



**UConn** | UNIVERSITY OF  
CONNECTICUT

Financial Report  
For the Year Ended June 30, 2014



## **Message from the Interim Executive Vice President for Administration 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 (UConn Health). Although governed by a single Board of Trustees, the University and UConn Health maintain separate budgets and are, by statute, separate entities for purposes of maintaining operating funds and State appropriations. UConn Health 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, 2014 represents the transactions and balances of the University, herein defined as all programs except UConn Health. 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 2014 was 29,932 students, taught by 1,485 full-time faculty members and an additional 730 part-time faculty and adjuncts. In total, the University employs 4,757 full and part-time faculty and staff (excluding adjuncts).

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 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, and purchasing authority and, with the advent of the UCONN 2000 building program 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 mission. 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 several 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. Despite the reality of unstable State support, the University is committed to continuing 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 while focusing on three key goals: assuring access to educational excellence, enabling the University to be a key resource for Connecticut's economic growth, and outreach to Connecticut's people. The fiscal year 2014 financial statements reflect enhanced revenues where possible and reduced expenditures through the following actions: an approval process for all hires and rehires, reductions for non-personnel expenditures, and review of procurement contracts for savings opportunities.

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In June 2013, the General Assembly of the State of Connecticut enacted and the Governor signed into law Public Act No. 13-233, An Act Concerning Next Generation Connecticut. The Next Generation Connecticut Act is a new initiative that will greatly expand educational opportunities, research, and innovation in the science, technology, engineering, and math disciplines at the University over the next decade. The commitment to *Next Generation Connecticut* is a shared fiduciary responsibility with the State. The proposed capital and operating funding for this initiative will be allocated incrementally between fiscal years 2015 and 2024. Certain goals and objectives of *Next Generation Connecticut* include hiring new faculty members, enrolling additional undergraduate students, upgrading aging infrastructure to accommodate new faculty and students, and relocating the University's Greater Hartford campus.

The University enjoys strong support across the State, is attracting greater numbers of highly qualified applicants than ever before, and maintains solid national rankings in virtually all relevant areas. Among its many accomplishments, the University continues to be the top public university in New England and is among the top public universities in the nation in the annual *U.S. News and World Report (2014 America's Best Colleges)* rankings. The University is also 28<sup>th</sup> on *Kiplinger's Personal Finance's* list of 100 Best Values in Public Colleges which ranks schools that combine outstanding education with economic value.

- 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 2013 freshman enrollment at the main campus was up 86%, minority freshman enrollment was up 201%, and since 1996, average SAT scores were up 120 points. 45% 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 94%. The 6-year graduation rate is 83% and the average time to graduate is 4.2 years among students completing a Bachelor's degree within six years.
- Approximately 7,700 degrees were conferred in the 2013-14 school year for the completion of undergraduate, graduate and professional programs at the Storrs and regional campuses.
- The endowment for both the University and UConn Health is valued at \$402.4 million and is maintained by the University, The University of Connecticut Foundation, and The University of Connecticut Law School Foundation. The support provided to or on behalf of the University and UConn Health from both foundations totaled \$51.8 million in 2014 for scholarships, faculty, programs and facilities.
- By the end of fiscal year 2014, the UCONN 2000 program has led to the authorization of 110 major projects totaling \$2.3 billion in bond proceeds.

During fiscal year 2014, the University's accomplishments in intercollegiate sports included the following:

- The women's basketball team captured their ninth national championship and completed their fifth perfect season.
- The men's basketball team won their fourth national title in the program's history, all within the last 16 years.
- The women's field hockey team won their third national championship in the program's history, which puts the University as one of only five schools to win multiple national championships.

Respectfully Submitted,



John M. Biancamano  
Interim Executive Vice President for Administration  
and Chief Financial Officer

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STATE OF CONNECTICUT



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JOHN C. GERAGOSIAN

ROBERT M. WARD

INDEPENDENT AUDITORS' REPORT

Board of Trustees of the  
University of Connecticut

**Report on Financial Statements**

We have audited the accompanying financial statements of the University of Connecticut (University), a component unit of the University of Connecticut system, which includes the University, the University of Connecticut Health Center and the University of Connecticut Foundation, Inc., which comprise the statements of net position as of June 30, 2014 and 2013, and the related statements of revenues, expenses and changes in net position and cash flows for the years then ended, and the related notes to the financial statements, which collectively comprise the University's basic financial statements as listed in the table of contents.

**Management's Responsibility for the Financial Statements**

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes design implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

**Auditor's Responsibility**

Our responsibility is to express an opinion on these financial statements based on our audits. 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. We did not audit the financial statements of the University of Connecticut Law School Foundation, Inc., a discretely presented component unit of the University, which represented less than one percent of the assets of the University as of June 30, 2014 and 2013 and less than one percent of total revenues and support for the University for the years then ended. 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.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

## Opinion

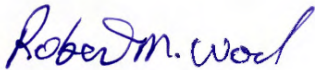
In our opinion, based upon our audit and the reports of other auditors, the financial statements referred to above present fairly, in all material respects, the financial position of the University, as of June 30, 2014 and 2013, and the respective changes in financial position and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

## Other Matters

### *Required Supplementary Information*

The accompanying Management's Discussion and Analysis on pages 4 through 15 is required by accounting principles generally accepted in the United States of America to supplement the basic financial statements. Such information, although not part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Sincerely,



Robert M. Ward  
Auditor of Public Accounts



John C. Geragosian  
Auditor of Public Accounts

January 12, 2015  
State Capitol  
Hartford, Connecticut

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# **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, 2014, based on currently known facts, decisions, or conditions. It also includes selected comparative information for the fiscal years ended June 30, 2013 and 2012. 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 (UConn Health). Although governed by a single Board of Trustees, the University and UConn Health maintain separate budgets and are, by statute, separate entities for purposes of maintaining operating funds and State appropriations. UConn Health also has a Board of Directors to whom the Board of Trustees has delegated certain responsibility and authority.

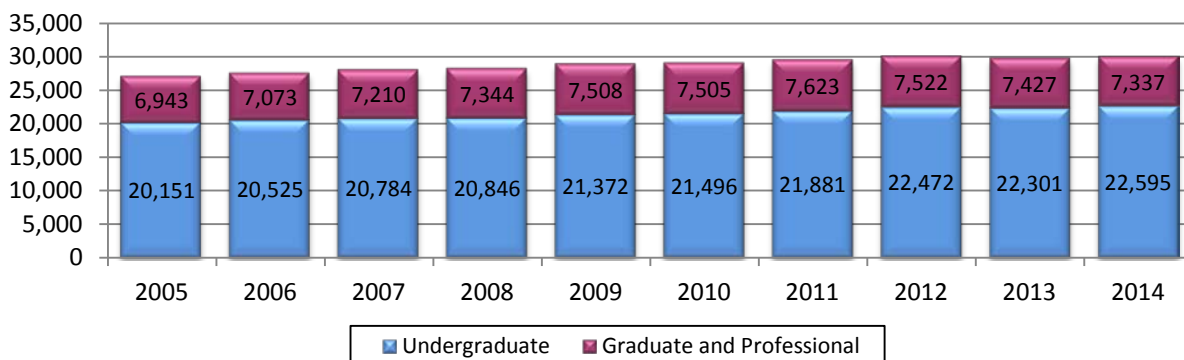
The financial report for the fiscal year ended June 30, 2014 represents the transactions and balances of the University, herein defined as all programs except UConn Health. This includes Storrs-based undergraduate and graduate programs, the regional campuses, the School of Law and the School of Social Work. The University of Connecticut Law School Foundation, Inc. (Law School Foundation) is discretely presented as a component unit of the University (see Note 1). For the purposes of this MD&A, the Law School Foundation is excluded.

### FINANCIAL HIGHLIGHTS

Total assets and total liabilities increased \$330.9 million and \$324.5 million, respectively, primarily a result of newly acquired debt to fund capital projects under the UCONN 2000 program (see Note 5). Operating revenues continue to exhibit strength during fiscal year 2014. The University’s largest operating revenue, student tuition and fees (net of scholarship allowances) increased \$17.9 million (6.9%) over fiscal year 2013 based on the following factors:

- The University’s total enrollment grew to 29,932 students in fiscal year 2014, a 10.5% increase since 2005. Undergraduate enrollment at the University reached a record 22,595 students in fiscal year 2014, 1.3% more than fiscal year 2013. Graduate and professional enrollment totaled 7,337, a 1.2% decrease from fiscal year 2013.
- In-state tuition and mandatory fee increases of 5.8% and an out-of-state increase of 6.1% were approved for fiscal year 2014 for undergraduate students. Graduate tuition and mandatory fees also increased 6.2% for in-state and out-of-state.

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



Total operating expenses increased \$99.2 million (9.9%) over fiscal year 2013 which were driven by a rise in salary and fringe benefit related costs. Consequently, the University experienced an operating loss of \$430.6 million for the year ended June 30, 2014 as compared to \$367.9 million for the year ended June 30, 2013, and \$340.5 million for the year ended June 30, 2012. For public institutions, income or loss before other changes in net position is more indicative of normal and recurring activities, which includes revenue from the State appropriation. Overall, the University experienced a loss before other changes in net position of \$105.7 million in fiscal year 2014 as compared to \$64.6 million and \$45.6 million for fiscal years 2013 and 2012, respectively.

## **ECONOMIC OUTLOOK**

The University continues to face financial challenges as the economy recovers five years after the end of the 2008 recession. Reductions in State appropriations and rising fringe benefit costs since then have forced the University to utilize unrestricted reserves, rely more on other revenue sources, and seek immediate, long-term efficiencies where possible to compensate. Despite these challenges, the University is committed to delivering its high standard of service to its students and the citizens of the State. In fiscal year 2014, the University launched its new Academic Plan that pursues excellence in five key areas over the next decade: research and scholarship, undergraduate education, graduate education, teaching effectiveness, and public engagement. This plan provides a blueprint during this pivotal time as key investments are planned through the Next Generation Connecticut initiative (see below) and the development of the UConn Technology Park (Tech Park), and its partnerships with industry and researchers.

The Next Generation Connecticut initiative greatly expands educational opportunities, research, and innovation in the science, technology, engineering, and math disciplines at the University over the next decade. The commitment to Next Generation Connecticut is a shared fiduciary responsibility with the State. Proposed capital and operating funding for Next Generation Connecticut will be allocated incrementally between fiscal years 2015 and 2024. Additionally, the University will commit significant institutional resources to launch Next Generation Connecticut and support the academic program components. The total State request for operating funds is \$137.0 million through fiscal year 2024; however, future funding is subject to the annual legislative approval process and is not guaranteed. Certain goals and objectives of the 10-year plan include hiring new research and teaching faculty, increasing enrollment of undergraduate students at the Storrs and regional campuses, upgrading aging infrastructure to accommodate new faculty and students, and relocating the University's Greater Hartford campus.

The UConn Tech Park, to be built on the Storrs campus, continues to evolve and is 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. Public Act (PA) No. 11-57 authorized \$169.5 million of State General Obligation Bonds to develop the inaugural building for the Tech Park, the Innovation Partnership Building (IPB), and related infrastructure. The IPB will consist of approximately 114,000 square feet and be outfitted with agile and flexible-use laboratories. These laboratories will feature specialized equipment to support the collaborative research and development activities of industry and entrepreneurial partners. Areas of emphasis will include advanced manufacturing, cyber-infrastructure, pharmaceuticals, biotechnology, and related fields to build opportunities for industry and attract federal support for technology innovation. The goal for the Tech Park is not just to attract partnerships and faculty from the region, but to draw innovative companies and researchers from around the globe to Storrs.

## **FINANCIAL STATEMENTS**

The University's financial report includes three basic financial statements: Statements of Net Position; Statements of Revenues, Expenses, and Changes in Net Position; 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. These statements and required supplemental information are prepared in accordance with standards issued by the Governmental Accounting Standards Board (GASB).

The University adopted GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*, retroactive to July 1, 2012. This statement establishes accounting and financial reporting standards that reclassify certain items that were previously reported as assets and liabilities as deferred outflows of resources or deferred inflows of resources and recognizes certain items that were previously reported as assets and liabilities as revenues or expenses. As a result of this adoption, the University reports accumulated net loss on debt refundings as a deferred outflow and treats the cost of bond issuances as an expense in the year incurred. The financial statements as of June 30, 2013 have been restated in order to retroactively apply these provisions (see Note 1). For purposes of this MD&A, certain amounts were also restated for fiscal year 2012.

