



**WHEATON COLLEGE**

Consolidated Financial Statements and Schedules

June 30, 2017

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

(With Independent Auditors' Report Thereon)

# WHEATON COLLEGE

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### **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 33, 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 comprised 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 & Operations, Treasurer

Philip G. Ryken

President



KPMG LLP  
Aon Center  
Suite 5500  
200 E. Randolph Street  
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## 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, 2017, 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, 2017, 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 2016 consolidated financial statements, and we expressed an unmodified audit opinion on those consolidated financial statements in our report dated September 28, 2016. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2016 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, 2017

**WHEATON COLLEGE**

Consolidated Statements of Financial Position

June 30, 2017

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

(Dollars in thousands)

Assets	2017	2016
Current assets:		
Cash and cash equivalents	\$ 35,117	33,756
Accounts and other receivables, net	2,559	1,377
Inventories, net	868	730
Prepaid expenses and deposits	<u>3,875</u>	<u>3,553</u>
Total current assets	<u>42,419</u>	<u>39,416</u>
Noncurrent assets:		
Loans receivable from students, net	7,840	8,128
Investments:		
Endowments	446,376	388,033
Annuities and split-interest agreements	123,238	118,757
Other investments	<u>29,058</u>	<u>35,610</u>
Total investments	598,672	542,400
Legacies, bequests, and beneficial interest in trusts	3,652	4,411
Land, buildings, equipment, and books, net	<u>203,980</u>	<u>190,515</u>
Total noncurrent assets	<u>814,144</u>	<u>745,454</u>
Total assets	\$ <u><u>856,563</u></u>	\$ <u><u>784,870</u></u>
<b>Liabilities and Net Assets</b>		
Current liabilities:		
Accounts payable and accrued expenses	\$ 15,987	11,459
Deferred student tuition and fees and rentals	4,053	4,141
Deposits	980	918
Postretirement benefits obligation	<u>440</u>	<u>412</u>
Total current liabilities	<u>21,460</u>	<u>16,930</u>
Noncurrent liabilities:		
Bonds payable	41,862	41,807
Obligations under annuities, split-interest agreements, and other	90,837	85,599
Interest rate swap agreement	4,977	6,879
Asset retirement obligation	2,240	2,872
Refundable U.S. government grants for student loans	4,041	4,028
Postretirement benefits obligation	<u>8,141</u>	<u>7,865</u>
Total noncurrent liabilities	<u>152,098</u>	<u>149,050</u>
Total liabilities	<u>173,558</u>	<u>165,980</u>
Net assets:		
Unrestricted	274,471	258,233
Temporarily restricted	242,013	200,897
Permanently restricted	<u>166,521</u>	<u>159,760</u>
Total net assets	<u>683,005</u>	<u>618,890</u>
Total liabilities and net assets	\$ <u><u>856,563</u></u>	\$ <u><u>784,870</u></u>

See accompanying notes to consolidated financial statements.

**WHEATON COLLEGE**

Consolidated Statements of Activities

Year ended June 30, 2017

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

(Dollars in thousands)

