Annual Financial Report
Year Ended June 30, 2007

Wesleyan University

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Barbara-Jan Wilson	Vice President for University Relations

WESLEYAN
UNIVERSITY

Vice President for Finance and Administration
237 High Street
Middletown, CT 06459-0241
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For: The Board of Trustees

From: John C. Meerts

Date: October 19, 2007

Subject: FY 2006/07 Annual Financial Report

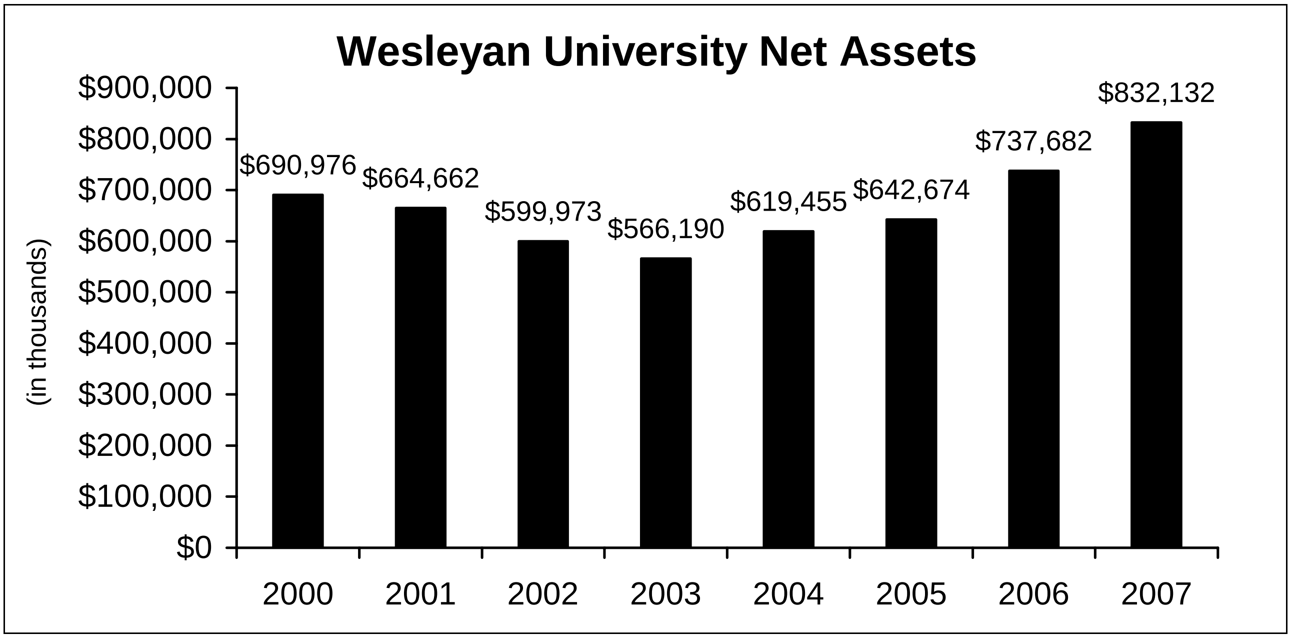
It is my pleasure to present the Wesleyan University Annual Financial Report. The Financial Report is the means through which the University presents its financial condition to the trustees, to donors and friends of the University and to external constituencies. We take great pride in the University's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

In addition to the accompanying financial statements and related footnotes together with the unqualified auditors' report thereon, we have provided a summary of the results of the recent fiscal year and a brief review of capital investments in the on-going Facilities Master Plan.

