

MACALESTER COLLEGE



**ANNUAL FINANCIAL STATEMENTS AND SUPPLEMENTARY INFORMATION
WITH AUDITORS' OPINION
FOR THE FISCAL YEAR ENDED MAY 31, 2020**



INDEPENDENT AUDITORS' REPORT

Board of Trustees
Macalester College
St. Paul, Minnesota

Report on the Financial Statements

We have audited the accompanying financial statements of Macalester College, which comprise the statements of financial position as of May 31, 2020 and 2019, and the related statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Board of Trustees
Macalester College

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Macalester College as of May 31, 2020 and 2019, and changes in its net assets, functional expenses, and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

CliftonLarsonAllen LLP

CliftonLarsonAllen LLP

Minneapolis, Minnesota
September 30, 2020

MACALESTER COLLEGE
 Statements of Financial Position
 May 31, 2020 and 2019
 (in thousands of dollars)

	<u>2020</u>	<u>2019</u>
ASSETS		
Cash and cash equivalents	\$ 10,417	\$ 10,495
Accrued investment income, prepaid expenses and other assets	5,312	5,538
Notes and accounts receivable	9,310	8,986
Contributions receivable, net	5,242	3,124
Short term investments	41,309	44,174
Long term investments	676,253	735,366
Real estate	15,755	15,473
Land, buildings and equipment, net of accumulated depreciation	214,607	220,863
Beneficial interest in perpetual trust	<u>29,500</u>	<u>30,096</u>
Total assets	<u>\$ 1,007,705</u>	<u>\$ 1,074,115</u>
LIABILITIES AND NET ASSETS		
Liabilities:		
Accounts payable and accrued expenses	\$ 12,478	\$ 15,511
Deferred revenue and deposits	2,493	1,336
Interest rate swap agreement	2,402	958
Liabilities under planned giving agreements	8,279	8,417
Government grants refundable	3,090	3,893
Bonds payable	<u>91,019</u>	<u>95,119</u>
Total liabilities	<u>119,761</u>	<u>125,234</u>
Net assets:		
Without donor restrictions		
Operations	25,317	25,533
Investments	59,512	63,350
Plant	<u>121,349</u>	<u>125,686</u>
Total without donor restrictions	<u>206,178</u>	<u>214,569</u>
With donor restrictions		
Operations	11,892	13,673
Investments	669,547	720,325
Plant	<u>327</u>	<u>314</u>
Total with donor restrictions	<u>681,766</u>	<u>734,312</u>
Total net assets	<u>887,944</u>	<u>948,881</u>
Total liabilities and net assets	<u>\$ 1,007,705</u>	<u>\$ 1,074,115</u>

See accompanying notes to financial statements.

MACALESTER COLLEGE
Statements of Activities
Years Ended May 31, 2020 and 2019
(in thousands of dollars)

	2020			2019		
	Without Donor Restrictions	With Donor Restrictions	Total	Without Donor Restrictions	With Donor Restrictions	Total
Operating Activities:						
Revenues and other additions:						
Tuition and fees, net of student aid and scholarships of \$58,759 in 2020 and \$59,042 in 2019	\$ 54,507	-	54,507	\$ 55,142	-	55,142
Federal and state grants and contracts	1,194	-	1,194	1,647	-	1,647
Private gifts and grants	4,067	1,965	6,032	4,735	7,904	12,639
Sales and service of auxiliary enterprises	14,290	-	14,290	17,409	-	17,409
Other sources	1,153	22	1,175	1,277	59	1,336
Net investment return	1,298	23	1,321	1,088	17	1,105
Investment return appropriated by the governing board for operations	4,100	34,206	38,306	4,033	33,783	37,816
Net assets released from restrictions	38,161	(38,161)	-	37,794	(37,794)	-
Total operating revenues and other additions	118,770	(1,945)	116,825	123,125	3,969	127,094
Expenses:						
Instruction	48,425	-	48,425	46,980	-	46,980
Research	1,699	-	1,699	1,822	-	1,822
Academic support	12,533	-	12,533	12,992	-	12,992
Student services	24,485	-	24,485	24,981	-	24,981
Auxiliary enterprises	11,171	-	11,171	11,817	-	11,817
Institutional support	23,995	-	23,995	23,872	-	23,872
Total expenses	122,308	-	122,308	122,464	-	122,464
Change in net assets from operating activities	(3,538)	(1,945)	(5,483)	661	3,969	4,630
Non-operating Activities:						
Investment-related:						
Net investment return	123	(24,472)	(24,349)	2,593	14,254	16,847
Investment return appropriated by the governing board for operations	(4,100)	(34,206)	(38,306)	(4,033)	(33,783)	(37,816)
Change in beneficial interest in perpetual trust	-	(596)	(596)	-	(2,012)	(2,012)
Change in value of planned giving agreements	(111)	(136)	(247)	(10)	(194)	(204)
Gift-related:						
Private gifts and grants restricted for long-term investment	481	8,831	9,312	23	1,532	1,555
Private gifts and grants restricted for capital projects	167	9	176	-	975	975
Other:						
Change in value of interest rate swap	(1,444)	-	(1,444)	(753)	-	(753)
Net assets released from restrictions	31	(31)	-	6,973	(6,973)	-
Change in net assets from non-operating activities	(4,853)	(50,601)	(55,454)	4,793	(26,201)	(21,408)
Change in net assets	(8,391)	(52,546)	(60,937)	5,454	(22,232)	(16,778)
Net assets beginning of year	214,569	734,312	948,881	209,115	756,544	965,659
Net assets end of year	\$ 206,178	681,766	887,944	\$ 214,569	734,312	948,881

See accompanying notes to financial statements.

