

Financial statements and report of independent certified public accountants

Beloit College

May 31, 2003 and 2002

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**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, 2003 and 2002, and the related statements of changes in net assets and cash flows for the years then ended. These financial statements are the responsibility of the College's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our 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, 2003 and 2002, and the changes in its net assets and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

Grant Thornton LLP

Madison, Wisconsin
September 12, 2003

BELOIT COLLEGE
STATEMENTS OF FINANCIAL POSITION
 May 31,

| ASSETS | 2003 | 2002 |
|---|-----------------------|-----------------------|
| Cash and cash equivalents | \$ 1,538,457 | \$ 759,795 |
| Accounts receivable, net | 730,873 | 3,772,107 |
| Contributions receivable, net | 3,467,744 | 5,040,887 |
| Student loans receivable, net | 4,848,100 | 4,876,889 |
| Investments | 94,627,235 | 98,379,792 |
| Inventories | 37,115 | 317,108 |
| Prepaid expenses and other assets | 124,752 | 82,469 |
| Cash surrender value of life insurance (\$2,172,606 face value) | 303,824 | 311,488 |
| Mortgage note receivable, net | 521,321 | 622,937 |
| Land, buildings and equipment, less accumulated depreciation | 37,998,775 | 37,307,864 |
| Beneficial interest in perpetual trusts | 2,075,051 | 2,197,435 |
| | \$ 146,273,247 | \$ 153,668,771 |
| LIABILITIES AND NET ASSETS | | |
| Accounts payable and accrued liabilities | \$ 3,299,109 | \$ 3,724,604 |
| Line of credit | 500,000 | 500,000 |
| Student deposits | 515,708 | 370,904 |
| Assets held for others under agency agreements | 746,718 | 726,754 |
| Beneficiary payable | 64,771 | 73,669 |
| Annuities payable | 2,843,543 | 3,142,993 |
| Deferred support under split interest agreements | 238,912 | 279,019 |
| Long-term debt | 15,484,000 | 12,984,000 |
| Refundable advances from Henry Strong Foundation Loan Fund | 156,202 | 145,903 |
| Refundable advances from the U.S. Government | 2,613,166 | 2,564,882 |
| | 26,462,129 | 24,512,728 |
| Net assets | | |
| Unrestricted | 64,130,795 | 73,497,338 |
| Temporarily restricted | 6,172,111 | 6,725,315 |
| Permanently restricted | 49,508,212 | 48,933,390 |
| | 119,811,118 | 129,156,043 |
| | \$ 146,273,247 | \$ 153,668,771 |

The accompanying notes are an integral part of these statements.

BELOIT COLLEGE
STATEMENTS OF CHANGES IN NET ASSETS
Years ended May 31.

