ANNUAL FINANCIAL REPORT

YEAR ENDED JUNE 30, 2009

WESLEYAN
UNIVERSITY

WESLEYAN
U N I V E R S I T Y

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For: The Board of Trustees

From: John C. Meerts

Date: October 26, 2009

Subject: FY 2008/09 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's FY 2008/09 statements of financial position reflect the stock market downturn over the past two years. Still, Wesleyan's FY 2008/09 operating revenue exceeded expenditures by $4 million. Endowment spending met Board policy guidelines at 5.5% of the 12-quarter moving average of the market value. We were also able to more than double our liquidity position without additional borrowing. This flexibility positions us well for future fiscal emergencies should they occur.

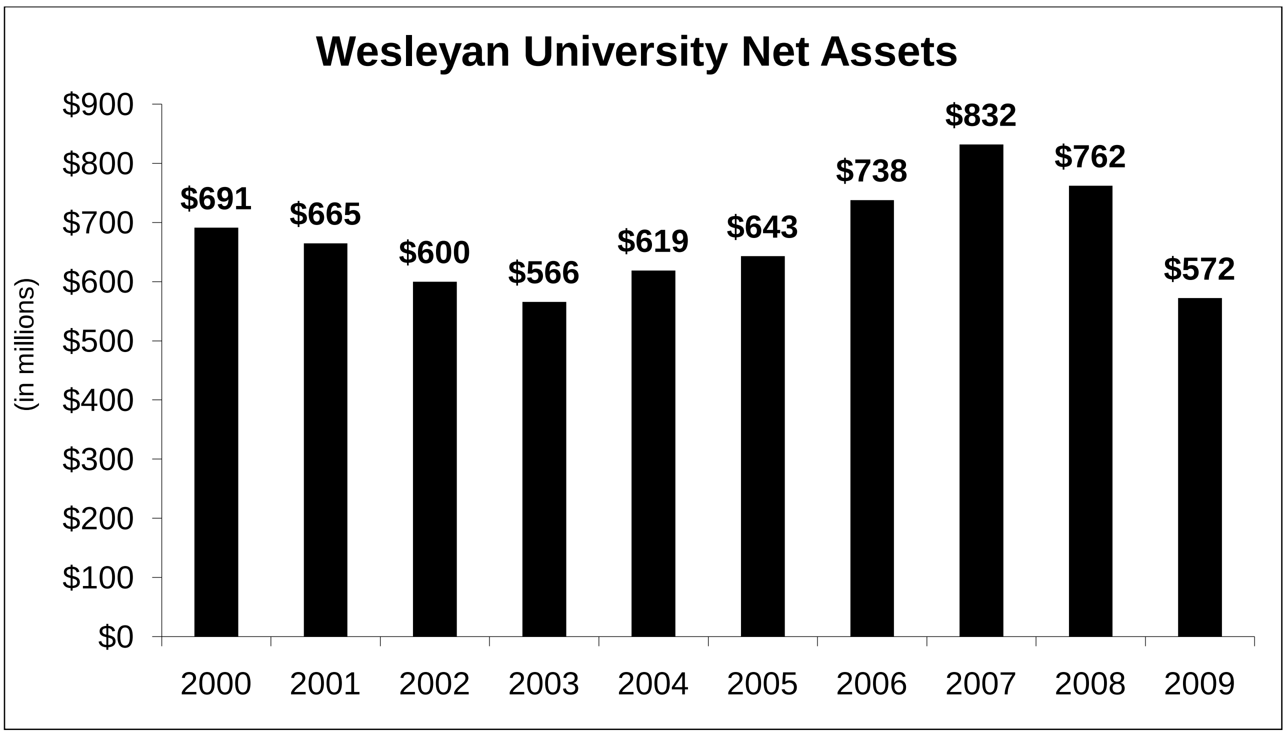
For FY 2008/09, Wesleyan adopted and implemented two major accounting standards related to investments and the endowment. Information related to new disclosures regarding the fair market valuation of Wesleyan's investments can be found starting on Footnote 4, page 16.

In addition, the Uniform Prudent Management of Institutional Funds Act (UPMIFA) was adopted by the State of Connecticut. The new law requires organizations to account and report donor-restricted and board-designated endowments in specific ways as shown beginning in Footnote 5, page 20. Over $330 million of Wesleyan's endowment was reclassified from unrestricted to temporarily restricted net assets as a result of this law. We do not believe that this change will influence external opinions of our financial condition.

2008-2009 Year in Review

Total operating revenue and support for FY 2008/09 was $189 million, an increase of 2.1% from FY 2007/08. Operating expenses were $185 million, an increase of 4.7% from FY 2007/08.

