

# MACALESTER COLLEGE



ANNUAL FINANCIAL STATEMENTS  
WITH AUDITORS' OPINION  
FOR THE FISCAL YEAR ENDED MAY 31, 2023



## INDEPENDENT AUDITORS' REPORT

Board of Trustees  
Macalester College  
St. Paul, Minnesota

### **Report on the Audit of the Financial Statements**

#### ***Opinion***

We have audited the accompanying financial statements of Macalester College, which comprise the statements of financial position as of May 31, 2023 and 2022, and the related statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the financial statements.

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, 2023 and 2022, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

#### ***Basis for Opinion***

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of Macalester College and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

#### ***Responsibilities of Management for the Financial Statements***

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about Macalester College's ability to continue as a going concern for one year after the date the financial statements are available to be issued.

***Auditors' Responsibilities for the Audit of the Financial Statements***

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Macalester College's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Macalester College's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.



**CliftonLarsonAllen LLP**

Minneapolis, MN  
September 26, 2023

**MACALESTER COLLEGE**  
**Statements of Financial Position**  
**May 31, 2023 and 2022**  
**(in thousands of dollars)**

	<u>2023</u>	<u>2022</u>
<b>ASSETS</b>		
Cash and cash equivalents	\$ 14,769	\$ 12,825
Restricted cash and cash equivalents	98	866
Accrued investment income, prepaid expenses and other assets	6,701	6,073
Notes and accounts receivable	11,457	9,164
Contributions receivable, net	3,286	2,403
Interest rate swap agreement	380	-
Short term investments	44,608	44,086
Long term investments	814,759	846,607
Real estate	18,688	16,360
Land, buildings and equipment, net of accumulated depreciation	190,485	197,820
Beneficial interest in perpetual trust	31,385	34,128
	<u>1,136,616</u>	<u>1,170,332</u>
Total assets	\$ 1,136,616	\$ 1,170,332
<b>LIABILITIES AND NET ASSETS</b>		
<b>Liabilities:</b>		
Accounts payable and accrued expenses	\$ 14,598	\$ 13,666
Deferred revenue and deposits	1,662	1,298
Interest rate swap agreement	-	155
Liabilities under planned giving agreements	6,812	7,323
Government grants refundable	1,183	1,821
Bonds payable	80,394	83,719
	<u>104,649</u>	<u>107,982</u>
Total liabilities	104,649	107,982
<b>Net assets:</b>		
<b>Without donor restrictions</b>		
Operations	29,363	26,407
Investments	76,947	76,631
Plant	112,023	116,564
Total without donor restrictions	<u>218,333</u>	<u>219,602</u>
<b>With donor restrictions</b>		
Operations	16,351	14,096
Investments	796,877	828,272
Plant	406	380
Total with donor restrictions	<u>813,634</u>	<u>842,748</u>
Total net assets	<u>1,031,967</u>	<u>1,062,350</u>
Total liabilities and net assets	\$ <u>1,136,616</u>	\$ <u>1,170,332</u>

See accompanying notes to financial statements.

**MACALESTER COLLEGE**  
**Statements of Activities**  
**Years Ended May 31, 2023 and 2022**  
(in thousands of dollars)

