ST. OLAF COLLEGE
Northfield, Minnesota

Audit Report on Financial Statements
and Federal Awards

As of and for the Year Ended May 31, 2012

ST. OLAF COLLEGE

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ST. OLAF COLLEGE

HIGHLIGHTS (Unaudited)
For the Years Ended May 31, 2012 and 2011

FISCAL YEAR ENDING: MAY 31 ACADEMIC YEAR	FY 2012 2011-12	FY 2011 2010-11
ENROLLMENT, RETENTION, GRADUATION		
Undergraduate FTE (Fall)	3,133	3,121
Undergraduate Headcount (Fall)	3,179	3,156
% Men / Women	44 / 56	45 / 55
% Who Are In-State / Out-of-State	49 / 51	52 / 48
% White / Domestic Minority / International	84 / 11 / 5	85 / 12 / 3
1st Year to Sophmore	94.2%	93.2%
Sophmore to Junior	89.6%	89.8%
Junior to Senior	88.7%	87.5%
Four-Year Graduation Rate	83.1%	83.3%
Five-Year Graduation Rate	86.1%	83.9%
Number of Seniors (May)	763	696
Number of Declared Majors	1,038	948
Top five Majors		
1st	Biology 11.8%	Biology 12.2%
2nd	Math 9.1%	Math 7.8%
3rd	Economics 7.9%	Economics 7.5%
4th	Chemistry 7.1%	Music 6.9%
5th	Psychology 6.3%	English 5.9%
POST-GRADUATION ACTIVITIES	Class of 2011	Class of 2010
Responses / Response Rate	634 / 92%	data not
Activites:		available
Working (Full or Part-Time) / percent	367 / 58%	
Service Programs / percent	75 / 12%	
Furthering Education / percent	179 / 28%	
Other Activities / percent	13 / 2%	
NEW STUDENT ADMISSIONS (Fall)		
Applications (1st Year / Transfer)	4181 / 202	4024 / 170
Acceptances (1st Year / Transfer)	2214 / 57	2302 / 64
Acceptance Rate (1st Year / Transfer)	53.0% / 28.2%	57.2% / 37.6%
Matriculants (1st Year / Transfer)	739 / 35	844 / 38
Yield Rate (1st Year / Transfer)	33.3% / 61.4%	36.7% / 58.5%
% 1st Year Men/Women	42 / 58	49 / 51
% 1st Year In-State/Out-of-State	46 / 54	50 / 50
% 1st Year 1st Generation to College	14	15
Median ACT - 1st Year	29	29
Median SAT - 1st Year	1330	1320
FACULTY AND STAFF EMPLOYED (Fall)		
Facuty / Staff / Total - FTE	284 / 374 / 658	289 / 371 / 660
Faculty / Staff / Total - Full-time Headcount	254 / 323 / 577	257 / 316 / 573
Faculty / Staff / Total - Part-time Headcount	89 / 154 / 243	97 / 165 / 262
TUITION AND FEES PER STUDENT		
Tuition	$ 38,150	$ 36,800
Room & Board	8,800	8,500
Total Comprehensive Fee	$ 46,950	$ 45,300
FINANCIAL AID - SCHOLARSHIPS & GRANTS		
Federal Grants	$ 2,476,000	$ 3,153,000
State Grants	1,483,000	1,431,000
Institutional Scholarships & Grants	50,987,000	47,089,000
Outside Scholarships & Grants	2,367,000	2,247,000
Total	$ 57,313,000	$ 53,920,000
Total Per Student FTE	$ 18,293	$ 17,277
ENDOWMENT		
Market Value at Fiscal Year End	$ 328,985,882	$ 345,295,632
Market Value per FTE Student	$ 105,007	$ 110,636
Total Return on Investments	-4.0%	20.4%

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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 (the "College") as of May 31, 2012 and 2011 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 previously present fairly, in all material respects, the financial position of St. Olaf College at May 31, 2012 and 2011 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.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 9, 2012 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 as a whole. The "Highlights" on page 1 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and, accordingly, we express no opinion on it.

Our audits were conducted for the purpose of forming an opinion on the financial statements 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 financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated in all material respects in relation to the financial statements as a whole.

Baker Tilly Virchow Krause, LLP

Minneapolis, Minnesota
October 9, 2012

ST. OLAF COLLEGE

STATEMENTS OF FINANCIAL POSITION
As of May 31, 2012 and 2011

ASSETS

	2012	2011
Cash and cash equivalents	$ 23,903,605	$ 24,682,947
Receivables		
Student accounts, net of allowance for doubtful accounts of $200,000 and $214,200	281,637	171,082
Contributions, net (Note 4)	4,603,592	3,563,000
Student loans, net of allowance for doubtful notes of $756,800 and $786,800 (Note 5)	7,707,246	7,990,951
Insurance		505,584
Other, net of allowance for doubtful accounts of $444,900 and $17,000	920,862	1,064,866
Inventories	805,771	950,434
Prepaid expenses and deposits	761,299	943,884
Investments (Note 6)	359,312,035	377,873,521
Deposits held by trustee (Note 6)	5,695,007	6,122,612
Deferred debt acquisition costs	495,232	520,978
Beneficial interest in trusts held by others (Note 6)	1,965,911	2,118,468
Property, plant and equipment, net (Note 8)	220,680,002	213,863,331
TOTAL ASSETS	$ 627,132,199	$ 640,371,658

LIABILITIES AND NET ASSETS

	2012	2011
LIABILITIES		
Accounts payable	$ 5,029,107	$ 5,821,249
Accrued liabilities (Note 9)	14,045,433	13,551,511
Deferred revenue	3,921,227	4,288,290
Annuities payable (Note 17)	13,528,781	12,380,504
Interest rate exchange liability (Notes 6 and 18)	1,349,871	1,238,825
Asset retirement obligations (Note 12)	2,443,581	2,526,294
Long-term debt (Note 13)	82,893,493	85,354,807
U.S. government grants refundable	6,557,109	6,808,806
Deposits held in trust for others	2,458,389	2,766,073
Total Liabilities	132,226,991	134,736,359
NET ASSETS		
Unrestricted (Note 2)	211,172,705	211,256,249
Temporarily restricted (Note 2)	130,500,012	146,379,075
Permanently restricted (Note 2)	153,232,491	147,999,975
Total Net Assets	494,905,208	505,635,299
TOTAL LIABILITIES AND NET ASSETS	$ 627,132,199	$ 640,371,658

See accompanying notes to financial statements.

