

**WHEATON COLLEGE**

Consolidated Financial Statements

June 30, 2007 and 2006

(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, 2007 and 2006, 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. An audit includes 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, 2007 and 2006, 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.

As discussed in note 8 to the consolidated financial statements, the College changed its method of accounting for postretirement benefits payable in fiscal year 2007.

**KPMG LLP**

September 21, 2007

**WHEATON COLLEGE**  
Consolidated Balance Sheets  
June 30, 2007 and 2006  
(In thousands)

<b>Assets</b>	<b>2007</b>	<b>2006</b>
Current assets:		
Cash and cash equivalents	\$ 45,033	44,591
Accounts and other receivables, net	3,573	2,601
Inventories	1,093	1,144
Prepaid expenses and deposits	2,849	3,027
Total current assets	<u>52,548</u>	<u>51,363</u>
Notes receivable from students, net	8,246	8,047
Investments:		
Endowment	353,265	302,919
Annuities and split-interest agreements	124,359	118,103
Other investments	30,630	17,005
Total investments	<u>508,254</u>	<u>438,027</u>
Legacies, bequests, and beneficial interest in trusts	2,692	5,194
Property, plant, and equipment, net	124,108	119,834
Total assets	<u>\$ 695,848</u>	<u>622,465</u>
<b>Liabilities and Net Assets</b>		
Current liabilities:		
Accounts payable and accrued expenses	\$ 7,863	8,829
Deferred student fees and rentals	3,460	3,310
Deposits	592	669
Postretirement benefits obligation	438	—
Total current liabilities	<u>12,353</u>	<u>12,808</u>
Bonds payable	42,000	42,000
Interest rate swap	464	468
Asset retirement obligation	2,895	2,846
Obligations under annuities and split-interest agreements	90,667	90,169
Liability to other trust beneficiaries	5,347	5,101
Refundable U.S. government grants for student loans	4,370	4,362
Postretirement benefits obligation	6,111	5,576
Total liabilities	<u>164,207</u>	<u>163,330</u>
Commitments and contingencies		
Net assets:		
Unrestricted:		
Investment in plant facilities	80,754	79,600
Funds functioning as endowment	125,589	106,582
Designated for future expenditure	20,112	12,368
Undesignated	3,277	2,722
Unrestricted total	<u>229,732</u>	<u>201,272</u>
Temporarily restricted	212,695	175,021
Permanently restricted	89,214	82,842
Total net assets	<u>531,641</u>	<u>459,135</u>
Total liabilities and net assets	<u>\$ 695,848</u>	<u>622,465</u>

See accompanying notes to consolidated financial statements.

**WHEATON COLLEGE**  
Consolidated Statement of Activities  
Year ended June 30, 2007  
(In thousands)

	<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Permanently restricted</u>	<u>Total</u>
Operating activities:				
Revenue:				
Tuition and fees	\$ 60,931	—	—	60,931
Less scholarships and grants	(16,179)	—	—	(16,179)
Net tuition and fees	44,752	—	—	44,752
Private gifts and grants	6,355	3,306	—	9,661
Endowment payout	7,439	5,803	9	13,251
Investment income designated for operations	2,585	—	—	2,585
Public service	2,102	—	—	2,102
Other	2,808	290	—	3,098
Auxiliary enterprises	19,544	—	—	19,544
Distributions from donor-advised funds for operations	80	—	—	80
Net assets released from restrictions	12,010	(12,010)	—	—
Total revenue	97,675	(2,611)	9	95,073
Expenses:				
Instruction	32,600	—	—	32,600
Academic support	10,296	—	—	10,296
Student services	15,862	—	—	15,862
Institutional support	15,339	—	—	15,339
Public services	3,360	—	—	3,360
Auxiliary	16,799	—	—	16,799
Total expenses	94,256	—	—	94,256
Excess (deficiency) of operating revenue over expenses	3,419	(2,611)	9	817
Nonoperating activities:				
Private gifts and grants	4,764	15,421	6,226	26,411
Investment gain, net of endowment payout recognized under spending policy	15,666	31,065	135	46,866
Distributions from donor-advised funds for operations	(80)	—	—	(80)
Distributions from donor-advised funds to other charities	(166)	—	—	(166)
Change in value of interest rate swap agreement	4	—	—	4
Change in value of annuities and split-interest obligations	928	(1,916)	2	(986)
Net assets released from restriction for property, plant, and equipment	4,285	(4,285)	—	—
Increase in net assets from nonoperating activities	25,401	40,285	6,363	72,049
Increase in net assets before cumulative effect of change in accounting principle	28,820	37,674	6,372	72,866
Cumulative effect of change in accounting principle for postretirement benefits	(360)	—	—	(360)
Increase in net assets	28,460	37,674	6,372	72,506
Net assets at beginning of year	201,272	175,021	82,842	459,135
Net assets at end of year	\$ 229,732	212,695	89,214	531,641

