

ST. OLAF COLLEGE
Northfield, Minnesota

Financial Statements
Including Independent Auditors' Report

May 31, 2006, 2005 and 2004

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, 2006, 2005 and 2004 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 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. 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, 2006, 2005 and 2004 and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 1 to the financial statements, St. Olaf College adopted the provisions of FASB Interpretation No. 47, *Accounting for Conditional Asset Retirement Obligations*, in 2006.

Virchow, Krause & Company, LLP

Minneapolis, Minnesota
July 28, 2006

ST. OLAF COLLEGE

STATEMENTS OF FINANCIAL POSITION
May 31, 2006, 2005, and 2004

ASSETS			
	<u>2006</u>	<u>2005</u>	<u>2004</u>
Cash and cash equivalents	\$ 14,346,256	\$ 15,364,105	\$ 11,107,568
Receivables			
Student accounts, net of allowance for doubtful accounts of \$408,500, \$460,700, and \$536,700	194,661	208,491	426,968
Contributions, net	15,147,895	11,413,472	7,209,141
Other	824,675	455,117	832,354
Inventories	735,288	768,981	791,649
Prepaid expenses and deposits	648,148	808,602	362,741
Student notes receivable, net of allowance for doubtful notes of \$93,000 each year	9,371,782	9,324,203	8,764,816
Investments			
Cash and short-term investments	2,981,925	2,766,390	4,238,795
Marketable securities	206,484,976	204,403,650	167,581,810
Mortgages and contracts for deed	583,107	583,107	782,090
Notes receivable	352,803	350,000	350,000
Real estate	2,504,362	2,504,362	2,734,362
Other investments	114,676,319	76,188,059	64,058,714
Deposits held by trustee	1,009,893	1,022,471	996,974
Deferred debt acquisition costs	331,063	345,450	359,837
Funds held in trust by others	2,003,624	1,722,730	1,692,857
Construction in progress	6,914,126	1,352,843	1,586,269
Property, plant and equipment, net	<u>119,614,044</u>	<u>122,650,130</u>	<u>123,858,970</u>
TOTAL ASSETS	<u>\$ 498,724,947</u>	<u>\$ 452,232,163</u>	<u>\$ 397,735,915</u>
LIABILITIES AND NET ASSETS			
LIABILITIES			
Accounts payable	\$ 2,323,926	\$ 2,806,068	\$ 2,002,609
Accrued liabilities	12,784,211	12,233,354	12,239,037
Deferred revenue	3,319,923	3,661,546	3,475,745
Annuities payable	17,080,067	17,142,601	16,082,972
Interest rate exchange liability	467,581	1,265,535	942,626
Asset retirement obligation	2,875,606		
Long-term debt	53,325,000	53,630,000	53,920,000
U. S. government grants refundable	6,826,140	7,064,203	7,072,098
Deposits held in trust for others	<u>4,328,536</u>	<u>4,210,480</u>	<u>3,886,366</u>
Total Liabilities	<u>103,330,990</u>	<u>102,013,787</u>	<u>99,621,453</u>
NET ASSETS			
Unrestricted	206,315,631	173,515,216	135,559,414
Temporarily restricted	62,278,064	53,438,694	51,190,763
Permanently restricted	<u>126,800,262</u>	<u>123,264,466</u>	<u>111,364,285</u>
Total Net Assets	<u>395,393,957</u>	<u>350,218,376</u>	<u>298,114,462</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 498,724,947</u>	<u>\$ 452,232,163</u>	<u>\$ 397,735,915</u>

See accompanying notes to financial statements.

