

Beloit College and Subsidiaries

Financial Report
June 30, 2020

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RSM US LLP

Independent Auditor's Report

To the Board of Trustees
Beloit College

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of Beloit College and its subsidiaries which comprise the consolidated statements of financial position as of June 30, 2020 and 2019, and the related consolidated statements of activities, changes in net assets and cash flows for the years ended June 30, 2020 and 2019, and the related notes to the consolidated 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 audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Beloit College and its subsidiaries as of June 30, 2020 and 2019, and the changes in their net assets and their cash flows for the years ended June 30, 2020 and 2019 in accordance with accounting principles generally accepted in the United States of America.

Other Matters*Other Information*

Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The consolidating and other supplementary information is presented for purposes of additional analysis rather than to present the financial position and results of operations of the individual companies and is not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The consolidating and other supplementary information, except for the portion marked "unaudited", has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. The information marked "unaudited" 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. In our opinion, except for that portion marked "unaudited", the information is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

RSM US LLP

Madison, Wisconsin
November 6, 2020

Beloit College and Subsidiaries
Consolidated Statements of Financial Position
June 30, 2020 and 2019

	2020	2019
Assets		
Cash and cash equivalents	\$ 40,593,903	\$ 56,667,464
Accounts receivable, net	3,141,394	1,994,134
Contributions receivable, net	1,218,219	6,030,315
Student loans receivable, net	6,625,349	6,009,226
Other assets	815,327	969,408
Investments	50,546,715	76,465,966
Property, plant and equipment, net	102,965,989	85,725,522
Funds held in trust by others	672,845	671,169
Beneficial interest in perpetual trusts	3,074,237	3,074,449
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Total assets	\$ 209,653,978	\$ 237,607,653
Liabilities and Net Assets		
Liabilities:		
Accounts payable and other accrued liabilities	\$ 8,685,776	\$ 9,482,511
Deferred revenue	1,055,887	177,255
Student deposits and deferred grant revenue	348,940	361,941
Other liabilities	92,043	154,295
Refundable advance from U.S. government	1,253,365	1,706,832
Swap liability	-	7,165,259
Annuities payable	3,751,901	3,629,136
SBA PPP Loan	4,687,300	-
Long-term debt, net	7,794,240	30,668,277
Historic tax credit obligation	1,722,847	1,676,174
New market tax credit obligation	4,863,300	4,863,300
	<hr/>	<hr/>
Total liabilities	34,255,599	59,884,980
Commitments and contingencies (Notes 21 and 22)		
Net assets:		
Net assets without donor restrictions	53,338,468	43,378,983
Net assets with donor restrictions	122,428,039	134,864,948
Non-controlling interest in net assets without donor restrictions	(368,128)	(521,258)
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Total net assets	175,398,379	177,722,673
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Total liabilities and net assets	\$ 209,653,978	\$ 237,607,653

See notes to consolidated financial statements.

Beloit College and Subsidiaries
Consolidated Statement of Activities
Year Ended June 30, 2020

	Without Donor Restrictions	With Donor Restrictions	Total
Operating revenues:			
Student tuition and fees	\$ 53,009,820	\$ -	\$ 53,009,820
Less: Funded student financial assistance	(1,750,728)	-	(1,750,728)
Unfunded student financial assistance	(33,718,528)	-	(33,718,528)
Net student tuition and fees	17,540,564	-	17,540,564
Auxiliary enterprises	6,498,559	-	6,498,559
Contributions	4,125,393	2,339,476	6,464,869
Endowment gifts	-	912,539	912,539
Capital gifts and grants	-	771,809	771,809
Government contracts and grants	1,465,069	-	1,465,069
Investment income allocated for operations	3,366,913	5,062,177	8,429,090
Other income	270,500	2,500	273,000
Net assets released from restrictions	17,072,832	(17,072,832)	-
Total operating revenues	50,339,830	(7,984,331)	42,355,499
Operating expenses:			
Instruction	12,923,827	-	12,923,827
Institutional support	11,249,298	-	11,249,298
Auxiliary enterprises	4,842,676	-	4,842,676
Student services	8,152,370	-	8,152,370
Academic support	4,348,565	-	4,348,565
Other operating expenses	1,747,818	-	1,747,818
Total operating expenses	43,264,554	-	43,264,554
Net increase (decrease) from operations	7,075,276	(7,984,331)	(909,055)
Non-operating activities:			
Investment income (loss):			
Interest income	181,294	1,572,518	1,753,812
Net (loss) gains on investments	2,149	(724,583)	(722,434)
Total investment income	183,443	847,935	1,031,378
Investment income allocated for operations	(3,366,913)	(5,062,177)	(8,429,090)
	(3,183,470)	(4,214,242)	(7,397,712)
Interest income on cash and cash equivalents	425,681	178,907	604,588
Adjustments to actuarial liability for annuities payable	(138,885)	(237,631)	(376,516)
Loss on settlement of interest rate swap	(698,741)	-	(698,741)
State tax credits	6,975,175	-	6,975,175
Net assets released due to change in donor intent	256,912	(256,912)	-
Other non-operating activities	(599,333)	77,300	(522,033)
Total non-operating activities	3,037,339	(4,452,578)	(1,415,239)
Change in net assets	10,112,615	(12,436,909)	(2,324,294)
Net assets at beginning of period	42,857,725	134,864,948	177,722,673
Net assets at end of period	\$ 52,970,340	\$ 122,428,039	\$ 175,398,379

See notes to consolidated financial statements.

Beloit College and Subsidiaries
Consolidated Statement of Activities
Year Ended June 30, 2019

	Without Donor Restrictions	With Donor Restrictions	Total
Operating revenues:			
Student tuition and fees	\$ 57,535,729	\$ -	\$ 57,535,729
Less: Funded student financial assistance	(1,867,794)	-	(1,867,794)
Unfunded student financial assistance	(35,112,297)	-	(35,112,297)
Net student tuition and fees	20,555,638	-	20,555,638
Auxiliary enterprises	8,561,535	-	8,561,535
Contributions	2,935,763	1,208,951	4,144,714
Endowment gifts	-	753,090	753,090
Capital gifts and grants	-	1,176,983	1,176,983
Government contracts and grants	1,354,212	-	1,354,212
Investment income allocated for operations	2,579,665	5,111,677	7,691,342
Other income	3,044,318	114,968	3,159,286
Net assets released from restrictions	6,148,569	(6,148,569)	-
Total operating revenues	45,179,700	2,217,100	47,396,800
Operating expenses:			
Instruction	18,765,953	-	18,765,953
Institutional support	11,665,309	-	11,665,309
Auxiliary enterprises	6,294,746	-	6,294,746
Student services	7,643,992	-	7,643,992
Academic support	4,586,016	-	4,586,016
Other operating expenses	739,371	-	739,371
Total operating expenses	49,695,387	-	49,695,387
Net (decrease) increase from operations	(4,515,687)	2,217,100	(2,298,587)
Non-operating activities:			
Investment income:			
Interest income	1,317,705	1,699,566	3,017,271
Net gains on investments	(187,704)	1,464,591	1,276,887
Total investment income	1,130,001	3,164,157	4,294,158
Investment income allocated for operations	(2,579,665)	(5,111,677)	(7,691,342)
	(1,449,664)	(1,947,520)	(3,397,184)
Interest income on cash and cash equivalents	144,319	-	144,319
Adjustments to actuarial liability for annuities payable	(264,912)	8,644	(256,268)
Change in fair value of swap liability	(2,108,236)	-	(2,108,236)
Net assets released due to change in donor intent	10,072,051	(10,072,051)	-
Other non-operating activities	164,060	82,343	246,403
Total non-operating activities	6,557,618	(11,928,584)	(5,370,966)
Change in net assets	2,041,931	(9,711,484)	(7,669,553)
Net assets at beginning of period	40,815,794	144,576,432	185,392,226
Net assets at end of period	\$ 42,857,725	\$ 134,864,948	\$ 177,722,673

See notes to consolidated financial statements.

Beloit College and Subsidiaries
Consolidating Statements of Changes in Net Assets
Year Ended June 30, 2020

	Beloit College and Subsidiaries			Non-Controlling Interest in Net Assets Without Donor Restrictions	Total
	Net Assets Without Donor Restrictions	Net Assets With Donor Restrictions	Sub-Total		
Net assets, June 30, 2019	\$ 43,378,983	\$ 134,864,948	\$ 178,243,931	\$ (521,258)	\$ 177,722,673
Change in net assets	9,959,484	(12,436,909)	(2,477,425)	153,131	(2,324,294)
Net assets, June 30, 2020	\$ 53,338,467	\$ 122,428,039	\$ 175,766,506	\$ (368,127)	\$ 175,398,379

See notes to consolidated financial statements.

