

ST. OLAF COLLEGE
Northfield, Minnesota

Financial Statements
Including Independent Auditors' Report

May 31, 2011 and 2010

ST. OLAF COLLEGE

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ST. OLAF COLLEGE

HIGHLIGHTS (Unaudited)
Years Ended May 31, 2011 and 2010

FISCAL YEAR ENDING: MAY 31 ACADEMIC YEAR	FY 2011 2010-11	FY 2010 2009-10
ENROLLMENT, RETENTION, GRADUATION		
Undergraduate FTE (Fall)	3,121	3,048
Undergraduate Headcount (Fall)	3,156	3,099
% Men/Women	45/55	45/55
% Who Are In-State/Out-of-State	52/48	52/48
% White/Domestic Minority/International	85/12/3	85/13/2
1st Year to Sophomore	93.7%	91.7%
Sophomore to Junior	89.8%	88.1%
Junior to Senior	87.5%	85.5%
Four-Year Graduation Rate	83.3%	81.1%
Five-Year Graduation Rate	83.9%	85.6%
Number of Seniors (May)	696	719
Number of Declared Majors	948	985
Top five Majors		
1st	Biology 12.2%	Biology 9.6%
2nd	Math 7.8%	Math 8.0%
3rd	Economics 7.5%	Economics 6.9%
4th	Music 6.9%	Chemistry 6.8%
5th	English 5.9%	English 6.4%
NEW STUDENT ADMISSIONS (Fall)		
Applications (1st Year / Transfer)	4,024 / 170	3,882 / 138
Acceptances (1st Year / Transfer)	2,302 / 64	2,230 / 49
Acceptance Rate (1st Year / Transfer)	57.2% / 37.6%	57.4% / 35.5%
Matriculants (1st Year / Transfer)	844 / 38	777 / 26
Yield Rate (1st Year / Transfer)	36.7% / 58.5%	34.8% / 53.1%
% 1st Year Men/Women	49/51	43/57
% 1st Year In-State/Out-of-State	50/50	47/53
% 1st Year 1st Generation to College	15	15
Median ACT - 1st Year	29	29
Median SAT - 1st Year	1320	1300
FACULTY AND STAFF EMPLOYED (Fall)		
Faculty / Staff / Total - FTE	289 / 371 / 660	282 / 376 / 658
Faculty / Staff / Total - Full-time Headcount	257 / 316 / 573	251 / 322 / 573
Faculty / Staff / Total - Part-time Headcount	97 / 165 / 262	93 / 163 / 256
FTE by Functional Classification		
Instructional	259	250
Executive/Administrative *	58	58
Other Professional *	130	133
Technical *	9	9
Clerical/Secretarial *	88	93
Skilled Crafts	26	26
Service/Maintenance	90	89
Total	<u>660</u>	<u>658</u>
* positions were reclassified in Fall 2009		
TUITION AND FEES PER STUDENT		
Tuition	\$ 36,800	\$ 35,500
Room & Board	8,500	8,200
Total Comprehensive Fee	<u>\$ 45,300</u>	<u>\$ 43,700</u>
FINANCIAL AID - SCHOLARSHIPS & GRANTS		
Federal Grants	\$ 3,153,000	\$ 2,844,000
State Grants	1,431,000	1,994,000
Institutional Scholarships & Grants	47,089,000	41,030,000
Outside Scholarships & Grant	<u>2,247,000</u>	<u>2,157,000</u>
Total	<u>\$ 53,920,000</u>	<u>\$ 48,025,000</u>
Total Per Student FTE	\$ 17,277	\$ 15,756
ENDOWMENT		
Market Value at Fiscal Year End	\$ 345,295,632	\$ 275,844,546
Market Value per FTE Student	\$ 110,636	\$ 90,500
Total Return on Investments	20.4%	12.9%

INDEPENDENT AUDITORS' REPORT

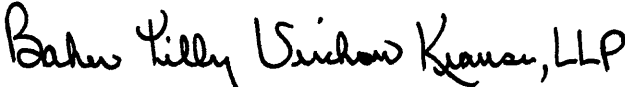
To the Board of Regents
St. Olaf College
Northfield, Minnesota

We have audited the accompanying statements of financial position of St. Olaf College as of May 31, 2011 and 2010, and the related statements of activities and cash flows for the years then ended. These financial statements are the responsibility of the College's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the College's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of St. Olaf College at May 31, 2011 and 2010, and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The "Highlights" on page 1 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and, accordingly, we express no opinion on it.


Minneapolis, Minnesota
October 10, 2011

ST. OLAF COLLEGE
STATEMENTS OF FINANCIAL POSITION
 May 31, 2011 and 2010

ASSETS		
	2011	2010
Cash and cash equivalents	\$ 24,682,947	\$ 24,251,784
Receivables		
Student accounts, net of allowance for doubtful accounts of \$214,200 and \$213,600	171,082	190,507
Contributions, net (Note 4)	3,563,000	12,932,438
Student notes receivable, net of allowance for doubtful notes of \$786,800 and \$596,800 (Note 5)	7,990,951	8,309,189
Insurance	505,584	1,680,471
Other	1,064,866	1,006,737
Inventories	950,434	757,136
Prepaid expenses and deposits	943,884	685,926
Investments (Note 6)	377,873,521	320,653,875
Deposits held by trustee (Note 6)	6,122,612	3,278,268
Deferred debt acquisition costs	520,978	532,948
Beneficial interest in trusts held by others (Note 6)	2,118,468	1,877,586
Property, plant and equipment, net (Note 8)	213,863,331	202,547,390
TOTAL ASSETS	\$ 640,371,658	\$ 578,704,255
LIABILITIES AND NET ASSETS		
LIABILITIES		
Accounts payable	\$ 5,821,249	\$ 5,868,038
Accrued liabilities (Note 9)	13,551,511	12,814,355
Deferred revenue	4,288,290	3,894,520
Annuities payable (Note 17)	12,380,504	12,348,115
Interest rate exchange liability (Notes 6 and 18)	1,238,825	1,279,276
Asset retirement obligations (Note 12)	2,526,294	2,699,657
Long-term debt (Note 13)	85,354,807	83,945,470
U. S. government grants refundable	6,808,806	6,594,606
Deposits held in trust for others	2,766,073	3,937,121
Total Liabilities	134,736,359	133,381,158
NET ASSETS		
Unrestricted (Note 2)	211,256,249	176,099,853
Temporarily restricted (Note 2)	146,379,075	126,346,467
Permanently restricted (Note 2)	147,999,975	142,876,777
Total Net Assets	505,635,299	445,323,097
TOTAL LIABILITIES AND NET ASSETS	\$ 640,371,658	\$ 578,704,255

See accompanying notes to financial statements.

ST. OLAF COLLEGE

STATEMENT OF ACTIVITIES
Year Ended May 31, 2011

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

See accompanying notes to financial statements.

