

ST. OLAF COLLEGE
Northfield, Minnesota

Audit Report on Financial Statements
and Federal Awards

May 31, 2010

ST. OLAF COLLEGE
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ST. OLAF COLLEGE
HIGHLIGHTS (Unaudited)
Years Ended May 31, 2010 and 2009

FISCAL YEAR ENDING: MAY 31 ACADEMIC YEAR	FY 2010 2009-10	FY 2009 2008-09
ENROLLMENT, RETENTION, GRADUATION		
Undergraduate FTE (Fall)	3,048	3,033
Undergraduate Headcount (Fall)	3,099	3,073
% Men/Women	45/55	45/55
% Who Are In-State/Out-of-State	52/48	54/46
% White/Domestic Minority/International	85/13/2	86/12/2
1st Year to Sophomore	91.7%	93.2%
Sophomore to Junior	88.1%	88.4%
Junior to Senior	85.5%	87.5%
Four-Year Graduation Rate	81.1%	80.8%
Five-Year Graduation Rate	85.6%	85.2%
Number of Seniors (May)	719	692
Number of Declared Majors	985	915
Top five Majors		
1st	Biology 9.6%	Biology 11.1%
2nd	Math 8.0%	Economics 7.2%
3rd	Economics 6.9%	Music 6.2%
4th	Chemistry 6.8%	Math 5.9%
5th	English 6.4%	English 5.8%
NEW STUDENT ADMISSIONS (Fall)		
Applications (1st Year / Transfer)	3,882 / 138	3956 / 237
Acceptances (1st Year / Transfer)	2,230 / 49	2,322 / 66
Acceptance Rate (1st Year / Transfer)	57.4% / 35.5%	58.7% / 27.8%
Matriculants (1st Year / Transfer)	777 / 26	813 / 36
Yield Rate (1st Year / Transfer)	34.8% / 53.1%	35.0% / 54.5%
% 1st Year Men/Women	43/57	45/55
% 1st Year In-State/Out-of-State	47/53	48/52
% 1st Year 1st Generation to College	15	15
Median ACT - 1st Year	29	29
Median SAT - 1st Year	1300	1290
FACULTY AND STAFF EMPLOYED (Fall)		
Faculty / Staff / Total - FTE	282 / 376 / 658	283 / 373 / 656
Faculty / Staff / Total - Full-time Headcount	251 / 322 / 573	247 / 318 / 565
Faculty / Staff / Total - Part-time Headcount	93 / 163 / 256	108 / 165 / 272
FTE by Functional Classification		
Instructional	250	250
Executive/Administrative *	58	92
Other Professional *	133	113
Technical *	9	8
Clerical/Secretarial *	93	80
Skilled Crafts	26	25
Service/Maintenance	89	88
Total	<u>658</u>	<u>656</u>
* positions were reclassified in Fall 2009		
TUITION AND FEES PER STUDENT		
Tuition	\$ 35,500	\$ 34,300
Room & Board	8,200	7,900
Total Comprehensive Fee	<u>\$ 43,700</u>	<u>\$ 42,200</u>
FINANCIAL AID - SCHOLARSHIPS & GRANTS		
Federal Grants	\$ 2,844,000	\$ 1,907,000
State Grants	1,994,000	1,511,000
Institutional Scholarships & Grants	36,586,000	32,543,000
Outside Scholarships & Grant	1,693,000	1,713,000
Total	<u>\$ 43,117,000</u>	<u>\$ 37,674,000</u>
Total Per Student FTE	\$ 14,146	\$ 12,421
ENDOWMENT		
Market Value at Fiscal Year End	\$ 275,844,546	\$ 249,425,439
Market Value per FTE Student	\$ 90,500	\$ 82,237
Total Return on Investments	12.9%	-24.1%



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INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying statements of financial position of St. Olaf College as of May 31, 2010 and 2009 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, 2010 and 2009 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, in fiscal year 2009, the College adopted authoritative guidance on Fair Value Measurements and Endowment Funds Net Asset Classifications.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 28, 2010 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 audits were 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.

Baker Tilly Virchow Krause, LLP

Minneapolis, Minnesota
September 28, 2010

ST. OLAF COLLEGE
STATEMENTS OF FINANCIAL POSITION
 May 31, 2010 and 2009

ASSETS		
	2010	2009
Cash and cash equivalents	\$ 24,251,784	\$ 18,889,594
Receivables		
Student accounts, net of allowance for doubtful accounts of \$213,600 and \$283,700	190,507	81,523
Contributions, net (Note 4)	12,932,438	13,209,165
Student notes receivable, net of allowance for doubtful notes of \$596,800 and \$626,800	8,309,189	8,416,321
Insurance	1,680,471	2,028,549
Other	1,006,737	1,055,602
Inventories	757,136	689,678
Prepaid expenses and deposits	685,926	730,384
Investments (Note 5)	320,653,875	290,182,761
Deposits held by trustee (Note 5)	3,278,268	3,278,268
Deferred debt acquisition costs	532,948	558,952
Beneficial interest in trust held by others (Note 5)	1,877,586	1,765,685
Property, plant and equipment, net (Note 7)	202,547,390	196,486,170
TOTAL ASSETS	\$ 578,704,255	\$ 537,372,652
LIABILITIES AND NET ASSETS		
LIABILITIES		
Accounts payable	\$ 5,868,038	\$ 6,929,629
Accrued liabilities (Note 8)	12,814,355	14,675,504
Deferred revenue	3,894,520	4,045,184
Annuities payable (Note 16)	12,348,115	11,657,359
Interest rate exchange liability (Notes 5 and 17)	1,279,276	1,316,978
Asset retirement obligations (Note 11)	2,699,657	2,568,376
Long-term debt (Note 12)	83,945,470	85,131,835
U. S. government grants refundable	6,594,606	6,357,159
Deposits held in trust for others	3,937,121	3,614,188
Total Liabilities	133,381,158	136,296,212
NET ASSETS		
Unrestricted (Note 2)	176,099,853	152,297,554
Temporarily restricted (Note 2)	126,346,467	111,710,682
Permanently restricted (Note 2)	142,876,777	137,068,204
Total Net Assets	445,323,097	401,076,440
TOTAL LIABILITIES AND NET ASSETS	\$ 578,704,255	\$ 537,372,652

See accompanying notes to financial statements.

ST. OLAF COLLEGE
STATEMENT OF ACTIVITIES
Year Ended May 31, 2010

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
REVENUES, GAINS AND OTHER SUPPORT				
OPERATING REVENUES				
Tuition	\$ 104,828,210			\$ 104,828,210
Less: Unfunded scholarships and grants	(40,625,098)			(40,625,098)
Funded scholarships and grants	(4,883,498)			(4,883,498)
Net tuition	59,319,614			59,319,614
Other tuition and fees	4,050,026			4,050,026
Government grants	4,658,381	\$ 2,944		4,661,325
Private gifts and grants	3,992,030	1,177,512		5,169,542
Long-term investment income and gains allocated for operations	4,986,970	7,253,528		12,240,498
Other sources	2,147,383	441,717		2,589,100
Investment income	225,508	23,029		248,537
Net losses on investments and capital assets	(209,092)			(209,092)
Capital gifts allocated		1,851,899		1,851,899
Auxiliary enterprises - sales and services	26,263,345			26,263,345
	105,434,165	10,750,629		116,184,794
Net assets released from restrictions (Notes 1 and 3)	10,552,098	(10,552,098)		
Total Operating Revenues, Gains and Other Support	115,986,263	198,531		116,184,794
OPERATING EXPENSES				
Program expenses				
Instruction	45,757,758			45,757,758
Research	1,348,816			1,348,816
Public service	483,989			483,989
Academic support	9,955,461			9,955,461
Student services	15,806,541			15,806,541
Auxiliary enterprises	19,347,124			19,347,124
Support expenses				
Institutional support	9,162,598			9,162,598
Fundraising	3,576,520			3,576,520
Total Operating Expenses (Note 15)	105,438,807			105,438,807
Change in Net Assets from Operating Activities	10,547,456	198,531		10,745,987
NONOPERATING ACTIVITIES				
Long-term investment activities				
Investment income	949,784	1,420,700	\$ 18,163	2,388,647
Net gains on investments	13,642,738	15,595,619	155,775	29,394,132
Total long-term investment income	14,592,522	17,016,319	173,938	31,782,779
Less: Long-term investment income and gains allocated for operations	(4,986,970)	(7,253,528)		(12,240,498)
	9,605,552	9,762,791	173,938	19,542,281
Student loan income net of expenses	(2,417)		24,757	22,340
Capital giving activities - gifts and grants	332,398	6,079,066	2,746,646	9,158,110
Deferred giving activities - gifts	41,996		661,151	703,147
Capital gifts allocated to operations		(1,851,899)		(1,851,899)
Interest rate swap gain, net of settlements	(367,706)			(367,706)
Adjustment to actuarial liability for annuities payable	2,395,657	447,296	2,202,081	5,045,034
Adjustment to prior service cost and actuarial liability for retiree health plan	1,597,441			1,597,441
Loss from adjustment of hail storm insurance receivable estimate	(348,078)			(348,078)
Change in Net Assets from Nonoperating Activities	13,254,843	14,437,254	5,808,573	33,500,670
Change in Net Assets	23,802,299	14,635,785	5,808,573	44,246,657
Net Assets - Beginning of Year	152,297,554	111,710,682	137,068,204	401,076,440
NET ASSETS - END OF YEAR	\$ 176,099,853	\$ 126,346,467	\$ 142,876,777	\$ 445,323,097

