

ANNUAL FINANCIAL REPORT
YEAR ENDED JUNE 30, 2005

WESLEYAN
UNIVERSITY



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WESLEYAN

UNIVERSITY

Interim Vice President for Finance and Treasurer
237 High Street
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(860) 685-2934 FAX (860) 685-2458



For: The Board of Trustees

From: John C. Meerts

Date: October 25, 2005

Subject: FY 2004/05 Annual Financial Report

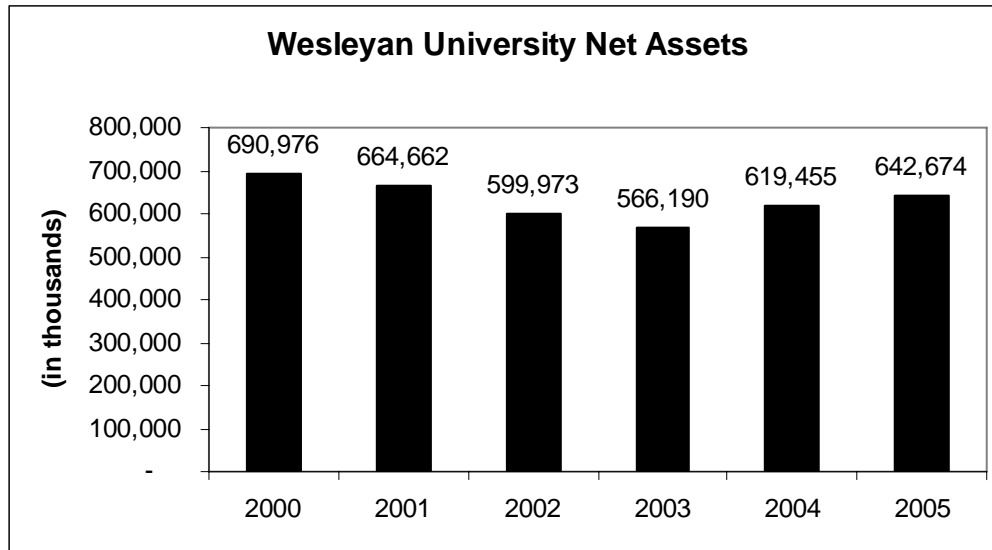
It is my pleasure to present the Wesleyan University Annual Financial Report. The Financial Report is the means through which the University presents its financial condition to the trustees, to donors and friends of the University and to external constituencies. We take great pride in the University's sound financial base demonstrated in these financial statements and in our history of operating 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 and a brief review of capital investments in the on-going Facilities Master Plan.

2004-2005 Year in Review

Wesleyan completed the fiscal year with revenue exceeding operating expenditures by over \$2 million. Total operating revenue and support for fiscal year 2004/05 was \$163.1 million, an increase of 3% from fiscal year 2003/04. Operating expenses were \$160.9 million, an increase of 3% from fiscal year 2003/04.

During the fiscal year ended June 30, 2005, Wesleyan University's net assets increased by \$23.2 million from \$619.5 million to \$642.7 million. The 9% growth in the market value of Wesleyan's endowment is the major factor in the increase in assets.