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 POSITION

The Statements of Net Position present the assets, deferred outflows of resources, liabilities, deferred inflows of resources, and net position of the University as of the end of the fiscal year, June 30. The Statements of Net Position 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 position. Net position represents assets, plus deferred outflows, less liabilities, less deferred inflows. 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. A deferred outflow of resources represents the consumption of net assets by the University that is applicable to a future reporting period, while a deferred inflow of resources is an acquisition of net assets by the University that is applicable to a future reporting period.

The Statements of Net Position demonstrate the assets available to continue the operations of the University. The University's net position is the residual value in the University's assets and deferred outflows, after liabilities are deducted. Over time, an increase in net position is an indicator of the University's improving financial strength.

The following table shows condensed Statements of Net Position at June 30 (in millions):

	<b>2014</b>	<b>2013*</b>	<b>2012*</b>
Current assets	\$ 653.8	\$ 499.7	\$ 611.5
Noncurrent assets			
State debt service commitment	931.7	751.0	828.8
Investments	12.3	10.6	10.3
Property and equipment, net	1,468.8	1,474.6	1,430.6
Other	12.0	11.8	11.9
Total assets	<u>\$3,078.6</u>	<u>\$2,747.7</u>	<u>\$2,893.1</u>
Deferred outflows of resources			
Accumulated loss on debt refundings, net	<u>\$ 7.5</u>	<u>\$ 17.9</u>	<u>\$ 20.5</u>
Current liabilities	\$ 429.0	\$ 296.3	\$ 313.1
Noncurrent liabilities			
Long-term debt and bonds payable	1,202.3	1,008.8	1,103.5
Other	19.5	21.1	19.8
Total liabilities	<u>\$1,650.8</u>	<u>\$1,326.2</u>	<u>\$1,436.4</u>
Net investment in capital assets	\$1,187.6	\$1,217.4	\$1,160.2
Restricted	116.9	68.5	148.8
Unrestricted	130.8	153.5	168.2
Total net position	<u>\$1,435.3</u>	<u>\$1,439.4</u>	<u>\$1,477.2</u>

\*Restated for GASB 65.

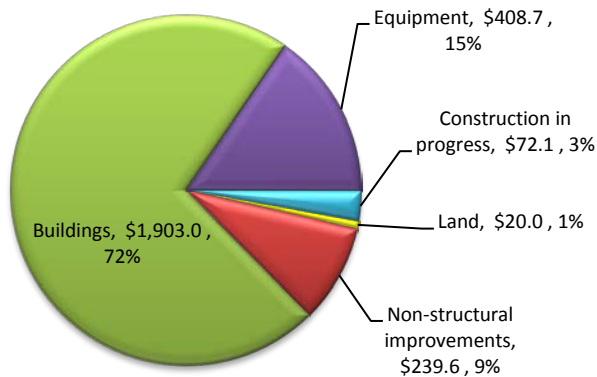
The total assets increased \$330.9 million in fiscal year 2014 over 2013 as compared to a decrease of \$145.4 million in fiscal year 2013 from 2012. The increase in fiscal year 2014 was primarily attributed to increases in deposit with bond trustee of \$168.6 million (\$119.5 million decrease in fiscal year 2013) and State debt service commitment of \$195.9 million (\$76.2 million decrease in fiscal year 2013). Deferred outflows of resources, which relate to the net accumulated loss on debt refundings, decreased \$10.5 million (\$2.6 million in fiscal year 2013). These changes correlate with newly acquired debt and refundings during fiscal year 2014 to fund capital projects under the UCONN 2000 program (see Note 5).

The total liabilities for fiscal year 2014 increased \$324.5 million (\$110.2 million decrease in fiscal year 2013) primarily due to newly acquired debt of \$469.9 million (\$108.6 million in fiscal year 2013) offset by retirement and refundings of debt on existing bonds and loans of \$261.1 million (\$199.2 million in fiscal year 2013). Due to affiliate, which represents the unspent portion of general obligation bonds for UConn Health projects, also increased \$87.5 million (\$44.4 million decrease in fiscal year 2013). The combination of the increase in total assets of \$330.9 million and total liabilities of \$324.5 million, offset by the \$10.5 million decrease in deferred outflows of resources, yielded a decrease in total net position of \$4.1 million (\$37.8 million in fiscal year 2013).

**Capital and Debt Activities**

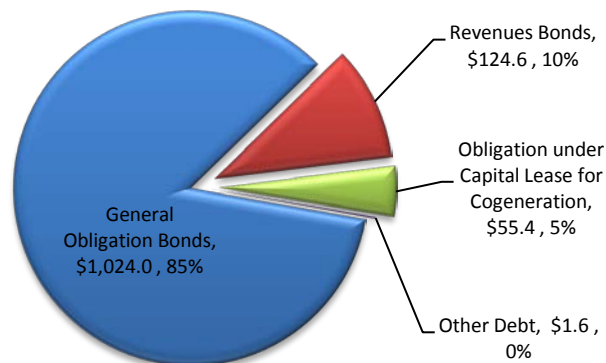
During fiscal year 2014, the University recorded additions to property and equipment totaling \$90.8 million (\$136.1 million and \$120.5 million in fiscal years 2013 and 2012, respectively) of which \$71.7 million related to buildings and construction in progress (\$110.9 million and \$91.0 million in fiscal years 2013 and 2012, respectively). The growth of the University’s property and equipment is a direct result of the successful UCONN 2000 program (see below). The following pie chart presents the total property and equipment at cost:

**TOTAL PROPERTY AND EQUIPMENT AT COST AT JUNE 30, 2014**  
 (\$ in Millions) Total \$2,643.4



PA No. 95-230 enabled the University to borrow money in its own name for a special ten year capital improvement program (UCONN 2000) which was designed to modernize and expand the physical plant of the University. As amended, it provides for a twenty-nine year capital budget program in three phases for the University and UConn Health, estimated to cost \$4.6 billion. The UCONN 2000 Act was originally adopted in 1995 to authorize and finance Phase I and Phase II projects at the University. It was amended in 2002, to add Phase III projects, and again in fiscal years 2010 and 2011 which extended the UCONN 2000 program for two more years and increased the estimated cost for certain UConn Health projects. In June 2013, the General Assembly of the State of Connecticut enacted and the Governor signed into law PA No. 13-233, An Act Concerning Next Generation Connecticut, which increased the authorized bond funding by \$1.6 billion, including funds for UConn Health, and extended UCONN 2000 for an additional six fiscal years to 2024. The following chart illustrates the categories of debt as of June 30, 2014, exclusive of premiums and discounts:

**CATEGORIES OF DEBT AT JUNE 30, 2014**  
 (\$ in Millions) Total \$1,205.6

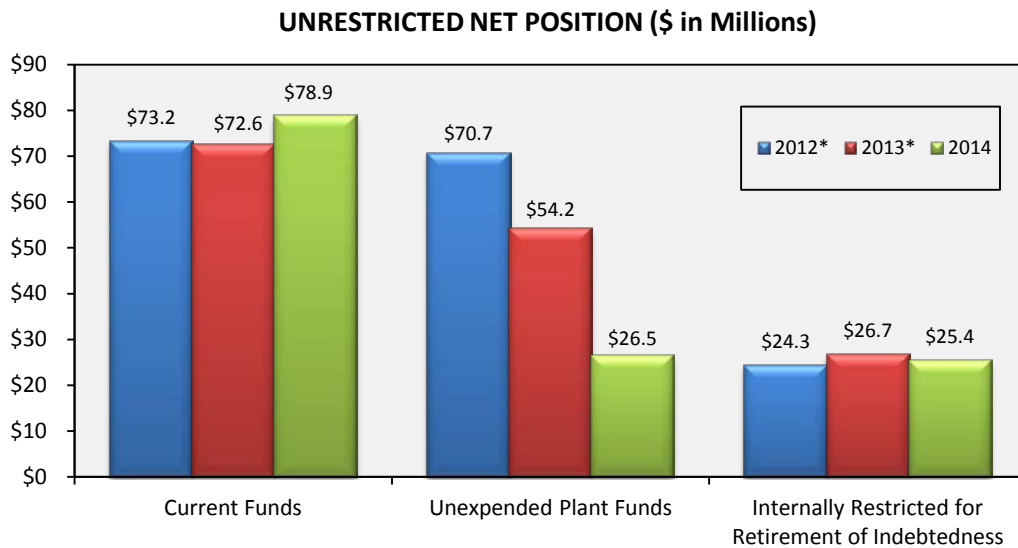


In fiscal year 2014, the University issued UCONN 2000 general obligation bonds with a combined face value of \$425.9 million (\$0 in fiscal year 2013) of which \$193.2 million was committed to UConn Health for its UCONN 2000 projects (see Note 5). The State has made a commitment to fund the University for all principal and interest payments due on UCONN 2000 general obligation debt. 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 Position). When bonds are issued, the amount of the commitment for UConn Health is reflected as a liability by the University.

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

**Net Position**

Net position is divided into three major categories. The first category, net investment in capital assets, represents the University’s equity in property and equipment. The second category, restricted net position, 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 Position this amount represents endowment assets. Expendable restricted net position is 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 position. Unrestricted net position is defined by GASB to include funds not restricted by third-parties, including unrestricted current funds, retirement of indebtedness funds, and plant funds. Unrestricted net position 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. However, GASB prohibits a breakout of designated unrestricted funds on the face of the Statements of Net Position. Unrestricted funds 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 position:



\*Restated for GASB 65.

For the most part all unrestricted funds 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 POSITION**

Revenues and expenses are classified as operating, nonoperating, or other changes in net position 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 Position for the fiscal years ended June 30 (in millions):

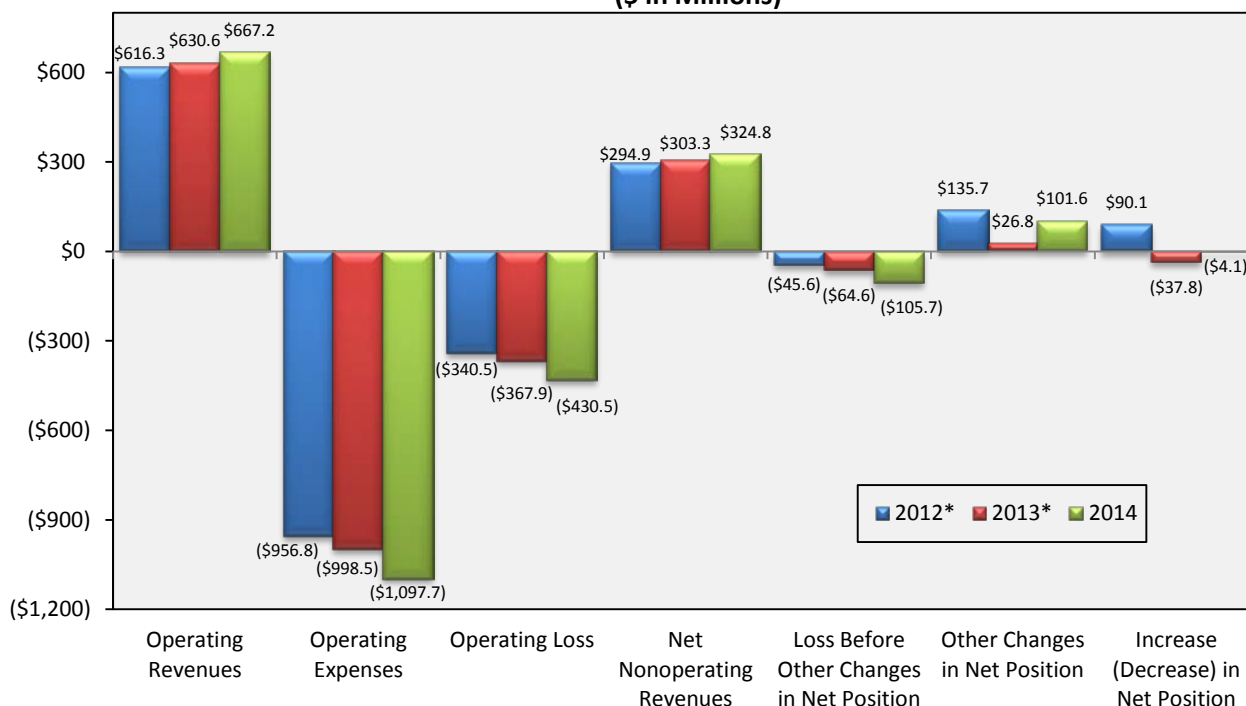
	<b>2014</b>	<b>2013*</b>	<b>2012*</b>
Operating revenues	\$ 667.2	\$ 630.6	\$ 616.3
Operating expenses	1,097.7	998.5	956.8
Operating loss	(430.5)	(367.9)	(340.5)
Net nonoperating revenues	324.8	303.3	294.9
Loss before other changes in net position	(105.7)	(64.6)	(45.6)
Net other changes in net position	101.6	26.8	135.7
Increase (decrease) in net position	\$ (4.1)	\$ (37.8)	\$ 90.1

\*Restated for GASB 65.

