ST. OLAF COLLEGE

Northfield, Minnesota

Audit Report on Financial Statements
and Federal Awards

May 31, 2007

ST. OLAF COLLEGE

TABLE OF CONTENTS

Virchow Krause & company

INDEPENDENT AUDITORS' REPORT

To the Board of Regents
St. Olaf College
Northfield, Minnesota

We have audited the accompanying statements of financial position of St. Olaf College as of May 31, 2007, 2006 and 2005 and the related statements of activities and cash flows for the years then ended. These financial statements are the responsibility of the College's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the College's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of St. Olaf College at May 31, 2007, 2006 and 2005 and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 1 to the financial statements, St. Olaf College adopted the provisions of FASB Interpretation No. 47, *Accounting for Conditional Asset Retirement Obligations,* in 2006, and FASB Statement No. 158, *Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans,* in 2007.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 16, 2007, on our consideration of St. Olaf College's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

Virchow Krause & Company, LLP

Minneapolis, Minnesota
October 16, 2007

ST. OLAF COLLEGE

STATEMENTS OF FINANCIAL POSITION
May 31, 2007, 2006, and 2005

ASSETS

	2007	2006	2005
Cash and cash equivalents	$ 15,984,246	$ 12,350,357	$ 14,438,256
Receivables			
Student accounts, net of allowance for doubtful accounts of $397,700, $408,500, and $460,700	179,286	194,661	208,491
Contributions, net	14,673,214	15,147,895	11,413,472
Insurance	1,631,877		
Other	911,344	824,675	455,117
Inventories	701,474	735,288	768,981
Prepaid expenses and deposits	768,756	648,148	808,602
Student notes receivable, net of allowance for doubtful notes of $457,300, $93,000, and $93,000	8,674,554	9,371,782	9,324,203
Investments			
Cash and short-term investments	36,918,276	2,981,925	2,766,390
Marketable securities	213,989,260	206,484,976	204,403,650
Mortgages and contracts for deed	593,379	583,107	583,107
Notes receivable	352,803	352,803	350,000
Real estate	2,617,238	2,504,362	2,504,362
Other investments	134,013,682	114,676,319	76,188,059
Deposits held by trustee	28,773,096	1,009,893	1,022,471
Deferred debt acquisition costs	610,959	331,063	345,450
Funds held in trust by others	2,174,177	2,003,624	1,722,730
Cash restricted for plant acquisitions	7,687,765	1,995,899	925,849
Construction in progress	12,650,318	6,914,126	1,352,843
Property, plant and equipment, net	126,464,340	119,614,044	122,650,130
TOTAL ASSETS	$ 610,370,044	$ 498,724,947	$ 452,232,163

LIABILITIES AND NET ASSETS

	2007	2006	2005
LIABILITIES			
Accounts payable	$ 4,167,848	$ 2,323,926	$ 2,806,068
Accrued liabilities	16,272,315	12,784,211	12,233,354
Deferred revenue	3,318,078	3,319,923	3,661,546
Annuities payable	16,069,326	17,080,067	17,142,601
Interest rate exchange liability	552,023	467,581	1,265,535
Asset retirement obligation	2,712,661	2,875,606	
Long-term debt	86,299,563	53,325,000	53,630,000
U. S. government grants refundable	6,257,378	6,826,140	7,064,203
Deposits held in trust for others	5,341,937	4,328,536	4,210,480
Total Liabilities	140,991,129	103,330,990	102,013,787
NET ASSETS			
Unrestricted	261,565,126	206,315,631	173,515,216
Temporarily restricted	71,117,614	62,278,064	53,438,694
Permanently restricted	136,696,175	126,800,262	123,264,466
Total Net Assets	469,378,915	395,393,957	350,218,376
TOTAL LIABILITIES AND NET ASSETS	$ 610,370,044	$ 498,724,947	$ 452,232,163

See accompanying notes to financial statements.

ST. OLAF COLLEGE

STATEMENT OF ACTIVITIES
Year Ended May 31, 2007

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
REVENUES, GAINS AND OTHER SUPPORT				
OPERATING REVENUES				
Tuition	$ 83,649,733			$ 83,649,733
Less: Unfunded scholarships and grants	(29,833,365)			(29,833,365)
Funded scholarships and grants	(3,254,474)			(3,254,474)
Net tuition	50,561,894			50,561,894
Other tuition and fees	4,095,734	$ 400		4,096,134
Government grants	4,002,312			4,002,312
Private gifts and grants	3,735,066	2,375,688		6,110,754
Long-term investment income and gains allocated for operations	3,817,099	5,108,381		8,925,480
Other sources	2,948,548	574,060		3,522,608
Investment income	1,364,766	91,576		1,456,342
Net gains on investments and capital assets	(76,104)	94,247		18,143
Capital gifts allocated		1,194,522		1,194,522
Auxiliary enterprises - sales and services	23,567,750	25,308		23,593,058
	94,017,065	9,464,182		103,481,247
Net assets released from restrictions	9,255,879	(9,255,879)		
Total Operating Revenues, Gains and Other Support	103,272,944	208,303		103,481,247
OPERATING EXPENSES				
Program expenses				
Instruction	42,153,319			42,153,319
Research	1,149,541			1,149,541
Public service	679,904			679,904
Academic support	9,070,869			9,070,869
Student services	13,484,416			13,484,416
Auxiliary enterprises	16,903,058			16,903,058
Support expenses				
Institutional support	9,178,804			9,178,804
Fundraising	2,799,998			2,799,998
Total Operating Expenses	95,419,909			95,419,909
Change in Net Assets from Operating Activities	7,853,035	208,303		8,061,338
NONOPERATING ACTIVITIES				
Long-term investment activities				
Investment income	3,862,297	2,419,875	$ 52,882	6,335,054
Net realized gains	18,391,714	11,237,462	336,788	29,965,964
Net unrealized appreciation	8,774,910	5,317,077	120,146	14,212,133
Total long-term investment income	31,028,921	18,974,414	509,816	50,513,151
Less: Long-term investment income and gains allocated for operations	(3,817,099)	(5,108,381)		(8,925,480)
	27,211,822	13,866,033	509,816	41,587,671
Student loan income net of expenses	(54,620)		61,375	6,755
Capital giving activities - gifts and grants	748,850	7,597,856	5,675,627	14,022,333
Deferred giving activities - gifts	48,224	(637)	53,618	101,205
Capital gifts allocated to operations		(1,194,522)		(1,194,522)
Interest rate swap loss and settlements	(172,003)			(172,003)
Adjustment to actuarial liability for annuities payable	5,717,438	318,392	3,595,477	9,631,307
Gain on disposal of property, plant and equipment	4,206,220			4,206,220
	37,705,931	20,587,122	9,895,913	68,188,966
Net assets released from restrictions	11,955,875	(11,955,875)		
Change in Net Assets from Nonoperating Activities	49,661,806	8,631,247	9,895,913	68,188,966
Change in Net Assets before Effect of Adoption of FASB Statement No. 158	57,514,841	8,839,550	9,895,913	76,250,304
Effect of Adoption of FASB Statement No. 158	(2,265,346)			(2,265,346)
Change in Net Assets	55,249,495	8,839,550	9,895,913	73,984,958
Net Assets - Beginning of Year	206,315,631	62,278,064	126,800,262	395,393,957
NET ASSETS - END OF YEAR	$ 261,565,126	$ 71,117,614	$ 136,696,175	$ 469,378,915

See accompanying notes to financial statements.

