BELOIT COLLEGE
Beloit, Wisconsin

FINANCIAL STATEMENTS

Including Independent Auditors' Report

May 31, 2010 and 2009

BELOIT COLLEGE

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BAKER TILLY

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INDEPENDENT AUDITORS' REPORT

To the Board of Trustees
Beloit College
Beloit, Wisconsin

We have audited the accompanying statement of financial position of Beloit College as of May 31, 2010 and the related statements of activities and cash flows for the year then ended. These financial statements are the responsibility of Beloit College's management. Our responsibility is to express an opinion on these financial statements based on our audits. The financial statements of Beloit College as of May 31, 2009 were audited by other auditors whose report dated on February 3, 2010 expressed an unqualified opinion on those financial statements. As discussed in Note 14 to the financial statements, Beloit College has restated its 2009 financial statements to correct net assets to include the Beloit College self-insured health plan. The other auditors reported on the financial statements before the correction of this error.

We also audited the adjustments described in Note 14 that were applied to restate the 2009 financial statements. In our opinion, such adjustments are appropriate and have been properly applied.

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 includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit 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 Beloit College as of May 31, 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.

As described in Note 1 to the financial statements, in fiscal year 2009, the College adopted authoritative guidance on Fair Value Measurements and Endowment Funds Net Asset Classification.

Baker Tilly Virchow Krause, LLP

Oak Brook, Illinois
October 25, 2010

BELOIT COLLEGE

STATEMENTS OF FINANCIAL POSITION
May 31, 2010 and 2009

ASSETS

		2010		2009 (as restated)
Cash and cash equivalents	$	18,838,282	$	11,528,368
Contributions receivable, net		14,695,298		11,740,197
Accounts receivable, net		26,561,349		2,821,545
Inventories		64,801		46,012
Prepaid expenses and other assets		131,929		339,638
Cash surrender value of life insurance		187,903		225,909
Student loans receivable, net		8,207,939		7,895,728
Investments		66,557,187		84,223,858
Restricted bond proceeds		2,985,068		3,083,525
Bond issuance costs, net		988,653		1,485,740
Original bond issue discount		360,882		-
Funds held in trust by others		531,901		447,708
Beneficial interest in perpetual trusts		2,278,995		2,071,544
Property, plant, and equipment, net		73,139,612		74,382,898
TOTAL ASSETS	**$**	**215,529,799**	**$**	**200,292,670**

LIABILITIES AND NET ASSETS

		2010		2009 (as restated)
LIABILITIES				
Accounts payable and other accrued expenses	$	4,403,219	$	5,979,057
Student deposits and other liabilities		443,181		482,945
Deferred tuition and fees		453,276		445,070
Beneficiary payable		56,276		54,290
Annuities payable		3,033,890		2,917,881
Deferred support under split interest agreements		136,121		156,574
Bond issue premium		116,327		-
Derivative liability		5,582,469		5,991,309
Long-term debt		58,640,000		56,205,000
Henry Strong Foundation advances refundable		95,455		79,406
U.S. government advances refundable		2,554,424		2,568,964
Funds held in custody for others		632,839		593,631
Total Liabilities		76,147,477		75,474,127
NET ASSETS				
Unrestricted		41,856,372		41,046,068
Temporarily restricted		26,263,299		13,956,702
Permanently restricted		71,262,651		69,815,773
Total Net Assets		139,382,322		124,818,543
TOTAL LIABILITIES AND NET ASSETS	**$**	**215,529,799**	**$**	**200,292,670**

See accompanying notes to financial statements.

BELOIT COLLEGE

STATEMENT OF ACTIVITIES
Year Ended May 31, 2010
(with comparative May 31, 2009 totals)

	2010				2009 (as restated)
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Total
REVENUES, GAINS, AND OTHER ADDITIONS					
Tuition and fees	$ 43,374,449	$ -	$ -	$ 43,374,449	$ 40,568,220
Less: Funded student financial assistance	(2,089,592)	-	-	(2,089,592)	(1,871,141)
Less: Unfunded student financial assistance	(18,968,308)	-	-	(18,968,308)	(17,132,245)
Net tuition and fees	22,316,549	-	-	22,316,549	21,564,834
Government grants	581,024	-	-	581,024	560,980
Government contracts	1,208,691	-	-	1,208,691	1,468,149
Contributions	4,604,897	9,691,850	994,424	15,291,171	11,195,154
Investment income	6,904,072	6,134,907	6,880	13,045,859	(34,156,384)
Other sources	593,590	-	6,965	600,555	726,321
Auxiliary enterprises	8,137,856	-	-	8,137,856	8,010,633
Change in value of split interest agreements	(29,076)	294,992	247,348	513,264	(1,430,907)
Change in value of beneficial interest in perpetual trust agreements	-	-	207,451	207,451	(617,976)
Loss on disposal of fixed assets	(148,717)	-	-	(148,717)	-
Other adjustments	-	(970,029)	18,588	(951,441)	(166,290)
Net asset reclassification	16,742	18,036	(34,778)	-	-
Net assets released from restrictions	7,974,502	(7,974,502)	-	-	-
Total Revenues, gains, and other additions	52,160,130	7,195,254	1,446,878	60,802,262	7,154,514
EXPENSES					
Instruction	21,491,548	-	-	21,491,548	22,721,347
Institutional support	7,785,798	-	-	7,785,798	8,014,939
Auxiliary enterprises	5,968,407	-	-	5,968,407	6,328,540
Student services	6,507,175	-	-	6,507,175	6,630,391
Academic support	3,821,972	-	-	3,821,972	4,326,111
Public service	558,283	-	-	558,283	684,217
Research	92,102			92,102	106,800
Scholarhips, grants, and prizes	13,198	-	-	13,198	25,426
Total expenses	46,238,483	-	-	46,238,483	48,837,771
Change in net assets before reclassification	5,921,647	7,195,254	1,446,878	14,563,779	(41,683,257)
Net asset reclassification due to a change in law	(5,111,343)	5,111,343	-	-	-
Change in Net Assets	810,304	12,306,597	1,446,878	14,563,779	(41,683,257)
NET ASSETS - Beginning of Year, as restated	41,046,068	13,956,702	69,815,773	124,818,543	166,501,800
NET ASSETS - END OF YEAR	$ 41,856,372	$ 26,263,299	$ 71,262,651	$ 139,382,322	$ 124,818,543

See accompanying notes to financial statements.

