

**ST. OLAF COLLEGE**  
Northfield, Minnesota

Audit Report on Financial Statements  
and Federal Awards

As of and for the Year Ended May 31, 2014

**ST. OLAF COLLEGE**

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**ST. OLAF COLLEGE**

HIGHLIGHTS (Unaudited)  
For the Years Ended May 31, 2014 and 2013

FISCAL YEAR ENDING: MAY 31 ACADEMIC YEAR	FY 2014 2013-14	FY 2013 2012-13
<b>ENROLLMENT, RETENTION, GRADUATION</b>		
Undergraduate FTE (Fall)	3,096	3,144
Undergraduate Headcount (Fall)	3,125	3,176
% Men / Women	44 / 56	44 / 56
% Who Are In-State / Out-of-State	47 / 53	49 / 51
% White / Domestic Minority / International	79 / 15 / 6	81 / 14 / 5
1st Year to Sophomore	93.5%	92.8%
Sophomore to Junior	88.5%	89.9%
Junior to Senior	88.9%	87.4%
Four-Year Graduation Rate	83.8%	85.9%
Five-Year Graduation Rate	88.4%	86.8%
Number of Seniors (May)	785	717
Number of Declared Majors	1,044	959
Top five Majors		
1st	Biology 10.9%	Biology 12.0%
2nd	Math 8.8%	Economics 8.1%
3rd	Economics 8.6%	Psychology 7.4%
4th	Psychology 7.2%	English 6.7%
5th	Chemistry 6.4%	Math 6.6%
<b>Post-graduation Activities</b>	Class of 2013	Class of 2012
Responses / Response Rate	630 / 91%	678 / 92%
Activities:		
Working (Full or Part-Time) / percent	391 / 62%	392 / 58%
Service Programs / percent	69 / 11%	81 / 12%
Furthering Education / percent	151 / 24%	190 / 28%
Other Activities / percent	19 / 3%	15 / 2%
<b>NEW STUDENT ADMISSIONS (Fall)</b>		
Applications (1st Year / Transfer)	4011 / 130	3937 / 172
Acceptances (1st Year / Transfer)	2374 / 37	2377 / 42
Acceptance Rate (1st Year / Transfer)	59.2% / 28.5%	60.4% / 24.4%
Matriculants (1st Year / Transfer)	752 / 19	864 / 19
Yield Rate (1st Year / Transfer)	31.7% / 51.4%	36.3% / 45.2%
% 1st Year Men/Women	42 / 58	45 / 55
% 1st Year In-State/Out-of-State	41 / 59	46 / 54
% 1st Year 1st Generation to College	15	11
Median ACT - 1st Year	29	29
Median SAT - 1st Year	1310	1270
<b>FACULTY AND STAFF EMPLOYED (Fall)</b>		
Faculty / Staff / Total - FTE	278 / 381 / 659	293 / 377 / 670
Faculty / Staff / Total - Full-time Headcount	244 / 328 / 572	262 / 325 / 587
Faculty / Staff / Total - Part-time Headcount	103 / 158 / 261	94 / 155 / 249
<b>TUITION AND FEES PER STUDENT</b>		
Tuition	\$ 40,700	\$ 39,560
Room & Board	9,260	9,090
Total Comprehensive Fee	<u>\$ 49,960</u>	<u>\$ 48,650</u>
<b>FINANCIAL AID - SCHOLARSHIPS &amp; GRANTS</b>		
Federal Grants	\$ 2,361,326	\$ 1,963,334
State Grants	1,673,532	1,587,082
Institutional Scholarships & Grants	57,272,500	56,545,661
Outside Scholarships & Grant	2,766,042	2,333,274
Total	<u>\$ 64,073,400</u>	<u>\$ 62,429,351</u>
Total Per Student FTE	\$ 20,696	\$ 19,857
<b>ENDOWMENT</b>		
Market Value at Fiscal Year End	\$ 435,935,124	\$ 379,501,188
Market Value per FTE Student	\$ 140,806	\$ 120,706
Total Return on Investments	12.9%	14.5%

## INDEPENDENT AUDITORS' REPORT

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

### ***Report on the Financial Statements***

We have audited the accompanying financial statements of St. Olaf College (the "College"), which comprise the statements of financial position as of May 31, 2014 and 2013, and the related statements of activities and cash flows for the years then ended, and the related notes to the financial statements.

### ***Management's Responsibility for the Financial Statements***

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### ***Auditors' Responsibility***

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

## **Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of St. Olaf College as of May 31, 2014 and 2013, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

## **Other Matters**

### *Report on Supplementary and Other Information*

Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of federal awards, as required by Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the financial statements as a whole.

The "Highlights" on page 1 is presented for purposes of additional analysis and is not a required part of the financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

### **Other Reporting Required by Government Auditing Standards**

In accordance with *Government Auditing Standards*, we have also issued our report dated October 29, 2014 on our consideration of St. Olaf College's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the College's internal control over financial reporting and compliance.

*Bahn Tilly Vuchaw Krause, LLP*

Minneapolis, Minnesota  
October 29, 2014

**ST. OLAF COLLEGE**

**STATEMENTS OF FINANCIAL POSITION**

As of May 31, 2014 and 2013

<b>ASSETS</b>		
	<u>2014</u>	<u>2013</u>
Cash and cash equivalents	\$ 20,911,409	\$ 22,722,083
Receivables		
Accounts, net (Note 4)	1,253,139	1,307,034
Contributions, net (Note 5)	6,521,029	5,140,482
Student loans, net (Note 6)	6,928,514	7,241,424
Investments (Note 7)	467,174,402	409,985,321
Other assets	2,402,967	2,432,812
Deposits held by trustee (Note 7)	5,750,566	5,753,767
Beneficial interest in trusts held by others, held at fair value (Note 7)	1,722,106	1,615,072
Beneficial interest in trusts held by others, held at cost (Note 1)	491,350	491,350
Property, plant and equipment, net (Note 9)	<u>225,042,890</u>	<u>223,568,071</u>
<b>TOTAL ASSETS</b>	<b><u>\$ 738,198,372</u></b>	<b><u>\$ 680,257,416</u></b>
<b>LIABILITIES AND NET ASSETS</b>		
<b>LIABILITIES</b>		
Accounts payable	\$ 4,676,979	\$ 3,847,032
Accrued and other liabilities (Note 10)	14,969,698	15,625,416
Deferred revenue	3,118,600	3,862,819
Annuities payable (Note 17)	14,197,682	13,960,913
Interest rate exchange liability (Notes 7 and 18)	797,084	1,049,188
Long-term debt (Note 14)	77,740,864	80,362,179
U.S. government grants refundable	6,240,551	6,559,715
Deposits held in trust for others	<u>2,848,009</u>	<u>2,708,495</u>
Total Liabilities	<u>124,589,467</u>	<u>127,975,757</u>
<b>NET ASSETS</b>		
Unrestricted (Note 2)	266,741,950	240,317,981
Temporarily restricted (Note 2)	166,523,611	147,934,837
Permanently restricted (Note 2)	<u>180,343,344</u>	<u>164,028,841</u>
Total Net Assets	<u>613,608,905</u>	<u>552,281,659</u>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<b><u>\$ 738,198,372</u></b>	<b><u>\$ 680,257,416</u></b>

## ST. OLAF COLLEGE

STATEMENT OF ACTIVITIES AND CHANGE IN NET ASSETS  
For the Year Ended May 31, 2014

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
<b>OPERATING REVENUES, GAINS AND OTHER SUPPORT</b>				
Tuition	\$ 125,052,534			\$ 125,052,534
Less: Unfunded scholarships and grants	(52,253,439)			(52,253,439)
Funded scholarships and grants	(5,987,436)			(5,987,436)
Net tuition	66,811,659			66,811,659
Other tuition and fees	4,285,705			4,285,705
Government grants	2,920,402			2,920,402
Private gifts and grants	3,564,227	\$ 4,244,638		7,808,865
Long-term investment income and gains allocated for operations	4,717,157	7,951,722		12,668,879
Other sources	2,687,659	65,568		2,753,227
Investment income	204,217	42,710		246,927
Net losses on investments and capital assets	(390,598)	(1,434)		(392,032)
Capital gifts allocated		1,876,288		1,876,288
Auxiliary enterprises - sales and services	29,356,044			29,356,044
	114,156,472	14,179,492		
Net assets released from restrictions (Notes 1 and 3)	12,842,244	(12,842,244)		
Total Operating Revenues, Gains and Other Support	126,998,716	1,337,248		128,335,964
<b>OPERATING EXPENSES</b>				
Program expenses				
Instruction	52,126,002			52,126,002
Research	1,768,565			1,768,565
Public service	503,343			503,343
Academic support	11,628,462			11,628,462
Student services	17,301,012			17,301,012
Auxiliary enterprises	20,543,154			20,543,154
Support expenses				
Institutional support	9,357,951			9,357,951
Fundraising	4,198,902			4,198,902
Total Operating Expenses (Note 16)	117,427,391			117,427,391
<b>Change in Net Assets from Operating Activities</b>	<b>9,571,325</b>	<b>1,337,248</b>		<b>10,908,573</b>
<b>NONOPERATING ACTIVITIES</b>				
Long-term investment activities				
Investment income	1,443,512	1,891,056	\$ 78,699	3,413,267
Net gains on investments	19,832,337	25,126,924	1,060,725	46,019,986
Total long-term investment income	21,275,849	27,017,980	1,139,424	49,433,253
Less: Long-term investment income and gains allocated for operations	(4,717,157)	(7,951,722)		(12,668,879)
	16,558,692	19,066,258	1,139,424	36,764,374
Student loan income net of expenses	248,265		92,585	340,850
Capital giving activities - gifts and grants	582,075	163,223	12,574,322	13,319,620
Deferred giving activities - gifts	1,177		373,006	374,183
Capital gifts allocated to operations		(1,876,288)		(1,876,288)
Interest rate swap loss, net of settlements	(62,820)			(62,820)
Adjustment to actuarial liability for annuities payable	333,698	255,090	1,778,409	2,367,197
Adjustment to prior service cost and actuarial liability for retiree health plan	(56,276)			(56,276)
Loss on assets held for sale for Telecom Operations	(752,167)			(752,167)
	16,852,644	17,608,283	15,957,746	50,418,673
Reclassification of prior year net assets		(356,757)	356,757	
<b>Change in Net Assets from Nonoperating Activities</b>	<b>16,852,644</b>	<b>17,251,526</b>	<b>16,314,503</b>	<b>50,418,673</b>
<b>Change in Net Assets</b>	<b>26,423,969</b>	<b>18,588,774</b>	<b>16,314,503</b>	<b>61,327,246</b>
Net Assets - Beginning of Year	240,317,981	147,934,837	164,028,841	552,281,659
<b>NET ASSETS - END OF YEAR</b>	<b>\$ 266,741,950</b>	<b>\$ 166,523,611</b>	<b>\$ 180,343,344</b>	<b>\$ 613,608,905</b>

