University of Connecticut

Financial Report
For the Year Ended June 30, 2011

Message from the Vice President and Chief Financial Officer

Founded in 1881, the University of Connecticut (University) serves as the State of Connecticut's (State) flagship institution 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, 2011 represents the transactions and balances of the University, herein 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 2011 was 29,504 students, taught by 1,304 full-time faculty members and an additional 734 part-time faculty and adjuncts. In total, the University employs 4,586 full and part-time faculty and staff (excluding adjuncts). The University has shifted its focus of growth to enhancing the quality of the education. 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 1990s. 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's Board of Trustees. The Board of Trustees, through its Joint Audit and Compliance Committee, exercises oversight of the integrity of the University's financial statements and internal control systems, as well as direct engagement in the approval of independent auditing services to augment the University's internal audit capacity and the work performed by the Auditors of Public Accounts. 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 audit 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 teaching, research, service and outreach missions. Over the past decade, 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.

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. Over the past three years, the University has experienced reductions in the State appropriation in addition to mandatory transfers to the State from the University's unrestricted net assets. Furthermore, decreases in State funding are also anticipated for fiscal year 2012. Despite the reality of declining State support, the University is committed to continue its high standard of service to its students and the citizens of the State.

The University continues to seek immediate and long-term efficiencies where possible. During fiscal year 2011, the University hired an internationally renowned management consulting firm to work with management to identify savings in non-academic areas. Though initially proposed by the Board of Trustees before the current budget challenges, the study will be of great value during these difficult economic times. Even in a more positive fiscal climate, dollars saved in administrative costs can be redirected to teaching, research, service and outreach. The report was presented to the Board of Trustees in the fall of 2011 and the report's recommendations are being reviewed and strategically implemented along with other revenue enhancement and cost saving initiatives.

Additionally, during the 2011 session of the Connecticut General Assembly, legislation was approved and signed by the Governor to create a Technology Park (Tech Park) on the Storrs campus. On August 26, 2011 the State Bond Commission authorized the issuance of $18.0 million in State General Obligation Bonds to finance the Tech Park's initial design and development costs. The total cost of the project is estimated to be approximately $172.5 million. This project will drive technology-based economic development by creating a partnership between UConn and industry where the University will support the growth of companies by offering access to advanced technology, faculty expertise along with providing incubator space for new companies. The Tech Park will be a critical component of the State's plan to stimulate long-term economic growth by supporting innovation, new technologies and the creation of new companies and sustainable jobs. The Tech Park is expected to be operational by 2015.

Among its many accomplishments, for the twelfth 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 2011, the University was ranked 19th among 172 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-1990s. Compared to fall of 1995, fall 2010 freshman enrollment at the main campus was up 65%, minority freshman enrollment was up 172%, and since 1996, average SAT scores were up 108 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 92% and is substantially higher than the 82% average for 383 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 7,050 degrees were conferred in the 2010-11 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 $135.9 million in fiscal year 2011.
- UConn, including both the Health Center and Storrs-based programs, ranked 80/697 among all institutions and 55/403 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 $313 million. The University and the Health Center received $26.4 million in disbursements in support of scholarships, faculty, programs and facilities from the Foundation in 2011.
- By the end of fiscal year 2011, the UCONN 2000 program has led to the authorization of 105 major projects totaling $1.8 billion in bond proceeds.

Respectfully Submitted,

Paul R McDowell

Richard D. Gray
Vice President and Chief Financial Officer
University of Connecticut

Paul R. McDowell
Chief Financial Officer
Storrs-based Programs

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STATE OF CONNECTICUT

AUDITORS OF PUBLIC ACCOUNTS
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HARTFORD, CONNECTICUT 06106-1559

JOHN C. GERAGOSIAN

ROBERT M. WARD

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, 2011 and 2010, 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 .61 and .52 percent of the assets of the University as of June 30, 2011 and 2010, respectively. The University of Connecticut Law School Foundation, Inc. represented .21 and .34 percent of the combined revenues and other additions for the years ended June 30, 2011 and 2010, respectively. 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, 2011 and 2010, 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,

John C. Geragosian
Auditor of Public Accounts

Robert M. Ward
Auditor of Public Accounts

December 16, 2011
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, 2011, based on currently known facts, decisions, or conditions. It also includes selected comparative information for the years ended June 30, 2010 and 2009. 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, 2011 represents the transactions and balances of the University, herein 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 13). 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 were restated in order to retroactively apply the provisions of this statement to include purchased software which was previously expensed. For the purposes of the MD&A, certain tables and graphs are therefore restated for the year ending June 30, 2009.

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 1990s. 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

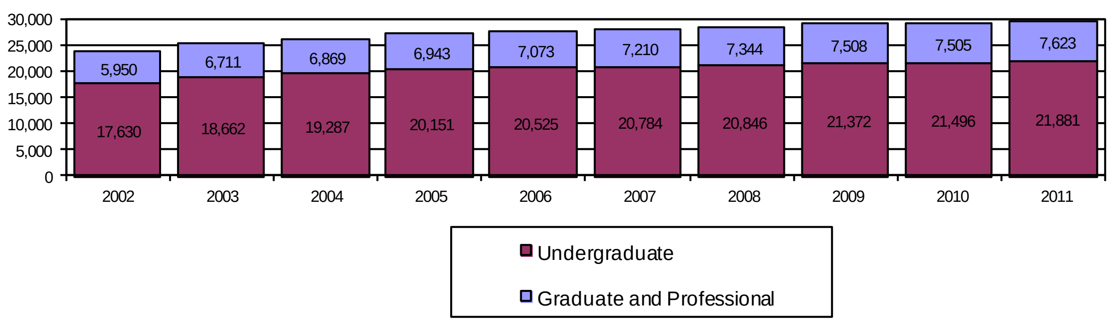
The University submits separate biennial operating and capital budgets to the Governor and General Assembly through the Board of Regents for Higher Education. The General Assembly appropriates and allocates funds directly to the University.

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 $376.9 million for the year ending June 30, 2011 (fiscal year 2011) as compared to $363.2 million for the year ending June 30, 2010 (fiscal year 2010), and $406.7 million for the year ending June 30, 2009 (fiscal year 2009). The increase in operating loss in fiscal year 2011 from fiscal year 2010 was due to an increase in total operating expenses of 5.9%, primarily caused by a 6.4% increase in salaries as a result of a 3.3% increase in full-time equivalent staff and negotiated raises. 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). 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 the State appropriation. The University experienced a loss before other changes in net assets of $49.9 million in fiscal year 2011 as compared to $38.3 million and $68.2 million for fiscal years 2010 and 2009, respectively. Total operating revenues grew $40.8 million in fiscal year 2011 and $33.2 million in fiscal year 2010. At the same time, operating expenses increased $54.4 million in fiscal year 2011 as compared to a decrease in fiscal year 2010 of $10.3 million over fiscal year 2009. Investment income decreased $0.3 million in fiscal year 2011, $3.0 million in fiscal year 2010 and $6.1 million in fiscal year 2009.

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 29,504 students in fiscal year 2011. These students are taught by 1,304 full-time faculty members (an increase of 18 faculty over the prior year) and an additional 734 part-time faculty and adjuncts. Undergraduate enrollment at the University reached 21,881 students in fiscal year 2011, 1.8% more than fiscal year 2010 (0.6% more students in fiscal year 2010 over 2009). At the same time, an in-state tuition and mandatory fee increase of 5.36% and an out-of-state increase of 5.47% were approved for fiscal year 2011. Graduate and professional enrollment increased by 1.6% with an in-state tuition and mandatory fee increase of 5.36% and an out-of-state increase of 5.44%. 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 $23.9 million (7.5%) as compared to a $22.0 million (7.4%) increase in fiscal year 2010. Sales and services of auxiliary enterprises, before scholarship allowances, increased $11.6 million (7.0%), primarily as a result of an overall increase in room and board fees of 6.54% for undergraduate students and 6.59% for graduate students and an increase in room occupancy of 1.2% over fiscal year 2010. In fiscal year 2010, 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. Grant and contract revenues increased $17.4 million (11.8%) in fiscal year 2011 as compared to $14.6 million (11.0%) in fiscal year 2010 over 2009.

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, 2010 and 2011. As amended, it represents a $1.82 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 $775.3 million for improvements at the Health Center. The total estimated cost for the UCONN 2000 program, including Phases I, II and III, is $3.1 billion. 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 years 2011 and 2010, the University transferred $15.0 million and $8.0 million, respectively, from unrestricted net assets 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 further reductions in State support of approximately $36.6 million are anticipated in fiscal year 2012 due to the State's current financial condition. The University will continue to face a very difficult financial climate as further reductions are possible. To mitigate these reductions and to address this severe economic downturn, a Costs, Operations, and Revenue Efficiencies (CORE) Task Force was convened in November 2008. Approximately $7 million in savings or new revenues were identified by this task force through fiscal year 2010. In fiscal year 2011, the University's Board of Trustees approved the hiring of an internationally recognized consulting firm to examine the University's operations and recommend savings and revenue enhancements that could be significant to the University. A report from the consulting firm was presented to the Board of Trustees in the fall of 2011 and the report's recommendations are being reviewed and strategically implemented along with other revenue enhancement and cost saving initiatives. Despite the reality of declining State support and with future reductions by the State, 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 which are recorded at historical cost, 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):

	2011	2010	2009*
Current assets	$ 500.6	$ 584.6	$ 532.9
Noncurrent assets			
State debt service commitment	735.0	804.3	780.2
Investments	10.7	9.8	9.5
Property and equipment, net	1,399.3	1,397.5	1,412.6
Other	19.3	19.5	19.5
Total assets	$2,664.9	$2,815.7	$2,754.7
Current liabilities	$ 265.9	$ 292.1	$ 274.6
Noncurrent liabilities			
Long-term debt and bonds payable	978.1	1,058.7	1,039.0
Other	25.6	20.6	21.9
Total liabilities	$1,269.6	$1,371.4	$1,335.5
Invested in capital assets, net	$1,144.9	$1,131.9	$1,143.4
Restricted	75.0	149.6	128.6
Unrestricted	175.4	162.8	147.2
Total net assets	$1,395.3	$1,444.3	$1,419.2

*As restated

The total assets decreased $150.8 million in fiscal year 2011 over 2010 as compared to an increase of $61.0 million in fiscal year 2010 over 2009. The decrease in fiscal year 2011 was primarily attributed to the net effect of the following increases/decreases: a $9.5 million increase ($25.3 million in fiscal year 2010) in cash and cash equivalents, a $92.6 million decrease in deposit with bond trustee ($17.4 million increase in fiscal year 2010), a $73.6 million decrease in the State debt service commitment ($31.9 million increase in fiscal year 2010), a $3.8 million increase in accounts receivable ($1.9 million in fiscal year 2010) and a net increase of $1.7 million to property and equipment ($15.1 million decrease in fiscal year 2010).

