Beloit College

Financial Report
June 30, 2017

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Contents

Independent Auditor's Report

To the Board of Trustees
Beloit College

Report on the Financial Statements
We have audited the accompanying financial statements of Beloit College (the "College"), which comprise the statements of financial position as of June 30, 2017 and 2016, the related statements of activities and cash flows for the year ended June 30, 2017 and the thirteen months ended June 30, 2016, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements
Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility
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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a reasonable basis for our audit opinion.

Opinion
In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Beloit College as of June 30, 2017 and 2016, and the changes in its net assets and its cash flows for the year ended June 30, 2017 and the thirteen months ended June 30, 2016 in accordance with accounting principles generally accepted in the United States of America.

Other Matter
Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying supplementary information is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has not been subjected to the auditing procedures applied in the audits of the financial statements, and, accordingly, we do not express an opinion or provide any assurance on it.

RSM US LLP

Rockford, Illinois
October 31, 2017

Beloit College
Statements of Financial Position
June 30, 2017 and 2016

	2017	2016
Assets		
Cash and cash equivalents	**$ 2,746,461**	$ 2,473,258
Accounts receivable, net	**1,071,389**	971,709
Contributions receivable, net	**5,903,229**	2,003,015
Student loans receivable, net	**5,207,842**	5,204,571
Other assets	**615,574**	214,874
Investments	**161,364,745**	148,635,387
Property, plant and equipment, net	**68,291,340**	70,277,243
Funds held in trust by others	**595,356**	612,000
Beneficial interest in perpetual trusts	**2,948,527**	2,698,928
Total assets	**$ 248,744,463**	$ 233,090,985
Liabilities and Net Assets		
Liabilities:		
Accounts payable and other accrued liabilities	**$ 3,591,264**	$ 3,400,773
Deferred revenue	**1,772,812**	2,170,454
Student deposits and deferred grant revenue	**567,623**	482,895
Other liabilities	**159,525**	159,787
Refundable advance from U.S. government	**1,957,000**	1,932,165
Swap liability	**6,816,153**	9,554,153
Assets held for others	**200,549**	175,337
Annuities payable	**3,819,443**	3,780,399
Long-term debt	**54,718,524**	52,898,701
Total liabilities	**73,602,893**	74,554,664
Commitments and contingencies (Notes 19 and 20)		
Net assets:		
Unrestricted	**46,029,329**	47,481,429
Temporarily restricted	**38,936,939**	24,646,220
Permanently restricted	**90,175,302**	86,408,672
Total net assets	**175,141,570**	158,536,321
Total liabilities and net assets	**$ 248,744,463**	$ 233,090,985

See notes to financial statements.

Beloit College
Statement of Activities
Year Ended June 30, 2017

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Operating revenues:				
Student tuition and fees	$ 60,285,435	$ -	$ -	$ 60,285,435
Less:				
Funded student financial assistance	(2,228,136)	-	-	(2,228,136)
Unfunded student financial assistance	(32,074,000)	-	-	(32,074,000)
Net student tuition and fees	25,983,299	-	-	25,983,299
Auxiliary enterprises	9,302,510	-	-	9,302,510
Contributions	3,272,083	555,790	-	3,827,873
Return on investments	29,136	(17,948)	-	11,188
Government contracts and grants	1,477,645	-	-	1,477,645
Investment income allocated for operations	2,578,368	4,886,878	-	7,465,246
Other income	1,348,095	28,076	-	1,376,171
Net assets released from restrictions	6,638,596	(6,638,596)	-	-
Total operating revenues	50,629,732	(1,185,800)	-	49,443,932
Operating expenses:				
Instruction	20,673,889	-	-	20,673,889
Institutional support	10,996,382	-	-	10,996,382
Auxiliary enterprises	8,182,743	-	-	8,182,743
Student services	8,661,754	-	-	8,661,754
Academic support	5,668,401	-	-	5,668,401
Other operating expenses	657,491	-	-	657,491
Total operating expenses	54,840,660	-	-	54,840,660
Net decrease from operations	(4,210,928)	(1,185,800)	-	(5,396,728)
Non-operating activities:				
Investment income (loss):				
Interest income	1,303,711	1,617,572	-	2,921,283
Net gains on investments	6,229,096	9,374,285	-	15,603,381
Total investment income (loss)	7,532,807	10,991,857	-	18,524,664
Investment income allocated for operations	(2,578,368)	(4,886,878)	-	(7,465,246)
	4,954,439	6,104,979	-	11,059,418
Endowment gifts	385,772	-	3,272,515	3,658,287
Capital gifts and grants	-	9,362,739	-	9,362,739
Contributions	-	15,672	9,858	25,530
Adjustments to actuarial liability for annuities payable	(267,603)	(41,465)	232,197	(76,871)
Change in fair value of swap liability	2,738,000	-	-	2,738,000
Other non-operating activities	3,116	34,594	252,060	289,770
Loss on bond refinance	(5,054,896)	-	-	(5,054,896)
Total non-operating activities	2,758,828	15,476,519	3,766,630	22,001,977
Change in net assets	(1,452,100)	14,290,719	3,766,630	16,605,249
Net assets at beginning of period	47,481,429	24,646,220	86,408,672	158,536,321
Net assets at end of period	$ 46,029,329	$ 38,936,939	$ 90,175,302	$ 175,141,570

See notes to financial statements.

Beloit College
Statement of Activities
Thirteen Months Ended June 30, 2016

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Operating revenues:				
Student tuition and fees	$ 55,956,065	$ -	$ -	$ 55,956,065
Less:				
Funded student financial assistance	(2,186,195)	-	-	(2,186,195)
Unfunded student financial assistance	(28,430,633)	-	-	(28,430,633)
Net student tuition and fees	25,339,237	-	-	25,339,237
Auxiliary enterprises	8,870,785	-	-	8,870,785
Contributions	3,118,714	891,327	-	4,010,041
Return on investments	49,241	32,075	-	81,316
Government contracts and grants	1,489,596	-	-	1,489,596
Investment income allocated for operations	2,524,001	4,826,388	-	7,350,389
Other income	1,543,473	-	-	1,543,473
Net assets released from restrictions	6,819,668	(6,819,668)	-	-
Total operating revenues	49,754,715	(1,069,878)	-	48,684,837
Operating expenses:				
Instruction	19,709,506	-	-	19,709,506
Institutional support	11,029,422	-	-	11,029,422
Auxiliary enterprises	8,677,674	-	-	8,677,674
Student services	8,984,598	-	-	8,984,598
Academic support	4,788,945	-	-	4,788,945
Other operating expenses	717,355	-	-	717,355
Total operating expenses	53,907,500	-	-	53,907,500
Net decrease from operations	(4,152,785)	(1,069,878)	-	(5,222,663)
Non-operating activities:				
Investment income (loss):				
Interest income	2,458,203	3,959,175	-	6,417,378
Net gains on investments	(4,977,196)	(5,129,758)	-	(10,106,954)
Total investment income (loss)	(2,518,993)	(1,170,583)	-	(3,689,576)
Investment income allocated for operations	(2,524,001)	(4,826,388)	-	(7,350,389)
	(5,042,994)	(5,996,971)	-	(11,039,965)
Endowment gifts	856,726	-	1,939,819	2,796,545
Capital gifts and grants	-	3,755,495	-	3,755,495
Contributions	-	-	254,910	254,910
Adjustments to actuarial liability for annuities payable	(610,438)	(7,903)	(50,259)	(668,600)
Change in fair value of swap liability	(1,358,077)	-	-	(1,358,077)
Other non-operating activities	120,101	39,208	(198,629)	(39,320)
Net assets reclassified	752,926	(944,602)	191,676	-
Total non-operating activities	(5,281,756)	(3,154,773)	2,137,517	(6,299,012)
Change in net assets	(9,434,541)	(4,224,651)	2,137,517	(11,521,675)
Net assets at beginning of period	56,915,970	28,870,871	84,271,155	170,057,996
Net assets at end of period	$ 47,481,429	$ 24,646,220	$ 86,408,672	$ 158,536,321

