



University of Connecticut

Financial Report
For the Year Ended June 30, 2006

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, service and outreach. 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, 2006 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 2006 topped 27,500 students, taught by 1,251 full-time faculty members and an additional 687 part-time faculty and adjuncts. In total, the University employs almost 4,400 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 vigilance. 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 Board of Trustees, through its Joint Audit and Compliance Committee, exercises 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 state auditors. An important component of external oversight, 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.

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, service and outreach 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, for the seventh consecutive year, the University was named the top public university in New England in the annual *U.S. News and World Report* rankings. The University is ranked 28th 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 2005 freshman enrollment at the main campus was up 61%, minority freshman enrollment was up 111% and, since 1996, average SAT scores were up 76 points. Thirty-seven percent of these students ranked in the top 10% of their high school class. In 2006, the University added 51 faculty members to address the increased instructional demand.
-

- The Educational Policy Institute (EPI) awarded the University the 2006 Outstanding Retention Program Award in recognition of excellence in development and implementation of a program that increases the persistence of students at the postsecondary level. The University's freshman-to-sophomore retention rate at the main campus is 92% and the 6-year graduation rate is 72%.
- Approximately 6,400 degrees were conferred in the 2005-2006 school year for the completion of undergraduate, graduate and professional programs at the Storrs and regional campuses.
- Research awards for the Storrs-based program grew from \$55.9 million in fiscal year 1996 to \$91.7 million in fiscal year 2006.
- UConn, including both the Health Center and Storrs-based programs, ranked 74th among all institutions and 52nd among public universities nationwide in research and development expenditures, as measured by the National Science Foundation.
- The Foundation's endowment, including both the Health Center and Storrs-based programs, which stood at \$42 million at the start of 1995, is now valued at approximately \$300 million. Total Foundation net assets reached \$353 million, the highest ever and an 8.6% increase over 2005. The University received a record \$33.6 million in disbursements in support of scholarships, faculty, programs and facilities from the Foundation, a 20% increase over 2005.
- By 2006, the UCONN 2000 program had led to the completion of 87 major projects and 9.2 million square feet of new and renovated space.
- In 2006, the University continued implementation of its UCONN 2000 corrective action plan with the establishment of the Construction Management Oversight Committee, the Buildings, Grounds and Environment Committee of the Board of Trustees, and the Construction Assurance Office. The financial implications of these activities relate in large measure to the cost of corrective action for code deficiencies in three residential complexes. Actual and estimated costs are reflected in the accompanying financial statements. To date, much of the corrective work has been performed and paid for by contractors; the University will continue to pursue financial recovery as appropriate.
- Two new athletics facilities – the Burton Family Football Complex and the Mark R. Shenkman Training Center – were certified as meeting the Leadership in Energy and Environmental Design (LEED) standards for “green” buildings. The University is the first college in the nation with university athletic projects to earn this designation.
- The University welcomed 55 students from Connecticut who attended 5 New Orleans-area colleges and universities affected by Hurricane Katrina. This effort, coupled with fundraising and volunteer work for the Gulf Coast, contributed to making the University one of only nine colleges and universities in the nation to receive a Katrina Compassion Award for excellence in hurricane relief service, placing it on the first-ever President's Higher Education Community Service Honor Roll.
- The University celebrated its 125th anniversary with a yearlong series of events and activities highlighting the institution's history. President Austin stated, “In the past century and a quarter, we have grown from a small agricultural school to one of the nation's outstanding public universities, and in the process we have become one of our state's greatest assets. We are excited to share our story with both the UConn community and the citizens of Connecticut.”

Respectfully Submitted,



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



Bruce A. DeTora
Chief Financial Officer
Storrs-based Programs

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STATE OF CONNECTICUT



AUDITORS OF PUBLIC ACCOUNTS

STATE CAPITOL

210 CAPITOL AVENUE

HARTFORD, CONNECTICUT 06106-1559

KEVIN P. JOHNSTON

ROBERT G. JAEKLE

INDEPENDENT AUDITORS' REPORT

The Board of Trustees of the
University of Connecticut

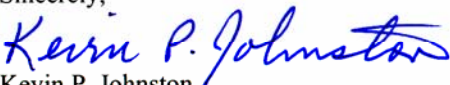
We have audited the accompanying statements of net assets of the University of Connecticut (University) as of June 30, 2006 and 2005, and the related statements of revenues, expenses and changes in net assets and statements of cash flows for the years then ended. The University is a component unit of 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% and revenues constituting .2% of the related totals of the University in 2006. 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, 2006 and 2005, 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.

The Management Discussion and Analysis on pages 2 through 14 is not a 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, 2006
State Capitol
Hartford, Connecticut

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, 2006, based on currently known facts, decisions, or conditions. It also includes selected comparative information for the years ended June 30, 2005 and 2004. 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 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.

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FINANCIAL HIGHLIGHTS AND ECONOMIC OUTLOOK

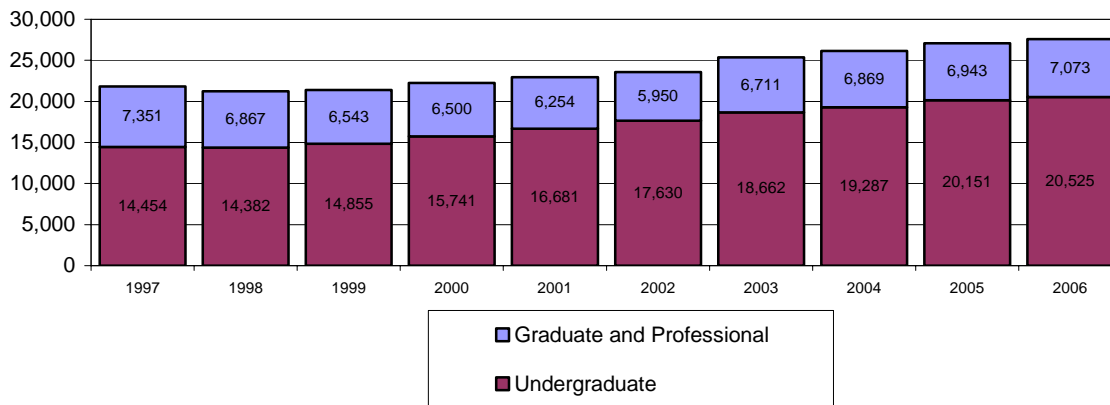
The University submits separate biennial operating and capital budgets to the Governor and General Assembly through the Board of Governors for Higher Education. The General Assembly appropriates and allocates funds directly to the University. In general, the Governor may reduce State agency allotments 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 \$347.3 million for the year ending June 30, 2006 (fiscal year 2006) as compared to \$324.5 million for the year ending June 30, 2005 (fiscal year 2005), and \$276.9 million for the year ending June 30, 2004 (fiscal year 2004). The increase in operating loss in fiscal year 2006 from fiscal year 2005 was due to an increase in total operating expenses of 5.4%, primarily caused by a 6.6% increase in salaries as a result

of a 1.6% increase in full-time equivalent staff and negotiated raises. The increase in operating loss in fiscal year 2005 from fiscal year 2004 was due to the combined effect of a 6.2% increase in full-time equivalent staff, replacing many of the staff who participated in the fiscal year 2003 Early Retirement Incentive Program (ERIP), and a 21.4% increase in depreciation expense, offset by an increase in enrollment and tuition and fees. 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 \$45.8 million in fiscal year 2006 as compared to \$43.4 million and \$19.5 million for fiscal years 2005 and 2004, respectively. Total operating revenues grew \$17.2 million in fiscal year 2006 and \$37.1 million in fiscal year 2005. At the same time, operating expenses increased \$40.0 million in fiscal 2006 as compared to an increase in fiscal year 2005 of \$84.7 million over fiscal year 2004. Investment income increased for the second time in five years by \$5.1 million (\$2.2 million in fiscal year 2005). It decreased \$1.2 million in fiscal year 2004 compared to fiscal year 2003.

Sources of recurring operating and nonoperating revenues continue to exhibit strength with increases in the past three fiscal years. State support increased for the second time in four years. The University’s total enrollment in fiscal year 2003 topped 25,000 students and grew to 27,598 students in fiscal year 2006. These students are taught by 1,251 full-time faculty members (an increase of 51 faculty over the prior year) and an additional 687 part-time faculty and adjuncts. Undergraduate enrollment at the University reached 20,525 students in fiscal year 2006, 1.9% more than fiscal year 2005 (4.5% more students in fiscal year 2005 over 2004). At the same time, an in-state tuition and mandatory fee increase of 5.63% and an out-of-state increase of 5.66% were approved for fiscal year 2006. Graduate and professional enrollment also increased by 1.9%, with an in-state tuition and mandatory fee increase of 5.83% and an out-of-state increase of 5.98%. 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 \$17.3 million (7.9%) as compared to \$22.8 million (11.6%) increase in 2005. Sales and services of auxiliary enterprises, before scholarship allowances, increased \$6.6 million (5.8%), primarily as a result of an overall increase in room and board fees of 4.1% for undergraduate students and 4.2% for graduate students. In fiscal year 2005, sales and services of auxiliary enterprises, before scholarship allowances, increased by \$8.6 million (8.1%). Grant and contract revenues decreased \$5.2 million (4.7%) in fiscal year 2006 as compared to an increase of \$8.6 million (8.2%) in fiscal year 2005 over 2004.

**HEADCOUNT ENROLLMENT IN FALL OF EACH FISCAL YEAR
TEN YEAR COMPARISON**



The 21st Century UConn program, also known as Phase III of UCONN 2000, began in fiscal year 2005. It represents a \$1.3 billion, 10-year extension of the original UCONN 2000 program (see Note 4), and provides \$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 provide quality facilities commensurate with the enrollment growth experienced in recent years.

The financial condition of the University is closely tied to the State’s economic condition. While it is difficult to project the State’s economy and resulting effect on the State’s financial condition, the experience of cutbacks and ERIP from fiscal years 2004 and 2003 has been turned around. The State’s significant revenue streams have begun to grow at a healthy pace, a reality which is in turn reflected in the State’s appropriation to the University which has increased for the second year in a

row since fiscal year 2002. The University is well positioned to maintain its financial condition and high standard of service to its students and the citizens of the State.

