ANNUAL FINANCIAL REPORT
YEAR ENDED JUNE 30, 2008

WESLEYAN
UNIVERSITY

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W E S L E Y A N
U N I V E R S I T Y

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

From: John C. Meerts

Date: October 22, 2008

Subject: FY 2007/08 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.

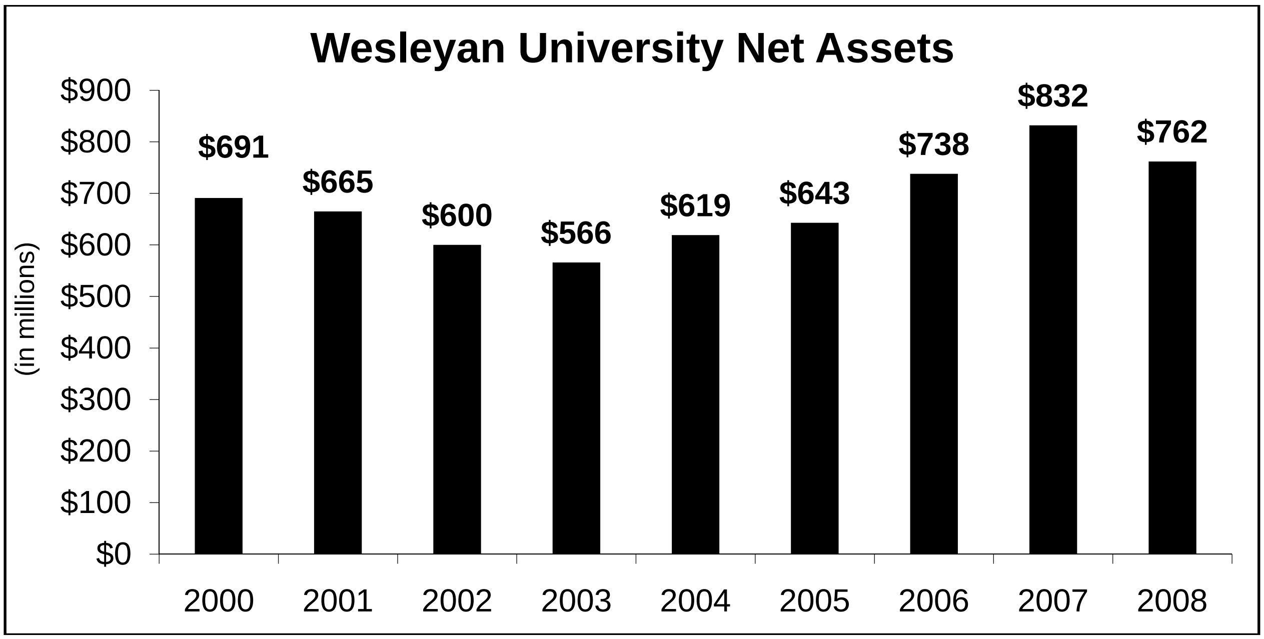
Wesleyan will be making careful choices related to financial management in light of current fiscal realities. Investment losses in FY 2007/08, and probably again in FY 2008/09, will not impact our endowment spending significantly until FY 2010/11 because of the 12 quarter moving average spending policy. We are using this time to re-examine budget assumptions and make reductions where appropriate starting in the current fiscal year. We are also reviewing our facilities plans as it will be necessary to delay or stop spending to preserve the capacity of our endowment. All these actions will be accomplished with the understanding that we must do our best to protect the teaching, research, and the student experience from the impact of our cost cutting measures.

In addition, the recent action by Wachovia Bank, N.A., as trustee of the Common Fund Short Term Fund, to terminate the Fund is not expected to limit Wesleyan's ability to meet its financial obligations. As of October 28, 2008, the investment in the Fund is $11 million. The cash flow plan in place, together with the Fund's ongoing liquidation and distribution plans, will provide adequate liquidity to cover expenses throughout the fiscal year.

2007-2008 Year in Review

Total operating revenue and support for FY 2007/08 was $185 million, an increase of 2.8% from FY 2006/07. Operating expenses were $177 million, an increase of 4.7% from FY 2006/07.