2006-2007 Year in Review

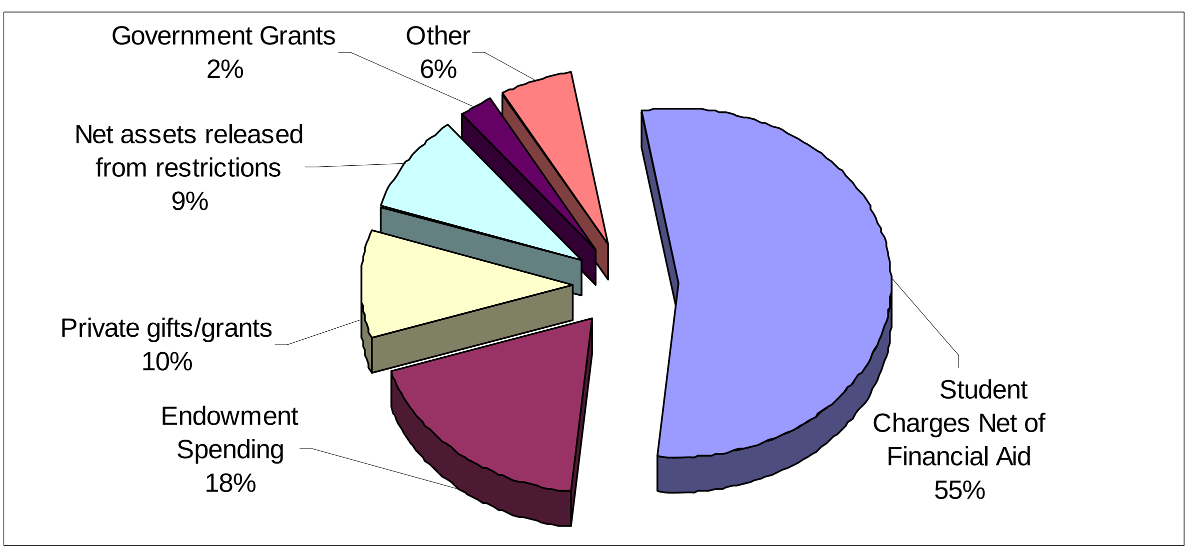
Total operating revenue and support for FY 2006/07 was $179.8 million, an increase of 4% from FY 2005/06. Operating expenses were $169.3 million, an increase of 1% from FY 2005/06.

During the FY ended June 30, 2007, Wesleyan University's net assets increased by $94.5 million from $737.7 million to $832.1 million. The 14.7% increase in the market value of Wesleyan's endowment is the major factor in the increase in net assets.



Operations

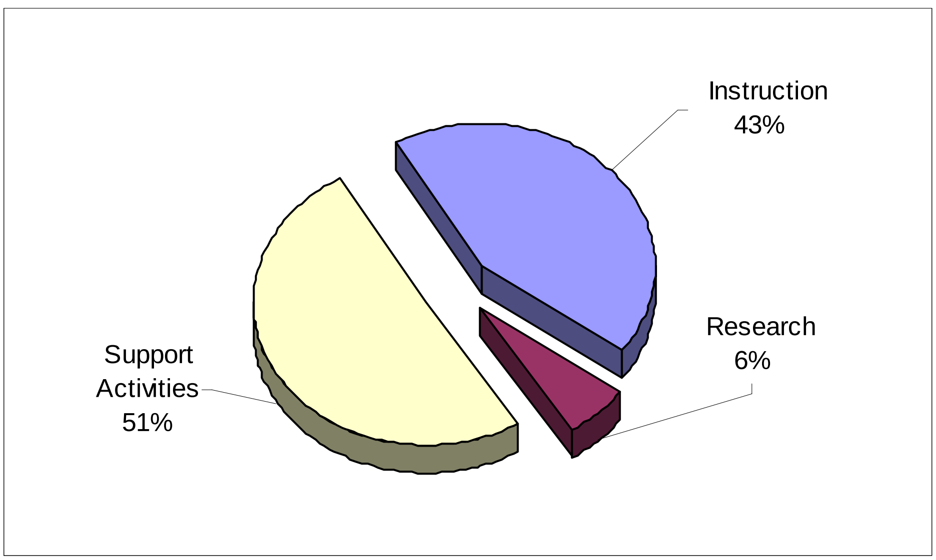
<u>Revenue</u>
Student fees (tuition, room, and board), net of student financial aid, totaled $98 million and comprised more than half of Wesleyan's total operating revenue. Net student charges increased 7% as tuition, room, and board rates increased at 5.4%, financial aid expenditures totaling $37 million increased 4%. Enrollment was also more than 11 students higher than in FY 2005/06.



The second most significant source of revenue is endowment spending. At $33 million, this support is determined in accordance with an endowment spending policy approved by the Board of Trustees. Endowment spending decreased 4% as Wesleyan brings its spending within guidelines. The endowment provides Wesleyan with resources that support a wide variety of programs across the University, ranging from general operations, to scholarships and professorships.

