WALDORF COLLEGE
Forest City, Iowa

Audit Report on Financial Statements
And Federal Awards

May 31, 2008

WALDORF COLLEGE

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Virchow Krause & company

INDEPENDENT AUDITORS' REPORT

To the Board of Regents
Waldorf College
Forest City, Iowa

We have audited the accompanying statements of financial position of Waldorf College as of May 31, 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 and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the 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 Waldorf College at May 31, 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.

The accompanying financial statements have been prepared assuming the College will continue as a going concern. As discussed in Note 20 to the financial statements, the College's significant operating losses and its excess of current liabilities over current assets raise substantial doubt about its ability to continue as a going concern. Management's plans regarding those matters also are described in Note 20. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

In accordance with *Government Auditing Standards*, we have also issued our report dated February 27, 2009 on our consideration of Waldorf College's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

Virchow Krause & Company LLP

Minneapolis, Minnesota
February 27, 2009

WALDORF COLLEGE

STATEMENTS OF FINANCIAL POSITION
May 31, 2008 and 2007

ASSETS

	2008	2007
Cash and cash equivalents	$ 410,469	$ 438,604
Student accounts receivable, net of allowance for doubtful accounts of $210,200 in 2008 and $193,200 in 2007	367,366	281,565
Other receivables	207,572	274,420
Inventories	147,839	163,010
Prepaid expenses and deposits	190,504	192,102
Contributions receivable	1,732,189	3,821,140
Investments	416,937	398,504
Endowment investments	5,981,555	5,593,104
Student notes receivable, net of allowance for doubtful notes of $55,000 each year	1,264,321	1,318,894
Funds held by others	648,329	754,580
Deferred debt acquisition costs	571,120	624,479
Deposits held by trustees	2,522,603	2,429,472
Property, plant and equipment, net	13,607,793	14,337,931
TOTAL ASSETS	$ 28,068,597	$ 30,627,805

LIABILITIES AND NET ASSETS

	2008	2007
LIABILITIES		
Accounts payable - operating	$ 638,020	$ 422,156
Accounts payable - construction		42,237
Working capital loan payable	2,000,000	2,450,000
Lines of credit payable	1,750,376	1,839,000
Accrued liabilities	876,390	729,389
Student deposit accounts	226,900	198,094
Deposits held in custody for others	105,861	164,127
Deferred revenue	264,900	288,000
Annuities payable	74,448	76,590
Asset retirement obligations	339,352	323,926
Bonds payable	15,908,846	16,973,846
U.S. government grants refundable	1,318,636	1,319,633
Total Liabilities	23,503,729	24,826,998
NET ASSETS		
Unrestricted (deficit)	(5,414,360)	(6,395,164)
Temporarily restricted	2,745,339	5,144,518
Permanently restricted	7,233,889	7,051,453
Total Net Assets	4,564,868	5,800,807
TOTAL LIABILITIES AND NET ASSETS	$ 28,068,597	$ 30,627,805

See accompanying notes to financial statements.

WALDORF COLLEGE

STATEMENT OF ACTIVITIES
Year Ended May 31, 2008
With Comparative Totals for 2007

	2008 Unrestricted	2008 Temporarily Restricted	2008 Permanently Restricted	2008 Total	2007 Total
OPERATING REVENUES, GAINS AND OTHER SUPPORT					
Tuition and fees	$ 9,774,884			$ 9,774,884	$ 9,760,320
Less: Scholarships and grants	(4,294,322)			(4,294,322)	(4,112,622)
Net tuition and fees	5,480,562			5,480,562	5,647,698
Government grants	565,322			565,322	482,307
Contributions	3,586,150	$ 484,284	$ 114,235	4,184,669	3,219,788
Endowment income	4,665	15,561	165	20,391	170,131
Gains on investments, net	34,496			34,496	346,820
Investment income	130,255	797	35	131,087	149,601
Increase (decrease) in funds held by others		(2,327)	141,879	139,552	23,233
Increase in cash surrender value	19,952		2,832	22,784	19,886
Other sources	77,164	(2,398)		74,766	307,730
Sales and services of auxiliary enterprises	2,445,797			2,445,797	2,343,813
Adjustment of actuarial liability for annuities payable		(13,419)	(789)	(14,208)	(5,200)
	12,344,363	482,498	258,357	13,085,218	12,705,807
Net assets released from restrictions	2,957,598	(2,957,598)			
Reclassification of net assets		75,921	(75,921)		
Total Operating Revenues, Gains and Other Support	15,301,961	(2,399,179)	182,436	13,085,218	12,705,807
OPERATING EXPENSES					
Program Expenses					
Instruction	3,709,595			3,709,595	3,288,279
Academic support	1,907,056			1,907,056	1,912,896
Student services	2,999,139			2,999,139	2,784,390
Auxiliary enterprises	2,916,781			2,916,781	2,840,760
Support Expenses					
Institutional support	2,788,586			2,788,586	2,724,193
Total Operating Expenses	14,321,157			14,321,157	13,550,518
Change in Net Assets from Operating Activities	980,804	(2,399,179)	182,436	(1,235,939)	(844,711)
NONOPERATING ACTIVITIES					
Gain on interest rate swap					87,126
Loss on debt refinancing					(1,496,030)
Change in Net Assets from Nonoperating Activities	-	-	-	-	(1,408,904)
Change in Net Assets	980,804	(2,399,179)	182,436	(1,235,939)	(2,253,615)
NET ASSETS (DEFICIT) - Beginning of Year	(6,395,164)	5,144,518	7,051,453	5,800,807	8,054,422
NET ASSETS (DEFICIT) - END OF YEAR	$ (5,414,360)	$ 2,745,339	$ 7,233,889	$ 4,564,868	$ 5,800,807

See accompanying notes to financial statements.