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

### STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION

(\$ in Millions)



\*Restated for GASB 65.

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. The University typically experiences an operating loss each year because State appropriation is not included as operating income.

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 noncapital gifts, investment income, interest expense, and other expenses not considered operating expenses.

Other changes in net position are comprised of the State's debt service commitment for principal payments on general obligation bonds used for capital purposes, capital allocation, capital grants and gifts, the disposal of property and equipment, and additions to permanent endowments. The Statements of Revenues, Expenses, and Changes in Net Position reflect decreases in net position of \$4.1 million in fiscal year 2014 and \$37.8 million in fiscal year 2013, and an increase in net position of \$90.1 million in fiscal year 2012.

### Revenues

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

	<b>2014</b>	<b>2013*</b>	<b>2012</b>
Operating revenues:			
Student tuition and fees, net	\$ 279.6	\$ 261.7	\$ 251.0
Grants and contracts	162.6	159.8	159.7
Sales and services of educational departments	19.3	15.8	17.4
Sales and services of auxiliary enterprises, net	195.5	185.2	182.0
Other sources	10.2	8.1	6.2
Total operating revenues	<u>667.2</u>	<u>630.6</u>	<u>616.3</u>
Nonoperating revenues:			
State appropriation	308.1	288.4	282.4
State debt service commitment for interest	42.1	40.6	39.8
Gifts	21.7	20.0	24.3
Investment income	0.8	0.9	0.9
Other nonoperating revenue, net	-	0.4	-
Total nonoperating revenues	<u>372.7</u>	<u>350.3</u>	<u>347.4</u>
Other changes in net position:			
State debt service commitment for principal	80.3	-	115.4
Capital allocation	-	20.0	18.0
Capital grants and gifts	21.6	6.7	2.8
Disposal of property and equipment, net and additions to permanent endowments	0.7	0.1	-
Total other changes in net position	<u>102.6</u>	<u>26.8</u>	<u>136.2</u>
Total revenues	<u>\$ 1,142.5</u>	<u>\$ 1,007.7</u>	<u>\$ 1,099.9</u>

\*Restated for GASB 65.

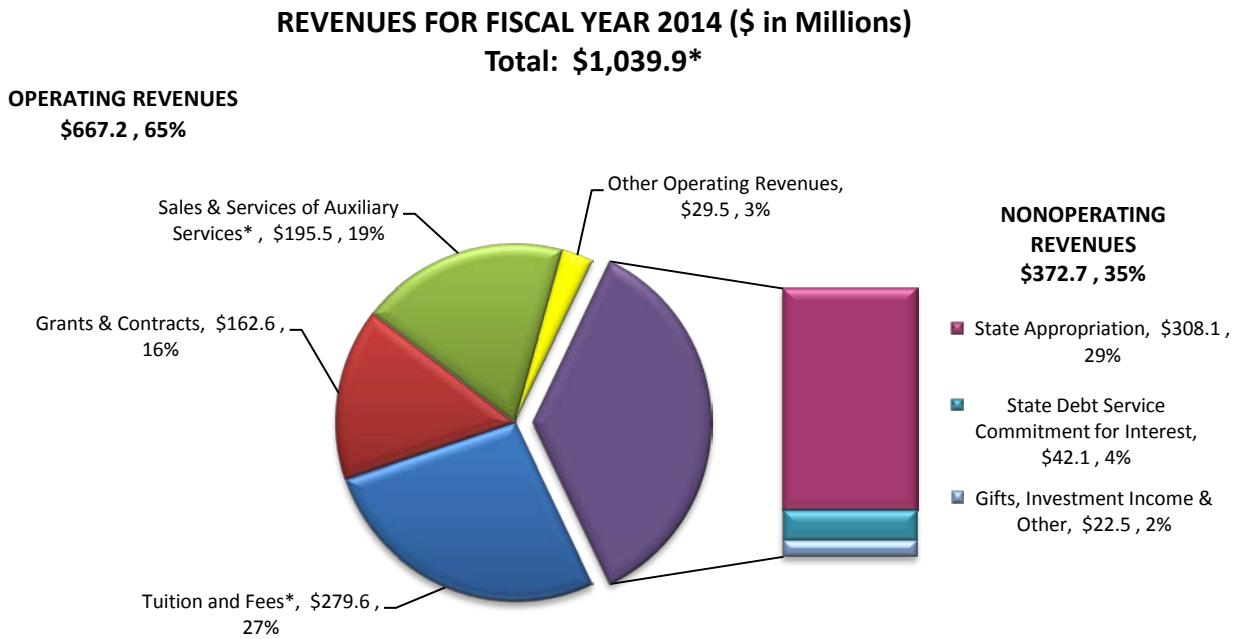
Revenue highlights, for fiscal years 2014 and 2013 and comparison between fiscal years, including operating and nonoperating revenues and other changes in net position, are as follows:

- Student tuition and fees, net of scholarship allowances, increased 6.9% in fiscal year 2014 (4.2% in fiscal year 2013). The increase in fiscal year 2014 was due in part to a 5.8% increase (6.5% in fiscal year 2013) for undergraduate in-state tuition and mandatory fees, a 6.1% increase (5.9% in fiscal year 2013) for undergraduate out-of-state tuition and mandatory fees, and an increase of 1.3% in undergraduate enrollment (0.8% decrease in fiscal year 2013).
- Total grants and contracts increased \$2.8 million (1.8%) in fiscal year 2014 (\$0.1 million or 0.1% in fiscal year 2013) primarily due to an increase in state and local grant aid.
- Sales and services of auxiliary enterprises, net of scholarship allowances, increased approximately 5.6% and 1.8% during fiscal years 2014 and 2013, respectively. The increase in fiscal year 2014 resulted from an increase in fees charged for both room and board of 3.0% for undergraduate and 3.6% for graduate students combined with an increase in room occupancy of 2.0% over fiscal year 2013. The increase in fiscal year 2013 resulted from an increase in fees charged for both room and board of 3.0% for undergraduate and 3.6% for graduate students offset by a decrease in room occupancy of 2.4% from fiscal year 2012.
- The largest source of nonoperating revenue, State appropriation including fringe benefits, increased \$19.6 million in fiscal year 2014 compared to \$6.1 million in fiscal year 2013. The State appropriation increase was primarily due to additional funds for collective bargaining increases and an increase in payments for fringe benefits. However, the increase was less than expected due to rescissions of \$1.2 million in fiscal year 2014 and \$15.0 million in fiscal year 2013.



- 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 Position to reflect this commitment. This results in revenue that is recorded in other changes in net position that totaled \$80.3 million in fiscal year 2014. There were no general obligation bonds issued in fiscal year 2013. Included in other changes in net position, the State also allocated \$20.0 million to purchase equipment in fiscal year 2013 (see Note 12).
- Gift revenue, both capital and noncapital, is derived from gifts made directly to the University and from the Foundation and the 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 in fiscal years 2014 totaled approximately \$40.4 million compared to \$22.9 million in fiscal year 2013. The significant increase in gift revenue from fiscal year 2013 related to the construction of the new basketball facility that was funded through the Foundation. On a combined basis, both Foundations also paid approximately \$3.8 million in fiscal year 2014 (\$3.0 million in fiscal year 2013) 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 revenue to the University from all sources amounted to \$43.3 million and \$26.7 million in fiscal years 2014 and 2013, respectively.

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



\*Revenues are shown net of scholarship allowances of \$126.5 million.

**Expenses**

Operating expenses are classified by function in the accompanying Statements of Revenues, Expenses, and Changes in Net Position. These functions directly contribute to the major mission of the University. Certain expenses previously reported by function in fiscal year 2013 and 2012 have been reclassified in order to conform to the current year presentation (see Note 1).

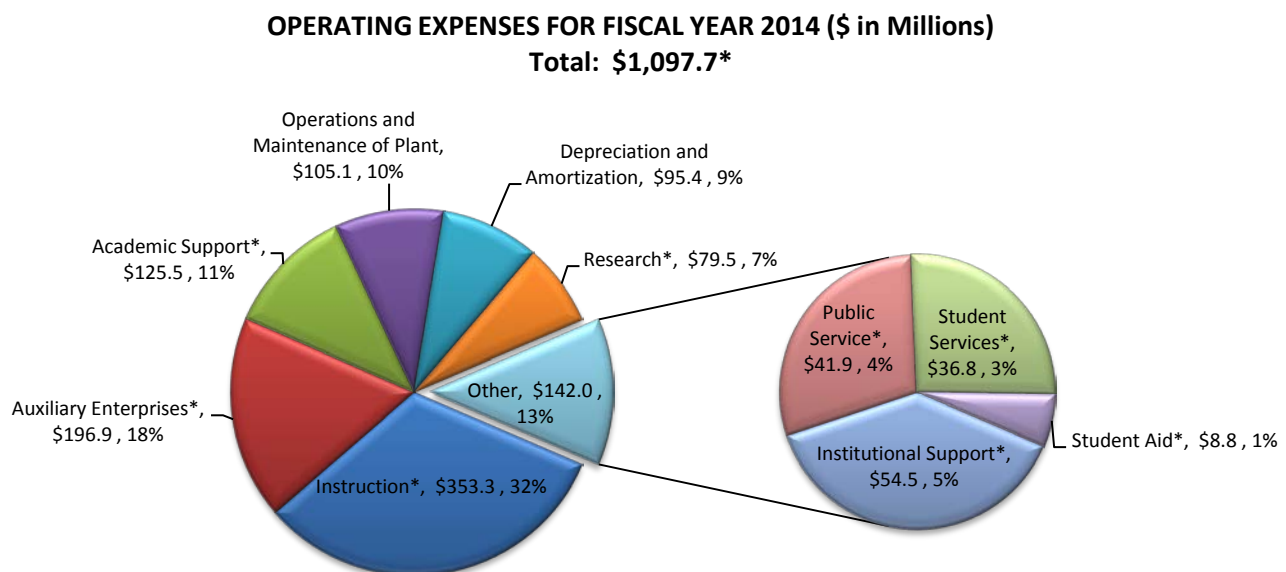
The following table summarizes operating and nonoperating expenses and other changes in net position for the fiscal years ended June 30 (in millions):

	<b>2014</b>	<b>2013*</b>	<b>2012*</b>
Operating expenses:			
Instruction	\$ 353.3	\$ 302.2	\$ 291.4
Research	79.5	74.9	73.5
Academic support	125.5	117.7	108.3
Operations and maintenance of plant	105.1	95.0	93.6
Auxiliary enterprises	196.9	186.1	184.8
Depreciation and amortization	95.4	91.7	88.5
Other	142.0	130.9	116.7
Total operating expenses	<u>1,097.7</u>	<u>998.5</u>	<u>956.8</u>
Nonoperating expenses:			
Interest expense	46.0	47.0	50.4
Other nonoperating expense, net	1.9	-	2.1
Total nonoperating expenses	<u>47.9</u>	<u>47.0</u>	<u>52.5</u>
Other changes in net position:			
Disposal of property and equipment, net	1.0	-	0.5
Total other changes in net position	<u>1.0</u>	<u>-</u>	<u>0.5</u>
Total expenses	<u>\$ 1,146.6</u>	<u>\$ 1,045.5</u>	<u>\$ 1,009.8</u>

\*Restated for GASB 65.

Instruction is the University's largest operating expense, representing 32.2% of total operating expenses in fiscal year 2014 (30.3% in fiscal year 2013 and 30.5% in fiscal year 2012). Significant increases in instruction, academic support as well as operations and maintenance of plant and auxiliary enterprises over fiscal year 2013 were driven by increases in salaries and wages and fringe benefits. Other expenses under operating include public service, student services, institutional support, and aid paid to students after tuition, fees, and room and board are applied. Institutional support, which represents 5.0% of total operating expenses in fiscal year 2014, contains the University's general administrative costs but also includes fundraising, public relations and development activities.

The following graph depicts total operating expenses by function:



\*Expenses are shown net of scholarship allowances of \$126.5 million.

