

Connecticut State University System

**(The System Office, Central Connecticut State University,
Eastern Connecticut State University, Southern Connecticut State
University, Western Connecticut State University, and
Component Units)**

Combined Financial Statements

**June 30, 2006 with Summarized Financial
Information for the Year Ended June 30, 2005**

Connecticut State University System
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June 30, 2006 and 2005

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Report of Independent Auditors

To the Board of Trustees of
Connecticut State University System

In our opinion, based on our audit and the reports of other auditors, the combined financial statements listed in the accompanying index, present fairly, in all material respects, the financial position of Connecticut State University System (The System Office; Central Connecticut State University; Eastern Connecticut State University; Southern Connecticut State University and Western Connecticut State University – “CSUS”) and its aggregate discretely presented component units (affiliated University foundations – “Foundations”) at June 30, 2006 and 2005, and their combined revenues, combined expenses and combined changes in net assets and combined cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America. These combined financial statements are the responsibility of CSUS’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 Foundations, which statements reflect total net assets of \$52.8 million and \$45.0 million as of June 30, 2006 and 2005, respectively, and total revenue of \$12.1 million and \$8.7 million for the years ended June 30, 2006 and 2005, respectively. Those statements were audited by other auditors whose reports have been furnished to us, and our opinion expressed herein, insofar as it relates to the amounts included for these component units, is based solely on the reports of the other auditors. We conducted our audits of these statements 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, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits and the reports of the other auditors provide a reasonable basis for our opinion.

The Management’s Discussion and Analysis on pages 3 to 13 is not a required part of the basic combined financial statements, but it is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consist 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 accordingly express no opinion on it.

Our audits were conducted for the purpose of forming an opinion on the basic combined financial statements taken as a whole. The supplemental information listed in the accompanying index on pages S-1 to S-8 is presented for purposes of additional analysis and is not a required part of the basic combined financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic combined financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic combined financial statements taken as a whole.

December 22, 2006

Connecticut State University System

Management's Discussion and Analysis (Unaudited)

June 30, 2006 and 2005

Introduction

Management's Discussion and Analysis provides an overview of the comparative financial position and results of activities of the Connecticut State University System ("CSUS" or "System") and its component units for the fiscal year ended June 30, 2006 with comparative information for the fiscal years ended June 30, 2005 and 2004. It has been prepared by CSUS Management and is required supplemental information for the financial statements and the footnotes that follow this section.

CSUS is the largest comprehensive public institution of higher learning in the State of Connecticut with approximately 36,000 students and 198,000 alumni. The System's four universities are Central Connecticut State University in New Britain, Eastern Connecticut State University in Willimantic, Southern Connecticut State University in New Haven, and Western Connecticut State University in Danbury;(collectively the "Universities"). The Universities offer high-quality applied educational doctoral, graduate and undergraduate programs in more than 160 subject areas and provide extensive opportunities for internships, community service and cultural engagement. CSUS, in total, employed more than 3,100 full time employees at June 30, 2006.

As comprehensive, fully accredited Universities, CSUS institutions are Connecticut's universities of choice for students of all ages, backgrounds, races and ethnicities. CSUS provides affordable and high quality, active learning opportunities, which are geographically and technologically accessible. CSUS graduates think critically, acquire enduring problem-solving skills and meet outcome standards that embody the competencies necessary for success in the workplace and in life.

Using the Financial Statements

CSUS's financial report includes the following financial statements: the Statements of Net Assets, the Statements of Revenues, Expenses and Changes in Net Assets and the Statements of Cash Flows. These financial statements are prepared in accordance with accounting principles generally accepted in the United States of America. In fiscal year 2004, CSUS adopted Governmental Accounting Standards Board Statement No.39, *Determining Whether Certain Organizations are Component Units*. Accordingly, the financial report includes CSUS and certain other organizations that have a significant related party relationship with CSUS ("the component units"). The component units are the CCSU Foundation, Inc., the ECSU Foundation, Inc., the Southern Connecticut State University Foundation, Inc., the Western Connecticut State University Foundation Inc. and the Connecticut State University System Foundation, Inc. (collectively, "the Foundations"). The Foundations are related tax-exempt organizations founded to foster and promote the growth, progress and general welfare of the universities and to solicit, receive and administer donations for such purposes. The Foundations manage the majority of the universities' endowments. However, it is important to note that the assets of these component units are not available to CSUS for use at its discretion.

Financial Highlights

At June 30, 2006, total assets of the System were \$1,277.5 million, an increase of \$85.2 million or 7.1% from the prior year amount of \$1,192.3 million, primarily due to an increase in net capital assets of \$110.9 million, offset by a decrease in cash, cash equivalents and investments of \$26.9 million. The large increase in net capital assets was indicative of ongoing completion in building construction and enhancements to existing buildings during the fiscal year. At June 30, 2005, total assets of the System were \$1,192.3 million, an increase of \$148.4 million or 14.2% from the fiscal year 2004 level of \$1,043.9 million, primarily due to increases in net capital assets of \$141.2 million, net student receivables of \$5.8 million and a \$11.9 million increase in receivables from the State of Connecticut; offset by a decrease in

**Connecticut State University System
Management's Discussion and Analysis (Unaudited)
June 30, 2006 and 2005**

cash, cash equivalents and investments of \$2.8 million and a decrease in computer software of \$6.8 million.

Total liabilities at June 30, 2006, of \$586.5 million increased by \$3.4 million or 0.6% from the prior year level of \$583.1 million primarily due to increases in fiscal year end accruals of \$8.1 million (accrued salaries and related payroll benefits, and accounts payable of \$7.9 million offset by a fiscal year 2006 decrease in bonds payable of \$16.3 million. The decrease in bonds payable was the result of no new issuances during the year and bond repayments of \$16.3 million. Total liabilities at June 30, 2005, of \$583.1 million increased by \$49.8 million or 9.3% from the prior year level of \$533.3 million primarily due to increases in fiscal year end accruals of \$4.8 million (accrued salaries and related payroll benefits and accrued compensated absences), deferred revenue for fiscal year 2006 student billings of \$11.3 million and bonds payable of \$35.4 million offset by a fiscal year 2005 decrease in accounts payable of \$1.5 million. The increase in bonds payable was the result of two bond issuances during the year of \$99.1 million and bond repayments of \$63.7 million.

At June 30, 2006, total net assets, which represent the residual interest in the System's assets after liabilities are deducted, were \$691.0 million, an increase of \$81.8 million or 13.4% over last fiscal year's net assets of \$609.2 million. During the fiscal year, the System experienced a \$ 16.8 million reduction in the amount of change in net assets compared to fiscal year 2005. This reduction was primarily due to decreases in other operating revenues of \$7.1 million and state appropriations for capital purchases of \$10.2 million. At June 30, 2005, net assets were \$609.2 million, an increase of \$98.6 million or 19.3% over the fiscal year 2004 level of \$510.6 million.

**Connecticut State University System
Management's Discussion and Analysis (Unaudited)
June 30, 2006 and 2005**

Statement of Net Assets

SUMMARY OF NET ASSETS					
June 30, 2006, 2005 and 2004					
(\$ In millions)					
				\$	%
	2006	2005	2004	Increase (Decrease) 05-06	Increase (Decrease) 05-06
Current Assets	\$306.9	\$352.6	\$334.5	\$(45.7)	(13.0)
Non-Current Assets:					
Capital Assets, net	837.5	726.6	585.4	110.9	15.3
Other	133.1	113.1	124.0	20.0	17.7
Total Assets	1277.5	1192.3	1043.9	85.2	7.1
Current Liabilities	210.2	184.4	176.8	25.8	14.0
Non-current liabilities	376.3	398.7	356.5	(22.4)	(5.6)
Total Liabilities	586.5	583.1	533.3	3.4	0.6
Net Assets					
Investment in Plant – Net of Related Debt	616.3	532.6	462.4	83.7	15.7
Restricted					
Expendable	28.5	38.6	27.3	(10.1)	(26.2)
Non-expendable	.5	.6	.5	(.1)	(16.7)
Total Restricted	29.0	39.2	27.8	(10.2)	(26.0)
Unrestricted	45.7	37.4	20.4	8.3	22.2
Total Net Assets	\$691.0	\$609.2	\$510.6	81.8	13.4

Current assets at June 30, 2006, of \$306.9 million showed a decrease of \$45.7 million or 13.0%, primarily due to increases in cash of \$14.5 million and net student receivables of \$ 3.6 million, offset by a decrease in investments of \$62.9 (due to an increase in construction). Total current assets represent coverage of current operating expenses including depreciation and amortization for approximately seven months. The System's current ratio at the end of the fiscal year was 1.5:1 compared to the June 30, 2005, level of 1.9:1. This decrease in current ratio was due to higher year-end accruals in salaries and related expenses, and accounts payable.

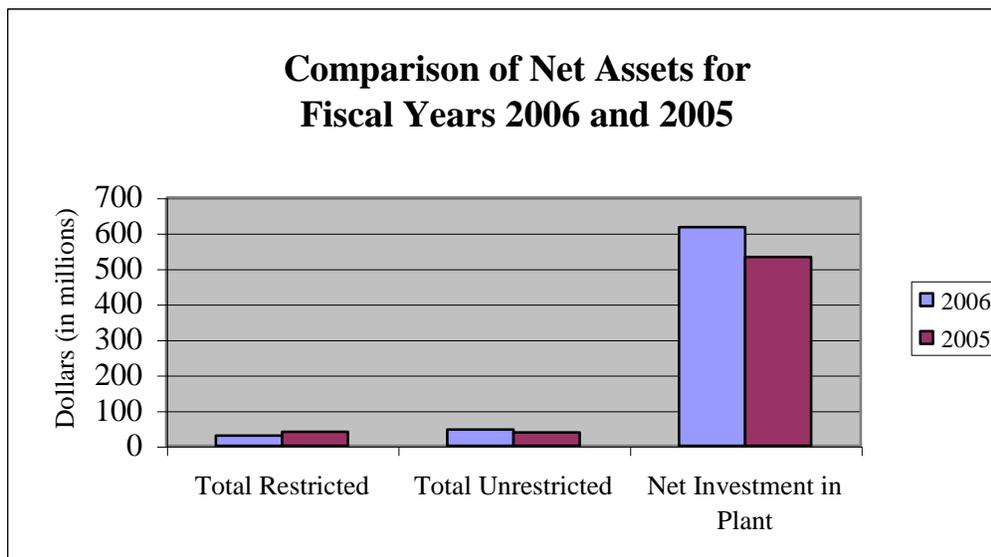
Current assets at June 30, 2005, of \$352.6 million showed an increase of \$18.1 million or 5.4% from 2004, primarily due to an increase in appropriations for capital projects from the State of Connecticut of \$11.9 million and net student receivables of \$5.8 million.

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Total non-current assets at June 30, 2006, of \$970.6 million increased by \$130.9 million or 15.6% over the fiscal year 2005 level of \$839.7 million. This increase was primarily due to net additions to capital assets of \$110.9 million, and long-term cash of \$21.5 million. At June 30, 2005, total non-current assets of \$839.7 million increased by \$130.3 million or 18.4% over the fiscal year 2004 level of \$709.4 million. This increase was primarily due to net additions to capital assets of \$139.4 million, offset by a reduction in long-term cash of \$1.2 million and student loans receivable of \$1.7 million.

Net assets invested in capital assets, net of related debt, represent the System's capital assets net of accumulated depreciation and outstanding principal balances of debt attributable to the acquisition, construction or improvement of those assets.

Restricted net assets are divided into two classifications, expendable and nonexpendable. Restricted expendable net assets are subject to externally imposed restrictions governing their use. In the System, they represent the residual balances of the System's bond funds and unexpended grant funds. Restricted nonexpendable net assets comprise the System's permanent funds such as the Endowment Fund.



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NET INVESTMENT IN PLANT					
June 30, 2006, 2005 and 2004					
(\$ In millions)					
				\$	%
	2006	2005	2004	Increase (Decrease) 05-06	Increase (Decrease) 05-06
Land	\$18.5	\$18.5	\$18.2	\$ -	-
Buildings & Improvements	910.7	733.4	634.8	177.3	24.2
Land Improvements	70.3	67.7	49.0	2.6	3.8
Furniture, Fixtures & Equipment	110.2	98.0	91.1	12.2	12.4
Library books and materials	54.0	50.7	48.5	3.3	6.5
Construction in progress	44.8	97.7	58.1	(52.9)	(54.1)
Total Investment in Plant	1208.5	1066.0	899.7	142.5	13.4
Less Accumulated Depreciation	371.0	339.4	312.7	31.6	9.3
Investment in Plant, Net of Depreciation	\$837.5	\$726.6	\$587.0	\$110.9	15.3

At fiscal year end June 30, 2006, the System had \$1,208.5 million invested in plant assets, an increase of \$142.5 million or 13.4% over the fiscal year end 2005 level of \$1,066.0 million. This increase was primarily due to completed construction of new buildings and major enhancements of existing buildings during the fiscal year. Total additions to depreciable capital assets of \$200.2 million during the fiscal year were indicative of the CSUS commitment to long term capital investment at its universities. At fiscal year end June 30, 2005, the System had \$1,066.0 million invested in plant assets, an increase of \$166.3 million or 18.5% over the fiscal year end 2004 amount of \$899.7 million. This increase was primarily due to completed construction of new buildings and major enhancements of existing buildings during the fiscal year. Total additions to depreciable capital assets in fiscal year 2005 were \$133.2 million.

In 1997, Governor John Rowland committed to support \$320 million in general obligation bonding for capital projects and information technology equipment over a five-year period for CSUS. Between July 1, 1997 and June 30, 2002, approximately \$352.2 million was allocated by the State Bond Commission specifically for capital projects and information technology equipment for the System. In 2001, Governor Rowland announced his support to extend his commitment to the System for an additional five-year period during which the State would commit to support \$400 million in general obligation bonding. During fiscal years 2003 and 2004, under Governor Rowland's administration, and during fiscal year 2005, under Governor M. Jodi Rell's administration, an additional \$258.7 million was allocated by the Bond Commission for CSUS capital projects, bringing the total amount of allocations to CSUS since 1997 to \$610.9 million. The capital budget approved by the legislature for fiscal years 2006 and 2007 includes \$173.9 million for System projects.