WALDORF COLLEGE

STATEMENT OF ACTIVITIES
Year Ended May 31, 2007

	2007			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
OPERATING REVENUES, GAINS AND OTHER SUPPORT				
Tuition and fees	$ 9,760,320			$ 9,760,320
Less: Scholarships and grants	(4,112,622)			(4,112,622)
Net tuition and fees	5,647,698			5,647,698
Government grants	482,307			482,307
Contributions	1,006,680	$ 2,103,853	$ 109,255	3,219,788
Endowment income	37,070	131,845	1,216	170,131
Gains on investments, net	346,820			346,820
Investment income	142,322	3,754	3,525	149,601
Increase (decrease) in funds held by others		(5,747)	28,980	23,233
Increase in cash surrender value	17,671		2,215	19,886
Other sources	288,838	18,892		307,730
Sales and services of auxiliary enterprises	2,343,813			2,343,813
Adjustment of actuarial liability for annuities payable		(4,415)	(785)	(5,200)
	10,313,219	2,248,182	144,406	12,705,807
Net assets released from restrictions	3,242,502	(3,242,502)		
Total Operating Revenues, Gains and Other Support	13,555,721	(994,320)	144,406	12,705,807
OPERATING EXPENSES				
Program Expenses				
Instruction	3,288,279			3,288,279
Academic support	1,912,896			1,912,896
Student services	2,784,390			2,784,390
Auxiliary enterprises	2,840,760			2,840,760
Support Expenses				
Institutional support	2,724,193			2,724,193
Total Operating Expenses	13,550,518			13,550,518
Change in Net Assets from Operating Activities	5,203	(994,320)	144,406	(844,711)
NONOPERATING ACTIVITIES				
Gain on interest rate swap	87,126			87,126
Loss on debt refinancing	(1,496,030)			(1,496,030)
Change in Net Assets from Nonoperating Activities	(1,408,904)			(1,408,904)
Change in Net Assets	(1,403,701)	(994,320)	144,406	(2,253,615)
NET ASSETS (DEFICIT) - Beginning of Year	(4,991,463)	6,138,838	6,907,047	8,054,422
NET ASSETS (DEFICIT) - END OF YEAR	$ (6,395,164)	$ 5,144,518	$ 7,051,453	$ 5,800,807

See accompanying notes to financial statements.

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

	2008	2007
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	$ (1,235,939)	$ (2,253,615)
Adjustments to reconcile change in net assets to net cash flows from operating activities		
Loss on debt refinancing		1,496,030
Depreciation	817,819	804,465
Amortization of deferred debt acquisition costs	53,359	65,000
Amortization of deferred revenue	(36,000)	(36,000)
Accretion of asset retirement obligations	15,426	15,426
Provision for doubtful accounts	17,000	20,000
Actuarial adjustment of annuities payable	11,380	15,346
(Gain) loss on sale of property, plant and equipment	212,341	(3,500)
Loan cancellations and reinstatements	11,859	9,570
Net gains on investments	(34,496)	(346,820)
Gain on interest rate swap		(87,126)
Increase in cash surrender value of life insurance	(22,784)	(19,886)
Contributions restricted for endowment and plant	(120,235)	(333,856)
(Increase) decrease in funds held by others	106,251	(31,077)
Change in operating assets and liabilities		
Student accounts receivable	(102,801)	94,765
Other receivables	66,848	(68,137)
Prepaid expenses, deposits and inventories	16,769	(35,898)
Contributions receivable for operations	2,088,476	169,083
Accounts payable	215,864	145,256
Accrued liabilities	147,001	(17,925)
Student deposit accounts	28,806	(14,895)
Deposits held in custody for others	(58,266)	27,885
Deferred revenue on laptop sales	12,900	
Investment income restricted for reinvestment	(200)	(4,741)
Net Cash Flows From Operating Activities	2,211,378	(390,650)
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of endowment investments, net	(359,853)	(296,650)
Sales (purchases) of other investments, net	10,249	(5,855)
Purchases of property, plant and equipment	(381,259)	(694,951)
Proceeds from sale of property, plant and equipment	39,000	6,500
Disbursements of loans to students	(148,375)	(279,313)
Repayments of loans from students	191,089	276,461
(Additions to) withdrawals from deposits held by trustee	(93,131)	348,831
Net Cash Flows From Investing Activities	(742,280)	(644,977)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from the issuance of working capital loan	2,000,000	2,000,000
Payments of principal on working capital loan	(2,450,000)	(2,000,000)
Proceeds from lines of credit	3,942,000	1,839,000
Payments of principal on lines of credit	(4,030,624)	
Payments of principal on long-term debt	(1,065,000)	(1,016,412)
Receipt of investment income restricted for reinvestment	200	4,741
Contributions received restricted for endowment and plant	120,710	352,802
Decrease in refundable government grants	(997)	(4,705)
Payments to annuitants	(13,522)	(13,106)
Net Cash Flows From Financing Activities	(1,497,233)	1,162,320
Net Change in Cash and Cash Equivalents	(28,135)	126,693
CASH AND CASH EQUIVALENTS - Beginning of Year	438,604	311,911
CASH AND CASH EQUIVALENTS - END OF YEAR	$ 410,469	$ 438,604

See accompanying notes to financial statements.

