ANNUAL FINANCIAL REPORT

YEAR ENDED JUNE 30, 2012

WESLEYAN
UNIVERSITY

WESLEYAN UNIVERSITY
BOARD OF TRUSTEES FOR 2011–12

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WESLEYAN
U N I V E R S I T Y

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

From: John C. Meerts

Date: October 20, 2012

Subject: FY 2011/12 Annual Financial Report

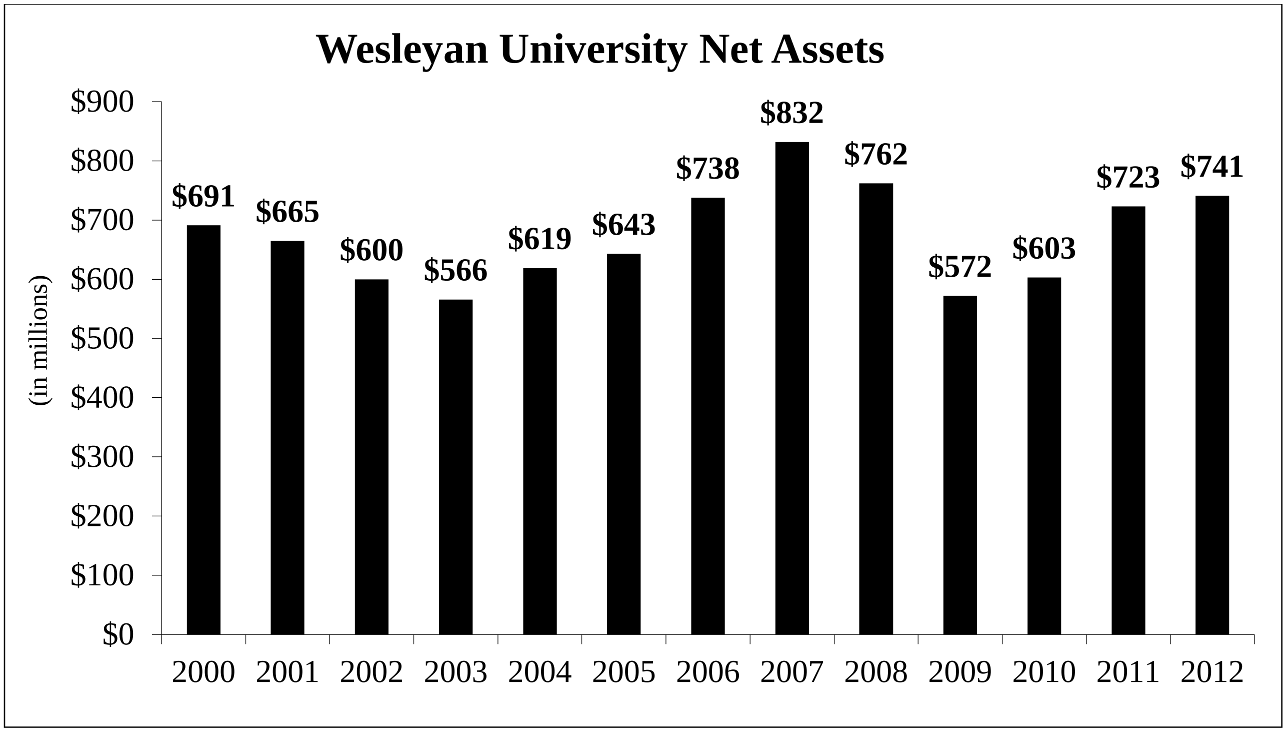
It is my pleasure to present the Wesleyan University Annual Financial Report. The Financial Report is the means through which the University presents its financial condition to the trustees, to donors and friends of the University and to external constituencies.

A change in the design of the Statements of Activities this year has merged "Unrestricted" activity, "Temporarily Restricted" activity and "Permanently Restricted" activity into a single statement. The simplification of this financial report not only clarifies the University's finances as a whole, but facilitates financial comparisons with other Universities.

