Grant Thornton

Financial Statements and Report of Independent Certified Public Accountants

Beloit College

May 31, 2008 and 2007

Contents

Audit • Tax • Advisory
Grant Thornton LLP
2 E. Gilman Street
PO Box 8100
Madison, WI 53708-8100
T 608.257.6761
F 608.257.6760
www.GrantThornton.com

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, 2008 and 2007, and the related statements of activities and cash flows for the years then ended. These financial statements are the responsibility of the College's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Beloit College as of May 31, 2008 and 2007, and the changes in its net assets and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

Grant Thornton LLP

GRANT THORNTON LLP
Madison, Wisconsin
December 4, 2008

BELOIT COLLEGE
STATEMENTS OF FINANCIAL POSITION
May 31,

ASSETS	2008	2007
Cash and cash equivalents	$ 3,165,878	$ 3,384,740
Accounts receivable, net	1,583,559	768,330
Contributions receivable, net	12,483,044	9,372,861
Student loans receivable, net	7,497,438	6,804,915
Investments	130,035,896	132,866,171
Inventories	34,404	37,446
Prepaid expenses and other assets	208,531	212,887
Cash surrender value of life insurance (face value of $1,955,000 in 2008 and 2007)	272,059	347,937
Mortgage note receivable, net	42,090	124,554
Deferred bond issuance costs, net	1,536,572	38,286
Land, buildings and equipment, less accumulated depreciation	67,106,759	44,959,790
Restricted bond proceeds	11,654,794	-
Beneficial interest in perpetual trusts	2,689,520	2,951,760
Funds held in trust by others	483,676	418,046
TOTAL ASSETS	$ 238,794,220	$ 202,287,723
LIABILITIES AND NET ASSETS		
Liabilities		
Accounts payable and accrued liabilities	$ 6,480,144	$ 4,376,425
Deferred tuition and fees	153,574	368,634
Student deposits and deferred grant revenue	733,173	350,339
Assets held for others under agency agreements	946,792	950,631
Beneficiary payable	73,892	80,865
Annuities payable	3,652,499	3,689,255
Deferred support under split-interest agreements	177,973	213,147
Long-term debt	56,655,000	21,586,500
Refundable advances from Henry Strong Education Foundation Loan Fund	75,789	71,477
Refundable advances from the U.S. Government	2,549,714	2,564,998
Derivative liability	2,459,816	-
Total liabilities	73,958,366	34,252,271
Net assets		
Unrestricted	84,224,125	92,370,440
Temporarily restricted	15,083,705	12,833,716
Permanently restricted	65,528,024	62,831,296
Total net assets	164,835,854	168,035,452
TOTAL LIABILITIES AND NET ASSETS	$ 238,794,220	$ 202,287,723

The accompanying notes are an integral part of these statements.

BELOIT COLLEGE
STATEMENTS OF ACTIVITIES
Years ended May 31,

	2008			
	Unrestricted	Temporarily restricted	Permanently restricted	Total
Revenues, gains and net assets released from restrictions and reclassified				
Tuition and fees	$ 38,035,697	$ -	$ -	$ 38,035,697
Funded student financial assistance	(1,813,124)	-	-	(1,813,124)
Unfunded student financial assistance	(15,624,125)	-	-	(15,624,125)
Net tuition and fees	20,598,448	-	-	20,598,448
Auxiliary enterprises	7,697,579	-	-	7,697,579
Contributions	3,786,109	4,943,578	3,020,421	11,750,108
Return on investments	(689,185)	375,181	5,075	(308,929)
Government contracts	1,506,141	-	-	1,506,141
Government grants	442,030	-	-	442,030
Other income	929,864	-	24	929,888
Change in value of split-interest agreements	(99,704)	(4,973)	(90,416)	(195,093)
Change in value of beneficial interest in perpetual trusts	-	-	(262,240)	(262,240)
Other losses resulting from bad debts	-	(55,069)	(35,234)	(90,303)
Total revenues and gains	34,171,282	5,258,717	2,637,630	42,067,629
Net assets released from restrictions	2,853,995	(2,853,995)	-	-
Net assets reclassified	95,635	(154,733)	59,098	-
Total revenues, gains and net assets released from restrictions and reclassified	37,120,912	2,249,989	2,696,728	42,067,629
Expenses				
Instruction	18,322,961	-	-	18,322,961
Institutional support	7,987,091	-	-	7,987,091
Auxiliary enterprises	6,776,040	-	-	6,776,040
Student services	7,044,358	-	-	7,044,358
Academic support	4,258,001	-	-	4,258,001
Public service	732,834	-	-	732,834
Research	110,716	-	-	110,716
Scholarships, grants and prizes	35,226	-	-	35,226
Total expenses	45,267,227	-	-	45,267,227
CHANGE IN NET ASSETS	(8,146,315)	2,249,989	2,696,728	(3,199,598)
Net assets at beginning of year	92,370,440	12,833,716	62,831,296	168,035,452
Net assets at end of year	$ 84,224,125	$ 15,083,705	$ 65,528,024	$ 164,835,854

