

ST. OLAF COLLEGE
Northfield, Minnesota

Audit Report on Financial Statements
and Federal Awards

May 31, 2009

ST. OLAF COLLEGE

TABLE OF CONTENTS

Independent Auditors' Report	1
Statements of Financial Position	2
Statements of Activities	3 - 5
Statements of Cash Flows	6
Notes to Financial Statements	7 - 31
Schedule of Expenditures of Federal Awards	32 - 33
Notes to Schedule of Expenditures of Federal Awards	34
Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	35 - 36
Report on Compliance with Requirements Applicable to Each Major Program and on Internal Control over Compliance in Accordance with OMB Circular A-133	37 - 38
Schedule of Findings and Questioned Costs	39 - 40
Summary Schedule of Prior Audit Findings	41

INDEPENDENT AUDITORS' REPORT

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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, 2009, 2008, and 2007 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.

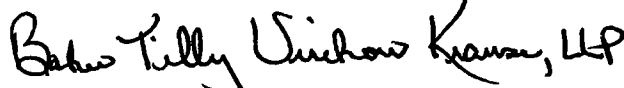
We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan 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, 2009, 2008, and 2007 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 Statement No. 158, *Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans*, in 2007. As described in Note 6 to the financial statements, St. Olaf College adopted the provisions of FASB Statement No. 157, *Fair Value Measurements* and FASB Statement No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities - Including an Amendment of FASB Statement No. 115*; as of June 1, 2008. As described in Note 7 to the financial statements, St. Olaf College adopted the provisions of 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*, for the year ended May 31, 2009.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 28, 2009 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 28, 2009

ST. OLAF COLLEGE
STATEMENTS OF FINANCIAL POSITION
 May 31, 2009, 2008, and 2007

ASSETS			
	<u>2009</u>	<u>2008</u>	<u>2007</u>
Cash and cash equivalents	\$ 18,889,594	\$ 35,149,721	\$ 15,984,246
Receivables			
Student accounts, net of allowance for doubtful accounts of \$283,718, \$442,226, and \$397,700	81,523	264,558	179,286
Contributions, net	13,209,165	15,986,044	14,673,214
Insurance	2,028,549	1,631,877	1,631,877
Other	1,055,602	598,312	911,344
Inventories	689,678	562,492	701,474
Prepaid expenses and deposits	730,384	967,181	768,756
Student notes receivable, net of allowance for doubtful notes of \$626,800, \$508,725, and \$457,300	8,416,321	8,619,759	8,674,554
Investments			
Cash and short-term investments	5,081,793	2,345,062	36,918,276
Marketable securities	151,522,910	199,821,245	213,989,260
Mortgages and contracts for deed		613,907	593,379
Notes receivable		352,803	352,803
Real estate	1,844,537	2,176,100	2,617,238
Other investments	131,733,521	187,123,787	134,013,682
Deposits held by trustee	3,278,268	3,278,626	28,773,096
Deferred debt acquisition costs	558,952	584,955	610,959
Funds held in trust by others	1,765,685	2,073,944	2,174,177
Cash restricted for plant acquisitions		592,389	7,687,765
Construction in progress	5,182,434	52,425,224	12,650,318
Property, plant and equipment, net	<u>191,303,736</u>	<u>126,991,971</u>	<u>126,464,340</u>
TOTAL ASSETS	\$ 537,372,652	\$ 642,159,957	\$ 610,370,044
LIABILITIES AND NET ASSETS			
LIABILITIES			
Accounts payable	\$ 6,929,629	\$ 13,062,143	\$ 4,167,848
Accrued liabilities	14,675,504	14,378,241	16,272,315
Deferred revenue	4,045,184	4,055,872	3,318,078
Annuities payable	11,657,359	14,138,948	16,069,326
Interest rate exchange liability	1,316,978	879,225	552,023
Asset retirement obligation	2,568,376	2,661,596	2,712,661
Long-term debt	85,131,835	86,268,199	86,299,563
U. S. government grants refundable	6,357,159	6,234,730	6,257,378
Deposits held in trust for others	<u>3,614,188</u>	<u>5,212,655</u>	<u>5,341,937</u>
Total Liabilities	<u>136,296,212</u>	<u>146,891,609</u>	<u>140,991,129</u>
NET ASSETS			
Unrestricted	152,297,554	281,569,285	261,565,126
Temporarily restricted	111,710,682	73,389,444	71,117,614
Permanently restricted	<u>137,068,204</u>	<u>140,309,619</u>	<u>136,696,175</u>
Total Net Assets	<u>401,076,440</u>	<u>495,268,348</u>	<u>469,378,915</u>
TOTAL LIABILITIES AND NET ASSETS	\$ 537,372,652	\$ 642,159,957	\$ 610,370,044

See accompanying notes to financial statements.

ST. OLAF COLLEGE

STATEMENT OF ACTIVITIES
Year Ended May 31, 2009

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
REVENUES, GAINS AND OTHER SUPPORT				
OPERATING REVENUES				
Tuition	\$ 98,940,379			\$ 98,940,379
Less: Unfunded scholarships and grants	(36,773,204)			(36,773,204)
Funded scholarships and grants	(4,368,068)			(4,368,068)
Net tuition	57,799,107			57,799,107
Other tuition and fees	4,133,335			4,133,335
Government grants	4,028,431	\$ 6,715		4,035,146
Private gifts and grants	3,799,540	1,855,278		5,654,818
Long-term investment income and gains allocated for operations	4,736,709	6,826,051		11,562,760
Other sources	2,286,052	426,408		2,712,460
Investment income	472,188	38,590		510,778
Net losses on investments and capital assets	(578,019)			(578,019)
Capital gifts allocated		1,691,105		1,691,105
Auxiliary enterprises - sales and services	25,046,450	12,043		25,058,493
	101,723,793	10,856,190		112,579,983
Net assets released from restrictions	9,743,288	(9,743,288)		
Total Operating Revenues, Gains and Other Support	111,467,081	1,112,902		112,579,983
OPERATING EXPENSES				
Program expenses				
Instruction	46,412,503			46,412,503
Research	1,227,904			1,227,904
Public service	1,134,662			1,134,662
Academic support	9,651,448			9,651,448
Student services	15,437,851			15,437,851
Auxiliary enterprises	18,559,761			18,559,761
Support expenses				
Institutional support	9,164,159			9,164,159
Fundraising	3,275,525			3,275,525
Total Operating Expenses	104,863,813			104,863,813
Change in Net Assets from Operating Activities	6,603,268	1,112,902		7,716,170
NONOPERATING ACTIVITIES				
Long-term investment activities				
Investment income	1,173,586	2,217,517	\$ 19,302	3,410,405
Net losses on investments	(32,852,094)	(50,608,151)	(328,121)	(83,788,366)
Total long-term investment income (loss)	(31,678,508)	(48,390,634)	(308,819)	(80,377,961)
Less: Long-term investment income and gains allocated for operations	(4,736,709)	(6,826,051)		(11,562,760)
	(36,415,217)	(55,216,685)	(308,819)	(91,940,721)
Student loan income net of expenses	8,199		(117,750)	(109,551)
Capital giving activities - gifts and grants	710,378	406,318	2,724,580	3,841,276
Deferred giving activities - gifts	91,005	18,808	142,123	251,936
Capital gifts allocated to operations		(1,691,105)		(1,691,105)
Interest rate swap loss and settlements	(773,966)			(773,966)
Adjustment to actuarial liability for annuities payable	(4,751,937)	(460,788)	(6,669,894)	(11,882,619)
Gain on disposal of property, plant and equipment	396,672			396,672
	(40,734,866)	(56,943,452)	(4,229,760)	(101,908,078)
Change in Net Assets from Nonoperating Activities	(40,734,866)	(56,943,452)	(4,229,760)	(101,908,078)
Change in Net Assets before reclassification of net assets	(34,131,598)	(55,830,550)	(4,229,760)	(94,191,908)
Reclassification of prior year net assets	(1,434,947)	446,602	988,345	
Net asset reclassification due to a change in law	(93,705,186)	93,705,186		
Change in Net Assets	(129,271,731)	38,321,238	(3,241,415)	(94,191,908)
Net Assets - Beginning of Year	281,569,285	73,389,444	140,309,619	495,268,348
NET ASSETS - END OF YEAR	\$ 152,297,554	\$ 111,710,682	\$ 137,068,204	\$ 401,076,440

