University of Connecticut

Financial Report
For the Year Ended June 30, 2004

Message from the Vice President and Chief Financial Officer

Founded in 1881, the University of Connecticut (University) serves as the state's flagship for higher education, meeting the educational needs of undergraduate, graduate, professional, and continuing education students through the integration of teaching, research and service. The University of Connecticut is a comprehensive institution of higher education which includes the University of Connecticut Health Center (Health Center). Although governed by a single Board of Trustees, the University and its Health Center maintain separate budgets and are by statute separate entities for purposes of maintaining operating funds and state appropriations. The Health Center also has a Board of Directors to whom the Board of Trustees has delegated certain responsibility and authority.

This financial report for the fiscal year ended June 30, 2004 represents the transactions and balances of the University, here defined as all programs except the Health Center. This includes Storrs-based undergraduate and graduate programs, the regional campuses, the School of Law and the School of Social Work. The University's enrollment in fiscal year 2004 topped 26,000 students, taught by 1,107 full-time faculty members and an additional 708 part-time faculty and adjuncts. In total, the University employs more than 4,000 full and part-time faculty and staff. Two other entities also support the mission of the University: The University of Connecticut Foundation, Inc. (Foundation) and the University of Connecticut Law School Foundation, Inc. (Law School Foundation).

The University's Board of Trustees is vested by law with fiscal oversight of the University. The operational authority granted to the University builds upon the successful implementation of several pieces of legislation known as the Flexibility Acts, enacted in the early 1990's. These statutory changes enabled the University to become responsible and accountable for its operational decisions independent of many of the previously imposed regulatory requirements. The University is now responsible for the budgetary allocation of its State appropriation, check-writing authority, human resource control, purchasing authority and, with the advent of UCONN 2000 in 1995, management of capital projects.

While the University's operational flexibility and capacity has grown, all of these activities also take place within a context of continuing external review. The financial statements contained in this report reflect budget execution results consistent with spending plans, operating and capital budgets approved by the University Board of Trustees. The Auditors of Public Accounts issue an Independent Auditors' Report on the financial statements of the University. They are responsible for auditing its financial operations and their opinion appears in this report.

During the course of fiscal year 2004, the Board of Trustees restructured and expanded the role of its Joint Audit and Compliance Committee, with a charge that includes oversight of all University financial reporting and processes and internal control systems, as well as direct engagement in the approval of independent auditing services to augment the University's internal audit capacity and the work performed by the Auditors of Public Accounts. In addition, the University's internal audit function has been reorganized and expanded with the infusion of additional resources. While the provisions of the Sarbanes-Oxley Act may be designed for private corporate entities, under the Board's guidance the University is moving forward in keeping with the spirit of the Act and is continuing to strengthen its audit, compliance and risk assessment functions.

The fiscal operations of the University are not an end in themselves—rather, the maintenance of fiscal health and stability serves the ultimate goal of enabling the University to achieve its academic, research and service mission. The growth and diversification of the University's funding streams, combined with the physical transformation through UCONN 2000, have led the University to record enrollments, research success and ever-growing contribution to the economic well-being of the State of Connecticut.

Among its many accomplishments, the University continues the distinction of being rated the best public university in New England in the annual *U.S. News and World Report* rankings. The University is currently ranked 25th among 162 public universities in the nation.

- Undergraduate enrollment is at an all-time high, while the quality and diversity of students choosing the University has shown a documented rise every year since the mid-1990's. Compared to fall of 1995, fall 2003 freshman enrollment at the main campus was up 59%, minority freshman enrollment was up 74% and average SAT scores were up nearly 54 points. Thirty percent of these students ranked in the top 10% of their high school class.
- Nearly 5,400 degrees were conferred in the 2003-2004 school year for the completion of undergraduate, graduate and professional programs at the Storrs and regional campuses.
- The University's graduate and professional program rankings continue to climb in *U.S. News and World Report's* latest issue of *America's Best Graduate Schools.* Among public graduate and professional programs nationwide, the University ranked: 17th in the health discipline of Audiology; 20th in Law; 21st in Education doctoral programs (14th in the Elementary Education doctoral specialty); 27th in Business master's programs (14th in the Information Systems graduate specialty); 39th in Engineering; 39th in Public Administration master's (5th in the specialty of Public Finance and Budgeting); 41st in Clinical Psychology; and 46th in Social Work. The MBA Program was included in the *Forbes* "Top 50", among 1,200 business schools nationwide, for the best return on investment and was also recognized by *The Wall Street Journal* and *Business Week*.
- Research awards for the Storrs-based program grew from $59.6 million in fiscal year 1997 to $92 million in fiscal year 2004.
- The Carnegie Corporation of New York named the University one of seven institutions nationwide to be designated as a "Teachers for a New Era" school and awarded a five-year, $5 million grant to be shared by the University's Neag School of Education and College of Liberal Arts and Sciences to improve the quality of teachers in the classroom.
- UConn has the 5th largest residential program and the highest percentage of students living on campus of any public university nationally, according to the Association of College and University Housing Officers International. More than 11,000 students live on the main campus, including 74 percent of the Storrs undergraduate program.
- The Foundation's capital campaign, on behalf of the University, came to a successful conclusion in 2004 having raised $471 million—well beyond its $300 million goal. An endowment of $49.5 million in 1995 had grown to $250 million in 2004. The campaign engaged 115,000 donors, of whom 61,000 gave to the University for the first time.
- By 2004, the UCONN 2000 program had led to the completion of 30 new buildings and 50 major renovations.

Finally, even this financial report would be incomplete without mention of the UConn men's and women's basketball teams' historic achievement in 2004: dual national championships, the first ever in NCAA Division I history. The Huskies' victory parade in Hartford saw an estimated attendance of 300,000—nearly one-tenth of the state's population—ample evidence that the University of Connecticut has captured the hearts as well as the minds of Connecticut citizens statewide.

Respectfully Submitted,

Lorraine M. Aronson
Vice President and Chief Financial Officer
University of Connecticut

Bruce A. DeTora
Chief Financial Officer
Storrs-based Program

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STATE OF CONNECTICUT

AUDITORS OF PUBLIC ACCOUNTS
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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 statements of net assets of the University of Connecticut (University) as of June 30, 2004 and 2003, and the related statements of revenues, expenses and changes in net assets and statements of cash flows for the years 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 audits. We did not audit the financial statements of the University of Connecticut Law School Foundation, Inc., a discretely presented component unit, which statements reflect assets constituting 1 percent and revenues constituting .1 percent of the related totals of the University in 2004. Those financial statements were audited by other auditors whose reports thereon have been furnished to us, and our opinions, insofar as they relate to the amounts included for the University of Connecticut Law School Foundation, Inc., are based solely on the reports of the other auditors. The audits of the University of Connecticut Law School Foundation were conducted in accordance with auditing standards generally accepted in the United States of America.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes 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 audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the University, as of June 30, 2004 and 2003, and the changes in net assets and cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 1, the University adopted the provisions of Governmental Accounting Standards Board (GASB) Statement No. 39, Determining Whether Certain Organizations are Component Units – an amendment of GASB Statement No. 14, as of July 1, 2003.

The Management Discussion and Analysis on pages 4 through 17 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

December 29, 2004
State Capitol
Hartford, Connecticut

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MANAGEMENT'S DISCUSSION AND ANALYSIS

Management's Discussion and Analysis

INTRODUCTION

The following unaudited 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. The MD&A, which is unaudited, includes an analysis of the financial position and results of activities of the University of Connecticut (University, as defined below) for the fiscal year ended June 30, 2004, based on currently known facts, decisions, or conditions. It also includes selected comparative information for the years ended June 30, 2003 and 2002. 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.

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During the year ended June 30, 2004, the University adopted Governmental Accounting Standards Board (GASB) Statement No. 39, *Determining Whether Certain Organizations Are Component Units*, which amends GASB Statement No. 14, *The Financial Reporting Entity*. As a result, The University of Connecticut Law School Foundation, Inc. (Law School Foundation) is included as a component unit with the University (See Note 1). A related, but independent, corporate entity, The University of Connecticut Foundation, Inc. (Foundation), operates exclusively for charitable and educational purposes, raising funds to promote, encourage, and assist education and research at the University and the Health Center. The Foundation solicits and accepts donations of properties, monies, and securities and invests and administers these gifts. The Foundation materially supports the mission of both the University and the Health Center which are both separately audited, producing their own financial statements. Displaying the Foundation's financial statements as a component unit of either the University or the Health Center would distort its actual contribution or economic benefit to that entity, and therefore the Foundation is not included as a component unit in the accompanying financial statements.

The University's Board of Trustees is vested by law with fiscal oversight of the University. The operational authority granted to the University builds upon the successful implementation of several pieces of legislation known as the Flexibility Acts, enacted in the early 1990's. These statutory changes enabled the University to become responsible and accountable for its operational decisions independent of many of the previously imposed regulatory requirements. The University is now responsible for the budgetary allocation of its State appropriation, check-writing authority, human resource control, purchasing authority and, with the advent of UCONN 2000 in 1995, management of capital projects.

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FINANCIAL HIGHLIGHTS AND ECONOMIC OUTLOOK

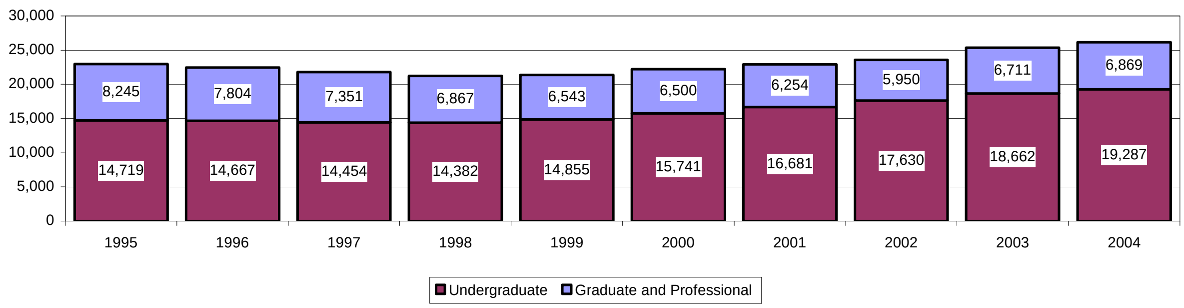
The University submits separate biennial operating and capital budgets to the Governor and General Assembly through the Board of Governors for Higher Education. The General Assembly appropriates and allocates funds directly to the University. The University's spending plan reflects a balanced budget. In general, the Governor may reduce State agency allotments by not more than 5%, although in recent years the General Assembly has afforded the Governor certain specified additional reduction authority.

The financial statements contained herein show an operating loss of $276.9 million for the year ending June 30, 2004 (fiscal year 2004) as compared to $299.9 million for the year ending June 30, 2003 (fiscal year 2003), and $279.8 million for the year ending June 30, 2002 (fiscal year 2002). The improvement in operations in fiscal year 2004 from fiscal year

2003 was due to the combined effect of increased enrollment and tuition and fee increases, along with reductions in full-time staff as a result of early retirements that occurred at the end of fiscal year 2003. For public institutions, the measure more indicative of normal and recurring activities is income or loss before capital additions (deductions), which includes revenue from State appropriations. The University experienced a loss before capital additions (deductions) of $19.5 million in fiscal year 2004 as compared to $28.7 million and $9.3 million for fiscal years 2003 and 2002, respectively. Total operating revenues grew $39.8 million in fiscal year 2004, close to a one and one-half times greater increase than the $27.6 million increase in fiscal year 2003. At the same time, operating expenses increased $16.7 million, about one-third of the increase in fiscal year 2003 of $47.8 million over fiscal year 2002. Investment income declined the last three fiscal years. It decreased $1.2 million, $2.0 million, and $5.9 million in fiscal years 2004, 2003, and 2002, respectively.

Sources of recurring operating and nonoperating revenues continue to exhibit strength with increases in the past three fiscal years. The University's core business of instruction, research and public service has provided consistent increases in revenues while State support decreased slightly for the second year in a row. The University's total enrollment in fiscal year 2003 topped 25,000 students and grew to 26,156 students in fiscal year 2004. These students are taught by 1,107 full-time faculty members and an additional 708 part-time faculty and adjuncts. Undergraduate enrollment at the University reached 19,287 students in fiscal year 2004, 3.3% more than the prior year. With student growth outpacing State support, an in-state tuition and mandatory fee increase of 10.7% and out-of-state increase of 11.0% was approved for fiscal year 2004. Graduate and professional enrollment increased by 2.4% with the same overall increase in tuition and mandatory fee rates as experienced by undergraduate students. The increased enrollment of all students, when combined with the tuition and mandatory fee increases, resulted in an increase in tuition and fee revenue, before scholarship allowance, of $26.6 million (15.6%) as compared to a $21.1 million (14.1%) increase in 2003. Sales and services of auxiliary enterprises, before scholarship allowances, increased $15.4 million (17.0%), primarily as a result of bringing on-line 1,155 additional beds resulting in a 7.4% increase in the number of fee paying students boarding on campus, and an overall increase in room and board fees of 5.3%. In fiscal year 2003, sales and services of auxiliary enterprises, before scholarship allowances, increased $8.9 million (10.9%). Grant and contract revenues increased $3.7 million (3.7%) in fiscal year 2004 as compared to an increase in fiscal year 2003 over 2002 of $1.8 million (1.8%).