ST. OLAF COLLEGE

STATEMENT OF ACTIVITIES
Year Ended May 31, 2010

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
REVENUES, GAINS AND OTHER SUPPORT				
OPERATING REVENUES				
Tuition	\$ 104,828,210			\$ 104,828,210
Less: Unfunded scholarships and grants	(40,625,098)			(40,625,098)
Funded scholarships and grants	(4,883,498)			(4,883,498)
Net tuition	59,319,614			59,319,614
Other tuition and fees	4,050,026			4,050,026
Government grants	4,658,381	\$ 2,944		4,661,325
Private gifts and grants	3,992,030	1,177,512		5,169,542
Long-term investment income and gains allocated for operations	4,986,970	7,253,528		12,240,498
Other sources	2,147,383	441,717		2,589,100
Investment income	225,508	23,029		248,537
Net losses on investments and capital assets	(209,092)			(209,092)
Capital gifts allocated		1,851,899		1,851,899
Auxiliary enterprises - sales and services	26,263,345			26,263,345
	105,434,165	10,750,629		116,184,794
Net assets released from restrictions (Notes 1 and 3)	10,552,098	(10,552,098)		
Total Operating Revenues, Gains and Other Support	115,986,263	198,531		116,184,794
OPERATING EXPENSES				
Program expenses				
Instruction	45,757,758			45,757,758
Research	1,348,816			1,348,816
Public service	483,989			483,989
Academic support	9,955,461			9,955,461
Student services	15,806,541			15,806,541
Auxiliary enterprises	19,347,124			19,347,124
Support expenses				
Institutional support	9,162,598			9,162,598
Fundraising	3,576,520			3,576,520
Total Operating Expenses (Note 16)	105,438,807			105,438,807
Change in Net Assets from Operating Activities	10,547,456	198,531		10,745,987
NONOPERATING ACTIVITIES				
Long-term investment activities				
Investment income	949,784	1,420,700	\$ 18,163	2,388,647
Net gains on investments	13,642,738	15,595,619	155,775	29,394,132
Total long-term investment income	14,592,522	17,016,319	173,938	31,782,779
Less: Long-term investment income and gains allocated for operations	(4,986,970)	(7,253,528)		(12,240,498)
	9,605,552	9,762,791	173,938	19,542,281
Student loan income net of expenses	(2,417)		24,757	22,340
Capital giving activities - gifts and grants	332,398	6,079,066	2,746,646	9,158,110
Deferred giving activities - gifts	41,996		661,151	703,147
Capital gifts allocated to operations		(1,851,899)		(1,851,899)
Interest rate swap gain, net of settlements	(367,706)			(367,706)
Adjustment to actuarial liability for annuities payable	2,395,657	447,296	2,202,081	5,045,034
Adjustment to prior service cost and actuarial liability for retiree health plan	1,597,441			1,597,441
Loss from adjustment of hail storm insurance receivable estimate	(348,078)			(348,078)
Change in Net Assets from Nonoperating Activities	13,254,843	14,437,254	5,808,573	33,500,670
Change in Net Assets	23,802,299	14,635,785	5,808,573	44,246,657
Net Assets - Beginning of Year	152,297,554	111,710,682	137,068,204	401,076,440
NET ASSETS - END OF YEAR	\$ 176,099,853	\$ 126,346,467	\$ 142,876,777	\$ 445,323,097

See accompanying notes to financial statements.

ST. OLAF COLLEGE

STATEMENTS OF CASH FLOWS
Years Ended May 31, 2011 and 2010

	2011	2010
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ 60,312,202	\$ 44,246,657
Adjustments to reconcile change in net assets to net cash flows from operating activities		
Depreciation, amortization and accretion expense	11,143,283	10,588,859
Net gains on investments	(62,016,481)	(35,293,684)
Change in allowance for uncollectible student loans	190,000	(30,000)
Interest rate exchange gain	(40,451)	(37,702)
Loss on dispositions of property, plant and equipment	23,728	162,745
Actuarial adjustment of annuities payable	1,440,148	1,555,743
Adjustment to prior service cost and actuarial liability for retiree health plan	130,186	(1,597,441)
Write-off of contributions receivable	6,230,684	
Gifts of property, plant and equipment	(145,969)	(124,750)
(Increases) decreases in:		
Student accounts receivable	19,425	(108,984)
Contributions receivable for operations	380,071	84,651
Other receivables	1,116,758	396,943
Inventories, prepaid expenses and deposits	(451,256)	(23,000)
Funds held in trust by others	(240,882)	(111,901)
Decreases in:		
Accounts payable	(198,402)	(1,201,636)
Accrued liabilities	606,970	(263,708)
Deferred revenue	393,770	(150,664)
Asset retirement obligation	(186,445)	(209,697)
Gifts and grants received for long-term investment, net	(5,780,251)	(9,861,257)
Nonoperating investment income	(1,975,111)	(2,388,647)
Net Cash Flows from Operating Activities	<u>10,951,977</u>	<u>5,632,527</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of property, plant and equipment	(21,967,887)	(16,212,411)
Purchases of investments	(99,500,459)	(128,738,732)
Proceeds from sales of investments	104,297,294	133,561,301
Nonoperating investment income	1,975,111	2,388,647
Disbursements of loans to students	(1,077,141)	(1,034,616)
Repayments of loans by students	1,205,379	1,171,748
Net Cash Flows from Investing Activities	<u>(15,067,703)</u>	<u>(8,864,063)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Principal repayments of indebtedness	(1,195,000)	(1,155,000)
Gifts and grants received for long-term investment, net	5,780,251	9,861,257
Decrease in nonoperating contributions receivable	2,758,683	192,076
Increase (decrease) in deposits held in trust for others	(1,171,048)	322,933
Increase in U. S. government grants refundable, net	214,200	237,447
Increase in annuities payable from new gifts	201,898	770,068
Payments to annuitants	(1,609,657)	(1,635,055)
Deposits to trustee account for refinanced bonds, net	(432,438)	
Net Cash Flows from Financing Activities	<u>4,546,889</u>	<u>8,593,726</u>
Net Change in Cash and Cash Equivalents	431,163	5,362,190
CASH AND CASH EQUIVALENTS - Beginning of Year	<u>24,251,784</u>	<u>18,889,594</u>
CASH AND CASH EQUIVALENTS - END OF YEAR	<u>\$ 24,682,947</u>	<u>\$ 24,251,784</u>
Supplemental Disclosure:		
Interest paid	\$ 2,837,556	\$ 2,301,623
Property, plant and equipment acquired through accounts payable	1,757,043	1,605,430

See accompanying notes to financial statements.

ST. OLAF COLLEGE

NOTES TO FINANCIAL STATEMENTS
May 31, 2011 and 2010

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES

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

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

Net Asset Classifications - In order to ensure observance of limitations and restrictions placed on the use of resources available to the College, the accounts of the College are maintained in accordance with principles of "fund accounting." This is the procedure by which resources for various purposes are classified for accounting and reporting purposes into funds that are in accordance with the activities or objectives specified. Separate accounts are maintained for each fund; however, in the accompanying financial statements, funds have been combined in three classes of net assets based on the existence or absence and type of donor-imposed restrictions as follows:

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

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

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

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

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

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

ST. OLAF COLLEGE

NOTES TO FINANCIAL STATEMENTS
May 31, 2011 and 2010

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

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

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

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

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

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

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

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

Receivables - An allowance for doubtful accounts is recorded annually based on historical experience and management's evaluation of receivables at the end of each year. It is reasonably possible that changes in this estimate could occur in the near term and that actual results could differ from this estimate and could have a material impact on the financial statements. Bad debts are written-off when deemed uncollectible. Interest income on student loan receivables is recognized when received, and fees and costs are recognized when incurred. Receivables are generally unsecured. Government student loan program receivables (Perkins) that become uncollectible can be assigned to the federal government. (See Note 5)

ST. OLAF COLLEGE

NOTES TO FINANCIAL STATEMENTS

May 31, 2011 and 2010

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Insurance Receivable - In August 2006, a hail storm on the College's campus caused significant damage to roofs on many of its buildings and other property. During the year ended May 31, 2007, the College eliminated the estimated remaining net book value of the damaged property, which totaled \$967,680. The College received \$4,722,655 from insurance companies as of May 31, 2011, and expects to receive an additional \$505,000 in subsequent years. As a result, the College recorded a net gain of \$4,206,220 for the year ended May 31, 2007. The College's receivable estimate was adjusted in 2010 and 2009 as additional information became available. Costs incurred associated with the replacement of the roofs were capitalized during fiscal years 2007 through 2011, and costs will continue to be capitalized as incurred in subsequent years.

