University of Connecticut

Financial Report

For the Year Ended June 30, 2010

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, 2010 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 2010 was 29,001 students, taught by 1,286 full-time faculty members and an additional 683 part-time faculty and adjuncts. In total, the University employs 4,410 full and part-time faculty and staff (excluding adjuncts). 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 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 and 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 missions. The growth and diversification of the University's funding streams, combined with the continuing physical transformation through UCONN 2000, have led the University to record enrollments, research success, and significant contributions to the economy of the State of Connecticut.

The financial condition of the University is closely tied to the state's economic condition. There are significant financial and economic challenges facing the state and the nation. Since June 30, 2010, the University experienced an approximate reduction of $0.5 million in state support for fiscal year 2011, and a transfer of $15.0 million to the State from unrestricted funds will occur. These measures come in addition to prior year transfers and reductions of State support that have not been restored to the University. The University will continue to face a very difficult financial climate as further reductions are possible. A Costs, Operations, and Revenue Efficiencies (CORE) Task Force was convened in November 2008 to address this severe economic downturn. Approximately $7 million in savings or new revenues were identified by this task force through fiscal year 2010. Although future reductions in State funding are possible, the University is committed to continue its high standard of service to its students and the citizens of the State.

Among its many accomplishments, for the eleventh 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 2010, the University was ranked 27th among 164 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 2009 freshman enrollment at the main campus was up 59%, minority freshman enrollment was up 119%, and since 1996, average SAT scores were up 99 points. Forty-four percent of these students ranked in the top 10% of their high school class.
- The University's freshman-to-sophomore retention rate at the main campus is 93% and is substantially higher than the 80% average for 424 colleges and universities in the national Consortium for Student Retention Data Exchange. The 6-year graduation rate is 81% and the average time to graduate is 4.2 years among students completing Bachelor's within six years.
- Approximately 6,930 degrees were conferred in the 2009-10 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 $131.3 million in fiscal year 2010.
- UConn, including both the Health Center and Storrs-based programs, ranked 85/689 among all institutions and 55/414 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 $43 million at the start of 1995, is now valued at $263 million. Total Foundation net assets reached $348 million. The University received $23.1 million in disbursements in support of scholarships, faculty, programs and facilities from the Foundation in 2010.
- By 2010, the UCONN 2000 program has led to the authorization of 105 projects totaling $1.8 billion in bond proceeds.

Respectfully Submitted,

Paul R McDowell

Richard D. Gray	Paul R. McDowell
Vice President and Chief Financial Officer	Chief Financial Officer
University of Connecticut	Storrs-based Programs

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STATE OF CONNECTICUT

AUDITORS OF PUBLIC ACCOUNTS

KEVIN P. JOHNSTON

STATE CAPITOL
210 CAPITOL AVENUE
HARTFORD, CONNECTICUT 06106-1559

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, 2010 and 2009, 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 and the University of Connecticut 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 represented .51 percent of the assets of the University as of June 30, 2010 and 2009. The University of Connecticut Law School Foundation, Inc. represented .21 percent of the combined revenues and other additions for the year ended June 30, 2010; it experienced negative revenues that effected a .12 percent reduction in total revenues and other additions for the year ended June 30, 2009. Those financial statements were audited by other auditors whose reports thereon have been furnished to us, and our opinion, insofar as it relates to the amounts included for the University of Connecticut Law School Foundation, Inc., is based solely on the reports of the other auditors. The audits of the University of Connecticut Law School Foundation, Inc. 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 consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the University's internal control over financial reporting. Accordingly, we express no such opinion. 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 and the reports of the other auditors provide a reasonable basis for our opinion.

In our opinion, based upon our audits and the reports of the other auditors, the financial statements referred to above present fairly, in all material respects, the financial position of the University, as of June 30, 2010 and 2009, and the changes in net assets and its 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 15 is not a required part of the basic financial statements of the University, 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. The introductory section has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on it.

Sincerely,

Kevin P. Johnston
Kevin P. Johnston
Auditor of Public Accounts

Robert G. Jaekle
Auditor of Public Accounts

November 22, 2010
State Capitol
Hartford, Connecticut

MANAGEMENT'S DISCUSSION AND ANALYSIS

Management's Discussion and Analysis

INTRODUCTION

The following Management's Discussion and Analysis (MD&A) is required supplemental information. Its purpose is to provide users of the basic financial statements with a narrative introduction, overview, and analysis of those statements. 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, 2010, based on currently known facts, decisions, or conditions. It also includes selected comparative information for the years ended June 30, 2009 and 2008. 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.

Founded in 1881, the University of Connecticut serves as the State of Connecticut's (State) 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 the 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, 2010 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.

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 (see Note 12). 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.

In accordance with GASB Statement No. 51, *Accounting and Financial Reporting for Intangible Assets*, which requires that certain intangible assets be classified as capital assets, the Statement of Net Assets as of June 30, 2009 and the Statement of Revenues, Expenses, and Changes in Net Assets for the year ended June 30, 2009 have been restated in order to retroactively apply the provisions of this statement to also include purchased software which was previously expensed (see Note 16). For the purposes of the MD&A, certain tables and graphs are restated for fiscal years 2009 and 2008.

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

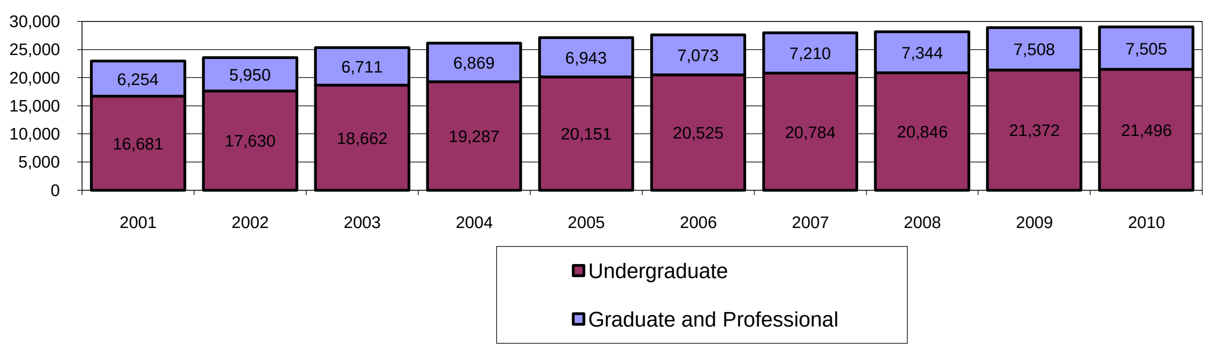
The University submits separate biennial operating and capital budgets to the Governor and General Assembly through the Board of Governors for Higher Education. The General Assembly appropriates and allocates funds directly to the

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 $363.2 million for the year ending June 30, 2010 (fiscal year 2010) as compared to $406.7 million for the year ending June 30, 2009 (fiscal year 2009), and $402.3 million for the year ending June 30, 2008 (fiscal year 2008). The decrease in operating loss in fiscal year 2010 from fiscal year 2009 was due to an increase in total operating revenues of 6.3%, primarily attributed to increases in undergraduate enrollment, tuition and fees, and room and board fees. It is also due to a reduction of 162 full-time equivalents in fiscal year 2010 over 2009, which resulted from 211 staff participating in the Retirement Incentive Plan (offset by new hires). The increase in operating loss in fiscal year 2009 from fiscal year 2008 was due to an increase in total operating expenses of 5.6%, primarily caused by a 4.7% increase in salaries as a result of a 1.7% 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 other changes in net assets, which includes revenue from State appropriations. The University experienced a loss before other changes in net assets of $38.3 million in fiscal year 2010 as compared to $68.2 million and $53.6 million for fiscal years 2009 and 2008, respectively. Total operating revenues grew $33.2 million in fiscal year 2010 and $45.0 million in fiscal year 2009. At the same time, operating expenses decreased $10.3 million in fiscal year 2010 as compared to an increase in fiscal year 2009 of $49.3 million over fiscal year 2008. Investment income decreased $3.0 million in fiscal year 2010, $6.1 million in fiscal year 2009 and $1.9 million in fiscal year 2008.

Sources of recurring revenues continued to exhibit strength, with increases in operating revenues for the past three fiscal years. The University's total enrollment in fiscal year 2003 topped 25,000 students and grew to 29,001 students in fiscal year 2010. These students are taught by 1,286 full-time faculty members (a decrease of 38 faculty over the prior year) and an additional 683 part-time faculty and adjuncts. Undergraduate enrollment at the University reached 21,496 students in fiscal year 2010, 0.6% more than fiscal year 2009 (2.5% more students in fiscal year 2009 over 2008). At the same time, an in-state tuition and mandatory fee increase of 5.87% and an out-of-state increase of 5.97% were approved for fiscal year 2010. Graduate and professional enrollment decreased by 0.04% with an in-state tuition and mandatory fee increase of 5.97% and an out-of-state increase of 6.03%. 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 allowances, of $22.0 million (7.4%) as compared to a $24.5 million (9.0%) increase in fiscal year 2009. Sales and services of auxiliary enterprises, before scholarship allowances, increased $12.3 million (8.1%), primarily as a result of an overall increase in room and board fees of 6.48% for undergraduate students and 8.61% for graduate students and an increase in room occupancy of 3.6% over fiscal year 2009. In fiscal year 2009, sales and services of auxiliary enterprises, before scholarship allowances, increased $16.5 million (12.0%), primarily as a result of an overall increase in room and board fees of 7.39% for undergraduate students and graduate students and an increase in room occupancy of 6.1% over fiscal year 2008. Grant and contract revenues increased $14.6 million (11.0%) in fiscal year 2010 as compared to $11.3 million (9.3%) in fiscal year 2009 over 2008.

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 and was amended in fiscal years 2008 and 2010. As amended, it represents a $1.56 billion, 13-year extension of the original UCONN 2000 program (see Note 5), and provided $1.0 billion for facilities improvements at Storrs, the regional campuses, the School of Law and the School of Social Work. It also provided for $512.4 million for improvements at the Health Center. This commitment from the State provides long-term funds for capital enhancement and preservation and will allow the University to provide quality facilities commensurate with the enrollment growth experienced in recent years.

The financial condition of the University is closely tied to the State's economy. There are significant financial and economic challenges facing the State and the nation. In fiscal year 2010, the University transferred $8.0 million from unrestricted funds to the State's General Fund as a result of a deficit mitigation plan implemented by the State. In fiscal year 2009, the University also experienced an approximate $15.7 million decrease in State support due to an appropriation rescission and an associated reduction in fringe benefit support. These funds have not been restored to the University's appropriation and an additional transfer of $15.0 million from unrestricted funds will occur in fiscal year 2011. The University will continue to face a very difficult financial climate as further reductions are possible. A Costs, Operations, and Revenue Efficiencies (CORE) Task Force was convened in November 2008 to address this severe economic downturn. Approximately $7 million in savings or new revenues were identified by this task force through fiscal year 2010. Although future reductions in State funding are possible, the University is committed to continue its 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 Statement 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 Statement 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 represent 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 and amortization. Liabilities represent what is owed to others or what has been received from others prior to services being provided by the University.

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):

	2010	2009*	2008*
Current assets	$ 584.6	$ 532.9	$ 421.2
Noncurrent assets			
State debt service commitment	804.3	780.2	700.1
Investments	9.8	9.5	12.3
Property and equipment, net	1,397.5	1,412.6	1,460.2
Other	19.5	19.5	18.9
Total assets	$2,815.7	$2,754.7	$2,612.7
Current liabilities	$ 290.2	$ 274.6	$ 250.7
Noncurrent liabilities			
Long-term debt and bonds payable	1,058.7	1,039.0	962.7
Other	22.5	21.9	20.2
Total liabilities	$1,371.4	$1,335.5	$1,233.6
Invested in capital assets, net	$1,131.9	$1,143.4	$1,188.0
Restricted	149.6	128.6	55.3
Unrestricted	162.8	147.2	135.8
Total net assets	$1,444.3	$1,419.2	$1,379.1

*As restated

The total assets increased $61.0 million in fiscal year 2010 over 2009 as compared to an increase of $142.0 million in fiscal year 2009 over 2008. The increase in fiscal year 2010 was primarily due to a $25.3 million ($22.4 million in fiscal year 2009) increase in cash and cash equivalents, a $1.4 million decrease in due from State of Connecticut ($2.8 million decrease in fiscal year 2009), a $17.4 million increase in deposit with bond trustee ($94.6 million increase in fiscal year 2009), a $31.9 million increase in the State debt service commitment ($82.0 million increase in fiscal year 2009), a $1.9 million increase in accounts receivable ($2.4 million decrease in fiscal year 2009) and a net decrease of $15.1 million to property and equipment ($47.6 million decrease in fiscal year 2009).