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 (Notes 1 and 3)	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 (Note 15)	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 from adjustment of hail storm insurance receivable estimate	396,672			396,672
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

STATEMENTS OF CASH FLOWS
Years Ended May 31, 2010 and 2009

	2010	2009
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ 44,246,657	\$ (94,191,908)
Adjustments to reconcile change in net assets to net cash flows from operating activities		
Depreciation, amortization and accretion expense	10,588,859	9,968,810
Net (gains) or losses on investments	(35,293,684)	98,795,468
Change in allowance for uncollectible student loans	(30,000)	118,075
Interest rate exchange (gain) loss	(37,702)	437,753
Loss on dispositions of property, plant and equipment	162,745	535,057
Actuarial adjustment of annuities payable	1,555,743	(970,716)
Adjustment to prior service cost and actuarial liability for retiree health plan	(1,597,441)	
Gifts of property, plant and equipment	(124,750)	(532,800)
(Increases) decreases in:		
Student accounts receivable	(108,984)	183,035
Contributions receivable for operations	84,651	125,754
Other receivables	396,943	(853,962)
Inventories, prepaid expenses and deposits	(23,000)	109,611
Funds held in trust by others	(111,901)	308,259
Increases (decreases) in:		
Accounts payable	(1,201,636)	2,376,840
Accrued liabilities	(263,708)	297,263
Deferred revenue	(150,664)	(10,688)
Asset retirement obligation	(209,697)	(226,300)
Gifts and grants received for long-term investment, net	(9,861,257)	(4,093,212)
Nonoperating investment income	(2,388,647)	(3,410,405)
Net Cash Flows from Operating Activities	<u>5,632,527</u>	<u>8,965,934</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of property, plant and equipment	(16,212,411)	(35,421,677)
Withdrawals from deposits held by trustee		358
Purchases of investments	(128,738,732)	(165,704,835)
Proceeds from sales of investments	133,561,301	169,159,510
Nonoperating investment income	2,388,647	3,410,405
Disbursements of loans to students	(1,034,616)	(1,087,994)
Repayments of loans by students	1,171,748	1,173,357
Net Cash Flows from Investing Activities	<u>(8,864,063)</u>	<u>(28,470,876)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Principal repayments of indebtedness	(1,155,000)	(1,105,000)
Gifts and grants received for long-term investment, net	9,861,257	4,093,212
Decrease in cash held for plant acquisitions		592,389
Decrease in nonoperating contributions receivable	192,076	2,651,125
Increase (decrease) in deposits held in trust for others	322,933	(1,598,467)
Increase in U. S. government grants refundable, net	237,447	122,429
Increase in annuities payable from new gifts	770,068	332,391
Payments to annuitants	(1,635,055)	(1,843,264)
Net Cash Flows from Financing Activities	<u>8,593,726</u>	<u>3,244,815</u>
Net Change in Cash and Cash Equivalents	5,362,190	(16,260,127)
CASH AND CASH EQUIVALENTS - Beginning of Year	<u>18,889,594</u>	<u>35,149,721</u>
CASH AND CASH EQUIVALENTS - END OF YEAR	<u>\$ 24,251,784</u>	<u>\$ 18,889,594</u>
Supplemental Disclosure:		
Interest paid, net of capitalized interest	\$ 2,301,623	\$ 2,499,465
Net capitalized interest		291,536
Property, plant and equipment acquired through accounts payable	1,605,430	1,465,384

See accompanying notes to financial statements.

ST. OLAF COLLEGE

NOTES TO FINANCIAL STATEMENTS

May 31, 2010 and 2009

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES

Organization - Founded in 1874, St. Olaf College (the College) is a national liberal arts college of the Evangelical Lutheran Church in America enrolling approximately 3,000 students from 48 states and 26 foreign countries on its 300-acre residential campus with 325 acres of adjacent natural lands in Northfield, MN. The College offers 45 majors leading to Bachelor of Arts or Bachelor of Music degrees. St. Olaf ranks 9th overall among the nation's baccalaureate colleges in the number of graduates who go on to earn doctoral degrees. St. Olaf ranks among the top ten baccalaureate antecedents of Ph.D. recipients in mathematics and statistics (2nd); religion and theology (2nd); arts and music (4th); education (5th); chemistry (6th); engineering (9th); and foreign languages (10th). St. Olaf is second among private liberal arts colleges in producing Rhodes Scholars in the last decade. A leader in global education, St. Olaf ranks first among liberal arts colleges in the number of students (661 in 2007-2008) who studied off-campus at least once during their college years.

Basis of Financial Statements - The accounting policies of the College reflect practices common to universities and colleges and are prepared in accordance with accounting principles generally accepted in the United States of America. The more significant accounting policies are summarized below:

Net Asset Classifications - In order to ensure observance of limitations and restrictions placed on the use of resources available to the College, the accounts of the College are maintained in accordance with principles of "fund accounting." This is the procedure by which resources for various purposes are classified for accounting and reporting purposes into funds that are in accordance with the activities or objectives specified. Separate accounts are maintained for each fund; however, in the accompanying financial statements, funds have been combined in three classes of net assets based on the existence or absence and type of donor-imposed restrictions as follows:

Unrestricted Net Assets - Net assets that are not subject to donor-imposed restrictions. (See Note 2)

Temporarily Restricted Net Assets - Net assets subject to donor-imposed restrictions that will be met by action of the College and/or the passage of time. (See Note 2)

Permanently Restricted Net Assets - Net assets subject to donor-imposed restrictions 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. (See Note 2)

Releases from Restrictions - 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 on the statement of activities as net assets released from restrictions. (See Note 3) Occasionally donor restrictions related to net assets may be clarified or changed, at which time they are reflected as reclassification of prior year net assets on the statement of activities.

Revenue Recognition - The timing and classification of revenue are summarized below:

Tuition and Fees and Auxiliary Revenue - Revenues from tuition and auxiliary enterprises are recognized in the period the goods or services are provided as increases in unrestricted net assets. Financial assistance in the form of scholarships and grants that cover a portion of tuition, living and other costs is reflected as a reduction of tuition and fees revenues.

ST. OLAF COLLEGE

NOTES TO FINANCIAL STATEMENTS

May 31, 2010 and 2009

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Contribution Revenue - Contributions are recognized as revenues when the donor's commitments are received, as increases in unrestricted net assets unless use of the related assets is limited by donor-imposed restrictions. Conditional promises to give are not recognized until they become unconditional, that is, when the conditions on which they depend are substantially met. Gifts of assets other than cash are recorded at their estimated fair value at the date of gift.

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 release to unrestricted net assets is made to reflect the expiration of such restrictions.

The College reports unrestricted contributions of depreciable assets, or of cash and other assets to be used to acquire them, as temporarily restricted revenue. The restriction on the related temporarily restricted net asset is released over the estimated useful lives of the assets using the College's depreciation policies.

Investment Gains and Losses - 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.

Income and net gains on investments of endowment and similar funds are reported in the statement of activities as follows:

- > as increases in unrestricted net assets for board-designated endowment funds and to restore donor-restricted endowment funds with deficiencies;
- > as increases in permanently restricted net assets if the terms of the gift that gave rise to the investment require that they be added to the principal of a permanent endowment fund;
- > 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.

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.

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 are generally unsecured. Government student loan program receivables (Perkins) that become uncollectible can be assigned to the federal government.

ST. OLAF COLLEGE

NOTES TO FINANCIAL STATEMENTS

May 31, 2010 and 2009

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 received \$3,547,768 from insurance companies as of May 31, 2010, received \$1,174,887 in June 2010, and expects to receive an additional \$505,584 in subsequent years. As a result, the College recorded a net gain of \$4,206,220 for the year ended May 31, 2007. The College's receivable estimate was adjusted in 2010 and 2009 as additional information became available. Costs incurred associated with the replacement of the roofs were capitalized during fiscal years 2007 through 2010, and costs will continue to be capitalized as incurred in subsequent years.

Inventories - Inventories are valued at the lower of cost or market, with the exception of bookstore inventories which are valued at a percentage of retail value that approximates cost and is not in excess of market.

Investments - Investments in publicly traded securities are stated at quoted market value. Other investments, for which no such quoted market values or valuations are readily available, are carried at fair value as estimated by management using values provided by external investment managers. Changes in fair value are recorded as unrealized gains or losses in the period of change. (See Note 5)

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 over the term of the bonds.

Beneficial Interest in Trusts Held by Others - The beneficial interest in trusts held by others and related contribution revenue are recognized at the date the trusts are established for the present value of estimated future payments to be received. Perpetual trusts are valued based upon the market value of the assets contributed to the trusts which approximates fair value of the beneficial interest in the trusts.

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 materials 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. (See Note 7) 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 3 to 5 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.

Impairment of Long-Lived Assets - The College reviews long-lived assets, including property and equipment and intangible assets, for impairment whenever events or changes in business circumstances indicate that the carrying amount of an asset may not be fully recoverable. An impairment loss would be recognized when the estimated future cash flows from the use of the asset are less than the carrying amount of that asset. To date, there have been no such losses.

ST. OLAF COLLEGE

NOTES TO FINANCIAL STATEMENTS

May 31, 2010 and 2009

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Deferred Revenue - Certain revenue related to summer and fall courses and programs is deferred and recognized as revenue in the same period expenses are recognized. Students are generally billed for courses and programs prior to the start of the course or program.

