

ST. OLAF COLLEGE
Northfield, Minnesota

Audit Report on Financial Statements
and Federal Awards

May 31, 2008

ST. OLAF COLLEGE
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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, 2008, 2007 and 2006 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, 2008, 2007 and 2006 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 September 15, 2008 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.

Minneapolis, Minnesota
September 15, 2008

A handwritten signature in cursive script that reads "Virchow Krause & Company, LLP".

ST. OLAF COLLEGE
STATEMENTS OF FINANCIAL POSITION
 May 31, 2008, 2007, and 2006

ASSETS			
	2008	2007	2006
Cash and cash equivalents	\$ 35,149,721	\$ 15,984,246	\$ 12,350,357
Receivables			
Student accounts, net of allowance for doubtful accounts of \$442,226, \$397,700, and \$408,500	264,558	179,286	194,661
Contributions, net	15,986,044	14,673,214	15,147,895
Insurance	1,631,877	1,631,877	
Other	598,312	911,344	824,675
Inventories	562,492	701,474	735,288
Prepaid expenses and deposits	967,181	768,756	648,148
Student notes receivable, net of allowance for doubtful notes of \$508,725, \$457,300, and \$93,000	8,619,759	8,674,554	9,371,782
Investments			
Cash and short-term investments	2,345,062	36,918,276	2,981,925
Marketable securities	199,821,245	213,989,260	206,484,976
Mortgages and contracts for deed	613,907	593,379	583,107
Notes receivable	352,803	352,803	352,803
Real estate	2,176,100	2,617,238	2,504,362
Other investments	187,123,787	134,013,682	114,676,319
Deposits held by trustee	3,278,626	28,773,096	1,009,893
Deferred debt acquisition costs	584,955	610,959	331,063
Funds held in trust by others	2,073,944	2,174,177	2,003,624
Cash restricted for plant acquisitions	592,389	7,687,765	1,995,899
Construction in progress	52,425,224	12,650,318	6,914,126
Property, plant and equipment, net	126,991,971	126,464,340	119,614,044
TOTAL ASSETS	\$ 642,159,957	\$ 610,370,044	\$ 498,724,947
LIABILITIES AND NET ASSETS			
LIABILITIES			
Accounts payable	\$ 13,062,143	\$ 4,167,848	\$ 2,323,926
Accrued liabilities	14,378,241	16,272,315	12,784,211
Deferred revenue	4,055,872	3,318,078	3,319,923
Annuities payable	14,138,948	16,069,326	17,080,067
Interest rate exchange liability	879,225	552,023	467,581
Asset retirement obligation	2,661,596	2,712,661	2,875,606
Long-term debt	86,268,199	86,299,563	53,325,000
U. S. government grants refundable	6,234,730	6,257,378	6,826,140
Deposits held in trust for others	5,212,655	5,341,937	4,328,536
Total Liabilities	146,891,609	140,991,129	103,330,990
NET ASSETS			
Unrestricted	281,569,285	261,565,126	206,315,631
Temporarily restricted	73,389,444	71,117,614	62,278,064
Permanently restricted	140,309,619	136,696,175	126,800,262
Total Net Assets	495,268,348	469,378,915	395,393,957
TOTAL LIABILITIES AND NET ASSETS	\$ 642,159,957	\$ 610,370,044	\$ 498,724,947

See accompanying notes to financial statements.

ST. OLAF COLLEGE

STATEMENT OF ACTIVITIES
Year Ended May 31, 2008

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
REVENUES, GAINS AND OTHER SUPPORT				
OPERATING REVENUES				
Tuition	\$ 90,506,866			\$ 90,506,866
Less: Unfunded scholarships and grants	(32,827,954)			(32,827,954)
Funded scholarships and grants	(3,689,177)			(3,689,177)
Net tuition	53,989,735			53,989,735
Other tuition and fees	3,661,567			3,661,567
Government grants	4,222,090	\$ 3,857		4,225,947
Private gifts and grants	4,070,075	2,047,999		6,118,074
Long-term investment income and gains allocated for operations	4,205,855	5,776,516		9,982,371
Other sources	2,647,519	487,950		3,135,469
Investment income	935,729	69,434		1,005,163
Net losses on investments and capital assets	(335,217)	(13,599)		(348,816)
Capital gifts allocated		1,228,190		1,228,190
Auxiliary enterprises - sales and services	24,654,311			24,654,311
	98,051,664	9,600,347		107,652,011
Net assets released from restrictions	9,233,638	(9,233,638)		
Total Operating Revenues, Gains and Other Support	107,285,302	366,709		107,652,011
OPERATING EXPENSES				
Program expenses				
Instruction	42,734,992			42,734,992
Research	1,538,821			1,538,821
Public service	1,232,194			1,232,194
Academic support	9,305,666			9,305,666
Student services	14,841,320			14,841,320
Auxiliary enterprises	17,689,530			17,689,530
Support expenses				
Institutional support	10,409,274			10,409,274
Fundraising	3,069,513			3,069,513
Total Operating Expenses	100,821,310			100,821,310
Change in Net Assets from Operating Activities	6,463,992	366,709		6,830,701
NONOPERATING ACTIVITIES				
Long-term investment activities				
Investment income	3,994,526	2,570,415	\$ 48,631	6,613,572
Net gains on investments	4,469,661	2,152,432	173,697	6,795,790
Total long-term investment income	8,464,187	4,722,847	222,328	13,409,362
Less: Long-term investment income and gains allocated for operations	(4,205,855)	(5,776,516)		(9,982,371)
	4,258,332	(1,053,669)	222,328	3,426,991
Student loan income net of expenses	(7,702)		19,130	11,428
Capital giving activities - gifts and grants	908,750	9,320,891	3,226,924	13,456,565
Deferred giving activities - gifts	50,193	139,267	223,652	413,112
Capital gifts allocated to operations		(1,228,190)		(1,228,190)
Interest rate swap loss and settlements	(480,794)			(480,794)
Adjustment to actuarial liability for annuities payable	145,758	(63,434)	824,804	907,128
Other activities	2,552,492			2,552,492
	7,427,029	7,114,865	4,516,838	19,058,732
Net assets released from restrictions	6,113,138	(6,113,138)		
Change in Net Assets from Nonoperating Activities	13,540,167	1,001,727	4,516,838	19,058,732
Change in Net Assets before reclassification of net assets	20,004,159	1,368,436	4,516,838	25,889,433
Reclassification of prior year net assets		903,394	(903,394)	
Change in Net Assets	20,004,159	2,271,830	3,613,444	25,889,433
Net Assets - Beginning of Year	261,565,126	71,117,614	136,696,175	469,378,915
NET ASSETS - END OF YEAR	\$ 281,569,285	\$ 73,389,444	\$ 140,309,619	\$ 495,268,348