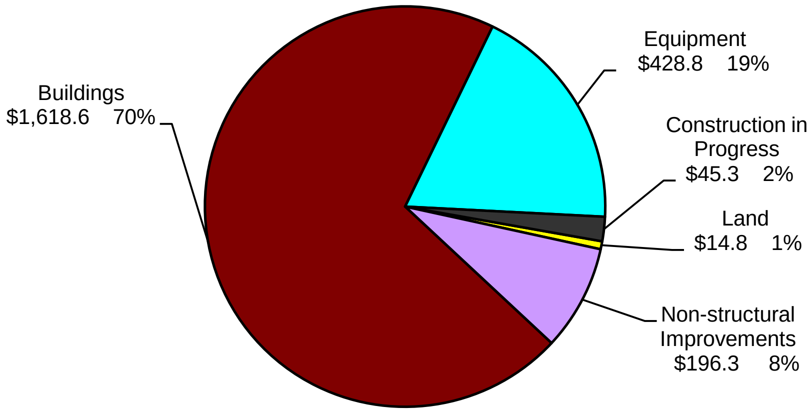
The total liabilities for fiscal year 2010 increased $35.9 million ($101.9 million increase in fiscal year 2009) primarily due to newly acquired debt through the sale of general obligation bonds and bond refundings totaling $191.8 million ($151.6 million in fiscal year 2009) offset by the retirement and refunding of debt on existing bonds and loans of $162.8 million ($73.1 million in fiscal year 2009), an increase in deferred income of $7.8 million ($2.3 million decrease in fiscal year 2009), an increase of $4.7 million in compensated absences ($1.4 million increase in fiscal year 2009) and a decrease in due to affiliate of $4.7 million in fiscal year 2010 ($21.6 million increase in fiscal year 2009). The combination of the increase in total assets of $61.0 million ($142.0 million increase for fiscal year 2009) and total liabilities of $35.9 million ($101.9 million increase for fiscal year 2009) yields an increase in total net assets of $25.1 million ($40.1 million increase in fiscal year 2009).

Capital and Debt Activities

During fiscal year 2010, the University recorded additions to property and equipment totaling $75.7 million ($43.3 million and $73.5 million in fiscal years 2009 and 2008, respectively) of which $51.8 million related to buildings and construction in progress ($18.9 million and $28.7 million in fiscal years 2009 and 2008, 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 $1.56 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:

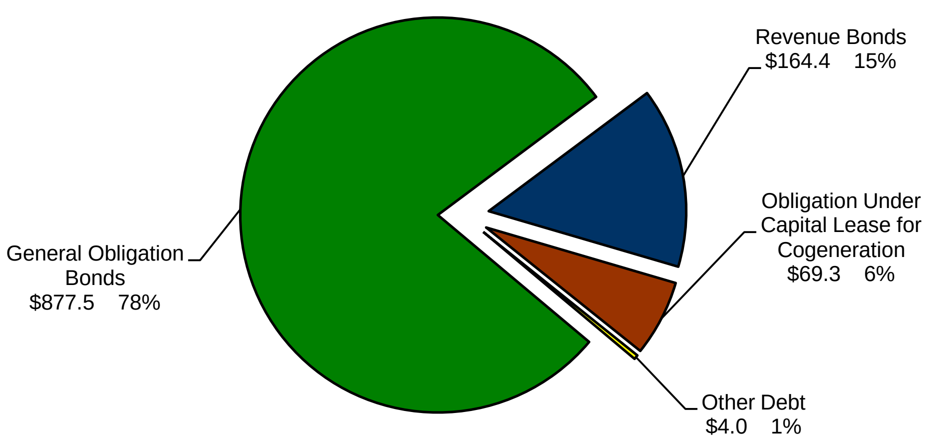
TOTAL PROPERTY AND EQUIPMENT AT COST AT JUNE 30, 2010
($ in Millions) Total $2,303.8



In fiscal year 2010, the University issued UCONN 2000 general obligation bonds with a face value of $97.1 million ($144.9 million in fiscal year 2009) of which $35.6 million was committed ($39.9 million in fiscal year 2009) 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. As the general obligation debt is incurred, the commitment from the State is recorded as a current and noncurrent receivable (State debt service commitment in the accompanying Statements of Net Assets). When bonds are issued, the amount of the commitment for the Health Center is reflected as a liability by the University.

The following chart illustrates the categories of debt as of June 30, 2010, exclusive of premiums, discounts and debt differences due to refunding:

CATEGORIES OF DEBT AT JUNE 30, 2010
($ in millions) Total $1,115.2

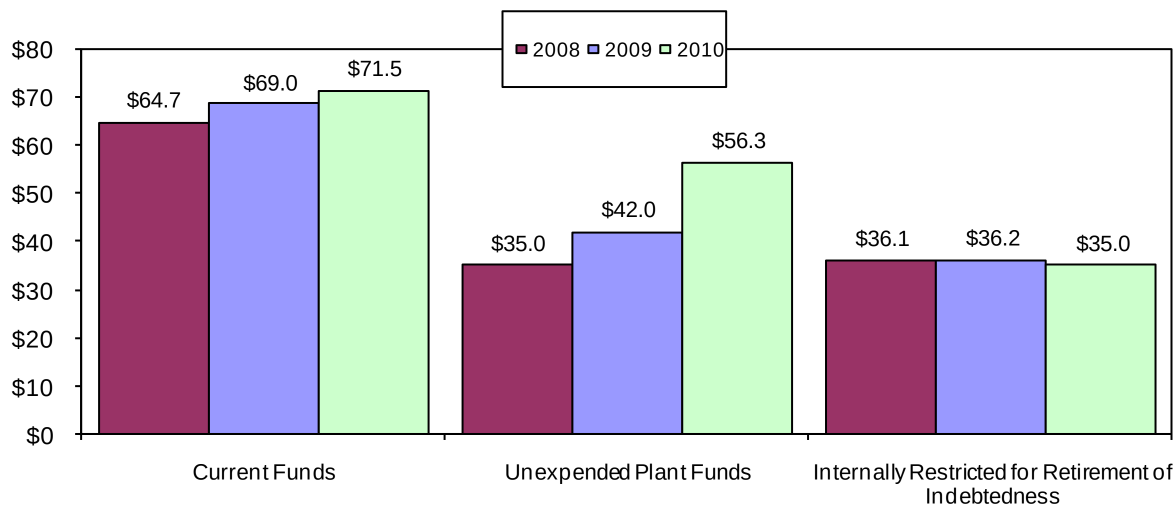


See Notes 4 and 5 of the financial statements for further information on capital and debt activities.

Net Assets

Net assets are divided into three major categories. The first category, invested in capital assets, net of related debt, provides the University's equity in property and equipment. The restricted net assets category is subdivided into 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 Statement No. 35 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 on the Statement of Net Assets. 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

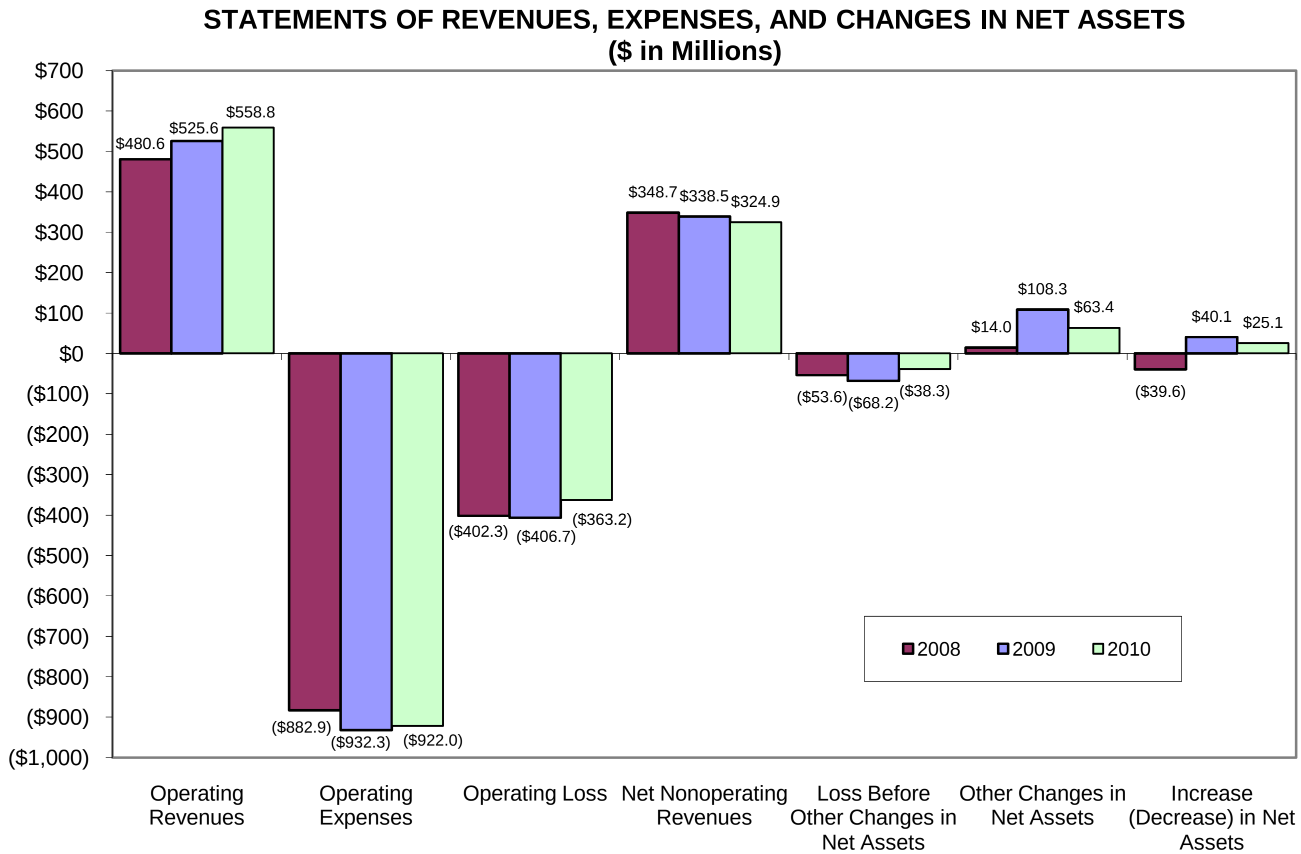
Revenues and expenses are classified as operating, nonoperating, or other changes in net assets according to definitions prescribed by GASB. Significant recurring sources of nonoperating revenues utilized in balancing the operating loss each year include State appropriations for general operations, State 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):

	2010	2009*	2008
Operating revenues	$ 558.8	$ 525.6	$ 480.6
Operating expenses	922.0	932.3	882.9
Operating loss	(363.2)	(406.7)	(402.3)
Net nonoperating revenues	324.9	338.5	348.7
Loss before other changes in net assets	(38.3)	(68.2)	(53.6)
Net other changes in net assets	63.4	108.3	14.0
Increase (Decrease) in net assets	$ 25.1	$ 40.1	$ (39.6)

*As restated

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 in 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.



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 and amortization 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.

Other changes in net assets are comprised of the State's debt service commitment for principal payments on general obligation bonds used for capital purposes, capital appropriation, capital grants and gifts, the disposal of property and equipment, additions to permanent endowments, and State match on endowments. The Statements of Revenues, Expenses, and Changes in Net Assets reflect an increase in the net assets of $25.1 million in fiscal year 2010, an increase of $40.1 million in fiscal year 2009 and a decrease of $39.6 million in fiscal year 2008.

Revenues

The following table summarizes operating and nonoperating revenues and other changes in net assets for the fiscal years ended June 30 (in millions):

	2010	2009	2008
Operating revenues:			
Student tuition and fees, net	$ 223.8	$ 215.6	$ 199.7
Grants and contracts	147.2	132.6	121.2
Sales and services of educational departments	15.2	17.2	15.3
Sales and services of auxiliary enterprises, net	161.8	149.5	133.5
Other sources	10.8	10.7	10.9
Total operating revenues	558.8	525.6	480.6
Nonoperating revenues:			
State appropriation	325.5	327.8	328.2
State debt service commitment for interest	38.5	37.8	39.5
Gifts	18.1	21.8	24.8
Investment income	1.3	4.3	10.4
Total nonoperating revenues	383.4	391.7	402.9
Other changes in net assets:			
State debt service commitment for principal	61.7	105.0	-
Capital appropriation	-	-	8.0
Capital grants and gifts	2.4	3.8	6.8
Additions to permanent endowments and State match to endowments	-	-	0.1
Total other changes in net assets	64.1	108.8	14.9
Total revenues	$ 1,006.3	$ 1,026.1	$ 898.4

Revenue highlights, for fiscal years 2010 and 2009 and comparison between fiscal years, including operating and nonoperating revenues and other changes in net assets, presented on the Statements of Revenues, Expenses, and Changes in Net Assets are as follows:

- Student tuition and fees, net of scholarship allowances, increased 3.8% in fiscal year 2010 (8.0% in fiscal year 2009) and 7.4% before scholarship allowances (9.0% in fiscal year 2009). The increase in fiscal year 2010 was due in part to a 0.6% (2.5% in fiscal year 2009) increase in undergraduate enrollment at the University and an increase of 5.87% (5.49% in fiscal year 2009) for undergraduate in-state tuition and mandatory fees charged, and 5.97% (5.5% in fiscal year 2009) for out-of-state tuition and mandatory fees.