See notes to financial statements.

Beloit College
Statements of Cash Flows
Year Ended June 30, 2017 and Thirteen Months Ended June 30, 2016

	2017	2016
Cash flows from operating activities:		
Change in net assets	**$ 16,605,249**	$ (11,521,675)
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Depreciation	**3,999,008**	4,083,108
Amortization	**292,510**	118,304
Loss on bond refinance	**5,054,895**	-
Change in fair value of swap liability	**(2,738,000)**	1,358,077
Contributed investments	**-**	(250,000)
Contributions received for investment in endowment and capital	**(13,046,556)**	(6,806,950)
(Increase) decrease in value of split-interest agreements and beneficial interests in perpetual trusts	**(232,955)**	261,157
Allowance for doubtful accounts	**117,937**	(67,161)
Net unrealized and realized (gains) and losses on investments	**(15,603,381)**	10,106,954
Loss on dispositions of property, plant and equipment	**-**	6,256
Increase (decrease) from changes in:		
Receivables, net	**(142,461)**	(221,194)
Other assets	**(135,569)**	376,785
Accounts payable and other accrued liabilities	**190,491**	(558,397)
Deferred revenues	**(397,642)**	208,162
Student deposits and deferred grant revenue	**84,728**	5,368
Annuities payable	**39,044**	(100,875)
Other liabilities	**24,837**	(147,579)
Net cash used in operating activities	**(5,887,865)**	(3,149,660)
Cash flows from investing activities:		
Purchases of property, plant and equipment	**(2,013,105)**	(2,577,982)
Purchases of investments	**(5,022,155)**	(36,903,519)
Proceeds from sales of investments	**7,896,178**	33,568,045
Disbursements of loans to students	**(842,206)**	(799,314)
Repayments of loans by students	**763,779**	969,017
Increase in the cash surrender value of life insurance	**(265,131)**	(3,091)
Net cash provided by (used in) investing activities	**517,360**	(5,746,844)
Cash flows from financing activities:		
Proceeds from long-term debt refunding	**26,746,813**	-
Payment of principal on long-term debt	**(710,000)**	(4,051,662)
Payments of principal and interest to escrow for bond refinance	**(29,246,930)**	-
Payment of debt issuance costs	**(317,465)**	-
Contributions received for investment in endowment and capital	**9,146,342**	6,806,950
(Increase) decrease in U.S. government grants refundable, net	**24,835**	(347,588)
Increase in Henry Strong Foundation advances refundable, net	**113**	294
Net cash provided by financing activities	**5,643,708**	2,407,994
Net (decrease) increase in cash and cash equivalents	**273,203**	(6,488,510)
Cash and cash equivalents		
Beginning	**2,473,258**	8,961,768
Ending	**$ 2,746,461**	$ 2,473,258
Supplemental disclosure of cash flow information:		
Cash paid during the year for interest	**$ 2,500,450**	$ 3,075,248

See notes to financial statements.

Note 1. 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. The accounting policies of the College reflect practices common to colleges and universities and conform to accounting principles generally accepted in the United States of America. During 2016, the College changed its fiscal year-end from May 31 to June 30. Accordingly, the financial statements for the period ended June 30, 2016, include thirteen months of activity.

In March 2017, the College established a new limited liability company, Beloit Powerhouse, LLC, of which the College is the sole corporate member. Beloit Powerhouse, LLC was organized for the purpose of owning and renovating property for use by the College. As of and for the year ended June 30, 2017, Beloit Powerhouse, LLC had no balances or activity.

Significant accounting policies of the College are summarized below:

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

Cash and cash equivalents: Cash and cash equivalents represent demand deposits and other investments with original purchased maturities of ninety days or less excluding restricted bond proceeds.

Accounts receivable: Accounts receivable are carried at the unpaid balance of the original amount billed to students. The receivables are net of an estimate made for doubtful accounts based on a review of all outstanding amounts. Management determines the allowance for doubtful accounts by considering the College's previous loss history and specific account circumstances. Recoveries of student accounts receivable previously written-off are recorded when received. Receivables are generally unsecured. The College does not charge interest or late fees on delinquent accounts but charges a one-time per term late payment penalty if the appropriate amount is not paid by the designated due date.

Contributions receivable: Unconditional promises to give (pledges) that are expected to be collected within one year are recorded at net realizable value. Unconditional promises to give that are expected to be collected in future years are recorded at the present value of their estimated future cash flows. 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 contributions is assessed on an individual basis.

Note 1. Summary of Significant Accounting Policies (Continued)

Student loans receivable: Student loans receivable, which include Perkins governmental loans and institutional loans, are carried at unpaid principal balances, less the allowance for uncollectible loans of $895,241 and $820,229 at June 30, 2017 and June 30, 2016, respectfully. The allowance calculation is based on the loans receivable past due balances. Loans receivable are considered to be past due if a payment is not made within 30 days of the payment due date. Periodically, the allowance is evaluated based on past loan loss experience and current economic conditions. Interest income is recorded monthly as payments are received. Interest on a past due loan is not recognized or accrued until cash payments are received.

Bond issuance costs: Bond issuance costs for the Series 2014 and 2016 bonds are being deferred and amortized over the life of the related bonds. Unamortized bond issuance costs are reflected as a reduction of the related debt on the statements of financial position.

Investments: Investments are recorded at fair value. All investment income and losses, including changes in the fair value of investments, is recognized as non-operating activity in the statements of activities when earned. The College annually appropriates 4.5 percent of the endowment fund's average fair value for the prior three years for operations and reclassifies these earnings to operations.