In addition to its capital plan for academic and related facilities that are supported by State general obligation bonds, the System is in the tenth year of its long-range capital plan for the renovation and development of auxiliary service facilities. Funds available from six CHEFA bond issues, total \$375.4 million. In addition, \$49.5 million was issued in February 2004 and \$48.5 million was issued in June 2005 to refund selected maturities from prior CHEFA bond issues. The auxiliary service capital plan was

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last reviewed and updated in May 2005 and requires approximately \$100.9 million in additional funds to finance projects identified through fiscal year 2009. Funding for the \$100.9 million program includes \$5 million per year (\$20 million over four years through fiscal year 2009) provided by the State in general obligation bonds to finance auxiliary service projects that otherwise would be financed by the System through CHEFA.

Statement of Revenues, Expenses and Changes in Net Assets

SUMMARY OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS June 30, 2006, 2005 and 2004 (\$ In millions)					
				\$	%
	2006	2005	2004	Increase (Decrease) 05-06	Increase (Decrease) 05-06
Operating Revenues					
Tuition and fees	\$179.1	\$174.7	\$161.8	\$4.4	2.5
Auxiliary & Program Income	67.9	62.0	56.7	5.9	9.5
Grants	43.0	36.9	31.9	6.1	16.5
Other	14.3	21.2	16.6	(6.9)	(32.5)
Total Operating Revenues	304.3	294.8	267.0	9.5	3.2
Less: Operating Expenses before depreciation and amortization	496.9	464.9	431.5	32.0	6.9
Depreciation	38.8	34.0	29.2	4.8	14.1
Amortization	.3	8.1	9.0	(7.8)	(96.3)
Operating Loss	(231.7)	(212.2)	(202.7)	(19.5)	(9.2)
Non-Operating Revenues and Other					
State Appropriations	229.9	225.2	206.7	4.7	2.1
Investment Income	12.5	6.1	5.0	6.4	104.9
Other	71.1	79.5	47.4	(8.4)	(10.6)
Total Non-Operating Revenues	313.5	310.8	259.1	2.7	.9
Increase in Net Assets	81.8	98.6	56.4	(16.8)	(17.0)
Net Assets, beginning of year	609.2	510.6	454.2	98.6	19.3
Net Assets, end of year	\$691.0	\$609.2	\$510.6	\$81.8	13.4

In fiscal year 2006, total revenues of \$617.8 million increased by \$12.2 million or 2.0% compared to fiscal year 2005 level of \$605.6 million. Operating revenues of \$304.3 million at June 30, 2006 increased by \$9.5 million or 3.2% from the previous year, primarily due to increases in Federal and State grants of \$6.1 million and ancillary and program revenues of \$5.9 million. The increase in tuition and fees over the prior year is due to a 5.8% increase in undergraduate tuition and required fees and a 1.6% increase in total annualized FTE enrollment. Total revenues of \$605.6 million in fiscal year 2005 increased by \$79.5

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million or 15.1% compared to the fiscal year 2004 level of \$526.1 million. Operating revenues of \$294.8 million at June 30, 2005 increased by \$27.8 million or 10.4% from the previous year, primarily due to increases in net tuition and fees of \$12.9 million, Federal and State grants of \$5.0 million, and ancillary revenues of \$5.3 million. The increase in tuition and fees over the prior year was primarily due to a 9.6% increase in undergraduate tuition and required fees and a 2.0% increase in total annualized FTE enrollment.

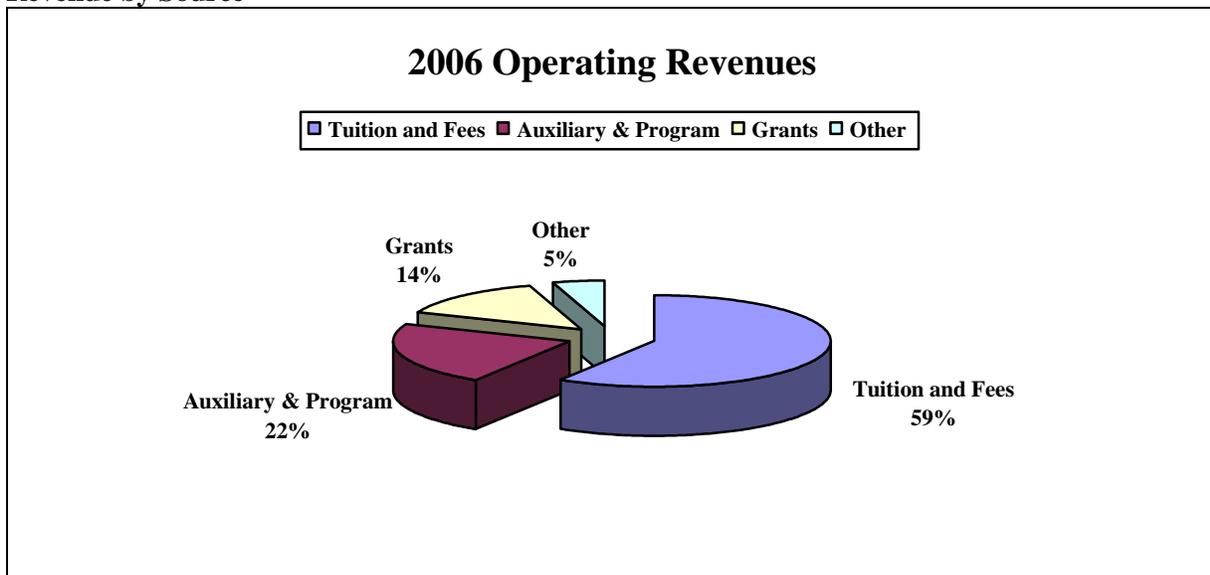
In fiscal year 2006, state appropriations of \$229.9 million, which represent 37.2% of the System's total revenues, were \$4.7 million or 2.1% above fiscal year 2005. State appropriations are received for both operating and capital purposes. In the current year the System earned \$212.9 million for operating purposes and \$17.0 million for capital purposes. These receipts were 7.5% above and 37.5% below the prior year level respectively. The material decrease in appropriations for capital purposes was due to a general Statewide deceleration in the allotment of general obligation bond fund appropriations. The majority of the State appropriation dollars for operating purposes are used to fund salaries and fringe benefits. Approximately 73% of the System's salary and fringe benefit costs are funded from State appropriations. State appropriations of \$225.2 million at fiscal year 2005, which represented 37.2% of the System's total revenues, were \$18.5 million or 9.0% above fiscal year 2004.

The receipt of title to plant facilities of \$68.1 million during the fiscal year decreased by \$8.3 million or 10.9% from the prior year's level of \$76.4 million. The decrease was due to a reduction in completion of construction of major projects at our universities. At June 30, 2005, the receipt of title to plant facilities of \$76.4 million during the fiscal year increased by \$31.9 million or 71.7% from the prior year's level of \$44.5 million.

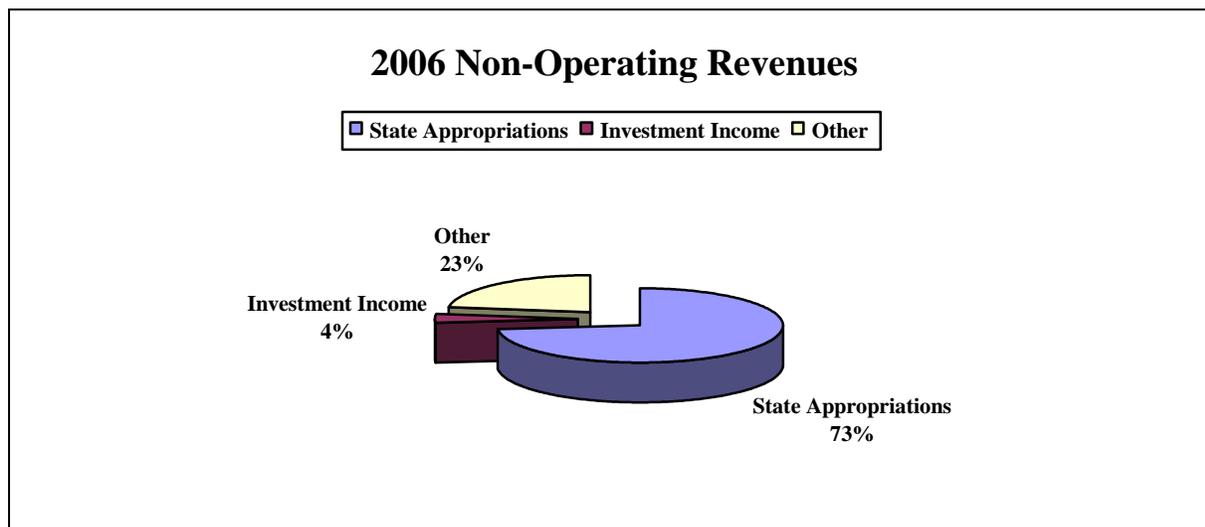
Investment income of \$12.5 million reflected an increase of \$ 6.4 million or 104.9% above fiscal year 2005. This increase in investment income was due to an increase in cash from the issuance of Series G and Series H revenue bonds in the fiscal year 2005 plus higher interest rates in fiscal year 2006.

The following graphs display the components of the System's revenues:

Revenue by Source



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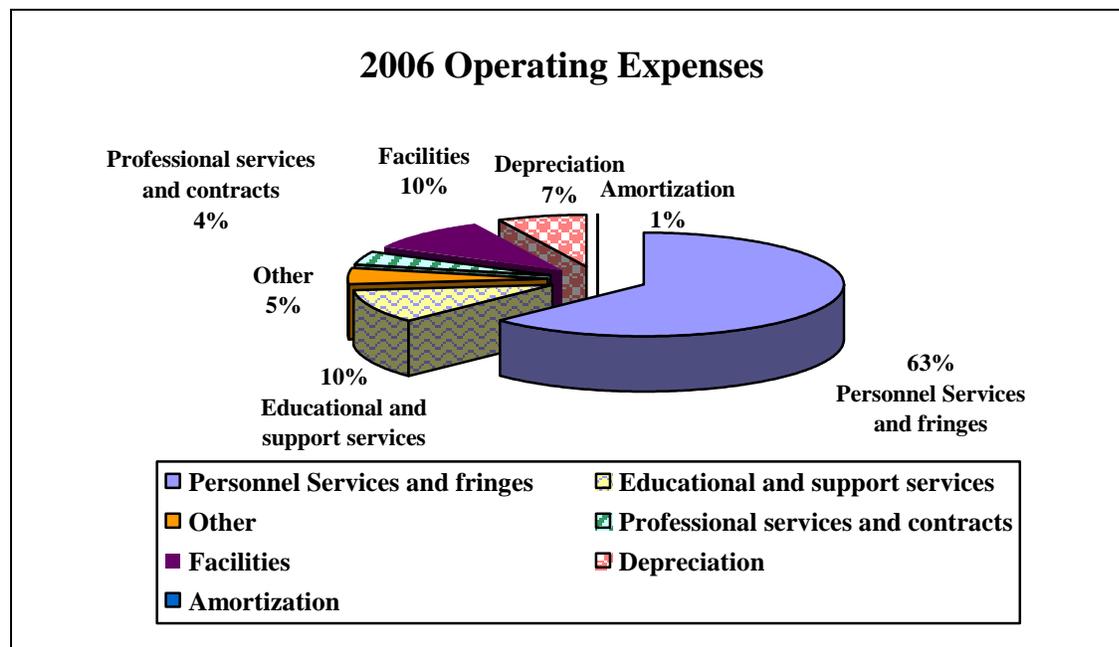


OPERATING EXPENSES					
June 30, 2006, 2005 and 2004					
(\$ In millions)					
				\$	%
	2006	2005	2004	Increase (Decrease) 05-06	Increase (Decrease) 05-06
Operating Expenses					
Personnel service and fringes	\$336.1	\$310.3	\$288.0	\$25.8	8.3
Professional services and contracts	22.3	19.0	17.1	3.3	17.4
Educational and support services	56.3	50.6	46.0	5.7	11.3
Facilities	54.6	58.8	54.1	(4.2)	(7.1)
Other	27.6	26.2	26.3	1.4	5.3
Depreciation	38.8	34.0	29.2	4.8	14.1
Amortization	.3	8.1	9.0	(7.8)	(96.3)
Total Operating Expenses	\$536.0	\$507.0	\$469.7	\$29.0	5.7

At June 30, 2006, total operating expenses less depreciation and amortization of \$496.9 million increased by \$32.0 million or 6.9% during the fiscal year. In 2006, the impact of collective bargaining increases as well as the hiring of certain key positions in the areas of student services and development resulted in an 8.3% increase in personnel services and fringes. The decrease in facilities expense was the result of the capitalization of interest on construction in progress, which resulted in a credit to interest expense of \$ 5.3 million. Total operating expenses, including depreciation and amortization, of \$536.0 million for fiscal year 2006 increased by \$29.0 million or 5.7% over fiscal year 2005, primarily due to increases in personnel services and related fringes, and educational and support services. A write-off of computer software during the year resulted in a decrease of \$ 7.8 million or 96.3 %. Total operating expenses, including depreciation and amortization, of \$507.0 million for fiscal year 2005 increased \$37.3 million or 7.9 % over fiscal year 2004, primarily due to increases in personnel services and related fringes, educational and support services, operation of facilities and depreciation.

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Management's Discussion and Analysis (Unaudited)
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Note 13 to the financial statements details operating expenses by function. The pie chart below illustrates operating expenses by natural classification.



Statement of Cash Flows

STATEMENT OF CASH FLOWS					
June 30, 2006, 2005 and 2004					
(\$ In millions)					
				\$	%
	2006	2005	2004	Increase (Decrease) 05-06	Increase (Decrease) 05-06
Cash provided (used) by					
Operating Activities	\$(173.2)	\$(163.7)	\$(156.6)	\$(9.5)	(5.8)
Non-Capital Financing Activities	214.6	200.0	192.1	14.6	7.3
Capital & Related Financing Activities	(17.2)	32.2	(18.8)	(49.4)	(153.4)
Investing Activities	11.8	(59.5)	(18.7)	71.3	119.8
Net Increase (Decrease) in Cash	36.0	9.0	(2.0)	27.0	300.0
Cash, beginning of year	178.8	169.8	171.8	9.0	5.3
Cash, end of year	\$214.8	\$178.8	\$169.8	\$36.0	20.1

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The System's net increase in cash and cash equivalents at June 30, 2006 of \$27.0 million was primarily due to increases in cash flow from state appropriations of \$ 16.6 million, investment income of \$ 6.3 million and grants of \$ 4.0 million.