MACALESTER COLLEGE
Statements of Cash Flows
Years Ended May 31, 2020 and 2019
(in thousands of dollars)

	<u>2020</u>	<u>2019</u>
Cash flows from operating activities:		
Change in total net assets	\$ (60,937)	\$ (16,778)
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	10,144	9,509
Realized and unrealized loss (gain) on investments	37,437	(5,524)
Unrealized loss on interest rate swap	1,444	753
Private gifts and other income restricted for long term investments	(8,840)	(2,507)
Noncash contributions of marketable securities	(184)	(456)
Adjustment of actuarial liabilities for planned giving agreements	751	458
Change in value of beneficial interest in perpetual trust	596	2,012
Endowment payout	31,475	34,400
Change in assets and liabilities:		
Accrued investment income, prepaid expenses and other assets	226	(4,143)
Notes and accounts receivable	(324)	(34)
Contributions receivable	309	440
Accounts payable and accrued expenses	(2,350)	330
Deferred revenue and deposits	1,157	35
Net cash provided by operating activities	<u>10,904</u>	<u>18,495</u>
Cash flows from investing activities:		
Proceeds from sale of investments	294,897	196,802
Proceeds from sale of investments used for endowment payout	(31,475)	(34,400)
Purchase of investments	(269,984)	(179,923)
Purchase of land, building and equipment	(4,822)	(25,686)
Net cash used in investing activities	<u>(11,384)</u>	<u>(43,207)</u>
Cash flows from financing activities:		
Principal payments on bonds payable	(3,849)	(3,663)
Payments made to beneficiaries of planned giving agreements	(889)	(898)
Change in government grant refundable	(803)	-
Noncash contributions of marketable securities	(470)	(258)
Private gifts, grants and other income restricted for long term investment	6,413	2,933
Net cash provided by (used in) financing activities	<u>402</u>	<u>(1,886)</u>
Decrease in cash and cash equivalents	(78)	(26,598)
Cash, restricted cash, and cash equivalents at beginning of the year	10,495	37,093
Cash, restricted cash, and cash equivalents at end of the year	<u>\$ 10,417</u>	<u>\$ 10,495</u>
Supplemental disclosure - cash paid for interest, including interest capitalized of \$0 and \$966, respectively	<u>\$ 3,221</u>	<u>\$ 3,297</u>
Noncash investing and financing activities:		
Purchases of land, building and equipment funded by accounts payable	<u>\$ 22</u>	<u>\$ 705</u>

See accompanying notes to financial statements.

1) Background and Organization

Macalester College (“the College” or “Macalester”) is a four year, coeducational, residential, private liberal arts college. Founded in 1874, the College is located in the urban setting of Saint Paul, Minnesota 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:

Net assets with donor restrictions -- Net assets subject to donor-imposed stipulations that: a) restrict their use to a specific purpose and/or the passage of time; or b) require that they be maintained in perpetuity 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.

Net assets without donor restrictions -- 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 *net assets without donor restrictions* unless use of the related assets is limited by donor-imposed restrictions. Donor-restricted contributions whose restrictions are met in the same year the gift is made are reported as contributions *with donor restrictions* and releases in the current year. Expirations of donor-imposed 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 *net assets without donor restrictions*. Gains and losses on assets and liabilities are reported as increases or decreases in *net assets without donor restrictions* 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 a discount rate consistent with the general principles for present value measurement. Amortization of discount is recorded as additional contribution revenue in accordance with donor-imposed restrictions, if any, on the contributions.

A portion of the College's revenue is derived from cost reimbursable federal and state contracts and grants, which are conditioned upon certain performance requirements and/or the incurrence of allowable qualifying expenses. Amounts received are recognized as revenue when the College has incurred expenditures in compliance with specific contract or grant provisions. Amounts received prior to incurring qualifying expenditures are reported as refundable advances in the statement of financial position. The College received cost reimbursable grants of \$3,084 that have not been recognized at May 31, 2020 because qualifying expenditures have not yet been incurred.

Operating results in the statements of activities reflect all transactions increasing and decreasing net assets except those that the College defines as non-operating. Non-operating activity includes contributions added to endowments, contributions supporting major capital purchases, contributions and other activity related to annuity and other trust agreements, changes in the value of interest rate swaps, and long term investment income, net of amounts distributed to support the operations in accordance with the Board-approved endowment spending policy.

Cash and Cash Equivalents

Cash and cash equivalents include interest bearing money market accounts. The balances are insured by the Federal Deposit Insurance Corporation up to certain limits. At times, cash in the bank may exceed FDIC insurable limits.

Notes and Accounts Receivable

Notes and accounts receivable include grants receivable, student loan receivables, student accounts receivable and various other receivables. An allowance for doubtful accounts is recorded annually based on historical experience and management's evaluation of receivables at the end of each year. Bad debts are written off when deemed uncollectible. Receivables are generally unsecured.

Short Term Investments

Short term investments consist of investments held in short-term funds that may be used for the daily operations of the College.

Long Term Investments

Long term investments include the endowment pool, non-pooled endowment, and investments related to split interest agreements.

Real Estate

Purchased real estate investments are initially recorded at cost in the year they are acquired. In subsequent years, the properties are valued based on an appraisal and/or a market analysis. Real estate investments that have been received as contributions are valued at their estimated fair value at the date the properties were donated, as determined by professional appraisals.

Land, Buildings and Equipment

Equipment and building improvements with a cost of \$10,000 or greater and buildings with a cost of \$100,000 or greater are capitalized by the College. 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. Useful lives for equipment range from 3 to 6 years. Useful lives for the majority of the buildings and improvements range from 20 to 40 years.

Interest is capitalized in connection with the construction of facilities. The capitalized interest is recorded as part of the asset to which it relates and is amortized over the asset's useful life.

Bond Issue Costs

Bond issue costs are amortized using the straight-line method over the life of the associated bond issue. Bond issue costs are reported as a reduction of bonds and mortgages payable on the statements of financial position.

Revenue Recognition and Disaggregation of Revenue

The College provides academic instruction toward baccalaureate degrees. Tuition and fee revenue is recognized in the fiscal year in which the academic programs are delivered. Institutional scholarships awarded to students reduce the amount of revenue recognized. In addition, students who adjust their course load or withdraw completely within the first 33 class days of the semester may receive a partial refund in accordance with the College's refund policy. Refunds issued reduce the amount of revenue recognized. Payments for services are due August 15th for the Fall semester and January 15th for the Spring semester.

