

**COLLEGE OF ST. SCHOLASTICA, INC.**  
**Duluth, Minnesota**

**FINANCIAL STATEMENTS**

**YEARS ENDED JUNE 30, 2010 AND 2009**

**COLLEGE OF ST. SCHOLASTICA, INC.  
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YEARS ENDED JUNE 30, 2010 AND 2009**

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## INDEPENDENT AUDITORS' REPORT

Board of Trustees  
College of St. Scholastica, Inc.  
Duluth, Minnesota

We have audited the accompanying statement of financial position of College of St. Scholastica, Inc. as of June 30, 2010, and the related statements of activities and cash flows for the year 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 audit. The financial statements of College of St. Scholastica, Inc. as of June 30, 2009, were audited by other auditors whose report, dated October 29, 2009, expressed an unqualified opinion on those statements.

We conducted our audit 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 audit provides 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 College of St. Scholastica, Inc. as of June 30, 2010, and the changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

*LarsonAllen LLP*  
**LarsonAllen LLP**

Minneapolis, Minnesota  
September 27, 2010



(1)

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**COLLEGE OF ST. SCHOLASTICA, INC.**  
**STATEMENTS OF FINANCIAL POSITION**  
**JUNE 30, 2010 AND 2009**

	2010	2009
<b>ASSETS</b>		
Cash and Cash Equivalents	\$ 13,755,756	\$ 11,594,017
Student Accounts Receivable, Net of Allowance for Doubtful Accounts of \$202,162 and \$214,200, Respectively	1,461,830	1,466,372
Grants Receivable	544,658	435,516
Contributions Receivable	2,172,478	3,061,900
Other Receivables	338,486	570,730
Inventories	49,676	51,342
Prepaid Expenses and Other Assets	548,419	799,401
Student Notes Receivable, Net of Allowance for Doubtful Notes of \$192,928 and \$185,400, Respectively	4,348,392	4,604,685
Investments Held by Trustee	2,217,514	2,217,811
Investments	32,675,485	25,830,212
Debt Acquisition Costs	532,420	564,734
Intangible Assets, Net	255,615	128,992
Construction in Progress	76,471	254,906
Property, Plant and Equipment, Net	57,774,255	58,859,096
Total Assets	\$ 116,751,455	\$ 110,439,714
<b>LIABILITIES AND NET ASSETS</b>		
<b>LIABILITIES</b>		
Accounts Payable	\$ 1,424,851	\$ 1,401,258
Accrued Liabilities	5,905,634	5,529,070
Deposit Accounts	930,934	722,781
Deferred Revenue	3,233,832	2,667,150
Bonds and Leases Payable	31,708,601	32,963,480
Annuities Payable	269,583	273,506
Funds Held for Others	177,740	161,710
U.S. Government Grants Refundable	4,058,138	4,109,224
Other Grants Refundable	48,501	26,200
Total Liabilities	47,757,814	47,854,379
<b>NET ASSETS</b>		
Unrestricted	44,766,397	39,998,371
Temporarily Restricted	7,816,448	6,545,358
Permanently Restricted	16,410,796	16,041,606
Total Net Assets	68,993,641	62,585,335
Total Liabilities and Net Assets	\$ 116,751,455	\$ 110,439,714

See accompanying Notes to Financial Statements.

**COLLEGE OF ST. SCHOLASTICA, INC.**  
**STATEMENT OF ACTIVITIES**  
**YEAR ENDED JUNE 30, 2010**  
**(WITH COMPARATIVE TOTALS FOR 2009)**

	2010			2009 Total	
	Unrestricted	Temporarily Restricted	Permanently Restricted		Total
<b>REVENUES, GAINS AND OTHER SUPPORT</b>					
Tuition and Fees	\$ 76,315,469	\$ -	\$ -	\$ 76,315,469	\$ 71,623,751
Less: Scholarships and Grants	(27,521,657)	-	-	(27,521,657)	(25,782,375)
Net Tuition and Fees	48,793,812	-	-	48,793,812	45,841,376
Government Grants	5,505,704	-	-	5,505,704	5,370,513
Private Gifts	786,118	1,345,423	361,029	2,492,570	4,253,472
Endowment Gain/(Loss)	765,090	1,372,612	-	2,137,702	(5,137,257)
Contributed Services, Net of Expenses of \$523,000 and \$543,700, Respectively	173,594	-	-	173,594	214,716
Other Sources	2,068,620	368,303	5,010	2,441,933	2,195,658
Investment Income	82,774	439	-	83,213	252,307
Sales and Services of Auxiliary Enterprises	7,595,273	-	-	7,595,273	7,371,525
Adjustment in Actuarial Liability for Annuities Payable	-	21,158	3,451	24,609	(106,413)
	65,770,985	3,107,935	369,490	69,248,410	60,255,897
Net Assets Released from Restrictions	1,796,193	(1,796,193)	-	-	-
Total Revenues, Gains and Other Support	67,567,178	1,311,742	369,490	69,248,410	60,255,897
<b>EXPENSES AND LOSSES</b>					
Program Expenses:					
Instruction	26,841,367	-	-	26,841,367	25,602,821
Public Service	2,696,768	-	-	2,696,768	2,360,932
Academic Support	5,915,739	-	-	5,915,739	5,344,990
Student Services	12,645,052	-	-	12,645,052	11,981,466
Auxiliary Enterprises	6,257,537	-	-	6,257,537	6,166,672
Support Expenses:					
Institutional Support	8,435,487	-	-	8,435,487	8,268,737
Allocable Expenses:					
Operation and Maintenance of Plant	3,160,092	-	-	3,160,092	2,990,404
Interest Expense	1,431,191	-	-	1,431,191	1,412,381
Depreciation, Amortization and Accretion Expense	2,814,648	-	-	2,814,648	2,667,721
Less: Allocated Expenses	(7,405,931)	-	-	(7,405,931)	(7,070,506)
Loss on Write-Off of Contribution Receivables	-	40,652	300	40,952	153,516
(Gain) Loss on Disposal of Plant Facilities	7,202	-	-	7,202	(4,609)
Total Expenses and Losses	62,799,152	40,652	300	62,840,104	59,874,525
<b>CHANGE IN NET ASSETS</b>	4,768,026	1,271,090	369,190	6,408,306	381,372
Net Assets - Beginning of Year	39,998,371	6,545,358	16,041,606	62,585,335	62,203,963
<b>NET ASSETS - END OF YEAR</b>	<u>\$ 44,766,397</u>	<u>\$ 7,816,448</u>	<u>\$ 16,410,796</u>	<u>\$ 68,993,641</u>	<u>\$ 62,585,335</u>

See accompanying Notes to Financial Statements.