Enrollment

The following table indicates historical enrollment of undergraduate and graduate students for the 2001-2002 through 2005-2006 academic years. Also indicated is full-time equivalent student enrollment.

Fall Headcount Enrollment and Annual Full Time Equivalent								
Year Ending June 30	Undergraduate	% Change	Graduate	% Change	TOTAL	% Change	Annual Full Time Equivalent	% Change
2006	27,927	0.5%	7,566	(2.5%)	35,493	(0.1%)	26,146	1.6%
2005	27,775	1.1%	7,762	(2.6%)	35,537	0.3%	25,746	2.0%
2004	27,476	(2.7%)	7,972	0.9%	35,448	(1.9%)	25,246	0.8%
2003	28,228	0.9%	7,898	(0.2%)	36,126	0.7%	25,039	2.6%
2002	27,965	2.7%	7,912	(2.4%)	35,877	1.5%	24,398	4.0%

Student Admissions

The table below shows the total of new freshmen applications received, the number accepted, and the number who enrolled for the fall semesters of 2001 through 2005.

Fall Semester First Year Student Admissions					
Year Ending June 30	Number of Applicants	Percent Accepted	Number Accepted	Percent Enrolled	Number Enrolled
2006	17,059	60.2%	10,278	41.7%	4,291
2005	16,860	61.5%	10,367	41.5%	4,272
2004	17,060	57.3%	9,783	41.6%	4,072
2003	15,836	61.9%	9,810	44.5%	4,368
2002	15,042	65.5%	9,848	44.5%	4,381

Economic Outlook

Operating revenues increased in fiscal year 2006 and are expected to increase in fiscal year 2007. Full time equivalent (FTE) enrollment at the System has increased every year since fiscal year 1996, and is at an all-time high; FTE enrollment for the fall 2006 semester continued this upward trend.

The most significant economic factor impacting CSUS continues to be the fiscal stability of the State of Connecticut. Tuition, fees and State appropriations accounted for 66% of the total revenues of the System in 2006. The System received \$209.5 million in State appropriations for operating activities in fiscal year 2006, and currently anticipates appropriations of \$223.7 million in fiscal year 2007. The State of Connecticut's fiscal condition continues to be fairly optimistic for the short term. The State ended the 2006 fiscal year with a surplus of \$910.0 million, and a surplus is currently projected for FY2007. However, the forecasts for the following three years are not as positive, with the State projecting less in revenues through FY2010. Even though the current economic outlook in Connecticut is upbeat, the housing market is softening, energy prices remain uncertain, and the Federal Reserve acknowledges that

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the nation's economy is not maintaining the desired pace. At this time, CSUS must be ready to serve the growing population of current and potential students. The National Center for Education Statistics projects that Connecticut public high school graduates will increase roughly 25% from academic year 2001 to academic year 2008; it has been suggested by some that this growth will continue through 2012. In addition, CSUS's full-time undergraduate transfers have grown 9% from Fall 2001 to Fall 2006. In fact, CSUS enrolls the most transfer students of any university in the State, public or private, and this trend is expected to continue.

In order to meet the coming challenges, CSUS increased tuition and required fees on average by 5.8% in fiscal year 2006. This was below the national average of 7.1% as reported by the College Board. However, in order to ensure that a CSUS education continues to be accessible and affordable, the System also processed \$6 million more in financial aid than was budgeted during the fiscal year. CSUS remains committed to its mission of access and affordability.

During fiscal year 2006, construction commenced on a new Science Building at one University and was completed on a new Student Center at another. In addition, the comprehensive renovation of a residence hall was completed during the year. Projects underway include the construction of another Student Center, another Science Building, and an 800-car parking garage, additions and renovations to an existing Student Center, and ongoing construction of an addition to an existing library.

In fiscal year 2006, the former President of Eastern Connecticut State University assumed his new post as Chancellor of the Connecticut State University System. After a nationwide search, a new President of Eastern was hired. The new President brings with her a wealth of experience on both the University and System levels, as well as the enthusiasm and vision required to continue to move the University forward. In addition, faculty and administrators at all four Universities and the System Office are working diligently to ensure that CSUS continues to advance.

The System is confident that it will meet the challenges and take advantage of the opportunities that will present themselves in the future, and continue to provide high-quality, accessible and affordable learning to its students and the citizens of the State of Connecticut.

Connecticut State University System
Combined Statements of Net Assets
June 30, 2006 and 2005

	2006	2005
Assets		
Current assets		
Cash and cash equivalents (Notes 2 and 12)	\$ 93,818,349	\$ 79,345,298
Investments (Note 2)	48,228,131	111,117,209
Student receivables	109,593,575	104,933,644
Allowance-doubtful student receivables	(5,713,156)	(4,671,317)
Student receivables, net (Note 3)	103,880,419	100,262,327
Student loans receivable (Notes 3 and 4)	2,142,910	2,520,121
Grants receivable (Note 3)	2,090,970	2,410,731
Miscellaneous receivables, net (Note 3)	868,726	1,757,178
Due from the State of Connecticut (Notes 1 and 5)	54,177,467	53,712,310
Prepaid expenses and other current assets	1,706,628	1,492,393
Total current assets	306,913,600	352,617,567
Noncurrent assets		
Cash and cash equivalents (Notes 2 and 12)	120,950,579	99,483,309
Student loans receivable	10,507,069	10,733,531
Allowance-doubtful loan receivables	(2,649,786)	(2,171,856)
Loans receivable, net (Notes 3 and 4)	7,857,283	8,561,675
Other assets	4,293,645	4,989,362
Investment in plant	1,208,576,840	1,066,009,555
Accumulated depreciation	(371,040,951)	(339,436,431)
Investment in plant, net of accumulated depreciation (Note 6)	837,535,889	726,573,124
Total noncurrent assets	970,637,396	839,607,470
Total assets	\$ 1,277,550,996	\$1,192,225,037

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

Connecticut State University System
Combined Statements of Net Assets
June 30, 2006 and 2005

(Continued)

	2006	2005
Liabilities		
Current liabilities		
Accounts payable	\$ 12,883,142	\$ 4,975,071
Accrued salaries and benefits	41,574,977	33,428,489
Accrued compensated absences (Note 7)	1,479,399	1,428,840
Due to the State of Connecticut	2,300,270	2,019,565
Deferred revenue (Note 9)	117,906,076	112,657,780
Bonds payable (Note 8)	19,937,517	16,761,843
Deferred compensation (Note 8)	-	50,482
Accrued bond interest payable	2,365,634	1,912,816
Capital lease obligation (Note 8)	118,033	139,530
Other liabilities	7,591,392	7,031,878
Depository accounts	4,088,604	4,003,082
Total current liabilities	<u>210,245,044</u>	<u>184,409,376</u>
Noncurrent liabilities		
Accrued compensated absences (Note 7)	27,262,099	27,647,866
Bonds payable (Note 8)	336,963,452	356,908,636
Federal loan program advances	9,697,016	9,765,900
Deferred compensation (Note 8)	84,309	50,483
Other liabilities - ERIP (Note 7)	2,227,440	4,147,784
Capital lease obligation (Note 8)	60,699	134,447
Total noncurrent liabilities	<u>376,295,015</u>	<u>398,655,116</u>
Total liabilities	<u>586,540,059</u>	<u>583,064,492</u>
Net Assets		
Invested in capital assets, net of related debt	616,345,870	532,575,233
Restricted		
Nonexpendable	483,100	610,166
Expendable	28,467,111	38,578,464
Unrestricted	45,714,856	37,396,682
Total net assets	<u>691,010,937</u>	<u>609,160,545</u>
Total liabilities and net assets	<u>\$ 1,277,550,996</u>	<u>\$1,192,225,037</u>

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

Connecticut State University System
Combined Statements of Net Assets – Component Units
June 30, 2006 and 2005

	2006	2005
Assets		
Cash and cash equivalents (Note 2)	\$ 6,589,290	\$ 5,696,608
Investments (Note 2)	40,931,462	34,781,330
Contributions and other receivables (Note 3)	3,367,415	3,286,908
Prepaid expenses and other assets	773,562	765,739
Investment in plant, net (Note 6)	1,666,157	1,651,305
Total assets	<u>\$ 53,327,886</u>	<u>\$ 46,181,890</u>
Liabilities		
Accounts payable	\$ 87,074	\$ 216,442
Deferred revenue	-	519,625
Custodial obligation payable	179,863	185,617
Other liabilities	173,771	166,904
Long-term debt (Note 8)	62,033	78,522
	<u>502,741</u>	<u>1,167,110</u>
Net assets		
Permanently restricted	40,092,116	34,765,659
Temporarily restricted	11,465,006	9,122,592
Unrestricted	1,268,023	1,126,529
Total net assets	<u>52,825,145</u>	<u>45,014,780</u>
Total liabilities and net assets	<u>\$ 53,327,886</u>	<u>\$ 46,181,890</u>

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

Connecticut State University System
Combined Statements of Revenues, Expenses and Changes in Net Assets
Years Ended June 30, 2006 and 2005

	2006	2005
Operating revenues		
Tuition and fees		
Tuition and fees	\$ 204,699,080	\$ 198,138,710
Less		
Scholarships allowance	15,318,163	13,756,941
Waivers	10,287,736	9,685,711
Tuition and fees, net of scholarship allowances and waivers	<u>179,093,181</u>	<u>174,696,058</u>
Federal grants and contracts	29,529,963	25,697,526
State and local grants and contracts	10,337,226	9,032,425
Nongovernment grants and contracts	3,115,351	2,154,711
Indirect cost recoveries	736,855	389,493
Auxiliary revenues	67,882,585	62,030,455
Other operating revenues	13,636,269	20,775,138
Total operating revenues	<u>304,331,430</u>	<u>294,775,806</u>
Operating expenses (Note 13)		
Personnel service and fringe benefits	336,095,932	310,269,890
Professional services and fees	22,276,340	19,046,721
Educational services and support	56,268,003	50,554,125
Travel expenses	5,644,761	4,950,323
Operation of facilities	54,569,659	58,827,248
Other operating supplies and expenses	22,069,462	21,291,259
Depreciation expense	38,821,513	33,921,195
Amortization expense	281,022	8,132,260
Total operating expenses	<u>536,026,692</u>	<u>506,993,021</u>
Operating loss	<u>(231,695,262)</u>	<u>(212,217,215)</u>
Nonoperating revenues		
State appropriations	212,900,046	197,996,422
Gifts	708,372	715,033
Investment income	12,504,148	6,056,901
State financed plant facilities (Note 1)	68,077,006	76,352,173
Other nonoperating revenues	2,354,668	2,437,925
Net nonoperating revenues	<u>296,544,240</u>	<u>283,558,454</u>
Increase in net assets before other revenues, expenses, gains and losses	64,848,978	71,341,239
State appropriations restricted for capital purposes	17,001,414	27,198,875
Net increase in net assets	<u>81,850,392</u>	<u>98,540,114</u>
Net assets (Note 1)		
Net assets - beginning of year	<u>609,160,545</u>	<u>510,620,431</u>
Net assets - end of year	<u>\$ 691,010,937</u>	<u>\$ 609,160,545</u>

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

Connecticut State University System
Combined Statements of Revenues, Expenses and Changes in Net Assets – Component Units
Years Ended June 30, 2006 and 2005

	Unrestricted	Temporarily Restricted	Permanently Restricted	2006	2005
Revenues, gains and other support					
Contributions	\$ 558,370	\$ 2,440,569	\$ 5,698,168	\$ 8,697,107	\$ 4,752,419
State grants	370,416	1,479	(183,682)	188,213	396,378
Program income	118,760	174,489	126,674	419,923	1,021,675
Investment income	38,077	1,417,709	118	1,455,904	870,973
Gain on investments	35,668	1,083,507	293	1,119,468	1,213,637
Other income	462,695	23,334	(315,114)	170,915	427,986
Net assets released from restrictions	2,795,173	(2,795,173)	-	-	-
Total revenues, gains and other support	<u>4,379,159</u>	<u>2,345,914</u>	<u>5,326,457</u>	<u>12,051,530</u>	<u>8,683,068</u>
Operating expenses					
Scholarships and awards	906,219	3,500	-	909,719	933,316
University support	1,729,519	-	-	1,729,519	1,682,226
Auxiliary services	646,430	-	-	646,430	544,295
Academic enrichment	140,009	-	-	140,009	214,447
Fundraising	585,314	-	-	585,314	535,469
Management and general	230,174	-	-	230,174	216,034
Total operating expenses	<u>4,237,665</u>	<u>3,500</u>	<u>-</u>	<u>4,241,165</u>	<u>4,125,787</u>
Changes in net assets	141,494	2,342,414	5,326,457	7,810,365	4,557,281
Net assets					
Beginning of year	<u>1,126,529</u>	<u>9,122,592</u>	<u>34,765,659</u>	<u>45,014,780</u>	<u>40,457,499</u>
End of year	<u>\$ 1,268,023</u>	<u>\$ 11,465,006</u>	<u>\$ 40,092,116</u>	<u>\$ 52,825,145</u>	<u>\$ 45,014,780</u>

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

Connecticut State University System
Combined Statements of Cash Flows
Years Ended June 30, 2006 and 2005