ST. OLAF COLLEGE

STATEMENT OF ACTIVITIES
Year Ended May 31, 2006

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
REVENUES, GAINS AND OTHER SUPPORT				
OPERATING REVENUES				
Tuition	\$ 78,408,748			\$ 78,408,748
Less: Unfunded scholarships and grants	(26,148,307)			(26,148,307)
Funded scholarships and grants	(3,547,928)			(3,547,928)
Net tuition	48,712,513			48,712,513
Other tuition and fees	3,981,774	\$ 200		3,981,974
Government grants	3,982,882	3,457		3,986,339
Private gifts and grants	3,734,962	1,939,057		5,674,019
Long-term investment income and gains allocated for operations	3,571,579	4,814,703		8,386,282
Other sources	2,596,904	595,260		3,192,164
Investment income	570,809	69,617		640,426
Net gains on investments and capital assets	21,178	2,419		23,597
Capital gifts allocated		1,154,451		1,154,451
Auxiliary enterprises - sales and services	20,172,979			20,172,979
	87,345,580	8,579,164		95,924,744
Net assets released from restrictions	7,194,787	(7,194,787)		
Total Operating Revenues, Gains and Other Support	94,540,367	1,384,377		95,924,744
OPERATING EXPENSES				
Program expenses				
Instruction	39,665,822			39,665,822
Research	1,028,132			1,028,132
Public service	563,253			563,253
Academic support	8,717,752			8,717,752
Student services	12,926,303			12,926,303
Auxiliary enterprises	16,058,894			16,058,894
Support expenses				
Institutional support	8,069,538			8,069,538
Fundraising	2,958,486			2,958,486
Total Operating Expenses	89,988,180			89,988,180
Change in Net Assets from Operating Activities	4,552,187	1,384,377		5,936,564
NONOPERATING ACTIVITIES				
Long-term investment activities				
Investment income	1,352,019	957,036	\$ 15,557	2,324,612
Net realized gains	16,938,660	11,847,378	209,127	28,995,165
Net unrealized appreciation	3,121,739	2,203,391	35,919	5,361,049
Total long-term investment income	21,412,418	15,007,805	260,603	36,680,826
Less: Long-term investment income and gains allocated for operations	(3,571,579)	(4,814,703)		(8,386,282)
	17,840,839	10,193,102	260,603	28,294,544
Student loan income net of expenses	(11,881)		64,277	52,396
Capital giving activities - gifts and grants	1,468,488	6,929,060	1,382,198	9,779,746
Deferred giving activities - gifts	48,105	270,428	135,475	454,008
Capital gifts allocated to operations		(1,154,451)		(1,154,451)
Interest rate swap gain and settlements	610,992			610,992
Adjustment to actuarial liability for annuities payable	2,407,951	96,245	1,926,985	4,431,181
Loss on disposition of property, plant and equipment	(514,350)			(514,350)
	21,850,144	16,334,384	3,769,538	41,954,066
Net assets released from restrictions	9,038,286	(9,038,286)		
Change in Net Assets from Nonoperating Activities	30,888,430	7,296,098	3,769,538	41,954,066
Change in Net Assets before Reclassification of Net Assets	35,440,617	8,680,475	3,769,538	47,890,630
Reclassification of prior year net assets	74,847	158,895	(233,742)	
Change in Net Assets before Cumulative Effect of Change in Accounting Principle	35,515,464	8,839,370	3,535,796	47,890,630
Cumulative effect of change in accounting principle	(2,715,049)			(2,715,049)
Change in Net Assets	32,800,415	8,839,370	3,535,796	45,175,581
Net Assets - Beginning of Year	173,515,216	53,438,694	123,264,466	350,218,376
NET ASSETS - END OF YEAR	\$ 206,315,631	\$ 62,278,064	\$ 126,800,262	\$ 395,393,957

See accompanying notes to financial statements.

ST. OLAF COLLEGE

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	(23,198,957)			(23,198,957)
Funded scholarships and grants	(3,393,171)			(3,393,171)
Net tuition	47,386,328			47,386,328
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 (losses) 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
	83,146,099	10,284,473		93,430,572
Net assets released from restrictions	10,334,610	(10,334,610)		
Total Operating Revenues, Gains and Other Support	93,480,709	(50,137)		93,430,572
OPERATING EXPENSES				
Program expenses				
Instruction	38,496,561			38,496,561
Research	784,022			784,022
Public service	1,777,345			1,777,345
Academic support	8,511,015			8,511,015
Student services	12,428,432			12,428,432
Auxiliary enterprises	15,312,671			15,312,671
Support expenses				
Institutional support	8,520,959			8,520,959
Fundraising	2,731,447			2,731,447
Total Operating Expenses	88,562,452			88,562,452
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	(20,316,943)			(20,316,943)
Funded scholarships and grants	(3,430,909)			(3,430,909)
Net tuition	44,965,249			44,965,249
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	16,111,600	69,155		16,180,755
	78,319,402	10,200,896		88,520,298
Net assets released from restrictions	10,435,120	(10,435,120)		
Total Operating Revenues, Gains and Other Support	88,754,522	(234,224)		88,520,298
OPERATING EXPENSES				
Program expenses				
Instruction	37,261,015			37,261,015
Research	653,719			653,719
Public service	2,173,471			2,173,471
Academic support	8,448,181			8,448,181
Student services	11,749,998			11,749,998
Auxiliary enterprises	15,356,473			15,356,473
Support expenses				
Institutional support	8,373,558			8,373,558
Fundraising	3,117,623			3,117,623
Total Operating Expenses	87,134,038			87,134,038
Change in Net Assets from Operating Activities	1,620,484	(234,224)		1,386,260
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	1,375,275	1,267,652	34,268	2,677,195
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	(3,165,956)	(5,117,095)		(8,283,051)
	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	2,904,475	275,724	2,946,373	6,126,572
	17,873,986	8,465,927	6,455,817	32,795,730
Net assets released from restrictions	6,827,439	(6,827,439)		
Change in Net Assets from Nonoperating Activities	24,701,425	1,638,488	6,455,817	32,795,730
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	44,369	(3,111,583)	3,067,214	
Change in Net Assets	26,366,278	(1,707,319)	9,523,031	34,181,990
Net Assets - Beginning of Year	109,193,136	52,898,082	101,841,254	263,932,472
NET ASSETS - END OF YEAR	\$ 135,559,414	\$ 51,190,763	\$ 111,364,285	\$ 298,114,462

See accompanying notes to financial statements.

