

ST. OLAF COLLEGE
Northfield, Minnesota

Audit Report on Financial Statements
and Federal Awards

As of and for the Year Ended May 31, 2015

ST. OLAF COLLEGE

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ST. OLAF COLLEGE

HIGHLIGHTS (Unaudited)
For the Years Ended May 31, 2015 and 2014

FISCAL YEAR ENDING: MAY 31 ACADEMIC YEAR	FY 2015 2014-15	FY 2014 2013-14
ENROLLMENT, RETENTION, GRADUATION		
Undergraduate FTE (Fall)	3,004	3,096
Undergraduate Headcount (Fall)	3,034	3,125
% Men / Women	42 / 58	44 / 56
% Who Are In-State / Out-of-State	48 / 52	47 / 53
% White / Domestic Minority / International	77 / 16 / 7	79 / 15 / 6
1st Year to Sophomore	92.7%	93.5%
Sophomore to Junior	88.9%	88.5%
Junior to Senior	87.7%	88.9%
Four-Year Graduation Rate	85.2%	83.8%
Five-Year Graduation Rate	86.9%	88.4%
Number of Seniors (May)	672	785
Number of Declared Majors	908	1,044
Top five Majors		
1st	Biology 11.4%	Biology 10.9%
2nd	Psychology 8.0%	Math 8.8%
3rd	Economics 7.5%	Economics 8.6%
4th	Math 7.5%	Psychology 7.2%
5th	English 6.6%	Chemistry 6.4%
Post-graduation Activities	Class of 2014	Class of 2013
Responses / Response Rate	690 / 91%	630 / 91%
Activities:		
Working (Full or Part-Time) / percent	416 / 60%	391 / 62%
Service Programs / percent	80 / 12%	69 / 11%
Furthering Education / percent	173 / 25%	151 / 24%
Other Activities / percent	21 / 3%	19 / 3%
NEW STUDENT ADMISSIONS (Fall)		
Applications (1st Year / Transfer)	4875 / 141	4011 / 130
Acceptances (1st Year / Transfer)	2500 / 68	2374 / 37
Acceptance Rate (1st Year / Transfer)	51.3% / 48.2%	59.2% / 28.5%
Matriculates (1st Year / Transfer)	765 / 26	752 / 19
Yield Rate (1st Year / Transfer)	30.6% / 38.2%	31.7% / 51.4%
% 1st Year Men/Women	41 / 59	42 / 58
% 1st Year In-State/Out-of-State	44 / 56	41 / 59
% 1st Year 1st Generation to College	17	15
Median ACT - 1st Year	29	29
Median SAT - 1st Year	1280	1310
FACULTY AND STAFF EMPLOYED (Fall)		
Faculty / Staff / Total - FTE	286 / 387 / 673	278 / 381 / 659
Faculty / Staff / Total - Full-time Headcount	253 / 339 / 592	244 / 328 / 572
Faculty / Staff / Total - Part-time Headcount	100 / 144 / 244	103 / 158 / 261
TUITION AND FEES PER STUDENT		
Tuition	\$ 41,700	\$ 40,700
Room & Board	9,500	9,260
Total Comprehensive Fee	<u>\$ 51,200</u>	<u>\$ 49,960</u>
FINANCIAL AID - SCHOLARSHIPS & GRANTS		
Federal Grants	\$ 2,406,966	\$ 2,361,326
State Grants	1,610,272	1,673,532
Institutional Scholarships & Grants	59,076,476	57,272,500
Outside Scholarships & Grant	2,675,406	2,766,042
Total	<u>\$ 65,769,120</u>	<u>\$ 64,073,400</u>
Total Per Student FTE	\$ 21,894	\$ 20,696
ENDOWMENT		
Market Value at Fiscal Year End	\$ 455,506,474	\$ 435,935,124
Market Value per FTE Student	\$ 151,633	\$ 140,806
Total Return on Investments	3.8%	12.9%

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, 2015 and 2014, 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, 2015 and 2014, 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 7, 2015 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.

Baker Tilly Veitch Krause, LLP

Minneapolis, Minnesota
October 7, 2015

ST. OLAF COLLEGE

STATEMENTS OF FINANCIAL POSITION

As of May 31, 2015 and 2014

ASSETS

	<u>2015</u>	<u>2014</u>
Cash and cash equivalents	\$ 22,125,790	\$ 20,911,409
Receivables		
Accounts, net (Note 4)	1,652,843	1,253,139
Contributions, net (Note 5)	9,254,166	6,521,029
Student loans, net (Note 6)	6,550,927	6,928,514
Investments (Note 7)	482,372,068	467,174,402
Other assets	1,902,286	2,402,967
Deposits held by trustee (Note 7)	5,747,970	5,750,566
Beneficial interest in trusts held by others, held at fair value (Note 7)	1,718,347	1,722,106
Beneficial interest in trusts held by others, held at cost (Note 1)	491,350	491,350
Property, plant and equipment, net (Note 9)	<u>225,414,586</u>	<u>225,042,890</u>
TOTAL ASSETS	<u>\$ 757,230,333</u>	<u>\$ 738,198,372</u>

LIABILITIES AND NET ASSETS

LIABILITIES

Accounts payable	\$ 5,621,542	\$ 4,676,979
Accrued and other liabilities (Note 10)	14,961,073	14,969,698
Deferred revenue	3,049,447	3,118,600
Annuities payable (Note 17)	14,572,916	14,197,682
Interest rate exchange liability (Notes 7 and 18)	608,920	797,084
Long-term debt (Note 14)	75,009,550	77,740,864
U.S. government grants refundable	6,190,067	6,240,551
Deposits held in trust for others	<u>3,026,630</u>	<u>2,848,009</u>
Total Liabilities	<u>123,040,145</u>	<u>124,589,467</u>

NET ASSETS

Unrestricted (Note 2)	270,065,026	266,741,950
Temporarily restricted (Note 2)	174,839,933	166,523,611
Permanently restricted (Note 2)	<u>189,285,229</u>	<u>180,343,344</u>
Total Net Assets	<u>634,190,188</u>	<u>613,608,905</u>