<u>Expenditures</u>

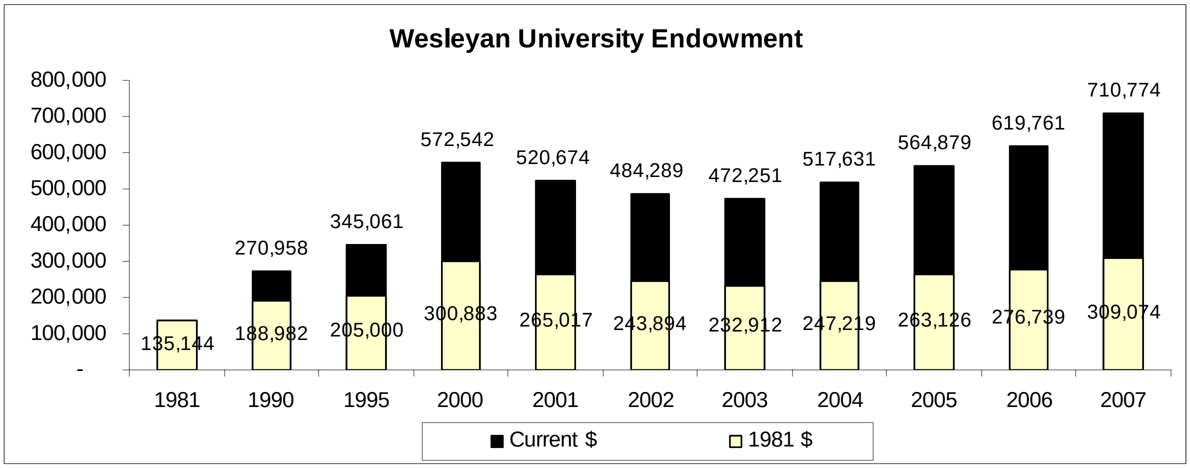
About half of Wesleyan's $169 million operating budget is spent on its central academic mission, instruction and research ($84 million). Support expenditures increased 5% reflecting the investment in University Relations fundraising efforts. In addition, Wesleyan spends proportionately more on academic priorities and less on support activities than peer institutions.



Financial Assets to Support the University

FY 2006/07 marked the first time that Wesleyan's assets exceeded $1.0 billion. Throughout the year Wesleyan's cash position fluctuated between $2 million to $34 million, and ended the FY at $19 million.

Wesleyan's endowment totaled $710.8 million ($309 million in 1981 dollars) at year end, an increase of $91 million. We are extremely pleased to see how well the endowment has fared. We also note that the endowment has increased 129% in real value since 1981 when our goal was set to maintain the real value of the endowment.



Both pledges receivable and cash on deposit with bond trustee decreased. We received more pledge payments than new pledges created and continued to use bond proceeds to pay for the Suzanne Lemberg Usdan Center construction.

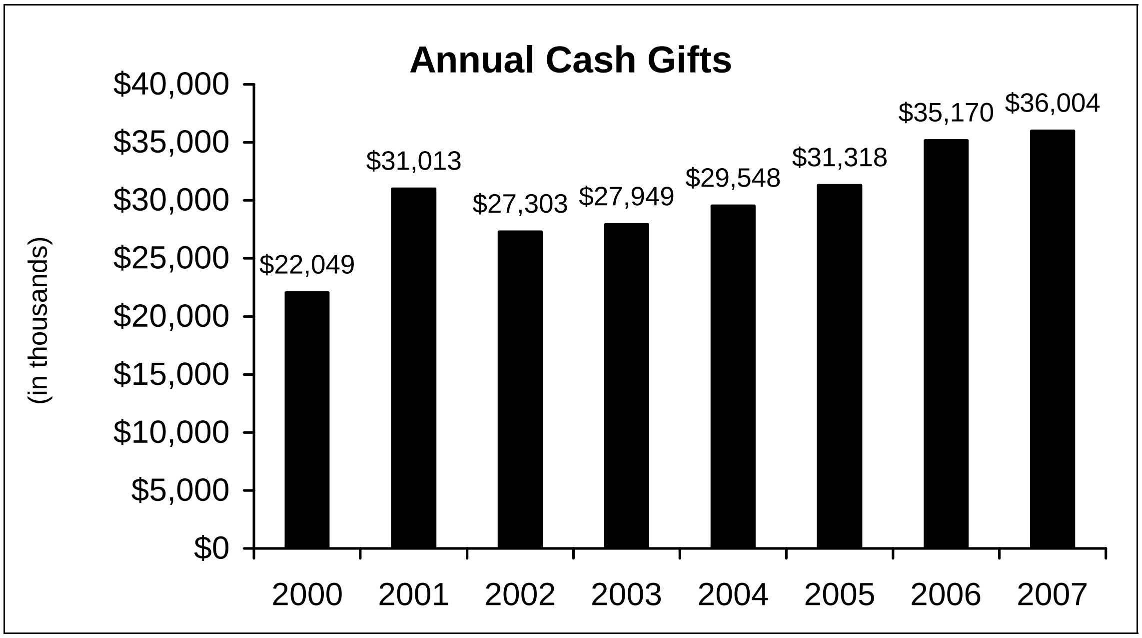
Liabilities decreased by $2.8 million over FY 2005/06. A new accounting standard and updated analysis of our post retirement benefits decreased future obligations. As donors continue to contribute to our deferred giving program, Wesleyan's lifetime payment obligation to these donors increases.

