University of Connecticut

Financial Report
For the Year Ended June 30, 2013

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, 2013 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 2013 was 29,728 students, taught by 1,377 full-time faculty members and an additional 725 part-time faculty and adjuncts. In total, the University employs 4,624 full and part-time faculty and staff (excluding adjuncts).

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

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

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

The financial condition of the University is closely tied to the State's economic condition. There are significant financial and economic challenges facing the State and the nation. Over the past several years, the University has experienced reductions in the State appropriation in addition to mandatory transfers to the State from the University's unrestricted net assets. Despite the reality of 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 2013 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.

In June 2013, the General Assembly of the State of Connecticut enacted and the Governor signed into law Public Act No. 13-233, An Act Concerning Next Generation Connecticut. The Next Generation Connecticut Act is a new initiative that will greatly expand educational opportunities, research, and innovation in the science, technology, engineering, and math disciplines at the University over the next decade. The commitment to Next Generation Connecticut is a shared fiduciary responsibility with the State. The proposed capital and operating funding for this initiative will be allocated incrementally between fiscal years 2015 and 2024. Certain goals and objectives of Next Generation Connecticut include hiring 259 new faculty members, enrolling an additional 6,580 undergraduate students, upgrading aging infrastructure to accommodate new faculty and students, and relocating the University's Greater Hartford campus.

The University enjoys strong support across the State, is attracting greater numbers of highly qualified applicants than ever before, and maintains solid national rankings in virtually all relevant areas. Among its many accomplishments, the University continues to be the top public university in New England and is among the top public universities in the nation in the annual *U.S. News and World Report (2013 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 2012 freshman enrollment at the main campus was up 54%, minority freshman enrollment was up 169%, and since 1996, average SAT scores were up 113 points. 48% 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 81% average for 382 colleges and universities in the national Consortium for Student Retention Data Exchange. The 6-year graduation rate is 82% and the average time to graduate is 4.2 years among students completing a Bachelor's degree within six years.
- Approximately 7,500 degrees were conferred in the 2012-13 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 $115.5 million in fiscal year 2013.
- The endowment for both the University and the Health Center is valued at $359.5 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 $36.0 million in 2013 for scholarships, faculty, programs and facilities.
- By the end of fiscal year 2013, the UCONN 2000 program has led to the authorization of 108 major projects totaling $2.1 billion in bond proceeds.

Respectfully Submitted,

Lysa D. Teal

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
STATE CAPITOL
210 CAPITOL AVENUE
HARTFORD, CONNECTICUT 06106-1559

JOHN C. GERAGOSIAN

ROBERT M. WARD

INDEPENDENT AUDITORS' REPORT

Board of Trustees of the
University of Connecticut

Report on Financial Statements

We have audited the accompanying financial statements of the University of Connecticut (University), a component unit of the University of Connecticut system, which includes the University of Connecticut, the Health Center and the University of Connecticut Foundation, Inc., which comprise the statements of net position as of June 30, 2013 and 2012, and the related statements of revenues, expenses and changes in net position and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. We did not audit the financial statements of the University of Connecticut Law School Foundation, Inc., a discretely presented component unit of the University, which statements reflect total assets of $18,650,952 and $17,038,672 as of June 30, 2013 and 2012, respectively and total revenues and support of $3,076,679 and $2,260,926 for the years then ended. Those financial statements were audited by other auditors whose reports thereon have been furnished to us, and our opinion, insofar as it relates to the amounts included for the University of Connecticut Law School Foundation, Inc., is based solely on the reports of the other auditors. The audits of the University of Connecticut Law School Foundation, Inc. were conducted in accordance with auditing standards generally accepted in the United States of America.

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

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

Opinion

In our opinion, based upon our audit and the reports of other auditors, the financial statements referred to above present fairly, in all material respects, the financial position of the University, as of June 30, 2013 and 2012, and the respective changes in financial position and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

The accompanying Management's Discussion and Analysis on pages 4 through 17 is required by accounting principles generally accepted in the United States of America to supplement the basic financial statements. Such information, although not part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquires of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquires, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Sincerely,

Robert M. Ward
Auditor of Public Accounts

John C. Geragosian
Auditor of Public Accounts

January 17, 2014
State Capitol
Hartford, Connecticut

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MANAGEMENT'S DISCUSSION AND ANALYSIS

Management's Discussion and Analysis

INTRODUCTION

The following Management's Discussion and Analysis (MD&A) is required supplemental information. Its purpose is to provide users of the basic financial statements with a narrative introduction, overview, and analysis of those statements. The MD&A, which is unaudited, includes an analysis of the financial position and results of activities of the University of Connecticut (University, as defined below) for the fiscal year ended June 30, 2013, based on currently known facts, decisions, or conditions. It also includes selected comparative information for the years ended June 30, 2012 and 2011, 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, 2013 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.

In accordance with the current authoritative guidance issued by the Governmental Accounting Standards Board (GASB), 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 adopted GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources and Net Position*, as of July 1, 2012. This Statement amends the net asset reporting requirements defined in previously issued pronouncements by incorporating deferred outflows of resources and deferred inflows of resources into the definitions of the required components of the residual measure and by renaming that measure from net assets to net position. The deferred outflows and inflows represent the consumption or acquisition of resources by the University that are applicable to a future reporting period, but do not require further exchange of goods or services. These changes have been reflected in the MD&A, accompanying financial statements and notes to the financial statements.

Effective for the fiscal year ended June 30, 2013, the University changed its practice of accruing construction retainage in order to conform with the provisions of authoritative guidance currently in effect. This change was applied retrospectively to the balances presented on the Statement of Net Position for the fiscal year ended June 30, 2012, but did not affect beginning net position (see Note 1). For purposes of the MD&A, certain amounts were also restated for fiscal year 2012.

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 pages 1 and 2.

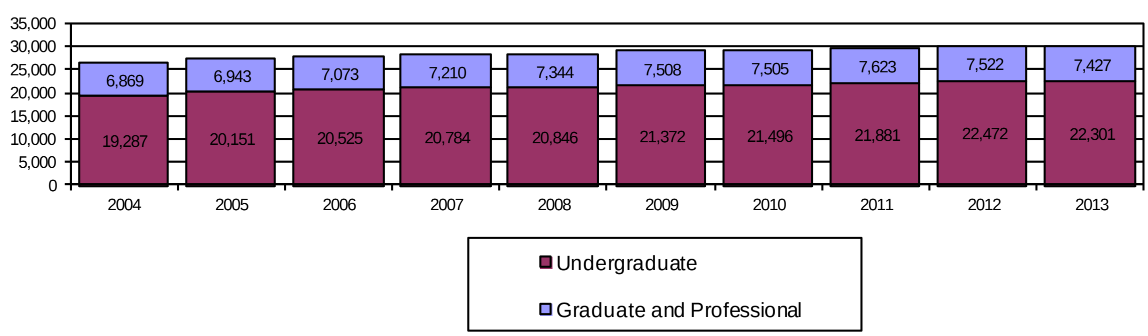
FINANCIAL HIGHLIGHTS AND ECONOMIC OUTLOOK

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 the General Assembly can approve additional reductions requested by the Governor in order to prevent a deficit in the State budget.

The financial statements contained herein show an operating loss of $367.9 million for the year ended June 30, 2013 (fiscal year 2013) as compared to $340.5 million for the year ended June 30, 2012 (fiscal year 2012), and $376.9 million for the year ended June 30, 2011 (fiscal year 2011). The increase in operating loss in fiscal year 2013 from fiscal year 2012 was due to an increase in total operating expenses of 4.4%, primarily attributed to an increase in fringe benefit rates in addition to an increase in commodities, supplies, and other expenses. 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. For public institutions, the measure more indicative of normal and recurring activities is income or loss before other changes in net position, which includes revenue from the State appropriation. The University experienced a loss before other changes in net position of $63.9 million in fiscal year 2013 as compared to $41.9 million and $49.9 million for fiscal years 2012 and 2011, respectively. Total operating revenues grew $14.4 million in fiscal year 2013 and $16.7 million in fiscal year 2012. At the same time, operating expenses increased $41.7 million in fiscal year 2013 as compared to a decrease in fiscal year 2012 of $19.6 million from fiscal year 2011. Investment income decreased $0.04 million in fiscal year 2013, $0.1 million in fiscal year 2012 and $0.3 million in fiscal year 2011.

Sources of recurring revenues continued to exhibit strength. The University's total enrollment in fiscal year 2003 topped 25,000 students and grew to 29,728 students in fiscal year 2013. These students are taught by 1,377 full-time faculty members (an increase of 47 faculty over the prior year) and an additional 725 part-time faculty and adjuncts. Undergraduate enrollment at the University reached 22,301 students in fiscal year 2013, 0.8% less than fiscal year 2012 (2.7% more students in fiscal year 2012 over 2011). At the same time, an in-state tuition and mandatory fee increase of 6.5% and an out-of-state increase of 5.9% were approved for fiscal year 2013. Graduate and professional enrollment decreased by 1.3% with an in-state tuition and mandatory fee increase of 6.1% and an out-of-state increase of 5.8%. The net decrease 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 $15.5 million (4.3%) as compared to a $19.2 million (5.6%) increase in fiscal year 2012. Sales and services of auxiliary enterprises, before scholarship allowances, increased $3.1 million (1.7%), primarily as a result of an overall increase in room and board fees of 3.0% for undergraduate and 3.6% for graduate students and a decrease in room occupancy of 2.4% from fiscal year 2012. In fiscal year 2012, 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. Grant and contract revenues increased $0.1 million (0.1%) in fiscal year 2013 as compared to a decrease of $4.9 million (3.0%) in fiscal year 2012 from 2011.

HEADCOUNT ENROLLMENT IN FALL OF EACH FISCAL YEAR
TEN YEAR COMPARISON



The University has received reductions in State funding as a result of a continuing economic recession and the State's commitment to a balanced budget. Prior to increases in fringe benefit rates, the State rescinded approximately $15.0 million in appropriation and payments for fringe benefits in response to a widening State budget deficit in fiscal year 2013. In fiscal year 2012, the University experienced a reduction of approximately $39.4 million in appropriation and payments for fringe benefits from the State. In fiscal year 2011, the University also transferred $15.0 million from unrestricted funds 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 and further reductions in State support of approximately $1.2 million are anticipated in fiscal year 2014 for required adjustments to agency-specific appropriations in accordance with Public Act 13-184, as amended by Public Act 13-247. 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. 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.

Pursuant to various public or special bond acts, the General Assembly empowers the State Bond Commission to authorize and approve bonds for a variety of projects or purposes. In August 2011, the State Bond Commission approved the issuance of $18.0 million in State General Obligation Bonds to finance the initial design and development costs of the Technology Park (Tech Park) on the Storrs campus. In April 2013, the State Bond Commission approved an additional issuance of $20.0 million in State General Obligation Bonds to purchase equipment for the Tech Park. The total cost of the project is estimated to be approximately $172.5 million. This project will drive technology-based economic development by creating a partnership between UConn and industry, where the University will support the growth of companies by offering access to advanced technology, faculty expertise, along with providing incubator space for new companies. The Tech Park will be a critical component of the State's plan to stimulate long-term economic growth by supporting innovation, new technologies and the creation of new companies and sustainable jobs.

