University of Connecticut

Financial Report

For the Year Ended June 30, 2005

Message from the Vice President and Chief Financial Officer

Founded in 1881, the University of Connecticut (University) serves as the state's flagship for higher education, meeting the educational needs of undergraduate, graduate, professional, and continuing education students through the integration of teaching, research 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 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, 2005 represents the transactions and balances of the University, here defined as all programs except the Health Center. This includes Storrs-based undergraduate and graduate programs, the regional campuses, the School of Law and the School of Social Work. The University's enrollment in fiscal year 2005 topped 27,000 students, taught by 1,200 full-time faculty members and an additional 721 part-time faculty and adjuncts. In total, the University employs more than 4,200 full and part-time faculty and staff. Two other entities also support the mission of the University: The University of Connecticut Foundation, Inc. (Foundation) and the University of Connecticut Law School Foundation, Inc. (Law School Foundation).

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

While the University's operational flexibility and capacity has grown, all of these activities also take place within a context of continuing vigilance. The financial statements contained in this report reflect budget execution results consistent with spending plans, operating and capital budgets approved by the University Board of Trustees. In addition, in fiscal year 2004, the Board of Trustees restructured and expanded the role of its Joint Audit and Compliance Committee, with a charge that includes oversight of all University financial reporting and processes and internal control systems, as well as direct engagement in the approval of independent auditing services to augment the University's internal audit capacity and the work performed by state auditors. An important component of external oversight, the Auditors of Public Accounts issue an Independent Auditors' Report on the financial statements of the University. They are responsible for auditing its financial operations and their opinion appears in this report.

In 2005, the University identified weaknesses in the administration of the UCONN 2000 program with regard to code compliance, building inspection and organizational checks and balances. These issues have been addressed through an extensive corrective action plan undertaken by the University, as well as through recommendations made by the Governor's Commission on UConn Review and Accountability. The financial implications of this matter relate in large measure to the cost of corrective action for code deficiencies in three residential complexes. Actual and estimated costs of achieving code compliance are reflected in the accompanying financial statements. Please note also that, to date, much of the corrective work has been performed and paid for by contractors; the University will continue to pursue financial recovery as appropriate.

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 ranked 26th among 162 public universities in the nation.

- Undergraduate enrollment is at an all-time high, while the quality and diversity of students choosing the University has shown a documented rise every year since the mid-1990's. Compared to fall of 1995, fall 2004 freshman enrollment at the main campus was up 60.7%, minority freshman enrollment was up 76.9% and average SAT scores were up nearly 64 points. Thirty-five percent of these students ranked in the top 10% of their high school class.
- Nearly 6,000 degrees were conferred in the 2004-2005 school year for the completion of undergraduate, graduate and professional programs at the Storrs and regional campuses.
- The University's graduate and professional programs were highly rated by *U.S. News & World Report* in its latest issue of *America's Best Graduate Schools*. The Neag School of Education was named the top public graduate school of education in the northeast and ranked 19th among all public doctoral education programs in the country (and in the specialties, 11th in Elementary Education, 12th in Administration/Supervision, 16th in Secondary Education, and 20th in Special Education). In the Liberal Arts and Sciences, UConn national public graduate program rankings included 17th in Audiology, 24th in Speech-Language Pathology, 27th in History, 40th in Public Administration master's programs (5th in the specialty of Public Finance and Budgeting), and 41st in Clinical Psychology. Among public graduate and professional programs nationwide in other disciplines, UConn ranked: 24th in Law; 26th in Business master's programs (17th in the Information Systems specialty); 29th in Pharmacy (Pharm.D.); 30th in Social Work master's programs; and 46th in Engineering (and in the specialties, 24th in Environmental Engineering, 29th in Materials Engineering, and 30th in Chemical Engineering).
- Research awards for the Storrs-based program grew from $55.9 million in fiscal year 1996 to $91.5 million in fiscal year 2005.
- UConn, including both the Health Center and Storrs-based programs, ranked 74th among all institutions and 51st among public universities nationwide in research and development expenditures, as measured by the National Science Foundation.
- UConn has the 5th largest residential program and the highest percentage of students living on campus of any public university nationally, according to the Association of College and University Housing Officers International. More than 11,000 students live on the main campus.
- The Foundation's endowment, including both the Health Center and Storrs-based programs, of $49.5 million at June 30, 1995 had grown to $272 million by June 30, 2005. Total Foundation assets reached $343 million, the highest ever and a 10% increase over 2004. UConn alumni rank 7th in giving among the nation's public universities, with an annual participation rate of 24%
- By 2005, the UCONN 2000 program had led to the completion of 85 major projects.
- The University's Football Team won the 2004 Motor City Bowl after receiving its first-ever postseason bowl invitation, the culmination of years of hard work building the program to the nation's elite, Division I-A level.

Respectfully Submitted,

Lorraine M. Aronson
Vice President and Chief Financial Officer
University of Connecticut

Bruce A. DeTora
Chief Financial Officer
Storrs-based Program

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STATE OF CONNECTICUT

AUDITORS OF PUBLIC ACCOUNTS
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HARTFORD, CONNECTICUT 06106-1559

KEVIN P. JOHNSTON

ROBERT G. JAEKLE

INDEPENDENT AUDITORS' REPORT

The Board of Trustees of the
University of Connecticut

We have audited the accompanying statements of net assets of the University of Connecticut (University) as of June 30, 2005 and 2004, and the related statements of revenues, expenses and changes in net assets and statements of cash flows for the years then ended. The University is a component unit of the University of Connecticut system, which includes the University of Connecticut, the University of Connecticut Health Center, the University of Connecticut Foundation, Inc. and the University of Connecticut Law School Foundation, Inc. These financial statements are the responsibility of the University's management. Our responsibility is to express an opinion on these financial statements based on our audits. We did not audit the financial statements of the University of Connecticut Law School Foundation, Inc., a discretely presented component unit, which statements reflect assets constituting 1% and revenues constituting .1% of the related totals of the University in 2005. Those financial statements were audited by other auditors whose reports thereon have been furnished to us, and our opinions, insofar as they relate to the amounts included for the University of Connecticut Law School Foundation, Inc., are based solely on the reports of the other auditors. The audits of the University of Connecticut Law School Foundation were conducted in accordance with auditing standards generally accepted in the United States of America.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the University, as of June 30, 2005 and 2004, 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 4 through 17 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Sincerely,

Kevin P. Johnston
Auditor of Public Accounts

Robert G. Jaekle
Auditor of Public Accounts

December 30, 2005
State Capitol
Hartford, Connecticut

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MANAGEMENT'S DISCUSSION AND ANALYSIS

Management's Discussion and Analysis

INTRODUCTION

The following unaudited Management's Discussion and Analysis (MD&A) is required supplemental information. Its purpose is to provide users of the basic financial statements with a narrative introduction, overview, and analysis of those statements. The MD&A, which is unaudited, includes an analysis of the financial position and results of activities of the University of Connecticut (University, as defined below) for the fiscal year ended June 30, 2005, based on currently known facts, decisions, or conditions. It also includes selected comparative information for the years ended June 30, 2004 and 2003. 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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This financial report for the fiscal year ended June 30, 2005 represents the transactions and balances of the University, here defined as all programs except the Health Center. This includes Storrs-based undergraduate and graduate programs, the regional campuses, the School of Law and the School of Social Work.

During the year ended June 30, 2005, the University adopted Governmental Accounting Standards Board (GASB) Statement No. 40, *Deposit and Investment Risk Disclosures.* During the year ended June 30, 2004, the University adopted GASB Statement No. 39, *Determining Whether Certain Organizations Are Component Units*, which amends GASB Statement No. 14, *The Financial Reporting Entity*. As a result, The University of Connecticut Law School Foundation, Inc. (Law School Foundation) is included as a component unit with the University (See Note 1). A related, but independent, corporate entity, The University of Connecticut Foundation, Inc. (Foundation), operates exclusively for charitable and educational purposes, raising funds to promote, encourage, and assist education and research at the University and the Health Center. The Foundation solicits and accepts donations of properties, monies, and securities and invests and administers these gifts. The Foundation materially supports the mission of both the University and the Health Center which are separately audited, producing their own financial statements. Displaying the Foundation's financial statements as a component unit of either the University or the Health Center would distort its actual contribution or economic benefit to that entity, and therefore the Foundation is not included as a component unit in the accompanying financial statements.

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

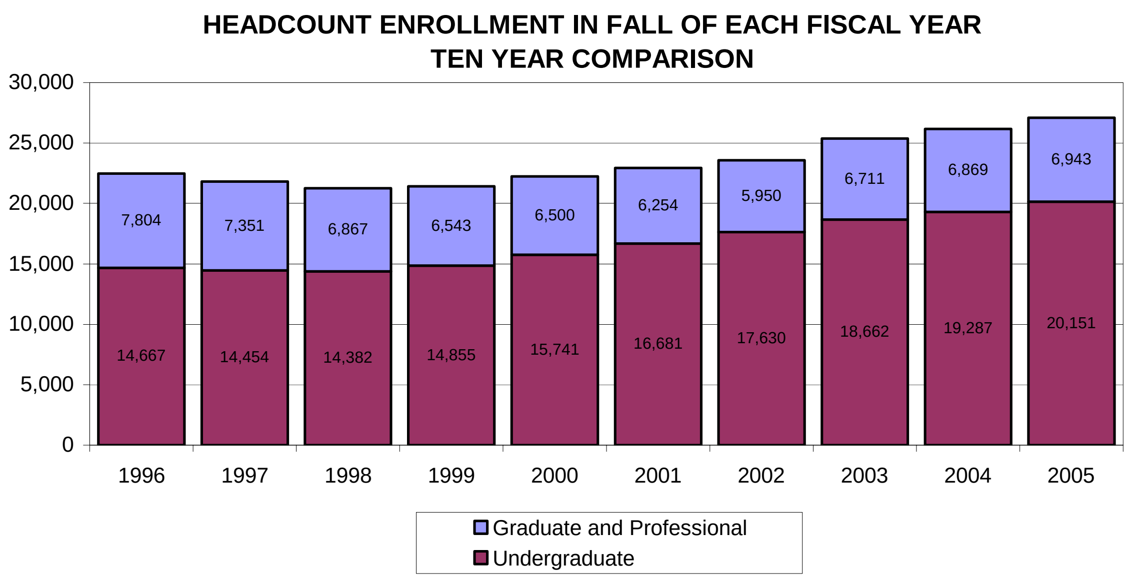
While the University's operational flexibility and capacity has grown, all of these activities also take place within a context of continuing external review. The financial statements contained in this report reflect budget execution results consistent with spending plans and operating and capital budgets approved by the University's Board of Trustees. The Auditors of Public Accounts issue an Independent Auditors' Report on the financial statements of the University. They are responsible for auditing its financial operations and their opinion appears on Pages 1 and 2.

FINANCIAL HIGHLIGHTS AND ECONOMIC OUTLOOK

The University submits separate biennial operating and capital budgets to the Governor and General Assembly through the Board of Governors for Higher Education. The General Assembly appropriates and allocates funds directly to the University. 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 $324.5 million for the year ending June 30, 2005 (fiscal year 2005) as compared to $276.9 million for the year ending June 30, 2004 (fiscal year 2004), and $299.9 million for the year ending June 30, 2003 (fiscal year 2003). The increase in operating loss in fiscal year 2005 from fiscal year 2004 was due to the combined effect of a 6.2% increase in full-time staff, replacing many of the staff who participated in the Early Retirement Incentive Program (ERIP) that occurred at the end of fiscal year 2003, a 21.4% increase in depreciation expense, and an increase in enrollment and tuition and fees. For public institutions, the measure more indicative of normal and recurring activities is income or loss before capital additions (deductions), which includes revenue from State appropriations. The University experienced a loss before capital additions (deductions) of $43.4 million in fiscal year 2005 as compared to $19.5 million and $28.7 million for fiscal years 2004 and 2003, respectively. Total operating revenues grew $37.4 million in fiscal year 2005 and $39.8 million in fiscal year 2004. At the same time, operating expenses increased $85.0 million compared to an increase in fiscal year 2004 of $16.7 million over fiscal year 2003. Investment income increased for the first time in four years by $2.2 million. It decreased $1.2 million and $2.0 million in fiscal years 2004 and 2003, respectively.