- Total grants and contracts increased $14.6 million (11.0%) in fiscal year 2010 ($11.3 million or 9.3% in fiscal year 2009) as a result of higher than anticipated financial aid and an increase in federal grants, including funding from the Federal American Recovery and Reinvestment Act.

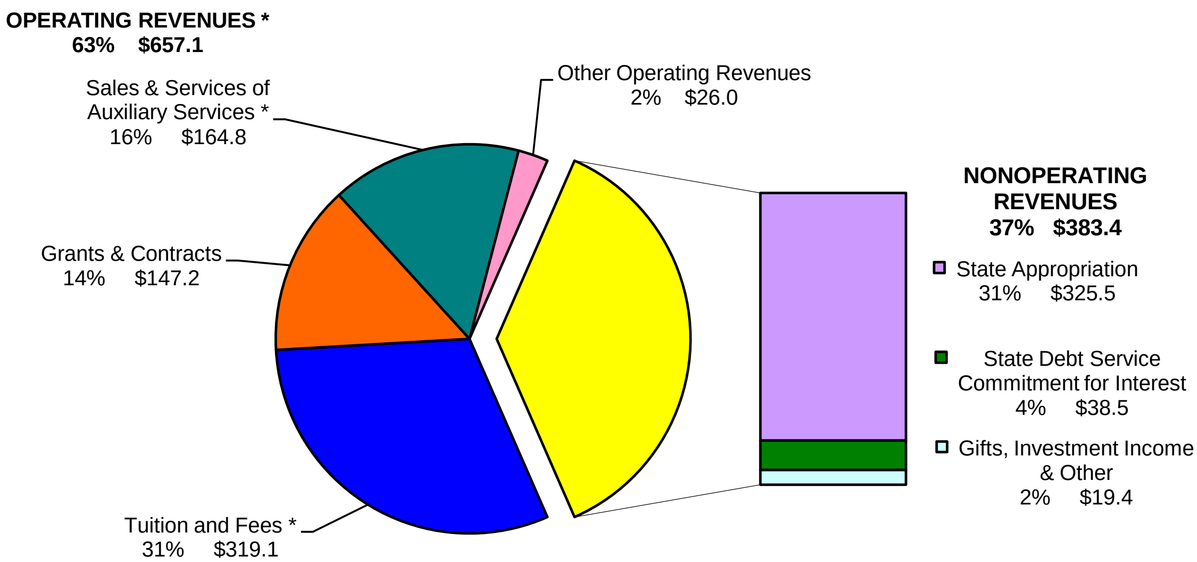
- Sales and services of auxiliary enterprises, net of scholarship allowances, increased approximately 8.2% and 12.0% during fiscal years 2010 and 2009, respectively. The increase in fiscal year 2010 resulted from an increase in fees charged for both room and board of 6.48% for undergraduate students and 8.61% for graduate students and an increase in room occupancy of 3.6% over fiscal year 2009. The increase in fiscal year 2009 resulted from an increase in fees charged for both room and board of 7.39% for undergraduate students and graduate students and an increase in room occupancy of 6.1% over fiscal year 2008.

- The largest source of revenue, State appropriation including fringe benefits, decreased $2.3 million and $0.4 million in fiscal years 2010 and 2009, respectively. 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 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 in other changes in net assets that totaled $61.7 million and $105.0 million in fiscal years 2010 and 2009, respectively.

- 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 $15.8 million in fiscal year 2010 compared to $19.4 million in fiscal year 2009. On a combined basis, both Foundations also paid approximately $3.0 million in fiscal year 2010 ($3.7 million in fiscal year 2009) to third parties on behalf of the University. This amount is not reflected in the University's financial statements. Total nonoperating gifts and capital gifts and grants revenue to the University from all sources amounted to $20.5 million and $25.6 million in fiscal years 2010 and 2009, respectively.

Revenues, excluding other changes in net assets, come from a variety of sources and are illustrated in the following graph:

REVENUES FOR FISCAL YEAR 2010 ($ in Millions)
Total: $1,040.5



* Shown here at gross amounts, not netted for student financial aid totaling $98.3 million.

Expenses

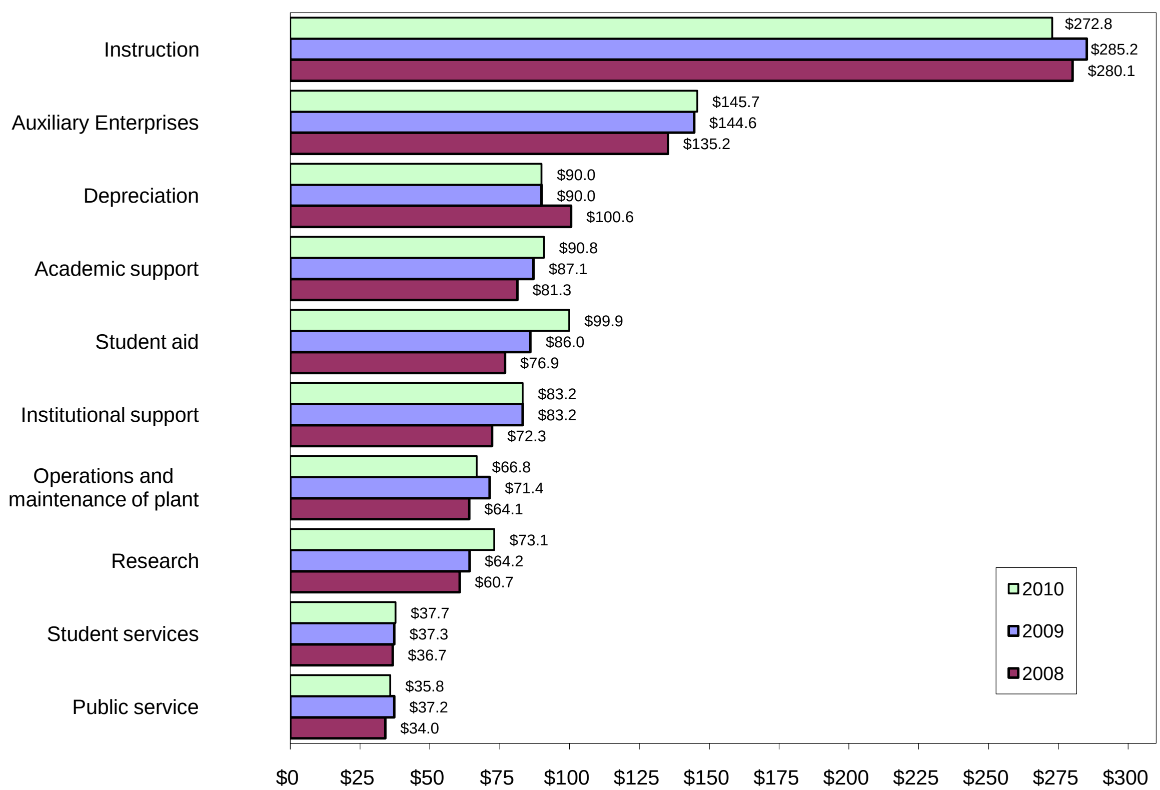
The following table summarizes operating and nonoperating expenses and other changes in net assets for the fiscal years ended June 30 (in millions):

	2010	2009*	2008*
Operating expenses:			
Instruction	$ 271.9	$ 284.1	$ 279.0
Research	72.3	64.0	60.3
Operations and maintenance of plant	66.8	71.4	64.1
Auxiliary enterprises	145.4	144.4	135.1
Depreciation and amortization	90.0	90.0	100.6
Other	275.6	278.4	243.8
Total operating expenses	922.0	932.3	882.9
Nonoperating expenses:			
Interest expense	48.6	48.9	51.2
Transfer of reserves to State General Fund	8.0	-	-
Other nonoperating expense, net	2.0	4.3	2.9
Total nonoperating expenses	58.6	53.2	54.1
Other changes in net assets:			
Disposal of property and equipment, net	0.7	0.4	0.9
Total other changes in net assets	0.7	0.4	0.9
Total expenses	$ 981.3	$ 985.9	$ 937.9

*As restated

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. The following chart depicts comparative functional expenditures of the University. It does not include other operating expenses:

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



Total operating expenses were $922.0 million and $932.3 million in fiscal years 2010 and 2009, respectively, netted for student financial aid totaling $98.3 million and $84.4 million, respectively. Natural or object classification includes salaries, fringe benefits, utilities, and supplies and other expenses (see Note 14 for operating expenses classified by object).

Highlights of expenses, including operating and nonoperating expenses and other changes in net assets, presented on the Statements of Revenues, Expenses, and Changes in Net Assets are as follows:

- Instruction, the University's largest operating expense, decreased $12.2 million (4.3%) in fiscal year 2010 primarily due to a decrease of approximately 59 full-time equivalent faculty and staff offset by a 4.8% increase in supplies, commodities and other expenditures. In fiscal year 2009, instruction increased $5.1 million (1.8%) primarily due to an increase of approximately 29 full-time equivalent faculty and staff, and an average compensation increase for the bargaining units of approximately 5% offset by a 6.0% decrease in supplies, commodities and other expenditures.

- In fiscal year 2010, research expenses increased $8.3 million or 12.9% ($3.7 million or 6.1% in fiscal year 2009). This is commensurate with an increase in fiscal years 2010 and 2009 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.

- Even with a decrease in fulltime equivalent staff of 2.5%, academic support increased $3.5 million in fiscal year 2010 (increase of $5.5 million in fiscal year 2009). This increase resulted from the timing of purchases for supplies, commodities and other expenditures, which included major periodicals and subscriptions.

- In fiscal year 2010, institutional support did not experience a significant change over fiscal year 2009. This is mainly due to a 2.4% decrease in full-time equivalent staff offset by an increase in contractual services for the replacement of the Foundation's donor database (see Note 12). In fiscal year 2009, institutional support experienced an increase of $10.9 million or 15.0%. This resulted from a 2.8% increase in the number of full-time equivalent staff and an average compensation increase for the bargaining units of approximately 5%.

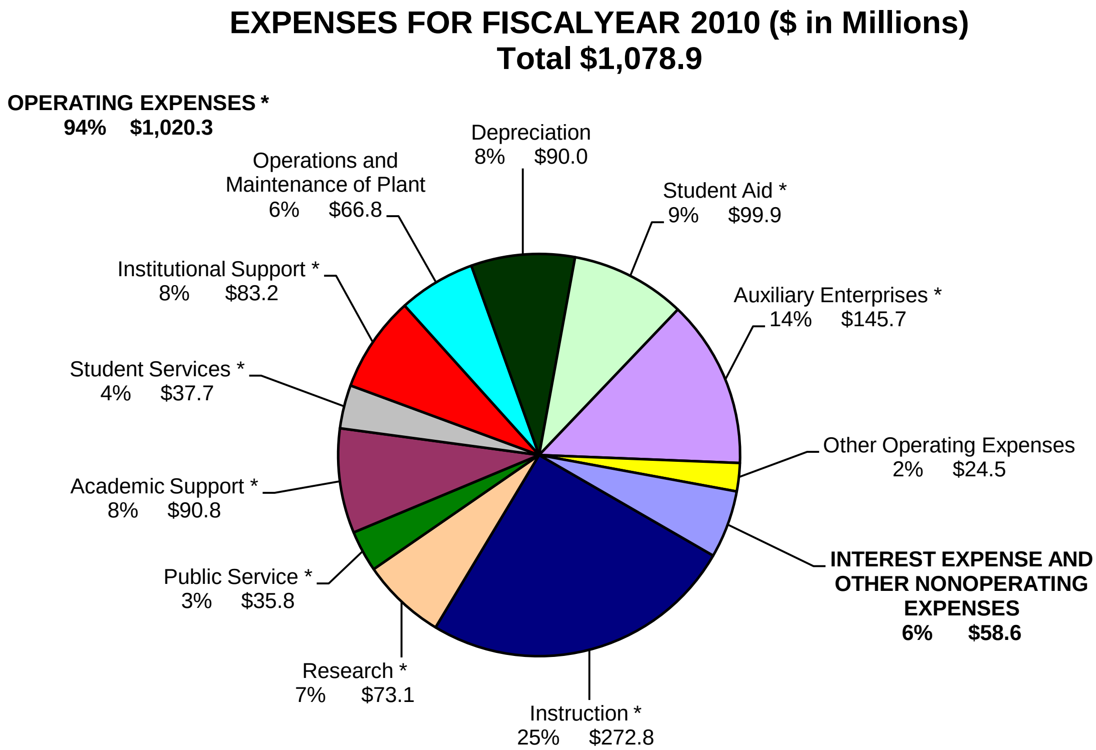
- Operations and maintenance of plant decreased $4.7 million or 6.6% in fiscal year 2010 as compared to a $7.3 million or 11.4% increase in fiscal year 2009. This is primarily attributed to a decrease in natural gas prices of approximately 12.4% in fiscal year 2010 versus an increase of 4.0% in fiscal year 2009. Furthermore, 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 years 2010 and 2009 experienced a 22.8% and 14.4% reduction, respectively, in electricity consumption (rates increased approximately 24.2% and 18.8%, including distribution and demand charges). Natural gas consumption, the primary energy source that fuels the cogeneration plant, also decreased 9.1% in fiscal year 2010 as compared to a 14.1% increase in fiscal year 2009.