**COLLEGE OF ST. SCHOLASTICA, INC.**  
**STATEMENT OF ACTIVITIES**  
**YEAR ENDED JUNE 30, 2009**

	2009			Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	
<b>REVENUES, GAINS AND OTHER SUPPORT</b>				
Tuition and Fees	\$ 71,623,751	\$ -	\$ -	\$ 71,623,751
Less: Scholarships and Grants	(25,782,375)	-	-	(25,782,375)
Net Tuition and Fees	45,841,376	-	-	45,841,376
Government Grants	5,370,513	-	-	5,370,513
Private Gifts	657,544	3,341,033	254,895	4,253,472
Endowment Gain/(Loss)	(951,107)	(4,186,150)	-	(5,137,257)
Contributed Services, Net of Expenses of \$543,700	214,716	-	-	214,716
Other Sources	1,964,940	230,718	-	2,195,658
Investment Income	251,291	1,016	-	252,307
Sales and Services of Auxiliary Enterprises	7,371,525	-	-	7,371,525
Adjustment in Actuarial Liability for	-	-	-	-
Annuities Payable	-	(56,924)	(49,489)	(106,413)
	60,720,798	(670,307)	205,406	60,255,897
Net Assets Released from Restrictions	1,924,039	(1,924,039)	-	-
Total Revenues, Gains and Other Support	62,644,837	(2,594,346)	205,406	60,255,897
<b>EXPENSES AND LOSSES</b>				
Program Expenses:				
Instruction	25,602,821	-	-	25,602,821
Public Service	2,360,932	-	-	2,360,932
Academic Support	5,344,990	-	-	5,344,990
Student Services	11,981,466	-	-	11,981,466
Auxiliary Enterprises	6,166,672	-	-	6,166,672
Support Expenses:				
Institutional Support	8,268,737	-	-	8,268,737
Allocable Expenses:				
Operation and Maintenance of Plant	2,990,404	-	-	2,990,404
Interest Expense	1,412,381	-	-	1,412,381
Depreciation, Amortization and Accretion Expense	2,667,221	-	-	2,667,221
Less: Allocated Expenses	(7,070,006)	-	-	(7,070,006)
Loss on Write-Off of Contribution Receivables	-	139,516	14,000	153,516
(Gain) Loss on Disposal of Plant Facilities	(4,609)	-	-	(4,609)
Total Expenses and Losses	59,721,009	139,516	14,000	59,874,525
<b>CHANGE IN NET ASSETS BEFORE RECLASSIFICATION OF NET ASSETS</b>	2,923,828	(2,733,862)	191,406	381,372
Net Assets Reclassification Due to a Change in Law	(6,329,452)	6,329,452	-	-
<b>CHANGE IN NET ASSETS</b>	(3,405,624)	3,595,590	191,406	381,372
Net Assets - Beginning of Year	43,403,995	2,949,768	15,850,200	62,203,963
<b>NET ASSETS - END OF YEAR</b>	\$ 39,998,371	\$ 6,545,358	\$ 16,041,606	\$ 62,585,335

See accompanying Notes to Financial Statements.

**COLLEGE OF ST. SCHOLASTICA, INC.**  
**STATEMENTS OF CASH FLOWS**  
**YEARS ENDED JUNE 30, 2010 AND 2009**

	2010	2009
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Change in Net Assets	\$ 6,408,306	\$ 381,372
Adjustments to Reconcile Change in Net Assets to		
Net Cash Provided by Operating Activities:		
Depreciation, Amortization and Accretion	2,814,648	2,667,221
(Gain) Loss on Sale of Property	7,202	(4,609)
(Gains)/Losses on Endowment Investments	(1,755,589)	5,399,247
(Gains)/Losses on Other Investments	(23,131)	98,478
Actuarial Adjustment of Annuities Payable	14,810	19,752
Decrease in Allowance for Student Accounts Receivable	(12,065)	(1,700)
Increase (Decrease) in Allowance for Student Notes Receivable	7,543	(17,800)
Loan Cancellations, Assignments and Write-Offs	91,821	78,064
Change in Assets and Liabilities:		
Student Accounts Receivable	16,607	11,569
Grants Receivable	(109,142)	44,770
Contributions Receivable - Operations	175,910	276,421
Other Receivables	232,244	4,061
Inventories	1,666	(2,085)
Prepaid Expenses and Other Assets	250,983	(323,050)
Intangible Assets	(230,564)	(17,296)
Accounts Payable	(115,041)	118,880
Accrued Liabilities	313,514	(121,358)
Deposit Accounts	208,154	(212,365)
Deferred Revenue	566,682	153,665
Funds Held for Others	16,030	(49,148)
Contributions under Split-Interest Agreements	(4,311)	(52,773)
Contributions Restricted for Long-Term Investment and Plant	(876,674)	(2,330,239)
Net Cash Provided by Operating Activities	7,999,603	6,121,077
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Purchases of Endowment Investments	(17,207,865)	(8,063,667)
Sales of Endowment Investments	16,845,980	7,922,221
Purchases of Other Investments	(15,192,090)	(4,364,352)
Sales of Other Investments	10,487,423	77,399
Withdrawals from Deposits with Trustee, Net	297	3,943,331
Purchases of Property, Plant and Equipment	(1,220,637)	(6,175,856)
Disbursements of Loans to Students	(378,514)	(511,175)
Repayments of Loans from Students	535,443	479,795
Net Cash Used by Investing Activities	(6,129,963)	(6,692,304)

See accompanying Notes to Financial Statements.

**COLLEGE OF ST. SCHOLASTICA, INC.  
STATEMENTS OF CASH FLOWS (CONTINUED)  
YEARS ENDED JUNE 30, 2010 AND 2009**

	<u>2010</u>	<u>2009</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Repayments of Principal on Indebtedness	(1,254,879)	(1,196,921)
Contributions Received Restricted for Long-Term Investment and Plant	1,590,186	782,245
Increase (Decrease) in Refundable Grants	(28,785)	42,087
Proceeds from Issuance of Split-Interest Agreements	15,000	121,212
Payments to Annuitants	(29,423)	(27,399)
Net Cash Provided (Used) by Financing Activities	<u>292,099</u>	<u>(278,776)</u>
 <b>NET CHANGE IN CASH AND CASH EQUIVALENTS</b>	 2,161,739	 (850,003)
Cash and Cash Equivalents - Beginning of Year	<u>11,594,017</u>	<u>12,444,020</u>
 <b>CASH AND CASH EQUIVALENTS - END OF YEAR</b>	 <u>\$ 13,755,756</u>	 <u>\$ 11,594,017</u>
 <b>SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION</b>		
Interest Paid, Net of Capitalized Interest of \$0 in 2010 and \$63,803 in 2009	<u>\$ 1,346,816</u>	<u>\$ 1,295,038</u>
 <b>NONCASH INVESTING AND FINANCING ACTIVITIES</b>		
Property, Plant and Equipment Acquired through Accounts Payable	<u>\$ 277,399</u>	<u>\$ 138,766</u>

See accompanying Notes to Financial Statements.