	<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Permanently restricted</u>	<u>Total</u>	
				<u>2017</u>	<u>2016</u>
Operating activities:					
Revenue:					
Tuition and fees	\$ 89,827	—	—	89,827	88,888
Less scholarships and grants	(30,814)	—	—	(30,814)	(30,582)
Net tuition and fees	59,013	—	—	59,013	58,306
Annual fund gifts	6,110	—	—	6,110	6,131
Private gifts and grants for operations	1,857	12,778	—	14,635	13,819
Endowment payout	11,364	6,501	—	17,865	17,211
Auxiliary enterprises	21,748	—	—	21,748	21,101
Public service	3,090	—	—	3,090	3,028
Other	5,658	877	—	6,535	4,740
Net assets released from restrictions	15,209	(15,209)	—	—	—
Total operating revenue	124,049	4,947	—	128,996	124,336
Expenses:					
Compensation	76,511	—	—	76,511	73,970
Supplies, services, and other	19,517	—	—	19,517	18,114
Depreciation	10,173	—	—	10,173	9,998
Maintenance, utilities, and repairs	14,076	—	—	14,076	13,636
Interest	2,250	—	—	2,250	2,170
Insurance	1,606	—	—	1,606	1,171
Total operating expenses	124,133	—	—	124,133	119,059
Excess (deficiency) of operating revenue over expenses	(84)	4,947	—	4,863	5,277
Nonoperating activities:					
Private gifts and grants for investments	964	111	5,925	7,000	9,377
Investment gains and losses, net	21,584	56,007	487	78,078	(11,172)
Appropriation of endowment assets for expenditure	(4,732)	(13,133)	—	(17,865)	(17,211)
Postretirement benefit related changes other than net periodic cost	(303)	—	—	(303)	30
Distributions from donor-advised funds for operations	(555)	—	—	(555)	(772)
Distributions from donor-advised funds to other charities	(659)	—	—	(659)	(1,469)
Change in value of interest rate swap agreement	1,902	—	—	1,902	(1,560)
Change in value of annuities and split-interest obligations	(4,350)	(4,345)	349	(8,346)	(1,757)
Net assets released from restrictions	2,471	(2,471)	—	—	—
Increase (decrease) in net assets from nonoperating activities, net	16,322	36,169	6,761	59,252	(24,534)
Increase (decrease) in net assets	16,238	41,116	6,761	64,115	(19,257)
Net assets at beginning of year	258,233	200,897	159,760	618,890	638,147
Net assets at end of year	\$ 274,471	242,013	166,521	683,005	618,890

See accompanying notes to consolidated financial statements.

**WHEATON COLLEGE**

Consolidated Statements of Cash Flows

Year ended June 30, 2017

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

(Dollars in thousands)

	<u>2017</u>	<u>2016</u>
Cash flows from operating activities:		
Increase (decrease) in net assets	\$ 64,115	(19,257)
Adjustments to reconcile increase (decrease) in net assets to net cash provided by operating activities:		
Depreciation	10,173	9,998
In-kind donations of investments	(1,895)	(3,345)
In-kind donations of equipment	(75)	(253)
Proceeds from sale of donated securities	125	518
Net realized and unrealized (gains) losses on investments	(68,763)	19,795
Change in value of annuities and split-interest obligations	8,346	1,757
Private gifts and grants restricted for long-term investments	(7,000)	(9,377)
Change in value of interest rate swap agreement	(1,902)	1,560
Changes in assets and liabilities:		
Accounts and other receivables, net	(1,182)	199
Inventories, prepaid expenses, and deposits	(405)	145
Accounts payable, accrued expenses, and asset retirement obligation	3,896	3,067
Deferred student tuition, fees, and rentals	(88)	(206)
Deposits	62	(124)
Postretirement benefits obligation	304	(36)
Net cash provided by operating activities	<u>5,711</u>	<u>4,441</u>
Cash flows from investing activities:		
Purchases of land, buildings, equipment, and books	(18,830)	(13,213)
Proceeds from sales of investments	223,557	166,631
Purchases of investments	(211,066)	(160,624)
Loans disbursed	(1,296)	(1,297)
Principal collected on loans	1,584	1,181
Payable related to the acquisition of land, buildings, equipment, and books	(4,733)	(1,103)
Net cash used in investing activities	<u>(10,784)</u>	<u>(8,425)</u>
Cash flows from financing activities:		
Increase in U.S. government grants for student loans	13	4
Net (payments) additions on obligations under split-interest agreements and liability to other trust beneficiaries	(3,108)	(7,049)
Net change in legacies, bequests, and beneficial interest in trusts	759	(1,228)
Net change in estate and trust receivables	(806)	3,340
Proceeds from sale of donated securities restricted for long-term purposes	1,770	2,827
Proceeds from private gifts and grants restricted for long-term investment	7,806	6,037
Net cash provided by financing activities	<u>6,434</u>	<u>3,931</u>
Net increase (decrease) in cash and cash equivalents	1,361	(53)
Cash and cash equivalents at beginning of year	<u>33,756</u>	<u>33,809</u>
Cash and cash equivalents at end of year	\$ <u><u>35,117</u></u>	\$ <u><u>33,756</u></u>
Supplemental disclosures of cash flow information:		
Cash paid for interest, exclusive of loss on interest rate swap agreement and net of amounts capitalized	\$ 2,250	2,170
Cash paid for taxes	—	40

See accompanying notes to consolidated financial statements.