HEADCOUNT ENROLLMENT IN FALL OF EACH FISCAL YEAR
TEN YEAR COMPARISON



By the end of fiscal year 2004, it became apparent that the State's significant revenue streams were beginning to reflect the improving economy. This financial improvement enabled a $4.7 million add-back to the University's original budget for the year ending June 30, 2005 (fiscal year 2005). Even if State tax revenues continue to rebound, the State's budget cap on expenditures creates an important context as the University looks to the future. The University's non-state revenue streams continue to play an ever-growing role in its financial health. These sources include private support, research funding, tuition and mandatory fees, and room and board fees.

As part of its response to the significant State budget shortfall in fiscal year 2003, the State offered a statewide Early Retirement Incentive Plan (ERIP) to its employees. The impact of ERIP was significant. The University saw a total of 365 employees accept the program. Of this group, 82 were faculty, 98 were professional staff and 185 were classified personnel, including 104 maintenance staff. Because the ERIP was designed to reduce Sate spending, the State's public higher education institutions were permitted to keep only half of the savings generated by the program. In short, $8.9 million was removed from the University's appropriation as a result of the State's plan.

The combination of faculty retirements and growing enrollment has posed a number of challenges for the University. Without the voluntary return of many retirees (for the statutorily permissible 120 days per calendar year) and hiring of adjunct faculty to cover course offerings this past fiscal year, ERIP might otherwise have had a significant negative impact on the principal business of the University. An aggressive faculty hiring plan was undertaken in fiscal year 2004 to counter the effect of ERIP and meet the demands of increasing enrollments of both undergraduate and graduate students. As a result of ERIP and savings from the wage concessions agreed to by faculty, professional staff and managers, the University achieved significant savings in operating expenditures of approximately $23.8 million ($12.5 million related to ERIP) during fiscal year 2004.

21st Century UConn, also known as Phase 3 of UCONN 2000, will begin in fiscal year 2005. It represents a $1.3 billion, 10-year extension of the original UCONN 2000 program (see Note 4), and will provide $1.0 billion for facilities improvements at Storrs, the regional campuses, and the School of Law, and $305 million for improvements at the Health Center. This commitment from the State provides long-term funds for capital enhancement and preservation and will allow the University to keep pace with the enormous enrollment growth experienced in the last three years.

FINANCIAL STATEMENTS

Effective July 1, 2001, the University adopted GASB Statement No. 35, *Basic Financial Statements - and Management's Discussion and Analysis - for Public Colleges and Universities*, as amended by GASB Statements Nos. 37 and 38. GASB Statement No. 35 establishes standards for financial reporting for public colleges and universities. The University's financial report includes three basic financial statements: Statements of Net Assets; Statements of Revenues, Expenses, and Changes in Net Assets; and Statements of Cash Flows. In addition, the following elements are included with these general-purpose financial statements: Management's Discussion and Analysis and Notes to the financial statements.

GASB No. 35 focuses on the University as a whole rather than on accountability by individual fund groups and provides accounting and financial reporting guidelines, enhancing the usefulness and comprehension of financial reports by external users. The adoption of these standards resulted in the conversion from fund accounting statements to statements presented in a single-column format.

The financial statements reflect budget execution results consistent with operating budgets and spending plans approved by the University's Board of Trustees. The University prepares and presents its Operating Budget requests and annual Spending Plan in a current funds format.

STATEMENTS OF NET ASSETS

The Statements of Net Assets present the assets, liabilities, and net assets of the University as of the end of the fiscal year, June 30. The Statements of Net Assets are a point of time financial statement – a snapshot – and a measure of the financial condition of the University. These statements present end-of-year data concerning assets, classified as current (those available for use within one year) and noncurrent (those available beyond one year), 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.

Readers of the Statements 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. Over time, an increase in net assets is an indicator of the University's improving financial strength.

The following table shows condensed Statements of Net Assets at June 30, 2004, 2003 and 2002:

	2004	**2003**	**2002**
Current assets	$ 311,660,766	$ 336,317,806	$ 416,138,886
Noncurrent assets	2,147,963,680	1,992,917,844	1,780,191,592
Total assets	$ 2,459,624,446	$ 2,329,235,650	$ 2,196,330,478
Current liabilities	$ 181,341,222	$ 176,492,670	$ 162,314,458
Noncurrent liabilities	922,764,246	853,848,348	805,292,823
Total liabilities	$ 1,104,105,468	$ 1,030,341,018	$ 967,607,281
Invested in capital assets, net	$ 1,206,280,804	$ 1,148,711,532	$ 1,020,536,235
Restricted	47,753,495	67,932,668	124,519,993
Unrestricted	101,484,679	82,250,432	83,666,969
Total net assets	$ 1,355,518,978	$ 1,298,894,632	$ 1,228,723,197

The total assets increased $130.4 million in fiscal year 2004 over 2003 and $132.9 million in fiscal year 2003 over 2002. The growth in fiscal year 2004 was primarily due to $112.7 million ($163.8 million in fiscal year 2003) of additions to property and equipment, net of accumulated depreciation, a $30.0 million ($6.5 million in fiscal year 2003) increase in cash and cash equivalents and a $51.9 million ($59.5 million in fiscal year 2003) increase in the state debt service commitment. This increase was offset by a decrease in both receivables and due from the State of Connecticut totaling $10.2 million ($21.3 million in fiscal year 2003) and a $55.3 million ($69.8 million in fiscal year 2003) reduction in deposit with bond trustee used for construction projects.

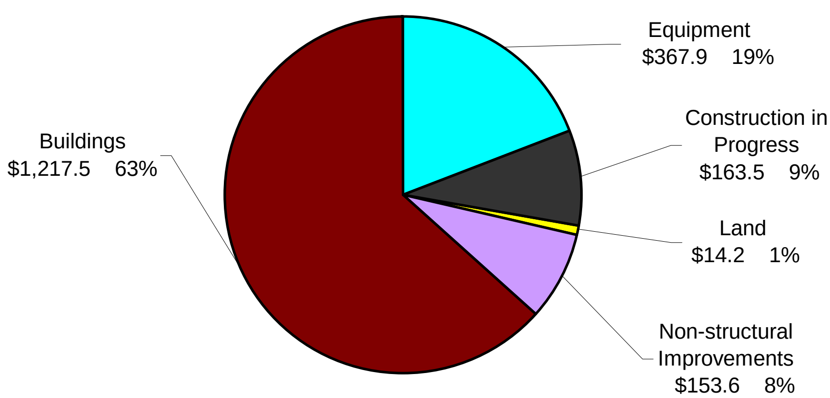
The total liabilities for the fiscal year 2004 increased $73.8 million ($62.7 million in fiscal year 2003) primarily due to newly acquired debt through the sale of general obligation bonds and other new debt, including refunded debt (see Note 4 to the financial statements), totaling $347.9 million in fiscal year 2004 ($97.6 million in fiscal year 2003) and the retirement of prior year debt on existing bonds and loans of $274.4 million in fiscal year 2004 ($45.2 million in fiscal year 2003). The combination of the increase in total assets of $130.4 million ($132.9 for fiscal year 2003) and total liabilities of $73.8 million ($62.7 million for fiscal year 2003) yields an increase in total net assets of $56.6 million ($70.2 million in fiscal year 2003).

Current assets less current liabilities represents working capital, which was $130.3 million, $159.8 million and $253.8 million at June 30, 2004, 2003 and 2002, respectively. The current ratio, which is current assets divided by current liabilities, declined each of the three years presented, from 2.56 to 1 at June 30, 2002 to 1.91 to 1 at June 30, 2003 and 1.72 to 1 at June 30, 2004. The decline in the University's liquidity is due primarily to the deposit held with bond trustee decreasing $55.3 million and $69.8 million in fiscal years 2004 and 2003, respectively, using the funds for construction projects related to UCONN 2000 (see Note 4).

Capital and Debt Activities

During fiscal year 2004, the University recorded additions to property and equipment totaling $182.3 million ($227.2 million and $184.0 million in 2003 and 2002, respectively) of which $145.5 million in fiscal year 2004 related to buildings and construction in progress ($185.5 million and $140.4 million in 2003 and 2002, respectively). This unprecedented growth of the University's property and equipment is a direct result of the successful UCONN 2000 program. The third phase of the program, also known as 21st Century UConn, will expand and build on the success of UCONN 2000 with an additional $1.3 billion for improvements to facilities at the University and the Health Center (see Note 4). The following pie chart presents the total property and equipment at cost:

TOTAL PROPERTY AND EQUIPMENT AT COST AT JUNE 30, 2004
($ in Millions) Total $1,916.7

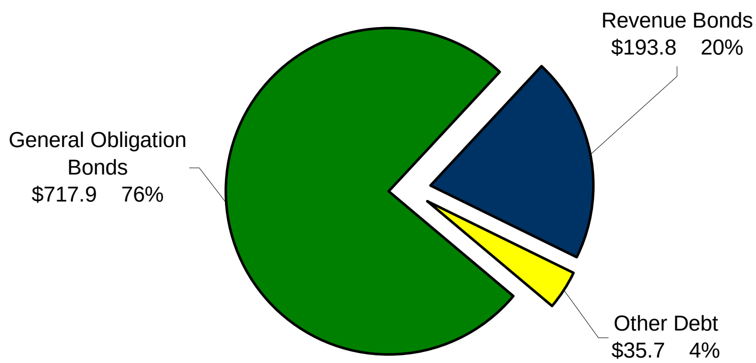


In fiscal year 2004, the University issued bonds with a total face value of $314.8 million from the sale of UCONN 2000 general obligation bonds ($96.2 million in fiscal year 2003). The issuance included $217 million of bonds to refund previously issued general obligation bonds (see Note 4), resulting in a projected net present value savings of $10.1 million. The State has made a commitment to fund the University for all principal and interest payments due on UCONN 2000, inclusive of 21st Century UConn, general obligation debt. The commitment from the State is recorded as a current and noncurrent receivable (state debt service commitment in the accompanying Statements of Net Assets), as the general obligation debt is incurred.

In December, 2003 the University entered into a lease purchase agreement for a project to provide on-site generation of electricity, steam and chilled water for heating and cooling for the University at its Storrs campus. The entire cost of the project is expected to be $75 million and will be financed by a 20-year lease (see Note 4). Construction is currently underway and at June 30, 2004, $20.6 million was owed for amounts advanced by the lessor, including capitalized interest. Upon completion, the cogeneration facility is anticipated to produce savings from what the University would have expended for utilities.

See Notes 3 and 4 of the financial statements for further information on capital and debt activities.

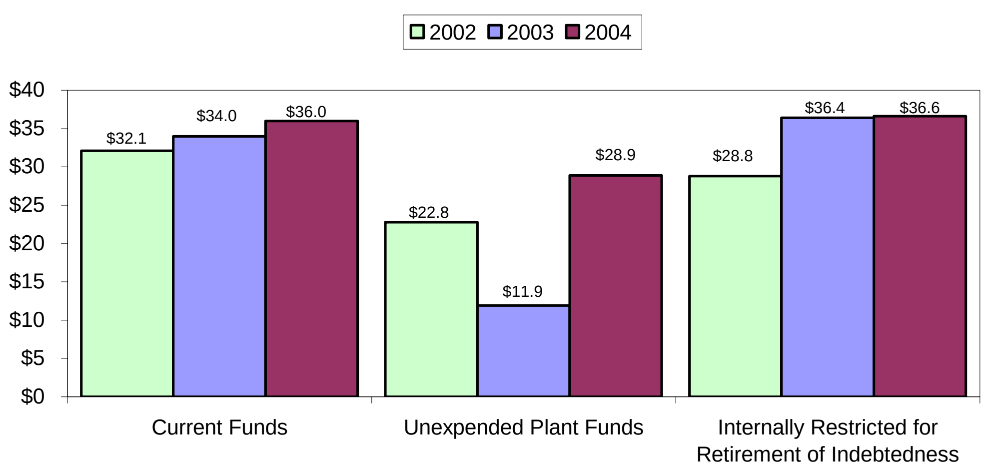
CATEGORIES OF DEBT AT JUNE 30,2004
($ in millions) Total $947.4



Net Assets

Net assets are divided into three major categories. The first category, invested in capital assets, net of related debt, provides the University's equity in property and equipment. The restricted net assets category 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 Statements 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 is defined by GASB to include funds not restricted by third-parties, including all unrestricted funds formerly (prior to fiscal year 2002) included in the balances of unrestricted current funds, retirement of indebtedness funds, and plant funds. Unrestricted net assets may be designated for specific purposes by action of management or the Board of Trustees or may otherwise be limited by contractual agreements with outside parties. GASB prohibits a breakout of designated unrestricted funds on the face of the Statements of Net Assets. Unrestricted net assets are available to the University for any lawful purpose of the institution. The following shows a comparison between fiscal years by category of unrestricted net assets:

UNRESTRICTED NET ASSETS ($ in Millions)



Substantially all unrestricted net assets are internally designated for academic and research programs, capital programs, retirement of debt, and auxiliary enterprise activities.

STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS

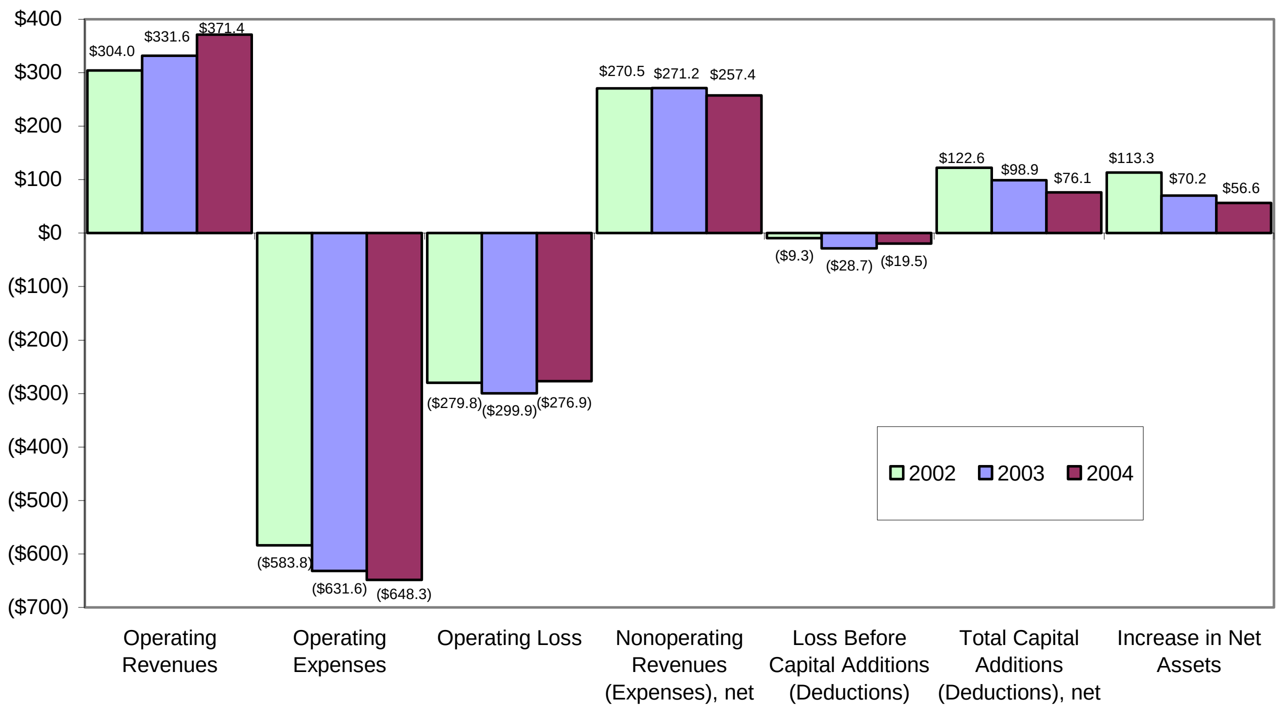
Revenues and expenses are classified as operating, nonoperating, or capital additions (deductions) according to definitions prescribed by GASB. Significant recurring sources of nonoperating revenue utilized in balancing the operating loss each year include state appropriations for general operations, 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, fees, 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. Unless a significant increase in tuition and fees and room and board revenues occurs, the University will always show a loss from operations.

The following table shows condensed Statements of Revenues, Expenses, and Changes in Net Assets for the fiscal years ended June 30, 2004, 2003 and 2002:

	2004	2003	2002
Operating revenues	$ 371,424,978	$ 331,640,922	$ 304,039,226
Operating expenses	648,329,693	631,587,824	583,811,852
Operating loss	(276,904,715)	(299,946,902)	(279,772,626)
Nonoperating revenues (expenses), net	257,407,359	271,209,262	270,458,641
Loss before capital additions (deductions)	(19,497,356)	(28,737,640)	(9,313,985)
Total capital additions (deductions)	76,121,702	98,909,075	122,571,445
Increase in Net Assets	$ 56,624,346	$ 70,171,435	$ 113,257,460

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

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
($ in Millions)



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, interest expense, and other expenses not considered in the functional classification of operating expenses.

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 Statements of Revenues, Expenses, and Changes in Net Assets reflect three positive years with an increase in the net assets of $56.6 million, $70.2 million and $113.3 million at the end of the fiscal years 2004, 2003 and 2002, respectively.

Revenues

The following table summarizes operating and nonoperating revenues and capital additions for the fiscal years ended June 30, 2004, 2003 and 2002:

	2004	2003	2002
Operating revenues:			
Student tuition and fees, net	$ 141,573,265	$ 120,275,694	$ 102,200,333
Grants and contracts	103,893,925	100,183,600	98,373,311
Sales and services of educational departments	12,166,016	13,514,914	12,020,682
Sales and services of auxiliary enterprises, net	104,784,446	89,438,533	81,002,139
Other sources	9,007,326	8,228,181	10,442,761
Total operating revenues	371,424,978	331,640,922	304,039,226
Nonoperating revenues:			
State appropriation	256,467,347	258,751,010	259,447,742
State debt service commitment for interest	27,852,310	29,228,519	25,907,563
Gifts	15,319,152	18,936,287	16,202,233
Investment income	2,388,513	3,565,261	5,572,628
Other nonoperating revenues, net (see *Expense* section below for 2004 and 2002)	-	522,514	-
Total nonoperating revenues	302,027,322	311,003,591	307,130,166
Capital additions:			
State debt service commitment for principal	91,635,000	96,210,000	100,000,000
Capital grants and gifts	8,243,365	7,558,843	12,316,127
Capital other, net (see *Expense* section below for 2004 and 2003)	-	-	13,357,569
Total capital additions	99,878,365	103,768,843	125,673,696
Total revenues	$ 773,330,665	$ 746,413,356	$ 736,843,088

Revenue highlights, for fiscal years 2004 and 2003 with comparison to the prior fiscal years, including operating and nonoperating revenues and capital additions, presented on the Statements of Revenues, Expenses, and Changes in Net Assets are as follows:

- Student tuition and mandatory fees, net of scholarship allowances, increased 17.7% in both fiscal years 2004 and 2003 over the prior years (15.6% and 14.1% before scholarship allowance, respectively), due in part to 3.3% (5.9% in fiscal year 2003) more undergraduates enrolled at the University and an increase of 10.7% (5.7% in fiscal year 2003) for undergraduate in-state tuition and mandatory fees charged to undergraduate students (11.0% and 6.1% for out-of-state in fiscal years 2004 and 2003, respectively).

- Sales and services of auxiliary enterprises, net increased approximately 17.2% and 10.4% during fiscal years 2004 and 2003, respectively. This increase is consistent with the increase in available on-campus housing and the number of students living on campus. In fiscal year 2004, there were 7.4% more room fee-paying students living on campus, following fiscal year 2003 which experienced a 5.0% increase. Board fee-paying students increased 5.2% in fiscal year 2004 (5.3% in fiscal year 2003), and fees charged for both room and board increased approximately 5.3% (3.9% in fiscal year 2003).

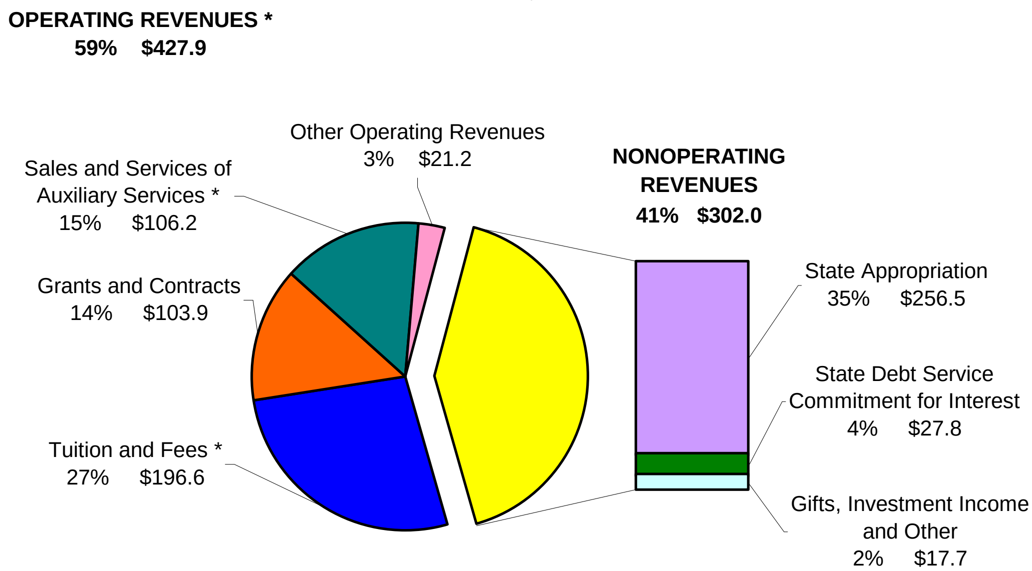
- The largest source of revenue, state appropriation including fringe benefits, has decreased slightly each year since fiscal year 2002; it is included in the nonoperating section. The State also provides state debt service commitment for the interest payments made annually on general obligation bonds. State debt service commitment for interest revenue is also included with nonoperating revenues and corresponds to the total interest paid and accrued on general obligation bonds. Effectively, this revenue offsets a significant portion of interest expense each year. 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 Statements of Changes in Net Assets to reflect this commitment. This results in revenue that is recorded as a capital addition and totaled $91.6 million in fiscal year 2004.

- Gift revenue, both capital and noncapital, is derived from gifts made directly to the University and from the Foundation and Law School 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 and the Health Center. Both the Law School Foundation and the Foundation disburse funds to the University as requests are made, provided the request is in accordance with donor restrictions, if any. These gifts, including capital gifts, received by the University from both Foundations totaled approximately $16.3 million in fiscal year 2004 compared to $18.3 million in fiscal year 2003. Both Foundations also paid approximately $4.2 million in both fiscal years 2004 and 2003 to third parties on behalf of the University. This amount is not reflected in the University's financial statements. In addition, the University also receives gifts directly. Total nonoperating and capital gift and grant revenue to the University from all sources amounted to $23.6 million and $26.5 million in fiscal years 2004 and 2003, respectively.

- Capital other revenue (expense) in 2004 and 2003 is discussed below in *Expenses* section of this MD&A. In fiscal year 2002, included in the Capital Additions (Deductions) section, was $25.3 million of insurance proceeds from a performance bond related to a significant construction project at the University. This amount was offset by an expense of approximately $10 million recorded to reflect a reduction in property and equipment due to impairment in a construction project asset. The remaining amount of capital other was related to expenses incurred in fiscal year 2002 for capital activities of the University, resulting in net revenue in fiscal year 2002.

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

REVENUES FOR FISCAL 2004 ($ in Millions)
Total: $729.9



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

Expenses

The following table summarizes operating and nonoperating expenses and capital deductions for the fiscal years ended June 30, 2004, 2003 and 2002:

	2004	2003	2002
Operating expenses:			
Instruction	$ 200,872,187	$ 210,682,856	$ 198,738,445
Research	61,993,855	56,170,809	49,310,979
Auxiliary enterprises	102,573,786	93,185,331	90,957,783
Depreciation	69,594,696	63,402,505	50,624,858
Other	213,295,169	208,146,323	194,179,787
Total Operating Expenses	648,329,693	631,587,824	583,811,852
Nonoperating expenses:			
Interest expense	37,817,551	39,794,329	33,955,787
Other nonoperating expense, net (see *Revenue* section above for 2003)	6,802,412	-	2,715,738
Total Nonoperating Expenses	44,619,963	39,794,329	36,671,525
Capital deductions:			
Disposal of property and equipment, net	4,190,358	2,454,738	3,102,251
Capital other, net (see *Revenue* section above for 2002)	19,566,305	2,405,030	-
Total Capital Additions Deductions	23,756,663	4,859,768	3,102,251
Total Expenses	$ 716,706,319	$ 676,241,921	$ 623,585,628

Operating expenditures are classified by function in the accompanying Statements of Revenues, Expenses, and Changes in Net Assets. These functions directly contribute to the major missions of the University. Natural or object classification includes salaries, fringe, utilities, and supplies and other expenses (see Note 12 for operating expenses classified by object). The following briefly describes the functions used to classify expenses in the accompanying financial statements:

- **Instruction:** The instruction function consists of all formal educational activities in which a student engages to earn credit toward a degree or certificate at the University, including academic, occupational, and vocational instruction, and faculty and department administration, except for deans. It also includes noncredit expenditures for regular and special programs for community education, preparatory and adult basic education and departmental research. Non-research institutes and service centers supporting a department are recorded in this category.

