University of Connecticut

Financial Report
For the Year Ended June 30, 2007

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, 2007 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 2007 was approximately 28,000 students, taught by 1,264 full-time faculty members and an additional 710 part-time faculty and adjuncts. In total, the University employs 4,469 full and part-time faculty and staff. The University has shifted its focus accordingly from managing growth to growing quality. 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 eighth consecutive year, the University was named the top public university in New England in the annual *U.S. News and World Report* rankings. In fiscal year 2007, the University was ranked 27th 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 2006 freshman enrollment at the main campus was up 60%, minority freshman enrollment was up 95% and, since 1996, average SAT scores were up 82 points. Thirty-eight percent of these students ranked in the top 10% of their high school class. In fiscal year 2007, the University added 13 full-time faculty members to address the increased instructional demand.

- The University's freshman-to-sophomore retention rate at the main campus is 93% and is substantially higher than the 80% average for 440 colleges and universities in the national Consortium for Student Retention Data Exchange. The 6-year graduation rate is 74% and the average time to graduate is 4.3 years among students completing Bachelor's within six years.
- Approximately 6,500 degrees were conferred in the 2006-2007 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 $93.1 million in fiscal year 2007.
- UConn, including both the Health Center and Storrs-based programs, ranked 78/640 among all institutions and 54/381 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 $336 million. Total Foundation net assets reached $393 million, the highest ever and an 11.2% increase over 2006. The University and Health Center received $33.3 million in disbursements in support of scholarships, faculty, programs and facilities from the Foundation in 2007.
- By 2007, the UCONN 2000 program had led to the completion of 94 major projects and $9.5 million square feet of new and renovated space.
- The University has fully implemented plans which strengthen our construction program and enhance related audit and compliance functions. In 2007, the University neared completion of the corrective work necessary to address code deficiencies in three residential complexes. To date, some of the corrective work was performed and paid for by contractors; the University has continued to pursue financial recovery from other contractors as appropriate. Thus far, the University has recovered approximately $15 million.
- In 2007, energy costs were under budget by approximately $9.0 million. This was largely due to lower natural gas prices and efficiencies realized from the cogeneration plant.
- The General Assembly appropriated funding to the University in 2007 for the Center for Entrepreneurship ($2.0 million) and the Eminent Faculty ($2.0 million) programs, initiatives designed to support the State's economic development efforts.
- Over the next few years, the University's focus will be on the faculty hiring plan, which is the key to realizing the Academic Plan's three interrelated objectives: improving undergraduate instruction, growing research productivity and enhancing the University's reputation as a center for scholarly endeavor. The University's plan to increase full-time faculty is designed to achieve four goals: enhance the quality of the student experience, further the state's economic growth through research and workforce development, solidify the University's growing national reputation, and maximize the investment of parents and all taxpayers by ensuring that students can graduate in four years.
- President Philip E. Austin ended his eleven years of exemplary leadership as the 2007 school year began. On September 14, 2007, the University of Connecticut welcomed its fourteenth president, Michael J. Hogan.

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
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HARTFORD, CONNECTICUT 06106-1559

KEVIN P JOHNSTON

ROBERT G. JAEKLE

INDEPENDENT AUDITORS' REPORT

The Board of Trustees of the
University of Connecticut

We have audited the accompanying statements of net assets of the University of Connecticut (University) as of June 30, 2007 and 2006, 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 .4% 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, 2007 and 2006, 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

January 16, 2008
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, 2007, based on currently known facts, decisions, or conditions. It also includes selected comparative information for the years ended June 30, 2006 and 2005. 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.

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

While the University's operational flexibility and capacity has grown, all of these activities also take place within a context of continuing external review. The financial statements contained in this report reflect budget execution results consistent with spending plans and operating and capital budgets approved by the University's Board of Trustees. The Auditors of Public Accounts issue an Independent Auditors' Report on the financial statements of the University. They are responsible for auditing its financial operations and their opinion appears on Page 1.

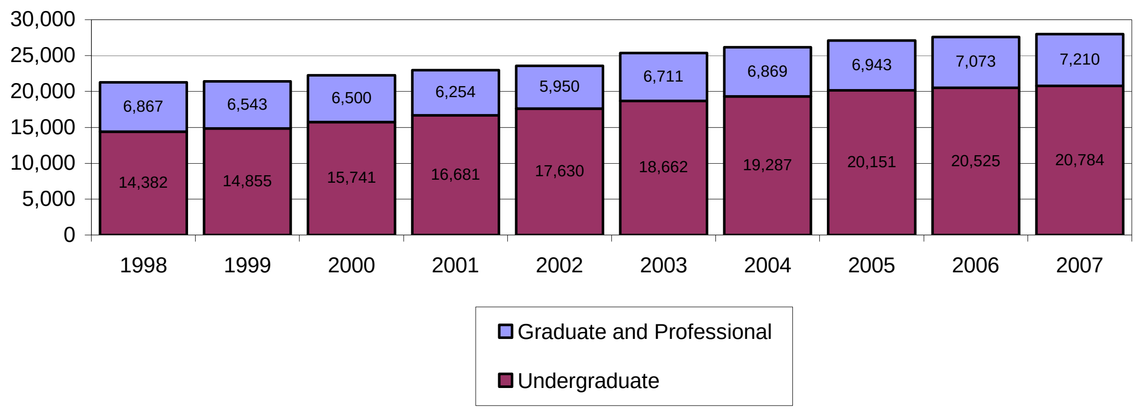
FINANCIAL HIGHLIGHTS AND ECONOMIC OUTLOOK

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 $362.9 million for the year ending June 30, 2007 (fiscal year 2007) as compared to $347.3 million for the year ending June 30, 2006 (fiscal year 2006), and $324.5 million for the year ending June 30, 2005 (fiscal year 2005). The increase in operating loss in fiscal year 2007 from fiscal year 2006 was due to an increase in total operating expenses of 4.5%, primarily caused by a 3.9% increase in salaries as a result of a 1.1% increase in full-time equivalent staff and negotiated raises. 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. 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 $32.4 million in fiscal year 2007 as compared to $45.8 million and $43.4 million for fiscal years 2006 and 2005, respectively. Total operating revenues grew $19.7 million in fiscal year 2007 and $17.2 million in fiscal year 2006. At the same time, operating expenses increased $35.3 million in fiscal 2007 as compared to an increase in fiscal year 2006 of $40.0 million over fiscal year 2005. Investment income increased for the third time in five years by $2.7 million and by $5.1 and $2.2 million in fiscal years 2006 and 2005, respectively.

Sources of recurring revenues continue to exhibit strength, with increases in both operating and nonoperating revenues the past three fiscal years. State support increased for the third time in five years. The University's total enrollment in fiscal year 2003 topped 25,000 students and grew to 27,994 students in fiscal year 2007. These students are taught by 1,264 full-time faculty members (an increase of 13 faculty over the prior year) and an additional 710 part-time faculty and adjuncts. Undergraduate enrollment at the University reached 20,784 students in fiscal year 2007, 1.3% more than fiscal year 2006 (1.9% more students in fiscal year 2006 over 2005). At the same time, an in-state tuition and mandatory fee increase of 5.69% and an out-of-state increase of 5.61% were approved for fiscal year 2007. Graduate and professional enrollment increased by 1.9% with an in-state tuition and mandatory fee increase of 6.02% and an out-of-state increase of 5.99%. 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 $15.7 million (6.6%) as compared to a $17.3 million (7.9%) increase in 2006. Sales and services of auxiliary enterprises, before scholarship allowances, increased $8.6 million (7.1%), primarily as a result of an overall increase in room and board fees of 7.3% for undergraduate students and 7.2% for graduate students. In fiscal year 2006, 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. Grant and contract revenues increased $4.9 million (4.6%) in fiscal year 2007 as compared to a decrease of $5.2 million (4.7%) in fiscal year 2006 over 2005.

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 5), and provides $1.0 billion for facilities improvements at Storrs, the regional campuses, the School of Law and the School of Social Work, and $305.0 million for improvements at the Health Center. The 21st Century UConn program was amended subsequent to June 30, 2007, extending it an additional year, without any change in the amounts. 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 State's significant revenue streams have grown at a healthy pace, a reality which is in turn reflected in the State's appropriation to the University which has increased for the third year in a row. The University believes it will continue 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 in 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):

	2007	**2006**	**2005**
Current assets	$ 453.4	$ 390.7	$ 351.1
Noncurrent assets			
State debt service commitment	763.4	734.4	715.4
Investments	14.9	13.5	12.6
Property and equipment, net	1,487.1	1,524.7	1,507.1
Other	20.3	20.5	20.3
Total assets	$2,739.1	$2,683.8	$2,606.5
Current liabilities	$ 259.9	$ 258.1	$ 232.9
Noncurrent liabilities			
Long-term debt and bonds payable	1,040.3	1,020.7	984.1
Other	21.3	21.3	20.0
Total liabilities	$1,321.5	$1,300.1	$1,237.0
Invested in capital assets, net	$1,200.1	$1,228.5	$1,230.0
Restricted	95.7	60.9	47.8
Unrestricted	121.8	94.3	91.7
Total net assets	$1,417.6	$1,383.7	$1,369.5

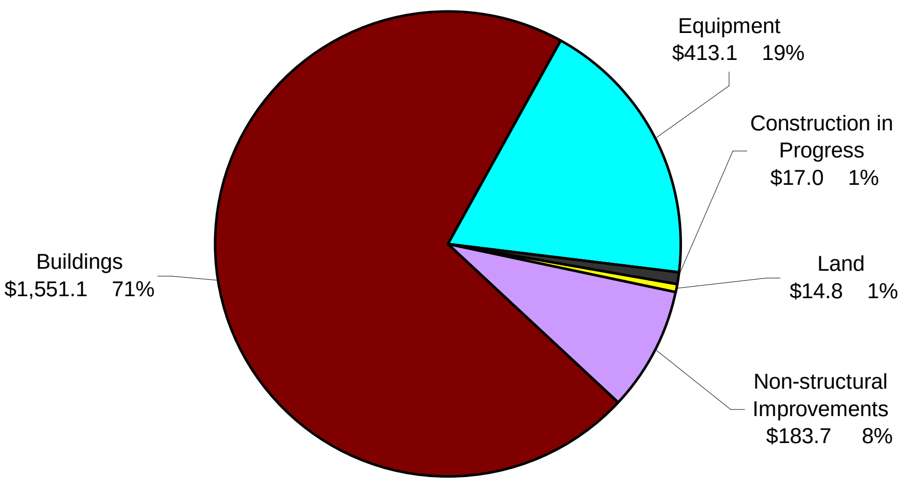
The total assets increased $55.3 million in fiscal year 2007 over 2006 and $77.3 million in fiscal year 2006 over 2005. The growth in fiscal year 2007 was primarily due to a $17.0 million ($7.1 million in fiscal year 2006) increase in cash and cash equivalents, a $27.3 million increase ($23.3 million increase in fiscal year 2006) in deposit with bond trustee, a $33.9 million ($23.7 million in fiscal year 2006) increase in the state debt service commitment, a $12.0 million increase in accounts receivable and a negative $34.1 million of additions to property and equipment, net of accumulated depreciation ($18.4 million positive in fiscal year 2006).