BELOIT COLLEGE

STATEMENT OF ACTIVITIES
Year Ended May 31, 2009

	2009 (as restated)			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
REVENUES, GAINS, AND OTHER ADDITIONS				
Tuition and fees	$ 40,568,220	$ -	$ -	$ 40,568,220
Less: Funded student financial assistance	(1,871,141)	-	-	(1,871,141)
Less: Unfunded student financial assistance	(17,132,245)	-	-	(17,132,245)
Net tuition and fees	21,564,834	-	-	21,564,834
Government grants	560,980	-	-	560,980
Government contracts	1,468,149	-	-	1,468,149
Contributions	2,713,737	3,863,439	4,617,978	11,195,154
Investment income (loss)	(35,273,465)	1,133,690	(16,609)	(34,156,384)
Other sources	717,652	6,080	2,589	726,321
Auxiliary enterprises	8,010,633	-	-	8,010,633
Change in value of split interest agreements	(61,597)	(469,892)	(899,418)	(1,430,907)
Change in value of beneficial interest in perpetual trust agreements	-	-	(617,976)	(617,976)
Other adjustments	-	(154,519)	(11,771)	(166,290)
Net asset reclassification	(92,893)	(1,120,063)	1,212,956	-
Net assets released from restrictions	4,385,738	(4,385,738)	-	-
Total Revenues, gains, and other additions	3,993,768	(1,127,003)	4,287,749	7,154,514
EXPENSES				
Instruction	22,721,347	-	-	22,721,347
Institutional support	8,014,939	-	-	8,014,939
Auxiliary enterprises	6,328,540	-	-	6,328,540
Student services	6,630,391	-	-	6,630,391
Academic support	4,326,111	-	-	4,326,111
Public service	684,217	-	-	684,217
Research	106,800			106,800
Scholarhips, grants, and prizes	25,426	-	-	25,426
Total expenses	48,837,771	-	-	48,837,771
Change in Net Assets	(44,844,003)	(1,127,003)	4,287,749	(41,683,257)
NET ASSETS - Beginning of Year, as restated	85,890,071	15,083,705	65,528,024	166,501,800
NET ASSETS - END OF YEAR	$ 41,046,068	$ 13,956,702	$ 69,815,773	$ 124,818,543

See accompanying notes to financial statements.

BELOIT COLLEGE

STATEMENTS OF CASH FLOWS
Years Ended May 31, 2010 and 2009

	2010	2009 (as restated)
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	$ 14,563,779	$ (41,683,257)
Adjustments to reconcile change in net assets to net cash flows from operating activities		
Depreciation	3,284,074	3,235,386
Amortization of deferred bond issuance costs	1,488,668	50,832
Amortization of bond premium	(334)	-
Amortization of bond discount	1,037	-
Increase in the allowance for doubtful accounts	28,030	-
Increase in allowance for uncollectible loans	37,440	52,027
Increase (decrease) in allowance for uncollectible contributions receivable	(185,882)	180,982
Increase in fair value of derivative liability	1,255,029	3,531,493
Purchase of interest rate swap agreement	4,327,440	-
Contributed investments	(1,216,953)	(2,897,591)
Contributions restricted for long-term investment	(994,424)	(4,617,978)
Interest, dividends, and other net gains/losses restricted for long term investment	(969,848)	1,543,185
Decrease (increase) in value of split-interest agreements and beneficial interests in perpetual trusts	(814,785)	1,819,949
Net unrealized (gain) loss on long-term investments	(13,022,015)	29,685,851
Net realized (gain) loss on long-term investments	946,004	5,675,789
Loss on dispositions of property, plant and equipment	148,717	-
(Increases) decreases in		
Contributions receivable	(2,769,219)	561,865
Accounts receivable	(23,767,834)	(1,233,234)
Inventories	(18,789)	(11,608)
Prepaid expenses and other assets	207,709	(89,017)
Beneficial interest in perpetual trusts	(207,451)	617,976
Funds held in trust by others	(84,193)	35,967
Increases (decreases) in		
Accounts payable and other accrued liabilities	(1,829,469)	(663,363)
Student deposits and other liabilities	(39,764)	117,163
Deferred tuition and fees	8,206	(75,895)
Funds held in custody for others	39,208	(353,161)
Beneficiary payable	1,986	(19,601)
Annuities payable	116,009	(734,618)
Deferred support under split-interest agreements	(20,453)	(21,399)
Net Cash Flows from Operating Activities	(19,488,077)	(5,292,257)
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of property, plant and equipment	(1,935,874)	(11,085,202)
Purchases of investments	(37,420,886)	(102,083,179)
Proceeds from sales of investments	69,195,306	114,096,222
Disbursements of loans to students	(1,192,863)	(977,778)
Repayments of loans by students	843,212	527,462
Decrease in the cash surrender value of life insurance	38,006	46,150
Capitalization of interest costs, net of income from bond proceeds	-	504,143
Decrease in restricted bond proceeds	98,457	8,571,269
Net Cash Flows from Investing Activities	29,625,358	9,599,087

See accompanying notes to financial statements.

BELOIT COLLEGE

STATEMENTS OF CASH FLOWS
Years Ended May 31, 2010 and 2009

	2010	2009 (as restated)
CASH FLOWS FROM FINANCING ACTIVITIES		
Principal repayments of indebtedness	-	(450,000)
Proceeds from issuance of long-term debt	2,189,742	-
Repayment of interest rate swap agreement	(5,991,309)	-
Principal repayments of line of credit	-	(1,500,000)
Proceeds from issuance of line of credit	-	1,500,000
Cash payments for bond issuance costs	(991,581)	-
Contributions received for investment in endowment	994,424	4,617,978
Interest, dividends and other gains restricted for reinvestment	969,848	(1,543,185)
Increase (decrease) in U.S. government grants refundable, net	(14,540)	19,249
Increase in Henry Strong Foundation advances refundable, net	16,049	3,616
Net Cash Flows from Financing Activities	(2,827,367)	2,647,658
Net Change in Cash and Cash Equivalents	7,309,914	6,954,488
CASH AND CASH EQUIVALENTS - Beginning of Year	11,528,368	4,573,880
CASH AND CASH EQUIVALENTS - END OF YEAR	$ 18,838,282	$ 11,528,368
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Cash paid during the year for interest on long-term debt	$ 1,545,410	$ 1,682,413
NONCASH INVESTING AND FINANCING ACTIVITIES		
Property, plant and equipment acquired through accounts payable	253,631	-
Bond principal refinanced	56,205,000	-

See accompanying notes to financial statements.

NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES

Beloit College (the College), is a four-year, independent, residential liberal arts college in Beloit, Wisconsin, founded in 1846 by a group of Yale graduates. The College is a member of the Associated College of the Midwest (ACM). The College has more than fifty fields of study in nineteen departments and offers several degrees and majors including: Bachelor of Arts, Bachelor of Science, cooperative programs in business, engineering, forestry and social work, plus five pre-professional programs. The accounting policies of the 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:

Net Asset Classifications: For the purposes of financial reporting, the College classifies resources into three net asset categories pursuant to any donor-imposed restrictions and applicable law. Accordingly, the net assets of the College are classified in the accompanying financial statements in the categories that follow:

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 from sources other than contributions are generally reported as increases in unrestricted net assets. Expenses are reported as decreases in unrestricted net assets. Income earned on donor restricted funds is initially classified as temporarily restricted net assets and is reclassified as unrestricted net assets when expenses are incurred for their intended purpose. ~~Investment income received with donor-imposed restrictions that are met in the same year as received is reported as revenues of the unrestricted net asset class.~~

Contributions, including unconditional promises to give, are recognized as revenues in the period received and are reported as increases in the appropriate categories of net assets in accordance with donor restrictions. Expirations of temporary restrictions on net assets (i.e., the donor-stipulated purpose has been fulfilled and/or the stipulated time period has elapsed) are reported as reclassifications between the applicable classes of net assets. Contributions received with donor-imposed restrictions that are met in the same year as received are reported as revenues of the unrestricted net asset class. Conditional promises to give are not recognized until they become unconditional, that is, when the conditions on which they depend are substantially met.

