ANNUAL FINANCIAL REPORT

YEAR ENDED JUNE 30, 2010

WESLEYAN

UNIVERSITY

WESLEYAN UNIVERSITY
BOARD OF TRUSTEES FOR 2009–10

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 20, 2010

Subject: FY 2009/10 Annual Financial Report

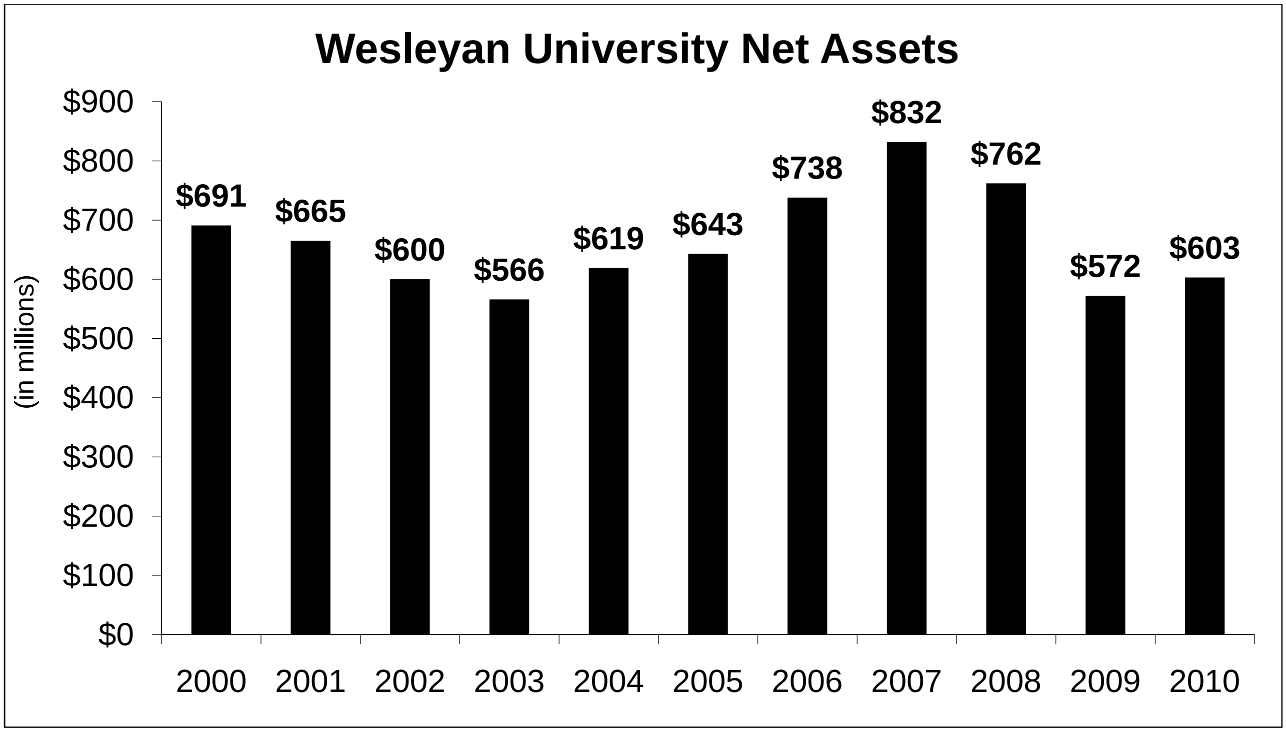
It is my pleasure to present the Wesleyan University Annual Financial Report. The Financial Report is the means through which the University presents its financial condition to the trustees, to donors and friends of the University and to external constituencies.

Wesleyan's FY 2009/10 statements of financial position reflect the stock market downturn over the past two years. Still, Wesleyan's FY 2009/10 operating revenue exceeded expenditures by $9 million. Endowment spending met Board policy guidelines at 5.5% of the 12-quarter moving average of the market value.

2009-2010 Year in Review

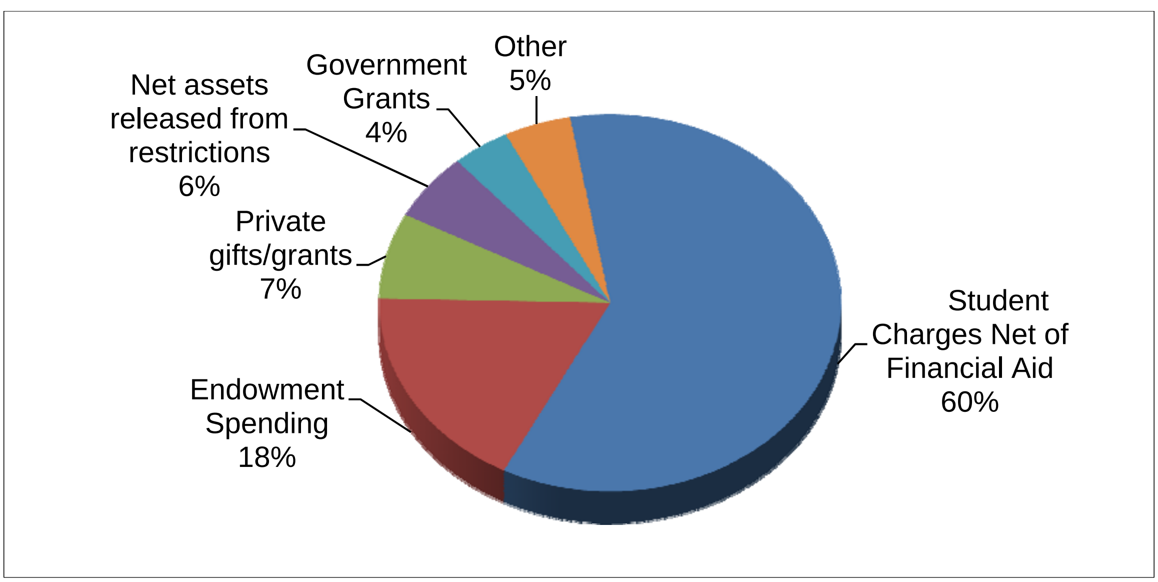
Total operating revenue and support for FY 2009/10 was $187 million, a decrease of 0.8% from FY 2008/09. Operating expenses were $178 million, a decrease of 3.6% from FY 2008/09.

