

# **Beloit College**

Financial Report  
June 30, 2016

## Contents

---

Independent Auditor's Report	1 - 2
Financial Statements	
Statements of Financial Position	3
Statements of Activities	4 - 5
Statements of Cash Flows	6
Notes to Financial Statements	7 - 30
Supplementary Information (Unaudited)	
Statement of Activities – Twelve months From July 1, 2015 to June 30, 2016	31

---



RSM US LLP

## 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 statement of financial position as of June 30, 2016, the related statements of activities and cash flows for the thirteen months then ended, and the related notes to the financial statements (collectively, 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 audit. We conducted our audit 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, 2016, and the changes in its net assets and its cash flows for the thirteen months then ended in accordance with accounting principles generally accepted in the United States of America.

***Other Matters***

The financial statements of the College, as of and for the year ended May 31, 2015, were audited by other auditors, whose report dated October 5, 2015 expressed an unmodified opinion on those statements.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements as a whole. The 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 audit of the basic financial statements, and, accordingly, we do not express an opinion or provide any assurance on it.

***RSM US LLP***

Rockford, Illinois  
November 10, 2016

**Beloit College**  
**Statements of Financial Position**  
**June 30, 2016 and May 31, 2015**

	2016	2015
<b>Assets</b>		
Cash and cash equivalents	\$ 2,473,258	\$ 8,961,768
Accounts receivable, net	971,709	419,432
Contributions receivable, net	2,003,015	2,959,897
Student loans receivable, net	5,204,571	5,348,721
Other assets	214,874	329,576
Bond issuance costs, net	467,171	551,052
Investments	148,635,387	154,750,617
Property, plant and equipment, net	70,277,243	71,788,625
Funds held in trust by others	612,000	669,433
Beneficial interest in perpetual trusts	2,698,928	2,900,487
	<hr/>	<hr/>
<b>Total assets</b>	<b>\$ 233,558,156</b>	<b>\$ 248,679,608</b>
<b>Liabilities and Net Assets</b>		
Liabilities:		
Accounts payable and other accrued liabilities	\$ 3,400,773	\$ 3,959,170
Deferred revenues	2,170,454	1,962,292
Student deposits and deferred grant revenue	482,895	477,527
Other liabilities	159,787	171,204
Refundable advance from U.S. government	1,932,165	2,279,753
Swap liability	9,554,153	8,196,076
Assets held for others	175,337	311,205
Annuities payable	3,780,399	3,881,274
Long-term debt	53,365,872	57,383,111
	<hr/>	<hr/>
<b>Total liabilities</b>	<b>75,021,835</b>	<b>78,621,612</b>
Net assets:		
Unrestricted	47,481,429	56,915,970
Temporarily restricted	24,646,220	28,870,871
Permanently restricted	86,408,672	84,271,155
	<hr/>	<hr/>
<b>Total net assets</b>	<b>158,536,321</b>	<b>170,057,996</b>
	<hr/>	<hr/>
<b>Total liabilities and net assets</b>	<b>\$ 233,558,156</b>	<b>\$ 248,679,608</b>

See notes to financial statements.

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

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
<b>Operating revenues:</b>				
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
Long term investment income and gains 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)	-	-
<b>Total operating revenues</b>	<b>49,754,715</b>	<b>(1,069,878)</b>	<b>-</b>	<b>48,684,837</b>
<b>Operating expenses:</b>				
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
<b>Total operating expenses</b>	<b>53,907,500</b>	<b>-</b>	<b>-</b>	<b>53,907,500</b>
<b>Net decrease from operations</b>	<b>(4,152,785)</b>	<b>(1,069,878)</b>	<b>-</b>	<b>(5,222,663)</b>
<b>Non-operating activities:</b>				
Investment income (expense):				
Interest income	2,458,203	3,959,175	-	6,417,378
Net losses on investments	(4,977,196)	(5,129,758)	-	(10,106,954)
Total investment income (expense)	(2,518,993)	(1,170,583)	-	(3,689,576)
Investment income and gains 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	-
<b>Total non-operating activities</b>	<b>(5,281,756)</b>	<b>(3,154,773)</b>	<b>2,137,517</b>	<b>(6,299,012)</b>
<b>Change in net assets</b>	<b>(9,434,541)</b>	<b>(4,224,651)</b>	<b>2,137,517</b>	<b>(11,521,675)</b>
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**  
**Statement of Activities**  
**Year Ended May 31, 2015**

