University of Connecticut

Financial Report
For the Year Ended June 30, 2008

Message from the Vice President and Chief Financial Officer

Founded in 1881, the University of Connecticut (University) serves as the state's flagship for higher education, meeting the educational needs of undergraduate, graduate, professional, and continuing education students through the integration of teaching, research, 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, 2008 represents the transactions and balances of the University, here defined as all programs except the Health Center. This includes Storrs-based undergraduate and graduate programs, the regional campuses, the School of Law and the School of Social Work. The University's enrollment in fiscal year 2008 was 28,190 students, taught by 1,294 full-time faculty members and an additional 725 part-time faculty and adjuncts. In total, the University employs 4,555 full and part-time faculty and staff. The University has shifted its focus accordingly from managing growth to growing quality. Two other entities also support the mission of the University: The University of Connecticut Foundation, Inc. (Foundation) and the University of Connecticut Law School Foundation, Inc. (Law School Foundation).

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

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

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. Since June 30, 2008, the University experienced an approximate reduction of 3.5% in State support for the fiscal year 2009 and the University will continue to face a very difficult financial climate with further reductions likely. In discussion with the Governor the University has been asked to begin planning for the possibility of significant reductions for fiscal year 2010. Based on this request the University is developing a plan, so far as possible, without impeding student progress or the quality of the education delivered. The University's President, Michael Hogan, appointed a special Costs, Operations, & Revenue Efficiencies (CORE) Task Force. The CORE Task Force has been charged with identifying new cost-savings, efficiencies, and revenue enhancements by studying a broad range of the University's operations and processes. The task force will deliver its initial recommendations in early 2009. In all of this the University is committed to continue its high standard of service to its students and the citizens of the State.

Among its many accomplishments, for the ninth consecutive year, the University was named the top public university in New England in the annual U.S. News and World Report rankings. In fiscal year 2008, the University was ranked 24th among 164 public universities in the nation.

- Undergraduate enrollment is at an all-time high, while the quality and diversity of students choosing the University has shown a documented rise every year since the mid-1990's. Compared to fall of 1995, fall 2007 freshman enrollment at the main campus was up 57%, minority freshman enrollment was up 100% and, since 1996, average SAT scores were up 79 points. Forty percent of these students ranked in the top 10% of their high school class. In fiscal year 2008, the University added 30 full-time faculty members to address the increased instructional demand.
- The University's freshman-to-sophomore retention rate at the main campus is 93% and is substantially higher than the 80% average for 438 colleges and universities in the national Consortium for Student Retention Data Exchange. The 6-year graduation rate is 75% and the average time to graduate is 4.3 years among students completing Bachelor's within six years.
- Approximately 6,750 degrees were conferred in the 2007-08 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 $102 million in fiscal year 2008.
- UConn, including both the Health Center and Storrs-based programs, ranked 77 out of 662 among all institutions and 53 out of 388 among public universities nationwide in research and development expenditures, as measured by the National Science Foundation.
- The New England Association of Schools and Colleges (NEASC) re-accredited the University on September 20, 2007 for another ten-year term, noting in glowing terms the University's decade-long transformation.
- President Philip E. Austin ended his eleven years of exemplary leadership as the 2007 school year began. On September 14, 2007, the University of Connecticut welcomed its fourteenth president, Michael J. Hogan.
- The Foundation's endowment, including both the Health Center and Storrs-based programs, which stood at $42 million at the start of 1995, is now valued at $317 million. Total Foundation net assets reached $380 million.
- By 2008, the UCONN 2000 program had led to the completion of 99 major projects and 9.7 million square feet of new and renovated space.
- The Board of Trustees approved an Academic Plan that will set the future direction and priorities for the entire University. The Plan builds on the themes of health and human behavior, the environment, and arts, culture and society from a local to global perspective.
- The Eminent Faculty Initiative in Sustainable Energy was launched in the School of Engineering supported by $2 million from the State and $2 million in matching funds from corporate partners.
- A new University Alert Notification System was developed and put into place to enhance communications with the community in emergency situations
- The University signed the American College and University President's Climate Commitment, a document that commits the Storrs campus to achieving carbon neutrality by 2050.

Respectfully Submitted,

Paul R McDowell

Richard D. Gray	Paul R. McDowell
Vice President and Chief Financial Officer	Chief Financial Officer
University of Connecticut	Storrs-based Programs

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STATE OF CONNECTICUT

AUDITORS OF PUBLIC ACCOUNTS

STATE CAPITOL

210 CAPITOL AVENUE

HARTFORD, CONNECTICUT 06106-1559

KEVIN P. JOHNSTON

ROBERT G. JAEKLE

INDEPENDENT AUDITORS' REPORT

The Board of Trustees of the
University of Connecticut

We have audited the accompanying statements of net assets of the University of Connecticut (University) as of June 30, 2008 and 2007, and the related statements of revenues, expenses and changes in net assets and statements of cash flows for the years then ended. The University is a component unit of the University of Connecticut system, which includes the University of Connecticut, the University of Connecticut Health Center, the University of Connecticut Foundation, Inc. and the University of Connecticut Law School Foundation, Inc. These financial statements are the responsibility of the University's management. Our responsibility is to express an opinion on these financial statements based on our audits. We did not audit the financial statements of the University of Connecticut Law School Foundation, Inc., a discretely presented component unit, which statements reflect assets constituting 1% and revenues constituting .04% of the related totals of the University in 2008. Those financial statements were audited by other auditors whose reports thereon have been furnished to us, and our opinions, insofar as they relate to the amounts included for the University of Connecticut Law School Foundation, Inc., are based solely on the reports of the other auditors. The audits of the University of Connecticut Law School Foundation were conducted in accordance with auditing standards generally accepted in the United States of America.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the University, as of June 30, 2008 and 2007, and the changes in net assets and cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

The Management Discussion and Analysis on pages 2 through 14 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Sincerely,

Kevin P. Johnston
Auditor of Public Accounts

Robert G. Jaekle
Auditor of Public Accounts

January 14, 2009
State Capitol
Hartford, Connecticut

MANAGEMENT'S DISCUSSION AND ANALYSIS

Management's Discussion and Analysis

INTRODUCTION

The following unaudited Management's Discussion and Analysis (MD&A) is required supplemental information. Its purpose is to provide users of the basic financial statements with a narrative introduction, overview, and analysis of those statements. The MD&A, which is unaudited, includes an analysis of the financial position and results of activities of the University of Connecticut (University, as defined below) for the fiscal year ended June 30, 2008, based on currently known facts, decisions, or conditions. It also includes selected comparative information for the years ended June 30, 2007 and 2006. As the MD&A presentation includes highly summarized information, it should be read in conjunction with the accompanying financial statements and related notes to the financial statements. The financial statements, notes to the financial statements, and this MD&A are the responsibility of management.

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This financial report for the fiscal year ended June 30, 2008 represents the transactions and balances of the University, here defined as all programs except the Health Center. This includes Storrs-based undergraduate and graduate programs, the regional campuses, the School of Law and the School of Social Work.

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

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

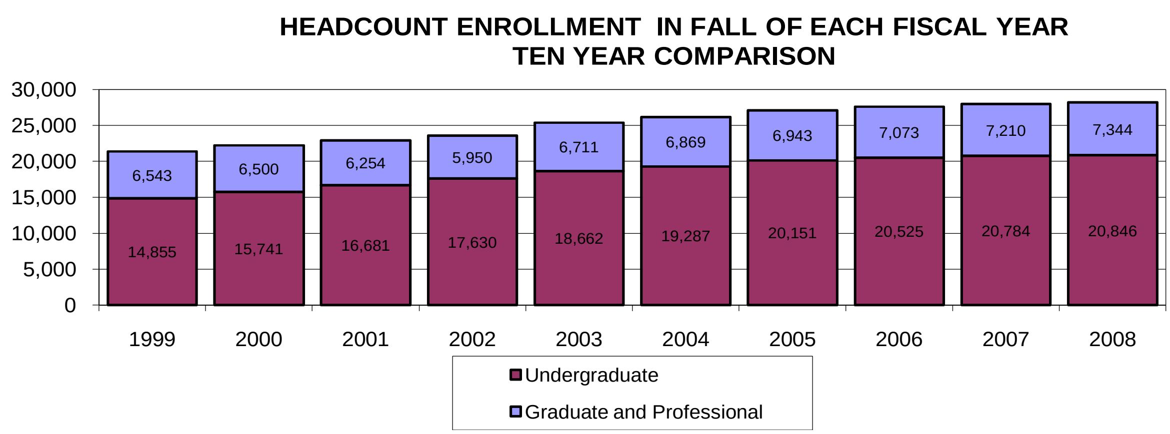
While the University's operational flexibility and capacity has grown, all of these activities also take place within a context of continuing external review. The financial statements contained in this report reflect budget execution results consistent with spending plans and operating and capital budgets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

FINANCIAL HIGHLIGHTS AND ECONOMIC OUTLOOK

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

The financial statements contained herein show an operating loss of $385.9 million for the year ending June 30, 2008 (fiscal year 2008) as compared to $362.9 million for the year ending June 30, 2007 (fiscal year 2007), and $347.3 million for the year ending June 30, 2006 (fiscal year 2006). The increase in operating loss in fiscal year 2008 from fiscal year 2007 was due to an increase in total operating expenses of 6.7 %, primarily caused by a 7.1% increase in salaries as a result of a 2.0% increase in full-time equivalent staff and negotiated raises. The increase in operating loss in fiscal year 2007 from fiscal year 2006 was due to an increase in total operating expenses of 4.5%, primarily caused by a 3.9% increase in salaries as a result of a 1.1% increase in full-time equivalent staff and negotiated raises. For public institutions, the measure more indicative of normal and recurring activities is income or loss before capital additions (deductions), which includes revenue from State appropriations. The University experienced a loss before capital additions (deductions) of $37.0 million in fiscal year 2008 as compared to $32.4 million and $45.8 million for fiscal years 2007 and 2006, respectively. Total operating revenues grew $31.6 million in fiscal year 2008 and $19.7 million in fiscal year 2007. At the same time, operating expenses increased $54.5 million in fiscal year 2008 as compared to an increase in fiscal year 2007 of $35.3 million over fiscal year 2006. Investment income decreased by $1.9 million, after three years of increases, including increases of $2.7 and $5.1 million in fiscal years 2007 and 2006, respectively.

Sources of recurring revenues continued to exhibit strength, with increases in both operating and nonoperating revenues the past three fiscal years. State support increased for the fourth time in five years. The University's total enrollment in fiscal year 2003 topped 25,000 students and grew to 28,190 students in fiscal year 2008. These students are taught by 1,294 full-time faculty members (an increase of 30 faculty over the prior year) and an additional 725 part-time faculty and adjuncts. Undergraduate enrollment at the University reached 20,846 students in fiscal year 2008, .3% more than fiscal year 2007 (1.3% more students in fiscal year 2007 over 2006). At the same time, an in-state tuition and mandatory fee increase of 5.8% and an out-of-state increase of 5.72% were approved for fiscal year 2008. Graduate and professional enrollment increased by 1.9% with an in-state tuition and mandatory fee increase of 5.7% and an out-of-state increase of 5.58%. The increased enrollment of all students, when combined with the tuition and mandatory fee increases, resulted in an increase in tuition and fee revenue, before scholarship allowances, of $20.2 million (8.0%) as compared to a $15.7 million (6.6%) increase in fiscal year 2007. Sales and services of auxiliary enterprises, before scholarship allowances, increased $6.0 million (4.6%), primarily as a result of an overall increase in room and board fees of 7.1% for undergraduate students and graduate students. In fiscal year 2007, sales and services of auxiliary enterprises, before scholarship allowances, increased $8.6 million (7.1%), primarily as a result of an overall increase in room and board fees of 7.3% for undergraduate students and 7.2% for graduate students. Grant and contract revenues increased $9.2 million (8.2%) in fiscal year 2008 as compared to $4.9 million (4.6%) in fiscal year 2007 over 2006.



The 21st Century UConn program, also known as Phase III of UCONN 2000, began in fiscal year 2005. It represents a $1.3 billion, 10-year extension of the original UCONN 2000 program (see Note 5), and provides $1.0 billion for facilities improvements at Storrs, the regional campuses, the School of Law and the School of Social Work, and $305.4 million for improvements at the Health Center. The 21st Century UConn program was amended in fiscal year 2008, extending it an additional year, without any change in the total amount. This commitment from the State provides long-term funds for capital enhancement and preservation and will allow the University to provide quality facilities commensurate with the enrollment growth experienced in recent years.

The financial condition of the University is closely tied to the State's economic condition. There are significant financial and economic challenges facing the State and the nation. In June 2008, the University experienced an approximate reduction of 3.5% in State support for the fiscal year 2009. The University will continue to face a very difficult financial climate with further reductions likely. In discussion with the Governor, the University has been asked to begin planning for the possibility of further significant reductions in fiscal year 2010. Based on this request the University is developing a plan to manage any additional reductions, so far as possible, without impeding student progress or the quality of the education delivered. In all of this the University is committed to continue its high standard of service to its students and the citizens of the State.