ST. OLAF COLLEGE

STATEMENT OF ACTIVITIES
Year Ended May 31, 2006

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
REVENUES, GAINS AND OTHER SUPPORT				
OPERATING REVENUES				
Tuition	$ 78,408,748			$ 78,408,748
Less: Unfunded scholarships and grants	(26,148,307)			(26,148,307)
Funded scholarships and grants	(3,547,928)			(3,547,928)
Net tuition	48,712,513			48,712,513
Other tuition and fees	3,981,774	$ 200		3,981,974
Government grants	3,982,882	3,457		3,986,339
Private gifts and grants	3,734,962	1,939,057		5,674,019
Long-term investment income and gains allocated for operations	3,571,579	4,814,703		8,386,282
Other sources	2,596,904	595,260		3,192,164
Investment income	570,809	69,617		640,426
Net gains on investments and capital assets	21,178	2,419		23,597
Capital gifts allocated		1,154,451		1,154,451
Auxiliary enterprises - sales and services	20,172,979			20,172,979
	87,345,580	8,579,164		95,924,744
Net assets released from restrictions	7,194,787	(7,194,787)		
Total Operating Revenues, Gains and Other Support	94,540,367	1,384,377		95,924,744
OPERATING EXPENSES				
Program expenses				
Instruction	39,665,822			39,665,822
Research	1,028,132			1,028,132
Public service	563,253			563,253
Academic support	8,717,752			8,717,752
Student services	12,926,303			12,926,303
Auxiliary enterprises	16,058,894			16,058,894
Support expenses				
Institutional support	8,069,538			8,069,538
Fundraising	2,958,486			2,958,486
Total Operating Expenses	89,988,180			89,988,180
Change in Net Assets from Operating Activities	4,552,187	1,384,377		5,936,564
NONOPERATING ACTIVITIES				
Long-term investment activities				
Investment income	1,352,019	957,036	$ 15,557	2,324,612
Net realized gains	16,938,660	11,847,378	209,127	28,995,165
Net unrealized appreciation	3,121,739	2,203,391	35,919	5,361,049
Total long-term investment income	21,412,418	15,007,805	260,603	36,680,826
Less: Long-term investment income and gains allocated for operations	(3,571,579)	(4,814,703)		(8,386,282)
	17,840,839	10,193,102	260,603	28,294,544
Student loan income net of expenses	(11,881)		64,277	52,396
Capital giving activities - gifts and grants	1,468,488	6,929,060	1,382,198	9,779,746
Deferred giving activities - gifts	48,105	270,428	135,475	454,008
Capital gifts allocated to operations		(1,154,451)		(1,154,451)
Interest rate swap gain and settlements	610,992			610,992
Adjustment to actuarial liability for annuities payable	2,407,951	96,245	1,926,985	4,431,181
Loss on disposition of property, plant and equipment	(514,350)			(514,350)
	21,850,144	16,334,384	3,769,538	41,954,066
Net assets released from restrictions	9,038,286	(9,038,286)		
Change in Net Assets from Nonoperating Activities	30,888,430	7,296,098	3,769,538	41,954,066
Change in Net Assets before Reclassification of Net Assets	35,440,617	8,680,475	3,769,538	47,890,630
Reclassification of prior year net assets	74,847	158,895	(233,742)	
Change in Net Assets before Cumulative Effect of Change in Accounting Principle	35,515,464	8,839,370	3,535,796	47,890,630
Cumulative effect of change in accounting principle	(2,715,049)			(2,715,049)
Change in Net Assets	32,800,415	8,839,370	3,535,796	45,175,581
Net Assets - Beginning of Year	173,515,216	53,438,694	123,264,466	350,218,376
NET ASSETS - END OF YEAR	$ 206,315,631	$ 62,278,064	$ 126,800,262	$ 395,393,957

See accompanying notes to financial statements.

ST. OLAF COLLEGE

STATEMENT OF ACTIVITIES
Year Ended May 31, 2005

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
REVENUES, GAINS AND OTHER SUPPORT				
OPERATING REVENUES				
Tuition	$ 73,978,456			$ 73,978,456
Less: Unfunded scholarships and grants	(23,198,957)			(23,198,957)
Funded scholarships and grants	(3,393,171)			(3,393,171)
Net tuition	47,386,328			47,386,328
Other tuition and fees	3,959,847			3,959,847
Government grants	3,410,841	$ 17,169		3,428,010
Private gifts and grants	3,719,500	2,650,249		6,369,749
Long-term investment income and gains allocated for operations	3,023,559	4,859,232		7,882,791
Other sources	1,968,452	1,498,840		3,467,292
Investment income	219,802	47,691		267,493
Net gains (losses) on investments and capital assets	(13,622)	43,187		29,565
Capital gifts allocated		1,168,105		1,168,105
Auxiliary enterprises - sales and services	19,471,392			19,471,392
	83,146,099	10,284,473		93,430,572
Net assets released from restrictions	10,334,610	(10,334,610)		
Total Operating Revenues, Gains and Other Support	93,480,709	(50,137)		93,430,572
OPERATING EXPENSES				
Program expenses				
Instruction	38,496,561			38,496,561
Research	784,022			784,022
Public service	1,777,345			1,777,345
Academic support	8,511,015			8,511,015
Student services	12,428,432			12,428,432
Auxiliary enterprises	15,312,671			15,312,671
Support expenses				
Institutional support	8,520,959			8,520,959
Fundraising	2,731,447			2,731,447
Total Operating Expenses	88,562,452			88,562,452
Change in Net Assets from Operating Activities	4,918,257	(50,137)		4,868,120
NONOPERATING ACTIVITIES				
Long-term investment activities				
Investment income	1,439,473	1,121,182	$ 15,708	2,576,363
Net realized gains	3,710,156	2,480,157	37,492	6,227,805
Net unrealized appreciation	9,425,574	7,050,064	102,855	16,578,493
Total long-term investment income	14,575,203	10,651,403	156,055	25,382,661
Less: Long-term investment income and gains allocated for operations	(3,023,559)	(4,859,232)		(7,882,791)
	11,551,644	5,792,171	156,055	17,499,870
Student loan income net of expenses	(76,200)		53,413	(22,787)
Capital giving activities - gifts and grants	448,833	6,962,083	8,225,453	15,636,369
Deferred giving activities - gifts	240,763	68,206	599,709	908,678
Capital gifts allocated to operations		(1,168,105)		(1,168,105)
Interest rate swap expense	(322,909)			(322,909)
Adjustment to actuarial liability for annuities payable	2,783,311	92,638	1,760,905	4,636,854
Gain on sale of radio stations	10,067,824			10,067,824
	24,693,266	11,746,993	10,795,535	47,235,794
Net assets released from restrictions	7,635,718	(7,635,718)		
Change in Net Assets from Nonoperating Activities	32,328,984	4,111,275	10,795,535	47,235,794
Change in Net Assets before Reclassification of Net Assets	37,247,241	4,061,138	10,795,535	52,103,914
Reclassification of prior year net assets	708,561	(1,813,207)	1,104,646	
Change in Net Assets	37,955,802	2,247,931	11,900,181	52,103,914
Net Assets - Beginning of Year	135,559,414	51,190,763	111,364,285	298,114,462
NET ASSETS - END OF YEAR	$ 173,515,216	$ 53,438,694	$ 123,264,466	$ 350,218,376

See accompanying notes to financial statements.