Sources of recurring operating and nonoperating revenues continue to exhibit strength with increases in the past three fiscal years. The University's core business of instruction, research and public service has provided consistent increases in revenues and State support increased for the first time in three years. The University's total enrollment in fiscal year 2003 topped 25,000 students and grew to 27,094 students in fiscal year 2005. These students are taught by 1,200 full-time faculty members and an additional 721 part-time faculty and adjuncts. Undergraduate enrollment at the University reached 20,151 students in fiscal year 2005, 4.5% more than the prior year. With student growth outpacing State support, an in-state tuition and mandatory fee increase of 10.0% and out-of-state increase of 9.8% was approved for fiscal year 2005. Graduate and professional enrollment increased by 1.1%, with an in-state tuition and mandatory fee increase of 9.4% and out-of-state increase of 9.6%. The increased enrollment of all students, when combined with the tuition and mandatory fee increases, resulted in an increase in tuition and fee revenue, before scholarship allowance, of $22.8 million (11.6%) as compared to a $26.6 million (15.6%) increase in 2004. Sales and services of auxiliary enterprises, before scholarship allowances, increased $8.6 million (8.1%), primarily as a result of an overall increase in room and board fees of 7.5% and a significant increase in athletic conference and sponsor revenues. In fiscal year 2004, sales and services of auxiliary enterprises, before scholarship allowances, increased $15.4 million (17.0%). Grant and contract revenues increased $8.6 million (8.2%) in fiscal year 2005 as compared to an increase in fiscal year 2004 over 2003 of $3.7 million (3.7%).



The 21st Century UConn program, also known as Phase III of UCONN 2000, began in fiscal year 2005. It represents a $1.3 billion, 10-year extension of the original UCONN 2000 program (see Note 4), and provides $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. This commitment from the State provides long-term funds for capital enhancement and preservation and will allow the University to keep pace with the enrollment growth experienced in the last three years.

The financial condition of the University is closely tied to the State's economic condition. While it is difficult to project the State's economy and resulting effect on the State's financial condition, the experience of the past two years of cutbacks and ERIP has been turned around. The State's significant revenue streams have begun to grow at a healthy pace, a reality which is in turn reflected in the State's appropriation to the University increasing for the first time since fiscal year 2002. By the end of fiscal year 2004, it had become apparent that the State's revenue streams were beginning to reflect the improving economy. This financial improvement enabled a $4.7 million add-back to the University's budget for the fiscal year 2005.

The University is well positioned to maintain its financial condition and high standard of service to its students and the citizens of the State.

FINANCIAL STATEMENTS

Effective July 1, 2001, the University adopted GASB Statement No. 35, *Basic Financial Statements - and Management's Discussion and Analysis - for Public Colleges and Universities*, as amended by GASB Statements Nos. 37 and 38. GASB Statement No. 35 establishes standards for financial reporting for public colleges and universities. The University's financial report includes three basic financial statements: Statements of Net Assets; Statements of Revenues, Expenses, and Changes in Net Assets; and Statements of Cash Flows. In addition, the following elements are included with these general-purpose financial statements: Management's Discussion and Analysis and Notes to the financial statements. GASB No. 35 focuses on the University as a whole rather than on accountability by individual fund groups and provides accounting and financial reporting guidelines, enhancing the usefulness and comprehension of financial reports by external users. The adoption of these standards resulted in the conversion from fund accounting statements to statements presented in a single-column format.

The financial statements reflect budget execution results consistent with operating budgets and spending plans approved by the University's Board of Trustees. The University prepares and presents its Operating Budget requests and annual Spending Plan in a current funds format.

STATEMENTS OF NET ASSETS

The Statements of Net Assets present the assets, liabilities, and net assets of the University as of the end of the fiscal year, June 30. The Statements of Net Assets are a point 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. Over time, an increase in net assets is an indicator of the University's improving financial strength.

The following table shows condensed Statements of Net Assets at June 30, 2005, 2004 and 2003:

	2005	**2004**	**2003**
Current assets	$ 351,064,688	$ 311,660,766	$ 336,317,806
Noncurrent assets	2,255,422,132	2,147,963,680	1,992,917,844
Total assets	$ 2,606,486,820	$ 2,459,624,446	$ 2,329,235,650
Current liabilities	$ 232,942,693	$ 181,341,222	$ 176,492,670
Noncurrent liabilities	1,004,087,201	922,764,246	853,848,348
Total liabilities	$ 1,237,029,894	$ 1,104,105,468	$ 1,030,341,018
Invested in capital assets, net	$ 1,229,952,094	$ 1,206,280,804	$ 1,148,711,532
Restricted	47,828,704	47,753,495	67,932,668
Unrestricted	91,676,128	101,484,679	82,250,432
Total net assets	$ 1,369,456,926	$ 1,355,518,978	$ 1,298,894,632

The total assets increased $146.8 million in fiscal year 2005 over 2004 and $130.4 million in fiscal year 2004 over 2003. The growth in fiscal year 2005 was primarily due to $61.5 million ($112.7 million in fiscal year 2004) of additions to property and equipment, net of accumulated depreciation, a $10.1 million ($30.0 million in fiscal year 2004) increase in cash and cash equivalents, a $16.6 million increase ($55.3 million decrease in fiscal 2004) in deposit with bond trustee and a $50.5 million ($51.9 million in fiscal year 2004) increase in the state debt service commitment.

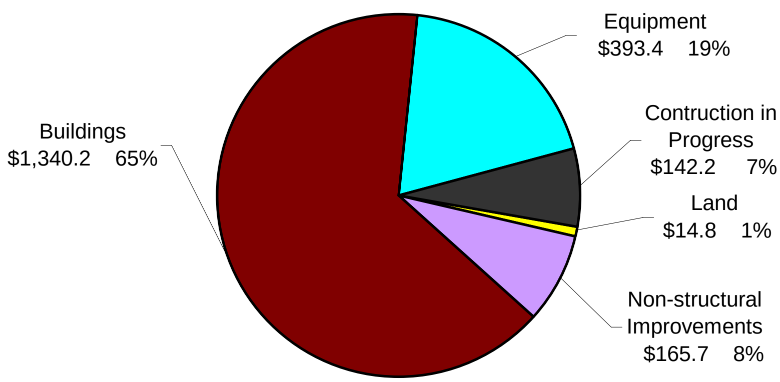
The total liabilities for the fiscal year 2005 increased $132.9 million ($73.8 million in fiscal year 2004) primarily due to newly acquired debt through the sale of general obligation bonds and other new debt, totaling $142.8 million ($347.9 million in fiscal year 2004 including refunding – see Note 4) and the retirement of prior year debt on existing bonds and loans of $55.9 million ($274.4 million in fiscal year 2004). The increase is also related to $16.3 million due to affiliate for the unspent portion of bonds issued in fiscal year 2005 that are committed for projects at the Health Center and a $23.7 million increase in other liabilities ($11.2 million in fiscal 2004). The combination of the increase in total assets of $146.8 million ($130.4 million for fiscal year 2004) and total liabilities of $132.9 million ($73.8 million for fiscal year 2004) yields an increase in total net assets of $13.9 million ($56.6 million in fiscal year 2004).

Current assets less current liabilities represent working capital, which was $118.1 million, $130.3 million and $159.8 million at June 30, 2005, 2004 and 2003, respectively. The current ratio, which is current assets divided by current liabilities, declined each of the three years presented, from 1.91 to 1 at June 30, 2003 to 1.72 to 1 at June 30, 2004 and 1.51 to 1 at June 30, 2005. The decline in the University's liquidity in fiscal year 2005 is primarily due to the increase in other liabilities and due to affiliate.

Capital and Debt Activities

During fiscal year 2005, the University recorded additions to property and equipment totaling $146.1 million ($182.3 million and $227.2 million in 2004 and 2003, respectively) of which $105.2 million in fiscal year 2005 related to buildings and construction in progress ($145.5 million and $185.5 million in 2004 and 2003, respectively). This unprecedented growth of the University's property and equipment is a direct result of the successful UCONN 2000 program. The third phase of the program, also known as 21st Century UConn, expands and builds on the success of UCONN 2000 with an additional $1.3 billion for improvements to facilities at the University and the Health Center (see Note 4). The following pie chart presents the total property and equipment at cost:

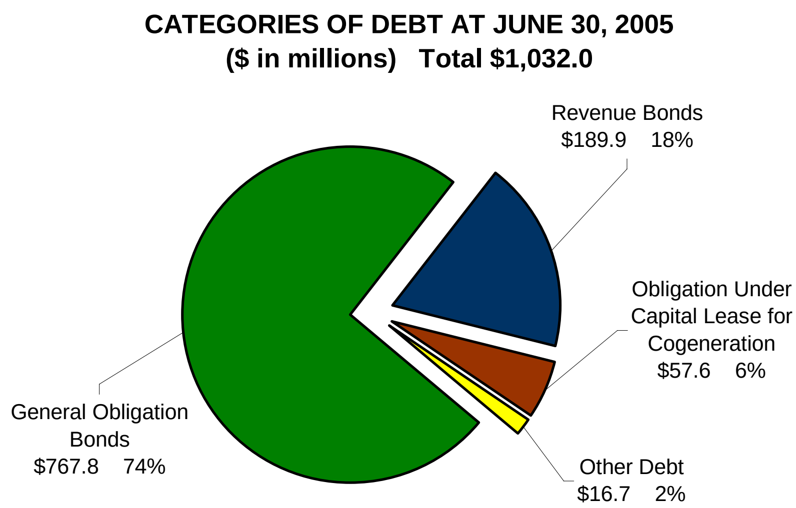
TOTAL PROPERTY AND EQUIPMENT AT COST AT JUNE 30, 2005
($ in Millions) Total $2,056.3



In fiscal year 2005, the University issued bonds with a total face value of $98.1 million from the sale of UCONN 2000 general obligation bonds ($314.8 million in fiscal year 2004) of which $16.4 million is committed in fiscal 2005 to the Health Center for its UCONN 2000 projects (see Note 4). The State has made a commitment to fund the University for all principal and interest payments due on UCONN 2000 general obligation debt, inclusive of 21st Century UConn. The commitment from the State is recorded as a current and noncurrent receivable (state debt service commitment in the accompanying Statements of Net Assets), as the general obligation debt is incurred. As bonds are issued, the amount of the commitment for the Health Center is reflected as a liability by the University.

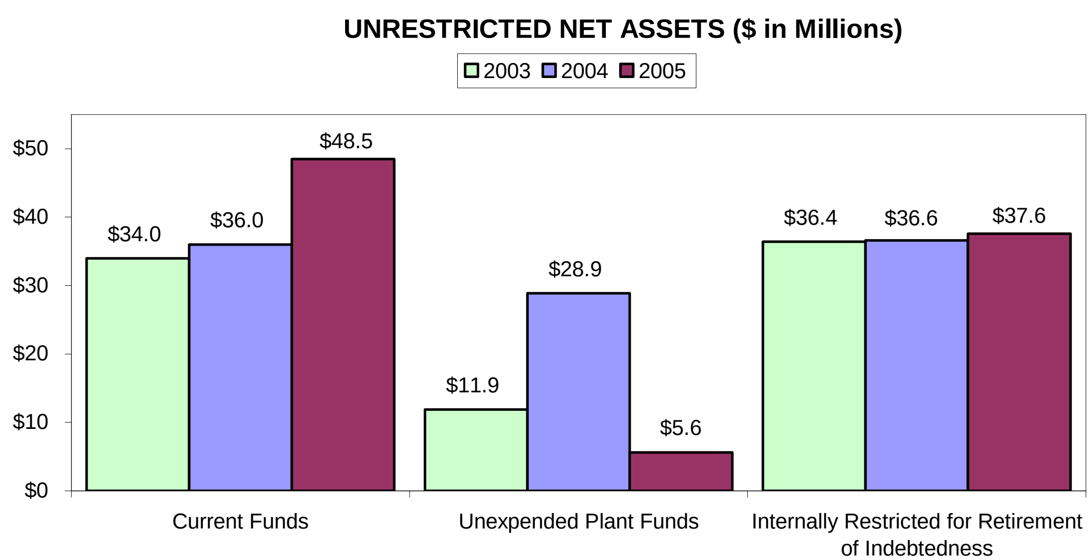
The University is going to provide on-site generation of electricity, steam and chilled water for heating and cooling for the University at its Storrs campus, with a projected cost of $81.9 million. The cogeneration facility is anticipated to be completed in calendar year 2006.

See Notes 3 and 4 of the financial statements for further information on capital and debt activities. The chart on the following page illustrates the categories of debt as of June 30, 2005, exclusive of premiums, discounts and differences due to refunding:



Net Assets

Net assets are divided into three major categories. The first category, invested in capital assets, net of related debt, provides the University's equity in property and equipment. The restricted net assets category is 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 year 2002) included in the balances of unrestricted current funds, retirement of indebtedness funds, and plant funds. Unrestricted net assets may be designated for specific purposes by action of management or the Board of Trustees or may otherwise be limited by contractual agreements with outside parties. GASB prohibits a breakout of designated unrestricted funds on the face of the Statements of Net Assets. Unrestricted net assets are available to the University for any lawful purpose of the institution. The following shows a comparison between fiscal years by category of unrestricted net assets:



Substantially all unrestricted net assets are internally designated for academic and research programs, capital programs, retirement of debt, and auxiliary enterprise activities.