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
<b>Operating revenues:</b>				
Student tuition and fees	\$ 50,806,669	\$ -	\$ -	\$ 50,806,669
Less:				
Funded student financial assistance	(1,741,262)	-	-	(1,741,262)
Unfunded student financial assistance	(25,348,535)	-	-	(25,348,535)
Net student tuition and fees	23,716,872	-	-	23,716,872
Auxiliary enterprises	8,015,588	-	-	8,015,588
Contributions	3,773,068	960,779	-	4,733,847
Return on investments	16,283	22,766	-	39,049
Government contracts and grants	1,439,576	-	-	1,439,576
Long term investment income and gains allocated for operations	3,140,889	3,485,681	-	6,626,570
Capital gifts allocated for operations	-	790,796	-	790,796
Other income	1,192,798	-	-	1,192,798
Net assets released from restrictions	6,958,527	(6,958,527)	-	-
<b>Total operating revenues</b>	<b>48,253,601</b>	<b>(1,698,505)</b>	<b>-</b>	<b>46,555,096</b>
<b>Operating expenses:</b>				
Instruction	18,871,196	-	-	18,871,196
Institutional support	9,234,237	-	-	9,234,237
Auxiliary enterprises	8,294,177	-	-	8,294,177
Student services	8,073,760	-	-	8,073,760
Academic support	4,937,381	-	-	4,937,381
Other operating expenses	607,115	-	-	607,115
<b>Total operating expenses</b>	<b>50,017,866</b>	<b>-</b>	<b>-</b>	<b>50,017,866</b>
<b>Net decrease from operations</b>	<b>(1,764,265)</b>	<b>(1,698,505)</b>	<b>-</b>	<b>(3,462,770)</b>
<b>Non-operating activities:</b>				
Investment income:				
Interest income	1,255,138	3,195,574	5,746	4,456,458
Net gains on investments	2,163,572	5,493,325	-	7,656,897
Total investment income	3,418,710	8,688,899	5,746	12,113,355
Investment income and gains allocated for operations	(3,140,889)	(3,485,681)	-	(6,626,570)
	277,821	5,203,218	5,746	5,486,785
Endowment gifts	5,012,130	17,500	2,017,924	7,047,554
Capital gifts and grants	1,000	1,655,878	-	1,656,878
Capital gifts allocated for operation	-	(790,796)	-	(790,796)
Contributions	664,946	-	300,000	964,946
Adjustments to actuarial liability for annuities payable	(1,048,266)	(18,258)	(416,536)	(1,483,060)
Reclassification due to change in donor intent	(1,562,773)	-	1,562,773	-
Change in fair value of swap liability	(1,384,942)	-	-	(1,384,942)
Estimated net book value of library books	653,275	-	-	653,275
Other non-operating activities	(138,611)	6,073	45,058	(87,480)
Net assets reclassified	2,137,140	(2,137,140)	-	-
<b>Total non-operating activities</b>	<b>4,611,720</b>	<b>3,936,475</b>	<b>3,514,965</b>	<b>12,063,160</b>
<b>Change in net assets</b>	<b>2,847,455</b>	<b>2,237,970</b>	<b>3,514,965</b>	<b>8,600,390</b>
Net assets at beginning of period	54,068,515	26,632,901	80,756,190	161,457,606
Net assets at end of period	<b>\$ 56,915,970</b>	<b>\$ 28,870,871</b>	<b>\$ 84,271,155</b>	<b>\$ 170,057,996</b>

See notes to financial statements.

**Beloit College**  
**Statements of Cash Flows**  
**Thirteen Months Ended June 30, 2016 and Year Ended May 31, 2015**

	2016	2015
Cash flows from operating activities:		
Change in net assets	\$ (11,521,675)	\$ 8,600,390
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Depreciation	4,083,108	3,986,824
Amortization	118,304	31,677
Change in fair value of swap liability	1,358,077	1,384,942
Contributed investments	(250,000)	(1,807,912)
Contributions received for investment in endowment and capital	(6,806,950)	(8,878,582)
Decrease in value of split-interest agreements and beneficial interests in perpetual trusts	261,157	574,315
Allowance for doubtful accounts	(67,161)	(451,455)
Net unrealized and realized (gains) and losses on investments	10,106,954	(10,342,920)
Loss on dispositions of property, plant and equipment	6,256	62,994
Increase (decrease) from changes in:		
Receivables, net	(221,194)	(26,763)
Other assets	376,785	20,196
Accounts payable and other accrued liabilities	(558,397)	28,690
Deferred revenues	208,162	8,907
Student deposits and deferred grant revenue	5,368	(119,507)
Annuities payable	(100,875)	1,092,441
Other liabilities	(147,579)	(81,527)
<b>Net cash used in operating activities</b>	<b>(3,149,660)</b>	<b>(5,917,290)</b>
Cash flows from investing activities:		
Purchases of property, plant and equipment	(2,577,982)	(2,244,790)
Purchases of investments	(36,903,519)	(24,059,785)
Proceeds from sales of investments	33,568,045	25,220,187
Disbursements of loans to students	(799,314)	(365,189)
Repayments of loans by students	969,017	1,311,657
Increase in the cash surrender value of life insurance	(3,091)	(36,109)
<b>Net cash used in investing activities</b>	<b>(5,746,844)</b>	<b>(174,029)</b>
Cash flows from financing activities:		
Repayment of principal on long-term debt	(4,051,662)	(150,000)
Contributions received for investment in endowment and capital	6,806,950	8,878,582
(Increase) decrease in U.S. government grants refundable, net	(347,588)	727,616
Increase in Henry Strong Foundation advances refundable, net	294	1,248
<b>Net cash provided by financing activities</b>	<b>2,407,994</b>	<b>9,457,446</b>
<b>Net (decrease) increase in cash and cash equivalents</b>	<b>(6,488,510)</b>	<b>3,366,127</b>
Cash and cash equivalents		
Beginning	8,961,768	5,595,641
Ending	\$ 2,473,258	\$ 8,961,768
Supplemental disclosure of cash flow information:		
Cash paid during the year for interest	\$ 3,075,248	\$ 3,179,012