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 (those maturing and due within one year) and noncurrent (those 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, including payments made to others before a service was received. Assets are recorded at their current value, except for property and equipment that are 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 (in millions):

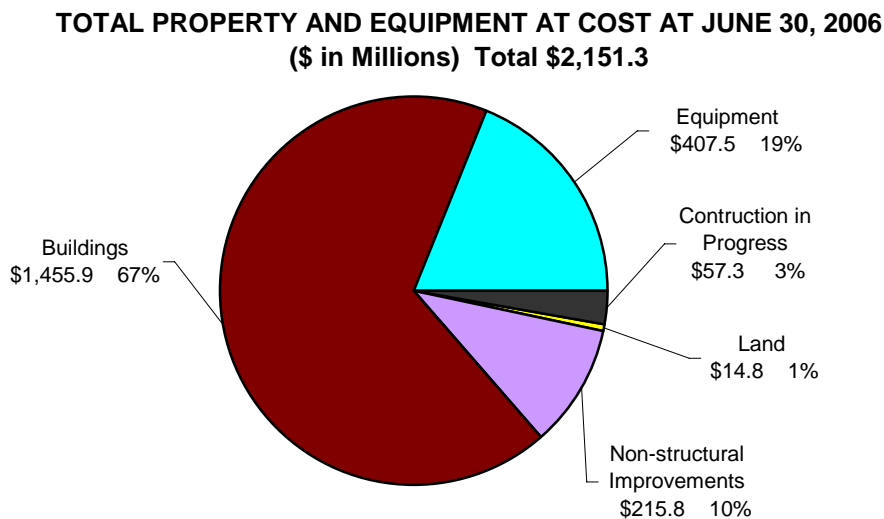
	2006	2005	2004
Current assets	\$ 390.7	\$ 351.1	\$ 311.7
Noncurrent assets			
State debt service commitment	734.4	715.4	669.7
Investments	13.5	12.6	11.5
Property and equipment, net	1,524.7	1,507.1	1,446.1
Other	20.5	20.3	20.6
Total assets	<u>\$2,683.8</u>	<u>\$2,606.5</u>	<u>\$2,459.6</u>
Current liabilities	\$ 258.1	\$ 232.9	\$ 181.3
Noncurrent liabilities			
Long-term debt and bonds payable	1,020.7	984.1	902.3
Other	21.3	20.0	20.5
Total liabilities	<u>\$1,300.1</u>	<u>\$1,237.0</u>	<u>\$1,104.1</u>
Invested in capital assets, net	\$1,228.5	\$1,230.0	\$1,206.3
Restricted	60.9	47.8	47.7
Unrestricted	94.3	91.7	101.5
Total net assets	<u>\$1,383.7</u>	<u>\$1,369.5</u>	<u>\$1,355.5</u>

The total assets increased \$77.3 million in fiscal year 2006 over 2005 and \$146.8 million in fiscal year 2005 over 2004. The growth in fiscal year 2006 was primarily due to \$18.4 million (\$61.5 million in fiscal year 2005) of additions to property and equipment, net of accumulated depreciation, a \$7.1 million (\$10.1 million in fiscal year 2005) increase in cash and cash equivalents, a \$23.3 million increase (\$16.6 million increase in fiscal year 2005) in deposit with bond trustee and a \$23.7 million (\$50.5 million in fiscal year 2005) increase in the state debt service commitment.

The total liabilities for fiscal year 2006 increased \$63.1million (\$132.9 million in fiscal year 2005) primarily due to newly acquired debt through the sale of general obligation bonds and other new debt, totaling \$166.1 million (\$142.8 million in fiscal year 2005) and the retirement of prior year debt on existing bonds and loans of \$124.2 million (\$55.9 million in fiscal year 2005). The increase is also related to \$22.3 million due to affiliate for the unspent portion of bonds issued in fiscal year 2006 (\$16.3 million in fiscal year 2005) that are committed for projects at the Health Center and a \$1.8 million decrease in other liabilities (\$23.7 million increase in fiscal year 2005). The combination of the increase in total assets of \$77.3 million (\$146.8 million for fiscal year 2005) and total liabilities of \$63.1 million (\$132.9 million for fiscal year 2005) yields an increase in total net assets of \$14.2 million (\$13.9 million in fiscal year 2005).

Capital and Debt Activities

During fiscal year 2006, the University recorded additions to property and equipment totaling \$105.0 million (\$146.1 million and \$182.3 million in 2005 and 2004, respectively) of which \$68.3 million related to buildings and construction in progress (\$105.2 million and \$145.5 million in 2005 and 2004, respectively). The 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, expands and builds 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:

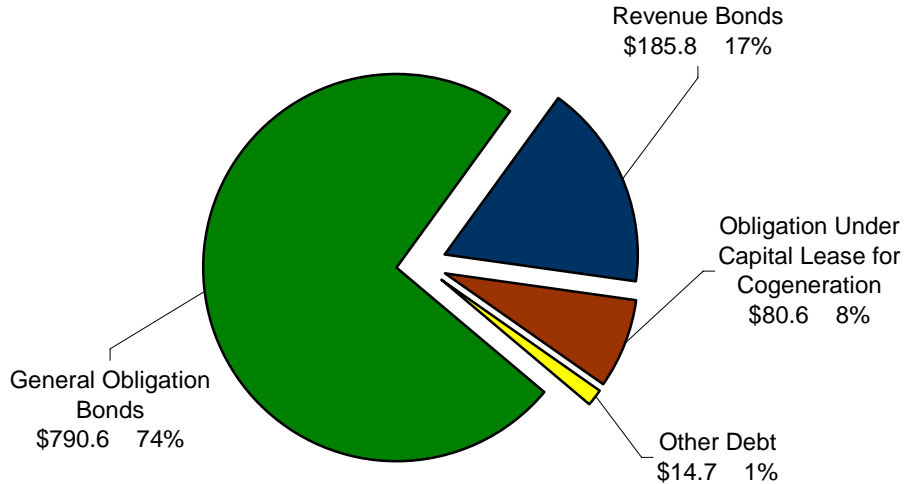


In fiscal year 2006, the University issued bonds with a total face value of \$138.2 million from the sale of UCONN 2000 general obligation bonds (\$98.1 million in fiscal year 2005) of which \$14.9 million is committed (\$16.4 million in fiscal year 2005) to the Health Center for its UCONN 2000 projects (see Note 4). The State has made a commitment to fund the University for all principal and interest payments due on UCONN 2000 general obligation debt, inclusive of 21st Century UConn. 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. As bonds are issued, the amount of the commitment for the Health Center is reflected as a liability by the University.

The University began providing on-site generation of electricity, steam and chilled water for heating and cooling for the University at its Storrs campus in fiscal year 2006 (see Note 4). Long-term savings in costs for utilities are anticipated from the operation of the plant.

See Notes 3 and 4 of the financial statements for further information on capital and debt activities. The chart below illustrates the categories of debt as of June 30, 2006, exclusive of premiums, discounts and differences due to refunding:

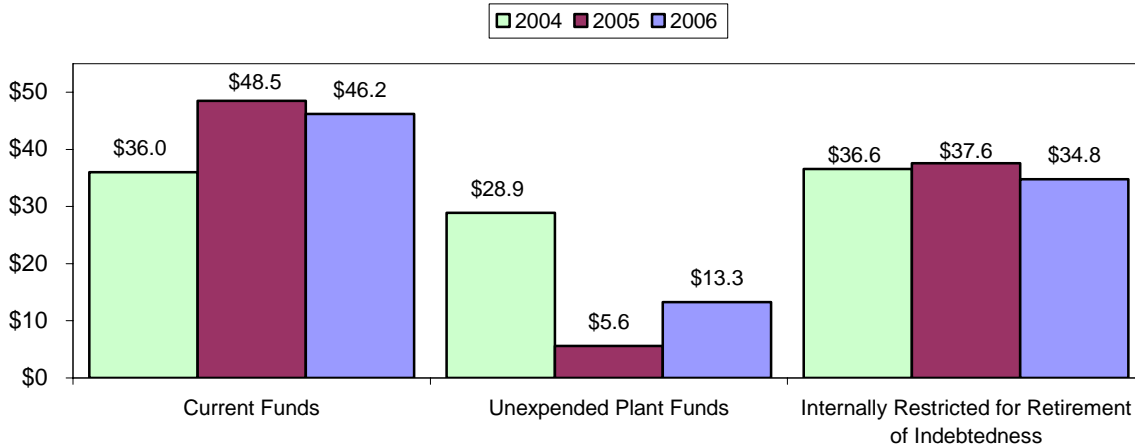
**CATEGORIES OF DEBT AT JUNE 30, 2006
(\$ in Millions) Total \$1,071.7**



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 are 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

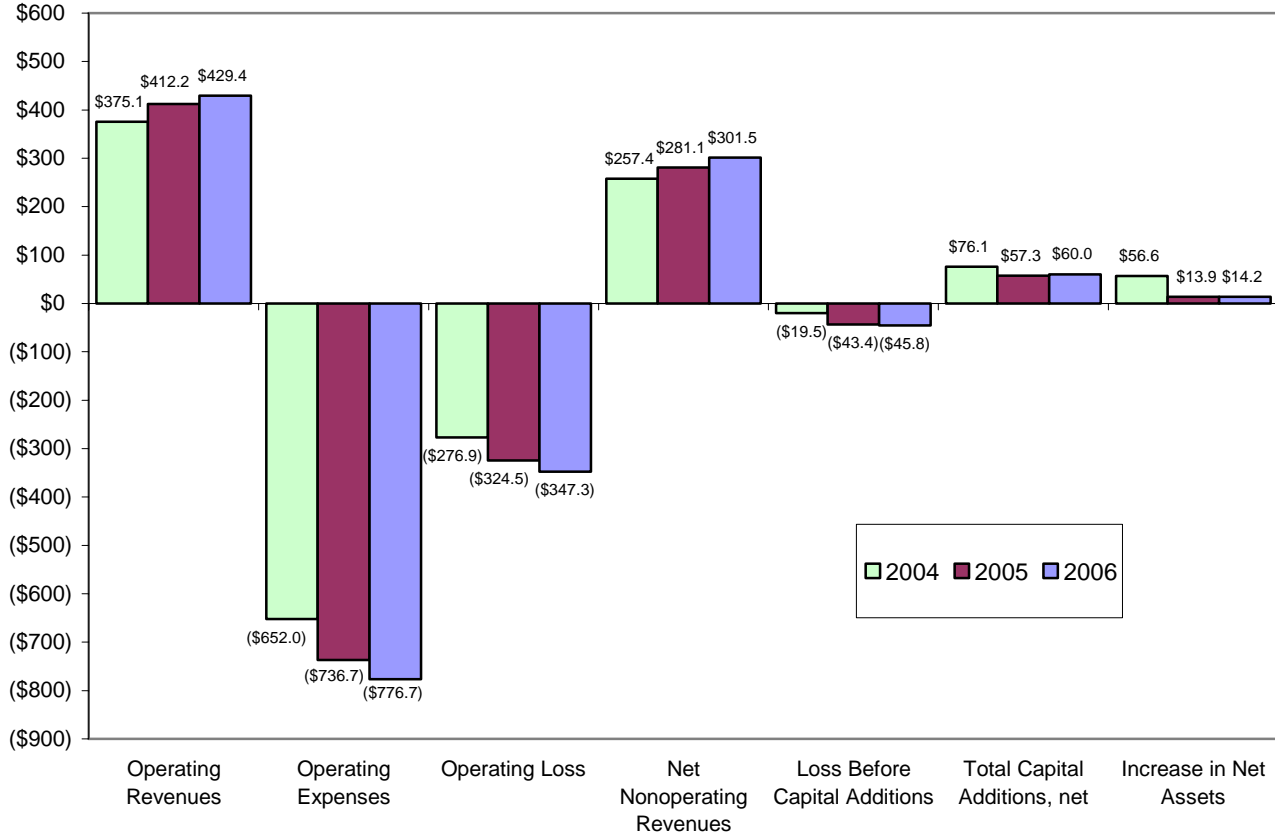
Revenues and expenses are classified as operating, nonoperating, or capital additions (deductions) according to definitions prescribed by GASB. Significant recurring sources of nonoperating revenues utilized in balancing the operating loss each year include state appropriations for general operations, 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 (in millions):

	2006	2005	2004
Operating revenues	\$ 429.4	\$ 412.2	\$ 375.1
Operating expenses	776.7	736.7	652.0
Operating loss	(347.3)	(324.5)	(276.9)
Net nonoperating revenues	301.5	281.1	257.4
Loss before capital additions	(45.8)	(43.4)	(19.5)
Total capital additions	60.0	57.3	76.1
Increase in net assets	<u>\$ 14.2</u>	<u>\$ 13.9</u>	<u>\$ 56.6</u>

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.