	2006	2005
Cash flows from operating activities		
Tuition and fees	\$ 161,517,681	\$ 160,758,723
Grants and contracts	42,272,739	38,236,777
Auxiliary revenues	68,046,518	60,622,012
Other operating revenues	17,549,038	22,630,592
Payments to employees for salaries and benefits	(328,793,985)	(305,191,249)
Payments to suppliers	(4,751,399)	(8,622,343)
Professional services and fees	(21,637,207)	(19,117,248)
Educational services and support	(55,153,583)	(50,970,091)
Travel expenses	(5,485,191)	(4,942,704)
Operation of facilities	(53,874,534)	(60,006,046)
Other operating supplies and expenses	(12,353,483)	(15,497,907)
University fee receipts	19,474,383	18,424,812
Net cash used in operating activities	<u>(173,189,023)</u>	<u>(163,674,672)</u>
Cash flows from noncapital financing activities		
State appropriations	209,513,508	196,521,232
Gifts for other than capital purposes	708,371	715,037
Nonoperating revenue other	4,340,384	2,611,622
Net cash provided by noncapital financing activities	<u>214,562,263</u>	<u>199,847,891</u>
Cash flows from investing activities		
Purchase of investments	-	(65,113,475)
Proceeds from sales of investments	(55,349)	(18,660)
Interest and dividends received on investments	11,879,321	5,609,211
Net cash provided by (used in) investing activities	<u>11,823,972</u>	<u>(59,522,924)</u>
Cash flows from capital and related financing activities		
Cash paid for capital assets	(84,322,326)	(97,760,667)
Capital appropriations received	20,415,347	16,763,856
Proceeds of new bond issuance	-	101,161,767
Proceeds of capital debt	62,944,427	76,863,463
Payments on capital debt	(16,294,339)	(63,672,955)
Underwriter discount	-	(1,051,348)
Net cash provided by (used in) capital and related financing activities	<u>(17,256,891)</u>	<u>32,304,116</u>
Net increase in cash and cash equivalents	35,940,321	8,954,411
Cash and cash equivalents, beginning of year	<u>178,828,607</u>	<u>169,874,196</u>
Cash and cash equivalents, end of year	<u>\$ 214,768,928</u>	<u>\$ 178,828,607</u>

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

Connecticut State University System
Combined Statements of Cash Flows
Years Ended June 30, 2006 and 2005

	2006	2005
Reconciliation of operating loss to net cash used in operating activities		
Operating loss	\$ (231,695,262)	\$ (212,217,215)
Adjustments to reconcile operating loss to net cash used in operating activities		
Depreciation expense	38,821,513	33,921,195
Bad debt write-offs	(34,352)	736,580
Amortization	281,022	8,132,260
Changes in assets and liabilities:		
Receivables	(2,264,215)	(6,380,186)
Prepaid expenses and other	1,281,706	(74,101)
Accounts payable	7,908,068	(1,220,519)
Accrued salaries	8,146,489	3,176,460
Other liabilities	(607,905)	(2,345,335)
Due to the State of Connecticut	280,705	382,537
Deferred revenues	5,248,295	10,751,753
Deferred compensation	(16,656)	(53,814)
Deposit accounts	85,523	199,853
Accrued bond interest payable	452,818	(327,438)
Accrued compensated absences	(1,076,772)	1,643,298
Net cash used in operating activities	<u>(173,189,023)</u>	<u>(163,674,672)</u>
Noncash financing activity		
Fixed assets acquired by incurring capital lease obligations	5,317	15,068
Fixed assets included in accounts payable	<u>3,255,971</u>	<u>1,042,930</u>
Reconciliation of cash and cash equivalents to the combined statements of net assets		
Cash and cash equivalents classified as current assets	93,818,349	79,345,298
Cash and cash equivalents classified as noncurrent assets	<u>120,950,579</u>	<u>99,483,309</u>
	<u>\$ 214,768,928</u>	<u>\$ 178,828,607</u>

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

Connecticut State University System

Notes to Combined Financial Statements

June 30, 2006 and 2005

1. Summary of Significant Accounting Policies

Organization

The Connecticut State University System (CSUS) was established by the State of Connecticut (the State) as a constituent unit of the State's system of higher education. The statutory responsibility of CSUS, as reflected in Connecticut General Statutes Section 10a-87, is to offer, through each of its Universities, curricula that "prepare persons to teach in the schools of the state" and that support the pursuit of "academic and career fields," and to confer degrees in such areas of study.

Responsibility for CSUS is vested in the Trustees of Connecticut State University System (the Trustees) who, in turn, appoint the Chancellor, the chief executive officer of CSUS, the university presidents and the chief executive officers of the respective Universities.

CSUS provides instruction for baccalaureate, graduate and certificate programs, including applied doctoral degree programs in education, and operates various auxiliary enterprises, such as student residences, dining halls and parking facilities. In addition, CSUS administers a variety of financial aid programs which are funded by institutional operating funds and contributions from state and federal sources.

Basis of Presentation

The combined financial statements include the statements of CSUS and its aggregate discretely presented component units. The combined statements of CSUS present the combined financial position of the four Universities (Central, Eastern, Southern and Western; **collectively the "Universities"**) and the central administrative organization (the System Office) of CSUS, after the elimination of inter-university accounts and transactions among the four Universities and the System Office. These statements have been presented utilizing the AICPA Industry Audit Guide, *Audits of State and Local Governments (GASB 34 Edition)* and are prepared on the accrual basis of accounting in accordance with generally accepted accounting principles promulgated by the Governmental Accounting Standards Board (GASB).

CSUS's combined financial statements include three statements: the statement of net assets, the statement of revenues, expenses, and changes in net assets and the statement of cash flows.

- The combined statement of net assets presents information on all of CSUS's assets and liabilities, with the difference between the two reported as net assets. Over time, the increases or decreases in net assets may serve as a useful indicator of whether the financial position of CSUS is improving or deteriorating.
- The combined statement of revenues, expenses and changes in net assets presents information showing how CSUS's net assets changed during the most recent fiscal years. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, certain revenues and expenses are reported in these statements for items that will only result in cash flows in future fiscal periods (e.g., the accrual for compensated absences).
- The combined statement of cash flows is presented using the direct method. The direct method of cash flow reporting portrays net cash flow from operations in major class of operating receipts (e.g., cash paid to employees of services).

Connecticut State University System

Notes to Combined Financial Statements

June 30, 2006 and 2005

Revenues are recognized when earned and expenses are recognized when incurred. Restricted grant revenue is recognized only to the extent expended or in the case of fixed price contracts, when the contract terms are completed.

Student financial aid expenditures are reported as an allowance against tuition and fees revenue while stipends and other payments made directly to students are recorded as financial aid expense and included in education services and support expense.

CSUS determines on a case-by-case basis whether to first apply restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net assets are available. However, CSUS generally encourages the use of restricted resources first.

Revenues and expenses are categorized as either operating or nonoperating. Operating revenues and expenses generally result from exchange transactions such as payments for providing services and payments made for services or goods received. Nearly all of CSUS's expenses are from exchange transactions. Certain significant recurring sources of CSUS's revenues relied upon for operations, including state appropriations, gifts and investment income and losses are recorded as nonoperating revenues, as defined by GASB Statement No. 35.

GASB Statement No. 39 "*Determining Whether Certain Organizations Are Component Units* – ("GASB 39") was adopted during the year ended June 30, 2004 by CSUS. Under the guidelines of GASB 39, several legally separate, tax-exempt, affiliated university foundations (the "Foundations") must be considered component units of CSUS and presented discretely in CSUS's financial statements. The Foundations act primarily as a fund-raising organization to supplement the resources that are available to the universities in support of their programs. Although the universities do not control the timing or amount of receipts from the foundations, the majority of resources, or income thereon, that the Foundations hold and invest are restricted to the activities of the universities by the donors. **Since** these restricted resources held by the foundations can only be used by, or for the benefit of, the universities, the foundations are considered component units of the universities.

The **Foundations** are private nonprofit organizations that report under FASB standards, including FASB Statement No. 117, *Financial Reporting for Not-for-Profit Organizations*. As such, certain revenue recognition criteria and presentation features are different from GASB revenue recognition criteria and presentation features. No modifications have been made to the Foundation's financial information in CSUS's financial reporting entity for these differences.

Affiliated alumni associations with unaudited total net assets of approximately \$776,000 and \$400,000 at June 30, 2006 and 2005, respectively, have not been included as component units of the Universities.

Certain amounts in the June 30, 2005 financial statements have been **reclassified** for comparative purposes.

Connecticut State University System

Notes to Combined Financial Statements

June 30, 2006 and 2005

Net Assets

Resources are classified for reporting purposes into the following four net asset categories:

- **Invested in Capital Assets, Net of Related Debt**
Capital assets, at historical cost or fair market value on date of gift, net of accumulated depreciation and outstanding principal balances of debt attributable to the acquisition, construction or improvement of those assets. Similar net assets are included in unrestricted net assets in the statements of the component units.
- **Restricted Nonexpendable**
Net assets subject to externally imposed stipulations that they be maintained in perpetuity by CSUS. Similar net assets are referred to as permanently restricted net assets in the statements of the component units.
- **Restricted Expendable**
Net assets whose use by CSUS is subject to externally imposed stipulations that can be fulfilled by actions of CSUS pursuant to those stipulations or that expire by the passage of time. Similar net assets are referred to as temporarily restricted net assets in the statements of the component units.
- **Unrestricted**
Net assets that are not subject to externally imposed stipulations are considered unrestricted. Unrestricted net assets may be designated for the specific purpose by actions of management or the Board of Higher Education or may otherwise be utilized to satisfy certain contractual agreements with outside parties. Substantially all unrestricted net assets will be utilized for support for academic and research programs and initiatives, and capital programs.

Classification of Assets and Liabilities

CSUS presents short-term and long-term assets and liabilities in the statement of net assets. Short-term assets include balances with maturities of one year or less, and assets expected to be received or used within one year or less, from June 30, 2006 and 2005. Long-term assets represent balances with maturities of greater than one year, and assets expected to be received or used after one year, from June 30, 2006 and 2005. Cash and cash equivalents and investments presented as short-term in the statement of net assets include balances with a maturity of one year or less from June 30, 2006 and 2005. Long-term cash and cash equivalents include balances with a maturity of greater than one year from June 30, 2006 and 2005 and balances that have externally imposed restrictions as to use.

Short-term liabilities include balances that are expected to be paid in one year or less from June 30, 2006 and 2005. Long-term liabilities include balances that are expected to be paid after one year from June 30, 2006 and 2005.

Fair Value of Financial Instruments

Fair value approximates carrying value for cash and cash equivalents, notes and accounts receivable, accounts payable, accrued interest and deposits. The fair value of bonds payable is estimated using discounted cash flow analyses, based on current borrowing rates for similar types of borrowing arrangements and approximate carrying value at June 30, 2006 and 2005.

Connecticut State University System

Notes to Combined Financial Statements

June 30, 2006 and 2005

Cash, Cash Equivalents and Investments

Cash and investments consist primarily of petty cash, checking accounts and a Short-Term Investment Fund (“STIF”), see Note 2. The STIF, stated at market value, is held on behalf of the Universities and the System Office by the State Treasurer consist of \$97.2 million and \$70.3 million for June 30, 2006 and 2005, respectively, and have maturities when purchased of three months or less. Interest and investment income is recognized on the accrual basis.

Cash and cash equivalents include debt service reserve funds which are restricted for purposes in accordance with CHEFA regulations.

Investments are carried at fair value, based upon quoted market prices, and consist of deposits with original maturities of less than one year and are available for current use. Securities received as a gift are recorded at fair value at the date of the gift.

Investment securities are exposed to various risks, such as interest rate, market and credit risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and that such changes could materially affect the amounts reported in the combined balance sheet.

Indirect Cost Recoveries

The Universities record the recovery of indirect costs applicable to research programs which provide for the full or partial reimbursement of such costs as operating revenue as the related direct costs are incurred.

Inventories

The Universities’ inventories of \$749,137 and \$787,773 at June 30, 2006 and 2005, respectively, consist primarily of supplies for plumbing, maintenance, auto, carpentry, electrical and custodial, and are valued at cost. Inventories are included in prepaid expenses and other current assets in the balance sheet.

Investment in Plant

Capital assets are stated at cost. Depreciation of capital assets is provided on a straight-line basis over the estimated useful lives of the respective assets. Land, capitalized collections, library books and construction in progress are not depreciated. Construction period interest costs in excess of earnings associated with the debt proceeds are capitalized as a component of the fixed asset. The following table illustrates the range of useful lives for CSUS’s depreciable assets:

Land improvements	20 years
Building and building improvements	5 - 40 years
Furnitures, fixtures and equipment	5 - 15 years

Major construction projects for new physical plant and original equipment financed by the State of Connecticut capital outlay appropriations are managed and controlled by the Department of Public Work (“DPW”) of the State of Connecticut. When the project is complete and/or when title passes from DPW to CSUS, the entire cost value of the project is recognized as revenue and recorded as state financed plant facilities by the Universities. Amounts recognized for such projects were \$68.1 million and \$76.4 million for the years ended June 30, 2006 and 2005, respectively.

Title to all assets, whether purchased, constructed or donated, is held physically by the State of Connecticut.

Connecticut State University System

Notes to Combined Financial Statements

June 30, 2006 and 2005

Deferred Loan Costs

Costs incurred with the issuance of bonds were capitalized and are being amortized by the interest method over the loan term. Amortization expenses for the years ended June 30, 2006 and 2005 was \$277,697 and \$567,823, respectively. Write-off of premium on bonds at June 30, 2006 and 2005 was (\$475,171) and (\$584,245), respectively.

Interest Capitalization

Interest expense incurred during the construction of capital assets is capitalized, if material, net of interest income earned on resources set aside for this purpose. The University incurred net interest expense of \$ 9.0 million for the fiscal year ended June 30, 2006. Cumulative interest capitalized for the fiscal year ended June 30, 2006, totaled \$ 5.7 million.

Compensated Absences

Employees earn their right to be compensated during absences for annual leave, sick leave and other fringe benefits. The accompanying balance sheet reflects the accrual for the amounts earned and, ultimately, payable for such benefits (see Note 7).

Due from the State of Connecticut

Accrued salaries and related fringe benefit costs for CSUS employees, whose salaries will be charged to the State of Connecticut Unrestricted Fund (the Unrestricted Fund), totaled \$25.9 million and \$21.3 million as of June 30, 2006 and 2005, respectively. CSUS has reflected a related receivable from the State of Connecticut for these costs which will be charged to the Unrestricted Fund appropriation for the following year, in accordance with the state budget approved prior to June 30, 2006.

CSUS has also recorded a receivable from the State of Connecticut related to allocated bond financing for capital projects when allotted by the Governor (see Note 5).

Deferred Revenues

Deferred revenues consist primarily of tuition and fees that have been billed or collected at June 30, 2006 and 2005, but applicable to the 2006 or 2005 summer sessions which are still in progress or fall sessions. Direct charges related to these sessions are reported in the period the tuition and fees are recognized as income.

Federal Loan Program Advances

Refundable federal advances for the Perkins Loan programs administered by the Universities are classified as noncurrent liabilities.