Beloit College and Subsidiaries
Consolidated Statements of Cash Flows
Years Ended June 30, 2020 and 2019

	2020	2019
Cash flows from operating activities:		
Change in net assets	\$ (2,324,294)	\$ (7,669,553)
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Depreciation	4,313,769	3,763,144
Amortization of bond premiums	2,333	(2,894,645)
Loss/(gain) on sale of equipment	431,345	(182,986)
Change in fair value of swap liability	698,741	2,108,236
Contribution revenue for investment in endowment and capital	(1,684,348)	(1,930,073)
Increase in funds held in trust by others and beneficial interests in perpetual trusts	(1,464)	(40,730)
Allowance for doubtful accounts	-	(5,057)
Net unrealized and realized (loss) gains on investments	722,434	(1,276,887)
Increase (decrease) from changes in:		
Receivables, net	(1,147,260)	(525,215)
Other assets	154,081	(224,655)
Accounts payable	2,461,465	1,874,289
Deferred revenues	878,632	1,062,028
Student deposits and deferred grant revenue	(13,001)	(128,952)
Annuities payable and other liabilities	60,513	(22,302)
Net cash provided by (used in) operating activities	4,552,946	(6,093,358)
Cash flows from investing activities:		
Purchases of property, plant and equipment	(25,243,781)	(16,089,041)
Proceeds from sale of equipment	-	475,871
Purchases of investments	(15,960,262)	(37,295,740)
Proceeds from sales of investments	41,157,079	107,570,679
Swap settlement payment	(7,864,000)	-
Disbursements of loans to students	(1,192,494)	(1,275,905)
Repayments of loans by students	576,371	643,471
Net cash (used in) provided by investing activities	(8,527,087)	54,029,335
Cash flows from financing activities:		
Proceeds from SBA PPP loan	4,687,300	-
Proceeds from long-term debt	10,726,293	-
Payment of principal on long-term debt	(33,602,663)	(22,435,000)
Proceeds from historic and new market tax credit obligation	46,673	52,760
Contributions received for investment in endowment and capital	6,496,444	4,057,132
Decrease in U.S. government grants refundable, net	(453,467)	(66,557)
Net cash used in financing activities	(12,099,420)	(18,391,665)
Net (decrease) increase in cash and cash equivalents	(16,073,561)	29,544,312

Continued

Beloit College and Subsidiaries
Consolidated Statements of Cash Flows (Continued)
Years Ended June 30, 2020 and 2019

	2020		2019
Cash and cash equivalents			
Beginning	\$ 56,667,464	\$	27,123,152
Ending	\$ 40,593,903	\$	56,667,464
Supplemental disclosure of cash flow information:			
Cash paid during the year for interest	\$ 1,252,753	\$	2,128,407
Supplemental schedule of non-cash investing and financing activities:			
Purchases of property and equipment in accounts payable	\$ 1,341,268	\$	4,599,468

See notes to consolidated financial statements.

Beloit College and Subsidiaries

Notes to Consolidated Financial Statements

Note 1. Summary of Significant Accounting Policies

Beloit College is a four-year, independent, residential liberal arts college in Beloit, Wisconsin, founded in 1846 by a group of Yale graduates. Beloit 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 Beloit College reflect practices common to colleges and universities and conform to accounting principles generally accepted in the United States of America.

Principles of consolidation: The consolidated financial statements include the accounts and transactions of Beloit College and its subsidiaries (collectively referred to as the College), including the following:

- Beloit Powerhouse Foundation, Inc. was established in December 2017. In April 2018, the articles of incorporation of Beloit Powerhouse Foundation, Inc. were amended to change the name of the organization to Beloit Powerhouse Holdings, Inc. (Holdings, Inc.) and to change the purpose.
- Beloit Powerhouse Holdings II, LLC (Holdings II) was established in March 2018.
- Beloit Powerhouse, LLC (Powerhouse) was established in March 2017.

Effective June 18, 2018, Powerhouse closed on a New Market Tax Credit (NMTC) and Historic Tax Credit (HTC) financing transaction. In connection with this transaction, the following variable interest entities (VIEs) for which Powerhouse is the primary beneficiary, are also consolidated with the accounts and transactions of Powerhouse:

- Chase NMTC Beloit Powerhouse Investment Fund, LLC (Investment Fund) – an entity owned 100% by Chase Community Equity, LLC (CCE)
- BH New Markets Sub-CDE 18, LLC, Brownfield Revitalization 48, LLC, and CNMC Sub-CDE 165, LLC (collectively referred to as the Sub-CDEs) – entities owned 99.99% by Investment Fund and .01% by separate Community Development Entities
- Powerhouse Master Tenant, LLC (Master Tenant) – an entity owned 99% by CCE and 1% by Holdings II.

Holdings, Inc. and Holdings II are wholly owned by the College. Powerhouse is owned 94.99% by Holdings II, 5% by Holdings, Inc. and .01% by the College.

The subsidiaries were created to finance the decommissioning and renovation of the Blackhawk Generating Station, which was contributed to the College and converted into a 130,000 square foot student center.

All intercompany balances and transactions have been eliminated in consolidation. Refer to Note 18 of these financial statements for a description of the VIEs included in the financial statements.

Beloit College and Subsidiaries

Notes to Consolidated Financial Statements

Note 1. Summary of Significant Accounting Policies (Continued)

Significant accounting policies of the College are summarized below:

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

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

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

Contributions receivable: Unconditional promises to give (pledges) that are expected to be collected within one year are recorded at net realizable value. Unconditional promises to give that are expected to be collected in future years are recorded at the present value of their estimated future cash flows. Amortization of the discounts is included in contribution revenue in accordance with donor-imposed restrictions, if any, on the contributions. Allowance is made for doubtful contributions receivable based upon management's judgment and analysis of the credit worthiness of the donors, past collection experience and other relevant factors. Promises to give are written-off when they become uncollectible. The policy for determining past due contributions is assessed on an individual basis.

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 \$976,678 and \$1,007,211 at June 30, 2020 and June 30, 2019, respectively. 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.

Debt issuance costs: Costs incurred relating to the issuance of bonds and other long-term debt are being deferred and amortized over the life of the debt. Unamortized debt issuance costs are reflected as a reduction of the related debt on the statements of financial position.

Beloit College and Subsidiaries

Notes to Consolidated Financial Statements

Note 1. Summary of Significant Accounting Policies (Continued)

Investments: Investments are recorded at fair value. Investment income and investments in equity securities with readily determinable fair values and all investments in debt securities are reported at fair value with gains and losses included in the non-operating activities in the consolidated statement of activities when earned. The College annually appropriates 4.5 percent of the endowment fund's average fair value for the prior three years for operations and reclassifies these earnings to operations.

Split interest agreements with donors: The College's split interest agreements with donors consist of charitable remainder annuity trusts, charitable remainder unitrust contracts, pooled life income funds, charitable annuity lead trusts and charitable gift annuities for which the College is either the remainder beneficiary or both the trustee and remainder beneficiary.

Assets held under these agreements for which the College serves as trustee are included in investments. Gains and losses are included with investment income (loss) on the statement of activities.

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

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

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

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, 2020 and 2019, respectively.

Beneficial interest in perpetual trusts: The College is an income beneficiary of various irrevocable trusts. The College has recognized its interest in the estimated future cash flows as net assets with donor restrictions based on the fair value of the assets held in the trusts. Changes in the fair value of the trusts are recognized as gains and losses in net assets with donor restrictions.

Beloit College and Subsidiaries

Notes to Consolidated Financial Statements

Note 1. Summary of Significant Accounting Policies (Continued)

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

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

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

Swap liability: The College uses interest rate swap agreements as part of its risk management strategy to manage exposure to fluctuations in interest rates and to manage the overall cost of its debt. These agreements are used to manage identified and approved exposures and are not used for speculative purposes. The interest rate swap agreements are recognized as either assets or liabilities on the statements of financial position and are measured at fair value. Interest rate swap agreements are often held for the life of the strategy, but may reflect significant interim changes in fair value as a result of changes in interest rates. All unrealized and realized gains and losses from the interest rate swap agreements are reflected in the statements of activities. During the year ended June 30, 2020, the College paid the interest rate swap in full with a loss of \$698,741 recorded in the consolidated statement 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 consolidated statements of activities.

Beloit College and Subsidiaries

Notes to Consolidated Financial Statements

Note 1. Summary of Significant Accounting Policies (Continued)

Net asset classifications: For the purposes of financial reporting, the College classifies resources into two 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:

Net assets with donor restrictions – Net assets subject to stipulations imposed by donors and grantors. Some donor restrictions are temporary in nature; those restrictions will be met by actions of the College or by the passage of time. Other donor restrictions are perpetual in nature, including beneficial interests in perpetual trusts and split interest annuity agreements, whereby the donor has stipulated the funds be maintained in perpetuity.

Net assets without donor restrictions – Net assets not subject to donor-imposed restrictions, including those expendable resources designated for special use by the Board of Trustees. The designated endowment funds, received without donor restrictions, were set aside for future instruction, scholarships, academic support, and other purposes as determined by the Board.

Revenue recognition: The College recognizes revenue from contracts with customers primarily from tuition and fees, room and board based on the satisfaction of performance obligations. Performance obligations are the goods or services promised in the contract.

Tuition and fees revenue is recognized for the delivery of the academic program throughout the period stated in the contract. This includes student services, use of research space and study areas, including access to reference materials. Auxiliary enterprise revenue consists primarily of room revenue and board revenue. Room revenue, is recognized for providing living space throughout the stated contract term. Board revenue is recognized for providing meals to students throughout the stated contract term.

Each of the above revenue sources are considered separate and distinct contracts with their own performance obligation and are recorded at the amount of consideration the College expects to be entitled to in exchange for transferring promised goods or services to the students. The College believes this method provides a faithful depiction of the transfer of services over the term of the performance obligation based on the inputs needed to satisfy the obligation. Payment for tuition and student fees is due in full two weeks prior to the start of classes unless other payment arrangements are made.

The College has a tuition refund policy that allows the students to withdraw and receive full or partial refunds, based on the number of days the student attended school through the 33rd day of the semester. Consideration is considered variable until the refund period expires. The College uses the most likely amount method to determine the variable consideration based on historical experience. No constraint to variable consideration is considered necessary due to the duration of refund period.

The College offers grants/scholarships to attract and retain students and reduce the amount of tuition revenue recognized. The College offers institutional grants/scholarships to students in the form of merit-based and need-based grants. Institutional grants/scholarships of \$35,469,256 and \$36,980,091 for the years ended June 30, 2020 and 2019, respectively, were recognized as a reduction of tuition and student fees on the consolidated statement of activities. The College also offers institutional loans to students, however the loans are not significant to the financial statements.

The College offers courses with various study abroad components in which the student receives services from a third party, however, the student pays the College for these services. In these instances, the College is responsible for the performance of the services and should the third party institution not perform, the College would be required to perform the required services, therefore the College records the revenue in tuition and fees.