ST. OLAF COLLEGE

STATEMENT OF ACTIVITIES AND CHANGE IN NET ASSETS
For the Year Ended May 31, 2012

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
OPERATING REVENUES, GAINS AND OTHER SUPPORT				
Tuition	$ 117,960,634			$ 117,960,634
Less: Unfunded scholarships and grants	(47,042,590)			(47,042,590)
Funded scholarships and grants	(5,217,010)			(5,217,010)
Net tuition	65,701,034			65,701,034
Other tuition and fees	4,027,277			4,027,277
Government grants	3,809,058			3,809,058
Private gifts and grants	3,642,521	$ 2,444,033		6,086,554
Long-term investment income and gains allocated for operations	4,425,851	7,432,405		11,858,256
Other sources	2,404,193	72,210		2,476,403
Investment income (losses)	269,200	(21,354)		247,846
Net gains on investments and capital assets	38,088			38,088
Capital gifts allocated		1,996,408		1,996,408
Auxiliary enterprises - sales and services	28,386,828			28,386,828
	112,704,050	11,923,702		124,627,752
Net assets released from restrictions (Notes 1 and 3)	10,382,817	(10,382,817)		
Total Operating Revenues, Gains and Other Support	123,086,867	1,540,885		124,627,752
OPERATING EXPENSES				
Program expenses				
Instruction	48,034,434			48,034,434
Research	1,518,183			1,518,183
Public service	535,200			535,200
Academic support	11,231,638			11,231,638
Student services	17,445,627			17,445,627
Auxiliary enterprises	20,263,432			20,263,432
Support expenses				
Institutional support	10,414,879			10,414,879
Fundraising	4,043,878			4,043,878
Total Operating Expenses (Note 16)	113,487,271			113,487,271
Change in Net Assets from Operating Activities	9,599,596	1,540,885		11,140,481
NONOPERATING ACTIVITIES				
Long-term investment activities				
Investment income	600,133	1,513,966	$ 35,601	2,149,700
Net losses on investments	(6,153,907)	(9,651,225)	(214,928)	(16,020,060)
Total long-term investment losses	(5,553,774)	(8,137,259)	(179,327)	(13,870,360)
Less: Long-term investment income and gains allocated for operations	(4,425,851)	(7,432,405)		(11,858,256)
	(9,979,625)	(15,569,664)	(179,327)	(25,728,616)
Student loan income net of expenses	4,131		67,318	71,449
Capital giving activities - gifts and grants	1,337,250	410,736	7,862,832	9,610,818
Deferred giving activities - gifts	6,426		376,438	382,864
Capital gifts allocated to operations		(1,996,408)		(1,996,408)
Interest rate swap loss, net of settlements	(460,251)			(460,251)
Adjustment to actuarial liability for annuities payable	(694,497)	(264,612)	(2,894,745)	(3,853,854)
Adjustment to prior service cost and actuarial liability for retiree health plan	(447,163)			(447,163)
Gain from adjustment of hail storm insurance receivable estimate	550,589			550,589
Change in Net Assets from Nonoperating Activities	(9,683,140)	(17,419,948)	5,232,516	(21,870,572)
Change in Net Assets	(83,544)	(15,879,063)	5,232,516	(10,730,091)
Net Assets - Beginning of Year	211,256,249	146,379,075	147,999,975	505,635,299
NET ASSETS - END OF YEAR	$ 211,172,705	$ 130,500,012	$ 153,232,491	$ 494,905,208

See accompanying notes to financial statements.

ST. OLAF COLLEGE

STATEMENT OF ACTIVITIES AND CHANGE IN NET ASSETS
For the Year Ended May 31, 2011

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
OPERATING REVENUES, GAINS AND OTHER SUPPORT				
Tuition	$ 112,457,707			$ 112,457,707
Less: Unfunded scholarships and grants	(44,552,976)			(44,552,976)
Funded scholarships and grants	(4,674,349)			(4,674,349)
Net tuition	63,230,382			63,230,382
Other tuition and fees	3,975,952			3,975,952
Government grants	4,166,600			4,166,600
Private gifts and grants	3,834,659	$ 1,470,741		5,305,400
Long-term investment income and gains allocated for operations	4,822,227	7,409,794		12,232,021
Other sources	2,200,507	39,021		2,239,528
Investment income	269,943	19,580		289,523
Net losses on investments and capital assets	(31,507)			(31,507)
Capital gifts allocated		1,941,917		1,941,917
Auxiliary enterprises - sales and services	27,907,675			27,907,675
	110,376,438	10,881,053		121,257,491
Net assets released from restrictions (Notes 1 and 3)	9,703,908	(9,703,908)		
Total Operating Revenues, Gains and Other Support	120,080,346	1,177,145		121,257,491
OPERATING EXPENSES				
Program expenses				
Instruction	47,067,075			47,067,075
Research	1,416,895			1,416,895
Public service	493,615			493,615
Academic support	10,474,866			10,474,866
Student services	16,436,611			16,436,611
Auxiliary enterprises	19,912,051			19,912,051
Support expenses				
Institutional support	9,541,913			9,541,913
Fundraising	3,693,093			3,693,093
Total Operating Expenses (Note 16)	109,036,119			109,036,119
Change in Net Assets from Operating Activities	11,044,227	1,177,145		12,221,372
NONOPERATING ACTIVITIES				
Long-term investment activities				
Investment income	759,376	1,195,200	$ 20,535	1,975,111
Net gains on investments	23,099,428	30,921,679	470,815	54,491,922
Total long-term investment income	23,858,804	32,116,879	491,350	56,467,033
Less: Long-term investment income and gains allocated for operations	(4,822,227)	(7,409,794)		(12,232,021)
	19,036,577	24,707,085	491,350	44,235,012
Student loan income net of expenses	(345,130)		(23,511)	(368,641)
Capital giving activities - gifts and grants	2,479,552	1,110,302	2,021,792	5,611,646
Deferred giving activities - gifts	4,648		163,957	168,605
Capital gifts allocated to operations		(1,941,917)		(1,941,917)
Contributions receivable written-off (Note 20)		(5,350,000)	(880,684)	(6,230,684)
Interest rate swap gain, net of settlements	(336,337)			(336,337)
Adjustment to actuarial liability for annuities payable	3,403,045	329,993	3,350,294	7,083,332
Adjustment to prior service cost and actuarial liability for retiree health plan	(130,186)			(130,186)
Change in Net Assets from Nonoperating Activities	24,112,169	18,855,463	5,123,198	48,090,830
Change in Net Assets	35,156,396	20,032,608	5,123,198	60,312,202
Net Assets - Beginning of Year	176,099,853	126,346,467	142,876,777	445,323,097
NET ASSETS - END OF YEAR	$ 211,256,249	$ 146,379,075	$ 147,999,975	$ 505,635,299

See accompanying notes to financial statements.

