

ARTICLE 12 – LIMITATION OF LIABILITY AND INSURANCE

Section 12.1. Limitation of Liability of Trustees.

A Trustee shall not be personally liable, as such, for monetary damages for any action taken or any failure to take any action as a Trustee unless:

- (a) the Trustee has breached or failed to perform the duties of his or her office under Subchapter B of Chapter 55 of the Act; and
- (b) the breach or failure to perform constitutes self-dealing, willful misconduct, or recklessness.

This Section shall not apply to (1) the responsibility or liability of a Trustee pursuant to any criminal statute, or (2) the liability of a Trustee for the payment of taxes pursuant to federal, state, or local law. Any repeal or amendment of this Section shall be prospective only and shall not increase, but may decrease, a Trustee's liability with respect to actions or failures to act occurring prior to such change.

Section 12.2. Insurance.

The Corporation may purchase and maintain insurance on behalf of any person who is or was a Trustee or officer of the Corporation or is or was serving at the request of the Corporation as a director or officer of another domestic or foreign corporation for profit or not-for-profit, partnership, joint venture, trust, or other enterprise against any liability asserted against him or her and incurred by him or her in any such capacity, or arising out of his or her status as such, whether or not the Corporation would have the power to indemnify him or her against that liability under the Act. The Corporation's payment of premiums with respect to such insurance coverage shall be provided primarily for the benefit of the Corporation. To the extent that such insurance coverage provides a benefit to the insured person, the Corporation's payment of premiums with respect to such insurance shall be provided in exchange for the services rendered by the insured person and in a manner so as not to constitute an excess benefit transaction under section 4958 of the Internal Revenue Code of 1986, as amended.

ARTICLE 13 – INDEMNIFICATION

Section 13.1. Representative Defined.

For purposes of this Article, "representative" means any Trustee or officer of the Corporation.

Section 13.2. Third-Party Actions.

The Corporation shall indemnify any representative who was or is a party or is threatened to be made a party to any threatened, pending or completed action or

proceeding, whether civil, criminal, administrative or investigative (other than an action by or in the right of the Corporation), by reason of the fact that he or she is or was a representative of the Corporation, or is or was serving at the request of the Corporation as a director or officer of another domestic or foreign corporation for profit or not-for-profit, partnership, joint venture, trust, or other enterprise, against expenses (including attorneys' fees), judgments, fines, and amounts paid in settlement actually and reasonably incurred by him or her in connection with the action or proceeding if he or she acted in good faith and in a manner he or she reasonably believed to be in, or not opposed to, the best interests of the Corporation and, with respect to any criminal proceeding, had no reasonable cause to believe his or her conduct was unlawful. The termination of any action or proceeding by judgment, order, settlement, or conviction or upon a plea of nolo contendere or its equivalent shall not of itself create a presumption that the person did not act in good faith and in a manner that he or she reasonably believed to be in, or not opposed to, the best interests of the Corporation and, with respect to any criminal proceeding, had reasonable cause to believe that his or her conduct was unlawful.

Section 13.3. Derivative and Corporate Actions.

The Corporation shall indemnify any representative who was or is a party or is threatened to be made a party to any threatened, pending or completed action by or in the right of the Corporation to procure a judgment in its favor by reason of the fact that he or she is or was a representative of the Corporation, or is or was serving at the request of the Corporation as a director or officer of another domestic or foreign corporation for profit or not-for-profit, partnership, joint venture, trust, or other enterprise, against expenses (including attorneys' fees) actually and reasonably incurred by him or her in connection with the defense or settlement of the action if he or she acted in good faith and in a manner he or she reasonably believed to be in, or not opposed to, the best interests of the Corporation. Indemnification shall not be made under this Section in respect of any claim, issue or matter as to which the person has been adjudged to be liable to the Corporation unless and only to the extent that the court of common pleas of the judicial district embracing the county in which the registered office of the Corporation is located or the court in which the action was brought determines upon application that, despite the adjudication of liability but in view of all the circumstances of the case, such person is fairly and reasonably entitled to indemnity for such expenses that the court of common pleas or other court shall deem proper.

Section 13.4. Employee Benefit Plans.

For purposes of this Article, "other enterprises" shall include employee benefit plans; "serving at the request of the Corporation" shall include any service as a representative of the Corporation that imposes duties on, or involves services by, the representative with respect to an employee benefit plan, its participants or beneficiaries; excise taxes assessed on a person with respect to any employee benefit plan shall be deemed "fines"; and action with respect to an employee benefit plan taken or omitted in good faith by a representative in a manner he or she reasonably believed to be

in the interest of the participants and beneficiaries of the plan shall be deemed to be action in a manner that is not opposed to the best interests of the Corporation.

Section 13.5. Procedure for Effecting Indemnification.

Unless ordered by a court, any indemnification under Section 13.2 or Section 13.3 shall be made by the Corporation only as authorized in the specific case upon a determination that indemnification of the representative is proper in the circumstances because he or she has met the applicable standard of conduct set forth in those Sections. The determination shall be made:

- (a) by the Board by a majority vote of a quorum consisting of Trustees who were not parties to the action or proceeding; or
- (b) if such a quorum is not obtainable or if obtainable and a majority vote of a quorum of disinterested Trustees so directs, by independent legal counsel in a written opinion.

Section 13.6. Advancing Expenses.

The Corporation shall pay expenses (including attorneys' fees) incurred in defending any action or proceeding referred to in Section 13.2 in advance of the final disposition of the action or proceeding upon receipt of any undertaking by or on behalf of the representative to repay the amount if it is ultimately determined that he or she is not entitled to be indemnified by the Corporation as authorized in this Article or otherwise.

Section 13.7. Supplementary Coverage.

