

ST. OLAF COLLEGE
Northfield, Minnesota

Financial Statements
Including Independent Auditors' Report

May 31, 2005, 2004 and 2003

ST. OLAF COLLEGE

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INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying statements of financial position of St. Olaf College as of May 31, 2005, 2004 and 2003 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. 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 examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of St. Olaf College at May 31, 2005, 2004 and 2003 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.

Virchow, Krause & Company, LLP

Minneapolis, Minnesota
July 28, 2005

ST. OLAF COLLEGE

STATEMENTS OF FINANCIAL POSITION
 May 31, 2005, 2004, and 2003

ASSETS			
	<u>2005</u>	<u>2004</u>	<u>2003</u>
Cash and cash equivalents	\$ 15,364,105	\$ 11,107,568	\$ 10,828,966
Receivables			
Student accounts, net of allowance for doubtful accounts of \$460,700, \$536,700, and \$513,900	208,491	426,968	322,136
Contributions, net	11,413,472	7,209,141	9,446,961
Other	455,117	832,354	1,190,691
Inventories	768,981	791,649	764,921
Prepaid expenses and deposits	808,602	362,741	460,776
Student notes receivable, net of allowance for doubtful notes of \$93,000 each year	9,324,203	8,764,816	8,879,998
Investments			
Cash and short-term investments	2,766,390	4,238,795	2,541,670
Marketable securities	222,883,210	186,591,385	189,867,907
Mortgages and contracts for deed	583,107	782,090	293,775
Notes receivable	350,000	350,000	350,000
Real estate	18,252,111	14,037,820	5,417,387
Other investments	41,960,750	33,745,681	4,221,523
Deposits held by trustee	1,022,471	996,974	995,000
Deferred debt acquisition costs	345,450	359,837	374,224
Funds held in trust by others	1,722,730	1,692,857	1,191,861
Construction in progress	1,352,843	1,586,269	748,773
Property, plant and equipment, net	<u>122,650,130</u>	<u>123,858,970</u>	<u>125,240,624</u>
TOTAL ASSETS	<u>\$ 452,232,163</u>	<u>\$ 397,735,915</u>	<u>\$ 363,137,193</u>
LIABILITIES AND NET ASSETS			
LIABILITIES			
Accounts payable	\$ 2,806,068	\$ 2,002,609	\$ 1,511,042
Accrued liabilities	12,233,354	12,239,037	11,084,987
Deferred revenue	3,661,546	3,475,745	3,985,811
Annuities payable	17,142,601	16,082,972	15,623,208
Interest rate swap liability	1,265,535	942,626	2,031,726
Long-term debt	53,630,000	53,920,000	54,200,000
U. S. government grants refundable	7,064,203	7,072,098	6,927,716
Deposits held in trust for others	<u>4,210,480</u>	<u>3,886,366</u>	<u>3,840,231</u>
Total Liabilities	<u>102,013,787</u>	<u>99,621,453</u>	<u>99,204,721</u>
NET ASSETS			
Unrestricted	173,515,216	135,559,414	109,193,136
Temporarily restricted	53,438,694	51,190,763	52,898,082
Permanently restricted	<u>123,264,466</u>	<u>111,364,285</u>	<u>101,841,254</u>
Total Net Assets	<u>350,218,376</u>	<u>298,114,462</u>	<u>263,932,472</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 452,232,163</u>	<u>\$ 397,735,915</u>	<u>\$ 363,137,193</u>

See accompanying notes to financial statements.

ST. OLAF COLLEGE

STATEMENT OF ACTIVITIES
Year Ended May 31, 2005

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
REVENUES, GAINS AND OTHER SUPPORT				
OPERATING REVENUES				
Tuition	\$ 73,978,456			\$ 73,978,456
Less: Unfunded scholarships and grants	(24,519,418)			(24,519,418)
Funded scholarships and grants	(3,393,171)			(3,393,171)
Net tuition	46,065,867			46,065,867
Other tuition and fees	3,959,847			3,959,847
Government grants	3,410,841	\$ 17,169		3,428,010
Private gifts and grants	3,719,500	2,650,249		6,369,749
Long-term investment income and gains allocated for operations	3,023,559	4,859,232		7,882,791
Other sources	1,968,452	1,498,840		3,467,292
Investment income	219,802	47,691		267,493
Net gains on investments and capital assets	(13,622)	43,187		29,565
Capital gifts allocated		1,168,105		1,168,105
Auxiliary enterprises - sales and services	19,471,392			19,471,392
	81,825,638	10,284,473		92,110,111
Net assets released from restrictions	10,334,610	(10,334,610)		
Total Operating Revenues, Gains and Other Support	92,160,248	(50,137)		92,110,111
OPERATING EXPENSES				
Program expenses				
Instruction	39,792,539			39,792,539
Research	770,122			770,122
Public service	2,169,465			2,169,465
Academic support	9,822,081			9,822,081
Student services	7,717,997			7,717,997
Auxiliary enterprises	15,009,642			15,009,642
Support expenses				
Institutional support	9,266,385			9,266,385
Fundraising	2,693,760			2,693,760
Total Operating Expenses	87,241,991			87,241,991
Change in Net Assets from Operating Activities	4,918,257	(50,137)		4,868,120
NONOPERATING ACTIVITIES				
Long-term investment activities				
Investment income	1,439,473	1,121,182	\$ 15,708	2,576,363
Net realized gains	3,710,156	2,480,157	37,492	6,227,805
Net unrealized appreciation	9,425,574	7,050,064	102,855	16,578,493
Total long-term investment income	14,575,203	10,651,403	156,055	25,382,661
Less: Long-term investment income and gains allocated for operations	(3,023,559)	(4,859,232)		(7,882,791)
	11,551,644	5,792,171	156,055	17,499,870
Student loan income net of expenses	(76,200)		53,413	(22,787)
Capital giving activities - gifts and grants	448,833	6,962,083	8,225,453	15,636,369
Deferred giving activities - gifts	240,763	68,206	599,709	908,678
Capital gifts allocated to operations		(1,168,105)		(1,168,105)
Interest rate swap expense	(322,909)			(322,909)
Adjustment to actuarial liability for annuities payable	2,783,311	92,638	1,760,905	4,636,854
Gain on sale of radio stations	10,067,824			10,067,824
	24,693,266	11,746,993	10,795,535	47,235,794
Net assets released from restrictions	7,635,718	(7,635,718)		
Change in Net Assets from Nonoperating Activities	32,328,984	4,111,275	10,795,535	47,235,794
Change in Net Assets before Reclassification of Net Assets	37,247,241	4,061,138	10,795,535	52,103,914
Reclassification of prior year net assets	708,561	(1,813,207)	1,104,646	
Change in Net Assets	37,955,802	2,247,931	11,900,181	52,103,914
Net Assets - Beginning of Year	135,559,414	51,190,763	111,364,285	298,114,462
NET ASSETS - END OF YEAR	\$ 173,515,216	\$ 53,438,694	\$ 123,264,466	\$ 350,218,376

