Financial statements and report of independent certified public accountants

Beloit College

May 31, 2006 and 2005

C O N T E N T S

Grant Thornton

Accountants and Business Advisors

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, 2006 and 2005, 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 as established by the Auditing Standards Board of the American Institute of Certified Public Accountants. 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, 2006 and 2005, and the results of its activities and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

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BELOIT COLLEGE
STATEMENTS OF FINANCIAL POSITION
May 31,

ASSETS	2006	2005
Cash and cash equivalents	$ 1,732,099	$ 5,850,068
Accounts receivable, net	765,007	972,807
Contributions receivable, net	6,083,563	4,884,730
Student loans receivable, net	6,138,202	5,568,228
Investments	116,763,018	107,991,852
Inventories	21,333	30,046
Prepaid expenses and other assets	194,725	415,209
Cash surrender value of life insurance (face value of $1,955,000 in 2006 and 2005)	336,882	328,748
Mortgage note receivable, net	224,230	323,907
Land, buildings and equipment, less accumulated depreciation	40,888,777	39,267,462
Beneficial interest in perpetual trusts	2,531,361	2,389,742
TOTAL ASSETS	$ 175,679,197	$ 168,022,799
LIABILITIES AND NET ASSETS		
Liabilities		
Accounts payable and accrued liabilities	$ 4,251,345	$ 3,605,335
Deferred tuition and fees	121,309	152,842
Student deposits and deferred grant revenue	590,930	596,633
Assets held for others under agency agreements	885,277	864,494
Beneficiary payable	78,516	74,769
Annuities payable	3,569,409	3,057,090
Deferred support under split-interest agreements	217,690	240,174
Line of credit	1,000,000	-
Long-term debt	17,533,000	17,536,000
Refundable advances from Henry Strong Education Foundation Loan Fund	59,246	122,509
Refundable advances from the U.S. Government	2,604,827	2,633,244
Total liabilities	30,911,549	28,883,090
Net assets		
Unrestricted	77,344,723	75,202,558
Temporarily restricted	10,268,126	8,432,151
Permanently restricted	57,154,799	55,505,000
Total net assets	144,767,648	139,139,709
TOTAL LIABILITIES AND NET ASSETS	$ 175,679,197	$ 168,022,799

The accompanying notes are an integral part of these statements.

BELOIT COLLEGE
STATEMENTS OF ACTIVITIES
Years ended May 31,

	2006			
	Unrestricted	Temporarily restricted	Permanently restricted	Total
Revenues, gains and net assets released from restrictions and reclassified				
Tuition and fees	$ 35,062,934	$ -	$ -	$ 35,062,934
Funded student financial assistance	(1,677,793)	-	-	(1,677,793)
Unfunded student financial assistance	(14,178,067)	-	-	(14,178,067)
Net tuition and fees	19,207,074	-	-	19,207,074
Auxiliary enterprises	7,213,198	-	-	7,213,198
Contributions	3,740,190	3,089,165	2,107,793	8,937,148
Return on investments	6,954,771	114,223	43,309	7,112,303
Government contracts	1,653,674	-	-	1,653,674
Government grants	452,106	-	-	452,106
Other income	517,404	-	5,459	522,863
Change in value of split-interest agreements	28,589	215,631	84,823	329,043
Change in value of beneficial interest in perpetual trusts	-	-	141,619	141,619
Other losses resulting from bad debts	-	(199,701)	(44,491)	(244,192)
Total revenues and gains	39,767,006	3,219,318	2,338,512	45,324,836
Net assets released from restrictions	2,057,852	(2,057,852)	-	-
Net assets reclassified	14,204	674,509	(688,713)	-
Total revenues, gains and net assets released from restrictions and reclassified	41,839,062	1,835,975	1,649,799	45,324,836
Expenses				
Instruction	14,101,884	-	-	14,101,884
Institutional support	7,464,204	-	-	7,464,204
Auxiliary enterprises	6,667,415	-	-	6,667,415
Student services	6,426,691	-	-	6,426,691
Academic support	4,263,518	-	-	4,263,518
Public service	529,880	-	-	529,880
Research	243,305	-	-	243,305
Total expenses	39,696,897	-	-	39,696,897
CHANGE IN NET ASSETS	2,142,165	1,835,975	1,649,799	5,627,939
Net assets at beginning of year	75,202,558	8,432,151	55,505,000	139,139,709
Net assets at end of year	$ 77,344,723	$ 10,268,126	$ 57,154,799	$ 144,767,648

The accompanying notes are an integral part of these statements.