During the fiscal year ended June 30, 2010, Wesleyan University's net assets increased by $31 million from $572 million to $603 million. The 2010 increase reverses a two-year trend of net asset declines. The almost 8% increase in the market value of Wesleyan's endowment from $476 million to $513 million and the elimination of our interest rate swaps are the major factors in the increase in net assets.



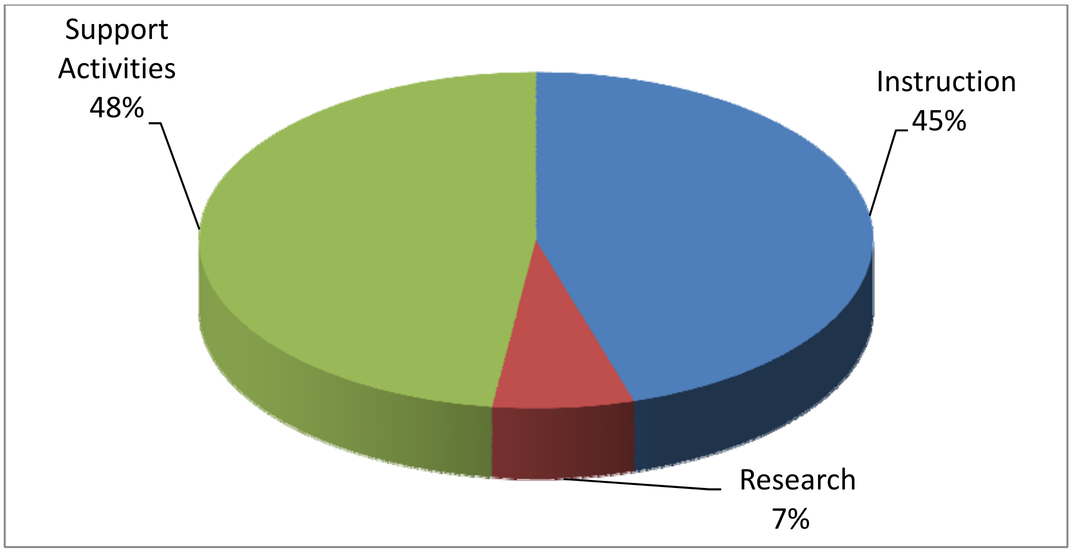
Operations

<u>Revenue</u>
More than half of Wesleyan's total operating revenue comes from student fees (tuition, room, and board). Net of student financial aid, this revenue totaled $113 million. Net student charges increased 4.4% as tuition, room, and board rates increased at 3.8% and it was the first year of Wesleyan's plan to increase enrollment by thirty students annually; financial aid expenditures totaling $42 million increased 3%. The small percentage increase in financial aid reflects the loss of 50% of the Freeman Program funding (from $4.2 million to $2.1 million).



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 was flat but will decrease significantly over the next two years, as lower endowment values will be factored into our spending formulas. 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 $178 million operating budget is spent on its central academic mission, instruction and research ($93 million). Expenses decreased $6.5 million primarily from capital and restricted sources. 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 totaled $905 million. The good news, of course, is the increase in the endowment value after two years of decreases; Wesleyan's endowment totaled $513 million at year-end, an increase of $36 million after taking out spending and adding new gifts.

Assets
While assets increased primarily because of the endowment, cash/short term investments increased by $20 million to $86 million. A larger cash position provides flexibility to meet commitments during these challenging fiscal times.