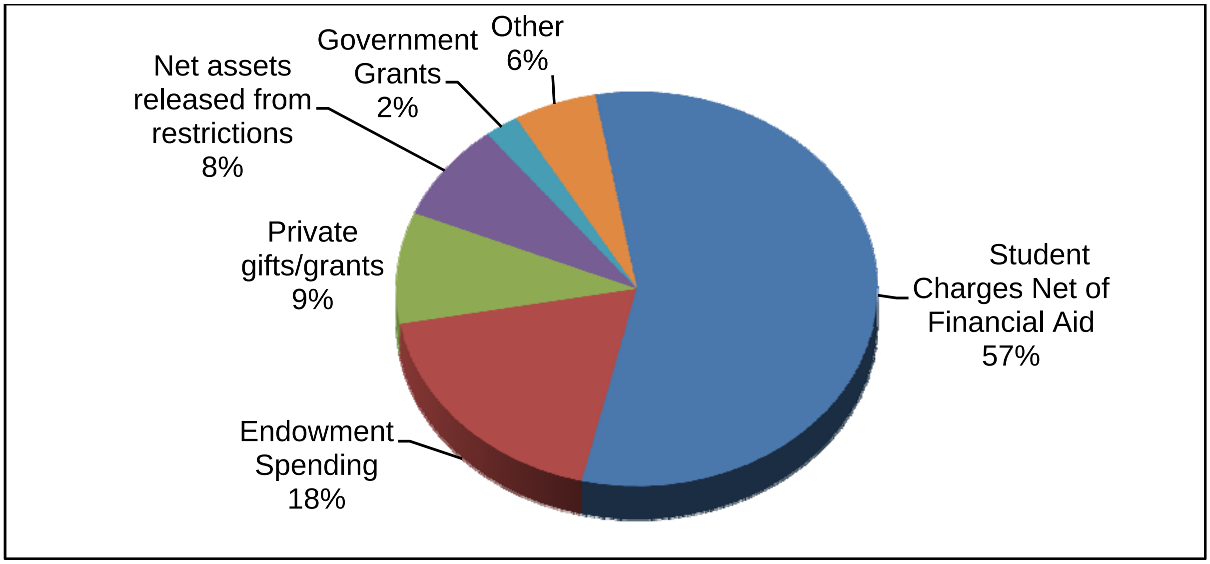
During the fiscal year ended June 30, 2008, Wesleyan University's net assets decreased by $70 million from $832 million to $762 million. The 8.2% decrease in the market value of Wesleyan's endowment is the major factor in the decrease in net assets.



Operations

Revenue

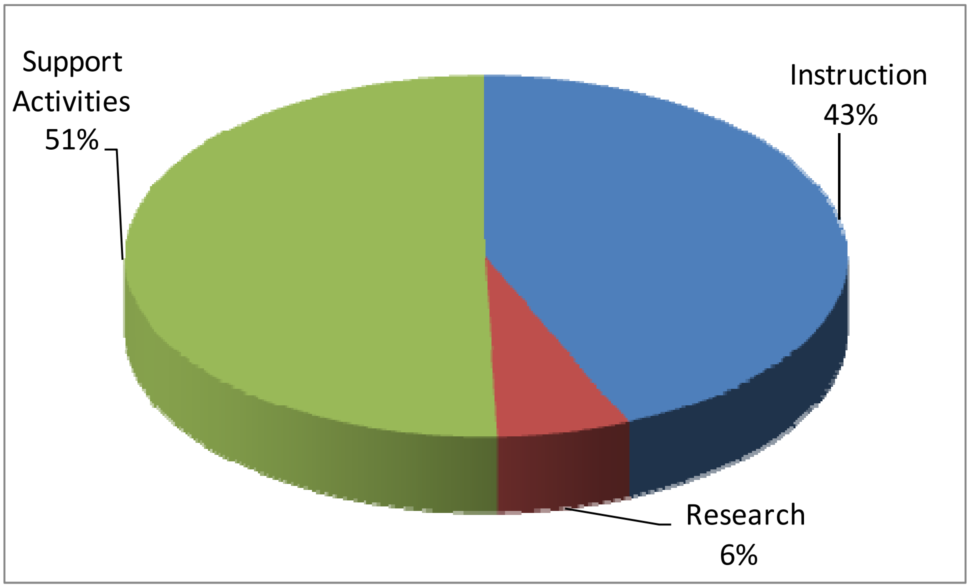
More than half of Wesleyan's total operating revenue comes from student fees (tuition, room, and board). Net of student financial aid, this totaled $104 million. Net student charges increased 6% as tuition, room, and board rates increased at 5%, financial aid expenditures totaling $38.4 million increased 5%. Enrollment was also higher than in FY 2006/07.



