**OFFICIAL STATEMENT DATED AUGUST 26, 2010**

**NEW ISSUE** **Moody's Rating: A1**

*In the opinion of Bond Counsel, according to present State of Minnesota and federal laws, regulations and rulings, assuming compliance with certain covenants, the interest on the Bonds is not includable in gross income for federal income tax purposes or in taxable net income of individuals, estates and trusts for State of Minnesota income tax purposes, and is not an item of tax preference in determining federal or Minnesota alternative minimum tax applicable to individuals. Interest on the Bonds is subject to the State of Minnesota franchise tax applicable to corporations, including financial institutions, and is includable in the calculation of certain federal taxes imposed on corporations. The Bonds will not be designated as "qualified tax-exempt obligations" within the meaning of Section 265(b)(3) of the Internal Revenue Code. (See "TAX EXEMPTION.")*

ST · OLAF COLLEGE

# $32,440,000
# Minnesota Higher Education Facilities Authority
## Revenue Bonds, Series Seven-F
## (St. Olaf College)
**(DTC Book Entry Only)**

**Dated Date: Date of Delivery of the Bonds** **Interest Due: April 1 and October 1, commencing April 1, 2011**

The Bonds are to mature annually on October 1 as follows:

| Year | Amount | Rate | Yield | CUSIP 60416H: | Year | Amount | Rate | Yield | CUSIP 60416H: |
|---|---|---|---|---|---|---|---|---|---|
| 2011 | $1,105,000 | 2.000% | 0.80% | SW 5 | 2018 | $1,430,000 | 2.500% | 2.67% | TD 6 |
| 2012 | $1,125,000 | 2.000% | 1.00% | SX 3 | 2019 | $1,465,000 | 2.625% | 2.88% | TE 4 |
| 2013 | $ 500,000 | 1.300% | 1.28% | SY 1 | 2020 | $1,525,000 | 5.000% | 3.02%* | TF 1 |
| 2013 | $ 660,000 | 5.000% | 1.28% | TM 6 | 2021 | $1,600,000 | 5.000% | 3.17%* | TG 9 |
| 2014 | $1,210,000 | 5.000% | 1.51% | SZ 8 | 2022 | $1,675,000 | 4.250% | 3.40%* | TH 7 |
| 2015 | $1,260,000 | 3.000% | 1.94% | TA 2 | 2023 | $1,750,000 | 4.250% | 3.52%* | TJ 3 |
| 2016 | $1,310,000 | 5.000% | 2.24% | TB 0 | 2024 | $1,820,000 | 3.500% | 3.65% | TN 4 |
| 2017 | $1,375,000 | 5.000% | 2.51% | TC 8 | 2025 | $1,885,000 | 3.500% | 3.74% | TK 0 |

$10,745,000 4.500% Term Bonds due October 1, 2030 Yield 4.14%* CUSIP 60416H TL 8

* maturities are priced to the first optional call date of October 1, 2019.

The Bonds are subject to optional redemption in whole or in part prior to maturity, as described herein. See "THE BONDS – Prior Redemption – Optional Redemption." The Bonds will also be subject to optional redemption in whole or in part in certain cases of damage to or destruction or condemnation of the Project Facilities described in the Loan Agreement and the Indenture. The Bonds will be subject to optional redemption in whole or in part in the event of a Determination of Taxability, as described herein. Term Bonds are subject to mandatory redemption in installments as described herein.

The Bonds will be issued as fully registered Bonds without coupons and, when issued, will be registered in the name of Cede & Co., as nominee of The Depository Trust Company ("DTC"). DTC will act as securities depository of the Bonds. Individual purchases may be made in book entry form only, in the principal amount of $5,000 and integral multiples thereof. Purchasers will not receive certificates representing their interest in the Bonds purchased. See "THE BONDS – Book Entry System" herein. Wells Fargo Bank, National Association, Minneapolis, Minnesota, will act as Trustee.

The Bonds are special obligations of the Minnesota Higher Education Facilities Authority (the "Authority") payable solely from Loan Repayments made by or on behalf of St. Olaf College, a Minnesota non-profit corporation (the "College") pursuant to a Loan Agreement between the Authority and the College, or out of other amounts pledged pursuant to the Indenture as described herein. The Loan Repayments will be a general obligation of the College.

THE BONDS SHALL NOT BE LEGAL OR MORAL OBLIGATIONS OF THE STATE OF MINNESOTA, NOR SHALL THEY CONSTITUTE A DEBT FOR WHICH THE FAITH AND CREDIT OF THE AUTHORITY OR THE STATE OF MINNESOTA, OR THE TAXING POWERS OF THE STATE, ARE PLEDGED. THE AUTHORITY HAS NO TAXING POWERS.

The Bonds are offered when, as and if issued by the Authority and accepted by the Underwriter named below subject to the opinion as to validity and tax exemption of the Bonds by Fryberger, Buchanan, Smith & Frederick, P.A., Duluth, Minnesota, Bond Counsel. Certain legal matters will be passed upon for the College by Gray, Plant, Mooty, Mooty & Bennett, P.A., Minneapolis, Minnesota, and for the Underwriter by Faegre & Benson LLP, Minneapolis, Minnesota. The Bonds are expected to be available for delivery to the Underwriter at DTC on or about August 31, 2010.

---

**Piper Jaffray & Co.**

IN CONNECTION WITH THIS OFFERING, THE UNDERWRITER MAY OVER-ALLOT OR EFFECT TRANSACTIONS WHICH STABILIZE OR MAINTAIN THE MARKET PRICE OF THE BONDS AT A LEVEL ABOVE THAT WHICH MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET. SUCH STABILIZING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME.

No dealer, broker, sales representative or other person has been authorized by the Authority, the College, or the Underwriter to give any information or to make any representations other than those contained in this Official Statement and, if given or made, such other information or representations must not be relied upon as having been authorized by the Authority, the College or the Underwriter. The information contained herein, except as it relates to the Authority, DTC, and the Trustee, has been obtained from the College and is not guaranteed as to accuracy or completeness. Information relating to the Authority, DTC and the Trustee has been obtained from such persons and is not guaranteed as to accuracy or completeness. Information regarding the tax-exempt status of the Bonds has been provided by Bond Counsel. Except for information concerning the Authority, the information contained herein is not to be construed as a representation by the Authority. Information and expressions of opinion herein are subject to change without notice and neither the delivery of this Official Statement nor any sale made hereunder shall under any circumstances create any implication that there has been no change in the affairs of the Authority or the College since the date hereof.

References in this Official Statement to laws, rules, regulations, agreements, and any other documents do not purport to be comprehensive or definitive. All references to such documents are qualified in their entirety by reference to the particular document, the full text of which may contain qualifications of and exceptions to statements made herein. Where full texts of such documents have not been included as appendices hereto, they will be furnished on request.

The Underwriter has provided the following sentence for inclusion in this Official Statement. The Underwriter has reviewed the information in this Official Statement in accordance with, and as part of, their responsibilities to investors under the federal securities laws as applied to the facts and circumstances of this transaction, but the Underwriter does not guarantee the accuracy or completeness of such information.

IN MAKING AN INVESTMENT DECISION INVESTORS MUST RELY ON THEIR OWN EXAMINATION OF THE ISSUE AND THE TERMS OF THE OFFERING, INCLUDING THE MERITS AND RISKS INVOLVED.

The Bonds have not been registered with the Securities and Exchange Commission by reason of the provisions of Section 3(a)(2) of the Securities Act of 1933, as amended. This Official Statement does not constitute an offer to sell or the solicitation of any offer to buy, and there shall not be any sale of the Bonds by any person in any state in which it is unlawful for such person to make such offer, solicitation or sale. The registration or qualification of these securities in accordance with applicable provisions of securities laws of the jurisdictions in which the Bonds may be registered or qualified and the exemption from registration or qualification in other jurisdictions shall not be regarded as a recommendation thereof. Neither these jurisdictions nor any of their agencies have passed upon the merits of the Bonds or the accuracy or completeness of this Official Statement. Any representation to the contrary may be a criminal offense.

Certain of the parties involved in this financing have agreed to indemnify certain other parties for any untrue statement of a material fact contained in this Official Statement or any omission to state a material fact necessary to be stated in this Official Statement in order to make the statements contained herein not misleading.

THIS OFFICIAL STATEMENT CONTAINS STATEMENTS WHICH SHOULD BE CONSIDERED "FORWARD-LOOKING STATEMENTS," MEANING THEY REFER TO POSSIBLE FUTURE EVENTS OR CONDITIONS. SUCH STATEMENTS ARE GENERALLY IDENTIFIABLE BY

WORDS SUCH AS "PLAN," "EXPECT," "ESTIMATE," "BUDGET" OR SIMILAR WORDS. THE ACHIEVEMENT OF CERTAIN RESULTS OR OTHER EXPECTATIONS CONTAINED IN SUCH FORWARD-LOOKING STATEMENTS INVOLVE KNOWN AND UNKNOWN RISKS, UNCERTAINTIES AND OTHER FACTORS WHICH MAY CAUSE ACTUAL RESULTS, PERFORMANCE OR ACHIEVEMENTS DESCRIBED TO BE MATERIALLY DIFFERENT FROM ANY FUTURE RESULTS, PERFORMANCE OR ACHIEVEMENTS EXPRESSED OR IMPLIED BY SUCH FORWARD-LOOKING STATEMENTS. NEITHER THE UNIVERSITY NOR ANY OTHER PARTY EXPECTS OR INTENDS TO ISSUE ANY UPDATES OR REVISIONS TO THOSE FORWARD-LOOKING STATEMENTS IF OR WHEN EXPECTATIONS, OR EVENTS, CONDITIONS OR CIRCUMSTANCES ON WHICH SUCH STATEMENTS ARE BASED, OCCUR.

## MINNESOTA HIGHER EDUCATION FACILITIES AUTHORITY

| | |
|---|---|
| Mary F. Ives, Chair | Real Estate Business Owner, Resident of Grand Rapids, Minnesota |
| Raymond VinZant, Jr., Vice Chair | Plumbing Expert and Instructor at Anoka Technical College, Resident of Wyoming, Minnesota |
| Janet Withoff, Secretary | Consultant – Planning and Grant-Writing, Resident of Orono, Minnesota |
| Paul Cerkvenik (Ex Officio) | President, Minnesota Private College Council |
| Gary D. Benson | Project Director of ICS Consulting, Resident of New Brighton, Minnesota |
| Kathryn Balstad Brewer | Retired Banker and Educator, Resident of New Brighton, Minnesota |
| Tammy L. H. McGee | Vice President for Finance and Administration and Chief Financial Officer, Augsburg College, Resident of Maple Grove, Minnesota |
| Mark Misukanis (Ex Officio) | Director of Fiscal Policy and Research, Minnesota Office of Higher Education |
| Michael D. Ranum | Operations Manager, BWBR Architects, Inc., Resident of Circle Pines, Minnesota |
| David D. Rowland | Senior Vice President, The Travelers Companies, Inc., Resident of Eden Prairie, Minnesota |

Marianne T. Remedios, Executive Director

Bond Counsel
Fryberger, Buchanan, Smith & Frederick, P.A.

Financial Advisor
Springsted Incorporated

## TABLE OF CONTENTS

[THIS PAGE INTENTIONALLY LEFT BLANK]

**OFFICIAL STATEMENT**

**$32,440,000**

**MINNESOTA HIGHER EDUCATION FACILITIES AUTHORITY**

**REVENUE BONDS, SERIES SEVEN-F**

**(ST. OLAF COLLEGE)**

**(DTC Book Entry Only)**

## INTRODUCTORY STATEMENT

This Official Statement provides information concerning the Minnesota Higher Education Facilities Authority (the "Authority"), an agency of the State of Minnesota, and St. Olaf College, a Minnesota non-profit corporation and 501(c)(3) organization and the owner and operator of an institution of higher education located in Northfield, Minnesota (the "College"), in connection with the issuance of the Authority's $32,440,000 Revenue Bonds, Series Seven-F (St. Olaf College) (the "Bonds").

The Bonds are being issued pursuant to the provisions of Sections 136A.25 through and including 136A.42, Minnesota Statutes, as amended, by the provisions of which the Authority was created and authorized to issue its obligations to assist institutions of higher education within the State of Minnesota (the "State") to finance and refinance certain projects.

The Bonds are also being issued pursuant to the Trust Indenture (the "Indenture") to be dated as of August 1, 2010 between the Authority and Wells Fargo Bank, National Association, Minneapolis, Minnesota, as trustee (the "Trustee"). The Trustee will also be the Registrar and Paying Agent for the Bonds.

Pursuant to a Loan Agreement (the "Loan Agreement") dated as of August 1, 2010 between the College and the Authority relating to the Bonds, the College will covenant as a general obligation of the College to make Loan Repayments in amounts sufficient to pay the principal of and interest on the Bonds as the same shall become due.

The Authority will loan the Bond proceeds to the College, and the College will use the Bond Proceeds to:

1. provide for the refunding on a current refunding basis of the outstanding principal of the Authority's Revenue Bonds, Series Five-H (St. Olaf College) (the "Series Five-H Bonds");
2. provide for the refunding on a current refunding basis of the outstanding principal of the Authority's Revenue Bonds, Series Five-M1 (St. Olaf College) (the "Series Five-M1 Bonds");
3. provide for the refunding on a current refunding basis of $4,670,000 of the outstanding principal of the Authority's Revenue Bonds, Series Five-M2 (St. Olaf College) (the "Series Five-M2 Bonds");
4. fund a debt service reserve; and
5. pay certain issuance costs.

The refunded portions of the Series Five-H Bonds, the Series Five-M1 Bonds, and the Series Five-M2 Bonds are referred to collectively herein as the "Prior Bonds."

The Bonds are secured by a pledge of the Loan Repayments, which are a general obligation of the College. Under the Loan Agreement, the College will agree to provide the funds necessary to make timely payment of the Loan Repayments. See “SOURCE OF PAYMENT FOR THE BONDS AND FINANCIAL COVENANTS” herein.

The Reserve Account will be funded in the amount of the Reserve Requirement from Bond proceeds on the issuance date. See “ACCOUNTS – Reserve Account.”

**The Bonds shall not be legal or moral obligations of the State of Minnesota, nor shall they constitute a debt for which the faith and credit of the Authority or the State of Minnesota, or the taxing powers of the State, are pledged. The Authority has no taxing powers.**

The descriptions and summaries of various documents hereinafter set forth do not purport to be comprehensive or definitive, and reference is made to each document for the complete details of all terms and conditions. All statements herein are qualified in their entirety by reference to such documents. See Appendices IV and V for definitions of certain words and terms used herein and for a description of certain provisions of the documents hereinafter referred to.

EXCEPT AS EXPRESSLY PROVIDED HEREIN, THIS OFFICIAL STATEMENT PROVIDES INFORMATION RELEVANT TO THE BONDS ONLY AS OF THE DATE OF THIS OFFICIAL STATEMENT.

## RISK FACTORS

**No person should purchase Bonds without carefully reviewing the following information which sets forth some, but not all, of the factors which may affect the Owners' receipt of payments of the principal of or interest on the Bonds.**

### Risk of Insufficient Collateral

The Bonds are secured by (a) a pledge by the Authority to the Trustee of amounts payable by the College under the Loan Agreement, (b) amounts in accounts and funds which will be held by the Trustee and applied to the payment of principal, premium, if any, and interest on the Bonds, and (c) a debt service reserve account. The Bonds are not secured by a mortgage on or security interest in any real property or personal property.

### Adequacy of Revenues

Payment of principal of and interest on the Bonds is intended to be made from the College's Loan Repayments. The College's ability to make Loan Repayments will be dependent on its ability to receive sufficient unrestricted revenues in excess of expenditures, to invest and maintain sufficient monies in its investments and to obtain sufficient investment earnings therefrom. Such revenues and expenditures are subject to many conditions and factors, some of which may be beyond the control of the College and may change in the future to an extent that cannot be presently determined.

## Competition

There is intense competition among institutions of higher education for students both nationally and within the upper Midwest region from which the College draws the majority of its students. Universities and colleges compete principally based on academic reputation, location, net tuition rates, and degree offerings. To the extent that competitors have or achieve an advantage with respect to any of these factors, the College could be adversely affected. In addition, competitive pressures could result in tuition reductions, the inability to raise tuition, or increases in financial aid in the form of discounted tuition, which could adversely affect the amount of the College's unrestricted net assets available for the payment of debt service on the Bonds.

## Reliance on Tuition and Fees

The adequacy of the College's unrestricted net assets available for the payment of debt service on the Bonds will depend in part on the amount of future tuition revenue the College receives. Such revenue in turn will depend primarily on the College's ability to charge sufficient rates for tuition and to maintain enrollment levels. Future enrollment levels will depend on the number of students applying to the College and accepting offers of admission. A number of factors, including, without limitation, levels of tuition rates and other fees, competition from other colleges and universities, a change in the number of college age students and changing general economic conditions will influence the number of applicants to the College.

## Financial Aid

Approximately 86% of the College's students currently receive need-based scholarships or grants or merit-based scholarships from the College covering some portion of tuition and fees or living expenses. No assurance can be given that College financial aid or other federal or state financial aid will continue to be funded at current levels. Curtailment of such aid may cause a decline in enrollment, which may in turn have an adverse effect on the College's revenues. State financial shortfalls may result in reductions to state aid funding for colleges, including the College. See also Appendix I, “THE COLLEGE – Financial Aid.”

## Damage, Destruction or other Liability

Although the College will be required to obtain certain insurance as set forth in the Loan Agreement, there can be no assurance that the College will not suffer losses for which insurance cannot be or has not been obtained or that the amount of any such loss will not exceed the coverage of such insurance policies.

## Nature of Pro Forma Debt Service Coverage

Certain historical operating revenue for the College and computed pro forma debt service coverage is provided in APPENDIX I under the caption “Maximum Annual Debt Service and Pro Forma Coverage Statement.” The pro forma coverage is merely an arithmetical computation as reflected in the applicable table and constitutes no assurance as to the future sufficiency of College revenues to satisfy College operations and debt service requirements, including Loan Repayment obligations.

**Limited Obligation**

No entity or person other than the College is, or shall be, in any way liable or responsible for any payments to be made under the Loan Agreement, the Trust Indenture, or the Bonds or the other obligations of the College under such documents. Accordingly, for payment of principal of and interest on the Bonds, holders of the Bonds must look solely to the Loan Repayments to be made by the College under the Loan Agreement and other funds, if any, the Trustee holds under the Indenture.

**Bankruptcy**

The ability of the Trustee to exercise rights under the Loan Agreement and the Indenture may be limited by bankruptcy, insolvency, reorganization or other similar laws or equitable principles related to or affecting the enforcement of creditors' rights.

**Derivative Products**

The College has entered into an interest rate swap agreement in the past. See footnote 13 to the College's financial statements, Appendix VII hereto. The College may enter into other interest rate swaps or other similar arrangements in the future. Under certain market conditions, termination of an interest rate swap agreement prior to its expiration may require the College to pay a termination fee to the counterparty to the agreement and such payment could be material to the College.

**Other Possible Risk Factors**

The occurrence of any of the following events, or other unanticipated events, could adversely affect the operations of the College:

(1) Inability to control increases in operating costs, including salaries, wages and fringe benefits, supplies and other expenses, without being able to obtain corresponding increases in revenues.

(2) Adoption of federal, state or local legislation or regulations having an adverse effect on the future operating or financial performance of the College.

(3) International events, including any acts of war and terrorism, which may have adverse effects on enrollment and investments.

(4) Market conditions that negatively affect the College's investments and therefore may adversely affect debt coverage and endowment spending.

See also "TAX EXEMPTION – Minnesota Tax Considerations" herein.

## CONTINUING DISCLOSURE

In order to assist the Underwriter in complying with SEC Rule 15c2-12 promulgated by the Securities and Exchange Commission (the "SEC"), pursuant to the Securities Exchange Act of 1934 (the "Rule"), the College will enter into an undertaking (the "Undertaking") with the Trustee for the benefit of beneficial owners of the Bonds to provide certain financial information and operating data relating to the College annually, and to provide notices of the occurrence of any of the events enumerated in the Rule to the Municipal Securities Rulemaking Board (the "MSRB"). The specific nature of the Undertaking, as well as the information to be contained in the annual report or the notices of material events is set forth in the Continuing Disclosure

Agreement to be executed by the College at the time the Bonds are delivered, a copy of which is available from the College or the Trustee. Appendix III, "INFORMATION TO BE PROVIDED AS CONTINUING DISCLOSURE," contains a summary of the financial information and operating data to be provided annually.

The Continuing Disclosure Agreement may be amended under certain circumstances as permitted by the Rule. Furthermore, the College has reserved its right to modify the terms of the Continuing Disclosure Agreement if a court of competent jurisdiction or the College determines that such modification is required by the Rule.

The College has never failed to comply with any previous undertakings under the Rule to provide annual reports or notices of material events. A failure by the College to comply with the Undertaking will not constitute an event of default on the Bonds (although holders may have other remedies in the event of noncompliance). Nevertheless, such a failure must be reported in accordance with the Rule and must be considered by any broker, dealer or municipal securities dealer before recommending the purchase or sale of the Bonds in the secondary market. Consequently, such a failure, or the information supplied by the College pursuant to the Undertaking, may adversely affect the transferability and liquidity of the Bonds and their market price.

## THE BONDS

### General

The Bonds will be issued in book entry form. The Bonds will be dated as of the date of delivery and will mature annually each October 1, commencing October 1, 2011, as set forth on the cover page of this Official Statement. The Bonds are being issued in denominations of $5,000 and integral multiples thereof and shall be fully registered as to principal and interest. Interest on the Bonds will be payable on each April 1 and October 1, commencing April 1, 2011.

### Book Entry System

The Depository Trust Company ("DTC"), New York, New York, will act as securities depository for the Bonds. The Bonds will be issued as fully-registered securities registered in the name of Cede & Co. (DTC's partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully-registered certificate will be issued for each maturity of the Bonds, in the aggregate principal amount of such maturity, and will be deposited with DTC.

For further detail on DTC, see Appendix VI, "The Depository Trust Company."

(The Balance of This Page Has Been Intentionally Left Blank)

**Prior Redemption**

Mandatory Redemption

Portions of the Term Bonds maturing on October 1, 2030 (the "Term Bonds") shall be called for redemption on October 1 in the years set forth immediately below in the principal amounts set forth immediately below, without premium, plus accrued interest to the date fixed for redemption, from moneys in the Bond and Interest Sinking Fund Account.

Term Bonds Due
October 1, 2030

| Year | Amount |
|---|---|
| 2026 | $1,960,000 |
| 2027 | $2,050,000 |
| 2028 | $2,145,000 |
| 2029 | $2,245,000 |
| 2030* | $2,345,000 |

* *Stated maturity*

The Term Bonds or portions thereof to be so redeemed shall be selected by the Trustee by lot or in such other random manner as the Trustee shall determine.

The Term Bonds may, at the option of the College, be reduced by the principal amount of any Bonds of such maturity which at least 45 days prior to such redemption:

(1) have been delivered to the Trustee for cancellation; or

(2) have been purchased or redeemed (other than through operation of the Bond and Interest Sinking Fund Account) and canceled by the Trustee and not theretofore applied as a credit against such mandatory redemption obligations.

Optional Redemption

At the College's request, the Authority may elect to prepay on October 1, 2019 and on any day thereafter Bonds due on or after October 1, 2020. Redemption may be in whole or in part. All prepayments shall be at a price of par plus accrued interest.

Extraordinary Optional Redemption

The Bonds will be subject to optional redemption at par and accrued interest in integral multiples of $5,000, as a whole or in part, in certain cases of damage to or destruction or condemnation of the Project Facilities. In the event the Project Facilities are damaged such that the claim for loss exceeds $1,000,000, the College may elect to repair, rebuild or restore the Project Facilities or may elect, pursuant to the terms of the Loan Agreement, to redeem all or part of the outstanding Bonds. See "SUMMARY OF DOCUMENTS – The Loan Agreement."

The Bonds will be subject to optional redemption at par and accrued interest upon a Determination of Taxability as provided in the Loan Agreement. See "THE BONDS – Determination of Taxability."

Partial Redemption

If fewer than all Bonds of a maturity are called for redemption, the Trustee will notify DTC of the particular amount of such maturity to be prepaid. DTC will determine by lot the amount of each participant's interest in such maturity to be redeemed and each participant will then select by lot the beneficial ownership interests in such maturity to be redeemed.

In the case of Bonds of denominations greater than $5,000, if less than the full principal amount of such Bonds then outstanding is to be called for redemption, then for all purposes in connection with redemption, each $5,000 of principal amount shall be treated as though it were a separate Bond of the denomination of $5,000 bearing the number borne by such fully registered Bond and a subnumber assigned by the Trustee. Interest shall cease to accrue on the portion of the principal amount of such Bond represented by such $5,000 unit or units of principal amount on and after the date fixed for redemption provided that funds sufficient for payment of the redemption price shall have been deposited with the Trustee and available for the redemption of said $5,000 unit or units on the date fixed for redemption and, in such event, such Bond shall not be entitled to the benefit or security of the Indenture or the Loan Agreement to the extent of the portion of its principal amount (and accrued interest to the date fixed for redemption and applicable premium, if any) represented by such $5,000 unit or units of principal amount, nor shall new Bonds be thereafter issued corresponding to said unit or units.

Notice of Redemption

Notice of any redemption shall be mailed to the registered Owners at their addresses shown on the registration books of the Authority and maintained by the Trustee not less than 20 days, and if more than 60 days, then again not less than 20 nor more than 60 days, before the date fixed for such payment. If moneys are available at the office of the Trustee to pay the redemption price on the date of redemption, any Bonds thus called shall not bear interest after the call date and, except for the purpose of payment by application of the funds so deposited, shall no longer be protected by the Indenture.

### Determination of Taxability

If a Determination of Taxability is made that the interest payable on the Bonds is subject to federal income taxes by reason of the application of the provisions of the Internal Revenue Code and regulations thereunder in effect on the date of issuance, the Bonds shall bear additional interest equal to two percent (2.00%) per annum above the basic interest rate from the Date of Taxability effective until the date on which the principal of the Bonds is paid. **If a Determination of Taxability should occur, any monetary damages or loss resulting from or incident thereto shall be limited to the increased interest rate on the Bonds.** See “TAX EXEMPTION” herein and Appendix IV, “DEFINITION OF CERTAIN TERMS.”

The College has the option to prepay the Loan on the next date for which due notice of redemption can be given, in full or in part and on any date thereafter following a Determination of Taxability at a price of par and accrued interest (including additional interest from the Date of Taxability and without a premium).

## USE OF PROCEEDS

### The Plan of Finance

Proceeds of the Bonds will be loaned to the College and will be used to:

1. provide for the refunding on a current refunding basis of the outstanding principal of the Authority’s Revenue Bonds, Series Five-H (St. Olaf College) (the “Series Five-H Bonds”);

2. provide for the refunding on a current refunding basis of the outstanding principal of the Authority's Revenue Bonds, Series Five-M1 (St. Olaf College) (the "Series Five-M1 Bonds");
3. provide for the refunding on a current refunding basis of $4,670,000 of the outstanding principal of the Authority's Revenue Bonds, Series Five-M2 (St. Olaf College) (the "Series Five-M2 Bonds");
4. fund a debt service reserve; and
5. pay certain issuance costs.

The refunded portions of the Series Five-H Bonds, the Series Five-M1 Bonds, and the Series Five-M2 Bonds are collectively referred to herein as the "Prior Bonds."

The Prior Bonds are identified in the following table:

| Series | Maturity Date October 1: | CUSIP: 604151 | Principal Outstanding | Amount to be Redeemed |
|---|---|---|---|---|
| Five-H | 2030 | 5X 4 | $14,475,000 | $14,475,000 |
| Five-M1 | 2032 | 7N 4 | $12,205,000 | $12,205,000 |
| Five-M2 | 2020 | 7T 1 | $13,420,000 | $ 4,670,000 |
| Totals | | | $40,100,000 | $31,350,000 |

The Prior Bonds are callable in whole or in part on the first business day of any month at a price of par plus interest accrued to the redemption date. The Prior Bonds will be redeemed and prepaid on October 1, 2010 (the "Redemption Date").

