Annual Financial Report

Year Ended June 30, 2011

WESLEYAN
UNIVERSITY

WESLEYAN UNIVERSITY
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UNIVERSITY ADMINISTRATION

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

From: John C. Meerts

Date: October 19, 2011

Subject: FY 2010/11 Annual Financial Report

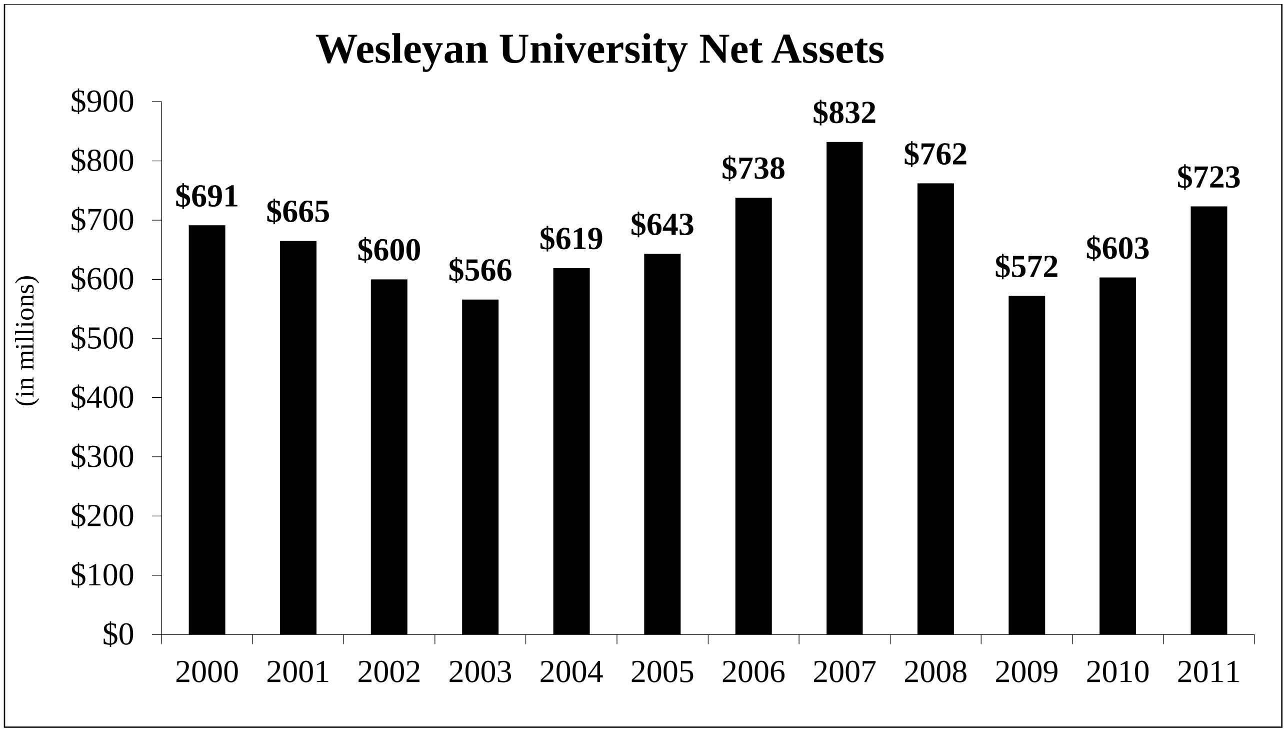
It is my pleasure to present the Wesleyan University Annual Financial Report. The Financial Report is the means through which the University presents its financial condition to the trustees, to donors and friends of the University and to external constituencies.

Wesleyan's FY 2010/11 statements of financial position reflect the upturn in the stock market over the past two years. Wesleyan's FY 2010/11 operating revenue exceeded expenditures by $13 million. Endowment spending met Board policy guidelines at 5.5% of the 12-quarter moving average of the market value.

