University of Connecticut

Financial Report 2001-2002

To the President and Trustees of The University of Connecticut

I am pleased to submit the annual financial report of the University of Connecticut for the fiscal year ended June 30, 2002. This report has been prepared with the full adoption and implementation of the Governmental Accounting Standards Board (GASB) Statements No. 34 and No. 35. This report contains the following three statements:

1. The Statement of Changes in Net Assets
2. The Statement of Revenues, Expenses, and Changes in Net Assets
3. The Statement of Cash Flows

The new financial statements are presented in a single-column format, eliminating multi-column funds. The notes are an integral part of the financial statements and should be read in conjunction with them. The financial statements are preceded by a narrative section called Management's Discussion and Analysis (MD&A). The MD&A provides objective and easily readable analyses of the University's financial activities based on facts, decisions, and conditions known at the date of the auditors' report. Fund accounting is still used internally to account for the activities of different sources and uses of funds.

The term "net assets" replaces "fund balance." The net assets section is at the bottom of the Statement of Changes in Net Assets and is broken out into three classes of net assets: invested in capital assets, net of related debt, restricted (nonexpendable and expendable), and unrestricted. It does not map directly to the old format by fund balance. For instance, unrestricted net assets consist of assets that in the old format were included in Unexpended Plant Funds, Retirement of Indebtedness, and Current Unrestricted Funds. Restricted assets are restricted only by third parties, not by internal designations or restrictions, e.g. debt service reserves set aside by the University are classified as unrestricted. On the face of the financial statements, internal designation to unrestricted net assets is forbidden by the GASB. The University has broken out unrestricted net assets in the notes to the financial statements.

The financial statements also include a Statement of Cash Flows prepared using the direct method. This statement is a new reporting requirement for public higher education. It describes how cash and cash equivalents are provided to and used by the University.

The financial statements have been audited by the State of Connecticut Auditors of Public Accounts. They are responsible for auditing the financial operations of the University of Connecticut. Their opinion on the financial statements appears on page 1.

The financial statements reflect budget execution results consistent with the Operating Fund Budget approved by the Board of Trustees. The Offices of Financial Planning and Budget and the Controller work closely together to monitor the decentralized budget process.

Respectfully Submitted,

Dale M. Dreyfuss
Vice Chancellor for Business and Administration

TABLE OF CONTENTS

STATE OF CONNECTICUT

AUDITORS OF PUBLIC ACCOUNTS
STATE CAPITOL
210 CAPITOL AVENUE
HARTFORD, CONNECTICUT 06106-1559

KEVIN P. JOHNSTON

ROBERT G. JAEKLE

INDEPENDENT AUDITORS' REPORT

The Board of Trustees of the
University of Connecticut

We have audited the accompanying statement of net assets of the University of Connecticut (University) as of June 30, 2002, and the related statement of revenues, expenses and changes in net assets and statement of cash flows for the year then ended. The University is a component unit of the University of Connecticut system, which includes the University of Connecticut, the University of Connecticut Health Center, the University of Connecticut Foundation, Inc. and the University of Connecticut Law School Foundation, Inc. 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.

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 examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes 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 the University, as of June 30, 2002, and the changes in net assets and cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

As described in note 1, the University has implemented a new financial reporting model to comply with Statement No. 35, Basic Financial Statements - and Management's Discussion and Analysis – for Public Colleges and Universities, an amendment to Statement No. 34, Basic Financial Statements – Management's and Discussion and Analysis – for State and Local Governments, as well as Statement No. 37, Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments: Omnibus, and Statement No. 38, Certain Financial Statement Note Disclosures.

The Management Discussion and Analysis on pages 4 through 11 is a not required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Sincerely,

Kevin P. Johnston
Auditor of Public Accounts

Robert G. Jaekle
Auditor of Public Accounts

February 6, 2003
State Capitol
Hartford, Connecticut

MANAGEMENT'S DISCUSSION & ANALYSIS

Management's Discussion and Analysis

Introduction
The University of Connecticut (University) has adopted Governmental Accounting Standards Board (GASB) Statement No. 35, Basic Financial Statements - and Management's Discussion and Analysis - for Public Colleges and Universities, an amendment to Statement No. 34, Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments; Statement No. 37, Basic Financial Statements - Management's Discussion and Analysis - for State and Local Governments: Omnibus; and Statement No. 38, Certain Financial Statement Note Disclosures, effective July 1, 2001. The adoption of these standards resulted in the conversion from fund accounting statements to statements presented in a single-column format that enhance the usefulness and comprehension of financial reports by external users. The multi-column format is no longer required and "Fund Balance" is replaced by "Net Assets." Statements No. 34 and 35 also add Management's Discussion and Analysis and a Cash Flow Statement.

The following elements are included with these general-purpose financial statements, as required by the new standards:

- Management's Discussion and Analysis
- Basic financial statements which include a Statement of Net Assets; Statement of Revenues, Expenses, and Changes in Net Assets; and Statement of Cash Flows
- Notes to the financial statements

The following *Management's Discussion and Analysis* (MD&A) is required supplemental information. Its purpose is to provide users of the basic financial statements with a narrative introduction, overview, and analysis of those statements. It is designed to assist readers in understanding the accompanying financial statements required by new standards of the GASB adopted by the University this year. This discussion, which is unaudited, includes an analysis of the financial condition and results of activities of the University for the fiscal year ended June 30, 2002 based on currently known facts, decisions, or conditions. In the first year of adoption of the new reporting standards, public institutions are not required to restate prior periods for providing comparative data for the MD&A. However, information explaining the changes between fiscal 2002 and 2001 has been provided for key financial statement elements. In future years a comparative analysis will be presented in the MD&A. As the MD&A presentation includes highly summarized information, it should be read in conjunction with the accompanying financial statements and related notes to the financial statements. The financial statements, notes to the financial statements, and this MD&A are the responsibility of management.

The University is a component unit of the University of Connecticut system, which includes the University, the University of Connecticut Health Center, the University of Connecticut Foundation, Inc. (Foundation), and the University of Connecticut Law School Foundation, Inc. The financial statements represent the transactions and balances of the University only. The University offers undergraduate and graduate degrees and does research at several locations in the state. The Foundation raises funds to promote, encourage, and assist education and research at the University and the University Health Center. The Foundation operates exclusively for charitable and educational purposes to promote and assist the University of Connecticut System. It solicits and accepts donations of properties, monies, and securities and invests and administers these gifts. The Foundation's financial statements are not part of the University's financial statements.

Financial Highlights and Economic Outlook
The University submits separate biennial operating and capital budgets to the Governor and General Assembly through the Board of Governors for Higher Education. The General Assembly appropriates and allocates funds directly to the University. The University's spending plan reflects a balanced budget. With certain exceptions for fiscal year 2003, the Governor may reduce State agency allotments by not more than 5% unless approved by the Appropriations Committee of the General Assembly.

The newly formatted financial statements contained herein show an operating loss of $279.8 million for the year ending June 30, 2002 (fiscal year 2002). The measure more indicative of normal and recurring activities is net income before capital addition (deductions), which includes revenue from state appropriations. The University experienced a loss before capital additions (deductions) of $9.3 million. Contributing to this loss were the state reductions and rescissions of $5.4 million in fiscal year 2002 and a $5.9 million reduction in investment income, due to short-term rate reductions concurrent with multiple rate adjustments by the Federal Reserve Board and market declines. Also, the Statement of Revenue, Expenses, and Changes in Net Assets includes depreciation expense of $50.6 million not previously included in the old Statement of Current Fund Revenues, Expenditures, and Other Changes in Fund Balances.

Sources of recurring operating and nonoperating revenues were strong in 2002 and most are expected to remain strong in 2003, including tuition and fees revenue, grants and contracts revenue, sales and services of educational departments, net sales and services of auxiliary enterprises, and state debt service commitment for interest. In fiscal year 2002, undergraduate enrollment at the University increased to 17,630 students, a 5.7% increase over the prior year and when combined with a tuition and fee increase of 3.98%, resulted in an increase in tuition and fee revenue, before scholarship allowance, of 10.7%. A record undergraduate enrollment was reached in the fall of 2002 with 18,662 undergraduate students, enabling the University to reach its total enrollment goal of approximately 25,000 students three years ahead of schedule. Investment income experienced a significant decline, as discussed above. State support increased 8.8% from the prior year, even with reductions in allotments explained above.

From a fiscal perspective, the most significant economic factor for the foreseeable future is the impact of the state's current difficult financial status. State appropriations are likely to be further reduced from the previously approved biennial budgets as the state faces significant budget deficits in fiscal years 2003 and 2004. The situation is extremely difficult and prospects for an early turnaround in the state's economy do not appear bright. The impact on the University's operating budget, both in fiscal year 2003 and in the upcoming biennium will be significant. Fiscal year 2003 opened with a $13.8 million reduction from the previously approved state appropriation. The state budget's constraints likely mean that the share of state support for the University will continue to decline.

The realities of the state's budget environment mean that the University's other significant income streams will continue to play an increasingly important role in the financial health of the University. These sources include private support through the Foundation (also suffering from the effects of the troubled national financial markets), research funding (increasing University-wide), tuition and fees, and room and board fees.

The University has established a planning process designed to address the impact of reduced appropriations. Operating expenses, including staffing, will likely be reduced to achieve a balanced budget. Other considerations include enrollment targets, enhanced productivity and class coverage, and tuition and fee increases.