- **Research:** The research function comprises all research-related activities established within the University under the terms of agreements external to the University, or separately budgeted and conducted with internal funds. It includes expenditures for individual and/or project research as well as those of research centers. This category does not include all sponsored programs such as training grants, nor is it limited to sponsored research, since internally supported research programs that are separately budgeted are included in this category.

- **Public Service:** The public service function contains the activities within the University that produce outcomes directed toward the benefit of the community or individuals residing within the geographic service area of the University. Within the public service function are conferences, general advisory services, consulting, community services, cooperative extension services, and public broadcasting services.

- **Academic Support:** The academic support function contains those activities that support the primary missions of the University – instruction, research and public service – through the retention, preservation and display of materials, or provides services that directly assist the academic functions of the University. Academic support includes libraries, museums and galleries, audiovisual services, computing support, ancillary support, academic deans, course and curriculum development, and academic personnel development. Non-research institutes and service centers supporting a school or college are recorded in this category.

- **Student Service:** The student service function includes funds expended for offices of admissions and registrar and those activities whose primary purpose is to contribute to the students' emotional and physical well being and to their intellectual, cultural, and social development outside the context of the formal instruction program. This category includes cultural events, student administration, counseling and career guidance, financial aid administration, college work-study, student recruitment, and student record keeping.

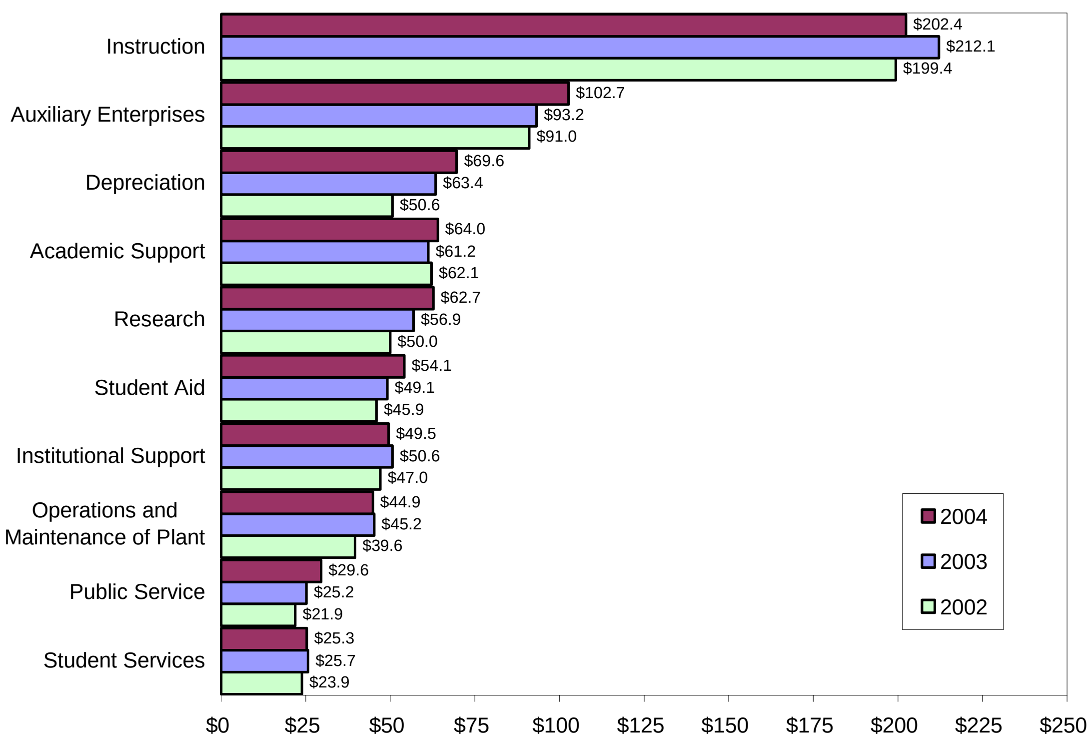
- **Institutional Support:** The institutional support function consists of those activities within the University that provide campus-wide support to the other functions. Institutional support includes executive management concerned with management and long-range planning of the entire institution, including the governing board, planning and programming, and legal services. It also includes fiscal operations, general administrative services, logistical services that provide procurement, storerooms, safety, security, printing and transportation services to the University, services to faculty and staff that are not auxiliary services, and public relations and development.

- **Operations and Maintenance of Plant:** This category includes expenditures for the operation and maintenance of the physical plant including utilities, supplies, repairs, and maintenance of buildings, equipment and grounds. Also included are property insurance and similar items.

- **Student Aid:** Student aid is primarily scholarships and fellowships pertaining to graduate and undergraduate students and includes grants-in-aid, stipends, and prizes. Funding for student aid comes directly from grants and internally designated funds, both restricted and unrestricted. GASB 35 requires the recording of this expenditure netted against student tuition and fees and auxiliary expenditures.

- **Auxiliary Enterprises:** An auxiliary enterprise is an entity that exists to furnish goods or services to students, faculty, or staff, and that charges a fee directly related to the cost of the goods or services. The general public may also benefit incidentally from auxiliary enterprises. These activities are generally self-supporting. Examples include residences halls, dining services, intercollegiate athletics, and rental activities. All expenditures related to the operations of auxiliary services, including those for the operation and maintenance of plant and institutional support of auxiliary enterprises, are included in this category.

EXPENSES BY FUNCTIONAL CLASSIFICATION
($ in Millions)
(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 Statements of Revenues, Expenses, and Changes in Net Assets are as follows:

- Instruction, the University's largest operating expense, decreased in fiscal year 2004 primarily due to ERIP which resulted in a net reduction, after the rehiring, of approximately 102 full-time faculty and related staff. The $9.8 million (4.7%) decrease was the result of ERIP combined with bargaining unit concessions that provided for no increase in compensation during the fiscal year, along with a reduction in supplies, commodities and other expenditures. In fiscal year 2003, instruction increased approximately 6.0% or $11.9 million. This increase reflected an average pay raise for faculty of the University of 5.2% with the associated fringe benefits and a net increase of 35 full-time faculty positions over fiscal year 2002.

- In fiscal year 2004, research expenses increased $5.8 million or 10.4% ($6.9 million or 13.9% in fiscal year 2003). These expenditures are related primarily to sponsored research revenues. The timing of purchases of supplies and commodities that can be charged to grants varies from year to year. Supplies, commodities and other expenditures decreased $.9 million ($3.4 million in fiscal year 2003). Salaries and fringe benefits related to research grew $6.7 million ($3.4 million in fiscal year 2003).

- Public service expenses grew $4.4 million, a 17.3% increase in fiscal year 2004 with $2.3 million of the increase in salaries and an increase of $1.5 million in supplies, commodities and other expense. In fiscal year 2003, these expenditures increased over fiscal year 2002 by $3.4 million or 15.5%, with most of the increase in supplies, commodities and other expense.

- Academic support grew 4.6% in fiscal year 2004 with a significant increase of $4.0 million in supplies, commodities and other expenditures primarily due to computer related costs. This was offset by decreases in salaries of $1.6 million as a result of ERIP net reductions of approximately 35 staff. In fiscal year 2003, academic support decreased slightly over 2002 due to a decrease in supplies, commodities and other expense of $1.3 million that was partially offset by an increase in salaries and fringe totaling $0.6 million.

- In fiscal year 2004, a $1.2 million decrease in institutional support resulted from salaries remaining level between years while supplies, commodities and other expenditures decreased $2.2 million. For fiscal year 2003, an overall $3.6 million increase was related to a 2.7% increase in salaries and fringe benefits and a $2.6 million increase in supplies, commodities and other expense.

- Operations and maintenance of plant lost 42 staff, net of those rehired in fiscal year 2004 due to ERIP. This resulted in a decrease in salaries of $1.3 million (8.7%). Utilities increased $0.9 million as a result of a 6.2% overall increase in the consumption of gas, electricity, oil and water due to additional facilities and an increase in overall rates for these utilities of 12.6%. In fiscal year 2003, operations and maintenance of plant grew 14.3%, for a total of $5.7 million, due in large part to a $3.2 million increase in utility expenses resulting from increases in rates and consumption, with a harsher winter and new buildings coming on-line.

- Auxiliary enterprises expenditures increased 10.1% in fiscal year 2004, primarily due to a significant increase in supplies, commodities and other expenditures resulting from additional dormitories which included an increased design capacity of 1,155 beds. The $7.5 million increase in these expenditures was primarily due to costs associated with this increased capacity, including maintenance, dining services and furniture expenditures that fall below the University's capitalization threshold. Salaries decreased slightly as a result of approximately 21 net positions lost due to ERIP. In fiscal year 2003, auxiliary enterprises expenditures increased 2.4%, even though revenue associated with these services rose 10.4%. While enrollment and rates charged for these services increased during fiscal year 2003, especially for residential and dining facilities, staffing and other expenditures did not increase at the same rate.

- During fiscal year 2004, the ninth year of UCONN 2000 (see Note 4), the University recorded additions of $182.3 million ($227.2 million in fiscal year 2003) in property and equipment. These significant additions contributed to a 9.8% or $6.2 million increase in depreciation expense in fiscal year 2004 (25.2% or $12.8 million in fiscal year 2003).

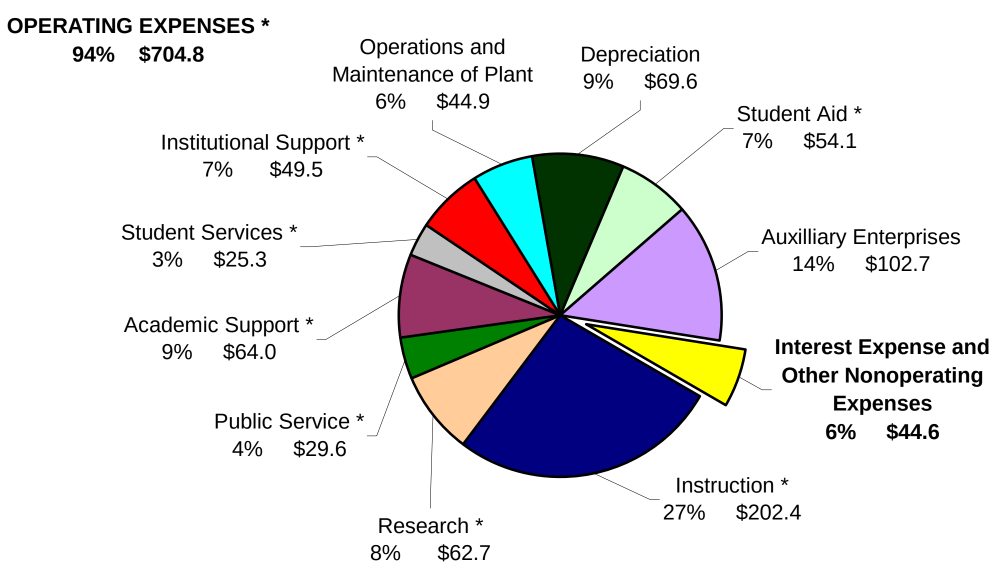
- Interest expense, net of the state debt service commitment for interest, decreased slightly by $0.6 million in fiscal year 2004 with retirements of revenue and other loans exceeding additional borrowings by $6.6 million, and interest on the capital lease for cogeneration being capitalized during construction. In fiscal year 2003, interest expense increased $2.5 million, which is consistent with additional revenue bond borrowings during 2002 (explained in Note 4) that required a full year of interest payments in fiscal year 2003 and a partial year, beginning in February, for fiscal year 2002.

- In fiscal year 2004, other nonoperating expenditures totaled $6.8 million and primarily consisted of certain legal fees and matters of a nonrecurring nature. Other nonoperating expenses was a net revenue in 2003, primarily due to an endowment grant earned totaling $2 million. Without the endowment grant revenue in 2003 nonoperating expenses totaled $1.5 million.

- In fiscal year 2004, capital other includes several items discussed in Note 3 including: $16.0 million that was expended for and estimated to complete a project to remediate and close an existing landfill, and $2.3 million for additional construction on an existing building which did not increase the value of the building.

Total operating expenses were $648.3 million and $631.6 million in fiscal years 2004 and 2003, respectively, netted for scholarship aid totaling $56.4 million and $51.0 million, respectively. Note 12 to the financial statements details operating expenses by object (natural classification), and shows notable savings in salaries and wages totaling $7.6 million, a 2.2% decrease over fiscal year 2003, while fringe benefits increased 3.5%. This resulted because of a net decrease of approximately 187 full-time equivalent staff after rehiring for certain positions, and at the same time an overall average increase in fringe rates charged by the State of approximately 8.0%. The pie chart below illustrates operating expenses by function (see above for description of functions). Student aid has a significant portion reflected as an allowance against tuition and fees revenue and sales and services of auxiliary enterprises on the Statements of Revenues, Expenses, and Changes in Net Assets. The chart also shows interest expense and other nonoperating expenses.