Inventories - Inventories are valued at the lower of cost or market, with the exception of bookstore inventories which are valued at a percentage of retail value that approximates cost and is not in excess of market.

Investments - Investments in publicly traded securities are stated at quoted market value. Other investments, for which no such quoted market values or valuations are readily available, are carried at fair value as estimated by management using values provided by external investment managers. Changes in fair value are recorded as unrealized gains or losses in the period of change. (See Note 6)

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

Deferred Debt Acquisition Costs - Costs of bond issuance are deferred and amortized over the term of the bonds. Future amortization is projected to approximate \$25,750 annually.

Beneficial Interest in Trusts Held by Others - The beneficial interest in trusts held by others and related contribution revenue are recognized at the date the trusts are established for the present value of estimated future payments to be received. Perpetual trusts are valued based upon the market value of the assets contributed to the trusts which approximates fair value of the beneficial interest in the trusts.

Physical Plant and Equipment - Physical plant assets are stated at cost at date of acquisition or market value if donated, less accumulated depreciation. The College typically depreciates its assets on the straight-line basis over estimated useful lives as follows: buildings 5 to 50 years; improvements, 5 to 50 years; equipment 5 to 30 years; library materials 10 to 15 years. Normal repair and maintenance expenses are charged to operations as incurred. The College capitalizes physical plant additions and equipment in excess of \$5,000. (See Note 8) Certain property and equipment purchased with government grant funds are subject to certain requirements and limitations. The College has developed a schedule of the estimated funding required for significant repairs and maintenance of its facilities based on a forty-year life cycle. The College's operating budget model incorporates producing this funding as a key target parameter. Specific capital expenditures are identified in the capital budget projections 3 to 5 years into the future with general assumptions about capital expenditures projected long-term. In addition to the funding for capital renewal in its capital budget, the College provides funding for routine preventive maintenance and repairs through its operating budget.

Impairment of Long-Lived Assets - The College reviews long-lived assets, including property and equipment and intangible assets, for impairment whenever events or changes in business circumstances indicate that the carrying amount of an asset may not be fully recoverable. An impairment loss would be recognized when the estimated future cash flows from the use of the asset are less than the carrying amount of that asset. To date, there have been no such losses.

ST. OLAF COLLEGE

NOTES TO FINANCIAL STATEMENTS

May 31, 2011 and 2010

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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)

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.

Fair Value of Financial Instruments - The carrying amounts of cash and cash equivalents, accounts receivable, grants receivable, other receivables, accounts payable and deposits held in custody for others approximate fair value because of the short term maturity of these financial instruments. The carrying amounts of contributions receivable are recorded using the applicable discount rates in effect at the date of the gifts.

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

The carrying amounts of the actuarial liability for trusts and annuities payable are based on life expectancies, quoted market prices, and the applicable discount rates in effect at the time the agreements were received by the College.

Contributions of assets other than cash are recorded at their estimated fair value at the date of the gift. Estimates of fair value involve assumptions and estimation methods that are uncertain and, therefore, the estimates could differ from actual results.

The fair values for investments and other financial instruments recorded at fair value on a recurring basis are included in Note 6.

ST. OLAF COLLEGE

NOTES TO FINANCIAL STATEMENTS

May 31, 2011 and 2010

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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, 2011. The College's tax returns are subject to review and examination by federal and state authorities. The tax returns for the current year as well as fiscal years 2008 through 2010 are open to examination by federal and state authorities.

Functional Allocation of Expenses - The costs of providing the various programs and other activities have been summarized on a functional basis in the statement of activities. Accordingly, certain expenses have been allocated among the programs and supporting services benefited. (See Note 15)

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

ST. OLAF COLLEGE

NOTES TO FINANCIAL STATEMENTS

May 31, 2011 and 2010

NOTE 2 - RESTRICTIONS AND LIMITATIONS ON NET ASSETS BALANCES

At May 31, 2011 and 2010, the College's unrestricted net assets were allocated as follows:

	2011	2010
Operations	\$ 73,664,209	\$ 63,127,304
Endowment funds:		
Donor restricted endowment funds (underwater)	(428,453)	(2,544,463)
Board designated endowment	133,146,664	96,559,934
Total endowment funds	132,718,211	94,015,471
Deferred gifts	4,148,550	17,886,668
Student loan programs - matching federal government	725,279	1,070,410
	\$ 211,256,249	\$ 176,099,853

Temporarily restricted net assets consist of the following at May 31, 2011 and 2010:

Gifts and other unexpended revenues and gains available for:		
Scholarships, instruction and other support	\$ 4,932,018	\$ 4,672,529
Unamortized plant gifts	57,767,477	58,440,625
Acquisition of buildings and equipment	13,044	5,643,377
	62,712,539	68,756,531
Endowment funds		
Endowment funds temporarily restricted by donor	10,404,415	8,566,818
Earnings not yet appropriated for spending	71,598,668	47,542,062
Total endowment funds	82,003,083	56,108,880
Deferred gifts	1,663,453	1,481,056
	\$ 146,379,075	\$ 126,346,467

Permanently restricted net assets consist of the following at May 31, 2011 and 2010:

Endowment funds	\$ 130,574,338	\$ 125,720,195
Deferred gifts	15,180,267	14,904,409
Student loan funds	2,245,370	2,252,173
	\$ 147,999,975	\$ 142,876,777

Total net assets consist of the following at May 31, 2011 and 2010:

Operations	\$ 136,376,748	\$ 131,883,835
Endowment funds (Note 7)	345,295,632	275,844,546
Deferred gifts (Note 17)	20,992,270	34,272,133
Student loan funds	2,970,649	3,322,583
	\$ 505,635,299	\$ 445,323,097

ST. OLAF COLLEGE

NOTES TO FINANCIAL STATEMENTS

May 31, 2011 and 2010

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, 2011 and 2010:

	<u>2011</u>	<u>2010</u>
Amortization of contributions expended for long-lived assets	\$ 1,941,917	\$ 1,851,899
Scholarships, instruction and other departmental support	<u>7,761,991</u>	<u>8,700,199</u>
	<u>\$ 9,703,908</u>	<u>\$ 10,552,098</u>

NOTE 4 - CONTRIBUTIONS RECEIVABLE

Contributions receivable include the following unconditional promises to give at May 31, 2011 and 2010:

	<u>2011</u>	<u>2010</u>
Unconditional promises expected to be collected in:		
Less than one year	\$ 4,138,880	\$ 4,713,050
One to five years	658,585	9,707,985
Over five years	<u>950</u>	<u>1,550</u>
Gross unconditional promises to give	4,798,415	14,422,585
Less: Unamortized discount	(36,393)	(710,900)
Allowance for uncollectible promises	<u>(1,199,022)</u>	<u>(779,247)</u>
	<u>\$ 3,563,000</u>	<u>\$ 12,932,438</u>

Contributions receivable due within one year are not discounted. Contributions receivable expected to be collected in more than one year have been discounted using historic rates, ranging from 1.17% to 6.00%. As of May 31, 2011, net contributions receivable consisted of \$2,561,205 for plant projects, \$725,428 for endowments, and \$276,367 for operations.

ST. OLAF COLLEGE

NOTES TO FINANCIAL STATEMENTS
May 31, 2011 and 2010

NOTE 5 – CREDIT QUALITY OF STUDENT NOTES RECEIVABLE

The College issues uncollateralized loans to students based on financial need. Student loans are funded through Federal government loan programs or institutional resources. Allowances for doubtful accounts are established based on prior collection experience and current economic factors which, in management's judgment, could influence the ability of loan recipients to repay the amounts per the loan terms. At May 31, 2011 and 2010, student loans represented 1.2% and 1.4% of total assets, respectively.