The indemnification and advancement of expenses provided pursuant to this Article shall not be deemed exclusive of any other rights to which a person seeking indemnification or advancement of expenses may be entitled under the Act, or any bylaw, agreement, vote of disinterested Trustees, or otherwise, both as to action in his or her official capacity and as to action in another capacity while holding that office. Article 11 (relating to conflicts of interest) shall be applicable to any bylaw, contract, or transaction authorized by the Trustees under this Section. However, no indemnification may be made by the Corporation under this Article or otherwise to or on behalf of any person to the extent that:

- (a) the act or failure to act giving rise to the claim for indemnification is determined by a court to have constituted self-dealing, willful misconduct, or recklessness; or
- (b) the Board determines that under the circumstances indemnification would constitute an excess benefit transaction under section 4958 of the Internal Revenue Code of 1986, as amended.

Section 13.8. Duration and Extent of Coverage.

The indemnification and advancement of expenses provided by or granted pursuant to this Article shall, unless otherwise provided when authorized or ratified, continue as to a person who has ceased to be a representative of the Corporation and shall inure to the benefit of the heirs and personal representatives of that person.

Section 13.9. Reliance and Modification.

Each person who shall act as a representative of the Corporation shall be deemed to be doing so in reliance upon the rights provided by this Article. The duties of the Corporation to indemnify and to advance expenses to a representative provided in this Article shall be in the nature of a contract between the Corporation and the representative. No amendment or repeal of any provision of this Article shall alter, to the detriment of the representative, his or her right to the advance of expenses or indemnification related to a claim based on an act or failure to act which took place prior to such amendment or repeal.

ARTICLE 14 – ANNUAL REPORT**Section 14.1. Annual Report.**

The President and Treasurer shall present the Board at its annual meeting a report, verified by the President and Treasurer or by a majority of the Board, showing in appropriate detail the following:

- (a) the assets and liabilities, including the trust funds, of the Corporation as of the end of the fiscal year immediately preceding the date of the report;
- (b) the principal changes in assets and liabilities, including the trust funds, during the year immediately preceding the date of the report;
- (c) the revenue or receipts of the Corporation, both unrestricted and restricted to particular purposes, for the year immediately preceding the date of the report, including separate data with respect to each trust fund held by or for the Corporation; and
- (d) the expenses or disbursements of the Corporation, for both general and restricted purposes, during the year immediately preceding the date of the report, including separate data with respect to each trust fund held by or for the Corporation.

The annual report of the Board shall be filed with the minutes of the annual meetings of the Board.

ARTICLE 15 – TRANSACTION OF BUSINESS

Section 15.1. Real Property.

The Corporation shall make no purchase of real property nor sell, mortgage, lease away or otherwise dispose of its real property, unless authorized by a vote of the majority of the Board. If the real property is subject to a trust, the conveyance away shall be free of trust and the trust shall be impinged upon the proceeds of such conveyance.

Section 15.2. Negotiable Instruments.

All checks or demands for money and notes of the Corporation shall be signed by the Treasurer. In the absence of the Treasurer, such instruments shall be signed by an Assistant Treasurer appointed by the President of the University.

Section 15.3. Contracts.

The Board may authorize any officer or officers, agent or agents of the Corporation, in addition to the offices so authorized by these Bylaws, to enter into any contract or execute and deliver any instrument in the name of and on behalf of the Corporation. Such authority may be general or confined to specific instances.

Section 15.4. Checks and Drafts, Etc.

All checks, drafts, or orders for the payment of money, notes, or other evidence of indebtedness issued in the name of the Corporation shall be signed by the Treasurer. In the absence of the Treasurer, such instruments shall be signed by an Assistant Treasurer appointed by the President of the University.

Section 15.5. Deposits.

All funds of the Corporation shall be deposited from time to time to the credit of the Corporation in such banks, trust companies, or other depositories as the Board may select.

Section 15.6. Gifts.

The Board may accept on behalf of the Corporation any contribution, gift, bequest, or devise for the general purposes or for any special purpose of the Corporation.

Section 15.7. Voting Securities.

All securities owned by the Corporation and having voting power in any other corporation shall be voted by the President or Vice President, unless the Board

designates such other officer to vote any such securities. Any person authorized to vote a security shall have power to appoint proxies, with general power of substitution.

ARTICLE 16 – CORPORATE RECORDS AND CALENDAR

Section 16.1. Corporate Records.

The Corporation shall keep (a) an original or duplicate record of the proceedings of the Board, (b) the original or a copy of its Bylaws, including all amendments thereto to date, certified by the Secretary of the Corporation, and (c) appropriate, complete, and accurate books or records of account, at its registered office or at its principal place of business.

Section 16.2. Accounting Records.

The Corporation shall also keep appropriate, complete, and accurate books or records of account. The records provided for herein shall be kept at its principal place of business in the Commonwealth of Pennsylvania, or at its principal place of business, wherever situated.

Section 16.3. Independent Auditor - Annual Report.

The independent auditor appointed by the Board of Trustees shall annually prepare for the Corporation an Annual Report, verified by the Chairman and Treasurer or by a majority of the Trustees, showing in appropriate detail the following, as of the end of the fiscal year preceding the date of the report:

Section 16.3(a).

The assets and liabilities, including the trust funds, of the Corporation;

Section 16.3(b).

The principal changes in assets and liabilities, including trust funds, during the year;

Section 16.3(c).

The revenue or receipts of the Corporation, both unrestricted and restricted to particular purposes, including separate data with respect to each trust fund held by or for the Corporation;

Section 16.3(d).

The expenses or disbursements of the Corporation, for both general and restricted purposes, including separate data with respect to each trust fund held by or for the Foundation;

Section 16.3(e).

A list of projects and/or organizations to or for which funds were used or distributed for charitable purposes, and such additional reports or information as may be ordered from time to time by the Board.

Section 16.4. Independent Auditor - Financial Reports.

The auditor shall also prepare such financial data as may be necessary for returns or reports required by state or federal governments to be filed by the Corporation. The auditor's charges and expenses shall be proper expenses and shall be competitive with industry standards. Copies of all audits, statements, reports, and data delivered by the auditor to the Board shall be made available or furnished to each Board member.

Section 16.5. Annual Financial Report.

The Board shall at least annually make such distribution of a written report of its financial condition, activities, and distributions to the representative persons and organizations which will, in the opinion of the Board, reasonably inform, the interested public of the operations of the Corporation. The Corporation shall advertise annually the availability of its Annual Financial Report.

