

WHEATON COLLEGE

Consolidated Financial Statements

June 30, 2006 and 2005

(With Independent Auditors' Report Thereon)

WHEATON COLLEGE

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KPMG LLP
303 East Wacker Drive
Chicago, IL 60601-5212

Independent Auditors' Report

The Board of Trustees
Wheaton College:

We have audited the accompanying consolidated balance sheets of Wheaton College (the College) as of June 30, 2006 and 2005, and the related consolidated statements of activities and cash flows for the years then ended. These consolidated financial statements are the responsibility of the College's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. Our audit included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the College's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Wheaton College as of June 30, 2006 and 2005, and the changes in their net assets and their cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

KPMG LLP

September 22, 2006

WHEATON COLLEGE
Consolidated Balance Sheets
June 30, 2006 and 2005
(In thousands)

Assets	2006	2005
Current assets:		
Cash and cash equivalents	\$ 44,591	36,888
Accounts and other receivables	2,601	2,469
Inventories	1,144	941
Prepaid expenses and deposits	3,027	2,884
Total current assets	<u>51,363</u>	<u>43,182</u>
Notes receivable from students, net	8,047	7,421
Investments		
Endowment	302,919	282,733
Annuities and split interest agreements	118,103	120,574
Other investments	17,005	2,438
Total investments	<u>438,027</u>	<u>405,745</u>
Legacies, bequests, and beneficial interest in trusts	5,194	3,331
Property, plant, and equipment, net	119,834	109,510
Total assets	<u>\$ 622,465</u>	<u>569,189</u>
Liabilities and Net Assets		
Current liabilities:		
Accounts payable and accrued expenses	\$ 8,829	8,504
Deferred student fees and rentals	3,310	2,949
Deposits	669	524
Total current liabilities	<u>12,808</u>	<u>11,977</u>
Bonds payable	42,000	25,000
Interest rate swap	468	2,232
Asset retirement obligation	2,846	—
Obligations under annuities and split-interest agreements	90,169	88,475
Liability to other trust beneficiaries	5,101	5,936
Refundable U.S. Government grants for student loans	4,362	4,364
Postretirement benefits obligation	5,576	5,117
Total liabilities	<u>163,330</u>	<u>143,101</u>
Contingencies		
Net assets:		
Unrestricted:		
Investment in plant facilities	79,600	78,330
Funds functioning as endowment	106,582	101,382
Designated for future expenditure	12,368	13,755
Undesignated	2,722	2,243
Unrestricted total	<u>201,272</u>	<u>195,710</u>
Temporarily restricted	175,021	153,530
Permanently restricted	82,842	76,848
Total net assets	<u>459,135</u>	<u>426,088</u>
Total liabilities and net assets	<u>\$ 622,465</u>	<u>569,189</u>

See accompanying notes to consolidated financial statements.

WHEATON COLLEGE

Consolidated Statement of Activities

Year ended June 30, 2006

(In thousands)

	<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Permanently restricted</u>	<u>Total</u>
Operating activities:				
Revenue:				
Tuition and fees	\$ 57,704	—	—	57,704
Less scholarships and grants	(14,681)	—	—	(14,681)
Net tuition and fees	43,023	—	—	43,023
Private gifts and grants	5,598	4,818	—	10,416
Endowment payout	7,039	5,143	9	12,191
Investment income designated for operations	2,199	—	—	2,199
Public service	1,687	—	—	1,687
Other	2,903	445	—	3,348
Auxiliary enterprises	18,124	—	—	18,124
Distributions from donor advised funds for operations	67	—	—	67
Net assets released from restrictions	11,098	(11,098)	—	—
Total revenue	91,738	(692)	9	91,055
Expenses:				
Instruction	31,274	—	—	31,274
Academic support	9,693	—	—	9,693
Student services	15,451	—	—	15,451
Institutional support	14,566	—	—	14,566
Public services	3,149	—	—	3,149
Auxiliary	16,188	—	—	16,188
Total expenses	90,321	—	—	90,321
Excess (deficiency) of operating revenue over expenses	1,417	(692)	9	734
Nonoperating activities:				
Private gifts and grants	763	15,127	4,842	20,732
Investment gain, net of endowment payout recognized under spending policy	3,715	11,651	287	15,653
Distributions from donor advised funds for operations	(67)	—	—	(67)
Distributions from donor advised funds to other charities	(215)	—	—	(215)
Change in value of interest rate swap agreement	1,764	—	—	1,764
Change in value of split-interest obligations	(623)	(3,773)	856	(3,540)
Net assets released from restriction	822	(822)	—	—
Increase in net assets from nonoperating activities	6,159	22,183	5,985	34,327
Increase in net assets before cumulative effect of change in accounting principle	7,576	21,491	5,994	35,061
Cumulative effect of change in accounting principle	(2,014)	—	—	(2,014)
Increase in net assets	5,562	21,491	5,994	33,047
Net assets at beginning of year	195,710	153,530	76,848	426,088
Net assets at end of year	\$ 201,272	175,021	82,842	459,135

See accompanying notes to consolidated financial statements.