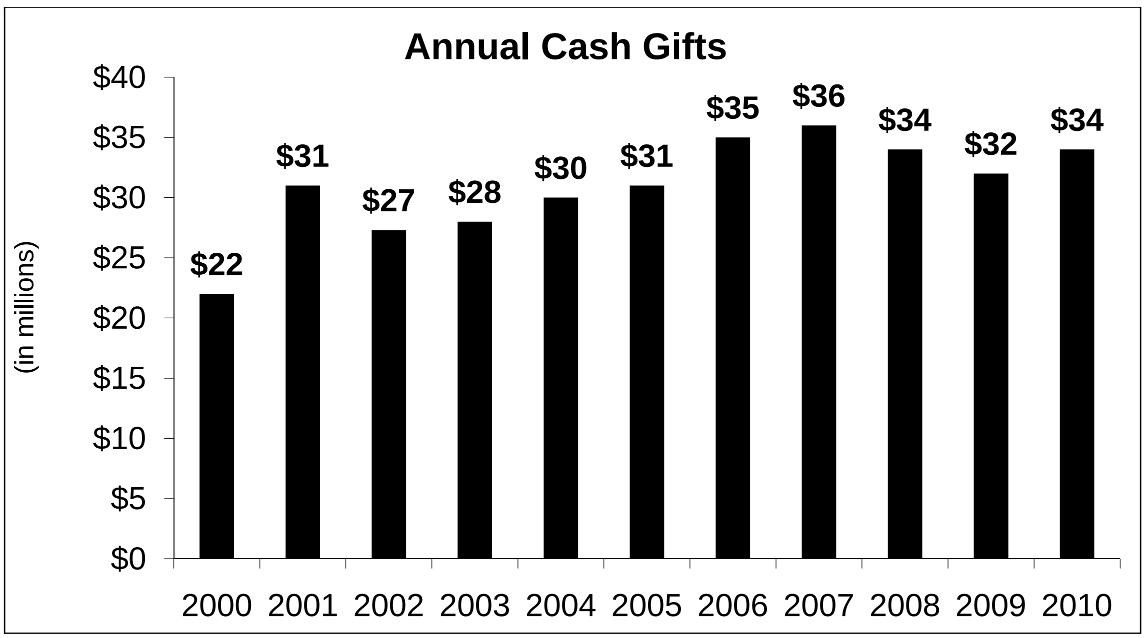
Liabilities
Liabilities increased $16 million. We were required to increase our post retirement benefit obligation by $21 million primarily because of the new healthcare reform legislation that eliminated annual and lifetime maximum allowances in health plans except for retirees (Footnote 8, page 29). Wesleyan provides a prescription benefit to retirees that has a $25,000 lifetime

maximum. However, it is a component of our overall medical plan and the post retirement benefit obligation cost must be calculated without the cap until the retiree plan is separated. Wesleyan has started the process to legally separate the retiree prescription plan and believes the additional post retirement benefit liability will be a one-time 2010 event with a corresponding liability decrease in 2011. The post retirement benefit liability would have increased less than $2 million without the legislative change.

The $10 million bond premium received when bonds were sold will be realized over the bonds' lifetime (Footnote 7, page 26). The termination of three interest rate swaps as part of the refinancing of Wesleyan's long-term debt decreased liabilities by $25 million (Footnote 7, page 26).

Wesleyan Fundraising

In FY 2009/10, alumni, parents, and friends gave over $34 million on a cash basis to Wesleyan University, with 51% alumni participation. This 4.7% fundraising increase returns cash gifts to 2008 levels and continues to reflect 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 $30 million 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, 2010

WESLEYAN UNIVERSITY
Statements of Financial Position
June 30, 2010 and 2009
(in thousands)

	2010	2009
ASSETS		
Cash and short term investments	$ 86,502	66,358
Receivables and other assets	14,721	14,649
Pledges receivable	28,417	27,961
Long-term investments	492,939	463,974
Cash on deposit with bond trustee	156	567
Investment in plant, net	282,508	284,810
Total assets	905,243	858,319
LIABILITIES		
Accounts payable and accrued expenses	15,893	13,605
Liability for interest rate swaps	-	25,025
Deposits and deferred revenues	4,181	1,169
Split interest obligations	6,150	6,036
Postretirement benefits	36,391	15,092
Long-term debt	211,959	208,959
Premium on long-term debt	10,839	-
Asset retirement obligation	11,303	10,920
Perkins loan program refundable	5,331	5,278
Total liabilities	302,047	286,084
NET ASSETS		
Unrestricted	183,516	177,152
Temporarily restricted	247,782	243,241
Permanently restricted	171,898	151,842
Total net assets	603,196	572,235
Total liabilities and net assets	$ 905,243	858,319

See accompanying notes to financial statements.

WESLEYAN UNIVERSITY
Statements of Changes in Unrestricted Net Assets
Years ended June 30, 2010 and 2009
(in thousands)

	2010	2009
OPERATING ACTIVITIES		
REVENUES		
Tuition	$ 122,073	117,817
Room and board	33,119	31,443
Less undergraduate scholarships and graduate tuition remission	(42,223)	(41,093)
Net student charges	112,969	108,167
Investment return		
Interest and dividends	1,031	1,611
Investment return used in support of operations	32,245	31,793
Private gifts and grants	13,762	14,587
Federal, state and local grants	7,556	5,304
Other	8,739	14,178
Net assets released from restrictions	10,862	13,031
Total revenues from operations	187,164	188,671
EXPENSES		
Instruction	80,628	82,611
Research	12,050	10,646
Libraries	10,443	11,053
Student services	9,346	10,399
Institutional support	20,718	23,539
Other	3,482	1,552
Auxiliary activities	41,272	44,726
Total expenses	177,939	184,526
Revenues in excess of expenses from operations	9,225	4,145
NON-OPERATING ACTIVITIES		
Net investment return	22,394	(64,954)
Allocation of accumulated gains for operations	(8,576)	(8,378)
Adjustment for postretirement benefit liability	(21,299)	(2,910)
Unrealized loss on interest rate swaps	-	(1,112)
Realized gain on termination of interest rate swap agreements	4,620	10,603
Total non-operating activities	(2,861)	(66,751)
Change in unrestricted net assets	6,364	(62,606)
Unrestricted net assets at beginning of year	177,152	239,758
Unrestricted net assets at end of year	$ 183,516	177,152

See accompanying notes to financial statements.