Annuities Payable - Annuities payable represent the College's liability under annuity contracts with donors and irrevocable charitable remainder trusts for which the College serves as the trustee. Assets held under these agreements are included in investments. (See Note 16)

Interest Rate Exchange Liability - The College uses an interest rate exchange agreement as part of its risk management strategy to manage exposure to fluctuations in interest rates and to manage the overall cost of its debt. The interest rate exchange agreement was not entered into for trading or speculative purposes. All derivatives, including those embedded in other contracts as well as interest rate exchange transactions, are recognized as either assets or liabilities and are measured at fair value. Gains or losses resulting from changes in the fair values of the interest rate exchange transactions are reflected in the statements of activities as an increase or decrease to unrestricted net assets. (See Note 17)

U.S. 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.

Deposits Held in Trust for Others - The College acts as trustee for funds transferred from various organizations for investment management and administrative purposes. The funds are to be distributed back to these organizations as they request them. The College recognizes the funds as a liability in the accompanying statement of financial position.

Fair Value of Financial Instruments - 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.

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 5.

ST. OLAF COLLEGE

NOTES TO FINANCIAL STATEMENTS
May 31, 2010 and 2009

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

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.

In accordance with the accounting standard on *Accounting for Uncertainty in Income Taxes*, the College addresses the determination of whether tax benefits claimed on a tax return should be recorded in the financial statements. Under this guidance, the College may recognize the tax benefit from an uncertain tax position only if it is more likely than not that the tax position will be sustained on examination by taxing authorities, based on the technical merit of the position. Examples of tax positions include the tax-exempt status of the College and various positions related to the potential sources of unrelated business taxable income. There were no significant unrecognized tax benefits identified or recorded as liabilities during fiscal year 2010. Open tax years subject to examination by the U.S. and state taxing authorities are for the years 2007 to 2009, which statutes expire in 2010 to 2012, respectively.

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. (See Note 14)

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.

Reclassifications - Certain amounts appearing in the 2009 financial statements have been reclassified to conform with the 2010 presentation. The reclassifications have no effect on reported amounts of total net assets or change in total net assets.

Recent Accounting Pronouncements - The College adopted the provisions of Financial Accounting Standards Board (FASB) ASC Topics 958-205-45, 958-205-50 and 958-2-5-55 (formerly 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. The Topics provide 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). The Topics also require enhanced disclosures for all not-for-profit organizations, not just those subject to UPMIFA. The State of Minnesota adopted UPMIFA effective August 1, 2008. As a result of adopting the provisions of the Topics, the College reclassified \$93,705,186 of unrestricted net assets into temporarily restricted net assets during the year ended May 31, 2009. This represented the amount of accumulated net gains in existence at June 1, 2008 that had not yet been appropriated for spending by the College's Board of Regents.

ST. OLAF COLLEGE

NOTES TO FINANCIAL STATEMENTS

May 31, 2010 and 2009

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Recent Accounting Pronouncements (cont.) - The College adopted the provisions of FASB ASC Topic 820 (formerly FAS No. 157, *Fair Value Measurements and Disclosures*) effective June 1, 2008. The Topic defines fair value, establishes a framework for measuring fair value and requires enhanced disclosures about fair value measures that are required under other accounting pronouncements, but did not change existing guidance as to whether or not a financial instrument is carried at fair value.

The College's adoption of ASC Topic 820 in fiscal year 2009, with respect to financial assets and liabilities measured at fair value on a recurring basis, resulted in increased disclosures in the financial statements about fair value measurements. The College's adoption in fiscal year 2010 of the provisions of this Topic with respect to nonrecurring fair value measurements of nonfinancial assets and liabilities, did not have a material impact on the College's financial statements.

Additionally, from time to time, the College may be required to measure certain assets and liabilities at fair value on a nonrecurring basis in accordance with U.S. generally accepted accounting principles. These adjustments to fair value would usually result from the application of the lower-of-cost-or-market accounting or write-down of individual assets. The College did not measure any assets or liabilities at fair value on a nonrecurring basis during the years ended May 31, 2010 or 2009.

The College also adopted the provisions of FASB ASC Topic 825 (formerly FAS No. 159, *The Fair Value Option for Financial Assets and Liabilities, including an amendment of FASB Statement No. 115*) effective June 1, 2008. ASC Topic 825 provides, among other things, 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 assets or liabilities that were not currently required to be measured at fair value.

In September 2009, the FASB issued ASU No. 2009-12, *Investment in Certain Entities That Calculate Net Asset Value per Share* (ASU 2009-12). ASU 2009-12 (formerly FAS No. 157-g) amends former FASB Statement No. 157, *Fair Value Measurements*, adds disclosures, and provides guidance for estimating fair value of investments in investment companies that calculate net asset value per share, allowing the Net Asset Value per Share (NAV) to be used as a practical expedient for fair value where investment companies follow the American Institute of Certified Public Accountants (AICPA) Guide in arriving at their reported NAV. The College adopted ASU 2009-12 effective June 1, 2009. See Note 5 for these additional disclosures.

In March 2008, the FASB issued ASC Topic 815-10-50 (formerly FAS No. 161, *Disclosures about Derivative Instruments and Hedging Activities - an amendment of FASB Statement No. 133*). This guidance requires enhanced disclosures to provide additional information regarding the accounting treatment for derivatives and hedging activities, the reasons the College invests using derivative instruments and the effect derivatives have on the College's financial statements. It also requires qualitative disclosures about the objectives and strategies for using derivative instruments, quantitative disclosures about the fair value of, and gains and losses on, derivative instruments, as well as disclosures about credit-risk related contingent features in derivative agreements. The College adopted ASC 815-10-50 effective June 1, 2009. See Note 17 for these additional disclosures.

In January 2010, the FASB issued ASU No. 2010-06, *Improving Disclosures about Fair Value Measurements*. This amends ASC 820 (formerly FAS 157-4) to require additional disclosures. The guidance requires entities to disclose transfers of assets in and out of Levels 1 and 2 of the fair value hierarchy, and the reasons for those transfers. ASU 2010-06 is effective for fiscal year 2011. In addition, the guidance requires separate presentation of purchases and sales in the Level 3 asset reconciliation; which is effective for fiscal year 2012. The adoption of this guidance is not expected to have a material impact on the College's financial statements.

ST. OLAF COLLEGE

NOTES TO FINANCIAL STATEMENTS
May 31, 2010 and 2009

NOTE 2 - RESTRICTIONS AND LIMITATIONS ON NET ASSETS BALANCES

At May 31, 2010 and 2009, the College's unrestricted net assets were allocated as follows:

	<u>2010</u>	<u>2009</u>
Operations	\$ 63,127,304	\$ 52,621,305
Endowment funds:		
Donor restricted endowment funds (underwater)	(2,544,463)	(4,408,256)
Board designated for debt service and facility renewal	32,782,976	29,561,024
Other - board designated endowment	63,776,958	57,968,866
Total endowment funds	<u>94,015,471</u>	<u>83,121,634</u>
Deferred gifts	17,886,668	15,481,788
Student loan programs - matching federal government	<u>1,070,410</u>	<u>1,072,827</u>
	<u>\$ 176,099,853</u>	<u>\$ 152,297,554</u>

Temporarily restricted net assets consist of the following at May 31, 2010 and 2009:

Gifts and other unexpended revenues and gains available for:		
Scholarships, instruction and other support	\$ 4,672,529	\$ 4,963,828
Unamortized plant gifts	58,440,625	59,813,925
Acquisition of buildings and equipment	5,643,377	
	<u>68,756,531</u>	<u>64,777,753</u>
Endowment funds	56,108,880	45,869,169
Deferred gifts	<u>1,481,056</u>	<u>1,063,760</u>
	<u>\$ 126,346,467</u>	<u>\$ 111,710,682</u>

Permanently restricted net assets consist of the following at May 31, 2010 and 2009:

Endowment funds	\$ 125,720,195	\$ 120,434,636
Deferred gifts	14,904,409	14,423,218
Student loan funds	<u>2,252,173</u>	<u>2,210,350</u>
	<u>\$ 142,876,777</u>	<u>\$ 137,068,204</u>

Total net assets consist of the following at May 31, 2010 and 2009:

Operations	\$ 131,883,835	\$ 117,399,058
Endowment funds (Note 6)	275,844,546	249,425,439
Deferred gifts (Note 16)	34,272,133	30,968,766
Student loan funds	<u>3,322,583</u>	<u>3,283,177</u>
	<u>\$ 445,323,097</u>	<u>\$ 401,076,440</u>

ST. OLAF COLLEGE

NOTES TO FINANCIAL STATEMENTS
May 31, 2010 and 2009

NOTE 3 - NET ASSETS RELEASED FROM RESTRICTIONS

Net assets were released to unrestricted operating net assets from temporary donor restrictions by incurring expenses satisfying the restricted purposes or by occurrence of events specified by the donors as follows for the years ended May 31, 2010 and 2009:

	<u>2010</u>	<u>2009</u>
Amortization of contributions expended for long-lived assets	\$ 1,851,899	\$ 1,691,105
Scholarships, instruction and other departmental support	<u>8,700,199</u>	<u>8,052,183</u>
	<u>\$ 10,552,098</u>	<u>\$ 9,743,288</u>

NOTE 4 - CONTRIBUTIONS RECEIVABLE

Contributions receivable include the following unconditional promises to give at May 31, 2010 and 2009:

	<u>2010</u>	<u>2009</u>
Unconditional promises expected to be collected in:		
Less than one year	\$ 4,713,050	\$ 11,198,290
One to five years	9,707,985	3,013,420
Over five years	<u>1,550</u>	<u>1,200</u>
Gross unconditional promises to give	14,422,585	14,212,910
Less: Unamortized discount	(710,900)	(219,410)
Allowance for uncollectible promises	<u>(779,247)</u>	<u>(784,335)</u>
	<u>\$ 12,932,438</u>	<u>\$ 13,209,165</u>

Contributions receivable due within one year are not discounted. Contributions receivable expected to be collected in more than one year have been discounted using historic rates, ranging from 1.17% to 6.00%. As of May 31, 2010, net contributions receivable consisted of \$10,644,293 for plant projects, \$1,631,707 for endowments, and \$656,438 for operations.

