University of Connecticut

Financial Report

For the Year Ended June 30, 2003

Message from the Chief Financial Officer

Founded in 1881, the University of Connecticut serves as the state's flagship for higher education, meeting the educational needs of undergraduate, graduate, professional, and continuing education students through the integration of teaching, research and service. The University of Connecticut is a comprehensive institution of higher education, which includes the University of Connecticut Health Center (Health Center). Although governed by a single Board of Trustees, the University of Connecticut and its Health Center maintain separate budgets and are by statute separate entities for purposes of maintaining operating funds and state appropriations. The Health Center also has a Board of Directors to whom the Board of Trustees has delegated certain responsibility and authority.

This financial report for the fiscal year ended June 30, 2003 represents the transactions and balances of the University of Connecticut (University), here defined as all programs except the Health Center. This includes Storrs-based undergraduate and graduate programs, the regional campuses, the School of Law and the School of Social Work. The University's enrollment in Fiscal Year 2003 topped 25,000 students, taught by 1,170 full-time faculty members and an additional 600 part-time faculty and adjuncts. In total, the University employs more than 4,300 people. Two related, but independent, corporate entities also support the mission of the University: The University of Connecticut Foundation, Inc. (Foundation) and the University of Connecticut Law School Foundation, Inc. The Foundation raises funds to promote, encourage, and assist education and research at the University and the Health Center. The Foundation operates exclusively for charitable and educational purposes to promote and assist the University of Connecticut. It solicits and accepts donations of properties, monies, and securities and invests and administers these gifts. The Foundations' financial statements are not part of the University's financial statements.

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

While the University's operational flexibility and capacity has grown, all of these activities also take place within a context of continuing external review. The financial statements contained in this report reflect budget execution results consistent with spending plans, operating and capital budgets approved by the University Board of Trustees. The Auditors of Public accounts issue an Independent Auditors' Report on the financial statements of the University. They are responsible for auditing its financial operations and their opinion appears on Page 1. For the second year this report reflects the full adoption and implementation of the Governmental Accounting Standards Board (GASB) Statement No. 35 and contains comparative June 30, 2002 statements.

The fiscal operations of the University are not an end in themselves—rather, the maintenance of fiscal health and stability serves the ultimate goal of enabling the University to achieve its academic, research and service mission. The growth and diversification of the University's funding streams, combined with the physical transformation through UCONN 2000, have led the University to record enrollments, research success and ever-growing contribution to the economic well-being of the State of Connecticut.

Among its many accomplishments, the University continues the distinction of being rated the best public university in New England in the annual U.S. News and World Report rankings. The University is currently ranked 25th among 248 public doctoral universities in the nation. Other major accomplishments of the University include:

- Undergraduate enrollment is at an all-time high, while the quality and diversity of students choosing the University has shown a documented rise every year since the mid-1990's. Compared to fall of 1995, fall 2002 Storrs freshman enrollment was up 58%, minority freshman enrollment was up 61% and average SAT scores were up nearly 40 points. Since 1995, 394 valedictorians and salutatorians have enrolled as freshmen at the University.

- Approximately 5,300 degrees were conferred in the 2002-2003 school year for the completion of undergraduate, graduate and professional programs.
- The School of Law was named one of the best law programs in the country according to U.S. News and World Report. Among public law schools, it was ranked 17th, up from 20th two years ago. The increased quality of the entering class, an increase in the number of students employed at graduation, and a substantial increase in the Bar pass rate supported the Law School's improved ranking.
- The School of Business was named one of the best in the nation by Business Week. It placed it among the top 30 public universities nationwide in the very competitive field of graduate business education. Business Week and U.S. News and World Report ranked the School of Business as the best public business school in New England. The MBA Program was named by Forbes Magazine as one of the highest return-on-investments in the nation. Wall Street Journal also listed it as one of the Top Business Schools in the country.
- The Neag School of Education is broadly recognized for its innovative teacher education programs and the fact that its graduates are likely to remain in the profession far longer than those from other schools. The Neag School of Education was highlighted in a recent "Best Graduate Schools" guide. It was one of seven graduate schools across the country selected for a pictorial feature of outstanding graduate programs. Its Special Education Program was recognized by U.S. News and World Report as the 16th best program in the country.
- The University's construction program, UCONN 2000, is proceeding with great success, and 21st Century UConn will begin in 2005. Together the two programs represent an unprecedented $2.3 billion investment in the University's and the Health Center's infrastructure.
- UCONN 2000 projects have earned seven awards for the University of Connecticut for design, energy conservation and overall achievement and impact on the state of Connecticut.
- The University's intercollegiate athletic program was again named to the Top 20 in the national College Sports Honor Roll, which recognizes the best Division I schools in terms of graduation, compliance with Title IX, absence of NCAA violations, and athletic success. The women's basketball team won their second straight NCAA Championship in 2003 and four other teams advanced to NCAA Championship play: men's basketball, men's and women's soccer, and field hockey.

As a result of UCONN 2000 and accompanying programmatic improvements, increasing numbers of high achieving students from Connecticut and from other states are making the University their school of choice. Growing recognition of the value of an education at the University has caused demand to skyrocket, making the Fall 2003 entering class at the Storrs campus the largest, most academically gifted and most diverse freshman class in the University's history. At the same time, students' expectations have also soared: they come to the University anticipating exceptional teaching and research faculty; access to a wide variety of course offerings and class sections; a meaningful level of academic and career counseling; a vibrant student life experience; and first-class academic, residential and recreational facilities. The University is committed to meeting this challenge.

Respectfully Submitted,

Lorraine M Aronson

Lorraine M. Aronson
Vice President and Chief Financial Officer

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STATE OF CONNECTICUT

AUDITORS OF PUBLIC ACCOUNTS
STATE CAPITOL
210 CAPITOL AVENUE
HARTFORD, CONNECTICUT 06106-1559

KEVIN P. JOHNSTON

ROBERT G. JAEKLE

INDEPENDENT AUDITORS' REPORT

The Board of Trustees of the
University of Connecticut

We have audited the accompanying statements of net assets of the University of Connecticut (University) as of June 30, 2003 and 2002, and the related statements of revenues, expenses and changes in net assets and statements of cash flows for the years then ended. The University is a component unit of the University of Connecticut system, which includes the University of Connecticut, the University of Connecticut Health Center, the University of Connecticut Foundation, Inc. and the University of Connecticut Law School Foundation, Inc. These financial statements are the responsibility of the University's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the University, as of June 30, 2003 and 2002, and the changes in net assets and cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

The Management Discussion and Analysis on pages 2 through 16 is a not required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Sincerely,

Kevin P. Johnston
Auditor of Public Accounts

Robert G. Jaekle
Auditor of Public Accounts

December 22, 2003
State Capitol
Hartford, Connecticut

MANAGEMENT'S DISCUSSION & 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, 2003, based on currently known facts, decisions, or conditions. It also includes selected comparative information for the year ended June 30, 2002. As the MD&A presentation includes highly summarized information, it should be read in conjunction with the accompanying financial statements and related notes to the financial statements. The financial statements, notes to the financial statements, and this MD&A are the responsibility of management.

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FINANCIAL STATEMENTS

The University's financial report includes three basic financial statements: Statements of Net Assets; Statements of Revenues, Expenses, and Changes in Net Assets; and Statements of Cash Flows. In addition, the following elements are included with these general-purpose financial statements: Management's Discussion and Analysis and Notes to the Financial Statements. The University adopted GASB Statement No. 35, Basic Financial Statements - and Management's Discussion and Analysis - for Public Colleges and Universities, an amendment to Statement No. 34, Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments; Statement No. 37, Basic Financial Statements - Management's Discussion and Analysis - for State and Local Governments: Omnibus; and Statement No. 38, Certain Financial Statement Note Disclosures, effective July 1, 2001. The adoption of these standards resulted in the conversion from fund accounting statements to statements presented in a single-column format that enhance the usefulness and comprehension of financial reports by external users. The multi-column format was no longer required and "Net Assets" replaced "Fund Balance". Statements No. 34 and 35 also added Management's Discussion and Analysis and Statements of Cash Flows.

The University's adoption of the new GASB reporting model was a significant change from prior reporting. The fiscal 2001 financial statements focused on the accountability for funds, whereas the 2002 and 2003 statements focus on the financial condition, results of operations, and cash flows of the University, more similar to corporate financial statements. The three statements are summarized and changes between years analyzed in the sections that follow.

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. This approach is explained in *Net Assets* section below.

FINANCIAL HIGHLIGHTS

The University submits separate biennial operating and capital budgets to the Governor and General Assembly through the Board of Governors for Higher Education. The General Assembly appropriates and allocates funds directly to the University. The University's spending plan reflects a balanced budget. In general, the Governor may reduce State agency allotments by not more than 5%, although in recent years the General Assembly has afforded the Governor certain specified additional reduction authority.

The financial statements contained herein show an operating loss of $299.9 million for the year ending June 30, 2003 (fiscal 2003), and $279.8 million for the year ending June 30, 2002 (fiscal 2002). The measure more indicative of normal and recurring activities is income or loss before capital additions (deductions), which includes revenue from State appropriations. The University experienced a loss before capital additions (deductions) of $28.7 million and $9.3 million for fiscals 2003 and 2002, respectively. Total operating revenues grew $27.6 million in fiscal 2003, while operating expenses increased $47.8 million over fiscal 2002. Investment income decreased $2.0 million in 2003 and $5.9 million in 2002, due to short-term rate reductions concurrent with multiple rate adjustments by the Federal Reserve Board and market declines. Also, the Statements of Revenues, Expenses, and Changes in Net Assets include depreciation expense of $63.4 million in fiscal 2003 and $50.6 million in fiscal 2002, a $12.8 million increase.

Sources of recurring operating and nonoperating revenues were strong in both 2003 and 2002 and most are expected to remain strong in 2004, including tuition and mandatory fees revenue, grants and contracts revenue, sales and services of educational departments, net sales and services of auxiliary enterprises, and state debt service commitment for interest. In fiscal year 2003, undergraduate enrollment at the University reached a record 18,662 students, 1,032 (5.9%) more than the prior year and, when combined with an in-state tuition and fee increase of 5.7% and 6.1% for out-of-state, resulted in an increase in tuition and fee revenue, before scholarship allowance, of 14.1%. This undergraduate enrollment enabled the University to reach its total enrollment goal of 25,000 students three years ahead of schedule, with 25,373 students attending the University in 2003. State support decreased slightly over 2002 due to significant State budgetary constraints. (See *Economic Outlook* section below.)

STATEMENTS OF NET ASSETS

The Statements of Net Assets present the assets, liabilities, and net assets of the University as of the end of the fiscal year, June 30. The Statements of Net Assets are a point of time financial statement – a snapshot – and a measure of the financial condition of the University. These statements present end-of-year data concerning assets, classified as current (those available for use within one year) and noncurrent (those available beyond one year), liabilities, categorized as current (liabilities maturing and due within one year) and noncurrent (maturing and due after one year), and net assets that represent the difference between total assets and total liabilities. Assets are what is owned by or what is owed to the University. Assets also include payments made to others before a service was received. Assets are recorded at their current value, except for property and equipment that is recorded net of accumulated depreciation. Liabilities represent what is owed to others or what has been received from others prior to the University service being provided.

Readers of the Statements of Net Assets are able to determine the assets available to continue the operations of the University. The net asset value of the University is the residual interest or equity in the University's assets after liabilities are deducted. Readers are also able to determine how much the University owes vendors, investors, and lending institutions.

The following table shows condensed Statements of Net Assets at June 30, 2003 and 2002:

	2003	2002
Current assets	$ 336,317,806	$ 416,138,886
Noncurrent assets	1,992,917,844	1,780,191,592
Total assets	$ 2,329,235,650	$ 2,196,330,478
Current liabilities	$ 176,492,670	$ 162,314,458
Noncurrent liabilities	853,848,348	805,292,823
Total liabilities	$ 1,030,341,018	$ 967,607,281
Invested in capital assets	$ 1,148,711,532	$ 1,020,536,235
Restricted	67,932,668	124,519,993
Unrestricted	82,250,432	83,666,969
Total net assets	$ 1,298,894,632	$ 1,228,723,197

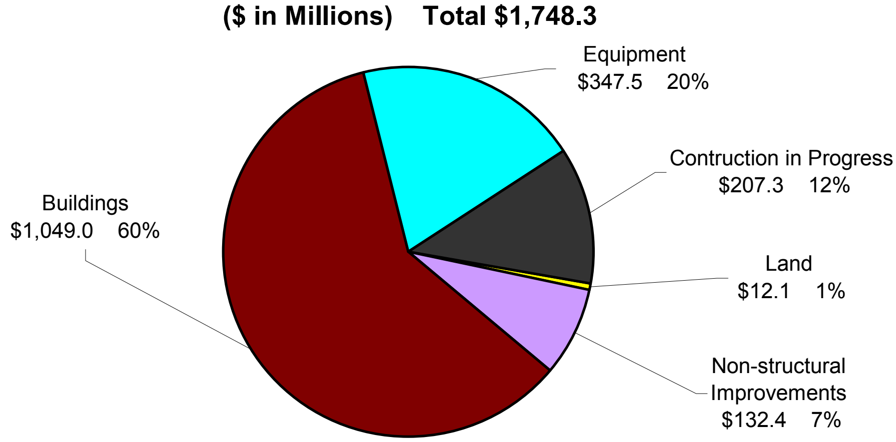
The total assets of the University increased by $132.9 million over 2002. This growth was primarily due to $163.8 million of additions to property and equipment, net of accumulated depreciation, and a $59.5 million increase in the state debt service commitment. This increase was offset by a decrease in both receivables and due from the State of Connecticut totaling $21.3 million and a $69.8 million reduction in deposit with bond trustee used for construction projects. The total liabilities for the year increased by $62.7 million primarily due to newly acquired debt through the sale of general obligation bonds totaling $96.2 million and the retirement of prior year debt on existing bonds and loans of $45.2 million. The combination of the increase in total assets of $132.9 and total liabilities of $62.7 million yields an increase in total net assets of $70.2 million.