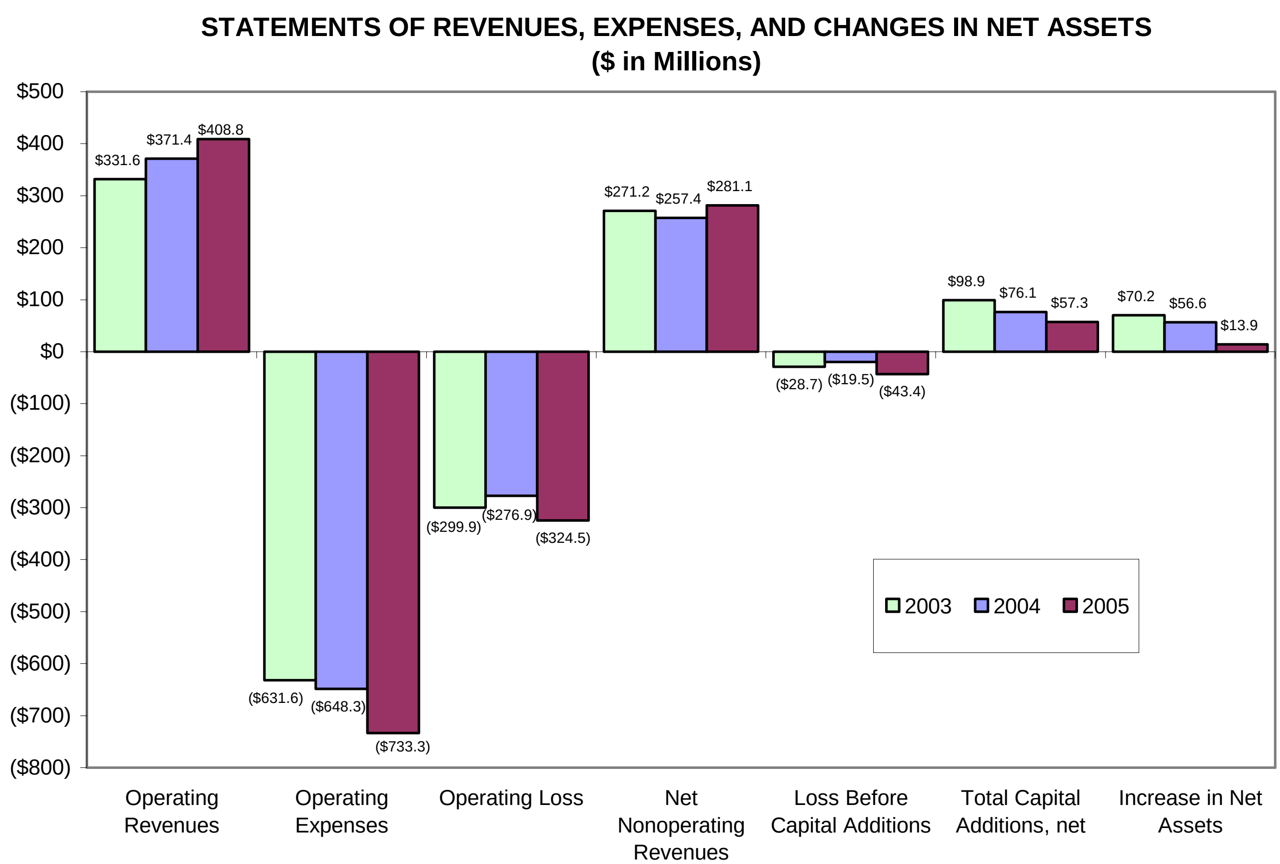
STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS

Revenues and expenses are classified as operating, nonoperating, or capital additions (deductions) according to definitions prescribed by GASB. Significant recurring sources of nonoperating 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, 2005, 2004 and 2003:

	2005	2004	2003
Operating revenues	$ 408,804,517	$ 371,424,978	$ 331,640,922
Operating expenses	733,301,884	648,329,693	631,587,824
Operating loss	(324,497,367)	(276,904,715)	(299,946,902)
Net nonoperating revenues	281,135,716	257,407,359	271,209,262
Loss before capital additions	(43,361,651)	(19,497,356)	(28,737,640)
Total capital additions	57,299,599	76,121,702	98,909,075
Increase in net assets	$ 13,937,948	$ 56,624,346	$ 70,171,435

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.



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 three positive years with an increase in the net assets of $13.9 million, $56.6 million and $70.2 million at the end of the fiscal years 2005, 2004 and 2003, respectively.

Revenues

The following table summarizes operating and nonoperating revenues and capital additions for the fiscal years ended June 30, 2005, 2004 and 2003:

	2005	2004	2003
Operating revenues:			
Student tuition and fees, net	$ 159,054,150	$ 141,573,265	$ 120,275,694
Grants and contracts	112,450,348	103,893,925	100,183,600
Sales and services of educational departments	13,755,026	12,166,016	13,514,914
Sales and services of auxiliary enterprises, net	113,537,985	104,784,446	89,438,533
Other sources	10,007,008	9,007,326	8,228,181
Total operating revenues	408,804,517	371,424,978	331,640,922
Nonoperating revenues:			
State appropriation	273,085,313	256,467,347	258,751,010
State debt service commitment for interest	32,332,930	27,852,310	29,228,519
State match to endowments	994,759	-	-
Gifts	15,290,616	15,319,152	18,936,287
Investment income	4,551,132	2,388,513	3,565,261
Other nonoperating revenues, net (see *Expense* section below for 2005 and 2004)	-	-	522,514
Total nonoperating revenues	326,254,750	302,027,322	311,003,591
Capital additions:			
State debt service commitment for principal	81,720,000	91,635,000	96,210,000
Capital grants and gifts	9,163,961	8,243,365	7,558,843
Total capital additions	90,883,961	99,878,365	103,768,843
Total revenues	$ 825,943,228	$ 773,330,665	$ 746,413,356

Revenue highlights, for fiscal years 2005 and 2004 with comparison to the prior fiscal years, including operating and nonoperating revenues and capital additions, presented on the Statements of Revenues, Expenses, and Changes in Net Assets are as follows:

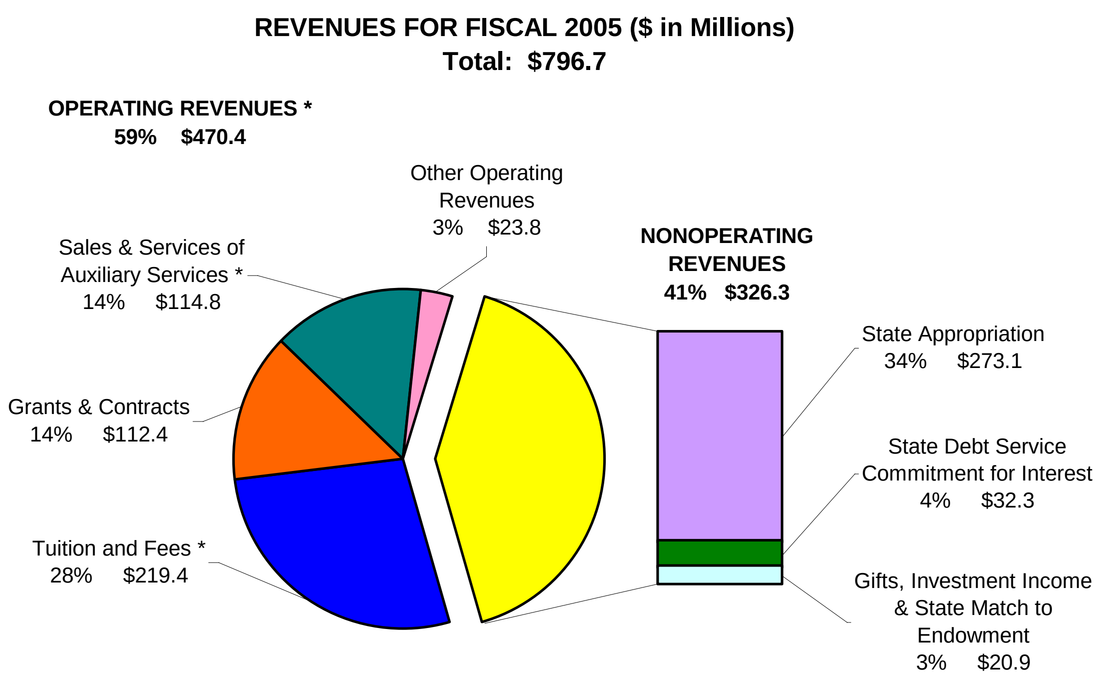
- Student tuition and mandatory fees, net of scholarship allowances, increased 12.3% in fiscal year 2005 (17.7% in 2004) and 11.6% before scholarship allowance (15.6% in fiscal 2004). The increase in fiscal year 2005 was due in part to 4.5% (3.3% in fiscal year 2004) more undergraduates enrolled at the University and an increase of 10.0% (10.7% in fiscal year 2004) for undergraduate in-state tuition and mandatory fees charged, and 9.8% (11.0% in fiscal 2004) for out-of-state tuition and mandatory student fees.

- Sales and services of auxiliary enterprises, net of scholarship allowances, increased approximately 8.4% and 17.2% during fiscal years 2005 and 2004, respectively. The increase in fiscal year 2005 resulted primarily from a significant increase in athletic conference and sponsor revenues and a 7.5% increase in fees charged for both room and board. In fiscal year 2004, the increase was consistent with the increase in available on-campus housing and the number of students living on campus with 6.5% more room fee-paying students living on campus and 5.5% more board fee-paying students. Fees charged for both room and board increased approximately 5.3% in fiscal year 2004.

- The largest source of revenue, state appropriation including fringe benefits, increased $16.6 million, a 6.5% increase, after two years of slight declines; it is included in the nonoperating section. The State also provides state debt service commitment for the interest payments made annually on general obligation bonds. State debt service commitment for interest revenue is also included with nonoperating revenues and corresponds to the total interest paid and accrued on general obligation bonds. Effectively, this revenue offsets a significant portion of interest expense each year. Also, as general obligation bonds are issued (see Note 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. This results in revenue that is recorded as a capital addition and totaled $81.7 million in fiscal year 2005 ($91.6 million in fiscal year 2004).

- Gift revenue, both capital and noncapital, is derived from gifts made directly to the University and from the Foundation and Law School Foundation. These spendable funds are provided to the University for educational, cultural, recreational, and research activities. Both the 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, including capital gifts, received by the University from both Foundations totaled approximately $19.6 million in fiscal year 2005 compared to $16.3 million in fiscal year 2004. Both Foundations also paid approximately $5.7 million in fiscal year 2005 ($4.2 million in fiscal year 2004) to third parties on behalf of the University. This amount is not reflected in the University's financial statements. In addition, the University also receives gifts directly. Total nonoperating gifts and capital gifts and grants revenue to the University from all sources amounted to $24.5 million and $23.6 million in fiscal years 2005 and 2004, respectively.

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



* Shown here at gross amounts, not netted for student financial aid totalling $61.6 million.

Expenses

The following table summarizes operating and nonoperating expenses and capital deductions for the fiscal years ended June 30, 2005, 2004 and 2003:

	2005	2004	2003
Operating expenses:			
Instruction	$ 227,084,420	$ 200,872,187	$ 210,682,856
Research	64,364,998	61,993,855	56,170,809
Auxiliary enterprises	116,021,275	102,573,786	93,185,331
Depreciation	84,508,242	69,594,696	63,402,505
Other	241,322,949	213,295,169	208,146,323
Total operating expenses	733,301,884	648,329,693	631,587,824
Nonoperating expenses:			
Interest expense	41,864,618	37,817,551	39,794,329
Other nonoperating expense, net (see *Revenue* section above for 2003)	3,254,416	6,802,412	-
Total nonoperating expenses	45,119,034	44,619,963	39,794,329
Capital deductions:			
Disposal of property and equipment, net	511,441	4,190,358	2,454,738
Capital other, net	33,072,921	19,566,305	2,405,030
Total capital deductions	33,584,362	23,756,663	4,859,768
Total expenses	$ 812,005,280	$ 716,706,319	$ 676,241,921

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, utilities, and supplies and other expenses (see Note 12 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.

- **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 missions 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.