ST. OLAF COLLEGE

STATEMENTS OF CASH FLOWS
Years Ended May 31, 2006, 2005, and 2004

	2006	2005	2004
CASH FLOWS FROM OPERATING ACTIVITIES			
Change in net assets	\$ 45,175,581	\$ 52,103,914	\$ 34,181,990
Adjustments to reconcile change in net assets to net cash flows from operating activities			
Cumulative effect of change in accounting principle	2,715,050		
Depreciation, amortization and accretion expense	8,082,117	7,798,638	7,416,505
Net realized gains on investments	(33,338,272)	(8,546,072)	(25,338,162)
Net unrealized appreciation of investments	(6,593,423)	(20,408,363)	(7,281,955)
Interest rate exchange (gain) loss	(797,954)	322,909	(1,089,100)
(Gain) loss on dispositions of property, plant and equipment	514,350	(10,067,824)	5,290
Actuarial adjustment of annuities payable	2,167,524	2,308,414	976,811
Gifts of property, plant and equipment	(50,755)	(91,940)	(103,175)
(Increases) decreases in:			
Student accounts receivable	13,830	218,477	(104,832)
Contributions receivable for operations	(144,388)	498,047	364,065
Other receivables	(369,558)	377,237	358,337
Inventories, prepaid expenses and deposits	194,147	(423,193)	71,307
Funds held in trust by others	(280,894)	(29,873)	(500,996)
Increases (decreases) in:			
Accounts payable	(752,576)	597,290	500,112
Accrued liabilities	550,857	(5,683)	1,154,050
Deferred revenue	(341,623)	185,801	(510,066)
Gifts and grants received for long-term investment, net	(10,233,754)	(16,545,047)	(6,041,310)
Nonoperating investment income	(2,324,612)	(2,576,363)	(2,324,558)
Net Cash Flows from Operating Activities	<u>4,185,647</u>	<u>5,716,369</u>	<u>1,734,313</u>
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchases of property, plant and equipment	(10,625,532)	(6,154,552)	(6,768,620)
Purchases of investments	(193,128,280)	(98,477,465)	(244,049,987)
Proceeds from sales of investments	192,283,698	80,641,190	240,269,386
Nonoperating investment income	2,324,612	2,576,363	2,324,558
Net proceeds from sale of radio stations		10,178,500	
Disbursements of loans to students	(1,918,397)	(2,032,447)	(1,625,094)
Repayments of loans by students	1,870,818	1,473,060	1,740,276
Net Cash Flows from Investing Activities	<u>(9,193,081)</u>	<u>(11,795,351)</u>	<u>(8,109,481)</u>
CASH FLOWS FROM FINANCING ACTIVITIES			
Principal repayments of indebtedness	(305,000)	(290,000)	(280,000)
Gifts and grants received for long-term investment, net	10,233,754	16,545,047	6,041,310
(Increase) decrease in nonoperating contributions receivable	(3,590,035)	(4,702,378)	1,873,755
Increase (decrease) in deposits held in trust for others	118,987	39,530	(608,630)
Increase (decrease) in U. S. government grants refundable, net	(238,063)	(7,895)	144,382
Increase in annuities payable from new gifts	165,286	977,780	1,683,729
Payments to annuitants	(2,395,344)	(2,226,565)	(2,200,776)
Net Cash Flows from Financing Activities	<u>3,989,585</u>	<u>10,335,519</u>	<u>6,653,770</u>
Net Change in Cash and Cash Equivalents	<u>(1,017,849)</u>	<u>4,256,537</u>	<u>278,602</u>
CASH AND CASH EQUIVALENTS - Beginning of Year	<u>15,364,105</u>	<u>11,107,568</u>	<u>10,828,966</u>
CASH AND CASH EQUIVALENTS - END OF YEAR	<u>\$ 14,346,256</u>	<u>\$ 15,364,105</u>	<u>\$ 11,107,568</u>
Supplemental disclosures of cash flow information			
Cash paid during the year for interest on long-term debt	\$ 2,083,626	\$ 2,012,479	\$ 1,844,333
Noncash investing and financing activities			
Property, plant and equipment acquired through accounts payable	781,833	511,398	305,229

ST. OLAF COLLEGE

NOTES TO FINANCIAL STATEMENTS May 31, 2006, 2005 and 2004

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, 2006, 2005 and 2004

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.