The University's operating expenses by natural classification are shown below:

	<b>2014</b>	<b>2013</b>	<b>2012</b>
Operating expenses:			
Salaries and wages	\$ 521.1	\$ 482.7	\$ 474.4
Fringe benefits	237.7	190.6	172.7
Supplies and other expenses	222.6	213.8	199.5
Utilities	20.9	19.7	21.7
Depreciation and amortization	95.4	91.7	88.5
Total operating expenses	<u>\$ 1,097.7</u>	<u>\$ 998.5</u>	<u>\$ 956.8</u>

Total operating expenses were \$1,097.7 million and \$998.5 million in fiscal years 2014 and 2013, respectively. Highlights of expenses by natural classification for fiscal years 2014 and 2013 and comparison between fiscal years are as follows:

- As demonstrated in the table above, salaries and wages with fringe benefits account for over half of the University's operating costs. Combined expenses for salaries and fringe benefits increased \$85.6 million (12.7%) over fiscal year 2013 compared to a \$26.1 million (4.0%) increase over fiscal year 2012. This was driven by an average compensation increase for bargaining units of approximately 5%, an increase of 3.5% in full-time equivalent faculty and staff, along with a rise in state-mandated fringe benefit rates related to the State's defined benefit plan. The increase in full-time equivalent faculty is primarily a result of the faculty hiring initiative to reduce the student to faculty ratio. Full-time faculty members increased by 108 faculty over fiscal year 2013 (47 over fiscal year 2012). These factors drove increases in most of the functional expenses including instruction, academic support as well as operations and maintenance of plant and auxiliary enterprises. The increase from 2012 was attributed to an increase of 2.6% in full-time equivalent faculty and staff and an increase in fringe benefit rates.
- Supplies and other expenses increased \$8.8 million (4.1%) primarily attributable to increases in instructional program expenses, departmental and sponsored research activity, student aid issued directly to students, and the write-off of consumable inventory as a result of a change in accounting policy (see Note 1). Supplies and other expenses increased \$14.4 million (7.2%) in fiscal year 2013 over 2012 due to increases in information technology related expenses, general maintenance and repairs, and expenses charged to sponsored programs.
- Utilities increased \$1.2 million (6.3%) in fiscal year 2014 compared to a \$2.0 million (9.0%) decrease in fiscal year 2013. The change in the current year was due to a significant increase in oil consumption that was triggered by the Cogeneration plant being forced to switch from gas to oil for a longer period of time during the winter compared to the prior year. This was offset by a decrease in costs for gas and electricity of approximately 2.4% (9.1% in fiscal year 2013) and 9.2% (18.9% in fiscal year 2013), respectively.
- Total property and equipment subject to depreciation in fiscal year 2014 increased \$132.3 million (\$96.0 million in fiscal year 2013) which attributed to an increase of \$3.7 million (\$3.2 million in fiscal year 2013) in depreciation and amortization expense.

## 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 Positions' 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 Position. 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, 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 Position to net cash used in operating activities.

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

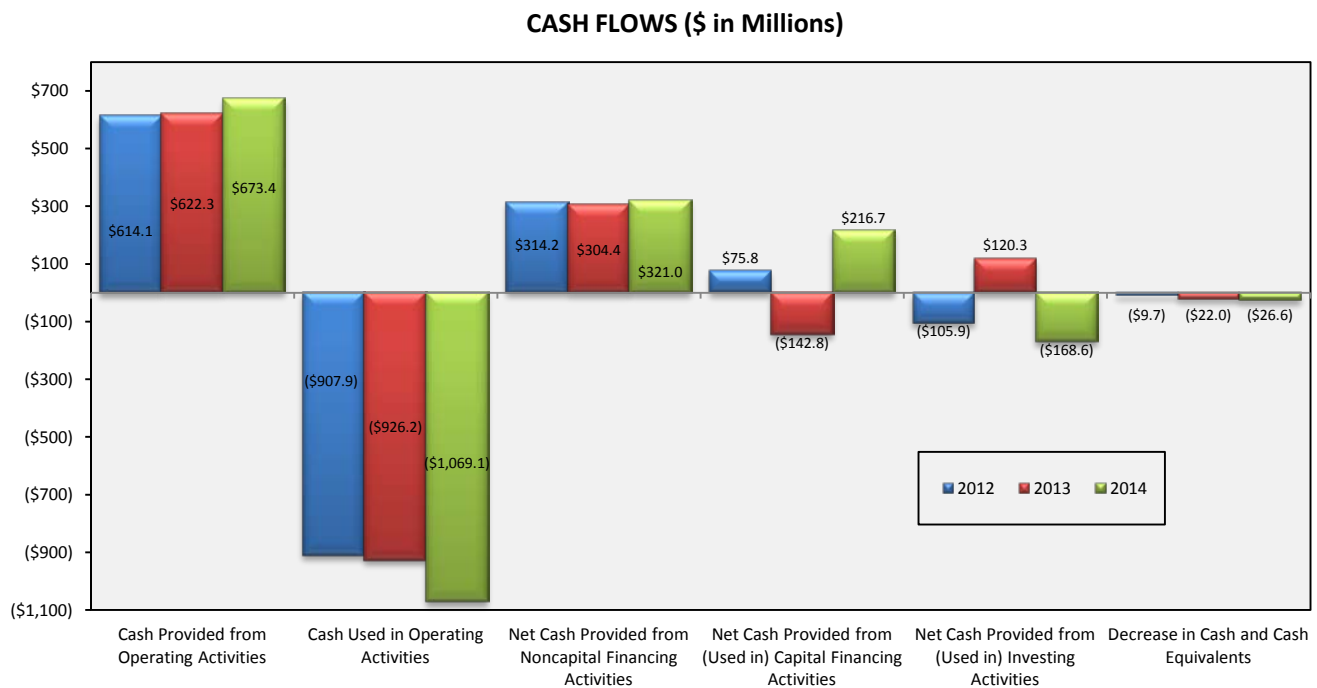
	<b>2014</b>	<b>2013</b>	<b>2012</b>
Cash provided from operating activities	\$ 673.4	\$ 622.3	\$ 614.1
Cash used in operating activities	(1,069.1)	(926.2)	(907.9)
Net cash used in operating activities	(395.7)	(303.9)	(293.8)
Net cash provided from noncapital financing activities	321.0	304.4	314.2
Net cash provided from (used in) capital financing activities	216.7	(142.8)	75.8
Net cash provided from (used in) investing activities	(168.6)	120.3	(105.9)
Net decrease in cash and cash equivalents	\$ (26.6)	\$ (22.0)	\$ (9.7)

Net cash used in operating activities was \$395.7 million and \$303.9 million in fiscal years 2014 and 2013, 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 \$321.0 million in fiscal year 2014 (\$304.4 million in fiscal year 2013), a \$16.6 million increase over fiscal year 2013 (\$9.8 million decrease from fiscal year 2012).

Cash flows provided from capital financing activities was \$216.7 million in fiscal year 2014 and \$142.8 million used in fiscal year 2013. The major difference between fiscal years 2014 and 2013 was that \$309.0 million in bond proceeds were received in fiscal year 2014 (\$0 in fiscal year 2013) in addition to a decrease in the amount of purchases of property and equipment of \$30.1 million (\$23.6 million increase in fiscal year 2013) and an increase in capital grants and gifts of \$15.1 million (\$1.6 million in fiscal year 2013).

Net cash used in investing activities was \$168.6 million in fiscal year 2014 and \$120.3 million provided from in fiscal year 2013. The major difference between fiscal years 2014 and 2013 was that \$309.0 million in bond proceeds were received in fiscal year 2014 (\$0 in fiscal year 2013) which were invested in the deposit with bond trustee.

Total cash and cash equivalents decreased \$26.6 million and \$22.0 million in fiscal years 2014 and 2013, respectively, as a result of these activities. The following bar graph shows the cash flows provided from and used in major categories and as described in the preceding paragraphs:



# **FINANCIAL STATEMENTS**

**UNIVERSITY OF CONNECTICUT  
STATEMENTS OF NET POSITION**

**As of June 30, 2014 and 2013**

(\$ in thousands)

	<b>2014</b>	<b>2013</b>
		<b>(Restated)</b>
<b>ASSETS</b>		
<b>Current Assets</b>		
Cash and cash equivalents	\$ 216,759	\$ 243,348
Accounts receivable, net	42,239	39,204
Student loans receivable, net	2,018	1,838
Due from State of Connecticut	71,504	74,950
State debt service commitment	107,401	92,168
Inventories	817	4,237
Deposit with bond trustee	209,621	41,030
Prepaid expenses	3,411	2,954
<b>Total Current Assets</b>	<b>653,770</b>	<b>499,729</b>
<b>Noncurrent Assets</b>		
Cash and cash equivalents	1,432	1,438
Investments	12,264	10,614
Student loans receivable, net	10,609	10,374
State debt service commitment	931,745	751,045
Property and equipment, net	1,468,854	1,474,569
<b>Total Noncurrent Assets</b>	<b>2,424,904</b>	<b>2,248,040</b>
<b>Total Assets</b>	<b>3,078,674</b>	<b>2,747,769</b>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>		
Accumulated loss on debt refundings, net	7,452	17,923
<b>LIABILITIES</b>		
<b>Current Liabilities</b>		
Accounts payable	66,903	55,694
Unearned revenue	29,433	25,525
Deposits held for others	2,745	2,425
Wages payable	45,717	39,898
Compensated absences	25,810	23,302
Due to State of Connecticut	22,145	17,904
Due to affiliate (see Note 5)	91,429	3,938
Current portion of long-term debt and bonds payable	110,408	95,112
Other current liabilities	34,379	32,547
<b>Total Current Liabilities</b>	<b>428,969</b>	<b>296,345</b>
<b>Noncurrent Liabilities</b>		
Compensated absences	8,146	9,925
Long-term debt and bonds payable	1,202,281	1,008,767
Refundable for federal loan program	11,370	11,233
<b>Total Noncurrent Liabilities</b>	<b>1,221,797</b>	<b>1,029,925</b>
<b>Total Liabilities</b>	<b>1,650,766</b>	<b>1,326,270</b>
<b>NET POSITION</b>		
<b>Net investment in capital assets</b>	1,187,602	1,217,408
<b>Restricted nonexpendable</b>	13,546	11,902
<b>Restricted expendable</b>		
Research, instruction, scholarships and other	15,465	20,602
Loans	2,482	2,469
Capital projects	85,447	33,416
Debt service	-	135
<b>Unrestricted (see Note 1)</b>	<b>130,818</b>	<b>153,490</b>
<b>Total Net Position</b>	<b>\$ 1,435,360</b>	<b>\$ 1,439,422</b>

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

**UNIVERSITY OF CONNECTICUT**  
**STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION**  
**For the Years Ended June 30, 2014 and 2013**

(\$ in thousands)

	<b>2014</b>	<b>2013</b>
	<b>(Restated)</b>	
<b>OPERATING REVENUES</b>		
Student tuition and fees (Net of scholarship allowances of \$123,312 for 2014 and \$116,062 for 2013. See Note 1.)	\$ 279,577	\$ 261,641
Federal grants and contracts	118,492	118,715
State and local grants and contracts	29,512	25,898
Nongovernmental grants and contracts	14,619	15,212
Sales and services of educational departments	19,280	15,814
Sales and services of auxiliary enterprises (Net of scholarship allowances of \$3,213 for 2014 and \$2,907 for 2013. See Note 1.)	195,525	185,240
Other sources	10,168	8,114
<b>Total Operating Revenues</b>	<b>667,173</b>	<b>630,634</b>
<b>OPERATING EXPENSES</b>		
Educational and general		
Instruction	353,251	302,202
Research	79,484	74,948
Public service	41,919	39,068
Academic support	125,557	117,679
Student services	36,787	33,315
Institutional support	54,484	51,358
Operations and maintenance of plant	105,148	94,961
Depreciation and amortization	95,377	91,713
Student aid	8,796	7,154
Auxiliary enterprises	196,935	186,118
<b>Total Operating Expenses</b>	<b>1,097,738</b>	<b>998,516</b>
<b>Operating Loss</b>	<b>(430,565)</b>	<b>(367,882)</b>
<b>NONOPERATING REVENUES (EXPENSES)</b>		
State appropriation	308,069	288,456
State debt service commitment for interest	42,091	40,571
Gifts	21,703	19,996
Investment income	799	859
Interest expense	(45,955)	(46,961)
Other nonoperating expenses, net	(1,873)	352
<b>Net Nonoperating Revenues</b>	<b>324,834</b>	<b>303,273</b>
<b>Loss Before Other Changes in Net Position</b>	<b>(105,731)</b>	<b>(64,609)</b>
<b>OTHER CHANGES IN NET POSITION</b>		
State debt service commitment for principal	80,346	-
Capital allocation	(20)	20,000
Capital grants and gifts	21,643	6,675
Disposal of property and equipment, net	(1,043)	103
Additions to permanent endowments	743	13
<b>Net Other Changes in Net Position</b>	<b>101,669</b>	<b>26,791</b>
<b>Decrease in Net Position</b>	<b>(4,062)</b>	<b>(37,818)</b>
<b>NET POSITION</b>		
Net Position-beginning of year, adjusted (see Note 1)	1,439,422	1,477,240
Net Position-end of year	<b>\$ 1,435,360</b>	<b>\$ 1,439,422</b>