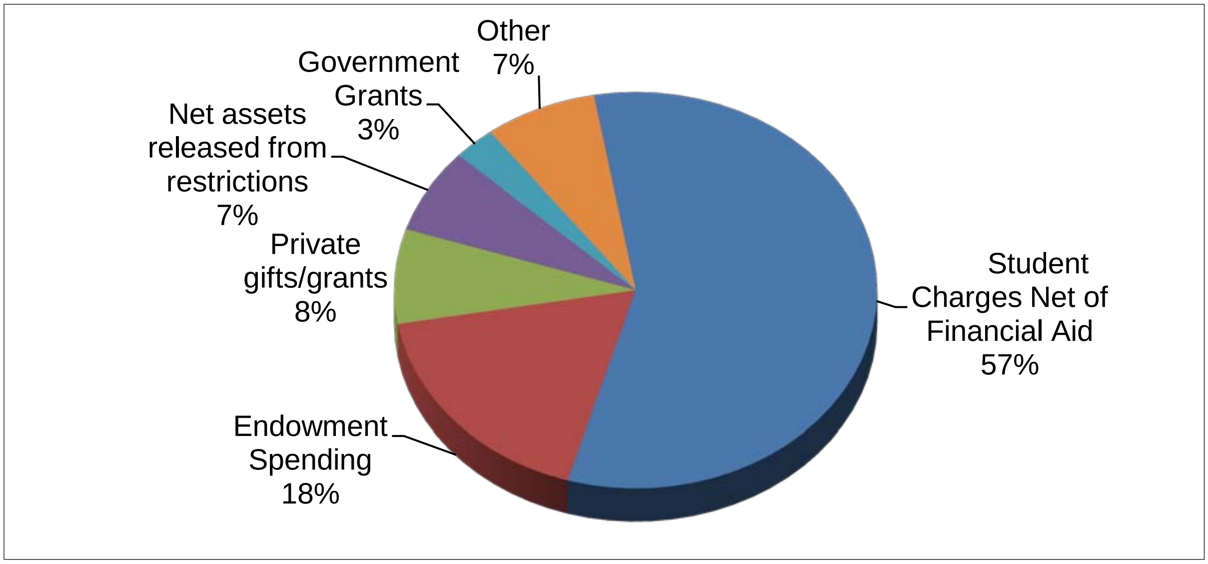
During the fiscal year ended June 30, 2009, Wesleyan University's net assets decreased by $190 million from $762 million to $572 million. The 27% decrease in the market value of Wesleyan's endowment is the major factor in the decrease in net assets.



Operations

Revenue

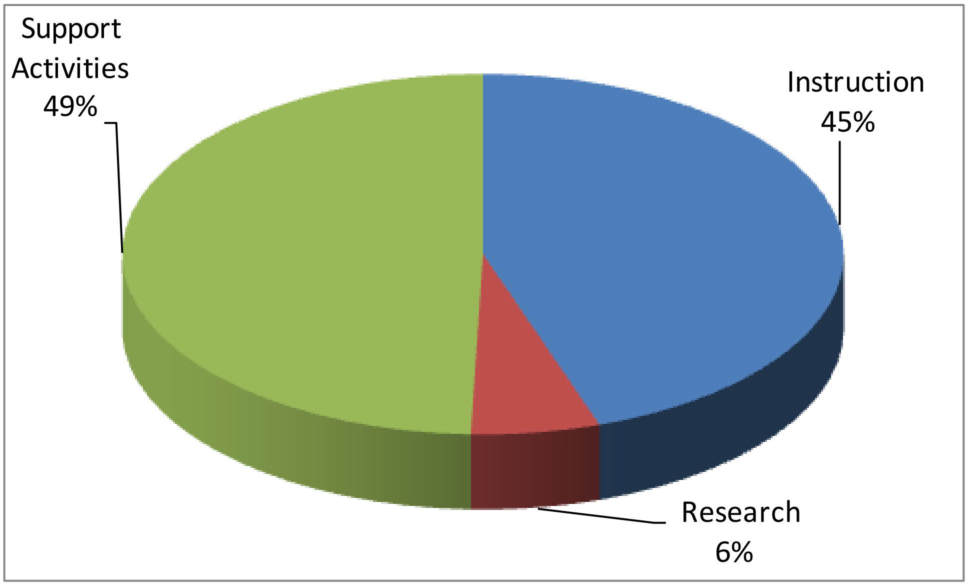
More than half of Wesleyan's total operating revenue comes from student fees (tuition, room, and board). Net of student financial aid, this totaled $108 million. Net student charges increased almost 4% as tuition, room, and board rates increased at 5%, financial aid expenditures totaling $41 million increased 7%. Wesleyan implemented a no loan initiative and capped cumulative need-based loans at $19,000 over four years.



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 1% as Wesleyan brought its spending within Board of Trustee policy 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 $185 million operating budget is spent on its central academic mission, instruction and research ($93 million). These expenses increased 6.5% while support expenditures increased 1.9%, reflecting budget reductions in non-instructional areas. In addition, Wesleyan spends proportionately more on academic priorities and less on support activities than peer institutions.