TOTAL LIABILITIES AND NET ASSETS	<u>\$ 757,230,333</u>	<u>\$ 738,198,372</u>
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ST. OLAF COLLEGE

STATEMENT OF ACTIVITIES AND CHANGE IN NET ASSETS
For the Year Ended May 31, 2015

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
OPERATING REVENUES, GAINS AND OTHER SUPPORT				
Tuition	\$ 123,894,969			\$ 123,894,969
Less: Unfunded scholarships and grants	(53,103,607)			(53,103,607)
Funded scholarships and grants	<u>(6,927,914)</u>			<u>(6,927,914)</u>
Net tuition	63,863,448			63,863,448
Other tuition and fees	3,928,480			3,928,480
Government grants	2,859,790			2,859,790
Private gifts and grants	3,523,366	\$ 5,006,245		8,529,611
Long-term investment income and gains allocated for operations	5,058,968	8,964,914		14,023,882
Other sources	3,176,077	80,108		3,256,185
Investment income	221,215	36,859		258,074
Net losses on investments and capital assets	(4,942)	(500)		(5,442)
Capital gifts allocated		1,866,829		1,866,829
Auxiliary enterprises - sales and services	<u>28,472,926</u>			<u>28,472,926</u>
	111,099,328	15,954,455		127,053,783
Net assets released from restrictions (Notes 1 and 3)	<u>14,449,008</u>	<u>(14,449,008)</u>		
Total Operating Revenues, Gains and Other Support	<u>125,548,336</u>	<u>1,505,447</u>		<u>127,053,783</u>
OPERATING EXPENSES				
Program expenses				
Instruction	50,833,644			50,833,644
Research	1,880,352			1,880,352
Public service	557,105			557,105
Academic support	12,698,434			12,698,434
Student services	17,152,493			17,152,493
Auxiliary enterprises	19,620,801			19,620,801
Support expenses				
Institutional support	10,322,974			10,322,974
Fundraising	<u>4,392,005</u>			<u>4,392,005</u>
Total Operating Expenses (Note 16)	<u>117,457,808</u>			<u>117,457,808</u>
Change in Net Assets from Operating Activities	<u>8,090,528</u>	<u>1,505,447</u>		<u>9,595,975</u>
NONOPERATING ACTIVITIES				
Long-term investment activities				
Investment income	675,914	1,956,897	\$ 47,178	2,679,989
Net gains on investments	<u>3,512,831</u>	<u>10,184,869</u>	<u>245,455</u>	<u>13,943,155</u>
Total long-term investment income	4,188,745	12,141,766	292,633	16,623,144
Less: Long-term investment income and gains allocated for operations	<u>(5,058,968)</u>	<u>(8,964,914)</u>		<u>(14,023,882)</u>
	(870,223)	3,176,852	292,633	2,599,262
Student loan income net of expenses	(8,345)		49,296	40,951
Capital giving activities - gifts and grants	503,167	231	9,574,337	10,077,735
Deferred giving activities - gifts	399,614		70,685	470,299
Capital gifts allocated to operations		(1,866,829)		(1,866,829)
Interest rate swap loss, net of settlements	(67,117)			(67,117)
Adjustment to actuarial liability for annuities payable	(218,623)	27,225	25,729	(165,669)
Adjustment to prior service cost and actuarial liability for retiree health plan	<u>(103,324)</u>			<u>(103,324)</u>
	(364,851)	1,337,479	10,012,680	10,985,308
Reclassification of prior year net assets	<u>(4,402,601)</u>	<u>5,473,396</u>	<u>(1,070,795)</u>	
Change in Net Assets from Nonoperating Activities	<u>(4,767,452)</u>	<u>6,810,875</u>	<u>8,941,885</u>	<u>10,985,308</u>
Change in Net Assets	3,323,076	8,316,322	8,941,885	20,581,283
Net Assets - Beginning of Year	<u>266,741,950</u>	<u>166,523,611</u>	<u>180,343,344</u>	<u>613,608,905</u>
NET ASSETS - END OF YEAR	<u>\$ 270,065,026</u>	<u>\$ 174,839,933</u>	<u>\$ 189,285,229</u>	<u>\$ 634,190,188</u>

ST. OLAF COLLEGE

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

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
OPERATING REVENUES, GAINS AND OTHER SUPPORT				
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		128,335,964
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
OPERATING EXPENSES				
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
Change in Net Assets from Operating Activities	9,571,325	1,337,248		10,908,573
NONOPERATING ACTIVITIES				
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	
Change in Net Assets from Nonoperating Activities	16,852,644	17,251,526	16,314,503	50,418,673
Change in Net Assets	26,423,969	18,588,774	16,314,503	61,327,246
Net Assets - Beginning of Year	240,317,981	147,934,837	164,028,841	552,281,659
NET ASSETS - END OF YEAR	\$ 266,741,950	\$ 166,523,611	\$ 180,343,344	\$ 613,608,905