2010-2011 Year in Review

Total operating revenue and support for FY 2010/11 was $195 million, an increase of 0.8% from FY 2009/10. Operating expenses were $182 million, an increase of 1.7% from FY 2010/11.

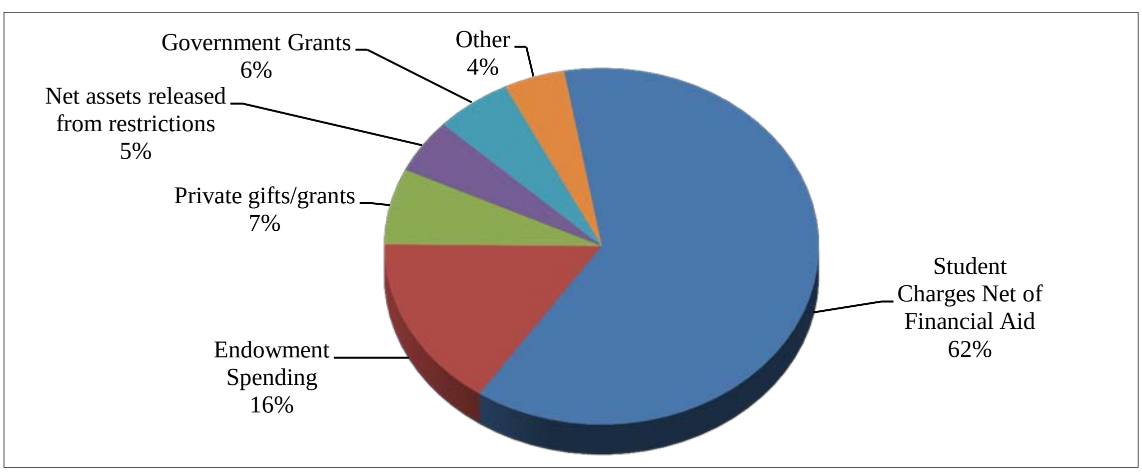
During the fiscal year ended June 30, 2011, Wesleyan University's net assets increased by $120 million (20%) from $603 million to $723 million. The 17% increase in the market value of Wesleyan's endowment from $513 million to $601 million and the reduction of our post retirement benefit obligation are the major factors in the increase in net assets.