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES

Waldorf College is a four year liberal arts college affiliated with the Evangelical Lutheran Church in America. The accounting policies of Waldorf College reflect practices common to colleges and universities 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 to present balances and transactions according to the existence or absence of donor-imposed restrictions. This has been accomplished by classification of fund balances and transactions into three classes of net assets - permanently restricted, temporarily restricted and unrestricted, as follows:

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

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

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

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

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

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

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

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

Reporting as Temporarily Restricted Revenues - Contributions and investment income 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 for 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.

After a student is no longer enrolled in an institution of higher education and after a grace period, interest is charged on Perkins student loans receivable and is recognized as it is charged. Perkins student loans receivable are considered to be past due if a payment is not made within 30 days of the payment due date, at which time, late charges are charged and recognized. The 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 - 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 cost.

Deferred Debt Acquisition Costs - Costs of bond issuance are deferred and amortized over the term of the related indebtedness.

Deposits Held by Trustees - Cash, short-term investments and fixed income securities held by the trustees include amounts restricted for debt service as required by the trust indentures. As of May 31, 2008 and 2007, the amount also included proceeds from a working capital loan.

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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: residences, 10 years; buildings 40 years; land improvements, 20 years; equipment and furniture, 7 years; and library books, 10 years. Artwork is not depreciated. In 2008, the College capitalized equipment additions of $1,500 or more. In prior years, the amount was $1,000. Normal repair and maintenance expenses are charged to operations as incurred.

Deferred Revenue - The College received a conditional contribution in fiscal 2006 which was used to purchase equipment and building improvements, subject to maintaining a 10-year contract for services to be provided by the donor. The College is recognizing contribution revenue over the life of the contract.

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

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 retirements obligation. It is reasonably possible that the 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.

Unemployment Compensation - The College has elected to pay unemployment compensation claims as they arise. An accrued liability of $5,000 exists for this purpose.

Retirement Plans - The College has certain contributory defined contribution pension plans for academic and nonacademic personnel. The cost of the retirement plans is paid currently and amounted to approximately $124,100 and $110,400 for the years ended May 31, 2008 and 2007, respectively.

Revenues - Tuition revenue is recognized in the period the classes are provided. Revenue from auxiliary enterprises is recognized when goods or services are provided.

Fund-Raising and Advertising Expenses - Fund raising expenses totaled $655,400 and $577,600 for the years ended May 31, 2008 and 2007, respectively. Advertising expenses totaled $80,100 and $60,700 for the years ended May 31, 2008 and 2007, respectively. Advertising costs are expensed when incurred.

NOTE 1 - 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.

Fair Value of Financial Instruments - The carrying amounts of cash and cash equivalents, accounts receivable and other receivables, funds held for others, accounts payable and deposits are reasonable estimates of fair value due to 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 annuities payable are based on life expectancies, quoted market prices, and the present value discount included in the carrying amount. The carrying amounts of long-term debt approximate fair value because these financial instruments bear interest at rates which approximate current market rates for notes with similar maturities and credit quality.

Investments in marketable securities are recorded at fair values. The values of publicly traded fixed income, equity securities and mutual funds are based on quoted market prices and exchange rates, if applicable.

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.

Other investments are carried at cost.

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 $1,520,200 and $1,465,200 for the years ended May 31, 2008 and 2007, respectively.

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. Donations to the College are tax deductible.

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.

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

New Accounting Pronouncements - In February 2007, the FASB issued Statement on Financial Accounting Standards No. 159 (SFAS 159), *The Fair Value Option for Financial Assets and Financial Liabilities - Including an Amendment of FASB Statement No. 115*, which provides all entities with an option to report selected financial assets and liabilities at fair value. Certain specified items are eligible for the irrevocable fair value measurement option as established by SFAS 159. SFAS 159 is effective as of the beginning of an entity's first fiscal year beginning after November 15, 2007. The College is currently evaluating the impact that the adoption of this Statement will have on its financial position, results of operations and cash flows.

In September 2006, the FASB issued Statement on Financial Accounting Standards No. 157 (SFAS 157), *Fair Value Measurements*. SFAS 157 establishes a single authoritative definition of fair value, sets out a framework for measuring fair value and requires additional disclosures about fair value measurements. SFAS 157 is effective for financial statements issued for fiscal years beginning after November 15, 2007. The College has not yet completed its analysis of the effects of this interpretation and has not determined if the adoption of SFAS 157 will have a material impact on the financial statements.

In August 2008, the FASB issued 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*. 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) which serves as a model act for states to modernize their laws governing donor-restricted endowment funds. FSP 117-1 is effective for financial statements issued for years ending after December 15, 2008. The College is currently evaluating the impact that the adoption of this Statement will have on its net assets.

In March 2008, the FASB issued Statement on Financial Accounting Standards No. 161 (SFAS 161), *Disclosures about Derivative Instruments and Hedging Activities - an amendment of FASB Statement No. 133*. 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 hedged 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. The College is currently evaluating the impact that the adoption of this Statement will have on its financial position, results of operations and cash flows.