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

**UNIVERSITY OF CONNECTICUT  
STATEMENTS OF CASH FLOWS  
For the Years Ended June 30, 2014 and 2013**

(\$ in thousands)

	<b>2014</b>	<b>2013</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Student tuition and fees	\$ 277,809	\$ 255,173
Grants and contracts	163,893	154,631
Sales and services of auxiliary enterprises	197,202	185,999
Sales and services of educational departments	19,623	17,146
Payments to suppliers and others	(326,090)	(259,308)
Payments to employees	(514,970)	(483,049)
Payments for benefits	(225,325)	(181,704)
Loans issued to students	(2,763)	(2,098)
Collection of loans to students	2,269	2,095
Other receipts, net	12,612	7,217
<b>Net Cash Used in Operating Activities</b>	<b>(395,740)</b>	<b>(303,898)</b>
 <b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>		
State appropriation	302,223	283,031
Gifts	19,543	21,910
Other nonoperating expenses, net	(738)	(544)
<b>Net Cash Provided from Noncapital Financing Activities</b>	<b>321,028</b>	<b>304,397</b>
 <b>CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES</b>		
Proceeds from bonds	309,000	-
State debt service commitment	119,753	116,753
Purchases of property and equipment	(99,472)	(129,530)
Proceeds from sale of property and equipment	125	514
Principal paid on debt and bonds payable	(88,481)	(84,767)
Interest paid on debt and bonds payable	(49,062)	(51,182)
Capital allocation	6,636	2,279
Capital grants and gifts	18,189	3,081
<b>Net Cash Provided from (Used in) Capital Financing Activities</b>	<b>216,688</b>	<b>(142,852)</b>
 <b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Purchase of investments, net	(762)	(21)
Interest on investments	782	872
Deposit with bond trustee	(168,591)	119,494
<b>Net Cash Provided from (Used in) Investing Activities</b>	<b>(168,571)</b>	<b>120,345</b>
<b>DECREASE IN CASH AND CASH EQUIVALENTS</b>	<b>(26,595)</b>	<b>(22,008)</b>
<b>BEGINNING CASH AND CASH EQUIVALENTS</b>	<b>244,786</b>	<b>266,794</b>
<b>ENDING CASH AND CASH EQUIVALENTS</b>	<b>\$ 218,191</b>	<b>\$ 244,786</b>

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, 2014 and 2013**

(\$ in thousands)

	<b>2014</b>	<b>2013</b>
<b>RECONCILIATION OF OPERATING LOSS TO NET CASH USED IN OPERATING ACTIVITIES</b>		
<b>Operating Loss</b>	\$ (430,565)	\$ (367,882)
Adjustments to Reconcile Operating Loss to Net Cash		
Provided from (Used in) Operating Activities:		
Depreciation and amortization expense	95,377	91,713
Property and equipment	(127)	1,154
In-kind worker's compensation	1,831	1,915
Obligations under capital leases	101	-
Changes in Assets and Liabilities:		
Receivables, net	3,081	(6,009)
Inventories	3,420	(39)
Prepaid expenses	(457)	605
Accounts payable, wages payable and compensated absences	8,988	4,682
Unearned revenue	3,908	716
Deposits	320	(462)
Due from (to) State of Connecticut	4,483	1,959
Due to affiliate	(86,932)	(33,246)
Other liabilities	1,110	813
Loans to students	(278)	183
<b>Net Cash Used in Operating Activities</b>	<b>\$ (395,740)</b>	<b>\$ (303,898)</b>

**ACCOMPANYING SCHEDULE OF SIGNIFICANT NONCASH TRANSACTIONS**

Proceeds from refunding bonds	\$ 157,743	\$ 107,670
Amortization of premiums/discounts/net loss on debt refundings	6,032	4,634
Unrealized gain on investment	888	290
Capital assets acquired through gifts	256	1,702
Loss on disposal of capital assets	(1,168)	(411)

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, 2014 and 2013**

(\$ in thousands)

<b>ASSETS</b>	<b>2014</b>	<b>2013</b>
<b>Current Assets</b>		
Cash and cash equivalents	\$ 1,557	\$ 1,148
Pledges receivable, net of allowance	170	203
Other current assets	51	71
<b>Total Current Assets</b>	1,778	1,422
<b>Noncurrent Assets</b>		
Pledges receivable, net of allowance	48	119
Investments	19,314	17,104
Property and equipment, net of accumulated depreciation of \$131 for 2014 and \$129 for 2013	3	6
<b>Total Noncurrent Assets</b>	19,365	17,229
<b>Total Assets</b>	\$ 21,143	\$ 18,651
 <b>LIABILITIES AND NET ASSETS</b>		
<b>Current Liabilities</b>		
Accounts payable	\$ 6	\$ 9
<b>Net Assets</b>		
Unrestricted	1,787	1,270
Temporarily restricted	5,648	3,869
Permanently restricted	13,702	13,503
<b>Total Net Assets</b>	21,137	18,642
<b>Total Liabilities and Net Assets</b>	\$ 21,143	\$ 18,651

**STATEMENTS OF ACTIVITIES  
For the Years Ended June 30, 2014 and 2013**

(\$ in thousands)

	<b>Unrestricted</b>	<b>Temporarily Restricted</b>	<b>Permanently Restricted</b>	<b>2014 Total</b>	<b>2013 Total</b>
<b>REVENUES AND SUPPORT</b>					
Contributions and grants	\$ 824	\$ 279	\$ 211	\$ 1,314	\$ 865
Interest and dividends	25	464	-	489	465
Net realized and unrealized gains	105	2,032	-	2,137	1,747
Net assets released from restrictions	996	(996)	-	-	-
Write off of pledges receivable	12	-	(12)	-	-
<b>Total Revenues and Support</b>	1,962	1,779	199	3,940	3,077
<b>EXPENSES</b>					
<b>Program Expenses</b>					
Scholarships and awards	231	-	-	231	217
Student support and faculty support	592	-	-	592	604
Alumni and graduate relations	73	-	-	73	76
<b>Total Program Expenses</b>	896	-	-	896	897
<b>Support Expenses</b>					
Management and general	436	-	-	436	470
Fundraising	113	-	-	113	106
<b>Total Support Expenses</b>	549	-	-	549	576
<b>Total Expenses</b>	1,445	-	-	1,445	1,473
<b>Changes in Net Assets</b>	517	1,779	199	2,495	1,604
<b>Net Assets-beginning of year</b>	1,270	3,869	13,503	18,642	17,038
<b>Net Assets-end of year</b>	\$ 1,787	\$ 5,648	\$ 13,702	\$ 21,137	\$ 18,642

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

# **NOTES TO FINANCIAL STATEMENTS**

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## Notes to Financial Statements For the Years Ended June 30, 2014 and 2013

### 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

#### **Reporting Entity**

The University of Connecticut is a comprehensive institution of higher education, which includes the University of Connecticut Health Center (UConn Health). Although governed by a single Board of Trustees, the University of Connecticut and UConn Health maintain separate budgets and are, by statute, separate entities for purposes of maintaining operating funds and appropriations from the State of Connecticut (State). UConn Health 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, 2014 and 2013 represents the transactions and balances of the University of Connecticut (University), herein defined as all programs except UConn Health.

Two related, but independent, corporate entities support the mission of the University: The University of Connecticut Foundation, Inc. (Foundation) (see Note 12) and The University of Connecticut Law School Foundation, Inc. (Law School Foundation). The Foundation raises funds to promote, encourage, and assist education and research at both the University and UConn Health, while the Law School Foundation, with similar objectives, supports only the University.

In accordance with standards issued by the Governmental Accounting Standards Board (GASB), the financial reporting entity consists of the primary government, organizations for which the primary government is financially accountable, and other organizations for which the nature and significance of their relationship with the primary government are such that exclusion would cause the reporting entity's financial statements to be misleading. Legally separate and tax exempt entities shall 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.

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 Law School Foundation's audited Statements of Financial Position and Statements of Activities are discreetly presented in their original formats on a separate page of the accompanying financial statements.

The Foundation materially supports the mission of the University and UConn Health, which are separately audited, producing their own financial statements. Displaying the Foundation's financial statements as a component unit of either the University or UConn Health 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 accompanying 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 GASB.

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

Certain reclassifications were made to the accompanying Statement of Revenue, Expense, and Changes in Net Position for the year ended June 30, 2013 to reflect changes in the classification of operating expenses. Approximately \$2.7 million was moved from institutional support to operations and maintenance of plant and an additional \$9.2 million and \$9.4 million were moved from institutional support and operations and maintenance of plant, respectively, to auxiliary enterprises. These changes have no effect on the net position for the year ended June 30, 2013.

**New Accounting Standards**

The University's financial statements and notes for fiscal years 2014 and 2013 as presented herein include the provisions of the following GASB pronouncements:

The University adopted GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*, retroactive to July 1, 2012. This statement establishes accounting and financial reporting standards that reclassify certain items that were previously reported as assets and liabilities as deferred outflows of resources or deferred inflows of resources and recognizes certain items that were previously reported as assets and liabilities as revenues or expenses. As a result of this adoption, the University reports accumulated net loss on debt refundings as a deferred outflow and treats the cost of bond issuances as an expense in the year incurred. The financial statements as of June 30, 2013 have been restated in order to retroactively apply these provisions. The following table presents the impact of this change (amounts in thousands):

	<b>Previously reported</b>	<b>Increase (decrease)</b>	<b>As restated</b>
<b>Statement of Net Position</b>			
Deferred charges	\$ 7,924	\$ (7,924)	\$ -
Prepaid expenses	2,901	53	2,954
Accumulated loss on debt refundings, net	-	17,923	17,923
Long-term debt and bonds payable	1,081,196	22,683	1,103,879
Net investment in capital assets	1,222,167	(4,759)	1,217,408
Restricted expendable - debt service	7,279	(7,144)	135
Unrestricted	154,218	(728)	153,490
<b>Statement of Revenues, Expenses, and Changes in Net Position</b>			
Interest expense	\$ 45,402	\$ 1,559	\$ 46,961
Other nonoperating revenues (expense), net	(439)	791	352
Net position-beginning of year	1,489,103	(11,863)	1,477,240
Net position-end of year	1,452,053	(12,631)	1,439,422

The University adopted GASB Statement No. 66, *Technical Corrections - 2012 - an amendment of GASB Statements No. 10 and No. 62*, effective July 1, 2013. This statement enhances the usefulness of financial reports by resolving conflicting accounting and financial reporting guidance that could diminish the consistency of financial reporting. There was no impact on the accompanying financial statements as a result of this adoption.

The University also implemented GASB Statement No. 70, *Accounting and Financial Reporting for Nonexchange Financial Guarantees*, effective July 1, 2013. This statement improves accounting and reporting for governments that extend or receive nonexchange financial guarantees. There was no impact on the accompanying financial statements as a result of this adoption and no additional disclosures were required.

**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. 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 Position. 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.

**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 is 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**

Prior to fiscal year 2014, certain consumable supplies were reported as inventory on the accompanying Statement of Net Position. These inventories consisted primarily of maintenance and custodial supplies, repair parts, and other general supplies used in the daily operations of the University. For the fiscal year ended June 30, 2014, the University determined that these supplies should be fully expensed when received. Inventories classified as available for resale are reported on the accompanying Statement of Net Position and are valued at cost as determined by 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.

**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 expenses in the year 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.

Most University capital assets are financed through the issuance of general obligation bonds which are restricted in accordance with State legislation. Additionally, the repayment of principal and related interest on these bonds are funded through the State (see Note 5). Therefore, the University generally does not include interest in the cost of the capital assets constructed.

**Unearned Revenue (see Note 10)**

Unearned revenue 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 are accrued at year end for financial statement purposes. The liability and expense incurred are recorded at year end as compensated absences in the accompanying Statements of Net Position and in the various expense functions on the accompanying Statements of Revenues, Expenses, and Changes in Net Position. 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 of the University, principal payments due on bonds (net of unamortized premiums and discounts), loans and capital leases with a maturity of more than one year, and governmental advances for revolving loan programs that would be returned to the federal government upon cessation of the student loan program.

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**Net Position**

GASB requires that resources be classified for accounting and reporting purposes into the following categories in net position:

- **Net investment in capital assets:** 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. Deferred outflows of resources and deferred inflows of resources that are attributable to the acquisition, construction, or improvement of those assets or related debt are also included in this component.
- **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:** Assets reduced by liabilities and deferred inflows of resources related to those 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:** The net amount of the assets, deferred outflows of resources, liabilities, and deferred inflows of resources that do not meet the definition of "restricted" or "net investment in capital assets". These assets are not subject to externally imposed stipulations; however, they are subject to internal designations. For example, amounts classified as unrestricted 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 amounts in net position are internally designated to support academic and research programs, capital projects, retirement of indebtedness, and auxiliary enterprise activities.