**COLLEGE OF ST. SCHOLASTICA, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2010 AND 2009**

**NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**Organization**

The College of St. Scholastica, Inc., an independent liberal arts college, offers credited bachelors, masters, and doctoral degree programs. The accounting policies of the College of St. Scholastica, Inc. (the College) reflect practices common to universities and colleges and conform to accounting principles generally accepted in the United States of America (GAAP). 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 as follows:

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

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

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

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

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;

**COLLEGE OF ST. SCHOLASTICA, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2010 AND 2009**

**NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**General (Continued)**

- as increases in temporarily restricted net assets if the terms of the gift or state law impose restrictions on the use of the income;
  
- as increases in unrestricted net assets in all other cases.

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

**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 – Contributions of land, buildings and equipment are reported as revenues of the unrestricted net asset class. Contributions of cash or other assets to be used to acquire land, buildings and equipment are reported as revenues of the temporarily restricted net asset class; the restrictions are considered to be released at the time such long-lived assets are placed in service.

**Cash Equivalents**

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

**Receivables**

Student accounts receivable are carried at the unpaid balance of the original amount billed to students and student notes receivable are carried at the amount of unpaid principal. Both receivables are less an estimate made for doubtful accounts based on a review of all outstanding amounts. Management determines the allowance for doubtful accounts by identifying troubled accounts and by using historical experience applied to an aging of accounts. Student accounts and loans receivable are written off when deemed uncollectible. Recoveries of student accounts and loans receivable previously written off are recorded when received. Receivables are generally unsecured.

**COLLEGE OF ST. SCHOLASTICA, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2010 AND 2009**

**NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Receivables (Continued)**

A student account receivable is considered to be past due if any portion of the receivable balance is outstanding for more than 30 days after the due date. Interest is charged on student accounts receivable that are outstanding for more than 30 days after the due date and is recognized as it is charged. Student accounts are written off if there has been at least a minimum of 6 months without any payment activity.

After a student is no longer enrolled in an institution of higher education and after a grace period, interest is charged on student loans receivable and is recognized as it is charged. Student loans receivable through the loan programs are considered to be past due if a payment is not made by the payment due date; late charges are charged and recognized on loans 60 days past due. The Federal Perkins Loan Program receivables may be assigned to the U.S. Department of Education. Students may be granted a deferment, forbearance, or cancellation of their student loan receivable based on eligibility requirements defined by the U.S. Department of Education.

**Inventories**

Inventories are valued at the lower of cost or market, determined on a first-in, first-out basis and consist primarily of stock for the College's food service.

**Investments Held by Trustee**

Investments held by trustee include amounts restricted for debt service as required by the related trust indentures as well as construction funds for various current and future plant projects.

**Debt Acquisition Costs**

Costs of bond issuance are deferred and amortized on a straight-line basis over the life of the bond issue.

**Physical Plant and Equipment**

Physical plant assets are stated at cost at date of acquisition less accumulated depreciation. The College depreciates its assets on the straight-line basis over estimated useful lives as follows:

Buildings	15-50 Years
Automotive	5 Years
Equipment	5 Years
Library Books	10 Years

Normal repair and maintenance expenses are charged to operations as incurred. The College capitalizes physical plant additions in excess of \$5,000.

**COLLEGE OF ST. SCHOLASTICA, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2010 AND 2009**

**NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Intangible Assets**

Intangible assets such as license rights are stated at cost at date of acquisition less accumulated depreciation. The College amortizes these assets over a period of three years on a straight-line basis.

**Revenues**

Tuition, housing and related revenue is recognized over the period of instruction. Certain revenue related to summer education and adult programs is deferred and recognized as revenue in the same period expenses are recognized. Students are generally billed for courses prior to the start of the course.

**Government Grants Refundable**

Funds provided by the United States Government under the Federal Perkins and Nursing Student Loan Programs are loaned to qualified students and may be reloaned after collections. These funds are ultimately refundable to the government and are included as liabilities in the statements of financial position. Revenues from other government grants are recognized as they are earned in accordance with the agreement.

**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 \$3,733,486 and \$3,820,634, respectively, during the year ended June 30, 2010. The amounts of such grants were \$3,122,291 and \$2,520,329, respectively, during the year ended June 30, 2009.

**Income Taxes**

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

The College has adopted Accounting for Uncertainty in Income Taxes. This standard clarifies the accounting for uncertainty in income taxes recognized in an entity's financial statements and prescribes a recognition threshold for the financial statement recognition of tax positions taken or expected to be taken on a tax return that are not certain to be realized. The implementation of this standard had no impact on the College's financial statements. The College's tax returns are open to examinations for the years 2005 through 2009.

**Contributed Services**

Services, primarily in the capacity of instruction, provided for the College by persons subject to religious vows of poverty are recorded as contributed services. The computation of the value of the contribution of those services represents the difference between the amounts paid to or on behalf of the religious personnel and the comparable compensation that would be paid to a lay person.

**COLLEGE OF ST. SCHOLASTICA, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2010 AND 2009**

**NOTE 1    SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**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.

**Pension Plans**

All employees of the College of St. Scholastica, Inc. meeting age and service requirements are covered under two contributory defined contribution retirement plans. Pension expense totaled \$1,998,700 and \$1,831,600 for the years ended June 30, 2010 and 2009, respectively.

**Employee Medical Plan**

The College provides medical benefits through a self-insured plan which is available to all employees of the College for certain medical expenses. Estimates for claims incurred but not reported as well as other costs based on historical information have been accrued by the College.

**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.

**Fundraising and Advertising Costs**

Fundraising expenses approximated \$1,369,300 and \$1,366,400 for the years ended June 30, 2010 and 2009, respectively. Advertising expenses approximated \$1,497,000 and \$1,882,400 for the years ended June 30, 2010 and 2009, respectively. The College expenses advertising costs at the time incurred.

**Asset Retirement Obligations**

Asset retirement obligations are estimated costs and obligations associated with the retirement of long-lived assets. These liabilities were initially recorded at fair value and the related asset retirement costs were recorded as decreases in unrestricted net assets. Asset retirement costs are subsequently accreted over the useful lives of the related assets.

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 to discount the asset retirement obligation. It is reasonably possible that changes in this estimate could occur and that actual results could differ from this estimate and could have a significant effect on the financial statements.

**COLLEGE OF ST. SCHOLASTICA, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2010 AND 2009**

**NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Fair Value of Financial Instruments**

The carrying value of cash and cash equivalents, accounts receivable, grants receivable, other receivables, accounts payable, and deposit accounts approximate fair value because of the short term maturity of these financial instruments.

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 7.

**Reclassifications**

Certain amounts appearing in the 2009 financial statements have been reclassified to conform to the 2010 presentation. The reclassifications have no effect on reported amounts of total net assets or change in total net assets.