- Fiscal year 2008 depreciation and amortization expense was higher than fiscal years 2009 and 2010 due to certain adjustments for property additions and changes in the capitalization policy in fiscal year 2008.

- Auxiliary enterprises expenditures increased $1.0 million or 0.7% in fiscal year 2010 (6.9% in fiscal year 2009), primarily due to certain contractual salary increases as well as a 5.3% increase in supplies, commodities, and other expenditures.

- In fiscal years 2010 and 2009, the University expensed $3.3 million and $16.5 million, respectively, in other operating expenses for a project to correct structural deficiencies related to the construction of the Law School Library building. These expenditures will not increase the value of the building or extend its useful life (see Note 4). Also, in fiscal year 2010, a total of $6.7 million was expensed ($8.7 million in fiscal year 2009) in other operating expenses for inspections, fire and safety code updates and other corrective action needed in order to achieve safety goals for all buildings. Furthermore, the University wrote-off costs of $5.2 million in fiscal year 2010 due to a software implementation project in which costs accumulated exceeded the value of the asset. Additional amounts in other operating expenses included costs not capitalized under University policy such as repairs, project management fees, capital project studies, and mold, lead and asbestos removal projects. These expenses totaled $8.4 million in fiscal year 2010 as compared to $4.9 million in fiscal year 2009.

The pie chart below illustrates operating expenses by function, not netted for financial aid, and also includes other operating expenses. 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 financial aid totaling $98.3 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 and amortization 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 appropriation, transfer of reserves to State General Fund, 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):

	2010	2009*	2008
Cash provided from operating activities	$ 561.2	$ 523.9	$ 466.8
Cash used in operating activities	(864.2)	(846.3)	(779.3)
Net cash used in operating activities	(303.0)	(322.4)	(312.5)
Net cash provided from noncapital financing activities	336.1	345.4	348.3
Net cash provided from (used in) capital financing activities	8.2	88.9	(90.0)
Net cash provided from (used in) investing activities	(16.0)	(89.5)	77.0
Net increase in cash and cash equivalents	$ 25.3	$ 22.4	$ 22.8

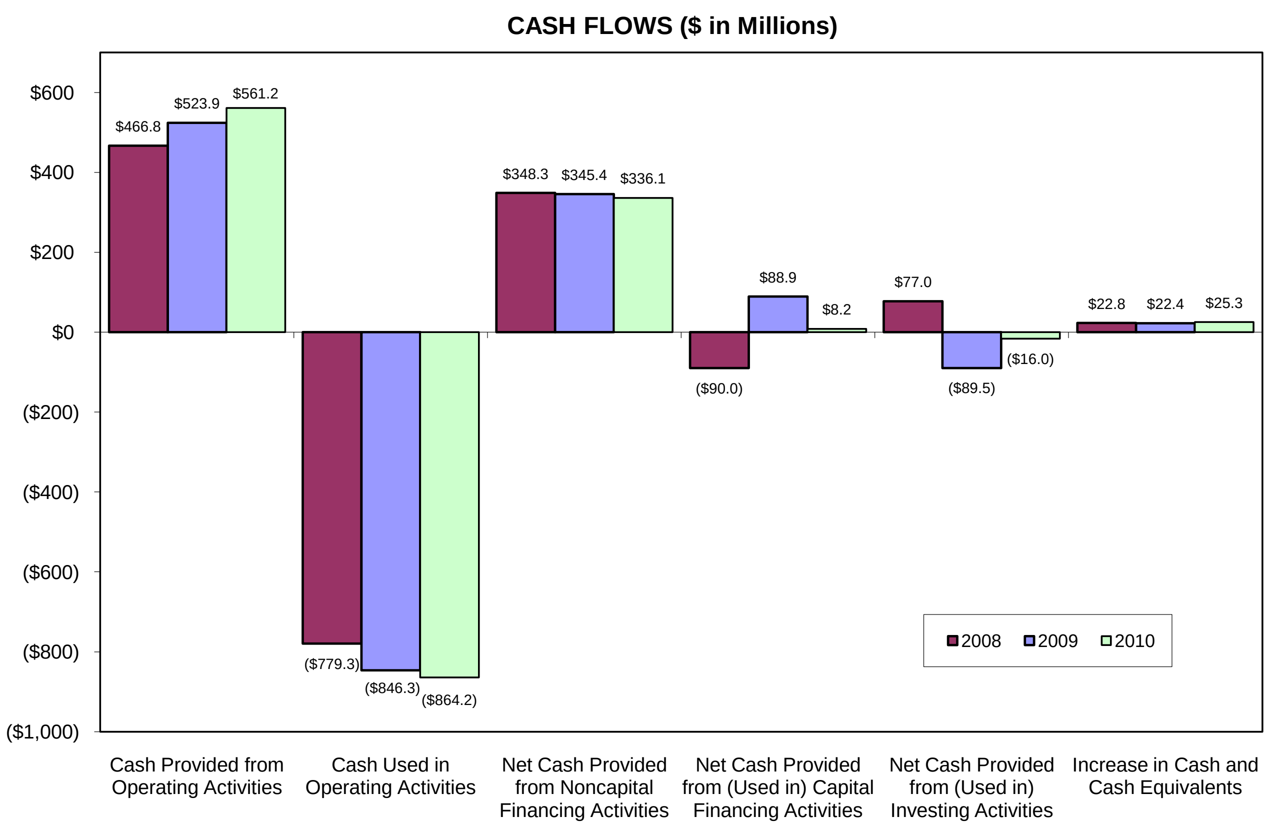
*As restated

Net cash used in operating activities was $303.0 million and $322.4 million in fiscal years 2010 and 2009, respectively, and is consistent with the operating loss discussed earlier after adding back depreciation and amortization, a noncash expense. GASB requires that cash flows from noncapital financing activities include State appropriation and noncapital gifts. Cash flows from these activities totaled $336.1 million in fiscal year 2010 ($345.4 million in fiscal year 2009), a $9.3 million decrease from fiscal year 2009 ($2.8 decrease from fiscal year 2008).

Cash flows provided from capital financing activities was $8.2 million in fiscal year 2010 and $88.9 million in fiscal year 2009. The major difference between fiscal years 2010 and 2009 is a decrease in proceeds from bonds of $45.0 million in fiscal year 2010 ($150.0 million increase in fiscal year 2009) and an increase in the amount of purchases of property and equipment of $24.7 million ($13.1 million decrease in 2009).

Net cash used in investing activities was $16.0 million in fiscal year 2010 and $89.5 million in fiscal year 2009. The major difference between fiscal years 2010 and 2009 is attributed to the decrease in bond proceeds that were received in fiscal year 2010 as compared to fiscal year 2009, which were invested in the deposit with bond trustee.

Total cash and cash equivalents increased $25.3 million and $22.4 million in fiscal years 2010 and 2009, respectively, as a result of these activities. The following bar graph shows the cash flows from and used by major categories and as described in the preceding paragraphs:



FINANCIAL STATEMENTS

UNIVERSITY OF CONNECTICUT
STATEMENTS OF NET ASSETS
As of June 30, 2010 and 2009

	2010	2009
ASSETS		**(Restated)**
Current Assets		
Cash and cash equivalents	$ 265,554,579	$ 240,211,599
Accounts receivable, net	30,257,906	28,359,703
Student loans receivable, net	2,268,868	2,573,325
Due from State of Connecticut	44,849,519	46,244,528
Due from related agencies	157,687	59,465
State debt service commitment	87,665,731	79,923,083
Inventories	3,343,263	3,078,130
Deposit with bond trustee	146,323,290	128,909,965
Deferred charges	957,455	1,014,731
Prepaid expenses	3,259,106	2,556,415
Total Current Assets	584,637,404	532,930,944
Noncurrent Assets		
Cash and cash equivalents	1,472,925	1,471,795
Investments	9,799,182	9,497,273
Student loans receivable, net	9,986,153	9,547,902
State debt service commitment	804,310,000	780,167,441
Property and equipment, net	1,397,529,232	1,412,580,658
Deferred charges	7,958,572	8,500,782
Total Noncurrent Assets	2,231,056,064	2,221,765,851
Total Assets	$ 2,815,693,468	$ 2,754,696,795
LIABILITIES		
Current Liabilities		
Accounts payable	$ 24,197,806	$ 21,091,031
Deferred income	27,189,085	19,411,476
Wages payable	50,118,035	52,718,457
Compensated absences	20,473,464	17,363,619
Due to State of Connecticut	17,795,768	19,441,793
Due to affiliate (see Note 5)	30,817,478	35,488,325
Current portion of long-term debt and bonds payable	84,486,321	75,053,811
Other current liabilities	35,084,685	34,077,858
Total Current Liabilities	290,162,642	274,646,370
Noncurrent Liabilities		
Compensated absences	10,713,625	9,087,379
Deposits held for others	2,419,847	3,221,648
Long-term debt and bonds payable	1,058,650,212	1,039,045,777
Refundable for federal loan program	9,419,941	9,450,638
Total Noncurrent Liabilities	1,081,203,625	1,060,805,442
Total Liabilities	$ 1,371,366,267	$ 1,335,451,812
NET ASSETS		
Invested in capital assets, net of related debt	$ 1,131,885,140	$ 1,143,425,785
Restricted nonexpendable	11,122,259	10,819,220
Restricted expendable		
Research, instruction, scholarships and other	15,748,406	15,146,605
Loans	3,944,573	3,758,595
Capital projects	110,838,274	88,449,046
Debt service	7,981,547	10,397,121
Unrestricted (see Note 15)	162,807,002	147,248,611
Total Net Assets	$ 1,444,327,201	$ 1,419,244,983

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, 2010 and 2009

	2010	2009 (Restated)
OPERATING REVENUES		
Student tuition and fees (Net of scholarship allowances of $95,347,872 for 2010 and $81,473,702 for 2009. See Note 1.)	$ 223,765,739	$ 215,641,536
Federal grants and contracts	110,021,873	92,375,974
State and local grants and contracts	26,086,262	27,853,272
Nongovernmental grants and contracts	11,075,416	12,347,917
Sales and services of educational departments	15,203,884	17,216,404
Sales and services of auxiliary enterprises (Net of scholarship allowances of $2,990,651 for 2010 and $2,947,782 for 2009. See Note 1.)	161,779,750	149,500,934
Other sources	10,854,684	10,681,689
Total Operating Revenues	558,787,608	525,617,726
OPERATING EXPENSES		
Educational and general		
Instruction	271,938,477	284,036,407
Research	72,285,788	64,028,438
Public service	35,623,219	36,997,632
Academic support	90,592,861	87,046,815
Student services	37,063,394	36,711,365
Institutional support	83,175,410	83,154,603
Operations and maintenance of plant	66,742,254	71,432,217
Depreciation and amortization	90,038,785	90,036,966
Student aid	4,637,480	3,917,207
Auxiliary enterprises	145,413,740	144,375,731
Other operating expenses	24,508,359	30,579,207
Total Operating Expenses	922,019,767	932,316,588
Operating Loss	(363,232,159)	(406,698,862)
NONOPERATING REVENUES (EXPENSES)		
State appropriation	325,461,758	327,751,422
State debt service commitment for interest	38,557,064	37,843,218
Transfer of reserves to State General Fund	(8,000,000)	-
Gifts	18,080,658	21,805,530
Investment income	1,313,379	4,267,674
Interest expense	(48,557,957)	(48,915,717)
Other nonoperating expenses, net	(1,956,883)	(4,247,111)
Net Nonoperating Revenues	324,898,019	338,505,016
Loss Before Other Changes in Net Assets	(38,334,140)	(68,193,846)
OTHER CHANGES IN NET ASSETS		
State debt service commitment for principal	61,714,293	104,910,000
Capital grants and gifts	2,396,433	3,813,671
Disposal of property and equipment, net	(727,240)	(438,433)
Additions to permanent endowments	32,872	19,703
Net Other Changes in Net Assets	63,416,358	108,304,941
Increase in Net Assets	25,082,218	40,111,095
NET ASSETS		
Net Assets-beginning of year, adjusted (see Note 16)	1,419,244,983	1,379,133,888
Net Assets-end of year	$ 1,444,327,201	$ 1,419,244,983

