

ST. OLAF COLLEGE
Northfield, Minnesota

Financial Statements
Including Independent Auditors' Report

May 31, 2004, 2003 and 2002

ST. OLAF COLLEGE

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INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying statements of financial position of St. Olaf College as of May 31, 2004, 2003 and 2002 and the related statements of activities and cash flows for the years then ended. These financial statements are the responsibility of the College's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of St. Olaf College at May 31, 2004, 2003 and 2002 and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Virchow, Krause & Company, LLP

Minneapolis, Minnesota
July 29, 2004
(except for Note 18, as to which the date is August 30, 2004)

ST. OLAF COLLEGE

STATEMENTS OF FINANCIAL POSITION
May 31, 2004, 2003, and 2002

ASSETS			
	<u>2004</u>	<u>2003</u>	<u>2002</u>
Cash and cash equivalents	\$ 11,107,568	\$ 10,828,966	\$ 8,245,465
Receivables			
Student accounts, net of allowance for doubtful			
accounts of \$536,700, \$513,900, and \$479,300	426,968	322,136	383,290
Contributions, net	7,209,141	9,446,961	12,777,868
Other	832,354	1,190,691	388,748
Inventories	791,649	764,921	717,036
Prepaid expenses and deposits	362,741	460,776	415,429
Student notes receivable, net of allowance for doubtful			
notes of \$93,000 each year	8,764,816	8,879,998	9,237,969
Investments			
Cash and short-term investments	4,238,795	2,541,670	5,027,310
Marketable securities	186,591,385	189,867,907	192,804,984
Mortgages and contracts for deed	782,090	293,775	177,186
Notes receivable	350,000	350,000	350,000
Real estate	14,037,820	5,417,387	6,026,557
Other investments	33,745,681	4,221,523	4,660,797
Deposits held by trustee	996,974	995,000	6,786,184
Deferred debt acquisition costs	359,837	374,224	617,527
Funds held in trust by others	1,692,857	1,191,861	1,478,380
Construction in progress	1,586,269	748,773	10,396,500
Property, plant and equipment	<u>123,858,970</u>	<u>125,240,624</u>	<u>113,407,236</u>
TOTAL ASSETS	<u>\$ 397,735,915</u>	<u>\$ 363,137,193</u>	<u>\$ 373,898,466</u>
LIABILITIES AND NET ASSETS			
LIABILITIES			
Accounts payable	\$ 2,002,609	\$ 1,511,042	\$ 2,989,719
Accrued liabilities	12,239,037	11,084,987	10,446,954
Deferred revenue	3,475,745	3,985,811	4,077,377
Annuities payable	16,082,972	15,623,208	16,609,966
Interest rate swap liability	942,626	2,031,726	
Long-term debt	53,920,000	54,200,000	56,123,114
U. S. government grants refundable	7,072,098	6,927,716	6,788,388
Deposits held in trust for others	<u>3,886,366</u>	<u>3,840,231</u>	<u>3,963,349</u>
Total Liabilities	<u>99,621,453</u>	<u>99,204,721</u>	<u>100,998,867</u>
NET ASSETS			
Unrestricted	135,559,414	109,193,136	123,376,754
Temporarily restricted	51,190,763	52,898,082	48,878,219
Permanently restricted	<u>111,364,285</u>	<u>101,841,254</u>	<u>100,644,626</u>
Total Net Assets	<u>298,114,462</u>	<u>263,932,472</u>	<u>272,899,599</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 397,735,915</u>	<u>\$ 363,137,193</u>	<u>\$ 373,898,466</u>

ST. OLAF COLLEGE

STATEMENT OF ACTIVITIES
Year Ended May 31, 2004

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

See accompanying notes to financial statements.

ST. OLAF COLLEGE

STATEMENT OF ACTIVITIES
Year Ended May 31, 2003

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

See accompanying notes to financial statements.

