

ANNUAL FINANCIAL REPORT
YEAR ENDED JUNE 30, 2004

WESLEYAN
UNIVERSITY



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WESLEYAN

U N I V E R S I T Y

Vice President for Finance and Administration
237 High Street
Middletown, Connecticut 06459-3208
(860) 685-2934 FAX (860) 685-2458



To: The Board of Trustees

From: Marcia W. Bromberg

Date: October 4, 2004

Subject: Maintain Financial Equilibrium
FY 2003/04 Annual Financial Report

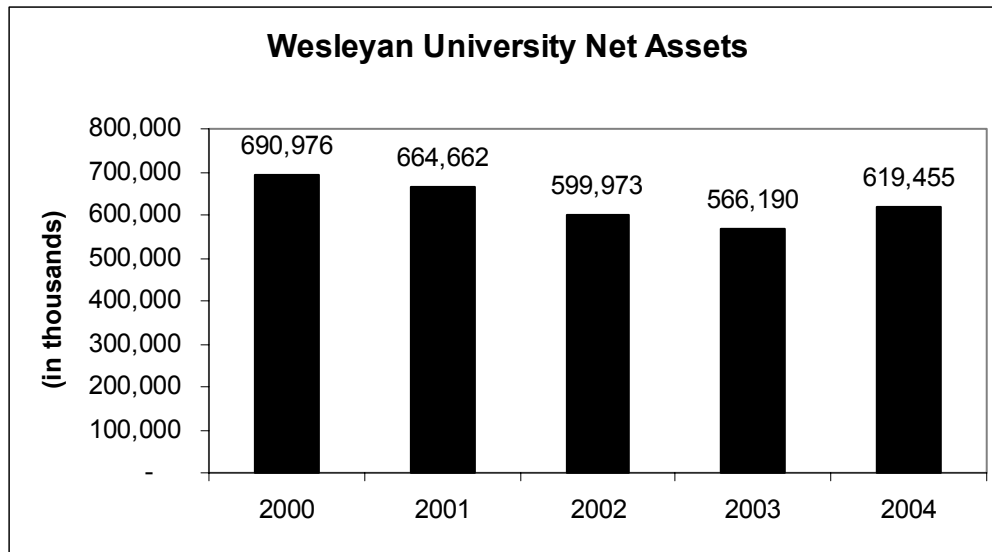
It is my pleasure to present the Wesleyan University Annual Financial Report. The Financial Report is the means through which the University presents its financial condition to the Trustees, to donors and friends of the University and to external constituencies. We take great pride in the University's sound financial base demonstrated in these financial statements and in our history of operating well within available financial resources.

In addition to the accompanying financial statements and related footnotes together with the unqualified auditor's report thereon, we have provided a summary of the results of the recent fiscal year, a review of financial ratios critical to maintaining financial equilibrium and a brief review of capital investments in the on-going Facilities Masterplan.

2003-2004 Year in Review

Once again, Wesleyan completed the fiscal year with an operating surplus of over \$1 million. Total operating revenue and support for fiscal year 2003/04 was \$161.1 million, an increase of 7% from fiscal year 2002/03. Operating expenses were \$159.8 million, an increase of 8% from fiscal year 2002/03.

During the fiscal year ended June 30, 2004, Wesleyan University's net assets increased by \$53.3 million from \$566.2 million to \$619.5 million. The 10% growth in the market value of Wesleyan's endowment is the major factor in the increase in assets. Fiscal year 2003/04 marks the ends of a 3-year decline in net assets resulting from financial market conditions.



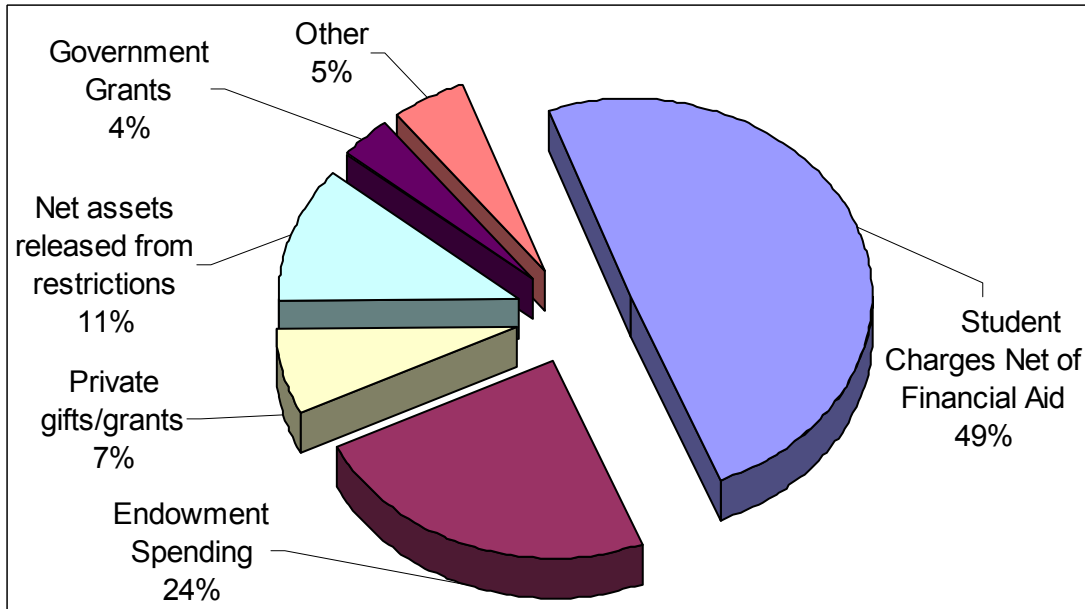
At the conclusion of the 2003/2004 fiscal year, alumni, parents and friends had contributed \$29 million in gifts to the University, exceeding last year's amount of \$27 million. Wesleyan continues to increase the number of donors each year; we are extremely grateful for the extraordinary generosity of our alumni, parents, and friends.

Operations

The operating surplus for fiscal year 2003/04 was achieved despite a sharp increase in financial aid costs. Careful planning, control in all areas of the budget, and adequate contingency funds allowed Wesleyan to absorb these additional costs without compromising the institution's educational mission.