The total liabilities for fiscal year 2007 increased $21.3 million ($63.1 million in fiscal year 2006) primarily due to newly acquired debt through the sale of general obligation bonds and other new debt, totaling $136.2 million ($166.1 million in fiscal year 2006) and the retirement of prior year debt on existing bonds and loans of $113.0 million ($124.2 million in fiscal year 2006). The combination of the increase in total assets of $55.3 million ($77.3 million for fiscal year 2006) and total liabilities of $21.3 million ($63.1 million for fiscal year 2006) yields an increase in total net assets of $34.0 million ($14.2 million in fiscal year 2006).

Capital and Debt Activities

During fiscal year 2007, the University recorded additions to property and equipment totaling $53.9 million ($105.0 million and $146.1 million in 2006 and 2005, respectively) of which $27.2 million related to buildings and construction in progress ($76.8 million and $105.2 million in 2006 and 2005, 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 5). The following pie chart presents the total property and equipment at cost:

TOTAL PROPERTY AND EQUIPMENT AT COST AT JUNE 30, 2007
($ in Millions) Total $2,179.7

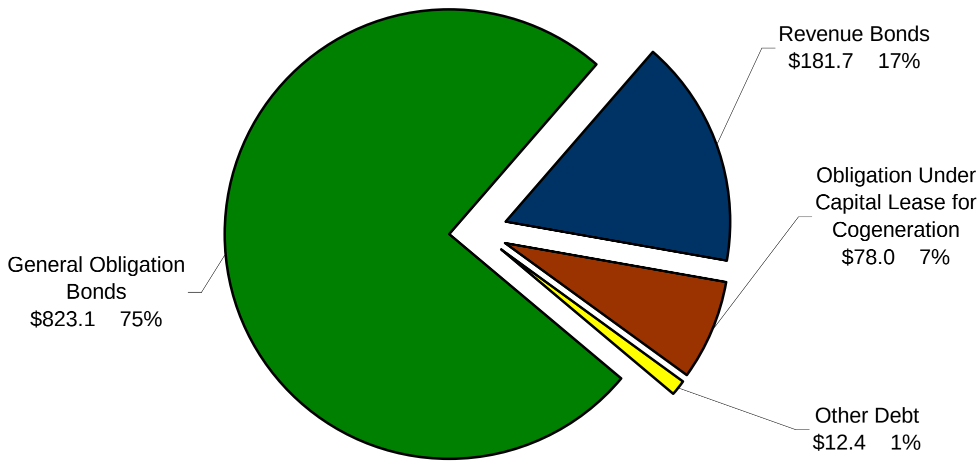


In fiscal year 2007, the University issued bonds with a total face value of $135.4 million from the sale of UCONN 2000 general obligation bonds ($138.2 million in fiscal year 2006) of which $23.5 million is committed ($14.9 million in fiscal year 2006) to the Health Center for its UCONN 2000 projects (see Note 5). 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 5). Long-term savings in costs for utilities are anticipated from the operation of the plant and were experienced in fiscal year 2007.

See Notes 4 and 5 of the financial statements for further information on capital and debt activities. The chart on the next page illustrates the categories of debt as of June 30, 2007, exclusive of premiums, discounts and differences due to refunding:

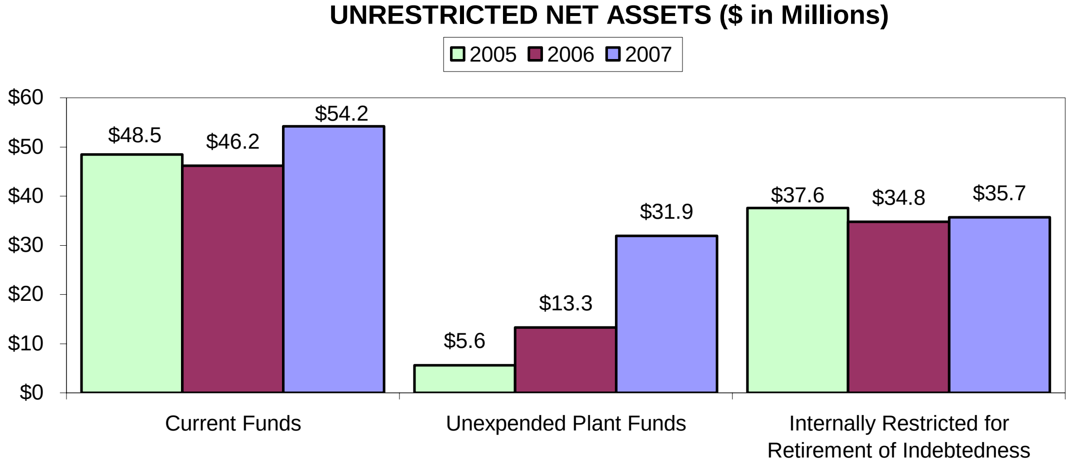
CATEGORIES OF DEBT AT JUNE 30, 2007
($ in Millions) Total $1,095.2



<u>Net Assets</u>

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

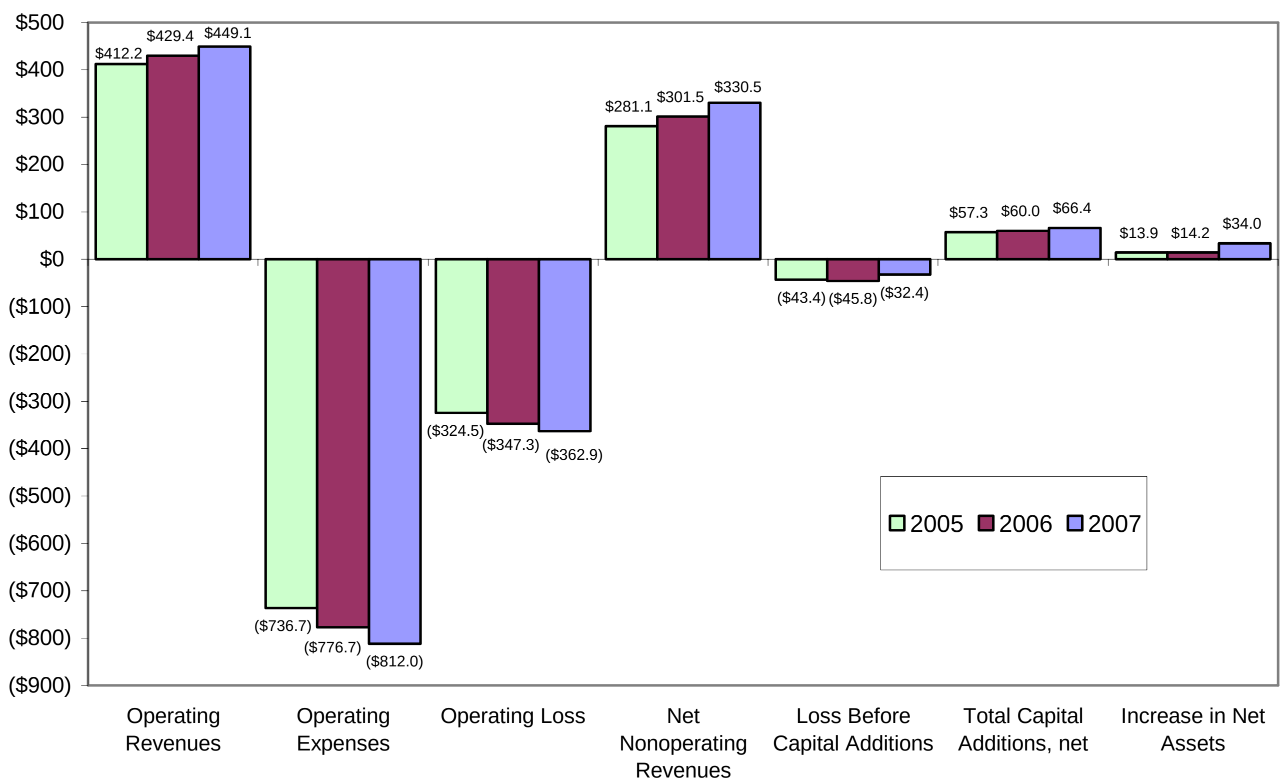
Revenues and expenses are classified as operating, nonoperating, or capital additions (deductions) according to definitions prescribed by GASB. Significant recurring sources of nonoperating revenues utilized in balancing the operating loss each year include state appropriations for general operations,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

	2007	2006	2005
Operating revenues	$ 449.1	$ 429.4	$ 412.2
Operating expenses	812.0	776.7	736.7
Operating loss	(362.9)	(347.3)	(324.5)
Net nonoperating revenues	330.5	301.5	281.1
Loss before capital additions	(32.4)	(45.8)	(43.4)
Total capital additions, net	66.4	60.0	57.3
Increase in net assets	$ 34.0	$ 14.2	$ 13.9

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 $34.0 million, $14.2 million, and $13.9 million at the end of the fiscal years 2007, 2006 and 2005, respectively.