ST. OLAF COLLEGE

STATEMENTS OF CASH FLOWS
For the Years Ended May 31, 2015 and 2014

	2015	2014
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ 20,581,283	\$ 61,327,246
Adjustments to reconcile change in net assets to net cash flows from operating activities		
Depreciation, amortization and accretion expense	12,224,935	12,208,558
Net gains on investments	(14,501,374)	(48,680,600)
Change in allowance for uncollectible student loans		(80,000)
Gains on interest rate exchange agreement	(188,164)	(252,104)
Loss on dispositions of property, plant and equipment	9,684	1,129,570
Actuarial adjustment of annuities payable	1,540,994	1,437,121
Adjustment to prior service cost and actuarial liability for retiree health plan	103,324	56,276
Gifts of property, plant and equipment	(309,675)	(247,345)
Change in:		
Accounts receivable	(399,704)	53,895
Contributions receivable for operations	(939,758)	(526,968)
Other assets	704,936	4,100
Funds held in trust by others	3,759	(107,034)
Change in:		
Accounts payable	816,724	505,886
Accrued and other liabilities	(226,147)	(830,813)
Deferred revenue	(69,153)	(744,219)
Change in deposits held in trust for others	178,621	139,514
Gifts and grants received for long-term investment and plant, net	(10,548,034)	(13,693,803)
Nonoperating investment income	(2,679,989)	(3,413,267)
Net Cash Flows from Operating Activities	<u>6,302,262</u>	<u>8,286,013</u>
CASH FLOWS USED BY INVESTING ACTIVITIES		
Purchases of property, plant and equipment	(12,532,170)	(14,208,292)
Purchases of investments	(117,823,913)	(76,554,502)
Proceeds from sales of investments	117,127,621	68,046,021
Proceeds from sale of property, plant and equipment	162,000	
Nonoperating investment income	2,679,989	3,413,267
Disbursements of loans to students	(1,090,792)	(966,351)
Repayments of loans by students	1,468,379	1,359,261
Net Cash Flows Used by Investing Activities	<u>(10,008,886)</u>	<u>(18,910,596)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Principal repayments of indebtedness	(2,620,000)	(2,510,000)
Gifts and grants received for long-term investment and plant, net	10,548,034	13,693,803
Change in nonoperating contributions receivable	(1,793,379)	(853,579)
Change in U.S. government grants refundable, net	(50,484)	(319,164)
Increase in annuities payable from new gifts	470,299	374,183
Payments to annuitants	(1,636,061)	(1,574,535)
Change in trustee account for refinanced bonds, net	2,596	3,201
Net Cash Flows from Financing Activities	<u>4,921,005</u>	<u>8,813,909</u>
Net Change in Cash and Cash Equivalents	1,214,381	(1,810,674)
CASH AND CASH EQUIVALENTS - Beginning of Year	<u>20,911,409</u>	<u>22,722,083</u>
CASH AND CASH EQUIVALENTS - END OF YEAR	<u>\$ 22,125,790</u>	<u>\$ 20,911,409</u>
Supplemental Disclosure:		
Interest paid	\$ 2,987,378	\$ 3,093,117
Property, plant and equipment acquired through accounts payable	1,121,373	993,533

ST. OLAF COLLEGE

NOTES TO FINANCIAL STATEMENTS As of and for the Years Ended May 31, 2015 and 2014

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES

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

Basis of Financial Statements - The accounting policies of the College reflect practices common to universities and colleges and the financial statements 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, 2015 and 2014

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Contribution Revenue - Contributions are recognized as revenues when the donor's commitments are received, as increases in unrestricted net assets unless 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, 2015 and 2014

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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, 2015 and 2014.

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, 2015 and 2014

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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, 2015 and 2014. The College's tax returns are subject to review and examination by federal and state authorities. The tax returns for fiscal years 2012 and thereafter are open to examination by federal and state authorities.

ST. OLAF COLLEGE

NOTES TO FINANCIAL STATEMENTS
As of and for the Years Ended May 31, 2015 and 2014

NOTE 2 - RESTRICTIONS AND LIMITATIONS ON NET ASSET BALANCES

At May 31, 2015 and 2014, the College's unrestricted net assets were allocated as follows:

	2015	2014
Operations	\$ 92,511,659	\$ 90,942,562
Endowment funds:		
Donor restricted endowment funds (underwater)	(56,094)	(52,354)
Board designated endowment	172,852,216	171,208,168
Total endowment funds	172,796,122	171,155,814
Deferred gifts	3,765,434	3,638,809
Student loan programs - matching federal government	991,811	1,004,765
	\$ 270,065,026	\$ 266,741,950

Temporarily restricted net assets consist of the following at May 31, 2015 and 2014:

Gifts and other unexpended revenues and gains available for:		
Scholarships, instruction and other support	\$ 7,320,032	\$ 7,084,551
Unamortized plant gifts	51,871,083	53,255,042
Acquisition of buildings and equipment	2,062,871	1,202,496
	61,253,986	61,542,089
Endowment funds:		
Endowment funds temporarily restricted by donor	17,530,360	12,128,927
Earnings not yet appropriated for spending	94,241,481	91,035,714
Total endowment funds	111,771,841	103,164,641
Deferred gifts	1,814,106	1,816,881
	\$ 174,839,933	\$ 166,523,611

Permanently restricted net assets consist of the following at May 31, 2015 and 2014:

Endowment funds	\$ 170,938,511	\$ 161,614,669
Deferred gifts	15,802,583	16,249,912
Student loan funds	2,544,135	2,478,763
	\$ 189,285,229	\$ 180,343,344

Total net assets consist of the following at May 31, 2015 and 2014:

Operations	\$ 153,765,645	\$ 152,484,651
Endowment funds (Note 8)	455,506,474	435,935,124
Deferred gifts (Note 17)	21,382,123	21,705,602
Student loan funds	3,535,946	3,483,528
	\$ 634,190,188	\$ 613,608,905

ST. OLAF COLLEGE

NOTES TO FINANCIAL STATEMENTS
As of and for the Years Ended May 31, 2015 and 2014

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, 2015 and 2014:

	2015	2014
Amortization of contributions expended for long-lived assets	\$ 1,866,829	\$ 1,876,288
Scholarships, instruction and other departmental support	12,582,179	10,965,956
	\$ 14,449,008	\$ 12,842,244

NOTE 4 - ACCOUNTS RECEIVABLE

Accounts receivable, and the related allowance for doubtful accounts, was as follows at May 31, 2015 and 2014:

	2015			2014		
	Receivable	Allowance	Net	Receivable	Allowance	Net
Student accounts	\$ 393,924	\$ 175,000	\$ 218,924	\$ 386,470	\$ 160,000	\$ 226,470
Other accounts	2,080,799	646,880	1,433,919	1,615,549	588,880	1,026,669
Total accounts receivable	\$ 2,474,723	\$ 821,880	\$ 1,652,843	\$ 2,002,019	\$ 748,880	\$ 1,253,139

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, 2015 and 2014:

	2015	2014
Unconditional promises expected to be collected in:		
Less than one year	\$ 4,912,877	\$ 3,912,027
One to five years	5,142,189	4,679,585
Over five years	1,513,940	15,025
Gross unconditional promises to give	11,569,006	8,606,637
Less: Unamortized discount	(323,861)	(103,795)
Allowance for uncollectible promises	(1,990,979)	(1,981,813)
	\$ 9,254,166	\$ 6,521,029

Contributions receivable due within one year are not discounted. Contributions receivable expected to be collected in more than one year have been discounted using historic rates, ranging from 1.00% to 6.00%. As of May 31, 2015, net contributions receivable consisted of \$12,302 for plant projects, \$7,264,532 for endowments, and \$1,977,332 for operations. 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.