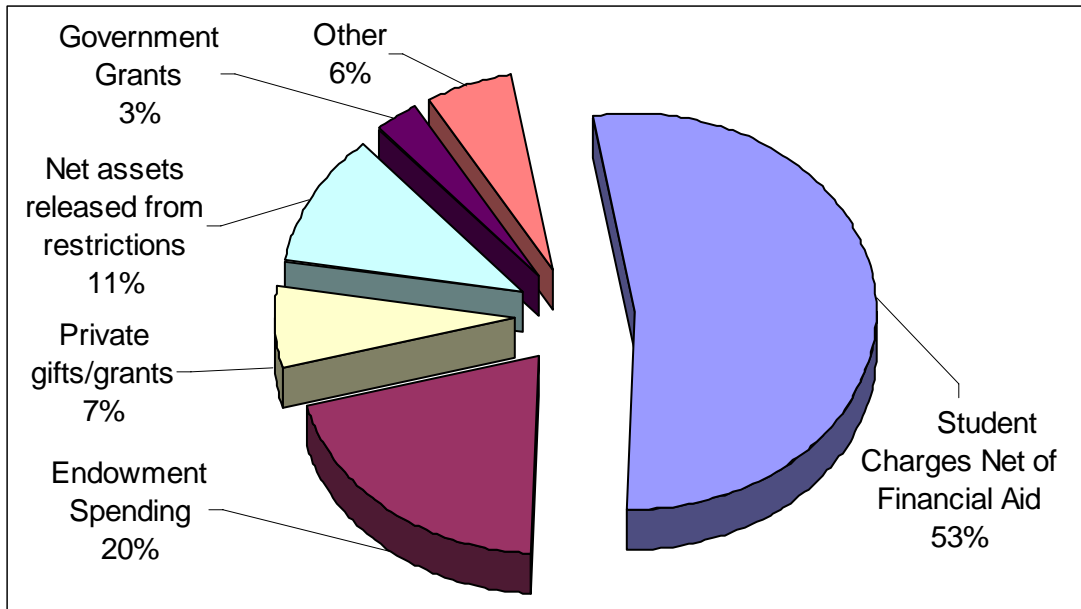


At the conclusion of the 2004/05 fiscal year, alumni, parents and friends had contributed \$31 million in gifts to the University, exceeding last year's amount of \$29 million. Wesleyan continues to increase the number of donors each year; we are extremely grateful for the extraordinary generosity of our alumni, parents, and friends.

Operations

Revenue

Student fees (tuition, room, and board), net of student financial aid, totaled \$87 million and comprised almost half of Wesleyan's total operating revenue. Net student charges increased 9% as tuition, room, and board rates increased at 6%, financial aid expenditures totaling \$35 million increased 3%. Enrollment was also more than 50 students higher than in 2003/04.

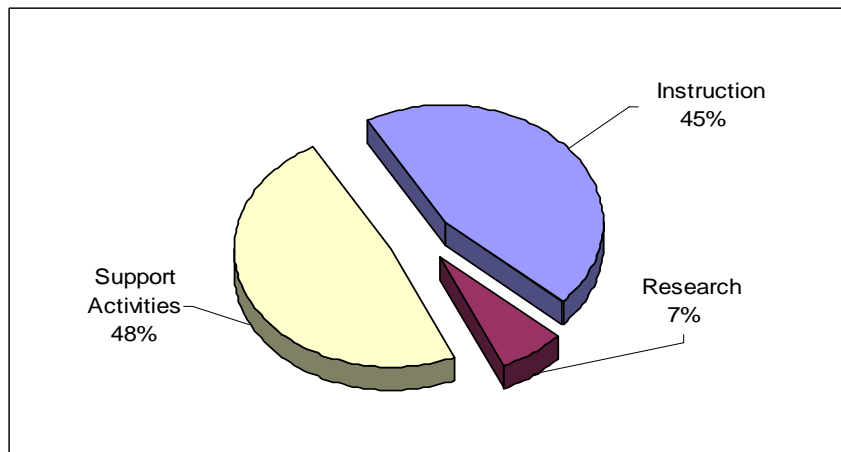


The second most significant source of revenue is endowment spending. At \$33 million, this support is determined in accordance with an endowment spending policy approved by the Board of Trustees. Endowment spending decreased because of lower prior year average market values. The endowment provides Wesleyan 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 11% in operating revenues while private gifts and grants contributed 7% of the operating revenue.

Expenditures

Over half of Wesleyan’s \$161 million operating budget is spent on its central academic mission, instruction and research. Instructional expenditures (\$72 million) increased 2%.