Income Tax Status

Connecticut State University System is an agency of the State of Connecticut which is exempt from federal income taxes under section 115(a) of the Internal Revenue Code and of state income taxes. Accordingly, no provision for income taxes has been recorded in the accompanying combined financial statements.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America require management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingencies at June 30, 2006 and 2005 and revenues and expenses recognized during the reporting period. Major estimates

Connecticut State University System
Notes to Combined Financial Statements
June 30, 2006 and 2005

include the accrual for employee compensated absences and the allowances for doubtful accounts. Actual results could differ from those estimates.

Connecticut State University System
Notes to Combined Financial Statements
June 30, 2006 and 2005

2. Cash, Cash Equivalents and Investments

Cash and cash equivalents includes approximately \$97.2 million and \$70.3 million at June 30, 2006 and 2005, respectively, invested in the State of Connecticut Treasurer's Short-Term Investment Fund (STIF), a combined investment pool of high quality, short-term money market instruments. All temporary surplus cash is invested in the STIF. CSUS may add or withdraw monies on a daily basis with interest earned from date of deposit to date of withdrawal. The primary investment objectives of the STIF are the preservation of principal and the provision of liquidity to meet CSUS's daily cash flow requirements.

The STIF is managed by investment managers in accordance with the investment guidelines established by the State Treasurer. These guidelines prohibit investment in derivative securities other than floating rate securities which vary in the same direction as individual short-term money market indices, and limit the ability to enter into reverse repurchase agreements in amounts not to exceed five percent (5%) of the STIF's net assets at the time of execution.

The cost and fair value of cash, cash equivalents and investments at June 30 are:

	2006		2005	
	Cost	Fair value	Cost	Fair value
Cash and cash equivalents	\$ 214,768,928	\$ 214,768,928	\$ 178,828,607	\$ 178,828,607
U.S. Government obligations	41,807,581	41,808,231	104,490,620	104,469,358
Mortgage-backed securities	6,419,900	6,419,900	6,647,851	6,647,851
	<u>\$ 262,996,409</u>	<u>\$ 262,997,059</u>	<u>\$ 289,967,078</u>	<u>\$ 289,945,816</u>

The cost and fair value of cash, cash equivalents and investments of the Component Units at June 30 are:

	2006		2005	
	Cost	Fair value	Cost	Fair value
Cash and cash equivalents	\$ 6,589,290	\$ 6,589,290	\$ 5,696,608	\$ 5,696,608
Investments	40,827,846	40,931,462	32,854,627	34,781,330
	<u>\$ 47,417,136</u>	<u>\$ 47,520,752</u>	<u>\$ 38,551,235</u>	<u>\$ 40,477,938</u>

Investments are pooled and separate accounting is maintained as to the amounts allocable to the various funds and programs.

As of June 30, 2005, CSUS implemented the disclosure requirements of Governmental Accounting Standards Board Statement No. 40 "Deposit and Investment Risk Disclosures" ("GASB 40"), and accordingly, CSUS has assessed the Credit Risk, Custodial Credit Risk, the Concentration of Credit Risk, and the Interest Rate Risk of its Cash, Cash Equivalents and Investments.

Credit Risk – Credit risk is the risk that an investor will lose money because of the default of the security issuer or investment counterparty. CSUS is primarily invested in U.S. Government

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obligations, which are not considered to have credit risk. The average credit quality rating of CSUS's mortgage-backed securities was AAA, as rated by Standard & Poor's Ratings as of June 30, 2005.

Custodial Credit Risk – At June 30, 2006 and 2005, the carrying amount of CSUS's bank deposits was \$96.6 million and \$108.5 million, respectively, as compared to bank balances of \$96.6 million and \$110.0 million, respectively. The differences between the carrying amount and bank balances were primarily caused by outstanding checks and deposits-in-transit. Of such bank balances, \$0.5 million at June 30, 2006 and \$1.2 million at June 30, 2005 are covered by federal deposit insurance. The remaining balances of \$96.1 at June 30, 2006 and \$108.8 at June 30, 2005, respectively, are uninsured and uncollateralized and therefore subject to custodial credit risk. All investments are held in CSUS's name.

Concentration of Credit Risk – Concentration of credit risk is assumed to arise when the amount of investments with one issuer exceeds 5 percent or more of the total value of investments. 37% of CSUS total cash, cash equivalents and investments is invested in the STIF as of June 30, 2006.

Interest Rate Risk – Interest rate risk is the risk that changes in interest rates will adversely affect the fair market value of an investment. Interest rate risk is managed by establishing targets for the preferred duration of the fixed income component of the investment portfolio by asset class by limiting investments through target allocations to different asset classes. Investment maturities of CSUS's debt securities at June 30, 2006 are as follows:

Debt Securities	Investment Maturities (in years)				
	Fair Value	Less Than 1	1 to 5	6 to 10	More Than 10
U.S. Government obligations	\$ 41,808,231	\$ 25,670,656	\$ -	\$ -	\$ 16,137,575
Mortgage-backed securities	6,419,900			3,386,070	3,033,830
	<u>\$ 48,228,131</u>	<u>\$ 25,670,656</u>	<u>\$ -</u>	<u>\$ 3,386,070</u>	<u>\$ 19,171,405</u>

3. Receivables

Accounts receivable consisted of the following at June 30:

	2006	2005
Student accounts receivable	\$ 109,593,575	\$ 104,933,644
Student loans receivable	12,649,979	13,253,652
Grants receivable	2,090,970	2,410,731
Miscellaneous receivables	868,726	1,757,178
	<u>125,203,250</u>	<u>122,355,205</u>
Less allowance for doubtful accounts	<u>(8,362,942)</u>	<u>(6,843,173)</u>
Net accounts receivable	<u>\$ 116,840,308</u>	<u>\$ 115,512,032</u>

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Student accounts receivable above include \$97,293,329 and \$95,222,221 representing amounts billed at June 30, 2006 and 2005, respectively, for the fall semester of the next academic year. These amounts are included in deferred revenue at those dates.

Accounts receivable of the component Units consisted of the following at June 30:

	2006	2005
Contributions and other receivables	\$ 3,367,415	\$ 2,602,944
State matching contribution	-	683,964
Total contributions and other receivables	<u>\$ 3,367,415</u>	<u>\$ 3,286,908</u>

4. Loans Receivable

Student loans made through the Federal Perkins Loan Program (the “Program”) comprise substantially all of the loans receivable at June 30, 2006 and 2005. The Program provides for cancellation of a loan at rates of 10% to 30% per year up to a maximum of 100% if the participant complies with certain provisions. The federal government reimburses the University for amounts canceled under these provisions.

As CSUS determines that loans are uncollectible and not eligible for reimbursement by the federal government, the loans are written off and assigned to the US Department of Education. The University has provided an allowance for uncollectible loans, which, in management’s opinion, is sufficient to absorb loans that will ultimately be written off. At June 30, 2006 and 2005, the allowance for uncollectible loans was \$2,649,786 and \$2,171,856, respectively.

5. Due from the State of Connecticut

Amounts due from the State of Connecticut as of June 30, are comprised of the following:

	2006	2005
Receivable for accrued salaries, interest and fringe benefits to be paid by State of Connecticut General Fund	\$ 27,345,536	\$ 21,257,780
State appropriations for capital projects	26,831,931	32,454,530
	<u>\$ 54,177,467</u>	<u>\$ 53,712,310</u>

Bond financing for capital projects authorized by the State Legislature is available for allotment by the Governor when allocated for specific projects by the State Bond Commission. CSUS recognizes such resources when they are allotted, which is the point at which commitments can be made against them. This amount, recorded as a receivable, is drawn against as related capital projects are constructed. The majority of CSUS’s capital projects have historically been financed through the issuance of general obligation bonds of the State of Connecticut (see Note 8).

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6. Investment in Plant

The following are the components of investment in plant, and the respective year's activity:

	Balance June 30, 2005	Year ended June 30, 2006		Balance June 30, 2006
		Additions	Retirements and Transfers	
Capital assets not being depreciated:				
Land	\$ 18,461,690	\$ -	\$ -	\$ 18,461,690
Capitalized collections and library books	50,739,758	5,100,548	(1,829,890)	54,010,416
Construction in progress	97,679,597	50,395,937	(103,257,643)	44,817,891
Total capital assets not being depreciated	<u>\$ 166,881,045</u>	<u>\$ 55,496,485</u>	<u>\$ (105,087,533)</u>	<u>\$ 117,289,997</u>
Other capital assets:				
Land improvements	\$ 67,688,283	\$ 2,708,291	\$ (14,640)	\$ 70,381,934
Buildings and building improvements	733,405,668	179,303,445	(2,045,376)	910,663,737
Furniture, fixtures and equipment	98,034,559	18,181,194	(5,974,581)	110,241,172
Total other capital assets	<u>899,128,510</u>	<u>200,192,930</u>	<u>(8,034,597)</u>	<u>1,091,286,843</u>
Less accumulated depreciation for:				
Land improvements	(20,732,650)	(3,488,002)	705	(24,219,947)
Buildings and building improvements	(258,960,628)	(24,972,529)	1,782,029	(282,151,128)
Furniture, fixtures and equipment	(59,743,153)	(10,360,982)	5,434,259	(64,669,876)
Total accumulated depreciation	<u>(339,436,431)</u>	<u>(38,821,513)</u>	<u>7,216,993</u>	<u>(371,040,951)</u>
Other capital assets, net	<u>\$ 559,692,079</u>	<u>\$ 161,371,417</u>	<u>\$ (817,604)</u>	<u>\$ 720,245,892</u>
Capital asset summary:				
Capital assets not being depreciated	\$ 166,881,045	\$ 55,496,485	\$ (105,087,533)	\$ 117,289,997
Other capital assets, at cost	899,128,510	200,192,930	(8,034,597)	1,091,286,843
Total cost of capital assets	1,066,009,555	255,689,415	(113,122,130)	1,208,576,840
Less accumulated depreciation	<u>(339,436,431)</u>	<u>(38,821,513)</u>	<u>7,216,993</u>	<u>(371,040,951)</u>
Capital assets, net	<u>\$ 726,573,124</u>	<u>\$ 216,867,902</u>	<u>\$ (105,905,137)</u>	<u>\$ 837,535,889</u>
Component Units				
Total cost of capital assets	\$ 1,850,171	\$ 59,997	\$ -	\$ 1,910,168
Less accumulated depreciation	(198,866)	(45,145)	-	(244,011)
Capital assets, net	<u>\$ 1,651,305</u>	<u>\$ 14,852</u>	<u>\$ -</u>	<u>\$ 1,666,157</u>

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	Balance June 30, 2004	Year ended June 30, 2005		Balance June 30, 2005
		Additions	Retirements and Transfers	
Capital assets not being depreciated:				
Land	\$ 18,207,161	\$ 254,529	\$ -	\$ 18,461,690
Capitalized collections and library books	48,550,091	4,640,445	(2,450,778)	50,739,758
Construction in progress	58,150,015	94,243,393	(54,713,811)	97,679,597
Total capital assets not being depreciated	<u>\$ 124,907,267</u>	<u>\$ 99,138,367</u>	<u>\$ (57,164,589)</u>	<u>\$ 166,881,045</u>
Other capital assets:				
Land improvements	\$ 48,989,717	\$ 18,698,566	\$ -	\$ 67,688,283
Buildings and building improvements	634,773,206	99,223,432	(590,970)	733,405,668
Furniture, fixtures and equipment	91,061,850	15,298,009	(8,325,300)	98,034,559
Total other capital assets	<u>774,824,773</u>	<u>133,220,007</u>	<u>(8,916,270)</u>	<u>899,128,510</u>
Less accumulated depreciation for:				
Land improvements	(17,048,979)	(3,683,671)	-	(20,732,650)
Buildings and building improvements	(238,612,865)	(20,642,203)	294,440	(258,960,628)
Furniture, fixtures and equipment	(57,090,824)	(9,595,321)	6,942,992	(59,743,153)
Total accumulated depreciation	<u>(312,752,668)</u>	<u>(33,921,195)</u>	<u>7,237,432</u>	<u>(339,436,431)</u>
Other capital assets, net	<u>\$ 462,072,105</u>	<u>\$ 99,298,812</u>	<u>\$ (1,678,838)</u>	<u>\$ 559,692,079</u>
Capital asset summary:				
Capital assets not being depreciated	\$ 124,907,267	\$ 99,138,367	\$ (57,164,589)	\$ 166,881,045
Other capital assets, at cost	774,824,773	133,220,007	(8,916,270)	899,128,510
Total cost of capital assets	899,732,040	232,358,374	(66,080,859)	1,066,009,555
Less accumulated depreciation	<u>(312,752,668)</u>	<u>(33,921,195)</u>	<u>7,237,432</u>	<u>(339,436,431)</u>
Capital assets, net	<u>\$ 586,979,372</u>	<u>\$ 198,437,179</u>	<u>\$ (58,843,427)</u>	<u>\$ 726,573,124</u>
Component Units				
Total cost of capital assets	\$ 1,850,171	\$ -	\$ -	\$ 1,850,171
Less accumulated depreciation	(154,427)	(44,439)	-	(198,866)
Capital assets, net	<u>\$ 1,695,744</u>	<u>\$ (44,439)</u>	<u>\$ -</u>	<u>\$ 1,651,305</u>

7. Accrued Compensated Absences

Accrued compensated absences as of June 30, include:

	2006	2005
Accrued vacation	\$ 17,831,815	\$ 16,557,836
Accrued sick leave	5,252,590	5,208,906
Other accrued fringe benefits	5,657,092	7,309,964
	<u>28,741,497</u>	<u>29,076,706</u>
Less: current portion	1,479,399	1,428,840
Noncurrent portion	<u>\$ 27,262,098</u>	<u>\$ 27,647,866</u>

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Activity for compensated absences, as of June 30, includes:

Balance as of June 30, 2004	\$ 27,433,408
Additions in 2005	3,351,254
Retirements in 2005	<u>(1,707,956)</u>
Balance as of June 30, 2005	29,076,706
Additions in 2006	1,045,533
Retirements in 2006	<u>(1,380,742)</u>
Balance as of June 30, 2006	<u>\$ 28,741,497</u>

These accruals represent estimated amounts earned by all eligible employees through June 30, 2006 and 2005. These accrued compensated absences will be settled over a number of years, and are not expected to have a significant impact on the future annual cash flows of CSUS.