WHEATON COLLEGE
Consolidated Statement of Activities
Year ended June 30, 2005
(In thousands)

	<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Permanently restricted</u>	<u>Total</u>
Operating activities:				
Revenue:				
Tuition and fees	\$ 55,025	—	—	55,025
Less scholarships and grants	(13,941)	—	—	(13,941)
Net tuition and fees	41,084	—	—	41,084
Private gifts and grants	5,031	2,388	—	7,419
Endowment payout	7,023	4,797	9	11,829
Investment income designated for operations:	858	—	—	858
Public service	1,855	—	—	1,855
Other	2,475	392	—	2,867
Auxiliary enterprises	18,214	—	—	18,214
Distributions from donor advised funds for operations	18	—	—	18
Net assets released from restrictions	10,326	(10,326)	—	—
Total revenue	86,884	(2,749)	9	84,144
Expenses:				
Instruction	28,983	—	—	28,983
Academic support	8,755	—	—	8,755
Student services	13,911	—	—	13,911
Institutional support	13,221	—	—	13,221
Public services	2,809	—	—	2,809
Auxiliary	14,948	—	—	14,948
Total expenses	82,627	—	—	82,627
Excess (deficiency) of operating revenue over expenses	4,257	(2,749)	9	1,517
Nonoperating activities:				
Private gifts and grants	2,580	8,610	6,295	17,485
Investment gain, net of endowment payout recognized under spending policy	3,692	11,620	65	15,377
Distributions from donor advised funds for operations	(18)	—	—	(18)
Distributions from donor advised funds to other charities	(522)	—	—	(522)
Change in value of interest rate swap agreement	(2,088)	—	—	(2,088)
Change in value of split-interest obligations	3,397	(7,480)	3,910	(173)
Net assets released from restriction	340	(340)	—	—
Increase in net assets from nonoperating activities	7,381	12,410	10,270	30,061
Increase in net assets	11,638	9,661	10,279	31,578
Net assets at beginning of year	184,072	143,869	66,569	394,510
Net assets at end of year	\$ 195,710	153,530	76,848	426,088

See accompanying notes to consolidated financial statements.

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Consolidated Statements of Cash Flows

Years ended June 30, 2006 and 2005

(In thousands)

	2006	2005
Cash flows from operating activities:		
Increase in net assets	\$ 33,047	31,578
Adjustments to reconcile increase in net assets to net cash used in operating activities:		
Cumulative effect of change in accounting principle	2,014	—
Depreciation and amortization	6,539	5,699
In-kind donations of investments	(7,295)	(9,663)
In-kind donations of equipment	(92)	(40)
Net gain on investments	(19,123)	(20,329)
Change in value of split-interest obligations and liability to other trust beneficiaries	3,540	173
Private gifts and grants restricted for long-term investment	(18,166)	(17,088)
Change in value of interest rate swap agreement	(1,764)	2,088
Changes in assets and liabilities:		
Accounts receivable, net	(132)	440
Inventories, prepaid expenses and deposits	(346)	(919)
Accounts payable and accrued expenses	325	618
Deferred student fees and rentals	361	87
Deposits	145	35
Postretirement benefits obligation	459	491
Net cash used in operating activities	(488)	(6,830)
Cash flows from investing activities:		
Purchases of property, plant, and equipment	(15,939)	(21,353)
Proceeds from sales of investments	67,624	129,963
Purchases of investments	(73,488)	(135,019)
Loans disbursed	(4,241)	(4,308)
Principal collected on loans	3,615	3,543
Net cash used in investing activities	(22,429)	(27,174)
Cash flows from financing activities:		
Decrease in U.S. government grants for student loans	(2)	(5)
Proceeds from issuance of long term bonds	17,000	—
Net payments on obligations under split-interest agreements and liability to other trust beneficiaries	(2,681)	2,580
Net change in legacies, bequests, and beneficial interest in trusts	(1,863)	2,059
Proceeds from private gifts and grants restricted for long-term investment	18,166	17,088
Net cash provided by financing activities	30,620	21,722
Net increase (decrease) in cash and cash equivalents	7,703	(12,282)
Cash and cash equivalents at beginning of year	36,888	49,170
Cash and cash equivalents at end of year	\$ 44,591	36,888
Supplemental disclosure of cash flow information:		
Cash paid for interest	\$ 2,398	1,396

See accompanying notes to consolidated financial statements.