Even with the state's current budget issues, in July 2002 the Governor signed into law "21st Century UConn" a $1.3 billion, 11-year initiative that expands and builds on the success of UCONN 2000 (see Note 4). 21st Century UConn provides $1 billion for facilities improvements at Storrs, the regional campuses, and the School of Law, and $300 million for improvements at the University of Connecticut Health Center (not part of the accompanying financial statements) in support of the medical and dental education programs and research.

Given the tremendous impact of UCONN 2000 in the past seven years, this new state commitment provides one of the most far-reaching transformations in American public higher education. The physical impact on the statewide campus is evident, and it has been accompanied by enhanced excellence in our research, teaching, and student life programs. Even after completion of UCONN 2000, a significant number of existing classrooms, residence halls, research and recreational facilities will still require attention. This new commitment, in light of the state's budget deficit, provides long-term funds for capital enhancement and preservation.

Changes to the Financial Statements

The University's adoption of the new GASB reporting model is a significant change from prior reporting. The financial statements differ significantly in form (single column versus multiple fund columns), content, and accounting principles utilized from financial statements presented in prior years. The prior year financial statements focused on the accountability for funds, whereas this year's statements focus on the financial condition, results of operations, and cash flows of the University, more similar to corporate financial statements. The three new basic financial statements are the Statement of Net Assets; Statement of Revenues, Expenses, and Changes in Net Assets; and Statement of Cash Flows. These statements are summarized and analyzed in the sections that follow. Other significant changes to financial reporting include the following:

- The unrestricted net assets category on the Statement of Net Assets is defined by GASB to include funds not restricted by third-parties, including all unrestricted funds formerly included in the balances of unrestricted current funds, retirement of indebtedness funds, and plant funds. Unrestricted net assets consist of various designated and committed funds. GASB prohibits a breakout of designated unrestricted funds on the face of the Statement of Net Assets.

- Revenues and expenses are now classified as operating, nonoperating, or capital additions (deductions) according to definitions prescribed by GASB. Significant recurring sources of nonoperating revenue utilized in balancing the operating budget each year include state appropriations for general operations and the state debt service commitment for interest, noncapital gifts, and short-term investment income. By its very nature, a state funded institution does not receive tuition and fee and room and board revenue sufficient to support the operations of the University. Therefore, these nonoperating revenues are essential to the programs and services provided by the University. Under the new reporting principles, unless a significant increase in tuition and fees and room and board revenues occurs, the University will always show a loss from operations. Other changes in revenue and expenses include:

    - Certain restricted research grants that are now recorded as deferred revenue were previously recorded as fund additions.

    - Tuition and fees and sales of services of auxiliary enterprises are required to be reported net of scholarship allowances (these allowances were previously recorded as financial aid and other expenditures in the old reporting format), including student aid funded by approximately $5 million of gifts now reported as nonoperating revenue.

    - Governmental advances for revolving loan programs that would be returned to the federal government upon cessation of the student loan program are recorded as a liability, but previously were included in loan funds as assets with no offsetting liability.

    - Even though the University has recorded depreciation on most of its capital assets since fiscal year 1998, library books were depreciated for the first time in fiscal 2002.

    - Certain revenues and expenses associated with summer sessions that were reported in the subsequent reporting period have been recorded when the revenues are earned and expenses incurred.

    - All significant interdepartmental transactions previously recorded both as revenues and expenditures have been eliminated.

- With the elimination of the Statement of Changes in Fund Balances, expenditures for capital assets are not reported in the results of operations. In the new financial statements, depreciation expense is now shown as an operating expense and property and equipment expenditures are recorded as additions to assets in the Statement of Net Assets. Mandatory transfers for debt service, which were reported in the Statement of Changes in Fund Balance, are not reported in the Statement of Revenues, Expenses, and Changes in Net Assets. Only interest expense is recorded, as a nonoperating expense.

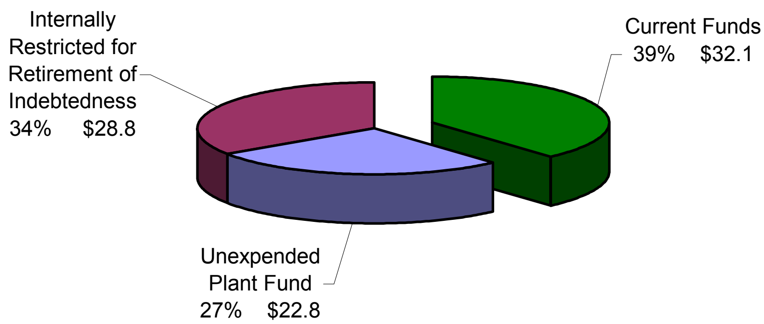
Statement of Net Assets

The Statement of Net Assets presents the assets, liabilities, and net assets of the University as of the end of the fiscal year, June 30. The Statement of Net Assets is a point of time financial statement – a snapshot – and a measure of the financial condition of the University. This statement presents end-of-year data concerning assets, classified as current (those available for use within one year) and noncurrent (those available beyond one year) and liabilities, categorized as current (liabilities maturing and due within one year) and noncurrent (maturing and due after one year), and net assets that represent the difference between total assets and total liabilities. Assets are what is owned by or what is owed to the University. Assets also include payments made to others before a service was received. Assets are recorded at their current value, except for property and equipment that is recorded net of accumulated depreciation. Liabilities represent what is owed to others or what has been received from others prior to the University service being provided. Current assets less current liabilities represents working capital.

Readers of the Statement of Net Assets are able to determine the assets available to continue the operations of the University. The net asset value of the University is the residual interest or equity in the University's assets after liabilities are deducted. Readers are also able to determine how much the University owes vendors, investors, and lending institutions.

Net assets are divided into three major categories. The first category, invested in capital assets, net of debt, provides the University's equity in property and equipment. The category, restricted net assets, is divided into two categories, nonexpendable and expendable. The corpus of restricted nonexpendable resources is only available for investment purposes and in the University's Statement of Net Assets this amount represents endowment assets. Expendable restricted net assets are available for expenditure by the institution but must be spent for purposes determined by donors and/or external entities that have placed time or purpose restrictions on the use of the assets. The final category is unrestricted net assets. Unrestricted net assets are available to the University for any lawful purpose of the institution. The University has internally designated $28.8 million of its total $83.7 million in unrestricted assets for use in retirement of indebtedness and $22.8 million relates to unexpended plant assets. The pie chart below illustrates the components of unrestricted net assets:

UNRESTRICTED NET ASSETS ($ in millions)
TOTAL: $83.7



The total assets of the University increased by $263.1 million over the prior year, after restatement for changes resulting from the adoption of the new accounting principles. The increase was primarily due to $133.4 million of additions to property and equipment, net of accumulated depreciation, an increase of unexpended plant assets including bond proceeds totaling $61.5 million, and a $69.1 million net increase in the state debt service commitment.

The total liabilities for the year increased by $149.8 million, after restatement, primarily due to newly acquired debt through the sale of general obligation bonds totaling $100 million and special revenue bonds totaling $75.4 million, and the reduction of prior year debt through payment of principal on existing bonds and loans of $37 million. The combination of the increase in total assets of $263.1 and total liabilities of $149.8 million yields an increase in total net assets of $113.3 million.

Statement of Revenues, Expenses, and Changes in Net Assets
While the Statement of Net Assets presents the financial condition at a point in time, the Statement of Revenues, Expenses, and Changes in Net Assets represents the activity for a period of time – one year. This statement presents either an increase or decrease to net assets, based on the revenues received by the University, both operating and nonoperating, and the expenses paid by the University, operating and nonoperating, and any other revenues, expenses, gains and losses received or spent by the University.

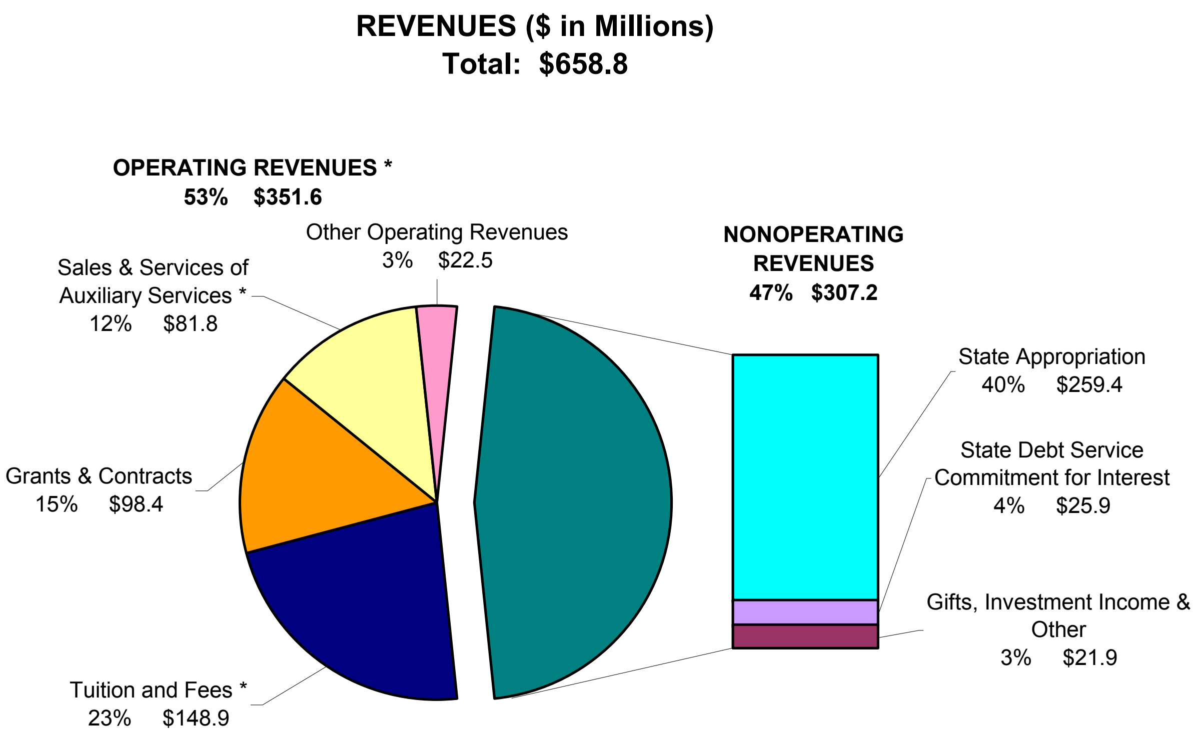
Generally, operating revenues are earned when providing goods and services to the various customers of the University. Operating expenses are incurred in the normal operation of the University and represent those expenses paid to acquire or produce the goods and services provided in return for the operating revenues. Operating expenses also include the provision for estimated depreciation of property and equipment. The difference between operating revenues and operating expenses is the operating income or loss. As a state funded agency, the University is expected to experience an operating loss each year.