See accompanying notes to financial statements.

ST. OLAF COLLEGE

STATEMENT OF ACTIVITIES
Year Ended May 31, 2004

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
REVENUES, GAINS AND OTHER SUPPORT				
OPERATING REVENUES				
Tuition	\$ 68,713,101			\$ 68,713,101
Less: Unfunded scholarships and grants	(21,286,023)			(21,286,023)
Funded scholarships and grants	<u>(3,430,909)</u>			<u>(3,430,909)</u>
Net tuition	43,996,169			43,996,169
Other tuition and fees	3,843,711			3,843,711
Government grants	3,452,973	\$ 30,234		3,483,207
Private gifts and grants	3,655,178	2,585,454		6,240,632
Long-term investment income and gains allocated for operations	3,165,956	5,117,095		8,283,051
Other sources	3,033,891	1,126,270		4,160,161
Investment income	81,640	33,938		115,578
Net gains on investments and capital assets	9,204	83,491		92,695
Capital gifts allocated		1,155,259		1,155,259
Auxiliary enterprises - sales and services	<u>16,111,600</u>	<u>69,155</u>		<u>16,180,755</u>
	77,350,322	10,200,896		87,551,218
Net assets released from restrictions	<u>10,435,120</u>	<u>(10,435,120)</u>		
Total Operating Revenues, Gains and Other Support	<u>87,785,442</u>	<u>(234,224)</u>		<u>87,551,218</u>
OPERATING EXPENSES				
Program expenses				
Instruction	38,546,757			38,546,757
Research	642,789			642,789
Public service	2,471,622			2,471,622
Academic support	9,786,084			9,786,084
Student services	7,505,539			7,505,539
Auxiliary enterprises	15,092,162			15,092,162
Support expenses				
Institutional support	9,024,853			9,024,853
Fundraising	<u>3,095,152</u>			<u>3,095,152</u>
Total Operating Expenses	<u>86,164,958</u>			<u>86,164,958</u>
Change in Net Assets from Operating Activities	<u>1,620,484</u>	<u>(234,224)</u>		<u>1,386,260</u>
NONOPERATING ACTIVITIES				
Long-term investment activities				
Investment income	1,193,759	1,101,054	\$ 29,745	2,324,558
Net realized gains (losses)	14,219,968	9,807,093	(84,678)	23,942,383
Net unrealized appreciation	<u>1,375,275</u>	<u>1,267,652</u>	<u>34,268</u>	<u>2,677,195</u>
Total long-term investment income (loss)	16,789,002	12,175,799	(20,665)	28,944,136
Less: Long-term investment income and gains allocated for operations	<u>(3,165,956)</u>	<u>(5,117,095)</u>		<u>(8,283,051)</u>
	13,623,046	7,058,704	(20,665)	20,661,085
Student loan income net of expenses	17,630		24,291	41,921
Capital giving activities - gifts and grants	126,344	2,271,559	2,331,397	4,729,300
Deferred giving activities - gifts	113,391	15,199	1,174,421	1,303,011
Capital gifts allocated to operations		(1,155,259)		(1,155,259)
Interest rate swap gain	1,089,100			1,089,100
Adjustment to actuarial liability for annuities payable	<u>2,904,475</u>	<u>275,724</u>	<u>2,946,373</u>	<u>6,126,572</u>
	17,873,986	8,465,927	6,455,817	32,795,730
Net assets released from restrictions	<u>6,827,439</u>	<u>(6,827,439)</u>		
Change in Net Assets from Nonoperating Activities	<u>24,701,425</u>	<u>1,638,488</u>	<u>6,455,817</u>	<u>32,795,730</u>
Change in Net Assets before Reclassification of Net Assets	26,321,909	1,404,264	6,455,817	34,181,990
Reclassification of prior year net assets	<u>44,369</u>	<u>(3,111,583)</u>	<u>3,067,214</u>	
Change in Net Assets	26,366,278	(1,707,319)	9,523,031	34,181,990
Net Assets - Beginning of Year	<u>109,193,136</u>	<u>52,898,082</u>	<u>101,841,254</u>	<u>263,932,472</u>
NET ASSETS - END OF YEAR	<u>\$ 135,559,414</u>	<u>\$ 51,190,763</u>	<u>\$ 111,364,285</u>	<u>\$ 298,114,462</u>

See accompanying notes to financial statements.