| | 2003 | | | Total |
|--|---------------|---------------------------|---------------------------|----------------|
| | Unrestricted | Temporarily restricted | Permanently restricted | |
| Revenues, gains and net assets released from restrictions and reclassified | | | | |
| Tuition and fees | \$ 27,470,710 | \$ - | \$ - | \$ 27,470,710 |
| Funded student financial assistance | (2,074,976) | - | - | (2,074,976) |
| Unfunded student financial assistance | (10,235,256) | - | - | (10,235,256) |
| Net tuition and fees | 15,160,478 | - | - | 15,160,478 |
| Auxiliary enterprises | 5,832,465 | - | - | 5,832,465 |
| Contributions | 2,936,470 | 411,012 | 2,301,654 | 5,649,136 |
| Return on investments | (2,679,793) | 211,532 | (6,954) | (2,475,215) |
| Government contracts | 1,493,059 | - | - | 1,493,059 |
| Government grants | 506,385 | - | - | 506,385 |
| Other income | 333,264 | 12,168 | 12,217 | 357,649 |
| Change in value of split interest agreements | (30,976) | (118,499) | (140,929) | (290,404) |
| Change in value of beneficial interest in perpetual trusts | - | - | (122,383) | (122,383) |
| Total revenues and gains | 23,551,352 | 516,213 | 2,043,605 | 26,111,170 |
| Net assets released from restrictions | 2,536,283 | (1,070,224) | (1,466,059) | - |
| Net assets reclassified | 1,917 | 807 | (2,724) | - |
| Total revenues, gains and net assets released from restrictions and reclassified | 26,089,552 | (553,204) | 574,822 | 26,111,170 |
| Expenses | | | | |
| Instruction | 12,291,924 | - | - | 12,291,924 |
| Institutional support | 7,819,334 | - | - | 7,819,334 |
| Auxiliary enterprises | 5,485,157 | - | - | 5,485,157 |
| Student services | 5,260,022 | - | - | 5,260,022 |
| Academic support | 3,874,012 | - | - | 3,874,012 |
| Public service | 711,049 | - | - | 711,049 |
| Research | 14,597 | - | - | 14,597 |
| Total expenses | 35,456,095 | - | - | 35,456,095 |
| CHANGE IN NET ASSETS | (9,366,543) | (553,204) | 574,822 | (9,344,925) |
| Net assets at beginning year | 73,497,338 | 6,725,315 | 48,933,390 | 129,156,043 |
| Net assets at end of year | \$ 64,130,795 | \$ 6,172,111 | \$ 49,508,212 | \$ 119,811,118 |

The accompanying notes are an integral part of these statements.

2002

| Unrestricted | Temporarily restricted | Permanently restricted | Total |
|---------------|---------------------------|---------------------------|----------------|
| \$ 26,010,668 | \$ - | \$ - | \$ 26,010,668 |
| (1,935,313) | - | - | (1,935,313) |
| (9,962,296) | - | - | (9,962,296) |
| 14,113,059 | - | - | 14,113,059 |
| 6,499,560 | - | - | 6,499,560 |
| 3,299,127 | 1,944,886 | 1,242,261 | 6,486,274 |
| 2,234,143 | 177,672 | 12,637 | 2,424,452 |
| 1,275,460 | - | - | 1,275,460 |
| 473,815 | - | - | 473,815 |
| 426,270 | - | 4,502 | 430,772 |
| (16,720) | (112,874) | (213,765) | (343,359) |
| - | - | (181,654) | (181,654) |
| 28,304,714 | 2,009,684 | 863,981 | 31,178,379 |
| 1,169,914 | (1,167,664) | (2,250) | - |
| (109,831) | 13,706 | 96,125 | - |
| 29,364,797 | 855,726 | 957,856 | 31,178,379 |
| 11,381,061 | - | - | 11,381,061 |
| 6,024,731 | - | - | 6,024,731 |
| 6,568,557 | - | - | 6,568,557 |
| 4,983,447 | - | - | 4,983,447 |
| 3,665,151 | - | - | 3,665,151 |
| 604,953 | - | - | 604,953 |
| 24,269 | - | - | 24,269 |
| 33,252,169 | - | - | 33,252,169 |
| (3,887,372) | 855,726 | 957,856 | (2,073,790) |
| 77,384,710 | 5,869,589 | 47,975,534 | 131,229,833 |
| \$ 73,497,338 | \$ 6,725,315 | \$ 48,933,390 | \$ 129,156,043 |

BELOIT COLLEGE
STATEMENTS OF CASH FLOWS
Year ended May 31.