Nonoperating revenues are revenues received for which goods and services are not provided, including state appropriations and state debt service commitment for interest. Such revenues are provided by the state to the

University without the state directly receiving commensurate goods and services for those revenues. Nonoperating revenues (expenses) also include noncapital gifts, investment income, and interest expense.

Capital additions (deductions) are comprised of the state's debt service commitment for principal payments on general obligation bonds used for capital purposes, capital grants and gifts, the disposal of property and equipment, and other capital related items. The Statement of Revenues, Expenses, and Changes in Net Assets reflects a positive year with an increase in the net assets at the end of the year of $113.3 million.

Revenues
Revenues, excluding capital additions, came from a variety of sources and are illustrated in the following graph:



* Shown here at gross amounts, not netted for student financial aid.

Revenue highlights for the year ending June 30, 2002, including operating and nonoperating revenues and capital additions, presented on the Statement of Revenues, Expenses, and Changes in Net Assets are as follows:

- Student tuition and fees, net of scholarship allowances, increased approximately 9% (10.7% before scholarship allowance) over the prior year due, in part, to a 5.7% increase in undergraduate enrollment and an increase of 3.98% for tuition and fees charged to undergraduate students.

- Revenues associated with residential life, net of scholarship allowances, included in the sales and services of auxiliary enterprises category, increased approximately 14% during the year. This increase is consistent with the increase in available on-campus housing and the number of students living on campus. Room fee-paying students and board fee-paying students increased 13.6% and 2.8% respectively in 2002, and fees charged for both room and board increased approximately 3.9% over 2001.

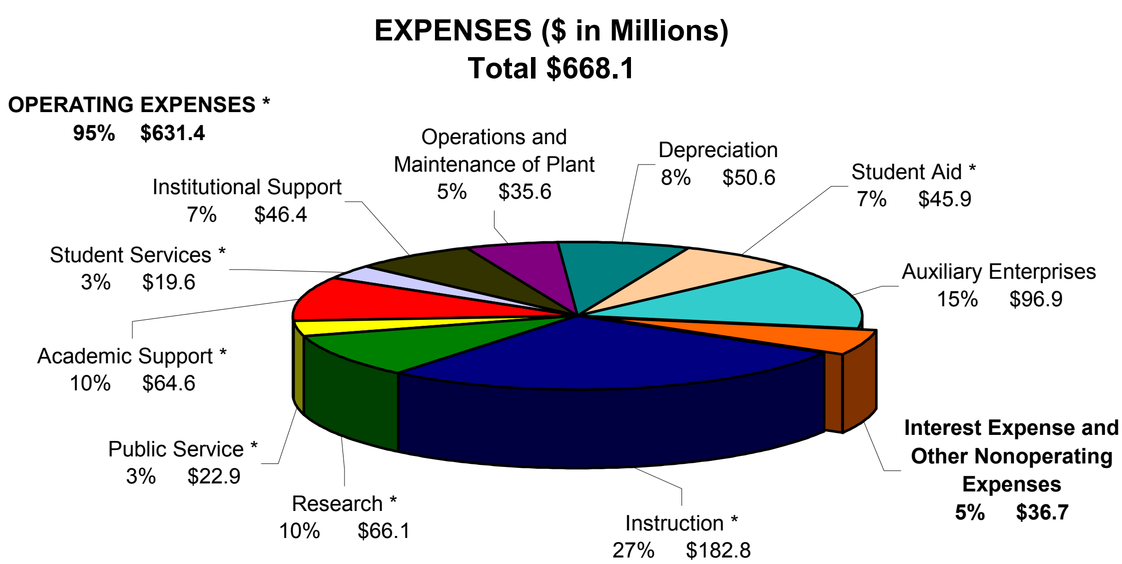
- The largest source of revenue was the state appropriation, which is included in nonoperating revenues, including fringe benefits, which totaled $259.4 million. This represents an 8.8% increase over the prior year of $21.1 million, even after state reductions and rescissions of $5.4 million. The state also provides state debt service commitment for the interest payments made annually on general obligation bonds. State debt commitment for interest revenue totaling $25.9 million is included in nonoperating revenues and effectively offsets a significant portion of interest expense that totaled $34.0 million in fiscal year 2002. Also, as general obligation bonds are issued (see Note 4) the state commits to the repayment of the future principal amounts and a receivable is recorded on the Statement of Changes in Net Assets to reflect this commitment, resulting in revenue that totaled $100 million in fiscal year 2002.

- Gift revenue, both capital and noncapital, is derived from gifts made directly to the University and from the Foundation. These spendable funds are provided to the University for educational, cultural, recreational, research activities, and facilities. The Foundation operates exclusively to assist the University of Connecticut System. The Foundation disburses funds to the University as requests are made, provided the request is in accordance with donor restrictions, if any. These gifts totaled approximately $16 million in fiscal year 2002. The Foundation also paid approximately $3.7 million to third parties on behalf of the University. This amount is not reflected in the University's financial statements. The University receives gifts directly, including philanthropic research grants. Total capital and noncapital gift revenue to the University from all sources amounted to $28.5 million in fiscal year 2002.

- Capital other, included in the capital additions (deductions) section, includes $25.3 million of insurance proceeds from a performance bond related to a significant construction project at the University. This amount is recorded net of a $10.3 million reduction in property and equipment recorded due to impairment in the related construction project asset. See Note 4 for further discussion of the treatment of these proceeds. The remaining amount of capital other related to expenses incurred in fiscal year 2002 for capital activities of the University.

Expenses

Operating Expenses totaled $583.8 million in fiscal year 2002 (netted for scholarship aid totaling $47.6 million). Operating expenses are classified by function. Note 14 to the financial statements details operating expenses by natural classification. The pie chart below illustrates operating expenses by function, including interest expense and student aid. The latter has a significant portion reflected on the Statement of Revenues, Expenses, and Changes in Net Assets as an allowance against tuition and fees revenue and sales and services of auxiliary enterprises:



* Shown here at gross amount, not netted for student financial aid.

Highlights of expenses including operating and nonoperating expenses and capital deductions presented on the Statement of Revenues, Expenses, and Changes in Net Assets are as follows:

- Instruction, the University's largest operating expense, increased approximately 8.3% or $14 million. The increase reflects an average pay raise for faculty of the University of 5.2% with the associated fringe benefits and an increase of 9 full-time faculty positions.

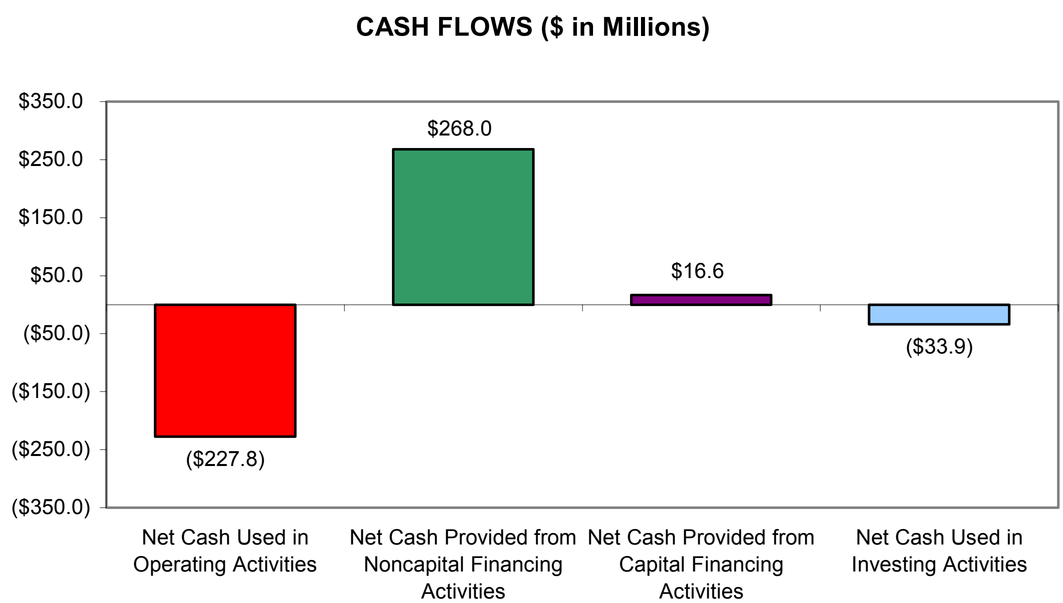
- During fiscal year 2002, the seventh year of UCONN 2000 (see Note 4) the University recorded additions of close to $184 million in property and equipment. These significant additions contributed to a 21.7% increase in depreciation expense over 2001, totaling $9 million.