Expenses are classified either as restricted or unrestricted 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.

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.

**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, are reported using functional classification, including those under educational and general and auxiliary enterprises. See Note 14 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 position. Revenues are recognized when earned and expenses are recognized when incurred.

GASB requires that revenues be reported net of discounts and scholarship allowances. Student aid for scholarships and fellowships, recorded in the accompanying Statements of Revenues, Expenses and Changes in Net Position, 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 is 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 2013 have been reclassified in order to conform to the current year presentations.

**2. CASH AND CASH EQUIVALENTS AND INVESTMENTS**

GASB Statement No. 40, *Deposit and Investment Risk Disclosures*, 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 \$218.2 million and \$244.8 million as of June 30, 2014 and 2013, respectively, and included the following (amounts in thousands):

	<b>2014</b>	<b>2013</b>
Cash maintained by State of Connecticut Treasurer	\$ 190,067	\$ 212,749
Invested in State of Connecticut Short-Term Investment Fund	14,244	17,624
Invested in State of Connecticut Short-Term Investment Fund - Endowments	1,432	1,438
Invested in Short-Term Corporate Notes	5,511	6,435
Deposits with Financial Institutions and Other	6,937	6,540
Total cash and cash equivalents	218,191	244,786
Less: current balance	216,759	243,348
Total noncurrent balance	\$ 1,432	\$ 1,438

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.

Short-Term Investment Fund (STIF) is a money market investment pool in which the State, municipal entities, and other political subdivisions of the State are eligible to invest. The State Treasurer is authorized to invest monies of STIF in United States government and agency obligations, certificates of deposit, commercial paper, corporate bonds, savings accounts, bankers' acceptances, repurchase agreements, asset-backed securities, and student loans. For financial reporting purposes, STIF is considered to be "cash equivalents" in the accompanying Statements of Net Position.

The University's cash management investment policy permits the University to invest in STIF, 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. Cash and cash equivalents include amounts of \$14.2 million and \$1.4 million invested in STIF, which had a Standard and Poor's rating of AAAM during fiscal year 2014. The \$5.5 million invested in Short-Term Corporate Notes during fiscal year 2014 includes repurchase agreements held with a financial institution and is collateralized by the Federal National Mortgage Association and the Federal Home Loan Mortgage Corporation, both of which had an AA+ 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. 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, net of management fees.

The Foundation's endowment spending allocation policy adheres to the Connecticut Uniform Prudent Management of Institutional Funds Act (UPMIFA). UPMIFA considers prudence in maintaining an endowment fund in perpetuity. 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.

An administrative fee is assessed to fund expenses incurred in meeting the Foundation's fiduciary and fundraising responsibilities to donors and the University. 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 31. 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 cost and fair value of the University's investments including those managed by the Foundation at June 30, 2014 and 2013 were (amounts in thousands):

	2014		2013	
	Cost	Fair Value	Cost	Fair Value
<b><u>Endowments:</u></b>				
Foundation Managed	\$ 10,356	\$ 12,114	\$ 9,594	\$ 10,464
<b><u>Other:</u></b>				
Campus Associates Limited Partnership Interest	150	150	150	150
Total Investments	\$ 10,506	\$ 12,264	\$ 9,744	\$ 10,614

The University also holds a partnership interest in Campus Associates Limited Partnership (see Note 12). 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, 2014 and 2013. 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.

University endowment investments are managed by the Foundation in a 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 the pooled investment portfolio, which provide that the maximum exposure with any one manager would be 20% for liquid assets and 5% for illiquid assets. The Foundation's 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.

<b>Investment Objective/Strategies</b>	<b>Allocation Range as Percentage of Market Value</b>
<b><u>Growth</u></b>	
High yield fixed income	0% - 10%
Global equities	0% - 70%
Private capital	0% - 20%
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%
<b><u>Inflation Hedge</u></b>	
TIPS	0% - 10%
Natural resources/commodities	0% - 15%
Other inflation hedging strategies	0% - 10%
Total Inflation Hedge	5% - 25%
<b><u>Risk Minimizing</u></b>	
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, high yield fixed income, and bank loans had average credit quality of Ba1 (Moody's). The University endowment's foreign publicly traded equities totaled \$1.8 million and \$1.3 million in fiscal years 2014 and 2013, respectively. Private capital investments totaled approximately \$1.7 million at June 30, 2014 and 2013.

Certain other funds are held in trust for investment by outside trustees. The University is designated as the income beneficiary and the funds are not under the direct control of the University. Accordingly, the assets of these funds are not included in the accompanying financial statements. The fair value of these funds was \$14.2 million and \$12.8 million as of June 30, 2014 and 2013, 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, 2014 and 2013 was \$499,000 and \$456,000, respectively.

Under appropriate circumstances the University may accept equity in a company as partial consideration for technology licensing-related transactions. In fiscal year 2012, the University received 250,000 shares in Poet Technologies, Inc. (Poet) in exchange for waiving upfront license related fees. During fiscal year 2014, the University restructured its license agreement with Poet and accepted 2.0 million of common shares in exchange for reducing its sublicense royalty payment from 30% to 3%. As part of this restructured agreement, trading of these shares is restricted until May 2016. Based on this, the University has not recorded an estimate of the stock's value since the amount cannot be reasonably estimated. The University also received non-controlling equity interests in other companies in lieu of upfront licensing payments. The values of these equities are deemed insignificant and not readily determinable. Therefore, they are not recorded in the accompanying financial statements.

### 3. ACCOUNTS AND STUDENT LOANS RECEIVABLE

Accounts receivable at June 30, 2014 and 2013 consisted of the following (amounts in thousands):

	<b>2014</b>	<b>2013</b>
Grants and contracts	\$ 27,558	\$ 27,876
Student and general	20,239	16,318
Investment income	81	66
Allowance for doubtful accounts	(5,639)	(5,056)
Total accounts receivable, net	<u>\$ 42,239</u>	<u>\$ 39,204</u>

The University participated in the U.S. Department of Education Federal Direct Lending program during fiscal years 2014 and 2013 and distributed student loans through this program of \$155.8 million and \$154.6 million, respectively. These distributions and related funding are not reflected as expenses and revenues or as cash disbursements and cash receipts in the accompanying financial statements. The excess of direct loans distributed over funding received from the U.S. Department of Education as of June 30, 2014 and 2013 was \$262,000 and \$68,000, respectively, and these amounts were included as receivables under grants and contracts.

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 accompanying Statements of Net Position, net of an allowance for doubtful accounts of \$1.1 million at June 30, 2014 and 2013.

### 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, capitalized software, art and historical collections are all included in equipment in the schedule of Changes in Property and Equipment.

Library materials have an estimated useful life of 15 years. The value of library materials, before depreciation, was \$81.2 million and \$80.6 million with accumulated depreciation of \$58.0 million and \$52.6 million at June 30, 2014 and 2013, respectively.

Capitalized software has an estimated life of 3 years to 5 years. The value of capitalized software, before amortization, was \$29.4 million and \$26.6 million with accumulated amortization of \$18.9 million and \$15.5 million at June 30, 2014 and 2013, respectively.

Art and historical collections are recognized at their estimated fair values at the time of donation, and are not depreciated. Art totaled \$13.8 million and \$13.3 million at June 30, 2014 and 2013, respectively. Historical collections totaled \$41.1 million at June 30, 2014 and 2013. The Thomas J. Dodd Research Center (Dodd Center) maintains historical collections of original source materials used for research as well as the University's official archive. In fiscal year 2002, historical collections were initially valued at \$31.1 million based on an internal valuation performed by the Dodd Center. Beginning in 2002, the value of the Dodd Center Collection had been adjusted for new items if their fair value could be substantiated by an appraisal or an internal valuation. Beginning in 2011, new items have been added to the collection only if their fair value could be substantiated by an external appraisal.

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 years ended June 30, 2014 and 2013, total amounts of \$3.0 million and \$5.5 million, respectively, of fully depreciated equipment falling under the new threshold are included in equipment retirements.

The following table describes the changes in property and equipment for the years ended June 30, 2014 and 2013 (amounts in thousands):

**Changes in Property and Equipment for the Year Ended June 30, 2014:**

	Balance July 1, 2013	Additions	Retirements	Transfers and other	Balance June 30, 2014
<b><u>Property and equipment:</u></b>					
Land	\$ 18,497	\$ 1,511	\$ (1)	\$ 22	\$ 20,029
Non-structural improvements	226,290	3,071	-	10,276	239,637
Buildings	1,789,418	30,907	(1,512)	84,140	1,902,953
Equipment	403,364	14,562	(9,178)	-	408,748
Construction in progress	125,735	40,779	-	(94,438)	72,076
Total property and equipment	2,563,304	90,830	(10,691)	-	2,643,443
<b><u>Less accumulated depreciation and amortization:</u></b>					
Non-structural improvements	115,474	8,929	-	-	124,403
Buildings	732,301	62,535	(677)	-	794,159
Equipment	240,960	23,913	(8,846)	-	256,027
Total accumulated depreciation and amortization	1,088,735	95,377	(9,523)	-	1,174,589
<b><u>Property and equipment, net:</u></b>					
Land	18,497	1,511	(1)	22	20,029
Non-structural improvements	110,816	(5,858)	-	10,276	115,234
Buildings	1,057,117	(31,628)	(835)	84,140	1,108,794
Equipment	162,404	(9,351)	(332)	-	152,721
Construction in progress	125,735	40,779	-	(94,438)	72,076
Property and equipment, net	\$ 1,474,569	\$ (4,547)	\$ (1,168)	\$ -	\$ 1,468,854

**Changes in Property and Equipment for the Year Ended June 30, 2013:**

	Balance July 1, 2012	Additions	Retirements	Transfers and other	Balance June 30, 2013
<b><u>Property and equipment:</u></b>					
Land	\$ 14,657	\$ 3,843	\$ (3)	\$ -	\$ 18,497
Non-structural improvements	217,567	4,837	-	3,886	226,290
Buildings	1,708,888	28,537	-	51,993	1,789,418
Equipment	396,662	16,543	(9,841)	-	403,364
Construction in progress	99,271	82,343	-	(55,879)	125,735
Total property and equipment	2,437,045	136,103	(9,844)	-	2,563,304
<b><u>Less accumulated depreciation and amortization:</u></b>					
Non-structural improvements	107,079	8,395	-	-	115,474
Buildings	673,778	58,523	-	-	732,301
Equipment	225,599	24,795	(9,434)	-	240,960
Total accumulated depreciation and amortization	1,006,456	91,713	(9,434)	-	1,088,735
<b><u>Property and equipment, net:</u></b>					
Land	14,657	3,843	(3)	-	18,497
Non-structural improvements	110,488	(3,558)	-	3,886	110,816
Buildings	1,035,110	(29,986)	-	51,993	1,057,117
Equipment	171,063	(8,252)	(407)	-	162,404
Construction in progress	99,271	82,343	-	(55,879)	125,735
Property and equipment, net	\$ 1,430,589	\$ 44,390	\$ (410)	\$ -	\$ 1,474,569

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## 5. LONG-TERM DEBT PAYABLE

Public Act (PA) 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 was 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 (General Assembly) enacted and the Governor signed into law PA No. 02-3, An Act Concerning 21st Century UConn (Act). The new Act authorized additional projects for the University and UConn Health for what is called Phase III of UCONN 2000. This Act amended PA No. 95-230 and extended the UCONN 2000 financing program. The Act, as amended by PA No. 10-104 and 11-75, authorized projects under Phase III at a total estimated cost of \$1,818.3 million, of which \$1,769.9 million was financed by bonds of the University secured by the State's Debt Service Commitment and \$48.4 million was 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.

In June 2013, the General Assembly enacted and the Governor signed into law PA No. 13-233, An Act Concerning Next Generation Connecticut, an extension of Phase III which authorized additional projects, increased the cost of certain projects, increased the authorized bond funding secured by the State's Debt Service Commitment by \$1,551.0 million and extended UCONN 2000 for an additional six fiscal years to 2024.

The total estimated cost for Phase I, II, and III under UCONN 2000, a twenty-nine year capital project program, is \$4,619.3 million.

As part of the UCONN 2000 program, and in addition to \$4.6 billion for phases I through III, the General Assembly and the Governor authorized \$169.5 million in State General Obligation Bonds to finance the development of the Technology Park (Tech Park) on the Storrs campus for the University (see Note 12). In August 2011 and April 2013, \$18.0 million and \$20.0 million respectively, were allocated by the State Bond Commission. These bonds are obligations of the State and are not included as debt in the University's financial statements.