ST. OLAF COLLEGE

STATEMENT OF ACTIVITIES
Year Ended May 31, 2002

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
REVENUES, GAINS AND OTHER SUPPORT				
OPERATING REVENUES				
Tuition	\$ 62,256,325			\$ 62,256,325
Less: Unfunded scholarships and grants	(18,161,738)			(18,161,738)
Funded scholarships and grants	(3,521,627)			(3,521,627)
Net tuition	40,572,960			40,572,960
Other tuition and fees	3,359,784			3,359,784
Government grants	3,445,875	\$ 44,175		3,490,050
Private gifts and grants	4,108,412	4,000,698		8,109,110
Long-term investment income and gains allocated for operations	2,451,943	4,862,109		7,314,052
Other sources	1,635,257	616,693		2,251,950
Investment income	347,704	27,272		374,976
Net gains (losses) on investments and capital assets	(49,564)	31,848		(17,716)
Capital gifts allocated		1,103,654		1,103,654
Auxiliary enterprises - sales and services	15,763,298	4,446		15,767,744
	71,635,669	10,690,895		82,326,564
Net assets released from restrictions	9,294,363	(9,294,363)		
Total Operating Revenues, Gains and Other Support	80,930,032	1,396,532		82,326,564
OPERATING EXPENSES				
Program expenses				
Instruction	33,269,972			33,269,972
Research	887,352			887,352
Public service	3,024,459			3,024,459
Academic support	8,416,147			8,416,147
Student services	6,530,116			6,530,116
Auxiliary enterprises	14,650,842			14,650,842
Support expenses				
Institutional support	8,848,808			8,848,808
Fundraising	2,632,099			2,632,099
Total Operating Expenses	78,259,795			78,259,795
Change in Net Assets from Operating Activities	2,670,237	1,396,532		4,066,769
NONOPERATING ACTIVITIES				
Long-term investment activities				
Investment income	1,149,517	2,053,119	\$ 133,742	3,336,378
Net realized losses	(17,077)	(175,867)	(1,789)	(194,733)
Net unrealized depreciation	(6,526,333)	(942,688)	(312,085)	(7,781,106)
Total long-term investment income (loss)	(5,393,893)	934,564	(180,132)	(4,639,461)
Less: Long-term investment income and gains allocated for operations	(2,451,943)	(4,862,109)		(7,314,052)
	(7,845,836)	(3,927,545)	(180,132)	(11,953,513)
Student loan income net of expenses	20,897		36,088	56,985
Capital giving activities - gifts and grants	2,481,986	(6,584)	6,385,594	8,860,996
Deferred giving activities - gifts	14,613	4,328	277,557	296,498
Capital gifts allocated to operations		(1,103,654)		(1,103,654)
Adjustment to actuarial liability for annuities payable	236,257	4,901	(252,423)	(11,265)
Change in Net Assets from Nonoperating Activities	(5,092,083)	(5,028,554)	6,266,684	(3,853,953)
Change in Net Assets before Reclassification of Net Assets	(2,421,846)	(3,632,022)	6,266,684	212,816
Reclassification of prior year net assets	4,708,132	311,617	(5,019,749)	
Change in Net Assets	2,286,286	(3,320,405)	1,246,935	212,816
Net Assets - Beginning of Year	121,090,468	52,198,624	99,397,691	272,686,783
NET ASSETS - END OF YEAR	\$ 123,376,754	\$ 48,878,219	\$ 100,644,626	\$ 272,899,599

See accompanying notes to financial statements.