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

STATEMENTS OF CASH FLOWS
Years Ended May 31, 2009, 2008, and 2007

	2009	2008	2007
CASH FLOWS FROM OPERATING ACTIVITIES			
Change in net assets	\$ (94,191,908)	\$ 25,889,433	\$ 73,984,958
Adjustments to reconcile change in net assets to net cash flows from operating activities			
Effect of changes in accounting principles			2,265,346
Depreciation, amortization and accretion expense	9,968,810	8,771,798	8,336,325
Net (gains) or losses on investments	98,795,468	(2,491,848)	(51,958,444)
Change in allowance for uncollectible student loans	118,075	51,381	364,300
Interest rate exchange loss	437,753	327,202	84,442
(Gain) loss on dispositions of property, plant and equipment	535,057	375,211	(4,206,220)
Actuarial adjustment of annuities payable	(970,716)	(292,314)	1,047,214
Gifts of property, plant and equipment	(532,800)	(84,710)	(95,865)
(Increases) decreases in:			
Student accounts receivable	183,035	(85,272)	15,375
Contributions receivable for operations	125,754	(502,567)	137
Other receivables	(853,962)	313,032	(1,718,546)
Inventories, prepaid expenses and deposits	109,611	(59,443)	(86,794)
Funds held in trust by others	308,259	100,233	(170,553)
Increases (decreases) in:			
Accounts payable	2,376,840	654,693	890,618
Accrued liabilities	297,263	(1,894,074)	1,222,758
Deferred revenue	(10,688)	737,794	(1,845)
Asset retirement obligation	(226,300)	(186,698)	(149,512)
Gifts and grants received for long-term investment, net	(4,093,212)	(13,869,677)	(14,123,538)
Nonoperating investment income	(3,410,405)	(6,613,572)	(6,335,054)
Net Cash Flows from Operating Activities	<u>8,965,934</u>	<u>11,140,602</u>	<u>9,365,102</u>
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchases of property, plant and equipment	(35,421,677)	(40,994,961)	(19,205,590)
Withdrawals from deposits held by trustee	358	25,494,470	5,585,500
Purchases of investments	(165,704,835)	(160,041,458)	(236,273,954)
Proceeds from sales of investments	169,159,510	158,585,040	228,389,777
Nonoperating investment income	3,410,405	6,613,572	6,335,054
Disbursements of loans to students	(1,087,994)	(1,057,627)	(1,130,595)
Repayments of loans by students	1,173,357	1,061,041	1,463,523
Net Cash Flows from Investing Activities	<u>(28,470,876)</u>	<u>(10,339,923)</u>	<u>(14,836,285)</u>
CASH FLOWS FROM FINANCING ACTIVITIES			
Principal repayments of indebtedness	(1,105,000)		(155,000)
Gifts and grants received for long-term investment, net	4,093,212	13,869,677	14,123,538
Insurance proceeds received for hail storm damage			3,542,023
(Increase) decrease in cash held for plant acquisitions	592,389	7,095,376	(5,691,866)
(Increase) decrease in nonoperating contributions receivable	2,651,125	(810,263)	474,544
Increase (decrease) in deposits held in trust for others	(1,598,467)	(129,282)	507,916
Increase (decrease) in U. S. government grants refundable, net	122,429	(22,648)	(568,762)
Increase in annuities payable from new gifts	332,391	561,477	311,100
Payments to annuitants	(1,843,264)	(2,199,541)	(2,369,055)
Debt issuance costs paid			(297,187)
Deposits to escrow account for refinanced bonds, net			(772,179)
Net Cash Flows from Financing Activities	<u>3,244,815</u>	<u>18,364,796</u>	<u>9,105,072</u>
Net Change in Cash and Cash Equivalents	<u>(16,260,127)</u>	<u>19,165,475</u>	<u>3,633,889</u>
CASH AND CASH EQUIVALENTS - Beginning of Year	<u>35,149,721</u>	<u>15,984,246</u>	<u>12,350,357</u>
CASH AND CASH EQUIVALENTS - END OF YEAR	<u>\$ 18,889,594</u>	<u>\$ 35,149,721</u>	<u>\$ 15,984,246</u>

See accompanying notes to financial statements.

ST. OLAF COLLEGE

NOTES TO FINANCIAL STATEMENTS

May 31, 2009, 2008 and 2007

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 over 40 graduation majors, including multiple teaching certifications, concentrations and pre-professional fields with the most popular majors being: English, Biology, Mathematics, Economics, and Psychology. The College has a total enrollment of approximately 3,000 students. 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.

Revenue Recognition - 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 and the law allows the release of the restriction) are reported as reclassifications 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.

Tuition revenue is recognized in the period the classes are provided. Revenue from auxiliary enterprises is recognized when goods or services are provided. Contributions are recognized as revenues in the period received. Conditional promises to give are not recognized until they become unconditional, that is, when the conditions on which they depend are substantially met.

ST. OLAF COLLEGE

NOTES TO FINANCIAL STATEMENTS
May 31, 2009, 2008 and 2007

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 unrestricted net assets for board-designated endowment funds and to restore donor-restricted endowment funds with deficiencies:
- > as increases in temporarily restricted net assets in all other cases.

Losses from investments on donor-restricted endowment funds are reported as decreases in permanently or temporarily restricted net assets to the extent of the prior accumulated earnings of each individual endowment fund, with the remainder reflected as reductions to unrestricted net assets.

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. Certain cash held by the College is restricted for the Perkins Loan Fund.

Accounts, Loans and Other Receivables - An allowance for doubtful accounts is recorded annually based on historical experience and management's evaluation of receivables at the end of each year. 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. Interest income on student loan receivables is recognized when received, and fees and costs are recognized when incurred. Receivables other than government student loan program funds are generally unsecured. Government student loan programs (Perkins) that become uncollectible can be remitted to the federal government for collection.

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 \$2,028,549 in subsequent years. As a result, the College recorded a net gain of \$4,206,220 for the year ended May 31, 2007 and \$396,672 for the year ended May 31, 2009. Costs incurred associated with the replacement of the roofs were capitalized during fiscal years 2007, 2008 and 2009, and costs will continue to be capitalized as incurred in subsequent years.

ST. OLAF COLLEGE

NOTES TO FINANCIAL STATEMENTS
May 31, 2009, 2008 and 2007

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 the lower of cost market.

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

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

Physical Plant and Equipment - Physical plant assets are stated at cost at date of acquisition or market value if donated, less accumulated depreciation. The College typically depreciates its assets on the straight-line basis over estimated useful lives as follows: buildings 5 to 50 years; improvements, 5 to 50 years; equipment 5 to 30 years; library books 10 to 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 significant repairs and maintenance 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.

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. The College has made the conclusion that CLEC activities constitute an unrelated trade or business and include such activity in its tax return.

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.

ST. OLAF COLLEGE

NOTES TO FINANCIAL STATEMENTS
May 31, 2009, 2008 and 2007

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Derivative Financial Instruments - The College utilizes various derivative financial instruments, such as foreign currency derivatives, forward contracts on publicly traded securities, 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 interest rate exchange agreements 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 agreements were not entered into for trading or speculative purposes. Interest rate exchange agreements are often held for the life of the strategy, but may reflect significant interim unrealized gains or losses depending on the change in value since the inception of the contract. The derivative financial instruments are recognized as either assets or liabilities on the statements of financial position and are measured at fair value. All unrealized and realized gains and losses from the derivative financial instruments are reflected in the statements of activities.

