

ANNUAL FINANCIAL REPORT
YEAR ENDED JUNE 30, 2006

WESLEYAN
UNIVERSITY



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Vice President and Secretary/Interim Dean of the College
Vice President for University Relations
Vice President and Chief Investment Officer

WESLEYAN

U N I V E R S I T Y

Vice President for Finance and Administration
237 High Street
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For: The Board of Trustees

From: John C. Meerts

Date: October 27, 2006

Subject: FY 2005/06 Annual Financial Report

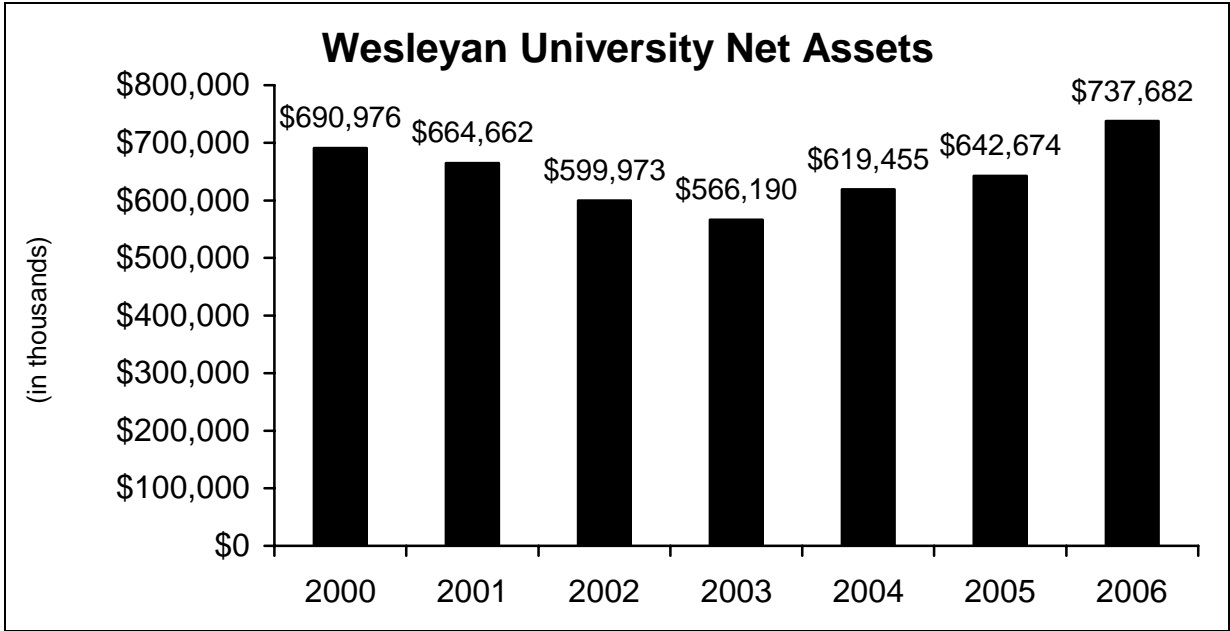
It is my pleasure to present the Wesleyan University Annual Financial Report. The Financial Report is the means through which the University presents its financial condition to the trustees, to donors and friends of the University and to external constituencies. We take great pride in the University's 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 auditors' report thereon, we have provided a summary of the results of the recent FY and a brief review of capital investments in the on-going Facilities Master Plan.

2005-2006 Year in Review

Total operating revenue and support for FY 2005/06 was \$172.2 million, an increase of 6% from FY 2004/05. Operating expenses were \$167.1 million, an increase of 4% from FY 2004/05.