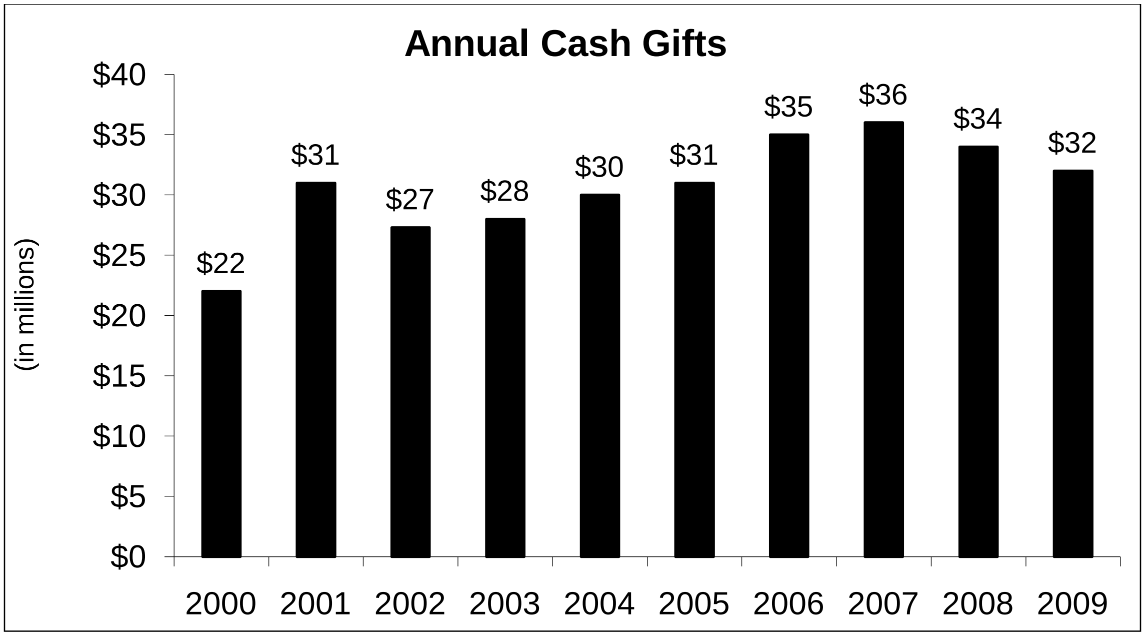
Financial Assets to Support the University

Wesleyan's assets exceeded $850 million. The bad news, of course, is the decline in the endowment value; Wesleyan's endowment totaled $476 million at year end, a decrease of $176 million.

Assets
While assets decreased primarily because of the endowment, cash/short term investments increased by $36 million to $66 million as Wesleyan made a concerted effort to increase liquidity. A larger cash position provides flexibility to meet commitments during these challenging fiscal times.

Liabilities
Liabilities increased by $3 million from FY 2007/08. 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 (Footnote 7, page 26 and our post-retirement liability which had higher costs (Footnote 8, page 30) due to higher medical costs and lower interest rates.

Wesleyan Fundraising
In FY 2008/09, alumni, parents, and friends gave over $32 million on a cash basis to Wesleyan University, with 52% alumni participation. This amount is 5% lower than last year, but reflects a strong financial commitment to Wesleyan from our donors, even during challenging economic times.



Conclusion
Even after the latest economic challenges, 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. Over the next several years Wesleyan plans to generate new revenue and reduce expenditures by $20M in light of current fiscal realities. 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.

Financial Results

Year Ended June 30, 2009

WESLEYAN UNIVERSITY
Statements of Financial Position
June 30, 2009 and 2008
(stated in 000's)

		2009	2008
ASSETS			
Cash and short term investments	$	66,358	30,293
Receivables and other assets		14,649	16,700
Pledges receivable		27,961	49,333
Long-term investments		463,974	659,120
Cash on deposit with bond trustee		567	9,314
Investment in plant, at cost			
net of accumulated depreciation		284,810	280,523
Total assets		858,319	1,045,283
LIABILITIES			
Accounts payable and accrued expenses		13,605	13,876
Deposits and deferred revenues		1,169	1,677
Split interest obligations		6,036	6,102
Postretirement benefits		15,092	12,182
Long-term debt		208,959	209,520
Liability for interest rate swaps		25,025	23,913
Asset retirement obligation		10,920	10,620
Perkins loan program refundable		5,278	5,278
Total liabilities		286,084	283,168
NET ASSETS			
Unrestricted		177,152	239,758
Temporarily restricted		243,241	378,943
Permanently restricted		151,842	143,414
Total net assets		572,235	762,115
Total liabilities and net assets	$	858,319	1,045,283

See accompanying notes to financial statements.

WESLEYAN UNIVERSITY
Statements of Changes in Unrestricted Net Assets
Years ended June 30, 2009 and 2008
(stated in 000's)