Section 16.6. Fiscal Year.

The fiscal year of the Corporation shall be the same as that of West Chester University of Pennsylvania; July 1 through June 30 of each year.

ARTICLE 17 – AMENDMENTS**Section 17.1. Amendments.**

The Bylaws of the Corporation may be amended by a vote of two-thirds of the Trustees present at any regular or special meeting of the Board at which a quorum is present, provided the proposed amendment is set forth in the notice of the meeting and such notice is given at least five (5) days prior to the meeting at which such action is to be taken.

Adopted by the Board of Trustees on October 2, 2001.



FUND FOR WEST CHESTER UNIVERSITY OF PENNSYLVANIA
BOARD OF TRUSTEES
2004-2005

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FUND FOR WEST CHESTER UNIVERSITY OF PENNSYLVANIA
BOARD OF TRUSTEES
2004-2005

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Not For Profit Organization Liability Policy

Chubb Group of Insurance Companies
Capital Center, 251
North Illinois, Suite 1100
Indianapolis, IN 46204

DECLARATIONS

Policy Number 8179-6981

Federal Insurance Company, a stock insurance company, incorporated under the laws of Indiana, herein called the Company.

THIS IS A CLAIMS MADE POLICY. THIS POLICY COVERS ONLY CLAIMS FIRST MADE AGAINST THE INSURED DURING THE POLICY PERIOD. PLEASE READ CAREFULLY.

Item 1. **Organization:** FUND FOR WEST CHESTER UNIVERSITY OF PENNSYLVANIA
628 SOUTH HIGH STREET
WEST CHESTER, PA 19383

Item 2. **Limits of Liability:** (A) Each **Loss** \$2,000,000.00
(B) Each **Policy Year** \$2,000,000.00

Note that the limits of liability and deductible are reduced or exhausted by **Defense Costs**.

Item 3. **Policy Period:** From 12:01 a.m. on October 30, 2004
To 12:01 a.m. on October 30, 2005
Local time at the **Organization's** address

Item 4. **Deductible Amount:** (A) Non-Indemnifiable **Loss** None
(B) Indemnifiable **Loss** \$2,500.00

Item 5. **Extended Reporting Period** (A) Additional Premium: \$2831
(B) Additional Period: 1 year

Item 6. **Pending or Prior Date:** December 11, 2000

Item 7. **Termination of Prior Policies:** 8179-6981 (October 30, 2003 - October 30, 2004)

In witness whereof, the Company issuing this policy has caused this policy to be signed by its authorized officers, but it shall not be valid unless also signed by a duly authorized representative of the Company.

FEDERAL INSURANCE COMPANY

Henry A. Sulist

Secretary

Thomas F. Molamed

President

08/12/2004

Date

Robert Hamburger

Authorized Representative

**THE FUND FOR WEST CHESTER UNIVERSITY
OF PENNSYLVANIA AND SUBSIDIARY**

**FINANCIAL STATEMENTS
FOR THE YEAR ENDED
JUNE 30, 2004
&
INDEPENDENT AUDITORS' REPORT
&
SUPPLEMENTARY INFORMATION**

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INDEPENDENT AUDITORS' REPORT

To the Board of Trustees
The Fund for West Chester University of Pennsylvania and Subsidiary
West Chester, Pennsylvania

We have audited the accompanying consolidated statement of financial position of The Fund for West Chester University of Pennsylvania and Subsidiary, a nonprofit organization, as of June 30, 2004 and the related consolidated statements of activities and cash flows for the year then ended. These consolidated financial statements are the responsibility of the organization's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of The Fund for West Chester University of Pennsylvania and Subsidiary as of June 30, 2004 and the changes in their net assets and their cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Our audit was made for the purpose of forming an opinion on the consolidated financial statements taken as a whole. The consolidating information on pages 17 through 19 is presented for purposes of additional analysis of the consolidated financial statements rather than to present the financial position, results of operations and cash flows of the individual entities. Such information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and, in our opinion, is fairly stated in all material respects in relation to the consolidated financial statements taken as a whole.

Parente Randolph, LLC

Philadelphia, Pennsylvania
August 31, 2004

**THE FUND FOR WEST CHESTER UNIVERSITY
OF PENNSYLVANIA AND SUBSIDIARY**

**CONSOLIDATED STATEMENT OF FINANCIAL POSITION
JUNE 30, 2004**

ASSETS

CASH AND CASH EQUIVALENTS (Restricted - \$22,695,321)	\$23,132,304
PLEDGES RECEIVABLE (Net of allowance for uncollectible pledges of \$86,087)	1,412,044
CONSTRUCTION IN PROGRESS	26,967,378
BOND COSTS (Net of amortization of \$25,590)	867,719
OTHER ASSETS	9,933
SPLIT-INTEREST AGREEMENTS	<u>393,354</u>
TOTAL	<u>\$52,782,732</u>

LIABILITIES AND NET ASSETS

LIABILITIES:	
Accounts payable	\$ 7,925,816
Other accrued liabilities	294,934
Bonds payable	42,305,000
Interest rate swap liability	524,701
Due to West Chester University	<u>409,674</u>
Total liabilities	<u>51,460,125</u>
NET ASSETS:	
Unrestricted	(529,135)
Temporarily restricted	1,790,695
Permanently restricted	<u>61,047</u>
Total net assets	<u>1,322,607</u>
TOTAL	<u>\$52,782,732</u>