ST. OLAF COLLEGE

STATEMENTS OF CASH FLOWS
For the Years Ended May 31, 2012 and 2011

	2012	2011
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	$ (10,730,091)	$ 60,312,202
Adjustments to reconcile change in net assets to net cash flows from operating activities		
Depreciation, amortization and accretion expense	11,274,911	11,143,283
Net losses (gains) on investments	18,131,269	(62,016,481)
Change in allowance for uncollectible student loans	(30,000)	190,000
Interest rate exchange loss (gain)	111,046	(40,451)
Loss on dispositions of property, plant and equipment	78,830	23,728
Actuarial adjustment of annuities payable	2,241,431	1,440,148
Adjustment to prior service cost and actuarial liability for retiree health plan	447,163	130,186
Write-off of contributions receivable	654,602	6,230,684
Gifts of property, plant and equipment	(203,351)	(145,969)
Change in:		
Student accounts receivable	(110,555)	19,425
Contributions receivable for operations	(377,613)	380,071
Other receivables	649,588	1,116,758
Inventories, prepaid expenses and deposits	327,248	(451,256)
Funds held in trust by others	152,557	(240,882)
Change in:		
Accounts payable	(216,479)	(198,402)
Accrued liabilities	46,759	606,970
Deferred revenue	(367,063)	393,770
Asset retirement obligation	(209,028)	(186,445)
Gifts and grants received for long-term investment and plant, net	(9,993,682)	(5,780,251)
Nonoperating investment income	(2,149,700)	(1,975,111)
Net Cash Flows from Operating Activities	9,727,842	10,951,977
CASH FLOWS USED BY INVESTING ACTIVITIES		
Purchases of property, plant and equipment	(18,501,977)	(21,967,887)
Purchases of investments	(71,862,892)	(99,500,459)
Proceeds from sales of investments	72,293,109	104,297,294
Nonoperating investment income	2,149,700	1,975,111
Disbursements of loans to students	(996,436)	(1,077,141)
Repayments of loans by students	1,310,141	1,205,379
Net Cash Flows Used by Investing Activities	(15,608,355)	(15,067,703)
CASH FLOWS FROM FINANCING ACTIVITIES		
Principal repayments of indebtedness	(2,350,000)	(1,195,000)
Gifts and grants received for long-term investment and plant, net	9,993,682	5,780,251
Change in nonoperating contributions receivable	(1,317,581)	2,758,683
Change in deposits held in trust for others	(307,684)	(1,171,048)
Change in U.S. government grants refundable, net	(251,697)	214,200
Increase in annuities payable from new gifts	457,664	201,898
Payments to annuitants	(1,550,818)	(1,609,657)
Change in trustee account for refinanced bonds, net	427,605	(432,438)
Net Cash Flows from Financing Activities	5,101,171	4,546,889
Net Change in Cash and Cash Equivalents	(779,342)	431,163
CASH AND CASH EQUIVALENTS - Beginning of Year	24,682,947	24,251,784
CASH AND CASH EQUIVALENTS - END OF YEAR	$ 23,903,605	$ 24,682,947
Supplemental Disclosure:		
Interest paid	$ 3,265,735	$ 2,837,556
Property, plant and equipment acquired through accounts payable	1,181,380	1,757,043

See accompanying notes to financial statements.

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES

Organization - Founded in 1874, St. Olaf College (the "College") is a private, four year, residential, liberal arts college located in Northfield, Minnesota. Affiliated with the Evangelical Lutheran Church in America, the College is coeducational and enrolls approximately 3,000 students. The College confers the degrees of Bachelor of Arts and Bachelor of Music.

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-imposed 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.

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. (See Note 5)

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 6)

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. Future amortization is projected to approximate $25,750 annually.

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.

Property, Plant and Equipment - Physical plant assets are stated at cost at the 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 8) 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, plant 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.

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 17)

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 18)

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.

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.

The College follows the accounting standards for contingencies in evaluating uncertain tax positions. This guidance prescribes recognition threshold principles for the financial statement recognition of tax positions taken or expected to be taken on a tax return that are not certain to be realized. No liability has been recognized by the College for uncertain tax positions as of May 31, 2012 and 2011. The College's tax returns are subject to review and examination by federal and state authorities. The tax returns for fiscal years 2009 and thereafter are open to examination by federal and state authorities.

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 15)

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 2011 financial statements have been reclassified to conform with the 2012 presentation. The reclassifications have no effect on reported amounts of total net assets or change in total net assets.

NOTE 2 - RESTRICTIONS AND LIMITATIONS ON NET ASSETS BALANCES

At May 31, 2012 and 2011, the College's unrestricted net assets were allocated as follows:

	2012	2011
Operations	$ 82,851,143	$ 73,664,209
Endowment funds:		
Donor restricted endowment funds (underwater)	(2,094,279)	(428,453)
Board designated endowment	126,544,131	133,146,664
Total endowment funds	124,449,852	132,718,211
Deferred gifts	3,142,300	4,148,550
Student loan programs - matching federal government	729,410	725,279
	$ 211,172,705	$ 211,256,249

Temporarily restricted net assets consist of the following at May 31, 2012 and 2011:

	2012	2011
Gifts and other unexpended revenues and gains available for:		
Scholarships, instruction and other support	$ 6,539,567	$ 4,932,018
Unamortized plant gifts	56,006,031	57,767,477
Acquisition of buildings and equipment	443,782	13,044
	62,989,380	62,712,539
Endowment funds:		
Endowment funds temporarily restricted by donor	10,755,424	10,404,415
Earnings not yet appropriated for spending	55,386,367	71,598,668
Total endowment funds	66,141,791	82,003,083
Deferred gifts	1,368,841	1,663,453
	$ 130,500,012	$ 146,379,075

Permanently restricted net assets consist of the following at May 31, 2012 and 2011:

	2012	2011
Endowment funds	$ 138,394,239	$ 130,574,338
Deferred gifts	12,509,266	15,180,267
Student loan funds	2,328,986	2,245,370
	$ 153,232,491	$ 147,999,975

Total net assets consist of the following at May 31, 2012 and 2011:

	2012	2011
Operations	$ 145,840,523	$ 136,376,748
Endowment funds (Note 7)	328,985,882	345,295,632
Deferred gifts (Note 17)	17,020,407	20,992,270
Student loan funds	3,058,396	2,970,649
	$ 494,905,208	$ 505,635,299

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, 2012 and 2011:

	2012	2011
Amortization of contributions expended for long-lived assets	$ 1,996,408	$ 1,941,917
Scholarships, instruction and other departmental support	8,386,409	7,761,991
	$ 10,382,817	$ 9,703,908

NOTE 4 - CONTRIBUTIONS RECEIVABLE

Contributions receivable include the following unconditional promises to give at May 31, 2012 and 2011:

	2012	2011
Unconditional promises expected to be collected in:		
Less than one year	$ 2,686,527	$ 4,138,880
One to five years	3,325,624	658,585
Over five years		950
Gross unconditional promises to give	6,012,151	4,798,415
Less: Unamortized discount	(170,034)	(36,393)
Allowance for uncollectible promises	(1,238,525)	(1,199,022)
	$ 4,603,592	$ 3,563,000

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 1.00% to 6.00%. As of May 31, 2012, net contributions receivable consisted of $1,642,316 for plant projects, $2,401,147 for endowments, and $560,129 for operations. As of May 31, 2011, net contributions receivable consisted of $2,561,205 for plant projects, $725,428 for endowments, and $276,367 for operations.

NOTE 5 - CREDIT QUALITY OF STUDENT LOANS RECEIVABLE

The College issues uncollateralized loans to students based on financial need. Loans to students are funded through Federal government loan programs or institutional resources. Allowances for doubtful accounts are established based on prior collection experience and current economic factors which, in management's judgment, could influence the ability of loan recipients to repay the amounts per the loan terms. At May 31, 2012 and 2011, student loans receivable represented 1.23% and 1.25% of total assets, respectively.

At May 31, 2012 and 2011 student loans receivable consisted of the following:

	2012	2011
Federal government programs	$ 7,063,635	$ 7,383,120
Institutional programs	1,400,411	1,394,631
	8,464,046	8,777,751
Less allowance for doubtful accounts:		
Beginning of year	(786,800)	(596,800)
Decreases (Increases) to allowance	31,863	(190,448)
Write-off recoveries	(1,863)	(6,715)
Write-offs		7,163
End of year	(756,800)	(786,800)
Student loans receivable, net	$ 7,707,246	$ 7,990,951

Funds advanced by the Federal government of $6,757,836 and $7,110,754 at May 31, 2012 and 2011, respectively, are ultimately refundable to the government and are classified as liabilities in the statement of financial position. These amounts are partially offset by related receivables from the Federal government.