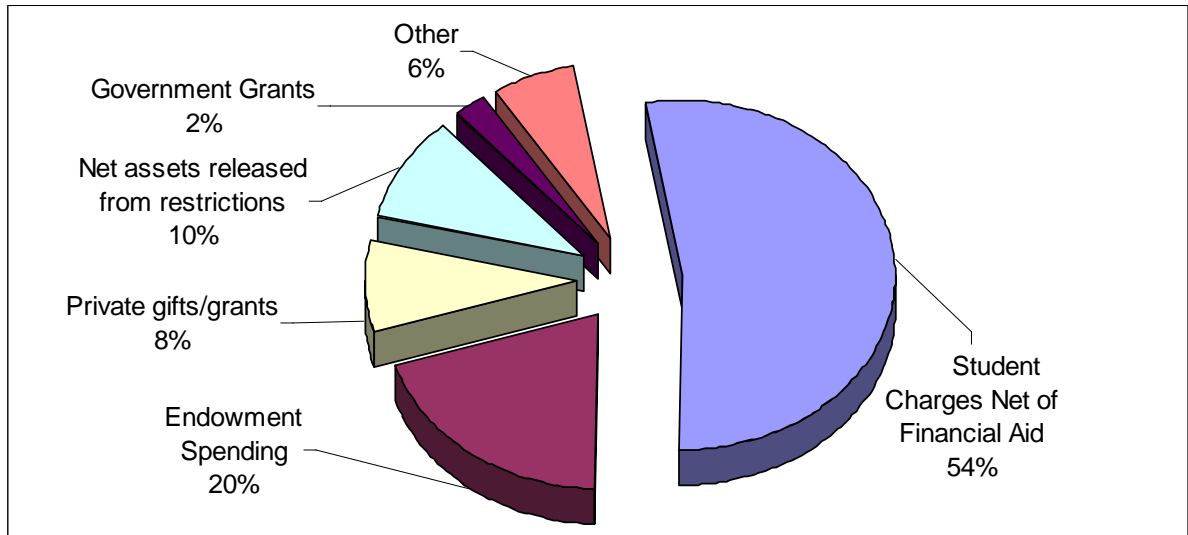
During the FY ended June 30, 2006, Wesleyan University's net assets increased by \$95.0 million from \$642.7 million to \$737.7 million. The 9.7% increase in the market value of Wesleyan's endowment and increase in gift pledges are the major factors in the increase in net assets.



Operations

Revenue

Student fees (tuition, room, and board), net of student financial aid, totaled \$91 million and comprised more than half of Wesleyan's total operating revenue. Net student charges increased 5% as tuition, room, and board rates increased at 5%, financial aid expenditures totaling \$35 million increased 2%. Enrollment was also more than 20 students lower than in FY 2004/05.

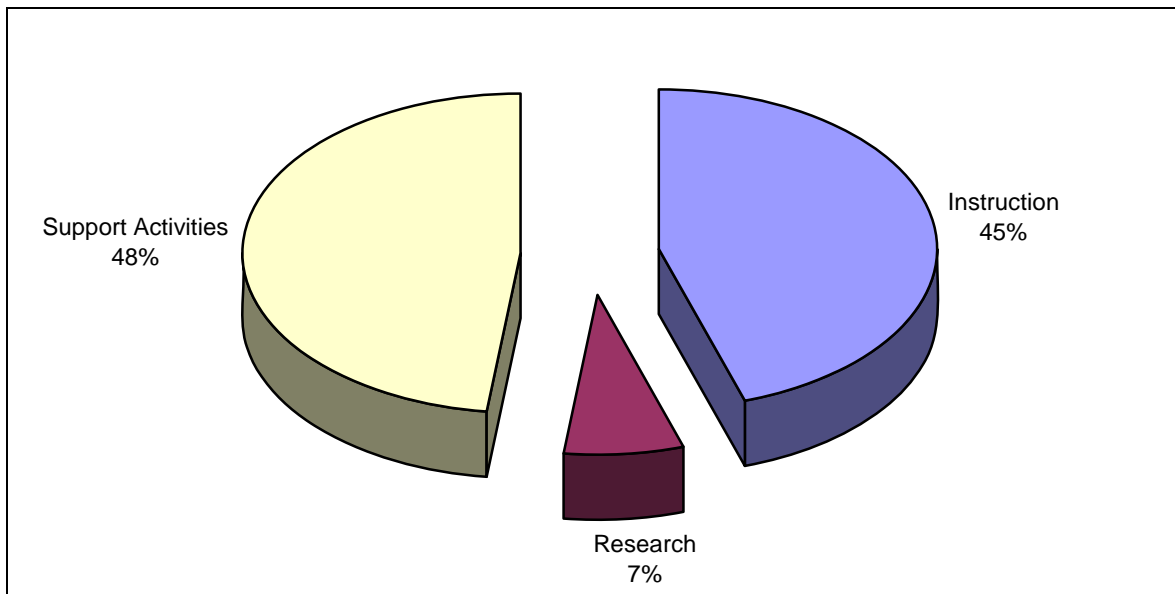


The second most significant source of revenue is endowment spending. At \$34 million, this support is determined in accordance with an endowment spending policy approved by the Board of Trustees. Endowment spending increased 3%. The endowment provides Wesleyan with resources that support a wide variety 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 8% of the operating revenue.

