



WESLEYAN UNIVERSITY

Independent Auditors' Reports as Required by Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* and *Government Auditing Standards* and Related Information

Year ended June 30, 2019

WESLEYAN UNIVERSITY

Independent Auditors' Reports as Required by Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards and Government Auditing Standards* and Related Information

Year ended June 30, 2019

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Independent Auditors' Report

The Board of Trustees
Wesleyan University:

Report on the Financial Statements

We have audited the accompanying financial statements of Wesleyan University (the University), which comprise the statement of financial position as of June 30, 2019, the related statements of activities and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the University as of June 30, 2019, and the changes in its net assets and its cash flows for the year then ended in accordance with U.S. generally accepted accounting principles.



Emphasis of Matters

As discussed in Note 2(m) to the financial statements, in 2019, the University adopted Financial Accounting Standards Board Accounting Standards Update (ASU) No. 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*; ASU No. 2014-09, *Revenue from Contracts with Customers (Topic 606)*, as amended; ASU No. 2018-08, *Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*; and ASU No. 2017-07, *Compensation – Retirement Benefits (Topic 715): Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost*. Our opinion is not modified with respect to these matters.

Report on Summarized Comparative Information

We have previously audited the University's 2018 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated October 29, 2018. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2018 is consistent, in all material respects, with the audited financial statements from which it has been derived before the adjustments to adopt ASU No. 2016-14 and ASU No. 2017-07. As part of our audit of the 2019 financial statements, we also audited the adjustments described in Note 2(m) that were applied to adopt ASU No. 2016-14 and ASU 2017-07 retrospectively in the 2018 financial statements. In our opinion, such adjustments are appropriate and have been properly applied.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated October 28, 2019 on our consideration of the University's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the University's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the University's internal control over financial reporting and compliance.

KPMG LLP

October 28, 2019

WESLEYAN UNIVERSITY

Statement of Financial Position

June 30, 2019

(With comparative financial information for June 30, 2018)

(In thousands of dollars)

	<u>2019</u>	<u>2018</u>
Assets		
Cash and cash equivalents	\$ 27,091	16,575
Short-term investments	37,058	50,234
Receivables, net, and other assets	11,235	10,382
Pledges receivable, net	15,539	21,236
Long-term investments	1,103,148	1,080,880
Investment in plant	347,521	335,865
	<u>1,541,592</u>	<u>1,515,172</u>
Total assets	\$ 1,541,592	1,515,172
Liabilities and Net Assets		
Liabilities:		
Accounts payable and accrued expenses	\$ 20,621	18,579
Liabilities associated with investments	5,085	9,950
Student deposits and deferred revenues	1,915	1,921
Split-interest obligations	9,726	9,789
Postretirement benefit obligation	18,815	23,021
Long-term debt	280,629	280,604
Asset retirement obligation	12,531	12,217
Federal student loan advances	4,042	4,042
	<u>353,364</u>	<u>360,123</u>
Total liabilities	353,364	360,123
Net assets:		
Without donor restrictions	396,851	382,050
With donor restrictions	791,377	772,999
	<u>1,188,228</u>	<u>1,155,049</u>
Total net assets	1,188,228	1,155,049
Total liabilities and net assets	\$ <u>1,541,592</u>	<u>1,515,172</u>

See accompanying notes to financial statements.

WESLEYAN UNIVERSITY

Statement of Activities

Year ended June 30, 2019

(With summarized comparative financial information for the year ended June 30, 2018)

(In thousands of dollars)

	2019			Total 2018
	Without donor restrictions	With donor restrictions	Total	
Operating activities:				
Revenues and other support:				
Net student charges	\$ 156,786	—	156,786	148,158
Contributions	13,087	—	13,087	10,779
Government and foundation grants	7,307	—	7,307	11,664
Other revenues	9,729	—	9,729	12,812
Nonoperating net assets used in operations:				
Endowment return used in operations	41,281	—	41,281	39,044
Restricted and designated net assets used in operations	3,346	—	3,346	2,541
Total revenues and other support	<u>231,536</u>	<u>—</u>	<u>231,536</u>	<u>224,998</u>
Expenses:				
Salaries and benefits	128,198	—	128,198	127,901
Supplies, services and other	68,400	—	68,400	68,674
Interest expense	12,647	—	12,647	12,625
Depreciation	10,330	—	10,330	10,350
Total expenses	<u>219,575</u>	<u>—</u>	<u>219,575</u>	<u>219,550</u>
Changes in net assets from operating activities	<u>11,961</u>	<u>—</u>	<u>11,961</u>	<u>5,448</u>
Nonoperating activities:				
Contributions	647	18,265	18,912	18,721
Foundation grants	—	2,164	2,164	—
Net investment return	12,142	29,545	41,687	126,999
Nonoperating net assets used in operations	(44,627)	—	(44,627)	(41,585)
Other changes	(823)	(138)	(961)	(763)
Postretirement benefit obligation changes other than service cost	4,043	—	4,043	(1,512)
Net assets released from restrictions	31,458	(31,458)	—	—
Total non-operating activities	<u>2,840</u>	<u>18,378</u>	<u>21,218</u>	<u>101,860</u>
Change in net assets	14,801	18,378	33,179	107,308
Net assets at beginning of year	<u>382,050</u>	<u>772,999</u>	<u>1,155,049</u>	<u>1,047,741</u>
Net assets at end of year	\$ <u>396,851</u>	<u>791,377</u>	<u>1,188,228</u>	<u>1,155,049</u>

See accompanying notes to financial statements.

WESLEYAN UNIVERSITY

Statement of Cash Flows

Year ended June 30, 2019

(With comparative financial information for the year ended June 30, 2018)

(In thousands of dollars)

	<u>2019</u>	<u>2018</u>
Cash flows from operating activities:		
Change in net assets	\$ 33,179	107,308
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Depreciation	10,330	10,350
Amortization of bond premium and cost of issuance	25	25
Net gains from investments and trusts	(44,600)	(128,766)
Gifts received for long-term investment	(22,271)	(17,817)
Gifts of property received for investment	—	—
Postretirement benefit obligation change	(4,206)	1,592
Changes in assets and liabilities that provide (use) cash:		
Receivables, net and other assets	(853)	2,311
Pledges receivable, net	5,697	1,816
Accounts payable	1,424	2,957
Student deposits and deferred revenues	(6)	(903)
Change in valuation of split-interest obligations	850	819
Asset retirement obligation	314	(496)
Net cash used in operating activities	<u>(20,117)</u>	<u>(20,804)</u>
Cash flows from investing activities:		
Additions to property and equipment	(21,368)	(21,934)
Change in deposit with brokers for short sales	3,951	(4,871)
Purchases of securities sold short	(21,240)	(6,944)
Purchases of long-term investments	(215,620)	(177,696)
Sales of securities sold short	15,903	11,931
Sales of long-term investments	233,606	209,717
Purchases of short-term investments	(158,924)	(102,502)
Sales of short-term investments	172,967	99,940
Net cash provided by investing activities	<u>9,275</u>	<u>7,641</u>
Cash flows from financing activities:		
Gifts received for long-term investment	22,271	17,817
Payments to beneficiaries of split-interest agreements	(913)	(896)
Draws on line of credit	39,000	40,000
Repayments of line of credit	(39,000)	(40,000)
Repayments of long-term debt	—	(750)
Repayment of federal student loan advances	—	(741)
Net cash provided by financing activities	<u>21,358</u>	<u>15,430</u>
Net change in cash and cash equivalents	10,516	2,267
Cash and cash equivalents at beginning of year	<u>16,575</u>	<u>14,308</u>
Cash and cash equivalents at end of year	\$ <u><u>27,091</u></u>	\$ <u><u>16,575</u></u>
Other cash flow information:		
Cash paid for interest	\$ 12,646	12,600
Change in accounts payable related to property and equipment	618	(2,410)

See accompanying notes to financial statements.