Current assets less current liabilities represents working capital, which was $159.8 million and $253.8 million at June 30, 2003 and 2002, respectively. The current ratio, which is current assets divided by current liabilities, declined during the year from 2.56 to 1 at June 30, 2002 to 1.91 to 1 at June 30, 2003. The decline in the University's liquidity is due primarily to the deposit held with bond trustee decreasing $69.8 million in fiscal 2003 and using the funds for construction projects related to UCONN 2000 (see Note 4).

Capital and Debt Activities

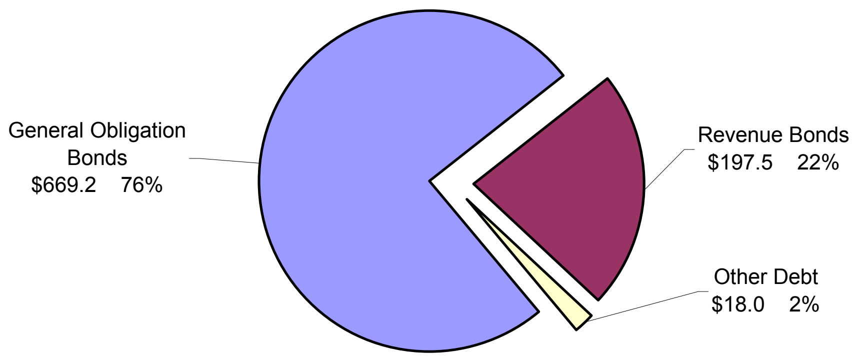
During fiscal year 2003, the University recorded additions to property and equipment totaling $227.2 million ($184.0 million in 2002), of which $185.5 million related to buildings and construction in progress ($140.4 million in 2002). This unprecedented growth of the University's property and equipment is a direct result of the UCONN 2000 program that runs through fiscal year 2005. As discussed in the *Economic Outlook* section below, in fiscal 2002 the Governor signed into law 21st Century UConn, and together with the General Assembly reaffirmed their commitment in fiscal 2003 to provide, uninterrupted, the funding for a ten year extension of UCONN 2000. The 21st Century UConn program expands and builds on the success of UCONN 2000 and provides $1.3 billion for improvements to facilities at the University and the Health Center (see Note 4). The following pie chart presents the total property and equipment at cost:

TOTAL PROPERTY AND EQUIPMENT AT COST AT JUNE 30, 2003
($ in Millions) Total $1,748.3



In 2003, the University received bond proceeds, including net premiums, of $100 million from the sale of UCONN 2000 general obligation bonds. The State has made a commitment to fund the University for all principal and interest payments due on both the UCONN 2000 and the future 21st Century UConn general obligation debt. The commitment from the State is recorded as a current and noncurrent receivable (state debt service commitment in the accompanying Statements of Net Assets) as the general obligation debt is incurred. See Notes 3 to 5 of the Financial Statements for further information on capital and debt activities.

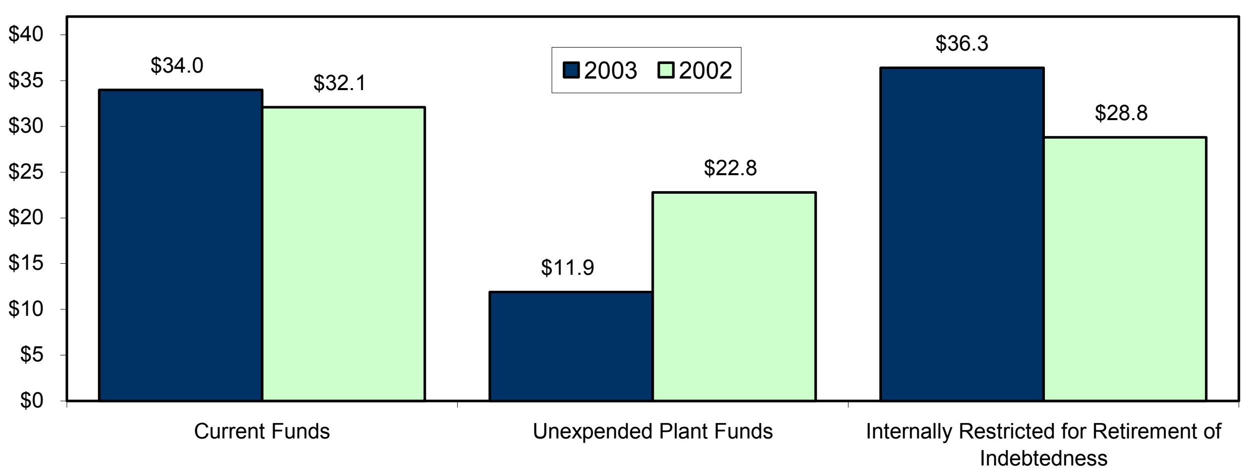
CATEGORIES OF DEBT AT JUNE 30, 2003
($ in Millions) Total $884.7



Net Assets
Net assets are divided into three major categories. The first category, invested in capital assets, net of debt, provides the University's equity in property and equipment. The restricted net assets category is divided into two categories, nonexpendable and expendable. The corpus of restricted nonexpendable resources is only available for investment purposes and in the University's Statements of Net Assets this amount represents endowment assets. Expendable restricted net assets are available for expenditure by the institution but must be spent for purposes determined by donors and/or external entities that have placed time or purpose restrictions on the use of the assets. The final category is unrestricted net assets.

Unrestricted net assets is defined by GASB to include funds not restricted by third-parties, including all unrestricted funds formerly (prior to fiscal 2002) included in the balances of unrestricted current funds, retirement of indebtedness funds, and plant funds. Unrestricted net assets consist of various designated and committed funds. GASB prohibits a breakout of designated unrestricted funds on the face of the Statements of Net Assets. Unrestricted net assets are available to the University for any lawful purpose of the institution. The following shows a comparison between fiscal years by category of unrestricted assets:

UNRESTRICTED NET ASSETS COMPARISON ($ in Millions)



The University prepares and presents its Operating Budget requests and annual Spending Plan in a current funds format. Fund Accounting is used internally to account for the activities of different sources and uses of funds. Current funds revenue includes all unrestricted sources such as the State appropriation, tuition and fees, gifts, grants and other resources earned during the reporting period. Restricted current funds revenue that does not meet the non-exchange transaction definition (see Note 1) is recognized to the extent expended or when the contract terms are met or completed. Current funds expenditures and transfers, both restricted and unrestricted, include the costs incurred for goods and services used to conduct the University's operations in the reporting period. The current funds format shows gross student tuition and fees and does not net out scholarship allowances, as required in the accompanying financial statements. Scholarship allowances are shown as an expense item. In addition, the University's current funds format includes equipment purchases as an expense and does not include depreciation and the State debt service commitment for interest. The following table shows a summary of the current funds revenues and expenditures and transfers as compared to the University's budget for fiscal 2003:

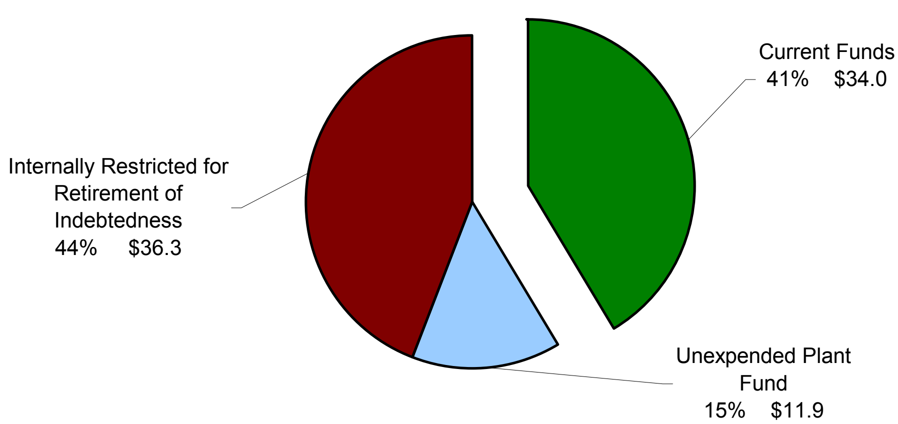
	Budget	Actual	Variance
Revenues	$ 650,488,480	$ 669,072,891	$ 18,584,411
Expenditures and transfers	650,488,480	667,360,566	16,872,086
Net gain	$ -	$ 1,712,325	*$ 1,712,325

* Represents change in unrestricted current funds of $4.0 million and restricted of ($2.3 million).

The current funds unrestricted net assets balance as of June 30, 2003 totaled $34.0 million. This is an increase of $1.9 million from the June 30, 2002 amount of $32.1 million. The difference in the unrestricted budget gain of $4.0 million, noted in the above table, and the increase in the current funds unrestricted net assets of $1.9 million included in the financial statements is the $2.1 million fiscal 2001 surplus appropriation which was received in fiscal 2002, but not budgeted until fiscal 2003. Therefore, the amount was already included in the financial statement unrestricted net assets balance at June 30, 2002.

The University has internally designated $36.3 million of its total $82.2 million at June 30, 2003 and $28.8 million of its total $83.7 million at June 30, 2002 in unrestricted assets for use in retirement of indebtedness. $11.9 million and $22.8 million for 2003 and 2002, respectively, relates to unexpended plant assets. The pie chart below illustrates the components of unrestricted net assets at June 30, 2003:

UNRESTRICTED NET ASSETS BY COMPONENT AT JUNE 30, 2003
($ in Millions) TOTAL: $82.2



STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS

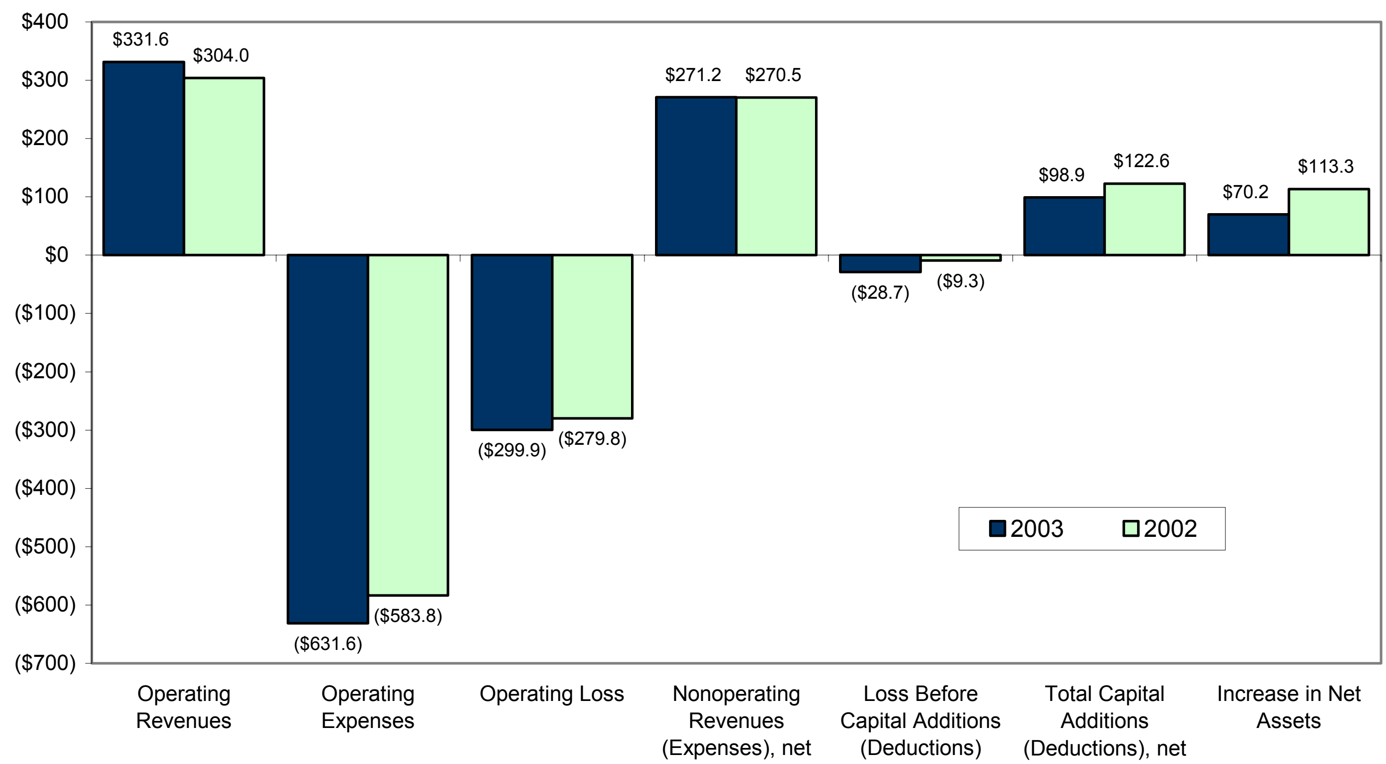
Revenues and expenses are classified as operating, nonoperating, or capital additions (deductions) according to definitions prescribed by GASB. Significant recurring sources of nonoperating revenue utilized in balancing the operating loss each year include state appropriations for general operations, state debt service commitment for interest, noncapital gifts, and short-term investment income. By its very nature, a state funded institution does not receive tuition, fees, and room and board revenue sufficient to support the operations of the University. Therefore, these nonoperating revenues are essential to the programs and services provided by the University. Unless a significant increase in tuition and fees and room and board revenues occurs, the University will always show a loss from operations.

The following table shows condensed Statements of Revenues, Expenses, and Changes in Net Assets for the fiscal years ended June 30, 2003 and 2002:

	2003	2002
Operating revenues	$ 331,640,922	$ 304,039,226
Operating expenses	631,587,824	583,811,852
Operating loss	(299,946,902)	(279,772,626)
Nonoperating revenues (expenses), net	271,209,262	270,458,641
Loss before capital additions (deductions)	(28,737,640)	(9,313,985)
Total capital additions (deductions)	98,909,075	122,571,445
Increase in Net Assets	$ 70,171,435	$ 113,257,460

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

STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
($ in Millions)



Generally, operating revenues are earned when providing goods and services to the various customers of the University. Operating expenses are incurred in the normal operation of the University and represent those expenses paid to acquire or produce the goods and services provided in return for the operating revenues. Operating expenses also include the provision for estimated depreciation of property and equipment. The difference between operating revenues and operating expenses is the operating income or loss. As a state funded agency, the University is expected to experience an operating loss each year.