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

Permanently restricted net assets consist of the following at June 30, 2010 and 2009:

	<u>2010</u>	<u>2009</u>
Endowment Funds	\$ 16,154,021	\$ 15,596,593
Annuity, Life Income and Similar Funds	27,617	19,854
Contributions Receivable	229,158	425,159
Total	<u>\$ 16,410,796</u>	<u>\$ 16,041,606</u>

**COLLEGE OF ST. SCHOLASTICA, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2010 AND 2009**

**NOTE 2 RESTRICTIONS AND LIMITATIONS ON NET ASSET BALANCES (CONTINUED)**

Temporarily restricted net assets consist of the following at June 30, 2010 and 2009:

	<u>2010</u>	<u>2009</u>
Gifts and Other Unexpended Revenues and Gains Available for:		
Scholarships, Instruction and Other Departmental Support	\$ 939,491	\$ 994,493
Endowment Funds - Donor Restricted	3,381,014	2,428,547
Acquisition of Buildings and Equipment	1,481,338	449,720
Annuity, Life Income and Similar Funds	75,836	54,678
Contributions Receivable	1,938,769	2,617,920
Total	<u>\$ 7,816,448</u>	<u>\$ 6,545,358</u>

Unrestricted net assets consist of the following at June 30, 2010 and 2009:

	<u>2010</u>	<u>2009</u>
Operations	\$ 14,063,435	\$ 9,933,786
Endowment Funds - Board Designated and Donor Restricted	3,439,537	2,837,248
Loans to Students	636,750	683,507
Investment in Plant	26,626,675	26,543,830
Total	<u>\$ 44,766,397</u>	<u>\$ 39,998,371</u>

**NOTE 3 NET ASSETS RELEASED FROM RESTRICTIONS**

Net assets were released from temporary donor restrictions by incurring expenses satisfying the restricted purposes or by occurrence of events specified by the donors as follows for the years ended June 30, 2010 and 2009:

	<u>2010</u>	<u>2009</u>
Scholarships, Instruction and Other Departmental Support	\$ 1,796,193	\$ 1,893,368
Acquisition of Property, Plant and Equipment	-	30,671
Total	<u>\$ 1,796,193</u>	<u>\$ 1,924,039</u>

These assets were reclassified to unrestricted net assets.

**COLLEGE OF ST. SCHOLASTICA, INC.**  
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**NOTE 4 CONTRIBUTIONS RECEIVABLE**

Contributions receivable include the following unconditional promises to give at June 30, 2010 and 2009:

	<u>2010</u>	<u>2009</u>
Unrestricted - Completed Plant Projects	\$ 4,550	\$ 18,821
Temporarily Restricted - Operations	33,563	41,134
Temporarily Restricted - Scholarships and Other Departmental Support	172,575	477,099
Temporarily Restricted - Plant Projects	1,809,591	2,265,890
Permanently Restricted - Endowment	<u>233,245</u>	<u>443,100</u>
Gross Unconditional Contributions to Give	2,253,524	3,246,044
Less: Allowance	-	-
Less: Unamortized Discount	<u>(81,046)</u>	<u>(184,144)</u>
Net Unconditional Contributions Receivable	<u><u>\$ 2,172,478</u></u>	<u><u>\$ 3,061,900</u></u>

Contributions receivable at June 30, 2010 are expected to be paid as follows:

Amounts Due in:	
Less than One Year	\$ 1,128,210
One to Five Years	1,112,813
More than Five Years	12,500
Total	<u><u>\$ 2,253,523</u></u>

The College records contributions receivable based on fair value. Net collectible contributions due in more than one year were discounted at an interest rate based on the Treasury Yield Curve five-year rate as of June 30, 2010 which was 1.79%; as of June 30, 2009, the rate was 2.54%. This rate was augmented by a 1% premium risk for contributions due from corporations, businesses and foundations; and a 2% risk premium was used for contributions due from individuals. Net collectible contributions due in less than one year were not discounted.

Of the total face value of contributions receivable outstanding at June 30, 2010, \$1,000,000 is due from one donor. As of June 30, 2010 and 2009, approximately \$170,200 and \$180,800, respectively, of contributions receivable were due from members of the Board of Trustees. Contribution revenue from members of the board of trustees totaled approximately \$146,700 and \$183,200 for the years ended June 30, 2010 and 2009, respectively.



**COLLEGE OF ST. SCHOLASTICA, INC.**  
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**NOTE 5 INVESTMENTS HELD BY TRUSTEE**

The following summarizes the College's investments at fair value held by trustee as of June 30, 2010 and 2009:

	2010	2009
Cash and Short-Term Investments	\$ 104,162	\$ 885,056
Fixed Income Securities	2,113,352	1,332,755
Total	<u>\$ 2,217,514</u>	<u>\$ 2,217,811</u>

**NOTE 6 ENDOWMENT**

Effective July 1, 2008, the College adopted the provisions of *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*. This 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 guidance 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 Topic 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, the College reclassified approximately \$6.33 million out of unrestricted net assets and into temporarily restricted net assets during fiscal year 2009.

The College's endowment consists of approximately 170 individual funds established for a variety of purposes. Its endowment includes both donor-restricted endowment funds and funds designated by the governing board to function as endowments. As required by GAAP, net assets associated with endowment funds, including funds designated by the governing board to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

**Interpretation of Relevant Law**

The College's governing board has interpreted the 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.

**COLLEGE OF ST. SCHOLASTICA, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
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**NOTE 6 ENDOWMENT (CONTINUED)**

The remaining portion of the donor-restricted endowment fund that is not classified as permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the College in a manner consistent with the standard of prudence prescribed by UPMIFA. In accordance with UPMIFA, the College considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

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

Endowment net assets composition by type of fund consists of the following at June 30, 2010:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Donor-Restricted Endowment Funds	\$ (161,963)	\$ 3,381,014	\$ 16,154,021	\$ 19,373,072
Board-Designated Endowment Funds	3,601,500	-	-	3,601,500
Total Endowment Net Assets	<u>\$ 3,439,537</u>	<u>\$ 3,381,014</u>	<u>\$ 16,154,021</u>	<u>\$ 22,974,572</u>

Endowment net asset composition by type of fund consists of the following as of June 30, 2009:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Donor-Restricted Endowment Funds	\$ (525,582)	\$ 2,428,547	\$ 15,596,593	\$ 17,499,558
Board-Designated Endowment Funds	3,362,830	-	-	3,362,830
Total Endowment Net Assets	<u>\$ 2,837,248</u>	<u>\$ 2,428,547</u>	<u>\$ 15,596,593</u>	<u>\$ 20,862,388</u>

**COLLEGE OF ST. SCHOLASTICA, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
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**NOTE 6 ENDOWMENT (CONTINUED)**

Changes in endowment net assets for the year ended June 30, 2010 are as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment Net Assets, June 30, 2009	\$ 2,837,248	\$ 2,428,547	\$ 15,596,593	\$ 20,862,388
Investment Return:				
Investment Income	65,447	316,665	-	382,112
Net Depreciation - Realized and Unrealized	699,643	1,055,947	-	1,755,590
Total Investment Income	765,090	1,372,612	-	2,137,702
Contributions	1,999	103	288,588	290,690
Pledge Payments	-	-	263,830	263,830
Other	-	-	5,010	5,010
Appropriation of Endowment Assets for Expenditure	-	(420,248)	-	(420,248)
Other Changes:				
Transfer from Board Designated Endowment Funds	(164,800)	-	-	(164,800)
Endowment Net Assets, June 30, 2010	<u>\$ 3,439,537</u>	<u>\$ 3,381,014</u>	<u>\$ 16,154,021</u>	<u>\$ 22,974,572</u>

