

*MACALESTER
COLLEGE*

*ANNUAL FINANCIAL STATEMENTS
WITH AUDITORS OPINION
FOR YEAR ENDED MAY 31, 2004*

Macalester College

Statements of Financial Position

May 31, 2004 and 2003

(in thousands of dollars)

	<u>Operations</u>	<u>Investments</u>	<u>Plant</u>	<u>2004 Total</u>	<u>2003 Total</u>
ASSETS					
Cash and cash equivalents	\$ 8,098	125	4,601	12,824	\$ 3,573
Collateral on loaned securities	-	81,046	-	81,046	123,547
Accrued investment income	1,468	23	-	1,491	1,386
Prepaid expenses	427	-	911	1,338	1,272
Notes and accounts receivable, net of allowance for doubtful receivables of \$720 (and \$1,338 in 2003)	2,155	4,805	-	6,960	5,925
Contributions receivable, net	900	851	334	2,085	3,396
Funds for investment in land, buildings and equipment	-	-	934	934	11,714
Interest rate swap agreement	-	-	295	295	-
Long term investments	10,004	471,335	-	481,339	443,138
Real estate	-	7,098	-	7,098	6,506
Land, buildings and equipment, net of accumulated depreciation	-	-	122,246	122,246	116,544
Beneficial interest in perpetual trust	-	26,795	-	26,795	26,045
Total assets	\$ 23,052	592,078	129,321	744,451	\$ 743,046
LIABILITIES AND NET ASSETS					
Liabilities:					
Accounts payable and accrued expenses	\$ 8,657	-	517	9,174	\$ 8,637
Collateral on loaned securities	-	81,046	-	81,046	123,547
Deferred revenue	1,343	-	-	1,343	2,141
Deposits	239	15	-	254	232
Interest rate swap agreement	-	-	-	-	964
Liabilities under planned giving agreements	-	5,864	-	5,864	6,361
Government grants refundable	-	4,332	-	4,332	4,239
Bonds and mortgages payable	-	-	57,981	57,981	59,589
Total liabilities	10,239	91,257	58,498	159,994	205,710
Net assets:					
Unrestricted:					
For operations	6,064	-	-	6,064	4,898
For investment in plant	-	-	307	307	278
For long term investments	-	36,549	-	36,549	31,606
For endowment payout	-	36,300	-	36,300	29,884
For debt service	-	-	510	510	462
Net investment in plant	-	-	69,322	69,322	68,960
Total unrestricted	6,064	72,849	70,139	149,052	136,088
Temporarily restricted:					
For operations	6,749	-	-	6,749	6,253
For investment in plant	-	-	684	684	1,285
For long term investments	-	85,707	-	85,707	51,084
Total temporarily restricted	6,749	85,707	684	93,140	58,622
Permanently restricted:					
For long term investments	-	342,265	-	342,265	342,626
Total net assets	12,813	500,821	70,823	584,457	537,336
Total liabilities and net assets	\$ 23,052	592,078	129,321	744,451	\$ 743,046

See accompanying notes to financial statements.

Macalester College

Statements of Activities

Years ended May 31, 2004 and 2003

(in thousands of dollars)

	Operations	Investments	Plant	2004 Total	2003 Total
Changes in unrestricted net assets:					
Revenues and other additions:					
Tuition and fees	\$ 45,598	-	-	45,598	\$ 41,924
Less: Student aid and scholarships	(19,916)	-	-	(19,916)	(18,128)
Net tuition and fees	25,682	-	-	25,682	23,796
Federal grants and contracts	1,390	-	-	1,390	1,292
State grants and contracts	67	-	-	67	45
Private gifts and grants	4,919	-	10	4,929	3,428
Sales and service of auxiliary enterprises	10,060	-	-	10,060	8,548
Sale of fixed assets/other sources	467	-	627	1,094	559
Investment income	387	-	29	416	520
Endowment payout	1,910	-	-	1,910	1,836
Realized and unrealized gains (losses) on:					
Investments, net of gains used in endowment payout	(159)	9,527	-	9,368	(7,486)
Interest rate swap	-	-	1,258	1,258	(964)
Net assets released from restrictions	23,630	497	882	25,009	26,199
Total revenues and other additions	<u>68,353</u>	<u>10,024</u>	<u>2,806</u>	<u>81,183</u>	<u>57,773</u>
Expenses:					
Instruction	23,908	-	1,423	25,331	25,046
Research	1,094	-	-	1,094	581
Public service	448	-	32	480	568
Academic support	5,968	-	321	6,289	6,428
Student services	10,641	-	1,962	12,603	12,188
Institutional support	11,169	-	890	12,059	12,333
Auxiliary enterprises	8,261	420	1,605	10,286	9,479
Administration and other expenses	-	77	-	77	62
Total expenses	<u>61,489</u>	<u>497</u>	<u>6,233</u>	<u>68,219</u>	<u>66,685</u>
Transfers among reporting categories:					
Principal and interest	(4,505)	-	4,505	-	-
Capital improvements	(23)	-	23	-	-
Long term investments	(1,170)	1,832	(662)	-	-
Total transfers	<u>(5,698)</u>	<u>1,832</u>	<u>3,866</u>	<u>-</u>	<u>-</u>
Change in unrestricted assets	1,166	11,359	439	12,964	(8,912)
Unrestricted net assets beginning of year	4,898	61,490	69,700	136,088	145,000
Unrestricted net assets at end of year	<u>\$ 6,064</u>	<u>72,849</u>	<u>70,139</u>	<u>149,052</u>	<u>\$ 136,088</u>