MACALESTER COLLEGE
Notes to Financial Statements
May 31, 2020
(in thousands of dollars)

The following table shows the College's tuition revenue disaggregated according to the timing of the transfer of goods or service and by source, as of the year ended May 31, 2020 and 2019:

	<u>2020</u>	<u>2019</u>
Revenue recognized over time:		
Tuition and fees	\$ 54,507	\$ 55,142

The College also provides auxiliary services, such as residence and dining services. Revenue from these services is recognized in the fiscal year in which the goods and services are provided. Students that withdraw from the College within the first 33 class days of the semester may receive a partial refund in accordance with the College's refund policy. Refunds issued reduce the amount of revenue recognized. During the year ended May 31, 2020, as part of the College's response to COVID-19, most students received a partial refund of their residence and dining charges.

The following table shows the College's auxiliary revenues disaggregated according to the timing of transfer of goods or service and by source, as of the year ended May 31, 2020 and 2019:

	<u>2020</u>	<u>2019</u>
Revenue recognized over time:		
Residence	\$ 7,604	\$ 9,315
Dining	5,789	7,028
Other	<u>897</u>	<u>1,066</u>
Total auxiliary revenues	<u>\$ 14,290</u>	<u>\$ 17,409</u>

The College serves approximately 2,000 students. Approximately 15% of the students are non-U.S. residents. Approximately 16% of the students are residents of Minnesota. The remaining students are U.S. residents from states other than Minnesota.

Deferred Revenue

Deferred revenue represents payments received prior to the start of the academic term. The following table depicts activities for deferred revenue related to tuition, fees and auxiliary services.

Balance at May 31, 2019	Refunds issued	Revenue recognized included in May 31, 2019 balance	Cash received in advance of performance	Balance at May 31, 2020
\$ 971	\$ -	\$ 971	\$ 2,324	\$ 2,324

The balance of deferred revenue at May 31, 2020 less any refunds will be recognized as revenue over the academic term as services are rendered. The College applies the practical expedient in paragraph 606-10-50-14 and does not disclose information about remaining performance obligations that have original expected durations of one year or less. The College anticipates that students enrolled for the Fall semester will continue their studies in the Spring semester, and that students who receive their baccalaureate degree in December or May will be replaced by an equivalent number of new enrollees.

Expenses

The financial statements report expenses that are attributable to both program and supporting functions. These expenses require allocation on a reasonable basis that is consistently applied. Therefore, operation and maintenance expenses are allocated based on depreciation expense, and interest expense is allocated based on the program and/or supporting function that benefit from the related debt issuances.

Measure of Operations

The College's change in net assets from operating activities includes all operating revenues and expenses that are an integral part of its programs and supporting activities, including net assets released from donor restrictions to support operating expenditures, as well as investment return appropriated by the Board of Trustees for operations.

The measure of operations includes support for operating activities from both donor-restricted net assets and net assets without donor restrictions designated for long-term investment according to the College's spending policy, which is detailed in the Endowment Funds footnote.

The measure of operations excludes endowment support for non-operating activities, investment return in excess (less than) amounts made available for current support, changes in market value of beneficial interest in perpetual trusts, changes in the fair value of planned giving agreements, private gifts and grants restricted for long-term investment and capital projects, and changes in fair value of the interest rate swap.

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.

The College's accounting policy provides that a tax expense/benefit from an uncertain tax position may be recognized when it is more likely than not that the position will be sustained upon examination, including resolutions of any related appeals or litigation processes, based on technical merits. The College has no uncertain tax positions resulting in an accrual of tax expense or benefit.

Derivative Financial Instruments

The College measures derivative instruments (including derivative instruments embedded in other contracts) at fair value, and reports them as assets or liabilities in the statements of financial position. Changes in the fair value of derivatives during the year are reported in the statements of activities. Macalester's interest rate swap agreement is considered a derivative financial instrument and has been reported in the statements of financial position at fair value. The change in the fair value of the agreement during the year is reported in the statements of activities. The net cash received or paid under the terms of the interest rate swap agreement over its term is reported as a component of interest expense.

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 using discount rates and assumptions established upon initial recognition of the liability and the use of the appropriate mortality tables. Discount rates range from 1.3% to 7.0%. 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. Liabilities under planned giving agreements attributable to annuities as of May 31, 2020 and 2019 totaled \$1,877 and \$1,593, respectively.

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 trust was recognized as an asset and as revenue on 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 US generally accepted accounting principles (GAAP) requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from these estimates.

Related Party

Pledges from certain Board of Trustees members and Officers are included in the financial statements. The pledges outstanding totaled \$3,533 and \$872 at May 31, 2020 and 2019, respectively. The College has a conflict of interest policy in place that is reviewed by each Board member and Officer annually.

Risks and Uncertainties

In March 2020, the World Health Organization declared the spread of Coronavirus Disease (COVID-19) a worldwide pandemic. The COVID-19 pandemic is having significant effects on global markets, supply chains, businesses, and communities. Specific to Macalester College, COVID-19 may impact various parts of its operations and financial results for the year ending May 31, 2021, including, but not limited to, declines in enrollment, loss of auxiliary revenues, additional bad debts, costs for increased use of technology, or potential shortages of personnel. Management believes Macalester College is taking appropriate actions to mitigate the negative impact. However, the full impact of COVID-19 is unknown and cannot be reasonably estimated as these events are still developing subsequent to fiscal year end.

3) Student Loans Receivable

The College issues uncollateralized loans to students based on financial need. Student loans are funded through federal government loan programs or institutional resources. Allowances for doubtful accounts are established based on prior collection experience and current economic factors, which, in management's judgment, could influence the ability of loan recipients to repay the amounts per the loan terms. At May 31, 2020 and 2019, student loans represented less than 1% of total assets.