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.

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.

ST. OLAF COLLEGE

NOTES TO FINANCIAL STATEMENTS
May 31, 2006, 2005 and 2004

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

Interest Rate Exchange Agreement - The College accounts for its interest rate exchange transaction under SFAS No. 133, *Accounting for Derivative Instruments and Hedging Activities*, as amended. 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.

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:

	2006	2005	2004
State grants	\$ 1,602,568	\$ 1,676,660	\$ 1,776,759
Federal grants	955,411	1,032,538	1,060,220

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.

Advertising Expenses - Advertising costs are expensed when incurred.

Functional Allocation of Expenses - The costs of providing the various programs and other activities have been summarized on a functional basis in the statement of activities. Accordingly, certain expenses have been allocated among the programs and supporting services benefited.

Use of Estimates - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Reclassifications - Certain amounts appearing in the 2005 and 2004 financial statements have been reclassified to conform with 2006 presentation. The reclassifications have no effect on reported amounts of total net assets or change in total net assets.

ST. OLAF COLLEGE

NOTES TO FINANCIAL STATEMENTS
May 31, 2006, 2005 and 2004

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Fair Value of Financial Instruments - The College records financial instruments at cost, with the exception of investments which are reflected in the financial statements at market value and those items received as gifts which are valued at fair value at the date of gift. The carrying amounts of cash and cash equivalents, accounts receivable and other receivables, amounts held for others, accounts payable and accrued expenses, deposits and deferred revenue approximate fair value because of the short maturity of these financial instruments. The carrying amounts of contributions receivable and beneficial interest in funds held in trust are recorded at fair value using appropriate discount rates.

A reasonable estimate of the fair value of the receivables from students under government loan programs and grants refundable to the government for student loans could not be made because the notes receivable are not saleable and can only be assigned to the U. S. Government or its designee. The fair value of receivables under institutional loan programs approximates carrying value.

The carrying amounts of the actuarial liability for trusts and annuities payable approximate fair value based on life expectancies, quoted market prices, and the present value discount included in the carrying amount. The carrying amounts of long-term debt approximate fair value because these financial instruments bear interest at rates which approximate current market rates for notes with similar maturities and credit quality. The fair value of the interest rate exchange transactions are determined by using pricing models that take into account the present value of estimated future cash flows.

Investments in securities traded on national or international securities exchanges are carried at fair value based on values provided by external investment managers or quoted market values. Investments in limited partnerships, hedge funds, private equity funds, real estate funds, venture capital funds, commodity funds, offshore fund vehicles, fund of funds and similar nonmarketable equity interests consist primarily of investments that are not readily marketable. Investments in these categories, which are managed externally, are valued utilizing the most current information provided by the general partner or investment manager. These valuations generally reflect discounts for illiquidity and consider variables such as financial performance of investments, recent sales prices of investments and other pertinent information. Where applicable, independent appraisers are utilized to assist in the valuation. These values are determined under the direction of, and subject to approval by, management and the investment committee of the College.

The preparation of financial statements requires management to make estimates and assumptions about the effects of matters that are inherently uncertain. The accounting policies considered potentially significant in this respect are the valuation of the limited partnerships, private equity funds, offshore fund vehicles, fund of funds and similar nonmarketable equity interests and the valuation of the interest rate exchange transaction. Values for the nonmarketable equity interests are often estimated using techniques such as discounted cash flow analysis and comparisons to similar instruments. The fair value of the interest rate exchange transaction includes utilizing the most current information available from the banks under which the interest rate exchange transaction was issued and reflects pricing models that take into account the present value of estimated future cash flows. Estimates developed using these methods are subjective and require judgment regarding significant matters such as the amount and timing of future cash flows and the selection of discount rates that appropriately reflect market and credit risks. Estimates, by their nature, are based on judgment and available information. Changes in assumptions could have a significant effect on the fair value of the instruments. It is reasonably possible that changes in these estimates could occur in the near term and that actual results could differ from these estimates and could have a material impact on the financial statements.