ST. OLAF COLLEGE

STATEMENTS OF CASH FLOWS
Years Ended May 31, 2007, 2006, and 2005

	2007	2006	2005
CASH FLOWS FROM OPERATING ACTIVITIES			
Change in net assets	$ 73,984,958	$ 45,175,581	$ 52,103,914
Adjustments to reconcile change in net assets to net cash flows from operating activities			
Effect of changes in accounting principles	2,265,346	2,715,050	
Depreciation, amortization and accretion expense	8,336,325	8,082,117	7,798,638
Net realized gains on investments	(32,876,744)	(33,338,272)	(8,546,072)
Net unrealized appreciation of investments	(19,081,700)	(6,593,423)	(20,408,363)
Change in allowance for uncollectible student loans	364,300		
Interest rate exchange (gain) loss	84,442	(797,954)	322,909
(Gain) loss on dispositions of property, plant and equipment	(4,206,220)	514,350	(10,067,824)
Actuarial adjustment of annuities payable	1,047,214	2,167,524	2,308,414
Gifts of property, plant and equipment	(95,865)	(50,755)	(91,940)
(Increases) decreases in:			
Student accounts receivable	15,375	13,830	218,477
Contributions receivable for operations	137	(144,388)	498,047
Other receivables	(1,718,546)	(369,558)	377,237
Inventories, prepaid expenses and deposits	(86,794)	194,147	(423,193)
Funds held in trust by others	(170,553)	(280,894)	(29,873)
Increases (decreases) in:			
Accounts payable	890,618	(752,576)	597,290
Accrued liabilities	1,222,758	550,857	(5,683)
Deferred revenue	(1,845)	(341,623)	185,801
Asset retirement obligation	(149,512)		
Gifts and grants received for long-term investment, net	(14,123,538)	(10,233,754)	(16,545,047)
Nonoperating investment income	(6,335,054)	(2,324,612)	(2,576,363)
Net Cash Flows from Operating Activities	9,365,102	4,185,647	5,716,369
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchases of property, plant and equipment	(19,205,590)	(10,625,532)	(6,154,552)
Withdrawals from deposits held by trustee	5,585,500		
Purchases of investments	(236,273,954)	(193,128,280)	(98,477,465)
Proceeds from sales of investments	228,389,777	192,283,698	80,641,190
Nonoperating investment income	6,335,054	2,324,612	2,576,363
Net proceeds from sale of radio stations			10,178,500
Disbursements of loans to students	(1,130,595)	(1,918,397)	(2,032,447)
Repayments of loans by students	1,463,523	1,870,818	1,473,060
Net Cash Flows from Investing Activities	(14,836,285)	(9,193,081)	(11,795,351)
CASH FLOWS FROM FINANCING ACTIVITIES			
Principal repayments of indebtedness	(155,000)	(305,000)	(290,000)
Gifts and grants received for long-term investment, net	14,123,538	10,233,754	16,545,047
Insurance proceeds received for hail storm damage	3,542,023		
Increase in cash held for plant acquisitions	(5,691,866)	(1,070,050)	(925,849)
(Increase) decrease in nonoperating contributions receivable	474,544	(3,590,035)	(4,702,378)
Increase (decrease) in deposits held in trust for others	507,916	118,987	39,530
Increase (decrease) in U. S. government grants refundable, net	(568,762)	(238,063)	(7,895)
Increase in annuities payable from new gifts	311,100	165,286	977,780
Payments to annuitants	(2,369,055)	(2,395,344)	(2,226,565)
Debt issuance costs paid	(297,187)		
Deposits to escrow account for refinanced bonds, net	(772,179)		
Net Cash Flows from Financing Activities	9,105,072	2,919,535	9,409,670
Net Change in Cash and Cash Equivalents	3,633,889	(2,087,899)	3,330,688
CASH AND CASH EQUIVALENTS - Beginning of Year	12,350,357	14,438,256	11,107,568
CASH AND CASH EQUIVALENTS - END OF YEAR	$ 15,984,246	$ 12,350,357	$ 14,438,256

See accompanying notes to financial statements.

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES

St. Olaf College (the "College") is an institution of higher education affiliated with the Evangelical Lutheran Church in America. The accounting policies of the College reflect practices common to universities and colleges and conform to accounting principles generally accepted in the United States of America. The more significant accounting policies are summarized below:

General - 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 in accordance with activities or objectives specified by donors.

These financial statements, which are presented on the accrual basis of accounting, have been prepared to focus on the College as a whole and present balances and transactions according to the existence or absence of donor-imposed restrictions. This has been accomplished by classification of fund balances and transactions into three classes of net assets - permanently restricted, temporarily restricted and unrestricted, as follows:

Permanently Restricted Net Assets - Net assets subject to donor-imposed stipulations that they be maintained permanently by the College. Generally, the donors of these assets permit the College to use all or part of the income earned on related investments for general or specific purposes.

Temporarily Restricted Net Assets - Net assets subject to donor-imposed stipulations that will be met by action of the College and/or the passage of time.

Unrestricted Net Assets - Net assets not subject to donor-imposed stipulations.

Revenues are reported as increases in unrestricted net assets unless use of the related assets is limited by donor-imposed restrictions. Expenses are reported as decreases in unrestricted net assets. Gains and losses on investments and other assets or liabilities are reported as increases or decreases in unrestricted net assets unless their use is restricted by explicit donor stipulation or by law. Expirations of temporary restrictions on net assets (i.e., the donor-stipulated purpose has been fulfilled and/or the stipulated time period has elapsed) are reported as reclassifications between the applicable classes of net assets.

Contributions of assets other than cash are recorded at their estimated fair value at the date of gift.

Income and net gains on investments of endowment and similar funds are reported as follows:

- as increases in permanently restricted net assets if the terms of the gift require that they be added to the principal of a permanent endowment fund;
- as increases in temporarily restricted net assets if the terms of the gift impose restrictions on the use of the income;
- as increases in unrestricted net assets in all other cases.

Losses from investments on permanently restricted endowment funds are reported as reductions in temporarily restricted assets to the extent of prior accumulated earnings reported as such, if any, with the remaining net losses reported as reductions in the unrestricted quasi-endowment funds.

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Temporarily Restricted Net Assets - With respect to temporarily restricted net assets, the College has adopted the following accounting policies:

Reporting as Temporarily Restricted Revenues - Contributions received with donor-imposed restrictions that are met in the same year as received are reported as revenues of the temporarily restricted net asset class, and a reclassification to unrestricted net assets is made to reflect the expiration of such restrictions.

Release of Restrictions on Net Assets for Acquisition of Land, Buildings and Equipment - The College reports contributions of exhaustible long-lived assets, or of cash and other assets to be used to acquire them, without donor stipulations concerning the use of such long-lived assets as revenues of the temporarily restricted net asset class; the restrictions are considered to be released over the estimated useful lives of the long-lived assets using the College's depreciation policies.

Cash and Cash Equivalents - The College considers all highly liquid investments, except for those held for long-term investment, with a maturity of three months or less when purchased to be cash equivalents.

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.

Insurance Receivable - In June 2006, a hail storm on the College's campus caused significant damage to the roofs on many of its buildings and other property. During the year ended May 31, 2007, the College eliminated the estimated remaining net book value of the damaged property which totaled $967,680. The College has recovered $3,542,023 from insurance companies to date related to the loss and expects to receive an additional $1,631,877 in subsequent years. As a result, the College recorded a net gain of $4,206,220 for the year ended May 31, 2007. Costs incurred associated with the replacement of the roofs were capitalized during fiscal year 2007, and costs will continue to be capitalized as incurred in subsequent years.

Inventories - Bookstore inventories are valued at a percentage of retail value, which approximates cost and is not in excess of market. All other inventories are valued at cost.

Deposits Held by Trustee - Cash, short-term investments and government securities held by the trustee include amounts restricted for debt service as required by the related trust indentures.

Deferred Debt Acquisition Costs - Costs of bond issuance are deferred and amortized on a straight-line basis over the term of the bonds.

Physical Plant and Equipment - Physical plant assets are stated at cost at date of acquisition less accumulated depreciation. The College depreciates its assets on the straight-line basis over estimated useful lives as follows: buildings 50 years; improvements, 5 to 25 years; equipment 5 years; library books 15 years. Normal repair and maintenance expenses are charged to operations as incurred. The College capitalizes physical plant additions and equipment in excess of $5,000.

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Revenues - Tuition, housing and related revenue is recognized ratably over the period of instruction. Certain revenue related to summer education programs is deferred and recognized as revenue in the same period expenses are recognized. Students are generally billed for courses prior to the start of the course.

Government Grants Refundable - Funds provided by the United States Government under the Federal Perkins Loan Program are loaned to qualified students and may be reloaned after collections. These funds are ultimately refundable to the government and are included as liabilities in the statements of financial position. Revenues from other government grants are recognized as they are earned in accordance with the agreement. Any funding received before it is earned is recorded as a refundable advance. Expenses incurred before cash is received are recorded as receivables.

Interest Rate Exchange Agreement - The College accounts for its interest rate exchange transaction under SFAS No. 133, *Accounting for Derivative Instruments and Hedging Activities*, as amended. The College uses an interest rate exchange agreement as part of its risk management strategy to manage exposure to fluctuations in interest rates and to manage the overall cost of its debt. The interest rate exchange agreement was not entered into for trading or speculative purposes. All derivatives, including those embedded in other contracts as well as interest rate exchange transactions, are recognized as either assets or liabilities and are measured at fair value. Gains or losses resulting from changes in the fair values of the interest rate exchange transactions are reflected in the statements of activities.

