WHEATON COLLEGE

Consolidated Financial Statements and Schedules

June 30, 2016
(with summarized comparative information as of June 30, 2015)

(With Independent Auditors' Report Thereon)

WHEATON COLLEGE

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Wheaton College

Administration's Responsibility for the Consolidated Financial Statements

The Administration of Wheaton College (College) is responsible for the preparation and fair presentation of the consolidated financial statements. The consolidated financial statements, presented on pages 4 to 34, have been prepared in conformity with the U.S. generally accepted accounting principles and, as such, include amounts based on judgments and estimates of administration.

The consolidated financial statements have been audited by the independent accounting firm KPMG LLP (KPMG), which was given unrestricted access to all financial records and related data, including minutes of all meetings of the board of trustees. The College believes that all representations made to KPMG during the audit were valid and appropriate. KPMG's audit opinion is presented on pages 2 – 3.

The College maintains a system of internal controls over financial reporting, which is designed to provide reasonable assurance to the College's administration and board of trustees regarding the preparation of reliable published financial statements. Such controls are maintained by the establishment and communication of accounting and financial policies and procedures, by the selection and training of qualified personnel, and by the maintenance and establishment of controls surrounding the financial systems of the College. There are, however, inherent limitations in the effectiveness of any system of internal control, including the possibility of human error and the circumvention of controls. Accordingly, even an effective internal control system can provide only a reasonable assurance with respect to financial preparation.

The board of trustees of Wheaton College, through its Audit Committee comprising of trustees not employed by the College, is responsible for engaging the independent accountants and meeting with management, and the independent accountants to ensure that each is carrying out their responsibilities. The independent auditors have full and free access to the Audit Committee.

Dale A. Kemp
Vice President for Finance and Operations, Treasurer

Philip G. Ryken
President

KPMG LLP
Aon Center
Suite 5500
200 East Randolph Drive
Chicago, IL 60601-6436

Independent Auditors' Report

The Board of Trustees
Wheaton College:

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of Wheaton College (the College), which comprise the consolidated statement of financial position as of June 30, 2016, and the related consolidated statements of activities and cash flows for the year then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with U.S. generally accepted accounting principles; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated 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 consolidated 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 consolidated financial statements.

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

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Wheaton College as of June 30, 2016, and the changes in its net assets and its cash flows for the year then ended, in accordance with U.S. generally accepted accounting principles.

Report on Summarized Comparative Information

We have previously audited Wheaton College's 2015 consolidated financial statements, and we expressed an unmodified audit opinion on those audited consolidated financial statements in our report dated September 18, 2015. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2015 is consistent, in all material respects, with the audited consolidated financial statements from which it has been derived.

Other Matters

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The accompanying consolidating statement of financial position information and consolidating statement of activities information included in schedules 1 and 2 and the Administrator's Report are presented for purposes of additional analysis and are not a required part of the consolidated financial statements. The consolidating statement of financial position information and consolidating statement of activities 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 information 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. In our opinion, the information is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

The Administrator's Report has not been subjected to the auditing procedures applied in the audit of the consolidated financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

KPMG LLP

Chicago, Illinois
September 28, 2016

WHEATON COLLEGE

Consolidated Statements of Financial Position

June 30, 2016
(with summarized comparative information as of June 30, 2015)

(Dollars in thousands)

Assets		**2016**	**2015**
Current assets:			
Cash and cash equivalents	$	33,756	33,809
Accounts and other receivables, net		1,377	1,576
Inventories, net		730	654
Prepaid expenses and deposits		3,746	3,967
Total current assets		39,609	40,006
Noncurrent assets:			
Loans receivable from students, net		8,128	8,012
Investments:			
Endowments		388,033	409,613
Annuities and split-interest agreements		118,757	125,691
Other investments		35,610	32,898
Total investments		542,400	568,202
Legacies, bequests, and beneficial interest in trusts		4,411	3,183
Land, buildings, equipment, and books, net		190,515	185,944
Total noncurrent assets		745,454	765,341
Total assets	$	785,063	805,347
Liabilities and Net Assets			
Current liabilities:			
Accounts payable and accrued expenses	$	11,459	8,404
Deferred student tuition and fees and rentals		4,141	4,347
Deposits		918	1,042
Postretirement benefits obligation		412	418
Total current liabilities		16,930	14,211
Noncurrent liabilities:			
Bonds payable		42,000	42,000
Obligations under annuities, split-interest agreements, and other		85,599	90,891
Interest rate swap agreement		6,879	5,319
Asset retirement obligation		2,872	2,860
Refundable U.S. government grants for student loans		4,028	4,024
Postretirement benefits obligation		7,865	7,895
Total noncurrent liabilities		149,243	152,989
Total liabilities		166,173	167,200
Net assets:			
Unrestricted		258,233	266,599
Temporarily restricted		200,897	216,426
Permanently restricted		159,760	155,122
Total net assets		618,890	638,147
Total liabilities and net assets	$	785,063	805,347

See accompanying notes to consolidated financial statements.

WHEATON COLLEGE

Consolidated Statements of Activities

Year ended June 30, 2016
(with summarized comparative information for the year ended June 30, 2015)

(Dollars in thousands)

