University of Connecticut

Financial Report
For the Year Ended June 30, 2012

Message from the Executive Vice President for Administration and Chief Financial Officer

Founded in 1881, the University of Connecticut (University) serves as the State of Connecticut's (State) flagship institution for higher education, meeting the educational needs of undergraduate, graduate, professional, and continuing education students through the integration of teaching, research, service and outreach. The University of Connecticut is a comprehensive institution of higher education which includes the University of Connecticut Health Center (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, 2012 represents the transactions and balances of the University, herein defined as all programs except the Health Center. This includes Storrs-based undergraduate and graduate programs, the regional campuses, the School of Law and the School of Social Work. The University's enrollment in fiscal year 2012 was 29,994 students, taught by 1,330 full-time faculty members and an additional 735 part-time faculty and adjuncts. In total, the University employs 4,510 full and part-time faculty and staff (excluding adjuncts).

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

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

The fiscal operations of the University are not an end in themselves—rather, the maintenance of fiscal health and stability serves the ultimate goal of enabling the University to achieve its teaching, research, service and outreach mission. Over the past decade, the growth and diversification of the University's funding streams, combined with the continuing physical transformation through UCONN 2000, have led the University to record enrollments, research success, and significant contributions to the economy of the State.

The financial condition of the University is closely tied to the State's economic condition. There are significant financial and economic challenges facing the state and the nation. Over the past several years, the University has experienced reductions in the State appropriation in addition to mandatory transfers to the State from the University's unrestricted net assets. Furthermore, decreases in State funding are also anticipated for fiscal year 2013. Despite the reality of declining State support, the University is committed to continuing its high standard of service to its students and the citizens of the State.

The University continues to seek immediate and long-term efficiencies where possible while focusing on three key goals: assuring access to educational excellence, enabling the University to be a key resource for Connecticut's economic growth, and outreach to Connecticut's people. The fiscal year 2012 financial statements reflect enhanced revenues where possible and reduced expenditures through the following actions: a stringent approval process for all hires and rehires, reductions for non-personnel expenditures, and review of procurement contracts for savings opportunities.

The University enjoys strong support across the State, is attracting greater numbers of highly qualified applicants than ever before, and maintains solid national rankings in virtually all relevant areas. Among its many accomplishments, the University continues to be the top public university in New England and is among the top public universities in the nation in the annual *U.S. News and World Report (2012 America's Best Colleges)* rankings. The University is also 25th on *Kiplinger's Personal Finance's* list of 100 Best Values in Public Colleges which ranks schools that combine outstanding education with economic value.

- Undergraduate enrollment is at an all-time high, while the quality and diversity of students choosing the University has shown a documented rise every year since the mid-1990s. Compared to fall of 1995, fall 2011 freshman enrollment at the main campus was up 65%, minority freshman enrollment was up 171%, and since 1996, average SAT scores were up 103 points. 43% of these students ranked in the top 10% of their high school class.
- The University's freshman-to-sophomore retention rate at the main campus is 93% and is substantially higher than the 82% average for 383 colleges and universities in the national Consortium for Student Retention Data Exchange. The 6-year graduation rate is 83% and the average time to graduate is 4.2 years among students completing Bachelor's within six years.
- Approximately 7,640 degrees were conferred in the 2011-12 school year for the completion of undergraduate, graduate and professional programs at the Storrs and regional campuses.
- Research awards for the Storrs-based program grew from $55.9 million in fiscal year 1996 to $122.5 million in fiscal year 2012.
- The endowment for both the University and the Health Center is valued at $329.1 million and is maintained by the University, The University of Connecticut Foundation, and The University of Connecticut Law School Foundation. The support provided to or on behalf of the University and the Health Center from both foundations totaled $31.3 million in 2012 for scholarships, faculty, programs and facilities.
- By the end of fiscal year 2012, the UCONN 2000 program has led to the authorization of 108 major projects totaling $2.1 billion in bond proceeds.

Respectfully Submitted,

Richard D. Gray
Executive Vice President for Administration
and Chief Financial Officer

Lysa D. Teal
Associate Vice President of Finance
and Budget

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STATE OF CONNECTICUT

AUDITORS OF PUBLIC ACCOUNTS

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HARTFORD, CONNECTICUT 06106-1559

JOHN C. GERAGOSIAN

ROBERT M. WARD

INDEPENDENT AUDITORS' REPORT

The Board of Trustees of the
University of Connecticut

We have audited the accompanying statements of net assets of the University of Connecticut (University) as of June 30, 2012 and 2011, and the related statements of revenues, expenses and changes in net assets and statements of cash flows for the years then ended. The University is a component unit of the University of Connecticut system, which includes the University of Connecticut, the University of Connecticut Health Center and the University of Connecticut Foundation, Inc. These financial statements are the responsibility of the University's management. Our responsibility is to express an opinion on these financial statements based on our audits. We did not audit the financial statements of the University of Connecticut Law School Foundation, Inc., a discretely presented component unit, which represented .59 and .61 percent of the assets of the University as of June 30, 2012 and 2011, respectively. The University of Connecticut Law School Foundation, Inc. represented .21 and .34 percent of the combined revenues and other additions for the years ended June 30, 2012 and 2011, respectively. Those financial statements were audited by other auditors whose reports thereon have been furnished to us, and our opinion, insofar as it relates to the amounts included for the University of Connecticut Law School Foundation, Inc., is based solely on the reports of the other auditors. The audits of the University of Connecticut Law School Foundation, Inc. were conducted in accordance with auditing standards generally accepted in the United States of America.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the University's internal control over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits and the reports of the other auditors provide a reasonable basis for our opinion.

In our opinion, based upon our audits and the reports of the other auditors, the financial statements referred to above present fairly, in all material respects, the financial position of the University, as of June 30, 2012 and 2011, and the changes in net assets and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

The Management Discussion and Analysis on pages 2 through 15 is not a required part of the basic financial statements of the University, but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it. The introductory section has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on it.

Sincerely,

John C. Geragosian
Auditor of Public Accounts

Robert M. Ward
Auditor of Public Accounts

January 4, 2013
State Capitol
Hartford, Connecticut

MANAGEMENT'S DISCUSSION AND ANALYSIS

Management's Discussion and Analysis

INTRODUCTION

The following Management's Discussion and Analysis (MD&A) is required supplemental information. Its purpose is to provide users of the basic financial statements with a narrative introduction, overview, and analysis of those statements. The MD&A, which is unaudited, includes an analysis of the financial position and results of activities of the University of Connecticut (University, as defined below) for the fiscal year ended June 30, 2012, based on currently known facts, decisions, or conditions. It also includes selected comparative information for the years ended June 30, 2011 and 2010, and certain amounts previously reported have been reclassified in order to conform to the current year presentation. As the MD&A presentation includes highly summarized information, it should be read in conjunction with the accompanying financial statements and related notes to the financial statements. The financial statements, notes to the financial statements, and this MD&A are the responsibility of management.

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

This financial report for the fiscal year ended June 30, 2012 represents the transactions and balances of the University, herein defined as all programs except the Health Center. This includes Storrs-based undergraduate and graduate programs, the regional campuses, the School of Law and the School of Social Work.

During the year ended June 30, 2004, the University adopted Governmental Accounting Standards Board (GASB) Statement No. 39, *Determining Whether Certain Organizations Are Component Units,* which amends GASB Statement No. 14, *The Financial Reporting Entity*. As a result, The University of Connecticut Law School Foundation, Inc. (Law School Foundation) is included as a component unit with the University (see Note 1). A related, but independent, corporate entity, The University of Connecticut Foundation, Inc. (Foundation), operates exclusively for charitable and educational purposes, raising funds to promote, encourage, and assist education and research at the University and the Health Center (see Note 12). The Foundation solicits and accepts donations of properties, monies, and securities and invests and administers these gifts. The Foundation materially supports the mission of both the University and the Health Center which are separately audited, producing their own financial statements. Displaying the Foundation's financial statements as a component unit of either the University or the Health Center would distort its actual contribution or economic benefit to that entity, and therefore the Foundation is not included as a component unit in the accompanying financial statements.

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

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

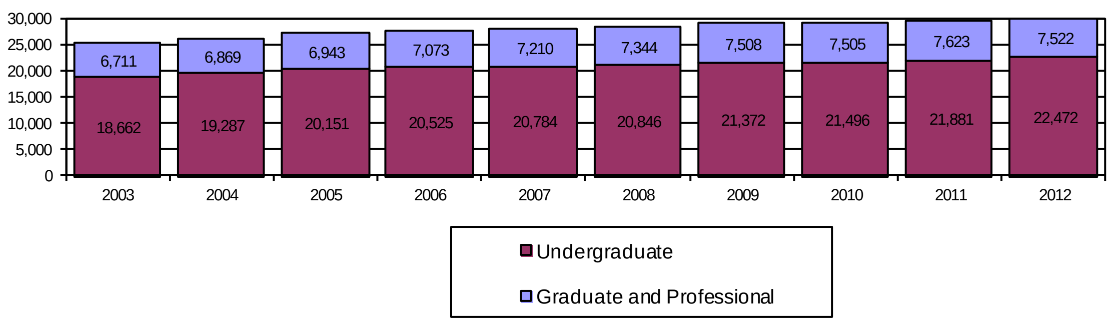
FINANCIAL HIGHLIGHTS AND ECONOMIC OUTLOOK

The University submits a separate biennial operating budget request to the Governor through the Secretary of the Office of Policy and Management (the Governor's fiscal office). The General Assembly appropriates funds upon passage of the annual appropriations bill. 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 $340.5 million for the year ended June 30, 2012 (fiscal year 2012) as compared to $376.9 million for the year ended June 30, 2011 (fiscal year 2011), and $363.2 million for the year ended June 30, 2010 (fiscal year 2010). The decrease in operating loss in fiscal year 2012 from fiscal year 2011 was due to an increase in total operating revenues of 2.8%, primarily attributed to an increase in undergraduate enrollment, tuition and fees, and board and room fees. There was also a 2.0% decrease in total operating expenses, as result of cost saving measures implemented during the year. The increase in operating loss in fiscal year 2011 from fiscal year 2010 was due to an increase in total operating expenses of 5.9%, primarily caused by a 6.4% increase in salaries as a result of a 3.3% increase in full-time equivalent staff and negotiated raises. For public institutions, the measure more indicative of normal and recurring activities is income or loss before other changes in net assets, which includes revenue from the State appropriation. The University experienced a loss before other changes in net assets of $41.9 million in fiscal year 2012 as compared to $49.9 million and $38.3 million for fiscal years 2011 and 2010, respectively. Total operating revenues grew $16.7 million in fiscal year 2012 and $40.8 million in fiscal year 2011. At the same time, operating expenses decreased $19.6 million in fiscal year 2012 as compared to an increase in fiscal year 2011 of $54.4 million over fiscal year 2010. Investment income decreased $0.1 million in fiscal year 2012, $0.3 million in fiscal year 2011 and $3.0 million in fiscal year 2010.

Sources of recurring revenues continued to exhibit strength. The University's total enrollment in fiscal year 2003 topped 25,000 students and grew to 29,994 students in fiscal year 2012. These students are taught by 1,330 full-time faculty members (an increase of 26 faculty over the prior year) and an additional 735 part-time faculty and adjuncts. Undergraduate enrollment at the University reached 22,472 students in fiscal year 2012, 2.7% more than fiscal year 2011 (1.8% more students in fiscal year 2011 over 2010). At the same time, an in-state tuition and mandatory fee increase of 2.4% and an out-of-state increase of 2.6% were approved for fiscal year 2012. Graduate and professional enrollment decreased by 1.3% with an in-state tuition and mandatory fee increase of 2.6% and an out-of-state increase of 2.5%. The net increase in overall enrollment, when combined with the tuition and mandatory fee increases, resulted in an increase in tuition and fee revenue, before scholarship allowances, of $19.2 million (5.6%) as compared to a $23.9 million (7.5%) increase in fiscal year 2011. Sales and services of auxiliary enterprises, before scholarship allowances, increased $3.3 million (1.8%), primarily as a result of an overall increase in room and board fees of 2.5% for undergraduate and graduate students and an increase in room occupancy of 1.6% over fiscal year 2011. In fiscal year 2011, sales and services of auxiliary enterprises, before scholarship allowances, increased $11.8 million (6.9%), primarily as a result of an overall increase in room and board fees of 6.5% for undergraduate students and 6.6% for graduate students and an increase in room occupancy of 1.2% over fiscal year 2010. Grant and contract revenues decreased $4.9 million (3.0%) in fiscal year 2012 as compared to an increase of $17.4 million (11.8%) fiscal year 2011 over 2010.

HEADCOUNT ENROLLMENT IN FALL OF EACH FISCAL YEAR
TEN YEAR COMPARISON



The 21st Century UConn program, also known as Phase III of UCONN 2000, began in fiscal year 2005 and was amended in fiscal years 2008, 2010 and 2011. As amended, it represents a $1.82 billion, 13-year extension of the original UCONN 2000 program (see Note 5), and provided $1.0 billion for facilities improvements at Storrs, the regional campuses, the School of Law and the School of Social Work. It also provided for $775.3 million for improvements at the Health Center. The total estimated cost for the UCONN 2000 program, including Phases I, II and III, is $3.1 billion. This commitment from the State provides long-term funds for capital enhancement and preservation and will allow the University to provide quality facilities commensurate with the enrollment growth experienced in recent years.

The financial condition of the University is closely tied to the State's economy. There are significant financial and economic challenges facing the State and the nation. In fiscal year 2012, the University experienced a reduction of approximately $39.4 million in appropriation and payments for fringe benefits as a result of the State's economic initiatives. In fiscal years 2011 and 2010, the University transferred $15.0 million and $8.0 million, respectively, from unrestricted net assets to the State's General Fund as a result of a deficit mitigation plan implemented by the State. These funds have not been restored to the University's appropriation and further reductions in State support of approximately $15.0 million are anticipated in fiscal year 2013 due to the widening State deficit. In response to these measures, the University continues to seek immediate and long-term efficiencies where possible while focusing on three key goals: assuring access to educational excellence, enabling the University to be a key resource for Connecticut's economic growth, and outreach to Connecticut's people. The fiscal year 2012 financial statements reflect enhanced revenues where possible and reduced expenditures through the following actions: a stringent approval process for all hires and rehires, reductions for non-personnel expenditures, and review of procurement contracts for savings opportunities. Despite the reality of declining State support, the University is committed to continue its high standard of service to its students and the citizens of the State.