Student loans receivable consist of the following:

	<u>2020</u>	<u>2019</u>
Federal government programs	\$ 2,788	\$ 3,285
Institutional programs	<u>6,512</u>	<u>6,010</u>
Student loans receivable, gross	<u>9,300</u>	<u>9,295</u>
Less: allowance for doubtful accounts:		
Beginning of year	(1,002)	(842)
Increases	<u>(80)</u>	<u>(160)</u>
End of year	<u>(1,082)</u>	<u>(1,002)</u>
Student loans receivable, net	<u>\$ 8,218</u>	<u>\$ 8,293</u>

Student loans receivable are included in notes and accounts receivable on the statement of financial position. Also included in notes and accounts receivable are other receivables of the College, including receivables for students' accounts, rent, federal student aid, and grants. These other receivables total \$1,092 and \$693 as of May 31, 2020 and 2019, respectively.

Funds advanced by the federal government of \$3,090 and \$3,893 at May 31, 2020 and 2019, respectively, are ultimately refundable to the government and are classified as liabilities on the statements of financial position.

MACALESTER COLLEGE
Notes to Financial Statements
May 31, 2020
(in thousands of dollars)

At May 31, 2020 and 2019, the following amounts were past due under student loan programs:

	<u>2020</u>	<u>2019</u>
0 - 9 months past due	\$ 324	\$ 377
10 months - 2 years past due	377	437
3 - 4 years past due	230	261
5 years or longer past due	<u>726</u>	<u>630</u>
Total past due	<u>\$ 1,657</u>	<u>\$ 1,705</u>

4) Investments and Fair Value Measurements

The College applies the provisions of ASC No. 820, which established a three-level fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy under ASC No. 820 are described below:

- Level 1 Unadjusted quoted prices in active markets that are accessible at the measurement date for identical, unrestricted assets or liabilities.
- Level 2 Pricing inputs other than identical quoted prices in active markets that are observable for the financial instrument, such as similar instruments, interest rates, and yield curves that are observable at commonly quoted intervals.
- Level 3 Prices or valuations that require inputs that are both significant to the fair value measurement and unobservable. Level 3 inputs include situations where there is little, if any, market activity for the financial instrument.

The inputs or methodology used for valuing securities are not necessarily an indication of the risk associated with investing in those securities.

The following tables summarize the College's fair value hierarchy for those assets and liabilities that were measured at fair value on a recurring basis as of May 31, 2020 and 2019:

Short term investments:

	<u>2020</u>	<u>2019</u>
Fixed income – Treasuries – fair value	<u>\$ 41,309</u>	<u>\$ 44,174</u>

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Notes to Financial Statements
May 31, 2020
(in thousands of dollars)

Long term investments:

Long term investments include funds traditionally considered the endowment of the College, as well as assets of funds for planned giving agreements totaling \$15,604 and \$15,886 as of May 31, 2020 and 2019, respectively. The allocations shown at fair value are as follows:

	2020				Total
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>No Level</u>	
Financial Assets:					
<u>Short term investments:</u>					
Fixed income - Treasuries	\$ 41,309	\$ -	\$ -	\$ -	\$ 41,309
<u>Long term investments:</u>					
Cash and short term investments	\$ 3,482	\$ -	\$ -	\$ -	\$ 3,482
Publicly traded securities:					
Domestic equities	49,305	-	-	-	49,305
Domestic equities held in collective trusts measured at net asset value	-	-	-	12,448	12,448
Foreign equities held in collective trusts measured at net asset value	-	-	-	85,682	85,682
Fixed income – TIPS and Treasuries	46,916	-	-	-	46,916
Futures	5,430	-	-	-	5,430
Mutual funds	84,884	-	-	-	84,884
Liquid alternative investments	-	47,606	-	-	47,606
Alternative strategies in illiquid structures measured at net asset value:					
Domestic equities	-	-	-	97,948	97,948
Private equities	-	-	-	93,332	93,332
Hedge funds	-	-	-	89,434	89,434
Real estate	-	-	-	25,985	25,985
Natural resources	-	-	-	33,801	33,801
Total long term investments	\$ 190,017	\$ 47,606	\$ -	\$ 438,630	\$ 676,253
High Winds real estate	\$ -	\$ -	\$ 15,755	\$ -	\$ 15,755
Beneficial interest in perpetual trust	\$ -	\$ -	\$ 29,500	\$ -	\$ 29,500
Financial Liabilities:					
Interest rate swap agreement	\$ -	\$ 2,402	\$ -	\$ -	\$ 2,402

MACALESTER COLLEGE
Notes to Financial Statements
May 31, 2020
(in thousands of dollars)

	2019				
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>No Level</u>	<u>Total</u>
Financial Assets:					
<u>Short term investments:</u>					
Fixed income - Treasuries	\$ 44,174	\$ -	\$ -	\$ -	\$ 44,174
<u>Long term investments:</u>					
Cash and short term investments	\$ 2,351	\$ -	\$ -	\$ -	\$ 2,351
Publicly traded securities:					
Domestic equities	53,104	-	-	-	53,104
Domestic equities held in collective trusts measured at net asset value	-	-	-	15,248	15,248
Foreign equities held in collective trusts measured at net asset value	-	-	-	112,437	112,437
Fixed income – TIPS and Treasuries	95,892	25	-	-	95,917
Futures	4,426	-	-	-	4,426
Mutual funds	108,380	-	-	-	108,380
Liquid alternative investments	-	12,306	-	-	12,306
Alternative strategies in illiquid structures measured at net asset value:					
Domestic equities	-	-	-	132,562	132,562
Private equities	-	-	-	86,355	86,355
Hedge funds	-	-	-	44,949	44,949
Real estate	-	-	-	22,088	22,088
Natural resources	-	-	-	45,243	45,243
Total long term investments	<u>\$ 264,153</u>	<u>\$ 12,331</u>	<u>\$ -</u>	<u>\$ 458,882</u>	<u>\$ 735,366</u>
High Winds real estate	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 15,473</u>	<u>\$ -</u>	<u>\$ 15,473</u>
Beneficial interest in perpetual trust	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 30,096</u>	<u>\$ -</u>	<u>\$ 30,096</u>
Financial Liabilities:					
Interest rate swap agreement	<u>\$ -</u>	<u>\$ 958</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 958</u>

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The following tables are roll-forwards of the Level 3 financial assets during the fiscal years ended May 31, 2020 and 2019:

Beneficial Interest in Perpetual Trust		
	<u>2020</u>	<u>2019</u>
Beginning balance	\$ 30,096	\$ 32,108
Net investment return	(46)	(1,072)
Purchases	755	744
Sales	<u>(1,305)</u>	<u>(1,684)</u>
Ending balance	<u>\$ 29,500</u>	<u>\$ 30,096</u>

High Winds Real Estate*		
	<u>2020</u>	<u>2019</u>
Beginning balance	\$ 15,473	\$ 15,473
Purchase of property	<u>282</u>	<u>-</u>
Ending balance	<u>\$ 15,755</u>	<u>\$ 15,473</u>

* Real estate values are based on independent appraisals.