ST. OLAF COLLEGE

STATEMENTS OF CASH FLOWS
Years Ended May 31, 2004, 2003, and 2002

	2004	2003	2002
CASH FLOWS FROM OPERATING ACTIVITIES			
Change in net assets	\$ 34,181,990	\$ (8,967,127)	\$ 212,816
Adjustments to reconcile change in net assets to net cash flows from operating activities			
Loss on debt refinancing		919,163	
Depreciation and amortization expense	7,416,505	6,697,217	5,794,740
Net realized (gains) losses on investments	(25,338,162)	7,394,467	(517,745)
Net unrealized (appreciation) depreciation of investments	(7,281,955)	173,316	8,049,262
Interest rate swap (gain) loss	(1,089,100)	2,031,726	
Loss on dispositions of property, plant and equipment	5,290	15,000	
Provision for losses on student notes			10,000
Actuarial adjustment of annuities payable	976,811	1,013,666	1,866,601
Gifts of property, plant and equipment	(103,175)	(83,826)	(137,915)
(Increases) decreases in:			
Student accounts receivable	(104,832)	61,154	19,962
Contributions receivable for operations	364,065	852,399	(652,631)
Other receivables	358,337	(801,943)	(73,966)
Inventories, prepaid expenses and deposits	71,307	(93,232)	(59,968)
Funds held in trust by others	(500,996)	286,519	160,094
Increases (decreases) in:			
Accounts payable	500,112	(2,053)	(107,411)
Accrued liabilities	1,154,050	638,033	880,783
Deferred revenue	(510,066)	(91,566)	1,694,548
Gifts and grants received for long-term investment, net	(6,041,310)	(3,994,014)	(9,157,495)
Nonoperating investment income	(2,324,558)	(3,194,333)	(3,336,378)
Net Cash Flows from Operating Activities	<u>1,734,313</u>	<u>2,854,566</u>	<u>4,645,297</u>
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchases of property, plant and equipment	(6,768,620)	(10,275,326)	(19,203,825)
Withdrawals from deposits held by trustee for construction, net		3,753,837	15,205,900
Purchases of investments	(244,049,987)	(213,465,397)	(194,453,158)
Proceeds from sales of investments	240,269,386	212,505,323	192,397,694
Nonoperating investment income	2,324,558	3,194,333	3,336,378
Disbursements of loans to students	(1,625,094)	(1,294,973)	(1,177,880)
Repayments of loans by students	1,740,276	1,652,944	1,290,342
Net Cash Flows from Investing Activities	<u>(8,109,481)</u>	<u>(3,929,259)</u>	<u>(2,604,549)</u>
CASH FLOWS FROM FINANCING ACTIVITIES			
Principal repayments of indebtedness	(280,000)	(513,114)	(837,553)
Gifts and grants received for long-term investment, net	6,041,310	3,994,014	9,157,495
(Increase) decrease in nonoperating contributions receivable	1,873,755	2,478,508	(2,420,407)
Increase (decrease) in deposits held in trust for others	(608,630)	(247,417)	75,341
Increase (decrease) in U. S. government grants refundable, net	144,382	139,328	(33,934)
Increase in annuities payable from new gifts	1,683,729	498,372	346,364
Payments to annuitants	(2,200,776)	(2,498,796)	(2,643,647)
Debt issuance costs paid		(11,434)	
Deposit to escrow account for refinanced bonds		(181,267)	
Net Cash Flows from Financing Activities	<u>6,653,770</u>	<u>3,658,194</u>	<u>3,643,659</u>
Net Change in Cash and Cash Equivalents	278,602	2,583,501	5,684,407
CASH AND CASH EQUIVALENTS - Beginning of Year	<u>10,828,966</u>	<u>8,245,465</u>	<u>2,561,058</u>
CASH AND CASH EQUIVALENTS - END OF YEAR	<u>\$ 11,107,568</u>	<u>\$ 10,828,966</u>	<u>\$ 8,245,465</u>

ST. OLAF COLLEGE

NOTES TO FINANCIAL STATEMENTS May 31, 2004, 2003 and 2002

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES

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

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

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

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

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

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

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

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

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

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

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

ST. OLAF COLLEGE

NOTES TO FINANCIAL STATEMENTS
May 31, 2004, 2003 and 2002

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

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

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

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

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

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

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

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, and in 2002 includes \$3,753,837 of proceeds from long-term financing to be expended for plant facilities.

Debt Acquisition Costs - Costs of bond issuance, which relate to the College Facility Revenue Bonds, Series 1992 and the MHEFA Variable Rate Demand Revenue Bonds, Series Five-H, Series Five-M1 and Series Five-M2 are deferred and amortized on a straight-line basis over the term of the bonds.

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

ST. OLAF COLLEGE

NOTES TO FINANCIAL STATEMENTS

May 31, 2004, 2003 and 2002

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

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

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

	<u>2004</u>	<u>2003</u>	<u>2002</u>
State grants	\$ 1,776,759	\$ 1,828,063	\$ 1,809,903
Federal grants	1,060,220	943,186	843,512

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. However, any unrelated business income may be subject to taxation.

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

Advertising Expenses - Advertising costs are expensed when incurred.

Interest Rate Swap - The College has adopted Statement of Financial Accounting Standards (SFAS) No. 133, *Accounting for Derivative Instruments and Hedging Activities*, as amended by SFAS No. 138, *Accounting for Certain Derivative Instruments and Certain Hedging Activities*. SFAS Nos. 133 and 138 establish accounting and reporting standards for derivative instruments and for hedging activities. They require that all derivatives, including those embedded in other contracts, be recognized as either assets or liabilities and that those financial instruments are measured at fair value. Gains or losses resulting from changes in the fair values of derivatives are reflected in the statements of activities.

ST. OLAF COLLEGE

NOTES TO FINANCIAL STATEMENTS
May 31, 2004, 2003 and 2002

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

A reasonable estimate of the fair value of the annuities payable could not be made because the annuities are not saleable. The carrying amount of long-term debt and interest rate swap liability approximates fair value because these financial instruments bear interest at rates which approximate current market rates for notes with similar maturities and credit quality.

