
Operating revenue	57,538	-	-	34,606,542	-	-
Total revenue	<u>57,538</u>	<u>-</u>	<u>-</u>	<u>34,606,542</u>	<u>-</u>	<u>-</u>
Expenditures:						
Operating expenditures	35,603	-	-	-	-	-
Debt Service:						
Principal	-	4,836	-	-	16,407	-
Interest	-	3,668	-	-	13,097	-
Total expenditures	<u>35,603</u>	<u>8,504</u>	<u>-</u>	<u>-</u>	<u>29,504</u>	<u>-</u>
Transfers:						
From revenue fund accounts to debt service accounts	(8,504)	8,504	-	(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	(11,449)	-	-	(34,570,218)	-	-
Total transfers	<u>(21,935)</u>	<u>8,504</u>	<u>1,982</u>	<u>(34,606,542)</u>	<u>29,504</u>	<u>6,820</u>
Balance at May 31, 2001	<u>-</u>	<u>5,338</u>	<u>39,194</u>	<u>-</u>	<u>18,439</u>	<u>99,400</u>

See accompanying independent auditors' report.