Grant Thornton

Financial Statements and Report of Independent Certified Public Accountants

Beloit College

May 31, 2009 and 2008

Contents

Report of Independent Certified Public Accountants

The Board of Trustees
Beloit College

We have audited the accompanying statements of financial position of Beloit College (the College, a Wisconsin not-for-profit organization) as of May 31, 2009 and 2008, and the related statements of activities and cash flows for the years then ended. These financial statements are the responsibility of the College's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the College's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Beloit College as of May 31, 2009 and 2008, 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.

Grant Thornton LLP

GRANT THORNTON LLP
Milwaukee, Wisconsin
February 3, 2010

BELOIT COLLEGE
STATEMENTS OF FINANCIAL POSITION
May 31,

ASSETS	2009	2008
Cash and cash equivalents	$ 9,864,853	$ 3,165,878
Accounts receivable, net	2,818,757	1,583,559
Contributions receivable, net	11,740,197	12,483,044
Student loans receivable, net	7,895,728	7,497,438
Investments	83,857,604	130,035,896
Inventories	46,012	34,404
Prepaid expenses and other assets	339,638	250,621
Cash surrender value of life insurance (face value of $1,855,000 in 2009 and 2008)	225,909	272,059
Deferred bond issuance costs, net	1,485,740	1,536,572
Land, buildings and equipment, less accumulated depreciation	74,382,898	67,106,759
Restricted bond proceeds	3,083,525	11,654,794
Beneficial interest in perpetual trusts	2,071,544	2,689,520
Funds held in trust by others	447,708	483,676
TOTAL ASSETS	$ 198,260,113	$ 238,794,220

LIABILITIES AND NET ASSETS	2009	2008
Liabilities		
Accounts payable and accrued liabilities	$ 5,816,160	$ 6,480,144
Deferred tuition and fees	445,070	520,965
Student deposits and deferred grant revenue	422,945	365,782
Assets held for others under agency agreements	589,293	946,792
Beneficiary payable	54,290	73,892
Annuities payable	2,917,881	3,652,499
Deferred support under split-interest agreements	156,574	177,973
Long-term debt	56,205,000	56,655,000
Refundable advances from Henry Strong Education Foundation Loan Fund	79,406	75,789
Refundable advances from the U.S. Government	2,568,964	2,549,714
Asset retirement obligation	60,000	-
Derivative liability	5,991,309	2,459,816
Total liabilities	75,306,892	73,958,366
Net assets		
Unrestricted	39,180,746	84,224,125
Temporarily restricted	13,956,702	15,083,705
Permanently restricted	69,815,773	65,528,024
Total net assets	122,953,221	164,835,854
TOTAL LIABILITIES AND NET ASSETS	$ 198,260,113	$ 238,794,220

The accompanying notes are an integral part of these statements.

BELOIT COLLEGE
STATEMENTS OF ACTIVITIES
Years ended May 31,

	2009			
	Unrestricted	Temporarily restricted	Permanently restricted	Total
Revenues, gains and net assets released from restrictions and reclassified				
Tuition and fees	$ 40,568,220	$ -	$ -	$ 40,568,220
Funded student financial assistance	(1,871,141)	-	-	(1,871,141)
Unfunded student financial assistance	(17,132,245)	-	-	(17,132,245)
Net tuition and fees	21,564,834	-	-	21,564,834
Auxiliary enterprises	8,010,633	-	-	8,010,633
Contributions	3,040,572	3,536,604	4,617,978	11,195,154
Return on investments	(34,311,130)	279,489	(16,609)	(34,048,250)
Government contracts	1,468,149	-	-	1,468,149
Government grants	560,980	-	-	560,980
Other income	717,652	6,080	2,589	726,321
Change in value of split-interest agreements	(61,597)	(469,892)	(899,418)	(1,430,907)
Change in value of beneficial interest in perpetual trusts	-	-	(617,976)	(617,976)
Other losses resulting from bad debts	-	(154,519)	(11,771)	(166,290)
Total revenues and gains	990,093	3,197,762	3,074,793	7,262,648
Net assets released from restrictions	3,204,702	(3,204,702)	-	-
Net assets reclassified	(92,893)	(1,120,063)	1,212,956	-
Total revenues, gains and net assets released from restrictions and reclassified	4,101,902	(1,127,003)	4,287,749	7,262,648
Expenses				
Instruction	22,869,222	-	-	22,869,222
Institutional support	8,082,452	-	-	8,082,452
Auxiliary enterprises	6,346,279	-	-	6,346,279
Student services	6,677,878	-	-	6,677,878
Academic support	4,347,523	-	-	4,347,523
Public service	689,701	-	-	689,701
Research	106,800	-	-	106,800
Scholarships, grants and prizes	25,426	-	-	25,426
Total expenses	49,145,281	-	-	49,145,281
CHANGE IN NET ASSETS	(45,043,379)	(1,127,003)	4,287,749	(41,882,633)
Net assets at beginning of year	84,224,125	15,083,705	65,528,024	164,835,854
Net assets at end of year	$ 39,180,746	$ 13,956,702	$ 69,815,773	$ 122,953,221

The accompanying notes are an integral part of these statements.