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

	2009	2008	2007
State grants	\$ 1,529,285	\$ 1,652,896	\$ 1,797,085
Federal grants	1,393,990	1,261,862	1,122,055

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, 2009, 2008 and 2007 totaled (\$123,163), (\$26,669) and \$42,013, respectively. The College has concluded that the tax carry forward represented as an asset as of May 31, 2009, is fully recoverable.

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. In the year ending May 31, 2008, changes in accounting estimates were needed to adjust the health insurance liability reserves resulting from the implementation of the Emeriti Program. The estimates of incurred but not reported reserves (IBNR), as of May 31, 2008, were also decreased based on current lag reports of actual experience.

ST. OLAF COLLEGE

NOTES TO FINANCIAL STATEMENTS
May 31, 2009, 2008 and 2007

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Reclassifications - Certain amounts appearing in the 2008 and 2007 financial statements have been reclassified to conform with the 2009 presentation. The reclassifications have no effect on reported amounts of total net assets or change in total net assets.

Value of Financial Instruments Carried at Cost - The carrying amounts of cash and cash equivalents, accounts receivable, grants receivable, other receivables, accounts payable and deposits held in custody for others approximate fair value because of the short term maturity of these financial instruments. The carrying amounts of contributions receivable are recorded using the applicable discount rates in effect at the date of the gifts.

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 applicable discount rates in effect at the time the agreements were received by the College. The carrying amount of long-term debt approximates fair value because these financial instruments bear interest at rates which approximate current market rates for notes with similar maturities and credit quality.

Contributions of assets other than cash are recorded at their estimated fair value at the date of the gift. Estimates of fair value involve assumptions and estimation methods that are uncertain and, therefore, the estimates could differ from actual results.

The fair values for investments and other financial instruments recorded at fair value on a recurring basis are included in Note 6.

Effect of Change in Accounting Principle - 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. See Note 11.

New Accounting Pronouncements - In March 2008, the FASB issued Statement on Financial Accounting Standards No. 161, *Disclosures about Derivative Instruments and Hedging Activities* – an amendment of FASB Statement No. 133 (SFAS 161). This Statement changes the disclosure requirements for derivative instruments and hedging activities. Entities are required to provide enhanced disclosures about (a) how and why an entity uses derivative instruments, (b) how derivative instruments and related hedge items are accounted for under Statement 133 and its related interpretations, and (c) how derivative instruments and related hedged items affect an entity's financial position, financial performance, and cash flows. This Statement is effective for financial statements issued for fiscal years beginning after November 15, 2008. As of May 31, 2009, the College does not believe the adoption of SFAS 161 will materially impact the financial statement amounts. However, additional footnote disclosures may be required regarding the use of derivative instruments and hedging items.

ST. OLAF COLLEGE

NOTES TO FINANCIAL STATEMENTS
May 31, 2009, 2008 and 2007

NOTE 2 - RESTRICTIONS AND LIMITATIONS ON NET ASSETS BALANCES

At May 31, 2009, 2008 and 2007, the College's unrestricted net assets were allocated as follows:

	<u>2009</u>	<u>2008</u>	<u>2007</u>
Designated			
For long-term purposes as:			
Quasi-endowment	\$ 53,560,610	\$ 173,313,436	\$ 156,350,491
Debt service and facility renewal	29,561,024	39,477,258	38,004,878
Deferred gifts	15,481,788	20,406,441	26,464,773
For debt service reserves under long-term debt agreements	2,942,510	2,935,501	3,362,784
For construction of new science building			25,041,391
For specific operating activities	1,921,435	1,651,507	1,935,021
For health insurance benefits	1,602,900	1,578,407	
For matching funds under federal government student loan programs	1,072,827	1,064,628	1,072,055
Total Designated	<u>106,143,094</u>	<u>240,427,178</u>	<u>252,231,393</u>
Undesignated	<u>46,154,460</u>	<u>41,142,107</u>	<u>9,333,733</u>
	<u>\$ 152,297,554</u>	<u>\$ 281,569,285</u>	<u>\$ 261,565,126</u>

Temporarily restricted net assets consist of the following at May 31, 2009, 2008 and 2007:

	<u>2009</u>	<u>2008</u>	<u>2007</u>
Gifts and other unexpended revenues and gains available for:			
Scholarships, instruction and other support	\$ 4,963,828	\$ 4,718,949	\$ 5,859,062
Unamortized plant gifts	59,813,925	30,527,641	31,241,353
Acquisition of buildings and equipment		30,280,790	19,817,945
	<u>64,777,753</u>	<u>65,527,380</u>	<u>56,918,360</u>
Endowment funds	45,869,169	6,326,324	12,709,346
Deferred gifts	<u>1,063,760</u>	<u>1,535,740</u>	<u>1,489,908</u>
	<u>\$ 111,710,682</u>	<u>\$ 73,389,444</u>	<u>\$ 71,117,614</u>

Permanently restricted net assets consist of the following at May 31, 2009, 2008 and 2007:

	<u>2009</u>	<u>2008</u>	<u>2007</u>
Endowment funds	\$ 120,434,636	\$ 116,707,300	\$ 112,908,157
Student loan funds	2,210,350	2,311,664	2,277,747
Deferred gifts	<u>14,423,218</u>	<u>21,290,655</u>	<u>21,510,271</u>
	<u>\$ 137,068,204</u>	<u>\$ 140,309,619</u>	<u>\$ 136,696,175</u>

ST. OLAF COLLEGE

NOTES TO FINANCIAL STATEMENTS
May 31, 2009, 2008 and 2007

NOTE 5 – INVESTMENTS

The following summarizes the fair value of the College's marketable securities at May 31, 2009, 2008 and 2007:

	<u>2009</u>	<u>2008</u>	<u>2007</u>
Stocks	\$ 1,861,009	\$ 2,758,983	\$ 12,358,285
Bonds	1,277,571	450,000	435,618
Mutual funds	<u>148,384,330</u>	<u>196,612,262</u>	<u>201,195,357</u>
	<u>\$ 151,522,910</u>	<u>\$ 199,821,245</u>	<u>\$ 213,989,260</u>

The following summarizes the fair value of the College's other investments at May 31, 2009, 2008 and 2007:

	<u>2009</u>	<u>2008</u>	<u>2007</u>
Alternative investments	\$ 123,942,233	\$ 178,462,474	\$ 124,537,213
Private debenture bonds	6,120,000	6,930,000	7,740,000
Other investments	<u>1,671,288</u>	<u>1,731,313</u>	<u>1,736,469</u>
	<u>\$ 131,733,521</u>	<u>\$ 187,123,787</u>	<u>\$ 134,013,682</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's asset allocation to ensure that it is in accordance with Board policy.

ST. OLAF COLLEGE

NOTES TO FINANCIAL STATEMENTS
May 31, 2009, 2008 and 2007

NOTE 5 - INVESTMENTS (CONTINUED)

The following summarizes the strategy composition of alternative investments at May 31, 2009, 2008 and 2007:

	<u>2009</u>	<u>2008</u>	<u>2007</u>
Global equity funds	\$ 25,586,066	\$ 31,420,577	\$ 32,721,880
Corporate bond funds	10,826,386	11,872,547	93,303
Treasury Inflation-Protected Securities (TIPS)		30,011,447	26,527,650
Hedge funds	54,143,089	66,386,991	38,026,472
Real estate funds	8,806,790	13,497,351	5,541,893
Commodity funds	1,344,159	7,302,092	5,403,655
Private equity funds	23,235,743	17,971,469	16,222,360
Total alternative investments	<u>\$ 123,942,233</u>	<u>\$ 178,462,474</u>	<u>\$ 124,537,213</u>

The following summarizes the investment income, investment expenses and net investment gains for the alternative investments at May 31, 2009, 2008 and 2007:

	<u>2009</u>	<u>2008</u>	<u>2007</u>
Investment income	\$ 464,578	\$ 3,497,082	\$ 2,647,928
Investment expenses	(441,336)	(983,782)	(898,905)
Net gains/(losses) on investments	<u>(36,921,949)</u>	<u>4,131,109</u>	<u>13,064,619</u>
Total alternative investments performance	<u>\$ (36,898,707)</u>	<u>\$ 6,644,409</u>	<u>\$ 14,813,642</u>

The College has commitments to make further investments in several of its alternative investments totaling approximately \$43,070,000.