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

UNIVERSITY OF CONNECTICUT
STATEMENTS OF CASH FLOWS
For the Years Ended June 30, 2010 and 2009

	2010	2009 (Restated)
CASH FLOWS FROM OPERATING ACTIVITIES		
Student tuition and fees	$ 222,804,432	$ 211,124,206
Grants and contracts	146,815,832	131,954,380
Sales and services of auxiliary enterprises	163,182,468	148,826,102
Sales and services of educational departments	16,005,197	16,841,653
Payments to suppliers and others	(264,167,037)	(245,040,480)
Payments to employees	(442,591,404)	(450,102,952)
Payments for benefits	(155,494,380)	(149,393,011)
Loans issued to students	(1,918,289)	(1,756,703)
Collection of loans to students	1,784,495	1,539,729
Other receipts, net	10,605,579	13,613,254
Net Cash Used in Operating Activities	(302,973,107)	(322,393,822)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
State appropriation	326,640,604	322,996,059
Transfer of reserves to State General Fund	(8,000,000)	-
Gifts	17,665,607	22,989,941
Other nonoperating expenses, net	(196,073)	(535,366)
Net Cash Provided from Noncapital Financing Activities	336,110,138	345,450,634
CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES		
Proceeds from bonds	105,000,000	150,000,000
State debt service commitment	103,996,856	100,743,059
Purchases of property and equipment	(75,090,499)	(50,403,569)
Proceeds from sale of property and equipment	-	396,048
Principal paid on debt and bonds payable	(75,759,480)	(71,859,929)
Interest paid on debt and bonds payable	(51,158,957)	(49,733,299)
Capital appropriations	607,910	7,558,121
Capital grants and gifts	594,760	2,182,405
Net Cash Provided from Capital Financing Activities	8,190,590	88,882,836
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of investments, net	(52,151)	(36,942)
Interest on investments	1,481,965	5,164,818
Deposit with bond trustee	(17,413,325)	(94,626,298)
Net Cash Used in Investing Activities	(15,983,511)	(89,498,422)
INCREASE IN CASH AND CASH EQUIVALENTS	25,344,110	22,441,226
BEGINNING CASH AND CASH EQUIVALENTS	241,683,394	219,242,168
ENDING CASH AND CASH EQUIVALENTS	$ 267,027,504	$ 241,683,394
ACCOMPANYING SCHEDULE OF NON-CASH TRANSACTIONS		
Obligations under capital leases	$ -	$ 322,112

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

UNIVERSITY OF CONNECTICUT
STATEMENTS OF CASH FLOWS (Continued)
For the Years Ended June 30, 2010 and 2009

	2010	2009 (Restated)
RECONCILIATION OF OPERATING LOSS TO NET CASH USED IN OPERATING ACTIVITIES		
Operating Loss	$ (363,232,159)	$ (406,698,862)
Adjustments to Reconcile Operating Loss to Net Cash Used in Operating Activities:		
Depreciation and amortization expense	90,038,785	90,036,966
Property and equipment	28,243	4,332,444
Investments	-	(100,000)
Changes in Assets and Liabilities:		
Receivables, net	(1,630,675)	349,937
Inventories	(265,132)	(296,971)
Prepaid expenses	(702,691)	2,300,601
Accounts payable, wages payable and compensated absences	3,672,304	3,298,189
Deferred income	7,777,609	(2,284,155)
Deferred charges	48,656	1,425
Deposits	(801,802)	736,836
Due from State of Connecticut	(2,037,771)	1,867,129
Due to affiliate	(37,377,210)	(18,327,996)
Due from related agencies	(111,306)	(76,858)
Other liabilities	1,753,836	2,684,467
Loans to students	(133,794)	(216,974)
Net Cash Used in Operating Activities	$ (302,973,107)	$ (322,393,822)

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, 2010 and 2009

	2010	2009
ASSETS		
Current Assets		
Cash and cash equivalents	$ 966,227	$ 769,736
Pledges receivable, net of allowance	544,887	479,045
Other receivable	61,237	75,230
Prepaid expenses	32,251	20,122
Total Current Assets	1,604,602	1,344,133
Noncurrent Assets		
Pledges receivable, net of allowance	29,159	75,027
Investments	12,991,647	12,589,103
Property and equipment, net of accumulated depreciation of $109,064 for 2010 and $97,856 for 2009	20,703	26,412
Total Noncurrent Assets	$ 13,041,509	$ 12,690,542
Total Assets	$ 14,646,111	$ 14,034,675

	2010	2009
LIABILITIES AND NET ASSETS		
Current Liabilities		
Accounts payable	$ 10,248	$ 2,403
NET ASSETS		
Unrestricted	1,151,735	1,157,947
Temporarily restricted	1,458,878	1,141,320
Permanently restricted	12,025,250	11,733,005
Total Net Assets	14,635,863	14,032,272
Total Liabilities and Net Assets	$ 14,646,111	$ 14,034,675

STATEMENTS OF ACTIVITIES
For the Years Ended June 30, 2010 and 2009

	Unrestricted	Temporarily Restricted	Permanently Restricted	2010 Total	2009 Total
REVENUES AND SUPPORT					
Contributions and grants	$ 452,380	$ 202,035	$ 292,245	$ 946,660	$ 985,155
Interest and dividends	25,039	391,696	-	416,735	408,303
Net realized and unrealized gains (losses)	(22,643)	799,552	-	776,909	(2,634,222)
Net assets released from restrictions	1,075,725	(1,075,725)	-	-	-
Total Revenues and Support	1,530,501	317,558	292,245	2,140,304	(1,240,764)
EXPENSES					
Program Expenses					
Scholarships and awards	186,750	-	-	186,750	197,150
Student support and faculty support	644,740	-	-	644,740	476,622
Alumni and graduate relations	179,746	-	-	179,746	121,905
Total Program Expenses	1,011,236			1,011,236	795,677
Support Expenses					
Management and general	423,298	-	-	423,298	379,925
Fundraising	102,179	-	-	102,179	87,608
Total Support Expenses	525,477	-	-	525,477	467,533
Total Expenses	1,536,713	-	-	1,536,713	1,263,210
Changes in Net Assets	(6,212)	317,558	292,245	603,591	(2,503,974)
Net Assets-beginning of year	1,157,947	1,141,320	11,733,005	14,032,272	16,536,246
Net Assets-end of year	$ 1,151,735	$ 1,458,878	$ 12,025,250	$ 14,635,863	$ 14,032,272

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

NOTES TO FINANCIAL STATEMENTS

Notes to Financial Statements
For the Years Ended June 30, 2010 and 2009

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 appropriations from the State of Connecticut (State). 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, 2010 and 2009 represents the transactions and balances of the University of Connecticut (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) (see Note 12) 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 unit of the University.

The Foundation materially supports the mission of 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.

Financial Statement Presentation

The financial statements have been prepared using the economic resources measurement focus and the accrual basis of accounting 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 Statement 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 amortization, and reduced by outstanding principal balances of bonds (net of State debt service commitment) and notes that are attributable to the acquisition, construction, or improvement of those assets.

- **Restricted nonexpendable:** Represents endowment and similar type assets in which donors or outside sources have stipulated, as a condition of the gift instrument, that the principal is to be maintained inviolate and in perpetuity and invested for the purpose of producing present and future income, which may be expended or reinvested in principal.

- **Restricted expendable:** Net assets that are expendable but where the University is legally or contractually obligated to spend the resources in accordance with restrictions imposed by external third parties.

- **Unrestricted:** Consists of net assets that do not meet the definition of "restricted" or "invested in capital assets, net of related debt." These assets are not subject to externally imposed stipulations. These assets, while not restricted, are generally designated to support instruction, research, auxiliary enterprises, capital projects, and retirement of indebtedness (see Note 15).

The University follows the "business-type activities" (BTA) requirements of GASB Statement No. 35. BTAs are defined as those that are financed in whole or in part by fees charged to external parties for goods or services. In accordance with BTA reporting, the University presents Management's Discussion and Analysis; a Statement of Net Assets; a Statement of Revenues, Expenses, and Changes in Net Assets; a Statement of Cash Flows; and Notes to the Financial Statements. All significant intra-agency transactions have been eliminated.

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*, was 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*, is 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, 2010 in the Statements of Net Assets that includes a component that is related to a retirement incentive plan (see Note 7).

Effective for reporting periods beginning after December 15, 2006, GASB Statement No. 48, *Sales and Pledges of Receivables and Future Revenues and Intra-Entity Transfers of Assets and Future Revenues*, requires the University to disclose in the notes to the financial statements additional information about pledged revenues (see Note 5).

The University adopted GASB Statement No. 49, *Accounting and Financial Reporting for Pollution Remediation Obligations* as of July 1, 2007. This statement requires that outlays for pollution remediation obligations should be accrued as a liability and expensed if reasonably estimable, and disclosed in the notes to the financial statements (see Note 4).

GASB Statement No. 50, *Pension Disclosures*, was adopted by most universities as of July 1, 2007. This statement expands the footnote disclosures required for pension obligations in GASB Statement No. 27, *Accounting for Pensions by State and Local Governmental Employers*. The State is responsible for and separately funds the pension benefits of University employees. Therefore, no liability is recorded in the University's financial statements (see Note 6).

GASB Statement No. 51, *Accounting and Financial Reporting for Intangible Assets*, requires that certain intangible assets be classified as capital assets. The University had previously capitalized costs related to internally generated software according to the provisions of this statement. However, the Statement of Net Assets as of June 30, 2009 and the Statement of Revenues, Expenses, and Changes in Net Assets for the year ended June 30, 2009 have been restated in order to retroactively apply the provisions of this statement to also include purchased software which was previously expensed (see Note 16).

Certain reclassifications were made to the Statement of Cash Flows for the year ended June 30, 2009 to reflect changes in the classification of operating activities. These changes have no effect on net assets and ending cash balance for the year ended June 30, 2009.

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, *Deposits with Financial Institutions, Investments (including Repurchase Agreements), and Reverse Repurchase Agreements* and GASB Statement No. 40, *Deposit and Investment Risk Disclosures,* an amendment of GASB Statement No. 3. 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 those amounts restricted by creditors for certain debt service payments (see Note 5).

Accounts and Student Loans Receivable (see Note 3)
Accounts receivable consist of tuition, fees, auxiliary enterprises service fees charged to students, faculty, staff and others, and amounts due from state and federal governments for grants and contracts. Student loans receivable consist primarily of amounts due from students under the Federal Perkins Loan Program, which are subject to significant restrictions. The student loans receivable are classified as current and noncurrent based on the amount estimated to be collected from students in one year and beyond one year. Accounts and student loans 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 the debt service funds and cost of issuance for the special obligation bonds in dedicated Short Term Investment Fund accounts.

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 and the Special Obligation Student Fee Revenue Refunding Redemption Fund escrows 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.

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

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

Revenues and Expenses
Operating revenues consist of tuition and fees, state and federal grants and contracts, sales and services of educational activities, auxiliary enterprises revenue and other sources of revenue. GASB Statement No. 33, *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 and amortization and other operating expenses, are reported using functional classification, including those under educational and general and auxiliary enterprises. See Note 14 for operating expenses by object. All other revenues and expenses of the University are reported as nonoperating revenues and expenses including State appropriation and debt service commitment, noncapital gifts, investment income, and interest expense, and other changes in net assets. Revenues are recognized when earned and expenses are recognized when incurred.

GASB Statement 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.

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

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

Contributions, including unconditional promises to give, are recognized as revenue in the period received. Conditional promises to give are not recognized as revenue until the conditions on which they depend are substantially met. Investments are reported at fair value based upon quoted market prices. Certain amounts reported in 2009 have been reclassified in order to conform to the current year presentations.

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 $267,027,504 and $241,683,394 as of June 30, 2010 and 2009, respectively, and included the following:

	2010	2009
Cash maintained by State of Connecticut Treasurer	$ 243,342,403	$ 218,195,602
Invested in State of Connecticut Investment Pool	16,837,019	18,730,752
Invested in State of Connecticut Investment Pool - Endowments	1,472,925	1,471,795
Invested in Short-term Corporate Notes	4,998,896	2,772,576
Deposits with Financial Institutions and Other	376,261	512,669
Total cash and cash equivalents	267,027,504	241,683,394
Less: current balance	265,554,579	240,211,599
Total noncurrent balance	$ 1,472,925	$ 1,471,795

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 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 $16,837,019 and $1,472,925 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 AAAm during fiscal year 2010. The $4,998,896 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 statutes, as well as in accordance with the Foundation’s endowment spending policy described below.