ST. OLAF COLLEGE

NOTES TO FINANCIAL STATEMENTS
As of and for the Years Ended May 31, 2015 and 2014

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, 2015 and 2014, student loans receivable represented 0.87% and 0.94% of total assets, respectively.

At May 31, 2015 and 2014 student loans receivable consisted of the following:

	2015	2014
Federal government programs	\$ 5,990,040	\$ 6,347,154
Institutional programs	1,222,687	1,243,160
	7,212,727	7,590,314
Less allowance for doubtful accounts:		
Beginning of year	(661,800)	(741,800)
Decreases (increases) to allowance	(32,580)	6,031
Write-off recoveries	(2,082)	(27)
Write-offs	34,662	73,996
End of year	(661,800)	(661,800)
Student loans receivable, net	\$ 6,550,927	\$ 6,928,514

Funds advanced by the Federal government of \$6,341,401 and \$6,435,283 at May 31, 2015 and 2014, 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, 2015 and 2014, the past due and current amounts under student loan programs were as follows:

	2015	2014
Past due student loans receivable:		
0 - 240 days past due	\$ 189,971	\$ 275,273
240 days - 2 years past due	70,194	113,394
2 - 5 years past due	181,065	207,201
5+ years past due	222,821	255,481
Total past due	664,051	851,349
Current student loans receivable	6,548,676	6,738,965
Total student loans receivable, gross	\$ 7,212,727	\$ 7,590,314

The Federal Perkins Loan Program expired September 30, 2015. The Department of Education (ED) issued guidance in January 2015 (Dear Colleague Letter GEN-15-03) which addressed the grandfathering of Perkins loans for students who received loans prior to June 30, 2015. According to the guidance issued by ED, if these students meet certain conditions, they will still be able to receive Perkins loans until 2020 to allow them to "continue or complete their courses of study." However, Perkins loans may not be made to "new borrowers" for whom the first disbursement of a Federal Perkins loan will occur on or after October 1, 2015. Other issues, including the settlement of school revolving funds and outstanding loan portfolios, still need to be addressed. The College is monitoring this issue and is currently assessing the impact on its financial statements.

ST. OLAF COLLEGE

NOTES TO FINANCIAL STATEMENTS
As of and for the Years Ended May 31, 2015 and 2014

NOTE 7 - INVESTMENTS AND FAIR VALUE MEASUREMENTS

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 \$79,200,000 and \$82,200,000 at May 31, 2015 and 2014, 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, 2015 and 2014

NOTE 7 - INVESTMENTS AND FAIR VALUE MEASUREMENTS (CONTINUED)

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, 2015 and 2014

NOTE 7 - INVESTMENTS AND FAIR VALUE MEASUREMENTS (CONTINUED)

There have been no changes in the techniques and inputs used as of May 31, 2015 and 2014.

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, 2015 based upon the three-tier hierarchy:

	<u>Total</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
ASSETS				
Investments				
Cash and short-term investments	\$ 2,151,766	\$ 2,151,766		
Marketable securities				
Mutual funds				
Fixed income - domestic	32,445,561	32,445,561		
Fixed income - international	1,316,098	1,316,098		
Fixed income - global	8,598,791	8,598,791		
Equity funds - domestic	54,824,080	54,824,080		
Equity funds - international	63,799,432	63,799,432		
Real asset funds	17,514,833	17,514,833		
Stocks	27,057,430	27,057,430		
Bonds	799,134	799,134		
Alternative investments				
Hedge funds	93,315,524		\$ 44,381,175	\$ 48,934,349
Private equity funds	55,740,233			55,740,233
Global equity funds	54,040,438		54,040,438	
Global bond funds	21,602,168		21,602,168	
Real estate funds	17,938,032			17,938,032
Commodity funds	18,726,551			18,726,551
Treasury inflation-protected securities (TIPS)	8,294,803		8,294,803	
Real estate	2,440,153			2,440,153
Other investments	1,767,041			1,767,041
Total Investments	<u>482,372,068</u>	<u>208,507,125</u>	<u>128,318,584</u>	<u>145,546,359</u>
Deposits held by trustee	5,747,970	5,747,970		
Beneficial interest in trusts held by others	<u>1,718,347</u>			<u>1,718,347</u>
Total	<u>\$ 489,838,385</u>	<u>\$ 214,255,095</u>	<u>\$ 128,318,584</u>	<u>\$ 147,264,706</u>
LIABILITIES				
Interest rate exchange liability	<u>\$ 608,920</u>	<u>\$ -</u>	<u>\$ 608,920</u>	<u>\$ -</u>

ST. OLAF COLLEGE

NOTES TO FINANCIAL STATEMENTS
As of and for the Years Ended May 31, 2015 and 2014

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, 2014 based upon the three-tier hierarchy:

	<u>Total</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
ASSETS				
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>
LIABILITIES				
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, 2015 and 2014

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, 2015:

	Balances May 31, 2014	Net realized and unrealized gains (losses)	Purchases	Sales	Net transfers in (out) of Level 3	Balances May 31, 2015
Assets						
Alternative Investments						
Hedge funds	\$ 38,752,659	\$ 5,238,220	\$ 21,000,000	\$ (16,056,530)		\$ 48,934,349
Private equity funds	63,962,912	4,996,259	7,605,248	(20,824,186)		55,740,233
Real estate funds	19,086,649	2,583,647	2,457,407	(6,189,671)		17,938,032
Commodity funds	17,469,000	(1,491,704)	5,521,377	(2,772,122)		18,726,551
Real estate	2,176,761	(78,000)	444,900	(103,508)		2,440,153
Other investments	1,792,246	(25,205)				1,767,041
Beneficial interest in trusts held by others	<u>1,722,106</u>	<u>29,190</u>		<u>(32,949)</u>		<u>1,718,347</u>
Total	<u>\$ 144,962,333</u>	<u>\$ 11,252,407</u>	<u>\$ 37,028,932</u>	<u>\$ (45,978,966)</u>	<u>\$ -</u>	<u>\$ 147,264,706</u>