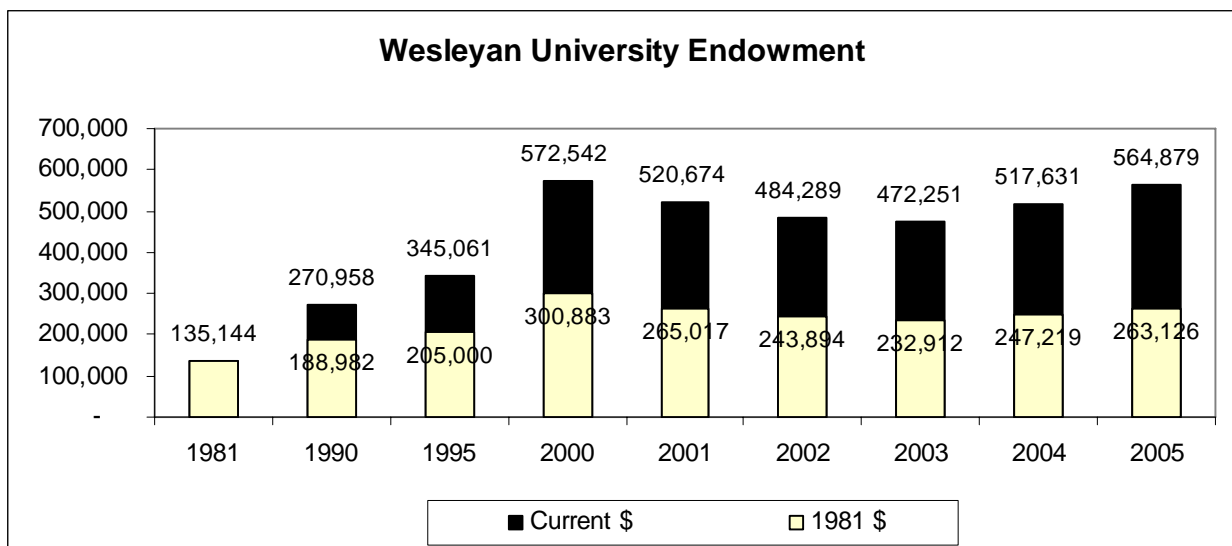


Wesleyan spends proportionately more on academic priorities and less on support activities than peer institutions.

Financial Assets to Support the University

Looking at the balance sheet, Wesleyan continues to maintain a healthy cash operating balance totaling \$20 million at fiscal year end. Student receivables remain very low. Other receivables increased because of anticipated reimbursement from the State of Connecticut for environmental cleanup costs at the Long Lane property. Pledges receivable amount to \$37 million, a \$6 million decrease from 2003/04, primarily reflecting a slowdown in new pledges at the end of a campaign.

Wesleyan’s endowment totaled \$564.9 million (\$263 million in 1981 dollars) at year end, an increase of \$47 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 95% in real value since 1981 when our goal was set to maintain the real value of the endowment.



Liabilities increased by \$15 million over fiscal year 2003/04. An \$18 million increase in liabilities is directly related to the interest rate swaps which allowed us to fix our variable bond rate and take advantage of historically low long-term interest rates. Long-term debt decreased from the retirement of a \$5.5 million term loan with Bank of America.

Wesleyan Campaign

Wesleyan surpassed its campaign goal of \$250 million by the campaign’s conclusion at the end of calendar year 2004 by \$31 million for a total of \$281 million. 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. Recently completed is the \$13 million addition to the Freeman Athletic Center. This project consolidated many of the University's athletic activities in one location. The completion of the Freeman Athletic Center addition freed up the center of campus site for the \$47 million Suzanne Lemberg Usdan University Center and corresponding improvements to the landscape. The University Center is under construction and is scheduled to open in the Fall of 2007. Also completed this summer were the new Fauver Field residence facilities (\$20.5 million) with 270 beds to house frosh and upperclass students. New senior houses (\$1.8 million) accommodating 24 new beds were also completed this summer. The Low Rise residences were renovated (\$1.6 million) this summer to include new fire sprinklers, finishes, and furniture.

The second phase of the Humanities District was completed this year with renovations (\$3.6 million) to the Downey House. Faculty in the English, Classical Studies and Romance Language departments are now enjoying 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 was completed this year. Construction of an \$800,000 addition to the Freeman Center for East Asian Studies is underway.

Demolition of 22 former state buildings at Long Lane is scheduled to be completed this fall. The former Cady school building at Long Lane was renovated this summer and now houses a consolidated facilities department. This project at total cost of \$3 million allowed the department to vacate 5 former shop and office locations on campus.

In August 2005 the University finalized its sale of \$48,000,000 in bonds through the Connecticut Health and Educational Facilities Authority. The bond proceeds will be used to finance the completion of the Suzanne Lemberg Usdan University Center, renovations to the Foss Hill Residence Halls, construction, renovations and fire safety upgrades for senior level housing, and electrical substation equipment replacement.