Revenue

Student fees (tuition, room, and board), net of student financial aid, totaled \$80 million and comprised almost half of Wesleyan's total operating revenue. While tuition, room, and board rates increased at 5.6%, financial aid expenditures totaling \$34 million increased 16% reflecting our commitment to meet the full need for students receiving aid.

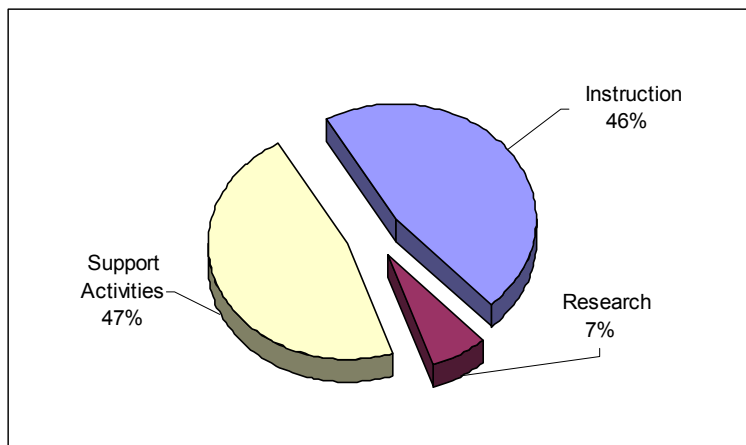


The second most significant source of revenue is endowment spending. At \$38 million, an increase of 2% over the prior year, this support is determined in accordance with an endowment spending policy approved by the Board of Trustees. The endowment provides Wesleyan with resources that support a wide variety of programs across the university, ranging from general operations, to scholarships and professorships.

Gifts received and unexpended endowment gains in prior years provide over 10% in operating revenues while private gifts and grants contributed 7% of the operating revenue.

Expenditures

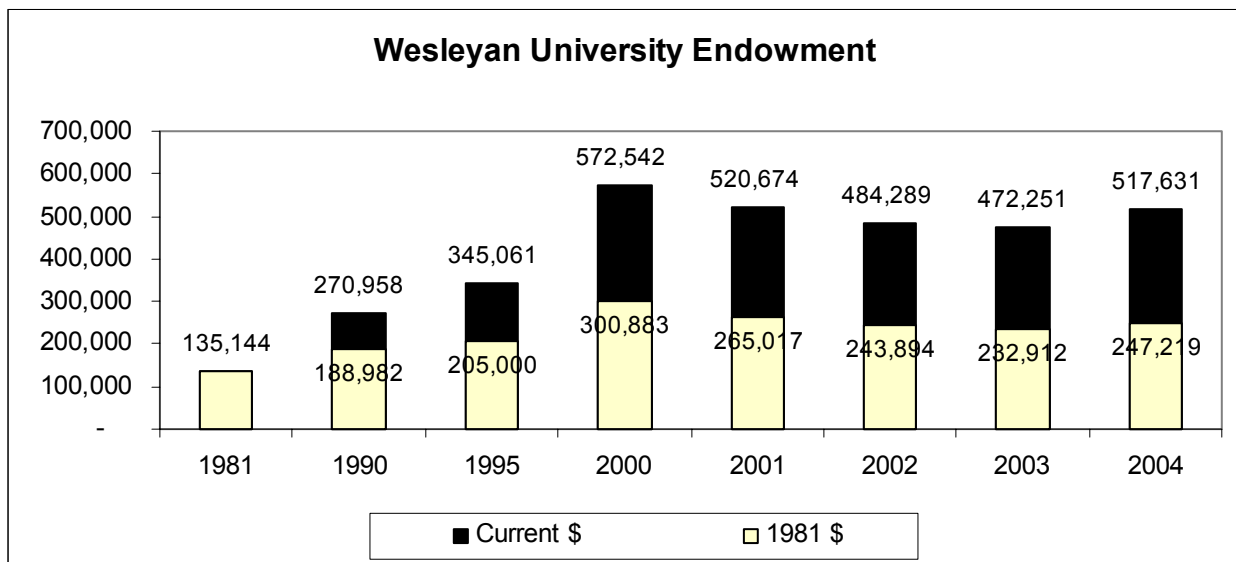
Over half of Wesleyan’s \$160 million operating budget is spent on its central academic mission, instruction and research. Instructional expenditures (\$74 million) increased 8%, in part as a result of Wesleyan’s commitment to competitive compensation for our faculty and the final installment on increasing the size of the



faculty by 20 positions. Research expenditures increased 15%, signifying the proficiency of our faculty in obtaining grants and contracts. Wesleyan spends proportionately more on academic priorities and less on support activities than peer institutions.

Financial Assets to Support the University

Looking at the balance sheet, Wesleyan continues to maintain a healthy cash operating balance totaling \$19 million at fiscal year end. Student receivables remain very low and other receivables decreased to normal levels after correcting for a timing anomaly at the end of fiscal year 2002/03. Pledges receivable amount to \$43 million, reflecting the fundraising success of the Wesleyan Campaign. Wesleyan’s endowment totaled \$517.6 million (\$247 million in 1981 dollars) at year end, an increase of \$45 million. We are extremely pleased to see how well the endowment has fared as the markets regain strength. We also note that the endowment has increased 83% in real value since 1981 when our goal was set to maintain the real value of the endowment.



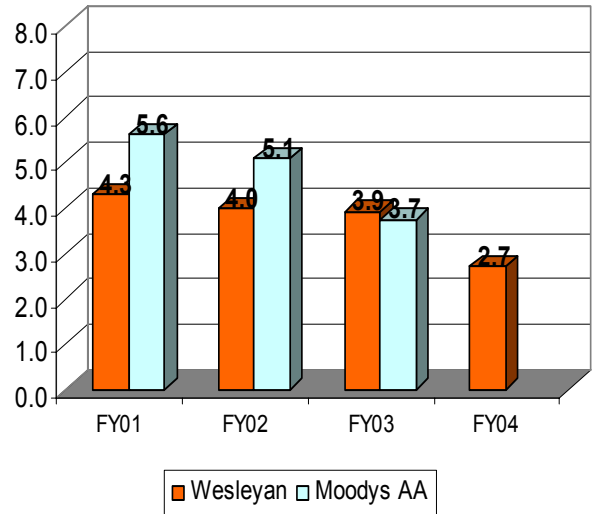
Liabilities increased by \$49 million over fiscal year 2002/03. In July 2003, Wesleyan finalized its sale of \$62 million in 35 year bonds through the Connecticut Health and Education Finance Authority (CHEFA). These bonds (CHEFA E), which were issued at a variable rate, were fixed through a swap agreement to an interest rate of 4.05%. The bond proceeds will be used to finance an addition to the Freeman Athletic Center, Phase I of the University Center, Humanities District projects, classroom renovations and undergraduate residence facilities. A \$13 million decrease in liabilities is directly related to the interest rate swap which allowed us to fix our variable bond rate and take advantage of historically low long-term interest rates.