- Interest expense, net of the state debt service commitment for interest, increased 7.9%, which is consistent with additional borrowings explained above in the *Statement of Net Assets* section.

Statement of Cash Flows

The Statement of Cash Flows presents detailed information about the cash activity of the University during the year. The first section of this statement, cash flows from operating activities, will always be different from the Statement of Revenues, Expenses, and Changes in Net Assets' operating loss amount. The difference results from noncash items such as depreciation expense and the use of the accrual basis of accounting in preparation of the Statement of Revenues, Expenses, and Changes in Net Assets. That Statement shows revenues and expenses when incurred, not necessarily when cash is received or used, as is the case for the Statement of Cash Flows. The statement has four additional sections including: cash flows from noncapital financing activities including state appropriations, gifts and other nonoperating revenue and expenses; cash flows from capital financing activities that reflects the cash received and used by the University for financing, principally capital in nature, capital grants and gifts, and state debt service commitments for principal and interest; cash flows from investing activities showing the purchases, proceeds and interest received from investing activities; and a reconciliation of operating loss reflected on the Statement of Revenues, Expenses, and Changes in Net Assets to net cash used in operating activities.

The following bar graph shows the cash flows from and used by major categories described in the preceding paragraph:



Net cash used in operating activities was $227.8 million and is consistent with the operating loss discussed earlier. GASB requires that cash flows from noncapital financing activities include state appropriations and noncapital gifts. Cash flows from these activities totaled $268 million. Cash flows from capital financing activities was a positive $16.6 million. It included cash used to purchase property and equipment totaling $170.3 million and $70.6 million of principal and interest paid on debt. Cash provided from these financing activities included proceeds from bonds of $175.4 million and the state debt service commitment paid for principal and interest on general obligation bonds totaling $57.4 million. Cash of $33.9 million was used in investing activities, primarily because of transfers of $40.4 million to the bond trustee as required by bond indenture agreements, and interest income received on investments of $6 million. Total cash and cash equivalents increased $23 million as a result of these activities.

Capital and Debt Activities

During fiscal year 2002, the University recorded additions to property and equipment totaling $184 million, of which $140.4 million related to buildings and construction in progress. This unprecedented growth of the University's property and equipment is a direct result of the UCONN 2000 program that runs through fiscal year 2005. As discussed in the *Financial Highlights and Economic Outlook* section above, the Governor signed into law 21st Century UConn, an 11-year initiative that expands and builds on the success of UCONN 2000 and provides $1 billion for facilities improvements at the University. In 2002, the University received bond proceeds of $100 million from the sale of general obligation bonds. The state has made a commitment to fund the University for all principal and interest payments due on both the UCONN 2000 and the future 21st Century UConn general obligation debt.

During fiscal year 2002, the University issued $75.4 million of the Student Fee Revenue Bond 2002 Series A to fund five UCONN 2000 projects including: Alumni Quadrant Renovations, Shippee/Buckley Renovations, East Campus North Renovations, Towers Renovations (including Greek Housing), and North Campus Renovations. The bonds have a final maturity of May 15, 2030 and various revenue sources are pledged toward this obligation.

On February 27, 2002, the 2000 Series A bonds dated May 15, 2000 were refunded in advance of maturity with the issuance of Student Fee Revenue Bonds 2002 Refunding Series A in the amount of $96.1 million. The refunding bonds have a final maturity of November 15, 2029. Proceeds from the refunding bonds totaled $96.8 million. The present value savings realized by the University on the refunding was approximately $2.4 million, enabled by the current low tax-exempt interest rate environment.

See Notes 3 to 6 to of the Financial Statements for further information on capital and debt activities.

FINANCIAL STATEMENTS

UNIVERSITY OF CONNECTICUT
STATEMENT OF NET ASSETS
As of June 30, 2002

ASSETS	
Current Assets	
Cash and cash equivalents	$ 124,212,445
Accounts receivable	41,061,276
Student loans receivable, net	1,968,986
Due from State of Connecticut	44,688,601
Due from related agencies	1,660
State debt service commitment	44,918,611
Inventories	2,088,378
Deposit with bond trustee	156,361,821
Deferred charges	794,651
Other assets	42,457
Total Current Assets	416,138,886
Noncurrent Assets	
Cash and cash equivalents	1,457,356
Investments	6,969,192
Student loans receivable, net	9,793,256
State debt service commitment	572,987,146
Property and equipment, net of accumulated depreciation	1,178,649,007
Deferred charges	10,335,635
Total Noncurrent Assets	1,780,191,592
Total Assets	$ 2,196,330,478
LIABILITIES	
Current Liabilities	
Accounts payable and accrued liabilities	$ 38,474,733
Deferred income	22,917,215
Wages payable	26,679,045
Compensated absences	13,664,623
Due to the State of Connecticut	7,420,575
Due to related agencies	9,225
Current portion of long-term debt and bonds payable	44,305,913
Other current liabilities	8,843,129
Total Current Liabilities	162,314,458
Noncurrent Liabilities	
Compensated absences	5,159,200
Deposits held for others	2,530,028
Long-term debt and bonds payable	788,000,301
Refundable for federal loan program	9,603,294
Total Noncurrent Liabilities	805,292,823
Total Liabilities	$ 967,607,281
NET ASSETS	
Invested in capital assets, net of related debt	$ 1,020,536,235
Restricted nonexpendable	6,674,263
Restricted expendable	
Research, instruction, scholarships and other	12,907,097
Loans	3,044,756
Capital projects	89,436,633
Debt service	12,457,244
Unrestricted (See Note 15)	83,666,969
Total Net Assets	$ 1,228,723,197

The accompanying notes are an integral part of these financial statements.

UNIVERSITY OF CONNECTICUT
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
For the Year Ended June 30, 2002

OPERATING REVENUES	
Student tuition and fees (net of scholarship allowances of $46,734,320. Revenues totaling approximately $19,978,000 are used as security for revenue bonds. See Note 4)	$ 102,200,333
Federal grants & contracts	67,753,605
State and local grants & contracts	17,859,232
Nongovernmental grants & contracts	12,760,474
Sales & services of educational departments	12,020,682
Sales & services of auxiliary enterprises (net of scholarship allowance of $ 824,538. Revenues totaling approximately $9,522,000 are used as security for revenue bonds. See Note 4)	81,002,139
Other sources (Revenues totaling approximately $2,066,000 are used as security for revenue bonds. See Note 4)	10,442,761
Total Operating Revenues	304,039,226
OPERATING EXPENSES	
Educational and general	
Instruction	182,182,600
Research	65,421,675
Public service	22,722,484
Academic support	64,337,083
Student services	19,406,736
Institutional support	46,376,708
Operations and maintenance of plant	35,543,569
Depreciation	50,624,858
Student aid	313,276
Auxiliary enterprises	96,882,863
Total Operating Expenses	583,811,852
Operating Loss	(279,772,626)
NONOPERATING REVENUES (EXPENSES)	
State appropriation	259,447,742
State debt service commitment for interest	25,907,563
Gifts	16,202,233
Investment income (Income totaling approximately $1,077,000 are used as security for revenue bonds. See Note 4)	5,572,628
Interest expense	(33,955,787)
Other nonoperating revenues (expense), net	(2,715,738)
Net Nonoperating Revenues	270,458,641
Loss Before Capital Additions (Deductions)	(9,313,985)
CAPITAL ADDITIONS (DEDUCTIONS)	
State debt service commitment for principal	100,000,000
Capital grants and gifts	12,316,127
Disposal of property and equipment, net	(3,102,251)
Capital other	13,357,569
Total Capital Additions (Deductions)	122,571,445
Increase in Net Assets	113,257,460
NET ASSETS	
Net Assets-beginning of year	1,203,523,254
Cumulative effects of changes in accounting principle	(88,057,517)
Net Assets-beginning of year, as adjusted	1,115,465,737
Net Assets-end of year	$ 1,228,723,197

The accompanying notes are an integral part of these financial statements.