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

NOTE 2 - RESTRICTIONS AND LIMITATIONS ON NET ASSETS BALANCES

At May 31, 2004, 2003 and 2002, the College's unrestricted net assets were allocated as follows:

	2004	2003	2002
Designated			
For long-term purposes as:			
Quasi-endowment	\$ 66,383,964	\$ 48,563,955	\$ 65,420,500
Debt service and facility renewal	21,071,660	15,680,185	10,729,828
Deferred gifts	21,640,442	20,482,196	19,911,929
For debt service, construction, and renewals and replacements reserves under long-term debt agreements	879,303	875,333	6,504,425
For self-insurance program			92,119
For specific operating activities	2,308,905	1,263,125	821,598
For matching funds under federal government other student loan programs	1,222,585	1,167,620	1,113,955
Total Designated	113,506,859	88,032,414	104,594,354
Undesignated	22,052,555	21,160,722	18,782,400
	<u>\$ 135,559,414</u>	<u>\$ 109,193,136</u>	<u>\$ 123,376,754</u>

ST. OLAF COLLEGE

NOTES TO FINANCIAL STATEMENTS
May 31, 2004, 2003 and 2002

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

Temporarily restricted net assets consist of the following at May 31, 2004, 2003 and 2002:

	<u>2004</u>	<u>2003</u>	<u>2002</u>
Gifts and other unexpended revenues and gains available for:			
Scholarships, instruction and other support	\$ 7,521,998	\$ 7,999,679	\$ 7,768,944
Unamortized plant gifts	32,142,876	32,992,697	33,780,631
Acquisition of buildings and equipment	<u>794,836</u>	<u>605,156</u>	<u>636,085</u>
	40,459,710	41,597,532	42,185,660
Quasi-endowment	10,052,000	10,245,724	5,612,886
Deferred gifts	<u>679,053</u>	<u>1,054,826</u>	<u>1,079,673</u>
	<u>\$ 51,190,763</u>	<u>\$ 52,898,082</u>	<u>\$ 48,878,219</u>

Permanently restricted net assets consist of the following at May 31, 2004, 2003 and 2002:

Endowment funds	\$ 94,357,317	\$ 85,351,445	\$ 83,386,258
Student loan funds	2,058,677	2,024,635	1,955,026
Deferred gifts	<u>14,948,291</u>	<u>14,465,174</u>	<u>15,303,342</u>
	<u>\$ 111,364,285</u>	<u>\$ 101,841,254</u>	<u>\$ 100,644,626</u>

NOTE 3 - NET ASSETS RELEASED FROM RESTRICTIONS

Net assets were released from temporary donor restrictions by incurring expenses satisfying the restricted purposes or by occurrence of events specified by the donors as follows for the years ended May 31, 2004, 2003 and 2002:

	<u>2004</u>	<u>2003</u>	<u>2002</u>
Amortization of contributions expended for long-lived assets	\$ 1,821,955	\$ 1,144,729	\$ 1,103,654
Scholarships, instruction and other departmental support	<u>15,440,604</u>	<u>7,756,442</u>	<u>8,190,709</u>
	<u>\$ 17,262,559</u>	<u>\$ 8,901,171</u>	<u>\$ 9,294,363</u>
These assets were reclassified as follows:			
Unrestricted operating net assets	\$ 10,435,120	\$ 6,401,603	\$ 9,294,363
Unrestricted nonoperating net assets	<u>6,827,439</u>	<u>2,499,568</u>	<u></u>
	<u>\$ 17,262,559</u>	<u>\$ 8,901,171</u>	<u>\$ 9,294,363</u>

ST. OLAF COLLEGE

NOTES TO FINANCIAL STATEMENTS May 31, 2004, 2003 and 2002

NOTE 4 - CONTRIBUTIONS RECEIVABLE

Contributions receivable include the following unconditional promises to give at May 31, 2004, 2003 and 2002:

	2004	2003	2002
Temporarily restricted - operations	\$ 892,131	\$ 1,435,731	\$ 2,424,690
Temporarily restricted - plant projects	33,000	8,400	544,335
Temporarily restricted - quasi-endowment	3,701,670	4,489,052	1,225,540
Permanently restricted - deferred gifts	5,000	14,745	16,268
Permanently restricted - endowment	3,156,583	5,418,204	10,448,228
Gross unconditional promises to give	7,788,384	11,366,132	14,659,061
Less: Unamortized discount	(182,314)	(495,445)	(757,929)
Allowance for uncollectible promises	(396,929)	(1,423,726)	(1,123,264)
	<u>\$ 7,209,141</u>	<u>\$ 9,446,961</u>	<u>\$ 12,777,868</u>

Contributions receivable as of May 31, 2004 of \$4,851,492 are expected to be collected in less than one year and \$2,357,649 in two to five years. Contributions receivable expected to be collected in two to five years have been discounted using a rate of 6%.