FINANCIAL STATEMENTS

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

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

STATEMENTS OF NET ASSETS

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

Readers of the Statements of Net Assets are able to determine the assets available to continue the operations of the University. The net asset value of the University is the residual interest or equity in the University's assets after liabilities are deducted. Over time, an increase in net assets is an indicator of the University's improving financial strength.

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

	2012	2011	2010
Current assets	$ 612.3	$ 500.6	$ 584.6
Noncurrent assets			
State debt service commitment	828.8	735.0	804.3
Investments	10.3	10.7	9.8
Property and equipment, net	1,422.8	1,399.3	1,397.5
Other	19.8	19.3	19.5
Total assets	$2,894.0	$2,664.9	$2,815.7
Current liabilities	$ 302.7	$ 268.3	$ 294.5
Noncurrent liabilities			
Long-term debt and bonds payable	1,082.4	978.1	1,058.7
Other	19.8	23.2	18.2
Total liabilities	$1,404.9	$1,269.6	$1,371.4
Invested in capital assets, net	$1,155.6	$1,144.9	$1,131.9
Restricted	162.3	75.0	149.6
Unrestricted	171.2	175.4	162.8
Total net assets	$1,489.1	$1,395.3	$1,444.3

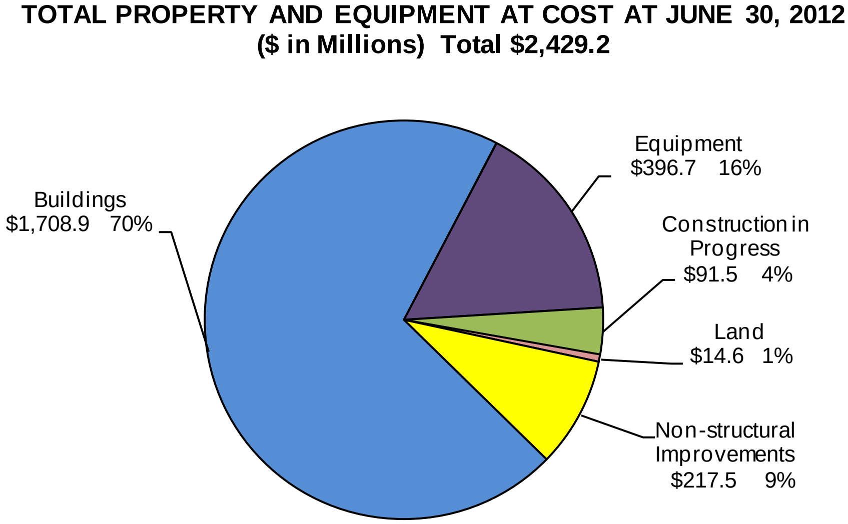
The total assets increased $229.1 million in fiscal year 2012 over 2011 as compared to a decrease of $150.8 million in fiscal year 2011 over 2010. The increase in fiscal year 2012 was primarily attributed to the net effect of the following increases and decreases: a $9.7 million decrease ($9.5 million increase in fiscal year 2011) in cash and cash equivalents, a $8.0 million increase in due from State of Connecticut ($0.5 million decrease in fiscal year 2011), a $106.8 million increase in deposit with bond trustee ($92.6 million decrease in fiscal year 2011), a $101.0 million increase in the State debt service commitment ($73.6 million decrease in fiscal year 2011), and a net increase of $23.5 million to property and equipment ($1.7 million in fiscal year 2011).

The total liabilities for fiscal year 2012 increased $135.3 million ($101.8 million decrease in fiscal year 2011) primarily due to newly acquired debt through the sale of general obligation bonds and bond refundings of $236.3 million ($0 in fiscal year 2011), which was offset by the retirement and refundings of debt on existing bonds and loans of $126.1 million in fiscal year 2012 ($84.5 million in fiscal year 2011), a decrease in wages payable of $15.3 million ($5.5 million increase in fiscal year 2011), and an increase in due to affiliate of $41.5 million in fiscal year 2012 ($24.0 million decrease in fiscal year 2011). The combination of the increase in total assets of $229.1 million ($150.8 million decrease for fiscal year 2011) and total liabilities of $135.3 million ($101.8 million decrease for fiscal year 2011) yields an increase in total net assets of $93.8 million ($49.0 million decrease in fiscal year 2011).

Capital and Debt Activities

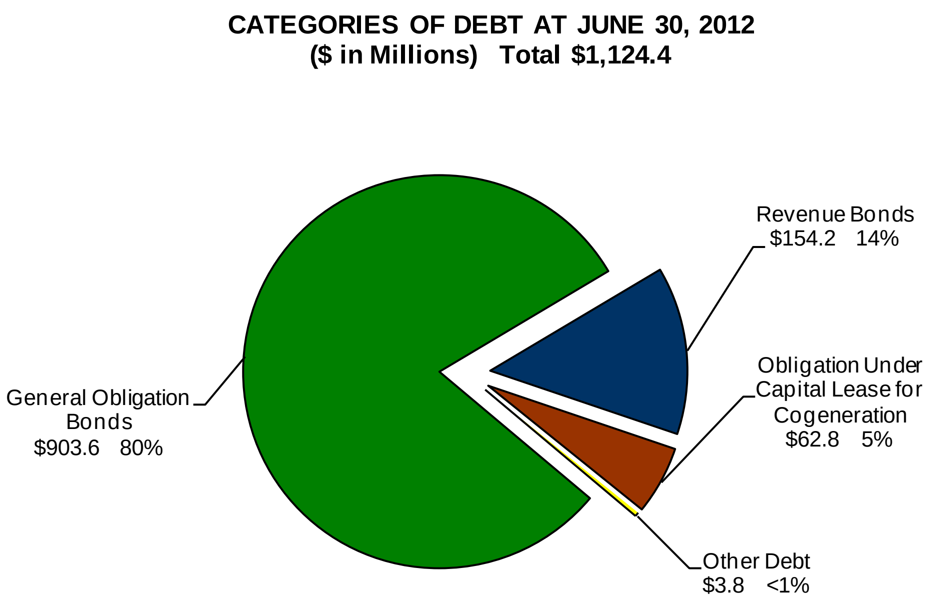
During fiscal year 2012, the University recorded additions to property and equipment totaling $112.7 million ($93.1 million and $75.7 million in fiscal years 2011 and 2010, respectively) of which $83.2 million related to buildings and construction in progress ($69.2 million and $51.8 million in fiscal years 2011 and 2010, respectively). The growth of the University's property and equipment is a direct result of the successful UCONN 2000 program. The third phase of the program, also known as 21st Century UConn, expands and builds on the success of UCONN 2000 with an additional $1.82 billion for improvements to facilities at the University and the Health Center (see Note 5).

The following pie chart presents the total property and equipment at cost:



In fiscal year 2012, the University issued UCONN 2000 general obligation bonds with a face value of $179.7 million ($0 in fiscal year 2011) of which $62.5 million was committed to the Health Center for its UCONN 2000 projects (see Note 5). The State has made a commitment to fund the University for all principal and interest payments due on UCONN 2000 general obligation debt, inclusive of 21st Century UConn. As the general obligation debt is incurred, the commitment from the State is recorded as a current and noncurrent receivable (State debt service commitment in the accompanying Statements of Net Assets). When bonds are issued, the amount of the commitment for the Health Center is reflected as a liability by the University. Subsequent to the year ended June 30, 2012, the University issued $88.0 million in special obligation student fee revenue bonds, with a closing date of December 13, 2012, to refund outstanding balances of previously issued bonds (see Note 5).

The following chart illustrates the categories of debt as of June 30, 2012, exclusive of premiums, discounts and debt differences due to refunding:

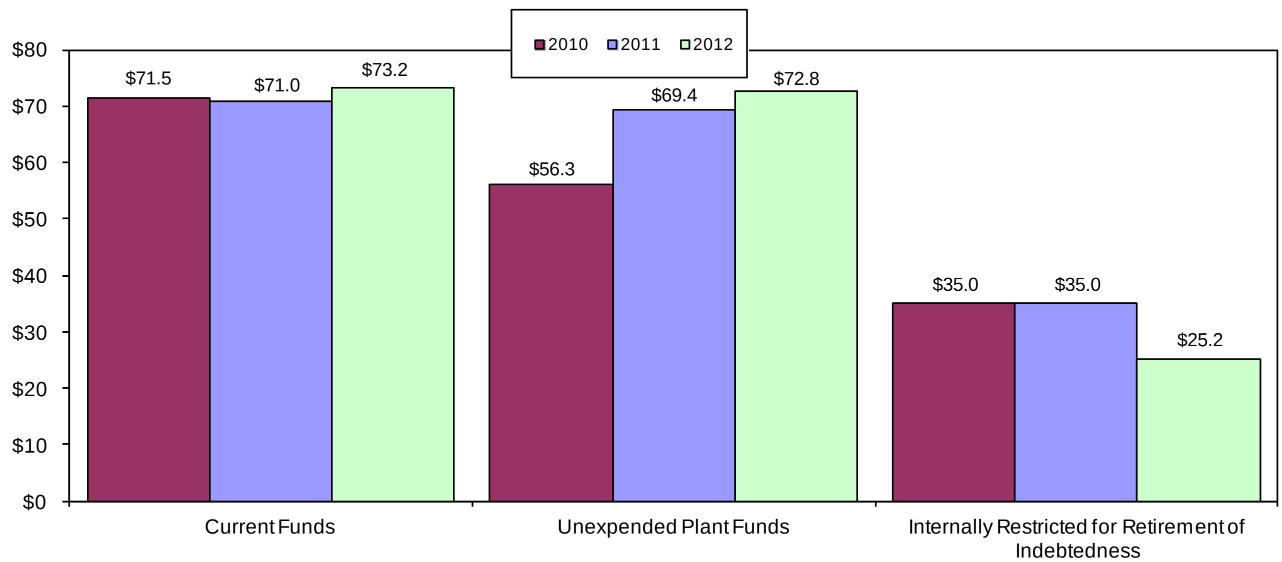


See Notes 4 and 5 of the financial statements for further information on capital and debt activities.

Net Assets

Net assets are divided into three major categories. The first category, invested in capital assets, net of related debt, represents the University's equity in property and equipment. The restricted net assets category is subdivided into nonexpendable and expendable. The corpus of restricted nonexpendable resources is only available for investment purposes, and in the University's Statements of Net Assets this amount represents endowment assets. Expendable restricted net assets are available for expenditure by the institution, but must be spent for purposes determined by donors and/or external entities that have placed time or purpose restrictions on the use of the assets. The final category is unrestricted net assets. Unrestricted net assets are defined by GASB Statement No. 35 to include funds not restricted by third-parties, including all unrestricted funds formerly (prior to fiscal year 2002) included in the balances of unrestricted current funds, retirement of indebtedness funds, and plant funds on the Statement of Net Assets. Unrestricted net assets may be designated for specific purposes by action of management or the Board of Trustees or may otherwise be limited by contractual agreements with outside parties. GASB prohibits a breakout of designated unrestricted funds on the face of the Statements of Net Assets. Unrestricted net assets are available to the University for any lawful purpose of the institution. The following shows a comparison between fiscal years by category of unrestricted net assets:

UNRESTRICTED NET ASSETS ($ in Millions)



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

STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS

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

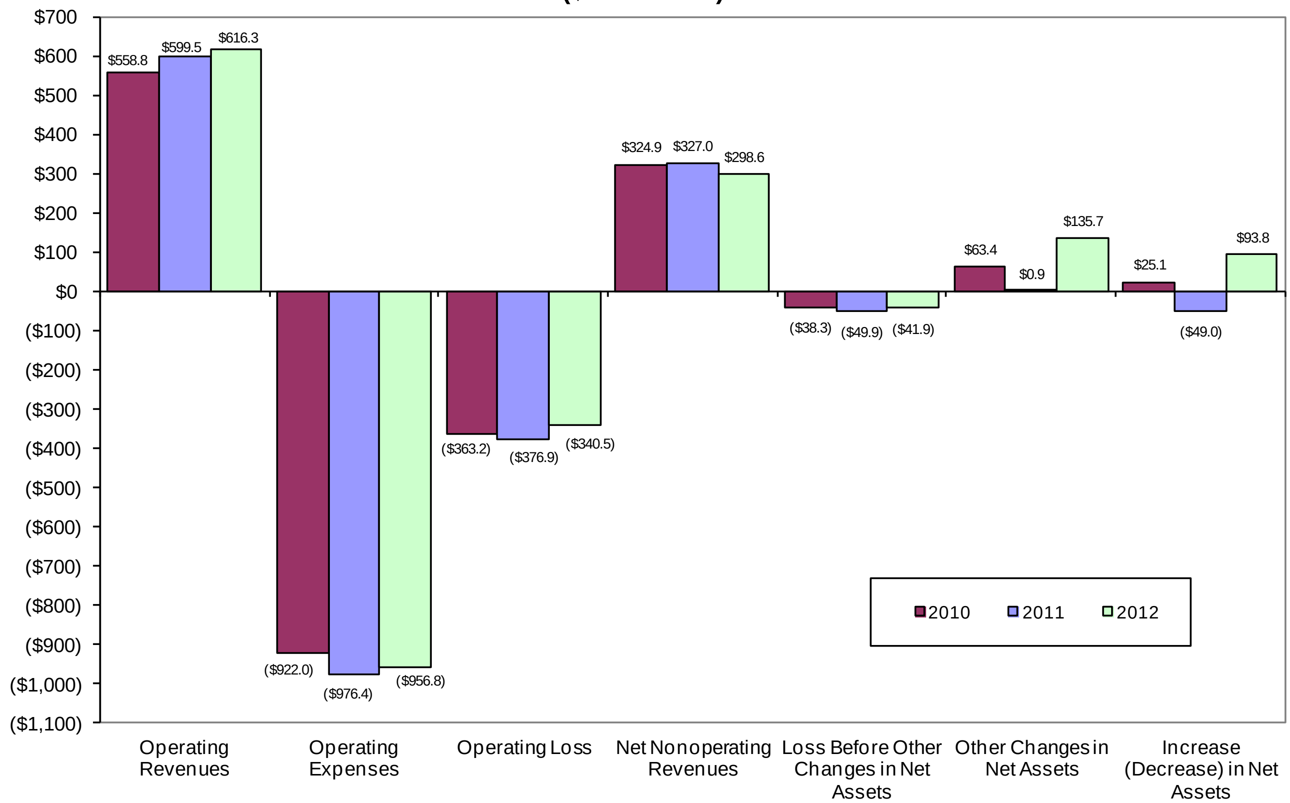
In fiscal year 2012, the University determined that certain activities should be classified as an auxiliary enterprise, instead of as a component of institutional support. To enhance comparability, the amounts presented for the previous years were changed to reflect the reclassification of revenues from other sources to sales and services of auxiliary enterprises, and expenses from institutional support to auxiliary enterprises. For fiscal years 2011 and 2010, the total reclassification of revenues were $5.4 million and $5.1 million, respectively, and expenses were $3.9 million and $3.7 million, respectively. These changes have no effect on operating loss or net assets for the years ended June 30, 2011 and 2010.