Contributions of property and equipment without donor stipulations concerning the use of such long-lived assets are reported as unrestricted revenues. Contributions of cash or other assets to be used to acquire property and equipment are reported as temporarily restricted revenues; the restrictions are considered to be released at the time such long-lived assets are placed in service.

NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES (cont.)

In the absence of donor stipulations or law to the contrary, losses on the investments of a donor-restricted endowment fund reduce temporarily restricted net assets to the extent that donor-imposed temporary restrictions on net appreciation of the fund have not been met before the loss occurs. Any remaining loss reduces unrestricted net assets. If losses reduce the assets of a donor-restricted endowment fund below the level required by the donor stipulations or law, gains that restore the fair value of the assets of the endowment fund to the required level are classified as increases in unrestricted net assets.

Losses on investments of endowment funds created by a board designation of unrestricted funds are classified as reductions in unrestricted net assets.

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

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

Cash and Cash Equivalents - Cash and cash equivalents represent demand deposits and other investments with purchased maturities of ninety days or less.

Restricted bond proceeds - Restricted bond proceeds represent funds restricted for use as required by various debt agreements. These funds are generally invested in short-term securities and will be used for debt service, capital projects, and/or repair and replacement of specific College debt-financed properties.

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 considering the College's previous loss history and specific account circumstances. 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.

NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES (cont.)

Inventories - Inventories are valued at lower of cost or market determined by the first-in, first-out method.

Property, Plant, and Equipment - Physical plant and equipment are stated at cost at the date of acquisition or fair value at the date of donation in the case of gifts. Depreciation of property and equipment is provided on the straight-line method over the estimated useful lives of the respective assets. The College uses the following depreciable lives:

- Buildings – 40 years
- Dormitory and commons – 30 years
- Residential rental properties – 30 years
- Building improvements – 20 years
- Leasehold improvements – 10 years
- Land improvements – 20 years
- Works of art – 20 years
- Equipment and furnishings – 5 to 10 years

The College capitalizes equipment additions of $5,000 or more. Museum collections (historical treasures and similar treasures held as part of museum collections) that were acquired through purchases or contributions since the College's inception are not reflected in the statements of financial position. Normal repairs and maintenance expenses are charged to operations as incurred.

Contributions Receivable - Unconditional promises to give (pledges) that are expected to be collected within one year are recorded at net realizable value. Unconditional promises to give that are expected to be collected in future years are recorded at the present value of their estimated future cash flows. The discounts on those amounts are computed using risk-free interest rates applicable to the years in which the promises are received. Amortization of the discounts is included in contribution revenue. Allowance is made for doubtful contributions receivable based upon management's judgment and analysis of the credit worthiness of the donors, past collection experience and other relevant factors. Promises to give are written-off when they become uncollectible. The policy for determining past due accounts is assessed on an individual basis.

Bond Issuance Costs - Bond issuance costs for the Series 2010 bonds are being deferred and amortized over the life of the debt.

NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES (cont.)

Split Interest Agreements with Donors - The College's split interest agreements with donors consist of charitable remainder annuity trusts, charitable remainder unitrust contracts, pooled life income funds, charitable annuity lead trusts and charitable gift annuities for which the College is either the remainder beneficiary or both the trustee and remainder beneficiary.

Assets held under these agreements for which the College serves as trustee are included in investments. In addition, the present value of the estimated future payments to be made to the donors and/or other beneficiaries is included in liabilities. The liabilities are adjusted during the term of the trusts for changes in the value of the assets, accretion of the discount and other changes in the estimates of future benefits. Such adjustments are included in change in value of split-interest agreements in the statement of changes in net assets.

Assets held in trust for which the College does not serve as trustee are not reported as investments in the financial statements. However, contribution revenue and a receivable are recorded at the date the trusts are established for the present value of estimated future payments to be received.

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. At May 31, 2010 and 2009, the asset retirement obligations are estimated to be approximately $0 and $60,000, respectively. This obligation has been included in student deposits and other liabilities within the Statement of Financial Position.

The estimate of the losses that are probable from environmental remediation liabilities for asbestos removal was calculated using the expected cash flow approach based on an inventory of the College's long-lived assets combined with an estimate of the current market prices to remove asbestos. 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.

Beneficial Interest in Perpetual Trusts - The College is an income beneficiary of various irrevocable trusts. The College has recognized its interest in the estimated future cash flows as permanently restricted net assets based on the fair value of the assets held in the trusts. Changes in the fair value of the trusts are recognized as permanently restricted gains and losses.

NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES (cont.)

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. It is also exempt from state income tax. However, any unrelated business income may be subject to taxation.

In accordance with the accounting standard on *Accounting for Uncertainty in Income Taxes*, the College addresses the determination of whether tax benefits claimed on a tax return should be recorded in the financial statements. Under this guidance, the College may recognize the tax benefit from an uncertain tax position only if it is more likely than not that the tax position will be sustained on examination by taxing authorities, based on the technical merit of the position. Examples of tax positions include the tax-exempt status of the College and various positions related to the potential sources of unrelated business taxable income. There were no significant unrecognized tax benefits identified or recorded as liabilities during fiscal year 2010. Open tax years subject to examination by the U.S. taxing authorities are for the years 2007 to 2010, which statutes expire in 2010 to 2012, respectively. Open tax years subject to examination by the State taxing authorities are for the years 2006 to 2010, which statutes expire in 2010 to 2013, respectively.

Derivative Liability - The College uses interest rate exchange agreements as part of its risk management strategy to manage exposure to fluctuations in interest rates and to manage the overall cost of its debt. The interest rate exchange agreements were not entered into for trading or speculative purposes. The interest rate exchange agreements are recognized as either assets or liabilities on the statement of financial position and are measured at fair value. Interest rate exchange agreements are often held for the life of the strategy, but may reflect significant unrealized gains or losses depending on the change in value since the inception of the contract. All unrealized and realized gains and losses from the interest rate exchange agreements are reflected in the statements of activities. Please see Note 10.

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

Advertising Costs - The College follows the policy of charging the cost of advertising to expense as incurred. Advertising expense for the years ended May 31, 2010 and 2009 approximated $25,000 and $35,000, respectively.

Fundraising Expenses - The College follows the policy of expensing the costs of fundraising when incurred. Fundraising expense for the years ended May 31, 2010 and 2009 approximated $1,493,000 and $1,778,000, respectively.

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

NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES (cont.)

Henry Strong Foundation Advances Refundable – Funds provided by the Henry Strong Foundation Loan Fund are loaned to qualified students and may be reloaned after collection. These funds are ultimately refundable to the Henry Strong Foundation Loan Fund.

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.

Reclassifications - Certain reclassifications have been made to the 2009 financial statements to conform to the 2010 presentation.