NOTE 2 - CONTRIBUTIONS RECEIVABLE

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

	2008	2007
Unrestricted - operations	$ 8,024	$ 809,714
Temporarily restricted - operations	1,746,936	3,033,722
Permanently restricted - endowment	5,800	6,275
Gross unconditional promises to give	1,760,760	3,849,711
Less: Unamortized discount	(28,571)	(28,571)
Net unconditional promises to give	$ 1,732,189	$ 3,821,140
Amounts due in:		
Less than one year	$ 1,592,693	
One to five years	168,067	
	$ 1,760,760	

Promises due in one to five years were discounted at an interest rate of 6% for each of the years ended May 31, 2008 and 2007. Promises due in less than one year were not discounted.

Of the total gross contributions receivable outstanding at May 31, 2008, $1,659,722 is due from three donors.

Of the total gross contributions receivable outstanding at May 31, 2008 and 2007, $1,000,000 and $2,252,358, respectively, was due from a board member.

NOTE 3 - INVESTMENTS

The following summarizes the College's investments in funds other than endowment at May 31, 2008 and 2007. Fair value has been assumed to approximate cost for the real estate and life insurance:

	2008		2007	
	Fair Value	Cost	Fair Value	Cost
Short-term investments	$ 17,534	$ 17,534	$ 13,012	$ 13,012
Mutual funds	67,209	60,319	109,500	103,946
Stock	40,278	40,278		
Real estate	31,800	31,800	31,800	31,800
Cash surrender value of life insurance	260,116	260,116	244,192	244,192
	$ 416,937	$ 410,047	$ 398,504	$ 392,950

Investments held for deferred gift funds included above at May 31, 2008 had a market value and cost totaling $335,819 and $328,928, respectively. Corresponding amounts at May 31, 2007 were $324,379 and $308,924, respectively.

NOTE 4 - ENDOWMENT INVESTMENTS

The following summarizes the College's endowment investments at May 31, 2008 and 2007. Fair value has been assumed to approximate cost for the real estate and other investments:

	2008		2007	
	Fair Value	Cost	Fair Value	Cost
Cash and money market funds	$ 3,037,825	$ 3,037,829	$ 94,716	$ 94,716
Certificates of deposit	2,180,734	2,178,951	2,165,320	2,166,197
Stocks			935,854	760,025
Bonds	277,939	278,157	1,235,312	1,247,534
Mutual funds	110,907	113,920	788,492	506,297
Real estate	373,000	277,790	373,000	291,825
Other	1,150	1,150	410	410
	$ 5,981,555	$ 5,887,797	$ 5,593,104	$ 5,067,004

Endowment fund investments were $1,630,246 and $1,665,879 less than the historic gift value of endowments at May 31, 2008 and 2007, respectively. (See Note 5 regarding interfund borrowing of endowment assets.)

NOTE 5 - INTERFUND BORROWING

The endowment funds had a balance of $2,285,273 and $2,292,382 due from the unrestricted current fund at May 31, 2008 and 2007, respectively. All interfund amounts have been eliminated in the financial statements.

NOTE 6 - DEPOSITS HELD BY TRUSTEES

At May 31, 2008 and 2007, deposits held by trustees consisted of the following:

	2008	2007
Debt service and bond funds - Series 2004 Bonds	$ 432,860	$ 433,003
Working capital funds	1,000,000	950,000
Debt service and bond funds - Series 2007 Bonds	1,089,743	1,046,469
	$ 2,522,603	$ 2,429,472

NOTE 7 - PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment consisted of the following as of May 31, 2008 and 2007:

	2008	2007
Land	$ 848,137	$ 848,137
Land improvements	2,089,295	2,073,973
Buildings and residences	17,893,909	17,817,776
Equipment and furniture	6,817,978	6,651,125
Library books	936,535	888,083
Construction in progress	32,821	43,584
Artwork	30,000	281,340
	28,648,675	28,604,018
Less: Accumulated depreciation	(15,040,882)	(14,266,087)
	$ 13,607,793	$ 14,337,931

NOTE 8 - WORKING CAPITAL LOAN PAYABLE

The Iowa Higher Education Loan Authority (the "Authority") issued Revenue Anticipation Notes (Private Education Working Capital and Capital Projects Loan Program) in May 2008 for the purpose of providing funds to make working capital loans to the private educational institutions participating in the program. The notes issued by the Authority in 2008 mature on May 20, 2009 at which time all outstanding principal and interest is due. As a participant in the program, Waldorf College has a working capital loan available in the amount $2,000,000, with interest at 5.20%. As of May 31, 2008, the College had drawn down $1,000,000 under this arrangement. The remaining $1,000,000 that is available to draw down as of May 31, 2008 is included with deposits held by trustee.

As of May 31, 2007, the College had a working capital loan of $2,450,000 under a similar arrangement. As of May 31, 2007, the College had drawn down $1,500,000 under that arrangement. The remaining $950,000 was drawn down subsequent to May 31, 2007. The notes issued by the Authority in 2007 matured on May 20, 2008.

NOTE 9 - LINES OF CREDIT PAYABLE

The College has a line of credit for operating purposes with a bank in the amount of $800,000 through June 2008. The line of credit is secured by certificates of deposit. Interest on the line of credit is at the 8.250%. The amount outstanding under the line of credit was $788,376 at May 31, 2008. The College had a balance due of $750,000 under a similar arrangement at May 31, 2007.