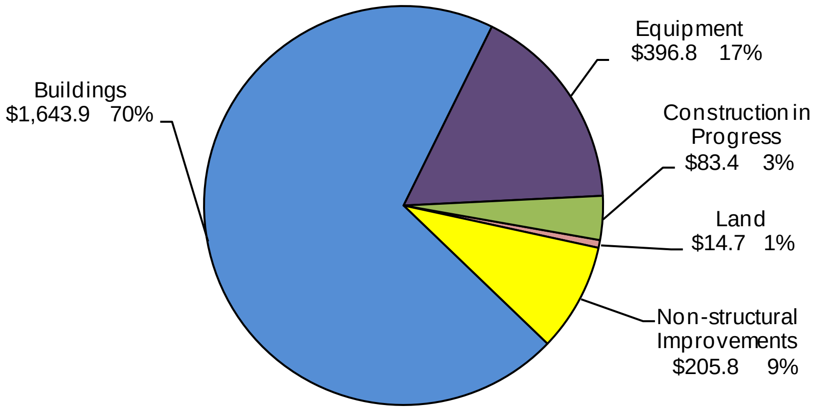
The total liabilities for fiscal year 2011 decreased $101.8 million ($35.9 million increase in fiscal year 2010) primarily due to newly acquired debt through the sale of general obligation bonds and bond refundings that occurred in fiscal year 2010 of $191.8 million ($0 in fiscal year 2011), which was offset by the retirement of debt on existing bonds and loans of $84.5 million in fiscal year 2011 ($162.8 million in fiscal year 2010), an increase in wages payable of $5.5 million ($2.6 million decrease in fiscal year 2010), an increase of $3.3 million in compensated absences ($4.7 million in fiscal year 2010) and a decrease in due to affiliate of $24.0 million in fiscal year 2011 ($4.7 million in fiscal year 2010). The combination of the decrease in total assets of $150.8 million ($61.0 million increase for fiscal year 2010) and total liabilities of $101.8 million ($35.9 million increase for fiscal year 2010) yields a decrease in total net assets of $49.0 million ($25.1 million increase in fiscal year 2010).

Capital and Debt Activities

During fiscal year 2011, the University recorded additions to property and equipment totaling $93.1 million ($75.7 million and $43.3 million in fiscal years 2010 and 2009, respectively) of which $69.2 million related to buildings and construction in progress ($51.8 million and $18.9 million in fiscal years 2010 and 2009, 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 $1.82 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:

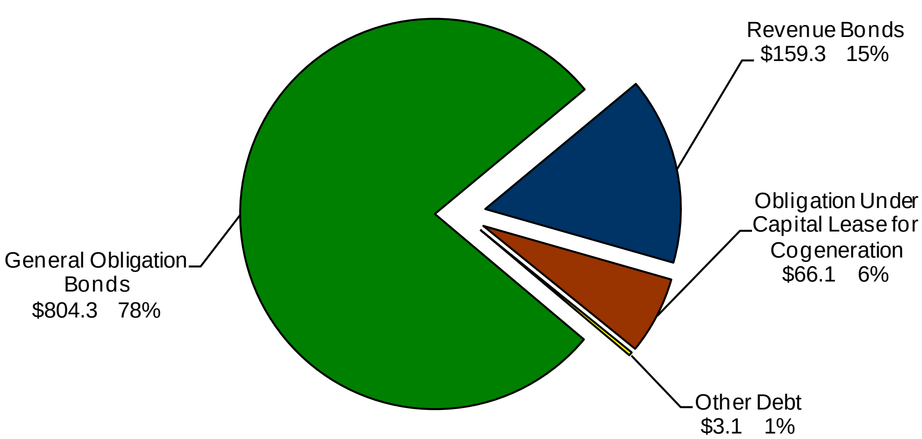
TOTAL PROPERTY AND EQUIPMENT AT COST AT JUNE 30, 2011
($ in Millions) Total $2,344.6



In fiscal year 2011, the University did not issue UCONN 2000 general obligation bonds ($97.1 million total face value was issued in fiscal year 2010 of which $35.6 million was committed 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. Subsequent to the year ended June 30, 2011, the University issued a combined $211.6 million in General Obligation Bonds, with a closing date of December 8, 2011, to fund UCONN 2000 projects and to refund portions of outstanding balances of previously issued bonds (See Note 5).

The following chart illustrates the categories of debt as of June 30, 2011, exclusive of premiums, discounts and debt differences due to refunding:

CATEGORIES OF DEBT AT JUNE 30, 2011
($ in Millions) Total $1,032.8

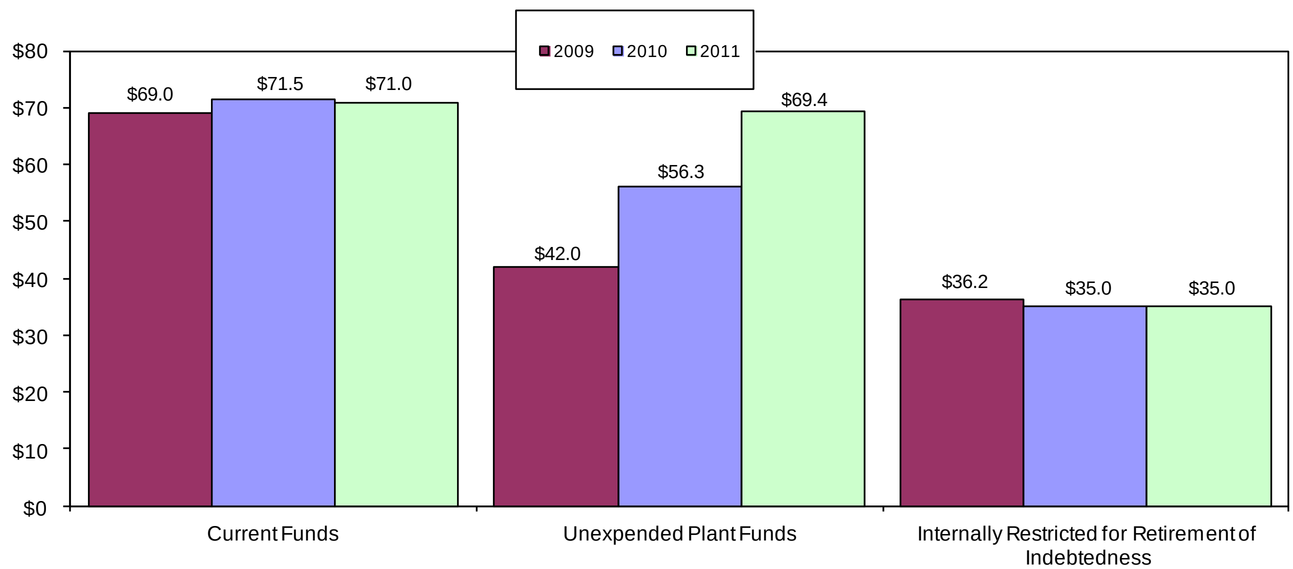


See Notes 4 and 5 of the financial statements for further information on capital and debt activities.

Net Assets

Net assets are divided into three major categories. The first category, invested in capital assets, net of related debt, represents 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)



For the most part 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

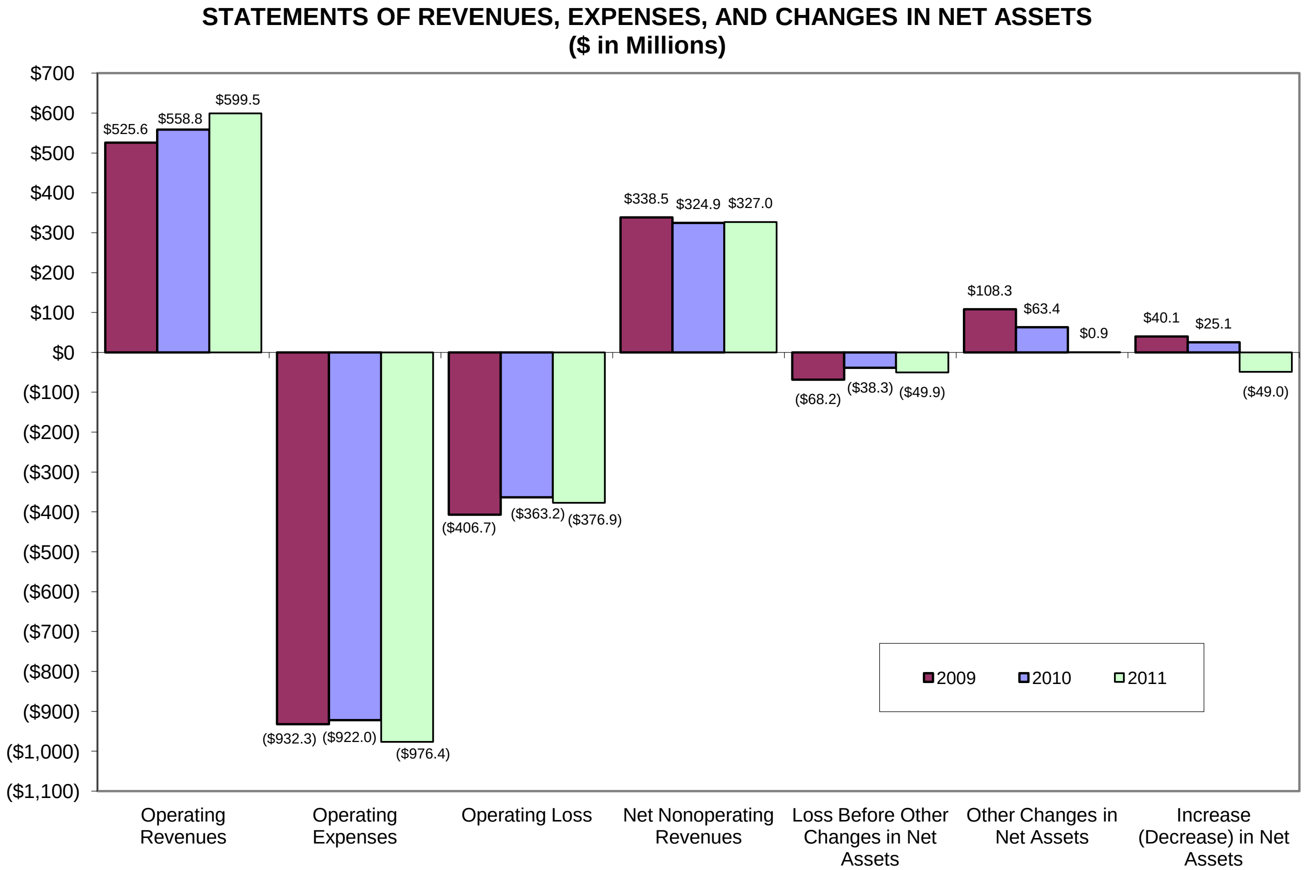
Revenues and expenses are classified as operating, nonoperating, or other changes in net assets according to definitions prescribed by GASB. Significant recurring sources of nonoperating revenues utilized in balancing the operating loss each year include State appropriation for general operations, State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

	2011	2010	2009*
Operating revenues	$ 599.5	$ 558.8	$ 525.6
Operating expenses	976.4	922.0	932.3
Operating loss	(376.9)	(363.2)	(406.7)
Net nonoperating revenues	327.0	324.9	338.5
Loss before other changes in net assets	(49.9)	(38.3)	(68.2)
Net other changes in net assets	0.9	63.4	108.3
Increase (decrease) in net assets	$ (49.0)	$ 25.1	$ 40.1

*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 appropriation 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 transfer to State General Fund, noncapital gifts, investment income, interest expense, and other expenses not considered 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, and additions to permanent endowments. The Statements of Revenues, Expenses, and Changes in Net Assets reflect a decrease in the net assets of $49.0 million in fiscal year 2011 and increases of $25.1 million and 40.1 million in fiscal years 2010 and 2009, respectively.