Fair Value of Financial Instruments - The carrying amounts of cash and cash equivalents, accounts receivable and other receivables, accounts payable and deposits held in custody for others 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 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.

The fair values for investments and other financial instruments recorded at fair value on a recurring basis are included in Note 3.

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.

NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES (cont.)

Recent Accounting Pronouncements - The College adopted the provisions of Financial Accounting Standards Board (FASB) ASC Topics 958-205-45, 958-205-50 and 958-205-55 (formerly FASB Staff Position FSP 117-1, *Endowments of Not-for-Profit Organizations: Net Asset Classifications of Funds Subject to an Enacted Version of the Uniform Prudent Management of Institutional Funds Act, and Enhanced Disclosures)* for the year ended May 31, 2009. The Topics provide 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). The Topics also require enhanced disclosures for all not-for-profit organizations, not just those subject to UPMIFA. The State of Wisconsin adopted UPMIFA effective August 4, 2009. As a result of adopting the provisions of the Topics, the College reclassified $5,111,343 of unrestricted net assets into temporarily restricted net assets. This represented the amount of accumulated net gains in existence at June 1, 2009 that had not yet been appropriated for spending by the College's governing board.

The College adopted the provisions of FASB ASC Topic 820 (formerly FAS No. 157, *Fair Value Measurements and Disclosures)* effective June 1, 2008. The Topic defines fair value, establishes a framework for measuring fair value and requires enhanced disclosures about fair value measures that are required under other accounting pronouncements, but did not change existing guidance as to whether or not a financial instrument is carried at fair value.

The College's adoption of ASC Topic 820 in fiscal year 2010, with respect to financial assets and liabilities measured at fair value on a recurring basis, resulted in increased disclosures in the financial statements about fair value measurements. The College's adoption in fiscal year 2010 of the provisions of this Topic with respect to nonrecurring fair value measurements of nonfinancial assets and liabilities, did not have a material impact on the College's financial statements.

Additionally, from time to time, the College may be required to measure certain assets and liabilities at fair value on a nonrecurring basis in accordance with U.S. generally accepted accounting principles. These adjustments to fair value would usually result from the application of the lower-of-cost-or-market accounting or write-down of individual assets. The College did not measure any assets or liabilities at fair value on a nonrecurring basis during the years ended May 31, 2010 or 2009.

The College also adopted the provisions of FASB ASC Topic 825 (formerly FAS No. 159, *The Fair Value Option for Financial Assets and Liabilities, including an amendment of FASB Statement No. 115*) effective June 1, 2008. ASC Topic 825 provides, among other things, an option to elect fair value as an alternative measurement for selected financial assets and liabilities not previously recorded at fair value. The College did not elect fair value accounting for any assets or liabilities that were not currently required to be measured at fair value.

In September 2010, the FASB issued ASU No. 2010-12, *Investment in Certain Entities That Calculate Net Asset Value per Share* (ASU 2010-12). ASU 2010-12 (formerly FAS No. 157-g) amends former FASB Statement No. 157, *Fair Value Measurements,* adds disclosures, and provides guidance for estimating fair value of investments in investment companies that calculate net asset value per share, allowing the Net Asset Value per Share (NAV) to be used as a practical expedient for fair value where investment companies follow the American Institute of Certified Public Accountants (AICPA) Guide in arriving at their reported NAV. The College adopted ASU 2010-12 effective June 1, 2009. See Note 3 for these additional disclosures.

NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES (cont.)

Recent Accounting Pronouncements (cont.)

In March 2009, the FASB issued ASC Topic 815-10-50 (formerly FAS No. 161, *Disclosures about Derivative Instruments and Hedging Activities - an amendment of FASB Statement No. 133).* This guidance requires enhanced disclosures to provide additional information regarding the accounting treatment for derivatives and hedging activities, the reasons the College invests using derivative instruments and the effect derivatives have on the College's financial statements. It also requires qualitative disclosures about the objectives and strategies for using derivative instruments, quantitative disclosures about the fair value of, and gains and losses on, derivative instruments, as well as disclosures about credit-risk related contingent features in derivative agreements. The College adopted ASC 815-10-50 effective June 1, 2009. See Note 10 for these additional disclosures.

In January 2010, the FASB issued ASU No. 2010-06, *Improving Disclosures about Fair Value Measurements*. This amends ASC 820 (formerly FAS 157-4) to require additional disclosures. The guidance requires entities to disclose transfers of assets in and out of Levels 1 and 2 of the fair value hierarchy, and the reasons for those transfers. ASU 2010-06 is effective for fiscal year 2011. In addition, the guidance requires separate presentation of purchases and sales in the Level 3 asset reconciliation; which is effective for fiscal year 2012. The adoption of this guidance is not expected to have a material impact on the College's financial statements.

NOTE 2 – CONCENTRATION OF CREDIT RISK

Financial instruments that potentially subject the College to concentrations of credit risk consist principally of cash, investments, and accounts receivable. The College places substantially all of its cash and liquid investments with a variety of financial institutions and limits the amount of credit exposure to any one financial institution; however, cash balances may periodically exceed federally insured limits. Marketable securities, consisting of both debt and equity instruments, are generally placed in a variety of managed funds administered by different investment managers in order to limit credit risk. Student 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 3 – FAIR VALUE MEASUREMENTS

The College follows the FASB guidance on fair value measurements. Fair value is defined in the guidance as the exchange price that would be received to sell an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the assets or liability in an orderly transaction between market participants at the measurement date. Under this guidance, a three-level hierarchy is used for fair value measurements which is based on the transparency of information, such as the pricing source, used in the valuation of an asset or liability as of the measurement date. The three levels are defined as follows:

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

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

Level 3 - Inputs are unobservable for the asset or liability. Unobservable inputs reflect the College'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.

NOTE 3 – FAIR VALUE MEASUREMENTS (cont.)

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

	Total	Level 1	Level 2	Level 3
ASSETS				
Money market funds	$ 17,539,613	$	$ 17,539,613	$ -
Government bonds	731,880	-	731,880	-
Common stock	17,944	17,944	-	-
Mutual funds – bonds	3,167,354	3,167,354	-	-
Mutual funds – equities	43,528,323	5,703,948	37,824,375	-
Mutual funds – real estate	48,411	48,411	-	-
Real estate investment	12,900	-	-	12,900
Venture capital limited partnerships	1,756	-	-	1,756
Annuity contracts	548,533	-	-	548,533
Limited partnership	237,657	-	-	237,657
Other investment	106	-	-	106
Alternative investments				
Private equity funds	722,710	-	-	722,710
Beneficial interest in perpetual trusts	2,278,995	-	-	2,278,995
Funds held in trust by others	531,901	-	-	531,901
Total	$ 69,368,083	$ 8,937,657	$ 56,095,868	$ 4,334,558
LIABILITIES				
Derivative liability	$ 5,582,469	$ -	$ 5,582,469	$ -

NOTE 3 – Fair Value Measurements (cont.)