2008			
Unrestricted	Temporarily restricted	Permanently restricted	Total
$ 38,035,697	$ -	$ -	$ 38,035,697
(1,813,124)	-	-	(1,813,124)
(15,624,125)	-	-	(15,624,125)
20,598,448	-	-	20,598,448
7,697,579	-	-	7,697,579
3,786,109	4,943,578	3,020,421	11,750,108
(689,185)	375,181	5,075	(308,929)
1,382,001	-	-	1,382,001
566,170	-	-	566,170
929,864	-	24	929,888
(99,704)	(4,973)	(90,416)	(195,093)
-	-	(262,240)	(262,240)
-	(55,069)	(35,234)	(90,303)
34,171,282	5,258,717	2,637,630	42,067,629
2,853,995	(2,853,995)	-	-
95,635	(154,733)	59,098	-
37,120,912	2,249,989	2,696,728	42,067,629
18,322,961	-	-	18,322,961
7,987,091	-	-	7,987,091
6,776,040	-	-	6,776,040
7,044,358	-	-	7,044,358
4,258,001	-	-	4,258,001
732,834	-	-	732,834
110,716	-	-	110,716
35,226	-	-	35,226
45,267,227	-	-	45,267,227
(8,146,315)	2,249,989	2,696,728	(3,199,598)
92,370,440	12,833,716	62,831,296	168,035,452
$ 84,224,125	$ 15,083,705	$ 65,528,024	$ 164,835,854

BELOIT COLLEGE
STATEMENTS OF CASH FLOWS
Years ended May 31,

	2009	2008
Cash flows from operating activities		
Decrease in net assets	$ (41,882,633)	$ (3,199,598)
Adjustments to reconcile change in net assets to net cash used in operating activities		
Depreciation	3,235,386	2,286,936
Amortization of deferred bond issuance costs	50,832	50,832
Increase in allowance for uncollectible loans	52,027	33,163
Increase (decrease) in allowance for uncollectible contributions receivable	(51,743)	142,803
(Increase) decrease in present value of contributions receivable	180,982	(549,987)
Increase in fair value of derivative liability	3,531,493	2,459,816
Contributed investments	(2,897,592)	(2,282,249)
Contributions restricted for long-term investment	(4,617,978)	(3,020,421)
Interest, dividends and other net losses restricted for long-term investment	1,543,185	382,791
Decrease in value of split-interest agreements and beneficial interests in perpetual trusts	1,819,949	172,152
Net unrealized loss on long-term investments	29,577,470	13,648,565
Net realized (gain) loss on long-term investments	5,656,537	(10,286,295)
Changes in operating assets and liabilities:		
Accounts receivable	(1,235,198)	(815,229)
Contributions receivable	613,608	(2,702,999)
Inventories and prepaid expenses and other assets	(100,625)	89,862
Beneficial interest in perpetual trusts	617,976	262,240
Funds held in trust by others	35,968	(65,630)
Accounts payable and accrued liabilities	(594,449)	2,064,571
Student deposits and deferred tuition and fees	(18,732)	167,774
Assets held for others under agency agreements	(357,499)	(3,839)
Beneficiary payable	(19,602)	(6,973)
Annuities payable	(734,618)	(36,756)
Deferred support under split-interest agreements	(21,399)	(35,174)
Asset retirment obligation	60,000	-
Net cash used in operating activities	(5,556,655)	(1,243,645)
Cash flows from investing activities		
Proceeds from sale of investments	114,007,472	83,511,084
Purchases of investments	(101,985,544)	(81,932,982)
Release of restricted cash from bond procceds	8,571,269	-
Increase in restricted cash from bond proceeds	-	(11,654,794)
Decrease in cash surrender value of life insurance	46,150	75,878
Purchases of land, buildings and equipment	(11,085,203)	(22,927,613)
Capitalization of interest costs, net of income from bond proceeds	504,143	(1,467,144)
Issuance of student loans receivable	(977,778)	(1,289,753)
Payments from student loans receivable	527,461	564,067
Net cash provided by (used in) investing activities	9,607,970	(35,121,257)

BELOIT COLLEGE
STATEMENTS OF CASH FLOWS - CONTINUED
Years ended May 31,

	2009	2008
Cash flows from financing activities		
Proceeds from contributions restricted for investment in endowment	$ 4,617,978	$ 3,020,421
Interest, dividends and other net losses restricted for reinvestment	(1,543,185)	(382,791)
Payment of deferred bond issuance costs	-	(1,549,118)
Increase in refundable advances - Henry Strong Education Foundation	3,617	4,312
Decrease in refundable advances - U.S. Government	19,250	(15,284)
Proceeds on line of credit	1,500,000	1,500,000
Payments on line of credit	(1,500,000)	(1,500,000)
Proceeds on long-term debt	-	56,255,000
Payments on long-term debt	(450,000)	(21,186,500)
Net cash provided by financing activities	2,647,660	36,146,040
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	6,698,975	(218,862)
Cash and cash equivalents at beginning of year	3,165,878	3,384,740
Cash and cash equivalents at end of year	$ 9,864,853	$ 3,165,878
Supplemental data		
Interest paid (net of interest capitalized)	$ 1,682,413	$ 685,884
Non-cash		
Capitalized interest included in accounts payable and accrued liabilities	$ -	$ 69,535

The accompanying notes are an integral part of these statements.

NOTE A - NATURE OF OPERATIONS

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 Colleges 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.

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

1. Basis of Presentation

The financial statements are prepared on the accrual basis of accounting. Net assets, revenues, expenses, gains and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets of the College are classified and reported as follows:

Unrestricted - Net assets that are not subject to donor-imposed stipulations.

Temporarily restricted - Net assets subject to donor-imposed stipulations that may or will be met either by actions of the College and/or passage of time.

Permanently restricted - Net assets subject to donor-imposed stipulations that require 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.

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 are reported as increases or decreases in unrestricted net assets unless their use is restricted by explicit donor stipulations or by law. Expirations of temporary restrictions recognized on net assets (i.e., the donor-stipulated purpose has been fulfilled and/or the stipulated time period has elapsed) are reported as net assets released from restrictions. Temporary restrictions on gifts to acquire long-lived assets are considered met in the period in which the assets are acquired or placed in service. Gifts with restrictions that are met in the initial year of recording are reported as unrestricted net assets.

Administration of the College's endowment is subject to the general provisions of the Uniform Management of Institutional Funds Act (UMIFA or the Act). Under the provisions of this state law, the Board of Trustees may appropriate the expenditure of as much of the net appreciation as is deemed prudent for the uses and purposes for which an endowment fund is established based on the standards established by the Act. The College has applied accounting principles generally accepted in the United States of America when allocating investment gains to the net asset classes for financial statement purposes.