Beloit College and Subsidiaries

Notes to Consolidated Financial Statements

Note 1. Summary of Significant Accounting Policies (Continued)

The College elected the practical expedient to not adjust the promised amount of consideration from students for the effects of a significant financing component due to the College's expectation that the period between the time the service is provided to students and the time the student pays for the service will be one year or less.

Revenues from sources other than contributions, government contracts and grants, are reported as increases in net asset without donor restrictions unless the use is limited by donor-imposed restrictions. Expenses are reported as decreases in net assets without donor restrictions. Unrealized gains and losses on donor-restricted endowment investments and other assets are reported as increases or decreases in net assets with donor restrictions and are held in perpetuity until expenses are incurred for their restricted purpose or through the passage of time, or both. Gains and losses on other investments and other assets and liabilities are reported as increases or decreases in net assets without donor restrictions unless their use is restricted by explicit donor stipulation or by law. Expirations of donor restrictions on net assets (i.e. the donor-stipulated purpose has been fulfilled and/or the stipulated time period has lapsed) are reported in the consolidated statement of activities as net assets released from restrictions.

Gains and losses on investments of endowment funds created by board designation of net assets without donor restrictions are classified as changes in net assets without donor restrictions.

Contributions, including unconditional promises to give, are recognized as revenue 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. Conditional promises to give are not recognized until they become unconditional, that is, when the conditions on which they depend are substantially met. Contributions received with donor-imposed restrictions that are met in the same year as received are reported as revenues without donor restrictions. Contributions of property and equipment without donor stipulations concerning the use of such long-lived assets are reported as revenues without donor restrictions. Contributions of cash or other assets to be used to acquire property and equipment are reported as revenues with donor restrictions; the restrictions are considered to be released when the long-lived assets are placed in service. Gains and investment income, other than on endowment investments or other assets, received with donor-imposed restrictions that are met in the same year as received are reported as revenues without donor restrictions. Gains and losses on investments of endowment funds created by a board designation of unrestricted funds are classified as reductions in net assets without donor restrictions. Contributions of assets other than cash are recorded at their estimated fair value. Contributions to be received after one year are discounted at an appropriate discount rate commensurate with the risks involved.

Grant revenue, following contribution revenue guidance, is recognized when the award notification is received and when barriers have been substantially met (generally when qualifying expenses have been incurred and all other grant requirements have been met). The College has no conditional commitments representing unexpended grants.

Noncontrolling interest: Noncontrolling interest represents the portion of net assets in any subsidiary that is not attributable, directly or indirectly, to Beloit College. The profit or loss derived from the performance of subsidiaries are allocated to the noncontrolling interest in the consolidated statement of activities based on the terms of the operating agreements of the subsidiaries.

Operating activities: The College's operating revenues and operating expenses include all operating revenues and expenses that are an integral part of its programs and supporting activities and transfers from nonoperating funds to support current operating activities. The measure of operations include support for operating activities from net assets without donor restrictions and net assets with donor restrictions according to the College's spending policy, which is detailed in Note 17.

Beloit College and Subsidiaries

Notes to Consolidated Financial Statements

Note 1. Summary of Significant Accounting Policies (Continued)

The measure of operations excludes investment return excess of (less than) amounts made available for current support, interest income on cash and cash equivalents, changes in fair value in annuity liability, changes in fair value of the interest rate swap and other various items not associated with operations of the College.

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

Functional allocation of expenses: The costs of providing the various programs and other activities have been summarized on a functional basis in the consolidated statements of activities. See Note 19 for expenses summarized on a functional and natural basis of classification.

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

Holdings II, Powerhouse, Master Tenant, the Investment Fund and the Sub-CDEs are organized as limited liability companies. Powerhouse, and Master Tenant are taxed as partnerships for income tax purposes. The Investment Fund and Sub-CDEs are disregarded entities for tax purposes. Their items of income or loss are passed through to their members. Accordingly, all profits and losses of the companies are recognized by each member on their respective tax returns. Holdings II and Holdings, Inc. are taxed as corporations and have elected pursuant to Section 168(h)(6)(F)(ii) of the Internal Revenue Code not to be treated as a tax-exempt entities for purposes of Section 168(h)(5) and (6). Accordingly, any gain recognized by Beloit College on the disposition of an interest in Holdings II and Holdings, Inc. shall be treated as unrelated business taxable income.

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.

Beloit College and Subsidiaries

Notes to Consolidated Financial Statements

Note 1. Summary of Significant Accounting Policies (Continued)

Recent accounting pronouncements:

In February 2016, the FASB issued ASU 2016-02, *Leases (Topic 842)*. The guidance in this ASU and its subsequently issued amendments 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 statement of activities. The new standard is effective for the College's year ending June 30, 2021, consolidated financial statements. An entity may adopt the guidance either 1) retrospectively to each prior reporting period presented in the consolidated financial statements with a cumulative-effect adjustment recognized at the beginning of the earliest comparative period presented or 2) retrospectively at the beginning of the period of adoption through a cumulative-effect adjustment. The College will adopt the standard retrospectively at the beginning of the period of adoption through a cumulative-effect adjustment and continues to evaluate the effect of the new standard on the consolidated financial statements.

In June 2016, the FASB issued ASU No. 2016-13, *Financial Instruments-Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*, which replaces the current incurred loss impairment methodology for financial assets reported at amortized cost, such as receivables, with a methodology that reflects expected credit losses and requires consideration of a broader range of reasonable and supportable information to form credit loss estimates. The amendments in this update are effective for the College's year ending June 30, 2022, financial statements. Early adoption is permitted.

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

Reclassification: Certain amounts appearing in the 2019 financial statements have been reclassified to conform to the 2020 presentation. The reclassifications have no effect on reported amounts of total net assets or change in net assets.

Subsequent events: The College has evaluated subsequent events through November 6, 2020 which is the date the financial statements were issued. See Note 8.

Beloit College and Subsidiaries

Notes to Consolidated Financial Statements

Note 2. Accounts Receivable, Net

Accounts receivable consists of the following at June 30, 2020 and 2019:

	2020		2019
Tuition and fees	\$ 1,571,592	\$	1,242,200
Government grants and contracts receivable	264,684		234,571
Other	1,652,667		777,057
Gross accounts receivable	3,488,943		2,253,828
Less: Allowance for doubtful accounts	(347,549)		(259,694)
Accounts receivable, net	\$ 3,141,394	\$	1,994,134

Note 3. Contribution Receivables, Net

Contributions receivable as of June 30, 2020 and 2019, are composed of and are to be used for the following:

	2020		2019
Capital funds	\$ 972,393	\$	6,551,276
Operations	299,927		37,100
Endowment	50,000		-
Gross contributions receivable	1,322,320		6,588,376
Less: Discount	(39,984)		(240,677)
Less: Allowance for uncollectible contributions	(64,117)		(317,384)
Net contributions receivable	\$ 1,218,219	\$	6,030,315

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

	2020		2019
Less than one year	\$ 761,701	\$	5,615,948
One to five years	508,619		920,428
More than five years	52,000		52,000
Totals	\$ 1,322,320	\$	6,588,376

Contributions have been discounted using a rate ranging from 0.13 percent to 2.8 percent. As of June 30, 2020 and 2019, the College had approximately \$193,250 and \$5,346,000, respectively, of gross contributions receivable from board members and employees.

Beloit College and Subsidiaries

Notes to Consolidated 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.

At June 30, 2020 and 2019, student loans consisted of the following:

	2020	2019
Federal government programs	\$ 1,272,428	\$ 1,545,192
Institutional programs	6,332,599	5,471,245
	<u>7,605,027</u>	<u>7,016,437</u>
Less allowance for doubtful accounts:		
Beginning of period	(1,007,211)	(1,012,268)
Increase/decrease	27,533	5,057
End of period	<u>(979,678)</u>	<u>(1,007,211)</u>
Student loans receivable, net	<u>\$ 6,625,349</u>	<u>\$ 6,009,226</u>

Funds advanced by the Federal government of \$1,253,365 and \$1,706,832 at June 30, 2020 and 2019, 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 assessed 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, 2020 and 2019, 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, 2020	\$ 10,700	\$ 75,000	\$ 116,100	\$ 880,300	\$ 1,082,100
June 30, 2019	\$ 18,100	\$ 43,200	\$ 163,800	\$ 1,209,600	1,434,700

Beloit College and Subsidiaries

Notes to Consolidated Financial Statements

Note 5. Investments

The following summarizes the College's investments as of June 30, 2020 and 2019:

	2020	2019
Certificates of deposit	\$ 80,000	\$ 7,500
Money market funds	136,219	56,876
Mutual funds - bonds:		
U.S. high yield fixed income	131,763	130,543
U.S. Treasury inflation protected	131,854	129,232
Other fixed income	16,938,994	6,788,118
Mutual funds - equities:		
U.S. equities	3,448,127	3,316,640
Non-U.S. equities	1,055,146	1,130,132
Mutual funds - diversified	12,847,120	44,615,620
Mutual funds - commodity	99,614	94,834
Common stock	-	27,245
Alternative investments:		
Private equity funds	6,172,607	7,735,733
Investment companies	9,374,276	12,319,383
Real estate investment	16,300	16,300
Accrued interest and pending investment trades	114,695	97,810
	<hr/>	<hr/>
Totals	\$ 50,546,715	\$ 76,465,966

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

Investment income (loss) for the years ended June 30, 2020 and 2019, consists of the following:

	2020	2019
Interest and dividends, net	\$ 1,753,812	\$ 3,017,271
Realized gains on investments	4,874,009	14,086,064
Unrealized losses on investments	(5,596,443)	(12,809,177)
	<hr/>	<hr/>
Totals	\$ 1,031,378	\$ 4,294,158

Note 6. Available Resources and Liquidity

The College regularly monitors liquidity required to meet its operating needs and other contractual commitments, while also striving to maximize the investment of its available funds. The College has various sources of liquidity at its disposal, including cash and cash equivalents, marketable debt, and equity securities.