At the Issue Date, a portion of the Bond proceeds will be deposited in the Refunding Account created under the Indenture and immediately transferred to the respective Redemption Accounts created pursuant to the Indentures for each series of the Prior Bonds (the "Prior Bonds Indentures"). The College will also deposit with the Prior Bonds Trustee at the Issue Date from its own funds an amount equal to the maximum interest payable on the Prior Bonds to the Redemption Date. The maximum interest rate on the Prior Bonds is fifteen percent (15%).

On September 30, 2010, the Prior Bonds Trustee will draw on the Prior Bonds Letters of Credit the amounts equal to the outstanding principal of the Series Five-H Bonds and the Series Five-M1 Bonds and $4,670,000 of the outstanding principal of the Series Five-M2 Bonds plus the accrued and unpaid interest on the Series Five-H Bonds, the Series Five-M1 Bonds and the Series Five-M2 Bonds to the Redemption Date. The Prior Bonds Trustee will then use such funds to redeem on the Redemption Date the Prior Bonds at a redemption price equal to 100% of the principal amount thereof, without premium, plus accrued and unpaid interest thereon. A portion of the proceeds of the Bonds, together with College funds, will be used to reimburse the provider of the Prior Bonds Letters of Credit for such draws.

The Prior Bonds were issued to provide funds loaned to the College and, together with other funds of the College, were used to finance the costs of several construction and renovation projects on the College's Northfield, Minnesota, campus.

## ESTIMATED SOURCES AND USES OF FUNDS

| | |
|---|---|
| Sources of Funds | |
| Par Amount of the Series Seven-F Bonds | $32,440,000 |
| Premium | 1,605,664 |
| College contribution for interest | 386,507 |
| Total Sources: | $34,432,171 |
| | |
| Uses of Funds | |
| Refunding deposit – Series Five-H principal | $14,475,000 |
| Refunding deposit – Series Five-H interest | 178,459 |
| Refunding deposit – Series Five-M1 principal | 12,205,000 |
| Refunding deposit – Series Five-M1 interest | 150,473 |
| Refunding deposit – Series Five-M2 principal | 4,670,000 |
| Refunding deposit – Series Five-M2 interest | 57,575 |
| Debt Service Reserve deposit | 2,402,369 |
| Costs of Issuance, including Underwriter's discount | 293,295 |
| Total Uses | $34,432,171 |

In the event Bond issuance costs, including Underwriter's discount, exceed 2% of the Bond proceeds, defined as par plus original issue premium, such excess shall be paid by the College from other than Bond proceeds.

## SOURCE OF PAYMENT FOR THE BONDS AND FINANCIAL COVENANTS

### General

The Bonds will be special obligations of the Authority payable solely from Loan Repayments made by the College as required by the Loan Agreement or out of other amounts pledged therefor under the Indenture, including moneys and investments in the Reserve Account. The Reserve Account will be fully funded to the Reserve Requirement from proceeds of the Bonds at the Bond closing.

The Bonds are secured by the pledge of the Loan Repayments, which are a general obligation of the College, and other funds the Trustee holds under the Indenture, including the Reserve Account. The College will agree pursuant to the terms of the Loan Agreement to make payments directly to the Trustee in such amounts and at such times as to assure that the Trustee has sufficient funds with which to pay the principal of and interest on the Bonds. The College agrees to make such payments out of its operating funds or any other moneys legally available.

**The Bonds shall not be legal or moral obligations of the State of Minnesota nor constitute a debt for which the faith and credit of the Authority or the State of Minnesota, or the taxing powers of the State, are pledged. The Authority has no taxing powers.**

The Bonds will not be secured by the General Bond Reserve of the Authority (see " GENERAL BOND RESERVE ACCOUNT ").

**No Mortgage Lien**

The Bonds are not secured by any mortgage lien on or security interest in any property of the College.

**Negative Pledge**

As further security for the payments required to be made under the Loan Agreement, the College covenants that except for Permitted Encumbrances, and except as otherwise permitted by the Loan Agreement, the College will not mortgage, grant a lien upon, pledge, grant a security interest in, make an assignment of its interest in or permit the creation of any encumbrance on its real property; provided that the College may mortgage, pledge, assign and grant liens on and security interests in real property so long as the aggregate outstanding principal amount of the debt so secured does not exceed thirty-five percent (35%) of the book value (as determined by generally accepted accounting principles) of the College's Property, Plant and Equipment, as shown on the College's audited financial statements for its most recent audited Fiscal Year, as adjusted to include any increased book value to result from improvements financed by such secured debt.

**Financial Covenants**

The College will covenant and agree to charge tuition fees, other fees, rentals and charges which, together with the general funds or any other moneys legally available, will be sufficient at all times to make the Loan Repayments and other payments required under the Loan Agreement, to meet current operation and maintenance expenses of the Project Facilities, and to pay all other obligations of the College as they become due.

The College will also covenant in the Loan Agreement that so long as the Bonds shall remain outstanding:

a. For at least two of the preceding three complete Fiscal Years, the Revenue/Expenditure Test must be met.

b. For so long as the Bonds remain outstanding, the College shall incur no Funded Debt with a maturity in excess of two years (except for a refunding or refinancing of Funded Debt outstanding which does not increase the Maximum Annual Debt Service and further excepting that portion of Funded Debt for capital projects for which the College has received written and signed pledges of gifts in an amount at least equal to 80 percent of the estimated costs of such project), unless the average pro forma Debt Service Coverage Ratio for the last two Fiscal Years for which audited financial statements are available was at least 110 percent. In calculating the pro forma Debt Service Coverage Ratio, the following adjustments may be made: (i) if the additional Funded Debt proposed to be incurred is to finance student housing, student dining, student union or other revenue producing facilities, there may be added to the amount of Net Income Available for Debt Service for each Fiscal Year the estimated amount of Net Income Available for Debt Service to be derived from such facility in the first Fiscal Year following the estimated date of completion of such facility as estimated in a report of an Independent Management Consultant to the College and the Trustee; (ii) if the Board of Regents has increased tuition, student fees or other rates or charges at or after the end of such Fiscal Year, there may be added to Net Income Available for Debt Service for each Fiscal Year the amount of such increase net of increased operating expenses, as estimated in a report of an Independent Management Consultant to the College and the Trustee; and (iii) if the additional Funded Debt proposed to be incurred is to finance equipment or facilities that will produce savings in operating costs of the College, there may be added to the amount of Net Income Available for Debt Service for each Fiscal

Year the estimated net savings derived from such equipment or facilities, as estimated in a report of an Independent Management Consultant to the College and the Trustee, in the first Fiscal Year following the estimated date of acquisition or construction of such equipment or facilities.

For purpose of these covenants, the following terms shall have the following meanings:

"Adjusted Increase (Decrease) in Unrestricted Net Assets" means the Change in Unrestricted Net Assets from Operating Activities, as reported in the Statement of Activities section of the audited financial report of the College, adjusted to: (a) exclude depreciation, amortization and accretion expense, and (b) include (as a reduction to the Change in Unrestricted Net Assets for Operating Activities) the cost of current land, building and equipment acquisitions which have been funded through operations and capitalized.

"Debt Service Coverage Ratio" means for any particular period, the ratio (expressed as a percentage) determined by dividing Net Income Available for Debt Service during the period (with adjustments as set forth in (b) above) by Maximum Annual Debt Service to be paid on then Outstanding Funded Debt and the Funded Debt proposed to be incurred.

"Funded Debt" means indebtedness (including a guarantee of indebtedness) for borrowed money having a maturity date of more than one year from the date of incurrence or assumption thereof and which, under generally accepted accounting principles, is shown on the balance sheet as a liability, including such indebtedness whenever payable if renewable at the sole option of the College for a term (including such renewal) of more than one year pursuant to the terms thereof or of a revolving loan agreement for a period of more than one year from the date of creation thereof unless and to the extent the lender thereunder may at its option require repayment at intervals of one year or less and including lease rental obligations with a term of more than one year from the date of incurrence or assumption by the College which, under generally accepted accounting principles, are shown on the balance sheet as a liability.

"Maximum Annual Debt Service" means the largest total amount of principal of and interest on Funded Debt payable by the College in any future Fiscal Year during which Bonds will (if paid at their stated maturity dates or redeemed in accordance with a mandatory sinking fund schedule) be outstanding subject to the following: (i) if any part of the Funded Debt is outstanding variable rate indebtedness, the rate of interest on the variable rate indebtedness for future Fiscal Years shall be computed at the average rate of interest for the then most recent Fiscal Year or, at the election of the College, for the then current interest period; if variable rate indebtedness is proposed to be incurred, the rate of interest shall be an initial variable rate as estimated by an Independent Management Consultant, or an investment banking firm selected by the College to underwrite the sale of such variable rate indebtedness; (ii) if any part of the Funded Debt outstanding or to be incurred is a guarantee by the College of indebtedness of a third person or so-called "pass-through" or "covered" indebtedness (the College having borrowed money to re-lend to a third person), 100 percent of such Funded Debt shall be excluded if the third person (whose debt is guaranteed or whose payments are expected to service the College's obligations with respect to such Funded Debt) had a debt service coverage ratio (including in the computation of debt service, the debt service on the debt proposed to be incurred) of at least 110 percent during the most recent Fiscal Year for which financial statements are available; (iii) the amount of debt service with respect to "balloon" indebtedness may, at the option of the College, be calculated on a level debt service basis over the period commencing on the incurrence thereof and ending on the date when the balloon is payable; as used herein, "balloon" indebtedness means Funded Debt 25 percent or more of the principal of which is due in any 12 month period; (iv) the amount of debt service with respect to "put" indebtedness shall be calculated from and after the first put date next following the date on which the put indebtedness is incurred as if such put indebtedness bears interest at the Projected Rate as amortized on a level debt service basis of a 25-year period; provided that if there is a written commitment from a bank or other financial institution to refinance the amount of any indebtedness which the College may be required to redeem or purchase, the debt service with respect to such put indebtedness may, at the option of the College, be calculated on the basis of the repayment schedule contemplated by such written commitment, commencing the date such commitment will (unless renewed) expire; “put” indebtedness means Funded Debt (A) which the College may be required, at the option of the holder thereof, to prepay or purchase prior to the stated maturity date thereof, in whole or in part, but if in part, in an amount 25 percent or more of the original principal amount thereof and (B), if subject to variable rates, is then in an interest rate reset period of more than two years; (v) there shall not be taken into account any part of the Funded Debt of the College which has been refunded, refinanced or otherwise defeased under an arrangement whereby all future payments of such indebtedness will be met from moneys and investments and earnings thereon held by an indenture trustee or escrow agent, provided that any such investments shall be direct obligations of or obligations fully guaranteed by the United States of America; (vi) if any part of such Funded Debt consists of crossover refunding debt, no part of the debt service with respect to such crossover refunding debt shall be taken into account prior to the crossover date, and after the crossover date, no part of the debt service of the refunded debt shall be taken into account; (vii) if any part of such Funded Debt is “nonrecourse” indebtedness or Subordinated Indebtedness, no part of the debt service with respect thereto shall be taken into account; “nonrecourse” indebtedness means indebtedness secured by a mortgage of, security interest in, lien, charge or encumbrance on or pledge of property, real or personal, tangible or intangible, the liability for which is limited to the property financed by or located on or appurtenant to the property financed by such indebtedness, with no recourse to any other property of the College; (viii) if any part of the Funded Debt outstanding or to be incurred constitutes capital appreciation bonds or notes, the amount of debt service to be taken into account shall be the excess of the accreted value of such bonds or notes in a Fiscal Year over the accreted value in the prior Fiscal Year; “capital appreciation bonds or notes” includes zero coupon bonds and notes and discount bonds or notes issued at less than 95 percent of the par value at maturity, provided that accreted values per year are established at the date of issuance thereof and (ix) the amount of any reserve fund for any Funded Debt or redemption fund which may be used only to pay, redeem, or purchase such Funded Debt incurred or proposed to be issued may be deducted from debt service for the Fiscal Year or Fiscal Years in which such Funded Debt finally matures and for payment of which the reserve or redemption fund moneys may be used without creating a default.

“Net Income Available for Debt Service” means the Adjusted Increase (Decrease) in Unrestricted Net Assets (plus interest payments on Funded Debt, excluding capitalized interest, if any).

“Projected Rate” means the fixed rate equal to the projected yield at par of an obligation, as set forth in the report of a Rate Setter, which report is acceptable to the Trustee as to form, and shall state that, in determining the Projected Rate, such Rate Setter reviewed the yield evaluations at par of not less than five obligations selected by such Rate Setter, the interest on which is exempt from federal income tax, which obligations such Rate Setter states in its opinion are reasonable comparators to be utilized in developing such Projected Rate and which obligations: (1) were outstanding on a date selected by the Rate Setter, which date so selected occurred during the 45-day period preceding the date of calculation utilizing the Projected Rate in question; (2) to the extent practicable, are obligations of persons engaged in operations similar to those of the College and have a credit rating similar to that of the College; and (3) to the extent practicable, have a remaining term and amortization schedule the same as being assumed for the put indebtedness.

“Rate Setter” means an investment banking firm or other person knowledgeable about the market for comparators required to establish the Projected Rate and nationally recognized as experienced at establishing rates similar to the Projected Rate.

“Revenue/Expenditure Test” means the Adjusted Increase in Unrestricted Net Assets shall not be less than zero.

“Subordinated Indebtedness” means indebtedness, the payment of principal, premium, if any, and interest on which (“Subordinated Debt Service”) is subordinated to payment of principal, premium, if any, and interest on the Bonds (“Bonds Debt Service”) by a written instrument, a copy of which is filed with the Trustee, containing substantially the following terms of subordination: (A) no payment of Subordinated Debt Service shall be made by the College if an uncured Event of Default exists under the Indenture for the Bonds, and (B) upon (i) acceleration of the indebtedness or the Bonds or (ii) any dissolution, winding up, reorganization, bankruptcy, insolvency or receivership of the College all Bonds Debt Service then due and to become due in the future on the Bonds shall first be paid in full or provided for in accordance with the Indenture for the Bonds before any further payment of Subordinated Debt Service is made by the College or any receiver, trustee in bankruptcy, liquidating trustee or other person on behalf of the College.

For purposes above, all capitalized terms used but not otherwise defined in the Loan Agreement shall have the meanings provided for audits of colleges and universities, as applied by the College's auditors in the report of the College's financial statements for the Fiscal Year ended May 31, 2009.

## ACCOUNTS

### Summary

The Indenture will provide for the creation of certain trust accounts into which the proceeds from the sale of the Bonds and revenues received as Loan Repayments and other amounts payable under the Loan Agreement are to be deposited. These accounts include a Refunding Account, a Costs of Issuance Account, a Bond and Interest Sinking Fund Account, a Reserve Account, and a Redemption Account. The net proceeds of original issue and sale of the Bonds are to be deposited into the Refunding Account, the Costs of Issuance Account, the Bond and Interest Sinking Fund Account, and the Reserve Account, as described below. Following Bond Closing, amounts received by the Trustee from the College as Loan Repayments are to be deposited into the Bond and Interest Sinking Fund Account, the Reserve Account, and the Redemption Account and used, to the extent needed, to redeem or pay the principal of and interest on the Bonds when due.

### Refunding Account

On the Issue Date, there shall be deposited into the Refunding Account Bond proceeds in an amount necessary to fully redeem the principal of the Prior Bonds at the earliest practicable date for redemption. Monies in the Refunding Account shall immediately be transferred to the respective Prior Bonds Redemption Accounts established under the Indentures for the Series Five-H Bonds, the Series Five-M1 Bonds, and the Series Five-M2 Bonds.

### Costs of Issuance Account

Initially there shall be deposited into the Costs of Issuance Account an amount of Bond proceeds specified in the Indenture, not to exceed two percent (2%) of the proceeds of the Bonds, and funds contributed by the College to pay costs of issuance in excess of the 2% of proceeds of the Bonds. The College may present invoices to the Trustee representing costs incurred in connection with the issuance of the Bonds which the Trustee shall pay from the Costs of Issuance Account. Any moneys remaining in the Costs of Issuance Account after six months following the Bonds’ delivery date shall be transferred to the Bond and Interest Sinking Fund Account.

**Bond and Interest Sinking Fund Account**

Initially there shall be deposited into the Bond and Interest Sinking Fund Account the amount of Bond proceeds representing the rounding amount, if any, which is to be used to pay interest on the Bonds. Deposits shall be made to the Bond and Interest Sinking Fund Account from transfers of amounts in other accounts, as permitted by the Indenture, and from Loan Repayments made by the College. Deposits into the Bond and Interest Sinking Fund Account shall be made at least two (2) Business Days prior to each Interest Payment Date in amounts equal to interest and, if applicable, principal due on such Interest Payment Date.

The moneys and investments in the Bond and Interest Sinking Fund Account will be irrevocably pledged to and shall be used by the Trustee, from time to time, to the extent required, for the payment of principal of and interest on the Bonds as and when such principal and interest shall become due and payable and for that purpose only.

**Reserve Account**

There shall be initially deposited into the Reserve Account from Bond proceeds the amount of the Reserve Requirement for the Bonds. The Reserve Account is irrevocably pledged to the payment of principal of and interest on the Bonds, as may be required from time to time. All amounts paid by the College as Loan Repayments not deposited or required to be deposited into the Bond and Interest Sinking Fund Account or the Redemption Account will be deposited into the Reserve Account in order to maintain the Reserve Account in an amount not less than the Reserve Requirement.

In the event that a withdrawal of funds from the Reserve Account reduces the balance therein to a sum less than the Reserve Requirement, the College shall forthwith restore the deficiency, provided that if such funds are withdrawn in order to make any rebate payment required to be made by the Authority under the Loan Agreement, the Authority shall restore such deficiency or shall reimburse the College for amounts so withdrawn. Investments in the Reserve Account shall be valued at market value. Investments in the Reserve Account shall be valued by the Trustee not less frequently than as of the first day of the calendar month next preceding April 1, 2011 and each Interest Payment Date thereafter. If upon any valuation date, the amount on deposit in the Reserve Account (exclusive of accrued but unrealized interest on moneys or investments therein) is more than the lesser of the amount of the Reserve Requirement, or the amount (if less than the Reserve Requirement) permitted for a reasonably required reserve fund under the Arbitrage Regulations, the Trustee shall forthwith transfer the excess to the Bond and Interest Sinking Fund Account. If on any valuation date the amount on deposit in the Reserve Account is less than the amount of the Reserve Requirement, then (unless the value of the amount on deposit exceeds the amount allowed for a reasonably required reserve fund under the Arbitrage Regulations) such deficiency shall be restored to an amount equal to the amount of the Reserve Requirement within not less than 30 days.

Interest and income in the Reserve Account shall be transferred first, to the Bond and Interest Sinking Fund Account to the extent the amount on deposit in the Bond and Interest Sinking Fund Account is less than the amount permitted for a bona fide debt service fund under the Arbitrage Regulations, and second, to the Redemption Account any excess interest and income. When the moneys and investments in the Reserve Account shall be sufficient to pay the principal of and interest on all outstanding Bonds when due, such moneys and investments shall be transferred, as appropriate, into the Bond and Interest Sinking Fund Account or the Redemption Account; provided that the Trustee is authorized, in its discretion, to use funds and investments in the Reserve Account to pay the amount of any rebate due the United States in respect of the Bonds under Section 148 of the Internal Revenue Code if the College or the Authority shall have failed to pay or provide for the payment thereof under the Loan Agreement.

**Redemption Account**

There shall be deposited into the Redemption Account all other amounts required to be deposited therein pursuant to any provision of the Loan Agreement or the Indenture.

Amounts on deposit to the credit of the Redemption Account shall be used, first, to make up deficiencies in the Bond and Interest Sinking Fund Account; second, to create and maintain the Reserve Requirement in the Reserve Account, and third, at the College's request or direction for the redemption of outstanding Bonds or for the purchase of outstanding Bonds on the market at prices not exceeding the redemption price on the next available date for redemption. Notwithstanding the foregoing, the Trustee is authorized in its discretion to use funds and investments in the Redemption Account to pay the amount of any rebate due the United States in respect of the Bonds under Section 148 of the Internal Revenue Code if the College or the Authority shall have failed to pay or provide for the payment thereof under the Loan Agreement.

### Authorized Investments

Moneys on deposit to the credit of the Bond and Interest Sinking Fund Account, the Reserve Account and the Redemption Account shall be invested by the Trustee only in investments as authorized by law from time to time which currently and generally are as follows: direct obligations of the United States government and certain obligations issued or guaranteed by certain of its agencies; direct and general obligations of states rated at least in the rating category of "AA" or "Aa" or political subdivisions of states rated at least in the rating category of "AAA" or "Aaa"; revenue bond obligations of states and their political subdivisions insured by municipal bond insurance and rated "AAA" or "Aaa"; mutual funds or unit trusts which invest solely in the foregoing obligations of the United States government, its agencies, states and state political subdivisions or in certain repurchase agreements; constant dollar value money market funds that invest solely in the types of obligations or repurchase agreements in which the foregoing mutual funds may invest and which are rated in the highest rating category by a national credit rating agency; time deposits of insured state or national banks and other accounts fully insured by the Federal Deposit Insurance Corporation; certain guaranteed investment contracts issued by a bank or insurance company rated at least in the highest two rating categories of a nationally recognized rating agency; certain types of repurchase agreements; and certain commercial paper maturing in 270 days or less. Section 5.04 of the Indenture sets forth further restrictions as to type and maturity of investments. Monies deposited in the Refunding Account will not be invested in that account, but will be transferred to the Redemption Accounts for the Prior Bonds under the Indentures for the respective Prior Bonds and will be subject to the investment requirements contained in those Indentures. See "USE OF PROCEEDS – Refunding."

## GENERAL BOND RESERVE ACCOUNT

Pursuant to its General Bond Resolution adopted October 31, 1972, the Authority has established and maintains a General Bond Reserve Account. **The Bonds will not be secured by the General Bond Reserve Account, and Bondholders will have no right to require the Authority to apply moneys or investments in the General Bond Reserve Account to the payment of the Bonds or interest thereon.** The General Bond Reserve Account has not been used to secure Authority bonds since 1984.

## FUTURE FINANCING

The College regularly improves and expands its physical plant. The College does not anticipate financing any such projects with debt within the next twelve months.

## THE AUTHORITY

The Minnesota Higher Education Facilities Authority was created by Chapter 868, Laws of Minnesota, 1971 (Sections 136A.25 through 136A.42, Minnesota Statutes), for the purpose of assisting institutions of higher education within the State in the construction and financing of projects. The Authority consists of eight members appointed by the Governor with the advice and consent of the Senate. A representative of the Minnesota Office of Higher Education and the President of the Minnesota Private College Council, who is a non-voting member, are also members of the Authority.

Marianne T. Remedios has been the Executive Director of the Authority since 2000.

Elaine J. Yungerberg has been Assistant Executive Director of the Authority since 1993.

The Authority is authorized and empowered to issue revenue bonds whose aggregate outstanding principal amount at any time shall not exceed $1.3 billion. The Authority has had 178 issues (including refunded and retired issues) totaling over $1.8 billion, of which approximately $956 million is outstanding as of August 1, 2010. Bonds issued by the Authority are payable only from the loan repayments, rentals, and other revenues and moneys pledged for their payment. The bonds of the Authority do not represent or constitute a debt or pledge of the faith or credit or moral obligation of the State.

Educational institutions eligible for assistance by the Authority are generally private nonprofit educational institutions authorized to provide a program of education beyond the high school level. Under current statutory authority, public community and technical colleges in the State are also eligible for assistance, but only in financing of child-care and parking facilities. In addition, pursuant to special legislation, the Authority has twice issued bonds on behalf of a public community college for housing purposes. Sectarian institutions are not eligible for assistance; however, the fact that an institution is sponsored by a religious denomination does not of itself make the institution sectarian. Application to the Authority is voluntary.

The scope of projects for which the Authority may issue bonds is broad, including buildings or facilities for use as student housing, academic buildings, parking facilities, day-care centers, and other structures or facilities required or useful for the instruction of students, or conducting of research, in the operation of an institution of higher education.

While the Authority retains broad powers to oversee planning and construction, it is current policy to permit the institution almost complete discretion with respect to these matters.

The Authority is also authorized to issue revenue bonds for the purpose of refunding bonds of the Authority and to refinance other debt for capital improvements.

The operations of the Authority are financed solely from fees paid by the participating institutions; it has no taxing power.

Bond issuance costs, including fees of bond counsel, the financial advisor and trustee, are paid by the participating institution.

## FINANCIAL ADVISOR

The Authority has retained Springsted Incorporated, Public Sector Advisors, of Saint Paul, Minnesota, as financial advisor (the "Financial Advisor") in connection with the issuance of the Bonds. In preparing the Official Statement, the Financial Advisor has relied upon College officials and other sources who have access to relevant data to provide accurate information for the Official Statement, and the Financial Advisor has not been engaged, nor has it undertaken, to independently verify the accuracy of such information. The Financial Advisor is not a public accounting firm and has not been engaged by the Authority to compile, review, examine or audit any information in the Official Statement in accordance with accounting standards. The Financial Advisor is an independent advisory firm and is not engaged in the business of underwriting, trading or distributing municipal securities or other public securities and therefore will not participate in the underwriting of the Bonds.

## UNDERWRITING

The Bonds are being purchased by Piper Jaffray & Co. (the "Underwriter"). The Underwriter has agreed to purchase the Bonds at a purchase price of $33,907,794.05 (representing the aggregate principal amount of the Bonds less an underwriter's discount of $137,870.00 and adjusted for net original issue premium of $1,605,664.05).

The Underwriter intends to offer the Bonds to the public initially at the offering price set forth on the front cover of this Official Statement, which may subsequently change without any requirement of prior notice. The Underwriter reserves the right to join with dealers and other underwriters in offering the Bonds to the public. The Underwriter may offer and sell the Bonds to certain dealers (including dealers depositing the Bonds into investment trusts) at prices lower than the public offering prices.

The Underwriter has entered into an agreement (the "Distribution Agreement") with Advisors Asset Management, Inc. ("AAM") for the distribution of certain municipal securities offerings allocated to the Underwriter at the original offering prices. Under the Distribution Agreement, if applicable to the Bonds, the Underwriter will share with AAM a portion of the fee or commission, exclusive of management fees, paid to the Underwriter.

The College has agreed in the Bond Purchase Agreement to indemnify the Underwriter and the Authority against certain civil liabilities, including certain potential liabilities under federal securities laws.

## RATING

As noted on the cover page hereof, Moody's Investors Service ("Moody's) has assigned a long term rating of A1 to the Bonds. The rating reflects only the view of such rating agency. Any explanation of the significance of the rating may be obtained only from Moody's.

There is no assurance that such rating will continue for any given period of time or that it may not be lowered or withdrawn entirely by the rating agency if in its judgment circumstances so warrant. Any such downward change in or withdrawal of such rating may have an adverse effect on the market price of the Bonds.

## LITIGATION

The Authority and the College are unaware of any pending or threatened litigation which would affect the validity of the Bonds, the tax-exempt nature of the Bonds, the authority of either party to enter into the Bond-related documents or the ability of either to perform as described herein, or materially affect the ability of the College to pay the principal of or interest on the Bonds as the same become due.

## LEGALITY

The Bonds will be subject to the unqualified approving opinion as to validity and tax exemption by Fryberger, Buchanan, Smith & Frederick, P.A., Duluth, Minnesota, as Bond Counsel. A legal opinion in substantially the form set out in Appendix II herein will be delivered at Bond Closing.

Certain legal matters will be passed upon for the College by Gray, Plant, Mooty, Mooty & Bennett, P.A., Minneapolis, Minnesota and for the Underwriter by Faegre & Benson LLP, Minneapolis, Minnesota.

## TAX EXEMPTION

### Federal Tax Considerations

The Internal Revenue Code of 1986, as amended (the "Code"), establishes certain requirements that must be met subsequent to the issuance and delivery of the Bonds in order that interest on the Bonds be and remain excludable from gross income under Section 103 of the Code. These requirements include, but are not limited to, (1) provisions relating to the expenditure of Bond proceeds, (2) provisions which prescribe yield and other limits relative to the investment of the proceeds of the Bonds and other amounts, (3) provisions which require that certain investment earnings be rebated periodically to the Federal government and (4) provisions relating to the ownership and operation of the facilities financed or refinanced by the Bonds. Noncompliance with such requirements may cause interest on the Bonds to become includable in gross income for purposes of Federal and State income taxation retroactive to their date of original issue, irrespective in some cases of the date on which such noncompliance is ascertained.