WESLEYAN UNIVERSITY

Notes to Financial Statements

June 30, 2019

(with summarized comparative information for June 30, 2018)

(dollars in thousands)

(1) Organization

Wesleyan University (the 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 students situated on a 280-acre campus, located in Middletown, Connecticut. It offers Bachelors of Arts in 45 fields, plus Masters and PhDs in selected disciplines. The University is accredited by the New England Commission of Higher Education.

(2) Summary of Significant Accounting Policies

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

(a) Basis of Reporting

The financial statements of the University have been prepared on the accrual basis in accordance with U.S. generally accepted accounting principles (GAAP). The University applies the Financial Accounting Standards Board's (FASB's) Accounting Standards Codification (ASC), which is the single source of authoritative GAAP.

The financial statements include prior year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with GAAP. Accordingly, such information should be read in conjunction with the University's financial statements for the year ended June 30, 2018, from which the summarized information was derived, before the adjustments described in note 2(m) that were applied to adopt ASU No. 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*, and ASU No. 2017-07, *Compensation – Retirement Benefits (Topic 715): Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost*.

(b) Net Asset Classes

The accompanying financial statements present information regarding the University's financial position and activities based upon the existence or absence of donor-imposed restrictions in the following net asset categories:

With donor restrictions: net assets subject to donor restrictions that expire with the passage of time, can be fulfilled by actions pursuant to the stipulations, or which may be perpetual.

Without donor restrictions: net assets not subject to donor stipulations restricting their use.

(c) Statement of Activities

The statement of activities reports changes in net assets from operating and nonoperating activities. Operating revenues consist of those items attributable to the University's undergraduate and graduate education programs and research conducted by the academic departments, as well as all contributions other than those restricted for long-term investment or not available for current operations.

WESLEYAN UNIVERSITY

Notes to Financial Statements

June 30, 2019

(with summarized comparative information for June 30, 2018)

(dollars in thousands)

Nonoperating activities include investment return on long-term investments, postretirement benefit obligation adjustments other than service cost, changes in value of split-interest agreements, as well as certain items not related to the University's ongoing academic or research activities. To the extent nonoperating contributions, investment income and returns are used for operations, they are reclassified as nonoperating assets used in operations.

(d) Revenue Recognition

(i) Net Student Charges

Net student charges consist of tuition and fees and room and board charges, which are recorded as revenue in the year in which the related services are rendered. Revenue from student charges is determined based on published rates and billed and reflected net of reductions from institutional financial aid, which may be funded by endowment funds or other institutional resources. Disbursements made directly to students for living costs or other purposes are reported as an expense. Student charges received in advance of services rendered are categorized as student deposits and deferred revenues in the statement of financial position.

Student charges were as follows for the years ended June 30, 2019 and 2018:

	<u>2019</u>	<u>2018</u>
Tuition and fees, net of financial aid of \$67,566 and \$61,870, respectively	\$ 109,216	103,067
Room and board	<u>47,570</u>	<u>45,091</u>
Net student charges	<u>\$ 156,786</u>	<u>148,158</u>

(ii) Contributions

Contributions, including unconditional promises to give, are recognized in the period received. Contributions of assets other than cash are reported at their estimated fair value. Contributions to be received after one year are discounted at the appropriate rate commensurate with the risks involved. Amortization of the discount is recorded as additional contribution revenue. Contributions of cash or other assets that must be used to acquire long-lived assets are reported as increases in net assets with donor restrictions until the assets are acquired and placed in service.

The University accounts for nonexchange transfers of assets from government agencies and foundations as contributions. Contributions containing both a barrier and a right of return are accounted for as conditional contributions, and revenue is recognized when conditions are met.

(e) Cash Equivalents and Short-Term Investments

Cash equivalents include only short-term, highly liquid working capital investments (those with original maturities three months or less). Short-term investments include amounts invested in short-term, liquid assets selected to provide optimum return for the University's ongoing operations.

WESLEYAN UNIVERSITY

Notes to Financial Statements

June 30, 2019

(with summarized comparative information for June 30, 2018)

(dollars in thousands)

(f) Receivables

The University extends credit to students in the form of accounts receivable and loans for educational purposes. At June 30, 2019 and 2018, student accounts receivable were \$963 and \$854, net of an allowance for doubtful accounts of \$339 and \$356 respectively. Student loans receivable at June 30, 2019 and 2018 were \$4,027 and \$4,879, respectively, net of an allowance for doubtful accounts of \$1,061 and \$1,061, respectively.

(g) Fair Value Measurements

Investments are reported at fair value. Fair value generally represents the price that would be received upon the sale of an asset or paid upon the transfer of a liability in an orderly transaction between market participants as of the measurement date. If an investment is held directly by the University and an active market with quoted prices exists, the University reports the fair value as the quoted price of an identical security.

The University also holds alternative investments such as private equity, venture capital, hedge funds, and real asset strategies. Such alternative investments, generally held through funds, may hold securities or other financial instruments for which an active market exists and are priced accordingly. In addition, such funds may hold assets which require the estimation of fair values in the absence of readily determinable market values. Such valuations are determined by fund managers and generally consider variables such as operating results, comparable earnings multiples, projected cash flows, recent sales prices, and other pertinent information, and may reflect discounts for the illiquid nature of certain investments held.

The University generally applies the provisions of ASC 820-35-58, *Investments in Certain Entities that Calculate Net Asset Value (NAV) Per Share (or Equivalent)*, with respect to investments in nonregistered and alternative funds. This guidance allows for the estimation of the fair value of such investments using NAV per share or its equivalent reported by the fund managers as a practical expedient.

These investments are generally redeemable or may be liquidated at NAV under the original terms of the subscription agreements and operations of the underlying funds. However, it is possible that these redemption rights may be restricted or eliminated by the funds in the future in accordance with the underlying fund agreements. The nature of certain investments held by these funds, changes in market conditions and the economic environment may significantly impact the NAV of the funds and, consequently, the fair value of the University's interests in the funds. Furthermore, changes to the liquidity provisions of the funds may significantly impact the fair value of the University's interest in the funds. Although certain investments may be sold in secondary market transactions, subject to meeting certain requirements of the governing documents of the funds, the secondary market is not active and individual transactions are not necessarily observable. It is therefore reasonably possible that if the University were to sell its interest in a fund in the secondary market, the sale could occur at an amount materially different than the reported value.