The University issues general obligation bonds to finance UCONN 2000 projects. 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) and invested in U.S. Treasury, State and Local Government Securities and cash in accordance with the Escrow Agreement. 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 2014, the University issued the 2013 and 2014 Series A bonds. The University recorded \$172.7 million and \$109.0 million as State debt service commitment for principal together with part of the original issue premium, which resulted in total proceeds of \$189.0 million and \$120.0 million for the 2013 and 2014 Series A bonds, respectively. The proceeds included \$116.8 million from the 2013 Series A bonds and \$76.4 million from the 2014 Series A bonds to finance projects for UConn Health for fiscal year 2014. As bonds are issued, the amount of the commitment for UConn Health is reflected as an offset to the revenue for the University. In fiscal year 2014, this offset to finance projects for UConn Health resulted in net revenue of \$88.5 million, recorded in other changes in net position of the accompanying Statements of Revenues, Expenses, and Changes in Net Position. A corresponding liability is recorded in due to affiliate in the Statements of Net Position for the unspent portion of the bonds due to UConn Health (\$91.4 million and \$3.9 million at June 30, 2014 and 2013, respectively). Also, for the years ended June 30, 2014 and 2013, nonoperating revenues include the State debt service commitment for interest on general obligation bonds of \$42.1 million and \$40.6 million, respectively. A portion of interest on general obligation bonds is associated with UConn Health projects.

In addition to the 2013 and 2014 Series A bonds, during fiscal year 2014, the University issued the 2013 and 2014 Refunding Series A bonds to refund portions of the previously issued Series A General Obligation Bonds in advance of maturity. The reduction of the face value of the bonds in the amount of \$8.1 million is reflected as an expense in fiscal year 2014 on the accompanying Statement of Revenue, Expenses, and Changes in Net Position under State debt service commitment for principal. The refunding reduced the general obligation debt service payments in the future years by approximately \$13.3 million and resulted in an economic gain (present value of the savings) of approximately \$11.7 million.

The table reflects the change in debt as a result of the Series A 2013 and 2014 refundings (amounts in thousands):

2004 Series A	\$ 17,270
2005 Series A	45,840
2004 Series A Refunding	<u>89,195</u>
Total defeased debt	152,305
Total refunding bonds	<u>144,190</u>
Decrease in bonds as a result of refunding	<u>\$ 8,115</u>

In fiscal year 2013, there were no general obligation bonds issued or refunded.

The University may also issue special obligation bonds, also called student fee revenue bonds, which are backed by certain pledged revenues of the University. The 2002 special obligation bonds and 2002 refunding bonds were refunded in advance of maturity in fiscal year 2013 with the issuance of \$88.0 million of special obligation refunding bonds. The 2012 special obligation refunding bonds reduced the special obligation debt service payments in future years by approximately \$31.9 million and resulted in an economic gain (the present value of the savings) of approximately \$26.7 million. Similar to general obligation bond refundings, the proceeds from special obligation or student fee revenue bond refundings are deposited into certain escrow accounts to meet all obligations of the refunded maturities. In fiscal year 2014, there were no special obligation bonds issued or refunded.

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 were approximately \$85.7 million and \$77.1 million in fiscal years 2014 and 2013, 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 and before depreciation expense is deducted. 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.

The total principal and interest remaining to be paid on all special obligation bonds as of June 30, 2014 and 2013 was \$176.1 million and \$187.6 million, respectively. The total amount paid by pledged revenues were \$5.8 million and \$5.7 million, for the principal and \$5.7 million and \$6.3 million for the interest on this debt in fiscal years 2014 and 2013, respectively.

Net unamortized premium and discounts are recorded as additions to the face value of bonds payable. With adoption of GASB 65, the difference between the reacquisition price and the net carrying amount of the refunded bonds is classified as an accumulated loss on debt refundings in the deferred outflows of resources section of the accompanying Statements of Net Position. 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.

The University also has a long-term UCONN 2000 Governmental Lease Purchase Agreement to finance the UCONN 2000 project related to Cogeneration (see Note 9).

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.

Long-term debt activity for the years ended June 30, 2014 and 2013 was as follows (amounts in thousands):

**Long-term Debt Activity for the Year Ended June 30, 2014:**

	<b>Balance July 1, 2013</b>	<b>Additions</b>	<b>Retirements</b>	<b>Balance June 30, 2014</b>	<b>Current portion</b>
General obligation bonds	\$ 828,795	\$ 425,900	\$ (230,710)	\$ 1,023,985	\$ 92,240
Revenue bonds	130,415	-	(5,800)	124,615	5,990
Self-liquidating bonds	1,050	-	(499)	551	202
Installment loans	1,319	101	(393)	1,027	405
Obligation under capital lease for Cogeneration	59,320	-	(3,883)	55,437	4,040
Total long-term debt	1,020,899	426,001	(241,285)	1,205,615	102,877
Premiums/discounts	82,980	43,897	(19,803)	107,074	7,531
Total long-term debt, net	<u>\$ 1,103,879</u>	<u>\$ 469,898</u>	<u>\$ (261,088)</u>	<u>\$ 1,312,689</u>	<u>\$ 110,408</u>

**Long-term Debt Activity for the Year Ended June 30, 2013, restated (see Note 1):**

	<b>Balance July 1, 2012</b>	<b>Additions</b>	<b>Retirements</b>	<b>Balance June 30, 2013</b>	<b>Current portion</b>
General obligation bonds	\$ 903,550	\$ -	\$ (74,755)	\$ 828,795	\$ 77,750
Revenue bonds	154,170	87,980	(111,735)	130,415	5,800
Self-liquidating bonds	2,171	-	(1,121)	1,050	500
Installment loans	1,727	-	(408)	1,319	377
Obligation under capital lease for Cogeneration	62,785	-	(3,465)	59,320	3,883
Total long-term debt	1,124,403	87,980	(191,484)	1,020,899	88,310
Premiums/discounts	70,020	20,656	(7,696)	82,980	6,802
Total long-term debt, net	<u>\$ 1,194,423</u>	<u>\$ 108,636</u>	<u>\$ (199,180)</u>	<u>\$ 1,103,879</u>	<u>\$ 95,112</u>

Long-term debt outstanding at June 30, 2014 and 2013 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	
					2014	2013
<b>Bonds:</b>						
GO 2004 Series A	original	various	2024	3.0-5.0%	\$ -	\$ 22,160
GO 2004 Ref. Series A	refund	annually	2020	3.9-5.0%	-	120,570
GO 2005 Series A	original	annually	2025	3.7%	4,895	55,630
GO 2006 Series A	original	annually	2026	4.0-5.0%	46,270	50,130
GO 2006 Ref. Series A	refund	annually	2020	4.75-5.0%	55,035	57,780
GO 2007 Series A	original	annually	2027	3.6-5.0%	54,600	58,800
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%	108,115	115,465
GO 2010 Series A	original	annually	2030	3.0-5.0%	77,680	82,540
GO 2010 Ref. Series A	refund	annually	2021	2.25-5.0%	23,930	26,410
GO 2011 Series A	original	annually	2031	3.515-5.0%	152,765	161,755
GO 2011 Ref. Series A	refund	various	2023	2.0-5.0%	29,420	31,525
GO 2013 Series A	original	annually	2034	2.0-5.0%	172,660	-
GO 2013 Ref. Series A	refund	various	2024	2.0-5.0%	50,595	-
GO 2014 Series A	original	annually	2034	2.0-5.0%	109,050	-
GO 2014 Ref. Series A	refund	various	2025	2.0-5.0%	92,940	-
Total general obligation bonds					1,023,985	828,795
Rev 2010 Ref. Series A	refund	annually	2028	3.0-5.0%	39,260	42,435
Rev 2012 Ref. Series A	refund	annually	2030	1.5-5.0%	85,355	87,980
Total revenue bonds					124,615	130,415
June 2001	refund	annually	2016	5.5%	149	225
November 2001	refund	annually	2014	5.0-5.125%	-	295
April 2005	refund	various	2017	4.37-5.25%	275	275
December 2007	refund	annually	2015	3.5-5.0%	127	255
Total self-liquidating bonds					551	1,050
Total bonds					1,149,151	960,260
<b>Loans and other debt:</b>						
Installment loans		various	various	1.05-1.959%	1,027	1,319
Obligation under capital lease for Cogeneration		monthly	2026	3.22-5.09%	55,437	59,320
Total loans and other debt					56,464	60,639
Total bonds, loans and installment purchases					1,205,615	1,020,899
Premiums/discounts					107,074	82,980
Total bonds, loans and installment purchases, net					1,312,689	1,103,879
Less: current portion, net					110,408	95,112
Total noncurrent portion, net					\$ 1,202,281	\$ 1,008,767

\*Weighted average coupon rates averaged by year of redemption.



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):

Year(s)	General obligation bonds			Long-term debt other than general obligation bonds			Total obligations		
	Principal	Interest	Total	Principal	Interest	Total	Principal	Interest	Total
2015	\$ 92,240	\$ 44,472	\$ 136,712	\$ 10,637	\$ 7,391	\$ 18,028	\$ 102,877	\$ 51,863	\$ 154,740
2016	86,510	42,992	129,502	10,870	6,988	17,858	97,380	49,980	147,360
2017	84,620	39,150	123,770	11,251	6,593	17,844	95,871	45,743	141,614
2018	81,445	35,396	116,841	11,155	6,185	17,340	92,600	41,581	134,181
2019	77,815	31,675	109,490	11,412	5,779	17,191	89,227	37,454	126,681
2020-2024	308,200	110,062	418,262	64,167	21,485	85,652	372,367	131,547	503,914
2025-2029	199,930	48,649	248,579	53,093	8,067	61,160	253,023	56,716	309,739
2030-2034	93,225	10,576	103,801	9,045	222	9,267	102,270	10,798	113,068
Total	\$ 1,023,985	\$ 362,972	\$ 1,386,957	\$ 181,630	\$ 62,710	\$ 244,340	\$ 1,205,615	\$ 425,682	\$ 1,631,297

## 6. RETIREMENT PLANS AND POST EMPLOYMENT BENEFITS

All eligible employees participate in essentially one of three retirement plans. The State Employees' Retirement System (SERS), a single-employer defined-benefit pension plan, is administered by the State and covers approximately 48% 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 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, Voya Retirement Insurance and Annuity Company, (formerly 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.

In accordance with the State Employees Bargaining Agency Coalition (SEBAC) ARP Grievance Award signed by the State and 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 2,400 individuals eligible for the conversion. If eligible individuals choose to convert to SERS, fringe benefit costs for these individuals would increase. The deadline for this election shall be determined following receipt of the Internal Revenue Service Private Letter Ruling. It is unclear at this time what the financial impact on the University will be, if any.

On July 22, 2011, an agreement between the State and SEBAC was signed which created a new hybrid plan option for professional employees of higher education institutions. In accordance with the 2011 SEBAC agreement, all employees hired on or after July 1, 2011, that are otherwise eligible for ARP, shall have the choice to enroll into a new hybrid plan, in addition to the other two retirement plan options. Also, employees who are currently members of ARP will be eligible to join the hybrid plan on a one time option at the full actuarial cost. The hybrid plan has defined benefits identical to SERS, but will require additional employee contributions, and have the option of taking out a lump sum cash payment, including interest, at the time of retirement in lieu of a lifetime benefit. The University makes contributions on behalf of the employees for all plans, through a fringe benefit charge assessed by the State.

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 507 full-time employees, 68 participate in either SERS or ARP, while 439 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 8% of employee's covered compensation for eligible employees, dependent upon hire date, 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, DDS contributed approximately \$702,000 and \$639,000 to the plan for the years ended June 30, 2014 and 2013, respectively.

In addition to the pension benefits, 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.

## 7. COMPENSATED ABSENCES AND WAGES PAYABLE

Compensated absences are recorded in accordance with GASB Statement No. 16, *Accounting for Compensated Absences*. The liability for compensated absences is classified as current and noncurrent based on the amount estimated to be paid to eligible 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, 2014 and 2013, compensated absences totaled \$34.0 million and \$33.2 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 payments on July 1 of each year, beginning July 1, 2012. Included in the current compensated absences liability as of June 30, 2014 and 2013, were \$860,000 and \$873,000, respectively, for accrued vacation and sick leave for University employees that participated in RIP. The final payment of the RIP was made in July 2014. The noncurrent compensated absences liability as of June 30, 2013 included \$873,000 for such employees.