	2009	2008
REVENUES FROM OPERATIONS		
Tuition	$ 117,817	112,199
Room and board	31,443	30,557
Less undergraduate scholarships and graduate tuition remission	(41,093)	(38,439)
Net student charges	108,167	104,317
Investment return		
Interest and dividends	1,611	1,886
Gains used in support of operations	31,793	32,206
Private gifts and grants	14,587	16,847
Federal, state and local grants	5,304	4,265
Other	14,178	10,326
Net assets released from restrictions	13,031	14,889
Total revenues from operations	188,671	184,736
EXPENDITURES		
Instruction	82,611	77,040
Research	10,646	10,560
Libraries	11,053	10,653
Student services	10,399	10,254
Institutional support	23,539	23,519
Other	1,552	2,161
Auxiliary activities	44,726	43,014
Total expenditures	184,526	177,201
Revenues in excess of expenditures from operations	4,145	7,535
NON-OPERATING ACTIVITIES		
Realized and unrealized (losses)/gains	(41,539)	7,085
Allocation of accumulated gains for operations	(31,793)	(32,206)
Adjustment for postretirement benefit liability	(2,910)	(648)
Net loss on interest rate swaps	(1,112)	(16,194)
Realized gain on termination of interest rate swap agreements	10,603	-
Total non-operating activities	(66,751)	(41,963)
Change in unrestricted net assets	(62,606)	(34,428)
Unrestricted net assets as originally reported	239,758	607,902
UPMIFA net asset reclassification as of July 1, 2007	-	(333,716)
Adjusted net assets at beginning of year	239,758	274,186
Unrestricted net assets at end of year	$ 177,152	239,758

See accompanying notes to financial statements.

WESLEYAN UNIVERSITY
Statements of Changes in Restricted Net Assets
Years ended June 30, 2009 and 2008
(stated in 000's)

TEMPORARILY RESTRICTED NET ASSETS	**2009**	**2008**
Revenues and other additions:		
Gifts	$ 10,060	12,111
Pledges	(21,177)	(1,214)
Investment income	180	110
Realized and unrealized losses	(111,623)	(39,630)
Total revenues and other additions	(122,560)	(28,623)
Change in value of split interest obligation	(111)	(1,251)
Net assets released from restrictions	(13,031)	(14,889)
Change in temporarily restricted net assets	(135,702)	(44,763)
Temporarily restricted net assets as originally reported	378,943	89,961
UPMIFA net asset reclassification as of July 1, 2007	-	333,745
Adjusted net assets at beginning of year	378,943	423,706
Temporarily restricted net assets at end of year	$ 243,241	378,943
PERMANENTLY RESTRICTED NET ASSETS		
Revenues and other additions:		
Gifts	$ 9,544	9,780
Reinvested investment income	293	463
Realized and unrealized losses on outside trusts	(1,409)	(1,069)
Change in permanently restricted net assets	8,428	9,174
Permanently restricted net assets as originally reported	143,414	134,269
UPMIFA net asset reclassification as of July 1, 2007	-	(29)
Adjusted net assets at beginning of year	143,414	134,240
Permanently restricted net assets at end of year	$ 151,842	143,414
TOTAL NET ASSETS		
Change in total net assets	$ (189,880)	(70,017)
Total net assets at beginning of year	762,115	832,132
Total net assets at end of year	$ 572,235	762,115

See accompanying notes to financial statements.

WESLEYAN UNIVERSITY
Statements of Cash Flows
Years ended June 30, 2009 and 2008
(stated in 000's)

	2009	2008
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets:	$ (189,880)	(70,017)
Adjustments to reconcile change in net assets		
to cash used for operating activities:		
Losses from investments	154,571	33,614
Gifts received for long-term investment	(12,758)	(13,353)
Adjustment for interest rate swaps	1,112	16,194
Realized gain on termination of interest rate swap agreements	(10,603)	-
Depreciation	10,659	9,434
Change in working capital	28,295	10,156
Net cash used for operations	(18,604)	(13,972)
CASH FLOWS FROM INVESTMENT ACTIVITIES		
Additions to property and equipment	(17,453)	(21,588)
Purchases of long term investments	(140,747)	(285,282)
Sales of long term investments	181,322	313,755
Purchases of short term investments	(182,281)	(120,032)
Sales of short term investments	164,934	106,801
Decrease in cash on deposit with bond trustee	8,747	29
Net cash provided by/(used for) investment activities	14,522	(6,317)
CASH FLOWS FROM FINANCING ACTIVITIES		
Gifts for long-term investment	12,758	13,353
Proceeds from issuance of long term debt	-	6,520
Repayments of long term debt	(561)	(894)
Realized gain on termination of interest rate swap agreements	10,603	-
Net cash provided by financing activities	22,800	18,979
Net change in cash and cash equivalents	18,718	(1,310)
Cash and cash equivalents at beginning of year	-	1,310
Cash and cash equivalents at end of year	$ 18,718	-
Cash paid for interest	$ 8,473	10,128

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:

(a) Accrual Basis

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

(b) 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.

(c) 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.

(d) Investments

Investments are reported at fair value. If an investment is held directly by the University and an active market with quoted prices exists, the University reports the fair value as the market price of an identical security. The University also holds shares or units in nonmarketable securities including alternative investments such as private equity, venture capital, hedge funds, and real asset strategies. Such alternative investment funds may hold securities or other financial instruments for which a ready market exists and are priced accordingly. In addition, such funds may hold assets which require the estimation of fair values in the absence of readily determinable market values. Such valuations are determined by fund managers and generally consider variables such as operating results, comparable earnings multiples, projected cash flows, recent sales prices, and other pertinent information, and may reflect discounts for the illiquid nature of certain investments held.