The following table summarizes financial instruments measured at fair value on a recurring basis by classification within the fair value hierarchy as of May 31, 2009:

	Total	Level 1	Level 2	Level 3
ASSETS				
Money market funds	$ 11,018,347	$ -	$ 11,018,347	$ -
Government bonds	339,215	-	339,215	-
Corporate bonds	10,044	-	10,044	-
Common stock	10,372,858	10,372,858	-	-
Mutual funds – bonds	3,496,616	3,496,616	-	-
Mutual funds – equities	58,074,131	6,833,259	51,240,872	-
Mutual funds – real estate	18,307	18,307	-	-
Real estate investment	12,900	-	-	12,900
Venture capital limited partnerships	1,756	-	-	1,756
Annuity contracts	523,670	-	-	523,670
Limited partnerships	237,657	-	-	237,657
Other investment	106	-	-	106
Alternative investments				
Private equity funds	118,251	-	-	118,251
Beneficial interest in perpetual trusts	2,071,544	-	-	2,071,544
Funds held in trust by others	447,708	-	-	447,708
Total	$ 86,743,110	$ 20,721,040	$ 62,608,478	$ 3,413,592
LIABILITIES				
Derivative liability	$ 5,991,309	$ -	$ 5,991,309	$ -

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

Money market funds - The fair value of money market funds, is classified as Level 2 as these funds are not traded on a regular basis.

Government and corporate bonds – Investments in government and corporate bonds are classified as Level 2 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.

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

Mutual funds (bond, equity, and real estate funds) - Mutual funds are classified as Level 1 if they are traded in an active market for which closing prices are readily available. Mutual funds are classified as Level 2 if 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.

NOTE 3 – FAIR VALUE MEASUREMENTS (cont.)

Real estate, venture capital limited partnerships and other investments – The fair value of these investments are classified as Level 3 as the valuation is based on significant unobservable inputs. Valued at cost, which approximates fair value.

Annuity Contracts – The fair value of annuity contracts is classified as Level 3 as the fair value is based on a combination of level 2 inputs (interest rate, individual's age, payment and term) and significant unobservable inputs (individual or specific estimates of cash flows).

Limited partnership – The investment in the limited partnership represents an investment in a local business and is classified as level 3 as the valuation is based on significant unobservable inputs. The investment is currently valued at cost, which approximates fair value.

Alternative investments - Investments in private equity 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 May 31.

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

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

Derivative liability – The College's derivative liability is classified as Level 2 as the fair value is based on observable inputs to a valuation model (interest rates, credit spreads, etc.) which take into account the present value of the estimated future cash flows and credit valuation adjustments.

While the College believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different estimate of fair value at the reporting date.

NOTE 3 – FAIR VALUE MEASUREMENTS (cont.)

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

	Balances May 31, 2009	Net realized and unrealized gains (losses) included in change in net assets	Purchases, sales, issuances and settlement, net	Net transfers in (out) of Level 3	Balances May 31, 2010
ASSETS					
Annuity contracts	$ 523,670	$ 24,863	$ -	$ -	$ 548,533
Limited partnerships	237,657	-	-	-	237,657
Real estate investment	12,900	-	-	-	12,900
Venture capital limited partnership	1,756	-	-	-	1,756
Other investments	106	-	-	-	106
Alternative investments					
Private equity funds	118,251	(16,522)	442,682	178,299	722,710
Beneficial interest in perpetual trusts	2,071,544	207,451	-	-	2,278,995
Funds held in trust by others	447,708	84,193	-	-	531,901
Total	$ 3,413,592	$ 299,986	$ 442,682	$ 178,299	$ 4,334,558

The amount of total gains or losses for the period included in change in net assets attributable to the change in unrealized gains or losses relating to financial instruments still held at May 31, 2010.	$ 299,986

NOTE 3 – FAIR VALUE MEASUREMENTS (cont.)

The following table presents a reconciliation of financial instruments measured at fair value on a recurring basis using significant unobservable inputs (level 3) for the year ended May 31, 2009:

	Balances May 31, 2008	Net realized and unrealized gains (losses) included in change in net assets	Purchases, sales, issuances and settlement, net	Net transfers in (out) of Level 3	Balances May 31, 2009
ASSETS					
Annuity contracts	$ 495,025	$ -	$ 28,645	$ -	$ 523,670
Limited partnerships	237,657	-	-	-	237,657
Real estate investment	12,900	-	-	-	12,900
Venture capital limited partnership	1,756	-	-	-	1,756
Other investments	106	-	-	-	106
Alternative investments Private equity funds	-	21,725	96,526	-	118,251
Beneficial interest in perpetual trusts	2,689,520	(617,976)	-	-	2,071,544
Funds held in trust by others	483,676	(35,968)	-	-	447,708
Total	$ 3,920,640	$ (632,219)	$ 125,171	$ -	$ 3,413,592

The amount of total gains or losses for the period included in change in net assets attributable to the change in unrealized gains or losses relating to financial instruments still held at May 31, 2009.	$ (626,261)

NOTE 3 – FAIR VALUE MEASUREMENTS (cont.)

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

The following table lists the investments in alternative investments by major category:

	Private Equity
Fair value, May 31, 2010	$251,410
Significant Investment Strategy	Equity funds
Remaining Life	10 years
Dollar amount of unfunded commitments	$4,675,000
Timing to Draw Down Commitments	Not defined
Redemption Terms	N.A.
Redemption Restrictions	N.A
Redemption Restrictions in Place at Year End	N.A

NOTE 4 – CONTRIBUTIONS RECEIVABLE

Contributions receivable as of May 31, 2010 and 2009 are composed of and are to be used for the following:

	2010	2009
Capital funds	$ 10,529,484	$ 4,939,662
Operations	1,187,297	1,609,610
Endowment	2,906,633	4,612,797
Scholarships and programs	688,065	2,052,837
Gross contributions receivable	15,311,479	13,214,906
Less: Discount	(228,671)	(901,317)
Less: Allowance for uncollectible contributions	(387,510)	(573,392)
Net Contributions Receivable	$ 14,695,298	$ 11,740,197
Less than one year	$ 11,047,098	$ 3,933,721
One to five years	4,163,565	5,283,095
More than five years	100,816	3,998,090
Totals	$ 15,311,479	$ 13,214,906

Contributions have been discounted using a rate ranging from 0.55% to 3.03%. As of May 31, 2010 and 2009, the College had approximately $2,518,000 and $5,049,000, respectively, of contributions receivable from board members.