| | 2003 | 2002 |
|---|----------------|----------------|
| Cash flows from operating activities | | |
| Change in net assets | \$ (9,344,925) | \$ (2,073,790) |
| Adjustments to reconcile change in net assets to net cash used in operating activities | | |
| Depreciation | 2,076,482 | 1,981,284 |
| Amortization on mortgage note receivable | 101,616 | 74,757 |
| Change in value of split interest agreements and beneficial interests in perpetual trusts | 439,041 | 545,117 |
| Increase (decrease) in allowance for uncollectible loans | 13,218 | (19,048) |
| Gain on cancellation of mortgage note receivable | - | (28,378) |
| Contributed investments | (1,342,973) | (1,111,873) |
| Contributions restricted for long-term investment | (2,301,654) | (1,242,261) |
| Interest, dividends and other net gains restricted for long-term investment | (258,048) | (377,982) |
| Net unrealized loss on long-term investments | 5,638,405 | 1,872,689 |
| Net realized gain on long-term investments | (933,771) | (2,460,818) |
| Decrease in accounts receivable | 154,211 | 311,578 |
| (Increase) decrease in contributions receivable | 1,573,143 | (976,942) |
| Decrease in inventories and prepaid expenses and other assets | 237,710 | 409,880 |
| Decrease in cash surrender value of life insurance | 841 | 32,562 |
| Decrease in beneficial interest in perpetual trusts | 122,384 | 181,654 |
| Increase in accounts payable and accrued liabilities | 249,397 | 196,869 |
| Increase (decrease) in student deposits | 144,804 | (16,253) |
| Increase (decrease) in assets held for others under agency | 19,964 | (39,846) |
| Decrease in beneficiary payable | (8,898) | (12,185) |
| Decrease in annuities payable | (299,450) | (268,868) |
| Decrease in deferred support under split interest agreements | (40,107) | (29,275) |
| | (3,758,610) | (3,051,129) |
| Net cash used in operating activities | | |
| Cash flows from investing activities | | |
| Proceeds from sale of investments | 52,831,997 | 44,031,393 |
| Purchases of investments | (50,668,011) | (42,522,336) |
| Proceeds from life insurance | 6,823 | - |
| Purchases of land, buildings and equipment | (2,767,393) | (695,017) |
| Issuance of mortgage note receivable | - | (108,785) |
| Issuance of student loans receivable | (779,305) | (793,318) |
| Payments from student loans receivable | 794,876 | 598,622 |
| | (581,013) | 510,559 |
| Net cash provided by (used in) investing activities | | |

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

| | 2003 | 2002 |
|---|--------------|---------------|
| Cash flows from financing activities | | |
| Proceeds from contributions restricted for investment in endowment | \$ 2,301,654 | \$ 1,242,261 |
| Interest, dividends and other net gains restricted for reinvestment | 258,048 | 377,982 |
| Increase in refundable advances - Henry Strong Foundation | | |
| Loan Fund | 10,299 | 10,569 |
| Increase in refundable advances - Federal Government | 48,284 | 21,315 |
| Net proceeds from line of credit | - | 500,000 |
| Proceeds from issuance of bonds payable | 3,000,000 | - |
| Payments on long-term debt | (500,000) | (500,000) |
| | 5,118,285 | 1,652,127 |
| Net cash provided by financing activities | | |
| | 5,118,285 | 1,652,127 |
| NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS | 778,662 | (888,443) |
| Cash and cash equivalents at beginning of year | 759,795 | 1,648,238 |
| | 759,795 | 1,648,238 |
| Cash and cash equivalents at end of year | \$ 1,538,457 | \$ 759,795 |
| | \$ 1,538,457 | \$ 759,795 |
| Supplemental data - interest paid | \$ 256,395 | \$ 320,395 |
| | \$ 256,395 | \$ 320,395 |
| Non-cash | | |
| Contributed investments | \$ 1,342,973 | \$ 1,111,873 |
| | \$ 1,342,973 | \$ 1,111,873 |

In fiscal year 2002, the College transferred \$63,910 from land, buildings and equipment to a mortgage note receivable. In August 2001, the original mortgage note receivable of \$525,000 was cancelled and a new mortgage note of \$697,694 with identical terms was issued.

As of May 31, 2002, the College had accounts receivable of \$2,887,023 for pending investment sales and payables of \$674,892 for pending investment purchases.

The accompanying notes are an integral part of these statements.

BELOIT COLLEGE
NOTES TO FINANCIAL STATEMENTS
May 31, 2003 and 2002

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 preprofessional 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 reclassifications from temporarily restricted net assets to unrestricted net assets. 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.

