

MACALESTER COLLEGE



ANNUAL FINANCIAL STATEMENTS
WITH AUDITORS OPINION
FOR YEAR ENDED MAY 31, 2003



4200 Wells Fargo Center
90 South Seventh Street
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, 2003 and 2002, 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, 2003 and 2002, 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 15, 2003 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 conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary information included in the schedule 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.

August 15, 2003

KPMG LLP



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Macalester College
Statements of Financial Position
May 31, 2003 and 2002
(in thousands of dollars)

	Operations	Investments	Plant	2003 Total	2002 Total
ASSETS					
Cash and cash equivalents	\$ 6,603	(5,291)	2,261	3,573	\$ 8,588
Collateral on loaned securities	-	123,547	-	123,547	-
Accrued investment income	1,341	38	7	1,386	1,640
Prepaid expenses	325	-	947	1,272	1,136
Notes and accounts receivable, net of allowance for doubtful receivables of \$1,338 (and \$918 in 2002)	1,514	4,411	-	5,925	5,750
Contributions receivable, net	1,755	1,111	530	3,396	4,524
Funds for investment in land, buildings and equipment	-	-	11,714	11,714	2,804
Long term investments	10,156	432,982	-	443,138	467,786
Real estate	-	6,506	-	6,506	6,051
Land, buildings and equipment, net of accumulated depreciation	-	-	116,544	116,544	115,419
Beneficial interest in perpetual trust	-	26,045	-	26,045	26,299
Total assets	\$ 21,694	589,349	132,003	743,046	\$ 639,997
LIABILITIES AND NET ASSETS					
Liabilities:					
Accounts payable and accrued expenses	8,172	-	465	8,637	\$ 8,159
Collateral on loaned securities	-	123,547	-	123,547	-
Deferred revenue	2,141	-	-	2,141	2,909
Deposits	230	2	-	232	219
Interest rate swap agreement	-	-	964	964	-
Liabilities under planned giving agreements	-	6,361	-	6,361	6,761
Government grants refundable	-	4,239	-	4,239	4,110
Bonds and mortgages payable	-	-	59,589	59,589	45,817
Total liabilities	10,543	134,149	61,018	205,710	67,975
Net assets:					
Unrestricted:					
For operations	4,898	-	-	4,898	4,819
For investment in plant	-	-	278	278	1,971
For long term investments	-	31,606	-	31,606	30,224
For endowment payout	-	29,884	-	29,884	35,273
For debt service	-	-	462	462	1,874
Net investment in plant	-	-	68,960	68,960	70,839
Total unrestricted	4,898	61,490	69,700	136,088	145,000
Temporarily restricted:					
For operations	6,253	-	-	6,253	6,330
For investment in plant	-	-	1,285	1,285	833
For long term investments	-	51,084	-	51,084	76,986
Total temporarily restricted	6,253	51,084	1,285	58,622	84,149
Permanently restricted:					
For long term investments	-	342,626	-	342,626	342,873
Total net assets	11,151	455,200	70,985	537,336	572,022
Total liabilities and net assets	\$ 21,694	589,349	132,003	743,046	\$ 639,997

See accompanying notes to financial statements.

Macalester College

Statements of Activities

Years ended May 31, 2003 and 2002

(in thousands of dollars)