EXPENSES FOR FISCAL 2004 ($ in Millions)
Total $749.4



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

STATEMENTS OF CASH FLOWS

The Statements of Cash Flows present detailed information about the cash activity of the University during the year. The first section of these statements, cash flows from operating activities, will always be different from the Statements 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 preparing the Statements of Revenues, Expenses, and Changes in Net Assets. These statements show revenues and expenses when incurred, not necessarily when cash is received or used. The Statements of Cash Flows, on the other hand, show cash inflows and outflows without regard to accruals. The Statements of Cash Flows have 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 Statements of Revenues, Expenses, and Changes in Net Assets to net cash used in operating activities.

Condensed Statements of Cash Flows for the years ended June 30, 2004, 2003 and 2002 follow:

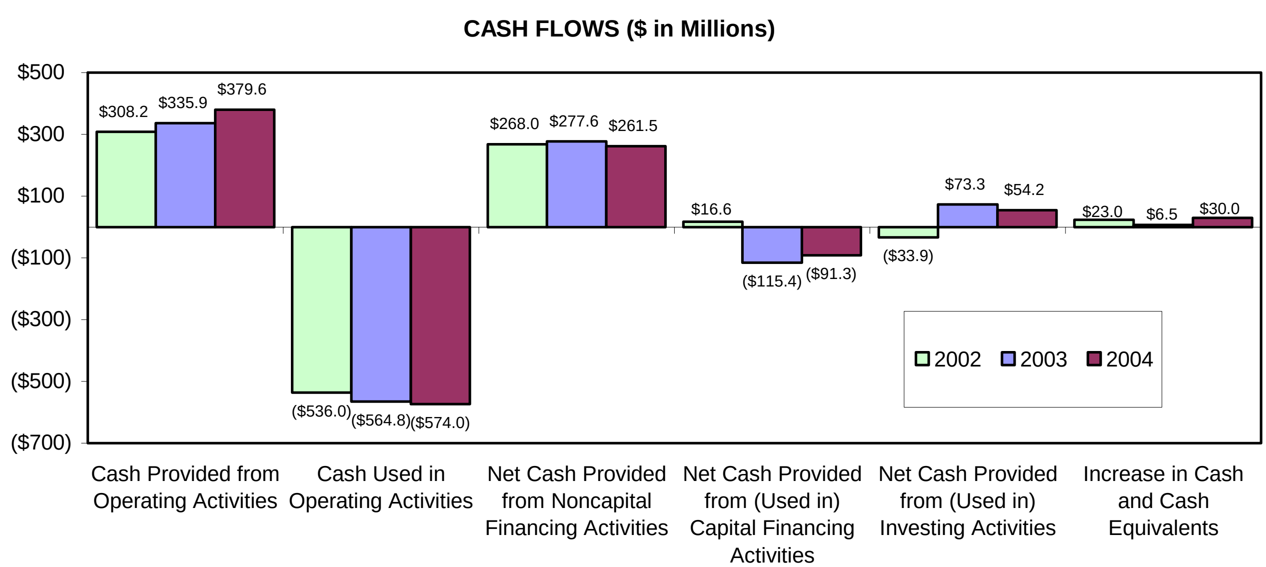
	2004	2003	2002
Cash provided from operating activities	$ 379,558,282	$ 335,888,635	$ 308,234,038
Cash used in operating activities	(574,018,812)	(564,812,353)	(536,006,910)
Net cash used in operating activities	(194,460,530)	(228,923,718)	(227,772,872)
Net Cash Provided from Noncapital Financing Activities	261,530,023	277,552,963	268,040,177
Net Cash Provided from (Used in) Capital Financing Activities	(91,348,331)	(115,364,868)	16,644,950
Net Cash Provided from (Used in) Investing Activities	54,232,258	73,261,624	(33,875,644)
Net increase in cash and cash equivalents	$ 29,953,420	$ 6,526,001	$ 23,036,611

Net cash used in operating activities was $194.5 million and $228.9 million in fiscal years 2004 and 2003, respectively, and is consistent with the operating loss discussed earlier after adding back depreciation (a noncash expense), the major difference between the two statements. GASB requires that cash flows from noncapital financing activities include State appropriations and noncapital gifts. Cash flows from these activities totaled $261.5 million in fiscal year 2004 ($277.6 million in fiscal year 2003), a $16.1 decrease from 2003.

Cash flows used in capital financing activities were $91.3 million and $115.4 million in fiscal years 2004 and 2003, respectively, as compared to $16.6 million provided for these activities in fiscal year 2002. There were no significant changes between fiscal years 2004 and 2003 except for a decrease in the amount of additions to property and equipment of $18.1 million and an increase in principal paid on debt and bonds payable of $6.5 million. The increase in cash used in fiscal year 2003 over fiscal year 2002 totaled $132 million and is explained by the following. Cash used in fiscal year 2003 for capital financing activities included: purchases of property and equipment totaling $204 million, an increase of $33.8 million over 2002 and $83.3 million of principal and interest paid on debt, an increase of $12.7 million. Cash provided from these financing activities included: proceeds from bonds and installment loans of $100.5 million, a $74.9 million decrease from 2002, and the state debt service commitment paid for principal and interest on general obligation bonds totaling $66.0 million, an increase over 2002 of $8.5 million.

Cash of $54.2 million and $73.3 million for fiscal years 2004 and 2003, respectively was provided from investing activities, primarily because of transfers of $55.3 and $69.8 million, respectively from the bond trustee to pay for authorized capital projects. This is compared to fiscal year 2002 when $33.9 million in cash was used for investing activities due primarily to transfers from cash of $40.4 million to the bond trustee as required by bond indenture agreements.

Total cash and cash equivalents increased $30.0 million and $6.5 million in fiscal years 2004 and 2003, respectively, as a result of these activities. The following bar graph shows the cash flows from and used by major categories and as described in the preceding paragraphs:



FINANCIAL STATEMENTS

UNIVERSITY OF CONNECTICUT
STATEMENTS OF NET ASSETS
As of June 30, 2004 and 2003

	2004	2003
ASSETS		
Current Assets		
Cash and cash equivalents	$ 160,699,557	$ 128,754,311
Accounts receivable, net	24,290,498	33,157,491
Student loans receivable, net	2,229,432	2,107,343
Due from State of Connecticut	29,961,594	31,333,474
Due from related agencies	517,122	407,875
State debt service commitment	59,644,964	51,092,208
Inventories	2,179,004	2,059,975
Deposit with bond trustee	31,271,571	86,601,751
Deferred charges	817,856	759,818
Other assets	49,168	43,560
Total Current Assets	311,660,766	336,317,806
Noncurrent Assets		
Cash and cash equivalents	1,449,665	3,441,491
Investments	11,514,353	7,278,573
Student loans receivable, net	10,083,238	9,993,290
State debt service commitment	669,657,147	626,272,146
Property and equipment, net of accumulated depreciation	1,446,108,537	1,339,460,000
Deferred charges	9,150,740	6,472,344
Total Noncurrent Assets	2,147,963,680	1,992,917,844
Total Assets	$ 2,459,624,446	$ 2,329,235,650
LIABILITIES		
Current Liabilities		
Accounts payable and accrued liabilities	$ 23,642,019	$ 42,777,221
Deferred income	25,394,070	23,248,492
Wages payable	31,866,498	28,309,537
Compensated absences	13,380,726	13,900,248
Due to the State of Connecticut	10,132,913	8,513,083
Due to related agencies	47,173	51,977
Current portion of long-term debt and bonds payable	55,966,581	49,943,122
Other current liabilities	20,911,242	9,748,990
Total Current Liabilities	181,341,222	176,492,670
Noncurrent Liabilities		
Compensated absences	8,404,423	7,271,085
Deposits held for others	2,349,683	2,138,674
Long-term debt and bonds payable	902,267,349	834,763,060
Refundable for federal loan program	9,742,791	9,675,529
Total Noncurrent Liabilities	922,764,246	853,848,348
Total Liabilities	$ 1,104,105,468	$ 1,030,341,018
NET ASSETS		
Invested in capital assets, net of related debt	$ 1,206,280,804	$1,148,711,532
Restricted nonexpendable	10,904,207	9,717,395
Restricted expendable		
Research, instruction, scholarships and other	9,929,683	12,515,767
Loans	3,314,153	3,126,304
Capital projects	12,811,778	34,431,219
Debt service	10,793,674	8,141,983
Unrestricted (See Note 13)	101,484,679	82,250,432
Total Net Assets	$ 1,355,518,978	$ 1,298,894,632

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

UNIVERSITY OF CONNECTICUT
STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
For the Years Ended June 30, 2004 and 2003

	2004	2003
OPERATING REVENUES		
Student tuition and fees (Net of scholarship allowances of $55,028,975 for 2004 and $49,728,391 for 2003. Revenues totaling approximately $24,230,000 for 2004 and $21,912,000 for 2003 are used as security for revenue bonds. See Note 4)	$ 141,573,265	$ 120,275,694
Federal grants and contracts	78,454,917	73,342,732
State and local grants and contracts	17,486,752	16,511,793
Nongovernmental grants and contracts	7,952,256	10,329,075
Sales and services of educational departments	12,166,016	13,514,914
Sales and services of auxiliary enterprises (Net of scholarship allowance of $1,386,360 for 2004 and $1,283,335 for 2003. Net revenues totaling approximately $17,195,000 for 2004 and $13,822,000 for 2003 are used as security for revenue bonds. See Note 4)	104,784,446	89,438,533
Other sources (Net revenues totaling approximately $3,098,000 for 2004 and $2,629,000 for 2003 are used as security for revenue bonds. See Note 4)	9,007,326	8,228,181
Total Operating Revenues	371,424,978	331,640,922
OPERATING EXPENSES		
Educational and general		
Instruction	200,872,187	210,682,856
Research	61,993,855	56,170,809
Public service	29,480,541	25,125,045
Academic support	63,932,206	61,117,844
Student services	24,958,903	25,494,540
Institutional support	49,439,568	50,604,026
Operations and maintenance of plant	44,935,019	45,246,949
Depreciation	69,594,696	63,402,505
Student aid	548,932	557,919
Auxiliary enterprises	102,573,786	93,185,331
Total Operating Expenses	648,329,693	631,587,824
Operating Loss	(276,904,715)	(299,946,902)
NONOPERATING REVENUES (EXPENSES)		
State appropriation	256,467,347	258,751,010
State debt service commitment for interest	27,852,310	29,228,519
Gifts	15,319,152	18,936,287
Investment income (Income totaling approximately $169,000 for 2004 and $857,000 for 2003 are used as security for revenue bonds. See Note 4)	2,388,513	3,565,261
Interest expense	(37,817,551)	(39,794,329)
Other nonoperating revenues (expenses), net	(6,802,412)	522,514
Net Nonoperating Revenues	257,407,359	271,209,262
Loss Before Capital Additions (Deductions)	(19,497,356)	(28,737,640)
CAPITAL ADDITIONS (DEDUCTIONS)		
State debt service commitment for principal	91,635,000	96,210,000
Capital grants and gifts	8,243,365	7,558,843
Disposal of property and equipment, net	(4,190,358)	(2,454,738)
Capital other	(19,566,305)	(2,405,030)
Total Capital Additions (Deductions)	76,121,702	98,909,075
Increase in Net Assets	56,624,346	70,171,435
NET ASSETS		
Net Assets-beginning of year	1,298,894,632	1,228,723,197
Net Assets-end of year	$ 1,355,518,978	$ 1,298,894,632

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

UNIVERSITY OF CONNECTICUT
STATEMENTS OF CASH FLOWS
For the Years Ended June 30, 2004 and 2003