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Notes to Consolidated Financial Statements

June 30, 2006 and 2005

(1) Organization

Wheaton College (the College) is a co-educational, Christian liberal arts college that seeks to relate Christian liberal arts education to the needs of contemporary society. The College is a member of the North Central Association of Colleges and Secondary Schools and is accredited by the National Council for Accreditation of Teacher Education and National Association of Schools of Music.

The Billy Graham Center is a wholly owned tax-exempt subsidiary organized exclusively for religious and educational purposes.

Wheaton College Trust Company, N.A. (the Trust Company) is a wholly owned taxable trust company. The Trust Company is responsible for the investment and administration of certain endowment and life income assets.

(2) Summary of Significant Accounting Policies

(a) *Basis of Presentation*

The accompanying consolidated financial statements include the accounts of the College, the Trust Company, and the Billy Graham Center. All intercompany transactions have been eliminated from the accompanying consolidated financial statements.

The accompanying consolidated financial statements of the College have been prepared on the accrual basis of accounting. Significant accounting policies followed in the preparation of these consolidated financial statements are described below.

To ensure observance of limitations and restrictions placed on the use of resources available, the College maintains its accounts in accordance with the principles and practices of fund accounting. Fund accounting is the procedure by which resources for various purposes are classified into funds that are in accordance with activities or objectives specified by donors. Separate accounts are maintained for each fund.

For external reporting purposes, however, the College's financial statements have been prepared to focus on the organization as a whole and to present balances and transactions classified in accordance with the existence or absence of donor-imposed restrictions. Net assets and related activity are classified as unrestricted, temporarily restricted, and permanently restricted as follows:

- Unrestricted – net assets that are not subject to donor-imposed restrictions.
- Temporarily Restricted – net assets that are subject to donor-imposed restrictions that will be met either by actions of the College or the passage of time.
- Permanently Restricted – net assets that are subject to donor-imposed restrictions to be maintained permanently by the College. Generally, the donors of these assets permit the College to use all or part of the income earned on related investments for general or specific purposes.

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Notes to Consolidated Financial Statements

June 30, 2006 and 2005

(b) Revenue

Revenue is reported as an increase in unrestricted net assets unless use of the related assets is limited by donor-imposed restriction. Expenses are reported as decreases in unrestricted net assets. Gains and losses on investments and other assets or liabilities are reported as increases or decreases in unrestricted net assets, unless their use is restricted by explicit donor stipulation or law. Expiration of temporary restrictions on net assets (i.e., the donor-stipulated purpose has been fulfilled and/or the stipulated time period has elapsed) are reported as reclassifications between applicable classes of net assets.

Private gifts, including unconditional pledges, are recognized in the period received. Contributions received for capital projects or perpetual endowment funds are reported as nonoperating revenue. Conditional pledges are recognized when the conditions on which they depend are substantially met. Contributions of assets other than cash are recorded at estimated fair value. Contributions to be received after one year are discounted at an appropriate discount rate commensurate with the risks involved. Amortization of discount is recorded as additional contribution revenue in accordance with donor-imposed restrictions, if any, on the contributions. An allowance for uncollectible pledges receivable is provided based upon management's judgment considering such factors as prior collection history, type of contribution, and nature of fund-raising activity.

As of June 30, 2006 and 2005, the College had received communications from certain donors that they intended to give approximately \$28,750,000 and \$6,423,000, respectively, to the College. However, these gifts are not deemed unconditional promises to give and therefore have not been recorded as revenue or pledges receivable for fiscal years 2006 and 2005.

Contributions received with donor-imposed restrictions that are met in the same year as the contributions are received are reported as revenue of the unrestricted net asset class. Contributions of land, building, and equipment without donor-imposed restrictions concerning the use of such long-lived assets are reported as revenue of the unrestricted net asset class. Contributions of cash or other assets to be used to acquire land, building, and equipment without such donor restrictions are reported as revenue of the temporarily restricted net asset class; the restrictions are considered to be released at the time of acquisition of such long-lived assets.