	2023			2022		
	Without Donor Restrictions	With Donor Restrictions	Total	Without Donor Restrictions	With Donor Restrictions	Total
<b>Operating Activities:</b>						
Revenues and other additions:						
Tuition and fees, net of student aid and scholarships of \$71,845 in 2023 and \$71,540 in 2022	\$ 58,134	-	58,134	\$ 57,977	-	57,977
Federal and state grants and contracts	1,603	1,310	2,913	1,451	4,111	5,562
Private gifts and grants	5,805	7,866	13,671	3,941	6,245	10,186
Sales and service of auxiliary enterprises	17,922	-	17,922	18,313	-	18,313
Other sources	1,392	39	1,431	1,108	26	1,134
Net investment return	1,178	23	1,201	(410)	-	(410)
Investment return appropriated by the governing board for operations	5,761	35,899	41,660	5,576	35,251	40,827
Net assets released from restrictions	43,058	(43,058)	-	43,560	(43,560)	-
Total operating revenues and other additions	134,853	2,079	136,932	131,516	2,073	133,589
Expenses:						
Instruction	53,917	-	53,917	51,678	-	51,678
Research	1,993	-	1,993	1,757	-	1,757
Academic support	14,240	-	14,240	13,008	-	13,008
Student services	25,863	-	25,863	24,767	-	24,767
Auxiliary enterprises	11,831	-	11,831	11,760	-	11,760
Scholarships and fellowships	-	-	-	1,907	-	1,907
Institutional support	25,930	-	25,930	27,237	-	27,237
Total expenses	133,774	-	133,774	132,114	-	132,114
<b>Change in net assets from operating activities</b>	<b>1,079</b>	<b>2,079</b>	<b>3,158</b>	<b>(598)</b>	<b>2,073</b>	<b>1,475</b>
<b>Non-operating Activities:</b>						
Investment-related:						
Net investment return	2,891	5,067	7,958	5,292	26,561	31,853
Investment return appropriated by the governing board for operations	(5,761)	(35,899)	(41,660)	(5,576)	(35,251)	(40,827)
Change in beneficial interest in perpetual trust	-	(2,757)	(2,757)	-	(2,766)	(2,766)
Change in value of planned giving agreements	(96)	(402)	(498)	(128)	(1,200)	(1,328)
Gift-related:						
Private gifts and grants restricted for long-term investment	15	2,855	2,870	27	6,880	6,907
Private gifts and grants restricted for capital projects	9	2	11	36	8	44
Other:						
Change in value of interest rate swap	535	-	535	1,262	-	1,262
Net assets released from restrictions	59	(59)	-	286	(286)	-
<b>Change in net assets from non-operating activities</b>	<b>(2,348)</b>	<b>(31,193)</b>	<b>(33,541)</b>	<b>1,199</b>	<b>(6,054)</b>	<b>(4,855)</b>
<b>Change in net assets</b>	<b>(1,269)</b>	<b>(29,114)</b>	<b>(30,383)</b>	<b>601</b>	<b>(3,981)</b>	<b>(3,380)</b>
<b>Net assets beginning of year</b>	<b>219,602</b>	<b>842,748</b>	<b>1,062,350</b>	<b>219,001</b>	<b>846,729</b>	<b>1,065,730</b>
<b>Net assets end of year</b>	<b>\$ 218,333</b>	<b>813,634</b>	<b>1,031,967</b>	<b>\$ 219,602</b>	<b>842,748</b>	<b>1,062,350</b>

See accompanying notes to financial statements.

**MACALESTER COLLEGE**  
**Statements of Functional Expenses**  
**Years Ended May 31, 2023 and 2022**  
(in thousands of dollars)

	2023		
	Program Activities	Management and General	Total Expenses
Salaries, benefits and taxes	\$ 64,642	16,143	80,785
Professional and other services	8,149	2,609	10,758
Office expenses and information technology	4,328	4,445	8,773
Occupancy	3,532	258	3,790
Travel and conferences	2,731	616	3,347
Interest	2,698	16	2,714
Depreciation	9,793	858	10,651
Insurance	1,288	102	1,390
Study away programs	5,132	2	5,134
Books, periodicals, art	1,515	29	1,544
Other	4,036	852	4,888
Total expenses on the Statement of Activities	<u>\$ 107,844</u>	<u>25,930</u>	<u>133,774</u>
	2022		
	Program Activities	Management and General	Total Expenses
Salaries, benefits and taxes	\$ 64,277	15,655	79,932
Professional and other services	8,126	3,751	11,877
Office expenses and information technology	3,535	4,415	7,950
Occupancy	3,294	371	3,665
Travel and conferences	1,620	512	2,132
Interest	2,689	18	2,707
Depreciation	8,952	1,179	10,131
Insurance	1,066	129	1,195
Study away programs	4,341	-	4,341
Books, periodicals, art	1,504	43	1,547
Scholarships and fellowships	1,907	-	1,907
Other	3,566	1,164	4,730
Total expenses on the Statement of Activities	<u>\$ 104,877</u>	<u>27,237</u>	<u>132,114</u>

See accompanying notes to financial statements.