The financial community relies on ratio analysis to assess the fiscal health and credit-worthiness of the University. We have included information on the most important ratios—three financial ratios and two non-financial ratios—tracking them over time and in relation to averages for AA-rated universities. Although assuming additional long-term debt during the FY 2003/04 fiscal year has resulted in minor decreases for the financial ratios, the University remains fiscally strong. Equally important are the non-financial ratios which assess the University’s ability to attract and enroll students. These continue to be well above other AA-rated institutions.

Financial Ratios

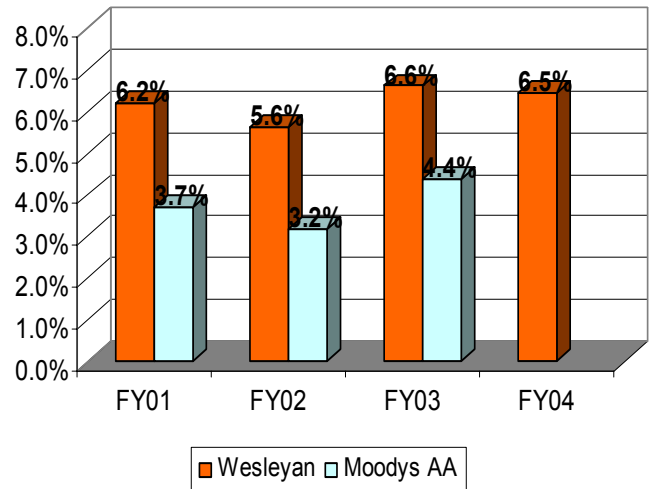
Expendable Resources to Long-Term Debt—representing the University’s liquidity and ability to cover debt obligations. Wesleyan has significant unrestricted assets that can be called on as required. A high ratio reflects a strong fiscal capacity to fund debt commitments. We expect peer ratios will also be lower when comparable data is available.

Expendable Resources to Long-Term Debt



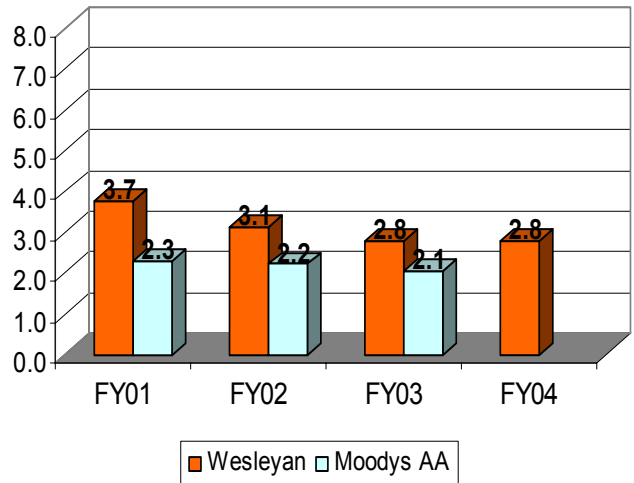
Annual debt service to operating expenses—representing the proportion of the annual budget required to service debt. Wesleyan’s strategy of investing the Campus Renewal Fund (CRF) with the endowment and using investment returns to service debt and fund capital projects relieves the operating budget of this requirement. Even with additional debt, debt service comprises a minor part of our operating budget. In this case a lower ratio is desirable.

Annual Debt Service to Operating Expenses



Expendable Resources to operating expenses—representing the ability to continue current levels of operation in case of financial exigency. Wesleyan’s 2.8 depicted below for fiscal year 2003/04 means that the University could operate for 2 ½ years at current levels with no additional resources or revenues. This margin gives lenders and creditors confidence in Wesleyan’s ability to manage its debt load without compromising on-going operations. A higher ratio reflects greater financial strength and flexibility.

Expendable Resources to Operating Expenses

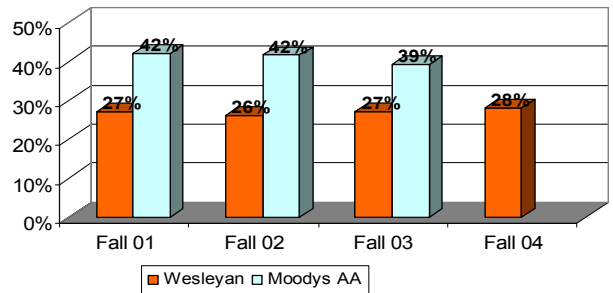


Non-financial Ratios

We track two non-financial ratios that are important in assessing credit-worthiness and institutional strength. In both ratios Wesleyan’s numbers are better than average for AA-rated universities.

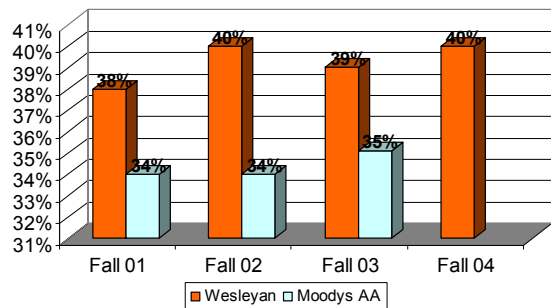
Selectivity

Selectivity—representing the ratio of acceptances to applications. This ratio, which is significantly better than other AA- rated institutions, demonstrates our ability to offer admission to the best applicants. A low ratio reflects high selectivity.