At May 31, 2020, the College had \$340,500 of long term investments, \$12,448 of domestic equities held in collective trusts, and \$85,682 of foreign equity held in collective trusts. These investments are reported at fair value. The College has concluded that the net asset value (NAV) reported by the underlying fund approximates the fair value of the investments and serves as the practical expedient for fair value.

Due to the nature of the investments held by the funds, changes in market conditions and economic environment may significantly impact the net asset value of the funds, and consequently, the fair value of the College's interests in the funds. Although a secondary market exists for these investments, it is not active and individual transactions are typically not observable. When transactions occur in this limited secondary market, they may occur at discounts to the reported net asset value. It is, therefore, reasonably possible that if the College was to sell these investments in the secondary market, a buyer may require a discount to the reported net asset value, and the discount could be significant. The College has no plans to sell any of these assets on the secondary market.

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At May 31, 2020 and 2019, the College's alternative investments had strategies and redemption terms as summarized in the tables below:

2020				
Investment Category	Fair Value	Unfunded Commitments	Redemption Frequency*	Notice Period (in Days)*
Foreign equity held in collective trusts (a)	\$ 85,682	None	Monthly	30 days
Domestic equities held in collective trusts (b)	12,448	None	Monthly	30 days
Domestic equities - alternative structures (c)	97,948	None	Quarterly	60 days
Hedge funds (d)	89,434	None	Monthly - Annual	30 - 90 days
Private investments (e)	153,118	\$ 130,526	Not applicable	Not applicable
Totals	\$ 438,630	\$ 130,526		

2019				
Investment Category	Fair Value	Unfunded Commitments	Redemption Frequency*	Notice Period (in Days)*
Foreign equity held in collective trusts (a)	\$ 112,437	None	Monthly	30 days
Domestic equities held in collective trusts (b)	15,248	None	Monthly	30 days
Domestic equities - alternative structures (c)	132,562	None	Quarterly	60 days
Hedge funds (d)	44,949	None	Monthly - Annual	30 - 90 days
Private investments (e)	153,686	\$ 137,905	Not applicable	Not applicable
Totals	\$ 458,882	\$ 137,905		

* The information summarized in the tables above represents the general terms for the specified asset class. Individual investment funds may have terms that are more or less restrictive than those terms indicated for the asset class as a whole. In addition, most investment funds have the flexibility, as provided for in their constituent documents, to modify and waive such terms.

- a. Foreign equities held in collective trusts are actively managed investment funds focused on the equity markets of non-US developed market countries. These funds have the ability to invest a portion of the funds in equities of emerging market countries. The unobservable inputs used to determine the fair values of these investments have been estimated using NAV.
- b. Domestic equities held in collective trusts are actively managed investment funds focused on US equity markets. The unobservable inputs used to determine the fair values of these investments have been estimated using NAV.
- c. Domestic equities - alternative structures are actively managed and designed to give the College exposure to the movements of the US equity market. The unobservable inputs used to determine the fair values of these investments have been estimated using NAV.

- d. Hedge funds consist of funds in which the College has invested to potentially benefit from the skill of fund managers or to access unconventional assets. Typically, the underlying investments in these funds are publicly traded.
- e. Private investments include a variety of investment strategies, including buyout, distressed debt, energy, real estate, timber and venture capital. These investments are of a long term nature and generally serve to drive the returns of the portfolio or to hedge inflation. The College receives proceeds from these funds as the holdings of the funds produce income or are sold. The College invests in funds with a life of 5 to 15 years, and does not have redemption rights.

Securities denominated in foreign currencies are translated into US dollars at the closing rate of exchange. Foreign currency amounts related to the purchase or sale of securities and income and expenses are translated at the exchange rate on the transaction date. For financial reporting purposes, net investment return reflects changes in exchange rates, as well as changes in the market value of investments.

The College hedges the foreign currency risks of the non-US developed markets public equity portfolio by entering into foreign currency exchange contracts. These derivatives are marked to market daily and exchange traded. In the statements of activities, net investment return includes gains or losses from the use of derivatives for hedging and rebalancing activities. As of May 31, 2020 and 2019, the College held a short position in non-US developed market currency futures of \$87,890 and \$120,546, respectively.

The College periodically uses asset class futures contracts to manage exposures to various asset classes. As of May 31, 2020, the College held a short position of \$12,079 in non-US developed market equities and a long position of \$16,563 in two-year US Treasury futures. As of May 31, 2019, the College held a short position of \$5,635 in non-US developed market equities and a long position of \$9,446 in two-year US Treasury futures.

5) Funds Held in Trust by Others

The College's beneficial interest in the fair value of assets in a perpetual trust was \$29,500 and \$30,096 as of May 31, 2020 and 2019, respectively. For the years ended May 31, 2020 and 2019, the College received \$1,524 and \$1,552 from this trust, respectively.

The College is the income beneficiary of a revocable trust with an estimated value of \$9,265 and \$10,299 as of May 31, 2020 and 2019, respectively, which is controlled by independent trustees. For the years ended May 31, 2020 and 2019, the College received \$428 and \$426 from this trust, respectively. These assets are not recorded on the financial statements of the College.

