ANNUAL FINANCIAL REPORT

YEAR ENDED JUNE 30, 2013

WESLEYAN
UNIVERSITY

WESLEYAN UNIVERSITY
BOARD OF TRUSTEES FOR 2012–13

UNIVERSITY ADMINISTRATION FOR 2012-13

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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 21, 2013

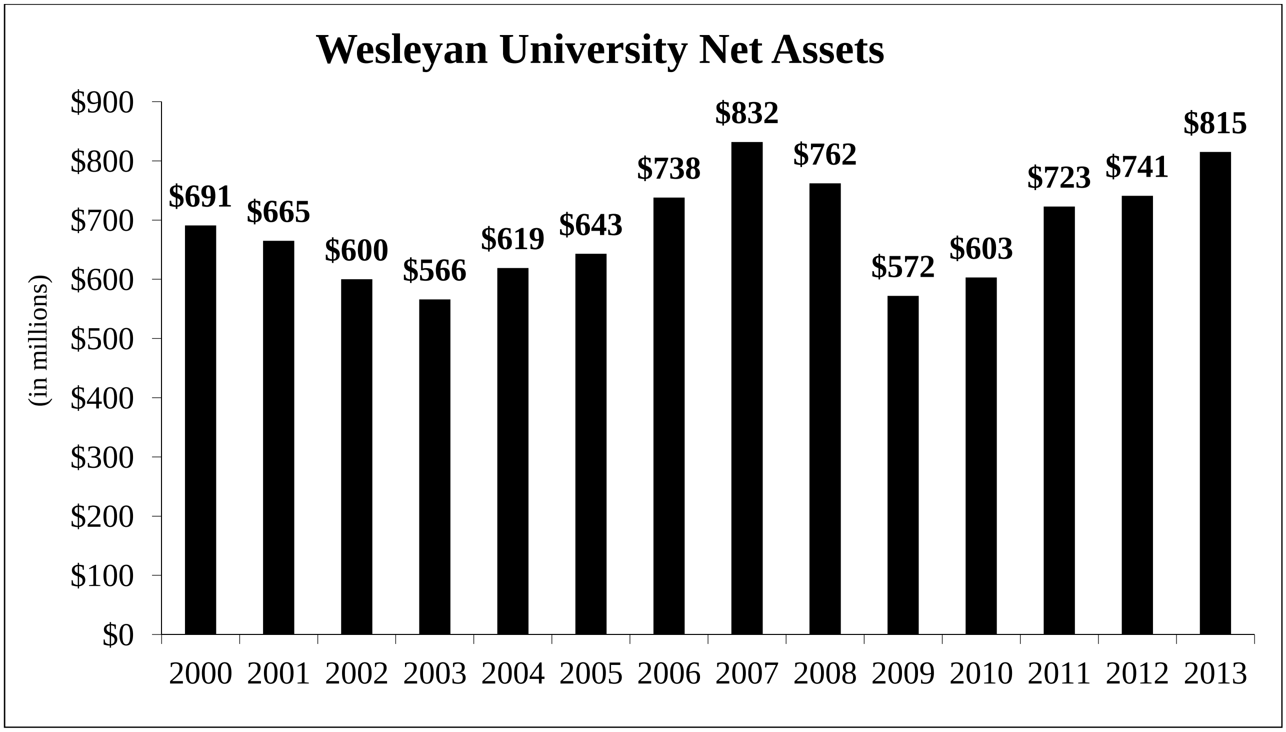
Subject: FY 2012/13 Annual Financial Report

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.

2012-2013 Year in Review

Wesleyan's FY 2012/13 operating revenue exceeded expenditures by $11 million. Total operating revenue and support for FY 2012/13 was $192 million, an increase of 2% from FY 2011/12. Operating expenses were $181 million representing a 1% increase from FY 2011/12.