The accompanying notes are an integral part of these statements.

2007			
Unrestricted	Temporarily restricted	Permanently restricted	Total
$ 37,892,544	$ -	$ -	$ 37,892,544
(1,627,995)	-	-	(1,627,995)
(15,796,496)	-	-	(15,796,496)
20,468,053	-	-	20,468,053
7,553,564	-	-	7,553,564
4,751,183	4,626,106	4,737,442	14,114,731
18,108,992	170,653	40,717	18,320,362
1,463,652	-	-	1,463,652
459,407	-	-	459,407
803,030	-	9,193	812,223
(47,923)	306,878	324,356	583,311
-	-	420,399	420,399
-	(130,661)	(128,032)	(258,693)
53,559,958	4,972,976	5,404,075	63,937,009
1,661,388	(1,661,388)	-	-
473,576	(745,998)	272,422	-
55,694,922	2,565,590	5,676,497	63,937,009
14,810,677	-	-	14,810,677
7,818,682	-	-	7,818,682
6,702,504	-	-	6,702,504
6,403,319	-	-	6,403,319
4,073,419	-	-	4,073,419
653,234	-	-	653,234
138,393	-	-	138,393
68,977	-	-	68,977
40,669,205	-	-	40,669,205
15,025,717	2,565,590	5,676,497	23,267,804
77,344,723	10,268,126	57,154,799	144,767,648
$ 92,370,440	$ 12,833,716	$ 62,831,296	$ 168,035,452

BELOIT COLLEGE
STATEMENTS OF CASH FLOWS
Years ended May 31,

	2008	2007
Cash flows from operating activities		
Change in net assets	$ (3,199,598)	$ 23,267,804
Adjustments to reconcile change in net assets to net cash used in operating activities		
Depreciation	2,286,936	2,264,915
Amortization on mortgage note receivable	82,464	99,676
Amortization of deferred bond issuance costs	50,832	-
Change in value of split-interest agreements and beneficial interests in perpetual trusts	172,152	(1,079,409)
Increase in allowance for uncollectible loans	33,163	49,512
Change in fair-value of derivative financial instrument	2,459,816	-
Loss on disposal of land, buildings and equipment	-	56,474
Contributed investments	(2,282,249)	(1,836,780)
Contributions restricted for long-term investment	(3,020,421)	(4,737,442)
Interest, dividends and other net losses restricted for long-term investment	(382,791)	666,633
Net unrealized (gain) loss on long-term investments	13,648,565	(8,099,037)
Net realized gain on long-term investments	(10,286,295)	(8,230,200)
Changes in operating assets and liabilities:		
Accounts receivable	(815,229)	(3,323)
Contributions receivable	(3,110,183)	(3,289,298)
Inventories and prepaid expenses and other assets	7,398	(34,275)
Beneficial interest in perpetual trusts	262,240	(420,399)
Funds held in trust by others	(65,630)	(418,046)
Accounts payable and accrued liabilities	2,064,571	94,693
Student deposits and deferred tuition and fees	167,774	6,734
Assets held for others under agency agreements	(3,839)	65,354
Beneficiary payable	(6,973)	2,349
Annuities payable	(36,756)	119,846
Deferred support under split-interest agreements	(35,174)	(4,543)
Net cash used in operating activities	(2,009,227)	(1,458,762)
Cash flows from investing activities		
Proceeds from sale of investments	83,511,084	36,760,259
Purchases of investments	(81,932,982)	(33,617,986)
Restricted cash from bond proceeds	(11,654,794)	-
(Increase) decrease in cash surrender value of life insurance	75,878	(11,055)
Purchases of land, buildings and equipment	(22,927,613)	(6,209,721)
Capitalization of interest	(1,467,144)	(152,294)
Issuance of student loans receivable	(1,289,753)	(1,396,337)
Payments from student loans receivable	564,067	680,112
Net cash used in investing activities	(35,121,257)	(3,947,022)