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6) Contributions Receivable

Contributions receivable consists of the following:

	<u>2020</u>	<u>2019</u>
Unconditional promises expected to be collected in:		
Less than one year	\$ 3,903	\$ 1,677
One year to five years	1,385	1,505
More than five years	15	20
Less: Discount to present value (2.0 – 3.0%)	<u>(61)</u>	<u>(78)</u>
	<u>\$ 5,242</u>	<u>\$ 3,124</u>

7) Land, Buildings and Equipment

The following is a summary of the College's land, buildings and equipment:

	<u>2020</u>	<u>2019</u>
Land and land improvements	\$ 4,362	\$ 4,362
Buildings and building improvements	342,472	340,186
Equipment	16,493	16,455
Construction in progress	<u>388</u>	<u>112</u>
	363,715	361,115
Less: Accumulated depreciation	<u>(149,108)</u>	<u>(140,252)</u>
	<u>\$ 214,607</u>	<u>\$ 220,863</u>

8) Bonds and Mortgages Payable

Bonds and mortgages payable consist of the following:

	<u>2020</u>	<u>2019</u>
Minnesota Higher Education Facilities Authority variable rate demand revenue bonds of 1994, weekly maturity and rate reset, 1.41% average for current fiscal year	\$ 6,660	\$ 6,660
Minnesota Higher Education Facilities Authority variable rate demand revenue bonds of 2003, weekly rate reset as well as a weekly tender option, 1.40% average for current fiscal year	15,300	15,300
Minnesota Higher Education Facilities Authority revenue bonds of 2012, final series due 2043	13,055	13,445
Minnesota Higher Education Facilities Authority revenue bonds of 2015, final series due 2032	18,000	19,780
Minnesota Higher Education Facilities Authority revenue bonds of 2019, final series due 2048	<u>33,930</u>	<u>35,650</u>
	86,945	90,835

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	<u>2020</u>	<u>2019</u>
Plus: Unamortized bond premium	4,769	5,021
Less: Unamortized bond issuance costs	<u>(695)</u>	<u>(737)</u>
	<u>\$ 91,019</u>	<u>\$ 95,119</u>

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 are optional as well as a fixed rate. Proceeds of the issue were used to finance various campus improvements and an athletic field expansion. Loan repayments associated with the bonds are 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 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 were used to finance various dormitory improvements. Loan repayments associated with the bonds are general obligations of the College, with interest payable monthly and principal payable at maturity, on March 1, 2033.

In November of 2012, \$14,730 of revenue bonds were issued on behalf of the College by MHEFA. The average interest rate of the bonds is 3.28%. Proceeds of this issue were used to partially fund the renovation of the Studio Art portion of the Janet Wallace Fine Arts building and replace boilers in the sub-basement of the building.

In October of 2015, \$22,660 of revenue bonds were issued on behalf of the College by MHEFA. The average interest rate of the bonds is 4.08%. \$18,555 of the proceeds were used to partially repay the 2007 issue, while the remaining \$4,105 was used for various campus projects.

In October of 2019, \$40,315 of revenue bonds were issued on behalf of the College by MHEFA. The average interest rate of the bonds is 3.10%. \$13,865 of the proceeds were used to repay the 2010 issue. \$5,905 of the proceeds were used to repay the 2007 issue. The remaining \$20,545 will fund the construction of a new building that will house the theater and dance programs, as well as new multiuse classrooms.

On July 1, 2015, 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 2.07% annually to the counterparty in exchange for the receipt of a floating payment equal to 67% of LIBOR. The contract expires March 1, 2030. The net difference between the amounts paid to and received from the counterparty is recorded as interest expense. Payments under the swap contract are based on a notional amount of \$15,300. As of May 31, 2020 and 2019, the estimated fair value of the swap contract was \$(2,402) and \$(958), respectively.

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In the statements of activities, net gains or losses from the interest rate swap agreements result from fluctuations in the variable interest rate to which the swaps are tied. Included in the statements of activities for the years ended May 31, 2020 and 2019 are interest rate swap losses of \$1,444 and \$753, respectively.

Annual debt commitments (principal) at May 31, 2020, are as follows:

<u>Fiscal Year Ending May 31,</u>	<u>Amount</u>
2021	\$ 4,150
2022	4,420
2023	3,075
2024	9,835
2025	3,315
After 2025	<u>62,150</u>
	<u>\$ 86,945</u>

Total interest expensed on debt aggregated \$3,150 and \$3,314 during the years ended May 31, 2020 and 2019, respectively.

9) Restrictions and Limitations on Net Asset Balances

The Board has designated, from *net assets without donor restrictions* of \$206,178 and \$214,569 at May 31, 2020 and 2019, respectively, net assets for quasi endowment in the amount of \$56,682 and \$60,672 at May 31, 2020 and 2019, respectively. Per Board policy, bequests received without donor restrictions are designated for long term investment (quasi-endowment), unless otherwise designated by the Board.

Net assets with donor restrictions are available for the following purposes at May 31, 2020 and 2019:

	<u>2020</u>	<u>2019</u>
<u>Perpetual in nature:</u>		
Endowment funds for:		
Scholarships	\$ 34,068	\$ 33,901
Prizes and awards	302	301
Library support	3,095	3,094
Program support	243,681	243,520
Faculty support	25,549	25,535
Research	<u>2,064</u>	<u>2,059</u>
	308,759	308,410
Beneficial interest in outside managed trusts restricted		
for scholarships	29,654	30,178
High Winds Fund	20,182	19,294
Loan funds	3,525	3,607
Split interest agreements for scholarships and		
program support	<u>3,252</u>	<u>3,361</u>
Total perpetual in nature	<u>365,372</u>	<u>364,850</u>

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Purpose restricted:

The portion of unexpended investment return generated from donor-restricted endowment funds subject to the Uniform Prudent Management of Institutional Funds Act (UPMIFA) consists of:

Scholarships	\$ 47,465	\$ 52,533
Prizes and awards	480	496
Library support	2,797	3,400
Program support	207,035	253,284
Faculty support	35,923	37,492
Research	<u>3,667</u>	<u>3,972</u>
	297,367	351,177