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 annuities and split-interest obligations	(623)	(3,773)	856	(3,540)
Net assets released from restriction for property, plant, and equipment	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 for asset retirement obligation	(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 Statements of Cash Flows

Years ended June 30, 2007 and 2006

(In thousands)

	2007	2006
Cash flows from operating activities:		
Increase in net assets	\$ 72,506	33,047
Adjustments to reconcile increase in net assets to net cash used in operating activities:		
Cumulative effect of change in accounting principle	360	2,014
Depreciation and amortization	7,001	6,539
In-kind donations of investments	(17,829)	(7,295)
In-kind donations of equipment	(111)	(92)
Net gain on investments	(50,037)	(19,123)
Change in value of annuities and split-interest obligations	986	3,540
Private gifts and grants restricted for long-term investment	(27,797)	(18,166)
Change in value of interest rate swap agreement	(4)	(1,764)
Changes in assets and liabilities:		
Accounts and other receivables, net	(972)	(132)
Inventories, prepaid expenses, and deposits	229	(346)
Accounts payable and accrued expenses	(917)	325
Deferred student fees and rentals	150	361
Deposits	(77)	145
Postretirement benefits obligation	613	459
Net cash used in operating activities	(15,899)	(488)
Cash flows from investing activities:		
Purchases of property, plant, and equipment	(11,164)	(15,939)
Proceeds from sales of investments	107,757	67,624
Purchases of investments	(110,118)	(73,488)
Loans disbursed	(1,498)	(2,032)
Principal collected on loans	1,299	1,406
Net cash used in investing activities	(13,724)	(22,429)
Cash flows from financing activities:		
Increase (decrease) in U.S. government grants for student loans	8	(2)
Proceeds from issuance of long-term bonds	—	17,000
Net payments on obligations under split-interest agreements and liability to other trust beneficiaries	(242)	(2,681)
Net change in legacies, bequests, and beneficial interest in trusts	2,502	(1,863)
Proceeds from private gifts and grants restricted for long-term investment	27,797	18,166
Net cash provided by financing activities	30,065	30,620
Net increase in cash and cash equivalents	442	7,703
Cash and cash equivalents at beginning of year	44,591	36,888
Cash and cash equivalents at end of year	\$ 45,033	44,591
Supplemental disclosure of cash flow information:		
Cash paid for interest	\$ 2,432	2,398

See accompanying notes to consolidated financial statements.

# WHEATON COLLEGE

## Notes to Consolidated Financial Statements

June 30, 2007 and 2006

### (1) Organization

Wheaton College (the College) is a coeducational, 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 consolidated 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 activities 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.

## WHEATON COLLEGE

### Notes to Consolidated Financial Statements

June 30, 2007 and 2006

**(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. Gift annuity donations with no donor-imposed restrictions are recognized as unrestricted 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, 2007 and 2006, the College had received communications from certain donors that they intended to give approximately \$40,440,000 and \$28,750,000, 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 2007 and 2006.

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 with 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.

## WHEATON COLLEGE

### Notes to Consolidated Financial Statements

June 30, 2007 and 2006

(c) ***Operations***

Operating results in the consolidated 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 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 interest rate 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'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 near term would materially affect the amounts reported in the consolidated balance sheets and the consolidated statements of activities.

(f) ***Derivative Instruments***

The College entered into an 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 consolidated statements of activities. The fair value of the transaction has also been recorded on the consolidated balance sheets.

# WHEATON COLLEGE

## Notes to Consolidated Financial Statements

June 30, 2007 and 2006

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 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 consolidated 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 consolidated balance sheets of the College.

## WHEATON COLLEGE

### Notes to Consolidated Financial Statements

June 30, 2007 and 2006

**(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 and are included in prepaid expenses and deposits in the consolidated balance sheets.

**(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 2007 and 2006), 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.

**(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)

## WHEATON COLLEGE

### Notes to Consolidated Financial Statements

June 30, 2007 and 2006

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 approximately \$36,000 and \$19,000 in 2007 and 2006, 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, 2007 and 2006.

*(o) Use of Estimates*

The preparation of the 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.