The College solicits a variety of contributions for its programs including donor advised funds. Donor advised funds allow for the donor to recommend distributions to College programs or other charitable organizations approved by the College. Although the College generally complies with the donor's recommendation, they are subject to approval by the College's Charity Selection Committee and are therefore classified as unrestricted net assets.

Student tuition and fees are recorded as revenue during the year the related academic services are rendered. Student tuition and fees received in advance of services to be rendered are recorded as deferred revenue.

(c) Operations

Operating results in the statements of activities reflect all transactions increasing or decreasing net assets except the receipt and expenditure of those gifts, grants, and bequests of a capital or long-term investment nature, annuity and life income agreement activity, reinvestment of gains in excess of

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Notes to Consolidated Financial Statements

June 30, 2006 and 2005

endowment payout or withdrawals from endowment assets when endowment payout is in excess of endowment return, and the change in the fair value of the swap agreement. Donor advised funds are transferred to operating activities when released by the College upon approval by the Charity Selection Committee.

(d) Cash Equivalents

Cash equivalents include amounts held in certificates of deposit and money market accounts with original maturities of three months or less, except that such instruments purchased by outside investment managers with endowment and annuity and life income assets are classified as investments.

(e) Investments

Investments are reported at fair value. The fair value of investments in publicly traded fixed income and equity securities is based upon quoted market prices obtained from recognized automated pricing services, records of any exchange, standard financial periodicals, or any newspaper of general circulation, subject to review, and approval by the management. In those instances where there are no readily obtainable market values from any of these sources, investments are valued on the basis of estimated values obtained from bankers, brokers, dealers, or other qualified appraisers. Fair value for direct real estate investments is based upon periodic independent appraisals. Fair value for hedge fund investments held through limited partnerships are estimated by the respective manager.

Investments in securities, foreign currency holdings, and other assets and liabilities denominated in foreign currencies are translated into U.S. dollar amounts at each day's current exchange rate. Translation gains or losses due to changes in exchange rates and realized gains or losses from the sale of foreign currencies, and settlement of forward foreign currency contracts and other foreign denominated receivables and payables, are translated at the rates of exchange prevailing on the respective dates of such transactions.

The College may enter into foreign currency forward contracts primarily to hedge against foreign currency exchange rate risks on their non-U.S. dollar denominated investment securities. When entering into a currency forward contract, the Funds agree to receive or deliver a fixed quantity of foreign currency for an agreed-upon price on an agreed-upon future date. These contracts are valued daily and the Funds' net equity therein, representing unrealized gain or loss on the contracts as measured by the difference between the forward foreign exchange rates at the dates of entry into the contracts and the forward rates at the reporting date, is included in the statement of assets and liabilities. Realized and unrealized gains and losses are included in the statement of activities. These instruments involve market and/or credit risk in excess of the amount recognized in the statement of assets and liabilities. Risks arise from the possible inability of counterparties to meet the terms of their contracts and from movement in currency and securities values and interest rates.

The College had no forward exchange contracts outstanding as of June 30, 2006 or 2005.

The College's investments are exposed to various risks, such as interest rate, market, and credit risks. Due to the level of risk associated with certain investments and the level of uncertainty related to changes in the value of investments, it is at least reasonably possible that changes in the risks in the

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Notes to Consolidated Financial Statements

June 30, 2006 and 2005

near term would materially affect the amounts reported in the consolidated balance sheets and the consolidated statements of activities.

(f) Derivative Instruments

In 2004 the College entered into a forward interest-rate related derivative (interest rate swap) to manage its exposure on its future variable rate taxable revenue bonds which were issued on September 14, 2005. The College does not apply hedge accounting to derivative instruments; therefore any changes in the interest rate derivative value are recognized in the statement of activities. The fair value of the transaction has also been recorded on the balance sheet.

By using derivative financial instruments to hedge exposures to changes in interest rates, the College exposes itself to credit risk and market risk. Credit risk is the failure of the counterparty to perform under the terms of the derivative contract. When the fair value of the derivative contract is positive, the counterparty owes the College, which creates credit risk for the College. When the fair value of a derivative contract is negative, the College owes the counterparty and, therefore, it does not possess credit risk. The College minimizes the credit risk in derivative instruments by entering into transactions with high-quality counterparties.

Market risk is the adverse effect on the value of a financial instrument that results from a change in interest rates. The market risk associated with interest-rate contracts is managed by establishing parameters that limit the types and degree of market risk that may be undertaken. The College has capped its market risk under the interest rate swap contract to a fixed rate of 5.997% through October 1, 2035.