The UCONN 2000 Infrastructure Improvement Program, established by The University of Connecticut 2000 Act (UCONN 2000), is designed to modernize and expand the physical plant of the University and the Health Center. As amended, it provides for a twenty-nine year capital budget program in three phases, estimated to cost $4.6 billion. The UCONN 2000 Act was originally adopted in 1995 to authorize and finance the UCONN Phase I and Phase II projects at the University. It was amended in 2002, to add Phase III projects, and again in fiscal years 2010 and 2011 which extended the UCONN 2000 program for two more years and increased the estimated cost for certain Health Center projects. In June 2013, the General Assembly of the State of Connecticut enacted and the Governor signed into law Public Act No. 13-233, An Act Concerning Next Generation Connecticut (Next Generation Connecticut), which increased the authorized bond funding by $1.6 billion, which also includes funding for the Health Center, and extended UCONN 2000 for an additional six fiscal years to 2024.

Next Generation Connecticut is a new initiative that will greatly expand educational opportunities, research, and innovation in the science, technology, engineering, and math disciplines at the University over the next decade. The commitment to Next Generation Connecticut is a shared fiduciary responsibility with the State. Proposed capital and operating funding for Next Generation Connecticut will be allocated incrementally between fiscal years 2015 and 2024. Additionally, the University will commit significant institutional resources to launch Next Generation Connecticut by contributing approximately $235.0 million in reallocated UCONN 2000 funds for the Next Generation Connecticut building program and approximately $149.0 million in operating funds to support the academic program components. The total State request for operating funds is $137.0 million through fiscal year 2024, however such funding is not guaranteed. Certain goals and objectives of Next Generation Connecticut include hiring 259 new faculty members, enrolling an additional 6,580 undergraduate students, upgrading aging infrastructure to accommodate new faculty and students, and relocating the University's Greater Hartford campus.

FINANCIAL STATEMENTS

GASB Statement No. 35, *Basic Financial Statements - and Management's Discussion and Analysis - for Public Colleges and Universities*, as amended by GASB Statement No. 63, establishes standards for financial reporting for public colleges and universities. The University's financial report includes three basic financial statements: Statements of Net Position; Statements of Revenues, Expenses, and Changes in Net Position; and Statements of Cash Flows. In addition, the following elements are included with these general-purpose financial statements: Management's Discussion and Analysis and Notes to the Financial Statements. 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 POSITION

The Statements of Net Position present the assets, deferred outflows of resources, liabilities, deferred inflows of resources, and net position of the University as of the end of the fiscal year, June 30. The Statements of Net Position are a point in time financial statement – a snapshot – and a measure of the financial condition of the University. These statements present end-of-year data concerning assets, classified as current (those available for use within one year) and noncurrent (those available beyond one year), liabilities, categorized as current (those maturing and due within one year) and noncurrent (those maturing and due after one year) and net position. Net position represents assets, plus deferred outflows, less liabilities, less deferred inflows. Assets represent what is owned by or what is owed to the University, including payments made to others before a service was received. Assets are recorded at their current value, except for property and equipment which are recorded at historical cost, net of accumulated depreciation and amortization. Liabilities represent what is owed to others or what has been received from others prior to services being provided by the University. Deferred outflow of resources represent the consumption of net assets by the University that is applicable to a future reporting period, while deferred inflow of resources is an acquisition of net assets by the University that is applicable to a future reporting period.

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

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

	2013	2012*	2011
Current assets	$ 500.4	$ 612.3	$ 500.6
Noncurrent assets			
State debt service commitment	751.0	828.8	735.0
Investments	10.6	10.3	10.7
Property and equipment, net	1,474.6	1,430.6	1,399.3
Other	19.0	19.8	19.3
Total assets	$2,755.6	$2,901.8	$2,664.9
Current liabilities	$ 293.5	$ 310.5	$ 268.3
Noncurrent liabilities			
Long-term debt and bonds payable	988.9	1,082.4	978.1
Other	21.2	19.8	23.2
Total liabilities	$1,303.6	$1,412.7	$1,269.6
Net investment in capital assets	$1,222.1	$1,163.4	$1,144.9
Restricted	75.7	156.6	75.0
Unrestricted	154.2	169.1	175.4
Total net position	$1,452.0	$1,489.1	$1,395.3

*As restated

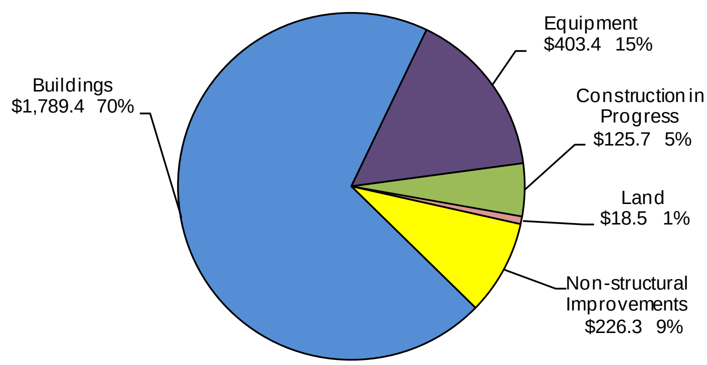
The total assets decreased $146.2 million in fiscal year 2013 from 2012 as compared to an increase of $236.9 million in fiscal year 2012 over 2011. The decrease in fiscal year 2013 was primarily attributed to the $119.5 million decrease in deposit with bond trustee ($106.8 million increase in fiscal year 2012).

The total liabilities for fiscal year 2013 decreased $109.1 million ($143.2 million increase in fiscal year 2012) primarily due to the retirement and refundings of debt on existing bonds and loans of $192.3 million in fiscal year 2013 ($126.1 million in fiscal year 2012) offset by newly acquired debt of $102.8 million ($238.1 million in fiscal year 2012). The combination of the decrease in total assets of $146.2 million ($236.9 million increase for fiscal year 2012) and total liabilities of $109.1 million ($143.2 million increase for fiscal year 2012) yields a decrease in total net position of $37.1 million ($93.8 million increase in fiscal year 2012).

Capital and Debt Activities

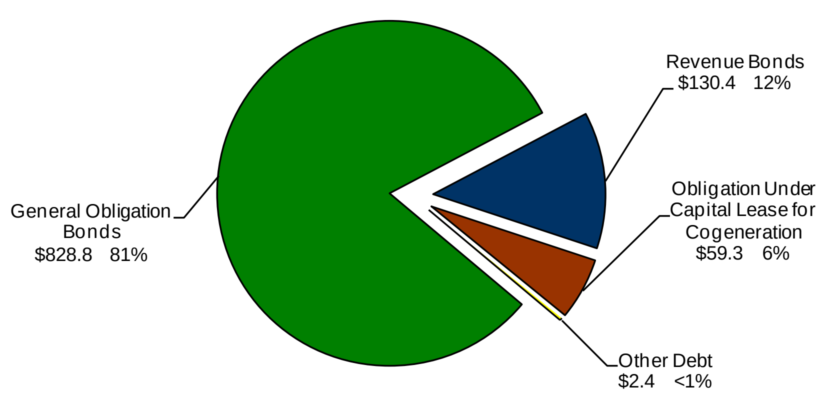
During fiscal year 2013, the University recorded additions to property and equipment totaling $136.1 million ($120.5 million and $93.1 million in fiscal years 2012 and 2011, respectively) of which $110.9 million related to buildings and construction in progress ($91.0 million and $69.2 million in fiscal years 2012 and 2011, respectively). The growth of the University's property and equipment is a direct result of the successful UCONN 2000 program. Subsequent to the year ended June 30, 2013, it was determined by management that buildings with a total carrying amount of approximately $24.5 million were potentially impaired as of year-end; however, the total impairment loss could not be reasonably estimated as of the date of the accompanying financial statements (see Note 4). The following pie chart presents the total property and equipment at cost:

TOTAL PROPERTY AND EQUIPMENT AT COST AT JUNE 30, 2013
($ in Millions) Total $2,563.3



In fiscal year 2013, the University did not issue UCONN 2000 general obligation bonds ($179.7 million in fiscal year 2012 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. As the general obligation debt is incurred, the commitment from the State is recorded as a current and noncurrent receivable (State debt service commitment in the accompanying Statements of Net Position). When bonds are issued, the amount of the commitment for the Health Center is reflected as a liability by the University. Subsequent to the year ended June 30, 2013, the University issued a combined $223.9 million, with a closing date of July 31, 2013, to fund UCONN 2000 projects and to refund portions of outstanding general obligation bonds (see Note 5). The following chart illustrates the categories of debt as of June 30, 2013, exclusive of premiums, discounts and debt differences due to refunding:

CATEGORIES OF DEBT AT JUNE 30, 2013
($ in Millions) Total $1,020.9

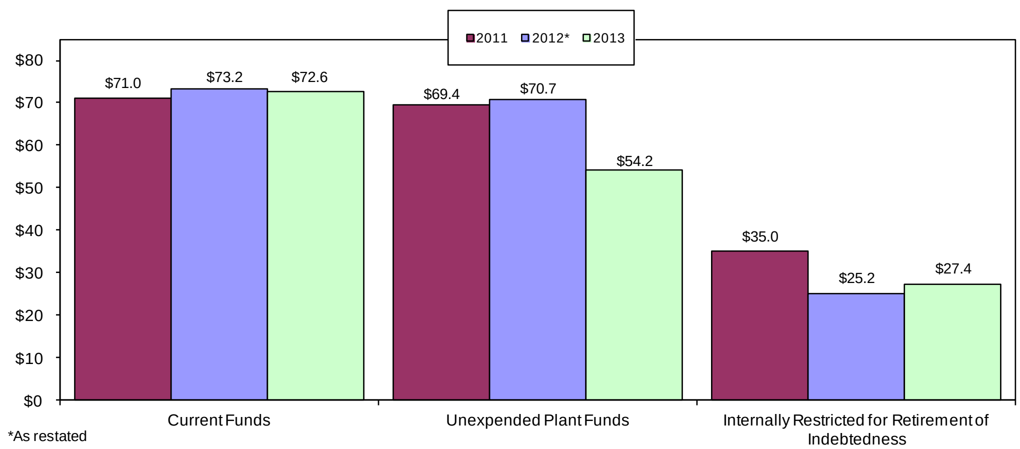


See Notes 4 and 5 of the financial statements for further information on capital and debt activities.