NOTE 5 - MARKETABLE SECURITIES

The following summarizes the fair value of the College's marketable securities at May 31, 2004, 2003 and 2002:

	2004	2003	2002
Stocks	\$ 42,885,174	\$ 50,837,868	\$ 74,928,685
Bonds	18,233,225	8,465,090	26,668,874
Mutual funds	125,472,986	130,564,949	91,207,425
	<u>\$ 186,591,385</u>	<u>\$ 189,867,907</u>	<u>\$ 192,804,984</u>

The Board of Regents designates only a portion of the College's cumulative investment return for support of current operations; the remainder is retained to support operations of future years and to offset potential market declines.

State law allows the Board to appropriate as much of the net appreciation as is prudent considering the College's long and short-term needs, present and anticipated financial requirements, expected total return on its investments, price level trends, and general economic conditions. The Board has established an endowment spending rate ranging between 5% and 6% of the average endowment market value from the previous 12 quarters.

Endowment investments are recorded at a market value approximating \$185,409,286, \$151,495,367 and \$154,860,226 for the years ended May 31, 2004, 2003 and 2002, respectively. The total return on all investments held by the endowment funds, on a market basis, was 18.933%, (2.52)% and 0.758% for the years ended May 31, 2004, 2003 and 2002, respectively. Income from long-term investments are shown net of expenses of \$757,253, \$784,670 and \$909,179 for the years ended May 31, 2004, 2003 and 2002, respectively.

ST. OLAF COLLEGE

NOTES TO FINANCIAL STATEMENTS
May 31, 2004, 2003 and 2002

NOTE 6 - CONSTRUCTION IN PROGRESS

Construction in progress consisted of the following projects at May 31, 2004:

	<u>Estimated Total Cost</u>	<u>Costs to Date</u>	<u>Funding Plan</u>
New science center	\$ 56,000,000	\$ 544,976	Gifts
Boe Chapel	1,500,000	31,264	Current operations, Gifts
Christiansen Hall	100,000	2,937	Current operations
Boiler room roof	36,000	35,347	Current operations
WCAL tower	182,000	3,955	Current operations
Skoglund panic hardware	12,000	4,230	Current operations
Tennis courts resurface	50,000	105	Current operations
Kildahl water heater	29,000	28,330	Current operations
SIS software	700,000	480,984	Current operations
Library information system	325,000	230,541	Current operations, Grant
MRI Equipment	170,000	164,250	Current operations, Grant
S Dickinson start-up	55,000	19,976	Current operations, Grant
Beussman start-up	60,000	32,355	Current operations
R Rutherford start-up	45,000	<u>7,019</u>	Current operations
		<u>\$ 1,586,269</u>	

NOTE 7 - PROPERTY, PLANT AND EQUIPMENT

At May 31, 2004, 2003 and 2002 property, plant and equipment consisted of the following:

	<u>2004</u>	<u>2003</u>	<u>2002</u>
Land	\$ 814,914	\$ 814,914	\$ 814,914
Improvements other than buildings	7,867,845	7,435,879	6,327,434
Buildings	144,218,758	142,142,809	128,619,559
Equipment	32,382,637	30,300,366	27,420,737
Library materials	16,074,534	14,995,931	14,030,749
Art collection	909,308	847,632	818,882
	<u>202,267,996</u>	<u>196,537,531</u>	<u>178,032,275</u>
Less: Accumulated depreciation	<u>(78,409,026)</u>	<u>(71,296,907)</u>	<u>(64,625,039)</u>
	<u>\$ 123,858,970</u>	<u>\$ 125,240,624</u>	<u>\$ 113,407,236</u>

ST. OLAF COLLEGE

NOTES TO FINANCIAL STATEMENTS May 31, 2004, 2003 and 2002

NOTE 8 - RETIREMENT PLANS

The College has certain contributory defined contribution pension plans for academic and nonacademic personnel. The cost of these retirement plans is paid currently and approximated \$2,909,000, \$2,768,000 and \$2,633,000 for the years ended May 31, 2004, 2003 and 2002, respectively.

The College has recorded liabilities for early retirement benefits given to faculty and staff members meeting certain eligibility requirements. The unpaid liability for these early retirement plans is included in accrued liabilities and approximated \$597,000, \$336,000 and \$500,000 at May 31, 2004, 2003 and 2002, respectively.