Beloit College and Subsidiaries

Notes to Consolidated Financial Statements

Note 6. Available Resources and Liquidity (Continued)

For purposes of analyzing resources available to meet general expenditures over a 12-month period, the College considers all expenditures related to its ongoing activities of instruction, academic support, student services as well as the conduct of services undertaken to support those activities to be general expenditures. Student loans receivable are not included in the analysis as principal and interest on these loans are used solely to make new loans and are, therefore, not available to meet current operating needs.

In addition to financial assets available to meet general expenditures over the next 12 months, the College strives to operate with a balanced budget concept and aims to collect sufficient revenue to cover general expenditures not covered by donor-restricted resources. In the fiscal years where the college cannot achieve a balanced budget, the College relies on the use of the board-designated endowment to cover general expenditures.

The College's governing board has designated a portion of its resources to function as an endowment, designated for future instruction, scholarships, academic support and other purposes as determined by the Board. Those amounts are included in cash and cash equivalents and investments in the table below. These resources are invested for long-term appreciation and current income and may be spent at the discretion and approval of the Board of Trustees.

	2020	2019
Cash and cash equivalents	\$ 40,593,903	\$ 56,667,464
Accounts receivable	3,141,394	1,994,134
Contributions receivable, net	1,218,219	6,030,315
Investments	50,546,715	76,465,966
Funds held in trust by others, restricted	672,845	671,169
Beneficial interest in perpetual trusts, restricted	3,074,237	3,074,449
Total financial assets as of June 30, 2020	<u>99,247,313</u>	<u>144,903,497</u>
Less amounts not available to meet cash needs for general expenditures within one year:		
Contributions receivable, not due in one year	560,619	972,428
Contractual or donor restrictions:		
Endowments and perpetual trusts	82,742,041	82,381,273
Restricted by time or purpose, net of financial assets spent for long-term assets of \$4,704,599 and \$25,246,880 not placed in service as of June 30, 2020 and 2019, respectively, endowment loan of \$13,339,959 and \$3,295,268 as of June 30, 2020 and 2019, respectively, and \$4,300,000 and \$5,800,000 of funds appropriated for general expenditures by June 30, 2021 and 2020, respectively	17,341,440	21,436,795
Board designated funds, net of Quasi-endowment loans of (\$147,190) and \$19,179,228 for June 30, 2020 and 2019, respectively, and \$3,800,000 and \$4,995,584 of funds appropriate for general expenditures by June 30, 2021 and 2020	10,325,584	36,654,347
Financial assets available to meet cash needs for general expenditures within one year	<u>\$ (11,722,371)</u>	<u>\$ 3,458,654</u>

Beloit College and Subsidiaries

Notes to Consolidated Financial Statements

Note 6. Available Resources and Liquidity (Continued)

The College does not foresee issues with available resources or liquidity. The College implemented a five-year financial plan to improve its financial position. The financial plan includes the Board of Trustees appropriating additional funds from the unrestricted designated endowment to support operations, continuing implementation of the College's Deficit Reduction Plan to reduce costs, an extraordinary fundraising campaign to provide annual budgetary relief to the college's operating budget in the amount of \$44.1 million over the next five years, and mitigating acceleration risk on long-term debt by paying off the Series 2014 Bonds and swap liability. During fiscal year 2019-2020, the College used unrestricted board designated endowment assets to pay off the Series 2014 Bonds and swap liability of \$26,908,838 and \$7,834,000, respectively.

Note 7. Property, Plant and Equipment, Net

A summary of property, plant, and equipment as of June 30, 2020 and 2019, is as follows:

	2020	2019
Leasehold improvements	\$ 75,744	\$ 75,744
Land and land improvements	10,108,980	8,808,291
Buildings	120,334,377	81,198,580
Building improvements	9,228,899	8,992,073
Equipment and furnishings	12,849,223	11,426,019
Dormitory and commons	26,152,480	26,152,480
Residential rental properties	891,740	891,740
Works of art	722,579	722,579
Books	1,125,851	1,125,851
	<u>181,489,873</u>	<u>139,393,357</u>
Less: accumulated depreciation	(83,228,483)	(78,914,715)
	<u>98,261,390</u>	<u>60,478,642</u>
Construction in process	4,704,599	25,246,880
	<u>102,965,989</u>	<u>85,725,522</u>
Property, plant and equipment, net	\$ 102,965,989	\$ 85,725,522

Note 8. SBA PPA Loan and Long-Term Debt

On March 27, 2020, the Coronavirus Aid, Relief, and Economic Security Act (CARES Act) was enacted to amongst other provisions, provide emergency assistance for individuals, families and businesses affected by the coronavirus pandemic. The CARES Act established the Paycheck Protection Program (PPP), which is administered by the U.S. Small Business Administration (SBA), to provide loans to help offset certain payroll and other operating costs. The College applied for and was awarded a PPP loan in the amount of \$4,687,300 on April 15, 2020, calculated on the basis of documented payroll costs. The loan and accrued interest is forgivable as long as the borrower uses the loan proceeds for eligible purposes, including payroll, benefits, rent and utilities, and maintains payroll levels during the subsequent 24 week period. The loan is reflected as a long-term debt as of June 30, 2020. If the conditions are not met, the College will be required to pay interest at 1.0%. Effective November 15, 2020, principle and interest payments will be due through April 15, 2022. Principle is determined by dividing the conversion balance by 18. Upon maturity, the loan (and accrued interest payable) may be forgiven if the College fulfills the agreed upon terms. The College expects the loan to be forgiven.

Beloit College and Subsidiaries

Notes to Consolidated Financial Statements

Note 8. SBA PPP Loan and Long-Term Debt (Continued)

On May 8, 2014, Wisconsin Health and Educational Facilities Authority (WHEFA) issued \$29,775,500 of Refunding Revenue Bonds on behalf of the College to allow the College to refund the WHEFA Series 2010B Adjustable Rate Revenue Bonds. The College is party to a direct bond purchase agreement for the Series 2014 bonds with JP Morgan Chase Bank, dated May 9, 2014. The agreement includes a three year term with an annual option for renewal for one year pending the approval of the bank. The bonds are multimodal which allows them to be reissued in the event the direct purchase agreement is not renewed by either party. The Series 2014 bonds bear interest at a variable rate of 72 percent of LIBOR plus 100 basis points which resets weekly. The interest is payable on the first business day of each calendar month. The College paid off the Series 2014 bonds, in full, including accrued interest and fees in the year ended June 30, 2020.

On September 14, 2016, WHEFA issued \$23,080,000 of Revenue Bonds on behalf of the College. The Series 2016 bonds require semiannual interest payments at fixed interest rates ranging from 3.0 percent to 5.0 percent and have maturity dates from 2022 to 2033. The proceeds of the Series 2016 bonds were used to generate the needed escrow account. During the year ending June 30, 2019, the College repurchased \$21,635,000 of the Series 2016 bonds and continues to hold the bonds as an investment. In accordance with U.S. generally accepted accounting principles (U.S. GAAP), reacquisition by the College of its outstanding Series 2016 bonds requires de-recognition of the debt and no related recognition of the investment in the series 2016 bond securities. The bond series 2016 bonds have not been defeased.

In June 2018, Powerhouse entered into a construction loan agreement (fundraising pledge bridge loan) with a bank. The agreement allows for borrowings of up to \$9,376,708 for construction and development costs relating to the Powerhouse project. Interest is due and payable monthly on outstanding balances at a rate equal to the 30-day LIBOR plus 2.65%. Principal payments are due quarterly beginning September 2019 based on the amount of fundraising contributions received by the College, with final maturity in October 2021. At June 30, 2020, no borrowings were outstanding on the loan.

In June 2018, Powerhouse entered into a construction loan agreement (historic tax credit bridge loan) with a bank. The agreement allows for borrowings of up to \$11,840,950 for construction and development costs relating to the Powerhouse project. Interest is due and payable monthly on outstanding balances at a rate equal to the 30-day LIBOR plus 2.65%. During the fiscal year ended June 30, 2020, the College borrowed \$10,726,983. Principal payments are due as proceeds from the state historic tax credit sale are received and as other proceeds from contributions and other internal loans are received, with an initial maturity date of June 2020, subject to one 6 month extension through December 2020.

The College has entered into a food services agreement with a vendor effective through May 31, 2032 with options to renew on an annual basis subsequent to that date. In addition to managing the food service program on campus on an exclusive basis, the vendor is also funding an investment in the College's dining service program to fund capital improvements. The investment is amortized on a straightline basis through June 2032.

The bond and loan agreements include covenants that the College maintain certain financial ratios and balances. For the quarters ending March 31, 2019 and June 30, 2019, the College violated a certain covenant relating to their 2014 bonds when the College's bond rating, provided by Moody's Investors Service, was downgraded to Ba1. The college received a waiver from the bondholder in regards to this event of default. Additionally, the 2014 bonds were paid off during the year ended June 30, 2020. At June 30, 2020, the College did not meet the annual debt service coverage, however, this is not an event of default under the Master Indenture until the debt service coverage is less than 1.0 to 1 for two consecutive years or less than 1.10 to 1 for three consecutive years. The debt service coverage was in compliance at June 30, 2019. The College is seeking an Independent Financial Consultant for recommendations to increase the debt service coverage.