Net Position

Net position is divided into three major categories. The first category, net investment in capital assets, represents the University's equity in property and equipment. The restricted net position 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 Position this amount represents endowment assets. Expendable restricted net position is available for expenditure by the institution, but must be spent for purposes determined by donors and/or external entities that have placed time or purpose restrictions on the use of the assets. The final category is unrestricted net position. Unrestricted net position is defined by GASB Statement Nos. 35 and 63 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 Statements of Net Position. Unrestricted net position may be designated for specific purposes by action of management or the Board of Trustees or may otherwise be limited by contractual agreements with outside parties. GASB prohibits a breakout of designated unrestricted funds on the face of the Statements of Net Position. Unrestricted funds are available to the University for any lawful purpose of the institution. The following shows a comparison between fiscal years by category of unrestricted net position:

UNRESTRICTED NET POSITION ($ in Millions)



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

STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION

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

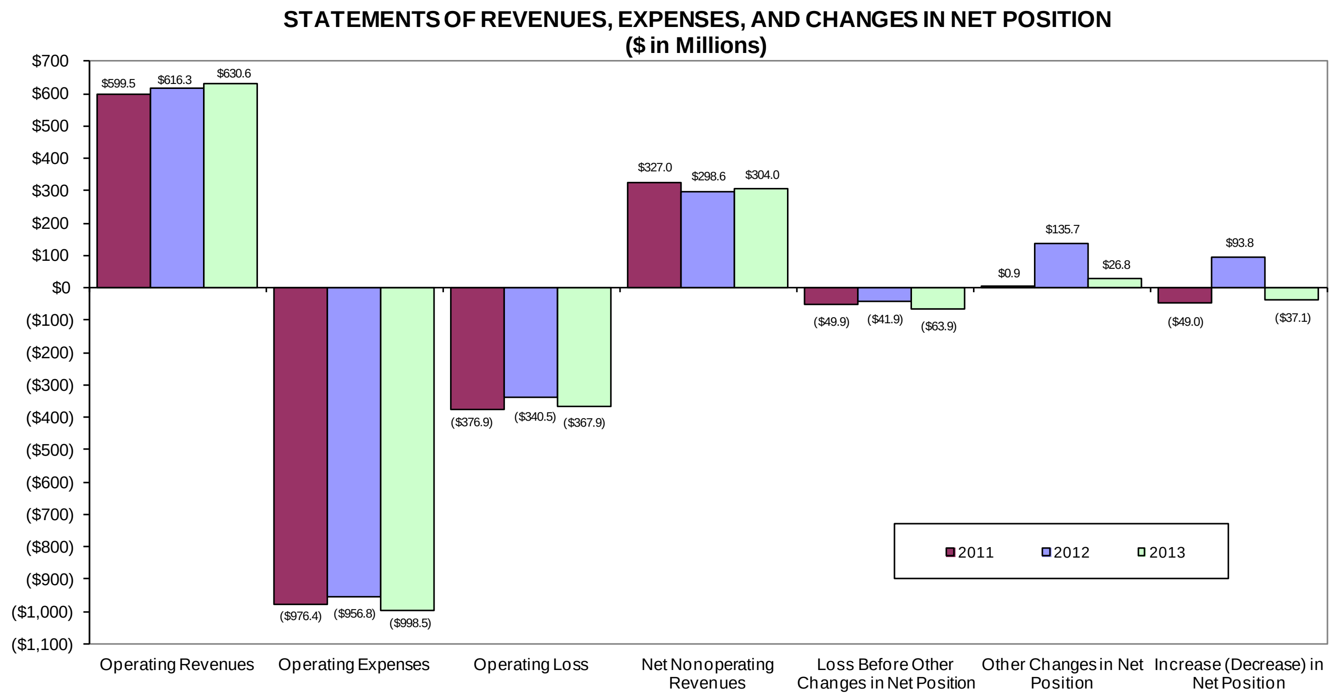
The University performed a review of the categorization of functional expenses and certain reclassifications were made to the Statements of Revenues, Expenses, and Changes in Net Position for the years ended June 30, 2012 and 2011 to better reflect the appropriate classifications in accordance with applicable guidance. These increases (decreases) have no effect on operating loss or net position for the years indicated and are summarized in the table below (in millions):

	2012	2011
Instruction	$ (4.3)	$ (4.8)
Research	0.7	0.7
Public service	(4.2)	(4.1)
Academic support	8.2	9.1
Student services	(3.8)	(3.7)
Institutional support	(25.6)	(20.1)
Operations and maintenance of plant	35.5	38.0
Auxiliary enterprises	5.1	4.6
Other operating expenses	(11.6)	(19.7)
Total operating expenses	$ -	$ -

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

	2013	2012	2011
Operating revenues	$ 630.6	$ 616.3	$ 599.5
Operating expenses	998.5	956.8	976.4
Operating loss	(367.9)	(340.5)	(376.9)
Net nonoperating revenues	304.0	298.6	327.0
Loss before other changes in net position	(63.9)	(41.9)	(49.9)
Net other changes in net position	26.8	135.7	0.9
Increase (decrease) in net position	$ (37.1)	$ 93.8	$ (49.0)

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



Generally, operating revenues are earned when providing goods and services to the various customers of the University. Operating expenses are incurred in the normal operation of the University and represent those expenses paid to acquire or produce the goods and services provided in return for the operating revenues. Operating expenses also include the provision for estimated depreciation and amortization of property and equipment. The difference between operating revenues and operating expenses is the operating income or loss. The University typically experiences an operating loss each year because State appropriation, the University's largest source of revenue, is not included as operating income.

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

Other changes in net position are comprised of the State's debt service commitment for principal payments on general obligation bonds used for capital purposes, capital allocation, capital grants and gifts, the disposal of property and equipment, and additions to permanent endowments. The Statements of Revenues, Expenses, and Changes in Net Position reflect a decrease in the net position of $37.1 million in fiscal year 2013, an increase in the net position of $93.8 million in fiscal year 2012, and a decrease of $49.0 million in fiscal year 2011.

Revenues

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

	2013	2012	2011
Operating revenues:			
Student tuition and fees, net	$ 261.7	$ 251.0	$ 233.9
Grants and contracts	159.8	159.7	164.5
Sales and services of educational departments	15.8	17.4	16.2
Sales and services of auxiliary enterprises, net	185.2	182.0	178.5
Other sources	8.1	6.2	6.4
Total operating revenues	630.6	616.3	599.5
Nonoperating revenues:			
State appropriation	288.4	282.4	329.0
State debt service commitment for interest	40.6	39.8	40.0
Gifts	20.0	24.3	21.1
Investment income	0.9	0.9	1.0
Total nonoperating revenues	349.9	347.4	391.1
Other changes in net position:			
State debt service commitment for principal	-	115.4	-
Capital allocation	20.0	18.0	-
Capital grants and gifts	6.7	2.8	2.0
Disposal of property and equipment, net and additions to permanent endowments	0.1	-	-
Total other changes in net position	26.8	136.2	2.0
Total revenues	$ 1,007.3	$ 1,099.9	$ 992.6

Revenue highlights, for fiscal years 2013 and 2012 and comparison between fiscal years, including operating and nonoperating revenues and other changes in net position, presented on the Statements of Revenues, Expenses, and Changes in Net Position are as follows:

- Student tuition and fees, net of scholarship allowances, increased 4.2% in fiscal year 2013 (7.3% in fiscal year 2012) and 4.3% before scholarship allowances (5.6% in fiscal year 2012). The increase in fiscal year 2013 was due in part to a 6.5% increase (2.4% in fiscal year 2012) for undergraduate in-state tuition and mandatory fees charged, and a 5.9% increase (2.6% in fiscal year 2012) for out-of-state tuition and mandatory fees offset by a decrease of 0.8% in undergraduate enrollment (2.7% increase in fiscal year 2012) and a 1.3% decrease in graduate enrollment (1.3% in fiscal year 2012).

- Total grants and contracts increased $0.1 million (0.1%) in fiscal year 2013 ($4.9 million or 3.0% decrease in fiscal year 2012) primarily due to a $5.9 million (16.7%) increase in state, local, and nongovernmental grant aid offset by a $5.8 million (4.6%) decrease in federal funding primarily due to sequestration cuts during fiscal year 2013.

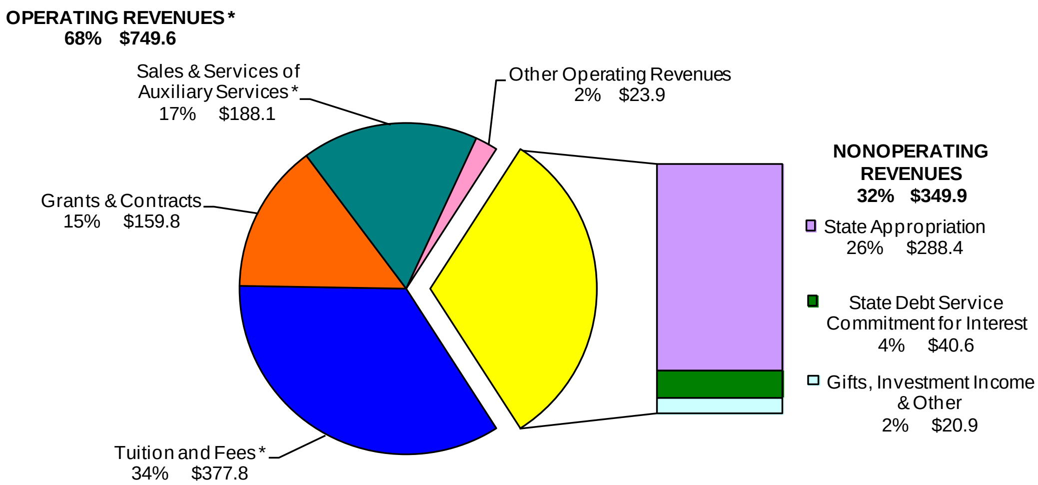
- Sales and services of auxiliary enterprises, net of scholarship allowances, increased approximately 1.8% and 2.0% during fiscal years 2013 and 2012, respectively. The increase in fiscal year 2013 resulted from an increase in fees charged for both room and board of 3.0% for undergraduate and 3.6% for graduate students offset by a decrease in room occupancy of 2.4% from fiscal year 2012. The increase in fiscal year 2012 resulted from an increase in fees charged for both room and board of 2.5% for undergraduate students and graduate students and an increase in room occupancy of 1.6% over fiscal year 2011.

- The largest source of revenue, State appropriation including fringe benefits, increased $6.1 million in fiscal year 2013 compared to a decrease of $46.6 million in fiscal year 2012. 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 Position to reflect this commitment. This results in revenue that is recorded in other changes in net position that totaled $115.4 million in fiscal year 2012. There were no general obligation bonds issued in fiscal year 2013. Included in other changes in net position, the State also allocated $20.0 million to purchase equipment in fiscal year 2013 and $18.0 million for design and development costs in fiscal year 2012 for the Tech 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 the Law School Foundation. These spendable funds are provided to the University for educational, cultural, recreational, and research activities. Both the Foundation and the Law School Foundation disburse funds to the University as requests are made, provided the request is in accordance with donor restrictions, if any. These gifts, including capital gifts, received by the University from both Foundations in fiscal years 2013 and 2012 totaled approximately $22.9 million for each year. On a combined basis, both Foundations also paid approximately $3.0 million in fiscal year 2013 ($3.1 million in fiscal year 2012) to third parties on behalf of the University. This amount is not reflected in the University's financial statements. Total nonoperating gifts and capital grants revenue to the University from all sources amounted to $26.7 million and $27.1 million in fiscal years 2013 and 2012, respectively.

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

REVENUES FOR FISCAL YEAR 2013 ($ in Millions)
Total: $1,099.5



* Shown here at gross amounts, not netted for student financial aid totaling $119.0 million.