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

1. Basis of Presentation - continued

Income, unrealized 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 or the College's interpretation of relevant state law 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; or
- as increases in unrestricted net assets in all other cases.

2. Revenues

Contributions, including unconditional promises to give (pledges), are recognized as revenues in the period received. Contributions which impose restrictions that are met in the same fiscal year they are received are reported as unrestricted revenues. Conditional promises to give are not recognized until the conditions on which they depend are substantially met. Contributions of assets other than cash are recorded at their estimated fair value at the date of gift.

Revenue from grants and contract agreements is recognized as it is earned through expenditures in accordance with the applicable agreements.

3. Receivables

The majority of the College's receivables, other than contributions, are due from students and governmental agencies. Receivables are stated at amounts due from students net of an allowance for doubtful accounts. The College determines its allowance for doubtful accounts by considering the College's previous loss history and specific account circumstances.

4. Museum Collections and Works of Art

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 in accordance with accounting principles generally accepted in the United States of America. Works of art, not part of museum collections, are capitalized, depreciated and included in the statements of financial position.

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

5. Promises to Give

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.

6. 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 statements 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 recognized at the date the trusts are established for the present value of the estimated future payments to be received.

7. Cash Equivalents

The College considers all highly liquid debt investments with original maturities of three months or less to be used for operating purposes to be cash equivalents. The carrying amount of cash equivalents is cost, which approximates fair value due to the short maturities of these instruments.

8. Restricted Cash

The College has outstanding borrowings associated with the issuance of the Wisconsin Health and Educational Facilities Authority (WHEFA), Revenue Bonds, Series 2007 (2007 Bonds) in August 2007 (note J). Certain proceeds from this issuance are available for and restricted for use in the construction of a new Center for the Sciences (Center). The unexpended portion of such restricted funds totaling $3,083,525 and $11,654,794 at May 31, 2009 and 2008, respectively, is classified as restricted bond proceeds in the statements of financial position. Interest income earned on these restricted funds during the construction period has been recorded as an offset to interest costs capitalized under the project (note J) and totaled $67,000 and $795,000 for the years ended May 31, 2009 and 2008, respectively.

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

8. Restricted Cash - continued

The Center was placed into service in August 2008 and the remaining unexpended proceeds as of May 31, 2009 are restricted for continued funding of the Center. Subsequent to August 2008, interest income earned on these restricted funds is included in return on investments in the statements of changes in net assets.

9. Investments

The College's investments are reported at fair value. Fair value is the price that would be received to sell an asset, or paid to transfer a liability, in an orderly transaction between market participants at the measurement date. See note D for discussion of fair value measurements.

Purchases and sales of securities are recorded on a trade date basis. Interest income is recorded on the accrual basis. Dividends are recorded on the ex-dividend date. Investment management and custodian fees are recorded as a reduction of investment income for financial reporting purposes. Realized gains and losses on the sale of investments are calculated on the basis of specific identification of the securities sold. Interest and dividends as well as realized and unrealized gains and losses are included in return on investments in the statements of activities.

Investment securities are exposed to various risks including, but not limited to, interest rate and market and credit risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term.

10. Concentrations of Credit Risk

Financial instruments that potentially subject the College to concentrations of credit risk consist principally of cash. At various times during the year, the College has cash and cash equivalents balances in excess of federally insured limits of $250,000 for each financial institution. The College has not experienced any losses in such accounts and management believes it is not exposed to any significant credit risk.

11. Inventories

Inventories are valued at the lower of cost (actual cost) or market. Inventories consist primarily of items held for resale at the College's auxiliary enterprises.

12. Deferred Bond Issuance Costs

For the year ended May 31, 2008, the College incurred and capitalized costs of $1,487,000 associated with the issuance of the 2007 Bonds. These costs are being amortized to interest expense using the straight-line method over the expected life of the 2007 Bonds. No costs were incurred or capitalized during 2009. During both 2009 and 2008, the College recognized interest expense of $51,000 related to deferred bond issuance costs.

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

13. Land, Buildings and Equipment

Land, buildings and equipment are stated at cost as of the date of acquisition or their fair market value at the date of donation, if received as a contribution. Depreciation is provided using the straight-line method over the estimated useful lives of the assets as follows:

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

14. 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.

15. Refundable Advances from the Henry Strong Foundation Loan Fund

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.

16. Refundable Advances from the U.S. Government

Funds provided by the U.S. Government under the Federal Perkins Student Loan program are loaned to qualified students and may be reloaned after collections. These funds are kept in a separate cash account and are ultimately refundable to the government.

17. Advertising Costs

The College expenses advertising costs as they are incurred. Advertising expenses, primarily costs of brochures, were $28,000 and $33,000 for the years ended May 31, 2009 and 2008, respectively.

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

18. Derivatives

The College has adopted the Financial Accounting Standards Board (FASB) Statement of Financial Accounting Standards (SFAS) No. 133, *Accounting for Derivative Instruments and Hedging Activities* (SFAS 133), as amended. SFAS 133 standardizes accounting and financial reporting standards for forward contracts, futures, options and other derivative instruments and related hedging activities. SFAS 133 requires, in part, that the College report all derivative instruments in the balance sheet as assets or liabilities at their fair value.

During 2009 and 2008, 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 SFAS 133; therefore, no asset or liability associated with the derivative is required to be recognized.

The College utilizes a derivative hedge instrument to manage its exposure to interest rate fluctuations on its 2007 Series variable rate debt. The estimated fair value of the derivative hedge instrument is recognized on the statement of financial position. Net payments or receipts under the terms of the derivative agreement during the fiscal year are reflected as interest expense.

19. Income Taxes

The College has received a determination letter from the Internal Revenue Service indicating that it is a tax-exempt organization as provided in Section 501(c)(3) of the Internal Revenue Code of 1986 and, except for taxes pertaining to unrelated business income, is exempt from federal and state income taxes. No provision has been made for income taxes in the accompanying financial statements as the College has had no significant unrelated business income.