NOTE 5 – ACCOUNTS RECEIVABLE

Accounts receivable consists of the following at May 31:

	2010	2009
Tuition and fees	$ 145,584	$ 116,145
Government grants and contracts receivable	351,663	808,677
Accrued interest and pending investment trades	25,984,209	47,316
Other	146,172	1,887,656
Gross accounts receivable	26,627,628	2,859,794
Less: Allowance for doubtful accounts	(66,279)	(38,249)
Net accounts receivable	$ 26,561,349	$ 2,821,545

NOTE 6 – STUDENT LOANS RECEIVABLE

The following schedule summarizes the student loans receivable by program at May 31:

	2010	2009
Federal Perkins Loan Program	$ 2,898,960	$ 2,917,597
Beloit College	5,689,245	5,320,957
Gross student loans receivable	8,588,205	8,238,554
Less: Allowance for uncollectible loans	(380,266)	(342,826)
Net Student Loans Receivable	$ 8,207,939	$ 7,895,728

NOTE 7 – INVESTMENTS

The following summarizes the College's investments at May 31, 2010 and 2009:

	2010	2009
Money market funds	$ 17,539,613	$ 11,018,347
Government bonds	731,880	339,215
Corporate bonds	-	10,044
Bond mutual funds	3,167,354	3,496,616
Stock mutual funds	43,528,323	58,074,131
Real estate mutual funds	48,411	18,307
Common stock	17,944	10,372,858
Alternative investments		
Private equity funds	722,710	118,251
Real estate	12,900	12,900
Venture capital limited partnerships	1,756	1,756
Other	786,296	761,433
Total Investments	$ 66,557,187	$ 84,223,858

The estimated fair value of certain alternative investments is based on valuations provided by external investment managers as of May 31. The College believes the carrying amounts of these investments are a reasonable estimate of fair value. Because these investments are not readily marketable, their estimated fair value is subject to uncertainty and, therefore, may differ from the value that would have been used had a ready market for such investments existed. The amount of investment income and unrealized gains (losses) from these investments totaled $(16,522) and $21,725 for the years ended May 31, 2010 and 2009, respectively, and are included in the following gains (losses) on investments.

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 changes could materially affect the amounts reported in the financial statements.

NOTE 7 – INVESTMENTS (cont.)

Investment income (loss) for the years ended May 31, 2010 and 2009 consists of the following:

	2010	2009
Interest and dividends	$ 969,848	$ 1,185,255
Realized gains (losses) on investments	(946,004)	(5,656,537)
Unrealized gains (losses) on investments	13,022,015	(29,685,102)
Totals	$ 13,045,859	$ (34,156,384)

The College paid investment trustee and management fees of approximately $502,000 and $515,000 for the years ended May 31, 2010 and 2009, respectively.

NOTE 8 – PROPERTY, PLANT, AND EQUIPMENT

A summary of property, plant, and equipment as of May 31, 2010 and 2009 is as follows:

	2010	2009
Leasehold improvements	$ 75,744	$ 75,744
Land and land improvements	5,485,625	5,468,048
Buildings	72,329,424	70,743,757
Building improvements	4,897,951	4,889,775
Equipment and furnishings	8,887,036	9,429,380
Dormitory and commons	26,671,312	26,671,312
Residential rental properties	891,740	891,740
Works of art	722,579	722,579
Construction in process	215,189	-
	120,176,600	118,892,332
Less: Accumulated depreciation	(47,036,988)	(44,509,434)
Net Property, Plant, and Equipment	$ 73,139,612	$ 74,382,898

Depreciation expense of $3,284,000 and $3,235,000 was recorded for the years ended May 31, 2010 and 2009, respectively.

NOTE 9 – LONG-TERM OBLIGATIONS

BONDS PAYABLE

Bonds payable at May 31, 2010 and 2009 consist of the following:

Description	Interest Rate	Due Date	2010	2009
Wisconsin Health and Education Facilities Authority, Revenue Bonds, Series 2007	Variable	Interest payable monthly, annual principal installments due on June 1, beginning in fiscal year 2009 through 2037 in amounts ranging from $250,000 to $5,025,000	$ -	$ 56,005,000
Wisconsin Health and Education Facilities Authority, Revenue Bonds, Series 2010A	3.5% to 5.25%	Interest payable semiannually, annual principal installments are due on June 1, beginning in fiscal year 2013 through 2040 in amounts ranging from $100,000 to $4,300,000	28,640,000	-
Wisconsin Health and Education Facilities Authority, Revenue Bonds, Series 2010B	Variable	Interest payable semiannually, annual principal installments are due on June 1, beginning in fiscal year 2013 through 2038 in amounts ranging from $100,000 to $2,290,000	30,000,000	-
Term Note	6.35%	Interest payable quarterly, annual principal installments of $200,000 due on January 2, beginning in fiscal year 2007 through 2010	-	200,000
Totals			$ 58,640,000	$ 56,205,000

The Series 2010A and Series 2010B bonds are collateralized by a JPMorgan Chase ("the Bank") irrevocable letter of credit in the amount of $30,345,206. The letter of credit will terminate on April 28, 2013, but the College may request an extension. The bonds are also secured by a mortgage on the property and buildings of the College campus.

In order to manage its interest rate exposure, the College entered into an interest rate exchange agreement on a portion of the Series 2007, variable rate bonds. This interest rate exchange agreement was terminated upon refunding of the Series 2007 Bonds with the Series 2010A and Series 2010B bonds. The College also entered into an interest rate exchange agreement on a portion of the Series 2010B, variable rate bonds. The interest rate exchange agreement is disclosed in Note 10.

NOTE 9 – LONG-TERM OBLIGATIONS (cont.)

The College is required to comply with certain financial covenants. For the 2010 bond issues, the College must maintain a debt service coverage ratio of greater than 1.1 to 1; a funded debt to sum of funded debt plus net assets ratio not greater than 0.40 to 1.0; and an amount of unrestricted cash and investments plus temporarily restricted pledge receivables plus unrestricted pledge receivables of not less than $35,000,000, which shall increase by $5,000,000 on November 30, 2011 and on November 2012, respectively. As of June 30, 2010, the College was in compliance with these covenants.

Future principal payments on the bonds payable as of May 31, 2010 are due as follows:

Years Ending May 31,	
2011	$ -
2012	-
2013	200,000
2014	420,000
2015	660,000
Thereafter	57,360,000
Total	$ 58,640,000

Interest expense on all long-term debt, including expense under the interest expense under the interest rate swap agreement was $1,545,000 and $1,620,000 for the years ended May 31, 2010 and 2009, respectively, net of capitalized interest costs of $0 in fiscal year 2010 and $288,000 in fiscal year 2009.

NOTE 10 - DERIVATIVE INSTRUMENTS

The College uses interest rate exchange agreements as part of its risk management strategy to manage exposure to fluctuations in interest rates and to manage the overall cost of its debt. Interest rate exchange agreements are used to manage identified and approved exposures and are not used for speculative purposes. The interest rate exchange agreements are recognized as either assets or liabilities on the statements of financial position and are measured at fair value. Interest rate exchange agreements are often held for the life of the strategy, but may reflect significant interim unrealized gains or losses depending on the change in value since the inception of the contract. All unrealized and realized gains and losses from the interest rate exchange agreements are reflected in the statements of activities.

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

In fiscal 2010, the College paid $1,224,735 more than it received in interest under the swap agreements. In fiscal 2009, the College paid $922,623 more than it received in interest under the swap agreements. The difference between interest received and interest paid under the swap agreements is recorded as interest expense in the statements of activities.

The following is a summary of the outstanding positions under these interest rate exchange agreements as of May 31, 2010:

Instrument Type	Notional Amount	Maturity Date	Rate Paid	Rate Received
Floating to fixed rate swap	$30,000,000	June 1, 2037	4.1175%	One month LIBOR interest rate

NOTE 10 - DERIVATIVE INSTRUMENTS (cont.)