The following table shows activity for compensated absences for the fiscal years ended June 30 (amounts in thousands):

	<b>2014</b>	<b>2013</b>
Beginning balance, July 1st	\$ 33,227	\$ 33,006
Additions, net	3,783	2,650
Deductions (separations only)	(3,054)	(2,429)
Ending balance, June 30th	<u>\$ 33,956</u>	<u>\$ 33,227</u>

Wages payable includes salaries and wages for amounts owed at the fiscal year end June 30. The State administers benefit and retirement plans for the University. Therefore, the liability for fringe benefits related to wages payable is included in due to State as of June 30.

## 8. COMMITMENTS

The University had outstanding commitments, in excess of \$500,000 each, of \$265.1 million at June 30, 2014. This amount included \$24.6 million related to capital projects for the University and \$238.2 million related to UCONN 2000 capital projects that are administered by the University for UConn Health. UCONN 2000 expenditures made on behalf of UConn Health offset the due to affiliate liability on the accompanying Statements of Net Position (see Note 5). In addition to the amount for capital outlay, approximately \$2.3 million related to operating expenses. A portion of the total amount of outstanding commitments was also included in accounts payable on the accompanying Statement of Net Position as of June 30, 2014.

**9. LEASES****Operating Leases**

The University leases equipment and building space which expire at various dates. Future minimum rental payments at June 30, 2014 under non-cancelable operating leases, that exceeded \$500,000 each, were as follows (amounts in thousands):

<b>Fiscal Year</b>	<b>Payments</b>
2015	\$ 1,340
2016	1,273
2017	486
2018	416
2019	418
Thereafter	1,385
<b>Total</b>	<b>\$ 5,318</b>

Expenses related to operating lease commitments in excess of \$500,000 each were approximately \$1.1 million and \$1.5 million for the fiscal years ended June 30, 2014 and 2013, respectively.

**Capital Leases**

In December 2003, the University entered into an \$81.9 million 20-year 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 agreement was entered into in two parts, \$75.0 million in December 2003 at 4.42% and \$6.9 million in August 2005 at 5.09%. The lease was amended in July 2013 to a lower rate of 3.22% on the remaining principal. The remaining monthly payments decreased from \$517,000 to \$482,000 beginning in August 2013, and the original lease term did not change. 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 were \$85.0 million and \$28.9 million, respectively, as of June 30, 2014.

The University leases equipment assets with an historical cost and accumulated depreciation of \$1.8 million and \$475,000, respectively, as of June 30, 2014.

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

**10. UNEARNED REVENUE**

Unearned revenue is comprised of certain restricted research and operating 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, 2014 and 2013 unearned revenue was as follows (amounts in thousands):

	<b>2014</b>	<b>2013</b>
Certain restricted research and operating grants	\$ 8,431	\$ 8,358
Tuition and fees and auxiliary enterprises	17,935	13,809
Athletic ticket sales and commitments	3,067	3,358
<b>Total unearned revenue</b>	<b>\$ 29,433</b>	<b>\$ 25,525</b>

## 11. TUITION WAIVERS AND GRADUATE ASSISTANTSHIPS

The University is required by law to waive tuition for certain veterans and children of veterans, certain students over the age of 62, graduate assistants, and certain other students. The University is also 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 accompanying Statements of Revenues, Expenses, and Changes in Net Position. This increased tuition and fee revenues and operating expenses by \$5.7 million and \$5.1 million for the fiscal years ended June 30, 2014 and 2013, respectively. The total amounts of waivers not reflected in the accompanying financial statements were \$48.6 million and \$44.2 million in fiscal years 2014 and 2013, respectively. Approximately 94% was provided to graduate assistants in fiscal years 2014 and 2013. Of these amounts, \$2.2 million and \$1.4 million, respectively, were charged back to grants for reimbursement.

## 12. RELATED PARTY TRANSACTIONS

Transactions with related parties occur in the normal course of the University's operations. The following related party transactions were deemed significant and material in nature:

### The Foundation

The Foundation is a tax-exempt organization supporting the University and UConn Health (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 University also provides other services to the Foundation in addition to this agreement. The following transactions occurred between the University and the Foundation as of and for the years ended June 30, 2014 and 2013 (amounts in thousands):

	<u>2014</u>	<u>2013</u>
Amount paid to the Foundation for its guaranteed contractual services	\$ 7,120	\$ 7,120
Reimbursements from the Foundation for operating expenses	\$ 172	\$ 290
Accrued capital and noncapital gift and grant revenue from the Foundation	\$ 40,034	\$ 22,461
Amount receivable from the Foundation*	\$ 5,913	\$ 2,533

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

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, 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 are made by the State for reimbursements related to salaries expensed from the General Fund.

State appropriation and the provision of payments for fringe benefits for the years ended June 30, 2014 and 2013 consisted of the following (amounts in thousands):

	<u>2014</u>	<u>2013</u>
Amount of General Fund appropriation received from the State	\$ 202,574	\$ 195,847
Amount of payments for fringe benefits received from the State	101,479	89,099
Increase of General Fund payroll included in receivable from the State	<u>4,016</u>	<u>3,510</u>
Total appropriation and payments for fringe benefits from the State	<u>\$ 308,069</u>	<u>\$ 288,456</u>

In fiscal year 2013, prior to increases in fringe benefit rates, the State rescinded approximately \$15.0 million in appropriation and payments for fringe benefits in response to a widening State budget deficit. For fiscal year 2014, the University was subject to reductions of approximately \$1.2 million in State support for required adjustments to agency-specific appropriations in accordance with PA No. 13-184, as amended by PA No. 13-247. Similar adjustments are expected in fiscal year 2015 along with the State's plan to rescind an estimated \$3.5 million in appropriation and payments for fringe benefits in order to balance its fiscal budget.

Pursuant to various public or special bond acts, the General Assembly empowers the State Bond Commission to allocate and approve the issuance of bonds for a variety of projects or purposes. PA No. 11-57 authorized \$169.5 million of State General Obligation Bonds to create a Tech Park on the Storrs campus (see Note 5). On August 26, 2011, the State Bond Commission allocated \$18.0 million of the amount to be issued to finance the initial design and development costs of the Tech Park. Additionally, on April 26, 2013, the State Bond Commission allocated \$20.0 million to purchase equipment for the Tech Park. These bonds are an obligation of the State; therefore, they are not recorded as a liability in the accompanying financial statements. The \$20.0 million allotted by the State was recorded as a capital allocation in other changes in net position in the accompanying Statements of Revenues, Expenses, and Changes in Net Position for the year ended June 30, 2013. The unspent portions related to these bonds were \$29.0 million and \$35.6 million as of June 30, 2014 and 2013, respectively, and were included in due from State in the accompanying Statements of Net Position.

The State and the University were defendants in two significant lawsuits that were settled. One was settled for \$5.5 million in September 2013 and another unrelated suit was settled for \$1.2 million in July 2014. These amounts were paid directly by the State in accordance with State statute; therefore, they were not reflected in the accompanying financial statements (see Note 13).

#### **UConn Health**

The University is responsible for the management of UCONN 2000 funds for UConn Health's construction projects. The unspent portion of these funds was recorded under due to affiliate (see Note 5). In addition, the University engaged in certain cost share arrangements with UConn Health for shared services such as senior management salaries.

The University and UConn Health have also partnered to support economic development activities and to achieve successful outcomes for the Tech Park and Bioscience Connecticut initiative. In fiscal years 2014 and 2013, UConn Health and the University each provided an equal share of funding for economic development activities in accordance with an annual memorandum of agreement. The budget was managed by the University while selected expenses were paid directly by UConn Health. Any amounts owed by UConn Health for its remaining funding obligations were reimbursed directly to the University.

#### **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, 2014 and 2013, the University directed support to the Association in the amount of \$526,000 and \$1.1 million, 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 amounts owed to the University related to these expenses from the Association as of June 30, 2014 and 2013 were \$40,000 and \$45,000, respectively, which were included in accounts receivable, net, in the accompanying Statements of Net Position.

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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 was approximately \$13,000 and \$2,000 payable to the Association for the license plate program as of June 30, 2014 and 2013, respectively.

#### **Campus Associates Limited Partnership**

The University entered into a 50-year 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 provided 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 is 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. The University purchased a third unit in the limited partnership for \$50,000 in fiscal year 2009 (see Note 2). Under the land lease agreement, Campus Associates is also obligated to the University for certain costs which include real estate taxes, charges for public utilities, and other services. Amounts due from Campus Associates, net of allowances, totaled \$109,000 and \$129,000 as of June 30, 2014 and 2013, respectively.

In December 2014, the Board of Trustees approved a plan to negotiate an agreement to buy the Nathan Hale Inn for an estimated purchase price of \$8.4 million to help meet the University's student housing needs. Negotiations are still ongoing and a final purchase and sale agreement has not been executed prior to the issuance of these financial statements.

#### **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, the University, and individual business members and residents. MDP is responsible for organizing the enhancement and revitalization of three of the Town 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 2014 and 2013, 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 years 2014 and 2013, the University conveyed 1.24 acres and 5.09 acres, respectively, to the master developer which were sold at the stated price per acre. Further land transactions are expected as the Storrs Center project continues to progress. Moreover, the University also provided water and sewer services, which were billed in accordance with the University's standard billing practices.

### **13. CONTINGENCIES**

Certain claims and judgments against the University are covered by the State under Connecticut General Statute § 4-160 (see Note 12), which governs most tort and breach of contract claims. Additional coverage is provided for the University by insurance policies and funds maintained by the State.

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 a small number of outstanding matters, including unasserted claims, of potential individual significance. With respect to two matters, certain claimants seek an aggregate of approximately \$25.0 million. If claimants are successful, the claim would be paid from the State's General Fund, not from the University. The State expects these matters to be resolved for substantially less than the amounts claimed.

In the opinion of legal counsel, the aggregate exposure pertaining to the other remaining claims and unasserted claims cannot be reasonably estimated but is not expected to exceed \$5.0 million.

It was determined that fringe benefit assessments charged to the State's General Fund were overstated in fiscal years 2003 to 2014. Therefore, the payment for fringe benefits received from the State exceeded what should have been if the correct assessments were charged. The excess payment of fringe benefits received from the State from July 1, 2008 to June 30, 2014 is estimated at \$17.7 million. Excess fringe benefit payments covering fiscal years 2003 to 2008 have not been

calculated. The University has not recorded a liability in the accompanying financial statements for these overpayments and the State has not asserted a claim for reimbursement at this time.

The University also participates in federal, state and local government programs that are subject to final audit by the granting agencies. Management believes the adjustment of costs, if any, resulting from such audits would not have a material effect on the University's financial statements.

#### 14. OPERATING EXPENSES BY NATURAL CLASSIFICATION

The table below details the University's operating expenses by natural classification for the years ended June 30, 2014 and 2013 (amounts in thousands):

##### For the fiscal year ended June 30, 2014:

	Salaries and wages	Fringe benefits	Supplies and other expenses	Utilities	Depreciation and amortization	Total
Instruction	\$ 227,015	\$ 95,325	\$ 30,899	\$ 12	\$ -	\$ 353,251
Research	39,733	10,910	28,841	-	-	79,484
Public service	24,495	8,648	8,776	-	-	41,919
Academic support	63,884	32,496	29,140	37	-	125,557
Student services	20,345	10,651	5,791	-	-	36,787
Institutional support	26,547	15,238	12,638	61	-	54,484
Operations and maintenance	33,506	25,144	31,964	14,534	-	105,148
Depreciation and amortization	-	-	-	-	95,377	95,377
Student aid	1	-	8,795	-	-	8,796
Auxiliary enterprises	85,550	39,303	65,763	6,319	-	196,935
	<u>\$ 521,076</u>	<u>\$ 237,715</u>	<u>\$ 222,607</u>	<u>\$ 20,963</u>	<u>\$ 95,377</u>	<u>\$ 1,097,738</u>

##### For the fiscal year ended June 30, 2013:

	Salaries and wages	Fringe benefits	Supplies and other expenses	Utilities	Depreciation and amortization	Total
Instruction	\$ 203,219	\$ 73,328	\$ 25,655	\$ -	\$ -	\$ 302,202
Research	39,543	8,956	26,449	-	-	74,948
Public service	22,322	7,444	9,302	-	-	39,068
Academic support	61,143	26,573	29,963	-	-	117,679
Student services	19,785	7,738	5,787	5	-	33,315
Institutional support	25,168	13,259	12,867	64	-	51,358
Operations and maintenance	30,247	19,507	32,284	12,923	-	94,961
Depreciation and amortization	-	-	-	-	91,713	91,713
Student aid	301	3	6,850	-	-	7,154
Auxiliary enterprises	80,957	33,741	64,687	6,733	-	186,118
	<u>\$ 482,685</u>	<u>\$ 190,549</u>	<u>\$ 213,844</u>	<u>\$ 19,725</u>	<u>\$ 91,713</u>	<u>\$ 998,516</u>