See notes to financial statements.

**Note 1. Summary of Significant Accounting Policies**

Beloit College (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.

The more significant accounting policies 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. The discounts on those amounts are computed using risk-free interest rates applicable to the years in which the promises are received. Amortization of the discounts is included in contribution revenue. Allowance is made for doubtful contributions receivable based upon management's judgment and analysis of the credit worthiness of the donors, past collection experience and other relevant factors. Promises to give are written-off when they become uncollectible. The policy for determining past due accounts is assessed on an individual basis.

**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 \$820,229 and \$845,782 at June 30, 2016 and May 31, 2015, 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 2010A and 2014 bonds are being deferred and amortized over the life of the related bonds.

**Note 1. Summary of Significant Accounting Policies (Continued)**

**Investments:** Investments in debt and fixed-income equity securities are recorded at fair value and are included on the statements of financial position. All investment income and losses, including changes in the fair value of instruments, is recognized as non-operating revenue or non-operating expense 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. 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 accretion of the discount and other changes in the estimates of future benefits. Such adjustments are included in change in value of split-interest agreements in the statements of activities.

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 recorded at the date the trusts are established for the present value of estimated future payments to be received. This is included in the funds held in trust by others on the statements of financial position.

**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

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, 2016 and May 31, 2015, respectively.

**Note 1. Summary of Significant Accounting Policies (Continued)**

**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 revenues:** 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 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.

**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.

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.

**Note 1. Summary of Significant Accounting Policies (Continued)**

**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 revenues:** The statements of activities distinguish between operating and non-operating revenues and expenses. Operating revenues result from exchange transactions associated with providing educational services – the College’s principal activity. Contributions received and investment related income are reported as non-operating revenues and expenses.

**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.

**Note 1. Summary Significant Accounting Policies (Continued)**

**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 2015 financial statements have been reclassified to conform to the 2016 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 of 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 April 2015, the Financial Accounting Standards Board (FASB) issued ASU 2015-03, *Interest – Imputation of Interest (Subtopic 835-30): Simplifying the Presentation of Debt Issuance Costs*. This ASU requires that debt issuance costs related to recognized debt liability be presented in the statement of financial position as a direct deduction from the carrying amount of that debt liability, consistent with debt discounts. This ASU will be effective for the College's year ending June 30, 2017. Early adoption is permitted and retrospective application is required.

**Note 1. Summary of Significant Accounting Policies (Continued)**

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.

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.

**Beloit College****Notes to Financial Statements**

---

**Note 2. Contribution Receivables, Net**

Contributions receivable as of June 30, 2016 and May 31, 2015 are composed of and are to be used for the following:

	2016	2015
	<u>2016</u>	<u>2015</u>
Capital funds	\$ 671,643	\$ 464,530
Operations	1,361,951	2,511,245
Endowment	104,000	155,953
Scholarships and programs	-	24,450
Gross contributions receivable	<u>2,137,594</u>	<u>3,156,178</u>
Less: Discount	(29,157)	(40,497)
Less: Allowance for uncollectible contributions	<u>(105,422)</u>	<u>(155,784)</u>
Net contributions receivable	<u>\$ 2,003,015</u>	<u>\$ 2,959,897</u>

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

	2016	2015
	<u>2016</u>	<u>2015</u>
Less than one year	\$ 1,030,651	\$ 1,313,546
One to five years	1,106,943	1,842,382
More than five years	-	250
Totals	<u>\$ 2,137,594</u>	<u>\$ 3,156,178</u>

Contributions have been discounted using a rate ranging from 0.14 percent to 5 percent. As of June 30, 2016 and May 31, 2015, the College had approximately \$1,851,000 and \$2,022,000, respectively, of gross contributions receivable from board members and employees.