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. Gains and losses are included with investment income (loss) on the statement of activities.

Assets held in trust for which the College does not serve as trustee are reported as funds held in trust by others. Contribution revenue and a receivable are recorded at the date the trusts are established for the present value of estimated future payments to be received.

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

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

Note 1. Summary of Significant Accounting Policies (Continued)

The College capitalizes property, plant and equipment additions of $10,000 or more. Normal repairs and maintenance expenses are charged to operations as incurred. 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. These museum collections are insured at a value of approximately $10,500,000 as of June 30, 2017 and 2016, respectively.

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.

Deferred revenue: Certain revenue related to summer courses and programs is deferred and recognized as revenue in the same period expenses are recognized. Students are generally billed for courses and programs prior to the start of the course or program. In addition, the College accounts for refundable advances received under certain contracts as deferred revenue.

Refundable advances: Funds provided by the Henry Strong Foundation Loan Fund and United States Government, under the Perkins loan program, are loaned to qualified students and may be re-loaned after collection. These funds are ultimately refundable to the Henry Strong Foundation Loan Fund and the government and are included as liabilities in the statements of financial position. Revenues from other government grants are recognized as they are earned in accordance with the agreement. Expenses incurred before cash is received are recorded as receivables.

The Federal Perkins Loan Program expired September 30, 2017, and the College could not disburse Perkins loans to any student on or after October 1, 2017, except for subsequent disbursements of loans first disbursed between June 30, 2017 and September 30, 2017. The College will be liquidating its Federal Perkins Loan Program at the direction of the Department of Education. The liquidation will likely involve the College assigning all eligible outstanding loans to the Department of Education and the remittance of federal share of remaining Perkins cash assets to the Department of Education.

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

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

Note 1. Summary of Significant Accounting Policies (Continued)

The difference between interest received and interest paid under the swap agreement is recorded as interest expense in the statements of activities.

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

> ***Permanently restricted net assets -*** Net assets subject to donor-imposed restrictions that they be maintained permanently by the College. Generally, the donors of these assets permit the College to use all or part of the income earned on related investments for general or specific purposes.
>
> ***Temporarily restricted net assets -*** Net assets subject to donor-imposed restrictions that will be met by action of the College and/or the passage of time.
>
> ***Unrestricted net assets -*** Net assets not subject to donor-imposed restrictions.

Revenues from sources other than contributions are reported as increases in unrestricted net assets. Expenses are reported as decreases in unrestricted net assets. Income earned on donor restricted funds is initially classified as temporarily restricted revenues and is reclassified to unrestricted net assets through the passage of time, when expenses are incurred for their restricted purpose, or both.

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

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

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

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

Operating activities: The statements of activities distinguish between operating and non-operating activities. Operating activity reflects revenues generated from exchange transactions and the related expenses incurred. It also includes contributions from annual fund gifts and endowment earnings appropriated to support current year operations.

Note 1. Summary Significant Accounting Policies (Continued)

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

Fundraising expenses: The College follows the policy of expensing the costs of fundraising when incurred.

Functional allocation of expenses: The costs of providing the various programs and other activities have been summarized on a functional basis in the statements of activities. Accordingly, certain expenses have been allocated among the programs and supporting services benefited.

Reclassification: Certain amounts appearing in the 2016 financial statements have been reclassified to conform to the 2017 presentation. The reclassifications have no effect on reported amounts of total net assets or change in total net assets.

Income taxes: The College qualifies as a Section 501(c)(3) not-for-profit educational institution under the Internal Revenue Code (the Code) and, therefore, is exempt from federal income taxes pursuant to section 501(a) of the Code. The College is, however, subject to federal income taxes on any unrelated business income under the provisions of section 511 of the Code. The College is exempt from state income taxes under Section 71.26 of Wisconsin Statutes.

Concentration of credit risk: Financial instruments that potentially subject the College to concentrations of credit risk consist principally of cash, investments, and accounts receivable. The College has placed much of its cash and liquid investments with one financial institution. Also, cash balances may periodically exceed federally insured limits. Marketable securities, consisting of both debt and equity instruments, are generally placed in a variety of managed funds administered by different investment managers in order to limit credit risk. Student receivables and other receivables are due from a variety of sources concentrated primarily in the Midwestern United States. In addition, the College's students receive a substantial amount of support from state and federal student financial assistance programs which are subject to audit by governmental agencies. A significant reduction in the level of this support, if this were to occur, could have an adverse effect on the College's programs and activities.

Recent accounting pronouncements: In May 2014, the FASB issued ASU 2014-09, *Revenue from Contracts with Customers (Topic 606)*, requiring an entity to recognize the amount of revenue to which it expects to be entitled for the transfer of promised goods or services to customers. The updated standard will replace most existing revenue recognition guidance in U.S. GAAP when it becomes effective and permits the use of either a full retrospective or retrospective with cumulative effect transition method. In August 2015, the FASB issued ASU 2015-14 which defers the effective date of ASU 2014-09 one year making it effective for the College's year ending June 30, 2019. Earlier application is permitted only as of the College's year ending June 30, 2018. The College has not yet selected a transition method.

In May 2015, FASB issued ASU 2015-07, *Fair Value Measurement (Topic 850): Disclosures for Investments in Certain Entities That Calculate Net Asset Value per Share (or Its Equivalent)*, which removes the requirement to categorize within the fair value hierarchy all investments for which fair value is measured using the net asset value per share practical expedient. ASU 2015-07 also limits certain disclosures to investments for which the entity has elected to measure the fair value using the practical expedient. This ASU will be effective for the College's year ending June 30, 2018. Early adoption is permitted and the amendments in ASU 2015-07 should be applied retrospectively to all periods presented. As ASU 2015-07 only amends and eliminates certain disclosures, the College does not anticipate its adoption will have a material impact on its financial statements.

Note 1. Summary of Significant Accounting Policies (Continued)

In January 2016, the FASB issued ASU 2016-01, *Financial Instruments—Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities*, which updates certain aspects of recognition, measurement, presentation and disclosure of financial instruments. ASU 2016-01 will be effective for the College's year ending June 30, 2020. The College elected to early adopt the amendment that no longer requires disclosure of the fair value of financial instruments that are not measured at fair value and as such, these disclosures are not included herein.

In February 2016, the FASB issued ASU 2016-02, *Leases (Topic 842)*. The guidance in this ASU supersedes the leasing guidance in Topic 840, *Leases*. Under the new guidance, lessees are required to recognize lease assets and lease liabilities on the balance sheet for all leases with terms longer than 12 months. Leases will be classified as either finance or operating, with classification affecting the pattern of expense recognition in the income statement. The new standard is effective for the College's year ending June 30, 2020. A modified retrospective transition approach is required for lessees for capital and operating leases existing at, or entered into after, the beginning of the earliest comparative period presented in the financial statements, with certain practical expedients available.