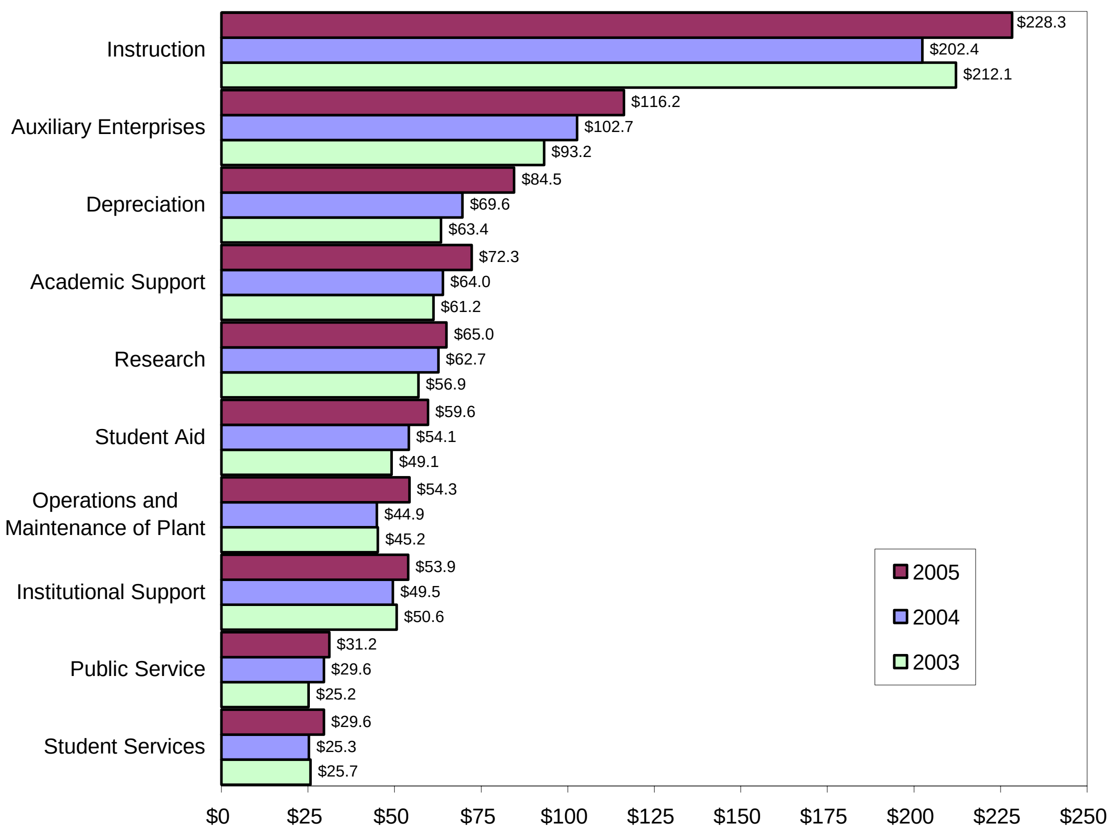
- **Institutional Support:** The institutional support function consists of those activities within the University that provide campus-wide support to the other functions. Institutional support includes executive management concerned with management and long-range planning of the entire institution, 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 sales and services of auxiliary enterprises.

- **Auxiliary Enterprises:** An auxiliary enterprise is an entity that exists to furnish goods or services to students, faculty, or staff, and 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.)



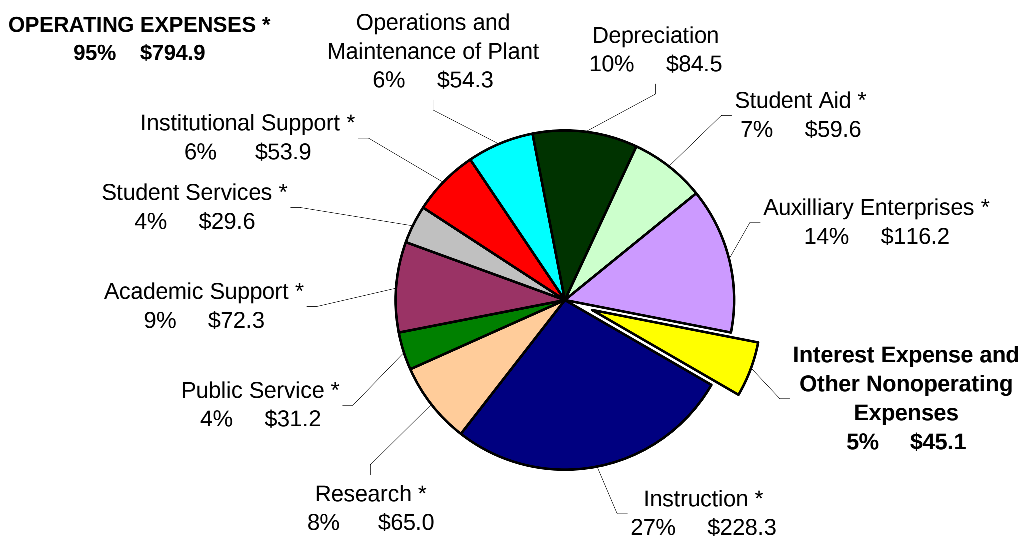
Highlights of expenses, including operating and nonoperating expenses and capital deductions, presented on the Statements of Revenues, Expenses, and Changes in Net Assets are as follows:

- Instruction, the University's largest operating expense, increased $26.2 million (13.0%) in fiscal 2005, primarily due to hiring 116 full-time faculty and staff beginning in August, 2004, to replace ERIP employees from the prior year. The change also reflects an average compensation increase for the bargaining units of approximately 5% and an increase in supplies, commodities and other expenditures. The decrease in instruction for fiscal year 2004 was primarily due to ERIP, which resulted in a net reduction of approximately 102 full-time faculty and related staff. The $9.8 million (4.7%) decrease also related to bargaining unit concessions that provided for no increase in compensation during the fiscal year.
- In fiscal year 2005, research expenses increased $2.4 million or 3.8% ($5.8 million or 10.4% in fiscal year 2004). 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.
- Academic support grew 13.0% in fiscal year 2005, with a significant increase of $7.3 million in salaries, wages and fringe benefits as a result of contractual increases and a 7.5% staffing increase of approximately 38 staff. Academic support grew 4.6% in fiscal year 2004 due to a significant increase of $4.0 million in supplies, commodities and other expenditures primarily related to computer costs.
- Operations and maintenance of plant increased $9.4 million (21%) in fiscal year 2005. Electricity and gas were the two major energy sources for the University and while consumption of energy only increased 1.0%, gas prices increased 40% and electricity rates remained constant. In addition, the hiring of 18 staff and contractual increases of approximately 5% contributed to an increase in salaries, wages and fringe benefits of $2.8 million (14.4%). In fiscal year 2004, operations and maintenance of plant lost 42 staff, net of re-hiring, due to ERIP. This resulted in a decrease in salaries of $1.3 million (8.7%).
- Auxiliary enterprises expenditures increased 13.1% in fiscal year 2005, primarily due to contractual salary increases and the hiring of 18 additional staff to replace many of those lost from ERIP. Total salaries, wages and fringe benefits increased $6.8 million, contributing to half of the total increase in auxiliary enterprises. Supplies, commodities and other and utilities expenditures increased $6.7 million resulting from the significant rate increase in gas prices (see above). Auxiliary enterprises expenditures increased 10.1% in fiscal year 2004, primarily due to a significant increase in supplies, commodities and other expenditures resulting from additional dormitories which included an increased design capacity of 1,155 beds.
- During fiscal year 2005, the tenth year of UCONN 2000 (see Note 4), the University recorded additions of $146.1 million ($182.3 million in fiscal year 2004) in property and equipment. These significant additions contributed to a 21.4% or $14.9 million increase in depreciation expense in fiscal year 2005 (9.8% or $6.2 million in fiscal year 2004).
- Other nonoperating expenditures totaled $3.3 million ($6.8 million in fiscal 2004) and primarily consisted of certain legal fees and matters of a nonrecurring nature.
- In fiscal year 2005, capital other includes several items discussed in Note 3 including: $21.1 million for work to correct certain deficiencies in the construction of three residential facilities and $5.1 million that was additionally accrued as an estimate to complete a project to remediate and close an existing landfill. In fiscal year 2004, capital other included several items including: $16.0 million that was expended for and estimated to complete a project to remediate and close an existing landfill, and $2.3 million for additional construction on an existing building which did not increase the value of the building.

Total operating expenses were $733.3 million and $648.3 million in fiscal years 2005 and 2004, respectively, netted for scholarship aid totaling $61.6 million and $56.4 million, respectively. Note 12 to the financial statements details operating expenses by object (natural classification), and shows an increase in salaries and wages of 8.5%. This resulted from an approximate 5.0% staff and contractual wage increase and a 6.2% increase in the number of full-time equivalent staff. Fringe benefits increase significantly commensurate with the increase in salaries and wages, and increased charges from the State for these benefits. In fiscal year 2004, notable savings in salaries and wages totaling $7.6 million, a 2.2% decrease over fiscal year 2003, resulted because of a net decrease of approximately 187 full-time equivalent staff.

The pie chart below illustrates operating expenses by function, not netted for financial aid (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 2005 ($ in Millions)
Total $840.0



* 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 preparing the Statements of Revenues, Expenses, and Changes in Net Assets. These statements show revenues and expenses when incurred, not necessarily when cash is received or used. The Statements of Cash Flows, on the other hand, show cash inflows and outflows without regard to accruals. The Statements of Cash Flows have four additional sections including: cash flows from noncapital financing activities including state appropriations, gifts and other nonoperating revenue and expenses; cash flows from capital financing activities that reflect the cash received and used by the University for financing, principally capital in nature, capital grants and gifts, and state debt service commitments for principal and interest; cash flows from investing activities showing the purchases, proceeds and interest received from investing activities; and a reconciliation of operating loss reflected on the Statements of Revenues, Expenses, and Changes in Net Assets to net cash used in operating activities.

Condensed Statements of Cash Flows for the years ended June 30, 2005, 2004 and 2003 follow:

	2005	2004	2003
Cash provided from operating activities	$ 404,334,978	$ 377,095,549	$ 335,888,635
Cash used in operating activities	(631,845,992)	(571,556,079)	(564,812,353)
Net cash used in operating activities	(227,511,014)	(194,460,530)	(228,923,718)
Net cash provided from noncapital financing activities	278,575,069	261,530,023	277,552,963
Net cash used in capital financing activities	(27,467,778)	(91,348,331)	(115,364,868)
Net cash provided from (used in) investing activities	(13,473,856)	54,232,258	73,261,624
Net increase in cash and cash equivalents	$ 10,122,421	$ 29,953,420	$ 6,526,001

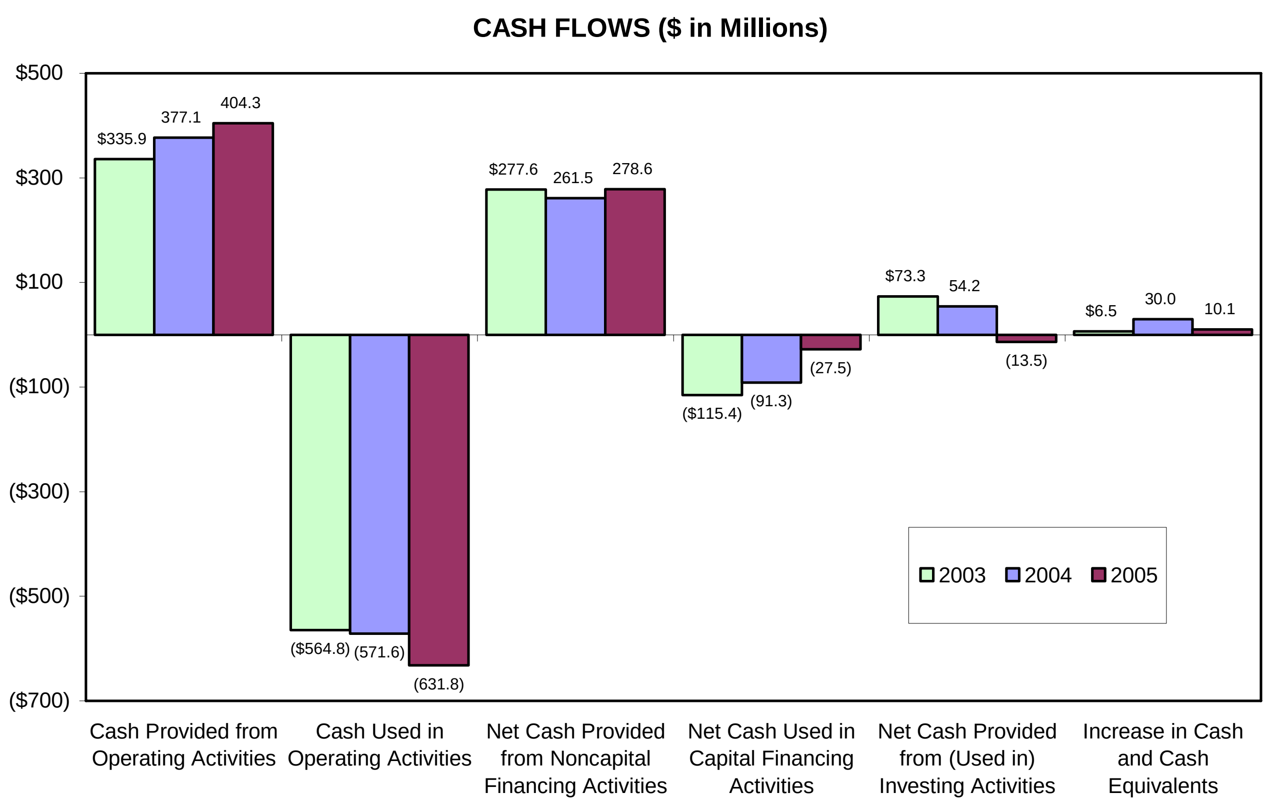
Net cash used in operating activities was $227.5 million and $194.5 million in fiscal years 2005 and 2004, respectively, and is consistent with the operating loss discussed earlier after adding back depreciation (a noncash expense), the major difference between the two statements. GASB requires that cash flows from noncapital financing activities include State appropriations and noncapital gifts. Cash flows from these activities totaled $278.6 million in fiscal year 2005 ($261.5 million in fiscal year 2004), a $17.1 million increase from 2004.