At May 31, student loans consisted of the following:

	<u>2011</u>	<u>2010</u>
Federal government programs	\$ 7,383,120	\$ 7,525,375
Institutional programs	<u>1,394,631</u>	<u>1,380,614</u>
	8,777,751	8,905,989
Less allowance for doubtful accounts:		
Beginning of year	(596,800)	(626,800)
Decreases (Increases) to allowance	(190,448)	25,700
Write-off recoveries	(6,715)	(23,880)
Write-offs	<u>7,163</u>	<u>28,180</u>
End of year	<u>(786,800)</u>	<u>(596,800)</u>
Student loans receivable, net	<u>\$ 7,990,951</u>	<u>\$ 8,309,189</u>

Funds advanced by the Federal government of \$7,110,754 and \$6,847,676 at May 31, 2011 and 2010, 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, 2011 and 2010, the past due and current amounts under student loan programs were as follows:

	<u>2011</u>	<u>2010</u>
Past due loan receivables:		
0-240 days past due	\$ 348,020	\$ 320,028
240 days – 2 years past due	185,491	196,370
2-5 years past due	182,532	231,566
5+ years past due	<u>401,310</u>	<u>392,012</u>
Total past due	1,117,353	1,139,976
Current loan receivables	<u>7,660,398</u>	<u>7,766,013</u>
Total student loan receivables, gross	<u>\$ 8,777,751</u>	<u>\$ 8,905,989</u>

ST. OLAF COLLEGE

NOTES TO FINANCIAL STATEMENTS

May 31, 2011 and 2010

NOTE 6 - INVESTMENTS AND FAIR VALUE OF FINANCIAL INSTRUMENTS

The College follows the FASB guidance on fair value measurements. Fair value is defined in the 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 is 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. The three levels are defined as follows:

Level 1 - Inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities.

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

Level 3 - Inputs are unobservable for the asset or liability. Unobservable inputs reflect the reporting entity's own assumptions about the assumptions that market participants would use in pricing the asset or liability developed based on the best information available in the circumstances.

A financial instrument's categorization within the valuation hierarchy is based upon the lowest level of input that is significant to the fair value measurement.

The schedules within this note are not intended to indicate the volatility of the investments.

ST. OLAF COLLEGE

NOTES TO FINANCIAL STATEMENTS

May 31, 2011 and 2010

NOTE 6 - INVESTMENTS AND FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)

The following table summarizes financial instruments measured at fair value on a recurring basis by classification within the fair value hierarchy as of May 31, 2011:

	<u>Total</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
ASSETS				
Investments				
Cash and short-term investments \$	4,911,202	\$ 4,911,202		
<u>Marketable Securities</u>				
Mutual funds	168,593,839	168,593,839		
Stocks	184,369	184,369		
Bonds	1,234,688	1,234,688		
<u>Alternative Investments</u>				
Hedge funds	70,005,398		\$ 38,849,908	\$ 31,155,490
Private equity funds	51,091,001			51,091,001
Global equity funds	33,706,130		33,706,130	
Corporate bond funds	12,672,043		12,672,043	
Real estate funds	9,317,279			9,317,279
Commodity funds	6,723,130			6,723,130
Treasury inflation-protected securities (TIPS)	15,058,612		15,058,612	
Real estate	1,626,037			1,626,037
Private bond debenture	500,000			500,000
Other investments	2,249,793			2,249,793
Total Investments	<u>377,873,521</u>	<u>174,924,098</u>	<u>100,286,693</u>	<u>102,662,730</u>
Deposits held by trustee	6,122,612	6,122,612		
Beneficial interest in trusts held by others	<u>2,118,468</u>			<u>2,118,468</u>
 Total	 <u>\$ 386,114,601</u>	 <u>\$ 181,046,710</u>	 <u>\$ 100,286,693</u>	 <u>\$ 104,781,198</u>
LIABILITIES				
Interest rate exchange liability	<u>\$ 1,238,825</u>	<u>\$ -</u>	<u>\$ 1,238,825</u>	<u>\$ -</u>

ST. OLAF COLLEGE

NOTES TO FINANCIAL STATEMENTS
May 31, 2011 and 2010

NOTE 6 - INVESTMENTS AND FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)

The following table summarizes financial instruments measured at fair value on a recurring basis by classification within the fair value hierarchy as of May 31, 2010:

	Total	Level 1	Level 2	Level 3
ASSETS				
Investments				
Cash and short-term investments \$	3,992,376	\$ 3,992,376		
Marketable Securities				
Mutual funds	155,816,049	155,816,049		
Stocks	2,114,059	2,114,059		
Bonds	1,232,276	1,232,276		
Alternative Investments				
Hedge funds	57,083,187		\$ 40,460,774	\$ 16,622,413
Private equity funds	35,636,606			35,636,606
Global equity funds	24,626,019		24,626,019	
Corporate bond funds	11,362,317		11,362,317	
Real estate funds	6,654,392			6,654,392
Commodity funds	3,768,206			3,768,206
Treasury inflation-protected securities (TIPS)	13,899,825		13,899,825	
Real estate	1,694,137			1,694,137
Private bond debenture	590,000			590,000
Other investments	2,184,426			2,184,426
Total Investments	320,653,875	163,154,760	90,348,935	67,150,180
Deposits held by trustee	3,278,268	3,278,268		
Beneficial interest in trusts held by others	1,877,586			1,877,586
Total	\$ 325,809,729	\$ 166,433,028	\$ 90,348,935	\$ 69,027,766
LIABILITIES				
Interest rate exchange liability	\$ 1,279,276	\$ -	\$ 1,279,276	\$ -

The following methods and assumptions were used to estimate the fair value for each class of financial instrument measured at fair value:

Cash and short-term investments - The fair value of short-term investments, consisting primarily of money market funds, is classified as Level 1 as these funds are traded on a regular basis.

Mutual funds - Mutual funds are classified as Level 1 if they are traded in an active market for which closing prices are readily available.

Stocks - Investments in stocks are measured at fair value using quoted market prices. They are classified as Level 1 as they are traded in an active market for which closing stock prices are readily available.

Bonds - Investments in bonds are comprised of U.S. Treasury notes and bonds which are classified as Level 1 as they trade with sufficient frequency and volume to enable the College to obtain pricing information on an ongoing basis.

ST. OLAF COLLEGE

NOTES TO FINANCIAL STATEMENTS

May 31, 2011 and 2010

NOTE 6 - INVESTMENTS AND FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)

Alternative investments – At May 31, 2011 and 2010, investments in hedge funds, private equity funds, real estate partnerships, real estate funds, funds of funds, and real assets partnerships for which there is no readily determinable fair value are classified as level 3 if the valuation is based on significant unobservable inputs. In cases where the investee has provided its investors with a net asset value per share that has been calculated in accordance with the AICPA Audit and Accounting Guide, *Investment Companies*, the College has estimated its fair value 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.

FASB guidance allows for the use of the NAV as a “practical expedient” estimating the fair value of alternative investments. NAV reported by each alternative investment fund is used as a practical expedient to estimate the fair value of the College’s interest in the fund. Investments are categorized as Level 2 instruments when the College has the ability to redeem its investment in the entity at the NAV per share in the near term. If the College does not know when it will have the ability to redeem its investment or it does not have the ability to redeem its investment at NAV per share in the near term, the investments are categorized as Level 3 instruments. The College generally considers a redemption period of 90 days or less to be considered near term.