BELOIT COLLEGE
NOTES TO FINANCIAL STATEMENTS - CONTINUED
May 31, 2003 and 2002

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

1. Basis of Presentation - (continued)

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, for the uses and purposes for which an endowment fund is established, as much of the net appreciation as is deemed prudent 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;
- as increases in temporarily restricted net assets if the terms of the gift impose restrictions on the use of the income;
- as increases in unrestricted net assets in all other cases.

2. Contributions

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.

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.

BELOIT COLLEGE
NOTES TO FINANCIAL STATEMENTS - CONTINUED
May 31, 2003 and 2002

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

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 generally accepted accounting principles 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 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. Conditional promises to give are not recognized until the conditions on which they depend are substantially met.

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.

BELOIT COLLEGE
NOTES TO FINANCIAL STATEMENTS - CONTINUED
May 31, 2003 and 2002

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

7. Cash Equivalents

The College considers all highly liquid 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 changes in net assets. 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 lower of cost or market.

9. Inventories

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

10. 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:

| | <u>Years</u> |
|------------------------------|--------------|
| Building and service systems | 40 |
| Residence halls | 30 |
| Land improvements | 20 |
| Works of art | 20 |
| Equipment | 10 |
| Fleet vehicles | 5 |
| Computers | 5 |

BELOIT COLLEGE
NOTES TO FINANCIAL STATEMENTS - CONTINUED
May 31, 2003 and 2002

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

11. 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 market value of the assets held in the trusts. Changes in the market value of the trusts are recognized as permanently restricted gains and losses.

12. 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 collections. These funds are ultimately refundable to the Henry Strong Foundation Loan Fund.

13. Refundable Advances from the United States Government

Funds provided by the United States 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.

14. 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.

15. 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.

BELOIT COLLEGE
NOTES TO FINANCIAL STATEMENTS - CONTINUED
 May 31, 2003 and 2002

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

16. Reclassifications

Certain reclassifications have been made to the 2002 financial statements to conform to the 2003 presentation.

NOTE B - INVESTMENTS

Investments comprise the following at May 31:

| | 2003 | | |
|--------------------------------------|----------------------|----------------------|--|
| | Market value | Cost | Unrealized appreciation (depreciation) |
| Money market | \$ 4,744,452 | \$ 4,744,452 | \$ - |
| Government bonds | 894,876 | 803,516 | 91,360 |
| Corporate bonds | 1,497,513 | 1,483,488 | 14,025 |
| Bond mutual funds | 25,077,818 | 23,263,115 | 1,814,703 |
| Common stock | 36,481,150 | 29,710,236 | 6,770,914 |
| Stock mutual funds | 25,240,152 | 25,823,746 | (583,594) |
| Real estate | 55,900 | 55,900 | - |
| Venture capital limited partnerships | 1,756 | 1,756 | - |
| Other | 633,618 | 633,618 | - |
| | <u>\$ 94,627,235</u> | <u>\$ 86,519,827</u> | <u>\$ 8,107,408</u> |
| | 2002 | | |
| | Market value | Cost | Unrealized appreciation (depreciation) |
| Money market | \$ 5,844,814 | \$ 5,844,814 | \$ - |
| Government bonds | 718,546 | 687,452 | 31,094 |
| Corporate bonds | 1,366,628 | 1,356,633 | 9,995 |
| Bond mutual funds | 23,958,900 | 23,043,225 | 915,675 |
| Common stock | 50,355,704 | 37,641,611 | 12,714,093 |
| Stock mutual funds | 15,468,861 | 16,530,443 | (1,061,582) |
| Real estate | 55,900 | 55,900 | - |
| Venture capital limited partnerships | 1,756 | 1,756 | - |
| Other | 608,683 | 608,683 | - |
| | <u>\$ 98,379,792</u> | <u>\$ 85,770,517</u> | <u>\$ 12,609,275</u> |

BELOIT COLLEGE
NOTES TO FINANCIAL STATEMENTS - CONTINUED
 May 31, 2003 and 2002

NOTE B - INVESTMENTS - Continued

Included in common stock investments is \$895,000 of stock in a privately held company. The market value of this stock is based on an independent appraisal, or where the College has a put option, on the discounted future cash flows from the sale of the stock under put options, per the agreement. The value of the stock could fluctuate.