WESLEYAN UNIVERSITY
Notes to Financial Statements
June 30, 2019
(with summarized comparative information for June 30, 2018)
(dollars in thousands)

As of June 30, 2019 and 2018, the University had no specific plans or intentions to sell investments at amounts different than NAV.

The GAAP fair value hierarchy prioritizes observable and unobservable inputs used to measure fair value into three levels:

- Level 1 – quoted prices (unadjusted) in active markets that are accessible at the measurement date for assets or liabilities;
- Level 2 – observable prices that are based on inputs not quoted in active markets, but corroborated by market data; and
- Level 3 – unobservable inputs are used when little or no market data is available.

In determining fair value, the University utilizes valuation techniques that maximize the use of observable inputs and minimize the use of unobservable inputs to the extent possible. The University classifies its assets and liabilities in the hierarchy based on these inputs. Investments in funds measured at NAV as a practical expedient are not categorized within the fair value hierarchy.

(h) Investment in Plant

Investment in plant is stated at cost at the date of acquisition or estimated fair value at the date of donation in the case of gifts. Depreciation is calculated on a straight-line basis using useful lives of 50 years for buildings, 25 years for building improvements, 10 years for equipment and 7 years for computer hardware and software.

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 ASC 410, *Asset Retirement and Environmental Obligations*, 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. Any difference between the cost to actually settle the asset retirement obligation and the liability recorded is recognized as an operating gain or loss in the statement of activities.

(i) Liabilities Associated with Investments

The University may, from time to time, incur liabilities associated with its investment portfolio as a result of securities sold short or other transactions. In order to terminate a short position, the University must acquire and deliver to the lender a security identical to the one it borrowed and sold short, and a gain or loss is recognized for the difference between the short sale proceeds and the cost of the identical security acquired. Liabilities reported on the statement of financial position represent the fair value of the identical securities that must be acquired to settle the obligation to the lender. The liabilities would be classified as Level 1 in the fair value hierarchy given that they are measured based on marketable securities.

WESLEYAN UNIVERSITY

Notes to Financial Statements

June 30, 2019

(with summarized comparative information for June 30, 2018)

(dollars in thousands)

(j) 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). The University assesses uncertain tax positions and determined that there were no such positions that have a material effect on the financial statements.

(k) Use of Estimates

The preparation of financial statements in conformity with GAAP 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.

(l) Risks and Uncertainties

Investments are exposed to various risks, such as interest rate, market and credit. Due to the level of risk associated with certain investments and the level of uncertainty related to changes in their value, it is reasonably possible that changes in these risks in the near term could materially affect amounts reported in the financial statements.

(m) Recent Accounting Pronouncements

During 2019, the University retrospectively adopted the provisions of Accounting Standards Update (ASU) No. 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*. ASU No. 2016-14 reduces the number of net asset categories from three to two: net assets without donor restrictions, previously reported as unrestricted net assets, and net assets with donor restrictions, previously reported as temporarily restricted net assets and permanently restricted net assets. The ASU also requires that underwater endowment funds previously reported as reductions to unrestricted net assets be reported instead as reductions to net assets with donor restrictions. Accordingly, the University has reclassified \$349 and \$1,166 of underwater funds, respectively, as of the beginning of fiscal 2019 and 2018 as reductions to net assets with donor restrictions. Additionally, ASU No. 2016-14 increases the quantitative and qualitative disclosures regarding liquidity and availability of resources, and requires expenses to be reported by both their natural and functional classification in one location.

During 2019, the University retrospectively adopted the provisions of ASU No. 2017-07, *Compensation – Retirement Benefits (Topic 715): Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost*. The ASU attempts to improve the presentation of net periodic benefit costs. The ASU does not prescribe where the amount of the net benefit cost should be presented in an employer's statement of activities, but it does require that the service cost component be presented in the same line item(s) as other employee compensation costs and that the remaining components be presented separately from those line items outside of operations. It also stipulates that only the service cost component is eligible for capitalization in assets, as applicable. Accordingly, the University has reported the non-service cost components of net periodic benefit cost within postretirement benefit obligation changes other than service costs in nonoperating activities in 2019 and 2018.

WESLEYAN UNIVERSITY

Notes to Financial Statements

June 30, 2019

(with summarized comparative information for June 30, 2018)

(dollars in thousands)

In May 2014, the Financial Accounting Standards Board (FASB) issued ASU No. 2014-09, *Revenue from Contracts with Customers (Topic 606)*, which, along with amendments issued in 2015 and 2016, supersedes the revenue recognition requirements in Accounting Standards Codification (ASC) 605, *Revenue Recognition*, and most industry-specific guidance. The core principle of ASU No. 2014-09 is that an entity will recognize revenue when it transfers promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled for those goods or services. The ASU became effective for the University for the year ended June 30, 2019. The University's adoption of the ASU on a modified retrospective basis did not materially change the timing or amount of revenue recognized by the University. However, the ASU requires that student charges be presented in the statement of activities at the transaction price, i.e., net of any institutional financial aid. Previously, such revenues were presented gross, i.e., at published rates, followed by a reduction for institutional financial aid. Accordingly, the University's 2018 statement of activities has been revised to conform to the 2019 presentation.

In June 2018, FASB issued ASU No. 2018-08, *Clarifying the Scope and Accounting Guidance for Contributions Received and Contributions Made*. The ASU assists entities in (1) evaluating whether transactions should be accounted for as contributions (nonexchange transactions) within the scope of Topic 958, *Not-for-Profit Entities*, or as exchange transactions subject to other guidance and (2) determining whether a contribution is conditional. The ASU clarifies that a contribution is conditional if the agreement includes one or more barriers that must be overcome for the recipient to be entitled to the assets transferred and a right of return for the transferred assets or a right of release of the promisor's obligation to transfer assets. The ASU became effective for the University for the year ended June 30, 2019. The University's adoption of the ASU on a modified prospective basis did not have a material effect on its financial statements.

(3) Financial Assets and Liquidity Resources

The University's cash flows have seasonal variations during the year attributable to billings for student charges and a concentration of contributions received at calendar and fiscal year ends. To manage liquidity, the University maintains a working capital portfolio conservatively invested in cash and short-term investments with daily liquidity. As further described in note 10, the University maintains a \$60,000 line of credit with JP Morgan Chase that can be drawn on to manage cash flows.

WESLEYAN UNIVERSITY

Notes to Financial Statements

June 30, 2019

(with summarized comparative information for June 30, 2018)

(dollars in thousands)

As of June 30, 2019, financial assets and liquidity resources available within one year for general expenditures, such as operating expenses, scheduled debt service, and capital construction costs not financed with debt, were as follows:

Financial assets:

Cash and cash equivalents	\$	27,091
Short-term investments		37,058
Accounts receivable, net due within one year		2,646
Student loans receivable, net due within one year		313
Pledges receivable, net available for operations due within one year		1,809
Fiscal 2020 Board-approved endowment appropriation		<u>43,466</u>
Total financial assets available within one year		112,383

Liquidity resources:

Line of credit, undrawn		<u>60,000</u>
Total financial assets and liquidity resources	\$	<u><u>172,383</u></u>

In addition, as of June 30, 2019, subject to liquidity provisions, the University had an additional \$62,273 in working capital investments and \$255,274 in board-designated endowment which is available for general expenditure with Board approval.