FINANCIAL STATEMENTS

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

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

STATEMENTS OF NET ASSETS

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

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

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

	2008	2007	2006
Current assets	$ 421.2	$ 453.4	$ 390.7
Noncurrent assets			
State debt service commitment	700.1	763.4	734.4
Investments	12.3	14.9	13.5
Property and equipment, net	1,459.1	1,487.1	1,524.7
Other	18.9	20.3	20.5
Total assets	$2,611.6	$2,739.1	$2,683.8
Current liabilities	$ 248.7	$ 259.9	$ 258.1
Noncurrent liabilities			
Long-term debt and bonds payable	962.7	1,040.3	1,020.7
Other	22.2	21.3	21.3
Total liabilities	$1,233.6	$1,321.5	$1,300.1
Invested in capital assets, net	$1,186.9	$1,200.1	$1,228.5
Restricted	55.3	95.7	60.9
Unrestricted	135.8	121.8	94.3
Total net assets	$1,378.0	$1,417.6	$1,383.7

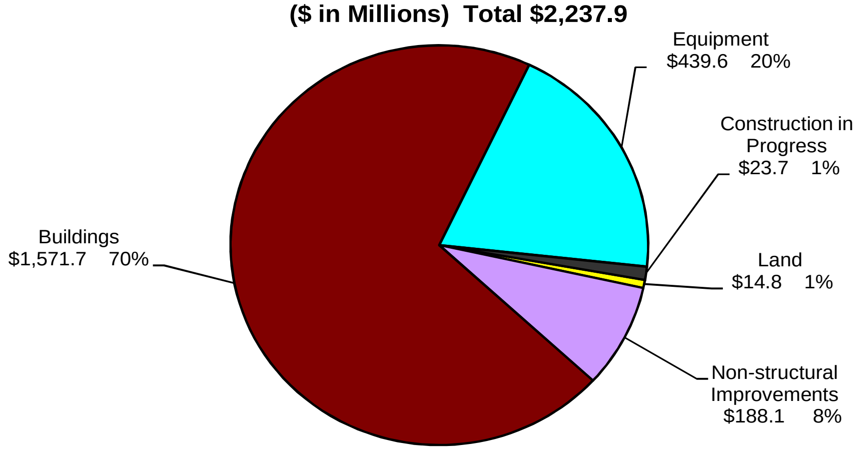
The total assets decreased $127.5 million in fiscal year 2008 over 2007 and increased $55.3 million in fiscal year 2007 over 2006. The decrease in fiscal year 2008 was primarily due to a $22.8 million ($17.0 million in fiscal year 2007) increase in cash and cash equivalents and $10.0 million increase in due from State of Connecticut ($.8 million in fiscal year 2007), offset by a $64.2 million decrease in deposit with bond trustee ($27.3 million increase in fiscal year 2007), a $59.3 million decrease in the state debt service commitment ($33.9 million increase in fiscal year 2007), a $9.3 million decrease in accounts receivable ($12.0 million increase in fiscal year 2007) and a negative $27.1 million of additions to property and equipment, net of accumulated depreciation ($34.1 million negative in fiscal year 2007).

The total liabilities for fiscal year 2008 decreased $87.9 million ($21.3 million increase in fiscal year 2007) primarily due to newly acquired debt through the sale of general obligation bonds (fiscal year 2007 only) and other new debt, totaling $1.1 million ($136.2 million in fiscal year 2007) offset by the retirement of prior year debt on existing bonds and loans of $75.6 million ($113.0 million in fiscal year 2007) and a decrease in due to affiliate of $13.8 million in fiscal year 2008 ($5.4 million increase in fiscal year 2007). The combination of the decrease in total assets of $127.5 million ($55.3 million increase for fiscal year 2007) and total liabilities of $87.9 million ($21.3 million increase for fiscal year 2007) yields a decrease in total net assets of $39.6 million ($34.0 million increase in fiscal year 2007).

<u>Capital and Debt Activities</u>

During fiscal year 2008, the University recorded additions to property and equipment totaling $73.1 million ($53.9 million and $105.0 million in fiscal years 2007 and 2006, respectively) of which $28.7 million related to buildings and construction in progress ($27.2 million and $76.8 million in fiscal years 2007 and 2006, respectively). The growth of the University's property and equipment is a direct result of the successful UCONN 2000 program. The third phase of the program, also known as 21st Century UConn, expands and builds on the success of UCONN 2000 with an additional $1.3 billion for improvements to facilities at the University and the Health Center (see Note 5). The following pie chart presents the total property and equipment at cost:

TOTAL PROPERTY AND EQUIPMENT AT COST AT JUNE 30, 2008
($ in Millions) Total $2,237.9

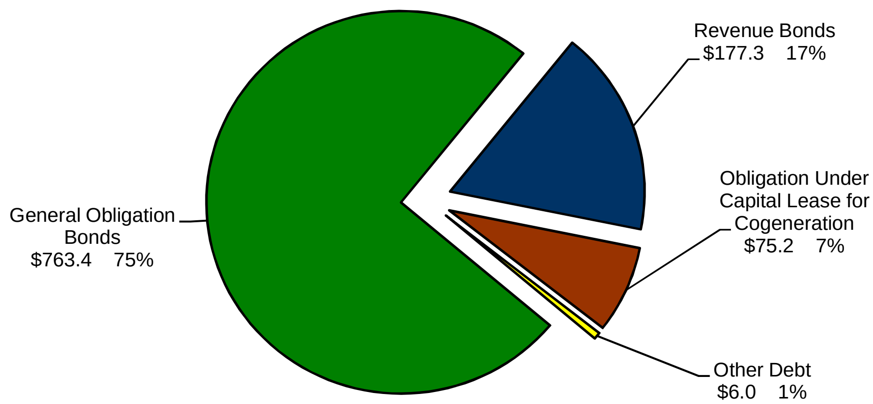


In fiscal year 2008, the University did not issue UCONN 2000 general obligation bonds ($135.4 million total face value was issued in fiscal year 2007 of which $23.5 million was committed to the Health Center for its UCONN 2000 projects). See Note 5. The State has made a commitment to fund the University for all principal and interest payments due on UCONN 2000 general obligation debt, inclusive of 21st Century UConn. The commitment from the State is recorded as a current and noncurrent receivable (state debt service commitment in the accompanying Statements of Net Assets), as the general obligation debt is incurred. As bonds are issued, the amount of the commitment for the Health Center is reflected as a liability by the University. During fiscal year 2008, the University paid the remaining balances of two loans, the Towers Loan financed by the U.S. Department of Education and the Financial Accelerator Loan.

The University began providing on-site generation of electricity, steam and chilled water for heating and cooling for the University at its Storrs campus in fiscal year 2006 (see Note 5). Long-term savings in costs for utilities are anticipated from the operation of the plant and were experienced in fiscal years 2008 and 2007.

See Notes 4 and 5 of the financial statements for further information on capital and debt activities. The chart on the next page illustrates the categories of debt as of June 30, 2008, exclusive of premiums, discounts and debt differences due to refunding:

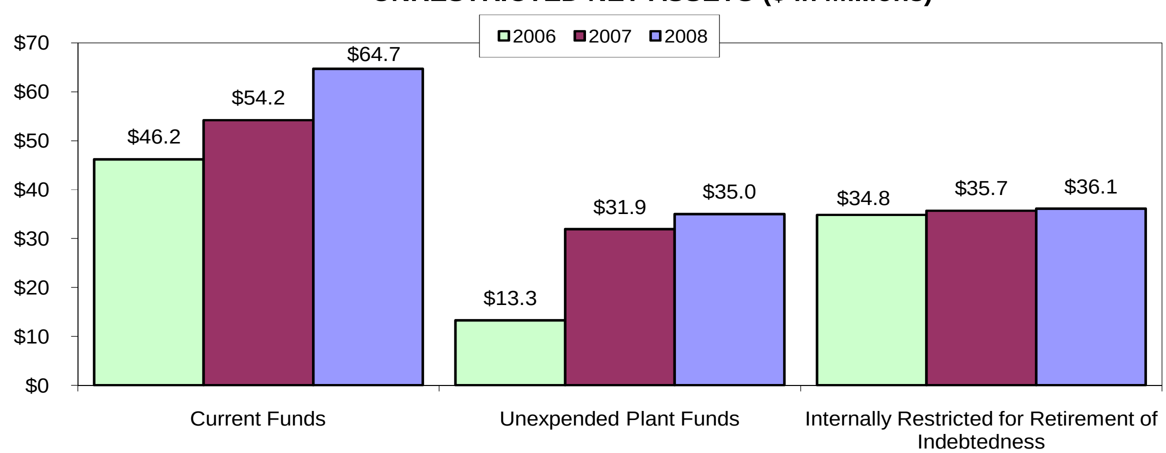
CATEGORIES OF DEBT AT JUNE 30, 2008
($ in Millions) Total $1,021.9



Net Assets

Net assets are divided into three major categories. The first category, invested in capital assets, net of related debt, provides the University's equity in property and equipment. The restricted net assets category is divided into two categories, nonexpendable and expendable. The corpus of restricted nonexpendable resources is only available for investment purposes, and in the University's Statements of Net Assets this amount represents endowment assets. Expendable restricted net assets are available for expenditure by the institution, but must be spent for purposes determined by donors and/or external entities that have placed time or purpose restrictions on the use of the assets. The final category is unrestricted net assets. Unrestricted net assets are defined by GASB to include funds not restricted by third-parties, including all unrestricted funds formerly (prior to fiscal year 2002) included in the balances of unrestricted current funds, retirement of indebtedness funds, and plant funds. Unrestricted net assets may be designated for specific purposes by action of management or the Board of Trustees or may otherwise be limited by contractual agreements with outside parties. GASB prohibits a breakout of designated unrestricted funds on the face of the Statements of Net Assets. Unrestricted net assets are available to the University for any lawful purpose of the institution. The following shows a comparison between fiscal years by category of unrestricted net assets:

UNRESTRICTED NET ASSETS ($ in Millions)



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

STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS

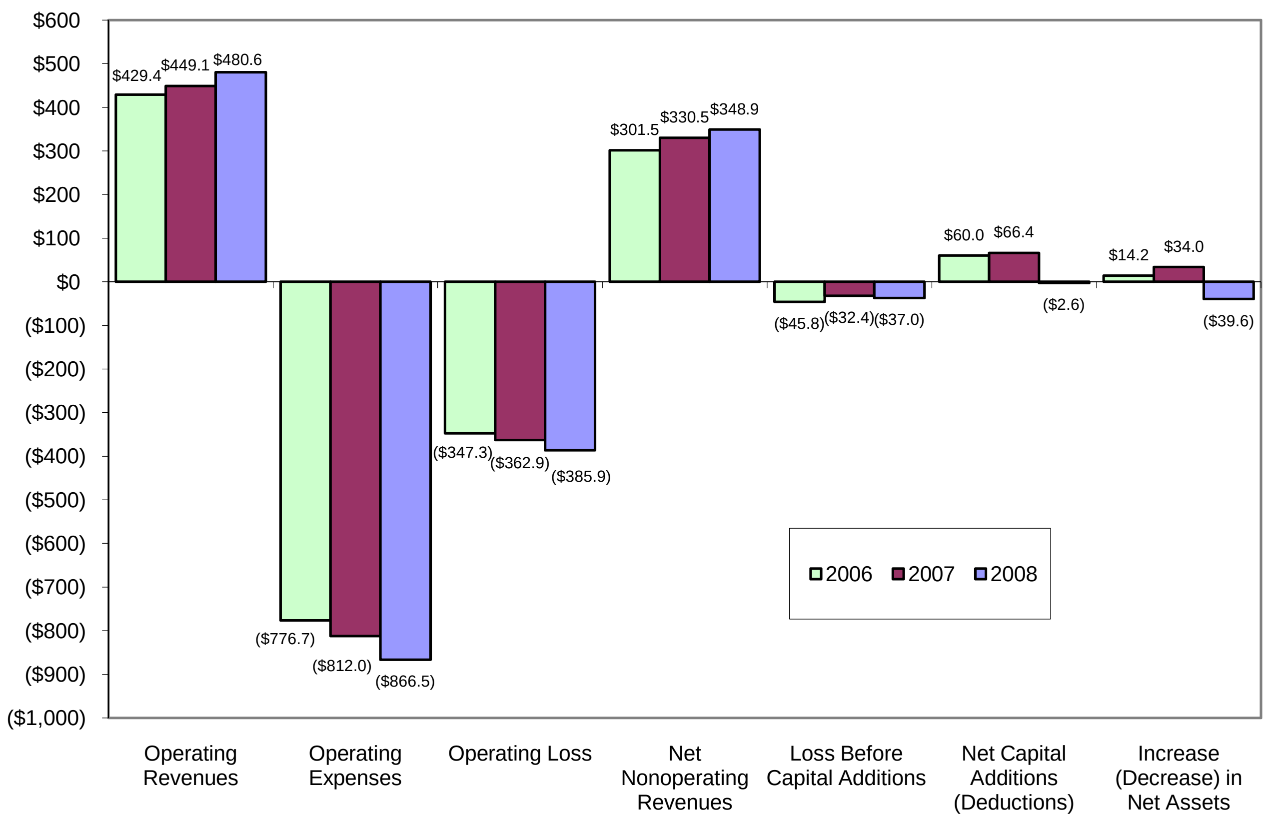
Revenues and expenses are classified as operating, nonoperating, or capital additions (deductions) according to definitions prescribed by GASB. Significant recurring sources of nonoperating revenues utilized in balancing the operating loss each year include state appropriations for general operations,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

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

	2008	2007	2006
Operating revenues	$ 480.6	$ 449.1	$ 429.4
Operating expenses	866.5	812.0	776.7
Operating loss	(385.9)	(362.9)	(347.3)
Net nonoperating revenues	348.9	330.5	301.5
Loss before capital additions	(37.0)	(32.4)	(45.8)
Net capital additions (deductions)	(2.6)	66.4	60.0
Increase (Decrease) in net assets	$ (39.6)	$ 34.0	$ 14.2

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

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



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

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

Capital additions (deductions) are comprised of the state's debt service commitment for principal payments on general obligation bonds used for capital purposes, capital appropriation, capital grants and gifts, the disposal of property and equipment, and other capital related items. The Statements of Revenues, Expenses, and Changes in Net Assets reflect a decrease in the net assets of $39.6 million in fiscal year 2008 and increases of $34.0 million and $14.2 million for fiscal years 2007 and 2006, respectively.