Wesleyan Fundraising

In FY 2006/07, alumni, parents, and friends gave $36 million on a cash basis to Wesleyan University ($0.8 million more than the 2006 record), with 53% alumni participation.

Wesleyan fundraising supports students and faculty in three ways:

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



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

Facilities

Capital expansion and investments in the renewal of our physical plant are accomplished through a combination of the issuance of tax-exempt bonds, new gifts, and funding from operations. Wesleyan is in the process of constructing and developing several significant projects. The Usdan Center is complete and opened on schedule also on budget for $47 million.   Phase 2 of the Center for Film Studies ($4.625 million) construction is underway and expected to open for January, 2008. Renovations to the Science Library lower level ($2 million) installing rolling compact shelving, was completed in 2007. Mystical 7 , damaged by fire in 1995 has been demolished and planning is underway to build its replacement in a new location according to the landscape masterplan, by Robert Olsen. The existing softball field was relocated to provide correct orientation and upgrade the current fields.

A number of additional projects improving fire safety in student housing were completed this year. Fire sprinklers were added to twenty two undergraduate houses and one program house protecting an additional 127 beds. This phase totals 2,338 beds out of 2,666 total undergraduate beds sprinkled. When this project is complete in 2008, the only un-sprinklered beds will be in the houses planned for sale or with less than five beds per house. The seventh and sixth floors of HiRise undergraduate student residences were renovated as Phase 2 of a multi year project.

Several major utility projects are in design. Engineers are designing a new electrical substation to increase campus power capacity and a new CoGen facility to generate electricity and reduce annual utility costs. A comprehensive energy conservation project will install a new chiller in the central power plant and upgrade or replace a dozen other utility systems with more efficient ones.

Design is underway with Payette Associates for a new Molecular Life Science building. The proposed building will provide laboratory, classroom and faculty offices for chemistry, biology, molecular biology and biochemistry, and a vivarium. The proposed site is the current location of the Hall-Atwater and Shanklin Hall Science buildings. A schematic design will be completed in late 2007 and presented to the Board in early 2008.

Conclusion

Improved endowment performance from both stronger financial markets and investment strategies has increased our assets. Our commitment to strategic planning and balanced budgets provides approaches to ensure focused investments and financial well-being for the future.

Financial Results

Year Ended June 30, 2007

WESLEYAN UNIVERSITY
Statements of Financial Position
June 30, 2007 and 2006
(stated in 000's)

	2007	2006
ASSETS		
Cash and cash equivalents	$ 19,536	14,538
Receivables and other assets	16,865	15,864
Receivable for interest rate swap	2,688	2,698
Pledges receivable	51,020	58,846
Investments	722,034	629,211
Cash on deposit with bond trustee	9,343	37,492
Investment in plant, at cost		
net of accumulated depreciation	268,632	239,813
Total assets	$ 1,090,118	998,462
LIABILITIES		
Accounts payable and accrued expenses	9,900	9,166
Deposits and deferred revenues	1,343	621
Split interest obligations	5,434	2,995
Postretirement benefits	11,534	17,496
Long-term debt	203,894	204,753
Liability for interest rate swap	10,407	10,580
Asset retirement obligation	10,196	9,891
Perkins loan program refundable	5,278	5,278
Total liabilities	257,986	260,780
NET ASSETS		
Unrestricted	607,902	517,568
Temporarily restricted	89,961	92,510
Permanently restricted	134,269	127,604
Total net assets	832,132	737,682
Total liabilities and net assets	$ 1,090,118	998,462

See accompanying notes to financial statements.

WESLEYAN UNIVERSITY
Statements of Changes in Unrestricted Net Assets
Years ended June 30, 2007 and 2006
(stated in 000's)