Nonoperating revenues are revenues received for which goods and services are not provided, including state appropriations and state debt service commitment for interest. Such revenues are provided by the State to the University without the State directly receiving commensurate goods and services for those revenues. Nonoperating revenues (expenses) also include noncapital gifts, investment income, interest expense, and other expenses not considered in the functional classification of operating expenses.

Capital additions (deductions) are comprised of the state's debt service commitment for principal payments on general obligation bonds used for capital purposes, capital grants and gifts, the disposal of property and equipment, and other capital related items. The Statements of Revenues, Expenses, and Changes in Net Assets reflect a positive year with an increase in the net assets at the end of the year of $70.2 million in fiscal 2003 and $113.3 million in 2002.

Revenues

The following table summarizes operating, nonoperating and capital revenues for the fiscal years ended June 30, 2003 and 2002:

	2003	2002
Operating revenues:		
Student tuition and fees, net	$ 120,275,694	$ 102,200,333
Grants and contracts	100,183,600	98,373,311
Sales and services of educational departments	13,514,914	12,020,682
Sales and services of auxiliary enterprises, net	89,438,533	81,002,139
Other sources	8,228,181	10,442,761
Total operating revenues	331,640,922	304,039,226
Nonoperating revenues:		
State appropriation	258,751,010	259,447,742
State debt service commitment for interest	29,228,519	25,907,563
Gifts	18,936,287	16,202,233
Investment income	3,565,261	5,572,628
Other nonoperating revenues, net (see *Expense* section below for 2002)	522,514	-
Total nonoperating revenues	311,003,591	307,130,166
Capital additions:		
State debt service commitment for principal	96,210,000	100,000,000
Capital grants and gifts	7,558,843	12,316,127
Capital other, net (see *Expense* section below for 2003)	-	13,357,569
Total capital additions	103,768,843	125,673,696
Total revenues	$ 746,413,356	$ 736,843,088

Revenue highlights for the year ending June 30, 2003 as compared to fiscal 2002, including operating and nonoperating revenues and capital additions, presented on the Statements of Revenues, Expenses, and Changes in Net Assets are as follows:

- Student tuition and mandatory fees, net of scholarship allowances, increased 17.7% (14.1% before scholarship allowance) over the prior year due, in part, to 5.9% more undergraduates enrolled at the University and an increase of 5.7% for undergraduate in-state tuition and fees charged to undergraduate students (6.1% for out-of-state).
- Revenues associated with residential life, net of scholarship allowances, and included in the sales and services of auxiliary enterprises category, increased approximately 10.4% during the year. This increase is consistent with the increase in available on-campus housing and the number of students living on campus. Room fee-paying students and board fee-paying students increased 5.0% and 5.4% respectively over 2002, and fees charged for both room and board increased approximately 3.9%.
- The largest source of revenue was the state appropriation, which is included in nonoperating revenues, including fringe benefits, which totaled $258.8 million in fiscal 2003, representing a slight decrease over the prior year. The State also provides state debt service commitment for the interest payments made annually on general obligation bonds. State debt commitment for interest revenue is included in nonoperating revenues and totals $29.2 million, resulting in an increase proportionate to the increase in interest expense on general obligation bonds for fiscal 2003. Effectively, this revenue offsets a significant portion of interest expense that totaled $39.8 million in fiscal year 2003. Also, as general obligation bonds are issued (see Note 4) the State commits to the repayment of the

future principal amounts and a receivable is recorded on the Statements of Changes in Net Assets to reflect this commitment, resulting in revenue that is recorded as a capital addition totaling $96.2 million in fiscal year 2003.

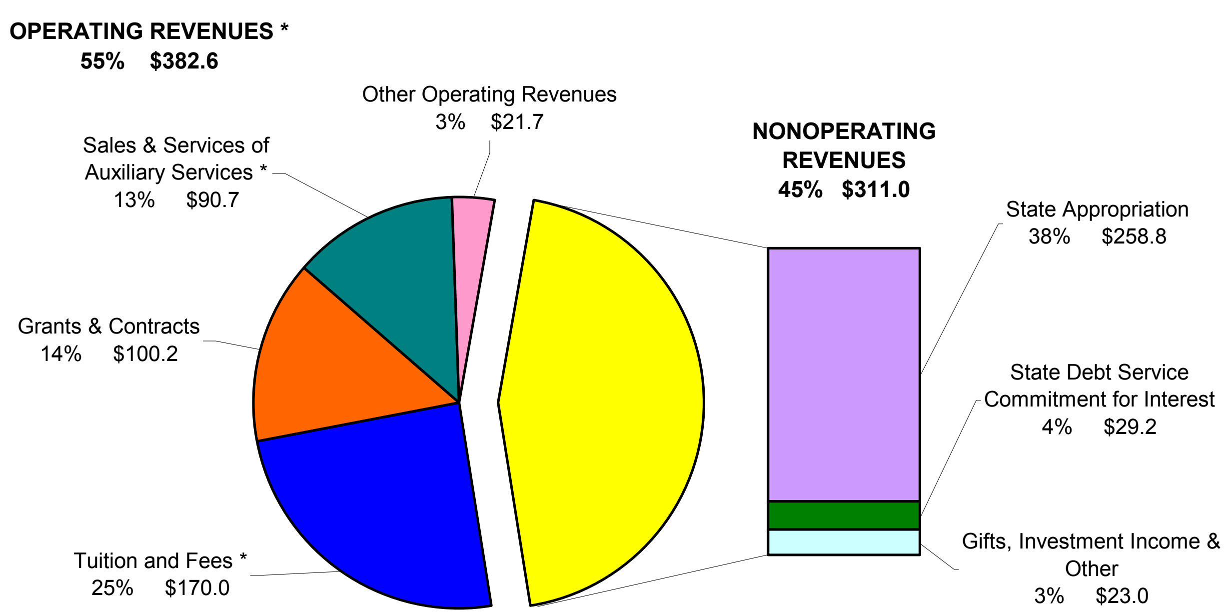
- Gift revenue, both capital and noncapital, is derived from gifts made directly to the University and from the Foundation and Law School Foundation. These spendable funds are provided to the University for educational, cultural, recreational, research activities, and facilities. The Foundation operates exclusively to assist the University and the Health Center. Both the Law School Foundation and the Foundation disburse funds to the University as requests are made, provided the request is in accordance with donor restrictions, if any. These gifts received from both Foundations totaled approximately $18.3 million in fiscal year 2003. Both Foundations also paid approximately $4.2 million to third parties on behalf of the University. This amount is not reflected in the University's financial statements. The University also receives gifts directly, including philanthropic research grants. Total nonoperating and capital gift and grant revenue to the University from all sources amounted to $26.5 million in fiscal year 2003 ($18.9 million in nonoperating revenues and $7.6 million in capital additions), an overall decrease of $2.0 million over 2002.

- Other nonoperating revenues consisted of a $2 million endowment grant earned during the year (see Note 2) offset by nonoperating expenditures, resulting in net revenue of $0.5 million in fiscal 2003. (See *Expense* section below for discussion of fiscal 2002 nonoperating expense, net.)

- Capital other revenue (expense) in 2003 is discussed below in *Expense* section of this MD&A. In fiscal 2002, included in the capital additions (deductions) section, was $25.3 million of insurance proceeds from a performance bond related to a significant construction project at the University. This amount was offset by an expense of approximately $10 million recorded to reflect a reduction in property and equipment due to impairment in a construction project asset. See Note 3 for further discussion. The remaining amount of capital other was related to expenses incurred in fiscal year 2002 for capital activities of the University.

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

REVENUES FOR FISCAL 2003 ($ in Millions)
Total: $693.6



* Shown here at gross amounts, not netted for student financial aid.

Expenses

The following table summarizes operating, nonoperating and capital deductions for the fiscal years ended June 30, 2003 and 2002:

	2003	2002
Operating expenses:		
Instruction	$ 210,682,856	$ 198,738,445
Research	56,170,809	49,310,979
Auxiliary enterprises	93,185,331	90,957,783
Depreciation	63,402,505	50,624,858
Other	208,146,323	194,179,787
Total Operating Expenses	631,587,824	583,811,852
Nonoperating expenses:		
Interest expense	39,794,329	33,955,787
Other nonoperating expense, net (see *Revenue* section above for 2003)	-	2,715,738
Total nonoperating expenses	39,794,329	36,671,525
Capital deductions:		
Disposal of property and equipment, net	2,454,738	3,102,251
Capital other, net (see *Revenue* section above for 2002)	2,405,030	-
Total capital additions deductions	4,859,768	3,102,251
Total expenses	$ 676,241,921	$ 623,585,628

During fiscal 2003, certain operating expense classifications were revised to more appropriately reflect expenditures by function. For comparative purposes, fiscal 2002 operating expenses were reclassified from the prior year financial statements, reflecting the change in the functional classification of expenditures. Total 2002 operating expenses did not change from what was previously reported.

Operating expenditures are classified by function in the accompanying Statements of Revenues, Expenses, and Changes in Net Assets. These functions directly contribute to the major missions of the University. Natural or object classification includes salaries, fringe, supplies, utilities and other expenses (see Note 13 for operating expenses classified by object). The following briefly describes the functions used to classify expenses in the accompanying financial statements.

- **Instruction:** The instruction function consists of all formal educational activities in which a student engages to earn credit toward a degree or certificate at the University, including academic, occupational, and vocational instruction, and faculty and department administration, except for deans. It also includes noncredit expenditures for regular and special programs for community education, preparatory and adult basic education and departmental research. Non-research institutes and service centers supporting a department are recorded in this category.

- **Research:** The research function comprises all research-related activities established within the University under the terms of agreements external to the University, or separately budgeted and conducted with internal funds. It includes expenditures for individual and/or project research as well as those of research centers. This category does not include all sponsored programs such as training grants, nor is it limited to sponsored research, since internally supported research programs that are separately budgeted are included in this category. During fiscal 2003, the University conducted a comprehensive review of the research function. This review resulted in the reclassification of certain departmental accounts from research and moved them primarily to instruction. For comparative purposes, the University reclassified the fiscal 2002 functional expenditures to reflect this change.

- **Public Service:** The public service function contains the activities within the University that produce outcomes directed toward the benefit of the community or individuals residing within the geographic service area of the University. Within the public service function are conferences, general advisory services, consulting, community services, cooperative extension services, and public broadcasting services.

- **Academic Support:** The academic support function contains those activities that support the primary mission of the University – instruction, research and public service – through the retention, preservation and display of materials, or provides services that directly assist the academic functions of the University. Academic support includes libraries, museums and galleries, audiovisual services, computing support, ancillary support, academic deans, course and curriculum development, and academic personnel development. Non-research institutes and service centers supporting a school or college are recorded in this category.

- **Student Service:** The student service function includes funds expended for offices of admissions and registrar and those activities whose primary purpose is to contribute to the students' emotional and physical well being and to their intellectual, cultural, and social development outside the context of the formal instruction program. This category includes cultural events, student administration, counseling and career guidance, financial aid administration, college work-study, student recruitment, and student record keeping.

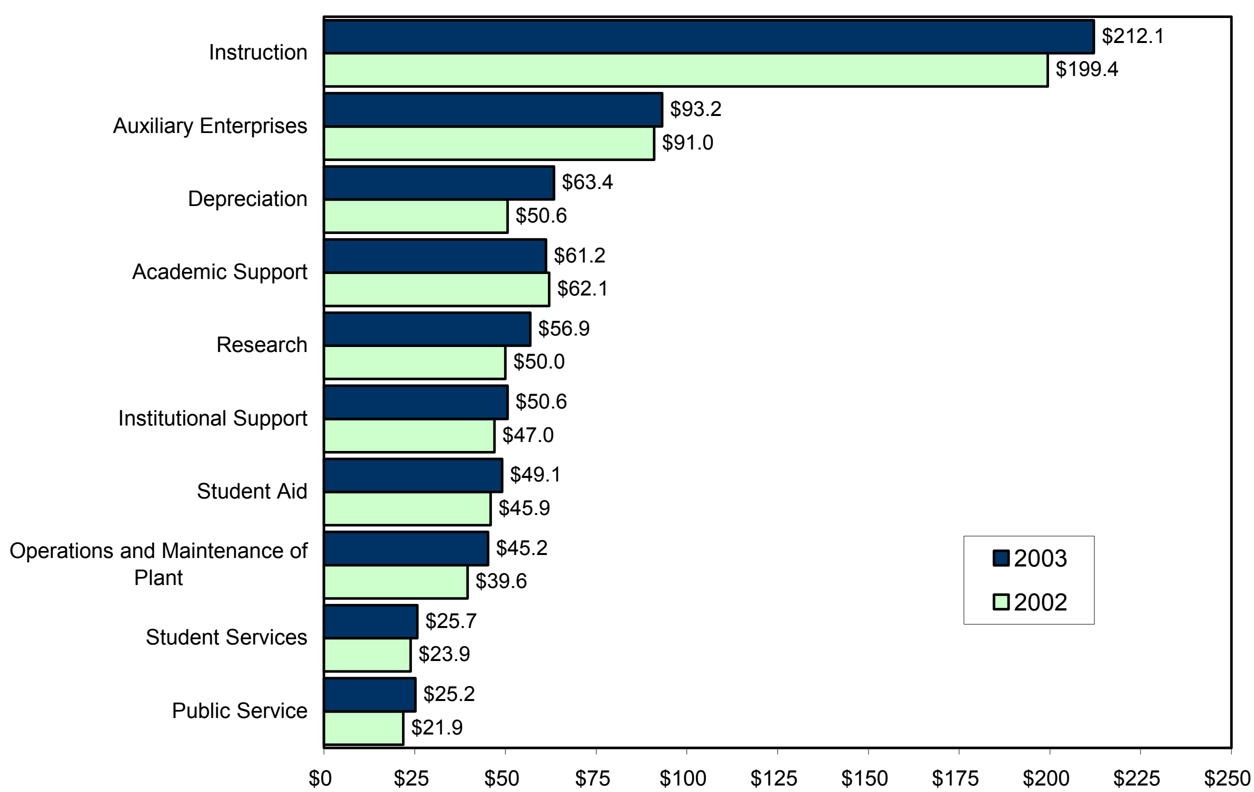
- **Institutional Support:** The institutional support function consists of those activities within the University that provide campus-wide support to the other functions. Institutional support includes executive management concerned with management and long-range planning of the entire institution, including the governing board, planning and programming, and legal services. It also includes fiscal operations, general administrative services, logistical services that provide procurement, storerooms, safety, security, printing and transportation services to the University, services to faculty and staff that are not auxiliary services, and public relations and development.