Revenues

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

	2011	2010	2009
Operating revenues:			
Student tuition and fees, net	$ 233.9	$ 223.8	$ 215.6
Grants and contracts	164.5	147.2	132.6
Sales and services of educational departments	16.2	15.2	17.2
Sales and services of auxiliary enterprises, net	173.1	161.8	149.5
Other sources	11.8	10.8	10.7
Total operating revenues	599.5	558.8	525.6
Nonoperating revenues:			
State appropriation	329.0	325.5	327.8
State debt service commitment for interest	40.0	38.5	37.8
Gifts	21.1	18.1	21.8
Investment income	1.0	1.3	4.3
Total nonoperating revenues	391.1	383.4	391.7
Other changes in net assets:			
State debt service commitment for principal	-	61.7	105.0
Capital grants and gifts and additions to permanent endowments	2.0	2.4	3.8
Total other changes in net assets	2.0	64.1	108.8
Total revenues	$ 992.6	$ 1,006.3	$ 1,026.1

Revenue highlights, for fiscal years 2011 and 2010 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 4.5% in fiscal year 2011 (3.8% in fiscal year 2010) and 7.5% before scholarship allowances (7.4% in fiscal year 2010). The increase in fiscal year 2011 was due in part to a 1.8% (0.6% in fiscal year 2010) increase in undergraduate enrollment at the University and an increase of 5.36% (5.87% in fiscal year 2010) for undergraduate in-state tuition and mandatory fees charged, and 5.47% (5.97% in fiscal year 2010) for out-of-state tuition and mandatory fees.

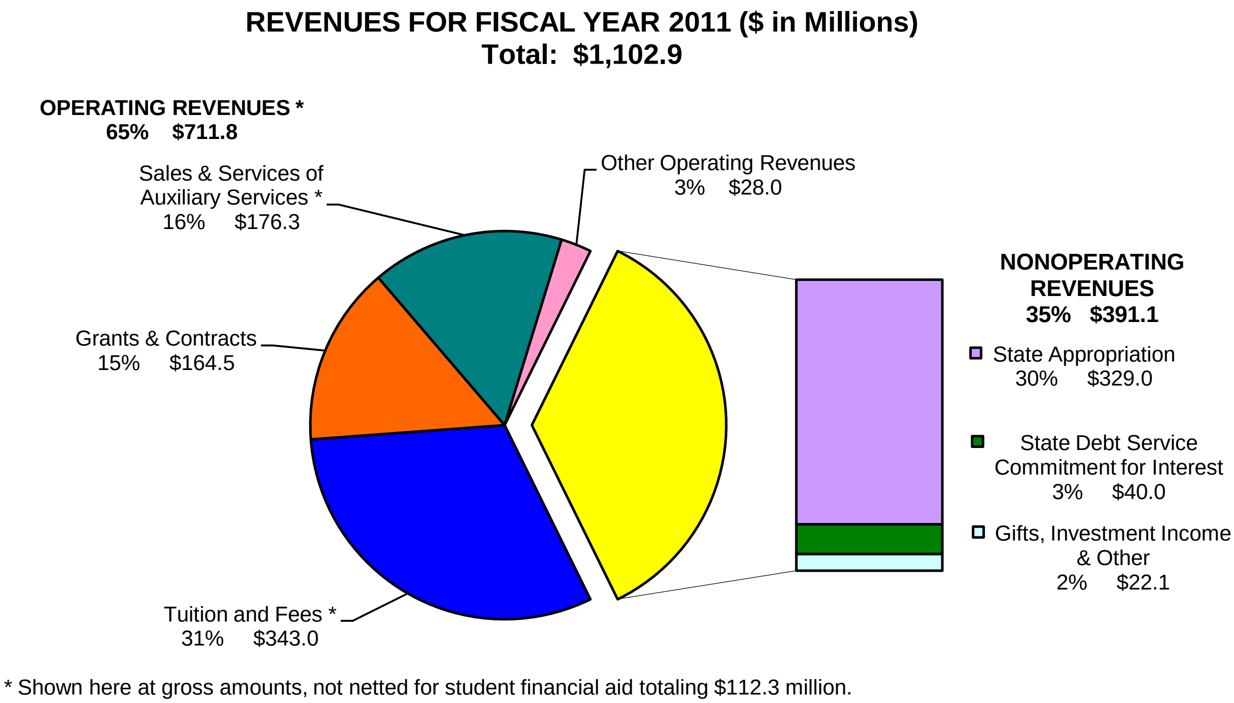
- Total grants and contracts increased $17.4 million (11.8%) in fiscal year 2011 ($14.6 million or 11.0% in fiscal year 2010) primarily due to an increase in federal and state financial aid.

- Sales and services of auxiliary enterprises, net of scholarship allowances, increased approximately 7.0% and 8.2% during fiscal years 2011 and 2010, respectively. The increase in fiscal year 2011 resulted from an increase in fees charged for both room and board of 6.54% for undergraduate students and 6.59% for graduate students and an increase in room occupancy of 1.2% over fiscal year 2010. 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 largest source of revenue, State appropriation including fringe benefits, increased $3.5 million in fiscal year 2011 compared to a decrease of $2.3 million in fiscal year 2010. 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 in fiscal year 2010. There were no general obligation bonds issued in fiscal year 2011.

- 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 $19.4 million in fiscal year 2011 compared to $15.8 million in fiscal year 2010. On a combined basis, both Foundations also paid approximately $3.5 million in fiscal year 2011 ($3.5 million in fiscal year 2010) to third parties on behalf of the University. This amount is not reflected in the University's financial statements. Total nonoperating gifts and capital grants and gifts revenue to the University from all sources amounted to $23.2 million and $20.5 million in fiscal years 2011 and 2010, respectively.

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



Expenses

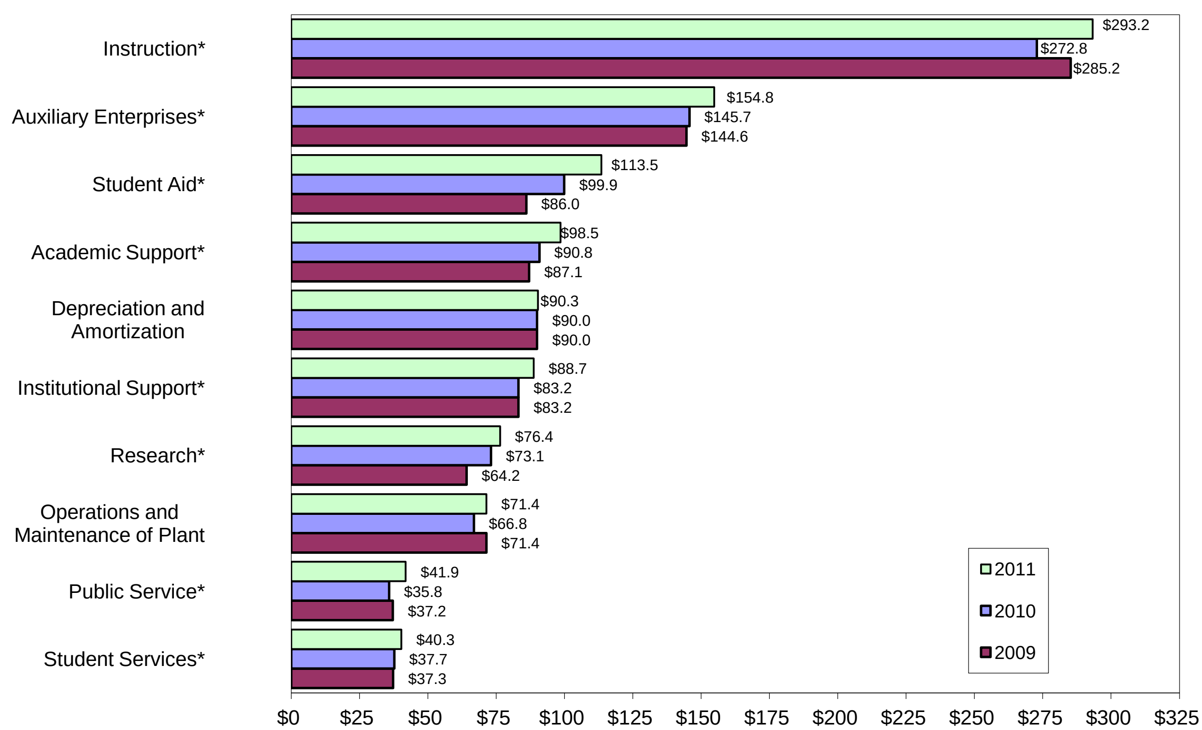
The following table summarizes operating and nonoperating expenses and other changes in net assets for the fiscal years ended June 30 (in millions):

	2011	2010	2009*
Operating expenses:			
Instruction	$ 292.2	$ 271.9	$ 284.1
Research	74.5	72.3	64.0
Operations and maintenance of plant	71.4	66.8	71.4
Auxiliary enterprises	154.5	145.4	144.4
Depreciation and amortization	90.3	90.0	90.0
Other	293.5	275.6	278.4
Total operating expenses	976.4	922.0	932.3
Nonoperating expenses:			
Interest expense	48.8	48.6	48.9
Transfer to State General Fund	15.0	8.0	-
Other nonoperating expense, net	0.3	2.0	4.3
Total nonoperating expenses	64.1	58.6	53.2
Other changes in net assets:			
Capital appropriation	0.5	-	-
Disposal of property and equipment, net	0.6	0.7	0.4
Total other changes in net assets	1.1	0.7	0.4
Total expenses	$ 1,041.6	$ 981.3	$ 985.9

*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 amounts, not netted for financial aid totaling $112.3 million.