2011-2012 Year in Review

Wesleyan's FY 2011/12 unrestricted operating revenue exceeded expenditures by $8 million. Total unrestricted operating revenue and support for FY 2011/12 was $187 million, a decrease of 3.2% from FY 2010/11. Operating expenses were $179 million representing a zero percent increase from FY 2010/11.

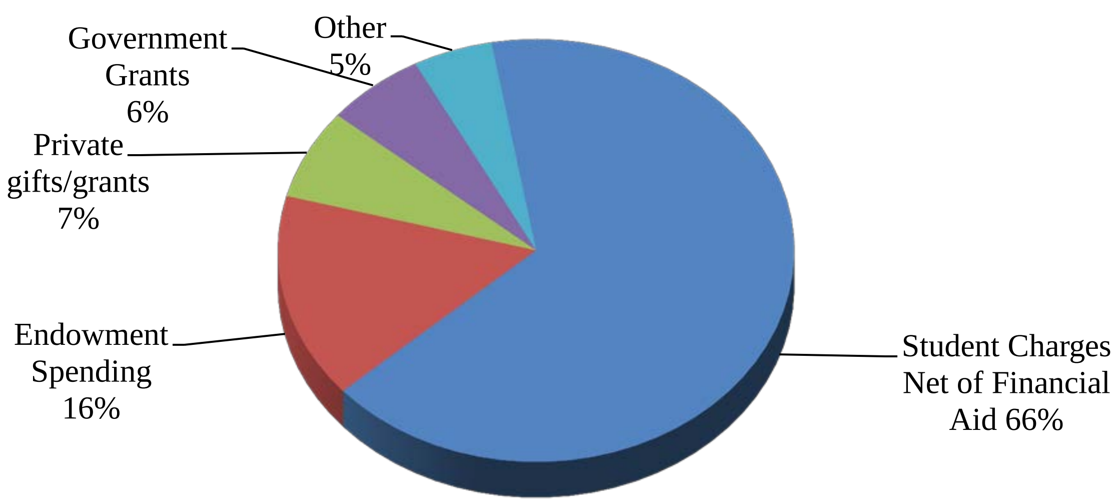
During the fiscal year ended June 30, 2012, Wesleyan University's net assets increased by $18 million (2.5%) from $723 million to $741 million. The increase in the market value of Wesleyan's endowment from $601 million to $616 million was the major factor in the increase in net assets.



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 $124 million. Net student charges increased 3.5%, while tuition, room, and board rates increased at 3.8% and student enrollment increased. It was the final year of Wesleyan's plan to increase enrollment by thirty students annually. Financial aid totaling $51 million increased over 10% resulting in an undergraduate tuition discount rate of 35%, an increase from 33% in FY 2010/11.