Expenditures

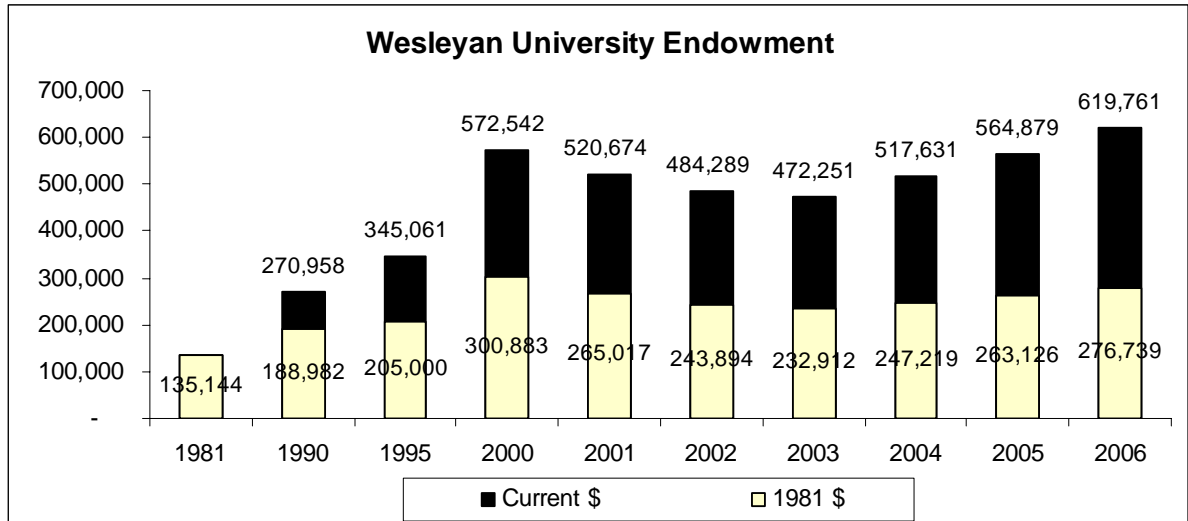
Over half of Wesleyan's \$167 million operating budget is spent on its central academic mission, instruction and research. Instructional expenditures (\$75 million) increased 3%. In addition, Wesleyan spends proportionately more on academic priorities and less on support activities than peer institutions.



Financial Assets to Support the University

Throughout the year Wesleyan's cash position fluctuated between a range of \$2 million to \$34 million, and ended the FY at \$15 million. Pledges receivable total \$59 million, a \$21 million increase from FY 2004/05, primarily reflecting the gift from the Freeman Foundation in support of the Freeman Scholars Program.

Wesleyan's endowment totaled \$619.8 million (\$277 million in 1981 dollars) at year end, an increase of \$55 million. We are extremely pleased to see how well the endowment has fared. We also note that the endowment has increased 105% in real value since 1981 when our goal was set to maintain the real value of the endowment.



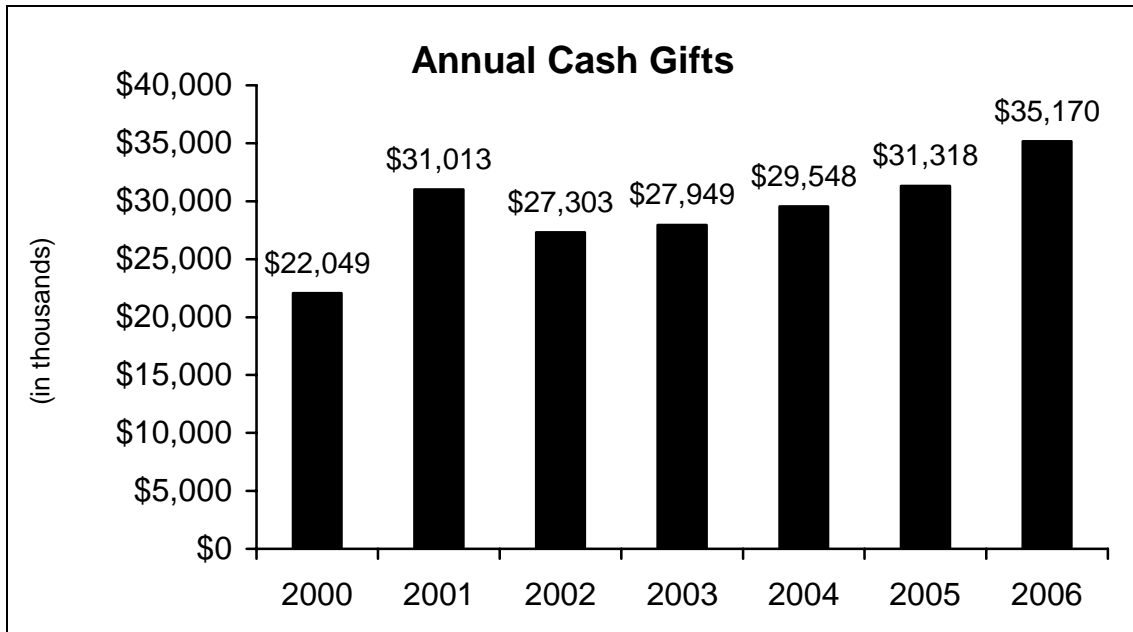
Liabilities increased by \$33 million over FY 2004/05. Long-term debt increased from the CHEFA F issuance. A \$21 million decrease in liabilities is directly related to the interest rate swaps which allowed us to fix our variable bond rate and take advantage of historically low long-term interest rates. A new accounting standard required Wesleyan to recognize \$10 million in future obligations associated with remediation of asbestos and lead in our buildings.