The College paid investment trustee and management fees of \$495,391 and \$627,401 for the years ended May 31, 2003 and 2002, respectively.

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

| | 2003 | 2002 |
|-----------------------------|-----------------------|---------------------|
| Interest and dividends | \$ 2,229,419 | \$ 1,836,323 |
| Realized gain | 933,771 | 2,460,818 |
| Unrealized loss | (5,638,405) | (1,872,689) |
| | <u>\$ (2,475,215)</u> | <u>\$ 2,424,452</u> |
| Total return on investments | | |

NOTE C - ACCOUNTS RECEIVABLE

Accounts receivable comprise the following at May 31:

| | 2003 | 2002 |
|--|-------------------|---------------------|
| Tuition and fees | \$ 127,798 | \$ 252,845 |
| Government grants and contracts receivable | 197,640 | 185,438 |
| Accrued interest and pending trades | 132,719 | 2,976,679 |
| Other | 324,791 | 442,393 |
| | <u>782,948</u> | <u>3,857,355</u> |
| Less allowance for doubtful accounts | 52,075 | 85,248 |
| | <u>\$ 730,873</u> | <u>\$ 3,772,107</u> |
| Net accounts receivable | | |

BELOIT COLLEGE
NOTES TO FINANCIAL STATEMENTS - CONTINUED
 May 31, 2003 and 2002

NOTE D - CONTRIBUTIONS RECEIVABLE

Net contributions receivable are summarized as follows at May 31:

| | 2003 | 2002 |
|---|--------------|--------------|
| Total contributions receivable | \$ 3,837,353 | \$ 5,428,581 |
| Less adjustment to present value future cash flows for contributions receivable | 187,373 | 96,068 |
| Less allowance for uncollectible contributions | 182,236 | 291,626 |
| Net contributions receivable | \$ 3,467,744 | \$ 5,040,887 |

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, 2003 are scheduled to be received as follows:

| | |
|---------------------|--------------|
| Year ending May 31, | |
| 2004 | \$ 1,393,653 |
| 2005 | 944,629 |
| 2006 | 395,913 |
| 2007 | 108,242 |
| 2008 | 192,561 |
| Thereafter | 802,355 |
| | \$ 3,837,353 |

Fundraising expenses of \$1,175,153 and \$1,272,655 are included in institutional support in the statements of changes in net assets for the years ended May 31, 2003 and 2002, respectively.

BELOIT COLLEGE
NOTES TO FINANCIAL STATEMENTS - CONTINUED
 May 31, 2003 and 2002

NOTE E - STUDENT LOANS RECEIVABLE

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

| | <u>2003</u> | <u>2002</u> |
|--|---------------------|---------------------|
| Federal Perkins Loan Program | \$ 2,734,396 | \$ 2,885,837 |
| Beloit College | <u>2,260,562</u> | <u>2,124,692</u> |
| | 4,994,958 | 5,010,529 |
| Less allowance for uncollectible loans | <u>146,858</u> | <u>133,640</u> |
| Net student loans receivable | <u>\$ 4,848,100</u> | <u>\$ 4,876,889</u> |

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:

| | <u>2003</u> | <u>2002</u> |
|---|---------------------|---------------------|
| Unrestricted net assets designated for Federal Perkins Loan Program match | \$ 76,598 | \$ 76,598 |
| Permanently restricted revolving loan funds used for Federal Perkins Loan Program match | <u>271,782</u> | <u>256,491</u> |
| Total match | 348,380 | 333,089 |
| U.S. Government grants refundable | <u>2,613,166</u> | <u>2,564,882</u> |
| Total | <u>\$ 2,961,546</u> | <u>\$ 2,897,971</u> |

BELOIT COLLEGE
NOTES TO FINANCIAL STATEMENTS - CONTINUED
 May 31, 2003 and 2002

NOTE F - MORTGAGE NOTE RECEIVABLE

In connection with the lease of building space (note H), during 2001 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, 2003, the accumulated amortization on the mortgage note receivable is \$176,373 and the mortgage note receivable net of the related amortization is \$521,321.