## ST. OLAF COLLEGE

STATEMENT OF ACTIVITIES AND CHANGE IN NET ASSETS  
For the Year Ended May 31, 2013

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
<b>OPERATING REVENUES, GAINS AND OTHER SUPPORT</b>				
Tuition	\$ 123,100,526			\$ 123,100,526
Less: Unfunded scholarships and grants	(51,304,267)			(51,304,267)
Funded scholarships and grants	(5,733,350)			(5,733,350)
Net tuition	66,062,909			66,062,909
Other tuition and fees	4,613,523			4,613,523
Government grants	3,195,056			3,195,056
Private gifts and grants	3,500,673	\$ 2,355,876		5,856,549
Long-term investment income and gains allocated for operations	4,487,043	7,604,190		12,091,233
Other sources	2,828,931	55,020		2,883,951
Investment income	192,328	33,911		226,239
Net gains on investments and capital assets	221,095			221,095
Capital gifts allocated		1,779,413		1,779,413
Auxiliary enterprises - sales and services	28,646,482			28,646,482
	113,748,040	11,828,410		
Net assets released from restrictions (Notes 1 and 3)	11,199,261	(11,199,261)		
Total Operating Revenues, Gains and Other Support	124,947,301	629,149		125,576,450
<b>OPERATING EXPENSES</b>				
Program expenses				
Instruction	50,472,550			50,472,550
Research	1,586,681			1,586,681
Public service	502,765			502,765
Academic support	11,425,652			11,425,652
Student services	18,021,781			18,021,781
Auxiliary enterprises	20,555,623			20,555,623
Support expenses				
Institutional support	9,404,250			9,404,250
Fundraising	3,948,887			3,948,887
Total Operating Expenses (Note 16)	115,918,189			115,918,189
<b>Change in Net Assets from Operating Activities</b>	9,029,112	629,149		9,658,261
<b>NONOPERATING ACTIVITIES</b>				
Long-term investment activities				
Investment income	1,276,398	1,741,880	\$ 36,571	3,054,849
Net gains on investments	20,318,247	23,735,542	462,488	44,516,277
Total long-term investment income	21,594,645	25,477,422	499,059	47,571,126
Less: Long-term investment income and gains allocated for operations	(4,487,043)	(7,604,190)		(12,091,233)
	17,107,602	17,873,232	499,059	35,479,893
Student loan income net of expenses	26,112		26,315	52,427
Capital giving activities - gifts and grants	679,142	412,306	7,721,658	8,813,106
Deferred giving activities - gifts	2,053	5,001	106,791	113,845
Capital gifts allocated to operations		(1,779,413)		(1,779,413)
Interest rate swap gain, net of settlements	7,077			7,077
Adjustment to actuarial liability for annuities payable	519,540	294,550	2,442,527	3,256,617
Adjustment to prior service cost and actuarial liability for retiree health plan	1,558,552			1,558,552
Gain from adjustment of hail storm insurance receivable estimate	216,086			216,086
<b>Change in Net Assets from Nonoperating Activities</b>	20,116,164	16,805,676	10,796,350	47,718,190
<b>Change in Net Assets</b>	29,145,276	17,434,825	10,796,350	57,376,451
Net Assets - Beginning of Year	211,172,705	130,500,012	153,232,491	494,905,208
<b>NET ASSETS - END OF YEAR</b>	<b>\$ 240,317,981</b>	<b>\$ 147,934,837</b>	<b>\$ 164,028,841</b>	<b>\$ 552,281,659</b>



**ST. OLAF COLLEGE**

STATEMENTS OF CASH FLOWS  
For the Years Ended May 31, 2014 and 2013

	<u>2014</u>	<u>2013</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Change in net assets	\$ 61,327,246	\$ 57,376,451
Adjustments to reconcile change in net assets to net cash flows from operating activities		
Depreciation, amortization and accretion expense	12,208,558	11,846,702
Net gains on investments	(48,680,600)	(48,995,988)
Change in allowance for uncollectible student loans	(80,000)	(15,000)
Interest rate exchange gain	(252,104)	(300,683)
Loss (gain) on dispositions of property, plant and equipment	1,129,570	(130,167)
Actuarial adjustment of annuities payable	1,437,121	1,859,653
Adjustment to prior service cost and actuarial liability for retiree health plan	56,276	(1,558,552)
Gifts of property, plant and equipment	(247,345)	(281,705)
Change in:		
Accounts receivable	53,895	(104,535)
Contributions receivable for operations	(526,968)	49,524
Other assets	4,100	(396,255)
Funds held in trust by others	(107,034)	(140,511)
Change in:		
Accounts payable	505,886	(670,167)
Accrued and other liabilities	(830,813)	572,775
Deferred revenue	(744,219)	(58,408)
Change in deposits held in trust for others	139,514	250,106
Gifts and grants received for long-term investment and plant, net	(13,693,803)	(8,926,951)
Nonoperating investment income	(3,413,267)	(3,054,849)
Net Cash Flows from Operating Activities	<u>8,286,013</u>	<u>7,321,440</u>
<b>CASH FLOWS USED BY INVESTING ACTIVITIES</b>		
Purchases of property, plant and equipment	(14,208,292)	(14,798,197)
Purchases of investments	(76,554,502)	(77,885,223)
Proceeds from sales of investments	68,046,021	76,207,925
Nonoperating investment income	3,413,267	3,054,849
Disbursements of loans to students	(966,351)	(940,809)
Repayments of loans by students	1,359,261	1,421,631
Net Cash Flows Used by Investing Activities	<u>(18,910,596)</u>	<u>(12,939,824)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Principal repayments of indebtedness	(2,510,000)	(2,420,000)
Gifts and grants received for long-term investment and plant, net	13,693,803	8,926,951
Change in nonoperating contributions receivable	(853,579)	(586,414)
Change in U.S. government grants refundable, net	(319,164)	2,606
Increase in annuities payable from new gifts	374,183	120,902
Payments to annuitants	(1,574,535)	(1,548,423)
Change in trustee account for refinanced bonds, net	3,201	(58,760)
Net Cash Flows from Financing Activities	<u>8,813,909</u>	<u>4,436,862</u>
<b>Net Change in Cash and Cash Equivalents</b>	<u>(1,810,674)</u>	<u>(1,181,522)</u>
CASH AND CASH EQUIVALENTS - Beginning of Year	<u>22,722,083</u>	<u>23,903,605</u>
<b>CASH AND CASH EQUIVALENTS - END OF YEAR</b>	<u>\$ 20,911,409</u>	<u>\$ 22,722,083</u>
Supplemental Disclosure:		
Interest paid	\$ 3,093,117	\$ 3,193,055
Property, plant and equipment acquired through accounts payable	993,533	669,472

## ST. OLAF COLLEGE

### NOTES TO FINANCIAL STATEMENTS As of and for the Years Ended May 31, 2014 and 2013

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#### NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES

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

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

**Net Asset Classifications** - For the purposes of financial reporting, the College classifies resources into three net asset categories pursuant to any donor-imposed restrictions and applicable law. Accordingly, the net assets of the College are classified in the accompanying financial statements in the categories that follow:

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

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

**Permanently Restricted Net Assets** - Net assets subject to donor-imposed restrictions that the assets be maintained permanently by the College. Generally, the donors of these assets permit the College to use all or part of the income earned on related investments for general or specific purposes. (See Note 2)

**Releases from Restrictions** - Expirations of temporary restrictions on net assets (i.e., the donor-imposed purpose has been fulfilled and/or the stipulated time period has elapsed) are reported on the statement of activities as net assets released from restrictions. (See Note 3) Occasionally donor restrictions related to net assets may be clarified or changed, at which time they are reflected as a reclassification of prior year net assets on the statement of activities.

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

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

ST. OLAF COLLEGE

NOTES TO FINANCIAL STATEMENTS  
As of and for the Years Ended May 31, 2014 and 2013

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**NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

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

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

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

**Investment Gains and Losses** - Gains and losses on investments and other assets or liabilities are reported as increases or decreases in unrestricted net assets unless their use is restricted by explicit donor stipulation or by law.

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

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

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

**Cash and Cash Equivalents** - The College considers all highly liquid investments, except for those held for long-term investment, with a maturity of three months or less when purchased to be cash equivalents. Certain cash held by the College is restricted for the Perkins Loan Fund.