The College has determined that there are no uncertain tax positions as of May 31, 2009 and 2008. The College has adopted a policy to record interest and penalties associated with uncertain tax positions as expense. For the years ended May 31, 2009 and 2008, the College has recorded no expense related to interest and penalties. Tax years open to examination by federal tax authorities under the statutes of limitations include fiscal years 2006 through 2009.

20. 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 the 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 B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

21. Asset Retirement Obligations

SFAS No. 143, *Accounting for Asset Retirement Obligations* (SFAS 143), as amended by FASB Interpretation No. 47 (FIN 47), requires that an entity recognize the fair value of a liability for a conditional asset retirement obligation in the period in which it is incurred if a reasonable estimate of fair value can be made. An asset retirement obligation would be reasonably estimable if (a) it is evident that the fair value of the obligation is embodied in the acquisition price of the asset, (b) an active market exists for the transfer of the obligation or (c) sufficient information exists to apply to an expected present value technique. In applying this guidance to the College, it was necessary to determine (a) if the College will undertake any major renovation or sell, dispose or abandon any assets, (b) what liability would be associated with such action and (c) the date such action would be taken.

The College has identified asbestos abatement as a conditional asset retirement obligation in certain property. Asbestos abatement was estimated using site-specific surveys where available and a per/square foot estimate where surveys were unavailable. During 2009, the College recorded an asset retirement obligation of $60,000 pursuant to SFAS 143.

22. Fair Value Measurements

The College adopted SFAS No. 157, *Fair Value Measurements* (SFAS 157), on June 1, 2008. SFAS 157 (1) creates a single definition of fair value, (2) establishes a framework for measuring fair value and (3) expands disclosure requirements about items measured at fair value. SFAS 157 applies to both items recognized and reported at fair value in the financial statements and items disclosed at fair value in the notes to the financial statements. SFAS 157 does not change existing accounting rules governing what can or what must be recognized and reported at fair value in the College's financial statements, or disclosed at fair value in the College's notes to the financial statements. Additionally, SFAS 157 does not eliminate practicability exceptions that exist in accounting pronouncements amended by SFAS 157 when measuring fair value. As a result, the College will not be required to recognize any new assets or liabilities at fair value.

Prior to SFAS 157, certain measurements of fair value were based on the price that would be paid to acquire an asset or received to assume a liability (an entry price). SFAS 157 clarifies the definition of fair value as the price that would be received to sell an asset, or paid to transfer a liability, in an orderly transaction between market participants at the measurement date (that is, an exit price). The exit price is based on the amount that the holder of the asset or liability would receive or need to pay in an actual transaction (or in a hypothetical transaction if an actual transaction does not exist) at the measurement date. In some circumstances, the entry and exit price may be the same; however, they are conceptually different.

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

22. Fair Value Measurements - continued

Fair value is generally determined based on quoted market prices in active markets for identical assets or liabilities. If quoted market prices are not available, the College uses valuation techniques that place greater reliance on observable inputs and less reliance on unobservable inputs. In measuring fair value, the College may make adjustments for risks and uncertainties, if a market participant would include such an adjustment in its pricing.

23. Sabbatical Leave and Other Similar Benefits

In 2006, the FASB's Emerging Issues Task Force issued Issue No. 06-2, *Accounting for Sabbatical Leave and Other Similar Benefits Pursuant to FASB Statement No. 43, Accounting for Compensated Absences* (Issue 06-2). Under Issue 06-2, entities are required to expense future sabbaticals or similar paid absences over the same period in which the benefits are earned in instances where the compensated employee is not required to perform duties for the entity during the absence. The College awards sabbaticals to both its faculty and staff after working for a specific period of time without requiring any additional services to be performed.

24. Reclassifications

Certain reclassifications have been made to the 2008 financial statements to conform to the 2009 presentation.

25. New Accounting Pronouncements

In March 2008, the FASB issued SFAS No. 161, *Disclosures about Derivative Instruments and Hedging Activities: an amendment of FASB Statement No. 133* (SFAS 161). SFAS 161 revises the disclosure requirements of SFAS 133 to provide financial statement users with a better understanding of how and why an entity uses derivative instruments, how an entity accounts for derivative instruments and related hedged items under SFAS 133 and the effect of derivative instruments and related hedged items on an entity's financial position, financial performance and cash flows. SFAS 161 is effective for fiscal years beginning after November 15, 2008, and will be adopted by the College for the fiscal year ending May 31, 2010.

In June 2009, the FASB issued SFAS No. 168, *The FASB Accounting Standards Codification and the Hierarchy of Generally Accepted Accounting Principles - a replacement of FASB Statement No. 62* (SFAS 168). The FASB Accounting Standards Codification (Codification) will be the single source of authoritative non-governmental U.S. generally accepted accounting principles. SFAS 168 is effective for annual periods ending after September 15, 2009. All existing accounting standards are superseded as described in SFAS 168. All other accounting literature no included in the Codification is non-authoritative. The Codification is not expected to have a significant impact on the College's financial statements.

NOTE C - INVESTMENTS

Investments consist of the following at May 31:

	2009		
	Fair value	Cost	Unrealized appreciation (depreciation)
Money market	$ 11,018,347	$ 11,018,347	$ -
Government bonds	339,215	329,260	9,955
Corporate bonds	10,044	10,026	18
Bond mutual funds	3,398,053	3,363,590	34,463
Common stock	10,372,858	13,564,303	(3,191,445)
Stock mutual funds	57,824,747	70,269,912	(12,445,165)
Alternative investments	118,251	96,526	21,725
Real estate	12,900	12,900	-
Venture capital limited partnerships	1,756	1,756	-
Other	761,433	761,433	-
	$ 83,857,604	$ 99,428,053	$ (15,570,449)

	2008		
	Fair value	Cost	Unrealized appreciation (depreciation)
Money market	$ 4,313,693	$ 4,313,693	$ -
Government bonds	2,312,268	2,248,309	63,959
Corporate bonds	2,305,672	2,305,675	(3)
Bond mutual funds	16,645,255	16,034,680	610,575
Common stock	7,614,842	8,750,366	(1,135,524)
Stock mutual funds	96,096,723	82,938,845	13,157,878
Real estate	12,900	12,900	-
Venture capital limited partnerships	1,756	1,756	-
Other	732,787	732,787	-
	$ 130,035,896	$ 117,339,011	$ 12,696,885

The College paid investment trustee and management fees of $515,000 and $747,000 for the years ended May 31, 2009 and 2008, respectively.