**Note 3. Accounts Receivable, Net**

Accounts receivable consists of the following at June 30, 2016 and May 31, 2015:

	2016	2015
	<u>2016</u>	<u>2015</u>
Tuition and fees	\$ 850,026	\$ 368,716
Government grants and contracts receivable	201,721	114,917
Other	26,309	33,392
Gross accounts receivable	<u>1,078,056</u>	<u>517,025</u>
Less: Allowance for doubtful accounts	<u>(106,347)</u>	<u>(97,593)</u>
Accounts receivable, net	<u>\$ 971,709</u>	<u>\$ 419,432</u>

## Beloit College

### Notes to Financial Statements

---

#### 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. Student loans receivable are carried at the amount of unpaid principal less an estimate for doubtful accounts. Allowances for doubtful accounts are established based on prior collection experience and current economic factors which, in management's judgment, could influence the ability of loan recipients to repay the amounts per the loan terms. At June 30, 2016 and May 31, 2015, student loans represented approximately 2 percent of total assets.

At June 30, 2016 and May 31, 2015, student loans consisted of the following:

	2016	2015
Federal government programs	\$ 2,319,494	\$ 2,352,592
Institutional programs	3,705,306	3,841,911
	<u>6,024,800</u>	<u>6,194,503</u>
Less allowance for doubtful accounts:		
Beginning of period	(845,782)	(1,014,185)
Decreases	25,553	168,403
End of period	<u>(820,229)</u>	<u>(845,782)</u>
Student loans receivable, net	<u>\$ 5,204,571</u>	<u>\$ 5,348,721</u>

Funds advanced by the Federal government of \$1,932,165 and \$2,279,753 at June 30, 2016 and May 31, 2015, 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, 2016 and May 31, 2015, 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, 2016	\$ 19,493	\$ 56,248	\$ 329,459	\$ 823,878	\$ 1,229,078
May 31, 2015	18,702	98,910	360,646	705,604	1,183,862

## Beloit College

### Notes to Financial Statements

---

#### Note 5. Investments

The following summarizes the College's investments as of June 30, 2016 and May 31, 2015:

	2016	2015
Certificates of deposit	\$ -	\$ 1,000,618
Money market funds	166,326	388,954
Government bonds	2,951,878	2,956,516
Mutual funds - bonds:		
U.S. fixed income	-	45,691
U.S. high yield fixed income	87,398	90,067
U.S. Treasury inflation protected	106,871	106,196
Global fixed income	-	92,792
Other fixed income	1,011,068	1,123,068
Mutual funds - equities:		
U.S. equities	3,351,866	3,734,837
Non-U.S. equities	1,095,476	1,178,538
Mutual funds - diversified	125,570,624	140,077,941
Mutual funds - commodity	127,888	92,937
Common stock	245,225	272,820
Alternative investments:		
Private equity funds	5,181,847	3,542,556
Multi-strategy funds	8,024,428	-
Real estate investment	12,900	12,900
Accrued interest and pending investment trades	701,592	34,186
	<hr/>	<hr/>
Totals	\$ 148,635,387	\$ 154,750,617

The estimated fair value of certain alternative investments is based on valuations provided by external investment managers as of June 30, 2016 and May 31, 2015. The College believes the carrying amounts of these investments are a reasonable estimate of fair value. Because these investments are not readily marketable, their estimated fair value is subject to uncertainty and, therefore, may differ from the value that would have been used had a ready market for such investments existed.

## Beloit College

### Notes to Financial Statements

---

#### Note 5. Investments (Continued)

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 thirteen month period ended June 30, 2016 and the year ended May 31, 2015 consists of the following:

	2016	2015
Interest and dividends	\$ 6,417,378	\$ 4,456,458
Realized gains (losses) on investments	2,583,746	8,171,500
Unrealized gains (losses) on investments	(12,690,700)	(514,603)
	<hr/>	<hr/>
Totals	\$ (3,689,576)	\$ 12,113,355

The College paid investment trustee and management fees of approximately \$327,000 and \$108,000 for the thirteen month period ended June 30, 2016 and the year ended May 31, 2015, respectively.

#### Note 6. Property, Plant and Equipment, Net

A summary of property, plant, and equipment as of June 30, 2016 and May 31, 2015 is as follows:

	2016	2015
Leasehold improvements	\$ 75,744	\$ 75,744
Land and land improvements	8,766,018	8,734,433
Buildings	79,855,016	79,855,016
Building improvements	7,435,174	6,550,222
Equipment and furnishings	10,377,467	9,953,764
Dormitory and commons	26,671,311	26,671,311
Residential rental properties	891,740	891,740
Works of art	722,579	722,579
Books	896,097	770,403
	<hr/>	<hr/>
	135,691,146	134,225,212
Less: accumulated depreciation	(67,745,516)	(63,743,770)
	<hr/>	<hr/>
	67,945,630	70,481,442
Construction in process	2,331,613	1,307,183
	<hr/>	<hr/>
Property, plant and equipment, net	\$ 70,277,243	\$ 71,788,625

Books had not been previously capitalized by the College. During the year ended May 31, 2015, an estimate was made of the fair value of the collection in the amount of \$653,275 which was recorded as a non-operating activity on the statement of activities. During the thirteen months ended June 30, 2016 and in future years, the College will capitalize all book purchases as a single asset.