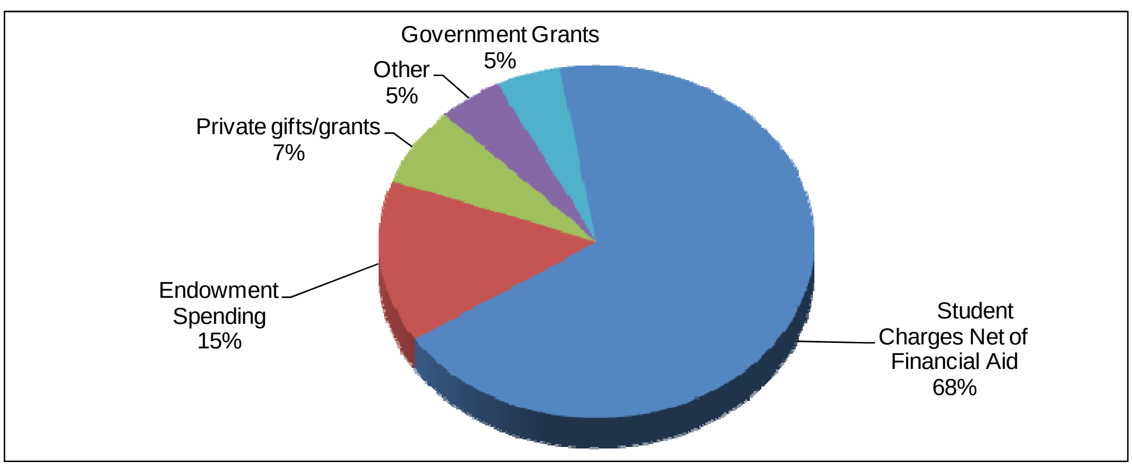
During the fiscal year ended June 30, 2013, Wesleyan University's net assets increased by $74 million (10%) from $741 million to $815 million. The increase in the market value of Wesleyan's endowment from $616 million to $689 million was the major factor in the increase in net assets.



Operations

Revenue

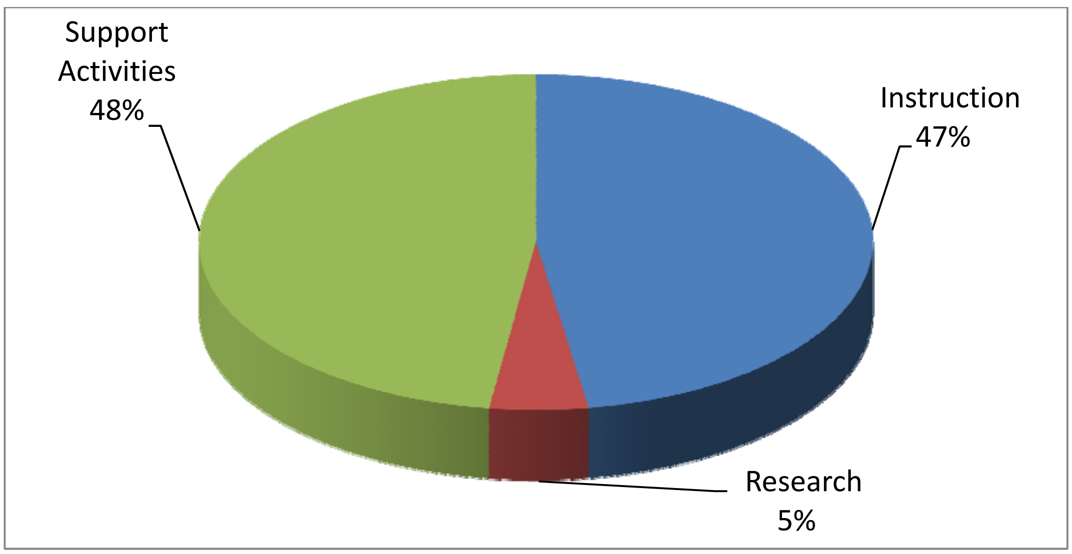
More than half of Wesleyan's total operating revenue comes from student fees (tuition, room, and board). Net of student financial aid, this revenue totaled $131 million. Net student charges increased 5.8%, while tuition, room, and board rates increased at 4.5% and student enrollment increased. It was the final year of Wesleyan's plan to increase enrollment by thirty students annually. Financial aid totaling $55 million increased approximately 7% resulting in an undergraduate tuition discount rate of 36%, an increase from 35% in FY 2011/12.