## WHEATON COLLEGE

### Notes to Consolidated Financial Statements

June 30, 2017

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

(Dollars in thousands)

#### (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 Billy Graham Center, and the Trust Company. 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.

## WHEATON COLLEGE

### Notes to Consolidated Financial Statements

June 30, 2017

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

(Dollars in thousands)

- 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 2016 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, 2016.

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

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### Notes to Consolidated Financial Statements

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(Dollars in thousands)

commensurate with the risks involved. Amortization of the discount is recorded as additional contribution revenue in accordance with donor-imposed restrictions, if any, on the contributions.

As of June 30, 2017 and 2016, the College had received communications from certain donors that they intended to give approximately \$20,303 and \$26,405, 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 2017 and 2016.

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 \$8,520 and \$8,011 as of June 30, 2017 and 2016, 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, 2017 and 2016 were approximately \$670 and \$4,386, 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.

## WHEATON COLLEGE

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

(Dollars in thousands)

**(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 \$20 and \$25 as of June 30, 2017 and 2016, 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 shown as a direct deduction from the face value of the debt 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 \$615 and \$2,093 as of June 30, 2017 and 2016, 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, 2017, subsequent gains that increased the fair value of the assets of the endowment fund amounted to \$1,478.

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

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### Notes to Consolidated Financial Statements

June 30, 2017

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

(Dollars in thousands)

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.

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.

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Notes to Consolidated Financial Statements

June 30, 2017

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

(Dollars in thousands)

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	10–40 years
Buildings	30–50 years
Building improvements	10–20 years
Equipment	3–10 years
Library books	12–50 years

Long-lived assets, such as land, buildings, 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 2017 present value of the aggregate liability for contract gift annuities is computed based on the 2015-IAM mortality table using a discount rate of 4.5%. 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%.

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### Notes to Consolidated Financial Statements

June 30, 2017

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

(Dollars in thousands)

#### **(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 tax-exempt organizations described in Section 501(c)(3) of the Internal Revenue Code (the Code). Accordingly, they are generally exempt from income taxes pursuant to Section 501(a) of the Code, except for taxes pertaining to unrelated business income.

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The Trust Company is a wholly owned taxable trust company. The Trust Company provides for income taxes using the asset and liability method. Deferred tax assets and liabilities are based on the difference between the financial statement and tax bases of assets and liabilities as measured by the tax rates that are anticipated to be in effect when these differences reverse. A valuation allowance is established when it is necessary to reduce deferred tax assets to amounts that will more likely than not be realized. As of June 30, 2017, the Trust Company has no material deferred tax assets or liabilities.

The College believes it has taken no uncertain tax positions as of June 30, 2017 or 2016.

#### **(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 Adopted Accounting Pronouncements**

In April 2015, the FASB issued Accounting Standards Update (ASU) No. 2015-03, *Interest – Imputation of Interest (Subtopic 835-30): Simplifying the Presentation of Debt Issuance Costs*. This guidance requires that debt issuance costs related to a note be reported in the statement of financial position as a direct deduction from the face value of that note. Wheaton College adopted the provisions of ASU No. 2015-03 during fiscal year 2017. The impact of this pronouncement to the statement of financial position was to net the unamortized debt issuance cost with the bond liability rather than showing it separately as a prepaid asset.



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**(3) Accounts and Other Receivables, Net**

Accounts receivable at June 30, 2017 and 2016 consisted of the following:

	2017			2016
	Accounts receivable	Allowance for uncollectible accounts	Accounts receivable, net	Accounts receivable, net
Student accounts	\$ 1,861	(96)	1,765	846
U.S. government	51	—	51	182
All loans	<u>743</u>	<u>—</u>	<u>743</u>	<u>349</u>
	<u>\$ 2,655</u>	<u>(96)</u>	<u>2,559</u>	<u>1,377</u>

Allowance for doubtful accounts receivable rollforward:

	2017	2016
Beginning balance	\$ (87)	(92)
Increases	(32)	(3)
Write-offs	<u>23</u>	<u>8</u>
Ending balance	<u>\$ (96)</u>	<u>(87)</u>

**(4) Loans Receivable from Students, Net**

Loans receivable from students at June 30, 2017 and 2016 consisted of the following:

	2017			2016
	Loans receivable	Allowance for uncollectible accounts	Loans receivable, net	Loans receivable, net
Institutional student loans	\$ 3,961	(62)	3,899	4,017
U.S. government student loans	<u>3,941</u>	<u>—</u>	<u>3,941</u>	<u>4,111</u>
	<u>\$ 7,902</u>	<u>(62)</u>	<u>7,840</u>	<u>8,128</u>

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Allowance for doubtful loans receivable rollforward:

	<u>2017</u>	<u>2016</u>
Beginning balance	\$ (39)	(80)
Increases	(23)	27
Write-offs	<u>—</u>	<u>14</u>
Ending balance	\$ <u><u>(62)</u></u>	<u><u>(39)</u></u>

**(5) Endowments**

Changes in endowments for the year ended June 30, 2017 are as follows:

	<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Permanently restricted</u>	<u>Total</u>
Endowments as of July 1, 2016	\$ 102,393	125,880	159,760	388,033
Interest and dividends	1,700	4,333	—	6,033
Realized gains	3,368	9,623	487	13,478
Unrealized gains	12,112	34,511	—	46,623
Transfers and distributions to (from)	5,118	(1,318)	1,627	5,427
Contributions	—	—	4,647	4,647
Appropriation of endowment assets for expenditure	<u>(4,732)</u>	<u>(13,133)</u>	<u>—</u>	<u>(17,865)</u>
Endowments as of June 30, 2017	\$ <u><u>119,959</u></u>	<u><u>159,896</u></u>	<u><u>166,521</u></u>	<u><u>446,376</u></u>

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

	<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Permanently restricted</u>	<u>Total</u>
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 gains (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	<u>(4,604)</u>	<u>(12,607)</u>	<u>—</u>	<u>(17,211)</u>
Endowments as of June 30, 2016	\$ <u><u>102,393</u></u>	<u><u>125,880</u></u>	<u><u>159,760</u></u>	<u><u>388,033</u></u>

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Endowment assets consist of the following at June 30, 2017:

	<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Permanently restricted</u>	<u>Total</u>
Donor-restricted endowments	\$ (615)	159,896	166,521	325,802
Board-designated quasi endowments	120,574	—	—	120,574
Total endowments	\$ <u>119,959</u>	<u>159,896</u>	<u>166,521</u>	<u>446,376</u>

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

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

### (6) Investments

The fair value of investments (including endowments) held by the College as of June 30, 2017 and 2016 consisted of the following:

	<u>2017</u>	<u>2016</u>
Cash and short-term investments	\$ 45,686	38,664
Fixed income	144,897	155,334
Equity	338,821	277,336
Hedge funds and private equity	59,219	59,681
Other asset classes	10,049	11,385
Total investments	\$ <u>598,672</u>	<u>542,400</u>

#### (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.

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#### **(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 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 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. Hedge funds and private equity are measured using net asset value (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, 2017 and 2016, the College had no plans or intentions to sell investments at amounts different from NAV. Unfunded commitments to hedge funds and alternative managers equaled \$565 and \$2,591 at June 30, 2017 and 2016, respectively.

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- 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 (loss) on Investments**

Return (loss) on Investments for the years ended June 30, 2017 and 2016 consisted of the following:

	<u>2017</u>	<u>2016</u>
Return on investments – endowments:		
Interest and dividends	\$ 6,033	5,319
Realized gain on investments, net	13,478	13,463
Unrealized gain (loss) on investments, net	<u>46,623</u>	<u>(32,324)</u>
Endowment investment return (loss)	<u>66,134</u>	<u>(13,542)</u>
Return on investments – annuities and split-interest agreements:		
Interest and dividends	2,659	2,771
Realized gain on investments, net	4,299	1,423
Unrealized gain (loss) on investments, net	<u>2,818</u>	<u>(2,445)</u>
Annuities and split-interest agreements investment return	<u>9,776</u>	<u>1,749</u>
Return on investments – other:		
Interest and dividends	1,013	733
Realized gain (loss) on investments, net	(159)	1,081
Unrealized gain (loss) on investments, net	<u>1,704</u>	<u>(993)</u>
Other investment return	<u>2,558</u>	<u>821</u>
Total return (loss) on investments	\$ <u><u>78,468</u></u>	\$ <u><u>(10,972)</u></u>