In February 2003, the State of Connecticut offered employees meeting certain criteria, an Early Retirement Incentive Plan (ERIP). For those employees opting to accept the plan, their accrued compensation for vacation and sick time was reclassified to a separate liability. Those amounts will be paid out annually in equal installments over a three year period starting July 2005. The total amount of ERIP liability at June 30, 2006 and 2005 is approximately \$4.3 million and \$6.7 million, respectively. The current portion of the liability at June 30, 2006 and 2005 is included in other current liabilities on the statements of net assets.

8. Bonds, Notes Payable and Capital Lease Obligations

The State of Connecticut, through acts of its legislature, provides funding for certain major plant facilities at CSUS. The State obtains its funds for these construction projects from general obligation bonds which it issues from time to time. The State is responsible for all repayments of the bonds in accordance with bond indentures.

Debt service on bonds issued by the State to finance educational and general facilities is funded by the General Fund of the State, which is in the custody of the State Treasurer. These bonds do not require repayment by CSUS and, accordingly, the State's debt obligation attributable to CSUS's educational and general facilities is not reported as CSUS debt in the accompanying financial statements.

Bonds issued by the State of Connecticut to finance auxiliary enterprise buildings and improvements require that principal and interest payments be remitted by CSUS to the State from revenues associated with the specific auxiliary activities. These bonds which are considered self-liquidating originally matured from 1993 to 2017 with interest rates varying from 2% to 6%. State statute requires these bonds to be repaid entirely by CSUS and, accordingly, these bonds are recorded as CSUS debt in the accompanying financial statements.

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Principal outstanding on the self-liquidating bond issues as of June 30, is as follows:

Issue Date	Type	2006	2005
March 1993	Original	\$ 2,800,000	\$ 3,270,875
October 1993	Refund	1,484,496	1,484,939
March 1994	Original	755	755
August 1994	Original	211	211
October 1995	Original	-	423,314
March 1997	Original	850,000	1,275,000
September 1997	Refund	1,901,561	1,911,831
February 1998	Refund	5,668,373	5,683,921
December 1999	Cash defeasance	1,536,241	3,072,482
June 2001	Refund	7,764,858	8,663,446
November 2001	Refund	4,468,871	5,677,181
June 2002	Refund	1,270,682	1,505,389
August 2002	Refund	776,355	776,355
April 2003	Refund	2,213	2,416
December 2003	Refund	4,658,821	4,696,646
April 2004	Refund	441,634	441,982
April 2005	Refund	422,547	430,214
		<u>\$ 34,047,618</u>	<u>\$ 39,316,957</u>

Estimated principal and interest requirements for the next five years and five-year increments thereafter are as follows:

Year	Principal	Interest
2007	\$ 5,618,884	\$ 1,828,149
2008	4,489,824	1,424,820
2009	5,018,909	1,240,973
2010	4,805,591	1,000,609
2011	3,999,041	738,742
2012-2016	9,692,822	1,209,791
2017	422,547	22,586
	<u>\$ 34,047,618</u>	<u>\$ 7,465,670</u>

On November 1, 1995, the State of Connecticut Health and Educational Facilities Authority (CHEFA) issued \$44.6 million of Series A Revenue Bonds on behalf of CSUS. The Bonds originally matured from 1996 through 2015, with interest rates varying from 4.5% to 6%. Payment of the principal of, and interest on, the bonds are due to the trustee on April 1 and October 1 of each year, is guaranteed by a municipal bond insurance policy.

On March 15, 1997, CHEFA issued \$38.9 million of Series B Revenue Bonds on behalf of CSUS. The Bonds mature from 1997 through 2017 with interest rates varying from 4.5% to 5%. Payment of the principal of, and interest on, the bonds are due to the trustee on April 1 and October 1 of each year, is guaranteed by a municipal bond insurance policy.

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On November 15, 1999, CHEFA issued \$23 million of Series C Revenue Bonds on behalf of CSUS. The Bonds originally matured from 2000 through 2019, with interest rates varying from 4.3% to 6%. Payment of the principal of, and interest on, the bonds are due to the trustee on April 1 and October 1 of each year, is guaranteed by a municipal bond insurance policy.

On March 15, 2002, CHEFA issued \$76.2 million of Series D Revenue Bonds on behalf of CSUS. The Bonds mature from 2003 to 2022 with interest rates varying from 4% to 5%. Payment on the principal of, and interest on, the bonds is due to the Trustee on October 1 and April 1 of each year, and is guaranteed by a municipal bond insurance policy for the 2020-2022 maturities.

On May 15, 2003, CHEFA issued \$142.1 million of Series E Revenue Bonds on behalf of CSUS. The Bonds mature from 2005 to 2033 with interest rates varying from two percent (2%) to five percent (5%). Payment of the principal of, and interest on, the bonds are due to the Trustee on April 1 and October 1 of each year and is guaranteed by a municipal bond insurance policy.

On February 5, 2004, CHEFA issued \$49.5 million of Series F Revenue Bonds on behalf of CSUS, to advance refund portions of Series A, B, C and D. The Bonds mature from 2004 to 2015 with interest rates varying from two percent (2%) to five percent (5%). Payment of the principal of, and interest on, the bonds are due to the Trustee on April 1 and October 1 of each year and is guaranteed by a municipal bond insurance policy.

On June 7, 2005, CHEFA issued \$50.6 million of Series G Revenue Bonds on behalf of CSUS. The Bonds mature from 2006 to 2035 with interest rates varying from three percent (3%) to five percent (5%). Payment of the principal of, and interest on, the bonds are due to the Trustee on April 1 and October 1 of each year and is guaranteed by a municipal bond insurance policy.

On June 7, 2005, CHEFA issued \$48.5 million of Series H Revenue Bonds on behalf of CSUS, to advance refund portions of Series B, C, D and E. The Bonds mature from 2005 to 2019 with interest rates varying from two and one half percent (2.5%) to five percent (5%). Payment of the principal of, and interest on, the bonds are due to the Trustee on April 1 and October 1 of each year and is guaranteed by a municipal bond insurance policy.

In connection with the fiscal year 2005 advance refunding of portions of Series B, C, D and E, CSUS deposited into irrevocable trust accounts sufficient funds to provide for all future debt service payments on the refunded bonds. As a result, the refunded bonds are considered to be defeased, and the liability for those bonds has been removed from the statement of net assets. Assets held in the trust accounts had an aggregate market value of approximately \$52.8 million at June 30, 2005. The outstanding amount of the refunded bonds totaled approximately \$49.3 million at June 30, 2005. The refunding of the bonds resulted in a difference between the reacquisition price and the net carrying amount of the old debt of approximately \$3.1 million. The difference is being charged to operations over the life of new bonds using the straight-line method. As a result of the defeasance, CSUS will reduce its aggregate debt service payments by approximately \$2.7 million and achieve an economic gain, (the difference between the present value of the old and new debt service payments), of approximately \$2.0 million.

In connection with the fiscal year 2004 advance refunding of portions of Series A, B, C and D, CSUS deposited into irrevocable trust accounts sufficient funds to provide for all future debt service payments on the refunded bonds. As a result, the refunded bonds are considered to be defeased, and the liability for those bonds has been removed from the statement of net assets. Assets held in the trust accounts had an aggregate market value of approximately \$53.9 million at

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June 30, 2005. The outstanding amount of the refunded bonds totaled approximately \$49.0 million at June 30, 2005. The refunding of the bonds resulted in a difference between the reacquisition price and the net carrying amount of the old debt of approximately \$5.3 million. The difference is being charged to operations over the life of new bonds using the straight-line method. As a result of the defeasance, CSUS will reduce its aggregate debt service payments by approximately \$3.2 million and achieve an economic gain, (the difference between the present value of the old and new debt service payments), of approximately \$1.8 million.

Principal outstanding of the CHEFA Bonds at June 30 was as follows:

	2006	2005
CHEFA Revenue Bonds Series A	\$ -	\$ 2,245,000
CHEFA Revenue Bonds Series B	5,590,000	7,455,000
CHEFA Revenue Bonds Series C	4,640,000	5,800,000
CHEFA Revenue Bonds Series D	34,590,000	38,340,000
CHEFA Revenue Bonds Series E	123,750,000	125,365,000
CHEFA Revenue Bonds Series F	48,435,000	48,680,000
CHEFA Revenue Bonds Series G	50,595,000	50,595,000
CHEFA Revenue Bonds Series H	48,370,000	48,515,000
	<u>\$ 315,970,000</u>	<u>\$ 326,995,000</u>

CSUS's most restrictive covenant is the pledging of certain University fee receipts and parking fee receipts as collateral for its obligation to make payments.

Bond interest is payable to the bondholders on May 1 and November 1 of each year. Bonds mature on November 1, in the years set forth below:

Maturity	Principal
2007	\$ 13,835,000
2008	13,885,000
2009	14,005,000
2010	14,100,000
2011	14,235,000
2012-2016	72,780,000
2017-2021	62,535,000
2022-2026	49,325,000
2027-2031	34,455,000
2032-2036	26,815,000
	<u>\$ 315,970,000</u>

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Long-term liability activity for the years ended June 30, 2006 and 2005 was as follows:

	Year Ended June 30, 2006			Balance June 30, 2006
	Balance June 30, 2005	Additions	Retirements	
Bonds payable	\$ 366,311,957	\$ -	\$ (16,294,339)	\$ 350,017,618
Premium on Bonds payable	\$ 7,358,522	\$ -	\$ (475,171)	\$ 6,883,351
Capital lease obligations	273,977	54,883	(150,128)	178,732
Deferred compensation	100,965	45,014	(61,670)	84,309
Total	\$ 374,045,421	\$ 99,897	\$ (16,981,308)	\$ 357,164,010

	Year Ended June 30, 2005			Balance June 30, 2005
	Balance June 30, 2004	Additions	Retirements	
Bonds payable	\$ 330,874,912	\$ 99,110,000	\$ (63,672,955)	\$ 366,311,957
Premium on Bonds payable	\$ 6,197,900	\$ 1,744,866	\$ (584,244)	\$ 7,358,522
Capital lease obligations	473,213	8,750	(207,986)	273,977
Deferred compensation	154,779	34,462	(88,276)	100,965
Total	\$ 337,700,804	\$ 100,898,078	\$ (64,553,461)	\$ 374,045,421

Principal payments for the Component Units are due as follows:

Year	Principal
2007	\$ 2,573
2008	2,732
2009	2,900
2010	3,078
2011	3,268
Thereafter	47,482
	<u>\$ 62,033</u>

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Notes payable activity for the years ended June 30, 2006 and 2005 was as follows:

	Year Ended June 30, 2006			Balance June 30, 2006
	Balance June 30, 2005	Additions	Retirements	
Notes payable	\$ 78,522	\$ -	\$ (16,489)	\$ 62,033

	Year Ended June 30, 2005			Balance June 30, 2005
	Balance June 30, 2004	Additions	Retirements	
Notes payable	\$ 79,924	\$ -	\$ (1,402)	\$ 78,522

9. Deferred Revenue

Deferred revenue consists of the following at June 30, 2006 and 2005:

	2006	2005
Unearned tuition and fees	\$ 136,296,270	\$ 108,713,304
Grants and contracts	1,836,170	2,831,166
Other	1,215,681	1,113,310
	<u>\$ 139,348,121</u>	<u>\$ 112,657,780</u>

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10. Pension Plans

Plan Description

All regular full-time employees participate in one of two retirement plans. The State of Connecticut is statutorily responsible for the pension benefits of CSUS employees who participate in the State Employees' Retirement System (SERS). SERS is the administrator of a single employer defined benefit public employee retirement system (PERS). The plan provides retirement, disability, death benefits and annual cost of living adjustments to plan members and their beneficiaries. Plan benefits, cost of living adjustments, contribution requirements of plan members and the State and other plan provisions are described in the General Statutes. The plan does not issue stand alone financial reports. Information on the plan is currently publicly available in the State of Connecticut's Comprehensive Annual Financial Report prepared by the Office of the State Comptroller.

Employees hired before July 1, 1984 participate in the old (Tier 1) Plan, which includes employee contributions; other employees may participate in the Tier II or Tier IIA Plans. As of June 30, 2006, approximately sixteen percent (16%) of the CSUS workforce was covered under the Tier II or Tier II A Plans. CSUS makes contributions on behalf of the employees through a fringe benefit charge assessed by the State of Connecticut.

Alternatively, employees may choose to participate in the Alternate Retirement Plan which is managed by ING. Under this arrangement, CSUS and the plan participants purchase individual investments managed by ING.

Funding Policy

The contribution requirements of plan members and the State are established and may be amended by the State legislature.

Tier I Plan B and Hazardous Duty members are required to contribute 2% of their annual salary up to the Social Security Taxable Wage Base plus 5% above that level. Tier I Plan C members are required to contribute 5% of their annual salary. The State is required to contribute at an actuarially determined rate, which may be reduced by an act of the State legislature. Administrative costs of the plan are funded by the State.

Annual Pension Cost, Net Pension Obligation and Related Information (Unaudited)

Because of the cost-sharing arrangements CSUS has with other State departments and agencies, one actuarial valuation is performed for the State of Connecticut. As a result, the following information is not separately available for CSUS. Additionally, the information for fiscal year 2006 is not available as of the issue date of CSUS's financial statements and, therefore, the following information is as of June 30, 2005.