Hedge funds - The College’s hedge fund portfolio includes funds focused on absolute return, security selection, and hedging. Management of the hedge funds has the ability to shift investments from value to growth strategies, from small to large capitalization stocks, and from a net long position to a net short position. The fair values of the investments in this category have been estimated using the net asset value per share of the investments. The funds’ redemption terms range from monthly, quarterly, semi-annual, or annual liquidity with 30 to 180 days notice. Investments representing approximately 25 percent of the value of the investments in this category cannot be redeemed because the investments include restrictions that do not allow for redemption in the first 12 to 36 months after acquisition. The remaining restriction period for these investments ranged from 4 to 16 months at May 31, 2011.

Private equity funds - The College’s private equity fund portfolio includes funds that have a broad range of investment objectives. The portfolio contains diversified funds of funds focused on the three primary sectors of private equity; venture, buyout, and special situations, as well as smaller direct funds that have more specific niche strategies. All but one of the investments is illiquid, with no redemption provisions. Instead, the nature of the investments in this category is that distributions are received through the liquidation of the underlying assets of the fund. If the College held the underlying investments, it is estimated that the underlying assets of the fund would be liquidated over a shorter time period than the fund. However, as of May 31, 2011, it is probable that all of the investments in this category will be sold at an amount different from the net asset value of the College’s ownership interest in partners’ capital. Therefore, the fair values of the investments in this category have been estimated by the fund managers using recent observable transaction information for similar investments and non-binding bids received from potential buyers of the investments.

Global equity funds - The College’s global equity fund portfolio includes two limited partnership investments both holding long-only domestic and international equities. The redemption terms are either monthly liquidity with 10 days notice or quarterly liquidity with 30 days notice. The fair values of the funds are provided by the fund managers using net asset value.

Corporate bond funds - The College’s corporate bond funds portfolio included only one limited partnership investment at the balance sheet date; the fund invests in international long-only fixed income securities. The fund can be redeemed on a daily basis with ten days notice. The fair value of the fund is provided by the fund manager using net asset value.

ST. OLAF COLLEGE

NOTES TO FINANCIAL STATEMENTS

May 31, 2011 and 2010

NOTE 6 - INVESTMENTS AND FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)

Real estate funds - The College's real estate fund portfolio includes funds having diversified investment objectives ranging from funds of funds that focus on domestic commercial properties to direct open-ended real estate investment trusts (REITs). The fair values of the investments in this category have been estimated using the net asset value of the College's ownership interest in partners' capital. The REITs have quarterly liquidity with 45 or 60 days notice. The other investments can never be redeemed with the funds. Distributions from each fund will be received as the underlying investments of the funds are liquidated. It is estimated that the underlying assets of the fund will be liquidated over the next 1 to 14 years. The fair values of the investments in this category have been estimated by the fund managers either using recent observable transaction information for similar investments or non-binding bids received from potential buyers of the investments.

Commodity funds - The College's commodity fund portfolio includes funds of funds investments that either focus on natural resources or energy. The fair values of the investments in this category have been estimated using the net asset value of the College's ownership interest in partners' capital. All investments in the portfolio are illiquid, having no redemption provisions. Distributions from each fund will be received as the underlying investments of the funds are liquidated. It is estimated that the underlying assets of the fund will be liquidated over the next 6 to 15 years. The fair values of the investments in this category have been estimated by the fund managers either using recent observable transaction information for similar investments or non-binding bids received from potential buyers of the investments.

Treasury inflation-protected securities (TIPS) - The College's treasury inflation-protected securities portfolio includes one fund at the balance sheet date. The fund can be redeemed on a daily basis with intraday notice. The fair value of the fund is provided by the fund manager using net asset value.

Real estate - Investments in real estate for which there is no readily determinable fair value are classified as Level 3 as the valuation is based on significant unobservable inputs. The College has estimated fair value using inputs such as cost, appraisals, and the county assessed value.

Private bond debenture - The investment in a private bond debenture for which there is no readily determinable fair value is classified as Level 3 as the valuation is based on significant unobservable inputs. The College has estimated fair value using the face value of the bond debenture.

Other investments - Investments, such as ownership interests in insurance contracts, are categorized as other investments. These investments are categorized as Level 3 as the valuation is based on significant unobservable inputs.

Deposits held by trustee - The College's deposits held by a trustee are measured at fair value using quoted market prices. They are classified as Level 1 because they trade with sufficient frequency and volume to enable the College and its trustee to obtain pricing information on an ongoing basis. These deposits are held by the trustee as amounts restricted for debt service, as required by the related trust indenture.

Beneficial interest in trusts held by others - The College's beneficial interest in irrevocable split interest agreements or trusts held or controlled by a third party are classified as Level 3 as the fair values are based on a combination of Level 2 inputs (interest rates and yield curves) and significant unobservable inputs (entity specific estimates of cash flows). The fair values are measured as the present value of the future distributions the College expects to receive over the term of the agreements.

Interest rate exchange liability - Interest rate exchange agreements are classified as Level 2 as the fair value is based on observable inputs to a valuation model (interest rates, credit spreads, etc.) which take into account the present value of the estimated future cash flows and credit valuation adjustments.

ST. OLAF COLLEGE

NOTES TO FINANCIAL STATEMENTS
May 31, 2011 and 2010

NOTE 6 - INVESTMENTS AND FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)

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

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

The amount of total gains or (losses) for the period included in change in net assets attributable to the change in unrealized gains or losses relating to Level 3 financial instruments still held at May 31, 2011.

\$ 10,646,501

ST. OLAF COLLEGE

NOTES TO FINANCIAL STATEMENTS
May 31, 2011 and 2010

NOTE 6 - INVESTMENTS AND FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)

The following table presents a reconciliation of the statement of financial position amounts for financial instruments measured at fair value on a recurring basis using significant unobservable inputs (Level 3) for the year ended May 31, 2010:

	Balances May 31, 2009	Net realized and unrealized gains (losses)	Purchases	Sales	Net transfers in (out) of Level 3	Balances May 31, 2010
Assets						
<u>Alternative Investments</u>						
Hedge funds	\$ 54,143,089	\$ (1,691,295)	\$ 8,000,000	\$ (2,612,379)	\$ (41,217,002)	\$ 16,622,413
Private equity funds	23,235,743	6,312,454	6,532,210	(443,801)		35,636,606
Real estate funds	8,806,790	(3,360,732)	1,256,871	(48,537)		6,654,392
Global equity fund	25,586,066				(25,586,066)	
Corporate bond funds	10,826,386				(10,826,386)	
Commodity funds	1,344,159	371,766	2,222,184	(169,903)		3,768,206
Real estate	1,844,537	(327,400)	177,000			1,694,137
Private bond debenture	6,120,000			(5,530,000)		590,000
Other investments	1,671,288	78,885	479,605	(45,352)		2,184,426
Beneficial interest in trusts held by others	1,765,685	138,393		(26,492)		1,877,586
Total	\$ 135,343,743	\$ 1,522,071	\$ 18,667,870	\$ (8,876,464)	\$ (77,629,454)	\$ 69,027,766

The amount of total gains or (losses) for the period included in change in net assets attributable to the change in unrealized gains or losses relating to Level 3 financial instruments still held at May 31, 2010.