The Loan Agreement and Indenture contain provisions (the "Tax Covenants") including covenants of the Authority and the College, pursuant to which, in the opinion of Bond Counsel, such requirements can be satisfied. The Tax Covenants do not relate to all the continuing requirements referred to in the preceding paragraph. If a Determination of Taxability occurs, however, whether or not as a result of violation of any of the Tax Covenants, the outstanding Bonds are subject to optional redemption without premium, and the Bonds shall bear additional interest at a rate of two percent (2%) per annum from the Date of Taxability until the respective dates on which the principal of the Bonds is paid. (See “SUMMARY OF DOCUMENTS – The Loan Agreement – Determination of Taxability” in Appendix V). A determination that interest on the Bonds is includable in the computation of the alternative minimum tax imposed on individuals under the Code is not a Determination of Taxability.

Assuming compliance with the Tax Covenants and on the basis of the certifications to be furnished at Bond Closing, in the opinion of Bond Counsel, under present laws and rulings, interest on the Bonds is not includable in gross income for federal income tax purposes. Interest on the Bonds is not treated as a preference item in determining federal alternative minimum taxable income of individuals and corporations. However, the interest is includable in “adjusted current earnings” for purposes of computing the federal alternative minimum taxable income of corporations.

The Code imposes a branch profits tax equal to 30% of the "dividend equivalent amount" which is measured by "earnings and profits" effectively connected to the United States, net of certain adjustments. Included in the earnings and profits of a United States branch of a foreign corporation is income that would be effectively connected with a United States trade or business if such income were taxable, such as the interest on the Bonds.

In addition, interest on the Bonds is includable in the net investment income of foreign insurance companies for purposes of Section 842(b) of the Code. In the case of a property, casualty or other insurance company subject to the tax imposed by Section 831 of the Code, the amount which otherwise would be taken into account as losses incurred under Section 832(b)(5) of the Code must be reduced by an amount equal to 15% of the interest on the Bonds that is received or accrued during the taxable year. In addition, passive investment income, including interest on the Bonds, may be subject to federal income taxation under Section 1375 of the Code for an S corporation that has Subchapter C earnings and profits at the close of the taxable year if more than 25% of its gross receipts are passive investment income.

The Code further provides that interest on the Bonds is includable in the calculation of modified adjusted gross income in determining whether Social Security or railroad retirement payments are to be included in taxable income of individuals.

**Minnesota Tax Considerations**

Assuming compliance with the Tax Covenants and on the basis of the certifications to be furnished at Bond Closing, in the opinion of Bond Counsel, under present laws and rulings, interest on the Bonds is not includable in the taxable income of individuals, estates and trusts for Minnesota income tax purposes. Interest on the Bonds is not treated as a preference item in determining the Minnesota alternative minimum tax applicable to individuals, estates and trusts. However, the interest is subject to the Minnesota franchise tax imposed on corporations, including financial institutions, measured by taxable income and the alternative minimum tax base.

**Original Issue Premium**

Certain maturities of the Bonds are expected to be sold to the public at an amount in excess of their stated redemption price at maturity. Such excess of the purchase price of a Bond over its stated redemption price at maturity constitutes premium on such Bond. A purchaser of a Bond must amortize any premium over such Bond’s term using constant yield principles, based on the purchaser’s yield to maturity. As premium is amortized, the purchaser’s basis in such Bond is reduced by a corresponding amount, resulting in an increase in the gain (or decrease in the loss) to be recognized for federal income tax purposes upon a sale or disposition of such Bond prior to its maturity. Even though the purchaser’s basis is reduced, no federal income tax deduction is allowed. Purchasers of any Bonds at a premium, whether at the time of initial issuance or subsequent thereto, should consult with their own tax advisors with respect to the determination and treatment of premium for federal income tax purposes and with respect to state and local tax consequences of owning such Bonds.

**Original Issue Discount**

The dollar amount of the initial offering price to the public of certain maturities of the Bonds (the "Discount Bonds") is less than the principal amount of such maturities. The difference between the initial public offering price of each such Discount Bond (assuming a substantial amount of the Discount Bonds is sold at such price) and its principal amount represents original issue discount. Under existing laws, regulations, rulings and decisions, Bond Counsel is of the opinion with respect to the Discount Bonds that the amount of original issue discount constitutes tax-exempt interest to the extent that it is deemed to accrue to an owner for federal and State of Minnesota income tax purposes (other than Minnesota corporate franchise taxes measured by taxable income and the alternative minimum tax base). Original issue discount is deemed to accrue for such purposes on the basis of a constant yield to maturity taking into account semiannual compounding. The amount of original issue discount that accrues during any accrual period to a holder of a Discount Bond who acquires the Discount Bond in this offering generally equals (i) the issue price of such Discount Bond plus the amount of original issue discount accrued in all prior accrual periods, multiplied by (ii) the yield to maturity of such Discount Bond (determined on the basis of compounding at the close of each accrual period and properly adjusted for the length of the accrual period), less (iii) any interest payable on such Discount Bond during such accrual period. The amount of original issue discount so accrued in a particular accrual period will be considered to be received ratably on each day of the accrual period, will be excluded from gross income for federal income tax purposes to the same extent as stated interest and will increase the holder's tax basis in such Discount Bond. Any gain realized by a holder from a sale, exchange, payment or redemption of a Discount Bond would be treated as gain from the sale or exchange of such Discount Bond. An owner of a Discount Bond who disposes of it prior to maturity should consult such owner's tax advisor as to the amount of original issue discount accrued over the period held and the amount of taxable gain or loss upon the sale or other disposition of such Discount Bond prior to maturity.

**Bondholders should consult their tax advisors with respect to collateral consequences arising from the receipt of interest on the Bonds, including without limitation the calculations of alternative minimum tax or foreign branch profits tax liability, or the inclusion of social security or other retirement payments in taxable income.**

## NOT QUALIFIED TAX-EXEMPT OBLIGATIONS

The Bonds will not be "qualified tax-exempt obligations" for purposes of Section 265(b)(3) of the Code relating to the ability of financial institutions to deduct from income for federal income tax purposes, interest expense that is allocable to carrying and acquiring tax-exempt obligations.

(The Balance of This Page Has Been Intentionally Left Blank)

# THE COLLEGE

## History

St. Olaf College ("St. Olaf" or the "College") is a four-year, co-educational liberal arts college located in Northfield, Minnesota. The College was founded in 1874 and operated as an academy, St. Olaf's School, until 1886, when a college department was added. The name was changed to St. Olaf College in 1889, and the first college class graduated in 1890. The academy was discontinued in 1917. Throughout its history, St. Olaf has been affiliated with the American Lutheran Church, one of the merging churches that became the Evangelical Lutheran Church in America (ELCA) in January of 1988. However, the College is neither under common management with, nor controlled by, the Evangelical Lutheran Church in America.

## Accreditation

The College is accredited by the North Central Association of Colleges and Schools as well as by appropriate professional organizations. The College is also registered with the Minnesota Office of Higher Education in accordance with Minnesota statutes.

## Governance

The Board of Regents governs the College. The current Board has 31 members, each of whom serves a six-year term unless otherwise indicated. Current members are as follows:

| Name | Occupation and/or Location |
|---|---|
| Dr. David R. Anderson, ex officio, Board Secretary | President, St. Olaf College, Northfield, Minnesota |
| Ms. Nancy J. Anderson | Vice President and Deputy General Counsel, Microsoft Corporation, Redmond, Washington |
| Ms. Katherine Hoyland Barnett | Vice President, Merrill Lynch, Vienna, Virginia |
| Mr. John W. Benson | Executive Vice President (retired), 3M Health Care Markets, Saint Paul, Minnesota |
| Dr. Kevin P. Bethke | Assistant Professor of Clinical Surgery, Division of Surgical Oncology, Northwestern University Feinberg School of Medicine, Chicago, Illinois |
| Mr. Dean L. Buntrock, Senior Regent | Former CEO, WMX Technologies, Chicago, Illinois |
| Mr. William G. Cowles, Jr. | General Manager (retired), Frigoscandia, Inc., Northfield, Minnesota |
| Mr. Peter Gotsch | Managing Partner, Ellipse Capital, LLC, Chicago, Illinois |
| Mr. Eric Hanson | Managing Director, Lazard Freres and Company, LLC, New York, New York |

**Administration**

The principal officers and members of the President's Cabinet are as follows:

*President*. Dr. David R. Anderson became the College's eleventh president on July 2, 2006. From 1999 until joining the College, Dr. Anderson served as provost and professor of English at Denison University. From 1997 to 1999 he served as vice president for academic affairs and dean of the college at Luther College. From 1993 to 1997 he was a professor of English and associate dean of arts and humanities at Florida Atlantic University. From 1981 to 1993 Dr. Anderson's positions at Texas A&M University included director of undergraduate studies in English. From 1978 to 1980 he was an assistant professor of English and tutor in the St. Olaf College Paracollege. Dr. Anderson received his Bachelor of Arts in English and American Studies from St. Olaf College in 1974 and his Ph.D in English from Boston College in 1978. He also attended the Institute for Educational Management at Harvard University in 2000 and the Center for Dispute Resolution for training in mediation at Capital University in 2005.

*Vice President and Liaison to the Board of Regents.* Dr. Paula J. Carlson began her tenure as Vice President and Liaison to the Board of Regents in July 2008. Prior to coming to St. Olaf, Dr. Carlson was Director of the Wendt Center for Character Education (2006 to 2008), Associate Dean for Academic Affairs (2001 to 2006), and professor of English at the University of Dubuque. From 1989 to 1996, she taught in the English Department at Yale University, and from 1981 to 1989, she was a member of the English Department faculty at St. Mary's College, Notre Dame. From 1985 to 1988, she served as Director of the Writing Proficiency Program at St. Mary's College. A 1976 Phi Beta Kappa graduate of St. Olaf College, Dr. Carlson earned the M.A. (1977), M.Phil. (1980), and Ph.D. (1983) in English and Comparative Literature from Columbia University.

*Assistant to the President for Institutional Diversity*. Bruce King joined St. Olaf College in August 2008. He has worked for more than twenty years in both secondary and higher education, primarily in roles addressing access, equity and inclusion for underrepresented populations. His immediate prior position was Assistant Vice President for Academic Affairs and Chief Diversity Officer at the University of South Dakota. He has also worked at Hope College, Lake Forest College, Carleton College, Wesleyan University, Minnesota State Colleges and Universities System Office, Bloomington School District in Minnesota, and the Northwest Suburban Integration School District in Maple Grove, Minnesota. Mr. King received a Bachelors of Science in Sociology and Social Work from Iowa State University (1985) and a Masters in Social Work (MSW) from the University of Iowa (1987).

*Vice President and Dean of Students.* Greg Kneser joined St. Olaf College in 1989. He served as Director of Residence Life and Associate Dean of Students before being named Dean of Students in the fall of 2000. He was appointed as a Vice President in 2007. Dean Kneser received a B.S. from the U. of Wisconsin Whitewater in 1983 and a MA from Northeast Missouri State University in 1984.

*Vice President and Dean for Enrollment*. Michael Kyle began his tenure as Vice President and Dean of Enrollment in December 2004. He began his career at St. Olaf in July 1986 after receiving his Bachelor of Arts in Political Science from the college in 1985. He served as an admissions counselor, Assistant Director of Admissions and Associate Director of Admissions and Financial Aid at St. Olaf between 1986 and 1996. He was the Director of Alumni Relations and a gift officer at St. Paul Academy and Summit School from 1996 to 1998. He returned to St. Olaf as a Principal Gifts Officer and Director of Corporate Relations, a position he held until November 2004.

*Provost and Dean of the College*. Dr. James M. May assumed the position of Provost and Dean of the College in 2002. Dr. May began teaching at St. Olaf in 1977 and is a professor of

Classics. He received his Bachelor of Science in Education (Latin and English) from Kent State University in 1973 and his Ph.D in Classics from the University of North Carolina-Chapel Hill in 1977.

*Vice President and Treasurer*. Dr. Alan J. Norton began his career at St. Olaf in January of 1996. He came to St. Olaf following ten years as Vice President for Financial Affairs at St. John Fisher College in Rochester, New York. From 1980 to 1986, Dr. Norton taught economics at St. John Fisher. Between 1975 and 1980 he held teaching positions at the University of Missouri-Columbia and at Kansas Newman College. He received his Bachelor of Arts in Economics from Rockhurst College in 1973, his Master of Arts in Economics (1975) and Ph.D. in Economics (1980) from the University of Missouri-Columbia. Dr. Norton attended the Institute for Educational Management at Harvard University in 1989 and the Endowment Institute at Harvard University in 1993.

*Assistant Vice President for Facilities.* Pete Sandberg came to St. Olaf in April of 1988 as director of facilities. He has been in higher education facilities management for over thirty years, serving Buena Vista College and Carleton College prior to St. Olaf. Mr. Sandberg leads the operations and maintenance effort, as well as capital planning, design, and construction. He is a LEED Accredited Professional by the US Green Building Council and a past president of the Midwest Association of Higher Education Facilities Officers. He received his Bachelor of Science in Education from Winona State University in 1973.

*Vice President for Advancement and College Relations*. Michael Stitsworth was named Vice President for Advancement in August of 2007. Dr. Stitsworth came to the College after 25 years at Purdue University where he was most recently the director of engineering advancement at Purdue's College of Engineering. He has worked in 43 countries and lived in Japan. His doctoral dissertation subject was a U.S.-Japan student exchange program. He also serves on proposal peer review panels for the U.S. Agency for International Development, the U.S. Department of State, and the U.S. Civilian Defense Research Foundation.

The principal staff person assigned to the debt financing being incurred by the College is Mark R. Gelle, Assistant Vice President and Chief Investment Officer. Mr. Gelle served the College for 20 years as the Director of Financial Aid and Director of Student Financial Services. He was named Assistant Treasurer in January of 1998 and earned his current title in August of 2008. He is a 1976 graduate of St. Olaf with a degree in Economics and he earned an MBA degree from the University of St. Thomas in 1982.

**Campus Facilities**

The College's 350-acre campus is located in the city of Northfield, Minnesota, 40 miles south of the Minneapolis/Saint Paul metropolitan area. The College also owns approximately 650 acres of land that adjoins the campus on the west, southwest and the north. Much of the land is rented to area farmers, although 60 acres are on a 100-year lease with the Northfield Hospital. In addition, several hundred acres have been set aside as natural lands.

The physical facilities include 17 academic and administrative buildings, 29 student residences, and 10 athletic facilities. The College also owns 27 off-campus houses. The residence halls and off-campus houses accommodate approximately 96% of the student body. The total net book value after depreciation of the College plant and equipment, at May 31, 2009 was $191,303,736 and at May 31, 2008 was $126,991,971. The replacement cost of plant and equipment is estimated to be in excess of $350 million.

The College completed major building programs mainly during the 1950s and 1960s, although many of the campus buildings, which were originally constructed in the 1920s and 1930s, have since been improved. The oldest building on the campus is Old Main, which was built in 1878. The Old Main was renovated in 1982 and is listed on the National Register of Historic Places. The newest building on campus is Regents Hall of Natural Sciences, which opened in 2008. This $60 million, 180,500 square foot structure received LEED Platinum certification. The College's old science building is currently being renovated and will be the new home for the College's foreign language departments, education department, student services and other administrative offices, including admissions.

**Academic Information**

The College offers 44 graduation majors, including 10 teaching certifications, 19 concentrations and 20 pre-professional fields with the most popular majors (in order) being: biology, mathematics, chemistry, economics, English, and music.

The College follows the 4-1-4 academic calendar of two, 14-week semesters of four courses each semester, separated by a one month interim term in January. This calendar is augmented by summer sessions during which as many as four courses may be taken.

**Marketing**

St. Olaf employs a multifaceted approach to promoting the College among key constituencies and an increasingly national audience. Marketing and Communications activities are closely coordinated with Admissions recruitment efforts and College fundraising, working to complement and expand the reach of those endeavors.

Combining traditional direct mail techniques, Admissions publications, and web presentations produced in-house with innovative e-communications and social media initiatives, St. Olaf has been able to increase the number of applicants to record highs. For fall 2010, the College enrolled the largest entering class of first-year students in its history and achieved the second largest applicant pool ever (surpassed only by a marginally higher number of applicants in 2007). Acceptance rates have dropped significantly over the past decade and the percentage of enrolling students coming from outside Minnesota has grown to more than 50 percent, further strengthening the College's reputation as one of the nation's leading liberal arts colleges.

Recent marketing initiatives have focused on establishing and reinforcing St. Olaf's reputation as a truly national liberal arts college of the highest distinction. Visibility campaigns in Denver and Chicago utilize advertising in prominent news magazines and public radio underwriting to cultivate awareness among targeted affluent and highly educated audiences, including prospective parents. In doing so, these campaigns help prepare those markets for additional Admissions inroads, now and in the future, thereby supporting the broader goal of expanding the enrollment reach of the College geographically.

St. Olaf further enhances the effectiveness of its marketing and Admissions recruitment activities and its efforts at bringing alumni and donors into a closer relationship with the College through regional and international touring of St. Olaf ensembles such as the world-renowned St. Olaf Choir, extensive web streaming of College events, and the annual PBS broadcast of the St. Olaf Christmas Festival.

**Student Enrollment**

The College's full-time and head count enrollments are reflected in the table below. These figures reflect enrollments for the fall semester for each year. Full-time student enrollment is typically 100 to 120 students lower in the spring semester.

| Academic Year | Full-time Students | Head Count Students |
|---|---|---|
| 2005/06 | 3,020 | 3,058 |
| 2006/07 | 3,000 | 3,041 |
| 2007/08 | 3,002 | 3,040 |
| 2008/09 | 3,033 | 3,073 |
| 2009/10 | 3,048 | 3,099 |

The student body enrolling in the fall of 2010 consisted of students from 43 states and 16 foreign countries. Forty-four percent (44%) of full-time students come from outside Minnesota.

**Applications, Acceptances and Enrollment of New First-Year Students**

| Year | Applicants | Acceptances | Matriculants | Acceptance Rate | Matriculation Rate |
|---|---|---|---|---|---|
| 2005/06 | 2,992 | 2,184 | 764 | 73.0 | 35.0 |
| 2006/07 | 3,522 | 2,292 | 793 | 65.1 | 34.6 |
| 2007/08 | 4,059 | 2,209 | 751 | 54.4 | 34.0 |
| 2008/09 | 3,952 | 2,318 | 813 | 58.7 | 35.1 |
| 2009/10 | 3,882 | 2,228 | 777 | 57.4 | 34.8 |

The College, as of July 31, 2010, has received 4,024 applications and has made offers of admission to 2,303 applicants, an acceptance rate of 57.2%. Of those offered admission, 848 are enrolled for classes scheduled to begin in September 2010, producing a projected matriculation rate of 36.8%.

**Academic Profile of New First-Year Students**

The College admits qualified men and women from varied geographic, cultural, economic, racial, and religious backgrounds. In determining acceptance, the primary considerations are academic achievement, academic aptitude, and personal qualifications.

| Academic Year | Median SAT | Median ACT | Median High School Rank |
|---|---|---|---|
| 2006/07 | 1,290 | 28 | 90% |
| 2007/08 | 1,310 | 29 | 91% |
| 2008/09 | 1,290 | 29 | 92% |
| 2009/10 | 1,300 | 29 | 90% |
| 2010/11* | 1,320 | 29 | 91% |

* current estimate

**Geographic Distribution of Entering First-Year Students**

The following table shows the geographic distribution of entering first-year students for Fall of 2009 and the estimated distribution for Fall of 2010:

| | Fall 2009 | Fall 2010* |
|---|---|---|
| Minnesota | 365 | 420 |
| Wisconsin | 78 | 64 |
| Illinois | 54 | 67 |
| Iowa | 31 | 35 |
| California | 24 | 24 |
| Colorado | 22 | 28 |
| Washington | 21 | 19 |
| Other Countries | 29 | 29 |
| Other States | 153 | 150 |
| Total | 777 | 848 |

* current estimate

**Student Retention**

| Fall | New | Percent of Students Returning | | | Percent of Graduates | |
|---|---|---|---|---|---|---|
| Semester | 1st Year | 2nd Year | 3rd Year | 4th Year | By 4th Year | By 5th Year |
| 2003 | 719 | 93.6 | 89.7 | 86.6 | 82.5 | 86.5 |
| 2004 | 777 | 92.1 | 87.3 | 85.7 | 81.1 | 85.2 |
| 2005 | 764 | 93.3 | 86.6 | 85.5 | 80.8 | |
| 2006 | 792 | 93.4 | 88.1 | 87.5 | | |
| 2007 | 751 | 91.7 | 88.4 | | | |
| 2008 | 813 | 93.2 | | | | |
| 2009 | 777 | | | | | |

**Tuition and Fees**

The College charges a Comprehensive Fee for each academic year, which includes tuition up to a maximum course load of 4.5 courses per semester, academic fees, room and a 21-meal per week board plan. Certain other fees may be charged for additional services or special courses. The following table lists the Comprehensive Fees charged for the past four academic years and the fees for the upcoming 2010/11 academic year.

| Year | Tuition | Room and Board | Comprehensive Fee |
|---|---|---|---|
| 2006/07 | $28,200 | $7,400 | $35,600 |
| 2007/08 | $30,600 | $7,900 | $38,500 |
| 2008/09 | $34,300 | $7,900 | $42,200 |
| 2009/10 | $35,500 | $8,200 | $43,700 |
| 2010/11 | $36,800 | $8,500 | $45,300 |

The College offers four optional payment plans for students: a standard semester plan, with payments due in August and January; a monthly plan from June through March of 10 equal payments; a quarterly plan of 4 equal payments due on the 15th of the months of June, September, December and March; and a single payment, with a small discount, due August 15.

The following table lists total gross revenue derived from tuition and fees for the fiscal years ended May 31, 2006 through May 31, 2010:

| Year | Tuition and Fees |
|---|---|
| 2005/06 | $ 82,390,522 |
| 2006/07 | $ 87,745,467 |
| 2007/08 | $ 94,168,433 |
| 2008/09 | $103,073,714 |
| 2009/10* | $108,878,236 |

*unaudited

**Comprehensive Charges for 2010-2011 at Minnesota's Private Colleges**

| College/University | Tuition and Required Fees | Room and Board | Comprehensive Charges* |
|---|---|---|---|
| Carleton College | $41,304 | $10,806 | $52,110 |
| Macalester College | $40,046 | $ 9,087 | $49,124 |
| **St. Olaf College** | **$36,800** | **$ 8,500** | **$45,300** |
| Gustavus Adolphus College | $33,858 | $ 8,400 | $42,258 |
| College of Saint Benedict | $32,246 | $ 8,652 | $40,898 |
| Saint John's University | $31,576 | $ 8,044 | $39,620 |
| Hamline University | $30,763 | $ 8,396 | $39,159 |
| University of St. Thomas | $30,493 | $ 8,320 | $38,813 |
| St. Catherine University | $30,168 | $ 7,658 | $37,826 |
| Augsburg College | $28,864 | $ 7,760 | $36,624 |
| Bethel University | $28,080 | $ 8,220 | $36,300 |
| Minneapolis College of Art & Design | $29,700 | $ 6,530 | $36,230 |
| College of St. Scholastica | $28,374 | $ 7,498 | $35,872 |
| Concordia University (St. Paul) | $27,400 | $ 7,500 | $34,900 |
| Concordia College (Moorhead) | $27,160 | $ 6,510 | $33,670 |
| Saint Mary's University of Minnesota | $26,090 | $ 6,940 | $33,030 |
| Bethany Lutheran College | $20,950 | $ 6,500 | $27,450 |
| Average | $30,816 | $ 7,960 | $38,776 |

* *These are standard charges for first-time, full time, full academic year undergraduate students, including fees assessed on all undergraduates. Several colleges have differential tuition for upper-level students or other policies that result in some variation across class levels and students.*

*NOTE: Comprehensive charges are reduced for many students through financial assistance. 94% of private college students apply for and receive financial assistance, with the amounts and types of aid determined in relation to family resources, calculated need, government formulas and financial aid funding and other factors. Typical assistance provided to students includes federal and state grants (if applicant qualifies), institutional grants, loans and work-study determined in relation to the student's needs and other factors.*

*Source: The Minnesota Private College Council, website at:*
*http://www.mnprivatecolleges.org/paying/tuition.php*

## Financial Aid

Approximately 66% of the full-time students enrolled receive need-based scholarships or grants from the College. An additional 20% of the full-time students receive merit-based (non-need-based) scholarships from the College. The following table is a five-year summary of financial aid from College and non-College sources and these figures include both need-based and merit-based financial aid. NOTE: Figures are in thousands.

| | 2005/06 | 2006/07 | 2007/08 | 2008/09 | 2009/10 |
|---|---|---|---|---|---|
| Unrestricted Institutional Scholarships and Grants | $24,804 | $28,414 | $30,259 | $34,342 | $39,036 |
| Endowed and Restricted Gift Institutional Scholarships | 2,870 | 2,743 | 3,198 | 3,854 | 4,387 |
| Federal Pell & SEO Grants | 1,490 | 1,683 | 1,787 | 1,870 | 2,334 |
| Minnesota State Grants | 1,578 | 1,757 | 1,653 | 1,526 | 1,811 |
| Other Scholarships and Grants | 1,962 | 1,945 | 2,018 | 2,226 | 2,431 |
| Total Scholarships and Grants | $32,704 | $36,542 | $38,915 | $43,818 | $49,999 |
| Student Loans | 12,735 | 12,530 | 12,460 | 13,017 | 13,219 |
| Student Work | 3,748 | 3,862 | 3,640 | 3,719 | 4,263 |
| Total Financial Aid | $49,187 | $51,610 | $55,015 | $60,554 | $67,481 |

## Faculty and Staff

The College has a teaching staff of 210 full-time faculty members and 117 part-time faculty members with a full-time equivalent (FTE) devoted to teaching of 249. The student to teaching faculty ratio is approximately 12.3 to 1. The chart below shows the total number of College employees, stated in FTE terms, by category:

| Category | Number of FTE Employees |
|---|---|
| Teaching Faculty | 249 |
| Administrative | 229 |
| Support Staff | 218 |
| Total | 696 |

*NOTE: The figures above reflect the allocation of some faculty FTE to administrative duties.*

None of the employees are unionized and there are no pending salary negotiations. The College is not aware of any plans for any of its employees to become unionized.

The average salaries for 2009-2010 by faculty rank are:

| Rank | Number of Full-Time Faculty | Average Salary |
|---|---|---|
| Professor | 70 | $89,506 |
| Associate Professor | 66 | $69,113 |
| Assistant Professor | 50 | $56,615 |
| Instructor | 15 | $52,497 |

## Retirement Plans

The College has certain contributory defined contribution pension plans for academic and nonacademic personnel. Contributions for employees are based on a percentage of annual compensation. The cost of these retirement plans is paid currently and amounted to $3,436,300 for the year ended May 31, 2009 and $3,430,000 (unaudited) for the year ended May 31, 2010.

## Gifts and Grants

Listed below are College data for gifts and grants for the noted five fiscal years. Gifts are recorded as pledges when received.

| Fiscal Year Ended May 31 | Unrestricted | Temporarily Restricted | Permanently Restricted | Total |
|---|---|---|---|---|
| 2006 | $9,234,437 | $ 9,142,002 | $1,517,673 | $19,894,112 |
| 2007 | 8,534,452 | 9,972,907 | 5,729,245 | 24,236,604 |
| 2008 | 9,251,108 | 11,512,014 | 3,450,576 | 24,213,698 |
| 2009 | 8,629,354 | 2,287,119 | 2,866,703 | 13,783,176 |
| 2010* | 9,039,805 | 7,244,522 | 3,410,797 | 19,695,124 |

*unaudited

## Endowment and Deferred Gift Investments

Endowment investments and deferred gift investments listed below are shown at market value:

| Fiscal Year Ended May 31 | Endowment Investments | Deferred Gift Investments | Total Investments |
|---|---|---|---|
| 2005 | $225,635,000 | $56,850,000 | $282,485,000 |
| 2006 | 260,730,000 | 60,728,000 | 321,458,000 |
| 2007 | 318,541,000 | 62,919,000 | 381,460,000 |
| 2008 | 334,811,000 | 54,824,000 | 389,635,000 |
| 2009 | 247,991,000 | 39,379,000 | 287,370,000 |

The amounts shown in the Endowment Investments column exclude uncollected pledges to the endowment fund. The amounts shown in the Deferred Gift Investments column exclude life insurance policies owned by the College and deferred gifts held in trust by others, both of which are in the deferred gift fund. As of May 31, 2010, the unaudited market value of the College's endowment investments was $274.8 million and the market value of the deferred gift investments was $43.4 million.