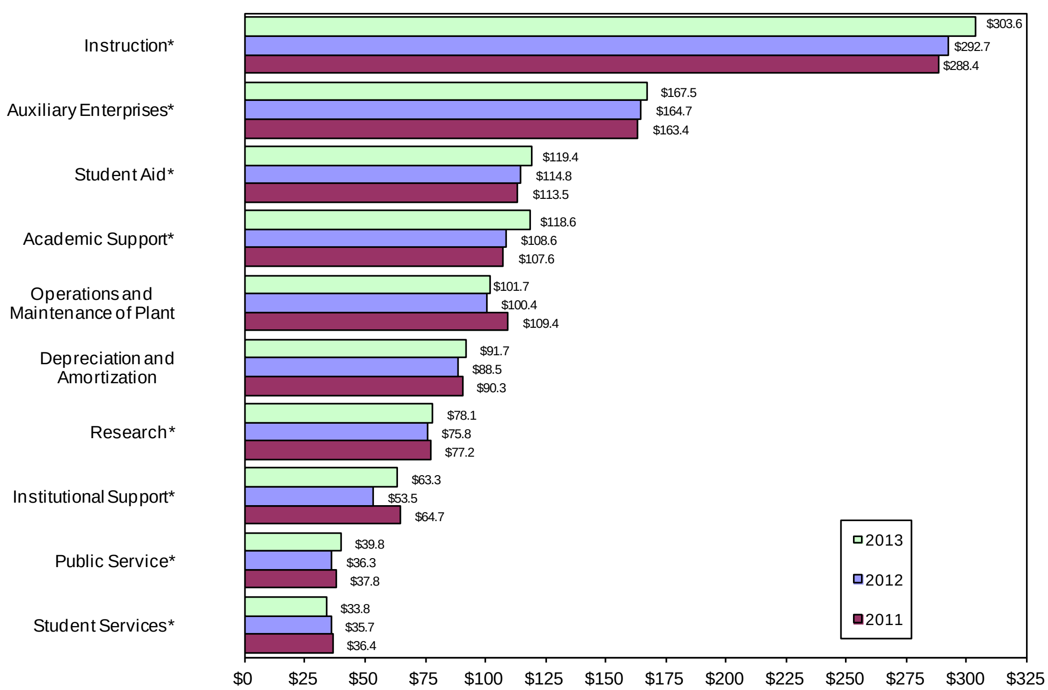
Expenses

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

	2013	2012	2011
Operating expenses:			
Instruction	$ 302.2	$ 291.4	$ 287.4
Research	74.9	73.5	75.2
Operations and maintenance of plant	101.7	100.4	109.4
Auxiliary enterprises	167.5	164.4	163.1
Depreciation and amortization	91.7	88.5	90.3
Other	260.5	238.6	251.0
Total operating expenses	998.5	956.8	976.4
Nonoperating expenses:			
Interest expense	45.4	47.1	48.8
Transfers to State General Fund	-	-	15.0
Other nonoperating expense, net	0.5	1.7	0.3
Total nonoperating expenses	45.9	48.8	64.1
Other changes in net position:			
Capital allocation	-	-	0.5
Disposal of property and equipment, net	-	0.5	0.6
Total other changes in net position	-	0.5	1.1
Total expenses	$ 1,044.4	$ 1,006.1	$ 1,041.6

Operating expenses are classified by function in the accompanying Statements of Revenues, Expenses, and Changes in Net Position. These functions directly contribute to the major mission of the University. Certain amounts previously reported in fiscal years 2012 and 2011 have been reclassified in order to conform to the current year presentation. 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 $119.0 million.

Total operating expenses were $998.5 million and $956.8 million in fiscal years 2013 and 2012, respectively, netted for student financial aid totaling $119.0 million and $114.2 million, respectively. Natural classification includes salaries, fringe benefits, utilities, and supplies and other expenses (see Note 14 for operating expenses by natural classification).

Highlights of expenses presented on the Statements of Revenues, Expenses, and Changes in Net Position are as follows:

- Instruction, the University's largest operating expense, increased $10.8 million (3.7%) primarily due to a net increase of approximately 66 full-time equivalent faculty and staff that was mainly a result of a major expansion of faculty. In addition, there was an increase in fringe benefit rates. These increases were offset by a 6.6% decrease in supplies and other expenses. In fiscal year 2012, instruction increased $4.0 million (1.4%) primarily due to an increase of approximately 29 full-time equivalent faculty and staff due to the University's strategic faculty hiring plan which was offset by a 6.2% decrease in supplies and other expenses.

- In fiscal year 2013, research expenses increased $1.4 million or 2.0% ($1.7 million or 2.2% decrease in fiscal year 2012). 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.

- Academic support increased $9.3 million or 8.6% for fiscal year 2013 ($0.8 million or 0.8% in fiscal year 2012) primarily due to a net increase of approximately 58 full-time equivalent staff and an increase in fringe benefit rates. Furthermore, supplies and other expenses also increased 17.8% which was mostly attributed to an increase in information technology related expenses.

- In fiscal year 2013, institutional support experienced an increase of $9.8 million or 18.4% ($11.2 million or 17.3% decrease in fiscal year 2012). This resulted primarily from an increase of 29.5% in fringe benefits due to rate increases combined with a 23.1% net increase in supplies and other expenses. In fiscal year 2012, institutional support decreased mainly due to a 35.8% net decrease in supplies and other expenses in addition to a 8.1% net decrease in the number of full-time equivalent staff.

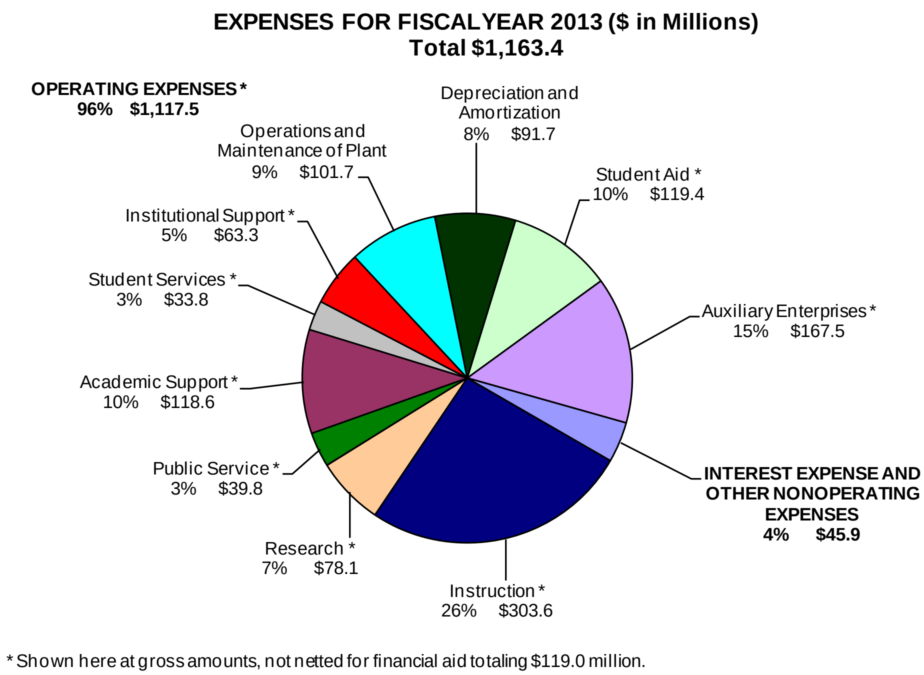
- Operations and maintenance of plant increased $1.3 million or 1.3% in fiscal year 2013 as compared to a $9.0 million or 8.2% decrease in fiscal year 2012. This is primarily attributed to an increase of 7.2% (13.1% decrease in fiscal year 2012) for supplies and other expenses related to general maintenance and repairs. This increase was offset by a decrease in natural gas rates, of approximately 9.1% in fiscal year 2013 (8.6% in fiscal year 2012). Natural gas consumption for the Cogeneration plant also decreased in fiscal year 2013 mainly due to switching over to oil for a longer period of time during the winter. The University also experienced a decrease in electricity rates, including distribution and demand charges, of approximately 18.9% in fiscal year 2013 (9.7% in fiscal year 2012).

- In fiscal year 2013, the University began to depreciate an additional $49.9 million ($45.6 million in fiscal year 2012) in property and equipment which attributed to an increase of $3.2 million ($1.9 million decrease in fiscal year 2012) in depreciation and amortization expense. Fiscal year 2012 depreciation and amortization was lower than fiscal year 2011 due to changes in the capitalization policy that impacted the capitalization threshold for equipment.

- Auxiliary enterprises expenses increased $3.1 million or 1.9% in fiscal year 2013 (0.7% in fiscal year 2012), primarily due to a net increase of 14 full-time equivalent staff and an increase in fringe benefit rates offset by a 10.5% decrease in utilities (18.7% in fiscal year 2012).

- In fiscal year 2013, the University began allocating expenses by function that were formerly reported under other operating expenses and related to non-capital projects. The majority of these expenses, $11.9 million ($11.5 million in fiscal 2012) were allocated to operations and maintenance of plant and $3.1 million ($0.3 million in fiscal year 2012) were allocated to institutional support. These amounts consist of expenses pertaining to inspections, fire and safety code updates, and other corrective actions needed in order to achieve safety goals for all buildings, in addition to write-offs of certain software (see Note 4). Other expenses include costs not capitalized under University policy such as repairs, project management fees, capital project studies, and mold, lead and asbestos removal projects.

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 Position. 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 Positions' operating loss amount. The difference results from noncash items such as depreciation and amortization expense and the use of the accrual basis of accounting in preparing the Statements of Revenues, Expenses, and Changes in Net Position. These statements show revenues and expenses when incurred, not necessarily when cash is received or used. The Statements of Cash Flows, on the other hand, show cash inflows and outflows without regard to accruals. The Statements of Cash Flows have four additional sections including: cash flows from noncapital financing activities including State appropriation, 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 Position to net cash used in operating activities.

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

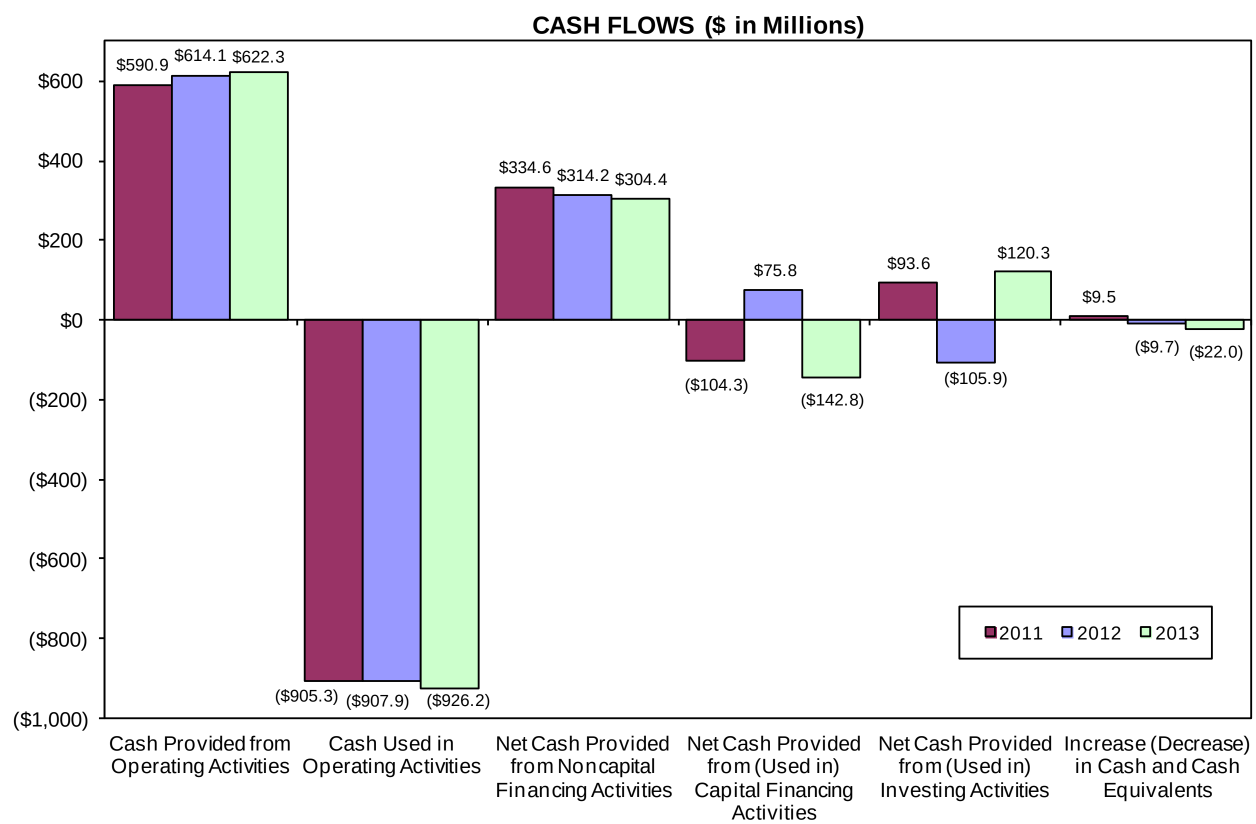
	2013	2012	2011
Cash provided from operating activities	$ 622.3	$ 614.1	$ 590.9
Cash used in operating activities	(926.2)	(907.9)	(905.3)
Net cash used in operating activities	(303.9)	(293.8)	(314.4)
Net cash provided from noncapital financing activities	304.4	314.2	334.6
Net cash provided from (used in) capital financing activities	(142.8)	75.8	(104.3)
Net cash provided from (used in) investing activities	120.3	(105.9)	93.6
Net increase (decrease) in cash and cash equivalents	$ (22.0)	$ (9.7)	$ 9.5

Net cash used in operating activities was $303.9 million and $293.8 million in fiscal years 2013 and 2012, 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 $304.4 million in fiscal year 2013 ($314.2 million in fiscal year 2012), a $9.8 million decrease from fiscal year 2012 ($20.4 million from fiscal year 2011).