(continued)

See accompanying notes to financial statements.

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

	<u>Operations</u>	<u>Investments</u>	<u>Plant</u>	<u>2004 Total</u>	<u>2003 Total</u>
Changes in temporarily restricted net assets:					
Private gifts	\$ 825	342	77	1,244	\$ 2,460
Other sources	17	-	-	17	80
Investment income	20	-	-	20	42
Endowment payout	23,638	-	25	23,663	23,623
Realized and unrealized gains (losses) on investments, net of gains used in endowment payout	-	29,030	-	29,030	(26,027)
Change in value of planned giving agreements	-	(76)	-	(76)	31
Net assets released from restrictions	(23,630)	-	(882)	(24,512)	(25,586)
Transfers among reporting categories	(58)	(121)	179	-	-
Change in donor restrictions	(316)	5,448	-	5,132	(150)
Change in temporarily restricted net assets	496	34,623	(601)	34,518	(25,527)
Temporarily restricted net assets beginning of year	<u>6,253</u>	<u>51,084</u>	<u>1,285</u>	<u>58,622</u>	<u>84,149</u>
Temporarily restricted net assets at end of year	<u>\$ 6,749</u>	<u>85,707</u>	<u>684</u>	<u>93,140</u>	<u>\$ 58,622</u>
Changes in permanently restricted net assets:					
Private gifts	\$ -	268	-	268	\$ 414
Rental income	-	441	-	441	462
Investment income	-	274	-	274	320
Realized and unrealized gains (losses) on investments, net of gains used in endowment payout	-	2,553	-	2,553	(780)
Interest on loans receivable	-	27	-	27	30
Change in value of beneficial interest in perpetual trust	-	750	-	750	(254)
Change in value of planned giving agreements	-	955	-	955	24
Net assets released from restrictions	-	(497)	-	(497)	(613)
Change in donor restrictions	-	(5,132)	-	(5,132)	150
Net change in permanently restricted net assets	-	(361)	-	(361)	(247)
Permanently restricted net assets at beginning of year	<u>-</u>	<u>342,626</u>	<u>-</u>	<u>342,626</u>	<u>342,873</u>
Permanently restricted net assets at end of year	<u>\$ -</u>	<u>342,265</u>	<u>-</u>	<u>342,265</u>	<u>\$ 342,626</u>
Total net assets beginning of year	\$ 11,151	455,200	70,985	537,336	\$ 572,022
Change in total net assets	<u>1,662</u>	<u>45,621</u>	<u>(162)</u>	<u>47,121</u>	<u>(34,686)</u>
Total net assets end of year	<u>\$ 12,813</u>	<u>500,821</u>	<u>70,823</u>	<u>584,457</u>	<u>\$ 537,336</u>

See accompanying notes to financial statements.