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The following is a reconciliation of investment return (loss) (net of management fees and expenses) to the amounts reported in the consolidated statements of activities:

	<u>2017</u>	<u>2016</u>
Other operating revenue – investment income	\$ 391	200
Investment gains and losses, net	<u>78,078</u>	<u>(11,172)</u>
Total investment income (loss)	<u>\$ 78,469</u>	<u>(10,972)</u>

#### (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. 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.

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The following table presents fair value information at June 30, 2017 of the College's assets:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>	<u>Redemption or liquidation</u>	<u>Business days notice</u>
Recurring fair value measurements:						
Cash and short term investments	\$ 45,686	—	—	45,686	Daily	1
Fixed income:						
U.S. Treasuries	47,779	—	—	47,779	Daily monthly	5
Bonds	—	97,118	—	97,118	Daily monthly	5
Equities	338,821	—	—	338,821	Daily monthly	5
Other asset classes:						
Trust receivables and other	—	—	6,094	6,094	Illiquid	Not applicable
Employee mortgages	—	—	2,587	2,587	Illiquid	Not applicable
Life insurance policies	—	—	1,368	1,368	Illiquid	Not applicable
Subtotal investments	432,286	97,118	10,049	539,453		
Investments measured at NAV				59,219		
Subtotal investments	432,286	97,118	10,049	598,672		
Legacies, bequests, and trusts	—	—	3,652	3,652	Illiquid	Not applicable
Total	\$ <u>432,286</u>	<u>97,118</u>	<u>13,701</u>	<u>602,324</u>		

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

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>	<u>Redemption or liquidation</u>	<u>Business days notice</u>
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	\$ <u>374,951</u>	<u>96,383</u>	<u>15,796</u>	<u>546,811</u>		

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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, 2017:

	Other asset classes				Total
	Trust rec. and other	Employee mortgages	Life ins. policies	Legacies, bequests, and trusts	
Beginning balance July 1, 2016	\$ 7,318	2,819	1,248	4,411	15,796
Total gains (losses)	310	6	56	(759)	(387)
Purchases	—	250	64	—	314
Issuances	—	—	—	—	—
Sales	(1,534)	(488)	—	—	(2,022)
Settlements	—	—	—	—	—
Ending balance June 30, 2017	\$ 6,094	2,587	1,368	3,652	13,701

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				Total
	Trust rec. and other	Employee mortgages	Life ins. policies	Legacies, bequests, and trusts	
Beginning balance July 1, 2015	\$ 7,596	2,994	1,200	3,183	14,973
Total gains (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 quantitative information about significant unobservable inputs used in Level 3 fair value measurements for the College's Level 3 assets.

Investment	Fair value		Valuation technique	Unobservable inputs	Range
	June 30, 2017	June 30, 2016			
Trust receivables and other	\$ 6,094	7,318	Estimated NPV	Discount rate of 5.5%	NA
Legacies, bequests, and trusts	3,652	4,411	Estimated NPV	Discount rate of 5.5%	NA
Employee mortgages	2,587	2,819	Loan principal balance	NA	NA
Life insurance policies	1,368	1,248	Cash surrender value	NA	NA
Total Level 3 investments	\$ 13,701	15,796			

During fiscal year 2017, there were no transfers between asset Levels 1 and 2 or between asset Levels 2 and 3.



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

Land, building, equipment, and books at June 30, 2017 and 2016 consisted of the following:

	<u>2017</u>	<u>2016</u>
Land and improvements	\$ 26,621	27,155
Buildings and improvements	266,194	256,422
Equipment	36,935	35,146
Library books and special collections	18,640	18,112
Leasehold improvements	<u>2,499</u>	<u>2,499</u>
Subtotal	350,889	339,334
Accumulated depreciation	<u>(169,034)</u>	<u>(160,296)</u>
Subtotal	181,855	179,038
Projects and renewals:		
Construction in progress	<u>22,125</u>	<u>11,477</u>
Total land, buildings, equipment, and books, net	\$ <u><u>203,980</u></u>	\$ <u><u>190,515</u></u>

**(8) Bonds Payable**

A summary of bonds payable at June 30, 2017 and 2016 is as follows:

	<u>2017</u>	<u>2016</u>
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 0.754%% and 0.279% in 2017 and 2016, respectively, interest payable semiannually beginning on April 1, 2006, principal due October 1, 2035	<u>17,000</u>	<u>17,000</u>
Subtotal	42,000	42,000
Less unamortized debt amortization cost	<u>(138)</u>	<u>(193)</u>
Total bonds payable (net)	\$ <u><u>41,862</u></u>	\$ <u><u>41,807</u></u>

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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 0.754% and 0.279% in 2017 and 2016, 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, 2017 and 2016, the College has set aside \$9,166 and \$7,400, 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.