See Notes to Consolidated Financial Statements

**THE FUND FOR WEST CHESTER UNIVERSITY
OF PENNSYLVANIA AND SUBSIDIARY**

**CONSOLIDATED STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2004**

	UNRESTRICTED	TEMPORARILY RESTRICTED	PERMANENTLY RESTRICTED	TOTAL
PUBLIC SUPPORT AND REVENUE:				
Public support:				
Contributions, cash	\$ 205,555	\$3,235,822	\$ 61,047	\$3,502,424
Contributions, noncash	<u>1,204,726</u>	<u>502,409</u>	<u>-</u>	<u>1,707,135</u>
Total public support	<u>1,410,281</u>	<u>3,738,231</u>	<u>61,047</u>	<u>5,209,559</u>
Revenue:				
Investment income	7,717	5,891	-	13,608
Net assets released from restriction	<u>3,209,053</u>	<u>(3,209,053)</u>	<u>-</u>	<u>-</u>
Total revenue	<u>3,216,770</u>	<u>(3,203,162)</u>	<u>-</u>	<u>13,608</u>
Total public support and revenue	<u>4,627,051</u>	<u>535,069</u>	<u>61,047</u>	<u>5,223,167</u>
DISTRIBUTIONS AND EXPENSES:				
Distributions to West Chester University	<u>3,209,053</u>	<u>-</u>	<u>-</u>	<u>3,209,053</u>
Total distributions	<u>3,209,053</u>	<u>-</u>	<u>-</u>	<u>3,209,053</u>
Expenses:				
Salaries and benefits	1,045,033	-	-	1,045,033
Advertising	954	-	-	954
Amortization of bond costs	25,590	-	-	25,590
Bank fees	2,972	-	-	2,972
Consulting/professional services	92,074	-	-	92,074
Dues and subscriptions	1,627	-	-	1,627
Food	29,598	-	-	29,598
Insurance	4,755	-	-	4,755
Legal	27,816	-	-	27,816
Audit	8,060	-	-	8,060
Management fee	139,647	-	-	139,647
Fundraising	19,530	-	-	19,530
Alumni Services	8,050	-	-	8,050
Contributions	5,000	-	-	5,000
Miscellaneous	8,571	-	-	8,571
Postage	22,593	-	-	22,593
Printing	55,505	-	-	55,505
Equipment	3,673	-	-	3,673
Supplies	12,425	-	-	12,425
Telephone	9,682	-	-	9,682
Change in net present value of split-interest agreements	-	16,439	-	16,439
Change in fair value of interest rate swap liability	524,701	-	-	524,701
Travel	<u>19,127</u>	<u>-</u>	<u>-</u>	<u>19,127</u>
Total expenses	<u>2,066,983</u>	<u>16,439</u>	<u>-</u>	<u>2,083,422</u>
Total distributions and expenses	<u>5,276,036</u>	<u>16,439</u>	<u>-</u>	<u>5,292,475</u>
CHANGE IN NET ASSETS	(648,985)	518,630	61,047	(69,308)
NET ASSETS, BEGINNING - AS PREVIOUSLY REPORTED	119,850	1,548,491	-	1,668,341
PRIOR PERIOD ADJUSTMENTS	<u>-</u>	<u>(276,426)</u>	<u>-</u>	<u>(276,426)</u>
NET ASSETS, BEGINNING - AS ADJUSTED	<u>119,850</u>	<u>1,272,065</u>	<u>-</u>	<u>1,391,915</u>
NET ASSETS, END OF YEAR	<u>\$ (529,135)</u>	<u>\$1,790,695</u>	<u>\$ 61,047</u>	<u>\$1,322,607</u>

See Notes to Consolidated Financial Statements

**THE FUND FOR WEST CHESTER UNIVERSITY
OF PENNSYLVANIA AND SUBSIDIARY**

**CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2004**

CASH FLOWS FROM OPERATING ACTIVITIES:	\$ (69,308)
Change in net assets	
Adjustments to reconcile change in net assets to net cash provided by operating activities:	
Amortization of bond costs	25,590
Increase in interest rate swap liability	524,701
Increase in pledges receivable	(440,521)
Increase in other assets	(9,933)
Increase in split-interest agreements	(145,688)
Decrease in accounts payable	(33,601)
Increase in other accrued liabilities	174,773
Increase in due to West Chester University	344,674
Net cash provided by operating activities	<u>370,687</u>
CASH FLOWS FROM INVESTING ACTIVITIES:	(18,740,184)
Construction in progress	
Net cash used in investing activities	<u>(18,740,184)</u>
CASH FLOWS FROM FINANCING ACTIVITIES:	42,305,000
Bond issuance	
Bond costs	(893,309)
Net cash provided by financing activities	<u>41,411,691</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS	23,042,194
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	<u>90,110</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u>\$23,132,304</u>
SUPPLEMENTAL INFORMATION:	\$ -
Interest paid	
Income taxes paid	<u>\$ -</u>
Construction in progress in accounts payable	<u>\$ 7,919,816</u>

See Notes to Consolidated Financial Statements

**THE FUND FOR WEST CHESTER UNIVERSITY
OF PENNSYLVANIA AND SUBSIDIARY**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

**1. NATURE OF OPERATIONS AND
BASIS OF PRESENTATION**

The Fund for West Chester University of Pennsylvania (the "Fund") was formed to promote the charitable, scientific and educational interest of West Chester University. The Fund achieves this by soliciting funds and other property in accordance with policies established by the University.

The consolidated financial statements of the Fund include the accounts of the Fund and its wholly-owned subsidiary, University Student Housing, LLC ("USH"), a Pennsylvania limited liability company formed to construct, operate and manage student housing facilities for the benefit of the University. All material intercompany transactions and balances have been eliminated in consolidation.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

BASIS OF ACCOUNTING

The consolidated financial statements of the Fund have been prepared on the accrual basis of accounting.

BASIS OF FINANCIAL REPORTING

In accordance with Statement of Financial Accounting Standards (SFAS) No. 117, *Financial Statements of Not-for-Profit Organizations*, the Fund is required to report information regarding its financial position and activities according to three classes of net assets according to donor-imposed restrictions: unrestricted net assets, temporarily restricted net assets and permanently restricted net assets. A description of the net asset classifications follows:

Unrestricted Net Assets include assets that are available for the support of operations and whose use is not externally restricted.

Temporarily Restricted Net Assets include gifts and accumulated earnings for which donor-imposed restrictions, primarily either the passage of time or occurrence of the specific purpose, have not yet been met.

THE FUND FOR WEST CHESTER UNIVERSITY
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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Permanently Restricted Net Assets include gifts which require, by donor restriction, that the corpus be invested in perpetuity and only the income may be made available for operations.