\$ 2,659,019

At May 31, 2011, the College's remaining outstanding commitments to alternative investments totaled \$52,528,758. The projected capital call amounts for the next five fiscal years and thereafter are summarized in the table below:

Year Ending May 31:	Hedge funds	Private equity funds	Real estate funds	Commodity funds	Total
2012	\$ 8,000,000	\$ 6,715,000	\$ 698,000	\$ 3,725,000	\$ 19,138,000
2013		5,910,000	615,000	3,275,000	9,800,000
2014		5,370,000	558,000	2,980,000	8,908,000
2015		4,830,000	503,000	2,680,000	8,013,000
Thereafter		4,018,000	419,000	2,233,000	6,670,000
Total	\$ 8,000,000	\$ 26,843,000	\$ 2,793,000	\$ 14,893,000	\$ 52,529,000

ST. OLAF COLLEGE

NOTES TO FINANCIAL STATEMENTS

May 31, 2011 and 2010

NOTE 6 - INVESTMENTS AND FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)

The following table presents the liquidity of the College's investments, as prescribed by Moody's Investor Services, as of May 31, 2011:

Assets	Monthly Liquidity	Annual Liquidity	Lockup > 1 Year	Total
Cash	\$ 4,390,053			\$ 4,390,053
Stocks	27,326			27,326
Mutual funds	141,279,206			141,279,206
Treasury-inflation protected securities (TIPS)	15,058,612			15,058,612
Global equity funds	17,552,840	\$ 16,153,290		33,706,130
Corporate bond funds	12,672,043			12,672,043
Hedge funds	2,294,304	62,139,571	\$ 5,571,523	70,005,398
Private equity funds		9,842,072	41,248,929	51,091,001
Real estate funds		2,555,952	6,761,327	9,317,279
Commodity funds			6,723,130	6,723,130
Real estate			956,337	956,337
Deferred gift investments			32,336,031	32,336,031
Agency funds			12,721	12,721
Other investments			298,254	298,254
Total	\$ 193,274,384	\$ 90,690,885	\$ 93,908,252	\$ 377,873,521

Certain investments included as having annual liquidity in the schedule above have provisions allowing the College to access funds in 45 and 90 days.

The total return on all investments held by the endowment funds, on a market basis, was 20.48% and 12.90% for the years ended May 31, 2011 and 2010, respectively.

ST. OLAF COLLEGE

NOTES TO FINANCIAL STATEMENTS
May 31, 2011 and 2010

NOTE 7 - ENDOWMENT

The College's endowment consists of approximately 1,200 individual funds established for a variety of purposes. The endowment includes both donor-restricted endowment funds and funds designated by the Board of Regents to function as endowments. As required by U.S. generally accepted accounting principles, net assets associated with endowment funds, including funds designated by the Board of Regents as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

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

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

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

Endowment net asset composition by type of fund consists of the following as of May 31, 2010:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Donor-restricted endowment funds	\$ (2,544,463)	\$ 56,108,880	\$ 125,720,195	\$ 179,284,612
Board-designated endowment funds	<u>96,559,934</u>			<u>96,559,934</u>
Total endowment net assets	<u>\$ 94,015,471</u>	<u>\$ 56,108,880</u>	<u>\$ 125,720,195</u>	<u>\$ 275,844,546</u>

ST. OLAF COLLEGE

NOTES TO FINANCIAL STATEMENTS
May 31, 2011 and 2010

NOTE 7 - ENDOWMENT (CONTINUED)

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

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

Changes in endowment net assets for the year ended May 31, 2010 are as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, May 31, 2009	\$ 83,121,634	\$ 45,869,169	\$ 120,434,636	\$ 249,425,439
Total investment return	14,592,522	17,011,798	173,938	31,778,258
Contributions	380,146	78,821	2,746,646	3,205,613
Appropriation of endowment assets for:				
Operating expenditures	(4,986,970)	(7,253,528)		(12,240,498)
Non-operating expenditures	(47,044)		(17,064)	(64,108)
Other changes:				
Transfers of unspent operating funds	955,183	402,620		1,357,803
Matured deferred gifts			2,382,039	2,382,039
Endowment net assets, May 31, 2010	<u>\$ 94,015,471</u>	<u>\$ 56,108,880</u>	<u>\$ 125,720,195</u>	<u>\$ 275,844,546</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 \$428,453 and \$2,544,463 as of May 31, 2011 and 2010, 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

May 31, 2011 and 2010

NOTE 7 - ENDOWMENT (CONTINUED)

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

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

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

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

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

ST. OLAF COLLEGE

NOTES TO FINANCIAL STATEMENTS
May 31, 2011 and 2010

NOTE 8 - PROPERTY, PLANT AND EQUIPMENT

At May 31, 2011 and 2010, property, plant and equipment consisted of the following:

	<u>2011</u>	<u>2010</u>
Land	\$ 1,204,799	\$ 1,204,799
Improvements other than buildings	12,827,440	12,089,080
Buildings	248,730,336	225,108,016
Equipment	43,950,247	40,448,322
Library materials	22,197,212	20,999,722
Art collection	1,241,342	1,197,788
Construction in progress	2,740,851	10,868,268
	<u>332,892,227</u>	<u>311,915,995</u>
Less: Accumulated depreciation	<u>(119,028,896)</u>	<u>(109,368,605)</u>
	<u>\$ 213,863,331</u>	<u>\$ 202,547,390</u>

The majority of the costs of construction in progress as of May 31, 2011 were the renovation of an Administrative Building, totaling approximately \$1,183,000, and a student dormitory renovation, totaling approximately \$570,000.

NOTE 9 - ACCRUED LIABILITIES

At May 31, 2011 and 2010, accrued liabilities consisted of the following:

	<u>2011</u>	<u>2010</u>
Payroll	\$ 8,691,744	\$ 8,327,571
Self-insurance reserve (Note 10)	285,000	285,000
Post-retirement benefit obligation (Note 11)	3,778,568	3,766,064
Interest	537,756	336,815
Other	258,443	98,905
	<u>\$ 13,551,511</u>	<u>\$ 12,814,355</u>

NOTE 10 - SELF-INSURANCE

The College provides medical benefits through a self-insurance plan, which is available to all employees of the College who meet the eligibility requirements for certain medical expenses. Accrued liabilities include an incurred but not reported reserve of approximately \$285,000 at both May 31, 2011 and 2010, 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 \$125,000 per claim with an aggregate stop loss of approximately \$6,800,000. As of May 31, 2011 and 2010, the College had unrestricted net assets of \$1,605,746 and \$1,731,584, 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

May 31, 2011 and 2010

NOTE 11 - RETIREMENT PLANS AND POSTRETIREMENT BENEFIT PLAN

The College has certain contributory defined contribution pension plans for employees. All employees are eligible to participate after meeting certain eligibility requirements. College contributions are based upon a percentage of salaries. The College's contributions to the retirement plans approximated \$3,656,000 and \$3,430,000 for the years ended May 31, 2011 and 2010, 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, 2011 and 2010:

	2011	2010
<i>Change in benefit obligation</i>		
Benefit obligation at beginning of year	\$ 6,920,555	\$ 7,678,966
Service cost	88,016	72,486
Interest cost	330,464	320,014
Plan participants' VEBA contributions	38,626	55,476
Employer VEBA contributions	1,018,076	726,960
Actuarial gain	431,614	(1,210,616)
Benefits paid	(571,146)	(722,731)
Benefit obligation at end of year	<u>\$ 8,256,205</u>	<u>\$ 6,920,555</u>
<i>Change in plan assets</i>		
Fair value of plan assets at beginning of year	\$ 3,154,491	\$ 2,097,242
Actual return on plan assets	556,752	598,980
Employer contributions	1,298,914	1,173,172
Plan participants' contributions	38,626	7,828
Benefits paid	(571,146)	(722,731)
Fair value of plan assets at end of year	<u>\$ 4,477,637</u>	<u>\$ 3,154,491</u>
<i>Funded status</i>		
Funded status at end of year	<u>\$ (3,778,568)</u>	<u>\$ (3,766,064)</u>
<i>Amounts recognized in the statement of financial position consist of:</i>		
Current liabilities	\$ (348,000)	\$ (353,000)
Noncurrent liabilities	(3,430,568)	(3,413,064)
Net amount recognized (Note 9)	<u>\$ (3,778,568)</u>	<u>\$ (3,766,064)</u>