NOTE 9 - POSTRETIREMENT BENEFIT PLAN

The College records health care benefits for current and future retired employees and covered dependents on the accrual basis. The plan is unfunded. The following tables set forth the plan's status with amounts reported in the College's financial statements at May 31, 2004, 2003 and 2002:

	Postretirement Benefits		
	2004	2003	2002
Accumulated postretirement benefit obligation	\$ 7,021,912	\$ 8,047,438	\$ 7,283,324
Fair value of plan assets	0	0	0
Underfunded status	\$ 7,021,912	\$ 8,047,438	\$ 7,283,324
Accrued benefit cost recognized	\$ 2,636,298	\$ 2,446,225	\$ 2,118,762
Net postretirement benefit cost	\$ 819,325	\$ 803,000	\$ 809,000
Employer contributions	\$ 629,251	\$ 475,537	\$ 417,786
Plan participant contributions	440,127	340,654	297,559
Benefits paid	\$ 1,069,378	\$ 816,191	\$ 715,345

A 9.64% pre-65 and 11.14% post-65 rate of increase in per capita costs of covered health care benefits was assumed for the year ended May 31, 2005 (lower rates are assumed for HMO plans), gradually decreasing to an ultimate rate of 4.5% by the year 2024. A discount rate of 6.5% was used to determine the accumulated postretirement benefit obligation.

In January 2004, the Financial Accounting Standards Board (FASB) issued FASB Staff Position (FSP) No. 106-1, "Accounting and Disclosure Requirements Related to the Medicare Prescription Drug, Improvement, and Modernization Act of 2003". The FSP permits a sponsor or a postretirement healthcare plan that provides a prescription drug benefit to make a one-time election to defer accounting for the effects of the Medicare Prescription Drug, Improvement, and Modernization Act of 2003 (the "Act") until authoritative guidance on the accounting for the federal subsidy is issued or until certain other events occur. The College has elected to defer recognition of the effects of the Act until further guidance is available. Therefore, the accumulated postretirement benefit obligation and the net periodic postretirement benefit cost do not reflect the impact of the new law.

ST. OLAF COLLEGE

NOTES TO FINANCIAL STATEMENTS May 31, 2004, 2003 and 2002

NOTE 10 - LONG-TERM DEBT

Long-term debt at May 31, 2004, 2003 and 2002 consisted of the following:

	<u>2004</u>	<u>2003</u>	<u>2002</u>
Minnesota Higher Education Facilities Authority Capital Lease Agreement (First Mortgage Revenue Bonds, Series Y)			\$ 205,000
College Facility Revenue Bonds, Series 1992			14,830,000
Minnesota Higher Education Facilities Authority Revenue Bonds, Series Four-R	\$ 13,820,000	\$ 14,100,000	14,370,000
Minnesota Higher Education Facilities Authority Variable Rate Demand Revenue Bonds, Series Five-H	14,475,000	14,475,000	14,475,000
Minnesota Higher Education Facility Authority Variable Rate Demand Revenue Bonds, Series Five-M1	12,205,000	12,205,000	12,205,000
Minnesota Higher Education Facility Authority Variable Rate Demand Revenue Bonds, Series Five-M2	13,420,000	13,420,000	
Other long-term debt			38,114
	<u>\$ 53,920,000</u>	<u>\$ 54,200,000</u>	<u>\$ 56,123,114</u>

Minnesota Higher Education Facilities Authority Capital Lease Agreement of 1979 was issued in connection with the First Mortgage Revenue Bonds Series Y to finance the Rand Hall dormitory construction. These bonds were fully defeased in April 1998. The final bond matured on April 1, 2003 with a payment of \$205,000. The bond bore interest at a rate of 6.75% per annum. The College exercised the option to purchase the leased premises for \$500 at the time the bonds were defeased.

The College Facility Revenue Bonds, Series 1992, were sold through the City of Northfield, Minnesota to refund, in advance of maturity, the City's \$13,100,000 College Facility Revenue Bonds, Series 1988 and to finance the costs of repairing and renovating two residence halls, expanding a campus water system, and expanding and repairing campus parking facilities. The bonds were redeemed in October 2002 at a redemption price of 102%. The bonds bore interest rates varying from 5.9% to 6.4%. The advance refunding of the Series 1992 bonds resulted in a loss of \$919,163 which is reflected as a nonoperating loss on the May 31, 2003 statement of activities.

ST. OLAF COLLEGE

NOTES TO FINANCIAL STATEMENTS
May 31, 2004, 2003 and 2002

NOTE 10 - LONG-TERM DEBT (CONTINUED)

Minnesota Higher Education Facilities Authority Revenue Bonds Series Four-R were issued in April 1998 to partially finance the Buntrock Commons Building and to finance an electrical generator, academic and administrative computers, payroll system hardware and software, classroom renovation and residence hall furniture. Principal and interest payments on the bonds are payable semiannually on April 1 and October 1 through 2029. Remaining annual principal payments range from \$290,000 to \$955,000. Bonds maturing on or after April 1, 2008 are callable at par value. The bonds that remain outstanding bear interest at rates varying from 4.30% to 5.25%.