Revenues

The following table summarizes operating and nonoperating revenues and capital additions for the fiscal years ended June 30 (in millions):

	2008	2007	2006
Operating revenues:			
Student tuition and fees, net	$ 199.7	$ 183.5	$ 177.2
Grants and contracts	121.2	112.1	107.3
Sales and services of educational departments	15.3	14.9	15.5
Sales and services of auxiliary enterprises, net	133.5	127.5	119.2
Other sources	10.9	11.1	10.2
Total operating revenues	480.6	449.1	429.4
Nonoperating revenues:			
State appropriation	328.2	305.9	285.7
State debt service commitment for interest	39.5	35.9	33.1
State match to endowments	.1	.1	-
Gifts	24.8	24.4	20.5
Investment income	10.4	12.3	9.6
Total nonoperating revenues	403.0	378.6	348.9
Capital additions:			
State debt service commitment for principal	-	65.2	61.6
Capital appropriation	8.0	-	-
Capital grants and gifts	6.8	3.0	10.0
Capital other, net (see *Expense* section)	-	1.6	-
Total capital additions	14.8	69.8	71.6
Total revenues	$ 898.4	$ 897.5	$ 849.9

Revenue highlights, for fiscal years 2008 and 2007 with comparison to the prior fiscal years, including operating and nonoperating revenues and capital additions, presented on the Statements of Revenues, Expenses, and Changes in Net Assets are as follows:

- Student tuition and fees, net of scholarship allowances, increased 8.9% in fiscal year 2008 (3.5% in fiscal year 2007) and 8.0% before scholarship allowances (6.6% in fiscal year 2007). The increase in fiscal year 2008 was due in part to .3% (1.3% in fiscal year 2007) more undergraduates enrolled at the University and an increase of 5.8% (5.69% in fiscal year 2007) for undergraduate in-state tuition and mandatory fees charged, and 5.72% (5.61% in fiscal year 2007) for out-of-state tuition and mandatory fees.

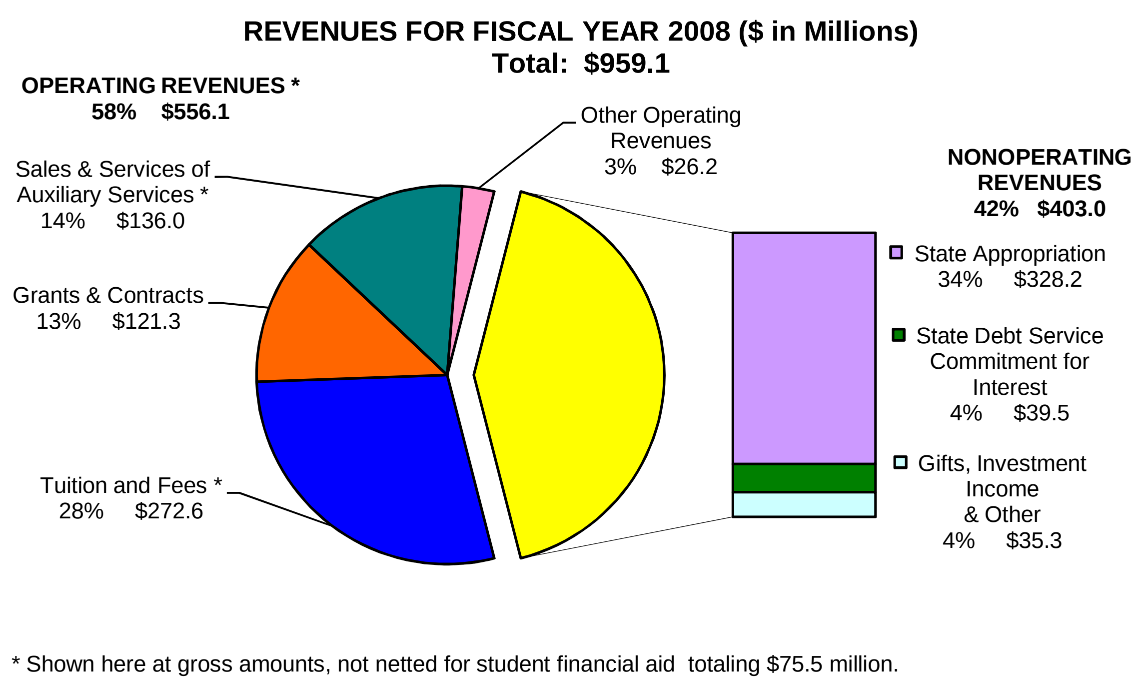
- Total grants and contracts increased $9.2 million (8.2%) in fiscal year 2008 ($4.9 million or 4.6% in fiscal year 2007) as a result of higher than anticipated financial aid and miscellaneous grants and contracts over the prior year.

- Sales and services of auxiliary enterprises, net of scholarship allowances, increased approximately 4.7% and 7.0% during fiscal years 2008 and 2007, respectively. The increase in fiscal year 2008 resulted primarily from an increase in fees charged for both room and board of 7.1% for undergraduate students and graduate students. The increase in fiscal year 2007 resulted primarily from an increase in fees charged for both room and board of 7.3% for undergraduate students and 7.2% for graduate students.

- The largest source of revenue, state appropriation including fringe benefits, increased $22.2 million, a 7.3% increase in fiscal year 2008 and $20.3 million, a 7.1% increase in fiscal year 2007. 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 also included with nonoperating revenues and corresponds to the total interest paid and accrued on general obligation bonds. Effectively, this revenue offsets a significant portion of interest expense each year. Also, as general obligation bonds are issued (see Note 5) the State commits to the repayment of the future principal amounts and a receivable is recorded on the Statements of Net Assets to reflect this commitment. This results in revenue that is recorded as a capital addition and totaled $65.2 million in fiscal year 2007. There were no general obligation bonds issued in fiscal year 2008. In fiscal year 2008, included in capital additions, the State provided a capital appropriation totaling $8 million related to a project at University's School of Law.

- Gift revenue, both capital and noncapital, is derived from gifts made directly to the University and from the Foundation and Law School Foundation. These spendable funds are provided to the University for educational, cultural, recreational, and research activities. Both the Foundation and the Law School Foundation disburse funds to the University as requests are made, provided the request is in accordance with donor restrictions, if any. These gifts, including capital gifts, received by the University from both Foundations totaled approximately $21.6 million in fiscal year 2008 compared to $24.2 million in fiscal year 2007. Both Foundations also paid approximately $4.7 million in fiscal year 2008 ($3.8 million in fiscal year 2007) to third parties on behalf of the University. This amount is not reflected in the University's financial statements. In addition, the University receives gifts directly. Total nonoperating gifts and capital gifts and grants revenue to the University from all sources amounted to $31.6 million and $27.5 million in fiscal years 2008 and 2007, respectively.

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

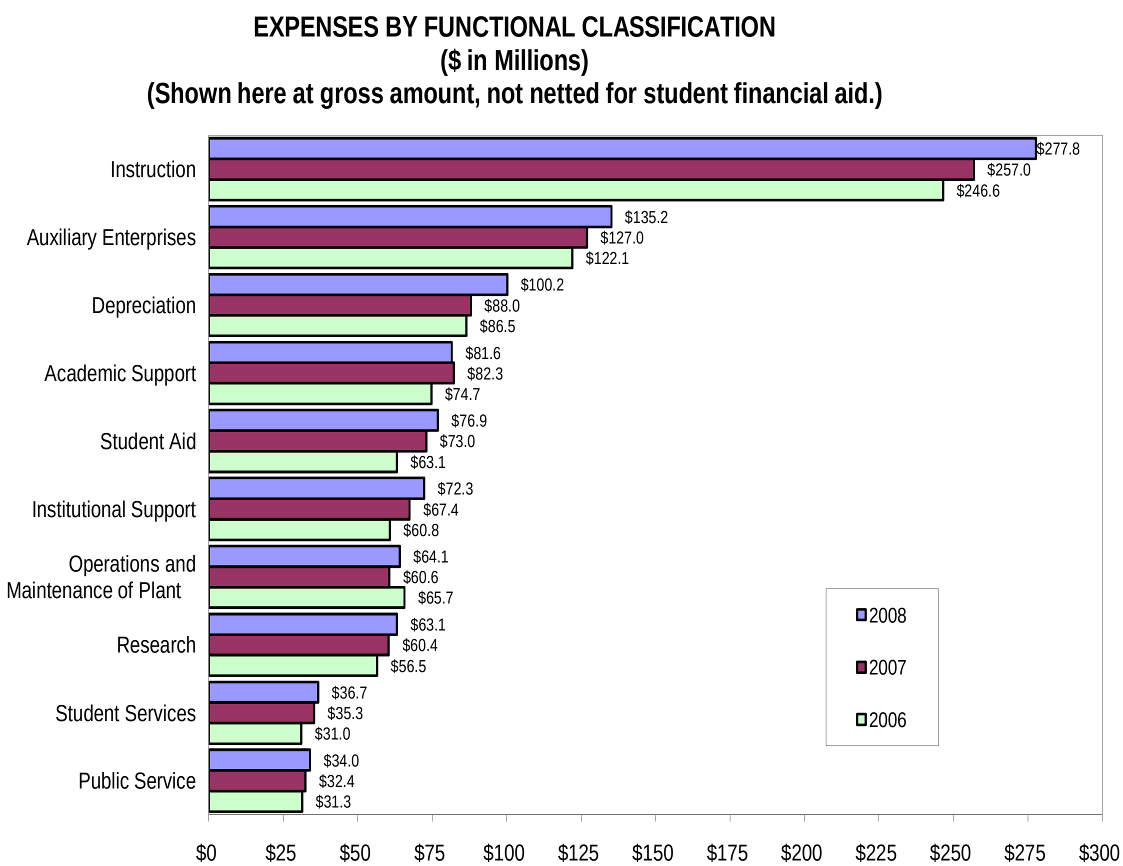


Expenses

The following table summarizes operating and nonoperating expenses and capital deductions for the fiscal years ended June 30 (in millions):

	2008	2007	2006
Operating expenses:			
Instruction	$ 276.7	$ 256.1	$ 245.6
Research	62.8	59.6	55.9
Operations and maintenance of plant	64.1	60.6	65.7
Auxiliary enterprises	135.1	126.8	122.0
Depreciation	100.2	88.0	86.5
Other	227.6	220.9	201.0
Total operating expenses	866.5	812.0	776.7
Nonoperating expenses:			
Interest expense	51.2	47.5	43.3
Other nonoperating expense, net	2.9	.6	4.2
Total nonoperating expenses	54.1	48.1	47.5
Capital deductions:			
Disposal of property and equipment, net	.9	3.4	.9
Capital other, net (see *Revenue* section)	16.5	-	10.6
Total capital deductions	17.4	3.4	11.5
Total expenses	$ 938.0	$ 863.5	$ 835.7

The following chart depicts comparative functional expenditures of the University:



Operating expenditures are classified by function in the accompanying Statements of Revenues, Expenses, and Changes in Net Assets. These functions directly contribute to the major mission of the University. Total operating expenses were $866.5 million and $812.0 million in fiscal years 2008 and 2007, respectively, netted for student financial aid totaling $75.5 million and $71.4 million, respectively. Natural or object classification includes salaries, fringe benefits, utilities, and supplies and other expenses (see Note 14 for operating expenses classified by object).

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

- Instruction, the University's largest operating expense, increased $20.6 million (8.0%) in fiscal year 2008 and $10.5 million (4.3%) in fiscal year 2007, primarily due to an increase of approximately 32 (29 in fiscal year 2007) full-time equivalent faculty and staff, an average compensation increase for the bargaining units of approximately 5% in both years and an increase in supplies, commodities and other expenditures in fiscal year 2008 of $1.6 million ($.9 million decrease in fiscal year 2007).