Beloit College and Subsidiaries

Notes to Consolidated Financial Statements

Note 8. SBA PPP Loan and Long-Term Debt (Continued)

A summary of outstanding SBA PPP Loan and long-term debt at June 30, 2020 and 2019 is as follows:

	2020	2019
SBA PPP Loan	\$ 4,687,300	\$ -
Series 2014 Bonds	-	26,908,838
Series 2016 Bonds	1,445,000	1,445,000
Historic tax credit bridge loan	4,232,003	-
Vendor note	2,211,197	2,410,732
	<u>12,575,500</u>	<u>30,764,570</u>
Bond premiums	185,952	195,739
Less Bond issuance costs, net of amortization	<u>(279,912)</u>	<u>(292,032)</u>
	<u>\$ 12,481,540</u>	<u>\$ 30,668,277</u>

Future principal payments on the long-term debt as of June 30, 2020, are due as follows:

Years Ending June 30:	
2021	\$ 6,514,781
2022	2,803,590
2023	199,534
2024	199,534
2025	197,533
Thereafter	<u>2,660,528</u>
	<u>\$ 12,575,500</u>

The Series 2016 bonds are collateralized by a mortgage on the property and buildings of the College. The bank loan agreements, including the fundraising pledge bridge loan are secured by substantially all assets of the College.

Interest expense on all long-term debt, including the interest expense under the interest rate swap agreement, was approximately \$566,911 and \$2,128,407 for the years ended June 30, 2020 and 2019, respectively.

Note 9. Swap Liability

At June 30, 2019, the College had an outstanding interest rate swap agreement under which the College paid a fixed interest rate and received a floating rate equal to 68% of the one month Libor based on a notional amount, which decreased over time. The initial notional amount of the interest rate swap was \$30,000,000. At June 30, 2019 the notional amount was \$26,235,000. During the year ended June 30, 2020, the College terminated and paid off the swap balance of \$7,834,000 and recorded a loss of \$698,741 in the consolidated statement of activities.

Beloit College and Subsidiaries

Notes to Consolidated Financial Statements

Note 9. Swap Liability (Continued)

Derivative instruments are reported in the consolidated statements of financial position at fair value as of June 30, 2020 and 2019, as follows:

Derivatives Not Designated as Hedging Instruments	Statement of Financial Position Location	Liability Derivatives	
		Fair Value	
		2020	2019
Interest rate swap	Swap liability	\$ -	\$ (7,165,259)

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

Derivatives Not Designated as Hedging Instruments	Location of Gain (Loss) on Derivatives Recognized in the Statement of Activities	Amount of Gain (Loss) on Derivatives Recognized in the Statement of Activities	
		2020	2019
		Interest rate swap	Non-operating activities

Note 10. Related Parties

Contributions from trustees, officers, and employees totaled approximately \$6,884,000 and \$816,000 during the years ended June 30, 2020 and 2019, respectively. See Note 3 for related party contributions receivable.

Note 11. Operating Leases

In May 2001, the College entered into an operating lease agreement with Beloit Hotel, LLC for building space. In May 2008, the College exercised its option to renew the lease. This lease automatically renewed for five additional years in May 2015 and provides for monthly payments that increase annually by 2 percent or the consumer price index, whichever is less. In November 2014, the College entered into an operating lease agreement for campus-wide copiers and printers. The College also leases other equipment and housing under non-cancelable leases. Rent expense for all operating leases for the years ended June 30, 2020 and 2019, was approximately \$238,000 and \$244,000, respectively.

Note 12. Net Assets

Net assets without donor restrictions are those which are not subject to donor-imposed restrictions. Certain net assets classified as without donor restrictions are designated for specific purposes or uses by the Board of Trustees. As of June 30, 2020 and 2019, the College's net assets without donor restrictions which are Board designated for investment in the endowment totaled \$13,978,394 and \$60,789,159, respectively. The decrease in the net assets without restrictions is due to the College paying off the Series 2014 Bonds and swap liability of \$26,908,838 and \$7,834,000, respectively, to mitigate acceleration risk. See Note 16 for endowment asset detail.

Beloit College and Subsidiaries

Notes to Consolidated Financial Statements

Note 12. Net Assets (Continued)

As of June 30 2020 and 2019, the College's net assets with donor restrictions totaled \$122,428,039 and \$134,864,948. Donor restricted assets in perpetuity were \$77,354,468 and \$77,025,987 as of June 30, 2020 and 2019, respectively. The decrease in total net assets with donor restrictions is due to donor restricted net assets being used for the Powerhouse construction. Net assets with donor restrictions consists of the following at June 30, 2020 and 2019:

	2020	2019
Subject to expenditure for the following specified purposes:		
Capital expenditures	\$ 16,134,793	\$ 26,105,250
Student loans	446,076	367,187
Academic support	5,301,843	5,115,560
Instruction	5,207,213	8,494,330
Scholarships	8,359,327	8,263,083
Other	117,253	123,585
Time restrictions		
Contribution receivables, investment earnings/losses, and other	4,119,493	4,014,680
	<u>39,685,998</u>	<u>52,483,675</u>
Endowments and perpetual trusts, the income from which is expendable for the following:		
Scholarships	27,764,612	27,477,039
Instruction	30,341,611	30,323,781
Academic support	11,462,639	11,495,442
Other	7,785,606	7,729,725
Beneficial interest in perpetual trusts	3,074,237	3,074,449
Split-interest annuity agreements	1,362,003	1,331,318
Revolving student loan funds	951,333	949,519
	<u>82,742,041</u>	<u>82,381,273</u>
Total net assets with donor restrictions	<u><u>\$ 122,428,039</u></u>	<u><u>\$ 134,864,948</u></u>

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 \$889,000 and \$974,000 for years ending June 30, 2020 and 2019, respectively.

Beloit College and Subsidiaries

Notes to Consolidated Financial Statements

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 had 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 \$311,000 and \$200,000 as of June 30, 2020 and 2019, 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 \$252,771 bank letter of credit, which expires on December 31, 2022, that was issued in favor of the Treasurer of the Wisconsin Unemployment Reserve Fund in order to assure payment of unemployment compensation.

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 requires the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent any explicit donor stipulations to the contrary. As a result of this interpretation, the College classified as net assets with donor restriction (a) the original value of the gifts donated to the perpetual endowment, (b) the original value of subsequent gifts to the perpetual endowment, and (c) accumulations to the perpetual endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. In accordance with UPMIFA, the College considers the following factors in making a determination to appropriate or accumulate earnings on donor-restricted 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 and Subsidiaries

Notes to Consolidated Financial Statements

Note 16. Endowment (Continued)

Endowment asset composition by type of fund consists of the following as of June 30, 2020 and 2019:

	2020			2019		
	Without Donor Restrictions	With Donor Restrictions	Total	Without Donor Restrictions	With Donor Restrictions	Total
Donor-restricted endowment funds	\$ -	\$ 73,685,062	\$ 73,685,062	\$ -	\$ 75,955,823	\$ 75,955,823
Board-designated endowment funds	13,978,394	-	13,978,394	60,789,159	-	60,789,159
Total endowment assets	<u>\$ 13,978,394</u>	<u>\$ 73,685,062</u>	<u>\$ 87,663,456</u>	<u>\$ 60,789,159</u>	<u>\$ 75,955,823</u>	<u>\$ 136,744,982</u>

Changes in endowment assets for June 30, 2020 and 2019 are as follows:

	2020			2019		
	Without Donor Restrictions	With Donor Restrictions	Total	Without Donor Restrictions	With Donor Restrictions	Total
Endowment assets, beginning	\$ 60,789,159	\$ 75,955,823	\$ 136,744,982	\$ 51,542,749	\$ 109,390,124	\$ 160,932,873
Investment return:						
Interest income	181,294	1,572,518	1,753,812	1,317,705	1,699,566	3,017,271
Net appreciation (depreciation) - realized and unrealized	2,149	(724,583)	(722,434)	(187,704)	1,464,591	1,276,887
Total investment return	183,443	847,935	1,031,378	1,130,001	3,164,157	4,294,158
Contributions and other additions	2,492	722,665	725,157	-	753,090	753,090
Appropriation of endowment assets	(3,366,913)	(5,062,177)	(8,429,090)	(2,579,665)	(5,111,677)	(7,691,342)
Appropriation to repurchase bonds	-	-	-	-	(21,635,000)	(21,635,000)
Appropriation to retire debt	(34,772,838)	-	(34,772,838)	-	-	-
Other	(9,113,861)	1,477,728	(7,636,133)	624,023	(532,820)	91,203
Net asset release due to change in donor intent	256,912	(256,912)	-	10,072,051	(10,072,051)	-
Endowment assets, ending	<u>\$ 13,978,394</u>	<u>\$ 73,685,062</u>	<u>\$ 87,663,456</u>	<u>\$ 60,789,159</u>	<u>\$ 75,955,823</u>	<u>\$ 136,744,982</u>

Beloit College and Subsidiaries

Notes to Consolidated Financial Statements

Note 16. Endowment (Continued)

Through resolutions, the Board of Trustees approved loans from the endowment fund to supplement the College's operating activities. The endowment assets consists of the following at June 30:

	2020			2019		
	Without Donor Restrictions	With Donor Restrictions	Total	Without Donor Restrictions	With Donor Restrictions	Total
Cash and investments	\$ 14,125,584	\$ 60,345,103	\$ 74,470,687	\$ 41,609,931	\$ 72,659,855	\$ 114,269,786
Endowment loan (payable)/receivable	(147,190)	13,339,959	13,192,769	19,179,228	3,295,968	22,475,196
Endowment assets	<u>\$ 13,978,394</u>	<u>\$ 73,685,062</u>	<u>\$ 87,663,456</u>	<u>\$ 60,789,159</u>	<u>\$ 75,955,823</u>	<u>\$ 136,744,982</u>

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. For the year ending June 30, 2020, deficiencies of this nature, reported in net assets with donor restrictions, had an original gift value of approximately \$16,204,000, a current fair market value of \$14,941,000 and a deficiency of approximately \$1,263,000. For the year ending June 30, 2019, deficiencies reported in net assets with donor restrictions, had an original gift value of approximately \$13,630,000, a current fair market value of \$12,833,500 and a deficiency of approximately \$796,500. The deficiencies resulted from unfavorable market fluctuations that occurred after the investment of new net assets with donor restrictions and the continued distributions for certain programs that were 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 net assets with donor restrictions.

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.