Wesleyan Fundraising

In FY 2005/06, alumni, parents, and friends gave \$35.2 million to Wesleyan University (\$3.9 million more than the 2005 record), with 54% alumni participation.

Wesleyan fundraising supports students and faculty in three ways:

- Increases resources directed to student aid and strengthens our need-blind admissions initiative,
- Enables us to continue to expand and improve academic programs, and
- Supports campus facilities renewal through renovations, technology enhancements, and infrastructure improvements.



Wesleyan's fundraising department, University Relations, recently received the Circle of Excellence Award for Educational Fundraising (CASE).

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. The Suzanne Lemberg Usdan University Center is under construction and the \$47 million project is scheduled to open for the Fall 2007 semester. An addition to the Freeman Center for East Asian Studies (\$0.8 million) was completed this year and design for Phase 2 of the Center for Film Studies (\$4.625 million) is underway. The third phase of the Humanities District is under construction with the renovations to 285 Court Street (\$1 million) for the English department faculty offices and classrooms. Renovations to the Science Library (\$2 million) are nearing completion and a new prototype information commons area was completed in the Olin Library (\$0.1 million).

A number of projects to improve fire safety in undergraduate housing were completed this year resulting in fire sprinklers being added to 706 beds. Renovations included the eleven residence halls of Foss Hill affecting 526 beds (\$7 million). A new fifteen bed senior house (\$1.125 million) was constructed this year and dozens of existing senior houses were renovated this summer. The eighth floor of HiRise undergraduate student housing was renovated as Phase 1 of a multi year project. New furniture was purchased and installed in all senior housing this summer rendering all undergraduate housing on campus to be furnished.

A new synthetic turf field (\$1.2 million) was completed this spring at Long Lane following the demolition of twenty two former State owned buildings. Engineers are designing a new electrical substation to increase campus power capacity and are studying the feasibility of a new CoGen facility to generate electricity and reduce annual utility costs.

Conclusion

FY 2005/06 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, 2006

WESLEYAN UNIVERSITY
Statements of Financial Position
June 30, 2006 and 2005
(stated in 000's)

	<u>2006</u>	<u>2005</u>
ASSETS		
Cash and cash equivalents	\$ 14,538	\$ 20,471
Student accounts receivable, net of allowance for doubtful accounts of \$128 (\$54 in 2005)	344	101
Other accounts receivable	3,675	3,530
Investment income receivable	876	381
Receivable for interest rate swap (note 6)	2,698	-
Pledges receivable (note 3)	58,846	37,585
Student loans receivable, net of allowance for doubtful loans of \$1,129 (\$1,136 in 2005)	7,967	8,380
Other assets (note 6)	3,002	3,143
Investments (note 4)	629,211	570,715
Cash on deposit with bond trustee	37,492	12,012
Investment in plant, at cost net of accumulated depreciation (notes 5 and 6)	239,813	214,446
Total assets	<u>\$ 998,462</u>	<u>\$ 870,764</u>
LIABILITIES		
Accounts payable and accrued expenses	\$ 9,166	\$ 11,370
Deposits and deferred revenues	621	1,645
Charitable remainder trusts	2,995	2,707
Post-retirement benefits (note 7)	17,496	17,804
Long-term debt (note 6)	204,753	157,579
Liability for interest rate swap (note 6)	10,580	31,707
Asset retirement obligation (note 11)	9,891	-
Perkins loan program refundable	5,278	5,278
Total liabilities	<u>\$ 260,780</u>	<u>\$ 228,090</u>
NET ASSETS		
Unrestricted:		
For operations	\$ 19,395	\$ 14,949
For student loans	2,184	3,723
For long-term investment	371,748	311,770
Invested in property, plant and equipment	124,241	128,714
Total unrestricted	<u>\$ 517,568</u>	<u>\$ 459,156</u>
Temporarily restricted (note 8)	92,510	60,165
Permanently restricted (note 9)	127,604	123,353
Total net assets	<u>\$ 737,682</u>	<u>\$ 642,674</u>
Total liabilities and net assets	<u>\$ 998,462</u>	<u>\$ 870,764</u>