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	41,815,089			41,815,089
Research	1,149,541			1,149,541
Public service	1,018,134			1,018,134
Academic support	9,070,869			9,070,869
Student services	14,024,256			14,024,256
Auxiliary enterprises	16,903,058			16,903,058
Support expenses				
Institutional support	8,638,964			8,638,964
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 gains on investments	27,166,624	16,554,539	456,934	44,178,097
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	39,387,613			39,387,613
Research	1,028,132			1,028,132
Public service	841,462			841,462
Academic support	8,717,752			8,717,752
Student services	13,361,278			13,361,278
Auxiliary enterprises	16,058,894			16,058,894
Support expenses				
Institutional support	7,634,563			7,634,563
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 gains on investments	20,060,399	14,050,769	245,046	34,356,214
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

STATEMENTS OF CASH FLOWS
Years Ended May 31, 2008, 2007, and 2006

	2008	2007	2006
CASH FLOWS FROM OPERATING ACTIVITIES			
Change in net assets	\$ 25,889,433	\$ 73,984,958	\$ 45,175,581
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	8,771,798	8,336,325	8,082,117
Net gains on investments	(2,491,848)	(51,958,444)	(39,931,695)
Change in allowance for uncollectible student loans	51,381	364,300	
Interest rate exchange (gain) loss	327,202	84,442	(797,954)
(Gain) loss on dispositions of property, plant and equipment	375,211	(4,206,220)	514,350
Actuarial adjustment of annuities payable	(292,314)	1,047,214	2,167,524
Gifts of property, plant and equipment	(84,710)	(95,865)	(50,755)
(Increases) decreases in:			
Student accounts receivable	(85,272)	15,375	13,830
Contributions receivable for operations	(502,567)	137	(144,388)
Other receivables	313,032	(1,718,546)	(369,558)
Inventories, prepaid expenses and deposits	(59,443)	(86,794)	194,147
Funds held in trust by others	100,233	(170,553)	(280,894)
Increases (decreases) in:			
Accounts payable	654,693	890,618	(752,576)
Accrued liabilities	(1,894,074)	1,222,758	550,857
Deferred revenue	737,794	(1,845)	(341,623)
Asset retirement obligation	(186,698)	(149,512)	
Gifts and grants received for long-term investment, net	(13,869,677)	(14,123,538)	(10,233,754)
Nonoperating investment income	(6,613,572)	(6,335,054)	(2,324,612)
Net Cash Flows from Operating Activities	<u>11,140,602</u>	<u>9,365,102</u>	<u>4,185,647</u>
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchases of property, plant and equipment	(40,994,961)	(19,205,590)	(10,625,532)
Withdrawals from deposits held by trustee	25,494,470	5,585,500	
Purchases of investments	(160,041,458)	(236,273,954)	(193,128,280)
Proceeds from sales of investments	158,585,040	228,389,777	192,283,698
Nonoperating investment income	6,613,572	6,335,054	2,324,612
Disbursements of loans to students	(1,057,627)	(1,130,595)	(1,918,397)
Repayments of loans by students	1,061,041	1,463,523	1,870,818
Net Cash Flows from Investing Activities	<u>(10,339,923)</u>	<u>(14,836,285)</u>	<u>(9,193,081)</u>
CASH FLOWS FROM FINANCING ACTIVITIES			
Principal repayments of indebtedness		(155,000)	(305,000)
Gifts and grants received for long-term investment, net	13,869,677	14,123,538	10,233,754
Insurance proceeds received for hail storm damage		3,542,023	
(Increase) decrease in cash held for plant acquisitions	7,095,376	(5,691,866)	(1,070,050)
(Increase) decrease in nonoperating contributions receivable	(810,263)	474,544	(3,590,035)
Increase (decrease) in deposits held in trust for others	(129,282)	507,916	118,987
Increase (decrease) in U. S. government grants refundable, net	(22,648)	(568,762)	(238,063)
Increase in annuities payable from new gifts	561,477	311,100	165,286
Payments to annuitants	(2,199,541)	(2,369,055)	(2,395,344)
Debt issuance costs paid		(297,187)	
Deposits to escrow account for refinanced bonds, net		(772,179)	
Net Cash Flows from Financing Activities	<u>18,364,796</u>	<u>9,105,072</u>	<u>2,919,535</u>
Net Change in Cash and Cash Equivalents	19,165,475	3,633,889	(2,087,899)
CASH AND CASH EQUIVALENTS - Beginning of Year	<u>15,984,246</u>	<u>12,350,357</u>	<u>14,438,256</u>
CASH AND CASH EQUIVALENTS - END OF YEAR	<u>\$ 35,149,721</u>	<u>\$ 15,984,246</u>	<u>\$ 12,350,357</u>

See accompanying notes to financial statements.

ST. OLAF COLLEGE

NOTES TO FINANCIAL STATEMENTS May 31, 2008, 2007 and 2006

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES

Founded in 1874, St. Olaf College (the "College") is a national liberal arts college of the Evangelical Lutheran Church in America with world-class programs in music and mathematics. The College is also recognized for innovative approaches to undergraduate science education, long-standing engagement in global education and commitment to environmental sustainability. The College offers 45 graduation majors, including 15 teaching certifications, 19 concentrations and 17 pre-professional fields with the most popular majors being: English, Biology, Mathematics, Economics, and Psychology. 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 releases from restrictions between the applicable classes of net assets. Occasionally donor restrictions related to net assets may be clarified or changed, at which time they are reflected 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.

ST. OLAF COLLEGE

NOTES TO FINANCIAL STATEMENTS
May 31, 2008, 2007 and 2006

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

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. 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. Bad debts are written-off when deemed uncollectible. Receivables are generally unsecured.

Insurance Receivable - In August 2006, a hail storm on the College's campus caused significant damage to 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 years 2007 and 2008, 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.

ST. OLAF COLLEGE

NOTES TO FINANCIAL STATEMENTS
May 31, 2008, 2007 and 2006

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Physical Plant and Equipment - Physical plant assets are stated at cost at date of acquisition or market value if donated, 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. Certain property and equipment purchased with government grant funds are subject to certain requirements and limitations. The College has developed a schedule of the estimated funding required for major capital renewal of its facilities based on a forty-year life cycle. The College's operating budget model incorporates producing this funding as a key target parameter. Specific capital expenditures are identified in the capital budget projections three to five years into the future with general assumptions about capital expenditures projected long-term. In addition to the funding for capital renewal in its capital budget, the College provides funding for routine preventive maintenance and repairs through its operating budget.

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.

Telecommunications Operation - In 1985, the College started a telecommunications operation (Telecom), in which it provided telephone related services to the College with the objective of reducing telephone costs. It gradually expanded over the years adding service to another local college, a local school, and a local hospital. During fiscal year ending May 31, 2008, Telecom began offering Competitive Local Exchange Carrier (CLEC) services to the public. The revenue and expenses from Telecom's CLEC are reported on the statement of activities under operations in the category of auxiliary enterprises.