Spending policy and how the investment objectives relate to spending policy: The College has a policy of appropriating for distribution each year approximately 4.5 percent of its endowment fund's average fair market value over the prior 3 years. 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.

Beloit College and Subsidiaries

Notes to Consolidated Financial Statements

Note 17. New Markets Tax Credit and Historic Tax Credit Entities

New Markets Tax Credit Entities

On June 18, 2018, the College entered into a financing transaction with CCE related to a decommissioning and renovation project at the Blackhawk Power Station in Beloit, Wisconsin to serve as the College's student and recreation center. CCE made a capital contribution and the College made a loan to the Investment Fund under a qualified NMTC program. The NMTC program was provided for in the Community Renewal Tax Relief Act of 2000 (the Act) and is intended to induce capital investment in qualified low-income communities. The Act permits taxpayers to claim credits against their federal income taxes for up to 39 percent of qualified investments in the equity of community development entities (CDEs). CDEs are privately managed investment institutions that are required to make qualified low-income community investments.

In connection with the financing transaction, the College loaned \$10,111,700 to the Investment Fund in exchange for a 1% note due March 2048. The Investment Fund then contributed the loan proceeds along with other funds, to the Sub-CDEs, which in turn loaned the funds on similar terms to Powerhouse, as partial financing for the decommissioning and renovation project. The proceeds of the loan from the Sub-CDEs, including loans representing the capital contribution made by CCE are available only for use on the decommissioning and renovation project.

Simultaneously, CCE contributed \$4,863,300 to the Investment Fund and, as such, CCE is entitled to substantially all of the benefits derived from the NMTCs. The CCE contribution has been included in the College's consolidated statements of financial position and is presented separately as a liability. This transaction also includes a put provision whereby the College may be obligated to repurchase CCE's interest in the investment fund for \$1,000. If the put provision is not exercised by CCE, the College may choose to repurchase the equity interest of CCE for an amount equal to the fair market value (call option). The College believes that CCE will exercise the put option in June 2025 at the end of the recapture period. The value attributed to the put is de minimis. Additionally, the NMTC is subject to 100 percent recapture for a period of seven years as provided in the IRC.

Powerhouse is required to be in compliance with various regulations and contractual provisions that apply to the NMTC arrangement during the recapture period. Non-compliance with applicable requirements could result in projected tax benefits not being realized and, therefore, require Powerhouse, together with the College to indemnify CCE's sole member for any loss or recapture of NMTCs related to the financing until such time as Powerhouse's obligation to deliver tax benefits is relieved. The College does not anticipate that any credit recaptures will be required in connection with this arrangement.

Powerhouse has determined that the financing arrangement established through the creation of the Investment Fund, together with the put and call agreements and indemnification agreement resulted in a variable interest in Investment Fund. In addition, Powerhouse has determined that the Investment Fund is a VIE. The ongoing activities of the VIE – collecting and remitting interest and fees and NMTC compliance – were all considered in the initial design and are not expected to significantly affect economic performance throughout the life of the VIE. Management considered the contractual arrangements that obligate Powerhouse to deliver tax benefits and provide various other guarantees to the structure, CCE's lack of a material interest in the underlying economics of the project and the fact that Powerhouse is obligated to absorb losses of the VIE. The College concluded that Powerhouse was the primary beneficiary and consolidated the VIE in accordance with the accounting guidance for consolidation. Incremental costs to maintain the structure during the compliance period will be recognized as incurred.

Beloit College and Subsidiaries

Notes to Consolidated Financial Statements

Note 17. New Markets Tax Credit and Historic Tax Credit Entities (Continued)

Historic Tax Credit Entities

On June 18, 2018, the College entered into an additional financial transaction with CCE relating to the renovation project discussed above. CCE and Holdings II made initial capital contributions of \$1,623,414 and \$16,398, respectively to Master Tenant. The Federal Historic Preservation Tax Incentive Program (Federal HTC) is administered by the Department of Interior's National Park Service in partnership with the Internal Revenue Services. The Federal HTC program provides funding for developers that rehabilitate certified historic landmarks and buildings into income generating properties that create jobs and promote economic revitalization.

In connection with the financing above, Master Tenant will loan certain capital contributions to Powerhouse in exchange for a 3.05% note due June 2048. As of June 30, 2020 and 2019, \$1,639,812 and \$1,142,000, respectively was advanced under the note. In addition, capital contributions will be utilized for the purchase of certain furniture and equipment necessary to furnish the building when completed. The proceeds of the loan will be used by Powerhouse for the renovation project. Total expected capital contributions from CCE and Holdings II are \$6,559,248, \$1,000,000 of which is for furniture and up to \$5,554,248 is available under the note agreement.

The CCE contributions through June 30, 2019 and 2018 of \$1,676,174 and \$1,623,414, respectively, have been included in the College's consolidated statements of financial position as a liability. Pursuant to the Master Tenant operating agreement, CCE has entered into a separate put option agreement. This agreement provides CCE with the option to put their membership interests in Master Tenant to Holdings II in exchange for the lesser of fair market value of the membership interest, and the sum of CCE's capital contributions time 5%, plus any accrued unpaid amounts and any past due amounts. The put option begins 61 months after the building is placed in service and expires 6 months later. In addition, the Master Tenant operating agreement requires that a priority return be accrued annually for distribution to CCE in an amount equal to 3% of the CCE's capital contributions.

Powerhouse is required to be in compliance with various regulations and contractual provisions that apply to the HTC arrangement during the recapture period. Non-compliance with applicable requirements could result in projected tax benefits not being realized and, therefore, require Powerhouse, together with the College, to guarantee payment to CCE for any recapture adjustments as well as other payments until such time as Powerhouse's obligation to deliver tax benefits is relieved. Powerhouse does not anticipate that any credit recaptures will be required in connection with this arrangement.

Powerhouse has determined that the financing arrangement established through the creation of the Master Tenant, together with the put option agreement and guarantee agreement resulted in a variable interest in Master Tenant. In addition, Powerhouse has determined that the Master Tenant is a VIE. The ongoing activities of the VIE – intercompany leasing arrangements, collecting and remitting interest and fees and HTC compliance – were all considered in the initial design and are not expected to significantly affect economic performance throughout the life of the VIE. Management considered the contractual arrangements that obligate Powerhouse to deliver tax benefits and provide various other guarantees to the structure, CCE's lack of a material interest in the underlying economics of the project and the fact that Powerhouse is obligated to absorb losses of the VIE. The College concluded that Powerhouse was the primary beneficiary and consolidated the VIE in accordance with the accounting guidance for consolidation. Incremental costs to maintain the structure during the compliance period will be recognized as incurred.

On June 18, 2018, the College and Powerhouse entered into a separate agreement with U.S. Bank National Association (U.S. Bank) for the sale of certain State Historic Tax Credits.

Beloit College and Subsidiaries

Notes to Consolidated Financial Statements

Note 17. New Markets Tax Credit and Historic Tax Credit Entities (Continued)

With respect to the rehabilitation of the building discussed above, Powerhouse has received certification from the Wisconsin Economic Development Corporation (WEDC) that the building is eligible for a maximum of \$7,500,938 of Wisconsin Historic Preservation Tax Credits for a Qualified Rehabilitated Building. Pursuant to this separate agreement, Powerhouse and the College agreed to transfer and assign to U.S. Bank these State Historic Tax Credits in exchange for an amount up to \$6,976,000. The tax credits were sold to U.S. Bank during the year ended June 30, 2020.

Note 18. 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, 2020 and 2019.

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

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

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

Valuation techniques and inputs:

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

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

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

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

Beloit College and Subsidiaries

Notes to Consolidated Financial Statements

Note 18. Fair Value Measurements (Continued)

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.

The following table presents information about the College's assets and liabilities measured at fair value on a recurring basis as of June 30, 2020, based upon the three-tier hierarchy:

	Total	Level 1	Level 2	Level 3
Assets				
Investments:				
Money market funds	\$ 136,219	\$ 136,219	\$ -	\$ -
Mutual funds - bonds:				
U.S. high yield fixed income	131,763	131,763	-	-
U.S. Treasury inflation protected	131,854	131,854	-	-
Other fixed income	16,938,994	16,938,994	-	-
Mutual funds - equities:				
U.S. equities	3,448,127	3,448,127	-	-
Non-U.S. equities	1,055,146	1,055,146	-	-
Mutual funds - diversified	12,847,120	12,847,120	-	-
Mutual funds - commodity	99,614	99,614	-	-
Real estate investment	16,300	-	-	16,300
	<u>34,805,137</u>	<u>\$ 34,788,837</u>	<u>\$ -</u>	<u>\$ 16,300</u>
Investments in funds measured at NAV:				
Investment companies	9,374,276			
Private equity funds	6,172,607			
Investments not recorded at fair value:				
Certificates of deposit	80,000			
Accrued interest and dividends	114,695			
Total investments	<u>\$ 50,546,715</u>			
Funds held in trust by others	\$ 672,845	\$ -	\$ -	\$ 672,845
Beneficial interest in perpetual trusts	\$ 3,074,237	\$ -	\$ -	\$ 3,074,237

Beloit College and Subsidiaries

Notes to Consolidated Financial Statements

Note 18. 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, 2019, based upon the three-tier hierarchy:

	Total	Level 1	Level 2	Level 3
Assets				
Investments:				
Money market funds	\$ 56,876	\$ 56,876	\$ -	\$ -
Common stock	27,245	27,245	-	-
Mutual funds - bonds:				
U.S. high yield fixed income	130,543	130,543	-	-
U.S. Treasury inflation protected	129,232	129,232	-	-
Other fixed income	6,788,118	6,788,118	-	-
Mutual funds - equities:				
U.S. equities	3,316,640	3,316,640	-	-
Non-U.S. equities	1,130,132	1,130,132	-	-
Mutual funds - diversified	44,615,620	44,615,620	-	-
Mutual funds - commodity	94,834	94,834	-	-
Real estate investment	16,300	-	-	16,300
Subtotal	56,305,540	\$ 56,289,240	\$ -	\$ 16,300
Investments in funds measured at NAV:				
Investment companies	12,319,383			
Private equity funds	7,735,733			
Investments not recorded at fair value:				
Certificates of deposit	7,500			
Accrued interest and dividends	97,810			
Total investments	\$ 76,465,966			
Funds held in trust by others	\$ 671,169	\$ -	\$ -	\$ 671,169
Beneficial interest in perpetual trusts	\$ 3,074,449	\$ -	\$ -	\$ 3,074,449
Liabilities				
Swap liability	\$ (7,165,259)	\$ -	\$ (7,165,259)	\$ -