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 $1.1 million (-4%) from $29.5 million in FY 2011/12 to $28.4 million in FY 2012/13. Endowment spending will be governed by a new policy in fiscal 2014, based on the prior year's spending plus inflation and an endowment market factor (better known as the Tobin Rule). 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 increased 1.4% reaching $181 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 $1.1 billion, reflecting conservative spending policies and positive endowment returns. Wesleyan's endowment totaled $689 million at year-end, an increase of $72 million (12%) after taking out spending and adding new gifts.

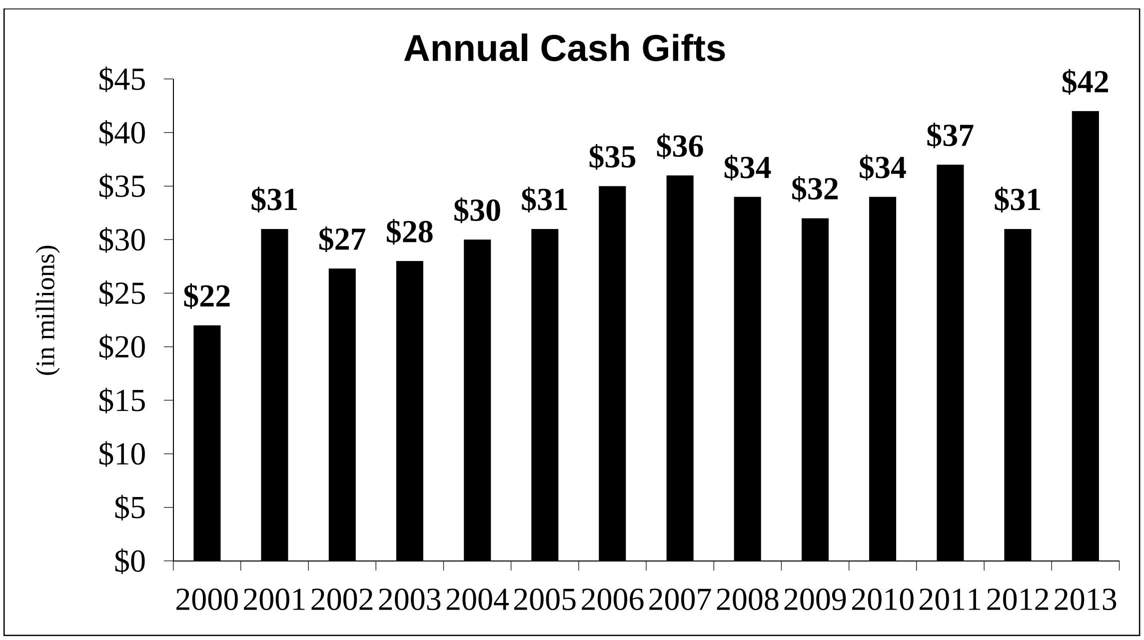
Assets

Assets remained over the $1 billion mark. While assets increased primarily because of the endowment, cash and short-term investments increased by $7 million (10%) to $71 million. This increase is primarily due to the timing of routine year end cash flows. There are large amounts of investment liquidity as evidenced in Footnote 4. Including cash and short-term investments, approximately 35% of the University's investments have monthly or shorter redemption terms.

Liabilities
Liabilities remained relatively flat at $289 million. Our post-retirement benefit obligation decreased by 8% due to an increase in the discount rate. This was offset by an increase in accounts payable related to outstanding invoices as of June 30 and liabilities associated with investments as described in Footnote 2.

Wesleyan Fundraising

In FY 2012/13, alumni, parents, and friends gave $42 million in cash to Wesleyan University, a record year, and an $11 million increase from the prior year. 46% of alumni donated funds reflecting a strong financial commitment to Wesleyan from our donors. Overall, FY 2012/13 was a very strong fundraising year, bringing in a total of $55 million in new gifts (cash, pledges and bequests) for a total of $308 million toward the campaign's overall goal of $400 million.



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, 2013

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 financial statements of Wesleyan University (the University), which comprise the statement of financial position as of June 30, 2013, the related statements of activities and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with U.S. generally accepted accounting principles; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. 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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the organization's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the organization's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

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, 2013, and the changes in its net assets and its cash flows for the year then ended in accordance with U.S. generally accepted accounting principles.