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#### **(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 and Trust Company 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 and split-interest agreements.

#### **(e) Obligations to Other Trust Beneficiaries**

In connection with the Trust Company'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.

**WHEATON COLLEGE**

Notes to Consolidated Financial Statements

June 30, 2017

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

(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:

	<b>2017</b>	<b>2016</b>
Annuities and split-interest agreements investment assets	\$ 123,238	118,757
Less related liabilities:		
Charitable gift annuities	29,368	27,204
Charitable remainder annuity trusts	5,320	5,576
Charitable remainder unitrusts	35,581	36,750
Pooled income funds and life income contracts	1,074	1,246
Revocable trusts	11,967	8,539
Other irrevocable trusts	459	582
Liability to other trust beneficiaries	7,068	5,702
Total liabilities	90,837	85,599
Net investments under annuities and split-interest agreements	\$ 32,401	33,158

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, 2017 and 2016.

**(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 \$532 and \$568, and has been recorded as an addition to interest expense in the accompanying 2017 and 2016 consolidated statements of activities, respectively. The fair value of the obligation under this instrument was \$4,977 and \$6,879 at June 30, 2017 and 2016, respectively. As this swap agreement nears its expiration date, the liability associated with this agreement will be reduced to zero.

**WHEATON COLLEGE**

Notes to Consolidated Financial Statements

June 30, 2017

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

(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, 2017 and 2016 include the following components:

	<u>2017</u>	<u>2016</u>
Amounts recognized in operating activities:		
Service cost of benefits earned	\$ 367	330
Interest cost on accumulated postretirement healthcare benefit obligation	303	365
Amortization of prior service cost	<u>(93)</u>	<u>(81)</u>
Net periodic postretirement healthcare benefit costs	<u>577</u>	<u>614</u>
Amounts recognized in nonoperating activities:		
Net (gain) loss	210	(111)
Amortization of prior service cost	<u>93</u>	<u>81</u>
Postretirement benefit related changes other than net periodic benefit costs	<u>303</u>	<u>(30)</u>
Total change in postretirement benefits excluding benefits paid	\$ <u>880</u>	\$ <u>584</u>

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, 2017 and 2016:

	<u>2017</u>	<u>2016</u>
Change in postretirement benefit obligation:		
Postretirement benefit obligation at beginning of year	\$ 8,277	8,313
Service cost	367	330
Interest cost	303	365
Actuarial gain	(28)	(356)
Benefits paid	<u>(338)</u>	<u>(375)</u>
Postretirement benefit obligation at end of year (current and noncurrent)	\$ <u>8,581</u>	\$ <u>8,277</u>

**WHEATON COLLEGE**

Notes to Consolidated Financial Statements

June 30, 2017

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

(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 2017 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 2017.

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

	<u>2017</u>	<u>2016</u>
Measurement date	June 30	June 30
Weighted average discount rate	3.75 %	3.75 %
Medical trend rate for premiums	7.50	7.00

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:

	<u>2017</u>	<u>2016</u>
Effect on postretirement benefit obligation	\$ 324	274
Effect on service and interest cost components	48	44

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

	<u>Postretirement benefits</u>
2018	\$ 440
2019	440
2020	405
2021	438
2022	467
Years 2023–2027	2,483

**WHEATON COLLEGE**

Notes to Consolidated Financial Statements

June 30, 2017

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

(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:

	<u>2017</u>	<u>2016</u>
Operating activities:		
Educational and general	\$ 12,703	10,891
Matured trusts	2,506	1,327
	<u>\$ 15,209</u>	<u>12,218</u>
Nonoperating activity:		
Building improvements and equipment acquisition	\$ 2,471	1,026