	Unrestricted	Temporarily restricted	Permanently restricted	Total 2016	Total 2015
Operating activities:					
Revenue:					
Tuition and fees	$ 88,888	—	—	88,888	85,546
Less scholarships and grants	(30,582)	—	—	(30,582)	(28,136)
Net tuition and fees	58,306	—	—	58,306	57,410
Annual fund gifts	6,131	—	—	6,131	5,775
Private gifts and grants for operations	1,821	11,998	—	13,819	16,208
Endowment payout	10,978	6,224	9	17,211	16,069
Auxiliary enterprises	21,101	—	—	21,101	21,183
Public service	3,028	—	—	3,028	3,700
Other	4,145	595	—	4,740	5,341
Net assets released from restrictions	12,218	(12,218)	—	—	—
Total operating revenue	117,728	6,599	9	124,336	125,686
Expenses:					
Compensation	73,970	—	—	73,970	69,988
Supplies, services, and other	18,114	—	—	18,114	16,657
Depreciation	9,998	—	—	9,998	10,131
Maintenance, utilities, and repairs	13,636	—	—	13,636	13,932
Interest	2,170	—	—	2,170	2,153
Insurance	1,171	—	—	1,171	2,760
Total operating expenses	119,059	—	—	119,059	115,621
Excess (deficiency) of operating revenue over expenses	(1,331)	6,599	9	5,277	10,065
Nonoperating activities:					
Private gifts and grants for investments	4,564	655	4,158	9,377	6,171
Investment (loss) gain, net	(2,846)	(7,845)	(481)	(11,172)	18,186
Appropriation of endowment assets for expenditure	(4,605)	(12,606)	—	(17,211)	(16,069)
Postretirement benefit related changes other than net periodic cost	30	—	—	30	(1,372)
Distributions from donor-advised funds for operations	(772)	—	—	(772)	(159)
Distributions from donor-advised funds to other charities	(1,469)	—	—	(1,469)	(564)
Change in value of interest rate swap agreement	(1,560)	—	—	(1,560)	(656)
Change in value of annuities and split-interest obligations	(1,403)	(1,306)	952	(1,757)	(3,669)
Net assets released from restrictions	1,026	(1,026)	—	—	—
Increase (decrease) in net assets from nonoperating activities, net	(7,035)	(22,128)	4,629	(24,534)	1,868
Increase (decrease) in net assets	(8,366)	(15,529)	4,638	(19,257)	11,933
Net assets at beginning of year	266,599	216,426	155,122	638,147	626,214
Net assets at end of year	$ 258,233	200,897	159,760	618,890	638,147

See accompanying notes to consolidated financial statements.

WHEATON COLLEGE

Consolidated Statements of Cash Flows

Year ended June 30, 2016
(with summarized comparative information for the year ended June 30, 2015)

(Dollars in thousands)

		2016	2015
Cash flows from operating activities:			
Increase (decrease) in net assets	$	(19,257)	11,933
Adjustments to reconcile increase (decrease) in net assets to net cash provided by operating activities:			
Depreciation		9,998	10,131
In-kind donations of investments		(3,345)	(2,882)
In-kind donations of equipment		(253)	(60)
Proceeds from sale of donated securities		518	266
Net realized and unrealized (gains) losses on investments		19,795	(9,208)
Change in value of annuities and split-interest obligations		1,757	3,669
Private gifts and grants restricted for long-term investments		(9,377)	(6,171)
Change in value of interest rate swap agreement		1,560	656
Changes in assets and liabilities:			
Accounts and other receivables, net		199	(8)
Inventories, prepaid expenses, and deposits		145	(570)
Accounts payable, accrued expenses, and asset retirement obligation		3,067	(590)
Deferred student tuition, fees, and rentals		(206)	(80)
Deposits		(124)	(196)
Postretirement benefits obligation		(36)	1,566
Net cash provided by operating activities		4,441	8,456
Cash flows from investing activities:			
Purchases and development of land, buildings, equipment, and books		(14,316)	(9,077)
Proceeds from sales of investments		166,631	143,808
Purchases of investments		(160,624)	(144,627)
Loans disbursed		(1,297)	(1,163)
Principal collected on loans		1,181	1,223
Net cash used in investing activities		(8,425)	(9,836)
Cash flows from financing activities:			
Increase in U.S. government grants for student loans		4	20
Net payments on obligations under split-interest agreements and liability to other trust beneficiaries		(7,049)	(7,445)
Net change in legacies, bequests, and beneficial interest in trusts		(1,228)	727
Net change in estate and trust receivables		3,340	466
Proceeds from sale of donated securities restricted for long-term purposes		2,827	2,616
Proceeds from private gifts and grants restricted for long-term investment		6,037	5,705
Net cash provided by financing activities		3,931	2,089
Net increase (decrease) in cash and cash equivalents		(53)	709
Cash and cash equivalents at beginning of year		33,809	33,100
Cash and cash equivalents at end of year	$	33,756	33,809
Supplemental disclosures of cash flow information:			
Cash paid for interest, exclusive of loss on interest rate swap agreement and net of amounts capitalized	$	2,170	2,153
Cash paid for taxes		40	94

See accompanying notes to consolidated financial statements.

(1) Organization

Wheaton College, incorporated under a special 1860 charter of the Illinois legislature as The Trustees of 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. Wheaton College serves Jesus Christ and advances His Kingdom through excellence in liberal arts and graduate programs that educate the whole person to build the church and benefit society worldwide.

The Billy Graham Center is a wholly owned tax-exempt subsidiary organized exclusively for religious and educational purposes. The Billy Graham Center exists to accelerate global evangelism. The Billy Graham Center envisions every believer everywhere making Jesus Christ known until he returns. The Billy Graham Center is committed to equip, inspire, and guide Christian leaders, churches, and organizations to fulfill their evangelism calling.

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 have been prepared on the accrual basis and 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 College maintains its accounts in accordance with the principles and practices of fund accounting. Under this method of accounting, resources for various purposes are classified into funds that are used in accordance with activities or objectives specified by donors. Separate accounts are maintained for each fund.

For reporting purposes, however, the College's consolidated financial statements follow the reporting requirements of the Financial Accounting Standards Board (FASB) and the American Institute of Certified Public Accountants (AICPA), *Audit and Accounting Guide for Not-for-Profit Entities*, which require that resources be classified based on the existence or absence of donor-imposed restrictions. This is accomplished by classification of fund net assets and activity into three classes of net assets:

- Unrestricted – net assets that are not subject to donor-imposed restrictions.
- Temporarily Restricted – net assets subject to donor-imposed restrictions that will be met either by actions of the College or the passage of time.

- Permanently Restricted – net assets 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 investment income and gains earned on related investments for general or specific purposes.

The consolidated financial statements include certain prior year summarized comparative information, which has been derived from the College's 2015 consolidated financial statements. Such information does not include all of the information required to constitute a presentation in conformity with U.S. generally accepted accounting principles. Accordingly, such information should be read in conjunction with the College's consolidated financial statements for the year ended June 30, 2015.

Unless specified otherwise all dollar amounts are presented in thousands.

(b) Operations

Operating results in the consolidated statements of activities reflect all transactions increasing or decreasing unrestricted net assets except that which is deemed by the administration to be long term in nature. Nonoperating activities include postretirement benefit changes other than net periodic benefit costs, the receipt, and expenditure of private gifts, grants, and bequests to the endowment, donor-advised funds, annuity and split-interest agreement activity, investment gains and losses less the endowment appropriation, the change in the fair value of the interest rate swap agreement, and temporarily restricted net assets that were released from donor restrictions. Donor-advised funds are transferred to operating activities when released by the College upon approval by the College's Charity Selection Committee.