Report on Summarized Comparative Information

We have previously audited the University's 2012 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated October 25, 2012. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2012 is consistent, in all material respects, with the audited financial statements from which it has been derived.

KPMG LLP

October 24, 2013

WESLEYAN UNIVERSITY
Statement of Financial Position
June 30, 2013
(with comparative financial information for June 30, 2012)
(in thousands of dollars)

	2013	2012
ASSETS		
Cash and cash equivalents	$ 8,890	6,473
Short-term investments	61,815	57,335
Receivables and other assets	19,940	19,914
Pledges receivable, net	28,237	30,862
Long-term investments	686,201	619,376
Investment in plant, net	299,077	293,033
Total assets	$ 1,104,160	1,026,993
LIABILITIES		
Accounts payable and accrued expenses	$ 15,939	12,560
Liabilities associated with investments	7,445	5,263
Student deposits and deferred revenues	3,844	3,256
Split-interest obligations	7,970	8,411
Federal student loan advances	5,331	5,331
Postretirement benefit obligation	17,673	19,127
Long-term debt	217,922	219,263
Asset retirement obligation	12,905	12,371
Total liabilities	289,029	285,582
NET ASSETS		
Unrestricted	283,172	252,914
Temporarily restricted	294,171	275,403
Permanently restricted	237,788	213,094
Total net assets	815,131	741,411
Total liabilities and net assets	$ 1,104,160	1,026,993

See accompanying notes to financial statements.

WESLEYAN UNIVERSITY
Statement of Activities
Year ended June 30, 2013
(with summarized comparative financial information for the year ended June 30, 2012)
(in thousands of dollars)

		Unrestricted	Temporarily restricted	Permanently restricted	Total	Total 2012
OPERATING ACTIVITIES:						
REVENUES AND OTHER SUPPORT						
Tuition	$	146,217	-	-	146,217	138,082
Room and board		39,698	-	-	39,698	37,153
Less scholarships and other aid		(54,492)	-	-	(54,492)	(51,025)
Net student charges		131,423	-	-	131,423	124,210
Endowment return used in support of operations		8,492	19,893	-	28,385	29,499
Contributions		10,538	3,314	-	13,852	12,935
Government and foundation grants		7,163	1,947	-	9,110	11,630
Other		9,203	-	-	9,203	9,336
Net assets released from restrictions		25,122	(25,122)		-	-
Total revenues and other support		191,941	32	-	191,973	187,610
EXPENSES						
Instruction		86,100	-	-	86,100	85,262
Research		8,562	-	-	8,562	9,808
Libraries		10,336	-	-	10,336	10,320
Student services		10,515	-	-	10,515	10,337
Institutional support		22,224	-	-	22,224	21,224
Auxiliary activities		43,495	-	-	43,495	41,714
Total expenses		181,232	-	-	181,232	178,665
Changes in net assets from operating activities		10,709	32	-	10,741	8,945
NON-OPERATING ACTIVITIES:						
Contributions for long-term investment		-	-	22,469	22,469	18,195
Net investment return		23,643	43,662	865	68,170	23,399
Appropriation of endowment for operations		(8,492)	(19,893)	-	(28,385)	(29,499)
Net assets released from restrictions and other reclassifications		2,944	(4,272)	1,328	-	-
Change in value of split-interest agreements		-	(761)	32	(729)	(1,841)
Postretirement benefit obligation changes		1,454	-	-	1,454	(1,227)
Total non-operating activities		19,549	18,736	24,694	62,979	9,027
Change in net assets		30,258	18,768	24,694	73,720	17,972
Net assets at beginning of year		252,914	275,403	213,094	741,411	723,439
Net assets at end of year	$	283,172	294,171	237,788	815,131	741,411

See accompanying notes to financial statements.