Operations

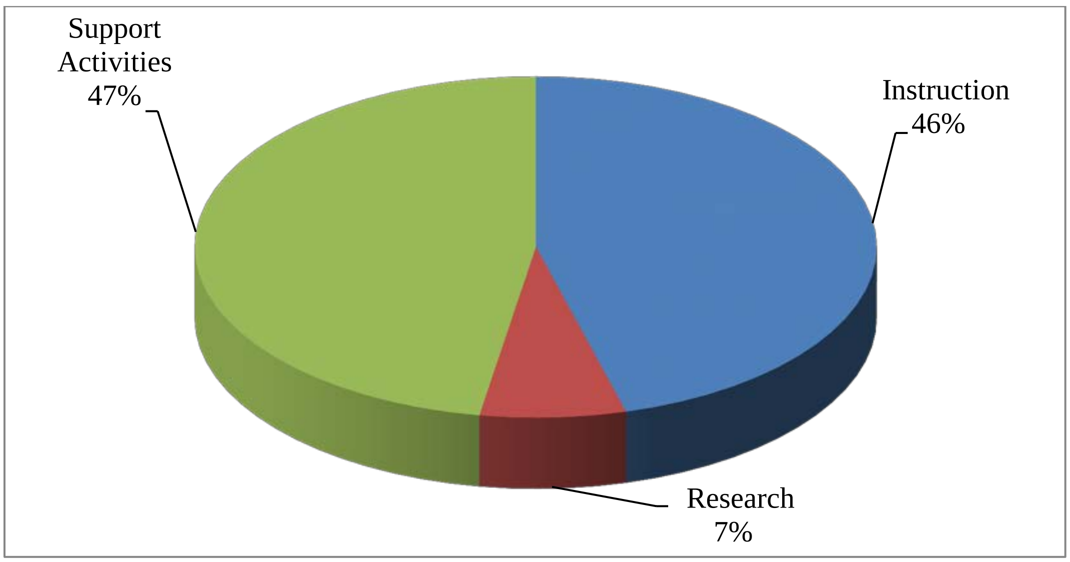
<u>Revenue</u>

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 $121 million. Net student charges increased 7.0% as tuition, room, and board rates increased at 3.8% and student enrollment increased. It was the second year of Wesleyan's plan to increase enrollment by thirty students annually; financial aid totaling $45 million increased 5.8%.



The second most significant source of unrestricted revenue is endowment spending. At $30 million, this support is determined in accordance with an endowment spending policy approved by the Board of Trustees. Endowment spending decreased almost $3 million (-8%) in FY 2010/11. Endowment spending will continue to decline, as lower endowment values will be factored into our spending formulas coupled with our plan to reduce spending from 5.5% to 5.0% of the twelve-quarter market value over the next five years. The endowment provides Wesleyan with resources that support a wide variety of programs across the University, ranging from general operations, to scholarships and professorships.

<u>Expenditures</u>
About half of Wesleyan's $182 million operating budget is spent on its central academic mission, instruction and research ($99 million). 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 over $1 billion, getting back to levels before the economic downturn. The good news, of course, is related to the increase in the endowment value; Wesleyan's endowment totaled $601 million at year-end, an increase of $88 million (17%) after taking out spending and adding new gifts.

<u>Assets</u>
Assets increased to over $1.0 billion. While assets increased primarily because of the endowment, cash and short term investments increased by $26 million (30%) to $112 million. A larger cash position provides flexibility to meet commitments during these challenging fiscal times.

Liabilities
Liabilities decreased $21 million (6.9%). In 2009/10 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 11, page 27). In 2010/11 this liability was reversed as Wesleyan separated retirees from its' medical plan.

Wesleyan Fundraising

In FY 2010/11, alumni, parents, and friends gave over $37 million on a cash basis to Wesleyan University, the largest cash received year in history. This $3 million (8.8%) increase from the prior year, with 51% of the alumni donating funds, reflects a strong financial commitment to Wesleyan from our donors, even during challenging economic times.

Conclusion

Wesleyan remains a strong and financially healthy University. Wesleyan will continue to exercise a disciplined budget process, investing in focused and strategic opportunities that improve our competitive position. 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, 2011

KPMG
KPMG LLP
One Financial Plaza
755 Main Street
Hartford, CT 06103

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, 2011 and 2010, 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 audit 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, 2011 and 2010, 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 26, 2011

WESLEYAN UNIVERSITY
Statements of Financial Position
June 30, 2011 and 2010
(in thousands)

	2011	2010
ASSETS		
Cash and cash equivalents	$ 15,591	2,737
Short-term investments	96,742	83,765
Receivables and other assets	13,804	14,877
Pledges receivable	29,223	28,417
Long-term investments	562,693	492,939
Investment in plant, net	286,737	282,508
Total assets	$ 1,004,790	905,243
LIABILITIES		
Accounts payable and accrued expenses	$ 14,459	15,893
Deposits and deferred revenues	8,372	9,512
Split interest obligations	7,721	6,150
Postretirement benefit obligation	17,900	36,391
Long-term debt	221,040	222,798
Asset retirement obligation	11,859	11,303
Total liabilities	281,351	302,047
NET ASSETS		
Unrestricted	250,709	183,516
Temporarily restricted	277,669	247,782
Permanently restricted	195,061	171,898
Total net assets	723,439	603,196
Total liabilities and net assets	$ 1,004,790	905,243

See accompanying notes to financial statements.