	Operations	Investments	Plant	2003 Total	2002 Total
Changes in unrestricted net assets:					
Revenue:					
Tuition and fees	\$ 41,924	-	-	41,924	\$ 39,668
Less: Student aid and scholarships	(18,128)	-	-	(18,128)	(16,381)
Net tuition and fees	23,796	-	-	23,796	23,287
Federal grants and contracts	1,292	-	-	1,292	1,161
State grants and contracts	45	-	-	45	130
Private gifts and grants	3,428	-	-	3,428	3,662
Sales and service of auxiliary enterprises	8,548	-	-	8,548	8,184
Other sources	559	-	-	559	701
Investment income	492	-	28	520	622
Endowment payout	1,836	-	-	1,836	1,551
Realized and unrealized losses on:					
Investments, net of gains used in endowment payout	152	(7,638)	-	(7,486)	(7,990)
Interest rate swap	-	-	(964)	(964)	-
Net assets released from restrictions	24,864	613	722	26,199	29,416
Total revenue	65,012	(7,025)	(214)	57,773	60,724
Expenses:					
Instruction	23,583	-	1,463	25,046	24,090
Research	581	-	-	581	823
Public service	533	-	35	568	596
Academic support	6,079	-	349	6,428	5,941
Student services	10,571	-	1,617	12,188	11,406
Institutional support	11,433	-	900	12,333	12,214
Auxiliary enterprises	7,443	551	1,485	9,479	9,528
Administration and other expenses	-	62	-	62	152
Total expenses	60,223	613	5,849	66,685	64,750
Transfers among reporting categories:					
Principal and interest	(3,998)	-	3,998	-	-
Capital improvements	(248)	-	248	-	-
Long term investments	(464)	3,631	(3,167)	-	-
Total transfers	(4,710)	3,631	1,079	-	-
Change in unrestricted assets	79	(4,007)	(4,984)	(8,912)	(4,026)
Unrestricted net assets beginning of year	4,819	65,497	74,684	145,000	149,026
Unrestricted net assets at end of year	\$ 4,898	61,490	69,700	136,088	\$ 145,000

(continued)

See accompanying notes to financial statements.

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

	Operations	Investments	Plant	2003 Total	2002 Total
Changes in temporarily restricted net assets:					
Private gifts	\$ 1,255	94	1,111	2,460	\$ 1,593
Other sources	80	-	-	80	97
Investment income	42	-	-	42	82
Endowment payout	23,597	-	26	23,623	20,033
Realized and unrealized losses on investments, net of gains used in endowment payout	-	(26,027)	-	(26,027)	(40,227)
Change in value of planned giving agreements	-	31	-	31	2
Net assets released from restrictions	(24,864)	-	(722)	(25,586)	(28,794)
Transfers among reporting categories	(37)	-	37	-	-
Change in donor restrictions	(150)	-	-	(150)	73,561
Change in temporarily restricted net assets	(77)	(25,902)	452	(25,527)	26,347
Temporarily restricted net assets beginning of year	6,330	76,986	833	84,149	57,802
Temporarily restricted net assets at end of year	\$ 6,253	51,084	1,285	58,622	\$ 84,149
Changes in permanently restricted net assets:					
Private gifts	\$ -	414	-	414	\$ 3,450
Rental income	-	462	-	462	442
Investment income	-	282	-	282	888
Endowment payout	-	38	-	38	6
Realized and unrealized gains on investments, net of gains used in endowment payout	-	(780)	-	(780)	11
Interest on loans receivable	-	30	-	30	34
Change in value of beneficial interest in perpetual trust	-	(254)	-	(254)	(1,350)
Change in value of planned giving agreements	-	24	-	24	(18)
Net assets released from restrictions	-	(613)	-	(613)	(622)
Change in donor restrictions	-	150	-	150	(73,561)
Net change in permanently restricted net assets	-	(247)	-	(247)	(70,720)
Permanently restricted net assets at beginning of year	-	342,873	-	342,873	413,593
Permanently restricted net assets at end of year	\$ -	342,626	-	342,626	\$ 342,873
Total net assets beginning of year	\$ 11,149	485,356	75,517	572,022	\$ 620,421
Change in total net assets	2	(30,156)	(4,532)	(34,686)	(48,399)
Total net assets end of year	\$ 11,151	455,200	70,985	537,336	\$ 572,022

See accompanying notes to financial statements.