	2007	2006
REVENUES FROM OPERATIONS		
Tuition	$ 106,319	100,540
Room and board	28,382	26,131
Less undergraduate scholarships and graduate tuition remission	(36,669)	(35,292)
Net student charges	98,032	91,379
Investment return		
Interest and dividends	2,939	3,221
Gains used in support of operations	29,926	31,007
Private gifts and grants	18,054	14,422
Federal, state and local grants	4,366	4,303
Other	10,152	10,772
Net assets released from restrictions	16,290	17,052
Total revenues from operations	179,759	172,156
EXPENDITURES		
Instruction	73,579	74,624
Research	10,337	10,905
Libraries	10,273	10,564
Student services	9,706	9,564
Institutional support	23,358	20,170
Other	2,236	2,586
Auxiliary activities	39,783	38,667
Total expenditures	169,272	167,080
Revenues in excess of expenditures from operations	10,487	5,076
NON-OPERATING ACTIVITIES		
Realized and unrealized gains	103,648	68,672
Allocation of accumulated gains for operations	(29,926)	(31,007)
Adjustment for postretirement benefit liability	1,681	308
Net gain on interest rate swaps	163	23,826
Total non-operating activities	75,566	61,799
Cumulative effect of change in accounting principle	-	(8,463)
Effect of change in accounting principle	4,281	-
Change in unrestricted net assets	90,334	58,412
Unrestricted net assets at beginning of year	517,568	459,156
Unrestricted net assets at end of year	$ 607,902	517,568

See accompanying notes to financial statements.

WESLEYAN UNIVERSITY
Statements of Changes in Restricted Net Assets
Years ended June 30, 2007 and 2006
(stated in 000's)

TEMPORARILY RESTRICTED NET ASSETS	**2007**	**2006**
Revenues and other additions:		
Gifts	$ 4,460	43,434
Investment income	371	204
Realized and unrealized gains	11,371	6,760
Total revenues and other additions	16,202	50,398
Change in value of split interest obligation	(2,461)	(1,001)
Net assets released from restrictions	(16,290)	(17,052)
Change in temporarily restricted net assets	(2,549)	32,345
Temporarily restricted net assets at beginning of year	92,510	60,165
Temporarily restricted net assets at end of year	$ 89,961	92,510
PERMANENTLY RESTRICTED NET ASSETS		
Revenues and other additions:		
Gifts	$ 5,595	3,842
Reinvested investment income	305	267
Realized and unrealized gains on outside trusts	765	142
Change in permanently restricted net assets	6,665	4,251
Permanently restricted net assets at beginning of year	127,604	123,353
Permanently restricted net assets at end of year	$ 134,269	127,604
TOTAL NET ASSETS		
Change in total net assets	$ 94,450	95,008
Total net assets at beginning of year	737,682	642,674
Total net assets at end of year	$ 832,132	737,682

See accompanying notes to financial statements.

WESLEYAN UNIVERSITY
Statements of Cash Flows
Years ended June 30, 2007 and 2006
(stated in 000's)

	2007	2006
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets:	$ 94,450	95,008
Adjustments to reconcile change in net assets to cash used for operating activities:		
Gains from investments	(115,784)	(75,574)
Gifts received for long-term investment	(9,044)	(11,023)
Adjustment for interest rate swaps	(163)	(23,826)
Depreciation	9,063	9,162
Changes in accounting principles	(4,281)	8,463
Change in working capital	10,559	(25,186)
Net cash used for operations	(15,200)	(22,976)
CASH FLOWS FROM INVESTMENT ACTIVITIES		
Additions to property and equipment	(39,097)	(32,755)
Purchases of investments	(339,102)	(323,700)
Sales of investments	362,063	340,781
(Increase)/decrease in cash on deposit with bond trustee	28,149	(25,480)
Net cash (used for)/provided by investment activities	12,013	(41,154)
CASH FLOWS FROM FINANCING ACTIVITIES		
Gifts for long-term investment	9,044	11,023
Proceeds from issuance of long term debt	-	48,000
Repayments of long term debt	(859)	(826)
Net cash provided by financing activities	8,185	58,197
Net change in cash and cash equivalents	4,998	(5,933)
Cash and cash equivalents at beginning of year	14,538	20,471
Cash and cash equivalents at end of year	$ 19,536	14,538
Cash paid for interest	$ 9,421	8,550

See accompanying notes to financial statements.

(1) Organization

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

(2) Summary of Significant Accounting Policies

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

Accrual Basis

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

Net Asset Categories

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

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

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

Unrestricted Net Assets: All other net assets not subject to donor-imposed restrictions. Certain net assets classified as unrestricted are internally designated for donor-specified uses. Federal and foundation research grants are not considered as gifts to the University; consequently, research grants are classified in the unrestricted net asset category as they are expended.

Expiration of Donor-Imposed Restrictions

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

Investments

Investments are reported at their respective fair values. Investments in securities traded on a national exchange are based upon quoted market prices. Private equity and certain other nonmarketable securities are valued using current estimates of fair value obtained from the general partner or investment manager in the absence of readily determinable public market values. Such valuations generally reflect discounts for liquidity and consider variables such as financial performance of investments, including comparison of comparable companies' earning multiples, cash flow analysis, recent sales prices of investments, and other pertinent information. Because of the inherent uncertainty of valuation for these investments, the investment manager or general partner's estimate may differ from the values that would have been used had a ready market existed, and the difference could be significant. University management is responsible for the fair value measurements of investments reported in the financial statements. The University has implemented policies and procedures to assess the reasonableness of the fair values provided, and believes that reported fair values at the balance sheet date are reasonable. These securities represent 22% and 20% of the University's investments at June 30, 2007 and 2006, respectively.