**Receivables** - Accounts and loans receivable are carried at cost, less an allowance for doubtful accounts. (See Notes 4 and 6)

## ST. OLAF COLLEGE

### NOTES TO FINANCIAL STATEMENTS As of and for the Years Ended May 31, 2014 and 2013

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#### NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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**Investments** - Investments in publicly traded securities are stated at quoted market value. Other investments, for which no such quoted market values or valuations are readily available, are carried at fair value as estimated by management using values provided by external investment managers. Changes in fair value are recorded as unrealized gains or losses in the period of change. (See Note 7)

**Other Assets** - Prepaid expenses, inventories and bond issuance costs are included in other assets. Inventories are valued at the lower of cost or market, with the exception of bookstore inventories, which are valued at a percentage of retail value that approximates cost and is not in excess of market. Costs of bond issuance are deferred and amortized over the term of the bonds. Future amortization is projected to approximate \$26,000 annually.

**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.

**Beneficial Interest in Trusts Held by Others** - The beneficial interest in trusts held by others and related contribution revenue are recognized at the date the trusts are established for the present value of estimated future payments to be received. Fair market value is not readily determinable for certain farmland held in trust by others in the deferred gift pool, and as such is held at cost value of \$491,350 at both May 31, 2014 and 2013.

**Property, Plant and Equipment** - Physical plant assets are stated at cost at the date of acquisition or market value if donated, less accumulated depreciation. The College typically depreciates its assets on the straight-line basis over estimated useful lives ranging from 15 to 50 years for buildings and improvements and 5 to 15 years for furnishings, library materials and equipment. The College has developed a schedule of the estimated funding required for significant repairs and maintenance of its facilities based on a forty-year life cycle. Normal repair and maintenance expenses are charged to operations as incurred. Certain property and equipment purchased with government grant funds are subject to certain requirements and limitations. Generally, the College capitalizes physical plant additions and equipment in excess of \$5,000. (See Note 9)

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

**Annuities Payable** - Annuities payable represent the College's liability under annuity contracts with donors and irrevocable charitable remainder trusts for which the College serves as the trustee. Assets held under these agreements are included in investments. (See Note 17)

**Interest Rate Exchange Liability** - The College uses an interest rate exchange agreement as part of its risk management strategy to manage exposure to fluctuations in interest rates and to manage the overall cost of its debt. The interest rate exchange agreement was not entered into for trading or speculative purposes. All derivatives, including those embedded in other contracts as well as interest rate exchange transactions, are recognized as either assets or liabilities and are measured at fair value. Gains or losses resulting from changes in the fair values of the interest rate exchange transactions are reflected in the statements of activities as an increase or decrease to unrestricted net assets. (See Note 18)

ST. OLAF COLLEGE

NOTES TO FINANCIAL STATEMENTS  
As of and for the Years Ended May 31, 2014 and 2013

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**NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

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

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

**Advertising Expenses** - Advertising costs are expensed when incurred.

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

**Income Tax Status** - The Internal Revenue Service has determined that the College is exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code. The College is also exempt from state income taxes. However, any unrelated business income may be subject to taxation.

The College follows the accounting standards for contingencies in evaluating uncertain tax positions. This guidance prescribes recognition threshold principles for the financial statement recognition of tax positions taken or expected to be taken on a tax return that are not certain to be realized. No liability has been recognized by the College for uncertain tax positions as of May 31, 2014 and 2013. The College's tax returns are subject to review and examination by federal and state authorities. The tax returns for fiscal years 2011 and thereafter are open to examination by federal and state authorities.

**Reclassifications** - Certain amounts appearing in the 2013 financial statements have been reclassified to conform with the 2014 presentation. The reclassifications have no effect on reported amounts of total net assets, change in net assets, or change in cash flows.

**ST. OLAF COLLEGE**

NOTES TO FINANCIAL STATEMENTS  
As of and for the Years Ended May 31, 2014 and 2013

**NOTE 2 - RESTRICTIONS AND LIMITATIONS ON NET ASSET BALANCES**

At May 31, 2014 and 2013, the College's unrestricted net assets were allocated as follows:

	2014	2013
Operations	\$ 90,942,562	\$ 88,101,068
Endowment funds:		
Donor restricted endowment funds (underwater)	(52,354)	(422,283)
Board designated endowment	171,208,168	148,498,795
Total endowment funds	171,155,814	148,076,512
Deferred gifts	3,638,809	3,384,879
Student loan programs - matching federal government	1,004,765	755,522
	\$ 266,741,950	\$ 240,317,981

Temporarily restricted net assets consist of the following at May 31, 2014 and 2013:

Gifts and other unexpended revenues and gains available for:		
Scholarships, instruction and other support	\$ 7,084,551	\$ 6,110,183
Unamortized plant gifts	53,255,042	55,071,873
Acquisition of buildings and equipment	1,202,496	562,240
	61,542,089	61,744,296
Endowment funds:		
Endowment funds temporarily restricted by donor	12,128,927	11,933,124
Earnings not yet appropriated for spending	91,035,714	72,619,025
Total endowment funds	103,164,641	84,552,149
Deferred gifts	1,816,881	1,638,392
	\$ 166,523,611	\$ 147,934,837

Permanently restricted net assets consist of the following at May 31, 2014 and 2013:

Endowment funds	\$ 161,614,669	\$ 146,872,527
Deferred gifts	16,249,912	14,785,484
Student loan funds	2,478,763	2,370,830
	\$ 180,343,344	\$ 164,028,841

Total net assets consist of the following at May 31, 2014 and 2013:

Operations	\$ 152,484,651	\$ 149,845,364
Endowment funds (Note 8)	435,935,124	379,501,188
Deferred gifts (Note 17)	21,705,602	19,808,755
Student loan funds	3,483,528	3,126,352
	\$ 613,608,905	\$ 552,281,659

**ST. OLAF COLLEGE**

NOTES TO FINANCIAL STATEMENTS  
As of and for the Years Ended May 31, 2014 and 2013

**NOTE 3 - NET ASSETS RELEASED FROM RESTRICTIONS**

Net assets were released to unrestricted operating net assets from temporary donor restrictions by incurring expenses satisfying the restricted purposes or by occurrence of events specified by the donors as follows for the years ended May 31, 2014 and 2013:

	<u>2014</u>	<u>2013</u>
Amortization of contributions expended for long-lived assets	\$ 1,876,288	\$ 1,779,413
Scholarships, instruction and other departmental support	<u>10,965,956</u>	<u>9,419,848</u>
	<u>\$ 12,842,244</u>	<u>\$ 11,199,261</u>

**NOTE 4 - ACCOUNTS RECEIVABLE**

Accounts receivable, and the related allowance for doubtful accounts, was as follows at May 31, 2014 and 2013:

	<u>2014</u>			<u>2013</u>		
	<u>Receivable</u>	<u>Allowance</u>	<u>Net</u>	<u>Receivable</u>	<u>Allowance</u>	<u>Net</u>
Student accounts	\$ 386,470	\$ 160,000	\$ 226,470	\$ 311,796	\$ 160,000	\$ 151,796
Other accounts	<u>1,615,549</u>	<u>588,880</u>	<u>1,026,669</u>	<u>1,677,538</u>	<u>522,300</u>	<u>1,155,238</u>
Total accounts receivable	<u>\$ 2,002,019</u>	<u>\$ 748,880</u>	<u>\$ 1,253,139</u>	<u>\$ 1,989,334</u>	<u>\$ 682,300</u>	<u>\$ 1,307,034</u>

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.

**NOTE 5 - CONTRIBUTIONS RECEIVABLE**

Contributions receivable include the following unconditional promises to give at May 31, 2014 and 2013:

	<u>2014</u>	<u>2013</u>
Unconditional promises expected to be collected in:		
Less than one year	\$ 3,912,027	\$ 3,305,909
One to five years	4,679,585	3,741,185
Over five years	<u>15,025</u>	<u>10,712</u>
Gross unconditional promises to give	8,606,637	7,057,806
Less: Unamortized discount	(103,795)	(86,173)
Allowance for uncollectible promises	<u>(1,981,813)</u>	<u>(1,831,151)</u>
	<u>\$ 6,521,029</u>	<u>\$ 5,140,482</u>

Contributions receivable due within one year are not discounted. Contributions receivable expected to be collected in more than one year have been discounted using historic rates, ranging from 1.00% to 1.50%. As of May 31, 2014, net contributions receivable consisted of \$108,696 for plant projects, \$5,374,760 for endowments, and \$1,037,573 for operations. As of May 31, 2013, net contributions receivable consisted of \$133,235 for plant projects, \$4,496,642 for endowments, and \$510,605 for operations.

**ST. OLAF COLLEGE**

NOTES TO FINANCIAL STATEMENTS  
As of and for the Years Ended May 31, 2014 and 2013

**NOTE 6 - CREDIT QUALITY OF STUDENT LOANS RECEIVABLE**

The College issues uncollateralized loans to students based on financial need. Loans to students are funded through Federal government loan programs or institutional resources. Allowances for doubtful accounts are established based on prior collection experience and current economic factors which, in management's judgment, could influence the ability of loan recipients to repay the amounts per the loan terms. Interest income on student loan receivables is recognized when received, and fees and costs are recognized when incurred. Government student loan program receivables (Perkins) that become uncollectible can be assigned to the federal government. At May 31, 2014 and 2013, student loans receivable represented 0.94% and 1.06% of total assets, respectively.

At May 31, 2014 and 2013 student loans receivable consisted of the following:

	<u>2014</u>	<u>2013</u>
Federal government programs	\$ 6,347,154	\$ 6,589,338
Institutional programs	<u>1,243,160</u>	<u>1,393,886</u>
	<u>7,590,314</u>	<u>7,983,224</u>
Less allowance for doubtful accounts:		
Beginning of year	(741,800)	(756,800)
Decreases (increases) to allowance	6,031	(4,380)
Write-off recoveries	(27)	
Write-offs	<u>73,996</u>	<u>19,380</u>
End of year	<u>(661,800)</u>	<u>(741,800)</u>
Student loans receivable, net	<u>\$ 6,928,514</u>	<u>\$ 7,241,424</u>

Funds advanced by the Federal government of \$6,435,283 and \$6,724,785 at May 31, 2014 and 2013, respectively, are ultimately refundable to the government and are classified as liabilities in the statement of financial position. These amounts are partially offset by related receivables from the Federal government.