- **Operations and Maintenance of Plant:** This category includes expenditures for the operation and maintenance of the physical plant including utilities, supplies, repairs, and maintenance of buildings, equipment and grounds. Also included are property insurance and similar items.

- **Student Aid:** Student aid is primarily scholarships and fellowships pertaining to graduate and undergraduate students and includes grants-in-aid, stipends, and prizes. Funding for student aid comes directly from grants and internally designated funds, both restricted and unrestricted. GASB 35 requires the recording of this expenditure netted against student tuition and fees and auxiliary expenditures.

- **Auxiliary Enterprises:** An auxiliary enterprise is an entity that exists to furnish goods or services to students, faculty, or staff, and that charges a fee directly related to the cost of the goods or services. The general public may also benefit incidentally from auxiliary enterprises. These activities are generally self-supporting. Examples include residences halls, dining services, intercollegiate athletics, and rental activities. All expenditures related to the operations of auxiliary services, including those for the operation and maintenance of plant and institutional support of auxiliary enterprises, are included in this category.

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



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

- Instruction, the University's largest operating expense, increased approximately 6.0% or $11.9 million. The increase reflects an average pay raise for faculty of the University of 5.2% with the associated fringe benefits and an increase of 35 full-time faculty positions over fiscal 2002.

- Research expenses increased $6.9 million, or 13.9%. These expenditures are related primarily to sponsored research revenues. The timing of purchases of supplies and commodities that can be charged to grants varies from year to year. Expenditures for supplies, commodities and other increased $3.4 million in 2003. Salaries and fringe benefits related to research grew $3.4 million over fiscal 2002.

- Public service expenses grew $3.4 million, a 15.5% over 2002, with most of the increase in supplies, commodities and other expense, with these expenditures experiencing a $2.7 million increase.

- Academic support decreased slightly over 2002, due to a decrease in supplies, commodities and other expense of $1.3 million that was partially offset by an increase in salaries and fringe totaling $0.6 million.

- An overall $3.6 million increase to institutional support was related to a 2.7% increase in salaries and fringe benefits and a $2.6 million increase in supplies, commodities and other expense.

- Operations and maintenance of plant grew 14.3% in fiscal 2003, for a total of $5.7 million, due in large part to a $3.2 million increase in utility expenses. These costs grew due to increases in the price paid for electricity, gas and fuel oil and increased consumption with a harsher winter and new buildings coming on-line.

- Auxiliary enterprises expenditures increased 2.4%, even though revenue associated with these services rose 10.4%. While enrollment and rates charged for these services increased, especially residential and dining facilities, staffing and other expenditures did not increase at the same rate. Athletic expenditures increased slightly over 2002.

- During fiscal year 2003, the eighth year of UCONN 2000 (see Note 4), the University recorded additions of $227.2 million in property and equipment. These significant additions, along with prior year additions of close to $184 million, contributed to a 25.2% or $12.8 million increase in depreciation expense over 2002.

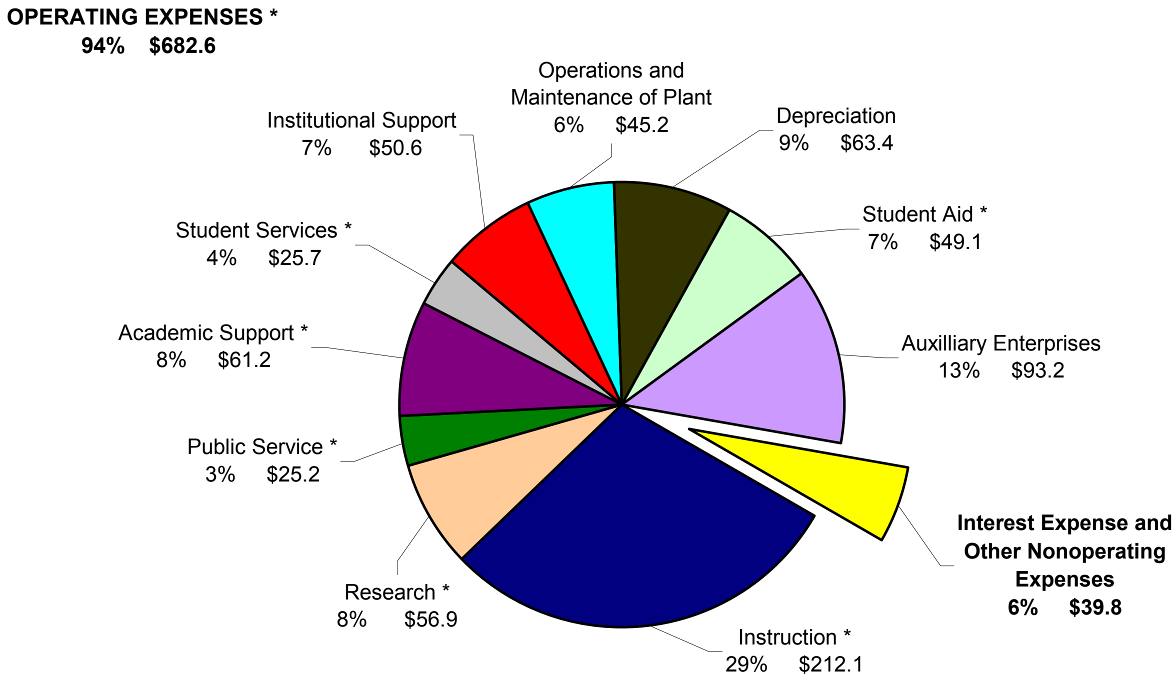
- Interest expense, net of the state debt service commitment for interest, increased $2.5 million, which is consistent with additional revenue bond borrowings during 2002 (explained in Note 4) that required a full year of interest payments in 2003 and a partial year, beginning in February, for fiscal 2002.

- Other nonoperating expenses was a net revenue in 2003, primarily due to an endowment grant earned totaling $2 million (see *Revenue* section above). Expenses that cannot be classified as operating or capital in nature are recorded in the nonoperating section of the Statements of Revenues, Expenses, and Changes in Net Assets. Taking out the grant endowment revenue in 2003 results in total expenses of $1.5 million and a decline in these net expenses of $1.2 million in fiscal 2003 over 2002.

- Capital other includes expenditures for the purchase of equipment with plant funds that are below the University's capitalization threshold and other expenses related to capital items. This expenditure can vary significantly between years depending on the mix of equipment purchased. Comparing fiscal 2003 to 2002, capital other expenses requires taking out two significant transactions noted above in the *Revenue* section, insurance proceeds of $25.3 million and asset reduction of approximately $10 million. After these reductions, a small increase in capital other expense of $0.8 million results in fiscal 2003.

Total operating expenses were $631.6 million in fiscal 2003 and $583.8 million in fiscal year 2002, netted for scholarship aid totaling $51.0 million and $47.6 million, respectively. Operating expenses are classified by function. Note 13 to the financial statements details operating expenses by object (natural classification), and shows notable savings in fringe benefits as a percentage of salary and wages were realized. The pie chart on the following page illustrates operating expenses by function (see above for description of functions). Student aid has a significant portion reflected as an allowance against tuition and fees revenue and sales and services of auxiliary enterprises on the Statements of Revenues, Expenses, and Changes in Net Assets. The chart also shows interest expense and other nonoperating expenses.

EXPENSES FOR FISCAL 2003 ($ in Millions)
Total $722.4



* Shown here at gross amount, not netted for financial aid.

STATEMENTS OF CASH FLOWS

The Statements of Cash Flows present detailed information about the cash activity of the University during the year. The first section of these statements, cash flows from operating activities, will always be different from the Statements of Revenues, Expenses, and Changes in Net Assets' operating loss amount. The difference results from noncash items such as depreciation expense and the use of the accrual basis of accounting in preparation of the Statements of Revenues, Expenses, and Changes in Net Assets. These statements show revenues and expenses when incurred, not necessarily when cash is received or used, as is the case for the Statements of Cash Flows. These statements have four additional sections including: cash flows from noncapital financing activities including state appropriations, gifts and other nonoperating revenue and expenses; cash flows from capital financing activities that reflects the cash received and used by the University for financing, principally capital in nature, capital grants and gifts, and state debt service commitments for principal and interest; cash flows from investing activities showing the purchases, proceeds and interest received from investing activities; and a reconciliation of operating loss reflected on the Statements of Revenues, Expenses, and Changes in Net Assets to net cash used in operating activities.

Condensed Statements of Cash Flows for the years ended June 30, 2003 and 2002 follow:

	2003	2002
Cash provided from operating activities	$ 335,888,635	$ 308,234,038
Cash used in operating activities	(564,812,353)	(536,006,910)
Net cash used in operating activities	(228,923,718)	(227,772,872)
Net Cash Provided from Noncapital Financing Activities	277,552,963	268,040,177
Net Cash Provided from (Used in) Capital Financing Activities	(115,364,868)	16,644,950
Net Cash Provided from (Used in) Investing Activities	73,261,624	(33,875,644)
Net increase in cash and cash equivalents	$ 6,526,001	$ 23,036,611

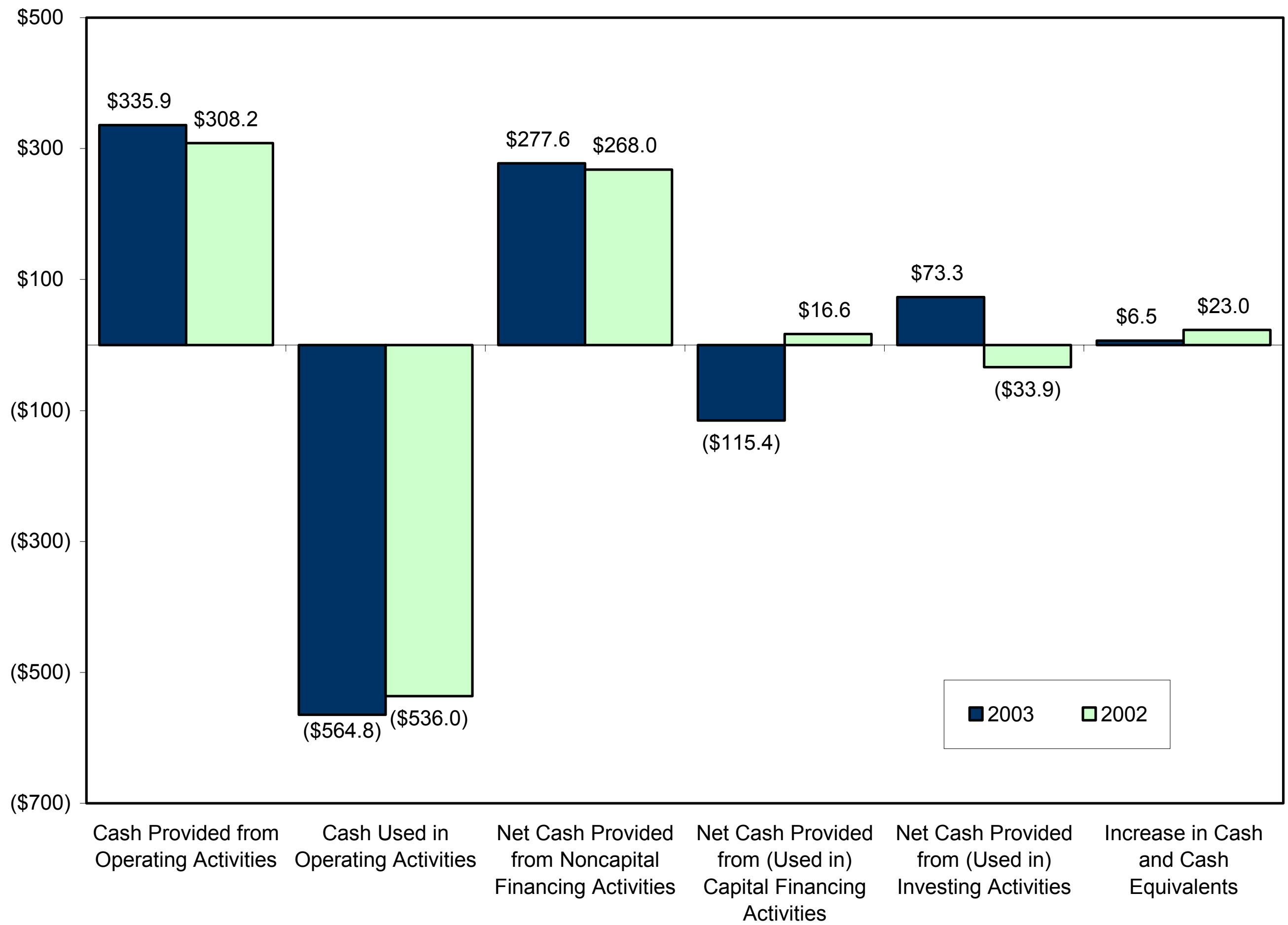
Net cash used in operating activities was $228.9 million and $227.8 million in fiscals 2003 and 2002, respectively, and is consistent with the operating loss discussed earlier when adding back depreciation (a noncash expense), the major difference between the two statements. GASB requires that cash flows from noncapital financing activities include state appropriations and noncapital gifts. Cash flows from these activities totaled $277.6 million in fiscal 2003, a $9.5 million increase over 2002.