Operations

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

Cash and Cash Equivalents

For purposes of the statement of cash flows, cash equivalents include only short-term, highly liquid working capital investments (those with original maturities, when purchased, of three months or less).

Receivables

At June 30, 2007 and 2006, student accounts receivable are net of an allowance for doubtful accounts of $117,000 and $128,000, and student loans receivable are net of an allowance for doubtful accounts of $1,129,000 for 2007 and 2006.

Investment in Plant

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

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

Income Taxes

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

Fair Value of Financial Instruments

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

Use of Estimates

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

(3) Pledges Receivable

The University recognizes the present value of unconditional pledges receivable as revenues in the period in which the pledges are made. Pledges are discounted at rates ranging between 1.50% and 5.28% The University has also created a 10% allowance for uncollectible pledges for individual gifts greater than $25,000.

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

	(Stated in 000's)	
	2007	2006
Less than one year	$ 21,373	20,459
One to five years	27,446	32,435
More than five years	15,063	19,366
	63,882	72,260
Less allowance for uncollectible pledges	(5,295)	(6,408)
Less discount for present value	(7,567)	(7,006)
Net pledges receivable	$ 51,020	58,846

Pledges are for the following purposes:

	(Stated in 000's)			
	2007			2006
	Permanently Restricted	Temporarily Restricted	Total	Total
Undesignated	$ 104	3,272	3,376	1,712
Academic programs	3,968	1,147	5,115	6,800
Financial aid	4,286	24,950	29,236	33,841
Building additions & renovations	0	5,330	5,330	5,909
Unrestricted	0	7,963	7,963	10,584
Total	$ 8,358	42,662	51,020	58,846

University Relations expenditures, which are primarily for fundraising purposes and alumni activity, totaled $8,585,000 and $6,220,000 in fiscal years 2007 and 2006, respectively.

(4) Investments

At June 30, 2007 and 2006, fair values of University investments are as follows:

	(Stated in 000's) 2007	2006
Short-term securities	$ 27,552	18,998
Fixed income	77,369	74,139
Equity investments:		
U.S. stocks	163,112	154,198
International stocks	105,471	80,653
Marketable alternatives	178,262	164,192
Real assets	41,388	23,290
Private equity	114,988	101,181
Mortgages and notes receivable	6,542	5,954
Trusts held by others	7,350	6,606
Total fair values	$ 722,034	629,211

At June 30, 2007 the University had outstanding capital commitments to private equity funds totaling $74,151,000.

A portion of the investments are held by endowment, whose value at June 30, 2007 and 2006 was $710,774,000 and $619,761,000, respectively. These assets are included in an investment pool that is accounted for on a unitized market value basis, with each individual fund subscribing to or disposing of units on the basis of the market value per unit of the pool at the end of the calendar month within which the transaction took place. The value of the units is based on a total return investment policy.

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

	(Stated in 000's) 2007	2006
Net investment income	$ 3,615	3,692
Realized and unrealized gains and losses	115,784	75,574
Net return on investments	$ 119,399	79,266

The University follows a policy of spending between 4.5% and 5.5% of the 12-quarter moving average of the market value of the endowment in support of the operating and capital budgets. For fiscal 2007, $34,077,000 was spent

($36,114,000 in fiscal 2006), which represented 6.4% of the 12-quarter moving average of the market value of the endowment. Of this amount, $1,212,000 ($1,886,000 in fiscal 2006) is recorded in temporarily restricted net assets as part of income and gains.

Fiscal 2007 represents the first year of the University's plan to bring endowment spending in line with the payout policy. The University has reduced the draw from 7.4% in fiscal 2006 and plans to continue reductions over a period of five years or earlier.

(5) Investment in Plant

At June 30, 2007 and 2006, the components of the University's investment in plant were as follows:

	(Stated in 000's)	
	2007	2006
Campus land and improvements	$ 25,704	25,704
Buildings	259,569	248,007
Equipment	83,544	75,799
Construction in progress	43,349	25,168
Less accumulated depreciation	(143,534)	(134,865)
Total	$ 268,632	239,813

During fiscal 2007, the University capitalized net interest expense on construction in progress in the amount of $881,000 for CHEFA F ($905,000 on CHEFA E and F in fiscal 2006).