(g) Inventories

Inventories are recorded at lower of cost or market, on a first-in, first-out basis.

(h) Property, Plant, and Equipment

Property, plant, and equipment are stated at cost at date of acquisition or at fair value at date of gift. Property, plant, and equipment are depreciated using the straight-line method over their estimated useful lives, which are as follows:

Land improvements	20-40 years
Buildings	40-50 years
Building improvements	10-20 years
Equipment	3-10 years
Library books	25-50 years

Long-lived assets, such as property, plant, and equipment, are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to estimated undiscounted future cash flows expected to be generated by the asset. If the carrying amount of an asset exceeds its estimated future cash flows, an impairment charge is recognized by the amount by which the carrying amount of the asset exceeds the fair value of the asset. Assets to be disposed of would be separately presented in the balance sheet and reported

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Notes to Consolidated Financial Statements

June 30, 2006 and 2005

at the lower of the carrying amount or fair value less costs to sell, and are no longer depreciated. The assets and liabilities of a disposed group classified as held for sale would be presented separately in the appropriate asset and liability sections of the balance sheet.

The College has various literary collections, which consist of evangelistic artifacts, original manuscripts, private papers, and rare books of several authors. The collections are not capitalized on the books of the College.

(i) *Legacies, Bequests, and Beneficial Interest in Trusts*

The College is a beneficiary under various wills, the total realizable value of which is not presently determinable. Such amounts are recorded as contributions when clear title is established and the proceeds are clearly measurable.

The College is also the income beneficiary under various term and perpetual trusts, the corpus of which are not controlled by the management of the College. In the absence of donor-imposed conditions, the College recognizes its beneficial interest in a trust as a contribution in the period in which it receives notice that the trust agreement conveys an unconditional right to receive benefits.

Although the College has no control over the administration or investment of the funds held in these term and perpetual trusts, the estimated present value of the expected future cash flows from the trusts is recognized as an asset in the accompanying consolidated financial statements.

(j) *Deferred Financing Costs*

Deferred financing costs represent issuance costs for outstanding long-term debt. Deferred financing costs are being amortized over the respective lives of the bonds.

(k) *Obligations under Split-interest Agreements*

The College utilizes the "actuarial method" for recording obligations under split-interest agreements, which include contract gift annuities, charitable remainder trusts, irrevocable trusts, and life income funds. The present value of the aggregate liability for contract gift annuities is computed by the College's actuary utilizing the U.S. Annuity 2000 Mortality Table and a discount rate of 6% for contracts issued prior to January 1, 2004 and 5.5% for contracts issued subsequent to January 1, 2004. The present value of the aggregate liability for all other split-interest agreements and income payable is computed by the College utilizing the guidelines in Treasury Regulation 1.72-9 and a discount rate of 6%.

(l) *Endowment Payout*

The College utilizes the total return concept in allocating endowment income between the operating funds and endowment and similar funds. The operating funds are supported by a predetermined objective (ranging from 5% to 8% of the estimated three-year average fair value of the Endowment Fund in 2006 and 2005), which is first satisfied from yield, and the balance, if necessary, from realized capital gains by the Endowment Fund. If yield is in excess of the objective, the excess reverts to the Endowment Fund.

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Notes to Consolidated Financial Statements

June 30, 2006 and 2005

(m) *Auxiliary Enterprises*

Auxiliary enterprises consist primarily of the operations of the dormitories, food service, and the bookstore.

(n) *Tax Status*

The College and the Billy Graham Center have received determination letters from the Internal Revenue Service indicating they are recognized as tax-exempt organizations under Section 501(c)(3) of the Internal Revenue Code and, except for taxes pertaining to unrelated business income, are exempt from federal and state income taxes. The College booked a provision for unrelated business income tax in the amount of \$19,000 and \$10,000 in 2006 and 2005, respectively.

The Trust Company is a wholly owned taxable trust company. Income taxes for the Trust Company are accounted for under the asset and liability method. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and tax carryforwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date. There were no temporary differences that give rise to a deferred tax asset or liability at June 30, 2006 and 2005.

(o) *Use of Estimates*

The preparation of these consolidated financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the consolidated financial statements, and the reported amounts of revenue, expenses, gains, and losses during the period. Actual results could differ from those estimates.

(p) *Reclassifications*

Certain amounts presented in the 2005 consolidated financial statements have been reclassified to conform to the 2006 presentation.