Grants to Specified Students - Amounts received from state and federal agencies designated for the benefit of specified students are considered agency transactions and, therefore, are not reflected as revenues and expenses of the College. The amounts of such grants were as follows:

	2007	2006	2005
State grants	$1,797,085	$ 1,602,568	$ 1,676,660
Federal grants	905,380	955,411	1,032,538

Income Tax Status - The Internal Revenue Service has determined that the College is exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code. The College is also exempt from state income taxes. However, any unrelated business income may be subject to taxation.

Advertising Expenses - Advertising costs are expensed when incurred.

Functional Allocation of Expenses - The costs of providing the various programs and other activities have been summarized on a functional basis in the statement of activities. Accordingly, certain expenses have been allocated among the programs and supporting services benefited.

Use of Estimates - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Fair Value of Financial Instruments - The College records financial instruments at cost, with the exception of investments which are reflected in the financial statements at market value and those items received as gifts which are valued at fair value at the date of gift. The carrying amounts of cash and cash equivalents, accounts receivable and other receivables, amounts held for others, accounts payable and accrued expenses, deposits and deferred revenue approximate fair value because of the short maturity of these financial instruments. The carrying amounts of contributions receivable and beneficial interest in funds held in trust are recorded at fair value using appropriate discount rates.

A reasonable estimate of the fair value of the receivables from students under government loan programs and grants refundable to the government for student loans could not be made because the notes receivable are not saleable and can only be assigned to the U. S. Government or its designee. The fair value of receivables under institutional loan programs approximates carrying value.

The carrying amounts of the actuarial liability for trusts and annuities payable are based on life expectancies, quoted market prices, and the present value discount included in the carrying amount. The carrying amounts of long-term debt approximate fair value because these financial instruments bear interest at rates which approximate current market rates for notes with similar maturities and credit quality. The fair value of the interest rate exchange transactions are determined by using pricing models that take into account the present value of estimated future cash flows.

Investments in securities traded on national or international securities exchanges are carried at fair value based on values provided by external investment managers or quoted market values. Investments in limited partnerships, hedge funds, private equity funds, real estate funds, venture capital funds, commodity funds, offshore fund vehicles, fund of funds and similar nonmarketable equity interests consist primarily of investments that are not readily marketable. Investments in these categories, which are managed externally, are valued utilizing the most current information provided by the general partner or investment manager. These valuations generally reflect discounts for illiquidity and consider variables such as financial performance of investments, recent sales prices of investments and other pertinent information. Where applicable, independent appraisers are utilized to assist in the valuation. These values are determined under the direction of, and subject to approval by, management and the investment committee of the College.

The preparation of financial statements requires management to make estimates and assumptions about the effects of matters that are inherently uncertain. The accounting policies considered potentially significant in this respect are the valuation of the limited partnerships, private equity funds, offshore fund vehicles, fund of funds and similar nonmarketable equity interests and the valuation of the interest rate exchange transaction. Values for the nonmarketable equity interests are often estimated using techniques such as discounted cash flow analysis and comparisons to similar instruments. The fair value of the interest rate exchange transaction includes utilizing the most current information available from the banks under which the interest rate exchange transaction was issued and reflects pricing models that take into account the present value of estimated future cash flows. Estimates developed using these methods are subjective and require judgment regarding significant matters such as the amount and timing of future cash flows and the selection of discount rates that appropriately reflect market and credit risks. Estimates, by their nature, are based on judgment and available information. Changes in assumptions could have a significant effect on the fair value of the instruments. It is reasonably possible that changes in these estimates could occur in the near term and that actual results could differ from these estimates and could have a material impact on the financial statements.

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Effect of Changes in Accounting Principles - In March 2005, the Financial Accounting Standards Board (FASB) issued FASB Interpretation No. 47, *Accounting for Conditional Asset Retirement Obligations*, (FIN 47). FIN 47 clarifies the term "conditional" as used in SFAS No. 143, *Accounting for Asset Retirement Obligations*. This Interpretation refers to a legal obligation to perform an asset retirement activity even if the timing and/or settlement is conditional on a future event that may or may not be within the control of the institution. Accordingly, the College must record a liability for the conditional asset retirement obligation if the fair value of the obligation can be reasonably estimated. FIN 47 was effective for fiscal years ending after December 15, 2005. The College owns certain buildings that contain encapsulated asbestos material. A liability of $2,875,606 was recorded in the May 31, 2006 financial statements for future asbestos removal, including $160,557 related to fiscal year 2006 and $2,715,049 for years prior to 2006 as a cumulative effect of a change in accounting principle as required by FIN 47. Subsequent to initial recognition, the College records period-to-period changes in the ARO liability resulting from the passage of time and revisions to either the timing or the amount of the original estimate of undiscounted cash flows.

The estimate of the losses that are probable from environmental remediation liabilities for asbestos removal was calculated using the expected cash flow approach and based on an inventory of the College's long-lived assets combined with an estimate of the current market prices to remove the asbestos. The College utilized a credit-adjusted risk-free rate of approximately 4% to discount the asset retirement obligation. It is reasonably possible that changes in this estimate could occur in the near term and that actual results could differ from this estimate and could have a material impact on the financial statements.

In September 2006, the Financial Accounting Standards Board (FASB) issued FASB Statement No. 158, *Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans*, (FAS 158). FAS 158 requires an employer to recognize the overfunded or underfunded status of a single-employer defined benefit pension or postretirement plan as an asset or liability in its statement of financial position and to recognize changes in that funded status in the year in which the changes occur through changes in unrestricted net assets. FAS 158 is effective for fiscal years ending after December 15, 2006. The College has a postretirement health benefit plan that falls under the reporting requirements of FAS 158. An additional liability of $2,265,346 was recorded in the May 31, 2007 financial statements for the unfunded portion of its accumulated postretirement benefit obligation as a change in accounting principle as required by FAS 158.

NOTE 2 - RESTRICTIONS AND LIMITATIONS ON NET ASSETS BALANCES

At May 31, 2007, 2006 and 2005, the College's unrestricted net assets were allocated as follows:

	2007	2006	2005
Designated			
For long-term purposes as:			
Quasi-endowment	$ 156,350,491	$ 116,126,005	$ 92,366,334
Debt service and facility renewal	38,004,878	31,402,530	25,615,875
Deferred gifts	26,464,773	26,721,777	24,664,516
For debt service reserves under long-term debt agreements	3,362,784	896,586	906,902
For construction of new science building	25,041,391		
For specific operating activities	1,935,021	2,031,253	1,789,232
For matching funds under federal government other student loan programs	1,072,055	1,126,675	1,142,092
Total Designated	252,231,393	178,304,826	146,484,951
Undesignated	9,333,733	28,010,805	27,030,265
	$ 261,565,126	$ 206,315,631	$ 173,515,216

Temporarily restricted net assets consist of the following at May 31, 2007, 2006 and 2005:

	2007	2006	2005
Gifts and other unexpended revenues and gains available for:			
Scholarships, instruction and other support	$ 5,859,062	$ 6,869,060	$ 5,869,012
Unamortized plant gifts	31,241,353	30,388,101	31,286,289
Acquisition of buildings and equipment	19,817,945	13,823,039	7,084,881
	56,918,360	51,080,200	44,240,182
Quasi-endowment	12,709.346	10,009,950	8,372,668
Deferred gifts	1,489,908	1,187,914	825,844
	$ 71,117,614	$ 62,278,064	$ 53,438,694

Permanently restricted net assets consist of the following at May 31, 2007, 2006 and 2005:

	2007	2006	2005
Endowment funds	$ 112,908,157	$ 105,934,653	$ 104,162,965
Student loan funds	2,277,747	2,202,822	2,125,470
Deferred gifts	21,510,271	18,662,787	16,976,031
	$ 136,696,175	$ 126,800,262	$ 123,264,466