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

	2008	2007
Cash flows from financing activities		
Proceeds from contributions restricted for investment in endowment	$ 3,020,421	$ 4,737,442
Interest, dividends and other net losses restricted for reinvestment	382,791	(666,633)
Payment of deferred bond issuance costs	(1,549,118)	(38,286)
Increase in refundable advances - Henry Strong Education Foundation Loan Fund	4,312	12,231
Decrease in refundable advances - U.S. Government	(15,284)	(39,829)
Proceeds on line of credit	1,500,000	500,000
Payments on line of credit	(1,500,000)	(1,500,000)
Proceeds on long-term debt	56,255,000	4,971,500
Payments on long-term debt	(21,186,500)	(918,000)
Net cash provided by financing activities	36,911,622	7,058,425
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(218,862)	1,652,641
Cash and cash equivalents at beginning of year	3,384,740	1,732,099
Cash and cash equivalents at end of year	$ 3,165,878	$ 3,384,740
Supplemental data - interest paid	$ 2,153,028	$ 904,507
Non-cash		
Contributed investments	$ -	$ 1,836,780
Capitalized interest included in accounts payable and accrued liabilities	$ 69,535	$ 30,387

The accompanying notes are an integral part of these statements.

NOTE A - SUMMARY OF 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 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.

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.

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.

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;

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

1. Basis of Presentation - continued

- 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.

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.

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

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.

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.

8. Restricted Cash

As of May 31, 2008, the College has restricted bond proceeds of $11,654,794 associated with the issuance of the Wisconsin Health and Educational Facilities Authority (WHEFA), Revenue Bonds, Series 2007 (2007 Bonds) in August 2007 (note I).

9. Investments

Investment transactions are recorded on the trade date. Realized gains and losses on the sale of investments are calculated on the basis of specific identification of the securities sold. Investment management and custodian fees are recorded as a reduction of investment income for financial reporting purposes. Equity securities with readily determinable fair values and all debt securities are reported at fair value, with gains and losses included in return on investments in the statements of activities. Investments in limited partnerships are valued at the book value of the partnership capital account in the absence of readily ascertainable market values. However, because of the inherent uncertainty of valuation, those estimated values may differ significantly from the values that would have been used had a ready market for the limited partnership interests existed. All other investments are carried at the lower of cost or market.

Investment securities are exposed to various risks including, but not limited to, interest rate and market and credit risks. Due to the level of risks 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.

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

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 balances in excess of federally insured limits. 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.

12. Deferred Bond Issuance Costs

For the years ended May 31, 2008 and 2007, the College incurred and capitalized costs of $1,486,669 and $38,286, respectively, associated with the issuance of the 2007 Bonds. Commencing in 2008, these costs are being amortized to interest expense using the straight-line method over the life of the 2007 Bonds. During 2008, the College recognized interest expense of $50,832 related to deferred bond issuance costs.

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.

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

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 $33,000 and $41,000 for the years ended May 31, 2008 and 2007, respectively.

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 2008 and 2007, 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 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%. Interest rate differentials to be paid or received under the instrument are recognized as an adjustment of interest expense for the 2007 Bonds. The change in fair value of the instrument of $2,460,000 was recorded as a loss on net assets and was included in instruction expense for the year ended May 31, 2008. The fair value of the instrument was a liability of $2,460,000 at May 31, 2008.

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

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.

In July 2006, the FASB issued Interpretation 48, *Accounting for Uncertainty in Income Taxes: an Interpretation of FASB Statement No. 109* (FIN 48). FIN 48, which clarifies SFAS No. 109, *Accounting for Income Taxes*, establishes the criteria that an individual tax position has to meet for some or all of the benefits of that position to be recognized in the College's financial statements. On initial application, FIN 48 will be applied to all tax positions for which the statute of limitations remains open. Only tax positions that meet the more-likely-than-not recognition threshold at the adoption date will be recognized or continue to be recognized. The cumulative effect of applying FIN 48 shall be reported as an adjustment to net assets at the beginning of the period in which it is adopted.

FIN 48 is effective for fiscal years beginning after December 15, 2006, and was adopted by the College on June 1, 2007. The College has determined there are no uncertain tax positions as of May 31, 2008 and the pronouncement has no impact on the College's financial statements. The College has chosen to record interest and penalties associated with the adoption of FIN 48 as expense. As of May 31, 2008, the College has recorded no interest and penalties. Tax years open to examination by tax authorities under the statute of limitations include fiscal years 2005 through 2008.