The estimated fair market value of the above mortgage note receivable is \$37,742 as of May 31, 2003, 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 2.2% to arrive at the fair market value as of May 31, 2003.

NOTE G - LAND, BUILDINGS AND EQUIPMENT

Land, buildings and equipment comprise the following assets at May 31:

| | 2003 | 2002 |
|-----------------------------------|---------------|---------------|
| Leasehold improvements | \$ 75,744 | \$ 75,744 |
| Land and land improvements | 2,842,843 | 2,837,343 |
| Buildings | 36,392,648 | 36,203,993 |
| Equipment and furnishings | 6,989,619 | 6,861,909 |
| Dormitory and commons | 24,799,876 | 22,173,057 |
| Residential rental properties | 803,219 | 803,219 |
| Works of art | 717,579 | 717,579 |
| Construction in progress | - | 216,384 |
| | 72,621,528 | 69,889,228 |
| Less accumulated depreciation | 34,622,753 | 32,581,364 |
| | \$ 37,998,775 | \$ 37,307,864 |
| Net land, buildings and equipment | | |

Depreciation expense of \$2,076,482 and \$1,981,284 was recorded for the years ended May 31, 2003 and 2002, respectively.

BELOIT COLLEGE
NOTES TO FINANCIAL STATEMENTS - CONTINUED
May 31, 2003 and 2002

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 \$75,000 for 2002.

The following is a schedule by years of future minimum rental payments required under the operating lease as of May 31, 2003:

| | |
|---------------------------------|-------------------|
| Year ending May 31, | |
| 2004 | \$ 78,000 |
| 2005 | 79,600 |
| 2006 | 81,200 |
| 2007 | 82,800 |
| 2008 | <u>80,900</u> |
| Total minimum payments required | <u>\$ 402,500</u> |

Beginning June 1, 2001, a portion of the above-mentioned space is being subleased for approximately \$25,000 annually plus housekeeping charges for five years. Revenue related to this sublease was \$30,264 for the year ended May 31, 2003.

BELOIT COLLEGE
NOTES TO FINANCIAL STATEMENTS - CONTINUED
 May 31, 2003 and 2002

NOTE I - LONG-TERM DEBT

The long-term debt of the College as of May 31, 2003 and 2002 comprises the following:

| Payable to | Interest rate | Due date | 2003 | 2002 |
|---|---------------|---|----------------------|----------------------|
| Wisconsin Health and Educational Facilities Authority, Revenue Bonds, Series 2002 | Variable | Interest payable monthly, principal due July 1, 2019 | \$ 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 |
| 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 | 2,150,000 | 2,650,000 |
| 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 |
| | | | <u>\$ 15,484,000</u> | <u>\$ 12,984,000</u> |

As of May 31, 2003, the effective interest rate on the above bonds is 1.46%.

BELOIT COLLEGE
NOTES TO FINANCIAL STATEMENTS - CONTINUED
May 31, 2003 and 2002

NOTE I - LONG-TERM DEBT - Continued

The aggregate maturities of principal as of May 31, 2003 are as follows:

| Year ending May 31, | |
|---------------------|----------------------|
| 2004 | \$ 500,000 |
| 2005 | 500,000 |
| 2006 | 500,000 |
| 2007 | 500,000 |
| 2008 | 150,000 |
| Thereafter | <u>13,334,000</u> |
| | <u>\$ 15,484,000</u> |

As of May 31, 2003 and 2002, the College had \$500,000 outstanding on a \$2,000,000 bank line of credit that was established as a general source of funds and expires in December 2003. Borrowings are subject to interest at the prime rate less .75% (3.5% as of May 31, 2003).