Cash flows used in capital financing activities were $27.5 million and $91.3 million in fiscal years 2005 and 2004, respectively. The major difference between fiscal years 2005 and 2004 was a decrease in the amount of additions to property and equipment of $71.9 million and an increase in capital other for payments to correct certain deficiencies in the construction of three residential facilities. There were no significant changes between fiscal years 2004 and 2003 except for a decrease in the amount of additions to property and equipment of $24.1 million.

Cash of $13.5 million was used in fiscal year 2005 for investing activities as compared to $54.2 million provided from these activities in fiscal year 2004, primarily because of an increase of $16.6 million in deposit with bond trustee in fiscal year 2005, and a decrease in deposit with bond trustee of $55.3 in fiscal year 2004 for transfers to pay for authorized capital projects.

An Accompanying Schedule of Non-Cash Transactions is included with the Statements of Cash Flows and represents certain non-cash items including capital leases.

Total cash and cash equivalents increased $10.1 million and $30.0 million in fiscal years 2005 and 2004, respectively, as a result of these activities. The following bar graph shows the cash flows from and used by major categories and as described in the preceding paragraphs:



FINANCIAL STATEMENTS

UNIVERSITY OF CONNECTICUT
STATEMENTS OF NET ASSETS
As of June 30, 2005 and 2004

	2005	2004
ASSETS		
Current Assets		
Cash and cash equivalents	$ 170,827,965	$ 160,699,557
Accounts receivable, net	28,141,674	24,290,498
Student loans receivable, net	2,347,199	2,229,432
Due from State of Connecticut	33,282,383	29,961,594
Due from related agencies	1,016,114	517,122
State debt service commitment	64,445,681	59,644,964
Inventories	2,260,602	2,179,004
Deposit with bond trustee	47,877,543	31,271,571
Deferred charges	815,786	817,856
Other assets	49,741	49,168
Total Current Assets	351,064,688	311,660,766
Noncurrent Assets		
Cash and cash equivalents	1,443,678	1,449,665
Investments	12,588,877	11,514,353
Student loans receivable, net	9,217,395	10,083,238
State debt service commitment	715,382,147	669,657,147
Property and equipment, net of accumulated depreciation	1,507,144,640	1,446,108,537
Deferred charges	9,645,395	9,150,740
Total Noncurrent Assets	2,255,422,132	2,147,963,680
Total Assets	$ 2,606,486,820	$ 2,459,624,446
LIABILITIES		
Current Liabilities		
Accounts payable and accrued liabilities	$ 23,095,948	$ 23,642,019
Deferred income	22,174,239	25,394,070
Wages payable	36,057,682	31,866,498
Compensated absences	17,687,775	13,380,726
Due to the State of Connecticut	12,036,129	10,132,913
Due to Affiliate (See Note 4)	16,253,127	-
Due to related agencies	11,129	47,173
Current portion of long-term debt and bonds payable	61,020,400	55,966,581
Other current liabilities	44,606,264	20,911,242
Total Current Liabilities	232,942,693	181,341,222
Noncurrent Liabilities		
Compensated absences	7,148,566	8,404,423
Deposits held for others	3,106,185	2,349,683
Long-term debt and bonds payable	984,070,589	902,267,349
Refundable for federal loan program	9,761,861	9,742,791
Total Noncurrent Liabilities	1,004,087,201	922,764,246
Total Liabilities	$ 1,237,029,894	$ 1,104,105,468
NET ASSETS		
Invested in capital assets, net of related debt	$ 1,229,952,094	$ 1,206,280,804
Restricted nonexpendable	12,532,244	10,904,207
Restricted expendable		
Research, instruction, scholarships and other	9,894,092	9,929,683
Loans	3,283,317	3,314,153
Capital projects	10,718,251	12,811,778
Debt service	11,400,800	10,793,674
Unrestricted (See Note 13)	91,676,128	101,484,679
Total Net Assets	$ 1,369,456,926	$ 1,355,518,978

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, 2005 and 2004

	2005	2004
OPERATING REVENUES		
Student tuition and fees (Net of scholarship allowances of $60,353,123 for 2005 and $55,028,975 for 2004. Revenues totaling approximately $27,308,000 for 2005 and $24,230,000 for 2004 are used as security for revenue bonds. See Note 4)	$ 159,054,150	$ 141,573,265
Federal grants and contracts	86,277,144	78,454,917
State and local grants and contracts	16,879,914	17,486,752
Nongovernmental grants and contracts	9,293,290	7,952,256
Sales and services of educational departments	13,755,026	12,166,016
Sales and services of auxiliary enterprises (Net of scholarship allowance of $1,240,886 for 2005 and $1,386,360 for 2004. Net revenues totaling approximately $11,184,000 for 2005 and $17,195,000 for 2004 are used as security for revenue bonds. See Note 4)	113,537,985	104,784,446
Other sources (Net revenues totaling approximately $2,973,000 for 2005 and $3,098,000 for 2004 are used as security for revenue bonds. See Note 4)	10,007,008	9,007,326
Total Operating Revenues	408,804,517	371,424,978
OPERATING EXPENSES		
Educational and general		
Instruction	227,084,420	200,872,187
Research	64,364,998	61,993,855
Public service	31,076,037	29,480,541
Academic support	72,213,723	63,932,206
Student services	29,365,354	24,958,903
Institutional support	53,927,431	49,439,568
Operations and maintenance of plant	54,321,765	44,935,019
Depreciation	84,508,242	69,594,696
Student aid	418,639	548,932
Auxiliary enterprises	116,021,275	102,573,786
Total Operating Expenses	733,301,884	648,329,693
Operating Loss	(324,497,367)	(276,904,715)
NONOPERATING REVENUES (EXPENSES)		
State appropriation	273,085,313	256,467,347
State debt service commitment for interest	32,332,930	27,852,310
State match to endowment	994,759	-
Gifts	15,290,616	15,319,152
Investment income (Income totaling approximately $136,000 for 2005 and $169,000 for 2004 are used as security for revenue bonds. See Note 4)	4,551,132	2,388,513
Interest expense	(41,864,618)	(37,817,551)
Other nonoperating expenses, net	(3,254,416)	(6,802,412)
Net Nonoperating Revenues	281,135,716	257,407,359
Loss Before Capital Additions (Deductions)	(43,361,651)	(19,497,356)
CAPITAL ADDITIONS (DEDUCTIONS)		
State debt service commitment for principal	81,720,000	91,635,000
Capital grants and gifts	9,163,961	8,243,365
Disposal of property and equipment, net	(511,441)	(4,190,358)
Capital other	(33,072,921)	(19,566,305)
Total Capital Additions	57,299,599	76,121,702
Increase in Net Assets	13,937,948	56,624,346
NET ASSETS		
Net Assets-beginning of year	1,355,518,978	1,298,894,632
Net Assets-end of year	$ 1,369,456,926	$ 1,355,518,978

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

UNIVERSITY OF CONNECTICUT
STATEMENTS OF CASH FLOWS
For the Years Ended June 30, 2005 and 2004

	2005	2004
CASH FLOWS FROM OPERATING ACTIVITIES		
Tuition and fees	$ 157,804,293	$ 139,314,738
Research grants and contracts	112,133,562	105,113,017
Sales and services of auxiliary enterprise	110,385,894	108,582,720
Sales and services of educational departments	12,780,163	12,449,139
Payments to suppliers	(168,245,500)	(152,699,572)
Payments to employees	(350,734,432)	(326,140,676)
Payments for benefits	(112,866,060)	(92,715,831)
Other receipts, net	11,231,066	11,635,935
Net Cash Used in Operating Activities	(227,511,014)	(194,460,530)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
State appropriations	269,506,835	254,230,692
Gifts	15,824,136	15,163,655
Other nonoperating expenses, net	(6,755,902)	(7,864,324)
Net Cash Provided from Noncapital Financing Activities	278,575,069	261,530,023
CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES		
Proceeds from bonds	100,000,000	100,000,000
State debt service commitment	79,917,211	67,549,554
Purchases of property and equipment	(108,089,182)	(179,952,803)
Principal paid on debt and bonds payable	(55,938,135)	(50,809,512)
Interest paid on debt and bonds payable	(42,004,690)	(35,059,743)
Capital grants and gifts	6,245,422	6,262,403
Capital other	(7,598,404)	661,770
Net Cash Used in Capital Financing Activities	(27,467,778)	(91,348,331)
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of investments, net	(593,645)	(3,437,229)
Interest on investments	3,725,760	2,339,307
Deposits with bond trustee	(16,605,971)	55,330,180
Net Cash Provided from (Used in) Investing Activities	(13,473,856)	54,232,258
INCREASE IN CASH AND CASH EQUIVALENTS	10,122,421	29,953,420
BEGINNING CASH AND CASH EQUIVALENTS	162,149,222	132,195,802
ENDING CASH AND CASH EQUIVALENTS	$ 172,271,643	$ 162,149,222

ACCOMPANYING SCHEDULE OF NON-CASH TRANSACTIONS

	2005	2004
Obligations under capital leases	$ 38,516,348	$ 18,728,006

RECONCILIATION OF OPERATING LOSS TO NET CASH USED IN OPERATING ACTIVITIES

	2005	2004
Operating Loss	$ (324,497,367)	$ (276,904,715)
Adjustments to Reconcile Operating Loss to Net Cash Used in Operating Activities:		
Depreciation expense	84,508,242	69,594,696
Changes in Assets and Liabilities:		
Receivables, net	(2,254,237)	3,993,182
Inventories	(81,598)	(119,029)
Other assets	(574)	(5,610)
Accounts payable	15,126,733	4,743,083
Deferred revenue	(3,219,831)	2,145,578
Deferred charges	59,134	105,351
Deposits	756,503	211,010
Due from state	1,903,215	1,634,324
Due from related agencies	(535,036)	(114,051)
Other liabilities	(24,273)	467,688
Loans to students and employees	748,075	(212,037)
Net Cash Used in Operating Activities	$ (227,511,014)	$ (194,460,530)

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

UNIVERSITY OF CONNECTICUT
COMPONENT UNIT
THE UNIVERSITY OF CONNECTICUT LAW SCHOOL FOUNDATION, INC.