The College has a line of credit for operating purposes with a bank in the amount of $750,000 through June 2008. The line of credit is secured by a certificate of deposit. Interest on the line of credit is at the 7.000%. The amount outstanding under the line of credit was $750,000 and $550,000 at May 31, 2008 and 2007, respectively.

The College has a line of credit for operating purposes with a bank in the amount of $550,000 through June 2008. The line of credit is secured by a certificate of deposit. Interest on the line of credit is at the 7.250%. The amount outstanding under the line of credit was $212,000 and $539,000 at May 31, 2008 and 2007, respectively.

NOTE 10 - BONDS PAYABLE

Bonds payable consisted of the following at May 31, 2008 and 2007:

	2008	2007
Iowa Higher Education Loan Authority Private College Facility Revenue Bonds (Waldorf College Project) Series 2004A	$ 1,098,846	$ 2,163,846
Iowa Higher Education Loan Authority Private College Facility Revenue Refunding Bonds (Waldorf College Project) Series 2007A	11,385,000	11,385,000
Iowa Higher Education Loan Authority Taxable Private College Facility Revenue Refunding Bonds (Waldorf College Project) Series 2007B	3,425,000	3,425,000
	$ 15,908,846	$ 16,973,846

In September 1999, the College obtained $12,000,000 through the Iowa Higher Education Loan Authority in tax-exempt bonds as part of its debt restructuring plan. The new debt paid-off or advance refunded substantially all existing long-term debt. During fiscal year 2007, the College legally defeased the Series 1999 Bonds by placing part of the proceeds of Iowa Higher Education Loan Authority Private College Facility Revenue Refunding Bonds Series 2007A and Taxable Private College Facility Revenue Refunding Bonds Series 2007B in an irrevocable trust with escrow agents to provide for all future debt service payments on the old bonds. At May 31, 2008, $11,175,000 of the bonds are outstanding. A total of $11,857,000 is held in escrow at May 31, 2008 and will be used to pay off the bonds in accordance with the provisions of the Series 1999 Revenue Bonds.

Dormitory bonds payable to the U.S. Government in the amount of $600,000 were sold under a trust indenture dated July 1, 1967. The College defeased the bonds with part of the proceeds of the 1999 bonds. At May 31, 2008, $204,000 of bonds are outstanding. A total of $177,000 is held in escrow at May 31, 2008 and will be used to pay off the bonds in accordance with the provisions of the dormitory bonds.

In May 2004, the Iowa Higher Education Loan Authority issued $4,180,000 Private College Facility Revenue Bonds Series 2004A on behalf of the College. The proceeds of the Series 2004A bonds were used to finance the construction of a new library. The Series 2004A bonds have an interest rate of 3.90% and mature on October 1, 2008. The loan is supported by a first mortgage lien on selected College buildings, as well as the general obligation of the College. In addition, the College is required to maintain a debt service reserve fund of $418,000, which was funded from bond proceeds.

In May 2004, the Iowa Higher Education Loan Authority issued $1,835,000 Taxable Private College Facility Revenue Bonds Series 2004B on behalf of the College. The proceeds of the Series 2004B bonds were used to refinance a loan with Manufacturer Bank and Trust Company, repay the outstanding principal on a line of credit and to provide working capital cash funds. During fiscal year 2007, the College legally defeased the Series 2004B Bonds by placing part of the proceeds of Iowa Higher Education Loan Authority Taxable Private College Facility Revenue Refunding Bonds Series 2007B in an irrevocable trust with escrow agents to provide for all future debt service payments on the old bonds. At May 31, 2008, $1,842,905 of the bonds are outstanding. A total of $1,941,000 is held in escrow at May 31, 2008 and will be used to pay off the bonds in accordance with the provisions of the Series 2004B Revenue Bonds.

NOTE 10 - BONDS PAYABLE (CONTINUED)

In January 2007, the Iowa Higher Education Loan Authority issued $11,385,000 Private College Facility Revenue Refunding Bonds Series 2007A and $3,425,000 Taxable Private College Facility Revenue Refunding Bonds, Series 2007B. The proceeds of the bonds were used to refinance the Series 1999 and 2004B bonds. The Series 2007A bonds have interest rates varying from 4.75% to 5.00% and mature in annual installments of $165,000 to $555,000 on October 1, 2018 through 2024 with payments of $1,815,000, $2,115,000 and $4,390,000 due October 1, 2027, 2030 and 2034, respectively. The term bonds maturing in the years 2027, 2030 and 2034 are subject to annual sinking fund payments on October 1 in the years 2025 through 2034 in amounts varying from $575,000 to $1,930,000. The Series 2007B bonds have interest rates varying from 6.00% to 6.30% and mature in annual installments ranging from $145,000 to $460,000 on October 1, 2009 through 2018. The loan is supported by the general obligation of the College as well as a first mortgage lien upon the following property: The Atrium, Campus Center, Nilssen-Boe Science Hall, Salveson Hall, Thorson Hall, Voss Hall and Waldorf Bookstore. In addition, the College is required to maintain a debt service reserve fund of $789,878 and $237,622 on the Series A and B Bonds, respectively, which were funded from bond proceeds.