Minnesota Higher Education Facilities Authority Variable Rate Demand Revenue Bonds, Series Five-H, were issued to finance the renovation of St. Olaf Center to house the art and dance departments, replace residence hall furniture, replace Skoglund Athletic Center bleachers, acquire and renovate four houses, renovate the Administration Building, and renovate and improve utility tunnels. The bonds were issued October 25, 2000 and will mature October 1, 2030. Interest on the bonds is payable monthly and no principal payments are required until the maturity date. The bonds bear interest at a variable (daily reset) rate, which at May 31, 2004 was 1.09%, with an average rate of 0.95% for the 2004 fiscal year. In addition to the variable rate interest, the bonds incur an effective letter of credit fee of 39.6 basis points on the letter of credit amount outstanding, and a remarketing fee equal to 12.5 basis points.

Minnesota Higher Education Facilities Authority Variable Rate Demand Revenue Bonds, Series Five-M1, were issued to finance the construction of the Tostrud Recreation Center. The bonds were issued April 16, 2002 and will mature October 1, 2032. Interest on the bonds is payable monthly and no principal payments are required until the maturity date. The bonds bear interest at a variable (daily reset) rate, which at May 31, 2004 was 1.09%, with an average rate of 0.95% for the 2004 fiscal year. In addition to the variable rate interest, the bonds incur an effective letter of credit fee of 63.4 basis points on the letter of credit amount outstanding, and a remarketing fee equal to 12.5 basis points.

Minnesota Higher Education Facilities Authority Variable Rate Demand Revenue Bonds, Series Five-M2, were issued to refinance the Series 1992 bonds. The bonds were issued July 10, 2002 and will mature October 1, 2020. Interest on the bonds is payable monthly and no principal payments are required until the maturity date. The bonds bear interest at a variable (daily reset) rate, which at May 31, 2004 was 1.09%, with an average rate of 0.95% for the 2004 fiscal year. In addition to the variable rate interest, the bonds incur an effective letter of credit fee of 63.4 basis points on the letter of credit amount outstanding, and a remarketing fee equal to 12.5 basis points. During 2003, the College entered into an interest rate swap on the Series Five-M2 bonds at a fixed rate until maturity of 4.38%. Under the swap agreement, the College either pays additional interest or receives an interest credit depending on the relationship between the variable rate and the fixed rate. The College recorded a gain of \$1,089,100 and a loss of \$2,031,726 relating to the swap agreement for the years ended May 31, 2004 and 2003, respectively, and the gain/loss is included in nonoperating activities on the statement of activities. At May 31, 2004 and 2003, the College has recorded an interest rate swap liability of \$942,626 and \$2,031,726, respectively, in the statement of financial position.

The College maintains short-term investments and U.S. government securities held by trustees for retirement of indebtedness totaling \$996,974. These funds are intended to satisfy the reserve requirements of the Four-R issues. In addition, the College is subject to various restrictive covenants under long-term debt indentures, including a requirement to maintain a minimum market value of unencumbered unrestricted endowment assets of at least \$3,000,000.

ST. OLAF COLLEGE

NOTES TO FINANCIAL STATEMENTS
May 31, 2004, 2003 and 2002

NOTE 10 - LONG-TERM DEBT (CONTINUED)

Anticipated long-term debt principal payments are as follows:

Year Ending May 31:	
2005	\$ 290,000
2006	305,000
2007	315,000
2008	335,000
2009	345,000
Thereafter	<u>52,330,000</u>
Total	<u>\$ 53,920,000</u>

Interest expense on long-term debt totaled \$1,842,338, \$2,079,016 and \$1,947,799 for the years ended May 31, 2004, 2003 and 2002, respectively. Interest totaling \$66,562 was capitalized during the year ended May 31, 2003.

NOTE 11 - SHORT-TERM CREDIT ARRANGEMENT

The College has an unsecured \$10,000,000 line of credit through Wells Fargo Bank. Borrowings under this line of credit bear interest at an annual rate of 50 basis points below the Bank's base (prime) rate. Interest is payable on the last day of each calendar quarter, beginning September 30. Principal, and any unpaid interest, is due on October 31. In addition, the agreement requires the College to comply with certain financial covenants. At May 31, 2004, 2003 and 2002, there were no outstanding borrowings under this arrangement.