WESLEYAN UNIVERSITY
Statements of Changes in Unrestricted Net Assets
Years ended June 30, 2011 and 2010
(in thousands)

	2011	2010
OPERATING ACTIVITIES		
REVENUES		
Tuition	$ 130,747	122,002
Room and board	35,531	33,802
Less undergraduate scholarships and graduate tuition remission	(44,819)	(42,223)
Net student charges	121,459	113,581
Investment return used in support of operations	30,660	33,276
Private gifts and grants	13,535	13,762
Federal, state and local grants	11,073	7,556
Other	8,791	8,810
Net assets released from restrictions	8,577	10,862
Total revenues	194,095	187,847
EXPENSES		
Instruction	83,058	80,985
Research	11,642	11,465
Libraries	10,300	10,443
Student services	9,026	9,346
Institutional support	23,101	24,200
Auxiliary activities	43,645	42,183
Total expenses	180,772	178,622
Revenues in excess of expenses from operations	13,323	9,225
NON-OPERATING ACTIVITIES		
Net investment return	43,088	22,394
Appropriation of endowment assets for expenditure	(7,709)	(8,576)
Adjustment for postretirement benefit obligation	18,491	(21,299)
Realized gain on termination of interest rate swap agreements	-	4,620
Total non-operating activities	53,870	(2,861)
Change in unrestricted net assets	67,193	6,364
Unrestricted net assets at beginning of year	183,516	177,152
Unrestricted net assets at end of year	$ 250,709	183,516

See accompanying notes to financial statements.

WESLEYAN UNIVERSITY

Statements of Changes in Restricted and Total Net Assets

Years ended June 30, 2011 and 2010

(in thousands)

TEMPORARILY RESTRICTED NET ASSETS	**2011**	**2010**
Gifts	$ 4,877	5,164
Pledge activity, net	(3,243)	(5,060)
Net investment return	63,835	42,998
Appropriation of endowment assets for expenditure	(25,342)	(27,184)
Change in value of split interest obligation	(1,663)	(515)
Net assets released from restrictions	(8,577)	(10,862)
Change in temporarily restricted net assets	29,887	4,541
Net assets at beginning of year	247,782	243,241
Temporarily restricted net assets at end of year	$ 277,669	247,782
PERMANENTLY RESTRICTED NET ASSETS		
Gifts and pledges	$ 21,730	19,147
Reinvested investment return	1,433	909
Change in permanently restricted net assets	23,163	20,056
Net assets at beginning of year	171,898	151,842
Permanently restricted net assets at end of year	$ 195,061	171,898
TOTAL NET ASSETS		
Change in total net assets	$ 120,243	30,961
Total net assets at beginning of year	603,196	572,235
Total net assets at end of year	$ 723,439	603,196

See accompanying notes to financial statements.

WESLEYAN UNIVERSITY
Statements of Cash Flows
Years ended June 30, 2011 and 2010
(in thousands)

	2011	2010
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	$ 120,243	30,961
Adjustments to reconcile change in net assets to cash used for operating activities:		
Depreciation and amortization	10,292	10,548
Amortization of bond premium	(1,159)	-
Net return from investments and trusts	(105,965)	(62,263)
Gifts received for long-term investment	(18,311)	(15,533)
Postretirement benefit obligation change	(18,491)	21,299
Realized gain on termination of interest rate swap agreements	-	(4,620)
Changes in working capital, net	(837)	2,551
Net cash used for operating activities	(14,228)	(17,057)
CASH FLOWS FROM INVESTMENT ACTIVITIES		
Additions to property and equipment	(14,019)	(5,931)
Purchases of long term investments	(132,337)	(73,107)
Sales of long term investments	166,890	106,405
Purchases of short term investments	(118,351)	(179,756)
Sales of short term investments	107,031	155,506
Decrease in cash on deposit with bond trustee	156	411
Net cash provided by investment activities	9,370	3,528
CASH FLOWS FROM FINANCING ACTIVITIES		
Gifts received for long-term investment	18,311	15,533
Proceeds from issuance of long term debt, including premium	-	217,419
Repayments of long term debt	(599)	(203,580)
Cash paid for termination of interest rate swap agreements	-	(20,405)
Net cash provided by financing activities	17,712	8,967
Net change in cash and cash equivalents	12,854	(4,562)
Cash and cash equivalents at beginning of year	2,737	7,299
Cash and cash equivalents at end of year	$ 15,591	2,737
Cash paid for interest	$ 8,495	7,795
Change in accounts payable related to property and equipment	$ 503	2,315