Revenues

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

	2007	**2006**	**2005**
Operating revenues:			
Student tuition and fees, net	$ 183.5	$ 177.2	$ 162.4
Grants and contracts	112.1	107.3	112.5
Sales and services of educational departments	14.9	15.5	13.8
Sales and services of auxiliary enterprises, net	127.5	119.2	113.5
Other sources	11.1	10.2	10.0
Total operating revenues	449.1	429.4	412.2
Nonoperating revenues:			
State appropriation	305.9	285.7	273.1
State debt service commitment for interest	35.9	33.1	32.3
State match to endowments	.1	-	1.0
Gifts	24.4	20.5	15.3
Investment income	12.3	9.6	4.6
Total nonoperating revenues	378.6	348.9	326.3
Capital additions:			
State debt service commitment for principal	65.2	61.6	81.7
Capital grants and gifts	3.0	10.0	9.2
Capital other, net (see *Expense* section)	1.6	-	-
Total capital additions	69.8	71.6	90.9
Total revenues	$ 897.5	$ 849.9	$ 829.4

Revenue highlights, for fiscal years 2007 and 2006 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 3.5% in fiscal year 2007 (9.1% in 2006) and 6.6% before scholarship allowance (7.9% in fiscal year 2006). The increase in fiscal year 2007 was due in part to 1.3% (1.9% in fiscal year 2006) more undergraduates enrolled at the University and an increase of 5.69% (5.63% in fiscal year 2006) for undergraduate in-state tuition and mandatory fees charged, and 5.61% (5.66% in fiscal year 2006) for out-of-state tuition and mandatory fees.

- Sales and services of auxiliary enterprises, net of scholarship allowances, increased approximately 7.0% and 5.0% during fiscal years 2007 and 2006, respectively. The increase in fiscal year 2007 resulted primarily from an increase in fees charged for both room and board of 7.3% for undergraduate students and 7.2% for graduate students. 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.

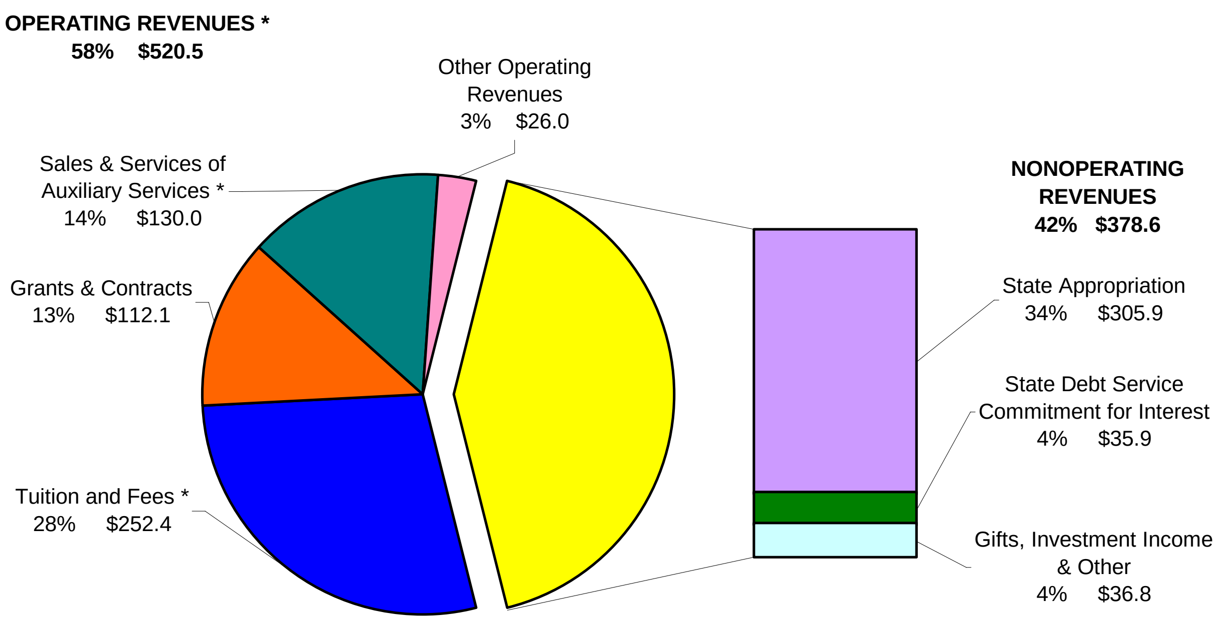
- The largest source of revenue, state appropriation including fringe benefits, increased $20.3 million, a 7.1% increase in fiscal year 2007 and $12.6 million, a 4.6% increase in fiscal year 2006. The state appropriation is included in the nonoperating section. The State also provides state debt service 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 5) 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 $65.2 million in fiscal year 2007 ($61.6 million in fiscal year 2006).

- In fiscal year 2007, capital other, net includes a total of $15.0 million recovered for previously recorded expenses related to correcting certain deficiencies in the Hilltop Apartments. A total of $5.2 million was expensed in capital other, net for inspections, fire and safety code updates and other corrective action needed, as required by the Connecticut General Assembly, in order to achieve safety goals for all buildings. Other amounts in capital other, net include costs that are not capitalized under University policy such as repairs, project management fees, capital project studies, and mold, lead and asbestos removal projects totaling $5.6 million, equipment falling under the capitalization threshold totaling $2.3 million and other miscellaneous capital-related costs of $1.7 million. In fiscal year 2006, capital other, net includes several items discussed in Note 4 including: $5.4 million for work to correct certain deficiencies in the construction of three residential facilities and $5.1 million to complete a project to remediate and close an existing landfill. See Note 4 for further information about capital other, net.

- 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 $24.2 million in fiscal year 2007 compared to $26.1 million in fiscal year 2006. Both Foundations also paid approximately $3.8 million in fiscal year 2007 ($4.7 million in fiscal year 2006) 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 $27.5 million and $30.4 million in fiscal years 2007 and 2006, respectively.

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

REVENUES FOR FISCAL YEAR 2007 ($ in Millions)
Total: $899.1



* Shown here at gross amounts, not netted for student financial aid totaling $71.4 million.

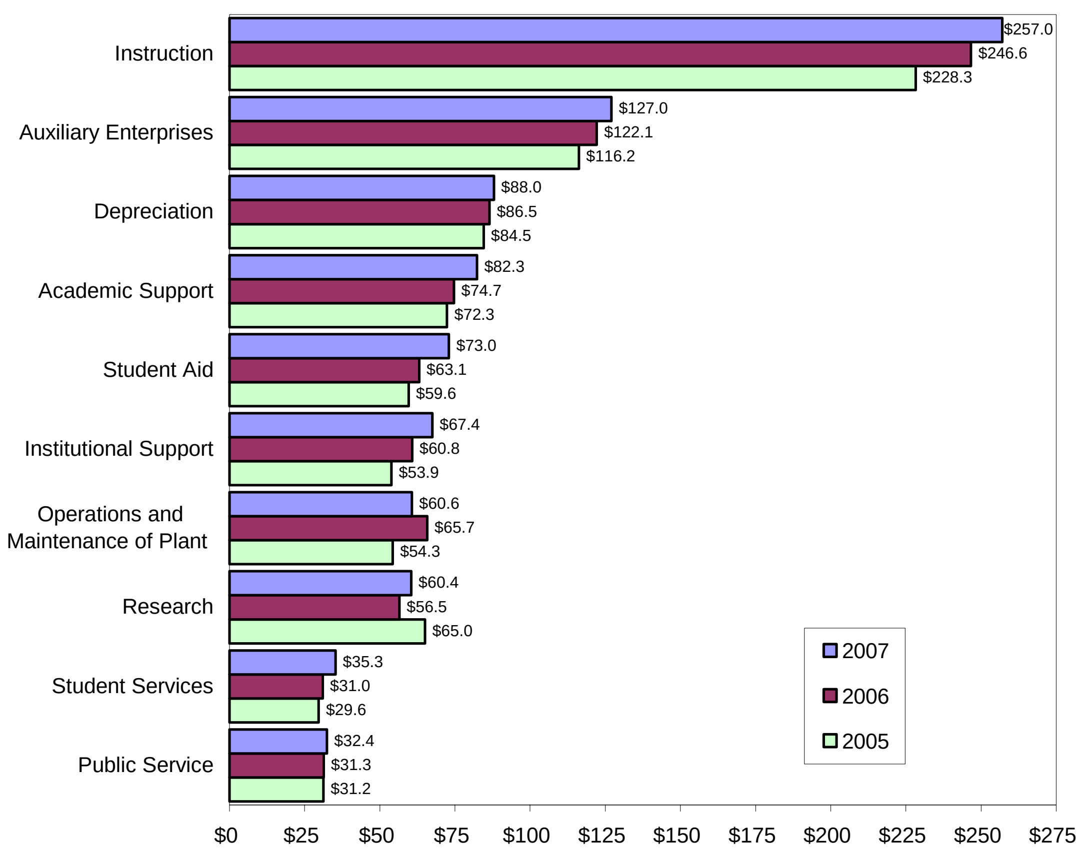
Expenses

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

	2007	2006	2005
Operating expenses:			
Instruction	$ 256.1	$ 245.6	$ 227.1
Research	59.6	55.9	64.4
Operations and maintenance of plant	60.6	65.7	54.3
Auxiliary enterprises	126.8	122.0	116.0
Depreciation	88.0	86.5	84.5
Other	220.9	201.0	190.4
Total operating expenses	812.0	776.7	736.7
Nonoperating expenses:			
Interest expense	47.5	43.3	41.9
Other nonoperating expense, net (see *Revenue* section)	.6	4.2	3.3
Total nonoperating expenses	48.1	47.5	45.2
Capital deductions:			
Disposal of property and equipment, net	3.4	0.9	0.5
Capital other, net (see *Revenue* section)	-	10.6	33.1
Total capital deductions	3.4	11.5	33.6
Total expenses	$ 863.5	$ 835.7	$ 815.5

The chart below depicts comparative functional expenditures of the University:

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



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. Total operating expenses were $812.0 million and $776.7 million in fiscal years 2007 and 2006, respectively, netted for student financial aid totaling $71.4 million and $61.7 million, respectively. Natural or object classification includes salaries, fringe benefits, utilities, and supplies and other expenses (see Note 13 for operating expenses classified by object).