- In fiscal year 2008, research expenses increased $3.1 million or 5.2% ($3.7 million or 6.6% in fiscal year 2007). This is commensurate with an increase in fiscal years 2008 and 2007 in associated research revenues. These expenditures 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 decreased $.7 million in fiscal year 2008 due to timing of purchases for major periodicals and other subscriptions. In fiscal year 2007, it increased $7.6 million (10.1%) due primarily to a $4.8 million increase in supplies, commodities and other expenses of which $3.8 million related to the University modifying its capitalization policy to expense as incurred the costs of journals, subscriptions, and electronic media.

- In fiscal years 2008 and 2007, institutional support experienced increases of $5.0 million or 7.4% and $6.6 million or 10.8%, respectively. This resulted from a 5.1% increase (5.9% in fiscal year 2007) in the number of full-time equivalent staff and an average compensation increase for the bargaining units of approximately 5% in both years.

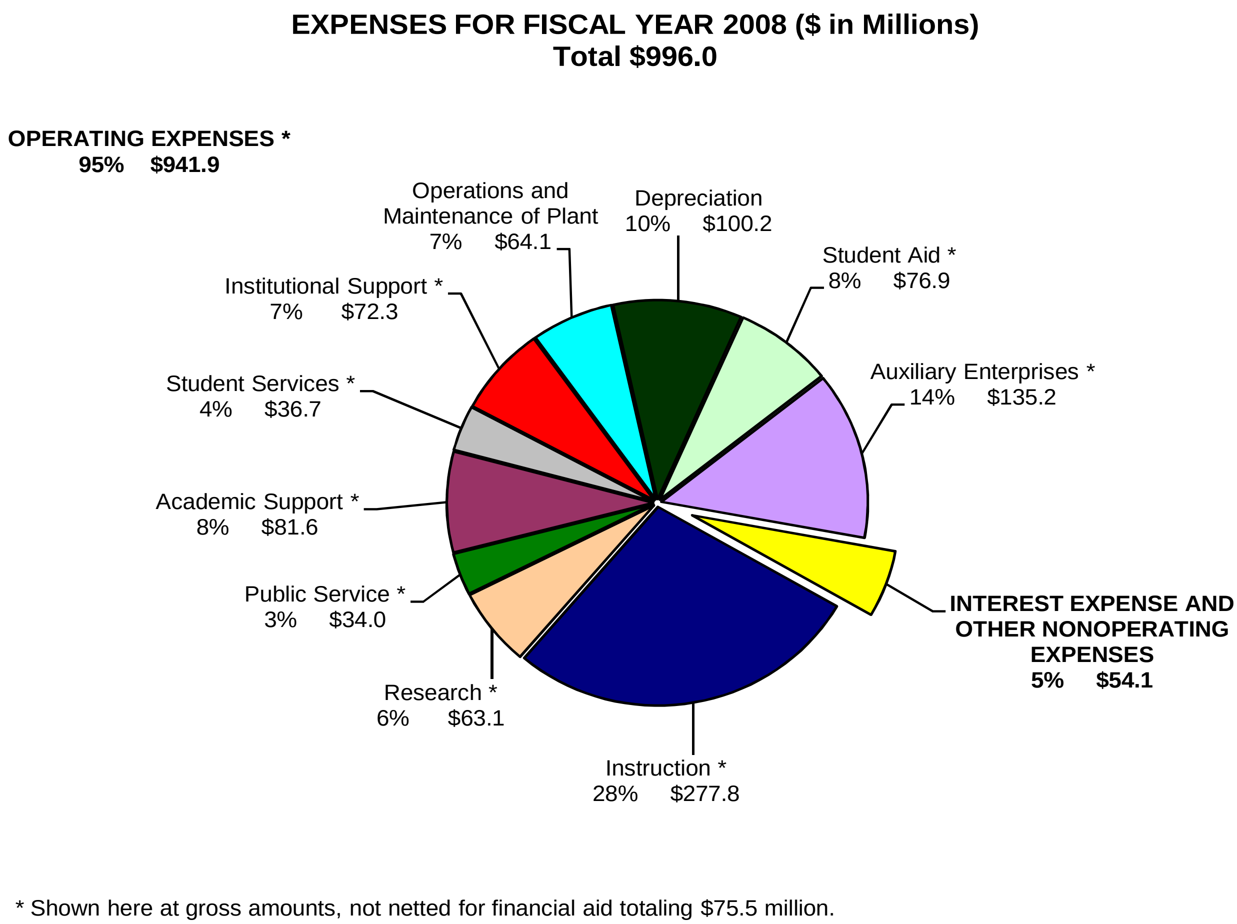
- Operations and maintenance of plant increased $3.5 million or 5.8% in fiscal year 2008 (decrease of $5.1 million or 7.7% in fiscal year 2007). The University began providing on-site generation of electricity, steam and chilled water for heating and cooling for the University at its Storrs campus in fiscal year 2006, with fiscal year 2007 the first full year of operation. Fiscal years 2008 and 2007 experienced a 36.2% and 53.5% reduction, respectively, in electricity consumption (rates increased approximately 8.6% and 36.0%, including distribution and demand charges) while natural gas consumption, the primary energy source that fuels the cogeneration plant, increased 4.7% and 22.6%. An increase in natural gas prices of approximately 9.1% and a reduction of approximately 24.1% was experienced in fiscal years 2008 and 2007, respectively.

- Certain estimated useful lives of equipment were shortened in fiscal year 2008 resulting in an increase in depreciation expense of approximately $4.7 million for the year. Also, in fiscal year 2008, the thirteenth year of UCONN 2000 (see Note 5), the University recorded additions of $73.1 million ($53.9 million in fiscal year 2007) in property and equipment. The additions and the change in useful lives contributed to a 13.8% or $12.2 million increase in depreciation expense in fiscal year 2008 (1.7% or $1.5 million in fiscal year 2007).

- Auxiliary enterprises expenditures increased 6.5% in fiscal year 2008 (4.0% in fiscal year 2007), primarily due to contractual salary increases and the hiring of 11 full-time equivalent staff (23 in fiscal year 2007).

- In fiscal year 2008, a total of $11.6 million was expensed in capital other, net for inspections, fire and safety code updates and other corrective action needed in order to achieve safety goals for all buildings. Other amounts in capital other, net included costs not capitalized under University policy such as repairs, project management fees, capital project studies, and mold, lead and asbestos removal projects totaling $6.3 million, and other miscellaneous capital-related costs and adjustments of ($1.4) million. In fiscal year 2007, capital other, net included a total of $15.0 million recovered for previously recorded expenses related to correcting certain deficiencies in the Hilltop Apartments. In fiscal year 2007, a total of $5.2 million was expensed in capital other, net for inspections, fire and safety code updates and other corrective action needed, as required by the Connecticut General Assembly, in order to achieve safety goals for all buildings. Other amounts in capital other, net in fiscal year 2007 included costs that were not capitalized under University policy such as repairs, project management fees, capital project studies, and mold, lead and asbestos removal projects totaling $5.6 million, equipment falling under the capitalization threshold totaling $2.3 million and other miscellaneous capital-related costs of $1.7 million.

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



STATEMENTS OF CASH FLOWS

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

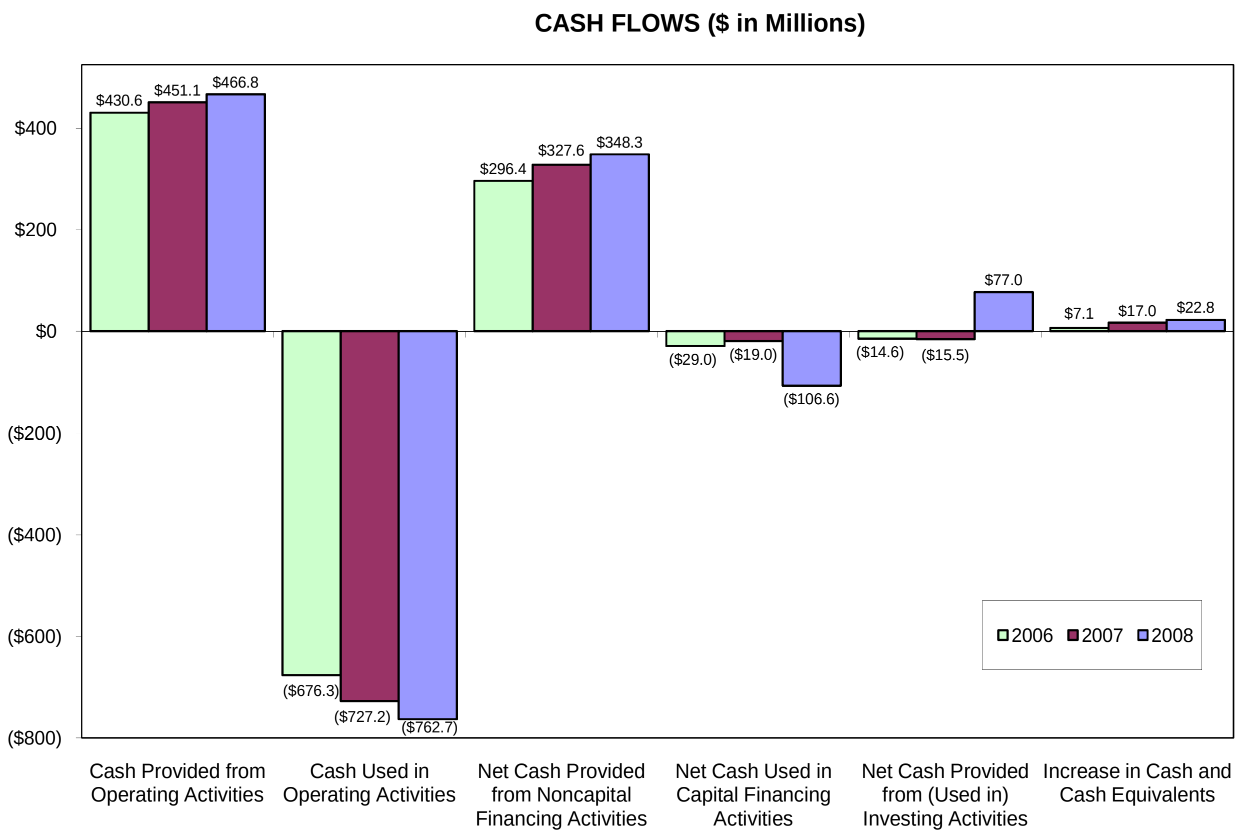
The following table shows condensed Statements of Cash Flows for the years ended June 30 (in millions):

	2008	2007	2006
Cash provided from operating activities	$ 466.8	$ 451.1	$ 430.6
Cash used in operating activities	(762.7)	(727.2)	(676.3)
Net cash used in operating activities	(295.9)	(276.1)	(245.7)
Net cash provided from noncapital financing activities	348.3	327.6	296.4
Net cash used in capital financing activities	(106.6)	(19.0)	(29.0)
Net cash provided from (used in) investing activities	77.0	(15.5)	(14.6)
Net increase in cash and cash equivalents	$ 22.8	$ 17.0	$ 7.1

Net cash used in operating activities was $295.9 million and $276.1 million in fiscal years 2008 and 2007, respectively, and is consistent with the operating loss discussed earlier after adding back depreciation (a noncash expense), the major difference between the two statements. GASB requires that cash flows from noncapital financing activities include State appropriations and noncapital gifts. Cash flows from these activities totaled $348.3 million in fiscal year 2008 ($327.6 million in fiscal year 2007), a $20.7 million increase from fiscal year 2007 ($31.2 increase from fiscal year 2006).

Cash flows used in capital financing activities were $106.6 million and $19.0 million in fiscal years 2008 and 2007, respectively. The major difference between fiscal years 2008 and 2007 is a decrease in proceeds from bonds of $89.0 million in fiscal year 2008 ($10.0 million increase in fiscal year 2007) and an increase in the amount of purchases of property and equipment of $12.5 million ($41.4 million decrease in 2007) and a decrease in capital other, net of $20.4 million ($15.6 million increase in fiscal year 2007). See Note 4.