Changes in endowment net assets for the year ended June 30, 2009 are as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment Net Assets, June 30, 2008	\$ 10,797,526	\$ 495,000	\$ 15,122,500	\$ 26,415,026
Net Asset Reclassification Based on Change in Law	(6,329,452)	6,329,452	-	-
Endowment Net Assets after Reclassification	4,468,074	6,824,452	15,122,500	26,415,026
Investment Return:				
Investment Income	42,894	219,096	-	261,990
Net Depreciation - Realized and Unrealized	(994,001)	(4,405,246)	-	(5,399,247)
Total Investment Income	(951,107)	(4,186,150)	-	(5,137,257)
Contributions	3,100	744	210,708	214,552
Pledges Payments	-	-	263,385	263,385
Appropriation of Endowment Assets for Expenditure	(529,219)	(210,499)	-	(739,718)
Other Changes:				
Transfer from Board Designated Endowment Funds	(153,600)	-	-	(153,600)
Endowment Net Assets, June 30, 2009	<u>\$ 2,837,248</u>	<u>\$ 2,428,547</u>	<u>\$ 15,596,593</u>	<u>\$ 20,862,388</u>

**COLLEGE OF ST. SCHOLASTICA, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
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**NOTE 6    ENDOWMENT (CONTINUED)**

**Funds with Deficiencies**

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor or UPMIFA requires the College to retain as a fund of perpetual duration. In accordance with GAAP, deficiencies of this nature that are reported in unrestricted net assets were \$161,963 and \$525,582 as of June 30, 2010 and 2009, respectively. These deficiencies resulted from unfavorable market fluctuations that occurred after the investment of the new permanently restricted contributions and continued appropriation for certain programs that was deemed prudent by the governing board. Subsequent gains that restore the fair value of the endowment funds to the required level will be classified as an increase in unrestricted net assets.

**Return Objectives and Risk Parameters**

The College has adopted investment policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of the endowment assets. Endowment assets include those assets of donor-restricted funds that the College must hold in perpetuity or for a donor-specified period(s) as well as board-designated funds. Under this policy, as approved by the governing board, the endowment assets are invested in a manner that is intended to produce results that exceed the College's spending policy rate and allow for annual growth while assuming a moderate level of investment risk. The College expects its endowment funds, over time, to provide an average annual rate of approximately 7.0%. Actual returns in any 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 that places an emphasis on a diversified mix of equity and non-equity investments to achieve its long-term return objectives within prudent risk constraints.

**Spending Policy and How the Investment Objectives Relate to Spending Policy**

The College has a policy of appropriating for distribution each year 4.0% of its endowment fund's average fair value over the prior 12 quarters through the calendar year-end preceding the fiscal year in which the distribution is planned. In establishing this policy, the College considered the long-term expected return on its endowment. Accordingly, over the long term, the College expects the current spending policy to allow its endowment to grow at an average of 3.0% annually. This is consistent with the College's objective to maintain the purchasing power of the endowment assets held in perpetuity or for a specified term as well as to provide additional real growth through new gifts and investment return.

**COLLEGE OF ST. SCHOLASTICA, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2010 AND 2009**

**NOTE 7 FAIR VALUE MEASUREMENTS**

Effective July 1, 2008, the College adopted the provisions of *Fair Value Measurements*, 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. *Fair Value Measurements* established 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. *Fair Value Measurements* expanded disclosures about instruments measured at fair value. *Fair Value Measurements* applied to other accounting pronouncements that require or permit fair value measurements and, accordingly, *Fair Value Measurements* does not require any new fair value measurements.

Effective July 1, 2008, the College adopted *The Fair Value Option for Financial Assets and Liabilities*, 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. Under *The Fair Value Option for Financial Assets and Liabilities*, the College elected to record contributions receivable at fair value. Management believes that the use of fair value reduces the cost of measuring unconditional promises to give in periods subsequent to their receipt and provides equal or better information to users of its financial statements than if those promises were measured using present value techniques and historical discount rates. The fair value of the contributions receivable as of July 1, 2008 approximated \$1,786,200. The carrying amount of those same items immediately before electing the fair value option approximated \$1,790,300. As a result of electing to record these items at fair value, the College recorded a decrease in temporarily restricted and permanently restricted net assets of approximately \$3,600 and \$500, respectively, as of July 1, 2008.

As noted above, *Fair Value Measurements* 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 or 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.

**COLLEGE OF ST. SCHOLASTICA, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
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**NOTE 7 FAIR VALUE MEASUREMENTS (CONTINUED)**

*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 *Fair Value Measurements* hierarchy as of June 30, 2010:

	<u>Total</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
<b>ASSETS</b>				
Contributions Receivable	\$ 2,172,478	\$ -	\$ -	\$ 2,172,478
Short-Term Investments	9,026,284	-	9,026,284	-
Equity Securities	8,277,870	8,277,870	-	-
Fixed Income Securities	2,483,471	2,483,471	-	-
Mutual Funds	5,819,014	5,802,255	16,759	-
Alternative Investments:				
Portable Alpha Equity Funds	-	-	-	-
Market Neutral/Absolute				
Return Funds	1,462,757	-	995,624	467,133
Hedged Equity Funds	2,991,944	-	2,156,546	835,398
Private Equity Funds	699,391	-	-	699,391
Real Estate Funds	-	-	-	-
Total	<u>\$ 32,933,209</u>	<u>\$ 16,563,596</u>	<u>\$ 12,195,213</u>	<u>\$ 4,174,400</u>

The following table presents the reconciliation to the balance sheet for financial instruments as of June 30, 2010:

Total Measured at Fair Value	\$ 32,933,209
Cash and Cash Equivalents	4,083,515
Cash Surrender Value of Life Insurance	48,753
	<u>\$ 37,065,477</u>
Contributions Receivable	\$ 2,172,478
Investments Held by Trustee	2,217,514
Investments	32,675,485
Total	<u>\$ 37,065,477</u>

**COLLEGE OF ST. SCHOLASTICA, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
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**NOTE 7 FAIR VALUE MEASUREMENTS (CONTINUED)**

The following table presents financial instruments that are measured at fair value on a recurring basis by the *Fair Value Measurements* hierarchy as of June 30, 2009:

	<u>Total</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
<b>ASSETS</b>				
Contributions Receivable	\$ 3,061,900	\$ -	\$ -	\$ 3,061,900
Short-Term Investments	5,110,753	-	5,110,753	-
Equity Securities	7,343,221	7,343,221	-	-
Fixed Income Securities	1,702,176	1,702,176	-	-
Mutual Funds	3,602,489	3,592,107	10,382	-
Alternative Investments:				
Portable Alpha Equity Funds	342,298	-	-	342,298
Market Neutral/Absolute				
Return Funds	3,832,848	-	-	3,832,848
Hedged Equity Funds	2,440,059	-	-	2,440,059
Private Equity Funds	473,282	-	-	473,282
Real Estate Funds	460,148	-	-	460,148
Total	<u>\$ 28,369,174</u>	<u>\$ 12,637,504</u>	<u>\$ 5,121,135</u>	<u>\$ 10,610,535</u>

The following table presents the reconciliation to the balance sheet for financial instruments as of June 30, 2009:

Total Measured at Fair Value	\$ 28,369,174
Cash and Cash Equivalents	2,690,259
Cash Surrender Value of Life Insurance	50,490
	<u>\$ 31,109,923</u>
Contributions Receivable	\$ 3,061,900
Investments Held by Trustee	2,217,811
Investments	25,830,212
Total	<u>\$ 31,109,923</u>

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

**Contributions Receivable**

The fair value of contributions receivable is classified as Level 3 as the fair value is based on a combination of Level 2 inputs (interest rates and yield curves) and significant unobservable inputs (individual or entity specific estimates of cash flows). The fair value is measured at the present value of the future cash flows the College expects to receive over the term of the agreements.

**COLLEGE OF ST. SCHOLASTICA, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
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**NOTE 7 FAIR VALUE MEASUREMENTS (CONTINUED)**

**Short-Term Investments**

The fair value of short-term investments, consisting primarily of money market funds, is classified as Level 2 of these funds are not traded on a regular basis.

**Equity Securities**

Investments in equity securities 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.

**Fixed Income Securities**

Investments in fixed income securities are comprised of U.S. Treasury notes and mortgage backed securities. These items 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. Certain mutual funds are classified as Level 2 as the fair value is based on multiple sources of information, which may include market data and/or quoted market prices from either markets that are not active or are for the same or similar assets in active markets.

**Alternative Investments**

Investments in portable alpha equity funds, market neutral/absolute return funds, hedged equity funds, private equity funds, and real estate 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 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 June 30.



**COLLEGE OF ST. SCHOLASTICA, INC.**  
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**NOTE 7 FAIR VALUE MEASUREMENTS (CONTINUED)**

In September 2009, additional guidance was issued under the *Fair Value Measurements and Disclosures* which clarified the fair value level classification for entities that calculate net asset value per share or its equivalent. The guidance states that “if a reporting entity has the ability to redeem its investment with the investee at net asset value per share (or its equivalent) at the measurement date, the fair value measurement of the investment shall be categorized as a Level 2 fair value measurement.” The College previously classified its investments that calculate net asset value per share as a Level 3 fair value measurement, and reclassified these investments as Level 2 fair value measurement during 2010, resulting in a transfer out of Level 3 of \$3,152,170.

Fair Value Measurements of Investments in Certain Entities That Calculate Net Asset Value per Share (or its Equivalent) as of June 30, 2010:

	Net Asset Value	Unfunded Commitments	Redemption Frequency	Redemption Notice Period
Market Neutral/Absolute Return	\$ 995,624	-	In Liquidation	N/A
Hedged Equity	1,066,920	-	Quarterly	90 days
Hedged Equity	1,089,626	-	Quarterly	65 days
	<u>\$ 3,152,170</u>			

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 statements 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 June 30, 2010:

	Balances June 30, 2009	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	Balance June 30, 2010
<b>ASSETS</b>					
Contributions Receivable	\$ 3,061,900	\$ -	\$ (889,422)	\$ -	\$ 2,172,478
Portable Alpha Equity Funds	342,298	18,174	(360,472)	-	-
Market Neutral/Absolute Return Funds	3,832,848	345,567	(2,715,658)	(995,624)	467,133
Hedged Equity Funds	2,440,059	151,885	400,000	(2,156,546)	835,398
Private Equity Funds	473,282	80,980	145,129	-	699,391
Real Estate Funds	460,148	65,956	(526,104)	-	-
Total	<u>\$ 10,610,535</u>	<u>\$ 662,562</u>	<u>\$ (3,946,527)</u>	<u>\$ (3,152,170)</u>	<u>\$ 4,174,400</u>

**COLLEGE OF ST. SCHOLASTICA, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
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**NOTE 7 FAIR VALUE MEASUREMENTS (CONTINUED)**

The following table presents a reconciliation of the statement of financial position amounts for financial instruments measured at fair value on a recurring basis using significant unobservable inputs (Level 3) for the year ended June 30, 2009:

	Balances June 30, 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	Balance June 30, 2009
<b>ASSETS</b>					
Contributions Receivable	\$ -	\$ 4,097	\$ 1,271,573	\$ 1,786,230	\$ 3,061,900
Portable Alpha Equity Funds	1,326,393	(651,609)	(332,486)	-	342,298
Market Neutral/Absolute Return Funds	5,399,579	(838,174)	(728,557)	-	3,832,848
Hedged Equity Funds	2,849,248	(409,189)	-	-	2,440,059
Private Equity Funds	445,483	(120,122)	147,921	-	473,282
Real Estate Funds	498,301	(38,153)	-	-	460,148
Total	<u>\$ 10,519,004</u>	<u>\$ (2,053,150)</u>	<u>\$ 358,451</u>	<u>\$ 1,786,230</u>	<u>\$ 10,610,535</u>

**NOTE 8 INVESTMENTS**

The following summarizes the College's investments at fair value as of June 30, 2010 and 2009:

	2010	2009
Cash and Short-Term Investments	\$ 13,005,638	\$ 6,915,956
Equity Securities	8,277,870	7,343,221
Fixed Income Securities	370,119	369,421
Mutual Funds	5,819,014	3,602,489
Cash Surrender Value of Life Insurance	48,753	50,490
Alternative Investments	5,154,091	7,548,635
Total	<u>\$ 32,675,485</u>	<u>\$ 25,830,212</u>

The investments were allocated as follows:

	2010	2009
Endowment	\$ 23,363,569	\$ 21,246,095
Annuity	373,035	348,038
Unrestricted	8,938,881	4,236,079
Total	<u>\$ 32,675,485</u>	<u>\$ 25,830,212</u>

**COLLEGE OF ST. SCHOLASTICA, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
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**NOTE 8 INVESTMENTS (CONTINUED)**

Total investment return on endowment funds for the years ended June 30, 2010 and 2009 follows:

	2010	2009
Dividends and Interest, Net of Fees of \$96,418 and \$87,193	\$ 382,113	\$ 261,990
Net Realized and Unrealized Gains on Investments Reported at Fair Value	1,755,589	(5,399,247)
Total	\$ 2,137,702	\$ (5,137,257)

Investments, in general, are subject to various risks, including credit, interest and overall market volatility risks. Due to the level of risk associated with certain investment securities, it is reasonably possible that changes in values of investment securities will occur in the near term and that such change could materially affect the amounts reported in the financial statements.