WESLEYAN UNIVERSITY
Statement of Cash Flows
Year ended June 30, 2013
(with comparative financial information for the year ended June 30, 2012)
(in thousands of dollars)

	2013	2012
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	$ 73,720	17,972
Adjustments to reconcile change in net assets to cash used for operating activities:		
Depreciation	9,783	9,860
Amortization of bond premium	(701)	(1,159)
Net gains from investments and trusts	(67,824)	(16,895)
Gifts received for long-term investment	(26,905)	(16,684)
Postretirement benefit obligation change	(1,454)	1,227
Change in accounts payable	1,721	(1,899)
Changes in working capital, net	3,591	(41)
Net cash used for operating activities	(8,069)	(7,619)
CASH FLOWS FROM INVESTING ACTIVITIES		
Additions to property and equipment	(14,480)	(22,447)
Change in deposit with brokers for short sales	2,182	5,263
Proceeds from securities sold short	10,263	6,745
Purchases of long-term investments	(244,112)	(195,101)
Sales of long-term investments	234,503	159,007
Purchases of short-term investments	(25,500)	(37,377)
Sales of short-term investments	21,365	66,345
Net cash used for investing activities	(15,779)	(17,565)
CASH FLOWS FROM FINANCING ACTIVITIES		
Gifts received for long-term investment	26,905	16,684
Repayments of long term debt	(640)	(618)
Net cash provided by financing activities	26,265	16,066
Net change in cash and cash equivalents	2,417	(9,118)
Cash and cash equivalents at beginning of year	6,473	15,591
Cash and cash equivalents at end of year	$ 8,890	6,473
Other cash flow information:		
Cash paid for interest	$ 8,888	8,491
Change in accounts payable related to property and equipment	$ 1,658	(1,544)
Change in receivable from State for capital remediation	$ 311	4,747

See accompanying notes to financial statements.

(1) Organization

Wesleyan University, (the 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, 2012, 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 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. 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 quoted 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 an active 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. 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.

As of June 30, 2013 and 2012, the University had no specific plans or intentions to sell investments at amounts different than NAV.

(e) Operations

The statement of activities reports the change in 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, as well as all contributions other than those restricted for endowment. 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 certain 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, 2013 and 2012, student accounts receivable are net of an allowance for doubtful accounts of $549 and $521, respectively, and student loans receivable are net of an allowance for doubtful accounts of $1,125.

(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.

(k) Liabilities Associated with Investments

The University may, from time to time, incur liabilities associated with its investment portfolio as a result of securities sold short or other transactions. In order to terminate a short position, the University must acquire and deliver to the lender a security identical to the one it borrowed and sold short, and a gain or loss is recognized for the difference between the short sale proceeds and the cost of the identical security acquired. Liabilities reported on the balance sheet at June 30, 2013 and 2012 represent the fair value of the identical securities that must be acquired to settle the obligation to the lender. The liabilities would be classified as Level 1 in the fair value hierarchy given they are measured based on marketable securities.

(l) Use of Estimates

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

(m) Reclassifications

Certain amounts in the fiscal 2012 financial statements have been reclassified to conform to the fiscal 2013 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 0.40% to 5.09% for June 30, 2013 and 2012. 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.

(in thousands of dollars)

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

		2013	2012
Less than one year	$	12,528	16,370
One to five years		18,799	18,402
More than five years		970	692
		32,297	35,464
Less allowance for uncollectible pledges		(3,069)	(3,351)
Less discount for present value		(991)	(1,251)
Net pledges receivable	$	28,237	30,862

University Relations expenditures, which are primarily for fundraising purposes and alumni activity, totaled $7,604 and $7,484 in fiscal years 2013 and 2012, respectively, and are included in institutional support in the statement of activities.

(4) Investments and Fair Value

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.

(in thousands of dollars)

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 as the practical expedient. 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.

The University's assets at June 30, 2013 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
Cash and cash equivalents	$ 8,890	-	-	8,890
Short-term investments	61,815	-	-	61,815
Long-term investments:				
Fixed income	50,055	-	-	50,055
Domestic equities	37,333	39,070	20,388	96,791
Global (ex-U.S.) equities	50,215	58,574	24,478	133,267
Absolute return:				
Multi-strategy	-	-	47,936	47,936
Other strategies	-	16,203	97,995	114,198
In liquidation	-	-	9,901	9,901
Private equity:				
Venture Capital	-	-	29,051	29,051
Buyout	-	-	64,671	64,671
Real assets	-	-	117,658	117,658
Other funds	16,267	-	-	16,267
Funds held or administered by others	-	-	6,406	6,406
Total long-term investments	153,870	113,847	418,484	686,201
Total	$ 224,575	113,847	418,484	756,906

(in thousands of dollars)

At June 30, 2013, real assets consisted of 44% private real estate and 56% oil and gas limited partnerships, respectively. The other absolute return category consisted of various types of managers, including event driven, long/short and arbitrage strategies.