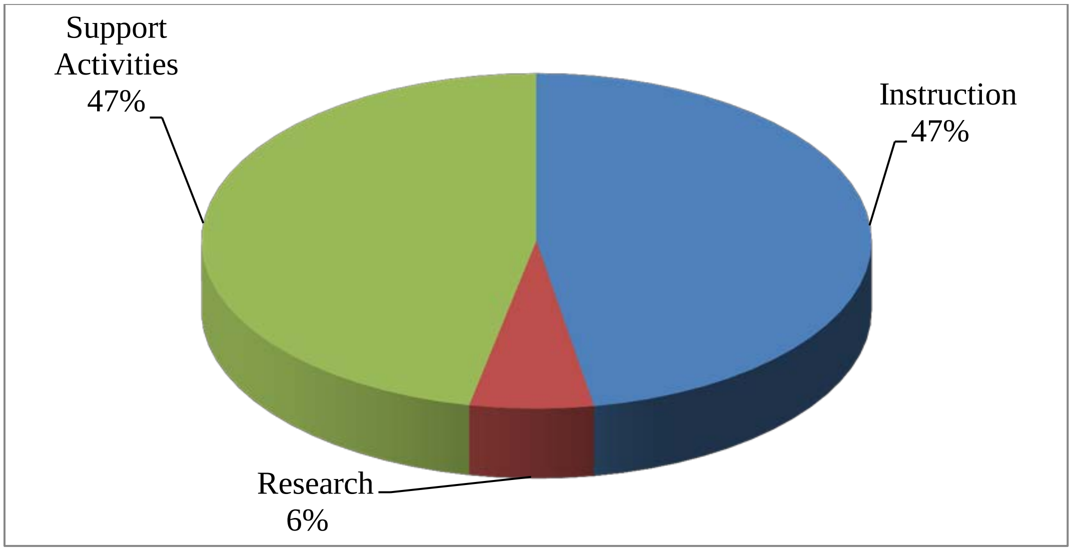


Note: Consistent with new format of Statement of Activities, chart includes both Unrestricted and Temporarily Restricted revenues from operating activities. Accordingly, endowment spending includes support for both restricted and unrestricted activites and is a decrease from 18% in FY 2010/11.

The second most significant source of operating revenue is endowment spending. This support is determined in accordance with an endowment spending policy approved by the Board of Trustees. Endowment spending decreased by $3.5 million (-11%) from $33.0 million in FY 2010/11 to $29.5 million in FY 2011/12. Endowment spending will continue to decline in fiscal 2013, as lower endowment values affect 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

Overall expenses remained at $179 million. About half of Wesleyan's operating budget is spent on its central academic mission, instruction and research ($95 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, reflecting conservative spending policies and positive endowment returns. Wesleyan's endowment totaled $616 million at year-end, an increase of $15 million (2.4%) after taking out spending and adding new gifts.

Assets

Assets remained over the $1 billion mark. While assets increased primarily because of the endowment, cash and short-term investments decreased by $38 million (-33%) to $75 million. This reduction is reflective of movements to long-term investments as new endowment managers are funded. There are still large amounts of investment liquidity as evidenced in Footnote 4. In addition to short-term investments that have daily liquidity, over 30% of the long-term investments have monthly or shorter redemption terms.

Liabilities
Liabilities remained flat at $280 million. Our post-retirement benefit obligation increased by 7% due to a decline in the discount rate. This was offset by a decrease in accounts payable related to outstanding invoices as of June 30.

Wesleyan Fundraising

In FY 2011/12, alumni, parents, and friends gave $31 million on a cash basis to Wesleyan University with 50% of alumni donating funds. While this was a $6 million decrease from the prior year, the 50% reflects a strong financial commitment to Wesleyan from our donors, even during challenging economic times. Overall, FY 2011/12 was our strongest fundraising year, bringing in a total of $60 million in new gifts (cash, pledges and bequests).

Conclusion

While Wesleyan has been moving aggressively to ensure economic sustainability in the future, it remains financially healthy today. Wesleyan will continue to exercise a disciplined budget process in a manner that protects the teaching, research, and the student experience from the impact of our cost cutting measures.

Financial Results

Year Ended June 30, 2012

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 statement of financial position of Wesleyan University (the University) as of June 30, 2012, and the related statements of activities and cash flows for the year 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 audit. The prior year summarized comparative information has been derived from the University's 2011 financial statements and, in our report dated October 26, 2011, we expressed an unqualified opinion on those financial statements.

We conducted our audit 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 audit provides 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, 2012, and the changes in its net assets and its cash flows for the year then ended in conformity with U.S. generally accepted accounting principles.

KPMG LLP

October 25, 2012

WESLEYAN UNIVERSITY
Statement of Financial Position
June 30, 2012
(with comparative financial information for June 30, 2011)
(in thousands of dollars)

	2012	2011
ASSETS		
Cash and cash equivalents	$ 6,473	15,591
Short-term investments	68,131	96,742
Receivables and other assets	19,914	13,804
Pledges receivable, net	30,862	29,223
Long-term investments	603,317	562,693
Investment in plant, net	293,033	286,737
Total assets	$ 1,021,730	1,004,790
LIABILITIES		
Accounts payable and accrued expenses	$ 12,560	14,459
Deposits and deferred revenues	3,256	3,041
Split-interest obligations	8,411	7,721
Federal student loan advances	5,331	5,331
Postretirement benefit obligation	19,127	17,900
Long-term debt	219,263	221,040
Asset retirement obligation	12,371	11,859
Total liabilities	280,319	281,351
NET ASSETS		
Unrestricted	252,914	250,709
Temporarily restricted	275,403	277,669
Permanently restricted	213,094	195,061
Total net assets	741,411	723,439
Total liabilities and net assets	$ 1,021,730	1,004,790

See accompanying notes to financial statements.