**MACALESTER COLLEGE**  
**Statements of Cash Flows**  
**Years Ended May 31, 2023 and 2022**  
(in thousands of dollars)

	<u>2023</u>	<u>2022</u>
Cash flows from operating activities:		
Change in total net assets	\$ (30,383)	\$ (3,380)
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	9,913	9,805
Realized and unrealized (gain) loss on investments	5,817	(16,658)
Unrealized gain on interest rate swap	(535)	(1,261)
Private gifts and other income restricted for long term investments	(2,856)	(6,888)
Adjustment of actuarial liabilities for planned giving agreements	273	(211)
Change in value of beneficial interest in perpetual trust	2,743	2,766
Endowment payout	35,900	31,500
Change in assets and liabilities:		
Accrued investment income, prepaid expenses and other assets	(628)	502
Notes and accounts receivable	(2,293)	669
Contributions receivable	(440)	(492)
Accounts payable and accrued expenses	853	(162)
Deferred revenue and deposits	364	(1,490)
Net cash provided by operating activities	<u>18,728</u>	<u>14,700</u>
Cash flows from investing activities:		
Proceeds from sale of investments	232,135	321,126
Proceeds from sale of investments used for endowment payout	(35,900)	(31,500)
Purchase of investments	(208,954)	(301,998)
Purchase of land, building and equipment	(2,825)	(1,962)
Net cash used in investing activities	<u>(15,544)</u>	<u>(14,334)</u>
Cash flows from financing activities:		
Principal payments on bonds payable	(2,999)	(4,464)
Payments made to beneficiaries of planned giving agreements	(784)	(780)
Change in government grant refundable	(638)	(824)
Private gifts, grants and other income restricted for long term investment	2,413	6,924
Net cash (used in) provided by financing activities	<u>(2,008)</u>	<u>856</u>
Increase in cash and cash equivalents	1,176	1,222
Cash, restricted cash, and cash equivalents at beginning of the year	13,691	12,469
Cash, restricted cash, and cash equivalents at end of the year	<u>\$ 14,867</u>	<u>\$ 13,691</u>
Supplemental disclosure - cash paid for interest	<u>\$ 2,729</u>	<u>\$ 2,712</u>
Noncash investing and financing activities:		
Purchases of land, building and equipment funded by accounts payable	<u>\$ 79</u>	<u>\$ -</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.



**MACALESTER COLLEGE**  
Notes to Financial Statements  
May 31, 2023 and 2022  
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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 \$1,920 that have not been recognized at May 31, 2023 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 \$25,000 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.

### ***Collections***

The College does not deaccession artwork from the collections often. If the opportunity arises, the policy is to discuss the use of proceeds for deaccessioned items with the Board of Trustees based on discretion and dollar amount.

### ***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 15<sup>th</sup> for the Fall semester and January 15<sup>th</sup> for the Spring semester.

**MACALESTER COLLEGE**  
Notes to Financial Statements  
May 31, 2023 and 2022  
(in thousands of dollars)

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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, 2023 and 2022:

	<u>2023</u>	<u>2022</u>
Revenue recognized over time:		
Tuition and fees	\$ 58,134	\$ 57,977

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.

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, 2023 and 2022:

	<u>2023</u>	<u>2022</u>
Revenue recognized over time:		
Residence	\$ 10,014	\$ 10,004
Dining	7,450	7,652
Other	<u>458</u>	<u>657</u>
Total auxiliary revenues	<u>\$ 17,922</u>	<u>\$ 18,313</u>

The College serves approximately 2,000 students. Approximately 13% of the students are non-U.S. residents. Approximately 17% 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, 2022	Refunds issued	Revenue recognized included in May 31, 2022 balance	Cash received in advance of performance	Balance at May 31, 2023
\$ 1,060	\$ -	\$ 1,060	\$ 1,276	\$ 1,276

The balance of deferred revenue at May 31, 2023 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, 2023 and 2022 totaled \$933 and \$963, 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 \$603 and \$694 at May 31, 2023 and 2022, respectively. The College has a conflict of interest policy in place that is reviewed by each Board member and Officer annually.

**MACALESTER COLLEGE**  
Notes to Financial Statements  
May 31, 2023 and 2022  
(in thousands of dollars)

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**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, 2023 and 2022, student loans represented less than 1% of total assets.