ST. OLAF COLLEGE

STATEMENT OF ACTIVITIES
Year Ended May 31, 2003

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
REVENUES, GAINS AND OTHER SUPPORT				
OPERATING REVENUES				
Tuition	\$ 65,436,142			\$ 65,436,142
Less: Unfunded scholarships and grants	(19,885,481)			(19,885,481)
Funded scholarships and grants	<u>(3,217,233)</u>			<u>(3,217,233)</u>
Net tuition	42,333,428			42,333,428
Other tuition and fees	3,499,460			3,499,460
Government grants	2,993,707	\$ 26,666		3,020,373
Private gifts and grants	3,711,266	3,926,383		7,637,649
Long-term investment income and gains allocated for operations	5,607,078	2,424,758		8,031,836
Other sources	2,332,885	736,869		3,069,754
Investment income	223,040	40,392		263,432
Net losses on investments and capital assets	(49,498)	(19,148)		(68,646)
Capital gifts allocated		1,144,729		1,144,729
Auxiliary enterprises - sales and services	<u>15,921,580</u>			<u>15,921,580</u>
	76,572,946	8,280,649		84,853,595
Net assets released from restrictions	<u>6,401,603</u>	<u>(6,401,603)</u>		
Total Operating Revenues, Gains and Other Support	<u>82,974,549</u>	<u>1,879,046</u>		<u>84,853,595</u>
OPERATING EXPENSES				
Program expenses				
Instruction	35,007,207			35,007,207
Research	842,541			842,541
Public service	2,679,360			2,679,360
Academic support	9,054,031			9,054,031
Student services	6,911,499			6,911,499
Auxiliary enterprises	14,795,334			14,795,334
Support expenses				
Institutional support	9,766,461			9,766,461
Fundraising	<u>2,625,031</u>			<u>2,625,031</u>
Total Operating Expenses	<u>81,681,464</u>			<u>81,681,464</u>
Change in Net Assets from Operating Activities	<u>1,293,085</u>	<u>1,879,046</u>		<u>3,172,131</u>
NONOPERATING ACTIVITIES				
Long-term investment activities				
Investment income	1,204,833	1,939,684	\$ 49,816	3,194,333
Net realized losses	(7,325,983)		(120,090)	(7,446,073)
Net unrealized appreciation	<u>302,104</u>	<u>486,104</u>	<u>12,491</u>	<u>800,699</u>
Total long-term investment income (loss)	(5,819,046)	2,425,788	(57,783)	(3,451,041)
Less: Long-term investment income and gains allocated for operations	<u>(5,607,078)</u>	<u>(2,424,758)</u>		<u>(8,031,836)</u>
	(11,426,124)	1,030	(57,783)	(11,482,877)
Student loan income net of expenses	20,959		45,490	66,449
Capital giving activities - gifts and grants	578,262	901,340	2,164,428	3,644,030
Deferred giving activities - gifts	48,590	2,652	298,742	349,984
Capital gifts allocated to operations		(1,144,729)		(1,144,729)
Interest rate swap expense	(2,031,726)			(2,031,726)
Adjustment to actuarial liability for annuities payable	448,727	(27,498)	(1,042,455)	(621,226)
Loss on debt refinancing	<u>(919,163)</u>			<u>(919,163)</u>
	(13,280,475)	(267,205)	1,408,422	(12,139,258)
Net assets released from restrictions	<u>2,499,568</u>	<u>(2,499,568)</u>		
Change in Net Assets from Nonoperating Activities	<u>(10,780,907)</u>	<u>(2,766,773)</u>	<u>1,408,422</u>	<u>(12,139,258)</u>
Change in Net Assets before Reclassification of Net Assets	(9,487,822)	(887,727)	1,408,422	(8,967,127)
Reclassification of prior year net assets	<u>(4,695,796)</u>	<u>4,907,590</u>	<u>(211,794)</u>	
Change in Net Assets	<u>(14,183,618)</u>	<u>4,019,863</u>	<u>1,196,628</u>	<u>(8,967,127)</u>
Net Assets - Beginning of Year	<u>123,376,754</u>	<u>48,878,219</u>	<u>100,644,626</u>	<u>272,899,599</u>
NET ASSETS - END OF YEAR	<u>\$ 109,193,136</u>	<u>\$ 52,898,082</u>	<u>\$ 101,841,254</u>	<u>\$ 263,932,472</u>

See accompanying notes to financial statements.