The second most significant source of revenue is endowment spending. At $34 million, this support is determined in accordance with an endowment spending policy approved by the Board of Trustees. Endowment spending increased 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.

Expenditures

About half of Wesleyan's $177 million operating budget is spent on its central academic mission, instruction and research ($88 million). Support expenditures increased 5% reflecting the opening of the Suzanne Lemberg Usdan Center. In addition, Wesleyan spends proportionately more on academic priorities and less on support activities than peer institutions.



Financial Assets to Support the University

Wesleyan's assets continued to exceed $1 billion. The bad news, of course, is the decline in the endowment value; Wesleyan's endowment totaled $652 million at year end, a decrease of $59 million.

Assets

Cash/short term investments increased by $10 million because of year end timing of Connecticut Health and Educational Facilities Authority (CHEFA) reimbursements and endowment liquidations to fund the operating budget and capital calls. Throughout the year, Wesleyan's cash/short term investment position fluctuated between $2 million and $42 million. The completion of Phase 2 Center for Film Studies, fire safety projects, and the start of several major utility projects increased net investment in plant by $12 million.

Liabilities

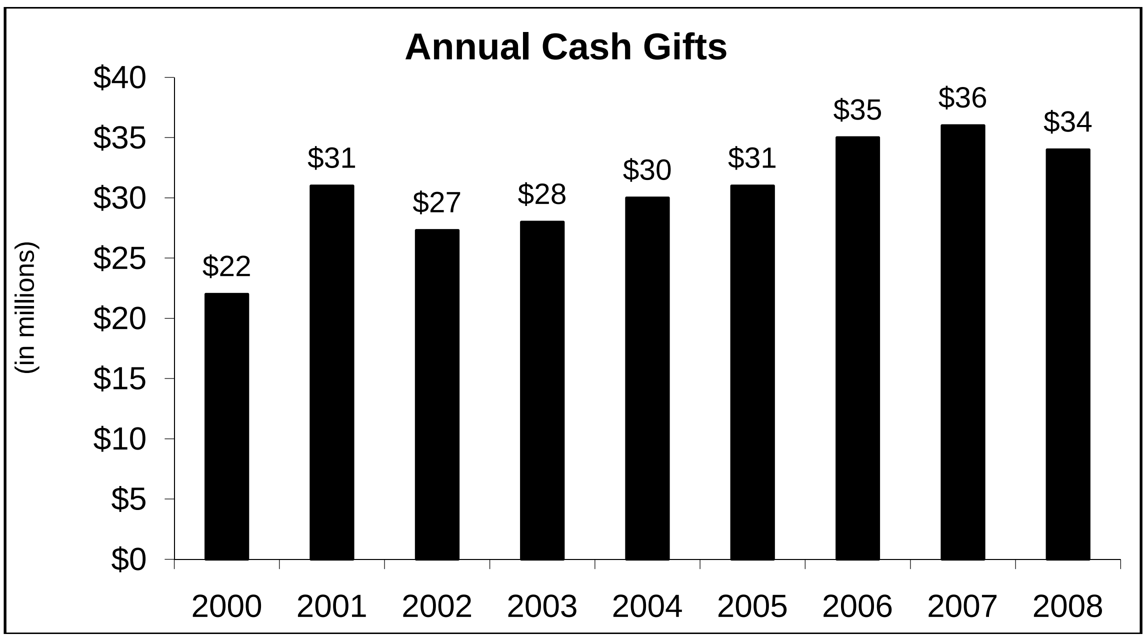
Liabilities increased by $25 million from FY 2006/07. More than half the increase is directly related to the three interest rate swaps which allowed us to fix our variable bond rate and take advantage of historically low long-term interest rates at issuance. More information on these swaps can be found in Footnote 6, page 18.