Total operating expenses were $976.4 million and $922.0 million in fiscal years 2011 and 2010, respectively, netted for student financial aid totaling $112.3 million and $98.3 million, respectively. Natural classification includes salaries, fringe benefits, utilities, and supplies and other expenses (see Note 15 for operating expenses classified by natural classification).

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, increased $20.3 million (7.5%) primarily due to an increase of approximately 41 full-time equivalent faculty and staff, due to the strategic faculty hiring plan during fiscal year 2011, and an average compensation increase for the bargaining units of approximately 5%. In addition, there was a 15.1% net increase in supplies, commodities and other expenditures. In fiscal year 2010, instruction decreased $12.2 million (4.3%) primarily due to a decrease of approximately 59 full-time equivalent faculty and staff, as a result of the Retirement Incentive Plan, offset by a 4.8% net increase in supplies, commodities and other expenditures.

- In fiscal year 2011, research expenses increased $2.2 million or 3.0% ($8.3 million or 12.9% in fiscal year 2010). This is commensurate with an increase in fiscal years 2011 and 2010 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.

- Public service and academic support increased $13.6 million in total for fiscal year 2011 ($2.2 million in fiscal year 2010). This resulted from an increase of approximately 45 full-time equivalent faculty and staff, and an average compensation increase for the bargaining units of approximately 5%, along with a 12.9% net increase in supplies, commodities and other expenditures.

- In fiscal year 2011, institutional support experienced an increase of $5.5 million or 6.6%. This resulted from a 4.9% increase (2.4% decrease in fiscal 2010) in the number of full-time equivalent staff and an average compensation increase for the bargaining units of approximately 5%. In fiscal year 2011, institutional support experienced a slight increase in contractual services related to the revenue enhancement and cost savings review performed by an outside consulting firm. In fiscal year 2010, there was also an increase in contractual services for the replacement of the Foundation's donor database (see Note 13).

- Operations and maintenance of plant increased $4.6 million or 6.9% in fiscal year 2011 as compared to a $4.7 million or 6.6% decrease in fiscal year 2010. This is primarily attributed to a net increase in supplies and other expenses of 18.1% (8.2% decrease in fiscal year 2010) related to general maintenance and repairs. This was offset by a decrease in natural gas prices of approximately 12.1% in fiscal year 2011 (12.4% in fiscal year 2010). Fiscal year 2011 also experienced an increase of 10.0% (22.8% reduction in fiscal year 2010) in electricity consumption. In fiscal years 2011 and 2010, electricity rates increased approximately 3.6% and 24.2%, respectively, including distribution and demand charges. Natural gas consumption, the primary energy source that fuels the Cogeneration plant, decreased 0.5% and 9.1% in fiscal years 2011 and 2010, respectively.

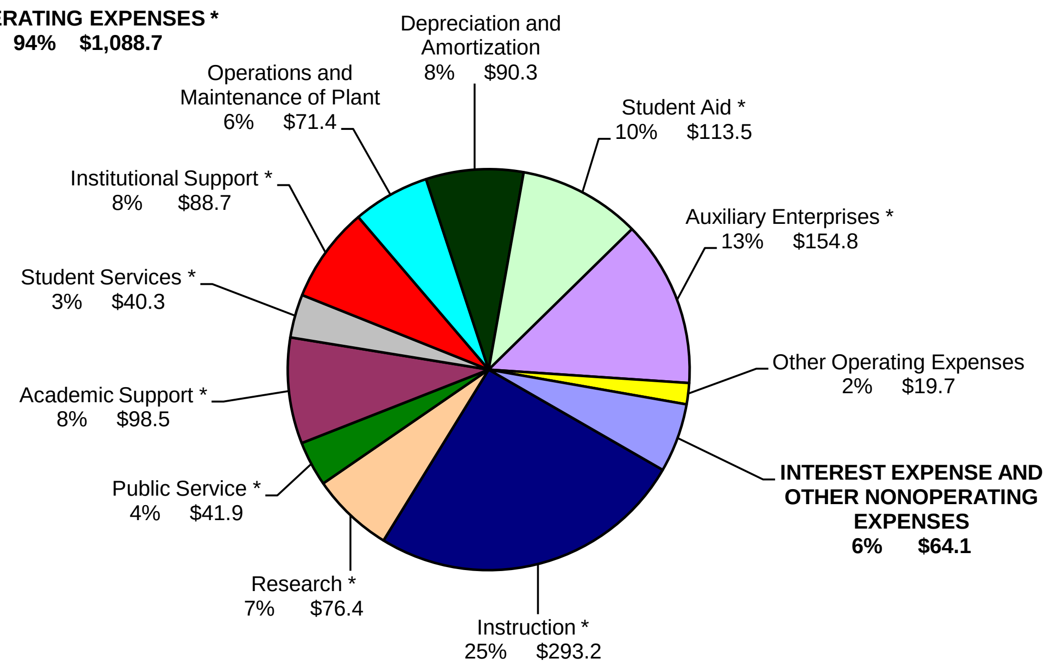
- In fiscal year 2011, the University began to depreciate an additional $39.2 million ($47.2 million in fiscal year 2010) in property and equipment. These additions contributed to a slight increase in depreciation and amortization expense in fiscal year 2011.

- Auxiliary enterprises expenditures increased $9.1 million or 6.3% in fiscal year 2011 (0.7% in fiscal year 2010), primarily due to certain contractual salary increases and the hiring of 11 full-time equivalent staff as well as a 8.4% increase (5.3% in fiscal year 2010) in supplies, commodities and other expenditures.

- In fiscal year 2011, the University expensed $3.9 million in other operating expenses due to a cancelled software implementation project in which costs capitalized to date had no realizable value as of June 30, 2011. The University had previously written-off $5.2 million on the project due to costs accumulated that exceeded the value of the asset in fiscal year 2010. Also in fiscal year 2011, a total of $5.2 million was expensed in other operating expenses which include $2.7 million of expenses to correct structural deficiencies related to the Agricultural Biotechnology Laboratory and Advanced Technology Laboratory buildings and $2.5 million ($6.7 million in fiscal year 2010) related to inspections, fire and safety code updates and other corrective action needed in order to achieve safety goals for all buildings. For fiscal years 2010 and 2009, the University expensed an additional $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 did not increase the value of the building or extend its useful life (see Note 4). The remaining amounts in other operating expenses include 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 $10.7 million in fiscal year 2011 as compared to $8.4 million in fiscal year 2010.

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.

EXPENSES FOR FISCALYEAR 2011 ($ in Millions)
Total $1,152.8



* Shown here at gross amounts, not netted for financial aid totaling $112.3 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 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):

	2011	2010	2009*
Cash provided from operating activities	$ 590.9	$ 561.2	$ 523.9
Cash used in operating activities	(905.3)	(864.2)	(846.3)
Net cash used in operating activities	(314.4)	(303.0)	(322.4)
Net cash provided from noncapital financing activities	334.6	336.1	345.4
Net cash provided from (used in) capital financing activities	(104.3)	8.2	88.9
Net cash provided from (used in) investing activities	93.6	(16.0)	(89.5)
Net increase in cash and cash equivalents	$ 9.5	$ 25.3	$ 22.4

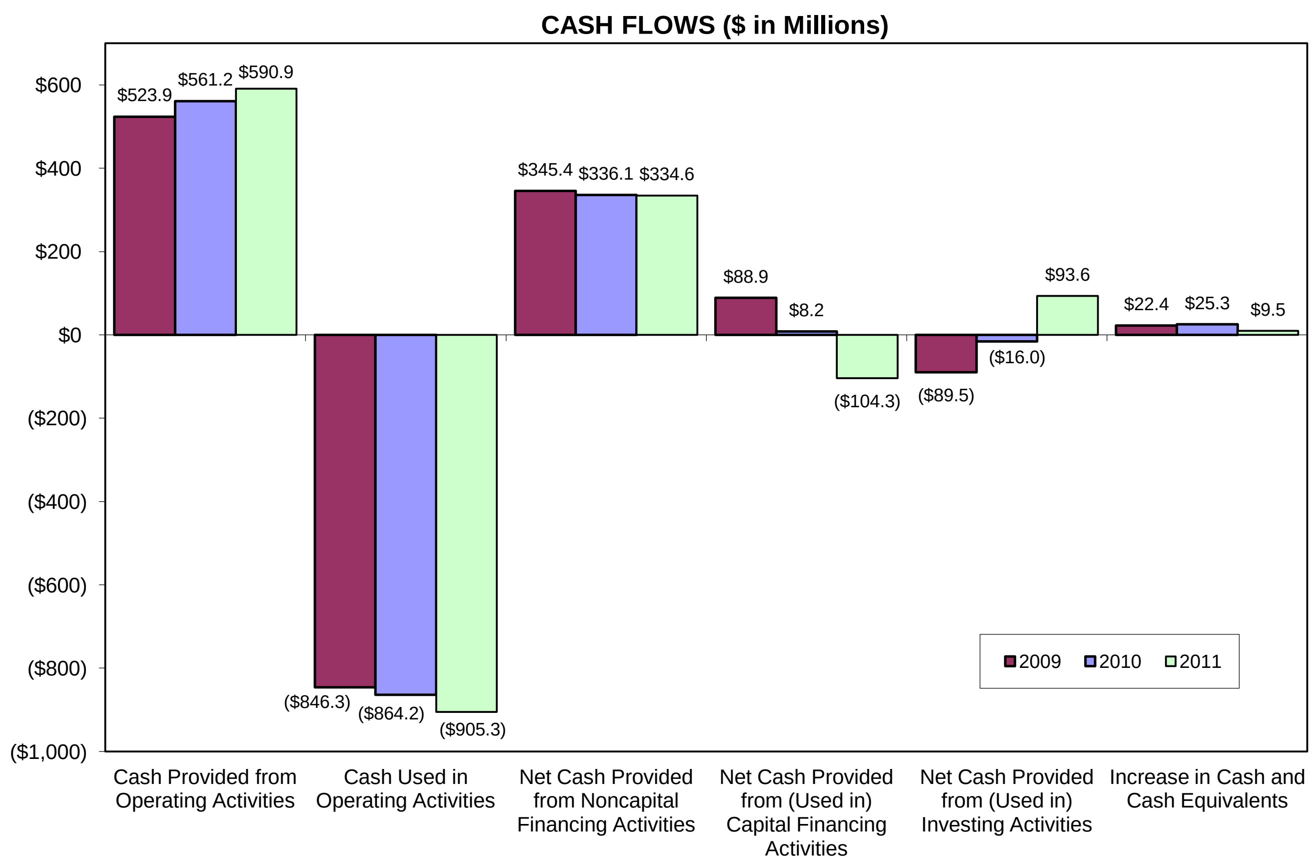
*As restated

Net cash used in operating activities was $314.4 million and $303.0 million in fiscal years 2011 and 2010, 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 $334.6 million in fiscal year 2011 ($336.1 million in fiscal year 2010), a $1.5 million decrease from fiscal year 2010 ($9.3 million from fiscal year 2009).