WESLEYAN UNIVERSITY
Statements of Changes in Restricted and Total Net Assets
Years ended June 30, 2010 and 2009
(in thousands)

	2010	2009
TEMPORARILY RESTRICTED NET ASSETS		
Gifts	$ 5,164	10,060
Pledge activity, net	(5,060)	(21,177)
Net investment return	42,998	(84,393)
Allocation of accumulated gains for operations	(27,184)	(27,050)
Change in value of split interest obligation	(515)	(111)
Net assets released from restrictions	(10,862)	(13,031)
Change in temporarily restricted net assets	4,541	(135,702)
Net assets at beginning of year	243,241	378,943
Temporarily restricted net assets at end of year	$ 247,782	243,241
PERMANENTLY RESTRICTED NET ASSETS		
Gifts and pledges	$ 19,147	9,544
Reinvested investment income	416	293
Net investment return	493	(1,409)
Change in permanently restricted net assets	20,056	8,428
Net assets at beginning of year	151,842	143,414
Permanently restricted net assets at end of year	$ 171,898	151,842
TOTAL NET ASSETS		
Change in total net assets	$ 30,961	(189,880)
Total net assets at beginning of year	572,235	762,115
Total net assets at end of year	$ 603,196	572,235

See accompanying notes to financial statements.

WESLEYAN UNIVERSITY
Statements of Cash Flows
Years ended June 30, 2010 and 2009
(in thousands)

	2010	2009
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	$ 30,961	(189,880)
Adjustments to reconcile change in net assets to cash used for operating activities:		
(Gains)Losses from investments and trusts	(62,263)	154,571
Gifts received for long-term investment	(15,533)	(12,758)
Postretirement benefit obligation change	21,299	2,910
Realized gain on termination of interest rate swap agreements	(4,620)	(10,603)
Depreciation and amortization	10,548	10,659
Change in working capital, net	2,551	25,385
Net cash used for operating activities	(17,057)	(19,716)
CASH FLOWS FROM INVESTMENT ACTIVITIES		
Additions to property and equipment	(5,931)	(17,453)
Purchases of long term investments	(73,107)	(140,747)
Sales of long term investments	106,405	181,322
Purchases of short term investments	(179,756)	(182,281)
Sales of short term investments	145,679	164,934
Decrease in cash on deposit with bond trustee	411	8,747
Net cash provided by/(used for) investment activities	(6,299)	14,522
CASH FLOWS FROM FINANCING ACTIVITIES		
Gifts received for long-term investment	15,533	12,758
Proceeds from issuance of long term debt, including premium	217,419	-
Repayments of long term debt	(203,580)	(561)
Cash received (paid) for termination of interest rate swap agreements	(20,405)	11,715
Net cash provided by financing activities	8,967	23,912
Net change in cash and cash equivalents	(14,389)	18,718
Cash and cash equivalents at beginning of year	18,718	-
Cash and cash equivalents at end of year	$ 4,329	18,718
Cash paid for interest	$ 7,795	8,473
Change in accounts payable related to property and equipment	$ 2,315	(2,507)

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 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) Basis of Reporting

The financial statements of the University have been prepared on the accrual basis in accordance with U.S. generally accepted accounting principles (GAAP).

(b) Net Asset Categories

The financial statements report on the University as a whole and report transactions based upon 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 and/or the passage of time. This includes unspent endowment income and gains or losses on restricted endowment funds, restricted gifts for current operations and gifts for plant projects, life income and other deferred gifts, and pledges for purposes other than endowment.

Unrestricted Net Assets: All other net assets not subject to donor-imposed restrictions, which the University may use at its discretion. Certain net assets classified as unrestricted are internally designated for specified use. Federal and foundation grants are not considered gifts to the University, and consequently, increase unrestricted revenue as they are expended.

(c) Expiration of Donor-Imposed Restrictions

All gifts are considered available for unrestricted use unless specifically restricted by the donor. Amounts that are restricted by the donor as to time or for specific purposes are reported as temporarily restricted or permanently restricted support that increases those net asset classes. When a qualifying expenditure occurs or a time restriction expires, temporarily restricted net assets are reduced and unrestricted net assets are correspondingly increased as net assets released from restrictions in the statements of changes in net assets. However, if a restriction is fulfilled in the same time period in which the gift is received or endowment income is earned, the gift or income is reported as unrestricted revenue.

(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 Accounting Standards Codification (ASC) 820, 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)*, with respect to investments in non-registered and alternative funds. This Standard allows for the estimation of the fair value of such investments using net asset value (NAV) per share or its equivalent as a practical expedient. The University adopted all disclosure provisions of ASU 2009-12 in 2010.