Conclusion

Fiscal year 2004/05 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, 2005

WESLEYAN UNIVERSITY
Statements of Financial Position
June 30, 2005 and 2004
(stated in 000's)

	<u>2005</u>	<u>2004</u>
ASSETS		
Cash and cash equivalents	\$ 20,471	\$ 19,160
Cash on deposit with bond trustee	12,012	41,838
Student accounts receivable, net of allowance for doubtful accounts of \$54 (\$651 in 2004)	101	88
Other accounts receivable	3,530	2,759
Investment income receivable	381	474
Pledges receivable (note 3)	37,585	43,044
Student loans receivable, net of allowance for doubtful loans of \$1,136 (\$1,136 in 2004)	8,380	8,551
Other assets (note 6)	3,143	3,319
Investments (note 4)	570,715	526,706
Investment in plant, at cost net of accumulated depreciation (notes 5 and 6)	214,446	186,543
Total assets	<u><u>\$ 870,764</u></u>	<u><u>\$ 832,482</u></u>
LIABILITIES		
Accounts payable and accrued expenses	\$ 11,370	\$ 9,311
Deposits and deferred revenues	1,645	1,573
Charitable remainder trusts	2,707	1,827
Post-retirement benefits (note 7)	17,804	17,168
Long-term debt (note 6)	157,579	163,965
Liability for interest rate swap (note 6)	31,707	13,905
Perkins loan program refundable	5,278	5,278
Total liabilities	<u><u>\$ 228,090</u></u>	<u><u>\$ 213,027</u></u>
NET ASSETS		
Unrestricted:		
For operations	\$ 14,949	\$ 14,486
For student loans	3,723	3,653
For long-term investment	311,770	300,079
Invested in property, plant and equipment	128,714	124,798
Total unrestricted	<u><u>\$ 459,156</u></u>	<u><u>\$ 443,016</u></u>
Temporarily restricted (note 8)	60,165	58,973
Permanently restricted (note 9)	123,353	117,466
Total net assets	<u><u>\$ 642,674</u></u>	<u><u>\$ 619,455</u></u>
Total liabilities and net assets	<u><u>\$ 870,764</u></u>	<u><u>\$ 832,482</u></u>

See accompanying notes to financial statements.

WESLEYAN UNIVERSITY
Statements of Changes in Unrestricted Net Assets
Years ended June 30, 2005 and 2004
(stated in 000's)

	<u>2005</u>	<u>2004</u>
REVENUES FROM OPERATIONS		
Tuition	\$ 97,568	\$ 90,499
Room and board	24,008	22,626
Less undergraduate scholarships and graduate tuition remission	<u>(34,701)</u>	<u>(33,573)</u>
Net student charges	86,875	79,552
Investment Return		
Interest and dividends	3,671	3,307
Gains used in support of operations (note 4)	29,697	32,156
Private gifts and grants	10,623	11,416
Federal, state and local grants	5,181	6,225
Other	6,250	5,148
Auxiliary activities	3,045	2,686
Net assets released from restrictions (note 8)	<u>17,721</u>	<u>17,663</u>
Total revenues from operations	<u>\$ 163,063</u>	<u>\$ 158,153</u>
EXPENDITURES		
Instruction	\$ 72,399	\$ 70,636
Research	10,567	10,416
Libraries	10,092	9,848
Student Services	9,198	8,997
Institutional support	19,198	18,383
Other	1,514	1,726
Auxiliary activities	<u>37,921</u>	<u>36,847</u>
Total expenditures	<u>\$ 160,889</u>	<u>\$ 156,853</u>
Revenues in excess of expenditures from operations	\$ 2,174	\$ 1,300
NON-OPERATING ACTIVITIES		
Realized and unrealized gains (note 4)	\$ 62,718	\$ 65,829
Allocation of accumulated gains for operations (note 4)	(29,697)	(32,156)
Adjustment for post retirement benefit liability (note 7)	(636)	(2,904)
Net gain/(loss) on interest rate swaps (note 6)	<u>(18,419)</u>	<u>13,732</u>
Total non-operating activities	<u>\$ 13,966</u>	<u>\$ 44,501</u>
 Change in unrestricted net assets	 16,140	 45,801
 Unrestricted net assets at beginning of year	 <u>443,016</u>	 <u>397,215</u>
 Unrestricted net assets at end of year	 <u>\$ 459,156</u>	 <u>\$ 443,016</u>

See accompanying notes to financial statements.