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 A - 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. FIN 47 is effective no later than fiscal years ending after December 31, 2005. In applying this Statement 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 determined that no such actions are planned as of May 31, 2008; as such, the College has not recognized a conditional asset retirement liability pursuant to SFAS 143 as of May 31, 2008.

22. Recent Accounting Pronouncements

In September 2006, the FASB issued SFAS No. 157, *Fair Value Measurements* (SFAS 157), which defines fair value, establishes a framework for measuring fair value and expands disclosures about fair value measurements required under other accounting pronouncements, but does not change existing guidance as to whether or not an instrument is carried at fair value. SFAS 157 is effective for fiscal years beginning after November 15, 2007 and will be adopted by the College for the year ending May 31, 2009. The College has not completed its evaluation of the impact of adopting SFAS 157; as a result, the College is not able to estimate the effect that the adoption will have on the financial statements.

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 August 2008, the FASB issued FASB Staff Position (FSP) FAS 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.* FSP FAS 117-1 requires all not-for-profit organizations with endowment funds to make new disclosures about such funds. The objective of the disclosures is to provide information so financial statement users can understand the net asset classification, net asset composition, changes in net asset composition, spending policy and related investment policy pertaining to an organization's endowment funds. FSP FAS 117-1 is effective for fiscal years ending after December 15, 2008, and will be adopted by the College for the fiscal year ending May 31, 2009.

NOTE B - INVESTMENTS

Investments consist of the following at May 31:

	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

	2007		
	Fair value	Cost	Unrealized appreciation (depreciation)
Money market	$ 6,604,450	$ 6,604,450	$ -
Government bonds	2,128,465	2,138,560	(10,095)
Corporate bonds	2,062,442	2,062,811	(369)
Bond mutual funds	23,182,750	23,343,234	(160,484)
Common stock	31,609,521	22,239,214	9,370,307
Stock mutual funds	66,559,597	48,251,873	18,307,724
Real estate	12,900	12,900	-
Venture capital limited partnerships	1,756	1,756	-
Other	704,290	704,290	-
	$ 132,866,171	$ 105,359,088	$ 27,507,083

The College paid investment trustee and management fees of $747,000 and $714,000 for the years ended May 31, 2008 and 2007, respectively.

NOTE B - INVESTMENTS - Continued

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

	2008	2007
Interest and dividends	$ 3,053,341	$ 1,991,125
Realized gain	10,286,295	8,230,200
Unrealized gain (loss)	(13,648,565)	8,099,037
Total return on investments	$ (308,929)	$ 18,320,362

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 C - ACCOUNTS RECEIVABLE

Accounts receivable consists of the following at May 31:

	2008	2007
Tuition and fees	$ 74,405	$ 108,203
Government grants and contracts receivable	832,528	527,220
Accrued interest and pending investment trades	36,667	59,321
Other	659,047	101,232
	1,602,647	795,976
Less allowance for doubtful accounts	19,088	27,646
Net accounts receivable	$ 1,583,559	$ 768,330

NOTE D - CONTRIBUTIONS RECEIVABLE

Net contributions receivable are summarized as follows at May 31:

	2008	2007
Total contributions receivable	$ 13,828,514	$ 11,125,515
Less adjustment to present value of future cash flows for contributions receivable	720,335	1,270,322
Less allowance for uncollectible contributions	625,135	482,332
Net contributions receivable	$ 12,483,044	$ 9,372,861

NOTE D - CONTRIBUTIONS RECEIVABLE - Continued

During 2008 and 2007, the College determined that contributions receivables totaling $90,000 and $259,000, 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, 2008 are scheduled to be received as follows:

Years ending May 31,	
2009	$ 5,310,038
2010	1,978,265
2011	3,844,737
2012	1,283,859
2013	588,082
Thereafter	823,533
	$ 13,828,514

Fundraising expenses of $1,970,000 and $1,862,000 are included in institutional support in the statements of changes in net assets for the years ended May 31, 2008 and 2007, respectively.