	2004	2003
CASH FLOWS FROM OPERATING ACTIVITIES		
Tuition and fees	$ 139,314,738	$ 119,452,337
Research grants and contracts	105,113,017	102,214,365
Payments to suppliers	(152,699,572)	(137,581,776)
Payments to employees	(326,140,676)	(334,415,524)
Payments for benefits	(92,715,831)	(90,278,832)
Loans issued to students and employees	(2,462,733)	(2,536,221)
Collection of loans to students and employees	2,250,696	2,197,830
Sales and services of auxiliary enterprise	108,582,720	92,219,295
Sales and services of educational departments	12,449,139	13,056,071
Other receipts (payments)	11,847,972	6,748,737
Net Cash Used in Operating Activities	(194,460,530)	(228,923,718)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
State appropriations	254,230,692	258,132,174
Gifts	15,163,655	18,720,530
Other nonoperating revenue (expense)	(7,864,324)	700,259
Net Cash Provided from Noncapital Financing Activities	261,530,023	277,552,963
CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES		
Proceeds from bonds and installment loans	100,609,672	100,532,528
State debt service commitment	67,549,554	65,979,922
Purchases of property and equipment	(185,935,726)	(204,049,185)
Principal paid on debt and bonds payable	(50,809,512)	(44,327,207)
Interest paid on debt and bonds payable	(35,059,743)	(38,936,213)
Capital grants and gifts	6,262,403	2,458,273
Capital other	6,035,021	2,977,014
Net Cash Provided from (Used in) Capital Financing Activities	(91,348,331)	(115,364,868)
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from (purchase of) investments, net	(3,437,229)	(209,041)
Interest on investments	2,339,307	3,710,595
Deposits with bond trustee	55,330,180	69,760,070
Net Cash Provided from (Used in) Investing Activities	54,232,258	73,261,624
INCREASE IN CASH AND CASH EQUIVALENTS	29,953,420	6,526,001
BEGINNING CASH AND CASH EQUIVALENTS	132,195,802	125,669,801
ENDING CASH AND CASH EQUIVALENTS	$ 162,149,222	$ 132,195,802
RECONCILIATION OF OPERATING LOSS TO NET CASH USED IN OPERATING ACTIVITIES		
Operating Loss	$ (276,904,715)	$ (299,946,902)
Adjustments to Reconcile Operating Loss to Net Cash Used in Operating Activities:		
Depreciation expense	69,594,696	63,402,505
Changes in Assets and Liabilities:		
Receivables, net	3,993,182	2,176,348
Inventories	(119,029)	28,403
Other assets	(5,610)	(1,099)
Accounts payable	4,743,083	5,020,038
Deferred revenue	2,145,578	331,277
Deferred charges	105,351	(91,726)
Deposits	211,010	(391,354)
Due from state	1,634,324	1,083,419
Due from related agencies	(114,051)	(363,463)
Other liabilities	467,688	167,226
Loans to students and employees	(212,037)	(338,390)
Net Cash Used in Operating Activities	$ (194,460,530)	$ (228,923,718)
RECONCILIATION OF CASH AND CASH EQUIVALENTS TO THE STATEMENTS OF NET ASSETS		
Cash and cash equivalents classified as current assets	$ 160,699,557	$ 128,754,311
Cash and cash equivalents classified as noncurrent assets	1,449,665	3,441,491
	$ 162,149,222	$ 132,195,802

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

UNIVERSITY OF CONNECTICUT
COMPONENT UNIT
THE UNIVERSITY OF CONNECTICUT LAW SCHOOL FOUNDATION, INC.

STATEMENTS OF FINANCIAL POSITION
AS OF JUNE 30, 2004 AND 2003

ASSETS	2004	2003
Current Assets		
Cash and cash equivalents	$ 772,289	$ 1,232,907
Investments	10,299,000	8,108,543
Pledges receivable, net of allowance	1,983,157	2,116,126
Prepaid expenses	12,878	13,110
Other receivables	32,229	34,749
Total Current Assets	13,099,553	11,505,435
Property and equipment, net of accumulated depreciation of $66,320 for 2004 and $64,642 for 2003	1,907	3,585
Total Assets	$ 13,101,460	$ 11,509,020
LIABILITIES AND NET ASSETS		
LIABILITIES		
Current Liabilities		
Accounts payable	$ 34,169	$ 26,732
Due to University of Connecticut Law School Alumni Association	23,653	20,821
Current portion of capital lease obligation	-	347
Total Liabilities	57,822	47,900
NET ASSETS		
Unrestricted	1,007,536	600,932
Temporarily restricted	3,153,982	2,406,738
Permanently restricted	8,882,120	8,453,450
Total Net Assets	13,043,638	11,461,120
Total Liabilities and Net assets	$ 13,101,460	$ 11,509,020

STATEMENTS OF ACTIVITITES
For the Years Ended June 30, 2004 and 2003

	Unrestricted	Temporarily Restricted	Permanently Restricted	2004 Total	2003 Total
REVENUES AND SUPPORT					
Contributions	$ 327,885	$ 7,912	$ 428,670	$ 764,467	$ 830,973
Interest and dividends	18,594	228,562	-	247,156	267,092
Realized and unrealized gains and losses	485,253	876,060	-	1,361,313	(156,803)
Net assets released from restrictions	365,290	(365,290)	-	-	-
Total Revenues and Support	1,197,022	747,244	428,670	2,372,936	941,262
EXPENSES					
Program Expenses					
Scholarships and awards	77,984	-	-	77,984	78,930
Student support and faculty support	248,868	-	-	248,868	229,350
Alumni and graduate relations	121,275	-	-	121,275	121,868
Total Program Expenses	448,127			448,127	430,148
Support Expenses					
Management and general	293,422	-	-	293,422	115,573
Fundraising	48,869	-	-	48,869	34,689
Total Support Expenses	342,291	-	-	342,291	150,262
Total Expenses	790,418	-	-	790,418	580,410
Changes in Net Assets	406,604	747,244	428,670	1,582,518	360,852
Net Assets-beginning of year	600,932	2,406,738	8,453,450	11,461,120	11,100,268
Net Assets-end of year	$ 1,007,536	$ 3,153,982	$ 8,882,120	$ 13,043,638	$ 11,461,120

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

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NOTES TO FINANCIAL STATEMENTS

Notes to Financial Statements
For the Years Ended June 30, 2004 and 2003

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Related Entities
The University of Connecticut is a comprehensive institution of higher education, which includes the University of Connecticut Health Center (Health Center). Although governed by a single Board of Trustees, the University of Connecticut and its Health Center maintain separate budgets and are by statute separate entities for purposes of maintaining operating funds and State appropriations. The Health Center also has a Board of Directors to whom the Board of Trustees has delegated certain responsibility and authority. This financial report for the fiscal years ended June 30, 2004 and 2003 represents the transactions and balances of the University, here defined as all programs except the Health Center.

Two related, but independent, corporate entities support the mission of the University: The University of Connecticut Foundation, Inc. (Foundation) and The University of Connecticut Law School Foundation, Inc. (Law School Foundation). These Foundations raise funds to promote, encourage, and assist education and research at the University and the Health Center.

Governmental Accounting Standards Board (GASB) Statement No. 14, *The Financial Reporting Entity*, as amended by Statement No. 39, *Determining Whether Certain Organizations Are Component Units*, requires that legally separate and tax exempt entities be presented as component units of the reporting entity if it meets all of the following criteria: the economic resources of the organization are entirely or almost entirely for the direct benefit of the reporting unit; the reporting unit is entitled to access all or a majority of the economic resources received or held by the organization; and the economic resources received or held by the organization are significant to the reporting unit. As a result, the Law School Foundation, which is organized for the benefit of the University and whose economic resources can only be used by or for the benefit of the University, is included as a component with the University.

The Foundation materially supports the mission of the University and the Health Center, which are both separately audited, producing their own financial statements. Displaying the Foundation's financial statements as a component unit of either the University or the Health Center would distort its actual contribution or economic benefit to that entity, and therefore, the Foundation is not included as a component unit in the accompanying financial statements.

Financial Statement Presentation
The financial statements have been prepared using the economic resources measurement focus in accordance with accounting principles generally accepted in the United States of America, as prescribed by the GASB. 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.

Effective July 1, 2001, the University adopted GASB Statement No. 35, *Basic Financial Statements - and Management's Discussion and Analysis - for Public Colleges and Universities*, as amended by GASB Statements Nos. 37 and 38. GASB Statement No. 35 establishes standards for financial reporting for public colleges and universities. The new reporting standards focus on the University as a whole rather than on accountability by individual fund groups and provide accounting and financial reporting guidelines, enhancing the usefulness and comprehension of financial reports by external users. To that end, GASB requires that resources be classified for accounting and reporting purposes into the following three 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 13).

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. All significant intra-agency transactions have been eliminated.

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 following 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 accordance with specified activities or objectives.

Cash Equivalents (see Note 2)
For the purposes of the Statements 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 (see Note 2)
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 in Nonoperating Revenues (Expenses) in the accompanying Statements 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. 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, and amounts due from state and federal governments for grants and contracts. 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 General Obligation 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 remaining proceeds 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 General Obligation 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 for 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 (see Note 9)
Current deferred charges consist of payments made in advance of a program's revenue being earned and the current portion related to cost of issuance of certain bonds. Noncurrent deferred charges represent the cost of issuance which will be amortized over the terms of the respective bond issues.

Noncurrent Cash and Cash Equivalents (see Note 2)
Noncurrent cash and cash equivalents are related to endowment assets and are externally restricted as to use.

Property and Equipment (see Note 3)
Capital assets are reported at cost at date of acquisition and fair value at date of donation as in the case of gifts. Property and equipment that are exchanged for other assets are recorded based on the fair value of the asset given up or the fair value of the asset received, whichever value is most clearly evident. 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 (see Note 9)
Deferred income includes amounts received for services rendered in a future accounting period including tuition and fee revenues and event ticket sales. It also includes amounts received for certain restricted research grants that are included in revenue when the funds are expended.

Compensated Absences (see Note 6)
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 Statements of Net Assets and in the various expense functions on the Statements 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 (net of unamortized premiums and discounts), 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 reported prior to July 1, 2001 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 enterprises revenue and other sources of revenue. GASB 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.

Operating expenses, except for depreciation, are reported using functional classification, including those under educational and general and auxiliary enterprises. See Note 12 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, and interest expense, and Capital Additions (Deductions). Revenues are recognized when earned and expenses are recognized when incurred.

Component Unit

The Law School Foundation prepares its financial statements on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America. Net assets, revenues and expenses are classified based on the terms of donor-imposed restrictions, if any. Accordingly, the Law School Foundation's net assets and changes therein are classified and reported as follows:

- **Unrestricted Net Assets:** Net assets that are not subject to donor-imposed restrictions.
- **Temporarily Restricted Net Assets:** Net assets subject to donor-imposed stipulations that may or will be met, either by actions of the Law School Foundation and/or passage of time. When the restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets.
- **Permanently Restricted Net Assets:** Net assets subject to donor-imposed stipulations that they be maintained permanently by the Law School Foundation. Generally, the donors of these assets permit the Foundation to use all or part of the income earned on related investments for general or specific purposes.

Contributions, including unconditional promises to give, are recognized as revenue in the period received. Conditional promises to give are not recognized as revenue until the conditions on which they depend are substantially met.

Investments are reported at fair value based upon quoted market prices.

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 was $162,149,222 and $132,195,802, as of June 30, 2004 and 2003, respectively and included the following:

	2004	2003
Cash maintained by State of Connecticut Treasurer	$ 138,869,476	$ 105,774,031
Invested in State of Connecticut Investment Pool	16,097,944	16,659,325
Invested in State of Connecticut Investment Pool - Endowments	1,449,665	3,441,491
Invested in Short-term Corporate Notes	5,324,415	5,872,658
Deposits with Financial Institutions and Other (category 3 investments)	407,722	448,297
Total cash and cash equivalents	162,149,222	132,195,802
Less: current balance	160,699,557	128,754,311
Total noncurrent balance	$ 1,449,665	$ 3,441,491

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 to at least 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 Foundation as the manager of the University's endowment funds. Gifts that are internally designated as endowments, and externally designated endowment gifts that are to be processed for transfer to the Foundation ($0 in 2004 and $2,000,000 in 2003), are included in cash and cash equivalents (see above table for total amounts). 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, according to 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 1% (4% per annum) of the prior twelve-quarter average market value will be distributed for spending in accordance with the respective purposes of the individual endowment funds. For the year ending June 30, 2003, the quarterly amount was 1.25% (5% per annum). 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 from the previous quarter.

The cost and fair value of the University's investments including those managed by the Foundation at June 30 are:

	2004		2003	
	Cost	**Fair Value**	**Cost**	**Fair Value**
Endowments:				
Foundation Managed (Category 1)	$ 7,671,266	$ 9,441,282	$ 5,322,876	$ 6,262,643
Corporate Bonds (Category 1)	12,000	11,260	12,000	11,260
Other:				
U.S. Government Agency Securities (see Note 4) (Category 1)	2,100,000	2,061,811	1,000,000	1,004,670
Total Investments	$ 9,783,266	$ 11,514,353	$ 6,334,876	$ 7,278,573

University endowment investments are managed by the Foundation in its 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 Foundation Board of Directors also established an asset allocation policy for the long-term pooled investment portfolio (see following table). The Foundation expects that cash equivalents will be kept to a minimum level and that portfolios will be invested in only the assets described in the table, 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%

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 was $12,270,725 and $11,877,642 as of June 30, 2004 and 2003, respectively. 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 years ended June 30, 2004 and 2003 was $414,472 and $570,741, respectively.

3. PROPERTY AND EQUIPMENT

Land, buildings, non-structural improvements, and equipment (including library materials) are reported at cost at date of acquisition or fair value at date of donation as in the case of gifts. Property and equipment that are exchanged for other assets are recorded based on the fair value of the asset given up or the fair value of the asset received, whichever value is most clearly evident. Any gains or losses on the exchange are recognized immediately.