In August 2016, the FASB issued ASU 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*. This guidance amends the requirements for financial statements and notes presented by a not-for-profit entity to: a) present on the face of the statement of financial position amounts for two classes of net assets at the end of the period, rather than for the currently required three classes; b) present on the face of the statement of activities the amount of the change in either of the two classes of net assets rather than that of the currently required three classes; c) provide enhanced disclosures in the notes to the financial statements; d) report investment return net of external and direct internal investment expenses; e) provide enhanced disclosures of the amounts of expenses by both their natural classification and their functional classification; and f) utilize, in the absence of explicit donor stipulations, the placed-in-service approach for reporting expirations of restrictions on gifts of cash or other assets to be used to acquire or construct a long-lived asset. The ASU will be effective for the College's year ending June 30, 2019. Early application is permitted. Retrospective application is required for many provisions of this guidance.

Unless otherwise indicated, the College is currently evaluating the effect that the above standards will have on the financial statements.

Subsequent events: The College has evaluated subsequent events through October 31, 2017, which is the date the financial statements were issued.

Note 2. Accounts Receivable, Net

Accounts receivable consists of the following at June 30, 2017 and 2016:

	2017	2016
Tuition and fees	$ 970,857	$ 850,026
Government grants and contracts receivable	211,687	201,721
Other	37,973	26,309
Gross accounts receivable	1,220,517	1,078,056
Less: Allowance for doubtful accounts	(149,128)	(106,347)
Accounts receivable, net	$ 1,071,389	$ 971,709

Note 3. Contribution Receivables, Net

Contributions receivable as of June 30, 2017 and 2016, are composed of and are to be used for the following:

	2017	2016
Capital funds	$ 5,482,684	$ 671,643
Operations	866,053	1,361,951
Endowment	43,000	104,000
Gross contributions receivable	6,391,737	2,137,594
Less: Discount	(177,812)	(29,157)
Less: Allowance for uncollectible contributions	(310,696)	(105,422)
Net contributions receivable	$ 5,903,229	$ 2,003,015

Contributions receivable are expected to be collected from donors over the following periods:

	2017	2016
Less than one year	$ 2,026,241	$ 1,030,651
One to five years	4,089,496	1,106,943
More than five years	276,000	-
Totals	$ 6,391,737	$ 2,137,594

Contributions have been discounted using a rate ranging from 0.14 percent to 5 percent. As of June 30, 2017 and 2016, the College had approximately $1,578,000 and $1,851,000, respectively, of gross contributions receivable from board members and employees.

Note 4. Student Loans Receivable

The College issues uncollateralized loans to students based on financial need. Student loans are funded through Federal government loan programs or institutional resources.

At June 30, 2017 and 2016, student loans consisted of the following:

	2017	2016
Federal government programs	$ 2,157,419	$ 2,319,494
Institutional programs	3,945,664	3,705,306
	6,103,083	6,024,800
Less allowance for doubtful accounts:		
Beginning of period	(820,229)	(845,782)
(Increases) decreases	(75,012)	25,553
End of period	(895,241)	(820,229)
Student loans receivable, net	$ 5,207,842	$ 5,204,571

Funds advanced by the Federal government of $1,957,000 and $1,932,165 at June 30, 2017 and 2016, respectively, are ultimately refundable to the government and are classified as liabilities in the statements of financial position.

After a student is no longer enrolled in an institution of higher education and after a grace period, interest is charged on student loans receivable and is recognized as it is charged. Student loans receivable through the loan programs are considered to be past due if a payment is not made within 30 days of the payment due date, at which time, late charges are charged and recognized. The Federal Perkins Loan Program receivables may be assigned to the U.S. Department of Education. Students may be granted a deferment, forbearance, or cancellation of their student loan receivable based on eligibility requirements defined by the U.S. Department of Education.

At June 30, 2017 and 2016, the following amounts were past due under student loan programs:

	Amount Past Due				
	Less than 240 Days	240 Days - 2 Years	2 - 5 Years	5 + Years	Total
June 30, 2017	$ 19,574	$ 60,985	$ 273,697	$ 947,694	$ 1,301,950
June 30, 2016	19,493	56,248	329,459	823,878	1,229,078

Note 5. Investments

The following summarizes the College's investments as of June 30, 2017 and 2016:

	2017	2016
Certificates of deposit	$ 205	$ -
Money market funds	548,657	166,326
Government bonds	155,539	2,951,878
Mutual funds - bonds:		
U.S. high yield fixed income	117,083	87,398
U.S. Treasury inflation protected	188,193	106,871
Other fixed income	948,919	1,011,068
Mutual funds - equities:		
U.S. equities	3,437,263	3,351,866
Non-U.S. equities	1,097,438	1,095,476
Mutual funds - diversified	138,856,319	125,570,624
Mutual funds - commodity	159,033	127,888
Common stock	21,010	245,225
Alternative investments:		
Private equity funds	7,133,651	5,181,847
Investment companies	8,665,796	8,024,428
Real estate investment	12,900	12,900
Accrued interest and pending investment trades	22,739	701,592
Totals	$ 161,364,745	$ 148,635,387

Investments, in general, are subject to various risks, including credit, interest and overall market volatility risks. Due to the level of risk associated with certain investment securities, it is reasonably possible that changes in values of investment securities will occur in the near term and that such changes could materially affect the amounts reported in the financial statements.

Investment income (loss) for the years ended June 30, 2017 and 2016, consists of the following:

	2017	2016
Interest and dividends	$ 2,921,283	$ 6,417,378
Realized gains on investments	1,680,348	2,583,746
Unrealized gains (losses) on investments	13,923,033	(12,690,700)
Totals	$ 18,524,664	$ (3,689,576)

The College paid investment trustee and management fees of approximately $509,000 and $327,000 for the years ended June 30, 2017 and 2016, respectively.