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 on 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 shown as a reduction in the government grants refundable liability on the statement of financial position.

Derivative Financial Instruments - The College utilizes various derivative financial instruments, such as foreign currency derivatives, fuel hedges, and interest rate exchanges. The derivatives are used as part of the college's risk management strategy to manage exposure to market and economic volatility, support fair values, and maintain investment policy allocation. 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.

ST. OLAF COLLEGE

NOTES TO FINANCIAL STATEMENTS
May 31, 2008, 2007 and 2006

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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:

	<u>2008</u>	<u>2007</u>	<u>2006</u>
State grants	\$ 1,652,896	\$ 1,797,085	\$ 1,602,568
Federal grants	1,261,862	1,122,055	955,411

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. The most significant areas that subject the College to unrelated business income tax include conferences and events, Telecom, alternative investments, and tower leasing. Total income tax expense/(benefit) for the years ending May 31, 2008, 2007 and 2006 totaled (\$26,669), \$42,013 and \$23,006, respectively.

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. Changes in accounting estimates were needed to adjust the health insurance liability reserves resulting from the implementation of the Emeriti Program. Estimates of incurred but not reported reserves were also adjusted down based on current lag reports of actual experience.

Reclassifications - Certain amounts appearing in the 2007 and 2006 financial statements have been reclassified to conform with 2008 presentation. The reclassifications have no effect on reported amounts of total net assets or change in total net assets.

ST. OLAF COLLEGE

NOTES TO FINANCIAL STATEMENTS
May 31, 2008, 2007 and 2006

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Fair Value of Financial Instruments - The College records financial instruments at cost, with the exception of investments that 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.

ST. OLAF COLLEGE

NOTES TO FINANCIAL STATEMENTS
May 31, 2008, 2007 and 2006

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.

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 was 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.

ST. OLAF COLLEGE

NOTES TO FINANCIAL STATEMENTS
May 31, 2008, 2007 and 2006

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

New Accounting Pronouncements - In July 2006, The FASB issued Interpretation No. 48, *Accounting for Uncertainty in Income Taxes, an Interpretation of FASB Statement No. 109* (FIN 48). This interpretation clarifies the accounting for uncertainty in income taxes and requires financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. FIN 48 is effective for fiscal years beginning after December 15, 2006 for nonpublic enterprises with conduit or public debt. The College has evaluated the implications of FIN 48, and has determined that there is no material impact on the College's financial statements.

In February 2007, the FASB issued Statement on Financial Accounting Standards No. 159 (SFAS 159), *The Fair Value Option for Financial Assets and Financial Liabilities - Including an Amendment of FASB Statement No. 115*, which provides all entities with an option to report selected financial assets and liabilities at fair value. Certain specified items are eligible for the irrevocable fair value measurement option as established by SFAS 159. SFAS 159 is effective as of the beginning of an entity's first fiscal year beginning after November 15, 2007. The College is currently evaluating the impact that the adoption of this Statement will have on its financial position, results of operations and cash flows.

In September 2006, the FASB issued Statement on Financial Accounting Standards No. 157 (SFAS 157), *Fair Value Measurements*. SFAS 157 establishes a single authoritative definition of fair value, sets out a framework for measuring fair value and requires additional disclosures about fair value measurements. SFAS 157 is effective for financial statements issued for fiscal years beginning after November 15, 2007. The College has not yet completed its analysis of the effects of this interpretation and has not determined if the adoption of SFAS 157 will have a material impact on the financial statements.

In August 2008, the FASB issued FASB Staff Position FSP 117-1, *Endowments of Not-for-Profit Organizations: Net Asset Classifications of Funds Subject to an Enacted Version of the Uniform Prudent Management of Institutional Funds Act, and Enhanced Disclosures*. The FSP provides guidance on classifying net assets associated with donor-restricted endowment funds held by organizations that are subject to an enacted version of Uniform Prudent Management of Institutional Funds Act (UPMIFA) which serves as a model act for states to modernize their laws governing donor-restricted endowment funds. FSP 117-1 is effective for financial statements issued for fiscal years ending after December 15, 2008. The College is currently evaluating the impact that the adoption of this Statement will have on its net assets.

ST. OLAF COLLEGE

NOTES TO FINANCIAL STATEMENTS
May 31, 2008, 2007 and 2006

NOTE 2 - RESTRICTIONS AND LIMITATIONS ON NET ASSETS BALANCES

At May 31, 2008, 2007 and 2006, the College's unrestricted net assets were allocated as follows:

	<u>2008</u>	<u>2007</u>	<u>2006</u>
Designated			
For long-term purposes as:			
Quasi-endowment	\$ 173,313,436	\$ 156,350,491	\$ 116,126,005
Debt service and facility renewal	39,477,258	38,004,878	31,402,530
Deferred gifts	20,406,441	26,464,773	26,721,777
For debt service reserves under long-term debt agreements	3,278,626	3,362,784	896,586
For construction of new science building		25,041,391	
For specific operating activities	1,651,507	1,935,021	2,031,253
For health insurance benefits	1,578,407		
For matching funds under federal government other student loan programs	1,064,628	1,072,055	1,126,675
Total Designated	<u>240,770,303</u>	<u>252,231,393</u>	<u>178,304,826</u>
Undesignated	<u>40,798,982</u>	<u>9,333,733</u>	<u>28,010,805</u>
	<u>\$ 281,569,285</u>	<u>\$ 261,565,126</u>	<u>\$ 206,315,631</u>

Temporarily restricted net assets consist of the following at May 31, 2008, 2007 and 2006:

	<u>2008</u>	<u>2007</u>	<u>2006</u>
Gifts and other unexpended revenues and gains available for:			
Scholarships, instruction and other support	\$ 4,718,949	\$ 5,859,062	\$ 6,869,060
Unamortized plant gifts	30,527,641	31,241,353	30,388,101
Acquisition of buildings and equipment	30,280,790	19,817,945	13,823,039
	<u>65,527,380</u>	<u>56,918,360</u>	<u>51,080,200</u>
Quasi-endowment	6,326,324	12,709,346	10,009,950
Deferred gifts	<u>1,535,740</u>	<u>1,489,908</u>	<u>1,187,914</u>
	<u>\$ 73,389,444</u>	<u>\$ 71,117,614</u>	<u>\$ 62,278,064</u>

Permanently restricted net assets consist of the following at May 31, 2008, 2007 and 2006:

	<u>2008</u>	<u>2007</u>	<u>2006</u>
Endowment funds	\$ 116,707,300	\$ 112,908,157	\$ 105,934,653
Student loan funds	2,311,664	2,277,747	2,202,822
Deferred gifts	<u>21,290,655</u>	<u>21,510,271</u>	<u>18,662,787</u>
	<u>\$ 140,309,619</u>	<u>\$ 136,696,175</u>	<u>\$ 126,800,262</u>