**(13) Temporarily Restricted Net Assets**

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

	<u>2017</u>	<u>2016</u>
Program restricted:		
Endowment gain accumulation and term endowments	\$ 159,895	125,880
Loan funds	4,837	4,815
Building funds	29,086	26,058
Annuities and split-interest agreements	31,601	28,990
Scholarships and other program funds	16,594	15,154
Total temporarily restricted net assets	<u>\$ 242,013</u>	<u>200,897</u>

**(14) Permanently Restricted Net Assets**

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

	<u>2017</u>	<u>2016</u>
Investment in perpetuity, the income from which is expendable	\$ 163,752	157,056
Deferred gifts that will provide proceeds for a permanent endowment	1,858	1,793
Revolving loan funds, the proceeds of which are for student loans	911	911
	<u>\$ 166,521</u>	<u>159,760</u>

## WHEATON COLLEGE

### Notes to Consolidated Financial Statements

June 30, 2017

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

(Dollars in thousands)

#### (15) Functional Classification of Expenses

Expenses by functional classification for the years ended June 30, 2017 and 2016 are as follows:

	<u>2017</u>	<u>2016</u>
Instruction	\$ 44,303	41,564
Academic support	13,836	14,528
Student services	20,939	20,772
Institutional support	24,776	22,256
Public services	3,989	3,741
Auxiliary enterprises	<u>16,290</u>	<u>16,198</u>
Total operating expenses	<u>\$ 124,133</u>	<u>119,059</u>

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 \$5,138 and \$4,303 for the years ended June 30, 2017 and 2016, 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 \$3,194 and \$3,480 for the years ended June 30, 2017 and 2016, respectively. Amounts accrued under this plan totaled approximately \$175,879 and \$161,878 for the years ended June 30, 2017 and 2016, respectively, and are not included in these consolidated financial statements as they belong to the plan participants.

The College also has deferred compensation plans for certain employees. The College contributed approximately \$50 to the plans for the years ended June 30, 2017 and 2016. Amounts payable under the plans totaled approximately \$657 and \$607 at June 30, 2017 and 2016, 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.



**WHEATON COLLEGE**

Notes to Consolidated Financial Statements

June 30, 2017

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

(Dollars in thousands)

**(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, 2017 through September 28, 2017, which was the date the consolidated financial statements were available to be issued and determined there were no other items to disclose.

## WHEATON COLLEGE

## Consolidating Statement of Financial Position Information

June 30, 2017

(Dollars in thousands)

<b>Assets</b>	<b>Wheaton College</b>	<b>Billy Graham Center</b>	<b>Wheaton College Trust Company</b>	<b>Eliminations</b>	<b>Consolidated</b>
<b>Current assets:</b>					
Cash and cash equivalents	\$ 33,451	1,666	—	—	35,117
Accounts and other receivables, net	2,555	—	4	—	2,559
Inventories, net	868	—	—	—	868
Prepaid expenses and deposits	3,841	—	34	—	3,875
<b>Total current assets</b>	<b>40,715</b>	<b>1,666</b>	<b>38</b>	<b>—</b>	<b>42,419</b>
<b>Noncurrent assets:</b>					
Loans receivable from students, net	7,840	—	—	—	7,840
<b>Investments:</b>					
Endowments	446,376	—	—	—	446,376
Annuities and split-interest agreements	123,238	—	—	—	123,238
Other investments	28,969	—	3,337	(3,248)	29,058
<b>Total investments</b>	<b>598,583</b>	<b>—</b>	<b>3,337</b>	<b>(3,248)</b>	<b>598,672</b>
Legacies, bequests, and beneficial interest in trusts	3,652	—	—	—	3,652
Land, buildings, equipment, and books, net	203,980	—	—	—	203,980
<b>Total noncurrent assets</b>	<b>814,055</b>	<b>—</b>	<b>3,337</b>	<b>(3,248)</b>	<b>814,144</b>
<b>Total assets</b>	<b>\$ 854,770</b>	<b>1,666</b>	<b>3,375</b>	<b>(3,248)</b>	<b>856,563</b>
<b>Liabilities and Net Assets</b>					
<b>Current liabilities:</b>					
Accounts payable and accrued expenses	\$ 15,824	37	126	—	15,987
Deferred student tuition fees and rentals	4,053	—	—	—	4,053
Deposits	980	—	—	—	980
Postretirement benefits obligation	440	—	—	—	440
<b>Total current liabilities</b>	<b>21,297</b>	<b>37</b>	<b>126</b>	<b>—</b>	<b>21,460</b>
<b>Noncurrent liabilities:</b>					
Bonds payable	41,862	—	—	—	41,862
Obligations under annuities, split-interest agreements, and other	90,837	—	—	—	90,837
Interest rate swap agreement	4,977	—	—	—	4,977
Asset retirement obligation	2,240	—	—	—	2,240
Refundable U.S. government grants for student loans	4,041	—	—	—	4,041
Postretirement benefits obligation	8,141	—	—	—	8,141
<b>Total noncurrent liabilities</b>	<b>152,098</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>152,098</b>
<b>Total liabilities</b>	<b>173,395</b>	<b>37</b>	<b>126</b>	<b>—</b>	<b>173,558</b>
<b>Net assets:</b>					
Unrestricted	274,561	(91)	3,249	(3,248)	274,471
Temporarily restricted	240,293	1,720	—	—	242,013
Permanently restricted	166,521	—	—	—	166,521
<b>Total net assets</b>	<b>681,375</b>	<b>1,629</b>	<b>3,249</b>	<b>(3,248)</b>	<b>683,005</b>
<b>Total liabilities and net assets</b>	<b>\$ 854,770</b>	<b>1,666</b>	<b>3,375</b>	<b>(3,248)</b>	<b>856,563</b>