ST. OLAF COLLEGE

NOTES TO FINANCIAL STATEMENTS
May 31, 2006, 2005 and 2004

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Cumulative Effect of Change in Accounting Principle - In March 2005, the Financial Accounting Standards Board (FASB) issued FASB Interpretation No. 47, *Accounting for Conditional Asset Retirement Obligations*, (FIN 47). FIN 47 clarifies the term "conditional" as used in SFAS No. 143, *Accounting for Asset Retirement Obligations*. This Interpretation refers to a legal obligation to perform an asset retirement activity even if the timing and/or settlement is conditional on a future event that may or may not be within the control of the institution. Accordingly, the College must record a liability for the conditional asset retirement obligation if the fair value of the obligation can be reasonably estimated. FIN 47 is effective for fiscal years ending after December 15, 2005. The College owns certain buildings that contain encapsulated asbestos material. A liability of \$2,875,606 was recorded in the May 31, 2006 financial statements for future asbestos removal, including \$160,557 related to fiscal year 2006 and \$2,715,049 for years prior to 2006 as a cumulative effect of a change in accounting principle as required by FIN 47.

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 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.

NOTE 2 - RESTRICTIONS AND LIMITATIONS ON NET ASSETS BALANCES

At May 31, 2006, 2005 and 2004, the College's unrestricted net assets were allocated as follows:

	2006	2005	2004
Designated			
For long-term purposes as:			
Quasi-endowment	\$ 116,126,005	\$ 92,366,334	\$ 66,383,964
Debt service and facility renewal	31,402,530	25,615,875	21,071,660
Deferred gifts	26,721,777	24,664,516	21,640,442
For debt service reserves under long-term debt agreements	896,586	906,902	879,303
For specific operating activities	2,031,253	1,789,232	1,821,377
For matching funds under federal government other student loan programs	1,126,675	1,142,092	1,222,585
Total Designated	178,304,826	146,484,951	113,019,331
Undesignated	28,010,805	27,030,265	22,540,083
	\$ 206,315,631	\$ 173,515,216	\$ 135,559,414

ST. OLAF COLLEGE

NOTES TO FINANCIAL STATEMENTS
May 31, 2006, 2005 and 2004

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

Temporarily restricted net assets consist of the following at May 31, 2006, 2005 and 2004:

	<u>2006</u>	<u>2005</u>	<u>2004</u>
Gifts and other unexpended revenues and gains available for:			
Scholarships, instruction and other support	\$ 6,869,060	\$ 5,869,012	\$ 7,521,998
Unamortized plant gifts	30,388,101	31,286,289	32,142,876
Acquisition of buildings and equipment	<u>13,823,039</u>	<u>7,084,881</u>	<u>794,836</u>
	51,080,200	44,240,182	40,459,710
Quasi-endowment	10,009,950	8,372,668	10,052,000
Deferred gifts	<u>1,187,914</u>	<u>825,844</u>	<u>679,053</u>
	<u>\$ 62,278,064</u>	<u>\$ 53,438,694</u>	<u>\$ 51,190,763</u>

Permanently restricted net assets consist of the following at May 31, 2006, 2005 and 2004:

Endowment funds	\$ 105,934,653	\$ 104,162,965	\$ 94,357,317
Student loan funds	2,202,822	2,125,470	2,058,677
Deferred gifts	<u>18,662,787</u>	<u>16,976,031</u>	<u>14,948,291</u>
	<u>\$ 126,800,262</u>	<u>\$ 123,264,466</u>	<u>\$ 111,364,285</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, 2006, 2005 and 2004:

	<u>2006</u>	<u>2005</u>	<u>2004</u>
Amortization of contributions expended for long-lived assets	\$ 1,154,451	\$ 1,168,105	\$ 1,821,955
Scholarships, instruction and other departmental support	<u>15,078,622</u>	<u>16,802,223</u>	<u>15,440,604</u>
	<u>\$ 16,233,073</u>	<u>\$ 17,970,328</u>	<u>\$ 17,262,559</u>
These assets were reclassified as follows:			
Unrestricted operating net assets	\$ 7,194,787	\$ 10,334,610	\$ 10,435,120
Unrestricted nonoperating net assets	<u>9,038,286</u>	<u>7,635,718</u>	<u>6,827,439</u>
	<u>\$ 16,233,073</u>	<u>\$ 17,970,328</u>	<u>\$ 17,262,559</u>

ST. OLAF COLLEGE

NOTES TO FINANCIAL STATEMENTS
May 31, 2006, 2005 and 2004

NOTE 4 - CONTRIBUTIONS RECEIVABLE

Contributions receivable include the following unconditional promises to give at May 31, 2006, 2005 and 2004:

	<u>2006</u>	<u>2005</u>	<u>2004</u>
Temporarily restricted - operations	\$ 648,434	\$ 417,087	\$ 892,131
Temporarily restricted - plant projects	12,822,413	6,654,853	33,000
Temporarily restricted - quasi-endowment	263,008	1,566,729	3,156,583
Permanently restricted - deferred gifts	515,000	510,000	5,000
Permanently restricted - endowment	<u>3,360,556</u>	<u>3,462,797</u>	<u>3,701,670</u>
Gross unconditional promises to give	17,609,411	12,611,466	7,788,384
Less: Unamortized discount	(1,328,480)	(844,775)	(182,314)
Allowance for uncollectible promises	<u>(1,133,036)</u>	<u>(353,219)</u>	<u>(396,929)</u>
	<u>\$ 15,147,895</u>	<u>\$ 11,413,472</u>	<u>\$ 7,209,141</u>

Contributions receivable as of May 31, 2006 of \$7,014,214 are expected to be collected in less than one year and \$8,133,681 in two to five years. Contributions receivable expected to be collected in two to five years have been discounted using a rate of 6% at May 31, 2006, 2005 and 2004.

NOTE 5 - INVESTMENTS

The following summarizes the fair value of the College's marketable securities at May 31, 2006, 2005 and 2004:

	<u>2006</u>	<u>2005</u>	<u>2004</u>
Stocks	\$ 56,697,352	\$ 34,980,889	\$ 42,885,174
Bonds	367,932	416,150	436,557
Mutual funds	<u>149,419,692</u>	<u>169,006,611</u>	<u>124,260,079</u>
	<u>\$ 206,484,976</u>	<u>\$ 204,403,650</u>	<u>\$ 167,581,810</u>

The following summarizes the fair value of the College's other investments at May 31, 2006, 2005 and 2004:

Alternative investments	\$ 105,940,898	\$ 67,327,935	\$ 55,159,519
Private debenture bonds	7,125,000	7,200,000	7,275,000
Other investments	<u>1,610,419</u>	<u>1,660,124</u>	<u>1,624,195</u>
	<u>\$ 114,676,319</u>	<u>\$ 76,188,059</u>	<u>\$ 64,058,714</u>

The College's investment strategy incorporates a diversified asset allocation approach and maintains, within defined limits, exposure to the world equity, fixed-income, commodities, real estate and private equity markets. This strategy provides the College with a long-term asset mix that is most likely to meet the College's long-term return goals with the appropriate level of risk.

ST. OLAF COLLEGE

NOTES TO FINANCIAL STATEMENTS
May 31, 2006, 2005 and 2004

NOTE 5 - INVESTMENTS (CONTINUED)

Alternative investments include limited partnerships, hedge funds, private equity funds, real estate funds, venture capital funds, commodity funds, offshore fund vehicles, fund of funds and other investments that are not readily marketable. The alternative investments were entered into to diversify the College's portfolio, to provide predictability in overall earnings and to provide market neutral holdings. The College's management, the investment committee of the Board of Regents and the College's external investment consultants review reports provided by the general partners and fund managers, and the College's external investment consultants attend meetings of the various general partners and fund managers in order to evaluate the risk associated with these investments. In addition, the College monitors its portfolio mix to ensure that it is in accordance with Board policy.

As of May 31, 2006, the College has commitments to make further investments in several of its alternative investments totaling approximately \$8,696,000.

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

Endowment investments are recorded at a market value approximating \$260,733,200, \$225,657,900, and \$185,409,300 for the years ended May 31, 2006, 2005 and 2004, respectively. The total return on all investments held by the endowment funds, on a market basis, was 16.378%, 13.384% and 18.933% for the years ended May 31, 2006, 2005 and 2004, respectively. Income from long-term investments are shown net of expenses of \$1,090,854, \$701,928 and \$757,253 the years ended May 31, 2006, 2005 and 2004, respectively.

ST. OLAF COLLEGE

NOTES TO FINANCIAL STATEMENTS
May 31, 2006, 2005 and 2004

NOTE 6 - CONSTRUCTION IN PROGRESS

Construction in progress consisted of the following projects at May 31, 2006:

	<u>Estimated Total Cost</u>	<u>Costs to Date</u>	<u>Funding Plan</u>
New science center	\$ 64,000,000	\$ 1,849,648	Gifts, Debt, Current operations
Boe Chapel and organ	2,290,000	1,960,567	Gifts, Current operations
Wind turbine	2,660,000	1,279,616	Grant, Current operations
Boilers	525,000	521,327	Current operations
Telesphere software	230,000	208,646	Current operations
Roadway projects	122,000	121,311	Current operations
Sing For Joy recording booth	150,000	13,435	Current operations
Christiansen Hall	50,000	2,938	Current operations
Deconstruct Flaten Hall	250,000	500	Current operations
Honor House windows	35,000	5,800	Current operations
Melby Dorm windows	30,000	10,926	Current operations
World Language Center furnishings	12,000	9,374	Current operations
Rand stairway exit hardware	9,500	9,197	Current operations
Slip-ring commutator	7,100	7,088	Current operations
CLEC switch	850,000	801,739	Current operations
Chapel panic hardware	6,000	5,900	Current operations
Larson kitchens	6,500	6,340	Current operations
Start-up funds	135,000	99,774	Current operations
		<u>\$ 6,914,126</u>	