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 certain investments held by these funds, changes in market conditions and the economic environment may significantly impact the NAV of the funds and, consequently, the fair value of the University's interests in the funds. Furthermore, changes to the liquidity provisions of the funds may significantly impact the fair value of the University's interest in the funds. Although certain investments may be sold in secondary market transactions, subject to meeting certain requirements of the governing documents of the funds, the secondary market is not active and individual transactions are not necessarily observable. It is therefore reasonably possible that if the University were to sell its interest in a fund in the secondary market, the sale could occur at an amount materially different than the reported value.

(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 and 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 return from 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, 2010 the University had $4,329 in cash and $82,173 in short term investments. At June 30, 2009 the amounts were $18,718 in cash and $47,640 in short term investments.

(g) Receivables

At June 30, 2010 and 2009, student accounts receivable are net of an allowance for doubtful accounts of $103 and $108, and student loans receivable are net of an allowance for doubtful accounts of $1,129 for 2010 and 2009.

(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 five thousand dollars 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 ASC 410-20, 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). The University assesses uncertain tax positions and determined that there were no such positions that have a material effect on the financial statements.

(j) Disclosure about Fair Value of Financial Instruments

The University discloses 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 generally 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 students, grantors and donors, and payables. The carrying values of the University's bonds payable approximate their fair values based on analysis of relevant interest rates and marketing pricing.

(k) Subsequent Events

In accordance with ASC 855, management has evaluated events subsequent to June 30, 2010 and through October 27, 2010, the date on which the financial statements were issued, to provide additional evidence relative to certain estimates or to identify matters that require additional disclosure.

(l) Use of Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the dates of the financial statements and the reported amounts of revenues and expenses during the reporting periods. Actual results could differ from those estimates. The current economic environment increases the uncertainty of those estimates.

(m) Recent Accounting Standards

In June 2009, the Financial Accounting Standards Board (FASB) issued *The FASB Accounting Standards Codification and the Hierarchy of Generally Accepted Accounting Principles.* The standard identifies the FASB Accounting Standards Codification as the single source of authoritative U.S. accounting and reporting standards applicable for all nongovernmental entities. The University adopted the standard effective June 30, 2010. The adoption did not have a material effect on the University's financial statements. References to GAAP literature made in these notes have been updated to reflect the new codification sections, as applicable.

(n) Reclassification

Certain amounts in the fiscal 2009 financial statements have been reclassified to conform to the fiscal 2010 presentation.

(3) <u>Pledges Receivable</u>

The University recognizes the present value of unconditional pledges receivable as revenues in the period in which the pledges are made. The University's pledges receivable are recognized net of discount rates ranging between 1.50% and 10.64% which are commensurate with the risks involved. The University has also created a 10% allowance for uncollectible pledges, which are reported at net realizable value, which approximates fair value.

(Dollars in thousands)

A summary of pledges scheduled to be received at June 30 as follows:

	2010	2009
Less than one year	$ 14,431	18,707
One to five years	19,499	14,780
More than five years	2,198	1,283
	36,128	34,770
Less allowance for uncollectible pledges	(2,995)	(2,906)
Less discount for present value	(4,716)	(3,903)
Net pledges receivable	$ 28,417	27,961

Pledges are for the following purposes:

	2010			2009
	Temporarily Restricted	Permanently Restricted	Total	Total
Undesignated	$ 1,001	315	1,316	3,708
Academic programs	1,233	6,535	7,768	3,607
Financial aid	2,327	8,294	10,621	10,599
Building additions & renovations	4,151	-	4,151	4,788
General Purposes	3,548	1,013	4,561	5,259
Total	$ 12,260	16,157	28,417	27,961

University Relations expenditures, which are primarily for fundraising purposes and alumni activity, totaled $8,695 and $8,359 in fiscal years 2010 and 2009, respectively, and are included in institutional support in the statements of changes in unrestricted net assets.

(4) Investments and Fair Value

The University follows the provisions of ASC 820, which defines fair value and establishes a framework for measuring and disclosing fair value measurements. Fair value generally represents the price that would be received upon the sale of an asset or paid upon the transfer of a liability in an orderly transaction between market participants as of the measurement date. The GAAP fair value hierarchy prioritizes observable and unobservable inputs used to measure fair value into three levels:

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

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 classifies its assets and liabilities in the hierarchy based on these inputs, except for investments in funds measured at NAV. The University owns shares or units in each fund rather than in the fund's underlying securities. Accordingly, such investments are classified in Level 2 of the hierarchy if the University has the ability to redeem its interest at or near the statement of financial position date and in Level 3 if it does not, even though the underlying securities may not be difficult to value or may be readily marketable. Therefore, the classification of these investments in the hierarchy is not necessarily an indication of the risk associated with investing in those funds or a reflection on the liquidity of each fund's underlying assets and liabilities.