Note 6. Property, Plant and Equipment, Net

A summary of property, plant, and equipment as of June 30, 2017 and 2016, is as follows:

	2017	2016
Leasehold improvements	$ 75,744	$ 75,744
Land and land improvements	8,808,291	8,766,018
Buildings	81,242,080	79,855,016
Building improvements	7,722,467	7,435,174
Equipment and furnishings	10,601,784	10,377,467
Dormitory and commons	26,671,311	26,671,311
Residential rental properties	891,740	891,740
Works of art	722,579	722,579
Books	1,012,939	896,097
	137,748,935	135,691,146
Less: accumulated depreciation	(71,744,523)	(67,745,516)
	66,004,412	67,945,630
Construction in process	2,286,928	2,331,613
Property, plant and equipment, net	$ 68,291,340	$ 70,277,243

Note 7. Long-Term Debt

On April 28, 2010, Wisconsin Health and Educational Facilities Authority (WHEFA) issued $28,640,000 of Revenue Bonds on behalf of the College. The Series 2010A bonds required semiannual interest payments at fixed interest rates originally ranging from 3.5 percent to 6.125 percent and have maturity dates from 2012 to 2039. On June 15, 2015, the College redeemed the callable 2021 tranche of the Series 2010A bonds, including the payments dates from 2016 to 2021. In September 2016, the College advance refunded the remaining balance of the bonds by placing funds in an irrevocable trust sufficient to pay outstanding principal and interest in future call dates. As a result, the bonds have been considered extinguished and are not reflected in the College’s liabilities as of June 30, 2017. Funds required to be placed in escrow exceeded the outstanding balance of principal on the bonds at the time of refunding by $5,054,896 which was recorded as a loss on bond refinance in the accompanying statement of activities.

On May 8, 2014, WHEFA issued $29,775,500 of Refunding Revenue Bonds on behalf of the College. The College is party to a direct bond purchase agreement for the Series 2014 bonds with JP Morgan Chase Bank, dated May 9, 2014. The agreement includes a three year term with an annual option for renewal for one year pending the approval of the bank. The bonds are multimodal which allows them to be reissued in the event the direct purchase agreement is not renewed by either party. The Series 2014 bonds bear interest at a variable rate of 72 percent of LIBOR plus 100 basis points which resets weekly. The interest is payable on the first business day of each calendar month. At June 30, 2017, the weekly bond rate was 1.930 percent.

Note 7. Long-Term Debt (Continued)

On September 14, 2016, WHEFA issued $23,080,000 of Revenue Bonds on behalf of the College. The Series 2016 bonds require semiannual interest payments at fixed interest rates ranging from 3.0 percent to 5.0 percent and have maturity dates from 2022 to 2033. The proceeds of the Series 2016 bonds were used to generate the needed escrow account which allowed for the defeasance of the Revenue Bonds Series 2010A bonds discussed above.

The bond agreements include covenants that the College maintain certain financial ratios and balances. As of June 30, 2017, the College was in violation of a certain financial covenant.

A summary of outstanding long-term debt at June 30, 2017 and 2016, is as follows:

	2017	2016
Series 2016 Bonds	$ 23,080,000	$ -
Series 2014 Bonds	28,463,838	29,173,838
Series 2010A Bonds	-	24,360,000
	51,543,838	53,533,838
Bond premiums and discounts, net	3,540,600	(167,966)
Less:		
Bond issuance costs, net of amortization	(365,914)	(467,171)
	$ 54,718,524	$ 52,898,701

Future principal payments on the bonds payable as of June 30, 2017, are due as follows:

Years Ending June 30:	
2018	$ 755,000
2019	800,000
2020	895,000
2021	950,000
2022	1,645,000
Thereafter	46,498,838
	$ 51,543,838

The Series 2014 and the Series 2016 bonds are collateralized by a mortgage on the property and buildings of the College.

Interest expense on all long-term debt, including the interest expense under the interest rate swap agreement, was approximately $2,379,000 and $3,197,000 for the year ended June 30, 2017 and the thirteen month period ended June 30, 2016, respectively.

Note 8. Swap Liability

At June 30, 2017, the College has an outstanding interest rate swap agreement under which the College pays a fixed interest rate (4.1175 percent) and receives a floating rate equal to the one month LIBOR (1.224 at June 30, 2017) based on a notional amount, which decreases over time. The initial notional amount of the interest rate swap was $30,000,000. At June 30, 2017, the notional amount was $27,790,000. The swap agreement matures on June 1, 2037. Settlements of the swap are made monthly, at the net amount.

Derivative instruments are reported in the statements of financial position at fair value as of June 30, 2017 and 2016, as follows:

Derivatives Not Designated as Hedging Instruments	Liability Derivatives: Statement of Financial Position Location	Fair Value 2017	Fair Value 2016
Interest rate swap	Swap liability	$ 6,816,153	$ 9,554,153

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

Derivatives Not Designated as Hedging Instruments	Location of Gain (Loss) on Derivatives Recognized in the Statement of Activities	Amount of Gain (Loss) on Derivatives Recognized in the Statement of Activities 2017	2016
Interest rate swap	Non-operating activities	$ 2,738,000	$ (1,358,077)

Note 9. Line of Credit

The College has a $1,500,000 unsecured line of credit with JP Morgan Chase Bank. Interest is at 175 basis points plus the bank's LIBOR (2.97 percent at June 30, 2017) and amounts borrowed are due on demand. As of June 30, 2017 and 2016, there was no balance outstanding on the line of credit. The line of credit matures on December 31, 2017.

Note 10. Related Parties

Contributions from trustees, officers, and employees totaled approximately $3,319,000 and $3,228,000 during the year ended June 30, 2017 and the thirteen month period ended June 30, 2016, respectively. See Note 2 for related party contributions receivable.

Note 11. Operating Leases

In May 2001, the College entered into an operating lease agreement with Beloit Hotel, LLC for building space. In May 2008, the College exercised its option to renew the lease. This lease automatically renewed for five additional years in May 2015 and provides for monthly payments that increase annually by 2 percent or the consumer price index, whichever is less. Rent expense for the year ended June 30, 2017, and the thirteen month period ended June 30, 2016, was approximately $114,000 and $123,000, respectively.

In November 2014, the College entered into an operating lease agreement for campus-wide copiers and printers. Rent expense for both the year ended June 30, 2017 and the thirteen month period ended June 30, 2016, was $68,000.

Future lease commitments are due as follows:

Years Ending June 30:	
2018	$ 196,800
2019	199,900
2020	203,100
2021	206,400
2022	209,700
	$ 1,015,900

Note 12. 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. As of June 30, 2017 and 2016, the College's unrestricted net assets which are Board designated for investment in the endowment totaled $55,054,471 and $51,230,703, respectively.