Long-term debt increased by $6 million from the ten-year Master Financing Agreement with Banc of America Public Capital Corporation and CHEFA. The proceeds of the loan will be used for the replacement of the Vine Street substation, the installation of a cogeneration system in the Central Power Plant and a comprehensive retrofit, pursuant to a Connecticut Light and Power incentive program encouraging energy conservation. The University will save, before debt service, close to $1 million in annual utilities expenditures.

The $4 million increase in payables and accrued expenditures reflects accrued vacation increases and payments owed for billed expenditures due after June 30, 2008 primarily in the dining and purchasing card areas.

Wesleyan Fundraising

In FY 2007/08, alumni, parents, and friends gave $34 million on a cash basis to Wesleyan University, with 52% alumni participation. While this amount is $2 million lower than the previous record breaking year, it reflects a strong financial commitment to Wesleyan from our donors, even during challenging economic times.



Conclusion

Wesleyan remains a strong and financially healthy University. Wesleyan will continue to exercise a disciplined budget process, investing in focused and strategic opportunities that improve our competitive position.

Financial Results

Year Ended June 30, 2008

WESLEYAN UNIVERSITY
Statements of Financial Position
June 30, 2008 and 2007
(stated in 000's)

	2008	2007
ASSETS		
Cash and short term investments	$ 29,466	19,536
Receivables and other assets	16,700	16,865
Receivable for interest rate swaps	-	2,688
Pledges receivable	49,333	51,020
Investments	659,947	722,034
Cash on deposit with bond trustee	9,314	9,343
Investment in plant, at cost		
net of accumulated depreciation	280,523	268,632
Total assets	$ 1,045,283	1,090,118
LIABILITIES		
Accounts payable and accrued expenses	13,876	9,900
Deposits and deferred revenues	1,677	1,343
Split interest obligations	6,102	5,434
Postretirement benefits	12,182	11,534
Long-term debt	209,520	203,894
Liability for interest rate swaps	23,913	10,407
Asset retirement obligation	10,620	10,196
Perkins loan program refundable	5,278	5,278
Total liabilities	283,168	257,986
NET ASSETS		
Unrestricted	536,789	607,902
Temporarily restricted	81,533	89,961
Permanently restricted	143,793	134,269
Total net assets	762,115	832,132
Total liabilities and net assets	$ 1,045,283	1,090,118

See accompanying notes to financial statements.

WESLEYAN UNIVERSITY
Statements of Changes in Unrestricted Net Assets
Years ended June 30, 2008 and 2007
(stated in 000's)

	2008	2007
REVENUES FROM OPERATIONS		
Tuition	$ 112,199	106,319
Room and board	30,557	28,382
Less undergraduate scholarships and graduate tuition remission	(38,439)	(36,669)
Net student charges	104,317	98,032
Investment return		
Interest and dividends	1,886	2,939
Gains used in support of operations	32,206	29,926
Private gifts and grants	16,847	18,054
Federal, state and local grants	4,265	4,366
Other	10,326	10,152
Net assets released from restrictions	14,889	16,290
Total revenues from operations	184,736	179,759
EXPENDITURES		
Instruction	77,040	73,579
Research	10,560	10,337
Libraries	10,653	10,273
Student services	10,254	9,706
Institutional support	23,519	23,358
Other	2,161	2,236
Auxiliary activities	43,014	39,783
Total expenditures	177,201	169,272
Revenues in excess of expenditures from operations	7,535	10,487
NON-OPERATING ACTIVITIES		
Realized and unrealized gains/(losses)	(29,600)	103,648
Allocation of accumulated gains for operations	(32,206)	(29,926)
Adjustment for postretirement benefit liability	(648)	1,681
Net gain/(loss) on interest rate swaps	(16,194)	163
Total non-operating activities	(78,648)	75,566
Effect of change in accounting principle	-	4,281
Change in unrestricted net assets	(71,113)	90,334
Unrestricted net assets at beginning of year	607,902	517,568
Unrestricted net assets at end of year	$ 536,789	607,902

See accompanying notes to financial statements.