ST. OLAF COLLEGE

STATEMENTS OF CASH FLOWS
Years Ended May 31, 2005, 2004, and 2003

	2005	2004	2003
CASH FLOWS FROM OPERATING ACTIVITIES			
Change in net assets	\$ 52,103,914	\$ 34,181,990	\$ (8,967,127)
Adjustments to reconcile change in net assets to net cash flows from operating activities			
Loss on debt refinancing			919,163
Depreciation and amortization expense	7,798,638	7,416,505	6,697,217
Net realized (gains) losses on investments	(8,546,072)	(25,338,162)	7,394,467
Net unrealized (appreciation) depreciation of investments	(20,408,363)	(7,281,955)	173,316
Interest rate swap (gain) loss	322,909	(1,089,100)	2,031,726
(Gain) loss on dispositions of property, plant and equipment	(10,067,824)	5,290	15,000
Actuarial adjustment of annuities payable	2,308,414	976,811	1,013,666
Gifts of property, plant and equipment	(91,940)	(103,175)	(83,826)
(Increases) decreases in:			
Student accounts receivable	218,477	(104,832)	61,154
Contributions receivable for operations	498,047	364,065	852,399
Other receivables	377,237	358,337	(801,943)
Inventories, prepaid expenses and deposits	(423,193)	71,307	(93,232)
Funds held in trust by others	(29,873)	(500,996)	286,519
Increases (decreases) in:			
Accounts payable	597,290	500,112	(2,053)
Accrued liabilities	(5,683)	1,154,050	638,033
Deferred revenue	185,801	(510,066)	(91,566)
Gifts and grants received for long-term investment, net	(16,545,047)	(6,041,310)	(3,994,014)
Nonoperating investment income	(2,576,363)	(2,324,558)	(3,194,333)
Net Cash Flows from Operating Activities	<u>5,716,369</u>	<u>1,734,313</u>	<u>2,854,566</u>
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchases of property, plant and equipment	(6,154,552)	(6,768,620)	(10,275,326)
Withdrawals from deposits held by trustee for construction, net			3,753,837
Purchases of investments	(98,477,465)	(244,049,987)	(213,465,397)
Proceeds from sales of investments	80,641,190	240,269,386	212,505,323
Nonoperating investment income	2,576,363	2,324,558	3,194,333
Net proceeds from sale of radio stations	10,178,500		
Disbursements of loans to students	(2,032,447)	(1,625,094)	(1,294,973)
Repayments of loans by students	1,473,060	1,740,276	1,652,944
Net Cash Flows from Investing Activities	<u>(11,795,351)</u>	<u>(8,109,481)</u>	<u>(3,929,259)</u>
CASH FLOWS FROM FINANCING ACTIVITIES			
Principal repayments of indebtedness	(290,000)	(280,000)	(513,114)
Gifts and grants received for long-term investment, net	16,545,047	6,041,310	3,994,014
(Increase) decrease in nonoperating contributions receivable	(4,702,378)	1,873,755	2,478,508
Increase (decrease) in deposits held in trust for others	39,530	(608,630)	(247,417)
Increase (decrease) in U. S. government grants refundable, net	(7,895)	144,382	139,328
Increase in annuities payable from new gifts	977,780	1,683,729	498,372
Payments to annuitants	(2,226,565)	(2,200,776)	(2,498,796)
Debt issuance costs paid			(11,434)
Deposit to escrow account for refinanced bonds			(181,267)
Net Cash Flows from Financing Activities	<u>10,335,519</u>	<u>6,653,770</u>	<u>3,658,194</u>
Net Change in Cash and Cash Equivalents	4,256,537	278,602	2,583,501
CASH AND CASH EQUIVALENTS - Beginning of Year	<u>11,107,568</u>	<u>10,828,966</u>	<u>8,245,465</u>
CASH AND CASH EQUIVALENTS - END OF YEAR	<u>\$ 15,364,105</u>	<u>\$ 11,107,568</u>	<u>\$ 10,828,966</u>

ST. OLAF COLLEGE

NOTES TO FINANCIAL STATEMENTS
May 31, 2005, 2004 and 2003

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES

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

General - The College maintains its accounts in accordance with the principles and practices of fund accounting. Fund accounting is the procedure by which resources for various purposes are classified for accounting purposes in accordance with activities or objectives specified by donors.

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

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

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

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

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

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

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

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

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

ST. OLAF COLLEGE

NOTES TO FINANCIAL STATEMENTS
May 31, 2005, 2004 and 2003

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

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

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

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

Receivables - An allowance for doubtful accounts is recorded annually based on historical experience and management's evaluation of receivables at the end of each year. Bad debts are written-off when deemed uncollectible. Receivables are generally unsecured.

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

Investments - Investments in marketable equity and debt securities are recorded at fair value. Other investments are recorded at cost, except those items received as gifts, which are valued at fair value at the date of gift. A permanent decline in the value of an investment recorded on the cost basis is recognized in the year such loss occurs.

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

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

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

ST. OLAF COLLEGE

NOTES TO FINANCIAL STATEMENTS
May 31, 2005, 2004 and 2003

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

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

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

	<u>2005</u>	<u>2004</u>	<u>2003</u>
State grants	\$ 1,676,660	\$ 1,776,759	\$ 1,828,063
Federal grants	1,032,538	1,060,220	943,186

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.

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.

Advertising Expenses - Advertising costs are expensed when incurred.

Interest Rate Swap - The College follows SFAS No. 133, *Accounting for Derivative Instruments and Hedging Activities* (as subsequently amended by SFAS No. 138, 140 and 149), to account for its derivative transactions, which consists of an interest rate swap. SFAS No. 133 requires that all derivatives, including those embedded in other contracts, be recognized as either assets or liabilities and that those financial instruments be measured at fair value. Gains or losses resulting from changes in the fair values of derivatives are reflected in the statements of activities.

ST. OLAF COLLEGE

NOTES TO FINANCIAL STATEMENTS
May 31, 2005, 2004 and 2003

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Fair Value of Financial Instruments - The College records financial instruments at cost, with the exception of investments in marketable equity and debt securities which are reflected in the financial statements at market value. Cash and cash equivalents, accounts payable and accrued liabilities are reflected in the financial statements at fair value because of the short-term maturity of these instruments. The carrying value of contributions receivable approximates fair value because they are recorded at the present value of the discounted future cash flows, based on current market interest rates. The fair value of investments (which are shown in Note 5) and funds held in trust by others are based upon values provided by custodians or quoted market values. In certain cases where such values are not available, historical cost is used as an estimate of market value. A reasonable estimate of the fair value of the receivables from students under government loan programs and advances from the federal 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 designees. The fair value of receivables from students under College loan programs approximates carrying value. The fair value of real estate contracts, grants and other receivables approximates carrying value. A reasonable estimate of the fair value of the annuities payable could not be made because the annuities are not saleable. The carrying amount of long-term debt and interest rate swap liability approximates fair value because these financial instruments bear interest at rates which approximate current market rates for notes with similar maturities and credit quality.