ST. OLAF COLLEGE

NOTES TO FINANCIAL STATEMENTS

May 31, 2010 and 2009

NOTE 5 - INVESTMENTS AND FAIR VALUE OF FINANCIAL INSTRUMENTS

The College follows the FASB guidance on fair value measurements. Fair value is defined in the guidance as the exchange price that would be received to sell an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the assets or liability in an orderly transaction between market participants at the measurement date. Under this guidance, a three-level hierarchy is used for fair value measurements which is based on the transparency of information, such as the pricing source, used in 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 schedules within this note are not intended to indicate the volatility of the investments.

ST. OLAF COLLEGE

NOTES TO FINANCIAL STATEMENTS

May 31, 2010 and 2009

NOTE 5 - INVESTMENTS AND FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)

The following table summarizes financial instruments measured at fair value on a recurring basis by classification within the fair value hierarchy as of May 31, 2010:

	<u>Total</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
ASSETS				
Investments				
Cash and short-term investments	\$ 3,992,376	\$ 3,992,376		
<u>Marketable Securities</u>				
Mutual funds	155,816,049	155,816,049		
Stocks	2,114,059	2,114,059		
Bonds	1,232,276	1,232,276		
<u>Alternative Investments</u>				
Hedge funds	57,083,187		\$ 40,460,774	\$ 16,622,413
Private equity funds	35,636,606			35,636,606
Global equity funds	24,626,019		24,626,019	
Corporate bond funds	11,362,317		11,362,317	
Real estate funds	6,654,392			6,654,392
Commodity funds	3,768,206			3,768,206
Treasury inflation-protected securities (TIPS)	13,899,825		13,899,825	
Real estate	1,694,137			1,694,137
Private bond debenture	590,000			590,000
Other investments	2,184,426			2,184,426
Total Investments	<u>320,653,875</u>	<u>163,154,760</u>	<u>90,348,935</u>	<u>67,150,180</u>
Deposits held by trustee	3,278,268	3,278,268		
Beneficial interest in trusts held by others	<u>1,877,586</u>			<u>1,877,586</u>
Total	<u>\$ 325,809,729</u>	<u>\$ 166,433,028</u>	<u>\$ 90,348,935</u>	<u>\$ 69,027,766</u>
LIABILITIES				
Interest rate exchange liability	<u>\$ 1,279,276</u>	<u>\$ -</u>	<u>\$ 1,279,276</u>	<u>\$ -</u>

ST. OLAF COLLEGE

NOTES TO FINANCIAL STATEMENTS

May 31, 2010 and 2009

NOTE 5 - INVESTMENTS AND FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)

The following table summarizes financial instruments measured at fair value on a recurring basis by classification within the fair value hierarchy as of May 31, 2009:

	<u>Total</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
ASSETS				
Investments				
Cash and short-term investments	\$ 5,081,793	\$ 5,081,793		
<u>Marketable Securities</u>				
Mutual funds	148,384,329	148,384,329		
Stocks	1,861,009	1,861,009		
Bonds	1,277,572	1,277,572		
<u>Alternative Investments</u>				
Hedge funds	54,143,089			\$ 54,143,089
Private equity funds	23,235,743			23,235,743
Global equity funds	25,586,066			25,586,066
Corporate bond funds	10,826,386			10,826,386
Real estate funds	8,806,790			8,806,790
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
Total Investments	<u>290,182,761</u>	<u>156,604,703</u>		<u>133,578,058</u>
Deposits held by trustee	3,278,268	3,278,268		
Beneficial interest in trusts held by others	<u>1,765,685</u>			<u>1,765,685</u>
 Total	 <u>\$ 295,226,714</u>	 <u>\$ 159,882,971</u>	 <u>\$ -</u>	 <u>\$ 135,343,743</u>
LIABILITIES				
Interest rate exchange liability	<u>\$ 1,316,978</u>	<u>\$ -</u>	<u>\$ 1,316,978</u>	<u>\$ -</u>

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.

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

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 and bonds which 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.

ST. OLAF COLLEGE

NOTES TO FINANCIAL STATEMENTS

May 31, 2010 and 2009

NOTE 5 - INVESTMENTS AND FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)

Alternative investments – At May 31, 2009, investments in hedge funds, private equity funds, real estate partnerships, real estate funds, funds of funds, and real assets partnerships 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 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.

At May 31, 2010, the fair value of certain funds has been estimated using the Net Asset Value (“NAV”) as reported by the management of the fund. FASB guidance allows for the use of the NAV as a “practical expedient” estimating the fair value of alternative investments. NAV reported by each alternative investment fund is used as a practical expedient to estimate the fair value of the College’s interest in the fund. Investments are categorized as Level 2 instruments when the College has the ability to redeem its investment in the entity at the NAV per share in the near term. If the College does not know when it will have the ability to redeem its investment or it does not have the ability to redeem its investment at NAV per share in the near term, the investments are categorized as Level 3 instruments. The College generally considers a redemption period of 90 days or less to be considered near term.

Hedge funds - The College’s hedge fund portfolio includes funds focused on absolute return, security selection, and hedging. Management of the hedge funds has the ability to shift investments from value to growth strategies, from small to large capitalization stocks, and from a net long position to a net short position. The fair values of the investments in this category have been estimated using the net asset value per share of the investments. The funds’ redemption terms range from monthly, quarterly, semi-annual, or annual liquidity with 30 to 180 days notice. Investments representing approximately 13 percent of the value of the investments in this category cannot be redeemed because the investments include restrictions that do not allow for redemption in the first 24 to 36 months after acquisition. The remaining restriction period for these investments ranged from 16 to 28 months at May 31, 2010.

Private equity funds - The College’s private equity fund portfolio includes funds that have a broad range of investment objectives. The portfolio contains diversified funds of funds focused on the three primary sectors of private equity; venture, buyout, and special situations, as well as smaller direct funds that have more specific niche strategies. All but one of the investments is illiquid, with no redemption provisions. Instead, the nature of the investments in this category is that distributions are received through the liquidation of the underlying assets of the fund. If the College held the underlying investments, it is estimated that the underlying assets of the fund would be liquidated over a shorter time period than the fund. However, as of May 31, 2010, it is probable that all of the investments in this category will be sold at an amount different from the net asset value of the College’s ownership interest in partners’ capital. Therefore, the fair values of the investments in this category have been estimated by the fund managers using recent observable transaction information for similar investments and non-binding bids received from potential buyers of the investments.

Global equity funds - The College’s global equity fund portfolio includes two limited partnership investments both holding long-only domestic and international equities. The redemption terms are either monthly liquidity with 10 days notice or quarterly liquidity with 30 days notice. The fair values of the funds are provided by the fund managers using net asset value.

Corporate bond funds - The College’s corporate bond funds portfolio included only one limited partnership investments at the balance sheet date; the fund invests in international long-only fixed income securities. The fund can be redeemed on a daily basis with ten days notice. The fair value of the fund is provided by the fund manager using net asset value.

ST. OLAF COLLEGE

NOTES TO FINANCIAL STATEMENTS

May 31, 2010 and 2009

NOTE 5 - INVESTMENTS AND FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)

Real estate funds - The College's real estate fund portfolio includes funds having diversified investment objectives ranging from funds of funds that focus on domestic commercial properties to direct open-ended real estate investment trusts (REITs). The fair values of the investments in this category have been estimated using the net asset value of the College's ownership interest in partners' capital. The REITs have quarterly liquidity with 45 or 60 days notice. The other investments can never be redeemed with the funds. Distributions from each fund will be received as the underlying investments of the funds are liquidated. It is estimated that the underlying assets of the fund will be liquidated over the next 1 to 15 years. The fair values of the investments in this category have been estimated by the fund managers either using recent observable transaction information for similar investments or non-binding bids received from potential buyers of the investments.

Commodity funds - The College's commodity fund portfolio includes funds of funds investments that either focus on natural resources or energy. The fair values of the investments in this category have been estimated using the net asset value of the College's ownership interest in partners' capital. All investments in the portfolio are illiquid, having no redemption provisions. Distributions from each fund will be received as the underlying investments of the funds are liquidated. It is estimated that the underlying assets of the fund will be liquidated over the next 7 to 15 years. The fair values of the investments in this category have been estimated by the fund managers either using recent observable transaction information for similar investments or non-binding bids received from potential buyers of the investments.

Treasury inflation-protected securities (TIPS) - The College's treasury inflation-protected securities portfolio includes one fund at the balance sheet date. The fund can be redeemed on a daily basis with intraday notice. The fair value of the fund is provided by the fund manager using net asset value.

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.

Beneficial interest in trusts held 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.

Interest rate exchange liability - 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.