See accompanying notes to financial statements.

WESLEYAN UNIVERSITY
Statements of Changes in Unrestricted Net Assets
Years ended June 30, 2006 and 2005
(stated in 000's)

	2006	2005
REVENUES FROM OPERATIONS		
Tuition	\$ 100,540	\$ 97,568
Room and board	26,131	24,008
Less undergraduate scholarships and graduate tuition remission	(35,292)	(34,701)
Net student charges	91,379	86,875
Investment Return		
Interest and dividends	3,221	3,671
Gains used in support of operations (note 4)	31,007	29,697
Private gifts and grants	14,422	10,623
Federal, state and local grants	4,303	5,181
Other	7,802	6,250
Auxiliary activities	2,970	3,045
Net assets released from restrictions (note 8)	17,052	17,721
Total revenues from operations	\$ 172,156	\$ 163,063
 EXPENDITURES		
Instruction	\$ 74,624	\$ 72,217
Research	10,905	10,559
Libraries	10,564	10,079
Student Services	9,564	9,170
Institutional support	20,170	19,433
Other	2,586	1,515
Auxiliary activities	38,667	37,916
Total expenditures	\$ 167,080	\$ 160,889
Revenues in excess of expenditures from operations	\$ 5,076	\$ 2,174
 NON-OPERATING ACTIVITIES		
Realized and unrealized gains (note 4)	\$ 68,672	\$ 62,718
Allocation of accumulated gains for operations (note 4)	(31,007)	(29,697)
Adjustment for post retirement benefit liability (note 7)	308	(636)
Net gain/(loss) on interest rate swaps (note 6)	23,826	(18,419)
Total non-operating activities	\$ 61,799	\$ 13,966
 Cumulative effect of change in accounting principle (note 11)	\$ (8,463)	\$ -
 Change in unrestricted net assets	58,412	16,140
 Unrestricted net assets at beginning of year	459,156	443,016
 Unrestricted net assets at end of year	\$ 517,568	\$ 459,156

See accompanying notes to financial statements.

WESLEYAN UNIVERSITY
Statements of Changes in Restricted Net Assets
Years ended June 30, 2006 and 2005
(stated in 000's)

TEMPORARILY RESTRICTED NET ASSETS	<u>2006</u>	<u>2005</u>
Revenues and other additions:		
Gifts	\$ 42,433	\$ 12,232
Investment income (note 4)	204	481
Realized and unrealized gains/(losses) (note 4)	6,760	6,200
Total revenues and other additions	<u>\$ 49,397</u>	<u>\$ 18,913</u>
Net assets released from restrictions (note 8)	<u>(17,052)</u>	<u>(17,721)</u>
Change in temporarily restricted net assets	\$ 32,345	\$ 1,192
Temporarily restricted net assets at beginning of year	<u>60,165</u>	<u>58,973</u>
Temporarily restricted net assets at end of year	<u><u>\$ 92,510</u></u>	<u><u>\$ 60,165</u></u>
PERMANENTLY RESTRICTED NET ASSETS		
Revenues and other additions:		
Gifts	\$ 3,842	\$ 5,622
Reinvested investment income (note 4)	267	243
Realized and unrealized gains/(losses) on outside trusts (note 4)	142	22
Change in permanently restricted net assets	\$ 4,251	\$ 5,887
Permanently restricted net assets at beginning of year	<u>123,353</u>	<u>117,466</u>
Permanently restricted net assets at end of year	<u><u>\$ 127,604</u></u>	<u><u>\$ 123,353</u></u>
TOTAL NET ASSETS		
Change in total net assets	\$ 95,008	\$ 23,219
Total net assets at beginning of year	<u>642,674</u>	<u>619,455</u>
Total net assets at end of year	<u><u>\$ 737,682</u></u>	<u><u>\$ 642,674</u></u>

See accompanying notes to financial statements.