Cash flows used in capital financing activities was $142.8 million in fiscal year 2013 and $75.8 million provided in fiscal year 2012. The major difference between fiscal years 2013 and 2012 was that $200.0 million in bond proceeds were received in fiscal year 2012 ($0 in fiscal year 2013) in addition to an increase in the amount of purchases of property and equipment of $23.6 million ($20.0 million in 2012).

Net cash provided from investing activities was $120.3 million in fiscal year 2013 and $105.9 million used in fiscal year 2012. The major difference between fiscal years 2013 and 2012 was that $200.0 million in bond proceeds were received in fiscal year 2012 ($0 in fiscal year 2013) which were invested in the deposit with bond trustee.

Total cash and cash equivalents decreased $22.0 million and $9.7 million in fiscal years 2013 and 2012, respectively, as a result of these activities. The following bar graph shows the cash flows provided from and used by major categories and as described in the preceding paragraphs:



FINANCIAL STATEMENTS

UNIVERSITY OF CONNECTICUT
STATEMENTS OF NET POSITION
As of June 30, 2013 and 2012

($ in thousands)

	2013	2012 (Restated)
ASSETS		
Current Assets		
Cash and cash equivalents	$ 243,348	$ 265,374
Accounts receivable, net	39,204	33,217
Student loans receivable, net	1,838	1,744
Due from State of Connecticut	74,950	52,346
State debt service commitment	92,168	90,600
Inventories	4,237	4,198
Deposit with bond trustee	41,030	160,524
Deferred charges	713	785
Prepaid expenses	2,901	3,515
Total Current Assets	500,389	612,303
Noncurrent Assets		
Cash and cash equivalents	1,438	1,420
Investments	10,614	10,303
Student loans receivable, net	10,374	10,494
State debt service commitment	751,045	828,795
Property and equipment, net	1,474,569	1,430,589
Deferred charges	7,211	7,923
Total Noncurrent Assets	2,255,251	2,289,524
Total Assets	$ 2,755,640	$ 2,901,827
LIABILITIES		
Current Liabilities		
Accounts payable	$ 55,694	$ 33,667
Deferred income	25,525	24,809
Deposits held for others	2,425	2,887
Wages payable	39,898	40,326
Compensated absences	23,302	24,266
Due to State of Connecticut	17,904	14,570
Due to affiliate (see Note 5)	3,938	48,300
Current portion of long-term debt and bonds payable	92,274	88,372
Other current liabilities	32,547	33,360
Total Current Liabilities	293,507	310,557
Noncurrent Liabilities		
Compensated absences	9,925	8,740
Long-term debt and bonds payable	988,922	1,082,351
Refundable for federal loan program	11,233	11,076
Total Noncurrent Liabilities	1,010,080	1,102,167
Total Liabilities	$ 1,303,587	$ 1,412,724
NET POSITION		
Net investment in capital assets	$ 1,222,167	$ 1,163,416
Restricted nonexpendable	11,902	11,574
Restricted expendable		
Research, instruction, scholarships and other	20,602	19,536
Loans	2,469	2,425
Capital projects	33,416	115,315
Debt service	7,279	7,737
Unrestricted (see Note 1)	154,218	169,100
Total Net Position	$ 1,452,053	$ 1,489,103

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

UNIVERSITY OF CONNECTICUT
STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
For the Years Ended June 30, 2013 and 2012

($ in thousands)

	2013	2012
OPERATING REVENUES		
Student tuition and fees (Net of scholarship allowances of $116,062 for 2013 and $111,139 for 2012. See Note 1.)	$ 261,641	$ 251,017
Federal grants and contracts	118,715	124,478
State and local grants and contracts	25,898	22,078
Nongovernmental grants and contracts	15,212	13,141
Sales and services of educational departments	15,814	17,348
Sales and services of auxiliary enterprises (Net of scholarship allowances of $2,907 for 2013 and $3,030 for 2012. See Note 1.)	185,240	181,974
Other sources	8,114	6,229
Total Operating Revenues	630,634	616,265
OPERATING EXPENSES		
Educational and general		
Instruction	302,202	291,370
Research	74,948	73,509
Public service	39,068	35,478
Academic support	117,679	108,340
Student services	33,315	35,256
Institutional support	63,302	53,465
Operations and maintenance of plant	101,661	100,402
Depreciation and amortization	91,713	88,478
Student aid	7,154	6,107
Auxiliary enterprises	167,474	164,388
Total Operating Expenses	998,516	956,793
Operating Loss	(367,882)	(340,528)
NONOPERATING REVENUES (EXPENSES)		
State appropriation	288,456	282,370
State debt service commitment for interest	40,571	39,755
Gifts	19,996	24,377
Investment income	859	898
Interest expense	(45,402)	(47,117)
Other nonoperating expenses, net	(439)	(1,635)
Net Nonoperating Revenues	304,041	298,648
Loss Before Other Changes in Net Position	(63,841)	(41,880)
OTHER CHANGES IN NET POSITION		
State debt service commitment for principal	-	115,400
Capital allocation	20,000	18,000
Capital grants and gifts	6,675	2,768
Disposal of property and equipment, net	103	(540)
Additions to permanent endowments	13	-
Net Other Changes in Net Position	26,791	135,628
Increase (Decrease) in Net Position	(37,050)	93,748
NET POSITION		
Net Position-beginning of year	1,489,103	1,395,355
Net Position-end of year	$ 1,452,053	$ 1,489,103

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

UNIVERSITY OF CONNECTICUT
STATEMENTS OF CASH FLOWS
For the Years Ended June 30, 2013 and 2012

($ in thousands)

	2013	2012
CASH FLOWS FROM OPERATING ACTIVITIES		
Student tuition and fees	$ 255,173	$ 248,473
Grants and contracts	154,631	156,152
Sales and services of auxiliary enterprises	185,999	183,996
Sales and services of educational departments	17,146	17,382
Payments to suppliers and others	(259,308)	(247,396)
Payments to employees	(483,049)	(491,073)
Payments for benefits	(181,704)	(167,506)
Loans issued to students	(2,098)	(1,965)
Collection of loans to students	2,095	2,071
Other receipts, net	7,217	6,059
Net Cash Used in Operating Activities	(303,898)	(293,807)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
State appropriation	283,031	289,771
Gifts	21,910	24,529
Other nonoperating expenses, net	(544)	(94)
Net Cash Provided from Noncapital Financing Activities	304,397	314,206
CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES		
Proceeds from bonds	-	200,000
State debt service commitment	116,753	116,684
Purchases of property and equipment	(129,530)	(105,885)
Proceeds from sale of property and equipment	514	182
Principal paid on debt and bonds payable	(84,767)	(88,139)
Interest paid on debt and bonds payable	(51,182)	(48,628)
Capital allocation	2,279	151
Capital grants and gifts	3,081	1,441
Net Cash Provided from (Used in) Capital Financing Activities	(142,852)	75,806
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of investments, net	(21)	(54)
Interest on investments	872	952
Deposit with bond trustee	119,494	(106,794)
Net Cash Provided from (Used in) Investing Activities	120,345	(105,896)
DECREASE IN CASH AND CASH EQUIVALENTS	(22,008)	(9,691)
BEGINNING CASH AND CASH EQUIVALENTS	266,794	276,485
ENDING CASH AND CASH EQUIVALENTS	$ 244,786	$ 266,794

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, 2013 and 2012

($ in thousands)

	2013	2012
RECONCILIATION OF OPERATING LOSS TO NET CASH USED IN OPERATING ACTIVITIES		
Operating Loss	$ (367,882)	$ (340,528)
Adjustments to Reconcile Operating Loss to Net Cash Provided from (Used in) Operating Activities:		
Depreciation and amortization expense	91,713	88,478
Property and equipment	1,154	(4,995)
In-kind donations	-	96
In-kind worker's compensation	1,915	2,337
Obligations under capital leases	-	1,840
Changes in Assets and Liabilities:		
Receivables, net	(6,009)	514
Inventories	(39)	(341)
Prepaid expenses	614	(12)
Accounts payable, wages payable and compensated absences	4,682	(19,061)
Deferred income	716	32
Deferred charges	(9)	46
Deposits	(462)	525
Due from (to) State of Connecticut	1,959	(2,329)
Due to affiliate	(33,246)	(21,075)
Other liabilities	813	(1)
Loans to students	183	667
Net Cash Used in Operating Activities	$ (303,898)	$ (293,807)

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, 2013 and 2012

($ in thousands)

	2013	2012
ASSETS		
Current Assets		
Cash and cash equivalents	$ 1,148	$ 1,428
Pledges receivable, net of allowance	203	392
Other current assets	71	72
Total Current Assets	1,422	1,892
Noncurrent Assets		
Pledges receivable, net of allowance	119	148
Investments	17,104	14,990
Property and equipment, net of accumulated depreciation of $129 for 2013 and $127 for 2012	6	8
Total Noncurrent Assets	17,229	15,146
Total Assets	$ 18,651	$ 17,038
LIABILITIES AND NET ASSETS		
Current Liabilities		
Accounts payable	$ 9	$ -
Net Assets		
Unrestricted	1,270	1,216
Temporarily restricted	3,869	2,500
Permanently restricted	13,503	13,322
Total Net Assets	18,642	17,038
Total Liabilities and Net Assets	$ 18,651	$ 17,038

STATEMENTS OF ACTIVITIES
For the Years Ended June 30, 2013 and 2012

($ in thousands)

	Unrestricted	Temporarily Restricted	Permanently Restricted	2013 Total	2012 Total
REVENUES AND SUPPORT					
Contributions and grants	$ 387	$ 297	$ 181	$ 865	$ 1,780
Interest and dividends	24	441	-	465	437
Net realized and unrealized gains	88	1,659	-	1,747	43
Net assets released from restrictions	984	(984)	-	-	-
Change in original restriction by donor	-	(44)	44	-	-
Write off of pledges receivable	44	-	(44)	-	-
Total Revenues and Support	1,527	1,369	181	3,077	2,260
EXPENSES					
Program Expenses					
Scholarships and awards	217	-	-	217	195
Student support and faculty support	604	-	-	604	609
Alumni and graduate relations	76	-	-	76	98
Total Program Expenses	897	-	-	897	902
Support Expenses					
Management and general	470	-	-	470	568
Fundraising	106	-	-	106	128
Total Support Expenses	576	-	-	576	696
Total Expenses	1,473	-	-	1,473	1,598
Changes in Net Assets	54	1,369	181	1,604	662
Net Assets-beginning of year	1,216	2,500	13,322	17,038	16,376
Net Assets-end of year	$ 1,270	$ 3,869	$ 13,503	$ 18,642	$ 17,038

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, 2013 and 2012

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, 2013 and 2012 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*, and Statement No. 61, *The Financial Reporting Entity: Omnibus*, states that the financial reporting entity consists of the primary government, organizations for which the primary government is financially accountable, and other organizations for which the nature and significance of their relationship with the primary government are such that exclusion would cause the reporting entity's financial statements to be misleading.