Macalester College
Statements of Cash Flows
Years ended May 31, 2003 and 2002
(in thousands of dollars)

	<u>2003</u>	<u>2002</u>
Cash flows from operating activities:		
Change in total net assets	\$ (34,686)	(48,399)
Adjustments to reconcile change in net assets to net cash (used in) provided by operating activities:		
Depreciation and amortization	3,798	3,747
Realized and unrealized losses on investments	34,293	48,206
Unrealized loss on interest rate swap	964	
Private gifts and other income restricted for long term investments	(533)	(2,830)
Decrease in accrued investment income	254	294
Decrease in prepaid expenses	55	37
Increase in notes and accounts receivable	(175)	(146)
(Increase) decrease in contributions receivable	1,128	(719)
Increase (decrease) in accounts payable and accrued expenses	478	(2,686)
Decrease in liabilities under planned giving agreements	(400)	(6)
Increase (decrease) in deferred revenue	(768)	1,166
Increase (decrease) in deposits	13	(71)
Net cash (used in) provided by operating activities	<u>4,421</u>	<u>(1,407)</u>
Cash flows from investing activities:		
Proceeds from sale of investments	236,923	168,481
Purchase of investments	(246,638)	(169,766)
Purchase of real estate	(385)	(473)
Purchase of land, building and equipment	(4,923)	(9,769)
Net cash used in investing activities	<u>(15,023)</u>	<u>(11,527)</u>
Cash flows from financing activities:		
Proceeds from issuance of bond payable	15,300	-
Payment of financing costs	(191)	-
Principal payments on bonds payable	(1,528)	(1,462)
Increase in government grant refundable	129	150
(Increase) decrease in funds for investment in land, buildings, and equipment	(8,910)	7,653
Change in value of beneficial interest in perpetual trust	254	1,349
Private gifts, grants and other income restricted for long term investment	533	2,830
Net cash provided by financing activities	<u>5,587</u>	<u>10,520</u>
Decrease in cash and cash equivalents	(5,015)	(2,414)
Cash and cash equivalents at beginning of the year	8,588	11,002
Cash and cash equivalents at end of the year	<u>\$ 3,573</u>	<u>8,588</u>
Supplemental disclosure - cash paid for interest	<u>\$ 2,152</u>	<u>2,138</u>

See accompanying notes to financial statements.

MACALESTER COLLEGE

Notes to Financial Statements

May 31, 2003 and 2002

(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 liberal arts program 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 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.

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MACALESTER COLLEGE

Notes to Financial Statements

May 31, 2003 and 2002

(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 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.

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

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MACALESTER COLLEGE

Notes to Financial Statements

May 31, 2003 and 2002

(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, deposits, and deferred revenue approximate fair value because of the short maturity of these financial instruments. Contributions receivable and planned giving agreement liabilities are recorded at fair value using appropriate discount rates.

Long term investments and funds for investment, buildings and equipment in securities traded on national or international securities exchanges are carried at fair value, based upon values provided by external investment managers or quoted market values. The collateral on loaned securities is reported at fair value based on quoted market prices of the underlying investments. Limited partnership investments are valued using the most current information provided by the general partner of the specific fund. The limited partnership valuations generally reflect discounts for illiquidity and consider variables such as financial performance of investments, recent sales prices of investments and other pertinent information. The estimated values as determined by the general partners and investment managers may differ from the values that would have been used had ready markets for the investments existed and the differences could be significantly higher or lower for any specific holding. The beneficial interest in perpetual trust is reported at fair value of the trust assets.

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 estimated fair value of the College's revenue bonds was calculated by discounting future cash flows through estimated maturity using the borrowing rate currently available to the College for debt of similar original maturity. The carrying value of the College' bonds were \$59,589 at May 31, 2003, and the fair value was approximately \$61,099. The carrying value approximates the fair value of the Series 1994 and 2003 bonds as the interest rate varies weekly.

Planned Giving Agreements

The College's planned giving 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.

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MACALESTER COLLEGE

Notes to Financial Statements

May 31, 2003 and 2002

(in thousands of dollars)

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 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.

Reclassification

Certain 2002 amounts have been reclassified to conform to the 2003 presentation.