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, 2015. \$ (3,935,297)

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
Assets						
Alternative Investments						
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	<u>1,615,072</u>	<u>133,752</u>		<u>(26,718)</u>		<u>1,722,106</u>
Total	<u>\$ 128,894,772</u>	<u>\$ 18,191,151</u>	<u>\$ 20,419,574</u>	<u>\$ (17,682,341)</u>	<u>\$ (4,860,823)</u>	<u>\$ 144,962,333</u>

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

ST. OLAF COLLEGE

NOTES TO FINANCIAL STATEMENTS
As of and for the Years Ended May 31, 2015 and 2014

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, 2015:

Investment Type	Unfunded Commitments	Fair Value	Redemption Frequency	Redemption Notice Period	Estimated Remaining Life
Alternative Investments					
Hedge funds (a)	\$ -	\$ 93,315,524	Monthly to annual	30-180 days	N/A (a)
Private equity funds (b)	37,122,556	55,740,233	Not redeemable	N/A	1-15 years
Global equity funds (c)	-	54,040,438	10-45 days	10-45 days	N/A
Global bond funds (d)	-	21,602,168	Daily	10 days	N/A
Real estate funds (e)	6,516,278	17,938,032	Quarterly, none	45-60 days	3-15 years
Commodity funds (f)	20,949,222	18,726,551	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, 2015 and 2014

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, 2015:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Donor-restricted endowment funds	\$ (56,094)	\$ 111,771,841	\$ 170,938,511	\$ 282,654,258
Board-designated endowment funds	<u>172,852,216</u>			<u>172,852,216</u>
 Total endowment net assets	 <u>\$ 172,796,122</u>	 <u>\$ 111,771,841</u>	 <u>\$ 170,938,511</u>	 <u>\$ 455,506,474</u>

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>

ST. OLAF COLLEGE

NOTES TO FINANCIAL STATEMENTS
As of and for the Years Ended May 31, 2015 and 2014

NOTE 8 - ENDOWMENT (CONTINUED)

Changes in endowment net assets for the year ended May 31, 2015 are as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets, May 31, 2014	\$ 171,155,814	\$ 103,164,641	\$ 161,614,669	\$ 435,935,124
Total investment return	4,188,745	12,141,766	292,633	16,623,144
Contributions	503,167	231	9,574,337	10,077,735
Appropriation of endowment assets for:				
Operating expenditures	(5,058,968)	(8,964,914)		(14,023,882)
Non-operating expenditures	(44,402)		(16,105)	(60,507)
Other changes:				
Transfers	1,997,400	5,430,117	(1,070,795)	6,356,722
Matured deferred gifts	<u>54,366</u>	<u> </u>	<u>543,772</u>	<u>598,138</u>
Endowment net assets, May 31, 2015	<u>\$ 172,796,122</u>	<u>\$ 111,771,841</u>	<u>\$ 170,938,511</u>	<u>\$ 455,506,474</u>

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

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
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	<u>80,944</u>	<u> </u>	<u>686,987</u>	<u>767,931</u>
Endowment net assets, May 31, 2014	<u>\$ 171,155,814</u>	<u>\$ 103,164,641</u>	<u>\$ 161,614,669</u>	<u>\$ 435,935,124</u>

Funds with Deficiencies - From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the original value of the gifts contributed to each endowment fund. In accordance with GAAP, deficiencies of this nature that are reported in unrestricted net assets were \$56,094 and \$52,354 as of May 31, 2015 and 2014, 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, 2015 and 2014

NOTE 8 - ENDOWMENT (CONTINUED)

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

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

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

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

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

ST. OLAF COLLEGE

NOTES TO FINANCIAL STATEMENTS
As of and for the Years Ended May 31, 2015 and 2014

NOTE 9 - PROPERTY, PLANT AND EQUIPMENT

At May 31, 2015 and 2014, property, plant and equipment consisted of the following:

	<u>2015</u>	<u>2014</u>
Land	\$ 1,232,890	\$ 1,232,890
Improvements other than buildings	20,947,296	18,440,803
Buildings	277,198,883	272,070,651
Equipment	49,753,185	48,759,496
Library materials	18,482,710	19,332,611
Art collection	1,498,708	1,463,107
Construction in progress	2,480,944	2,497,006
	<u>371,594,616</u>	<u>363,796,564</u>
Less: Accumulated depreciation	(146,180,030)	(139,153,674)
	<u>225,414,586</u>	<u>224,642,890</u>
Telecom assets held for sale		400,000
	<u>\$ 225,414,586</u>	<u>\$ 225,042,890</u>

The majority of the costs of construction in progress as of May 31, 2015 were for the Dittmann Link, totaling approximately \$883,000; Larson elevator upgrade, totaling approximately \$288,000; and the Redund Campus Feeder Generator Shed, totaling approximately \$257,000. These projects are expected to be completed during fiscal 2016 and will be funded partially by operations and also by proceeds from the debt refinancing that is described in Note 21.

NOTE 10 - ACCRUED AND OTHER LIABILITIES

At May 31, 2015 and 2014, accrued and other liabilities consisted of the following:

	<u>2015</u>	<u>2014</u>
Payroll	\$ 9,170,086	\$ 9,247,423
Self-insurance reserve (Note 11)	342,000	327,000
Post-retirement benefit obligations (Note 12)	2,602,392	2,548,163
Interest	475,953	497,786
Asset retirement obligations (Note 13)	2,256,011	2,283,953
Other	114,631	65,373
	<u>\$ 14,961,073</u>	<u>\$ 14,969,698</u>

NOTE 11 - SELF-INSURANCE

The College provides medical benefits through a self-insurance plan, which is available to all employees of the College who meet the eligibility requirements for certain medical expenses. Accrued and other liabilities include an incurred but not reported reserve of approximately \$342,000 and \$327,000 at May 31, 2015 and 2014, 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 \$7,744,000. As of May 31, 2015 and 2014, the College had unrestricted net assets of \$1,645,710 and \$986,010, 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, 2015 and 2014