NOTE E - STUDENT LOANS RECEIVABLE

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

	2008	2007
Federal Perkins Loan Program	$ 2,964,562	$ 2,952,734
Beloit College	4,823,675	4,109,817
	7,788,237	7,062,551
Less allowance for uncollectible loans	290,799	257,636
Net student loans receivable	$ 7,497,438	$ 6,804,915

NOTE E - 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:

	2008	2007
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	2,549,714	2,564,998
Total	$ 2,909,004	$ 2,924,288

NOTE F - MORTGAGE NOTE RECEIVABLE

During 2001, in connection with the lease of building space (Note H), the College entered into an interest-free mortgage note receivable agreement with Beloit Hotel, LLC for $697,694. Under this agreement, the note has a maturity date of December 31, 2040. In relation to this agreement, the College entered into an agreement with Wisconsin Management Company, Inc. (WMCI), which allows WMCI to purchase the note receivable from the College at any time after March 31, 2008 at a price equal to the present value of the outstanding amount due as of the date of purchase, using an annual discount rate of 9%. The mortgage note receivable was amortized on a straight-line basis, so that as of the assumed purchase date (March 31, 2008), the book value of the note equals the discounted purchase price. As of May 31, 2008, the note has not been purchased by WMCI. The accumulated amortization on the mortgage note receivable is $655,604 and the mortgage note receivable net of the related amortization is $42,090.

The estimated fair market value of the above mortgage note receivable is $150,000 as of May 31, 2008, using a maturity date of December 31, 2040. The estimated purchase price was discounted at the U.S. Treasury rate of 4.7% to arrive at the fair value as of May 31, 2008.

NOTE G - LAND, BUILDINGS AND EQUIPMENT

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

	2008	2007
Leasehold improvements	$ 75,744	$ 75,744
Land and land improvements	5,375,291	4,432,327
Buildings	37,264,254	37,264,254
Building improvements	4,658,369	4,658,369
Equipment and furnishings	8,726,192	8,127,822
Dormitory and commons	26,623,501	26,623,501
Residential rental properties	891,740	891,740
Works of art	722,579	722,579
Construction in progress	28,074,802	5,182,231
	112,412,472	87,978,567
Less accumulated depreciation	45,305,713	43,018,777
Net land, buildings and equipment	$ 67,106,759	$ 44,959,790

Depreciation expense of $2,287,000 and $2,265,000 was recorded for the years ended May 31, 2008 and 2007, respectively.

NOTE H - 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 $84,000 and $83,000 for 2008 and 2007, respectively.

The following is a schedule by years of future minimum rental payments required under the operating lease as of May 31, 2008:

Years ending May 31,	
2009	$ 86,000
2010	88,000
2011	90,000
2012	92,000
2013	93,000
Thereafter	188,000
	$ 637,000

A portion of the space leased from Beloit Hotel, LLC was subleased during 2008 and 2007 for $25,000 annually plus housekeeping charges. The sublease was renewed through May 31, 2011 for $33,000 annually. Revenue related to this sublease was $42,000 for each of the years ended May 31, 2008 and 2007.

NOTE I - LONG-TERM DEBT

The long-term debt of the College as of May 31, 2008 and 2007 consists of the following:

Description	Interest rate	Due date	2008	2007
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	$ 56,255,000	$ -
Term note	6.35%	Interest payable quarterly, annual principal installments of $200,000 due on January 2, beginning in fiscal year 2007 through 2010	400,000	600,000
Wisconsin Health and Educational Facilities Authority, Revenue Bonds, Series 2004	Variable	Paid in full in August 2007 with proceeds from WHEFA, Revenue Bonds, Series 2007	-	2,616,000
Wisconsin Health and Educational Facilities Authority, Revenue Bonds, Series 2002	Variable	Paid in full in August 2007 with proceeds from WHEFA, Revenue Bonds, Series 2007	-	2,915,000
Wisconsin Health and Educational Facilities Authority, Revenue Bonds, Series 1999	Variable	Paid in full in August 2007 with proceeds from WHEFA, Revenue Bonds, Series 2007	-	5,000,000
Wisconsin Health and Educational Facilities Authority, Revenue Bonds, Series 1993	Variable	Paid in full in August 2007 with proceeds from WHEFA, Revenue Bonds, Series 2007	-	4,484,000
Wisconsin Health and Educational Facilities Authority, Revenue Bonds, Series 1990	Variable	Paid in full in August 2007 with proceeds from WHEFA, Revenue Bonds, Series 2007	-	150,000
Wisconsin Health and Educational Facilities Authority, Revenue Bonds, Series 1988	Variable	Paid in full in August 2007 with proceeds from WHEFA, Revenue Bonds, Series 2007	-	850,000
Construction note	Variable	Paid in full in August 2007 with proceeds from WHEFA, Revenue Bonds, Series 2007	-	4,971,500
			$ 56,655,000	$ 21,586,500

NOTE I - LONG-TERM DEBT - Continued

As of May 31, 2008, the effective interest rate on the 2007 Bonds is 1.45%. Interest expense on all long-term debt was $599,000 and $667,000 for the years ended May 31, 2008 and 2007, respectively, net of capitalized interest costs of $1,506,000 in 2008 and $183,000 in 2007.