3) Long Term Investments

The long term investments include funds traditionally considered the endowment of the College as well as assets of funds for planned giving agreements and loan funds totaling \$18,764 and \$20,013 as of May 31, 2003 and 2002, respectively. The allocations shown at fair value are as follows:

	<u>2003</u>	<u>2002</u>
Long term investments of Macalester College:		
Cash equivalents	\$ 8,945	\$ 7,661
Common stocks	155,528	165,957
International equity	83,258	87,440
Preferred stock	5,527	5,203
Corporate bonds	3,931	14,529
U.S. Government obligations	85,304	101,684
Real estate, oil and gas partnerships	34,655	33,540
Private Capital	22,125	22,671
Hedge and absolute return funds	26,594	21,220
Short term bonds	<u>17,271</u>	<u>7,881</u>
Total fair value	<u>\$443,138</u>	<u>\$467,786</u>
Total cost	<u>\$442,979</u>	<u>\$470,523</u>

(Continued)

MACALESTER COLLEGE

Notes to Financial Statements

May 31, 2003 and 2002

(in thousands of dollars)

Included in the fair value of preferred stocks is \$5,500 and \$5,202 at May 31, 2003 and 2002, 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. As of May 31, 2003 and 2002, the fair value of endowments funded in part or fully by DeWitt Wallace are \$327,185 and \$355,036.

Certain of the College's external investment managers are authorized to use derivative contracts in managing the assets under their control. From time to time, managers may enter into forward currency contracts to hedge currency risk on investments in foreign securities and other future contracts to adjust asset allocation efficiently. Changes in the fair value of the derivative contracts are included in endowment gains and losses. As of May 31, 2003 and 2002, investments totaling \$83,258 and \$87,440, respectively, included limited use of forward currency contracts, and investments totaling \$26,594 and \$21,220, respectively, included other derivative instruments.

The College participates in a securities lending program, whereby securities owned by the College and included and reported on the accompanying Statement of Financial Position in the College's investments are loaned to other institutions. As of May 31, 2003, the College had loaned certain securities, returnable on demand, with a fair value of \$120,933 to several financial institutions that have deposited collateral with respect to such securities of \$123,547. The College receives income on the invested collateral and also continues to receive interest and dividends from securities on loan. This transaction has been accounted for as a non-cash investing activity for purposes of the accompanying Statement of Cash Flow.

4) Dissolution of The 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. Through July 11, 2001, it was governed by an independent Board of Directors; two of whom were 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 were representatives of the College; and two of whom were independent directors. The Fund was a separate New York Not-for-Profit Corporation, which had 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 July 11, 2001, the Fund was dissolved and the assets were legally transferred to the College pursuant to agreement between the College and the Fund. Prior to the transfer of assets, the College reported its beneficial interest in the assets of the Fund as an asset of the College. The agreement dissolving the Fund and transferring the assets to the College allows for a portion of the assets to be expended under specific terms and conditions. The portion of the assets that can be expended is temporarily restricted, resulting in a change in the character of the net assets and a release of permanently restricted net assets. The net assets released are presented in the Statement of Activities as a change in donor restrictions.

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MACALESTER COLLEGE

Notes to Financial Statements

May 31, 2003 and 2002

(in thousands of dollars)

5) Funds Held in Trust by Others

The College's beneficial interest in the fair value of assets in a perpetual trust is \$26,045 and \$26,299 as of May 31, 2003 and 2002, respectively. For the years ended May 31, 2003 and 2002, the College received \$918 and \$1,032 from this trust, respectively.

The College is the income beneficiary of a revocable trust with an estimated value of \$10,784 and \$12,663 as of May 31, 2003 and 2002, respectively, which is controlled by independent trustees. For the year ended May 31, 2003 and 2002, the College received \$435 and \$411 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

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.

Endowment investment and spending for the pooled investments 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 for 2003 and 2002 of 5.2% and 5.0%, respectively, is applied to a sixteen-quarter average of investment fair value. The payout is supplemented by an amount equivalent to the investment expenses. If yield (interest and dividend income) is not sufficient to support the calculated payout, the balance is allocated from gains of the endowment assets. As of May 31, 2003, certain individual endowed funds had gain deficiencies totaling \$995 and did not have gains available to supplement yield. The gain deficiencies have been offset by an allocation from unrestricted net assets within the investment pool. As the market value of endowed funds with gain deficiencies increases, the allocation will reverse.