(Dollars in thousands)

The University's assets at June 30, 2010 that are reported at estimated fair value are summarized in the following table by their fair value hierarchy classification:

	Level 1	Level 2	Level 3	Total	Redemption or Liquidation	Days Notice
Fixed Income	$ 47,941	-	-	47,941	Daily	1
Domestic equities	47,843	22,992	129	70,964	Daily/Monthly	1 to 5
Global (ex-U.S.) equities	-	76,916	-	76,916	Weekly/Monthly	6 to 15
Absolute return						
Event driven	-	-	47,991	47,991	Annual to illiquid	180 to n/a
Long/short equity	-	9,453	-	9,453	Quarterly	60
Fixed income arbitrage	-	-	38,934	38,934	Rolling lockups	60
In liquidation	-	-	18,664	18,664	Pending	n/a
Private Equity						
Venture Capital	-	-	29,526	29,526	Illiquid	n/a
Buyout	-	-	45,846	45,846	Illiquid	n/a
Real Assets	-		69,614	69,614	Illiquid	n/a
Diversified Inflation Hedging	-	17,479	-	17,479	Monthly	7
Funds held or administered by others	-	14,092	5,519	19,611	Not Applicable	n/a
Total	$ 95,784	140,932	256,223	492,939		

(Dollars in thousands)

The University's assets at June 30, 2009 that are reported at estimated fair value are summarized in the following table by their fair value hierarchy classification:

	Level 1	Level 2	Level 3	Total	Redemption or Liquidation	Days Notice
Fixed Income	$ 40,111	-	-	40,111	Daily	1
Domestic equities	50,423	23,673	129	74,225	Daily/Monthly	1 to 5
Global (ex-U.S.) equities	-	73,452	-	73,452	Weekly/Monthly	6 to 15
Absolute return						
Event driven	-	-	36,987	36,987	Annual or illiquid	180 - n/a
Long/short equity	-	19,401	-	19,401	Quarterly	60
Fixed income arbitrage	-	-	35,262	35,262	Rolling lockups	60
In liquidation	-	15,225	27,092	42,317	Pending	n/a
Private Equity						
Venture Capital	-	-	32,937	32,937	Illiquid	n/a
Buyout	-	-	41,608	41,608	Illiquid	n/a
Real Assets	-		41,598	41,598	Illiquid	n/a
Diversified Inflation Hedging	-	15,561	-	15,561	Monthly	7
Funds held or administered by others	5,267	-	5,248	10,515	Not Applicable	n/a
Total	$ 95,801	147,312	220,861	463,974		

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

(Dollars in thousands)

The following tables present the University's activity for the fiscal years ended June 30, 2010 and 2009 for Level 3 investments.

	Domestic Equities	Absolute Return	Private Equity	Real assets	Total
Fair value at June 30, 2009	$ 5,377	99,341	74,545	41,598	220,861
Acquisitions	-	1,483	6,870	23,806	32,159
Dispositions	-	(6,600)	(12,889)	(4,032)	(23,521)
Gains on investments	271	11,365	6,846	8,242	26,724
Fair value at June 30, 2010	$ 5,648	105,589	75,372	69,614	256,223

	Domestic Equities	Absolute Return	Private Equity	Real assets	Total
Fair value at June 30, 2008	$ 6,781	101,498	88,899	43,904	241,082
Acquisitions	-	21,003	13,949	12,703	47,655
Dispositions	-	(14,352)	(5,099)	(3,745)	(23,196)
Losses on investments	(1,404)	(8,808)	(23,204)	(11,264)	(44,680)
Fair value at June 30, 2009	$ 5,377	99,341	74,545	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, 2010, the maturities of these investments and the related unfunded commitments were as follows:

Investments maturing in	Fair value	Related unfunded commitments
1 - 5 years	$ 49,218	5,788
5 - 10 years	85,996	65,248
10 years or more	3,287	6,643

(Dollars in thousands)

Investment liquidity as of June 30, 2010 is aggregated below based on redemption or sale period:

Investment redemption or sale period:		Investment fair values
In liquidation	$	18,664
Daily		95,784
Weekly		16,019
Monthly		101,368
Quarterly		48,387
Annual		34,286
Illiquid		178,431
	$	492,939

The following summarizes investment return components for the years ended June 30, 2010 and 2009:

Investment return:		2010	2009
Interest and dividends, net of advisory fees	$	1,554	2,084
Net realized and unrealized gains (losses)		62,263	(154,571)
Investment return	$	63,817	(152,487)

Interest and dividends are presented net of advisory fees of $4,975 and $5,285 for the years ended June 30, 2010 and 2009, respectively.

(5) Endowment

Effective July 1, 2008, the University adopted ASC 958-205, which 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 (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) Relevant Law

The University is subject to the State of Connecticut's Uniform Prudent Management of Institutional Funds Act (UPMIFA), which requires the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment fund absent explicit donor stipulations to the contrary. The University classifies as 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.