(c) Revenue

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.

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 reclasses between applicable classes of net assets.

Private gifts, including unconditional pledges, are recognized in the period received. Private gifts and grants received for land, building, and equipment are reported as operating revenue. Private gifts and grants received for perpetual endowment funds, split-interest agreements, and trusts 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. Private gifts of assets other than cash are recorded at estimated fair value. Private gifts 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.

As of June 30, 2016 and 2015, the College had received communications from certain donors that they intended to give approximately $26,405 and $27,957, 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 2016 and 2015.

Private gifts received with donor-imposed restrictions that are met in the same year as the contributions are received are reported as unrestricted revenue. Private gifts of land, building, and equipment without donor-imposed restrictions concerning the use of such long-lived assets are reported as unrestricted revenue. Private gifts of cash or other assets to be used to acquire land, building, and equipment with such donor restrictions are reported as temporarily restricted revenue; 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 fund contributions received are accounted for as other investments and aggregated $8,011 and $6,052 as of June 30, 2016 and 2015, respectively. Donor-advised funds allow for the donor to recommend distributions to College programs or other charitable organizations. 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. The College’s policy is to distribute a maximum of 75%–90% of donor-advised fund contributions to unrelated third parties. Donor-advised fund contributions for the fiscal years ended June 30, 2016 and 2015 were approximately $4,386 and $328, respectively.

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

(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 with endowment assets or funds on deposit with bond trustees are classified as investments.

(e) Accounts and Other Receivables, Net

An allowance for loss in accounts and other receivables is established based upon a review of the collectibility of the underlying accounts. The allowance represents management’s estimate of the amount of receivable balances for which loss is probable. Actual losses are charged against the allowance. The allowance is increased through charges to expenses and recoveries previously charged to expense.

(f) Inventories, Net

Inventories, consisting primarily of books and related educational materials, are recorded at lower of cost or market, on a first-in, first-out basis. The College has an inventory valuation allowance to account for obsolete inventory items of approximately $25 and $222 as of June 30, 2016 and 2015, respectively.

(g) Deferred Financing Costs

Deferred financing costs represent issuance costs for outstanding long-term debt. Deferred financing costs are being amortized over the term of the underlying bank liquidity facility and are included in prepaid expenses and deposits in the consolidated statements of financial position.

(h) Loans Receivable from Students, Net

An allowance for loss in student loans receivable is established based upon a review of the collectibility of the underlying student loans. The allowance represents management's estimate of the amount of student loan balances for which loss is probable. Actual losses are charged against the allowance. The allowance is increased through charges to expense and recoveries of loans previously charged to expense.

(i) Endowments

Giving consideration to the Illinois Uniform Prudent Management of Institutional Funds Act (UPMIFA), the College classifies as permanently restricted net assets the original value of gifts donated to the permanent endowment; the original value of subsequent gifts to the permanent endowment; and accumulations to the permanent endowment made in accordance with the direction of the applicable donor-gift instrument. Investment returns in excess of spending authority requirements are classified in temporarily restricted net assets.

Accounting Standards Codification (ASC) Topic 958, *Not-for Profit-Entities,* provides guidance on the net asset classification of donor-restricted "true" endowment funds subject to UPMIFA. From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level the College must retain as a fund of perpetual duration. These deficiencies resulted from unfavorable market fluctuations that occurred shortly after the investment of new permanently restricted contributions and continued appropriation for certain programs that were deemed prudent by the Board of Trustees. Total deficiencies of the fair value of assets associated with individual donor-restricted endowment funds below the level the College must retain as a fund of perpetual duration were approximately $2,091 and $835 as of June 30, 2016 and 2015, respectively. Subsequent gains that restore the fair value of the assets of the endowment fund to the required level will be classified as an increase in unrestricted net assets. As of June 30, 2016, subsequent losses that decreased the fair value of the assets of the endowment fund amounted to $1,256.

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 organization must hold in perpetuity or for a donor-specified period(s) as well as quasi-endowment 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 in excess of various indices chosen by the College to measure investment performance while assuming a commensurate level of risk. 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.

The College has established an endowment spending policy designed to stabilize annual spending levels and preserve the real value of the endowment over time. The endowment spending rate is calculated as a weighted average formula: seventy (70%) of prior year's spending amount, adjusted for inflation, and thirty percent (30%) is based on 4.5% of the previous year's average market value of the fund. In addition, the spending amount may be increased temporarily to maintain nominal spending amounts in the event of a sharp decline in the market value and it may be decreased temporarily to offset unsustainable increases in the market value. The actual total return and return designated for current operations is classified as a nonoperating income or expense in the consolidated statements of activities.

(j) Investments

Investments are reported at fair value in accordance with ASC Topic 820, *Fair Value Measurement*. 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 statements of financial position and the consolidated statements of activities.

(k) 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, communicated, and the proceeds are clearly measurable.

(Dollars in thousands)

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 fair value of the trusts, estimated as the present value of the expected future cash flows from the trusts, is recognized as an asset in the accompanying consolidated financial statements.

(l) Land, Buildings, Equipment, and Books, Net

Land, buildings, equipment, and books are stated at cost at date of acquisition or at fair value at date of gift. Buildings, equipment, and books 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	12–50 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.

The College has pieces of art and artifacts, various literary collections, original manuscripts, private papers, and rare books of several authors. Donations and purchases of art, rare books, and other tangible artifacts exceeding the capitalization threshold are capitalized on the consolidated statements of financial position of the College when an independent appraisal has been provided or a fair market value can readily be determined.

All legal obligations, including those under the doctrine of promissory estoppel, associated with the retirement of tangible long-lived assets are recognized when incurred using management's best estimate of fair value. Such activity is recorded as an asset retirement obligation within the consolidated statements of financial position.

(m) Obligations under Annuities and 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 utilizing the Annuity 2000 mortality table for contracts issued through 2014 and the 2012 Individual Annuity Reserving mortality table for contracts issued in 2015 and later. A discount rate of 6% is utilized for contracts issued prior to January 1, 2004, 5.5% for contracts issued subsequent to January 1, 2004, and 4.0% for contracts issued subsequent to January 1, 2012. The discount rate remains consistent throughout the term of the agreement. The present value of the aggregate liability for all other split-interest agreements and income payable is computed by the College utilizing the life expectancies in Internal Revenue Service Publication 590 and a discount rate of 5.5%.