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 $10.5 million (4.3%) in fiscal year 2007 and $18.5 million (8.1%) in fiscal year 2006, primarily due to an increase of approximately 29 (35 in fiscal year 2006) full-time equivalent faculty and staff, an average compensation increase for the bargaining units of approximately 5% in both years and a decrease in supplies, commodities and other expenditures in fiscal year 2007 (increase in fiscal year 2006).

- In fiscal year 2007, research expenses increased $3.7 million or 6.6% after experiencing a slight decrease in fiscal year 2006. This is commensurate with an increase in fiscal year 2007 (decrease in fiscal year 2006) in associated research revenues. These expenditures are related primarily to sponsored research revenues and are affected by the timing of salaries and the purchase of supplies and commodities that can be charged to grants.

- Academic support increased $7.6 million (10.1%) in fiscal year 2007 due primarily to a $4.8 million increase in supplies, commodities and other expenses of which $3.8 million related to the University modifying its capitalization policy to expense as incurred the costs of journals, subscriptions, and electronic media. There was no significant variance between fiscal years 2006 and 2005.

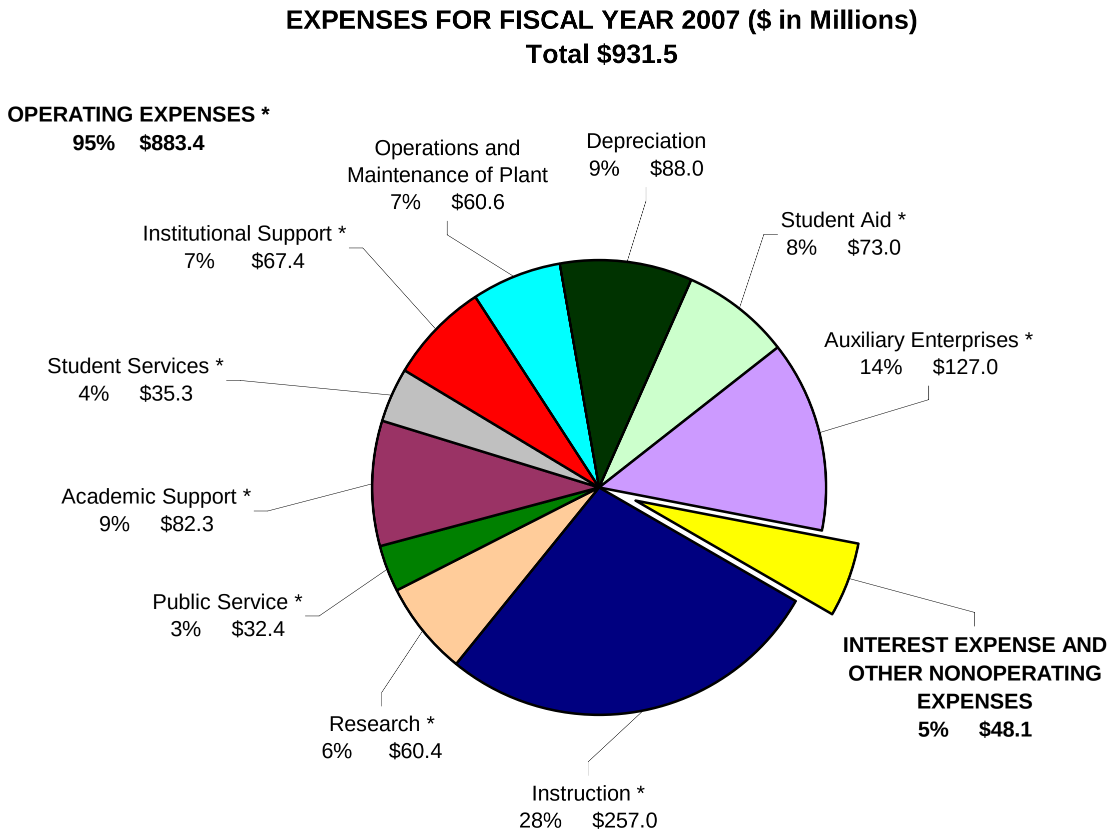
- In fiscal years 2007 and 2006, institutional support experienced an increase of $6.6 million or 10.8% and $6.8 million or 12.7%, respectively. This resulted from a 5.9% increase (7.2% in fiscal year 2006) in the number of full-time equivalent staff and an average compensation increase for the bargaining units of approximately 5% in both years.

- Operations and maintenance of plant decreased $5.1 million (7.7%) in fiscal year 2007. 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, with fiscal year 2007 the first full year of operation. Fiscal year 2007 experienced a 53.5% reduction in electricity consumption (rates increased approximately 36.0%, including distribution and demand charges) while natural gas consumption, the primary energy source that fuels the cogeneration plant, increased 22.6%. A reduction in natural gas prices of approximately 24.0 % was also experienced. In fiscal year 2006 operations and maintenance increased $11.4 million (20.9%). Electricity and natural 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%), natural 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.

- Auxiliary enterprises expenditures increased 4.0% in fiscal year 2007 (5.1% in fiscal year 2006), primarily due to contractual salary increases and the hiring of 23 full-time equivalent staff (11 in fiscal year 2006).

- In fiscal year 2007, the twelfth year of UCONN 2000 (see Note 5), the University recorded additions of $53.9 million ($105.0 million in fiscal year 2006) in property and equipment. These additions contributed to a 1.7% or $1.5 million increase in depreciation expense in fiscal year 2007 (2.4% or $2.0 million in fiscal year 2006).

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.



* Shown here at gross amounts, not netted for student financial aid totaling $71.4 million.

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.

The following table shows condensed Statements of Cash Flows for the years ended June 30 (in millions):

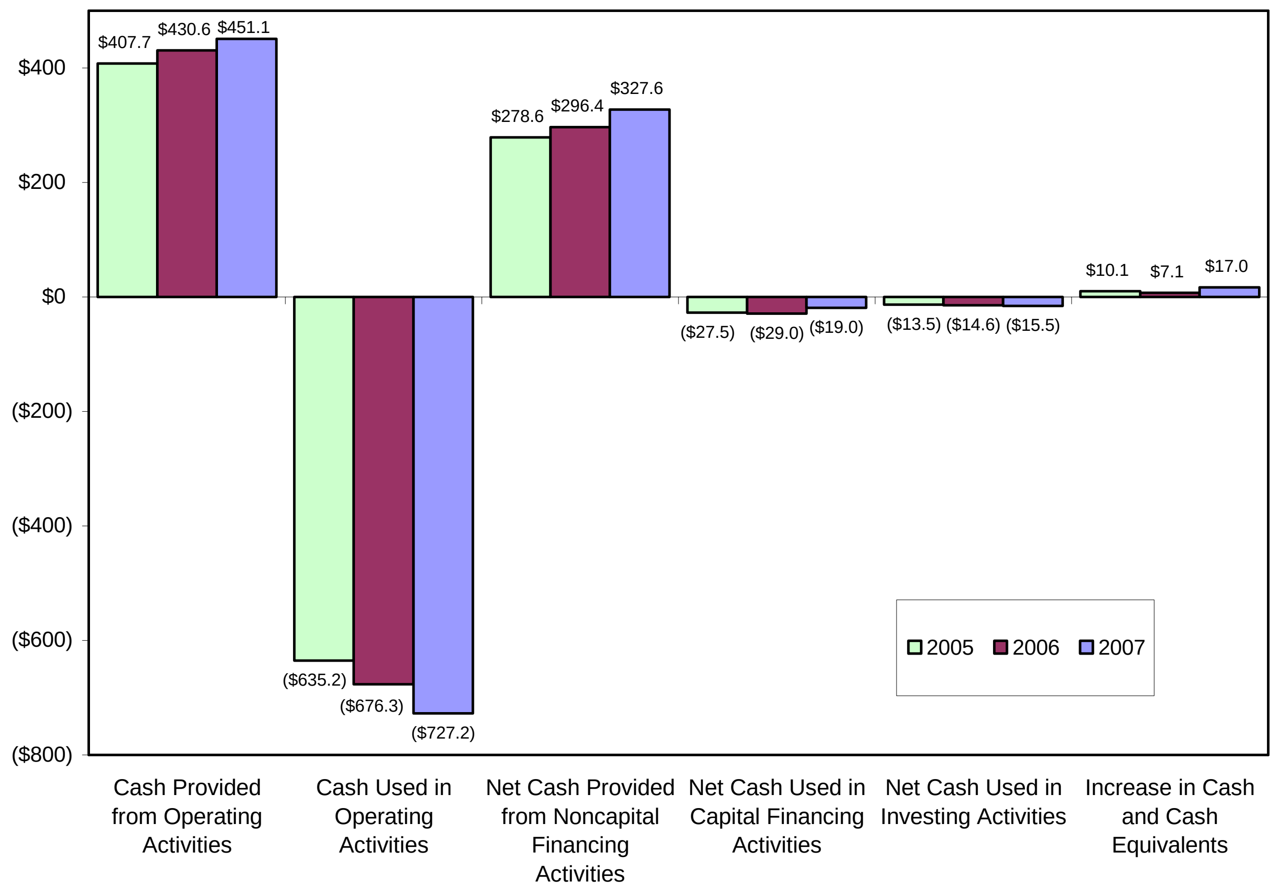
	2007	2006	2005
Cash provided from operating activities	$ 451.1	$ 430.6	$ 407.7
Cash used in operating activities	(727.2)	(676.3)	(635.2)
Net cash used in operating activities	(276.1)	(245.7)	(227.5)
Net cash provided from noncapital financing activities	327.6	296.4	278.6
Net cash used in capital financing activities	(19.0)	(29.0)	(27.5)
Net cash used in investing activities	(15.5)	(14.6)	(13.5)
Net increase in cash and cash equivalents	$ 17.0	$ 7.1	$ 10.1

Net cash used in operating activities was $276.1 million and $245.7 million in fiscal years 2007 and 2006, 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 $327.6 million in fiscal year 2007 ($296.4 million in fiscal year 2006), a $31.2 million increase from 2006 ($17.8 increase from 2005).