NOTE 12 - RETIREMENT PLANS AND POSTRETIREMENT BENEFIT PLAN

The College has certain defined contribution retirement 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 \$3,771,000 and \$3,728,000 for the years ended May 31, 2015 and 2014, 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, 2015 and 2014:

	2015	2014
<i>Change in benefit obligation</i>		
Benefit obligation at beginning of year	\$ 9,991,593	\$ 8,661,555
Service cost	105,259	104,081
Interest cost	335,314	294,350
Plan participants' VEBA contributions	4,914	16,096
Employer VEBA contributions	877,079	895,765
Actuarial loss	225,067	709,647
Benefits paid	(646,255)	(689,901)
Benefit obligation at end of year	\$ 10,892,971	\$ 9,991,593
<i>Change in plan assets</i>		
Fair value of plan assets at beginning of year	\$ 7,443,430	\$ 6,098,963
Actual return on plan assets	645,163	1,109,567
Employer contributions	843,327	908,705
Plan participants' contributions	4,914	16,096
Benefits paid	(646,255)	(689,901)
Fair value of plan assets at end of year	\$ 8,290,579	\$ 7,443,430
<i>Funded status</i>		
Funded status at end of year	\$ (2,602,392)	\$ (2,548,163)
<i>Amounts recognized in the statement of financial position consist of:</i>		
Current liabilities	\$ (267,000)	\$ (265,000)
Noncurrent liabilities	(2,335,392)	(2,283,163)
Net amount recognized (Note 10)	\$ (2,602,392)	\$ (2,548,163)

ST. OLAF COLLEGE

NOTES TO FINANCIAL STATEMENTS
As of and for the Years Ended May 31, 2015 and 2014

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

	<u>2015</u>	<u>2014</u>
Amounts recognized in change in net assets consist of:		
Prior service cost	\$ (436,094)	\$ (587,342)
Loss	62,566	110,490
Accumulated change in net assets	<u>\$ (373,528)</u>	<u>\$ (476,852)</u>
Weighted-average assumptions used to determine benefit obligations at May 31		
Discount rate	3.30%	3.40%
Expected return on plan assets	5.00%	5.00%
Rate of compensation increase	0.00%	0.00%
Components of net periodic benefit cost		
Service cost	\$ 105,259	\$ 104,081
Interest cost	335,314	294,350
Expected return on plan assets	(372,172)	(304,948)
Amortization of prior service cost	(151,248)	(151,248)
Net periodic postretirement benefit cost	<u>\$ (82,847)</u>	<u>\$ (57,765)</u>
Changes in net assets		
Net gain	\$ (47,924)	\$ (94,972)
Amortization of prior service cost	151,248	151,248
Total amount recognized in change in net assets	<u>\$ 103,324</u>	<u>\$ 56,276</u>
Total amount recognized in net periodic benefit cost and change in net assets	<u>\$ 20,477</u>	<u>\$ (1,489)</u>
Weighted-average assumptions used to determine net periodic benefit cost as of June 1		
Discount rate	3.40%	3.45%
Expected return on plan assets	5.00%	5.00%
Rate of compensation increase	0.00%	0.00%
Assumed health care cost trend rates at May 31		
Health care cost trend rate assumed for next year	5.89% - Post 65 5.74% - Pre 65	6.44% - Post 65 6.44% - 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, 2015 and 2014

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

During the year ending May 31, 2016, the College expects to contribute approximately \$267,000 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 \$690,000 to the VEBA for current employees during the year ending May 31, 2016.

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:

2016	\$	267,000
2017		255,000
2018		220,000
2019		218,000
2020		218,000
2021 - 2025		791,000

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

NOTE 13 - ASSET RETIREMENT OBLIGATIONS

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

The following shows the activity in the College's asset retirement obligation liability at May 31, 2015 and 2014:

	<u>2015</u>	<u>2014</u>
Balance at beginning of the year	\$ 2,283,953	\$ 2,376,379
Abatement costs	(142,140)	(227,635)
Accretion expense	114,198	118,819
Adjustments to estimates		<u>16,390</u>
Balance at end of the year (Note 10)	<u>\$ 2,256,011</u>	<u>\$ 2,283,953</u>

ST. OLAF COLLEGE

NOTES TO FINANCIAL STATEMENTS
As of and for the Years Ended May 31, 2015 and 2014

NOTE 14 - LONG-TERM DEBT

Long-term debt at May 31, 2015 and 2014 consisted of the following:

	Interest	Principal Payment	Year of Maturity	Outstanding Balance	
				2015	2014
Minnesota Higher Education Facility Authority (MHEFA)					
Variable rate demand revenue bonds, Series Five-M2, issued to refinance Series 1992 bonds	Variable (daily reset) rate 0.04% average 0.08% at 5/31/15	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 \$1,485,000 to \$2,605,000	2033	36,650,000	38,060,000
Revenue bonds, Series Seven-F, issued to refinance variable debt	Bonds bear rates from 1.30% to 5.00%	Annual payments range from \$1,260,000 to \$2,345,000	2031	27,840,000	29,050,000
Principal outstanding on bonds				73,240,000	75,860,000
Premium on Series Six-O Revenue Bonds				543,649	575,013
Premium on Series Seven-F Revenue Bonds				1,225,901	1,305,851
Total Long-Term Debt				<u>\$ 75,009,550</u>	<u>\$ 77,740,864</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 \$5,747,970 and \$5,750,566 as of May 31, 2015 and 2014, 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, 2015 and 2014

NOTE 14 - LONG-TERM DEBT (CONTINUED)

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

Year Ending May 31:	
2016	\$ 2,745,000
2017	2,875,000
2018	3,005,000
2019	3,135,000
2020	3,255,000
Thereafter	<u>58,225,000</u>
Total	<u>\$ 73,240,000</u>

Subsequent to year end, the Series Five-M2 bonds and a portion of the Series Six-O bonds were refinanced. (See Note 21)

NOTE 15 - SHORT-TERM CREDIT ARRANGEMENT

The College has an unsecured \$5,000,000 line of credit through Wells Fargo Bank. Borrowings under this line of credit bear interest at an annual rate of 50 basis points below the Bank's base (prime) rate. Interest is payable on the last day of each month. Principal, and any unpaid interest, is due on February 28, 2016. In addition, the agreement requires the College to comply with certain financial covenants. At May 31, 2015 and 2014, there were no outstanding borrowings under this arrangement.