(n) Interest Rate Swap Agreement

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 statements of financial position. The fair value of this swap agreement is the estimated amount that the College would have to pay or receive to terminate the agreement as of the consolidated statement of financial position date, taking into account current interest rates and the current creditworthiness of the swap counterparty.

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.

(o) Asset Retirement Obligation

Asset retirement obligations arise primarily from regulations that specify how to dispose of asbestos if facilities are demolished or undergo major renovations or repairs. The obligation to remove asbestos was estimated using site-specific surveys where available and a per-square-foot estimate where surveys were unavailable.

(p) Refundable U.S. Government Grants for Student Loans

Funds provided by the U.S. government under the Federal Perkins Student Loan Program are loaned to qualified students. Receipts of principal and interest payments are utilized to finance future loans to students. Funds provided by the U.S. government are ultimately refundable to the government and, therefore, are recorded as a liability in the consolidated statements of financial position.

(q) 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 recorded a provision for unrelated business income tax in the amounts of approximately $89 in 2016 and $96 in 2015.

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. As of June 30, 2016, the Trust Company has no deferred tax assets or liabilities.

The College has no uncertain tax provisions, which the College considers to be material. The College is subject to audits by taxing jurisdictions; however, there are currently no audits for any tax periods in progress.

(r) 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 reporting period. Actual results could differ from those estimates.

(s) Fair Value of Financial Instruments

As described in note 6, *Investments*, and within other notes to the consolidated financial statements, the College accounts for certain financial instruments at fair value only at origination (nonrecurring measurements) and certain financial instruments as of the consolidated statement of financial position date (recurring measurements). Cash equivalents, accounts and other receivables, loans receivable from students, and refundable U.S. government grants for student loans are recorded at carrying value. The College classifies receivables as Level 2 within the fair value hierarchy as described in note 6.

(t) Recently Issued Accounting Pronouncements

In January 2016, the FASB issued Accounting Standards Update (ASU) No. 2016-01, *Financial Instruments – Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Liabilities*. This guidance eliminates the requirement to disclose the fair value of financial instruments measured at amortized cost for entities that are not public business entities. This guidance becomes effective for Wheaton College for fiscal years beginning after December 15, 2018, with early adoption permitted. Wheaton College adopted the provisions of ASU No. 2016-01 during fiscal year 2016.

(Dollars in thousands)

(u) Reclassifications

Certain reclassifications have been made to the 2015 notes to the consolidated financial statements to conform to 2016 presentation.

(3) Accounts and Other Receivables, Net

Accounts receivable at June 30, 2016 and 2015 consisted of the following:

	2016			2015
	Accounts receivable	Allowance for doubtful accounts	Accounts receivable, net	Accounts receivable, net
Student accounts	$ 933	(87)	846	990
U.S. government	182	—	182	248
All other	349	—	349	338
Total	$ 1,464	(87)	1,377	1,576

Allowance for doubtful accounts receivable rollforward:

	2016	2015
Beginning balance	$ (92)	(112)
Increases	(3)	(21)
Write-offs	8	41
Ending balance	$ (87)	(92)

(4) Loans Receivable from Students, Net

Loans receivable from students at June 30, 2016 and 2015 consisted of the following:

	2016			2015
	Loans receivable	Allowance for uncollectible accounts	Loans receivable, net	Loans receivable, net
Institutional student loans	$ 4,056	(39)	4,017	3,978
U.S. government student loans	4,111	—	4,111	4,034
	$ 8,167	(39)	8,128	8,012

(Dollars in thousands)

Allowance for doubtful loans receivable rollforward:

		2016	2015
Beginning balance	$	(80)	(135)
Increases		27	(27)
Write-offs		14	82
Ending balance	$	(39)	(80)

(5) Endowments

Changes in endowments for the year ended June 30, 2016 are as follows:

		Unrestricted	Temporarily restricted	Permanently restricted	Total
Endowments as of June 30, 2015	$	109,198	146,182	154,233	409,613
Interest and dividends		1,503	3,816	—	5,319
Realized gains (losses)		3,600	10,345	(482)	13,463
Unrealized losses		(8,365)	(23,959)	—	(32,324)
Transfers and distributions to		1,061	2,103	938	4,102
Contributions		—	—	5,071	5,071
Appropriation of endowment assets for expenditure		(4,604)	(12,607)	—	(17,211)
Endowments as of June 30, 2016	$	102,393	125,880	159,760	388,033

Changes in endowments for the year ended June 30, 2015 are as follows:

		Unrestricted	Temporarily restricted	Permanently restricted	Total
Endowments as of July 1, 2014	$	108,341	146,912	149,774	405,027
Interest and dividends		1,620	4,121	—	5,741
Realized gains (losses)		33,695	(11,027)	130	22,798
Unrealized gains (losses)		(31,667)	16,837	—	(14,830)
Transfers and distributions to		1,533	1,084	377	2,994
Contributions		—	—	3,952	3,952
Appropriation of endowment assets for expenditure		(4,324)	(11,745)	—	(16,069)
Endowments as of June 30, 2015	$	109,198	146,182	154,233	409,613

(Dollars in thousands)

Endowment assets consist of the following at June 30, 2016:

		Unrestricted	Temporarily restricted	Permanently restricted	Total
Donor-restricted endowments	$	(2,093)	125,880	159,760	283,547
Board-designated quasi-endowments		104,486	—	—	104,486
Total endowments	$	102,393	125,880	159,760	388,033

Endowment assets consist of the following at June 30, 2015:

		Unrestricted	Temporarily restricted	Permanently restricted	Total
Donor-restricted endowments	$	(835)	146,182	154,233	299,580
Board-designated quasi-endowments		110,033	—	—	110,033
Total endowments	$	109,198	146,182	154,233	409,613

(6) Investments

The fair value of investments (including endowments) held by the College as of June 30, 2016 and 2015 consisted of the following:

		2016	2015
Cash and short-term investments	$	38,664	83,086
Fixed income		155,334	139,431
Equity		277,336	299,391
Hedge funds and private equity		59,681	34,504
Other asset classes		11,385	11,790
Total investments	$	542,400	568,202

(a) Investment Objective

The overall investment objective of the College is to invest its assets in a prudent manner that will achieve a long-term rate of return sufficient to support the educational objectives of the College through the production of income, provide a reserve of institutional resources, and generate income and capital appreciation for beneficiaries of deferred gifts. The College diversifies its investments among various asset classes incorporating multiple strategies and external investment managers. The Investment Committee of the Board of Trustees exercises oversight over all of the College's investment activities.