Cash flows used in capital financing activities was $104.3 million in fiscal year 2011 and $8.2 million provided in fiscal year 2010. The major difference between fiscal years 2011 and 2010 is a decrease in proceeds from bonds of $105.0 million in fiscal year 2011 ($45.0 million in fiscal year 2010) and an increase in the amount of purchases of property and equipment of $10.8 million ($24.7 million in 2010).

Net cash provided from investing activities was $93.6 million in fiscal year 2011 and $16.0 million used in fiscal year 2010. The major difference between fiscal years 2011 and 2010 is that $105.0 million in bond proceeds were received in fiscal year 2010 ($0 in fiscal year 2011) which were invested in the deposit with bond trustee.

Total cash and cash equivalents increased $9.5 million and $25.3 million in fiscal years 2011 and 2010, 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, 2011 and 2010

($ in thousands)

	2011	2010
ASSETS		
Current Assets		
Cash and cash equivalents	$ 275,129	$ 265,555
Accounts receivable, net	34,033	30,258
Student loans receivable, net	1,864	2,269
Due from State of Connecticut	44,319	44,850
Due from related agencies	-	157
State debt service commitment	83,409	87,666
Inventories	3,857	3,343
Deposit with bond trustee	53,730	146,323
Deferred charges	787	957
Prepaid expenses	3,503	3,259
Total Current Assets	500,631	584,637
Noncurrent Assets		
Cash and cash equivalents	1,356	1,473
Investments	10,686	9,799
Student loans receivable, net	10,481	9,986
State debt service commitment	735,015	804,310
Property and equipment, net	1,399,263	1,397,529
Deferred charges	7,481	7,959
Total Noncurrent Assets	2,164,282	2,231,056
Total Assets	$ 2,664,913	$ 2,815,693
LIABILITIES		
Current Liabilities		
Accounts payable	$ 27,691	$ 24,198
Deferred income	24,777	27,189
Wages payable	55,635	50,118
Compensated absences	21,771	22,363
Due to State of Connecticut	16,984	17,796
Due to affiliate (see Note 5)	6,823	30,817
Current portion of long-term debt and bonds payable	80,589	84,486
Other current liabilities	31,653	35,085
Total Current Liabilities	265,923	292,052
Noncurrent Liabilities		
Compensated absences	12,696	8,824
Deposits held for others	2,362	2,420
Long-term debt and bonds payable	978,061	1,058,650
Refundable for federal loan program	10,516	9,420
Total Noncurrent Liabilities	1,003,635	1,079,314
Total Liabilities	$ 1,269,558	$ 1,371,366
NET ASSETS		
Invested in capital assets, net of related debt	$ 1,144,923	$ 1,131,885
Restricted nonexpendable	11,892	11,122
Restricted expendable		
Research, instruction, scholarships and other	17,915	15,748
Loans	2,818	3,945
Capital projects	35,204	110,838
Debt service	7,229	7,982
Unrestricted (see Note 1)	175,374	162,807
Total Net Assets	$ 1,395,355	$ 1,444,327

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, 2011 and 2010

($ in thousands)

	2011	2010
OPERATING REVENUES		
Student tuition and fees (Net of scholarship allowances of $109,106 for 2011 and $95,348 for 2010. See Note 1.)	$ 233,881	$ 223,766
Federal grants and contracts	125,798	110,022
State and local grants and contracts	27,390	26,086
Nongovernmental grants and contracts	11,367	11,075
Sales and services of educational departments	16,161	15,204
Sales and services of auxiliary enterprises (Net of scholarship allowances of $3,240 for 2011 and $2,991 for 2010. See Note 1.)	173,133	161,780
Other sources	11,808	10,855
Total Operating Revenues	599,538	558,788
OPERATING EXPENSES		
Educational and general		
Instruction	292,203	271,939
Research	74,481	72,286
Public service	41,470	35,623
Academic support	98,393	90,593
Student services	39,755	37,063
Institutional support	88,650	83,175
Operations and maintenance of plant	71,365	66,742
Depreciation and amortization	90,335	90,039
Student aid	5,490	4,638
Auxiliary enterprises	154,516	145,414
Other operating expenses	19,740	24,508
Total Operating Expenses	976,398	922,020
Operating Loss	(376,860)	(363,232)
NONOPERATING REVENUES (EXPENSES)		
State appropriation	328,951	325,462
State debt service commitment for interest	39,978	38,557
Transfer to State General Fund	(15,000)	(8,000)
Gifts	21,168	18,081
Investment income	1,020	1,313
Interest expense	(48,824)	(48,558)
Other nonoperating expenses, net	(297)	(1,957)
Net Nonoperating Revenues	326,996	324,898
Loss Before Other Changes in Net Assets	(49,864)	(38,334)
OTHER CHANGES IN NET ASSETS		
State debt service commitment for principal	-	61,714
Capital appropriation	(479)	-
Capital grants and gifts	1,989	2,396
Disposal of property and equipment, net	(618)	(727)
Additions to permanent endowments	-	33
Net Other Changes in Net Assets	892	63,416
Increase (decrease) in Net Assets	(48,972)	25,082
NET ASSETS		
Net Assets-beginning of year	1,444,327	1,419,245
Net Assets-end of year	$ 1,395,355	$ 1,444,327

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

UNIVERSITY OF CONNECTICUT
STATEMENTS OF CASH FLOWS
For the Years Ended June 30, 2011 and 2010

($ in thousands)

	2011	2010
CASH FLOWS FROM OPERATING ACTIVITIES		
Student tuition and fees	$ 226,289	$ 222,804
Grants and contracts	161,603	146,816
Sales and services of auxiliary enterprises	173,725	163,182
Sales and services of educational departments	15,692	16,005
Payments to suppliers and others	(274,777)	(264,167)
Payments to employees	(463,911)	(442,591)
Payments for benefits	(164,449)	(155,494)
Loans issued to students	(2,167)	(1,918)
Collection of loans to students	2,077	1,784
Other receipts, net	11,517	10,606
Net Cash Used in Operating Activities	(314,401)	(302,973)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
State appropriation	329,095	326,640
Transfer to State General Fund	(15,000)	(8,000)
Gifts	21,071	17,666
Other nonoperating expenses, net	(558)	(196)
Net Cash Provided from Noncapital Financing Activities	334,608	336,110
CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES		
Proceeds from bonds	-	105,000
State debt service commitment	113,530	103,997
Purchases of property and equipment	(85,897)	(75,091)
Proceeds from sale of property and equipment	396	-
Principal paid on debt and bonds payable	(82,367)	(75,759)
Interest paid on debt and bonds payable	(51,160)	(51,159)
Capital appropriation	(10)	608
Capital grants and gifts	1,140	595
Net Cash Provided from (Used in) Capital Financing Activities	(104,368)	8,191
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of investments, net	(18)	(52)
Interest on investments	1,043	1,482
Deposit with bond trustee	92,593	(17,413)
Net Cash Provided from (Used in) Investing Activities	93,618	(15,983)
INCREASE IN CASH AND CASH EQUIVALENTS	9,457	25,345
BEGINNING CASH AND CASH EQUIVALENTS	267,028	241,683
ENDING CASH AND CASH EQUIVALENTS	$ 276,485	$ 267,028

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, 2011 and 2010

($ in thousands)

	2011	2010
RECONCILIATION OF OPERATING LOSS TO NET CASH USED IN OPERATING ACTIVITIES		
Operating Loss	$ (376,860)	$ (363,232)
Adjustments to Reconcile Operating Loss to Net Cash Used in Operating Activities:		
Depreciation and amortization expense	90,335	90,039
Property and equipment	1,045	28
In-kind donations	176	-
Changes in Assets and Liabilities:		
Receivables, net	(3,889)	(1,631)
Inventories	(514)	(265)
Prepaid expenses	(244)	(703)
Accounts payable, wages payable and compensated absences	6,638	3,672
Deferred income	(2,412)	7,778
Deferred charges	39	49
Deposits	(58)	(802)
Due from State of Connecticut	(895)	(2,038)
Due to affiliate	(25,723)	(37,377)
Due from related agencies	157	(111)
Other liabilities	(3,202)	1,754
Loans to students	1,006	(134)
Net Cash Used in Operating Activities	$ (314,401)	$ (302,973)

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, 2011 and 2010

($ in thousands)

ASSETS	2011	2010
Current Assets		
Cash and cash equivalents	$ 1,026	$ 966
Pledges receivable, net of allowance	248	545
Other receivable	51	62
Prepaid expenses	34	32
Total Current Assets	1,359	1,605
Noncurrent Assets		
Pledges receivable, net of allowance	138	29
Investments	14,872	12,991
Property and equipment, net of accumulated depreciation of $117 for 2011 and $109 for 2010	12	21
Total Noncurrent Assets	$ 15,022	$ 13,041
Total Assets	$ 16,381	$ 14,646
LIABILITIES AND NET ASSETS		
Current Liabilities		
Accounts payable	$ 5	$ 10
Total Liabilities	$ 5	$ 10
NET ASSETS		
Unrestricted	1,243	1,152
Temporarily restricted	2,578	1,459
Permanently restricted	12,555	12,025
Total Net Assets	16,376	14,636
Total Liabilities and Net Assets	$ 16,381	$ 14,646

STATEMENTS OF ACTIVITIES
For the Years Ended June 30, 2011 and 2010

($ in thousands)

	Unrestricted	Temporarily Restricted	Permanently Restricted	2011 Total	2010 Total
REVENUES AND SUPPORT					
Contributions and grants	$ 437	$ 243	$ 516	$ 1,196	$ 947
Interest and dividends	24	387	-	411	417
Net realized and unrealized gains	93	1,662	-	1,755	777
Net assets released from restrictions	1,159	(1,159)	-	-	-
Change in original restriction by donor	-	(14)	14	-	-
Total Revenues and Support	1,713	1,119	530	3,362	2,141
EXPENSES					
Program Expenses					
Scholarships and awards	184	-	-	184	187
Student support and faculty support	646	-	-	646	645
Alumni and graduate relations	123	-	-	123	180
Total Program Expenses	953	-	-	953	1,012
Support Expenses					
Management and general	581	-	-	581	423
Fundraising	88	-	-	88	102
Total Support Expenses	669	-	-	669	525
Total Expenses	1,622	-	-	1,622	1,537
Changes in Net Assets	91	1,119	530	1,740	604
Net Assets-beginning of year	1,152	1,459	12,025	14,636	14,032
Net Assets-end of year	$ 1,243	$ 2,578	$ 12,555	$ 16,376	$ 14,636

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, 2011 and 2010

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, 2011 and 2010 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 13) and The University of Connecticut Law School Foundation, Inc. (Law School Foundation). The Foundation raises funds to promote, encourage, and assist education and research at both the University and the Health Center, while the Law School Foundation, with similar objectives, supports only the University.