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
Cash and cash equivalents	$ 6,473	-	-	6,473
Short-term investments	57,335	-	-	57,335
Long-term investments:				
Fixed income	51,414	-	-	51,414
Domestic equities	43,314	15,061	17,623	75,998
Global (ex-U.S.) equities	30,943	71,569	12,785	115,297
Absolute return:				
Multi-strategy	-	-	39,830	39,830
Other strategies	-	-	56,384	56,384
In liquidation	536	-	13,585	14,121
Private equity:				
Venture capital	-	-	43,962	43,962
Buyout	-	-	69,469	69,469
Real assets	-	-	117,585	117,585
Diversified inflation hedging	-	11,224	-	11,224
Funds held or administered by others	-	18,067	6,025	24,092
Total long-term investments	126,207	115,921	377,248	619,376
Total	$ 190,015	115,921	377,248	683,184

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

Short-term investments consist primarily of money market accounts and other short-term liquid assets.

Substantially all of the long-term 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, 2013 and 2012 for Level 3 investments.

WESLEYAN UNIVERSITY
Notes to Financial Statements
June 30, 2013
(with comparative financial information for June 30, 2012)
(in thousands of dollars)

	June 30, 2013				
Level 3 roll forward	Equities and Funds Held by Others	Absolute Return	Private Equity	Real assets	Total
Fair value at June 30, 2012	$ 36,433	109,799	113,431	117,585	377,248
Transfers	-	-	-	(5,000)	(5,000)
Acquisitions	10,000	46,400	21,779	16,002	94,181
Dispositions	-	(16,351)	(52,281)	(19,580)	(88,212)
Net realized and unrealized gains	4,839	15,984	10,793	8,651	40,267
Fair value at June 30, 2013	$ 51,272	155,832	93,722	117,658	418,484

	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	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

The University transferred $5,000 from Level 3 to Level 2 during fiscal 2013, and $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, 2013 was $108.9 million.

(in thousands of dollars)

Investment maturity	Fair value	Related unfunded commitments
Funds extended beyond original maturity	$ 27,752	4,217
1 - 5 years	106,278	28,406
6 - 10 years	59,983	61,676
11 years or more	15,333	14,580

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.

Investment liquidity as of June 30, 2013 is aggregated below based on redemption or sale terms:

	In liquidation	Daily	Monthly	Quarterly	Annual	Initial Lockup	Illiquid	Total
Cash and cash equivalents	$ -	8,890	-	-	-	-	-	8,890
Short-term investments	-	61,815	-	-	-	-	-	61,815
Fixed income	-	50,055	-	-	-	-	-	50,055
Domestic equities	-	37,333	-	22,019	20,287	17,051	101	96,791
Global equities	-	50,215	20,901	34,556	8,827	18,768	-	133,267
Absolute return	9,901	-	16,203	14,213	56,292	75,426	-	172,035
Private equity	-	-	-	-	-	-	93,722	93,722
Real assets	-	-	-	-	-	-	117,658	117,658
Other funds	-	16,267	-	-	-	-	-	16,267
Funds administered by others	-	-	-	-	-	-	6,406	6,406
Total	$ 9,901	224,575	37,104	70,788	85,406	111,245	217,887	756,906

Included in quarterly redemption are funds with a fair value of $14,213 with rolling quarterly redemption provisions where the University can redeem a portion of its investment on a quarterly basis.