The total return on all investments held by the endowment funds, on a market basis, was (24.095%), 4.098%, and 19.148% for the years ended May 31, 2009, 2008, and 2007, respectively.

NOTE 6 - FAIR VALUE OF FINANCIAL INSTRUMENTS

Effective June 1, 2008, the College adopted the provisions of FASB Statement No. 157, *Fair Value Measurements* (SFAS 157), which defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date and establishes a framework for measuring fair value. SFAS 157 establishes a three-level hierarchy for fair value measurements based upon the transparency of inputs to the valuation of the asset or liability as of the measurement date. SFAS 157 expands disclosures about instruments measured at fair value. SFAS 157 applies to other accounting pronouncements that require or permit fair value measurements and, accordingly, SFAS 157 does not require any new fair value measurements.

Subsequent to the issuance of SFAS 157, the FASB issued additional Financial Staff Positions (FSP) which provides implementation guidance related to fair value measurements. The College has adopted the applicable FSPs as appropriate during fiscal year 2009.

Effective June 1, 2008, the College adopted FASB Statement No. 159, *The Fair Value Option for Financial Assets and Liabilities, including an amendment of FASB Statement No. 115*, which among other things, provides an option to elect fair value as an alternative measurement for selected financial assets and liabilities not previously recorded at fair value. The College did not elect fair value accounting for any asset or liability that is not currently required to be measured at fair value.

ST. OLAF COLLEGE

NOTES TO FINANCIAL STATEMENTS
May 31, 2009, 2008 and 2007

NOTE 6 - FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)

As noted above, SFAS 157 establishes a three-level valuation hierarchy for disclosure of fair value measurements. The valuation hierarchy is based upon the transparency of inputs to the valuation of an asset or liability as of the measurement date. The three levels are defined as follows:

Level 1 - Inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2 - Inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly. This includes quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in markets that are not active, inputs other than quoted prices that are observable for the asset or liability, or inputs that are derived principally from or corroborated by observable market data.

Level 3 - Inputs are unobservable for the asset or liability. Unobservable inputs reflect the reporting entity's own assumptions about the assumptions that market participants would use in pricing the asset or liability developed based on the best information available in the circumstances.

A financial instrument's categorization within the valuation hierarchy is based upon the lowest level of input that is significant to the fair value measurement.

The following table presents financial instruments that are measured at fair value on a recurring basis by the SFAS 157 hierarchy as of May 31, 2009:

	<u>Total</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
ASSETS				
Cash and short-term investments	\$ 5,081,793	\$ 5,081,793		
Stocks	1,861,009	1,861,009		
Bonds	1,277,571	1,277,571		
Mutual funds	148,384,330	148,384,330		
Hedge funds	54,143,089			\$ 54,143,089
Private equity funds	23,235,743			23,235,743
Real estate funds	8,806,790			8,806,790
Global equity funds	25,586,066			25,586,066
Corporate bond funds	10,826,386			10,826,386
Commodity funds	1,344,159			1,344,159
Real estate	1,844,537			1,844,537
Private bond debenture	6,120,000			6,120,000
Other investments	1,671,288			1,671,288
Deposits held by trustee	3,278,268	3,278,268		
Funds held in trust by others	1,765,685			1,765,685
	<u>\$ 295,226,714</u>	<u>\$ 159,882,971</u>	<u>\$</u>	<u>\$ 135,343,743</u>
LIABILITIES				
Interest rate exchange agreements	<u>\$ 1,316,978</u>	<u>\$</u>	<u>\$ 1,316,978</u>	<u>\$</u>

ST. OLAF COLLEGE

NOTES TO FINANCIAL STATEMENTS
May 31, 2009, 2008 and 2007

NOTE 6 - FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)

The following methods and assumptions were used to estimate the fair value for each class of financial instrument measured at fair value:

Cash and short-term investments - The fair value of short-term investments, consisting primarily of money market funds, is classified as Level 1 as these funds are traded on a regular basis.

Stocks - Investments in stocks are measured at fair value using quoted market prices. They are classified as Level 1 as they are traded in an active market for which closing stock prices are readily available.

Bonds - Investments in bonds are comprised of U.S. Treasury notes, U.S Treasury bonds, mortgage backed securities, municipal bonds and corporate bonds and notes. U.S. Treasury notes and bonds are classified as Level 1 as they trade with sufficient frequency and volume to enable the College to obtain pricing information on an ongoing basis.

Mutual funds - Mutual funds are classified as Level 1 if they are traded in an active market for which closing prices are readily available.

Alternative investments - Investments in hedge funds, private equity funds, real estate funds, global equity funds, corporate bond funds, and commodity funds for which there is no readily determinable fair value are classified as level 3 as the valuation is based on significant unobservable inputs. In cases where the investee has provided its investors with a net asset value per share that has been calculated in accordance with the AICPA Audit and Accounting Guide, *Investment Companies*, the College has estimated its fair value by using the most recent net asset value provided by the investee as of December 31 or March 31, adjusted for cash receipts, cash disbursements, significant known valuation changes in market values of publicly held securities contained in the portfolio and security distributions through May 31.

Real Estate - Investments in real estate for which there is no readily determinable fair value are classified as Level 3 as the valuation is based on significant unobservable inputs. The College has estimated fair value using inputs such as cost, appraisals, and the county assessed value.

Private bond debenture - The investment in a private bond debenture for which there is no readily determinable fair value is classified as Level 3 as the valuation is based on significant unobservable inputs. The College has estimated fair value using the face value of the bond debenture.

Other investments - Investments, such as ownership interests in insurance contracts, are categorized as other investments. These investments are categorized as Level 3 as the valuation is based on significant unobservable inputs.

Deposits held by trustee - The College's deposits held by a trustee are measured at fair value using quoted market prices. They are classified as Level 1 because they trade with sufficient frequency and volume to enable the College and its trustee to obtain pricing information on an ongoing basis. These deposits are held by the trustee as amounts restricted for debt service, as required by the related trust indenture.

Funds held in trust by others - The College's beneficial interest in irrevocable split interest agreements or trusts held or controlled by a third party are classified as Level 3 as the fair values are based on a combination of Level 2 inputs (interest rates and yield curves) and significant unobservable inputs (entity specific estimates of cash flows). The fair values are measured as the present value of the future distributions the College expects to receive over the term of the agreements.

ST. OLAF COLLEGE

NOTES TO FINANCIAL STATEMENTS
May 31, 2009, 2008 and 2007

NOTE 6 - FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)

Interest rate exchange agreements - Interest rate exchange agreements are classified as Level 2 as the fair value is based on observable inputs to a valuation model (interest rates, credit spreads, etc.) which take into account the present value of the estimated future cash flows and credit valuation adjustments.

While the College believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different estimate of fair value at the reporting date.