STATEMENTS OF FINANCIAL POSITION
AS OF JUNE 30, 2005 AND 2004

	2005	2004
ASSETS		
Current Assets		
Cash and cash equivalents	$ 921,632	$ 772,289
Investments	13,094,399	10,299,000
Pledges receivable, net of allowance	1,863,778	1,983,157
Prepaid expenses	12,878	12,878
Other receivables	43,296	32,229
Total Current Assets	15,935,983	13,099,553
Property and equipment, net of accumulated depreciation of $67,911 for 2005 and $66,320 for 2004	316	1,907
Total Assets	$ 15,936,299	$ 13,101,460
LIABILITIES AND NET ASSETS		
LIABILITIES		
Current Liabilities		
Accounts payable	$ 2,880	$ 34,169
Due to University of Connecticut Law School Alumni Association	23,653	23,653
Total Liabilities	26,533	57,822
NET ASSETS		
Unrestricted	1,372,678	1,007,536
Temporarily restricted	3,879,318	3,153,982
Permanently restricted	10,657,770	8,882,120
Total Net Assets	15,909,766	13,043,638
Total Liabilities and Net assets	$ 15,936,299	$ 13,101,460

STATEMENTS OF ACTIVITITES
For the Years Ended June 30, 2005 and 2004

	Unrestricted	Temporarily Restricted	Permanently Restricted	2005 Total	2004 Total
REVENUES AND SUPPORT					
Contributions	$ 471,374	$ 123,525	$ 1,775,650	$ 2,370,549	$ 764,467
Interest and dividends	52,081	240,083	-	292,164	247,156
Realized and unrealized gains and losses	395,063	740,365	-	1,135,428	1,361,313
Net assets released from restrictions	378,637	(378,637)	-	-	-
Total Revenues and Support	1,297,155	725,336	1,775,650	3,798,141	2,372,936
EXPENSES					
Program Expenses					
Scholarships and awards	17,687	-	-	17,687	77,984
Student support and faculty support	460,184	-	-	460,184	248,868
Alumni and graduate relations	109,462	-	-	109,462	121,275
Total Program Expenses	587,333			587,333	448,127
Support Expenses					
Management and general	279,835	-	-	279,835	293,422
Fundraising	64,845	-	-	64,845	48,869
Total Support Expenses	344,680	-	-	344,680	342,291
Total Expenses	932,013	-	-	932,013	790,418
Changes in Net Assets	365,142	725,336	1,775,650	2,866,128	1,582,518
Net Assets-beginning of year	1,007,536	3,153,982	8,882,120	13,043,638	11,461,120
Net Assets-end of year	$ 1,372,678	$ 3,879,318	$ 10,657,770	$ 15,909,766	$ 13,043,638

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

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NOTES TO FINANCIAL STATEMENTS

Notes to Financial Statements
For the Years Ended June 30, 2005 and 2004

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, 2005 and 2004 represents the transactions and balances of the University, here defined as all programs except the Health Center.

Two related, but independent, corporate entities support the mission of the University: The University of Connecticut Foundation, Inc. (Foundation) and The University of Connecticut Law School Foundation, Inc. (Law School Foundation). These Foundations raise funds to promote, encourage, and assist education and research at the University and the Health Center.

Governmental Accounting Standards Board (GASB) Statement No. 14, *The Financial Reporting Entity*, as amended by Statement No. 39, *Determining Whether Certain Organizations Are Component Units*, requires that legally separate and tax exempt entities be presented as component units of the reporting entity if it meets all of the following criteria: the economic resources of the organization are entirely or almost entirely for the direct benefit of the reporting unit; the reporting unit is entitled to access all or a majority of the economic resources received or held by the organization; and the economic resources received or held by the organization are significant to the reporting unit. As a result, the Law School Foundation, which is organized for the benefit of the University and whose economic resources can only be used by or for the benefit of the University, is included as a component with the University.

The Foundation materially supports the mission of the University and the Health Center, which are both separately audited, producing their own financial statements. Displaying the Foundation's financial statements as a component unit of either the University or the Health Center would distort its actual contribution or economic benefit to that entity, and therefore, the Foundation is not included as a component unit in the accompanying financial statements.

Financial Statement Presentation

The financial statements have been prepared using the economic resources measurement focus in accordance with accounting principles generally accepted in the United States of America, as prescribed by the GASB. The University has the option to apply Financial Accounting Standards Board (FASB) pronouncements issued after November 30, 1989, unless the FASB conflicts with GASB. The University has elected to not apply FASB pronouncements issued after the applicable date.

Effective July 1, 2001, the University adopted GASB Statement No. 35, *Basic Financial Statements - and Management's Discussion and Analysis - for Public Colleges and Universities*, as amended by GASB Statements Nos. 37 and 38. GASB Statement No. 35 establishes standards for financial reporting for public colleges and universities. The new reporting standards focus on the University as a whole rather than on accountability by individual fund groups and provide accounting and financial reporting guidelines, enhancing the usefulness and comprehension of financial reports by external users. To that end, GASB requires that resources be classified for accounting and reporting purposes into the following three 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 13).

The University adopted GASB Statement No. 40, *Deposit and Investment Risk Disclosures*, as of July 1, 2004. This statement requires disclosure of credit risk associated with cash deposits and investment balances, and investment policies applied to mitigate such risks. Specific disclosures are included in Note 2.

The University follows the “business-type activities” (BTA) requirements of GASB 35. BTAs are defined as those that are financed in whole or in part by fees charged to external parties for goods or services. All significant intra-agency transactions have been eliminated.

Certain reclassifications were made to the Statements of Cash Flows for the year ended June 30, 2004 to reflect non-cash transactions in an Accompanying Schedule of Non-Cash Transactions, that were originally included in the cash flows from capital financing activities section. The net cash used in capital financing activities for the year ended June 30, 2004 did not change as a result of this reclassification.

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 and GASB Statement No. 40. Changes in unrealized gain (loss) on the carrying value are recorded in Nonoperating Revenues (Expenses) in the accompanying Statements of Revenues, Expenses, and Changes in Net Assets. Noncurrent investments are externally restricted by donors or outside sources that have stipulated as a condition of the gift instrument that the principal be maintained inviolate and in perpetuity. Noncurrent investments also include amounts restricted by creditors for certain debt service payments (see Note 4).

Accounts Receivable

Accounts receivable consist of tuition, fees, and auxiliary enterprises service fees charged to students, faculty, staff and others, and amounts due from state and federal governments for grants and contracts. Accounts receivable are recorded net of an estimated allowance for 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 also 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 remaining proceeds 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 9)
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 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 and fair value at date of donation as in the case of gifts. Property and equipment that are exchanged for other assets are recorded based on the fair value of the asset given up or the fair value of the asset received, whichever value is most clearly evident. Renovations that significantly increase the value or useful life of an asset are capitalized. Routine repairs and maintenance 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 9)
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 6)
Employee vacation and sick leave is accrued at year-end for financial statement purposes. The liability and expense incurred are recorded at year-end as compensated absences in the Statements of Net Assets and in the various expense functions on the Statements of Revenues, Expenses, and Changes in Net Assets. The liability for compensated absences is also classified as current and noncurrent based on the amount estimated to be paid to employees in one year and beyond one year.

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

Revenues and Expenses
Operating revenues consist of tuition and fees, state and federal grants and contracts, sales and services of educational activities, auxiliary enterprises revenue and other sources of revenue. GASB Statement No. 33 requires recipients of government-mandated and voluntary nonexchange transactions to recognize revenue when all applicable eligibility requirements are met for these transactions. Restricted grant revenue that does not meet the nonexchange transaction definition is recognized to the extent expended or in the case of fixed price contracts, when the contract terms are met or completed.

Operating expenses, except for depreciation, are reported using functional classification, including those under educational and general and auxiliary enterprises. See Note 12 for operating expenses by object. All other revenues and expenses of the University are reported as nonoperating revenues and expenses including State appropriations and debt service commitment, noncapital gifts, investment income, and interest expense; and capital additions (deductions). Revenues are recognized when earned and expenses are recognized when incurred.

GASB No. 35 requires that revenues be reported net of discounts and scholarship allowances.

Component Unit

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

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

Contributions, including unconditional promises to give, are recognized as revenue in the period received. Conditional promises to give are not recognized as revenue until the conditions on which they depend are substantially met. Investments are reported at fair value based upon quoted market prices.

2. CASH AND CASH EQUIVALENTS AND INVESTMENTS

Statement No. 40 of the GASB requires governmental entities to disclose credit risk associated with cash deposits and investment balances, and investment policies applied to mitigate such risks, especially as it relates to uninsured and unregistered investments for which the securities are held by the broker or dealer, or by its trust department or agent, but not in the University's name.

The University's cash and cash equivalents, current and noncurrent, balance was $172,271,643 and $162,149,222, as of June 30, 2005 and 2004, respectively and included the following:

	2005	2004
Cash maintained by State of Connecticut Treasurer	$ 149,129,420	$ 138,869,476
Invested in State of Connecticut Investment Pool	16,603,116	16,097,944
Invested in State of Connecticut Investment Pool - Endowments	1,443,678	1,449,665
Invested in Short-term Corporate Notes	4,354,070	5,324,415
Deposits with Financial Institutions and Other	741,359	407,722
Total cash and cash equivalents	172,271,643	162,149,222
Less: current balance	170,827,965	160,699,557
Total noncurrent balance	$ 1,443,678	$ 1,449,665

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 to at least a certain percentage of its public deposits. The applicable percentage is determined based on the bank's risk-based capital ratio – a measure of the bank's financial condition. The collateral is kept in the custody of the trust department of either the pledging bank or another bank in the name of the pledging bank. Portions of the bank balance of the State of Connecticut 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 Treasurer's Short Term Investment Fund, United States Treasury bills, United States Treasury notes and bonds, United States Government Agency obligations, banker's acceptances, certificates of deposit (including EURO Dollars), commercial paper, money market funds, repurchase agreements, and savings accounts. The $16,603,116 and $1,443,678 invested in the State of Connecticut Investment Pool is invested by the State Treasurer in its Short-term Investment Fund and had a Standard and Poor's rating of AAA during fiscal year 2005. The $4,354,070 invested in Short-term Corporate Notes includes repurchase agreements held with a financial institution and is collateralized by the Federal National Mortgage Association with an A1 Standard and Poor's rating.

The University designated the Foundation as the manager of the University's endowment funds. Gifts that are internally designated as endowments, and externally designated endowment gifts that are to be processed for transfer to the Foundation, are included in cash and cash equivalents (see table on previous page for total amounts). The Foundation makes spending allocation distributions to the University for each participating endowment. The distribution is spent by the University in accordance with the respective purposes of the endowments 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% (4% 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. 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:

	2005		**2004**	
	Cost	**Fair Value**	**Cost**	**Fair Value**
Endowments:				
Foundation Managed	$ 8,880,948	$ 11,081,107	$ 7,671,266	$ 9,441,282
Corporate Bonds	8,000	7,460	12,000	11,260
Other:				
U.S. Government Agency Securities (AAA rated securities; see Note 4)	1,500,000	1,500,310	2,100,000	2,061,811
Total Investments	$ 10,388,948	$ 12,588,877	$ 9,783,266	$ 11,514,353

University endowment investments are managed by the Foundation in its pooled portfolio, which is actively managed by professional investment managers as determined by the Investment Committee of the Foundation's Board of Directors. The Foundation has established asset allocation guidelines for its pooled investment portfolio, which provides that the maximum exposure with any one manager would be 20%. The Foundation Board of Directors also established an asset allocation policy for the long-term pooled investment portfolio (see following table). The Foundation expects that cash equivalents will be kept to a minimum level and that portfolios will be invested in only the assets described in the table, not above or below the individual asset class percentage and its total percentage by group, unless otherwise specified by its Investment Committee.

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

The endowments invested with the Foundation are subject to custodial credit risk due to the uncollateralized nature of most of its investments. Certain investments of the Foundation include external investment pools. The bond mutual funds had average credit quality of AAA and pooled investments of fixed income an average credit quality of B2/B+ (Moody's and Standard and Poor's). A portion of the University's endowment pool is also invested with ICM Asset Management (ICM) in a separate account with Wachovia Bank, NA as custodian and inherent in such investments is custodial credit risk. These investments are all publicly traded U.S. equities and money market and uncollateralized. The value of the equities at June 30, 2005 was $545,118. The money market balance held in the account available for ICM to use for purchases was $39,321. The University's endowment invested by the Foundation also has investments in foreign publicly traded equities totaling $2,618,810 and there are amounts included in private capital investments totaling about $79,000.

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 $12,306,178 and $12,270,725 as of June 30, 2005 and 2004, 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, 2005 and 2004 was $493,585 and $414,472, respectively.

3. PROPERTY AND EQUIPMENT

Land, buildings, non-structural improvements, and equipment (including library materials) are reported at cost at date of acquisition or fair value at date of donation as in the case of gifts. Property and equipment that are exchanged for other assets are recorded based on the fair value of the asset given up or the fair value of the asset received, whichever value is most clearly evident. Any gains or losses on the exchange are recognized immediately.

Depreciation 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. Library materials have an estimated useful life of 15 years. The value of library materials, before depreciation, is $67,273,101 and $62,589,124 at June 30, 2005 and 2004, respectively, and is included in equipment in the following table of the changes in property and equipment. Historical collections and art are recognized at their estimated fair values at the time of donation. Historical collections and art totaled $45,692,867 and $44,731,368 at June 30, 2005 and 2004, respectively, and is included in equipment in the analysis of changes in property and equipment. Historical collections and art are not depreciated.

In the accompanying Statements of Revenues, Expenses, and Changes in Net Assets in capital other a total of $6,838,423 and $15,959,906 was expensed in fiscal years 2005 and 2004, respectively, for a project to begin the closure and remediation of an existing landfill which involves capping and diversion of water from its vicinity. Expenditures to date primarily include professional fees, preparation for capping and contouring of surrounding land. An accrual for estimated expenditures to complete this project totaling $10,060,000 at June 30, 2005 ($5,000,000 at June 30, 2004) is recorded in other current liabilities in the Statement of Net Assets.