NOTE 3 - NET ASSETS RELEASED FROM RESTRICTIONS

Net assets were released from temporary donor restrictions by incurring expenses satisfying the restricted purposes or by occurrence of events specified by the donors as follows for the years ended May 31, 2007, 2006 and 2005:

	2007	2006	2005
Amortization of contributions expended for long-lived assets	$ 1,194,522	$ 1,154,451	$ 1,168,105
Scholarships, instruction and other departmental support	20,017,232	15,078,622	16,802,223
	$ 21,211,754	$ 16,233,073	$ 17,970,328
These assets were reclassified as follows:			
Unrestricted operating net assets	$ 9,255,879	$ 7,194,787	$ 10,334,610
Unrestricted nonoperating net assets	11,955,875	9,038,286	7,635,718
	$ 21,211,754	$ 16,233,073	$ 17,970,328

NOTE 4 - CONTRIBUTIONS RECEIVABLE

Contributions receivable include the following unconditional promises to give at May 31, 2007, 2006 and 2005:

	2007	2006	2005
Temporarily restricted - operations	$ 868,223	$ 648,434	$ 417,087
Temporarily restricted - plant projects	17,206,681	12,822,413	6,654,853
Temporarily restricted - quasi-endowment	2,333	263,008	1,566,729
Permanently restricted - deferred gifts	500,000	515,000	510,000
Permanently restricted - endowment	2,609,095	3,360,556	3,462,797
Gross unconditional promises to give	21,186,332	17,609,411	12,611,466
Less: Unamortized discount	(5,413,154)	(1,328,480)	(844,775)
Allowance for uncollectible promises	(1,099,963)	(1,133,036)	(353,219)
	$ 14,673,214	$ 15,147,895	$ 11,413,472

Contributions receivable as of May 31, 2007 of $7,465,679 are expected to be collected in less than one year and $7,207,535 in two to five years. Contributions receivable expected to be collected in two to five years have been discounted using a rate of 6% at May 31, 2007, 2006 and 2005.

NOTE 5 - INVESTMENTS

The following summarizes the fair value of the College's marketable securities at May 31, 2007, 2006 and 2005:

	2007	2006	2005
Stocks	$ 47,840,592	$ 56,697,352	$ 34,980,889
Bonds	435,618	367,932	416,150
Mutual funds	165,713,050	149,419,692	169,006,611
	$ 213,989,260	$ 206,484,976	$ 204,403,650

The following summarizes the fair value of the College's other investments at May 31, 2007, 2006 and 2005:

Alternative investments	$ 124,537,213	$ 105,940,898	$ 67,327,935
Private debenture bonds	7,740,000	7,125,000	7,200,000
Other investments	1,736,469	1,610,419	1,660,124
	$ 134,013,682	$ 114,676,319	$ 76,188,059

The College's investment strategy incorporates a diversified asset allocation approach and maintains, within defined limits, exposure to the world equity, fixed-income, commodities, real estate and private equity markets. This strategy provides the College with a long-term asset mix that is most likely to meet the College's long-term return goals with the appropriate level of risk.

Alternative investments include limited partnerships, hedge funds, private equity funds, real estate funds, venture capital funds, commodity funds, offshore fund vehicles, fund of funds and other investments. The underlying assets of alternative investments range from marketable securities to complex and/or illiquid investments. The alternative investments were entered into to diversify the College's portfolio, to provide predictability in overall earnings and to provide market neutral holdings. The College's management, the investment committee of the Board of Regents and the College's external investment consultants review reports provided by the general partners and fund managers, and the College's external investment consultants attend meetings of the various general partners and fund managers in order to evaluate the risk associated with these investments. In addition, the College monitors its portfolio mix to ensure that it is in accordance with Board policy.

NOTE 5 - INVESTMENTS (CONTINUED)

The following summarizes the composition of alternative investments at May 31, 2007, 2006 and 2005:

	2007	2006	2005
Values based on quoted market prices or alternative structures with underlying investments whose values are based on quoted market prices:			
Global equity	$ 32,721,880	$ 45,481,848	$ 27,319,447
Corporate bonds	93,303	129,522	200,116
Treasury Inflation Protected Securities (TIPS)	26,527,650	11,445,072	11,612,864
	59,342,833	57,056,442	39,132,427
Values based on estimates provided by fund managers or general partners:			
Hedge funds	38,026,472	24,735,816	17,497,616
Real estate	5,541,893	5,353,292	2,510,173
Commodities	5,403,655	5,171,904	
Private equity	16,222,360	13,623,444	8,187,719
	65,194,380	48,884,456	28,195,508
Total Alternative Investments	$ 124,537,213	$ 105,940,898	$ 67,327,935

As of May 31, 2007, the College has commitments to make further investments in several of its alternative investments totaling approximately $10,450,000.

The Board of Regents designates only a portion of the College's cumulative investment return for support of current operations; the remainder is retained to support operations of future years and to offset potential market declines. State law allows the Board to appropriate as much of the net appreciation as is prudent considering the College's long and short-term needs, present and anticipated financial requirements, expected total return on its investments, price level trends, and general economic conditions. The Board has established an endowment spending rate ranging between 4.5% and 5.0% of the average endowment market value from the previous 16 quarters.

Endowment investments are recorded at a market value approximating $318,541,300, $260,733,200, and $225,657,900 for the years ended May 31, 2007, 2006 and 2005, respectively. The total return on all investments held by the endowment funds, on a market basis, was 19.148%, 16.378% and 13.384% for the years ended May 31, 2007, 2006 and 2005, respectively. Income from long-term investments is shown net of expenses of $1,512,261, $1,090,854 and $701,928 the years ended May 31, 2007, 2006 and 2005, respectively.

NOTE 6 - CONSTRUCTION IN PROGRESS

Construction in progress consisted of the following projects at May 31, 2007:

	Estimated Total Cost	Costs to Date	Funding Plan
New science center	$ 64,000,000	$ 10,276,349	Gifts, debt, current operations
Boe Chapel organs	1,800,000	1,600,493	Gifts, current operations
Hail storm damage	4,139,788	313,718	Insurance proceeds
Telesphere software	200,000	196,530	Current operations
Thorson Hall roof	730,000	112,077	Current operations
Science Center green study	110,000	73,442	Grant
Christiansen Hall	120,000	45,792	Current operations
Honor House windows	30,000	14,337	Current operations
Skoglund office remodeling	8,000	7,243	Current operations
Physiology lab equipment	10,000	4,522	Current operations
Theater project	200,000	3,370	Current operations
Start-up funds	60,000	1,455	Current operations
Thorson flooring	390,000	990	Current operations
	$ 71,797,788	$ 12,650,318	

NOTE 7 - PROPERTY, PLANT AND EQUIPMENT

At May 31, 2007, 2006 and 2005 property, plant and equipment consisted of the following:

	2007	2006	2005
Land	$ 1,250,374	$ 830,914	$ 814,914
Improvements other than buildings	10,594,134	8,551,397	8,257,812
Buildings	149,958,176	146,259,803	145,776,507
Equipment	45,250,089	38,881,000	35,660,090
Library materials	18,670,499	17,780,152	16,950,864
Art collection	1,117,477	1,021,612	954,998
	226,840,750	213,324,878	208,415,185
Less: Accumulated depreciation	(100,376,410)	(93,710,834)	(85,765,055)
	$ 126,464,340	$ 119,614,044	$ 122,650,130

NOTE 8 - RETIREMENT PLANS

The College has certain contributory defined contribution pension plans for academic and nonacademic personnel. The cost of these retirement plans is paid currently and approximated $3,058,400, $3,080,900 and $2,849,000 for the years ended May 31, 2007, 2006 and 2005, respectively.