(4) Contributions Receivable

The following is a summary of unconditional promises to give at June 30 as follows:

	2019	2018
Contributions expected to be collected within:		
Less than one year	\$ 9,910	12,872
One to five years	9,309	10,986
More than five years	<u>50</u>	<u>—</u>
	19,269	23,858
Less allowance for uncollectible pledges	(3,429)	(2,252)
Less discount for present value	<u>(301)</u>	<u>(370)</u>
Net unconditional promises to give	\$ <u><u>15,539</u></u>	<u><u>21,236</u></u>

The University applies an allowance for uncollectible pledges based on factors such as prior collection history, type of contribution, nature of the fundraising activity, and future collection expectations. Discount rates used range from 0.58% to 3.69%.

WESLEYAN UNIVERSITY

Notes to Financial Statements

June 30, 2019

(with summarized comparative information for June 30, 2018)

(dollars in thousands)

Office of Advancement expenditures, which are primarily for fundraising purposes and alumni activity, totaled \$8,147 and \$8,376 in fiscal years 2019 and 2018, respectively.

Conditional contributions receivable as of June 30, 2019 and 2018 are \$10,141 and \$10,051, respectively.

(5) Investments

The University's assets that are reported at estimated fair value are summarized in the following tables by their fair value hierarchy classification as of June 30, 2019 and 2018:

As of June 30, 2019	Investments measured at NAV	Investments classified in the fair value hierarchy			Total
		Level 1	Level 2	Level 3	
Cash	\$ —	27,091	—	—	27,091
Short-term investments *	—	37,058	—	—	37,058
Long-term investments:					
Money market funds and cash equivalents	—	21,079	—	—	21,079
Fixed income	—	52,036	—	—	52,036
Domestic equity	109,275	23,705	—	—	132,980
International equity	158,935	38,317	—	—	197,252
Real estate	53,263	—	—	11,784	65,047
Natural resources	54,485	4,840	—	—	59,325
Venture capital	147,307	—	—	—	147,307
Buyout	161,951	—	—	—	161,951
Other private equity	30,815	—	—	—	30,815
Absolute return:					
Long/short equity	11,785	8,417	—	—	20,202
Multi-strategy absolute return	77,107	—	—	—	77,107
Other absolute return	103,202	—	—	—	103,202
Absolute return in liquidation	7,704	—	—	—	7,704
Split-interest agreements *	—	17,085	—	—	17,085
Other investments	—	—	—	2,848	2,848
Funds held or administered by others	—	—	—	7,208	7,208
Total long-term investments	915,829	165,479	—	21,840	1,103,148
Total	\$ 915,829	229,628	—	21,840	1,167,297

* Invested in mutual funds with daily liquidity.

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Notes to Financial Statements

June 30, 2019

(with summarized comparative information for June 30, 2018)

(dollars in thousands)

As of June 30, 2018	Investments measured at NAV	Investments classified in the fair value hierarchy			Total
		Level 1	Level 2	Level 3	
Cash	\$ —	16,575	—	—	16,575
Short-term investments *	—	50,234	—	—	50,234
Long-term investments:					
Money market funds and cash equivalents	—	27,906	—	—	27,906
Fixed income	—	47,077	—	—	47,077
Domestic equity	107,480	28,045	—	—	135,525
International equity	183,815	15,658	—	—	199,473
Real estate	48,107	—	—	9,940	58,047
Natural resources	75,033	10,922	—	—	85,955
Venture capital	102,315	—	—	—	102,315
Buyout	137,136	—	—	—	137,136
Other private equity	33,614	—	—	—	33,614
Absolute return:					
Long/short equity	40,483	—	—	—	40,483
Multi-strategy absolute return	76,206	—	—	—	76,206
Other absolute return	90,925	—	—	—	90,925
Absolute return in liquidation	18,994	—	—	—	18,994
Split-interest agreements *	—	16,954	—	—	16,954
Other investments	—	—	—	3,170	3,170
Funds held or administered by others	—	—	—	7,100	7,100
Total long-term investments	914,108	146,562	—	20,210	1,080,880
Total	\$ 914,108	213,371	—	20,210	1,147,689

* Invested in mutual funds with daily liquidity.

Short-term investments consist primarily of money market accounts and other short-term liquid assets.

WESLEYAN UNIVERSITY

Notes to Financial Statements

June 30, 2019

(with summarized comparative information for June 30, 2018)

(dollars in thousands)

The following tables present the University's activity for the fiscal years ended June 30, 2019 and 2018 for Level 3 investments:

June 30, 2019						
Level 3 roll forward	Beginning balance as of July 1, 2018	Transfers to measured at NAV	Additions	Sales and maturities	Net realized and unrealized gains/ (losses)	Ending balance as of June 30, 2019
Real estate	\$ 9,940	—	—	(602)	2,446	11,784
Other investments	3,170	—	—	(251)	(71)	2,848
Funds held or administered by others	7,100	—	—	—	108	7,208
	<u>\$ 20,210</u>	<u>—</u>	<u>—</u>	<u>(853)</u>	<u>2,483</u>	<u>21,840</u>
June 30, 2018						
Level 3 roll forward	Beginning balance as of July 1, 2017	Transfers to measured at NAV	Additions	Sales and maturities	Net realized and unrealized gains/ (losses)	Ending balance as of June 30, 2018
Natural resources	\$ 13,195	(13,411)	—	—	216	—
Real estate	14,061	—	—	(5,270)	1,149	9,940
Other investments	3,410	—	—	(232)	(8)	3,170
Funds held or administered by others	6,935	—	—	—	165	7,100
	<u>\$ 37,601</u>	<u>(13,411)</u>	<u>—</u>	<u>(5,502)</u>	<u>1,522</u>	<u>20,210</u>

The University has committed to invest in various limited partnerships. Under the terms of the partnership agreements, the University is obligated to remit additional funding periodically as managers exercise capital calls. These partnerships have a limited existence, generally ten years, and such agreements may provide annual extensions for the purpose of disposing portfolio holdings and returning capital to investors. Depending on market conditions, an inability to execute the fund's strategy, and other factors, a manager may extend the terms of a fund beyond its originally anticipated existence or may wind the fund down prematurely. As a result, the timing and amount of future capital calls expected in any particular future year is uncertain within a range of between one and eleven years. The aggregate amount of unfunded commitments associated with investments as of June 30, 2019 was \$284,470.