Derivative instruments are reported in the statements of financial position at fair value as of May 31, 2010 and 2019 are as follows:

Derivatives Not Designated as Hedging Instruments	Liabilities Derivative Statement of Financial Position Location	Fair Value 2010	 2009
Interest rate swap	Derivative Liability	$ 5,582,469	$ 5,991,309

The effect of derivative instruments is reported in the statements of activities as follows:

Derivatives Not Designated as Hedging Instruments	Location of Loss on Derivatives Recognized in the Statement of Changes in Net Assets	Amount of Loss on Derivatives Recognized in the Statement of Changes in Net Assets 2010	 2009
Interest rate swap	Instruction expense	$ 1,255,000	$ 3,531,000

During 2010 and 2009, the College entered into a future purchase contract for their gas usage. This contract meets the definition of normal purchases and normal sales as defined by ASU 815-10-15 and therefore, no asset or liability associated with the derivative is required to be recognized.

NOTE 11 – LINE OF CREDIT

The College has a $2,000,000 unsecured line of credit with M&I Bank. Interest is at 2.5% plus the bank's LIBOR rate and amounts borrowed are due on demand. As of May 31, 2010 and 2009, there was no balance outstanding on the line of credit. No borrowings were made under this line of credit during the years ended May 31, 2010. During the year ended May 31, 2009, borrowings and repayments under the line of credit were $1,500,000.

NOTE 12 – RELATED PARTIES

Contributions from trustees and officers totaled $340,000 and $1,025,000 for the years ended May 31, 2010 and 2009, respectively. Please see Note 4 for related party contributions receivable.

NOTE 13 – OPERATING LEASES

In May 2001, the College entered into an operating lease agreement with Beloit Hotel, LLC for building space. In May 2008, the College exercised its option to renew the lease. The renewed lease terminates in May 2015 and provides for monthly payments that increase by 2% or the consumer price index, whichever is less. Rent expense for the years ended May 31, 2010 and 2009 was $86,153 and $86,000, respectively. Future lease commitments are due as follows:

Years Ending May 31,	
2011	$ 95,204
2012	96,632
2013	98,081
2014	99,552
2015	101,046
Total	$ 490,515

NOTE 14 – NET ASSETS

The 2009 financial statements have been restated to include the net assets of the Beloit College Self-insured Health Plan. Previously, this plan had been reported, in error, separately from the College. As the health plan assets were not held in a separate trust, it was determined that these assets should be reported in the financial statements of the College. This correction affected unrestricted net assets and total net assets as follows:

	Unrestricted Net Assets	Total Net Assets
Net assets as of June 1, 2008, as reported	$ 84,224,125	$ 164,835,854
Add: Health plan net assets	1,665,946	1,665,946
Net assets as of June 1, 2008, as restated	$ 85,890,071	$ 166,501,800
Change in net assets as of May 31, 2009, as reported	$ (45,043,379)	$ (41,882,633)
Less: Investment income	(108,135)	(108,135)
Add: Instruction expense	147,876	147,876
Add: Institutional support expense	67,513	67,513
Add: Auxiliary enterprises expense	17,739	17,739
Add: Student services expense	47,487	47,487
Add: Academic support expense	21,412	21,412
Add: Public service expense	5,484	5,484
Change in net assets as of May 31, 2009, as restated	$ (44,844,003)	$ (41,683,257)
Net assets as of May 31, 2009 (as reported)	$ 39,180,746	$ 122,953,221
Add: Cash and cash equivalents of health plan	1,663,515	1,663,515
Add: Accounts receivable of health plan	2,788	2,788
Add: Investments of health plan	366,254	366,254
Less: Accounts payable of health plan	(167,235)	(167,235)
Net assets as of May 31, 2009, as restated	$ 41,046,068	$ 124,818,543

NOTE 14 – NET ASSETS (cont.)

Unrestricted net assets are those which are not subject to donor-imposed restrictions. Certain net assets classified as unrestricted are designated for specific purposes or uses by the Board of Trustees or by various internal operating and administrative arrangements of the College as follows as of May 31:

	2010	2009
Net investment in land, buildings, and equipment	$ 15,241,315	$ 17,970,367
Funds designated for endowment by the Board of Trustees	24,029,414	20,922,314
Funds designated for annuity contract reserves	1,563,531	1,201,488
Funds designated for Federal Perkins Student Loan Program	87,508	87,508
Funds designated for student loan funds	934,604	864,391
Totals	$ 41,856,372	$ 41,046,068

Temporarily restricted net assets as of May 31, 2010 and 2009 are available for the following purposes:

	2010	2009
Investment in land, buildings, and equipment	$ 5,054,948	$ 1,173,108
Endowment	10,735,800	4,557,523
Split-interest annuity agreements	1,650,994	1,909,329
Student loans	305,319	306,394
Academic support	1,118,403	436,877
Instruction	1,420,614	1,424,904
Scholarships	593,752	294,577
Contributions receivable and other	5,383,469	3,853,990
Totals	$ 26,283,299	$ 13,956,702

Temporarily restricted net assets were released from donor restrictions as follows:

	2010	2009
Scholarships	$ 1,459,761	$ 367,328
Investment in land, buildings, and equipment	30,812	39,353
Institutional support	320,038	86,351
Student services	101,601	56,611
Research	46,509	2,105
Academic support	487,611	372,236
Public service	64,296	69,844
Instruction	1,673,605	983,715
Other	3,790,269	2,408,195
Totals	$ 7,974,502	$ 4,385,738

NOTE 14 – NET ASSETS (cont.)

Permanently restricted net assets as of May 31, 2010 and 2009 represent the original corpus of the following restricted gifts where the earnings on such are used for unrestricted or restricted activities as designated by the donor.

	2010	2009
Investments (perpetual endowment)	$ 62,347,219	$ 60,930,602
Contributions receivable	2,605,453	3,074,678
Beneficial interest in perpetual trusts	2,278,995	2,071,544
Cash surrender value	76,046	75,917
Split-interest annuity agreements	3,040,814	2,760,804
Revolving student loan funds	912,181	900,285
Other	1,943	1,943
Totals	$ 71,262,651	$ 69,815,773

NOTE 15 – RETIREMENT PLANS

The College has a defined contribution retirement plan for certain non-exempt employees. The expense relating to this plan was $314,000 and $334,000 for the years ended May 31, 2010 and 2009, respectively.

All administrative employees and full-time faculty members above the rank of instructor are eligible to participate in individual annuity retirement programs through the Teachers Insurance and Annuity Association and the College Retirement Equities Fund. Expenses relating to these plans were $1,094,000 and $1,081,000 for the years ended May 31, 2010 and 2009, respectively.

NOTE 16 – SELF INSURANCE

The College provides medical benefits through a self-insurance, plan which provides benefits to eligible employees of the College and their eligible dependents. Provisions of the plan require that the College be self-insured to the extent of the first $60,000 in annual major medical benefits per participant. The plan has insurance contracts to provide stop-loss coverage for benefit payments in excess of the self-insured amounts. Contributions to the plan are based upon the number of participants and the types of coverage elected. Employees are responsible for 33.3% of the plan's required contributions and the College is responsible for the remaining required contributions. Accounts payable and other accrued expenses include an incurred but not reported reserve of approximately $132,000 and $163,000 as of June 30, 2010 and 2009, respectively. These are estimates of amounts due and payable on existing claims for which the College is self-insured and which are expected to be settled currently.