Matriculation—representing the ratio of matriculants to acceptances. Students to whom we offer admission are much more likely to attend than those of other AA-rated institutions. A high ratio signals strong student demand and choice.

Matriculation



This ratio review highlights the need to maintain a solid asset base through growth of the endowment and other assets. It also reinforces the importance of investing in priorities that ensure an academic and physical environment that attracts the best and brightest students. Together, these strategies will protect and enhance the University's long-term success.

Wesleyan Campaign

Wesleyan is well poised to reach our campaign goal of \$250 million by the campaign's conclusion at the end of calendar year 2004. More than \$245 million in gifts and pledges, or 98%, has been raised through June 30, 2004. The Wesleyan Campaign supports our students and faculty in four important ways: by increasing the resources directed to student aid, by enabling us to continue to expand and improve academic programs, by restoring campus facilities, and by supporting all of these areas with increased giving through the Wesleyan Annual Fund. The Campaign has been successful in expanding our donor base and the level of giving from previous donors.

Facilities

Capital expansion and investments in the renewal of our physical plant are accomplished through a combination of the issuance of tax-exempt bonds, new gifts, and funding from operations. Wesleyan is in the process of constructing and developing several significant projects. Nearing completion is the \$13 million addition to the Freeman Athletic Center. This project will consolidate many of the University's athletic activities in one location. The completion of the Freeman Athletic Center addition will allow ground breaking on the \$42 million Suzanne Lemberg Usdan University Center. Also underway is the new Fauver Field residence facilities with 270 beds to house frosh and upperclass students. The newly expanded Center for Film Studies building opened its doors to students in September 2004. The second phase of the Humanities District is underway with renovations to the Downey House planned for completion in January 2005. Faculty in the English, Classical Studies and Romance Language departments will enjoy 27 new offices and state of the art classrooms in this historic structure. An \$8.5 million multi-year plan to transform more than 80 classrooms on campus is approaching its final year with only three classrooms to go.

Conclusion

Fiscal year 2003/04 financial results make evident Wesleyan's success in navigating the economic downturn of recent years. Improved endowment performance from both stronger financial markets and investment strategies has increased our assets. Our commitment to strategic planning and balanced budgets provide approaches to ensure focused investments and financial well-being for the future.

Financial Results

Year Ended June 30, 2004

WESLEYAN UNIVERSITY
Statements of Financial Position
June 30, 2004 and 2003
(stated in 000's)

	2004	2003
ASSETS		
Cash and cash equivalents	\$ 19,160	\$ 17,215
Cash on deposit with bond trustee	41,838	-
Student accounts receivable, net of allowance for doubtful accounts of \$651 (\$651 in 2003)	88	108
Other accounts receivable	2,759	6,059
Investment income receivable	474	712
Pledges receivable (note 3)	43,044	44,044
Student loans receivable, net of allowance for doubtful loans of \$1,136 (\$1,178 in 2003)	8,551	8,920
Other assets (note 6)	3,319	2,659
Investments (note 4)	526,706	480,532
Investment in plant, at cost net of accumulated depreciation (notes 5 and 6)	186,543	169,580
Total assets	\$ 832,482	\$ 729,829
LIABILITIES		
Accounts payable and accrued expenses	\$ 9,311	\$ 9,361
Deposits and deferred revenues	1,573	1,479
Charitable remainder trusts	1,827	1,156
Post-retirement benefits (note 7)	17,168	14,264
Long-term debt (note 6)	163,965	105,080
Liability for interest rate swap (note 6)	13,905	27,021
Perkins loan program refundable	5,278	5,278
Total liabilities	\$ 213,027	\$ 163,639
NET ASSETS		
Unrestricted:		
For operations	\$ 14,486	\$ 14,148
For student loans	3,653	4,740
For long-term investment	300,079	259,271
Invested in property, plant and equipment	124,798	119,056
Total unrestricted	\$ 443,016	\$ 397,215
Temporarily restricted (note 8)	58,973	59,871
Permanently restricted (note 9)	117,466	109,104
Total net assets	\$ 619,455	\$ 566,190
Total liabilities and net assets	\$ 832,482	\$ 729,829

See accompanying notes to financial statements.

WESLEYAN UNIVERSITY
Statements of Changes in Unrestricted Net Assets
Years ended June 30, 2004 and 2003
(stated in 000's)

	<u>2004</u>	<u>2003</u>
REVENUES FROM OPERATIONS		
Tuition	\$ 90,499	\$ 85,891
Room and board	22,626	21,047
Less undergraduate scholarships and graduate tuition remission	<u>(33,573)</u>	<u>(28,819)</u>
Net student charges	79,552	78,119
Investment income and gains used in support of operations (note 4)	38,367	37,459
Private gifts and grants	11,416	10,728
Federal, state and local grants	6,225	6,048
Other	5,148	4,059
Auxiliary activities	2,686	1,900
Net assets released from restrictions (note 8)	<u>17,663</u>	<u>11,717</u>
Total revenues from operations	<u>\$ 161,057</u>	<u>\$ 150,030</u>
EXPENDITURES		
Instruction	\$ 74,172	\$ 68,652
Research	10,505	9,077
Libraries	9,992	9,857
Student services	9,248	9,070
Institutional support	17,130	16,696
Other	1,726	933
Auxiliary activities	<u>36,984</u>	<u>33,625</u>
Total expenditures	<u>\$ 159,757</u>	<u>\$ 147,910</u>
Revenues in excess of expenditures from operations	<u>\$ 1,300</u>	<u>\$ 2,120</u>
NON-OPERATING ACTIVITIES		
Realized and unrealized gains (note 4)	\$ 65,829	\$ 8,145
Allocation of accumulated gains for operations (note 4)	(35,060)	(31,808)
Net gain/(loss) on interest rate swaps (note 6)	<u>13,732</u>	<u>(16,699)</u>
Total non-operating activities	<u>\$ 44,501</u>	<u>\$ (40,362)</u>
Change in unrestricted net assets	45,801	(38,242)
Unrestricted net assets at beginning of year	<u>397,215</u>	<u>435,457</u>
Unrestricted net assets at end of year	<u>\$ 443,016</u>	<u>\$ 397,215</u>

See accompanying notes to financial statements.