WESLEYAN UNIVERSITY
Statements of Changes in Restricted Net Assets
Years ended June 30, 2005 and 2004
(stated in 000's)

TEMPORARILY RESTRICTED NET ASSETS	2005	2004
Revenues and other additions:		
Gifts	\$ 12,232	\$ 13,405
Investment income (note 4)	481	489
Realized and unrealized gains/(losses) (note 4)	6,200	3,595
Total revenues and other additions	<u>\$ 18,913</u>	<u>\$ 17,489</u>
Net assets released from restrictions (note 8)	<u>(17,721)</u>	<u>(18,387)</u>
Change in temporarily restricted net assets	\$ 1,192	\$ (898)
Temporarily restricted net assets at beginning of year	<u>58,973</u>	<u>59,871</u>
Temporarily restricted net assets at end of year	<u><u>\$ 60,165</u></u>	<u><u>\$ 58,973</u></u>
PERMANENTLY RESTRICTED NET ASSETS		
Revenues and other additions:		
Gifts	\$ 5,622	\$ 7,016
Reinvested investment income (note 4)	243	153
Temporary gifts released from restriction (note 8)	-	724
Realized and unrealized gains/(losses) on outside trusts (note 4)	22	469
Change in permanently restricted net assets	\$ 5,887	\$ 8,362
Permanently restricted net assets at beginning of year	<u>117,466</u>	<u>109,104</u>
Permanently restricted net assets at end of year	<u><u>\$ 123,353</u></u>	<u><u>\$ 117,466</u></u>
TOTAL NET ASSETS		
Change in total net assets	\$ 23,219	\$ 53,265
Total net assets at beginning of year	<u>619,455</u>	<u>566,190</u>
Total net assets at end of year	<u><u>\$ 642,674</u></u>	<u><u>\$ 619,455</u></u>

See accompanying notes to financial statements.

WESLEYAN UNIVERSITY
Statements of Cash Flows
Years ended June 30, 2005 and 2004
(stated in 000's)

	2005	2004
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets:	\$ 23,219	\$ 53,265
Adjustments to reconcile change in net assets to cash used for operating activities:		
Gains from investments	(68,940)	(69,893)
Gifts received for long-term investment	(11,019)	(8,872)
Adjustment for interest rate swap	18,419	(13,732)
Post retirement benefits accrual	636	2,904
Depreciation	8,295	7,840
Change in working capital	6,242	3,398
Net cash used for operations	\$ (23,148)	\$ (25,090)
 CASH FLOWS FROM INVESTMENT ACTIVITIES		
Additions to property and equipment	\$ (35,118)	\$ (22,972)
Purchases of investments	(317,233)	(325,451)
Sales of investments	342,180	349,170
(Increase)/decrease in restricted cash with bond trustee	29,826	(41,838)
Issuance and repayment of student loans	171	369
Net cash (used for)/provided by investment activities	\$ 19,826	\$ (40,722)
 CASH FLOWS FROM FINANCING ACTIVITIES		
Gifts for long-term investment	\$ 11,019	\$ 8,872
Issuance of long term debt	-	65,800
Repayments of long term debt	(6,386)	(6,915)
Net cash provided by financing activities	\$ 4,633	\$ 67,757
 Net change in cash and cash equivalents	\$ 1,311	\$ 1,945
Cash and cash equivalents at beginning of year	19,160	17,215
Cash and cash equivalents at end of year	\$ 20,471	\$ 19,160
 Cash paid for interest	\$ 7,041	\$ 7,219

See accompanying notes to financial statements.

WESLEYAN UNIVERSITY
Notes to Financial Statements
June 30, 2005 and 2004

(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 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.

WESLEYAN UNIVERSITY
Notes to Financial Statements
June 30, 2005 and 2004

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 income those 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. University management is responsible for the fair value measurements of investments reported in the financial statements. The University has implemented policies and procedures to assess the reasonableness of the fair values provided, and believes that reported fair values at the balance sheet date are reasonable. These securities represent 19% and 17% of the University's investments at June 30, 2005 and 2004, respectively.

Operations

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

WESLEYAN UNIVERSITY
Notes to Financial Statements
June 30, 2005 and 2004

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.

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 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.

WESLEYAN UNIVERSITY
Notes to Financial Statements
June 30, 2005 and 2004

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 2004 financial statements have been reclassified to conform to the fiscal 2005 presentation.