For the year ended June 30, 2005, a total of $21,136,756 was expensed in the accompanying Statements of Revenues, Expenses, and Changes in Net Assets in capital other for work to correct certain deficiencies in the construction of three residential facilities. Included in this amount is an accrual for $18,026,415 for work remaining to be completed, which is recorded in other current liabilities in the Statement of Net Assets. While the University is pursuing recovery of these costs, the outcome is unknown as of the date of these Financial Statements. These expenditures will not increase the value of the buildings or extend their useful lives. Due to limited vacancies projected for these buildings during the corrective construction, no impairment is anticipated to these assets.

The following table describes the changes in property and equipment for the years ended June 30, 2005 and 2004.

Changes in Property and Equipment for the Year Ended June 30, 2005:

	Balance July 1, 2004	Additions	Retirements	Transfers and Other	Balance June 30, 2005
Property and equipment:					
Land	$ 14,177,498	$ 654,000	$ (24,651)	$ -	$ 14,806,847
Non-structural Improvements	153,621,148	8,323,433	-	3,731,970	165,676,551
Buildings	1,217,486,371	50,924,482	(90,221)	71,835,230	1,340,155,862
Equipment	367,908,752	31,917,673	(6,392,969)	-	393,433,456
Construction in Progress	163,535,121	54,236,198	-	(75,567,200)	142,204,119
Total property and equipment	1,916,728,890	146,055,786	(6,507,841)	-	2,056,276,835
Less accumulated depreciation:					
Non-structural Improvements	45,664,805	6,673,687	-	-	52,338,492
Buildings	247,195,355	46,375,659	(67,065)	-	293,503,949
Equipment	177,760,193	31,458,896	(5,929,335)	-	203,289,754
Total accumulated depreciation	470,620,353	84,508,242	(5,996,400)	-	549,132,195
Property and equipment, net:					
Land	14,177,498	654,000	(24,651)	-	14,806,847
Non-structural Improvements	107,956,343	1,649,746	-	3,731,970	113,338,059
Buildings	970,291,016	4,548,823	(23,156)	71,835,230	1,046,651,913
Equipment	190,148,559	458,777	(463,634)	-	190,143,702
Construction in Progress	163,535,121	54,236,198	-	(75,567,200)	142,204,119
Property and equipment, net:	$ 1,446,108,537	$ 61,547,544	$ (511,441)	$ -	$ 1,507,144,640

Changes in Property and Equipment for the Year Ended June 30, 2004:

	Balance July 1, 2003	Additions	Retirements	Transfers and Other	Balance June 30, 2004
Property and equipment:					
Land	$ 12,112,835	$ 2,243,400	$ (178,737)	$ -	$ 14,177,498
Non-structural Improvements	132,395,462	8,189,225	(1,156,064)	14,192,525	153,621,148
Buildings	1,048,964,028	75,041,534	(6,602,756)	100,083,565	1,217,486,371
Equipment	347,479,651	26,412,443	(5,983,342)	-	367,908,752
Construction in Progress	207,379,720	70,431,491	-	(114,276,090)	163,535,121
Total property and equipment	1,748,331,696	182,318,093	(13,920,899)	-	1,916,728,890
Less accumulated depreciation:					
Non-structural Improvements	40,249,729	5,486,529	(100,428)	28,975	45,664,805
Buildings	211,982,606	37,927,575	(2,685,851)	(28,975)	247,195,355
Equipment	156,639,361	26,180,592	(5,059,760)	-	177,760,193
Total accumulated depreciation	408,871,696	69,594,696	(7,846,039)	-	470,620,353
Property and equipment, net:					
Land	12,112,835	2,243,400	(178,737)	-	14,177,498
Non-structural Improvements	92,145,733	2,702,696	(1,055,636)	14,163,550	107,956,343
Buildings	836,981,422	37,113,959	(3,916,905)	100,112,540	970,291,016
Equipment	190,840,290	231,851	(923,582)	-	190,148,559
Construction in Progress	207,379,720	70,431,491	-	(114,276,090)	163,535,121
Property and equipment, net:	$ 1,339,460,000	$ 112,723,397	$ (6,074,860)	$ -	$ 1,446,108,537

4. LONG-TERM DEBT PAYABLE

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

General obligation bonds issued to finance UCONN 2000 projects as of June 30, 2005 are (see page 35 for outstanding balances):

1996 Series A	$ 83,929,715
1997 Series A	124,392,432
1998 Series A	99,520,000
1999 Series A	79,735,000
2000 Series A	130,850,000
2001 Series A	100,000,000
2002 Series A	100,000,000
2003 Series A	96,210,000
2004 Series A	97,845,000
2005 Series A	98,110,000
Total issued	$ 1,010,592,147

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 in the capital additions (deductions) section of the Statements of Changes in Net Assets totaling $98,110,000 and $97,845,000 for the years ended June 30, 2005 and 2004, respectively, representing the increase in the State's debt service commitment for principal as a result of the issuance of the 2005 and 2004 Series A bonds, respectively.

The total revenue of $98,110,000 recorded as State debt service commitment for principal for the 2005 Series A bonds includes $16,390,000 to finance projects for the Health Center. As noted above, Phase III of UCONN 2000 includes a commitment to fund projects totaling $305,400,000 for the Health Center. As bonds are issued, the amount of the commitment for the Health Center is reflected as an offset to the revenue for the University. In fiscal year 2005, this totaled $16,390,000, resulting in net revenue of $81,720,000 recorded in the capital additions (deductions) section of the Statements of Changes in Net Assets of these financial statements. A corresponding liability is recorded for the unspent portion of the bonds ($16,253,127 at June 30, 2005) in the Statement of Net Assets.

Also, for the years ended June 30, 2005 and 2004, nonoperating revenues include State debt service commitment for interest on general obligation bonds of $32,332,930 and $27,852,310, respectively.

In addition to the 2004 Series A Bonds, in January of 2004 the University issued the Refunding Series A bonds to refund portions of the previously issued Series A General Obligation Bonds in advance of maturity. The face value of the Refunding Bonds is $216,950,000, and these bonds have a final maturity date of January 15, 2020. Proceeds from the sale of the bonds totaled $241,995,672 and comprised the face value plus the net premium and accrued interest, less the costs of issuance and $5,798,606 of other available State funds which represents budgeted fiscal year 2004 debt service for the refunded bonds. The proceeds were deposited with the Escrow Agent into an irrevocable trust fund which will provide amounts sufficient to meet principal, interest payments, and redemption prices on the Refunded Bonds on the dates such payments are due. The escrow is invested in State and Local Government Series securities. The difference between the carrying value of the defeased debt and its reacquisition price (refunding bonds) is amortized over the remaining life of the debt, and the reduction of the face value of the bonds, $6,210,000, is reflected as an expense in fiscal year 2004 (net of the $97,845,000 revenue noted above) on the Statement of Revenues, Expenses, and Changes in Net Assets under State debt service commitment for principal.

The University may also issue Special Obligation bonds backed by certain pledged revenues of the University. Certain Special Obligation bonds may also be secured by the State's Special Capital Reserve Fund, which enables State funds to be used to pay debt service if the University does not meet its obligation. On February 4, 1998, the University issued $33,560,000 of the Student Fee Revenue Bonds 1998 Series A to fund $30,000,000 of the South Campus Project; $2,126,425 (at cost) of a Special Capital Reserve Fund held by the Trustee Bank; and the remainder to pay costs of issuance, including the underwriters' discount. A portion of the Special Capital Reserve Fund is included in noncurrent investments at its fair value and totaled $1,500,310 and $2,061,811at June 30, 2005 and 2004, respectively. The remainder is included in current cash and cash equivalents and totaled $626,425 and $26,425 at June 30, 2005 and 2004, respectively. The bonds have a final maturity of November 15, 2027.

The 2000 Series A bonds dated May 15, 2000 represented the second series of Special Obligation bonds issued in the amount of $89,570,000. Bond proceeds funded three UCONN 2000 projects: Hilltop Dormitory at $21,000,000, Hilltop Student Rental Apartments at $42,000,000, and Parking Garage South at $24,000,000. These bonds were refunded in advance of maturity in fiscal year 2002 with the issuance of Student Fee Revenue Bonds 2002 Refunding Series A on February 27, 2002 in the amount of $96,130,000 and have a final maturity of November 15, 2029. Consistent with general obligation bonds refunding, the proceeds are deposited into an escrow account to meet all obligations.

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

The Special Obligation bonds are secured by certain gross and net pledged revenues of the University, which totaled approximately $41,601,000 and $44,692,000 in fiscal years 2005 and 2004, respectively and are disclosed on the face of the Statements of Revenues, Expenses, and Changes in Net Assets by revenue sources. Gross pledged revenues include the infrastructure maintenance fee and the general university fee plus investment income on the bond accounts held by the Trustee Bank, prior to any payments, deductions, offsets, or provisions. Net pledged revenues include the residential life room fee, student apartment rentals, Greek housing fee, the board (dining) fee, and the parking and transportation 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. Special Obligation bond investment earnings amounted to approximately $136,000 and $169,000 for the fiscal years ending June 30, 2005 and 2004, respectively. The Student Fee Revenue Bonds investment earnings are part of the pledged revenues and are directly retained by the Trustee Bank to pay debt service on the bonds.

The State of Connecticut issues certain general obligation bonds that are categorized as self-liquidating bonds. These bonds were issued to fund the construction and renovations of revenue-generating capital projects. The University reimburses the State primarily with revenue from student fee charges in the amount equal to the debt service on self-liquidating bonds. Self-liquidating bonds outstanding totaled $9,666,673 and $10,871,410 at June 30, 2005 and 2004, respectively.

In December 2003, the University entered into a lease purchase agreement for a project to provide on-site generation of electricity, steam and chilled water for heating and cooling for the University at its Storrs campus. The project initially assumed a total cost of $75,000,000 and included construction of a building, engineering, design and installation of certain equipment at the Storrs campus. The lease was amended in August, 2005 as a result of an increase in the total anticipated cost to $81,900,000. Estimated monthly payments of $471,254 also increased to $517,135. Payments will begin after substantial completion of the construction (anticipated to be completed in calendar year 2006) and mature in 20 years from commencement with interest at a nominal rate of 4.42% on the first $75,000,000 and 5.09% for the last $6,900,000 of advances. During the construction period, which began in November 2003, there are no required lease payments, and interest during this time has been capitalized and added to the principal amount of the advances made. As of June 30, 2005 and 2004, the University owed $57,629,131 and $20,609,266, respectively, for amounts advanced by the lessor, including capitalized interest. This amount is reflected as long-term debt in the accompanying financial statements. The analysis on page 36 of long-term debt scheduled maturities includes what has been advanced to date, amortized over the term of the lease. At the completion of the lease term the University has an option to purchase the project assets for $1.

The University entered into a 12 year operating lease agreement on August 1, 2004, for the School of Business MBA program's new education initiative in downtown Hartford known as the SS&C Technologies Financial Accelerator. As part of the lease, the University entered into a loan agreement with the lessor to borrow up to $3,500,000 for leasehold improvements. The loan is payable monthly over 12 years with interest at 8.0%.

Net unamortized premium, discounts and debt difference due to refundings are recorded as additions to the face value of bonds payable. These amounts are amortized using the straight-line basis over the life of the bonds, reducing interest expense for premiums and increasing it for discounts.