Net assets as of June 30, 2017 and 2016, are temporarily restricted for the following:

	2017	2016
Purpose restrictions:		
Capital expenditures	$ 12,772,747	$ 3,413,650
Student loans	347,236	279,206
Academic support	5,512,218	4,576,916
Instruction	8,842,296	6,725,483
Scholarships	8,285,863	6,605,196
Other	1,856,192	924,844
Time restrictions - contribution receivables and other	1,320,387	2,120,925
Totals	$ 38,936,939	$ 24,646,220

Note 12. Net Assets (Continued)

Temporarily restricted net assets were released from donor restrictions as follows for year ended June 30, 2017 and during the thirteen month period ending June 30, 2016:

	2017	2016
Scholarships	$ 1,844,095	$ 1,687,166
Investment in land, buildings, and equipment	128,479	983,968
Operating expenses	4,666,022	4,148,534
Totals	$ 6,638,596	$ 6,819,668

Permanently restricted net assets as of June 30, 2017 and 2016, represent the original corpus of the following restricted gifts where the earnings on such are used for unrestricted or restricted activities as designated by the donor. Net assets are permanently restricted for the following purposes at June 30, 2017 and 2016:

	2017	2016
Endowments - earnings restricted for:		
Scholarships	$ 29,238,593	$ 29,200,442
Instruction	34,030,550	33,922,046
Academic support	13,989,019	13,400,316
Other	7,731,002	5,212,289
Beneficial interest in perpetual trusts	2,948,527	2,698,928
Split-interest annuity agreements	1,291,743	1,034,544
Revolving student loan funds	945,867	940,107
Totals	$ 90,175,302	$ 86,408,672

Note 13. Retirement Plan

On October 2, 2015, the Board of Trustees of the College approved a resolution to freeze the 401(a) and amend the existing 403(b) retirement plans as of December 31, 2015. This change was done to incorporate all active employees into one retirement plan to gain efficiencies. Benefits provided under the plans remained the same for employees.

Employees working over 1,000 hours are eligible to participate in individual annuity retirement programs provided through Teachers Insurance Annuity Association and the College Retirement Equities Fund.

Total expenses relating to contributions to all of these plans were approximately $1,646,000, for year ending June 30, 2017, and $1,623,000 for the thirteen month period ended June 30, 2016, respectively.

Note 14. Self-Insurance

The College provides medical benefits through a self-insurance plan which provides benefits to eligible employees of the College and their eligible dependents. Provisions of the plan require that the College be self-insured to the extent of the first $130,000 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 percent of the plan's required contributions and the College is responsible for the remaining required contributions. Accounts payable and other accrued expenses include an incurred but not reported reserve of approximately $196,000 and $176,000 as of June 30, 2017 and 2016, respectively. These are estimates of amounts due and payable on existing claims for which the College is self-insured and which are expected to be settled currently.

Note 15. Unemployment Compensation Claims

The College is self-insured for unemployment compensation claims. As a result, the College has a $251,000 bank letter of credit, which expires on December 31, 2018, 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 approximately $7,000 for year ended June 30, 2017, and $20,000 during the thirteen month period ended June 30, 2016, respectively.

Note 16. Endowment

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

Interpretation of relevant law: The College follows the guidance relative to the Wisconsin enacted version of the Uniform Prudent Management of Institutional Funds Act (UPMIFA). UPMIFA is applicable to funds existing on or established after August 4, 2009. A key component of the law is a requirement to classify the portion of a donor-restricted endowment fund that is not classified as permanently restricted net assets as temporarily restricted net assets until appropriated for expenditure. The Board of Trustees of the College has interpreted the Wisconsin enacted version of UPMIFA as allowing the College to appropriate for expenditure or accumulate so much of an endowment fund as the College determines is prudent for the uses, benefits, purposes, and duration for which the endowment fund is established, subject to the intent of the donor as expressed in the gift instrument. Unless stated otherwise in the gift instrument, the assets in an endowment fund shall be donor-restricted assets until appropriated for expenditure by the Board of Trustees. See Note 1 for further information on net asset classification.

The remaining portion of the donor-restricted endowment fund that is not classified as permanently restricted is classified as temporarily restricted until those amounts are appropriated for expenditure in a manner consistent with the standard of prudence prescribed by UPMIFA. In accordance with UPMIFA, the Board of Trustees considers the following factors in making a determination to appropriate or accumulate endowment funds:

1. The duration and preservation of the fund
2. The purpose of the College and the endowment fund
3. General economic conditions
4. The possible effect of inflation and deflation
5. The expected total return from income and the appreciation of investments
6. Other resources of the College
7. The investment policies of the College

Note 16. Endowment (Continued)

Endowment asset composition by type of fund consists of the following as of June 30, 2017 and 2016:

	2017			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds	$ (927,299)	$ 20,397,711	$ 84,989,164	$ 104,459,576
Board-designated endowment funds	55,054,471	-	-	55,054,471
Total endowment assets	$ 54,127,172	$ 20,397,711	$ 84,989,164	$ 159,514,047

	2016			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds	$ (2,261,272)	$ 14,450,705	$ 81,735,093	$ 93,924,526
Board-designated endowment funds	51,230,703	-	-	51,230,703
Total endowment assets	$ 48,969,431	$ 14,450,705	$ 81,735,093	$ 145,155,229

Changes in endowment assets for June 30, 2017, are as follows:

	2017			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment assets, beginning	$ 48,969,431	$ 14,450,705	$ 81,735,093	$ 145,155,229
Investment return:				
Investment income	1,305,318	1,622,036	-	2,927,354
Net appreciation/depreciation - realized and unrealized	6,031,586	9,304,028	-	15,335,614
Total investment return	7,336,904	10,926,064	-	18,262,968
Contributions and other additions	385,772	-	3,272,515	3,658,287
Appropriation of endowment assets for expenditure	(2,578,367)	(4,887,408)	-	(7,465,775)
Other	13,432	(91,650)	(18,444)	(96,662)
Endowment assets, ending	$ 54,127,172	$ 20,397,711	$ 84,989,164	$ 159,514,047

Note 16. Endowment (Continued)

Changes in endowment assets for the year ended June 30, 2016, are as follows:

	2016			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment assets, beginning	$ 45,072,101	$ 20,489,413	$ 79,787,091	$ 145,348,605
Investment return:				
Investment income	2,368,268	3,949,931	-	6,318,199
Net appreciation/depreciation - realized and unrealized	(4,752,072)	(5,072,256)	-	(9,824,328)
Total investment return	(2,383,804)	(1,122,325)	-	(3,506,129)
Contributions and other additions	8,675,634	-	1,936,543	10,612,177
Appropriation of endowment assets for expenditure	(2,524,001)	(4,775,423)	-	(7,299,424)
Other	129,501	(140,960)	11,459	-
Endowment assets, ending	$ 48,969,431	$ 14,450,705	$ 81,735,093	$ 145,155,229

Funds with deficiencies: From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor requires the College to retain as a fund of perpetual duration. Deficiencies of this nature that are reported in unrestricted net assets were approximately $927,000 and $2,261,000 as of June 30, 2017 and 2016, respectively. These deficiencies resulted from unfavorable market fluctuations that occurred after the investment of new permanently restricted contributions and continued distribution for certain programs that was deemed prudent by the Board of Trustees. Subsequent gains that restore the fair value of the assets of the endowment fund to the required level will be classified as an increase in unrestricted net assets.