WESLEYAN UNIVERSITY
Statements of Changes in Restricted Net Assets
Years ended June 30, 2008 and 2007
(stated in 000's)

TEMPORARILY RESTRICTED NET ASSETS	**2008**	**2007**
Revenues and other additions:		
Gifts	$ 10,897	4,460
Investment income	110	371
Realized and unrealized gains/(losses)	(3,295)	11,371
Total revenues and other additions	7,712	16,202
Change in value of split interest obligation	(1,251)	(2,461)
Net assets released from restrictions	(14,889)	(16,290)
Change in temporarily restricted net assets	(8,428)	(2,549)
Temporarily restricted net assets at beginning of year	89,961	92,510
Temporarily restricted net assets at end of year	$ 81,533	89,961

PERMANENTLY RESTRICTED NET ASSETS		
Revenues and other additions:		
Gifts	$ 9,780	5,595
Reinvested investment income	463	305
Realized and unrealized gains/(losses) on outside trusts	(719)	765
Change in permanently restricted net assets	9,524	6,665
Permanently restricted net assets at beginning of year	134,269	127,604
Permanently restricted net assets at end of year	$ 143,793	134,269

TOTAL NET ASSETS		
Change in total net assets	$ (70,017)	94,450
Total net assets at beginning of year	832,132	737,682
Total net assets at end of year	$ 762,115	832,132

See accompanying notes to financial statements.

WESLEYAN UNIVERSITY
Statements of Cash Flows
Years ended June 30, 2008 and 2007
(stated in 000's)

	2008	2007
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets:	$ (70,017)	94,450
Adjustments to reconcile change in net assets to cash used for operating activities:		
Losses/(gains) from investments	33,614	(115,784)
Gifts received for long-term investment	(13,353)	(9,044)
Adjustment for interest rate swaps	16,194	(163)
Depreciation	9,434	9,063
Change in accounting principle	-	(4,281)
Change in working capital	10,156	10,559
Net cash used for operations	(13,972)	(15,200)
CASH FLOWS FROM INVESTMENT ACTIVITIES		
Additions to property and equipment	(21,588)	(39,097)
Purchases of long term investments	(285,282)	(339,102)
Sales of long term investments	313,755	362,063
Purchases of short term investments	(120,032)	(121,423)
Sales of short term investments	106,801	117,600
Decrease in cash on deposit with bond trustee	29	28,149
Net cash (used for)/provided by investment activities	(6,317)	8,190
CASH FLOWS FROM FINANCING ACTIVITIES		
Gifts for long-term investment	13,353	9,044
Proceeds from issuance of long term debt	6,520	-
Repayments of long term debt	(894)	(859)
Net cash provided by financing activities	18,979	8,185
Net change in cash and cash equivalents	(1,310)	1,175
Cash and cash equivalents at beginning of year	1,310	135
Cash and cash equivalents at end of year	$ -	1,310
Cash paid for interest	$ 10,128	9,421

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 23% and 22% of the University's investments at June 30, 2008 and 2007, 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, adjustments for post retirement benefits liability 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 Short Term Investments

For purposes of the statement of cash flows, cash and cash equivalents includes only short-term, highly liquid working capital investments (those with original maturities, when purchased, of three months or less). Short Term Investments include amounts invested in short term, liquid assets to provide optimum return for the University's operating cash. At June 30, 2008 the entire balance was invested in short term investments. At June 30, 2007 the University had $1,310,000 in cash and $18,226,000 in short term investments.

Receivables

At June 30, 2008 and 2007, student accounts receivable are net of an allowance for doubtful accounts of $122,000 and $117,000, and student loans receivable are net of an allowance for doubtful accounts of $1,129,000 for 2008 and 2007.

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).

Effective July 1, 2007, the University adopted Financial Accounting Standards Board (FASB) Interpretation No. 48, *Accounting for Uncertainty in Income Taxes – An Interpretation of FASB Statement No. 109* (FIN 48). FIN 48 clarifies the accounting for uncertainty in income tax recognized in an entity's financial statements. FIN 48 requires entities to determine whether it is more likely than not that a tax position will be sustained upon examination by the appropriate taxing authorities before any part of the benefit can be recorded in the financial statements. It also provides guidance on the recognition, measurement, and classification of income tax uncertainties, along with any related interest or penalties. A tax position is measured at the largest amount of benefit that is greater than fifty percent likely of being realized upon settlement. The adoption of FIN 48 had no impact on the University's financial statements

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.