Beginning June 1, 1998, the formula-based spending was extended to the non-pooled Reader's Digest Association, Inc. common stock. If dividend income was not sufficient to support the payout, the balance was obtained through the liquidation of assets and is presented in the Statement of Activities as a change in donor restrictions. Such a liquidation occurred in the year ended May 31, 2002. As of May 31, 2003, the College no longer holds RDA common stock as a non-pooled investment.

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MACALESTER COLLEGE

Notes to Financial Statements

May 31, 2003 and 2002

(in thousands of dollars)

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

Year ended May 31, 2003	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment yield (net of investment expenses of \$1,304)	\$ 1,012	\$ 10,240	\$ 16	\$ 11,268
Gains used in endowment payout	<u>824</u>	<u>13,383</u>	<u>22</u>	<u>14,229</u>
Endowment payout	<u>\$ 1,836</u>	<u>\$ 23,623</u>	<u>\$ 38</u>	<u>\$ 25,497</u>
Year ended May 31, 2002	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment yield (net of investment expenses of \$1,154)	\$ 1,027	\$ 10,664	\$ 3	\$ 11,694
Gains used in endowment payout	<u>524</u>	<u>9,369</u>	<u>3</u>	<u>9,896</u>
Endowment payout	<u>\$ 1,551</u>	<u>\$ 20,033</u>	<u>\$ 6</u>	<u>\$ 21,590</u>

For the year ended May 31, 2002, in addition to endowment payout, assets of \$2,951 were liquidated under the formula-based spending extended to the non-pooled RDA common stock and are presented in the Statement of Activities as a change in donor restrictions.

7) Contributions Receivable

Contributions receivable consisted of the following:

	<u>2003</u>	<u>2002</u>
Unconditional promises expected to be collected in:		
Less than one year	\$ 1,681	\$ 1,917
One year to five years	1,587	2,470
Greater than five years	457	572
Less: Discount to present value (5%)	<u>(329)</u>	<u>(435)</u>
	<u>\$ 3,396</u>	<u>\$ 4,524</u>

(Continued)

MACALESTER COLLEGE

Notes to Financial Statements

May 31, 2003 and 2002

(in thousands of dollars)

8) Land, Building and Equipment

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

	<u>2003</u>	<u>2002</u>
Land and land improvements	\$ 1,414	\$ 1,414
Buildings	147,346	146,901
Equipment	4,032	3,964
Construction in progress	<u>4,719</u>	<u>347</u>
	157,511	152,626
Less: Accumulated depreciation	<u>(40,967)</u>	<u>(37,207)</u>
	<u>\$116,544</u>	<u>\$115,419</u>

9) Bonds and Mortgages Payable

Bonds and mortgages payable consist of the following:

	<u>2003</u>	<u>2002</u>
College Housing Program Mortgages at 3%, due in semi-annual installments through 2020 (original amount \$880)	494	517
Minnesota Higher Education Facilities Authority variable rate demand revenue bonds of 1994, weekly maturity and rate reset, 1.29% 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)	8,500	8,950
Minnesota Higher Education Facilities Authority Revenue Bonds of 1997, 5.41% average, final series due 2017 (original amount \$11,000)	8,805	9,225
Minnesota Higher Education Facilities Authority Revenue Bonds of 1998, 4.94% average, final series due 2022 (original amount \$22,345)	19,830	20,465
Minnesota Higher Education Facilities Authority variable rate demand revenue bonds of 2003, weekly rate reset as well as a weekly tender option, 1.19% average for current fiscal year, total principal due 2033 (original amount \$15,300)	<u>15,300</u>	<u>-</u>
	<u>\$ 59,589</u>	<u>\$45,817</u>

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MACALESTER COLLEGE

Notes to Financial Statements

May 31, 2003 and 2002

(in thousands of dollars)

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, 2003 and 2002, 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 were 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.