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The State's annual pension cost and net pension obligation for SERS as of June 30, 2005 are as follows (in thousands):

Annual required contribution	\$ 518,764
Interest on net pension obligation	182,369
Adjustment to annual required contribution	<u>(119,051)</u>
Annual pension cost	582,082
Contributions made	<u>518,764</u>
Increase in net pension obligation	63,318
Net pension obligation, beginning of year	<u>2,145,521</u>
Net pension obligation, end of year	<u>\$ 2,208,839</u>

Three year trend information (in thousands):

Fiscal year	Annual pension cost (APC)	Percentage of APC contributed	Net pension obligation
2003	485,527	86.8 %	2,081,663
2004	534,191	88.0 %	2,145,521
2005	582,082	89.1 %	2,208,839

The following actuarial information related to the calculation of the annual required contribution for SERS is for all State of Connecticut employees:

Actuarial valuation date	June 30, 2004
Actuarial cost method	Projected unit credit
Amortization method	Level percent of pay, closed
Remaining amortization period	28 years
Asset valuation method	5 year smoothed market
Actuarial assumptions	
Investment rate of return (includes inflation of 5%)	8.5%
Projected salary increases (includes inflation of 5%)	4.25% - 15.0%
Cost of living adjustments	2.75% - 3.75%

Connecticut State University System
Notes to Combined Financial Statements
June 30, 2006 and 2005

Required Supplementary Information (in millions):

Actuarial valuation date	(a) Actuarial value of assets	(b) Actuarial accrued liability (AAL)	(b-a) Unfunded AAL (UAAL)	(a/b) Funded ratio	(c) Covered payroll	(b-a)/c UAAL as a percentage of covered payroll
6/30/95	4,209.2	7,838.2	3,629.0	53.7%	2,325.8	156.0%
6/30/96	4,604.2	8,138.6	3,534.4	56.6%	2,385.5	148.2%
6/30/97	5,131.0	8,833.2	3,702.2	58.1%	2,225.2	166.4%
6/30/98	5,669.9	9,592.4	3,922.5	59.1%	2,339.0	167.7%
6/30/99*	-	-	-	-	-	-
6/30/00	7,196.0	11,512.1	4,316.1	62.5%	2,651.9	162.8%
6/30/01	7,638.9	12,105.4	4,466.5	63.1%	2,784.5	160.4%
6/30/02	7,893.7	12,806.1	4,912.4	61.6%	2,852.1	172.2%
6/30/03	8,058.6	14,223.8	6,165.2	56.7%	2,654.3	232.3%
6/30/04	8,238.3	15,128.5	6,890.2	54.5%	2,816.7	244.6%
6/30/05*	-	-	-	-	-	-

* No actuarial valuation was performed.

11. Commitments and Contingencies

CSUS makes expenditures in connection with restricted government grants and contracts which are subject to final audit by government agencies. CSUS is of the opinion that the amount of disallowances, if any, sustained through such audits would not materially affect the financial position of CSUS.

CSUS is a defendant in various legal actions arising out of the normal course of its operations. Although the final outcome of such actions cannot presently be determined, management is of the opinion that eventual liability, if any, will not have a material effect on CSUS's financial position.

CSUS had outstanding purchase orders and related commitments for materials, services and capital expenditures that had not been received as of June 30, 2006 and 2005. These commitments are not recorded as liabilities until materials or services are received. The commitments of total net asset balances by the University at June 30, 2006 and 2005 were as follows:

	2006	2005
System Office	\$ 3,018,946	\$ 1,433,128
Central Connecticut State University	6,223,355	4,459,834
Eastern Connecticut State University	1,758,201	1,374,143
Southern Connecticut State University	2,391,632	4,932,599
Western Connecticut State University	2,754,141	6,196,166
	<u>\$ 16,146,275</u>	<u>\$ 18,395,870</u>

Connecticut State University System
Notes to Combined Financial Statements
June 30, 2006 and 2005

12. Intra-University and Related Party Activities

The System Office administers certain activities centrally for the provision of management information systems and services to the Universities. Primary among these activities are administration of certain system-wide information systems, telecommunications, capital projects planning and rebudgeting, technical support and debt service. Costs of such activities, including the allocation of funds to the Universities from bond proceeds, are included in the activity of the System Office and supported by revenues from State appropriations and Universities' tuition and fee revenues which are allocated to the System Office through the budget allocation process. Such activities are eliminated in the combined statement of revenues, expenses and changes in net assets.

In addition to those transactions identified in Note 5, the accompanying combined statement of net assets includes balances among related parties. Significant balances for the years ended June 30, were as follows:

	2006	2005
Cash balances held with the State of Connecticut on behalf of the universities	\$ 109,735,652	\$ 101,031,451
Amounts invested in the State of Connecticut Short-Term Investment Fund (STIF)	<u>97,168,534</u>	<u>70,253,019</u>
	<u>\$ 206,904,186</u>	<u>\$ 171,284,470</u>

Connecticut State University System
Notes to Combined Financial Statements
June 30, 2006 and 2005

13. Natural Classification with Functional Classification

The operating expenses by functional classification were as follows:

Year ended June 30, 2006									
Natural Classification									
	Personnel service and fringe benefits	Professional service and fees	Educational service and support	Travel expense	Operation of facilities	Other operating supplies and expenses	Depreciation expense	Amortization expense	Total
Academic support	\$ 35,045,073	\$ 1,069,427	\$ 2,229,161	\$ 1,278,460	\$ 390,619	\$ 2,290,451	\$	\$	\$ 42,303,191
Auxiliary enterprises	10,596,587	6,904,175	14,142,091	104,644	8,785,043	2,654,604	\$	\$	43,187,144
Institution support	58,078,138	7,577,480	767,077	889,742	2,964,789	7,395,445	\$	\$	77,672,671
Instruction	155,829,397	1,780,097	1,265,916	605,745	263,181	2,118,966	\$	\$	161,863,302
Physical plant	28,895,909	1,614,876	201,350	24,359	40,982,348	3,360,278	38,821,513	281,022	114,181,655
Public service	3,550,329	1,029,662	866,089	571,409	629,092	406,952	\$	\$	7,053,533
Research	2,580,211	471,417	582,502	299,160	39,974	626,714	\$	\$	4,599,978
Scholarships, loans and refunds	519,327	80,146	34,819,319	(4,729)	1,421	236,269	\$	\$	35,651,753
Student services	41,000,961	1,749,060	1,394,498	1,875,971	513,192	2,979,783	\$	\$	49,513,465
Total expenses	\$ 336,095,932	\$ 22,276,340	\$ 56,268,003	\$ 5,644,761	\$ 54,569,659	\$ 22,069,462	\$ 38,821,513	\$ 281,022	\$ 536,026,692

Year ended June 30, 2005									
Natural Classification									
	Personnel service and fringe benefits	Professional service and fees	Educational service and support	Travel expense	Operation of facilities	Other operating supplies and expenses	Depreciation expense	Amortization expense	Total
Academic support	\$ 32,673,817	\$ 901,903	\$ 2,060,690	\$ 1,208,976	\$ 377,226	\$ 3,372,319	\$	\$	\$ 40,594,931
Auxiliary enterprises	10,077,514	6,185,205	13,078,477	79,105	7,968,925	2,331,880	\$	\$	39,721,106
Institution support	55,631,216	5,958,285	523,997	765,434	2,529,479	8,011,510	\$	\$	73,419,921
Instruction	141,431,145	1,433,857	1,280,777	371,056	143,723	1,859,665	\$	\$	146,520,223
Physical plant	27,133,179	1,755,044	83,879	37,970	46,765,265	1,860,886	33,921,195	8,132,260	119,689,678
Public service	3,114,575	823,888	619,933	483,675	617,337	422,033	\$	\$	6,081,441
Research	2,284,720	436,464	274,557	254,822	21,916	272,471	\$	\$	3,544,950
Scholarships, loans and refunds	539,052	83,028	31,309,683	925	1,944	160,860	\$	\$	32,095,492
Student services	37,384,672	1,469,047	1,322,132	1,748,360	401,433	2,999,635	\$	\$	45,325,279
Total expenses	\$ 310,269,890	\$ 19,046,721	\$ 50,554,125	\$ 4,950,323	\$ 58,827,248	\$ 21,291,259	\$ 33,921,195	\$ 8,132,260	\$ 506,993,021

Connecticut State University System
Supplemental Financial Information
June 30, 2006 and 2005

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Connecticut State University System
Combining Statements of Net Assets
June 30, 2006 with Comparative Totals as of June 30, 2005

	CCSU	ECSU	SCSU	WCSU	SO	Combining Adjustments	2006	2005
Assets								
Current assets:								
Cash and cash equivalents	\$ 34,254,887	\$ 2,663,586	\$ 31,488,005	\$ 13,292,719	\$ 12,119,152	\$ -	\$ 93,818,349	\$ 79,345,298
Investments	-	-	-	-	48,228,131	-	48,228,131	111,117,209
Student receivables	35,195,089	26,095,788	46,454,374	1,848,324	-	-	109,593,575	104,933,644
Allowance-doubtful student receivables	(1,079,263)	(1,432,595)	(2,291,204)	(910,094)	-	-	(5,713,156)	(4,671,317)
Student receivables, net	34,115,826	24,663,193	44,163,170	938,230	-	-	103,880,419	100,262,327
Student loans receivable, current	753,332	277,846	664,998	446,734	-	-	2,142,910	2,520,121
Grant receivables	630,665	318,265	829,824	312,216	-	-	2,090,970	2,410,731
Miscellaneous receivables, net	586,750	145,973	124,689	11,314	-	-	868,726	1,757,178
Due from the State of Connecticut	13,907,845	7,234,959	19,735,633	9,786,403	3,512,627	-	54,177,467	53,712,310
Due from CSU and Universities	838	691	-	-	11,463	(12,992)	-	-
Prepaid expenses and other current assets	607,446	171,349	858,997	61,804	7,032	-	1,706,628	1,492,393
Total current assets	84,857,589	35,475,862	97,865,316	24,849,420	63,878,405	(12,992)	306,913,600	352,617,567
Noncurrent assets:								
Cash and cash equivalents	20,607,677	60,000	10,499,976	5,346,615	84,436,311	-	120,950,579	99,483,309
Loans receivables	3,460,862	1,429,105	4,015,252	1,601,850	-	-	10,507,069	10,733,531
Allowance-doubtful loan receivables	(602,821)	(339,877)	(1,271,964)	(435,124)	-	-	(2,649,786)	(2,171,856)
Loans receivable, net	2,858,041	1,089,228	2,743,288	1,166,726	-	-	7,857,283	8,561,675
Notes receivable, net	137,301	-	137,302	-	-	(274,603)	-	-
Other assets	-	322,858	57,095	90,728	3,822,964	-	4,293,645	4,989,362
Investment in plant	326,478,831	253,759,318	333,499,668	265,677,156	23,762,320	5,399,547	1,208,576,840	1,066,009,555
Accumulated depreciation	(107,573,996)	(69,419,541)	(112,064,104)	(66,828,878)	(15,154,432)	-	(371,040,951)	(339,436,431)
Investment in plant, net of accumulated depreciation	218,904,835	184,339,777	221,435,564	198,848,278	8,607,888	5,399,547	837,535,889	726,573,124
Total noncurrent assets	242,507,854	185,811,863	234,873,225	205,452,347	96,867,163	5,124,944	970,637,396	839,607,470
Total assets	\$ 327,365,443	\$ 221,287,725	\$ 332,738,541	\$ 230,301,767	\$ 160,745,568	\$ 5,111,952	\$ 1,277,550,996	\$ 1,192,225,037

Connecticut State University System
Combining Statements of Net Assets
June 30, 2006 with Comparative Totals as of June 30, 2005

	CCSU	ECSU	SCSU	WCSU	SO	Combining Adjustments	2006	2005
Liabilities								
Current liabilities:								
Accounts payable	\$ 1,946,817	\$ 2,143,210	\$ 4,289,539	\$ 3,869,709	\$ 633,867	\$ -	\$ 12,883,142	\$ 4,975,071
Accrued salaries and benefits	13,877,310	6,319,529	14,168,313	6,611,251	598,574	-	41,574,977	33,428,489
Accrued compensated absences	542,087	225,704	459,244	169,007	83,357	-	1,479,399	1,428,840
Due to the State of Connecticut	239,751	765,808	229,734	1,062,144	2,833	-	2,300,270	2,019,565
Due to CSU and Universities	-	-	12,952	40	-	(12,992)	-	-
Deferred revenue	41,278,411	24,191,877	50,325,309	2,110,479	-	-	117,906,076	112,657,780
Bonds payable	-	-	-	-	19,937,517	-	19,937,517	16,761,843
Deferred compensation	-	-	-	-	-	-	-	50,482
Accrued bond interest payable	-	-	-	-	2,365,634	-	2,365,634	1,912,816
Capital lease obligation	59,952	-	58,081	-	-	-	118,033	139,530
Other liabilities	2,379,281	245,243	3,505,017	864,733	597,118	-	7,591,392	7,031,878
Depository accounts	922,843	669,456	1,811,159	685,477	(331)	-	4,088,604	4,003,082
Total current liabilities	<u>61,246,452</u>	<u>34,560,827</u>	<u>74,859,348</u>	<u>15,372,840</u>	<u>24,218,569</u>	<u>(12,992)</u>	<u>210,245,044</u>	<u>184,409,376</u>
Noncurrent liabilities:								
Accrued compensated absences	8,501,568	4,418,402	8,316,216	4,506,254	1,519,659	-	27,262,099	27,647,866
Bonds payable	-	-	-	-	336,963,452	-	336,963,452	356,908,636
Due to Universities, net	-	-	-	-	274,603	(274,603)	-	-
Federal loan program advances	3,136,752	1,379,107	3,549,051	1,632,106	-	-	9,697,016	9,765,900
Deferred compensation	-	-	-	-	84,309	-	84,309	50,483
Other liabilities - ERIP	678,109	223,634	759,809	564,961	927	-	2,227,440	4,147,784
Capital lease obligation	26,081	-	34,618	-	-	-	60,699	134,447
Total noncurrent liabilities	<u>12,342,510</u>	<u>6,021,143</u>	<u>12,659,694</u>	<u>6,703,321</u>	<u>338,842,950</u>	<u>(274,603)</u>	<u>376,295,015</u>	<u>398,655,116</u>
Total liabilities	<u>73,588,962</u>	<u>40,581,970</u>	<u>87,519,042</u>	<u>22,076,161</u>	<u>363,061,519</u>	<u>(287,595)</u>	<u>586,540,059</u>	<u>583,064,492</u>
Net Assets								
Invested in capital assets, net of related debt								
	218,752,590	184,286,709	221,342,866	198,848,278	(212,284,120)	5,399,547	616,345,870	532,575,233
Restricted:								
Nonexpendable	-	60,000	15,983	407,117	-	-	483,100	610,166
Expendable	6,059,384	1,664,537	17,075,782	3,644,073	23,335	-	28,467,111	38,578,464
Unrestricted	<u>28,964,507</u>	<u>(5,305,491)</u>	<u>6,784,868</u>	<u>5,326,138</u>	<u>9,944,834</u>	<u>-</u>	<u>45,714,856</u>	<u>37,396,682</u>
Total net assets	<u>253,776,481</u>	<u>180,705,755</u>	<u>245,219,499</u>	<u>208,225,606</u>	<u>(202,315,951)</u>	<u>5,399,547</u>	<u>691,010,937</u>	<u>609,160,545</u>
Total liabilities and net assets	<u>\$ 327,365,443</u>	<u>\$ 221,287,725</u>	<u>\$ 332,738,541</u>	<u>\$ 230,301,767</u>	<u>\$ 160,745,568</u>	<u>\$ 5,111,952</u>	<u>\$ 1,277,550,996</u>	<u>\$ 1,192,225,037</u>