Macalester College

Statements of Cash Flows

Years ended May 31, 2004 and 2003

(in thousands of dollars)

	<u>2004</u>	<u>2003</u>
Cash flows from operating activities:		
Change in total net assets	\$ 47,121	(34,686)
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	4,053	3,798
Realized and unrealized (gain) loss on investments	(40,951)	34,293
Unrealized (gain) loss on interest rate swap	(1,258)	964
Private gifts and other income restricted for long term investments	2,913	(533)
Change in assets and liabilities		
(Increase) decrease in accrued investment income	(105)	254
(Increase) decrease in prepaid expenses	(48)	55
Increase in notes and accounts receivable	(1,035)	(175)
Decrease in contributions receivable	1,311	1,128
Increase in accounts payable and accrued expenses	537	478
Decrease in liabilities under planned giving agreements	(497)	(400)
Decrease in deferred revenue	(798)	(768)
Increase in deposits	22	13
Net cash provided by operating activities	<u>11,265</u>	<u>4,421</u>
Cash flows from investing activities:		
Proceeds from sale of investments	290,332	236,923
Purchase of investments	(288,300)	(246,638)
Proceeds from real estate	126	(385)
Purchase of land, building and equipment	(9,755)	(4,923)
Net cash used in investing activities	<u>(7,597)</u>	<u>(15,023)</u>
Cash flows from financing activities:		
Proceeds from issuance of bond payable	-	15,300
Payment of financing costs	(19)	(191)
Principal payments on bonds payable	(1,608)	(1,528)
Increase in government grant refundable	93	129
(Increase) decrease in funds for investment in land, buildings, and equipment	10,780	(8,910)
Change in value of beneficial interest in perpetual trust	(750)	254
Private gifts, grants and other income restricted for long term investment	(2,913)	533
Net cash provided by financing activities	<u>5,583</u>	<u>5,587</u>
Increase (decrease) in cash and cash equivalents	9,251	(5,015)
Cash and cash equivalents at beginning of the year	3,573	8,588
Cash and cash equivalents at end of the year	<u>\$ 12,824</u>	<u>3,573</u>
Supplemental disclosure - cash paid for interest	<u>\$ 2,474</u>	<u>2,152</u>

See accompanying notes to financial statements.

MACALESTER COLLEGE

Notes to Financial Statements

May 31, 2004 and 2003

(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 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.

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MACALESTER COLLEGE

Notes to Financial Statements

May 31, 2004 and 2003

(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, 2004 and 2003

(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 \$57,510 as of May 31, 2004, and the fair value was approximately \$58,309. 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, 2004 and 2003

(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 2003 amounts have been reclassified to conform to the 2004 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 \$15,368 and \$18,764 as of May 31, 2004 and 2003, respectively. The allocations shown at fair value are as follows:

	<u>2004</u>	<u>2003</u>
Long term investments of Macalester College:		
Cash equivalents	\$ 3,028	\$ 8,945
Common stocks	173,107	155,528
International equity	108,098	83,258
Preferred stock	5,579	5,527
Corporate bonds	2,852	3,931
U.S. Government obligations	81,834	85,304
Real estate, oil and gas partnerships	38,066	34,655
Private Capital	30,924	22,125
Hedge and absolute return funds	24,891	26,594
Short term bonds	<u>12,960</u>	<u>17,271</u>
Total fair value	<u>\$ 481,339</u>	<u>\$443,138</u>
Total cost	<u>\$ 439,005</u>	<u>\$442,979</u>

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MACALESTER COLLEGE

Notes to Financial Statements

May 31, 2004 and 2003

(in thousands of dollars)

Included in the fair value of preferred stocks is \$5,579 and \$5,500 at May 31, 2004 and 2003, respectively, relating to 90,710 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, 2004 and 2003, the fair value of endowments funded in part or fully by DeWitt Wallace is \$358,297 and \$327,185.

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, 2004 and 2003, investments totaling \$102,952 and \$83,258, respectively, included limited use of forward currency contracts, and investments totaling \$29,804 and \$26,594, 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, 2004, the College had loaned certain securities, returnable on demand, with a fair value of \$79,194 to several financial institutions that have deposited collateral with respect to such securities of \$81,046. 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) Funds Held in Trust by Others

The College's beneficial interest in the fair value of assets in a perpetual trust is \$26,795 and \$26,045 as of May 31, 2004 and 2003, respectively. For the years ended May 31, 2004 and 2003, the College received \$1,120 and \$918 from this trust, respectively.

The College is the income beneficiary of a revocable trust with an estimated value of \$12,257 and \$10,784 as of May 31, 2004 and 2003, respectively, which is controlled by independent trustees. For the year ended May 31, 2004 and 2003, the College received \$422 and \$435 from this trust, respectively. These assets are not recorded on the financial statements of the College.

5) 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.