At May 31, 2012 and 2011, the past due and current amounts under student loan programs were as follows:

	2012	2011
Past due student loans receivable:		
0-240 days past due	$ 299,221	$ 348,020
240 days - 2 years past due	161,115	185,491
2-5 years past due	255,229	182,532
5+ years past due	394,589	401,310
Total past due	1,110,154	1,117,353
Current student loans receivable	7,353,892	7,660,398
Total student loans receivable, gross	$ 8,464,046	$ 8,777,751

NOTE 6 - INVESTMENTS AND FAIR VALUE MEASUREMENTS

Financial Instruments - The carrying amounts of cash and cash equivalents, accounts receivable, grants receivable, other receivables, accounts payable and deposits held in trust 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 estimated fair value of the College's bonds payable approximates $88,100,000 and $90,800,000 at May 31, 2012 and 2011, respectively. The estimated fair value of the bonds payable is based on discounting future cash flows using current interest rates at which similar borrowings could be obtained for the same remaining maturities.

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.

Fair Value Hierarchy - Fair value is defined in the accounting 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 are 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.

Financial instruments measured and reported at fair value are classified and disclosed in one of the following three categories.

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 based on the best information available in the circumstances.

NOTE 6 - INVESTMENTS AND FAIR VALUE MEASUREMENTS (CONTINUED)

Valuation Techniques and Inputs

Level 1 - Level 1 assets include:

> Investments in short-term investments (consisting primarily of money market funds), mutual funds, stocks, bonds, and deposits held by trustee for which quoted prices are readily available.

Level 2 - Level 2 assets include:

> Investments in treasury inflation-protected securities for which quoted prices are not readily available. The fair values are estimated using Level 2 inputs based on multiple sources of information, which may include market data and/or quoted market prices from either markets that are not active or are for the same or similar assets in active markets.

> Investments in certain hedge funds, global equity funds and global bond funds for which quoted prices are not readily available. The College has the ability to redeem its interest in these investments at or near the statement of financial position date. The College has estimated the fair value of these funds by using the net asset value ("NAV") 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.

Level 2 liabilities include:

> Interest rate exchange liability for which a quoted price is not readily available. The fair value is estimated using an income approach by calculating the present value of the estimated future cash flows and credit valuation adjustments which are based on observable inputs to a valuation model (interest rates, credit spreads, etc.).

Level 3 - Level 3 assets include:

> Investments in certain hedge funds, private equity funds, real estate funds, and commodity funds for which quoted prices are not readily available and the funds cannot be redeemed within a short time period. The College has estimated the fair value of these funds by using the net asset value ("NAV") 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.

> Investments in real estate for which fair value is based on inputs such as cost, appraisals, and the county assessed value.

> Other investments which represent ownership interests in insurance contracts. The fair value has been estimated based on information provided by the insurance companies.

> Investment in a private bond debenture for which estimated fair value is based on the face value of the bond debenture.

> Beneficial interest in trusts held by others for which quoted prices are not readily available. The fair values are estimated using an income approach by calculating the present value of the future distributions expected to be received based on a combination of Level 2 inputs (interest rates and yield curves) and significant unobservable inputs (entity specific estimates of cash flows).

NOTE 6 - INVESTMENTS AND FAIR VALUE MEASUREMENTS (CONTINUED)

There have been no changes in the techniques and inputs used as of May 31, 2012 and 2011.

In certain cases, the inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such cases, the level in the fair value hierarchy within which the fair value measurement in its entirety falls has been determined based on the lowest level input that is significant to the fair value measurement in its entirety. The assessment of the significance of a particular input to the fair value measurement in its entirety requires judgment and considers factors specific to the asset or liability. The schedules within this note are not intended to indicate the volatility of the investments.

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 tables present information about the College's assets and liabilities measured at fair value on a recurring basis as of May 31, 2012 based upon the three-tier hierarchy:

	Total	Level 1	Level 2	Level 3
ASSETS				
Investments				
Cash and short-term investments	$ 955,016	$ 955,016		
Marketable securities				
Mutual funds				
Fixed income - domestic	32,202,733	32,202,733		
Fixed income - international	947,075	947,075		
Fixed income - global	3,826,190	3,826,190		
Equity funds - domestic	44,152,889	44,152,889		
Equity funds - international	49,726,434	49,726,434		
Real asset funds	19,394,678	19,394,678		
Stocks	142,724	142,724		
Bonds	1,250,782	1,250,782		
Alternative investments				
Hedge funds	72,993,735		$ 29,677,031	$ 43,316,704
Private equity funds	50,213,032			50,213,032
Global equity funds	34,154,008		34,154,008	
Global bond funds	13,254,338		13,254,338	
Real estate funds	12,017,671			12,017,671
Commodity funds	10,904,262			10,904,262
Treasury inflation-protected securities (TIPS)	9,377,166		9,377,166	
Real estate	1,660,463			1,660,463
Other investments	2,138,839			2,138,839
Total Investments	359,312,035	152,598,521	86,462,543	120,250,971
Deposits held by trustee	5,695,007	5,695,007		
Beneficial interest in trusts held by others	1,965,911			1,965,911
Total	$ 366,972,953	$ 158,293,528	$ 86,462,543	$ 122,216,882
LIABILITIES				
Interest rate exchange liability	$ 1,349,871	$ -	$ 1,349,871	$ -

NOTE 6 - INVESTMENTS AND FAIR VALUE MEASUREMENTS (CONTINUED)

The following tables present information about the College's assets and liabilities measured at fair value on a recurring basis as of May 31, 2011 based upon the three-tier hierarchy:

	Total	Level 1	Level 2	Level 3
ASSETS				
Investments				
Cash and short-term investments	$ 4,911,202	$ 4,911,202		
Marketable securities				
Mutual funds				
Fixed income - domestic	34,633,585	34,633,585		
Fixed income - international	936,747	936,747		
Fixed income - global	4,056,283	4,056,283		
Equity funds - domestic	48,501,499	48,501,499		
Equity funds - international	59,108,463	59,108,463		
Real asset funds	21,357,262	21,357,262		
Stocks	184,369	184,369		
Bonds	1,234,688	1,234,688		
Alternative investments				
Hedge funds	70,005,398		$ 38,849,908	$ 31,155,490
Private equity funds	51,091,001			51,091,001
Global equity funds	33,706,130		33,706,130	
Global bond funds	12,672,043		12,672,043	
Real estate funds	9,317,279			9,317,279
Commodity funds	6,723,130			6,723,130
Treasury inflation-protected securities (TIPS)	15,058,612		15,058,612	
Real estate	1,626,037			1,626,037
Private bond debenture	500,000			500,000
Other investments	2,249,793			2,249,793
Total Investments	377,873,521	174,924,098	100,286,693	102,662,730
Deposits held by trustee	6,122,612	6,122,612		
Beneficial interest in trusts held by others	2,118,468			2,118,468
Total	$ 386,114,601	$ 181,046,710	$ 100,286,693	$ 104,781,198
LIABILITIES				
Interest rate exchange liability	$ 1,238,825	$ -	$ 1,238,825	$ -