Endowment investments are managed primarily by outside fund managers retained by the College. The College uses an asset allocation model, which generally allocates 42% of the endowment to equity investments, 19% to fixed income investments, with the remaining 39% allocated to alternative assets: hedge funds, real assets and private equity. Income earned and appreciation, both realized and unrealized, are measured to calculate a total return. For the following fiscal years ended May 31, the total return on the endowment was:

| Year | Return |
|---|---|
| 2006 | 16.38% |
| 2007 | 19.15% |
| 2008 | 4.10% |
| 2009 | (24.10%) |
| 2010* | 12.90% |

*unaudited

The College endowment spending policy is based on a spending rate of 4.7 percent of a sixteen-quarter moving average of market values at the end of the previous year. For fiscal year 2010, the effective payout percentage was 5.9%, based on the market value of the endowment of $248.0 million as of June 1, 2009. The effective payout rate is expected to be 5.4% in fiscal year 2011.

**Fundraising**

In December of 2005, the College publicly announced a fundraising campaign: "Beyond Imagination – The St. Olaf Campaign for the Future of Math + Science." Prior to the public announcement, volunteer members of the Board of Regents and Advancement Staff solicited leadership gifts from former and current Regents and from members of the Natural Sciences Faculty. Gifts and pledges met the goal of $33 million. Regents Hall opened for classes in September of 2008. $11.3 million remained to be collected as of May 31, 2009 and $9.6 million remains to be collected as of May 31, 2010. Payments on pledges will continue through 2012.

In September of 2009, the College received a lead gift pledge of $5 million for a $21 million renovation of the "Old Science Building." Additional gifts are being solicited. The renovation is scheduled for completion by January of 2011.

In addition to fundraising for Regents Hall and the Old Science renovation, efforts continue in the "Partners in Annual Giving" program, with an expectation that Partners will contribute $4 million per year to the operating budget. Likewise, the Office of Government and Foundation Relations works closely with members of the St. Olaf faculty to secure research grants and other support that approaches another $4 million per year. Gifts for endowment and planned gifts are expected to be in the range of $3 to $8 million per year.

**Financial Statements**

Appendix VII sets forth the financial statements of the College for the fiscal year ended May 31, 2009, 2008 and 2007 audited by Baker Tilly Virchow Krause, LLP, Minneapolis, Minnesota, and prepared in accordance with generally accepted accounting principles (GAAP). The firm has not participated in the preparation of this Official Statement and expresses no opinion on its contents.

**Statement of Activities (Unrestricted Portion Only) for Fiscal Years 2006-2009 (audited) and 2010 (unaudited)**

The table on the following page sets forth the statement of activities (unrestricted portion only) prepared in accordance with generally accepted accounting principles (GAAP) based on the College's audited financial statements for the fiscal years 2006-2009; the figures for fiscal year 2010 are unaudited.

# ST. OLAF COLLEGE
## STATEMENT OF UNRESTRICTED ACTIVITIES

| Fiscal Years Ended May 31, | 2006 | 2007 | 2008 | 2009 | UNAUDITED 2010 |
|---|---|---|---|---|---|
| **REVENUES, GAINS AND OTHER SUPPORT** | | | | | |
| **OPERATING REVENUES** | | | | | |
| Tuition | $ 78,408,748 | $ 83,649,733 | $ 90,506,866 | $ 98,940,379 | $ 104,828,210 |
| Less: Unfunded scholarships and grants | (26,148,307) | (29,833,365) | (32,827,954) | (36,773,204) | (40,625,098) |
| Funded scholarships and grants | (3,547,928) | (3,254,474) | (3,689,177) | (4,368,068) | (4,883,498) |
| Net tuition | 48,712,513 | 50,561,894 | 53,989,735 | 57,799,107 | 59,319,614 |
| Other tuition and fees | 3,981,774 | 4,095,734 | 3,661,567 | 4,133,335 | 4,050,026 |
| Government grants | 3,982,882 | 4,002,312 | 4,222,090 | 4,028,431 | 4,658,381 |
| Private gifts and grants | 3,734,962 | 3,735,066 | 4,070,075 | 3,799,540 | 3,992,030 |
| Long-term investment income and gains allocated for operations | 3,571,579 | 3,817,099 | 4,205,855 | 4,736,709 | 4,986,970 |
| Other sources | 2,596,904 | 2,948,548 | 2,647,519 | 2,286,052 | 2,147,383 |
| Investment income | 570,809 | 1,364,766 | 935,729 | 472,188 | 225,508 |
| Net gains (losses) on investments | 21,178 | (76,104) | (335,217) | (578,019) | (209,092) |
| Auxiliary enterprises -- sales and services | 20,172,979 | 23,567,750 | 24,654,311 | 25,046,450 | 26,263,345 |
| Subtotal: | 87,345,580 | 94,017,065 | 98,051,664 | 101,723,793 | 105,434,165 |
| Net assets released from restrictions | 7,194,787 | 9,255,879 | 9,233,638 | 9,743,288 | 10,552,098 |
| Total Operating Revenues, Gains and Other Support | 94,540,367 | 103,272,944 | 107,285,302 | 111,467,081 | 115,986,263 |
| | | | | | |
| **OPERATING EXPENSES** | | | | | |
| Program expenses | | | | | |
| Instruction | 39,665,822 | 42,153,319 | 42,734,992 | 46,412,503 | 45,757,758 |
| Research | 1,028,132 | 1,149,541 | 1,538,821 | 1,227,904 | 1,348,816 |
| Public service | 563,253 | 679,904 | 1,232,194 | 1,134,662 | 483,989 |
| Academic support | 8,717,752 | 9,070,869 | 9,305,666 | 9,651,448 | 9,955,461 |
| Student services | 12,926,303 | 13,484,416 | 14,841,320 | 15,437,851 | 15,806,541 |
| Auxiliary enterprises | 16,058,894 | 16,903,058 | 17,689,530 | 18,559,761 | 19,347,124 |
| Support expenses | | | | | |
| Institutional support | 8,069,538 | 9,178,804 | 10,409,274 | 9,164,159 | 9,162,598 |
| Fundraising | 2,958,486 | 2,799,998 | 3,069,513 | 3,275,525 | 3,576,520 |
| Total Operating Expenses | 89,988,180 | 95,419,909 | 100,821,310 | 104,863,813 | 105,438,807 |
| | | | | | |
| **Increase in Net Assets from Operating Activities** | 4,552,187 | 7,853,035 | 6,463,992 | 6,603,268 | 10,547,456 |
| | | | | | |
| **NONOPERATING ACTIVITIES** | | | | | |
| Long-term investment activities | | | | | |
| Investment income | 1,352,019 | 3,862,297 | 3,994,526 | 1,173,586 | 949,784 |
| Net realized gains | 16,938,660 | 18,391,714 | 4,469,661 | (32,852,094) | 13,642,738 |
| Net unrealized appreciation | 3,121,739 | 8,774,910 | | | |
| Total long-term investment income | 21,412,418 | 31,028,921 | 8,464,187 | (31,678,508) | 14,592,522 |
| Less: Long-term investment income and gains allocated for operations | (3,571,579) | (3,817,099) | (4,205,855) | (4,736,709) | (4,986,970) |
| | 17,840,839 | 27,211,822 | 4,258,332 | (36,415,217) | 9,605,552 |
| Student loan income net of expenses | (11,881) | (54,620) | (7,702) | 8,199 | (2,417) |
| Capital giving activities -- gifts and grants | 1,468,488 | 748,850 | 908,750 | 710,378 | 347,398 |
| Deferred giving activities -- gifts | 48,105 | 48,224 | 50,193 | 91,005 | 41,996 |
| Interest rate swap gain (loss) | 610,992 | (172,003) | (480,794) | (773,966) | (367,706) |
| Adjustment to actuarial liability for annuities payable | 2,407,951 | 5,717,438 | 145,758 | (4,751,937) | 2,395,657 |
| Adjustment to prior service cost and actuarial liability for retiree health benefit plan | | | | | 1,597,441 |
| Loss on disposition of property, plant and equipment | (514,350) | 4,206,220 | | 396,672 | |
| Other activities | | | 2,552,492 | | (348,078) |
| | 21,850,144 | 37,705,931 | 7,427,029 | (40,734,866) | 13,269,843 |
| Net assets released from restrictions | 9,038,286 | 11,955,875 | 6,113,138 | | |
| | | | | | |
| **Change in Net Assets from Nonoperating Activities** | 30,888,430 | 49,661,806 | 13,540,167 | (40,734,866) | 13,269,843 |
| | | | | | |
| Change in Net Assets before Cumulative Effect of Change in Accounting Principle and Reclassificiation of Net Assets | 35,440,617 | 57,514,841 | 20,004,159 | (34,131,598) | 23,817,299 |
| | | | | | |
| Reclassification of prior year net assets | 74,847 | | | (1,434,947) | (15,000) |
| Net asset reclassification due to a change in law | | | | (93,705,186) | |
| Cumulative effect on prior years of a change in accounting principle | (2,715,049) | (2,265,346) | | | |
| **Change in Net Assets** | 32,800,415 | 55,249,495 | 20,004,159 | (129,271,731) | 23,802,299 |
| | | | | | |
| Net Assets -- Beginning of Year | 173,515,216 | 206,315,631 | 261,565,126 | 281,569,285 | 152,297,554 |
| | | | | | |
| **NET ASSETS -- END OF YEAR** | $ 206,315,631 | $ 261,565,126 | $ 281,569,285 | $ 152,297,554 | $ 176,099,853 |

Source: Audited Financial Statements of the College

## Long-Term Debt of the College

The College's long-term debt outstanding as of July 1, 2010 is as follows:

1. $14,475,000 Minnesota Higher Education Facilities Authority Revenue Bonds, Series Five-H, dated October 25, 2000; interest rates are variable and are reset daily, although the College can elect to change the reset period and can convert the bonds to fixed rates; final maturity is due October 1, 2030; $14,475,000 is outstanding. A direct pay Letter of Credit from Harris Trust and Savings Bank secures the bonds. **The Series Five-H Bonds will be refunded in their entirety on October 1, 2010.**

2. $12,205,000 Minnesota Higher Education Facilities Authority Revenue Bonds, Series Five-M1, dated April 16, 2002; interest rates are variable and are reset daily, although the College can elect to change the reset period and can convert the bonds to fixed rates; final maturity is due October 1, 2032; $12,205,000 is outstanding. A direct pay Letter of Credit from Harris Trust and Savings Bank secures the bonds. **The Series Five-M1 Bonds will be refunded in their entirety on October 1, 2010.**

3. $13,420,000 Minnesota Higher Education Facilities Authority Revenue Bonds, Series Five-M2, dated July 10, 2002; interest rates are variable and are reset daily, although the College can elect to change the reset period and can convert the bonds to fixed rates; final maturity is due October 1, 2020; $13,420,000 is outstanding. A direct pay Letter of Credit from Harris Trust and Savings Bank secures the bonds. **The Series Five-M2 Bonds will be refunded in the amount of $4,670,000 on October 1, 2010.**

4. $45,405,000 Minnesota Higher Education Facilities Authority Revenue Bonds, Series Six-O, dated March 1, 2007; fixed rates range from 4.00% to 5.00%; final maturity is October 1, 2032; $43,145,000 is outstanding.

As of July 1, 2010, the College's total long-term debt outstanding is $83,245,000. After issuance of the Bonds and refunding of the Prior Bonds, the College's outstanding long-term debt will be $51,895,000 plus the principal amount of the Bonds.

## Maximum Annual Debt Service and Pro Forma Coverage Statement

The following table sets forth the College's estimated maximum annual debt service and compares that amount to Fiscal Year 2009 amounts available for debt service. Debt service includes debt service on the Bonds and estimated debt service on the College's currently outstanding long-term debt (excluding the Prior Bonds). Estimated coverage represents the amount of College revenue that was available for debt service for the year ended May 31, 2009, as further detailed in footnote (b) of the table, divided by maximum annual debt service.

**This table is intended merely to show the relationship of historic annual revenues of the College available for the payment of debt service to a pro forma statement of combined annual debt service of the College after giving effect to the issuance of the Bonds and refunding of the Prior Bonds based on an assumed interest rate schedule with respect to the Bonds. The table is not intended and should not be considered a projection of future revenues, expenses, debt service or debt service coverage of the College. There is no assurance that the future revenues, expenses, debt service and debt service coverage of the College or the respective relationships thereof will correspond to the revenues, expenses and debt service or the respective relationships thereof shown by or reflected in the following table.**

**Maximum Annual Debt Service**
**and Pro Forma Coverage Statement**

| Maximim Annual Debt Service (a) | Fiscal Year 2009 Amount Available for Debt Service (b) | Estimated Coverage (times) (c) |
|---|---|---|
| $6,626,922 | $12,555,537 | 1.89 |

Footnotes to the foregoing table:

(a) Maximum annual debt includes debt service on the Bonds and actual and estimated debt service on the College's outstanding debt and occurs in Fiscal Year 2017. The College's outstanding debt is adjusted to exclude the Prior Bonds, viz. Series Four-H in its entirety, Series Five-M1 in its entirety, and $4,670,000 of Series Five-M2. The balance of the College's outstanding debt consists of Series Five-M2 variable rate debt in the amount of $8,750,000 and Series Six-O fixed rate debt in the amount of $43,145,000. The College has entered into an interest rate swap arrangement related to the Series Five-M2 Bonds, creating a synthetic fixed interest rate of 4.38% on that portion during the term of the arrangement. Series Five-M2 is assumed to amortize and to have approximately level annual debt service and the assumed rate on the Series Five-M2 Bonds is the swap rate.

(b) Fiscal year 2009 net income available for debt service:

| | |
|---|---|
| Change in unrestricted net assets from operating activities | $ 6,603,268 |
| Plus: | |
| Depreciation, amortization and accretion | 9,968,810 |
| Interest expense on funded debt | 2,443,735 |
| Less: | |
| Current land, building and equipment acquisitions funded through operations and capitalized | (6,460,276) |
| Fiscal Year 2009 net income available for debt service | $ 12,555,537 |

(c) The amount available for debt service divided by maximum annual debt service.

## PROPOSED FORM OF LEGAL OPINION

FRYBERGER, BUCHANAN, SMITH & FREDERICK, P.A.
www.fryberger.com

302 W SUPERIOR STREET, SUITE 700
DULUTH, MINNESOTA 55802

PHONE (218) 722-0861
FAX (218) 725-6800

**$32,440,000**
**MINNESOTA HIGHER EDUCATION FACILITIES AUTHORITY**
**REVENUE BONDS, SERIES SEVEN-F (ST. OLAF COLLEGE)**

We have acted as bond counsel in connection with the issuance by the Minnesota Higher Education Facilities Authority (the "Authority") of its fully registered (initially book-entry) Revenue Bonds, Series Seven-F (St. Olaf College), in the aggregate principal amount of $32,440,000 (the "Bonds"), dated August 31, 2010. The Bonds mature on October 1 in the years 2011 through 2025 and on October 1, 2030, and bear interest at the interest rates per annum specified in the Indenture (defined below) for each maturity subject to an increase in such interest rates in the event of a Determination of Taxability. The Bonds are subject to optional, mandatory and extraordinary redemption prior to maturity as provided in the Indenture.

The Bonds are issued for the purpose of funding a loan from the Authority to St. Olaf College (the "College"), a Minnesota nonprofit corporation, located in Northfield, Minnesota, in order to refund (a) the Authority's Variable Rate Demand Revenue Bonds, Series Five-H (St. Olaf College), (b) the Authority's Variable Rate Demand Revenue Bonds, Series Five-M1 (St. Olaf College), and (c) a portion of the Authority's Variable Rate Demand Revenue Bonds, Series Five-M2 (St. Olaf College), as further described in the Loan Agreement. We have examined executed counterparts of the Loan Agreement (the "Loan Agreement") between the Authority and the College and the Trust Indenture (the "Indenture") between the Authority and Wells Fargo Bank, National Association, in Minneapolis, Minnesota, as Trustee (the "Trustee") each dated as of August 1, 2010, one or more opinions of Gray, Plant, Mooty, Mooty & Bennett, P.A. and Schmitz, Ophaug & Doud, L.L.P., as counsels to the College, the form of the Bonds prepared for execution, and such other documents as we deemed necessary for the purpose of the following opinion.

As to questions of fact material to our opinion, we have relied upon certified proceedings, documents and certifications furnished to us by public officials and officials of the College without undertaking to verify such facts by independent investigation. We have also relied upon the opinion of Gray, Plant, Mooty, Mooty & Bennett, P.A. as to the Loan Agreement having been duly authorized and executed and being binding upon the College, as to the corporate organization, tax-exempt status, good standing and powers of the College, and we have relied on the opinion of Schmitz, Ophaug & Doud, L.L.P. as to title to the Project Site (as defined in the

Loan Agreement and Indenture), all without examining the records of the College or original title records or abstracts of title.

Except as set forth in our opinion to Piper Jaffray & Co. dated the date hereof, we have not been engaged or undertaken to verify the accuracy, completeness or sufficiency of the Official Statement or other offering material relating to the Bonds, and we express no opinion relating thereto (except to the extent, if any, stated in the Official Statement).

Based on our examination, we are of the opinion, as of the date hereof, as follows:

1. The Authority is an agency of the State of Minnesota with authority under Sections 136A.25 to 136A.42, Minnesota Statutes, to issue the Bonds, to loan the proceeds thereof to the College and to execute and deliver the Loan Agreement and the Indenture to secure the Bonds.

2. The Loan Agreement and the Indenture are valid and binding instruments of the parties thereto, enforceable in accordance with their terms.

3. The Bonds are valid and binding limited obligations of the Authority, payable from and secured by the assignment of the loan repayments payable by the College under the Loan Agreement to the Trustee, scheduled to be made in amounts and at times sufficient (if timely paid in full) to pay the principal of and interest on the Bonds when due, and by the pledge of the funds and investments held by the Trustee under the Indenture and by the pledge of funds and rights to payment held by the Trustee, as assignee, under the Loan Agreement.

4. Assuming compliance with certain covenants in the Loan Agreement and Indenture, under existing laws, regulations, rulings and decisions as presently construed, the interest on the Bonds is not includable in gross income for purposes of federal income taxation or in taxable income of individuals, estates and trusts for purposes of Minnesota income taxation. Interest on the Bonds is not an item of tax preference required to be included in the computation of "alternative minimum taxable income" for purposes of the federal alternative minimum tax applicable to individuals under Section 55 of the Internal Revenue Code of 1986, as amended (the "Code") or Minnesota alternative minimum tax applicable to individuals, trusts and estates. Interest on the Bonds, however, is includable in "adjusted current earnings" for purposes of the computation of "alternative minimum taxable income" of corporations under Section 55 of the Code and is subject to the Minnesota franchise tax imposed upon corporations, including financial institutions, measured by taxable income and the alternative minimum tax base. The Bonds are not arbitrage bonds within the meaning of Section 148 of the Code. The Bonds are "private activity bonds" within the meaning of Section 141(a) and "qualified 501(c)(3) bonds" within the meaning of Section 145 of the Code. Ownership of the Bonds will result in disallowance of a deduction for a portion of the interest expense of a "financial institution" under Section 265(b) of the Code. Reference is made to the caption "Tax Exemption" in the Official Statement for a description of the effect of certain provisions of the Code relating to, among other things, the branch profits tax imposed on foreign

corporations, losses incurred by property and casualty insurance companies, Subchapter C earnings of S corporations, net investment income of foreign corporations, and the taxability of Social Security and railroad retirement benefits.

The rights of the holders of the Bonds and the enforceability of the Bonds, the Indenture and the Loan Agreement may be subject to bankruptcy, insolvency, reorganization, moratorium and receivership proceedings and other similar laws affecting creditors' rights heretofore or hereafter enacted to the extent constitutionally applicable and their enforcement may also be subject to the exercise of judicial discretion in accordance with principles of equity.

Dated: August __, 2010

Respectfully submitted,

[THIS PAGE INTENTIONALLY LEFT BLANK]

## INFORMATION TO BE PROVIDED AS CONTINUING DISCLOSURE

### Annual Reporting

The Annual Report Date will be will be the date that is 180 days after each fiscal year end, commencing with the fiscal year ending May 31, 2010. The Annual Report will contain:

1. Audited financial statements for the most recent complete fiscal year.
2. The following financial and operating data contained in Appendix I to the Final Official Statement:
   a. Information as of the end of the most recent complete academic or fiscal year, as appropriate, of the matters covered by the Sections entitled:
      - Student Enrollment
      - Applications, Acceptances and Enrollment of New First-Year Students
      - Academic Profile of New First-Year Students
      - Geographic Distribution of Entering First-Year Students
      - Student Retention
      - Tuition and Fees
      - Financial Aid
      - Faculty and Staff
      - Retirement Plans
      - Gifts and Grants
      - Endowment and Deferred Gift Investments
      - Fundraising

   b. An update of Calculation of Amount Available for Debt Service.

### Material Events to be Disclosed

The events enumerated in Rule 15c2-12 under the Securities Exchange Act of 1934, as amended, which are to be disclosed, if material, are as follows:

(i) Principal and interest payment delinquencies;
(ii) Non-payment related defaults;
(iii) Unscheduled draws on debt service reserves reflecting financial difficulties;
(iv) Unscheduled draws on credit enhancements reflecting financial difficulties (this is not applicable to the Bonds);
(v) Substitution of credit or liquidity providers, or their failure to perform (this is not applicable to the Bonds);
(vi) Adverse tax opinions or events affecting the tax-exempt status of the security;
(vii) Modifications to rights of security holders;
(viii) The giving of notice to redeem any Bonds other than for a sinking fund redemption;
(ix) Defeasances;
(x) Release, substitution, or sale of property securing repayment of the securities (this is not applicable to the Bonds) and;
(xi) Rating changes.

[THIS PAGE INTENTIONALLY LEFT BLANK]

## DEFINITION OF CERTAIN TERMS

Following are definitions of certain words and terms as used in the Indenture and Loan Agreement related to the Bonds. Definitions of some of the words and terms below may also appear elsewhere in this Official Statement.

*Account* or *Accounts:* One or more of the Accounts created under Article IV or V of the Indenture.

*Act*: Sections 136A.25 through and including 136A.42, Minnesota Statutes, as amended.

*Arbitrage Regulations:* All regulations and proposed regulations from time to time issued and in effect under Section 148 of the Internal Revenue Code (and former Section 103(c) of the Internal Revenue Code of 1954), including without limitation Treasury Regulations Sections 1.148-1 to 1.150-1.

*Authority*: The Minnesota Higher Education Facilities Authority.

*Authorized Authority Representative*: The person at the time designated to act on behalf of the Authority by written certificate furnished to the College and the Trustee, containing the specimen signature of such person and signed on behalf of the Authority by its Chair, Secretary or Executive Director or any officer authorized to act on behalf of the foregoing officers. Such certificate may designate an alternate or alternates and in that case, specimen signatures for the alternates shall be provided as well.

*Authorized Denominations*: $5,000 and any integral multiples thereof.

*Authorized Institution Representative*: The person at the time designated to act on behalf of the College by written certificate furnished to the Authority and the Trustee, containing the specimen signature of such person and signed on behalf of the College by the Chair, Vice Chair, Secretary or Treasurer of its Board of Regents or the President or a Vice President of the College. Such certificate may designate an alternate or alternates and in that case, the certificate shall set forth the specimen signatures of such alternates.

*Authorized Investments*: Investments authorized for moneys in the Accounts created under Articles IV and V of the Indenture and described in Section 5.04 of the Indenture.

*Beneficial Owner*: With respect to any authorized denomination of a Bond in Book-Entry Form, each person who beneficially owns such Bond in such authorized denomination and on whose behalf, directly or indirectly, such authorized denomination of Bond is held by the Depository pursuant to the Book-Entry System.

*Board of Regents*: The Board of Regents of the College, and including the Executive Committee or other committee authorized to act for such board.

*Bond and Interest Sinking Fund Account*: The Bond and Interest Sinking Fund Account established pursuant to the Indenture.

*Bond Closing:* The original issuance, sale and delivery of the Bonds.

*Bond Purchase Agreement:* The Bond Purchase Agreement, to be dated August 19, 2010 among the Authority, the College, and the Underwriter.

*Bond Resolution*: The Series Resolution of the Authority to be adopted on August 18, 2010, authorizing the Bonds, as the same may be amended, modified or supplemented by any amendments or modifications thereof.

*Bond Year*: With respect to the Bonds, (a) the period from the Issue Date to the close of business on October 1, 2010 and (b) each succeeding 12-month period ending at the close of business on October 1 of each year in which the outstanding Bonds, if paid at their stated maturity dates, will be outstanding.

*Bonds*: The Minnesota Higher Education Facilities Authority Revenue Bonds, Series Seven-F (St. Olaf College).

*Book-Entry Form*: All Bonds, if such Bonds are all held (i) in the name of the Depository (or its nominee) with each Stated Maturity evidenced by a single Bond certificate or (ii) with the approval of the College, Authority and Trustee, in any similar manner for which Beneficial Owners do not receive Bond certificates evidencing their beneficial ownership in any of these Bond.

*Book-Entry System*: A system of recordkeeping, securities clearance and funds transfer and settlement maintained for securities by the Depository and its Participants (or Indirect Participants).

*Building Equipment*: Those items of goods, equipment, furnishings, furniture, inventory, machinery or other tangible personal property now or hereafter owned by the College and located on the Project Site acquired from funds other than the proceeds of the Bonds or the Prior Bonds.

*Business Day*: Any day other than a Saturday, a Sunday, a legal holiday in the State of Minnesota or any other day that the Depository or banks in Minnesota are not open for business.

*College or Corporation*: St. Olaf College, a Minnesota nonprofit corporation, its successors and assigns as owner and operator of the Institution.

*Costs of Issuance Account:* The Costs of Issuance Account established under the Indenture into which shall be deposited an amount of Bond proceeds specified in the Indenture to be applied to the payment of costs of issuance, not to exceed two percent (2%) of the proceeds of the Bonds.

*Date of Taxability:* The date as of which the interest on the Bonds shall be so determined to be includable in the gross income of the Owners thereof; provided, that no Bond shall bear additional interest for any period for which the statute of limitations shall be a bar to the assertion or collection of a deficiency of federal income taxes from the Owner of such Bond.

*Depository*: DTC or any other person who shall be a Holder of all Bonds directly or indirectly for the benefit of Beneficial Owners and approved by the Authority, College and Trustee to act as the Depository; provided any Depository shall be registered or qualified as a "clearing agency" within the meaning of Section 17A of the Securities Exchange Act of 1934, as amended.

*Determination of Taxability*: A Notice of Deficiency issued by the Internal Revenue Service or a final decision of a court of competent jurisdiction to the effect that the interest payable on the Bonds is includable in gross income for purposes of federal income taxation by reason of the application of the provisions of Section 103 of the Internal Revenue Code, related sections and regulations thereunder, in effect on the date of issuance of the Bonds, as more fully provided in the Loan Agreement. A determination that interest on the Bonds is includable in the computation of any alternative minimum tax is not a Determination of Taxability.

*DTC:* The Depository Trust Company in New York, New York, its successors or assigns.

*Event of Default*: An Event of Default described in the Indenture or Loan Agreement and summarized in this Official Statement in the sections entitled "SUMMARY OF DOCUMENTS – THE INDENTURE – Events of Default" and "SUMMARY OF DOCUMENTS – THE LOAN AGREEMENT – Events of Default."

*Financial Journal*: The Bond Buyer, Finance & Commerce, The Wall Street Journal, or any other newspaper or journal devoted to financial news published in the English language in Minneapolis or Saint Paul, Minnesota, or in the City of New York, New York.

*Fiscal Year*: The College's fiscal year, and shall initially mean the 12-month period commencing on June 1 in each year.

*General Bond Resolution*: The General Bond Resolution adopted by the Authority on October 31, 1972, and any amendments thereto.

*Holder, Bondholder, or Owner:* The person in whose name a Bond shall be registered, except if any Bond is in Book-Entry Form, with respect to any consent or approval of a Holder of Bonds, the terms shall mean the Beneficial Owner.

*Indenture*: The Trust Indenture between the Authority and Wells Fargo Bank, National Association, as Trustee, to be dated as of August 1, 2010, under which the Bonds are authorized to be issued, and including any indenture supplemental thereto.