2005			
Unrestricted	Temporarily restricted	Permanently restricted	Total
$ 33,111,118	$ -	$ -	$ 33,111,118
(1,739,477)	-	-	(1,739,477)
(13,023,574)	-	-	(13,023,574)
18,348,067	-	-	18,348,067
6,800,294	-	-	6,800,294
2,841,897	1,393,467	2,463,561	6,698,925
6,617,136	168,027	62,922	6,848,085
1,904,678	-	-	1,904,678
456,727	-	-	456,727
454,629	-	6,229	460,858
11,940	126,523	154,334	292,797
-	-	173,405	173,405
-	(53,588)	(878,521)	(932,109)
37,435,368	1,634,429	1,981,930	41,051,727
1,192,115	(1,192,115)	-	-
8,336	(2,546,528)	2,538,192	-
38,635,819	(2,104,214)	4,520,122	41,051,727
13,687,227	-	-	13,687,227
6,888,126	-	-	6,888,126
5,939,193	-	-	5,939,193
5,999,338	-	-	5,999,338
4,082,874	-	-	4,082,874
654,165	-	-	654,165
39,151	-	-	39,151
37,290,074	-	-	37,290,074
1,345,745	(2,104,214)	4,520,122	3,761,653
73,856,813	10,536,365	50,984,878	135,378,056
$ 75,202,558	$ 8,432,151	$ 55,505,000	$ 139,139,709

BELOIT COLLEGE
STATEMENTS OF CASH FLOWS
Years ended May 31,

	2006	2005
Cash flows from operating activities		
Change in net assets	$ 5,627,939	$ 3,761,653
Adjustments to reconcile change in net assets to net cash used in operating activities		
Depreciation	2,216,436	2,173,131
Amortization on mortgage note receivable	99,677	99,677
Change in value of split-interest agreements and beneficial interests in perpetual trusts	(482,506)	(488,061)
Increase in allowance for uncollectible loans	40,830	35,667
(Gain) loss on disposal of land, buildings and equipment	4,936	(2,054)
Contributed investments	(2,548,660)	(1,873,602)
Contributed property	(132,000)	-
Contributions restricted for long-term investment	(2,107,793)	(2,463,561)
Interest, dividends and other net (gains) losses restricted for long-term investment	230,719	(549,611)
Net unrealized gain on long-term investments	(1,576,114)	(1,966,975)
Net realized gain on long-term investments	(2,893,355)	(2,981,587)
Decrease in accounts receivable	207,800	92,402
(Increase) decrease in contributions receivable	(1,198,833)	3,065,203
(Increase) decrease in inventories and prepaid expenses and other assets	229,197	(10,801)
Increase in beneficial interest in perpetual trusts	(141,619)	(173,406)
Increase in accounts payable and accrued liabilities	797,711	151,181
Increase (decrease) in student deposits and deferred tuition and fees	(37,236)	143,180
Increase in assets held for others under agency	20,783	95,254
Increase in beneficiary payable	3,747	4,482
Increase in annuities payable	512,319	198,064
Increase (decrease) in deferred support under split-interest agreements	(22,484)	28,286
Net cash used in operating activities	(1,148,506)	(661,478)
Cash flows from investing activities		
Proceeds from sale of investments	22,307,578	18,956,765
Purchases of investments	(23,673,509)	(14,852,856)
(Increase) decrease in cash surrender value of life insurance	(8,134)	7,232
Proceeds from sale of land, buildings and equipment	734	2,575
Purchases of land, buildings and equipment	(3,743,909)	(1,964,752)
Capitalization of interest	(23,813)	-
Issuance of student loans receivable	(1,328,039)	(1,273,259)
Payments from student loans receivable	717,235	735,271
Net cash provided by (used in) investing activities	(5,751,857)	1,610,976

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

	2006	2005
Cash flows from financing activities		
Proceeds from contributions restricted for investment in endowment	$ 2,107,793	$ 2,463,561
Interest, dividends and other net gains (losses) restricted for reinvestment	(230,719)	549,611
Increase (decrease) in refundable advances - Henry Strong Education Foundation Loan Fund	(63,263)	8,760
Increase (decrease) in refundable advances - U.S. Government	(28,417)	6,981
Net proceeds (payments) on line of credit	1,000,000	(500,000)
Proceeds on long-term debt	1,000,000	-
Payments on long-term debt	(1,003,000)	(718,000)
Net cash provided by financing activities	2,782,394	1,810,913
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(4,117,969)	2,760,411
Cash and cash equivalents at beginning of year	5,850,068	3,089,657
Cash and cash equivalents at end of year	$ 1,732,099	$ 5,850,068
Supplemental data - interest paid	$ 525,807	$ 304,569
Non-cash		
Contributed investments	$ 2,548,660	$ 1,873,602
Contributed property	$ 132,000	$ -
Purchases of land, buildings and equipment financed by accounts payable	$ -	$ 151,701
Transfer of investments to land, buildings and equipment	$ 95,400	$ -

The accompanying notes are an integral part of these statements.