CONTRIBUTIONS

In accordance with SFAS No. 116, *Accounting for Contributions Received and Contributions Made*, contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support, depending on the existence and/or nature of any donor restrictions. Under SFAS No. 116, contributions with donor restrictions are required to be reported as either temporarily or permanently restricted support. Temporarily restricted assets are reclassified to unrestricted net assets upon satisfaction of applicable purpose or time restrictions.

INCOME TAXES

The Fund and USH, as publicly supported nonprofit organizations, are exempt from federal income tax under Code Section 501(c)(3) of the Internal Revenue Code.

CASH AND CASH EQUIVALENTS

The Fund considers all short-term highly liquid instruments with an original maturity of three months or less to be cash equivalents. At various times, these amounts could exceed federally insured limits.

Cash and cash equivalents of \$22,695,321 is restricted for the construction and operation of student housing facilities and repayment of the Series 2003 Bonds (see Notes 4 and 5).

PLEDGES RECEIVABLE

Unconditional promises to give that are expected to be collected within one year are recorded at net realizable value. Unconditional promises to give that are expected to be collected in future years are recorded at the present value of their estimated future cash flows. The discounts on those amounts are computed using risk-free interest rates applicable to the years in which the promises are received. Amortization of the discounts is included in contribution revenue. Management has provided for an allowance for uncollectible pledges receivable based upon a periodic review of individual pledges.

SPLIT-INTEREST AGREEMENTS

The Fund's split-interest agreements with donors consist of charitable gift annuities and charitable remainder unitrusts. Assets are invested and distributions are made to beneficiaries in accordance with the terms and conditions of their respective agreements.

Contribution revenue for charitable gift annuities is recognized at the date the agreement is established, net of the liability for the present value of the estimated future payments. Contribution revenue for charitable remainder trusts is recognized upon establishment of the agreement, at the fair value of the estimated future receipts discounted for the estimated time period to complete the agreement.

The present value of payments to beneficiaries of charitable gift annuities and the estimated future receipts from charitable remainder trusts are calculated using discount rates which represent the risk-free rates in existence at the date of the gift and current market rates, as applicable. Gains or losses resulting from changes in actuarial assumptions and accretions of the discount are recorded as increases or decreases in the respective net asset category in the consolidated statement of activities and changes in net assets. The liability to donors and beneficiaries under terms of the agreements included in other liabilities was \$206,527 at June 30, 2004.

Split-interest agreements at June 30, 2004 are summarized as follows:

Charitable gift annuities	\$255,144
Beneficial interest in charitable remainder unitrusts	<u>138,210</u>
Total	<u>\$393,354</u>

CONSTRUCTION IN PROGRESS

Construction in progress, stated at cost, consists of student housing facilities and furnishings currently under construction. Depreciation will be computed on the straight-line basis over the estimated useful lives of the respective assets.

BOND COSTS

Bond costs, related to the issuance of the Series 2003 Bonds, are being amortized on a straight-line basis over the estimated term of the bonds (32 years). Revisions of the amortization period will be made as bonds are redeemed prior to maturity. Amortization expense was \$25,590 for the year ended June 30, 2004.

THE FUND FOR WEST CHESTER UNIVERSITY
OF PENNSYLVANIA AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DERIVATIVE FINANCIAL INSTRUMENT

The Fund has entered into an interest rate swap agreement, which is considered a derivative financial instrument, to manage interest rate exposure on the Series 2003 Bonds payable. The interest rate swap agreement is reported at fair value in the statement of financial position, and related changes in fair value are reported currently in the statement of activities.

USE OF ESTIMATES

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

3. PLEDGES RECEIVABLE

As of June 30, 2004, pledges receivable consisted of the following:

Pledges receivable, Campaign for Excellence	\$1,547,112
Discount to net present value	(48,981)
Allowance for uncollectible pledges	<u>(86,087)</u>
Total pledges receivable, net	<u>\$1,412,044</u>

The following is a schedule of payments less discount and allowance:

Due in less than one year	\$ 656,106
Due in one to five years	754,770
Due in more than five years	<u>1,168</u>
Total	<u>\$1,412,044</u>

4. CONSTRUCTION IN PROGRESS

At June 30, 2004, construction in progress of \$26,967,378 represents costs incurred for the construction of student housing facilities (793 beds) and includes \$738,376 of capitalized interest, net of \$417,698 of interest income. The total project is expected to cost approximately \$37,500,000 including capitalized interest costs. It is anticipated that construction will be completed in the Fall 2004 semester.

5. BONDS PAYABLE

On August 1, 2003, USH entered into a loan agreement with Chester County Industrial Development Authority ("CCIDA"), in which CCIDA lent the proceeds of a \$42,305,000 Series 2003 Bonds to USH for the construction of student housing facilities (the "Project"); funding of capitalized interest and other bond-issuance related costs; and funding a debt service reserve fund. Among other matters, the loan agreement contains a provision that, commencing October 2004, USH charges rental rates such that Income Available for Debt Service equals or exceeds 120% of the Debt Service Requirement, as those terms are defined in the loan agreement.

USH is also subject to the terms contained in the Indenture of Trust dated August 1, 2003 between CCIDA and Wilmington Trust Company (the "Trustee"). Among other matters, the significant terms of the Indenture of Trust are:

The maturity date of the bonds is August 1, 2035, subject to prior redemption, as outlined below:

- Interest is payable, at the direction of USH, based on three alternatives: weekly rate; commercial paper rate; or long-term rate. USH has retained the services of a bond re-marketing agent to perform such calculations and provide consulting services to USH.
- Although the bonds mature August 1, 2035, redemption prior to maturity can occur under the following conditions:
 - If the Project is sold or disposed of;
 - If the Project incurs property damage in excess of \$100,000;
 - As mutually agreed by certain parties, as defined in the Indenture of Trust.