Cash flows used in capital financing activities were $19.0 million and $29.0 million in fiscal years 2007 and 2006, respectively. The major difference between fiscal years 2007 and 2006 was a decrease in the amount of purchases of property and equipment of $41.4 million ($18.7 million decrease in 2006 over 2005) and an increase in capital other, net of $15.6 million ($13.7 million increase in fiscal year 2006) principally for payments to correct certain deficiencies in the construction of three residential facilities and the closure and remediation of an existing landfill (see Note 4), and payments made on behalf of the Health Center.

Total cash and cash equivalents increased $17.0 million and $7.1 million in fiscal years 2007 and 2006, 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:

CASH FLOWS ($ in Millions)



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FINANCIAL STATEMENTS

UNIVERSITY OF CONNECTICUT
STATEMENTS OF NET ASSETS
As of June 30, 2007 and 2006

ASSETS	2007	2006
Current Assets		
Cash and cash equivalents	$ 194,995,525	$ 177,962,029
Accounts receivable, net	40,067,930	28,052,657
Student loans receivable, net	2,684,306	2,534,701
Due from State of Connecticut	39,056,405	38,214,372
Due from related agencies	221	161,709
State debt service commitment	74,028,911	69,107,581
Inventories	2,866,469	2,582,502
Deposit with bond trustee	98,453,621	71,177,339
Deferred charges	1,201,660	896,797
Other assets	8,370	47,389
Total Current Assets	453,363,418	390,737,076
Noncurrent Assets		
Cash and cash equivalents	1,462,435	1,454,455
Investments	14,877,495	13,495,254
Student loans receivable, net	9,901,776	9,577,435
State debt service commitment	763,413,355	734,442,147
Property and equipment, net of accumulated depreciation	1,487,099,251	1,524,691,534
Deferred charges	8,986,068	9,380,916
Total Noncurrent Assets	2,285,740,380	2,293,041,741
Total Assets	$ 2,739,103,798	$ 2,683,778,817
LIABILITIES		
Current Liabilities		
Accounts payable	$ 31,890,342	$ 32,486,047
Deferred income	23,236,436	23,774,271
Wages payable	43,489,175	41,468,862
Compensated absences	15,263,043	14,561,263
Due to the State of Connecticut	15,422,828	14,424,816
Due to Affiliate (see Note 5)	27,671,053	22,270,879
Due to related agencies	28,703	23,502
Current portion of long-term debt and bonds payable	69,831,723	66,213,253
Other current liabilities	33,036,969	42,849,203
Total Current Liabilities	259,870,272	258,072,096
Noncurrent Liabilities		
Compensated absences	9,011,057	8,701,638
Deposits held for others	2,477,222	2,836,047
Long-term debt and bonds payable	1,040,318,416	1,020,726,571
Refundable for federal loan program	9,777,273	9,790,842
Total Noncurrent Liabilities	1,061,583,968	1,042,055,098
Total Liabilities	$ 1,321,454,240	$ 1,300,127,194
NET ASSETS		
Invested in capital assets, net of related debt	$ 1,200,081,259	$ 1,228,523,269
Restricted nonexpendable	14,878,800	13,506,699
Restricted expendable		
Research, instruction, scholarships and other	12,646,227	11,273,079
Loans	3,732,539	3,350,071
Capital projects	53,585,008	21,361,924
Debt service	10,878,478	11,298,515
Unrestricted (see Note 14)	121,847,247	94,338,066
Total Net Assets	$ 1,417,649,558	$ 1,383,651,623

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, 2007 and 2006

	2007	2006
OPERATING REVENUES		
Student tuition and fees (Net of scholarship allowances of $68,954,741 for 2007 and $59,503,422 for 2006. See Note 1. Net revenues totaling approximately $31,997,000 for 2007 and $29,652,000 for 2006 are used as security for revenue bonds. See Note 5.)	$ 183,468,732	$ 177,210,259
Federal grants and contracts	81,282,959	79,604,501
State and local grants and contracts	18,994,517	17,305,776
Nongovernmental grants and contracts	11,823,648	10,298,876
Sales and services of educational departments	14,937,691	15,504,841
Sales and services of auxiliary enterprises (Net of scholarship allowances of $2,501,839 for 2007 and $2,194,046 for 2006. See Note 1. Net revenues totaling approximately $22,321,000 for 2007 and $14,311,000 for 2006 are used as security for revenue bonds. See Note 5.)	127,527,596	119,203,886
Other sources (Net revenues totaling approximately $3,263,000 for 2007 and $3,410,000 for 2006 are used as security for revenue bonds. See Note 5.)	11,059,294	10,231,304
Total Operating Revenues	449,094,437	429,359,443
OPERATING EXPENSES		
Educational and general		
Instruction	256,079,892	245,567,278
Research	59,641,605	55,933,021
Public service	32,190,108	31,184,522
Academic support	82,234,793	74,664,985
Student services	35,022,525	30,570,516
Institutional support	67,336,935	60,767,532
Operations and maintenance of plant	60,611,434	65,676,823
Depreciation	88,030,170	86,528,795
Student aid	3,971,727	3,822,397
Auxiliary enterprises	126,828,040	121,955,025
Total Operating Expenses	811,947,229	776,670,894
Operating Loss	(362,852,792)	(347,311,451)
NONOPERATING REVENUES (EXPENSES)		
State appropriation	305,943,066	285,675,894
State debt service commitment for interest	35,863,883	33,093,947
State match to endowment	93,864	35,093
Gifts	24,423,566	20,476,003
Investment income (Income totaling approximately $153,000 for 2007 and $142,000 for 2006 are used as security for revenue bonds. See Note 5.)	12,299,820	9,647,570
Interest expense	(47,462,929)	(43,262,087)
Other nonoperating expenses, net	(686,574)	(4,204,731)
Net Nonoperating Revenues	330,474,696	301,461,689
Loss Before Capital Additions (Deductions)	(32,378,096)	(45,849,762)
CAPITAL ADDITIONS (DEDUCTIONS)		
State debt service commitment for principal	65,179,575	61,569,575
Capital grants and gifts	3,029,866	9,965,822
Disposal of property and equipment, net	(3,457,020)	(897,448)
Capital other, net	1,623,610	(10,593,490)
Net Capital Additions	66,376,031	60,044,459
Increase in Net Assets	33,997,935	14,194,697
NET ASSETS		
Net Assets-beginning of year	1,383,651,623	1,369,456,926
Net Assets-end of year	$ 1,417,649,558	$ 1,383,651,623

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

UNIVERSITY OF CONNECTICUT
STATEMENTS OF CASH FLOWS
For the Years Ended June 30, 2007 and 2006

	2007	2006
CASH FLOWS FROM OPERATING ACTIVITIES		
Tuition and fees	$ 183,131,865	$ 177,036,524
Research grants and contracts	112,566,877	108,680,853
Sales and services of auxiliary enterprise	128,538,184	119,332,592
Sales and services of educational departments	15,553,754	16,154,494
Payments to suppliers and others	(204,377,503)	(183,185,105)
Payments to employees	(393,461,048)	(377,798,829)
Payments for benefits	(129,329,808)	(115,289,015)
Other receipts, net	11,261,590	9,399,728
Net Cash Used in Operating Activities	(276,116,089)	(245,668,758)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
State appropriations	305,482,973	280,941,705
Gifts	24,368,956	20,908,755
Other nonoperating expenses, net	(2,243,504)	(5,485,645)
Net Cash Provided from Noncapital Financing Activities	327,608,425	296,364,815
CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES		
Proceeds from bonds	89,000,000	79,000,000
Proceeds from obligation under capital lease for cogeneration	-	16,955,579
State debt service commitment	91,326,345	86,517,048
Purchases of property and equipment	(51,083,253)	(92,433,392)
Principal paid on debt and bonds payable	(65,844,345)	(61,963,639)
Interest paid on debt and bonds payable	(47,887,050)	(44,198,411)
Capital grants and gifts	2,484,975	8,433,642
Capital other, net	(36,946,741)	(21,311,134)
Net Cash Used in Capital Financing Activities	(18,950,069)	(29,000,307)
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of investments, net	(166,777)	(168,783)
Interest on investments	11,942,268	8,917,670
Deposits with bond trustee	(27,276,282)	(23,299,796)
Net Cash Used in Investing Activities	(15,500,791)	(14,550,909)
INCREASE IN CASH AND CASH EQUIVALENTS	17,041,476	7,144,841
BEGINNING CASH AND CASH EQUIVALENTS	179,416,484	172,271,643
ENDING CASH AND CASH EQUIVALENTS	$ 196,457,960	$ 179,416,484
ACCOMPANYING SCHEDULE OF NON-CASH TRANSACTIONS		
Obligations under capital leases	$ -	$ 7,543,749
RECONCILIATION OF OPERATING LOSS TO NET CASH USED IN OPERATING ACTIVITIES		
Operating Loss	$ (362,852,792)	$ (347,311,451)
Adjustments to Reconcile Operating Loss to Net Cash Used in Operating Activities:		
Depreciation expense	88,030,170	86,528,795
Changes in Assets and Liabilities:		
Receivables, net	3,509,871	(157,424)
Inventories	(283,967)	(321,900)
Other assets	39,019	1,778
Accounts payable, wages payable and compensated absences	(3,215,110)	11,122,164
Deferred revenue	(537,835)	1,600,032
Deferred charges	(237,106)	119,118
Deposits	(358,825)	(270,139)
Due from state	611,295	2,152,325
Due from related agencies	166,690	866,777
Other liabilities	(513,553)	548,708
Loans to students and employees	(473,946)	(547,541)
Net Cash Used in Operating Activities	$ (276,116,089)	$ (245,668,758)