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

	2012	2011	2010
Operating revenues	$ 616.3	$ 599.5	$ 558.8
Operating expenses	956.8	976.4	922.0
Operating loss	(340.5)	(376.9)	(363.2)
Net nonoperating revenues	298.6	327.0	324.9
Loss before other changes in net assets	(41.9)	(49.9)	(38.3)
Net other changes in net assets	135.7	0.9	63.4
Increase (decrease) in net assets	$ 93.8	$ (49.0)	$ 25.1

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

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



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

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

Other changes in net assets are comprised of the State's debt service commitment for principal payments on general obligation bonds used for capital purposes, capital allocation, capital grants and gifts, the disposal of property and equipment, and additions to permanent endowments. The Statements of Revenues, Expenses, and Changes in Net Assets reflect an increase in the net assets of $93.8 million in fiscal year 2012, a decrease of $49.0 million in fiscal year 2011, and an increase of $25.1 million in fiscal year 2010.

Revenues

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

	2012	2011	2010
Operating revenues:			
Student tuition and fees, net	$ 251.0	$ 233.9	$ 223.8
Grants and contracts	159.7	164.5	147.2
Sales and services of educational departments	17.4	16.2	15.2
Sales and services of auxiliary enterprises, net	182.0	178.5	166.9
Other sources	6.2	6.4	5.7
Total operating revenues	616.3	599.5	558.8
Nonoperating revenues:			
State appropriation	282.4	329.0	325.5
State debt service commitment for interest	39.8	40.0	38.5
Gifts	24.3	21.1	18.1
Investment income	0.9	1.0	1.3
Total nonoperating revenues	347.4	391.1	383.4
Other changes in net assets:			
State debt service commitment for principal	115.4	-	61.7
Capital allocation	18.0	-	-
Capital grants and gifts and additions to permanent endowments	2.8	2.0	2.4
Total other changes in net assets	136.2	2.0	64.1
Total revenues	$ 1,099.9	$ 992.6	$ 1,006.3

Revenue highlights, for fiscal years 2012 and 2011 and comparison between fiscal years, including operating and nonoperating revenues and other changes in net assets, presented on the Statements of Revenues, Expenses, and Changes in Net Assets are as follows:

- Student tuition and fees, net of scholarship allowances, increased 7.3% in fiscal year 2012 (4.5% in fiscal year 2011) and 5.6% before scholarship allowances (7.5% in fiscal year 2011). The increase in fiscal year 2012 was due in part to a 2.7% (1.8% in fiscal year 2011) increase in undergraduate enrollment at the University and an increase of 2.4% (5.4% in fiscal year 2011) for undergraduate in-state tuition and mandatory fees charged, and 2.6% (5.5% in fiscal year 2011) for out-of-state tuition and mandatory fees.

- Total grants and contracts decreased $4.9 million (3.0%) in fiscal year 2012 ($17.4 million or 11.8% increase in fiscal year 2011) primarily due to a decrease in federal and state financial aid.

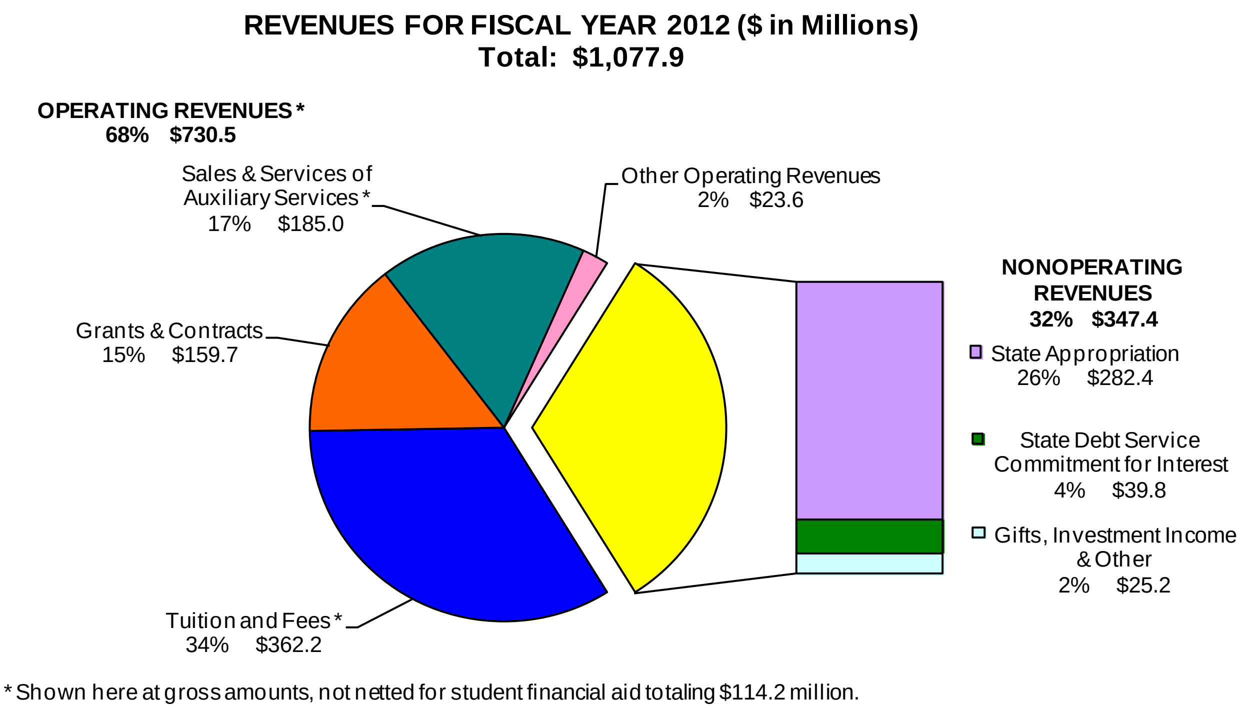
- Sales and services of auxiliary enterprises, net of scholarship allowances, increased approximately 2.0% and 7.0% during fiscal years 2012 and 2011, respectively. The increase in fiscal year 2012 resulted from an increase in fees charged for both room and board of 2.5% for undergraduate and graduate students and an increase in room occupancy of 1.6% over fiscal year 2011. The increase in fiscal year 2011 resulted from an increase in fees charged for both room and board of 6.5% for undergraduate students and 6.6% for graduate students and an increase in room occupancy of 1.2% over fiscal year 2010.

- The largest source of revenue, State appropriation including fringe benefits, decreased $46.6 million in fiscal year 2012 compared to an increase of $3.5 million in fiscal year 2011. The State appropriation is included in the nonoperating section. The State also provides State debt service commitment for the interest payments made annually on general obligation bonds. State debt service commitment for interest revenue is included with nonoperating revenues and corresponds to the total interest paid and accrued on general obligation bonds.

Effectively, this revenue offsets a significant portion of interest expense each year. Also, as general obligation bonds are issued (see Note 5) the State commits to the repayment of the future principal amounts and a receivable is recorded on the Statements of Net Assets to reflect this commitment. This results in revenue that is recorded in other changes in net assets that totaled $115.4 million in fiscal year 2012. There were no general obligation bonds issued in fiscal year 2011. In fiscal year 2012, included in other changes in net assets, the State allocated $18.0 million for design and development costs of the Technology Park on the Storrs campus (see Note 12).

- Gift revenue, both capital and noncapital, is derived from gifts made directly to the University and from the Foundation and Law School Foundation. These spendable funds are provided to the University for educational, cultural, recreational, and research activities. Both the Foundation and the Law School Foundation disburse funds to the University as requests are made, provided the request is in accordance with donor restrictions, if any. These gifts, including capital gifts, received by the University from both Foundations, totaled approximately $22.9 million in fiscal year 2012 compared to $19.4 million in fiscal year 2011. On a combined basis, both Foundations also paid approximately $3.1 million in fiscal year 2012 ($3.5 million in fiscal year 2011) to third parties on behalf of the University. This amount is not reflected in the University's financial statements. Total nonoperating gifts and capital grants and gifts revenue to the University from all sources amounted to $27.1 million and $23.2 million in fiscal years 2012 and 2011, respectively.

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



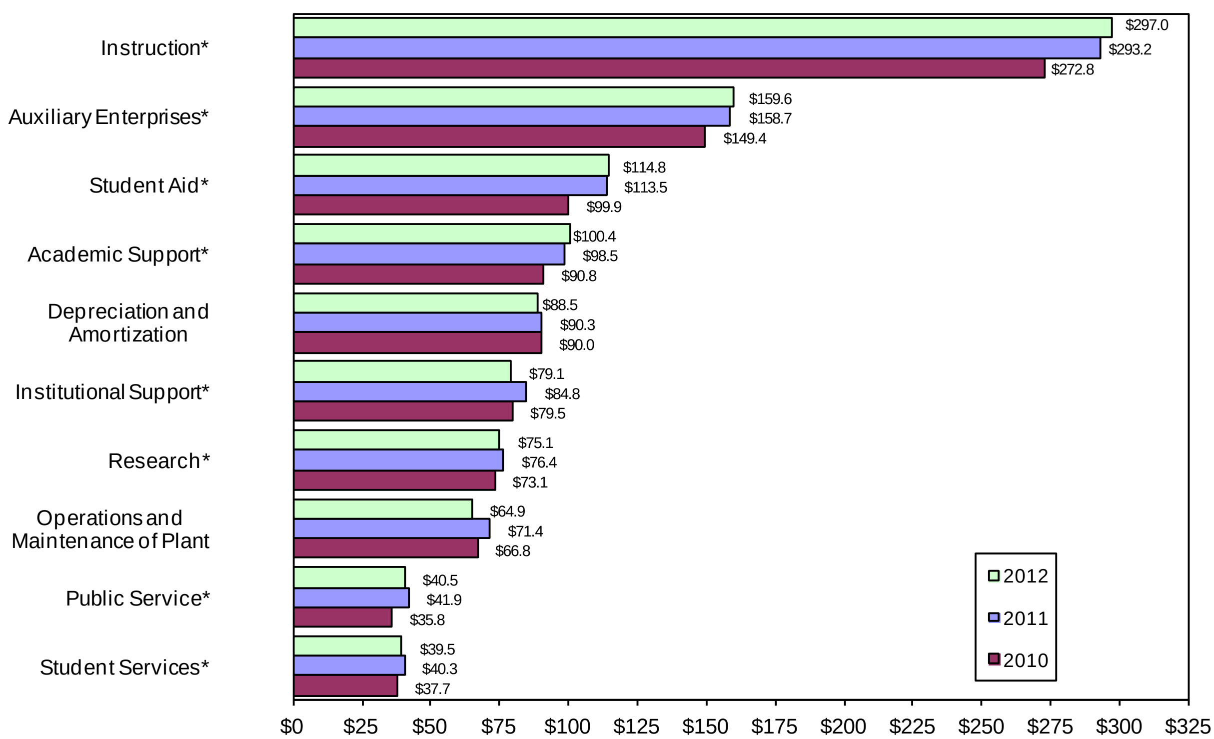
Expenses

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

	2012	2011	2010
Operating expenses:			
Instruction	$ 295.7	$ 292.2	$ 271.9
Research	72.8	74.5	72.3
Operations and maintenance of plant	64.9	71.4	66.8
Auxiliary enterprises	159.3	158.4	149.1
Depreciation and amortization	88.5	90.3	90.0
Other	275.6	289.6	271.9
Total operating expenses	956.8	976.4	922.0
Nonoperating expenses:			
Interest expense	47.1	48.8	48.6
Transfers to State General Fund	-	15.0	8.0
Other nonoperating expense, net	1.7	0.3	2.0
Total nonoperating expenses	48.8	64.1	58.6
Other changes in net assets:			
Capital allocation	-	0.5	-
Disposal of property and equipment, net	0.5	0.6	0.7
Total other changes in net assets	0.5	1.1	0.7
Total expenses	$ 1,006.1	$ 1,041.6	$ 981.3

Operating expenses are classified by function in the accompanying Statements of Revenues, Expenses, and Changes in Net Assets. These functions directly contribute to the major mission of the University. The following chart depicts comparative functional expenses of the University. It does not include other operating expenses:

EXPENSES BY FUNCTIONAL CLASSIFICATION
($ in Millions)



* Shown here at gross amounts, not netted for financial aid totaling $114.2 million.

Total operating expenses were $956.8 million and $976.4 million in fiscal years 2012 and 2011, respectively, netted for student financial aid totaling $114.2 million and $112.3 million, respectively. Natural classification includes salaries, fringe benefits, utilities, and supplies and other expenses (see Note 14 for operating expenses classified by natural classification).

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

- Instruction, the University's largest operating expense, increased $3.5 million (1.2%) primarily due to an increase of approximately 31 full-time equivalent faculty and staff due to the University's strategic faculty hiring plan which was offset by a 4.5% decrease in supplies and other expenses. In fiscal year 2011, instruction increased $20.3 million (7.5%) primarily due to an increase of approximately 41 full-time equivalent faculty and staff, due to the strategic faculty hiring plan during fiscal year 2011, and an average compensation increase for the bargaining units of approximately 5%. In addition, there was a 15.1% net increase in supplies, commodities and other expenses.

- In fiscal year 2012, research expenses decreased $1.7 million or 2.3% ($2.2 million or 3.0% increase in fiscal year 2011). These expenses are related primarily to sponsored research revenues and are affected by the timing of salaries and the purchase of supplies and commodities that can be charged to grants.