In connection with the 2009 adoption of FAS 157, the University adopted the accounting provisions of Accounting Standards Update No. 2009-12, *Investments in Certain Entities that Calculate Net Asset Value Per Share (or Equivalent)*, to its alternative investments. This Standard amends Statement 157 and allows for the estimation of the fair value of investments in investment companies for which the investment does not have a readily determinable fair value using net asset value (NAV) per share or its equivalent as a practical expedient.

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

(e) 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.

(f) 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, 2009 the University had $18,718,000 in cash and $47,640,000 in short term investments. At June 30, 2008 the entire balance was invested in short term investments.

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, would 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. As of June 30, 2009, the University's investment in the Fund is $2,530,000. At September 30, 2009 the investment was $1,917,000.

(g) Receivables

At June 30, 2009 and 2008, student accounts receivable are net of an allowance for doubtful accounts of $108,000 and $122,000, and student loans receivable are net of an allowance for doubtful accounts of $1,129,000 for 2009 and 2008.

(h) 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.

(i) 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).

Financial Accounting Standards Board (FASB) Interpretation No. 48, *Accounting for Uncertainty in Income Taxes – An Interpretation of FASB Statement No. 109* (FIN 48) clarifies the accounting for uncertainty in income tax recognized in an entity's financial statements. The adoption of FIN 48 had no impact on the University's financial statements

(j) Subsequent Events

In May 2009, FASB issued SFAS No. 165, *Subsequent Events* (Statement 165). Statement 165 establishes principles and requirements for subsequent events. This statement applies to the accounting for and disclosure of subsequent events not addressed in other applicable generally accepted accounting principles. In accordance with the standard, management has evaluated events subsequent to June 30, 2009 and through October 28, 2009, the date on which the financial statements were issued. The adoption of the statement did not have a material effect on the University's financial position, results of operations or cash flows.

(k) 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. The current economic environment increases the uncertainty of those estimates.

(l) Reclassifications

Certain amounts in the fiscal 2008 financial statements have been reclassified to conform to the fiscal 2009 presentations.

(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 (in thousands):

	2009	2008
Less than one year	$ 18,707	20,035
One to five years	14,780	32,571
More than five years	1,283	10,173
	34,770	62,779
Less allowance for uncollectible pledges	(2,906)	(5,325)
Less discount for present value	(3,903)	(8,121)
Net pledges receivable	$ 27,961	49,333

Pledges are for the following purposes (in thousands):

	2009			2008
	Permanently Restricted	Temporarily Restricted	Total	Total
Undesignated	$ 104	3,604	3,708	2,318
Academic programs	3,260	347	3,607	3,575
Financial aid	4,677	5,922	10,599	27,196
Building additions & renovations	-	4,788	4,788	8,361
Unrestricted	1,388	3,871	5,259	7,883
Total	$ 9,429	18,532	27,961	49,333

University Relations expenditures, which are primarily for fundraising purposes and alumni activity, totaled $8,359,000 and $8,687,000 in fiscal years 2009 and 2008, respectively.

(4) Long-Term Investments

At June 30, 2009 and 2008, fair values of University investments are summarized as follows (in thousands):

	2009	2008
U.S. equity	$ 82,543	158,222
Non-U.S. equity	73,452	100,800
Marketable alternatives	121,783	156,996
Non-Marketable alternatives	86,729	88,899
Real assets	57,159	69,664
Fixed income	42,308	84,539
Total fair values	$ 463,974	659,120

Total return on long-term investments consisted of the following for the years ended June 30 (in thousands):

	2009	2008
Net investment income	$ 2,084	3,628
Realized and unrealized gains/(losses)	(154,571)	(33,614)
Net return on investments	$ (152,487)	(29,986)

Effective July 1, 2008, the University adopted the recognition and disclosure provisions of Financial Accounting Standards Board (FASB) Statement No. 157, *Fair Value Measurements* (SFAS No. 157). SFAS No. 157 defines fair value, establishes a framework for measuring fair value in GAAP for both recurring and nonrecurring measurements, whether accounted for or disclosed in the financial statements, and expands disclosures about fair value measurements. Fair value represents the price that would be received upon the sale of an asset or paid upon the transfer of a liability in an orderly transaction between market participants as of the measurement date. SFAS No. 157 establishes a fair value hierarchy that prioritizes observable and unobservable inputs used to measure fair value into three levels:

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

The fair value hierarchy gives the highest priority to Level 1 inputs and the lowest priority to Level 3 inputs. In determining fair value, the University utilizes valuation techniques that maximize the use of observable inputs and minimize the use of unobservable inputs to the extent possible.

The University owns interests in each alternative investment funds rather than in the securities underlying each fund, and therefore it is generally required to consider such investments as Level 2 or 3 for purposes of applying SFAS No. 157, even though the underlying securities may not be difficult to value or may be readily marketable. Also, because of the use of NAV as a practical expedient to estimate fair value, the level in the fair value hierarchy in which each fund's fair value measurement is classified is based primarily on the University's ability to redeem interest in the fund at or near the date of the statement of financial position. Accordingly, the inputs or methodology used for valuing or classifying investments for financial reporting purposes are not necessarily an indication of the risk associated with investing in those investments or a reflection on the liquidity of each fund's underlying assets and liabilities.