NOTE 17 – UNEMPLOYMENT COMPENSATION CLAIMS

The College is self-insured for unemployment compensation claims. As a result, the College has a $283,386 bank letter of credit, which expires on December 31, 2011, that was issued in favor of the Treasurer of the Wisconsin Unemployment Reserve Fund in order to assure payment of unemployment compensation. The College paid unemployment compensation claims of $101,000 and $106,000 during the years ended May 31, 2010 and 2009, respectively.

NOTE 18 – COMMITMENTS

The College has entered into an agreement with Barnes & Noble College Bookstores, Inc. (Barnes & Noble) to operate and provide services for the College bookstore. In conjunction with this agreement, Barnes & Noble purchased, at cost, all inventory associated with the bookstore. The agreement runs until May 31, 2012, and from year-to-year thereafter. In addition, Beloit College is committed to lease the facility in which the bookstore operates and to fund certain overhead expenses of the store. Please see note 13 for information on future minimum rental payments.

NOTE 19 – ENDOWMENT

The College's endowment includes more than 500 individual funds established for a variety of purposes. The endowment includes both donor-restricted endowment funds and funds designated by the Board of Trustees to function as quasi endowments. As required by GAAP, net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

Interpretation of Relevant Law - In August 2009, the state of Wisconsin adopted the Uniform Prudent Management of Institutional Funds Act (UPMIFA). UPMIFA is applicable to funds existing on or established after August 4, 2009. A key component of the change in law 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. As a result of the passage of UPMIFA, the College reclassified $5,111,343 out of unrestricted net assets and into temporarily restricted net assets. The Board of Trustees of the College has interpreted the Wisconsin enacted version of UPMIFA as allowing the College to appropriate for expenditure or accumulate so much of an endowment fund as the College determines is prudent for the uses, benefits, purposes, and duration for which the endowment fund is established, subject to the intent of the donor as expressed in the gift instrument. Unless stated otherwise in the gift instrument, the assets in an endowment fund shall be donor-restricted assets until appropriated for expenditure by the Board of Trustees. As a result of this interpretation, the College has not changed the way permanently restricted net assets are classified. See Note 1 for further information on net asset classification.

NOTE 19 – ENDOWMENT

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 in a manner consistent with the standard of prudence prescribed by UPMIFA. In accordance with UPMIFA, the Board of Trustees considers the following factors in making a determination to appropriate or accumulate endowment funds:

1. The duration and preservation of the fund
2. The purpose of the College and the 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 asset composition by type of fund consists of the following as of May 31, 2010:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds	$ (5,504,743)	$ 8,253,276	$ 65,028,718	$ 67,777,251
Board-designated endowment funds	29,534,157	2,482,524	-	32,016,681
Total Endowment Net Assets	$ 24,029,414	$ 10,735,800	$ 65,028,718	$ 99,793,932

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

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds	$ -	$ 116,450	$ 64,081,197	$ 64,197,647
Board-designated endowment funds	20,922,314	4,441,073	-	25,363,387
Total Endowment Net Assets	$ 20,922,314	$ 4,557,523	$ 64,081,197	$ 89,561,034

NOTE 19 – ENDOWMENT (cont.)

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

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, May 31, 2009	$ 20,922,314	$ 4,557,523	$ 64,081,197	$ 89,561,034
Net asset reclassification based on change in law	(5,111,343)	5,111,343	-	-
Net asset reclassification - other	16,742	80,670	(97,412)	-
Endowment net assets after reclassification	15,827,713	9,749,536	63,983,785	89,561,034
Net assets released from restrictions	2,356,974	(2,356,974)	-	-
Investment return:				
Investment income	772,784	-	6,880	779,664
Net appreciation - realized and unrealized	5,636,764	6,096,278	-	11,733,042
Total investment return	6,409,548	6,096,278	6,880	12,512,706
Contributions and other additions	2,410,417	398,425	1,044,933	3,853,776
Appropriation of endowment assets for expenditure	(1,681,011)	(3,151,465)	(6,880)	(4,839,356)
Transfer out of the endowment	(1,294,227)	-	-	(1,294,227)
Endowment Net Assets, May 31, 2010	$ 24,029,414	$ 10,735,800	$65,028,718	$ 99,793,932

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

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, May 31, 2008	$ 64,018,950	$ 4,621,722	$ 58,308,215	$ 126,948,887
Net asset reclassification - other	(75,000)	(1,137,956)	1,212,956	-
Endowment net assets after reclassification	63,943,950	3,483,766	59,521,171	126,948,887
Net assets released from restrictions	1,344,368	(1,344,368)	-	-
Investment return:				
Investment income	1,352,940	255,136	7,422	1,615,498
Net depreciation - realized and unrealized	(34,961,628)	(13,996)	(23,545)	(34,999,169)
Total investment return	(33,608,688)	241,140	(16,123)	(33,383,671)
Contributions and other additions	751,593	2,433,556	4,583,571	7,768,720
Appropriation of endowment assets for expenditure	(11,508,909)	(256,571)	(7,422)	(11,772,902)
Endowment Net Assets, May 31, 2009	$ 20,922,314	$ 4,557,523	$ 64,081,197	$ 89,561,034

NOTE 19 – ENDOWMENT (cont.)

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 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 $5,504,743 and $7,783,920 as of May 31, 2010 and 2009, respectively. These deficiencies resulted from unfavorable market fluctuations that occurred after the investment of new permanently restricted contributions and continued distribution for certain programs that was deemed prudent by the Board of Trustees. Subsequent gains that restore the fair value of the assets of the endowment fund to the required level will be classified as an increase in unrestricted net assets.

Return Objectives and Risk Parameters - The College has adopted investment and spending 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 Board of Trustees, the endowment assets are invested in a manner that is intended to produce results that exceed the price and yield results of various indices appropriate to the investment asset class while assuming a moderate level of investment risk. The College's investment objectives and policies are designed to meet the spending policy of the fund while also growing the assets of the fund at least equal to the long-term rate of inflation. Actual returns in any given year may vary from this amount.

Strategies Employed for Achieving Objectives - To satisfy its long-term rate-of-return objectives, the College relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The College targets a diversified asset allocation that places a greater emphasis on equity-based 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 a percentage of its endowment fund's average fair market value over the prior 3 years. The rate used was 4.5% for the years ended May 31, 2010 and 2009. 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 maintain its purchasing power.

NOTE 20 – SUBSEQUENT EVENTS

The College has evaluated subsequent events through October 25, 2010, which is the date that the financial statements were issued.

In August 2010, the College received the donation of a new campus building, the Hendrick's Center, valued at $7,254,486. This Center will provide instructional space for the College's fine arts programs. As of May 31, 2010, the donation of this facility was recorded as a contribution receivable in the amount of $7,254,486.