At May 31, 2014 and 2013, the past due and current amounts under student loan programs were as follows:

	<u>2014</u>	<u>2013</u>
Past due student loans receivable:		
0-240 days past due	\$ 275,273	\$ 323,716
240 days - 2 years past due	113,394	116,801
2-5 years past due	207,201	212,196
5+ years past due	<u>255,481</u>	<u>345,480</u>
Total past due	851,349	998,193
Current student loans receivable	<u>6,738,965</u>	<u>6,985,031</u>
Total student loans receivable, gross	<u>\$ 7,590,314</u>	<u>\$ 7,983,224</u>



ST. OLAF COLLEGE

NOTES TO FINANCIAL STATEMENTS  
As of and for the Years Ended May 31, 2014 and 2013

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**NOTE 7 - INVESTMENTS AND FAIR VALUE MEASUREMENTS**

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**Financial Instruments** - The carrying amounts of cash and cash equivalents, accounts receivable, accounts payable and deposits held in trust for others approximate fair value because of the short term nature of these financial instruments.

The fair value of contributions receivable (pledges) is based on discounted cash flow methodology using discount rates consistent with the expected maturities of the pledges, adjusted for consideration of the donor's credit. The fair value of contributions receivable approximates carrying value and would be considered Level 3 in the fair value hierarchy.

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 fair value of long-term debt is estimated using quoted prices for similar instruments and discounted cash flow analyses using current borrowing rates for similar types of borrowing arrangements, adjusted for the College's credit risk. The estimated fair value of long-term debt approximates \$82,200,000 and \$83,300,000 at May 31, 2014 and 2013, respectively. The valuation for the estimated fair value of long-term debt would be considered Level 2 on the fair value hierarchy.

The fair value of annuities payable related to split interest agreements is based on a discounted cash flow methodology using assumptions about estimated return on invested assets during the term of the agreement, the contractual payment obligations of the agreement, discount rates that are commensurate with the risks involved, and life expectancies published in the mortality tables. The fair value of the annuities payable approximates carrying value. The fair value for annuities payable related to gift annuities and annuity trusts would be considered Level 2 in the fair value hierarchy. The fair value of annuities payable related to unitrusts would be considered Level 3 in the fair value hierarchy.

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

**Fair Value Hierarchy** - Fair value is defined in the accounting guidance as the exchange price that would be received to sell an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the assets or liability in an orderly transaction between market participants at the measurement date. Under this guidance, a three-level hierarchy is used for fair value measurements which are based on the transparency of information, such as the pricing source, used in the valuation of an asset or liability as of the measurement date.

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

Level 1 - Inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the reporting entity can access at the measurement date.

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

Level 3 - Inputs are unobservable for the asset or liability. Unobservable inputs reflect the assumptions that market participants would use in pricing the asset or liability (including assumptions about risk) using the best information available in the circumstances, which may include using the reporting entity's own data.

**ST. OLAF COLLEGE**

**NOTES TO FINANCIAL STATEMENTS**  
As of and for the Years Ended May 31, 2014 and 2013

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**NOTE 7 - INVESTMENTS AND FAIR VALUE MEASUREMENTS (CONTINUED)**

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***Valuation Techniques and Inputs***

Level 1 - Level 1 assets include:

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

Level 2 - Level 2 assets include:

- > Investments in treasury inflation-protected securities for which quoted prices are not readily available. The fair values are estimated using Level 2 inputs based on multiple sources of information, which may include market data and/or quoted market prices from either markets that are not active or are for the same or similar assets in active markets.
- > Investments in certain hedge funds, global equity funds and global bond funds for which quoted prices are not readily available. The College has the ability to redeem its interest in these investments at or near the statement of financial position date. The College has estimated the fair value of these funds by using the net asset value ("NAV") provided by the investee as of December 31, adjusted for cash receipts, cash disbursements, significant known valuation changes in market values of publicly held securities contained in the portfolio and security distributions through May 31.

Level 2 liabilities include:

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

Level 3 - Level 3 assets include:

- > Investments in certain hedge funds, private equity funds, real estate funds, and commodity funds for which quoted prices are not readily available and the funds cannot be redeemed within a short time period. The College has estimated the fair value of these funds by using the net asset value ("NAV") provided by the investee as of December 31 or March 31, adjusted for cash receipts, cash disbursements, significant known valuation changes in market values of publicly held securities contained in the portfolio and security distributions through May 31.
- > Investments in real estate for which fair value is based on inputs such as cost, appraisals, and the county assessed value.
- > Other investments which represent ownership interests in insurance contracts. The fair value has been estimated based on information provided by the insurance companies.
- > Beneficial interest in trusts held by others for which quoted prices are not readily available. The fair values are estimated using an income approach by calculating the present value of the future distributions expected to be received based on a combination of Level 2 inputs (interest rates and yield curves) and significant unobservable inputs (entity specific estimates of cash flows).

**ST. OLAF COLLEGE**

**NOTES TO FINANCIAL STATEMENTS**  
As of and for the Years Ended May 31, 2014 and 2013

**NOTE 7 - INVESTMENTS AND FAIR VALUE MEASUREMENTS (CONTINUED)**

There have been no changes in the techniques and inputs used as of May 31, 2014 and 2013.

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

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

The following tables present information about the College's assets and liabilities measured at fair value on a recurring basis as of May 31, 2014 based upon the three-tier hierarchy:

	<u>Total</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
<b>ASSETS</b>				
Investments				
Cash and short-term investments	\$ 1,482,534	\$ 1,482,534		
Marketable securities				
Mutual funds				
Fixed income - domestic	39,337,138	39,337,138		
Fixed income - international	1,333,452	1,333,452		
Fixed income - global	8,588,350	8,588,350		
Equity funds - domestic	53,909,780	53,909,780		
Equity funds - international	59,297,430	59,297,430		
Real asset funds	21,031,958	21,031,958		
Stocks	195,725	195,725		
Bonds	826,800	826,800		
Alternative investments				
Hedge funds	84,443,637		\$ 45,690,978	\$ 38,752,659
Private equity funds	63,962,912			63,962,912
Global equity funds	61,427,885		61,427,885	
Global bond funds	22,477,852		22,477,852	
Real estate funds	19,086,649			19,086,649
Commodity funds	17,469,000			17,469,000
Treasury inflation-protected securities (TIPS)	8,334,293		8,334,293	
Real estate	2,176,761			2,176,761
Other investments	1,792,246			1,792,246
Total Investments	<u>467,174,402</u>	<u>186,003,167</u>	<u>137,931,008</u>	<u>143,240,227</u>
Deposits held by trustee	5,750,566	5,750,566		
Beneficial interest in trusts held by others	<u>1,722,106</u>			<u>1,722,106</u>
Total	<u>\$ 474,647,074</u>	<u>\$ 191,753,733</u>	<u>\$ 137,931,008</u>	<u>\$ 144,962,333</u>
<b>LIABILITIES</b>				
Interest rate exchange liability	<u>\$ 797,084</u>	<u>\$ -</u>	<u>\$ 797,084</u>	<u>\$ -</u>

**ST. OLAF COLLEGE**

NOTES TO FINANCIAL STATEMENTS  
As of and for the Years Ended May 31, 2014 and 2013

**NOTE 7 - INVESTMENTS AND FAIR VALUE MEASUREMENTS (CONTINUED)**

The following tables present information about the College's assets and liabilities measured at fair value on a recurring basis as of May 31, 2013 based upon the three-tier hierarchy:

	<u>Total</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
<b>ASSETS</b>				
Investments				
Cash and short-term investments \$	1,220,546	\$ 1,220,546		
Marketable securities				
Mutual funds				
Fixed income - domestic	36,625,144	36,625,144		
Fixed income - international	1,047,045	1,047,045		
Fixed income - global	7,612,858	7,612,858		
Equity funds - domestic	46,750,455	46,750,455		
Equity funds - international	63,012,637	63,012,637		
Real asset funds	21,400,086	21,400,086		
Stocks	133,461	133,461		
Bonds	1,071,871	1,071,871		
Alternative investments				
Hedge funds	83,039,192		\$ 37,308,214	\$ 45,730,978
Private equity funds	51,487,178			51,487,178
Global equity funds	43,622,610		43,622,610	
Global bond funds	13,690,764		13,690,764	
Real estate funds	14,150,512			14,150,512
Commodity funds	12,578,632			12,578,632
Treasury inflation-protected securities (TIPS)	9,209,930		9,209,930	
Real estate	1,598,461			1,598,461
Other investments	1,733,939			1,733,939
Total Investments	<u>409,985,321</u>	<u>178,874,103</u>	<u>103,831,518</u>	<u>127,279,700</u>
Deposits held by trustee	5,753,767	5,753,767		
Beneficial interest in trusts held by others	<u>1,615,072</u>			<u>1,615,072</u>
Total	<u>\$ 417,354,160</u>	<u>\$ 184,627,870</u>	<u>\$ 103,831,518</u>	<u>\$ 128,894,772</u>
<b>LIABILITIES</b>				
Interest rate exchange liability	<u>\$ 1,049,188</u>	<u>\$ -</u>	<u>\$ 1,049,188</u>	<u>\$ -</u>

**ST. OLAF COLLEGE**

**NOTES TO FINANCIAL STATEMENTS**  
As of and for the Years Ended May 31, 2014 and 2013

**NOTE 7 - INVESTMENTS AND FAIR VALUE MEASUREMENTS (CONTINUED)**

The following table presents a reconciliation of the statement of financial position amounts for assets measured at fair value on a recurring basis using significant unobservable inputs (Level 3) for the year ended May 31, 2014:

	Balances May 31, 2013	Net realized and unrealized gains	Purchases	Sales	Net transfers in (out) of Level 3	Balances May 31, 2014
<b>Assets</b>						
<b>Alternative Investments</b>						
Hedge funds	\$ 45,730,978	\$ 1,962,062		\$ (4,079,558)	\$ (4,860,823)	\$ 38,752,659
Private equity funds	51,487,178	14,048,080	\$ 6,043,405	(7,615,751)		63,962,912
Real estate funds	14,150,512	1,478,033	8,127,500	(4,669,396)		19,086,649
Commodity funds	12,578,632	462,617	5,718,669	(1,290,918)		17,469,000
Real estate	1,598,461	48,300	530,000			2,176,761
Other investments	1,733,939	58,307				1,792,246
Beneficial interest in trusts held by others	1,615,072	133,752		(26,718)		1,722,106
<b>Total</b>	<b>\$ 128,894,772</b>	<b>\$ 18,191,151</b>	<b>\$ 20,419,574</b>	<b>\$ (17,682,341)</b>	<b>\$ (4,860,823)</b>	<b>\$ 144,962,333</b>

Transfers out includes an investment which has been reclassified to Level 2 as the College has the ability to redeem the investment at NAV in the near term. The transfer amount is based on the fair value as of the date of the event or change in circumstances that caused the transfer.