*Independent*: When used with reference to an attorney, engineer, architect, certified public accountant, consultant, insurance consultant or other professional person, means a person who (i) is in fact independent, (ii) does not have any material financial interest in the College or the Institution or the transaction to which such Certificate or opinion relates (other than the payment to be received for professional services rendered), and (iii) is not connected with the Authority or the College or Institution as an officer, employee or member of the Authority, the College or Institution or Board of Regents of the College.

*Independent Management Consultant*: An Independent certified public accountant, Independent financial consultant or Independent management consultant having a favorable reputation for skill and experience in studying and reporting on operations of private nonprofit institutions of higher education satisfactory to the Authority.

*Institution*: St. Olaf College, a Minnesota institution of higher education headquartered in the City of Northfield, Minnesota owned and operated by the College. The Institution is also referred to as the "College" elsewhere in this Official Statement.

*Interest Payment Date:* April 1 and October 1 of each year, commencing April 1, 2011 and any other date on which principal of and/or interest on the Bonds shall be due and payable.

*Internal Revenue Code*: The Internal Revenue Code of 1986 and amendments thereto.

*Issue Date*: The date on which the Series Seven-F Bonds are delivered to the original purchaser thereof upon original issuance.

*Loan Agreement*: The Loan Agreement between the Authority and the College, to be dated as of August 1, 2010, as from time to time amended or supplemented.

*Loan Repayments*: Payments required to be made by the College to the Trustee pursuant to the Loan Agreement.

*Net Proceeds*: When used with respect to proceeds of insurance or a condemnation award, moneys received or receivable by the College as owner or lessee and the Trustee as secured party pursuant to the Indenture, less the cost of recovery (including attorneys' fees) of such moneys from the insuring company or the condemning authority, plus investment earnings thereon.

*Outstanding*: When used as of any particular time with reference to Bonds, without regard to capitalization of such term, means (subject to the provisions of Section 9.03 of the Indenture pertaining to Bonds held by the Authority and the College) all Bonds theretofore authenticated and delivered by the Trustee under the Indenture except: (i) Bonds theretofore cancelled by the Trustee or surrendered to the Trustee for cancellation; (ii) Bonds for the payment or redemption of which funds or direct obligations of or obligations fully guaranteed by the United States of America in the necessary amount shall have theretofore been deposited with the Trustee (whether upon or prior to the maturity or the redemption date of such Bonds), provided that if such Bonds are to be redeemed prior to the maturity thereof, notice of such redemption shall have been given pursuant to Article III of the Indenture, or provision satisfactory to the Trustee shall have been made for the giving of such notice; and (iii) Bonds in lieu of or in substitution for which other Bonds shall have been authenticated and delivered by the Trustee pursuant to the terms of Section 2.07 of the Indenture pertaining to replacement of Bonds.

*Permitted Encumbrances*: As of any particular time, (i) liens for ad valorem taxes and special assessments not then delinquent, (ii) utility, access and other easements and rights-of-way, mineral rights, restrictions and exceptions that an Independent engineer certifies will not interfere with or impair the use of or operations being conducted in the Project Facilities, (iii) such minor defects, irregularities, encumbrances, easements, rights-of-way and clouds on title as normally exist with respect to properties similar in character to the Project Facilities (including, with respect to Project Equipment, purchase money security interests and equipment leases), and as do not in the aggregate, in the opinion of independent counsel, materially impair the property affected thereby for the purposes for which it was acquired or is held by the College, (iv) those additional encumbrances set forth in Exhibit C to the Loan Agreement, and (v) liens granted by the college to secure Funded Debt allowed under Section 6.15 of the Loan Agreement.

*Prior Bonds:* The refunded portions of the Series Five-H Bonds, the Series Five-M1 Bonds, and the Series Five-M2 Bonds.

*Prior Bonds Projects*: The Prior Bonds were used to finance the following projects:

Series Five-H Projects:

- Renovate St. Olaf Center to house Art and Dance Departments
- Replace residence hall furniture
- Replace Skoglund Athletic Center and Manitou Field bleachers
- Acquire and renovate four houses
- Renovate the Administration Building
- Renovate and improve utility tunnels

Series Five-M1 Projects:

- Construct the Tostrud Recreation Center
- Partially renovate Skoglund Athletic Center

Series Five-M2 Projects:

- Refinance the outstanding balance of the College's City of Northfield, Minnesota College Facility Revenue Bonds, Series 1992, which financed renovations and improvements to Rand and Thorson Residence Halls, expansion of the College water system, and expansion of the College parking facilities and refinanced the City of Northfield, Minnesota Facility Revenue Bonds, Series 1988, the proceeds of which financed Ytterboe Hall

*Prior Bonds Letters of Credit:* The Letters of Credit issued by Harris Trust and Savings Bank to pay the principal of and interest on the applicable series of the Prior Bonds.

*Prior Bonds Redemption Accounts:* The Redemption Accounts created under the respective Indenture for each of the Prior Bonds series.

*Prior Bonds Trustee:* Wells Fargo Bank, National Association, successor by consolidation to Norwest Bank Minnesota, National Association, in its capacity as the Trustee under the Trust Indentures for each of the Prior Bonds series.

*Project Buildings*: Any buildings constructed or improved with the proceeds of the Prior Bonds, including investment earnings.

*Project Equipment*: All fixtures, equipment, and other personal property of a capital nature acquired with proceeds of the Prior Bonds, including investment earnings.

*Project Facilities*: The Project Site, the Project Buildings, and the Project Equipment as the same may at any time exist.

*Project Site*: Those portions of land described on Exhibit A to the Loan Agreement which are owned by the College, and on which any Project Buildings are or will be located or otherwise improved as part of the Project or the Prior Bonds Project.

*Redeem* or *redemption:* Includes "prepay" or "prepayment" as the case may be, without regard to capitalization of such terms.

*Redemption Account:* The Redemption Account created under the Indenture for deposit of any moneys received which are not otherwise committed. Moneys in the Redemption Account shall be used (i) to create and maintain the required balance in the Bond and Interest Sinking Fund Account; (ii) to create and maintain the required balance in the Reserve Account; and (iii) to redeem or prepay outstanding Bonds to the extent permitted or required and to purchase outstanding Bonds for redemption and cancellation. Moneys in the Redemption Account may be used in the discretion of the Trustee to pay rebate due to the United States under Section 148 of the Internal Revenue Code if the College or the Authority fails to provide for payment of any rebate.

*Reference Rate:* the interest rate per annum announced from time to time by Wells Fargo Bank, National Association, as its prime or reference rate.

*Refunding Account:* The account established under the Indenture for the deposit of certain Bond proceeds to be used to refund the Prior Bonds.

*Reserve Account:* The Reserve Account established under the Indenture into which on the Issue Date will be placed Bond proceeds in the amount of the Reserve Requirement. Moneys in the Reserve Account shall be used to pay principal of and interest on the Bonds if moneys in the Bond and Interest Sinking Fund Account or Redemption Account are not sufficient therefore and may be used in the Trustee's discretion to pay rebate due to the United States if the College or the Authority fails to provide for payment of any rebate.

*Reserve Requirement:* The least of (i) the maximum amount of principal of and interest on the Bonds that accrues and is payable in any remaining Bond Year, or (ii) 10% of the principal amount of the Bonds, or (iii) 125% of the average annual debt service of the Bonds.

*Series Five-H Bonds:* The Minnesota Higher Education Facilities Authority Revenue Bonds, Series Five-H (St. Olaf College), dated October 25, 2000.

*Series Five-H Indenture:* The Trust Indenture, dated as of October 1, 2000, between the Authority and the Series Five-H Bonds Trustee, relating to the Series Five-H Bonds.

*Series Five-M1 Bonds:* The Minnesota Higher Education Facilities Authority Revenue Bonds, Series Five-M1 (St. Olaf College), dated April 16, 2002.

*Series Five-M1 Indenture:* The Trust Indenture, dated as of April 1, 2002, between the Authority and the Series Five-M1 Bonds Trustee, relating to the Series Five-M1 Bonds.

*Series Five-M2 Bonds:* The Minnesota Higher Education Facilities Authority Revenue Bonds, Series Five-M2 (St. Olaf College), dated July 10, 2002.

*Series Five-M2 Indenture:* The Trust Indenture, dated as of July 1, 2002, between the Authority and the Series Five-M2 Bonds Trustee, relating to the Series Five-M2 Bonds.

*Stated Maturity*: When used with respect to any Bond or any installment of interest thereon, the date specified in such Bond and in the Indenture as the fixed date on which principal of such Bond or such installment of interest is due and payable.

*Trust Estate:* The interest of the Authority in the Loan Agreement assigned under Granting Clause I of the Indenture; the revenues, moneys, investments, contract rights, general intangibles and instruments and proceeds and products and accessions thereof as set forth in Granting Clause II of the Indenture; and additional property held by the Trustee pursuant to Granting Clause III of the Indenture.

*Trustee*: The trustee at the time serving as such under the Indenture, and initially the Trustee will be Wells Fargo Bank, National Association, Minneapolis, Minnesota.

*Underwriter:* Piper Jaffray & Co., as original purchaser of the Bonds.

# SUMMARY OF DOCUMENTS

## THE LOAN AGREEMENT

The following is a summary of certain provisions of the Loan Agreement. This summary does not purport to be complete and reference is made to the full text of the Loan Agreement for a complete recital of its terms. Certain words and terms used in this summary are defined in "DEFINITIONS OF CERTAIN TERMS," Appendix IV, contained herein.

### Redemption of Prior Bonds

The College represents that it will cause the Prior Bonds to be redeemed on October 1, 2010.

### Loan Repayments

Under the Loan Agreement, the College agrees to make Loan Repayments in amounts and at times sufficient to provide for payment in full of all principal of and interest and premium, if any, on the Bonds when due. To provide for such payments the College covenants to pay for the account of the Authority the following amounts:

(a) at least two (2) Business Days prior to each April 1 and October 1, commencing April 1, 2011, the College shall deposit into the Bond and Interest Sinking Fund Account a sum which will be equal to the amount payable as interest on the Bonds on such interest payment date, and, at least two (2) Business Day prior to each October 1, commencing on October 1, 2011, a sum equal to the amount payable as principal (whether at maturity or sinking fund redemption) of the Bonds on such principal payment date; provided however, that there shall be credited against such obligations (i) the net amount of funds and investments then on deposit to the credit of the Bond and Interest Sinking Fund Account, and (ii) any credits permitted by Sections 5.01, 5.02, 5.03 or 5.04 of the Indenture (relating to purchase and cancellation of term bonds and the transfer to the Bond and Interest Sinking Fund Account of certain investment earnings and certain excess funds); and

(b) on or prior to a date established for the optional redemption or mandatory redemption and prepayment of the Bonds, the College shall deposit into the Redemption Account such amount, if any, as shall be necessary and sufficient to provide for the redemption of any Bonds called for redemption from the Redemption Account; and

(c) the College shall deposit forthwith into the Bond and Interest Sinking Fund Account or Redemption Account, as appropriate, the amount of any deficiency in the event that the funds on deposit in the Bond and Interest Sinking Fund Account or Redemption Account on any Bond principal or interest payment date are for any reason insufficient to pay principal of, premium, if any, and interest on the Bonds then due or then to become due (whether at maturity, or by call for redemption, or by acceleration of maturity); and

(d) the College shall deposit into the Reserve Account forthwith any amounts required to be deposited therein by Section 5.02 of the Indenture; and

(e) the College shall deposit into any fund or account designated by the Trustee such amount as may be determined by the Trustee to be necessary to comply with the provisions of Section 6.09(f) of the Loan Agreement and Section 5.05 of the Indenture (relating to arbitrage rebate).

Each payment under this Section shall be made directly to the Trustee at its principal corporate trust office for the account of the Authority for deposit as provided in the Indenture. The College shall furnish to the Authority, if the Authority so requests, advice of the transmittal of such payments at the time of transmittal of payment.

There is reserved to the College the right to prepay all or part of the Loan and to redeem Bonds prior to their maturity in certain events as described under “THE BONDS.”

As additional payments, the College agrees to pay the annual fee of the Authority, fees and expenses of the Trustee, rebate of certain excess investment earnings to the United States, and certain other expenses.

**Use of Project Facilities**

The College agrees to use the Project Facilities as educational facilities, in compliance with law and ordinance requirements, and not as facilities for sectarian instruction or religious worship, nor primarily in connection with any part of a program of a school or department of divinity for any religious denomination. The College agrees not to use or permit use of the Project Facilities in such manner or to such an extent as would result in loss of the tax-exemption of interest on the Bonds under the Internal Revenue Code or loss of its status as an exempt organization under Section 501(c)(3) of the Code.

**Maintenance of Project Facilities**

The College agrees that, so long as there are Bonds outstanding, and subject to certain exceptions, the College will keep the Project Facilities in good repair and good operating condition at its own cost. The College will make such repairs, modifications and replacements as are necessary so that the Project Facilities will remain a “project” under the Act and interest on the Bonds will be exempt from federal income taxation, and may make such repairs, modifications and replacements as in the College’s judgment are desirable, subject to the same conditions. The College may sell, transfer, lease or sublease or enter into agreements in the ordinary course of business for the use of the Project Facilities (i) so long as the tax-exempt status of the Bonds will not be affected thereby, (ii) no such transaction or agreement shall be inconsistent with the Loan Agreement, the Indenture, or the Act, (iii) the College shall remain fully obligated under the Loan Agreement as if such agreement had not been made, and (iv) in the case of such sale or transfer or in the case of any lease to or occupancy by persons who are not students, employees or faculty, an opinion of Bond Counsel is provided to the Trustee to the effect that tax exemption of the interest on the Bonds is not adversely affected. The College may demolish any Project Facilities which in the College’s judgment are worn out, obsolete or require replacement, are no longer used, or the College, by resolution of the Board of Regents, has determined in its judgment are no longer useful.

**Operating Expenses and Liens; Negative Pledge**

The College will pay all utility charges and other charges arising from the operations of the Project Facilities which, if unpaid, would become a lien on the Project Facilities, and will not permit to be established or to remain unsatisfied any mechanics’ lien for labor or materials furnished in connection with any remodeling, additions, modifications, improvements, repairs, renewals or replacements of the Project Facilities; provided that the College may in good faith contest such utility and other charges and any mechanics’ or other liens filed or established against the Project Facilities, and in such event may permit the items so contested to remain undischarged and unsatisfied during the period of such contest and any appeal therefrom unless the Authority or Trustee shall notify the College that, in the opinion of Independent counsel, by nonpayment of any such items the Project Facilities or any part thereof will be subject to loss or forfeiture, in which event the College shall promptly pay and cause to be satisfied and discharged all such unpaid items. The College covenants that except for Permitted Encumbrances, and except as otherwise permitted by the Loan Agreement, the College will not mortgage, grant a lien upon, pledge, grant a security interest in, make an assignment of its interest in or permit the creation of any encumbrance on its real property; provided that the College may mortgage, pledge, assign and grant liens on and security interests in real property so long as the aggregate outstanding principal amount of the debt so secured does not exceed thirty-five percent (35%) of the book value (as determined by generally accepted accounting principles) of the College's Property, Plant and Equipment, as shown on the College's audited financial statements for its most recent audited Fiscal Year, as adjusted to include any increased book value to result from improvements financed by such secured debt.

**Taxes and Other Governmental Charges**

The College will pay, as the same respectively come due, all taxes, special assessments, license fees and governmental charges of any kind that may at any time be lawfully assessed or levied against, or with respect to the operations of the College, or the Project Facilities or any improvements, equipment or related property installed or brought by the College therein or thereon, or the Bonds, the Loan Agreement, the Indenture, or the interest of the Authority, the Trustee, or the Bondholders therein.

The College may, at its expense, in good faith contest any such taxes, assessments, license fees and other governmental charges and, in the event of any such contest, may permit the taxes, assessments, license fees or other charges so contested to remain unpaid during the period of such contest and any appeal therefrom unless the Authority or the Trustee shall notify the College that, in the opinion of Independent counsel, by nonpayment of any such items the Project Facilities or any part thereof, or the revenue therefrom will be subject to loss or forfeiture, in which event such items shall be paid promptly.

**Insurance**

The College is required to maintain, or cause to be maintained, insurance as follows:

(a) Insurance against loss and/or damage to the Project Facilities and contents, including fire and extended coverage in an amount not less than 80% of the full insurable replacement value of the Project Facilities, with a deductible amount of up to $250,000.

(b) Comprehensive general public liability insurance, including blanket contractual liability and personal injury liability and automobile insurance, in the minimum amount for each occurrence of $5,000,000 and aggregate for each year of $5,000,000, with a deductible amount of not more than $250,000 per occurrence, and against liability for property damage in the minimum amount for each occurrence of $100,000.

(c) Workers' compensation insurance in such amount as is customarily carried by organizations in like activities of comparable size and liability exposure to the College,

Upon the written request of the College, the Trustee (i) may permit modifications to such insurance requirements and deductible amounts, including permission for the College to be self-insured in whole or in part for any comprehensive general public liability, upon such terms and conditions as the Trustee may require, and (ii) shall permit modifications to such insurance requirements and deductible amounts, including permission for self-insurance, in accordance with the recommendation of an Independent insurance consultant employed by the College and satisfactory to the Trustee.

Each required policy shall contain a provision that the insurer will not cancel or modify the policy without giving written notice to the College and the Trustee at least thirty days before the cancellation or modification of the policy limits below the insurance requirements set forth above becomes effective. The College shall provide the Trustee with a certificate of insurance compliance within 30 days of the end of each Fiscal Year.

**Damage or Destruction**

If the Project Facilities shall be damaged or partially or totally destroyed there shall be no abatement in the Loan Repayments, and to the extent that the claim for loss resulting from such damage or destruction is not greater than $1,000,000, the College will promptly repair, rebuild or restore the property damaged or destroyed with such changes, alterations and modifications (including the substitution and addition of other property) as will not impair the character or significance of the Project Facilities as educational facilities. To the extent that the claim for loss resulting from such damage or destruction exceeds $1,000,000, the College shall either repair, rebuild or restore the damaged facilities, or redeem and prepay the Bonds in whole or in part as more fully provided in the Loan Agreement.

The Bonds may be redeemed in whole if (i) all or part of the Project Facilities are damaged or destroyed to such extent that they cannot be reasonably restored within six months or (ii) normal use and operation of such Project Facilities are interrupted for a six month period or (iii) the cost of restoration exceeds the available Net Proceeds by an amount described in the Loan Agreement. The Bonds may be redeemed in part if (i) all or a portion of the Project Buildings have been damaged or destroyed, (ii) the College determines that the Project Building or Project Buildings or portion thereof, as the case may be, is not needed in its operations and (iii) the College has elected not to restore such Project Building or Project Buildings or portion thereof, as the case may be.

**Condemnation**

If at any time before the Bonds have been fully paid (or provision for payment thereof has been made in accordance with the Indenture), title to any part of the Project Facilities shall be taken in any proceeding involving the exercise of the right of eminent domain, the College shall either redeem the Bonds in whole or in part or rebuild or restore such facilities, as more fully provided in the Loan Agreement.

If the Bonds are to be redeemed in whole or in part, such redemption shall be as described in the second paragraph under the caption “Damage or Destruction” above.

**Removal of Project Equipment and Building Equipment**

The College may remove or release Project Equipment and Building Equipment from the Project Facilities if no Default exists and upon the following conditions:

(a) the College may substitute equipment and related property for any Project Equipment and Building Equipment, provided that such substitution shall not materially impair the character or revenue producing significance of the Project Facilities;

(b) the College may release any equipment from the definition of Project Equipment (with or without the physical removal thereof) without substitution therefor, provided that the College pays a sum equal to the then value of such Project Equipment as determined by an Independent engineer selected by the College, to the Trustee for deposit in the Redemption Account for the redemption and prepayment of the Bonds; provided that if the depreciated book value of the equipment so released was less than $100,000, such release and such deposit to the Redemption Account may be effected without such determination of value and Certificate by an Independent Engineer upon such showing by the College as may be satisfactory to the Trustee; and

(c) the College may remove any Building Equipment without substitution therefor provided that such removal will not materially impair the character or revenue producing significance or value of the Project Facilities.

In connection with (a) and (b) above, if the depreciated book value of the Project Equipment or in connection with (c) above, the depreciated value of Building Equipment to be substituted, removed or released equals or exceeds $100,000 the College will deliver to the Trustee a certificate signed by the Authorized Institution Representative stating that the substitution, removal or release of such equipment will not materially impair the character or revenue producing significance or value of the Project Facilities.

**Indemnification**

The College agrees to hold the Authority, its members and employees, harmless against any claim, cause of action, suit or liability for any loss or damage to property or any injury to or death of any person that may be occasioned by any cause whatsoever pertaining to the Project Facilities and the use thereof, including that caused by any negligence of the Authority or anyone acting in its behalf, provided that the indemnity shall be effective only to the extent of any loss that may be sustained by the Authority in excess of the net proceeds received by the Authority from any insurance carried with respect to the loss sustained.

The College agrees to indemnify and hold harmless the Authority against any and all losses, claims, damages or liability to which the Authority may become subject under law, and to reimburse the Authority for any out-of-pocket legal and other expenses (including reasonable counsel fees) incurred by the Authority in connection with investigating any such losses, claims, damages, or liabilities or in connection with defending any actions, insofar as the same relate to information furnished to the Authority by the College in connection with the sale of the Bonds.

**College to Maintain its Existence and Accreditation**

The College agrees that during the term of the Loan Agreement it will maintain its existence as a nonprofit corporation and maintain the Institution as an institution of higher education under the laws of Minnesota, accredited as such by recognized accrediting agencies and that it will not dissolve or otherwise dispose of all or substantially all of its assets and will not consolidate with or merge into another corporation, or permit one or more other corporations to consolidate with or merge into it, except upon the conditions provided in the Loan Agreement. The conditions are the following: (a) if the surviving, resulting or transferee institution, as the case may be, is other than the College, such surviving, resulting or transferee corporation shall assume in writing all of the obligations of the College in the Loan Agreement, and be either a state university or college or a nonprofit corporation operating or authorized to operate an Institution of higher education under the laws of Minnesota, eligible to be a participating nonprofit institution under the Act, and complies and will comply with the provisions of the Loan Agreement against unlawful discrimination and requiring that the institution be nonsectarian; and (b) the College shall furnish to the Trustee an opinion of bond counsel that such consolidation, merger or transfer shall have no effect upon the tax-exempt nature of the interest on the Bonds under the Internal Revenue Code and regulations thereunder.

**$150,000,000 Limitation on Outstanding Non-Hospital Bonds**

The College has represented that the sum of the principal amount of the Bonds, plus the respective outstanding aggregate principal amounts of all tax-exempt nonhospital bonds issued on behalf of or for the benefit of the College and all organizations under common management or control with the College (other than qualified hospital bonds), within the meaning of Section 145 of the Internal Revenue Code, does not exceed $150,000,000, excluding nonhospital bonds issued on or after August 5, 1997 to finance capital expenditures incurred after August 5, 1997. Under the Loan Agreement, in no event will the College affiliate or consolidate with or merge into another corporation or sell or otherwise transfer to another institution all or substantially all of its assets or the assets of the Institution as an entirety if the effect of any such transaction would be to adversely affect the tax exempt status of the Bonds, such as by exceeding limitations on the outstanding aggregate principal amounts of all tax-exempt bonds issued by or on behalf of the College or such other resulting entity, and all organizations under common management or control with the College or such resulting entity, within the meaning of Section 145 of the Internal Revenue Code.

**Federal Income Tax Status**

The College represents that it presently is and agrees that it shall take all appropriate measures to assure that it remains an organization described in Section 501(c)(3) of the Internal Revenue Code, exempt from income taxes under Section 501(a) of such Code.

**Institution to be Nonsectarian**

The College agrees that the Institution will continue to be nonsectarian; will not require or forbid attendance by students or any other persons at religious worship or acceptance of any religious creed; and will not promulgate the distinctive doctrines, creeds or tenets of any particular religious sect. All courses of study at the Institution, including any religion or theology courses, will be taught according to the academic requirements of the subject matter and professional standards.

**Determination of Taxability**

In the event a Determination of Taxability is made at any time that interest on the Bonds is includable in gross income of the recipient for purposes of federal income taxation under the provisions of the Internal Revenue Code and regulations thereunder as in effect at the date of issuance of the Bonds, the Bonds shall bear additional interest at the rate of two percent (2.00%) per annum from the Date of Taxability until the respective dates on which the principal of the Bonds is paid. In addition, in the event of such Determination of Taxability, the Bonds shall be subject to optional redemption, as a whole or in part on the next date for which due notice can be given and any date thereafter at a redemption price equal to par plus accrued interest plus additional interest from the Date of Taxability.

**Other Covenants**

The College further agrees to comply with all applicable laws and regulations against unlawful discrimination, and not to discriminate as prohibited by Minnesota Statutes, Section 343A.13; to provide and file such financing statements and other instruments of further assurance as the Authority or Trustee may request; to perform all obligations imposed by the Internal Revenue Code and regulations thereunder with respect to the non-arbitrage status of the Bonds and to comply with the applicable rebate requirements under Section 148 of the Code and regulations thereunder; and to observe all applicable State laws and regulations, including those of the

Authority, the Department of Education and the Minnesota Office of Higher Education, subject to the right of contest. The College agrees to indemnify the Authority from losses arising from certain representations made by the College regarding the absence of hazardous waste on the Project Facilities.

The Authority further agrees to comply with the applicable rebate requirements imposed under Section 148 of the Internal Revenue Code with respect (but only with respect) to amounts paid by the College to the Authority as the Authority's annual fee under the Loan Agreement.

**Events of Default**

Following are Events of Default under Section 7.01 of the Loan Agreement:

(a) If the College shall fail to make any Loan Repayment when due and either (i) on a Bond principal or interest payment date or redemption date the available moneys on deposit in the Bond and Interest Sinking Fund Account, Reserve Account, and Redemption Account are insufficient to pay when due principal, premium, if any, and interest on the Bonds, or (ii) such failure shall continue for 5 Business Days after notice from the Trustee or the Authority to the College that such payment has not been made; or

(b) If the College shall fail to comply with the provisions of Section 6.09(f) of the Loan Agreement (relating to arbitrage calculation and rebate requirements); or

(c) If the College shall fail to maintain the balance in the Reserve Account in the amount of the Reserve Requirement as defined in Section 5.02 of the Indenture, provided failure to comply with such requirement shall not become an Event of Default unless the College fails to restore such deficiency within a period of thirty (30) days after written notice specifying such deficiency and requesting that it be remedied is given to the College by the Authority or the Trustee; or

(d) If the College shall fail to observe and perform for reasons other than force majeure any other covenant, condition or agreement on its part under the Loan Agreement for a period of thirty (30) days after written notice, specifying such default and requesting that it be remedied is given to the College by the Authority or the Trustee; or

(e) If the College files a petition in voluntary bankruptcy, or for the composition of its affairs or for its corporate reorganization under any state or Federal bankruptcy or insolvency law, or makes an assignment for the benefit of creditors, or consents in writing to the appointment of a trustee or receiver for itself or for the whole or any substantial part of the property of the College; or

(f) If a court of competent jurisdiction shall enter an order, judgment or decree against the College in any insolvency, bankruptcy, or reorganization proceeding, or appointing a trustee or receiver of the College or of the whole or any substantial part of the property of the College, and such order, judgment or decree shall not be vacated or set aside or stayed within ninety days from the date of the entry thereof; or

(g) If, under the provisions of any other law for the relief or aid of debtors, any court of competent jurisdiction shall assume custody or control of the College or of the whole or any substantial part of its property, and such custody or control shall not be terminated within ninety days from the date of assumption of such custody or control.

The term "force majeure" as used above includes the following: acts of God; strikes, lockouts or other employee disturbances; acts of public enemies; orders, regulations or laws of any kind of the government of the United States of America or of the State of Minnesota or any of their departments, agencies, political subdivisions or officials, or any civil or military authority; insurrections; riots; epidemics; landslides; lightning; earthquakes; fires; hurricanes; tornadoes; storms; floods; washouts; droughts; arrests; restraint of government and people; civil disturbances; explosions, breakage or accident to machinery, transmission pipes or canals; partial or entire failure of utilities; or any other cause or event not reasonably within the control of the College. The provisions of paragraph (d) above, are subject to the further limitation that if the default can be remedied but not within a period of thirty days after notice and if the College has taken all action reasonably possible to remedy such default within such thirty-day period, the default shall not become an Event of Default for so long as the College shall diligently proceed to remedy such default and in accordance with any directions or limitations of time made by the Trustee. The College agrees, however, to use its best efforts to remedy with all reasonable dispatch any cause or causes preventing the College from carrying out its agreements.