NOTE 9 - POSTRETIREMENT BENEFIT PLAN

The College records health care benefits for current and future retired employees and covered dependents on the accrual basis. The following tables set forth the plan's status with amounts reported in the College's financial statements at May 31, 2007, 2006 and 2005:

	2007	2006	2005
Change in benefit obligation			
Benefit obligation at beginning of year	$ 5,390,058	$ 8,804,519	$ 7,021,912
Service cost	85,539	178,327	128,735
Interest cost	336,895	420,847	448,413
Plan participants' VEBA contributions	51,311		
Employer VEBA contributions	536,634		
Amendments		(1,860,346)	
Actuarial loss/(gain)	931,125	(1,735,198)	1,703,201
Benefits paid	(693,554)	(418,091)	(497,742)
Benefit obligation at end of year	$ 6,638,011	$ 5,390,058	$ 8,804,519
Change in plan assets			
Fair value of plan assets at beginning of year	$ -	$ -	$ -
Actual return on plan assets	675,535		
Employer contributions	1,023,484	868,249	1,005,501
Plan participants' contributions	(31,349)	(450,158)	(507,759)
Benefits paid	(693,554)	(418,091)	(497,742)
Fair value of plan assets at end of year	$ 974,116	$ -	$ -
Funded status			
Funded status at end of year	$ (5,663,895)	$ (5,390,058)	$ (8,804,519)
Unrecognized transition obligation/(asset)	N/A		
Unrecognized prior service cost	N/A	(1,797,326)	
Unrecognized actuarial loss/(gain)	N/A	3,849,329	5,878,724
Net amount recognized	$ N/A	$ (3,338,055)	$ (2,925,795)
Amounts recognized in the statement of financial position consist of:			
Noncurrent assets	$ -	$ N/A	$ N/A
Current liabilities	(514,000)	N/A	N/A
Noncurrent liabilities	(5,149,895)	N/A	N/A
Prepaid benefit cost	N/A		
Accrued benefit liability	N/A	(3,338,055)	(2,925,795)
Intangible asset	N/A		
Accumulated change in net assets	N/A		
Net amount recognized	$ (5,663,895)	$ (3,338,055)	$ (2,925,795)

NOTE 9 - POSTRETIREMENT BENEFIT PLAN (CONTINUED)

	2007	2006	2005
Amounts recognized in change in net assets consist of:			
Transition obligation/(asset)	$ -	N/A	N/A
Prior service cost	(1,646,078)	N/A	N/A
Net actuarial (gain) loss	3,911,424	N/A	N/A
Accumulated change in net assets	$ 2,265,346	N/A	N/A
Weighted-average assumptions used to determine benefit obligations at May 31			
Discount rate	6.00%	6.40%	5.40%
Expected return on plan assets	N/A	N/A	N/A
Rate of compensation increase	0.00%	0.00%	0.00%
Components of net periodic benefit cost			
Service cost	$ 85,539	$ 178,327	$ 128,735
Interest cost	336,895	420,847	448,412
Expected return on plan assets			
Amortization of transition obligation/(asset)			
Amortization of prior service cost	(151,248)	(63,020)	
Amortization of net loss/(gain)	193,496	294,197	210,091
Net periodic postretirement benefit cost	$ 464,682	$ 830,351	$ 787,238
Changes in net assets			
Initial effect of adopting SFAS No. 158	$ 2,265,346	N/A	N/A
Prior service cost		N/A	N/A
Transition (asset) obligation		N/A	N/A
Net (gain) loss		N/A	N/A
Amortization of transition obligation/(asset)		N/A	N/A
Amortization of prior service cost		N/A	N/A
Amortization of net loss/(gain)		N/A	N/A
Total recognized in change in net assets	$ 2,265,346	N/A	N/A
Total recognized in net periodic benefit cost and change in net assets	$ 2,730,028	N/A	N/A
Weighted-average assumptions used to determine net periodic benefit cost as of June 1			
Discount rate	6.00%	5.40%	6.50%
Expected return on plan assets	N/A	N/A	N/A
Rate of compensation increase	0.00%	0.00%	0.00%
Additional information			
Increase in minimum liability included in change in net assets	N/A	N/A	N/A
Assumed health care cost trend rates at May 31			
Health care cost trend rate assumed for next year	11.24% - Post 65 9.74% - Pre 65	11.63% - Post 65 10.13% - Pre 65	10.64% - Post 65 9.14% – Pre 65
Rate to which the cost trend rate is assumed to decline (the ultimate trend)	4.60%	5.00%	4.00%
Year that the rate reaches the ultimate rate	2027	2026	2025

NOTE 9 - POSTRETIREMENT BENEFIT PLAN (CONTINUED)

An amendment to the plan effective January 1, 2006, reduced the APBO by $1,860,346, which is being amortized over 12 years. Amortization for the year ended May 31, 2006 was $63,020, resulting in the unrecognized prior service cost of $1,797,326 for the year ended May 31, 2006.

The Medicare Prescription Drug, Improvement and Modernization Act of 2003 was signed into law on December 8, 2003. St. Olaf College may be entitled to a federal subsidy if the benefits under this plan are determined to be actuarially equivalent to the benefits provided under this Act. The Accumulated Postretirement Benefit Obligation and Net Periodic Postretirement Benefit Cost disclosed here do not reflect the impact of a federal subsidy on the plan.

Two voluntary employee benefit association (VEBA) trusts were established in fiscal year 2006. The Employee After-Tax-Contributions VEBA Trust (funded solely by employee after tax contributions) and the Employer Contribution VEBA Trust (funded solely by employer pre-tax contributions) were established to provide employee welfare benefits plans providing certain insured and/or self-insured health and life benefits for eligible retired employees and their eligible spouses and dependents. The trusts are exempt from taxation to the extent permitted under section 501(c)(9) and 512 of the Internal Revenue Code of 1986.

The College expects to contribute $514,000 in benefit payments for the postretirement medical plan and $550,000 to the VEBA during the fiscal year ending May 31, 2008.

The following estimated benefit payments, which reflect expected future service, as appropriate, are expected to be paid as of May 31:

2008	$ 514,000
2009	529,000
2010	534,000
2011	543,000
2012	551,000
2013 - 2017	2,500,000

It is reasonably possible that changes in these estimates could occur in the near term and that actual results could differ from these estimates and could have a material impact on the financial statements.

NOTE 10 - LONG-TERM DEBT

Long-term debt at May 31, 2007, 2006 and 2005 consisted of the following:

	2007	2006	2005
Minnesota Higher Education Facilities Authority Revenue Bonds, Series Four-R	$	$ 13,225,000	$ 13,530,000
Minnesota Higher Education Facilities Authority Variable Rate Demand Revenue Bonds, Series Five-H	14,475,000	14,475,000	14,475,000
Minnesota Higher Education Facility Authority Variable Rate Demand Revenue Bonds, Series Five-M1	12,205,000	12,205,000	12,205,000
Minnesota Higher Education Facility Authority Variable Rate Demand Revenue Bonds, Series Five-M2	13,420,000	13,420,000	13,420,000
Minnesota Higher Education Facility Authority Revenue Bonds, Series Six-O	45,405,000		
Premium on Series Six-O Revenue Bonds	794,563		
	$ 86,299,563	$ 53,325,000	$ 53,630,000

Minnesota Higher Education Facilities Authority Revenue Bonds Series Four-R were issued in the amount of $15,000,000 in April 1998 to partially finance the Buntrock Commons Building and to finance an electrical generator, academic and administrative computers, payroll system hardware and software, classroom renovation and residence hall furniture. Principal and interest payments on the bonds are payable semiannually on April 1 and October 1 through 2029. The Series Four-R Bonds were the subject of an advance refunding as a portion of Series Six-O Bonds. The Four-R Bonds and the corresponding escrow will settle on October 1, 2007.

Minnesota Higher Education Facilities Authority Variable Rate Demand Revenue Bonds, Series Five-H, were issued in the amount of $14,475,000 to finance the renovation of St. Olaf Center to house the art and dance departments, replace residence hall furniture, replace Skoglund Athletic Center bleachers, acquire and renovate four houses, renovate the Administration Building, and renovate and improve utility tunnels. The bonds were issued October 25, 2000 and will mature October 1, 2030. Interest on the bonds is payable monthly and no principal payments are required until the maturity date. The bonds bear interest at a variable (daily reset) rate, which at May 31, 2007 was 3.90%, with an average rate of 3.64% for the 2007 fiscal year. The bonds are secured by (a) during the variable rate period, a letter of credit; (b) a pledge of amounts payable by the College under the loan agreement; and (c) money and investments held by the trustee under the indenture. The bonds are not secured by a mortgage or lien on, or a security interest in, any property of the College. The College incurs an effective letter of credit fee of 39.6 basis points on the letter of credit amount outstanding, and a remarketing fee equal to 12.5 basis points.