WESLEYAN UNIVERSITY
Statement of Activities
Year ended June 30, 2012
(with summarized comparative financial information for the year ended June 30, 2011)
(in thousands of dollars)

	Unrestricted	Temporarily restricted	Permanently Restricted	Total	Total 2011
OPERATING ACTIVITIES:					
REVENUES AND OTHER SUPPORT					
Tuition	$ 138,082	-	-	138,082	130,747
Room and board	37,153	-	-	37,153	35,531
Less undergraduate scholarships and graduate tuition remission	(51,025)	-	-	(51,025)	(46,227)
Net student charges	124,210	-	-	124,210	120,051
Endowment return used in support of operations	9,412	20,087	-	29,499	33,051
Contributions	10,044	2,891	-	12,935	12,656
Government and foundation grants	8,695	2,935	-	11,630	13,586
Other	9,213	123	-	9,336	8,791
Net assets released from restrictions	24,962	(24,962)	-	-	-
Total revenues and other support	186,536	1,074	-	187,610	188,135
EXPENSES					
Instruction	84,419	-	-	84,419	83,111
Research	10,651	-	-	10,651	11,462
Libraries	10,320	-	-	10,320	10,300
Student services	10,337	-	-	10,337	9,905
Institutional support	21,224	-	-	21,224	20,941
Auxiliary activities	41,714	-	-	41,714	43,645
Total expenses	178,665	-	-	178,665	179,364
Changes in net assets from operating activities	7,871	1,074	-	8,945	8,771
NON-OPERATING ACTIVITIES:					
Contributions	-	-	18,195	18,195	22,792
Net investment return	4,973	18,556	(130)	23,399	105,965
Change in value of split-interest agreements	-	(1,809)	(32)	(1,841)	(2,725)
Appropriation of endowment for operations	(9,412)	(20,087)	-	(29,499)	(33,051)
Postretirement benefit obligation changes	(1,227)	-	-	(1,227)	18,491
Total non-operating activities	(5,666)	(3,340)	18,033	9,027	111,472
Change in net assets	2,205	(2,266)	18,033	17,972	120,243
Net assets at beginning of year	250,709	277,669	195,061	723,439	603,196
Net assets at end of year	252,914	275,403	213,094	741,411	723,439

See accompanying notes to financial statements.

WESLEYAN UNIVERSITY
Statement of Cash Flows
Year ended June 30, 2012
(with comparative financial information for the year ended June 30, 2011)
(in thousands of dollars)

	2012	2011
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	$ 17,972	120,243
Adjustments to reconcile change in net assets to cash used for operating activities:		
Depreciation and amortization	9,860	10,292
Amortization of bond premium	(1,159)	(1,159)
Net return from investments and trusts	(16,895)	(98,881)
Gifts received for long-term investment	(16,684)	(18,311)
Postretirement benefit obligation change	1,227	(18,491)
Changes in working capital, net	(1,940)	(837)
Net cash used for operating activities	(7,619)	(7,144)
CASH FLOWS FROM INVESTMENT ACTIVITIES		
Additions to property and equipment	(22,447)	(14,019)
Purchases of long-term investments	(189,838)	(139,421)
Sales of long-term investments	165,752	166,890
Purchases of short-term investments	(37,377)	(118,351)
Sales of short-term investments	66,345	107,031
Decrease in cash on deposit with bond trustee	-	156
Net cash (used for) provided by investment activities	(17,565)	2,286
CASH FLOWS FROM FINANCING ACTIVITIES		
Gifts received for long-term investment	16,684	18,311
Repayments of long term debt	(618)	(599)
Net cash provided by financing activities	16,066	17,712
Net change in cash and cash equivalents	(9,118)	12,854
Cash and cash equivalents at beginning of year	15,591	2,737
Cash and cash equivalents at end of year	$ 6,473	15,591
Other cash flow information:		
Cash paid for interest	$ 8,491	8,495
Change in accounts payable related to property and equipment	$ (1,544)	503
Increase in receivable from State for capital remediation	$ 4,747	-