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. Library materials have an estimated useful life of 15 years. The net book value of library materials is $62,589,124 and $57,763,227 at June 30, 2004 and 2003, respectively, and is included in equipment in the following table of the changes in property and equipment. Historical collections and art are recognized at their estimated fair values at the time of donation. Historical collections and art totaled $44,731,368 and $44,362,816 at June 30, 2004 and 2003, respectively, and is included in equipment in the analysis of changes in property and equipment. Collections and art are not depreciated.

Due to long delays in and quality of construction of a bonded building project, an estimated asset impairment loss of $10,000,000 was recorded in fiscal year 2002, along with revenues of $25,350,000 from an insurance company for surety payments to complete the project. Although this building was subsequently completed as originally designed, the University expended an additional $2,258,092 for remedial construction in fiscal year 2004. These expenditures did not increase the building’s value or extend its useful life and the total amount was recorded as an additional loss in the Capital Additions (Deductions) section of the Statements of Revenues, Expenses, and Changes in Net Assets in capital other.

Through June 30, 2004, $10,959,906 was expended for a project to begin the closure and remediation of an existing landfill which involves capping and diversion of water from its vicinity. Expenditures to date primarily include professional fees, preparation for capping and contouring of surrounding land. Additional expenditures to complete this project are estimated to be $5,000,000, and this amount is accrued for in other current liabilities in the Statement of Net Assets. The costs to remediate the landfill do not increase the value of the land and the total cost of $15,959,906, which includes the amount to complete the remediation, is expensed in the accompanying Statements of Revenues, Expenses, and Changes in Net Assets for the year ended June 30, 2004 in capital other.

The University received a software grant in November, 2003 from Unigraphics Solutions, Inc., a subsidiary of Electronic Data Systems Corporation, for computer aided design, manufacturing and engineering. This grant provides students and faculty with the same tools used by leading manufacturing and technology companies. The product lifecycle management software license was granted to the University’s School of Engineering and while it had significant commercial value at the time of donation, a number of higher education institutions have received the software essentially free of charge. The University received a nonexclusive, nontransferable, limited license to install, access, and use the software, but it did not receive title to or ownership of the software, and therefore the University has not recorded it as a gift or asset in the accompanying financial statements.

The table on the following page describes the changes in property and equipment for the years ended June 30, 2004 and 2003.

Changes in Property and Equipment for the Year Ended June 30, 2004:

	2003 Beginning Balance	Additions	Retirements	Transfers and Other	2004 Ending Balance
Property and equipment:					
Land	$ 12,112,835	$ 2,243,400	$ (178,737)	$ -	$ 14,177,498
Non-structural Improvements	132,395,462	8,189,225	(1,156,064)	14,192,525	153,621,148
Buildings	1,048,964,028	75,041,534	(6,602,756)	100,083,565	1,217,486,371
Equipment	347,479,651	26,412,443	(5,983,342)	-	367,908,752
Construction in Progress	207,379,720	70,431,491	-	(114,276,090)	163,535,121
Total property and equipment	1,748,331,696	182,318,093	(13,920,899)	-	1,916,728,890
Less accumulated depreciation:					
Non-structural Improvements	40,249,729	5,486,529	(100,428)	28,975	45,664,805
Buildings	211,982,606	37,927,575	(2,685,851)	(28,975)	247,195,355
Equipment	156,639,361	26,180,592	(5,059,760)	-	177,760,193
Total accumulated depreciation	408,871,696	69,594,696	(7,846,039)	-	470,620,353
Property and equipment, net:					
Land	12,112,835	2,243,400	(178,737)	-	14,177,498
Non-structural Improvements	92,145,733	2,702,696	(1,055,636)	14,163,550	107,956,343
Buildings	836,981,422	37,113,959	(3,916,905)	100,112,540	970,291,016
Equipment	190,840,290	231,851	(923,582)	-	190,148,559
Construction in Progress	207,379,720	70,431,491	-	(114,276,090)	163,535,121
Property and equipment, net:	$ 1,339,460,000	$ 112,723,397	$ (6,074,860)	$ -	$ 1,446,108,537

Changes in Property and Equipment for the Year Ended June 30, 2003:

	2002 Beginning Balance	Additions	Retirements	Transfers and Other	2003 Ending Balance
Property and equipment:					
Land	$ 12,035,500	$ 79,780	$ (2,445)	$ -	$ 12,112,835
Non-structural Improvements	125,396,995	4,820,186	-	2,178,281	132,395,462
Buildings	909,271,698	52,956,215	(3,380,635)	90,116,750	1,048,964,028
Equipment	317,485,227	36,755,702	(6,761,278)	-	347,479,651
Construction in Progress	167,105,008	132,569,743	-	(92,295,031)	207,379,720
Total property and equipment	1,531,294,428	227,181,626	(10,144,358)	-	1,748,331,696
Less accumulated depreciation:					
Non-structural Improvements	34,980,223	5,270,852	(1,346)	-	40,249,729
Buildings	182,621,911	31,014,448	(1,653,753)	-	211,982,606
Equipment	135,043,287	27,117,205	(5,521,131)	-	156,639,361
Total accumulated depreciation	352,645,421	63,402,505	(7,176,230)	-	408,871,696
Property and equipment, net:					
Land	12,035,500	79,780	(2,445)	-	12,112,835
Non-structural Improvements	90,416,772	(450,666)	1,346	2,178,281	92,145,733
Buildings	726,649,787	21,941,767	(1,726,882)	90,116,750	836,981,422
Equipment	182,441,940	9,638,497	(1,240,147)	-	190,840,290
Construction in Progress	167,105,008	132,569,743	-	(92,295,031)	207,379,720
Property and equipment, net:	$ 1,178,649,007	$ 163,779,121	$ (2,968,128)	$ -	$ 1,339,460,000

4. LONG-TERM DEBT PAYABLE

In fiscal year 2002, the General Assembly of the State of Connecticut enacted and the Governor signed into law Public Act No. 02-3, An Act Concerning 21st Century UConn (Act). This Act amended Public Act No. 95-230 that enabled 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. The Act extended the UCONN 2000 financing program that was scheduled to end in 2005, for an additional 10 years to June 30, 2015. The original Public Act No. 95-230 authorized projects for Phases I and II of UCONN 2000, estimated to cost $1,250,000,000, of which $962,000,000 was to be financed by bonds of the University; $18,000,000 was to be funded by State General Obligation bonds; and the balance of $270,000,000 to be financed by gifts, other revenue, or borrowing resources of the University. The new Act authorized additional projects for the University and the Health Center for what is to be called Phase III of UCONN 2000 at an estimated cost of $1,348,400,000, of which $1,300,000,000 is to be financed by bonds of the University and $48,400,000 is to be financed by the issuance of special obligation bonds of the University, from gifts, other revenue or borrowing resources of the University, or through the deferring of projects or achieved savings. The project costs authorized are $305,400,000 for the Health Center and $1,043,000,000 for the University. The UCONN 2000 program, including Phases I, II and III, is estimated to total $2,598,400,000.

General obligation bonds issued as of June 30, 2004 are (see page 35 for outstanding balances):

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
2003 Series A	96,210,000
2004 Series A	97,845,000
Total issued	$ 912,482,147

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 in the Capital Additions (Deductions) section of the Statements of Changes in Net Assets totaling $97,845,000 and $96,210,000 for the years ended June 30, 2004 and 2003, respectively, representing the increase in the State's debt service commitment for principal as a result of the issuance of the 2004 and 2003 Series A bonds, respectively.

In addition to the 2004 Series A Bonds, in January of 2004 the University issued the Refunding Series A bonds to refund portions of the previously issued Series A General Obligation Bonds in advance of maturity. The face value of the Refunding Bonds is $216,950,000, and these bonds have a final maturity date of January 15, 2020. Proceeds from the sale of the bonds totaled $241,995,672 and comprised the face value plus the net premium and accrued interest, less the costs of issuance and $5,798,606 of other available funds which represents budgeted fiscal year 2004 debt service for the refunded bonds. The proceeds were deposited with the Escrow Agent into an irrevocable trust fund which will provide amounts sufficient to meet principal, interest payments, and redemption prices on the Refunded Bonds on the dates such payments are due. The escrow is invested in State and Local Government Series securities. The difference between the carrying value of the defeased debt and its reacquisition price (refunding bonds) will be amortized over the remaining life of the debt, and the reduction of the face value of the bonds, $6,210,000, is reflected as an expense (net of the $97,845,000 revenue noted above) on the Statement of Revenues, Expenses, and Changes in Net Assets under State debt service commitment for principal.

The following table reflects the change in debt as a result of this refunding:

1996 Series A	$ 31,510,000
1997 Series A	52,000,000
1998 Series A	34,825,000
2000 Series A	48,395,000
2001 Series A	27,745,000
2002 Series A	28,685,000
Total defeased debt	223,160,000
Total refunding bonds	216,950,000
Decrease in bonds as a result of refunding	$ 6,210,000

In addition, for the years ended June 30, 2004 and 2003, nonoperating revenues of $27,852,310 and $29,228,519, respectively, were recorded for the State debt service commitment for interest on general obligation bonds.

The University may also issue Special Obligation bonds backed by certain pledged revenues of the University. Certain Special Obligation bonds may also be secured by the State's Special Capital Reserve Fund, which enables State funds to be used to pay debt service if the University does not meet its obligation. 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 (at cost) of a Special Capital Reserve Fund held by the Trustee Bank, of which $2,061,811 and $1,004,670 are included at fair value in noncurrent investments at June 30, 2004 and 2003 (see Note 2), respectively; 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 year 2002 with the issuance of Student Fee Revenue Bonds 2002 Refunding Series A on February 27, 2002 in the amount of $96,130,000 and have a final maturity of November 15, 2029. Consistent with general obligation bonds refunding, the proceeds are deposited into an escrow account to meet all obligations.

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 $44,692,000 and $39,220,000 in fiscal years 2004 and 2003, respectively and are disclosed on the face of the Statements 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, and 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. Special Obligation bond investment earnings amounted to approximately $169,000 and $857,000 for the fiscal years ending June 30, 2004 and 2003, respectively. 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.

The State of Connecticut issues certain general obligation bonds that are categorized as self-liquidating bonds. These bonds were issued to fund the construction and renovations of revenue-generating capital projects. The University reimburses the State primarily with revenue from student fee charges in the amount equal to the debt service on self-liquidating bonds. Self-liquidating bonds outstanding totaled $10,871,410 and $12,418,259 at June 30, 2004 and 2003, respectively.

In December 2003, the University entered into a lease purchase agreement for a project to provide on-site generation of electricity, steam and chilled water for heating and cooling for the University at its Storrs campus. The project assumes a total cost of $75,000,000 and includes construction of a building, engineering, design and installation of certain equipment at the Storrs campus. Monthly lease payments of $471,254 begin after substantial completion of the construction (estimated to be October, 2005) and mature in 20 years from commencement with interest at an effective rate 4.51%. During the construction period, which began in November 2003, there are no required lease payments, although interest during this time will be capitalized and added to the principal amount of the advances made. Through June 30, 2004, the University owed $20,609,266 for amounts advanced by the lessor, including capitalized interest. This amount is reflected as long-term debt in the accompanying financial statements. The analysis on page 36 of long-term debt scheduled maturities includes what has been advanced to date, amortized over the term of the lease. At the completion of the lease term the University has an option to purchase the project assets for $1.

Prior to fiscal year 2004, the outstanding debt included in long-term debt and bonds payable on the Statements of Net Assets for the revenue and general obligation bonds was the face value of the bonds payable. Due to the relative insignificance to total debt, any unamortized net premium, discount and debt difference (due to refunding) was included with the associated cost of issuance in deferred charges. The amortization of this total amount was included in other nonoperating revenues (expenses), net. In fiscal year 2004, net unamortized premium, discounts and debt difference due to refundings are recorded as additions to the face value of bonds payable. These amounts are amortized using the straight-line basis over the life of the bonds, reducing interest expense for premiums and increasing it for discounts.