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 this 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; 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. For the most part all unrestricted net assets are internally designated to support academic and research programs, capital projects, retirement of indebtedness, and auxiliary enterprise activities.

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.

Certain reclassifications were made to the Statement of Net Assets for the year ended June 30, 2010 to reflect changes in the classification between current and noncurrent liabilities. These changes have no effect on net assets for the year ended June 30, 2010.

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.

New Accounting Standards

The University's financial statements and notes for fiscal years 2011 and 2010 as presented herein include the provisions of the following GASB pronouncements:

The University adopted GASB Statement No. 58, *Accounting and Financial Reporting for Chapter 9 Bankruptcies*, as of July 1, 2009. This statement provides accounting and financial reporting guidance for governments that have filed for bankruptcy under Chapter 9 of the United States Bankruptcy Code. There was no impact on the financial statements as a result of this adoption.

The University adopted GASB Statement No. 59, *Financial Instruments Omnibus*, as of July 1, 2010. This statement provides additional guidance on existing standards regarding financial reporting and disclosure requirements of certain financial instruments and external investment pools for which significant issues have been identified in practice. There was no significant impact on the financial statements as a result of this adoption.

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 which consist primarily of maintenance and custodial supplies, repair parts, and other general supplies used in the daily operations of the University. 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 11)
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 11)
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 until 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, discounts, and debt differences), 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 15 for operating expenses by natural classification. All other revenues and expenses of the University are reported as nonoperating revenues and expenses including State appropriation, debt service commitment for interest, noncapital gifts, investment income, interest expense, other nonoperating revenues (expenses), net, 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 2010 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 $276.5 million and $267.0 million as of June 30, 2011 and 2010, respectively, and included the following (amounts in thousands):

	2011	2010
Cash maintained by State of Connecticut Treasurer	$ 246,766	$ 243,343
Invested in State of Connecticut Investment Pool	16,491	16,837
Invested in State of Connecticut Investment Pool - Endowments	1,356	1,473
Invested in Short-term Corporate Notes	2,504	4,999
Deposits with Financial Institutions and Other	9,368	376
Total cash and cash equivalents	276,485	267,028
Less: current balance	275,129	265,555
Total noncurrent balance	$ 1,356	$ 1,473

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 $16.5 million and $1.4 million 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 2011. The $2.5 million invested in Short-term Corporate Notes during fiscal year 2011 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 at least at the annualized rate of inflation on average. 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 University also holds a partnership interest in Campus Associates Limited Partnership (see Note 13). The cost basis was used to estimate fair market value for this investment because the fair value was not readily available as of June 30, 2011 and 2010. As a result, the estimated fair value may differ from the value that would have been assigned had a ready market for such an investment existed; however, it is unlikely that such differences would be material.

The cost and fair value of the University's investments including those managed by the Foundation at June 30, 2011 and 2010 are (amounts in thousands):

	2011		2010	
	Cost	**Fair Value**	**Cost**	**Fair Value**
Endowments:				
Foundation Managed	$ 9,496	$ 10,536	$ 9,478	$ 9,649
Other:				
Campus Associates Limited Partnership Interest	150	150	150	150
Total Investments	$ 9,646	$ 10,686	$ 9,628	$ 9,799

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). The portion of the University's endowment pool in WCM Investment Management, valued at $112,000 as of June 30, 2010, was fully redeemed and reinvested in a worldwide equity mutual fund. This reallocation and other movements resulted in the University endowment's foreign publicly traded equities totaling $2.4 million and $1.3 million, along with private capital investments totaling approximately $1.8 million and $1.4 million at June 30, 2011 and 2010, 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 $12.6 million and $10.9 million as of June 30, 2011 and 2010, 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, 2011 and 2010 was $433,000 and $427,000, respectively.

3. ACCOUNTS AND STUDENT LOANS RECEIVABLE

Accounts receivable at June 30, 2011 and 2010 consisted of the following (amounts in thousands):

	2011	2010
Grants and contracts	$ 21,338	$ 19,652
Student and general	17,655	14,884
Investment income	133	156
Allowance for doubtful accounts	(5,093)	(4,434)
Total accounts receivable, net	$ 34,033	$ 30,258

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 $1.1 million and $905,000 at June 30, 2011 and 2010, 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, is $79.4 million and $78.5 million at June 30, 2011 and 2010, 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 $52.8 million and $52.5 million at June 30, 2011 and 2010, respectively. Capitalized software has an estimated life of 3 years to 5 years. The value of capitalized software, before amortization, is $16.4 million and $15.1 million at June 30, 2011 and 2010, respectively. Library materials, historical collections and art, and capitalized software are all included in equipment in the schedule of Changes in Property and Equipment.

On July 1, 2010, the University increased the capitalization threshold for equipment from $1,000 to $5,000. Equipment previously capitalized under the $5,000 threshold will be written-off when it becomes fully depreciated. For the year ended June 30, 2011, a total of $42.9 million of fully depreciated equipment falling under the new threshold is included in equipment retirements.

For the year ended June 30, 2011, a total of $2.7 million 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 Agricultural Biotechnology Laboratory and Advanced Technology Laboratory buildings. These expenditures will not increase the value of the buildings or extend its useful life. While the University is pursuing 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.

For the year ended June 30, 2010, a total of $3.3 million 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 is pursuing 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.

For the years ended June 30, 2011 and 2010, a total of $2.5 million and $6.7 million, 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, 2011 and 2010, an accrual for estimated expenditures to complete these projects totaling $12.1 million and $18.1 million, 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 years ended June 30, 2011 and 2010, a total of $3.9 million and $5.2 million, respectively, 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 project was cancelled subsequent to June 30, 2011, and it was determined that costs capitalized to date had no realizable value as of June 30, 2011. For fiscal year 2010, the amount written-off represents costs accumulated that were determined to exceed the value of the implementation project to date.

The following table describes the changes in property and equipment for the years ended June 30, 2011 and 2010 (amounts in thousands):

Changes in Property and Equipment for the Year Ended June 30, 2011:

	Balance July 1, 2010	Additions	Retirements	Transfers and other	Balance June 30, 2011
Property and equipment:					
Land	$ 14,826	$ -	$ (150)	$ -	$ 14,676
Non-structural improvements	196,282	5,371	(188)	4,301	205,766
Buildings	1,618,618	15,318	(1,507)	11,504	1,643,933
Equipment	428,736	18,485	(50,380)	-	396,841
Construction in progress	45,330	53,908	-	(15,805)	83,433
Total property and equipment	2,303,792	93,082	(52,225)	-	2,344,649
Less accumulated depreciation and amortization:					
Non-structural improvements	91,805	7,701	(188)	-	99,318
Buildings	565,315	55,611	(1,024)	-	619,902
Equipment	249,143	27,023	(50,000)	-	226,166
Total accumulated depreciation and amortization	906,263	90,335	(51,212)	-	945,386
Property and equipment, net:					
Land	14,826	-	(150)	-	14,676
Non-structural improvements	104,477	(2,330)	-	4,301	106,448
Buildings	1,053,303	(40,293)	(483)	11,504	1,024,031
Equipment	179,593	(8,538)	(380)	-	170,675
Construction in progress	45,330	53,908	-	(15,805)	83,433
Property and equipment, net:	$ 1,397,529	$ 2,747	$ (1,013)	$ -	$ 1,399,263

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	$ -	$ -	$ -	$ 14,826
Non-structural improvements	193,757	1,598	(412)	1,339	196,282
Buildings	1,590,324	23,303	-	4,991	1,618,618
Equipment	428,019	22,339	(21,622)	-	428,736
Construction in progress	23,185	28,475	-	(6,330)	45,330
Total property and equipment	2,250,111	75,715	(22,034)	-	2,303,792
Less accumulated depreciation and amortization:					
Non-structural improvements	83,910	7,938	(43)	-	91,805
Buildings	509,882	55,433	-	-	565,315
Equipment	243,739	26,668	(21,264)	-	249,143
Total accumulated depreciation and amortization	837,531	90,039	(21,307)	-	906,263
Property and equipment, net:					
Land	14,826	-	-	-	14,826
Non-structural improvements	109,847	(6,340)	(369)	1,339	104,477
Buildings	1,080,442	(32,130)	-	4,991	1,053,303
Equipment	184,280	(4,329)	(358)	-	179,593
Construction in progress	23,185	28,475	-	(6,330)	45,330
Property and equipment, net:	$ 1,412,580	$ (14,324)	$ (727)	$ -	$ 1,397,529

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 $1,250.0 million, of which $962.0 million was to be financed by bonds of the University; $18.0 million was to be funded by State general obligation bonds; and the balance of $270.0 million 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 $25.0 million reallocation from existing UCONN 2000 Health Center allocations, and a $207.0 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. In fiscal year 2011, the General Assembly enacted and the Governor signed Public Act No. 11-75, An Act Concerning the University of Connecticut Health Center, which increased the authorized project costs for the Health Center under Phase III. The Act, as amended, authorized additional projects for the University and the Health Center at an estimated cost of $1,818.3 million, of which $1,769.9 million is to be financed by bonds of the University and $48.4 million 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. Total project costs estimated under Phase III are $775.3 million for the Health Center and $1,043.0 million for the University. The total estimated cost for the UCONN 2000 program, including Phases I, II and III, is $3,068.3 million.

The table below lists general obligation bonds issued to finance UCONN 2000 projects as of June 30, 2011 (amounts in thousands). Refer to the subsequent schedule on page 36 for outstanding balances.

1996 Series A	$ 83,930
1997 Series A	124,392
1998 Series A	99,520
1999 Series A	79,735
2000 Series A	130,850
2001 Series A	100,000
2002 Series A	100,000
2003 Series A	96,210
2004 Series A	97,845
2005 Series A	98,110
2006 Series A	77,145
2007 Series A	89,355
2009 Series A	144,855
2010 Series A	97,115
Total issued	$ 1,419,062

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.