- In fiscal year 2012, institutional support experienced a decrease of $5.6 million or 6.7%. This resulted from a 6.4% decrease (4.6% increase in fiscal 2011) in the number of full-time equivalent staff. In addition, there was a 15.8% net decrease in supplies and other expenses. In fiscal year 2011, institutional support experienced a slight increase over 2010 in contractual services related to the revenue enhancement and cost savings review performed by an outside consulting firm.

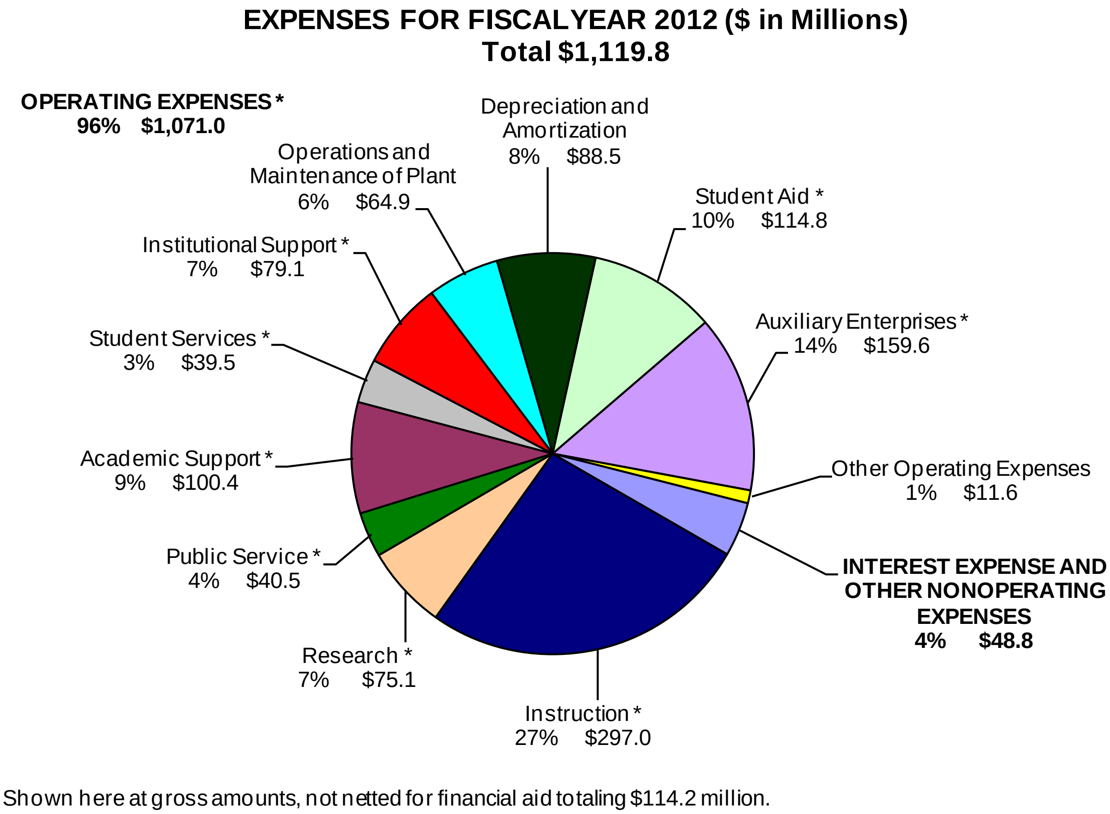
- Operations and maintenance of plant decreased $6.5 million or 9.1% in fiscal year 2012 as compared to a $4.6 million or 6.9% increase in fiscal year 2011. This is primarily attributed to a decrease in natural gas rates of approximately 8.6% in fiscal year 2012 (11.6% in fiscal year 2011). Natural gas consumption, the primary energy source that fuels the Cogeneration plant, decreased 9.5% in fiscal year 2012 (0.5% in fiscal year 2011), mainly due to an unusually mild winter. In fiscal year 2012, the University also experienced a decrease in electricity consumption of 6.2% (10.0% increase in fiscal year 2011). Electricity rates, including distribution and demand charges, decreased approximately 9.7% in fiscal year 2012 and increased 3.6% in fiscal year 2011. Concurrently, supplies and other expenses related to general maintenance and repairs decreased 7.7% (18.1% increase in fiscal year 2011).

- Fiscal year 2012 depreciation expense was lower than fiscal year 2011, mainly due to changes in the capitalization policy in fiscal year 2011 that impacted the capitalization threshold for equipment.

- Auxiliary enterprises expenses increased $0.9 million or 0.6% in fiscal year 2012 (6.3% in fiscal year 2011), primarily due to the hiring of 19 full-time equivalent staff offset by a 18.7% decrease in utilities (8.0% in fiscal year 2011).

- For the fiscal years 2012 and 2011, $3.2 million and $2.5 million, respectively, were expensed in other operating expenses for inspections, fire and safety code updates and other corrective action needed in order to achieve safety goals for all buildings. In fiscal year 2011, the University expensed $3.9 million in other operating expenses due to a cancelled software implementation project in which costs capitalized to date had no realizable value as of June 30, 2011. In addition, $2.7 million was expensed in other operating expenses to correct structural deficiencies related to the Agricultural Biotechnology Laboratory and Advanced Technology Laboratory buildings in fiscal year 2011. For fiscal year 2010, the University expensed an additional $3.3 million in other operating expenses for a project to correct structural deficiencies related to the construction of the Law School Library building. These expenses did not increase the value of the building or extend its useful life (see Note 4). The remaining amounts in other operating expenses include costs not capitalized under University policy such as repairs, project management fees, capital project studies, and mold, lead and asbestos removal projects. These expenses totaled $8.4 million in fiscal year 2012 as compared to $10.7 million in fiscal year 2011.

The pie chart below illustrates operating expenses by function, not netted for financial aid, and also includes other operating expenses. A significant portion of student aid is reflected as an allowance against tuition and fees revenue and sales and services of auxiliary enterprises on the Statements of Revenues, Expenses, and Changes in Net Assets. The chart also shows interest expense and other nonoperating expenses.



STATEMENTS OF CASH FLOWS

The Statements of Cash Flows present detailed information about the cash activity of the University during the year. The first section of these statements, cash flows from operating activities, will always be different from the Statements of Revenues, Expenses, and Changes in Net Assets' operating loss amount. The difference results from noncash items such as depreciation and amortization expense and the use of the accrual basis of accounting in preparing the Statements of Revenues, Expenses, and Changes in Net Assets. These statements show revenues and expenses when incurred, not necessarily when cash is received or used. The Statements of Cash Flows, on the other hand, show cash inflows and outflows without regard to accruals. The Statements of Cash Flows have four additional sections including: cash flows from noncapital financing activities including State appropriation, transfers to State General Fund, gifts and other nonoperating revenues and expenses; cash flows from capital financing activities that reflect the cash received and used by the University for financing, principally capital in nature, capital grants and gifts, and State debt service commitments for principal and interest; cash flows from investing activities showing the purchases, proceeds and interest received from investing activities; and a reconciliation of operating loss reflected on the Statements of Revenues, Expenses, and Changes in Net Assets to net cash used in operating activities.

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

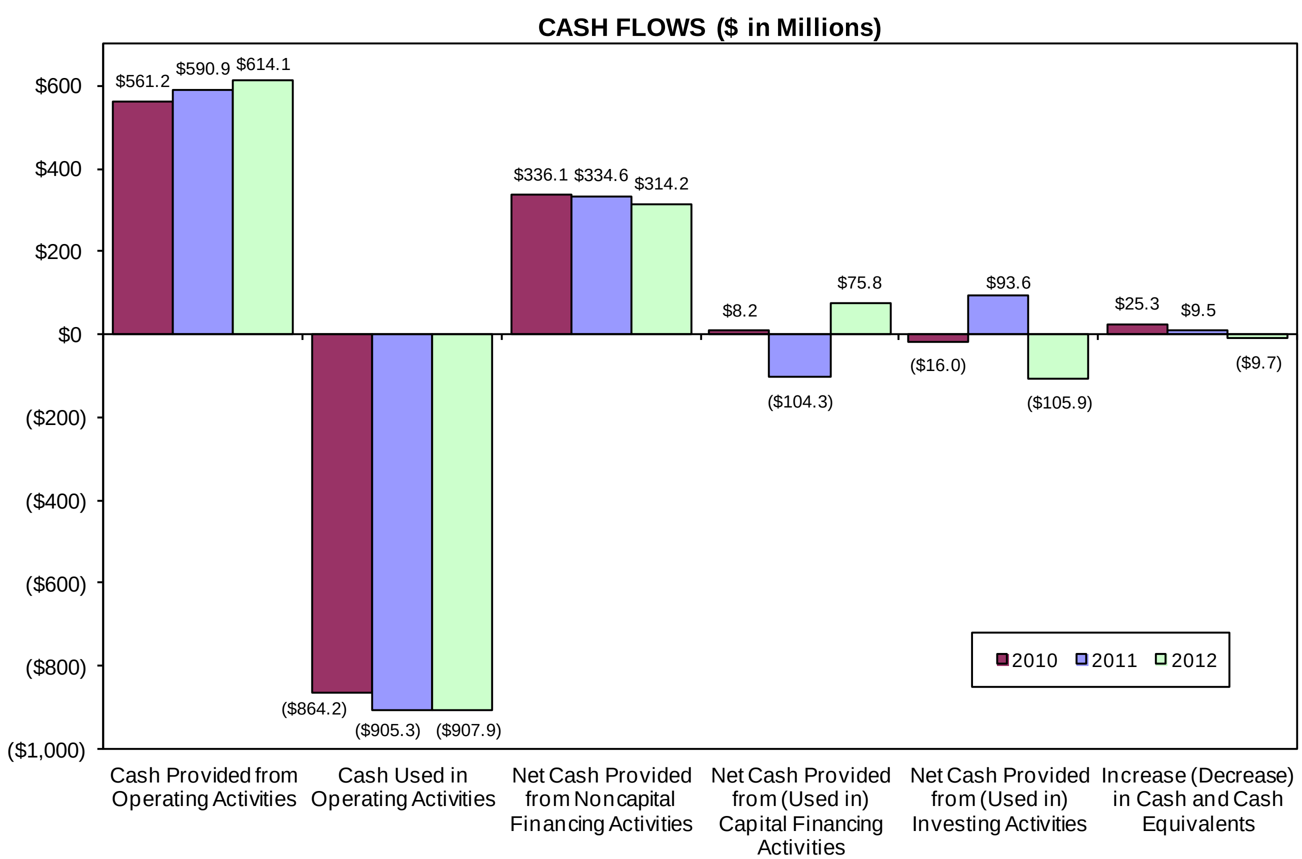
	2012	2011	2010
Cash provided from operating activities	$ 614.1	$ 590.9	$ 561.2
Cash used in operating activities	(907.9)	(905.3)	(864.2)
Net cash used in operating activities	(293.8)	(314.4)	(303.0)
Net cash provided from noncapital financing activities	314.2	334.6	336.1
Net cash provided from (used in) capital financing activities	75.8	(104.3)	8.2
Net cash provided from (used in) investing activities	(105.9)	93.6	(16.0)
Net increase (decrease) in cash and cash equivalents	$ (9.7)	$ 9.5	$ 25.3

Net cash used in operating activities was $293.8 million and $314.4 million in fiscal years 2012 and 2011, respectively, and is consistent with the operating loss discussed earlier after adding back depreciation and amortization, a noncash expense. GASB requires that cash flows from noncapital financing activities include State appropriation and noncapital gifts. Cash flows from these activities totaled $314.2 million in fiscal year 2012 ($334.6 million in fiscal year 2011), a $20.4 million decrease from fiscal year 2011 ($1.5 million from fiscal year 2010).

Cash flows provided by capital financing activities was $75.8 million in fiscal year 2012 and $104.3 million used in fiscal year 2011. The major difference between fiscal years 2012 and 2011 was an increase in proceeds from bonds of $200.0 million in fiscal year 2012 ($105.0 million decrease in fiscal year 2011) and an increase in the amount of purchases of property and equipment of $20.0 million ($10.8 million in 2011).

Net cash used in investing activities was $105.9 million in fiscal year 2012 and $93.6 million provided in fiscal year 2011. The major difference between fiscal years 2012 and 2011 is that $200.0 million in bond proceeds were received in fiscal year 2012 ($0 in fiscal year 2011) which were invested in the deposit with bond trustee.