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

1. The duration and preservation of the fund

(Dollars in thousands)

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, 2010:

	Unrestricted	Temporarily restricted	Permanently restricted	Total
Donor-restricted endowment funds	($17,705)	226,096	155,267	363,658
Board-designated endowment funds	146,518	2,699	-	149,217
Total endowed net assets	$128,813	228,795	155,267	512,875

Endowment funds consist of the following at June 30, 2009:

	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

(Dollars in thousands)

Changes in endowment funds for the year ended June 30, 2010 are as follows:

	Unrestricted	**Temporarily restricted**	**Permanently restricted**	**Total**
Endowment net assets, July 1, 2009	$118,205	219,418	138,858	476,481
Investment return:				
Investment income	1,031	107	416	1,554
Net appreciation	18,153	38,690	493	57,336
Total investment return	19,184	38,797	909	58,890
Contributions	-	-	13,264	13,264
Appropriation of endowment assets for expenditure	(8,576)	(27,184)	-	(35,760)
Endowment net assets, June 30, 2010	$128,813	231,031	153,031	512,875

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

	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

(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 $17,705 and $19,954 as of June 30, 2010 and 2009, respectively. 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, 2010 and 2009 was $512,876 and $476,481 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.

(Dollars in thousands)

(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 2010, $35,760 was spent ($35,428 in fiscal 2009), which represented 5.5% of the 12-quarter moving average of the market value of the endowment in fiscal 2010 and fiscal 2009. Of this amount, $2,484 ($2,024 in fiscal 2009) is recorded in temporarily restricted net assets as part of income and gains.

(6) Investment in Plant

At June 30, 2010 and 2009, the components of the University's investment in plant were as follows:

	2010	2009
Campus land and improvements	$ 25,885	25,704
Buildings	332,928	318,870
Equipment	94,594	92,704
Construction in progress	2,549	10,598
Total	455,956	447,876
Less accumulated depreciation	(173,448)	(163,066)
Total investment in plant, net	$ 282,508	284,810

(Dollars in thousands)

(7) Debt

At June 30, 2010 and 2009, long-term debt, including premium related to Connecticut Health and Educational Facilities Authority (CHEFA) Series G, consisted of the following:

	2010	2009
Revenue bonds payable (CHEFA Series D)	$ -	93,000
Revenue bonds payable (CHEFA Series E)	-	62,000
Revenue bonds payable (CHEFA Series F)	-	48,000
Revenue bonds payable (CHEFA Series G)	186,475	-
Revenue bonds payable (CHEFA Series H)	20,105	-
Term loans	5,379	5,959
Total Long-Term Debt	211,959	208,959
Premium on CHEFA Series G	10,839	-
Long Term Debt including Premium	$ 222,798	208,959

In May 2010, the proceeds of the Series G and H bonds were used to refund the University's existing debt, fund swap termination payments, and pay costs of issuance. The University refunded all of its existing bonds, which consisted of the Series D, E, and F totaling $203,000; these bonds were all in a variable rate mode with liquidity support provided by standby bond purchase agreements with JPMorgan Chase Bank and Bank of America. In addition, the three existing interest rate swaps associated with these bonds were terminated.
#
The Series G bonds were issued in the fixed rate mode and the Series H bonds in a variable rate mode. The resulting long-term bond portfolio is 90.3% fixed and 9.7% variable. The University took advantage of historically low interest rates to reduce its exposure to put risk by bondholders and counterparty risk that stems from dependence on banks to provide external liquidity support.

(a) CHEFA Series G

$186,475 fixed rate bonds have their interest rate specified in the bond-offering document ranging from 4.0% to 5.0% depending upon the underlying principal maturity date. These bonds were issued at a premium that is being amortized over the remaining life of each series of bonds resulting in an effective yield ranging from 4.12% to 4.67%. The University makes semi-annual payments of interest to the bondholders through the trustee (Bank of New York Mellon). The University is required to make principal payments beginning July 1, 2023 and ending July 1, 2039.

(Dollars in thousands)

(b) CHEFA Series H

$20,105 variable rate demand bonds have their interest rates set weekly. The interest rate at June 30, 2010 was 0.24%. The University makes monthly payments of interest to bond holders through the trustee (Bank of New York Mellon). The University may make prepayments of principal, and is required to pay any remaining principal balance on July 1, 2040.

In addition to relying on its own liquid assets, the University supports the variable rate demand bonds through a self-liquidity program that also relies on a standby liquidity support agreement from Bank of America. This agreement provides $20,000 to purchase bonds that are not successfully remarketed and expires on May 17, 2013.

(c) Swap Agreements

As part of the restructuring of its long-term debt, the University terminated all existing interest rate swap and stand-by purchase agreements. Interest rate swap agreements with financial institution counterparties, which are classified in Level 2 of the fair value hierarchy, as of June 30 are as follows:

Trade Date	Notional Amount	Maturity	Counterparty	Fixed Rate	Variable Rate % of 3 Month LIBOR*	Fair Value Liability at June 30 2010	2009
November 29, 2001	$ 93,000	July 1, 2035	Barclay's	4.77%	100%	$ -	(9,453)
March 10, 2003	62,000	July 1, 2038	Deutsche Bank	3.80%	71%	-	(9,405)
January 7, 2005	36,000	July 1, 2040	JP Morgan	3.88%	71%	-	(6,167)
Net value of agreements						$ -	(25,025)

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

(Dollars in thousands)

Termination costs in 2010 for all three-interest rate swaps totaled $20,405. Of this amount, $12,860 was funded through Series G bond proceeds and the remaining $7,545 came from University cash.

(d) Term Loans

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. 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%.