The loan agreements for both the Series 2004 and 2007 bonds are subject to various restrictive covenants, including the maintenance of minimum levels of insurance coverage, minimum debt service coverage ratio, liquidity requirements and other matters. As of May 31, 2008, the College is in compliance with these covenants.

Maturities of debt outstanding are as follows for fiscal years ending May 31: 2009 - $1,090,000; 2010 - $145,000; 2011 - $320,000; 2012 - $340,000 and 2013 - $365,000

NOTE 11 - OPERATING LEASES

The College has entered into operating leases to rent computer equipment and an apartment style residence facility for senior class members. Rental expense associated with the operating leases was $385,800 and $440,000 for the years ended May 31, 2008 and 2007, respectively. The future operating lease commitments for each of the three years subsequent to May 31, 2008 approximate $364,100, $243,300, $137,200 respectively.

NOTE 12 - RESTRICTIONS AND LIMITATIONS ON NET ASSET BALANCES

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

	2008	2007
Gifts and other unexpended revenues and gains available for:		
Acquisition of buildings and equipment	$ 227,577	$ 331,391
Scholarships, instruction and other departmental support	778,395	770,622
	1,005,972	1,102,013
Term endowment	728,678	718,678
Annuity life income and similar funds	292,324	318,676
Contributions receivable	718,365	3,005,151
	$ 2,745,339	$ 5,144,518

NOTE 12 - RESTRICTIONS AND LIMITATIONS ON NET ASSET BALANCES (CONTINUED)

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

	2008	2007
Endowment funds (see notes 4 and 5)	$ 6,898,167	$ 6,564,860
Annuity, life income and similar funds	335,722	486,593
	$ 7,233,889	$ 7,051,453

NOTE 13 - NET ASSETS RELEASED FROM RESTRICTIONS

Net assets were released from donor restrictions during the years ended May 31, 2008 and 2007 by incurring expenses satisfying the restricted purposes for support of departmental operations or by occurrence of events specified by the donors.

These assets were released to unrestricted net assets.

NOTE 14 - ALLOCATION OF EXPENSES

The College allocated the following expenses to program and support functions for the years ended May 31, 2008 and 2007:

	2008	2007
Interest	$ 1,061,429	$ 1,259,017
Depreciation	817,819	804,465
Operation and maintenance of plant	1,294,497	1,173,606
	$ 3,173,745	$ 3,237,088

NOTE 15 - SPLIT INTEREST AGREEMENTS

The College has arrangements with donors classified as charitable remainder trusts and charitable gift annuities. 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 remaining life of the donor(s). 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 the future distributions 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. The College used interest rates ranging from 6.8% to 8.0% in making the calculations for the years ended May 31, 2008 and 2007.

NOTE 16 - COMMITMENT

The College has an irrevocable letter of credit outstanding totaling $2,077,111 in favor of the U.S. Department of Education. The letter of credit is required to meet the Department's financial responsibility standards and represents approximately one half of the Title IV funds awarded to its students. The College has pledged certain assets as security for the letter of credit. The letter of credit expires on June 30, 2009 but is subject to renewal in an amount which will vary dependent on the level of Title IV funds granted to Waldorf's students.

NOTE 17 - CONCENTRATIONS OF CREDIT RISK

Financial instruments that potentially subject the College to concentrations of credit risk consist principally of cash, investments and accounts receivable. 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. Student notes and receivables and other receivables are due from a variety of sources concentrated primarily in the Midwestern United States. Approximately 66% of the College's contribution revenue for the year ended May 31, 2008 was from two donors.

In addition, Waldorf'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 it were to occur, could have an adverse effect on the College's programs and activities.

NOTE 18 - SUPPLEMENTAL DISCLOSURE OF CASH FLOWS INFORMATION

	2008	2007
Supplemental disclosure of cash flow information		
Interest paid	$ 1,063,402	$ 1,307,726
Noncash investing and financing activities		
Debt retired through funds held by trustee		
Acquisition of property through conditional contribution		
Construction costs included in accounts payable		42,237
Proceeds of working capital loans deposited with trustee		950,000
Par amount of revenue bonds issued		$ 14,810,000
Underwriter's discount		(296,200)
Net original issue discount		(181,643)
Accrued interest		64,366
Net proceeds from bond issue		14,396,523
Less principal balance outstanding on defeased bonds		(13,475,849)
Less bond issue costs		(140,088)
Less bond proceeds deposited in debt service reserve funds		(1,091,862)
Transfer of debt service reserve funds from defeased bonds to irrevocable trusts with escrow agents		1,312,512
Subtotal		1,001,236
Less bond issue costs written off		494,794
Loss on refinancing		$ 1,496,030

NOTE 19 - SUBSEQUENT EVENT

Subsequent to May 31, 2008, the investment markets have experienced a significant decline in value. It is highly likely that the values of the University's investments have decreased by material amounts since May 31, 2008.