(in thousands of dollars)

The following summarizes investment return components for the years ended June 30, 2013 and 2012:

Investment Return:		2013	2012
Interest and dividends	$	2,586	4,663
Realized gains, net		39,896	26,454
Unrealized gains (losses), net		27,928	(5,657)
Investment management fees		(2,240)	(2,061)
Net return	$	68,170	23,399

(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 the State of Connecticut's 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 are classified and reported based on the existence or absence of donor-imposed restrictions.

(a) Relevant Law

UPMIFA 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 a 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 UPMIFA.

UPMIFA provides 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:

(in thousands of dollars)

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, 2013:

	Unrestricted	Temporarily restricted	Permanently restricted	Total
Donor-restricted endowment funds	$ (5,481)	279,627	216,715	490,861
Board-designated endowment funds	197,464	318	-	197,782
Total endowed net assets	$ 191,983	279,945	216,715	688,643

(in thousands of dollars)

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

Changes in endowment funds for the year ended June 30, 2013 are as follows:

	Unrestricted	Temporarily restricted	Permanently restricted	Total
Endowment net assets, June 30, 2012	$ 167,496	261,130	187,569	616,195
Investment return	23,594	42,787	865	67,246
Contributions	516	-	25,100	25,616
Transfers in (out)	8,869	(4,079)	3,181	7,971
Appropriation of endowment net assets for expenditure	(8,492)	(19,893)	-	(28,385)
Endowment net assets, June 30, 2013	$ 191,983	279,945	216,715	688,643

(in thousands of dollars)

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

(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 $5,481 and $9,604 as of June 30, 2013 and 2012, respectively. These deficiencies resulted from unfavorable market fluctuations that occurred after the investment of new permanently restricted contributions and/or appropriation of endowment. 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 2013, $28,385 was spent ($29,499 in fiscal 2012), which represented 5.3% and 5.4% of the 12-quarter moving average of the market value of the endowment in fiscal 2013 and fiscal 2012 respectively.

(6) Temporarily Restricted Net Assets

Temporarily restricted net assets consist of the following at June 30, 2013 and 2012 :

	2013	2012
Restricted for endowment:		
Instruction and research	$ 188,639	172,666
Financial aid	82,706	80,487
Library	8,600	7,977
Temporarily Restricted Endowment	279,945	261,130
General-purpose pledges	288	102
Instruction & Research	6,686	6,167
Financial Aid	2,853	4,422
Facilities	1,844	627
Other	2,555	2,955
Total temporarily restricted net assets	$ 294,171	275,403

(in thousands of dollars)

Net assets released during fiscal 2013 and 2012 from temporary donor restrictions by incurring expenses satisfying the restricted purpose or by occurrence of events specified by donors were as follows:

	2013	2012
Activities:		
General institutional	$ 17,805	17,797
Instruction and research	3,133	3,840
Financial aid	5,306	1,416
Other	530	897
Termination of split-interest agreement	1,328	-
Pledge payments on general-purpose gifts	1,292	1,012
Total net assets released	$ 29,394	24,962

(7) Permanently Restricted Net Assets

The original gift value of permanently restricted net assets consists of the following at June 30, 2013 and 2012:

	2013	2012
Financial aid	$ 112,911	98,412
Instruction and research	76,181	64,282
Facilities maintenance	4,145	4,095
Library	3,074	1,791
General purposes	20,404	18,989
Total permanently restricted endowment	216,715	187,569
Pledges	19,737	22,973
Other	1,336	2,552
Total permanently restricted net assets	$ 237,788	213,094

(in thousands of dollars)

(8) Investment in Plant

At June 30, 2013 and 2012, the components of the University's investment in plant were as follows:

	2013	2012
Campus land and improvements	$ 26,209	26,055
Buildings and improvements	371,756	358,249
Equipment	100,906	99,517
Construction in progress	2,212	1,435
Total	501,083	485,256
Less accumulated depreciation	(202,006)	(192,223)
Total investment in plant, net	$ 299,077	293,033

As of June 30, 2013 estimated remaining costs committed to contractors for construction in progress were $3,008 with an estimated completion date of April, 2014.

(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 2013 and 2012 are listed below.