Reclassifications

Certain amounts in the fiscal 2007 financial statements have been reclassified to conform to the fiscal 2008 presentations.

Reclassifications – Common Fund

The University participates in the Common Fund for Short Term Investments (the Fund) which was structured as a bank common trust with Wachovia Bank, N.A. (Wachovia) as trustee. On September 29, 2008, the University was notified that Wachovia Bank, N.A., as trustee of the Fund, will resign as trustee, initiate the termination of the Fund, and establish procedures to orderly liquidate and distribute the Fund's net assets over a period of time. Due to the nature of the Fund's underlying holdings, the University classified its interest of $29,466,000 at June 30, 2008 as a short-term investment and has reclassified its interest of $18,226,000 at June 30, 2007 ($14,403,000 at June 30, 2006) from cash and cash equivalents to short-term investments. Additionally, for purposes of the statements of cash flows, the University has accounted for its activity in the Fund on a gross basis and has reported the activity in the investing section of the statements of cash flows.

As of October 28, 2008, the University's investment in the Fund is $11,001,000. The University believes that the Fund's ongoing liquidation and distribution plans will not impede its ability to meet near-term obligations, which it believes will be satisfied as appropriate through alternative financial resources.

(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 10.64% 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)	
	2008	2007
Less than one year	$ 20,035	21,373
One to five years	32,571	27,446
More than five years	10,173	15,063
	62,779	63,882
Less allowance for uncollectible pledges	(5,325)	(5,295)
Less discount for present value	(8,121)	(7,567)
Net pledges receivable	$ 49,333	51,020

Pledges are for the following purposes:

	(Stated in 000's)			
	2008			2007
	Permanently Restricted	Temporarily Restricted	Total	Total
Undesignated	$ 346	1,972	2,318	3,376
Academic programs	3,286	289	3,575	5,115
Financial aid	4,611	22,585	27,196	29,236
Building additions & renovations	0	8,361	8,361	5,330
Unrestricted	1,255	6,628	7,883	7,963
Total	$ 9,498	39,835	49,333	51,020

University Relations expenditures, which are primarily for fundraising purposes and alumni activity, totaled $8,687,000 and $8,585,000 in fiscal years 2008 and 2007, respectively.

(4) Investments

At June 30, 2008 and 2007, fair values of University investments are as follows:

	(Stated in 000's)	
	2008	2007
Short-term securities	$ 14,610	27,552
Fixed income	84,539	77,369
Equity investments:		
U.S. stocks	137,788	163,112
International stocks	100,800	105,471
Marketable alternatives	156,996	178,262
Real assets	63,469	41,388
Private equity	88,899	114,988
Mortgages and notes receivable	6,195	6,542
Trusts held by others	6,651	7,350
Total fair values	$ 659,947	722,034

At June 30, 2008 the University had outstanding capital commitments to limited partnership funds totaling $147,205,000 through 2021, including options to renew. The University intends to fund these commitments with distributions from current partnerships and sales of existing investments.

A portion of the investments are held by endowment, whose value at June 30, 2008 and 2007 was $652,208,000 and $710,774,000, 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)	
	2008	2007
Net investment income	$ 2,459	3,615
Realized and unrealized gains/(losses)	(33,614)	115,784
Net return on investments	$ (31,155)	119,399

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 2008, $35,479,000 was spent ($34,077,000 in fiscal 2007), which represented 6.1% (6.4% in fiscal 2007) of the 12-quarter moving average of the market value of the endowment. Of this amount, $1,387,000 ($1,212,000 in fiscal 2007) is recorded in temporarily restricted net assets as part of income and gains.

Fiscal 2008 represents the second 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 intends to meet this goal in fiscal 2009.

(5) Investment in Plant

At June 30, 2008 and 2007, the components of the University's investment in plant were as follows:

	(Stated in 000's)	
	2008	2007
Campus land and improvements	$ 25,704	25,704
Buildings	308,020	259,569
Equipment	89,898	83,544
Construction in progress	9,610	43,349
Less accumulated depreciation	(152,709)	(143,534)
Total	$ 280,523	268,632

During fiscal 2008, the University capitalized net interest expense on construction in progress in the amount of $1,365,000 for CHEFA F ($881,000 on CHEFA F in fiscal 2007).