The amount of total gains for the period included in change in net assets attributable to the change in unrealized gains or losses relating to assets measured at fair value still held at May 31, 2014. \$ 11,682,776

The following table presents a reconciliation of the statement of financial position amounts for assets measured at fair value on a recurring basis using significant unobservable inputs (Level 3) for the year ended May 31, 2013:

	Balances May 31, 2012	Net realized and unrealized gains (losses)	Purchases	Sales	Net transfers in (out) of Level 3	Balances May 31, 2013
<b>Assets</b>						
<b>Alternative Investments</b>						
Hedge funds	\$ 43,316,704	\$ 6,307,753	\$ 5,035,301	\$ (1,251,290)	\$ (7,677,490)	\$ 45,730,978
Private equity funds	50,213,032	4,896,579	4,633,408	(8,255,841)		51,487,178
Real estate funds	12,017,671	1,040,678	2,101,586	(1,009,423)		14,150,512
Commodity funds	10,904,262	(48,999)	4,670,593	(2,947,224)		12,578,632
Real estate	1,660,463	118,798		(180,800)		1,598,461
Other investments	2,138,839	67,172	7,057	(479,129)		1,733,939
Beneficial interest in trusts held by others	1,474,561	165,956		(25,445)		1,615,072
<b>Total</b>	<b>\$ 121,725,532</b>	<b>\$ 12,547,937</b>	<b>\$ 16,447,945</b>	<b>\$ (14,149,152)</b>	<b>\$ (7,677,490)</b>	<b>\$ 128,894,772</b>

Transfers out includes an investment which has been reclassified to Level 2 as the College has the ability to redeem the investment at NAV in the near term. The transfer amount is based on the fair value as of the date of the event or change in circumstances that caused the transfer.

The amount of total gains for the period included in change in net assets attributable to the change in unrealized gains or losses relating to assets measured at fair value still held at May 31, 2013. \$ 7,112,874

**ST. OLAF COLLEGE**

NOTES TO FINANCIAL STATEMENTS  
As of and for the Years Ended May 31, 2014 and 2013

**NOTE 7 - INVESTMENTS AND FAIR VALUE MEASUREMENTS (CONTINUED)**

The College uses the NAV as a practical expedient to determine fair value of all underlying investments which (a) do not have a readily determinable fair value; and (b) prepare their financial statements consistent with the measurement principles of an investment company or have the attributes of an investment company.

The following table lists the alternative investments in which NAV was utilized as the practical expedient for estimating fair value by major category as of May 31, 2014:

Investment Type	Unfunded Commitments	Fair Value	Redemption Frequency	Redemption Notice Period	Estimated Remaining Life
Alternative Investments					
Hedge funds (a)	\$ -	\$ 84,443,637	Monthly to annual	30-180 days	N/A (a)
Private equity funds (b)	24,302,625	63,962,912	Not redeemable	N/A	1-15 years
Global equity funds (c)	-	61,427,885	10-45 days	10-45 days	N/A
Global bond funds (d)	-	22,477,852	Daily	10 days	N/A
Real estate funds (e)	8,593,870	19,086,649	Quarterly, none	45-60 days	3-15 years
Commodity funds (f)	18,520,163	17,469,000	Not redeemable	N/A	6-15 years

- (a) Comprised of various hedge funds which primarily focus on absolute return, security selection, and hedging. A portion of the investments in this category cannot be redeemed currently because the investments include restrictions that do not allow for redemption in the first 12 to 36 months after acquisition.
- (b) Comprised of various private equity funds with a broad range of investment objectives which include diversified fund of funds focused on venture, buyout, and special situations, as well as smaller direct funds that have more specific niche strategies. These investments are generally not redeemable. Instead, distributions are received through the liquidation of the underlying assets of the fund.
- (c) Comprised of three limited partnership investments both holding long-only domestic and international equities.
- (d) Comprised of two limited partnership investments at the statement of financial position date; the funds invest in international long-only fixed income securities.
- (e) Includes funds having diversified investment objectives ranging from fund of funds that focus on domestic commercial properties to direct open-ended real estate investment trusts (REITs). The REITs have quarterly liquidity with 45 or 60 days notice. The other investments cannot be redeemed, but distributions from each fund will be received as the underlying investments in the funds are liquidated.
- (f) Includes fund of funds investments that focus on natural resources and/or energy.

**ST. OLAF COLLEGE**

NOTES TO FINANCIAL STATEMENTS  
As of and for the Years Ended May 31, 2014 and 2013

**NOTE 8 - ENDOWMENT**

The College's endowment consists of approximately 1,600 individual funds established for a variety of purposes. The endowment includes both donor-restricted endowment funds and funds designated by the Board of Regents to function as endowments. As required by U.S. generally accepted accounting principles, net assets associated with endowment funds, including funds designated by the Board of Regents as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

**Interpretation of Relevant Law** - The College's Board of Regents has interpreted the Minnesota enacted version of the Uniform Prudent Management of Institutional Funds Act (UPMIFA) as allowing the College to appropriate for expenditure or accumulate so much of an endowment fund as the College determines is prudent for the uses, benefits, purposes and duration for which the endowment fund is established, subject to the intent of the donor as expressed in the gift instrument. The College's Board of Regents has determined it is prudent to preserve the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. The College classifies as permanently restricted net assets (a) the original value of the gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of a donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the College through the Board of Regent's approval of the annual budget, which is inclusive of the spending rate for its endowment funds established pursuant to the College's spending policy. See Note 1 for further information on net asset classifications.

Endowment net asset composition by type of fund consists of the following as of May 31, 2014:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Donor-restricted endowment funds	\$ (52,354)	\$ 103,164,641	\$ 161,614,669	\$ 264,726,956
Board-designated endowment funds	<u>171,208,168</u>			<u>171,208,168</u>
 Total endowment net assets	 <u>\$ 171,155,814</u>	 <u>\$ 103,164,641</u>	 <u>\$ 161,614,669</u>	 <u>\$ 435,935,124</u>

Endowment net asset composition by type of fund consists of the following as of May 31, 2013:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Donor-restricted endowment funds	\$ (422,283)	\$ 84,552,149	\$ 146,872,527	\$ 231,002,393
Board-designated endowment funds	<u>148,498,795</u>			<u>148,498,795</u>
 Total endowment net assets	 <u>\$ 148,076,512</u>	 <u>\$ 84,552,149</u>	 <u>\$ 146,872,527</u>	 <u>\$ 379,501,188</u>

**ST. OLAF COLLEGE**

NOTES TO FINANCIAL STATEMENTS  
As of and for the Years Ended May 31, 2014 and 2013

**NOTE 8 - ENDOWMENT (CONTINUED)**

Changes in endowment net assets for the year ended May 31, 2014 are as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, May 31, 2013	\$ 148,076,512	\$ 84,552,149	\$ 146,872,527	\$ 379,501,188
Total investment return	21,275,849	27,017,980	1,139,424	49,433,253
Contributions	581,976	500	12,574,322	13,156,798
Appropriation of endowment assets for:				
Operating expenditures	(4,717,157)	(7,951,722)		(12,668,879)
Non-operating expenditures	(42,310)		(15,348)	(57,658)
Other changes:				
Transfers	5,900,000	(454,266)	356,757	5,802,491
Matured deferred gifts	80,944		686,987	767,931
 Endowment net assets, May 31, 2014	 \$ 171,155,814	 \$ 103,164,641	 \$ 161,614,669	 \$ 435,935,124

Changes in endowment net assets for the year ended May 31, 2013 are as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, May 31, 2012	\$ 124,449,852	\$ 66,141,791	\$ 138,394,239	\$ 328,985,882
Total investment return	21,591,411	25,477,422	499,059	47,567,892
Contributions	679,142	797	7,721,658	8,401,597
Appropriation of endowment assets for:				
Operating expenditures	(4,487,043)	(7,604,190)		(12,091,233)
Non-operating expenditures	(42,864)		(15,529)	(58,393)
Other changes:				
Transfers	5,645,050	536,329	(38,050)	6,143,329
Matured deferred gifts	240,964		311,150	552,114
 Endowment net assets, May 31, 2013	 \$ 148,076,512	 \$ 84,552,149	 \$ 146,872,527	 \$ 379,501,188

**Funds with Deficiencies** - From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the original value of the gifts contributed to each endowment fund. In accordance with GAAP, deficiencies of this nature that are reported in unrestricted net assets were \$52,354 and \$422,283 as of May 31, 2014 and 2013, respectively. These deficiencies resulted from unfavorable market fluctuations that occurred after the investment of new permanently restricted contributions and continued appropriation for certain programs that was deemed prudent by the Board of Regents. Subsequent gains that restore the fair value of the assets of the endowment fund to the required level will be classified as an increase in unrestricted net assets.