**Remedies on Default**

Whenever any Event of Default shall have happened, and be subsisting, the Loan Agreement provides that any one or more of the following steps may be taken:

(a) The Trustee may declare all or any amount of Loan Repayments thereafter to become due and payable for the remainder of the term of the Loan Agreement to be immediately due and payable, whereupon the same shall become immediately due and payable.

(b) The Trustee (or the Authority with respect to certain sections of the Loan Agreement) may take whatever action at law or in equity which may appear necessary or desirable to collect the payments then due and thereafter to become due.

(c) The Trustee may take whatever action in law or equity which appears necessary or desirable to enforce the security provided by or enforce any provision of the Loan Agreement or the Indenture.

Any amounts collected by the Trustee pursuant to the actions set forth above shall be applied first to advances and expenses, and then to payment of interest, principal and premium, if any, on the Bonds as provided in Section 7.04 of the Indenture, and any excess to the College.

**Amendments**

Except as otherwise provided in the Loan Agreement or in the Indenture, subsequent to issuance of the Bonds and so long as any Bonds are outstanding, the Loan Agreement may not be amended without the prior written consent of the Trustee.

(The Balance of This Page Has Been Intentionally Left Blank)

## THE INDENTURE

The following constitutes a summary of certain provisions of the Trust Indenture (the "Indenture"). This summary does not purport to be complete and reference is made to the full text of the Indenture for a complete recital of its terms. Certain words and terms used in this summary are defined in "DEFINITION OF CERTAIN TERMS," Appendix IV, contained herein.

### Granting Clauses

Pursuant to the Indenture, the Authority grants to the Trustee, as security for the Holders of the Bonds, the following:

(1) all right, title and interest of the Authority under the Loan Agreement and all Loan Repayments and other sums due under the Loan Agreement, except the rights of the Authority relating to fees and expenses, indemnity and advances;

(2) a first lien on and pledge of (i) the moneys and investments in the Accounts covenanted to be created and maintained under the Indenture (but excluding all moneys and investments in the Refunding Account), and (ii) all accounts, contract rights, general intangibles, moneys and instruments arising therefrom or relating thereto and all proceeds and products of and accessions to any thereof; and

(3) any and all other property of every name and nature from time to time conveyed, mortgaged, assigned or transferred, or in which a security interest is granted, by the Authority or the College or by anyone in behalf of them or with their written consent, to the Trustee.

### Accounts

Bond proceeds, revenues and other funds derived under the Loan Agreement or Indenture shall be deposited into accounts held by the Trustee as described in "ACCOUNTS," contained in the body of this Official Statement.

### Trustee's Right to Payment

The Trustee shall have a first lien, with right of payment prior to payment on account of interest on or principal of the Bonds for reasonable compensation, expenses, advances and counsel fees incurred in and about the execution of the trusts created by the Indenture and exercise and performance of the powers and duties of the Trustee under the Indenture, and the cost and expenses incurred in defending against any liability in the premises of any character whatsoever (unless such liability is adjudicated to have resulted from the negligence or willful default of the Trustee).

### Covenants of the Authority

Under the Indenture the Authority covenants, among other things, to perform its various undertakings and agreements; not to extend the maturity of any of the Bonds or the time of payment of any claims for interest; to take such action or cause and permit the Trustee to take such action as may be necessary or advisable to enforce the covenants, terms and conditions of the Loan Agreement, if such action shall, in the discretion of the Trustee, be deemed to be in the best interests of the Authority or the Bondholders; to comply with the applicable rebate requirements under Section 148 of the Code and regulations thereunder; to keep proper books, accounts and records; and not to issue or permit to be issued any Bonds under the Indenture in any manner other than in accordance with the provisions of the Indenture and not to suffer or permit any default to occur under the Indenture. Under the Act, and it is expressly agreed that, the Authority has no obligation to make any advance or payment or incur any expense or liability from its general funds for performing any of the conditions, covenants or requirements of the Indenture or from any funds other than Loan Repayments or money in the Accounts.

**Events of Default**

The following are Events of Default under the Indenture:

(a) If payment of the principal of any of the Bonds, when the same shall become due and payable (whether at maturity or by proceedings for redemption or by declaration of acceleration or otherwise), shall not be made; or

(b) If payment of any interest on the Bonds when the same shall become due and payable (in which case interest shall be payable to the extent permitted by law on any overdue installments of interest, in each case at the interest rate borne by the Bonds in respect of which such interest is overdue) shall not be made; or

(c) If the Authority shall default in the due and punctual performance of any of the covenants, conditions, agreements and provisions contained in the Bonds or in the Indenture, or in any supplemental indenture on the part of the Authority to be performed, and such default shall have continued for a period of sixty days after written notice, specifying such default and requiring the same to be remedied, shall have been given to the Authority and to the College (giving the College the privilege of curing such default in the name of the Authority, if permitted by law) by the Trustee, which may give such notice in its discretion and shall give such notice upon written request of the Holders of not less than a majority in principal amount of the Bonds then outstanding; or

(d) If any "event of default" on the part of the College, as that term is defined in the Loan Agreement, shall occur and be continuing.

**Remedies**

If an Event of Default shall exist, the Trustee may, and upon written request of the Holders of a majority in aggregate principal amount of Bonds outstanding shall, by notice in writing delivered to the Authority, declare the principal of all Bonds then outstanding and the interest accrued thereon immediately due and payable, and such principal and interest shall thereupon become and be immediately due and payable subject, however, to the right of the Holders of a majority in aggregate principal amount of Bonds then outstanding, by written notice to the Authority and to the Trustee, to annul such declaration and destroy its effect at any time if all covenants with respect to which default shall have been made shall be fully performed or made good, and all arrears of interest upon all Bonds outstanding and the reasonable expenses and charges of the Trustee, its agents and attorneys, and all other indebtedness secured by the Indenture (except the principal of any Bonds which have not then attained their stated maturity and interest accrued on such Bonds since the last interest payment date) shall be paid, or the amount thereof shall be paid to the Trustee for the benefit of those entitled thereto.

In the case of the breach of any of the covenants or conditions of the Loan Agreement or the Indenture, the Trustee, anything therein contained to the contrary notwithstanding and without any request from any Bondholder (subject, however to its rights to indemnity and notice provided in the Indenture), shall be obligated to take such action or actions for the enforcement of its rights and the rights of the Bondholders and the rights of the Authority under the Loan

Agreement as due diligence, prudence and care would require and to pursue the same with like diligence, prudence and care.

Upon the happening and continuance of an Event of Default, the Trustee may, and shall upon the written request of the Holders of not less than a majority in aggregate principal amount of outstanding Bonds, proceed forthwith by suit or suits at law or in equity or by any other appropriate remedy to enforce payment of the Bonds, to enforce application to payment of the Bonds the funds, revenues and income appropriated thereto by the Indenture and by the Bonds, to enforce the Loan Agreement and any such other appropriate legal or equitable remedy as the Trustee, being advised by counsel, shall deem most effectual to protect and enforce any of its rights or any of the rights of the Bondholders. Notwithstanding the foregoing, the Trustee need not proceed upon any such written request of the Bondholders, as aforesaid, unless such Bondholders shall have offered to the Trustee security and indemnity satisfactory to it against the costs, expenses and liabilities to be incurred therein or thereby.

**Concerning the Trustee**

The Trustee has no responsibility to use its own funds under the Indenture, but it may make advances at a rate equal to the Reference Rate, which advances are given priority of payment. The Trustee also has a lien with right of payment prior to payment on account of Bond interest or principal for reasonable compensation, expenses, advances and counsel fees. The responsibilities of the Trustee prior to an Event of Default are limited to express provisions of the Indenture, and at all times the Trustee shall not be liable unless it acts negligently or in bad faith. The Trustee is not required to institute suit or take other steps to enforce its rights and powers under the Indenture unless indemnified to its satisfaction against all costs and expenses. The Trustee and its officers and directors are authorized to acquire and hold Bonds and otherwise deal with the Authority or the College to the same extent as if it were not Trustee. Provision is made for the succession or replacement of the Trustee by another corporate Trustee with a minimum combined capital, surplus and undivided profits of $10 million in event of merger, resignation, or removal by Holders of a majority in principal amount of outstanding Bonds, or in the event of disability, by the Authority or a court. Provision is also made for removal of the Trustee by Bondholders or the Authority, at the request of the College, provided that the Authority may, but is not required to remove the Trustee with or without the request of the College if an Event of Default has occurred and is continuing or a default which with the passage of time or the giving of notice will become an Event of Default has occurred and is continuing. The Authority may not remove a successor Trustee properly appointed by the Bondholders.

**Concerning the Bondholders**

No Bondholder shall have any right to institute any suit, action or proceeding in equity or at law for the enforcement of the Indenture or for any remedy under the Loan Agreement unless a default has occurred of which the Trustee has been notified or of which it is deemed to have notice; nor unless also such default shall have become an Event of Default and the Holders of a majority in aggregate principal amount of Bonds outstanding shall have made written request to the Trustee and shall have offered it reasonable opportunity either to proceed to exercise the powers granted or to institute such action, suit or proceeding in its own name; nor unless also they shall have offered to the Trustee indemnity as provided in the Indenture; and no one or more Bondholders shall have the right to affect, disturb, or prejudice the lien of the Indenture by his or their action or to enforce any right thereunder except in the manner therein provided, and that all proceedings at law or in equity shall be instituted and maintained in the manner therein provided and for the equal benefit of the Holders of all Bonds outstanding.

The Trustee, upon the written request of the Holders of a majority in principal amount of the Bonds at the time outstanding, shall waive any default under the Indenture and its consequences, except a default in the payment of the principal of the Bonds at the date of maturity specified therein; provided, however, that a default in the payment of interest on the Bonds shall not be waived unless, prior to such waiver, all arrears of interest, and all expenses of the Trustee shall have been paid or shall have been provided for by deposit with the Trustee of a sum sufficient to pay the same. In case of any such waiver, the Authority, the Trustee and the Holders of the Bonds shall be restored to their former positions and rights respectively. No waiver of any default or Event of Default, whether by the Trustee or by the Bondholders, shall extend to or shall affect any subsequent default or Event of Default or shall impair any rights or remedies consequent thereon.

Provision is made for meetings of Bondholders, proof of ownership of Bonds and execution of consents and other instruments by Bondholders.

**Defeasance**

If the Authority and the College shall:

(a) pay or cause to be paid the principal of, and premium, if any, and interest on the Bonds at the time and in the manner stipulated therein and in the Indenture, or

(b) provide for the payment of principal of, premium, if any, and interest on the outstanding Bonds by depositing with the Trustee at or at any time before maturity an amount either in cash or direct obligations of the United States of America in such aggregate face amount, bearing interest at such rates, and maturing on such dates sufficient to pay the entire amount due or to become due for principal and premium, if any, and interest to maturity of all Bonds outstanding, or

(c) deliver to the Trustee (1) proof that notice of redemption of all of the outstanding Bonds not surrendered or to be surrendered to it for cancellation has been given or waived, or that arrangements have been made insuring that such notice will be given or waived, or (2) a written instrument executed by the College for the Authority and expressed to be irrevocable, authorizing the Trustee to give such notice for and on behalf of the Authority, or (3) file with the Trustee a waiver of such notice of redemption signed by the Holders of all such outstanding Bonds, and in any case, deposit with the Trustee before the date on which such Bonds are to be redeemed, the entire amount of the redemption price, including interest accrued and to accrue, and premium, if any, either in cash or direct obligations of the United States of America in such aggregate face amount, bearing interest at such rates and maturing at such dates as shall be sufficient to provide for the payment of the redemption price on the date such Bonds are to be redeemed and on any interest payment dates, or

(d) surrender to the Trustee for cancellation all Bonds for which payment is not so provided,

and shall also pay or provide for the payment of the unpaid fees and expenses of the Trustee and the rebate of all amounts due or to become due to the United States under Section 148 of the Internal Revenue Code, then at the request of the Authority or the College all the Trust Estate shall revert to the Authority and the College as their interests appear, and the entire estate, right, title and interest of the Trustee, and of registered owners of such Bonds in respect thereof, shall thereupon cease, determine and become void; and the Trustee in such case, upon cancellation of all such Bonds for the payment of which cash or government obligations shall not have been deposited in accordance with the provisions of the Indenture, shall, upon receipt of a written request of the Authority and of a certificate of the Authority and an opinion of counsel as to compliance with conditions precedent (and, in the case of defeasance under paragraph (b) above, as to effect on tax exempt status), and at its cost and expense, execute to the Authority, or its order, proper instruments acknowledging satisfaction of the Indenture and surrender to the Authority or its order, all cash and deposited securities, if any (except that held for the payment of the Bonds), which shall then be held thereunder.

When the Authority or the College shall have deposited at any time with the Trustee in trust for the purpose, in the manner provided, or left with it if previously so deposited, cash or direct obligations of the United States of America sufficient to pay the principal of any Bonds (and premium, if any) when the same become due, either at maturity or otherwise, or at the date fixed for the redemption thereof and to pay all interest with respect thereto at the due date of such interest or to the date fixed for redemption, for the use and benefit of the Holders thereof, then upon such deposit all such Bonds shall cease to be entitled to any lien, benefit or security of the Indenture except the right to receive the funds so deposited, and such Bonds shall be deemed not to be outstanding thereunder; and from and after such redemption date or maturity, interest on such Bonds so called for redemption shall cease to accrue.

**Supplemental Indentures**

The Authority and the Trustee may enter into such supplemental indentures as shall by them be deemed necessary or desirable for any one or more of the following purposes, among others:

(a) to correct the description of any property conveyed or pledged by the Indenture or intended so to be, or to assign, convey, pledge or transfer and set over to the Trustee additional property for the benefit and security of the Holders and owners of all Bonds under the Indenture;

(b) to add to the covenants and agreements of the Authority or to surrender any right or power reserved to or conferred upon the Authority or any successor;

(c) to evidence the succession of any other department, agency, body or corporation to the Authority;

(d) to cure any ambiguity or to correct or supplement any defective or inconsistent provision contained in the Indenture or in any supplemental indentures or to make such other provisions in regard to matters or questions arising under the Indenture or any supplemental indenture as the Authority may deem necessary or desirable and which could have been contained in the Indenture or any supplemental indenture and which shall not impair the security of the same; and

(e) to modify the Indenture as authorized by the Bondholders pursuant to Section 11.04 of the Indenture.

In addition and subject to the provisions set forth below, the Holders of not less than 51% in aggregate principal amount of the Bonds under the Indenture then outstanding shall have the right to consent to and approve such supplemental indentures as shall be deemed necessary or desirable by the Authority for the purpose of modifying, altering, amending, adding to or rescinding in any particular, any of the terms or provisions of the Indenture or in any supplemental indenture; provided, however, that such provision shall not be construed as permitting without the consent of the Holders of all Bonds outstanding (a) an extension of the maturity of any Bond, or (b) a reduction in the principal amount of any Bond or the redemption premium or the rate of interest thereon, or (c) the creation of a lien upon or a pledge of revenues ranking prior to or on a parity with the lien or pledge created by the Indenture, or (d) a preference or priority of any Bond over any other, or (e) a reduction in the aggregate principal amount of the Bonds the Holders of which are required to consent to such supplemental indenture or to amendments to the Loan Agreement.

## Amendments to the Loan Agreement

The Authority and the Trustee shall, without the consent of or notice to any of the Bondholders, consent to and (if requested) execute any amendment, change or modification of the Loan Agreement as may be required (a) by the provisions of the Loan Agreement or Indenture, or (b) for the purpose of curing any ambiguity or formal defect or omission, or (c) so as to add additional rights acquired in accordance with the provisions of the Loan Agreement or (d) in connection with any other change therein which, in the judgment of the Trustee, is not to the prejudice of the Trustee or the Holders of the Bonds.

Except for amendments, changes or modifications provided for in the preceding paragraph, neither the Authority nor the Trustee shall consent to or execute any amendment, change or modification of the Loan Agreement without the written approval or consent of the Holders of not less than 51% in aggregate principal amount of the Bonds at the time outstanding, given and procured as provided in the Indenture. However, the Indenture does not permit a reduction in, or a postponement of, the Loan Repayments under the Loan Agreement without the consent of the Holders of all the Bonds then outstanding.

## Registration

The Bonds shall be fully registered as to principal and interest at the principal corporate trust office of the Trustee, which shall also perform the functions of registrar and paying agent. Bonds may be transferred and exchanged by surrender to the Trustee with a written authorization by the registered Holder or his authorized attorney satisfactory to the Trustee subject to such reasonable regulations as the Trustee may prescribe and shall be without expense to the Holder, except as to any taxes or other governmental charges required to be paid. If the Bonds are no longer in book entry form, Bonds may be exchanged for a new Bond or Bonds of the same series, aggregate principal amount, maturity and basic interest rate of any authorized denominations. Payment of principal will be at the principal corporate trust office of the Trustee and interest shall be by check or draft of the Trustee mailed (or, pursuant to an agreement with the Trustee, by wire transfer) to the registered Owner at his address as shown on the registration books of the Trustee, subject to applicable procedures while in book entry form.

**APPENDIX VI**

## THE DEPOSITORY TRUST COMPANY

The Depository Trust Company ("DTC") is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for securities that its participants ("Direct Participants") deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities through electronic computerized book-entry transfers and pledges between Direct Participants' accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust and Clearing Corporation ("DTCC"). DTCC, in turn, is owned by a number of Direct Participants of DTC and members of the National Securities Clearing Corporation, Fixed Income Clearing Corporation, and Emerging Markets Clearing Corporation (NSCC, FICC, and EMCC, also subsidiaries of DTCC), as well as by the New York Stock Exchange, Inc., the American Stock Exchange LLC, and the National Association of Securities Dealers, Inc. Access to the DTC system is also available to others such as securities brokers and dealers, banks, trust companies and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com and www.dtc.org.

Purchases of Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the Bonds on DTC's records. The ownership interest of each actual purchaser of each Bond ("Beneficial Owner") is in turn to be recorded on the Direct and Indirect Participants' records. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners are, however, expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the Bonds are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in the Bonds, except in the event that use of the book-entry system for the Bonds is discontinued.

To facilitate subsequent transfers, all Bonds deposited by Direct Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co., or such other name as requested by an authorized representative of DTC. The deposit of Bonds with DTC and their registration in the name of Cede & Co. or such other DTC nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such Bonds are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time.

Redemption notices shall be sent to DTC. If fewer than all of the Bonds within a maturity are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such maturity to be redeemed.

Neither DTC nor Cede & Co. (nor such other DTC nominee) will consent or vote with respect to the Bonds unless authorized by a Direct Participant in accordance with DTC's procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the Authority or the Trustee as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts the Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Payment of principal, interest, and redemption premium, if any, on the Bonds will be made to Cede & Co. or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts, upon DTC's receipt of funds and corresponding detail information from the Issuer or its agent on the payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC (nor its nominee), the Bond Registrar, or the Issuer, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of principal, interest, and redemption premium, if any, to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the Bond Registrar, Authority, or the Trustee. Disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

DTC may discontinue providing its services as securities depository with respect to the Bonds at any time by giving reasonable notice to the Authority or the Trustee. Under such circumstances, in the event that a successor securities depository is not obtained, certificates are required to be printed and delivered.

The Authority, at the College's direction, may decide to discontinue use of the system of book-entry transfers through DTC (or a successor securities depository). In that event, Bond certificates will be printed and delivered.

The information in this section concerning DTC and DTC's book entry system has been obtained from DTC, which is solely responsible for such information. The Authority, the College and the Underwriter take no responsibility for the accuracy thereof.

# ST. OLAF COLLEGE

## FINANCIAL STATEMENTS
## INCLUDING INDEPENDENT AUDITORS' REPORT FOR THE FISCAL YEARS ENDED MAY 31, 2009, 2008 AND 2007

[THIS PAGE INTENTIONALLY LEFT BLANK]

BAKER TILLY

Baker Tilly Virchow Krause, LLP
225 S Sixth St, Ste 2300
Minneapolis, MN 55402-4661
tel 612 876 4500
fax 612 238 8900
bakertilly.com

# 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, 2009, 2008, and 2007 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, 2009, 2008, and 2007 and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 1 to the financial statements, St. Olaf College adopted the provisions of FASB Statement No. 158, *Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans*, in 2007. As described in Note 6 to the financial statements, St. Olaf College adopted the provisions of FASB Statement No. 157, *Fair Value Measurements* and FASB Statement No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities - Including an Amendment of FASB Statement No. 115;* as of June 1, 2008. As described in Note 7 to the financial statements, St. Olaf College adopted the provisions of FASB Staff Position FSP 117-1, *Endowments of Not-for-Profit Organizations: Net Asset Classifications of Funds Subject to an Enacted Version of the Uniform Prudent Management of Institutional Funds Act, and Enhanced Disclosures,* for the year ended May 31, 2009.

Baker Tilly Virchow Krause, LLP

Minneapolis, Minnesota
September 28, 2009

## ST. OLAF COLLEGE

STATEMENTS OF FINANCIAL POSITION
May 31, 2009, 2008, and 2007

### *ASSETS*

| | 2009 | 2008 | 2007 |
|---|---|---|---|
| Cash and cash equivalents | $ 18,889,594 | $ 35,149,721 | $ 15,984,246 |
| Receivables | | | |
| Student accounts, net of allowance for doubtful accounts of $283,718, $442,226, and $397,700 | 81,523 | 264,558 | 179,286 |
| Contributions, net | 13,209,165 | 15,986,044 | 14,673,214 |
| Insurance | 2,028,549 | 1,631,877 | 1,631,877 |
| Other | 1,055,602 | 598,312 | 911,344 |
| Inventories | 689,678 | 562,492 | 701,474 |
| Prepaid expenses and deposits | 730,384 | 967,181 | 768,756 |
| Student notes receivable, net of allowance for doubtful notes of $626,800, $508,725, and $457,300 | 8,416,321 | 8,619,759 | 8,674,554 |
| Investments | | | |
| Cash and short-term investments | 5,081,793 | 2,345,062 | 36,918,276 |
| Marketable securities | 151,522,910 | 199,821,245 | 213,989,260 |
| Mortgages and contracts for deed | | 613,907 | 593,379 |
| Notes receivable | | 352,803 | 352,803 |
| Real estate | 1,844,537 | 2,176,100 | 2,617,238 |
| Other investments | 131,733,521 | 187,123,787 | 134,013,682 |
| Deposits held by trustee | 3,278,268 | 3,278,626 | 28,773,096 |
| Deferred debt acquisition costs | 558,952 | 584,955 | 610,959 |
| Funds held in trust by others | 1,765,685 | 2,073,944 | 2,174,177 |
| Cash restricted for plant acquisitions | | 592,389 | 7,687,765 |
| Construction in progress | 5,182,434 | 52,425,224 | 12,650,318 |
| Property, plant and equipment, net | 191,303,736 | 126,991,971 | 126,464,340 |
| **TOTAL ASSETS** | $ 537,372,652 | $ 642,159,957 | $ 610,370,044 |

### *LIABILITIES AND NET ASSETS*

| | 2009 | 2008 | 2007 |
|---|---|---|---|
| **LIABILITIES** | | | |
| Accounts payable | $ 6,929,629 | $ 13,062,143 | $ 4,167,848 |
| Accrued liabilities | 14,675,504 | 14,378,241 | 16,272,315 |
| Deferred revenue | 4,045,184 | 4,055,872 | 3,318,078 |
| Annuities payable | 11,657,359 | 14,138,948 | 16,069,326 |
| Interest rate exchange liability | 1,316,978 | 879,225 | 552,023 |
| Asset retirement obligation | 2,568,376 | 2,661,596 | 2,712,661 |
| Long-term debt | 85,131,835 | 86,268,199 | 86,299,563 |
| U. S. government grants refundable | 6,357,159 | 6,234,730 | 6,257,378 |
| Deposits held in trust for others | 3,614,188 | 5,212,655 | 5,341,937 |
| Total Liabilities | 136,296,212 | 146,891,609 | 140,991,129 |
| **NET ASSETS** | | | |
| Unrestricted | 152,297,554 | 281,569,285 | 261,565,126 |
| Temporarily restricted | 111,710,682 | 73,389,444 | 71,117,614 |
| Permanently restricted | 137,068,204 | 140,309,619 | 136,696,175 |
| Total Net Assets | 401,076,440 | 495,268,348 | 469,378,915 |
| **TOTAL LIABILITIES AND NET ASSETS** | $ 537,372,652 | $ 642,159,957 | $ 610,370,044 |

See accompanying notes to financial statements.

**ST. OLAF COLLEGE**

STATEMENT OF ACTIVITIES
Year Ended May 31, 2009

| | Unrestricted | Temporarily Restricted | Permanently Restricted | Total |
|---|---|---|---|---|
| **REVENUES, GAINS AND OTHER SUPPORT** | | | | |
| **OPERATING REVENUES** | | | | |
| Tuition | $ 98,940,379 | | | $ 98,940,379 |
| Less: Unfunded scholarships and grants | (36,773,204) | | | (36,773,204) |
| Funded scholarships and grants | (4,368,068) | | | (4,368,068) |
| Net tuition | 57,799,107 | | | 57,799,107 |
| Other tuition and fees | 4,133,335 | | | 4,133,335 |
| Government grants | 4,028,431 | $ 6,715 | | 4,035,146 |
| Private gifts and grants | 3,799,540 | 1,855,278 | | 5,654,818 |
| Long-term investment income and gains allocated for operations | 4,736,709 | 6,826,051 | | 11,562,760 |
| Other sources | 2,286,052 | 426,408 | | 2,712,460 |
| Investment income | 472,188 | 38,590 | | 510,778 |
| Net losses on investments and capital assets | (578,019) | | | (578,019) |
| Capital gifts allocated | | 1,691,105 | | 1,691,105 |
| Auxiliary enterprises - sales and services | 25,046,450 | 12,043 | | 25,058,493 |
| | 101,723,793 | 10,856,190 | | 112,579,983 |
| Net assets released from restrictions | 9,743,288 | (9,743,288) | | |
| Total Operating Revenues, Gains and Other Support | 111,467,081 | 1,112,902 | | 112,579,983 |
| **OPERATING EXPENSES** | | | | |
| Program expenses | | | | |
| Instruction | 46,412,503 | | | 46,412,503 |
| Research | 1,227,904 | | | 1,227,904 |
| Public service | 1,134,662 | | | 1,134,662 |
| Academic support | 9,651,448 | | | 9,651,448 |
| Student services | 15,437,851 | | | 15,437,851 |
| Auxiliary enterprises | 18,559,761 | | | 18,559,761 |
| Support expenses | | | | |
| Institutional support | 9,164,159 | | | 9,164,159 |
| Fundraising | 3,275,525 | | | 3,275,525 |
| Total Operating Expenses | 104,863,813 | | | 104,863,813 |
| **Change in Net Assets from Operating Activities** | 6,603,268 | 1,112,902 | | 7,716,170 |
| **NONOPERATING ACTIVITIES** | | | | |
| Long-term investment activities | | | | |
| Investment income | 1,173,586 | 2,217,517 | $ 19,302 | 3,410,405 |
| Net losses on investments | (32,852,094) | (50,608,151) | (328,121) | (83,788,366) |
| Total long-term investment income (loss) | (31,678,508) | (48,390,634) | (308,819) | (80,377,961) |
| Less: Long-term investment income and gains allocated for operations | (4,736,709) | (6,826,051) | | (11,562,760) |
| | (36,415,217) | (55,216,685) | (308,819) | (91,940,721) |
| Student loan income net of expenses | 8,199 | | (117,750) | (109,551) |
| Capital giving activities - gifts and grants | 710,378 | 406,318 | 2,724,580 | 3,841,276 |
| Deferred giving activities - gifts | 91,005 | 18,808 | 142,123 | 251,936 |
| Capital gifts allocated to operations | | (1,691,105) | | (1,691,105) |
| Interest rate swap loss and settlements | (773,966) | | | (773,966) |
| Adjustment to actuarial liability for annuities payable | (4,751,937) | (460,788) | (6,669,894) | (11,882,619) |
| Gain on disposal of property, plant and equipment | 396,672 | | | 396,672 |
| | (40,734,866) | (56,943,452) | (4,229,760) | (101,908,078) |
| **Change in Net Assets from Nonoperating Activities** | (40,734,866) | (56,943,452) | (4,229,760) | (101,908,078) |
| Change in Net Assets before reclassification of net assets | (34,131,598) | (55,830,550) | (4,229,760) | (94,191,908) |
| Reclassification of prior year net assets | (1,434,947) | 446,602 | 988,345 | |
| Net asset reclassification due to a change in law | (93,705,186) | 93,705,186 | | |
| **Change in Net Assets** | (129,271,731) | 38,321,238 | (3,241,415) | (94,191,908) |
| Net Assets - Beginning of Year | 281,569,285 | 73,389,444 | 140,309,619 | 495,268,348 |
| **NET ASSETS - END OF YEAR** | $ 152,297,554 | $111,710,682 | $ 137,068,204 | $ 401,076,440 |

See accompanying notes to financial statements.