WESLEYAN UNIVERSITY
Statements of Changes in Restricted Net Assets
Years ended June 30, 2004 and 2003
(stated in 000's)

TEMPORARILY RESTRICTED NET ASSETS	2004	2003
Revenues and other additions:		
Gifts	\$ 13,405	\$ 8,183
Investment income (note 4)	489	472
Realized and unrealized gains/(losses) (note 4)	3,595	(280)
Total revenues and other additions	<u>\$ 17,489</u>	<u>\$ 8,375</u>
Net assets released from restrictions (note 8)	<u>(18,387)</u>	<u>(11,836)</u>
Change in temporarily restricted net assets	\$ (898)	\$ (3,461)
Temporarily restricted net assets at beginning of year	<u>59,871</u>	<u>63,332</u>
Temporarily restricted net assets at end of year	<u><u>\$ 58,973</u></u>	<u><u>\$ 59,871</u></u>
PERMANENTLY RESTRICTED NET ASSETS		
Revenues and other additions:		
Gifts	\$ 7,016	\$ 8,057
Reinvested investment income (note 4)	153	148
Temporary gifts released from restriction (note 8)	724	119
Realized and unrealized gains/(losses) on outside trusts (note 4)	469	(404)
Change in permanently restricted net assets	\$ 8,362	\$ 7,920
Permanently restricted net assets at beginning of year	<u>109,104</u>	<u>101,184</u>
Permanently restricted net assets at end of year	<u><u>\$ 117,466</u></u>	<u><u>\$ 109,104</u></u>
TOTAL NET ASSETS		
Change in total net assets	\$ 53,265	\$ (33,783)
Total net assets at beginning of year	<u>566,190</u>	<u>599,973</u>
Total net assets at end of year	<u><u>\$ 619,455</u></u>	<u><u>\$ 566,190</u></u>

See accompanying notes to financial statements.

WESLEYAN UNIVERSITY
Statements of Cash Flows
Years ended June 30, 2004 and 2003
(stated in 000's)

	<u>2004</u>	<u>2003</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets:	\$ 53,265	\$ (33,783)
Adjustments to reconcile change in net assets to cash used for operating activities:		
Gains from investments	(69,893)	(7,461)
Gifts received for long-term investment	(8,872)	(10,317)
Adjustment for interest rate swap	(13,732)	16,699
Post retirement benefits accrual	2,904	3,126
Depreciation	7,840	7,034
Change in working capital	3,398	1,702
Net cash used for operations	<u>\$ (25,090)</u>	<u>\$ (23,000)</u>
CASH FLOWS FROM INVESTMENT ACTIVITIES		
Additions to property and equipment	\$ (22,972)	\$ (21,242)
Purchases of investments	(325,451)	(234,603)
Sales of investments	349,170	254,451
(Increase)/decrease in restricted cash with bond trustee	(41,838)	23,289
Issuance and repayment of student loans	369	1,188
Net cash (used for)/provided by investment activities	<u>\$ (40,722)</u>	<u>\$ 23,083</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Gifts for long-term investment	\$ 8,872	\$ 10,317
Issuance of long term debt	65,800	-
Repayments of long term debt	(6,915)	(4,544)
Net cash provided by financing activities	<u>\$ 67,757</u>	<u>\$ 5,773</u>
Net change in cash and cash equivalents	\$ 1,945	\$ 5,856
Cash and cash equivalents at beginning of year	<u>17,215</u>	<u>11,359</u>
Cash and cash equivalents at end of year	<u>\$ 19,160</u>	<u>\$ 17,215</u>
Cash paid for interest	\$ 7,219	\$ 5,253

See accompanying notes to financial statements.

WESLEYAN UNIVERSITY
Notes to Financial Statements
June 30, 2004 and 2003

(1) *Organization*

Wesleyan University, founded in 1831, is a private residential not-for-profit institution of higher learning. The University is co-educational and has approximately 3,000 diverse students situated on a 280 acre campus located in Middletown, Connecticut. It offers a Bachelors of Arts in 44 fields, plus Masters and Ph.D.s in selected disciplines. The University is accredited by the New England Association of Schools and Colleges.

(2) *Summary of Significant Accounting Policies*

The significant accounting policies followed by the University are described below:

Accrual Basis

The financial statements of the University have been prepared on the accrual basis.

Net Asset Categories

The financial statements report on the University as a whole and report transactions on the existence or absence of donor-imposed restrictions. The statements reflect the following net asset categories:

Permanently Restricted Net Assets: Gifts that a donor restricts to be held permanently whereby only the income and investment gains can be used. These funds represent primarily the original gift value of true endowment funds and also include pledges to endowment.

Temporarily Restricted Net Assets: Gifts subject to donor-imposed restrictions that will be met by the actions of the University or the passage of time. This includes unspent endowment income and gains/losses on restricted endowment funds, restricted gifts for current operations and gifts for plant projects, life income and other deferred gifts, and pledges for unrestricted and restricted purposes other than endowment.

Unrestricted Net Assets: All other net assets not subject to donor-imposed restrictions. Certain net assets classified as unrestricted are internally

WESLEYAN UNIVERSITY
Notes to Financial Statements
June 30, 2004 and 2003

designated for donor-specified uses. Federal and foundation research grants are not considered as gifts to the University; consequently research grants are classified in the unrestricted net asset category as they are expended.

Expiration of Donor-Imposed Restrictions

A restricted gift, grant, or endowment income is recognized as unrestricted revenue when the stipulation of the restriction is met. The University follows the policy of reporting as unrestricted, donor restricted gifts, grants, and endowment income, whose restrictions are met in the same period as received.

Investments

Investments are reported at their respective fair values. Investments in securities traded on a national exchange are based upon quoted market prices. Private equity and certain other nonmarketable securities are valued using current estimates of fair value obtained from the general partner or investment manager in the absence of readily determinable public market values. Such valuations generally reflect discounts for liquidity and consider variables such as financial performance of investments, including comparison of comparable companies' earning multiples, cash flow analysis, recent sales prices of investments, and other pertinent information. Because of the inherent uncertainty of valuation for these investments, the investment manager or general partner's estimate may differ from the values that would have been used had a ready market existed, and the differences could be materially higher or lower. These securities represent 17% and 16% of the University's investments at June 30, 2004 and 2003, respectively.