THE FUND FOR WEST CHESTER UNIVERSITY
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 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Under the terms of the Indenture of Trust, the Trustee deposited the bond proceeds into various restricted cash accounts to be used primarily to fund Project construction costs, capitalized interest, letter of credit fees and debt service. Additionally, upon commencement of operations, Project cash flows will be deposited into such funds for debt service and replacement purposes.

In connection with the above-described transaction, USH, on August 19, 2003, entered into a credit and security agreement (the "facility agreement") with Citizens Bank (the Bank), a major financial institution, expiring in August 2008, for the purpose of providing credit/liquidity support to USH by issuing a direct pay letter-of-credit in favor of the Trustee. The Project, along with related furnishings and future revenues, are pledged as collateral for this facility.

The facility agreement contains various affirmative and negative covenants, the most significant of which are USH maintaining a fixed charge coverage ratio, as defined in the facility agreement, of 1.50:1.0 for the year ending June 30, 2005, and 1:20:1.0 thereafter; and meeting an occupancy rate requirement of at least 90%, tested twice during the school year.

USH has entered into an interest rate swap agreement with the Bank pursuant to which the Bank, as counterparty to USH, agrees to make payments to USH at a variable rate, based on the 7 Day Bond Market Association Swap Index Rate, in exchange for payments by USH at a fixed annual rate of 3.4% for five years, based on the notional amount equal to the principal amount of the bonds during the five-year period.

The swap was issued at market terms so that it had no fair value at its inception. The carrying amount of the swap has been adjusted to its fair value at June 30, 2004, which because of changes in the variable rate described above resulted in a liability for the fair value of the future net payments forecasted under the swap (see Note 9).

Annual principal payments, based on provisions outlined in the facility agreement, are as follows as of June 30, 2004:

2005	\$ -
2006	-
2007	180,000
2008	235,000
2009	305,000
Thereafter	<u>41,585,000</u>
Total	<u>\$42,305,000</u>

After 2009, under the terms of the facility agreement, annual principal payments will be determined by mutual agreement of USH and the Bank.

6. TEMPORARILY RESTRICTED NET ASSETS

At June 30, 2004, temporarily restricted net assets primarily arise from time restrictions.

Net assets of \$3,209,053 were released from donor restrictions by incurring expenses satisfying the restricted purposes or by occurrences of other events specified by donors during the year ended June 30, 2004.

7. COMMITMENTS

GROUND LEASE

In August 2003, USH entered into a ground lease agreement with the University in order to lease the land on which the Project was to be constructed. The lease agreement expires in August 2045, or 2035 if the Series 2003 Bonds are satisfied at that time.

The agreement calls for annual base rent, commencing August 2004, of \$50,000, with an annual increase of 3%. Additionally, the lease agreement calls for payments of percentage rent, based on excess cash flows as defined in the agreement, and a system fee payment based on revenues, as defined in the agreement.

The University has subordinated its rights to base and percentage rent payments to any payments due on the Series 2003 Bonds. Any unpaid amounts accrue interest at prevailing prime rates.

At June 30, 2004, future aggregate minimum lease payments due under the lease are as follows:

YEAR ENDING JUNE 30

2005	\$ 45,833
2006	51,500
2007	53,045
2008	54,637
2009	56,276
Thereafter	<u>2,245,119</u>
Total	<u>\$2,506,410</u>

THE FUND FOR WEST CHESTER UNIVERSITY
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 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

PROPERTY MANAGEMENT AGREEMENT

In August 2003, USH entered into a property management agreement with an entity to manage, operate and maintain the student housing facilities, commencing in August 2004. The agreement is for one year and automatically renews for an additional one-year term unless terminated by either party. USH is to pay a management fee equal to 3.5% of gross income, as that term is defined in the agreement, and a subordinated management fee equal to 1.5% of gross income.

SERVICE AGREEMENT

In August 2003, USH entered into a service agreement with the University whereby the University is to provide, effective August 2004, certain grounds maintenance and student residence-related services to USH. The agreement, expiring in August 2009, automatically renews unless terminated by either party. Payments due for this agreement are as follows:

YEAR ENDING JUNE 30

2005	\$ 227,379
2006	254,872
2007	262,517
2008	269,569
2009	278,430
2010	<u>23,265</u>
Total	<u>\$1,316,032</u>

CONTRIBUTION

The Fund has pledged to contribute \$250,000 to the University's National Endowment for the Humanities challenge grant, anticipated to be paid as follows:

October 2005	\$100,000
October 2006	100,000
October 2007	<u>50,000</u>
Total	<u>\$250,000</u>

8. PRIOR PERIOD ADJUSTMENTS

Temporarily restricted net assets of the Fund as of June 30, 2003 have been restated to correct for the following:

	<u>INCREASE (DECREASE)</u>
Pledges receivable pertaining to a fund-raising campaign which occurred prior to inception of the Fund incorrectly included on the Fund's financial statements	\$(404,144)
Split-interest agreements net of estimated liabilities, not recorded in prior years	<u>127,718</u>
Total	<u>\$(276,426)</u>

The effect of this restatement was to increase the change in net assets for the year ended June 30, 2003 by approximately \$110,000.

9. INTEREST RATE SWAP

USH entered into an interest rate swap agreement which is considered a derivative financial instrument. The agreement, which is not designated as a hedging instrument, was entered into in order to manage interest rate exposure on the Series 2003 bonds payable. The Fund and USH do not utilize interest rate swaps or other similar financial instruments for trading or other speculative purposes. The counterparty for the swap agreement is the Bank, a major financial institution.

The principal objective of the swap agreement is to minimize the risks associated with financing activities by reducing the impact of changes in interest rates on variable rate debt. The swap agreement is a contract to exchange variable rate for fixed interest rate payments over the life of the swap agreement without the exchange of the underlying notional amount. The notional amount of the swap agreement is used to measure the interest to be paid or received and does not represent the amount of exposure to credit loss. Exposure to credit loss is limited to the receivable amount, if any, that may be generated as a result of the swap agreement.

Management believes that losses related to credit risk are remote. The net cash paid or received under the swap agreement is recognized as an adjustment to interest expense.