ST. OLAF COLLEGE

NOTES TO FINANCIAL STATEMENTS
May 31, 2011 and 2010

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

	<u>2011</u>	<u>2010</u>
<i>Amounts recognized in change in net assets consist of:</i>		
Prior service cost	\$ (1,041,086)	\$ (1,192,334)
Net actuarial loss	1,636,683	1,657,745
Accumulated change in net assets	<u>\$ 595,597</u>	<u>\$ 465,411</u>
<i>Weighted-average assumptions used to determine benefit obligations at May 31</i>		
Discount rate	4.35%	4.90%
Expected return on plan assets	5.00%	5.00%
Rate of compensation increase	0.00%	0.00%
<i>Components of net periodic benefit cost</i>		
Service cost	\$ 88,016	\$ 72,486
Interest cost	330,464	320,014
Expected return on plan assets	(157,725)	(104,862)
Amortization of prior service cost	(151,248)	(151,248)
Amortization of net loss	53,649	43,955
Net periodic postretirement benefit cost	<u>\$ 163,156</u>	<u>\$ 180,345</u>
<i>Changes in net assets</i>		
Net (gain) loss	\$ 32,587	\$ (1,704,734)
Amortization of prior service cost	151,248	151,248
Amortization of net gain	(53,649)	(43,955)
Total recognized in change in net assets	<u>\$ 130,186</u>	<u>\$ (1,597,441)</u>
Total recognized in net periodic benefit cost and change in net assets	<u>\$ 293,342</u>	<u>\$ (1,417,096)</u>
<i>Weighted-average assumptions used to determine net periodic benefit cost as of June 1</i>		
Discount rate	4.90%	6.35%
Expected return on plan assets	5.00%	5.00%
Rate of compensation increase	0.00%	0.00%
<i>Assumed health care cost trend rates at May 31</i>		
Health care cost trend rate assumed for next year	8.79% - Post 65 8.54% - Pre 65	9.49% - Post 65 9.24% - 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
May 31, 2011 and 2010

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

During the fiscal year ending May 31, 2012, the College expects to contribute \$348,000 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 \$735,000 to the VEBA for current employees during the fiscal year ending May 31, 2012.

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

2012	\$	348,000
2013		350,000
2014		345,000
2015		345,000
2016		353,000
2017 – 2020		1,457,000

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

NOTE 12 - ASSET RETIREMENT OBLIGATIONS

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

The following shows the activity in the College's asset retirement obligation liability at May 31, 2011 and 2010:

	2011	2010
Balance at beginning of the year	\$ 2,699,657	\$ 2,568,376
Abatement costs	(187,389)	(559,311)
Accretion expense	134,983	340,978
Adjustments to estimates	(120,957)	349,614
Balance at end of the year	\$ 2,526,294	\$ 2,699,657

ST. OLAF COLLEGE

NOTES TO FINANCIAL STATEMENTS
May 31, 2011 and 2010

NOTE 13 - LONG-TERM DEBT

Long-term debt at May 31, 2011 and 2010 consisted of the following:

	2011	2010
Minnesota Higher Education Facilities Authority Variable Rate Demand Revenue Bonds, Series Five-H	\$	\$ 14,475,000
Minnesota Higher Education Facility Authority Variable Rate Demand Revenue Bonds, Series Five-M1		12,205,000
Minnesota Higher Education Facility Authority Variable Rate Demand Revenue Bonds, Series Five-M2	8,750,000	13,420,000
Minnesota Higher Education Facility Authority Revenue Bonds, Series Six-O	41,950,000	43,145,000
Minnesota Higher Education Facility Authority Revenue Bonds, Series Seven-F	32,440,000	
Principal Outstanding on Bonds	83,140,000	83,245,000
Premium on Series Six-O Revenue Bonds	669,106	700,470
Premium on Series Seven Revenue Bonds	1,545,701	
Total Long-Term Debt	\$ 85,354,807	\$ 83,945,470

Minnesota Higher Education Facilities Authority Variable Rate Demand Revenue Bonds, Series Five-H, were issued in the amount of \$14,475,000 to finance the renovation of St. Olaf Center to house the art and dance departments, replace residence hall furniture, replace Skoglund Athletic Center bleachers, acquire and renovate four houses, renovate the Administration Building, and renovate and improve utility tunnels. The bonds were issued October 25, 2000. The Series Five-H Bonds were the subject of an advance refunding as a portion of the Series Seven-F Bonds. The Series Five-H Bonds were settled on October 1, 2010.

Minnesota Higher Education Facilities Authority Variable Rate Demand Revenue Bonds, Series Five-M1, were issued in the amount of \$12,205,000 to finance the construction of the Tostrud Recreation Center. The bonds were issued April 16, 2002. The Series Five-M1 Bonds were the subject of an advance refunding as a portion of the Series Seven-F Bonds. The Series Five-M1 Bonds were settled on October 1, 2010.

Minnesota Higher Education Facilities Authority Variable Rate Demand Revenue Bonds, Series Five-M2, were issued in the amount of \$13,420,000 to refinance the Series 1992 bonds. The bonds were issued July 10, 2002 and will mature October 1, 2020. Interest on the bonds is payable monthly and no principal payments are required until the maturity date. A portion of the Series Five-M2 bonds totaling \$4,670,000 were subject to an advance refunding as a portion of the Series Seven-F Bonds, and settled on October 1, 2010. See Note 18 for information on the interest rate swap agreement applicable to this issue.

The Series Five-M2 bonds bear interest at a variable (daily reset) rate, which at May 31, 2011 was 0.14%, with an average rate of 0.23% for the 2011 fiscal year. The bonds are secured by (a) during the variable rate period, an unsecured standby letter of credit which expires on July 10, 2014, which is subject to certain covenants; (b) a pledge of amounts payable by the College under the loan agreement; and (c) money and investments held by the trustee under the indenture. The bonds are not secured by a mortgage or lien on, or a security interest in, any property of the College. The College incurs an effective letter of credit fee of 64.3 basis points on the unsecured standby letter of credit amount outstanding, and a remarketing fee equal to 12.5 basis points.

ST. OLAF COLLEGE

NOTES TO FINANCIAL STATEMENTS
May 31, 2011 and 2010

NOTE 13 - LONG-TERM DEBT (CONTINUED)

Minnesota Higher Education Facilities Authority Revenue Bonds Series Six-O were issued in the amount of \$45,405,000 in March 2007 to partially finance construction of a new science building and to complete an advance refunding of MHEFA Revenue Bonds Series Four-R. Interest payments on the bonds are payable semiannually on April 1 and October 1 through 2032. Annual principal payments range between \$1,245,000 and \$2,605,000 through 2032. The bonds bear interest rates from 4.00% to 5.00%. The bonds are secured by a pledge of loan repayment from the College and a reserve account.

Minnesota Higher Education Facilities Authority Revenue Bonds Series Seven-F were issued on August 31, 2010 in the par amount of \$32,440,000, plus a net premium of \$1,605,664, for total bond proceeds of \$34,045,664 to refinance variable rate debt. During the bond issuance, Moody's Investor Services improved the College's investment rating from A2 to A1. Interest payments on the bonds are payable semiannually on April 1 and October 1 through 2030. Annual principal payments range between \$1,105,000 and \$2,345,000 through 2030. The bonds bear interest rates from 1.30% to 4.50%. The bonds are secured by a pledge of loan repayment from the College and a reserve account and require that certain covenants be maintained. Below is a recap of the refinancing activity related to the Series Seven-F issue:

Full principal payment on Minnesota Higher Education Facilities Authority variable rate demand revenue bonds, Series Five-H	\$ 14,475,000
Full principal payment on Minnesota Higher Education Facilities Authority variable rate demand revenue bonds, Series Five-M1	12,205,000
Partial principal payment on Minnesota Higher Education Facilities Authority variable rate demand revenue bonds, Series Five-M2	4,670,000
Debt service reserve fund	2,402,369
Bond issuance costs	<u>293,295</u>
 Total bond proceeds	 <u>\$ 34,045,664</u>

The College maintains short-term investments and U.S. government securities held by a trustee for retirement of indebtedness that totaled \$6,122,612 and \$3,278,268 as of May 31, 2011 and 2010. These funds are intended to satisfy the reserve requirements of the Series Six-O issue and Series Seven-F issue.