The University's investment managers occasionally purchase, or sell short, investment securities whose value is derived in part from an underlying asset. These derivative securities are carried at estimated fair value in the accompanying financial statements.

Operations

The statements of changes in unrestricted net assets report the change in unrestricted net assets from operating and non-operating activities.

WESLEYAN UNIVERSITY
Notes to Financial Statements
June 30, 2004 and 2003

Operating revenues consist of those items attributable to the University's undergraduate and graduate education programs or research conducted by the academic departments. Tuition revenues are reported net of the discount attributable to reductions in the amounts charged to students, whether as unrestricted University financial aid or reductions from endowment funds or government grants awarded to students by the University. Endowment income and gains of the University's unrestricted investments used in support of current year expenditures are reported as operating revenue. Other income, consisting of investment earnings on the University's endowment funds not utilized for operations, gains and losses on interest rate swap agreements and other items not related to the University's operations are reported as non-operating revenue. Expenses associated with the operation and maintenance of University plant assets, including interest and depreciation expense, are allocated on the basis of square footage utilized by the functional categories.

Cash and Cash Equivalents

For purposes of the statement of cash flows, cash equivalents include only short-term, highly liquid working capital investments (those with original maturities, when purchased, of three months or less). Cash is deposited in several institutions; at times, however, cash held in a single institution may exceed federally insured limits. The University has not experienced any losses in such accounts.

Inventories

Inventories are stated at the lower of cost or market. Cost is determined on the first-in-first-out basis.

Investment in Plant

Investment in plant is stated at cost at the date of acquisition or fair market value at the date of donation in the case of gifts. Equipment with a value greater than \$5,000 and major renovations are capitalized, whereas renewals and replacements are not capitalized. Depreciation is calculated on a straight-line basis using useful lives of 50 years for buildings and between 7-20 years for equipment, depending on the type of equipment.

WESLEYAN UNIVERSITY
Notes to Financial Statements
June 30, 2004 and 2003

Income Taxes

The University is generally exempt from income taxes under Internal Revenue Code, Section 501(a), as an organization described in Section 501(c)(3).

Fair Value of Financial Instruments

The fair value of investments, which is based upon quoted market prices, is disclosed in note 4. Fair value for marketable securities is based upon quoted market prices. Fair values for trusts held by others and private equity investments are valued based upon net asset values as reported by third-parties responsible for administering and/or managing such investments. The fair value of real estate investments is based on the University's estimated equity in the properties. The fair value of long-term debt approximates the carrying value since the interest rates charged approximates the University's current borrowing rate for similar instruments. For all other financial instruments, the carrying amount as disclosed in the accompanying financial statements approximates fair value.

Use of Estimates

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

Reclassifications

Certain amounts in the fiscal 2003 financial statements have been reclassified to conform to the fiscal 2004 presentations.

(3) *Pledges Receivable*

The University recognizes the present value of unconditional pledges receivable as revenues in the period in which the pledges are made. Current year pledges are discounted at a rate of 1.0% and prior year pledges at an

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Notes to Financial Statements
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average rate of 3.5%. The University has also created a 10% allowance for uncollectible pledges for gifts greater than \$25,000.

The pledges are scheduled to be paid in the following periods:

(Stated in 000's)

	<u>2004</u>	<u>2003</u>
Less than one year	\$24,917	\$24,630
One to five years	18,485	22,980
More than five years	<u>6,196</u>	<u>3,444</u>
	\$49,598	\$51,054
Less allowance for unpaid pledges	(4,363)	(4,325)
Less discount for present value	<u>(2,191)</u>	<u>(2,685)</u>
Net pledges receivable	<u>\$43,044</u>	<u>\$44,044</u>

Pledges are for the following purposes:

(Stated in 000's)

	2004			2003
	Permanently Restricted	Temporarily Restricted	Total	Total
Undesignated	\$ 119	\$ 2,683	\$ 2,802	\$ 2,940
Academic programs	5,337	5,560	10,897	9,125
Financial aid	7,682	2,613	10,295	11,830
Building additions & renovations	0	3,567	3,567	2,094
Unrestricted	0	15,483	15,483	18,055
Total	<u>\$ 13,138</u>	<u>\$ 29,906</u>	<u>\$ 43,044</u>	<u>\$ 44,044</u>

University Relations expenditures, which are primarily for fundraising purposes and alumni activity, totaled \$5,679,000 and \$5,504,000 in fiscal years 2004 and 2003, respectively.

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(4) Investments

At June 30, 2004 and 2003, fair values of University investments are as follows:

	(Stated in 000's)	
	<u>2004</u>	<u>2003</u>
Common and preferred stocks	\$331,736	\$269,603
Bonds	58,047	81,432
Short-term securities	20,938	29,682
Private equity	88,528	74,401
Faculty and staff mortgages	19,844	18,248
Trusts held by others	6,445	5,978
Real estate	<u>1,168</u>	<u>1,188</u>
 Total fair values	 <u>\$526,706</u>	 <u>\$480,532</u>

At June 30, 2004 the University had outstanding capital commitments to private equity funds totaling \$56,492,000.

A substantial portion of these assets are held by endowment, whose value at June 30, 2004 and 2003 was \$517,631,000 and \$472,251,000, respectively. These assets are included in an investment pool that is accounted for on a unitized market value basis, with each individual fund subscribing to or disposing of units on the basis of the market value per unit of the pool at the end of the calendar month within which the transaction took place. The value of the units is based on a total return investment policy.

Total University long-term investment activity consisted of the following for the years ended June 30:

	(Stated in 000's)	
	<u>2004</u>	<u>2003</u>
Interest and dividends	\$ 7,972	\$ 9,796
Realized and unrealized gains and losses	<u>69,893</u>	<u>7,461</u>
Total return on investments	\$77,865	\$17,257
Less: Management fees	<u>4,023</u>	<u>3,525</u>
Net return on investments	<u>\$73,842</u>	<u>\$13,732</u>

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The University follows a policy of spending between 4.5% and 5.5% of the 12-quarter moving average of the market value of the endowment in support of the operating and capital budgets. For fiscal 2004, \$27,889,000 was spent (\$27,510,000 in fiscal 2003), which represented 5.4% of the 12-quarter moving average of the market value of the endowment. Of this amount, \$1,958,000 (\$1,359,000 in fiscal 2003) is recorded in temporarily restricted net assets as part of income and gains.