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). The University applies the Financial Accounting Standards Board's (FASB's) Accounting Standards Codification (ASC), which is the single source of authoritative 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. 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 generally 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.

The University follows the provisions of Accounting Standards Codification (ASC) 820-35-58, *Investments in Certain Entities that Calculate Net Asset Value Per Share (or Equivalent)*, with respect to investments in non-registered and alternative funds. This guidance 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.

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 obligation and other items not related to the University's on-going operations are reported as non-operating activities. Expenses associated with the operation and maintenance of University plant assets, as well as 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 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.

(g) Receivables

At June 30, 2011 and 2010, student accounts receivable are net of an allowance for doubtful accounts of $242 and $103, and student loans receivable are net of an allowance for doubtful accounts of $1,129 for 2011 and 2010.

(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, Asset Retirement and Environmental Obligations, 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) 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.

(Dollars in thousands)

(l) Reclassifications

Certain amounts in the fiscal 2010 financial statements have been reclassified to conform to the fiscal 2011 presentation.

(3) Pledges Receivable

The University recognizes the present value of unconditional pledges receivable as revenues in the period in which the pledges are made. Contributions expected to be received after one year are discounted at the risk free discount rate in effect for the date of the gift. The discount rates used range from 1.5% to 10.64% for June 30, 2011 and 2010. The University has also created an allowance for uncollectible pledges based on factors such as prior collection history, type of contribution and nature of the fundraising activity. The receivables, net of allowances, approximate fair value.

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

	2011	2010
Less than one year	$ 13,694	14,431
One to five years	20,576	19,499
More than five years	2,198	2,198
	36,468	36,128
Less allowance for uncollectible pledges	(3,015)	(2,995)
Less discount for present value	(4,230)	(4,716)
Net pledges receivable	$ 29,223	28,417

University Relations expenditures, which are primarily for fundraising purposes and alumni activity, totaled $7,194 and $7,262 in fiscal years 2011 and 2010, 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, Fair Value Measurement, 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.

As of June 30, 2011 and 2010, the University had no specific plans or intentions to sell investments at amounts different than NAV.

The University's assets at June 30, 2011 that are reported at estimated fair value are summarized in the following table by their fair value hierarchy classification:

(Dollars in thousands)

	Level 1	Level 2	Level 3	Total	Redemption or Liquidation	Days' Notice
Fixed Income	$ 24,139	-	-	24,139	Daily	1
Domestic equities	72,501	21,127	129	93,757	Mostly Daily to Quarterly	1 to 5
Global (ex-U.S.) equities	41,454	55,239	-	96,693	Daily to Monthly	1 to 15
Absolute return						
Event driven	-	-	35,461	35,461	Annual	180 to n/a
Long/short equity	-	23,444	-	23,444	Quarterly	60
Fixed income arbitrage	-	-	46,838	46,838	Quarterly to illiquid	60
In liquidation	-	-	16,035	16,035	Pending	n/a
Private Equity						
Venture Capital	-	-	38,883	38,883	Illiquid	n/a
Buyout	-	-	53,306	53,306	Illiquid	n/a
Real Assets	-	-	86,971	86,971	Illiquid	n/a
Diversified Inflation Hedging	-	22,868	-	22,868	Monthly	7
Funds held or administered by others	-	17,963	6,335	24,298	Not Applicable	n/a
Total	$ 138,094	140,641	283,958	562,693		

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 or illiquid	180 - 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)

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

The following tables present the University's activity for the fiscal years ended June 30, 2011 and 2010 for Level 3 investments.