ST. OLAF COLLEGE

NOTES TO FINANCIAL STATEMENTS
May 31, 2008, 2007 and 2006

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, 2008, 2007 and 2006:

	<u>2008</u>	<u>2007</u>	<u>2006</u>
Amortization of contributions expended for long-lived assets	\$ 1,228,190	\$ 1,194,522	\$ 1,154,451
Scholarships, instruction and other departmental support	<u>14,118,586</u>	<u>20,017,232</u>	<u>15,078,622</u>
	<u>\$ 15,346,776</u>	<u>\$ 21,211,754</u>	<u>\$ 16,233,073</u>
These assets were reclassified as follows:			
Unrestricted operating net assets	\$ 9,233,638	\$ 9,255,879	\$ 7,194,787
Unrestricted nonoperating net assets	<u>6,113,138</u>	<u>11,955,875</u>	<u>9,038,286</u>
	<u>\$ 15,346,776</u>	<u>\$ 21,211,754</u>	<u>\$ 16,233,073</u>

NOTE 4 - CONTRIBUTIONS RECEIVABLE

Contributions receivable include the following unconditional promises to give at May 31, 2008, 2007 and 2006:

	<u>2008</u>	<u>2007</u>	<u>2006</u>
Temporarily restricted - operations	\$ 958,329	\$ 868,222	\$ 648,434
Temporarily restricted - plant projects	14,025,959	17,206,681	12,822,413
Temporarily restricted - quasi-endowment	583	2,333	263,008
Permanently restricted - deferred gifts		500,000	515,000
Permanently restricted - endowment	<u>2,089,301</u>	<u>2,609,095</u>	<u>3,360,556</u>
Gross unconditional promises to give	17,074,172	21,186,331	17,609,411
Less: Unamortized discount	(829,346)	(5,413,154)	(1,328,480)
Allowance for uncollectible promises	<u>(258,782)</u>	<u>(1,099,963)</u>	<u>(1,133,036)</u>
	<u>\$ 15,986,044</u>	<u>\$ 14,673,214</u>	<u>\$ 15,147,895</u>

Contributions receivable as of May 31, 2008 of \$6,367,372 are expected to be collected in less than one year and \$9,618,672 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, 2008, 2007 and 2006. 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.

ST. OLAF COLLEGE

NOTES TO FINANCIAL STATEMENTS
May 31, 2008, 2007 and 2006

NOTE 5 - INVESTMENTS

The following summarizes the fair value of the College's marketable securities at May 31, 2008, 2007 and 2006:

	<u>2008</u>	<u>2007</u>	<u>2006</u>
Stocks	\$ 33,625,570	\$ 47,840,592	\$ 56,697,352
Bonds	450,000	435,618	367,932
Mutual funds	<u>165,745,675</u>	<u>165,713,050</u>	<u>149,419,692</u>
	<u>\$ 199,821,245</u>	<u>\$ 213,989,260</u>	<u>\$ 206,484,976</u>

The following summarizes the fair value of the College's other investments at May 31, 2008, 2007 and 2006:

	<u>2008</u>	<u>2007</u>	<u>2006</u>
Alternative investments	\$ 178,462,474	\$ 124,537,213	\$ 105,940,898
Private debenture bonds	6,930,000	7,740,000	7,125,000
Other investments	<u>1,731,313</u>	<u>1,736,469</u>	<u>1,610,421</u>
	<u>\$ 187,123,787</u>	<u>\$ 134,013,682</u>	<u>\$ 114,676,319</u>

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.

The values of certain alternative investments are not based on quoted market prices, but rather based on valuation estimates provided by fund managers or general partners. Because of the inherent uncertainty of valuations, estimated fair values of such investments may differ significantly from the values that would have been used had a ready market value for the investments existed, and the difference could be material.

Investments, in general, are subject to various risks, including credit, interest and overall market volatility risks. Due to the level of risk associated with certain investment securities, it is reasonably possible that changes in values of investment securities will occur in the near term and that such changes could materially affect the amounts reported in the financial statements.

ST. OLAF COLLEGE

NOTES TO FINANCIAL STATEMENTS
May 31, 2008, 2007 and 2006

NOTE 5 - INVESTMENTS (CONTINUED)

The following summarizes the composition of alternative investments at May 31, 2008, 2007 and 2006:

	<u>2008</u>	<u>2007</u>	<u>2006</u>
Values based on quoted market prices or alternatives structures with underlying investments whose values are based on quoted market prices:			
Global equity	\$ 31,420,577	\$ 32,721,880	\$ 45,481,848
Corporate bonds	11,872,547	93,303	129,522
TIPS	<u>30,011,447</u>	<u>26,527,650</u>	<u>11,445,072</u>
	\$ 73,304,571	\$ 59,342,833	\$ 57,056,442
Values based on estimates provided by fund managers or general partners:			
Hedge funds	\$ 66,386,991	\$ 38,026,472	\$ 24,735,816
Real estate	13,497,351	5,541,893	5,353,292
Commodities	7,302,092	5,403,655	5,171,904
Private equity	<u>17,971,469</u>	<u>16,222,360</u>	<u>13,623,444</u>
	105,157,903	65,194,380	48,884,456
Total Alternative Investments	<u>\$ 178,462,474</u>	<u>\$ 124,537,213</u>	<u>\$ 105,940,898</u>

The following summarizes the investment income, investment expenses and net investment gains for the alternative investments at May 31, 2008, 2007 and 2006:

	<u>2008</u>	<u>2007</u>	<u>2006</u>
Investment income	\$ 3,497,082	\$ 2,647,928	\$ 1,151,634
Investment expenses	(983,782)	(898,905)	(715,383)
Net gains on investments	<u>4,131,109</u>	<u>13,064,619</u>	<u>7,271,677</u>
Total alternative investments performance	<u>\$ 6,644,409</u>	<u>\$ 14,813,642</u>	<u>\$ 7,707,928</u>

The College has commitments to make further investments in several of its alternative investments totaling approximately \$43,805,000.

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.

ST. OLAF COLLEGE

NOTES TO FINANCIAL STATEMENTS
May 31, 2008, 2007 and 2006

NOTE 5 - INVESTMENTS (CONTINUED)

Endowment investments are recorded at a market value approximating \$334,810,800, \$318,541,300 and \$260,733,200 for the years ended May 31, 2008, 2007 and 2006, respectively. The total return on all investments held by the endowment funds, on a market basis, was 4.098%, 19.148% and 16.378% for the years ended May 31, 2008, 2007 and 2006, respectively. Income from long-term investments is shown net of expenses of \$1,366,627, \$1,512,261 and \$1,090,854 for the years ended May 31, 2008, 2007 and 2006, respectively.