See accompanying independent auditors' report.

## WHEATON COLLEGE

## Consolidating Statement of Activities Information

Year ended June 30, 2017

(Dollars in thousands)

	Wheaton College	Billy Graham Center	Wheaton College Trust Company	Eliminations	Consolidated
Operating activities:					
Revenue:					
Tuition and fees	\$ 89,827	—	—	—	89,827
Less scholarships and grants	(30,739)	(75)	—	—	(30,814)
Net tuition and fees	59,088	(75)	—	—	59,013
Annual fund gifts	6,110	—	—	—	6,110
Private gifts and grants for operations	14,144	491	—	—	14,635
Endowment payout	16,730	1,135	—	—	17,865
Auxiliary enterprises	21,748	—	—	—	21,748
Public service	3,049	41	—	—	3,090
Other	6,839	310	892	(1,506)	6,535
Net assets released from restrictions	—	—	—	—	—
Total operating revenue	127,708	1,902	892	(1,506)	128,996
Expenses:					
Compensation	75,506	1,005	680	(680)	76,511
Supplies, services, and other	19,386	425	198	(492)	19,517
Depreciation	10,173	—	—	—	10,173
Maintenance, utilities, and repair	14,052	24	—	—	14,076
Interest	2,250	—	—	—	2,250
Insurance	1,585	—	21	—	1,606
Total operating expenses	122,952	1,454	899	(1,172)	124,133
Excess (deficiency) of operating revenue over expenses	4,756	448	(7)	(334)	4,863
Nonoperating activities:					
Private gifts and grants for investments	7,000	—	—	—	7,000
Investment gains and losses, net	77,732	4	—	342	78,078
Appropriation of endowment assets for expenditure	(17,865)	—	—	—	(17,865)
Postretirement benefit related changes other than net periodic cost	(303)	—	—	—	(303)
Distributions from donor-advised funds for operations	(555)	—	—	—	(555)
Distributions from donor-advised funds to other charities	(659)	—	—	—	(659)
Change in value of interest rate swap agreement	1,902	—	—	—	1,902
Change in value of annuities and split-interest obligations	(8,346)	—	—	—	(8,346)
Net assets released from restrictions	—	—	—	—	—
Increase in net assets from nonoperating activities	58,906	4	—	342	59,252
Other changes in net assets:					
Equity transfers among affiliates	84	(84)	—	—	—
Increase (decrease) in net assets	63,746	368	(7)	8	64,115
Net assets at beginning of year	617,629	1,261	3,256	(3,256)	618,890
Net assets at end of year	\$ 681,375	1,629	3,249	(3,248)	683,005

See accompanying independent auditors' report.