UNIVERSITY OF CONNECTICUT
STATEMENT OF CASH FLOWS
For the Year Ended June 30, 2002

CASH FLOWS FROM OPERATING ACTIVITIES	
Tuition and fees	$ 104,725,776
Research grants and contracts	93,336,670
Payments to suppliers	(127,059,963)
Payments to employees	(315,716,189)
Payments for benefits	(91,379,591)
Loans issued to students and employees	(1,851,167)
Collection of loans to students and employees	2,018,806
Auxiliary enterprise charges	82,944,867
Sales and services of educational departments	11,839,919
Other receipts (payments)	13,368,000
Net Cash used in Operating Activities	(227,772,872)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
State appropriations	258,485,108
Gifts	16,771,387
Other nonoperating revenue (expense)	(7,216,318)
Net Cash Provided from Noncapital Financing Activities	268,040,177
CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES	
Proceeds from bonds	175,430,000
State debt service commitment	57,447,563
Purchases of property and equipment	(170,279,419)
Principal paid on debt and bonds payable	(37,051,423)
Interest paid on debt and bonds payable	(33,542,921)
Capital grants and gifts	11,920,339
Capital other	12,720,811
Net Cash Provided from Capital Financing Activities	16,644,950
CASH FLOWS FROM INVESTING ACTIVITIES	
Proceeds from investments, net	499,383
Interest on investments	6,022,604
Deposits with bond trustee	(40,397,631)
Net Cash Used in Investing Activities	(33,875,644)
INCREASE IN CASH AND CASH EQUIVALENTS	23,036,611
BEGINNING CASH AND CASH EQUIVALENTS	102,633,190
ENDING CASH AND CASH EQUIVALENTS	$ 125,669,801

RECONCILIATION OF OPERATING LOSS TO NET CASH USED IN OPERATING ACTIVITIES	
Operating Loss	$ (279,772,626)
Adjustments to Reconcile Operating Loss to Net Cash Used in Operating Activities:	
Depreciation expense	50,624,858
Changes in Assets and Liabilities:	
Receivables, net	(2,167,654)
Inventories	44,222
Other assets	1,664
Accounts payable	31,308
Deferred revenue	3,557,713
Deferred charges	264,968
Deposits	670,044
Due from state	(1,418,650)
Due from related agencies	260,737
Other liabilities	(37,095)
Loans to students and employees	167,639
Net Cash Provided (Used) in Operating Activities	$ (227,772,872)
RECONCILIATION OF CASH AND CASH EQUIVALENTS TO THE STATEMENT OF NET ASSETS	
Cash and cash equivalents classified as current assets	$ 124,212,445
Cash and cash equivalents classified as noncurrent assets	1,457,356
	$ 125,669,801

The accompanying notes are an integral part of these financial statements.

NOTES TO FINANCIAL STATEMENTS

University of Connecticut
Notes to Financial Statements June 30, 2002

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Related Entities

The University of Connecticut (University) is a component unit of the University of Connecticut system, which includes the University, the University of Connecticut Health Center, the University of Connecticut Foundation, Inc., and the University of Connecticut Law School Foundation, Inc. The financial statements represent the transactions and balances of the University only. The University offers undergraduate and graduate degrees and does research at several locations in the State of Connecticut. The University of Connecticut Health Center offers medical and dentistry degrees and operates a teaching and research hospital. The University of Connecticut Foundation, Inc. and The University of Connecticut Law School Foundation, Inc. raise funds to promote, encourage, and assist education and research at the University, the University Health Center, and the Law School.

New Accounting Standards and Financial Statement Presentation

In June 1999 the Governmental Accounting Standards Board (GASB) issued Statement No. 34, followed by Statement No. 35 in November 1999. Both statements became effective at the beginning of fiscal 2002. These statements provide accounting and financial reporting guidelines and enhance the usefulness and comprehension of financial reports by external users. Statements No. 34 and 35 change the financial statement format, eliminating multiple column fund reporting, and adding Management's Discussion and Analysis and a cash flow statement.

The University has adopted GASB Statement No. 35, Basic Financial Statements - and Management's Discussion and Analysis - for Public Colleges and Universities, an amendment to Statement No. 34, Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments, as well as Statement No. 37, Basic Financial Statements - Management's Discussion and Analysis - for State and Local Governments: Omnibus, and Statement No. 38, Certain Financial Statement Note Disclosures, effective July 1, 2001. These standards are collectively referred to hereafter as "GASB 35".

The following elements are included with these general-purpose financial statements, as required by GASB 35:

- Management's Discussion and Analysis (required supplemental information; detailed comparative information is not required in the first year of adoption of GASB 35).
- Basic financial statements which include a Statement of Net Assets; Statement of Revenues, Expenses, and Changes in Net Assets; and Statement of Cash Flows
- Notes to the financial statements

The University follows the "business-type activities" (BTA) requirements of GASB 35. BTAs are defined as those that are financed in whole or in part by fees charged to external parties for goods or services.

The financial statements are presented in a single-column format. The multi-column format is no longer required. "Fund balance" is replaced by "net assets." The new standard for public colleges and universities is to classify resources into the following net asset categories:

- **Invested in capital assets, net of related debt**: Capital assets, net of accumulated depreciation, and reduced by outstanding principal balances of bonds (net of state debt service commitment) and notes that are attributable to the acquisition, construction, or improvement of those assets.
- **Restricted Nonexpendable:** Represents endowment and similar type assets in which donors or outside sources have stipulated as a condition of the gift instrument, that the principal is to be maintained inviolate and in perpetuity and invested for the purpose of producing present and future income, which may be expended or reinvested in principal.
- **Restricted Expendable:** Net assets that are expendable but where the University is legally or contractually obligated to spend the resources in accordance with restrictions imposed by external third parties.
- **Unrestricted:** Consists of net assets that do not meet the definition of "restricted" or "invested in capital assets, net of related debt." These assets are not subject to externally imposed stipulations. These assets, while not restricted, are generally designated to support instruction, research, auxiliary enterprises, capital projects, and retirement of indebtedness (See Note 15).

The net cumulative effect of the change in accounting principles resulting from the adoption of GASB 35 is described below. The effect of the changes is recorded as a restatement to beginning net assets on the Statement of Revenue, Expenses and Changes in Net Assets. In implementing GASB 35, the University has (1) reclassified governmental advances for revolving loan programs from fund balance to liabilities, (2) recorded depreciation on library books, the only category not depreciated since the University began depreciating capital assets in fiscal 1998 (see Note 3), (3) recorded the fair market value of certain historical collections not previously recognized, (4) recorded deferred revenue for certain research grants previously recorded as fund additions, and (5) recorded certain summer sessions when the revenues are earned and expenses incurred.

The following is a reconciliation of the June 30, 2001 fund balance previously reported to the restated net asset total:

Fund balance, June 30, 2001	$1,203,523,254
Reclassified loan program	(9,566,254)
Library book adjustment	(101,936,489)
Historical collections	31,068,901
Deferred revenue for grants	(9,352,336)
Summer session change	1,728,661
Net Assets, as restated, June 30, 2001	$1,115,465,737

Basis of Accounting

The financial statements of the University have been prepared using the economic resources measurement focus and the accrual basis of accounting in accordance with principles generally accepted in the United States of America and as prescribed by the GASB. For financial reporting purposes the University is considered a special-purpose governmental agency engaged in business-type activities. All significant intra-agency transactions have been eliminated.

The University has the option to apply Financial Accounting Standards Board (FASB) pronouncements issued after November 30, 1989, unless the FASB conflicts with GASB. The University has elected to not apply FASB pronouncements issued after the applicable date.

In order to ensure observance of limitations and restrictions placed on the use of the resources available to the University, the accounts of the University are maintained internally in accordance with the principles of "fund accounting." This is the procedure by which resources for various purposes are classified for accounting and reporting purposes into funds that are in accord with specified activities or objectives.

Cash Equivalents

For the purposes of the Statement of Cash Flows, the University considers all highly liquid investments with an original maturity of three months or less to be cash equivalents. Funds invested in the State of Connecticut Treasurer's Short Term Investment Fund are considered cash equivalents.

Investments

The University accounts for its investments at fair value in accordance with GASB Statement No. 3. Changes in unrealized gain (loss) on the carrying value are recorded with investment income in the accompanying Statement of Revenue, Expenses, and Changes in Net Assets. Noncurrent investments are externally restricted by donors, or outside sources, that have stipulated as a condition of the gift instrument that the principal be maintained inviolate and in perpetuity (see Note 2). Noncurrent investments also include amounts restricted by creditors for certain debt service payments (see Note 4).

Accounts Receivable

Accounts receivable consists of tuition, fees, and auxiliary enterprises service fees charged to students, faculty and staff, amounts due from state and federal governments for grants and contracts, and insurance proceeds (see Note 3). Accounts receivable are recorded net of an estimated allowance for uncollectible accounts.

Inventories

Consumable supplies are expensed when received with the exception of certain central inventories. Cost of inventory is determined by various methods, including the first-in, first-out method.

Deposit with Bond Trustee (See Note 4)

Tax-exempt bond proceeds are deposited to various accounts held by the Trustee Bank as required by certain trust indentures. The funds are invested and disbursed as directed by the University. The University's bond proceeds investment policy is to balance an appropriate risk-return level, heavily weighted towards safety of assets, as defined and permitted under the relative indentures and Connecticut General Statutes.

The University directs the Trustee Bank to invest UCONN 2000 construction fund proceeds in the State Treasurer's Short Term Investment Fund. Similarly, the University has directed the Trustee Bank to invest new proceeds from Special Obligation Bonds in dedicated Short Term Investment Fund accounts, with the exception of the 1998 Special Obligation Special Capital Reserve Fund which is invested in longer term federal agency fixed income Investment Obligations as defined in the Special Obligation Indenture of Trust. The Special Obligation Student Fee Revenue Refunding Series 2002-A proceeds, other than the cost of issuance and debt service accounts that are invested in the Short Term Investment Fund accounts, are held by the Trustee Bank in an irrevocable escrow fund and invested in U.S. Treasury, State, and Local Government Securities and cash in accordance with the Escrow Agreement.