(b) Investment Strategy

- Cash and short-term investments include cash equivalents and fixed-income investments, with maturities of less than one year. The majority of these investments are held in money market accounts. The carrying amount reported in the consolidated statements of financial position for cash and cash equivalents approximates fair value because of the short maturities of these instruments.
- Fixed-income investments provide current income and reduce the volatility of the investment portfolio. The majority of these investments are held in U.S. Treasuries, corporate bonds, municipal bonds, international government bonds, and mortgage-backed securities. The College’s fixed-income performance target is the Barclays Aggregate Index. The fair values of these investments are estimated based on using various techniques, which may consider recently executed transactions in securities of the issuer or comparable issuers, market price quotations (when observable), bond spreads, and fundamental data relating to the issuer.
- Equity investments are expected to provide long-term returns in excess of inflation. Equity investments include domestic and international stocks. The College’s performance target is the S&P 500 Index. The fair values of these investments are measured using quoted market prices at the reporting date. Market prices are 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.
- Hedge funds and private equity are expected to provide long-term capital appreciation and income comparable to equity investments with volatility comparable to fixed-income investments. The College’s performance target is the HFRI Fund of Funds Composite Index. Hedge funds and private equity are measured using NAV as a practical expedient in estimating fair value; however, it is possible that the redemption rights of certain investments may be restricted by the funds in the future in accordance with the underlying fund agreements. Changes in market conditions and the economic environment may impact the NAV, and consequently, the fair value of the College’s interests. The investment contractual agreements may limit the College’s ability to initiate redemptions due to notice periods, lockup, and gating provisions.

  The College’s investments in hedge funds and private equity involve managers who have the ability to invest in various asset classes at their discretion, including the ability to invest in long and short positions. The investments generally hold securities or other financial instruments for which a ready market exists and may include stocks, bonds, put or call options, swaps, currency hedges, and other instruments, and are valued accordingly. Such valuations are determined by the hedge funds’ managers and/or third-party administrators. The fair values of the College’s interests in shares or units of these investments, because of liquidity and capital commitment terms that vary depending on the specific fund or partnership agreement, may differ from the fair value of the funds’ underlying net assets. The College’s interests in the hedge funds and private equity investments are reported at the NAV by the fund managers, which is used as a practical expedient to estimate the fair value of the College’s interest therein, unless it is probable that all or a portion of the College’s investment in a hedge fund will be sold for an amount different from NAV. As of June 30, 2016 and 2015, the College had no plans or intentions to sell investments at amounts different from NAV.

(Dollars in thousands)

- Other asset class investments consist of real estate holdings, employee residential mortgages, life insurance policies, partnership investments, and trust and notes receivables. These assets are held for strategic purposes supporting the educational objectives of the College. The fair values of these investments are based on periodic independent appraisals and/or the present value of the expected future cash flows or cash surrender values. As part of the College's effort to attract and retain excellent faculty and senior staff, the College provides home mortgage financing assistance. These notes receivable are included within the College's real estate investments.

(c) Return on Investments

Return on investments for the years ended June 30, 2016 and 2015 consisted of the following:

		2016	2015
Return on investments – endowments:			
Interest and dividends	$	5,319	5,741
Realized gain on investments, net		13,463	22,798
Unrealized loss on investments, net		(32,324)	(14,830)
Endowment investment return		(13,542)	13,709
Return on investments – annuities and split-interest agreements:			
Interest and dividends		2,771	2,801
Realized gain on investments, net		1,423	5,230
Unrealized loss on investments, net		(2,445)	(4,643)
Annuities and split-interest agreements investment return		1,749	3,388
Return on investments – other:			
Interest and dividends		733	622
Realized gain on investments, net		1,081	1,163
Unrealized loss on investments, net		(993)	(510)
Other investment return		821	1,275
Total return on investments	$	(10,972)	18,372

(Dollars in thousands)

The following is a reconciliation of investment return to the amounts reported in the consolidated statements of activities:

		2016	2015
Other operating revenue-investment income	$	200	186
Investment (loss) gain		(11,172)	18,186
Total investment income	$	(10,972)	18,372

Investment return is reported net of management fees and certain administrative expenses of the College. Fees and expenses for marketable securities approximated 0.5% of the average monthly investment balance for the years ended June 30, 2016 and 2015. Fees on the College's hedge fund and other alternative investments were approximately 2.9% and 3.5% for the years ended June 30, 2016 and 2015, respectively.

Unfunded commitments equaled $2,591 at June 30, 2016.

(d) Fair Value of Assets

Fair value is defined as the price that the College would receive upon selling an asset in an orderly transaction between market participants.

The College has adopted the fair value hierarchy as presented by ASC Subtopic 820-10, *Fair Value Measurement – Overall*. The hierarchy prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to measurements involving significant unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy are as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the College has the ability to access at the measurement date. Level 1 assets include cash and cash equivalents, money market funds, common stocks, preferred stocks, quoted mutual funds, and U.S. Treasury securities.
- Level 2 inputs are observable inputs other than Level 1 prices such as quoted prices for similar assets or liabilities, quoted prices in markets that are not active, or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities. Level 2 assets include corporate bonds and government and agency securities. The College classifies its bonds payable and interest rate swap agreement as Level 2 liabilities.
- Level 3 inputs are unobservable inputs where there is little or no market data and requires the reporting entity to develop its own assumptions and includes notes receivable, real estate holdings, employee residential mortgages, partnership investments, and life insurance policies.

(Dollars in thousands)

The College classifies its obligations under annuities and split-interest agreements, asset retirement obligations, and refundable U.S. government grants for student loans as Level 3 liabilities.

The level in the fair value hierarchy within which a fair value measurement in its entirety falls is based on the lowest level input that is significant to the fair value measurement in its entirety.