NOTE 16 - EXPENSES BY OBJECT

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, 2015 and 2014:

	<u>2015</u>	<u>2014</u>
Compensation	\$ 64,826,158	\$ 64,292,779
Depreciation, amortization, and accretion	12,224,935	12,208,558
General operating expenses	9,271,214	9,381,622
Food services	8,355,802	8,182,213
Travel and meals	7,475,155	7,487,138
Contract, professional services, insurance, and taxes	6,943,646	7,000,651
Facilities - repairs, maintenance, utilities, fuel	5,395,353	5,798,099
Interest	<u>2,965,545</u>	<u>3,076,331</u>
Total	<u>\$ 117,457,808</u>	<u>\$ 117,427,391</u>

ST. OLAF COLLEGE

NOTES TO FINANCIAL STATEMENTS
As of and for the Years Ended May 31, 2015 and 2014

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, 2015 and 2014 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, 2015 and 2014 is as follows:

	2015	2014
Cash and investments	\$ 34,953,998	\$ 34,880,739
Interfund receivable	112,951	86,584
Beneficial interest in trusts held by others, fair value	1,718,347	1,722,106
Beneficial interest in trusts held by others, cost	491,350	491,350
Deposits held in trust for others	(1,321,607)	(1,277,495)
Annuities payable	(14,572,916)	(14,197,682)
	\$ 21,382,123	\$ 21,705,602
Net Assets		
Unrestricted	\$ 3,765,434	\$ 3,638,809
Temporarily restricted	1,814,106	1,816,881
Permanently restricted	15,802,583	16,249,912
	\$ 21,382,123	\$ 21,705,602

ST. OLAF COLLEGE

NOTES TO FINANCIAL STATEMENTS As of and for the Years Ended May 31, 2015 and 2014

NOTE 18 - DERIVATIVES

The College is exposed to certain risks that can materially impact the assets and liabilities on its statement of financial position. 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 statement of financial position.

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, 2015, the notional value of the swap was \$5,710,000. 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 gains of \$188,164 and \$252,104 relating to the change in notional value of the agreement for the years ended May 31, 2015 and 2014, respectively. In fiscal years 2015 and 2014 respectively, the College paid \$255,280 and \$314,923 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, 2015 and 2014, the College has recorded an interest rate exchange liability of \$608,920 and \$797,084, 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. At May 31, 2015 and 2014, the aggregate notional value of the derivative contracts was \$4,788,319 and \$3,032,182, respectively. At May 31, 2015 and 2014, the aggregate fair market value of the contract was recorded as an investment on the statement of financial position in the amounts of \$355 and \$(9,837), respectively. The income on the contracts realized during the year is represented in gains or losses on investments in the statement of activities. For the years ended May 31, 2015 and May 31, 2014, the College reported a realized gain of \$206,485 and \$208,095, respectively.

Subsequent to year end, the interest rate swap was terminated as part of a debt refinancing. (See Note 21)

ST. OLAF COLLEGE

NOTES TO FINANCIAL STATEMENTS As of and for the Years Ended May 31, 2015 and 2014

NOTE 19 - CONCENTRATIONS

Financial instruments that potentially subject the College to concentrations of credit risk consist principally of cash and cash equivalents, investments, accounts receivable, notes receivable and derivatives. Cash, cash equivalents and investment holdings are concentrated in a limited number of financial institutions and amounts in excess of FDIC and similar 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.

NOTE 20 - RELATED PARTY TRANSACTIONS

The College has various signed contracts with a construction company owned by a former member of the Board of Regents. The contracts were approved unanimously by the Board of Regents in accordance with the College's conflict of interest policy. Amounts payable to the construction company totaled approximately \$322,000 and \$334,000 as of May 31, 2015 and 2014, respectively.

As of May 31, 2015 and 2014, approximately \$2,866,000 and \$3,051,000, respectively, of contributions receivable were due from members of the Board of Regents. Contribution revenue from members of the Board of Regents totaled approximately \$1,801,000 and \$6,268,000 for the years ending May 31, 2015 and 2014, 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, 2015 and 2014, the College's total value of these funds was approximately \$20,444,000 and \$19,949,000, respectively. The College's cumulative contributions, net of distributions, to these investments as of May 31, 2015 and 2014 totaled approximately \$10,782,000 and \$14,818,000, respectively. The College's outstanding future commitments to these investments totaled approximately \$5,302,000 and \$5,993,000 at May 31, 2015 and 2014, respectively.

ST. OLAF COLLEGE

NOTES TO FINANCIAL STATEMENTS
As of and for the Years Ended May 31, 2015 and 2014

NOTE 21 - SUBSEQUENT EVENTS

The College has evaluated subsequent events through October 7, 2015, which is the date that the financial statements were issued.

On July 1, 2015, the College issued \$53,745,000 in tax-exempt bonds, Series Eight-G, through the Minnesota Higher Education Facilities Authority (MHEFA). In addition to the principal amount, premiums on the bonds are \$7,362,599, for total net bond proceeds of \$61,107,599. A portion of the debt service reserve fund on Series Six-O (\$2,235,200) will supplement the Eight-G bond proceeds to fund identified costs.

The bond proceeds will be used to:

- Provide for the refunding on an advance refunding basis a portion of the outstanding principal (\$26,995,000) of Series Six-O bonds, callable on October 1, 2016.
- Provide for the refunding on a current refunding basis of the outstanding principal (\$8,750,000) of Series Five-M2 bonds.
- Finance the termination of the interest rate swap agreement (\$582,730) corresponding to the Series Five-M2 bonds.
- Finance various construction and renovation projects to the College's residential facilities and classroom buildings on its main campus (\$25,000,000).
- Pay certain issuance costs.