(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 2.0% and prior year pledges at an average rate of 1.5%. 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>2005</u>	<u>2004</u>
Less than one year	\$16,772	\$24,917
One to five years	21,109	18,485
More than five years	<u>5,688</u>	<u>6,196</u>
	\$43,569	\$49,598
Less allowance for uncollectible pledges	(3,950)	(4,363)
Less discount for present value	<u>(2,034)</u>	<u>(2,191)</u>
Net pledges receivable	<u>\$37,585</u>	<u>\$43,044</u>

WESLEYAN UNIVERSITY
Notes to Financial Statements
June 30, 2005 and 2004

Pledges are for the following purposes:

	(Stated in 000's)			2004
	2005		Total	Total
	Permanently Restricted	Temporarily Restricted		
Undesignated	\$ 120	\$ 2,469	\$ 2,589	\$ 2,802
Academic programs	5,002	3,984	8,986	10,897
Financial aid	6,892	0	6,892	10,295
Building additions & renovations	0	4,434	4,434	3,567
Unrestricted	0	14,684	14,684	15,483
Total	\$ 12,014	\$ 25,571	\$ 37,585	\$ 43,044

University Relations expenditures, which are primarily for fundraising purposes and alumni activity, totaled \$5,644,000 and \$5,679,000 in fiscal years 2005 and 2004, respectively.

(4) Investments

At June 30, 2005 and 2004, fair values of University investments are as follows:

(Stated in 000's)

	<u>2005</u>	<u>2004</u>
Common and preferred stocks	\$365,634	\$331,736
Bonds	49,144	58,047
Short-term securities	37,762	20,938
Private equity	107,768	88,528
Mortgages and notes receivable	2,794	19,844
Trusts held by others	6,466	6,445
Real estate	1,147	1,168
Total fair values	<u>\$570,715</u>	<u>\$526,706</u>

At June 30, 2005 the University had outstanding capital commitments to private equity funds totaling \$38,537,000.

A substantial portion of these assets are held by endowment, whose value at June 30, 2005 and 2004 was \$564,879,000 and \$517,631,000, respectively. These assets are

WESLEYAN UNIVERSITY
Notes to Financial Statements
June 30, 2005 and 2004

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>2005</u>	<u>2004</u>
Interest and dividends	\$ 8,174	\$ 7,972
Realized and unrealized gains and losses	<u>68,940</u>	<u>69,893</u>
Total return on investments	\$77,114	\$77,865
Less: Management fees	<u>3,779</u>	<u>4,023</u>
Net return on investments	<u>\$73,335</u>	<u>\$73,842</u>

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 2005, \$26,942,000 was spent (\$27,889,000 in fiscal 2004), which represented 5.5% of the 12-quarter moving average of the market value of the endowment. Of this amount, \$1,928,000 (\$1,958,000 in fiscal 2004) is recorded in temporarily restricted net assets as part of income and gains.

In addition, \$2,030,000 (\$2,030,000 in fiscal 2004) 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, \$6,324,000 (\$7,502,000 in fiscal 2004) was spent from the Campus Renewal Fund, which is a component of the endowment, to fund various capital and major maintenance projects.

(5) Investment in Plant

At June 30, 2005 and 2004, the components of the University's investment in plant were as follows:

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Notes to Financial Statements
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(Stated in 000's)

	<u>2005</u>	<u>2004</u>
Campus land and improvements	\$ 25,669	\$ 24,865
Buildings	221,272	204,752
Equipment	71,808	68,573
Construction in progress	23,125	8,402
Less accumulated depreciation	<u>(127,428)</u>	<u>(120,049)</u>
Total	<u>\$214,446</u>	<u>\$186,543</u>

During fiscal 2005, \$813,000 of interest paid on the CHEFA E bond issue, net of interest earned in the construction fund, was capitalized as part of the cost of construction (\$457,000 in fiscal 2004).

(6) Debt

At June 30, 2005 and 2004, long-term debt consisted of the following:

(Stated in 000's)

	<u>2005</u>	<u>2004</u>
Revenue bonds payable (CHEFA Series D)	\$ 93,000	\$ 93,000
Revenue bonds payable (CHEFA Series E)	62,000	62,000
Term loans	<u>2,579</u>	<u>8,965</u>
Total	<u>\$157,579</u>	<u>\$163,965</u>

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 (now Bank of America), 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 are being used to finance an addition to the

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Freeman Athletic Center, Phase I of the University Center, Humanities District projects, classroom renovations and an undergraduate residence facility.