THE FUND FOR WEST CHESTER UNIVERSITY
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 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

At June 30, 2004 USH had the following interest rate swap in effect:

Notional amount	\$42,350,000
Strike rate	3.4%
Period	August 2003 – August 2008

The fair value of the swap agreement is estimated to be the amount that USH would pay to terminate the swap agreement at the reporting date and was based on information supplied by the Bank. USH estimates that it would have paid \$524, 701 to terminate the swap agreement on June 30, 2004.

10. FAIR VALUE OF FINANCIAL INSTRUMENTS

The carrying amount and estimated fair value of the Fund's financial instruments at June 30, 2004 are as follows:

	<u>CARRYING AMOUNT</u>	<u>FAIR VALUE</u>
Cash and cash equivalents	\$23,132,304	\$23,132,304
Pledges receivable, net	1,412,044	1,412,044
Split-interest agreements	393,534	393,534
Accounts payable and other accrued liabilities	8,220,750	8,220,750
Bonds payable	42,305,000	42,305,000
Interest rate swap payable	524,701	524,701
Due to West Chester University	409,674	409,674

The carrying amounts of cash and cash equivalents approximate fair value because of the short maturity of those financial instruments. The pledges receivable approximate fair value based on current present value.

The bonds payable approximates fair value as a result of the variable interest rate feature of the bonds payable. The interest rate swap payable fair value is as disclosed in Note 9.

The carrying amount of the split-interest agreements, accounts payable and other accrued liabilities and due to West Chester University approximates the fair value of these financial instruments.

THE FUND FOR WEST CHESTER UNIVERSITY
OF PENNSYLVANIA AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

11. FUNCTIONAL EXPENSES

Expenses have been allocated by functional classification as follows:

Program services	\$1,916,067
Management and general	<u>167,355</u>
Total	<u>\$2,083,422</u>

12. RELATED PARTY TRANSACTIONS

The Fund and USH receive contributions and advances from the University. The Fund and USH recorded donated revenue in the amount of \$1,066,232 and \$138,494, respectively, primarily related to payment of operational and administrative expenses during the year ended June 30, 2004.

The amount due the University at June 30, 2004 of \$409,674 represents advances received for the student housing facilities. This amount is to be repaid from operations of the student housing facilities.

Contributed services are not recognized as revenue unless the services received create or enhance the value of a nonfinancial asset; or require specialized skills which are provided by individuals possessing those skills and would typically need to be purchased if not donated.

During fiscal year 2004, the Fund received noncash gifts in the amount of \$502,409. These gifts were in the form of certain services (primarily printing), equipment and artwork donated to the Fund. The donated equipment and art work were transferred to the University during the year.

**THE FUND FOR WEST CHESTER UNIVERSITY
OF PENNSYLVANIA AND SUBSIDIARY**

**CONSOLIDATING STATEMENT OF FINANCIAL POSITION
JUNE 30, 2004**

	FUND FOR WEST CHESTER UNIVERSITY OF PENNSYLVANIA	UNIVERSITY STUDENT HOUSING, LLC	TOTAL
<u>ASSETS</u>			
CASH AND CASH EQUIVALENTS	\$ 436,983	\$ 22,695,321	\$ 23,132,304
PLEDGES RECEIVABLE (Net of allowance of \$86,087)	1,412,044		1,412,044
CONSTRUCTION IN PROGRESS	-	26,967,378	26,967,378
BOND COSTS (Net of amortization of \$25,590)	-	867,719	867,719
OTHER ASSETS	9,000	933	9,933
SPLIT-INTEREST AGREEMENTS	<u>393,354</u>	<u>-</u>	<u>393,354</u>
TOTAL	<u>\$2,251,381</u>	<u>\$50,531,351</u>	<u>\$52,782,732</u>
<u>LIABILITIES AND NET ASSETS</u>			
LIABILITIES:			
Accounts payable	\$ 6,000	\$ 7,919,816	\$ 7,925,816
Other accrued liabilities	206,527	88,407	294,934
Bonds payable	-	42,305,000	42,305,000
Interest rate swap liability	-	524,701	524,701
Due to West Chester University	<u>-</u>	<u>409,674</u>	<u>409,674</u>
Total liabilities	<u>212,527</u>	<u>51,247,598</u>	<u>51,460,125</u>
NET ASSETS:			
Unrestricted	187,112	(716,247)	(529,135)
Temporarily restricted	1,790,695	-	1,790,695
Permanently restricted	<u>61,047</u>	<u>-</u>	<u>61,047</u>
Total net assets	<u>2,038,854</u>	<u>(716,247)</u>	<u>1,322,607</u>
TOTAL	<u>\$2,251,381</u>	<u>\$50,531,351</u>	<u>\$52,782,732</u>