**NOTE 9 CONSTRUCTION IN PROGRESS**

Construction in progress costs at June 30, 2010 were \$76,471 and were primarily for costs associated with elevator code upgrades in Tower Hall and Somers Hall that amounted to \$41,864. These upgrades are expected to be completed by August 2010 at an additional cost of \$435,000. Remaining construction in progress costs at June 30, 2010 totaled \$34,607 and were for a variety of minor miscellaneous projects whose expected completion is to take place during next fiscal year at a cost about \$100,000.

Construction in progress costs at June 30, 2009 were \$254,906 and was primarily for exterior maintenance of Tower Hall that amounted to \$210,000. This project was completed in August 2010 at an additional cost of \$247,000. Remaining construction in progress costs at June 30, 2009 totaled \$44,906 and were for a variety of minor miscellaneous projects that were completed during 2010.

**COLLEGE OF ST. SCHOLASTICA, INC.**  
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**NOTE 10 PROPERTY, PLANT AND EQUIPMENT**

Property, plant and equipment consist of the following at June 30, 2010 and 2009:

	<u>2010</u>	<u>2009</u>
Land and Land Improvements	\$ 723,266	\$ 697,821
Buildings	76,339,228	75,454,584
Equipment, Furniture and Fixtures	6,200,647	6,436,720
Library Books and Materials	5,831,879	5,626,626
Automotive Equipment	496,582	483,149
	<u>89,591,602</u>	<u>88,698,900</u>
Less: Accumulated Depreciation	<u>(31,817,347)</u>	<u>(29,839,804)</u>
Total	<u>\$ 57,774,255</u>	<u>\$ 58,859,096</u>

**NOTE 11 BONDS PAYABLE**

The following is a summary of bonds payable outstanding at June 30, 2010 and 2009:

	<u>Amount</u>	<u>2010</u>	<u>2009</u>
Minnesota Higher Education Facilities Authority Revenue Bonds, Series Six-S	\$ 8,170,000	\$ 7,640,000	\$ 7,910,000
Minnesota Higher Education Facilities Authority Revenue Bonds, Series Six-A	12,000,000	11,370,000	11,590,000
Minnesota Higher Education Facilities Authority Revenue Bonds, Series Five-R	11,705,000	10,515,000	10,715,000
Minnesota Higher Education Facilities Authority Revenue Refunding Bonds, Series Five-J	5,960,000	<u>2,155,000</u>	<u>2,665,000</u>
Total		<u>\$ 31,680,000</u>	<u>\$ 32,880,000</u>

The College has loans outstanding with the Minnesota Higher Education Facilities Authority (the Authority) in connection with revenue bonds issued by the Authority:

- The Series Six-S Revenue Bonds were issued during fiscal 2008 to finance construction of an expansion to the Burns Wellness Commons complex to provide additional academic space and facilities for the College's new football program. The Series Six-S bonds have interest rates varying from 4.00% to 5.00% and mature in annual installments of \$280,000 to \$380,000 on December 1 through 2017 with payments of \$2,200,000 and \$2,825,000 due December 1, 2022 and 2027, respectively. The term bonds maturing in the years 2022 and 2027 are subject to annual sinking fund payments on December 1 in the years 2018 through 2027 in amounts varying from \$395,000 to \$625,000. The bonds are secured by the general obligation of the College, the reserve account and other funds held by the trustee under the indenture.

**COLLEGE OF ST. SCHOLASTICA, INC.**  
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**NOTE 11 BONDS PAYABLE (CONTINUED)**

- The Series Six-A Revenue Bonds were issued during fiscal 2005 to finance construction of a two building student apartment complex (Scanlon Hall and Kerst Hall). The Series Six-A bonds have a variable rate which is established daily by the Remarketing Agent (Piper Jaffrey & Co.). The interest rate at June 30, 2010 was 2.00%. The bonds mature in annual installments of \$235,000 to \$775,000 on December 1 through 2034. The bonds are secured by the general obligation of the College and with an unsecured letter of credit which has an expiration date of December 9, 2011.
- The Series Five-R Revenue bonds were issued during fiscal 2003 to finance construction of a new student apartment complex (Cedar Hall) and a new student field house (the Wellness Center). In addition, a portion of these bonds were used to finance the refunding of the outstanding principal balance of the Series Three-N Revenue Bonds. The outstanding Series Three-N Revenue Bonds were used to finance construction of an addition to Somers Hall. The Series Five-R bonds have interest rates varying from 3.70% to 5.00% and mature in annual installments of \$205,000 to \$735,000 on December 1 through 2032. The bonds are secured by the general obligation of the College, the reserve account and other funds held by the trustee under the indenture.
- The Series Five-J Revenue Refunding Bonds were issued during fiscal 2001 to finance the refunding of the outstanding principal balances of the Series Two-T and Three-E Revenue Bonds. The outstanding Series Two-T Revenue Bonds, in the principal amount of \$3,540,000, were redeemed in December 2001. The outstanding Series Three-E Revenue Bonds, in the principal amount of \$2,390,000, were redeemed in June 2001. The Series Two-T Revenue Bonds were issued to finance the construction of Birch, Maple and Willow apartments, certain renovation of Tower Hall and the installation of new telephone and computer systems. The Series Three-E Revenue Bonds were issued to finance the construction of the Auditorium and Student Union, the Tower Hall addition and the Theater renovation and expansion. The Series Five-J bonds mature with payments of \$1,120,000 and \$1,035,000 due December 1, 2011 and 2014, respectively. The term bonds maturing in the years 2011 and 2014 are subject to annual sinking fund payments on December 1 in the years 2009 through 2014 in amounts varying from \$325,000 to \$580,000 and with an interest rate of 5.25%. The bonds are secured by the general obligation of the College, the reserve account and other funds held by the trustee under the indenture.
- The bonds issued under the Authority include certain financial covenants which include meeting a Revenue/Expenditure Test, as defined, for at least two of preceding three complete fiscal years, achieving a debt service coverage ratio, and requiring that the Board-controlled unrestricted liquid funds shall not be less than \$1,200,000 and limited the College's ability to incur additional long-term debt.

**COLLEGE OF ST. SCHOLASTICA, INC.**  
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**NOTE 11 BONDS PAYABLE (CONTINUED)**

The maturities of all long-term debt for each of the five years subsequent to June 30, 2010 are as follows:

<u>Year Ending June 30,</u>	<u>Scheduled Payment Amount</u>	<u>Contractual Payment Amount</u>
2011	\$ 1,260,000	1,025,000
2012	1,325,000	12,450,000
2013	1,390,000	1,130,000
2014	1,455,000	1,185,000
2015	1,525,000	1,240,000
Thereafter	<u>24,725,000</u>	<u>14,650,000</u>
Total	<u><u>31,680,000</u></u>	<u><u>31,680,000</u></u>

The contractual payment column in the above schedule reflects the full value of the College's Series Six-A revenue bonds as payable in 2010. The contractual payment arises from accounting standards that require debt obligations, which are subject to a remarketing agreement, secured by a letter of credit containing a reimbursement provision of more than one year but less than two be reflected as a debt obligation in 2012. The scheduled payment column in the above schedule reflects the anticipated payment schedule assuming that there are no draws on the letter of credit and the bonds continue to be successfully remarketed.