NOTE 20 - CONTINGENCY - GOING CONCERN

Several factors have created an uncertainty about the College's ability to continue as a going concern. As shown in the accompanying financial statements for the year ended May 31, 2008, the College had an accumulated unrestricted operating deficit of $5,414,000, and as of May 31, 2008, its outstanding current liabilities approximated $6,966,000 which was $4,051,000 in excess of current assets. Certain buildings have been pledged as security on the College's long-term debt. The College has been experiencing significant cash flow issues as well as declining enrollments. The College has an irrevocable letter of credit outstanding totaling $2,077,111 in favor of the U.S. Department of Education to participate in Title IV student financial aid programs only under a provisional certification (see note 16) and has pledged investments as security for the letter of credit. The College has also borrowed $2.3 million from its endowment funds to cover operating expenses (see Note 5). In addition, the College's cash, investments and other assets related to its restricted funds (excluding the endowment funds and deferred gift funds) were approximately $1 million less than the temporarily restricted net asset balance at May 31, 2008. As noted in Note 17, approximately 66% of the College's contribution revenues are from two donors. Without the continued support of these donors, the College may not be able to cover its operating expenses and other cash needs for fiscal 2009.

Management is working, along with the support and oversight of the Board of Trustees, on a recovery plan to review the College's staffing, internal control policies, and procedures and make appropriate changes to improve its financial performance for fiscal 2009 and beyond. Included in this plan are the following primary objectives:

- Maintain a balanced budget for 2009 and thereafter, through strict expense control and augmentation of gift and other revenues;
- Increase student retention and enrollment;
- Increase fund raising; and
- Pursue relationships with other educational entities.

The ability of the College to continue as a going concern is dependent on the results of this plan. The financial statements do not include any adjustments that might be necessary if the College is unable to continue as a going concern.

WALDORF COLLEGE

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Year Ended May 31, 2008

Federal Grantor/ Program or Cluster Title	Federal CFDA Number	Grant Number	Federal Expenditures
FEDERAL STUDENT AID - CLUSTER			
U.S. Department of Education direct programs			
Federal Pell grant program	84.063	P063P070139	$ 668,594
Academic competitiveness grant program	84.375	P375A070139	41,800
National science and mathematics access to retain talent grant program	84.376	P376S070139	2,000
Federal supplemental educational opportunity grant program	84.007	P007A071483	122,056
Federal work-study program	84.033	P033A071483	51,787
Federal Perkins loan program - outstanding loans	84.038	P038A071483	1,319,321
Federal Perkins loan program - other costs	84.038	P038A071483	28,704
Federal direct student loan programs	84.268	N/A	3,256,247
Total Federal Student Aid			5,490,509
OTHER PROGRAMS			
Corporation for National and Community Service direct program			
Retired and senior volunteer program	94.002	06SRNIA003	63,546
U.S. Department of Education direct program			
Strengthening institutions program	84.031A	P031A070112	362,961
Total Other Programs			426,507
TOTAL EXPENDITURES OF FEDERAL AWARDS			$ 5,917,016

See accompanying note to schedule of expenditures of federal awards.

NOTE TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
May 31, 2008

NOTE 1 - BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards includes federal grant activity for Waldorf College and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some of the amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

Virchow Krause & company

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

To the Board of Regents
Waldorf College
Forest City, Iowa

We have audited the financial statements of Waldorf College as of and for the year ended May 31, 2008 and have issued our report thereon dated February 27, 2009. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Waldorf College's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Waldorf College's internal control over financial reporting. Accordingly we do not express an opinion on the effectiveness of Waldorf College's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the institution's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the institution's financial statements that is more than inconsequential will not be prevented or detected by the institution's internal control. We consider the deficiencies described in the accompanying schedule of findings and questioned costs as items 2008-1 and 2008-2 to be a significant deficiencies in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the institution's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, of the significant deficiencies described above, we consider item 2008-1 to be a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Waldorf College's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed one instance of noncompliance or other matters that is required to be reported under *Government Auditing Standards* and which is described in the accompanying schedule of findings and questioned costs as item 2008-3.

Waldorf College's responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. We did not audit Waldorf College's responses and, accordingly, we express no opinion on them.

This report is intended solely for the information and use of management, the governing board, others within the institution, U.S. Department of Education, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Virchow Krause & Company LLP

Minneapolis, Minnesota
February 27, 2009

REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

To the Board of Regents
Waldorf College
Forest City, Iowa

Compliance

We have audited the compliance of Waldorf College with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to its major federal program for the year ended May 31, 2008. Waldorf College's major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to its major federal program is the responsibility of Waldorf College's management. Our responsibility is to express an opinion on Waldorf College's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations.* Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Waldorf College's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of Waldorf College's compliance with those requirements.

In our opinion, Waldorf College complied, in all material respects, with the requirements referred to above that are applicable to its major federal program for the year ended May 31, 2008.

Internal Control Over Compliance

The management of Waldorf College is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered Waldorf College's internal control over compliance with the requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Waldorf College's internal control over compliance.

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Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in the institution's internal control that might be significant deficiencies or material weaknesses as defined below. However, as discussed below, we identified a certain deficiency in internal control over compliance that we consider to be a significant deficiency.

A *control deficiency* in an institution's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the institution's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the institution's internal control. We consider the deficiency in internal control over compliance described in the accompanying schedule of findings and questioned costs as item 2008-1 to be a significant deficiency.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the institution's internal control. We consider the significant deficiency in internal control over compliance described in the accompanying schedule of findings and questioned costs as item 2008-1 to be a material weakness.