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Notes to Consolidated Financial Statements

June 30, 2006 and 2005

(3) Investments

The fair value of investments held by the College as of June 30, 2006 and 2005 consisted of the following:

	2006	2005
	(in thousands)	
Money market funds	\$ 34,595	23,518
Stocks	269,874	247,348
Bonds	105,086	113,474
Hedge fund	11,630	10,651
Employee residential mortgages	2,284	2,027
Life insurance contracts at cash surrender value	504	484
Real estate and other	14,052	8,241
Notes receivable	2	2
Total	\$ 438,027	405,745

Included in investments are asset-backed securities totaling approximately \$19,472,000 and \$13,397,000 for the years ended June 30, 2006 and 2005, respectively.

Return on investments for the years ended June 30, 2006 and 2005 consisted of the following:

	2006	2005
	(in thousands)	
Return on investments – endowment investment return:		
Interest and dividends	\$ 6,134	5,028
Realized gain on investments	13,433	9,546
Unrealized gain on investments	6,919	8,195
Investment gain before endowment payout	26,486	22,769
Less endowment payout	(12,191)	(11,829)
Net gain on endowment investments after payout	14,295	10,940
Return on other investments	3,558	5,295
Net gain on investments after payout	\$ 17,853	16,235

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Notes to Consolidated Financial Statements

June 30, 2006 and 2005

(4) Property, Plant, and Equipment

Property, plant, and equipment at June 30, 2006 and 2005 consisted of the following:

	2006	2005
	(in thousands)	
Land and improvements	\$ 11,519	9,473
Buildings and improvements	149,135	128,196
Equipment	20,710	19,585
Library books	12,292	11,527
	193,656	168,781
Less accumulated depreciation	80,170	73,086
	113,486	95,695
Projects and renewals:		
Construction in process	6,348	13,815
Total	\$ 119,834	109,510

The College is currently engaged in various construction and renovation projects primarily to be financed through proceeds from long-term debt, operations, donor contributions, and short-term investments. Outstanding commitments related to these projects are approximately \$5,605,000 at June 30, 2006.

(5) Long-term debt

A summary of long-term debt at June 30, 2006 and 2005 is as follows:

	2006	2005
	(in thousands)	
Taxable bonds, Series 2004, 6.09% fixed rate, interest payable semi-annually beginning on October 1, 2004, principal due October 1, 2034	\$ 25,000	25,000
Taxable bonds, Series 2005A, variable rate, effective interest rate of 5.43% in 2006, interest payable semi-annually beginning on April 1, 2006, principal due October 1, 2035	17,000	—
Total	\$ 42,000	25,000

On May 1, 2004, the College entered into a Bond Trust Indenture with The Bank of New York Trust Company, N.A., as Bond Trustee, and issued taxable fixed rate bonds, Series 2004, in the aggregate principal amount of \$25,000,000. Interest is payable semi-annually based on a fixed rate of 6.09%. The purpose of the Indenture is to enable the College to finance, refinance, and/or be reimbursed for, all or a portion of the cost of acquiring, constructing, and/or installing capital projects.

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Notes to Consolidated Financial Statements

June 30, 2006 and 2005

On September 14, 2005, the College entered into a Bond Trust Indenture with The Bank of New York Trust Company, N.A., as Bond Trustee, and issued taxable variable rate bonds, Series 2005A, in the aggregate principal amount of \$17,000,000 for the same purpose as stated above. Interest is payable semi-annually at a variable rate reset weekly by a remarketing agent. The effective annual interest rate was 5.43% in 2006. The College, the Bond Trustee and JPMorgan Chase Bank, National Association entered into a Standby Bond Purchase Agreement (the Agreement). Under the terms of the Agreement, JPMorgan Chase agrees to provide funds for the purchase of the Bonds in the event that the Bonds are not remarketed or that the remarketing proceeds are not available.

(6) Derivative Instrument

On April 14, 2004, the College entered into an interest rate forward swap agreement with a financial institution. The agreement is effective on October 1, 2005 and expires on October 1, 2035. The College entered into the agreement to effectively convert a portion of its anticipated Series 2005 variable rate debt, which was issued September 14, 2005, from a variable to a fixed rate. Under this agreement, the College pays a fixed rate of 5.997% on a notional amount of \$10,000,000, and receives from the financial institution a variable rate of return, based upon the monthly USD-LIBOR-BBA rate, on the same notional amount. The net interest differential paid by the College as a result of the interest rate swap agreement was \$6,623 and has been recorded as an addition to interest expense in the accompanying 2006 consolidated statement of activities. The value of the obligation under this instrument was \$468,000 and \$2,232,000 at June 30, 2006 and 2005, respectively.