**WHEATON COLLEGE**

Notes to Consolidated Financial Statements

June 30, 2007 and 2006

**(3) Investments**

The fair value of investments held by the College as of June 30, 2007 and 2006 consisted of the following:

	<b>2007</b>	<b>2006</b>
	(In thousands)	
Money market funds	\$ 60,371	34,595
Stocks	313,650	269,874
Bonds	108,342	105,086
Hedge funds	13,226	11,630
Employee residential mortgages	2,389	2,284
Life insurance contracts at cash surrender value	481	504
Real estate and other	9,399	14,052
Notes receivable	396	2
Total	\$ 508,254	438,027

Included in investments are asset-backed securities totaling approximately \$21,105,000 and \$19,472,000 for the years ended June 30, 2007 and 2006, respectively.

Return on investments for the years ended June 30, 2007 and 2006 consisted of the following:

	<b>2007</b>	<b>2006</b>
	(In thousands)	
Return on investments – endowment investment return:		
Interest and dividends	\$ 6,700	6,134
Realized gain on investments	23,922	13,433
Unrealized gain on investments	22,633	6,919
Investment gain before endowment payout	53,255	26,486
Less endowment payout	(13,251)	(12,191)
Net gain on endowment investments after payout	40,004	14,295
Return on other investments	9,447	3,558
Net gain on investments after payout	\$ 49,451	17,853

**WHEATON COLLEGE**

Notes to Consolidated Financial Statements

June 30, 2007 and 2006

**(4) Property, Plant, and Equipment**

Property, plant, and equipment at June 30, 2007 and 2006 consisted of the following:

	<b>2007</b>	<b>2006</b>
	(In thousands)	
Land and improvements	\$ 12,533	11,519
Buildings and improvements	159,372	149,135
Equipment	21,364	20,710
Library books	12,976	12,292
	206,245	193,656
Less accumulated depreciation	86,240	80,170
	120,005	113,486
Projects and renewals:		
Construction in process	4,103	6,348
Total	\$ 124,108	119,834

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 \$4,942,000 at June 30, 2007.

**(5) Long-term debt**

A summary of long-term debt at June 30, 2007 and 2006 is as follows:

	<b>2007</b>	<b>2006</b>
	(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 5.35% in 2007, interest payable semi-annually beginning on April 1, 2006, principal due October 1, 2035	17,000	17,000
Total	\$ 42,000	42,000

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. The indebtedness is secured solely by a pledge of the full faith and credit of the College.

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### Notes to Consolidated Financial Statements

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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 (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. The indebtedness is secured solely by a pledge of the full faith and credit of the College.

#### (6) Derivative Instrument

The College entered into an interest rate swap agreement with a financial institution that 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 on 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 \$66,178 and \$108,424 and has been recorded as an addition to interest expense in the accompanying 2007 and 2006 consolidated statement of activities, respectively. The value of the obligation under this instrument was \$464,000 and \$468,000 at June 30, 2007 and 2006, 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>2007</u>	<u>2006</u>
	(In thousands)	
Charitable gift annuities	\$ 30,644	27,801
Charitable remainder annuity trusts	8,964	9,529
Charitable remainder unitrusts	38,602	34,544
Pooled income funds and life income contracts	1,622	1,644
Revocable trusts	9,175	15,001
Other irrevocable trusts	1,660	1,650
	<u>\$ 90,667</u>	<u>90,169</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 consolidated statements of activities as a change in the value of split-interest agreements in either unrestricted or temporarily restricted net assets depending on the donor's restrictions. The College uses a discount rate of 6.0% to calculate the present value of the estimated future payments to the donor or beneficiary of the split interest agreements.

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**(8) Postretirement Healthcare Benefits**

In addition to providing the retirement benefits, the College provides healthcare 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 healthcare benefit costs for the fiscal years ended June 30, 2007 and 2006 include the following components:

	<b>2007</b>	<b>2006</b>
	(In thousands)	
Service cost of benefits earned	\$ 344	303
Interest cost on accumulated postretirement healthcare benefit obligation	485	394
Amortization of prior service cost	(84)	(84)
Amortization of unrecognized net loss	182	212
Net periodic postretirement healthcare benefit cost	\$ 927	825

The funded status of postretirement healthcare benefit costs is measured as the difference between plan assets at fair value and the benefit obligation in the consolidated balance sheet. The College has no assets specifically designated for its postretirement healthcare benefit costs, and as such, the funded status equals the benefit obligation. 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:

	<b>2007</b>	<b>2006</b>
	(In thousands)	
Change in benefit obligation:		
Benefit obligation at beginning of year	\$ 8,219	8,137
Service cost	344	303
Interest cost	485	394
Actuarial gain	(2,184)	(250)
Benefits paid	(315)	(365)
Benefit obligation at end of year	\$ 6,549	8,219
Change in postretirement benefits recognized as cumulative effect of change in accounting principle:		
Prior service costs	(1,010)	—
Net loss	1,370	—
Change in postretirement benefits	\$ 360	—