See accompanying notes to financial statements.

WESLEYAN UNIVERSITY
Notes to Financial Statements
June 30, 2012
(with comparative financial information for June 30, 2011)
(In thousands of dollars)

(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.Ds. 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.

The financial statements include prior year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with GAAP. Accordingly, such information should be read in conjunction with the University's financial statements for the year ended June 30, 20011, from which the summarized comparative financial information was derived.

(b) Net Asset Categories

The financial statements report on the University as a whole and present transactions based upon the existence or absence of donor-imposed restrictions in 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 donor-restricted endowment funds and also include pledges to endowment.

Temporarily Restricted Net Assets: Gifts subject to donor-imposed restrictions that will be met by actions of the University and/or the passage of time. This includes unspent return on donor-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.

(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 alternative investments such as private equity, venture capital, hedge funds, and real asset strategies. Such alternative investments, generally held through 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 reported by the fund managers 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 statement of activities reports 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. Operating 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. Other income, consisting of investment return on the University's endowment funds not utilized for operations, changes in the funded status of the postretirement benefit obligation and other items not related to the University's ongoing operations are reported as non-operating activities.

(f) Cash Equivalents and Short-Term Investments

For purposes of the statement of cash flows, cash equivalents include 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 ongoing operations.

(g) Receivables

At June 30, 2012 and 2011, student accounts receivable are net of an allowance for doubtful accounts of $521 and $242, respectively, and student loans receivable are net of an allowance for doubtful accounts of $1,129.

(h) Investment in Plant

Investment in plant is stated at cost at the date of acquisition or estimated fair value at the date of donation in the case of gifts. Depreciation is calculated on a straight-line basis using useful lives of 50 years for buildings and building improvements 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. Any difference between the cost to actually settle the asset retirement obligation and the liability recorded is recognized as an operating gain or loss in the statement of activities.

(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.

(In thousands of dollars)

(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.

(l) Reclassifications

Certain amounts in the fiscal 2011 financial statements have been reclassified to conform to the fiscal 2012 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 0.4% to 10.64% for June 30, 2012 and 2011. The University also applies an allowance for uncollectible pledges based on factors such as prior collection history, type of contribution, nature of the fundraising activity, and future collection expectations. The receivables, net of allowances, approximate fair value.

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

	2012	2011
Less than one year	$ 16,370	13,694
One to five years	18,402	20,576
More than five years	692	2,198
	35,464	36,468
Less allowance for uncollectible pledges	(3,351)	(3,015)
Less discount for present value	(1,251)	(4,230)
Net pledges receivable	$ 30,862	29,223

University Relations expenditures, which are primarily for fundraising purposes and alumni activity, totaled $7,484 and $7,194 in fiscal years 2012 and 2011, respectively, and are included in institutional support in the statement of activities.

(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, 2012 and 2011, the University had no specific plans or intentions to sell investments at amounts different than NAV.