	2011				
Level 3 roll forward	Domestic Equities and Funds Held by Others	Absolute Return	Private Equity	Real assets	Total
Fair value at June 30, 2010	$ 5,648	105,589	75,372	69,614	256,223
Acquisitions	-	-	12,007	12,765	24,772
Dispositions	-	(14,287)	(13,547)	(10,885)	(38,719)
Net realized and unrealized gains	816	7,032	18,357	15,477	41,682
Fair value at June 30, 2011	$ 6,464	98,334	92,189	86,971	283,958

	2010				
Level 3 roll forward	Domestic Equities and Funds Held by Others	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)
Net realized and unrealized gains	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

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, 2011, the maturities of these investments in the Private Equity asset class and the related unfunded commitments were as follows:

(Dollars in thousands)

Investments maturing in	Fair value	Related unfunded commitments
1 - 5 years	$124,511	23,383
6 - 10 years	60,698	49,696
11 years or more	2,988	10,922

Investment liquidity as of June 30, 2011 is aggregated below based on redemption or sale period:

Investment redemption or sale period:	Investment fair values
In liquidation	$ 16,035
Daily	138,094
Weekly	22,372
Monthly	55,735
Quarterly	65,306
Annual	46,477
Illiquid	218,674
	$ 562,693

The following summarizes investment return components for the years ended June 30, 2011 and 2010:

Investment return:	2011	2010
Interest and dividends, net of advisory fees	$ 2,323	1,554
Net realized and unrealized gains	103,642	62,263
Investment return	$ 105,965	63,817

Investment returns are included in the statements of activities as follows for the years ended June 30:

	2011	2010
Investment return used in support of operations	$ 30,660	33,276
Net investment return after appropriation to operating:		
Non-operating activities	35,379	13,818
Temporarily restricted	38,493	15,814
Permanently restricted - reinvested investment return	1,433	909
Investment return	$ 105,965	63,817

Interest and dividends are presented net of advisory fees of $4,761 and $4,975 for the years ended June 30, 2011 and 2010, respectively.

(5) Endowment

The University follows the guidelines in ASC 958-205 to classify net assets 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).

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:

(Dollars in thousands)

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, 2011:

	Unrestricted	Temporarily restricted	Permanently restricted	Total
Donor-restricted endowment funds	($8,400)	262,535	171,190	425,325
Board-designated endowment funds	173,088	3,065	-	176,153
Total endowed net assets	$164,688	265,600	171,190	601,478

Endowment funds consist of the following at June 30, 2010:

	Unrestricted	Temporarily restricted	Permanently restricted	Total
Donor-restricted endowment funds	($17,705)	228,332	153,031	363,658
Board-designated endowment funds	146,518	2,699	-	149,217
Total endowed net assets	$128,813	231,031	153,031	512,875

(Dollars in thousands)

Changes in endowment funds for the year ended June 30, 2011 are as follows:

	Unrestricted	Temporarily restricted	Permanently restricted	Total
Endowment net assets, July 1, 2010	$128,813	231,031	153,031	512,875
Investment return:				
Investment income	1,673	363	249	2,285
Net appreciation	41,461	59,548	706	101,715
Total investment return	43,134	59,911	955	104,000
Contributions	450	-	17,204	17,654
Appropriation of endowment net assets for expenditure	(7,709)	(25,342)	-	(33,051)
Endowment net assets, June 30, 2011	$164,688	265,600	171,190	601,478

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 net assets for expenditure	(8,576)	(27,184)	-	(35,760)
Endowment net assets, June 30, 2010	$128,813	231,031	153,031	512,875

(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 $8,400 and $17,705 as of June 30, 2011 and 2010, 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 endowment 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 2011, $33,051 was spent ($35,760 in fiscal 2010), which represented 5.5% of the 12-quarter moving average of the market value of the endowment in fiscal 2011 and fiscal 2010. Of this amount, $2,391 ($2,484 in fiscal 2010) is recorded in temporarily restricted net assets as part of income and gains.