STATEMENTS 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 in exchange 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 \$14.2 million, \$13.9 million, and \$56.6 million at the end of the fiscal years 2006, 2005 and 2004, respectively.

Revenues

The following table summarizes operating and nonoperating revenues and capital additions for the fiscal years ended June 30 (in millions):

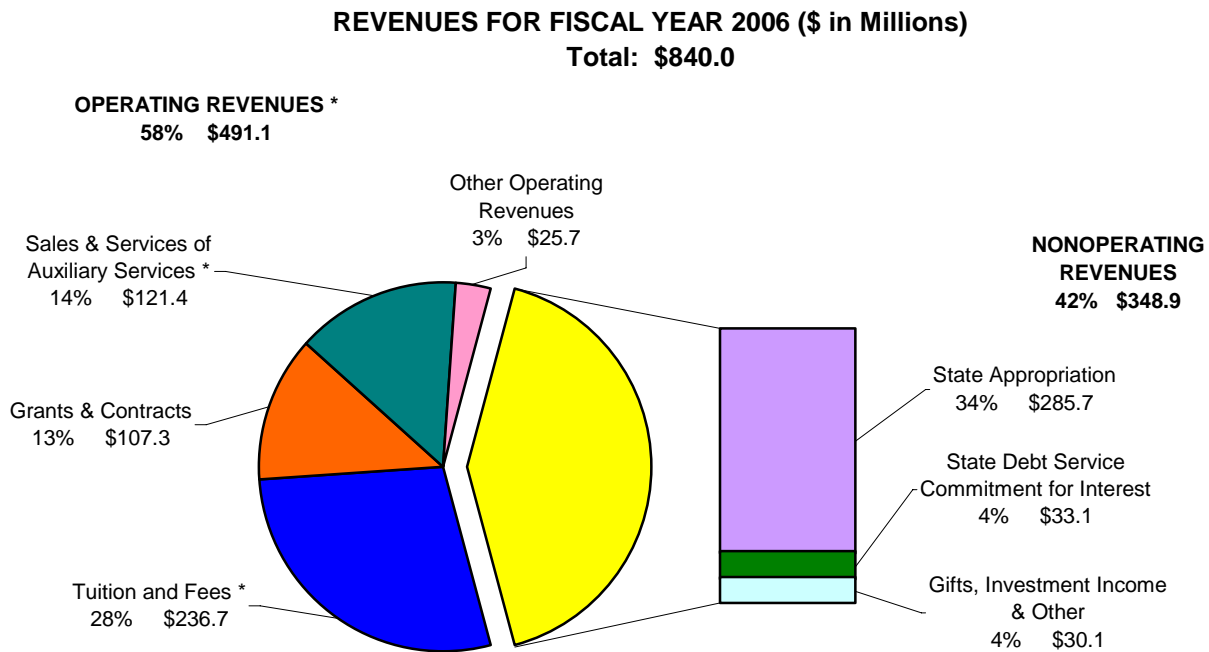
	2006	2005	2004
Operating revenues:			
Student tuition and fees, net	\$ 177.2	\$ 162.4	\$ 145.2
Grants and contracts	107.3	112.5	103.9
Sales and services of educational departments	15.5	13.8	12.2
Sales and services of auxiliary enterprises, net	119.2	113.5	104.8
Other sources	10.2	10.0	9.0
Total operating revenues	<u>429.4</u>	<u>412.2</u>	<u>375.1</u>
Nonoperating revenues:			
State appropriation	285.7	273.1	256.5
State debt service commitment for interest	33.1	32.3	27.9
State match to endowments	-	1.0	-
Gifts	20.5	15.3	15.3
Investment income	9.6	4.6	2.4
Total nonoperating revenues	<u>348.9</u>	<u>326.3</u>	<u>302.1</u>
Capital additions:			
State debt service commitment for principal	61.6	81.7	91.6
Capital grants and gifts	10.0	9.2	8.2
Capital other, net (see <i>Expense</i> section)	-	-	-
Total capital additions	<u>71.6</u>	<u>90.9</u>	<u>99.8</u>
Total revenues	<u>\$ 849.9</u>	<u>\$ 829.4</u>	<u>\$ 777.0</u>

Revenue highlights, for fiscal years 2006 and 2005 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 9.1% in fiscal year 2006 (11.9% in 2005) and 7.9% before scholarship allowance (11.6% in fiscal 2005). The increase in fiscal year 2006 was due in part to 1.9% (4.5% in fiscal year 2005) more undergraduates enrolled at the University and an increase of 5.63% (10.0% in fiscal year 2005) for undergraduate in-state tuition and mandatory fees charged, and 5.66% (9.8% in fiscal 2005) for out-of-state tuition and mandatory fees.

- Sales and services of auxiliary enterprises, net of scholarship allowances, increased approximately 5.0% and 8.4% during fiscal years 2006 and 2005, respectively. The increase in fiscal year 2006 resulted primarily from an increase in fees charged for both room and board of 4.1% for undergraduate students and 4.2% for graduate students. The increase in fiscal year 2005 resulted primarily from a significant increase in athletic conference and sponsor revenues and a 7.5% increase in fees charged for both room and board.
- The largest source of revenue, state appropriation including fringe benefits, increased \$12.6 million, a 4.6% increase in fiscal year 2006 and \$16.6 million, a 6.5% increase in fiscal year 2005, after two years of slight declines. The state appropriation 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 Net Assets to reflect this commitment. This results in revenue that is recorded as a capital addition and totaled \$61.6 million in fiscal year 2006 (\$81.7 million in fiscal year 2005).
- 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, and research activities. Both the Foundation and the Law School 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 \$26.1 million in fiscal year 2006 compared to \$19.6 million in fiscal year 2005. Both Foundations also paid approximately \$4.7 million in fiscal year 2006 (\$5.7 million in fiscal year 2005) to third parties on behalf of the University. This amount is not reflected in the University’s financial statements. In addition, the University receives gifts directly. Total nonoperating gifts and capital gifts and grants revenue to the University from all sources amounted to \$30.4 million and \$24.5 million in fiscal years 2006 and 2005, respectively.

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



* Shown here at gross amounts, not netted for student financial aid totalling \$61.7 million.

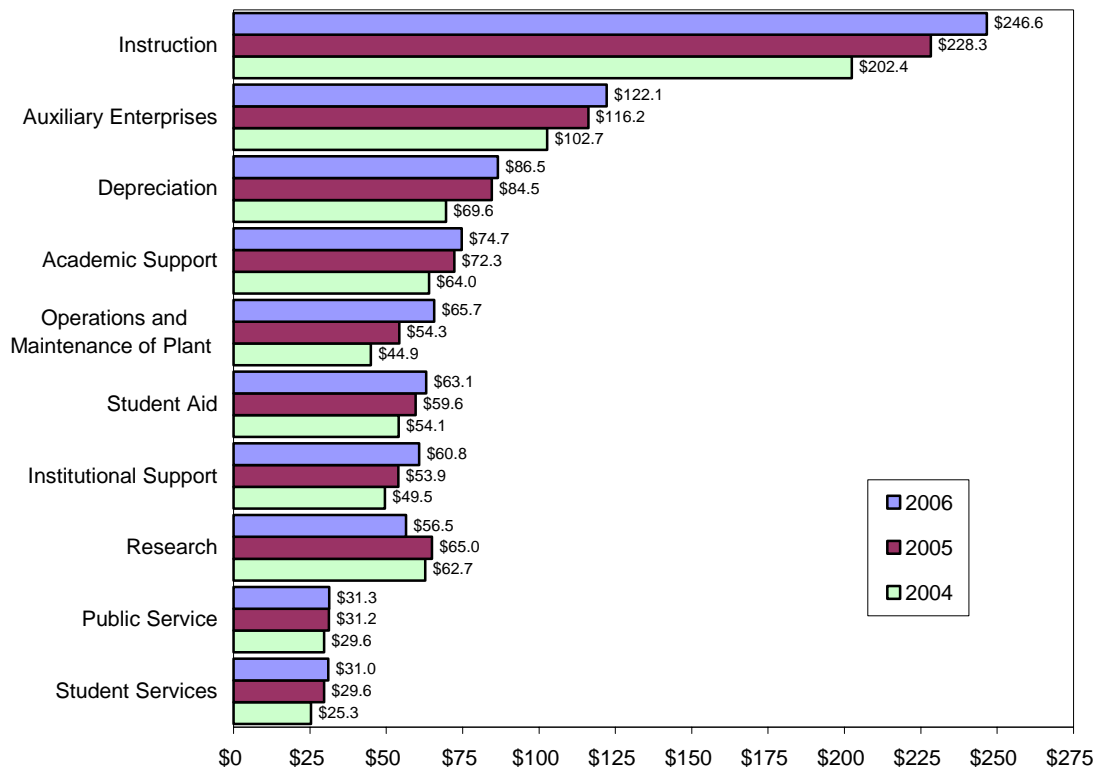
Expenses

The following table summarizes operating and nonoperating expenses and capital deductions for the fiscal years ended June 30 (in millions):

	2006	2005	2004
Operating expenses:			
Instruction	\$ 245.6	\$ 227.1	\$ 200.9
Research	55.9	64.4	62.0
Operations and maintenance of plant	65.7	54.3	44.9
Auxiliary enterprises	122.0	116.0	102.6
Depreciation	86.5	84.5	69.6
Other	201.0	190.4	172.0
Total operating expenses	<u>776.7</u>	<u>736.7</u>	<u>652.0</u>
Nonoperating expenses:			
Interest expense	43.3	41.9	37.8
Other nonoperating expense, net (see <i>Revenue</i> section)	4.2	3.3	6.8
Total nonoperating expenses	<u>47.5</u>	<u>45.2</u>	<u>44.6</u>
Capital deductions:			
Disposal of property and equipment, net	0.9	0.5	4.2
Capital other, net (see <i>Revenue</i> section)	10.6	33.1	19.6
Total capital deductions	<u>11.5</u>	<u>33.6</u>	<u>23.8</u>
Total expenses	<u>\$ 835.7</u>	<u>\$ 815.5</u>	<u>\$ 720.4</u>

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 mission 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).

EXPENSES BY FUNCTIONAL CLASSIFICATION
(\$ in Millions)
(Shown here at gross amount, not netted for student financial aid.)