(6) Debt

At June 30, 2007 and 2006, long-term debt consisted of the following:

	(Stated in 000's) 2007	2006
Revenue bonds payable (CHEFA Series D)	$ 93,000	93,000
Revenue bonds payable (CHEFA Series E)	62,000	62,000
Revenue bonds payable (CHEFA Series F)	48,000	48,000
Term loans	894	1,753
Total	$ 203,894	204,753

CHEFA Series D

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

CHEFA Series E

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

CHEFA Series F

In August 2005 the University finalized its sale of $48,000,000 in thirty-five year variable rate bonds through CHEFA. The bond proceeds are being used to finance the completion of the University Center, renovations to the Foss Hill Residence Halls, construction, renovations and fire safety upgrades for senior level housing and electrical substation equipment replacement.

Swap Agreements

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

Trade Date	Notional amount	Maturity	Purpose	Fair Value at June 30, 2007	2006
November 29, 2001	$ 93,000	July 1, 2035	Swap variable rate of the CHEFA Series D bonds for a fixed rate of 5.02%	$(10,407)	(10,580)
March 10, 2003	62,000	July 1, 2038	Swap variable rate of the CHEFA Series E bonds for a fixed rate of 4.05%	1,977	1,984
January 7, 2005	36,000	July 1, 2040	Swap variable rate of the CHEFA Series F bonds for a fixed rate of 4.14%	711	714
			Net value of agreements	$ (7,719)	(7,882)

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

Term Loans

In December, 2003, the University borrowed $3,800,000 from Key Government Finance to refinance a term loan with GE Capital for telecommunications equipment and an energy management system. The loan is payable over five years at a fixed rate of 4.0% with the final payment due in fiscal 2008.

Debt Maturities

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

	(Stated in 000's)
2008	$ 894
2009	0
2010	0
2011	0
2012	0
Thereafter	203,000
Total outstanding debt	$ 203,894

Debt Covenants

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

Line of Credit (LOC)

The University has a standing $10,000,000 line of credit with Bank of America. As of June 30, 2007 and 2006, there were no outstanding advances under this LOC. The interest rate is set at 50 basis points above the LIBOR rate or the bank's cost of funds.

(7) Benefit Plans

(a) Defined Contribution Plan

The University has noncontributory defined contribution pension plans, with contributions being determined as a percentage of salary, covering substantially all employees. Total pension expense was $4,701,000 and $4,596,000 for fiscal 2007 and 2006, respectively.

(b) Postretirement Benefits

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

Effective June 30, 2007, the University adopted FASB Statement No. 158, *Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans* (Statement 158). The status of the University's plan and the amounts recognized in the balance sheet at June 30, 2007 and 2006 are as follows:

WESLEYAN UNIVERSITY
Notes to Financial Statements
June 30, 2007 and 2006

	(Stated in 000's)	
	2007	2006
Change in benefit obligation:		
Projected benefit obligation as of beginning of year	$ 14,400	16,457
Service cost	345	890
Interest cost	686	837
Plan participants' contributions	49	-
Benefits paid	(543)	(488)
Actuarial gain	(3,403)	(3,296)
Benefit obligation as of end of year	11,534	14,400
Unrecognized net actuarial gain	N/A	3,096
Net benefit liability recognized in the statements of financial position	$ 11,534	17,496

N/A - not applicable under Statement 158.

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

	(Stated in 000's)	
	2007	2006
Interest on accumulated post-retirement benefit obligation	$ 686	837
Service cost	345	890
Amortization of actuarial gain	(2,218)	(1,547)
Total	$ (1,187)	180

This cost (credit) is allocated as follows:

	(Stated in 000's)	
	2007	2006
Operations	$ 494	488
Non-operating	(1,681)	(308)

For measurement purposes, an annual rate of increase of 11.25% and 13.5% in the per capita cost of covered healthcare and prescription drug benefits, respectively, was assumed as of June 30, 2007. The rates were assumed to decrease to 4.5% for healthcare by 2016 and 4.5% for prescription drug benefits by 2019 and remain at that level thereafter. Assumed healthcare cost trend rates have a significant effect on the amounts reported for the healthcare plans. It is estimated, based on actuarial calculations, that a one-percentage point increase in health care cost trend would have increased the service cost and interest cost for fiscal 2007 by $42,000 and the accumulated postretirement benefit obligation by $364,000.