Waldorf College's response to the finding identified in our audit is described in the accompanying schedule of findings and questioned costs. We did not audit Waldorf College's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of management, the governing board, others within the institution, U.S. Department of Education, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Virchow Krause & Company, LLP

Minneapolis, Minnesota
February 27, 2009

SECTION I - SUMMARY OF INDEPENDENT AUDITORS' RESULTS

Financial Statements

Type of auditors' report issued:	Unqualified
Internal control over financial reporting:	
Material weakness(es) identified?	Yes
Significant deficiency(ies) identified that are not considered material weakness?	Yes
Noncompliance material to financial statements noted?	Yes

Federal Awards

Internal control over major programs:	
Material weakness(es) identified?	Yes
Significant deficiency(ies) identified that are not considered material weakness?	None reported
Type of auditors' report issued on compliance for major programs?	Unqualified
Any audit findings disclosed that are required to be reported in accordance with section 510(a) of OMB Circular A-133?	Yes
Identification of major programs:	

CFDA Number	Name of Federal Program or Cluster
	Federal Student Aid Cluster:
84.063	Federal Pell grant program
84.375	Academic competitiveness grant program
84.376	National science and mathematics access to retain talent grant program
84.007	Federal supplemental educational opportunity grant program
84.033	Federal work-study program
84.038	Federal Perkins loan program
84.268	Federal direct student loan programs

Dollar threshold used to distinguish between Type A and Type B programs	$300,000
Auditee qualified as low-risk auditee?	No

SECTION II - FINANCIAL STATEMENT FINDINGS

Finding 2008-1: Segregation of Duties

Criteria

An essential part of internal control is that procedures are properly segregated and the results of their performance be adequately reviewed. This is normally accomplished by: 1) No one person handling a transaction from beginning to end; and 2) Incompatible duties between functions are not handled by the same person. In addition, a review of these completed duties should be performed by an individual independent of those functions.

In addition, Title IV regulations (34 CFR 668.16(c)(1)) require that the College administer its federal programs with adequate checks and balances in its system of internal controls.

SECTION II - FINANCIAL STATEMENT FINDINGS (CONTINUED)

Finding 2008-1: Segregation of Duties (Continued)

Condition

The College operates its accounting and reporting functions with a minimal number of individuals, which precludes a proper segregation of duties.

However, the College has maintained its separation over the functions of awarding and disbursing federal financial aid related to its federal student aid programs.

Effect

The potential exists that an error could occur in the financial records or in the administration of a federal program and not be detected in within a timely period by employees in the normal course of performing their assigned functions.

Cause

The size of the business office does not allow for enough employees to adequately separate the various accounting functions.

Recommendation

Whenever possible, efforts should be made to segregate duties over areas that could produce material or significant errors within the financial statements, whether they are intentional or unintentional.

Management's Response

The College agrees with our comment. Waldorf operates with limited resources. As such, the staff of the business office is small. Given that reality, the College continues to take steps to ensure process integrity to the greatest extent possible which include: 1) The awarding and disbursing function of federal awards are separated; 2) Duties related to cash receipts are segregated; and 3) All general ledge entries are reviewed by an appropriate person other than the preparer.

Finding 2008-2: Adjusting Entries

Criteria

Management is responsible for controls over the year-end financial reporting process, including controls over procedures used to enter transaction totals in the general ledger, initiate, authorize, record and process journal entries into the general ledger, and record recurring and nonrecurring adjustments to the financial statements.

Condition

During the course of our audit, one adjusting entry and two passed adjustments were identified that, while not material, were significant to the financial reporting process.

Effect

The potential exists that an error could occur in the financial reporting process and not be detected in a timely manner.

Cause

In an effort to improve the year-end financial reporting process, management inadvertently over accrued certain liabilities related to payroll matters. This was partially attributable to the lack of segregation of duties noted in Finding 2008-1.

SECTION II - FINANCIAL STATEMENT FINDINGS (CONTINUED)

Finding 2008-2: Adjusting Entries (Continued)

Recommendation
We recommend that management design control policies and procedures to ensure year-end accruals are properly recorded in the financial statements.

Management Response
Management agrees with our comment and will review the College's procedures for recording accrued liabilities during the year-end financial reporting process.

Finding 2008-3: Endowment Funds Borrowing

Criteria
Permanently restricted net assets must be maintained in perpetuity by the College.

Condition
The College has borrowed all of its available unrestricted endowment funds for operating purposes and has borrowed from its permanently restricted endowment funds.

Effect
The endowment funds investments were $1.6 million less than the historic gift value of endowment funds as of May 31, 2008.

Cause
This is the result of current fund borrowing for operations in prior years, previous interest charges on the current fund indebtedness and investment losses.

Recommendation
The College should eliminate the interfund borrowing as part of its plan to improve the College's overall financial performance.

Management's Response
The College agrees with our recommendation and will take this into consideration in developing future operating budgets.

SECTION III - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

Finding 2008-1: Segregation of Duties

See Financial Statement Finding 2008-1.

All federal programs are affected by this finding.

WALDORF COLLEGE

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
Year Ended May 31, 2008

The previous audit of the Federal Award Programs was for the year ended May 31, 2007. The status of the finding related to the federal award programs noted during that audit is outlined below.

Finding 2007-1: Segregation of Duties

The College operates its accounting and reporting functions with a minimal number of individuals, which precludes a proper segregation of duties. However, the College has maintained its separation over the functions of awarding and disbursing federal financial aid related to its federal student aid programs.

Action Taken

A lack of segregation of duties continues to exist. See current year finding 2008-1.