There was approximately \$2.15 million of outstanding construction commitments as of June 30, 2016.

## Beloit College

### Notes to Financial Statements

---

#### 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 Beloit College. The Series 2010A bonds require 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. The principal payments are annual and due on June 1. On June 15, 2015, the College redeemed the callable 2021 tranche of the Series 2010A bonds, including the payments dates from 2016 to 2021. The principal remaining at June 30, 2016 and May 31, 2015 was \$24,360,000 and \$27,960,000, respectively. At June 30, 2016 and May 31, 2015, the outstanding principal balance on the 2010A bonds is reduced by the net unamortized bond discounts, of \$167,966 and \$202,389, respectively. The bond agreement includes a required covenant that the college maintain a debt service ratio of 1.1 to 1.

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, 2015. 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 principal remaining at June 30, 2016 and May 31, 2015 was \$29,173,838 and \$29,625,500, respectively. 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, 2016, the weekly bond rate was 1.460 percent. The direct bond purchase agreement includes required covenants that the College maintain: a debt service ratio of 1.1 to 1; a funded debt to sum of funded debt plus net assets ratio of not greater than .40 to 1.0; and an amount of unrestricted cash and investments plus temporary and unrestricted pledge receivables of not less than \$40 million.

Future principal payments on the bonds payable as of June 30, 2016 are due as follows:

<u>Years Ending June 30:</u>	
2017	\$ 710,000
2018	755,000
2019	800,000
2020	895,000
2021	950,000
Thereafter	<u>49,423,838</u>
	<u><u>\$ 53,533,838</u></u>

The Series 2010A and the Series 2014 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 \$3,197,000 and \$3,179,000 for the thirteen month period ended June 30, 2016 and the year ended May 31, 2015, respectively.

## Beloit College

### Notes to Financial Statements

---

#### Note 8. Swap Liability

At June 30, 2016, 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 interest rate (.46505 at June 30, 2016) 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, 2016, the notional amount was \$28,500,000. 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, 2016 and May 31, 2015 are as follows:

Derivatives Not Designated as Hedging Instruments	Statement of Financial Position Location	Liability Derivatives Fair Value	
		2016	2015
Interest rate swap	Swap liability	<u>\$ 9,554,153</u>	<u>\$ 8,196,076</u>

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

Derivatives Not Designated as Hedging Instruments	Location of Loss on Derivatives Recognized in the Statement of Activities	Amount of Gain (Loss) on Derivatives Recognized in the Statement of Activities	
		2016	2015
Interest rate swap	Non-operating activities	<u>\$ 1,358,077</u>	<u>\$ 1,384,942</u>

The College has entered into future purchase contracts for its gas usage. These contracts meet the definition of normal purchases and normal sales as defined by accounting standards and therefore, no asset or liability associated with the derivative is required to be recognized.

#### 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 rate (2.2 percent at June 30, 2016) and amounts borrowed are due on demand. As of June 30, 2016 and May 31, 2015, there was no balance outstanding on the line of credit. The line of credit matures on December 31, 2016.

#### Note 10. Related Parties

Contributions from trustees, officers, and employees totaled approximately \$3,228,000 and \$1,268,000 during the thirteen month period ended June 30, 2016 and the year ended May 31, 2015, respectively. See Note 2 for related party contributions receivable.

## Beloit College

### Notes to Financial Statements

---

#### 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 thirteen month period ended June 30, 2016 and the year ended May 31, 2015 was approximately \$123,000 and \$94,000, respectively.

In November 2014, the College entered into an operating lease agreement for campus-wide copiers and printers. Rent expense for the thirteen month period ended June 30, 2016 and the year ended May 31, 2015 was \$68,000 and \$26,000, respectively.

Future lease commitments are due as follows:

<u>Years Ending June 30:</u>	
2017	\$ 211,005
2018	215,015
2019	219,100
2020	223,263
2021	<u>227,504</u>
	<u><u>\$ 1,095,887</u></u>

#### 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, 2016 and May 31, 2015, the College's unrestricted net assets which are board designated for investment in the endowment totaled \$51,230,703 and \$46,278,089, respectively.