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.

NOTE 2 - RESTRICTIONS AND LIMITATIONS ON NET ASSETS BALANCES

At May 31, 2005, 2004 and 2003, the College's unrestricted net assets were allocated as follows:

	2005	2004	2003
Designated			
For long-term purposes as:			
Quasi-endowment	\$ 92,366,334	\$ 66,383,964	\$ 48,563,955
Debt service and facility renewal	25,615,875	21,071,660	15,680,185
Deferred gifts	24,664,516	21,640,442	20,482,196
For debt service reserves under long-term debt agreements	906,902	879,303	875,333
For specific operating activities	1,789,232	1,821,377	1,263,125
For matching funds under federal government other student loan programs	1,142,092	1,222,585	1,167,620
Total Designated	146,484,951	113,019,331	88,032,414
Undesignated	27,030,265	22,540,083	21,160,722
	\$ 173,515,216	\$ 135,559,414	\$ 109,193,136

ST. OLAF COLLEGE

NOTES TO FINANCIAL STATEMENTS
May 31, 2005, 2004 and 2003

NOTE 2 - RESTRICTIONS AND LIMITATIONS ON NET ASSETS BALANCES (CONTINUED)

Temporarily restricted net assets consist of the following at May 31, 2005, 2004 and 2003:

	<u>2005</u>	<u>2004</u>	<u>2003</u>
Gifts and other unexpended revenues and gains available for:			
Scholarships, instruction and other support	\$ 5,869,012	\$ 7,521,998	\$ 7,999,679
Unamortized plant gifts	31,286,289	32,142,876	32,992,697
Acquisition of buildings and equipment	<u>7,084,881</u>	<u>794,836</u>	<u>605,156</u>
	44,240,182	40,459,710	41,597,532
Quasi-endowment	8,372,668	10,052,000	10,245,724
Deferred gifts	<u>825,844</u>	<u>679,053</u>	<u>1,054,826</u>
	<u>\$ 53,438,694</u>	<u>\$ 51,190,763</u>	<u>\$ 52,898,082</u>

Permanently restricted net assets consist of the following at May 31, 2005, 2004 and 2003:

Endowment funds	\$ 104,162,965	\$ 94,357,317	\$ 85,351,445
Student loan funds	2,125,470	2,058,677	2,024,635
Deferred gifts	<u>16,976,031</u>	<u>14,948,291</u>	<u>14,465,174</u>
	<u>\$ 123,264,466</u>	<u>\$ 111,364,285</u>	<u>\$ 101,841,254</u>

NOTE 3 - NET ASSETS RELEASED FROM RESTRICTIONS

Net assets were released from temporary donor restrictions by incurring expenses satisfying the restricted purposes or by occurrence of events specified by the donors as follows for the years ended May 31, 2005, 2004 and 2003:

	<u>2005</u>	<u>2004</u>	<u>2003</u>
Amortization of contributions expended for long-lived assets	\$ 1,168,105	\$ 1,821,955	\$ 1,144,729
Scholarships, instruction and other departmental support	<u>16,802,223</u>	<u>15,440,604</u>	<u>7,756,442</u>
	<u>\$ 17,970,328</u>	<u>\$ 17,262,559</u>	<u>\$ 8,901,171</u>
These assets were reclassified as follows:			
Unrestricted operating net assets	\$ 10,334,610	\$ 10,435,120	\$ 6,401,603
Unrestricted nonoperating net assets	<u>7,635,718</u>	<u>6,827,439</u>	<u>2,499,568</u>
	<u>\$ 17,970,328</u>	<u>\$ 17,262,559</u>	<u>\$ 8,901,171</u>

ST. OLAF COLLEGE

NOTES TO FINANCIAL STATEMENTS
May 31, 2005, 2004 and 2003

NOTE 4 - CONTRIBUTIONS RECEIVABLE

Contributions receivable include the following unconditional promises to give at May 31, 2005, 2004 and 2003:

	<u>2005</u>	<u>2004</u>	<u>2003</u>
Temporarily restricted - operations	\$ 417,087	\$ 892,131	\$ 1,435,731
Temporarily restricted - plant projects	6,654,853	33,000	8,400
Temporarily restricted - quasi-endowment	1,566,729	3,156,583	5,418,204
Permanently restricted - deferred gifts	510,000	5,000	14,745
Permanently restricted - endowment	<u>3,462,797</u>	<u>3,701,670</u>	<u>4,489,052</u>
Gross unconditional promises to give	12,611,466	7,788,384	11,366,132
Less: Unamortized discount	(844,775)	(182,314)	(495,445)
Allowance for uncollectible promises	<u>(353,219)</u>	<u>(396,929)</u>	<u>(1,423,726)</u>
	<u>\$ 11,413,472</u>	<u>\$ 7,209,141</u>	<u>\$ 9,446,961</u>

Contributions receivable as of May 31, 2005 of \$7,090,229 are expected to be collected in less than one year and \$4,323,243 in two to five years. Contributions receivable expected to be collected in two to five years have been discounted using a rate of 6%.