(Dollars in thousands)

(6) Temporarily Restricted Net Assets

Temporarily restricted net assets consist of the following at June 30, 2011 and 2010:

	2011	2010
Restrictions for:		
Instruction and research	$ 180,712	157,048
Financial aid	80,089	73,625
Facilities	1,278	3,472
Library	8,090	6,997
Subtotal	270,169	241,142
Time restrictions for charitable remainder trusts	6,753	5,640
General purpose pledges	747	1,000
Total temporarily restricted net assets	$ 277,669	247,782

Net assets released during fiscal 2011 and 2010 from temporary donor restrictions by incurring expenses satisfying the restricted purpose or by occurrence of events specified by donors were as follows:

	2011	2010
To Unrestricted:		
Instruction and research	$ 4,331	5,672
Financial aid	2,476	3,577
Other	423	198
Pledge payments on general purpose gifts	1,347	1,415
Total net assets released	$ 8,577	10,862

(7) Permanently Restricted Net Assets

The original gift value of permanently restricted net assets consists of the following at June 30, 2011 and 2010:

	2011	2010
For which the income is restricted:		
Financial aid	$ 91,220	81,894
Instruction and research	77,065	66,918
Facilities maintenance	4,045	4,020
Library	1,786	1,774
Loans to students	2,962	2,786
Total	177,078	157,392
For which the income is unrestricted	17,983	14,506
Total permanently restricted net assets	$ 195,061	171,898

(Dollars in thousands)

(8) Investment in Plant

At June 30, 2011 and 2010, the components of the University's investment in plant were as follows:

	2011	2010
Campus land and improvements	$ 25,885	25,885
Buildings	338,759	332,928
Equipment	97,915	94,594
Construction in progress	6,542	2,549
Total	469,101	455,956
Less accumulated depreciation	(182,364)	(173,448)
Total investment in plant, net	$ 286,737	282,508

As of June 30, 2011 estimated remaining costs committed to contractors for construction in progress were $5,207 and the estimated completion dates ranged from June 30, 2013 to June 30, 2015.

(9) 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 2011 and 2010 are listed below.

	2011	2010
Expenditures:		
Physical plant operations	$ 19,872	20,873
Major maintenance expenses and non-capitalized costs	7,693	4,475
Depreciation	10,319	10,548
Interest expense	9,090	9,344
Total expenditures to be allocated	$ 46,974	45,240

(Dollars in thousands)

Allocations to functional expenditure categories:

	2011	2010
Instruction	$ 14,022	13,504
Research	4,697	4,524
Libraries	3,424	3,298
Student services	982	946
Institutional support	1,353	1,303
Auxiliary activities	22,496	21,665
Total allocations	$ 46,974	45,240

(10) Debt

At June 30, 2011 and 2010, long-term debt, including premium related to Connecticut Health and Educational Facilities Authority (CHEFA) Series G, consisted of the following:

	2011	2010
Revenue bonds payable (CHEFA Series G)	$ 186,475	186,475
Revenue bonds payable (CHEFA Series H)	20,105	20,105
Term loans	4,780	5,379
Total	211,360	211,959
Premium on CHEFA Series G	9,680	10,839
Long Term Debt, including Premium	$ 221,040	222,798

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. The University estimates the fair market value of these bonds to be $194,923 on June 30, 2011.

(b) CHEFA Series H

$20,105 variable rate demand bonds have their interest rates set weekly. The interest rate at June 30, 2011, and 2010 were 0.07% and 0.24% respectively. 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. The fair value of this debt approximates the carrying value because of the variable rate.