**Beloit College**

**Notes to Financial Statements**

---

**Note 12. Net Assets (Continued)**

Net assets as of June 30, 2016 and May 31, 2015 are temporarily restricted for the following:

	<u>2016</u>	<u>2015</u>
Purpose restrictions:		
Capital expenditures	\$ 3,413,650	\$ 592,390
Endowment earnings	14,450,705	20,489,413
Split-interest annuity agreements	983,272	1,165,734
Student loans	279,206	273,906
Academic support	2,207,000	1,371,988
Instruction	728,440	171,546
Scholarships	463,022	319,531
Time restrictions - contribution receivables and other	<u>2,120,925</u>	<u>4,486,363</u>
Totals	<u>\$ 24,646,220</u>	<u>\$ 28,870,871</u>

Temporarily restricted net assets were released from donor restrictions as follows during the thirteen month period ending June 30, 2016 and the year ended May 31, 2015:

	<u>2016</u>	<u>2015</u>
Scholarships	\$ 1,687,166	\$ 1,633,327
Investment in land, buildings, and equipment	983,968	590,301
Operating expenses	<u>4,148,534</u>	<u>4,734,899</u>
Totals	<u>\$ 6,819,668</u>	<u>\$ 6,958,527</u>

## Beloit College

### Notes to Financial Statements

---

#### Note 12. Net Assets (Continued)

Permanently restricted net assets as of June 30, 2016 and May 31, 2015 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, 2016 and May 31, 2015:

	2016	2015
Endowments - earnings restricted for:		
Scholarships	\$ 29,200,442	\$ 28,444,598
Instruction	33,922,046	33,002,549
Academic support	13,400,316	13,105,099
Other	5,212,289	5,234,845
Beneficial interest in perpetual trusts	2,698,928	2,900,487
Split-interest annuity agreements	1,034,544	649,669
Revolving student loan funds	940,107	933,908
	<hr/>	<hr/>
Totals	\$ 86,408,672	\$ 84,271,155

#### 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 \$1,623,000 and \$1,512,000 for the thirteen month period ended June 30, 2016 and the year ended May 31, 2015, 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 \$176,000 and \$144,000 as of June 30, 2016 and May 31, 2015, 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 \$20,000 and \$39,000 during the thirteen month period ended June 30, 2016 and the year ended May 31, 2015, 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

**Beloit College**

**Notes to Financial Statements**

**Note 16. Endowment (Continued)**

Endowment net asset composition by type of fund consists of the following as of June 30, 2016 and 2015:

	2016			Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	
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
<b>Total endowment assets</b>	<b>\$ 48,969,431</b>	<b>\$ 14,450,705</b>	<b>\$ 81,735,093</b>	<b>\$ 145,155,229</b>

  

	2015			Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	
Donor-restricted endowment funds	\$ (1,205,988)	\$ 20,484,413	\$ 79,787,091	\$ 99,065,516
Board-designated endowment funds	46,278,089	5,000	-	46,283,089
<b>Total endowment assets</b>	<b>\$ 45,072,101</b>	<b>\$ 20,489,413</b>	<b>\$ 79,787,091</b>	<b>\$ 145,348,605</b>

Changes in endowment net assets for the thirteen month period ended June 30, 2016 are as follows:

	2016			Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	
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)
Transfers	129,501	(140,960)	11,459	-
<b>Endowment assets, ending</b>	<b>\$ 48,969,431</b>	<b>\$ 14,450,705</b>	<b>\$ 81,735,093</b>	<b>\$ 145,155,229</b>

**Beloit College****Notes to Financial Statements****Note 16. Endowment (Continued)**

Changes in endowment net assets for the year ended May 31, 2015 are as follows:

	2015			Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	
Endowment assets, beginning	\$ 36,264,351	\$ 18,368,404	\$ 76,128,860	\$ 130,761,615
Investment return:				
Investment income	1,129,756	2,901,207	5,746	4,036,709
Net appreciation/depreciation - realized and unrealized	1,517,175	6,090,713	-	7,607,888
Total investment return	2,646,931	8,991,920	5,746	11,644,597
Contributions and other additions	5,814,123	17,500	3,652,485	9,484,108
Appropriation of endowment assets for expenditure	(2,544,798)	(3,996,917)	-	(6,541,715)
Transfers	2,891,494	(2,891,494)	-	-
Endowment assets, ending	\$ 45,072,101	\$ 20,489,413	\$ 79,787,091	\$ 145,348,605

**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 \$2,261,000 and \$1,206,000 as of June 30, 2016 and May 31, 2015, 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 thirteen month period ended June 30, 2016 and the year ended May 31, 2015. 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, 2016 and May 31, 2015.

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:**

Level 1 - Assets include investments in government bonds, common stock, money market funds and bond, equity, diversified and commodity mutual funds for which quoted prices are readily available.

Level 2 - Assets include investments in government bonds and certificates of deposit for which quoted prices are not readily available. The fair values are estimated using Level 2 inputs based on multiple sources of information, which may include market data and/or quoted market prices from either markets that are not active or are for the same or similar assets in active markets.