The following is a summary of investments as of June 30, 2009 valuing the University's investments carried at fair value, using the hierarchy of values described above (with comparative totals as of June 30, 2008) (in thousands):

	Level 1	Level 2	Level 3	2009 Total	2008 Total
Assets:					
Investments:					
U.S. equity	$ 53,493	23,673	5,377	82,543	158,222
Non-U.S. equity	-	73,452	-	73,452	100,800
Marketable alternatives	-	34,626	87,157	121,783	156,996
Non-marketable alternatives	-	-	86,729	86,729	88,899
Real assets	-	15,561	41,598	57,159	69,664
Fixed income	42,308	-	-	42,308	84,539
Total investments	$ 95,801	147,312	220,861	463,974	659,120

Substantially all of the investments classified as level 2 and 3 have been valued using NAV as a practical expedient.

The following table presents the University's activity for the fiscal year ended June 30, 2009 for investments measured at fair value on a recurring basis using significant unobservable inputs (Level 3) as defined in FAS 157 (in thousands).

	U.S. equity	Marketable Alternatives	Non-marketable Alternatives	Real assets	Total
Fair value at June 30, 2008	$ 6,781	98,045	92,352	43,904	241,082
Acquisitions	-	12,500	22,452	12,703	47,655
Dispositions	-	(14,145)	(5,306)	(3,745)	(23,196)
Unrealized (losses) gains on investments	(1,404)	(9,243)	(22,769)	(11,264)	(44,680)
Fair value at June 30, 2009	$ 5,377	87,157	86,729	41,598	220,861

The University has committed to invest in numerous investment partnerships that diversify in the types of alternative investments over a period of years pursuant to provisions of the individual partnership agreements. As of June 30, 2009, the maturities of these investments and the related unfunded commitments were as follows (in thousands):

Investments maturing in	Fair value	Related unfunded commitments
1 - 5 years	$ 54,067	14,446
5 - 10 years	43,550	74,765
10 years or more	11,470	17,828

Alternative investments are redeemable with the fund at net asset value under the original terms of the partnership agreement and/or subscription agreements and operations of the underlying funds. All alternative investment fund redemptions require written notice prior to the redemption period. The investments' fair values as of June 30, 2009 are classified below by redemption period (in thousands):

Investments redemption (or sale) period:	Investment fair values
Daily	$ 95,801
Weekly	10,932
Monthly	101,755
Quarterly	58,944
Annual	28,048
Locked up until liquidated	133,704
In progress	34,790
Total as of June 30, 2009	$ 463,974

The investments categorized as locked up until liquidation are those funds that are locked up based on subscription agreements such as private equity and real asset funds. Those categorized as in progress are those for which the University has requested full redemption.

(5) Endowment

Effective July 1, 2009, the University adopted FASB Staff Position No. 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 117-1). FSP 117-1 provides guidance on the net asset classification of donor restricted endowment funds for a not-for-profit organization that is subject to an enacted version of the Uniform Prudent Management of Institutional Funds Act of 2006 (UPMIFA), and requires comprehensive disclosures regarding both donor-restricted endowment funds and board-designated (quasi) endowment funds.

The University's endowment consists of approximately 1,300 individual funds established for a variety of purposes including both donor-restricted endowment funds and funds designated by the Board of Trustees to function as endowments. Net assets associated with endowment funds, including funds designated by the Board of Trustees to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

(a) Interpretation of Relevant Law

The Board of Trustees of the University has interpreted the Uniform Prudent Management of Institutional Funds Act (UPMIFA) as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. The University classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the University in a manner consistent with the standard of prudence prescribed by the Act.

On October 1, 2007 the Uniform Prudent Management of Institutional Funds Act (UPMIFA) was adopted by the State of Connecticut. The new law updates the fundamental investment principles contained in UMIFA by providing precise standards to establish investing in a prudent manner by establishing a duty to minimize cost, diversify the investments, investigate facts relevant to the investment of the fund, to consider tax consequences of investment decisions and that investment decisions be made in light of the fund's entire portfolio as a part of an investment strategy having risk and return objectives reasonably suited to the fund and to the University. UPMIFA also permits the University to appropriate for expenditure or accumulate so much of an endowment fund as the University determines to be prudent for the uses, benefits, purposes and duration for which the endowment fund is established, thereby eliminating the restriction that a fund could not be spent below its historical dollar value. The University considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

1. The duration and preservation of the fund
2. The purposes of the University and the donor-restricted endowment fund
3. General economic conditions
4. The possible effect of inflation and deflation

5. The expected total return from income and the appreciation of investments
6. Other resources of the University
7. The investment policies of the University

Endowment funds consist of the following at June 30, 2009 (in thousands):

		Unrestricted	Temporarily restricted	Permanently restricted	Total
Donor-restricted endowment funds	$	(19,954)	216,380	138,858	335,284
Board-designated endowment funds		138,159	3,038	-	141,197
Total endowed net assets	$	118,205	219,418	138,858	476,481

Endowment funds consist of the following at June 30, 2008 (in thousands):