Beloit College and Subsidiaries

Notes to Consolidated Financial Statements

Note 18. 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 years ended June 30, 2020 and 2019:

	Real Estate Investment	Funds Held in Trust for Others	Beneficial Interest in Perpetual Trust
Balance June 30, 2018	\$ 16,300	\$ 641,721	\$ 3,063,167
Purchases	-	-	-
Change in value	-	29,448	11,282
Balance June 30, 2019	16,300	671,169	3,074,449
Purchases	-	-	-
Change in value	-	1,676	(213)
Balance June 30, 2020	<u>\$ 16,300</u>	<u>\$ 672,845</u>	<u>\$ 3,074,236</u>

The College uses the net asset value (NAV) as a practical expedient to determine fair value. The NAV is based on the underlying investments of the funds. Investments valued using NAV as a practical expedient are not included in the levels within the fair value hierarchy.

The following table sets forth additional disclosures of the College's alternative investments whose fair value was estimated using NAV as a practical expedient as of June 30, 2020:

	Fair Value		Unfunded Commitments as of June 30,
	2020	2019	2020
Abbott Capital VI	\$ 2,549,723	\$ 3,374,778	\$ 50,000
Rockwood	2,066,228	2,208,395	480,622
Crow	1,556,654	2,152,560	306,258
	<u>\$ 6,172,605</u>	<u>\$ 7,735,733</u>	<u>\$ 836,880</u>

The private equity funds listed above have fixed termination dates and the College may not redeem prior to those dates. The term for these agreements is within 10 to 12 years from the initial investment.

The alternative investments seek to take long and short positions primarily in equity securities of publically traded companies. The funds' principal objective is to deliver risk-adjusted returns with low correlations to market indices.

The following table summarizes the College's investments in investment companies by strategy, which are valued using the practical expedient as of June 30, 2020 and 2019:

Investment Strategy	Fair Value		Redemptions Permitted	Redemption Notice Period in Days
	2020	2019		
Multi-strategy	\$ 7,346,045	\$ 10,528,417	Quarterly	65
Education, healthcare and storage real estate	1,991,262	1,790,966	N/A	N/A
	<u>\$ 9,337,307</u>	<u>\$ 12,319,383</u>		

Beloit College and Subsidiaries

Notes to Consolidated Financial Statements

Note 19. Functional Expenses

The College's expenses have been classified according to their function and natural expenses as follows for the years ended June 30, 2020 and 2019:

	2020							Total
	Instructional	General and Administrative	Auxiliary Enterprises	Student Services	Academic Support	Other	Fundraising	
Salaries	\$ 7,134,702	\$ 4,606,985	\$ 174,435	\$2,901,091	\$1,331,963	\$ 266,921	\$1,182,841	\$17,598,938
Benefits	2,190,690	1,632,708	48,780	806,044	395,303	60,668	299,216	5,433,409
Student employment	126,891	106,371	138,007	303,254	124,862	13,836	22,313	835,534
Supplies	149,710	366,127	99,532	915,995	228,235	60,142	14,404	1,834,145
Services	2,174,162	575,713	2,875,160	2,050,177	847,242	231,807	184,750	8,939,011
Travel/meals	86,669	64,799	519	501,054	287,060	130,987	20,010	1,091,098
Utilities	-	1,158,196	24,930	38,577	-	-	-	1,221,703
Interest	528,677	5,403	32,831	-	-	305,628	-	872,539
Depreciation	526,826	823,309	1,448,482	569,372	272,128	677,829	-	4,317,946
Other	5,500	186,153	-	66,806	861,772	-	-	1,120,231
Total	<u>\$12,923,827</u>	<u>\$ 9,525,764</u>	<u>\$ 4,842,676</u>	<u>\$8,152,370</u>	<u>\$4,348,565</u>	<u>\$1,747,818</u>	<u>\$1,723,534</u>	<u>\$43,264,554</u>
	2019							
	Instructional	General and Administrative	Auxiliary Enterprises	Student Services	Academic Support	Other	Fundraising	Total
Salaries	\$10,238,386	\$ 5,021,395	\$ 127,487	\$2,960,550	\$1,587,355	\$ 355,201	\$1,227,887	\$21,518,261
Benefits	2,227,751	1,536,866	42,454	764,348	428,562	49,100	282,454	5,331,535
Student employment	232,424	131,789	158,799	365,709	238,549	39,874	50,015	1,217,159
Supplies	179,568	346,827	76,465	411,506	172,013	50,029	16,204	1,252,612
Services	3,355,441	324,780	4,047,580	1,800,789	1,011,348	92,705	240,384	10,873,027
Travel/meals	112,174	130,623	2,598	718,316	383,054	151,955	24,391	1,523,111
Utilities	-	1,401,311	31,338	-	-	-	-	1,432,649
Interest	1,806,586	45,484	276,337	-	-	-	-	2,128,407
Depreciation	613,623	780,978	1,531,198	568,274	268,564	507	-	3,763,144
Other	-	103,921	490	54,500	496,571	-	-	655,482
Total	<u>\$18,765,953</u>	<u>\$ 9,823,974</u>	<u>\$ 6,294,746</u>	<u>\$7,643,992</u>	<u>\$4,586,016</u>	<u>\$ 739,371</u>	<u>\$1,841,335</u>	<u>\$49,695,387</u>

The financial statements present certain expenses that are attributable to more than one program or supporting function. Therefore, expenses require allocation on a reasonable basis that is consistently applied. Costs not directly attributable to a function include plant maintenance, depreciation, amortization and other occupancy costs and are allocated based on square footage and tuition remission which is allocated based on total salaries. Salaries and benefits are allocated based on time and effort in each program.

Beloit College and Subsidiaries

Notes to Consolidated Financial Statements

Note 20. Contingencies

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

COVID-19 pandemic: In January 2020, the Secretary of the U.S. Department of Health and Human Services (HHS) declared a national public health emergency due to a novel strain of coronavirus (COVID-19). In March 2020, the World Health Organization declared the outbreak of COVID-19 a pandemic. The resulting measures to contain the spread and impact of COVID-19 have adversely affected the College's results of operations. As a result of the COVID-19 pandemic, federal and state governments have passed legislation, promulgated regulations and taken other administrative actions intended to assist health care providers in providing care to COVID-19 and other patients during the public health emergency.

Note 21. Commitments

The College has entered into certain construction commitments relative to the Powerhouse project discussed in Note 1 and Note 17. The Powerhouse Project is a \$38 million project to repurpose and decommission the Blackhawk Generating Station near the College campus into a 130,000 square foot student center. At June 30, 2020, the College has outstanding construction commitments of approximately \$1,700,000 related to the Powerhouse Project.

Supplementary Information

Beloit College and Subsidiaries
Consolidating Statement of Financial Position
June 30, 2020

	Beloit College	Beloit Powerhouse Holdings, Inc.	Beloit Powerhouse Holdings II, LLC	Beloit Powerhouse, LLC and Affiliates	Eliminations	Total
Assets						
Cash and cash equivalents	\$ 40,142,384	\$ -	\$ -	\$ 451,519	\$ -	\$ 40,593,903
Accounts receivable, net	3,248,512	-	-	878,132	(985,250)	3,141,394
Contributions receivable, net	1,218,219	-	-	-	-	1,218,219
Student loans receivable, net	6,625,349	-	-	-	-	6,625,349
Other assets	815,327	-	-	-	-	815,327
Investments	50,546,715	-	-	-	-	50,546,715
Property, plant and equipment, net	57,177,471	-	-	45,788,518	-	102,965,989
Funds held in trust by others	672,845	-	-	-	-	672,845
Beneficial interest in perpetual trusts	3,074,237	-	-	-	-	3,074,237
Note receivable, affiliate	10,111,700	-	-	-	(10,111,700)	-
Investment in subsidiaries	23,563,203	986,375	19,427,711	-	(43,977,289)	-
Total assets	\$ 197,195,962	\$ 986,375	\$ 19,427,711	\$ 47,118,169	\$ (55,074,239)	\$ 209,653,978
Liabilities and Net Assets						
Liabilities:						
Accounts payable and other accrued liabilities	\$ 2,701,611	\$ -	\$ -	\$ 6,969,415	\$ (985,250)	\$ 8,685,776
Deferred revenue	1,055,887	-	-	-	-	1,055,887
Student deposits and deferred grant revenue	348,940	-	-	-	-	348,940
Other liabilities	92,043	-	-	-	-	92,043
Refundable advance from U.S. government	1,253,365	-	-	-	-	1,253,365
Swap liability	-	-	-	-	-	-
Annuities payable	3,751,901	-	-	-	-	3,751,901
SBA PPP Loan	4,687,300	-	-	-	-	4,687,300
Long-term debt	3,772,866	-	-	4,232,003	(210,629)	7,794,240
Historic tax credit obligation	-	-	-	1,722,847	-	1,722,847
New market tax credit obligation	-	-	-	4,863,300	-	4,863,300
Notes payable, affiliates	-	-	-	9,901,071	(9,901,071)	-
Total liabilities	17,663,913	-	-	27,688,636	(11,096,950)	34,255,599
Net assets:						
Net assets without donor restrictions	57,104,010	986,375	19,427,711	19,797,661	(43,977,289)	53,338,468
Net assets with donor restrictions	122,428,039	-	-	-	-	122,428,039
Non-controlling interest in net assets without donor restrictions	-	-	-	(368,128)	-	(368,128)
Total net assets	179,532,049	986,375	19,427,711	19,429,533	(43,977,289)	175,398,379
Total liabilities and net assets	\$ 197,195,962	\$ 986,375	\$ 19,427,711	\$ 47,118,169	\$ (55,074,239)	\$ 209,653,978