The College changed its method of accounting for postretirement benefits payable in fiscal year 2007. In September 2006, the Financial Accounting Standards Board (FASB) issued Statement No. 158 (FAS 158), *Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans*. Under FAS 158, the

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College is required to recognize the funded status of the plan in the consolidated balance sheet and recognize delayed items such as prior service costs and net gains or losses directly to unrestricted net assets. Pursuant to FAS 158, the College recognized a cumulative effect of change in accounting principle of approximately \$360,000 to unrestricted net assets for previously unrecognized prior service costs and net loss on postretirement benefits. The estimated net actuarial loss and prior service cost for the postretirement benefit plan that will be amortized from unrestricted net assets into net periodic benefit cost during the 2008 fiscal year are \$44,721 and (\$84,176), respectively.

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

	<u>2007</u>	<u>2006</u>
Measurement date:	June 30	June 30
Weighted average discount rate	6.10%	5.00%
Medical trend rate for premiums	11.00%	11.00%

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:

	<u>2007</u>	<u>2006</u>
	(In thousands)	
Effect on postretirement benefit obligation	\$ 307	609
Effect on service and interest cost components	57	84

The projected postretirement benefit payments for each of the five fiscal years subsequent to June 30, 2007 are as follows: \$438,133 in 2008; \$460,035 in 2009; \$489,182 in 2010; \$479,787 in 2011 and \$507,146 in 2012. Projected aggregate postretirement benefit payments for the five-year period ending in 2017 are \$2,712,731.

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**(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:

	<b>2007</b>	<b>2006</b>
	(In thousands)	
Operating activities:		
Educational and general	\$ 8,528	8,333
Matured trusts	3,482	2,765
	\$ 12,010	11,098
Nonoperating activity:		
Acquisition of buildings and equipment	\$ 4,285	822

**(10) Temporarily Restricted Net Assets**

Temporarily restricted net assets are available for the following purposes:

	<b>2007</b>	<b>2006</b>
	(In thousands)	
Program restricted:		
Accumulated endowment gains and term endowments	\$ 149,309	125,856
Loans	3,533	3,033
Building	25,570	16,520
Annuities and split-interest agreements	25,807	19,899
Scholarships and other programs	8,476	9,713
	\$ 212,695	175,021

**(11) Permanently Restricted Net Assets**

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

	<b>2007</b>	<b>2006</b>
	(In thousands)	
Investment in perpetuity, the income from which is expendable	\$ 87,909	80,676
Deferred gifts that will provide proceeds for a permanent endowment	59	951
Revolving loan funds, the proceeds of which can only be used for student loans	1,246	1,215
	\$ 89,214	82,842

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#### (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 \$2,471,000 and \$2,337,000 for the years ended June 30, 2007 and 2006, respectively.

#### (13) Fund-Raising 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 fund-raising costs of approximately \$4,242,000 and \$3,658,000 for the years ended June 30, 2007 and 2006, respectively. For purposes of reporting fund-raising 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. The estimated asbestos removal cost at June 30, 2007 and 2006 is approximately \$2,895,000 and \$2,846,000, respectively. The net book value of the long-lived asset at June 30, 2007 and 2006 is approximately \$508,000 and \$832,000, respectively. The excess of the conditional asset retirement obligation over the net book value of the long-lived asset at June 30, 2006 of approximately \$2,014,000 has been reported as a cumulative effect of a change in accounting principle.

#### (16) Wheaton Christian Grammar School

On March 19, 2007, the College entered into a revocable contract for the purchase of real estate adjacent to the College's existing property. Under the terms of the contract, the College agreed to buy the five-acre Wheaton Christian Grammar School (WCGS) property for a sum of \$8.0 million, with the closing for the purchase scheduled for March 19, 2009. The College has deposited \$100,000 in earnest money into an interest-bearing escrow account, which will be applied to the purchase price at closing. WCGS retains the right to revoke the contract in writing any time before the closing date should it determine that the purchase would be detrimental to its mission, goals, or purpose. WCGS also retains the right to lease back

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the property for up to two years without a lease payment and for a third year at a predetermined rental amount. The College retains the right to revoke the contract in writing if WCGS cannot establish to the College's satisfaction that it has the financial capacity to complete its relocation project. As this contract is revocable and contingent upon future events, no activity has been recorded in the College's 2007 consolidated financial statements.