		Unrestricted	Temporarily restricted	Permanently restricted	Total
Donor-restricted endowment funds	$	-	325,074	130,987	456,061
Board-designated endowment funds		191,848	4,299	-	196,147
Total endowed net assets	$	191,848	329,373	130,987	652,208

Changes in endowment funds for the year ended June 30, 2009 are as follows (in thousands):

	Unrestricted	Temporarily restricted	Permanently restricted	Total
Endowment net assets, July 1, 2008	$191,848	329,373	130,987	652,208
Investment return:				
Investment income	1,611	180	293	2,084
Net depreciation	(66,876)	(83,085)	(1,222)	(151,183)
Total investment return	(65,265)	(82,905)	(929)	(149,099)
Contributions	-	-	8,800	8,800
Appropriation of endowment assets for expenditure	(8,378)	(27,050)	-	(35,428)
Endowment net assets, June 30, 2009	$118,205	219,418	138,858	476,481

Changes in endowment funds for the year ended June 30, 2008 are as follows (in thousands):

	Unrestricted	Temporarily restricted	Permanently restricted	Total
Endowment net assets, July 1, 2007	$541,407	45,645	123,722	710,774
Net asset reclassification based on law change	(333,716)	333,745	(29)	-
Endowment net assets, July 1, 2007 after reclassification	207,691	379,390	123,693	710,774
Investment return:				
Investment income	1,886	110	463	2,459
Net appreciation/ (depreciation)	(8,988)	(23,389)	(1,873)	(34,250)
Total investment return	(7,102)	(23,279)	(1,410)	(31,791)
Contributions	-	-	8,704	8,704
Appropriation of endowment assets for expenditure	(8,741)	(26,738)	-	(35,479)
Endowment net assets, June 30, 2008	$191,848	329,373	130,987	652,208

(b) Funds with Deficiencies

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below their original contributed value. Deficiencies of this nature that are reported in unrestricted net assets were $19,954,000 as of June 30, 2009. These deficiencies resulted from unfavorable market fluctuations that occurred after the investment of new permanently restricted contributions. Subsequent gains that restore the fair value of the assets of the endowment fund to the required level will be classified as an increase in unrestricted net assets.

(c) Return Objectives and Risk Parameters

A portion of the investments are held by endowment, whose value at June 30, 2009 and 2008 was $476,481,000 and $652,208,000, 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.

The University has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of the endowment assets. Endowment assets include those assets of donor-restricted funds that the University must hold in perpetuity or for a donor-specified period as well as board-designated funds.

(d) Strategies Employed for Achieving Objectives

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

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

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 2009, $35,428,000 was spent ($35,479,000 in fiscal 2008), which represented 5.5% (6.1% in fiscal 2008) of the 12-quarter moving average of the market value of the endowment. Of this amount, $2,024,000 ($1,387,000 in fiscal 2008) is recorded in temporarily restricted net assets as part of income and gains.

(6) Investment in Plant

At June 30, 2009 and 2008, the components of the University's investment in plant were as follows (in thousands):

	2009	2008
Campus land and improvements	$ 25,704	25,704
Buildings	318,870	308,020
Equipment	92,704	89,898
Construction in progress	10,598	9,610
Less accumulated depreciation	(163,066)	(152,709)
Total	$ 284,810	280,523

During fiscal 2009, the University capitalized net interest expense on construction in progress in the amount of $75,000 for CHEFA F ($1,365,000 on CHEFA F in fiscal 2008).

(7) Debt

At June 30, 2009 and 2008, long-term debt consisted of the following (in thousands):

	2009	2008
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	5,959	6,520
Total	$ 208,959	209,520

SFAS No. 107, *Disclosures about Fair Value of Financial Instruments*, requires the University to disclose fair value information about all financial instruments, whether or not recognized in the statements of financial position, for which it is practicable to estimate fair value. The University’s financial instruments not carried at fair value are carried at net realizable value, which approximates fair value, in the statements of financial position. Such financial instruments consist of cash and equivalents, receivables from grantors and donors, and accounts payable. Because the University's bonds payable are at variable rates, their carrying values approximate their fair values.

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):

Trade Date	Notional Amount	Maturity	Counterparty	Fixed Rate	Variable Rate % of 3 Month LIBOR*	Fair Value at June 30 2009	Fair Value at June 30 2008
November 29, 2001	$ 93,000	July 1, 2035	Barclay's	4.77%	100%	$ (9,453)	(17,662)
March 10, 2003	62,000	July 1, 2038	Deutsche Bank	3.80%	71%	(9,405)	(3,611)
January 7, 2005	36,000	July 1, 2040	JP Morgan	3.88%	71%	(6,167)	(2,640)
Net value of agreements						$ (25,025)	(23,913)

* Variable % of 3 month LIBOR effective in 2009 per new agreements

As a result of the Lehman bankruptcy, the University executed replacement swaps for all three of its swaps with new counterparties identified above. The University netted $10,600,000 in cash from the early termination/replacement swap process, which is included as a nonoperating gain in fiscal year 2009.