The Series Eight-G Revenue Bonds have interest rates varying from 3.00% to 5.00% and mature in annual amounts ranging from \$2,145,000 to \$3,000,000 beginning on December 1, 2016.

ST. OLAF COLLEGE

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ended May 31, 2015

Federal Grantor/ Pass Through Agency/ Program or Cluster Title	Federal CFDA Number	Pass-through Entity Identification Number	Grant Number	Federal Expenditures
STUDENT FINANCIAL ASSISTANCE CLUSTER				
U.S. Department of Education direct programs				
Federal Pell grant program	84.063		P063P141690	\$ 1,937,940
Federal supplemental educational opportunity grant program	84.007		P007A142203	337,872
Federal work-study program	84.033		P033A142203	364,610
Federal Perkins loan program	84.038		P038A142203	7,240,010
Federal Perkins loan cancellations	84.038		P038A142203	67,411
Federal direct loan program	84.268		P268K151690	<u>11,466,675</u>
Total U.S. Department of Education				<u>21,414,518</u>
U.S. Department of Health and Human Services direct program				
Nursing student loan program	93.364		E4CHP26157	<u>81,243</u>
Total Student Financial Assistance Cluster				<u>21,495,761</u>
RESEARCH AND DEVELOPMENT CLUSTER				
National Science Foundation direct programs				
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	28,135
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	37,239
Collaborative Research: The Polaris Project II: Amplifying the impact	47.078		PLR-1044180	(3,114)
RUI/Membrane dynamics during cortical development in tetrahymena thermophila	47.074		MCB-1244415	107,038
EMSW21-MCTP: eCIR: The expanded Center for Interdisciplinary Research	47.049		DMS-1045015	234,624
S-Stem: Providing support structures for chemistry majors	47.076		DUE-0806792	431
TUES Type 2: Collaborative research: CS in parallel: Scaling an incremental modular approach to injecting parallel computing throughout CS curricula	47.076		DUE-1226172	45,542
DRK-12: Assessing Secondary Teachers' Algebraic Habits of Mind	47.076		DRL-1222340	29,976
CCIIIE: Bldg. the 10 Gbps Network Big Data	47.070		ACI-1440686	<u>21,545</u>
Subtotal direct programs				501,416
National Science Foundation passed through University of Minnesota				
Physically decoupling neural recording sites in behaving animals	47.074	Unknown	IOS-1146243	62,004
LSAMP-Phase 2 North Star Stem Alliance	47.076	H002726311	HRD-1201983	<u>22,396</u>
Total National Science Foundation				<u>585,816</u>
U.S. Department of Health and Human Services direct program				
AREA: Palladium & Nickel Catalyzed C-H Activation/C-C Bond Formation	93.859		1R15GM107892-01	<u>76,762</u>
Total U.S. Department of Health and Human Services				<u>76,762</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	<u>35,189</u>
Total National Institute of Justice				<u>35,189</u>
Office of Personnel Management direct program				
IPA: John Schade, NSF Program Officer, 13-14	27.011		DEB-1359533	<u>53</u>
Total Office of Personnel Management				<u>53</u>
Total Research and Development Cluster				<u>697,820</u>

ST. OLAF COLLEGE

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ended May 31, 2015

Federal Grantor/ Pass Through Agency/ Program or Cluster Title	Federal CFDA Number	Pass-through Entity Identification Number	Grant Number	Federal Expenditures
TRIO PROGRAMS CLUSTER				
U.S. Department of Education direct programs				
Student support services program	84.042A		P042A100349	\$ 248,120
Talent search program	84.044A		P044A120152	337,500
Upward bound program	84.047A		P047A120087	383,170
McNair scholars' program	84.217A		P217A120052	<u>201,642</u>
Total TRIO Programs Cluster				<u>1,170,432</u>
OTHER PROGRAMS				
U.S. Department of Commerce direct program				
NIST: FY 2014 Summer Undergraduate Research Fellowship (SURF) - CNST	11.609		70NANB14H174	10,036
NIST: FY 2015 Summer Undergraduate Research Fellowship (SURF) - CNST	11.620		70NANB15H177	<u>516</u>
Total U.S. Department of Commerce - Other Programs				<u>10,552</u>
U.S. Department of Agriculture passed through				
Minnesota Department of Children - Food and Nutrition Service (FNS): Summer Food Service Program (SFSP)	10.559	2MN300061	Unknown	<u>12,317</u>
Total U.S. Department of Agriculture - Other Programs				<u>12,317</u>
TOTAL EXPENDITURES OF FEDERAL AWARDS				<u>\$ 23,386,882</u>

ST. OLAF COLLEGE

**NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ended May 31, 2015**

NOTE 1 - BASIS OF PRESENTATION

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, 2015. 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.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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. Negative amounts shown on the Schedule represent adjustments or credits made in the normal course of business to amounts reported as expenditures in prior years. Pass through entity identification numbers are presentation where available.

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, 2015, 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 7, 2015.

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 Virchow Krause, LLP

Minneapolis, Minnesota
October 7, 2015

REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM AND REPORT 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 Each 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 each of St. Olaf College's major federal programs for the year ended May 31, 2015. St. Olaf College's major federal programs are 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 programs.

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for each of St. Olaf College's major federal programs 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 each major federal program. However, our audit does not provide a legal determination of St. Olaf College's compliance.

Opinion on Each 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 each of its major federal programs for the year ended May 31, 2015.

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 each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each 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 Vitchaw Krause, LLP

Minneapolis, Minnesota
October 7, 2015

ST. OLAF COLLEGE

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For the Year Ended May 31, 2015

SECTION I - SUMMARY OF INDEPENDENT AUDITORS' RESULTS

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:	

<u>CFDA Number</u>	<u>Name of Federal Program or Cluster</u>
Various	Student Financial Assistance Cluster
Various	Research and Development Cluster

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

SECTION II - FINANCIAL STATEMENT FINDINGS

None noted.

SECTION III - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

None noted.

ST. OLAF COLLEGE

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
For the Year Ended May 31, 2015

The previous audit of the Federal Award Programs was for the year ended May 31, 2014. There were no federal award findings or questioned costs reported in that audit.