The following table presents a reconciliation of the statement of financial position amounts for financial instruments measured at fair value on a recurring basis using significant unobservable inputs (Level 3) for the year ended May 31, 2009:

	Balances May 31, 2008	Net realized and unrealized gains (losses) included in change in net assets	Purchases, sales, issuances and settlement, net	Net transfers in (out) of Level 3	Balances May 31, 2009
Assets					
TIPS	\$ 30,011,447	\$ (1,802,365)	\$ (28,209,082)		
Note Receivable	352,803		(352,803)		
Mortgages and Contracts	613,907		(613,907)		
Hedge funds	66,386,991	(6,855,652)	(5,388,249)		\$ 54,143,089
Private equity funds	17,971,469	(5,481,738)	10,746,012		23,235,743
Real estate funds	13,497,351	(6,128,766)	1,438,204		8,806,790
Global equity funds	31,420,577	(8,334,511)	2,500,000		25,586,066
Corporate bond funds	11,872,547	762,186	(1,808,347)		10,826,386
Commodity funds	7,302,092	(1,933,137)	(4,024,796)		1,344,159
Real estate	2,176,100	(296,700)	(34,863)		1,844,537
Private bond debenture	6,930,000		(810,000)		6,120,000
Other investments	1,731,313	(58,827)	(1,198)		1,671,288
Funds held in trust by others	2,073,944	(379,238)	70,979		1,765,685
Total	\$ 192,340,541	\$ (30,507,748)	\$ (26,488,050)	\$	\$ 135,343,743

The amount of total gains or (losses) for the period included in change in net assets attributable to the change in unrealized gains or losses relating to Level 3 financial instruments still held at May 31, 2009

\$ (33,255,107)

ST. OLAF COLLEGE

NOTES TO FINANCIAL STATEMENTS
May 31, 2009, 2008 and 2007

NOTE 7 - ENDOWMENT

Effective June 1, 2008, the College adopted the provisions of 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 for all Endowment Funds*. 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). A key component of the FSP is a requirement to classify the portion of a donor-restricted endowment fund that is not classified as permanently restricted net assets as temporarily restricted net assets until appropriated for expenditure. Another key component of the FSP is a requirement for expanded disclosures about all endowment funds. The State of Minnesota adopted a version of UPMIFA effective August 1, 2008. As a result of adopting the FSP, the College reclassified \$93,705,186 out of unrestricted net assets and into temporarily restricted net assets.

The College's endowment consists of approximately 1200 individual funds established for a variety of purposes. Its endowment includes both donor-restricted endowment funds and funds designated by the Board of Regents to function as endowments. As required by GAAP, net assets associated with endowment funds, including funds designated by the Board of Regents as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

Interpretation of Relevant Law - The College's Board of Regents has interpreted the Uniform Prudent Management of Institutional Funds Act (UPMIFA) enacted in the State of Minnesota as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the College classifies as permanently restricted net assets (a) the original value of the gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of a donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the College through the Board of Regent's approval of the annual budget, which is inclusive of the spending rate for its endowment funds established pursuant to the College's spending policy.

Endowment net asset composition by type of fund consists of the following as of May 31, 2009:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds	\$ (4,408,256)	\$ 45,869,169	\$ 120,434,636	\$ 161,895,549
Board-designated endowment funds	<u>87,529,890</u>			<u>87,529,890</u>
Total endowment net assets	<u>\$ 83,121,634</u>	<u>\$ 45,869,169</u>	<u>\$ 120,434,636</u>	<u>\$ 249,425,439</u>

ST. OLAF COLLEGE

NOTES TO FINANCIAL STATEMENTS
May 31, 2009, 2008 and 2007

NOTE 7 - ENDOWMENT (CONTINUED)

Endowment net asset composition by type of fund consists of the following as of May 31, 2008:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Donor-restricted endowment funds	\$ 119,085,507	\$ 6,326,324	\$ 116,707,300	\$ 242,119,131
Board-designated endowment funds	<u>93,705,186</u>			<u>93,705,186</u>
Total endowment net assets	<u>\$ 212,790,693</u>	<u>\$ 6,326,324</u>	<u>\$ 116,707,300</u>	<u>\$ 335,824,317</u>

Endowment net asset composition by type of fund consists of the following as of May 31, 2007:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Donor-restricted endowment funds	\$ 108,972,691	\$ 12,709,346	\$ 112,908,157	\$ 234,590,194
Board-designated endowment funds	<u>85,382,678</u>			<u>85,382,678</u>
Total endowment net assets	<u>\$ 194,355,369</u>	<u>\$ 12,709,346</u>	<u>\$ 112,908,157</u>	<u>\$ 319,972,872</u>

Changes in endowment net assets for the year ended May 31, 2009 are as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets, May 31, 2008	\$ 212,790,693	\$ 6,326,324	\$ 116,707,300	\$ 335,824,317
Net asset reclassification based on change in law	(93,705,186)	93,705,186		
Net asset reclassification - other	<u>(1,434,947)</u>	<u>446,602</u>	<u>988,345</u>	
Endowment net assets after reclassification	117,650,560	100,478,112	117,695,645	335,824,317
Investment return:				
Investment income	1,173,586	2,276,887	19,302	3,469,775
Net appreciation (depreciation) - realized and unrealized	<u>(32,852,094)</u>	<u>(50,616,053)</u>	<u>(302,683)</u>	<u>(83,770,830)</u>
Total investment return	<u>(31,678,508)</u>	<u>(48,339,166)</u>	<u>(283,381)</u>	<u>(80,301,055)</u>
Contributions	974,099	49,844	3,038,810	4,062,753
Net appropriation of endowment assets for expenditure	<u>(4,782,024)</u>	<u>(6,826,051)</u>	<u>(16,438)</u>	<u>(11,624,513)</u>
Other changes:				
Transfers to (from) board designated endowment funds	<u>957,507</u>	<u>506,430</u>		<u>1,463,937</u>
Endowment net assets, May 31, 2009	<u>\$ 83,121,634</u>	<u>\$ 45,869,169</u>	<u>\$ 120,434,636</u>	<u>\$ 249,425,439</u>

ST. OLAF COLLEGE

NOTES TO FINANCIAL STATEMENTS
May 31, 2009, 2008 and 2007

NOTE 7 - ENDOWMENT (CONTINUED)

Changes in endowment net assets for the year ended May 31, 2008 are as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets, May 31, 2007	\$ 194,355,369	\$ 12,709,346	\$ 112,908,157	\$ 319,972,872
Investment return:				
Investment income	3,994,526	2,112,685	48,631	6,155,842
Net appreciation (depreciation) - realized and unrealized	<u>4,469,661</u>	<u>2,132,003</u>	<u>173,697</u>	<u>6,775,361</u>
Total investment return	8,464,187	4,244,688	222,328	12,931,203
Contributions	7,167,224		3,602,047	10,769,271
Appropriation & release of endowment assets for expenditure	1,574,878	(11,597,495)	(14,787)	(10,037,404)
Other changes:				
Transfers to (from) board designated endowment funds	<u>1,229,035</u>	<u>969,785</u>	<u>(10,445)</u>	<u>2,188,375</u>
Endowment net assets, May 31, 2008	<u>\$ 212,790,693</u>	<u>\$ 6,326,324</u>	<u>\$ 116,707,300</u>	<u>\$ 335,824,317</u>

Changes in endowment net assets for the year ended May 31, 2007 are as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets, May 31, 2006	\$ 147,528,535	\$ 10,009,949	\$ 105,934,653	\$ 263,473,137
Investment return:				
Investment income	3,862,297	2,380,333	52,882	6,295,512
Net appreciation (depreciation) - realized and unrealized	<u>27,166,624</u>	<u>16,548,141</u>	<u>456,934</u>	<u>44,171,699</u>
Total investment return	31,028,921	18,928,474	509,816	50,467,211
Contributions	7,020,101		6,477,238	13,497,339
Appropriation & release of endowment assets for expenditure	7,127,363	(16,338,694)	(13,550)	(9,224,881)
Other changes:				
Transfers to (from) board designated endowment funds	<u>1,650,449</u>	<u>109,617</u>		<u>1,760,066</u>
Endowment net assets, May 31, 2007	<u>\$ 194,355,369</u>	<u>\$ 12,709,346</u>	<u>\$ 112,908,157</u>	<u>\$ 319,972,872</u>

Funds with Deficiencies - Because UPMIFA does not establish a fixed level below which an endowment fund is not permitted to fall, there are no "deficiencies" in the endowment funds held by the College. Notwithstanding the foregoing, the College does maintain records of the sum of: (a) the original value of gifts donated to each endowment fund, (b) the original value of subsequent gifts to each endowment fund, and (c) accumulations to each such endowment fund made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The amount by which the endowment funds have fallen below such recorded values was \$4,408,256 as of May 31, 2009 and zero as of May 31, 2008 and 2007. These differences resulted from unfavorable market fluctuations that occurred after the investment of new contributions to endowment funds and continued appropriation for certain programs that was deemed prudent by the Board of Regents.