The endowment spending policy adopted by the Foundation's Board of Directors, in conjunction with the strategic asset allocation policy for the long-term pooled investment portfolio, is designed to provide reliable growth in annual spending allocation levels and to preserve or increase the real value of the endowment principal over time. To meet these objectives, the Foundation utilizes a total return investment approach, with total return consisting of interest and dividends as well as realized and unrealized gains and losses.

Prior to Connecticut's adoption of the Uniform Prudent Management of Institutional Funds Act (UPMIFA), the Foundation's endowment spending allocation policy adhered to the predecessor Uniform Management of Institutional Funds Act (UMIFA) which restricted spending from an endowment fund if its fair value had fallen below its historic dollar value. UPMIFA considers prudence, maintaining an endowment fund in perpetuity and eliminates the historic dollar value concept. Therefore, spending can occur from an endowment fund whose fair value is below its historic value as long as the governing body has determined that its policies will continue the perpetual nature of the endowment over time. The Foundation amended its endowment spending allocation policy in February 2009 in recognition of the change in approach to spending under UPMIFA. Calculations are performed for individual endowment funds at a rate of 4.25% of the rolling 12 quarter average market value on a unitized basis on March 31st each year for the following fiscal year beginning July 1st. The corresponding calculated spending allocations are distributed in equal quarterly installments on the first day of each quarter from the accumulated net total investment return for individual endowment funds where available, otherwise from principal.

An administrative fee is assessed to fund expenses incurred in meeting the Foundation's fiduciary and fundraising responsibilities to donors and the University. This on-going administrative fee is also assessed based on a rolling 12 quarter unitized market value calculated on March 31st for the following fiscal year beginning July 1st at a rate of 1.25% to cover the estimated cost of meeting the fiduciary responsibilities associated with each endowment. The calculated fee is charged in equal quarterly installments on the first day of each quarter from the accumulated net total investment return for individual endowment funds where available, otherwise from principal.

The endowment spending allocation and administrative fee taken together cannot exceed 6.5% or fall below 3.0% of the fair value of endowment funds at March 31st. Should this occur, the calculated amounts will be decreased or increased, respectively, on a pro rata basis.

Over the long term, the Foundation expects the current spending allocation and administrative fee policies to allow endowments to grow an average of 3% annually. This is consistent with the organization's objective of providing resources for the underlying purposes of endowment assets over the life of the endowments whether in perpetuity or for a specified term, as well as to provide additional growth through new gifts and investment return.

The cost and fair value of the University's investments including those managed by the Foundation at June 30, 2010 and 2009 are:

	2010		**2009**	
	Cost	**Fair Value**	**Cost**	**Fair Value**
Endowments:				
Foundation Managed	$ 9,478,224	$ 9,649,334	$ 9,426,073	$ 9,347,425
Other:				
Campus Associates Limited Partnership Interest	149,848	149,848	149,848	149,848
Total Investments	$ 9,628,072	$ 9,799,182	$ 9,575,921	$ 9,497,273

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% for liquid assets and 5% for illiquid assets. 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 portfolios will be invested in only the strategies described in the table, not above or below the individual strategy percentage and its total percentage by objective, unless otherwise specified by its Board of Directors.

Investment Objective/Strategies	Allocation Range as Percentage of Market Value
Growth	
High yield fixed income	0% - 10%
Global equities – high beta	20% - 60%
Private capital	0% - 20%
Long/short equities	0% - 15%
Global macro strategies	0% - 10%
Event driven strategies (ex diversified)	0% - 10%
Real estate (public & private)	0% - 10%
Other opportunistic	0% - 10%
Total Growth	40% - 85%
Inflation Hedge	
TIPS	0% - 10%
Natural resources/commodities	0% - 15%
Other inflation hedging strategies	0% - 10%
Total Inflation Hedge	5% - 25%
Risk Minimizing	
Investment grade fixed income	0% - 20%
Relative value/Event driven (diversified)	0% - 15%
Cash equivalents	0% - 10%
Other low volatility strategies	0% - 10%
Total Risk Minimizing	5% - 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 Aa1/AA (Moody's and Standard and Poor's) and pooled investments of high yield fixed income had 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, 2010 and 2009 was $112,262 and $149,147, respectively. The money market balance held in the account available for WCM to use for purchases was $3,573 at June 30, 2010 and $2,397 at June 30, 2009. The University's endowment invested by the Foundation also has investments in foreign publicly traded equities totaling $1,310,717 and $861,556 and there are amounts included in private capital investments totaling approximately $1,425,167 and $1,194,641 at June 30, 2010 and 2009, respectively.

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 $10,918,043 and $10,260,341 as of June 30, 2010 and 2009, 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, 2010 and 2009 was $427,289 and $467,853, respectively.

3. ACCOUNTS AND STUDENT LOANS RECEIVABLE

Accounts receivable at June 30, 2010 and 2009 consisted of the following:

	2010	2009
Grants and contracts	$ 19,651,813	$ 16,864,814
Student and general	14,884,083	15,701,380
Investment income	155,803	311,304
Allowance for doubtful accounts	(4,433,793)	(4,517,795)
Total accounts receivable, net	$ 30,257,906	$ 28,359,703

Student loans receivable are substantially comprised of amounts owed from students under the Federal Perkins Loan Program and are reported separately from accounts receivable on the Statement of Net Assets, net of an allowance for doubtful accounts of $905,244 and $857,874 at June 30, 2010 and 2009, respectively.

4. PROPERTY AND EQUIPMENT

Land, buildings, non-structural improvements, 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. Any gains or losses on the exchange are recognized immediately.

Depreciation and amortization are 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 and amortization, is $78,510,571 and $77,947,457 at June 30, 2010 and 2009, respectively. Historical collections and art are recognized at their estimated fair values at the time of donation, and are not depreciated. Historical collections and art totaled $52,474,777 and $50,815,253 at June 30, 2010 and 2009, respectively. Capitalized software has an estimated life of 3 years to 5 years. The value of capitalized software, before depreciation and amortization, is $15,124,028 and $25,028,075 at June 30, 2010 and 2009, respectively. Library materials, historical collections and art, and capitalized software are all included in equipment in the schedule of Changes in Property and Equipment.

For the years ended June 30, 2010 and 2009, a total of $3,316,346 and $16,472,807, respectively, was expensed in the accompanying Statements of Revenues, Expenses, and Changes in Net Assets in other operating expenses for a project to correct structural deficiencies related to the construction of the Law School Library building. These expenditures will not increase the value of the building or extend its useful life. While the University intends to pursue remedies from the original construction and design professionals involved in the original construction of the building, the total amount that may be recovered is unknown as of the date of these financial statements.

In the accompanying Statements of Net Assets, an accrual for estimated expenditures totaling $340,182 and $499,541 at June 30, 2010 and 2009, respectively, is recorded in other current liabilities to complete a project to close and remediate an existing landfill. The project involves capping and diversion of water from its vicinity, and expenditures primarily include professional fees, preparation for capping, and contouring of surrounding land. The total project expenditures of $28,123,049 have been expensed in other operating expenses from fiscal year ending June 30, 2004 through fiscal year ending June 30, 2009.

For the year ended June 30, 2010, a total of $312,584 was expensed in the accompanying Statements of Revenues, Expenses, and Changes in Net Assets in other operating expenses for estimated outlays to remove contaminated soil from the old Waterbury campus according to the provisions of GASB Statement No. 49. At June 30, 2010 and 2009, an accrual for estimated costs to complete the remediation totaling $570,424 and $624,892, respectively, is recorded in other current liabilities in the Statement of Net Assets.

For the years ended June 30, 2010 and 2009, a total of $6,686,694 and $8,652,156, respectively, was expensed in the accompanying Statements of Revenues, Expenses, and Changes in Net Assets in other operating expenses for inspections, fire and safety code updates and other corrective action needed in order to achieve safety goals for all buildings. At June 30, 2010 and 2009, an accrual for estimated expenditures to complete these projects totaling $18,131,152 and $15,492,877, respectively, is recorded in other current liabilities in the Statement of Net Assets. While the University intends to pursue the recovery of costs related to the code updates and corrective work, the total amount to be recovered is unknown as of the date of these financial statements.

For the year ended June 30, 2010, a total of $5,200,988 was expensed in other operating expenses in the accompanying Statements of Revenues, Expenses, and Changes in Net Assets for costs related to the implementation of certain software. The amount written-off represents costs accumulated that were determined to exceed the value of the implementation project to date.

In the following table, adjustments were made to the balances as of July 1, 2008, and to the changes in Property and Equipment for the year ended June 30, 2009 as a result of the retroactive application of GASB Statement No. 51 requirements to capitalize certain intangible assets (see Note 16).

The following table describes the changes in property and equipment for the years ended June 30, 2010 and 2009.

Changes in Property and Equipment for the Year Ended June 30, 2010:

	Balance July 1, 2009	Additions	Retirements	Transfers and Other	Balance June 30, 2010
Property and equipment:					
Land	$ 14,826,476	$ -	$ -	$ -	$ 14,826,476
Non-structural improvements	193,757,185	1,598,393	(412,431)	1,339,096	196,282,243
Buildings	1,590,324,316	23,302,485	-	4,990,811	1,618,617,612
Equipment	428,019,393	22,338,509	(21,622,286)	-	428,735,616
Construction in progress	23,184,870	28,475,212	-	(6,329,907)	45,330,175
Total property and equipment	2,250,112,240	75,714,599	(22,034,717)	-	2,303,792,122
Less accumulated depreciation and amortization:					
Non-structural improvements	83,910,632	7,937,673	(43,549)	-	91,804,756
Buildings	509,882,449	55,432,344	-	-	565,314,793
Equipment	243,738,501	26,668,768	(21,263,928)	-	249,143,341
Total accumulated depreciation and amortization	837,531,582	90,038,785	(21,307,477)	-	906,262,890
Property and equipment, net:					
Land	14,826,476	-	-	-	14,826,476
Non-structural improvements	109,846,553	(6,339,280)	(368,882)	1,339,096	104,477,487
Buildings	1,080,441,867	(32,129,859)	-	4,990,811	1,053,302,819
Equipment	184,280,892	(4,330,259)	(358,358)	-	179,592,275
Construction in progress	23,184,870	28,475,212	-	(6,329,907)	45,330,175
Property and equipment, net:	$ 1,412,580,658	$ (14,324,186)	$ (727,240)	$ -	$ 1,397,529,232

Changes in Property and Equipment for the Year Ended June 30, 2009 (Restated):

	Balance July 1, 2008	Additions	Retirements	Transfers and Other	Balance June 30, 2009
Property and equipment:					
Land	$ 14,826,476	$ -	$ -	$ -	$ 14,826,476
Non-structural improvements	188,051,215	4,896,762	-	809,208	193,757,185
Buildings	1,571,665,366	10,219,659	(49,437)	8,488,728	1,590,324,316
Equipment	440,980,723	19,430,871	(32,392,201)	-	428,019,393
Construction in progress	23,758,837	8,723,969	-	(9,297,936)	23,184,870
Total property and equipment	2,239,282,617	43,271,261	(32,441,638)	-	2,250,112,240
Less accumulated depreciation and amortization:					
Non-structural improvements	75,863,612	8,047,020	-	-	83,910,632
Buildings	453,206,775	56,705,976	(30,302)	-	509,882,449
Equipment	250,031,386	25,283,970	(31,576,855)	-	243,738,501
Total accumulated depreciation and amortization	779,101,773	90,036,966	(31,607,157)	-	837,531,582
Property and equipment, net:					
Land	14,826,476	-	-	-	14,826,476
Non-structural improvements	112,187,603	(3,150,258)	-	809,208	109,846,553
Buildings	1,118,458,591	(46,486,317)	(19,135)	8,488,728	1,080,441,867
Equipment	190,949,337	(5,853,099)	(815,346)	-	184,280,892
Construction in progress	23,758,837	8,723,969	-	(9,297,936)	23,184,870
Property and equipment, net:	$ 1,460,180,844	$ (46,765,705)	$ (834,481)	$ -	$ 1,412,580,658

5. LONG-TERM DEBT PAYABLE

Public Act No. 95-230 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. It 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.

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), also known as Phase III. This Act amended Public Act No. 95-230 and 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 in fiscal year 2008, extending it an additional year to June 30, 2016, without any change in the total amount. In fiscal year 2010, the Act was amended again including a $25 million reallocation from existing UCONN 2000 Health Center allocations, and a $207 million increase in UCONN 2000 debt service commitment authorizations for the UConn Health Network. This also extended the UCONN 2000 program two additional years to fiscal year 2018. The new Act, as amended, authorized additional projects for the University and the Health Center at an estimated cost of $1,555,400,000, of which $1,507,000,000 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 $512,400,000 for the Health Center and $1,043,000,000 for the University. The total estimated cost for the UCONN 2000 program, including Phases I, II and III, is $2,805,400,000.