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

Year Ending May 31:	As of <u>May 31, 2011</u>
2012	\$ 2,350,000
2013	2,420,000
2014	2,510,000
2015	2,620,000
2016	2,745,000
Thereafter	<u>70,495,000</u>
 Total	 <u>\$ 83,140,000</u>

ST. OLAF COLLEGE

NOTES TO FINANCIAL STATEMENTS

May 31, 2011 and 2010

NOTE 14 - SHORT-TERM CREDIT ARRANGEMENT

The College has an unsecured \$5,000,000 line of credit through Wells Fargo Bank. Borrowings under this line of credit bear interest at an annual rate of 50 basis points below the Bank's base (prime) rate. Interest is payable on the last day of each month. Principal, and any unpaid interest, is due on February 15, 2012. In addition, the agreement requires the College to comply with certain financial covenants. At May 31, 2011 and 2010, there were no outstanding borrowings under this arrangement.

NOTE 15 - ALLOCATION OF EXPENSES

The College allocated the following operating expenses to program and support functions, as displayed on the statement of activities, for the years ended May 31, 2011 and 2010 as follows:

	<u>2011</u>	<u>2010</u>
Operating expenses allocated:		
Interest expense	\$ 3,038,497	\$ 2,308,040
Operation and maintenance of plant	13,045,123	13,009,568
Depreciation	10,925,800	10,247,881
Accretion	13,082	340,978
Employee tuition allowance	<u>1,601,221</u>	<u>1,423,285</u>
	<u>\$ 28,623,723</u>	<u>\$ 27,329,752</u>

NOTE 16 - EXPENSES BY OBJECT

The expenses reported by function on the statement of activities and changes in net assets are summarized below by object for the years ended May 31, 2011 and 2010 as follows:

	<u>2011</u>	<u>2010</u>
Compensation	\$ 60,937,036	\$ 59,103,982
Depreciation, amortization, and accretion	11,143,283	10,588,859
Travel and meals	6,660,578	7,295,190
Food services	7,632,817	7,239,729
Contract, professional services, insurance, and taxes	6,002,677	5,589,705
Facilities - repairs, maintenance, utilities, fuel	4,820,212	5,015,163
Supplies, printing and postage	3,186,611	3,233,852
Interest	3,038,497	2,308,040
Telecommunications and information services	2,126,840	1,818,489
Memberships, awards, leases, and other	<u>3,487,568</u>	<u>3,245,798</u>
Total	<u>\$ 109,036,119</u>	<u>\$ 105,438,807</u>

ST. OLAF COLLEGE

NOTES TO FINANCIAL STATEMENTS
May 31, 2011 and 2010

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 1.8% to 11.6% for the years ended May 31, 2011 and 2010 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, 2011 and 2010 follows:

	<u>2011</u>	<u>2010</u>
Cash and investments	\$ 32,336,031	\$ 45,151,550
Interfund receivable	48,372	491,762
Beneficial interest in trusts held by others	2,118,468	1,877,586
Deposits held in trust for others	(1,130,097)	(900,650)
Annuities payable	<u>(12,380,504)</u>	<u>(12,348,115)</u>
	<u>\$ 20,992,270</u>	<u>\$ 34,272,133</u>
Net Assets		
Unrestricted	\$ 4,148,550	\$ 17,886,668
Temporarily restricted	1,663,453	1,481,056
Permanently restricted	<u>15,180,267</u>	<u>14,904,409</u>
	<u>\$ 20,992,270</u>	<u>\$ 34,272,133</u>

ST. OLAF COLLEGE

NOTES TO FINANCIAL STATEMENTS
May 31, 2011 and 2010

NOTE 18 - DERIVATIVES

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

The College entered into an interest rate exchange agreement (swap) in 2002 on the Series Five-M2 bonds. The notional value of the swap was originally set at \$13,420,000, with a fixed interest rate of 4.38%. The notional value of the swap decreases each year to reflect the original amortization schedule of the Series 1992 bonds. As of May 31, 2011, the notional value of the swap was \$8,750,000. Under the agreement, each month the College either pays additional interest or receives an interest credit depending on the relationship between the variable one month LIBOR rate and the fixed rate. The swap will mature on October 1, 2020. The College recorded a gain of \$40,451 and \$37,701 relating to the change in notional value of the agreement for the years ended May 31, 2011 and 2010, respectively. The gain is included in non-operating activities on the statement of activities. At May 31, 2011 and 2010, the College has recorded an interest rate exchange liability of \$1,238,825 and \$1,279,276 in the statements of financial position. In fiscal year 2011 and 2010 respectively, the College paid \$376,788 and \$405,407 more than it received in interest under the swap agreement. This difference is reflected as a non-operating activity within the interest rate swap gain (loss) net of settlements line on the statement of activities.

In 2008, the College started using futures and forward contracts to reduce or increase the endowments exposure to the financial markets. The aggregate notional value of the derivative contracts was \$5,119,102 and \$5,256,065 at May 31, 2011 and 2010, respectively. The contracts aggregate fair market value was \$27,324 and \$153,193 on May 31, 2011 and 2010, respectively, and was included as an investment on the statements of financial position. The income on the contracts realized during the year is represented in gains or losses on investments in the statement of activities. For the years ended May 31, 2011 and 2010, the College reported a realized gain/(loss) of \$1,484,793 and \$(9,451), respectively.

NOTE 19 - CONCENTRATIONS

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

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NOTES TO FINANCIAL STATEMENTS
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NOTE 19 - CONCENTRATIONS (CONTINUED)

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

NOTE 20 - RELATED PARTY TRANSACTIONS

The College has a signed contract with a construction company owned by a former member of the Board of Regents to renovate Tomson Hall in the amount of \$20,364,716, which was fulfilled during fiscal year ending May 31, 2011. The College also has signed contracts with this construction company in the approximate amounts of \$5,000,000, \$1,000,000, and \$500,000 to renovate an Old Administrative Building, install windows in Ellingson Hall, and repair the library floors and restrooms. As of May 31, 2011, approximately \$1,183,000 was expended on the Administrative Building contract. 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 \$1,222,000 and \$1,078,000 as of May 31, 2011 and 2010, respectively.

As of May 31, 2011 and 2010 approximately \$1,043,000 and \$9,983,000, respectively, of contributions receivable were due from members of the Board of Regents. Write-offs of contributions receivable from members or former members of the Board of Regents totaled approximately \$6,200,000 during the year ending May 31, 2011. Contribution revenue from members of the Board of Regents totaled approximately \$670,000 and \$6,102,000 for the years ending May 31, 2011 and 2010, 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, 2011 and 2010, the College's total value of these funds was approximately \$16,384,000 and \$8,857,000, respectively. The College's cumulative contributions to these investments as of May 31, 2011 and 2010 totaled approximately \$15,056,000 and \$10,306,000, respectively. The College's outstanding future commitments to these investments totaled approximately \$7,445,000 and \$12,268,000 at May 31, 2011 and 2010, respectively. The College has also received donations of privately issued debentures, in which a member of the Board of Regents is affiliated. These debentures are held as investments and as of May 31, 2011 and 2010 had market values of \$500,000 and \$590,000, respectively.

NOTE 21 – SUBSEQUENT EVENTS

The College has evaluated subsequent events through October 10, 2011, which is the date that the financial statements were issued.