**ST. OLAF COLLEGE**

STATEMENT OF ACTIVITIES
Year Ended May 31, 2008

| | Unrestricted | Temporarily Restricted | Permanently Restricted | Total |
|---|---|---|---|---|
| **REVENUES, GAINS AND OTHER SUPPORT** | | | | |
| **OPERATING REVENUES** | | | | |
| Tuition | $ 90,506,866 | | | $ 90,506,866 |
| Less: Unfunded scholarships and grants | (32,827,954) | | | (32,827,954) |
| Funded scholarships and grants | (3,689,177) | | | (3,689,177) |
| Net tuition | 53,989,735 | | | 53,989,735 |
| Other tuition and fees | 3,661,567 | | | 3,661,567 |
| Government grants | 4,222,090 | $ 3,857 | | 4,225,947 |
| Private gifts and grants | 4,070,075 | 2,047,999 | | 6,118,074 |
| Long-term investment income and gains allocated for operations | 4,205,855 | 5,776,516 | | 9,982,371 |
| Other sources | 2,647,519 | 487,950 | | 3,135,469 |
| Investment income | 935,729 | 69,434 | | 1,005,163 |
| Net losses on investments and capital assets | (335,217) | (13,599) | | (348,816) |
| Capital gifts allocated | | 1,228,190 | | 1,228,190 |
| Auxiliary enterprises - sales and services | 24,654,311 | | | 24,654,311 |
| | 98,051,664 | 9,600,347 | | 107,652,011 |
| Net assets released from restrictions | 9,233,638 | (9,233,638) | | |
| Total Operating Revenues, Gains and Other Support | 107,285,302 | 366,709 | | 107,652,011 |
| **OPERATING EXPENSES** | | | | |
| Program expenses | | | | |
| Instruction | 42,734,992 | | | 42,734,992 |
| Research | 1,538,821 | | | 1,538,821 |
| Public service | 1,232,194 | | | 1,232,194 |
| Academic support | 9,305,666 | | | 9,305,666 |
| Student services | 14,841,320 | | | 14,841,320 |
| Auxiliary enterprises | 17,689,530 | | | 17,689,530 |
| Support expenses | | | | |
| Institutional support | 10,409,274 | | | 10,409,274 |
| Fundraising | 3,069,513 | | | 3,069,513 |
| Total Operating Expenses | 100,821,310 | | | 100,821,310 |
| **Change in Net Assets from Operating Activities** | 6,463,992 | 366,709 | | 6,830,701 |
| **NONOPERATING ACTIVITIES** | | | | |
| Long-term investment activities | | | | |
| Investment income | 3,994,526 | 2,570,415 | $ 48,631 | 6,613,572 |
| Net gains on investments | 4,469,661 | 2,152,432 | 173,697 | 6,795,790 |
| Total long-term investment income | 8,464,187 | 4,722,847 | 222,328 | 13,409,362 |
| Less: Long-term investment income and gains allocated for operations | (4,205,855) | (5,776,516) | | (9,982,371) |
| | 4,258,332 | (1,053,669) | 222,328 | 3,426,991 |
| Student loan income net of expenses | (7,702) | | 19,130 | 11,428 |
| Capital giving activities - gifts and grants | 908,750 | 9,320,891 | 3,226,924 | 13,456,565 |
| Deferred giving activities - gifts | 50,193 | 139,267 | 223,652 | 413,112 |
| Capital gifts allocated to operations | | (1,228,190) | | (1,228,190) |
| Interest rate swap loss and settlements | (480,794) | | | (480,794) |
| Adjustment to actuarial liability for annuities payable | 145,758 | (63,434) | 824,804 | 907,128 |
| Other activities | 2,552,492 | | | 2,552,492 |
| | 7,427,029 | 7,114,865 | 4,516,838 | 19,058,732 |
| Net assets released from restrictions | 6,113,138 | (6,113,138) | | |
| **Change in Net Assets from Nonoperating Activities** | 13,540,167 | 1,001,727 | 4,516,838 | 19,058,732 |
| Change in Net Assets before reclassification of net assets | 20,004,159 | 1,368,436 | 4,516,838 | 25,889,433 |
| Reclassification of prior year net assets | | 903,394 | (903,394) | |
| **Change in Net Assets** | 20,004,159 | 2,271,830 | 3,613,444 | 25,889,433 |
| Net Assets - Beginning of Year | 261,565,126 | 71,117,614 | 136,696,175 | 469,378,915 |
| **NET ASSETS - END OF YEAR** | $ 281,569,285 | $ 73,389,444 | $ 140,309,619 | $ 495,268,348 |

See accompanying notes to financial statements.

**ST. OLAF COLLEGE**

STATEMENT OF ACTIVITIES
Year Ended May 31, 2007

| | Unrestricted | Temporarily Restricted | Permanently Restricted | Total |
|---|---|---|---|---|
| **REVENUES, GAINS AND OTHER SUPPORT** | | | | |
| **OPERATING REVENUES** | | | | |
| Tuition | $ 83,649,733 | | | $ 83,649,733 |
| Less: Unfunded scholarships and grants | (29,833,365) | | | (29,833,365) |
| Funded scholarships and grants | (3,254,474) | | | (3,254,474) |
| Net tuition | 50,561,894 | | | 50,561,894 |
| Other tuition and fees | 4,095,734 | $ 400 | | 4,096,134 |
| Government grants | 4,002,312 | | | 4,002,312 |
| Private gifts and grants | 3,735,066 | 2,375,688 | | 6,110,754 |
| Long-term investment income and gains allocated for operations | 3,817,099 | 5,108,381 | | 8,925,480 |
| Other sources | 2,948,548 | 574,060 | | 3,522,608 |
| Investment income | 1,364,766 | 91,576 | | 1,456,342 |
| Net gains on investments and capital assets | (76,104) | 94,247 | | 18,143 |
| Capital gifts allocated | | 1,194,522 | | 1,194,522 |
| Auxiliary enterprises - sales and services | 23,567,750 | 25,308 | | 23,593,058 |
| | 94,017,065 | 9,464,182 | | 103,481,247 |
| Net assets released from restrictions | 9,255,879 | (9,255,879) | | |
| Total Operating Revenues, Gains and Other Support | 103,272,944 | 208,303 | | 103,481,247 |
| **OPERATING EXPENSES** | | | | |
| Program expenses | | | | |
| Instruction | 41,815,089 | | | 41,815,089 |
| Research | 1,149,541 | | | 1,149,541 |
| Public service | 1,018,134 | | | 1,018,134 |
| Academic support | 9,070,869 | | | 9,070,869 |
| Student services | 14,024,256 | | | 14,024,256 |
| Auxiliary enterprises | 16,903,058 | | | 16,903,058 |
| Support expenses | | | | |
| Institutional support | 8,638,964 | | | 8,638,964 |
| Fundraising | 2,799,998 | | | 2,799,998 |
| Total Operating Expenses | 95,419,909 | | | 95,419,909 |
| **Change in Net Assets from Operating Activities** | 7,853,035 | 208,303 | | 8,061,338 |
| **NONOPERATING ACTIVITIES** | | | | |
| Long-term investment activities | | | | |
| Investment income | 3,862,297 | 2,419,875 | $ 52,882 | 6,335,054 |
| Net gains on investments | 27,166,624 | 16,554,539 | 456,934 | 44,178,097 |
| Total long-term investment income | 31,028,921 | 18,974,414 | 509,816 | 50,513,151 |
| Less: Long-term investment income and gains allocated for operations | (3,817,099) | (5,108,381) | | (8,925,480) |
| | 27,211,822 | 13,866,033 | 509,816 | 41,587,671 |
| Student loan income net of expenses | (54,620) | | 61,375 | 6,755 |
| Capital giving activities - gifts and grants | 748,850 | 7,597,856 | 5,675,627 | 14,022,333 |
| Deferred giving activities - gifts | 48,224 | (637) | 53,618 | 101,205 |
| Capital gifts allocated to operations | | (1,194,522) | | (1,194,522) |
| Interest rate swap loss and settlements | (172,003) | | | (172,003) |
| Adjustment to actuarial liability for annuities payable | 5,717,438 | 318,392 | 3,595,477 | 9,631,307 |
| Gain on disposal of property, plant and equipment | 4,206,220 | | | 4,206,220 |
| | 37,705,931 | 20,587,122 | 9,895,913 | 68,188,966 |
| Net assets released from restrictions | 11,955,875 | (11,955,875) | | |
| **Change in Net Assets from Nonoperating Activities** | 49,661,806 | 8,631,247 | 9,895,913 | 68,188,966 |
| Change in Net Assets before Effect of Adoption of FASB Statement No. 158 | 57,514,841 | 8,839,550 | 9,895,913 | 76,250,304 |
| Effect of Adoption of FASB Statement No. 158 | (2,265,346) | | | (2,265,346) |
| **Change in Net Assets** | 55,249,495 | 8,839,550 | 9,895,913 | 73,984,958 |
| Net Assets - Beginning of Year | 206,315,631 | 62,278,064 | 126,800,262 | 395,393,957 |
| **NET ASSETS - END OF YEAR** | $ 261,565,126 | $ 71,117,614 | $ 136,696,175 | $ 469,378,915 |

See accompanying notes to financial statements.

**ST. OLAF COLLEGE**

STATEMENTS OF CASH FLOWS
Years Ended May 31, 2009, 2008, and 2007

| | 2009 | 2008 | 2007 |
|---|---|---|---|
| **CASH FLOWS FROM OPERATING ACTIVITIES** | | | |
| Change in net assets | $ (94,191,908) | $ 25,889,433 | $ 73,984,958 |
| Adjustments to reconcile change in net assets to net cash flows from operating activities | | | |
| Effect of changes in accounting principles | | | 2,265,346 |
| Depreciation, amortization and accretion expense | 9,968,810 | 8,771,798 | 8,336,325 |
| Net (gains) or losses on investments | 98,795,468 | (2,491,848) | (51,958,444) |
| Change in allowance for uncollectible student loans | 118,075 | 51,381 | 364,300 |
| Interest rate exchange loss | 437,753 | 327,202 | 84,442 |
| (Gain) loss on dispositions of property, plant and equipment | 535,057 | 375,211 | (4,206,220) |
| Actuarial adjustment of annuities payable | (970,716) | (292,314) | 1,047,214 |
| Gifts of property, plant and equipment | (532,800) | (84,710) | (95,865) |
| (Increases) decreases in: | | | |
| Student accounts receivable | 183,035 | (85,272) | 15,375 |
| Contributions receivable for operations | 125,754 | (502,567) | 137 |
| Other receivables | (853,962) | 313,032 | (1,718,546) |
| Inventories, prepaid expenses and deposits | 109,611 | (59,443) | (86,794) |
| Funds held in trust by others | 308,259 | 100,233 | (170,553) |
| Increases (decreases) in: | | | |
| Accounts payable | 2,376,840 | 654,693 | 890,618 |
| Accrued liabilities | 297,263 | (1,894,074) | 1,222,758 |
| Deferred revenue | (10,688) | 737,794 | (1,845) |
| Asset retirement obligation | (226,300) | (186,698) | (149,512) |
| Gifts and grants received for long-term investment, net | (4,093,212) | (13,869,677) | (14,123,538) |
| Nonoperating investment income | (3,410,405) | (6,613,572) | (6,335,054) |
| Net Cash Flows from Operating Activities | 8,965,934 | 11,140,602 | 9,365,102 |
| **CASH FLOWS FROM INVESTING ACTIVITIES** | | | |
| Purchases of property, plant and equipment | (35,421,677) | (40,994,961) | (19,205,590) |
| Withdrawals from deposits held by trustee | 358 | 25,494,470 | 5,585,500 |
| Purchases of investments | (165,704,835) | (160,041,458) | (236,273,954) |
| Proceeds from sales of investments | 169,159,510 | 158,585,040 | 228,389,777 |
| Nonoperating investment income | 3,410,405 | 6,613,572 | 6,335,054 |
| Disbursements of loans to students | (1,087,994) | (1,057,627) | (1,130,595) |
| Repayments of loans by students | 1,173,357 | 1,061,041 | 1,463,523 |
| Net Cash Flows from Investing Activities | (28,470,876) | (10,339,923) | (14,836,285) |
| **CASH FLOWS FROM FINANCING ACTIVITIES** | | | |
| Principal repayments of indebtedness | (1,105,000) | | (155,000) |
| Gifts and grants received for long-term investment, net | 4,093,212 | 13,869,677 | 14,123,538 |
| Insurance proceeds received for hail storm damage | | | 3,542,023 |
| (Increase) decrease in cash held for plant acquisitions | 592,389 | 7,095,376 | (5,691,866) |
| (Increase) decrease in nonoperating contributions receivable | 2,651,125 | (810,263) | 474,544 |
| Increase (decrease) in deposits held in trust for others | (1,598,467) | (129,282) | 507,916 |
| Increase (decrease) in U. S. government grants refundable, net | 122,429 | (22,648) | (568,762) |
| Increase in annuities payable from new gifts | 332,391 | 561,477 | 311,100 |
| Payments to annuitants | (1,843,264) | (2,199,541) | (2,369,055) |
| Debt issuance costs paid | | | (297,187) |
| Deposits to escrow account for refinanced bonds, net | | | (772,179) |
| Net Cash Flows from Financing Activities | 3,244,815 | 18,364,796 | 9,105,072 |
| **Net Change in Cash and Cash Equivalents** | (16,260,127) | 19,165,475 | 3,633,889 |
| CASH AND CASH EQUIVALENTS - Beginning of Year | 35,149,721 | 15,984,246 | 12,350,357 |
| **CASH AND CASH EQUIVALENTS - END OF YEAR** | $ 18,889,594 | $ 35,149,721 | $ 15,984,246 |

See accompanying notes to financial statements.

## NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES

Founded in 1874, St. Olaf College (the "College") is a national liberal arts college of the Evangelical Lutheran Church in America with world-class programs in music and mathematics. The College is also recognized for innovative approaches to undergraduate science education, long-standing engagement in global education and commitment to environmental sustainability. The College offers over 40 graduation majors, including multiple teaching certifications, concentrations and pre-professional fields with the most popular majors being: English, Biology, Mathematics, Economics, and Psychology. The College has a total enrollment of approximately 3,000 students. 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.

***Revenue Recognition*** - 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 and the law allows the release of the restriction) are reported as reclassifications between the applicable classes of net assets. Occasionally donor restrictions related to net assets may be clarified or changed, at which time they are reflected 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.

Tuition revenue is recognized in the period the classes are provided. Revenue from auxiliary enterprises is recognized when goods or services are provided. Contributions are recognized as revenues in the period received. Conditional promises to give are not recognized until they become unconditional, that is, when the conditions on which they depend are substantially met.

## NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 unrestricted net assets for board-designated endowment funds and to restore donor-restricted endowment funds with deficiencies:

> 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.

***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 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.

***Accounts, Loans and Other 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 other than government student loan program funds are generally unsecured. Government student loan programs (Perkins) that become uncollectible can be remitted to the federal government for collection.

***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 has recovered $3,542,023 from insurance companies to date related to the loss and expects to receive and additional $2,028,549 in subsequent years. As a result, the College recorded a net gain of $4,206,220 for the year ended May 31, 2007 and $396,672 for the year ended May 31, 2009. Costs incurred associated with the replacement of the roofs were capitalized during fiscal years 2007, 2008 and 2009, and costs will continue to be capitalized as incurred in subsequent years.

## NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

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

***Deferred Debt Acquisition Costs*** - Costs of bond issuance are deferred and amortized on a straight-line basis over the term of the bonds.

***Physical Plant and Equipment*** - Physical plant assets are stated at cost at date of acquisition 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 books 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. 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 three to five 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.

***Telecommunications Operation*** - In 1985, the College started a telecommunications operation (Telecom), in which it provided telephone related services to the College with the objective of reducing telephone costs. It gradually expanded over the years adding service to another local college, a local school, and a local hospital. During fiscal year ending May 31, 2008, Telecom began offering Competitive Local Exchange Carrier (CLEC) services to the public. The revenue and expenses from Telecom's CLEC are reported on the statement of activities under operations in the category of auxiliary enterprises. The College has made the conclusion that CLEC activities constitute an unrelated trade or business and include such activity in its tax return.

***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.

## NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

***Derivative Financial Instruments*** - The College utilizes various derivative financial instruments, such as foreign currency derivatives, forward contracts on publicly traded securities, fuel hedges, and interest rate exchanges. The derivatives are used as part of the college's risk management strategy to manage exposure to market and economic volatility, support fair values, and maintain investment policy allocation. The College uses interest rate exchange agreements 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 agreements were not entered into for trading or speculative purposes. Interest rate exchange agreements are often held for the life of the strategy, but may reflect significant interim unrealized gains or losses depending on the change in value since the inception of the contract. The derivative financial instruments are recognized as either assets or liabilities on the statements of financial position and are measured at fair value. All unrealized and realized gains and losses from the derivative financial instruments are reflected in the statements of activities.

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

| | 2009 | 2008 | 2007 |
|---|---|---|---|
| State grants | $ 1,529,285 | $ 1,652,896 | $ 1,797,085 |
| Federal grants | 1,393,990 | 1,261,862 | 1,122,055 |

***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 most significant areas that subject the College to unrelated business income tax include conferences and events, Telecom, alternative investments, and tower leasing. Total income tax expense/(benefit) for the years ending May 31, 2009, 2008 and 2007 totaled ($123,163), ($26,669) and $42,013, respectively. The College has concluded that the tax carry forward represented as an asset as of May 31, 2009, is fully recoverable.

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

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

***Use of Estimates*** - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. In the year ending May 31, 2008, changes in accounting estimates were needed to adjust the health insurance liability reserves resulting from the implementation of the Emeriti Program. The estimates of incurred but not reported reserves (IBNR), as of May 31, 2008, were also decreased based on current lag reports of actual experience.

## NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

***Reclassifications*** - Certain amounts appearing in the 2008 and 2007 financial statements have been reclassified to conform with the 2009 presentation. The reclassifications have no effect on reported amounts of total net assets or change in total net assets.

***Value of Financial Instruments Carried at Cost*** - 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. The carrying amount of long-term debt approximates fair value because these financial instruments bear interest at rates which approximate current market rates for notes with similar maturities and credit quality.

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.

***Effect of Change in Accounting Principle*** - In September 2006, the Financial Accounting Standards Board (FASB) issued FASB Statement No. 158, *Employers Accounting for Defined Benefit Pension and Other Postretirement Plans*, (FAS 158). FAS 158 requires an employer to recognize the overfunded or underfunded status of a single-employer defined benefit pension or postretirement plan as an asset or liability in its statement of financial position and to recognize changes in that funded status in the year in which the changes occur through changes in unrestricted net assets. FAS 158 was effective for fiscal years ending after December 15, 2006. The College has a postretirement health benefit plan that falls under the reporting requirements of FAS 158. An additional liability of $2,265,346 was recorded in the May 31, 2007 financial statements for the unfunded portion of its accumulated postretirement benefit obligation as a change in accounting principle as required by FAS 158. See Note 11.

***New Accounting Pronouncements*** - In March 2008, the FASB issued Statement on Financial Accounting Standards No. 161, Disclosures about Derivative Instruments and Hedging Activities – an amendment of FASB Statement No. 133 (SFAS 161). This Statement changes the disclosure requirements for derivative instruments and hedging activities. Entities are required to provide enhanced disclosures about (a) how and why an entity uses derivative instruments, (b) how derivative instruments and related hedge items are accounted for under Statement 133 and its related interpretations, and (c) how derivative instruments and related hedged items affect an entity's financial position, financial performance, and cash flows. This Statement is effective for financial statements issued for fiscal years beginning after November 15, 2008. As of May 31, 2009, the College does not believe the adoption of SFAS 161 will materially impact the financial statement amounts. However, additional footnote disclosures may be required regarding the use of derivative instruments and hedging items.

## NOTE 2 - RESTRICTIONS AND LIMITATIONS ON NET ASSETS BALANCES

At May 31, 2009, 2008 and 2007, the College's unrestricted net assets were allocated as follows:

| | 2009 | 2008 | 2007 |
|---|---|---|---|
| Designated | | | |
| For long-term purposes as: | | | |
| Quasi-endowment | $ 53,560,610 | $ 173,313,436 | $ 156,350,491 |
| Debt service and facility renewal | 29,561,024 | 39,477,258 | 38,004,878 |
| Deferred gifts | 15,481,788 | 20,406,441 | 26,464,773 |
| For debt service reserves under long-term debt agreements | 2,942,510 | 2,935,501 | 3,362,784 |
| For construction of new science building | | | 25,041,391 |
| For specific operating activities | 1,921,435 | 1,651,507 | 1,935,021 |
| For health insurance benefits | 1,602,900 | 1,578,407 | |
| For matching funds under federal government student loan programs | 1,072,827 | 1,064,628 | 1,072,055 |
| Total Designated | 106,143,094 | 240,427,178 | 252,231,393 |
| Undesignated | 46,154,460 | 41,142,107 | 9,333,733 |
| | $ 152,297,554 | $ 281,569,285 | $ 261,565,126 |

Temporarily restricted net assets consist of the following at May 31, 2009, 2008 and 2007:

| | 2009 | 2008 | 2007 |
|---|---|---|---|
| Gifts and other unexpended revenues and gains available for: | | | |
| Scholarships, instruction and other support | $ 4,963,828 | $ 4,718,949 | $ 5,859,062 |
| Unamortized plant gifts | 59,813,925 | 30,527,641 | 31,241,353 |
| Acquisition of buildings and equipment | | 30,280,790 | 19,817,945 |
| | 64,777,753 | 65,527,380 | 56,918,360 |
| Endowment funds | 45,869,169 | 6,326,324 | 12,709,346 |
| Deferred gifts | 1,063,760 | 1,535,740 | 1,489,908 |
| | $ 111,710,682 | $ 73,389,444 | $ 71,117,614 |

Permanently restricted net assets consist of the following at May 31, 2009, 2008 and 2007:

| | 2009 | 2008 | 2007 |
|---|---|---|---|
| Endowment funds | $ 120,434,636 | $ 116,707,300 | $ 112,908,157 |
| Student loan funds | 2,210,350 | 2,311,664 | 2,277,747 |
| Deferred gifts | 14,423,218 | 21,290,655 | 21,510,271 |
| | $ 137,068,204 | $ 140,309,619 | $ 136,696,175 |

## 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, 2009, 2008 and 2007:

| | 2009 | 2008 | 2007 |
|---|---|---|---|
| Amortization of contributions expended for long-lived assets | $ 1,691,105 | $ 1,228,190 | $ 1,194,522 |
| Scholarships, instruction and other departmental support | 8,052,183 | 14,118,586 | 20,017,232 |
| | $ 9,743,288 | $ 15,346,776 | $ 21,211,754 |
| These assets were reclassified as follows: | | | |
| Unrestricted operating net assets | $ 9,743,288 | $ 9,233,638 | $ 9,255,879 |
| Unrestricted nonoperating net assets | | 6,113,138 | 11,955,875 |
| | $ 9,743,288 | $ 15,346,776 | $ 21,211,754 |

## NOTE 4 - CONTRIBUTIONS RECEIVABLE

Contributions receivable include the following unconditional promises to give at May 31, 2009, 2008 and 2007:

| | 2009 | 2008 | 2007 |
|---|---|---|---|
| Temporarily restricted - operations | $ 839,236 | $ 958,329 | $ 868,222 |
| Temporarily restricted - plant projects | 11,290,930 | 14,025,959 | 17,206,681 |
| Temporarily restricted - quasi-endowment | 583 | 583 | 2,333 |
| Permanently restricted - deferred gifts | | | 500,000 |
| Permanently restricted - endowment | 2,082,161 | 2,089,301 | 2,609,095 |
| Gross unconditional promises to give | 14,212,910 | 17,074,172 | 21,186,331 |
| Less: Unamortized discount | (219,410) | (829,346) | (5,413,154) |
| Allowance for uncollectible promises | (784,335) | (258,782) | (1,099,963) |
| | $ 13,209,165 | $ 15,986,044 | $ 14,673,214 |

Contributions receivable as of May 31, 2009 of $11,198,290 are expected to be collected in less than one year. Contributions with a net present value of $2,010,875 are expected to be collected in two to five years. Contributions receivable due within one year are not discounted. Contributions receivable expected to be collected in two to five years have been discounted using historic rates of 1.17% for pledges made during the fiscal year ending May 31, 2009 and 6% for pledges made during the fiscal years ending May 31, 2008 and prior. It is reasonably possible that changes in this estimate could occur in the near term and that actual results could differ from this estimate and could have a material impact on the financial statements.

## NOTE 5 – INVESTMENTS

The following summarizes the fair value of the College's marketable securities at May 31, 2009, 2008 and 2007:

| | 2009 | 2008 | 2007 |
|---|---|---|---|
| Stocks | $ 1,861,009 | $ 2,758,983 | $ 12,358,285 |
| Bonds | 1,277,571 | 450,000 | 435,618 |
| Mutual funds | 148,384,330 | 196,612,262 | 201,195,357 |
| | $ 151,522,910 | $ 199,821,245 | $ 213,989,260 |

The following summarizes the fair value of the College's other investments at May 31, 2009, 2008 and 2007:

| | 2009 | 2008 | 2007 |
|---|---|---|---|
| Alternative investments | $ 123,942,233 | $ 178,462,474 | $ 124,537,213 |
| Private debenture bonds | 6,120,000 | 6,930,000 | 7,740,000 |
| Other investments | 1,671,288 | 1,731,313 | 1,736,469 |
| | $ 131,733,521 | $ 187,123,787 | $ 134,013,682 |

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

Alternative investments include limited partnerships, hedge funds, private equity funds, real estate funds, venture capital funds, commodity funds, offshore fund vehicles, fund of funds and other investments. The underlying assets of alternative investments range from marketable securities to complex and/or illiquid investments. The alternative investments were entered into to diversify the College's portfolio, to provide predictability in overall earnings and to provide market neutral holdings. The College's management, the investment committee of the Board of Regents and the College's external investment consultants review reports provided by the general partners and fund managers, and the College's external investment consultants attend meetings of the various general partners and fund managers in order to evaluate the risk associated with these investments. In addition, the College monitors its portfolio's asset allocation to ensure that it is in accordance with Board policy.

## NOTE 5 - INVESTMENTS (CONTINUED)

The following summarizes the strategy composition of alternative investments at May 31, 2009, 2008 and 2007:

| | 2009 | 2008 | 2007 |
|---|---|---|---|
| Global equity funds | $ 25,586,066 | $ 31,420,577 | $ 32,721,880 |
| Corporate bond funds | 10,826,386 | 11,872,547 | 93,303 |
| Treasury Inflation-Protected Securities (TIPS) | | 30,011,447 | 26,527,650 |
| Hedge funds | 54,143,089 | 66,386,991 | 38,026,472 |
| Real estate funds | 8,806,790 | 13,497,351 | 5,541,893 |
| Commodity funds | 1,344,159 | 7,302,092 | 5,403,655 |
| Private equity funds | 23,235,743 | 17,971,469 | 16,222,360 |
| Total alternative investments | $ 123,942,233 | $ 178,462,474 | $ 124,537,213 |

The following summarizes the investment income, investment expenses and net investment gains for the alternative investments at May 31, 2009, 2008 and 2007:

| | 2009 | 2008 | 2007 |
|---|---|---|---|
| Investment income | $ 464,578 | $ 3,497,082 | $ 2,647,928 |
| Investment expenses | (441,336) | (983,782) | (898,905) |
| Net gains/(losses) on investments | (36,921,949) | 4,131,109 | 13,064,619 |
| Total alternative investments performance | $ (36,898,707) | $ 6,644,409 | $ 14,813,642 |

The College has commitments to make further investments in several of its alternative investments totaling approximately $43,070,000.