WESLEYAN UNIVERSITY
Statements of Cash Flows
Years ended June 30, 2006 and 2005
(stated in 000's)

	2006	2005
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets:	\$ 95,008	\$ 23,219
Adjustments to reconcile change in net assets to cash used for operating activities:		
Gains from investments	(75,574)	(68,940)
Gifts received for long-term investment	(11,023)	(11,019)
Adjustment for interest rate swaps	(23,826)	18,419
Post retirement benefits accrual	(308)	636
Depreciation	9,162	8,295
Change in accounting principle	8,463	-
Change in working capital	(25,291)	6,242
Net cash used for operations	\$ (23,389)	\$ (23,148)
 CASH FLOWS FROM INVESTMENT ACTIVITIES		
Additions to property and equipment	\$ (32,755)	\$ (35,118)
Purchases of investments	(323,700)	(317,233)
Sales of investments	340,781	342,180
(Increase)/decrease in restricted cash with bond trustee	(25,480)	29,826
Issuance and repayment of student loans	413	171
Net cash (used for)/provided by investment activities	\$ (40,741)	\$ 19,826
 CASH FLOWS FROM FINANCING ACTIVITIES		
Gifts for long-term investment	\$ 11,023	\$ 11,019
Proceeds from issuance of long term debt	48,000	-
Repayments of long term debt	(826)	(6,386)
Net cash provided by financing activities	\$ 58,197	\$ 4,633
 Net change in cash and cash equivalents	\$ (5,933)	\$ 1,311
Cash and cash equivalents at beginning of year	20,471	19,160
Cash and cash equivalents at end of year	\$ 14,538	\$ 20,471
 Cash paid for interest	\$ 8,550	\$ 7,041

See accompanying notes to financial statements.

WESLEYAN UNIVERSITY
Notes to Financial Statements

(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 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.

WESLEYAN UNIVERSITY
Notes to Financial Statements

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.

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 17% and 19% of the University's investments at June 30, 2006 and 2005, respectively.

WESLEYAN UNIVERSITY
Notes to Financial Statements

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 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

WESLEYAN UNIVERSITY
Notes to Financial Statements

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.

The University recognizes the fair value of a liability for legal obligations associated with asset retirements in the period in which the obligation is incurred, in accordance with Financial Accounting Standards Board (FASB) Interpretation No. 47, *Accounting for Conditional Asset Retirement Obligations – an interpretation of FASB Statement No. 143* if a reasonable estimate of the fair value of the obligation can be made. When the liability is initially recorded, the cost of the asset retirement obligation is capitalized by increasing the carrying amount of the related long lived asset. The liability is accreted to its present value each period, and the capitalized cost associated with the retirement obligation is depreciated over the useful life of the related asset. Upon settlement of the obligation, any difference between the cost to settle the asset retirement obligation and the liability recorded is recognized as a gain or loss in the statement of operations.

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

Use of Estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles require 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 2005 financial statements have been reclassified to conform to the fiscal 2006 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 4.0% 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>2006</u>	<u>2005</u>
Less than one year	\$20,459	\$16,772
One to five years	32,435	21,109
More than five years	<u>19,366</u>	<u>5,688</u>
	\$72,260	\$43,569
Less allowance for uncollectible pledges	(6,408)	(3,950)
Less discount for present value	<u>(7,006)</u>	<u>(2,034)</u>
Net pledges receivable	<u>\$58,846</u>	<u>\$37,585</u>

WESLEYAN UNIVERSITY
Notes to Financial Statements

Pledges are for the following purposes:

	(Stated in 000's)			2005
	2006		Total	
	Permanently Restricted	Temporarily Restricted		
Undesignated	\$ 110	\$ 1,602	\$ 1,712	\$ 2,589
Academic programs	3,958	2,842	6,800	8,986
Financial aid	4,835	29,006	33,841	6,892
Building additions & renovations	0	5,909	5,909	4,434
Unrestricted	0	10,584	10,584	14,684
Total	\$ 8,903	\$ 49,943	\$ 58,846	\$ 37,585

University Relations expenditures, which are primarily for fundraising purposes and alumni activity, totaled \$6,220,000 and \$5,644,000 in fiscal years 2006 and 2005, respectively.