The Barclay's and Deutsche Bank swap agreements do not require the posting of collateral from the University if its credit rating is A1 or higher. Currently, the University's credit rating is Aa3. At this credit rating level, the JP Morgan swap agreement requires the posting of collateral if the mark to market liability payable by the University as of any month exceeds $25,000,000. Lower credit ratings decreased the collateral posting threshold for both Wesleyan and JP Morgan.

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. Because the swap value is based predominantly on observable inputs that are corroborated by market data, it is categorized as Level 2 for purposes of valuation disclosure under SFAS No. 157.

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 (in thousands):

2010	$ 580
2011	599
2012	619
2013	639
2014	660
Thereafter	205,862
Total outstanding debt	$ 208,959

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, 2009 and 2008, there were no outstanding advances under this LOC. The interest rate is set at 80 basis points above the LIBOR rate.

(8) 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 $5,707,000 and $5,307,000 for fiscal 2009 and 2008, 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.

The University follows 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, 2009 and 2008 are as follows (in thousands):

	2009	2008
Change in benefit obligation:		
Projected benefit obligation as of beginning of year	$ 12,182	11,534
Service cost	378	356
Interest cost	869	727
Plan participants' contributions	99	45
Benefits paid	(571)	(572)
Medicare Part D Subsidy	65	158
Actuarial loss/(gain)	2,070	(66)
Benefit obligation as of end of year	$ 15,092	12,182

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

	2009	2008
Interest on accumulated post-retirement benefit obligation	$ 869	727
Service cost	378	356
Amortization of actuarial loss/(gain)	2,070	(66)
Total	$ 3,317	1,017

This cost is allocated as follows (in thousands):

	2009	2008
Operations	$ 407	369
Non-operating	2,910	648

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 2010 is $276,000.

For measurement purposes, an annual rate of increase of 9.75% and 12.00% in the per capita cost of covered healthcare and prescription drug benefits, respectively, was assumed as of June 30, 2009. 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 2009 by $54,000 and the accumulated postretirement benefit obligation by $524,000.

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

	2009	2008
Benefit obligations	6.00%	6.75%
Net periodic postretirement benefit costs	6.75%	6.25%

The benefits, as of June 30, 2009, 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 (in thousands):

2010	$ 1,044
2011	1,112
2012	1,186
2013	1,262
2014	1,400
Five years thereafter	7,885

(9) Temporarily Restricted Net Assets

Temporarily restricted net assets consist of the following at June 30, 2009 and 2008 (in thousands):

	2009	2008
Restrictions for:		
Instruction and research	$ 146,887	230,935
Financial aid	74,512	116,031
Facilities	4,645	8,286
Library	6,616	10,517
Subtotal	232,660	365,769
Time restrictions for charitable remainder trusts	6,520	10,748
Undesignated and unrestricted pledges	4,061	2,426
Total temporarily restricted net assets	$ 243,241	378,943

Net assets released during fiscal 2009 and 2008 from temporary donor restrictions by incurring expenses satisfying the restricted purpose or by occurrence of events specified by donors were as follows (in thousands):

	2009	2008
To Unrestricted:		
Instruction and research	$ 5,035	6,458
Financial aid	4,526	4,192
Institutional support	597	629
Student services	229	394
Library	12	5
Pledge payments on unrestricted gifts	2,632	3,211
Total net assets released	$ 13,031	14,889

(10) Permanently Restricted Net Assets

The original gift value of permanently restricted net assets consists of the following at June 30, 2009 and 2008 (in thousands):

	2009	2008
For which the income is restricted:		
Financial aid	$ 74,343	68,267
Instruction and research	55,146	53,083
Facilities maintenance	3,995	3,970
Library	1,774	1,769
Loans to students	2,600	2,391
Total	137,858	129,480
For which the income is unrestricted	13,984	13,934
Total permanently restricted net assets	$ 151,842	143,414

(11) 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 2009 and 2008 are listed below (in thousands).

	2009	2008
Expenditures:		
Physical plant operations	$ 20,491	20,678
Major maintenance expenses and non-capitalized costs	9,137	6,619
Depreciation	10,659	9,434
Interest expense	8,710	9,064
Total expenditures to be allocated	$ 48,997	45,795

Allocations to functional expenditure categories (in thousands):

		2009	2008
Instruction	$	14,626	13,670
Research		4,900	4,580
Libraries		3,572	3,338
Student services		1,024	957
Institutional support		1,411	1,319
Auxiliary activities		23,464	21,931
Total allocations	$	48,997	45,795

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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, 2009 and 2008, 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 also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Wesleyan University as of June 30, 2009 and 2008, and the changes in its net assets and its cash flows for the years then ended, in conformity with U.S. generally accepted accounting principles.

As described in note 5 to the financial statements, the University adopted the provisions of Financial Accounting Standards Board Staff Position FAS 117-1, *Endowments of Not-for-Profit Organizations: Net Asset Classifications of Funds Subject to an Enacted Version of the Uniform Prudent Management of Institutional Funds Act, and Enhanced Disclosure for All Endowment Funds,* in 2009, and consequently reclassified its net asset balances as of July 1, 2007.

KPMG LLP

October 28, 2009

WESLEYAN

UNIVERSITY

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