Long-term debt activity, including refunding of debt, for the years ended June 30, 2004 and 2003 was as follows:

Long-term debt activity for year ended June 30, 2004:

	2003 Ending Balance	Additions	Retirements	2004 Ending Balance	2004 Current Portion
General Obligation Bonds	$ 669,197,147	$ 314,795,000	$ (266,085,000)	$ 717,907,147	$ 48,250,000
Revenue Bonds	197,525,000	-	(3,770,000)	193,755,000	3,900,000
Self Liquidating Bonds	12,418,259	838,857	(2,385,706)	10,871,410	1,199,751
U.S. Dept. of Ed. Towers Loan	1,811,945	-	(37,735)	1,774,210	39,839
Installment Loans	3,753,831	882,416	(2,131,255)	2,504,992	1,847,410
Obligation Under Capital Lease for Cogeneration	-	20,609,266	-	20,609,266	-
Total long-term debt	884,706,182	337,125,539	(274,409,696)	947,422,025	55,237,000
Premiums/discounts/debt difference due to refunding	-	10,811,905	-	10,811,905	729,581
Total long-term debt, net	$ 884,706,182	$ 347,937,444	$ (274,409,696)	$ 958,233,930	$ 55,966,581

Long-term debt activity for year ended June 30, 2003:

	2002 Beginning Balance	Additions	Retirements	2003 Ending Balance	2003 Current Portion
General Obligation Bonds	$ 610,637,147	$ 96,210,000	$ (37,650,000)	$ 669,197,147	$ 42,925,000
Revenue Bonds	201,190,000	-	(3,665,000)	197,525,000	3,770,000
Self Liquidating Bonds	13,571,164	860,363	(2,013,268)	12,418,259	1,506,678
U.S. Dept. of Ed. Towers Loan	1,847,687	-	(35,742)	1,811,945	37,735
Installment Loans	5,060,216	532,528	(1,838,913)	3,753,831	1,703,709
Total long-term debt	$ 832,306,214	$ 97,602,891	$ (45,202,923)	$ 884,706,182	$ 49,943,122

Long-term debt outstanding at June 30, 2004 and 2003 consisted of the following:

Type of Debt and Issue Date	Type of Issue	Principal Payable	Maturity Dates Through Fiscal Year	Interest Rate	Balance 2004	Balance 2003
Bonds:						
GO 1996 Series A	original	various	2011	4.4-5.5%	$ 17,884,715	$ 53,899,715
GO 1997 Series A	original	annually	2009	4.875-5.3%	26,892,432	85,392,432
GO 1998 Series A	original	various	2018	4.15-5.0%	34,825,000	74,625,000
GO 1999 Series A	original	annually	2019	3.85-4.85%	59,000,000	64,000,000
GO 2000 Series A	original	various	2019	4.75-5.375%	55,330,000	110,275,000
GO 2001 Series A	original	various	2021	3.4-5.25%	56,655,000	89,795,000
GO 2002 Series A	original	various	2022	3.25-5.375%	61,315,000	95,000,000
GO 2003 Series A	original	annually	2023	2.0-5.25%	91,210,000	96,210,000
GO 2004 Series A	original	annually	2024	2.0-5.0%	97,845,000	-
GO 2004 Ref. Series A	refund	annually	2020	2.0-5.0%	216,950,000	-
Total general obligation bonds					717,907,147	669,197,147
Rev 1998 Series A	original	annually	2028	4.1-5.125%	29,845,000	30,525,000
Rev 2002 Ref. Series A	refund	annually	2030	3.5-5.25%	91,425,000	93,025,000
Rev 2002 Series A	original	annually	2030	2.7-5.25%	72,485,000	73,975,000
Total revenue bonds					193,755,000	197,525,000
March 1992	original	various	2007	6.3-6.45%	587,518	881,278
March 1993	original	annually	2012	5.1-5.5%	484,125	539,125
October 1993	refund	various	2012	4.5-6.0%	213,337	912,526
March 1994	original	various	2010	5.2-5.65%	148	210,148
August 1994	original	various	2009	5.375-5.8%	15,126	30,243
October 1995	original	annually	2006	5.0-6.0%	153,372	306,744
November 1996	refund	annually	2005	4.6-6.0%	201,563	277,775
March 1997	original	various	2017	4.625-6.0%	1,459,786	1,754,786
September 1997	refund	annually	2013	4.3-5.0%	319,777	321,344
February 1998	refund	annually	2015	4.1-5.125%	991,975	994,475
June 2001	refund	various	2016	5.0-5.5%	1,415,418	1,415,418
November 2001	refund	various	2014	3.0-5.125%	2,922,736	3,264,170
June 2002	refund	various	2010	3.0-5.5%	681,448	681,448
August 2002	refund	various	2016	3.0-5.5%	551,867	651,490
April 2003	refund	annually	2007	4.0-6.0%	43,971	177,289
December 2003	refund	annually	2011	4.4-5.5%	749,175	-
April 2004	refund	various	2007	4.5-6.0%	80,068	-
Total self-liquidating bonds					10,871,410	12,418,259
Total bonds					922,533,557	879,140,406
Loans:						
U.S. Dept. Ed. Towers Loan		semi-annually	2027	5.5%	1,774,210	1,811,945
Installment Purchases		various	various	2.24-13.630%	2,504,992	3,753,831
Obligation Under Capital Lease for Cogeneration		monthly	2026	4.42%	20,609,266	-
Total loans					24,888,468	5,565,776
Total bonds, loans and installment purchases					947,422,025	884,706,182
Premiums/discounts/debt difference due to refunding					10,811,905	-
Total bonds, loans and installment purchases, net					958,233,930	884,706,182
Less: current portion, net					55,966,581	49,943,122
Total noncurrent portion, net					$ 902,267,349	$ 834,763,060

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

	General Obligation Bonds			Long-term Debt Other than General Obligation Bonds			Total Obligations		
Year(s)	Principal	Interest	Total	Principal	Interest	Total	Principal	Interest	Total
2005	$ 48,250,000	$ 31,667,213	$ 79,917,213	$ 6,986,999	$ 10,070,736	$ 17,057,735	$ 55,236,999	$ 41,737,949	$ 96,974,948
2006	47,485,000	29,815,488	77,300,488	6,319,783	10,490,190	16,809,973	53,804,783	40,305,678	94,110,461
2007	47,210,000	27,977,763	75,187,763	6,363,890	10,468,483	16,832,373	53,573,890	38,446,246	92,020,136
2008	45,688,792	29,018,254	74,707,046	6,294,045	10,162,186	16,456,231	51,982,837	39,180,440	91,163,277
2009	47,653,640	27,641,844	75,295,484	6,330,392	9,904,836	16,235,228	53,984,032	37,546,680	91,530,712
2010-2014	215,904,715	99,877,621	315,782,336	34,656,148	45,039,678	79,695,826	250,560,863	144,917,299	395,478,162
2015-2019	190,545,000	44,650,739	235,195,739	41,719,649	35,739,749	77,459,398	232,264,649	80,390,488	312,655,137
2020-2024	75,170,000	7,988,586	83,158,586	52,038,745	24,190,738	76,229,483	127,208,745	32,179,324	159,388,069
2025-2029	-	-	-	57,720,227	10,344,633	68,064,860	57,720,227	10,344,633	68,064,860
2030	-	-	-	11,085,000	396,625	11,481,625	11,085,000	396,625	11,481,625
Total	$717,907,147	$298,637,508	$1,016,544,655	$229,514,878	$166,807,854	$396,322,732	$947,422,025	$465,445,362	$1,412,867,387

5. 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 approximately 40% of 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 372 full-time employees, 78 participate in the State Employees' Retirement System and 294 are eligible to participate in two retirement plans: the Department of Dining Services Money Purchase Pension Plan and optionally the University of Connecticut Department of Dining Services 403(b) Retirement Plan.

6. COMPENSATED ABSENCES AND WAGES PAYABLE

Compensated absences includes accrued unused vacation and sick leave balances for employees, and at June 30, 2004 totaled $19,764,750 and $2,020,399, respectively, and at June 30, 2003 totaled $18,862,956 and $2,308,377, respectively. During fiscal year 2003, the State of Connecticut offered an Early Retirement Incentive Plan (ERIP) to University employees which is funded by the State and its various retirement plans. By the terms of the ERIP, unused vacation and sick leave will be paid in three equal payments on July 1 of each year, beginning July 1, 2005, with optional payment before July 1, 2005 to employees with balances below $2,000. The State has not committed to reimburse the University for the amounts due to its employees. Therefore, included in the noncurrent compensated absences liability as of June 30, 2004 and 2003 are $2,321,481 for accrued vacation and $914,897 for sick leave for University employees that participated in ERIP. Compensated absences are recorded in accordance with GASB Statement No. 16 and represent the amounts earned by eligible employees through June 30, 2004 and 2003. The 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 includes salaries and wages for amounts owed at June 30. 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.

7. POST EMPLOYMENT BENEFITS

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

8. COMMITMENTS

On June 30, 2004, the University had outstanding commitments (over $100,000 each) totaling $26,844,466, which included $15,741,487 of commitments related to capital projects. Of the total amount, $3,772,096 was included in accounts payable at June 30, 2004. In addition to the amount for capital outlay, commitments were also related to research, academic, and institutional support. Of these commitments, the University expects $4,945,602 to be reimbursed by federal grants.

9. DEFERRED INCOME AND CHARGES

Deferred income is comprised of: certain restricted research grants that are not included in revenue until the funds are expended; tuition and fees and auxiliary enterprises fees received in advance of services rendered for summer and fall sessions; athletic ticket sales and commitments received in advance of the season; a contingent grant received for which conditions were not satisfied as of year-end; and other revenues received but not earned. As of June 30, 2004 and 2003 deferred income is as follows:

	2004	**2003**
Certain restricted research grants	$ 8,062,005	$ 5,239,986
Tuition and fees and auxiliary services	10,102,900	12,061,197
Athletic ticket sales and commitments	5,180,160	3,648,922
Contingent grant	500,000	1,000,000
Other	1,549,005	1,298,387
Total deferred income	$ 25,394,070	$ 23,248,492

A portion of current deferred charges totaling $544,894 and $381,504 and noncurrent deferred charges totaling $9,150,740 and $6,472,344 at June 30, 2004 and 2003, respectively, represent the cost of issuance on certain bond issues, which will be amortized over the terms of the respective bond issues (see Note 4).

10. 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 $30,044,499 and $25,601,506 in fiscal year 2004 and 2003, respectively. In fiscal year 2004, approximately 84% of such waivers were provided to graduate assistants, with 83% in 2003.

11. 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.

12. OPERATING EXPENSES BY OBJECT

The following table details the University's operating expenses by object for the years ended June 30, 2004 and 2003:

Operating Expenses by Object for the year ended June 30, 2004

	Instruction	Research	Public Service	Academic Support	Student Services	Institutional Support	Operations and Maintenance of Plant	Depreciation	Student Aid	Auxiliary Enterprises	Total
Salaries and Wages	$148,574,964	$30,451,254	$19,000,055	$37,551,316	$16,650,086	$29,608,022	$13,688,431	$ -	$203,042	$34,231,778	$329,958,948
Fringe Benefits	39,908,945	5,587,859	4,526,885	12,179,166	4,931,715	10,976,471	6,054,157	-	-	10,878,933	95,044,131
Supplies & Other Expenses	12,388,278	25,954,742	5,953,601	14,201,724	3,252,795	8,848,813	10,747,555	-	345,890	48,828,768	130,522,166
Utilities	-	-	-	-	124,307	6,262	14,444,876	-	-	8,634,307	23,209,752
Depreciation	-	-	-	-	-	-	-	69,594,696	-	-	69,594,696
	$200,872,187	$61,993,855	$29,480,541	$63,932,206	$24,958,903	$49,439,568	$44,935,019	$69,594,696	$548,932	$102,573,786	$648,329,693

Operating Expenses by Object for the year ended June 30, 2003

	Instruction	Research	Public Service	Academic Support	Student Services	Institutional Support	Operations and Maintenance of Plant	Depreciation	Student Aid	Auxiliary Enterprises	Total
Salaries and Wages	$159,990,687	$24,946,922	$16,720,941	$39,109,719	$17,188,065	$29,387,826	$14,990,508	$ -	$248,060	$34,950,918	$337,533,646
Fringe Benefits	41,058,857	4,413,144	3,964,702	11,789,395	4,633,047	10,127,862	5,847,549	-	549	10,011,237	91,846,342
Supplies & Other Expenses	9,633,312	26,810,743	4,439,402	10,218,730	3,537,059	11,082,701	10,840,504	-	309,310	41,318,746	118,190,507
Utilities	-	-	-	-	136,369	5,637	13,568,388	-	-	6,904,430	20,614,824
Depreciation	-	-	-	-	-	-	-	63,402,505	-	-	63,402,505
	$210,682,856	$56,170,809	$25,125,045	$61,117,844	$25,494,540	$50,604,026	$45,246,949	$63,402,505	$557,919	$93,185,331	$631,587,824

13. UNRESTRICTED NET ASSETS

The University adopted GASB No. 35 for external reporting purposes, which requires net assets to be classified for accounting and reporting purposes into one of three net asset categories, as discussed in Note 1 to the financial statements. Unrestricted net assets, as defined by the GASB, are not subject to externally imposed stipulations; however, they are subject to internal restrictions. For example, unrestricted net assets may be designated for specific purposes by action of management or the Board of Trustees or may otherwise be limited by contractual agreements with outside parties. Substantially all unrestricted net assets are internally designated for academic and research programs, capital programs, retirement of debt, and auxiliary enterprise activities.

TRUSTEES AND FINANCIAL OFFICERS
As of June 30, 2004

BOARD OF TRUSTEES

FINANCIAL OFFICERS

Lorraine M. Aronson, Vice President and Chief Financial Officer
Bruce A. DeTora, Chief Financial Officer
Paul R. McDowell, Controller
Charles H. Eaton, Associate Controller