Total cash and cash equivalents increased $22.8 million and $17.0 million in fiscal years 2008 and 2007, respectively, as a result of these activities. The following bar graph shows the cash flows from and used by major categories and as described in the preceding paragraphs:



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FINANCIAL STATEMENTS

UNIVERSITY OF CONNECTICUT
STATEMENTS OF NET ASSETS
As of June 30, 2008 and 2007

ASSETS	2008	2007
Current Assets		
Cash and cash equivalents	$ 217,773,679	$ 194,995,525
Accounts receivable, net	30,803,831	40,067,930
Student loans receivable, net	2,615,922	2,684,306
Due from State of Connecticut	49,042,365	39,056,405
Due from related agencies	4,628	221
State debt service commitment	78,045,650	74,028,911
Inventories	2,781,158	2,866,469
Deposit with bond trustee	34,283,667	98,453,621
Deferred charges	982,777	1,201,660
Prepaid expenses	4,857,018	8,370
Total Current Assets	421,190,695	453,363,418
Noncurrent Assets		
Cash and cash equivalents	1,468,489	1,462,435
Investments	12,310,361	14,877,495
Student loans receivable, net	9,288,331	9,901,776
State debt service commitment	700,089,715	763,413,355
Property and equipment, net of accumulated depreciation	1,459,143,806	1,487,099,251
Deferred charges	8,182,465	8,986,068
Total Noncurrent Assets	2,190,483,167	2,285,740,380
Total Assets	$ 2,611,673,862	$ 2,739,103,798
LIABILITIES		
Current Liabilities		
Accounts payable	$ 28,225,300	$ 31,890,342
Deferred income	21,695,631	23,236,436
Wages payable	48,478,932	43,489,175
Compensated absences	14,811,196	15,263,043
Due to the State of Connecticut	17,569,745	15,422,828
Due to Affiliate (see Note 5)	13,871,320	27,671,053
Due to related agencies	35,105	28,703
Current portion of long-term debt and bonds payable	72,972,797	69,831,723
Other current liabilities	30,991,622	33,036,969
Total Current Liabilities	248,651,648	259,870,272
Noncurrent Liabilities		
Compensated absences	10,206,868	9,011,057
Deposits held for others	2,484,812	2,477,222
Long-term debt and bonds payable	962,679,046	1,040,318,416
Refundable for federal loan program	9,554,638	9,777,273
Total Noncurrent Liabilities	984,925,364	1,061,583,968
Total Liabilities	$ 1,233,577,012	$ 1,321,454,240
NET ASSETS		
Invested in capital assets, net of related debt	$ 1,186,905,318	$ 1,200,081,259
Restricted nonexpendable	13,778,850	14,878,800
Restricted expendable		
Research, instruction, scholarships and other	14,629,093	12,646,227
Loans	3,728,763	3,732,539
Capital projects	13,235,167	53,585,008
Debt service	10,035,433	10,878,478
Unrestricted (see Note 15)	135,784,226	121,847,247
Total Net Assets	$ 1,378,096,850	$ 1,417,649,558

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

UNIVERSITY OF CONNECTICUT
STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
For the Years Ended June 30, 2008 and 2007

	2008	2007
OPERATING REVENUES		
Student tuition and fees (Net of scholarship allowances of $72,915,047 for 2008 and $68,954,741 for 2007. See Note 1. Net revenues totaling approximately $33,908,000 for 2008 and $31,997,000 for 2007 were used as security for revenue bonds. See Note 5.)	$ 199,720,598	$ 183,468,732
Federal grants and contracts	85,328,534	81,282,959
State and local grants and contracts	25,429,642	18,994,517
Nongovernmental grants and contracts	10,506,027	11,823,648
Sales and services of educational departments	15,280,038	14,937,691
Sales and services of auxiliary enterprises (Net of scholarship allowances of $2,524,596 for 2008 and $2,501,839 for 2007. See Note 1. Net revenues totaling approximately $15,048,000 for 2008 and $22,321,000 for 2007 were used as security for revenue bonds. See Note 5.)	133,471,934	127,527,596
Other sources (Net revenues totaling approximately $3,022,000 for 2008 and $3,263,000 for 2007 were used as security for revenue bonds. See Note 5.)	10,907,810	11,059,294
Total Operating Revenues	480,644,583	449,094,437
OPERATING EXPENSES		
Educational and general		
Instruction	276,670,107	256,079,892
Research	62,762,090	59,641,605
Public service	33,854,891	32,190,108
Academic support	81,513,934	82,234,793
Student services	36,006,579	35,022,525
Institutional support	72,314,553	67,336,935
Operations and maintenance of plant	64,110,720	60,611,434
Depreciation	100,186,738	88,030,170
Student aid	4,009,588	3,971,727
Auxiliary enterprises	135,061,206	126,828,040
Total Operating Expenses	866,490,406	811,947,229
Operating Loss	(385,845,823)	(362,852,792)
NONOPERATING REVENUES (EXPENSES)		
State appropriation	328,176,623	305,943,066
State debt service commitment for interest	39,525,537	35,863,883
State match to endowment	59,484	93,864
Gifts	24,827,285	24,423,566
Investment income (Income totaling approximately $130,000 for 2008 and $153,000 for 2007 were used as security for revenue bonds. See Note 5.)	10,384,021	12,299,820
Interest expense	(51,246,898)	(47,462,929)
Other nonoperating expenses, net	(2,869,076)	(686,574)
Net Nonoperating Revenues	348,856,976	330,474,696
Loss Before Capital Additions (Deductions)	(36,988,847)	(32,378,096)
CAPITAL ADDITIONS (DEDUCTIONS)		
State debt service commitment for principal	-	65,179,575
Capital appropriation	8,000,000	-
Capital grants and gifts	6,802,586	3,029,866
Disposal of property and equipment, net	(874,837)	(3,457,020)
Capital other, net	(16,491,610)	1,623,610
Net Capital Additions (Deductions)	(2,563,861)	66,376,031
Increase (Decrease) in Net Assets	(39,552,708)	33,997,935
NET ASSETS		
Net Assets-beginning of year	1,417,649,558	1,383,651,623
Net Assets-end of year	$ 1,378,096,850	$ 1,417,649,558

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

UNIVERSITY OF CONNECTICUT
STATEMENTS OF CASH FLOWS
For the Years Ended June 30, 2008 and 2007

	2008	2007
CASH FLOWS FROM OPERATING ACTIVITIES		
Tuition and fees	$ 195,073,604	$ 183,131,865
Grants and contracts	119,992,809	112,566,877
Sales and services of auxiliary enterprise	129,967,728	128,538,184
Sales and services of educational departments	15,042,921	15,553,754
Payments to suppliers and others	(203,004,200)	(204,377,503)
Payments to employees	(419,064,929)	(393,461,048)
Payments for benefits	(140,634,400)	(129,329,808)
Other receipts, net	6,697,091	11,261,590
Net Cash Used in Operating Activities	(295,929,376)	(276,116,089)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
State appropriations	325,566,212	305,482,973
Gifts	23,711,662	24,368,956
Other nonoperating expenses, net	(1,019,853)	(2,243,504)
Net Cash Provided from Noncapital Financing Activities	348,258,021	327,608,425
CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES		
Proceeds from bonds	-	89,000,000
State debt service commitment	98,832,438	91,326,345
Purchases of property and equipment	(63,552,008)	(51,083,253)
Principal paid on debt and bonds payable	(73,329,800)	(65,844,345)
Interest paid on debt and bonds payable	(52,088,551)	(47,887,050)
Capital grants and gifts	148,634	2,484,975
Capital other	(16,578,630)	(36,946,741)
Net Cash Used in Capital Financing Activities	(106,567,917)	(18,950,069)
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of investments, net	1,365,114	(166,777)
Interest on investments	11,488,412	11,942,268
Deposits with bond trustee	64,169,954	(27,276,282)
Net Cash Provided from (Used in) Investing Activities	77,023,480	(15,500,791)
INCREASE IN CASH AND CASH EQUIVALENTS	22,784,208	17,041,476
BEGINNING CASH AND CASH EQUIVALENTS	196,457,960	179,416,484
ENDING CASH AND CASH EQUIVALENTS	$ 219,242,168	$ 196,457,960
ACCOMPANYING SCHEDULE OF NON-CASH TRANSACTIONS		
Obligations under capital leases	$ 51,198	$ -
RECONCILIATION OF OPERATING LOSS TO NET CASH USED IN OPERATING ACTIVITIES		
Operating Loss	(385,845,823)	(362,852,792)
Adjustments to Reconcile Operating Loss to Net Cash Used in Operating Activities:		
Depreciation expense	100,186,738	88,030,170
Changes in Assets and Liabilities:		
Receivables, net	(5,080,668)	3,509,871
Inventories	78,682	(283,967)
Prepaid expenses	(4,848,646)	39,019
Accounts payable, wages payable and compensated absences	(2,035,441)	(3,215,110)
Deferred revenue	(1,540,806)	(537,835)
Deferred charges	152,645	(237,106)
Deposits	7,590	(358,825)
Due to state	2,764,843	611,295
Due from related agencies	1,996	166,690
Other liabilities	(452,315)	(513,553)
Loans to students and employees	681,829	(473,946)
Net Cash Used in Operating Activities	$ (295,929,376)	$ (276,116,089)

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, 2008 and 2007

ASSETS	2008	2007
Current Assets		
Cash and cash equivalents	$ 686,860	$ 777,198
Investments	15,137,921	16,017,075
Pledges receivable, net of allowance	625,059	1,031,495
Other receivable	-	64,553
Prepaid expenses	67,900	14,200
Total Current Assets	16,517,740	17,904,521
Property and equipment, net of accumulated depreciation of $88,248 for 2008 and $80,239 for 2007	20,021	28,030
Total Assets	$ 16,537,761	$ 17,932,551
LIABILITIES AND NET ASSETS		
LIABILITIES		
Current Liabilities		
Accounts payable	$ 1,515	$ 703
NET ASSETS		
Unrestricted	1,242,789	1,278,492
Temporarily restricted	3,965,419	5,758,700
Permanently restricted	11,328,038	10,894,656
Total Net Assets	16,536,246	17,931,848
Total Liabilities and Net Assets	$ 16,537,761	$ 17,932,551

STATEMENTS OF ACTIVITIES
For the Years Ended June 30, 2008 and 2007

	Unrestricted	Temporarily Restricted	Permanently Restricted	2008 Total	2007 Total
REVENUES AND SUPPORT					
Contributions and grants	$ 522,568	$ 139,444	$ 433,382	$ 1,095,394	$ 923,852
Interest and dividends	45,106	539,014	-	584,120	490,375
Realized and unrealized gains and losses	772,324	(2,154,465)	-	(1,382,141)	1,539,832
Net assets released from restrictions	317,274	(317,274)	-	-	-
Total Revenues and Support	1,657,272	(1,793,281)	433,382	297,373	2,954,059
EXPENSES					
Program Expenses					
Scholarships and awards	185,391	-	-	185,391	159,377
Student support and faculty support	894,096	-	-	894,096	704,791
Alumni and graduate relations	96,960	-	-	96,960	139,379
Total Program Expenses	1,176,447			1,176,447	1,003,547
Support Expenses					
Management and general	436,178	-	-	436,178	490,512
Fundraising	80,350	-	-	80,350	136,949
Total Support Expenses	516,528	-	-	516,528	627,461
Total Expenses	1,692,975	-	-	1,692,975	1,631,008
Changes in Net Assets	(35,703)	(1,793,281)	433,382	(1,395,602)	1,323,051
Net Assets-beginning of year	1,278,492	5,758,700	10,894,656	17,931,848	16,608,797
Net Assets-end of year	$ 1,242,789	$ 3,965,419	$ 11,328,038	$ 16,536,246	$ 17,931,848

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

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NOTES TO FINANCIAL STATEMENTS

Notes to Financial Statements
For the Years Ended June 30, 2008 and 2007

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Related Entities

The University of Connecticut is a comprehensive institution of higher education, which includes the University of Connecticut Health Center (Health Center). Although governed by a single Board of Trustees, the University of Connecticut and its Health Center maintain separate budgets and are by statute separate entities for purposes of maintaining operating funds and State appropriations. The Health Center also has a Board of Directors to whom the Board of Trustees has delegated certain responsibility and authority. This financial report for the fiscal years ended June 30, 2008 and 2007 represents the transactions and balances of the University, here defined as all programs except the Health Center.

Two related, but independent, corporate entities support the mission of the University: The University of Connecticut Foundation, Inc. (Foundation) (see Note 12) and The University of Connecticut Law School Foundation, Inc. (Law School Foundation). These Foundations raise funds to promote, encourage, and assist education and research at the University and the Health Center.

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

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

Financial Statement Presentation

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

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

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

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

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

- **Unrestricted:** Consists of net assets that do not meet the definition of "restricted" or "invested in capital assets, net of related debt." These assets are not subject to externally imposed stipulations. These assets, while not restricted, are generally designated to support instruction, research, auxiliary enterprises, capital projects, and retirement of indebtedness (see Note 15).

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

GASB Statement No. 45, *Accounting and Reporting by Employers for Postemployment Benefits Other Than Pensions*, was adopted by most universities as of July 1, 2007. The State funds the postretirement benefits of University employees and, therefore, no liability is recorded in the University's financial statements (see Note 8).

For reporting periods beginning after June 15, 2005, GASB Statement No. 47, *Accounting for Termination Benefits*, is required for universities. This statement requires employers to recognize a liability and expense for voluntary termination benefits when the termination offer is accepted and the amount of the benefits can be estimated. Any pension liability related to early retirement is the State's responsibility and therefore none is recorded by the University (see Note 6). However, an accrual for compensated absences is recorded as of June 30, 2007 in the Statements of Net Assets that includes a component that is related to an early retirement plan in fiscal year 2003 (see Note 7).