Investment earnings from UCONN 2000 bond proceeds are retained by the State Treasurer's Office and do not flow to the University or to the Trustee Bank. The Student Fee Revenue Bonds investment earnings are part of the Pledged Revenues and are directly retained by the Trustee Bank to pay debt service on the bonds or other indenture permitted purposes. The investment earnings on the Special Obligation Student Fee Revenue Series 2002-A Escrow Account flow to the irrevocable escrow and are used by the Trustee Bank to meet debt service payments on the defeased bonds.

Deferred Charges – Current and Noncurrent

Current deferred charges consist of payments made in advance of a program's revenue being earned. Noncurrent deferred charges represent the cost of issuance and discounts on certain bond issues, which will be amortized over the terms of the respective bond issues.

Noncurrent Cash and Cash Equivalents

Noncurrent cash and cash equivalents are related to endowment assets and are externally restricted as to use.

Property and Equipment

Capital assets are reported at cost at date of acquisition or market value at date of donation, in the case of gifts. Renovations that significantly increase the value or useful life of an asset are capitalized. Routine repairs and maintenance are charged to operating expense in the year the expenditure was incurred.

Building components and non-structural improvements have estimated useful lives from 2 years to 60 years. Equipment has estimated useful lives of 5 years to 30 years.

Deferred Income

Deferred income includes amounts received for services rendered in a future accounting period including tuition and fee revenues. It also includes amounts received for certain restricted research grants that are included in revenue when the funds are expended. See Note 11.

Compensated Absences

Employee vacation and sick leave is accrued at year-end for financial statement purposes. The liability and expense incurred are recorded at year-end as compensated absences in the Statement of Net Assets and in the various expense functions on the Statement of Revenues, Expenses, and Changes in Net Assets. The liability for compensated absences is also classified as current and noncurrent based on the amount estimated to be paid to employees in one year and beyond one year.

Noncurrent Liabilities

Noncurrent liabilities include the long-term portion of compensated absences, deposits held for others that are included in the assets of the University, principal payments due on bonds, loans and capital leases with a maturity of more than one year, and governmental advances for revolving loan programs that would be returned to the federal government upon cessation of the student loan program.

Scholarship Allowances

GASB 35 requires that revenues be reported net of discounts and allowances. As a result, certain amounts previously reported as student aid expenditures and included in other expense categories are reported as an allowance against tuition and fees revenue and sales and services of auxiliary enterprises revenue.

Revenues and Expenses

Operating revenues consist of tuition and fees, state and federal grants and contracts, sales and services of educational activities, auxiliary enterprise revenues and other sources of revenue. Operating expenses are reported using functional classification including those under educational and general and auxiliary enterprises. See Note 14 for operating expenses by object. All other revenues and expenses of the University are reported as nonoperating revenues and expenses including state appropriations and debt service commitment, noncapital gifts, investment income, interest expense, and capital additions and deductions. Revenues are recognized when earned and expenses are recognized when incurred.

GASB Statement No. 33, Accounting and Financial Reporting For Nonexchange Transactions, was released in December 1998 and adopted during fiscal 2001. Statement No. 33 describes in which fiscal year nonexchange transactions involving cash and other financial and capital resources should be recorded. Nonexchange transactions are those where a government, corporation or individual gives value to another party without receiving equal value in exchange, or receives value from another party without directly giving equal value in exchange. Statement No. 33 requires recipients of government-mandated and voluntary nonexchange transactions to recognize revenue when all applicable eligibility requirements are met for these transactions. Restricted grant revenue that does not meet the nonexchange transaction definition is recognized to the extent expended or in the case of fixed price contracts, when the contract terms are met or completed.

2. CASH AND CASH EQUIVALENTS AND INVESTMENTS

Statement No. 3 of the GASB requires governmental entities to categorize deposits and investments to give an indication of the level of credit risk assumed by the University at year-end. Category 1 includes investments that are insured or registered, or for which securities are held by the University or its agent in the name of the University. Category 2 includes uninsured and unregistered investments for which securities are held by the broker's or dealer's trust department or agent in the name of the University. Category 3 includes uninsured and unregistered investments for which the securities are held by the broker or dealer, or by its trust department or agent, but not in the University's name. Investments that are not evidenced by securities are not categorized.

The University's cash and cash equivalents, current and noncurrent balance as of June 30, 2002 was $125,669,801, and included $98,178,606 in cash balances maintained by the State of Connecticut Treasurer, $19,743,073 invested in the State of Connecticut Investment Pool, and $6,829,290 in short-term corporate notes. The remaining $918,832 consisted primarily of deposits with financial institutions and is considered uninsured and uncollateralized (category 3 investments).

Collateralized deposits are deposits protected by Connecticut statute. Under this statute, any bank holding public deposits must at all times maintain, segregated from its other assets, eligible collateral in an amount equal at least to a certain percentage of its public deposits. The applicable percentage is determined based on the bank's risk-based capital ratio - a measure of the bank's financial condition. The collateral is kept in the custody of the trust department of either the pledging bank or another bank in the name of the pledging bank. Portions of the bank balance of the State of Connecticut were insured by the Federal Deposit Insurance Corporation or collateralized. As a State agency, the University benefits from this protection, though the extent to which the deposits of an individual State agency such as the University are protected cannot be readily determined.

The University's cash management investment policy authorizes the University to invest in the State of Connecticut Treasurer's Short Term Investment Fund, United States Treasury bills, United States Treasury notes and bonds, United States Government Agency obligations, banker's acceptances, certificates of deposit (including EURO Dollars), commercial paper, money market funds, repurchase agreements, and savings accounts.

The University designated The University of Connecticut Foundation, Inc. (Foundation) as the manager of the University's endowment funds. The Foundation makes spending allocation distributions to the University for each participating endowment. The spending distribution is spent by the University in accordance with the respective purposes of the endowments and the policies and procedures of the University and in accordance with State of Connecticut statutes the University's governing board may appropriate for expenditure for the uses and purposes for which the endowment fund was established a portion of the realized or unrealized appreciation in the fair value of the endowment fund over the historic dollar value of the fund as is prudent.

The Foundation's pooled endowment portfolio is professionally managed on a total return basis. Each quarter, an amount equal to 5% of the prior twelve-quarter average market value will be distributed for spending in accordance with the respective purposes of the individual endowment funds. Spending distributions may be made from current or accumulated investment return, and calculations for individual endowment funds will be performed on a unitized basis. If an individual endowment fund does not have sufficient funds to support its computed spending allocation from current period net total return and/or from accumulated gains from prior period, the amount allocated for spending will be limited to the interest and dividends of the fund.

Effective July 1, 2000 University endowment investments managed by the Foundation were moved from Fleet Investment Services to the Foundation's pooled portfolio, which is actively managed by professional investment managers as determined by the Investment Committee of the Foundation's Board of Directors. The Foundation has established asset allocation guidelines for its pooled investment portfolio, which provides that the maximum exposure with any one manager would be 15%. The portfolio guidelines in effect through June 7, 2002 provided for a target asset class allocation as follows:

Asset Class	Percentage
Fixed Income	25% - 40%
Equities	60% - 75%

Effective on June 7, 2002 the Foundation Board of Directors adopted a new asset allocation policy for the long-term pooled investment portfolio. The Foundation expects that cash equivalents will be kept to a minimum level, and that portfolios will be invested in only the assets described below and not above or below the individual asset class percentage and its total percentage by group, unless otherwise specified by its Investment Committee.

Asset Class	Percentage
Fixed Income	
Fixed Income	15% - 30%
Treasury Inflation Protected Securities	0% - 10%
Total Fixed Income Class	20% - 40%
Equities	
U.S. Equities	25% - 50%
Non - U.S. Equities	10% - 25%
Total Equities Class	40% - 75%
Alternatives	
Hedge Funds	5% - 15%
Private Capital	0% - 15%
Real Estate	0% - 10%
Total Alternatives Class	5% - 35%

The University's investments, which are carried at fair value and classified as noncurrent assets, totaled $6,969,192 as of June 30, 2002 and included the following:

	Cost	Fair Value
Endowments:		
Foundation Managed (Category 1)	$4,362,835	$5,203,676
Corporate Bonds (Category 1)	13,000	12,230
Other:		
U.S. Government Agency Securities (see Note 4) (Category 1)	1,750,000	1,753,286
Total Investments	$6,125,835	$6,969,192

Certain funds are held by outside fiscal agents and are not under the direct control of the University. Accordingly, the assets of these funds are not included in the financial statements. The fair value amount of these funds at June 30, 2002 was $12,101,345. Investment income earned on these assets is transferred to the University in accordance with the applicable trust agreement. Income received from those sources for the year ended June 30, 2002 was $589,757.

3. PROPERTY AND EQUIPMENT

Land, buildings, non-structural improvements, and equipment (including library materials) are reported at cost at date of acquisition or market value at date of donation, in the case of gifts.

Beginning with fiscal year 2002, GASB Statements Nos. 34 and 35 require recognition of depreciation on buildings, non-structural improvements and equipment. The University has recorded depreciation expense since fiscal 1998 for all property and equipment with the exception of library materials, as allowed for by GASB Statement No. 8. Depreciation has been recorded on a straight-line basis over the estimated useful lives of the respective assets.

Building components and non-structural improvements have estimated useful lives from 2 years to 60 years. Equipment has estimated useful lives of 5 years to 30 years.