NOTE 6 - INVESTMENTS AND FAIR VALUE MEASUREMENTS (CONTINUED)

The following table presents a reconciliation of the statement of financial position amounts for assets measured at fair value on a recurring basis using significant unobservable inputs (Level 3) for the year ended May 31, 2012:

	Balances May 31, 2011	Net realized and unrealized gains (losses)	Purchases	Sales	Net transfers in (out) of Level 3	Balances May 31, 2012
Assets						
Alternative Investments						
Hedge funds	$ 31,155,490	$ (362,395)	$ 13,000,000	$ (476,391)		$ 43,316,704
Private equity funds	51,091,001	(2,679,876)	6,804,802	(5,002,895)		50,213,032
Real estate funds	9,317,279	1,474,053	1,545,975	(319,636)		12,017,671
Commodity funds	6,723,130	1,777,585	4,695,177	(2,291,630)		10,904,262
Real estate	1,626,037	34,426				1,660,463
Private bond debenture	500,000			(500,000)		-
Other investments	2,249,793	95,066		(206,020)		2,138,839
Beneficial interest in trusts held by others	2,118,468	(110,256)		(42,301)		1,965,911
Total	$ 104,781,198	$ 228,603	$ 26,045,954	$ (8,838,873)	$ -	$ 122,216,882

The amount of total gains (losses) for the period included in change in net assets attributable to the change in unrealized gains or losses relating to assets measured at fair value still held at May 31, 2012. $ (2,289,640)

The following table presents a reconciliation of the statement of financial position amounts for assets measured at fair value on a recurring basis using significant unobservable inputs (level 3) for the year ended May 31, 2011:

	Balances May 31, 2010	Net realized and unrealized gains (losses)	Purchases	Sales	Net transfers in (out) of Level 3	Balances May 31, 2011
Assets						
Alternative Investments						
Hedge funds	$ 16,622,413	$ 1,222,814	$ 18,000,000	$ (4,689,737)		$ 31,155,490
Private equity funds	35,636,606	8,266,445	12,269,751	(5,081,801)		51,091,001
Real estate funds	6,654,392	1,459,684	1,261,348	(58,145)		9,317,279
Commodity funds	3,768,206	1,401,573	2,830,812	(1,277,461)		6,723,130
Real estate	1,694,137	(68,100)				1,626,037
Private bond debenture	590,000			(90,000)		500,000
Other investments	2,184,426	98,271		(32,904)		2,249,793
Beneficial interest in trusts held by others	1,877,586	263,960		(23,078)		2,118,468
Total	$ 69,027,766	$ 12,644,647	$ 34,361,911	$ (11,253,126)	$ -	$ 104,781,198

The amount of total gains (losses) for the period included in change in net assets attributable to the change in unrealized gains or losses relating to assets measured at fair value still held at May 31, 2011. $ 10,646,501

The total return (loss) on all investments held by the endowment funds, on a market basis, was (4.01)% and 20.48% for the years ended May 31, 2012 and 2011, respectively.

NOTE 6 - INVESTMENTS AND FAIR VALUE MEASUREMENTS (CONTINUED)

The College uses the net asset value ("NAV") as a practical expedient to determine fair value of all underlying investments which (a) do not have a readily determinable fair value; and (b) are in investment companies or similar entities that report their investment assets at fair values.

The following table lists the alternative investments in which NAV was utilized as the practical expedient for estimating fair value by major category as of May 31, 2012:

Investment Type	Unfunded Commitments	Fair Value	Redemption Frequency	Redemption Notice Period	Estimated Remaining Life
Alternative Investments					
Hedge funds (a)	$ 4,000,000	$72,993,735	Monthly to annual	30-180 days	N/A (a)
Private equity funds (b)	29,316,000	50,213,032	Not redeemable	N/A	1-15 years
Global equity funds (c)	None	34,154,008	10-45 days	10-45 days	N/A
Global bond bonds (d)	None	13,254,338	Daily	10 days	N/A
Real estate funds (e)	5,508,000	12,017,671	Quarterly, none	45-60 days	3-15 years
Commodity funds (f)	15,231,000	10,904,262	Not redeemable	N/A	6-15 years

(a) Comprised of various hedge funds which primarily focus on absolute return, security selection, and hedging. A portion of the investments in this category cannot be redeemed currently because the investments include restrictions that do not allow for redemption in the first 12 to 36 months after acquisition.

(b) Comprised of various private equity funds with a broad range of investment objectives which include diversified funds of funds focused on venture, buyout, and special situations, as well as smaller direct funds that have more specific niche strategies. These investments are generally not redeemable. Instead, distributions are received through the liquidation of the underlying assets of the fund.

(c) Comprised of two limited partnership investments both holding long-only domestic and international equities.

(d) Comprised of one limited partnership investment at the statement of financial position date; the fund invests in international long-only fixed income securities.

(e) 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 REITs have quarterly liquidity with 45 or 60 days notice. The other investments cannot be redeemed, but distributions from each fund will be received as the underlying investments in the funds are liquidated.

(f) Includes funds of funds investments that focus on natural resources and/or energy.

NOTE 7 - 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. 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, 2012:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds	$ (2,094,279)	$ 66,141,791	$ 138,394,239	$ 202,441,751
Board-designated endowment funds	126,544,131			126,544,131
Total endowment net assets	$ 124,449,852	$ 66,141,791	$ 138,394,239	$ 328,985,882

Endowment net asset composition by type of fund consists of the following as of May 31, 2011:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds	$ (428,453)	$ 82,003,083	$ 130,574,338	$ 212,148,968
Board-designated endowment funds	133,146,664			133,146,664
Total endowment net assets	$ 132,718,211	$ 82,003,083	$ 130,574,338	$ 345,295,632

NOTE 7 - ENDOWMENT (CONTINUED)

Changes in endowment net assets for the year ended May 31, 2012 are as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, May 31, 2011	$ 132,718,211	$ 82,003,083	$ 130,574,338	$ 345,295,632
Total investment return	(5,554,518)	(8,137,259)	(179,327)	(13,871,104)
Contributions	1,337,250	10,000	7,862,832	9,210,082
Appropriation of endowment assets for:				
Operating expenditures	(4,425,851)	(7,432,405)		(11,858,256)
Non-operating expenditures	(44,928)		(16,299)	(61,227)
Other changes:				
Transfers of unspent operating funds	101,571	(301,628)		(200,057)
Matured deferred gifts	318,117		152,695	470,812
Endowment net assets, May 31, 2012	$ 124,449,852	$ 66,141,791	$ 138,394,239	$ 328,985,882

Changes in endowment net assets for the year ended May 31, 2011 are as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, May 31, 2010	$ 94,015,471	$ 56,108,880	$ 125,720,195	$ 275,844,546
Total investment return	23,858,804	32,115,203	491,350	56,465,357
Contributions	2,366,960	645,938	1,116,434	4,129,332
Appropriation of endowment assets for:				
Operating expenditures	(4,822,227)	(7,409,794)		(12,232,021)
Non-operating expenditures	(46,062)		(16,708)	(62,770)
Other changes:				
Transfers of unspent operating funds	104,199	542,856		647,055
Matured deferred gifts	17,241,066		3,263,067	20,504,133
Endowment net assets, May 31, 2011	$ 132,718,211	$ 82,003,083	$ 130,574,338	$ 345,295,632

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 $2,094,279 and $428,453 as of May 31, 2012 and 2011, 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.