Level 2 - Liabilities include interest rate swaps for which quoted prices are not readily available. The fair values are 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.)

**Note 17. Fair Value Measurements (Continued)**

Level 3 - Assets include:

- > Investments in beneficial interest in perpetual trust administered by a third party and annuity contracts for which quoted prices are not readily available. The fair values are estimated using an income approach by calculating the present value of the future distributions expected to be received based on a combination of Level 2 inputs (interest rates and yield curves) and significant unobservable inputs (entity specific estimates of cash flows).
- > Alternative investments, including private equity funds and investment companies for which quoted market prices are not readily available. The fair values are estimated using the net asset value (NAV) as a practical expedient to determine the fair value of all underlying investments.
- > Funds held in trust by others for which quoted prices are not readily available. The fair values are based on a combination of Level 2 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.

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.

**Beloit College**

**Notes to Financial Statements**

**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
<b>Assets</b>				
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
Multi-strategy funds	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	132,021,431	2,693,188	13,219,175
Funds held in trust by others	612,000	-	-	612,000
Beneficial interest in perpetual trusts	2,698,928	-	-	2,698,928
Totals	\$ 151,946,315	\$ 132,021,431	\$ 2,693,188	\$ 16,530,103
<b>Liabilities</b>				
Swap liability	\$ 9,554,153	\$ -	\$ 9,554,153	\$ -

**Beloit College**

**Notes to Financial Statements**

**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 May 31, 2015 based upon the three-tier hierarchy:

	Total	Level 1	Level 2	Level 3
<b>Assets</b>				
Investments:				
Certificates of deposit	\$ 1,000,618	\$ -	\$ 1,000,618	\$ -
Money market funds	388,954	388,954	-	-
U.S. Government bonds	2,956,516	180,377	2,776,139	-
Common stock	272,820	272,820	-	-
Mutual funds - bonds:				
U.S. fixed income	45,691	45,691	-	-
U.S. high yield fixed income	90,067	90,067	-	-
U.S. Treasury inflation protected	106,196	106,196	-	-
Global fixed income	92,792	92,792	-	-
Other fixed income	1,123,068	1,123,068	-	-
Mutual funds - equities:				
U.S. equities	3,734,837	3,734,837	-	-
Non-U.S. equities	1,178,538	1,178,538	-	-
Mutual funds - diversified funds	140,077,941	140,077,941	-	-
Mutual funds - commodity	92,937	92,937	-	-
Real estate investment	12,900	-	-	12,900
Alternative investments:				
Private equity funds	3,542,556	-	-	3,542,556
Subtotal	154,716,431	147,384,218	3,776,757	3,555,456
Investments not recorded at fair value:				
Accrued interest and pending investment trades	34,186	-	-	-
Total investments	154,750,617	147,384,218	3,776,757	3,555,456
Funds held in trust by others	669,433	-	-	669,433
Beneficial interest in perpetual trusts	2,900,487	-	-	2,900,487
Totals	<u>\$ 158,320,537</u>	<u>\$ 147,384,218</u>	<u>\$ 3,776,757</u>	<u>\$ 7,125,376</u>
<b>Liabilities</b>				
Swap liability	\$ 8,196,076	\$ -	\$ 8,196,076	\$ -

## Beloit College

### Notes to Financial Statements

#### 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 the thirteen month period ended June 30, 2016 and the year ended May 31, 2015:

	Real Estate Investment	Venture Capital Limited Partnership	Private Equity Funds	Multi-Strategy Funds	Beneficial Interest in Perpetual Trust	Funds Held in Trust for Others	Total
Balance May 31, 2014	\$ 12,900	\$ 1,756	\$ 2,100,245	\$ -	\$ 2,858,055	\$ 651,952	\$ 5,624,908
Sales	-	(1,756)	-	-	-	-	(1,756)
Realized and unrealized gains	-	-	992,281	-	42,432	17,481	1,052,194
Transfers	-	-	450,030	-	-	-	450,030
Balance May 31, 2015	12,900	-	3,542,556	-	2,900,487	669,433	7,125,376
Purchases	-	-	1,395,885	8,000,000	-	-	9,395,885
Realized and unrealized gains (losses)	-	-	243,406	24,428	(201,559)	(57,433)	8,842
Balance June 30, 2016	<u>\$ 12,900</u>	<u>\$ -</u>	<u>\$ 5,181,847</u>	<u>\$ 8,024,428</u>	<u>\$ 2,698,928</u>	<u>\$ 612,000</u>	<u>\$ 16,530,103</u>

The amount of total unrealized gains (losses) included in the change in net assets attributable to the assets still held at June 30, 2016 and May 31, 2015 was approximately \$270,000 and \$992,000, 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 lists the alternative investments in which NAV was utilized as the practical expedient for estimating fair value by major category as of June 30, 2016:

	Private Equity Funds
Fair value, June 30, 2016	<u>\$ 5,181,847</u>
Significant investment strategy	Equity funds
Remaining life	5-10 years
Dollar amount of unfunded commitments	\$ 7,329,115
Timing to draw down commitments	Not defined
Redemption terms	Illiquid
Redemption restrictions	N/A
Redemption restrictions in place at year end	N/A

## Beloit College

### Notes to Financial Statements

---

#### Note 18. Functional Expenses

The College's expenses have been classified according to their function as follows for the thirteen month period ended June 30, 2016 and the year ended May 31, 2015:

	2016	2015
Program expenses	\$ 43,465,243	\$ 41,631,488
General and administrative expenses	7,987,388	5,947,221
Fundraising expenses	2,454,869	2,439,157
Totals	<u>\$ 53,907,500</u>	<u>\$ 50,017,866</u>

#### Note 19. Subsequent Events

On September 14, 2016, WHEFA issued \$23,080,000 of Revenue Bonds on behalf of Beloit College. The Series 2016 bonds require semiannual interest payments at a fixed interest rate of 5 percent. The proceeds of the Series 2016 bonds were used to generate the needed escrow account which allowed for the defeasance of the \$24,360,000 of Revenue Bonds Series 2010A, as they are not callable until June 1, 2020.

The College has evaluated subsequent events through November 10, 2016, which is the date the financial statements were issued.

**Beloit College**  
**Statement of Activities**  
**Twelve Months From July 1, 2015 to June 30, 2016**  
**(Unaudited)**

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
<b>Operating revenues:</b>				
Student tuition and fees	\$ 55,646,567	\$ -	\$ -	\$ 55,646,567
Less:				
Funded student financial assistance	(2,163,545)	-	-	(2,163,545)
Unfunded student financial assistance	(28,351,283)	-	-	(28,351,283)
Net student tuition and fees	25,131,739	-	-	25,131,739
Auxiliary enterprises	8,685,305	-	-	8,685,305
Contributions	3,081,446	877,338	-	3,958,784
Return on investments	53,788	38,693	-	92,481
Government contracts and grants	1,477,403	-	-	1,477,403
Long term investment income and gains allocated for operations	2,524,001	4,826,388	-	7,350,389
Other income	1,233,950	-	-	1,233,950
Net assets released from restrictions	6,819,668	(6,819,668)	-	-
<b>Total operating revenues</b>	<b>49,007,300</b>	<b>(1,077,249)</b>	<b>-</b>	<b>47,930,051</b>
<b>Operating expenses:</b>				
Instruction	19,215,465	-	-	19,215,465
Institutional support	10,361,902	-	-	10,361,902
Auxiliary enterprises	8,563,393	-	-	8,563,393
Student services	8,622,103	-	-	8,622,103
Academic support	4,464,056	-	-	4,464,056
Other operating expenses	406,414	-	-	406,414
<b>Total operating expenses</b>	<b>51,633,333</b>	<b>-</b>	<b>-</b>	<b>51,633,333</b>
<b>Net decrease from operations</b>	<b>(2,626,033)</b>	<b>(1,077,249)</b>	<b>-</b>	<b>(3,703,282)</b>
<b>Non-operating activities:</b>				
Investment income (expense):				
Interest income	2,197,963	3,478,536	-	5,676,499
Net losses on investments	(3,777,282)	(3,104,175)	-	(6,881,457)
Total investment income (expense)	(1,579,319)	374,361	-	(1,204,958)
Investment income and gains allocated for operations	(2,524,001)	(4,826,388)	-	(7,350,389)
	(4,103,320)	(4,452,027)	-	(8,555,347)
Endowment gifts	856,726	-	1,919,824	2,776,550
Capital gifts and grants	-	3,752,992	-	3,752,992
Contributions	-	-	254,910	254,910
Adjustments to actuarial liability for annuities payable	(567,525)	(7,903)	(25,822)	(601,250)
Change in fair value of swap liability	(1,358,077)	-	-	(1,358,077)
Other non-operating activities	111,755	38,990	(198,667)	(47,922)
Net assets reclassified	752,926	(944,602)	191,676	-
<b>Total non-operating activities</b>	<b>(4,307,515)</b>	<b>(1,612,550)</b>	<b>2,141,921</b>	<b>(3,778,144)</b>
<b>Change in net assets</b>	<b>(6,933,548)</b>	<b>(2,689,799)</b>	<b>2,141,921</b>	<b>(7,481,426)</b>
Net assets - July 1, 2015	54,414,977	27,336,019	84,266,751	166,017,747
Net assets - June 30, 2016	\$ 47,481,429	\$ 24,646,220	\$ 86,408,672	\$ 158,536,321