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, 2007 and 2006

ASSETS	2007	2006
Current Assets		
Cash and cash equivalents	$ 777,198	$ 655,826
Investments	16,017,075	14,275,820
Pledges receivable, net of allowance	1,031,495	1,611,614
Other receivable	64,553	67,331
Prepaid expenses	14,200	-
Total Current Assets	17,904,521	16,610,591
Property and equipment, net of accumulated depreciation of $80,239 for 2007 and $72,231 for 2006	28,030	36,038
Total Assets	$ 17,932,551	$ 16,646,629
LIABILITIES AND NET ASSETS		
LIABILITIES		
Current Liabilities		
Accounts payable	$ 703	$ 16,862
Due to University of Connecticut Law School Alumni Association	-	20,970
Total Liabilities	703	37,832
NET ASSETS		
Unrestricted	1,278,492	2,158,685
Temporarily restricted	5,758,700	3,750,940
Permanently restricted	10,894,656	10,699,172
Total Net Assets	17,931,848	16,608,797
Total Liabilities and Net assets	$ 17,932,551	$ 16,646,629

STATEMENTS OF ACTIVITIES
For the Years Ended June 30, 2007 and 2006

	Unrestricted	Temporarily Restricted	Permanently Restricted	2007 Total	2006 Total
REVENUES AND SUPPORT					
Contributions and grants	$ 465,604	$ 262,764	$ 195,484	$ 923,852	$ 908,085
Interest and dividends	29,978	460,397	-	490,375	408,315
Realized and unrealized gains and losses	101,517	1,438,315	-	1,539,832	851,421
Net assets released from restrictions	153,716	(153,716)	-	-	-
Total Revenues and Support	750,815	2,007,760	195,484	2,954,059	2,167,821
EXPENSES					
Program Expenses					
Scholarships and awards	159,377	-	-	159,377	111,605
Student support and faculty support	704,791	-	-	704,791	885,779
Alumni and graduate relations	139,379	-	-	139,379	91,191
Total Program Expenses	1,003,547			1,003,547	1,088,575
Support Expenses					
Management and general	490,512	-	-	490,512	308,858
Fundraising	136,949	-	-	136,949	71,357
Total Support Expenses	627,461	-	-	627,461	380,215
Total Expenses	1,631,008	-	-	1,631,008	1,468,790
Changes in Net Assets	(880,193)	2,007,760	195,484	1,323,051	699,031
Net Assets-beginning of year, as restated	2,158,685	3,750,940	10,699,172	16,608,797	15,909,766
Net Assets-end of year	$ 1,278,492	$ 5,758,700	$ 10,894,656	$ 17,931,848	$ 16,608,797

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, 2007 and 2006

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, 2007 and 2006 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 they meet 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 14).

Expenses are charged to either restricted or unrestricted net assets based on a variety of factors, including consideration of prior or future revenue sources, the type of expense incurred, the university's budgetary policies surrounding the various revenue sources or whether the expense is a recurring cost.

GASB Statement No. 45, *Accounting and Reporting by Employers for Postemployment Benefits Other Than Pensions*, will be adopted by most universities as of July 1, 2007. The State funds the postretirement benefits of University employees and, therefore, no liability is recorded in the University's financial statements (see Note 8).

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 6). However, an accrual for compensated absences is recorded as of June 30, 2007 and 2006 in the Statements of Net Assets that includes a component that is related to an early retirement plan in fiscal year 2003 (see Note 7).

Certain reclassifications were made to the Statements of Cash Flows for the year ended June 30, 2006 to reflect interest amounts reinvested as purchase of investments, net that were previously classified as interest on investments. This change does not affect the total net cash used in investing activities for the year ended June 30, 2006. Also, the purchase of investments is recorded net rather than gross, on these statements, due to the quick turnover of certain investments.

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, *Communication Methods in General Purpose External Financial Reports That Contain Basic Financial Statements*, and GASB Statement No. 40, *Deposit and Investment Risk Disclosures*. 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 5).

Accounts Receivable (see Note 3)

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 doubtful 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 5)
Tax-exempt bond proceeds are deposited to various accounts held by the Trustee Bank as required by certain trust indentures. The funds are invested and disbursed as directed by the University. The University's bond proceeds investment policy is to balance an appropriate risk-return level, heavily weighted towards safety of assets, as defined and permitted under the relative indentures and Connecticut General Statutes.

The University directs the Trustee Bank to invest UCONN 2000 General Obligation construction fund proceeds in the State Treasurer's Short Term Investment Fund. Similarly, the University has directed the Trustee Bank to invest new proceeds from Special Obligation Bonds in dedicated Short Term Investment Fund accounts, with the exception of the 1998 Special Obligation Special Capital Reserve Fund which is invested in longer term federal agency fixed income Investment Obligations as defined in the Special Obligation Indenture of Trust.

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, 2006-A and 2007-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 included in the accompanying Statement of Net Assets in 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 5).

Deferred Charges – Current and Noncurrent (see Note 10)
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 4)
Property and equipment 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. Renovations that significantly increase the value or useful life of an asset are capitalized. Routine repairs and maintenance, and certain library materials, are charged to operating expense in the year the expenditure was incurred. Building components and non-structural improvements have estimated useful lives of 2 years to 60 years. Equipment has estimated useful lives of 3 years to 30 years.

Deferred Income (see Note 10)
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 7)
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.

<u>Revenues and Expenses</u>
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, *Accounting and Financial Reporting for Nonexchange Transactions*, 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 13 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.

<u>Component Unit</u>
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.

The June 30, 2006 net assets for the Law School Foundation were restated due to its management's investigation of the historical balance of certain permanently and temporarily restricted net assets. This reclassification did not result in a change to the total net assets.

2. CASH AND CASH EQUIVALENTS AND INVESTMENTS

GASB Statement No. 40 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 $196,457,960 and $179,416,484 as of June 30, 2007 and 2006, respectively and included the following:

	2007	2006
Cash maintained by State of Connecticut Treasurer	$ 169,241,483	$ 151,176,101
Invested in State of Connecticut Investment Pool	20,471,136	20,039,616
Invested in State of Connecticut Investment Pool - Endowments	1,462,435	1,454,455
Invested in Short-term Corporate Notes	4,234,806	5,648,662
Deposits with Financial Institutions and Other	1,048,100	1,097,650
Total cash and cash equivalents	196,457,960	179,416,484
Less: current balance	194,995,525	177,962,029
Total noncurrent balance	$ 1,462,435	$ 1,454,455

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 $20,471,136 and $1,462,435 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 2007. The $4,234,806 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 AAA 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 above 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, the policies and procedures of the University and 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 1.0625% (4.25% 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, 2007 and 2006 are:

	2007		2006	
	Cost	**Fair Value**	**Cost**	**Fair Value**
Endowments:				
Foundation Managed	$ 9,250,245	$ 13,412,365	$ 9,081,468	$ 12,046,583
Corporate Bonds	4,000	4,000	6,000	5,660
Other:				
U.S. Government Agency Securities (AAA rated securities; see Note 5)	1,500,000	1,461,130	1,500,000	1,443,011
Total Investments	$ 10,754,245	$ 14,877,495	$ 10,587,468	$ 13,495,254

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.

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

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 high yield fixed income an average credit quality of B1/B+ (Moody's and Standard and Poor's). A portion of the University's endowment pool is also invested with WCM Investment Management (WCM) in a separate account with U.S. Bank as custodian and inherent in such investments is custodial credit risk. These investments are all publicly traded U.S. equities and money market accounts and are uncollateralized. The value of the equities at June 30, 2007 and 2006 was $265,296 and $255,106, respectively. The money market balance held in the account available for WCM to use for purchases was $11,363 and $9,289 at June 30, 2007 and 2006. The University's endowment invested by the Foundation also has investments in foreign publicly traded equities totaling $3,038,314 and $2,733,992 and there are amounts included in private capital investments totaling approximately $703,445 and $463,320 at June 30, 2007 and 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 $13,884,353 and $12,554,199 as of June 30, 2007 and 2006, 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, 2007 and 2006 was $522,164 and $522,876, respectively.

3. ACCOUNTS RECEIVABLE

Accounts receivable at June 30, 2007 and 2006 consisted of the following:

	2007	2006
Grants and contracts	$ 17,150,499	$ 17,846,204
Recovery of costs related to corrective work (see Note 4)	14,980,000	-
Student and general	9,515,903	11,473,565
Investment income	2,325,923	1,968,370
Other	1,838,056	2,432,969
Allowance for doubtful accounts	(5,742,451)	(5,668,451)
Total accounts receivable, net	$ 40,067,930	$ 28,052,657

4. 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 is 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 of 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 $74,307,576 and $71,889,581 at June 30, 2007 and 2006, respectively, and is included in equipment in the table on the following page. In fiscal year 2007, the University modified its capitalization policy to expense as incurred the costs of journals, subscriptions, and electronic media. In the prior year these costs were capitalized. Historical collections and art are recognized at their estimated fair values at the time of donation. Historical collections and art totaled $48,240,399 and $47,265,731 at June 30, 2007 and 2006, respectively, and are also included in equipment in the analysis of changes in property and equipment. Historical collections and art are not depreciated.