Cash flows used in capital financing activities were $115.4 million in fiscal 2003, as compared to $16.6 million provided for these activities in fiscal 2002. The increase in cash used over fiscal 2002 totaled $132 million and is explained by the following. Cash used in fiscal 2003 for capital financing activities included: purchases of property and equipment totaling $204 million, an increase of $33.8 million over 2002 and $83.3 million of principal and interest paid on debt, an increase of $12.7 million. Cash provided from these financing activities included: proceeds from bonds and installment loans of $100.5 million, a $74.9 million decrease from 2002, and the state debt service commitment paid for principal and interest on general obligation bonds totaling $66.0 million, an increase over 2002 of $8.5 million.

Cash of $73.3 million was provided from investing activities, primarily because of transfers of $69.8 million from the bond trustee to pay for authorized capital projects. This is compared to fiscal 2002 when $33.9 million in cash was used for investing activities due primarily to transfers from cash of $40.4 million to the bond trustee as required by bond indenture agreements.

Total cash and cash equivalents increased $6.5 million as a result of these activities, a decrease over fiscal 2002 of $16.5 million. The following bar graph shows the cash flows from and used by major categories and as described in the preceding paragraphs:

CASH FLOWS ($ in Millions)



ECONOMIC OUTLOOK

As was the case in fiscal 2002, the most significant economic factor for fiscal 2003 and the foreseeable future is the impact of the State's financial status, with State appropriations reduced from the previously approved biennial budget. The impact on the University's operating budget in fiscal year 2003 has been significant and is expected to continue in the upcoming biennium. Fiscal year 2003 opened with a $10.2 million reduction from the previously approved State appropriation, after experiencing a $5.4 million reduction in fiscal year 2002. In March 2003, the General Assembly approved, and Governor Rowland signed, a revised State budget for fiscal year 2003. In response to serious revenue shortfalls stemming from the adverse economic climate, the revised budget imposed a mix of tax increases and expenditure reductions. The revised State budget resulted in the State reducing its support for the University in fiscal year 2003 by $11.6 million through net State budget reductions and rescissions.

As part of its response to the budget shortfall in fiscal year 2003, the State offered a statewide Early Retirement Incentive Plan (ERIP) to its employees. The impact of ERIP was significant. The University saw a total of 365 employees accept the program. Of this group, 82 were faculty, 98 were professional staff and 185 were classified personnel, including 104 maintenance staff.

The University's response to cuts in state aid includes aggressive management of all costs, with all parts of the University being affected by cost-reduction and reallocation. Hiring and expenditure controls put into effect in fiscal year 2003 continue University-wide. For fiscal year 2003, the University's budget included $19.6 million in reductions and reallocations, twice the amount of the previous year. These reductions have been rolled into the fiscal year 2004 budget base, and the fiscal year 2004 plan also incorporates $12.5 million in ERIP reductions (permanent) and $11.3 million in wage concessions from University-based collective bargaining units (faculty and staff), as well as a freeze on managerial salaries. The realities of the continued State budget financial status mean that the University's other significant income streams will continue to play an increasingly important role in the financial health of the University. These sources include private support through the Foundation, research funding, tuition and fees, and room and board fees.

From a program perspective, the University is addressing both the negative impact and the opportunities presented by the ERIP staffing losses. Certain retirees have returned (for the statutorily permissible 120 days per calendar year) in order to enable the University to cover classes, staff residence halls, and operate and maintain the campus. At this time, the University is filling the most critical positions. In order to maintain the growth and continued academic success of the University, it has just begun the search process for those positions essential to the ongoing growth and enhancement of the University's academic and research mission.

Even with the State's current budget issues, the Governor and the General Assembly have reaffirmed their commitment to the uninterrupted completion of the rebuilding of the University, begun as UCONN 2000, with the passage of 21st Century UConn. The 21st Century UConn program is a $1.3 billion, 10-year extension of the original UCONN 2000 program that expands and builds on the success of UCONN 2000 (see Note 4) by providing $1.0 billion for facilities improvements at Storrs, the regional campuses, and the School of Law, and $305 million for improvements at the Health Center (see Note 4). This commitment provides long-term funds for capital enhancement and preservation and will help to keep University finances on a steady course even in light of the State's fiscal challenges.

Legislation approved in August 2003 authorized the University to retain 50 percent of the savings accrued from the ERIP. That, combined with savings from programmatic restructuring, salary freezes agreed to by members of certain bargaining units and non-unionized managers, and strict vacancy management, should enable the University to maintain financial stability in fiscal year 2004.

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FINANCIAL STATEMENTS

UNIVERSITY OF CONNECTICUT
STATEMENTS OF NET ASSETS
As of June 30, 2003 and 2002

	2003	2002
ASSETS		
Current Assets		
Cash and cash equivalents	$ 128,754,311	$ 124,212,445
Accounts receivable	33,157,491	41,061,276
Student loans receivable, net	2,107,343	1,968,986
Due from State of Connecticut	31,333,474	44,688,601
Due from related agencies	407,875	1,660
State debt service commitment	51,092,208	44,918,611
Inventories	2,059,975	2,088,378
Deposit with bond trustee	86,601,751	156,361,821
Deferred charges	759,818	794,651
Other assets	43,560	42,457
Total Current Assets	336,317,806	416,138,886
Noncurrent Assets		
Cash and cash equivalents	3,441,491	1,457,356
Investments	7,278,573	6,969,192
Student loans receivable, net	9,993,290	9,793,256
State debt service commitment	626,272,146	572,987,146
Property and equipment, net of accumulated depreciation	1,339,460,000	1,178,649,007
Deferred charges	6,472,344	10,335,635
Total Noncurrent Assets	1,992,917,844	1,780,191,592
Total Assets	$ 2,329,235,650	$ 2,196,330,478
LIABILITIES		
Current Liabilities		
Accounts payable and accrued liabilities	$ 42,777,221	$ 38,474,733
Deferred income	23,248,492	22,917,215
Wages payable	28,309,537	26,679,045
Compensated absences	13,900,248	13,664,623
Due to the State of Connecticut	8,513,083	7,420,575
Due to related agencies	51,977	9,225
Current portion of long-term debt and bonds payable	49,943,122	44,305,913
Other current liabilities	9,748,990	8,843,129
Total Current Liabilities	176,492,670	162,314,458
Noncurrent Liabilities		
Compensated absences	7,271,085	5,159,200
Deposits held for others	2,138,674	2,530,028
Long-term debt and bonds payable	834,763,060	788,000,301
Refundable for federal loan program	9,675,529	9,603,294
Total Noncurrent Liabilities	853,848,348	805,292,823
Total Liabilities	$ 1,030,341,018	$ 967,607,281
NET ASSETS		
Invested in capital assets, net of related debt	$1,148,711,532	$ 1,020,536,235
Restricted nonexpendable	9,717,395	6,674,263
Restricted expendable		
Research, instruction, scholarships and other	12,515,767	12,907,097
Loans	3,126,304	3,044,756
Capital projects	34,431,219	89,436,633
Debt service	8,141,983	12,457,244
Unrestricted (See Note 14)	82,250,432	83,666,969
Total Net Assets	$ 1,298,894,632	$ 1,228,723,197

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

UNIVERSITY OF CONNECTICUT
STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
For the Years Ended June 30, 2003 and 2002

	2003	2002
OPERATING REVENUES		
Student tuition and fees (net of scholarship allowances of $49,728,391 in 2003 and $46,734,320 in 2002. Revenues totaling approximately $21,912,000 in 2003 and $19,978,000 in 2002 are used as security for revenue bonds. See Note 4)	$ 120,275,694	$ 102,200,333
Federal grants and contracts	73,342,732	67,753,605
State and local grants and contracts	16,511,793	17,859,232
Nongovernmental grants and contracts	10,329,075	12,760,474
Sales and services of educational departments	13,514,914	12,020,682
Sales and services of auxiliary enterprises (net of scholarship allowance of $1,283,335 in 2003 and $824,538 in 2002. Revenues totaling approximately $16,445,000 in 2003 and $9,522,000 in 2002 are used as security for revenue bonds. See Note 4)	89,438,533	81,002,139
Other sources (Revenues totaling approximately $2,548,000 in 2003 and $2,066,000 in 2002 are used as security for revenue bonds. See Note 4)	8,228,181	10,442,761
Total Operating Revenues	331,640,922	304,039,226
OPERATING EXPENSES		
Educational and general		
Instruction	210,682,856	198,738,445
Research	56,170,809	49,310,979
Public service	25,125,045	21,754,712
Academic support	61,117,844	61,853,232
Student services	25,494,540	23,785,758
Institutional support	50,604,026	46,956,545
Operations and maintenance of plant	45,246,949	39,588,031
Depreciation	63,402,505	50,624,858
Student aid	557,919	241,509
Auxiliary enterprises	93,185,331	90,957,783
Total Operating Expenses	631,587,824	583,811,852
Operating Loss	(299,946,902)	(279,772,626)
NONOPERATING REVENUES (EXPENSES)		
State appropriation	258,751,010	259,447,742
State debt service commitment for interest	29,228,519	25,907,563
Gifts	18,936,287	16,202,233
Investment income (Income totaling approximately $857,000 in 2003 and $1,077,000 in 2002 are used as security for revenue bonds. See Note 4)	3,565,261	5,572,628
Interest expense	(39,794,329)	(33,955,787)
Other nonoperating revenues (expenses), net	522,514	(2,715,738)
Net Nonoperating Revenues	271,209,262	270,458,641
Loss Before Capital Additions (Deductions)	(28,737,640)	(9,313,985)
CAPITAL ADDITIONS (DEDUCTIONS)		
State debt service commitment for principal	96,210,000	100,000,000
Capital grants and gifts	7,558,843	12,316,127
Disposal of property and equipment, net	(2,454,738)	(3,102,251)
Capital other	(2,405,030)	13,357,569
Total Capital Additions (Deductions)	98,909,075	122,571,445
Increase in Net Assets	70,171,435	113,257,460
NET ASSETS		
Net Assets-beginning of year	1,228,723,197	1,203,523,254
Cumulative effects of changes in accounting principle	-	(88,057,517)
Net Assets-beginning of year, as adjusted	1,228,723,197	1,115,465,737
Net Assets-end of year	$ 1,298,894,632	$ 1,228,723,197

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

UNIVERSITY OF CONNECTICUT
STATEMENTS OF CASH FLOWS
For the Years Ended June 30, 2003 and 2002

	2003	2002
CASH FLOWS FROM OPERATING ACTIVITIES		
Tuition and fees	$ 119,452,337	$ 104,725,776
Research grants and contracts	102,214,365	93,336,670
Payments to suppliers	(137,581,776)	(127,059,963)
Payments to employees	(334,415,524)	(315,716,189)
Payments for benefits	(90,278,832)	(91,379,591)
Loans issued to students and employees	(2,536,221)	(1,851,167)
Collection of loans to students and employees	2,197,830	2,018,806
Auxiliary enterprise charges	92,219,295	82,944,867
Sales and services of educational departments	13,056,071	11,839,919
Other receipts (payments)	6,748,737	13,368,000
Net Cash Used in Operating Activities	(228,923,718)	(227,772,872)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
State appropriations	258,132,174	258,485,108
Gifts	18,720,530	16,771,387
Other nonoperating revenue (expense)	700,259	(7,216,318)
Net Cash Provided from Noncapital Financing Activities	277,552,963	268,040,177
CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES		
Proceeds from bonds and installment loans	100,532,528	175,430,000
State debt service commitment	65,979,922	57,447,563
Purchases of property and equipment	(204,049,185)	(170,279,419)
Principal paid on debt and bonds payable	(44,327,207)	(37,051,423)
Interest paid on debt and bonds payable	(38,936,213)	(33,542,921)
Capital grants and gifts	2,458,273	11,920,339
Capital other	2,977,014	12,720,811
Net Cash Provided from (Used in) Capital Financing Activities	(115,364,868)	16,644,950
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from (purchase of) investments, net	(209,041)	499,383
Interest on investments	3,710,595	6,022,604
Deposits with bond trustee	69,760,070	(40,397,631)
Net Cash Provided from (Used in) Investing Activities	73,261,624	(33,875,644)
INCREASE IN CASH AND CASH EQUIVALENTS	6,526,001	23,036,611
BEGINNING CASH AND CASH EQUIVALENTS	125,669,801	102,633,190
ENDING CASH AND CASH EQUIVALENTS	$ 132,195,802	$ 125,669,801
RECONCILIATION OF OPERATING LOSS TO NET CASH USED IN OPERATING ACTIVITIES		
Operating Loss	$ (299,946,902)	$ (279,772,626)
Adjustments to Reconcile Operating Loss to Net Cash Used in Operating Activities:		
Depreciation expense	63,402,505	50,624,858
Changes in Assets and Liabilities:		
Receivables, net	2,176,348	(2,167,654)
Inventories	28,403	44,222
Other assets	(1,099)	1,664
Accounts payable	5,020,038	31,308
Deferred revenue	331,277	3,557,713
Deferred charges	(91,726)	264,968
Deposits	(391,354)	670,044
Due from state	1,083,419	(1,418,650)
Due from related agencies	(363,463)	260,737
Other liabilities	167,226	(37,095)
Loans to students and employees	(338,390)	167,639
Net Cash Used in Operating Activities	$ (228,923,718)	$ (227,772,872)
RECONCILIATION OF CASH AND CASH EQUIVALENTS TO THE STATEMENTS OF NET ASSETS		
Cash and cash equivalents classified as current assets	$ 128,754,311	$ 124,212,445
Cash and cash equivalents classified as noncurrent assets	3,441,491	1,457,356
	$ 132,195,802	$ 125,669,801

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

NOTES TO FINANCIAL STATEMENTS

Notes to Financial Statements
For the Years Ended June 30, 2003 and 2002

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Related Entities

The University of Connecticut is a comprehensive institution of higher education, which includes the University of Connecticut Health Center (Health Center). Although governed by a single Board of Trustees, the University of Connecticut and its Health Center maintain separate budgets and are by statute separate entities for purposes of maintaining operating funds and state appropriations. The Health Center also has a Board of Directors to whom the Board of Trustees has delegated certain responsibility and authority. This financial report for the fiscal years ended June 30, 2003 and 2002 represents the transactions and balances of the University, here defined as all programs except the Health Center. Two related, but independent, corporate entities also support the mission of the University: The University of Connecticut Foundation, Inc. (Foundation) and the University of Connecticut Law School Foundation, Inc. The Foundation and The University of Connecticut Law School Foundation, Inc. raise funds to promote, encourage, and assist education and research at the University and the Health Center.