General obligation bonds issued to finance UCONN 2000 projects as of June 30, 2010 are (see subsequent schedule on page 37 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
2009 Series A	144,855,000
2010 Series A	97,115,000
Total issued	$1,419,062,147

The University has also issued several series of general obligation refunding bonds, providing debt service savings for bonds refunded in advance of maturity. Sufficient proceeds were deposited into irrevocable escrow accounts held by the Trustee Bank to meet all obligations on the refunded debt (see Note 1). 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.

For the 2010 and 2009 Series A bonds, the principal amounts of $97,115,000 and $144,855,000, recorded as State debt service commitment for principal, together with part of the respective original issue premium, resulted in total proceeds of $105,000,000 and $150,000,000. The proceeds included $35,610,000 and $39,945,000 to finance projects for the Health Center for fiscal years 2010 and 2009 respectively. 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 years 2010 and 2009, this offset to finance projects for the Health Center, resulted in net revenue of $61,714,293 and $104,910,000, respectively, recorded in the Other Changes in Net Assets section of the Statements of Revenues, Expenses, and Changes in Net Assets of these financial statements. The net revenue amount for the year ended June 30, 2010 also includes offsets for debt differences resulting from the 2010 Series A refunding. A corresponding liability is recorded in due to affiliate in the Statement of Net Assets for the unspent portion of the bonds due to the Health Center ($30,817,478 and $35,488,325 at June 30, 2010 and 2009, respectively). Also, for the years ended June 30, 2010 and 2009, nonoperating revenues include State debt service commitment for interest on general obligation bonds of $38,557,064 and $37,843,218, respectively. A portion of interest on general obligation bonds is associated with Health Center projects.

In addition to the 2010 Series A bonds, in May of 2010 the University issued the 2010 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 $36,095,000 and these bonds have a final maturity date of February 2021. Proceeds from the sale of the bonds totaled $38,704,429 and comprised the face value plus the net premium, less the costs of issuance. The proceeds were deposited with the Escrow Agent and are 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. This 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 addition of the face value of the bonds in the amount of $210,000 is reflected as revenue in fiscal year 2010 (net of the $97,115,000 revenue as 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 2010 refunding:

1999 Series A	$ 9,000,000
2001 Series A	10,970,000
2003 Series A	6,885,000
2004 Series A	9,030,000
Total defeased debt	35,885,000
Total refunding bonds	36,095,000
Increase in bonds as a result of refunding	$ 210,000

The University may also issue special obligation bonds backed by certain pledged revenues of the University. On February 4, 1998, the University issued $33,560,000 of the Student Fee Revenue Bonds 1998 Series A to fund $30,000,000 of the South Campus Project. 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 1998 Series A and a portion of the 2002 Series A Bonds were refunded in advance of maturity in fiscal year 2010 with the issuance of Student Fee Revenue Bonds 2010 Refunding Series A on June 16, 2010 in the amount of $47,545,000 and 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.

Similar to general obligation bond refundings, the proceeds from student fee revenue bonds refundings are deposited into certain escrow accounts to meet all obligations of the refunded maturities.

The State 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.

The special obligation bonds are secured by certain pledged revenues, as defined in the indenture, including gross and net revenue amounts. The total gross and net pledged revenues from tuition and fees, auxiliary, investment and other revenues of the University are approximately $71,152,000 and $59,247,000 in fiscal years 2010 and 2009, respectively. 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. Special obligation bond investment earnings amounted to approximately $9,262 and $42,000 for the fiscal years ending June 30, 2010 and 2009, respectively. These investment earnings are part of the pledged revenues and are directly retained by the Trustee Bank to pay debt service on the special obligation bonds. In addition to securing revenue bonds, the gross and net pledged revenues available are pledged toward certain other 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 no less than 1.25 times the debt service requirements in such fiscal year for the special obligation bonds.

As of June 30, 2010 and 2009, the total principal and interest remaining to be paid on all special obligation bonds are $256,813,906 and $279,505,200, respectively. The total amount paid by pledged revenues for this debt for principal were $4,695,000 and $4,500,000, and for interest were $8,516,366 and $8,708,951 at June 30, 2010 and 2009, 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. With the amendment, monthly payments of $471,254 increased to $517,135. Payments began January 2006 and the lease matures 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. Amounts advanced by the lessor include capitalized interest during construction, and are 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.

During fiscal year 2009, the University purchased a unit in Campus Associates Limited Partnership for $49,848. The related loan is included in long-term debt in the accompanying financial statements.

Net unamortized premium, discounts and debt differences 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, 2010 and 2009 was as follows:

Long-term Debt Activity for the Year Ended June 30, 2010:

	Balance July 1, 2009	Additions	Retirements	Balance June 30, 2010	Current Portion
General Obligation Bonds	$ 844,944,715	$ 133,210,000	$ (100,662,274)	$ 877,492,441	$ 73,182,441
Revenue Bonds	172,830,000	47,545,000	(56,000,000)	164,375,000	5,085,000
Self Liquidating Bonds	4,785,684	-	(993,466)	3,792,218	839,778
Installment Loans	379,267	-	(138,180)	241,087	90,760
Obligation Under Capital Lease for Cogeneration	72,297,889	-	(3,030,571)	69,267,318	3,168,975
Campus Associates Limited Partnership Loan	37,348	-	(24,894)	12,454	12,454
Total long-term debt	1,095,274,903	180,755,000	(160,849,385)	1,115,180,518	82,379,408
Premiums/discounts/debt difference due to refunding	18,824,685	11,085,934	(1,954,604)	27,956,015	2,106,913
Total long-term debt, net	$1,114,099,588	$ 191,840,934	$ (162,803,989)	$1,143,136,533	$ 84,486,321

Long-term Debt Activity for the Year Ended June 30, 2009:

	Balance July 1, 2008	Additions	Retirements	Balance June 30, 2009	Current Portion
General Obligation Bonds	$ 763,413,355	$ 144,855,000	$ (63,323,640)	$ 844,944,715	$ 64,777,274
Revenue Bonds	177,330,000	-	(4,500,000)	172,830,000	4,695,000
Self Liquidating Bonds	5,808,324	32,484	(1,055,124)	4,785,684	993,466
Installment Loans	177,491	322,112	(120,336)	379,267	63,719
Obligation Under Capital Lease for Cogeneration	75,196,110	-	(2,898,221)	72,297,889	3,030,571
Campus Associates Limited Partnership Loan	-	49,848	(12,500)	37,348	24,894
Total long-term debt	1,021,925,280	145,259,444	(71,909,821)	1,095,274,903	73,584,924
Premiums/discounts/debt difference due to refunding	13,726,563	6,312,563	(1,214,441)	18,824,685	1,468,887
Total long-term debt, net	$ 1,035,651,843	$ 151,572,007	$ (73,124,262)	$1,114,099,588	$ 75,053,811

Long-term debt outstanding at June 30, 2010 and 2009 consisted of the following:

Type of Debt and Issue Date	Type of Issue	Principal Payable	Maturity Dates Through Fiscal Year	Interest Rate	Balance 2010	Balance 2009
Bonds:						
GO 1996 Series A	original	various	2011	5.1%	$ 2,122,441	$ 4,369,715
GO 1999 Series A	original	annually	2010	4.3%	-	13,000,000
GO 2000 Series A	original	annually	2010	5.0%	-	6,550,000
GO 2001 Series A	original	annually	2011	4.0%	4,960,000	20,675,000
GO 2002 Series A	original	annually	2012	4.3-4.464%	10,000,000	15,000,000
GO 2003 Series A	original	annually	2023	3.2-4.4%	25,595,000	37,205,000
GO 2004 Series A	original	annually	2024	3.0-5.0%	59,445,000	73,370,000
GO 2004 Ref. Series A	refund	annually	2020	3.9-5.0%	191,840,000	203,080,000
GO 2005 Series A	original	annually	2025	3.375-3.7%	71,970,000	76,870,000
GO 2006 Series A	original	annually	2026	3.45-5.0%	61,710,000	65,570,000
GO 2006 Ref. Series A	refund	various	2020	4.75-5.0%	59,555,000	59,555,000
GO 2007 Series A	original	annually	2027	3.6-5.0%	73,545,000	78,815,000
GO 2007 Ref. Series A	refund	various	2022	5.0%	46,030,000	46,030,000
GO 2009 Series A	original	annually	2029	2.0-5.0%	137,510,000	144,855,000
GO 2010 Series A	original	annually	2030	2.0-5.0%	97,115,000	-
GO 2010 Ref. Series A	refund	annually	2021	2.0-5.0%	36,095,000	-
Total General Obligation Bonds					877,492,441	844,944,715
Rev 1998 Series A	original	annually	2010	4.3%	-	26,010,000
Rev 2002 Series A	original	various	2030	4.125-5.219%	36,325,000	64,305,000
Rev 2002 Ref. Series A	refund	annually	2030	4.0-5.25%	80,505,000	82,515,000
Rev 2010 Ref. Series A	refund	annually	2028	2.0-5.0%	47,545,000	-
Total Revenue Bonds					164,375,000	172,830,000
March 1993	original	annually	2012	5.5%	130,000	195,000
October 1993	refund	various	2012	6.0%	205,690	205,690
March 1994	original	annually	2010	5.5%	-	76
June 2001	refund	annually	2016	4.4 -5.5%	453,220	633,610
November 2001	refund	various	2014	3.7-5.13%	1,174,156	1,174,156
June 2002	refund	annually	2010	5.0 -5.5%	-	296,248
August 2002	refund	various	2016	3.5-5.5%	551,867	551,867
December 2003	refund	annually	2011	5.0%	208,914	420,003
April 2005	refund	various	2017	4.38-5.25%	274,800	274,800
December 2007	refund	various	2015	3.5-5.0%	793,571	1,001,750
March 2009	refund	annually	2010	2.0%	-	32,484
Total Self Liquidating Bonds					3,792,218	4,785,684
Total Bonds					1,045,659,659	1,022,560,399
Loans and other debt:						
Installment Loans		various	various	1.0-5.60%	241,087	379,267
Obligation Under Capital Lease for Cogeneration		monthly	2026	4.42-5.09%	69,267,318	72,297,889
Campus Associates Limited Partnership Loan		semi-annually	2011	0.75%	12,454	37,348
Total loans and other					69,520,859	72,714,504
Total bonds, loans and installment purchases					1,115,180,518	1,095,274,903
Premiums/discounts/debt difference due to refunding					27,956,015	18,824,685
Total bonds, loans and installment purchases, net					1,143,136,533	1,114,099,588
Less: current portion, net					84,486,321	75,053,811
Total noncurrent portion, net					$1,058,650,212	$ 1,039,045,777

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
2011	$ 73,182,441	$ 40,347,835	$ 113,530,276	$ 9,196,967	$ 10,811,843	$ 20,008,810	$ 82,379,408	$ 51,159,678	$ 133,539,086
2012	69,295,000	37,014,293	106,309,293	9,304,408	10,585,885	19,890,293	78,599,408	47,600,178	126,199,586
2013	65,765,000	34,125,220	99,890,220	9,787,556	10,153,142	19,940,698	75,552,556	44,278,362	119,830,918
2014	68,945,000	31,006,219	99,951,219	10,075,711	9,727,595	19,803,306	79,020,711	40,733,814	119,754,525
2015	68,785,000	27,975,006	96,760,006	10,505,249	9,250,200	19,755,449	79,290,249	37,225,206	116,515,455
2016-2020	292,305,000	94,353,954	386,658,954	58,635,803	38,439,988	97,075,791	350,940,803	132,793,942	483,734,745
2021-2025	173,775,000	36,961,803	210,736,803	72,509,711	23,564,201	96,073,912	246,284,711	60,526,004	306,810,715
2026-2030	65,440,000	7,700,163	73,140,163	57,672,672	7,438,560	65,111,232	123,112,672	15,138,723	138,251,395
Total	$877,492,441	$309,484,493	$1,186,976,934	$237,688,077	$119,971,414	$357,659,491	$1,115,180,518	$429,455,907	$1,544,636,425

6. RETIREMENT PLAN

All eligible employees participate in essentially one of two retirement plans. The State Employees' Retirement System (SERS), a single-employer defined-benefit pension plan, is administered by the State and covers approximately 40% of the University’s eligible employees. Plan benefits and contribution requirements of plan members and the University are described in Section 5-152 to 5-192 of the General Statutes. The State is statutorily responsible for the pension benefits of University employees who participate in this plan. The University also sponsors the Alternative Retirement Plan (ARP) for unclassified eligible employees, a defined contribution plan administered through a third-party administrator, ING Life Insurance and Annuity Company. Plan provisions, including contribution requirements of plan members and the University, are described in Section 5-156 of the General Statutes. The University makes contributions on behalf of the employees for both plans, through a fringe benefit charge assessed by the State.