Beloit College and Subsidiaries
Consolidating Statement of Activities
Year Ended June 30, 2020

	Net Assets Without Donor Restrictions						Net Assets With Donor Restrictions	
	Beloit College	Beloit Powerhouse Holdings, Inc.	Beloit Powerhouse Holdings II, LLC	Beloit Powerhouse, LLC and Affiliates	Eliminations	Total	Beloit College	Total
Operating revenues:								
Student tuition and fees	\$ 53,009,820	\$ -	\$ -	\$ -	\$ -	\$ 53,009,820	\$ -	\$ 53,009,820
Less:								
Funded student financial assistance	(1,750,728)	-	-	-	-	(1,750,728)	-	(1,750,728)
Unfunded student financial assistance	(33,718,528)	-	-	-	-	(33,718,528)	-	(33,718,528)
Net student tuition and fees	17,540,564	-	-	-	-	17,540,564	-	17,540,564
Auxiliary enterprises	6,498,559	-	-	-	-	6,498,559	-	6,498,559
Contributions	4,125,393	-	-	-	-	4,125,393	2,339,476	6,464,869
Endowment gifts	-	-	-	-	-	-	912,539	912,539
Capital gifts and grants	-	-	-	-	-	-	771,809	771,809
Government contracts and grants	1,465,069	-	-	-	-	1,465,069	-	1,465,069
Investment income allocated for operations	3,366,913	-	-	-	-	3,366,913	5,062,177	8,429,090
Other income	110,500	-	-	584,500	(424,500)	270,500	2,500	273,000
Net assets released from restrictions	17,072,832	-	-	-	-	17,072,832	(17,072,832)	-
Total operating revenues	50,179,830	-	-	584,500	(424,500)	50,339,830	(7,984,331)	42,355,499
Operating expenses:								
Instruction	12,923,827	-	-	-	-	12,923,827	-	12,923,827
Institutional support	11,249,298	-	-	-	-	11,249,298	-	11,249,298
Auxiliary enterprises	4,842,676	-	-	-	-	4,842,676	-	4,842,676
Student services	8,576,870	-	-	-	(424,500)	8,152,370	-	8,152,370
Academic support	4,348,565	-	-	-	-	4,348,565	-	4,348,565
Other operating expenses	633,738	-	-	1,114,080	-	1,747,818	-	1,747,818
Total operating expenses	42,574,974	-	-	1,114,080	(424,500)	43,264,554	-	43,264,554
Net increase/(decrease) from operations	7,604,856	-	-	(529,580)	-	7,075,276	(7,984,331)	(909,055)
Non-operating activities:								
Investment income (loss):								
Interest income	181,294	-	-	-	-	181,294	1,572,518	1,753,812
Net (loss) gain on investments	2,149	-	-	-	-	2,149	(724,583)	(722,434)
Total investment income (loss)	183,443	-	-	-	-	183,443	847,935	1,031,378
Investment income allocated for operations	(3,366,913)	-	-	-	-	(3,366,913)	(5,062,177)	(8,429,090)
	(3,183,470)	-	-	-	-	(3,183,470)	(4,214,242)	(7,397,712)
Interest income on cash and cash equivalents	425,681	-	-	-	-	425,681	178,907	604,588
Adjustments to actuarial liability for annuities payable	(138,885)	-	-	-	-	(138,885)	(237,631)	(376,516)
Change in fair value of swap liability	(698,741)	-	-	-	-	(698,741)	-	(698,741)
(Loss) from subsidiaries	(682,709)	(70,382)	(612,186)	-	1,365,277	-	-	-
State tax credits	-	348,794	6,626,381	-	-	6,975,175	-	6,975,175
Net assets released due to change in donor intent	256,912	-	-	-	-	256,912	(256,912)	-
Other non-operating activities	(599,333)	-	-	-	-	(599,333)	77,300	(522,033)
Total non-operating activities	(4,620,545)	278,412	6,014,195	-	1,365,277	3,037,339	(4,452,578)	(1,415,239)
Change in net assets	2,984,311	278,412	6,014,195	(529,580)	1,365,277	10,112,615	(12,436,909)	(2,324,294)
Net assets at beginning of period	43,379,018	170,875	3,209,923	2,903,707	(6,805,798)	42,857,725	134,864,948	177,722,673
Contributions of net assets and members' equity	10,740,681	537,088	10,203,593	17,055,407	(38,536,769)	-	-	-
Net assets at end of period	\$ 57,104,010	\$ 986,375	\$ 19,427,711	\$ 19,429,534	\$ (43,977,290)	\$ 52,970,340	\$ 122,428,039	\$ 175,398,379

Beloit Powerhouse, LLC and Affiliates
Consolidating Statement of Financial Position
June 30, 2020

	Beloit Powerhouse, LLC	Powerhouse Master Tenant, LLC	Chase NMTC Beloit Powerhouse Investment Fund, LLC	Sub-CDEs **	Eliminations	Total
Assets						
Cash and cash equivalents	\$ 87,461	\$ -	\$ -	\$ 364,058	\$ -	\$ 451,519
Accounts receivable, net	-	878,132	-	-	-	878,132
Property, plant and equipment, net	44,919,793	868,725	-	-	-	45,788,518
Notes receivable, affiliate	-	1,639,812	-	14,310,000	(15,949,812)	-
Investment in subsidiaries	-	-	14,672,591	-	(14,672,591)	-
Total assets	\$ 45,007,254	\$ 3,386,669	\$ 14,672,591	\$ 14,674,058	\$ (30,622,403)	\$ 47,118,169
Liabilities and Equity						
Liabilities:						
Accounts payable and other accrued liabilities	\$ 5,926,979	\$ 975,250	\$ 67,186	\$ -	\$ -	\$ 6,969,415
Long-term debt	4,232,003	-	-	-	-	4,232,003
Notes payable, affiliates	15,739,183	-	10,111,700	-	(15,949,812)	9,901,071
Historic tax credit obligation	-	1,722,847	-	-	-	1,722,847
New market tax credit obligation	-	-	4,863,300	-	-	4,863,300
Total liabilities	25,898,165	2,698,097	15,042,186	-	(15,949,812)	27,688,636
Equity:						
Beloit Powerhouse, LLC members' equity	19,109,089	688,572	-	-	-	19,797,661
Noncontrolling interest	-	-	(369,595)	14,674,058	(14,672,591)	(368,128)
Total equity	19,109,089	688,572	(369,595)	14,674,058	(14,672,591)	19,429,533
Total liabilities and equity	\$ 45,007,254	\$ 3,386,669	\$ 14,672,591	\$ 14,674,058	\$ (30,622,403)	\$ 47,118,169

** The Sub-CDE column includes the balances of BH New Markets Sub-CDE 18, LLC, Brownfield Revitalization 48, LLC and CNMC Sub-CDE 165, LLC, which are variable interest entities of Beloit Powerhouse, LLC.

Beloit Powerhouse, LLC and Affiliates
Consolidating Statement of Income
Year Ended June 30, 2020

	Chase NMTC Beloit					
	Beloit Powerhouse, LLC	Powerhouse Master Tenant, LLC	Powerhouse Investment Fund, LLC	Sub-CDEs **	Eliminations	Total
Operating revenues:						
Other income	\$ 6,869	\$ 828,500	\$ -	\$ 153,131	\$ (404,000)	\$ 584,500
Income from subsidiaries	-	-	153,116	-	(153,116)	-
Total operating revenues	6,869	828,500	153,116	153,131	(557,116)	584,500
Operating expenses:						
Other operating expenses	1,414,514	103,566	-	-	(404,000)	1,114,080
Total operating expenses	1,414,514	103,566	-	-	(404,000)	1,114,080
Net income (loss)	\$ (1,407,645)	\$ 724,934	\$ 153,116	\$ 153,131	\$ (153,116)	\$ (529,580)

** The Sub-CDE column includes the activity of BH New Markets Sub-CDE 18, LLC, Brownfield Revitalization 48, LLC and CNMC Sub-CDE 165, LLC, which are variable interest entities of Beloit Powerhouse, LLC.

Beloit College
Schedule of Investments Held
June 30, 2020 (Unaudited)

	<u>Cost</u>	<u>Market</u>	<u>Unrealized Gain (Loss)</u>
Mutual Funds			
U.S. Equities	\$ 3,204,772	\$ 3,448,127	\$ 243,355
Non - U.S. Equities	1,130,800	1,055,146	(75,654)
Mutual Funds - Diversified	7,853,603	12,847,120	4,993,517
Mutual Funds - Commodity	100,740	99,614	(1,126)
Total Mutual Funds	12,289,915	17,450,007	5,160,092
Fixed Income Funds			
Government Bonds			
U.S. High Yield Fixed Income	142,486	131,763	(10,723)
U.S. Treasury Inflation	145,662	131,854	(13,808)
Other Fixed Income	17,014,693	16,938,994	(75,699)
Total Fixed Income Funds	17,302,841	17,202,611	(100,230)
Other Funds			
Certificate of Deposit	80,000	80,000	-
Money Market	135,254	136,219	965
Real Estate Investment	16,300	16,300	-
Private Equity Funds	5,299,958	6,172,607	872,649
Multi-Strategy	9,699,451	9,374,276	(325,175)
Total Other Funds	15,230,963	15,779,402	548,439
Accrued Interest and Pending Trades	114,695	114,695	-
Total	\$ 44,938,414	\$ 50,546,715	\$ 5,608,301