The following table presents fair value information at June 30, 2016 of the College's assets:

	Level 1	Level 2	Level 3	Total	Redemption or liquidation	Business days notice
Recurring fair value measurements:						
Cash and short-term investments	$ 38,664	—	—	38,664	Daily	1
Fixed income:						
U.S. Treasuries	58,951	—	—	58,951	Daily monthly	5
Bonds	—	96,383	—	96,383	Daily monthly	5
Equities	277,336	—	—	277,336	Daily monthly	5
Other asset classes:						
Trust receivables and other	—	—	7,318	7,318	Illiquid	Not applicable
Employee mortgages	—	—	2,819	2,819	Illiquid	Not applicable
Life insurance policies	—	—	1,248	1,248	Illiquid	Not applicable
Subtotal investments	374,951	96,383	11,385	482,719		
Investments measured at NAV				59,681		
Subtotal investments	374,951	96,383	11,385	542,400		
Legacies, bequests, and trusts	—	—	4,411	4,411	Illiquid	Not applicable
Total	$ 374,951	96,383	15,796	546,811		

(Dollars in thousands)

The following table presents fair value information at June 30, 2015 of the College's assets:

		Level 1	Level 2	Level 3	Total	Redemption or liquidation	Business days notice
Recurring fair value measurements:							
Cash and short-term investments	$	83,086	—	—	83,086	Daily	1
Fixed income:							
U.S. Treasuries		22,808	—	—	22,808	Daily monthly	5
Bonds		—	102,703	—	102,703	Daily monthly	5
Equities		299,391	—	—	299,391	Daily monthly	5
Other asset classes:							
Trust receivables and other		—	—	7,596	7,596	Illiquid	Not applicable
Employee mortgages		—	—	2,994	2,994	Illiquid	Not applicable
Life insurance policies		—	—	1,200	1,200	Illiquid	Not applicable
Subtotal investments		405,285	102,703	11,790	519,778		
Investments measured at NAV					48,424		
Subtotal investments		405,285	102,703	11,790	568,202		
Legacies, bequests, and trusts		—	—	3,183	3,183	Illiquid	Not applicable
Total	$	405,285	102,703	14,973	571,385		

(Dollars in thousands)

The following table presents the changes to the reported amounts of assets measured at fair value using unobservable inputs (Level 3) for the year ended June 30, 2016:

	Other asset classes				
	Trust rec. and other	**Employee mortgages**	**Life ins. policies**	**Legacies, bequests, and trusts**	**Total**
Beginning balance July 1, 2015 $	7,596	2,994	1,200	3,183	14,973
Total gains or losses	515	7	50	1,228	1,800
Purchases	—	275	111	—	386
Issuances	—	—	—	—	—
Sales	(793)	(457)	(113)	—	(1,363)
Settlements	—	—	—	—	—
Ending balance June 30, 2016 $	7,318	2,819	1,248	4,411	15,796

The following table presents the changes to the reported amounts of assets measured at fair value using unobservable inputs (Level 3) for the year ended June 30, 2015:

	Other asset classes				
	Trust rec. and other	**Employee mortgages**	**Life ins. policies**	**Legacies, bequests, and trusts**	**Total**
Beginning balance July 1, 2014 $	8,196	2,863	1,113	3,910	16,082
Total gains or losses	(61)	216	37	(727)	(535)
Purchases	279	436	50	—	765
Issuances	—	—	—	—	—
Sales	(818)	(521)	—	—	(1,339)
Settlements	—	—	—	—	—
Ending balance June 30, 2015 $	7,596	2,994	1,200	3,183	14,973

The following table presents quantitative information about significant unobservable inputs used in Level 3 fair value measurements for the College's Level 3 assets.

Asset		**Fair value June 30, 2016**	**Fair value June 30, 2015**	**Valuation technique**	**Unobservable inputs**	**Range**
Trust receivables and other	$	7,318	7,596	Estimated NPV	Discount rate of 5.5%	NA
Legacies, bequests, and trusts		4,411	3,183	Estimated NPV	Discount rate of 5.5%	NA
Employee mortgages		2,819	2,994	Undiscounted cash flows	NA	NA
Life insurance policies		1,248	1,200	Cash surrender value	NA	NA
Total level 3 assets	$	15,796	14,973			

(Dollars in thousands)

During fiscal year 2016, there were no transfers between asset Levels 1 and 2 or between asset Levels 2 and 3.

(7) Land, Buildings, Equipment, and Books, Net

Land, building, equipment, and books at June 30, 2016 and 2015 consisted of the following:

		2016	2015
Land and improvements	$	27,155	27,051
Buildings and improvements		256,422	254,850
Equipment		35,146	32,895
Library books		18,112	17,421
Leasehold improvements		2,499	1,725
Subtotal		339,334	333,942
Accumulated depreciation		(160,296)	(150,807)
Subtotal		179,038	183,135
Projects and renewals:			
Construction in progress		11,477	2,809
Total land, buildings, equipment, and books, net	$	190,515	185,944

(8) Bonds Payable

A summary of bonds payable at June 30, 2016 and 2015 is as follows:

		2016	2015
Taxable bonds, Series 2004, 6.09% fixed rate, interest payable semiannually beginning on October 1, 2004, principal due October 1, 2034	$	25,000	25,000
Taxable bonds, Series 2005A, variable rate, effective interest rate of 0.279% and 0.172% in 2016 and 2015, respectively, interest payable semiannually beginning on April 1, 2006, principal due October 1, 2035		17,000	17,000
Total bonds payable	$	42,000	42,000

On May 1, 2004, the College entered into a Bond Trust Indenture (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. Interest is payable semiannually 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.

On September 1, 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 (the Bonds), in the aggregate principal amount of $17,000 for the same purpose as stated above. Interest is payable semiannually at a variable rate reset weekly by a remarketing agent. The effective annual interest rate was 0.279% and 0.172% in 2016 and 2015, respectively. The indebtedness is secured solely by a pledge of the full faith and credit of the College. The College, the Bond Trustee, and BMO Harris Bank, N.A. (BMO) entered into a renewable Standby Bond Purchase Agreement (the Agreement), which expires on December 18, 2019. Under the terms of the Agreement, BMO agrees to purchase the Bonds (liquidity advance) in the event that the Bonds are not remarketed or that the remarketing proceeds are not available.

Should a liquidity advance occur, BMO will attempt to remarket the Bonds. The College agrees to repay to BMO any liquidity advance not satisfied by the sale of the Bonds. If any liquidity advance remains unpaid after a contractual period, such amounts are converted to a term loan. Payments of outstanding principal and interest under the term loan are due and payable in twelve equal quarterly installments commencing on the term loan date. The base interest rate under the Agreement for any put bonds is based on the prevailing LIBOR. In the event of default, the interest rate equals the base rate plus 4.00%. Interest is payable monthly in arrears on the first business day of the calendar month.

As of June 30, 2016 and 2015, the College has set aside $7,400 and $7,213, respectively, as a sinking fund to extinguish the Indenture and Bonds and classified these as other investments.