Student loans receivable consist of the following:

	<u>2023</u>	<u>2022</u>
Federal government programs	\$ 955	\$ 1,535
Institutional programs	<u>7,891</u>	<u>7,447</u>
Student loans receivable, gross	<u>8,846</u>	<u>8,982</u>
Less: allowance for doubtful accounts:		
Beginning of year	(1,014)	(1,070)
Changes	<u>138</u>	<u>56</u>
End of year	<u>(876)</u>	<u>(1,014)</u>
Student loans receivable, net	<u>\$ 7,970</u>	<u>\$ 7,968</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 \$3,487 and \$1,196 as of May 31, 2023 and 2022, respectively.

Funds advanced by the federal government of \$1,183 and \$1,821 at May 31, 2023 and 2022, respectively, are ultimately refundable to the government and are classified as liabilities on the statements of financial position.

At May 31, 2023 and 2022, the following amounts were past due under student loan programs:

	<u>2023</u>	<u>2022</u>
0 - 9 months past due	\$ 340	\$ 534
10 months - 2 years past due	386	333
3 - 4 years past due	195	266
5 years or longer past due	<u>409</u>	<u>586</u>
Total past due	<u>\$ 1,330</u>	<u>\$ 1,719</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, 2023 and 2022:

Short term investments:

	<u>2023</u>	<u>2022</u>
Fixed income – Treasuries – fair value	\$ <u>44,608</u>	\$ <u>44,086</u>

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 \$14,361 and \$15,326 as of May 31, 2023 and 2022, respectively. The allocations shown at fair value are as follows:

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	2023				Total
	Level 1	Level 2	Level 3	No Level	
<b>Financial Assets:</b>					
<u>Short term investments:</u>					
Fixed income - Treasuries	\$ 44,608	\$ -	\$ -	\$ -	\$ 44,608
<u>Long term investments:</u>					
Cash and short term investments	\$ 1,785	\$ -	\$ -	\$ -	\$ 1,785
Publicly traded securities:					
Domestic equities	14,272	-	-	-	14,272
Domestic equities held in collective trusts measured at net asset value	-	-	-	13,904	13,904
Foreign equities held in collective trusts measured at net asset value	-	-	-	108,958	108,958
Fixed income – TIPS and Treasuries	69,195	-	-	-	69,195
Futures	8,047	-	-	-	8,047
Mutual funds	76,118	-	-	-	76,118
Liquid alternative investments	-	21,733	-	-	21,733
Alternative strategies in illiquid structures measured at net asset value:					
Domestic equities	-	-	-	119,332	119,332
Private equities	-	-	-	172,873	172,873
Hedge funds	-	-	-	96,268	96,268
Real estate	-	-	-	48,803	48,803
Natural resources	-	-	-	63,471	63,471
Total long term investments	\$ 169,417	\$ 21,733	\$ -	\$ 623,609	\$ 814,759
High Winds real estate	\$ -	\$ -	\$ 18,688	\$ -	\$ 18,688
Beneficial interest in perpetual trust	\$ -	\$ -	\$ 31,385	\$ -	\$ 31,385
Interest rate swap agreement	\$ -	\$ 380	\$ -	\$ -	\$ 380



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	2022				
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>No Level</u>	<u>Total</u>
<b>Financial Assets:</b>					
<u>Short term investments:</u>					
Fixed income - Treasuries	\$ 44,086	\$ -	\$ -	\$ -	\$ 44,086
<u>Long term investments:</u>					
Cash and short term investments	\$ 2,216	\$ -	\$ -	\$ -	\$ 2,216
Publicly traded securities:					
Domestic equities	14,128	-	-	-	14,128
Domestic equities held in collective trusts measured at net asset value	-	-	-	15,358	15,358
Foreign equities held in collective trusts measured at net asset value	-	-	-	111,320	111,320
Fixed income – TIPS and Treasuries	81,745	-	-	-	81,745
Futures	4,812	-	-	-	4,812
Mutual funds	92,175	-	-	-	92,175
Liquid alternative investments	-	28,771	-	-	28,771
Alternative strategies in illiquid structures measured at net asset value:					
Domestic equities	-	-	-	118,620	118,620
Private equities	-	-	-	163,879	163,879
Hedge funds	-	-	-	101,635	101,635
Real estate	-	-	-	41,069	41,069
Natural resources	-	-	-	70,879	70,879
Total long term investments	<u>\$ 195,076</u>	<u>\$ 28,771</u>	<u>\$ -</u>	<u>\$ 622,760</u>	<u>\$ 846,607</u>
High Winds real estate	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 16,360</u>	<u>\$ -</u>	<u>\$ 16,360</u>
Beneficial interest in perpetual trust	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 34,128</u>	<u>\$ -</u>	<u>\$ 34,128</u>
<b>Financial Liabilities:</b>					
Interest rate swap agreement	<u>\$ -</u>	<u>\$ 155</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 155</u>