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 \$214,304 and \$177,666 for the years ended May 31, 2003 and 2002, 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 \$831,678 and \$808,385 for the years ended May 31, 2003 and 2002, respectively.

BELOIT COLLEGE
NOTES TO FINANCIAL STATEMENTS - CONTINUED
 May 31, 2003 and 2002

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 \$50,000 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 made contributions of \$1,242,219 and \$1,215,749 to the Plan during the years ended May 31, 2003 and 2002, respectively.

NOTE L - UNEMPLOYMENT COMPENSATION CLAIMS

The College is self-insured for unemployment compensation claims. As a result, the College has a \$201,525 bank letter of credit which expires on December 31, 2005 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 \$32,298 and \$27,100 during the years ended May 31, 2003 and 2002, 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:

| | 2003 | 2002 |
|---|---------------|---------------|
| Net investment in land, buildings and equipment | \$ 19,966,983 | \$ 21,398,008 |
| Funds designated for endowment | 45,240,965 | 55,097,406 |
| Funds designated for retirement of indebtedness | 59,419 | 265,333 |
| Funds designated for annuity contract reserves | 489,830 | 361,262 |
| Funds designated for Federal Perkins Student Loan Program | 76,598 | 76,598 |
| Funds designated for student loan funds | 584,311 | 531,258 |
| Undesignated | (2,287,311) | (4,232,527) |
| | \$ 64,130,795 | \$ 73,497,338 |

BELOIT COLLEGE
NOTES TO FINANCIAL STATEMENTS - CONTINUED
 May 31, 2003 and 2002

NOTE M - NET ASSETS - Continued

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

| | <u>2003</u> | <u>2002</u> |
|---|---------------------|---------------------|
| Investment in land, buildings and equipment | \$ 207,958 | \$ 165,495 |
| Funds designated for endowment | 246,304 | 171,304 |
| Split interest annuity agreements | 2,282,478 | 2,496,206 |
| Student loans | 262,059 | 268,764 |
| Academic support | 693,143 | 700,607 |
| Instruction | 839,770 | 558,257 |
| Scholarships | 83,494 | 113,254 |
| Contributions receivable and other | 1,556,905 | 2,251,428 |
| | <u>\$ 6,172,111</u> | <u>\$ 6,725,315</u> |

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

| | <u>2003</u> | <u>2002</u> |
|---|----------------------|----------------------|
| Investments (perpetual endowment) | \$ 42,293,564 | \$ 40,669,712 |
| Contributions receivable | 2,083,177 | 2,946,278 |
| Beneficial interest in perpetual trusts | 2,075,051 | 2,197,435 |
| Cash surrender value | 70,958 | 75,488 |
| Split interest annuity agreements | 2,147,585 | 2,223,633 |
| Revolving student loan funds | 836,233 | 820,844 |
| Other | 1,644 | - |
| | <u>\$ 49,508,212</u> | <u>\$ 48,933,390</u> |

BELOIT COLLEGE
NOTES TO FINANCIAL STATEMENTS - CONTINUED
 May 31, 2003 and 2002

NOTE N - EXPENSES BY NATURAL CLASSIFICATION

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

| | <u>2003</u> | <u>2002</u> |
|--------------------|----------------------|----------------------|
| Salaries and wages | \$ 16,602,830 | \$ 16,022,776 |
| Operating | 8,444,737 | 7,877,119 |
| Fringe benefits | 4,305,670 | 4,250,702 |
| Cost of sales | 900,779 | 1,723,205 |
| Depreciation | 2,076,482 | 1,981,284 |
| Bad debt | 1,496,714 | 24,709 |
| Utilities | 1,372,488 | 1,061,402 |
| Interest | 256,395 | 310,972 |
| | <u>\$ 35,456,095</u> | <u>\$ 33,252,169</u> |
| Total expenses | | |

NOTE O - COMMITMENT

Effective June 1, 2002, the College 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, 2007 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.