(9) Obligations under Annuities, Split-Interest Agreements, and Other

(a) Charitable Remainder Trusts

Charitable remainder trusts are arrangements in which the donor establishes and funds a trust with specific distributions to be made to designated 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.

(b) 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. 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.

(c) Pooled Income Fund

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.

(d) 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 revocable in nature, with the donor retaining control over investment decisions or delegating responsibility to the College or Trust Company. The assets of these trusts are recorded in the College's consolidated financial statements as investments and a corresponding amount is recorded as a liability as obligations under annuities.

(e) Obligations to Other Trust Beneficiaries

In connection with the College's charitable remainder trusts, the College reports obligations to trust beneficiaries other than the trust, which established the charitable remainder trust. These liabilities are recorded at the present value of the estimated future payments to the other beneficiaries at a discount of 5.5% and are limited to the net assets of the respective trust agreement.

(Continued)

(Dollars in thousands)

(f) Summary of the Investments and Obligations under Annuities and Split-Interest Agreements

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

		2016	2015
Annuities and split-interest agreements investment assets	$	118,757	125,691
Less related liabilities:			
Charitable gift annuities		27,204	28,343
Charitable remainder annuity trusts		5,576	5,836
Charitable remainder unitrusts		36,750	40,077
Pooled income funds and life income contracts		1,246	1,245
Revocable trusts		8,539	8,588
Other irrevocable trusts		582	768
Liability to other trust beneficiaries		5,702	6,034
Total liabilities		85,599	90,891
Net investments under annuities and split-interest agreements	$	33,158	34,800

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 annuities and split-interest agreements in either unrestricted or temporarily restricted net assets depending on the donor's restrictions. The College used a discount rate of 5.5% to calculate the present value of the estimated future payments to the donor or beneficiary for split-interest agreements entered into during the years ended June 30, 2016 and 2015.

(10) Interest Rate Swap Agreement

The College entered into an interest rate swap agreement with Wells Fargo Bank N.A. 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, 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 approximately $568 and $585, and has been recorded as an addition to interest expense in the accompanying 2016 and 2015 consolidated statements of activities, respectively. The fair value of the obligation under this instrument was $6,879 and $5,319 at June 30, 2016 and 2015, respectively. As this swap agreement nears its expiration date, the liability associated with this agreement will be reduced to zero.

(Dollars in thousands)

(11) Postretirement Benefit Obligation and Costs

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 and postretirement healthcare cost other than net periodic benefit costs for the fiscal years ended June 30, 2016 and 2015 include the following components:

		2016	2015
Amounts recognized in operating activities:			
Service cost of benefits earned	$	330	250
Interest cost on accumulated postretirement healthcare benefit obligation		365	359
Amortization of prior service cost		(81)	(93)
Net periodic postretirement healthcare benefit costs		614	516
Amounts recognized in nonoperating activities:			
Net (gain) loss		(111)	1,279
Amortization of prior service cost		81	93
Postretirement benefit related changes other than net periodic benefit costs		(30)	1,372
Total change in postretirement benefits excluding benefits paid	$	584	1,888

The amounts recognized in the accompanying consolidated statements of financial position for the College's defined-benefit postretirement healthcare and life insurance benefit plans are as follows as of June 30, 2016 and 2015:

		2016	2015
Change in postretirement benefit obligation:			
Postretirement benefit obligation at beginning of year	$	8,313	6,747
Service cost		330	250
Interest cost		365	359
Actuarial (gain) loss		(356)	1,279
Benefits paid		(375)	(322)
Postretirement benefit obligation at end of year (current and noncurrent)	$	8,277	8,313

(Dollars in thousands)

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 statements of financial position. The College has no assets specifically designated for its postretirement healthcare benefit costs, and as such, the funded status equals the benefit obligation.

The College recognizes the funded status of the plan in the consolidated statements of financial position and recognizes delayed items such as prior service costs and net gains or losses directly to unrestricted net assets. Prior service costs and the net gains and losses on postretirement benefits are recognized as nonoperating activities. The estimated prior service cost for the postretirement benefit plan that will be amortized from unrestricted net assets into net periodic benefit cost during the 2016 fiscal year is approximately $93. There are no actuarial gains or losses to be amortized from unrestricted net assets into net periodic benefit cost in 2016.

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

	2016	2015
Measurement date	June 30	June 30
Weighted average discount rate	3.75%	4.50%
Medical trend rate for premiums	7.00	7.25

The medical trend rate is assumed to decline gradually over the next ten years to 5% and remain at 5% thereafter. A 1% point increase in assumed medical trend rates would have the following effects:

	2016	2015
Effect on postretirement benefit obligation	$ 274	324
Effect on service and interest cost components	44	44

The projected postretirement benefit payments for each of the five fiscal years ending June 30 and thereafter are as follows:

	Postretirement benefits
2017	$ 412
2018	439
2019	439
2020	404
2021	436
Years 2022–2026	2,380

(Dollars in thousands)

(12) Net Assets Released from Restrictions

Temporarily restricted 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:

		2016	2015
Operating activities:			
Educational and general	$	10,891	9,361
Matured trusts		1,327	1,857
	$	12,218	11,218
Nonoperating activity:			
Building improvements and equipment acquisition	$	1,026	526

(13) Temporarily Restricted Net Assets

Temporarily restricted net assets are available for the following purposes at June 30:

		2016	2015
Program restricted:			
Endowment gain accumulation and term endowments	$	125,880	146,182
Loan funds		4,815	4,656
Building funds		26,058	21,127
Annuities and split-interest agreements		28,990	31,148
Scholarships and other program funds		15,154	13,313
Total temporarily restricted net assets	$	200,897	216,426

(14) Permanently Restricted Net Assets

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

		2016	2015
Investment in perpetuity, the income from which is expendable	$	157,056	151,895
Deferred gifts that will provide proceeds for a permanent endowment		1,793	1,430
Revolving loan funds, the proceeds of which are for student loans		911	1,797
	$	159,760	155,122

(Dollars in thousands)

(15) Functional Classification of Expenses

Expenses by functional classification for the years ended June 30, 2016 and 2015 are as follows:

		2016	2015
Instruction	$	41,564	40,200
Academic support		14,528	12,930
Student services		20,772	21,035
Institutional support		22,256	21,304
Public services		3,741	4,045
Auxiliary enterprises		16,198	16,107
Total operating expenses	$	119,059	115,621

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 $4,303 and $4,150 for the years ended June 30, 2016 and 2015, respectively. For purposes of reporting fund-raising expenses, the College only includes those costs incurred by the Advancement Office.