Instrument	Fair Value – 2023	Fair Value – 2022	Principal Valuation Technique	Unobservable Inputs
Beneficial Interest in Perpetual Trust	\$ 31,385	\$ 34,128	FMV of Trust Investments	Time Period of Trust
High Winds Real Estate	\$ 18,688	\$ 16,360	Independent Appraisals	Real Estate Values

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The value of Beneficial Interest in Perpetual Trust represents an irrevocable right to receive distributions in perpetuity from a trust that is comingled with the College's endowment funds.

At May 31, 2023, the College had \$500,747 of long term investments, \$13,904 of domestic equities held in collective trusts, and \$108,958 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.

At May 31, 2023 and 2022, the College's alternative investments had strategies and redemption terms as summarized in the tables below:

2023				
Investment Category	Fair Value	Unfunded Commitments	Redemption Frequency*	Notice Period (in Days)*
Foreign equity held in collective trusts (a)	\$ 108,958	None	Monthly	30 days
Domestic equities held in collective trusts (b)	13,904	None	Monthly	30 days
Domestic equities - alternative structures (c)	119,332	None	Quarterly	60 days
Hedge funds (d)	96,268	None	Monthly - Annual	30 - 90 days
Private investments (e)	285,147	\$ 139,673	Not applicable	Not applicable
Totals	\$ 623,609	\$ 139,673		

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2022				
Investment Category	Fair Value	Unfunded Commitments	Redemption Frequency*	Notice Period (in Days)*
Foreign equity held in collective trusts (a)	\$ 111,320	None	Monthly	30 days
Domestic equities held in collective trusts (b)	15,358	None	Monthly	30 days
Domestic equities - alternative structures (c)	118,620	None	Quarterly	60 days
Hedge funds (d)	101,635	None	Monthly - Annual	30 - 90 days
Private investments (e)	275,827	\$ 168,977	Not applicable	Not applicable
Totals	\$ 622,760	\$ 168,977		

\* 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.

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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, 2023 and 2022, the College held a short position in non-US developed market currency futures of \$112,993 and \$116,692, respectively.

The College periodically uses asset class futures contracts to manage exposures to various asset classes. As of May 31, 2023, the College held a short position of \$12,936 in non-US developed market equities and a long position of \$13,049 in two-year US Treasury futures. As of May 31, 2022, the College held a short position of \$2,750 in non-US developed market equities and a long position of \$8,242 in two-year US Treasury futures.

**5) Beneficial Interest in Perpetual Trust**

The College's beneficial interest in the fair value of assets in a perpetual trust was \$31,385 and \$34,128 as of May 31, 2023 and 2022, respectively. For the years ended May 31, 2023 and 2022, the College received \$1,534 and \$1,578 from this trust, respectively.

The College is the income beneficiary of a revocable trust with an estimated value of \$11,471 and \$13,064 as of May 31, 2023 and 2022, respectively, which is controlled by independent trustees. For the years ended May 31, 2023 and 2022, the College received \$430 and \$424 from this trust, respectively. These assets are not recorded on the financial statements of the College.

**6) Contributions Receivable**

Contributions receivable consists of the following:

	<u>2023</u>	<u>2022</u>
Unconditional promises expected to be collected in:		
Less than one year	\$ 1,533	\$ 1,317
One year to five years	1,702	1,061
More than five years	220	25
Less: Discount to present value (0% - 3%)	<u>(169)</u>	<u>-</u>
	<u>\$ 3,286</u>	<u>\$ 2,403</u>

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**7) Land, Buildings and Equipment**

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

	<u>2023</u>	<u>2022</u>
Land and land improvements	\$ 4,362	\$ 4,362
Buildings and building improvements	347,315	345,282
Equipment	17,591	17,128
Construction in progress	<u>534</u>	<u>165</u>
	369,802	366,937
Less: Accumulated depreciation	<u>(179,317)</u>	<u>(169,117)</u>
	<u>\$ 190,485</u>	<u>\$ 197,820</u>