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MACALESTER COLLEGE

Notes to Financial Statements

May 31, 2004 and 2003

(in thousands of dollars)

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 2004 and 2003 of 5.1% and 5.2%, 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, 2004 certain individual endowed funds had gain deficiencies totaling \$339 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.

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

Year ended May 31, 2004	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment yield (net of investment expenses of \$1,653)	\$ 1,002	\$ 9,874	\$ 45	\$ 10,921
Gains used in endowment payout	<u>908</u>	<u>13,789</u>	<u>71</u>	<u>14,768</u>
Endowment payout	<u>\$ 1,910</u>	<u>\$ 23,663</u>	<u>\$ 116</u>	<u>\$ 25,689</u>
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>

6) Contributions Receivable

Contributions receivable consists of the following:

	<u>2004</u>	<u>2003</u>
Unconditional promises expected to be collected in:		
Less than one year	\$ 1,113	\$ 1,681
One year to five years	854	1,587
Greater than five years	358	457
Less: Discount to present value (5%)	<u>(240)</u>	<u>(329)</u>
	<u>\$ 2,085</u>	<u>\$ 3,396</u>

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MACALESTER COLLEGE

Notes to Financial Statements

May 31, 2004 and 2003

(in thousands of dollars)

7) Land, Building and Equipment

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

	<u>2004</u>	<u>2003</u>
Land and land improvements	\$ 1,414	\$ 1,414
Buildings	156,034	147,346
Equipment	4,706	4,032
Construction in progress	<u>4,911</u>	<u>4,719</u>
	167,065	157,511
Less: Accumulated depreciation	<u>(44,819)</u>	<u>(40,967)</u>
	<u>\$122,246</u>	<u>\$116,544</u>

8) Bonds and Mortgages Payable

Bonds and mortgages payable consist of the following:

	<u>2004</u>	<u>2003</u>
College Housing Program Mortgages at 3%, due in semi-annual installments through 2020 (original amount \$880)	471	494
Minnesota Higher Education Facilities Authority variable rate demand revenue bonds of 1994, weekly maturity and rate reset, 1.00% 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)	8,025	8,500
Minnesota Higher Education Facilities Authority Revenue Bonds of 1997, 5.41% average, final series due 2017 (original amount \$11,000)	8,365	8,805
Minnesota Higher Education Facilities Authority Revenue Bonds of 1998, 4.94% average, final series due 2022 (original amount \$22,345)	19,160	19,830
Minnesota Higher Education Facilities Authority variable rate demand revenue bonds of 2003, weekly rate reset as well as a weekly tender option, 0.99% average for current fiscal year, total principal due 2033 (original amount \$15,300)	<u>15,300</u>	<u>15,300</u>
	<u>\$ 57,981</u>	<u>\$59,589</u>

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MACALESTER COLLEGE

Notes to Financial Statements

May 31, 2004 and 2003

(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, 2004 and 2003, 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, \$22,345 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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(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, 2004, the estimated market value of the swap contract was \$295.

Annual debt commitments (principal) at May 31, 2004, are as follows:

<u>Fiscal year ending May 31,</u>	<u>Amount</u>
2005	1,679
2006	1,755
2007	1,841
2008	1,936
2009	2,022
after 2009	<u>48,748</u>
	<u>\$ 57,981</u>

Total interest costs on debt aggregated \$2,493 and \$2,152 during the year ended May 31, 2004 and 2003, respectively.

9) 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, 2004, the High Winds Fund owned nine properties surrounding the College campus. The total value of the assets of the Fund as of May 31, 2004 and 2003 is \$9,707 and \$8,664, respectively.

10) 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, 2004 and 2003 was approximately \$181 and \$188, respectively.

Total benefit expense for the year ended May 31, 2004, was \$2,408 including \$21 paid under the unfunded supplemental plan and for the year ended May 31, 2003, was \$2,281 including \$21 paid under the unfunded supplemental plan.

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11) 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>2004</u>	<u>2003</u>
Program - Student instruction and services	\$ 57,556	\$ 55,883
Management and general	7,264	7,226
Fundraising	<u>3,399</u>	<u>3,576</u>
	<u>\$ 68,219</u>	<u>\$ 66,685</u>

12) Commitments

The College has outstanding construction contracts totaling approximately \$1,781 at May 31, 2004. Completion is estimated for summer 2004. The College is committed as of May 31, 2004 to invest approximately \$43,083 in certain limited partnerships for long term investment purposes.