NOTE 7 - ENDOWMENT (CONTINUED)

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

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

Spending Policy and How the Investment Objectives Relate to Spending Policy - The Board of Regents designates only a portion of the College's cumulative investment return for support of current operations; the remainder is retained to support operations of future years and to offset potential market declines. In developing its spending policy, the College considers certain of the following factors which it determines relevant:

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

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

NOTE 8 - PROPERTY, PLANT AND EQUIPMENT

At May 31, 2012 and 2011, property, plant and equipment consisted of the following:

	2012	2011
Land	$ 1,232,890	$ 1,204,799
Improvements other than buildings	13,792,979	12,827,440
Buildings	258,615,002	248,730,336
Equipment	46,838,201	43,950,247
Library materials	21,099,014	22,197,212
Art collection	1,312,682	1,241,342
Construction in progress	4,629,695	2,740,851
	347,520,463	332,892,227
Less: Accumulated depreciation	(126,840,461)	(119,028,896)
	$ 220,680,002	$ 213,863,331

The majority of the costs of construction in progress as of May 31, 2012 were the renovation of the Old Main Building, totaling approximately $1,848,000; the renovation of the Art Barn, totaling approximately $536,000; a data center project, totaling approximately $345,000; new Development software, totaling approximately $337,000; and a student dormitory renovation, totaling approximately $309,000. These projects are expected to be completed during fiscal 2013 and are being funded by operations.

NOTE 9 - ACCRUED LIABILITIES

At May 31, 2012 and 2011, accrued liabilities consisted of the following:

	2012	2011
Payroll	$ 8,924,895	$ 8,691,744
Self-insurance reserve (Note 10)	436,000	285,000
Post-retirement benefit obligation (Note 11)	4,067,935	3,778,568
Interest	525,753	537,756
Other	90,850	258,443
	$ 14,045,433	$ 13,551,511

NOTE 10 - 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 $436,000 and $285,000 at May 31, 2012 and 2011, 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 $200,000 per claim with an aggregate stop loss of approximately $7,200,000. As of May 31, 2012 and 2011, the College had unrestricted net assets of $495,544 and $1,605,746, 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.

NOTE 11 - RETIREMENT PLANS AND POSTRETIREMENT BENEFIT PLAN

The College has certain 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 $3,649,000 and $3,656,000 for the years ended May 31, 2012 and 2011, 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, 2012 and 2011:

	2012	2011
Change in benefit obligation		
Benefit obligation at beginning of year	$ 8,256,205	$ 6,920,555
Service cost	85,613	88,016
Interest cost	351,570	330,464
Plan participants' VEBA contributions	63,741	38,626
Employer VEBA contributions	987,052	1,018,076
Actuarial loss	16,134	431,614
Benefits paid	(656,377)	(571,146)
Benefit obligation at end of year	$ 9,103,938	$ 8,256,205
Change in plan assets		
Fair value of plan assets at beginning of year	$ 4,477,637	$ 3,154,491
Actual return (loss) on plan assets	(86,273)	556,752
Employer contributions	1,237,275	1,298,914
Plan participants' contributions	63,741	38,626
Benefits paid	(656,377)	(571,146)
Fair value of plan assets at end of year	$ 5,036,003	$ 4,477,637
Funded status		
Funded status at end of year	$ (4,067,935)	$ (3,778,568)
Amounts recognized in the statement of financial position consist of:		
Current liabilities	$ (350,000)	$ (348,000)
Noncurrent liabilities	(3,717,935)	(3,430,568)
Net amount recognized (Note 9)	$ (4,067,935)	$ (3,778,568)

NOTE 11 - RETIREMENT PLANS AND POSTRETIREMENT BENEFIT PLAN (CONTINUED)

	2012	2011
Amounts recognized in change in net assets consist of:		
Prior service cost	$ (889,838)	$ (1,041,086)
Net actuarial loss	1,915,262	1,636,683
Accumulated change in net assets	$ 1,025,424	$ 595,597
Weighted-average assumptions used to determine benefit obligations at May 31		
Discount rate	3.30%	4.35%
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	$ 85,613	$ 88,016
Interest cost	351,570	330,464
Expected return on plan assets	(223,882)	(157,725)
Amortization of prior service cost	(151,248)	(151,248)
Amortization of net loss	47,710	53,649
Net periodic postretirement benefit cost	$ 109,763	$ 163,156
Changes in net assets		
Net loss	$ 326,289	$ 32,587
Amortization of prior service cost	151,248	151,248
Amortization of net gain	(47,710)	(53,649)
Total recognized in change in net assets	$ 429,827	$ 130,186
Total recognized in net periodic benefit cost and change in net assets	$ 539,590	$ 293,342
Weighted-average assumptions used to determine net periodic benefit cost as of June 1		
Discount rate	4.35%	4.90%
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	7.84% - Post 65 8.09% - Pre 65	8.79% - Post 65 8.54% - Pre 65
Rate to which the cost trend rate is assumed to decline (the ultimate trend)	4.50%	4.50%
Year that the rate reaches the ultimate rate	2030	2030

NOTE 11 - RETIREMENT PLANS AND POSTRETIREMENT BENEFIT PLAN (CONTINUED)

During the fiscal year ending May 31, 2013, the College expects to contribute approximately $350,000 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 approximately $730,000 to the VEBA for current employees during the fiscal year ending May 31, 2013.

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:

2013	$ 350,000
2014	345,000
2015	345,000
2016	353,000
2017	333,000
2018 – 2022	1,354,000

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

NOTE 12 - ASSET RETIREMENT OBLIGATIONS

The College owns certain buildings that contain encapsulated asbestos material and as such records a liability for the reasonably estimated fair value of the conditional asset retirement obligation (ARO). The College records period-to-period changes in the ARO liability resulting from the passage of time and revisions to either the timing or the amount of the original estimate of undiscounted cash flows. The estimate of the losses that are probable from environmental remediation liabilities for asbestos removal was calculated using the expected cash flow approach and based on an inventory of the College's long-lived assets combined with an estimate of the current market prices to remove the asbestos. The College utilized a credit-adjusted risk-free rate of approximately 5% to discount the asset retirement obligation. It is reasonably possible that changes in this estimate could occur in the near term and that actual results could differ from this estimate and could have a material impact on the financial statements.

The following shows the activity in the College's asset retirement obligation liability at May 31, 2012 and 2011:

	2012	2011
Balance at beginning of the year	$ 2,526,294	$ 2,699,657
Abatement costs	(218,405)	(187,389)
Accretion expense	126,314	134,983
Adjustments to estimates	9,378	(120,957)
Balance at end of the year	$ 2,443,581	$ 2,526,294

NOTE 13 - LONG-TERM DEBT

Long-term debt at May 31, 2012 and 2011 consisted of the following:

	2012	2011
Minnesota Higher Education Facility Authority Variable Rate Demand Revenue Bonds, Series Five-M2	$ 8,750,000	$ 8,750,000
Minnesota Higher Education Facility Authority Revenue Bonds, Series Six-O	40,705,000	41,950,000
Minnesota Higher Education Facility Authority Revenue Bonds, Series Seven-F	31,335,000	32,440,000
Principal Outstanding on Bonds	80,790,000	83,140,000
Premium on Series Six-O Revenue Bonds	637,742	669,106
Premium on Series Seven-F Revenue Bonds	1,465,751	1,545,701
Total Long-Term Debt	$ 82,893,493	$ 85,354,807

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. A portion of the Series Five-M2 bonds totaling $4,670,000 were subject to an advance refunding as a portion of the Series Seven-F Bonds, and settled on October 1, 2010. See Note 18 for information on the interest rate swap agreement applicable to this issue.