(16) Retirement and Deferred Compensation Plans

Retirement benefits are provided for eligible academic and administrative staff through a qualified 403(b) retirement plan (the Plan). Under this arrangement, the College and plan participants make annual contributions to the Plan 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 $3,480 and $3,076 for the years ended June 30, 2016 and 2015, respectively. Amounts accrued and immured under this plan totaled approximately $161,878 and $162,584 at June 30, 2016 and 2015, respectively, and are not included in these financial statements as they belong to the plan participants.

The College also has deferred compensation plans for certain employees. The College contributed approximately $50 and $52 to the plans for the years ended June 30, 2016 and 2015, respectively. Amounts payable under the plans totaled approximately $607 and $557 at June 30, 2016 and 2015, respectively, and are included in accounts payable and accrued expenses in the consolidated statements of financial position.

(17) 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 the administration, the ultimate disposition of matters presently known will not have a material effect on the College's financial position.

(18) Subsequent Events

In connection with the preparation of the consolidated financial statements and in accordance with ASC Topic 855, *Subsequent Events*, the College evaluated subsequent events after the consolidated statement of financial position date of June 30, 2016 through September, 28, 2016, which was the date the financial statements were available to be issued and determined there were no other items to disclose.

Schedule 1

WHEATON COLLEGE

Consolidating Statement of Financial Position Information

June 30, 2016

(Dollars in thousands)

Assets		**Wheaton College**	**Billy Graham Center**	**Wheaton College Trust Company**	**Eliminations**	**Consolidated**
Current assets:						
Cash and cash equivalents	$	32,450	1,306	—	—	33,756
Accounts and other receivables, net		1,374	—	3	—	1,377
Inventories, net		730	—	—	—	730
Prepaid expenses and deposits		3,714	—	32	—	3,746
Total current assets		38,268	1,306	35	—	39,609
Noncurrent assets:						
Loans receivable from students, net		8,128	—	—	—	8,128
Investments:						
Endowments		388,033	—	—	—	388,033
Annuities and split-interest agreements		118,757	—	—	—	118,757
Other investments		35,525	—	3,341	(3,256)	35,610
Total investments		542,315	—	3,341	(3,256)	542,400
Legacies, bequests, and beneficial interest in trusts		4,411	—	—	—	4,411
Land, buildings, equipment, and books, net		190,515	—	—	—	190,515
Total noncurrent assets		745,369	—	3,341	(3,256)	745,454
Total assets	$	783,637	1,306	3,376	(3,256)	785,063
Liabilities and Net Assets						
Current liabilities:						
Accounts payable and accrued expenses	$	11,294	45	120	—	11,459
Deferred student tuition fees and rentals		4,141	—	—	—	4,141
Deposits		918	—	—	—	918
Postretirement benefits obligation		412	—	—	—	412
Total current liabilities		16,765	45	120	—	16,930
Noncurrent liabilities:						
Bonds payable		42,000	—	—	—	42,000
Obligations under annuities, split-interest agreements, and other		85,599	—	—	—	85,599
Interest rate swap agreement		6,879	—	—	—	6,879
Asset retirement obligation		2,872	—	—	—	2,872
Refundable U.S. government grants for student loans		4,028	—	—	—	4,028
Postretirement benefits obligation		7,865	—	—	—	7,865
Total noncurrent liabilities		149,243	—	—	—	149,243
Total liabilities		166,008	45	120	—	166,173
Net assets:						
Unrestricted		258,307	(74)	3,256	(3,256)	258,233
Temporarily restricted		199,562	1,335	—	—	200,897
Permanently restricted		159,760	—	—	—	159,760
Total net assets		617,629	1,261	3,256	(3,256)	618,890
Total liabilities and net assets	$	783,637	1,306	3,376	(3,256)	785,063

See accompanying independent auditors' report.

Schedule 2

WHEATON COLLEGE

Consolidating Statement of Activities Information

Year ended June 30, 2016

(Dollars in thousands)

	Wheaton College	Billy Graham Center	Wheaton College Trust Company	Eliminations	Consolidated
Operating activities:					
Revenue:					
Tuition and fees	$ 88,888	—	—	—	88,888
Less scholarships and grants	(30,494)	(88)	—	—	(30,582)
Net tuition and fees	58,394	(88)	—	—	58,306
Annual fund gifts	6,131	—	—	—	6,131
Private gifts and grants for operations	13,610	209	—	—	13,819
Endowment payout	16,111	1,100	—	—	17,211
Auxiliary enterprises	21,100	1	—	—	21,101
Public service	2,927	101	—	—	3,028
Other	5,089	243	863	(1,455)	4,740
Total operating revenue	123,362	1,566	863	(1,455)	124,336
Expenses:					
Compensation	72,911	1,059	639	(639)	73,970
Supplies, services, and other	18,060	351	201	(498)	18,114
Depreciation	9,998	—	—	—	9,998
Maintenance, utilities, and repair	13,592	44	—	—	13,636
Interest	2,170	—	—	—	2,170
Insurance	1,149	—	22	—	1,171
Total operating expenses	117,880	1,454	862	(1,137)	119,059
Excess (deficiency) of operating revenue over expenses	5,482	112	1	(318)	5,277
Nonoperating activities:					
Private gifts and grants	9,377	—	—	—	9,377
Investment gain, net	(11,495)	6	—	317	(11,172)
Appropriation of endowment assets for expenditure	(17,211)	—	—	—	(17,211)
Postretirement benefit related changes other than net periodic cost	30	—	—	—	30
Distributions from donor-advised funds for operations	(772)	—	—	—	(772)
Distributions from donor-advised funds to other charities	(1,469)	—	—	—	(1,469)
Change in value of interest rate swap agreement	(1,560)	—	—	—	(1,560)
Change in value of annuities and split-interest obligations	(1,765)	8	—	—	(1,757)
Increase in net assets from nonoperating activities	(24,865)	14	—	317	(24,534)
Other changes in net assets:					
Equity transfers among affiliates	335	(335)	—	—	—
Increase (decrease) in net assets	(19,048)	(209)	1	(1)	(19,257)
Net assets at beginning of year	636,677	1,470	3,255	(3,255)	638,147
Net assets at end of year	$ 617,629	1,261	3,256	(3,256)	618,890

See accompanying independent auditors' report.