(6) Debt

At June 30, 2008 and 2007, long-term debt consisted of the following:

	(Stated in 000's) 2008	2007
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	6,520	894
Total	$ 209,520	203,894

CHEFA Series D

The University issued $93,000,000 in thirty-five year auction rate securities through CHEFA in June 2001. In April 2008, these were converted to variable rate demand bonds and the University entered into a Standby Bond Purchase Agreement with Bank of America. The proceeds of the initial 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 auction rate securities through CHEFA. In April 2008, these were converted to variable rate demand bonds and the University entered into a Standby Bond Purchase Agreement with Bank of America. The initial 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 and entered into a Standby Bond Purchase Agreement with JPMorgan Chase. 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):

				(Stated in 000's) Fair Value at June 30th	
Trade Date	Notional Amount	Maturity	Purpose	2008	2007
November 29, 2001	$ 93,000	July 1, 2035	Swap SIFMA rate for a fixed rate of 5.02%	$ (17,662)	(10,407)
March 10, 2003	62,000	July 1, 2038	Swap 71% of LIBOR rate for a fixed rate of 4.05%	(3,611)	1,977
January 7, 2005	36,000	July 1, 2040	Swap 71% of LIBOR rate for a fixed rate of 4.14%	(2,640)	711
			Net value of agreements	$ (23,913)	(7,719)

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.

Subsequent to June 30, 2008, the parent company of the counterparty to the University's interest rate swaps declared bankruptcy. As of October 28, 2008 the interest rate swaps are functioning with the University making payment on the fixed rate and receiving payment on the variable rate. The University is actively exploring options and strategies to mitigate the financial risks associated with these transactions. In addition, the University's management has determined that this event had no effect on its compliance with debt covenants.

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% and the final payment was made in fiscal 2008.

In June, 2008, the University entered into a Master Financing Agreement with Banc of America Public Capital Corporation and State of Connecticut Health and Educational Facilities Authority in the amount of $6,520,300. The proceeds of the loan will be used for the replacement of the Vine Street substation, the installation of a cogeneration system in the Central Power Plant and a comprehensive retrofit, pursuant to a Connecticut Light and Power incentive program encouraging energy conservation. The comprehensive retrofit consists of 12 projects and includes the replacement of obsolete equipment nearing the end of its useful life. The loan is payable over ten years at a fixed rate of 3.22%. The University was awarded a 1% rebate from Department of Public Utility Control bringing the effective interest rate down to 2.22%.

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)
2009	$ 562
2010	580
2011	599
2012	619
2013	639
Thereafter	206,521
Total outstanding debt	$ 209,520

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, 2008 and 2007, 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 $5,307,000 and $4,701,000 for fiscal 2008 and 2007, 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, 2008 and 2007 are as follows:

WESLEYAN UNIVERSITY
Notes to Financial Statements
June 30, 2008 and 2007

	(Stated in 000's)	
	2008	2007
Change in benefit obligation:		
Projected benefit obligation as of beginning of year	$ 11,534	14,400
Service cost	356	345
Interest cost	727	686
Plan participants' contributions	45	49
Benefits paid	(572)	(543)
Medicare Part D Subsidy	158	-
Actuarial gain	(66)	(3,403)
Benefit obligation as of end of year	$ 12,182	11,534

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

	(Stated in 000's)	
	2008	2007
Interest on accumulated post-retirement benefit obligation	$ 727	686
Service cost	356	345
Amortization of actuarial gain	(66)	(2,218)
Total	$ 1,017	(1,187)

This cost (credit) is allocated as follows:

	2008	2007
Operations	$ 369	494
Non-operating	648	(1,681)

In addition to service and interest costs, the estimated gain that will be amortized from accumulated unrestricted net assets into net periodic benefit cost in fiscal 2009 is $1,449,000.

For measurement purposes, an annual rate of increase of 10.50% and 12.75% in the per capita cost of covered healthcare and prescription drug benefits, respectively, was assumed as of June 30, 2008. 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 2008 by $51,000 and the accumulated postretirement benefit obligation by $446,000.