## ST. OLAF COLLEGE

### NOTES TO FINANCIAL STATEMENTS As of and for the Years Ended May 31, 2014 and 2013

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#### **NOTE 8 - ENDOWMENT (CONTINUED)**

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

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

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

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

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

ST. OLAF COLLEGE

NOTES TO FINANCIAL STATEMENTS  
As of and for the Years Ended May 31, 2014 and 2013

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**NOTE 9 - PROPERTY, PLANT AND EQUIPMENT**

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At May 31, 2014 and 2013, property, plant and equipment consisted of the following:

	<u>2014</u>	<u>2013</u>
Land	\$ 1,232,890	\$ 1,232,890
Improvements other than buildings	18,440,803	17,096,974
Buildings	272,070,651	265,766,696
Equipment	48,759,496	50,309,676
Library materials	19,332,611	20,168,907
Art collection	1,463,107	1,414,388
Construction in progress	2,497,006	3,225,080
	<u>363,796,564</u>	<u>359,214,611</u>
Less: Accumulated depreciation	<u>(139,153,674)</u>	<u>(135,646,540)</u>
	224,642,890	223,568,071
Telecom assets held for sale	<u>400,000</u>	
	<u>\$ 225,042,890</u>	<u>\$ 223,568,071</u>

The majority of the costs of construction in progress as of May 31, 2014 were for the renovation of Kildahl Hall, totaling approximately \$1,079,000; campus electrical infrastructure improvements, totaling approximately \$587,000; and the Skoglund gym floor, totaling approximately \$405,000. These projects are expected to be completed during fiscal 2015 and are being funded primarily by operations.

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**NOTE 10 - ACCRUED AND OTHER LIABILITIES**

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At May 31, 2014 and 2013, accrued and other liabilities consisted of the following:

	<u>2014</u>	<u>2013</u>
Payroll	\$ 9,247,423	\$ 9,212,398
Self-insurance reserve (Note 11)	327,000	407,000
Post-retirement benefit obligations (Note 12)	2,548,163	2,562,592
Interest	497,786	514,573
Asset retirement obligations (Note 13)	2,283,953	2,376,379
Other	<u>65,373</u>	<u>552,474</u>
	<u>\$ 14,969,698</u>	<u>\$ 15,625,416</u>

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**NOTE 11 - SELF-INSURANCE**

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The College provides medical benefits through a self-insurance plan, which is available to all employees of the College who meet the eligibility requirements for certain medical expenses. Accrued and other liabilities include an incurred but not reported reserve of approximately \$327,000 and \$407,000 at May 31, 2014 and 2013, respectively, an estimate of amounts due and payable on existing claims for which the College is self-insured and which are expected to be settled currently. The College is self-insured for the first \$200,000 per claim with an aggregate stop loss of approximately \$7,534,000. As of May 31, 2014 and 2013, the College had unrestricted net assets of \$986,010 and \$810,602, respectively, designated for health insurance benefits, which consists of the cumulative amount that employee and college contributions towards health premiums have exceeded expenses over the life of the plan.

**ST. OLAF COLLEGE**

NOTES TO FINANCIAL STATEMENTS  
As of and for the Years Ended May 31, 2014 and 2013

**NOTE 12 - RETIREMENT PLANS AND POSTRETIREMENT BENEFIT PLAN**

The College has certain defined contribution pension plans for employees. All employees are eligible to participate after meeting certain eligibility requirements. College contributions are based upon a percentage of salaries. The College's contributions to the retirement plans approximated \$3,728,000 and \$3,706,000 for the years ended May 31, 2014 and 2013, respectively.

The College also provides postretirement health care benefits for current or retired employees and covered dependents, which are recorded on the accrual basis. Two voluntary employee benefit association (VEBA) trusts were established in fiscal year 2006. The Employee After-Tax-Contributions VEBA Trust (funded solely by employee after tax contributions) and the Employer Contribution VEBA Trust (funded solely by employer pre-tax contributions) were established to provide employee welfare benefit plans providing certain insured and/or self-insured health and life benefits for eligible retired employees and their eligible spouses and dependents. The trusts are managed by a trustee, who invests in money market and mutual funds (Level 1 assets). The trusts are exempt from taxation to the extent permitted under section 501(c)(9) and 512 of the Internal Revenue Code of 1986.

The following tables set forth the postretirement health care benefit plan's status with amounts reported in the College's financial statements at May 31, 2014 and 2013:

	<u>2014</u>	<u>2013</u>
<b><i>Change in benefit obligation</i></b>		
Benefit obligation at beginning of year	\$ 8,661,555	\$ 9,103,938
Service cost	104,081	100,031
Interest cost	294,350	294,655
Plan participants' VEBA contributions	16,096	26,172
Employer VEBA contributions	895,765	622,941
Actuarial loss/(gain)	709,647	(974,454)
Benefits paid	<u>(689,901)</u>	<u>(511,728)</u>
Benefit obligation at end of year	\$ <u>9,991,593</u>	\$ <u>8,661,555</u>
<b><i>Change in plan assets</i></b>		
Fair value of plan assets at beginning of year	\$ 6,098,963	\$ 5,036,003
Actual return on plan assets	1,109,567	919,705
Employer contributions	908,705	628,811
Plan participants' contributions	16,096	26,172
Benefits paid	<u>(689,901)</u>	<u>(511,728)</u>
Fair value of plan assets at end of year	\$ <u>7,443,430</u>	\$ <u>6,098,963</u>
<b><i>Funded status</i></b>		
Funded status at end of year	\$ <u>(2,548,163)</u>	\$ <u>(2,562,592)</u>
<b><i>Amounts recognized in the statement of financial position consist of:</i></b>		
Current liabilities	\$ (265,000)	\$ (271,000)
Noncurrent liabilities	<u>(2,283,163)</u>	<u>(2,291,592)</u>
Net amount recognized (Note 10)	\$ <u>(2,548,163)</u>	\$ <u>(2,562,592)</u>

ST. OLAF COLLEGE

NOTES TO FINANCIAL STATEMENTS  
As of and for the Years Ended May 31, 2014 and 2013

**NOTE 12 - RETIREMENT PLANS AND POSTRETIREMENT BENEFIT PLAN (CONTINUED)**

	<u>2014</u>	<u>2013</u>
<b>Amounts recognized in change in net assets consist of:</b>		
Prior service cost	\$ (587,342)	\$ (738,590)
Loss	110,490	205,462
Accumulated change in net assets	<u>\$ (476,852)</u>	<u>\$ (533,128)</u>
<b>Weighted-average assumptions used to determine benefit obligations at May 31</b>		
Discount rate	3.40%	3.45%
Expected return on plan assets	5.00%	5.00%
Rate of compensation increase	0.00%	0.00%
<b>Components of net periodic benefit cost</b>		
Service cost	\$ 104,081	\$ 100,031
Interest cost	294,350	294,655
Expected return on plan assets	(304,948)	(251,800)
Amortization of prior service cost	(151,248)	(151,248)
Amortization of net loss		67,441
Net periodic postretirement benefit cost	<u>\$ (57,765)</u>	<u>\$ 59,079</u>
<b>Changes in net assets</b>		
Net gain	\$ (94,972)	\$ (1,642,359)
Amortization of prior service cost	151,248	151,248
Amortization of net gain		(67,441)
Total amount recognized in change in net assets	<u>\$ 56,276</u>	<u>\$ (1,558,552)</u>
Total amount recognized in net periodic benefit cost and change in net assets	<u>\$ (1,489)</u>	<u>\$ (1,499,473)</u>
<b>Weighted-average assumptions used to determine net periodic benefit cost as of June 1</b>		
Discount rate	3.45%	3.30%
Expected return on plan assets	5.00%	5.00%
Rate of compensation increase	0.00%	0.00%
<b>Assumed health care cost trend rates at May 31</b>		
Health care cost trend rate assumed for next year	6.44% - Post 65 6.44% - Pre 65	7.14% - Post 65 7.14% - Pre 65
Rate to which the cost trend rate is assumed to decline (the ultimate trend)	4.50%	4.50%
Year that the rate reaches the ultimate rate	2030	2030

**ST. OLAF COLLEGE**

**NOTES TO FINANCIAL STATEMENTS**  
As of and for the Years Ended May 31, 2014 and 2013

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**NOTE 12 - RETIREMENT PLANS AND POSTRETIREMENT BENEFIT PLAN (CONTINUED)**

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During the year ending May 31, 2015, the College expects to contribute approximately \$265,000 in benefit payments for the postretirement medical plan, which includes the liability for post-65 retiree VEBA and the present value of the projected future liability for the pre-65 retiree health plan. The College also expects to contribute approximately \$706,000 to the VEBA for current employees during the year ending May 31, 2015.

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

2015	\$	265,000
2016		261,000
2017		248,000
2018		211,000
2019		209,000
2020 - 2024		875,000

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

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**NOTE 13 - ASSET RETIREMENT OBLIGATIONS**

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The College owns certain buildings that contain encapsulated asbestos material and as such records a liability for the reasonably estimated fair value of the conditional asset retirement obligation.