NOTE 6 - CONSTRUCTION IN PROGRESS

Construction in progress consisted of the following projects at May 31, 2008:

	Estimated Total Cost	Costs to Date	Funding Plan
Regents Hall	\$ 64,000,000	\$ 51,570,177	Gifts, Debt, Current operations
Hail storm damage	4,139,788	363,792	Insurance Proceeds
Christiansen Hall	220,000	209,025	Current operations
Art barn	300,000	102,081	Current operations
Boiler upgrade	225,000	100,564	Current operations
Switch electrical loop	225,000	20,108	Current operations
Halls FFE	60,000	17,270	Current operations
Honor House windows	30,000	13,905	Current operations
Rand Hall re-key	15,000	13,424	Current operations
RS GPS Unit	12,500	7,600	Current operations
Baseball project	6,500	3,095	Gifts
Rolvaag general contracting	28,000	2,140	Current operations
Buntrock general contracting	20,000	1,053	Current operations
Thorson flooring	390,000	990	Current operations
	<u>\$ 69,671,788</u>	<u>\$ 52,425,224</u>	

Regents Hall was opened for the beginning of classes in September 2008.

The College capitalizes interest costs as a component of property additions, based on interest costs of borrowing specifically for the project, net of interest earned on investments acquired with the proceeds of the borrowings. Total interest capitalized for 2008 is as follows:

Total interest expense incurred on borrowings for projects	\$ 1,524,257
Investment income from investment of borrowings for projects	<u>706,325</u>
	<u>\$ 817,932</u>

ST. OLAF COLLEGE

NOTES TO FINANCIAL STATEMENTS
May 31, 2008, 2007 and 2006

NOTE 7 – PROPERTY, PLANT AND EQUIPMENT

At May 31, 2008, 2007 and 2006 property, plant and equipment consisted of the following:

	<u>2008</u>	<u>2007</u>	<u>2006</u>
Land	\$ 1,206,799	\$ 1,250,374	\$ 830,914
Improvements other than buildings	10,933,978	10,594,134	8,551,397
Buildings	154,114,238	149,958,176	146,259,803
Equipment	40,454,598	45,250,089	38,881,000
Library materials	18,754,424	18,670,499	17,780,152
Art collection	1,088,237	1,117,478	1,021,612
	<u>226,552,274</u>	<u>226,840,750</u>	<u>213,324,878</u>
Less: Accumulated depreciation	<u>(99,560,303)</u>	<u>(100,376,410)</u>	<u>(93,710,834)</u>
	<u>\$ 126,991,971</u>	<u>\$ 126,464,340</u>	<u>\$ 119,614,044</u>

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 \$3,233,600, \$3,058,400 and \$3,080,900 for the years ended May 31, 2008, 2007 and 2006, respectively.

ST. OLAF COLLEGE

NOTES TO FINANCIAL STATEMENTS

May 31, 2008, 2007 and 2006

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, 2008, 2007 and 2006:

	2008	2007	2006
<i>Change in benefit obligation</i>			
Benefit obligation at beginning of year	\$ 6,638,011	\$ 5,390,058	\$ 8,804,519
Service cost	87,542	85,539	178,327
Interest cost	373,115	336,895	420,847
Plan participants' VEBA contributions	45,268	51,311	
Employer VEBA contributions	611,552	536,634	
Amendments			(1,860,346)
Actuarial loss/(gain)	373,504	931,128	(1,735,198)
Benefits paid	(693,842)	(693,554)	(418,091)
Benefit obligation at end of year	\$ 7,435,150	\$ 6,638,011	\$ 5,390,058
<i>Change in VEBA plan assets</i>			
Fair value of plan assets at beginning of year	\$ 974,116	\$ -	\$ -
Actual return on plan assets	301,845	675,535	
Employer contributions	1,061,974	1,023,484	868,249
Plan participants' contributions	(12,176)	(31,349)	(450,158)
Benefits paid	(693,842)	(693,554)	(418,091)
Fair value of plan assets at end of year	\$ 1,631,917	\$ 974,116	\$ -
<i>Funded status</i>			
Funded status at end of year	\$ (5,803,233)	\$ (5,663,895)	\$ (5,390,058)
Unrecognized transition obligation/(asset)	N/A	N/A	
Unrecognized prior service cost	N/A	N/A	(1,797,326)
Unrecognized actuarial loss/(gain)	N/A	N/A	3,849,329
Net amount recognized	\$ N/A	\$ N/A	\$ (3,338,055)
<i>Amounts recognized in the statement of financial position consist of:</i>			
Noncurrent assets	\$ -	\$ -	N/A
Current liabilities	(529,000)	(514,000)	N/A
Noncurrent liabilities	(5,274,233)	(5,149,895)	N/A
Prepaid benefit cost	N/A	N/A	
Accrued benefit liability	N/A	N/A	(3,338,055)
Intangible asset	N/A	N/A	
Accumulated change in net assets	N/A	N/A	
Net amount recognized	\$ (5,803,233)	\$ (5,663,895)	\$ (3,338,055)

ST. OLAF COLLEGE

NOTES TO FINANCIAL STATEMENTS
May 31, 2008, 2007 and 2006

NOTE 9 - POSTRETIREMENT BENEFIT PLAN (CONTINUED)

	2008	2007	2006
Amounts recognized in change in net assets consist of:			
Transition obligation/(asset)	\$ -	\$ -	N/A
Prior service cost	(1,494,830)	(1,646,078)	N/A
Net actuarial (gain) loss	3,848,308	3,911,424	N/A
Accumulated change in net assets	\$ 2,353,478	\$ 2,265,346	N/A
Weighted-average assumptions used to determine benefit obligations at May 31			
Discount rate	6.35%	6.00%	6.40%
Expected return on plan assets	5.00%	N/A	N/A
Rate of compensation increase	0.00%	0.00%	0.00%
Components of net periodic benefit cost			
Service cost	\$ 87,542	\$ 85,539	\$ 178,327
Interest cost	373,115	336,895	420,847
Expected return on plan assets	(48,706)		
Amortization of transition obligation/(asset)			
Amortization of prior service cost	(151,248)	(151,248)	(63,020)
Amortization of net loss/(gain)	183,482	193,496	294,197
Net periodic postretirement benefit cost	\$ 444,185	\$ 464,682	\$ 830,351
Changes in net assets			
Initial effect of adopting SFAS No. 158		\$ 2,265,346	N/A
Prior service cost			N/A
Transition (asset) obligation			N/A
Net (gain) loss	\$ 120,365		N/A
Amortization of transition obligation/(asset)	151,248		N/A
Amortization of prior service cost			N/A
Amortization of net loss/(gain)	(183,482)		N/A
Total recognized in change in net assets	\$ 88,131	\$ 2,265,346	N/A
Total recognized in net periodic benefit cost and change in net assets	\$ 532,316	\$ 2,730,028	N/A
Weighted-average assumptions used to determine net periodic benefit cost as of June 1			
Discount rate	6.00%	6.40%	5.40%
Expected return on plan assets	5.00%	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	10.08% - Post 65 11.58% - Pre 65	11.24% - Post 65 9.74% - Pre 65	11.63% - Post 65 10.13% - Pre 65
Rate to which the cost trend rate is assumed to decline (the ultimate trend)	4.95%	4.60%	5.00%
Year that the rate reaches the ultimate rate	2028	2027	2026

ST. OLAF COLLEGE

NOTES TO FINANCIAL STATEMENTS

May 31, 2008, 2007 and 2006

NOTE 9 - POSTRETIREMENT BENEFIT PLAN (CONTINUED)

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 benefit 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 \$529,000 in benefit payments for the postretirement medical plan and \$1,073,000 to the VEBA during the fiscal year ending May 31, 2009.