Connecticut State University System
Combining Statements of Revenues, Expenses and Changes in Net Assets
Year Ended June 30, 2006 with Comparative Balances for the Year Ended June 30, 2005

	CCSU	ECSU	SCSU	WCSU	SO	Combining Adjustments	2006	2005
Operating revenues:								
Tuition and fees:								
Tuition and fees, gross	\$ 70,523,543	\$ 27,571,341	\$ 70,800,466	\$ 31,591,772	\$ 4,211,958	\$ -	\$ 204,699,080	\$ 198,138,710
Less:								
Scholarships allowance	5,348,740	2,829,277	4,726,198	2,413,948	-	-	15,318,163	13,756,941
Waivers	2,893,801	3,297,150	2,816,314	1,280,471	-	-	10,287,736	9,685,711
Debt service fee	6,519,052	3,253,811	6,514,819	3,546,144	(19,474,383)	(359,443)	-	-
Tuition and fees, net of scholarship allowances and waivers	55,761,950	18,191,103	56,743,135	24,351,209	23,686,341	359,443	179,093,181	174,696,058
Federal grants and contracts	15,192,287	3,932,402	7,618,901	2,786,373	-	-	29,529,963	25,697,526
State and local grants and contracts	3,035,173	2,398,364	3,033,064	1,780,625	90,000	-	10,337,226	9,032,425
Nongovernment grants and contracts	811,179	849,540	1,393,321	11,311	50,000	-	3,115,351	2,154,711
Indirect cost recoveries	296,004	110,716	326,135	4,000	-	-	736,855	389,493
Auxiliary revenues	18,012,497	17,017,652	17,453,249	11,255,592	4,143,595	-	67,882,585	62,030,455
Other operating revenues	10,511,132	22,471,319	16,735,632	52,693,296	14,409,191	(103,184,301)	13,636,269	20,775,138
Total operating revenues	103,620,222	64,971,096	103,303,437	92,882,406	42,379,127	(102,824,858)	304,331,430	294,775,806
Operating expenses:								
Personnel service and fringe benefits	103,217,219	58,585,939	107,974,240	57,894,841	8,423,693	-	336,095,932	310,269,890
Professional services and fees	5,995,670	3,757,983	6,956,938	3,956,268	1,609,481	-	22,276,340	19,046,721
Educational services and support	23,664,231	8,625,246	17,228,588	6,727,632	22,306	-	56,268,003	50,554,125
Travel expenses	2,186,266	1,011,635	1,367,883	936,108	142,869	-	5,644,761	4,950,323
Operation of facilities	24,469,972	12,789,258	16,514,319	40,471,576	68,908,382	(108,583,848)	54,569,659	58,827,248
Other operating supplies and expenses	5,337,953	3,991,873	6,740,645	3,398,237	2,241,311	359,443	22,069,462	21,291,259
Depreciation expense	11,255,638	7,716,761	10,789,031	7,491,026	1,569,057	-	38,821,513	33,921,195
Amortization expense	-	176,634	11,216	39,690	53,482	-	281,022	8,132,260
Total operating expenses	176,126,949	96,655,329	167,582,860	120,915,378	82,970,581	(108,224,405)	536,026,692	506,993,021
Operating loss	\$ (72,506,727)	\$ (31,684,233)	\$ (64,279,423)	\$ (28,032,972)	\$ (40,591,454)	\$ 5,399,547	\$ (231,695,262)	\$ (212,217,215)

Connecticut State University System
Combining Statements of Revenues, Expenses and Changes in Net Assets
Year Ended June 30, 2006 with Comparative Balances for the Year Ended June 30, 2005

	CCSU	ECSU	SCSU	WCSU	SO	Combining Adjustments	2006	2005
Nonoperating revenues:								
State appropriations	\$ 67,579,716	\$ 36,464,699	\$ 65,410,099	\$ 36,911,023	\$ 6,534,509	\$ -	\$ 212,900,046	\$ 197,996,422
Gifts	270,467	17,117	233,179	187,609	-	-	708,372	715,033
Investment income	2,549,433	409,496	2,039,496	956,349	6,549,374	-	12,504,148	6,056,901
State financed plant facilities	8,385,475	9,977,000	47,916,129	1,798,402	-	-	68,077,006	76,352,173
Other nonoperating revenues	646,601	508,803	900,615	298,649	-	-	2,354,668	2,437,925
Net nonoperating revenues	79,431,692	47,377,115	116,499,518	40,152,032	13,083,883	-	296,544,240	283,558,454
Income (loss) before other revenues, expenses, gains and losses	6,924,965	15,692,882	52,220,095	12,119,060	(27,507,571)	5,399,547	64,848,978	71,341,239
State appropriations restricted for capital purposes	3,336,477	2,397,666	7,143,150	3,383,121	741,000	-	17,001,414	27,198,875
Net increase (decrease) in net assets	10,261,442	18,090,548	59,363,245	15,502,181	(26,766,571)	5,399,547	81,850,392	98,540,114
Net assets:								
Net assets - beginning of year	243,515,039	162,615,207	185,856,254	192,723,425	(175,549,380)	-	609,160,545	510,620,431
Net assets - end of year	\$ 253,776,481	\$ 180,705,755	\$ 245,219,499	\$ 208,225,606	\$ (202,315,951)	\$ 5,399,547	\$ 691,010,937	\$ 609,160,545

Connecticut State University System
Combining Statements of Cash Flows
June 30, 2006 with Comparative Totals as of June 30, 2005

	CCSU	ECSU	SCSU	WCSU	SO	Combining Adjustments	2006	2005
Cash flows from operating activities:								
Tuition and fees	\$ 56,906,965	\$ 19,253,917	\$ 56,247,187	\$ 24,538,211	\$ 4,211,958	\$ 359,443	\$ 161,517,681	\$ 160,758,723
Grants and contracts	19,638,560	6,023,035	12,072,487	4,448,657	90,000	-	42,272,739	38,236,777
Auxiliary revenues	17,750,769	17,616,581	17,279,981	11,255,592	4,143,595	-	68,046,518	60,622,012
Other operating revenues	11,178,928	22,962,299	17,799,876	54,711,911	14,080,325	(103,184,301)	17,549,038	22,630,592
Payments to employees for salaries and benefits	(100,789,835)	(57,244,833)	(105,582,738)	(56,795,738)	(8,380,841)	-	(328,793,985)	(305,191,249)
Payments to supplier	(1,473,758)	(1,315,952)	(1,000,624)	(892,627)	(68,438)	-	(4,751,399)	(8,622,343)
Professional services and fees	(6,010,201)	(3,765,058)	(6,932,011)	(3,320,456)	(1,609,481)	-	(21,637,207)	(19,117,248)
Educational services and support	(23,630,944)	(8,625,246)	(17,228,588)	(5,646,499)	(22,306)	-	(55,153,583)	(50,970,091)
Travel expenses	(2,177,131)	(1,011,635)	(1,367,883)	(785,675)	(142,867)	-	(5,485,191)	(4,942,704)
Operation of facilities	(24,247,251)	(12,789,258)	(16,514,319)	(40,008,343)	(68,899,211)	108,583,848	(53,874,534)	(60,006,046)
Other operating supplies and expenses	(2,901,481)	(2,263,558)	(2,988,276)	(1,720,036)	(2,120,689)	(359,443)	(12,353,483)	(15,497,907)
University fee receipts	-	-	-	-	19,474,383	-	19,474,383	18,424,812
Net cash used by operating activities	(55,755,379)	(21,159,708)	(48,214,908)	(14,215,003)	(39,243,572)	5,399,547	(173,189,023)	(163,674,672)
Cash flows from noncapital financing activities:								
State appropriations	65,834,559	36,832,525	64,014,757	36,350,137	6,481,530	-	209,513,508	196,521,232
Gifts for other than capital purposes	270,467	17,117	233,178	187,609	-	-	708,371	715,037
Nonoperating revenue other	669,740	508,803	1,064,790	2,097,051	-	-	4,340,384	2,611,622
Net cash provided by noncapital financing activities	\$ 66,774,766	\$ 37,358,445	\$ 65,312,725	\$ 38,634,797	\$ 6,481,530	\$ -	\$ 214,562,263	\$ 199,847,891

Connecticut State University System
Combining Statements of Cash Flows
June 30, 2006 with Comparative Totals as of June 30, 2005

	CCSU	ECSU	SCSU	WCSU	SO	Combining Adjustments	2006	2005
Cash flows from investing activities:								
Purchase of investments	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ (65,113,475)
Proceeds from sales of investments	-	-	-	-	(55,349)	-	(55,349)	(18,660)
Interest and dividends received on investments	2,179,027	409,496	1,785,075	956,349	6,549,374	-	11,879,321	5,609,211
Net cash (used in) provided by investing activities	2,179,027	409,496	1,785,075	956,349	6,494,025	-	11,823,972	(59,522,924)
Cash flows from capital and related financing activities:								
Cash paid for capital assets	(6,651,363)	(22,528,602)	(14,929,831)	(32,603,944)	(2,209,039)	(5,399,547)	(84,322,326)	(97,760,667)
Capital appropriations received	3,336,477	2,397,666	4,736,214	7,851,877	2,093,113	-	20,415,347	16,763,856
Proceeds of new bond issuance	-	-	-	-	-	-	-	101,161,767
Proceeds of capital debt	-	-	-	-	62,944,427	-	62,944,427	76,863,463
Payments of capital debt	-	-	-	-	(16,294,339)	-	(16,294,339)	(63,672,955)
Underwriters discount	-	-	-	-	-	-	-	(1,051,348)
Net cash (used in) provided by capital and related financing activities	(3,314,886)	(20,130,936)	(10,193,617)	(24,752,067)	46,534,162	(5,399,547)	(17,256,891)	32,304,116
Net increase (decrease) in cash and cash equivalents	9,883,528	(3,522,703)	8,689,275	624,076	20,266,145	-	35,940,321	8,954,411
Cash and cash equivalents, beginning of year	44,979,036	6,246,289	33,298,706	18,015,258	76,289,318	-	178,828,607	169,874,196
Cash and cash equivalents, end of year	\$ 54,862,564	\$ 2,723,586	\$ 41,987,981	\$ 18,639,334	\$ 96,555,463	\$ -	\$ 214,768,928	\$ 178,828,607

Connecticut State University System
Combining Statements of Cash Flows
June 30, 2006 with Comparative Totals as of June 30, 2005

	CCSU	ECSU	SCSU	WCSU	SO	Combining Adjustments	2006	2005
Reconciliation of operating loss to net cash used in operating activities:								
Operating loss	\$ (72,506,727)	\$ (31,684,233)	\$ (64,279,423)	\$ (28,032,972)	\$ (40,591,454)	\$ 5,399,547	\$ (231,695,262)	\$ (212,217,215)
Adjustments to reconcile operating loss to net cash used in operating activities:								
Depreciation expense	11,255,638	7,716,761	10,789,031	7,491,026	1,569,057	-	38,821,513	33,921,195
Bad debt write-offs	(34,352)	-	-	-	-	-	(34,352)	736,580
Amortization	-	176,634	11,216	39,690	53,482	-	281,022	8,132,260
Changes in assets and liabilities:								
Receivables	500,755	(1,231,203)	(1,558,417)	347,881	(323,231)	-	(2,264,215)	(6,380,186)
Due from Universities	-	-	-	-	-	-	-	-
Prepaid expenses and other	(423,128)	(445,811)	301,655	1,675,083	173,907	-	1,281,706	(74,101)
Accounts payable	263,706	1,074,988	2,831,956	3,692,621	44,797	-	7,908,068	(1,220,519)
Accrued salaries	3,168,023	1,409,629	2,381,764	1,117,521	69,552	-	8,146,489	3,176,460
Other liabilities	1,047,930	(263,403)	(170,007)	(607,142)	(615,283)	-	(607,905)	(2,345,335)
Due to State of Connecticut	(92,949)	217,750	(82,284)	237,334	854	-	280,705	382,537
Deferred revenues	1,805,876	2,018,866	1,641,089	(167,536)	(50,000)	-	5,248,295	10,751,753
Deferred compensation	-	-	-	-	(16,656)	-	(16,656)	(53,814)
Deposit accounts	(110,357)	97,763	13,421	85,213	(517)	-	85,523	199,853
Accrued bond interest payable	-	-	-	-	452,818	-	452,818	(327,438)
Accrued compensated absences	(629,794)	(247,449)	(94,909)	(93,722)	(10,898)	-	(1,076,772)	1,643,298
Net cash used in operating activities	<u>\$ (55,755,379)</u>	<u>\$ (21,159,708)</u>	<u>\$ (48,214,908)</u>	<u>\$ (14,215,003)</u>	<u>\$ (39,243,572)</u>	<u>\$ 5,399,547</u>	<u>\$ (173,189,023)</u>	<u>\$ (163,674,672)</u>
Noncash investing, noncapital financing and capital and related financing transactions:								
Fixed assets acquired by incurring capital leases	\$ 5,317	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 5,317	\$ 15,068
Fixed assets included in accounts payable	<u>539,195</u>	<u>1,405,882</u>	<u>1,107,926</u>	<u>14,784</u>	<u>188,184</u>	<u>-</u>	<u>3,255,971</u>	<u>1,042,930</u>
	<u>544,512</u>	<u>1,405,882</u>	<u>1,107,926</u>	<u>14,784</u>	<u>188,184</u>	<u>-</u>	<u>3,261,288</u>	<u>1,057,998</u>
Reconciliation of cash and cash equivalents to the combined statements of net assets:								
Cash and cash equivalents classified as current assets	34,254,887	2,663,586	31,488,005	13,292,719	12,119,152	-	93,818,349	79,345,298
Cash and cash equivalents classified as noncurrent assets	<u>20,607,677</u>	<u>60,000</u>	<u>10,499,976</u>	<u>5,346,615</u>	<u>84,436,311</u>	<u>-</u>	<u>120,950,579</u>	<u>99,483,309</u>