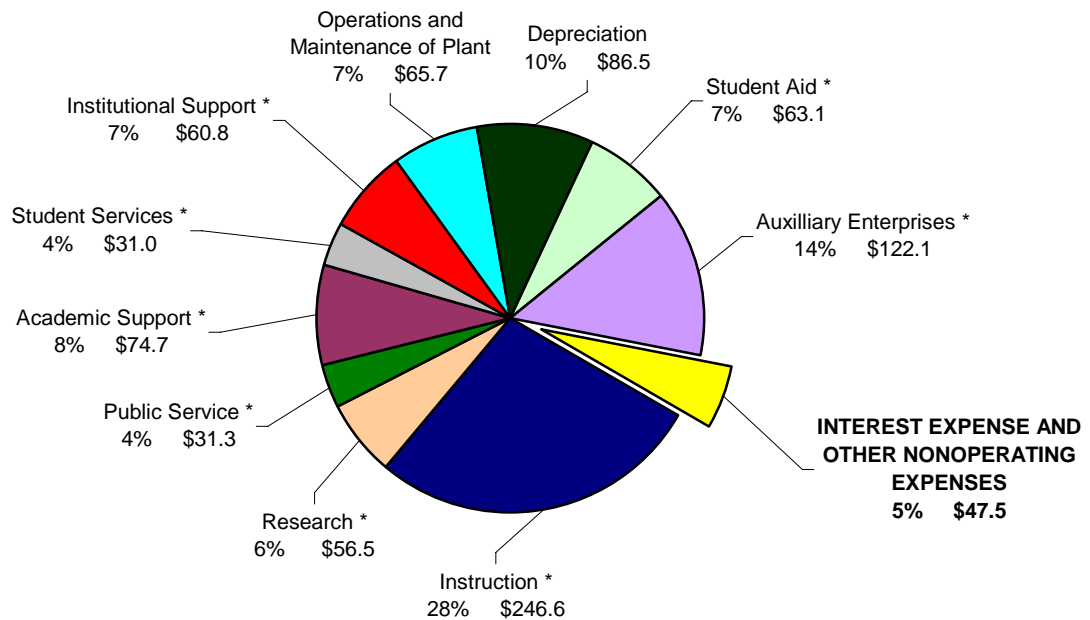


Highlights of expenses, including operating and nonoperating expenses and capital deductions, presented on the Statements of Revenues, Expenses, and Changes in Net Assets are as follows:

- Instruction, the University's largest operating expense, increased \$18.5 million (8.1%) in fiscal year 2006, primarily due to an increase of approximately 35 full-time equivalent faculty and staff, an average compensation increase for the bargaining units of approximately 5% and an increase in supplies, commodities and other expenditures. Instruction increased \$26.2 million (13.0%) in fiscal year 2005, primarily due to hiring 116 full-time equivalent faculty and staff beginning in August, 2004, to replace ERIP employees from the prior year. The change also reflected an average compensation increase for the bargaining units of approximately 5% and an increase in supplies, commodities and other expenditures.
- A slight decrease was experienced in fiscal year 2006 for research expenditures commensurate with the decrease in associated revenues. These expenditures are related primarily to sponsored research revenues and are affected by the timing of purchases of supplies and commodities that can be charged to grants. In fiscal year 2005, research expenses increased \$2.4 million or 3.8%.
- Operations and maintenance of plant increased \$11.4 million (20.9%) in fiscal year 2006. The University began providing on-site generation of electricity, steam and chilled water for heating and cooling for the University at its Storrs campus in fiscal year 2006 (see Note 4). Electricity and gas were the two major energy sources for the University and while the purchase of electricity decreased 20.8% due to the on-site generation of electricity (rates increased approximately 28.0%), gas consumption increased 46.8% and its rates increased 20.4%. Also, significant increases in supplies and commodities resulted from bringing the cogeneration plant on-line. In fiscal year 2005 the operations and maintenance of plant increased \$9.4 million (20.9%). The consumption of energy only increased 1.0% but gas prices increased 40.2% and electricity rates remained constant. In addition, the hiring of 18 full-time equivalent staff related to the operations and maintenance of plant function and contractual increases of approximately 5% contributed to an increase in salaries, wages and fringe benefits of \$2.8 million (14.4%).
- Auxiliary enterprises expenditures increased 5.1% in fiscal year 2006, primarily due to contractual salary increases and the hiring of 11 full-time equivalent staff. Total salaries, wages and fringe benefits increased \$3.5 million, contributing to more than half of the total increase in auxiliary enterprises. Auxiliary enterprises expenditures increased 13.1% in fiscal year 2005, primarily due to contractual salary increases and the hiring of 18 additional full-time equivalent staff to replace many of those lost through ERIP. Total salaries, wages and fringe benefits increased \$6.8 million, contributing to half of the total increase in auxiliary enterprises. Supplies, commodities and other and utilities expenditures increased \$6.7 million resulting from the significant rate increase in gas prices (see above).
- In fiscal year 2006, the eleventh year of UCONN 2000 (see Note 4), the University recorded additions of \$105.0 million (\$146.1 million fiscal year 2005) in property and equipment. These significant additions contributed to a 2.4% or \$2.0 million increase in depreciation expense in fiscal year 2006 (21.4% or \$14.9 million in fiscal year 2005).
- Other nonoperating expenditures totaled \$4.2 million (\$3.3 million in fiscal year 2005) and primarily consisted of certain legal fees and matters of a nonrecurring nature.
- In fiscal year 2006, capital other includes several items discussed in Note 3 including: \$5.4 million (\$21.1 million in fiscal 2005) for work to correct certain deficiencies in the construction of three residential facilities and \$5.1 million in 2006 (\$6.8 million in 2005) to complete a project to remediate and close an existing landfill.

Total operating expenses were \$776.7 million and \$736.7 million in fiscal years 2006 and 2005, respectively, netted for student financial aid totaling \$61.7 million and \$58.2 million, respectively. Note 12 to the financial statements details operating expenses by object (natural classification), and shows an increase in salaries and wages of 6.6%. This resulted from an approximate 5.0% staff and contractual wage increase and a 1.6% increase in the number of full-time equivalent staff.

The pie chart on the next page illustrates operating expenses by function, not netted for financial aid. A significant portion of student aid is 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 YEAR 2006 (\$ in Millions)**Total \$885.8****OPERATING EXPENSES *****95% \$838.3**

* 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 revenues and expenses; cash flows from capital financing activities that reflect 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 (in millions):

	2006	2005	2004
Cash provided from operating activities	\$ 430.6	\$ 407.7	\$ 380.7
Cash used in operating activities	(676.3)	(635.2)	(575.2)
Net cash used in operating activities	(245.7)	(227.5)	(194.5)
Net cash provided from noncapital financing activities	296.4	278.6	261.5
Net cash used in (provided from) capital financing activities	(29.0)	(27.5)	(91.3)
Net cash provided from (used in) investing activities	(14.6)	(13.5)	54.3
Net increase in cash and cash equivalents	\$ 7.1	\$ 10.1	\$ 30.0

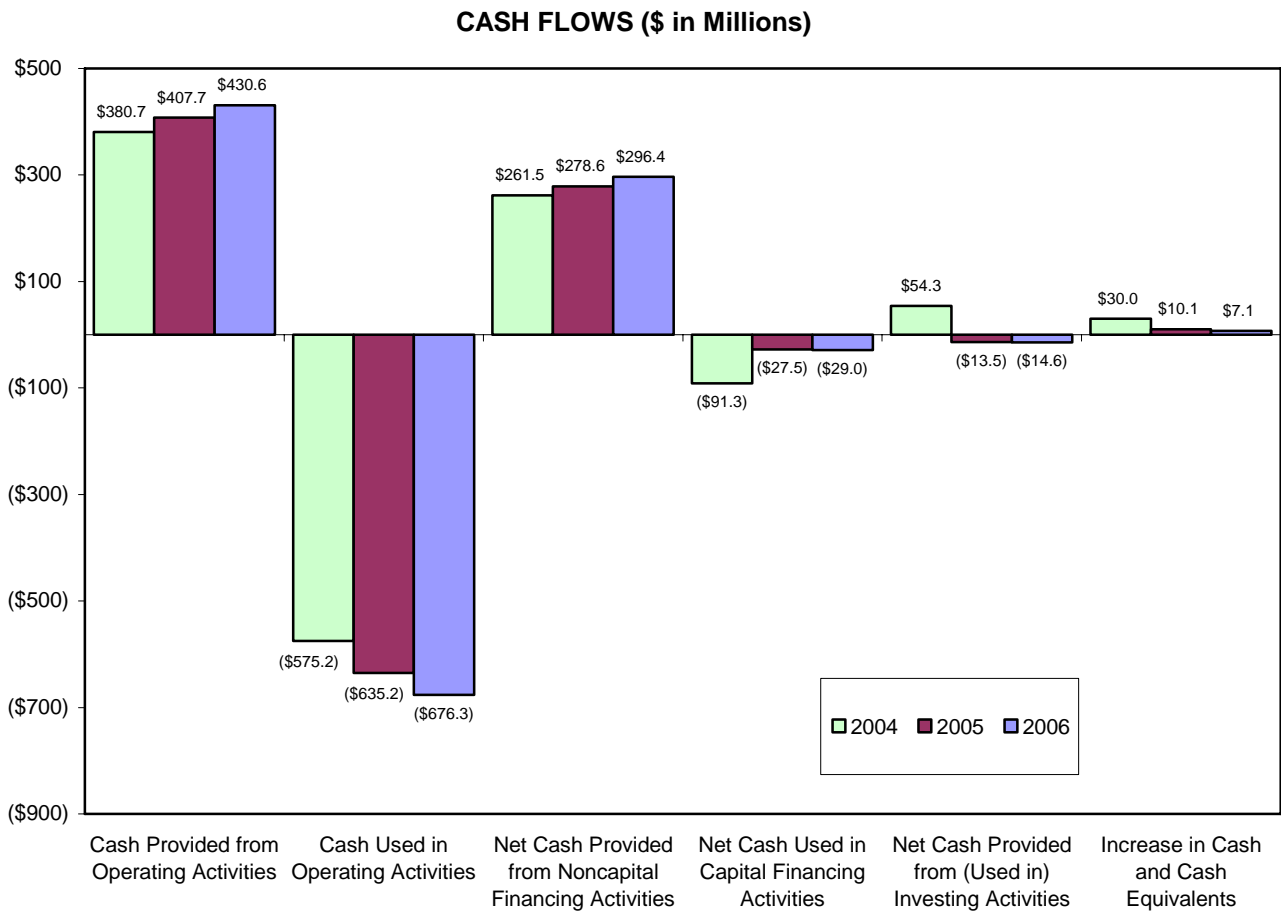
Net cash used in operating activities was \$245.7 million and \$227.5 million in fiscal years 2006 and 2005, respectively, and is consistent with the operating loss discussed earlier after adding back depreciation (a noncash expense), the major difference between the two statements. GASB requires that cash flows from noncapital financing activities include State appropriations and noncapital gifts. Cash flows from these activities totaled \$296.4 million in fiscal year 2006 (\$278.6 million in fiscal year 2005), a \$17.8 million increase from 2005.

Cash flows used in capital financing activities were \$29.0 million and \$27.5 million in fiscal years 2006 and 2005, respectively. The major difference between fiscal years 2006 and 2005 was a decrease in the amount of additions to property and equipment of \$18.7 million (\$74.0 million decrease in 2005 over 2004) and an increase in capital other of \$13.7 million principally for payments to correct certain deficiencies in the construction of three residential facilities and payments made on behalf of the Health Center.