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

2009	\$ 529,000
2010	543,000
2011	555,000
2012	568,000
2013	551,000
2014 - 2018	2,494,000

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.

ST. OLAF COLLEGE

NOTES TO FINANCIAL STATEMENTS

May 31, 2008, 2007 and 2006

NOTE 10 – ASSET RETIREMENT OBLIGATIONS

The College owns certain buildings that contain encapsulated asbestos material and as such records a liability for the reasonably estimated fair value of the conditional asset retirement obligation. 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.

The following shows the activity in the College's asset retirement obligation liability at May 31, 2008, 2007 and 2006:

	<u>2008</u>	<u>2007</u>	<u>2006</u>
Balance at beginning of the year	\$ 2,712,661	\$ 2,875,606	
Initial liability assessment			\$ 2,738,673
Abatement costs	(186,698)	(130,710)	
Accretion expense	135,633	136,551	136,933
Adjustments to estimates		<u>(168,786)</u>	
Balance at end of the year	<u>\$ 2,661,596</u>	<u>\$ 2,712,661</u>	<u>\$ 2,875,606</u>

NOTE 11 - LONG-TERM DEBT

Long-term debt at May 31, 2008, 2007 and 2006 consisted of the following:

	<u>2008</u>	<u>2007</u>	<u>2006</u>
Minnesota Higher Education Facilities Authority Revenue Bonds, Series Four-R	\$	\$	\$ 13,225,000
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	45,405,000	
Premium on Series Six-O Revenue Bonds	763,199	794,563	
	<u>\$ 86,268,199</u>	<u>\$ 86,299,563</u>	<u>\$ 53,325,000</u>

ST. OLAF COLLEGE

NOTES TO FINANCIAL STATEMENTS
May 31, 2008, 2007 and 2006

NOTE 11 - LONG-TERM DEBT (CONTINUED)

Minnesota Higher Education Facilities Authority Revenue Bonds Series Four-R were issued in 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. 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 settled 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, 2008 was 1.40%, with an average rate of 2.89% for the 2008 fiscal year. The bonds are secured by (a) during the variable rate period, an unsecured standby letter of credit, which is subject to certain covenants; (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 unsecured standby 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, 2008 was 1.40%, with an average rate of 2.89% for the 2008 fiscal year. The bonds are secured by (a) during the variable rate period, an unsecured standby letter of credit, which is subject to certain covenants; (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 unsecured standby 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-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, 2008 was 1.40%, with an average rate of 2.89% for the 2008 fiscal year. The bonds are secured by (a) during the variable rate period, an unsecured standby letter of credit, which is subject to certain covenants; (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 unsecured standby letter of credit amount outstanding, and a remarketing fee equal to 12.5 basis points.

ST. OLAF COLLEGE

NOTES TO FINANCIAL STATEMENTS
May 31, 2008, 2007 and 2006

NOTE 11 - LONG-TERM DEBT (CONTINUED)

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 (\$327,202), (\$84,442) and \$797,954, relating to the agreement for the years ended May 31, 2008, 2007 and 2006, respectively. The gain/(loss) is included in nonoperating activities on the statement of activities. At May 31, 2008, 2007 and 2006, the College has recorded an interest rate exchange liability of \$879,225, \$522,023 and \$467,581, respectively, in the statement of financial position.

Minnesota Higher Education Facilities Authority Revenue Bonds Series Six-O were issued in an 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%. The bonds 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 \$3,278,626. 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:	
2009	\$ 1,105,000
2010	1,155,000
2011	1,195,000
2012	1,245,000
2013	1,295,000
Thereafter	<u>79,510,000</u>
Total	<u>\$ 85,505,000</u>

ST. OLAF COLLEGE

NOTES TO FINANCIAL STATEMENTS
May 31, 2008, 2007 and 2006

NOTE 12 - SHORT-TERM CREDIT ARRANGEMENT

The College has an unsecured \$8,000,000 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 quarter. Principal, and any unpaid interest, is due on January 31. In addition, the agreement requires the College to comply with certain financial covenants. At May 31, 2008, 2007 and 2006, there were no outstanding borrowings under this arrangement.

NOTE 13 - 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. Accrued liabilities include a reserve of approximately \$220,000, 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 \$4,544,829.

NOTE 14 - ALLOCATION OF EXPENSES

The College allocated the following expenses to program and support functions for the years ended May 31, 2008, 2007 and 2006 as follows:

	<u>2008</u>	<u>2007</u>	<u>2006</u>
Interest expense	\$ 2,090,474	\$ 2,655,740	\$ 2,081,364
Operation and maintenance of plant	11,843,659	10,638,973	10,263,164
Depreciation	8,641,525	8,332,467	7,930,796
Accretion	135,633	(13,433)	136,933
Faculty staff tuition allowance	<u>1,342,656</u>	<u>1,325,368</u>	<u>1,220,373</u>
	<u>\$ 24,053,947</u>	<u>\$ 22,939,115</u>	<u>\$ 21,632,630</u>

NOTE 15 - DEFERRED GIFT (SPLIT-INTEREST) 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

NOTES TO FINANCIAL STATEMENTS
May 31, 2008, 2007 and 2006

NOTE 15 - DEFERRED GIFT (SPLIT-INTEREST) AGREEMENTS (CONTINUED)

When a gift is received under one of these arrangements, it is split into the amount representing the actuarial present value of future distributions back to the donor and the remaining gift value to be retained for the benefit of the College or third-party beneficiaries. The actuarial liability is adjusted annually using actuarial tables appropriate for the type of arrangement, number of lives covered and age and sex characteristics of the donor. The College used interest rates of ranging from 3.6% to 11.6% for the years ended May 31, 2008, 2007 and 2006 in making the calculations. In some cases, there can be a time delay in the recording of the asset because of the time needed for discovery, verification of the College's rights, and the determination of the valuation of future payments.