WESLEYAN UNIVERSITY
Notes to Financial Statements
June 30, 2019
(with summarized comparative information for June 30, 2018)
(dollars in thousands)

Investment liquidity as of June 30, 2019 is aggregated below based on redemption or sale terms:

	<u>In liquidation</u>	<u>Daily</u>	<u>Monthly to quarterly</u>	<u>Semi- annual to annual</u>	<u>Initial lockup</u>	<u>Illiquid</u>	<u>Total</u>
Cash	\$ —	27,091	—	—	—	—	27,091
Short-term investments	—	37,058	—	—	—	—	37,058
Long-term investments:							
Money market funds and cash equivalents	—	21,079	—	—	—	—	21,079
Fixed income	—	52,036	—	—	—	—	52,036
Domestic equity	—	198	74,590	58,092	—	100	132,980
International equity	—	10,465	121,800	25,277	39,710	—	197,252
Real estate	—	—	—	—	—	65,047	65,047
Natural resources	—	4,840	—	—	—	54,485	59,325
Venture capital	—	—	—	—	—	147,307	147,307
Buyout	—	—	—	—	—	161,951	161,951
Other private equity	—	—	—	28,547	—	2,268	30,815
Absolute return	7,704	8,417	13,571	151,739	26,784	—	208,215
Split-interest agreements	—	17,085	—	—	—	—	17,085
Other investments	—	—	—	—	—	2,848	2,848
Funds held or administered by others	—	—	—	—	—	7,208	7,208
Total	<u>\$ 7,704</u>	<u>178,269</u>	<u>209,961</u>	<u>263,655</u>	<u>66,494</u>	<u>441,214</u>	<u>1,167,297</u>

Certain funds contain lockup provisions. Under such provisions, share classes of the investment are available for redemption at prescribed dates in accordance with the partnership agreement of the fund. In some cases, funds may impose fees in exchange for advanced liquidity opportunities. A portion of the underlying investments within the categories of monthly to quarterly and semi-annual to annual may include private or side pocket investments from which the University may not have an ability to redeem. Additionally, tranches of certain funds within these categories may restrict redemptions to a portion of the value over a rolling quarterly or annual basis.

(6) Endowment

The University follows the guidelines in ASC 958-205 to classify net assets of donor-restricted endowment funds for a not-for-profit organization that is subject to the State of Connecticut's version of the Uniform Prudent Management of Institutional Funds Act (UPMIFA).

The University's endowment consists of approximately 1,300 individual funds established for a variety of purposes, including both donor-restricted endowment funds and funds designated by the Board of Trustees

WESLEYAN UNIVERSITY

Notes to Financial Statements

June 30, 2019

(with summarized comparative information for June 30, 2018)

(dollars in thousands)

to function as endowments. Net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

(a) Relevant Law

UPMIFA requires the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment fund absent explicit donor stipulations to the contrary. The University classifies as net assets with donor restrictions (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. Also included in net assets with donor restrictions is accumulated appreciation on donor restricted endowment funds until those amounts are appropriated for expenditure by the University in a manner consistent with the standard of prudence prescribed by UPMIFA.

UPMIFA provides standards for investing in a prudent manner by establishing a duty to minimize cost, diversify the investments, investigate facts relevant to the investment of the fund, to consider tax consequences of investment decisions and that investment decisions be made in light of the fund's entire portfolio as a part of an investment strategy having risk and return objectives reasonably suited to the fund and to the University. UPMIFA also permits the University to appropriate for expenditure or accumulate so much of an endowment fund as the University determines to be prudent for the uses, benefits, purposes and duration for which the endowment fund is established, thereby eliminating the restriction that a fund could not be spent below its historical dollar value. The University considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

- The duration and preservation of the fund
- The purposes of the University and the donor-restricted endowment fund
- General economic conditions
- The possible effect of inflation and deflation
- The expected total return from income and the appreciation of investments
- Other resources of the University
- The investment policies of the University

WESLEYAN UNIVERSITY

Notes to Financial Statements

June 30, 2019

(with summarized comparative information for June 30, 2018)

(dollars in thousands)

Endowment funds consisted of the following at June 30, 2019 and 2018:

	2019				
	Without donor restrictions	With donor-restrictions			Total funds
		Original gift	Accumulated gains (losses)	Total donor restricted	
Board designated endowment funds \$	255,274	687	188	875	256,149
Donor-restricted endowment funds:					
Underwater	—	6,067	(368)	5,699	5,699
Other	—	352,347	403,547	755,894	755,894
Sub-total	255,274	359,101	403,367	762,468	1,017,742
Working capital funds	62,273	—	—	—	62,273
Total endowment assets	\$ 317,547	359,101	403,367	762,468	1,080,015
	2018				
	Without donor restrictions	With donor-restrictions			Total funds
		Original gift	Accumulated gains (losses)	Total donor restricted	
Board designated endowment funds \$	255,414	650	216	866	256,280
Donor-restricted endowment funds:					
Underwater	—	4,045	(349)	3,696	3,696
Other	—	337,661	405,199	742,860	742,860
Sub-total	255,414	342,356	405,066	747,422	1,002,836
Working capital funds	62,383	—	—	—	62,383
Total endowment assets	\$ 317,797	342,356	405,066	747,422	1,065,219

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June 30, 2019
(with summarized comparative information for June 30, 2018)
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Changes in endowment funds for the years ended June 30, 2019 and 2018 are as follows:

	Without donor restrictions	With donor restrictions	Total
Endowment assets, June 30, 2018	\$ 317,797	747,422	1,065,219
Investment return	11,920	29,375	41,295
Contributions	1,073	16,745	17,818
Working capital changes	(2,129)	—	(2,129)
Other increases (decreases)	(323)	(584)	(907)
Appropriation of endowment assets for expenditure	(10,791)	(30,490)	(41,281)
Endowment assets, June 30, 2019	<u>\$ 317,547</u>	<u>762,468</u>	<u>1,080,015</u>

	Without donor restrictions	With donor restrictions	Total
Endowment assets, June 30, 2017	\$ 294,903	672,274	967,177
Investment return	38,115	86,660	124,775
Contributions	—	14,202	14,202
Change in donor restriction	(3,000)	3,000	—
Working capital changes	(2,129)	—	(2,129)
Other increases (decreases)	488	(250)	238
Appropriation of endowment assets for expenditure	(10,580)	(28,464)	(39,044)
Endowment assets, June 30, 2018	<u>\$ 317,797</u>	<u>747,422</u>	<u>1,065,219</u>

Working capital funds are operating reserves invested in the endowment and are not subject to the endowment spending policy.

(b) Funds with Deficiencies

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below their original contributed value. These deficiencies resulted from unfavorable market fluctuations that occurred after the investment of new donor restricted contributions and/or appropriation from such funds. Subsequent market gains will be used to restore this reduction in net assets.

(c) Return Objectives and Risk Parameters

A portion of the endowment assets is 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

WESLEYAN UNIVERSITY

Notes to Financial Statements

June 30, 2019

(with summarized comparative information for June 30, 2018)

(dollars in thousands)

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.

The University has adopted investment and spending policies for the endowment that attempt to provide a predictable stream of funding to programs supported by the endowment while seeking to maintain the purchasing power of the endowment assets.