In February of 2003, \$15,300 of variable rate demand revenue bonds were issued on behalf of the College by MHEFA. The bonds were issued with a weekly rate reset, as well as a weekly tender option. In the event of a tender and unsuccessful remarketing, self liquidity is provided through treasury securities held as long term investments. Proceeds of the issue are being used to finance various dormitory improvements. Loan repayments associated with the bonds will be general obligations of the College, with interest payable monthly and principal payable at maturity, on March 1, 2033.

In direct connection with the variable rate demand revenue bonds issued in 2003, the College entered into an interest rate swap agreement that obligates it to pay a fixed rate of 3.33% annually to the counterparty in exchange for the receipt of a floating payment equal to 67% of the 30 day London Interbank offered rate (LIBOR). The net difference between the amounts paid to and received from the counterparty is recorded as interest expense. Payments under

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MACALESTER COLLEGE

Notes to Financial Statements

May 31, 2003 and 2002

(in thousands of dollars)

the swap contract are based on a notional amount of \$15,000. The contract expires on May 31, 2016. As of May 31, 2003, the estimated market value of the swap contract was (\$964).

Annual debt commitments (principal) at May 31, 2003, are as follows:

<u>Fiscal year ending May 31,</u>	<u>Amount</u>
2004	1,608
2005	1,680
2006	1,755
2007	1,841
2008	1,936
after 2008	<u>50,769</u>
	<u>\$ 59,859</u>

Total interest costs on debt aggregated \$2,152 and \$2,160 during the year ended May 31, 2003 and 2002, respectively.

10) High Winds Fund

Included in the permanently restricted net assets are resources related to the High Winds Fund. The 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, 2003, the High Winds Fund owned nine properties surrounding the College campus. The total value of the assets of the Fund as of May 31, 2003 and 2002 is \$8,664 and \$8,829, respectively.

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, 2003 and 2002 was approximately \$188 and \$168, respectively.

Total benefit expense for the year ended May 31, 2003, was \$2,281 including \$21 paid under the unfunded supplemental plan and for the year ended May 31, 2002, was \$2,128 including \$22 paid under the unfunded supplemental plan.

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MACALESTER COLLEGE

Notes to Financial Statements

May 31, 2003 and 2002

(in thousands of dollars)

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>2003</u>	<u>2002</u>
Program - Student instruction and services	\$ 55,883	\$ 54,138
Management and general	7,226	6,820
Fundraising	<u>3,576</u>	<u>3,792</u>
	<u>\$ 66,685</u>	<u>\$ 64,750</u>

13) Commitments

The College has outstanding construction contracts totaling approximately \$10,680 at May 31, 2003. Completion is estimated for summer 2004. The College is committed as of May 31, 2003 to invest approximately \$40,572 in certain limited partnerships for long term investment purposes.

MACALESTER COLLEGE

Schedule 1

Analysis of Revenue Fund Accounts, Bond and Interest Sinking Fund Account
and Repair and Replacement Reserve Account
Year Ended May 31, 2003

	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, 2002	-	5,338	41,176	-	18,439	106,220
Revenue:						
Operating revenue	71,613	-	-	39,162,336	-	-
Total revenue	<u>71,613</u>	<u>-</u>	<u>-</u>	<u>39,162,336</u>	<u>-</u>	<u>-</u>
Expenditures:						
Operating expenditures	35,167	-	-	-	-	-
Debt Service:						
Principal	-	5,170	-	-	17,542	-
Interest	-	3,370	-	-	11,961	-
Total expenditures	<u>35,167</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	-	-	-	-	-	-
To current unrestricted fund from revenue fund accounts	(27,906)	-	-	(39,132,833)	-	-
Total transfers	<u>(36,446)</u>	<u>8,540</u>	<u>0</u>	<u>(39,162,336)</u>	<u>29,503</u>	<u>0</u>
Balance at May 31, 2003	<u>-</u>	<u>5,338</u>	<u>41,176</u>	<u>-</u>	<u>18,439</u>	<u>106,220</u>

See accompanying independent auditors' report.