Return objectives and risk parameters: The College has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of the endowment assets. Endowment assets include those assets of donor-restricted funds that the College must hold in perpetuity or for a donor-specified period(s) as well as board designated funds. Under this policy, as approved by the Board of Trustees, the endowment assets are invested in a manner that is intended to produce results that exceed the price and yield results of various indices appropriate to the investment asset class while assuming a moderate level of investment risk. The College’s investment objectives and policies are designed to meet the spending policy of the fund while also growing the assets of the fund at least equal to the long-term rate of inflation. Actual returns in any given year may vary from this amount.

Strategies employed for achieving objectives: To satisfy its long-term rate-of-return objectives, the College relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The College targets a diversified asset allocation that places a greater emphasis on equity-based investments to achieve its long-term return objectives within prudent risk constraints.

Note 16. Endowment (Continued)

Spending policy and how the investment objectives relate to spending policy: The College has a policy of appropriating for distribution each year a percentage of its endowment fund's average fair market value over the prior 3 years. The rate used was 4.5 percent for the year ended June 30, 2017 and the thirteen month period ended June 30, 2016. In establishing this policy, the College considered the long-term expected return on its endowment. Accordingly, over the long term, the College expects the current spending policy to allow its endowment to maintain its purchasing power.

Note 17. Fair Value Measurements

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

Financial instruments received and reported at fair value are classified and disclosed in one of the following three levels. There have been no changes in the techniques and inputs used at June 30, 2017 and 2016.

Level 1 - Inputs are quoted prices unadjusted in active markets for identical assets or liabilities that the reporting entity can access at the measurement date.

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

Level 3 - Inputs are unobservable for the asset or liability. Unobservable inputs reflect the assumptions that market participants would use in pricing the asset or liability, including assumptions about risk, using the best information available in the circumstances.

Valuation techniques and inputs:

Investments in money market funds, U.S. Government bonds, common stocks and mutual funds are traded on nationally recognized exchanges. Fair value is based on quoted market prices which are readily available.

The fair value of the College's alternative investments, including real estate investments, private equity funds and investment companies for which quoted market prices are not readily available, are estimated using the net asset value (NAV) as a practical expedient.

The fair value of funds held in trust by others for which quoted prices are not readily available are based on a combination of observable inputs (interest rates and yield curves) and significant unobservable inputs (entity specific estimates of cash flows). The fair values are measured at the present value of the future distributions the College expects to receive over the term of the agreements.

Note 17. Fair Value Measurements (Continued)

The fair value of investments in beneficial interest in perpetual trusts are estimated using an income approach by calculating the present value of the future distributions expected to be received based on a combination of observable inputs (interest rates and yield curves) and significant unobservable inputs (entity specific estimates of cash flows).

The fair value of the College's interest rate swap is estimated using an income approach by calculating the present value of the estimated future cash flows and credit valuation adjustments which are based on observable inputs to a valuation model (interest rates, credit spreads, etc.)

In certain cases, the inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such cases, the level in the fair value hierarchy within which the fair value measurement in its entirety falls has been determined based on the lowest level input that is significant to the fair value measurement in its entirety. The assessment of the significance of a particular input to the fair value measurement in its entirety requires judgment and considers factors specific to the asset or liability.

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

Note 17. Fair Value Measurements (Continued)

The following table presents information about the College's assets and liabilities measured at fair value on a recurring basis as of June 30, 2017, based upon the three-tier hierarchy:

	Total	Level 1	Level 2	Level 3
Assets				
Investments:				
Money market funds	$ 548,657	$ 548,657	$ -	$ -
U.S. Government bonds	155,539	155,539	-	-
Common stock	21,010	21,010	-	-
Mutual funds - bonds:				
U.S. high yield fixed income	117,083	117,083	-	-
U.S. Treasury inflation protected	188,193	188,193	-	-
Other fixed income	948,919	948,919	-	-
Mutual funds - equities:				
U.S. equities	3,437,263	3,437,263	-	-
Non-U.S. equities	1,097,438	1,097,438	-	-
Mutual funds - diversified funds	138,856,319	138,856,319	-	-
Mutual funds - commodity	159,033	159,033	-	-
Real estate investment	12,900	-	-	12,900
Alternative investments:				
Private equity funds	7,133,651	-	-	7,133,651
Investment companies	8,665,796	-	-	8,665,796
	161,341,801	$ 145,529,454	$ -	$ 15,812,347
Investments not recorded at fair value:				
Certificates of deposit				
Accrued interest and pending	205			
investment trades	22,739			
Total investments	$ 161,364,745			
Funds held in trust by others	$ 595,356	$ -	$ -	$ 595,356
Beneficial interest in perpetual trusts	$ 2,948,527	$ -	$ -	$ 2,948,527
Liabilities				
Swap liability	$ 6,816,153	$ -	$ 6,816,153	$ -

Note 17. Fair Value Measurements (Continued)

The following table presents information about the College's assets and liabilities measured at fair value on a recurring basis as of June 30, 2016, based upon the three-tier hierarchy:

	Total	Level 1	Level 2	Level 3
Assets				
Investments:				
Money market funds	$ 166,326	$ 166,326	$ -	$ -
U.S. Government bonds	2,951,878	258,690	2,693,188	-
Common stock	245,225	245,225	-	-
Mutual funds - bonds:				
U.S. high yield fixed income	87,398	87,398	-	-
U.S. Treasury inflation protected	106,871	106,871	-	-
Other fixed income	1,011,068	1,011,068	-	-
Mutual funds - equities:				
U.S. equities	3,351,866	3,351,866	-	-
Non-U.S. equities	1,095,476	1,095,476	-	-
Mutual funds - diversified funds	125,570,623	125,570,623	-	-
Mutual funds - commodity	127,888	127,888	-	-
Real estate investment	12,900	-	-	12,900
Alternative investments:				
Private equity funds	5,181,847	-	-	5,181,847
Investment companies	8,024,428	-	-	8,024,428
Subtotal	147,933,794	$ 132,021,431	$ 2,693,188	$ 13,219,175
Investments not recorded at fair value:				
Accrued interest and pending investment trades	701,593			
Total investments	$ 148,635,387			
Funds held in trust by others	$ 612,000	$ -	$ -	$ 612,000
Beneficial interest in perpetual trusts	$ 2,698,928	$ -	$ -	$ 2,698,928
Liabilities				
Swap liability	$ 9,554,153	$ -	$ 9,554,153	$ -

Note 17. Fair Value Measurements (Continued)

The following table presents a reconciliation of financial instruments measured at fair value on a recurring basis using significant unobservable inputs (level 3) for June 30, 2017 and the thirteen month period ended June 30, 2016:

	Real Estate Investment	Private Equity Funds	Investment Companies	Funds Held in Trust for Others	Beneficial Interest in Perpetual Trust	Total
Balance May 31, 2015	$ 12,900	$ 3,542,556	$ -	$ 669,433	$ 2,900,487	$ 7,125,376
Purchases	-	1,395,885	8,000,000	-	-	9,395,885
Realized and unrealized gains (losses)	-	243,406	24,428	(57,433)	(201,559)	8,842
Balance June 30, 2016	12,900	5,181,847	8,024,428	612,000	2,698,928	16,530,103
Purchases	-	831,127	129,697	-	-	960,824
Realized and unrealized gains (losses)	-	1,120,677	511,671	(16,644)	249,599	1,865,303
Balance June 30, 2017	$ 12,900	$ 7,133,651	$ 8,665,796	$ 595,356	$ 2,948,527	$ 19,356,230

The amount of total unrealized gains included in the change in net assets attributable to the assets still held at June 30, 2017 and 2016 was approximately $1,031,000 and $270,000, respectively.