**8) Bonds and Mortgages Payable**

Bonds and mortgages payable consist of the following:

	<u>2023</u>	<u>2022</u>
Minnesota Higher Education Facilities Authority variable rate demand revenue bonds of 1994, weekly maturity and rate reset, 2.40% 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 2.40% average for current fiscal year	15,300	15,300
Minnesota Higher Education Facilities Authority revenue bonds of 2015, final series due 2032	12,610	14,160
Minnesota Higher Education Facilities Authority revenue bonds of 2017, final series due 2048	28,915	30,015
Minnesota Higher Education Facilities Authority revenue bonds of 2023, final series due 2043	<u>12,030</u>	<u>12,425</u>
	75,515	78,560
Plus: Unamortized bond premium	5,529	5,855
Less: Unamortized bond issuance costs	<u>(650)</u>	<u>(696)</u>
	<u>\$ 80,394</u>	<u>\$ 83,719</u>

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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. These bonds were retired.

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 2.88%. \$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 2017, \$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 funded the construction of a new building that houses the theater and dance programs, as well as new multiuse classrooms.

In April of 2021, \$12,870 of revenue bonds were issued on behalf of the College by MHEFA. The average interest rate of the bonds is 2.04%. \$11,085 of the proceeds were used to repay the 2012 issue. The remaining \$1,785 funded replacement roofs on several campus buildings.

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, 2023 and 2022, the estimated fair value of the swap contract was \$380 and \$(155), 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, 2023 and 2022 are interest rate swap gains of \$535 and \$1,262, respectively.

Annual debt commitments (principal) at May 31, 2023, are as follows:

<u>Fiscal Year Ending May 31,</u>	<u>Amount</u>
2024	\$ 9,805
2025	3,295
2026	2,855
2027	3,000
2028	3,140
After 2028	<u>53,420</u>
	<u>\$ 75,515</u>

Total interest expensed on debt aggregated \$2,714 and \$2,707 during the years ended May 31, 2023 and 2022, respectively.

**9) Restrictions and Limitations on Net Asset Balances**

The Board has designated, from *net assets without donor restrictions* of \$218,333 and \$219,602 at May 31, 2023 and 2022, respectively, net assets for quasi endowment in the amount of \$73,295 and \$72,941 at May 31, 2023 and 2022, 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, 2023 and 2022:

	<u>2023</u>	<u>2022</u>
<u>Perpetual in nature:</u>		
Endowment funds for:		
Scholarships	\$ 262,729	\$ 262,555
Prizes and awards	307	306
Library support	3,096	3,096
Program support	17,127	17,114
Faculty support	27,270	27,272
Research	<u>2,071</u>	<u>2,069</u>
	312,600	312,412
Beneficial interest in outside managed trusts restricted		
for scholarships	32,063	34,500
High Winds Fund	23,229	21,466
Loan funds	3,775	3,592
Split interest agreements for scholarships and		
program support	<u>2,877</u>	<u>3,049</u>
Total perpetual in nature	<u>374,544</u>	<u>375,019</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	\$ 328,573	\$ 355,968
Prizes and awards	592	624
Library support	3,818	4,150
Program support	30,760	31,337
Faculty support	48,840	51,764
Research	4,804	4,736
	<u>417,387</u>	<u>448,579</u>

Gifts and other unexpended revenues and gains available for:

Scholarships	398	335
Prizes and awards	131	130
Library support	21	19
Program support	3,897	3,235
Faculty support	1,222	910
Research	314	314

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, 2023 and 2022:

	<u>2023</u>	<u>2022</u>
Purpose restrictions accomplished:		
Operating:		
Scholarships	\$ 32,318	\$ 31,152
Faculty support	4,596	4,571
Various programming	3,747	3,332
Federal pandemic aid	963	3,813
Grant expenditures	1,434	692
Total - operating	<u>43,058</u>	<u>43,560</u>
Non-operating:		
Plant purchases	59	286
Total restrictions released	<u>\$ 43,117</u>	<u>\$ 43,846</u>