ST. OLAF COLLEGE

NOTES TO FINANCIAL STATEMENTS
May 31, 2009, 2008 and 2007

NOTE 7 - ENDOWMENT (CONTINUED)

Return Objectives and Risk Parameters - The College has adopted investment and spending policies for endowment assets that strive to provide a source of income for spending that is reasonably stable and predictable from year-to-year, while seeking to preserve capital, maintain the purchasing power of the endowment assets, and prudently earn the highest possible rate of return consistent with the college's ability to accommodate risk. Endowment assets include those assets of donor-restricted funds that the College must hold indefinitely or for a donor-specified period(s) as well as board-designated funds. Under this policy, as approved by the Board of Regents, the endowment assets are invested in a manner that is intended to produce results that outperform the appropriate benchmark for each asset class and to outperform a simple benchmark of the broad market mix represented by a 70 percent S&P 500 and 30 percent Barclays Aggregate allocation. The College expects its endowment funds, over time, to provide an average real total return of 6 percent, net of fees. Actual returns in any given year may vary from this amount.

Strategies Employed for Achieving Objectives - To satisfy its long-term rate-of-return objectives, the College relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The College targets a diversified asset allocation including asset classes such as public equities, fixed income and alternative assets in order to achieve its long-term return objectives within prudent risk constraints.

Spending Policy and How the Investment Objectives Relate to Spending Policy - 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. In developing its spending policy, the College considers certain of the following factors which it determines relevant:

1. The duration and preservation of the fund
2. The purposes of the College and the donor-restricted endowment fund
3. General economic conditions
4. The possible effect of inflation and deflation
5. The expected total return from income and the appreciation of investments
6. Other resources of the College
7. The investment policies of the College.

The Board has adopted a policy to appropriate for distribution during each fiscal year an amount per endowment unit calculated at a rate of 4.7% of the average endowment market value per endowment unit from the preceding 16 quarters established as of the end of the calendar year prior to the beginning of the fiscal year.

ST. OLAF COLLEGE

NOTES TO FINANCIAL STATEMENTS
May 31, 2009, 2008 and 2007

NOTE 8 - CONSTRUCTION IN PROGRESS

Construction in progress consisted of approximately 30 projects with \$5,182,434 of total costs incurred to date as of May 31, 2009. Two projects, the Old Music Building Renovation and the Old Science Center Renovation, accounted for the majority of the costs to date as of May 31, 2009, totaling \$2,276,326 and \$1,235,752, respectively. The total cost to complete the Old Music Building Renovation is estimated at \$4,000,000. Costs incurred for the Old Science Renovation have been for planning and design development. The Board of Regents has not authorized a start date for the Old Science Center Renovation construction.

NOTE 9 - PROPERTY, PLANT AND EQUIPMENT

At May 31, 2009, 2008 and 2007, property, plant and equipment consisted of the following:

	<u>2009</u>	<u>2008</u>	<u>2007</u>
Land	\$ 1,204,799	\$ 1,206,799	\$ 1,250,374
Improvements other than buildings	10,939,132	10,933,978	10,594,134
Buildings	220,424,975	154,114,238	149,958,176
Equipment	39,394,178	40,454,598	45,250,089
Library materials	19,907,282	18,754,424	18,670,499
Art collection	1,121,038	1,088,237	1,117,478
	<u>292,991,404</u>	<u>226,552,274</u>	<u>226,840,750</u>
Less: Accumulated depreciation	<u>(101,687,668)</u>	<u>(99,560,303)</u>	<u>(100,376,410)</u>
	<u>\$ 191,303,736</u>	<u>\$ 126,991,971</u>	<u>\$ 126,464,340</u>

NOTE 10 - 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 \$3,436,300, \$3,233,600 and \$3,058,400 for the years ended May 31, 2009, 2008 and 2007, respectively.

ST. OLAF COLLEGE

NOTES TO FINANCIAL STATEMENTS

May 31, 2009, 2008 and 2007

NOTE 11 - 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, 2009, 2008 and 2007:

	<u>2009</u>	<u>2008</u>	<u>2007</u>
<i>Change in benefit obligation</i>			
Benefit obligation at beginning of year	\$ 7,435,150	\$ 6,638,011	\$ 5,390,058
Service cost	84,589	87,542	85,539
Interest cost	433,305	373,115	336,895
Plan participants' VEBA contributions	79,272	45,268	51,311
Employer VEBA contributions	782,655	611,552	536,634
Actuarial loss/(gain)	(449,197)	373,504	931,128
Benefits paid	(686,808)	(693,842)	(693,554)
Benefit obligation at end of year	<u>\$ 7,678,966</u>	<u>\$ 7,435,150</u>	<u>\$ 6,638,011</u>
<i>Change in plan assets</i>			
Fair value of plan assets at beginning of year	\$ 1,631,917	\$ 974,116	
Actual return on plan assets	(101,139)	301,845	\$ 675,535
Employer contributions	1,229,923	1,061,974	1,023,484
Plan participants' contributions	23,349	(12,176)	(31,349)
Benefits paid	(686,808)	(693,842)	(693,554)
Fair value of plan assets at end of year	<u>\$ 2,097,242</u>	<u>\$ 1,631,917</u>	<u>\$ 974,116</u>
<i>Funded status</i>			
Funded status at end of year	\$ (5,581,724)	\$ (5,803,233)	\$ (5,663,895)
Unrecognized transition obligation/(asset)	N/A	N/A	N/A
Unrecognized prior service cost	N/A	N/A	N/A
Unrecognized actuarial loss/(gain)	N/A	N/A	N/A
Net amount recognized	<u>N/A</u>	<u>N/A</u>	<u>N/A</u>
<i>Amounts recognized in the statement of financial position consist of:</i>			
Noncurrent assets	\$	\$	\$
Current liabilities	(507,000)	(529,000)	(514,000)
Noncurrent liabilities	(5,074,724)	(5,274,233)	(5,149,895)
Prepaid benefit cost	N/A	N/A	N/A
Accrued benefit liability	N/A	N/A	N/A
Intangible asset	N/A	N/A	N/A
Accumulated change in net assets	N/A	N/A	N/A
Net amount recognized	<u>\$ (5,581,724)</u>	<u>\$ (5,803,233)</u>	<u>\$ (5,663,895)</u>

ST. OLAF COLLEGE

NOTES TO FINANCIAL STATEMENTS
May 31, 2009, 2008 and 2007

NOTE 11 - POSTRETIREMENT BENEFIT PLAN (CONTINUED)

	2009	2008	2007
Amounts recognized in change in net assets consist of:			
Prior service cost	\$ (1,343,582)	\$ (1,494,830)	\$ (1,646,078)
Net actuarial loss	3,406,434	3,848,308	3,911,424
Accumulated change in net assets	<u>\$ 2,062,852</u>	<u>\$ 2,353,478</u>	<u>\$ 2,265,346</u>
Weighted-average assumptions used to determine benefit obligations at May 31			
Discount rate	6.35%	6.35%	6.00%
Expected return on plan assets	5.00%	5.00%	N/A
Rate of compensation increase	0.00%	0.00%	0.00%
Components of net periodic benefit cost			
Service cost	\$ 84,589	\$ 87,542	\$ 85,539
Interest cost	433,305	373,115	336,895
Expected return on plan assets	(81,596)	(48,706)	
Amortization of prior service cost	(151,248)	(151,248)	(151,248)
Amortization of net loss	175,412	183,482	193,496
Net periodic postretirement benefit cost	<u>\$ 460,462</u>	<u>\$ 444,185</u>	<u>\$ 464,682</u>
Changes in net assets			
Initial effect of adopting SFAS No. 158			\$ 2,265,346
Net (gain) loss	\$ (266,462)	\$ 120,365	
Amortization of transition obligation/(asset)	151,248	151,248	
Amortization of net loss/(gain)	(175,412)	(183,482)	
Total recognized in change in net assets	<u>\$ (290,626)</u>	<u>\$ 88,131</u>	<u>\$ 2,265,346</u>
Total recognized in net periodic benefit cost and change in net assets	<u>\$ 169,836</u>	<u>\$ 532,316</u>	<u>\$ 2,730,028</u>
Weighted-average assumptions used to determine net periodic benefit cost as of June 1			
Discount rate	6.35%	6.00%	6.40%
Expected return on plan assets	5.00%	5.00%	N/A
Rate of compensation increase	0.00%	0.00%	0.00%
Assumed health care cost trend rates at May 31			
Health care cost trend rate assumed for next year	10.47% - Post 65 10.22% - Pre 65	11.58% - Post 65 10.08% - Pre 65	11.24% - Post 65 9.74% - Pre 65
Rate to which the cost trend rate is assumed to decline (the ultimate trend)	4.95%	4.95%	4.60%
Year that the rate reaches the ultimate rate	2029	2028	2027

ST. OLAF COLLEGE

NOTES TO FINANCIAL STATEMENTS
May 31, 2009, 2008 and 2007

NOTE 11 - 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 \$507,000 in benefit payments for the postretirement medical plan, which includes the liability for post-65 retiree VEBA and the present value of the projected future liability for the pre-65 retiree health plan. The College also expects to contribute \$726,336 to the VEBA for current employees during the fiscal year ending May 31, 2010.