NOTE 5 - MARKETABLE SECURITIES

The following summarizes the fair value of the College's marketable securities at May 31, 2005, 2004 and 2003:

	<u>2005</u>	<u>2004</u>	<u>2003</u>
Stocks	\$ 34,980,890	\$ 42,885,174	\$ 50,837,868
Bonds	19,429,129	18,233,225	8,465,090
Mutual funds	<u>168,473,191</u>	<u>125,472,986</u>	<u>130,564,949</u>
	<u>\$ 222,883,210</u>	<u>\$ 186,591,385</u>	<u>\$ 189,867,907</u>

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

Endowment investments are recorded at a market value approximating \$225,657,900, \$185,409,300, and \$151,495,400 for the years ended May 31, 2005, 2004 and 2003, respectively. The total return on all investments held by the endowment funds, on a market basis, was 13.384%, 18.933% and (2.52)% for the years ended May 31, 2005, 2004 and 2003, respectively. Income from long-term investments are shown net of expenses of \$701,928, \$757,253 and \$784,670 for the years ended May 31, 2005, 2004 and 2003, respectively.

ST. OLAF COLLEGE

NOTES TO FINANCIAL STATEMENTS
May 31, 2005, 2004 and 2003

NOTE 6 - CONSTRUCTION IN PROGRESS

Construction in progress consisted of the following projects at May 31, 2005:

	Estimated Total Cost	Costs to Date	Funding Plan
New science center	\$ 56,000,000	\$ 550,723	Gifts
Boe Chapel organ	1,500,000	241,743	Current operations, Gifts
Boe Chapel planning	500,000	51,999	Current operations
Crosstown fiber	188,000	186,094	Current operations
Christiansen Hall	100,000	2,937	Current operations
A Bonde electronic piano	10,000	4,185	Gifts
Kelsey Theatre renovation	100,000	1,337	Current operations
Ultra stereotaxic instrument	5,300	3,500	Current operations
CLEC switch	750,000	47,873	Current operations
Campus signage	250,000	126,920	Current operations
Larson kitchens	7,000	6,340	Current operations
Start-up funds	305,000	129,192	Current operations, Grant
		\$ 1,352,843	

NOTE 7 - PROPERTY, PLANT AND EQUIPMENT

At May 31, 2005, 2004 and 2003 property, plant and equipment consisted of the following:

	2005	2004	2003
Land	\$ 814,914	\$ 814,914	\$ 814,914
Improvements other than buildings	8,257,812	7,867,845	7,435,879
Buildings	145,776,507	144,218,758	142,142,809
Equipment	35,660,090	32,382,637	30,300,366
Library materials	16,950,864	16,074,534	14,995,931
Art collection	954,998	909,308	847,632
	208,415,185	202,267,996	196,537,531
Less: Accumulated depreciation	(85,765,055)	(78,409,026)	(71,296,907)
	\$ 122,650,130	\$ 123,858,970	\$ 125,240,624

ST. OLAF COLLEGE

NOTES TO FINANCIAL STATEMENTS
May 31, 2005, 2004 and 2003

NOTE 8 - RETIREMENT PLANS

The College has certain contributory defined contribution pension plans for academic and nonacademic personnel. The cost of these retirement plans is paid currently and approximated \$2,849,000, \$2,909,000 and \$2,768,000 for the years ended May 31, 2005, 2004 and 2003, respectively.

The College has recorded liabilities for early retirement benefits given to faculty and staff members meeting certain eligibility requirements. The unpaid liability for these early retirement plans is included in accrued liabilities and approximated \$193,155, \$597,000 and \$336,000 at May 31, 2005, 2004 and 2003, respectively.

NOTE 9 - POSTRETIREMENT BENEFIT PLAN

The College records health care benefits for current and future retired employees and covered dependents on the accrual basis. The plan is unfunded. The following tables set forth the plan's status with amounts reported in the College's financial statements at May 31, 2005, 2004 and 2003:

	Postretirement Benefits		
	2005	2004	2003
Accumulated postretirement benefit obligation	\$ 8,804,519	\$ 7,021,912	\$ 8,047,438
Fair value of plan assets	0	0	0
Underfunded status	\$ 8,804,519	\$ 7,021,912	\$ 8,047,438
Accrued benefit cost recognized	\$ 2,925,795	\$ 2,636,298	\$ 2,446,225
Net postretirement benefit cost	\$ 787,238	\$ 819,325	\$ 803,000
Employer contributions	\$ 497,742	\$ 629,251	\$ 475,537
Plan participant contributions	507,759	440,127	340,654
Benefits paid	\$ 1,005,501	\$ 1,069,378	\$ 816,191

A 9.14% pre-65 and 10.64% post-65 rate of increase in per capita costs of covered health care benefits was assumed for the year ended May 31, 2006 (lower rates are assumed for HMO plans), gradually decreasing to an ultimate rate of 4.0% by the year 2025. A discount rate of 5.4% was used to determine the accumulated postretirement benefit obligation.

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

ST. OLAF COLLEGE

NOTES TO FINANCIAL STATEMENTS
May 31, 2005, 2004 and 2003

NOTE 10 - LONG-TERM DEBT

Long-term debt at May 31, 2005, 2004 and 2003 consisted of the following:

	<u>2005</u>	<u>2004</u>	<u>2003</u>
Minnesota Higher Education Facilities Authority Revenue Bonds, Series Four-R	\$ 13,530,000	\$ 13,820,000	\$ 14,100,000
Minnesota Higher Education Facilities Authority Variable Rate Demand Revenue Bonds, Series Five-H	14,475,000	14,475,000	14,475,000
Minnesota Higher Education Facility Authority Variable Rate Demand Revenue Bonds, Series Five-M1	12,205,000	12,205,000	12,205,000
Minnesota Higher Education Facility Authority Variable Rate Demand Revenue Bonds, Series Five-M2	<u>13,420,000</u>	<u>13,420,000</u>	<u>13,420,000</u>
	<u>\$ 53,630,000</u>	<u>\$ 53,920,000</u>	<u>\$ 54,200,000</u>

Minnesota Higher Education Facilities Authority Revenue Bonds Series Four-R were issued in amount of \$15,000,000 in April 1998 to partially finance the Buntrock Commons Building and to finance an electrical generator, academic and administrative computers, payroll system hardware and software, classroom renovation and residence hall furniture. Principal and interest payments on the bonds are payable semiannually on April 1 and October 1 through 2029. Remaining annual principal payments range from \$305,000 to \$955,000. Bonds maturing on or after April 1, 2008 are callable at par value. The bonds that remain outstanding bear interest at rates varying from 4.40% to 5.25%. The bonds are secured by the pledge of loan repayments and a reserve account. In addition, the College covenants that it will not mortgage, grant a lien upon, pledge, grant a security interest in, make an assignment of its interest in, or permit any encumbrance on the Buntrock Commons project.