(d) *Strategies Employed for Achieving Objectives*

To satisfy its long term rate-of-return objectives, the University relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The University targets a diversified asset allocation that places emphasis on investments in equities, fixed income and alternative investments to achieve its long-term return objectives with prudent risk constraints.

(e) *Spending Policy and How the Investment Objectives Relate to Spending Policy*

Wesleyan follows a spending policy known as the Tobin rule, named for James Tobin, recipient of the 1981 Nobel Prize in Economics. This rule sets the annual distribution using a quantitative formula that combines elements of stability and market conditions. The University's endowment spending is 70% based on the prior year's spending plus inflation (measured by the Higher Education Price Index (HEPI) as of June 30 of the past fiscal year) and 30% from 4.5% of the market value of endowment as of June 30 of the previous fiscal year. For fiscal 2019 and 2018, \$41,281 and \$39,044 was appropriated, respectively.

WESLEYAN UNIVERSITY

Notes to Financial Statements

June 30, 2019

(with summarized comparative information for June 30, 2018)

(dollars in thousands)

(7) Net Assets

At June 30, 2019 and 2018, net assets were comprised as follows:

	2019		2018	
	Without donor restrictions	With donor restrictions	Without donor restrictions	With donor restrictions
Undesignated	\$ 24,943	—	21,209	—
Net investment in plant	54,361	—	43,044	—
Endowment funds:				
Financial aid	10,193	341,793	9,406	328,937
Instruction and research	27,343	228,208	27,481	226,597
Library	—	14,685	—	14,740
General purpose and other	217,738	177,782	218,527	177,148
Working capital	62,273	—	62,383	—
Total endowment funds	317,547	762,468	317,797	747,422
Pledges receivable, net	—	15,539	—	21,236
Other	—	13,370	—	4,341
Total net assets	\$ 396,851	791,377	382,050	772,999

(8) Investment in Plant

At June 30, 2019 and 2018, the components of the University's investment in plant were as follows:

	2019	2018
Campus land and improvements	\$ 36,646	35,863
Buildings and improvements	446,708	434,494
Equipment	120,088	114,707
Construction in progress	8,015	4,407
Total	611,457	589,471
Less accumulated depreciation	(263,936)	(253,606)
Total investment in plant	\$ 347,521	335,865

WESLEYAN UNIVERSITY
Notes to Financial Statements
June 30, 2019
(with summarized comparative information for June 30, 2018)
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(9) Operating Expenses

Expenses presented by natural classification and function are as follows for the year ended June 30, 2019:

2019	<u>Instruction</u>	<u>Research</u>	<u>Academic support</u>	<u>Student services</u>	<u>Institutional support</u>	<u>Auxiliary activities</u>	<u>Total</u>
Salaries and benefits	\$ 78,694	3,890	4,471	13,122	21,805	6,216	128,198
Supplies, services and other	19,587	4,030	5,667	762	6,300	32,054	68,400
Interest expense	3,775	1,265	922	264	364	6,057	12,647
Depreciation	3,077	1,031	751	215	321	4,935	10,330
	<u>\$ 105,133</u>	<u>10,216</u>	<u>11,811</u>	<u>14,363</u>	<u>28,790</u>	<u>49,262</u>	<u>219,575</u>
2018 (summarized)	\$ 106,612	10,105	11,506	13,964	29,228	48,135	219,550

The University allocates physical plant operations, depreciation, and interest expenses to functional expenditure categories based on square footage of facilities identified for each functional expenditure category.

(10) Debt

At June 30, 2019 and 2018, long-term debt consisted of the following:

	<u>2019</u>	<u>2018</u>
Taxable bonds, Series 2016	\$ 250,000	250,000
Revenue bonds payable (CHEFA Series H)	20,105	20,105
Term loans	<u>12,920</u>	<u>12,920</u>
Total	283,025	283,025
Unamortized costs of issuance	<u>(2,396)</u>	<u>(2,421)</u>
Long term debt	<u>\$ 280,629</u>	<u>280,604</u>

(a) Taxable Bonds, Series 2016

In May 2016, the University issued \$250 million of taxable bonds at a fixed rate of 4.78% with all principal due in 2116. The University is required to make semi-annual payments of interest.

(b) CHEFA Series H

\$20,105 variable rate demand bonds have their interest rates set weekly. The interest rate at June 30, 2019 and 2018 was 1.84% and 1.48% respectively. The University makes monthly payments of interest. The University may make prepayments of principal, and is required to pay any remaining principal balance on July 1, 2040. The University maintains sufficient liquidity to purchase the bonds if remarketing is not successful.

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(c) Term Loans

In January 2016, the University entered into a term loan with Farmington Bank in the amount of \$12,920. Farmington Bank was subsequently acquired by People's United Bank during fiscal year 2019. The University makes semi-annual payments of interest at a fixed rate of 2.9%. Principal payments are due in July 2023 and 2024.

(d) Debt Maturities

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

Fiscal year	Amount due
2019	\$ —
2020	—
2021	—
2022	—
2023	—
Thereafter	283,025
Total outstanding debt	\$ 283,025

(e) Debt Covenants

The University is subject to certain financial covenants that would be imposed if the University does not maintain its credit rating. The University maintained its credit rating during the years ended June 30, 2019 and 2018, and thus the financial covenants were not applicable.

(f) Line of Credit (LOC)

The University has a \$60,000 revolving loan with JPMorgan Chase Bank that terminates on April 28, 2020 unless renewed. The interest rate is set at 50 basis points above LIBOR (London Interbank Offered Rate). The University has utilized a portion of the line in both 2019 and 2018 for various cash needs. No amounts were outstanding as of June 30, 2019 and 2018.

(11) Benefit Plans

(a) Defined Contribution Plan

The University has defined contribution retirement plans, with contributions based on a percentage of salary, covering substantially all employees. Total expense was \$8,740 and \$8,364 for fiscal 2019 and 2018, respectively.

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Notes to Financial Statements
June 30, 2019
(with summarized comparative information for June 30, 2018)
(dollars in thousands)

(b) Postretirement Benefits

The University provides certain postretirement health care benefits to employees. All of the University's employees with ten (10) or more years of employment become eligible for these benefits upon retirement. The University recognizes the cost of providing such 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 nonfaculty who are 65 or older, participate in a different University paid Medicare supplement plan.

The University applies the provisions of ASC 715, *Compensation-Retirement Benefits*, to its postretirement plan. The status of the University's plan and the amounts recognized in the statements of financial position at June 30, 2019 and 2018 are as follows:

	<u>2019</u>	<u>2018</u>
Change in benefit obligation:		
Benefit obligation as of beginning of year	\$ 23,021	21,429
Service cost	548	821
Interest cost	644	783
Plan participants' contributions	117	101
Benefits paid	(837)	(894)
Medicare Part D Subsidy	9	52
Actuarial (gain) loss	<u>(4,687)</u>	<u>729</u>
Benefit obligation and funded status as of end of year	<u>\$ 18,815</u>	<u>23,021</u>

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

	<u>2019</u>	<u>2018</u>
Operating:		
Service cost	\$ <u>548</u>	<u>821</u>
Total operating, included in salaries and benefits	548	821
Nonoperating:		
Interest on accumulated postretirement benefit obligation	644	783
Amortization of actuarial (gain) loss	<u>(1,441)</u>	<u>191</u>
Total nonoperating	<u>(797)</u>	<u>974</u>
Total net periodic benefit cost	<u>\$ (249)</u>	<u>1,795</u>

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In addition to service and interest costs, the estimated net loss that will be amortized from accumulated unrestricted net assets into net periodic benefit cost over the next fiscal year is \$961.