(e) Debt Maturities

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

2011	$ 599
2012	619
2013	639
2014	660
2015	681
Thereafter	208,761
Total outstanding debt	$ 211,959

(f) **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.

(g) Line of Credit (LOC)

The University has a standing $10,000 line of credit with Bank of America. As of June 30, 2010 and 2009, 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 retirement plans, with contributions based on a percentage of salary, covering substantially all employees. Total expense was $5,648 and $5,707 for fiscal 2010 and 2009, 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.

In March 2010, the Patient Protection and Affordable Care Act and a reconciliation measure, the Health Care and Education Reconciliation Act of 2010, ("Act") were signed into law. The Act contained a provision that eliminated certain annual and lifetime limits on the dollar value of benefits. On June 17, 2010 the Department of the Treasury, the Department of Labor, and the

(Dollars in thousands)

Department of Health and Human Services published guidance in the Federal Register stating, in effect, that the lifetime and annual benefit limits under the Act do not apply to plans that cover only retirees. As of June 30, 2010, we had a plan that contained both active employees and retirees. Therefore, we included the impacts of the Act in our calculation of the accumulated post-retirement benefit obligation ("APBO"). The Act increased our APBO by approximately $19,000 and increased our fiscal 2010 expense by approximately $700.

The University applies the provisions of ASC 715 to its postretirement plan. The status of the University's plan and the amounts recognized in the statements of financial position at June 30, 2010 and 2009 are as follows:

	2010	2009
Change in benefit obligation:		
Projected benefit obligation as of beginning of year	$ 15,092	12,182
Service cost	481	378
Interest cost	966	869
Plan participants' contributions	103	99
Health care reform legislation	12,966	-
Benefits paid	(651)	(571)
Medicare Part D Subsidy	105	65
Actuarial loss (including impact of health care reform)	7,329	2,070
Benefit obligation as of end of year	$ 36,391	15,092

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

	2010	2009
Interest on accumulated postretirement benefit obligation	$ 966	869
Service cost	481	378
Amortization of actuarial loss	581	2,070
Total	$ 2,028	3,317

(Dollars in thousands)

In addition to service and interest costs, the estimated prior service cost and net loss that will be amortized from accumulated unrestricted net assets into net periodic benefit cost over the next fiscal year are $2,239 and $2,397, respectively.

For measurement purposes, an annual rate of increase of 9.0% in the per capita cost of covered healthcare and prescription drug benefits was assumed as of June 30, 2010. The rates were assumed to decrease to 6.9% by 2017 and 4.5% by 2025 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 2010 by $150 and the accumulated postretirement benefit obligation by $6,327.

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

	2010	2009
Benefit obligations	5.25%	6.00%
Net periodic postretirement benefit costs	6.00%	6.75%

The benefits, as of June 30, 2010, 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:

Fiscal Year	Amount
2011	$ 1,081
2012	1,177
2013	1,259
2014	1,417
2015	1,560
Five years thereafter	10,722

(Dollars in thousands)

(9) Temporarily Restricted Net Assets

Temporarily restricted net assets consist of the following at June 30, 2010 and 2009 :

	2010	2009
Restrictions for:		
Instruction and research	$ 157,048	146,887
Financial aid	73,625	74,512
Facilities	3,472	4,645
Library	6,997	6,616
Subtotal	241,142	232,660
Time restrictions for charitable remainder trusts	5,640	6,520
General purpose pledges	1,000	4,061
Total temporarily restricted net assets	$ 247,782	243,241

Net assets released during fiscal 2010 and 2009 from temporary donor restrictions by incurring expenses satisfying the restricted purpose or by occurrence of events specified by donors were as follows:

	2010	2009
To Unrestricted:		
Instruction and research	$ 5,672	5,035
Financial aid	3,577	4,526
Other	198	838
Pledge payments on general purpose gifts	1,415	2,632
Total net assets released	$ 10,862	13,031

(Dollars in thousands)

(10) Permanently Restricted Net Assets

The original gift value of permanently restricted net assets consists of the following at June 30, 2010 and 2009:

	2010	2009
For which the income is restricted:		
Financial aid	$ 81,894	74,343
Instruction and research	66,918	55,146
Facilities maintenance	4,020	3,995
Library	1,774	1,774
Loans to students	2,786	2,600
Total	157,392	137,858
For which the income is unrestricted	14,506	13,984
Total permanently restricted net assets	$ 171,898	151,842

(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 2010 and 2009 are listed below.

	2010	2009
Expenditures:		
Physical plant operations	$ 20,873	20,491
Major maintenance expenses and non-capitalized costs	4,475	9,137
Depreciation	10,548	10,659
Interest expense	9,344	8,710
Total expenditures to be allocated	$ 45,240	48,997

(Dollars in thousands)

Allocations to functional expenditure categories:

	2010	2009
Instruction	$ 13,504	14,626
Research	4,524	4,900
Libraries	3,298	3,572
Student services	946	1,024
Institutional support	1,303	1,411
Auxiliary activities	21,665	23,464
Total allocations	$ 45,240	48,997

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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, 2010 and 2009, and the related statements of changes in unrestricted net assets, changes in restricted and total net assets, 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, 2010 and 2009, 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 27, 2010

WESLEYAN
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