Total cash and cash equivalents decreased $9.7 million in fiscal year 2012 and increased $9.5 million in fiscal year 2011 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, 2012 and 2011

($ in thousands)

	2012	2011
ASSETS		
Current Assets		
Cash and cash equivalents	$ 265,374	$ 275,129
Accounts receivable, net	33,217	34,033
Student loans receivable, net	1,744	1,864
Due from State of Connecticut	52,346	44,319
State debt service commitment	90,600	83,409
Inventories	4,198	3,857
Deposit with bond trustee	160,524	53,730
Deferred charges	785	787
Prepaid expenses	3,515	3,503
Total Current Assets	612,303	500,631
Noncurrent Assets		
Cash and cash equivalents	1,420	1,356
Investments	10,303	10,686
Student loans receivable, net	10,494	10,481
State debt service commitment	828,795	735,015
Property and equipment, net	1,422,789	1,399,263
Deferred charges	7,923	7,481
Total Noncurrent Assets	2,281,724	2,164,282
Total Assets	$ 2,894,027	$ 2,664,913
LIABILITIES		
Current Liabilities		
Accounts payable	$ 25,867	$ 27,691
Deferred income	24,809	24,777
Deposits held for others	2,887	2,362
Wages payable	40,326	55,635
Compensated absences	24,266	21,771
Due to State of Connecticut	14,570	16,984
Due to affiliate (see Note 5)	48,300	6,823
Current portion of long-term debt and bonds payable	88,372	80,589
Other current liabilities	33,360	31,653
Total Current Liabilities	302,757	268,285
Noncurrent Liabilities		
Compensated absences	8,740	12,696
Long-term debt and bonds payable	1,082,351	978,061
Refundable for federal loan program	11,076	10,516
Total Noncurrent Liabilities	1,102,167	1,001,273
Total Liabilities	$ 1,404,924	$ 1,269,558
NET ASSETS		
Invested in capital assets, net of related debt	$ 1,155,616	$ 1,144,923
Restricted nonexpendable	11,574	11,892
Restricted expendable		
Research, instruction, scholarships and other	19,536	17,915
Loans	2,425	2,818
Capital projects	121,015	35,204
Debt service	7,737	7,229
Unrestricted (see Note 1)	171,200	175,374
Total Net Assets	$ 1,489,103	$ 1,395,355

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, 2012 and 2011

($ in thousands)

	2012	2011
OPERATING REVENUES		
Student tuition and fees (Net of scholarship allowances of $111,139 for 2012 and $109,106 for 2011. See Note 1.)	$ 251,017	$ 233,881
Federal grants and contracts	124,478	125,798
State and local grants and contracts	22,078	27,390
Nongovernmental grants and contracts	13,141	11,367
Sales and services of educational departments	17,348	16,161
Sales and services of auxiliary enterprises (Net of scholarship allowances of $3,030 for 2012 and $3,240 for 2011. See Note 1.)	181,974	178,494
Other sources	6,229	6,447
Total Operating Revenues	616,265	599,538
OPERATING EXPENSES		
Educational and general		
Instruction	295,684	292,203
Research	72,761	74,481
Public service	39,636	41,470
Academic support	100,142	98,393
Student services	39,048	39,755
Institutional support	79,103	84,744
Operations and maintenance of plant	64,880	71,365
Depreciation and amortization	88,478	90,335
Student aid	6,107	5,490
Auxiliary enterprises	159,310	158,422
Other operating expenses	11,644	19,740
Total Operating Expenses	956,793	976,398
Operating Loss	(340,528)	(376,860)
NONOPERATING REVENUES (EXPENSES)		
State appropriation	282,370	328,951
State debt service commitment for interest	39,755	39,978
Transfers to State General Fund	-	(15,000)
Gifts	24,377	21,168
Investment income	898	1,020
Interest expense	(47,117)	(48,824)
Other nonoperating expenses, net	(1,635)	(297)
Net Nonoperating Revenues	298,648	326,996
Loss Before Other Changes in Net Assets	(41,880)	(49,864)
OTHER CHANGES IN NET ASSETS		
State debt service commitment for principal	115,400	-
Capital allocation	18,000	(479)
Capital grants and gifts	2,768	1,989
Disposal of property and equipment, net	(540)	(618)
Net Other Changes in Net Assets	135,628	892
Increase (Decrease) in Net Assets	93,748	(48,972)
NET ASSETS		
Net Assets-beginning of year	1,395,355	1,444,327
Net Assets-end of year	$ 1,489,103	$ 1,395,355

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

UNIVERSITY OF CONNECTICUT
STATEMENTS OF CASH FLOWS
For the Years Ended June 30, 2012 and 2011

($ in thousands)

	2012	2011
CASH FLOWS FROM OPERATING ACTIVITIES		
Student tuition and fees	$ 248,473	$ 226,289
Grants and contracts	156,152	161,603
Sales and services of auxiliary enterprises	183,996	179,086
Sales and services of educational departments	17,382	15,692
Payments to suppliers and others	(247,396)	(274,777)
Payments to employees	(491,073)	(463,911)
Payments for benefits	(167,506)	(164,449)
Loans issued to students	(1,965)	(2,167)
Collection of loans to students	2,071	2,077
Other receipts, net	6,059	6,156
Net Cash Used in Operating Activities	(293,807)	(314,401)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
State appropriation	289,771	329,095
Transfers to State General Fund	-	(15,000)
Gifts	24,529	21,071
Other nonoperating expenses, net	(94)	(558)
Net Cash Provided from Noncapital Financing Activities	314,206	334,608
CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES		
Proceeds from bonds	200,000	-
State debt service commitment	116,684	113,530
Purchases of property and equipment	(105,885)	(85,897)
Proceeds from sale of property and equipment	182	396
Principal paid on debt and bonds payable	(88,139)	(82,367)
Interest paid on debt and bonds payable	(48,628)	(51,160)
Capital allocation	151	(10)
Capital grants and gifts	1,441	1,140
Net Cash Provided from (Used in) Capital Financing Activities	75,806	(104,368)
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of investments, net	(54)	(18)
Interest on investments	952	1,043
Deposit with bond trustee	(106,794)	92,593
Net Cash Provided from (Used in) Investing Activities	(105,896)	93,618
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(9,691)	9,457
BEGINNING CASH AND CASH EQUIVALENTS	276,485	267,028
ENDING CASH AND CASH EQUIVALENTS	$ 266,794	$ 276,485

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

UNIVERSITY OF CONNECTICUT
STATEMENTS OF CASH FLOWS (Continued)
For the Years Ended June 30, 2012 and 2011

($ in thousands)

	2012	2011
RECONCILIATION OF OPERATING LOSS TO NET CASH USED IN OPERATING ACTIVITIES		
Operating Loss	$ (340,528)	$ (376,860)
Adjustments to Reconcile Operating Loss to Net Cash Used in Operating Activities:		
Depreciation and amortization expense	88,478	90,335
Property and equipment	(4,995)	1,045
In-kind donations	96	176
In-kind worker's compensation	2,337	-
Obligations under capital leases	1,840	-
Changes in Assets and Liabilities:		
Receivables, net	514	(3,889)
Inventories	(341)	(514)
Prepaid expenses	(12)	(244)
Accounts payable, wages payable and compensated absences	(19,061)	6,638
Deferred income	32	(2,412)
Deferred charges	46	39
Deposits	525	(58)
Due from State of Connecticut	(2,329)	(895)
Due to affiliate	(21,075)	(25,723)
Due from related agencies	-	157
Other liabilities	(1)	(3,202)
Loans to students	667	1,006
Net Cash Used in Operating Activities	$ (293,807)	$ (314,401)

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, 2012 and 2011

($ in thousands)

ASSETS	2012	2011
Current Assets		
Cash and cash equivalents	$ 1,428	$ 1,026
Pledges receivable, net of allowance	392	248
Other receivable	49	51
Prepaid expenses	23	34
Total Current Assets	1,892	1,359
Noncurrent Assets		
Pledges receivable, net of allowance	148	138
Investments	14,990	14,872
Property and equipment, net of accumulated depreciation of $127 for 2012 and $117 for 2011	8	12
Total Noncurrent Assets	15,146	15,022
Total Assets	$ 17,038	$ 16,381
LIABILITIES AND NET ASSETS		
Current Liabilities		
Accounts payable	$ -	$ 5
Total Liabilities	-	5
NET ASSETS		
Unrestricted	1,216	1,243
Temporarily restricted	2,500	2,578
Permanently restricted	13,322	12,555
Total Net Assets	17,038	16,376
Total Liabilities and Net Assets	$ 17,038	$ 16,381

STATEMENTS OF ACTIVITIES
For the Years Ended June 30, 2012 and 2011

($ in thousands)

	Unrestricted	Temporarily Restricted	Permanently Restricted	2012 Total	2011 Total
REVENUES AND SUPPORT					
Contributions and grants	$ 440	$ 296	$ 1,044	$ 1,780	$ 1,196
Interest and dividends	23	414	-	437	411
Net realized and unrealized gains	1	42	-	43	1,755
Net assets released from restrictions	830	(830)	-	-	-
Write off of pledges receivable	277	-	(277)	-	-
Total Revenues and Support	1,571	(78)	767	2,260	3,362
EXPENSES					
Program Expenses					
Scholarships and awards	195	-	-	195	184
Student support and faculty support	609	-	-	609	646
Alumni and graduate relations	98	-	-	98	123
Total Program Expenses	902	-	-	902	953
Support Expenses					
Management and general	568	-	-	568	581
Fundraising	128	-	-	128	88
Total Support Expenses	696	-	-	696	669
Total Expenses	1,598	-	-	1,598	1,622
Changes in Net Assets	(27)	(78)	767	662	1,740
Net Assets-beginning of year	1,243	2,578	12,555	16,376	14,636
Net Assets-end of year	$ 1,216	$ 2,500	$ 13,322	$ 17,038	$ 16,376

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

NOTES TO FINANCIAL STATEMENTS

Notes to Financial Statements
For the Years Ended June 30, 2012 and 2011

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Related Entities

The University of Connecticut is a comprehensive institution of higher education, which includes the University of Connecticut Health Center (Health Center). Although governed by a single Board of Trustees, the University of Connecticut and its Health Center maintain separate budgets and are by statute separate entities for purposes of maintaining operating funds and appropriations from the State of Connecticut (State). The Health Center also has a Board of Directors to whom the Board of Trustees has delegated certain responsibility and authority. This financial report for the fiscal years ended June 30, 2012 and 2011 represents the transactions and balances of the University of Connecticut (University), herein defined as all programs except the Health Center.

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

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

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

Financial Statement Presentation

The financial statements have been prepared using the economic resources measurement focus and the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America, as prescribed by the GASB.

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

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

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

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

- **Unrestricted:** Consists of net assets that do not meet the definition of “restricted” or “invested in capital assets, net of related debt.” These assets are not subject to externally imposed stipulations; however, they are subject to internal designations. For example, unrestricted net assets may be designated for specific purposes by action of management or the Board of Trustees or may otherwise be limited by contractual agreements with outside parties. For the most part all unrestricted net assets are internally designated to support academic and research programs, capital projects, retirement of indebtedness, and auxiliary enterprise activities.

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

Expenses are charged to either restricted or unrestricted net assets based on a variety of factors, including consideration of prior or future revenue sources, the type of expense incurred, the University’s budgetary policies surrounding the various revenue sources or whether the expense is a recurring cost.

Certain reclassifications were made to the Statement of Net Assets for the year ended June 30, 2011, to reflect changes in the classification between current and noncurrent liabilities. Additionally, in fiscal year 2012, the University determined that certain activities should be classified as an auxiliary enterprise, instead of as a component of institutional support. To enhance comparability, the amounts presented for the previous year were changed to reflect the reclassification of revenues from other sources to sales and services of auxiliary enterprises, and expenses from institutional support to auxiliary enterprises. For fiscal year 2011, the total reclassification of revenues and expenses were $5.4 million and $3.9 million, respectively. These changes have no effect on operating loss or net assets for the year ended June 30, 2011.

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

New Accounting Standards

The University’s financial statements and notes for fiscal years 2012 and 2011 as presented herein include the provisions of the following GASB pronouncements:

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

The University adopted GASB Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*, as of July 1, 2011. This statement incorporates specific guidance found only under pronouncements issued by FASB and the American Institute of Certified Public Accountants (AICPA) into the GASB’s authoritative literature. There was no significant impact on the financial statements as a result of this adoption.

Cash Equivalents (see Note 2)

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

Investments (see Note 2)

The University accounts for its investments at fair value in accordance with GASB Statement No. 3, *Deposits with Financial Institutions, Investments (including Repurchase Agreements), and Reverse Repurchase Agreements* and GASB Statement No. 40, *Deposit and Investment Risk Disclosures*, an amendment of GASB Statement No. 3. Changes in the unrealized gain (loss) on the carrying value are recorded in Nonoperating Revenues (Expenses) in the accompanying Statements of Revenues, Expenses, and Changes in Net Assets. Noncurrent investments are externally restricted by donors or outside sources that have stipulated as a condition of the gift instrument that the principal be maintained inviolate and in perpetuity. Noncurrent investments also include those amounts restricted by creditors for certain debt service payments (see Note 5).

Accounts and Student Loans Receivable (see Note 3)

Accounts receivable consist of tuition, fees, auxiliary enterprises service fees charged to students, faculty, staff and others, and amounts due from state and federal governments for grants and contracts. Student loans receivable consist primarily of amounts due from students under the Federal Perkins Loan Program, which are subject to significant restrictions. The student loans receivable is classified as current and noncurrent based on the amount estimated to be collected from students in one year and beyond one year. Accounts and student loans receivable are recorded net of an estimated allowance for doubtful accounts.

Inventories

Consumable supplies are expensed when received with the exception of certain central inventories which consist primarily of maintenance and custodial supplies, repair parts, and other general supplies used in the daily operations of the University. Inventory is valued at cost as determined by various methods, including the first-in, first-out method.

Deposit with Bond Trustee (see Note 5)

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

The University directs the Trustee Bank to invest UCONN 2000 General Obligation construction fund proceeds in the State Treasurer's Short-Term Investment Fund. Similarly, the University has directed the Trustee Bank to invest the debt service funds and cost of issuance for the special obligation bonds in dedicated Short-Term Investment Fund accounts.

Investment earnings from UCONN 2000 General Obligation bond proceeds are retained by the State Treasurer's Office and do not flow to the University or to the Trustee Bank. The Student Fee Revenue Bonds investment earnings are part of the pledged revenues and are directly retained by the Trustee Bank to pay debt service on the bonds or for other indenture permitted purposes. The earnings on the UCONN 2000 General Obligation Debt Service Commitment Refunding Bonds and the Special Obligation Student Fee Revenue Refunding Redemption Fund escrows form part of the irrevocable escrows and are used by the Trustee Bank to meet the debt service payments on the defeased bonds until called.

Deferred Charges – Current and Noncurrent (see Note 10)

Deferred charges consist of payments made in advance of revenues being earned. Deferred charges also represent the cost of issuance which will be amortized over the terms of the respective bond issuances.

Noncurrent Cash and Cash Equivalents (see Note 2)

Noncurrent cash and cash equivalents are related to endowment assets and are externally restricted as to use.

Property and Equipment (see Note 4)

Property and equipment are reported at cost at date of acquisition or fair value at date of donation as in the case of gifts. Property and equipment that are exchanged for other assets are recorded based on the fair value of the asset given up or the fair value of the asset received, whichever value is most clearly evident. Renovations that significantly increase the value or useful life of an asset are capitalized. Routine repairs and maintenance, and certain library materials, are charged to operating expenses in the year incurred. Building components and non-structural improvements have estimated useful lives of 2 years to 60 years. Equipment has estimated useful lives of 3 years to 30 years.

Deferred Income (see Note 10)

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

Compensated Absences (see Note 7)

Employee vacation, holiday, compensatory, and sick leave are accrued at year-end for financial statement purposes. The liability and expense incurred are recorded at year-end as compensated absences in the 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 of the University, principal payments due on bonds (net of unamortized premiums, discounts, and debt differences), loans and capital leases with a maturity of more than one year, and governmental advances for revolving loan programs that would be returned to the federal government upon cessation of the student loan program.