NOTE C - INVESTMENTS - Continued

The total return on investments for the years ended May 31 consists of the following:

	2009	2008
Interest and dividends	$ 1,185,757	$ 3,053,341
Realized gain (loss)	(5,656,537)	10,286,295
Unrealized loss	(29,577,470)	(13,648,565)
Total return on investments	$ (34,048,250)	$ (308,929)

The investment portfolio consists of debt and equity securities that are subject to the general volatility of financial markets. The current impairment of securities in the investment portfolio is a result of general volatility in the financial markets and is deemed not to be other than temporary by management.

NOTE D - FAIR VALUE OF FINANCIAL INSTRUMENTS

As disclosed in note B22, the College adopted SFAS 157 effective June 1, 2008. SFAS 157 establishes a fair value hierarchy that distinguishes between assumptions based on market data (observable inputs) and the College's assumptions (unobservable inputs). Determining where an asset or liability falls within that hierarchy depends on the lowest level input that is significant to the fair value measurement as a whole. An adjustment to the pricing method used within either Level 1 or Level 2 inputs could generate a fair value measurement that effectively falls in a lower level in the hierarchy. The hierarchy consists of three broad levels as follows:

- Level 1 - Quoted market prices in active markets for identical assets or liabilities
- Level 2 - Inputs other than Level 1 inputs that are either directly or indirectly observable
- Level 3 - Unobservable inputs developed using the College's estimates and assumptions, which reflect those that market participants would use.

The determination of where an asset or liability falls in the hierarchy requires significant judgment. The College evaluates its hierarchy disclosures each year and based on various factors, it is possible that an asset or liability may be classified differently from year to year. However, the College expects that changes in classifications between different levels will be rare.

The adoption of SFAS 157 did not have a material impact on the College's results of operations and financial condition. The following is a description of the valuation methodologies used for assets and liabilities measured at fair value on a recurring and non-recurring basis.

<u>Money market funds</u> - Measured at carrying value, which approximates fair value based on the short-term maturity of the underlying funds.

NOTE D - FAIR VALUE OF FINANCIAL INSTRUMENTS - Continued

Government and corporate bonds - Valued based on last reported sales or, if not traded on a national exchange or over-the-counter market, on the most recent estimates available from broker-dealers and on yields currently available on comparable securities of issuers with similar credit ratings.

Bond and stock mutual funds - Valued based on quoted market prices as of the last business day of the College's fiscal year, as determined based on the market prices for the individual investments comprising each fund.

Common stock - Valued based on closing prices for listed securities and bid prices for unlisted securities.

Alternative investments - Valued based on information reported by the external investment advisor responsible for the overall management and supervision of the funds.

Real estate, venture capital limited partnerships and other investments - Valued at cost, which approximates fair value.

Beneficial interest in perpetual trusts and funds held in trust by others - Measured at fair value of underlying investments within the trust, adjusted for the College's proportional share of interest as of the measurement date. When quoted market prices are available in an active market, underlying securities are classified within Level 1 of the fair value hierarchy. When quoted market prices are not available, underlying securities are classified within Level 3 of the fair value hierarchy.

Assets held for others under agency agreements - Fair value is determined by the College based on the fair value of the related assets.

Beneficiary payable, annuities payable and deferred support under split-interest agreements - The liability for charitable gift annuities and life income contracts which have been issued are based on the annuitant's life expectancy and a discounted cash flow of payments estimated remaining to be paid. The discount rate used is an applicable IRS Section 7520 interest rate as of the measurement date. The life expectancy and discount rate are calculated and re-evaluated each year.

Derivative liability - The fair value of the College's interest rate swap agreement is based on estimates using standard pricing models that take into account the present value of future cash flows as of the date of the statement of financial position. The fair value of the interest rate swap is based on quotes from the counterparty of this instrument and represents the estimated amount that the College would expect to receive or pay to terminate the agreement.

Net contributions receivable - Measured at fair value utilizing discount rates commensurate with the related risks involved to determine present values.

NOTE D - FAIR VALUE OF FINANCIAL INSTRUMENTS - Continued

The methods described above may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, 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 fair value measurement at the reporting date.

The following table presents information about the College's assets and liabilities measured at fair value on a recurring and non-recurring basis as of May 31, 2009, and indicates the fair value hierarchy of the valuation techniques utilized by the College to determine such fair value.

	Level 1	Level 2	Level 3	Total
Recurring assets				
Investments				
Money market funds	$ 11,018,347	$ -	$ -	$ 11,018,347
Government bonds	-	339,215	-	339,215
Corporate bonds	-	10,044	-	10,044
Bond mutual funds	3,398,053	-	-	3,398,053
Common stock	10,372,858	-	-	10,372,858
Stock mutual funds	6,583,875	51,240,872	-	57,824,747
Alternative investments	-	-	118,251	118,251
Real estate	-	12,900	-	12,900
Venture capital limited partnerships	-	1,756	-	1,756
Other investments	-	-	761,433	761,433
Beneficial interest in perpetual trusts	2,071,544	-	-	2,071,544
Funds held in trust by others	-	-	447,708	447,708
	$ 33,444,677	$ 51,604,787	$ 1,327,392	$ 86,376,856