In fiscal 2002, the implementation of GASB 35 resulted in recording depreciation on library materials and recognizing certain historical collections at their estimated fair market values at the time of donation. The estimated useful life of library materials was determined to be fifteen years. To record the cumulative effect of prior year depreciation, library materials were written down to reflect fifteen years of library purchases. In subsequent years, depreciation will be recorded on a straight-line basis. The implementation of this accounting principal resulted in an adjustment to reduce library materials and the beginning of the year net asset balance by $101,936,489. The net book value of library materials is $53,411,936 at June 30, 2002 and is included in equipment in the following table of the changes in property and equipment.

Historical collections, not previously recorded in the financial records of the University, were recognized in fiscal year 2002 as non-depreciable capital assets. The valuation of this asset was derived based on a general appraisal of the collections. The value of the historical collections increased by $31,068,901 and is recorded as an adjustment to beginning net assets. Historical collections and art totaled $38,560,944 at June 30, 2002 and is included in equipment in the analysis of changes in property and equipment.

The cumulative effect of theses changes was $70,867,588. This amount is shown as a portion of the cumulative effects of changes in accounting principle in the Statement of Revenues, Expenses, and Changes in Net Assets.

During fiscal year 2002, the University recognized revenues totaling $25,350,000 from an insurance company for surety payments to complete a bonded building project. These amounts are included as revenue in the Capital Additions (Deductions) section of the Statement of Revenues, Expenses, and Changes in Net Assets in capital other. Upon review of this project the University determined that an impairment to the asset resulted from long delays in and quality of construction. An estimated loss to the building has been recognized totaling $10,350,000 and is recorded in capital other in the Statement of Revenues, Expenses, and Changes in Net Assets. The insurance proceeds are considered by management to be adequate to complete the project as originally designed and to cover this loss. Also, property and equipment has been reduced by the same amount. This is reflected in the table below as a reduction to construction in progress in the "transfer/other" column.

The following table describes the changes in property and equipment for the year ended June 30, 2002. The cumulative effect of the changes noted above for library books and historical collections is reflected as an adjustment to the beginning balance of equipment.

Changes in Property and Equipment for the Year Ended June 30, 2002

	Beginning Balance	Additions	Retirements	Transfers/Other	Ending Balance
Property and equipment:					
Land	$ 12,241,568	$ 40,000	$ (246,068)	$ -	$ 12,035,500
Non-structural Improvements	101,456,940	12,216,437	(266,146)	11,989,764	125,396,995
Buildings	760,361,218	57,448,729	(3,335,829)	94,797,580	909,271,698
Equipment	293,215,656	31,305,650	(7,036,079)	-	317,485,227
Construction in Progress	201,264,585	82,977,767	-	(117,137,344)	167,105,008
Total property and equipment	1,368,539,967	183,988,583	(10,884,122)	(10,350,000)	1,531,294,428
Less accumulated depreciation:					
Non-structural Improvements	30,644,994	4,523,331	(188,102)	-	34,980,223
Buildings	159,478,511	24,318,646	(1,175,246)	-	182,621,911
Equipment	119,313,277	21,782,881	(6,052,871)	-	135,043,287
Total accumulated depreciation	309,436,782	50,624,858	(7,416,219)	-	352,645,421
Property and equipment, net:					
Land	12,241,568	40,000	(246,068)	-	12,035,500
Non-structural Improvements	70,811,946	7,693,106	(78,044)	11,989,764	90,416,772
Buildings	600,882,707	33,130,083	(2,160,583)	94,797,580	726,649,787
Equipment	173,902,379	9,522,769	(983,208)	-	182,441,940
Construction in Progress	201,264,585	82,977,767	-	(117,137,344)	167,105,008
Property and equipment, net:	$1,059,103,185	$ 133,363,725	$ (3,467,903)	$ (10,350,000)	$1,178,649,007

4. UCONN 2000 CAPITAL IMPROVEMENTS

Public Act No. 95-230 enables the University to borrow money in its own name for a special ten year capital improvement program (UCONN 2000) designed to modernize, rehabilitate, and expand the physical plant of the University. It authorizes projects estimated to cost $1,250,000,000, of which $962,000,000 is to be financed by bonds of the University; $18,000,000 is to be funded by State General Obligation bonds; and the balance of $270,000,000 may be financed by gifts, other revenue, or borrowing resources of the University.

General obligation bonds issued as of June 30, 2002 are:

1996 Series A	$ 83,929,715
1997 Series A	124,392,432
1998 Series A	99,520,000
1999 Series A	79,735,000
2000 Series A	130,850,000
2001 Series A	100,000,000
2002 Series A	100,000,000

These bonds are general obligations of the University, for which its full faith and credit are pledged, and are payable from all assured revenues. The bonds are additionally secured by the pledge of and a lien upon the State Debt Service Commitment. The State Debt Service Commitment is the commitment by the State to pay an annual amount of debt service on securities issued as general obligations of the University. The University, consistent with the Act, is relying upon the receipt of the annual amount of the pledged State Debt Service Commitment for the payment of the bonds and, accordingly, is not planning to budget any of the other revenues for the payment of the bonds. Under the master indenture, the University expects to issue additional bonds to finance UCONN 2000 projects secured by the State Debt Service Commitment. The University recorded revenue totaling $100,000,000 for the year ended June 30, 2002, representing the increase in the State of Connecticut's debt service commitment for principal as a result of the issuance of the 2002 Series A bonds. In addition, $25,907,563 was recorded as revenue for the State of Connecticut's debt service commitment for interest on general obligation bonds for the year ending June 30, 2002.

The University may also issue Special Obligation bonds backed by certain pledged revenues of the University. On February 4, 1998, the University issued $33,560,000 of the Student Fee Revenue Bonds 1998 Series A to fund $30,000,000 of the South Campus Project; $2,126,425 of a Special Capital Reserve Fund held by the Trustee Bank, $1,753,286 of which is included in noncurrent investments; and the remainder to pay costs of issuance, including the underwriters' discount. The bonds have a final maturity of November 15, 2027.

The 2000 Series A bonds dated May 15, 2000 represented the second series of Special Obligation bonds issued in the amount of $89,570,000. Bond proceeds funded three UCONN 2000 projects: Hilltop Dormitory at $21,000,000, Hilltop Student Rental Apartments at $42,000,000, and Parking Garage South at $24,000,000. These bonds were refunded in advance of maturity in fiscal 2002 with the issuance of Student Fee Revenue Bonds 2002 Refunding Series A. The University issued the refunding bonds on February 27, 2002 in the amount of $96,130,000. The difference between the carrying amount of the defeased debt and its reacquisition price (refunding bonds) will be amortized over the remaining life of the debt similar to a bond discount. The refunding bonds have a final maturity of November 15, 2029. Proceeds from the refunding bonds of $96,830,821, representing the face value, plus the net premium and less the costs of issuance, were deposited with the Trustee bank in an irrevocable escrow fund, which are sufficient together with escrow earnings to satisfy future debt service and call premiums on the prior issue. The escrow is invested in United States Treasury Securities State, Local Government Securities and cash.

On February 14, 2002, the University issued $75,430,000 of the Student Fee Revenue Bond 2002 Series A to fund five UCONN 2000 projects: Alumni Quadrant Renovations at $7,000,000, Shippee/Buckley Renovations at $5,000,000, East Campus North Renovations at $1,000,000, Towers Renovations (including Greek Housing) at $14,180,000, and North Campus Renovations at $45,000,000. The bonds have a final maturity of May 15, 2030.

The Special Obligation bonds are secured by certain gross and net pledged revenues of the University, which totaled approximately $32,643,000 in fiscal year 2002 and are disclosed on the face of the Statement of Revenues, Expenses, and Changes in Net Assets by revenue sources. Gross pledged revenues include the infrastructure maintenance fee and the general University fee plus investment income on the bond accounts held by the Trustee Bank, prior to any payments, deductions, offsets, or provisions. Net pledged revenues include the residential life room fee, student apartment rentals, Greek housing fee, the board (dining) fee, the parking and transportation fee after providing for the cost of maintaining, repairing, insuring, and operating the facilities for which the fees are imposed. In addition to securing revenue bonds, the gross and net pledged revenues available are also pledged toward certain other debt including the U.S. Department of Education loan and self-liquidating debt. The University has covenanted to collect in each fiscal year fees representing pledged revenues so that the sum of gross and net revenue amounts is equal to no less than 1.25 times the debt service requirements in such fiscal year. During fiscal year 2002, Special Obligation bond investment earnings amounted to approximately $1,077,364. The Student Fee Revenue Bonds investment earnings are part of the pledged revenues and are directly retained by the Trustee Bank to pay debt service on the bonds.