WESLEYAN UNIVERSITY
Notes to Financial Statements
June 30, 2012
(with comparative financial information for June 30, 2011)
(In thousands of dollars)

The University's assets at June 30, 2012 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	$ 30,092	-	-	30,092	Daily	1
Domestic equities	48,577	15,061	17,623	81,261	Daily to Illiquid	1 to 5
Global (ex-U.S.) equities	30,943	71,569	12,785	115,297	Daily to Annual	1 to 15
Absolute return:						
Multi-Strategy	-	-	39,830	39,830	Quarterly to Annual	60 to 180
Other	-	-	56,384	56,384	Quarterly to Annual	30 to 90
In liquidation	536	-	13,585	14,121	Pending	n/a
Private Equity:						
Venture Capital	-	-	43,962	43,962	Illiquid	n/a
Buyout	-	-	69,469	69,469	Illiquid	n/a
Real Assets	-	-	117,585	117,585	Illiquid	n/a
Diversified Inflation Hedging	-	11,224	-	11,224	Monthly	7
Funds held or administered by others	-	18,067	6,025	24,092	Not Applicable	n/a
Total	$ 110,148	115,921	377,248	603,317		

At June 30, 2012, real assets consisted of 37% private real estate and 63% oil and gas, respectively.

(In thousands of dollars)

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:

	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	1 to 5
Global (ex-U.S.)	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	-	-	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
Hedging	-	22,868	-	22,868	Monthly	7
Funds held or administered by	-	17,963	6,335	24,298	Not Applicable	n/a
Total	$ 138,094	140,641	283,958	562,693		

At June 30, 2011, real assets consisted of 32% private real estate and 68% oil and gas, respectively.

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, 2012 and 2011 for Level 3 investments.

(In thousands of dollars)

	June 30, 2012				
Level 3 roll forward	Equities and Funds Held by Others	Absolute Return	Private Equity	Real assets	Total
Fair value at June 30, 2011	$ 6,464	98,334	92,189	86,971	283,958
Transfers in	11,016	11,252	-	-	22,268
Acquisitions	13,551	34,534	26,666	24,760	99,511
Dispositions	(27)	(34,057)	(16,432)	(12,525)	(63,041)
Net realized and unrealized gains (losses)	5,429	(264)	11,008	18,379	34,552
Fair value at June 30, 2012	$ 36,433	109,799	113,431	117,585	377,248

	June 30, 2011				
Level 3 roll forward	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

The University transferred $22,268 from Level 2 to Level 3 during fiscal 2012, due to changes in liquidity restrictions.

The University has committed to invest in various limited partnerships. Under the terms of the partnership agreements, the University is obligated to remit additional funding periodically as managers exercise capital calls. These partnerships have a limited existence, generally ten years, and such agreements may provide for annual extensions for the purpose of disposing portfolio holdings and returning capital to investors. Depending on market conditions, an inability to execute the fund's strategy, and other factors, a manager may extend the terms of a fund beyond its originally anticipated existence or may wind the fund down prematurely. As a result, the timing and amount of future capital calls expected in any particular future year is uncertain. The aggregate amount of unfunded commitments associated with investments as of June 30, 2012 was $103.1 million.

(In thousands of dollars)

Investment maturity	Fair value	Related unfunded commitments
Funds extended beyond original maturity	$ 51,378	4,525
1 - 5 years	104,981	36,881
6 - 10 years	70,346	54,083
11 years or more	162	7,634

Investment liquidity as of June 30, 2012 is aggregated below based on redemption or sale terms:

Investment redemption or sale period:	Investment fair values
In liquidation	$ 14,121
Daily	109,612
Weekly	18,532
Monthly	38,749
Quarterly	64,833
Annual	44,315
Initial Lock-up	57,946
Illiquid	255,209
	$ 603,317

Certain funds contain lock-up provisions. Under such provisions, tranches of an investment are available for redemption if the University makes a request in accordance with the notification terms stated in the partnership agreement. Some agreements preclude redemptions during a predetermined amount of time following a subscription.

(In thousands of dollars)

The following summarizes investment return components for the years ended June 30, 2012 and 2011:

Investment return:	2012	2011
Interest and dividends	$ 4,663	7,084
Net realized and unrealized gains, net of investment management and advisory fees	18,736	98,881
Total return	$ 23,399	105,965

Investment management and advisory fees were $5,895 and $4,761 for the years ended June 30, 2012 and 2011, 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.