Financial Statement Presentation

The University adopted Governmental Accounting Standards Board ("GASB") Statement No. 35, Basic Financial Statements - and Management's Discussion and Analysis - for Public Colleges and Universities, an amendment to Statement No. 34, Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments, as well as Statement No. 37, Basic Financial Statements - Management's Discussion and Analysis - for State and Local Governments: Omnibus, and Statement No. 38, Certain Financial Statement Note Disclosures, effective July 1, 2001. These standards are collectively referred to hereafter as "GASB 35". The GASB statements provide accounting and financial reporting guidelines and enhance the usefulness and comprehension of financial reports by external users. Statements No. 34 and 35 significantly changed the financial statement format, eliminating multiple column fund reporting.

The following elements are included with these general-purpose financial statements, as required by GASB 35:

- Management's Discussion and Analysis (required supplemental information)
- Basic financial statements which include Statements of Net Assets; Statements of Revenues, Expenses, and Changes in Net Assets; and Statements of Cash Flows
- Notes to the financial statements

The University follows the "business-type activities" (BTA) requirements of GASB 35. BTAs are defined as those that are financed in whole or in part by fees charged to external parties for goods or services.

GASB 35 established standards for external reporting by public colleges and universities that classify resources in the following net asset categories:

- **Invested in capital assets, net of related debt**: Capital assets, net of accumulated depreciation, and reduced by outstanding principal balances of bonds (net of state debt service commitment) and notes that are attributable to the acquisition, construction, or improvement of those assets.

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

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

- **Unrestricted:** Consists of net assets that do not meet the definition of "restricted" or "invested in capital assets, net of related debt." These assets are not subject to externally imposed stipulations. These assets, while not restricted, are generally designated to support instruction, research, auxiliary enterprises, capital projects, and retirement of indebtedness (See Note 14).

The provisions of GASB 35 have been applied to years presented. The net cumulative effect of the change in accounting principles resulting from the adoption of GASB 35 in fiscal 2002 is shown in the table that follows. The effect of the changes is recorded as a restatement to beginning net assets on the Statements of Revenue, Expenses and Changes in Net Assets. Following is a reconciliation of the June 30, 2001 fund balance, previously reported, to the restated net asset total:

Fund balance, June 30, 2001	$ 1,203,523,254
Reclassified loan program	(9,566,254)
Library book adjustment	(101,936,489)
Historical collections	31,068,901
Deferred revenue for grants	(9,352,336)
Summer session change	1,728,661
Net Assets, as restated, June 30, 2001	$ 1,115,465,737

Basis of Accounting

The financial statements of the University have been prepared using the economic resources measurement focus and the accrual basis of accounting in accordance with principles generally accepted in the United States of America and as prescribed by the GASB. For financial reporting purposes, the University is considered a special-purpose governmental agency engaged in business-type activities. All significant intra-agency transactions have been eliminated.

The University has the option to apply Financial Accounting Standards Board (FASB) pronouncements issued after November 30, 1989, unless the FASB conflicts with GASB. The University has elected to not apply FASB pronouncements issued after the applicable date.

In order to ensure observance of limitations and restrictions placed on the use of the resources available to the University, the accounts of the University are maintained internally following the principles of "fund accounting." This is the procedure by which resources for various purposes are classified for accounting and reporting purposes into funds that are in accordance with specified activities or objectives.

Cash Equivalents (see Note 2)

For the purposes of the Statements of Cash Flows, the University considers all highly liquid investments with an original maturity of three months or less to be cash equivalents. Funds invested in the State of Connecticut Treasurer's Short Term Investment Fund are considered cash equivalents.

Investments (see Note 2)

The University accounts for its investments at fair value in accordance with GASB Statement No. 3. Changes in unrealized gain (loss) on the carrying value are recorded in nonoperating revenues (expenses) in the accompanying Statements of Revenue, Expenses, and Changes in Net Assets. Noncurrent investments are externally restricted by donors or outside sources that have stipulated as a condition of the gift instrument that the principal be maintained inviolate and in perpetuity (see Note 2). Noncurrent investments also include amounts restricted by creditors for certain debt service payments (see Note 4).

Accounts Receivable

Accounts receivable consists of tuition, fees, and auxiliary enterprises service fees charged to students, faculty and staff, amounts due from state and federal governments for grants and contracts, and insurance proceeds (see Note 3). Accounts receivable are recorded net of an estimated allowance for uncollectible accounts.

Inventories

Consumable supplies are expensed when received with the exception of certain central inventories. Cost of inventory is determined by various methods, including the first-in, first-out method.

Deposit with Bond Trustee (see Note 4)

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

The University directs the Trustee Bank to invest UCONN 2000 General Obligation construction fund proceeds in the State Treasurer's Short Term Investment Fund. Similarly, the University has directed the Trustee Bank to invest new proceeds from Special Obligation Bonds in dedicated Short Term Investment Fund accounts, with the exception of the 1998 Special

Obligation Special Capital Reserve Fund which is invested in longer term federal agency fixed income Investment Obligations as defined in the Special Obligation Indenture of Trust. The Special Obligation Student Fee Revenue Refunding Series 2002-A proceeds, other than the cost of issuance and debt service accounts that are invested in the Short Term Investment Fund accounts, are held by the Trustee Bank in an irrevocable escrow fund and invested in U.S. Treasury, State, and Local Government Securities and cash in accordance with the Escrow Agreement.

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 investment earnings on the Special Obligation Student Fee Revenue Series 2002-A Escrow Account flow to the irrevocable escrow and are used by the Trustee Bank to meet debt service payments on the defeased bonds.

Deferred Charges – Current and Noncurrent (see Note 10)
Current deferred charges consist of payments made in advance of a program's revenue being earned and the current portion related to cost of issuance of certain bonds. Noncurrent deferred charges represent the cost of issuance and discounts, net of premiums, on certain bond issues, which will be amortized over the terms of the respective bond issues.

Noncurrent Cash and Cash Equivalents (see Note 2)
Noncurrent cash and cash equivalents are related to endowment assets and are externally restricted as to use.

Property and Equipment (see Note 3)
Capital assets are reported at cost at date of acquisition or market value at date of donation, in the case of gifts. Renovations that significantly increase the value or useful life of an asset are capitalized. Routine repairs and maintenance are charged to operating expense in the year the expenditure was incurred.

Building components and non-structural improvements have estimated useful lives from 2 years to 60 years. Equipment has estimated useful lives of 5 years to 30 years.

Deferred Income (see Note 10)
Deferred income includes amounts received for services rendered in a future accounting period including tuition and fee revenues and event ticket sales. It also includes amounts received for certain restricted research grants that are included in revenue when the funds are expended.

Compensated Absences (see Note 7)
Employee vacation and sick leave is accrued at year-end for financial statement purposes. The liability and expense incurred are recorded at year-end as compensated absences in the Statements of Net Assets and in the various expense functions on the Statements of Revenues, Expenses, and Changes in Net Assets. The liability for compensated absences is also classified as current and noncurrent based on the amount estimated to be paid to employees in one year and beyond one year.

Noncurrent Liabilities
Noncurrent liabilities include the long-term portion of compensated absences, deposits held for others that are included in the assets of the University, principal payments due on bonds, 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.

Scholarship Allowances
GASB 35 requires that revenues be reported net of discounts and allowances. As a result, certain amounts previously reported as student aid expenditures and included in other expense categories are reported as an allowance against tuition and fees revenue and sales and services of auxiliary enterprises revenue.

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. Operating expenses, except for depreciation, are reported using functional classification, including those under educational and general and auxiliary enterprises. See Note 13 for operating expenses by object. All other revenues and expenses of the University are reported as nonoperating revenues and expenses including state appropriations and debt service commitment, noncapital gifts, investment income,

and interest expense, and capital additions and deductions. Revenues are recognized when earned and expenses are recognized when incurred.

GASB Statement No. 33, Accounting and Financial Reporting For Nonexchange Transactions, was released in December 1998 and adopted during fiscal 2001. Statement No. 33 describes in which fiscal year nonexchange transactions involving cash and other financial and capital resources should be recorded. Nonexchange transactions are those where a government, corporation or individual gives value to another party without receiving equal value in exchange, or receives value from another party without directly giving equal value in exchange. Statement No. 33 requires recipients of government-mandated and voluntary nonexchange transactions to recognize revenue when all applicable eligibility requirements are met for these transactions. Restricted grant revenue that does not meet the nonexchange transaction definition is recognized to the extent expended or in the case of fixed price contracts, when the contract terms are met or completed.

During fiscal 2003, certain operating expenditure classifications were revised to more appropriately reflect expenses by function. For comparative purposes, fiscal 2002 operating expenses were reclassified from the prior year financial statements, reflecting the change in the functional classification of expenditures. Total 2002 operating expenses did not change from what was previously reported.

2. CASH AND CASH EQUIVALENTS AND INVESTMENTS

Statement No. 3 of the GASB requires governmental entities to categorize deposits and investments to give an indication of the level of credit risk assumed by the University at year-end. Category 1 includes investments that are insured or registered, or for which securities are held by the University or its agent in the name of the University. Category 2 includes uninsured and unregistered investments for which securities are held by the broker's or dealer's trust department or agent in the name of the University. Category 3 includes 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. Investments that are not evidenced by securities are not categorized.

The University’s cash and cash equivalents, current and noncurrent, balance was $132,195,802 and $125,669,801, as of June 30, 2003 and 2002, respectively and included the following:

	2003	2002
Cash maintained by State of Connecticut Treasurer	$ 105,774,031	$ 98,178,606
Invested in State of Connecticut Investment Pool	16,659,325	18,285,717
Invested in State of Connecticut Investment Pool - Endowments	3,441,491	1,457,356
Invested in Short-term Corporate Notes	5,872,658	6,829,290
Deposits with Financial Institutions and Other (category 3 investments)	448,297	918,832
Total cash and cash equivalents	132,195,802	125,669,801
Less: current balance	128,754,311	124,212,445
Total noncurrent balance	$ 3,441,491	$ 1,457,356

Collateralized deposits are deposits 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 at least to a certain percentage of its public deposits. The applicable percentage is determined based on the bank's risk-based capital ratio – a measure of the bank's financial condition. The collateral is kept in the custody of the trust department of either the pledging bank or another bank in the name of the pledging bank. Portions of the bank balance of the State of Connecticut were insured by the Federal Deposit Insurance Corporation or collateralized. As a State agency, the University benefits from this protection, though the extent to which the deposits of an individual State agency such as the University are protected cannot be readily determined.

The University's cash management investment policy authorizes the University to invest in the State of Connecticut Treasurer's Short Term Investment Fund, United States Treasury bills, United States Treasury notes and bonds, United States Government Agency obligations, banker's acceptances, certificates of deposit (including EURO Dollars), commercial paper, money market funds, repurchase agreements, and savings accounts.

The 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 ($2,000,000 in 2003 and $-0- in 2002), are included in cash and cash equivalents (see above table for total amounts). The Foundation makes spending allocation distributions to the University for each participating endowment. The spending distribution is spent by the University in accordance with the respective purposes of the endowments and the policies and procedures of the University and in accordance with State of Connecticut statutes. The University's governing board may appropriate for expenditure, according to the uses and purposes for which the endowment fund was established, a portion of the realized or unrealized appreciation in the fair value of the endowment fund over the historic dollar value of the fund as is prudent.

The Foundation's pooled endowment portfolio is professionally managed on a total return basis. Each quarter, an amount equal to 1.25% (5% per annum) of the prior twelve-quarter average market value will be distributed for spending in accordance with the respective purposes of the individual endowment funds. Beginning July 1, 2003, the quarterly amount was changed to 1% (4% per annum). Spending distributions may be made from current or accumulated investment return, and calculations for individual endowment funds will be performed on a unitized basis. If an individual endowment fund does not have sufficient funds to support its computed spending allocation from current period net total return and/or from accumulated gains from prior period, the amount allocated for spending will be limited to the interest and dividends of the fund from the previous quarter.

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

	2003		2002	
	Cost	**Fair Value**	**Cost**	**Fair Value**
Endowments:				
Foundation Managed (Category 1)	$ 5,322,876	$ 6,262,643	$ 4,362,835	$ 5,203,676
Corporate Bonds (Category 1)	12,000	11,260	13,000	12,230
Other:				
U.S. Government Agency Securities (see Note 4) (Category 1)	1,000,000	1,004,670	1,750,000	1,753,286
Total Investments	$ 6,334,876	$ 7,278,573	$ 6,125,835	$ 6,969,192

Effective July 1, 2000, University endowment investments managed by the Foundation were moved from Fleet Investment Services to the Foundation's pooled portfolio, which is actively managed by professional investment managers as determined by the Investment Committee of the Foundation's Board of Directors. The Foundation has established asset allocation guidelines for its pooled investment portfolio, which provides that the maximum exposure with any one manager would be 15%. Effective on June 7, 2002 the Foundation Board of Directors adopted a new asset allocation policy for the long-term pooled investment portfolio (see following table). The prior guidelines provided a target asset class allocation of 25% to 40% for fixed income and 60% to 75% for equities. The Foundation expects that cash equivalents will be kept to a minimum level and that portfolios will be invested in only the assets described below, not above or below the individual asset class percentage and its total percentage by group, unless otherwise specified by its Investment Committee.

Asset Class	Percentage
Fixed Income	
Fixed Income	15% - 30%
Treasury Inflation Protected Securities	0% - 10%
Total Fixed Income Class	20% - 40%
Equities	
U.S. Equities	25% - 50%
Non – U.S. Equities	10% - 25%
Total Equities Class	40% - 75%
Alternatives	
Hedge Funds	5% - 15%
Private Capital	0% - 15%
Real Estate	0% - 10%
Total Alternatives Class	5% - 35%

Certain funds are held by outside fiscal agents and are not under the direct control of the University. Accordingly, the assets of these funds are not included in the financial statements. The fair value amount of these funds was $11,877,642 and $12,101,345 as of June 30, 2003 and 2002, respectively. Investment income earned on these assets is transferred to the University in accordance with the applicable trust agreement. Income received from those sources for the years ended June 30, 2003 and 2002 was $ 570,741 and $589,757, respectively.