The Series Five-M2 bonds bear interest at a variable (daily reset) rate, which at May 31, 2012 was 0.23%, with an average rate of 0.124% for the 2012 fiscal year. The bonds are secured by (a) during the variable rate period, an unsecured standby letter of credit which expires on July 10, 2014, which is subject to certain covenants; (b) a pledge of amounts payable by the College under the loan agreement; and (c) money and investments held by the trustee under the indenture. The bonds are not secured by a mortgage or lien on, or a security interest in, any property of the College. The College incurs an effective letter of credit fee of 59.8 basis points on the unsecured standby letter of credit amount outstanding, and a remarketing fee equal to 12.5 basis points.

Minnesota Higher Education Facilities Authority 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 $1,295,000 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.

NOTE 13 - LONG-TERM DEBT (CONTINUED)

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. Interest payments on the bonds are payable semiannually on April 1 and October 1 through 2030. Annual principal payments range between $1,125,000 and $2,345,000 through 2030. The bonds bear interest rates from 1.30% to 4.50%. The bonds are secured by a pledge of loan repayment from the College and a reserve account and require that certain covenants be maintained. Below is a recap of the refinancing activity related to the Series Seven-F issue:

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	293,295
Total bond proceeds	$ 34,045,664

The College maintains short-term investments and U.S. government securities held by a trustee for retirement of indebtedness that totaled $5,695,007 and $6,122,612 as of May 31, 2012 and 2011, respectively. These funds are intended to satisfy the reserve requirements of the Series Six-O issue and Series Seven-F issue.

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

Year Ending May 31:	
2013	$ 2,420,000
2014	2,510,000
2015	2,620,000
2016	2,745,000
2017	2,875,000
Thereafter	67,620,000
Total	$ 80,790,000

NOTE 14 - SHORT-TERM CREDIT ARRANGEMENT

The College has an unsecured $5,000,000 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, 2013. In addition, the agreement requires the College to comply with certain financial covenants. At May 31, 2012 and 2011, there were no outstanding borrowings under this arrangement.

NOTE 15 - 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, 2012 and 2011 as follows:

	2012	2011
Operating expenses allocated:		
Interest expense	$ 3,142,418	$ 3,038,497
Operation and maintenance of plant	13,475,633	13,045,123
Depreciation	11,234,164	10,925,800
Accretion	126,314	13,082
Employee tuition allowance	1,738,206	1,601,221
	$ 29,716,735	$ 28,623,723

NOTE 16 - 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, 2012 and 2011:

	2012	2011
Compensation	$ 63,015,594	$ 60,937,036
Depreciation, amortization, and accretion	11,274,911	11,143,283
Food services	8,144,524	7,632,817
Travel and meals	6,800,687	6,660,578
Contract, professional services, insurance, and taxes	6,681,649	6,002,677
Facilities - repairs, maintenance, utilities, fuel	5,100,957	4,820,212
Supplies, printing and postage	3,320,730	3,186,611
Interest	3,142,418	3,038,497
Telecommunications and information services	2,784,623	2,126,840
Memberships, awards, leases, and other	3,221,178	3,487,568
Total	$ 113,487,271	$ 109,036,119

NOTE 17 - DEFERRED GIFT (SPLIT-INTEREST) AGREEMENTS

The College has arrangements with donors classified as charitable lead trusts, charitable remainder trusts, charitable gift annuities and pooled life income funds. In general, under these arrangements the College receives a gift from a donor in which it has an interest and agrees to pay the donor stipulated amounts. 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 1.6% to 11.6% for the years ended May 31, 2012 and 2011 in making the actuarial and gift calculations. In some cases, there can be a time delay in the recording of the asset because of the time needed for discovery, verification of the College's rights, and the determination of the valuation of future payments.

Information pertaining to the College's deferred gift agreements for the years ended May 31, 2012 and 2011 is as follows:

	2012	2011
Cash and investments	$ 29,433,022	$ 32,336,031
Interfund receivable	118,177	48,372
Beneficial interest in trusts held by others	1,965,911	2,118,468
Deposits held in trust for others	(967,922)	(1,130,097)
Annuities payable	(13,528,781)	(12,380,504)
	$ 17,020,407	$ 20,992,270
Net Assets		
Unrestricted	$ 3,142,300	$ 4,148,550
Temporarily restricted	1,368,841	1,663,453
Permanently restricted	12,509,266	15,180,267
	$ 17,020,407	$ 20,992,270

NOTE 18 - 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, 2012, the notional value of the swap was $8,040,000. 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 (loss) of $(111,046) and $40,451 relating to the change in notional value of the agreement for the years ended May 31, 2012 and 2011, respectively. The gain (loss) is included in non-operating activities on the statement of activities. At May 31, 2012 and 2011, the College has recorded an interest rate exchange liability of $1,349,871 and $1,238,825, respectively, in the statements of financial position. In fiscal years 2012 and 2011 respectively, the College paid $349,205 and $376,788 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.

The College uses futures and forward contracts to reduce or increase the endowments exposure to the financial markets. The aggregate notional value of the derivative contracts was $1,646,663 and $5,119,102 at May 31, 2012 and 2011, respectively. The contracts aggregate fair market value was $3,030 and $27,324 on May 31, 2012 and 2011, 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, 2012 and 2011, the College reported a realized gain (loss) of $(413,961) and $1,484,793, respectively.

NOTE 19 - CONCENTRATIONS

Financial instruments that potentially subject the College to concentrations of credit risk consist principally of cash and cash equivalents, investments, accounts receivable, notes receivable and derivatives. Cash, cash equivalents and investment holdings are concentrated in a limited number of financial institutions and amounts in excess of FDIC and similar coverages are subject to the usual risks of balances in excess of those limits. Investments are diversified in order to reduce 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.

NOTE 19 - CONCENTRATIONS (CONTINUED)

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 20 - RELATED PARTY TRANSACTIONS

The College has various signed contracts with a construction company owned by a former member of the Board of Regents. The contracts were approved unanimously by the Board of Regents in accordance with the College's conflict of interest policy. Amounts payable to the construction company totaled approximately $444,000 and $1,222,000 as of May 31, 2012 and 2011, respectively.

As of May 31, 2012 and 2011, approximately $913,000 and $1,043,000, respectively, of contributions receivable were due from members of the Board of Regents. Write-offs of contributions receivable from members or former members of the Board of Regents totaled approximately $6,200,000 during the year ending May 31, 2011. There were no write-offs of contributions receivable from current or former Board of Regent members during the year ending May 31, 2012. Contribution revenue from members of the Board of Regents totaled approximately $1,042,000 and $670,000 for the years ending May 31, 2012 and 2011, respectively. Board members are not compensated.