ST. OLAF COLLEGE

NOTES TO FINANCIAL STATEMENTS
May 31, 2010 and 2009

NOTE 5 - INVESTMENTS AND FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)

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, 2010:

	Balances May 31, 2009	Net realized and unrealized gains (losses)	Purchases	Sales	Net transfers in (out) of Level 3	Balances May 31, 2010
Assets						
<u>Alternative Investments</u>						
Hedge funds	\$ 54,143,089	\$ (1,691,295)	\$ 8,000,000	\$ (2,612,379)	\$ (41,217,002)	\$ 16,622,413
Private equity funds	23,235,743	6,312,454	6,532,210	(443,801)		35,636,606
Real estate funds	8,806,790	(3,360,732)	1,256,871	(48,537)		6,654,392
Global equity fund	25,586,066				(25,586,066)	
Corporate bond funds	10,826,386				(10,826,386)	
Commodity funds	1,344,159	371,766	2,222,184	(169,903)		3,768,206
Real estate	1,844,537	(327,400)	177,000			1,694,137
Private bond debenture	6,120,000			(5,530,000)		590,000
Other investments	1,671,288	78,885	479,605	(45,352)		2,184,426
Beneficial interest in trusts held by others	1,765,685	138,393		(26,492)		1,877,586
Total	\$ 135,343,743	\$ 1,522,071	\$ 18,667,870	\$ (8,876,464)	\$ (77,629,454)	\$ 69,027,766

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, 2010.

\$ 2,659,019

ST. OLAF COLLEGE

NOTES TO FINANCIAL STATEMENTS
May 31, 2010 and 2009

NOTE 5 - INVESTMENTS AND FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)

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					
Alternative Investments					
Hedge funds	\$ 66,386,991	\$ (6,855,652)	\$ (5,388,250)		\$ 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)	1,438,205		8,806,790
Global equity funds	31,420,577	(8,334,511)	2,500,000		25,586,066
Corporate bond funds	11,872,546	762,187	(1,808,347)		10,826,386
Commodity funds	7,302,092	(1,933,137)	(4,024,796)		1,344,159
Treasury inflation-protected securities	30,011,447	(1,802,365)	(28,209,082)		
Real estate	2,176,100	(296,700)	(34,863)		1,844,537
Private bond debenture	6,930,000		(810,000)		6,120,000
Note receivable	352,803		(352,803)		
Mortgages and contracts	613,907		(613,907)		
Other investments	1,731,313	(58,827)	(1,198)		1,671,288
Beneficial interest in trusts held by others	2,073,944	(379,238)	70,979		1,765,685
Total	\$ 192,340,540	\$ (30,508,747)	\$ (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)

At May 31, 2010, the College's remaining outstanding commitments to alternative investments totaled \$49,349,775. The projected capital call amounts for the next five fiscal years and thereafter are summarized in a table below:

Year Ending May 31:	Hedge funds	Private equity funds	Real estate funds	Commodity funds	Total
2011	\$ 5,000,000	\$ 6,000,000	\$ 900,000	\$ 2,600,000	\$ 14,500,000
2012		5,500,000	850,000	2,400,000	8,750,000
2013		5,000,000	750,000	2,250,000	8,000,000
2014		4,500,000	700,000	2,050,000	7,250,000
2015		4,000,000	650,000	1,850,000	6,500,000
Thereafter		3,042,624	307,864	999,287	4,349,775
Total	\$ 5,000,000	\$ 28,042,624	\$ 4,157,864	\$ 12,149,287	\$ 49,349,775

ST. OLAF COLLEGE

NOTES TO FINANCIAL STATEMENTS

May 31, 2010 and 2009

NOTE 5 - INVESTMENTS AND FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)

The following table presents the liquidity of the College's investments, as prescribed by Moody's Investor Services, as of May 31, 2010:

Assets	Monthly Liquidity	Annual Liquidity	Lockup > 1 Year	Total
Cash	\$ 2,730,139			\$ 2,730,139
Stocks	323,300			323,300
Mutual funds	116,514,372			116,514,372
Treasury-inflation protected securities (TIPS)	13,899,825			13,899,825
Global equity funds	12,773,199	\$ 11,852,820		24,626,019
Corporate bond funds	11,362,317			11,362,317
Hedge funds	2,936,273	46,742,188	\$ 7,404,726	57,083,187
Private equity funds		7,677,202	27,959,404	35,636,606
Real estate funds		1,981,969	4,672,423	6,654,392
Commodity funds			3,768,206	3,768,206
Real estate			956,337	956,337
Deferred gift agreements			45,151,550	45,151,550
Agency funds			1,649,372	1,649,372
Other investments			298,253	298,253
Total	\$ 160,539,425	\$ 68,254,179	\$ 91,860,271	\$ 320,653,875

Certain investments included as having annual liquidity in the schedule above have provisions allowing the College to access funds in 45 and 90 days.

The total return on all investments held by the endowment funds, on a market basis, was 12.897% and (24.095%) for the years ended May 31, 2010 and 2009, respectively.

ST. OLAF COLLEGE

NOTES TO FINANCIAL STATEMENTS
May 31, 2010 and 2009

NOTE 6 - ENDOWMENT

The College's endowment consists of approximately 1,200 individual funds established for a variety of purposes. The endowment includes both donor-restricted endowment funds and funds designated by the Board of Regents to function as endowments. As required by U.S. generally accepted accounting principles, 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 Minnesota enacted version of the Uniform Prudent Management of Institutional Funds Act (UPMIFA) as allowing the College to appropriate for expenditure or accumulate so much of an endowment fund as the College determines is prudent for the uses, benefits, purposes and duration for which the endowment fund is established, subject to the intent of the donor as expressed in the gift instrument. The College's Board of Regents has determined it is prudent to preserve 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 has not changed the way permanently restricted net assets are classified. 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. See Note 1 for further information on net asset classifications.

Endowment net asset composition by type of fund consists of the following as of May 31, 2010:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Donor-restricted endowment funds	\$ (2,544,463)	\$ 56,108,880	\$ 125,720,195	\$ 179,284,612
Board-designated endowment funds	<u>96,559,934</u>			<u>96,559,934</u>
Total endowment net assets	<u>\$ 94,015,471</u>	<u>\$ 56,108,880</u>	<u>\$ 125,720,195</u>	<u>\$ 275,844,546</u>

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

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
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, 2010 and 2009

NOTE 6 - ENDOWMENT (CONTINUED)

Changes in endowment net assets for the year ended May 31, 2010 are as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, May 31, 2009	\$ 83,121,634	\$ 45,869,169	\$ 120,434,636	\$ 249,425,439
Total investment return	14,545,478	17,058,842	173,938	31,778,258
Contributions	380,146	78,821	2,746,646	5,587,652
Appropriation of endowment assets for:				
Operating expenditures	(4,986,970)	(7,253,528)		(12,240,498)
Non-operating expenditures		(47,044)	(17,064)	(64,108)
Other changes:				
Transfers to board designated endowment funds	955,183	402,620		1,357,803
Matured deferred gifts			2,382,039	2,382,039
Endowment net assets, May 31, 2010	<u>\$ 94,015,471</u>	<u>\$ 56,108,880</u>	<u>\$ 125,720,195</u>	<u>\$ 275,844,546</u>

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

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
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	(1,434,947)	446,602	988,345	
Endowment net assets after reclassification	117,650,560	100,478,112	117,695,645	335,824,317
Total investment return	(31,678,508)	(48,339,166)	(283,381)	(80,301,055)
Contributions	974,099	49,844	2,724,580	3,748,523
Appropriation of endowment assets for:				
Operating expenditures	(4,736,709)	(6,826,051)		(11,562,760)
Non-operating expenditures	(45,315)		(16,438)	(61,753)
Other changes:				
Transfers to board designated endowment funds	957,507	506,430		1,463,937
Matured deferred gifts			314,230	314,230
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>

Funds with Deficiencies - From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the original value of the gifts contributed to each endowment fund. In accordance with GAAP, deficiencies of this nature that are reported in unrestricted net assets were \$2,544,463 and \$4,408,256 as of May 31, 2010 and 2009, respectively. These deficiencies resulted from unfavorable market fluctuations that occurred after the investment of new permanently restricted contributions and continued appropriation for certain programs that was deemed prudent by the Board of Regents. Subsequent gains that restore the fair value of the assets of the endowment fund to the required level will be classified as an increase in unrestricted net assets.

ST. OLAF COLLEGE

NOTES TO FINANCIAL STATEMENTS
May 31, 2010 and 2009

NOTE 6 - 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, 2010 and 2009

NOTE 7 - PROPERTY, PLANT AND EQUIPMENT

At May 31, 2010 and 2009, property, plant and equipment consisted of the following:

	<u>2010</u>	<u>2009</u>
Land	\$ 1,204,799	\$ 1,204,799
Improvements other than buildings	12,089,080	10,939,132
Buildings	225,108,016	220,424,975
Equipment	40,448,322	39,394,178
Library materials	20,999,722	19,907,282
Art collection	1,197,788	1,121,038
Construction in progress	10,868,268	5,182,434
	<u>311,915,995</u>	<u>298,173,838</u>
Less: Accumulated depreciation	<u>(109,368,605)</u>	<u>(101,687,668)</u>
	<u>\$ 202,547,390</u>	<u>\$ 196,486,170</u>

The renovation of Tomson Hall (formerly Old Science Center) makes up the majority of the costs in construction of progress as of May 31, 2010, totaling \$8,973,534. The total cost to complete Tomson Hall is estimated at \$22,500,000 which is being funded by gifts and college resources.