**NOTE 12 LEASES**

**Operating Leases**

In 1987, the College entered into a lease agreement with the Benedictine Sisters Benevolent Association (B.S.B.A.) to lease facilities currently used by the College for administration offices, classrooms and other educational purposes. The property includes Tower Hall and certain other facilities or areas to be used by the College or on a shared basis with the B.S.B.A. The lease term is 99 years for a fee of \$1 per year. In 1989, in consideration of a \$1,000,000 payment by the College, the lease was amended and supplemented by adding additional portions of Tower Hall and land. Additional property was leased to the College on a comparable basis, without additional consideration, in 1993 to facilitate further remodeling and expansion of College facilities. The lease will automatically renew for 50 years if no default, cancellation or termination has occurred by a date one year prior to expiration, but will terminate no later than January 1, 2136. The cost of operating the leased buildings, shared by the College and the B.S.B.A., is related to their respective use. The B.S.B.A. will not subject Tower Hall to indebtedness in addition to amounts outstanding as of March 16, 1974.

**COLLEGE OF ST. SCHOLASTICA, INC.**  
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**NOTE 12 LEASES (CONTINUED)**

**Operating Leases (Continued)**

The College has operating leases for computer equipment, copiers, automobiles, and building space. Rental expense associated with these operating leases totaled \$863,600 and \$882,200 for the years ended June 30, 2010 and 2009, respectively. Subsequent to June 30, 2009, the College entered into additional operating leases for equipment. Future minimum lease payments for the five years subsequent to June 30, 2010, including the leases entered into after June 30, 2010, are:

<u>Year Ending June 30,</u>	<u>Amount</u>
2011	\$ 771,200
2012	625,400
2013	529,900
2014	478,500
2015	378,900

The College also has a land lease agreement in which space is rented to New Cingular Wireless (AT & T Mobility Corp.) for placement of a wireless communications platform. This lease runs through June 2014 with an option for renewal for five years. Payment received for the lease amounted to \$12,856 and \$11,023 for the years ended 2010 and 2009, respectively. Expected payments for the remaining years remaining on the lease subsequent to June 30, 2010 are:

<u>Year Ending June 30,</u>	<u>Amount</u>
2011	\$ 16,242
2012	16,699
2013	17,367
2014	18,062

**Intangible Asset Lease**

During fiscal year 2008, the College entered into a lease for the purchase of user license rights in relation to its operating system software. The lease expires December 2010 and bears interest at 5.56%. The balance outstanding on the lease at June 30, 2010 and 2009 was \$28,601 and \$83,480, respectively.

License rights obtained through the lease total \$160,303 and are included in intangible assets in the financial statements. Accumulated amortization for these rights amounted to \$133,586 and \$80,152 for the years ended June 30, 2010 and 2009, respectively.

**COLLEGE OF ST. SCHOLASTICA, INC.**  
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**NOTE 13 RELATED PARTIES**

In March 1998, the College, along with The Marshall School, created Saints-Hilltoppers Arena, Inc. (the Arena). This nonprofit corporation was created to oversee the operations of an arena that is used by both the College and The Marshall School. The President of the College and the Head of Marshall School both serve on the Board of Directors of the Arena. In addition, the College and the School each appoint three board members. Two additional members are selected by the Arena's Board of Directors. Upon dissolution of the Arena, one half of the assets would be remitted to the College. The College is not considered to have control over the Arena and, accordingly, the College's financial statements do not include the activity of the Arena.

The College uses the Arena for its men's and women's hockey programs as well as for its Figure Skating Club. Rental for ice-time and other associated costs with these programs totaled \$53,500 and \$57,877 for the years ended June 30, 2010 and 2009, respectively.

Adjoining the College's campus are the St. Scholastica Monastery, the home of the Benedictine Sisters; the Benedictine Health Center, which serves the needs of the Duluth area and provides many health science and behavioral arts & science students with opportunity to obtain practical experience; and Westwood, a continuous care facility for senior citizens.

All three of these entities share utility costs, facilities services, grounds maintenance, and deferred maintenance costs with College. The total amount billed to these parties amounted to \$692,927 and \$900,730 for the years ended June 30, 2010 and 2009, respectively. The total amount receivable as of June 30, 2010 and 2009 was \$80,081 and \$111,499, respectively.

While the St. Scholastica Monastery does not have direct control over the College, members of the Benedictine Sisters Benevolent Association may constitute up to 25% of the voting Trustees of the College.

**NOTE 14 CHARITABLE GIFT ANNUITIES**

The College administers various charitable gift annuities. A charitable gift annuity provides for payment of a fixed amount over a specified period of time to the designated annuity beneficiary. Assets held under charitable gift annuities are recorded at fair value in the College's statement of financial position. On an annual basis, the College revalues the annuity contract reserve to make distributions to the annuitants based on actuarial assumptions. The present value of the estimated future payments is calculated using a discount rate ranging from 4.0% to 7.0% and applicable mortality rates.

For the years ended June 30, 2010 and 2009, College received \$4,311 and \$52,773, respectively, of gift value relating to split-interest agreements. Total assets held by the College under split-interest agreements totaled \$373,035 and \$348,039 at June 30, 2010 and 2009, respectively.



**COLLEGE OF ST. SCHOLASTICA, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
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**NOTE 15 CONCENTRATIONS OF CREDIT RISK**

Financial instruments that potentially subject the College to concentrations of credit risk consist principally of cash and cash equivalents, investments and account and other receivables. Cash and cash equivalents in excess of federally insured limits are subject to the usual risks of balances in excess of those limits. Investments are generally placed in a variety of managed funds in order to limit credit risk. Student notes and receivables and other receivables are due from a variety of sources concentrated primarily in the Midwestern United States. In addition, the College's students receive a substantial amount of support from state and federal student financial assistance programs which are subject to audit by governmental agencies. A significant reduction in the level of this support, if this were to occur, could have an adverse effect on the College's programs and activities.

**NOTE 16 SHORT-TERM CREDIT ARRANGEMENT**

The College has an unsecured \$1,000,000 revolving line of credit through Wells Fargo Bank through December 15, 2010. Borrowings under this line of credit bear interest at a floating rate per annum equal to the Prime Rate set by the Bank. Interest is payable monthly. Principal, and any unpaid interest, is due on December 15, 2010. In addition, the agreement requires the College to comply with certain financial covenants. At June 30, 2010 and 2009, there were no outstanding borrowings under this arrangement.

**NOTE 17 SUBSEQUENT EVENTS**

The College has evaluated subsequent events through September 27, 2010 which is the date that the financial statements were issued.