Effective for reporting periods beginning after December 15, 2006, GASB Statement No. 48, *Sales and Pledges of Receivables and Future Revenues and Intra-Entity Transfers of Assets and Future Revenues*, requires the University to disclose in the notes to the financial statements additional information about pledged revenues (see Note 5).

GASB Statement No. 50, *Pension Disclosures,* was adopted by most universities as of July 1, 2007. This statement expands the footnote disclosures required for pension obligations in GASB No. 27, *Accounting for Pensions by State and Local Governmental Employers*. The State is responsible for and separately funds the pension benefits of University employees. Therefore, no liability is recorded in the University's financial statements (see Note 6).

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

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

Cash Equivalents (see Note 2)

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

Investments (see Note 2)

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

Accounts Receivable (see Note 3)

Accounts receivable consist of tuition, fees, and auxiliary enterprises service fees charged to students, faculty, staff and others, and amounts due from state and federal governments for grants and contracts. Accounts receivable are recorded net of an estimated allowance for doubtful accounts.

Inventories

Consumable supplies are expensed when received with the exception of certain central inventories. 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 new proceeds from Special Obligation Bonds in dedicated Short Term Investment Fund accounts, with the exception of the 1998 Special Obligation Special Capital Reserve Fund which in fiscal year 2007 was invested in longer term federal agency fixed income Investment Obligations as defined in the Special Obligation Indenture of Trust. In fiscal year 2008, these investments were fully called and deposited to the Short Term Investment Fund.

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, Series 2004-A, 2006-A and 2007-A, and the Special Obligation Student Fee Revenue Refunding Series 2002-A Redemption Fund escrow, 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.

Also included in the accompanying Statement of Net Assets in deposit with bond trustee, is the remaining portion of an advance request that the University received related to the lease purchase agreement for the cogeneration plant construction project at the University. Although these funds are not held by the Trustee Bank, they are invested in a dedicated State Treasurer's Short Term Investment Fund or Tax Exempt Proceeds Fund, and are invested and disbursed as directed by the University similar to bond proceeds (see Note 5).

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 issues.

Noncurrent Cash and Cash Equivalents (see Note 2)

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

Property and Equipment (see Note 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 expense in the year the expenditure was 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 when the funds are expended.

Compensated Absences (see Note 7)

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

Noncurrent Liabilities

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

Revenues and Expenses

Operating revenues consist of tuition and fees, state and federal grants and contracts, sales and services of educational activities, auxiliary enterprises revenue and other sources of revenue. GASB Statement No. 33, *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, are reported using functional classification, including those under educational and general and auxiliary enterprises. See Note 14 for operating expenses by object. All other revenues and expenses of the University are reported as nonoperating revenues and expenses including State appropriations and debt service commitment, noncapital gifts, investment income, and interest expense; and capital additions (deductions). Revenues are recognized when earned and expenses are recognized when incurred.

GASB No. 35 requires that revenues be reported net of discounts and scholarship allowances. Student aid for scholarships and fellowships, recorded in the Statements of Revenues, Expenses and Changes in Net Assets, includes payments made directly to students. Any aid applied directly to the students' accounts in payment of tuition and fees, housing charges and dining services is reflected as a scholarship allowance and 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.

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 $219,242,168 and $196,457,960 as of June 30, 2008 and 2007, respectively and included the following:

	2008	2007
Cash maintained by State of Connecticut Treasurer	$ 194,718,834	$ 169,241,483
Invested in State of Connecticut Investment Pool	20,152,054	20,471,136
Invested in State of Connecticut Investment Pool - Endowments	1,468,489	1,462,435
Invested in Short-term Corporate Notes	2,063,521	4,234,806
Deposits with Financial Institutions and Other	839,270	1,048,100
Total cash and cash equivalents	219,242,168	196,457,960
Less: current balance	217,773,679	194,995,525
Total noncurrent balance	$ 1,468,489	$ 1,462,435

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 of Connecticut 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.

The University's cash management investment policy permits the University to invest in the State Treasurer’s Short Term Investment Fund, United States Treasury bills, United States Treasury notes and bonds, United States Government Agency obligations, banker's acceptances, certificates of deposit (including EURO Dollars), commercial paper, money market funds, repurchase agreements, and savings accounts. The $20,152,054 and $1,468,489 invested in the State of Connecticut Investment Pool is invested by the State Treasurer in its Short-term Investment Fund and had a Standard and Poor’s rating of AAAm during fiscal year 2008. The $2,063,521 invested in Short-term Corporate Notes includes repurchase agreements held with a financial institution and is collateralized by the Federal National Mortgage Association with an AAA Standard and Poor’s rating.

The University designated the Foundation as the manager of the University's endowment funds. Gifts that are internally designated as endowments, and externally designated endowment gifts that are to be processed for transfer to the Foundation, are included in cash and cash equivalents (see table above for total amounts). The Foundation makes spending allocation distributions to the University for each participating endowment. The distribution is spent by the University in accordance with the respective purposes of the endowments, the policies and procedures of the University and State of Connecticut statutes. The University’s governing board may appropriate for expenditure, according to the uses and purposes for which the endowment fund was established, a portion of the realized or unrealized appreciation in the fair value of the endowment fund over the historic dollar value of the fund.

The Foundation’s pooled endowment portfolio is professionally managed on a total return basis. Each quarter, an amount equal to 1.0625% (4.25% per annum) of the prior twelve-quarter average unitized market value will be distributed for spending in accordance with the respective purposes of the individual endowment funds. Spending distributions may be made from current or accumulated investment return, and calculations for individual endowment funds will be performed on a unitized basis. If an individual endowment fund does not have sufficient funds to support its computed spending allocation from the current period net total return and/or from accumulated gains from prior periods, the amount allocated for spending will be limited to the interest and dividends of the fund from the current period.

The cost and fair value of the University's investments including those managed by the Foundation at June 30, 2008 and 2007 are:

	2008		2007	
	Cost	Fair Value	Cost	Fair Value
Endowments:				
Foundation Managed	$ 9,387,131	$ 12,308,361	$ 9,250,245	$ 13,412,365
Corporate Bonds	2,000	2,000	4,000	4,000
Other:				
U.S. Government Agency Securities (AAA rated securities; see Note 5)	-	-	1,500,000	1,461,130
Total Investments	$ 9,389,131	$ 12,310,361	$ 10,754,245	$ 14,877,495

University endowment investments are managed by the Foundation in its pooled portfolio, which is actively managed by professional investment managers as determined by the Investment Committee of the Foundation's Board of Directors. The Foundation has established asset allocation guidelines for its pooled investment portfolio, which provides that the maximum exposure with any one manager would be 20% for liquid assets and 5% for illiquid assets. The Foundation Board of Directors also established an asset allocation policy for the long-term pooled investment portfolio (see following table). The Foundation expects that 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 – high beta	20% - 60%
Private capital	0% - 20%
Long/short equities	0% - 15%
Global macro strategies	0% - 10%
Event driven strategies (ex diversified)	0% - 10%
Real estate (public & private)	0% - 10%
Other opportunistic	0% - 10%
Total Growth	40% - 85%
Inflation Hedge	
TIPS	0% - 10%
Natural resources/commodities	0% - 15%
Other inflation hedging strategies	0% - 10%
Total Inflation Hedge	5% - 25%
Risk Minimizing	
Investment grade fixed income	0% - 20%
Relative value/Event driven (diversified)	0% - 15%
Cash equivalents	0% - 10%
Other low volatility strategies	0% - 10%
Total Risk Minimizing	5% - 40%

The endowments invested with the Foundation are subject to risk due to the uncollateralized nature of most of its investments. Certain investments of the Foundation include external investment pools. The bond mutual funds had average credit quality of Aa2/AA (Moody's and Standard and Poor's) and pooled investments of high yield fixed income had an average credit quality of B1/B+ (Moody's and Standard and Poor's). A portion of the University's endowment pool is also invested with WCM Investment Management (WCM) in a separate account with U.S. Bank as custodian and inherent in such investments is custodial credit risk. These investments are all publicly traded U.S. equities and money market accounts and are uncollateralized. The value of the equities at June 30, 2008 and 2007 was $217,179 and $265,296, respectively. The money market balance held in the account available for WCM to use for purchases was $3,971 at June 30, 2008 and $11,363 at June 30, 2007. The University's endowment invested by the Foundation also has investments in foreign publicly traded equities totaling $2,600,366 and $3,038,314 and there are amounts included in private capital investments totaling approximately $1,311,703 and $703,445 at June 30, 2008 and 2007, respectively.

Certain other funds are held by outside fiscal agents and are not under the direct control of the University. Accordingly, the assets of these funds are not included in the financial statements. The fair value of these funds was $12,613,173 and $13,884,353 as of June 30, 2008 and 2007, 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, 2008 and 2007 was $515,368 and $522,164, respectively.

3. ACCOUNTS RECEIVABLE

Accounts receivable at June 30, 2008 and 2007 consisted of the following:

	2008	2007
Grants and contracts	$ 18,412,847	$ 17,150,499
Recovery of costs related to corrective work (see Note 4)	500,000	14,980,000
Student and general	8,692,793	9,515,903
Investment income	1,221,532	2,325,923
Other	6,703,550	1,838,056
Allowance for doubtful accounts	(4,726,891)	(5,742,451)
Total accounts receivable, net	$ 30,803,831	$ 40,067,930

4. PROPERTY AND EQUIPMENT

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

Depreciation is 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. Effective July 1, 2007, the University changed its estimates of the useful lives of certain equipment to better reflect the estimated periods during which such assets will remain in service. Library materials have an estimated useful life of 15 years. The value of library materials, before depreciation, is $76,435,763 and $74,307,576 at June 30, 2008 and 2007, respectively, and is included in equipment in the table on the following page. In fiscal year 2007, the University modified its capitalization policy to expense as incurred the costs of journals, subscriptions, and electronic media. In the prior year these costs were capitalized. Historical collections and art are recognized at their estimated fair values at the time of donation. Historical collections and art totaled $49,587,345 and $48,240,399 at June 30, 2008 and 2007, respectively, and are also included in equipment in the analysis of changes in property and equipment. Historical collections and art are not depreciated.

In the accompanying Statements of Net Assets, an accrual for estimated expenditures totaling $2,728,102 and $8,407,518 at June 30, 2008 and 2007, respectively, is recorded in other liabilities to complete a project to close and remediate an existing landfill. The project involves capping and diversion of water from its vicinity, and expenditures primarily include professional fees, preparation for capping and contouring of surrounding land. The total project expenditures of $27,919,710 were expensed in capital other, net in years prior to fiscal year ending June 30, 2007.

For the years ended June 30, 2008 and 2007, a total of $11,551,156 and $5,226,288, respectively, was expensed in the accompanying Statements of Revenues, Expenses, and Changes in Net Assets in capital other, net for inspections, fire and safety code updates and other corrective action needed in order to achieve safety goals for all buildings. At June 30, 2008 and 2007, an accrual for estimated expenditures to complete these projects totaling $9,922,043 and $5,091,538, respectively, is recorded in other current liabilities in the Statement of Net Assets. While the University intends to pursue the recovery of costs related to the code updates and corrective work, the total amount to be recovered is unknown as of the date of these financial statements.

For the years ended June 30, 2008 and 2007, a total of $710,810 and $354,945, respectively, was expensed in the accompanying Statements of Revenues, Expenses, and Changes in Net Assets in capital other, net for work to correct certain deficiencies in the construction of three residential facilities. At June 30, 2008 and 2007 an accrual for estimated expenditures to complete these projects, totaling $1,531,864 and $2,249,821, respectively, is recorded in other current liabilities in the Statement of Net Assets. Through June 30, 2008, the total amount expensed for the Hilltop Apartments, one of the three residential facilities was $25,498,851. Of these costs, a total of $14,980,000 was recovered, and is included in capital other, net for the year ended June 30, 2007 where it was originally expensed in prior years. A receivable for the recovered amount totaling $500,000 and $14,980,000 at June 30, 2008 and 2007, respectively, is recorded in the Statement of Net Assets. These expenditures will not increase the value of the buildings or extend their useful lives. Due to limited vacancies projected for these buildings during the corrective construction, no impairment is anticipated to these assets.

Other amounts in capital other, net for the years ended June 30, 2008 and 2007 include costs that are not capitalized under University policy such as repairs, project management fees, capital project studies, and mold, lead and asbestos removal projects of $6,300,975 and $5,586,368, respectively; equipment-related costs and adjustments of ($531,441) and $2,281,843, respectively; and other miscellaneous capital-related costs. Capital other, net also includes capital related income such as insurance reimbursements, rebates, and surplus equipment sales.

The following table describes the changes in property and equipment for the years ended June 30, 2008 and 2007.