Cash of \$14.6 million was used in fiscal year 2006 (\$13.5 million in 2005) for investing activities.

An Accompanying Schedule of Non-Cash Transactions is included with the Statements of Cash Flows and represents certain non-cash items including capital leases.

Total cash and cash equivalents increased \$7.1 million and \$10.1 million in fiscal years 2006 and 2005, 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:



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FINANCIAL STATEMENTS

**UNIVERSITY OF CONNECTICUT
STATEMENTS OF NET ASSETS
As of June 30, 2006 and 2005**

ASSETS

Current Assets

	2006	2005
Cash and cash equivalents	\$ 177,962,029	\$ 170,827,965
Accounts receivable, net	28,052,657	28,141,674
Student loans receivable, net	2,534,701	2,347,199
Due from State of Connecticut	38,214,372	33,282,383
Due from related agencies	161,709	1,016,114
State debt service commitment	69,107,581	64,445,681
Inventories	2,582,502	2,260,602
Deposit with bond trustee	71,177,339	47,877,543
Deferred charges	896,797	815,786
Other assets	47,389	49,741
Total Current Assets	390,737,076	351,064,688

Noncurrent Assets

Cash and cash equivalents	1,454,455	1,443,678
Investments	13,495,254	12,588,877
Student loans receivable, net	9,577,435	9,217,395
State debt service commitment	734,442,147	715,382,147
Property and equipment, net of accumulated depreciation	1,524,691,534	1,507,144,640
Deferred charges	9,380,916	9,645,395
Total Noncurrent Assets	2,293,041,741	2,255,422,132
Total Assets	\$ 2,683,778,817	\$ 2,606,486,820

LIABILITIES

Current Liabilities

Accounts payable	\$ 32,486,047	\$ 23,095,948
Deferred income	23,774,271	22,174,239
Wages payable	41,468,862	36,057,682
Compensated absences	14,561,263	17,687,775
Due to the State of Connecticut	14,424,816	12,036,129
Due to Affiliate (see Note 4)	22,270,879	16,253,127
Due to related agencies	23,502	11,129
Current portion of long-term debt and bonds payable	66,213,253	61,020,400
Other current liabilities	42,849,203	44,606,264
Total Current Liabilities	258,072,096	232,942,693

Noncurrent Liabilities

Compensated absences	8,701,638	7,148,566
Deposits held for others	2,836,047	3,106,185
Long-term debt and bonds payable	1,020,726,571	984,070,589
Refundable for federal loan program	9,790,842	9,761,861
Total Noncurrent Liabilities	1,042,055,098	1,004,087,201
Total Liabilities	\$ 1,300,127,194	\$ 1,237,029,894

NET ASSETS

Invested in capital assets, net of related debt	\$ 1,228,523,269	\$ 1,229,952,094
Restricted nonexpendable	13,506,699	12,532,244
Restricted expendable		
Research, instruction, scholarships and other	11,273,079	9,894,092
Loans	3,350,071	3,283,317
Capital projects	21,361,924	10,718,251
Debt service	11,298,515	11,400,800
Unrestricted (see Note 13)	94,338,066	91,676,128
Total Net Assets	\$ 1,383,651,623	\$ 1,369,456,926

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, 2006 and 2005

	2006	2005
OPERATING REVENUES		
Student tuition and fees (Net of scholarship allowances of \$59,503,422 for 2006 and \$56,964,921 for 2005. See Note 1. Revenues totaling approximately \$29,652,000 for 2006 and \$27,308,000 for 2005 are used as security for revenue bonds. See Note 4)	\$ 177,210,259	\$ 162,442,352
Federal grants and contracts	79,604,501	86,277,144
State and local grants and contracts	17,305,776	16,879,914
Nongovernmental grants and contracts	10,298,876	9,293,290
Sales and services of educational departments	15,504,841	13,755,026
Sales and services of auxiliary enterprises (Net of scholarship allowance of \$2,194,046 for 2006 and \$1,240,886 for 2005. See Note 1. Net revenues totaling approximately \$14,311,000 for 2006 and \$11,184,000 for 2005 are used as security for revenue bonds. See Note 4)	119,203,886	113,537,985
Other sources (Net revenues totaling approximately \$3,410,000 for 2006 and \$2,973,000 for 2005 are used as security for revenue bonds. See Note 4)	10,231,304	10,007,008
Total Operating Revenues	429,359,443	412,192,719
OPERATING EXPENSES		
Educational and general		
Instruction	245,567,278	227,084,420
Research	55,933,021	64,364,998
Public service	31,184,522	31,076,037
Academic support	74,664,985	72,213,723
Student services	30,570,516	29,365,354
Institutional support	60,767,532	53,927,431
Operations and maintenance of plant	65,676,823	54,321,765
Depreciation	86,528,795	84,508,242
Student aid	3,822,397	3,806,841
Auxiliary enterprises	121,955,025	116,021,275
Total Operating Expenses	776,670,894	736,690,086
Operating Loss	(347,311,451)	(324,497,367)
NONOPERATING REVENUES (EXPENSES)		
State appropriation	285,675,894	273,085,313
State debt service commitment for interest	33,093,947	32,332,930
State match to endowment	35,093	994,759
Gifts	20,476,003	15,290,616
Investment income (Income totaling approximately \$142,000 for 2006 and \$136,000 for 2005 are used as security for revenue bonds. See Note 4)	9,647,570	4,551,132
Interest expense	(43,262,087)	(41,864,618)
Other nonoperating expenses, net	(4,204,731)	(3,254,416)
Net Nonoperating Revenues	301,461,689	281,135,716
Loss Before Capital Additions (Deductions)	(45,849,762)	(43,361,651)
CAPITAL ADDITIONS (DEDUCTIONS)		
State debt service commitment for principal	61,569,575	81,720,000
Capital grants and gifts	9,965,822	9,163,961
Disposal of property and equipment, net	(897,448)	(511,441)
Capital other	(10,593,490)	(33,072,921)
Total Capital Additions	60,044,459	57,299,599
Increase in Net Assets	14,194,697	13,937,948
NET ASSETS		
Net Assets-beginning of year	1,369,456,926	1,355,518,978
Net Assets-end of year	\$ 1,383,651,623	\$ 1,369,456,926

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

**UNIVERSITY OF CONNECTICUT
STATEMENTS OF CASH FLOWS
For the Years Ended June 30, 2006 and 2005**

	2006	2005
CASH FLOWS FROM OPERATING ACTIVITIES		
Tuition and fees	\$ 177,036,524	\$ 161,192,495
Research grants and contracts	108,680,853	112,133,562
Sales and services of auxiliary enterprise	119,332,592	110,385,894
Sales and services of educational departments	16,154,494	12,780,163
Payments to suppliers and others	(183,185,105)	(171,633,702)
Payments to employees	(377,798,829)	(350,734,432)
Payments for benefits	(115,289,015)	(112,866,060)
Other receipts, net	9,399,728	11,231,066
Net Cash Used in Operating Activities	(245,668,758)	(227,511,014)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
State appropriations	280,941,705	269,506,835
Gifts	20,908,755	15,824,136
Other nonoperating expenses, net	(5,485,645)	(6,755,902)
Net Cash Provided from Noncapital Financing Activities	296,364,815	278,575,069
CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES		
Proceeds from bonds	79,000,000	100,000,000
Proceeds from obligation under capital lease for cogeneration	16,955,579	3,060,075
State debt service commitment	86,517,048	79,917,211
Purchases of property and equipment	(92,433,392)	(111,149,257)
Principal paid on debt and bonds payable	(61,963,639)	(55,938,135)
Interest paid on debt and bonds payable	(44,198,411)	(42,004,690)
Capital grants and gifts	8,433,642	6,245,422
Capital other	(21,311,134)	(7,598,404)
Net Cash Used in Capital Financing Activities	(29,000,307)	(27,467,778)
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of investments, net	631,217	(593,645)
Interest on investments	8,117,670	3,725,760
Deposits with bond trustee	(23,299,796)	(16,605,971)
Net Cash Used in Investing Activities	(14,550,909)	(13,473,856)
INCREASE IN CASH AND CASH EQUIVALENTS	7,144,841	10,122,421
BEGINNING CASH AND CASH EQUIVALENTS	172,271,643	162,149,222
ENDING CASH AND CASH EQUIVALENTS	\$ 179,416,484	\$ 172,271,643
 ACCOMPANYING SCHEDULE OF NON-CASH TRANSACTIONS		
Obligations under capital leases	\$ 7,543,749	\$ 38,516,348
 RECONCILIATION OF OPERATING LOSS TO NET CASH USED IN OPERATING ACTIVITIES		
Operating Loss	\$ (347,311,451)	\$ (324,497,367)
Adjustments to Reconcile Operating Loss to Net Cash Used in Operating Activities:		
Depreciation expense	86,528,795	84,508,242
Changes in Assets and Liabilities:		
Receivables, net	(157,424)	(2,254,237)
Inventories	(321,900)	(81,598)
Other assets	1,778	(574)
Accounts payable, wages payable and compensated absences	11,122,164	15,126,733
Deferred revenue	1,600,032	(3,219,831)
Deferred charges	119,118	59,134
Deposits	(270,139)	756,503
Due from state	2,152,325	1,903,215
Due from related agencies	866,777	(535,036)
Other liabilities	548,708	(24,273)
Loans to students and employees	(547,541)	748,075
Net Cash Used in Operating Activities	\$ (245,668,758)	\$ (227,511,014)

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, 2006 AND 2005**

ASSETS

Current Assets	2006	2005
Cash and cash equivalents	\$ 655,826	\$ 921,632
Investments	14,275,820	13,094,399
Pledges receivable, net of allowance	1,611,614	1,863,778
Prepaid expenses	-	12,878
Other receivables	67,331	43,296
Total Current Assets	16,610,591	15,935,983
Property and equipment, net of accumulated depreciation of \$72,231 for 2006 and \$67,911 for 2005	36,038	316
Total Assets	\$ 16,646,629	\$ 15,936,299

LIABILITIES AND NET ASSETS

LIABILITIES

Current Liabilities

Accounts payable	\$ 16,862	\$ 2,880
Due to University of Connecticut Law School Alumni Association	20,970	23,653
Total Liabilities	37,832	26,533

NET ASSETS

Unrestricted	1,256,356	1,372,678
Temporarily restricted	4,405,814	3,879,318
Permanently restricted	10,946,627	10,657,770
Total Net Assets	16,608,797	15,909,766
Total Liabilities and Net assets	\$ 16,646,629	\$ 15,936,299

**STATEMENTS OF ACTIVITIES
For the Years Ended June 30, 2006 and 2005**

	Unrestricted	Temporarily Restricted	Permanently Restricted	2006 Total	2005 Total
REVENUES AND SUPPORT					
Contributions	\$ 353,418	\$ 265,810	\$ 288,857	\$ 908,085	\$ 2,370,549
Interest and dividends	12,592	395,723	-	408,315	292,164
Realized and unrealized gains and losses	58,947	792,474	-	851,421	1,135,428
Net assets released from restrictions	927,511	(927,511)	-	-	-
Total Revenues and Support	1,352,468	526,496	288,857	2,167,821	3,798,141
EXPENSES					
Program Expenses					
Scholarships and awards	48,155	-	-	48,155	17,687
Student support and faculty support	949,229	-	-	949,229	460,184
Alumni and graduate relations	91,191	-	-	91,191	109,462
Total Program Expenses	1,088,575			1,088,575	587,333
Support Expenses					
Management and general	308,858	-	-	308,858	279,835
Fundraising	71,357	-	-	71,357	64,845
Total Support Expenses	380,215			380,215	344,680
Total Expenses	1,468,790			1,468,790	932,013
Changes in Net Assets	(116,322)	526,496	288,857	699,031	2,866,128
Net Assets-beginning of year	1,372,678	3,879,318	10,657,770	15,909,766	13,043,638
Net Assets-end of year	\$ 1,256,356	\$ 4,405,814	\$ 10,946,627	\$ 16,608,797	\$ 15,909,766

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, 2006 and 2005

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, 2006 and 2005 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. These 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 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).