In addition, \$2,030,000 (\$2,270,000 in fiscal 2003) was spent in support of the Capital Campaign. This represented 0.4% of the 12-quarter moving average of the market value of the endowment.

Also, \$7,502,000 (\$5,912,000 in fiscal 2003) was spent from the Campus Renewal Fund, which is a component of the endowment, to fund various capital and major maintenance projects.

The University funded a post-retirement benefit liability using \$2,904,000 (\$3,126,000 in fiscal 2003) from prior year realized gains.

(5) Investment in Plant

At June 30, 2004 and 2003, the components of the University's investment in plant were as follows:

	(Stated in 000's)	
	<u>2004</u>	<u>2003</u>
Campus land and improvements	\$ 24,865	\$ 23,793
Buildings	204,752	175,010
Equipment	68,573	63,855
Construction in progress	8,402	19,469
Less accumulated depreciation	<u>(120,049)</u>	<u>(112,547)</u>
Total	<u>\$186,543</u>	<u>\$169,580</u>

During fiscal 2004, \$457,000 of interest paid on the CHEFA E bond issue, net of any interest earned in the construction fund, was capitalized as part of the cost of construction.

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(6) Debt

At June 30, 2004 and 2003, long-term debt consisted of the following:

	(Stated in 000's)	
	<u>2004</u>	<u>2003</u>
Revenue bonds payable (CHEFA Series A)	\$ 0	\$ 1,960
Revenue bonds payable (CHEFA Series D)	93,000	93,000
Revenue bonds payable (CHEFA Series E)	62,000	0
Term loans	8,965	10,120
Total	<u>\$163,965</u>	<u>\$105,080</u>

CHEFA Series A

The Connecticut Health and Educational Facilities Authority (CHEFA) Series A lease obligation was established in 1972 at an effective net interest rate of 5.4% over the 30-year term. On July 1, 2003, Wesleyan made a principal payment of \$1,960,000, which retired this debt and reverted title to the University.

CHEFA Series D

The University issued \$93,000,000 in thirty-five year variable rate bonds through CHEFA in June 2001. The proceeds of the bond issue were used to refinance the CHEFA C bonds and a loan from Fleet Bank, which initially financed the Long Lane Property acquisition. The remaining bond proceeds were used to finance various facilities' renovations and new construction.

CHEFA Series E

In July 2003 the University issued \$62,000,000 in thirty-five year variable rate bonds through CHEFA. The bond proceeds will be used to finance an addition to the Freeman Athletic Center, Phase I of the University Center, Humanities District projects, classroom renovations and an undergraduate residence facility.

Swap Agreements

Subsequent to the issuance of the variable rate debt for both CHEFA Series D and E, the University entered into interest rate swap agreements with a

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financial institution counter-party. The purpose of the agreements were to fix the bond interest rate to provide a consistent budget target, and not for any speculative purposes. In January 2002 and March 2003, the variable rate was swapped for a fixed rate of 5.02% and 4.05% for CHEFA D and E, respectively. Under SFAS 133, *Accounting for Derivative and Hedging Activities*, the University's financial statements must reflect changes in the swap instrument's fair value. The University estimates this cumulative change for CHEFA D to be a decrease of \$13,905,000 at June 30, 2004 (\$27,021,000 at June 30, 2003) based upon pricing models that consider interest rates and other market factors. The cumulative change for CHEFA E is estimated to be an increase of \$616,000 and is included in other assets in the accompanying statement of financial position. Interest rate volatility, time to maturity, and remaining outstanding principal will affect each swap's fair value at subsequent reporting dates. If the University repays the debt on schedule, the value of each swap will reach zero at its final maturity.

Term Loans

In fiscal 2000, the University signed a term loan agreement with Fleet Bank for \$6,500,000 to finance the Perkins loan program. The interest rate is set at 7.49% and is payable over five years.

In December, 2003, the University borrowed \$3,800,000 from Key Government Finance to refinance a term loan with GE Capital for telecommunications equipment and an energy management system. The loan is payable over five years at a fixed rate of 4.0%.

Debt Maturities

Payments for the principal of all long-term debt for each of the next five fiscal years and thereafter are as follows:

(Stated in 000's)

2005	\$ 6,386
2006	826
2007	859
2008	894
2009	0
Thereafter	<u>155,000</u>
Total outstanding debt	<u>\$163,965</u>

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Debt Covenants

The preceding agreements impose certain restrictions upon the University with respect to incurring additional indebtedness, selling real property, and establishing liens or encumbrances on the mortgaged assets of the University.

Lines of Credit (LOC)

The University has a standing \$10,000,000 line of credit with Fleet Bank. As of June 30, 2004 and 2003, there were no outstanding advances under this LOC. The interest rate is set at 50 basis points above the LIBOR rate or the bank's cost of funds.

(7) *Other Post-Retirement Benefits*

The University provides certain health care benefits to retired employees. All of the University's employees, with 10 or more years of employment, become eligible for these benefits upon retirement. The University recognizes the cost of providing post-retirement health care benefits to the employees and dependents, if applicable, in the financial statements during the employees' active working lives. Faculty between the ages of 59 to 68 and staff between the ages of 60 to 65 who elect early retirement can continue in plans for active faculty and staff, which require premium sharing. Retired faculty who are 68 or older and retired non-faculty who are 65 or older participate in a different University paid Medicare supplement plan.

The post-retirement benefit expense for fiscal year 2004 and 2003 was \$2,904,000 and \$3,126,000, respectively, determined as follows:

	(Stated in 000's)	
	<u>2004</u>	<u>2003</u>
Interest on accumulated post-retirement benefit obligation	\$1,072	\$ 998
Service cost	849	653
Amortization of actuarial loss	1,416	1,908
Less benefits paid	<u>(433)</u>	<u>(433)</u>
Total	<u>\$2,904</u>	<u>\$3,126</u>

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The decrease in the annual expense was primarily attributable to a change in the discount rate from 6% to 6.25%.