The College uses the net asset value (NAV) as a practical expedient to determine fair value of all underlying investments which (a) do not have a readily determinable fair value; and (b) are in investment companies or similar entities that report their investment assets at fair values.

The following table summarizes information about the College's investments in private equity funds as of June 30, 2017:

	Private Equity Funds
Fair value, June 30, 2017	$ 7,133,651
Significant investment strategy	Equity funds
Remaining life	5-10 years
Dollar amount of unfunded commitments	$ 5,491,682
Timing to draw down commitments	Not defined
Redemption terms	Illiquid
Redemption restrictions	N/A
Redemption restrictions in place at year end	N/A

Note 18. Functional Expenses

The College’s expenses have been classified according to their function as follows for June 30, 2017 and the thirteen month period ended June 30, 2016:

	2017	2016
Program expenses	$ 44,970,821	$ 43,465,243
General and administrative expenses	7,187,934	7,987,388
Fundraising expenses	2,681,905	2,454,869
Totals	$ 54,840,660	$ 53,907,500

Note 19. Contingencies

The Company has certain claims and pending legal proceedings that generally involve employment issues. These proceedings are, in the opinion of management, ordinary routine matters incidental to the normal business conducted by the College. In the opinion of management, the ultimate disposition of such proceedings are not expected to have a material adverse effect on the College's financial position, statement of activities or cash flows.

Note 20. Commitments and Conditional Promise to Give

The College has entered into certain construction commitments relative to planned campus improvements and renovations, referred to as the Powerhouse Project. The Powerhouse Project is a $38 million project to repurpose and decommission the Blackhawk Generating Station near the College campus into a 130,000 square foot student center. The Powerhouse Project is expected to be funded through a combination of contributions and debt as well as the proceeds from the sale of the expected tax credits to be generated. At June 30, 2017, the College has outstanding construction commitments of approximately $3,100,000 related to the Powerhouse Project.

The College has received a conditional promise to give in the amount of approximately $10,000,000. Receipt of this promise to give depends on the occurrence of a specified future and uncertain event to bind the donor.

Note 21. Management’s Plan

The College presented a net deficit in operating activities for the year ended June 30, 2017, and as a result, was in violation of one of its debt covenants. The College is in the process of seeking a waiver to address the violation. Despite the financial results, the College has board designated assets that are available to be released by the board to service the debt, should the lenders exercise their right to call as a result of the violation.

The College is working on a budget reform plan with the goal of reducing operating expenses. Additionally, the College will engage an independent consultant to provide recommendations for the rebalancing of operating activities. Management believes these measures will improve the overall financial performance of the College.

Beloit College
Operating Expenses by Natural Classification
Year Ended June 30, 2017 and Twelve Months Ended June, 30, 2016 (Unaudited)

	2017	2016
Salaries and Wages	$ 22,102,184	$ 20,766,543
Benefits	7,713,033	6,992,131
Student Employment	1,587,885	1,510,517
Supplies	1,914,087	1,707,130
Services	11,028,268	11,750,351
Travel and Meals	1,864,609	1,865,088
Depreciation	4,022,096	4,083,107
Interest (Including Swap)	2,378,673	598,525
Utilities	1,298,230	1,416,630
Collections	602,328	565,742
Other	329,267	377,569
	$ 54,840,660	$ 51,633,333

Beloit College
Schedule of Investments Held
June 30, 2017 (Unaudited)

	Cost	Market	Unrealized Gain (Loss)
Mutual Funds			
U.S. Equities	$ 3,076,533	$ 3,437,263	$ 360,730
Non-U.S. Equities	1,000,539	1,097,438	96,899
Mutual Funds - Diversified	112,451,999	138,856,319	26,404,320
Mutual Funds - Commodity	145,357	159,033	13,676
Total Mutual Funds	116,674,428	143,550,053	26,875,625
Common Stock	21,010	21,010	-
Fixed Income Funds			
Government Bonds	165,674	155,539	(10,135)
U.S. High Yield Fixed Income	119,247	117,083	(2,164)
U.S. Treasury Inflation	191,810	188,193	(3,617)
Other Fixed Income	961,409	948,919	(12,490)
Total Fixed Income Funds	1,438,140	1,409,734	(28,406)
Other Funds			
Certificates of Deposit	205	205	-
Money Market	548,657	548,657	-
Real Estate Investment	12,900	12,900	-
Private Equity Funds	6,321,135	7,133,650	812,515
Investment Companies	7,694,967	8,665,795	970,828
Total Other Funds	14,577,864	16,361,207	1,783,343
Accrued Interest and Pending Trades	22,739	22,739	-
Total	$ 132,734,181	$ 161,364,743	$ 28,630,562

Beloit College
Schedule of Investments Held
June 30, 2016 (Unaudited)

	Cost	Market	Unrealized Gain (Loss)
Mutual Funds			
U.S. Equities	$ 3,264,434	$ 3,351,866	$ 87,432
Non-U.S. Equities	1,129,031	1,095,476	(33,555)
Mutual Funds - Diversified	111,845,535	125,570,624	13,725,089
Mutual Funds - Commodity	119,456	127,888	8,432
Total Mutual Funds	116,358,456	130,145,854	13,787,398
Common Stock	139,651	245,225	105,574
Fixed Income Funds			
Government Bonds	2,947,582	2,951,878	4,296
U.S. High Yield fixed income	94,270	87,398	(6,872)
U.S. Treasury Inflation	112,338	106,871	(5,467)
Other Fixed Income	1,010,877	1,011,068	191
Total Fixed Income Funds	4,165,067	4,157,215	(7,852)
Other Funds			
Money Market	166,326	166,326	-
Real Estate Investment	12,900	12,900	-
Private Equity Funds	4,540,149	5,181,847	641,698
Investment Companies	7,914,196	8,024,428	110,232
Total Other Funds	12,633,571	13,385,501	751,930
Accrued Interest and Pending Trades	701,592	701,592	-
Total	$ 133,998,337	$ 148,635,387	$ 14,637,050