Long-term debt activity, including refunding of debt, for the years ended June 30, 2005 and 2004 was as follows:

Long-term Debt Activity for the Year Ended June 30, 2005:

	Balance July 1, 2004	Additions	Retirements	Balance June 30, 2005	Current Portion
General Obligation Bonds	$ 717,907,147	$ 98,110,000	$ (48,250,000)	$ 767,767,147	$ 52,385,000
Revenue Bonds	193,755,000	-	(3,900,000)	189,855,000	4,030,000
Self Liquidating Bonds	10,871,410	274,800	(1,479,537)	9,666,673	1,307,130
U.S. Dept. of Ed. Towers Loan	1,774,210	-	(39,838)	1,734,372	42,060
Installment Loans	2,504,992	1,659,381	(2,118,792)	2,045,581	814,337
Obligation Under Capital Lease for Cogeneration	20,609,266	37,019,865	-	57,629,131	1,368,592
Financial Accelerator Loan	-	3,500,000	(149,969)	3,350,031	193,625
Total long-term debt	947,422,025	140,564,046	(55,938,136)	1,032,047,935	60,140,744
Premiums/discounts/debt difference due to refunding	10,811,905	2,231,149	-	13,043,054	879,656
Total long-term debt, net	$ 958,233,930	$ 142,795,195	$ (55,938,136)	$ 1,045,090,989	$ 61,020,400

Long-term Debt Activity for the Year Ended June 30, 2004:

	Balance July 1, 2003	Additions	Retirements	Balance June 30, 2004	Current Portion
General Obligation Bonds	$ 669,197,147	$ 314,795,000	$ (266,085,000)	$ 717,907,147	$ 48,250,000
Revenue Bonds	197,525,000	-	(3,770,000)	193,755,000	3,900,000
Self Liquidating Bonds	12,418,259	838,857	(2,385,706)	10,871,410	1,199,751
U.S. Dept. of Ed. Towers Loan	1,811,945	-	(37,735)	1,774,210	39,839
Installment Loans	3,753,831	882,416	(2,131,255)	2,504,992	1,847,410
Obligation Under Capital Lease for Cogeneration	-	20,609,266	-	20,609,266	-
Total long-term debt	884,706,182	337,125,539	(274,409,696)	947,422,025	55,237,000
Premiums/discounts/debt difference due to refunding	-	10,811,905	-	10,811,905	729,581
Total long-term debt, net	$ 884,706,182	$ 347,937,444	$ (274,409,696)	$ 958,233,930	$ 55,966,581

Long-term debt outstanding at June 30, 2005 and 2004 consisted of the following:

Type of Debt and Issue Date	Type of Issue	Principal Payable	Maturity Dates Through Fiscal Year	Interest Rate	Balance 2005	Balance 2004
Bonds:						
GO 1996 Series A	original	various	2011	4.7-5.5%	$ 13,379,715	$ 17,884,715
GO 1997 Series A	original	annually	2009	5.0-5.3%	20,392,432	26,892,432
GO 1998 Series A	original	various	2018	4.2-5.0%	29,850,000	34,825,000
GO 1999 Series A	original	annually	2019	3.95-4.85%	54,000,000	59,000,000
GO 2000 Series A	original	various	2019	4.8-5.375%	47,480,000	55,330,000
GO 2001 Series A	original	various	2021	3.5-5.25%	51,910,000	56,655,000
GO 2002 Series A	original	various	2022	3.4-5.375%	56,315,000	61,315,000
GO 2003 Series A	original	annually	2023	2.0-5.25%	86,490,000	91,210,000
GO 2004 Series A	original	annually	2024	2.0-5.0%	92,950,000	97,845,000
GO 2004 Ref. Series A	refund	annually	2020	2.0-5.0%	216,890,000	216,950,000
GO 2005 Series A	original	annually	2025	3.0-5.0%	98,110,000	-
Total general obligation bonds					767,767,147	717,907,147
Rev 1998 Series A	original	annually	2028	4.1-5.125%	29,140,000	29,845,000
Rev 2002 Ref. Series A	refund	annually	2030	3.5-5.25%	89,770,000	91,425,000
Rev 2002 Series A	original	annually	2030	3.0-5.25%	70,945,000	72,485,000
Total revenue bonds					189,855,000	193,755,000
March 1992	original	various	2007	6.3-6.45%	587,518	587,518
March 1993	original	annually	2012	5.1-5.5%	429,125	484,125
October 1993	refund	various	2012	4.5-6.0%	205,752	213,337
March 1994	original	various	2010	5.2-5.65%	148	148
August 1994	original	various	2009	5.375-5.8%	10	15,126
October 1995	original	annually	2006	5.0-6.0%	76,686	153,372
November 1996	refund	annually	2005	4.6-6.0%	-	201,563
March 1997	original	various	2017	4.625-6.0%	885,000	1,459,786
September 1997	refund	annually	2013	4.3-5.0%	318,146	319,777
February 1998	refund	annually	2015	4.1-5.125%	989,371	991,975
June 2001	refund	various	2016	5.0-5.5%	1,415,418	1,415,418
November 2001	refund	various	2014	3.0-5.125%	2,520,117	2,922,736
June 2002	refund	various	2010	3.0-5.5%	681,448	681,448
August 2002	refund	various	2016	3.0-5.5%	551,867	551,867
April 2003	refund	annually	2007	4.0-6.0%	436	43,971
December 2003	refund	annually	2011	4.4-5.5%	650,763	749,175
April 2004	refund	various	2007	4.5-6.0%	80,068	80,068
April 2005	original	various	2017	4.625-6.0%	274,800	-
Total self-liquidating bonds					9,666,673	10,871,410
Total bonds					967,288,820	922,533,557
Loans and other:						
U.S. Dept. Ed. Towers loan		semi-annually	2027	5.5%	1,734,372	1,774,210
Installment purchases		various	various	2.24-13.63%	2,045,581	2,504,992
Obligation under capital lease for cogeneration		monthly	2026	4.42-5.09%	57,629,131	20,609,266
Financial Accelerator Loan		monthly	2016	8.0%	3,350,031	-
Total loans and other					64,759,115	24,888,468
Total bonds, loans and installment purchases					1,032,047,935	947,422,025
Premiums/discounts/debt difference due to refunding					13,043,054	10,811,905
Total bonds, loans and installment purchases, net					1,045,090,989	958,233,930
Less: current portion, net					61,020,400	55,966,581
Total noncurrent portion, net					$ 984,070,589	$ 902,267,349

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
2006	$ 52,385,000	$ 33,479,516	$ 85,864,516	$ 7,755,744	$ 12,014,738	$ 19,770,482	$ 60,140,744	$ 45,494,254	$ 105,634,998
2007	52,110,000	31,840,034	83,950,034	8,169,870	12,320,844	20,490,714	60,279,870	44,160,878	104,440,748
2008	50,588,792	32,733,526	83,322,318	8,093,322	11,927,837	20,021,159	58,682,114	44,661,363	103,343,477
2009	54,193,640	31,210,115	85,403,755	8,184,600	11,583,120	19,767,720	62,378,240	42,793,235	105,171,475
2010	48,302,274	28,354,723	76,656,997	8,253,050	11,217,112	19,470,162	56,555,324	39,571,835	96,127,159
2011-2015	242,687,441	101,990,063	344,677,504	45,609,198	49,957,224	95,566,422	288,296,639	151,947,287	440,243,926
2016-2020	193,910,000	44,463,369	238,373,369	53,722,549	37,671,973	91,394,522	247,632,549	82,135,342	329,767,891
2021-2025	73,590,000	8,003,641	81,593,641	67,028,162	23,156,442	90,184,604	140,618,162	31,160,083	171,778,245
2026-2030	-	-	-	57,464,293	7,530,413	64,994,706	57,464,293	7,530,413	64,994,706
Total	$767,767,147	$312,074,987	$1,079,842,134	$264,280,788	$177,379,703	$441,660,491	$1,032,047,935	$489,454,690	$1,521,502,625

5. 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 43% 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 373 full-time employees, 82 participate in the State Employees' Retirement System and 291 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.

6. COMPENSATED ABSENCES AND WAGES PAYABLE

Compensated absences include accrued unused vacation and sick leave balances for employees, and at June 30, 2005 totaled $22,684,937 and $2,151,404, respectively, and at June 30, 2004 totaled $19,764,750 and $2,020,399, respectively. During fiscal year 2003, the State of Connecticut offered an Early Retirement Incentive Plan (ERIP) to University employees which is funded by the State and its various retirement plans. By the terms of the ERIP, unused vacation and sick leave will be paid in three equal payments on July 1 of each year, beginning July 1, 2005. While the State has committed to reimburse the University for the amounts due to its employees under ERIP, the University will record these payments as a reduction to the liability as the amounts are received from the State, consistent with the accounting for other State appropriations. Included in the noncurrent compensated absences liability as of June 30, 2005 and 2004 are $2,256,798 for accrued vacation and $919,767 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, 2005 and 2004. 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.

7. POST EMPLOYMENT BENEFITS

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

8. COMMITMENTS

On June 30, 2005, the University had outstanding commitments (over $100,000 each) totaling $36,069,686, which included $26,767,213 of commitments related to capital projects. Of the total amount, $4,984,374 was included in accounts payable at June 30, 2005. In addition to the amount for capital outlay, commitments were also related to research, academic, and institutional support. Of these commitments, the University expects $3,341,140 to be reimbursed by federal grants.

9. DEFERRED INCOME AND CHARGES

Deferred income is comprised of: certain restricted research grants that are not included in revenue until the funds are expended; tuition and fees and auxiliary enterprises fees received in advance of services rendered for summer and fall sessions; athletic ticket sales and commitments received in advance of the season; a contingent grant received for which conditions were not satisfied as of year-end; and other revenues received but not earned. As of June 30, 2005 and 2004 deferred income is as follows:

	2005	**2004**
Certain restricted research grants	$ 7,858,573	$ 8,062,005
Tuition and fees and auxiliary services	9,620,933	10,102,900
Athletic ticket sales and commitments	3,420,499	5,180,160
Contingent grant	500,000	500,000
Other	774,234	1,549,005
Total deferred income	$ 22,174,239	$ 25,394,070

A portion of current deferred charges totaling $601,956 and $544,894 and noncurrent deferred charges totaling $9,645,395 and $9,150,740 at June 30, 2005 and 2004, respectively, represent the cost of issuance on certain bond issues, which will be amortized over the terms of the respective bond issues (see Note 4).

10. 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 certain employees and their dependents. Tuition and fee revenue does not include foregone revenue resulting from tuition waivers. Waivers totaled $33,756,530 and $30,044,499 in fiscal year 2005 and 2004, respectively. In fiscal year 2005, approximately 85% of such waivers were provided to graduate assistants, with 84% in 2004.

11. 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.

12. OPERATING EXPENSES BY OBJECT

The following table details the University's operating expenses by object for the years ended June 30, 2005 and 2004:

Operating Expenses by Object for the Year Ended June 30, 2005

	Instruction	Research	Public Service	Academic Support	Student Services	Institutional Support	Operations and Maintenance of Plant	Depreciation	Student Aid	Auxiliary Enterprises	Total
Salaries and Wages	$161,699,339	$33,082,334	$18,216,597	$42,464,796	$18,573,846	$31,049,389	$14,614,329	$ -	$260,536	$ 38,013,805	$357,974,971
Fringe Benefits	45,204,701	7,727,732	5,672,057	14,581,202	6,534,690	13,225,561	7,965,228	-	1,009	13,857,578	114,769,758
Supplies & Other Expenses	20,180,380	23,554,932	7,187,383	15,167,725	4,164,885	9,564,224	13,720,878	-	157,094	54,426,043	148,123,544
Utilities	-	-	-	-	91,933	88,257	18,021,330	-	-	9,723,849	27,925,369
Depreciation	-	-	-	-	-	-	-	84,508,242	-	-	84,508,242
	$227,084,420	$64,364,998	$31,076,037	$72,213,723	$29,365,354	$53,927,431	$54,321,765	$84,508,242	$418,639	$116,021,275	$733,301,884

Operating Expenses by Object for the Year Ended June 30, 2004

	Instruction	Research	Public Service	Academic Support	Student Services	Institutional Support	Operations and Maintenance of Plant	Depreciation	Student Aid	Auxiliary Enterprises	Total
Salaries and Wages	$148,574,964	$30,451,254	$19,000,055	$37,551,316	$16,650,086	$29,608,022	$13,688,431	$ -	$203,042	$ 34,231,778	$329,958,948
Fringe Benefits	39,908,945	5,587,859	4,526,885	12,179,166	4,931,715	10,976,471	6,054,157	-	-	10,878,933	95,044,131
Supplies & Other Expenses	12,388,278	25,954,742	5,953,601	14,201,724	3,252,795	8,848,813	10,747,555	-	345,890	48,828,768	130,522,166
Utilities	-	-	-	-	124,307	6,262	14,444,876	-	-	8,634,307	23,209,752
Depreciation	-	-	-	-	-	-	-	69,594,696	-	-	69,594,696
	$200,872,187	$61,993,855	$29,480,541	$63,932,206	$24,958,903	$49,439,568	$44,935,019	$69,594,696	$548,932	$102,573,786	$648,329,693

13. UNRESTRICTED NET ASSETS

The University adopted GASB No. 35 for external reporting purposes, which requires net assets to be classified for accounting and reporting purposes into one of three net asset categories, as discussed in Note 1 to the financial statements. Unrestricted net assets, as defined by the GASB, are not subject to externally imposed stipulations; however, they are subject to internal restrictions. For example, unrestricted net assets may be designated for specific purposes by action of management or the Board of Trustees or may otherwise be limited by contractual agreements with outside parties. Substantially all unrestricted net assets are internally designated for academic and research programs, capital programs, retirement of debt, and auxiliary enterprise activities.

TRUSTEES AND FINANCIAL OFFICERS
As of June 30, 2005

BOARD OF TRUSTEES

FINANCIAL OFFICERS

Lorraine M. Aronson, Vice President and Chief Financial Officer
Bruce A. DeTora, Chief Financial Officer
Paul R. McDowell, Controller
Charles H. Eaton, Associate Controller

UNIVERSITY OF CONNECTICUT
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