In fiscal year 2011, there were no additional bonds issued. In fiscal year 2010, the University recorded $97.1 million, as State debt service commitment for principal together with part of the respective original issue premium, which resulted in total proceeds of $105.0 million for the 2010 Series A bonds. The proceeds included $35.6 million to finance projects for the Health Center for fiscal year 2010. As noted above, Phase III of UCONN 2000 includes a commitment to fund projects totaling $775.3 million for the Health Center. As bonds are issued, the amount of the commitment for the Health Center is reflected as an offset to the revenue for the University. In fiscal year 2010 this offset to finance projects for the Health Center, resulted in net revenue of $61.7 million, 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 ($6.8 million and $30.8 million at June 30, 2011 and 2010, respectively). Also, for the years ended June 30, 2011 and 2010, nonoperating revenues include the State debt service commitment for interest on general obligation bonds of $40.0 million and $38.6 million, 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 $36.1 million and these bonds have a final maturity date of February 2021. Proceeds from the sale of the bonds totaled $38.7 million 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 $97.1 million in 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 (amounts in thousands):

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

Subsequent to the year ended June 30, 2011, the University issued $179.7 million of General Obligation Bonds, 2011 Series A, to fund UCONN 2000 Phase III projects and $31.9 million of General Obligation Bonds, 2011 Refunding Series A, to refund $33.7 million of the University's outstanding balances consisting of portions of the 2003 and 2004 Series A bonds previously issued. The sale of this issue concluded in November 2011, with the closing date of December 8, 2011.

The University may also issue special obligation bonds backed by certain pledged revenues of the University. On February 4, 1998, the University issued $33.6 million of the Student Fee Revenue Bonds 1998 Series A to fund $30.0 million of the South Campus Project. On February 14, 2002, the University issued $75.4 million of the Student Fee Revenue Bond 2002 Series A to fund five UCONN 2000 projects: Alumni Quadrant Renovations at $7.0 million, Shippee/Buckley Renovations at $5.0 million, East Campus North Renovations at $1.0 million, Towers Renovations (including Greek Housing) at $14.2 million, and North Campus Renovations at $45.0 million. 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 $47.5 million 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 $89.6 million. Bond proceeds funded three UCONN 2000 projects: Hilltop Dormitory at $21.0 million, Hilltop Student Rental Apartments at $42.0 million and Parking Garage South at $24.0 million. 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 $96.1 million and have a final maturity of November 15, 2029.

Similar to general obligation bond refundings, the proceeds from student fee revenue bond refundings are deposited into certain escrow accounts to meet all obligations of the refunded maturities. 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 $73.2 million and $71.2 million in fiscal years 2011 and 2010, 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. 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, 2011 and 2010, the total principal and interest remaining to be paid on all special obligation bonds are $244.2 million and $256.8 million, respectively. The total amount paid by pledged revenues for this debt for principal were $5.1 million and $4.7 million, and for interest were $7.6 million and $8.5 million at June 30, 2011 and 2010, respectively.

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.

During fiscal year 2009, the University purchased a unit in Campus Associates Limited Partnership for $50,000. The related loan is included in long-term debt in the accompanying financial statements for the year ended June 30, 2010, and was retired during fiscal year 2011.

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, 2011 and 2010 was as follows (amounts in thousands):

Long-term Debt Activity for the Year Ended June 30, 2011:

	Balance July 1, 2010	Additions	Retirements	Balance June 30, 2011	Current portion
General obligation bonds	$ 877,492	$ -	$ (73,182)	$ 804,310	$ 69,295
Revenue bonds	164,375	-	(5,085)	159,290	5,120
Self liquidating bonds	3,793	-	(840)	2,953	781
Installment loans	241	-	(91)	150	89
Obligation under capital lease for Cogeneration	69,267	-	(3,169)	66,098	3,314
Campus Associates Limited Partnership loan	12	-	(12)	-	-
Total long-term debt	1,115,180	-	(82,379)	1,032,801	78,599
Premiums/discounts/debt difference due to refunding	27,956	-	(2,107)	25,849	1,990
Total long-term debt, net	$ 1,143,136	$ -	$ (84,486)	$ 1,058,650	$ 80,589

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	$ 844,945	$ 133,210	$ (100,663)	$ 877,492	$ 73,182
Revenue bonds	172,830	47,545	(56,000)	164,375	5,085
Self liquidating bonds	4,786	-	(993)	3,793	840
Installment loans	379	-	(138)	241	91
Obligation under capital lease for Cogeneration	72,298	-	(3,031)	69,267	3,169
Campus Associates Limited Partnership loan	37	-	(25)	12	12
Total long-term debt	1,095,275	180,755	(160,850)	1,115,180	82,379
Premiums/discounts/debt difference due to refunding	18,825	11,086	(1,955)	27,956	2,107
Total long-term debt, net	$ 1,114,100	$ 191,841	$ (162,805)	$ 1,143,136	$ 84,486

Long-term debt outstanding at June 30, 2011 and 2010 consisted of the following (amounts in thousands):

Type of debt and issue date	Type of issue	Principal payable	Maturity dates through fiscal year	Interest rate	Balance 2011	Balance 2010
Bonds:						
GO 1996 Series A	original	various	2011	5.1%	$ -	$ 2,122
GO 2001 Series A	original	annually	2011	4.0%	-	4,960
GO 2002 Series A	original	annually	2012	4.3-4.464%	5,000	10,000
GO 2003 Series A	original	annually	2023	3.2-4.4%	20,595	25,595
GO 2004 Series A	original	various	2024	3.0-5.0%	54,550	59,445
GO 2004 Ref. Series A	refund	annually	2020	3.9-5.0%	174,080	191,840
GO 2005 Series A	original	annually	2025	3.625-3.7%	65,430	71,970
GO 2006 Series A	original	annually	2026	3.783-5.0%	57,850	61,710
GO 2006 Ref. Series A	refund	various	2020	3.2-5.0%	59,555	59,555
GO 2007 Series A	original	annually	2027	3.6-5.0%	68,275	73,545
GO 2007 Ref. Series A	refund	various	2022	5.0%	46,030	46,030
GO 2009 Series A	original	annually	2029	3.0-5.0%	130,165	137,510
GO 2010 Series A	original	annually	2030	3.0-5.0%	92,260	97,115
GO 2010 Ref. Series A	refund	annually	2021	2.0-5.0%	30,520	36,095
Total general obligation bonds					804,310	877,492
Rev 2002 Series A	original	various	2030	4.125-5.0%	34,425	36,325
Rev 2002 Ref. Series A	refund	annually	2030	4.0-5.25%	78,410	80,505
Rev 2010 Ref. Series A	refund	annually	2028	2.0-5.0%	46,455	47,545
Total revenue bonds					159,290	164,375
March 1993	original	annually	2012	5.5%	65	130
October 1993	refund	various	2012	6.0%	206	206
June 2001	refund	annually	2016	4.3 -4.65%	377	453
November 2001	refund	various	2014	3.8-5.0%	883	1,174
August 2002	refund	various	2016	3.62-4.0%	552	552
December 2003	refund	annually	2011	5.0%	-	209
April 2005	refund	various	2017	3.9-5.2%	275	275
December 2007	refund	various	2015	3.25-4.24%	595	794
Total self liquidating bonds					2,953	3,793
Total bonds					966,553	1,045,660
Loans and other debt:						
Installment loans		various	various	1.01-2.30%	150	241
Obligation under capital lease for Cogeneration		monthly	2026	4.42-5.09%	66,098	69,267
Campus Associates Limited Partnership loan		semi-annually	2011	0.75%	-	12
Total loans and other					66,248	69,520
Total bonds, loans and installment purchases					1,032,801	1,115,180
Premiums/discounts/debt difference due to refunding					25,849	27,956
Total bonds, loans and installment purchases, net					1,058,650	1,143,136
Less: current portion, net					80,589	84,486
Total noncurrent portion, net					$ 978,061	$ 1,058,650

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

	General obligation bonds			Long-term debt other than general obligation bonds			Total obligations		
Year(s)	**Principal**	**Interest**	**Total**	**Principal**	**Interest**	**Total**	**Principal**	**Interest**	**Total**
2012	$ 69,295	$ 37,014	$ 106,309	$ 9,304	$ 10,586	$ 19,890	$ 78,599	$ 47,600	$ 126,199
2013	65,765	34,125	99,890	9,788	10,153	19,941	75,553	44,278	119,831
2014	68,945	31,007	99,952	10,076	9,728	19,804	79,021	40,735	119,756
2015	68,785	27,975	96,760	10,505	9,250	19,755	79,290	37,225	116,515
2016	64,160	24,768	88,928	10,848	8,740	19,588	75,008	33,508	108,516
2017-2021	272,455	80,583	353,038	61,022	35,681	96,703	333,477	116,264	449,741
2022-2026	149,720	29,045	178,765	72,788	20,185	92,973	222,508	49,230	271,738
2027-2031	45,185	4,620	49,805	44,160	4,836	48,996	89,345	9,456	98,801
Total	$ 804,310	$ 269,137	$ 1,073,447	$ 228,491	$ 109,159	$ 337,650	$ 1,032,801	$ 378,296	$ 1,411,097

6. RETIREMENT PLANS

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; therefore, no liability for pension benefits is recorded in the University's financial statements. The State is required to contribute at an actuarially determined rate, which may be reduced by an act of the State legislature. The plan does not issue stand-alone financial reports. Information on the plan is also publicly available in the State of Connecticut's Comprehensive Annual Financial Report.

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. 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. 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 463 full-time employees, 79 participate in either the State Employees' Retirement System or ARP, while 384 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 $575,000 and $561,000 to the plan for the years ended June 30, 2011 and 2010, 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, 2011 and 2010 compensated absences totaled $34.5 million and $31.2 million, 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, 2011 and 2010, are $2.4 million and $2.5 million, respectively, for accrued vacation and sick leave for University employees that participated in RIP. A reclassification was made to compensated absences in the accompanying Statements of Net Assets to better reflect the current and noncurrent portions at June 30, 2010. The following table shows activity for compensated absences for the fiscal years ended June 30 (amounts in thousands):

	2011	**2010**
Beginning balance, July 1st	$ 31,187	$ 26,451
Additions, net	5,378	6,346
Deductions (separations only)	(2,098)	(1,610)
Ending balance, June 30th	$ 34,467	$ 31,187

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 is responsible and 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; therefore, no liability is recorded in the University's financial statements.

9. COMMITMENTS

On June 30, 2011, the University had outstanding commitments in excess of $500,000 each, which totaled $116.5 million, and included $110.9 million of commitments related to capital projects. Of this amount, commitments totaling $19.3 million 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, 2011. In addition to the amount for capital outlay, commitments were also related to instruction, research, operations and maintenance of plant, and institutional support. Of these commitments, the University expects approximately $1.8 million to be reimbursed by federal grants.