For measurement purposes, an annual rate of increase of 6.5% in the per capita cost of covered healthcare and prescription drug benefits was assumed as of June 30, 2019. The rates were assumed to decrease to 5.0% by 2028 and remain at that level thereafter. Assumed healthcare cost trend rates have a significant effect on the amounts reported for the healthcare plans.

The weighted average discount rates used to determine benefit obligations are 3.1% and 3.9% for fiscal 2019 and 2018, respectively.

The weighted average discount rates used to determine net periodic benefit costs were 3.9% and 3.4% for fiscal 2019 and 2018, respectively.

The benefits, as of June 30, 2019, 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:

<u>Fiscal year</u>	<u>Amount</u>
2020	\$ 1,238
2021	1,319
2022	1,388
2023	1,468
2024	1,548
Five fiscal years thereafter	8,785

(12) Commitments and Contingencies

All funds expended in conjunction with government grants and contracts are subject to audit by governmental agencies. In the opinion of management, any potential liability resulting from these audits will not have a material effect on the University's financial position.

The University is a defendant in various legal actions arising out of the normal course of its operations. Although the final outcome of such actions cannot currently be determined, the University believes that eventual liability not reflected on the statement of financial position, if any, will not have a material effect on the University's financial position.

(13) Related-Party Transactions

Members of the Board of Trustees and senior management may, from time to time, be associated, either directly or indirectly with companies doing business with the University. The University has a written conflict of interest policy that requires annual reporting by each Board member as well as the University senior management. When such relationships exist, measures are taken to mitigate any actual or perceived conflict, including requiring that such transactions be conducted at arms' length, based on terms in the best interest of the University.

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(14) Subsequent Events

Management has evaluated events subsequent to June 30, 2019 and through October 28, 2019, the date on which the financial statements were issued, to provide additional evidence relative to certain estimates or to identify matters that require additional disclosure. No additional disclosures were deemed to be necessary.

WESLEYAN UNIVERSITY

Supplementary Schedule of Expenditures of Federal Awards

Year ended June 30, 2019

Federal grantor/pass-through grantor/program title	Direct award or pass-through entity identification number	CFDA number	Passed through to subrecipients	Federal expenditures
Student Financial Assistance Cluster:				
United States Department of Education:				
Federal Supplemental Educational Opportunity Grant Program	Direct	84.007	\$ —	765,827
Federal Work Study Program	Direct	84.033	—	568,108
Federal Perkins Loan Program (note 4)	Direct	84.038	—	3,661,456
Federal Pell Grant Program	Direct	84.063	—	2,758,321
Federal Direct Loan Program (note 5)	Direct	84.268	—	7,739,810
Total Student Financial Assistance Cluster			—	15,493,522
Research and Development Cluster:				
National Science Foundation:				
Engineering Grants – Washington University in St. Louis	Subaward No. WU-17-123	47.041	—	11,024
Engineering Grants – Transparent Corporation	Subaward No. 0000001	47.041	—	30,992
Subtotal			—	42,016
Mathematical and Physical Sciences	Direct	47.049	60,635	587,475
Mathematical and Physical Sciences – National Radio Astronomy Observatory	NRAO Subaward SOSPA4-005	47.049	—	34,137
Subtotal			60,635	621,612
Geosciences	Direct	47.050	—	52,378
Geosciences – Keck Geology Consortium	Sub 217052WC-YR1	47.050	—	76
Subtotal			—	52,454
Computer and Information Science and Engineering	Direct	47.070	—	177,280
Biological Sciences	Direct	47.074	—	452,776
Education and Human Resources	Direct	47.076	—	717,766
Total National Science Foundation			60,635	2,063,904
United States Department of Health and Human Services:				
Drug Abuse and Addiction Research Programs	Direct	93.279	—	66,542
Drug Abuse and Addiction Research Programs – Pennsylvania State University	Sub 5277-WU-DHHS-9838	93.279	—	69,978
Subtotal			—	136,520
Arthritis, Musculoskeletal and Skin Diseases Research	Direct	93.846	—	49,402
Allergy, Immunology and Transplantation Research	Direct	93.855	—	24,365
Pharmacology, Physiology, and Biological Chemistry Research	Direct	93.859	—	500,203
Total United States Department of Health and Human Services			—	710,490
National Aeronautics and Space Administration:				
Education – Connecticut Space Grant College Consortium	Subcontract P-1050	43.008	—	12,604
Education – Connecticut Space Grant College Consortium	Subcontract P-1268	43.008	—	7,820
Education – Connecticut Space Grant College Consortium	Subcontract P-1272	43.008	—	5,000
Education – Connecticut Space Grant College Consortium	Subcontract P-1211	43.008	—	12,766
Subtotal			—	38,190
Science	Direct	43.001	—	317,874
Science – Universities Space Research Association	Subaward No.02282-05	43.001	—	7,553
Science – University of Colorado	Subaward No.1553980	43.001	—	20,000
Science – University of Nebraska Kearney	Subaward No.14-065-02	43.001	—	21,387
Subtotal			—	366,814
Total National Aeronautics and Space Administration			—	405,004