For reporting periods beginning after June 15, 2005, GASB Statement No. 47, *Accounting for Termination Benefits*, was required for universities. This statement requires employers to recognize a liability and expense for voluntary termination benefits when the termination offer is accepted and the amount of the benefits can be estimated. Any pension liability related to early retirement is the State’s responsibility and therefore none is recorded by the University (see Note 5). However, an accrual for compensated absences is recorded as of June 30, 2006 and 2005 in the Statements of Net Assets that includes a component that is related to an early retirement plan in fiscal year 2003, (see Note 6).

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 and GASB Statement No. 40. Changes in the unrealized gain (loss) on the carrying value are recorded in Nonoperating Revenues (Expenses) in the accompanying Statements of Revenues, 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 consist of tuition, fees, and auxiliary enterprises service fees charged to students, faculty, staff and others, 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. Inventory is valued at cost as 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 also invested in longer term federal agency fixed income Investment Obligations as defined in the Special Obligation Indenture of Trust.

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 earnings on the UCONN 2000 General Obligation Debt Service Commitment Refunding Bonds, Series 2004-A and 2006-A, and the Special Obligation Student Fee Revenue Refunding Series 2002-A Redemption Fund escrow, form part of the irrevocable escrows and are used by the Trustee Bank to meet the debt service payments on the defeased bonds until called.

Also contained within the deposit with bond trustee, is the remaining portion of an advance request that the University received related to the lease purchase agreement for the cogeneration plant construction project at the University. Although these funds are not held by the Trustee Bank, they are invested in a dedicated State Treasurer's Short Term Investment Fund or Tax Exempt Proceeds Fund, and are invested and disbursed as directed by the University similar to bond proceeds. (see Note 4)

Deferred Charges – Current and Noncurrent (see Note 9)

Deferred charges consist of payments made in advance of revenues being earned. Deferred charges also 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)

Property and equipment 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 3 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.

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.

GASB No. 35 requires that revenues be reported net of discounts and scholarship allowances. Student aid for scholarships and fellowships, recorded in the Statements of Revenues, Expenses and Changes in Net Assets, includes payments made directly to students. Any aid applied directly to the students' accounts in payment of tuition and fees, housing charges and dining services is reflected as a scholarship allowance and deducted from the University's revenues. Certain governmental grants, such as Pell grants, and other Federal, State or nongovernmental programs, are recorded as operating revenues in the University's financial statements. To the extent that revenues from such programs are used to satisfy tuition and fees and other student charges, the University has recorded a scholarship allowance. Certain reclassifications were made between the categories of student tuition and fees and student aid in the Statements of Revenues, Expenses and Changes in Net Assets for the year ended June 30, 2005, to better reflect the scholarship allowance. This had no effect on the operating loss shown on that statement.

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

GASB Statement No. 40 of the requires governmental entities to disclose credit risk associated with cash deposits and investment balances, and investment policies applied to mitigate such risks, especially as they relate to 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.

The University's total cash and cash equivalents balance was \$179,416,484 and \$172,271,643, as of June 30, 2006 and 2005, respectively and included the following:

	2006	2005
Cash maintained by State of Connecticut Treasurer	\$ 151,176,101	\$ 149,129,420
Invested in State of Connecticut Investment Pool	20,039,616	16,603,116
Invested in State of Connecticut Investment Pool - Endowments	1,454,455	1,443,678
Invested in Short-term Corporate Notes	5,648,662	4,354,070
Deposits with Financial Institutions and Other	1,097,650	741,359
Total cash and cash equivalents	<u>179,416,484</u>	<u>172,271,643</u>
Less: current balance	177,962,029	170,827,965
Total noncurrent balance	<u>\$ 1,454,455</u>	<u>\$ 1,443,678</u>

Collateralized deposits are 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 are 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 permits the University to invest in the State 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 \$20,039,616 and \$1,454,455 invested in the State of Connecticut Investment Pool is invested by the State Treasurer in its Short-term Investment Fund and had a Standard and Poor's rating of AAA during fiscal year 2006. The \$5,648,662 invested in Short-term Corporate Notes includes repurchase agreements held with a financial institution and is collateralized by the Federal National Mortgage Association with an A1 Standard and Poor's rating.

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, are included in cash and cash equivalents (see table on previous page for total amounts). The Foundation makes spending allocation distributions to the University for each participating endowment. The 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.

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 unitized market value will be distributed for spending in accordance with the respective purposes of the individual endowment funds. Spending distributions may be made from current or accumulated investment return, and calculations for individual endowment funds will be performed on a unitized basis. If an individual endowment fund does not have sufficient funds to support its computed spending allocation from the current period net total return and/or from accumulated gains from prior periods, the amount allocated for spending will be limited to the interest and dividends of the fund from the current period.

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

	2006		2005	
	Cost	Fair Value	Cost	Fair Value
<u>Endowments:</u>				
Foundation Managed	\$ 9,081,468	\$ 12,046,583	\$ 8,880,948	\$ 11,081,107
Corporate Bonds	6,000	5,660	8,000	7,460
<u>Other:</u>				
U.S. Government Agency Securities (AAA rated securities; see Note 4)	1,500,000	1,443,011	1,500,000	1,500,310
Total Investments	<u>\$ 10,587,468</u>	<u>\$ 13,495,254</u>	<u>\$ 10,388,948</u>	<u>\$ 12,588,877</u>

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 20%. 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.

<u>Asset Class</u>	<u>Percentage</u>
<u>Fixed Income</u>	
Investment Grade Ex TIPS	<u>5% - 15%</u>
Treasury Inflation Protected Securities	<u>0% - 10%</u>
High Yield	<u>0% - 10%</u>
Total Fixed Income Class	<u>10% - 30%</u>
<u>Equities</u>	
U.S. Equities	<u>20% - 40%</u>
Non – U.S. Equities	<u>10% - 30%</u>
Total Equities Class	<u>35% - 65%</u>
<u>Alternatives</u>	
Hedge Funds	<u>10% - 20%</u>
Private Capital	<u>0% - 15%</u>
Real Estate	<u>0% - 10%</u>
Total Alternatives Class	<u>10% - 40%</u>

The endowments invested with the Foundation are subject to risk due to the uncollateralized nature of most of its investments. Certain investments of the Foundation include external investment pools. The bond mutual funds had average credit quality of Aa2/AA (Moody's and Standard and Poor's) and pooled investments of fixed income an average credit quality of B2/B+ (Moody's and Standard and Poor's). A portion of the University's endowment pool is also invested with ICM Asset Management (ICM) in a separate account with Wachovia Bank, NA as custodian and inherent in such investments is custodial credit risk. These investments are all publicly traded U.S. equities and money market and are uncollateralized. The value of the equities at June 30, 2006 was \$255,106. The money market balance held in the account available for ICM to use for purchases was \$9,289 at June 30, 2006. The University's endowment invested by the Foundation also has investments in foreign publicly traded equities totaling \$2,733,992 and there are amounts included in private capital investments totaling approximately \$463,320 at June 30, 2006.

Certain other 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 of these funds was \$12,554,199 and \$12,306,178 as of June 30, 2006 and 2005, respectively. Investment income earned on these assets is transferred to the University in accordance with applicable trust agreements. Income received from those sources for the years ended June 30, 2006 and 2005 was \$522,876 and \$493,585, 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 3 years to 30 years. Library materials have an estimated useful life of 15 years. The value of library materials, before depreciation, is \$71,889,581 and \$67,273,101 at June 30, 2006 and 2005, respectively, and is included in equipment in the table on the following page. Historical collections and art are recognized at their estimated fair values at the time of donation. Historical collections and art totaled \$47,265,731 and \$45,692,867 at June 30, 2006 and 2005, respectively, and is included in equipment in the analysis of changes in property and equipment. Historical collections and art are not depreciated.

In the accompanying Statements of Revenues, Expenses, and Changes in Net Assets in capital other a total of \$5,121,381 and \$6,838,423 was expensed in fiscal years 2006 and 2005, respectively, 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. An accrual for estimated

expenditures to complete this project totaling \$14,424,265 at June 30, 2006 (\$10,060,000 at June 30, 2005) is recorded in other current liabilities in the Statement of Net Assets.

For the years ended June 30, 2006 and 2005, a total of \$5,369,228 and \$21,136,756, respectively, was expensed in the accompanying Statements of Revenues, Expenses, and Changes in Net Assets in capital other for work to correct certain deficiencies in the construction of three residential facilities. At June 30, 2006 and 2005 an accrual for estimated expenditures to complete this project totaling \$11,179,522 and \$18,026,415, respectively is recorded in other current liabilities in the Statement of Net Assets. While the University is pursuing recovery of these costs, the outcome is unknown as of the date of these financial statements. These expenditures will not increase the value of the buildings or extend their useful lives. Due to limited vacancies projected for these buildings during the corrective construction, no impairment is anticipated to these assets.

The following table describes the changes in property and equipment for the years ended June 30, 2006 and 2005.