BELOIT COLLEGE
NOTES TO FINANCIAL STATEMENTS
May 31, 2006 and 2005

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 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. 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

9. 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.

10. Inventories

Inventories are valued at the lower of cost (actual cost) or market.

11. 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

12. 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.

13. 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.

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

14. 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.

15. Advertising Costs

The College expenses advertising costs as they are incurred. Advertising expenses, primarily costs of brochures, were $34,000 and $69,000 for the years ended May 31, 2006 and 2005, respectively.

16. Derivatives

The College has adopted the Financial Accounting Standards Board (FASB) Statement of Financial Accounting Standards 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 2006 and 2005, 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.

17. 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.

18. 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.

19. Reclassifications

Certain reclassifications have been made to the 2005 financial statements to conform to the 2006 presentation.

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

20. New Accounting Pronouncements

Statement of Financial Accounting Standards No. 143 (FAS 143), *Accounting for Asset Retirement Obligations*, 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 if the College will undertake any major renovation, sell, dispose or abandon any related assets, what liability would be associated with such action, and the date such action would be taken. The College believes it does not have sufficient information to estimate the fair value of the asset retirement obligation because the settlement date or range of potential settlement dates has not been specified by others and information is not available to apply an expected present value technique, nor has specific remediation of assets been identified. The College has not recognized a conditional asset retirement liability pursuant to FAS 143 as of May 31, 2006. The College will be evaluating the need to record such a liability in the upcoming fiscal year.

NOTE B - INVESTMENTS

Investments consist of the following at May 31:

	2006		
	Fair value	Cost	Unrealized appreciation (depreciation)
Money market	$ 5,195,174	$ 5,195,174	$ -
Government bonds	2,023,989	2,055,319	(31,330)
Corporate bonds	1,845,100	1,845,656	(556)
Bond mutual funds	22,669,259	22,844,865	(175,606)
Common stock	27,294,606	22,396,741	4,897,865
Stock mutual funds	57,019,499	42,897,230	14,122,269
Real estate	12,900	12,900	-
Venture capital limited partnerships	1,756	1,756	-
Other	700,735	700,735	-
	$ 116,763,018	$ 97,950,376	$ 18,812,642

NOTE B - INVESTMENTS - Continued

	2005		
	Fair value	Cost	Unrealized appreciation (depreciation)
Money market	$ 6,175,325	$ 6,175,325	$ -
Government bonds	974,891	946,935	27,956
Corporate bonds	1,651,242	1,651,457	(215)
Bond mutual funds	23,610,003	22,552,262	1,057,741
Common stock	23,984,732	18,507,186	5,477,546
Stock mutual funds	50,875,671	40,230,208	10,645,463
Real estate	55,900	55,900	-
Venture capital limited partnerships	1,756	1,756	-
Other	662,332	662,332	-
	$ 107,991,852	$ 90,783,361	$ 17,208,491

During 2005, the College determined, due to a significant deterioration of the business prospects of the privately-held company in which it owns stock, that this stock investment has become impaired. The stock investment resulted from a previous gift and was included in permanently restricted net assets. Consequently, the College reduced the carrying value of the investment to zero as of May 31, 2005. This resulted in an impairment loss of $917,801 which is recorded in permanently restricted return on investments in the 2005 statement of activities.

The College paid investment trustee and management fees of $586,000 and $557,000 for the years ended May 31, 2006 and 2005, respectively.