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, 2012 and 2011, the College's total value of these funds was approximately $14,966,000 and $16,384,000, respectively. The College's cumulative contributions, net of distributions, to these investments as of May 31, 2012 and 2011 totaled approximately $15,060,000 and $14,581,000, respectively. The College's outstanding future commitments to these investments totaled approximately $6,353,000 and $7,445,000 at May 31, 2012 and 2011, respectively. The College has also received donations of privately issued debentures, in which a former member of the Board of Regents is affiliated. These debentures were held as investments and as of May 31, 2011 had a market value of $500,000. The College received final payment on the debentures in August 2011.

NOTE 21 - SUBSEQUENT EVENTS

The College has evaluated subsequent events through October 9, 2012, which is the date that the financial statements were issued.

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ended May 31, 2012

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		P063P101690	$ 1,892,304
Teacher education assistance for college and higher education grants	84.379		P379T111690	8,000
Federal supplemental educational opportunity grant program	84.007		P007A102203	337,872
Federal work-study program	84.033		P033A102203	381,054
Federal Perkins loan program	84.038		P038A102203	8,093,586
Federal Perkins loan cancellations	84.037		N/A	86,687
Federal direct loan program	84.268		P268K111690	13,939,698
Total U.S. Department of Education				24,739,201
U.S. Department of Health and Human Services direct program				
Nursing student loan program	93.364		6576831	148,656
Total Federal Student Aid				24,887,857
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	14,400
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	31,569
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	70,445
ARRA - OPP: Collaborative research: The Robotic access to grounding-zones for exploration and science (RAGES), integrative study of marine ice sheet stability and subglacial life habitats in West Antarctica	47.082		ANT-0838854	75,643
REU Site: From genes to ecosystems: Environmental science in a changing world	47.074		DBI-1004817	86,366
RUI: The Gene stream II: From sequence to cell function	47.074		MCB-0817993	113,162
Collaborative research: RUI: Landscape level controls on terrestrial, aquatic, and wetland responses to climate change in the southern Canadian Arctic	47.074		DEB-0743236	7,211
EMSW21-MCTP - The SUM project: A statistics undergraduate mentoring (SUM) program	47.049		DMS-0354308	19,594
Radar studies of internal stratigraphy and bed topography along the US ITASE-II traverse	47.078		ANT-0440304	4
RUI/Collaborative Research: Molecular origins of friction - A study across velocity regimes of phosphonate monolayers on alternative MEMS-type surfaces	47.041		CMMI-0758330	20,047
Collaborative research: CCLI type 1-Responding to manycore: A strategy for injecting parallel computing education throughout the computer science curriculum	47.076		DUE-0942190	56,970
Collaborative research: IPY: The polaris project: Rising stars in the arctic	47.076		DUE-0732618	3,461
Collaborative Research: The polaris project II: Amplifying the impact	47.078		ARC-1044180	43,919
EMSW21-MCTP: eCIR: The expanded Center for Interdisciplinary Research	47.049		DMS-1045015	117,432
Physically decoupling neural recording sites in behaving animals	47.074		IOS-1146243	426
S-Stem: Encouraging careers in the mathematical sciences	47.076		DUE-0630930	54,959
S-Stem: Biologists for the future	47.076		DUE-0727556	198,203
S-Stem: Providing support structures for chemistry majors	47.076		DUE-0806792	164,387
Subtotal direct programs				1,078,198
National Science Foundation passed through University of Minnesota				
LSAMP: North Star STEM alliance	47.076	Unknown	H281900903	22,265
Total National Science Foundation				1,100,463
U.S. Department of Health and Human Services				
AREA: Developmental genetics of tetrahymena thermophila	93.865		1R15HD064147-01	13,946
DNA and RNA stability in glycine betaine, TMAO, and urea solutions: correlating small molecule interactions with nucleic acid surfaces	93.859		1R15GM093331-01	52,301
Total U.S. Department of Health and Human Services				66,247
Total Research and Development				1,166,710

ST. OLAF COLLEGE

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ended May 31, 2012

Federal Grantor/ Pass Through Agency/ Program or Cluster Title	Federal CFDA Number	Pass-through Entity Identification Number	Grant Number	Federal Expenditures
TRIO PROGRAMS - CLUSTER				
U.S. Department of Education direct programs				
Student support services program	84.042A		P042A100349	$ 243,897
Talent search program	84.044A		P044A080061	289,129
Upward bound program	84.047A		P047A080162	382,912
McNair scholars' program	84.217A		P217A070033	222,361
Total TRIO Programs				1,138,299
OTHER PROGRAMS				
U.S. Department of Education direct programs				
Gaining early awareness and readiness for undergraduate programs	84.334A		P334A050020	353,914
Integrating Asian languages and area studies through content-based instruction	84.016A		P016A090027	66,303
Subtotal direct programs				420,217
U.S. Department of Education passed through				
Minnesota Department of Children, Families and Learning				
Robert C. Byrd honors scholarship	84.185	Unknown	N/A	1,500
Total U.S. Department of Education - Other Programs				421,717
U.S. Department of Commerce direct programs				
NIST: Atomic transition probabilities for rare earth elements from Boltzmann analysis of fourier transform spectra	11.609		70NANB11H092	45,570
NIST: FY 2011 summer undergraduate research fellowship - CNST	11.609		70NANB11H028	4,255
NIST: FY 2012 summer undergraduate research fellowship (SURF) - CNST	11.609		70NANB12H038	3,598
Total U.S. Department of Commerce - Other Programs				53,423
U.S. Department of Agriculture passed through				
Minnesota Department of Children, Families and Learning				
Summer food - Camp	10.559	Unknown	N/A	9,100
Total U.S. Department of Agriculture - Other Programs				9,100
Corporation for National and Community Service passed through				
University of Wisconsin				
Midwest campus compact STEM consortium	94.005	Unknown	10LH114084	23,817
Total Corporation for National and Community Service - Other Programs				23,817
TOTAL EXPENDITURES OF FEDERAL AWARDS				$ 27,700,923

See accompanying notes to schedule of expenditures of federal awards.

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:

Program Title	Federal CFDA Number	Amount Provided to Subrecipients
RUI: Molecular origins of friction	47.041	$ 20,047

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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, 2012 and have issued our report thereon dated October 9, 2012. 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

Management of St. Olaf College is responsible for establishing and maintaining effective 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 previously.

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 Virchow Krause, LLP

Minneapolis, Minnesota
October 9, 2012

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INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH REQUIREMENTS THAT COULD HAVE A DIRECT AND MATERIAL EFFECT ON 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 St. Olaf College's compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of St. Olaf College's major federal programs for the year ended May 31, 2012. St. Olaf College's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of St. Olaf College's management. Our responsibility is to express an opinion on St. Olaf College's compliance based on our audit.

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 could have a direct and material effect on each of its major federal programs for the year ended May 31, 2012.

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.

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 Virchow Krause, LLP

Minneapolis, Minnesota
October 9, 2012

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For the Year Ended May 31, 2012

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?	No
Identification of major programs:	

CFDA Number	Name of Federal Program or Cluster
Various	Federal Student Aid Cluster
Various	Research and Development Cluster

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

SECTION II - FINANCIAL STATEMENT FINDINGS

None noted.

SECTION III - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

None noted.

ST. OLAF COLLEGE

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
For the Year Ended May 31, 2012

The previous audit of the Federal Award Programs was for the year ended May 31, 2011. There were no federal award findings or questioned costs reported in that audit.