Gifts and other unexpended revenues and gains available for:

Scholarships	283	222
Prizes and awards	123	148
Library support	18	18
Program support	2,057	2,004
Faculty support	712	890
Research	291	308

Contributions receivable and trust available for scholarships, program support and operations

Split interest agreements for scholarships, program support and operations

Private grants

Plant projects

Other

Total purpose restricted

Total net assets with donor restrictions

Net assets were released from donor restrictions by incurring expenses satisfying the restricted purposes or by the passage of time or the occurrence of other events specified by donors as follows for the years ended May 31, 2020 and 2019:

	<u>2020</u>	<u>2019</u>
Purpose restrictions accomplished:		
Operating:		
Scholarships	\$ 29,347	\$ 28,995
Faculty support	4,657	4,615
Various programming	3,216	3,232
Grant expenditures	<u>941</u>	<u>952</u>
Total - operating	38,161	37,794
Non-operating:		
Plant purchases	<u>31</u>	<u>6,973</u>
Total restrictions released	<u>\$ 38,192</u>	<u>\$ 44,767</u>

10) Endowment Funds

Overview

The College's endowment consists of 647 individual funds established for a variety of purposes. Its endowment includes both donor-restricted endowment funds and funds designated by the Board of Trustees to function as endowments. As required by GAAP, net assets associated with endowment funds, including funds designated by the Board of Trustees to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

Interpretation of Relevant Law

The College is subject to the Uniform Prudent Management of Institutional Funds Act (UPMIFA) and, thus, classifies amounts in its donor-restricted endowment funds as *net assets with donor restrictions* because those net assets are time restricted until the Board appropriates such amounts for expenditure. Most of those net assets also are subject to purpose restrictions that must be met before reclassifying those net assets to *net assets without donor restrictions*. The Board has interpreted UPMIFA as not requiring the maintenance of purchasing power of the original gift amount contributed to an endowment fund, unless a donor stipulates the contrary. As a result of this interpretation, when reviewing its donor-restricted endowment funds, the College considers a fund to be underwater if the fair value of the fund is less than the sum of: a) the original value of initial and subsequent gift amounts donated to the fund; and b) any accumulations to the fund that are required to be maintained in perpetuity in accordance with the direction of the applicable donor gift instrument. The College has interpreted UPMIFA to permit spending from underwater funds in accordance with the prudent measures required under the law.

Additionally, in accordance with UPMIFA, the College considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds: a) the duration and preservation of the funds; b) the purposes of the College and the donor-restricted endowment funds; c) general economic conditions; d) the possible effect of inflation and deflation; e) the expected total return from income and the appreciation of investments; f) other resources of the College, and g) the investment policies of the College.

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Endowment Funds Restrictions and Designations

The College's endowment net assets were classified as follows at May 31, 2020 and 2019:

	2020		
	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Board-designated endowment funds	\$ 56,682	\$ -	\$ 56,682
Donor-restricted endowment funds:			
Original donor-restricted gift amounts and amounts required to be maintained in perpetuity by donor	-	308,759	308,759
Original donor-restricted gift amounts not required to be maintained in perpetuity by the donor but managed by the College as endowment funds, including accumulated investment gains	<u>-</u>	<u>297,367</u>	<u>297,367</u>
Total funds	<u>\$ 56,682</u>	<u>\$ 606,126</u>	<u>\$ 662,808</u>
	2019		
	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Board-designated endowment funds	\$ 60,672	\$ -	\$ 60,672
Donor-restricted endowment funds:			
Original donor-restricted gift amounts and amounts required to be maintained in perpetuity by donor	-	308,410	308,410
Original donor-restricted gift amounts not required to be maintained in perpetuity by the donor but managed by the College as endowment funds, including accumulated investment gains	<u>-</u>	<u>351,177</u>	<u>351,177</u>
Total funds	<u>\$ 60,672</u>	<u>\$ 659,587</u>	<u>\$ 720,259</u>

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The College's endowment net assets changed as follows for the years ended May 31, 2020 and 2019:

	2020		
	Without Donor Restrictions	With Donor Restrictions	Total
Endowment net assets, beg. of year	\$ 60,672	\$ 659,587	\$ 720,259
Net investment return	2,982	(31,616)	(28,634)
Contributions	252	6,128	6,380
Other transfers in (out)	1,168	181	1,349
Amounts appropriated for expenditure	<u>(8,392)</u>	<u>(28,154)</u>	<u>(36,546)</u>
Endowment net assets, end of year	<u>\$ 56,682</u>	<u>\$ 606,126</u>	<u>\$ 662,808</u>
	2019		
	Without Donor Restrictions	With Donor Restrictions	Total
Endowment net assets, beg. of year	\$ 61,821	\$ 678,008	\$ 739,829
Net investment return	6,461	7,355	13,816
Contributions	-	1,829	1,829
Other transfers in (out)	697	115	812
Amounts appropriated for expenditure	<u>(8,307)</u>	<u>(27,720)</u>	<u>(36,027)</u>
Endowment net assets, end of year	<u>\$ 60,672</u>	<u>\$ 659,587</u>	<u>\$ 720,259</u>

Underwater Endowment Funds

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the value of the initial and subsequent donor gift amounts (underwater). As of May 31, 2020, funds with original gift values of \$18,189, fair values of \$16,759, and deficits of \$1,430 were reported in net assets with donor restrictions. These deficits, which the College believes are temporary, resulted from unfavorable market fluctuations. Continued spending appropriations are deemed prudent. As of May 31, 2019, no deficits of this nature existed.

Return Objectives and Risk Parameters

The College has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of the endowment assets. Endowment assets include those assets of donor-restricted funds that the organization must hold in perpetuity or for a donor-specified period, as well as board-designated funds. Under this policy, as approved by the Board, the endowment assets are invested in a manner that is intended to produce results that exceed endowment spending plus inflation with real growth as a secondary goal. The College expects its endowment funds, over three to five years, to provide an average annual real rate of return of approximately 5% annually. Actual returns in any given year may vary from this amount.