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

Operating expenses, except for depreciation and amortization and other operating expenses, are reported using functional classification, including those under educational and general and auxiliary enterprises. See Note 14 for operating expenses by natural classification. All other revenues and expenses of the University are reported as nonoperating revenues and expenses including State appropriation, debt service commitment for interest, noncapital gifts, investment income, interest expense, other nonoperating revenues (expenses), net, and other changes in net assets. Revenues are recognized when earned and expenses are recognized when incurred.

GASB Statement No. 35 requires that revenues be reported net of discounts and scholarship allowances. Student aid for scholarships and fellowships, recorded in the Statements of Revenues, Expenses and Changes in Net Assets, includes payments made directly to students. Any aid applied directly to the students' accounts in payment of tuition and fees, housing charges and dining services is reflected as a scholarship allowance and is deducted from the University's revenues. Certain governmental grants, such as Pell grants, and other federal, state or nongovernmental programs, are recorded as operating revenues in the University's financial statements. To the extent that revenues from such programs are used to satisfy tuition and fees and other student charges, the University has recorded a scholarship allowance.

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

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

Contributions, including unconditional promises to give, are recognized as revenue in the period received. Conditional promises to give are not recognized as revenue until the conditions on which they depend are substantially met. Investments are reported at fair value based upon quoted market prices. Certain amounts reported in 2011 have been reclassified in order to conform to the current year presentations.

2. CASH AND CASH EQUIVALENTS AND INVESTMENTS

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

The University’s total cash and cash equivalents balance was $266.8 million and $276.5 million as of June 30, 2012 and 2011, respectively, and included the following (amounts in thousands):

	2012	2011
Cash maintained by State of Connecticut Treasurer	$ 244,342	$ 246,766
Invested in State of Connecticut Short-Term Investment Fund	16,953	16,491
Invested in State of Connecticut Short-Term Investment Fund - Endowments	1,420	1,356
Invested in Short-Term Corporate Notes	2,639	2,504
Deposits with Financial Institutions and Other	1,440	9,368
Total cash and cash equivalents	266,794	276,485
Less: current balance	265,374	275,129
Total noncurrent balance	$ 1,420	$ 1,356

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

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

The University's cash management investment policy permits the University to invest in STIF, United States Treasury bills, United States Treasury notes and bonds, United States Government Agency obligations, banker's acceptances, certificates of deposit (including EURO Dollars), commercial paper, money market funds, repurchase agreements, and savings accounts. Cash and cash equivalents include amounts of $17.0 million and $1.4 million invested in STIF, which had a Standard and Poor’s rating of AAAm during fiscal year 2012. The $2.6 million invested in Short-Term Corporate Notes during fiscal year 2012 includes repurchase agreements held with a financial institution and is collateralized by the Federal National Mortgage Association and the Federal Home Loan Mortgage Corporation, both of which had an AA+ Standard and Poor’s rating.

The University designated the Foundation as the manager of the University's endowment funds. Gifts that are internally designated as endowments, and externally designated endowment gifts that are to be processed for transfer to the Foundation, are included in cash and cash equivalents. The Foundation makes spending allocation distributions to the University for each participating endowment. The distribution is spent by the University in accordance with the respective purposes of the endowments, the policies and procedures of the University and State statutes, as well as in accordance with the Foundation’s endowment spending policy described below.

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

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

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

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

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

University endowment investments are managed by the Foundation in a pooled portfolio, which is actively managed by professional investment managers as determined by the Investment Committee of the Foundation's Board of Directors. The Foundation has established asset allocation guidelines for the pooled investment portfolio, which provides that the maximum exposure with any one manager would be 20% for liquid assets and 5% for illiquid assets. The Foundation's Board of Directors also established an asset allocation policy for the long-term pooled investment portfolio (see following table). The Foundation expects that portfolios will be invested in only the strategies described in the table, not above or below the individual strategy percentage and its total percentage by objective, unless otherwise specified by its Board of Directors.

Investment Objective/Strategies	Allocation Range as Percentage of Market Value
Growth	
High yield fixed income	0% - 10%
Global equities	0% - 70%
Private capital	0% - 20%
Global macro strategies	0% - 10%
Event driven strategies (ex diversified)	0% - 10%
Real estate (public & private)	0% - 10%
Other opportunistic	0% - 10%
Total Growth	40% - 85%
Inflation Hedge	
TIPS	0% - 10%
Natural resources/commodities	0% - 15%
Other inflation hedging strategies	0% - 10%
Total Inflation Hedge	5% - 25%
Risk Minimizing	
Investment grade fixed income	0% - 20%
Relative value/Event driven (diversified)	0% - 15%
Cash equivalents	0% - 10%
Other low volatility strategies	0% - 10%
Total Risk Minimizing	5% - 40%

The endowments invested with the Foundation are subject to risk due to the uncollateralized nature of most of its investments. Certain investments of the Foundation include external investment pools. The bond mutual funds had average credit quality of Aa1/AA (Moody's and Standard and Poor's) and pooled investments of high yield fixed income had an average credit quality of B1/B+ (Moody's and Standard and Poor's). The University endowment's foreign publicly traded equities totaled $1.3 million and $1.6 million and private capital investments totaled approximately $1.9 million and $1.8 million at June 30, 2012 and 2011, respectively.

The University also holds a partnership interest in Campus Associates Limited Partnership (see Note 12). The cost basis was used to estimate fair market value for this investment because the fair value was not readily available as of June 30, 2012 and 2011. As a result, the estimated fair value may differ from the value that would have been assigned had a ready market for such an investment existed; however, it is unlikely that such differences would be material.

The cost and fair value of the University's investments including those managed by the Foundation at June 30, 2012 and 2011 were (amounts in thousands):

	2012		2011	
	Cost	Fair Value	Cost	Fair Value
Endowments:				
Foundation Managed	$ 9,550	$ 10,153	$ 9,496	$ 10,536
Other:				
Campus Associates Limited Partnership Interest	150	150	150	150
Total Investments	$ 9,700	$ 10,303	$ 9,646	$ 10,686

Certain other funds are held in trust for investment by outside trustees. The University is designated as the income beneficiary and the funds are not under the direct control of the University. Accordingly, the assets of these funds are not included in the financial statements. The fair value of these funds was $12.0 million and $12.6 million as of June 30, 2012 and 2011, respectively. Investment income earned on these assets is transferred to the University in accordance with applicable trust agreements. Income received from those sources for the years ended June 30, 2012 and 2011 was $486,000 and $433,000, respectively.

3. ACCOUNTS AND STUDENT LOANS RECEIVABLE

Accounts receivable at June 30, 2012 and 2011 consisted of the following (amounts in thousands):

	2012	**2011**
Grants and contracts	$ 22,477	$ 21,338
Student and general	16,180	17,655
Investment income	79	133
Allowance for doubtful accounts	(5,519)	(5,093)
Total accounts receivable, net	$ 33,217	$ 34,033

The University participated in the U.S. Department of Education Federal Direct Lending program during fiscal years 2012 and 2011 and distributed student loans through this program of $162.0 million and $157.0 million, respectively. These distributions and related funding are not reflected as expenses and revenues or as cash disbursements and cash receipts in the accompanying financial statements. The excess of direct loans distributed over funding received from the U.S. Department of Education as of June 30, 2012 and 2011 was $93,000 and $10,000, respectively, and these amounts were included as receivables under grants and contracts.

Student loans receivable are substantially comprised of amounts owed from students under the Federal Perkins Loan Program and was reported separately from accounts receivable on the Statements of Net Assets, net of an allowance for doubtful accounts of $1.1 million at June 30, 2012 and 2011.

4. PROPERTY AND EQUIPMENT

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

Depreciation and amortization are recorded on a straight-line basis over the estimated useful lives of the respective assets. Building components and non-structural improvements have estimated useful lives of 2 years to 60 years. Equipment has estimated useful lives of 3 years to 30 years. Library materials have an estimated useful life of 15 years. The value of library materials, before depreciation, was $80.1 million and $79.4 million at June 30, 2012 and 2011, respectively. Historical collections and art are recognized at their estimated fair values at the time of donation, and are not depreciated. Historical collections and art totaled $53.4 million and $52.8 million at June 30, 2012 and 2011, respectively. Capitalized software has an estimated life of 3 years to 5 years. The value of capitalized software, before amortization, was $25.1 million and $16.4 million at June 30, 2012 and 2011, respectively. Library materials, historical collections and art, and capitalized software are all included in equipment in the schedule of Changes in Property and Equipment.

On July 1, 2010, the University increased the capitalization threshold for equipment from $1,000 to $5,000. Equipment previously capitalized under the $5,000 threshold will be written-off when it becomes fully depreciated. For the years ended June 30, 2012 and 2011, a total of $13.9 million and $42.9 million, respectively, of fully depreciated equipment falling under the new threshold is included in equipment retirements.

For the year ended June 30, 2011, a total of $2.7 million was expensed in the accompanying Statements of Revenues, Expenses, and Changes in Net Assets in other operating expenses for a project to correct structural deficiencies related to the construction of the Agricultural Biotechnology Laboratory and Advanced Technology Laboratory buildings. These expenses will not increase the value of the buildings or extend its useful life. While the University is pursuing remedies from the original construction and design professionals involved in the original construction of the building, the total amount that may be recovered is unknown as of the date of these financial statements.

For the years ended June 30, 2012 and 2011, a total of $3.2 million and $2.5 million, respectively, were expensed in the accompanying Statements of Revenues, Expenses, and Changes in Net Assets in other operating expenses for inspections, fire and safety code updates, and other corrective action needed in order to achieve safety goals for all buildings. At June 30, 2012 and 2011, an accrual for estimated expenses to complete these projects totaling $8.8 million and $12.1 million, respectively, was recorded in other current liabilities in the Statement of Net Assets. While the University intends to pursue the recovery of costs related to the code updates and corrective work, the total amount to be recovered is unknown as of the date of these financial statements.

For the year ended June 30, 2011, a total of $3.9 million was expensed in other operating expenses in the accompanying Statements of Revenues, Expenses, and Changes in Net Assets for costs related to the implementation of certain software. The project was cancelled subsequent to June 30, 2011, and it was determined that costs capitalized to date had no realizable value as of June 30, 2011.

The following table describes the changes in property and equipment for the years ended June 30, 2012 and 2011 (amounts in thousands):

Changes in Property and Equipment for the Year Ended June 30, 2012:

	Balance July 1, 2011	Additions	Retirements	Transfers and other	Balance June 30, 2012
Property and equipment:					
Land	$ 14,676	$ -	$ (19)	$ -	$ 14,657
Non-structural improvements	205,766	3,450	-	8,351	217,567
Buildings	1,643,933	16,065	(1,844)	50,734	1,708,888
Equipment	396,841	26,088	(26,267)	-	396,662
Construction in progress	83,433	67,123	-	(59,085)	91,471
Total property and equipment	2,344,649	112,726	(28,130)	-	2,429,245
Less accumulated depreciation and amortization:					
Non-structural improvements	99,318	7,761	-	-	107,079
Buildings	619,902	55,450	(1,574)	-	673,778
Equipment	226,166	25,267	(25,834)	-	225,599
Total accumulated depreciation and amortization	945,386	88,478	(27,408)	-	1,006,456
Property and equipment, net:					
Land	14,676	-	(19)	-	14,657
Non-structural improvements	106,448	(4,311)	-	8,351	110,488
Buildings	1,024,031	(39,385)	(270)	50,734	1,035,110
Equipment	170,675	821	(433)	-	171,063
Construction in progress	83,433	67,123	-	(59,085)	91,471
Property and equipment, net:	$ 1,399,263	$ 24,248	$ (722)	$ -	$ 1,422,789

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

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

5. LONG-TERM DEBT PAYABLE

Public Act No. 95-230 enabled the University to borrow money in its own name for a special ten year capital improvement program (UCONN 2000) designed to modernize, rehabilitate, and expand the physical plant of the University. It authorized projects for Phases I and II of UCONN 2000, estimated to cost $1,250.0 million, of which $962.0 million was to be financed by bonds of the University; $18.0 million was to be funded by State general obligation bonds; and the balance of $270.0 million to be financed by gifts, other revenue, or borrowing resources of the University.

In fiscal year 2002, the General Assembly of the State of Connecticut enacted and the Governor signed into law Public Act No. 02-3 of the May 9 Special Session, An Act Concerning 21st Century UConn (Act). The new Act authorized additional projects for the University and the Health Center for what is called Phase III of UCONN 2000 at an estimated cost of $1,348.4 million of which $1,300 million is to be financed by bonds of the University. This Act amended Public Act No. 95-230 and extended the UCONN 2000 financing program that was scheduled to end in 2005, for an additional 10 years to June 30, 2015. The 21st Century UConn program was amended in fiscal year 2008, extending it an additional year to June 30, 2016, without any change in the total amount. In fiscal year 2010, the Act was amended again including a $25.0 million reallocation from existing UCONN 2000 Health Center allocations, and a $207.0 million increase in UCONN 2000 debt service commitment authorizations for the UConn Health Network. This also extended the UCONN 2000 program two additional years to fiscal year 2018. In fiscal year 2011, the General Assembly enacted and the Governor signed Public Act No. 11-75, An Act Concerning the University of Connecticut Health Center, which increased the authorized project costs for the Health Center under Phase III by $262.9 million. The Act, as amended, authorized projects under Phase III at a total estimated cost of $1,818.3 million, of which $1,769.9 million is to be financed by bonds of the University and $48.4 million is to be financed by the issuance of special obligation bonds of the University, from gifts, other revenue or borrowing resources of the University, or through the deferring of projects or achieved savings. Total project costs estimated under Phase III are $775.3 million for the Health Center and $1,043.0 million for the University.

The total estimated cost for the UCONN 2000 program, including Phases I, II and III, is $3,068.3 million.

The table below lists general obligation bonds issued to finance UCONN 2000 projects as of June 30, 2012 (amounts in thousands). Please refer to the subsequent detailed schedules for outstanding balances.