For the year ended June 30, 2007, a total of $5,226,288 was expensed in the accompanying Statements of Revenues, Expenses, and Changes in Net Assets in capital other, net for inspections, fire and safety code updates and other corrective action needed, as required by the Connecticut General Assembly, in order to achieve safety goals for all buildings. At June 30, 2007, an accrual for estimated expenditures to complete these projects totaling $5,091,538 is recorded in other current liabilities in the Statement of Net Assets.

In the accompanying Statements of Revenues, Expenses, and Changes in Net Assets in capital other, net a total of $5,121,381 was expensed in fiscal year 2006 for a project to begin the closure and remediation of an existing landfill which involves capping and diversion of water from its vicinity. Expenditures primarily include professional fees, preparation for capping and contouring of surrounding land. An accrual for estimated expenditures to complete this project totaling $8,407,518 and $14,424,265 at June 30, 2007 and 2006, respectively, is recorded in other current liabilities in the Statement of Net Assets.

For the years ended June 30, 2007 and 2006, a total of $354,945 and $5,369,228, respectively, was expensed in the accompanying Statements of Revenues, Expenses, and Changes in Net Assets in capital other, net for work to correct certain deficiencies in the construction of three residential facilities. At June 30, 2007 and 2006 an accrual for estimated expenditures to complete these projects, totaling $2,249,821 and $11,179,522, respectively, is recorded in other current liabilities in the Statement of Net Assets. Through June 30, 2007, the total amount expensed for the Hilltop Apartments, one of the three residential facilities was $24,824,500. Of these costs, a total of $14,980,000 was recovered, subsequent to June 30, 2007, and is included in capital other, net where it was originally expensed in prior years. A corresponding receivable is recorded at June 30, 2007 in the Statement of Net Assets. While the University continues to pursue the recovery of additional costs related to the corrective work on the three residential facilities, the total amount to be recovered 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.

Other amounts in capital other, net for the year ended June 30, 2007 and 2006 include costs that are not capitalized under University policy such as repairs, project management fees, capital project studies, and mold, lead and asbestos removal projects ($5,586,368 and $1,004,463, respectively), equipment falling under the capitalization threshold ($2,281,843 and $156,085, respectively), and other miscellaneous capital-related costs ($1,664,583 and $280,483, respectively). Capital other, net also includes capital related income such as insurance reimbursements, rebates, and surplus equipment sales.

In the following table, certain reclassifications were made between the categories of buildings and non-structural improvements for the year ended June 30, 2006. This was done to better reflect, as buildings, amounts previously classified as non-structural improvements. This reclassification has no effect on property and equipment, net, for the year ended June 30, 2006 and no effect on operating loss or the increase in net assets on the Statements of Revenues, Expenses and Changes in Net Assets.

The following table describes the changes in property and equipment for the years ended June 30, 2007 and 2006.

Changes in Property and Equipment for the Year Ended June 30, 2007:

	Balance July 1, 2006	Additions	Retirements	Transfers and Other	Balance June 30, 2007
Property and equipment:					
Land	$ 14,806,780	$ -	$ (304)	$ -	$ 14,806,476
Non-structural Improvements	176,315,794	2,695,504	(97,850)	4,791,753	183,705,201
Buildings	1,495,362,601	23,411,850	(6,871,624)	39,227,520	1,551,130,347
Equipment	407,522,515	24,036,254	(18,489,689)	-	413,069,080
Construction in Progress	57,311,866	3,751,299	-	(44,019,273)	17,043,892
Total property and equipment	2,151,319,556	53,894,907	(25,459,467)	-	2,179,754,996
Less accumulated depreciation:					
Non-structural Improvements	59,887,324	8,032,998	(7,984)	-	67,912,338
Buildings	344,868,596	54,509,342	(4,095,682)	-	395,282,256
Equipment	221,872,102	25,487,830	(17,898,781)	-	229,461,151
Total accumulated depreciation	626,628,022	88,030,170	(22,002,447)	-	692,655,745
Property and equipment, net:					
Land	14,806,780	-	(304)	-	14,806,476
Non-structural Improvements	116,428,470	(5,337,494)	(89,866)	4,791,753	115,792,863
Buildings	1,150,494,005	(31,097,492)	(2,775,942)	39,227,520	1,155,848,091
Equipment	185,650,413	(1,451,576)	(590,908)	-	183,607,929
Construction in Progress	57,311,866	3,751,299	-	(44,019,273)	17,043,892
Property and equipment, net:	$ 1,524,691,534	$ (34,135,263)	$ (3,457,020)	$ -	$ 1,487,099,251

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
Property and equipment:					
Land	$ 14,806,847	$ -	$ (67)	$ -	$ 14,806,780
Non-structural Improvements	165,676,551	4,565,483	(16,506)	6,090,266	176,315,794
Buildings	1,340,155,862	47,379,790	(395,391)	108,222,340	1,495,362,601
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
Less accumulated depreciation:					
Non-structural Improvements	52,338,492	7,549,629	(797)	-	59,887,324
Buildings	293,503,949	51,584,832	(220,185)	-	344,868,596
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
Property and equipment, net:					
Land	14,806,847	-	(67)	-	14,806,780
Non-structural Improvements	113,338,059	(2,984,146)	(15,709)	6,090,266	116,428,470
Buildings	1,046,651,913	(4,205,042)	(175,206)	108,222,340	1,150,494,005
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

5. 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 21st Century UConn program was amended subsequent to June 30, 2007, extending it to June 30, 2016. 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, 2007 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
2007 Series A	89,355,000
Total issued	$ 1,177,092,147

These bonds are general obligations of the University, for which its full faith and credit are pledged, and are payable from all assured revenues. The bonds are additionally secured by the pledge of and a lien upon the State Debt Service Commitment. The State Debt Service Commitment is the commitment by the State to pay an annual amount of debt service on securities issued as general obligations of the University. The University, consistent with the Act, is relying upon the receipt of the annual amount of the pledged State Debt Service Commitment for the payment of the bonds and, accordingly, is not planning to budget any 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 $89,355,000 and $77,145,000 for the years ended June 30, 2007 and 2006, respectively, representing the increase in the State's debt service commitment for principal as a result of the issuance of the 2007 and 2006 Series A bonds, respectively.

The principal amounts of $89,355,000 and $77,145,000, recorded as state debt service commitment for principal, together with part of the respective original issue premium, resulted in total proceeds of $89,000,000 and $79,000,000 for the 2007 and 2006 Series A bonds. The proceeds include $23,510,425 and $14,920,425, 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 2007 and 2006, this offset totaled $23,510,425 and $14,920,425, respectively, resulting in net revenue of $65,179,575 and $61,569,575 (including $665,000 and $655,000 due to a decrease in bonds as a result of Series A 2007 and 2006 bond refundings, as explained on the next page) 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 ($27,671,053 and $22,270,879 at June 30, 2007 and 2006, respectively) in the Statement of Net Assets.

Also, for the years ended June 30, 2007 and 2006, nonoperating revenues include state debt service commitment for interest on general obligation bonds of $35,863,883 and $33,093,947, respectively.

In addition to the 2007 Series A Bonds, in April of 2007 the University issued the 2007 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 $46,030,000, and these bonds have a final maturity date of April 1, 2022. Proceeds from the sale of the bonds totaled $49,505,477 and comprised the face value plus the net premium, 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, $665,000, is reflected as an expense in fiscal year 2007 (net of the $89,355,000 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 Series A 2007 Bonds refunding:

2002 Series A	$ 16,855,000
2003 Series A	29,840,000
Total defeased debt	46,695,000
Total refunding bonds	46,030,000
Decrease in bonds as a result of refunding	$ 665,000

In addition to the 2006 Series A Bonds, in March of 2006 the University also issued the 2006 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, 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 2006 Series A Bonds 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	61,675,000
Total refunding bonds	61,020,000
Decrease in bonds as a result of refunding	$ 655,000

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 $1,461,130 and $1,443,011 at June 30, 2007 and 2006, respectively. At June 30, 2007 and 2006, $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 $57,734,000 and $47,515,000 in fiscal years 2007 and 2006, 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 fees, 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 $153,000 and $142,000 for the fiscal years ending June 30, 2007 and 2006, 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 $7,021,902 and $8,359,542 at June 30, 2007 and 2006, 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, 2007 and 2006, $7,437,903 and $9,070,372, respectively, of the unspent advance are included in deposit with bond trustee in the Statements of Net Assets. 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 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, 2007 and 2006, the University owed $77,967,770 and $80,618,404, 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 one dollar.

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, 2007 and 2006 was as follows:

Long-term Debt Activity for the Year Ended June 30, 2007:

	Balance July 1, 2006	Additions	Retirements	Balance June 30, 2007	Current Portion
General Obligation Bonds	$ 790,647,147	$ 135,385,000	$ (102,900,000)	$ 823,132,147	$ 59,718,792
Revenue Bonds	185,825,000	-	(4,170,000)	181,655,000	4,325,000
Self Liquidating Bonds	8,359,542	-	(1,337,640)	7,021,902	1,162,722
U.S. Dept. of Ed. Towers Loan	1,692,311	-	(44,405)	1,647,906	46,881
Installment Loans	1,429,814	-	(561,970)	867,844	395,269
Obligation Under Capital Lease for Cogeneration	80,618,404	-	(2,650,634)	77,967,770	2,771,660
Financial Accelerator Loan	3,156,406	-	(209,696)	2,946,710	227,100
Total long-term debt	1,071,728,624	135,385,000	(111,874,345)	1,095,239,279	68,647,424
Premiums/discounts/debt difference due to refunding	15,211,200	805,231	(1,105,571)	14,910,860	1,184,299
Total long-term debt, net	$ 1,086,939,824	$ 136,190,231	$ (112,979,916)	$ 1,110,150,139	$ 69,831,723

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

	Balance July 1, 2005	Additions	Retirements	Balance June 30, 2006	Current 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	$ 1,045,090,989	$ 166,054,633	$ (124,205,798)	$ 1,086,939,824	$ 66,213,253

Long-term debt outstanding at June 30, 2007 and 2006 consisted of the following:

Type of Debt and Issue Date	Type of Issue	Principal Payable	Maturity Dates Through Fiscal Year	Interest Rate	Balance 2007	Balance 2006
Bonds:						
GO 1996 Series A	original	various	2011	5.05-5.1%	$ 4,369,715	$ 8,874,715
GO 1997 Series A	original	annually	2009	5.2-5.3%	7,392,432	13,892,432
GO 1998 Series A	original	various	2008	4.35%	4,975,000	9,950,000
GO 1999 Series A	original	annually	2012	4.15-4.5%	25,000,000	30,000,000
GO 2000 Series A	original	various	2010	4.9-5.0%	22,375,000	28,925,000
GO 2001 Series A	original	various	2021	3.8-4.75%	30,625,000	35,625,000
GO 2002 Series A	original	various	2012	4.0-4.46%	25,000,000	46,855,000
GO 2003 Series A	original	annually	2023	2.3-4.4%	46,930,000	81,490,000
GO 2004 Series A	original	annually	2024	2.0-5.0%	83,160,000	88,055,000
GO 2004 Ref. Series A	refund	annually	2020	3.9-5.0%	216,765,000	216,830,000
GO 2005 Series A	original	annually	2025	3.0-3.7%	88,310,000	93,210,000
GO 2006 Series A	original	annually	2026	3.35-5.0%	73,290,000	77,145,000
GO 2006 Ref. Series A	refund	various	2020	4.75-5.0%	59,555,000	59,795,000
GO 2007 Series A	original	annually	2027	3.5-5.0%	89,355,000	-
GO 2007 Ref. Series A	refund	various	2022	5.0%	46,030,000	-
Total General Obligation Bonds					823,132,147	790,647,147
Rev 1998 Series A	original	annually	2028	4.2-5.125%	27,640,000	28,405,000
Rev 2002 Series A	original	annually	2030	3.6-5.25%	67,735,000	69,365,000
Rev 2002 Ref. Series A	refund	annually	2030	4.0-5.25%	86,280,000	88,055,000
Total Revenue Bonds					181,655,000	185,825,000
March 1992	original	various	2007	6.25-6.5%	-	293,759
March 1993	original	annually	2012	5.3-5.5%	320,000	375,000
October 1993	refund	various	2012	6.0%	205,690	205,690
March 1994	original	various	2010	5.4-5.65%	148	148
August 1994	original	various	2009	5.7-5.8%	10	10
March 1997	original	various	2008	5.0%	295,000	590,000
September 1997	refund	annually	2013	5.0-5.5%	314,650	316,437
February 1998	refund	annually	2015	4.4-5.25%	917,432	986,665
June 2001	refund	various	2016	4.4 -5.5%	1,151,961	1,277,231
November 2001	refund	various	2014	3.6-5.13%	1,678,123	2,091,652
June 2002	refund	various	2010	5.0 -5.5%	670,357	670,357
August 2002	refund	various	2016	3.5-5.5%	551,867	551,867
April 2003	refund	annually	2007	2.5-5.0%	-	399
December 2003	refund	annually	2011	4.0-5.0%	641,864	645,522
April 2004	refund	various	2007	2.0-5.0%	-	80,005
April 2005	refund	various	2017	4.38-5.25%	274,800	274,800
Total Self-Liquidating Bonds					7,021,902	8,359,542
Total Bonds					1,011,809,049	984,831,689
Loans and other debt:						
U.S. Dept. Ed. Towers Loan		semi-annually	2027	5.5%	1,647,906	1,692,311
Installment Loans		various	various	3.03-5.604%	867,844	1,429,814
Obligation Under Capital Lease for Cogeneration		monthly	2026	4.42-5.09%	77,967,770	80,618,404
Financial Accelerator Loan		monthly	2017	8.0%	2,946,710	3,156,406
Total loans and other					83,430,230	86,896,935
Total bonds, loans and installment purchases					1,095,239,279	1,071,728,624
Premiums/discounts/debt difference due to refunding					14,910,860	15,211,200
Total bonds, loans and installment purchases, net					1,110,150,139	1,086,939,824
Less: current portion, net					69,831,723	66,213,253
Total noncurrent portion, net					$1,040,318,416	$1,020,726,571

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

	General Obligation Bonds			Long-term Debt Other than General Obligation Bonds			Total Obligations		
Year(s)	Principal	Interest	Total	Principal	Interest	Total	Principal	Interest	Total
2008	$ 59,718,792	$ 39,113,646	$ 98,832,438	$ 8,928,632	$ 13,006,861	$ 21,935,493	$ 68,647,424	$ 52,120,507	$ 120,767,931
2009	63,323,640	37,419,419	100,743,059	9,059,608	12,622,446	21,682,054	72,383,248	50,041,865	122,425,113
2010	57,432,274	34,223,916	91,656,190	9,169,652	12,214,844	21,384,496	66,601,926	46,438,760	113,040,686
2011	60,407,441	32,134,750	92,542,191	9,262,309	11,784,563	21,046,872	69,669,750	43,919,313	113,589,063
2012	57,000,000	27,368,958	84,368,958	9,598,388	11,346,762	20,945,150	66,598,388	38,715,720	105,314,108
2013-2017	269,615,000	98,033,023	367,648,023	54,704,053	49,168,608	103,872,661	324,319,053	147,201,631	471,520,684
2018-2022	189,750,000	39,057,431	228,807,431	64,839,925	34,655,598	99,495,523	254,589,925	73,713,029	328,302,954
2023-2027	65,885,000	6,674,878	72,559,878	72,844,565	17,342,467	90,187,032	138,729,565	24,017,345	162,746,910
2028-2032	-	-	-	33,700,000	2,817,338	36,517,338	33,700,000	2,817,338	36,517,338
Total	$823,132,147	$314,026,021	$1,137,158,168	$272,107,132	$164,959,487	$437,066,619	$1,095,239,279	$478,985,508	$1,574,224,787

6. 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 454 full-time employees, 65 participate in either the State Employees' Retirement System or ARP, while 389 are eligible to participate in two other 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.

7. COMPENSATED ABSENCES AND WAGES PAYABLE

Compensated absences are recorded in accordance with GASB Statement No. 16, *Accounting for Compensated Absences*, and represent the amounts earned by eligible employees through June 30, 2007 and 2006. 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. Compensated absences include accrued unused vacation and sick leave balances for employees, and at June 30, 2007 totaled $22,548,868 and $1,725,232, respectively, and at June 30, 2006 totaled $21,313,843 and $1,949,058, 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 current compensated absences liability as of June 30, 2007 are $701,362 for accrued vacation and $308,138 for sick leave for University employees that participated in ERIP, which represents the final payment under the agreement. At June 30, 2006, the current compensated absences included $741,221 for accrued vacation and $303,531 for sick leave under ERIP. The noncurrent liability at June 30, 2006 included $737,859 and $303,530 for accrued vacation and sick leave under ERIP, respectively (-0- for both at June 30, 2007).

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.

8. POST EMPLOYMENT BENEFITS

In addition to the pension benefits described in Note 6, 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.

9. COMMITMENTS

On June 30, 2007, the University had outstanding commitments (encumbrances over $100,000 each) totaling $33,663,055, which include $25,004,118 related to capital projects. Of the total amount, $1,434,815 is included in accounts payable at June 30, 2007. In addition to the amount for capital outlay, commitments were also related to research, academic, and institutional support. Of these commitments, the University expects $3,971,468 to be reimbursed by federal grants.

10. 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, 2007 and 2006 deferred income is as follows:

	2007	2006
Certain restricted research grants	$ 8,633,885	$ 8,688,313
Tuition and fees and auxiliary services	8,558,703	9,843,624
Athletic ticket sales and commitments	3,527,576	3,693,544
Contingent grants	500,000	500,000
Other	2,016,272	1,048,790
Total deferred income	$ 23,236,436	$ 23,774,271

A portion of current deferred charges totaling $869,841 and $802,084 and noncurrent deferred charges totaling $8,986,068 and $9,380,916 at June 30, 2007 and 2006, respectively, represent the cost of issuance on certain bond issues, which will be amortized over the terms of the respective bond issues (see Note 5).

11. 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 $37,765,341 and $34,623,415 in fiscal year 2007 and 2006, respectively. In fiscal years 2007 and 2006, approximately 84% of such waivers were provided to graduate assistants.

12. 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.

13. OPERATING EXPENSES BY OBJECT

The following table details the University's operating expenses by object for the years ended June 30, 2007 and 2006.

Operating Expenses by Object for the Year Ended June 30, 2007

	Instruction	Research	Public Service	Academic Support	Student Services	Institutional Support	Operations and Maintenance of Plant	Depreciation	Student Aid	Auxiliary Enterprises	Total
Salaries and Wages	$179,575,566	$33,565,874	$19,739,162	$46,224,453	$21,771,030	$37,788,019	$16,056,975	$ -	$227,946	$ 41,533,621	$396,482,646
Fringe Benefits	52,234,718	7,378,092	5,748,282	16,647,637	7,866,556	16,404,873	8,694,334	-	2,233	15,346,318	130,323,043
Supplies & Other Expenses	24,269,608	18,697,639	6,702,664	19,362,703	5,121,702	12,929,017	17,128,627	-	3,741,548	59,717,102	167,670,610
Utilities	-	-	-	-	263,237	215,026	18,731,498	-	-	10,230,999	29,440,760
Depreciation	-	-	-	-	-	-	-	88,030,170	-	-	88,030,170
	$256,079,892	$59,641,605	$32,190,108	$82,234,793	$35,022,525	$67,336,935	$60,611,434	$88,030,170	$3,971,727	$126,828,040	$811,947,229

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
	$245,567,278	$55,933,021	$31,184,522	$74,664,985	$30,570,516	$60,767,532	$65,676,823	$86,528,795	$3,822,397	$121,955,025	$776,670,894

14. 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, 2007

BOARD OF TRUSTEES

FINANCIAL OFFICERS

UNIVERSITY OF CONNECTICUT

1881