NOTE 7 - PROPERTY, PLANT AND EQUIPMENT

At May 31, 2006, 2005 and 2004 property, plant and equipment consisted of the following:

	<u>2006</u>	<u>2005</u>	<u>2004</u>
Land	\$ 830,914	\$ 814,914	\$ 814,914
Improvements other than buildings	8,551,397	8,257,812	7,867,845
Buildings	146,259,803	145,776,507	144,218,758
Equipment	38,881,000	35,660,090	32,382,637
Library materials	17,780,152	16,950,864	16,074,534
Art collection	1,021,612	954,998	909,308
	<u>213,324,878</u>	<u>208,415,185</u>	<u>202,267,996</u>
Less: Accumulated depreciation	<u>(93,710,834)</u>	<u>(85,765,055)</u>	<u>(78,409,026)</u>
	<u>\$ 119,614,044</u>	<u>\$ 122,650,130</u>	<u>\$ 123,858,970</u>

ST. OLAF COLLEGE

NOTES TO FINANCIAL STATEMENTS
May 31, 2006, 2005 and 2004

NOTE 8 - RETIREMENT PLANS

The College has certain contributory defined contribution pension plans for academic and nonacademic personnel. The cost of these retirement plans is paid currently and approximated \$3,080,900, \$2,849,000 and \$2,909,000 for the years ended May 31, 2006, 2005 and 2004, 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 \$213,000, \$193,000 and \$597,000 at May 31, 2006, 2005 and 2004, 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 following tables set forth the plan's status with amounts reported in the College's financial statements at May 31, 2006, 2005 and 2004:

The following table shows the reconciliation of the accrued cost for the fiscal years ending May 31, 2006, 2005 and 2004:

	<u>2006</u>	<u>2005</u>	<u>2004</u>
Accrued benefit cost at June 1	\$ (2,925,795)	\$ (2,636,298)	\$ (2,446,225)
Net periodic benefit cost	(830,351)	(787,239)	(819,324)
Actual net benefit payments	<u>418,091</u>	<u>497,742</u>	<u>629,251</u>
Accrued benefit cost at May 31	<u>\$ (3,338,055)</u>	<u>\$ (2,925,795)</u>	<u>\$ (2,636,298)</u>

The following table shows the reconciliation of the funded status to the accrued postretirement benefit cost (APBO) as of May 31:

Accumulated postretirement benefit obligation	\$ (5,390,058)	\$ (8,804,519)	\$ (7,021,912)
Fair value of plan assets	<u>0</u>	<u>0</u>	<u>0</u>
Unfunded status	(5,390,058)	(8,804,519)	(7,021,912)
Unrecognized prior service cost	(1,797,326)	0	0
Unrecognized actuarial loss	<u>3,849,329</u>	<u>5,878,724</u>	<u>4,385,613</u>
Accrued benefit cost recognized	<u>\$ (3,338,055)</u>	<u>\$ (2,925,795)</u>	<u>\$ (2,636,298)</u>

ST. OLAF COLLEGE

NOTES TO FINANCIAL STATEMENTS
May 31, 2006, 2005 and 2004

NOTE 9 - POSTRETIREMENT BENEFIT PLAN (CONTINUED)

The following table shows the components of the net periodic benefit cost:

	2006	2005	2004
Service cost	\$ 178,327	\$ 128,735	\$ 68,246
Interest cost	420,847	448,413	468,933
Amortization of prior service costs	(63,020)	0	0
Amortization of net loss	294,197	210,091	282,145
 Net periodic benefit cost	 <u>\$ 830,351</u>	 <u>\$ 787,239</u>	 <u>\$ 819,324</u>

An amendment to the plan effective January 1, 2006, reduced the APBO by \$1,860,346, which is being amortized over 12 years. Amortization for the year ended May 31, 2006 was \$63,020, resulting in the unrecognized prior service cost of \$1,797,326.

The estimate of the accumulated postretirement benefit obligation is based on actuarial assumptions and methods provided by a third party actuary and the selection of discount rates that appropriately reflect the time value of money. A 10.13% pre-65 and 11.63% 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 5.0% by the year 2026. A discount rate of 6.4% was used in 2006, and 5.4% discount rate was used in 2005 and 2004, to determine the accumulated postretirement benefit 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 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.