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

	2008	2007
Benefit obligations	6.75%	6.25%
Net periodic postretirement benefit costs	6.25%	6.50%

The benefits, as of June 30, 2008, 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)
2009	$ 906
2010	956
2011	1,042
2012	1,106
2013	1,164
Five years thereafter	7,050

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, 2008 and 2007:

	(Stated in 000's) 2008	2007
Restrictions for:		
Instruction and research	$ 34,807	41,966
Financial aid	27,691	30,873
Facilities	8,286	5,270
Library	59	49
Subtotal	70,843	78,158
Time restrictions for charitable remainder trusts	8,264	10,778
Undesignated and unrestricted pledges	2,426	1,025
Total temporarily restricted net assets	$ 81,533	89,961

Net assets released during fiscal 2008 and 2007 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) 2008	2007
To Unrestricted:		
Instruction and research	$ 6,458	6,875
Financial aid	4,192	4,849
Institutional support	629	721
Student services	394	446
Library	5	2
Pledge payments on unrestricted gifts	3,211	3,397
Total net assets released	$ 14,889	16,290

(9) Permanently Restricted Net Assets

The original gift value of permanently restricted net assets consists of the following at June 30, 2008 and 2007:

	(Stated in 000's)	
	2008	2007
For which the income is restricted:		
Financial aid	$ 68,267	63,635
Instruction and research	53,462	49,072
Facilities maintenance	3,970	3,945
Library	1,769	1,764
Loans to students	2,391	2,128
Total	$ 129,859	120,544
For which the income is unrestricted	13,934	13,725
Total permanently restricted net assets	$ 143,793	134,269

(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 2008 and 2007 are listed below.

	(Stated in 000's)	
	2008	2007
Expenditures:		
Physical plant operations	$ 20,678	19,392
Major maintenance expenses and non-capitalized costs	6,619	5,815
Depreciation	9,434	9,063
Interest expense	9,064	8,979
Total expenditures to be allocated	$ 45,795	43,249

Allocations to functional expenditure categories:

	(Stated in 000's)	
	2008	2007
Instruction	$ 13,670	12,910
Research	4,580	4,325
Libraries	3,338	3,153
Student services	957	904
Institutional support	1,319	1,246
Auxiliary activities	21,931	20,711
Total allocations	$ 45,795	43,249

(11) UPMIFA

Through September 30, 2007, the University's management and investment of donor-restricted endowment funds was subject to the provisions of the Uniform Management of Institutional Funds Act (UMIFA). In 2006, the Uniform Law Commission approved the model act, Uniform Prudent Management of Institutional Funds Act (UPMIFA) that serves as a guideline to states to use in enacting legislation. Among UPMIFA's most significant changes is the elimination of UMIFA's important concept of historic dollar value threshold, the amount below which an organization could not spend from the fund in favor of a more robust set of guidelines about what constitutes prudent spending.

Effective October 1, 2007, the State of Connecticut enacted UPMIFA, the provisions of which apply to funds existing on or established after that date. Based on its interpretation of the provisions of UPMIFA, the University has determined that retaining its existing policies regarding net asset classification of its donor-restricted endowment funds is appropriate as of June 30, 2008 based on accounting standards in effect.

In August 2008, FASB Staff Position No. FAS 117-1, *Endowments of Not-for-Profit Organizations: Net Asset Classification of Funds Subject to an Enacted Version of the Uniform Prudent Management of Institutional Funds Act and Enhanced Disclosures for All Endowment Funds (FSP)*, was issued, and its guidance is effective for fiscal years ending after December 15, 2008. A key component of that FSP is a requirement to classify the portion of a donor-restricted endowment fund that is not classified as permanently restricted net assets as temporarily restricted net assets until appropriated for expenditure. The University will adopt the FSP for the year ending June 30, 2009 which will require the June 30, 2008 financial statements to be retrospectively adjusted to reflect a reclassification of net assets from unrestricted to temporarily restricted in an amount estimated at approximately $400 million. The University does not believe this net asset reclassification will be operationally significant. Another component of the FSP is a requirement for expanded disclosures for endowment funds.

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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, 2008 and 2007, 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, 2008 and 2007, 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 28, 2008

WESLEYAN
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