The status of the University's plan and the amounts recognized in the balance sheet at June 30, 2004 and 2003 are as follows:

	(Stated in 000's)	
	<u>2004</u>	<u>2003</u>
Change in benefit obligation:		
Projected benefit obligation as of beginning of year	\$14,264	\$11,138
Service cost	849	653
Interest cost	1,072	998
Benefits paid	(433)	(433)
Amortization of actuarial loss	<u>1,416</u>	<u>1,908</u>
Projected benefit obligation and net liability recognized in the statement of financial position	<u>\$17,168</u>	<u>\$14,264</u>

The health care cost trend rates used in the calculations are as follows:

Active Employee Plan:	10.0% in fiscal 2004 reducing by 1% per year to an ultimate rate of 5%.
Medicare Supplement Plan:	14.0% in fiscal 2004 reducing by 1% per year to an ultimate rate of 5%.

A one-percentage point increase in health care cost trend would have increased the service cost and interest cost for fiscal 2004 by \$292,000 and the accumulated post-retirement benefit obligation by \$3,040,000.

The plan is funded on a pay-as-you-go basis. The benefits, as of June 30, 2004, expected to be paid in each of the next five fiscal years, and in the aggregate for the five fiscal years thereafter are as follows:

	(Stated in 000's)
2005	\$ 590
2006	690
2007	770
2008	880
2009	980
Five years thereafter	6,720

WESLEYAN UNIVERSITY
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Effective August 1, 2002, the University adopted a self-insured plan for both active and retired employees.

(8) Temporarily Restricted Net Assets

Temporarily restricted net assets consist of the following at June 30, 2004 and 2003:

	(Stated in 000's)	
	<u>2004</u>	<u>2003</u>
Restrictions for:		
Instruction and research	\$38,942	\$20,556
Financial aid	3,476	6,449
Facilities	3,510	3,722
Library	<u>206</u>	<u>15</u>
Subtotal	\$46,134	\$30,742
Time restrictions for		
charitable remainder trusts	10,412	9,167
Undesignated and Unrestricted	<u>2,427</u>	<u>19,962</u>
Pledges		
Total temporarily restricted	\$58,973	\$59,871
Net assets	<u>\$58,973</u>	<u>\$59,871</u>

Net assets released during fiscal 2004 and 2003 from temporary donor restrictions by incurring expenses satisfying the restricted purpose or by occurrence of events specified by donors were as follows:

	(Stated in 000's)	
	<u>2004</u>	<u>2003</u>
To Unrestricted:		
Instruction and research	\$ 4,565	\$ 3,533
Financial aid	4,111	3,640
Institutional support	480	330
Student services	637	702
Library	29	8
Pledge payments on unrestricted	5,826	3,504
gifts		
Expiration of time restrictions	<u>2,015</u>	<u>0</u>
Subtotal	\$17,663	\$11,717
To Permanent	<u>724</u>	<u>119</u>
Total	<u>\$18,387</u>	<u>\$11,836</u>

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(9) *Permanently Restricted Net Assets*

The original gift value of permanently restricted net assets consist of the following at June 30, 2004 and 2003:

	(Stated in 000's)	
	<u>2004</u>	<u>2003</u>
For which the income is restricted:		
Financial aid	\$ 52,004	\$ 47,759
Instruction and research	44,712	39,201
Facilities maintenance	3,794	3,789
Library	1,713	1,684
Loans to students	1,588	1,439
Wesleyan annual fund	109	109
Total	<u>\$103,920</u>	<u>\$ 93,981</u>
For which the income is unrestricted	<u>13,546</u>	<u>15,123</u>
Total permanently restricted net assets	<u>\$117,466</u>	<u>\$109,104</u>

Permanently restricted net assets are comprised of individual fund balances stated at historical dollar value. The fair value of certain of these individual funds was \$3,062,000 less than their historical dollar value due to investment losses at June 30, 2003. In accordance with SFAS 124, *Accounting for Certain Investments Held by Not-for-profit Organizations*, unrestricted net assets are used to remedy the deficiency caused by these losses. At June 30, 2004 the fair value of these funds increased by \$2,302,000, and this amount was credited to changes in unrestricted net assets.

(10) *Allocation of Physical Plant Operations, Major Maintenance Expenses, Depreciation and Interest Expenses*

The University has allocated all expenditures for physical plant operations, major maintenance expenses, depreciation and interest expenses to six functional expenditure categories based on square footage of facilities identified for each functional expenditure category. The expenditures and allocations for fiscal 2004 and 2003 are listed on the next page.

WESLEYAN UNIVERSITY
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	(Stated in 000's)	
	<u>2004</u>	<u>2003</u>
Expenditures:		
Physical plant operations	\$17,785	\$17,034
Major maintenance expenses and non-capitalized costs	9,644	10,183
Depreciation	7,840	7,034
Interest expense	<u>6,894</u>	<u>4,672</u>
Total expenditures to be allocated	<u>\$42,163</u>	<u>\$38,923</u>

Allocations to functional expenditure categories:

	(Stated in 000's)	
	<u>2004</u>	<u>2003</u>
Instruction	\$12,586	\$11,619
Research	4,216	3,892
Libraries	3,074	2,837
Student services	881	813
Institutional support	1,214	1,121
Auxiliary activities	<u>20,192</u>	<u>18,641</u>
Total allocations	<u>\$42,163</u>	<u>\$38,923</u>

(11) Pension Plan

The University has noncontributory defined contribution pension plans, with contributions being determined as a percentage of salary, covering substantially all employees. Total pension expense was \$4,303,600 and \$4,078,000 for fiscal 2004 and 2003, respectively.



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Independent Auditors' Report

The Board of Trustees
Wesleyan University:

We have audited the accompanying statements of financial position of Wesleyan University as of June 30, 2004 and 2003, and the related statements of changes in unrestricted net assets, changes in restricted net assets and cash flows for the years then ended. These financial statements are the responsibility of the University's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Wesleyan University as of June 30, 2004 and 2003, and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

KPMG LLP

September 20, 2004

WESLEYAN
UNIVERSITY



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