NOTE 8 - ACCRUED LIABILITIES

At May 31, 2010 and 2009, accrued liabilities consisted of the following:

	<u>2010</u>	<u>2009</u>
Payroll	\$ 8,327,571	\$ 8,446,600
Self-insurance reserve (Note 9)	285,000	273,000
Post-retirement benefit obligation (Note 10)	3,766,064	5,581,724
Interest	336,815	335,862
Other	98,905	38,318
	<u>\$ 12,814,355</u>	<u>\$ 14,675,504</u>

NOTE 9 - SELF-INSURANCE

The College provides medical benefits through a self-insurance plan, which is available to all employees of the College who meet the eligibility requirements for certain medical expenses. Accrued liabilities include an incurred but not reported reserve of approximately \$285,000 and \$273,000 at May 31, 2010 and 2009, respectively, 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 approximately \$6,200,000. As of May 31, 2010 and 2009, the College had unrestricted net assets of \$1,731,584 and \$1,602,900, respectively, designated for health insurance benefits, which consists of the cumulative amount that employee and college contributions towards health premiums have exceeded expenses over the life of the plan.

ST. OLAF COLLEGE

NOTES TO FINANCIAL STATEMENTS
May 31, 2010 and 2009

NOTE 10 - RETIREMENT PLANS AND POSTRETIREMENT BENEFIT PLAN

The College has certain contributory defined contribution pension plans for employees. All employees are eligible to participate after meeting certain eligibility requirements. College contributions are based upon a percentage of salaries. The College's contributions to the retirement plans approximated \$3,430,000 and \$3,436,000 for the years ended May 31, 2010 and 2009, respectively.

The College also provides postretirement health care benefits for current or retired employees and covered dependents, which are recorded on the accrual basis. 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 managed by a trustee, who invests in money market and mutual funds (level 1 assets). 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 following tables set forth the postretirement health care benefit plan's status with amounts reported in the College's financial statements at May 31, 2010 and 2009:

	2010	2009
<i>Change in benefit obligation</i>		
Benefit obligation at beginning of year	\$ 7,678,966	\$ 7,435,150
Service cost	72,486	84,589
Interest cost	320,014	433,305
Plan participants' VEBA contributions	55,476	79,272
Employer VEBA contributions	726,960	782,655
Actuarial gain	(1,210,616)	(449,197)
Benefits paid	(722,731)	(686,808)
Benefit obligation at end of year	<u>\$ 6,920,555</u>	<u>\$ 7,678,966</u>
<i>Change in plan assets</i>		
Fair value of plan assets at beginning of year	\$ 2,097,242	\$ 1,631,917
Actual return on plan assets	598,980	(101,139)
Employer contributions	1,173,172	1,229,923
Plan participants' contributions	7,828	23,349
Benefits paid	(722,731)	(686,808)
Fair value of plan assets at end of year	<u>\$ 3,154,491</u>	<u>\$ 2,097,242</u>
<i>Funded status</i>		
Funded status at end of year	<u>\$ (3,766,064)</u>	<u>\$ (5,581,724)</u>
<i>Amounts recognized in the statement of financial position consist of:</i>		
Noncurrent assets	\$ -	\$ -
Current liabilities	(353,000)	(507,000)
Noncurrent liabilities	(3,413,064)	(5,074,724)
Net amount recognized (Note 8)	<u>\$ (3,766,064)</u>	<u>\$ (5,581,724)</u>

ST. OLAF COLLEGE

NOTES TO FINANCIAL STATEMENTS
May 31, 2010 and 2009

NOTE 10 - RETIREMENT PLANS AND POSTRETIREMENT BENEFIT PLAN (CONTINUED)

	2010	2009
Amounts recognized in change in net assets consist of:		
Prior service cost	\$ (1,192,334)	\$ (1,343,582)
Net actuarial loss	1,657,745	3,406,434
Accumulated change in net assets	\$ 465,411	\$ 2,062,852
Weighted-average assumptions used to determine benefit obligations at May 31		
Discount rate	4.90%	6.35%
Expected return on plan assets	5.00%	5.00%
Rate of compensation increase	0.00%	0.00%
Components of net periodic benefit cost		
Service cost	\$ 72,486	\$ 84,589
Interest cost	320,014	433,305
Expected return on plan assets	(104,862)	(81,596)
Amortization of prior service cost	(151,248)	(151,248)
Amortization of net loss	43,955	175,412
Net periodic postretirement benefit cost	\$ 180,345	\$ 460,462
Changes in net assets		
Net gain	\$ (1,704,734)	\$ (266,462)
Amortization of prior service cost	151,248	151,248
Amortization of net gain	(43,955)	(175,412)
Total recognized in change in net assets	\$ (1,597,441)	\$ (290,626)
Total recognized in net periodic benefit cost and change in net assets	\$ (1,417,096)	\$ 169,836
Weighted-average assumptions used to determine net periodic benefit cost as of June 1		
Discount rate	6.35%	6.35%
Expected return on plan assets	5.00%	5.00%
Rate of compensation increase	0.00%	0.00%
Assumed health care cost trend rates at May 31		
Health care cost trend rate assumed for next year	9.49% - Post 65 9.24% - Pre 65	10.47% - Post 65 10.22% - Pre 65
Rate to which the cost trend rate is assumed to decline (the ultimate trend)	4.50%	4.95%
Year that the rate reaches the ultimate rate	2030	2029

ST. OLAF COLLEGE

NOTES TO FINANCIAL STATEMENTS
May 31, 2010 and 2009

NOTE 10 - RETIREMENT PLANS AND POSTRETIREMENT BENEFIT PLAN (CONTINUED)

During the fiscal year ending May 31, 2011, the College expects to contribute \$353,000 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 \$734,000 to the VEBA for current employees during the fiscal year ending May 31, 2011.

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:

2011	\$	353,000
2012		358,000
2013		360,000
2014		356,000
2015		364,000
2016 – 2020		1,503,928

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 11 - 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, 2010 and 2009:

	2010	2009
Balance at beginning of the year	\$ 2,568,376	\$ 2,661,596
Abatement costs	(559,311)	(226,300)
Accretion expense	340,978	133,080
Adjustments to estimates	349,614	
Balance at end of the year	<u>\$ 2,699,657</u>	<u>\$ 2,568,376</u>

ST. OLAF COLLEGE

NOTES TO FINANCIAL STATEMENTS
 May 31, 2010 and 2009

NOTE 12 - LONG-TERM DEBT

Long-term debt at May 31, 2010 and 2009 consisted of the following (see also Note 20 for subsequent refinancing):

	<u>2010</u>	<u>2009</u>
Minnesota Higher Education Facilities Authority Variable Rate Demand Revenue Bonds, Series Five-H	\$ 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
Minnesota Higher Education Facility Authority Variable Rate Demand Revenue Bonds, Series Five-M2	13,420,000	13,420,000
Minnesota Higher Education Facility Authority Revenue Bonds, Series Six-O	<u>43,145,000</u>	<u>44,300,000</u>
Principal Outstanding on Bonds	83,245,000	84,400,000
Premium on Series Six-O Revenue Bonds	<u>700,470</u>	<u>731,835</u>
 Total Long-Term Debt	 <u>\$ 83,945,470</u>	 <u>\$ 85,131,835</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. See Note 17 for information on the interest rate swap agreement applicable to this issue.

For the three variable rate issues described above, the bonds bear interest at a variable (daily reset) rate, which at May 31, 2010 was 0.30%, with an average rate of 0.22% for the 2010 fiscal year. The bonds are secured by (a) during the variable rate period, unsecured standby letters of credit which expire on July 10, 2011 for the Series Five-M1 and Five-M2 bonds and October 25, 2011 for the Series Five-H bonds, which are 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, 2010 and 2009

NOTE 12 - LONG-TERM DEBT (CONTINUED)

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 \$1,195,000 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, 2010 and 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:	As of May 31, 2010	After Refinancing (see Note 20)
2011	\$ 1,195,000	\$ 1,195,000
2012	1,245,000	2,350,000
2013	1,295,000	2,420,000
2014	1,350,000	2,510,000
2015	1,410,000	2,620,000
Thereafter	76,750,000	73,240,000
Total	<u>\$ 83,245,000</u>	<u>\$ 84,335,000</u>

NOTE 13 - 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 month. Principal, and any unpaid interest, is due on February 15, 2011. In addition, the agreement requires the College to comply with certain financial covenants. At May 31, 2010 and 2009, there were no outstanding borrowings under this arrangement.

NOTE 14 - 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, 2010 and 2009 as follows:

	2010	2009
Operating expenses allocated:		
Interest expense, net of capitalized interest of \$291,536 in 2009	\$ 2,308,040	\$ 2,449,096
Operation and maintenance of plant	13,009,568	12,621,666
Depreciation	10,247,881	9,835,730
Accretion	340,978	133,080
Faculty staff tuition allowance	1,423,285	1,405,762
	<u>\$ 27,329,752</u>	<u>\$ 26,445,334</u>

ST. OLAF COLLEGE

NOTES TO FINANCIAL STATEMENTS

May 31, 2010 and 2009

NOTE 15 - EXPENSES BY OBJECT

The expenses reported by function on the statement of activities and changes in net assets are summarized below by object for the years ended May 31, 2010 and 2009 as follows:

	<u>2010</u>	<u>2009</u>
Compensation	\$ 59,103,982	\$ 58,707,400
Depreciation, amortization, and accretion	10,588,859	9,968,810
Travel and meals	7,295,190	7,146,262
Food services	7,239,729	6,805,888
Contract, professional services, insurance, and taxes	5,589,705	5,760,337
Facilities - repairs, maintenance, utilities, fuel	5,015,163	5,079,489
Supplies, printing and postage	3,233,852	3,266,688
Interest	2,308,040	2,449,096
Telecommunications and information services	1,818,489	2,213,579
Items purchased for resale	1,621,134	1,627,920
Memberships, awards, leases, and other	<u>1,624,664</u>	<u>1,838,344</u>
Total	<u>\$ 105,438,807</u>	<u>\$ 104,863,813</u>

NOTE 16 - 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 beneficiary. 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 gender characteristics of the beneficiary. The College used historical discount rates ranging from 2.4% to 11.6% for the years ended May 31, 2010 and 2009 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.