3. PROPERTY AND EQUIPMENT

Land, buildings, non-structural improvements, and equipment (including library materials) are reported at cost at date of acquisition or market value at date of donation, in the case of gifts.

Beginning with fiscal year 2002, GASB Statements Nos. 34 and 35 required recognition of depreciation on buildings, non-structural improvements and equipment. The University has recorded depreciation expense since fiscal 1998 for all property and equipment with the exception of library materials, as allowed for by GASB Statement No. 8. Depreciation has been recorded on a straight-line basis over the estimated useful lives of the respective assets.

Building components and non-structural improvements have estimated useful lives from 2 years to 60 years. Equipment has estimated useful lives of 5 years to 30 years.

In fiscal 2002, the implementation of GASB 35 resulted in recording depreciation on library materials and recognizing certain historical collections at their estimated fair market values at the time of donation. The estimated useful life of library materials was determined to be fifteen years. To record the cumulative effect of prior year depreciation, library materials were written down to reflect fifteen years of library purchases. These assets are depreciated on a straight-line basis. The implementation of this accounting principle resulted in an adjustment to reduce library materials and the beginning of the year net asset balance by $101,936,489. The net book value of library materials is $57,763,227 and $53,411,936 at June 30, 2003 and 2002, respectively, and is included in equipment in the following table of the changes in property and equipment.

Historical collections, not previously recorded in the financial records of the University, were recognized in fiscal year 2002 as non-depreciable capital assets. The valuation of this asset was derived based on a general appraisal of the collections. The value of the historical collections increased by $31,068,901 and was recorded as an adjustment to beginning net assets in fiscal year 2002. Historical collections and art totaled $44,362,816 and $38,560,944 at June 30, 2003 and 2002, respectively, and is included in equipment in the analysis of changes in property and equipment.

The cumulative effect of theses changes in fiscal 2002 was $70,867,588. This amount is shown as a portion of the cumulative effects of changes in accounting principle in the Statements of Revenues, Expenses, and Changes in Net Assets in 2002 (see Note 1).

During fiscal year 2002, the University recognized revenues totaling $25,350,000 from an insurance company for surety payments to complete a bonded building project. These amounts are included as revenue in the Capital Additions (Deductions) section of the Statements of Revenues, Expenses, and Changes in Net Assets in capital other. An accounts receivable for these surety payments is recorded in the accompanying Statements of Net Assets as of June 30, 2003 and 2002 totaling $5,175,000 and $10,350,000, respectively. Upon review of this project the University determined that an impairment to the asset resulted from long delays in and quality of construction. An estimated loss to the building has been recognized totaling approximately $10,000,000 in 2002 and is recorded in capital other in the Statements of Revenues, Expenses, and Changes in Net Assets for the year ended June 30, 2002. The insurance proceeds were adequate to complete the project as originally designed. Also, property and equipment has been reduced by the same amount. This is reflected in the table on the following page as a reduction to construction in progress in the "transfer/other" column in 2002.

The table on the following page describes the changes in property and equipment for the years ended June 30, 2003 and 2002. The cumulative effect of the changes noted above for library books and historical collections is reflected as an adjustment to the beginning balance of equipment in 2002.

Changes in Property and Equipment for the Year Ended June 30, 2003:

	2002 Beginning Balance	Additions	Retirements	Transfers and Other	2003 Ending Balance
Property and equipment:					
Land	$ 12,035,500	$ 79,780	$ (2,445)	$ -	$ 12,112,835
Non-structural Improvements	125,396,995	4,820,186	-	2,178,281	132,395,462
Buildings	909,271,698	52,956,215	(3,380,635)	90,116,750	1,048,964,028
Equipment	317,485,227	36,755,702	(6,761,278)	-	347,479,651
Construction in Progress	167,105,008	132,569,743	-	(92,295,031)	207,379,720
Total property and equipment	1,531,294,428	227,181,626	(10,144,358)	-	1,748,331,696
Less accumulated depreciation:					
Non-structural Improvements	34,980,223	5,270,852	(1,346)	-	40,249,729
Buildings	182,621,911	31,014,448	(1,653,753)	-	211,982,606
Equipment	135,043,287	27,117,205	(5,521,131)	-	156,639,361
Total accumulated depreciation	352,645,421	63,402,505	(7,176,230)	-	408,871,696
Property and equipment, net:					
Land	12,035,500	79,780	(2,445)	-	12,112,835
Non-structural Improvements	90,416,772	(450,666)	1,346	2,178,281	92,145,733
Buildings	726,649,787	21,941,767	(1,726,882)	90,116,750	836,981,422
Equipment	182,441,940	9,638,497	(1,240,147)	-	190,840,290
Construction in Progress	167,105,008	132,569,743	-	(92,295,031)	207,379,720
Property and equipment, net:	$ 1,178,649,007	$ 163,779,121	$ (2,968,128)	$ -	$ 1,339,460,000

Changes in Property and Equipment for the Year Ended June 30, 2002:

	2001 Beginning Balance	Additions	Retirements	Transfers and Other	2002 Ending Balance
Property and equipment:					
Land	$ 12,241,568	$ 40,000	$ (246,068)	$ -	$ 12,035,500
Non-structural Improvements	101,456,940	12,216,437	(266,146)	11,989,764	125,396,995
Buildings	760,361,218	57,448,729	(3,335,829)	94,797,580	909,271,698
Equipment	293,215,656	31,305,650	(7,036,079)	-	317,485,227
Construction in Progress	201,264,585	82,977,767	-	(117,137,344)	167,105,008
Total property and equipment	1,368,539,967	183,988,583	(10,884,122)	(10,350,000)	1,531,294,428
Less accumulated depreciation:					
Non-structural Improvements	30,644,994	4,523,331	(188,102)	-	34,980,223
Buildings	159,478,511	24,318,646	(1,175,246)	-	182,621,911
Equipment	119,313,277	21,782,881	(6,052,871)	-	135,043,287
Total accumulated depreciation	309,436,782	50,624,858	(7,416,219)	-	352,645,421
Property and equipment, net:					
Land	12,241,568	40,000	(246,068)	-	12,035,500
Non-structural Improvements	70,811,946	7,693,106	(78,044)	11,989,764	90,416,772
Buildings	600,882,707	33,130,083	(2,160,583)	94,797,580	726,649,787
Equipment	173,902,379	9,522,769	(983,208)	-	182,441,940
Construction in Progress	201,264,585	82,977,767	-	(117,137,344)	167,105,008
Property and equipment, net:	$ 1,059,103,185	$ 133,363,725	$ (3,467,903)	$ (10,350,000)	$ 1,178,649,007

4. LONG-TERM DEBT PAYABLE

In fiscal 2002, the General Assembly of the State of Connecticut enacted and the Governor signed into law Public Act No. 02-3, An Act Concerning 21st Century UConn (Act). This Act amended Public Act No. 95-230 that enabled the University to borrow money in its own name for a special ten year capital improvement program (UCONN 2000) designed to modernize, rehabilitate, and expand the physical plant of the University. The Act extended the UCONN 2000 financing program that was scheduled to end in 2005, for an additional 10 years to June 30, 2015. The original Public Act No. 95-230 authorized projects for Phases I and II of UCONN 2000, estimated to cost $1,250,000,000, of which $962,000,000 was to be financed by bonds of the University; $18,000,000 was to be funded by State General Obligation bonds; and the balance of $270,000,000 to be financed by gifts, other revenue, or borrowing resources of the University. The new Act authorized additional projects for the University and the Health Center for what is to be called Phase III of UCONN 2000 at an estimated cost of $1,348,400,000, of which $1,300,000,000 is to be financed by bonds of the University and $48,400,000 is to be financed by the issuance of special obligation bonds of the University, from gifts, other revenue or borrowing resources of the University, or through the deferring of projects or achieved savings. The project costs authorized are $305,400,000 for the Health Center and $1,043,000,000 for the University. The UCONN 2000 program, including Phases I, II and III, is estimated to total $2,598,400,000.

General obligation bonds issued as of June 30, 2003 are (see Note 4 for outstanding balances):

1996 Series A	$ 83,929,715
1997 Series A	124,392,432
1998 Series A	99,520,000
1999 Series A	79,735,000
2000 Series A	130,850,000
2001 Series A	100,000,000
2002 Series A	100,000,000
2003 Series A	96,210,000
Total issued	$ 814,637,147

These bonds are general obligations of the University, for which its full faith and credit are pledged, and are payable from all assured revenues. The bonds are additionally secured by the pledge of and a lien upon the State Debt Service Commitment. The State Debt Service Commitment is the commitment by the State to pay an annual amount of debt service on securities issued as general obligations of the University. The University, consistent with the Act, is relying upon the receipt of the annual amount of the pledged State Debt Service Commitment for the payment of the bonds and, accordingly, is not planning to budget any of the other revenues for the payment of the bonds. Under the Master Indenture, the University expects to issue additional bonds to finance UCONN 2000 projects secured by the State Debt Service Commitment. The University recorded revenue totaling $96,210,000 and $100,000,000 for the years ended June 30, 2003 and 2002, respectively, representing the increase in the State of Connecticut's debt service commitment for principal as a result of the issuance of the 2003 and 2002 Series A bonds, respectively. In addition, for the years ended June 30, 2003 and 2002, revenues of $29,228,519 and $25,907,563, respectively, were recorded for the State of Connecticut's debt service commitment for interest on general obligation bonds.

The University may also issue Special Obligation bonds backed by certain pledged revenues of the University. On February 4, 1998, the University issued $33,560,000 of the Student Fee Revenue Bonds 1998 Series A to fund $30,000,000 of the South Campus Project; $2,126,425 of a Special Capital Reserve Fund held by the Trustee Bank, of which $1,004,670 and $1,753,286 are included in noncurrent investments at June 30, 2003 and 2002, respectively; and the remainder to pay costs of issuance, including the underwriters' discount. The bonds have a final maturity of November 15, 2027.

The 2000 Series A bonds dated May 15, 2000 represented the second series of Special Obligation bonds issued in the amount of $89,570,000. Bond proceeds funded three UCONN 2000 projects: Hilltop Dormitory at $21,000,000, Hilltop Student Rental Apartments at $42,000,000, and Parking Garage South at $24,000,000. These bonds were refunded in advance of maturity in fiscal 2002 with the issuance of Student Fee Revenue Bonds 2002 Refunding Series A. The University issued the refunding bonds on February 27, 2002 in the amount of $96,130,000. The difference between the carrying amount of the defeased debt and its reacquisition price (refunding bonds) will be amortized over the remaining life of the debt similar to a bond discount. The refunding bonds have a final maturity of November 15, 2029. Proceeds from the refunding bonds of $96,830,821, representing the face value, plus the net premium and less the costs of issuance, were deposited with the Trustee bank in an irrevocable escrow fund, which are sufficient together with escrow earnings to satisfy future debt service and call premiums on the prior issue. The escrow is invested in United States Treasury Securities State, Local Government Securities and cash.

On February 14, 2002, the University issued $75,430,000 of the Student Fee Revenue Bond 2002 Series A to fund five UCONN 2000 projects: Alumni Quadrant Renovations at $7,000,000, Shippee/Buckley Renovations at $5,000,000, East Campus North Renovations at $1,000,000, Towers Renovations (including Greek Housing) at $14,180,000, and North Campus Renovations at $45,000,000. The bonds have a final maturity of May 15, 2030.

The Special Obligation bonds are secured by certain gross and net pledged revenues of the University, which totaled approximately $41,762,000 and $32,643,000 in fiscal years 2003 and 2002, respectively and are disclosed on the face of the Statements of Revenues, Expenses, and Changes in Net Assets by revenue sources. Gross pledged revenues include the infrastructure maintenance fee and the general University fee plus investment income on the bond accounts held by the Trustee Bank, prior to any payments, deductions, offsets, or provisions. Net pledged revenues include the residential life room fee, student apartment rentals, Greek housing fee, the board (dining) fee, the parking and transportation fee after providing for the cost of maintaining, repairing, insuring, and operating the facilities for which the fees are imposed. In addition to securing revenue bonds, the gross and net pledged revenues available are also pledged toward certain other debt including the U.S. Department of Education loan and self-liquidating debt. The University has covenanted to collect in each fiscal year fees representing pledged revenues so that the sum of gross and net revenue amounts is equal to no less than 1.25 times the debt service requirements in such fiscal year. During fiscal year 2003, Special Obligation bond investment earnings amounted to approximately $857,000, and $1,077,000 in fiscal 2002. The Student Fee Revenue Bonds investment earnings are part of the pledged revenues and are directly retained by the Trustee Bank to pay debt service on the bonds.

The State of Connecticut issues certain general obligation bonds that are categorized as self-liquidating bonds. These bonds were issued to fund the construction and renovations of revenue-generating capital projects. The University reimburses the State primarily with revenue from student fee charges in the amount equal to the debt service on self-liquidating bonds. At June 30, 2003 self-liquidating bonds outstanding totaled $12,418,259.