(4) Investments

At June 30, 2006 and 2005, fair values of University investments are as follows:

	(Stated in 000's)	
	<u>2006</u>	<u>2005</u>
Common and preferred stocks	\$453,263	\$365,634
Bonds	38,042	49,144
Short-term securities	18,998	37,762
Private equity	105,221	107,768
Mortgages and notes receivable	5,954	2,794
Trusts held by others	6,606	6,466
Real estate	<u>1,127</u>	<u>1,147</u>
Total fair values	<u>\$629,211</u>	<u>\$570,715</u>

WESLEYAN UNIVERSITY
Notes to Financial Statements

At June 30, 2006 the University had outstanding capital commitments to private equity funds totaling \$37,634,000.

A portion of these assets are held by endowment, whose value at June 30, 2006 and 2005 was \$619,761,000 and \$564,879,000, 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>2006</u>	<u>2005</u>
Net investment income	\$ 3,692	\$ 4,395
Realized and unrealized gains and losses	<u>75,574</u>	<u>68,940</u>
Net return on investments	<u>\$79,266</u>	<u>\$73,335</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 2006, \$27,614,000 was spent (\$26,942,000 in fiscal 2005), which represented 5.5% of the 12-quarter moving average of the market value of the endowment. Of this amount, \$1,886,000 (\$1,928,000 in fiscal 2005) is recorded in temporarily restricted net assets as part of income and gains.

In addition, \$2,030,000 (\$2,030,000 in fiscal 2005) 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, \$6,470,000 (\$6,324,000 in fiscal 2005) was spent from the Campus Renewal Fund, which is a component of the endowment, to fund various capital and major maintenance projects.

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(5) **Investment in Plant**

At June 30, 2006 and 2005, the components of the University's investment in plant were as follows:

	(Stated in 000's)	
	<u>2006</u>	<u>2005</u>
Campus land and improvements	\$ 25,704	\$ 25,669
Buildings	248,007	221,272
Equipment	75,799	71,808
Construction in progress	25,168	23,125
Less accumulated depreciation	<u>(134,865)</u>	<u>(127,428)</u>
Total	<u>\$239,813</u>	<u>\$214,446</u>

During fiscal 2006, the University capitalized net interest expense on construction in progress in the amount of \$432,000 for CHEFA E and \$473,000 for CHEFA F (\$813,000 on CHEFA E in fiscal 2005).

(6) **Debt**

At June 30, 2006 and 2005, long-term debt consisted of the following:

	(Stated in 000's)	
	<u>2006</u>	<u>2005</u>
Revenue bonds payable (CHEFA Series D)	\$ 93,000	\$ 93,000
Revenue bonds payable (CHEFA Series E)	62,000	62,000
Revenue bonds payable (CHEFA Series F)	48,000	0
Term loans	1,753	2,579
Total	<u>\$204,753</u>	<u>\$157,579</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 were used to finance an addition

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

CHEFA Series F

In August 2005 the University finalized its sale of \$48,000,000 in thirty-five year variable rate bonds through CHEFA. The bond proceeds are being 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.

Swap Agreements

The University's 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>2006</u>	<u>2005</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%	\$ (10,580)	\$(21,962)
March 10, 2003	62,000	July 1, 2038	Swap variable rate of the CHEFA Series E bonds for a fixed rate of 4.05%	1,984	(6,117)
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>714</u>	<u>(3,628)</u>
			Net value of agreements	<u>\$ (7,882)</u>	<u>\$(31,707)</u>

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 instruments' 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

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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.

Term Loans

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% with the final payment due in Fiscal 2008.

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)
2007	\$ 859
2008	894
2009	0
2010	0
2011	0
Thereafter	<u>203,000</u>
Total outstanding debt	<u><u>\$204,753</u></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, 2006 and 2005, there were no outstanding advances under this

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LOC. The interest rate is set at 50 basis points above the LIBOR rate or the bank's cost of funds.

(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 \$4,596,300 and \$4,406,000 for fiscal 2006 and 2005, 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, 2006 and 2005 are as follows:

	(Stated in 000's)	
	<u>2006</u>	<u>2005</u>
Change in benefit obligation:		
Projected benefit obligation as of beginning of year	\$16,457	\$20,000
Service cost	890	908
Interest cost	837	946
Benefits paid	(488)	(544)
Actuarial gain	<u>(3,296)</u>	<u>(4,853)</u>
Projected benefit obligation as of end of year	\$14,400	\$16,457
Funded status:		
Unrecognized net actuarial gain	<u>3,096</u>	<u>1,347</u>
Net benefit liability recognized in the statements of financial position	<u>\$17,496</u>	<u>\$17,804</u>