Minnesota Higher Education Facilities Authority Variable Rate Demand Revenue Bonds, Series Five-M1, were issued in the amount of $12,205,000 to finance the construction of the Tostrud Recreation Center. The bonds were issued April 16, 2002 and will mature October 1, 2032. Interest on the bonds is payable monthly and no principal payments are required until the maturity date. The bonds bear interest at a variable (daily reset) rate, which at May 31, 2007 was 3.90%, with an average rate of 3.64% for the 2007 fiscal year. The bonds are secured by (a) during the variable rate period, a letter of credit; (b) a pledge of amounts payable by the College under the loan agreement; and (c) money and investments held by the trustee under the indenture. The bonds are not secured by a mortgage or lien on, or a security interest in, any property of the College. The College incurs an effective letter of credit fee of 64.3 basis points on the letter of credit amount outstanding, and a remarketing fee equal to 12.5 basis points.

NOTE 10 - LONG-TERM DEBT (CONTINUED)

Minnesota Higher Education Facilities Authority Variable Rate Demand Revenue Bonds, Series Five-M2, were issued in the amount of $13,420,000 to refinance the Series 1992 bonds. The bonds were issued July 10, 2002 and will mature October 1, 2020. Interest on the bonds is payable monthly and no principal payments are required until the maturity date. The bonds bear interest at a variable (daily reset) rate, which at May 31, 2007 was 3.90%, with an average rate of 3.64% for the 2007 fiscal year. The bonds are secured by (a) during the variable rate period, a letter of credit; (b) a pledge of amounts payable by the College under the loan agreement; and (c) money and investments held by the trustee under the indenture. The bonds are not secured by a mortgage or lien on, or a security interest in, any property of the College. The College incurs an effective letter of credit fee of 64.3 basis points on the letter of credit amount outstanding, and a remarketing fee equal to 12.5 basis points.

To minimize the effect of changes in the interest rate, during 2003, the College entered into an interest rate exchange agreement on $13,420,000 of the Series Five-M2 bonds to set the interest at a fixed rate of 4.38% until maturity. Under the agreement, the College either pays additional interest or receives an interest credit depending on the relationship between the variable rate and the fixed rate. The College recorded a gain/(loss) of ($84,442), $797,954 and ($322,909), relating to the agreement for the years ended May 31, 2007, 2006 and 2005, respectively. The gain/(loss) is included in nonoperating activities on the statement of activities. At May 31, 2007, 2006 and 2005, the College has recorded an interest rate exchange liability of $552,023, $467,581 and $1,265,535, respectively, in the statement of financial position.

Minnesota Higher Education Facilities Authority Revenue Bonds Series Six-O were issued in the amount of $45,405,000 in March 2007 to partially finance construction of a new science building and to complete an advance refunding of MHEFA Revenue Bonds Series Four-R. Interest payments on the bonds are payable semiannually on April 1 and October 1 through 2032. The first principal payment of $1,105,000 is due October 1, 2008. Annual principal payments will range between $1,105,000 and $1,875,000 through 2020. Term bonds due in 2022, 2027 and 2032 call for principal payments of $4,040,000, $11,915,000 and $10,645,000 respectively. The bonds bear interest rates from 4.00% to 5.00% and are secured by the pledge of loan repayments and a reserve account.

The College maintains short-term investments and U.S. government securities held by trustees for retirement of indebtedness totaling $3,201,250. These funds are intended to satisfy the reserve requirements of the Series Six-O issue.

Anticipated long-term debt principal payments are as follows:

Year Ending May 31:	
2008	$ 0
2009	1,105,000
2010	1,155,000
2011	1,195,000
2012	1,245,000
Thereafter	80,805,000
Total	$ 85,505,000

Interest expense on long-term debt totaled $2,655,740, $2,081,364 and $2,010,377 for the years ended May 31, 2007, 2006 and 2005, respectively.

NOTE 11 - SHORT-TERM CREDIT ARRANGEMENT

The College has an unsecured $7,000,000 line of credit through Wells Fargo Bank. Borrowings under this line of credit bear interest at an annual rate of 50 basis points below the Bank's base (prime) rate. Interest is payable on the last day of each calendar quarter, beginning September 30. Principal, and any unpaid interest, is due on October 31. In addition, the agreement requires the College to comply with certain financial covenants. At May 31, 2007, 2006 and 2005, there were no outstanding borrowings under this arrangement.

NOTE 12 - SELF-INSURANCE

The College provides medical benefits through a self-insurance plan which is available to all employees of the College for certain medical expenses. Total resources committed to the self-insurance program were approximately $1,633,000 as of May 31, 2007. Accrued liabilities include a $840,000 reserve, an estimate of amounts due and payable on existing claims for which the College is self-insured and which are expected to be settled currently. The College is self-insured for the first $100,000 per claim with an aggregate stop loss of $4,346,348.

NOTE 13 - ALLOCATION OF EXPENSES

The College allocated the following expenses to program and support functions for the years ended May 31, 2007, 2006 and 2005 as follows:

	2007	2006	2005
Interest expense	$ 2,655,740	$ 2,081,364	$ 2,010,377
Operation and maintenance of plant	10,638,973	10,263,164	8,652,895
Depreciation	8,332,467	7,930,796	7,784,252
Accretion	(13,433)	136,933	
Faculty Staff Tuition Allowance	1,325,368	1,220,373	
	$ 22,939,115	$ 21,632,630	$ 18,447,524

NOTE 14 - DEFERRED GIFT AGREEMENTS

The College has arrangements with donors classified as charitable lead trusts, charitable remainder trusts, charitable gift annuities and pooled life income funds. In general, under these arrangements the College receives a gift from a donor in which it has a remainder interest and agrees to pay the donor stipulated amounts over the life of the donor. The arrangement may cover one or more lives. The College invests and administers the related assets and makes distributions to the beneficiaries as required. When the agreement reaches the end of its term, remaining assets are retained by the College as unrestricted, temporarily restricted or permanently restricted net assets, or in some instances, distributed to third-party beneficiaries.

ST. OLAF COLLEGE

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Year Ended May 31, 2007

Federal Grantor/ Pass Through Agency/ Program or Cluster Title	Federal CFDA Number	Grant Number	Federal Expenditures
FEDERAL STUDENT AID - CLUSTER			
U.S. Department of Education direct programs			
Federal Pell grant program	84.063	P063P061690	$ 905,380
Academic competitiveness grant program	84.375	P375A061690	99,650
National science and mathematics access to retain talent grant program	84.376	P376S061690	114,000
Federal supplemental educational opportunity grant program	84.007	P007A062203	422,900
Federal work-study program	84.033	P033A062203	471,824
Federal Perkins loan program - outstanding loans	84.038	P038A062203	7,859,473
Federal Perkins loan program - other costs	84.038	P038A062203	188,708
Federal family education loan programs	84.032	N/A	18,449,946
Subtotal direct programs			28,511,881
U.S. Department of Education passed through Minnesota Higher Education Services Office			
Leveraging educational assistance partnership program	84.069	N/A	3,241
U.S. Department of Education passed through Minnesota Department of Children, Families and Learning			
Robert C. Byrd honors scholarship	84.185	N/A	51,000
Subtotal pass through programs			54,241
Total U.S. Department of Education			28,566,122
U.S. Department of Health and Human Services direct program			
Nursing student loan program - outstanding loans	93.364	6576831	83,080
Total Federal Student Aid			28,649,202
RESEARCH AND DEVELOPMENT - CLUSTER			
National Science Foundation direct programs			
Radar studies of internal stratigraphy and bedrock topography along the US ITASE traverse	47.078	ANT-0440304	91,613
Employing differential scanning calorimetry and laser light scattering for a thermodynamic-rich undergraduate chemistry curriculum	47.076	DUE-0511529	297
Coupling consumer-resource interactions and nutrient spiraling in a stream network	47.074	DEB-0543363	50,561
Acquisition of instrumentation to enhance faculty-student biogeoscience research: Linking aquatic and terrestrial ecosystems through element analysis	47.074	DBI-0520803	10,163
RUI: The gene stream: From sequence to cell function	47.074	MCB-0444700	233,787
IRES: Real analysis mathematics opportunities for U.S. undergraduates in Poland and the Czech Republic	47.079	OISE-0456135	11,471
RUI: Low energy positronium interactions with atoms and molecules in a gas environment	47.049	PHY-0555631	63,979
Ice radar studies of Mt. Veniaminof volcano	47.078	OPP-0423424	34,307
Collaborative research: Is ice stream C restarting? Glaciological investigation of the 'Bulge' and the trunk of ice stream C, West Antarctica	47.078	OPP-0337567	54,172
CCLI: Phase 1: Threading interdisciplinary bio-chem for curriculum	47.076	DUE-0633286	99,600
CCLI: Expansion: Investigate pyschophysiology laboratory experiences for community colleges	47.076	DUE-0618573	72,759
Subtotal direct programs			722,709
National Science Foundation passed through Davidson College			
SOMAS: Support of mentors and their students in the neurosciences	47.076	DUE-0426266	9,202
Total National Science Foundation			731,911
U.S. Department of Health and Human Services direct programs			
National Institutes of Health			
Protection with adenosine A1 receptor overexpression	93.837	2 R15 HL062930-02	5,951
Ethical and policy challenges in the study and use of DB	93.853	5 R01 NS040883-06	131,953
Total U.S. Department of Health and Human Services			137,904
Total Research and Development			869,815