1996 Series A	$ 83,930
1997 Series A	124,392
1998 Series A	99,520
1999 Series A	79,735
2000 Series A	130,850
2001 Series A	100,000
2002 Series A	100,000
2003 Series A	96,210
2004 Series A	97,845
2005 Series A	98,110
2006 Series A	77,145
2007 Series A	89,355
2009 Series A	144,855
2010 Series A	97,115
2011 Series A	179,730
Total issued	$ 1,598,792

The University has also issued several series of general obligation refunding bonds, providing debt service savings for bonds refunded in advance of maturity. Sufficient proceeds were deposited into irrevocable escrow accounts held by the Trustee Bank to meet all obligations on the refunded debt (see Note 1) and invested in U.S. Treasury, State and Local Government Securities and cash in accordance with the Escrow Agreement. These bonds are general obligations of the University, for which its full faith and credit are pledged, and are payable from all assured revenues. The bonds are additionally secured by the pledge of and a lien upon the State debt service commitment. The State debt service commitment is the commitment by the State to pay an annual amount of debt service on securities issued as general obligations of the University. The University, consistent with the Act, is relying upon the receipt of the annual amount of the pledged State debt service commitment for the payment of the bonds and, accordingly, is not planning to budget any revenues for the payment of these bonds. Under the Master Indenture, the University expects to issue additional bonds to finance UCONN 2000 projects secured by the State debt service commitment.

In fiscal year 2012, the University recorded $179.7 million as State debt service commitment for principal together with part of the original issue premium, which resulted in total proceeds of $200.0 million for the 2011 Series A bonds. The proceeds included $62.5 million to finance projects for the Health Center for fiscal year 2012. 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 2012, this offset to finance projects for the Health Center resulted in net revenue of $115.4 million, recorded in the Other Changes in Net Assets section of the Statements of Revenues, Expenses, and Changes in Net Assets in the accompanying financial statements. A corresponding liability is recorded in due to affiliate in the Statements of Net Assets for the unspent portion of the bonds due to the Health Center ($48.9 million and $6.8 million at June 30, 2012 and 2011, respectively). Also, for the years ended June 30, 2012 and 2011, nonoperating revenues include the State debt service commitment for interest on general obligation bonds of $39.8 million and $40.0 million, respectively. A portion of interest on general obligation bonds is associated with Health Center projects.

In addition to the 2011 Series A bonds, during fiscal year 2012, the University issued the 2011 Refunding Series A bonds to refund portions of the previously issued Series A General Obligation Bonds in advance of maturity. 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 in the amount of $1.8 million is reflected as an expense in fiscal year 2012 on the Statement of Revenues, Expenses, and Changes in Net Assets under State debt service commitment for principal. The refunding reduced the general obligation debt service payments in future years by approximately $1.9 million and resulted in an economic gain (the present value of the savings) of approximately $1.7 million.

The following table reflects the change in debt as a result of this Series A 2011 refunding (amounts in thousands):

2003 Series A	$ 11,135
2004 Series A	22,600
Total defeased debt	33,735
Total refunding bonds	31,905
Decrease in bonds as a result of refunding	$ 1,830

In fiscal year 2011, there were no general obligation bonds issued or refunded.

The University may also issue special obligation bonds, also called student fee revenue bonds, which are backed by certain pledged revenues of the University. In 1998, 2000 and 2002, the University issued $33.6 million, $89.6 million and $75.4 million of special obligation bonds, respectively, to fund new construction of dormitories, apartments, a parking garage, and the renovations of several dormitories. The 2000 special obligation bonds were refunded in advance of maturity in fiscal year 2002 with the issuance of $96.1 million in refunding bonds. The 1998 and a portion of the 2002 special obligation bonds were refunded in advance of maturity in fiscal year 2010 with the issuance of $47.5 million refunding bonds. Similar to general obligation bond refundings, the proceeds from special obligation or student fee revenue bond refundings are deposited into certain escrow accounts to meet all obligations of the refunded maturities. In fiscal years 2012 and 2011, there were no special obligation bonds issued or refunded.

The special obligation bonds are secured by certain pledged revenues, as defined in the indenture, including gross and net revenue amounts. The total gross and net pledged revenues from tuition and fees, auxiliary, investment and other revenues of the University were approximately $75.4 million and $73.2 million in fiscal years 2012 and 2011, respectively. Gross pledged revenues include the infrastructure maintenance fee and the general university fee plus investment income on the bond accounts held by the Trustee Bank, prior to any payments, deductions, offsets, or provisions. Net pledged revenues include the residential life room fee, student apartment rentals, Greek housing fee, the board (dining) fee, and the parking and transportation fees, after providing for the cost of maintaining, repairing, insuring, and operating the facilities for which the fees are imposed. In addition to securing revenue bonds, the gross and net pledged revenues available are pledged toward certain other debt. The University has covenanted to collect in each fiscal year, fees representing pledged revenues so that the sum of gross and net revenue amounts is no less than 1.25 times the debt service requirements in such fiscal year for the special obligation bonds.

The total principal and interest remaining to be paid on all special obligation bonds as of June 30, 2012 and 2011 was $231.5 million and $244.2 million, respectively. The total amount paid by pledged revenues were $5.1 million for the principal and $7.6 million for the interest of this debt in both fiscal years 2012 and 2011.

Subsequent to the year ended June 30, 2012, the University issued $88.0 million of special obligation student fee revenue bonds, 2012 Refunding Series A, to refund $106.0 million of the 2002 Series A Bonds and 2002 Refunding Series A bonds previously issued. The sale of this issue concluded in November 2012, with the closing date of December 13, 2012.

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

The State issues certain general obligation bonds that are categorized as self-liquidating bonds. These bonds were issued to fund the construction and renovations of revenue-generating capital projects. The University reimburses the State primarily with revenue from student fee charges in the amount equal to the debt service on self-liquidating bonds.

During fiscal year 2009, the University purchased a unit in Campus Associates Limited Partnership for $50,000 and the loan related to this purchase was retired during fiscal year 2011.

Long-term debt activity, including refunding of debt, for the years ended June 30, 2012 and 2011 was as follows (amounts in thousands):

Long-term Debt Activity for the Year Ended June 30, 2012:

	Balance July 1, 2011	Additions	Retirements	Balance June 30, 2012	Current portion
General obligation bonds	$ 804,310	$ 211,635	$ (112,395)	$ 903,550	$ 74,755
Revenue bonds	159,290	-	(5,120)	154,170	5,705
Self liquidating bonds	2,953	-	(782)	2,171	569
Installment loans	150	1,840	(263)	1,727	408
Obligation under capital lease for Cogeneration	66,098	-	(3,313)	62,785	3,465
Total long-term debt	1,032,801	213,475	(121,873)	1,124,403	84,902
Premiums/discounts/debt difference due to refunding	25,849	24,663	(4,192)	46,320	3,470
Total long-term debt, net	$ 1,058,650	$ 238,138	$ (126,065)	$ 1,170,723	$ 88,372

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

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

Long-term debt outstanding at June 30, 2012 and 2011 consisted of the following (amounts in thousands):

Type of debt and issue date	Type of issue	Principal payable	Maturity dates through fiscal year	Interest rate*	Balance 2012	Balance 2011
Bonds:						
GO 2002 Series A	original	annually	2012	4.3%	$ -	$ 5,000
GO 2003 Series A	original	annually	2013	3.2-4.4%	4,735	20,595
GO 2004 Series A	original	various	2024	3.0-5.0%	27,055	54,550
GO 2004 Ref. Series A	refund	annually	2020	3.9-5.0%	149,730	174,080
GO 2005 Series A	original	annually	2025	3.625-3.7%	60,530	65,430
GO 2006 Series A	original	annually	2026	4.0-5.0%	53,990	57,850
GO 2006 Ref. Series A	refund	annually	2020	3.2-5.0%	59,555	59,555
GO 2007 Series A	original	annually	2027	3.6-5.0%	63,005	68,275
GO 2007 Ref. Series A	refund	various	2022	5.0%	46,030	46,030
GO 2009 Series A	original	annually	2029	3.0-5.0%	122,815	130,165
GO 2010 Series A	original	annually	2030	3.0-5.0%	87,400	92,260
GO 2010 Ref. Series A	refund	annually	2021	2.0-5.0%	26,435	30,520
GO 2011 Series A	original	annually	2031	3.515-5.0%	170,745	-
GO 2011 Ref. Series A	refund	various	2023	2.0-5.0%	31,525	-
Total general obligation bonds					903,550	804,310
Rev 2002 Series A	original	various	2030	4.758-5.0%	32,430	34,425
Rev 2002 Ref. Series A	refund	annually	2030	4.5-5.25%	76,230	78,410
Rev 2010 Ref. Series A	refund	annually	2028	3.0-5.0%	45,510	46,455
Total revenue bonds					154,170	159,290
March 1993	original	annually	2012	5.5%	-	65
October 1993	refund	various	2012	6.0%	-	206
June 2001	refund	annually	2016	4.4 -5.5%	301	377
November 2001	refund	annually	2014	5.0-5.125%	592	883
August 2002	refund	various	2016	3.75-5.25%	552	552
April 2005	refund	various	2017	4.37-5.25%	275	275
December 2007	refund	annually	2015	5.0%	451	595
Total self liquidating bonds					2,171	2,953
Total bonds					1,059,891	966,553
Loans and other debt:						
Installment loans		various	various	1.01-1.959%	1,727	150
Obligation under capital lease for Cogeneration		monthly	2026	4.42-5.09%	62,785	66,098
Total loans and other					64,512	66,248
Total bonds, loans and installment purchases					1,124,403	1,032,801
Premiums/discounts/debt difference due to refunding					46,320	25,849
Total bonds, loans and installment purchases, net					1,170,723	1,058,650
Less: current portion, net					88,372	80,589
Total noncurrent portion, net					$ 1,082,351	$ 978,061

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

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

	General obligation bonds			Long-term debt other than general obligation bonds			Total obligations		
Year(s)	Principal	Interest	Total	Principal	Interest	Total	Principal	Interest	Total
2013	$ 74,755	$ 41,998	$ 116,753	$ 10,147	$ 10,184	$ 20,331	$ 84,902	$ 52,182	$ 137,084
2014	77,750	38,502	116,252	10,440	9,751	20,191	88,190	48,253	136,443
2015	77,595	35,145	112,740	10,877	9,267	20,144	88,472	44,412	132,884
2016	72,965	31,561	104,526	11,227	8,750	19,977	84,192	40,311	124,503
2017	71,295	28,146	99,441	11,480	8,227	19,707	82,775	36,373	119,148
2018-2022	293,325	94,183	387,508	63,584	32,818	96,402	356,909	127,001	483,910
2023-2027	170,905	37,686	208,591	69,928	16,855	86,783	240,833	54,541	295,374
2028-2032	64,960	6,809	71,769	33,170	2,804	35,974	98,130	9,613	107,743
Total	$ 903,550	$ 314,030	$ 1,217,580	$ 220,853	$ 98,656	$ 319,509	$ 1,124,403	$ 412,686	$ 1,537,089

6. RETIREMENT PLANS AND POST EMPLOYMENT BENEFITS

All eligible employees participate in essentially one of three retirement plans. The State Employees' Retirement System (SERS), a single-employer defined-benefit pension plan, is administered by the State and covers approximately 40% of the University's eligible employees. Plan benefits and contribution requirements of plan members and the University are described in Section 5-152 to 5-192 of the General Statutes. The State is statutorily responsible for the pension benefits of University employees who participate in this plan; therefore, no liability for pension benefits is recorded in the University's financial statements. The State is required to contribute at an actuarially determined rate, which may be reduced by an act of the State legislature. The plan does not issue stand-alone financial reports. Information on the plan is publicly available in the State of Connecticut's Comprehensive Annual Financial Report.

The University also sponsors the Alternative Retirement Plan (ARP) for unclassified eligible employees, a defined contribution plan administered through a third-party administrator, ING Life Insurance and Annuity Company. Plan provisions, including contribution requirements of plan members and the University, are described in Section 5-156 of the General Statutes.

In accordance with the State Employees Bargaining Agency Coalition (SEBAC) ARP Grievance Award signed by the State and SEBAC on September 22, 2010, employees enrolled in ARP have the one-time opportunity to make their irrevocable choice to either remain in ARP or transfer to SERS. The University employs approximately 2,600 individuals eligible for the conversion. If eligible individuals choose to convert to SERS, fringe benefit costs for these individuals would increase. The deadline for this election shall be determined following receipt of the Internal Revenue Service Private Letter Ruling. It is unclear at this time what the financial impact on the University will be, if any.

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

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

With respect to the University's Department of Dining Services (DDS), of its approximately 520 full-time employees, 73 participate in either the State Employees' Retirement System or ARP, while 447 are eligible to participate in two other retirement plans: the Department of Dining Services Money Purchase Pension Plan (MPPP) or the University of Connecticut Department of Dining Services 403(b) Retirement Plan. Under the provisions of MPPP, the University DDS is required to contribute 6% or 7% of employee's covered compensation for eligible employees and its employees do not make any contributions to the Plan. The MPPP is a defined contribution plan administrated through a third-party administrator, Pension Consultants, Inc. On behalf of MPPP participants, DDS contributed $590,000 and $575,000 to the plan for the years ended June 30, 2012 and 2011, respectively.

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

7. COMPENSATED ABSENCES AND WAGES PAYABLE

Compensated absences are recorded in accordance with GASB Statement No. 16, *Accounting for Compensated Absences*. The liability for compensated absences is classified as current and noncurrent based on the amount estimated to be paid to eligible employees in one year and beyond one year, respectively. Compensated absences include accrued unused vacation, holiday, compensatory and sick leave balances for employees. As of June 30, 2012 and 2011 compensated absences totaled $33.0 million and $34.5 million, respectively. During fiscal year 2009, the State offered a Retirement Incentive Plan (RIP) to University employees. According to the terms of the RIP, unused vacation and sick leave will be paid in three equal payments on July 1 of each year, beginning July 1, 2012. Included in the noncurrent compensated absences liability as of June 30, 2012 and 2011, were $1.7 million and $2.4 million, respectively, for accrued vacation and sick leave for University employees that participated in RIP. The following table shows activity for compensated absences for the fiscal years ended June 30 (amounts in thousands):

	2012	**2011**
Beginning balance, July 1st	$ 34,467	$ 31,187
Additions, net	1,250	5,378
Deductions (separations only)	(2,711)	(2,098)
Ending balance, June 30th	$ 33,006	$ 34,467

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

8. COMMITMENTS

On June 30, 2012, the University had outstanding commitments in excess of $500,000 each, which totaled $120.1 million, and included $115.2 million of commitments related to capital projects. Of this amount, commitments totaling $36.6 million related to UCONN 2000 capital projects that are administered by the University for the Health Center. The commitments on behalf of the Health Center are included in the due to affiliate (see Note 5). A portion of the total amount of outstanding commitments was also included in accounts payable on the Statement of Net Assets as of June 30, 2012. In addition to the amount for capital outlay, commitments were also related to instruction, research, institutional support, and auxiliary enterprises. Of these commitments, the University expects approximately $1.1 million to be reimbursed by federal grants.