The College maintains short-term investments and U.S. government securities held by trustees for retirement of indebtedness totaling \$1,022,471. These funds are intended to satisfy the reserve requirements of the Four-R issues. In addition, the College is subject to various restrictive covenants under the Series Four-R debt indentures which limits the College's ability to incur additional long-term debt and includes a requirement to achieve the Revenue/Expenditure Test, as defined, in at least two of the preceding three complete fiscal years and to maintain a minimum market value of unencumbered unrestricted endowment assets of at least \$3,000,000.

Minnesota Higher Education Facilities Authority Variable Rate Demand Revenue Bonds, Series Five-H, were issued in the amount of \$14,475,000 to finance the renovation of St. Olaf Center to house the art and dance departments, replace residence hall furniture, replace Skoglund Athletic Center bleachers, acquire and renovate four houses, renovate the Administration Building, and renovate and improve utility tunnels. The bonds were issued October 25, 2000 and will mature October 1, 2030. Interest on the bonds is payable monthly and no principal payments are required until the maturity date. The bonds bear interest at a variable (daily reset) rate, which at May 31, 2005 was 2.97%, with an average rate of 1.68% for the 2005 fiscal year. The bonds are secured by (a) during the variable rate period, a letter of credit; (b) a pledge of amounts payable by the College under the loan agreement; and (c) money and investments held by the trustee under the indenture. The bonds are not secured by a mortgage or lien on, or a security interest in, any property of the College. The College incurs an effective letter of credit fee of 39.6 basis points on the letter of credit amount outstanding, and a remarketing fee equal to 12.5 basis points.

ST. OLAF COLLEGE

NOTES TO FINANCIAL STATEMENTS
May 31, 2005, 2004 and 2003

NOTE 10 - LONG-TERM DEBT (CONTINUED)

Minnesota Higher Education Facilities Authority Variable Rate Demand Revenue Bonds, Series Five-M1, were issued in the amount of \$12,205,000 to finance the construction of the Tostrud Recreation Center. The bonds were issued April 16, 2002 and will mature October 1, 2032. Interest on the bonds is payable monthly and no principal payments are required until the maturity date. The bonds bear interest at a variable (daily reset) rate, which at May 31, 2005 was 2.97%, with an average rate of 1.68% for the 2005 fiscal year. The bonds are secured by (a) during the variable rate period, a letter of credit; (b) a pledge of amounts payable by the College under the loan agreement; and (c) money and investments held by the trustee under the indenture. The bonds are not secured by a mortgage or lien on, or a security interest in, any property of the College. The College incurs an effective letter of credit fee of 63.4 basis points on the letter of credit amount outstanding, and a remarketing fee equal to 12.5 basis points.

Minnesota Higher Education Facilities Authority Variable Rate Demand Revenue Bonds, Series Five-M2, were issued in the amount of \$13,420,000 to refinance the Series 1992 bonds. The bonds were issued July 10, 2002 and will mature October 1, 2020. Interest on the bonds is payable monthly and no principal payments are required until the maturity date. The bonds bear interest at a variable (daily reset) rate, which at May 31, 2005 was 2.97%, with an average rate of 1.68% for the 2005 fiscal year. The bonds are secured by (a) during the variable rate period, a letter of credit; (b) a pledge of amounts payable by the College under the loan agreement; and (c) money and investments held by the trustee under the indenture. The bonds are not secured by a mortgage or lien on, or a security interest in, any property of the College. The College incurs an effective letter of credit fee of 63.4 basis points on the letter of credit amount outstanding, and a remarketing fee equal to 12.5 basis points.

To minimize the effect of changes in the interest rate, during 2003, the College entered into an interest rate swap on \$13,420,000 of the Series Five-M2 bonds to set the interest at a fixed rate of 4.38% until maturity. Under the swap agreement, the College either pays additional interest or receives an interest credit depending on the relationship between the variable rate and the fixed rate. The College recorded a gain/(loss) of (\$322,909), \$1,089,100, and (\$2,031,726), relating to the swap agreement for the years ended May 31, 2005, 2004 and 2003, respectively. The gain/(loss) is included in nonoperating activities on the statement of activities. At May 31, 2005, 2004 and 2003, the College has recorded an interest rate swap liability of \$1,265,535, \$942,626 and \$2,031,726, respectively, in the statement of financial position.

Anticipated long-term debt principal payments are as follows:

Year Ending May 31:	
2006	\$ 305,000
2007	315,000
2008	335,000
2009	345,000
2010	365,000
Thereafter	<u>51,965,000</u>
Total	<u>\$ 53,630,000</u>

Interest expense on long-term debt totaled \$2,010,377, \$1,842,338 and \$2,079,016 for the years ended May 31, 2005, 2004 and 2003, respectively. Interest totaling \$66,562 was capitalized during the year ended May 31, 2003.