10. LEASES

Operating Leases

The University leases equipment and building space which expire at various dates. Future minimum rental payments at June 30, 2011 under non-cancelable operating leases that exceed $500,000 each are as follows (amounts in thousands):

Fiscal Year	Payments
2011	$ 782
2012	782
2013	782
2014	853
2015	860
Thereafter	72
Total	$ 4,131

Expenses related to operating lease commitments in excess of $500,000 each were approximately $814,000 and $665,000 for the fiscal years ended June 30, 2011 and 2010, respectively.

In August 2011, the University entered into a long-term agreement with an energy supplier to lease a fuel cell power system that will provide electricity and thermal energy for its buildings located at the Depot campus. The terms of the agreement commence in fiscal year 2012, which will terminate after 120 months, and include the option for two 5-year extensions based on mutually agreed upon terms. In return for consideration, the University shall pay approximately $302,000 per year, with cumulative payments not to exceed $4.0 million over the life of the initial 10-year term.

Capital Leases

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 $75.0 million 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 $81.9 million. In December 2005, the University requested a final advance from the lessor related to this lease purchase agreement. With the amendment, monthly payments of $471,000 increased to $517,000. Payments began January 2006 and the lease matures 20 years from commencement with interest at a nominal rate of 4.42% on the first $75.0 million and 5.09% for the last $6.9 million 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. The historical cost and accumulated depreciation of the Cogeneration facility are $82.6 million and $18.0 million, respectively, as of June 30, 2011.

The University leases equipment assets with an historical cost and accumulated depreciation of $373,000 and $149,000, respectively, as of June 30, 2011.

All assets subject to capital lease agreements are included in property and equipment on the accompanying Statements of Net Assets, and depreciation on these assets is included in depreciation and amortization expense in the accompanying Statements of Revenues, Expenses, and Changes in Net Assets (see Note 4). Loans related to these capital lease agreements are included in long-term debt and bonds payable on the accompanying Statements of Net Assets (see Note 5).

11. 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, 2011 and 2010 deferred income is as follows (amounts in thousands):

	2011	2010
Certain restricted research grants	$ 10,768	$ 10,236
Tuition and fees and auxiliary enterprises	10,133	11,377
Athletic ticket sales and commitments	3,876	3,651
Other	-	1,925
Total deferred income	$ 24,777	$ 27,189

A portion of current deferred charges totaling $697,000 and $828,000 and noncurrent deferred charges totaling $7.5 million and $8.0 million at June 30, 2011 and 2010, 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).

12. TUITION WAIVERS AND GRADUATE ASSISTANTSHIPS

The University is required by law to waive tuition for certain veterans and children of veterans, certain students over the age of 62, 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 $4.6 million and $4.3 million for the fiscal years ended June 30, 2011 and 2010, respectively. Waivers not reflected in the accompanying financial statements totaled $42.4 million and $40.9 million in fiscal years 2011 and 2010, respectively. In fiscal years 2011 and 2010, approximately 93% were provided to graduate assistants.

13. RELATED PARTY TRANSACTIONS

The Foundation

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 provide financial support to the Foundation through a guaranteed contractual amount and the Foundation agreed to reimburse the University for certain operating expenses incurred on the Foundation's behalf. The terms of the agreement also stipulate that goals, objectives, and financial arrangements are reviewed and agreed-upon by both parties on an annual basis.

The following transactions occurred between the University and the Foundation as of and for the years ended June 30, 2011 and 2010 (amounts in thousands):

	2011	2010
Amount paid to the Foundation for its guaranteed contractual services	$ 7,120	$ 7,554
Reimbursements from the Foundation for operating expenses	$ 80	$ 536
Accrued capital and noncapital gifts and grants revenue from the Foundation	$ 18,923	$ 15,303
Amount receivable from the Foundation*	$ 5,589	$ 1,436

**Included in accounts receivable, net, in the accompanying Statements of Net Assets.*

In June 2010, the University also agreed to fund an additional $2.5 million 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 improve the Foundation's fundraising capacity and is expected to be completed and fully operational by the end of fiscal year 2013.

In accordance with the terms of a ground lease between the University and the Foundation, the University leases approximately 1.58 acres to the Foundation, on which the Foundation building was constructed, at an annual rental amount of one dollar. The initial term of the ground lease is ninety-nine years and the Foundation has the right to extend the term of the ground lease for another ninety-nine years. The ground lease provides that at its expiration or earlier termination, unless it is extended, the Foundation shall surrender the premises, and title to the building will be transferred to the University.

The State

The State supports the University's mission primarily via two mechanisms: State appropriation 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, 2011 and 2010 were as follows (amounts in thousands):

	2011	2010
Amount of General Fund appropriation received from the State	$ 232,656	$ 233,011
Amount of payments for fringe benefits received from the State	96,439	93,629
Decrease of General Fund payroll included in receivable from the State	(144)	(1,178)
Total appropriation and payments for fringe benefits from the State	$ 328,951	$ 325,462

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 transfers of $15.0 million and $8.0 million in fiscal years 2011 and 2010, respectively, from the University's unrestricted net assets to the State's General Fund. For fiscal year 2012, the University anticipates a reduction of approximately $36.6 million in appropriation and payments for fringe benefits due to the State's current economic condition.

Health Center and Office of Technology Commercialization

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. The aggregate total contributed by the University to fund the OTC in fiscal years 2011 and 2010 was $1.0 million and $961,000, respectively. Of these amounts, $431,000 and $423,000 represent expenses paid by the University associated with OTC functions based on the Storrs campus.

The University also engaged in certain cost share arrangements with the Health Center for shared services such as senior management salaries.

University of Connecticut Alumni Association

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, 2011 and 2010, the University directed support to the Association in the amount of $1.0 million and $694,000, 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 Association also agreed to reimburse the University for certain operating expenses incurred on the Association's behalf. The amount owed to the University related to these expenses from the Association as of June 30, 2011 was $44,000, which is included in accounts receivable, net, in the accompanying Statement of Net Assets.

Additionally, the Association manages the University's license plate program that has been established through the Department of Motor Vehicles. All revenue received by the University from the license plate program is disbursed to the Association to fund scholarships and to further support alumni outreach efforts. There were no amounts payable to the Association for the license plate program as of June 30, 2011.

Campus Associates Limited Partnership

The University entered into a land lease with Campus Associates Limited Partnership (Campus Associates) 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 $50,000 for the limited partnership interest (see Note 2). The University owed Campus Associates $12,000 as of June 30, 2010, for the limited partnership interest, which was settled as of June 30, 2011 (see Note 5). Furthermore, under the land lease agreement, Campus Associates is responsible for certain costs which include real estate taxes, charges for public utilities, and other services. The amounts owed by Campus Associates for these costs as of June 30, 2011 and 2010, were $206,000 and $229,000, respectively, which are included in accounts receivable, net, in the accompanying Statement of Net Assets.

Mansfield Downtown Partnership, Incorporated

The Mansfield Downtown Partnership, Incorporated (MDP) is a not-for-profit corporation that is exempt from taxation under section 501(c)(3) of the Internal Revenue Code and is comprised of the Town of Mansfield (Mansfield), the University, and individual business members and residents. MDP is responsible for organizing the enhancement and revitalization of three of Mansfield's commercial areas: Storrs Center, King Hill Road and the Four Corners. In accordance with its governing by-laws, members are required to submit annual dues, as determined by the board of directors, in lieu of financial support. In fiscal years 2011 and 2010, the University paid $125,000 each year in annual membership dues to MDP.

In connection with the Storrs Center project, the University entered into an agreement with the master developer of the project to sell 18.80 acres of land for approximately $101,000 per acre which is to be divided up in phases. In fiscal year 2011, the University conveyed 3.96 acres to the master developer at the stated price per acre and conveyed an additional 2.71 acres that was, in turn, transferred to Mansfield at no cost for the provision of public improvements. Furthermore, 5.84 acres were conveyed in November 2011 and more transactions are expected as the Storrs Center project progresses. In relation to the Storrs Center project, the University has also agreed to provide water and sewer services, which will be billed in accordance with the University's standard billing practices.

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

14. 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 the majority of these matters will not have a material effect on the University's financial statements. However, there are four outstanding matters of potential individual significance. With respect to three of these matters, the claimants seek in the aggregate of approximately $30.0 million; the State expects these matters to be resolved for less than that amount. With respect to the remaining matter, the claimant has not articulated a demand.

The University also participates in a number of federal programs subject to financial and compliance audits. The amount of expenditures that may be disallowed by the granting agencies cannot be determined at this time; however, the University does not expect these amounts, if any, to be material to the financial statements.

15. OPERATING EXPENSES BY NATURAL CLASSIFICATION

The table below details the University's operating expenses by natural classification for the years ended June 30, 2011 and 2010 (amounts in thousands).

For the fiscal year ended June 30, 2011:

	Salaries and wages	Fringe benefits	Supplies and other expenses	Utilities	Depreciation and amortization	Total
Instruction	$ 198,436	$ 63,054	$ 30,713	$ -	$ -	$ 292,203
Research	40,519	8,831	25,131	-	-	74,481
Public services	25,028	7,985	8,457	-	-	41,470
Academic support	52,439	20,459	25,495	-	-	98,393
Student services	24,526	9,361	5,708	160	-	39,755
Institutional support	46,744	21,509	20,183	214	-	88,650
Operations and maintenance	20,089	12,122	21,993	17,161	-	71,365
Depreciation and amortization	-	-	-	-	90,335	90,335
Student aid	366	1	5,123	-	-	5,490
Auxiliary enterprises	64,319	24,725	56,501	8,971	-	154,516
Other operating expenses	259	86	19,395	-	-	19,740
	$ 472,725	$ 168,133	$ 218,699	$ 26,506	$ 90,335	$ 976,398

For the fiscal year ended June 30, 2010:

	Salaries and wages	Fringe benefits	Supplies and other expenses	Utilities	Depreciation and amortization	Total
Instruction	$ 186,970	$ 58,276	$ 26,693	$ -	$ -	$ 271,939
Research	39,539	9,597	23,150	-	-	72,286
Public services	21,198	7,098	7,327	-	-	35,623
Academic support	48,911	18,926	22,756	-	-	90,593
Student services	22,964	8,751	5,076	272	-	37,063
Institutional support	43,711	19,859	19,490	115	-	83,175
Operations and maintenance	19,244	11,232	18,622	17,644	-	66,742
Depreciation and amortization	-	-	-	-	90,039	90,039
Student aid	379	1	4,258	-	-	4,638
Auxiliary enterprises	60,073	23,428	52,134	9,779	-	145,414
Other operating expenses	1,492	578	22,438	-	-	24,508
	$ 444,481	$ 157,746	$ 201,944	$ 27,810	$ 90,039	$ 922,020

TRUSTEES AND FINANCIAL OFFICERS
As of June 30, 2011

BOARD OF TRUSTEES

FINANCIAL OFFICERS

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