NOTE 12 - SELF-INSURANCE

The College provides medical benefits through a self-insurance plan which is available to all employees of the College for certain medical expenses. Total resources committed to the self-insurance program were approximately \$523,300 as of May 31, 2004. Accrued liabilities include a \$1,107,900 reserve, an estimate of amounts due and payable on existing claims for which the College is self-insured and which are expected to be settled currently. The College is self-insured for the first \$75,000 per claim with an aggregate stop loss of \$4,297,349.

NOTE 13 - ALLOCATION OF EXPENSES

The College allocated the following expenses to program and support functions for the years ended May 31, 2004, 2003 and 2002 as follows:

	<u>2004</u>	<u>2003</u>	<u>2002</u>
Interest expense	\$ 1,842,338	\$ 2,079,016	\$ 1,947,799
Operation and maintenance of plant	8,447,768	8,067,514	7,714,253
Depreciation	<u>7,402,118</u>	<u>6,681,867</u>	<u>5,774,024</u>
	<u>\$ 17,692,224</u>	<u>\$ 16,828,397</u>	<u>\$ 15,436,076</u>

ST. OLAF COLLEGE

NOTES TO FINANCIAL STATEMENTS May 31, 2004, 2003 and 2002

NOTE 14 - DEFERRED GIFT AGREEMENTS

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

When a gift is received under one of these arrangements, it is split into the amount representing the actuarial present value of future distributions back to the donor and the remaining gift value to be retained for the benefit of the College or third-party beneficiaries. The actuarial liability is adjusted annually using actuarial tables appropriate for the type of arrangement, number of lives covered and age and sex characteristics of the donor. The College used interest rates of ranging from 3.6% to 11.6% for the years ended May 31, 2004, 2003 and 2002 in making the calculations.

Information pertaining to the College's deferred gift agreements for the years ended May 31, 2004, 2003 and 2002 follows:

	<u>2004</u>	<u>2003</u>	<u>2002</u>
Deferred gift income recognized	\$ 1,309,691	\$ 354,573	\$ 285,392
Annuities payable related to new gifts	1,683,729	498,372	346,364
Funds held for others related to new gifts	<u>22,890</u>	<u>3,114</u>	<u>37,617</u>
Total funds received	<u>\$ 3,016,310</u>	<u>\$ 856,059</u>	<u>\$ 669,373</u>
Total deferred gift assets held by the College at fair value	<u>\$ 54,776,511</u>	<u>\$ 52,833,398</u>	<u>\$ 54,168,757</u>
Total deferred gift liabilities	<u>\$ 17,508,725</u>	<u>\$ 16,831,202</u>	<u>\$ 17,873,814</u>

NOTE 15 - CONCENTRATIONS OF CREDIT RISK

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

ST. OLAF COLLEGE

NOTES TO FINANCIAL STATEMENTS
May 31, 2004, 2003 and 2002

NOTE 16 - ENDOWMENT FUND

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

NOTE 17 - SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION

	2004	2003	2002
Interest paid	\$ 1,844,333	\$ 1,835,408	\$ 1,955,880
<u>Noncash investing and financing activities</u>			
Property, plant and equipment acquired through accounts payable	\$ 305,229	\$ 313,774	\$ 1,790,398
Summary of bond issues			
Proceeds from bond issue		\$ 13,420,000	\$ 12,205,000
Reserve funds used for principal and interest payments on refinanced bonds		1,908,510	
College funds deposited to escrow account used for principal and interest payments on refinanced bonds		181,267	
Bond proceeds deposited to escrow account used for principal and interest payments on refinanced bonds		(14,830,000)	
Bond proceeds deposited to escrow account for construction projects			(12,031,009)
Issue costs paid from bond proceeds		(38,918)	(173,991)
Deferred debt acquisition costs on refinanced bonds written-off		278,304	
Loss on Refinancing	\$ —	\$ 919,163	\$ —

NOTE 18 - SUBSEQUENT EVENT

On August 11, 2004, the College announced the pending sale of Radio Stations WCAL and KMSE to Minnesota Public Radio for approximately \$10.5 million. Net proceeds of the sale will be invested in the College's endowment fund. The sale of WCAL and KSME is subject to prior approval of the Federal Communication Commission (FCC). An application for assignment of licenses was filed with the FCC on August 30, 2004. While FCC regulatory approval is expected in fiscal 2005, a Petition to Deny the application for FCC consent to the assignment of licenses was filed with the FCC. The College has filed a timely response to that petition. The stations accounted for less than 1% of the College's assets and net assets at May 31, 2004, 2003 and 2002 and between 2% and 3% of the College's total revenues and expenses for each of the years ended May 31, 2004, 2003 and 2002.