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. The base interest rate is set equal to the highest of 1) the prime rate plus 1%, 2) monthly LIBOR plus 0.8%, or 3) 6.5%.

(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. 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 were 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 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%.

(Dollars in thousands)

(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:

2012	$ 619
2013	639
2014	660
2015	681
2016	704
Thereafter	208,057
Total outstanding debt	$ 211,360

(f) Debt Covenants

The University is subject to certain debt covenants that would impose certain restrictions if the University does not maintain its credit rating. The University is in compliance with all covenants.

(g) Line of Credit (LOC)

The University has a standing $10,000 line of credit with Bank of America. As of June 30, 2011 and 2010, there were no outstanding advances under this LOC. The interest rate is set at 75 basis points above the LIBOR rate. Unless renewed, the LOC terminates November 27, 2011.

(11) Benefit Plans

(a) Defined Contribution Plan

The University has defined contribution retirement plans, with contributions based on a percentage of salary, covering substantially all employees. Total expense was $5,862 and $5,648 for fiscal 2011 and 2010, respectively.

(b) Postretirement Benefits

The University provides certain health care benefits to retired employees. All of the University's employees, with ten 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 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, the University had a plan that contained both active employees and retirees. Therefore, the University included the impacts of the Act in the calculation of the accumulated post-retirement benefit obligation ("APBO"). The Act increased the APBO by approximately $19,000 and increased the fiscal 2010 expense by approximately $700.

In December 2010, the University created a separate plan for retirees that allowed it to recalculate the APBO with the lifetime maximum benefit in place and eliminate the impact of the Act.

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, 2011 and 2010 are as follows:

(Dollars in thousands)

		2011	2010
Change in benefit obligation:			
Projected benefit obligation as of beginning of year	$	36,391	15,092
Service cost		994	481
Interest cost		1,358	966
Plan participants' contributions		147	103
Health care reform legislation		(21,723)	12,966
Benefits paid		(829)	(651)
Medicare Part D Subsidy		88	105
Actuarial loss (including impact of health care reform)		1,474	7,329
Benefit obligation as of end of year	$	17,900	36,391

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

		2011	2010
Interest on accumulated postretirement benefit obligation	$	1,358	966
Service cost		994	481
Amortization of actuarial loss		2,701	581
Total	$	5,053	2,028

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 ($1,672) and $1,828, respectively.

For measurement purposes, an annual rate of increase of 8.7% in the per capita cost of covered healthcare and prescription drug benefits was assumed as of June 30, 2011. 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 the health care cost trend rate would have increased the service cost and interest cost for fiscal 2010 by $404 and the accumulated postretirement benefit obligation by $724.

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

	2011	2010
Benefit obligations	4.75%	5.25%
Net periodic postretirement benefit costs	5.25%/4.75%	6.00%

(Dollars in thousands)

The benefits, as of June 30, 2011, 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
2012	$ 1,170
2013	1,192
2014	1,321
2015	1,448
2016	1,548
Five years thereafter	9,721

(12) Commitments and Contingencies

All funds expended in conjunction with government grants and contracts are subject to audit by governmental agencies. In the opinion of management, any potential liability resulting from these audits will not have a material effect on the University's financial position.

The University is a defendant in various legal actions arising out of the normal course of its operations. Although the final outcome of such actions cannot currently be determined, the University believes that eventual liability, if any, will not have a material effect on the University's financial position.

(13) Related-Party Transactions

Members of the Board of Trustees and senior management may, from time to time, be associated, either directly or indirectly with companies doing business with the University. The University has a written conflict of interest policy that requires annual reporting by each Board member as well as the University senior management. When such relationships exist, measures are taken to mitigate any actual or perceived conflict, including requiring that such transactions be conducted at arms' length, based on terms in the best interest of the University.

(14) Subsequent Events

In accordance with ASC 855, management has evaluated events subsequent to June 30, 2011 and through October 26, 2011, 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.

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