Information pertaining to the College's deferred gift agreements for the years ended May 31, 2008, 2007 and 2006 follows:

	2008	2007	2006
Deferred gift income recognized	\$ 413,111	\$ 300,228	\$ 412,159
Annuities payable related to new gifts	561,477	311,100	165,286
Funds held for others related to new gifts		17,055	
Total funds received	\$ 974,588	\$ 628,383	\$ 577,445
Total deferred gift assets held by the College at fair value	\$ 59,003,177	\$ 67,462,337	\$ 65,316,427
Total deferred gift liabilities	\$ 15,770,340	\$ 17,997,387	\$ 18,743,948

NOTE 16 - OPERATING LEASE

As of May 31, 2008, the College had an operating lease for modular villages. Future minimum rental payments are as follows:

Year Ending May 31:	
2009	\$ 173,580
2010	173,580
2011	28,930
Total	\$ 376,090

Total rent expense under this lease was \$177,515 for the year ending May 31, 2008.

ST. OLAF COLLEGE

NOTES TO FINANCIAL STATEMENTS
May 31, 2008, 2007 and 2006

NOTE 17 - CONCENTRATIONS OF CREDIT RISK

Financial instruments that potentially subject the College to concentrations of credit risk consist principally of cash and cash equivalents, short-term investments, marketable securities and other investments, accounts receivable and notes, mortgages and contracts for deed. The College places substantially all of its cash and liquid investments with high-quality financial institutions and limits the amount of credit exposure to any one financial institution; however, cash balances may periodically exceed federally insured limits. Marketable securities, consisting of both debt and equity instruments, are generally placed in a variety of managed funds administered by different investment managers in order to limit credit risk. Concentrations of credit risk with respect to the notes, mortgages and contracts for deed are limited due to the College holding a secured position in these agreements. Student notes and receivables and other receivables are due from a variety of sources concentrated primarily in the midwestern United States. In addition, the College's student's receive a substantial amount of support from state and federal student financial assistance programs which are subject to audit by governmental agencies. A significant reduction in the level of this support, if this were to occur, could have an adverse effect on the College's programs and activities.

NOTE 18 - RELATED PARTY TRANSACTIONS

The College has a signed contract with a construction company owned by a member of the Board of Regents to design and construct the new science center in the amount of \$62,241,683. The contract was approved in accordance with the Board of Regents' conflict of interest policy. Total amounts payable to the construction company totaled approximately \$9,350,000 and \$980,000 as of May 31, 2008 and 2007, respectively.

As of May 31, 2008, 2007, and 2006 approximately \$8,174,000, \$8,193,000 and \$6,378,000, respectively, of contributions receivable were due from members of the Board of Regents.

The College has invested in various private equity investments, in which members of the Investment Committee and Board of Regents have an affiliation. The individuals fully disclosed their interests in these investments when they were discussed, did not receive a commission or referral fee, and did not participate in the voting regarding these investments. As of May 31, 2008, 2007 and 2006, the College's total value of these funds was approximately \$3,544,000, \$651,000 and \$128,000. The College's cumulative contributions to these investments as of May 31, 2008 totaled approximately \$3,716,000. The College's outstanding future commitments to these investments totaled approximately \$17,784,000 at May 31, 2008. The College has also received donations of privately issued debentures, in which a member of the Board of Regents is affiliated. These debentures are held as investments and as of May 31, 2008, 2007 and 2006 had market values of \$6,160,000, \$6,880,000 and \$6,175,000, respectively.

NOTE 19 - CONTINGENCIES

Various lawsuits, claims and other contingent liabilities arise in the ordinary course of the College's activities. The College is currently the defendant in a case in which the plaintiff claims to have suffered injuries as a result of a chemical accident. In another incident, the College is currently the defendant in a case in which the plaintiff claims to have suffered injuries as a result of a skiing accident. Since the likelihood of an unfavorable outcome is neither probable nor remote, it is not possible to estimate the loss or range of loss that might result from these cases if they were to result in unfavorable outcomes for the College. Therefore, no provision has been made in the financial statements for potential losses related to these matters.

ST. OLAF COLLEGE

NOTES TO FINANCIAL STATEMENTS
May 31, 2008, 2007 and 2006

NOTE 20 - SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION

	<u>2008</u>	<u>2007</u>	<u>2006</u>
Interest paid, net of capitalized interest	\$ 2,067,907	\$ 2,164,401	\$ 2,083,626
Capitalized interest	817,932		
<u>Noncash investing and financing activities</u>			
Property, plant and equipment acquired through accounts payable	\$ 9,974,739	\$ 1,735,136	\$ 781,833
Summary of bond issuance			
Proceeds from bond issue		\$ 45,405,000	
Bond premium, net of amortization		794,563	
Principal payment on refinanced debt (cash)		(155,000)	
Refinanced debt		<u>(13,070,000)</u>	
Net increase in new debt		<u>\$ 32,974,563</u>	

ST. OLAF COLLEGE

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Year Ended May 31, 2008

Federal Grantor/ Pass Through Agency/ Program or Cluster Title	Federal CFDA Number	Pass-through Entity Identification Number	Grant Number	Federal Expenditures
FEDERAL STUDENT AID - CLUSTER				
U.S. Department of Education direct programs				
Federal Pell grant program	84.063		P063P071690	\$ 1,044,088
Academic competitiveness grant program	84.375		P375A071690	112,174
National science and mathematics access to retain talent grant program	84.376		P376S071690	106,000
Federal supplemental educational opportunity grant program	84.007		P007A072203	393,677
Federal work-study program	84.033		P033A072203	492,707
Federal Perkins loan program - outstanding loans	84.038		P038A072203	7,851,929
Federal Perkins loan program - other costs	84.038		P038A072203	206,412
Federal family education loan programs	84.032		N/A	<u>20,017,485</u>
Subtotal direct programs				<u>30,224,472</u>
U.S. Department of Education passed through				
Minnesota Higher Education Services Office				
Special leveraging educational assistance partnership program	84.069	Unknown	N/A	13,788
U.S. Department of Education passed through				
Minnesota Department of Children, Families and Learning				
Robert C. Byrd honors scholarship	84.185	Unknown	N/A	<u>46,500</u>
Subtotal pass through programs				<u>60,288</u>
Total U.S. Department of Education				<u>30,284,760</u>
U.S. Department of Health and Human Services direct program				
Nursing student loan program - outstanding loans	93.364		6576831	<u>98,641</u>
Total Federal Student Aid				<u>30,383,401</u>
RESEARCH AND DEVELOPMENT - CLUSTER				
National Science Foundation direct programs				
Radar studies of internal stratigraphy and bedrock topography along the US ITASE-II traverse	47.078		ANT-0440304	66,828
Coupling consumer-resource interactions and nutrient spiraling in a stream network	47.074		DEB-0543363	215,721
RUI: The gene stream: From sequence to cell function	47.074		MCB-0444700	206,475
IRES: Real analysis mathematics opportunities for U.S. undergraduates in Poland and the Czech Republic	47.079		OISE-0456135	41,104
RUI: Low energy positronium interactions with atoms and molecules in a gas environment	47.049		PHY-0555631	49,487
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	85,167
CCLI: Phase 1: Threading interdisciplinary bio-chem throughout the undergraduate chemistry curriculum using MALDI mass spectrometry	47.076		DUE-0633286	30,228
CCLI: Expansion: Investigate psychophysiology laboratory experiences for community colleges	47.076		DUE-0618573	215,546
MRI: Acquisition of a molecular imaging system to continue faculty-student research in a Interdisciplinary biomolecular science program	47.074		DBI-0722852	27,428
Collaborative Research: IPY: The polaris project: rising stars in the arctic	47.076		DUE-0732618	268
Total National Science Foundation				<u>938,252</u>
U.S. Department of Health and Human Services direct programs				
National Institutes of Health				
Ethical and policy challenges in the study and use of DB	93.853		5 R01 NS040883-06	15,321
National Institutes of Health passed through Seattle University				
AREA: Operon prediction and resting on mycobacterium tuberculosis	93.855		1R15A1068706-01A1	<u>44,251</u>
Total U.S. Department of Health and Human Services				<u>59,572</u>
Total Research and Development				<u>997,824</u>