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

	2006	2005
Interest and dividends	$ 2,642,834	$ 1,899,523
Realized gain	2,893,355	2,981,587
Unrealized gain	1,576,114	1,966,975
Total return on investments	$ 7,112,303	$ 6,848,085

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:

	2006	2005
Tuition and fees	$ 104,358	$ 136,791
Government grants and contracts receivable	428,504	608,224
Accrued interest and pending investment trades	89,076	99,405
Other	169,452	161,204
	791,390	1,005,624
Less allowance for doubtful accounts	26,383	32,817
Net accounts receivable	$ 765,007	$ 972,807

NOTE D - CONTRIBUTIONS RECEIVABLE

Net contributions receivable are summarized as follows at May 31:

	2006	2005
Total contributions receivable	$ 7,224,034	$ 5,668,022
Less adjustment to present value of future cash flows for contributions receivable	781,950	536,770
Less allowance for uncollectible contributions	358,521	246,522
Net contributions receivable	$ 6,083,563	$ 4,884,730

During 2006 and 2005, the College determined that contributions receivables totaling $244,192 and $932,109, 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, 2006 are scheduled to be received as follows:

Years ending May 31,	
2007	$ 1,439,711
2008	1,129,417
2009	2,615,665
2010	852,773
2011	819,253
Thereafter	367,215
	$ 7,224,034

NOTE D - CONTRIBUTIONS RECEIVABLE - Continued

Fundraising expenses of $1,676,000 and $1,550,000 are included in institutional support in the statements of changes in net assets for the years ended May 31, 2006 and 2005, respectively.

NOTE E - STUDENT LOANS RECEIVABLE

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

	2006	2005
Federal Perkins Loan Program	$ 2,969,187	$ 2,912,662
Beloit College	3,377,140	2,822,861
	6,346,327	5,735,523
Less allowance for uncollectible loans	208,125	167,295
Net student loans receivable	$ 6,138,202	$ 5,568,228

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:

	2006	2005
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	2,604,827	2,633,244
Total	$ 2,964,117	$ 2,992,534

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 is 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 of $41,490. As of May 31, 2006, the accumulated amortization on the mortgage note receivable is $473,464 and the mortgage note receivable net of the related amortization is $224,230.

NOTE F - MORTGAGE NOTE RECEIVABLE - Continued

The estimated fair market value of the above mortgage note receivable is $37,863 as of May 31, 2006, assuming the note will be purchased by WMCI on March 31, 2008 for $41,490. The estimated purchase price was discounted at the U.S. Treasury rate of 5% to arrive at the fair value as of May 31, 2006.

NOTE G - LAND, BUILDINGS AND EQUIPMENT

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

	2006	2005
Leasehold improvements	$ 75,744	$ 75,744
Land and land improvements	3,199,412	2,866,843
Buildings	37,264,254	37,022,113
Building improvements	4,630,489	3,599,600
Equipment and furnishings	7,452,792	7,358,321
Dormitory and commons	26,505,152	24,834,548
Residential rental properties	891,740	803,219
Works of art	722,579	722,579
Construction in progress	1,058,528	757,267
	81,800,690	78,040,234
Less accumulated depreciation	40,911,913	38,772,772
Net land, buildings and equipment	$ 40,888,777	$ 39,267,462

Depreciation expense of $2,216,000 and $2,173,000 was recorded for the years ended May 31, 2006 and 2005, respectively.

NOTE H - LEASE COMMITMENTS

In May 2001, the College entered into a seven-year operating lease agreement with Beloit Hotel, LLC for building space. The College has two options to extend the term of the lease. The first option commences at the end of the initial term of the lease, for seven additional years for a renewal fee of $15,000. The second extension is for an additional five years. If the College terminates the lease before the end of its initial term or does not renew the first option, the College must pay a breakage fee of $33,000. Rent expense totaled $81,000 for 2006 and 2005.

NOTE H - LEASE COMMITMENTS - Continued

The following is a schedule by years of future minimum rental payments required under the operating lease as of May 31, 2006:

Years ending May 31,		
2007	$	82,806
2008		80,943
Total minimum payments required	$	163,749

A portion of the above-mentioned space is being subleased for approximately $25,000 annually plus housekeeping charges through June 1, 2006. Revenue related to this sublease was $38,000 and $31,000 for the years ended May 31, 2006 and 2005, respectively.

NOTE I - LONG-TERM DEBT

The long-term debt of the College as of May 31, 2006 and 2005 consists of the following:

Payable to	Interest rate	Due date	2006	2005
Wisconsin Health and Educational Facilities Authority, Revenue Bonds, Series 2004	Variable	Interest payable monthly, annual principal installments of $218,000 due on March 1, beginning in fiscal year 2005 through 2019	$ 2,834,000	$ 3,052,000
Wisconsin Health and Educational Facilities Authority, Revenue Bonds, Series 2002	Variable	Interest payable monthly, principal due July 1, 2019	2,915,000	3,000,000
Wisconsin Health and Educational Facilities Authority, Revenue Bonds, Series 1999	Variable	Interest payable monthly, principal due July 1, 2019	5,000,000	5,000,000
Wisconsin Health and Educational Facilities Authority, Revenue Bonds, Series 1993	Variable	Interest payable monthly, principal due on demand, but in no event later than May 1, 2013	4,484,000	4,484,000