(In thousands of dollars)

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
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, 2012:

	Unrestricted	Temporarily restricted	Permanently restricted	Total
Donor-restricted endowment funds	$ (9,604)	258,119	187,569	436,084
Board-designated endowment funds	177,100	3,011	-	180,111
Total endowed net assets	$ 167,496	261,130	187,569	616,195

(In thousands of dollars)

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

Changes in endowment funds for the year ended June 30, 2012 are as follows:

	Unrestricted	Temporarily restricted	Permanently restricted	Total
Endowment net assets, June 30, 2011	$ 164,688	265,600	171,190	601,478
Investment return	6,134	16,227	243	22,604
Contributions	279	-	15,526	15,805
Transfers in (out)	5,807	(610)	610	5,807
Appropriation of endowment net assets for expenditure	(9,412)	(20,087)	-	(29,499)
Endowment net assets, June 30, 2012	$ 167,496	261,130	187,569	616,195

(In thousands of dollars)

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

	Unrestricted	Temporarily restricted	Permanently restricted	Total
Endowment net assets, June 30, 2010	$ 128,813	231,031	153,031	512,875
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

(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 $9,604 and $8,400 as of June 30, 2012 and 2011, 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 is 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 the endowment that attempt to provide a predictable stream of funding to programs supported by the endowment while seeking to maintain the purchasing power of the endowment assets.

(In thousands of dollars)

(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 2012, $29,499 was spent ($33,051 in fiscal 2011), which represented 5.5% of the 12-quarter moving average of the market value of the endowment in fiscal 2012 and fiscal 2011.

(6) Temporarily Restricted Net Assets

Temporarily restricted net assets consist of the following at June 30, 2012 and 2011 :

	2012	2011
Restricted for endowment:		
Instruction and research	$ 172,666	174,053
Financial aid	80,487	83,467
Library	7,977	8,080
Temporarily Restricted Endowment	261,130	265,600
General-purpose pledges	102	747
Instruction & Research	6,167	6,660
Financial Aid	4,422	839
Facilities	627	1,278
Other	2,955	2,545
Total temporarily restricted net assets	$ 275,403	277,669

(In thousands of dollars)

Net assets released during fiscal 2012 and 2011 from temporary donor restrictions by incurring expenses satisfying the restricted purpose or by occurrence of events specified by donors were as follows:

	2012	2011
Activities:		
General institutional	$ 17,797	22,951
Instruction and research	3,840	4,331
Financial aid	1,416	2,476
Other	897	423
Pledge payments on general-purpose gifts	1,012	1,347
Total net assets released	$ 24,962	31,528

(7) Permanently Restricted Net Assets

The original gift value of permanently restricted net assets consists of the following at June 30, 2012 and 2011:

	2012	2011
Financial aid	$ 98,412	91,318
Instruction and research	64,282	56,058
Facilities maintenance	4,095	4,045
Library	1,791	1,786
Unrestricted	18,989	17,983
Total	187,569	171,190
Pledges	22,973	21,008
Other	2,552	2,863
Total permanently restricted net assets	$ 213,094	195,061

(In thousands of dollars)

(8) Investment in Plant

At June 30, 2012 and 2011, the components of the University's investment in plant were as follows:

	2012	2011
Campus land and improvements	$ 26,055	25,885
Buildings and improvements	358,249	338,759
Equipment	99,517	97,915
Construction in progress	1,435	6,542
Total	485,256	469,101
Less accumulated depreciation	(192,223)	(182,364)
Total investment in plant, net	$ 293,033	286,737

As of June 30, 2012 estimated remaining costs committed to contractors for construction in progress were $4,173 with an estimated completion date of June 30, 2013.

(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 2012 and 2011 are listed below.