Changes in Property and Equipment for the Year Ended June 30, 2006:

	Balance July 1, 2005	Additions	Retirements	Transfers and Other	Balance June 30, 2006
<u>Property and equipment:</u>					
Land	\$ 14,806,847	\$ -	\$ (67)	\$ -	\$ 14,806,780
Non-structural Improvements	165,676,551	13,097,862	(16,506)	37,075,755	215,833,662
Buildings	1,340,155,862	38,847,411	(395,391)	77,236,851	1,455,844,733
Equipment	393,433,456	23,607,511	(9,518,452)	-	407,522,515
Construction in Progress	142,204,119	29,420,353	-	(114,312,606)	57,311,866
Total property and equipment	2,056,276,835	104,973,137	(9,930,416)	-	2,151,319,556
<u>Less accumulated depreciation:</u>					
Non-structural Improvements	52,338,492	8,790,630	(797)	-	61,128,325
Buildings	293,503,949	50,343,831	(220,185)	-	343,627,595
Equipment	203,289,754	27,394,334	(8,811,986)	-	221,872,102
Total accumulated depreciation	549,132,195	86,528,795	(9,032,968)	-	626,628,022
<u>Property and equipment, net:</u>					
Land	14,806,847	-	(67)	-	14,806,780
Non-structural Improvements	113,338,059	4,307,232	(15,709)	37,075,755	154,705,337
Buildings	1,046,651,913	(11,496,420)	(175,206)	77,236,851	1,112,217,138
Equipment	190,143,702	(3,786,823)	(706,466)	-	185,650,413
Construction in Progress	142,204,119	29,420,353	-	(114,312,606)	57,311,866
Property and equipment, net:	\$ 1,507,144,640	\$ 18,444,342	\$ (897,448)	\$ -	\$ 1,524,691,534

Changes in Property and Equipment for the Year Ended June 30, 2005:

	Balance July 1, 2004	Additions	Retirements	Transfers and Other	Balance June 30, 2005
<u>Property and equipment:</u>					
Land	\$ 14,177,498	\$ 654,000	\$ (24,651)	\$ -	\$ 14,806,847
Non-structural Improvements	153,621,148	8,323,433	-	3,731,970	165,676,551
Buildings	1,217,486,371	50,924,482	(90,221)	71,835,230	1,340,155,862
Equipment	367,908,752	31,917,673	(6,392,969)	-	393,433,456
Construction in Progress	163,535,121	54,236,198	-	(75,567,200)	142,204,119
Total property and equipment	1,916,728,890	146,055,786	(6,507,841)	-	2,056,276,835
<u>Less accumulated depreciation:</u>					
Non-structural Improvements	45,664,805	6,673,687	-	-	52,338,492
Buildings	247,195,355	46,375,659	(67,065)	-	293,503,949
Equipment	177,760,193	31,458,896	(5,929,335)	-	203,289,754
Total accumulated depreciation	470,620,353	84,508,242	(5,996,400)	-	549,132,195
<u>Property and equipment, net:</u>					
Land	14,177,498	654,000	(24,651)	-	14,806,847
Non-structural Improvements	107,956,343	1,649,746	-	3,731,970	113,338,059
Buildings	970,291,016	4,548,823	(23,156)	71,835,230	1,046,651,913
Equipment	190,148,559	458,777	(463,634)	-	190,143,702
Construction in Progress	163,535,121	54,236,198	-	(75,567,200)	142,204,119
Property and equipment, net:	\$ 1,446,108,537	\$ 61,547,544	\$ (511,441)	\$ -	\$ 1,507,144,640

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 to finance UCONN 2000 projects as of June 30, 2006 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
2005 Series A	98,110,000
2006 Series A	77,145,000
Total issued	<u>\$ 1,087,737,147</u>

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 revenues for the payment of these 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 Revenues, Expenses, and Changes in Net Assets totaling \$77,145,000 and \$98,110,000 for the years ended June 30, 2006 and 2005, respectively, representing the increase in the State's debt service commitment for principal as a result of the issuance of the 2006 and 2005 Series A bonds, respectively.

The principal amounts of \$77,145,000 and \$98,110,000, recorded as state debt service commitment for principal, together with part of the respective original issue premium, resulted in total proceeds of \$79,000,000 and \$100,000,000 for the 2006 and 2005 Series A bonds. The proceeds include \$14,920,425 and \$16,390,000, respectively to finance projects for the Health Center. As noted above, Phase III of UCONN 2000 includes a commitment to fund projects totaling \$305,400,000 for the Health Center. As bonds are issued, the amount of the commitment for the Health Center is reflected as an offset to the revenue for the University. In fiscal year 2006 and 2005, this offset totaled \$14,920,425 and \$16,390,000, respectively, resulting in net revenue of \$61,569,575 (including \$655,000 due to a decrease in bonds as a result of refunding) and \$81,720,000 recorded in the capital additions (deductions) section of the Statements of Revenues, Expenses, and Changes in Net Assets of these financial statements. A corresponding liability is recorded for the unspent portion of the bonds due to the Health Center (\$22,270,879 and \$16,253,127 at June 30, 2006 and 2005, respectively) in the Statement of Net Assets.

Also, for the years ended June 30, 2006 and 2005, nonoperating revenues include state debt service commitment for interest on general obligation bonds of \$33,093,947 and \$32,332,930, respectively.

In addition to the 2006 Series A Bonds, in March of 2006 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 \$61,020,000, and these bonds have a final maturity date of February 15, 2020. Proceeds from the sale of the bonds totaled \$65,472,900 and comprised the face value plus the net premium and accrued interest, less the costs of issuance. The proceeds were deposited with the Escrow Agent and held by the Trustee Bank in an irrevocable Redemption Fund escrow and invested in U.S. Treasury, State and Local Government Securities and cash in accordance with the Escrow Agreement and will provide amounts sufficient to meet principal, interest payments, and redemption prices on the refunded bonds on the dates such payments are due. The difference between the carrying value of the defeased debt and its reacquisition price (refunding bonds) is amortized over the remaining life of the debt, and the reduction of the face value of the bonds, \$655,000, is reflected as an expense in fiscal year 2006 (net of the \$77,145,000 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:

1998 Series A	\$ 14,925,000
1999 Series A	19,000,000
2000 Series A	12,005,000
2001 Series A	11,285,000
2002 Series A	4,460,000
Total defeased debt	<u>61,675,000</u>
Total refunding bonds	<u>61,020,000</u>
Decrease in bonds as a result of refunding	<u>\$ 655,000</u>

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 of a Special Capital Reserve Fund held by the Trustee Bank, and the remainder to pay costs of issuance, including the underwriters' discount. A portion of the Special Capital Reserve Fund is included in noncurrent investments at its fair value and totaled \$1,443,010 and \$1,500,310 at June 30, 2006 and 2005, respectively. At June 30, 2006 and 2005, \$626,425 of the Special Capital Reserve Fund was invested in the State Treasurer's Short-term Investment Fund and held by the Trustee Bank pursuant to the Indenture and restrictions thereof. 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 bond refundings, 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 \$47,515,000 and \$41,601,000 in fiscal years 2006 and 2005, 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 \$142,000 and \$136,000 for the fiscal years ending June 30, 2006 and 2005, 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 \$8,359,542 and \$9,666,673 at June 30, 2006 and 2005, 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 initially assumed a total cost of \$75,000,000 and included construction of a building, engineering, design and installation of certain equipment at the Storrs campus. The lease was amended in August, 2005 as a result of an increase in the total anticipated cost to \$81,900,000. In December 2005, the University requested a final advance from the lessor related to this lease purchase agreement. At June 30, 2006, \$9,070,372 of the unspent advance is included in deposit with bond trustee in the Statements of Net Assets (see Note 1). With the amendment, monthly payments of \$471,254 increased to \$517,135. Payments began January, 2006 and mature in 20 years from commencement with interest at a nominal rate of 4.42% on the first \$75,000,000 and 5.09% for the last \$6,900,000 of advances. As of June 30, 2006 and 2005, the University owed \$80,618,404 and \$57,629,131, respectively, for amounts advanced by the lessor, including capitalized interest during construction. This amount is reflected as long-term debt in the accompanying financial statements. At the completion of the lease term the University has an option to purchase the project assets for \$1.

The University entered into a 12 year operating lease agreement on August 1, 2004, for the School of Business MBA program's new education initiative in downtown Hartford known as the SS&C Technologies Financial Accelerator. As part of the lease, the University entered into a loan agreement with the lessor to borrow up to \$3,500,000 for leasehold improvements. The loan is payable monthly over 12 years with interest at 8.0%.

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, 2006 and 2005 was as follows:

Long-term Debt Activity for the Year Ended June 30, 2006:

	Balance			Balance	Current
	July 1, 2005	Additions	Retirements	June 30, 2006	Portion
General Obligation Bonds	\$ 767,767,147	\$ 138,165,000	\$ (115,285,000)	\$ 790,647,147	\$ 56,205,000
Revenue Bonds	189,855,000	-	(4,030,000)	185,825,000	4,170,000
Self Liquidating Bonds	9,666,673	-	(1,307,131)	8,359,542	1,337,640
U.S. Dept. of Ed. Towers Loan	1,734,372	-	(42,061)	1,692,311	44,405
Installment Loans	2,045,581	228,459	(844,226)	1,429,814	515,798
Obligation Under Capital Lease for Cogeneration	57,629,131	24,270,868	(1,281,595)	80,618,404	2,650,634
Financial Accelerator Loan	3,350,031	-	(193,625)	3,156,406	209,696
Total long-term debt	1,032,047,935	162,664,327	(122,983,638)	1,071,728,624	65,133,173
Premiums/discounts/debt difference due to refunding	13,043,054	3,390,306	(1,222,160)	15,211,200	1,080,080
Total long-term debt, net	<u>\$ 1,045,090,989</u>	<u>\$ 166,054,633</u>	<u>\$ (124,205,798)</u>	<u>\$ 1,086,939,824</u>	<u>\$ 66,213,253</u>

Long-term Debt Activity for the Year Ended June 30, 2005:

	Balance			Balance	Current
	July 1, 2004	Additions	Retirements	June 30, 2005	Portion
General Obligation Bonds	\$ 717,907,147	\$ 98,110,000	\$ (48,250,000)	\$ 767,767,147	\$ 52,385,000
Revenue Bonds	193,755,000	-	(3,900,000)	189,855,000	4,030,000
Self Liquidating Bonds	10,871,410	274,800	(1,479,537)	9,666,673	1,307,130
U.S. Dept. of Ed. Towers Loan	1,774,210	-	(39,838)	1,734,372	42,060
Installment Loans	2,504,992	1,659,381	(2,118,792)	2,045,581	814,337
Obligation Under Capital Lease for Cogeneration	20,609,266	37,019,865	-	57,629,131	1,368,592
Financial Accelerator Loan	-	3,500,000	(149,969)	3,350,031	193,625
Total long-term debt	947,422,025	140,564,046	(55,938,136)	1,032,047,935	60,140,744
Premiums/discounts/debt difference due to refunding	10,811,905	2,231,149	-	13,043,054	879,656
Total long-term debt, net	<u>\$ 958,233,930</u>	<u>\$ 142,795,195</u>	<u>\$ (55,938,136)</u>	<u>\$ 1,045,090,989</u>	<u>\$ 61,020,400</u>

Long-term debt outstanding at June 30, 2006 and 2005 consisted of the following:

Type of Debt and Issue Date	Type of Issue	Principal Payable	Maturity Dates Through Fiscal Year	Interest Rate	Balance	
					2006	2005
Bonds:						
GO 1996 Series A	original	various	2011	4.7-5.1%	\$ 8,874,715	\$ 13,379,715
GO 1997 Series A	original	annually	2009	5.0-5.3%	13,892,432	20,392,432
GO 1998 Series A	original	various	2008	4.25-4.35%	9,950,000	29,850,000
GO 1999 Series A	original	annually	2012	4.0-4.5%	30,000,000	54,000,000
GO 2000 Series A	original	various	2010	4.9-5.0%	28,925,000	47,480,000
GO 2001 Series A	original	various	2021	3.85-4.75%	35,625,000	51,910,000
GO 2002 Series A	original	various	2022	3.7-5.0%	46,855,000	56,315,000
GO 2003 Series A	original	annually	2023	2.0-5.25%	81,490,000	86,490,000
GO 2004 Series A	original	annually	2024	2.0-5.0%	88,055,000	92,950,000
GO 2004 Ref. Series A	refund	annually	2020	2.0-5.0%	216,830,000	216,890,000
GO 2005 Series A	original	annually	2025	3.0-5.0%	93,210,000	98,110,000
GO 2006 Series A	original	annually	2026	3.2-5.0%	77,145,000	-
GO 2006 Ref. Series A	refund	various	2020	3.2-5.0%	59,795,000	-
Total General Obligation Bonds					790,647,147	767,767,147
Rev 1998 Series A	original	annually	2028	4.1-5.125%	28,405,000	29,140,000
Rev 2002 Ref. Series A	refund	annually	2030	3.5-5.25%	88,055,000	89,770,000
Rev 2002 Series A	original	annually	2030	3.38-5.25%	69,365,000	70,945,000
Total Revenue Bonds					185,825,000	189,855,000
March 1992	original	various	2007	6.25-6.5%	293,759	587,518
March 1993	original	annually	2012	5.3-5.5%	375,000	429,125
October 1993	refund	various	2012	4.7-6.0%	205,690	205,752
March 1994	original	various	2010	5.4-5.5%	148	148
August 1994	original	various	2009	5.7-5.8%	10	10
October 1995	original	annually	2006	5.0-6.0%	-	76,686
March 1997	original	various	2008	5.0-6.0%	590,000	885,000
September 1997	refund	annually	2013	4.5-5.5%	316,437	318,146
February 1998	refund	annually	2015	4.4-5.25%	986,665	989,371
June 2001	refund	various	2016	4.4 -5.5%	1,277,231	1,415,418
November 2001	refund	various	2014	3.0-5.125%	2,091,652	2,520,117
June 2002	refund	various	2010	3.15 -5.5%	670,357	681,448
August 2002	refund	various	2016	2.5-5.5%	551,867	551,867
April 2003	refund	annually	2007	2.5-5.0%	399	436
December 2003	refund	annually	2011	2.0-5.0%	645,522	650,763
April 2004	refund	various	2007	2.0-5.0%	80,005	80,068
April 2005	original	various	2017	3.99-5.25%	274,800	274,800
Total Self-Liquidating Bonds					8,359,542	9,666,673
Total bonds					984,831,689	967,288,820
Loans and other:						
U.S. Dept. Ed. Towers loan		semi-annually	2027	5.5%	1,692,311	1,734,372
Installment Loans		various	various	2.52-13.629%	1,429,814	2,045,581
Obligation Under Capital						
Lease for Cogeneration		monthly	2026	4.42-5.09%	80,618,404	57,629,131
Financial Accelerator Loan		monthly	2017	8.0%	3,156,406	3,350,031
Total loans and other					86,896,935	64,759,115
Total bonds, loans and installment purchases					1,071,728,624	1,032,047,935
Premiums/discounts/debt difference due to refunding					15,211,200	13,043,054
Total bonds, loans and installment purchases, net					1,086,939,824	1,045,090,989
Less: current portion, net					66,213,253	61,020,400
Total noncurrent portion, net					\$1,020,726,571	\$ 984,070,589

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

Year(s)	General Obligation Bonds			Long-term Debt Other than General Obligation Bonds			Total Obligations		
	Principal	Interest	Total	Principal	Interest	Total	Principal	Interest	Total
2007	56,205,000	34,456,345	90,661,345	8,974,345	13,430,704	22,405,049	65,179,345	47,887,049	113,066,394
2008	54,448,792	35,740,708	90,189,500	8,928,633	13,006,861	21,935,494	63,377,425	48,747,569	112,124,994
2009	58,053,640	34,075,918	92,129,558	9,059,608	12,622,447	21,682,055	67,113,248	46,698,365	113,811,613
2010	52,162,274	31,091,215	83,253,489	9,169,652	12,214,844	21,384,496	61,331,926	43,306,059	104,637,985
2011	55,137,441	29,186,499	84,323,940	9,262,309	11,784,562	21,046,871	64,399,750	40,971,061	105,370,811
2012-2016	253,980,000	99,292,268	353,272,268	52,758,216	51,787,943	104,546,159	306,738,216	151,080,211	457,818,427
2017-2021	192,355,000	41,749,145	234,104,145	62,138,655	37,734,457	99,873,112	254,493,655	79,483,602	333,977,257
2022-2026	68,305,000	7,322,414	75,627,414	75,463,625	20,917,458	96,381,083	143,768,625	28,239,872	172,008,497
2027-2031	-	-	-	45,326,434	4,890,915	50,217,349	45,326,434	4,890,915	50,217,349
Total	\$790,647,147	\$312,914,512	\$1,103,561,659	\$281,081,477	\$178,390,191	\$459,471,668	\$1,071,728,624	\$491,304,703	\$1,563,033,327

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 44% 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. Employees may also choose to participate in the Alternative Retirement Plan (ARP) which is a defined contribution plan administered through a third-party administrator, ING Life Insurance and Annuity Company. Under this arrangement, the University and the plan participants make annual contributions to the plan.

With respect to the University's Department of Dining Services, of its approximately 378 full-time employees, 83 participate in the State Employees' Retirement System and 295 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 include accrued unused vacation and sick leave balances for employees, and at June 30, 2006 totaled \$21,313,843 and \$1,949,058, respectively, and at June 30, 2005 totaled \$22,684,937 and \$2,151,404, 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. While the State has committed to reimburse the University for the amounts due to its employees under ERIP, the University will record these payments as a reduction to the liability as the amounts are received from the State, consistent with the accounting for other State appropriations. Included in the noncurrent compensated absences liability as of June 30, 2006 are \$737,859 for accrued vacation and \$303,530 for sick leave for University employees that participated in ERIP (at June 30, 2005, \$2,256,798 for accrued vacation and \$919,767 for sick leave). Compensated absences are recorded in accordance with GASB Statement No. 16 and represent the amounts earned by eligible employees through June 30, 2006 and 2005. 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 5-257(d) and 5-259(a). 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, 2006, the University had outstanding commitments (over \$100,000 each) totaling \$34,895,507, which included \$22,550,736 of commitments related to capital projects. Of the total amount, \$2,760,860 was included in accounts payable at June 30, 2006. In addition to the amount for capital outlay, commitments were also related to research, academic, and institutional support. Of these commitments, the University expects \$3,886,546 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, 2006 and 2005 deferred income is as follows:

	<u>2006</u>	<u>2005</u>
Certain restricted research grants	\$ 8,688,313	\$ 7,858,573
Tuition and fees and auxiliary services	9,843,624	9,620,933
Athletic ticket sales and commitments	3,693,544	3,420,499
Contingent grant	500,000	500,000
Other	1,048,790	774,234
Total deferred income	<u>\$ 23,774,271</u>	<u>\$ 22,174,239</u>

A portion of current deferred charges totaling \$802,084 and \$601,956 and noncurrent deferred charges totaling \$9,380,916 and \$9,645,395 at June 30, 2006 and 2005, 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, graduate assistants, and certain other students. The University is required by collective bargaining agreements to waive tuition for certain employees and their dependents. Tuition and fee revenue does not include foregone revenue resulting from tuition waivers. Waivers totaled \$34,623,415 and \$33,756,530 in fiscal year 2006 and 2005, respectively. In fiscal year 2006, approximately 84% of such waivers were provided to graduate assistants, with 85% in 2005.

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, 2006 and 2005:

Operating Expenses by Object for the Year Ended June 30, 2006											
	Instruction	Research	Public Service	Academic Support	Student Services	Institutional Support	Operations and Maintenance of Plant	Depreciation	Student Aid	Auxiliary Enterprises	Total
Salaries and Wages	\$173,195,866	\$32,358,178	\$18,969,505	\$45,533,117	\$19,790,741	\$35,165,208	\$15,106,404	\$ -	\$262,519	\$ 41,260,242	\$381,641,780
Fringe Benefits	47,204,329	7,395,604	5,645,469	14,556,655	6,400,864	14,151,992	8,167,964	-	5,012	14,149,814	117,677,703
Supplies & Other Expenses	25,167,083	16,179,239	6,569,548	14,575,213	4,251,463	11,351,565	20,885,385	-	3,554,866	53,626,204	156,160,566
Utilities	-	-	-	-	127,448	98,767	21,517,070	-	-	12,918,765	34,662,050
Depreciation	-	-	-	-	-	-	-	86,528,795	-	-	86,528,795
	<u>\$245,567,278</u>	<u>\$55,933,021</u>	<u>\$31,184,522</u>	<u>\$74,664,985</u>	<u>\$30,570,516</u>	<u>\$60,767,532</u>	<u>\$65,676,823</u>	<u>\$86,528,795</u>	<u>\$3,822,397</u>	<u>\$121,955,025</u>	<u>\$776,670,894</u>

Operating Expenses by Object for the Year Ended June 30, 2005											
	Instruction	Research	Public Service	Academic Support	Student Services	Institutional Support	Operations and Maintenance of Plant	Depreciation	Student Aid	Auxiliary Enterprises	Total
Salaries and Wages	\$161,699,339	\$33,082,334	\$18,216,597	\$42,464,796	\$18,573,846	\$31,049,389	\$14,614,329	\$ -	\$260,536	\$ 38,013,805	\$357,974,971
Fringe Benefits	45,204,701	7,727,732	5,672,057	14,581,202	6,534,690	13,225,561	7,965,228	-	1,009	13,857,578	114,769,758
Supplies & Other Expenses	20,180,380	23,554,932	7,187,383	15,167,725	4,164,885	9,564,224	13,720,878	-	3,545,296	54,426,043	151,511,746
Utilities	-	-	-	-	91,933	88,257	18,021,330	-	-	9,723,849	27,925,369
Depreciation	-	-	-	-	-	-	-	84,508,242	-	-	84,508,242
	<u>\$227,084,420</u>	<u>\$64,364,998</u>	<u>\$31,076,037</u>	<u>\$72,213,723</u>	<u>\$29,365,354</u>	<u>\$53,927,431</u>	<u>\$54,321,765</u>	<u>\$84,508,242</u>	<u>\$3,806,841</u>	<u>\$116,021,275</u>	<u>\$736,690,086</u>

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, 2006

BOARD OF TRUSTEES

MEMBERS EX OFFICIO

The Honorable M. Jodi Rell
Governor of the State of Connecticut
President ex officio *Hartford*

The Honorable F. Philip Prelli
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Commissioner of Economic
and Community Development
Member ex officio *Farmington*

APPOINTED BY THE GOVERNOR

John W. Rowe, M.D., *Chairman* *Hartford*
Louise M. Bailey, *Secretary* *West Hartford*
Michael A. Bozzuto *Avon*
Peter S. Drotch *Framingham, MA*
Linda P. Gatling *Southington*
Lenworth M. Jacobs, Jr., M.D. *West Hartford*
Michael J. Martinez *East Lyme*
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Wayne J. Shepperd *Danbury*
Richard Treibick *Greenwich*

The Honorable Betty J. Sternberg
Commissioner of Education
Member ex officio *West Hartford*

Gerard N. Burrow, M.D.
Chair, Health Center Board of Directors
Member ex officio *Hamden*

ELECTED BY THE STUDENTS

Salmun Kazerounian *Storrs*
Stephen A. Kuchta *Storrs*

ELECTED BY THE ALUMNI

Philip P. Barry *Storrs*
Andrea Dennis-LaVigne, D.V.M. *Simsbury*

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