See Notes to Consolidated Financial Statements

THE FUND FOR WEST CHESTER UNIVERSITY
OF PENNSYLVANIA AND SUBSIDIARY

CONSOLIDATING STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2004

	FUND FOR WEST CHESTER UNIVERSITY OF PENNSYLVANIA				UNIVERSITY STUDENT HOUSING, LLC			CONSOLIDATED			
	UNRESTRICTED	TEMPORARILY RESTRICTED	PERMANENTLY RESTRICTED	TOTAL	UNRESTRICTED	TEMPORARILY RESTRICTED	TOTAL	UNRESTRICTED	TEMPORARILY RESTRICTED	PERMANENTLY RESTRICTED	TOTAL
PUBLIC SUPPORT AND REVENUE:											
Public Support:											
Contributions, cash	\$ 205,555	\$3,235,822	\$61,047	\$3,502,424	\$ -	\$ -	\$ -	\$ 205,555	\$3,235,822	\$61,047	\$3,502,424
Contributions, noncash	1,066,232	502,409	-	1,568,641	138,494	-	138,494	1,204,726	502,409	-	1,707,135
Total public support	1,271,787	3,738,231	61,047	5,071,065	138,494	-	138,494	1,410,281	3,738,231	61,047	5,209,559
Revenue:											
Investment income	7,717	5,891	-	13,608	-	-	-	7,717	5,891	-	13,608
Net assets released from restriction	3,209,053	(3,209,053)	-	-	-	-	-	3,209,053	(3,209,053)	-	-
Total revenue	3,216,770	(3,203,162)	-	13,608	-	-	-	3,216,770	(3,203,162)	-	13,608
Total public support and revenue	4,488,557	535,069	61,047	5,084,673	138,494	-	138,494	4,627,051	535,069	61,047	5,223,167
DISTRIBUTIONS AND EXPENSES:											
Distributions,											
Distributions to West Chester University	3,209,053	-	-	3,209,053	-	-	-	3,209,053	-	-	3,209,053
Total distributions	3,209,053	-	-	3,209,053	-	-	-	3,209,053	-	-	3,209,053
Expenses:											
Salaries and benefits	906,539	-	-	906,539	138,494	-	138,494	1,045,033	-	-	1,045,033
Advertising	954	-	-	954	-	-	-	954	-	-	954
Amortization of bond costs	-	-	-	-	25,590	-	25,590	25,590	-	-	25,590
Bank fees	2,972	-	-	2,972	-	-	-	2,972	-	-	2,972
Consulting/professional services	92,074	-	-	92,074	-	-	-	92,074	-	-	92,074
Dues and subscriptions	1,627	-	-	1,627	-	-	-	1,627	-	-	1,627
Food	29,598	-	-	29,598	-	-	-	29,598	-	-	29,598
Insurance	4,755	-	-	4,755	-	-	-	4,755	-	-	4,755
Legal	1,416	-	-	1,416	26,400	-	26,400	27,816	-	-	27,816
Audit	8,060	-	-	8,060	-	-	-	8,060	-	-	8,060
Management fee	-	-	-	-	139,647	-	139,647	139,647	-	-	139,647
Fundraising	19,530	-	-	19,530	-	-	-	19,530	-	-	19,530
Alumni Services	8,050	-	-	8,050	-	-	-	8,050	-	-	8,050
Contributions	5,000	-	-	5,000	-	-	-	5,000	-	-	5,000
Miscellaneous	8,571	-	-	8,571	-	-	-	8,571	-	-	8,571
Postage	22,593	-	-	22,593	-	-	-	22,593	-	-	22,593
Printing	55,505	-	-	55,505	-	-	-	55,505	-	-	55,505
Equipment	3,673	-	-	3,673	-	-	-	3,673	-	-	3,673
Supplies	12,425	-	-	12,425	-	-	-	12,425	-	-	12,425
Telephone	9,682	-	-	9,682	-	-	-	9,682	-	-	9,682
Change in net present value of split-interest agreements	-	16,439	-	16,439	-	-	-	-	16,439	-	16,439
Change in fair value of interest rate swap liability	-	-	-	-	524,701	-	524,701	524,701	-	-	524,701
Travel	19,127	-	-	19,127	-	-	-	19,127	-	-	19,127
Total expenses	1,212,151	16,439	-	1,228,590	854,832	-	854,832	2,066,983	16,439	-	2,083,422
Total distributions and expenses	4,421,204	16,439	-	4,437,643	854,832	-	854,832	5,276,036	16,439	-	5,292,475
CHANGE IN NET ASSETS	67,353	518,630	61,047	647,030	(716,338)	-	(716,338)	(648,985)	518,630	61,047	(69,308)
NET ASSETS, As previously reported	119,759	1,548,491	-	1,668,250	91	-	91	119,850	1,548,491	-	1,668,341
Prior period adjustment	-	(276,426)	-	(276,426)	-	-	-	-	(276,426)	-	(276,426)
NET ASSETS, Beginning as adjusted	119,759	1,272,065	-	1,391,824	91	-	91	119,850	1,272,065	-	1,391,915
NET ASSETS, End of year	\$ 187,112	\$1,790,695	\$61,047	\$2,038,854	\$(716,247)	\$ -	\$(716,247)	\$(529,135)	\$1,790,695	\$61,047	\$1,322,607

See Notes to Consolidated Financial Statements

**THE FUND FOR WEST CHESTER UNIVERSITY
OF PENNSYLVANIA AND SUBSIDIARY**

**CONSOLIDATING STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2004**

	FUND FOR WEST CHESTER UNIVERSITY OF PENNSYLVANIA	UNIVERSITY STUDENT HOUSING, LLC	TOTAL
CASH FLOWS FROM OPERATING ACTIVITIES:			
Change in net assets	\$ 647,030	\$ (716,338)	\$ (69,308)
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:			
Amortization of bond costs	-	25,590	25,590
Interest rate swap liability	-	524,701	524,701
Increase in pledges receivable	(440,521)	-	(440,521)
(Increase) decrease in due from/due to related organizations	241,913	(241,913)	-
Increase in other assets	(9,000)	(933)	(9,933)
Increase in split-interest agreements	(145,688)	-	(145,688)
Increase (decrease) in accounts payable	6,000	(39,601)	(33,601)
Increase in other accrued liabilities	86,579	88,194	174,773
Increase in due to West Chester University	-	344,674	344,674
	<u>386,313</u>	<u>(15,626)</u>	<u>370,687</u>
CASH FLOWS FROM INVESTING ACTIVITIES:			
Construction in progress	-	(18,740,184)	(18,740,184)
	<u>-</u>	<u>(18,740,184)</u>	<u>(18,740,184)</u>
CASH FLOWS FROM FINANCING ACTIVITIES:			
Bond issuance	-	42,305,000	42,305,000
Bond costs	-	(893,309)	(893,309)
	<u>-</u>	<u>41,411,691</u>	<u>41,411,691</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS	386,313	22,655,881	23,042,194
CASH AND CASH EQUIVALENTS, Beginning of year	50,670	39,440	90,110
CASH AND CASH EQUIVALENTS, End of year	\$ 436,983	\$ 22,695,321	\$ 23,132,304
SUPPLEMENTAL INFORMATION:			
Interest paid	\$ -	\$ -	\$ -
Income taxes paid	\$ -	\$ -	\$ -
Construction in progress in accounts payable	\$ -	\$ 7,919,816	\$ 7,919,816

See Notes to Consolidated Financial Statements