	Level 1	Level 2	Level 3	Total
Recurring liabilities				
Assets held for others under agency agreements	$ -	$ (589,293)	$ -	$ (589,293)
Beneficiary payable	-	-	(54,290)	(54,290)
Annuities payable	-	-	(2,917,881)	(2,917,881)
Deferred support under split-interest agreements	-	-	(156,574)	(156,574)
Derivative liability	-	(5,991,309)	-	(5,991,309)
	$ -	$ 62,585,602	$ 3,128,745	$ 65,714,347
Non-recurring assets				
Contributions receivable, net	$ -	$ -	$ 11,740,197	$ 11,740,197

NOTE D - FAIR VALUE OF FINANCIAL INSTRUMENTS - Continued

The following table presents additional information about assets and liabilities measured at fair value on a recurring basis that have been measured using significant unobservable inputs (Level 3):

	Alternative investments	Other investments	Funds held in trust by others	Beneficiary payable	Annuities payable	Deferred support under split-interest agreements
Balance as of June 30, 2008	$ -	$ 732,787	$ 483,676	$ 73,892	$ 3,652,499	$ 177,973
Total realized and unrealized gains (losses)	21,725	-	(30,010)	(18,487)	(713,632)	(18,252)
Purchases, issuances and (settlements), net	96,526	28,646	(5,958)	(1,115)	(20,986)	(3,147)
Balance as of June 30, 2009	$ 118,251	$ 761,433	$ 447,708	$ 54,290	$ 2,917,881	$ 156,574

NOTE E - ACCOUNTS RECEIVABLE

Accounts receivable consists of the following at May 31:

	2009	2008
Tuition and fees	$ 116,145	$ 74,405
Government grants and contracts receivable	808,677	832,528
Accrued interest and pending investment trades	47,316	36,667
Other	1,884,868	659,047
	2,857,006	1,602,647
Less allowance for doubtful accounts	38,249	19,088
Net accounts receivable	$ 2,818,757	$ 1,583,559

NOTE F - CONTRIBUTIONS RECEIVABLE

Net contributions receivable are summarized as follows at May 31:

	2009	2008
Total contributions receivable	$ 13,214,906	$ 13,828,514
Less adjustment to present value of future cash flows for contributions receivable	901,317	720,335
Less allowance for uncollectible contributions	573,392	625,135
Net contributions receivable	$ 11,740,197	$ 12,483,044

NOTE F - CONTRIBUTIONS RECEIVABLE - Continued

During 2009 and 2008, the College determined that contributions receivables totaling $166,000 and $90,000, respectively, had become uncollectible. The losses relating to these receivables are recorded in temporarily and permanently restricted other losses resulting from bad debts in the statements of activities.

The discount rates used to determine the present value of contributions are risk-free interest rates applicable to the years in which the promises are received.

Payments on pledges receivable at May 31, 2009 are scheduled to be received as follows:

Years ending May 31,	
2010	$ 3,933,721
2011	2,786,044
2012	1,390,383
2013	687,635
2014	419,033
Thereafter	3,998,090
	$ 13,214,906

Fundraising expenses of $1,778,000 and $1,970,000 are included in institutional support in the statements of changes in net assets for the years ended May 31, 2009 and 2008, respectively.

NOTE G - STUDENT LOANS RECEIVABLE

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

	2009	2008
Federal Perkins Loan Program	$ 2,917,597	$ 2,964,562
Beloit College	5,320,957	4,823,675
	8,238,554	7,788,237
Less allowance for uncollectible loans	342,826	290,799
Net student loans receivable	$ 7,895,728	$ 7,497,438

NOTE G - STUDENT LOANS RECEIVABLE - Continued

Refundable advances from the U.S. Government under the Federal Perkins Loan Program and the net assets related to the College's matching contributions at May 31 are summarized as follows:

	2009	2008
Unrestricted net assets designated for Federal Perkins Loan Program match	$ 87,508	$ 87,508
Permanently restricted revolving loan funds used for Federal Perkins Loan Program match	271,782	271,782
Total match	359,290	359,290
U.S. Government grants refundable	2,568,964	2,549,714
Total	$ 2,928,254	$ 2,909,004

The carrying value of student loans receivable and refundable advances approximates fair value due to the short maturities of these instruments.

NOTE H - LAND, BUILDINGS AND EQUIPMENT

Land, buildings and equipment are comprised of the following assets at May 31:

	2009	2008
Leasehold improvements	$ 75,744	$ 75,744
Land and land improvements	5,468,045	5,375,291
Buildings	70,743,757	37,264,254
Building improvements	4,889,775	4,658,369
Equipment and furnishings	9,429,380	8,726,192
Dormitory and commons	26,671,312	26,623,501
Residential rental properties	891,740	891,740
Works of art	722,579	722,579
Construction in progress	-	28,074,802
	118,892,332	112,412,472
Less accumulated depreciation	44,509,434	45,305,713
Net land, buildings and equipment	$ 74,382,898	$ 67,106,759

Depreciation expense of $3,235,000 and $2,287,000 was recorded for the years ended May 31, 2009 and 2008, respectively.

NOTE I - LEASE COMMITMENTS

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 at a cost of $15,000. The renewed lease terminates in May 2015 and provides for monthly payments of $7,200 that increase by 2% annually. The College has an option to extend the term of the lease for an additional five years. Rent expense under this agreement totaled $86,000 and $84,000 for 2009 and 2008, respectively.

The following is a schedule by years of future minimum rental payments required under the operating lease as of May 31, 2009:

Years ending May 31,	
2010	$ 88,000
2011	90,000
2012	92,000
2013	93,000
2014	95,000
Thereafter	93,000
	$ 551,000

A portion of the space leased from Beloit Hotel, LLC was subleased during 2009 and 2008 for $25,000 annually plus housekeeping charges. The sublease was terminated during fiscal year 2009. Revenue related to this sublease was $17,000 and $42,000 for the years ended May 31, 2009 and 2008, respectively.