The following shows the activity in the College's asset retirement obligation liability at May 31, 2014 and 2013:

	<u>2014</u>	<u>2013</u>
Balance at beginning of the year	\$ 2,376,379	\$ 2,443,581
Abatement costs	(227,635)	(324,605)
Accretion expense	118,819	122,179
Adjustments to estimates	<u>16,390</u>	<u>135,224</u>
Balance at end of the year (Note 10)	<u>\$ 2,283,953</u>	<u>\$ 2,376,379</u>

**ST. OLAF COLLEGE**

NOTES TO FINANCIAL STATEMENTS  
As of and for the Years Ended May 31, 2014 and 2013

**NOTE 14 - LONG-TERM DEBT**

Long-term debt at May 31, 2014 and 2013 consisted of the following:

	Interest	Principal Payment	Year of Maturity	Outstanding Balance	
				2014	2013
Minnesota Higher Education Facility Authority (MHEFA)					
Variable rate demand revenue bonds, Series Five-M2, issued to refinance Series 1992 bonds	Variable (daily reset) rate 0.061% average 0.09% at 5/31/14	None required until maturity	2021	\$ 8,750,000	\$ 8,750,000
Revenue bonds, Series Six-O, issued to finance new construction and advance refunding	Bonds bear rates from 4.00% to 5.00%	Annual payments range from \$1,410,000 to \$2,605,000	2033	38,060,000	39,410,000
Revenue bonds, Series Seven-F, issued to refinance variable debt	Bonds bear rates from 1.30% to 5.00%	Annual payments range from \$1,210,000 to \$2,345,000	2031	29,050,000	30,210,000
Principal outstanding on bonds				75,860,000	78,370,000
Premium on Series Six-O Revenue Bonds				575,013	606,377
Premium on Series Seven-F Revenue Bonds				1,305,851	1,385,802
Total Long-Term Debt				<u>\$ 77,740,864</u>	<u>\$ 80,362,179</u>

MHEFA Variable Rate Demand Revenue Bonds, Series Five-M2 are secured by (a) during the variable rate period, an unsecured standby letter of credit which expires on July 10, 2019, which is subject to certain covenants; (b) a pledge of amounts payable by the College under the loan agreement; and (c) money and investments held by the trustee under the indenture. The College incurs an effective letter of credit fee of 59.8 basis points on the unsecured standby letter of credit amount outstanding, and a remarketing fee equal to 12.5 basis points. See Note 18 for information on the interest rate swap agreement applicable to this issue.

MHEFA Revenue Bonds Series Six-O and Seven-F are secured by a pledge of loan repayment from the College and a reserve account and require that certain covenants be maintained.

The College maintains short-term investments and U.S. government securities held by a trustee for retirement of indebtedness that totaled \$5,750,566 and \$5,753,767 as of May 31, 2014 and 2013, respectively. These funds are intended to satisfy the reserve requirements of the Series Six-O issue and Series Seven-F issue.

**ST. OLAF COLLEGE**

**NOTES TO FINANCIAL STATEMENTS**  
As of and for the Years Ended May 31, 2014 and 2013

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**NOTE 14 - LONG-TERM DEBT (CONTINUED)**

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

Year Ending May 31:		
2015	\$	2,620,000
2016		2,745,000
2017		2,875,000
2018		3,005,000
2019		3,135,000
Thereafter		<u>61,480,000</u>
Total	\$	<u>75,860,000</u>

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**NOTE 15 - SHORT-TERM CREDIT ARRANGEMENT**

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The College has an unsecured \$5,000,000 line of credit through Wells Fargo Bank. Borrowings under this line of credit bear interest at an annual rate of 50 basis points below the Bank's base (prime) rate. Interest is payable on the last day of each month. Principal, and any unpaid interest, is due on February 28, 2015. In addition, the agreement requires the College to comply with certain financial covenants. At May 31, 2014 and 2013, there were no outstanding borrowings under this arrangement.

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**NOTE 16 - EXPENSES BY OBJECT**

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Expenses reported by function on the statement of activities and change in net assets are summarized below by object for the years ended May 31, 2014 and 2013:

	<u>2014</u>	<u>2013</u>
Compensation	\$ 64,292,779	\$ 63,508,646
Depreciation, amortization, and accretion	12,208,558	11,846,702
General operating expenses	9,381,622	9,518,425
Food services	8,182,213	8,184,958
Travel and meals	7,487,138	7,921,884
Contract, professional services, insurance, and taxes	7,000,651	6,321,941
Facilities - repairs, maintenance, utilities, fuel	5,798,099	5,433,757
Interest	<u>3,076,331</u>	<u>3,181,876</u>
Total	<u>\$ 117,427,391</u>	<u>\$ 115,918,189</u>

ST. OLAF COLLEGE

NOTES TO FINANCIAL STATEMENTS  
As of and for the Years Ended May 31, 2014 and 2013

**NOTE 17 - DEFERRED GIFT (SPLIT-INTEREST) AGREEMENTS**

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

When a gift is received under one of these arrangements, it is split into the amount representing the actuarial present value of future distributions back to the donor and the remaining gift value to be retained for the benefit of the College or third-party beneficiaries. The actuarial liability is adjusted annually using actuarial tables appropriate for the type of arrangement, number of lives covered and age and gender characteristics of the beneficiary. The College used historical discount rates ranging from 1.2% to 11.6% for the years ended May 31, 2014 and 2013 in making the actuarial and gift calculations. In some cases, there can be a time delay in the recording of the asset because of the time needed for discovery, verification of the College's rights, and the determination of the valuation of future payments.

Information pertaining to the College's deferred gift agreements for the years ended May 31, 2014 and 2013 is as follows:

	<u>2014</u>	<u>2013</u>
Cash and investments	\$ 34,880,739	\$ 32,751,274
Interfund receivable	86,584	65,709
Beneficial interest in trusts held by others, fair value	1,722,106	1,615,072
Beneficial interest in trusts held by others, cost	491,350	491,350
Deposits held in trust for others	(1,277,495)	(1,153,737)
Annuities payable	<u>(14,197,682)</u>	<u>(13,960,913)</u>
	<u>\$ 21,705,602</u>	<u>\$ 19,808,755</u>
Net Assets		
Unrestricted	\$ 3,638,809	\$ 3,384,879
Temporarily restricted	1,816,881	1,638,392
Permanently restricted	<u>16,249,912</u>	<u>14,785,484</u>
	<u>\$ 21,705,602</u>	<u>\$ 19,808,755</u>



## ST. OLAF COLLEGE

### NOTES TO FINANCIAL STATEMENTS As of and for the Years Ended May 31, 2014 and 2013

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#### NOTE 18 - DERIVATIVES

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

The College entered into an interest rate exchange agreement (swap) in 2002 on the Series Five-M2 bonds. The swap will mature on October 1, 2020. The notional value of the swap was originally set at \$13,420,000, with a fixed interest rate of 4.38%. The notional value of the swap decreases each year to reflect the original amortization schedule of the Series 1992 bonds. As of May 31, 2014, the notional value of the swap was \$6,520,000. Under the agreement, each month the College either pays additional interest or receives an interest credit depending on the relationship between the variable one month LIBOR rate and the fixed rate. The College recorded a gain of \$252,104 and \$300,683 relating to the change in notional value of the agreement for the years ended May 31, 2014 and 2013, respectively. In fiscal years 2014 and 2013 respectively, the College paid \$314,923 and \$293,606 under the swap agreement. The gain relating to the change in notional value and the losses for payments made under the swap agreement are reflected as a non-operating activity within the interest rate swap gain (loss), net of settlements line on the statement of activities. At May 31, 2014 and 2013, the College has recorded an interest rate exchange liability of \$797,084 and \$1,049,188, respectively, in the statements of financial position.

The College uses futures and forward contracts to reduce or increase the endowments exposure to the financial markets. The aggregate notional value of the derivative contracts was \$3,032,182 at May 31, 2014. The contracts aggregate fair market value was \$(9,837) on May 31, 2014, and was included as an investment on the statement of financial position. The income on the contracts realized during the year is represented in gains or losses on investments in the statement of activities. For the year ended May 31, 2014, the College reported a realized gain of \$208,095. There were no derivative contracts outstanding at May 31, 2013.

## ST. OLAF COLLEGE

### NOTES TO FINANCIAL STATEMENTS As of and for the Years Ended May 31, 2014 and 2013

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#### **NOTE 19 - CONCENTRATIONS**

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Financial instruments that potentially subject the College to concentrations of credit risk consist principally of cash and cash equivalents, investments, accounts receivable, notes receivable and derivatives. Cash, cash equivalents and investment holdings are concentrated in a limited number of financial institutions and amounts in excess of FDIC and similar coverage are subject to the usual risks of balances in excess of those limits. Investments are diversified in order to reduce credit risk. Student loans, student receivables and other receivables are due from a variety of sources concentrated primarily in the Midwestern United States. In addition, the College's students receive a substantial amount of support from state and federal student financial assistance programs which are subject to audit by governmental agencies. A significant reduction in the level of this support, if this were to occur, could have an adverse effect on the College's programs and activities.

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

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#### **NOTE 20 - RELATED PARTY TRANSACTIONS**

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The College has various signed contracts with a construction company owned by a former member of the Board of Regents. The contracts were approved unanimously by the Board of Regents in accordance with the College's conflict of interest policy. Amounts payable to the construction company totaled approximately \$334,000 and \$472,000 as of May 31, 2014 and 2013, respectively.

As of May 31, 2014 and 2013, approximately \$3,051,000 and \$2,842,000, respectively, of contributions receivable were due from members of the Board of Regents. Contribution revenue from members of the Board of Regents totaled approximately \$6,268,000 and \$3,031,000 for the years ending May 31, 2014 and 2013, respectively. Board members are not compensated.

The College has invested in various private equity investments, in which members of the Investment Committee and Board of Regents have an affiliation. The individuals fully disclosed their interests in these investments when they were discussed, did not receive a commission or referral fee, and did not participate in the voting regarding these investments. As of May 31, 2014 and 2013, the College's total value of these funds was approximately \$19,949,000 and \$16,327,000, respectively. The College's cumulative contributions, net of distributions, to these investments as of May 31, 2014 and 2013 totaled approximately \$14,818,000 and \$15,466,000, respectively. The College's outstanding future commitments to these investments totaled approximately \$5,993,000 and \$4,666,000 at May 31, 2014 and 2013, respectively.