ST. OLAF COLLEGE

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Year Ended May 31, 2008

Federal Grantor/ Pass Through Agency/ Program or Cluster Title	Federal CFDA Number	Pass-through Entity Identification Number	Grant Number	Federal Expenditures
TRIO PROGRAMS - CLUSTER				
U.S. Department of Education direct programs				
Student support services program	84.042A		P042A050169	\$ 210,184
Talent search program	84.044A		P044A030390	299,440
Upward bound program	84.047A		P0047A030690A	415,320
McNair scholar's program	84.217A		P217A070033	69,089
Total TRIO Programs				<u>994,033</u>
OTHER PROGRAMS				
National Science Foundation direct programs				
The SUM project: A statistics undergraduate mentoring program	47.049		DMS -0354308	325,676
S-Stem: Encouraging careers in the mathematical sciences	47.076		DUE-0630930	100,662
S-Stem: Biologists for the future	47.076		DUE-0727556	362
National Science Foundation passed through Ohio State University				
CAUSEway: Workshops for navigating the terrain of undergraduate statistics	47.076	Unknown	DUE-0442630	5,784
Total National Science Foundation - Other Programs				<u>432,484</u>
U.S. Department of Education direct programs				
Gaining early awareness and readiness for undergraduate programs	84.334A		P334A050020	539,269
Total U.S. Department of Education - Other Programs				<u>539,269</u>
TOTAL EXPENDITURES OF FEDERAL AWARDS				<u>\$ 33,347,011</u>

See accompanying note to schedule of expenditures of federal awards.

ST. OLAF COLLEGE

NOTE TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Year Ended May 31, 2008

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, 2008 and have issued our report thereon dated September 15, 2008. 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 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 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. We consider the deficiency described in the accompanying schedule of findings and questioned costs as item 2008-1 to be a significant deficiency in internal control over financial reporting.

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 and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we believe that the significant deficiency described above is not a material weakness.

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*.

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.

Richard Krause: Company LLP

Minneapolis, Minnesota
September 15, 2008



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, 2008. 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, 2008. 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 2008-2.

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.

Sirchow Krause & Company, LLP

Minneapolis, Minnesota
January 21, 2009

ST. OLAF COLLEGE

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended May 31, 2008

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?	Yes
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	Research and Development Grants

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

Finding 2008-1 – Significant Deficiency – Adjusting Journal Entries

Criteria

The design or operation of the College's internal controls should allow management or employees, in the normal course of their assigned functions, to prevent or detect misstatements in the financial statements on a timely basis.

Condition

We identified misstatements in the financial statements during the audit that were not initially identified by the College's internal controls.

Effect

The potential exists that an error could occur in the financial reporting process and not be detected in a timely manner.

Cause

The College did not have a system of internal controls in place that would enable management to conclude that the financial statements and related disclosures are complete and presented in accordance with generally accepted accounting principles.

ST. OLAF COLLEGE

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (continued)
Year Ended May 31, 2008

SECTION II - FINANCIAL STATEMENT FINDINGS (CONTINUED)

Recommendation

We recommend that management design control policies and procedures to ensure all material items are recorded in the financial statements.

Management Response

The complexity and the volume of accounting tasks related to new auditing standards, tax laws, data protection legislation, and other compliance issues had stretched the College's accounting staff. Two new staff members have been added to the accounting staff for 2008-2009.

SECTION III - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

Finding 2008-2 – Student Status Changes

Federal Program – Federal Family Education Loan Programs

Federal Agency – U.S. Department of Education

Pass-Through Entity – Not Applicable

CFDA Number – 84.032

Federal Award Number – Not applicable

Federal Award Year – June 30, 2008

Criteria

Title IV regulations [34 CFR 682.610(c)] requires institutions, upon receipt of a student status confirmation report form from the Secretary, complete and return that report within 30 days of receipt; unless it expects to submit its next student status confirmation report to the Secretary within the next 60 days, notify the Secretary within 30 days if it discovers that a Stafford or PLUS loan has been made to or on behalf of a student who: (i) Enrolled at that institution but has ceased to be enrolled on at least a half-time basis; (ii) Has been accepted for enrollment at that institution but failed to enroll on at least a half-time basis for the period for which the loan was intended; or (iii) Has changed his or her permanent address.

Condition

The change in student status for two students tested who withdrew, dropped out or graduated was not reported to the National Clearinghouse within 30 days or included in a response to a Roster File within 60 days.

Questioned Costs

Not applicable

Context

Population and sample sizes are:

Population size	1,940	FFELP Loans	\$ 20,017,485
Sample size	10	FFELP Loans	\$ 52,346

Effect

The accuracy of Title IV student loan records depends heavily on the accuracy of the enrollment information reported by schools. If an institution does not review, update, and verify student enrollment statuses, effective dates of the enrollment status, and the anticipated completion dates, then the Title IV student loan records will be inaccurate.

ST. OLAF COLLEGE

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (continued)
Year Ended May 31, 2008

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

Cause

The College misunderstood the requirements as to when the data should be sent into the National Clearinghouse.

Recommendation

We recommend that the College revise its procedures to ensure that enrollment updates are sent to the National Clearinghouse every 30 days.

Management's Response

The College concurs with our comment and has implemented procedures to submit reports every 30 days beginning with the 2008-2009 academic year.

ST. OLAF COLLEGE

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
Year Ended May 31, 2008

The previous audit of the Federal Award Programs was for the year ended May 31, 2007. The findings noted during that audit and the College's corrective actions taken are as follows:

Finding 2007-1: Perkins Loan Collection Procedures

Six of the ten students tested in collection status had limited collection procedures performed on their accounts

Action Taken

The College modified their procedures around Perkins collections. There were no similar findings noted during the current year.