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

2010	\$	507,000
2011		524,000
2012		524,000
2013		531,000
2014		508,000
2015 – 2019		2,350,000

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

NOTE 12 - 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 (ARO). 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 5% 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, 2009, 2008 and 2007:

	2009	2008	2007
Balance at beginning of the year	\$ 2,661,596	\$ 2,712,661	\$ 2,875,606
Abatement costs	(226,300)	(186,698)	(130,710)
Accretion expense	133,080	135,633	136,551
Adjustments to estimates			(168,786)
Balance at end of the year	<u>\$ 2,568,376</u>	<u>\$ 2,661,596</u>	<u>\$ 2,712,661</u>

ST. OLAF COLLEGE

NOTES TO FINANCIAL STATEMENTS
May 31, 2009, 2008 and 2007

NOTE 13 - LONG-TERM DEBT

Long-term debt at May 31, 2009, 2008 and 2007 consisted of the following:

	<u>2009</u>	<u>2008</u>	<u>2007</u>
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	44,300,000	45,405,000	45,405,000
Premium on Series Six-O Revenue Bonds	<u>731,835</u>	<u>763,199</u>	<u>794,563</u>
	<u>\$ 85,131,835</u>	<u>\$ 86,268,199</u>	<u>\$ 86,299,563</u>

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.

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.

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.

For the three variable rate issues described above, the bonds bear interest at a variable (daily reset) rate, which at May 31, 2009 was 0.25%, with an average rate of 1.34% for the 2009 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, 2009, 2008 and 2007

NOTE 13 - LONG-TERM DEBT (CONTINUED)

To minimize the effect of extreme upward changes in short-term interest rates, the College entered into an interest rate exchange agreement (swap) in 2002 on the Series Five-M2 bonds. The notional value of the swap was originally set at \$13,420,000, with a fixed interest rate of 4.38%. The notional value of the swap decreases each year to reflect the original amortization schedule of the Series 1992 bonds. As of May 31, 2009, the notional value of the swap was \$10,080,000. Under the agreement, each month 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 loss of \$437,753, \$327,202 and \$84,442, relating to the agreement for the years ended May 31, 2009, 2008, and 2007, respectively. The loss is included in nonoperating activities on the statement of activities. At May 31, 2009, 2008, and 2007, the College has recorded an interest rate exchange liability of \$1,316,978, \$879,225 and \$522,023, respectively, in the statement of financial position.

Minnesota Higher Education Facilities Authority Revenue Bonds Series Six-O were issued in the amount of \$45,405,000 in March 2007 to partially finance construction of a new science building and to complete an advance refunding of MHEFA Revenue Bonds Series Four-R. Interest payments on the bonds are payable semiannually on April 1 and October 1 through 2032. Annual principal payments range between \$1,155,000 and \$2,605,000 through 2032. The bonds bear interest rates from 4.00% to 5.00%. The bonds are secured by a pledge of loan repayment from the College and a reserve account.

The College maintains short-term investments and U.S. government securities held by a trustee for retirement of indebtedness that totaled \$3,278,268 as of May 31, 2009. These funds are intended to satisfy the reserve requirements of the Series Six-O issue.

Anticipated principal payments on long-term debt are as follows:

Year Ending May 31:	
2010	\$ 1,155,000
2011	1,195,000
2012	1,245,000
2013	1,295,000
2014	1,350,000
Thereafter	<u>78,160,000</u>
Total	<u>\$ 84,400,000</u>

NOTE 14 - 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, 2009, 2008 and 2007, there were no outstanding borrowings under this arrangement.

NOTE 15 - 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 an incurred but not reported reserve of approximately \$273,000, 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 \$125,000 per claim with an aggregate stop loss of \$5,100,000

ST. OLAF COLLEGE

NOTES TO FINANCIAL STATEMENTS
May 31, 2009, 2008 and 2007

NOTE 16 - ALLOCATION OF EXPENSES

The College allocated the following operating expenses to program and support functions, as displayed on the statement of activities, for the years ended May 31, 2009, 2008 and 2007 as follows:

	<u>2009</u>	<u>2008</u>	<u>2007</u>
Interest expense	\$ 2,443,735	\$ 2,090,474	\$ 2,655,740
Operation and maintenance of plant	12,621,666	11,843,659	10,638,973
Depreciation	9,841,091	8,641,525	8,332,467
Accretion	133,080	135,633	(13,433)
Faculty staff tuition allowance	<u>1,405,762</u>	<u>1,342,656</u>	<u>1,325,368</u>
	<u>\$ 26,445,334</u>	<u>\$ 24,053,947</u>	<u>\$ 22,939,115</u>

NOTE 17 - 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.

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 discount rates ranging from 2.4% to 11.6% for the years ended May 31, 2009, 2008 and 2007 in making the actuarial and gift 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, 2009, 2008 and 2007 follows:

	<u>2009</u>	<u>2008</u>	<u>2007</u>
Deferred gift income recognized	\$ 251,936	\$ 413,111	\$ 300,228
Annuities payable related to new gifts	332,391	561,477	311,100
Funds held for others related to new gifts			<u>17,055</u>
Total funds received	<u>\$ 584,327</u>	<u>\$ 974,588</u>	<u>\$ 628,383</u>
Total deferred gift assets held by the College at fair value	<u>\$ 43,386,469</u>	<u>\$ 59,003,177</u>	<u>\$ 67,462,337</u>
Total deferred gift liabilities	<u>\$ 12,417,703</u>	<u>\$ 15,770,340</u>	<u>\$ 17,997,387</u>

ST. OLAF COLLEGE

NOTES TO FINANCIAL STATEMENTS
May 31, 2009, 2008 and 2007

NOTE 18 - CONCENTRATIONS OF CREDIT RISK

Financial instruments that potentially subject the College to concentrations of credit risk consist principally of cash and cash equivalents, investments, accounts receivable and notes, mortgages and contracts for deed. Cash and cash equivalents in excess of FDIC and similar coverages is subject to the usual risks of balances in excess of those limits. Investments are diversified 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 typically 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 students 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 19 - 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 Regent's Hall 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 \$750,000, \$9,350,000 and \$980,000 as of May 31, 2009, 2008 and 2007, respectively.

As of May 31, 2009, 2008, and 2007 approximately \$8,958,000, \$9,774,000 and \$9,693,000, respectively, of contributions receivable were due from members of the Board of Regents. Contribution revenue from members of the Board of Regents totaled approximately \$1,109,000, \$2,063,000, and \$927,000 for the years ending May 31, 2009, 2008, and 2007, respectively.

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, 2009, 2008 and 2007, the College's total value of these funds was approximately \$5,837,000, \$3,544,000 and \$651,000. The College's cumulative contributions to these investments as of May 31, 2009 and 2008 totaled approximately \$8,332,000 and \$4,009,000. The College's outstanding future commitments to these investments totaled approximately \$13,008,000 and \$17,491,000 at May 31, 2009 and 2008, respectively. 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, 2009, 2008 and 2007 had market values of \$6,120,000, \$6,930,000 and \$7,740,000, respectively.