Swap Agreements

The interest rate swap agreements with financial institution counterparties for the years ending June 30 are as follows (in thousands):

<u>Trade Date</u>	<u>Notional amount</u>	<u>Maturity</u>	<u>Purpose</u>	<u>Fair Value at June 30,</u>	
				<u>2005</u>	<u>2004</u>
November 29, 2001	\$ 93,000	July 1, 2035	Swap variable rate of the CHEFA Series D bonds for a fixed rate of 5.02%	\$(21,962)	\$(13,905)
March 10, 2003	62,000	July 1, 2038	Swap variable rate of the CHEFA Series E bonds for a fixed rate of 4.05%	(6,117)	616
January 7, 2005	36,000	July 1, 2040	Swap variable rate of the CHEFA Series F bonds for a fixed rate of 4.14%	<u>(3,628)</u>	<u>-</u>
			Total value of agreements	<u><u>\$(31,707)</u></u>	<u><u>\$(13,289)</u></u>

On January 7, 2005, the University entered into a forward interest rate swap agreement with a financial institution counter party on all of the CHEFA Series F variable-rate bonds. The purpose of the agreement was to swap the variable rate of \$36,000,000 of CHEFA Series F bonds for a fixed rate of 4.14% effective September 15, 2006 for the remaining life of the bonds (See note 11).

Under SFAS No. 133, *Accounting for Derivative Instruments and Hedging Activities*, as amended by SFAS No. 138, *Accounting for Certain Derivative Instruments and Certain Hedging Activities*, the instrument's fair value and changes therein must be included in the University's financial statements. The value of the swap instruments represent the estimated cost to the University to cancel the agreement at each reporting date and is based on pricing models that consider interest rates and other market factors. Interest rate volatility, remaining outstanding principal and time to maturity will affect the swaps' fair value at subsequent reporting dates. If the University repays the debt on schedule, the value of the swaps will reach zero at their final maturity.

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Notes to Financial Statements
June 30, 2005 and 2004

Term Loans

In fiscal 2000, the University signed a term loan agreement with Fleet Bank (now Bank of America) for \$6,500,000 to finance the Perkins loan program. The interest rate is set at 7.49%. This loan was paid in its entirety during Fiscal 2005.

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)
2006	\$ 826
2007	859
2008	894
2009	0
2010	0
Thereafter	<u>155,000</u>
Total outstanding debt	<u>\$157,579</u>

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. The University is in compliance with all debt covenants.

Line of Credit (LOC)

The University has a standing \$10,000,000 line of credit with Bank of America. As of June 30, 2005 and 2004, 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.

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(7) Benefit Plans

(a) Defined Contribution 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 \$4,406,000 and \$4,303,600 for fiscal 2005 and 2004, respectively.

(b) 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 status of the University's plan and the amounts recognized in the balance sheet at June 30, 2005 and 2004 are as follows:

	(Stated in 000's)	
	<u>2005</u>	<u>2004</u>
Change in benefit obligation:		
Projected benefit obligation as of beginning of year	\$20,000	\$18,080
Service cost	908	849
Interest cost	946	1,072
Benefits paid	(544)	(433)
Actuarial (gain)/loss	<u>(4,853)</u>	<u>432</u>
Projected benefit obligation as of end of year	\$16,457	\$20,000
Funded status:		
Unrecognized net actuarial gain/(loss)	<u>1,347</u>	<u>(2,832)</u>
Net benefit liability recognized in the statements of financial position	<u>\$17,804</u>	<u>\$17,168</u>

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Components of net periodic benefit cost are as follows for the years ended June 30:

	<u>2005</u>	<u>2004</u>
Interest on accumulated post-retirement benefit obligation	\$ 946	\$1,072
Service cost	908	849
Amortization of actuarial loss (gain)	<u>(674)</u>	<u>1,416</u>
Total	<u>\$1,180</u>	<u>\$3,337</u>

This cost is allocated as follows:

	<u>2005</u>	<u>2004</u>
Operations	\$544	\$ 433
Non-operating	\$636	\$2,904

The following assumptions were used in the measurement of net periodic benefit cost and the projected benefit obligation:

	<u>2005</u>	<u>2004</u>
Weighted Average Discount Rate	5.25%	6.25%

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

Active Employee Plan:	10.0% in fiscal 2005 reducing by 1% per year to an ultimate rate of 5%.
Medicare Supplement Plan:	14.0% in fiscal 2005 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 2005 by \$377,000 and the accumulated post-retirement benefit obligation by \$2,647,000.