GASB Statement No. 39 additionally 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 Law School Foundation's audited Statements of Financial Position and Statements of Activities are discreetly presented in their original formats on a separate page of the accompanying financial statements.

The Foundation materially supports the mission of the University and 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.

GASB Statement No. 35, *Basic Financial Statements - and Management's Discussion and Analysis - for Public Colleges and Universities*, as amended by GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources and Net Position*, 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 categories in net position:

- **Net investment in capital assets:** Capital assets, net of accumulated depreciation and amortization, and reduced by outstanding principal balances of bonds (net of State debt service commitment) and notes that are attributable to the acquisition, construction, or improvement of those assets. Deferred outflows of resources and deferred inflows of resources that are attributable to the acquisition, construction, or improvement of those assets or related debt are also included in this component.

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

- **Restricted expendable:** Assets reduced by liabilities and deferred inflows of resources related to those assets that are expendable but where the University is legally or contractually obligated to spend the resources in accordance with restrictions imposed by external third parties.

- **Unrestricted:** The net amount of the assets, deferred outflows of resources, liabilities, and deferred inflows of resources that do not meet the definition of "restricted" or "net investment in capital assets." These assets are not subject to externally imposed stipulations; however, they are subject to internal designations. For example, amounts classified as unrestricted may be designated for specific purposes by action of management or the Board of Trustees or may otherwise be limited by contractual agreements with outside parties. For the most part, all unrestricted amounts in net position are internally designated to support academic and research programs, capital projects, retirement of indebtedness, and auxiliary enterprise activities.

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 reporting requirements defined in GASB Statement Nos. 35 and 63, the University presents a Management's Discussion and Analysis; a Statement of Net Position; a Statement of Revenues, Expenses, and Changes in Net Position; a Statement of Cash Flows; and Notes to the Financial Statements. All significant intra-agency transactions have been eliminated.

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

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

Certain assets, liabilities, and components of net position were restated for the fiscal year ended June 30, 2012 for accruals related to construction retainage. Historically, the University's practice was to delay recording a liability for retainage until projects were closed out due to the uncertainty regarding the progress towards completion prior to final inspection and approval. Effective for the fiscal year ended June 30, 2013, this approach was revised to provide for the recording of a liability for retainage at the point at which the retainage is withheld in order to conform with the provisions of authoritative guidance currently in effect. This change was applied retrospectively to the balances presented for the fiscal year ended June 30, 2012. It did not require restatement of the beginning net position for the fiscal year ended June 30, 2012, as this adjustment did not affect total net position. The net effect of the change was an increase in both assets and liabilities by $7.8 million for the fiscal year ended June 30, 2012. The table below illustrates the adjustments to the Statement of Net Position (amounts in thousands):

Total assets previously reported as of June 30, 2012	$	2,894,027
Increase in property and equipment, net		7,800
Total assets after adjustment as of June 30, 2012	$	2,901,827
Total liabilities previously reported as of June 30, 2012	$	1,404,924
Increase in accounts payable		7,800
Total liabilities after adjustment as of June 30, 2012	$	1,412,724
Increase in net investment in capital assets	$	7,800
Decrease in restricted capital projects		(5,700)
Decrease in unrestricted		(2,100)
Total net effect on net position as of June 30, 2012	$	-

For fiscal year 2013, the University performed a review of the categorization of functional expenses and certain reclassifications were made to the Statement of Revenues, Expenses, and Changes in Net Position for the year ended June 30, 2012 to better reflect the appropriate classifications in accordance with applicable guidance. These increases (decreases) have no effect on operating loss or net position for the year ended June 30, 2012 and are summarized in the table below (amounts in thousands):

	2012
Instruction	$ (4,314)
Research	748
Public service	(4,158)
Academic support	8,198
Student services	(3,792)
Institutional support	(25,638)
Operations and maintenance of plant	35,522
Auxiliary enterprises	5,078
Other operating expenses	(11,644)
Total operating expenses	$ -

New Accounting Standards

The University's financial statements and notes for fiscal years 2013 and 2012 as presented herein include the provisions of the following GASB pronouncements:

The University adopted GASB Statement No. 60, *Accounting and Financial Reporting for Service Concession Arrangements*, as of July 1, 2012. This statement establishes recognition, measurement, and disclosure requirements for Service Concession Arrangements (SCAs), which are a type of public-private or public-public partnership. An SCA is an arrangement between a transferor and an operator in which the transferor conveys to an operator the right and related obligation to provide services through the use of infrastructure or another public asset in exchange for significant consideration and the operator collects and is compensated by fees from third parties. There was no impact on the financial statements as a result of this adoption.

The University adopted GASB Statement No. 61, *The Financial Reporting Entity: Omnibus*, as of July 1, 2012. This statement amends certain reporting criteria set forth in GASB Statement Nos. 14 and 34 for component units presented within the financial statements of the reporting entity. 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.

The University adopted GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, as of July 1, 2012. This Statement amends the net asset reporting requirements defined in previously issued pronouncements by incorporating deferred outflows of resources and deferred inflows of resources into the definitions of the required components of the residual measure and by renaming that measure from net assets to net position. The deferred outflows and inflows represent the consumption or acquisition of resources by the University that are applicable to a future reporting period, but do not require further exchange of goods or services. These changes have been reflected in the accompanying financial statements and notes to the financial statements.

In March 2012, GASB issued Statement No. 65, *Items Previously Reported as Assets and Liabilities,* which establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities. The provisions of this statement are effective for financial statements for periods beginning after December 15, 2012. While the University is not required to implement this new standard until fiscal year 2014, the University is evaluating its overall impact on the financial statements. It is anticipated at this time to have a significant impact on the accounting and reporting of the University's debt issuance costs.

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 Position. Noncurrent investments are externally restricted by donors or outside sources that have stipulated as a condition of the gift instrument that the principal be maintained inviolate and in perpetuity. 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 Position and in the various expense functions on the Statements of Revenues, Expenses, and Changes in Net Position. The liability for compensated absences is also classified as current and noncurrent based on the amount estimated to be paid to employees in one year and beyond one year.

Noncurrent Liabilities

Noncurrent liabilities include the long-term portion of compensated absences of the University, principal payments due on bonds (net of unamortized premiums, 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 position. 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 Position, includes payments made directly to students. Any aid applied directly to the students' accounts in payment of tuition and fees, housing charges and dining services is reflected as a scholarship allowance and is deducted from the University's revenues. Certain governmental grants, such as Pell grants, and other federal, state or nongovernmental programs, are recorded as operating revenues in the University's financial statements. To the extent that revenues from such programs are used to satisfy tuition and fees and other student charges, the University has recorded a scholarship allowance.

Component Unit

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

- **Unrestricted Net Assets:** Net assets that are not subject to donor-imposed restrictions.
- **Temporarily Restricted Net Assets:** Net assets subject to donor-imposed stipulations that may or will be met, either by actions of the Law School Foundation and/or passage of time. When the restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets.

- **Permanently Restricted Net Assets:** Net assets subject to donor-imposed stipulations that they be maintained permanently by the Law School Foundation. Generally, the donors of these assets permit the Foundation to use all or part of the income earned on related investments for general or specific purposes.

Contributions, including unconditional promises to give, are recognized as revenue in the period received. Conditional promises to give are not recognized as revenue until the conditions on which they depend are substantially met. Investments are reported at fair value based upon quoted market prices. Certain amounts reported in 2012 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 $244.8 million and $266.8 million as of June 30, 2013 and 2012, respectively, and included the following (amounts in thousands):

	2013	2012
Cash maintained by State of Connecticut Treasurer	$ 212,749	$ 244,342
Invested in State of Connecticut Short-Term Investment Fund	17,624	16,953
Invested in State of Connecticut Short-Term Investment Fund - Endowments	1,438	1,420
Invested in Short-Term Corporate Notes	6,435	2,639
Deposits with Financial Institutions and Other	6,540	1,440
Total cash and cash equivalents	244,786	266,794
Less: current balance	243,348	265,374
Total noncurrent balance	$ 1,438	$ 1,420

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

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

The University's cash management investment policy permits the University to invest in STIF, United States Treasury bills, United States Treasury notes and bonds, United States Government Agency obligations, banker's acceptances, certificates of deposit (including EURO Dollars), commercial paper, money market funds, repurchase agreements, and savings accounts. Cash and cash equivalents include amounts of $17.6 million and $1.4 million invested in STIF, which had a Standard and Poor’s rating of AAAm during fiscal year 2013. The $6.4 million invested in Short-Term Corporate Notes during fiscal year 2013 includes repurchase agreements held with a financial institution and is collateralized by the Federal National Mortgage Association and the Federal Home Loan Mortgage Corporation, both of which had an AA+ Standard and Poor’s rating.

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

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

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

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

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

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

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, high yield fixed income, and bank loans had average credit quality of Ba1 (Moody's). The University endowment's foreign publicly traded equities totaled $1.3 million in 2013 and 2012, and private capital investments totaled approximately $1.7 million and $1.9 million at June 30, 2013 and 2012, 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, 2013 and 2012. 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, 2013 and 2012 were (amounts in thousands):

	2013		2012	
	Cost	Fair Value	Cost	Fair Value
Endowments:				
Foundation Managed	$ 9,594	$ 10,464	$ 9,550	$ 10,153
Other:				
Campus Associates Limited Partnership Interest	150	150	150	150
Total Investments	$ 9,744	$ 10,614	$ 9,700	$ 10,303

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 $12.8 million and $12.0 million as of June 30, 2013 and 2012, 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, 2013 and 2012 was $456,000 and $486,000, respectively.

3. ACCOUNTS AND STUDENT LOANS RECEIVABLE

Accounts receivable at June 30, 2013 and 2012 consisted of the following (amounts in thousands):

	2013	2012
Grants and contracts	$ 27,876	$ 22,477
Student and general	16,318	16,180
Investment income	66	79
Allowance for doubtful accounts	(5,056)	(5,519)
Total accounts receivable, net	$ 39,204	$ 33,217

The University participated in the U.S. Department of Education Federal Direct Lending program during fiscal years 2013 and 2012 and distributed student loans through this program of $154.6 million and $162.0 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, 2013 and 2012 was $68,000 and $93,000, respectively, and these amounts were included as receivables under grants and contracts.