In an agreement signed by the State and the State Employees Bargaining Agent Coalition (SEBAC) on September 22, 2010, employees enrolled in ARP have the one-time opportunity to make their irrevocable choice to either remain in ARP or transfer to SERS by May 31, 2011. The University employs approximately 2,600 individuals eligible for the conversion. If eligible individuals choose to convert to SERS, fringe benefit costs for these individuals would increase by approximately 30 percentage points. It is unclear at this time what the financial impact on the University will be, if any.

Employees previously qualified for the Teachers’ Retirement System (TRS) continue coverage during employment with the University, and do not participate in the above mentioned retirement plans. TRS is a single-employer defined-benefit plan covering any teacher, principal, superintendent, or supervisor engaged in service of public schools in the State. Plan benefits and required contributions of plan members and the University, are described in Section 10-183b to 10-183pp of the General Statutes.

With respect to the University’s Department of Dining Services (DDS), of its approximately 578 full-time employees, 82 participate in either the State Employees’ Retirement System or ARP, while 496 are eligible to participate in two other retirement plans: the Department of Dining Services Money Purchase Pension Plan (MPPP) or the University of Connecticut Department of Dining Services 403(b) Retirement Plan. Under the provisions of MPPP, the University DDS is required to contribute 6% or 7% of employee’s covered compensation for eligible employees and its employees do not make any contributions to the Plan. The MPPP is a defined contribution plan administrated through a third-party administrator, Pension Consultants, Inc. On behalf of MPPP participants, the University DDS contributed $561,182 and $553,355 to the plan for the years ended June 30, 2010 and 2009, respectively.

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. 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, holiday, compensatory and sick leave balances for employees. As of June 30, 2010 and 2009 compensated absences totaled $31,187,089 and $26,450,998, respectively. During fiscal year 2009, the State offered a Retirement Incentive Plan (RIP) to University employees. According to the terms of the RIP, unused vacation and sick leave will be paid in three equal payments on July 1 of each year, beginning July 1, 2012. Included in the noncurrent compensated absences liability as of June 30, 2010 and 2009, are $2,458,897 and $2,081,822, respectively, for accrued vacation and sick leave for University employees that participated in RIP.

Wages payable includes salaries and wages for amounts owed at the fiscal year end June 30th. The State 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 as of June 30th.

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 may pay up to 100% of their health care insurance premium cost (including dependents' coverage) based on the plan chosen by the employee. 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 the 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, 2010, the University had outstanding commitments exceeding $500,000 each, totaling $56,533,027, which included $52,252,248 of commitments related to capital projects. Of this amount, commitments totaling $13,184,250 related to UCONN 2000 capital projects that are administered by the University for the Health Center. The commitments on behalf of the Health Center are included in the Due to Affiliate (see Note 5). A portion of the total amount of outstanding commitments was also included in accounts payable on the Statement of Net Assets as of June 30, 2010. In addition to the amount for capital outlay, commitments were also related to research, academic, and institutional support. Of these commitments, the University expects approximately $2,206,132 to be reimbursed by federal grants.

The University leases equipment and building space which expire at various dates. Future minimum rental payments at June 30, 2010 under non-cancelable operating leases that exceed $500,000 each are as follows:

Fiscal Year	Payments
2011	$ 775,107
2012	781,620
2013	781,620
2014	781,620
2015	853,269
Thereafter	931,431
Total	$ 4,904,667

Expenses related to operating lease commitments in excess of $500,000 each were approximately $665,000 and $798,000 for the years ended June 30, 2010 and 2009, respectively.

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; and other revenues received but not earned. As of June 30, 2010 and 2009 deferred income is as follows:

	2010	2009
Certain restricted research grants	$ 10,236,454	$ 8,728,099
Tuition and fees and auxiliary enterprises	11,376,869	6,633,967
Athletic ticket sales and commitments	3,650,687	3,116,151
Other	1,925,075	933,259
Total deferred income	$ 27,189,085	$ 19,411,476

A portion of current deferred charges totaling $828,362 and $836,982 and noncurrent deferred charges totaling $7,958,572 and $8,500,782 at June 30, 2010 and 2009, 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. The University has included the portion of waived tuition related to employees and their dependents as a fringe benefit cost and the same amount as tuition revenue in the Statements of Revenues, Expenses and Changes in Net Assets. This increases tuition and fee revenues and operating expenses by $4,290,475 for the year ended June 30, 2010, and $3,971,970 for the year ended June 30, 2009. Waivers not reflected in the accompanying financial statements totaled $40,891,066 and $41,344,583 in fiscal years 2010 and 2009, respectively. Of such waivers, approximately 93% and 91% were provided to graduate assistants in fiscal years 2010 and 2009, respectively.

12. RELATED PARTY TRANSACTIONS

The Foundation is a tax-exempt organization supporting the University and the Health Center (see Note 1). The University has entered into a written agreement with the Foundation whereby the University agreed to reimburse the Foundation for certain administrative services and operating expenses and the Foundation agreed to reimburse the University for certain personal services performed. The following transactions occurred between the University and the Foundation as of and for the years ended June 30, 2010 and 2009:

	2010	2009
Amount paid to the Foundation for its guaranteed contractual services	$ 7,554,000	$ 7,582,000
Reimbursements from the Foundation for personal services and operating expenses	$ 536,349	$ 671,925
Capital and noncapital gifts and grants received from the Foundation	$ 15,302,673	$ 19,050,811
Amount receivable from the Foundation	$ 1,436,025	$ 4,543,300

In June 2010, the University also agreed to fund an additional $2,500,000 to the Foundation for the implementation of a full replacement and conversion of its prospect and donor database to a high-tech database system (Enhanced System). The Foundation's Enhanced System is anticipated to significantly improve the Foundation's fundraising capacity and is expected to be completed and fully operational by the end of fiscal year 2013.

The State supports the University's mission primarily via two mechanisms: State appropriations and the provision of payments for fringe benefits. State appropriation represents amounts appropriated to the University from the State's

General Fund. Payments for fringe benefits were made by the State for reimbursements related to salaries expensed from the General Fund. The transactions for the years ended June 30, 2010 and 2009 were as follows:

	2010	2009
Amount of General Fund appropriations received from the State	$233,011,263	$234,057,728
Amount of payments for fringe benefits received from the State	93,629,340	88,938,332
Increase (decrease) of General Fund payroll included in receivable from the State	(1,178,845)	4,755,362
Total appropriations and payments for fringe benefits from the State	$325,461,758	$327,751,422

Under legislation enacted during fiscal year 2010, the State implemented a mitigation plan for its current deficit. The State's deficit mitigation plan resulted in a transfer of $8,000,000 from the University's unrestricted funds to the State's General Fund, and also mandated an additional transfer of $15,000,000 in fiscal year 2011.

The Office of Technology Commercialization (OTC) is a university-wide function consisting of the following divisions: the Center for Science and Technology Commercialization, the Research and Development Corporation, and the Technology Incubation Program. The funding for these divisions is consolidated into the Health Center's budget, a part of which is reimbursed by the University in accordance with an annual memorandum of agreement for the transfer of funds, and includes certain cost share arrangements with the Health Center for shared services such as senior management salaries. The aggregate total contributed by the University to fund the OTC in fiscal year 2010 was $960,666 which includes $423,225 of expenses paid by the University associated with OTC functions based on the Storrs campus. The amount contributed by the University to fund the OTC in fiscal year 2009 was $1,087,933.

The University and the University of Connecticut Alumni Association (Association), a Connecticut non-stock corporation that is exempt from taxation under section 501(c)(3) of the Internal Revenue Code have an agreement that recognizes the benefits of a coordinated approach to alumni relationship building and defines the responsibilities of the parties. During the years ended June 30, 2010 and 2009, the University directed support to the Association in the amount of $693,705 and $694,187, respectively. The amounts supported by the University consist primarily of payroll and other operating expenses which facilitate the alumni programs and services for the benefit of the University.

The University entered into a land lease with Campus Associates Limited Partnership on February 1, 2000. The limited partnership was formed for the purpose of managing the Nathan Hale Inn, a hotel located on campus. The lease will continue for a term of fifty years and provides for base rents of $5,000 for the first five years and $25,000 for the sixth year. For the seventh year and every year thereafter, base rent will be adjusted by the increase in the Consumer Price Index. In exchange for a rent concession amounting to $100,000 in total for five years, the University received two limited partnership units. On June 15, 2009, the University purchased a third unit in the limited partnership paying $49,848 for the limited partnership interest (see Note 2). The University owed Campus Associates Limited Partnership $12,454 and $37,348 as of June 30, 2010 and 2009, respectively (see Note 5).

In addition, the University has also provided office space and administrative support for certain other related parties.

13. CONTINGENCIES

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

14. OPERATING EXPENSES BY OBJECT

The table below details the University's operating expenses by object for the years ended June 30, 2010 and 2009.

Operating Expenses by object for the Year Ended June 30, 2010:

	Salaries and Wages	Fringe Benefits	Supplies and Other Expenses	Utilities	Depreciation and Amortization	Total
Instruction	$ 186,969,971	$ 58,275,929	$ 26,692,577	$ -	$ -	$ 271,938,477
Research	39,539,600	9,597,463	23,148,725	-	-	72,285,788
Public Services	21,197,806	7,097,574	7,327,839	-	-	35,623,219
Academic Support	48,911,156	18,925,598	22,756,107	-	-	90,592,861
Student Services	22,964,309	8,750,473	5,076,086	272,526	-	37,063,394
Institutional Support	43,710,793	19,859,352	19,490,712	114,553	-	83,175,410
Operations and Maintenance	19,243,845	11,231,965	18,622,761	17,643,683	-	66,742,254
Depreciation and amortization	-	-	-	-	90,038,785	90,038,785
Student Aid	379,144	1,107	4,257,229	-	-	4,637,480
Auxiliary Enterprises	60,072,554	23,428,431	52,133,378	9,779,377	-	145,413,740
Other Operating Expenses	1,491,775	578,419	22,438,165	-	-	24,508,359
	$ 444,480,953	$ 157,746,311	$ 201,943,579	$ 27,810,139	$ 90,038,785	$ 922,019,767

Operating Expenses by object for the Year Ended June 30, 2009, restated (see Note 16):

	Salaries and Wages	Fringe Benefits	Supplies and Other Expenses	Utilities	Depreciation and Amortization	Total
Instruction	$ 198,676,752	$ 59,882,773	$ 25,476,882	$ -	$ -	$ 284,036,407
Research	36,163,139	8,219,381	19,645,918	-	-	64,028,438
Public Services	22,787,611	7,187,062	7,022,959	-	-	36,997,632
Academic Support	50,019,745	18,320,531	18,706,539	-	-	87,046,815
Student Services	22,988,198	8,336,228	5,050,777	336,162	-	36,711,365
Institutional Support	45,109,153	19,257,642	18,682,262	105,546	-	83,154,603
Operations and Maintenance	19,373,491	10,548,524	20,290,152	21,220,050	-	71,432,217
Depreciation and amortization	-	-	-	-	90,036,966	90,036,966
Student Aid	410,812	-	3,506,395	-	-	3,917,207
Auxiliary Enterprises	59,769,448	23,174,108	49,493,652	11,938,523	-	144,375,731
Other Operating Expenses	803,393	288,603	29,487,211	-	-	30,579,207
	$ 456,101,742	$ 155,214,852	$ 197,362,747	$ 33,600,281	$ 90,036,966	$ 932,316,588

15. UNRESTRICTED NET ASSETS

The University adopted GASB Statement 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 designations. 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.

16. ACCOUNTING CHANGE AND RESTATEMENT OF NET ASSETS

GASB Statement No. 51, *Accounting and Financial Reporting for Intangible Assets*, requires that certain intangible assets be classified as capital assets. The University had previously capitalized costs related to internally generated software according to the provisions of this statement. The Statement of Net Assets as of June 30, 2009 and the Statement of Revenues, Expenses, and Changes in Net Assets for the year ended June 30, 2009 have been restated in order to retroactively apply the provisions of this statement to include purchased software which was previously expensed. The following adjustments have been made to reflect the cumulative effect of this accounting change:

Net assets as previously reported, July 1, 2008	$ 1,378,096,850
Increase in Invested in capital assets, net of related debt	1,037,038
Net assets adjusted, July 1, 2008	1,379,133,888
Increase in Net Assets June 30, 2009, as previously reported	40,381,626
Capitalized software, previously expensed in various functions	209,589
Depreciation and amortization expense	(480,120)
Net assets adjusted, July 1, 2009	$ 1,419,244,983

TRUSTEES AND FINANCIAL OFFICERS
As of June 30, 2010

FINANCIAL OFFICERS

Richard D. Gray, Vice President and Chief Financial Officer
Paul R. McDowell, Chief Financial Officer
Charles H. Eaton, Controller

UNIVERSITY OF CONNECTICUT
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