The benefits, as of June 30, 2005, 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)

2006	544
2007	433
2008	504
2009	550
2010	617
Five years thereafter	4,520

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The decrease in the annual expense was primarily attributable to the estimated impact of the Medicare Part D subsidy.

(8) Temporarily Restricted Net Assets

Temporarily restricted net assets consist of the following at June 30, 2005 and 2004:

	(Stated in 000's)	
	<u>2005</u>	<u>2004</u>
Restrictions for:		
Instruction and research	\$41,385	\$38,942
Financial aid	1,282	3,476
Facilities	4,393	3,510
Library	32	206
Subtotal	<u>\$47,092</u>	<u>\$46,134</u>
Time restrictions for		
charitable remainder trusts	10,944	10,412
Undesignated and Unrestricted Pledges	<u>2,129</u>	<u>2,427</u>
Total temporarily restricted		
Net assets	<u>\$60,165</u>	<u>\$58,973</u>

Net assets released during fiscal 2005 and 2004 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>2005</u>	<u>2004</u>
To Unrestricted:		
Instruction and research	\$ 5,783	\$ 4,565
Financial aid	4,087	4,111
Institutional support	656	480
Student services	635	637
Library	1	29
Pledge payments on unrestricted gifts	6,376	5,826
Expiration of time restrictions	183	2,015
Subtotal	<u>\$17,721</u>	<u>\$17,663</u>
To Permanent	0	724
Total	<u>\$17,721</u>	<u>\$18,387</u>

WESLEYAN UNIVERSITY
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June 30, 2005 and 2004

(9) Permanently Restricted Net Assets

The original gift value of permanently restricted net assets consist of the following at June 30, 2005 and 2004:

	(Stated in 000's)	
	<u>2005</u>	<u>2004</u>
For which the income is restricted:		
Financial aid	\$ 55,807	\$ 52,004
Instruction and research	46,565	44,712
Facilities maintenance	3,855	3,794
Library	1,721	1,713
Loans to students	1,743	1,588
Wesleyan annual fund	109	109
Total	<u>\$109,800</u>	<u>\$103,920</u>
For which the income is unrestricted	<u>13,553</u>	<u>13,546</u>
Total permanently restricted net assets	<u>\$123,353</u>	<u>\$117,466</u>

Permanently restricted net assets are comprised of individual fund balances stated at historical dollar value. As of June 30, 2003, the fair market value of certain of these individual funds declined from their historic dollar value by a total of \$3,062,000 due to investment losses. In accordance with SFAS 124, *Accounting for Certain Investments Held by Not-for-profit Organizations*, unrestricted net assets were charged for the deficiency caused by these losses. During the years ended June 30, 2005 and 2004, the fair market value of these funds increased \$10,000 and \$2,302,000, respectively, and unrestricted net assets were increased by this amount.

(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 2005 and 2004 are listed below.

	(Stated in 000's)	
	<u>2005</u>	<u>2004</u>
Expenditures:		
Physical plant operations	\$17,293	\$17,785
Major maintenance expenses and non-capitalized costs	10,596	9,644
Depreciation	8,295	7,840
Interest expense	6,875	6,894
Total expenditures to be allocated	<u>\$43,059</u>	<u>\$42,163</u>

WESLEYAN UNIVERSITY
Notes to Financial Statements
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Allocations to functional expenditure categories:

(Stated in 000's)

	<u>2005</u>	<u>2004</u>
Instruction	\$12,853	\$12,586
Research	4,306	4,216
Libraries	3,139	3,074
Student services	900	881
Institutional support	1,240	1,214
Auxiliary activities	<u>20,621</u>	<u>20,192</u>
Total allocations	<u>\$43,059</u>	<u>\$42,163</u>

(11) Subsequent Event

In August 2005 the University finalized its sale of \$48,000,000 in thirty-five year bonds through CHEFA. \$12,000,000 of these Series F bonds was issued at a variable rate. The remaining \$36,000,000 were issued at a variable rate and fixed through a swap agreement to an interest rate of 4.14% beginning September 15, 2006 (See note 6). The bond proceeds will be used to finance the completion of the University Center, renovations to the Foss Hill Residence Halls, construction, renovations and fire safety upgrades for senior level housing and electrical substation equipment replacement.



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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 (University) as of June 30, 2005 and 2004, 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 consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the University's internal control over financial reporting. Accordingly, we express no such opinion. 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, 2005 and 2004, 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 13, 2005

WESLEYAN
UNIVERSITY



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