9. LEASES

Operating Leases

The University leases equipment and building space which expire at various dates. Future minimum rental payments at June 30, 2012 under non-cancelable operating leases, that exceeded $500,000 each, were as follows (amounts in thousands):

Fiscal Year	Payments
2013	$ 1,518
2014	1,564
2015	1,635
2016	1,311
2017	477
Thereafter	1,465
Total	$ 7,970

Expenses related to operating lease commitments in excess of $500,000 each were approximately $1.0 million and $814,000 for the fiscal years ended June 30, 2012 and 2011, respectively.

Capital Leases

In December 2003, the University entered into a lease purchase agreement for a project to provide on-site generation of electricity, steam and chilled water for heating and cooling for the University at its Storrs campus. The project initially assumed a total cost of $75.0 million and included construction of a building, engineering, design and installation of certain equipment at the Storrs campus. The lease was amended in August 2005 as a result of an increase in the total anticipated cost to $81.9 million. With the amendment, monthly payments of $471,000 increased to $517,000. Payments began January 2006 and the lease matures 20 years from commencement with interest at a nominal rate of 4.42% on the first $75.0 million and 5.09% for the last $6.9 million of advances. Amounts advanced by the lessor include capitalized interest during construction, and are reflected as long-term debt in the accompanying financial statements. At the completion of the lease term, the University has an option to purchase the project assets for one dollar. The historical cost and accumulated depreciation of the Cogeneration facility were $82.6 million and $21.6 million, respectively, as of June 30, 2012.

The University leases equipment assets with an historical cost and accumulated depreciation of $2.2 million and $280,000, respectively, as of June 30, 2012.

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

10. DEFERRED INCOME AND CHARGES

Deferred income is comprised of certain restricted research grants that are not included in revenue until the funds are expended; tuition and fees and auxiliary enterprises fees received in advance of services rendered for summer and fall sessions; athletic ticket sales and commitments received in advance of the season; and other revenues received but not earned.

As of June 30, 2012 and 2011 deferred income was as follows (amounts in thousands):

	2012	2011
Certain restricted research grants	$ 8,363	$ 10,768
Tuition and fees and auxiliary enterprises	13,619	10,133
Athletic ticket sales and commitments	2,827	3,876
Total deferred income	$ 24,809	$ 24,777

A portion of current deferred charges totaling $741,000 and $697,000 and noncurrent deferred charges totaling $7.9 million and $7.5 million at June 30, 2012 and 2011, respectively, represented the cost of issuance on certain bond issuances which is amortized over the terms of the respective bond issues (see Note 5).

11. TUITION WAIVERS AND GRADUATE ASSISTANTSHIPS

The University is required by law to waive tuition for certain veterans and children of veterans, certain students over the age of 62, graduate assistants, and certain other students. The University is also required by collective bargaining agreements to waive tuition for certain employees and their dependents. The University has included the portion of waived tuition related to employees and their dependents as a fringe benefit cost and the same amount as tuition revenue in the Statements of Revenues, Expenses and Changes in Net Assets. This increased tuition and fee revenues and operating expenses by $5.2 million and $4.6 million for the fiscal years ended June 30, 2012 and 2011, respectively. The total amount of waivers not reflected in the accompanying financial statements were $43.6 million and $42.4 million in fiscal years 2012 and 2011, respectively. In fiscal years 2012 and 2011, approximately 93% were provided to graduate assistants and, of these amounts, $1.1 million and $404,000, respectively, were charged back to grants for reimbursement.

12. RELATED PARTY TRANSACTIONS

The Foundation

The Foundation is a tax-exempt organization supporting the University and the Health Center (see Note 1). The University has entered into a written agreement with the Foundation whereby the University agreed to provide financial support to the Foundation through a guaranteed contractual amount and the Foundation agreed to reimburse the University for certain operating expenses incurred on the Foundation's behalf. The terms of the agreement also stipulate that goals, objectives, and financial arrangements are reviewed and agreed-upon by both parties on a bi-annual basis. The University also provides other services to the Foundation in addition to this agreement.

The following transactions occurred between the University and the Foundation as of and for the years ended June 30, 2012 and 2011 (amounts in thousands):

	2012	**2011**
Amount paid to the Foundation for its guaranteed contractual services	$ 7,120	$ 7,120
Reimbursements from the Foundation for operating expenses	$ 331	$ 212
Accrued capital and noncapital gifts and grants revenue from the Foundation	$ 22,335	$ 18,923
Amount receivable from the Foundation*	$ 2,885	$ 5,589

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

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

The State

The State supports the University's mission primarily via two mechanisms: State appropriation and the provision of payments for fringe benefits. State appropriation represents amounts appropriated to the University from the State's General Fund. Payments for fringe benefits were made by the State for reimbursements related to salaries expensed from the General Fund. The transactions for the years ended June 30, 2012 and 2011 were as follows (amounts in thousands):

	2012	2011
Amount of General Fund appropriation received from the State	$ 205,586	$ 232,656
Amount of payments for fringe benefits received from the State	86,522	96,439
Decrease of General Fund payroll included in receivable from the State	(9,738)	(144)
Total appropriation and payments for fringe benefits from the State	$ 282,370	$ 328,951

Due to the State's deficit mitigation plan that was enacted in fiscal year 2010, the University transferred $15.0 million from the University's unrestricted net assets to the State's General Fund in fiscal year 2011. There were no transfers issued in fiscal year 2012; however, the University experienced a reduction of approximately $39.4 million in appropriation and payments for fringe benefits as a result of the State's economic initiatives. For fiscal year 2013, the University anticipates a reduction of approximately $15.0 million in appropriation and payments for fringe benefits from the State in response to the widening State deficit.

Pursuant to various public or special bond acts, the General Assembly empowers the State Bond Commission to authorize bonds for a variety of projects or purposes. On August 26, 2011, the State Bond Commission authorized the issuance of $18.0 million in State General Obligation Bonds to finance the initial design and development costs of the Technology Park on the Storrs campus. These bonds are an obligation of the State; therefore, they are not recorded as a liability in the accompanying financial statements. The total amount of $18.0 million allotted by the State was recorded as a capital allocation in other changes in net assets in the accompanying Statement of Revenues, Expenses, and Changes in Net Assets for the year ended June 30, 2012. Of this amount, approximately $200,000 was expended and capitalized with the remaining unspent portion of $17.8 million included under due from the State of Connecticut in the accompanying Statement of Net Assets for the year ended June 30, 2012. The total cost of the project is estimated to be approximately $172.5 million.

Health Center and Office of Technology Commercialization

The Office of Technology Commercialization (OTC) was established as a university-wide function consisting of the following divisions: the Center for Science and Technology Commercialization, the Research and Development Corporation, and the Technology Incubation Program. For the current and prior fiscal years, the funding for these divisions was consolidated into the Health Center's budget, a part of which was reimbursed by the University in accordance with an annual memorandum of agreement for the transfer of funds. The aggregate total contributed by the University to fund the OTC in fiscal years 2012 and 2011 was $952,000 and $1.0 million, respectively. Of these amounts, $326,000 and $431,000, respectively, represented expenses paid by the University associated with OTC functions based on the Storrs campus.

During fiscal year 2012, the Office of Economic Development (OED) was established to ensure the successful economic development outcomes for the Technology Park and Bioscience Connecticut initiative along with coordinating all of the University's economic development activities. The OED consists of divisions formally under the OTC with the addition of the U.S. Economic Development Administration Program. Beginning in fiscal year 2013, the funding for these divisions will be consolidated into the University's budget which, in part, will be reimbursed by the Health Center in accordance with an annual memorandum of agreement.

The University also engaged in certain cost share arrangements with the Health Center for shared services such as senior management salaries and managed UCONN 2000 funds for the Health Center's construction projects as well.

University of Connecticut Alumni Association

The University and the University of Connecticut Alumni Association (Association), a Connecticut non-stock corporation that is exempt from taxation under section 501(c)(3) of the Internal Revenue Code have an agreement that recognizes the benefits of a coordinated approach to alumni relationship building and defines the responsibilities of the parties. During the years ended June 30, 2012 and 2011, the University directed support to the Association in the amount of $1.1 million and $1.0 million, respectively. The amounts supported by the University consist primarily of payroll and other operating expenses which facilitate the alumni programs and services for the benefit of the University. The Association also agreed to reimburse the University for certain operating expenses incurred on the Association's behalf. The amounts owed to the University related to these expenses from the Association as of June 30, 2012 and 2011 were $14,000 and $44,000, respectively, which were included in accounts receivable, net, in the accompanying Statements of Net Assets.

Additionally, the Association manages the University's license plate program that has been established through the Department of Motor Vehicles. All revenue received by the University from the license plate program is disbursed to the Association to fund scholarships and to further support alumni outreach efforts. There was approximately $1,400 payable to the Association for the license plate program as of June 30, 2012 and no amounts were due as of June 30, 2011.

Campus Associates Limited Partnership

The University entered into a 50-year land lease with Campus Associates Limited Partnership (Campus Associates) on February 1, 2000. The limited partnership was formed for the purpose of managing the Nathan Hale Inn, a hotel located on campus. The lease provided for base rents of $5,000 for the first five years and $25,000 for the sixth year. For the seventh year and every year thereafter, base rent is adjusted by the increase in the Consumer Price Index. In exchange for a rent concession amounting to $100,000 in total for five years, the University received two limited partnership units. On June 15, 2009, the University purchased a third unit in the limited partnership paying $50,000 for the limited partnership interest (see Note 2). Under the land lease agreement, Campus Associates is responsible for certain costs which include real estate taxes, charges for public utilities, and other services. The amounts owed by Campus Associates for these costs as of June 30, 2012 and 2011, were $104,000 and $206,000, respectively, which were included in accounts receivable, net, in the accompanying Statements of Net Assets.

Mansfield Downtown Partnership, Incorporated

The Mansfield Downtown Partnership, Incorporated (MDP) is a not-for-profit corporation that is exempt from taxation under section 501(c)(3) of the Internal Revenue Code and is comprised of the Town of Mansfield (Mansfield), the University, and individual business members and residents. MDP is responsible for organizing the enhancement and revitalization of three of Mansfield's commercial areas: Storrs Center, King Hill Road and the Four Corners. In accordance with its governing by-laws, members are required to submit annual dues, as determined by the board of directors, in lieu of financial support. In fiscal years 2012 and 2011, the University paid $125,000 each year in annual membership dues to MDP.

In connection with the Storrs Center project, the University entered into an agreement with the master developer of the project to sell 18.80 acres of land for approximately $101,000 per acre which is to be divided up in phases. In fiscal years 2012 and 2011, the University conveyed 1.80 acres and 3.96 acres, respectively, to the master developer as well as 5.09 acres subsequent to June 30, 2012, which were sold at the stated price per acre. Related to the respective land sales in fiscal years 2012 and 2011, the University conveyed 4.04 acres and 2.71 acres, respectively, that were in turn, transferred to Mansfield at no cost for the provision of public improvements. In a separate transaction, the University also transferred 24.2 acres of land subject to a conservation restriction to Mansfield for consideration of one dollar in fiscal year 2012. Further land transactions are expected as the Storrs Center project continues to progress. Moreover, the University has agreed to provide water and sewer services, which will be billed in accordance with the University's standard billing practices.

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

13. CONTINGENCIES

The University is a party to various legal actions arising in the ordinary course of its operations. While it is not feasible to predict the ultimate outcome of these actions, it is the opinion of management that the resolution of the majority of these matters will not have a material effect on the University's financial statements. However, there are a small number of outstanding matters of potential individual significance. With respect to these matters, certain claimants seek an aggregate of approximately $30.0 million. The State expects these matters to be resolved for less than that amount. The amounts pertaining to the other remaining claims are still unknown at this time.

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

14. OPERATING EXPENSES BY NATURAL CLASSIFICATION

The table below details the University's operating expenses by natural classification for the years ended June 30, 2012 and 2011 (amounts in thousands):

For the fiscal year ended June 30, 2012:

	Salaries and wages	Fringe benefits	Supplies and other expenses	Utilities	Depreciation and amortization	Total
Instruction	$ 200,293	$ 66,054	$ 29,337	$ -	$ -	$ 295,684
Research	40,489	9,263	23,009	-	-	72,761
Public services	23,706	7,227	8,703	-	-	39,636
Academic support	55,353	21,881	22,908	-	-	100,142
Student services	24,632	9,396	4,889	131	-	39,048
Institutional support	42,792	20,569	15,669	73	-	79,103
Operations and maintenance	18,786	11,706	20,301	14,087	-	64,880
Depreciation and amortization	-	-	-	-	88,478	88,478
Student aid	361	1	5,745	-	-	6,107
Auxiliary enterprises	67,919	26,632	57,366	7,393	-	159,310
Other operating expenses	54	36	11,554	-	-	11,644
	$ 474,385	$ 172,765	$ 199,481	$ 21,684	$ 88,478	$ 956,793

For the fiscal year ended June 30, 2011:

	Salaries and wages	Fringe benefits	Supplies and other expenses	Utilities	Depreciation and amortization	Total
Instruction	$ 198,436	$ 63,054	$ 30,713	$ -	$ -	$ 292,203
Research	40,519	8,831	25,131	-	-	74,481
Public services	25,028	7,985	8,457	-	-	41,470
Academic support	52,439	20,459	25,495	-	-	98,393
Student services	24,526	9,361	5,708	160	-	39,755
Institutional support	45,045	21,004	18,608	87	-	84,744
Operations and maintenance	20,089	12,122	21,993	17,161	-	71,365
Depreciation and amortization	-	-	-	-	90,335	90,335
Student aid	366	1	5,123	-	-	5,490
Auxiliary enterprises	66,018	25,230	58,076	9,098	-	158,422
Other operating expenses	259	86	19,395	-	-	19,740
	$ 472,725	$ 168,133	$ 218,699	$ 26,506	$ 90,335	$ 976,398

TRUSTEES AND FINANCIAL OFFICERS
As of June 30, 2012

UNIVERSITY OF CONNECTICUT
1881