Student loans receivable are substantially comprised of amounts owed from students under the Federal Perkins Loan Program and are reported separately from accounts receivable on the Statements of Net Position, net of an allowance for doubtful accounts of $1.1 million at June 30, 2013 and 2012.

4. PROPERTY AND EQUIPMENT

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

Depreciation and amortization are recorded on a straight-line basis over the estimated useful lives of the respective assets. Building components and non-structural improvements have estimated useful lives of 2 years to 60 years. Equipment has estimated useful lives of 3 years to 30 years. Library materials, capitalized software, art and historical collections are all included in equipment in the schedule of Changes in Property and Equipment.

Library materials have an estimated useful life of 15 years. The value of library materials, before depreciation, was $80.6 million and $80.1 million with accumulated depreciation of $52.6 million and $47.3 million at June 30, 2013 and 2012, respectively.

Capitalized software has an estimated life of 3 years to 5 years. The value of capitalized software, before amortization, was $26.6 million and $25.1 million with accumulated amortization of $15.5 million and $12.4 million at June 30, 2013 and 2012, respectively.

Art and historical collections are recognized at their estimated fair values at the time of donation, and are not depreciated. Art totaled $13.3 million and $12.8 million at June 30, 2013 and 2012, respectively. Historical collections totaled $41.1 million and $40.5 million at June 30, 2013 and 2012, respectively. The Thomas J. Dodd Research Center (Dodd Center) maintains historical collections of original source materials used for research as well as the University's official archive. In fiscal year 2002, historical collections were initially valued at $31.1 million based on an internal valuation performed by the Dodd Center. Since 2002, the value of the Dodd Center Collection has been adjusted for new items only if their fair value could be substantiated by an appraisal or similar authoritative documentation.

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, 2013 and 2012, total amounts of $5.5 million and $13.9 million, respectively, of fully depreciated equipment falling under the new threshold are included in equipment retirements.

As of June 30, 2011, a liability in the amount of $2.7 million was recorded in other current liabilities on the Statement of Net Position for a project to correct structural deficiencies related to the roof design and construction of the Agricultural Biotechnology Laboratory and Advanced Technology Laboratory buildings. This amount was based on an estimate of the cost to replace the roofs on both buildings as of that date. A determination has been made that the replacement of the roofs on these buildings is not necessary and repairs can be made to correct the deficiencies; therefore the $2.7 million liability is no longer needed, and was reversed during the fiscal year ended June 30, 2013. The University has entered into, and is in the process of entering into, agreements seeking funds and in-kind services from the original design professionals and construction contractors to perform the repairs to the roofs. The total cost of the repairs is not fully known at this time.

For the years ended June 30, 2013 and 2012, total amounts of $7.6 million and $3.2 million, respectively, were expensed in the accompanying Statements of Revenues, Expenses, and Changes in Net Position in 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, 2013 and 2012, an accrual for estimated expenses to complete these projects totaling $16.6 million and $12.1 million, respectively, was recorded in other current liabilities in the Statements of Net Position. 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, 2013, a total of $1.3 million was expensed in institutional support in the accompanying Statements of Revenues, Expenses, and Changes in Net Position for costs related to the implementation of certain software. It was determined that costs capitalized to date had no realizable value as of June 30, 2013.

Subsequent to the year ended June 30, 2013, it was determined by management that certain buildings with a total carrying amount of approximately $24.5 million were potentially impaired as of year-end. The total impairment loss could not be reasonably estimated as of the date of these financial statements.

The following table describes the changes in property and equipment for the years ended June 30, 2013 and 2012 (amounts in thousands):

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

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

Changes in Property and Equipment for the Year Ended June 30, 2012, restated (see Note 1):

	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	74,923	-	(59,085)	99,271
Total property and equipment	2,344,649	120,526	(28,130)	-	2,437,045
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	74,923	-	(59,085)	99,271
Property and equipment, net:	$ 1,399,263	$ 32,048	$ (722)	$ -	$ 1,430,589

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 $1,300.0 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.

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

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

As part of the UCONN 2000 program and in addition to $4.6 billion for phases I through III, the State Bond Commission authorized $172.5 million in State General Obligation Bonds to finance the development of the Technology Park (Tech Park) on the Storrs campus for the University (see Note 12). In August 2011 and April 2013, $18.0 million and $20.0 million respectively, were approved and issued. These bonds are obligations of the State and are not included as debt in the University's financial statements.

The table below lists general obligation bonds issued to finance UCONN 2000 projects as of June 30, 2013 (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 2013, there were no general obligation bonds issued or refunded. 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 Position section of the Statements of Revenues, Expenses, and Changes in Net Position in the accompanying financial statements. A corresponding liability is recorded in due to affiliate in the Statements of Net Position for the unspent portion of the bonds due to the Health Center ($3.9 million and $48.3 million at June 30, 2013 and 2012, respectively). Also, for the years ended June 30, 2013 and 2012, nonoperating revenues include the State debt service commitment for interest on general obligation bonds of $40.6 million and $39.8 million, respectively. A portion of interest on general obligation bonds is associated with Health Center projects.

Subsequent to the year ended June 30, 2013, the University issued $172.7 million of general obligation bonds, 2013 Series A, to fund UCONN 2000 phase III projects and $51.2 million of General Obligation Bonds, 2013 Refunding Service A, to refund $54.4 million of the University's outstanding balances consisting of a portion of the 2004 and 2005 Service A bonds previously issued. The sale of this issue concluded in July 2013, with the closing date of July 31, 2013.

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. The 2002 special obligation bonds and 2002 refunding bonds were refunded in advance of maturity in fiscal year 2013 with the issuance of $88.0 million of special obligation refunding bonds. The 2012 special obligation refunding bonds reduced the special obligation debt service payments in future years by approximately $31.9 million and resulted in an economic gain (the present value of the savings) of approximately $26.7 million. Similar to general obligation bond refundings, the proceeds from special obligation or student fee revenue bond refundings are deposited into certain escrow accounts to meet all obligations of the refunded maturities. In fiscal year 2012, 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 $67.3 million and $65.1 million in fiscal years 2013 and 2012, 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, 2013 and 2012 was $187.6 million and $231.5 million, respectively. The total amount paid by pledged revenues were $5.7 million and $5.1

million, for the principal and $6.3 million and $7.6 million for the interest on this debt in both fiscal years 2013 and 2012, respectively.

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.

Long-term debt activity, including refunding of debt, for the years ended June 30, 2013 and 2012 was as follows (amounts in thousands):

Long-term Debt Activity for the Year Ended June 30, 2013:

	Balance July 1, 2012	Additions	Retirements	Balance June 30, 2013	Current portion
General obligation bonds	$ 903,550	$ -	$ (74,755)	$ 828,795	$ 77,750
Revenue bonds	154,170	87,980	(111,735)	130,415	5,800
Self-liquidating bonds	2,171	-	(1,121)	1,050	500
Installment loans	1,727	-	(408)	1,319	377
Obligation under capital lease for Cogeneration	62,785	-	(3,465)	59,320	3,623
Total long-term debt	1,124,403	87,980	(191,484)	1,020,899	88,050
Premiums/discounts/debt difference due to refunding	46,320	14,796	(819)	60,297	4,224
Total long-term debt, net	$ 1,170,723	$ 102,776	$ (192,303)	$ 1,081,196	$ 92,274

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 outstanding at June 30, 2013 and 2012 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 2013	Balance 2012
Bonds:						
GO 2003 Series A	original	annually	2013	3.2-4.4%	$ -	$ 4,735
GO 2004 Series A	original	various	2024	3.0-5.0%	22,160	27,055
GO 2004 Ref. Series A	refund	annually	2020	3.9-5.0%	120,570	149,730
GO 2005 Series A	original	annually	2025	3.7%	55,630	60,530
GO 2006 Series A	original	annually	2026	4.0-5.0%	50,130	53,990
GO 2006 Ref. Series A	refund	annually	2020	4.75-5.0%	57,780	59,555
GO 2007 Series A	original	annually	2027	3.6-5.0%	58,800	63,005
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%	115,465	122,815
GO 2010 Series A	original	annually	2030	3.0-5.0%	82,540	87,400
GO 2010 Ref. Series A	refund	annually	2021	2.25-5.0%	26,410	26,435
GO 2011 Series A	original	annually	2031	3.515-5.0%	161,755	170,745
GO 2011 Ref. Series A	refund	various	2023	2.0-5.0%	31,525	31,525
Total general obligation bonds					828,795	903,550
Rev 2002 Series A	original	various	2030	4.125-5.0%	-	32,430
Rev 2002 Ref. Series A	refund	annually	2030	4.0-5.25%	-	76,230
Rev 2010 Ref. Series A	refund	annually	2028	3.0-5.0%	42,435	45,510
Rev 2012 Ref. Series A	refund	annually	2030	1.5-5.0%	87,980	-
Total revenue bonds					130,415	154,170
June 2001	refund	annually	2016	5.5%	225	301
November 2001	refund	annually	2014	5.0-5.125%	295	592
August 2002	refund	various	2016	3.62-4.0%	-	552
April 2005	refund	various	2017	4.37-5.25%	275	275
December 2007	refund	annually	2015	3.5-5.0%	255	451
Total self-liquidating bonds					1,050	2,171
Total bonds					960,260	1,059,891
Loans and other debt:						
Installment loans		various	various	1.05-1.959%	1,319	1,727
Obligation under capital lease for Cogeneration		monthly	2026	4.42-5.09%	59,320	62,785
Total loans and other debt					60,639	64,512
Total bonds, loans and installment purchases					1,020,899	1,124,403
Premiums/discounts/debt difference due to refunding					60,297	46,320
Total bonds, loans and installment purchases, net					1,081,196	1,170,723
Less: current portion, net					92,274	88,372
Total noncurrent portion, net					$ 988,922	$ 1,082,351

**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**
2014	$ 77,750	$ 38,502	$ 116,252	$ 10,300	$ 8,420	$ 18,720	$ 88,050	$ 46,922	$ 134,972
2015	77,595	35,145	112,740	10,353	8,057	18,410	87,948	43,202	131,150
2016	72,965	31,561	104,526	10,629	7,611	18,240	83,594	39,172	122,766
2017	71,295	28,146	99,441	11,065	7,178	18,243	82,360	35,324	117,684
2018	68,215	24,865	93,080	11,032	6,724	17,756	79,247	31,589	110,836
2019-2023	268,695	80,490	349,185	62,464	25,875	88,339	331,159	106,365	437,524
2024-2028	148,270	29,669	177,939	58,611	10,912	69,523	206,881	40,581	247,462
2029-2033	44,010	3,654	47,664	17,650	880	18,530	61,660	4,534	66,194
Total	$ 828,795	$ 272,032	$ 1,100,827	$ 192,104	$ 75,657	$ 267,761	$ 1,020,899	$ 347,689	$ 1,368,588

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 43% 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 ARP, shall have the choice to enroll into a new hybrid plan, in addition to the other two retirement plan options. Also, employees who are currently members of ARP will be eligible to join the hybrid plan on a one time option at the full actuarial cost. The hybrid plan has defined benefits identical to SERS, but will require additional employee contributions, and have the option of taking out a lump sum cash payment, including interest, at the time of retirement in lieu of a lifetime benefit. The University makes contributions on behalf of the employees for all plans, through a fringe benefit charge assessed by the State.