The weighted average discount rate used to determine benefit obligations and net periodic postretirement benefit costs were as follows:

	2007	2006
Benefit obligations	6.25%	6.50%
Net periodic postretirement benefit costs	6.50%	5.25%

The benefits, as of June 30, 2007, expected to be paid in each of the next five fiscal years, and in the aggregate for the five fiscal years thereafter are as follows:

	(Stated in 000's)
2008	$ 681
2009	723
2010	785
2011	881
2012	983
Five years thereafter	5,834

At June 30, 2007, $4,281,000 of net actuarial gains was not yet recognized as a component of net periodic postretirement benefit cost. The $4,281,000 appears on the fiscal 2007 statement of changes in unrestricted net assets as the effect of a change in accounting principle increasing unrestricted net assets.

The effects of applying Statement 158 on the University's financial position as of June 30, 2007 were as follows (in thousands of dollars):

	Before Statement 158	After Statement 158
Accrued postretirement benefit obligation	$ 15,815	11,534
Total liabilities	262,267	257,986
Total net assets	827,851	832,132

(8) Temporarily Restricted Net Assets

Temporarily restricted net assets consist of the following at June 30, 2007 and 2006:

	(Stated in 000's)	
	2007	2006
Restrictions for:		
Instruction and research	$ 41,966	40,042
Financial aid	30,873	33,811
Facilities	5,270	5,870
Library	49	35
Subtotal	78,158	79,758
Time restrictions for charitable remainder trusts	10,778	11,402
Undesignated and unrestricted pledges	1,025	1,350
Total temporarily restricted net assets	$ 89,961	92,510

Net assets released during fiscal 2007 and 2006 from temporary donor restrictions by incurring expenses satisfying the restricted purpose or by occurrence of events specified by donors were as follows:

	(Stated in 000's) 2007	2006
To Unrestricted:		
Instruction and research	$ 6,875	6,694
Financial aid	4,849	4,558
Institutional support	721	747
Student services	446	402
Library	2	2
Pledge payments on unrestricted gifts	3,397	4,479
Expiration of time restrictions	-	170
Total net assets released	$ 16,290	17,052

(9) Permanently Restricted Net Assets

The original gift value of permanently restricted net assets consists of the following at June 30, 2007 and 2006:

	2007	2006
For which the income is restricted:		
Financial aid	$ 63,635	59,709
Instruction and research	49,072	46,627
Facilities maintenance	3,945	3,920
Library	1,764	1,754
Loans to students	2,128	1,930
Total	$ 120,544	113,940
For which the income is unrestricted	13,725	13,664
Total permanently restricted net assets	$ 134,269	127,604

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

The University has allocated all expenditures for physical plant operations, major maintenance expenses, depreciation and interest expenses to six functional expenditure categories based on square footage of facilities identified for each functional expenditure category. The expenditures and allocations for fiscal 2007 and 2006 are listed below.

	(Stated in 000's)	
	2007	2006
Expenditures:		
Physical plant operations	$ 19,392	19,199
Major maintenance expenses and non-capitalized costs	5,815	8,561
Depreciation	9,063	9,162
Interest expense	8,979	7,589
Total expenditures to be allocated	$ 43,249	44,511

Allocations to functional expenditure categories:

	(Stated in 000's)	
	2007	2006
Instruction	$ 12,910	13,287
Research	4,325	4,451
Libraries	3,153	3,245
Student services	904	930
Institutional support	1,246	1,282
Auxiliary activities	20,711	21,316
Total allocations	$ 43,249	44,511

(11) Change in Accounting Principle

As of July 1, 2005, the University adopted the provisions of FASB Interpretation No. 47, *Accounting for Conditional Asset Retirement Obligations*. In accordance with the standard, the University determined what its obligations were, when the obligations were incurred, and when the obligations were likely to be remediated. The University undertook an analysis of its physical plant and determined that it had an aggregate conditional asset retirement obligation related to asbestos installation and lead in buildings on its campus. Based upon its analysis in fiscal 2006, the University recorded a liability of $9,891,000 of which $8,463,000 was recorded as a cumulative effect of a change in accounting principle.

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Independent Auditors' Report

The Board of Trustees
Wesleyan University:

We have audited the accompanying statements of financial position of Wesleyan University (the University) as of June 30, 2007 and 2006, and the related statements of activities and cash flows for the years then ended. These financial statements are the responsibility of the University's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the University's internal control over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Wesleyan University as of June 30, 2007 and 2006, and the changes in its net assets and its cash flows for the years then ended, in conformity with U.S. generally accepted accounting principles.

KPMG LLP

October 10, 2007

KPMG LLP, a U.S. limited liability partnership, is the U.S.
member firm of KPMG International, a Swiss cooperative.

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