## **10) Endowment Funds**

### **Overview**

The College's endowment consists of 680 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, 2023 and 2022:

	2023		
	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Board-designated endowment funds	\$ 73,295	\$ -	\$ 73,295
Donor-restricted endowment funds:			
Original donor-restricted gift amounts and amounts required to be maintained in perpetuity by donor	-	312,600	312,600
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>417,387</u>	<u>417,387</u>
Total funds	<u>\$ 73,295</u>	<u>\$ 729,987</u>	<u>\$ 803,282</u>
	2022		
	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Board-designated endowment funds	\$ 72,941	\$ -	\$ 72,941
Donor-restricted endowment funds:			
Original donor-restricted gift amounts and amounts required to be maintained in perpetuity by donor	-	312,412	312,412
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>448,579</u>	<u>448,579</u>
Total funds	<u>\$ 72,941</u>	<u>\$ 760,991</u>	<u>\$ 833,932</u>

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The College's endowment net assets changed as follows for the years ended May 31, 2023 and 2022:

	2023		
	Without Donor Restrictions	With Donor Restrictions	Total
Endowment net assets, beg. of year	\$ 72,941	\$ 760,991	\$ 833,932
Net investment return	6,412	(3,211)	3,201
Contributions	-	2,279	2,279
Other transfers in (out)	3,528	44	3,572
Amounts appropriated for expenditure	<u>(9,586)</u>	<u>(30,116)</u>	<u>(39,702)</u>
Endowment net assets, end of year	<u>\$ 73,295</u>	<u>\$ 729,987</u>	<u>\$ 803,282</u>
	2022		
	Without Donor Restrictions	With Donor Restrictions	Total
Endowment net assets, beg. of year	\$ 72,302	\$ 763,558	\$ 835,860
Net investment return	8,045	19,283	27,328
Contributions	27	6,847	6,874
Other transfers in (out)	1,492	110	1,602
Amounts appropriated for expenditure	<u>(8,925)</u>	<u>(28,807)</u>	<u>(37,732)</u>
Endowment net assets, end of year	<u>\$ 72,941</u>	<u>\$ 760,991</u>	<u>\$ 833,932</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, 2023, underwater endowment funds totaled \$635, consisting of funds with original gift values of \$41,110 and fair values of \$40,475. As of May 31, 2022, none of the College's endowment funds were underwater.

### ***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 70-18-12 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, 2023, the High Winds Fund owned 18 properties surrounding the College campus. The total value of the assets of the Fund, net of liabilities, as of May 31, 2023 and 2022 was \$26,411 and \$24,838, respectively. In addition to real estate with a market value of \$18,688 and \$16,360 as of May 31, 2023 and 2022, respectively, the High Winds fund holds cash, investments, and receivables, net of liabilities, of \$7,723 and \$8,478 at May 31, 2023 and 2022, 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 \$1,754 and \$1,570 during the years ended May 31, 2023 and 2022, 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 2028. 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, 2023 for each of the next five years and in aggregate are:

<u>Fiscal Year Ending May 31,</u>	<u>Amount</u>
2024	\$ 806
2025	392
2026	139
2027	136
2028	102
	<u>\$ 1,575</u>

**MACALESTER COLLEGE**  
Notes to Financial Statements  
May 31, 2023 and 2022  
(in thousands of dollars)

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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, 2023 and 2022, the following assets could be made readily available within one year to meet general expenditures:

	<u>2023</u>	<u>2022</u>
Cash and cash equivalents	\$ 4,338	\$ 1,851
Restricted cash and cash equivalents	98	866
Accrued investment income	449	220
Notes and accounts receivable	3,356	1,057
Contributions receivable	2,045	877
Short term investments	44,608	44,086
Endowment spending rate appropriations	<u>40,492</u>	<u>39,658</u>
	<u>\$ 95,386</u>	<u>\$ 88,615</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 \$73,295 and \$72,941 at May 31, 2023 and 2022, 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). 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, 2023 and 2022 was \$5,058 and \$4,866, 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 2023 and 2022. 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, 2023 and 2022, the aggregate stop-loss amount was \$8,581 and \$7,929, 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, 2023 and 2022 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 \$5,771 and \$5,290 for the years ended May 31, 2023 and 2022, 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, 2023 through September 26, 2023, which is the date the financial statements were available to be issued.