(7) Obligations under Split Interest Agreements Administered by the College

Charitable Remainder Trusts

Charitable remainder trusts are arrangements in which the donor establishes and funds a trust with specific distributions to be made to a designated beneficiary or beneficiaries over the trust's term. Obligations to the beneficiaries are limited to the trust's assets. Assets are recorded at fair value when received and a liability is recorded for the present value of the estimated future payments to the beneficiaries.

Upon termination of the trust, the remaining assets are distributed to a combination of the College and other organizations as specified in the trust agreement. The College may ultimately have unrestricted use of the assets it receives, or the donor may place permanent or temporary restrictions on their use.

Charitable Gift Annuities

Charitable gift annuities are arrangements between a donor and the College in which the donor contributes assets to the College in exchange for a promise by the College to pay a fixed amount for the life of the donor or other individuals designated by the donor. Due to state insurance regulations, the assets received are held as segregated assets. The annuity liability is a general obligation of the College. Assets are recognized at fair value on the date of the contribution. An annuity payment liability is recognized for the present value of future cash flows expected to be paid to the donor or to the designated individual.

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At the death of the donor or designated individual, the annuity payment liability is eliminated and the remaining net assets are available to the College for unrestricted, temporarily restricted, or permanently restricted use depending upon the donor restrictions.

Pooled Income Funds and Life Income Contracts

Donors contribute assets to an investment pool and are assigned a specific number of units based on the proportion of the fair value of their contribution to the total fair value of the pooled income fund on the date of the donor's entry to the pooled fund. The contributed assets are recorded at fair value. A contribution is recorded at the fair value of the assets discounted for the estimated time period until the donor's death. The difference between the fair value of the assets received and the revenue recognized is recorded as deferred revenue, representing the amount of the discount for future interest. Until a donor's death, the donor or designated beneficiary is paid the actual ordinary income earned on the donor's units. Upon the donor's death, the fair value of the units is released to the College for unrestricted, temporarily restricted, or permanently restricted use depending upon the donor restrictions.

Revocable Trust Funds

In connection with the College's deferred gift-giving program, the College administers certain trust funds as the named beneficiary. All of the income is paid to the donor or named survivor. These trust agreements are generally revocable in nature, with the donor retaining control over investment decisions. The assets of these trusts are recorded in the College's consolidated financial statements as investments and the liabilities of these trusts are recorded as obligations under split-interest agreements.

Summary of Split Interest Agreements

A summary of liabilities related to these arrangements as of June 30 is as follows:

	<u>2006</u>	<u>2005</u>
	(in thousands)	
Charitable gift annuities	\$ 27,801	27,782
Charitable remainder annuity trusts	9,529	9,835
Charitable remainder unitrusts	34,544	29,195
Pooled income funds and life income contracts	1,644	1,890
Revocable trusts	15,001	18,575
Other irrevocable trusts	1,650	1,198
	<u>\$ 90,169</u>	<u>88,475</u>

Adjustments to the liability to reflect amortization of the discount, reevaluations of the present value of the estimated future payments to the donor or beneficiary, and changes in actuarial assumptions are recognized in the statement of activities as a change in the value of split interest agreements in either temporarily or permanently restricted net assets depending on the donor's restrictions.

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(8) Postretirement Health Care Benefits

In addition to providing the retirement benefits, the College provides health care and life insurance benefits for eligible retired employees. The College accrues the cost of postretirement benefits during the period of employees' active service. Net periodic postretirement health care benefit costs for the fiscal years ended June 30, 2006 and 2005 include the following components:

	2006	2005
	(in thousands)	
Service cost of benefits earned	\$ 303	261
Interest cost on accumulated postretirement health care benefit obligation	394	527
Amortization of prior service cost	(84)	50
Amortization of unrecognized net loss	212	148
Net periodic postretirement health care benefit cost	\$ 825	986

The funded status and amounts recognized in the accompanying consolidated balance sheets for the College's defined benefit postretirement health care and life insurance benefit plans are as follows as of June 30:

	2006	2005
	(in thousands)	
Benefit obligation at beginning of year	\$ 8,137	8,717
Service cost	303	261
Interest cost	394	527
Plan amendments	—	(1,691)
Actuarial gain	(250)	818
Benefits paid	(365)	(495)
Benefit obligation at end of year	8,219	8,137
Unrecognized prior service cost	1,094	1,178
Unrecognized loss	(3,737)	(4,198)
Plan assets at fair value	—	—
Accumulated postretirement benefit obligation in excess of plan assets	\$ 5,576	5,117

The plan was amended to eliminate certain drug benefits for pre-1995 retirees.