ST. OLAF COLLEGE

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Year Ended May 31, 2007

Federal Grantor/ Pass Through Agency/ Program or Cluster Title	Federal CFDA Number	Grant Number	Federal Expenditures
TRIO PROGRAMS - CLUSTER			
U.S. Department of Education direct programs			
Student support services program	84.042A	P042A050169	$ 259,884
Talent search program	84.044A	P044A030390	329,649
Upward bound program	84.047A	P0047A030690A	386,488
Total TRIO Programs			976,021
OTHER PROGRAMS			
National Science Foundation direct programs			
The SUM project: A statistics undergraduate mentoring project	47.049	DMS-0354308	273,912
S-Stem: Encouraging careers in the mathematical sciences	47.076	DUE-0630930	15,782
National Science Foundation passed through Ohio State			
CAUSEway: Workshops for navigating the terrain of undergraduate statistics	47.076	DUE-0442630	11,181
Total National Science Foundation - Other Programs			300,875
U.S. Department of Education direct programs			
Gaining early awareness and readiness for undergraduate programs	84.334A	P334A990482	41,693
Gaining early awareness and readiness for undergraduate programs	84.334A	P334A050020	511,131
Total U.S. Department of Education - Other Programs			552,824
TOTAL EXPENDITURES OF FEDERAL AWARDS			$ 31,348,737

See accompanying note to schedule of expenditures of federal awards.

NOTE TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Year Ended May 31, 2007

NOTE 1 - BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards includes federal grant activity of St. Olaf College and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some of the amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

To the Board of Regents
St. Olaf College
Northfield, Minnesota

We have audited the financial statements of St. Olaf College as of and for the year ended May 31, 2007 and have issued our report thereon dated October 16, 2007. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered St. Olaf College's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of St. Olaf College's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of St. Olaf College's internal control over financial reporting.

A control deficiency exits when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect material misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the institution's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the institution's financial statements that is more than inconsequential will not be prevented or detected by the institution's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the institution's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any significant deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether St. Olaf College's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards.*

This report is intended solely for the information and use of management, the governing board, others within the institution, U.S. Department of Education, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Schechter Krause & Company, LLP

Minneapolis, Minnesota
October 16, 2007

Virchow Krause & company

REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

To the Board of Regents
St. Olaf College
Northfield, Minnesota

Compliance

We have audited the compliance of St. Olaf College with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended May 31, 2007. St. Olaf College's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of St. Olaf College's management. Our responsibility is to express an opinion on St. Olaf College's compliance based on our audit.

Except as described in the following paragraph, we conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about St. Olaf College's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on St. Olaf College's compliance with those requirements.

We did not audit St. Olaf College's compliance with the student loan collections of its student financial assistance programs, which are performed by ACS, Inc., a service center. Compliance with those requirements was audited by other auditors, whose report has been furnished to us, and our report on compliance with specific requirements related to those loan collections is based solely on the report of other auditors.

In our opinion, based on our audit and the report of other auditors, St. Olaf College complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended May 31, 2007. However, the results of our auditing procedures disclosed an instance of noncompliance with those requirements, which is required to be reported in accordance with OMB Circular A-133 and which is described in the accompanying schedule of findings and questioned costs as item 2007-1.

Internal Control Over Compliance

The management of St. Olaf College is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered St. Olaf College's internal control over compliance with the requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of St. Olaf College's internal control over compliance.

A *control deficiency* in an institution's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the institution's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the institution's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the institution's internal control.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

St. Olaf College's response to the finding identified in our audit is described in the accompanying schedule of findings and questioned costs. We did not audit St. Olaf College's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of management, the governing board, others within the institution, U.S. Department of Education, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Virchow Krause & Company, LLP

Minneapolis, Minnesota
February 8, 2008

ST. OLAF COLLEGE

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended May 31, 2007

SECTION I - SUMMARY OF INDEPENDENT AUDITORS' RESULTS

Financial Statements

Type of auditors' report issued:	Unqualified
Internal control over financial reporting:	
Material weakness(es) identified?	No
Significant deficiency(ies) identified that are not considered material weakness?	None reported
Noncompliance material to financial statements noted?	No

Federal Awards

Internal control over major programs:	
Material weakness(es) identified?	No
Significant deficiency(ies) identified that are not considered material weakness?	None reported
Type of auditors' report issued on compliance for major programs?	Unqualified
Any audit findings disclosed that are required to be reported in accordance with section 510(a) of OMB Circular A-133?	Yes

Identification of major programs:

CFDA Number	Name of Federal Program or Cluster
Various	Federal Student Aid Cluster
Various	TRIO Programs Cluster

Dollar threshold used to distinguish between Type A and Type B programs	$300,000
Auditee qualified as low-risk auditee?	Yes

SECTION II - FINANCIAL STATEMENT FINDINGS

None noted.

SECTION III - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

Finding 2007-1: Perkins loan collection procedures

Federal Program - Federal Perkins loan program
Federal Agency - U.S. Department of Education
Pass-Through Entity - Not applicable
CFDA Number - 84.038
Federal Award Number - P038A062203
Federal Award Year - June 30, 2007

Criteria

Title IV regulations (34 CFR 674.45) require collection procedures to take place to recover amounts owed from defaulted borrowers who do not respond satisfactorily to the demands routinely made as part of the College's billing procedures.

SECTION III - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS (CONTINUED)

Finding 2007-1: Perkins loan collection procedures (Continued)

Condition
Collection procedures were not performed timely on past-due Perkins loan accounts during the year ended May 31, 2007.

Questioned Costs
Out of the 10 loans we tested, 6 borrowers had limited collection procedures performed on their accounts. As of May 31, 2007, the outstanding Perkins loan balances totaled $13,731 for these 6 borrowers.

Context
Population and sample sizes for loans in default status are:

Population size	412	Perkins loan balance	$914,913
Sample size	10	Perkins loan balance	36,067

Effect
The number of borrowers with loans in default or the dollar amount of loans in default may be higher than it would have been if the proper procedures had been performed during the year.

Cause
Work loads became burdensome at times during the year and certain collection procedures were not performed.

Recommendation
We recommend that the College review staffing levels to ensure adequate implementation of collection procedures for past-due accounts which are in accordance with federal regulations.

Management's Response
The College concurs with our comment.

ST. OLAF COLLEGE

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
Year Ended May 31, 2007

The previous audit of the Federal Award Programs was for the year ended May 31, 2006. There were no findings or questioned costs reported in that audit.