Approximate estimated future benefit payments are as follows at May 31, 2006:

2007	\$ 507,000
2008	524,000
2009	533,000
2010	536,000
2011	543,000
2012 - 2016	2,574,000

ST. OLAF COLLEGE

NOTES TO FINANCIAL STATEMENTS
May 31, 2006, 2005 and 2004

NOTE 10 - LONG-TERM DEBT

Long-term debt at May 31, 2006, 2005 and 2004 consisted of the following:

	2006	2005	2004
Minnesota Higher Education Facilities Authority Revenue Bonds, Series Four-R	\$ 13,225,000	\$ 13,530,000	\$ 13,820,000
Minnesota Higher Education Facilities Authority Variable Rate Demand Revenue Bonds, Series Five-H	14,475,000	14,475,000	14,475,000
Minnesota Higher Education Facility Authority Variable Rate Demand Revenue Bonds, Series Five-M1	12,205,000	12,205,000	12,205,000
Minnesota Higher Education Facility Authority Variable Rate Demand Revenue Bonds, Series Five-M2	13,420,000	13,420,000	13,420,000
	\$ 53,325,000	\$ 53,630,000	\$ 53,920,000

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 \$315,000 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 4.50% 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 \$1,009,893. 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, 2006 was 3.58%, with an average rate of 2.80% for the 2006 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, 2006, 2005 and 2004

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, 2006 was 3.58%, with an average rate of 2.80% for the 2006 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 64.3 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, 2006 was 3.58%, with an average rate of 2.80% for the 2006 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 64.3 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 exchange agreement on \$13,420,000 of the Series Five-M2 bonds to set the interest at a fixed rate of 4.38% until maturity. Under the agreement, the College either pays additional interest or receives an interest credit depending on the relationship between the variable rate and the fixed rate. The College recorded a gain/(loss) of \$797,954, (\$322,909) and \$1,089,100, relating to the agreement for the years ended May 31, 2006, 2005 and 2004, respectively. The gain/(loss) is included in nonoperating activities on the statement of activities. At May 31, 2006, 2005 and 2004, the College has recorded an interest rate exchange liability of \$467,581, \$1,265,535 and \$942,626, respectively, in the statement of financial position.

Anticipated long-term debt principal payments are as follows:

Year Ending May 31:	
2007	\$ 315,000
2008	335,000
2009	345,000
2010	365,000
2011	380,000
Thereafter	<u>51,585,000</u>
Total	<u>\$ 53,325,000</u>

Interest expense on long-term debt totaled \$2,081,364, \$2,010,377 and \$1,842,338 for the years ended May 31, 2006, 2005 and 2004, respectively.

ST. OLAF COLLEGE

NOTES TO FINANCIAL STATEMENTS
May 31, 2006, 2005 and 2004

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, 2006, 2005 and 2004, 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 \$912,600 as of May 31, 2006. Accrued liabilities include a \$863,400 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 \$4,300,987.

NOTE 13 - ALLOCATION OF EXPENSES

The College allocated the following expenses to program and support functions for the years ended May 31, 2006, 2005 and 2004 as follows:

	<u>2006</u>	<u>2005</u>	<u>2004</u>
Interest expense	\$ 2,081,364	\$ 2,010,377	\$ 1,842,338
Operation and maintenance of plant	10,263,164	8,652,895	8,447,768
Depreciation	7,930,976	7,784,252	7,402,118
Accretion	136,933		
	<u>\$ 20,412,257</u>	<u>\$ 18,447,524</u>	<u>\$ 17,692,224</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, 2006, 2005 and 2004 in making the calculations.

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NOTES TO FINANCIAL STATEMENTS
May 31, 2006, 2005 and 2004

NOTE 14 - DEFERRED GIFT AGREEMENTS (CONTINUED)

Information pertaining to the College's deferred gift agreements for the years ended May 31, 2006, 2005 and 2004 follows:

	<u>2006</u>	<u>2005</u>	<u>2004</u>
Deferred gift income recognized	\$ 412,159	\$ 739,167	\$ 1,309,691
Annuities payable related to new gifts	165,286	977,780	1,683,729
Funds held for others related to new gifts	<u> </u>	<u>44,683</u>	<u>22,890</u>
Total funds received	<u>\$ 577,445</u>	<u>\$ 1,761,630</u>	<u>\$ 3,016,310</u>
Total deferred gift assets held by the College at fair value	<u>\$ 65,316,427</u>	<u>\$ 61,198,737</u>	<u>\$ 54,776,511</u>
Total deferred gift liabilities	<u>\$ 18,743,948</u>	<u>\$ 18,732,345</u>	<u>\$ 17,508,725</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 - 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 between 2% and 3% of the College's total revenues and expenses for the year ended May 31, 2004.

ST. OLAF COLLEGE

NOTES TO FINANCIAL STATEMENTS
May 31, 2006, 2005 and 2004

NOTE 17 - CONTINGENCIES

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