ST. OLAF COLLEGE

NOTES TO FINANCIAL STATEMENTS
May 31, 2010 and 2009

NOTE 16 - DEFERRED GIFT (SPLIT-INTEREST) AGREEMENTS (CONTINUED)

Information pertaining to the College's deferred gift agreements for the years ended May 31, 2010 and 2009 follows:

	<u>2010</u>	<u>2009</u>
Cash and investments	\$ 47,520,898	\$ 43,386,469
Deposits held in trust for others	(900,650)	(760,344)
Annuities payable	<u>(12,348,115)</u>	<u>(11,657,359)</u>
	<u>\$ 34,272,133</u>	<u>\$ 30,968,766</u>
Net Assets		
Unrestricted	\$ 17,886,668	\$ 15,481,788
Temporarily restricted	1,481,056	1,063,760
Permanently restricted	<u>14,904,409</u>	<u>14,423,218</u>
	<u>\$ 34,272,133</u>	<u>\$ 30,968,766</u>

NOTE 17 - DERIVATIVES

The College is exposed to certain risks that can materially impact the assets and liabilities on its balance sheet. The primary risks managed by using derivative instruments are interest rate risk and endowment market value risk. The College uses interest rate swaps to manage interest rate risk on its variable interest rate long-term debt instruments. The College uses futures and forward contracts to manage market fluctuations that affect the endowment market value. As neither the swaps nor futures/forward contracts meet the criteria of cash flow hedges under generally accepted accounting standards, the swaps are accounted for as derivatives not designated as hedging instruments. Therefore, the changes in fair value of each derivative are included in the statement of activities. Accounting standards require that an entity recognize all derivative instruments as either assets or liabilities at fair value in the balance sheet.

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, 2010, the notional value of the swap was \$9,430,000. Under the agreement, each month the College either pays additional interest or receives an interest credit depending on the relationship between the variable one month LIBOR rate and the fixed rate. The swap will mature on October 1, 2020. The College recorded a gain or (loss) of \$37,701 and (\$437,753) relating to the change in notional value of the agreement for the years ended May 31, 2010 and 2009, respectively. The gain or (loss) is included in non-operating activities on the statement of activities. At May 31, 2010 and 2009, the College has recorded an interest rate exchange liability of \$1,279,276 and \$1,316,978 in the statements of financial position. In fiscal year 2010 and 2009 respectively, the College paid \$405,407 and \$336,213 more than it received in interest under the swap agreement. This difference is reflected as a non-operating activity within the interest rate swap gain (loss) net of settlements line on the statement of activities.

In 2008, the College started using futures and forward contracts to reduce or increase the endowments exposure to the financial markets. The aggregate notional value of the derivative contracts was \$5,256,065 and \$5,465,697 at May 31, 2010 and 2009, respectively. The contracts aggregate fair market value was \$153,193 and \$16,159 on May 31, 2010 and 2009, respectively, and was included as an investment on the statements of financial position. The income on the contracts realized during the year is represented in gains or losses on investments in the statement of activities. For the years ended May 31, 2010 and 2009, the College reported a realized loss of \$9,451 and \$1,057,926, respectively.

ST. OLAF COLLEGE

NOTES TO FINANCIAL STATEMENTS
May 31, 2010 and 2009

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 receivable. Cash and cash equivalents are concentrated in a limited number of financial institutions and amounts 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. 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.

Interest rate exchange agreements between the College and a third party (counterparty) provide for periodic exchange of payments between the parties based on changes in a defined index and a fixed rate and include counterparty credit risk. Counterparty credit risk is the risk that contractual obligations of the counterparties will not be fulfilled. Concentrations of credit risk relate to groups of counterparties that have similar economic or industry characteristics that would cause their ability to meet contractual obligations to be similarly affected by changes in economic or other conditions. Counterparty credit risk is managed by requiring high credit standards for the College's counterparties. The counterparties to these contracts are financial institutions that carry investment-grade credit ratings. The interest rate exchange agreements contain collateral provisions applicable to both parties to mitigate credit risk. The College does not anticipate non-performance by its counterparties.

NOTE 19 - RELATED PARTY TRANSACTIONS

The College has signed contracts with a construction company owned by a former member of the Board of Regents to design and construct Regent's Hall in the amount of \$62,241,683, and to renovate Tomson Hall in the amount of \$20,364,716. As of May 31, 2010, the contract for Regent's Hall was fulfilled and there was approximately \$11,800,000 remaining on the Tomson Hall contract. The contracts were approved unanimously by the Board of Regents in accordance with the College's conflict of interest policy. Total amounts payable to the construction company totaled approximately \$1,078,000 and \$750,000 as of May 31, 2010 and 2009, respectively.

As of May 31, 2010 and 2009 approximately \$9,983,000 and \$8,958,000, respectively, of contributions receivable were due from members of the Board of Regents. Contribution revenue from members of the Board of Regents totaled approximately \$6,102,000 and \$1,109,000 for the years ending May 31, 2010 and 2009, 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, 2010 and 2009, the College's total value of these funds was approximately \$8,857,000 and \$5,837,000, respectively. The College's cumulative contributions to these investments as of May 31, 2010 and 2009 totaled approximately \$10,306,000 and \$8,332,000, respectively. The College's outstanding future commitments to these investments totaled approximately \$12,268,000 and \$13,008,000 at May 31, 2010 and 2009, 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, 2010 and 2009 had market values of \$590,000 and \$6,120,000, respectively.

ST. OLAF COLLEGE

NOTES TO FINANCIAL STATEMENTS
May 31, 2010 and 2009

NOTE 20 - SUBSEQUENT EVENTS

Minnesota Higher Education Facilities Authority Revenue Bonds Series Seven-F were issued on August 31, 2010 in the par amount of \$32,440,000, plus a net premium of \$1,605,664, for total bond proceeds of \$34,045,664 to refinance variable rate debt. During the bond issuance, Moody's Investor Services improved the College's investment rating from A2 to A1. The bond proceeds are projected to be disbursed as follows by October 1, 2010:

Full principal payment on Minnesota Higher Education Facilities Authority variable rate demand revenue bonds, Series Five-H	\$ 14,475,000
Full principal payment on Minnesota Higher Education Facilities Authority variable rate demand revenue bonds, Series Five-M1	12,205,000
Partial principal payment on Minnesota Higher Education Facilities Authority variable rate demand revenue bonds, Series Five-M2	4,670,000
Debt service reserve fund	2,402,369
Bond issuance costs	<u>293,295</u>
Total bond proceeds	<u>\$ 34,045,664</u>

Interest payments on the bonds are payable semiannually on April 1 and October 1 through 2030. Annual principal payments range between \$1,105,000 and \$2,345,000 through 2030. The bonds bear interest rates from 1.30% to 5.00%. The bonds are secured by a pledge of loan repayment from the College and a reserve account and require that certain covenants be maintained.

The College has evaluated subsequent events through September 28, 2010, which is the date that the financial statements were issued.

ST. OLAF COLLEGE

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Year Ended May 31, 2010

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		P063P091690	\$ 1,834,463
Academic competitiveness grant program	84.375		P375A091690	173,600
National science and mathematics access to retain talent grant program	84.376		P376S091690	187,000
Teacher education assistance for college and higher education grants	84.379		P379T101690	4,000
Federal supplemental educational opportunity grant program	84.007		P007A092203	376,890
Federal work-study program	84.033		P033A092203	607,872
Federal Perkins loan program	84.038		P038A092203	8,723,328
Federal family education loan programs	84.032		N/A	7,818,145
Federal direct loan program	84.268		P268K101690	9,141,376
Subtotal direct programs				<u>28,866,674</u>
U.S. Department of Education passed through				
Minnesota Higher Education Services Office				
Leveraging educational assistance partnership program	84.069	Unknown	N/A	12,066
Special leveraging educational assistance partnership program	84.069	Unknown	N/A	16,088
U.S. Department of Education passed through				
Minnesota Department of Children, Families and Learning				
Robert C. Byrd honors scholarship	84.185	Unknown	N/A	53,740
Subtotal pass through programs				<u>81,894</u>
Total U.S. Department of Education				<u>28,948,568</u>
U.S. Department of Health and Human Services direct program				
Nursing student loan program	93.364		6576831	97,349
Total Federal Student Aid				<u>29,045,917</u>
RESEARCH AND DEVELOPMENT - CLUSTER				
National Science Foundation direct programs				
ARRA - IOS: Collaborative research: The neurobiology of dopamine in the leech and the modulation of locomotor behaviors	47.082		IOS-0924119	11,765
ARRA - MRI: Acquisition of an isotope ratio mass spectrometer as a catalyst for faculty-student research in chemistry and environmental science	47.082		DBI-0923439	486,176
ARRA - OPP: Collaborative research: LISSARD: Lake and ice stream subglacial access research drilling, Integrative study of marine ice sheet stability and subglacial life habitats in West Antarctica	47.082		ANT-0838855	11,146
REU Site: From genes to ecosystems: Environmental science in a changing world	47.074		DBI-1004817	4,855
Coupling consumer-resource interactions and nutrient spiraling in a stream network	47.074		DEB-0543363	82,661
RUI: The Gene stream II: From sequence to cell function	47.074		MCB-0817993	149,056
Collaborative research: RUI: Landscape level controls on terrestrial, aquatic, and wetland responses to climate change in the southern Canadian Arctic	47.074		DEB-0743236	56,731
EMSW21-MCTP-The SUM project: A statistics undergraduate mentoring/(SUM) program	47.049		DMS-0549270	72,498
RUI: Low energy positronium interactions with atoms and molecules in a gas environment	47.049		PHY-0555631	25,409
SES: Good computing: A pedagogically focused theory of professional computer ethics	47.075		SES-0822640	38,688
Radar studies of internal stratigraphy and bed topography along the US ITASE-II traverse	47.078		ANT-0440304	138,177
Threading interdisciplinary biological-chemistry experiments throughout the undergraduate chemistry curriculum using MALDI mass spectrometry	47.076		DUE-0633286	(86)
RUI: Molecular origins of friction-A study across velocity regimes of phosphonate monolayers on alternative MEMS-type surfaces	47.041		CMMI-0758330	61,752
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	13
Collaborative research: CCLI type 1-Responding to manycore: A strategy for injecting parallel computing education throughout the computer science curriculum	47.076		DUE-0942190	34,352
CCLI: Expansion: Investigative psychophysiology laboratory experiences for community colleges	47.076		DUE-0618573	10,442
Collaborative research: IPY: The polaris project: rising stars in the arctic	47.076		DUE-0732618	42,521
Subtotal direct programs				<u>1,226,156</u>