NOTE J - LONG-TERM DEBT

The long-term debt of the College as of May 31 consists of the following:

Description	Interest rate	Due date	2009	2008
Wisconsin Health and Educational 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	$ 56,255,000
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	400,000
			$ 56,205,000	$ 56,655,000

NOTE J - LONG-TERM DEBT - Continued

The College is subject to interest risk on the 2007 Bonds. Therefore, effective in July 2007, the College utilizes a derivative hedge instrument to manage its exposure to interest rate fluctuations. The instrument has a notional amount of $40,000,000 and a termination date of June 1, 2037. The instrument, an interest rate swap agreement, is designed as a cash flow hedge and effectively changes the College's interest rate exposure on $40,000,000 of the outstanding balance of the 2007 Bonds to a fixed rate of 3.8%. The change in fair value of the instrument of $3,531,000 and $2,460,000 for the years ended May 31, 2009 and 2008, respectively, was recorded as a loss on net assets and was included in instruction expense in the statements of activities. The fair value of the instrument was a liability of $5,991,000 and $2,460,000 at May 31, 2009 and 2008, respectively.

As of May 31, 2009, the effective interest rate on the 2007 Bonds is 0.35%. Interest expense on all long-term debt, including expense under the interest rate swap agreement, was $1,620,000 and $599,000 for the years ended May 31, 2009 and 2008, respectively, net of capitalized interest costs of $288,000 in 2009 and $1,506,000 in 2008.

The aggregate maturities of principal as of May 31, 2009 are as follows:

Years ending May 31,	
2010	$ 460,000
2011	260,000
2012	260,000
2013	4,910,000
2014	1,105,000
Thereafter	49,210,000
	$ 56,205,000

The College has a $2,000,000 bank line of credit that was established as a general source of funds. The line of credit expired in December 2009 and was renewed through December 2010. Borrowings are subject to interest at the LIBOR rate plus 2% (2.35% as of May 31, 2009). As of May 31, 2009 and 2008, there was no balance outstanding on the line of credit. Interest expense on the line of credit was $7,000 and $28,000 for the years ended May 31, 2009 and 2008, respectively.

The 2007 Bonds are collateralized by a general business security agreement. There is no collateral associated with any of the College's other outstanding debt.

NOTE K - RETIREMENT PLANS

The College has a defined contribution retirement plan for certain non-exempt employees. The expense relating to this plan was $334,000 and $323,000 for the years ended May 31, 2009 and 2008, 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 $1,081,000 and $1,036,000 for the years ended May 31, 2009 and 2008, respectively.

NOTE L - BELOIT COLLEGE EMPLOYEE HEALTH BENEFIT PLAN

The Beloit College Employee Health Benefit Plan (the Plan) is a self-insured employee health and welfare plan. The Plan provides health care 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. The College's expenses relating to the Plan were $1,705,000 and $1,745,000 for the years ended May 31, 2009 and 2008, respectively.

NOTE M - UNEMPLOYMENT COMPENSATION CLAIMS

The College is self-insured for unemployment compensation claims. As a result, the College has a $238,386 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 $106,000 and $34,000 during the years ended May 31, 2009 and 2008, respectively.

NOTE N - NET ASSETS

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 at May 31:

	2009	2008
Net investment in land, buildings and equipment	$ 17,970,366	$ 17,685,721
Funds designated for endowment by the Board of Trustees	19,056,993	64,018,950
Funds designated for retirement of indebtedness	-	232,251
Funds designated for annuity contract reserves	1,201,488	1,369,790
Funds designated for Federal Perkins Student Loan Program	87,508	87,508
Funds designated for student loan funds	864,391	829,905
	$ 39,180,746	$ 84,224,125

NOTE N - NET ASSETS - Continued

Donor restrictions of temporarily restricted net assets at May 31 are summarized as follows:

	2009	2008
Investment in land, buildings and equipment	$ 1,173,108	$ 1,121,238
Funds designated for endowment	4,557,523	4,621,722
Split-interest annuity agreements	1,909,329	2,804,920
Student loans	306,394	259,626
Academic support	436,877	457,717
Instruction	1,424,904	1,183,286
Scholarships	294,577	114,860
Contributions receivable and other	3,853,990	4,520,336
	$ 13,956,702	$ 15,083,705

Permanently restricted net assets consist of the following at May 31:

	2009	2008
Investments (perpetual endowment)	$ 60,930,602	$ 55,803,575
Contributions receivable	3,074,678	2,429,210
Beneficial interest in perpetual trusts	2,071,544	2,689,520
Cash surrender value	75,917	75,430
Split-interest annuity agreements	2,760,804	3,635,689
Revolving student loan funds	900,285	892,657
Other	1,943	1,943
	$ 69,815,773	$ 65,528,024

Endowment

Effective June 1, 2008, the College adopted the provisions of FASB Staff Position No. 117-1, *Endowments of Not-for-Profit Organizations: Net Asset Classification of Funds Subject to an Enacted Version of the Uniform Prudent Management of Institutional Funds Act, and Enhanced Disclosures for All Endowment Funds*.

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

NOTE N - NET ASSETS - Continued

The Board of Trustees of the College has interpreted the state Uniform Management of Institutional Funds Act (UMIFA) as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the College classifies as permanently restricted net assets: (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as unrestricted net assets, in accordance with UMIFA.

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor or UMIFA requires the College to retain as a fund of perpetual duration. In accordance with generally accepted accounting principles, deficiencies of this nature that are reported in unrestricted net assets were $1,895,460 as of May 31, 2009. These deficiencies resulted from unfavorable market fluctuations.

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 organization 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. 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.

The College has a policy of appropriating for distribution each year 4.5% of its endowment fund's average fair value over the prior three years in which the distribution is planned. Additional appropriations are allowed at the discretion of the Board of Trustees. In establishing this policy, the College considered the long-term expected return on its endowment. Accordingly, over the long term, the College expects the current spending policy to allow its endowment to grow at an average of 4%. This is consistent with the College's objective to maintain the purchasing power of the endowment assets held in perpetuity or for a specified term as well as to provide additional real growth through new gifts and investment return. Actual returns in any given year may vary from this expectation. In accordance with UMIFA, the College's policy of appropriating for distribution is suspended when the fair value of assets associated with individual donor-restricted endowment funds fall below the level required by the donor or by UMIFA. When this occurs, only yield (interest and dividends) is appropriated for distribution.