NOTE 20 - 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, 2009, 2008 and 2007

NOTE 21 - SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION

	<u>2009</u>	<u>2008</u>	<u>2007</u>
Interest paid, net of capitalized interest	\$ 2,499,465	\$ 2,067,907	\$ 2,164,401
Net capitalized interest	291,536	817,932	
<u>Noncash investing and financing activities</u>			
Property, plant and equipment acquired through accounts payable	\$ 1,465,384	\$ 9,974,739	\$ 1,735,136
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, 2009

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		P063P081690	\$ 1,186,940
Academic competitiveness grant program	84.375		P375A081690	119,050
National science and mathematics access to retain talent grant program	84.376		P376S081690	88,000
Federal supplemental educational opportunity grant program	84.007		P007A082203	368,250
Federal work-study program	84.033		P033A082203	484,764
Federal Perkins loan program - outstanding loans	84.038		P038A082203	7,665,039
Federal Perkins loan program - other costs	84.038		P038A082203	271,376
Federal family education loan programs	84.032		N/A	19,887,163
Subtotal direct programs				<u>30,070,582</u>
U.S. Department of Education passed through				
Minnesota Higher Education Services Office				
Leveraging educational assistance partnership program	84.069	Unknown	N/A	3,928
Special leveraging educational assistance partnership program	84.069	Unknown	N/A	2,789
U.S. Department of Education passed through				
Minnesota Department of Children, Families and Learning				
Robert C. Byrd honors scholarship	84.185	Unknown	N/A	41,250
Subtotal pass through programs				<u>47,967</u>
Total U.S. Department of Education				<u>30,118,549</u>
U.S. Department of Health and Human Services direct program				
Nursing student loan program - outstanding loans	93.364		6576831	101,154
Total Federal Student Aid				<u>30,219,703</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	68,231
Collaborative research RUI: Landscape	47.074		DEB-0743236	33,006
Coupling consumer-resource interactions and nutrient spiraling in a stream network				
	47.074		DEB-0543363	182,541
SOMAS: Subway effect-neural	47.076		DUE 04-26266	9,997
RUI: The gene stream: From sequence to cell function	47.074		MCB-0444700	68,962
RUI: The gene stream II: sequence-cell	47.074		MCB-0817993	53,259
IRES: Real analysis mathematics opportunities for U.S. undergraduates in Poland and the Czech Republic				
	47.079		OISE-0456135	11,295
RUI: Low energy positronium interactions with atoms and molecules in a gas environment				
	47.049		PHY-0555631	66,288
RUI: Molecular origins of friction	47.041		CMMI-0758330	4,474
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	27,188
CCLI: Phase 1: Threading interdisciplinary bio-chem throughout the undergraduate chemistry curriculum using MALDI mass spectrometry				
	47.076		DUE-0633286	10,234
CCLI: Expansion: Investigate psychophysiology laboratory experiences for community colleges				
	47.076		DUE-0618573	94,404
Collaborative Research: IPY: The polaris project: rising stars in the arctic	47.076		DUE-0732618	20,645
Total National Science Foundation				<u>650,524</u>
U.S. Department of Health and Human Services				
National Institutes of Health passed through Seattle University				
AREA: Operon prediction and resting on mycobacterium tuberculosis	93.855	Unknown	1R15AI068706-01A1	12,472
Total U.S. Department of Health and Human Services				<u>12,472</u>
U.S. Department of Agriculture direct program				
Forest Health Protection: Probabilistic commodity-flow-based focusing of monitoring activities to facilitate early detection of Phytophthora Ramorum outbreaks				
	10.068		08-DG-11083150-010	7,201
Total U.S. Department of Agriculture				<u>7,201</u>
Total Research and Development				<u>670,197</u>

ST. OLAF COLLEGE

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Year Ended May 31, 2009

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	\$ 273,905
Talent search program	84.044A		P044A030390	323,461
Upward bound program	84.047A		P0047A030690A	414,768
McNair scholar's program	84.217A		P217A070033	<u>239,263</u>
Total TRIO Programs				<u>1,251,397</u>
OTHER PROGRAMS				
National Science Foundation direct programs				
The SUM project: A statistics undergraduate mentoring program	47.049		DMS-0354308	190,846
S-Stem: Encouraging careers in the mathematical sciences	47.076		DUE-0630930	117,728
S-Stem: Biologists for the future	47.076		DUE-0727556	74,884
S-Stem: Providing support structure/chemistry	47.076		DUE-0806792	17,129
SES: Good computing: A pedagogically focused theory of professional computer ethics	47.075		SES-0822640	49,798
LSAMP: North star STEM alliance	47.076		H281900903	<u>4,200</u>
Total National Science Foundation - Other Programs				<u>454,585</u>
U.S. Department of Education direct program				
Gaining early awareness and readiness for undergraduate programs	84.334A		P334A050020-07	<u>505,824</u>
Total U.S. Department of Education - Other Programs				<u>505,824</u>
TOTAL EXPENDITURES OF FEDERAL AWARDS				<u>\$ 33,101,706</u>

See accompanying notes to schedule of expenditures of federal awards.

ST. OLAF COLLEGE

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Year Ended May 31, 2009

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.

NOTE 2 - PASS-THROUGH ENTITY IDENTIFICATION NUMBERS

Certain of the programs, grants, and/or awards included in the schedule of expenditures of federal awards are missing the pass-through entity identification numbers. The missing numbers are due to the pass-through entity not providing the pass-through entity identification numbers.

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, 2009 and have issued our report thereon dated September 28, 2009. 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.


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

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

Compliance and Other Matters

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

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


Minneapolis, Minnesota
September 28, 2009

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 its major federal program for the year ended May 31, 2009. St. Olaf College's major federal program is 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 its major federal program 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.

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.

In our opinion, St. Olaf College complied, in all material respects, with the requirements referred to above that are applicable to its major federal program for the year ended May 31, 2009. 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 2009-1.

Internal Control Over Compliance

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

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

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

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

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

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



Minneapolis, Minnesota
February 17, 2010

ST. OLAF COLLEGE

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended May 31, 2009

SECTION I - SUMMARY OF INDEPENDENT AUDITORS' RESULTS

Financial Statements

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

Federal Awards

Internal control over major programs:	
Material weakness(es) identified?	No
Significant deficiency(ies) identified that are not considered material weakness?	None reported
Type of auditors' report issued on compliance for major programs?	Unqualified
Any audit findings disclosed that are required to be reported in accordance with section 510(a) of OMB Circular A-133?	Yes
Identification of major programs:	
CFDA	
Number	Name of Federal Program or Cluster
Various	Federal Student Aid Cluster
Dollar threshold used to distinguish between Type A and Type B programs	\$763,100
Auditee qualified as low-risk auditee?	Yes

SECTION II - FINANCIAL STATEMENT FINDINGS

None noted.

SECTION III - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

Finding 2009-1 - 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 – May 31, 2009

ST. OLAF COLLEGE

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (Continued)
Year Ended May 31, 2009

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

Finding 2009-1 - Student Status Changes (Continued)

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 five 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

None.

Context

Not applicable.

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.

Cause

The College changed its procedures in the current year to report every 30 days to the National Clearinghouse during the school year. However, the College did not have controls in place to ensure proper reporting over the summer months.

Recommendation

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

Management's Response

The College concurs with our comment and has implemented procedures to submit reports every 30 days for the entire year beginning with the 2009-2010 academic year.

ST. OLAF COLLEGE

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
Year Ended May 31, 2009

The previous audit of the Federal Award Programs was for the year ended May 31, 2008. The finding noted during that audit and the College's corrective actions taken are as follows:

Finding 2008-2 - Student Status Changes

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

Action Taken

The College modified their procedures to ensure that enrollment updates are sent to the National Clearinghouse every 30 days during the school year. However, a similar finding was noted in the current year due to the College not reporting over the summer months.