	2013	2012
Expenditures:		
Physical plant operations	$ 19,087	19,206
Non-capitalized building and equipment costs	5,651	4,215
Depreciation	9,783	9,860
Interest expense	8,859	9,036
Total expenditures to be allocated	$ 43,380	42,317

(in thousands of dollars)

Allocations to functional expenditure categories:

	2013	2012
Instruction	$ 12,949	12,632
Research	4,338	4,232
Libraries	3,162	3,085
Student services	907	884
Institutional support	1,249	1,219
Auxiliary activities	20,775	20,265
Total allocations	$ 43,380	42,317

(10) Debt

At June 30, 2013 and 2012, long-term debt consisted of the following:

	2013	2012
Revenue bonds payable (CHEFA Series G)	$ 186,475	186,475
Revenue bonds payable (CHEFA Series H)	20,105	20,105
Term loans	3,522	4,162
Total	210,102	210,742
Unamortized premium on CHEFA Series G	7,820	8,521
Long Term Debt, including Premium	$ 217,922	219,263

(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 redemption beginning on July 1, 2015 at the University's option. The University makes semi-annual payments of interest. 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 $198,000 on

(in thousands of dollars)

June 30, 2013 based on comparable pricing of similar bonds. Because this estimate utilizes observable inputs, it is classified in Level 2 of the fair value hierarchy.

(b) CHEFA Series H

$20,105 variable rate demand bonds have their interest rates set weekly. The interest rate at June 30, 2013, and 2012 was 0.04% and 0.12%, respectively. The University makes monthly payments of interest. 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. 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:

Fiscal Year	Amount Due
2014	$ 660
2015	681
2016	704
2017	727
2018	750
Thereafter	206,580
Total outstanding debt	$ 210,102

(e) Debt Covenants

The University is subject to certain financial covenants that would be imposed if the University does not maintain its credit rating. The University maintained its credit rating during the years ended June 30, 2013 and 2012 and thus the financial covenants were not applicable.

(f) Line of Credit (LOC)

The University has a $20,000 revolving loan with JPMorgan Chase Bank that terminates on February 28, 2014, unless renewed. The interest rate is set at 50 basis points above the LIBOR rate. There were no borrowings on the line of credit during fiscal years 2013 and 2012.

(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 $6,618 and $6,312 for fiscal 2013 and 2012, respectively.

(b) Postretirement Benefits

The University provides certain postretirement health care benefits to 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 such benefits to the employees and dependents, if applicable, in the financial statements during the employees' active working lives. Faculty between the ages of 59 to 68 and staff between the ages of 60 to 65 who elect early retirement can continue in plans for active faculty and staff, which require premium sharing. Retired faculty who are 68 or older and retired non-faculty who are 65 or older, participate in a different University paid Medicare supplement plan.

The University 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, 2013 and 2012 are as follows:

(in thousands of dollars)

	2013	2012
Change in benefit obligation:		
Benefit obligation as of beginning of year	$ 19,127	17,900
Service cost	576	516
Interest cost	624	759
Plan participants' contributions	132	170
Health care reform legislation	-	80
Benefits paid	(739)	(861)
Medicare Part D Subsidy	151	23
Actuarial (gain) loss	(2,198)	540
Benefit obligation and funded status as of end of year	$ 17,673	19,127

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

	2013	2012
Service cost	$ 576	516
Interest on accumulated postretirement benefit obligation	624	759
Amortization of actuarial loss	(822)	(29)
Total net periodic benefit cost	$ 378	1,246

In addition to service and interest costs, the estimated net (gain) loss and prior service costs that will be amortized from accumulated unrestricted net assets into net periodic benefit cost over the next fiscal year are $558 and ($1,659), respectively.

For measurement purposes, an annual rate of increase of 8.1% in the per capita cost of covered healthcare and prescription drug benefits was assumed as of June 30, 2013. 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 2013 by $71 and the accumulated postretirement benefit obligation by $793.

(in thousands of dollars)

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

	2013	2012
Benefit obligations	4.00%	3.50%
Net periodic postretirement benefit costs	3.50%	4.75%

The benefits, as of June 30, 2013, 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
2014	$ 1,029
2015	1,093
2016	1,183
2017	1,275
2018	1,296
Five fiscal years thereafter	8,165

(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, 2013 and through October 24, 2013, 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 were deemed to be necessary.

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