Long-term debt activity, including refunding of debt, for the years ended June 30, 2003 and 2002 was as follows:

Long-term debt activity for year ended June 30, 2003:

	2002 Beginning Balance	Additions	Retirements	2003 Ending Balance	2003 Current Portion
General Obligation Bonds	$ 610,637,147	$ 96,210,000	$ (37,650,000)	$ 669,197,147	$ 42,925,000
Revenue Bonds	201,190,000	-	(3,665,000)	197,525,000	3,770,000
Self Liquidating Bonds	13,571,164	860,363	(2,013,268)	12,418,259	1,506,678
U.S. Dept. of Ed. Towers Loan	1,847,687	-	(35,742)	1,811,945	37,735
Installment Loans	5,060,216	532,528	(1,838,913)	3,753,831	1,703,709
Total long-term debt	$ 832,306,214	$ 97,602,891	$ (45,202,923)	$ 884,706,182	$ 49,943,122

Long-term debt activity for year ended June 30, 2002:

	2001 Beginning Balance	Additions	Retirements	2002 Ending Balance	2002 Current Portion
General Obligation Bonds	$ 542,177,147	$ 100,000,000	$ (31,540,000)	$ 610,637,147	$ 37,650,000
Revenue Bonds	121,380,000	171,560,000	(91,750,000)	201,190,000	3,665,000
Self Liquidating Bonds	14,837,149	4,259,724	(5,525,709)	13,571,164	1,167,012
U.S. Dept. of Ed. Towers Loan	1,881,542	-	(33,855)	1,847,687	35,742
Installment Loans	7,160,899	-	(2,100,683)	5,060,216	1,788,159
Total long-term debt	$ 687,436,737	$ 275,819,724	$ (130,950,247)	$ 832,306,214	$ 44,305,913

Long-term debt outstanding at June 30, 2003 and 2002 consisted of the following:

Type of Debt and Issue Date	Type of Issue	Principal Payable	Maturity Dates Through Fiscal Year	Interest Rate	Balance 2003	Balance 2002
Bonds:						
GO 1996 Series A	original	Annually	2016	3.4-5.5%	$ 53,899,715	$ 58,404,715
GO 1997 Series A	original	Annually	2017	3.7-5.375%	85,392,432	91,892,432
GO 1998 Series A	original	Annually	2018	3.6-5.25%	74,625,000	79,600,000
GO 1999 Series A	original	Annually	2019	2.95-4.85%	64,000,000	68,000,000
GO 2000 Series A	original	Annually	2020	4.0-5.75%	110,275,000	117,740,000
GO 2001 Series A	original	Annually	2021	3.15-5.375%	89,795,000	95,000,000
GO 2002 Series A	original	Annually	2022	3.0-5.375%	95,000,000	100,000,000
GO 2003 Series A	original	Annually	2023	2.0-5.25%	96,210,000	-
Total general obligation bonds					669,197,147	610,637,147
Rev 1998 Series A	original	Annually	2028	3.55-5.125%	30,525,000	31,180,000
Rev 2002 Ref. Series A	refund	Annually	2030	3.0-5.25%	93,025,000	94,580,000
Rev 2002 Series A	original	Annually	2030	2.15-5.25%	73,975,000	75,430,000
Total revenue bonds					197,525,000	201,190,000
March 1992	original	Various	2007	6.3-6.4%	881,278	1,175,037
March 1993	original	Annually	2012	5.1-5.5%	539,125	594,125
October 1993	refund	Annually	2012	4.5-6.0%	912,526	924,743
March 1994	original	Various	2010	5.2-5.65%	210,148	315,148
August 1994	original	Various	2009	5.375-5.8%	30,243	45,359
March 1995	original	-	-	-	-	255,207
March 1995	refund	-	-	-	-	183,135
October 1995	original	Annually	2007	5.0-6.0%	306,744	383,431
November 1996	refund	Annually	2005	4.6-6.0%	277,775	355,334
March 1997	original	Various	2017	4.625-6.0%	1,754,786	2,344,786
September 1997	refund	Annually	2013	4.3-5.0%	321,344	322,845
February 1998	refund	Annually	2015	4.1-5.125%	994,475	996,873
June 2001	refund	Various	2016	5.0-5.5%	1,415,418	1,415,418
November 2001	refund	Various	2014	3.0-5.125%	3,264,170	3,578,275
June 2002	refund	Various	2010	3.0-5.5%	681,448	681,448
August 2002	refund	Various	2016	3.0-5.5%	651,490	-
April 2003	refund	Annually	2007	4.0-6.0%	177,289	-
Total self-liquidating bonds					12,418,259	13,571,164
Total bonds					879,140,406	825,398,311
Loans:						
U.S. Dept. Ed. Towers Loan		Semi-annually	2027	5.5%	1,811,945	1,847,687
Installment Purchases		Various	various	3.03-6.33%	3,753,831	5,060,216
Total loans					5,565,776	6,907,903
Total bonds, loans and installment purchases					884,706,182	832,306,214
Less: current portion					49,943,122	44,305,913
Total noncurrent portion					$ 834,763,060	$ 788,000,301

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

	General Obligation Bonds			Long-term Debt Other than General Obligation Bonds			Total Obligations		
Year(s)	Principal	Interest	Total	Principal	Interest	Total	Principal	Interest	Total
2004	$ 42,925,000	$ 30,423,161	$ 73,348,161	$ 7,018,122	$ 10,360,662	$ 17,378,784	$ 49,943,122	$ 40,783,823	$ 90,726,945
2005	43,295,000	28,955,273	72,250,273	6,761,673	10,059,402	16,821,075	50,056,673	39,014,675	89,071,348
2006	42,530,000	27,202,648	69,732,648	5,729,997	9,810,503	15,540,500	48,259,997	37,013,151	85,273,148
2007	42,250,000	25,464,023	67,714,023	5,604,326	9,593,830	15,198,156	47,854,326	35,057,853	82,912,179
2008	40,818,792	26,603,714	67,422,506	5,563,456	9,318,298	14,881,754	46,382,248	35,922,012	82,304,260
2009-2013	197,453,355	101,556,608	299,009,963	29,467,885	42,875,476	72,343,361	226,921,240	144,432,084	371,353,324
2014-2018	182,725,000	46,553,264	229,278,264	35,192,078	35,083,238	70,275,316	217,917,078	81,636,502	299,553,580
2019-2023	77,200,000	8,839,295	86,039,295	43,230,963	25,233,994	68,464,957	120,430,963	34,073,289	154,504,252
2024-2028	-	-	-	55,310,535	13,025,235	68,335,770	55,310,535	13,025,235	68,335,770
2029-2030	-	-	-	21,630,000	1,328,250	22,958,250	21,630,000	1,328,250	22,958,250
Total	$669,197,147	$295,597,986	$964,795,133	$215,509,035	$166,688,888	$382,197,923	$884,706,182	$462,286,874	$1,346,993,056

5. BOND FINANCED ALLOTMENTS

The University recognizes an asset when an allotment is processed for State General Obligation bonds or when bonds to be funded from University resources are sold.

6. RETIREMENT PLAN

All regular full-time employees participate in one of two retirement plans. The State Employees' Retirement System, a single employer defined benefit public employee retirement system, is administered by the State and covers approximately 45% of full-time employees. The State of Connecticut is statutorily responsible for the pension benefits of University employees who participate in this plan. The University makes contributions on behalf of the employees through a fringe benefit charge assessed by the State. Alternatively, employees may choose to participate in the Teacher Insurance and Annuity Association/College Retirement Equities Fund (TIAA/CREF). TIAA/CREF is a national organization used to fund pension benefits for educational institutions. Under this arrangement, the University and the plan participants make annual contributions to TIAA/CREF to purchase individual annuities equivalent to retirement benefits earned.

With respect to the University's Department of Dining Services, of its approximately 300 full-time employees, 96 participate in the State Employees' Retirement System and 204 are eligible to participate in two retirement plans: the Department of Dining Services Money Purchase Pension Plan and optionally the University of Connecticut Department of Dining Services 403(b) Retirement Plan.

7. COMPENSATED ABSENCES AND WAGES PAYABLE

Compensated absences includes accrued unused vacation and sick leave balances for employees, and at June 30, 2003 totaled $18,862,956 and $2,308,377, respectively, and at June 30, 2002 totaled $17,458,966 and $1,364,857, respectively. During fiscal 2003, the State of Connecticut offered an Early Retirement Incentive Plan (ERIP) to University employees which is funded by the State and its various retirement plans. By the terms of the ERIP, unused vacation and sick leave will be paid in three equal payments on July 1 of each year, beginning July 1, 2005, with optional payment before July 1, 2005 to employees with balances below $2,000. The State has not committed to reimburse the University for the amounts due to its employees. Therefore, included in the noncurrent compensated absences liability as of June 30, 2003 are $2,321,481 for accrued vacation and $914,897 for sick leave for University employees that participated in ERIP. Compensated absences are recorded in accordance with GASB Statement No. 16 and represent the amounts earned by eligible employees through June 30, 2003 and 2002. The liability for compensated absences is classified as current and noncurrent based on the amount estimated to be paid to employees in one year and beyond one year, respectively.

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

8. POST EMPLOYMENT BENEFITS

In addition to the pension benefits described in Note 6, the State provides post retirement health care and life insurance benefits to University employees, in accordance with State Statutes, Sections 5-257(d) and 5-259(a). When employees retire, the State pays 100% of their health care insurance premium cost (including the cost of dependent's coverage). In addition, the State pays 100% of the premium cost for a portion of the employee's life insurance continued after retirement. The amount of life insurance continued at no cost to the retiree is determined by a formula based on the number of years of State service that the retiree had at time of retirement. The State finances the cost of post retirement health care and life insurance benefits on a pay-as-you-go basis through an appropriation in the General Fund.

9. COMMITMENTS

On June 30, 2003, the University had outstanding commitments (over $100,000 each) totaling $88,229,273, which included $77,262,802 of commitments related to capital projects. Of the total amount, $15,179,439 was included in accounts payable at June 30, 2003. In addition to the amount for capital outlay, commitments were also related to research, academic, and institutional support. Of these commitments, the University expects $3,914,211 to be reimbursed by Federal grants.

In December 2003, the University entered into a lease purchase agreement for a project to provide on-site generation of electricity, steam and chilled water for cooling for the University at its Storrs campus. The project assumes a total cost of $75,000,000 and includes construction of a building, engineering, design and installation of certain equipment at the Storrs campus. Monthly lease payments, beginning May 1, 2005, of $471,254 over 20 years include interest at an effective rate 4.51%, maturing on April 1, 2025. During the construction period, which is anticipated to begin in early calendar 2004, there are no required lease payments, although interest during this time will be capitalized and added to the principal amount of the advances made. At the completion of the lease term the University has an option to purchase the project assets for $1.

10. DEFERRED INCOME AND CHARGES

Deferred income is comprised of: certain restricted research grants that are not included in revenue until the funds are expended; tuition and fees and auxiliary enterprises fees received in advance of services rendered for summer and fall sessions; athletic tickets sales and commitments received in advance of the season; a contingent grant received for which conditions were not satisfied as of year end; and other revenues received but not earned. As of June 30, 2003 and 2002 deferred income is as follows:

	2003	**2002**
Certain restricted research grants	$ 5,239,986	$ 7,151,318
Tuition and fees and auxiliary services	12,061,197	11,010,118
Athletic ticket sales and commitments	3,648,922	-
Contingent grant	1,000,000	3,500,000
Other	1,298,387	1,255,779
Total deferred income	$ 23,248,492	$ 22,917,215

A portion of current deferred charges totaling $381,504 and $508,063 and noncurrent deferred charges totaling $6,472,344 and $10,335,635 at June 30, 2003 and 2002, respectively, represent the cost of issuance and discounts, net of premiums, on certain bond issues, which will be amortized over the terms of the respective bond issues.

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, and graduate assistants. The University is required by collective bargaining agreements to waive tuition for UCPEA employees and dependents of certain other employees. Tuition and fee revenue does not include foregone revenue resulting from tuition waivers. Waivers totaled $25,601,506 and $23,522,067 in fiscal year 2003 and 2002, respectively. In fiscal 2003, approximately 83% of such waivers were provided to graduate assistants, with 81% in 2002.

12. CONTINGENCIES

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

13. OPERATING EXPENSES BY OBJECT

The following table details the University's operating expenses by object for the years ended June 30, 2003 and 2002:

Operating Expenses by Object for the year ended June 30, 2003

	Instruction	Research	Public Service	Academic Support	Student Services	Institutional Support	Operations and Maintenance of Plant	Depreciation	Student Aid	Auxiliary Enterprises	Total
Salary and Wages	$159,990,687	$24,946,922	$16,720,941	$39,109,719	$17,188,065	$29,387,826	$14,990,508	$ -	$248,060	$34,950,918	$337,533,646
Fringe Benefits	41,058,857	4,413,144	3,964,702	11,789,395	4,633,047	10,127,862	5,847,549	-	549	10,011,237	91,846,342
Supplies & Other Expenses	9,633,312	26,810,743	4,439,402	10,218,730	3,537,059	11,082,701	10,840,504	-	309,310	41,318,746	118,190,507
Utilities	-	-	-	-	136,369	5,637	13,568,388	-	-	6,904,430	20,614,824
Depreciation	-	-	-	-	-	-	-	63,402,505	-	-	63,402,505
	$210,682,856	$56,170,809	$25,125,045	$61,117,844	$25,494,540	$50,604,026	$45,246,949	$63,402,505	$557,919	$93,185,331	$631,587,824

Operating Expenses by Object for the year ended June 30, 2002

	Instruction	Research	Public Service	Academic Support	Student Services	Institutional Support	Operations and Maintenance of Plant	Depreciation	Student Aid	Auxiliary Enterprises	Total
Salary and Wages	$147,968,442	$21,882,090	$15,932,609	$38,239,512	$15,656,903	$28,387,407	$14,999,674	$ -	$237,486	$33,603,796	$316,907,919
Fringe Benefits	40,062,865	4,055,515	4,043,058	12,048,328	4,444,149	10,081,746	6,103,667	-	-	10,065,549	90,904,877
Supplies & Other Expenses	10,707,138	23,373,374	1,779,045	11,565,392	3,538,780	8,482,195	8,108,278	-	4,023	40,055,862	107,614,087
Utilities	-	-	-	-	145,926	5,197	10,376,412	-	-	7,232,576	17,760,111
Depreciation	-	-	-	-	-	-	-	50,624,858	-	-	50,624,858
	$198,738,445	$49,310,979	$21,754,712	$61,853,232	$23,785,758	$46,956,545	$39,588,031	$50,624,858	$241,509	$90,957,783	$583,811,852

14. UNRESTRICTED NET ASSETS

The following table details the University's unrestricted net assets as of June 30:

	2003	2002
Current funds	$ 33,988,306	$ 32,129,849
Unexpended plant funds	11,931,721	22,793,798
Internally restricted for retirement of indebtedness	36,330,405	28,743,322
Total Unrestricted net assets	$ 82,250,432	$ 83,666,969

TRUSTEES AND FINANCIAL OFFICERS
June 30, 2003

BOARD OF TRUSTEES

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