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#### **NOTE 21 - SUBSEQUENT EVENTS**

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The College has evaluated subsequent events through October 29, 2014, which is the date that the financial statements were issued.

ST. OLAF COLLEGE

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
For the Year Ended May 31, 2014

Federal Grantor/ Pass Through Agency/ Program or Cluster Title	Federal CFDA Number	Pass-through Entity Identification Number	Grant Number	Federal Expenditures
<b>STUDENT FINANCIAL ASSISTANCE CLUSTER</b>				
U.S. Department of Education direct programs				
Federal Pell grant program	84.063		P063P131690	\$ 1,899,383
Teacher education assistance for college and higher education grants	84.379		P379T141690	3,760
Federal supplemental educational opportunity grant program	84.007		P007A132203	337,872
Federal work-study program	84.033		P033A132203	364,610
Federal Perkins loan program	84.038		P038A132203	7,353,232
Federal Perkins loan cancellations	84.038		P038A132203	54,936
Federal direct loan program	84.268		P268K141690	12,194,967
<b>Total U.S. Department of Education</b>				<u>22,208,760</u>
U.S. Department of Health and Human Services direct program				
Nursing student loan program	93.364		E4CHP26157	79,743
<b>Total Student Financial Assistance Cluster</b>				<u>22,288,503</u>
<b>RESEARCH AND DEVELOPMENT CLUSTER</b>				
National Science Foundation direct programs				
ARRA - IOS: Collaborative research: The neurobiology of dopamine in the leech and the modulation of locomotor behaviors	47.082		IOS-0924119	230
ARRA - OPP: Collaborative research: LISSARD: Lake and ice stream subglacial access research drilling, Integrative study of marine ice sheet stability and subglacial life habitats in West Antarctica	47.082		ANT-0838855	71,180
ARRA - OPP: Collaborative research: The robotic access to grounding-zones for exploration and science (RAGES), integrative study of marine ice sheet stability and subglacial life habitats in West Antarctica	47.082		ANT-0838854	79,310
REU Site: From genes to ecosystems: Environmental science in a changing world	47.074		DBI-1004817	11,672
Collaborative Research: The Polaris Project II: Amplifying the impact	47.078		ARC-1044180	44,062
RUI/Membrane dynamics during cortical development in tetrahymena thermophila	47.074		MCB-1244415	57,364
EMSW21-MCTP: eCIR: The expanded Center for Interdisciplinary Research	47.049		DMS-1045015	232,196
Physically decoupling neural recording sites in behaving animals	47.074		IOS-1146243	57,142
S-Stem: Providing support structures for chemistry majors	47.076		DUE-0806792	28,806
TUES Type 2: Collaborative research: CS in parallel: Scaling an incremental modular approach to injecting parallel computing throughout CS curricula	47.076		DUE-1226172	69,699
DRK-12: Assessing Secondary Teachers' Algebraic Habits of Mind	47.076		DRL-1222340	26,807
Subtotal direct programs				<u>678,468</u>
National Science Foundation passed through University of Minnesota				
LSAMP-Phase 2 North Star Stem Alliance	47.076	Unknown	H002726311	10,393
<b>Total National Science Foundation</b>				<u>688,861</u>
U.S. Department of Health and Human Services direct programs				
DNA and RNA stability in glycine betaine, TMAO, and urea solutions: correlating small molecule interactions with nucleic acid surfaces	93.859		1R15GM093331-01	19,264
AREA: Palladium & Nickel Catalyzed C-H Activation/C-C Bond Formation	93.859		1R15GM107892-01	9,896
<b>Total U.S. Department of Health and Human Services</b>				<u>29,160</u>
National Institute of Justice direct program				
The analysis of trace forensic evidence using isotope ratio mass spectrometry: Differentiating fibers	16.560		2012-DN-BX-K020	33,095
<b>Total National Institute of Justice</b>				<u>33,095</u>
National Aeronautics and Space Administration				
Pilot Project-Himalayas-Terrestrial Planet Geologic History Investigators passed through The SETI Institute	43.000	Unknown	NNX10AM96A	14,072
<b>Total National Aeronautics and Space Administration</b>				<u>14,072</u>
Office of Personnel Management direct program				
IPA: John Schade, NSF Program Officer, 13-14	27.011		DEB-1359533	87,423
<b>Total Office of Personnel Management</b>				<u>87,423</u>
<b>Total Research and Development Cluster</b>				<u>852,611</u>

ST. OLAF COLLEGE

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
For the Year Ended May 31, 2014

Federal Grantor/ Pass Through Agency/ Program or Cluster Title	Federal CFDA Number	Pass-through Entity Identification Number	Grant Number	Federal Expenditures
<b>TRIO PROGRAMS CLUSTER</b>				
U.S. Department of Education direct programs				
Student support services program	84.042A		P042A100349	\$ 240,826
Talent search program	84.044A		P044A120152	249,169
Upward bound program	84.047A		P047A120087	394,256
McNair scholars' program	84.217A		P217A120052	219,243
<b>Total TRIO Programs Cluster</b>				<u>1,103,494</u>
<b>OTHER PROGRAMS</b>				
U.S. Department of Commerce direct program				
NIST: FY 2014 Summer Undergraduate Research Fellowship (SURF) - CNST	11.609		70NANB14H174	4,330
<b>Total U.S. Department of Commerce - Other Programs</b>				<u>4,330</u>
U.S. Department of Agriculture passed through				
Minnesota Department of Children, Families and Learning				
Summer Food - Camp	10.559	Unknown	N/A	9,876
<b>Total U.S. Department of Agriculture - Other Programs</b>				<u>9,876</u>
<b>TOTAL EXPENDITURES OF FEDERAL AWARDS</b>				<u>\$ 24,258,814</u>

**ST. OLAF COLLEGE**

**NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
For the Year Ended May 31, 2014

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**NOTE 1 - BASIS OF PRESENTATION**

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The accompanying schedule of expenditures of federal awards ("the Schedule") includes federal grant activity of St. Olaf College under programs of the federal government for the year ended May 31, 2014. The information in this Schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Because this Schedule presents only a selected portion of the operations of St. Olaf College, it is not intended to and does not present the financial position, changes in net assets or cash flows of St. Olaf College.

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**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

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Expenditures reported in the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in OMB Circular A-21, *Cost Principles for Education Institutions*, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

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**NOTE 3 - PASS-THROUGH ENTITY IDENTIFICATION NUMBERS**

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

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**NOTE 4 - SUBRECIPIENTS**

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

<u>Program Title</u>	<u>Federal CFDA Number</u>	<u>Amount Provided to Subrecipients</u>
ARRA - OPP: Collaborative research: The Robotic access to grounding-zones for exploration and science (RAGES), integrative study of marine ice sheet stability and subglacial life habitats in West Antarctica	47.082	<u>\$ 9,000</u>

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER  
MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH  
GOVERNMENT AUDITING STANDARDS

Independent Auditors' Report

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of St. Olaf College, which comprise the statement of financial position as of May 31, 2014, and the related statements of activities and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated October 29, 2014.

***Internal Control Over Financial Reporting***

In planning and performing our audit of the financial statements, we considered St. Olaf College's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of St. Olaf College's internal control. Accordingly, we do not express an opinion on the effectiveness of St. Olaf College's internal control.

*A deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. *A material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. *A significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

### ***Compliance and Other Matters***

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

### ***Purpose of this Report***

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

*Baker Tilly Victor Krause, LLP*

Minneapolis, Minnesota  
October 29, 2014

REPORT ON COMPLIANCE FOR THE MAJOR FEDERAL PROGRAM AND ON INTERNAL CONTROL OVER  
COMPLIANCE REQUIRED BY OMB CIRCULAR A-133

Independent Auditors' Report

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

***Report on Compliance for the Major Federal Program***

We have audited St. Olaf College's compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on St. Olaf College's major federal program for the year ended May 31, 2014. St. Olaf College's major federal program is identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

***Management's Responsibility***

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal program.

***Auditors' Responsibility***

Our responsibility is to express an opinion on compliance for St. Olaf College's major federal program based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about St. Olaf College's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for the major federal program. However, our audit does not provide a legal determination of St. Olaf College's compliance.



### ***Opinion on the Major Federal Program***

In our opinion, St. Olaf College complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended May 31, 2014.

### ***Report on Internal Control Over Compliance***

Management of St. Olaf College is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered St. Olaf College's internal control over compliance with the types of requirements that could have a direct and material effect on the major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for the major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of St. Olaf College's internal control over compliance.

*A deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

*Baker Tilly Veitch Krause, LLP*

Minneapolis, Minnesota  
October 29, 2014

ST. OLAF COLLEGE

SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
For the Year Ended May 31, 2014

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**SECTION I - SUMMARY OF INDEPENDENT AUDITORS' RESULTS**

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**Financial Statements**

Type of auditors' report issued:	Unmodified
Internal control over financial reporting:	
Material weakness(es) identified?	No
Significant deficiency(ies) identified?	None reported
Noncompliance material to financial statements noted?	No

**Federal Awards**

Internal control over major programs:	
Material weakness(es) identified?	No
Significant deficiency(ies) identified?	None reported
Type of auditors' report issued on compliance for major programs?	Unmodified
Any audit findings disclosed that are required to be reported in accordance with section 510(a) of OMB Circular A-133?	No
Identification of major programs:	

CFDA Number	Name of Federal Program or Cluster
Various	Student Financial Assistance Cluster

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

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**SECTION II - FINANCIAL STATEMENT FINDINGS**

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*None noted.*

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**SECTION III - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS**

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*None noted.*

**ST. OLAF COLLEGE**

**SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS**  
For the Year Ended May 31, 2014

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The previous audit of the Federal Award Programs was for the year ended May 31, 2013. There were no federal award findings or questioned costs reported in that audit.