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

With respect to the University's Department of Dining Services (DDS), of its 503 full-time employees, 78 participate in either SERS or ARP, while 425 are eligible to participate in two other retirement plans: the Department of Dining Services Money Purchase Pension Plan (MPPP) or the University of Connecticut Department of Dining Services 403(b) Retirement Plan. Under the provisions of MPPP, the University DDS is required to contribute 6% or 8% of employee's covered compensation for eligible employees, dependent upon hire date, and its employees do not make any contributions to the Plan. The MPPP is a defined contribution plan administrated through a third-party administrator, Pension Consultants, Inc. On behalf of MPPP participants, DDS contributed approximately $639,000 and $590,000 to the plan for the years ended June 30, 2013 and 2012, 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, 2013 and 2012, compensated absences totaled $33.2 million and $33.0 million, respectively. During fiscal year 2009, the State offered a Retirement Incentive Plan (RIP) to University employees. According to the terms of the RIP, unused vacation and sick leave will be paid in three payments on July 1 of each year, beginning July 1, 2012. Included in the current compensated absences liability as of June 30, 2013 and 2012, were $873,000 and $897,000, respectively, for accrued vacation and sick leave for University employees that participated in RIP. The noncurrent compensated absences liability as of June 30, 2013 and 2012, included $873,000 and $1.7 million, respectively, for such employees. The following table shows activity for compensated absences for the fiscal years ended June 30 (amounts in thousands):

	2013	2012
Beginning balance, July 1st	$ 33,006	$ 34,467
Additions, net	2,787	1,250
Deductions (separations only)	(2,566)	(2,711)
Ending balance, June 30th	$ 33,227	$ 33,006

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, 2013, the University had outstanding commitments in excess of $500,000 each, which totaled $346.8 million, and included $343.6 million of commitments related to capital projects. Of this amount, commitments totaling $291.3 million related to UCONN 2000 capital projects that are administered by the University for the Health Center. The commitments on behalf of the Health Center are included in the due to affiliate (see Note 5). A portion of the total amount of outstanding commitments was also included in accounts payable on the Statement of Net Position as of June 30, 2013. In addition to the amount for capital outlay, commitments were also related to research and academic support. Of these commitments, the University expects approximately $1.7 million to be reimbursed by federal and state grants.

9. LEASES

Operating Leases

The University leases equipment and building space which expire at various dates. Future minimum rental payments at June 30, 2013 under non-cancelable operating leases, that exceeded $500,000 each, were as follows (amounts in thousands):

Fiscal Year	Payments
2014	$ 1,460
2015	1,532
2016	1,207
2017	374
2018	302
Thereafter	1,154
Total	$ 6,029

Expenses related to operating lease commitments in excess of $500,000 each were approximately $1.5 million and $1.0 million for the fiscal years ended June 30, 2013 and 2012, respectively.

Capital Leases

In December 2003, the University entered into a 20-year lease purchase agreement for a project to provide on-site generation of electricity, steam and chilled water for heating and cooling for the University at its Storrs campus. The 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 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. The lease was amended again in July 2013 to reflect a new nominal rate of 3.22% on the total amount of advances. The remaining monthly payments decreased to $482,000 beginning August 2013, and the original lease term did not change. Amounts advanced by the lessor include capitalized interest during construction, and are reflected as long-term debt in the accompanying financial statements. At the completion of the lease term, the University has an option to purchase the project assets for one dollar. The historical cost and accumulated depreciation of the Cogeneration facility were $85.0 million and $26.1 million, respectively, as of June 30, 2013.

The University leases equipment assets with an historical cost and accumulated depreciation of $1.9 million and $335,000, respectively, as of June 30, 2013.

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

10. DEFERRED INCOME AND CHARGES

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

As of June 30, 2013 and 2012 deferred income was as follows (amounts in thousands):

	2013	2012
Certain restricted research and operating grants	$ 8,358	$ 8,363
Tuition and fees and auxiliary enterprises	13,809	13,619
Athletic ticket sales and commitments	3,358	2,827
Total deferred income	$ 25,525	$ 24,809

A portion of current deferred charges totaling $661,000 and $741,000 and noncurrent deferred charges totaling $7.2 million and $7.9 million at June 30, 2013 and 2012, 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 Position. This increased tuition and fee revenues and operating expenses by $5.1 million and $5.2 million for the fiscal years ended June 30, 2013 and 2012, respectively. The total amount of waivers not reflected in the accompanying financial statements were $44.2 million and $43.6 million in fiscal years 2013 and 2012, respectively. In fiscal years 2013 and 2012, approximately 94% and 93%, respectively, were provided to graduate assistants. Of these amounts, $1.4 million and $1.1 million, 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, 2013 and 2012 (amounts in thousands):

	2013	2012
Amount paid to the Foundation for its guaranteed contractual services	$ 7,120	$ 7,120
Reimbursements from the Foundation for operating expenses	$ 290	$ 331
Accrued capital and noncapital gift and grant revenue from the Foundation	$ 22,461	$ 22,335
Amount receivable from the Foundation*	$ 2,533	$ 2,885

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

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

The State

The State supports the University's mission primarily via two mechanisms: State appropriation and the provision of payments for fringe benefits. State appropriation represents amounts appropriated to the University from the State's General Fund. Payments for fringe benefits were made by the State for reimbursements related to salaries expensed from the General Fund.

State appropriation and the provision of payments for fringe benefits for the years ended June 30, 2013 and 2012 consisted of the following (amounts in thousands):

	2013	2012
Amount of General Fund appropriation received from the State	$ 195,847	$ 205,586
Amount of payments for fringe benefits received from the State	89,099	86,522
Increase (decrease) of General Fund payroll included in receivable from the State	3,510	(9,738)
Total appropriation and payments for fringe benefits from the State	$ 288,456	$ 282,370

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 difficulties. Prior to increases in fringe benefit rates, the State also rescinded approximately $15.0 million in appropriation and payments for fringe benefits in response to a widening State budget deficit in fiscal year 2013. For fiscal year 2014, the University will be subject to reductions in State support for required adjustments to agency-specific appropriations in accordance with Public Act 13-184, as amended by Public Act 13-247. The reductions pertaining to this legislation are estimated at $1.2 million in fiscal year 2014.

Pursuant to various public or special bond acts, the General Assembly empowers the State Bond Commission to authorize and approve the issuance of bonds for a variety of projects or purposes. In 2011, the State Bond Commission authorized $172.5 million of State General Obligation Bonds to create a Tech Park on the Storrs campus (see Note 5). On August 26, 2011, they approved and issued $18.0 million to finance the initial design and development costs of the Tech Park. On April 26, 2013, they approved an additional issuance of $20.0 million to purchase equipment for the Tech Park. These bonds are an obligation of the State; therefore, they are not recorded as a liability in the accompanying financial statements. The total amounts of $20.0 million and $18.0 million allotted by the State were recorded as capital allocations in other changes in net position in the accompanying Statements of Revenues, Expenses, and Changes in Net Position for the years ended June 30, 2013 and 2012, respectively. The unspent portion of these amounts were $35.6 million and $17.8 million as of June 30, 2013 and 2012, respectively, and were included in due from the State of Connecticut in the accompanying Statements of Net Position.

The State and the University were defendants in a lawsuit that was settled for $5.5 million in September 2013. The settlement was paid by the State from funds appropriated to the State Insurance Risk Management Board and from certain insurance policies maintained by the State (see Note 13).

Health Center and Office of Economic Development

Prior to fiscal year 2013, 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 (CSTC), the Research and Development Corporation (R&D Corp), and the Technology Incubation Program (TIP). In fiscal year 2012, 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 year 2012 was $952,000. Of this amount, $326,000 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 Tech 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. In fiscal year 2013, the Health Center and the University each provided fifty percent funding for CSTC, R&D Corp, and TIP in accordance with an annual memorandum of agreement. The OED budget was managed by the University while selected expenses were paid directly by the Health Center. Any amounts owed by the Health Center for its remaining OED funding obligations were reimbursed directly to the University.

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.

<u>University of Connecticut Alumni Association</u>

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, 2013 and 2012, the University directed $1.1 million of support each year to the Association. 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, 2013 and 2012 were $45,000 and $14,000, respectively, which were included in accounts receivable, net, in the accompanying Statements of Net Position.

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 $2,120 and $1,400 payable to the Association for the license plate program as of June 30, 2013 and 2012, respectively.

<u>Campus Associates Limited Partnership</u>

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, 2013 and 2012, were $156,000 and $104,000, respectively, which were included in accounts receivable, net, in the accompanying Statements of Net Position.

<u>Mansfield Downtown Partnership, Incorporated</u>

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 2013 and 2012, 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 2013 and 2012, the University conveyed 5.09 acres and 1.80 acres, respectively, to the master developer which were sold at the stated price per acre. Related to the respective land sales in fiscal year 2012, the University conveyed 4.04 acres 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 also provided water and sewer services, which were 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

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

The University is a party to various legal actions arising in the ordinary course of its operations. While it is not feasible to predict the ultimate outcome of these actions, it is the opinion of management that the resolution of the majority of these matters will not have a material effect on the University's financial statements. However, there are a small number of outstanding matters, including unasserted claims, of potential individual significance. With respect to two matters, certain claimants seek an aggregate of approximately $25.0 million. If claimants are successful, the claim would be paid from the State's General Fund, not from the University. The State expects these matters to be resolved for substantially less than the amounts claimed.

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

A matter involving allegations of misconduct by a University faculty member has received public attention. In the opinion of legal counsel, this matter does not constitute pending or threatened litigation, nor does it constitute an unasserted possible claim or assessment probable of assertion.

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

14. OPERATING EXPENSES BY NATURAL CLASSIFICATION

The table below details the University's operating expenses by natural classification for the years ended June 30, 2013 and 2012 (amounts in thousands):

For the fiscal year ended June 30, 2013:

	Salaries and wages	Fringe benefits	Supplies and other expenses	Utilities	Depreciation and amortization	Total
Instruction	$ 203,219	$ 73,328	$ 25,655	$ -	$ -	$ 302,202
Research	39,543	8,956	26,449	-	-	74,948
Public services	22,322	7,444	9,302	-	-	39,068
Academic support	61,143	26,573	29,963	-	-	117,679
Student services	19,785	7,738	5,787	5	-	33,315
Institutional support	31,340	16,202	15,696	64	-	63,302
Operations and maintenance	31,984	20,484	36,270	12,923	-	101,661
Depreciation and amortization	-	-	-	-	91,713	91,713
Student aid	301	3	6,850	-	-	7,154
Auxiliary enterprises	73,048	29,821	57,872	6,733	-	167,474
	$ 482,685	$ 190,549	$ 213,844	$ 19,725	$ 91,713	$ 998,516

For the fiscal year ended June 30, 2012:

	Salaries and wages	Fringe benefits	Supplies and other expenses	Utilities	Depreciation and amortization	Total
Instruction	$ 198,883	$ 65,031	$ 27,456	$ -	$ -	$ 291,370
Research	40,887	9,423	23,199	-	-	73,509
Public services	21,169	6,444	7,865	-	-	35,478
Academic support	59,226	23,671	25,443	-	-	108,340
Student services	21,974	8,228	5,054	-	-	35,256
Institutional support	28,130	12,513	12,749	73	-	53,465
Operations and maintenance	32,942	19,549	33,824	14,087	-	100,402
Depreciation and amortization	-	-	-	-	88,478	88,478
Student aid	361	1	5,745	-	-	6,107
Auxiliary enterprises	70,813	27,905	58,146	7,524	-	164,388
	$ 474,385	$ 172,765	$ 199,481	$ 21,684	$ 88,478	$ 956,793

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As of June 30, 2013

BOARD OF TRUSTEES

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