The total return on all investments held by the endowment funds, on a market basis, was (24.095%), 4.098%, and 19.148% for the years ended May 31, 2009, 2008, and 2007, respectively.

## NOTE 6 - FAIR VALUE OF FINANCIAL INSTRUMENTS

Effective June 1, 2008, the College adopted the provisions of FASB Statement No. 157, *Fair Value Measurements* (SFAS 157), which defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date and establishes a framework for measuring fair value. SFAS 157 establishes a three-level hierarchy for fair value measurements based upon the transparency of inputs to the valuation of the asset or liability as of the measurement date. SFAS 157 expands disclosures about instruments measured at fair value. SFAS 157 applies to other accounting pronouncements that require or permit fair value measurements and, accordingly, SFAS 157 does not require any new fair value measurements.

Subsequent to the issuance of SFAS 157, the FASB issued additional Financial Staff Positions (FSP) which provides implementation guidance related to fair value measurements. The College has adopted the applicable FSPs as appropriate during fiscal year 2009.

Effective June 1, 2008, the College adopted FASB Statement No. 159, *The Fair Value Option for Financial Assets and Liabilities, including an amendment of FASB Statement No. 115*, which among other things, provides an option to elect fair value as an alternative measurement for selected financial assets and liabilities not previously recorded at fair value. The College did not elect fair value accounting for any asset or liability that is not currently required to be measured at fair value.

## NOTE 6 - FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)

As noted above, SFAS 157 establishes a three-level valuation hierarchy for disclosure of fair value measurements. The valuation hierarchy is based upon the transparency of inputs to 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 following table presents financial instruments that are measured at fair value on a recurring basis by the SFAS 157 hierarchy as of May 31, 2009:

| | Total | Level 1 | Level 2 | Level 3 |
|---|---|---|---|---|
| ASSETS | | | | |
| Cash and short-term investments | $ 5,081,793 | $ 5,081,793 | | |
| Stocks | 1,861,009 | 1,861,009 | | |
| Bonds | 1,277,571 | 1,277,571 | | |
| Mutual funds | 148,384,330 | 148,384,330 | | |
| Hedge funds | 54,143,089 | | | $ 54,143,089 |
| Private equity funds | 23,235,743 | | | 23,235,743 |
| Real estate funds | 8,806,790 | | | 8,806,790 |
| Global equity funds | 25,586,066 | | | 25,586,066 |
| Corporate bond funds | 10,826,386 | | | 10,826,386 |
| Commodity funds | 1,344,159 | | | 1,344,159 |
| Real estate | 1,844,537 | | | 1,844,537 |
| Private bond debenture | 6,120,000 | | | 6,120,000 |
| Other investments | 1,671,288 | | | 1,671,288 |
| Deposits held by trustee | 3,278,268 | 3,278,268 | | |
| Funds held in trust by others | 1,765,685 | | | 1,765,685 |
| Total | $ 295,226,714 | $ 159,882,971 | $ | $ 135,343,743 |
| LIABILITIES | | | | |
| Interest rate exchange agreements | $ 1,316,978 | $ | $ 1,316,978 | $ |

## NOTE 6 - FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)

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.

***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, U.S Treasury bonds, mortgage backed securities, municipal bonds and corporate bonds and notes. U.S. Treasury notes and bonds 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.

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

***Alternative investments*** - Investments in hedge funds, private equity funds, real estate funds, global equity funds, corporate bond funds, and commodity funds for which there is no readily determinable fair value are classified as level 3 as 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 most recent net asset value 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.

***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.

***Funds held in trust 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.

## NOTE 6 - FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)

***Interest rate exchange agreements*** - 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.

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, 2009:

| | Balances May 31, 2008 | Net realized and unrealized gains (losses) included in change in net assets | Purchases, sales, issuances and settlement, net | Net transfers in (out) of Level 3 | Balances May 31, 2009 |
|---|---|---|---|---|---|
| Assets | | | | | |
| TIPS | $ 30,011,447 | $ (1,802,365) | $ (28,209,082) | | |
| Note Receivable | 352,803 | | (352,803) | | |
| Mortgages and Contracts | 613,907 | | (613,907) | | |
| Hedge funds | 66,386,991 | (6,855,652) | (5,388,249) | | $ 54,143,089 |
| Private equity funds | 17,971,469 | (5,481,738) | 10,746,012 | | 23,235,743 |
| Real estate funds | 13,497,351 | (6,128,766) | 1,438,204 | | 8,806,790 |
| Global equity funds | 31,420,577 | (8,334,511) | 2,500,000 | | 25,586,066 |
| Corporate bond funds | 11,872,547 | 762,186 | (1,808,347) | | 10,826,386 |
| Commodity funds | 7,302,092 | (1,933,137) | (4,024,796) | | 1,344,159 |
| Real estate | 2,176,100 | (296,700) | (34,863) | | 1,844,537 |
| Private bond debenture | 6,930,000 | | (810,000) | | 6,120,000 |
| Other investments | 1,731,313 | (58,827) | (1,198) | | 1,671,288 |
| Funds held in trust by others | 2,073,944 | (379,238) | 70,979 | | 1,765,685 |
| Total | $ 192,340,541 | $ (30,507,748) | $ (26,488,050) | $ | $ 135,343,743 |

| | |
|---|---|
| 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, 2009 | $ (33,255,107) |

## NOTE 7 - ENDOWMENT

Effective June 1, 2008, the College adopted the provisions of FASB Staff Position FSP 117-1, *Endowments of Not-for-Profit Organizations: Net Asset Classifications of Funds Subject to an Enacted Version of the Uniform Prudent Management of Institutional Funds Act, and Enhanced Disclosures for all Endowment Funds.* The FSP provides guidance on classifying net assets associated with donor-restricted endowment funds held by organizations that are subject to an enacted version of Uniform Prudent Management of Institutional Funds Act (UPMIFA). A key component of the FSP is a requirement to classify the portion of a donor-restricted endowment fund that is not classified as permanently restricted net assets as temporarily restricted net assets until appropriated for expenditure. Another key component of the FSP is a requirement for expanded disclosures about all endowment funds. The State of Minnesota adopted a version of UPMIFA effective August 1, 2008. As a result of adopting the FSP, the College reclassified $93,705,186 out of unrestricted net assets and into temporarily restricted net assets.

The College's endowment consists of approximately 1200 individual funds established for a variety of purposes. Its endowment includes both donor-restricted endowment funds and funds designated by the Board of Regents to function as endowments. As required by GAAP, 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 Uniform Prudent Management of Institutional Funds Act (UPMIFA) enacted in the State of Minnesota as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, 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.

Endowment net asset composition by type of fund consists of the following as of May 31, 2009:

| | Unrestricted | Temporarily Restricted | Permanently Restricted | Total |
|---|---|---|---|---|
| Donor-restricted endowment funds | $ (4,408,256) | $ 45,869,169 | $ 120,434,636 | $ 161,895,549 |
| Board-designated endowment funds | 87,529,890 | | | 87,529,890 |
| Total endowment net assets | $ 83,121,634 | $ 45,869,169 | $ 120,434,636 | $ 249,425,439 |

## NOTE 7 - ENDOWMENT (CONTINUED)

Endowment net asset composition by type of fund consists of the following as of May 31, 2008:

| | Unrestricted | Temporarily Restricted | Permanently Restricted | Total |
|---|---|---|---|---|
| Donor-restricted endowment funds | $ 119,085,507 | $ 6,326,324 | $ 116,707,300 | $ 242,119,131 |
| Board-designated endowment funds | 93,705,186 | | | 93,705,186 |
| Total endowment net assets | $ 212,790,693 | $ 6,326,324 | $ 116,707,300 | $ 335,824,317 |

Endowment net asset composition by type of fund consists of the following as of May 31, 2007:

| | Unrestricted | Temporarily Restricted | Permanently Restricted | Total |
|---|---|---|---|---|
| Donor-restricted endowment funds | $ 108,972,691 | $ 12,709,346 | $ 112,908,157 | $ 234,590,194 |
| Board-designated endowment funds | 85,382,678 | | | 85,382,678 |
| Total endowment net assets | $ 194,355,369 | $ 12,709,346 | $ 112,908,157 | $ 319,972,872 |

Changes in endowment net assets for the year ended May 31, 2009 are as follows:

| | Unrestricted | Temporarily Restricted | Permanently Restricted | Total |
|---|---|---|---|---|
| Endowment net assets, May 31, 2008 | $ 212,790,693 | $ 6,326,324 | $ 116,707,300 | $ 335,824,317 |
| Net asset reclassification based on change in law | (93,705,186) | 93,705,186 | | |
| Net asset reclassification - other | (1,434,947) | 446,602 | 988,345 | |
| Endowment net assets after reclassification | 117,650,560 | 100,478,112 | 117,695,645 | 335,824,317 |
| Investment return: | | | | |
| Investment income | 1,173,586 | 2,276,887 | 19,302 | 3,469,775 |
| Net appreciation (depreciation) - realized and unrealized | (32,852,094) | (50,616,053) | (302,683) | (83,770,830) |
| Total investment return | (31,678,508) | (48,339,166) | (283,381) | (80,301,055) |
| Contributions | 974,099 | 49,844 | 3,038,810 | 4,062,753 |
| Net appropriation of endowment assets for expenditure | (4,782,024) | (6,826,051) | (16,438) | (11,624,513) |
| Other changes: | | | | |
| Transfers to (from) board designated endowment funds | 957,507 | 506,430 | | 1,463,937 |
| Endowment net assets, May 31, 2009 | $ 83,121,634 | $ 45,869,169 | $ 120,434,636 | $ 249,425,439 |

## NOTE 7 - ENDOWMENT (CONTINUED)

Changes in endowment net assets for the year ended May 31, 2008 are as follows:

| | Unrestricted | Temporarily Restricted | Permanently Restricted | Total |
|---|---|---|---|---|
| Endowment net assets, May 31, 2007 | $ 194,355,369 | $ 12,709,346 | $ 112,908,157 | $ 319,972,872 |
| Investment return: | | | | |
| Investment income | 3,994,526 | 2,112,685 | 48,631 | 6,155,842 |
| Net appreciation (depreciation) - realized and unrealized | 4,469,661 | 2,132,003 | 173,697 | 6,775,361 |
| Total investment return | 8,464,187 | 4,244,688 | 222,328 | 12,931,203 |
| Contributions | 7,167,224 | | 3,602,047 | 10,769,271 |
| Appropriation & release of endowment assets for expenditure | 1,574,878 | (11,597,495) | (14,787) | (10,037,404) |
| Other changes: | | | | |
| Transfers to (from) board designated endowment funds | 1,229,035 | 969,785 | (10,445) | 2,188,375 |
| Endowment net assets, May 31, 2008 | $ 212,790,693 | $ 6,326,324 | $ 116,707,300 | $ 335,824,317 |

Changes in endowment net assets for the year ended May 31, 2007 are as follows:

| | Unrestricted | Temporarily Restricted | Permanently Restricted | Total |
|---|---|---|---|---|
| Endowment net assets, May 31, 2006 | $ 147,528,535 | $ 10,009,949 | $ 105,934,653 | $ 263,473,137 |
| Investment return: | | | | |
| Investment income | 3,862,297 | 2,380,333 | 52,882 | 6,295,512 |
| Net appreciation (depreciation) - realized and unrealized | 27,166,624 | 16,548,141 | 456,934 | 44,171,699 |
| Total investment return | 31,028,921 | 18,928,474 | 509,816 | 50,467,211 |
| Contributions | 7,020,101 | | 6,477,238 | 13,497,339 |
| Appropriation & release of endowment assets for expenditure | 7,127,363 | (16,338,694) | (13,550) | (9,224,881) |
| Other changes: | | | | |
| Transfers to (from) board designated endowment funds | 1,650,449 | 109,617 | | 1,760,066 |
| Endowment net assets, May 31, 2007 | $ 194,355,369 | $ 12,709,346 | $ 112,908,157 | $ 319,972,872 |

***Funds with Deficiencies*** - Because UPMIFA does not establish a fixed level below which an endowment fund is not permitted to fall, there are no “deficiencies” in the endowment funds held by the College. Notwithstanding the foregoing, the College does maintain records of the sum of: (a) the original value of gifts donated to each endowment fund, (b) the original value of subsequent gifts to each endowment fund, and (c) accumulations to each such endowment fund made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The amount by which the endowment funds have fallen below such recorded values was $4,408,256 as of May 31, 2009 and zero as of May 31, 2008 and 2007. These differences resulted from unfavorable market fluctuations that occurred after the investment of new contributions to endowment funds and continued appropriation for certain programs that was deemed prudent by the Board of Regents.

## 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.

## NOTE 8 - CONSTRUCTION IN PROGRESS

Construction in progress consisted of approximately 30 projects with $5,182,434 of total costs incurred to date as of May 31, 2009. Two projects, the Old Music Building Renovation and the Old Science Center Renovation, accounted for the majority of the costs to date as of May 31, 2009, totaling $2,276,326 and $1,235,752, respectively. The total cost to complete the Old Music Building Renovation is estimated at $4,000,000. Costs incurred for the Old Science Renovation have been for planning and design development. The Board of Regents has not authorized a start date for the Old Science Center Renovation construction.

## NOTE 9 - PROPERTY, PLANT AND EQUIPMENT

At May 31, 2009, 2008 and 2007, property, plant and equipment consisted of the following:

| | 2009 | 2008 | 2007 |
|---|---|---|---|
| Land | $ 1,204,799 | $ 1,206,799 | $ 1,250,374 |
| Improvements other than buildings | 10,939,132 | 10,933,978 | 10,594,134 |
| Buildings | 220,424,975 | 154,114,238 | 149,958,176 |
| Equipment | 39,394,178 | 40,454,598 | 45,250,089 |
| Library materials | 19,907,282 | 18,754,424 | 18,670,499 |
| Art collection | 1,121,038 | 1,088,237 | 1,117,478 |
| | 292,991,404 | 226,552,274 | 226,840,750 |
| Less: Accumulated depreciation | (101,687,668) | (99,560,303) | (100,376,410) |
| | $ 191,303,736 | $ 126,991,971 | $ 126,464,340 |

## NOTE 10 - RETIREMENT PLANS

The College has certain contributory defined contribution pension plans for academic and nonacademic personnel. The cost of these retirement plans is paid currently and approximated $3,436,300, $3,233,600 and $3,058,400 for the years ended May 31, 2009, 2008 and 2007, respectively.

## NOTE 11 - POSTRETIREMENT BENEFIT PLAN

The College records health care benefits for current and future retired employees and covered dependents on the accrual basis. The following tables set forth the plan's status with amounts reported in the College's financial statements at May 31, 2009, 2008 and 2007:

| | 2009 | 2008 | 2007 |
|---|---|---|---|
| ***Change in benefit obligation*** | | | |
| Benefit obligation at beginning of year | $ 7,435,150 | $ 6,638,011 | $ 5,390,058 |
| Service cost | 84,589 | 87,542 | 85,539 |
| Interest cost | 433,305 | 373,115 | 336,895 |
| Plan participants' VEBA contributions | 79,272 | 45,268 | 51,311 |
| Employer VEBA contributions | 782,655 | 611,552 | 536,634 |
| Actuarial loss/(gain) | (449,197) | 373,504 | 931,128 |
| Benefits paid | (686,808) | (693,842) | (693,554) |
| Benefit obligation at end of year | $ 7,678,966 | $ 7,435,150 | $ 6,638,011 |
| ***Change in plan assets*** | | | |
| Fair value of plan assets at beginning of year | $ 1,631,917 | $ 974,116 | |
| Actual return on plan assets | (101,139) | 301,845 | $ 675,535 |
| Employer contributions | 1,229,923 | 1,061,974 | 1,023,484 |
| Plan participants' contributions | 23,349 | (12,176) | (31,349) |
| Benefits paid | (686,808) | (693,842) | (693,554) |
| Fair value of plan assets at end of year | $ 2,097,242 | $ 1,631,917 | $ 974,116 |
| ***Funded status*** | | | |
| Funded status at end of year | $ (5,581,724) | $ (5,803,233) | $ (5,663,895) |
| Unrecognized transition obligation/(asset) | N/A | N/A | N/A |
| Unrecognized prior service cost | N/A | N/A | N/A |
| Unrecognized actuarial loss/(gain) | N/A | N/A | N/A |
| Net amount recognized | N/A | N/A | N/A |
| ***Amounts recognized in the statement of financial position consist of:*** | | | |
| Noncurrent assets | $ | $ | $ |
| Current liabilities | (507,000) | (529,000) | (514,000) |
| Noncurrent liabilities | (5,074,724) | (5,274,233) | (5,149,895) |
| Prepaid benefit cost | N/A | N/A | N/A |
| Accrued benefit liability | N/A | N/A | N/A |
| Intangible asset | N/A | N/A | N/A |
| Accumulated change in net assets | N/A | N/A | N/A |
| Net amount recognized | $ (5,581,724) | $ (5,803,233) | $ (5,663,895) |

## NOTE 11 - POSTRETIREMENT BENEFIT PLAN (CONTINUED)

| | 2009 | 2008 | 2007 |
|---|---|---|---|
| ***Amounts recognized in change in net assets consist of:*** | | | |
| Prior service cost | $ (1,343,582) | $ (1,494,830) | $ (1,646,078) |
| Net actuarial loss | 3,406,434 | 3,848,308 | 3,911,424 |
| Accumulated change in net assets | $ 2,062,852 | $ 2,353,478 | $ 2,265,346 |
| ***Weighted-average assumptions used to determine benefit obligations at May 31*** | | | |
| Discount rate | 6.35% | 6.35% | 6.00% |
| Expected return on plan assets | 5.00% | 5.00% | N/A |
| Rate of compensation increase | 0.00% | 0.00% | 0.00% |
| ***Components of net periodic benefit cost*** | | | |
| Service cost | $ 84,589 | $ 87,542 | $ 85,539 |
| Interest cost | 433,305 | 373,115 | 336,895 |
| Expected return on plan assets | (81,596) | (48,706) | |
| Amortization of prior service cost | (151,248) | (151,248) | (151,248) |
| Amortization of net loss | 175,412 | 183,482 | 193,496 |
| Net periodic postretirement benefit cost | $ 460,462 | $ 444,185 | $ 464,682 |
| ***Changes in net assets*** | | | |
| Initial effect of adopting SFAS No. 158 | | | $ 2,265,346 |
| Net (gain) loss | $ (266,462) | $ 120,365 | |
| Amortization of transition obligation/(asset) | 151,248 | 151,248 | |
| Amortization of net loss/(gain) | (175,412) | (183,482) | |
| Total recognized in change in net assets | $ (290,626) | $ 88,131 | $ 2,265,346 |
| Total recognized in net periodic benefit cost and change in net assets | $ 169,836 | $ 532,316 | $ 2,730,028 |
| ***Weighted-average assumptions used to determine net periodic benefit cost as of June 1*** | | | |
| Discount rate | 6.35% | 6.00% | 6.40% |
| Expected return on plan assets | 5.00% | 5.00% | N/A |
| Rate of compensation increase | 0.00% | 0.00% | 0.00% |
| ***Assumed health care cost trend rates at May 31*** | | | |
| Health care cost trend rate assumed for next year | 10.47% - Post 65<br>10.22% - Pre 65 | 11.58% - Post 65<br>10.08% - Pre 65 | 11.24% - Post 65<br>9.74% - Pre 65 |
| Rate to which the cost trend rate is assumed to decline (the ultimate trend) | 4.95% | 4.95% | 4.60% |
| Year that the rate reaches the ultimate rate | 2029 | 2028 | 2027 |

## NOTE 11 - POSTRETIREMENT BENEFIT PLAN (CONTINUED)

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 exempt from taxation to the extent permitted under section 501(c)(9) and 512 of the Internal Revenue Code of 1986.

The College expects to contribute $507,000 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 $726,336 to the VEBA for current employees during the fiscal year ending May 31, 2010.

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:

| | |
|---|---|
| 2010 | $ 507,000 |
| 2011 | 524,000 |
| 2012 | 524,000 |
| 2013 | 531,000 |
| 2014 | 508,000 |
| 2015 – 2019 | 2,350,000 |

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, 2009, 2008 and 2007:

| | 2009 | 2008 | 2007 |
|---|---|---|---|
| Balance at beginning of the year | $ 2,661,596 | $ 2,712,661 | $ 2,875,606 |
| Abatement costs | (226,300) | (186,698) | (130,710) |
| Accretion expense | 133,080 | 135,633 | 136,551 |
| Adjustments to estimates | | | (168,786) |
| Balance at end of the year | $ 2,568,376 | $ 2,661,596 | $ 2,712,661 |

## NOTE 13 - LONG-TERM DEBT

Long-term debt at May 31, 2009, 2008 and 2007 consisted of the following:

| | 2009 | 2008 | 2007 |
|---|---|---|---|
| Minnesota Higher Education Facilities Authority Variable Rate Demand Revenue Bonds, Series Five-H | $ 14,475,000 | $ 14,475,000 | $ 14,475,000 |
| Minnesota Higher Education Facility Authority Variable Rate Demand Revenue Bonds, Series Five-M1 | 12,205,000 | 12,205,000 | 12,205,000 |
| Minnesota Higher Education Facility Authority Variable Rate Demand Revenue Bonds, Series Five-M2 | 13,420,000 | 13,420,000 | 13,420,000 |
| Minnesota Higher Education Facility Authority Revenue Bonds, Series Six-O | 44,300,000 | 45,405,000 | 45,405,000 |
| Premium on Series Six-O Revenue Bonds | 731,835 | 763,199 | 794,563 |
| | $ 85,131,835 | $ 86,268,199 | $ 86,299,563 |

Minnesota Higher Education Facilities Authority Variable Rate Demand Revenue Bonds, Series Five-H, were issued in the amount of $14,475,000 to finance the renovation of St. Olaf Center to house the art and dance departments, replace residence hall furniture, replace Skoglund Athletic Center bleachers, acquire and renovate four houses, renovate the Administration Building, and renovate and improve utility tunnels. The bonds were issued October 25, 2000 and will mature October 1, 2030. Interest on the bonds is payable monthly and no principal payments are required until the maturity date.

Minnesota Higher Education Facilities Authority Variable Rate Demand Revenue Bonds, Series Five-M1, were issued in the amount of $12,205,000 to finance the construction of the Tostrud Recreation Center. The bonds were issued April 16, 2002 and will mature October 1, 2032. Interest on the bonds is payable monthly and no principal payments are required until the maturity date.

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.

For the three variable rate issues described above, the bonds bear interest at a variable (daily reset) rate, which at May 31, 2009 was 0.25%, with an average rate of 1.34% for the 2009 fiscal year. The bonds are secured by (a) during the variable rate period, an unsecured standby letter of credit, 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.

## NOTE 13 - LONG-TERM DEBT (CONTINUED)

To minimize the effect of extreme upward changes in short-term interest rates, 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, 2009, the notional value of the swap was $10,080,000. Under the agreement, each month 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 loss of $437,753, $327,202 and $84,442, relating to the agreement for the years ended May 31, 2009, 2008, and 2007, respectively. The loss is included in nonoperating activities on the statement of activities. At May 31, 2009, 2008, and 2007, the College has recorded an interest rate exchange liability of $1,316,978, $879,225 and $522,023, respectively, in the statement of financial position.

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 $1,155,000 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.

The College maintains short-term investments and U.S. government securities held by a trustee for retirement of indebtedness that totaled $3,278,268 as of May 31, 2009. These funds are intended to satisfy the reserve requirements of the Series Six-O issue.

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

| | |
|---|---|
| Year Ending May 31: | |
| 2010 | $ 1,155,000 |
| 2011 | 1,195,000 |
| 2012 | 1,245,000 |
| 2013 | 1,295,000 |
| 2014 | 1,350,000 |
| Thereafter | 78,160,000 |
| Total | $ 84,400,000 |

## NOTE 14 - SHORT-TERM CREDIT ARRANGEMENT

The College has an unsecured $8,000,000 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 quarter. Principal, and any unpaid interest, is due on January 31. In addition, the agreement requires the College to comply with certain financial covenants. At May 31, 2009, 2008 and 2007, there were no outstanding borrowings under this arrangement.

## NOTE 15 - 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. Accrued liabilities include an incurred but not reported reserve of approximately $273,000, 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 $5,100,000

## NOTE 16 - 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, 2009, 2008 and 2007 as follows:

| | 2009 | 2008 | 2007 |
|---|---|---|---|
| Interest expense | $ 2,443,735 | $ 2,090,474 | $ 2,655,740 |
| Operation and maintenance of plant | 12,621,666 | 11,843,659 | 10,638,973 |
| Depreciation | 9,841,091 | 8,641,525 | 8,332,467 |
| Accretion | 133,080 | 135,633 | (13,433) |
| Faculty staff tuition allowance | 1,405,762 | 1,342,656 | 1,325,368 |
| | $ 26,445,334 | $ 24,053,947 | $ 22,939,115 |

## 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 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 discount rates ranging from 2.4% to 11.6% for the years ended May 31, 2009, 2008 and 2007 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, 2009, 2008 and 2007 follows:

| | 2009 | 2008 | 2007 |
|---|---|---|---|
| Deferred gift income recognized | $ 251,936 | $ 413,111 | $ 300,228 |
| Annuities payable related to new gifts | 332,391 | 561,477 | 311,100 |
| Funds held for others related to new gifts | | | 17,055 |
| Total funds received | $ 584,327 | $ 974,588 | $ 628,383 |
| Total deferred gift assets held by the College at fair value | $ 43,386,469 | $ 59,003,177 | $ 67,462,337 |
| Total deferred gift liabilities | $ 12,417,703 | $ 15,770,340 | $ 17,997,387 |

## NOTE 18 - CONCENTRATIONS OF CREDIT RISK

Financial instruments that potentially subject the College to concentrations of credit risk consist principally of cash and cash equivalents, investments, accounts receivable and notes, mortgages and contracts for deed. Cash and cash equivalents in excess of FDIC and similar coverages is subject to the usual risks of balances in excess of those limits. Investments are diversified 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 typically 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 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.

## NOTE 19 - RELATED PARTY TRANSACTIONS

The College has a signed contract with a construction company owned by a member of the Board of Regents to design and construct Regent's Hall in the amount of $62,241,683. The contract was approved in accordance with the Board of Regents' conflict of interest policy. Total amounts payable to the construction company totaled approximately $750,000, $9,350,000 and $980,000 as of May 31, 2009, 2008 and 2007, respectively.

As of May 31, 2009, 2008, and 2007 approximately $8,958,000, $9,774,000 and $9,693,000, respectively, of contributions receivable were due from members of the Board of Regents. Contribution revenue from members of the Board of Regents totaled approximately $1,109,000, $2,063,000, and $927,000 for the years ending May 31, 2009, 2008, and 2007, respectively.

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, 2009, 2008 and 2007, the College's total value of these funds was approximately $5,837,000, $3,544,000 and $651,000. The College's cumulative contributions to these investments as of May 31, 2009 and 2008 totaled approximately $8,332,000 and $4,009,000. The College's outstanding future commitments to these investments totaled approximately $13,008,000 and $17,491,000 at May 31, 2009 and 2008, 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, 2009, 2008 and 2007 had market values of $6,120,000, $6,930,000 and $7,740,000, respectively.

## NOTE 20 - CONTINGENCIES

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

## NOTE 21 - SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION

| | 2009 | 2008 | 2007 |
|---|---|---|---|
| Interest paid, net of capitalized interest | $ 2,499,465 | $ 2,067,907 | $ 2,164,401 |
| Net capitalized interest | 291,536 | 817,932 | |
| Noncash investing and financing activities | | | |
| Property, plant and equipment acquired through accounts payable | $ 1,465,384 | $ 9,974,739 | $ 1,735,136 |
| Summary of bond issuance | | | |
| Proceeds from bond issue | | | $ 45,405,000 |
| Bond premium, net of amortization | | | 794,563 |
| Principal payment on refinanced debt (cash) | | | (155,000) |
| Refinanced debt | | | (13,070,000) |
| Net increase in new debt | | | $ 32,974,563 |

[THIS PAGE INTENTIONALLY LEFT BLANK]

ST · OLAF
COLLEGE

MIX
From responsible sources
FSC™ C017146
FSC
www.fsc.org

Printed by: ImageMaster, Inc.