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

	<u>2006</u>	<u>2005</u>
Interest on accumulated post-retirement benefit obligation	\$ 837	\$ 946
Service cost	890	908
Amortization of actuarial gain	<u>(1,547)</u>	<u>(674)</u>
Total	<u>\$180</u>	<u>\$1,180</u>

This cost is allocated as follows:

	<u>2006</u>	<u>2005</u>
Operations	\$488	\$544
Non-operating	(\$308)	\$636

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

	<u>2006</u>	<u>2005</u>
Weighted Average Discount Rate	6.50%	5.25%

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

Active Employee Plan:	14.0% in fiscal 2006 reducing by 1% per year to an ultimate rate of 5%.
Medicare Supplement Plan:	14.0% in fiscal 2006 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 2006 by \$342,000 and the accumulated post-retirement benefit obligation by \$2,199,000.

The benefits, as of June 30, 2006, 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:

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	(Stated in 000's)
2007	\$ 433
2008	503
2009	549
2010	615
2011	694
Five years thereafter	5,008

(8) Temporarily Restricted Net Assets

Temporarily restricted net assets consist of the following at June 30, 2006 and 2005:

	(Stated in 000's)	
	<u>2006</u>	<u>2005</u>
Restrictions for:		
Instruction and research	\$40,042	\$41,385
Financial aid	33,811	1,282
Facilities	5,870	4,393
Library	35	32
Subtotal	<u>\$79,758</u>	<u>\$47,092</u>
Time restrictions for		
charitable remainder trusts	11,402	10,944
Undesignated and unrestricted	<u>1,350</u>	<u>2,129</u>
pledges		
Total temporarily restricted net assets	<u>\$92,510</u>	<u>\$60,165</u>

Net assets released during fiscal 2006 and 2005 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>2006</u>	<u>2005</u>
To Unrestricted:		
Instruction and research	\$ 6,694	\$ 5,783
Financial aid	4,558	4,087
Institutional support	747	656
Student services	402	635
Library	2	1
Pledge payments on unrestricted gifts	4,479	6,376
Expiration of time restrictions	170	183
Total net assets released	<u>\$17,052</u>	<u>\$17,721</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, 2006 and 2005:

	(Stated in 000's)	
	<u>2006</u>	<u>2005</u>
For which the income is restricted:		
Financial aid	\$ 59,709	\$ 55,807
Instruction and research	46,627	46,565
Facilities maintenance	3,920	3,855
Library	1,754	1,721
Loans to students	1,930	1,743
Total	<u>\$113,940</u>	<u>\$109,691</u>
For which the income is unrestricted	<u>13,664</u>	<u>13,662</u>
Total permanently restricted net assets	<u>\$127,604</u>	<u>\$123,353</u>

(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 2006 and 2005 are listed below.

	(Stated in 000's)	
	<u>2006</u>	<u>2005</u>
Expenditures:		
Physical plant operations	\$19,199	\$17,293
Major maintenance expenses and non-capitalized costs	8,561	10,596
Depreciation	9,162	8,295
Interest expense	7,589	6,875
Total expenditures to be allocated	<u>\$44,511</u>	<u>\$43,059</u>

Allocations to functional expenditure categories:

	(Stated in 000's)	
	<u>2006</u>	<u>2005</u>
Instruction	\$13,287	\$12,853
Research	4,451	4,306
Libraries	3,245	3,139
Student services	930	900

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Institutional support	1,282	1,240
Auxiliary activities	<u>21,316</u>	<u>20,621</u>
Total allocations	<u>\$44,511</u>	<u>\$43,059</u>

(11) Change in Accounting Principle

As of July 1, 2005, the University adopted the provisions of FASB Interpretation No. 47, *Accounting for Conditional Asset Retirement Obligations*. In accordance with the standard, the University determined what its obligations were, when the obligations were incurred, and when the obligations were likely to be remediated. The University undertook an analysis of its physical plant and determined that it had an aggregate conditional asset retirement obligation related to asbestos installation and lead in buildings on its campus. Based upon its analysis, the University recorded a liability of \$9,891,000 of which \$8,463,000 was recorded as a cumulative effect of a change in accounting principle.



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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, 2006 and 2005, 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 also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Wesleyan University as of June 30, 2006 and 2005, and the changes in its net assets and its cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

As discussed in note 11 to the financial statements, the University adopted FASB Interpretation No. 47, *Accounting for Conditional Asset Retirement Obligations*, effective July 1, 2005.

KPMG LLP

October 19, 2006

WESLEYAN
UNIVERSITY



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