Changes in Property and Equipment for the Year Ended June 30, 2008:

	Balance July 1, 2007	Additions	Retirements	Transfers and Other	Balance June 30, 2008
Property and equipment:					
Land	$ 14,806,476	$ 20,000	$ -	$ -	$ 14,826,476
Non-structural Improvements	183,705,201	2,937,588	-	1,408,426	188,051,215
Buildings	1,551,130,347	12,803,261	-	7,731,758	1,571,665,366
Equipment	413,069,080	41,490,152	(15,003,778)	-	439,555,454
Construction in Progress	17,043,892	15,855,129	-	(9,140,184)	23,758,837
Total property and equipment	2,179,754,996	73,106,130	(15,003,778)	-	2,237,857,348
Less accumulated depreciation:					
Non-structural Improvements	67,912,338	7,951,274	-	-	75,863,612
Buildings	395,282,256	57,924,519	-	-	453,206,775
Equipment	229,461,151	34,310,945	(14,128,941)	-	249,643,155
Total accumulated depreciation	692,655,745	100,186,738	(14,128,941)	-	778,713,542
Property and equipment, net:					
Land	14,806,476	20,000	-	-	14,826,476
Non-structural Improvements	115,792,863	(5,013,686)	-	1,408,426	112,187,603
Buildings	1,155,848,091	(45,121,258)	-	7,731,758	1,118,458,591
Equipment	183,607,929	7,179,207	(874,837)	-	189,912,299
Construction in Progress	17,043,892	15,855,129	-	(9,140,184)	23,758,837
Property and equipment, net:	$ 1,487,099,251	$ (27,080,608)	$ (874,837)	$ -	$ 1,459,143,806

Changes in Property and Equipment for the Year Ended June 30, 2007:

	Balance July 1, 2006	Additions	Retirements	Transfers and Other	Balance June 30, 2007
Property and equipment:					
Land	$ 14,806,780	$ -	$ (304)	$ -	$ 14,806,476
Non-structural Improvements	176,315,794	2,695,504	(97,850)	4,791,753	183,705,201
Buildings	1,495,362,601	23,411,850	(6,871,624)	39,227,520	1,551,130,347
Equipment	407,522,515	24,036,254	(18,489,689)	-	413,069,080
Construction in Progress	57,311,866	3,751,299	-	(44,019,273)	17,043,892
Total property and equipment	2,151,319,556	53,894,907	(25,459,467)	-	2,179,754,996
Less accumulated depreciation:					
Non-structural Improvements	59,887,324	8,032,998	(7,984)	-	67,912,338
Buildings	344,868,596	54,509,342	(4,095,682)	-	395,282,256
Equipment	221,872,102	25,487,830	(17,898,781)	-	229,461,151
Total accumulated depreciation	626,628,022	88,030,170	(22,002,447)	-	692,655,745
Property and equipment, net:					
Land	14,806,780	-	(304)	-	14,806,476
Non-structural Improvements	116,428,470	(5,337,494)	(89,866)	4,791,753	115,792,863
Buildings	1,150,494,005	(31,097,492)	(2,775,942)	39,227,520	1,155,848,091
Equipment	185,650,413	(1,451,576)	(590,908)	-	183,607,929
Construction in Progress	57,311,866	3,751,299	-	(44,019,273)	17,043,892
Property and equipment, net:	$ 1,524,691,534	$ (34,135,263)	$ (3,457,020)	$ -	$ 1,487,099,251

5. LONG-TERM DEBT PAYABLE

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

General obligation bonds issued to finance UCONN 2000 projects as of June 30, 2008 are (see page 36 for outstanding balances):

1996 Series A	$ 83,929,715
1997 Series A	124,392,432
1998 Series A	99,520,000
1999 Series A	79,735,000
2000 Series A	130,850,000
2001 Series A	100,000,000
2002 Series A	100,000,000
2003 Series A	96,210,000
2004 Series A	97,845,000
2005 Series A	98,110,000
2006 Series A	77,145,000
2007 Series A	89,355,000
Total issued	$ 1,177,092,147

These bonds are general obligations of the University, for which its full faith and credit are pledged, and are payable from all assured revenues. The bonds are additionally secured by the pledge of and a lien upon the State Debt Service Commitment. The State Debt Service Commitment is the commitment by the State to pay an annual amount of debt service on securities issued as general obligations of the University. The University, consistent with the Act, is relying upon the receipt of the annual amount of the pledged State Debt Service Commitment for the payment of the bonds and, accordingly, is not planning to budget any 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. There were no additional bonds issued in fiscal year 2008. However, the University recorded revenue in the capital additions (deductions) section of the Statements of Revenues, Expenses, and Changes in Net Assets totaling $89,355,000 for the year ended June 30, 2007, representing the increase in the State's debt service commitment for principal as a result of the issuance of the 2007 Series A bonds.

The principal amount of $89,355,000 recorded as state debt service commitment for principal, together with part of the original issue premium, resulted in total proceeds of $89,000,000 for the 2007 Series A bonds. The proceeds included $23,510,425 to finance projects for the Health Center. As noted above, Phase III of UCONN 2000 includes a commitment to fund projects totaling $305,400,000 for the Health Center. As bonds are issued, the amount of the commitment for the Health Center is reflected as an offset to the revenue for the University. In fiscal year 2007 this offset totaled $23,510,425 resulting in net revenue of $65,179,575 (including $665,000 due to a decrease in bonds as a result of Series A 2007 bond refunding, as explained on the next page) recorded in the capital additions (deductions) section of the Statements of Revenues, Expenses, and Changes in Net Assets of these financial statements. A corresponding liability is recorded for the unspent portion of the bonds due to the Health Center ($13,871,320 and $27,671,053, at June 30, 2008 and 2007, respectively) in the Statement of Net Assets. Also, for the years ended June 30, 2008 and 2007, nonoperating revenues include state debt service commitment for interest on general obligation bonds of $39,525,537 and $35,863,883, respectively.

In addition to the 2007 Series A Bonds, in April of 2007 the University issued the 2007 Refunding Series A bonds to refund portions of the previously issued Series A General Obligation Bonds in advance of maturity. The face value of the refunding bonds is $46,030,000, and these bonds have a final maturity date of April 1, 2022. Proceeds from the sale of the bonds totaled $49,505,477 and comprised the face value plus the net premium, less the costs of issuance. The proceeds were deposited with the Escrow Agent and held by the Trustee Bank in an irrevocable Redemption Fund escrow and invested in U.S. Treasury, State and Local Government Securities and cash in accordance with the Escrow Agreement and will provide amounts sufficient to meet principal, interest payments, and redemption prices on the refunded bonds on the dates such payments are due. The difference between the carrying value of the defeased debt and its reacquisition price (refunding bonds) is amortized over the remaining life of the debt, and the reduction of the face value of the bonds, $665,000, is reflected as an expense in fiscal year 2007 (net of the $89,355,000 revenue noted above) on the Statement of Revenues, Expenses, and Changes in Net Assets under State debt service commitment for principal.

The following table reflects the change in debt as a result of this Series A 2007 Bonds refunding:

2002 Series A	$ 16,855,000
2003 Series A	29,840,000
Total defeased debt	46,695,000
Total refunding bonds	46,030,000
Decrease in bonds as a result of refunding	$ 665,000

The University may also issue Special Obligation bonds backed by certain pledged revenues of the University. Certain Special Obligation bonds may also be secured by the State's Special Capital Reserve Fund, which enables State funds to be used to pay debt service if the University does not meet its obligation. On February 4, 1998, the University issued $33,560,000 of the Student Fee Revenue Bonds 1998 Series A to fund $30,000,000 of the South Campus Project, $2,126,425 of a Special Capital Reserve Fund held by the Trustee Bank, and the remainder to pay costs of issuance, including the underwriters' discount. A portion of the Special Capital Reserve Fund is included in noncurrent investments at its fair value and totaled $1,461,130 at June 30, 2007 and -0- at June 30, 2008, as these investments were fully called in February of 2008. Therefore, at June 30, 2008 and 2007, $2,126,425 and $626,425, respectively, of the Special Capital Reserve Fund was invested in the State Treasurer's Short-term Investment Fund and held by the Trustee Bank pursuant to the Indenture and restrictions thereof. The bonds have a final maturity of November 15, 2027.

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

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

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

The total gross and net pledged revenues of the University are approximately $52,108,000 and $57,734,000 in fiscal years 2008 and 2007, 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. Net pledged revenues are used as security for Special Obligation bonds. Special Obligation bond investment earnings amounted to approximately $130,000 and $153,000 for the fiscal years ending June 30, 2008 and 2007, respectively. These investment earnings are part of the pledged revenues and are directly retained by the Trustee Bank to pay debt service on the Special Obligation bonds. In addition to securing revenue bonds, the gross and net pledged revenues available are pledged toward certain other debt including the U.S. Department of Education loan and self-liquidating debt. The University has covenanted to collect in each fiscal year fees representing pledged revenues so that the sum of gross and net revenue amounts is equal to no less than 1.25 times the debt service requirements in such fiscal year. As of June 30, 2008 and 2007, the total principal and interest remaining to be paid on all secured debt are $299,661,839 and $317,177,266, respectively. The total amount paid by pledged revenue for all secured debt for principal was $7,151,087 and $5,552,045 and for interest $9,322,583 and $9,586,742 at June 30, 2008 and 2007, respectively.

In December 2003, the University entered into a lease purchase agreement for a project to provide on-site generation of electricity, steam and chilled water for heating and cooling for the University at its Storrs campus. The project initially assumed a total cost of $75,000,000 and included construction of a building, engineering, design and installation of certain equipment at the Storrs campus. The lease was amended in August, 2005 as a result of an increase in the total anticipated cost to $81,900,000. In December 2005, the University requested a final advance from the lessor related to this lease purchase agreement. At June 30, 2008 and 2007, $61,210 and $7,437,903, respectively, of the unspent advance are included in deposit with bond trustee in the Statements of Net Assets. Although these funds are not held by the Trustee Bank, they are invested in a dedicated State Treasurer's Short Term Investment Fund or Tax Exempt Proceeds Fund, and are invested and disbursed as directed by the University similar to bond proceeds (see Note 1). With the amendment, monthly payments of $471,254 increased to $517,135. Payments began January, 2006 and the lease matures 20 years from commencement with interest at a nominal rate of 4.42% on the first $75,000,000 and 5.09% for the last $6,900,000 of advances. As of June 30, 2008 and 2007, the University owed $75,196,110 and $77,967,770, respectively, for amounts advanced by the lessor, including capitalized interest during construction. This amount is 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.

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

During fiscal year 2008, the University paid the remaining balances of the Towers Loan financed by the U.S. Department of Education and the Financial Accelerator Loan.

Long-term debt activity, including refunding of debt, for the years ended June 30, 2008 and 2007 was as follows:

Long-term Debt Activity for the Year Ended June 30, 2008:

	Balance July 1, 2007	Additions	Retirements	Balance June 30, 2008	Current Portion
General Obligation Bonds	$ 823,132,147	$ -	$ (59,718,792)	$ 763,413,355	$ 63,323,640
Revenue Bonds	181,655,000	-	(4,325,000)	177,330,000	4,500,000
Self Liquidating Bonds	7,021,902	1,017,209	(2,230,787)	5,808,324	1,017,733
U.S. Dept. of Ed. Towers Loan	1,647,906	-	(1,647,906)	-	-
Installment Loans	867,844	51,198	(741,551)	177,491	85,069
Obligation Under Capital Lease for Cogeneration	77,967,770	-	(2,771,660)	75,196,110	2,898,221
Financial Accelerator Loan	2,946,710	-	(2,946,710)	-	-
Total long-term debt	1,095,239,279	1,068,407	(74,382,406)	1,021,925,280	71,824,663
Premiums/discounts/debt difference due to refunding	14,910,860	-	(1,184,297)	13,726,563	1,148,134
Total long-term debt, net	$ 1,110,150,139	$ 1,068,407	$ (75,566,703)	$ 1,035,651,843	$ 72,972,797

Long-term Debt Activity for the Year Ended June 30, 2007:

	Balance July 1, 2006	Additions	Retirements	Balance June 30, 2007	Current Portion
General Obligation Bonds	$ 790,647,147	$ 135,385,000	$ (102,900,000)	$ 823,132,147	$ 59,718,792
Revenue Bonds	185,825,000	-	(4,170,000)	181,655,000	4,325,000
Self Liquidating Bonds	8,359,542	-	(1,337,640)	7,021,902	1,162,722
U.S. Dept. of Ed. Towers Loan	1,692,311	-	(44,405)	1,647,906	46,881
Installment Loans	1,429,814	-	(561,970)	867,844	395,269
Obligation Under Capital Lease for Cogeneration	80,618,404	-	(2,650,634)	77,967,770	2,771,660
Financial Accelerator Loan	3,156,406	-	(209,696)	2,946,710	227,100
Total long-term debt	1,071,728,624	135,385,000	(111,874,345)	1,095,239,279	68,647,424
Premiums/discounts/debt difference due to refunding	15,211,200	805,231	(1,105,571)	14,910,860	1,184,299
Total long-term debt, net	$ 1,086,939,824	$ 136,190,231	$ (112,979,916)	$ 1,110,150,139	$ 69,831,723

Long-term debt outstanding at June 30, 2008 and 2007 consisted of the following:

Type of Debt and Issue Date	Type of Issue	Principal Payable	Maturity Dates Through Fiscal Year	Interest Rate	Balance 2008	Balance 2007
Bonds:						
GO 1996 Series A	original	various	2011	5.05-5.1%	$ 4,369,715	$ 4,369,715
GO 1997 Series A	original	annually	2009	5.30%	3,553,640	7,392,432
GO 1998 Series A	original	various	2008	4.35%	-	4,975,000
GO 1999 Series A	original	annually	2012	4.2-4.5%	19,000,000	25,000,000
GO 2000 Series A	original	annually	2010	5.0%	15,825,000	22,375,000
GO 2001 Series A	original	various	2021	4.43-4.75%	25,675,000	30,625,000
GO 2002 Series A	original	annually	2012	4.0-4.46%	20,000,000	25,000,000
GO 2003 Series A	original	annually	2023	2.3-4.4%	41,930,000	46,930,000
GO 2004 Series A	original	annually	2024	2.25-5.0%	78,265,000	83,160,000
GO 2004 Ref. Series A	refund	annually	2020	3.9-5.0%	212,285,000	216,765,000
GO 2005 Series A	original	annually	2025	3.0-3.7%	83,410,000	88,310,000
GO 2006 Series A	original	annually	2026	3.35-5.0%	69,430,000	73,290,000
GO 2006 Ref. Series A	refund	various	2020	4.75-5.0%	59,555,000	59,555,000
GO 2007 Series A	original	annually	2027	3.5-5.0%	84,085,000	89,355,000
GO 2007 Ref. Series A	refund	various	2022	5.0%	46,030,000	46,030,000
Total General Obligation Bonds					763,413,355	823,132,147
Rev 1998 Series A	original	annually	2028	4.2-5.125%	26,840,000	27,640,000
Rev 2002 Series A	original	annually	2030	3.8-5.25%	66,050,000	67,735,000
Rev 2002 Ref. Series A	refund	annually	2030	4.0-5.25%	84,440,000	86,280,000
Total Revenue Bonds					177,330,000	181,655,000
March 1993	original	annually	2012	5.4-5.5%	260,000	320,000
October 1993	refund	various	2012	6.0%	205,690	205,690
March 1994	original	annually	2010	5.5%	112	148
August 1994	original	annually	2009	5.8%	9	10
March 1997	original	various	2008	5.0%	-	295,000
September 1997	refund	annually	2010	5.0-5.5%	75,066	314,650
February 1998	refund	annually	2009	4.5%	2,193	917,432
June 2001	refund	annually	2016	4.4 -5.5%	892,056	1,151,961
November 2001	refund	various	2014	3.6-5.13%	1,313,541	1,678,123
June 2002	refund	annually	2010	5.0 -5.5%	593,151	670,357
August 2002	refund	various	2016	3.5-5.5%	551,867	551,867
December 2003	refund	annually	2011	4.5-5.0%	638,089	641,864
April 2005	refund	various	2017	4.38-5.25%	274,800	274,800
December 2007	refund	various	2015	3.5-5.0%	1,001,750	-
Total Self-Liquidating Bonds					5,808,324	7,021,902
Total Bonds					946,551,679	1,011,809,049
Loans and other debt:						
U.S. Dept. Ed. Towers Loan		semi-annually		5.5%	-	1,647,906
Installment Loans		various	various	2.3-5.604%	177,491	867,844
Obligation Under Capital Lease for Cogeneration		monthly	2026	4.42-5.09%	75,196,110	77,967,770
Financial Accelerator Loan		monthly		8.0%	-	2,946,710
Total loans and other					75,373,601	83,430,230
Total bonds, loans and installment purchases					1,021,925,280	1,095,239,279
Premiums/discounts/debt difference due to refunding					13,726,563	14,910,860
Total bonds, loans and installment purchases, net					1,035,651,843	1,110,150,139
Less: current portion, net					72,972,797	69,831,723
Total noncurrent portion, net					$ 962,679,046	$ 1,040,318,416

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

	General Obligation Bonds			Long-term Debt Other than General Obligation Bonds			Total Obligations		
Year(s)	Principal	Interest	Total	Principal	Interest	Total	Principal	Interest	Total
2009	$ 63,323,640	$ 37,419,419	$ 100,743,059	$ 8,501,023	$ 12,312,326	$ 20,813,349	$ 71,824,663	$ 49,731,745	$ 121,556,408
2010	57,432,274	34,223,916	91,656,190	8,787,663	11,936,765	20,724,428	66,219,937	46,160,681	112,380,618
2011	60,407,441	32,134,750	92,542,191	8,924,265	11,536,715	20,460,980	69,331,706	43,671,465	113,003,171
2012	57,000,000	27,368,958	84,368,958	9,233,362	11,123,312	20,356,674	66,233,362	38,492,270	104,725,632
2013	53,530,000	24,788,735	78,318,735	9,733,756	10,702,652	20,436,408	63,263,756	35,491,387	98,755,143
2014-2018	263,680,000	85,225,643	348,905,643	54,651,840	45,935,966	100,587,806	318,331,840	131,161,609	449,493,449
2019-2023	164,995,000	30,023,434	195,018,434	67,573,872	31,234,790	98,808,662	232,568,872	61,258,224	293,827,096
2024-2028	43,045,000	3,727,519	46,772,519	69,476,144	13,826,159	83,302,303	112,521,144	17,553,678	130,074,822
2029-2030	-	-	-	21,630,000	1,328,250	22,958,250	21,630,000	1,328,250	22,958,250
Total	$763,413,355	$274,912,374	$1,038,325,729	$258,511,925	$149,936,935	$ 408,448,860	$1,021,925,280	$ 424,849,309	$1,446,774,589

6. RETIREMENT PLAN

All regular full-time employees participate in one of two retirement plans. The State Employees' Retirement System, a single employer defined benefit public employee retirement system, is administered by the State and covers approximately 44% of full-time employees. The State of Connecticut is statutorily responsible for the pension benefits of University employees who participate in this plan. The University makes contributions on behalf of the employees through a fringe benefit charge assessed by the State. Employees may also choose to participate in the Alternative Retirement Plan (ARP) which is a defined contribution plan administered through a third-party administrator, ING Life Insurance and Annuity Company. Under this arrangement, the University and the plan participants make annual contributions to the plan.

With respect to the University's Department of Dining Services, of its approximately 487 full-time employees, 88 participate in either the State Employees' Retirement System or ARP, while 399 are eligible to participate in two other retirement plans: the Department of Dining Services Money Purchase Pension Plan and optionally the University of Connecticut Department of Dining Services 403(b) Retirement Plan.

7. COMPENSATED ABSENCES AND WAGES PAYABLE

Compensated absences are recorded in accordance with GASB Statement No. 16, *Accounting for Compensated Absences*, and represent the amounts earned by eligible employees through June 30, 2008. The liability for compensated absences is classified as current and noncurrent based on the amount estimated to be paid to employees in one year and beyond one year, respectively. Compensated absences include accrued unused vacation and sick leave balances for employees, and at June 30, 2008 totaled $23,589,495 and $1,428,569, respectively, and at June 30, 2007 totaled $22,548,868 and $1,725,232, respectively. During fiscal year 2003, the State of Connecticut offered an Early Retirement Incentive Plan (ERIP) to University employees which is funded by the State and its various retirement plans. By the terms of the ERIP, unused vacation and sick leave will be paid in three equal payments on July 1 of each year, beginning July 1, 2005. While the State has committed to reimburse the University for the amounts due to its employees under ERIP, the University will record these payments as a reduction to the liability as the amounts are received from the State, consistent with the accounting for other State appropriations. Included in the current compensated absences liability as of June 30, 2007, are $701,362 for accrued vacation and $308,138 for sick leave for University employees that participated in ERIP. This was the final payment under the agreement; therefore, there are no accruals for ERIP included in accrued vacation and sick leave at June 30, 2008.

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

8. POST EMPLOYMENT BENEFITS

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

9. COMMITMENTS

On June 30, 2008, the University had outstanding commitments (encumbrances over $100,000 each) totaling $45,465,569, which include $36,449,246 related to capital projects. Of the total amount, $4,287,549 is included in accounts payable at June 30, 2008. In addition to the amount for capital outlay, commitments were also related to research, academic, and institutional support. Of these commitments, the University expects $4,120,315 to be reimbursed by federal grants.

10. DEFERRED INCOME AND CHARGES

Deferred income is comprised of certain restricted research grants that are not included in revenue until the funds are expended; tuition and fees and auxiliary enterprises fees received in advance of services rendered for summer and fall sessions; athletic ticket sales and commitments received in advance of the season; a contingent grant received for which conditions were not satisfied as of year-end; and other revenues received but not earned. As of June 30, 2008 and 2007 deferred income is as follows:

	2008	**2007**
Certain restricted research grants	$ 9,762,544	$ 8,633,885
Tuition and fees and auxiliary enterprises	7,104,697	8,558,703
Athletic ticket sales and commitments	3,339,216	3,527,576
Contingent grants	-	500,000
Other	1,489,174	2,016,272
Total deferred income	$ 21,695,631	$ 23,236,436

A portion of current deferred charges totaling $803,603 and $869,841 and noncurrent deferred charges totaling $8,182,465 and $8,986,068 at June 30, 2008 and 2007, respectively, represent the cost of issuance on certain bond issues, which will be 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 required by collective bargaining agreements to waive tuition for certain employees and their dependents. For years ended June 30, 2007 and earlier, tuition and fee revenue does not include foregone revenue resulting from any tuition waivers. Beginning with fiscal year 2008, 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 Statement of Revenues, Expenses and Changes in Net Assets. This change increased tuition and fee revenues and operating expenses by $3,703,591 for the year ended June 30, 2008. Waivers not reflected in the accompanying financial statements, after this change, totaled $38,236,803 and $37,765,341 in fiscal years 2008 and 2007, respectively. In fiscal years 2008 and 2007, approximately 91% and 84%, respectively, of such waivers were provided to graduate assistants.

12. RELATED PARTY TRANSACTIONS

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 reimburse the Foundation for certain administrative services and operating expenses and the Foundation agreed to reimburse the University for certain personal services performed. The following transactions occurred between the University and the Foundation as of and for the year ended June 30, 2008:

Amount paid to the Foundation for its guaranteed contractual services	$ 7,242,000
Reimbursements from the Foundation for personal services and operating expenses	$ 476,248
Capital and noncapital gifts and grants received from the Foundation	$ 21,351,641
Amount receivable from the Foundation	$ 4,793,553

13. CONTINGENCIES

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

14. OPERATING EXPENSES BY OBJECT

The following table details the University's operating expenses by object for the years ended June 30, 2008 and 2007.

Operating Expenses by Object for the Year Ended June 30, 2008

	Instruction	Research	Public Service	Academic Support	Student Services	Institutional Support	Operations and Maintenance of Plant	Depreciation	Student Aid	Auxiliary Enterprises	Total
Salaries and Wages	$190,631,403	$35,490,358	$20,914,047	$48,461,671	$22,434,810	$41,798,676	$18,537,572	$ -	$ 415,906	$ 46,111,795	$424,796,238
Fringe Benefits	60,133,973	8,451,875	6,629,221	18,110,942	8,324,136	18,088,008	9,801,817	-	-	16,944,594	146,484,566
Supplies & Other Expenses	25,904,731	18,819,857	6,311,577	14,941,321	4,948,120	12,303,950	17,454,618	-	3,593,682	61,521,542	165,799,398
Utilities	-	-	46	-	299,513	123,919	18,316,713	-	-	10,483,275	29,223,466
Depreciation	-	-	-	-	-	-	-	100,186,738	-	-	100,186,738
	$276,670,107	$62,762,090	$33,854,891	$81,513,934	$36,006,579	$72,314,553	$64,110,720	$100,186,738	$4,009,588	$135,061,206	$866,490,406

Operating Expenses by Object for the Year Ended June 30, 2007

	Instruction	Research	Public Service	Academic Support	Student Services	Institutional Support	Operations and Maintenance of Plant	Depreciation	Student Aid	Auxiliary Enterprises	Total
Salaries and Wages	$179,575,566	$33,565,874	$19,739,162	$46,224,453	$21,771,030	$37,788,019	$16,056,975	$ -	$ 227,946	$ 41,533,621	$396,482,646
Fringe Benefits	52,234,718	7,378,092	5,748,282	16,647,637	7,866,556	16,404,873	8,694,334	-	2,233	15,346,318	130,323,043
Supplies & Other Expenses	24,269,608	18,697,639	6,702,664	19,362,703	5,121,702	12,929,017	17,128,627	-	3,741,548	59,717,102	167,670,610
Utilities	-	-	-	-	263,237	215,026	18,731,498	-	-	10,230,999	29,440,760
Depreciation	-	-	-	-	-	-	-	88,030,170	-	-	88,030,170
	$256,079,892	$59,641,605	$32,190,108	$82,234,793	$35,022,525	$67,336,935	$60,611,434	$88,030,170	$3,971,727	$126,828,040	$811,947,229

15. UNRESTRICTED NET ASSETS

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

TRUSTEES AND FINANCIAL OFFICERS
As of June 30, 2008

FINANCIAL OFFICERS

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

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