NOTE I - LONG-TERM DEBT - Continued

Payable to	Interest rate	Due date	2006	2005
Wisconsin Health and Educational Facilities Authority, Revenue Bonds, Series 1990	Variable	Interest payable monthly, annual principal installments due on June 1, beginning in fiscal year 2002 through 2008 in amounts ranging from $150,000 to $500,000	$ 650,000	$ 1,150,000
Wisconsin Health and Educational Facilities Authority, Revenue Bonds, Series 1988	Variable	Interest payable monthly, principal due on demand, but in no event later than July 1, 2013	850,000	850,000
Term note	6.35%	Interest payable quarterly, annual principal installments of $200,000 due on January 2, beginning in fiscal year 2007 through 2010	800,000	-
			$ 17,533,000	$ 17,536,000

As of May 31, 2006, the effective interest rate on the above bonds is 3.42%. Interest expense on all long-term debt was $541,000 and $332,000 for the years ended May 31, 2006 and 2005, respectively.

The aggregate maturities of principal as of May 31, 2006 are as follows:

Years ending May 31,	
2007	$ 918,000
2008	568,000
2009	418,000
2010	418,000
2011	218,000
Thereafter	14,993,000
	$ 17,533,000

The College has a $2,000,000 bank line of credit that was established as a general source of funds and expires in December 2006. Borrowings are subject to interest at the prime rate less .75% (7.25% as of May 31, 2006). As of May 31, 2006, the College had $1,000,000 outstanding on the line of credit. There were no borrowings outstanding on the line as of May 31, 2005.

Effective February 15, 2006, the College entered into a $6,600,000 construction line of credit that expires on April 30, 2007. Borrowings are subject to interest at LIBOR plus 1.5% (6.61% as of May 31, 2006). There were no borrowings outstanding on the line as of May 31, 2006.

There is no collateral associated with any of the College's 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 $271,000 and $261,000 for the years ended May 31, 2006 and 2005, 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 $974,000 and $933,000 for the years ended May 31, 2006 and 2005, 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 $1,784,000 and $1,715,000 for the years ended May 31, 2006 and 2005, respectively.

NOTE L - UNEMPLOYMENT COMPENSATION CLAIMS

The College is self-insured for unemployment compensation claims. As a result, the College has a $205,673 bank letter of credit, which expires on December 31, 2008, 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 $63,000 and $28,000 during the years ended May 31, 2006 and 2005, 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:

	2006	2005
Net investment in land, buildings and equipment	$ 20,673,707	$ 18,469,078
Funds designated for endowment	59,128,740	56,794,483
Funds designated for retirement of indebtedness	348,863	78,261
Funds designated for annuity contract reserves	959,207	685,592
Funds designated for Federal Perkins Student Loan Program	87,508	87,508
Funds designated for student loan funds	710,411	670,503
Undesignated	(4,563,713)	(1,582,867)
	$ 77,344,723	$ 75,202,558

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

	2006	2005
Investment in land, buildings and equipment	$ 2,727,486	$ 372,037
Funds designated for endowment	125,304	25,304
Split-interest annuity agreements	2,232,548	2,560,758
Student loans	178,344	202,299
Academic support	431,178	518,536
Instruction	879,608	1,000,622
Scholarships	65,663	47,997
Contributions receivable and other	3,627,996	3,704,598
	$ 10,268,126	$ 8,432,151

NOTE M - NET ASSETS - Continued

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

	2006	2005
Investments (perpetual endowment)	$ 49,338,400	$ 47,338,950
Contributions receivable	883,182	1,902,435
Beneficial interest in perpetual trusts	2,531,361	2,389,742
Cash surrender value	75,160	76,560
Split-interest annuity agreements	3,452,021	2,935,337
Revolving student loan funds	872,733	860,108
Other	1,942	1,868
	$ 57,154,799	$ 55,505,000

NOTE N - EXPENSES BY NATURAL CLASSIFICATION

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

	2006	2005
Salaries and wages	$ 18,673,268	$ 17,900,617
Operating	9,667,013	9,123,777
Fringe benefits	5,959,690	5,434,134
Cost of sales	1,115,566	1,070,793
Depreciation	2,216,436	2,173,131
Utilities	1,547,828	1,255,199
Interest	517,096	332,423
Total expenses	$ 39,696,897	$ 37,290,074

NOTE O - COMMITMENT

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, 2008, 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.