Strategies Employed for Achieving Objectives

To satisfy its long term rate-of-return objectives, the College relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The College targets a diversified asset allocation that places emphasis in three broad categories - economic growth, real assets, and safety and liquidity - in a 65-20-15 percent ratio to achieve its long term return objectives within prudent risk constraints.

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.

Spending Policy and How the Investment Objectives Relate to Spending Policy

Half of the allowable spending in the previous fiscal year is increased by 2%, and that amount represents one half of the current fiscal year endowment draw. The other half of the draw is computed as 5% of a trailing a 16-quarter average market value of long-term investments. The amount to be spent is constrained by a test to ensure the formula does not create a spending amount that is too large or too small relative to the current endowment size. In establishing this policy, the College considered the expected return on its endowment. Accordingly, the College expects the current spending policy to allow its endowment to maintain its purchasing power by growing at a rate equal to planned payouts. Additional real growth will be provided through new gifts and any excess investment returns. If yield (interest and dividend income) is not sufficient to support the calculated spending, the balance is allocated from gains on the endowment assets.

The College has a policy that permits applying its regular spending policy to underwater endowment funds, unless otherwise precluded by donor intent or relevant laws and regulations.

11) High Winds Fund

Included in *net assets with donor restrictions* 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. 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, 2020, the High Winds Fund owned 16 properties surrounding the College campus. The total value of the assets of the Fund, net of liabilities, as of May 31, 2020 and 2019 was \$22,887 and \$22,299, respectively. In addition to real estate with a market value of \$15,755 as of May 31, 2020 and \$15,473 as of 2019, the High Winds fund holds cash, investments, and receivables, net of liabilities, of \$7,132 and \$6,826 at May 31, 2020 and 2019, respectively.

12) Lease Revenue

The College is the lessor of both commercial and residential properties under various operating leases. Initial lease terms generally range from one year to five years. Leases provide for fixed monthly payments and, in certain cases, provide for future rent escalations. The college determines if an arrangement is a lease at inception. The College has no sales-type or direct financing leases. All leases are considered operating leases and have been recorded in the financial statements as such. The College has lease agreements with lease and non-lease components, which are generally accounted for separately. Properties that were purchased by the High Winds Fund are shown as real estate on the statement of financial position, whereas properties purchased with general College funds are shown as land buildings and equipment, net of accumulated depreciation on the statement of financial position.

Lease revenue totaled \$1,529 and \$1,618 during the years ended May 31, 2020 and 2019, respectively. Leases terminate at the end of the stated lease term or under certain circumstances noted in the lease agreements. Most residential leases are for a single year. The longest commercial lease terminates in 2024. Certain leases provide an option to extend the lease for one additional lease term with the same terms as the original lease.

Minimum future lease revenue to be received on non-cancelable agreements as of May 31, 2020 for each of the next five years and in aggregate are:

<u>Fiscal Year Ending May 31,</u>	<u>Amount</u>
2021	\$ 931
2022	625
2023	570
2024	404
2025	<u>202</u>
	<u>\$ 2,732</u>

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13) Liquidity

The College regularly monitors liquidity required to meet its operating needs and other contractual commitments, while also striving to maximize the investment of its available funds. As of May 31, 2020 and 2019, the following assets could be made readily available within one year to meet general expenditures:

	<u>2020</u>	<u>2019</u>
Cash and cash equivalents	\$ 2,045	\$ 2,434
Accrued investment income	310	239
Notes and accounts receivable	848	543
Contributions receivable	927	1,314
Short term investments	41,309	44,174
Endowment spending rate appropriations	<u>38,260</u>	<u>37,845</u>
	<u>\$ 83,699</u>	<u>\$ 86,549</u>

The majority of the College's liquidity is provided by cash and cash equivalents and short-duration U.S. treasuries. Principal and interest on student loans are not included above, as those amounts are used solely for new loans and are, therefore, not available to meet current operating needs. Based on historical experience, only the portion of contributions receivable due within one year are considered liquid.

Board-designated endowment in the amount of \$56,682 and \$60,672 at May 31, 2020 and 2019, respectively, is subject to an annual spending rate as described in Endowment Funds footnote. Although the College does not intend to spend from the gift corpus of these funds, these amounts could be made available if deemed necessary.

14) Employee Benefits

Retirement Plans

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 (TIAA), 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. Total benefit expense for the years ended May 31, 2020 and 2019 was \$4,876 and \$4,744, respectively.

Health Benefit Plan

On January 1, 2012, the College adopted the Macalester College Medical Benefit Plan (the Plan) to provide comprehensive health benefits for covered employees and their covered dependents, as defined in the Plan agreement. This plan is self-insured and, as such, the College pays the benefits as claims for benefits and associated expenses are incurred subject to stop-loss limits of \$110 per claimant for calendar 2020 and 2019. There is also an aggregate stop-loss limit of 125% of expected claims, which is recalculated quarterly based on plan enrollment. For the years ended May 31, 2020 and 2019, the aggregate stop-loss amount was \$6,879 and \$6,779, respectively. The employees are required to contribute to the cost of coverage under the Plan. A liability for claims reported but not yet paid as of May 31, 2020 and 2019 is reported as a component of accounts payable and accrued expenses on the statements of financial position.

15) Fundraising Expenses

Fundraising expenses for the College totaled \$5,474 and \$6,086 for the years ended May 31, 2020 and 2019, respectively. Fundraising expenses are included in Management and General expenses on the Schedule of Expenses.

16) Commitments

The College is subject to certain claims arising out of the ordinary course of business. Although it is not possible to predict the outcome of these claims, management believes they will not have a material effect on the financial condition of the College.

17) Subsequent Event

In connection with the preparation of the financial statements, the College has evaluated subsequent events after the statement of financial position date of May 31, 2020 through September 30, 2020, which is the date the financial statements were available to be issued.

Subsequent to year end, the College entered into a revolving line of credit agreement with a bank in the amount of \$20 million. The agreement carries an interest rate of 1.25% plus the Monthly Reset LIBOR Rate, and it matures August 10, 2021. The agreement is unsecured.