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The assumptions used to develop the net postretirement benefit expense and the present value of benefit obligations are shown below:

	2006	2005
Weighted average discount rate	6.10%	5.00%
Medical trend rate for premiums	11.00%	9.50%

The medical trend rate is assumed to decline gradually over the next 5 years to 4.5% and remain at 4.5% thereafter. A one percentage point increase in assumed medical trend rates would have the following effects:

	2006	2005
	(in thousands)	
Effect on postretirement benefit obligation	\$ 609	541
Effect on service and interest cost components	84	67

The projected postretirement benefit payments for each of the five fiscal years subsequent to June 30, 2006 are as follows: \$538,435 in 2007; \$610,771 in 2008; \$633,448 in 2009; \$642,370 in 2010; and \$651,418 in 2011. Projected aggregate postretirement benefit payments for the five-year period ending in 2016 are \$3,397,327.

(9) Net Assets Released from Restrictions

Net assets that were released from donor restrictions by incurring expenses satisfying the restricted purposes or by occurrence of other events specified by donors were as follows during the years ended June 30:

	2006	2005
	(in thousands)	
Operating activity:		
Educational and general	\$ 8,333	7,317
Matured trusts	2,765	3,009
	\$ 11,098	10,326
Nonoperating activity:		
Acquisition of buildings and equipment	\$ 822	340

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(10) Temporarily Restricted Net Assets

Temporarily restricted net assets are available for the following purposes:

	<u>2006</u>	<u>2005</u>
	(in thousands)	
Program restricted:		
Accumulated endowment gains and term endowments	\$ 125,856	117,625
Loans	3,033	2,583
Building	16,520	3,798
Annuities and split-interest agreements	19,899	20,342
Scholarships and other programs	9,713	9,182
	<u>\$ 175,021</u>	<u>153,530</u>

(11) Permanently Restricted Net Assets

Permanently restricted net assets are restricted to the following at June 30:

	<u>2006</u>	<u>2005</u>
	(in thousands)	
Investment in perpetuity, the income from which is expendable	\$ 80,676	75,625
Deferred gifts that will provide proceeds for a permanent endowment	951	48
Revolving loan funds, the proceeds of which can only be used for student loans	1,215	1,175
	<u>\$ 82,842</u>	<u>76,848</u>

(12) Retirement Plan

Retirement benefits are provided for eligible academic and administrative staff through the Teachers Insurance and Annuity Association – College Retirement Equity Fund (TIAA-CREF), a national organization used to fund retirement benefits for employees of educational institutions, and Fidelity Investments (Fidelity), a mutual fund investment group. Under this arrangement, the College and plan participants make annual contributions to TIAA-CREF and Fidelity to purchase individual annuities and securities equivalent to retirement benefits earned. This is a defined contribution plan and, as such, the College has no unfunded past service costs. The College's contributions to the plan, which are based on a percentage of each participant's salary, totaled approximately \$2,337,000 and \$2,190,000 for the years ended June 30, 2006 and 2005, respectively.

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(13) Fundraising Activities

The College's primary program service is instruction. Expenses reported as academic support, student services, public services, and auxiliary enterprises are incurred in support of this primary program activity. Institutional support includes fundraising costs of approximately \$3,658,000 and \$3,088,000 for the years ended June 30, 2006 and 2005, respectively. For purposes of reporting fundraising expenses, the College only includes those costs incurred by the Advancement Office.

(14) Contingencies

From time to time, the College is involved in various claims and legal actions arising in the ordinary course of business. In the opinion of management, the ultimate disposition of matters presently known will not have a material effect on the College's financial position.

(15) Asbestos Removal Costs

In March 2005, the Financial Accounting Standards Board issued Interpretation No. 47 (FIN 47), *Accounting for Conditional Asset Retirement Obligations*. Under FIN 47, costs related to legal obligations to perform certain activities in connection with the retirement, disposal, or abandonment of assets are required to be recorded at its net present value with recognition of a related long-lived asset. The College has identified asbestos abatement as a conditional asset retirement obligation. Asbestos abatement costs were estimated using a per square foot estimate. In 2006, the College recorded an asset retirement obligation of approximately \$2,846,000, net book value of the long-lived asset of approximately \$832,000 and a cumulative effect of change in accounting principle of approximately \$2,014,000.