	2012	2011
Expenditures:		
Physical plant operations	$ 19,206	19,872
Major maintenance expenses and non-capitalized costs	4,215	7,693
Depreciation	9,860	10,319
Interest expense	9,036	9,090
Total expenditures to be allocated	$ 42,317	46,974

(In thousands of dollars)

Allocations to functional expenditure categories:

	2012	2011
Instruction	$ 12,632	14,022
Research	4,232	4,697
Libraries	3,085	3,424
Student services	884	982
Institutional support	1,219	1,353
Auxiliary activities	20,265	22,496
Total allocations	$ 42,317	46,974

(10) Debt

At June 30, 2012 and 2011, long-term debt, including a premium related to Connecticut Health and Educational Facilities Authority (CHEFA) Series G, consisted of the following:

	2012	2011
Revenue bonds payable (CHEFA Series G)	$ 186,475	186,475
Revenue bonds payable (CHEFA Series H)	20,105	20,105
Term loans	4,162	4,780
Total	210,742	211,360
Unamortized premium on CHEFA Series G	8,521	9,680
Long Term Debt, including Premium	$ 219,263	221,040

(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 bonds are subject to optional redemption beginning on July 1, 2015. 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 value of these bonds to be approximately $209,000 on June 30, 2012 based on comparable pricing of similar bonds.

(b) CHEFA Series H

$20,105 variable rate demand bonds have their interest rates set weekly. The interest rate at June 30, 2012, and 2011 were 0.12% and 0.07% 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 was scheduled to expire 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%. The University terminated this agreement on August 1, 2012 because of Bank of America's Moody's rating downgrade. The University maintains sufficient liquidity to purchase the bonds if remarketing is not successful.

(c) 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 Department of Public Utility Control co-pays a portion of the interest, which brings the effective interest rate down to 2.22%.

(d) Debt Maturities

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

(In thousands of dollars)

2013	$ 639
2014	660
2015	681
2016	704
2017	727
Thereafter	207,331
Total outstanding debt	$ 210,742

(e) 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 as of June 30, 2012.

(f) Line of Credit (LOC)

The University's $10,000 line of credit with Bank of America terminated on November 27, 2011. It was replaced by a $20,000 revolving loan with JPMorgan Chase Bank on February 1, 2012 (termination January 31, 2013, unless renewed). The interest rate is set at 50 basis points above the LIBOR rate.

(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 $6,312 and $5,648 for fiscal 2012 and 2011, 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 thousands of dollars)

The University applies the provisions of ASC 715, *Compensation-Retirement Benefits*, to its postretirement plan. The status of the University's plan and the amounts recognized in the statements of financial position at June 30, 2012 and 2011 are as follows:

	2012	2011
Change in benefit obligation:		
Projected benefit obligation as of beginning of year	$ 17,900	36,391
Service cost	516	994
Interest cost	759	1,358
Plan participants' contributions	170	147
Health care reform legislation	80	(21,723)
Benefits paid	(861)	(829)
Medicare Part D Subsidy	23	88
Actuarial loss (including impact of health care reform)	540	1,474
Benefit obligation as of end of year	$ 19,127	17,900

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

	2012	2011
Service cost	$ 516	994
Interest on accumulated postretirement benefit obligation	759	1,358
Amortization of actuarial loss	(29)	2,701
Total	$ 1,246	5,053

In addition to service and interest costs, the estimated net (gain)/loss and Prior Service Cost that will be amortized from accumulated unrestricted net assets into net periodic benefit cost over the next fiscal year are $1,570 and ($1,659), respectively.

For measurement purposes, an annual rate of increase of 8.4% in the per capita cost of covered healthcare and prescription drug benefits was assumed as of June 30, 2012. The rates were assumed to decrease to 6.9% by 2017 and 5.0% by 2023 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 2012 by $75 and the accumulated postretirement benefit obligation by $897.

(In thousands of dollars)

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

	2012	2011
Benefit obligations	3.50%	4.75%
Net periodic postretirement benefit costs	4.75%	5.25%/4.75%

The benefits, as of June 30, 2012, 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
2013	$ 1,083
2014	1,199
2015	1,282
2016	1,333
2017	1,429
Five fiscal years thereafter	8,553

(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, *Subsequent Events*, management has evaluated events subsequent to June 30, 2012 and through October 25, 2012, 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. No additional disclosures are deemed to be necessary.

WESLEYAN

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