ST. OLAF COLLEGE

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Year Ended May 31, 2010

Federal Grantor/ Pass Through Agency/ Program or Cluster Title	Federal CFDA Number	Pass-through Entity Identification Number	Grant Number	Federal Expenditures
RESEARCH AND DEVELOPMENT - CLUSTER (CONTINUED)				
National Science Foundation passed through Ohio State University CAUSEway: Workshops for navigating the terrain of undergraduate statistics	47.076	Unknown	DUE-0442630	\$ 6,147
Total National Science Foundation				<u>1,232,303</u>
U.S. Department of Health and Human Services AREA: Operon prediction and testing on mycobacterium tuberculosis DNA and RNA stability in glycine betaine, TMAO, and urea solutions: correlating small molecule interactions with nucleic acid surfaces	93.855		1R15 AI068706-01A1	340
	93.859		1R15GM093331-01	1,472
Total U.S. Department of Health and Human Services				<u>1,812</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	4
Total U.S. Department of Agriculture				<u>4</u>
Total Research and Development				<u>1,234,119</u>
TRIO PROGRAMS - CLUSTER				
U.S. Department of Education direct programs Student support services program	84.042A		P042A050169	263,970
Talent search program	84.044A		P044A080061	313,933
Upward bound program	84.047A		P047A080162	414,187
McNair scholar's program	84.217A		P217A070033	211,739
Total TRIO Programs				<u>1,203,829</u>
OTHER PROGRAMS				
National Science Foundation direct programs S-Stem: Encouraging careers in the mathematical sciences	47.076		DUE-0630930	118,715
S-Stem: Biologists for the future	47.076		DUE-0727556	114,745
S-Stem: Providing support structures for chemistry majors	47.076		DUE-0806792	91,812
National Science Foundation passed through University of Minnesota LSAMP: North Star STEM alliance	47.076		H281900903	31,914
Total National Science Foundation - Other Programs				<u>357,186</u>
U.S. Department of Education direct programs Gaining early awareness and readiness for undergraduate programs Integrating Asian languages and area studies through content-based instruction	84.334A		P334A050020-09	487,992
	84.016A		P016A090027	37,044
Total U.S. Department of Education - Other Programs				<u>525,036</u>
U.S. Department of Commerce direct programs Atomic Transition Probabilities for Neutral Cerium from Boltzmann Analysis of Fourier Transform Spectra	11.609		60NANB10D168	951
Total U.S. Department of Commerce - Other Programs				<u>951</u>
National Endowment for the Humanities direct programs The Poetry Wars of the Early Republic	45.160		FB-54205-09	11,962
Total National Endowment for the Humanities - Other Programs				<u>11,962</u>
TOTAL EXPENDITURES OF FEDERAL AWARDS				<u>\$ 32,379,000</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, 2010

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 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.

NOTE 3 - SUBRECIPIENTS

Of the federal expenditures presented in the schedule of expenditures of federal awards, St. Olaf College provided federal awards to subrecipients as follows:

<u>Program Title</u>	<u>Federal CFDA Number</u>	<u>Amount Provided to Subrecipients</u>
Coupling consumer-resource interactions and nutrient spiraling in a stream network	47.074	\$ 74,230
RUI: Molecular origins of friction	47.041	14,110
Total Amount Provided to Subrecipients		<u>\$ 88,340</u>

INDEPENDENT AUDITORS' 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, 2010 and have issued our report thereon dated September 28, 2010. 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 deficiency in internal control 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 and correct misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the institution's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, 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.

Baker Tilly Wicks Keaner, LLP

Minneapolis, Minnesota
September 28, 2010

**INDEPENDENT AUDITORS' 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 programs for the year ended May 31, 2010. St. Olaf College's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to its major federal programs is the responsibility of St. Olaf College's management. Our responsibility is to express an opinion on St. Olaf College's compliance based on our audit.

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 programs for the year ended May 31, 2010. However, the results of our auditing procedures disclosed instances of noncompliance with those requirements, which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying schedule of findings and questioned costs as items 2010-1 and 2010-2.

Internal Control Over Compliance

Management of St. Olaf College is responsible for establishing and maintaining effective internal control over compliance with the 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 to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, 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 deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be deficiencies, 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 findings 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 16, 2011

ST. OLAF COLLEGE

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended May 31, 2010

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?	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?	None reported
Type of auditors' report issued on compliance for major programs?	Unqualified
Any audit findings disclosed that are required to be reported in accordance with section 510(a) of OMB Circular A-133?	Yes

Identification of major programs:

CFDA Number	Name of Federal Program or Cluster
Various	Federal Student Aid Cluster
Various	Research and Development Cluster
Various	TRIO Programs Cluster
84.334A	Gaining early awareness and readiness for undergraduate programs

Dollar threshold used to distinguish between Type A and Type B programs	\$719,493
Auditee qualified as low-risk auditee?	Yes

SECTION II - FINANCIAL STATEMENT FINDINGS

None noted.

SECTION III - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

Finding 2010-1 - Student Status Changes

Federal Program - Federal Family Education Loan Programs (FFELP)
Federal Agency - U.S. Department of Education
Pass-Through Entity - Not Applicable
CFDA Number - 84.032
Federal Award Number - Not applicable
Federal Award Year - June 30, 2010

ST. OLAF COLLEGE

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (Continued)
Year Ended May 31, 2010

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

Finding 2010-1 - 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; and unless it expects to submit its next student status confirmation report within the next 60 days, notify the guarantee agency or lender within 30 days if it discovers that a FFELP 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; (iii) Has enrolled as a full-time student, but ceased to be enrolled on a full-time basis; or (iv) Has changed his or her permanent address.

Condition

The change in student status for three students tested who withdrew, dropped out or graduated was not reported to the National Student Loan Data System within 30 days or included in a response to a roster file within 60 days. However, the three students were ultimately reported to the National Student Data Loan System.

Questioned Costs

Not applicable.

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. This did take place. However, the College did not confirm that the Clearinghouse had transmitted its graduate information to the National Student Loan Data System (NSLDS).

Recommendation

We recommend that the College revise its procedures to verify with NSLDS that enrollment status information is updated timely per the transmitted National Clearinghouse reports submitted every 30 days.

Management's Response

The College concurs with our comment and has implemented procedures to verify enrollment status information with NSLDS beginning with the 2010-2011 academic year.

ST. OLAF COLLEGE

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (Continued)
Year Ended May 31, 2010

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

Finding 2010-2: Time and Effort Certifications

Federal Program - Research and Development cluster

Federal Agency - National Science Foundation

Pass-Through Entity - Not applicable

CFDA Numbers - Various

Federal Award Number - Various

Federal Award Year - June 30, 2010

Criteria

OMB Circular A-21 requires that at least annually, a statement needs to be signed by the employee, principal investigator or responsible official(s) using suitable means of verification that the work was performed, stating that the salaries and wages charged to the sponsored agreements as direct charges, and to residual, facilities and administration cost or other categories are reasonable in relation to the work performed.

Condition

Time and effort certifications were missing for salaries and wages charged as direct costs to sponsored agreements. The salaries and wages were properly approved by College personnel.

Questioned Costs

Not applicable.

Context

Not applicable.

Effect

Differences between actual and planned levels of effort may not be detected within a timely period by employees in the normal course of performing their assigned functions.

Cause

St. Olaf College did not have strong procedures and an integrated system in place to track the level of effort performed on grants throughout the year. Principal investigators of the various programs were very busy during the year and may have not understood the importance of returning level of effort certifications.

Recommendation

St. Olaf College should obtain time and effort certifications for the reporting period. In addition, St. Olaf College should consider implementing an electronic effort certification process to help ensure that the data is retained.

Management's Response

Management concurs and will review, and modify as appropriate, its procedures for obtaining, and retaining, the certifications.

ST. OLAF COLLEGE

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
Year Ended May 31, 2010

The previous audit of the Federal Award Programs was for the year ended May 31, 2009. The finding noted during that audit and the College's corrective actions taken are as follows:

Finding 2009-1 - Student Status Changes

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.

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.