5. LONG-TERM DEBT PAYABLE

Long-term debt activity, including refunding of debt (note 4), for the year ended June 30, 2002 was as follows:

	Beginning Balance	Additions	Retirements	Ending Balance	Current Portion
Self Liquidating Bonds	$ 14,837,149	$ 4,259,724	$ (5,525,709)	$ 13,571,164	$ 1,167,012
General Obligation Bonds	542,177,147	100,000,000	(31,540,000)	610,637,147	37,650,000
Revenue Bonds	121,380,000	171,560,000	(91,750,000)	201,190,000	3,665,000
U.S. Dept. of Ed. Towers Loan	1,881,542	-	(33,855)	1,847,687	35,742
Installment Loans	7,160,899	-	(2,100,683)	5,060,216	1,788,159
Total long-term debt	$ 687,436,737	$ 275,819,724	$(130,950,247)	$ 832,306,214	$ 44,305,913

Debt principal outstanding for self-liquidating bond issues, UCONN 2000 bond issues, revenue bonds, and other loans as of June 30, 2002, is as follows:

Issue Date		Balance
Bonds:		
March 1992	original	$ 1,175,037
March 1993	original	594,125
October 1993	refund	924,743
March 1994	original	315,148
August 1994	original	45,359
March 1995	original	255,207
March 1995	refund	183,135
October 1995	original	383,431
November 1996	refund	355,334
March 1997	original	2,344,786
September 1997	refund	322,845
February 1998	refund	996,873
June 2001	refund	1,415,418
November 2001	refund	3,578,275
June 2002	refund	681,448
Total self-liquidating bond		13,571,164
GO 1996 Series A	original	58,404,715
GO 1997 Series A	original	91,892,432
GO 1998 Series A	original	79,600,000
GO 1999 Series A	original	68,000,000
GO 2000 Series A	original	117,740,000
GO 2001 Series A	original	95,000,000
GO 2002 Series A	original	100,000,000
Total general obligation bonds		610,637,147
Rev 1998 Series A	original	31,180,000
Rev 2002 Ref. Series A	refund	94,580,000
Rev 2002 Series A	original	75,430,000
Total revenue bonds		201,190,000
Loans:		
U.S. Dept. Ed. Towers Loan		1,847,687
Installment Purchases		5,060,216
Total bonds, loans and installment purchases		832,306,214
Less: current portion		44,305,913
Total noncurrent portion		$788,000,301

Long-term debt including revenue bonds and general obligation bonds are scheduled to mature in the following years as of June 30:

	Long-Term Debt Except General Obligation Bonds			General Obligation Bonds			Total Obligations		
Year(s)	Principal	Interest	Total	Principal	Interest	Total	Principal	Interest	Total
2003	$6,634,413	$10,647,298	$17,281,711	$37,650,000	$28,329,921	$65,979,921	$44,284,413	$38,977,219	$83,261,632
2004	6,893,145	10,377,173	17,270,318	37,925,000	26,788,596	64,713,596	44,818,145	37,165,769	81,983,914
2005	6,807,730	10,070,075	16,877,805	38,575,000	25,251,659	63,826,659	45,382,730	35,321,734	80,704,464
2006	5,672,356	9,812,654	15,485,010	37,530,000	23,622,734	61,152,734	43,202,356	33,435,388	76,637,744
2007	5,679,932	9,591,606	15,271,538	37,530,000	21,984,109	59,514,109	43,209,932	31,575,715	74,785,647
2008-2012	28,483,110	44,084,045	72,567,155	177,307,147	97,342,033	274,649,180	205,790,257	141,426,078	347,216,335
2013-2017	33,916,227	36,849,989	70,766,216	165,495,000	45,634,625	211,129,625	199,411,227	82,484,614	281,895,841
2018-2022	41,105,826	27,361,590	68,467,416	78,625,000	9,376,588	88,001,588	119,730,826	36,738,178	156,469,004
2023-2027	52,776,328	15,691,030	68,467,358	-	-	-	52,776,328	15,691,030	68,467,358
2028-2030	33,700,000	2,817,338	36,517,338	-	-	-	33,700,000	2,817,338	36,517,338
Total	$221,669,067	$177,302,798	$398,971,865	$610,637,147	$278,330,265	$888,967,412	$832,306,214	$455,633,063	$1,287,939,277

6. BOND FINANCED ALLOTMENTS

The University recognizes an asset when an allotment is processed for State General Obligation bonds or when bonds to be funded from University resources are sold.

7. RETIREMENT PLAN

All regular full-time employees participate in one of two retirement plans. The State Employees' Retirement System, a single employer defined benefit public employee retirement system, is administered by the State and covers most full-time employees. The State of Connecticut is statutorily responsible for the pension benefits of University employees who participate in this plan. The University makes contributions on behalf of the employees through a fringe benefit charge assessed by the State. Alternatively, employees may choose to participate in the Teacher Insurance and Annuity Association/College Retirement Equities Fund (TIAA/CREF). TIAA/CREF is a national organization used to fund pension benefits for educational institutions. Under this arrangement, the University and the plan participants make annual contributions to TIAA/CREF to purchase individual annuities equivalent to retirement benefits earned.

With respect to the University's Department of Dining Services, of its approximately 323 full-time employees, 225 are eligible to participate in two retirement plans. All eligible Dining Services' employees participate in the Department of Dining Services Money Purchase Pension Plan and may choose to participate in another defined contribution plan, the University of Connecticut Department of Dining Services 403(b) Retirement Plan.

8. COMPENSATED ABSENCES AND WAGES PAYABLE

Accrued vacation and accrued sick leave balances for employees are recorded in the accompanying financial statements at June 30, 2002, totaling $17,458,966 and $1,364,857, respectively. These liabilities are recorded in accordance with GASB Statement No. 16 and represent the amounts earned by eligible employees through June 30, 2002. This liability for compensated absences is classified as current and noncurrent based on the amount estimated to be paid to employees in one year and beyond one year, respectively.

Wages payable included salaries and wages for amounts owed at June 30, 2002. The State of Connecticut administers benefit and retirement plans for the University. Therefore, the payable for fringe benefits related to wages payable is included in due to the State of Connecticut as of June 30, 2002.

9. POST EMPLOYMENT BENEFITS

In addition to the pension benefits described in Note 7, the State provides post retirement health care and life insurance benefits to University employees, in accordance with State Statutes, Sections 5-257(d) and 5-259(a). When employees retire, the State pays 100% of their health care insurance premium cost (including the cost of dependent's coverage). In addition, the State pays 100% of the premium cost for a portion of the employee's life insurance continued after retirement.

The amount of life insurance continued at no cost to the retiree is determined in a formula based on the number of years of State service that the retiree had at time of retirement. The State finances the cost of post retirement health care and life insurance benefits on a pay-as-you-go basis through an appropriation in the General Fund.

10. COMMITMENTS

On June 30, 2002, the University had outstanding commitments (over $100,000 each) totaling $91,218,923, which included $83,684,443 of commitments related to capital projects. Of the total amount, $15,179,896 was included in June 30, 2002 accounts payable. In addition to the amount for capital outlay, commitments were also related to research, academic, and institutional support. Of these commitments, the University expects $3,397,950 to be reimbursed by Federal grants.

11. DEFERRED INCOME AND CHARGES

Deferred income totaled $22,917,215 and is comprised of: $7,151,318 of certain restricted research grants that are included in revenue when the funds are expended; a conditional endowment fund established with $3,500,000, which conditions are not satisfied as of June 30, 2002; $9,495,142 that consists of tuition and fees received in advance of fiscal year 2003 summer and fall sessions; and $2,770,755 of other revenues not earned at June 30, 2002. A portion of current deferred charges totaling $508,063 and noncurrent deferred charges totaling $10,335,635, represent the cost of issuance and discounts on certain bond issues, which will be amortized over the terms of the respective bond issues.

12. TUITION WAIVERS AND GRADUATE ASSISTANTSHIPS

The University is required by law to waive tuition for certain veterans and children of veterans, certain students over the age of 62, and graduate assistants. The University is required by collective bargaining agreements to waive tuition for UCPEA employees and dependents of certain other employees. Tuition and fee revenue does not include foregone revenue resulting from tuition waivers. Waivers totaled $23,522,067 in fiscal year 2002. Approximately 81% of such waivers were provided to graduate assistants.

13. CONTINGENCIES

The University is a party to various legal actions arising in the ordinary course of its operations. While it is not feasible to predict the ultimate outcome of these actions, it is the opinion of management that the resolution of these matters will not have a material effect on the University's financial statements.

14. OPERATING EXPENSES BY OBJECT

The following table details the University’s operating expenses by object:

	Instruction	Research	Public Service	Academic Support	Student Services	Institutional Support	Operations and Maintenance of Plant	Depreciation	Student Aid	Auxiliary Enterprises	Total
Salary and Wages	$128,925,737	$40,740,100	$16,582,262	$39,431,659	$15,342,246	$28,370,998	$12,548,039	-	$253,596	$34,713,283	$316,907,920
Fringe Benefits	35,582,175	8,563,857	4,281,323	12,403,667	4,347,161	10,116,611	5,066,199	-	2,146	10,541,740	90,904,879
Supplies & Other Expenses	17,674,688	16,117,718	1,858,899	12,501,757	(428,597)	7,883,902	7,552,919	-	57,534	44,395,264	107,614,084
Utilities	-	-	-	-	145,926	5,197	10,376,412	-	-	7,232,576	17,760,111
Depreciation	-	-	-	-	-	-	-	50,624,858	-	-	50,624,858
	$182,182,600	$65,421,675	$22,722,484	$64,337,083	$19,406,736	$46,376,708	$35,543,569	$50,624,858	$313,276	$96,882,863	$583,811,852

15. UNRESTRICTED NET ASSETS

The following table details the University's unrestricted net assets:

Current funds	$32,129,849
Unexpended plant fund	22,793,798
Internally restricted for retirement of indebtedness	28,743,322
Total Unrestricted net assets	$83,666,969

UNIVERSITY OF CONNECTICUT
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JUNE 30, 2002

BOARD OF TRUSTEES

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