NOTE N - NET ASSETS - Continued

The following schedules reflect the College's endowment net asset composition and activity as of and for the years ended May 31, 2009 and 2008:

Endowment Net Asset Composition by Type of Fund 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	19,056,993	4,441,073	-	23,498,066
Total funds	$ 19,056,993	$ 4,557,523	$ 64,081,197	$ 87,695,713

Changes in Endowment Net Assets for the Year Ended May 31, 2009

	Unrestricted	Temporarily restricted	Permanently restricted	Total
Endowment net assets at beginning of year	$ 64,018,950	$ 4,621,721	$ 58,308,215	$ 126,948,887
Investment return:				
Investment income	1,352,940	255,136	7,421	1,615,497
Net depreciation	(34,961,628)	(13,996)	(23,544)	(34,999,168)
Total investment return	(33,608,688)	241,140	(16,123)	(33,383,671)
Contributions	751,594	2,433,557	4,583,570	7,768,721
Appropriation of endowment assets for expenditure	(13,374,231)	(256,571)	(7,421)	(13,638,223)
Net assets released from restrictions	(75,000)	(1,137,956)	1,212,956	-
Net asset reclassifications	1,344,368	(1,344,368)	-	-
Endowment net assets at end of year	$ 19,056,993	$ 4,557,523	$ 64,081,197	$ 87,695,713

NOTE N - NET ASSETS - Continued

Endowment Net Asset Composition by Type of Fund as of May 31, 2008

	Unrestricted	Temporarily restricted	Permanently restricted	Total
Donor-restricted endowment funds	$ -	$ 129,838	$ 58,308,215	$ 58,438,053
Board-designated endowment funds	64,018,950	4,491,884	-	68,510,834
Total funds	$ 64,018,950	$ 4,621,722	$ 58,308,215	$ 126,948,887

Changes in Endowment Net Assets for the Year Ended May 31, 2008

	Unrestricted	Temporarily restricted	Permanently restricted	Total
Endowment net assets at beginning of year	$ 71,556,602	$ 4,821,351	$ 55,145,728	$ 131,523,681
Investment return:				
Investment income	1,472,877	229,018	8,008	1,709,903
Net depreciation	(3,439,075)	(3,077)	(3,759)	(3,445,911)
Total investment return	(1,966,198)	225,941	4,249	(1,736,008)
Contributions	1,244,320	1,130,014	3,174,916	5,549,250
Appropriation of endowment assets for expenditure	(8,149,951)	(230,077)	(8,008)	(8,388,036)
Net assets released from restriction	1,334,177	(1,334,177)	-	-
Net assets reclassifications	-	8,670	(8,670)	-
Endowment net assets at end of year	$ 64,018,950	$ 4,621,722	$ 58,308,215	$ 126,948,887

Net asset reclassifications are related to transfers resulting from changes in donor restrictions.

The purpose of permanently restricted endowment net assets is as follows as of May 31:

	2009	2008
General institutional support	$ 2,750,063	$ 2,651,389
Academic programs	12,091,640	8,333,395
Faculty program support	18,127,732	17,793,048
Academic prizes	598,299	580,005
Library program support	3,034,994	3,019,799
Student programs	805,528	790,978
Plant operation and maintenance	378,094	377,594
Scholarships and grants	23,344,739	22,332,797
Contributions receivable	2,950,108	2,429,210
Total endowment funds classified as permanently restricted net assets	$ 64,081,197	$ 58,308,215

NOTE O - EXPENSES BY NATURAL CLASSIFICATION

The following schedule summarizes expenses by natural classification for the years ended May 31:

	2009	2008
Salaries and wages	$ 20,945,152	$ 20,647,485
Operating	10,501,697	10,123,431
Fringe benefits	6,430,002	6,249,053
Cost of sales	1,146,211	1,158,502
Depreciation	3,235,386	2,286,936
Utilities	1,729,188	1,715,183
Interest	5,157,645	3,086,637
Total expenses	$ 49,145,281	$ 45,267,227

NOTE P - 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. See note I for future minimum rental payments.

NOTE Q - RELATED PARTY TRANSACTIONS

Contributions from trustees and officers totaled $1,025,000 and $2,653,000 for the years ended May 31, 2009 and 2008, respectively. Contributions receivable from trustees and officers totaled $5,049,000 and $5,913,000 at May 31, 2009 and 2008, respectively.

NOTE R - SUBSEQUENT EVENTS

In May 2009, the FASB issued SFAS No. 165, *Subsequent Events* (SFAS 165), to incorporate the accounting and disclosure requirements for subsequent events into generally accepted accounting principles. SFAS 165 introduces new terminology, defines a date through which management must evaluate subsequent events, and lists the circumstances under which an entity must recognize and disclose events or transactions occurring after the statement of financial position date. The College adopted SFAS 165 as of May 31, 2009, which was the required effective date.

NOTE R - SUBSEQUENT EVENTS

The College evaluated its May 31, 2009 financial statements for subsequent events through February 3, 2010, the date the financial statements were available to be issued. The College is not aware of any subsequent events which would require recognition or disclosure in the financial statements.

In August 2009, the Uniform Prudent Management of Institutional Funds Act (UPMIFA) was adopted by Wisconsin, the state in which the College operates. UPMIFA is applicable to funds existing on or established after August 4, 2009. Management is currently evaluating the impact that the adoption of UPMIFA will have on the College's 2010 financial statements.

The College is in the process of establishing new debt agreements to refinance its variable rate debt. The new debt structure will include a $30,000,000 variable rate bond series and a $31,000,000 fixed rate issuance, maturing in 2037 and 2039, respectively. The debt will be secured by a letter of credit which will be collateralized by a mortgage on the College's land, buildings and equipment. The College also plans to terminate a portion of the interest rate swap on its variable rate debt to change the notional value from $40,000,000 to $30,000,000.