WESLEYAN UNIVERSITY

Supplementary Schedule of Expenditures of Federal Awards

Year ended June 30, 2019

<u>Federal grantor/pass-through grantor/program title</u>	<u>Direct award or pass-through entity identification number</u>	<u>CFDA number</u>	<u>Passed through to subrecipients</u>	<u>Federal expenditures</u>
U.S. Department of Commerce				
Measurement and Engineering Research and Standards	Direct	11.609	\$ —	423,898
Total U.S. Department of Commerce			—	423,898
Department of Defense:				
Air Force Defense Research Sciences Program	Direct	12.800	—	163,013
Air Force Defense Research Sciences Program – University of Central Florida	UCF Subaward 284838	12.800	—	132,488
Air Force Defense Research Sciences Program – Carnegie Mellon University	CMU Sub# 1150129-338515	12.800	—	44,961
Subtotal			—	340,462
Basic and Applied Scientific Research	Direct	12.300	—	155,564
Basic and Applied Scientific Research - University of Utah	Sub No 10046049	12.300	—	112,683
Subtotal			—	268,247
Basic Scientific Research	Direct	12.431	—	83,340
Research and Technology Development	Direct	12.910	97,934	167,554
Total Department of Defense			97,934	859,603
Total Research and Development Cluster			158,569	4,462,899
TRIO Cluster:				
United States Department of Education:				
Upward Bound	Direct	84.047	—	591,314
McNair Post-Baccalaureate Achievement	Direct	84.217	—	238,289
Total TRIO Cluster			—	829,603
Other Federal Awards:				
National Endowment for the Arts:				
Promotion of the Arts – Grants to Organizations and Individuals	Direct	45.024	—	55,291
Promotion of the Arts – Partnership Agreements – Connecticut Department of Economic and Community Development	DECD 2019-AWI-24578	45.025	—	380
Promotion of the Arts – Partnership Agreements – Connecticut Department of Economic and Community Development	DECD 2018-AWI-23667	45.025	—	1,051
Promotion of the Arts – Partnership Agreements – Connecticut Department of Economic and Community Development	DECD 2019-AWI-24539	45.025	—	312
Subtotal			—	1,743
Total National Endowment for the Arts			—	57,034
National Endowment for the Humanities:				
Promotion of the Humanities – Research	Direct	45.161	—	40,017
Promotion of the Humanities – Professional Development	Direct	45.163	—	94,191
Total National Endowment for the Humanities			—	134,208
Department of Education:				
Office of Postsecondary Education	Direct	84.016A	—	21,956
Total United States Department of Education			—	21,956
Department of the Interior:				
Natural Resource Stewardship – National Park Service	Direct	15.944	—	15,077
Total Department of the Interior			—	15,077
Museums for America				
Institute of Museum and Library Services	Direct	45.301	—	22,261
Total Museums for America			—	22,261
Total expenditures of federal awards			\$ 158,569	21,036,560

See accompanying notes to supplementary schedule of expenditures of federal awards.

WESLEYAN UNIVERSITY

Notes to Supplementary Schedule of Expenditures of Federal Awards

Year ended June 30, 2019

(1) Basis of Presentation

The accompanying supplementary schedule of expenditures of federal awards (the Schedule) summarizes the expenditures of Wesleyan University (the University) under programs of the federal government for the year ended June 30, 2019. The information in the Schedule is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*. Because the Schedule presents only a selected portion of the operations of the University, it is not intended to and does not present the financial position, changes in net assets or cash flows of the University.

For purposes of the Schedule, federal awards include all grants, contracts, and similar agreements entered into directly between the University and agencies and departments of the federal government and all sub-awards to the University by nonfederal organizations pursuant to federal grants, contracts, and similar agreements. Amounts disbursed from the University to subrecipient entities are also presented on the Schedule.

(2) Significant Accounting Policies

The accompanying Schedule is presented on the accrual basis of accounting.

(3) Indirect Costs

The University has an approved rate agreement with the Department of Health and Human Services for recovering indirect costs on grants and contracts with the Federal Government. The agreement contains a predetermined facilities and administrative cost rate of 64.3%. The University did not elect to utilize the 10% de minimus indirect cost rate allowed under the Uniform Guidance. The predetermined facilities and administrative rate is effective from July 1, 2017 to June 30, 2022.

(4) Federal Perkins Loan Program

During the year ended June 30, 2019, there were no loans advanced under the Federal Perkins Loan Program. There was no administrative cost allowance claimed for the year ended June 30, 2019. As of June 30, 2019 and 2018, the Perkins loans receivable balances were \$3,025,786 and \$3,661,456, respectively. The University is continuing to service loans under the Perkins programs; however, no new loans were made subsequent to September 30, 2017.

(5) Federal Direct Loan Program

The amount of loans advanced during the year ended June 30, 2019 to students and parents under the Federal Direct Loan Program (FDL) was \$7,739,810.

With respect to the FDL program, the University is responsible only for the performance of certain administrative duties and, accordingly, these loans are not included in the University's financial statements. It is not practical to determine the balances of loans outstanding to students of the University under this program at June 30, 2019.



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Independent Auditors' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With *Government Auditing Standards*

The Board of Trustees
Wesleyan University:

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of Wesleyan University (the University), which comprise the statement of financial position as of June 30, 2019, the related statements of activities and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated October 28, 2019. Our report contains an emphasis of matters paragraph referring to the University's adoptions, in 2019, of Accounting Standards Update (ASU) No. 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*; ASU No. 2014-09, *Revenue from Contracts with Customers (Topic 606)*, as amended; ASU No. 2018-08, *Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*; and ASU No. 2017-07, *Compensation – Retirement Benefits (Topic 715): Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost*.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the University's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the University's internal control. Accordingly, we do not express an opinion on the effectiveness of the University's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.



Compliance and Other Matters

As part of obtaining reasonable assurance about whether the University's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the University's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the University's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

KPMG LLP

October 28, 2019



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**Independent Auditors' Report on Compliance for Each Major Federal Program;
Report on Internal Control Over Compliance; and Report on Supplementary
Schedule of Expenditures of Federal Awards Required by the Uniform Guidance**

The Board of Trustees
Wesleyan University:

Report on Compliance for Each Major Federal Program

We have audited Wesleyan University's (the University) compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the University's major federal programs for the year ended June 30, 2019. The University's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for each of the University's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the University's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each of the University's major federal programs. However, our audit does not provide a legal determination of the University's compliance.

Opinion on Each Major Federal Program

In our opinion, the University complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2019.



Report on Internal Control Over Compliance

Management of the University is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the University's internal control over compliance with the types of requirements that could have a direct and material effect on each of the University's major federal programs to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the University's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A significant deficiency in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Report on Supplementary Schedule of Expenditures of Federal Awards Required by the Uniform Guidance

We have audited the financial statements of the University as of and for the year ended June 30, 2019, and have issued our report thereon dated October 28, 2019, which contained an unmodified opinion on those financial statements. Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying supplementary schedule of expenditures of federal awards (the Schedule) is presented for purposes of additional analysis as required by the Uniform Guidance and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Schedule is fairly stated, in all material respects, in relation to the financial statements as a whole.

KPMG LLP

December 19, 2019

WESLEYAN UNIVERSITY
Schedule of Findings and Questioned Costs
Year ended June 30, 2019

(1) Summary of Auditors' Results

- (a) Type of report issued on whether the financial statements were prepared in accordance with U.S. generally accepted accounting principles: **Unmodified**
- (b) Internal control deficiencies over financial reporting disclosed by the audit of the financial statements:
 - Material weaknesses: **No**
 - Significant deficiencies: **None reported**
- (c) Noncompliance material to the financial statements: **No**
- (d) Internal control deficiencies over major programs disclosed by the audit:
 - Material weaknesses: **No**
 - Significant deficiencies: **None reported**
- (e) Type of report issued on compliance for major programs: **Unmodified**
- (f) Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)?: **No**
- (g) Major programs:
 - Student Financial Assistance Cluster – various CFDA numbers
 - TRIO Cluster – 84.047 and 84.217
- (h) Dollar threshold used to distinguish between Type A and Type B programs: **\$750,000**
- (i) Auditee qualified as a low-risk auditee: **Yes**

(2) Findings Relating to the Financial Statements Reported in Accordance with *Government Auditing Standards*

None

(3) Findings and Questioned Costs Relating to Federal Awards

None