The aggregate maturities of principal as of May 31, 2008 are as follows:

Years ending May 31,	
2009	$ 450,000
2010	460,000
2011	260,000
2012	260,000
2013	4,910,000
Thereafter	50,315,000
	$ 56,655,000

The College has a $2,000,000 bank line of credit that was established as a general source of funds and expires in December 2008. Borrowings are subject to interest at the LIBOR rate plus 1.5% (3.96% as of May 31, 2008). As of May 31, 2008 and 2007, there was no balance outstanding on the line of credit. Interest expense on the line of credit was $28,000 and $57,000 for the years ended May 31, 2008 and 2007, 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 J - RETIREMENT PLANS

The College has a defined contribution retirement plan for certain non-exempt employees. The expense relating to this plan was $323,000 and $295,000 for the years ended May 31, 2008 and 2007, 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 $1,036,000 and $992,000 for the years ended May 31, 2008 and 2007, respectively.

NOTE K - 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 $1,745,000 and $1,703,000 for the years ended May 31, 2008 and 2007, respectively.

NOTE L - 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 $34,000 and $51,000 during the years ended May 31, 2008 and 2007, respectively.

NOTE M - 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:

	2008	2007
Net investment in land, buildings and equipment	$ 17,685,721	$ 18,472,698
Funds designated for endowment	68,947,675	74,628,324
Funds designated for retirement of indebtedness	232,251	234,078
Funds designated for annuity contract reserves	1,369,790	1,257,878
Funds designated for Federal Perkins Student Loan Program	87,508	87,508
Funds designated for student loan funds	829,905	761,677
Undesignated	(4,928,725)	(3,071,723)
	$ 84,224,125	$ 92,370,440

NOTE M - NET ASSETS - Continued

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

	2008	2007
Investment in land, buildings and equipment	$ 1,121,238	$ 1,064,621
Funds designated for endowment	4,621,722	4,821,351
Split-interest annuity agreements	2,804,920	2,805,600
Student loans	259,626	142,178
Academic support	457,717	439,628
Instruction	1,183,286	885,102
Scholarships	114,860	86,188
Contributions receivable and other	4,520,336	2,589,048
	$ 15,083,705	$ 12,833,716

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

	2008	2007
Investments (perpetual endowment)	$ 55,803,575	$ 53,302,051
Contributions receivable	2,429,210	1,767,420
Beneficial interest in perpetual trusts	2,689,520	2,951,760
Cash surrender value	75,430	76,258
Split-interest annuity agreements	3,635,689	3,846,174
Revolving student loan funds	892,657	885,691
Other	1,943	1,942
	$ 65,528,024	$ 62,831,296

NOTE N - EXPENSES BY NATURAL CLASSIFICATION

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

	2008	2007
Salaries and wages	$ 20,647,485	$ 19,506,489
Operating	10,123,431	9,497,196
Fringe benefits	6,249,053	6,074,255
Cost of sales	1,158,502	1,138,420
Depreciation	2,286,936	2,264,915
Utilities	1,715,183	1,464,269
Interest	3,086,637	723,661
Total expenses	$ 45,267,227	$ 40,669,205

NOTE O - COMMITMENTS

The College has entered into an agreement with Barnes & Noble College Bookstores, Inc. 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 as well as fund certain overhead expenses of the store. See note H for future minimum rental payments.

As of May 31, 2008, the College has incurred costs totaling $27,976,000 related to the construction of a new Center for the Sciences. This is a collaborative effort with a construction manager to build the shell and core components of the building and a separate contractor for architectural services. The College is under separate contracts with each of the service providers for a total of approximately $33,942,000 in construction contracts. As of May 31, 2008, the College has $11,654,794 of restricted cash (note A8) that is to be used to finance the remaining construction costs. The project was completed and the building was placed into service in August 2008.