ST. OLAF COLLEGE

NOTES TO FINANCIAL STATEMENTS
May 31, 2005, 2004 and 2003

NOTE 11 - SHORT-TERM CREDIT ARRANGEMENT

The College has an unsecured \$7,000,000 line of credit through Wells Fargo Bank. Borrowings under this line of credit bear interest at an annual rate of 50 basis points below the Bank's base (prime) rate. Interest is payable on the last day of each calendar quarter, beginning September 30. Principal, and any unpaid interest, is due on October 31. In addition, the agreement requires the College to comply with certain financial covenants. At May 31, 2005, 2004 and 2003, there were no outstanding borrowings under this arrangement.

NOTE 12 - SELF-INSURANCE

The College provides medical benefits through a self-insurance plan which is available to all employees of the College for certain medical expenses. Total resources committed to the self-insurance program were approximately \$375,000 as of May 31, 2005. Accrued liabilities include a \$1,255,800 reserve, an estimate of amounts due and payable on existing claims for which the College is self-insured and which are expected to be settled currently. The College is self-insured for the first \$75,000 per claim with an aggregate stop loss of \$4,882,335.

NOTE 13 - ALLOCATION OF EXPENSES

The College allocated the following expenses to program and support functions for the years ended May 31, 2005, 2004 and 2003 as follows:

	<u>2005</u>	<u>2004</u>	<u>2003</u>
Interest expense	\$ 2,010,377	\$ 1,842,338	\$ 2,079,016
Operation and maintenance of plant	8,652,895	8,447,768	8,067,514
Depreciation	<u>7,784,252</u>	<u>7,402,118</u>	<u>6,681,867</u>
	<u>\$ 18,447,524</u>	<u>\$ 17,692,224</u>	<u>\$ 16,828,397</u>

NOTE 14 - DEFERRED GIFT AGREEMENTS

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

When a gift is received under one of these arrangements, it is split into the amount representing the actuarial present value of future distributions back to the donor and the remaining gift value to be retained for the benefit of the College or third-party beneficiaries. The actuarial liability is adjusted annually using actuarial tables appropriate for the type of arrangement, number of lives covered and age and sex characteristics of the donor. The College used interest rates of ranging from 3.6% to 11.6% for the years ended May 31, 2005, 2004 and 2003 in making the calculations.

ST. OLAF COLLEGE

NOTES TO FINANCIAL STATEMENTS
May 31, 2005, 2004 and 2003

NOTE 14 - DEFERRED GIFT AGREEMENTS (CONTINUED)

Information pertaining to the College's deferred gift agreements for the years ended May 31, 2005, 2004 and 2003 follows:

	<u>2005</u>	<u>2004</u>	<u>2003</u>
Deferred gift income recognized	\$ 739,167	\$ 1,309,691	\$ 354,573
Annuities payable related to new gifts	977,780	1,683,729	498,372
Funds held for others related to new gifts	<u>44,683</u>	<u>22,890</u>	<u>3,114</u>
Total funds received	<u>\$ 1,761,630</u>	<u>\$ 3,016,310</u>	<u>\$ 856,059</u>
Total deferred gift assets held by the College at fair value	<u>\$ 61,198,737</u>	<u>\$ 54,776,511</u>	<u>\$ 52,833,398</u>
Total deferred gift liabilities	<u>\$ 18,732,345</u>	<u>\$ 17,508,725</u>	<u>\$ 16,831,202</u>

NOTE 15 - CONCENTRATIONS OF CREDIT RISK

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

NOTE 16 - ENDOWMENT FUND

The fair value of all permanent endowment assets is currently in excess of all donors cumulative original gift values. However, as a result of market conditions in recent years, the fair value of assets allocated to certain individual endowment funds is currently less than the gift value of those individual funds. Deficit balances in various individual funds total approximately \$56,346, \$309,560 and \$2,195,100 at May 31, 2005, 2004 and 2003, respectively. Valuation losses in excess of historical gift value reduce temporarily restricted net assets to the extent of prior accumulated gains with the balance of such losses recorded in the unrestricted net asset class. The market volatility of equity-based investments is expected to continue impacting available distributions.

ST. OLAF COLLEGE

NOTES TO FINANCIAL STATEMENTS
May 31, 2005, 2004 and 2003

NOTE 17 - SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION

	2005	2004	2003
Interest paid	\$ 2,012,480	\$ 1,844,333	\$ 1,835,408
<u>Noncash investing and financing activities</u>			
Property, plant and equipment acquired through accounts payable	\$ 511,398	\$ 305,229	\$ 313,774
Summary of bond issues			
Proceeds from bond issue			\$ 13,420,000
Reserve funds used for principal and interest payments on refinanced bonds			1,908,510
College funds deposited to escrow account used for principal and interest payments on refinanced bonds			181,267
Bond proceeds deposited to escrow account used for principal and interest payments on refinanced bonds			(14,830,000)
Bond proceeds deposited to escrow account for construction projects			
Issue costs paid from bond proceeds			(38,918)
Deferred debt acquisition costs on refinanced bonds written-off			278,304
Loss on Refinancing	\$ -	\$ -	\$ 919,163

NOTE 18 - SALE OF RADIO STATIONS

During the year ended May 31, 2005, the College entered into an asset purchase agreement with Minnesota Public Radio for the sale of Radio Stations WCAL (FM) and KMSE (FM). The net gain on the sale totaled \$10,067,824 which has been recorded as non-operating income on the College's statement of activities for the year ended May 31, 2005. The College intends to use the net proceeds from the sale to 1) invest in its endowment fund; and 2) restore the organ and for other renovations to Boe Memorial Chapel. The stations accounted for less than 1% of the College's assets and net assets at May 31, 2004 and 2003 and between 2% and 3% of the College's total revenues and expenses for the years ended May 31, 2004 and 2003.